

**PERFORMANCE REPORT  
OF THE  
COMMISSIONER GENERAL OF INLAND REVENUE**

**2016**

**Kalyani Dahanayake**

**DEPARTMENT OF INLAND REVENUE**



## *The Summary of the Performance during the Year 2016*

The total revenue collection for the year, amounting to Rs.641,547 million shows an increase of Rs.81,124 million or 14.47% over that of the previous year. It was a 38.02% contribution to the total Government Revenue and 5.42% to the Gross Domestic Production of the year.

The IRD engaged in an integrated mechanism consisting of both facilitation and enforcement measures for the enhancement of tax compliance.

The process of issuing privilege cards for the commendation of taxpayers to recognize their contribution to the Government revenue continued during the year.

On the other hand during the year, by regulating tax audits, undisclosed income and turnover amounting to Rs.300,962 million could be taxed. Additional taxes imposed during the year based on that were Rs.33,562 million.

Actions and steps have been taken continuously as stipulated in respective enactments in addition to the Default Tax Recovery Act for recovery of tax.

A considerable number of new tax files had been opened with the initiatives taken by the Information Branch and Taxpayer Service Unit and other units and Regional offices.

During the year Taxpayer Service Unit was made versatile to provide wider range of facilities with the modernization program of the Department. Accordingly facilities were provided for registration of any type of tax which was earlier done by several units.

Taxpayer registration under RAMIS system and e-registration was started during the year. Taxpayers were facilitated to submit the returns of VAT, NBT, PAYE, WHT and CIT through e-Service.

A number of different awareness programmes for taxpayers and tax consultants have been conducted during the year concerned.



## Vision

**To be a taxpayers friendly tax administrator delivering excellent service to the tax paying public, with well trained and dedicated staff.**

## Mission

**To collect taxes in-terms of relevant tax and other related laws, by encouraging voluntary compliance while deterring tax evasion and tax avoidance,**

**To enhance public confidence in the tax system by administering relevant tax and other related legislation fairly, friendly and expeditiously and thereby facilitate and foster a beneficial tax culture.**

## Strategic Goals

**To improve voluntary compliance by taxpayers with the tax laws through programs, which encourage and assist in that and detect those who do not comply and, where necessary, take appropriate corrective action.**

**To improve the effectiveness of the Department by the application of efficient work methods, technology and better utilization of available resources.**

**To enhance the productivity and professionalism of the staff through management and technical training, work experience, and thereby to enable them to contribute more effectively towards the fulfillment, by the Department, of its mission.**



## ***PRINCIPAL OFFICIALS***

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**Mrs. K. Dahanayake**

**Commissioner General of Inland Revenue**

### **Deputy Commissioner Generals**

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**Mr. D.M.L.I. Dissanayake**

Tax Administration(Corporate Large & Medium Entities)

**Mr. A.N. Guruge**

Tax Compliance & Enforcement (Corporate Large & Medium Entities)

**Mrs. P. Rohini**

Customer Service & Promotion

**Mrs. R.M.P.S.K Rajapaksha**

Appeals, Objection Debt Management & Legal

**Mr. A.A.D.U. Abesinghe**

Human Capitals & Asset Administration

**Ms. D.G.P.W. Gunathilake**

Tax Policy formulation & International Affairs

**Mr. J.P.D.R. Jayasekara**

ICT Administration & Tax Operation Support

**Mr. M.G. Somachandra**

Tax Surveillance & Source Tax Administration

**Mrs. C.H. Weerasingha**

Tax Administration (Corporate Small Entities)

## *Senior Commissioners*

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<b>Mrs. H.M.D. Munasingha</b>	Audit Large Business Enterprises
<b>Mrs. S. Karunarathna</b>	Independent Internal Functions Controlling & Intelligence
<b>Mr. O.P.P.K. Sirisena</b>	Tax Operation Support and Procurement & Supply
<b>Mrs. B. A. D. D. Herath</b>	Transfer Pricing Regulations and Research
<b>Mr. D. B. Dissanayake</b>	Tax Compliance & Enforcement (Large Corporate Enterprises)
<b>Mr. D.D.N.P Koralearachchi</b>	WHT, PAYE, Stamp Duty & BGL
<b>Mr. W.S.K. De Costa</b>	Audit Medium Business Enterprises
<b>Mr. M.S.M. Fuward</b>	Information & Interface Agencies
<b>Mr. P.L.S. Liyanage</b>	Compliance Support Service & Promotion
<b>Mr. A.A. Dayarathne</b>	Tax Compliance & Enforcement (Corporate Medium Enterprises)
<b>Mr. J. Rathnayake</b>	Zone I & Unit 1 & 2
<b>Mr. E.S. De Soyza</b>	Customer Registration & Update
<b>Mr. H.M.W.C. Bandara</b>	Zone III
<b>Mr. D.R.S. Hapuarachchi</b>	Human Resource Development, Chang Management & Tax Treaties
<b>Mr. W.M.P.N.B. Wanigasekara</b>	Large Medium Corporate Business Enterprises Refunds
<b>Mr. M.J. Gunasiri</b>	Investigation
<b>Mr. D. Ranagalla</b>	Corporate & Non Corporate Appeals & Objections and Appeals Commission
<b>Mr. R.M. Jayasinghe</b>	Legislation, Issues relating to International Affairs & Domestic Agencies
<b>Mr. M.H. Densil</b>	Zone II & Unit VIP & RTP
<b>Mr. U.B. Wakkumbura</b>	Human Resource & Asset Management
<b>Mr. J.A.G. Mahindaratne</b>	Legal Affairs, Default Collection & Internal Audit
<b>Mrs. D. M.P.K. Ganepola</b>	Information Technology Administration & Payment Controlling

### ***Taxes Administered by the IRD during the year***

Taxes imposed under enactments administered by the IRD during the year are as follows.

<b>Tax</b>	<b>Enactments</b>
Income Tax	Inland Revenue Act. No. 10 of 2006 as amended by Act No.10 of 2007, 9 of 2008 , 19 of 2009, 22 of 2011, 8 of 2012, 18 of 2013, 8 of 2014 and 9 of 2015
Value Added Tax (including VAT on Financial services, Advance Tax on VAT and Optional VAT)	Value Added Tax Act. No. 14 of 2002 as amended by Act No. 7 of 2003, 13 of 2004, 6 of 2005,8 & 49 of 2006, 14 of 2007, 15 of 2008, 15 of 2009 , 9 of 2011, 7 of 2012, 17 of 2013, 7 of 2014, 11 of 2015 and 20 of 2016
Economic Service Charge	Economic Service Charge Act. No. 13 of 2006 as amended by Act No. 15 of 2007, 11 of 2008, 16 of 2009, 11 of 2011, 11 of 2012, 6 of 2013, 9 of 2014 and 13 of 2015
Nation Building Tax	Nation Building Tax Act. No. 9 of 2009 as amended by Act No.32 of 2009 , 10 of 2011 , 9 of 2012, 11 of 2013, 10 of 2014, 12 of 2015 and 21 of 2016
Betting and Gaming Levy	The Betting and Gaming Levy Act. No. 40 of 1988 and 14 of 2015
Stamp Duty	Stamp Duty Act. No. 43 of 1982 and the Stamp Duty (Special Provisions) Act. No. 12 of 2006 as amended by Act No. 10 of 2008 and 13 of 2011
Share Transaction Levy	Finance Act. No. 5 of 2005 and Finance Act. No. 13 of 2007
Construction Industry Guarantee Fund Levy	
Social Responsibility Levy	Finance Act. No. 5 of 2005, Finance Act No. 11 of 2006 and Finance Act. No. 8 of 2008
Transfer Tax on Land	Land (Restrictions on Alienation) Act No. 38 of 2014

The IRD continued to deal with assessment and collection of following taxes, which were in force earlier and have since been repealed or abolished.

<b>Tax</b>	<b>Relevant Enactment</b>
National Security Levy	The National Security Levy Act. No. 52 of 1991 as amended
Goods and Services Tax	The Goods and Services Tax Act. No. 34 of 1996 as amended
Save the Nation Contribution	The Save the Nation Contribution Act. No. 5 of 1996 as amended
Surcharge on Wealth Tax	The Surcharge on Wealth Tax Act. No. 25 of 1982 and Act No. 8 of 1989
Surcharge on Income Tax	The Surcharge on Income Tax Act. No. 26 of 1982, Act No. 12 of 1984, Act No. 7 of 1989 as amended
Debits Tax	Debits Tax Act. No. 16 of 2002 as amended by Act No 05 of 2003, 12 of 2007, 17 of 2009 and 14 of 2011
Estate Duty	The Estate Duty Act. No. 13 of 1980 as amended
Turnover Tax (Northern Province)	The Turnover Tax Act. No. 69 of 1981 as amended



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# **PART I**

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# **HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT**

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# **Chapter 1- Human Resources**

### 1.1 Approved cadre, the number in post and vacancies

The following table shows the approved cadre of the Department, the number in post and the vacancies, as at 31, December 2016.

<b>Cadre as at 31.12.2016</b>			
<b>Position</b>	<b>Approved Cadre</b>	<b>Number in Post</b>	<b>Vacancies</b>
<b><u>Inland Revenue Service</u></b>	<b><u>1232</u></b>	<b><u>1193</u></b>	<b><u>42</u></b>
Commissioner General	1	1	-
Deputy Commissioner General	9	8	1
Senior Commissioner	22	12	10
Commissioner	90	89	1
Senior Deputy Commissioner / Deputy Commissioner/ Assistant Commissioner	1110	1080	30
Senior Tax Officer/ Tax Officer	-	3	-
<b><u>Other Services</u></b>	<b><u>1541</u></b>	<b><u>1360</u></b>	<b><u>183</u></b>
<b><u>Combined Services</u></b>	<b><u>1391</u></b>	<b><u>1272</u></b>	<b><u>119</u></b>
Chief Finance Officer	1	1	-
Chief Accountant	1	1	-
Internal Auditor	1	1	-
Director (Administration)	1	1	-
Accountant	5	5	-
Administrative Officer	3	2	1
Translator	9	9	-
Development Officer	7	7	-
Librarian	2	1	1
Public Management Assistant	925	834	91
Transport Officer	1	-	1
Driver	86	84	2
KKS	349	326	23
<b><u>ICT Service</u></b>	<b><u>131</u></b>	<b><u>72</u></b>	<b><u>59</u></b>
Director (ICT)	1	-	1
Deputy Director/ Assistant Director (ICT)	6	4	2
System Analyst	1	1	-
Officer (ICT)	18	15	3
Assistant (ICT)	105	52	53
<b><u>Other</u></b>	<b><u>19</u></b>	<b><u>16</u></b>	<b><u>5</u></b>
Engineer	1	1	-
Technical Officer	2	-	2
Building Supervisor	1	-	1
Research Associate	10	10	-
Receptionist	4	3	1
Carpenter	1	-	1
Sanitary Labour	-	2	-
<b>Total</b>	<b>2773</b>	<b>2553</b>	<b>225</b>

## 1.2 Promotions

- Four Commissioners were promoted to the rank of Senior Commissioners.
- Nine Senior Deputy Commissioners were promoted to the rank of Commissioners.
- Eleven Deputy Commissioners were promoted to the rank of Senior Deputy Commissioners.
- Hundred and fifty six Assistant Commissioners were promoted to the rank of Deputy Commissioners.

## 1.3 Retirements

The following senior officers retired from the service during the year.

- Mr. K.A.G. Abeyrathne Deputy Commissioner General
- Mr..K. Dharmasena Senior Commissioner

### Other Retirements

- Commissioner 2
- Senior Deputy Commissioner 4
- Deputy Commissioner 2
- Assistant Commissioner 4

### Mr. K.A.G. Abeyrathne

Mr. K.A.G. Abeyrathne joined the Department in 1981 as an assessor. At the time of his retirement which took place on 17.03.2016, he was functioning as the Deputy Commissioner General. Mr. Abeyrathne counted 35 years of dedicated service in the IRD serving in respective capacities in Inland Revenue Service. During his tenure of office, he participated in several overseas taxation programs including program Tax Analysis and Revenue Forecasting held in USA in 2004, training program on Audit and Management held in India in 2007, Seminar on Tax Policy and Tax Administration held in Japan in 2011, UN- OECD Practical workshop on the Negotiation of Treaties held in Austria in 2014 and Workshop on Tax Administration for Higher level officials held in Netherland in 2015. He represented the Department at the 1<sup>st</sup> Meeting of the Global Forum of VAT held in France in 2012 and 34<sup>th</sup> CATA Technical Conference in Rwanda in 2013.

