Company Taxation

There is no difference in treatment in determining the profits and income from any source of a company.

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Form No. - C 201(E)

For Office Use
DLN
Date

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உள்நாட்டு இறைவரி
INLAND REVENUE

LOOTAH DEVELOPMENT LANKA PVT
7 CHURCH RD
MATTAKKULIYA
COLOMBO 15.

RETURN OF INCOME Unit 04 A

YEAR OF ASSESSMENT **2013/2014**

114485187 0000 4A

RESIDENT COMPANIES, NON-RESIDENT COMPANIES AND CORPORATIONS ETC.

Notice under Section 106(7) and Form specified under Section 213 of the Inland Revenue Act, No. 10 of 2006.

- Declare income and other particulars for the year ended 31st March, 2014.
- Attach audited accounts and schedules.
- Return the duly completed form to reach this office on or before the **30th November, 2014.**

Mrs. D. M. Padma Kumari Ganepola
Commissioner
Unit 04 A
Department of Inland Revenue
Colombo 02

Mrs. D.M.P.K. Ganepola
Commissioner

Date of Issue 15/09/2014

Please note that penalties are imposed on any person making an incorrect return or not submitting a return.

Section - 1
DECLARATION OF PROFITS AND INCOME

"Please Attach Copies of Pay-in Slips"

Profits and income exempt from tax (Schedule 1A)		104
Profits and Income Liable to Tax		
Profits from Trade or Business	105	
Interest	107	
Dividends	108	
Rents	109	
Annuities, Royalties etc.	111	
Income from any other source	112	
TOTAL STATUTORY INCOME ***(Total of Cages 105 to 112)***		121
Income not forming part of Total Statutory Income	113	
Deductions from Total Statutory Income		
Deductible losses from Trade or Business ***(Schedule 5, 5A and 5B)***	2021	
Interest (which is not deductible under section 25), Annuities, Royalties and Ground Rent, paid	204	
Total Deductions from Total Statutory Income ***(Add Cages 2021+204)***		211
ASSESSABLE INCOME ***(Subtract Cage 211 from Cage 121)***		301
Deductions From Assessable Income		
Qualifying Payments ***(Schedule 2)***		311
TAXABLE INCOME ***(Subtract Cage 311 from Cage 301)***		321
Calculation of Tax Payable		
Tax on income taxable at special rates ***(Schedule 4)***	401	
Tax on balance taxable income	403	
Tax on gross Dividends ***(Schedule 3)***	404	
Tax on Remittances ***(Schedule 3B)***	405	
Tax on Distributable Profits ***(Schedule 3A)***	406	
TOTAL TAX PAYABLE (Add cages 401 to 406)		409

Calculation of a tax payable for a company

1. **Tax on Income taxable at special rates**
    1) Profits on educational services – 10%
    2) Profits from agricultural undertakings under section 16 of the Act – 10%
    3) Profits from agriculture, manufacture of animal feed, promotion of tourism, or construction work – 12%
    4) Qualified export profits Section 51 and 52) – 12%
    5) Undertaking with annual turnover not exceeding Rs. 500 million(other than buying and selling) – 10%
    6) Venture capital companies – 12%
    7) Unit trust and mutual funds – 10%
    8) Liquor, Tobacco, lottery, gamming or betting – 40%
    9) Locally manufactured handloom products - 12%
    10) Healthcare services – 12%
    11) Grower or manufacturer of tea who entered into a joint venture with tea exporter – 12%
    12) Poultry farming – 10%
    13) Sale of goods by export oriented company – 12%
    14) Supply of goods and services for foreign ships – 12%

2. **Tax on Balance taxable income**

This will be calculated as follows.

- If the taxable income does not exceed Rs. 5,000,000 – 12%
- If the taxable income exceed Rs. 5,000,000 – 28%

However if the tax as computed above attributable to the excess taxable income over Rs. 5,000,0000 is more than that excess taxable income, then such part of tax which is more than the excess taxable income should be disregarded.

