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Circular to Banks / Financial Institutions

Withholding tax on interest paid by Banks or other Financial Institutions

(Section 133 of the Inland Revenue Act No. 10 of 2006 as being amended)

This Circular sets out explanatory notes and guidelines to every Bank and other Financial Institution, to facilitate the application of provisions of section 133 of the above Act, being amended [as proposed in the Budget 2011] with effect from April 1, 2011, for the **deduction of income tax from interest** payable on any sum of money deposited with; or paid to such Bank or Financial Institution, by **any individual, partnership, company or body of persons.**

1. Time of Deduction:

Tax should be deducted at the time the **interest** is paid, or credited to any account maintained in a Bank or Financial Institution for or on behalf of the Depositor. However, in the case of a Certificate of Deposit issued pledging that a higher sum of money is paid to the bearer (not identified by name), the tax deduction should be made from the **excess** over the amount paid to the bank or financial institution by the depositor, at the time such deposit is made (ie. **upfront deduction**).

2. Exemptions (from tax deduction):

The tax deduction requirement under aforesaid provisions is not applicable to the following interests.

- (1) Any interest which is exempt from income tax under any provision of the Inland Revenue Act.

Such exemption includes, in particular:

- (a) the interest in total up to Rs. 500,000/-, accruing or arising in any year of assessment to any **Senior Citizen** (i.e. a citizen and resident of Sri Lanka whose age is more than fifty nine years on the first day of that year of assessment) from People's Bank, Bank of Ceylon, National Savings Bank, State Mortgage Bank, Housing Development Finance Corporation Bank, SME Bank, Lanka Puthra Development Bank, any bank established under the Regional Development Bank Act or any registered society within the meaning of the Co-operative Societies Law;

- (b) the interest accruing to any person on moneys lying to his credit in foreign currency, in any account opened by him or on his behalf, in any commercial bank or specialized bank with the approval of the Central Bank of Sri Lanka;
(NRFC or RFC Accounts)
- (c) the interest accruing to any person from moneys lying to his credit in a special account in a commercial bank with the approval of the Central Bank of Sri Lanka of sums obtained by him by the exchange of foreign currency held by him outside Sri Lanka;
(Special Accounts)
- (d) the interest or discount accruing or arising to any individual from any Sri Lanka Nation Building Bond in foreign currency and issued by or on behalf of the Government of Sri Lanka, being a bond purchased by such individual;
- (e) the interest accruing in any year of assessment to any charitable institution, where it is proved to the satisfaction of the Commissioner General in relation to that year of assessment that such interest is applied solely for the purposes of providing care for the children, the elderly or disabled in a home maintained by such charitable institution;
- (The bank or financial institution is required to seek confirmation from the Department that such institution is qualified for this exemption)**
- (f) the interest accruing to any person from moneys lying to his credit in foreign currency with any foreign currency banking unit (FCBU);
- (g) the interest accruing to any person on moneys
- i. invested in Sri Lanka Development Bonds issued by the Central Bank, in US \$;
 - ii. Invested in Reconstruction Bonds issued by the Government of Sri Lanka, in US \$; or
 - iii. deposited in any Treasury Bond Investment External Rupee Account. (TIERA);
- (h) the interest arising or accruing, or discount allowed, to any non-resident citizen of Sri Lanka, from/on any Motherland Development Bond issued by, or on behalf of the Government of Sri Lanka, in foreign currency.

- (2) Any interest from which tax is required to be deducted under section 37 (**specific long term accounts**) or section 95 (**interest payable to persons outside Sri Lanka**) of Inland Revenue Act.
- (3) Any interest payable to:
 - (a) The Consolidated Fund of the Government of Sri Lanka or any Provincial Fund of a Provincial Council; or
 - (b) Any institute referred to in paragraph (a),(c),(d),(g),(h) or (i) of section 7 of the Inland Revenue Act.
- (4) The Interest on any one savings account maintained by an individual or a charitable institution, if such interest is less than 5000 rupees for any month.
(If more than one savings account is maintained by an individual or a charitable institution, this exemption is applicable only in relation to one account)

“Savings Account” means an account, whether or not subject to any condition affecting the right to withdraw money there from and which bears interest at a rate not dependent on the period for which the deposit is maintained.

3. Rates of Tax Deduction:

Every Bank or Financial Institution paying interest or allowing any sum referred to as “excess” over the original payment (in the case of any certificate of deposit) is required to deduct income tax from such interest or excess (**unless it is exempt**) as follows:

- (i) If any interest is paid or credited to a **company** [other than any charitable institution], the applicable rate of tax deduction on such interest is **10%**;
- (ii) Any excess allowed on the value of any **certificate of deposit** (as referred to in paragraph 1), the applicable rate of tax deduction on such excess is **10%**;
- (iii) If any interest is paid or credited to a **partnership or body of person** [other than any charitable institution], the applicable rate of tax deduction is **8%**.
- (iv) If any interest is paid or credited to an **individual** for any year of assessment (period of 12 months commencing from April 1) and such individual makes in writing a **declaration** (format annexed) to the respective branch of the Bank or Financial Institution certifying that:

- (a) His/her assessable income (ie total income excluding exempt income) for that Year of Assessment does not exceed Rs. 500,000, then tax deduction **should not be made** from such interest for that Year of Assessment;
- (b) His/her assessable income for that Year of Assessment exceeds Rs. 500,000 but does not exceed Rs. 1,500,000, then tax should be **deducted at 2.5%** from such interest for that Year of Assessment; or

If the assessable income of any individual is more than Rs. 1,500,000/=, then tax deduction should be made at 8% (irrespective of whether a declaration is made or not)