## 1.4 Training

### 1.4.1 In-house Training

Human Resources Development Unit of the IRD conducted training courses and examinations for Assistant Commissioners, regularly with the aim of enhancing their knowledge and improving their analytical skills, particularly in taxation and accountancy. These courses are designed as to provide the training on subjects, required to fulfill various service requirements of officers for confirmation in the respective grades and promotions and to acquire knowledge for discharging duties.

Details of personnel trained and the examinations conducted during the year were as follows.

▪ **For Assistant Commissioners**

Course / Examination	Number of Trainees	
Training classes conducted for Assistant Commissioners in Class II Grade II for the First Efficiency Bar Examination	514	
Training classes conducted for Assistant Commissioners in Class II Grade II for the Second Efficiency Bar Examination	36	
First Efficiency Bar Examination for the Assistant Commissioners in Class II Grade II	1 <sup>st</sup> Attempt	413
Second Efficiency Bar Examination for the Assistant Commissioners in Class II Grade II	1 <sup>st</sup> Attempt	1
Second Efficiency Bar Examination for the Assistant Commissioners in Class II Grade II	2 <sup>nd</sup> Attempt	35

▪ **Seminars, Work Shops etc**

Subject	No. of seminars/ workshops held during the year	No. of officers attended
Seminar on Professional Assessment	1	70
Seminar on Sri Lanka Financial Reporting Standards	1	96
Awareness Programme on Tax Law for the officers of the Nuwara Eliya Regional office	1	25
Awareness Programme for newly appointed Assistant Commissioners	3	390
Seminar for Assistant Commissioners	3	442
Workshop for awareness on Stamp Duty Ordinance	1	150
Awareness Programme for newly recruited Management Assistant	1	40

**Training on Computerized Accounting Package**

A training programme on computerized accounting package was conducted for 120 IRD officers with the aim of improving the knowledge. This program was conducted with the collaboration of AAT Institute.

**1.4.2 Overseas Training**

As usual arrangements were made for officials of the Department to participate in training programmes, seminars or workshops held abroad with a view to expose them to the advancement of administration of tax legislation and best practices of the other countries in order to maintain a high level of professionalism as tax administrators. Details of such officers who were sent abroad for seminars and workshops and the programmes they participated are as follows.

<b>No.</b>	<b>Name</b>	<b>Programme</b>	<b>Country</b>	<b>Duration</b>
1	Mrs. K. Dahanayake Commissioner General	OECD Transfer Pricing Documentation & Country by Country Reporting [MTC Event]	Mexico	24.09.2016 - 04.10.2016
2	Mr. D.M.L.I. Dissanayake Deputy Commissioner General	Effective and Efficient Use of Tax Incentives	Mexico	17.06.2016 - 25.06.2016
3	Mr. D.M.L.I. Dissanayake Deputy Commissioner General	Workshop on Taxation and the Oil Industry, TP and other tax risks	Mexico	26.11.2016 - 05.12.2016
4	Mr. A.A.D.U. Abeyasinghe Deputy Commissioner General	Professional Certificate in Government and Accountability	United Kingdom	16.04.2016 - 25.04.2016
5	Mr. J.P.D.R. Jayasekara Deputy Commissioner General	Workshop on Taxation and the Oil Industry, TP and other tax risks	Mexico	26.11.2016 - 05.12.2016
6	Mr. W.S.K. De Costa Senior Commissioner	OECD – Tax Administration – Compliance by Design [MTC Event]	Hungary	03.09.2016 - 10.09.2016
7	Mr. A.A. Dayaratne Senior Commissioner	OECD – Tax Administration – Compliance by Design [MTC Event]	Hungary	03.09.2016 - 10.09.2016
8	Mrs. B.A.D.D. Herath Senior Commissioner	Workshop on Taxation and the Oil Industry, TP and other tax risks	Mexico	26.11.2016 - 05.12.2016
9	Mr. M.J. Gunasiri Senior Commissioner	Professional Certificate in Government and Accountability	United Kingdom	16.04.2016 - 25.04.2016
10	Mr. H.M.W.C. Bandara Senior Commissioner	Effective and Efficient Use of Tax Incentives	Mexico	17.06.2016 - 25.06.2016
11	Mrs. D.M.P.K. Ganepola Senior Commissioner	Regional Meeting of the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) for the Asia and Pacific Region	Phillippines	28.11.2016 - 02.12.2016
12	Mr. G.H.M. Thilakaratne Commissioner	Income Tax Workshop	Korea	21.02.2016 - 27.02.2016
13	Mr. U.L.U.K. Perera Commissioner	4 –day Seminar / Training Programme on “Modern Techniques of Investigation and Intelligence Gathering”	India	07.03.2016 - 12.03.2016
14	Mr. G.D.S. Jayarathne Commissioner	Capacity Building Workshop	Korea	03.04.2016 - 09.04.2016
15	Mr. S.M.A. Bandara Commissioner	LHDNM-OECD: Auditing MNEs for BEPS – A Case Study	Malaysia	24.04.2016 - 30.04.2016
16	Mrs. V.K.A. Thusithanjalee Commissioner	OECD Transfer Pricing Documentation & Country by Country Reporting [MTC Event]	Mexico	24.09.2016 - 04.10.2016
17	Mr. G.A.O. Dayawansa Commissioner	Workshop on Tax and Crime	China	29.10.2016 - 08.11.2016

18	Mr. L.D.R. Jayasekera Commissioner	Workshop on Tax and Crime	China	29.10.2016 - 08.11.2016
19	Mr. M.A. Priyanka Senior Deputy Commissioner	Seminar on Tax administration and Tax Payer Service for Developing Countries	China	25.05.2016 - 16.06.2016
20	Mr. H.S.J. Ranasinghe Senior Deputy Commissioner	Seminar on Cyber Crime Prevention & Investigation for Sri Lankan Officials	China	27.06.2016 - 17.07.2016
21	Mr. E.K.P.B. Ekanayake Senior Deputy Commissioner	The Commonwealth Association of Tax Administrators Training Programmes (ALP & CTAC)	United Kingdom	22.07.2016 - 03.09.2016
22	Mr. M.K.P.J.S.S. Perera Senior Deputy Commissioner	Tax Enforcement	Malaysia	08.10.2016 - 22.10.2016
23	Mr. M.L.J.G. Chandrasiri Senior Deputy Commissioner	2016 Seminar on Tax Administration & Taxpayer Service for Developing Countries	China	10.10.2016 - 01.11.2016
24	Mr. J.D. Dimantha Senior Deputy Commissioner	Income Tax Workshop	Korea	21.02.2016 - 27.02.2016
25	Mr. N.M.A.K.B. Napana Senior Deputy Commissioner	4 –day Seminar / Training Programme on “Modern Techniques of Investigation and Intelligence Gathering”	India	07.03.2016 - 12.03.2016
26	Mr. M.K.P.J.S.S. Perera Senior Deputy Commissioner	4 –day Seminar / Training Programme on “Modern Techniques of Investigation and Intelligence Gathering”	India	07.03.2016 - 12.03.2016
27	Mr. M.N.M.A. Caader Deputy Commissioner	IRBM – IBFD: Permanent Establishment	Malaysia	17.04.2016 - 23.04.2016
28	Mr. M.N.M.A. Caader Deputy Commissioner	LHDNM-OECD: Compliance by Design – Instruments to Strengthen Tax Compliance	Malaysia	20.11.2016 - 26.11.2016
29	Mr. J.I.B.S. Udayakumara Deputy Commissioner	2016 Seminar on Tax Administration & Taxpayer Service for Developing Countries	China	10.10.2016 - 01.11.2016
30	Mrs. G.V.P. Perera Deputy Commissioner	2016 Seminar on Tax Administration & Taxpayer Service for Developing Countries	China	10.10.2016 - 01.11.2016
31	Mrs. M.P.M. Liyanaarachchi Deputy Commissioner	2016 Seminar on Tax Administration & Taxpayer Service for Developing Countries	China	10.10.2016 - 01.11.2016
32	Mrs. A.G.N.P. Kumarihamy Deputy Commissioner	2016 Seminar on Tax Administration & Taxpayer Service for Developing Countries	China	10.10.2016 - 01.11.2016
33	Miss R.M.S.S. Rathnyake Deputy Commissioner	2016 Seminar on Tax Administration & Taxpayer Service for Developing Countries	China	10.10.2016 - 01.11.2016
34	Mr. W.A.N. Wijesooriya Deputy Commissioner	2016 Seminar on Tax Administration & Taxpayer Service for Developing Countries	China	10.10.2016 - 01.11.2016
35	Mr. J.H.M.A. Jayapathma Assistant Commissioner	Regional Meeting of the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) for the Asia and Pacific Region	Philippines	28.11.2016 - 02.12.2016

36	Ms. A.C. Sirisoma Assistant Commissioner	Global Relations Workshop on Transfer Pricing & Country-by-Country Reporting	Korea	04.12.2016 - 11.12.2016
37	Mrs. S.S.W.P.D. Rajapakse Assistant Commissioner	Global Relations Workshop on Transfer Pricing & Country-by-Country Reporting	Korea	04.12.2016 - 11.12.2016
38	Mr. W.A.D.D. Wanigasundara Assistant Commissioner	Training on Tax Administration Assessment Tool (TADAT)	Bangladesh	11.12.2016 - 16.12.2016
39	Mr. M.A.J.R. Munasinghe Assistant Commissioner	Training on Tax Administration Assessment Tool (TADAT)	Bangladesh	11.12.2016 - 16.12.2016
40	Mr. J.M.K.B. Jayasundara Assistant Commissioner	Training on Tax Administration Assessment Tool (TADAT)	Bangladesh	11.12.2016 - 16.12.2016
41	Mr. W.A.L.S. Wijesinghe Assistant Commissioner	Master of Public Management (MPM)	Korea	18.01.2016 - 22.01.2017
42	Ms. A.A.D. Hemalatha Assistant Commissioner	LHDNM –OECD : Transfer Pricing Aspects of the Extractive Industry	Malaysia	21.02.2016 - 27.02.2016
43	Ms. P.K.R. Asoka Assistant Commissioner	LHDNM –OECD : Transfer Pricing Aspects of the Extractive Industry	Malaysia	21.02.2016 - 27.02.2016
44	Mr. A.L.D. Sanjeewa Assistant Commissioner	4 –day Seminar / Training Programme on “Modern Techniques of Investigation and Intelligence Gathering”	India	07.03.2016 - 12.03.2016
45	Mr. M.L.S.P. Gunathilake Assistant Commissioner	The Commonwealth Association of Tax Administrators Training Programmes (ALP & CTAC)	United Kingdom	22.07.2016 - 03.09.2016

# **PART II**

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## **TAX ADMINISTRATION**

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# **Chapter 2 - Collection of Revenue**



Inland Revenue Department collected net revenue of Rs 641,546,766,081/-(including Social Responsibility Levy which is accounted under Fiscal Policy Department, Stamp Duty which is transferred in full to Provincial Councils and the 1/3 of collection under Nation Building Tax which is transferred to Provincial Councils) during the year 2016. The aggregate number of files maintained by the IRD for the collection of different taxes stood at 1,382,204 as at 31.12.2016.

## 2.1 Number of Taxpayers and Tax Files

The number of persons registered with the Department for the payment of tax, as at the end of the year, is given in table 01.