Ex. Calculate the tax payable if the taxable income of H Ltd is

- Rs. 5,750,000
- Rs. 6,000,000
- Rs. 8,000,000

- Concessionary rates applicable

Undertaking which enjoy tax holidays under BOI will enjoy following concessionary rate after the period of exemption.

Year of assessment immediately succeeding, at the end of the period for which the profits and income are exempt – 5%
End of the first post exemption period – 10%
End of the second post exemption period – 15%

3. Tax on Gross Dividends

Every resident company (other than unit trusts and mutual funds) is required to pay income tax equivalent to 10% of gross dividends distributed to share holders during the year of assessment.

However this tax does not apply to dividends paid to exempt persons.

4. Tax on remittances

This is only applicable to the non-resident companies. Remittance tax is 10% on total remittances made during the year.

Remittance means

- Sum remitted or retained abroad out of profits and income chargeable to tax other than sums remitted out of the dividends received.
- Proceeds of sale abroad and retained abroad of products exported.
- Market value of products exported but not sold at all

5. Tax on distributable profits

In this context the distributable profits should be the book profits for the previous year of assessment adjusted as follows

2013/14

	Rs.	Rs.
Book profit for 2012/13		XXX
Less:		
Income tax payable on the taxable income for 2012/13	XX	
Cost incurred on the acquisition of capital assets	XXX	
Notional profit on revaluation of capital assets	XX	(XXX)
		XXX
Add:		
Depreciation allowance for 2012/13	XX	
Notional loss on revaluation of FA	XX	XX
Distributable profit		XXX
		===

The actual profit distributed out of the above distributable profits should not be less than 10%.

If it is less than 10% then 33 1/3% of the distributable profit as above will be (excess of 33 1/3% of distributable profits over actual profits distributed) taxed at 15%.

Ex. XYZ Ltd's profit before tax as per financial statements for the year ended 31.03.2013 was Rs. 3,250,000.
Following information is given
Land purchased during 2012/13 Rs. 1,000,000
Laptop computers purchased in the same year Rs. 250,000
Depreciation charged to P & L Rs. 800,000

Calculate the XYZ Ltd's tax on distributable profits if actual dividend distributed to shareholders were

01. Nil
02. Rs. 100,000
03. Rs. 500,000

Tax paid on Remittances	410	
Double tax relief	411	
ESC paid	4111	
ESC deductible *(Schedule 6)*	4112	
Self assessed tax payments (Total of 1st, 2nd, 3rd, 4th installment and Final Payment)	412	
Dividend tax & Tax on Distributable Profit paid	413	
Withholding tax on interest	414	
Any other relief (attach details)	416	
TOTAL TAX CREDITS ***(Total of Cages 410 to 416 except Cages 4111)***	419	
ESC carried forward, if any	4202	

Enter the difference of amounts in 419 and 409 in appropriate cage below

BALANCE TAX PAYABLE ***(If amount in Cage 419 is LESS THAN amount in Cage 409)***	430	
REFUND CLAIMED ***(If amount in Cage 419 is GREATER THAN amount in Cage 409)***	440	

Section - 2
DECLARATION

Name of Secretary/ Principal Officer of the Company : ....

Name of Managing Director of the Company: ....

I declare to the best of my knowledge and belief that all particulars furnished in this Return and in the attached Schedules are true and correct.

Full Name of the Declarant: ....

Designation: ....
(Managing Director/Director/Secretary/Principal Officer)

Telephone Number: .... Mobile..........

E Mail ....

Signature of Declarant:

Date: ....

Please note that penalty will accrue for non payment of taxes on due date

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வரிகள் - வளமான எதிர்காலத்திற்காக
TAXES - FOR A BETTER FUTURE

CM 018120 – 45,000 (2014/07) ශ්‍රී ලංකා රජයේ මුද්‍රණ දෙපාර්තමේන්තුව

Tax credits for companies

Following tax credits are available for companies

A. Remittance tax paid
B. Double tax relief
C. ESC paid.
D. Self assessment tax payments
E. Dividend tax and tax on distributable profits paid
F. Withholding tax on interest
G. Any other relief

Qualifying payments for companies

Almost the same as per individuals

Income not forming part of statutory income of a company

- Income received from another resident company after deduction 10% tax
- Dividends exempt under section 10
- Dividends declared by a resident company out of dividends received
- Dividends declared by a quoted public company
- Interest received from Land Reform Commission on compensation for acquisition of properties and tax has been deducted.
- Interest received from primary market transactions in case of a primary dealer.

