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Withholding tax on interest income

I am pleased to observe that necessary amendments to the Inland Revenue Act will be made in due course in respect of the following:

(1) Deposits

When a limited company places a deposit with a Bank on Financial Institution, the entire income is taxable @ 30 percent or 35 percent as the case may be. The 10 percent withholding tax deducted by the Bank or Financial Institution could be claimed as credit by the said company. In the past, in the absence of necessary amendment it was announced that 90 percent net income receivable be taxed while the 10 percent WHT was non refundable. This had resulted in added tax paid by the limited companies and discouraged them from making investments in the Bank or Financial Institutions.

(2) Treasury bills

According to the amendment to be effected when an individual purchases Treasury Bills in the secondary market, the net income received will not be taxable. This will stimulate participation of individuals in the Treasury Bill market.

In the case of companies or associations, the gross income from Treasury Bills was considered as taxable. According to the amendment, a notional tax credit is permitted computed @ 1/9 of the net income. This will also encourage such companies and associations to invest in Treasury Bills.

Therefore, it could be observed that attractive tax concessions are granted in accordance with the new amendments. These steps give support to the Treasury Bill operations.

(3) Interest on deposits

A monthly income of Rs. 6,000 or an annual income of Rs. 72,000 per deposit in a Bank is not subject to Withholding Tax. However, in the case of Savings Certificates or Certificates of Deposits the total income is liable for Withholding Tax with no limits. This limit has been increased to Rs. 12,000 per month or Rs. 144,000 per annum for charitable institutions. This is an additional support towards such organizations.

Observation

With effect from 1.4.2002 the entire income earned by private Provident Fund Associations from Treasury Bills is liable for tax with Withholding Tax credit permitted. Since approved Provident Fund Associations are taxable @ 10 percent it is practically known that the Treasury Bill income (net) received is tax free.

Usually, a major portion of income earned by Provident Fund Associations is from Treasury Bill, operations and the balance is from loans to members.

I quote below the following example of a Provident Fund Association for the year 2002/2003:

Income from Treasury Bills (net)	- Rs. 900,000
Income from loans given to members	- Rs. 100,000
Total income	- Rs. 1,000,000

The income of Rs. 900,000 would be grossed to Rs. 1,000,000 (taxed at 10percent) with the notional tax credit of Rs. 100,000. Therefore, practically only the income from loans given to members is taxable. On 15.8.2002 the Association would have paid Rs. 25,000 as the first instalment of income tax payable for 2002/2003, whereas the tax liability for the entire year now, after deduction of notional tax credit available is only Rs. 10,000.

Therefore, the Rs. 25,000 tax paid on 15.8.2002 covers the tax liability of the Association for nearly 2 1/2 years resulting in money being blocked.

I recommend that the Dept. of Inland Revenue:

(a) permits that no more instalments be paid on November 15, 2002 and February 15 and May 15, 2003.

AND

(b) arrange for refunds to be made on submission of applications.

I hope the Dept. of Inland Revenue will issue a press notification with regard to this matter. I suggest that the public-at-large should obtain clarification from the Department early for corrective action. After all, the concessions granted by the Department should be enjoyed by all with the least possible delay.

Tax on dividends

Whilst thanking the Dept. of Inland Revenue for removing the anomalies with suitable amendments, it should be mentioned that the 10 percent Withholding Tax imposed on dividends results in a reduction of income to the limited companies receiving such dividends. In the past limited companies were not liable for tax on dividend income. I hope the Department would make necessary amendments to remove this anomaly as well.

General

Notifications by the Dept. of Inland Revenue are usually published in the newspapers. It would be better if the Department could issue copies of such notifications to the following bodies who register themselves with the Department for this purpose, at the same time they are released to the press:

(1) Professional Institutions
(2) Trade Chambers
(3) Taxation Committees etc.

Similar arrangements could be done by the Sri Lanka Customs which is also a very important Department.

This step will ensure that the public-at-large is properly informed of any new regulations that are implemented, amendments to existing regulations etc. on time.

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Executive Committee Member Income Tax Payers' Association

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