<b>Table 01 - Number of Taxpayers and Tax Files as at 31.12.2016</b>		
<b>Income Tax</b>		
<b><u>Corporate</u></b>		
Resident Companies	43,992	
Non Resident Companies	1,997	
State Corporations, Statutory Boards and State owned institutions	49	46,038
<b><u>Non Corporate</u></b>		
Individuals	119,332	
Partnerships	11,167	
Bodies of persons etc.	929	
Employees paying income tax under Pay- As- You- Earn (PAYE) Scheme (as at 31.03.2016)	1,051,364	1,182,792
<b>Total Income Taxpayers</b>		<b>1,228,830</b>
<b><u>Other Taxpayers</u></b>		
Persons and Partnerships registered for Economic Service Charge (ESC)	4,090	
Persons registered for Value Added Tax (VAT)	21,257	
Persons registered for Value Added Tax on Financial Services	216	
Persons registered for Nation Building Tax (NBT)	97,438	
Persons registered for Nation Building Tax on Financial Services	216	
Betting Levy Files	563	
Gaming Levy Files	5	
<b>Total other Taxpayers</b>		<b>123,785</b>
Employers registered under PAYE Scheme	18,793	
Withholding Tax on Interest (Withholding Agents)	292	
Withholding Tax on Specified fees (Regular Monthly Schedules Senders)	411	
Construction Industry Guarantee Fund Levy	334	
Stamp Duty (Regular Monthly Schedules Senders)	9,759	<b>29,589</b>
<b>Total Number of Tax Files/ Taxpayers as at 31.12.2016</b>		<b>1,382,204</b>

## 2.2 Total Revenue Collection

The total revenue collection for the year, amounting to Rs.641,547 million shows an increase of Rs.81,124 million or 14.47% over that of the previous year. This achievement was possible mainly due to wide array of measures undertaken by tax administration for facilitating and enforcement of compliance including the implementation of RAMIS system. The identification of taxpayers' assessment of the liabilities and collection of taxes were intensified paving the way for the said increase.

The ratio of the total revenue contribution by the IRD to the Government revenue in the year was 38.05%. Total collection of revenue indicates 111.94% achievement when compared to the revenue under each type of taxes with the corresponding estimates while net revenue collection (excluding Social Responsibility Levy which is accounted under Fiscal Policy Department, Stamp Duty which is transferred in full to Provincial Councils and the 1/3 of collection under Nation Building Tax which is transferred to Provincial Councils) was 105% from the estimate for the year.

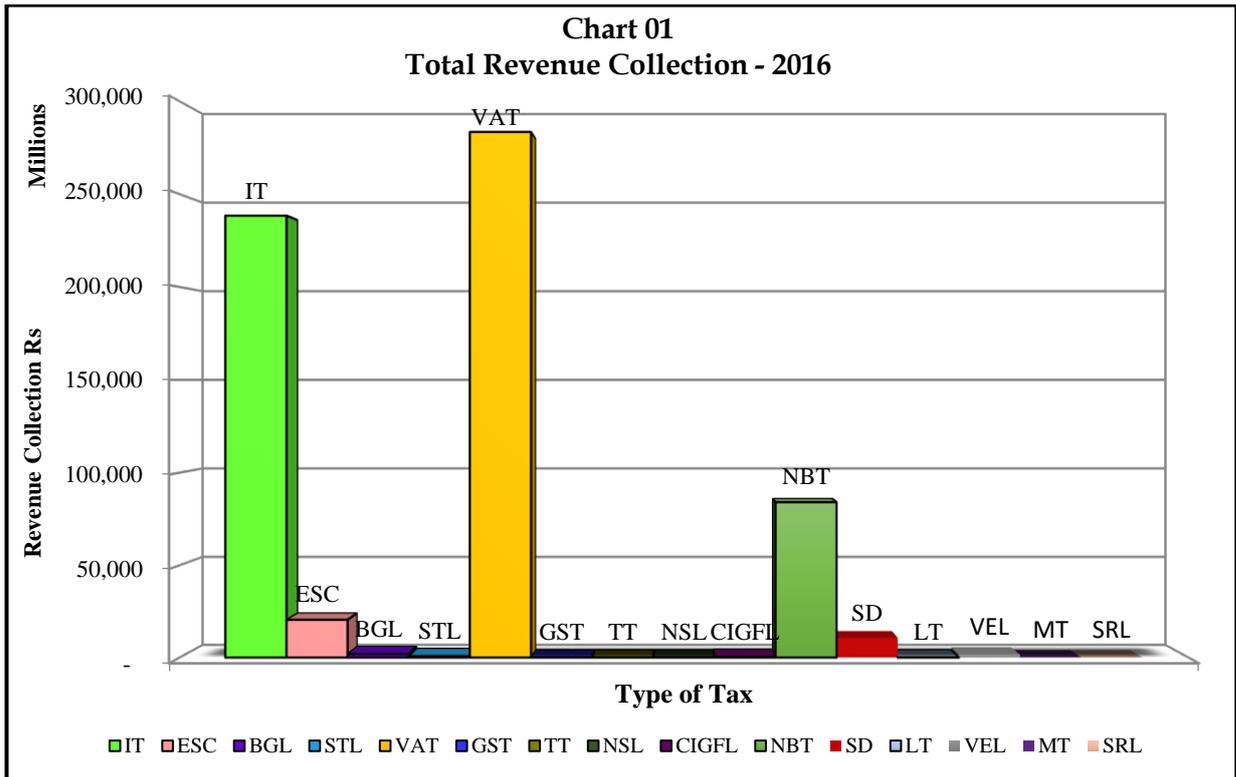
Collection of income tax decreased by 25.14% to Rs. 238,398 million in 2016 from Rs. 256,435 million in the previous year. (Previous year revenue increased due to the super gain tax which was introduced by the interim budget 2015 as a one off tax). However, the income tax collection reflects a 106.29% when compared to the estimate for the year.

The collection of VAT increased over that of the previous year by 24.42% and Rs. 69,214 million in nominal value. The possible reason for the increase could be the reduction liable turnover limits and increase of VAT rate to 15%.

As per the policy decision taken in the budget proposal 2016, it was proposed to remove the exclusion of profit making business from chargeability of ESC while increasing the rate. Accordingly, collection of ESC shows a drastic increase over the previous year.

A comparison of revenue under each type of tax with the corresponding estimates is revealed in table 02 and illustrated in chart 01. The cash flow during the year is shown in the table 03 and is illustrated by chart 02.

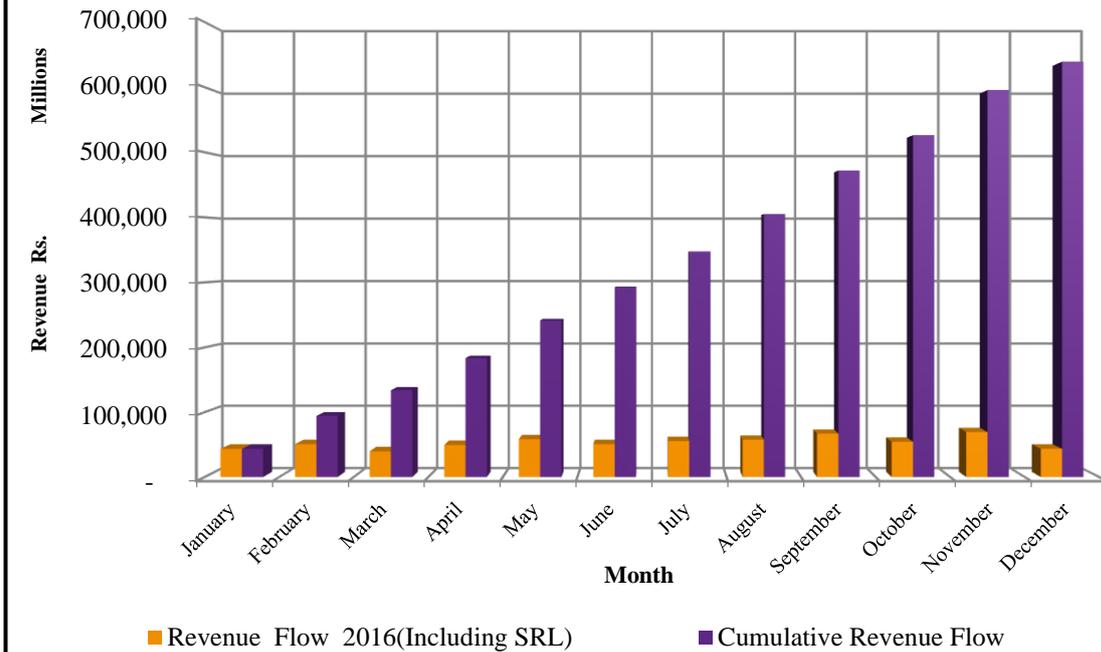
Type of Tax	Revenue Estimate (Revised) Rs.	Revenue Collection Rs.	Collection as a % of Estimate	Collection as a % of Total Revenue
Income Tax	224,300,000,000	238,398,610,641	106.29%	37.16%
Economic Service Charge	21,000,000,000	20,458,175,363	97.42%	3.19%
Betting & Gaming Levy	900,000,000	1,884,498,652	209.39%	0.29%
Share Transaction Levy	1,900,000,000	737,659,559	38.82%	0.11%
Value Added Tax	270,000,000,000	283,451,513,780	104.98%	44.18%
Goods & Services Tax	-	1,585,883	-	0.00%
Turnover Tax	-	16,639,038	-	0.00%
National Security Levy	-	8,091,202	-	0.00%
Construction Industry Guarantee Fund Levy	250,000,000	258,801,839	103.52%	0.04%
Nation Building Tax	54,000,000,000	84,066,526,724	141.48%	13.10%
Stamp Duty	-	10,650,973,620	-	1.66%
Land Tax	-	22,665,680	-	0.00%
Vehicle Entitlement Levy	750,000,000	1,579,133,507	210.55%	0.25%
Migrating Tax	15,000,000	11,054,550	73.70%	0.00%
Social Responsibility Levy	-	836,043	-	0.00%
<b>Total Revenue Collection</b>	<b>573,115,000,000</b>	<b>641,546,766,081</b>	<b>111.94%</b>	<b>100.00%</b>



### 2.3 Total Revenue Flow

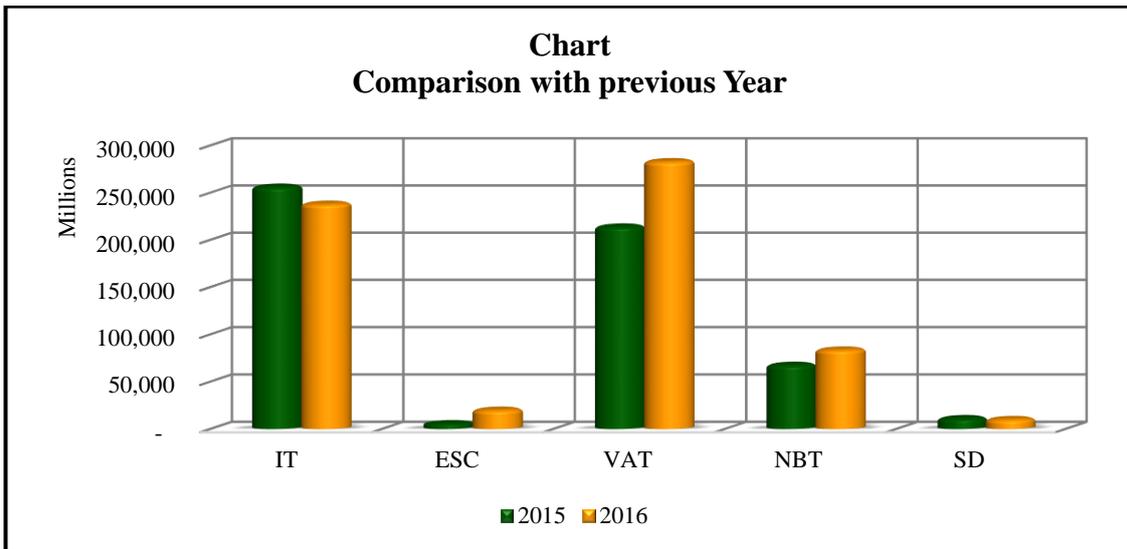
Month	Revenue Collection (Including SRL) Rs.	Cumulative Revenue Collection Rs.
January	43,567,592,559.39	43,567,592,559.39
February	50,719,416,869.43	94,287,009,428.82
March	39,576,585,752.21	133,863,595,181.03
April	49,448,211,096.70	183,311,806,277.73
May	58,242,987,112.31	241,554,793,390.04
June	50,649,941,961.51	292,204,735,351.55
July	55,446,750,550.23	347,651,485,901.78
August	57,426,971,701.13	405,078,457,602.91
September	66,926,504,173.36	472,004,961,776.27
October	54,332,672,892.10	526,337,634,668.37
November	69,435,401,124.27	595,773,035,792.64
December	43,585,477,365.46	<b>639,358,513,158.10</b>

**Table 02**  
**Revenue Flow- 2016**



## 2.4 Revenue Comparison with previous Year

Type of Tax	2016 Revenue collection Rs:	2015 Revenue collection Rs:	Increase/ Decrease of Collection as a %
Income Tax	238,398,610,641	256,434,940,539	-7.57%
Economic Service Charge	20,458,175,363	6,148,447,689	69.95%
Betting & Gaming Levy	1,884,498,652	831,922,843	55.85%
Share Transaction Levy	737,659,559	1,394,916,707	-89.10%
Value Added Tax	283,451,513,780	214,236,985,484	24.42%
Goods & Services Tax	1,585,883	881,931	44.39%
Turnover Tax	16,639,038	15,770,891	5.22%
National Security Levy	8,091,202	11,633,297	-43.78%
Construction Industry Guarantee Fund Levy	258,801,839	753,314,770	-191.08%
Nation Building Tax	84,066,526,724	67,911,062,200	23.79%
Stamp Duty	10,650,973,620	11,595,885,325	-8.15%
Land Tax	22,665,680	1,066,637,564	-4605.96%
Vehicle Entitlement Levy	1,579,133,507	-	-
Migrating Tax	11,054,550	-	-
Social Responsibility Levy	836,043	19,962,860	-95.81%
<b>Total Revenue Collection</b>	<b>641,546,766,081</b>	<b>560,422,362,100</b>	<b>14.48%</b>



## 2.5 Transfer of Revenue of Stamp Duty and Nation Building Tax to Provincial Councils

In terms of the amendments made to respective legislative provisions in pursuant to the Budget proposals of 2011 revenue from following taxes collected by the Commissioner General of Inland Revenue have been transferred at the mentioned percentages to the Provincial Councils.