Value Added Tax – (Charged since 2002 through Value Added Tax Act No 14 of 2002)

VAT will be charged
" at the time of supply on every taxable supply of goods or services made by a registered person, in a taxable period, in the course of carrying on of a taxable activity in Sri Lanka."

Three important conditions accordingly are

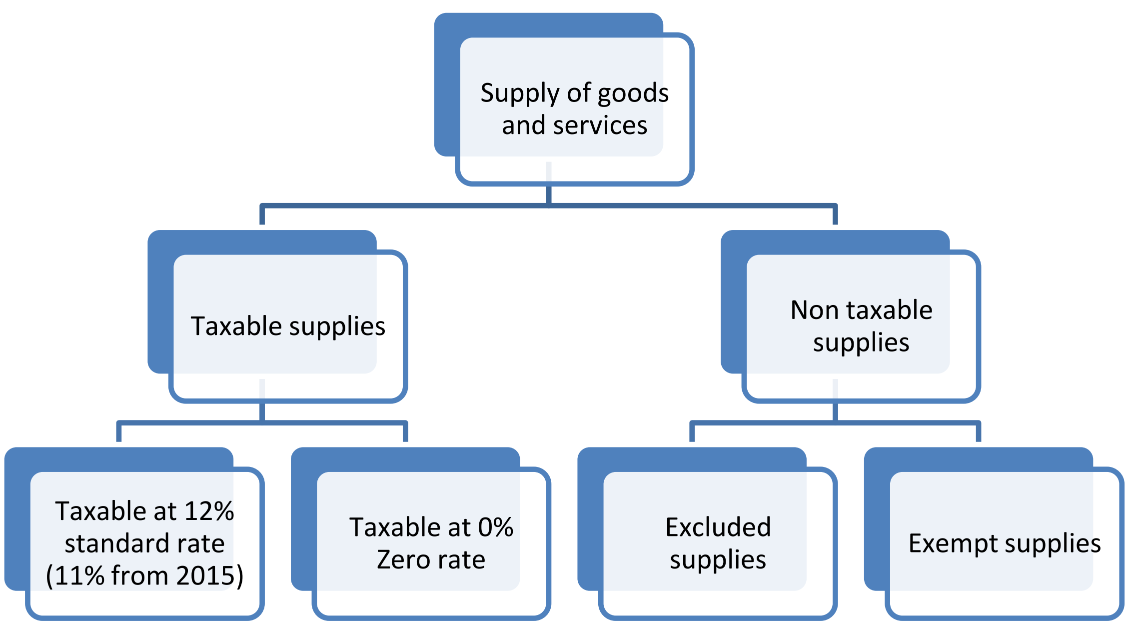
- Taxable activity carried in Sri Lanka
- Taxable supply of goods and services
- Registered person

What is a taxable activity?

Every adventure in the nature of trade is considered a taxable activity under VAT law. This is other than in the course of employment.

What is taxable supply?

Any supply of goods or services made or deemed to be made in Sri Lanka which is chargeable with VAT.



<u>Exempt supplies</u>

There are four categories of exempt supplies

01. Exemption for supply or import
02. Exemption only for supply
03. Exemption only for imports
04. Exemptions for supply and import

Please refer to first schedule of the VAT act.

<u>Excluded supplies</u>

Whole sale and retail trade on the goods bought locally

<u>Zero rated supplies</u>

01. Exports
02. Certain identified services
03. Other services to a person outside Sri Lanka

What is Taxable period?