- (v) If any interest is paid or credited to a **charitable institution** for any Year of Assessment and such charitable institution makes in writing a declaration (format attached) to the branch of the Bank or Financial Institution that its assessable income for that year of assessment does not exceed Rs. 500,000, then tax deduction should not be made from such interest for that year of assessment; or

If the assessable income of any charitable institution is more than Rs.500,000/=, then tax deduction should be made at 8% (irrespective of whether a declaration is made or not)

Note:

- (a) If a direction has been issued by the Commissioner General of Inland Revenue or any officer authorized by such Commissioner General (as referred to in paragraph 6), the deduction should be made in accordance with such direction;
- (b) The Bank or Financial Institution should keep in safe custody all declarations made by the depositors and aforesaid directions. Such documents should be made available to any officer authorized by the Commissioner General for inspection, (if required).

4. Joint Accounts:

Interest on joint accounts of individuals may be apportioned among such individuals according to the mandate given to the Bank or Financial Institution and such part of interest apportioned to each such individual can be treated as interest payable to such individual.

5. Certificate of Tax Deduction:

Every Bank or Financial Institution deducting income tax according to paragraph 3 is required to issue in respect of each deduction, a **certificate of tax deduction** to every depositor (individual, partnership, company or body of person), in the following format:

Certificate of Tax Deduction	
Name and address of the Bank / Financial Institution
Name & Address of the Depositor:
Year of Assessment:	
(a) Gross amount of the interest	
(b) i. Rate of tax	
ii. Amount of tax deducted	
(c) Net amount of interest actually paid	
Name of Authorized Officer:	Signature of the Authorized Officer
.....	Date:.....

Note: If a tax deduction is duly made from the interest on any deposit of any person **other than a Company**, (at 8%, or at 2.5% consequent to an orderly declaration, as the case may be), taxation of such interest will be final.

6. Directions:

If the recipient of interest has reasons to believe that income tax Payable/ computed by such recipient for any year of assessment, as if the tax deductible interest formed part of such recipient's assessable income, is less than the income tax deductible by the Bank or Financial Institution from the interest for that year of assessment, such a recipient may request the Commissioner General [on direction application form obtainable from the Deputy Commissioner (withholding tax on interest)] that the Bank or Financial Institution be directed to adjust, as so directed, the deduction requirement.

The Bank or Financial Institution should honour any such direction issued by or under the authority of the Commissioner General, and make adjustments accordingly.

Banks and Financial Institutions are kindly requested to take suitable action to inform their depositors (individuals or charitable institutions), of the declaration facility for such individuals and charitable institutions.

7. Records to be maintained by the Bank and other Financial Institution and their other obligations:

Every bank and financial institution is required to -

- keep a proper record of the interest or excess, as the case may be, paid by it in any year of assessment to any person or partnership and the date or dates on which such interest or excess is paid, in the following manner.

Year of Assessment: -

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
S. No.	Name & Address	Account No.	Deposit Amount	Type of Deposit	Interest /Excess	Tax Rate	Tax Deducted

- Permit officers of the Department authorized (in writing) by the Commissioner General to inspect the above records.

8. Registration and return furnishing requirement

As provided for in the section 150 of the Inland Revenue Act, Bank or Financial Institution is required to obtain a registration number from the Deputy Commissioner (Withholding Tax on Interest) – an officer authorized by the Commissioner General- 30 days prior to commencement of deduction of tax and to furnish a monthly return. Such return should contain the relevant particulars from the records to be maintained under item 7.

K.M.S. Kandegedara
Commissioner General of Inland Revenue

For Individuals

DEPARTMENT OF INLAND REVENUE
(Declaration in terms of Section 133 of the Inland Revenue Act).

To:
.....
.....
.....
(Name & Address of the Bank/Financial Institution)

Account No./s :-
.....
YEAR OF ASSESSMENT

DECLARATION (by Individuals)

I.....(Full Name) of.....
.....(Address) hereby declare that :

1. (i) the Assessable income (**total income** including interest but excluding exempt income) of me for the above Year of Assessment is less than **Rs.500,000.** * or
(ii) the Assessable income (**total income** including interest but excluding exempt income) of me for the above Year of Assessment is more than **Rs. 500,000, but less than Rs.1,500,000/-** *
2. I am a senior citizen. Accordingly, the exemption is applicable on total interest from deposits made in the State Banks up to Rs. 500,000/- *
3. My Income Tax File No. (if any) :
4. My National Identity Card No. :
- 5(other, if any)

I certify that the above declaration made by me is true and correct.

.....
Date

.....
Signature of the declarant

(* Please strike off the statements not relevant)

For Charitable Institutions

DEPARTMENT OF INLAND REVENUE
(Declaration in terms of Section 133 of the Inland Revenue Act)

To:.....
.....
.....
.....
(Name & Address of the Bank/Financial Institution)

Account No./s :-
.....

YEAR OF ASSESSMENT

DECLARATION (by Charitable Institutions)

I(full Name), on behalf of the
.....(Name of the Charitable Institution) hereby declare that :

1. The Assessable income (total income including interest but excluding exempt income) of
..... (Name of the Charitable Institution)
 - (i) does not exceed **Rs. 500,000/-** for the above year of assessment, * or
 - (ii) exceed **Rs. 500,000/-** for the above year of assessment. *
2. Income Tax File No of the Institution (if any):
- 3 (other, if any)

I hereby further declare that the above declaration made by me is true and correct.

Date

Signature of the declarant
(Trustee/Principal Officer)

(* Please strike off the statements not relevant)