Nation Building Tax	33.33% of the total collection
Stamp Duty	100% of the total collection

Table 04 shows the total revenue collection and the amount transferred to Provincial Councils of respective taxes.

	Total Collection Rs.	Amount transferred to Provincial Councils Rs.	%
Nation Building Tax	84,066,526,724	26,642,388,365	33.33%
Stamp Duty	10,650,973,620	10,650,973,620	100%

## 2.6 Collection of Revenue – Self-Assessment and Other

During the year payments under self-assessment out of the total revenue collection (excluding VAT & NBT on imports) contributed almost wholly the total whereas collection by way of official assessments was 6% of the aggregate. Audit functions, carried out to a satisfactory level during the year reflects slight increase of collection through assessments when compared with the previous year. However, the efforts were taken to encourage the voluntary compliance as the prime part of the IRDs mission to collect the revenue under self-assessment basis. Necessary actions taken in this regard and facilities continuously contributed for this success. Table 05 shows the comparison of figures.

<b>Table 05 - Comparative Analysis of Collection under Self-Assessment and Other</b>						
	<b>2014 (Rs'000)</b>		<b>2015 (Rs'000)</b>		<b>2016 (Rs'000)</b>	
	<b>Self Assessment</b>	<b>Other</b>	<b>Self Assessment</b>	<b>Other</b>	<b>Self Assessment</b>	<b>Other</b>
<b>Income Tax</b>	181,977,746	9,982,305	256,434,940	11,539,082	220,471,725	17,926,886
<b>VAT (Excluding VAT on Imports)</b>	129,744,521	5,890,227	130,510,553	4,688,017	161,404,285	6,710,993
<b>NBT(Excluding NBT on Imports)</b>	39,800,767	1,791,628	41,419,548	1,445,941	53,290,159	2,313,174
<b>Others</b>	143,486,800	1,486,719	113,907,066	477,215	34,757,043	873,072
<b>Total</b>	<b>495,009,834</b>	<b>19,150,879</b>	<b>542,272,107</b>	<b>18,150,255</b>	<b>469,923,212</b>	<b>27,824,125</b>
<b>% to the Total Revenue (Excluding VAT and NBT on Imports)</b>	96%	4%	97%	3%	94%	6%

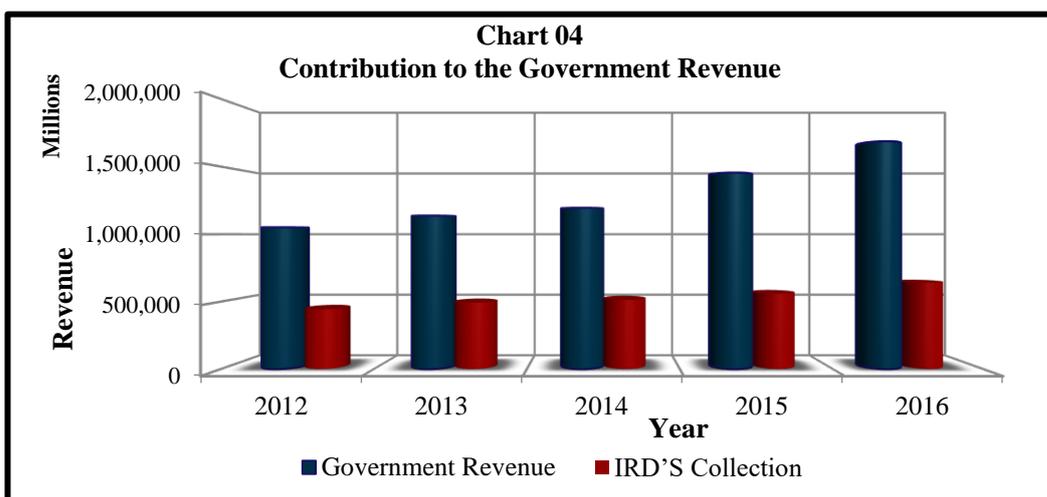
## 2.7 Inland Revenue Contribution to the Government Revenue

Table 06 shows the contribution of the Inland Revenue Department to the Government Revenue and to the GDP in 2016 and its trends in last four years. Chart 04 illustrates these contributions. Total Government Revenue in 2016 has increased to Rs.1,686,061 million (Annual Report of Ministry of Finance and Planning – 2016) recording a 38.05% contribution from the IRD to the total Government revenue.

Revenue collection by IRD as a percentage of GDP continued to decline and accounted for 5.42% in 2016. Introduction of tax incentives, holidays, exemptions and concessionary tax rates during the recent past may be the reason for the decreasing trend of percentages.

<b>Table 06 - Contribution of Inland Revenue to the Government Revenue and GDP at Current Prices of Major Economic Activities</b>					
<b>Year</b>	<b>Government Revenue Rs. Mn*</b>	<b>IRD's Collection Rs. Mn</b>	<b>% of IRD's Collection to Govt. Revenue</b>	<b>GDP at current Prices of major Economic Activities Rs. Mn**</b>	<b>Percentage of IRD'S Collection to GDP</b>
2012	1,051,461	443,456	42.18%	7,582,376	5.85%
2013	1,137,447	492,539	43.30%	8,674,230	5.68%
2014	1,195,206	514,161	43.02%	9,784,672	5.25%
2015	1,454,878	560,422	38.52%	11,183,220	5.01%
2016	1,686,061	641,547	38.05%	11,838,975	5.42%

Source: - \* Ministry of finance & Planning (Annual Report) \*\* Central Bank of Sri Lanka (Annual Report)



## 2.8 Return Compliance

The settled programme for enhancing taxpayer compliance in timely filing of tax returns and paying taxes on self-assessment basis continued during the year. Providing benefits to individual taxpayers to enhance voluntary compliance towards the tax laws, such as awarding Privilege Cards (Gold & Silver), discounts on early tax payments effectively continued, contributing to taxpayer compliance.

Accordingly, during the year of assessment 2015/2016, the percentage of filing non-corporate income tax returns on the due date was 48% and within one month from the due date, it had increased to 59%. The compliance rate after two months from the due date was 68% in corporate sector.

In the case of corporate sector, it was 30% on the due date and 46% within one month from the due date. The compliance rate within two months from the due date was 48% in this sector.

The return compliance rate of all the taxes has been almost consistent even though it is not the expected level in a self-assessment tax system. IRD continued to take actions for achieving the return compliance. However, a considerable decline of the rate is seen in NBT in the concerned year. During the year 75,811 new taxpayers were registered with NBT under the field survey carried out by the IRD. Non familiarizing of such taxpayers in submitting returns would be a reason for this decline even though they were provided with assistance. Table 07 shows the income tax return compliance rate on due date, and within one month from the due date of the years 2011/2012 to 2015/2016. Table 08 shows the rates of return compliance on other taxes.

Year of assessment	Sector	Compliance on due date	Compliance within one month from the due date
2011/2012	Corporate	56%	60%
	Non-Corporate	39%	48%
2012/2013	Corporate	56%	70%
	Non-Corporate	41%	54%
2013/2014	Corporate	53%	61%
	Non-Corporate	42%	57%
2014/2015	Corporate	52%	58%
	Non-Corporate	47%	62%
2015/2016	Corporate	30%	46%
	Non-Corporate	48%	59%

<b>Table 08 - Return Compliance on other Taxes</b>					
<b>Year</b>	<b>VAT</b>	<b>ESC</b>	<b>NBT</b>	<b>PAYE</b>	
Year 2014	49%	71%	84%	Year of Assessment 2013/2014	55%
Year 2015	65%	68%	86%	Year of Assessment 2014/2015	63%
Year 2016	71%	79%	31%	Year of Assessment 2015/2016	57%

## 2.9 Income Tax Collection

Collection of revenue from corporate income tax, personal income tax, dividend tax and withholding tax dropped by 7.03% to Rs.238,398 million in 2016 in comparison to Rs.256,435 million in 2015. Total income tax collection accounts for 37.16% of total revenue of IRD for the year and that was 45.76% in the year 2015. Income tax collection in the year 2015 included super gain tax, introduced by the interim budget of 2015 as a one off tax, amounted to Rs. 49 Million which was introduced by the interim budget 2015 as a one off tax. In addition tax incentives, holidays and concessionary rates which were introduced during recent past to encourage the exports, power generation and infrastructure development inter alia, may be another reason for the decrease of revenue from income tax.

### 2.9.1 Income Tax Collection – Sector-wise Clarification

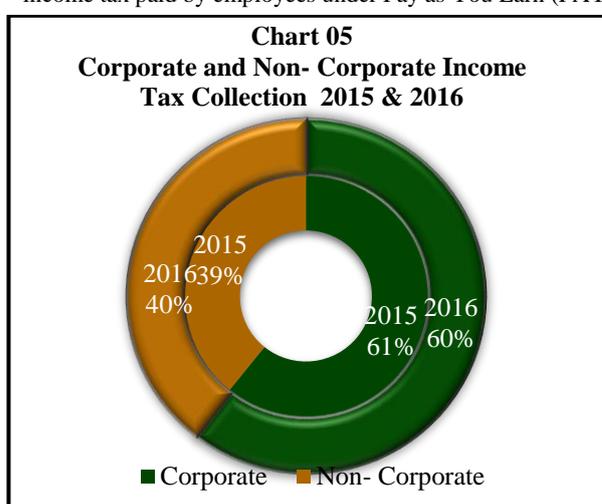
The contribution from the corporate sector to the total income tax collection amounted to Rs.144,134 million or 60% of the total income tax collected. The non-corporate sector contributed Rs.94,265 million or 40%.

Table 09 shows the composition and chart 05 illustrates it.

<b>Table 09 - Corporate and Non Corporate Income Tax Collection - 2015 &amp; 2016</b>				
	<b>2016</b>		<b>2015</b>	
	<b>Tax Collection</b>	<b>%</b>	<b>Tax Collection</b>	<b>%</b>
<b>Corporate*</b>	144,133,758,898	60%	155,870,960,759	61%
<b>Non Corporate**</b>	94,264,851,743	40%	100,563,979,780	39%
<b>Total</b>	<b>238,398,610,641</b>	<b>100%</b>	<b>256,434,940,539</b>	<b>100%</b>

\* Includes Dividends Tax of 12,340 Mn in 2015 & 15,902 Mn in 2016

\*\*Includes WHT deducted and remitted from interest income services rendered by corporate sector and income tax paid by employees under Pay as You Earn (PAYE) scheme



## 2.9.2 Source-wise Analysis of Income Tax Collection

Table 10 shows the source wise composition (employment and others) of income tax collected during the year.