Taxable period shall be

- One month or
- Three months

- One month in the case of

  A. Person who makes zero rated supplies
  B. Person who makes supplies to an exporter
  C. Persons registered under section 22(7) – i.e. new project during the implementation period before the taxable supplies are made.

- Three months in the case of persons other than above.

<u>Registration for VAT</u>

- Any person carrying out a taxable activity with a turnover in excess of Rs. 3,000,000 per quarter or Rs. 12,000,000 per annum should register for VAT. (Rs. 15,000,000 from 2015/16)
- On the whole sale or retail business Rs. 100 Million for consecutive three months

Filling of returns

The VAT return shall be furnished either by writing or electronic form on or before 20th day of the Month after the end of each taxable period.

Payment of VAT shall be on a monthly basis by 20th day of the following month.

Nation Building Tax – (Charged in Sri Lanka since 2009 through Nation Building Tax Act no.09 of 2009)

Chargeability of NBT

"NBT shall be charged from every person to whom the Act is applicable in respect of liable turnover for the relevant quarter at the specified rates."

Scope of NBT

01. Liable person
02. Liable turnover
03. Relevant period
04. Specified rates

Person liable for NBT

Is the person to whom the act is applicable, including body of persons, company or a partnership

Every person who is engaged in one or more of the following activities is chargeable with NBT.

a) Persons who import any articles into Sri Lanka other than any article comprised in the personnel baggage of a passenger.
b) Manufacture of any article.
c) Providing services of any description.
d) Whole sale or retail sale of any article.

Liable turnover

Non chargeability is provided in the law in two forms

01. Based on turnover threshold
    Here the liable turnover per quarter in Rs. 3,000,000 or Rs. 12,000,000 per annum on the normal operations other than the following.(Rs.3.75 million per quarter from 2015/16)

    a) Operating a hotel guesthouse, restaurant and other similar business.
    b) Processing locally purchased agricultural produce and sale.
    c) Providing educational services.
    d) Supply of labour

    For these types of businesses the liable turnover is Rs. 25,000,000 per quarter.
02. Based on the type of goods and services if exempted.
    Please refer the relevant schedule to the act.

Relevant period

The period of NBT is the relevant quarter. i.e. the period of three months starting from 01 January, 01 April, 01 July and 01 October of each year.

Specified Rates

The applicable rate of NBT is 2%

However in the case of a

01. distributor

3/4th of the liable turn over – Nil
On the balance liable turnover – 2%
(effective rate on total turnover 0.25%)

02. Whole sale of retail sale

½ of the liable turnover – Nil
The balance turnover – 2%
(effective rate on total turnover 1%)

Credit for NBT

NBT paid on the import or local purchase of any raw materials could be deducted by a manufacturer if those articles purchased were used in manufacturing.

If credit exceeds the NBT payable for a quarter, the excess shall be deemed to be an advance payment of NBT for the relevant subsequent quarter.

Payment of NBT

Shall be on a monthly basis on or before the 20^{th} day of the following month, and the return shall be submitted by the 20^{th} day of the month immediately succeeding the end of the relevant quarter.

Economic Service Charge (introduced in Sri Lanka since April 2004 through an amendment to the finance act No 11 of 2004.(subsequently Economic service Charge Act No 13 of 2006)

The purpose of introducing ESC was to collect a minimum amount of tax from those who use the common infrastructure of the country without contributing to any tax revenue. Therefore ESC is charged on turnover regardless of the fact whether the undertaking incurs a loss or enjoys a tax holiday.

Chargeability of ESC

01. Liable person
02. Period of ESC
03. Liable turnover
04. Rate of ESC

Persons liable for ESC

Every person and partnership who carries a trade, business, profession or vocation are chargeable to ESC.

Liable turnover

Only persons who’s turnover exceed Rs. 50,000,000 per quarter are liable for ESC.

On the other hand if there is a taxable income, such in an year of assessment such person in not liable to pay ESC in the succeeding year of assessment. i.e. if a person had taxable income in the year of assessment 2013/14 and had paid income tax, that person is not liable for ESC in the year of assessment 2014/15.