Source	Collection (Rs.Mn)	
<b>Employment</b>		
PAYE Scheme	27,717.03	
Assessments with penalties with tax in default	481.09	<b>28,198.12</b>
<b>Others</b>		
Self Assessment and Assessments with penalties	132,060.87	
Withholding tax on interest, rent and specified fees	55,906.76	
Other deductions at source	22,297.55	
<b>Gross Collection</b>		<b>238,463.30</b>
Less: Refund		(64.69)
<b>Net Collection</b>		<b>238,398.61</b>

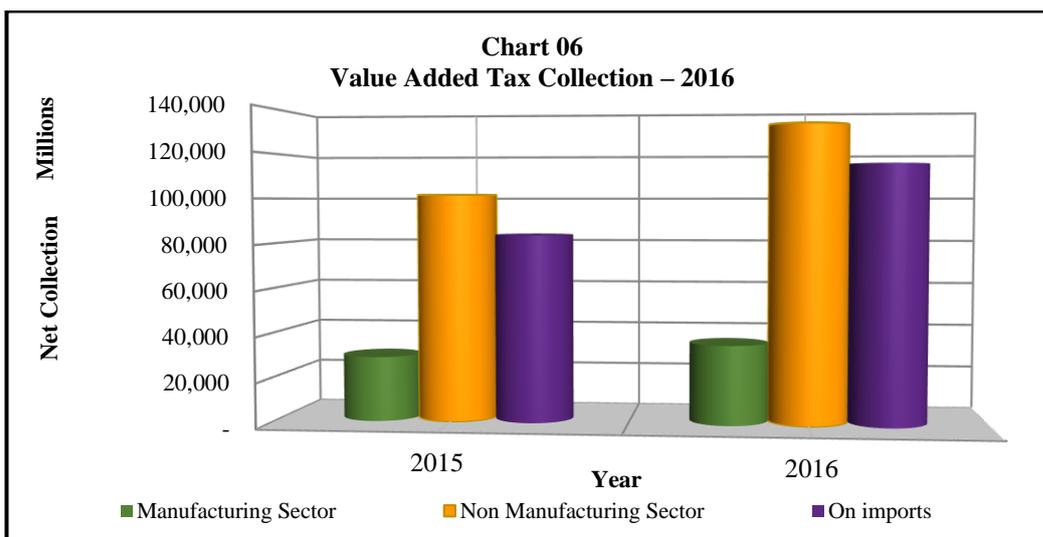
The amount of Rs.132,061 million by way of self-assessments and assessments with penalties consist of taxes on trade, business, profession, vocation and other service which do not fall within WHT mechanism.

## 2.10 Value Added Tax Collection

The Value Added Tax (VAT) collection during the year reflects an increase of 24.42% over that of the previous year which was Rs 214,236 million. Even when compared with the estimate of Rs. 270,000 million for the year, the revenue for the year has increased by Rs. 13,451 million. Reduction of threshold for registration, increase of VAT rate, removal of certain exemptions and implementation of changes in administration under RAMIS helped to increase in VAT revenue. VAT collected on both domestic supplies and imports shows drastic increase over the previous year. The total domestic VAT collected for the year was 168,115 million and this amount was an increase of 37,604 million over that of the year 2015 which was Rs 130,510 million. While, VAT collected on imports during the year 2015 was Rs 83,726 million and in the year, 2016, it was Rs 115,336 million.

Table 11 shows the sector wise gross collection of Value Added Tax, refunds and the net collection, which is illustrated in chart 06.

Sector	2015		2016				
	Net Collection (Rs.Mn)		Gross Collection Rs.(Mn)		Refunds	Net Collection Rs.(Mn)	
<b>Manufacturing</b>		28,894.52		35,853.69	440.78		35,412.91
<b>Non Manufacturing</b>							
-Service	73,719.51		96,670.13		64.51	96,605.62	
-Financial Service	27,896.35		36,096.75			36,096.75	
-Optional VAT	0.17	101,616.03		132,766.88			132,702.37
<b>Imports</b>		83,726.43		115,336.71	0.48		115,336.23
<b>Total</b>		<b>214,236.98</b>		<b>283,957.28</b>	<b>505.77</b>		<b>283,451.51</b>



Sector	2015		2016		Percentage of VAT collection to GDP	
	Net Collection (Rs)	%	Net Collection (Rs)	%	2015	2016
<b>Manufacturing sector</b>	28,894,521,159	13.49%	35,412,908,090	12.49%	0.26%	0.29%
<b>Non Manufacturing sector</b>	101,616,031,540	47.43%	132,702,369,902	46.82%	0.91%	1.12%
<b>On Imports</b>	83,726,432,785	39.08%	115,336,235,788	40.69%	0.75%	0.97%
<b>Total</b>	<b>214,236,985,484</b>	<b>100.00%</b>	<b>283,451,513,780</b>	<b>100.00%</b>	<b>1.92%</b>	<b>2.39%</b>

### 2.10.1 Industry wise Contribution of VAT

Sector	2014 (Rs.Mn)	2015 (Rs.Mn)	% of decrease / increase compared to previous year	2016 (Rs.Mn)	% of decrease / increase compared to previous year
Banking	18,822	23,089	22.67%	27,770	20.27%
Insurance	4,910	5,403	10.04%	6,371	17.92%
Hotel & Restaurant	6,507	7,429	14.17%	10,566	42.23%
Construction	6,943	6,605	-4.87%	8,230	24.60%
Electricity & Gas	560	501	-10.54%	526	4.99%
Imports	10,389	9,880	-4.90%	9,383	-5.03%
Financing	13,982	18,487	32.22%	20,242	9.49%
Communication	394	376	-4.57%	7,429	1875.80%
Petroleum Products	1,509	417	-72.37%	175	-58.03%
Beverage - Alcoholic	9,930	396	-96.01%	1,553	292.17%
Services not classified	9,866	12,295	24.62%	39,690	222.81%
Manufacturing not classified	10,280	9,173	-10.77%	29,079	217.01%
Others	42,408	36,460	-14.03%	36,091	-1.01%
<b>Total</b>	<b>136,500</b>	<b>130,511</b>	<b>-4.39%</b>	<b>197,105</b>	<b>51.03%</b>

## 2.10.2 Main policy changes relating to VAT

The following changes to VAT Act were made as proposed by the budget.

### i. Revision of VAT Rate

The VAT rate on supply of Goods or Services including the supply of Financial Services has been revised as follows.

Period	Rate
From 02.05.2016 to 11.07.2016	15%
From 12.07.2016 to 31.10.2016	11%
For any period from 01.11.2016	15%

### ii. Threshold for VAT Registration

- a. For any period commencing on or after April 1, 2016, the liable limit for registration by a person carries on any taxable activity other than wholesale or retail trade but including Financial Services was reduced to Rs. 3 million for a taxable period of three months or 12 million in the twelve months period.
- b. Liable threshold for VAT registration for wholesale and retail trade for any consecutive period of 3 months in a calendar year was reduced from Rs.100 million to Rs. 12.5 million with effect from November 01, 2016.

iii. Deemed VAT liability on the supply of exempt goods by any person carries on wholesale or retail trade was removed with effect from 01<sup>st</sup> January 2016.

iv. A deemed input VAT was introduced to persons who registered on or after May 2, 2016 under the category of wholesale or retail trade due to the reduction of the threshold of supply:

- on account of the goods which are liable for VAT, if purchased from Non-Registered persons;
- on the stock ( if any) of VAT liable saleable goods remain unsold as at the date of registration for VAT, if such registration takes place at any date on or after May 2, 2016 but prior to December 31, 2016,

v. The composite tax ( in lieu of VAT, NBT and other taxes imposed at the Custom point) collected on Garments or fabric listed below by export oriented garment companies , was increased to Rs. 75/-

- a. Locally supplied garments by export oriented garment companies as permitted by the BOI/DGC ;

- b. Locally supplied fabrics or the following fabric products by such companies as permitted by the BOI/DGC :
- Linen or curtains/per kilogram;
  - Towel /per item;
  - Bag made out of fabric /per item;
  - Excess fabric as cut pieces not more than two meters in length /per kilogram; or
  - Any other fabric /per kilogram.
- vi. Supplying of leasing facilities under any operating lease agreement is removed from VAT on financial services and made liable under normal VAT.
- vii. The following exemptions were made liable for VAT for the period from May 2, 2016 to July 11, 2016 and for any period with effect from November 01, 2016:
- Supply of telecommunication services;
  - Import or supply of telecom equipment or machinery, high-tech equipment including copper cables for telecom industry;
  - The issue of licenses to local telecom operators by TRC;
  - Supply of healthcare services provided by medical institution or professionally qualified person (other than diagnostic tests, dialysis, services provided by the OPD).
  - The supply of goods or services to any specified project approved on or after 02.05.2016 other than housing projects.
- viii. The following exemptions were removed and made such supplies liable to VAT with effect from November 01, 2016:
- The import or supply of milk powder;
  - The supply of locally produced powdered milk containing added sugar or other sweetening matter out of locally produced fresh milk;
  - The supply of any goods or services (other than exempt goods or services) provided by any Cooperative Society or Lak Sathosa;
  - The import or supply of cigarettes;
  - The import or supply of liquor;
  - The import or supply of light weight electrical and electronics
  - The import or supply of perfumes;
  - The supply of locally manufactured jewellery;
  - The import or supply of coal;
  - The import or supply of spare parts and accessories for exclusive use by Sri Lanka Transport Board and Department of Sri Lanka Railways; and
  - The lease or rent of residential accommodation (including long term leases)

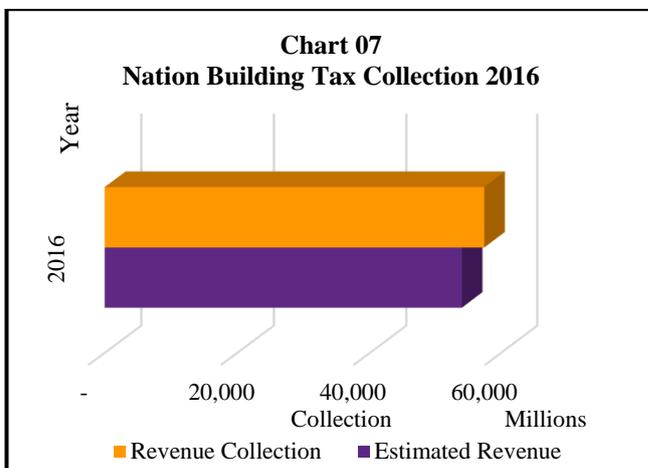
## 2.11 Nation Building Tax Collection

The Nation Building Tax contributed Rs. 84,066 million to the total revenue during the year concerned. This is an increase of 23.79% or Rs. 16,155 million over the previous year's collection. Out of the total NBT revenue an amount of Rs.26,642 million was transferred to Provincial Councils.

Sector	Net Collection (Rs)	
	2015	2016
Manufacturing	10,163,343,792	13,526,495,655
Service	31,256,204,685	42,076,837,588
Imports	26,491,513,723	28,463,193,481
<b>Total</b>	<b>67,911,064,215</b>	<b>84,066,526,724</b>

Table 15 compares the revenue estimate of NBT with the revenue collected in the year 2015 and year 2016 after transferring the revenue to Provincial Councils.

Year	Estimated Revenue Rs.	Revenue Collection Rs.	%
2016	54,000,000,000	57,424,138,359	106%
2015	48,000,000,000	43,938,771,964	92%



### 2.11.1 Main policy changes relating to NBT

The following changes to NBT Act were made as proposed by the budget.

#### i. Exempt Threshold

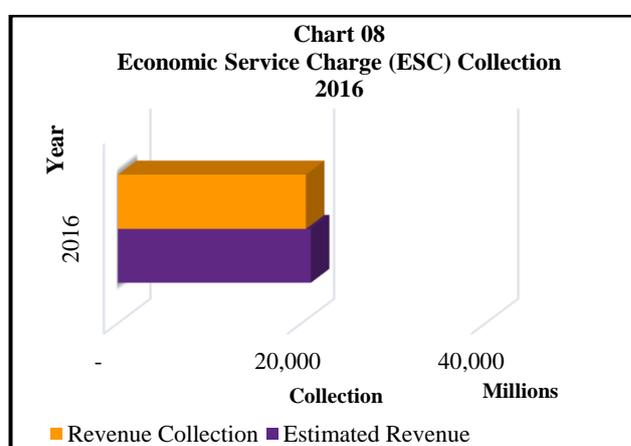
The present threshold of exempt turnover of NBT per quarter of Rs. 3.75 Mn or 25 Mn for certain sectors (other than the turnover of any locally procured agricultural produce in the preparation for sale), was reduced to Rs. 3 Mn from the quarter commencing on or after April 1, 2016 .

- ii. The following exemptions are removed and made liable to NBT for the period from 02.05.2016 to 11.07.2016 and with effect from November 01, 2016:
- Telecommunication Service
  - Supply of electricity (including the supply to the national grid)
  - Lubricants (petroleum and petroleum products other than petrol, diesel or kerosene)
  - The supply of goods or services to a specified project (other than any housing project approved by the Minister prior to May 02, 2016 and for the period from July 11, 2016 to 31.10.2016).
- iii. The present exemption applicable on the turnover of the business of import or manufacture of cigarettes is removed and made liable to NBT with effect from November 01, 2016.

## 2.12 Economic Service Charge Collection

The collection of ESC during the year amounted to Rs. 20,458 million and its contribution to the total revenue was 3.19%. It is 97% of the estimate for the year.

Year	Estimated Revenue Rs.	Revenue Collection Rs.	%
2016	21,000,000,000	20,458,175,363	97%
2015	6,500,000,000	6,148,447,689	95%



### 2.12.1 Main policy changes relating to ESC

The following changes to ESC were proposed by the budget.

- (i) The exclusion of profit making business from chargeability of ESC was removed.
- (ii) The maximum liability of Rs. 120 million per year was removed.
- (iii) The rate was increased from 0.25% to 0.50%.

- (iv) The period for carried forward of ESC to be set off against income tax payable for any period commencing from April 1, 2016 was reduced from 5 years to 3 years (including the year of assessment in which the payment is due).

### 2.13 PAYE Collection

Gross revenue collected during the year under PAYE scheme which is a part of the income tax on employment income was Rs.28,169 million, in comparison to Rs.26,205 million in 2015.

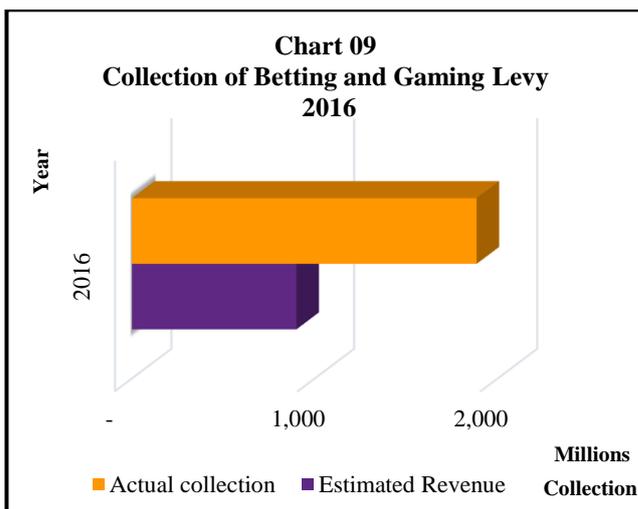
### 2.14 Withholding Taxes (on interest and specified fees)

Collection of revenue from withholding tax on interest recorded a Rs.47,839,315,743/- during the year, which consists of Rs.44,538,401,573/- on Government Securities (Rs53,397,715,864/- in the year 2015) and the balance from financial institutions. Revenue generated from withholding tax on interest decreased drastically by Rs.14,572 million over the previous year collection.

### 2.15 Betting and Gaming Levy

Collection of Betting and Gaming Levy during the year was Rs.1,884 million and reflects an upturn of Rs.1,502 million when compared to the previous year. And also it was an excess of 984 million over the estimated amount for the year concern.

Year	Estimated Revenue Rs.	Revenue Collection Rs.	%
2016	900,000,000	1,884,498,652	209%
2015	2,200,000,000	831,922,843	38%



### 2.16 Vehicle Entitlement Levy

Vehicle Entitlement Levy (VEL) was introduced with effect from January 1, 2016 in lieu of Motor Vehicle Import License Fee imposed under the Finance Act, No. 10 of 2015. This levy is collected from every importer, who imports motor vehicle at the time of opening a letter of credit at any bank, at the following rates.

- i. Motor Cycle and Three Wheelers - Rs. 2,000/- per vehicle
- ii. Motor Cars - Rs. 15,000/- per vehicle
- iii. All other vehicles - Rs. 10,000/- per vehicle

During the year revenue collection from VEL was Rs. 1,579 million and it was an excess of Rs. 829 million over the estimate for the year.

## 2.17 Stamp Duty Collection

A revenue of Rs. 10,651 million generated from Stamp Duty during the year. In terms of Provincial Councils (transfer of Stamp Duty) Act, No. 13 of 2011, the total collection of Stamp Duty was transferred to respective Provincial Councils. The IRD conducted advisory and supervisory visits with a view to enhance the compliance of stamp duty and accordingly 205 places were visited in the year 2016. Number of regular registered compounding agents of Stamp Duty was 9,286 (as at 30.09.2016) and out of this 9,278 have furnished Schedules recording 100% compliance.

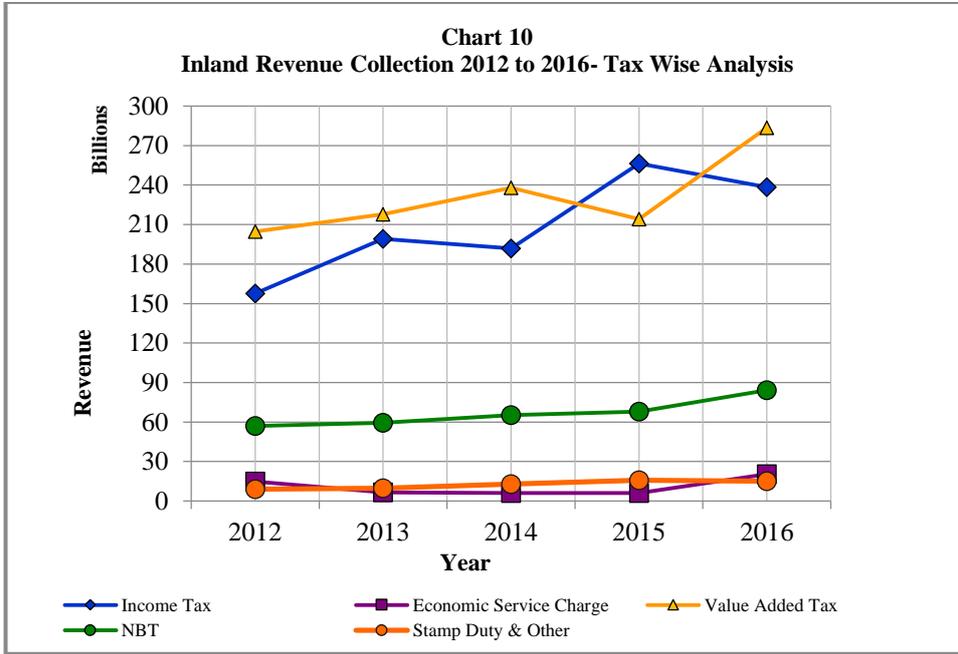
## 2.18 Transfer Tax on Land

Collection for the year from transfer tax on land was Rs.22 million. It was proposed to remove this tax by the budget proposals for the year 2016.

## 2.19 Inland Revenue Collection 2012 to 2016 (Tax wise)

Type of Tax	2012		2013		2014		2015		2016	
	Colln.	%								
	(Rs.Mn)		(Rs.Mn)		(Rs.Mn)		(Rs.Mn)		(Rs.Mn)	
Income Tax	157,729	35.57	199,070	40.42	191,960	37.33	256,435	47.56	238,399	37.16
Economic Service Charge	14,864	3.35	6,596	1.34	6,155	1.2	6,148	1.1	20,458	3.19
Value Added Tax	204,656	46.15	217,687	44.2	237,915	46.27	214,237	38.23	283,451	44.18
Betting & Gaming Levy	289	0.07	592	0.12	815	0.16	832	0.15	1,884	0.29
Share Transaction Levy	1,285	0.29	1,197	0.24	2,048	0.4	1,395	0.25	738	0.12
Turnover tax	138	0.03	218	0.04	472	0.09	16	-	17	-
Stamp Duty	6,535	1.47	6,884	1.4	7,918	1.54	11,596	2.07	10,651	1.67
Goods & Services Tax	12	-	16	-	3	-	0.88	-	1.59	-
National Security Levy	4	-	2	-	14	-	12	-	8	-
Construction Industry Guarantee Fund Levy	710	0.16	751	0.15	842	0.16	753	0.13	259	0.04
Nation Building Tax	57,106	12.88	59,397	12.06	65,354	12.71	67,911	12.12	84,066	13.1
Land Tax	-	-	97	0.02	579	0.11	1,066	0.19	23	-
Vehicle Entitlement Levy	-	-	-	-	-	-	-	-	1,579	0.25

Migrating Tax	-	-	-	-	-	-	-	-	11	-
Social Responsibility Levy	127	0.03	32	0.01	85	0.02	20	-	1	-
<b>Total Collection</b>	<b>443,455</b>	<b>100</b>	<b>492,539</b>	<b>100</b>	<b>514,160</b>	<b>100</b>	<b>560,422</b>	<b>100</b>	<b>641,546</b>	<b>100</b>





# **Chapter 3 - Expenditure and Productivity Ratio**



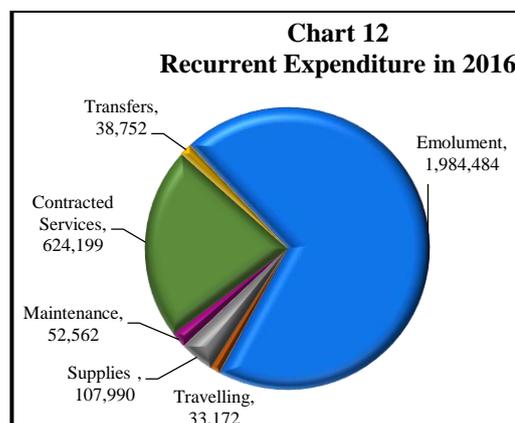
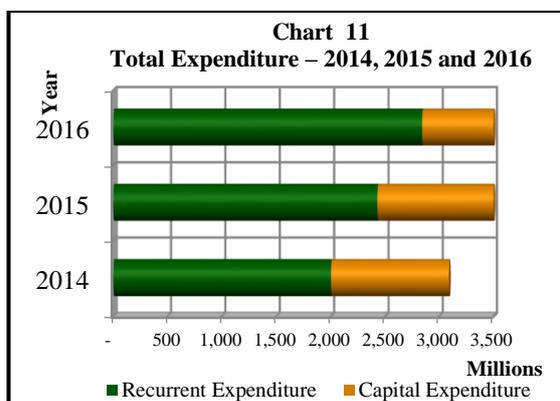
Total expenditure of the IRD in the year was Rs.4,061 million which recorded a 8.47% decrease when compared with the previous year's figure of Rs.4,437 million. Out of the total expenditure, 69.96% or Rs.2,841 million was spent for recurrent expenditure. In 2015, the corresponding amount was Rs.2,428 million. Expenditure on emoluments increased by 11.28% as against that of 2015 which was Rs.1,783 million. This was the largest single expenditure item that accounted for 48.87% of the total expenditure and 69.84% of the recurrent expenditure.

The capital expenditure during the year recorded an decrease of 39.27% when compared to 2015 and was Rs.1,220 million. That was Rs.2,009 million in 2015. Out of the total expenditure of the IRD, 30.04% represents capital expenditure.

Investment made for Revenue Administration Management Information System (RAMIS) during the year concerned was Rs. 1,108 million.