Period of tax

The period of ESC is the relevant quarter. i.e. the period of three months starting from 01 January, 01 April, 01 July and 01 October of each year

Rate of ESC

The rate of ESC applicable for the quarters after 01 April 2012 is 0.25%

Tax liability per quarter shall not exceed Rs. 30,000,000 per quarter.

Payment of ESC

Shall be on a monthly basis on or before the 20^{th} day of the following month, and the return shall be submitted by the 20^{th} day of the month immediately succeeding the end of the relevant quarter.

ESC in an advance payment of Income Tax, therefore the esc paid can be set off against income tax liability as a tax credit for four succeeding years of assessment.

Example
Asoka has returned to Sri Lanka in March 2013 after retiring from employment in Dubai.

You are provided following information:

(i) Asoka receives a pension from the employer in Dubai to his bank account in Sri Lanka. During the Y/A 2013/14 he has received an income equivalent to Rs. 360,000.

(ii) Asoka has rented a house constructed by him for Rs. 15 million out of his own funds in the Y/A 2004/05 for a monthly rent of Rs. 130,000. The tenant, even though occupying the house for the entire period for the Y/A 2013/14, vacated the place from 1 April 2014 without settling the rent payable for February and March 2014. All attempts by Asoka to recover this unpaid rent were unsuccessful. The rating assessment of the house is Rs. 560,000 and the rates payable is 10%.

(iii) Asoka is a shareholder of ABC (Pvt) Ltd and holds 50,000 shares purchased at Rs. 10 per share in 2005. The directors of ABC (Pvt) Ltd have made an offer to buy back his shares at a price of Rs. 30 per share as per the resolution passed by the shareholders on 30 November 2013. Asoka sold his shares back to the company on 31 December 2013 as per the share buy-back scheme of the company. The market value of a share of the company as at 30 November 2013 and 31 December 2013 was Rs. 25 and Rs. 26 respectively.

(iv) Asoka has purchased Nation Building Bonds amounting to USD 100,000 and has received interest income of USD 6,000 during the year. Exchange rate (buying) as at 31 March 2014 was Rs. 139 per one USD.

(v) Asoka has completed the construction of another house in March 2013 by spending his own funds amounting to Rs. 21 million, and he has occupied the house from 1 April 2013. The land on which the house is constructed was purchased utilising a loan obtained from Commercial Bank. The rating assessment of the house is Rs. 600,000 and the rates payable is 10%.

(vi) During the year, Rs. 72,000 being interest and Rs. 132,000 being repayment of capital, have been paid on account of the loan obtained for the purchase of land which was used for the construction of the house.

(vii) Upon returning to Sri Lanka after retiring from employment in Dubai, Asoka has commenced the business of an Indoor Sports Complex for badminton, table tennis, billiard and a gymnasium by utilising his earnings from employment abroad, in May 2013, and the Indoor Sports Complex commenced to provide facilities for sports activities in December 2013. Details of the investment made, income and expenditure for the Y/A 2013/14 are as follows:

Investment	**Rs.**	**Rs.**
Construction of building		14,000,000
Investment in equipment		9,000,000
Total		**23,000,000**
Income and Expenses		
Income received for providing facilities for sports	1,338,000	
Tournament entrance fees	210,000	
Membership fees	60,000	
Total income		**1,608,000**
Staff salaries	300,000	
Electricity	180,000	
Advertising	68,000	
Maintenance	30,000	
Total expenses		**(578,000)**
Profit		**1,030,000**

(viii) Asoka has donated Rs. 30,000 to an approved charity taking care of sick and needy people.

(ix) Asoka has paid Rs. 4,000 per quarter of the Y/A 2013/14 under self-assessment payment of income tax.

Required:
(a) **Compute** the income tax liability and the balance tax payable/(refund) of Asoka for the Y/A 2013/14. In your computation, clearly show the income exempt from income tax, if any.

(b) Asoka holds shares in XYZ (Pvt) Ltd received by way of bonus issue of shares in 2012.

Advise Asoka on what circumstances the return of capital is treated as dividend.