### 3.1 Comparison of the Total Expenditure incurred during the years – 2014, 2015 and 2016

Table 20:- Total Expenditure – 2014, 2015 and 2016						
Description	2014		2015		2016	
	(Rs.'000)	%	(Rs.'000)	%	(Rs.'000)	%
<b>Recurrent Expenditure</b>						
Emolument	1,413,734	45.78%	1,783,351	40.19%	1,984,484	48.87%
Travelling	17,722	0.57%	22,337	0.50%	33,172	0.82%
Supplies	103,684	3.36%	86,449	1.95%	107,990	2.66%
Maintenance	63,671	2.06%	47,768	1.08%	52,562	1.29%
Contracted Services	372,162	12.05%	453,239	10.21%	624,199	15.37%
Transfers	31,438	1.02%	35,268	0.79%	38,752	0.95%
<b>Sub Total</b>	<b>2,002,411</b>	<b>64.85%</b>	<b>2,428,412</b>	<b>54.73%</b>	<b>2,841,159</b>	<b>69.96%</b>
<b>Capital Expenditure</b>						
Rehabilitation and Improvements	101,614	3.29%	73,624	1.66%	29,425	0.72%
Acquisitions of capital Assets	49,343	1.60%	31,820	0.72%	27,130	0.67%
Capacity Building	127,793	4.14%	385,170	8.68%	55,031	1.36%
Investment (RAMIS Project)	806,802	26.13%	1,518,108	34.21%	1,108,385	27.29%
<b>Sub Total</b>	<b>1,085,552</b>	<b>35.15%</b>	<b>2,008,722</b>	<b>45.27%</b>	<b>1,219,971</b>	<b>30.04%</b>
<b>Total</b>	<b>3,087,963</b>	<b>100.00%</b>	<b>4,437,134</b>	<b>100.00%</b>	<b>4,061,130</b>	<b>100.00%</b>



### 3.2 Productivity Ratio

The total expenditure of the Department in the year 2016 was Rs. 4,061.13million and the revenue collected was Rs. 641,546.75 million. The productivity ratio (i.e. the revenue collected for every rupee of expenditure) therefore, works out to 158:1. In other words, the cost of collection for Rs.100/- was 63 cents. The cost of collection for the Rs.100/- excluding VAT and NBT on imports, accounted 84 cents. (in previous year the corresponding amounts were 79 cents and 98 cents respectively).

Table 22 provides a classification of revenue collection, total expenditure and the cost of collection for the year 2014 to 2016.

<b>Table 21 - Revenue Collection, Total Expenditure and Cost of Collection (Rs. Million)</b>			
<b>Description</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Revenue collection</b>			
Income tax	191,960.05	256,434.94	238,398.61
Economic Service Charge	6,154.51	6,148.45	20,458.17
Value Added Tax	237,915.43	214,236.99	283,451.51
Nation Building Tax	65,353.98	67,911.06	84,066.53
Betting And Gaming Levy	815.18	831.92	1,884.50
Share Transaction Levy	2,048.05	1,394.92	737.66
Turnover Tax	472.18	15.77	16.64
Stamp Duty	7,918.14	11,595.88	10,650.97
Goods and Services Tax	3.46	0.89	1.59
National Security Levy	13.77	11.63	8.09
Construction Industry Guarantee Fund Levy	841.83	753.31	258.80
Land Tax	579.47	1,066.64	22.66
Vehicle Entitlement Levy	-	-	1,579.13
Migrating Tax	-	-	11.05
Social Responsibility Levy	84.66	19.96	0.84
<b>Total Collection</b>	<b>514,160.71</b>	<b>560,422.36</b>	<b>641,546.75</b>
<b>Expenditure</b>			
<b>Recurrent Expenditure</b>			
Emoluments	1,413.73	1,783.35	1,984.48
Travelling	17.72	22.34	33.17
Supplies and Equipment	103.68	86.45	107.99
Maintenance and repairs	63.67	47.77	52.56
Services	372.16	453.24	624.20
Transfers	31.44	35.27	38.75
<b>Capital Expenditure</b>			
Rehabilitation & Improvements	101.61	73.62	29.42
Acquisitions	49.34	31.82	27.13
Building capacity	127.79	385.17	55.03
Investment (RAMIS Project)	806.8	1,518.11	1,108.39
<b>Total Expenditure</b>	<b>3,087.94</b>	<b>4,437.14</b>	<b>4,061.12</b>
<b>Cost of Collection per 100/-</b>	<b>0.6</b>	<b>0.79</b>	<b>0.63</b>
<b>Cost of Collection per 100/- , excluding VAT &amp; NBT on imports</b>	<b>0.79</b>	<b>0.98</b>	<b>0.84</b>

### **3.3 The Internal Audit**

Audits carried out by the Internal Audit Branch included examining of all payments, daily vehicle running charts (maintained by the Head office and Regional offices), pay sheets, annual board of survey reports and bank reconciliation of Peoples bank, Bank of Ceylon, Central Bank. In addition to these activities, examining the actions taken to recover the amount due on dishonored cheques, refunds relating to income tax and VAT, checking imprest account and imprest cash account were the other main tasks performed by the Internal Audit Branch.



# **Chapter 4 - Taxes in Default**



#### 4.1 Taxes in Default

Table 23 shows the default tax amounts, disputed amounts, penalties and the amount collectible as at 31.12.2016.

<b>Table 22 - Analysis of the Default Taxes - as at 31.12.2016</b>						
Type of tax	Gross Tax in Default Rs.	Penalty Rs.	Disputed Taxes Excluding Penalty Rs.	Penalty related to disputed Taxes Rs.	Collectible Tax Rs.	Collectible Penalty Rs.
Income Tax	101,493,513,132	58,681,797,527	94,413,477,489	56,147,950,143	7,080,035,643	2,533,847,384
Surcharge on Income Tax	312,572,256	175,441,208	309,629,665	173,969,908	2,942,591	1,471,300
Income Tax (WHT on interest)	1,493,874,921	678,201,836	198,887,225	84,407,176	1,294,987,696	593,794,660
Value Added Tax	50,903,087,485	35,921,153,837	43,773,970,527	31,016,892,815	7,129,116,958	4,904,261,022
Value Added Tax (Financial Services)	10,431,406,308	6,332,913,050	10,408,436,308	6,306,780,666	22,970,000	26,132,384
Economic Service Charge	4,185,081,101	3,488,509,674	3,395,606,018	2,958,916,810	789,475,083	529,592,864
Nation Building Tax	6,559,705,994	5,040,324,449	4,086,894,000	3,684,756,890	2,472,811,994	1,355,567,559
Nation Building Tax (Financial Services)	26,225,412	10,393,611	19,400,119	7,877,118	6,825,293	2,516,493
Stamp Duty	9,732,724	4,866,362	-	-	9,732,724	4,866,362
Debit tax	2,215,581,368	-	2,215,581,368	-	-	-
Turnover Tax	2,186,816,913	1,071,847,251	2,186,816,913	1,071,847,251	-	-
Good & Services Tax	935,744,986	1,012,921,300	935,744,986	1,012,921,300	-	-
National Security Levy	1,306,636,091	563,160,681	1,306,636,091	563,160,681	-	-
Save the Nation Contribution	14,961,095	4,667,439	14,961,095	4,667,439	-	-
Wealth Tax	849,952	403,652	849,952	403,652	-	-
Gift Tax	2,409	1,204	2,409	1,204	-	-
Social Responsibility Levy	1,919,965	148,425	1,914,874	146,995	5,091	1,430
Compounding Penalty	-	231,856,086	-	114,788,295	-	117,067,791
<b>Total</b>	<b>182,077,712,112</b>	<b>113,218,607,592</b>	<b>163,268,809,039</b>	<b>103,149,488,343</b>	<b>18,808,903,073</b>	<b>10,069,119,249</b>

Note:

- i. Total taxes in default represent remained cumulative balances of respective taxes. However, taxes in default as classified above do not fully remain as arrears per se.
- ii. Arrears or defaults are created when an assessment is issued for whatever reason (non-furnishing a returns, non-payment of taxes on the basis of returns, furnishing incorrect returns or declarations etc. by the taxpayers). Penalty is generally, 10% for the non-payments on due date and further 2% for each month of default until it reaches 50% of tax in the case of income tax and as much as 100% with regard to VAT.
- iii. Where the taxpayers have lodged appeals invoking their rights, against assessments and consequently, when such appeals are taken up to higher appellate levels (Tax Appeals Commission, Courts of Appeal), related taxes are considered as default tax. Such of tax amounts are categorized as disputed taxes, penalties or held over taxes. On the settlement of the appeals, any excess amount assessed together with the relevant penalty has to be discharged.

#### 4.2 Plans for reduction of Default Taxes

- a. The respective enactments stipulate actions and steps to be taken for recovery of tax in default. Although, such actions were continuously taken after the issuing of assessments, considerable amount of taxes remains in default.
- b. The Default Tax Recovery Unit has prepared relevant reports of default taxes as provided in the Default Taxes (Special Provisions) Act, No. 16 of 2010. (An Act to provide for a streamlined and speedier process for the recovery of taxes) and effective recovery actions with an added authority are intended for better results.

#### 4.3 Maintenance of arrears of tax at 3%

In terms of section 12 of Default Taxes (Special Provisions) Act, No. 16 of 2010, it shall be the duty of the Commissioner General to ensure that the aggregate of any taxes, not including any penalty accrued thereon or any part of tax held over or deferred, which is in default under any law specified in the schedule to that Act as at the end of any calendar year commencing on or after January 1, 2010, over the aggregate of taxes in default as at the end of the immediately preceding year, shall not exceed three *per centum* of the total amount of the taxes levied and charged under the said laws, in the immediately preceding year.

Accordingly,

Net tax in default as at 31.12.2016	-	Rs. 18,808,903,073
<u>less</u>		
Net tax in default as at 31.12.2015	-	<u>Rs. 22,526,949,150</u>
Increase of Default Tax in 2016	-	Rs. 3,718,046,077
Total collection of taxes in the year ended 31.12.2015	-	Rs.524,834,223,679
3% of the total tax collection in 2015	-	Rs 15,745,026,710

Therefore, there is no net addition of taxes in default in 2016, thus it is below 3% of total tax collection in the preceding year, as required under the Default Taxes (Special Provisions) Act, No.16 of 2010.

**Chapter 5 -  
Audits, Additional Tax Collection,  
Refunds, Recovery Action  
and Appeals**



## 5.1 Audits

Audits and investigations were undertaken during 2016 to a widest possible coverage of the taxpayer population, in terms of business activity, entity type and business size. It has been found that the most productive use of investigation resources has paid dividends in respect of the largest taxpayers. In the year under review, the selection process focused heavily on this category resulting in a notable increase in back duty. Accordingly, audit functions were carried out to a satisfactory level resulting in collection of additional taxes, which are shown in the Table 23.

	<b>Income Tax</b>	<b>VAT</b>	<b>ESC</b>	<b>PAYE</b>	<b>NBT</b>	<b>Other</b>	<b>Total</b>
Total amount of additional tax assessed during the year	21,482,253	6,055,456	442,375	309,428	2,775,673	2,497,357	33,562,542
Total amount of additional tax collected during the year	14,528,500	4,952,126	425,370	296,383	2,214,325	1,204,139	23,620,843
Number of tax audits commenced during the year 2016	<b>7,941</b>						
Number of tax Audit finalized during the year 2016	<b>7,790</b>						

<b>Description</b>	<b>Additional income/ Turnover assessed &amp; agreed (Rs.'000)</b>	<b>Additional Tax Assessed &amp; Agreed (Rs.'000)</b>				<b>Additional Tax Collected (Rs.'000) (includes Refund claims setoff)</b>
		<b>Corporate - LTU</b>	<b>Corporate - other</b>	<b>Other units</b>	<b>Total</b>	
Income Tax	63,931,612	10,868,470	3,681,340	6,932,443	21,482,253	14,528,500
VAT	37,626,698	1,185,305	2,991,938	1,878,213	6,055,456	4,952,126
ESC	67,849,949	61,359	373,640	7,376	442,375	425,370
PAYE	2,466,010	13,991	112,750	182,687	309,428	296,383
NBT	116,913,284	339,512	1,624,171	811,990	2,775,673	2,214,325
Others	12,174,232	2,397,540	84,659	15,158	2,497,357	1,204,139
<b>Total</b>	<b>300,961,785</b>	<b>14,866,177</b>	<b>8,868,498</b>	<b>9,827,867</b>	<b>33,562,542</b>	<b>23,620,843</b>

## 5.2 Appeals

During the year, the IRD has finalized 552 appeals received against the assessments issued, and the analysis of appeal position is as follows:

<b>Table 25 - Analysis of the Appeals Received and Settled</b>							
		<b>Income Tax</b>	<b>VAT</b>	<b>ESC</b>	<b>NBT</b>	<b>Others</b>	<b>Total</b>
<b>Balance as at 01.01.2016</b>	Units (as per APL 2)	91	0	0	70	2	163
	Appeal Branch (as per APL 2)	85	108	2	30	6	231
	CGIR'S Hearing	74	127	0	71	1	273
<b>Registered ( as per APL 2) during the year</b>		<b>437</b>	<b>105</b>	<b>0</b>	<b>110</b>	<b>4</b>	<b>656</b>
<b>Finalized</b>	Determined (CGIR)	55	94	0	47	0	196
	Units (APL 4)	131	0	0	38	2	171
	Appeal Branch	79	80	2	15	9	185
<b>Submitted for CGIR's hearing</b>		<b>63</b>	<b>67</b>	<b>0</b>	<b>57</b>	<b>1</b>	<b>188</b>
<b>Balance as at 31.12.2016</b>	Units (as per APL 2)	302	0	0	80	0	382
	Appeal Branch (as per APL 2)	38	66	0	20	0	124
	CGIR 's Hearing	82	100	0	81	2	265
<b>*Files received to appeal branch during the year</b>		<b>112</b>	<b>105</b>	<b>0</b>	<b>70</b>	<b>6</b>	<b>293</b>

### 5.3 Post VAT Refund Audits

Special VAT Audit Branch of the IRD completed 2076 cases (files) as post VAT refund audits during the year, resulting in the collection of Rs.764,496,267/- as additional tax.

### 5.4 Recovery Actions

Following table shows the number of cases attended and notices issued for the recovery of taxes during the year.

<b>Table 26 – Recovery Action</b>		
	<b>Cases</b>	<b>Notices</b>
Issuing Seizure Notices	3,381	4,038
Prosecution Action	2,321	1,619
Other Action	5,828	6,425

### 5.5 Refunds

An analysis of refunds made during the year (excluding refunds, which were set off against outstanding taxes) is as follows.

<b>Table 27 - Refund Analysis</b>				
<b>Type of tax</b>	<b>2015</b>		<b>2016</b>	
	<b>Amount of Refund Rs.</b>	<b>% to Net Revenue Collection of each tax</b>	<b>Amount of Refund Rs.</b>	<b>% to Net Revenue Collection of each tax</b>
VAT	931,478,754	0.43%	505,773,176	0.18%
Co – operate Income tax	18,410,241	0.01%	28,077,492	0.02%
Other non Co – operate Income tax	19,715,447	0.17%	7,061,585	0.07%
WHT on Specified fees	7,019,723	1.43%	921,091	0.01%
WHT on Interest	757,209	0.00%	-	0.00%
PAYE	25,794,549	0.10%	28,634,229	0.10%
<b>Total</b>	<b>1,003,17 5,923</b>	<b>0.18%</b>	<b>570,467,573</b>	<b>0.09%</b>

# **Chapter 6 - International Relations**



## 6.1 Double Tax Avoidance Agreements

The objective and purpose of the Double Tax Conventions are to eliminate or mitigate the incidence of juridical double taxation and prevention of fiscal evasion connected with the profits and income earned by persons through global operations. These treaties are particularly important for developing countries as they play a great role in attracting foreign investments, paving the way to obtain expertise, modern technology, employment opportunities etc.

In addition, double tax conventions are entered in to having solidarity and cooperation between countries like it happened recently with several treaty partners of Sri Lanka.

Sri Lanka has as at 31.12. 2016 entered into Double Tax Avoidance Treaties tax treaties with 44 countries and a multilateral treaty (SAARC) as referred to in the table 29. Details of Double Tax Treaties and Multilateral Treaties

	Country	Date of Signing the Agreement	Gazette		Operative in Sri Lanka From the Year of Assessment
			No.	Date	
1	Australia	18-12-1989	657/2	08-04-1991	1992/93
2	Bangladesh	24-07-8196	448/13	07-04-1987	1989/90
3	Bahrain	24-06-2011	1847/51	31-01-2014	2015/16
4	Belgium	03-02-1983	292/6	09-04-1984	1984/85
5	Canada	23-06-1982	253/8	13-07-1983	1986/87
6	China	11-08-2003	1374/20	6-01-2005	2006/07
7	Czechoslovakia (Czech Republic)	23-02-1979	24/19	23-02-1979	1979/80
8	Denmark (Rev.)	22-12-1981	228/15	20-01-1983	1980/81
9	France	17-09-1981	210/17	17-09-1982	1982/83
10	Finland	18-05-1982	253/8	13-07-1983	1981/82
11	Germany	13-09-1979	113	31-10-1980	1982/83
12	Hong Kong (Limited)	26-03-2004	1374/21	06-01-2005	2005/06
13	India (Rev.)	22-01-2013	1828/9	17-09-2013	2014/15
14	Indonesia	03-02-1993	789/10	21-10-1993	1995/96
15	Iran	25-07-2000	1187/16	06-06-2001	2002/03
16	Italy	28-03-1984	322/4	05-11-1984	1978/79
17	Japan	12-12-1967	14803/5	29-05-1968	1969/70
18	Korea	28-05-1984	342/11	29-03-1985	1980/81
19	Kuwait	05-02-2002	1245/19	18-07-2002	2002/03
20	Malaysia (Rev.)	16-09-1997	1028/21	22-05-1998	99/2000
21	Mauritius	12-03-1996	958/10	15-01-1997	1998/99
22	Nepal	06-07-1999	1116/6	26-01-2000	2001/02
23	Netherlands	17-11-1982	281/13	26-01-1984	1979/80
24	Norway (Rev.)	01-12-1986	464/4	27-07-1987	1989/90
25	Oman (Limited)	26-07-1994	881/7	26-07-1995	1979/80
26	Pakistan (Rev.)	15-10-1981	210/17	17-09-1982	1983/84
27	Philippines	11-10-2000	1237/7	21-05-2002	2010/11
			1256/27	02-10-2002	
28	Poland	25-04-1980	130	27-02-1981	1984/85

29	Qatar	07-11-2004	1422/10	05-12-2005	2008/09
30	Romania	19-10-1984	371/9	15-10-1985	1986/87
31	Russia	02-03-1999	1101/22	15-10-1999	2003/04
32	Saudi Arabia (Limited)	16-12-1999	1101/23	15-10-1999	1983/84
33	Singapore	29-05-1979	57/11	10-10-1979	1977/78
34	Sweden	23-02-1983	297/28	18-05-1984	1985/86
35	Switzerland	11-01-1983	292/6	09-04-1984	1981/82
36	Thailand	14-12-1988	571/16	18-08-1989	1990/91
	U.A.E. (Limited)	07-07-1992	824/13	23-06-1994	1979/80
37	U.A.E. (Comprehensive)	24-09-2003	1346/1	21-06-2004	2004/05
38	U.K.	21-06-1979	60/23	02-11-1979	1977/78
	U.S.A. Protocol	20-09-2002	1298/8	21-07-2003	2004/05
39	U.S.A	14-03-1985	398/4	22-04-1986	
40	Vietnam	26-10-2005	1455/9	24-07-2006	2007/08
41	Seychelles	23-09-2011	1837/14	20-11-2013	2015/16
42	Belarus	26-08-2013	1837/13	20-11-2013	2015/16
43	Palestine	16-04-2012	1838/8	26-11-2013	2015/16
44	Luxembourg	31-01-2013	1838/9	26-11-2013	2015/16
<b>Multi National Treaties</b>					
1	SARRC Multilateral Treaty	13-10-2005	1447/3	29-05-2006	2011/2012

### **6.1.1 Affairs related to Double Tax Avoidance Treaties during the Year 2016**

#### **Revised Agreement with Finland**

Second round negotiations were held in Colombo, Sri Lanka during 25-30 April, 2016 finishing the revision of Agreement for the Avoidance of Double Taxation between Sri Lanka and Finland.

#### **Revised Agreement with Singapore**

The Agreement which was signed at the government level at 2014, was gazette on November 16, 2016.

#### **Revised Agreement with Switzerland**

Negotiation for the revision of Agreement for the Avoidance of Double Taxation between Sri Lanka and Switzerland was held in Berne during 13-16 December 2016.

#### **Revised Agreement with Poland**

The agreement was signed at the Government level on October 06, 2015. Presented for the parliamentary approval during 2016.

In addition, work on several other new conventions and existing conventions were in progress during the year. Revision of conventions which have been entered into several decades ago is of high importance as to comply with requirements under the Base Erosion and Profit Shifting (BEPS) Project and its actions including the Multi-Lateral Instrument (MLI) in future, as Sri

Lanka is no exception to countries affected by deprived tax revenue due to eroding the tax base from the actual economical substance.

## 6.2 Participations at International Taxation Matters Abroad

<b>Table 29 - Participations of International Taxation Matters</b>				
<b>No.</b>	<b>Name</b>	<b>Programme</b>	<b>Country</b>	<b>Duration</b>
1	Mrs. K. Dahanayake Commissioner General	Annual Management Committee Meeting	UK	11.04.2016- 15.04.2016
2	Mrs. K. Dahanayake Commissioner General	Asia-Pacific Regional Conference of the International Fiscal Association (IFA)	Korea	11.05.2016 -14.05.2016
3	Mrs. K. Dahanayake Commissioner General	Asian Tax Authorities Symposium	Bangkok	06.06.2016- 09.06.2016
4	Mrs. K. Dahanayake Commissioner General	Proposed Negotiations for the Revision of the Agreement for Avoidance of Double Taxation between Sri Lanka and Switzerland	Switzerland	11.12.2016- 18.12.2016
5	Mr. A Nadun Guruge Deputy Commissioner General	Meeting of the Task Force on Tax and Development & OECD 5th Global Forum on Transfer Pricing	Paris	28.02.2016- 04.03.2016
6	Mr. A N Guruge Deputy Commissioner General	37 <sup>th</sup> CATA Annual Technical Conference 2016	Barbados	05.11.2016- 14.11.2016
7	Mr. A A D U Abeyasinghe Deputy Commissioner General	Meeting of the Task Force on Tax and Development & OECD 5th Global Forum on Transfer Pricing	Paris	28.02.2016- 04.03.2016
8	Mrs. P Rohini Deputy Commissioner General	OECD Forum 2016	Paris	29.05.2016- 02.06.2016
9	Mrs. R M P S K Rajapakshe Deputy Commissioner General	OECD Forum 2016	Paris	29.05.2016- 02.06.2016
10	Miss. D G P W Gunatilaka Deputy Commissioner General	Asian Tax Authorities Symposium	Bangkok	06.06.2016- 09.06.2016
11	Mr. M G Somachandra	37 <sup>th</sup> CATA Annual Technical Conference 2016	Barbados	05.11.2016- 14.11.2016
12	Mrs. M H D Munasinghe Senior Commissioner	Meeting of the Task Force on Tax and Development & OECD 5th Global Forum on Transfer Pricing	Paris	28.02.2016- 04.03.2016
13	Mrs. K S B R D S Karunaratne Senior Commissioner	Meeting of the Task Force on Tax and Development & OECD 5th Global Forum on Transfer Pricing	Paris	28.02.2016- 04.03.2016
14	Mr. D Rangalle Senior Commissioner	Trilateral IFA Meeting	Vienna	27.04.2016- 02.05.2016
15	Mr. U B Wakkumbura Senior Commissioner	Meeting and Workshop of the 92 <sup>nd</sup> Session of the Committee on Fiscal Affairs on the Inclusive Framework	Japan	27.06.2016- 02.07.2016
16	Mrs. D M P Ganepola Senior Commissioner	Meeting and Workshop of the 92 <sup>nd</sup> Session of the Committee on Fiscal Affairs on the Inclusive Framework	Japan	27.06.2016- 02.07.2016
17	Mr. D R S Hapuarachchi Senior Commissioner	Meeting of the Forum on Harmful Tax Practices (FHTP)	Paris	03.07.2016- 09.07.2016

18	Mr. D R S Hapuarachchi Senior Commissioner	Negotiations for the Revision of the Agreement for Avoidance of Double Taxation between Sri Lanka and Switzerland	Switzerland	11.12.2016-17.12.2016
19	Mr. D Rangalle Senior Commissioner	70 <sup>th</sup> Congress of the International Fiscal Association	Spain	23.09.2016-02.10.2016
20	Mr. R M Jayasinghe Senior Commissioner	Meeting of the Task Force on the Digital Economy (TFDE)	Paris	04.10.2016-10.10.2016
21	Mr. J A G Mahindaratna Senior Commissioner	Meeting of the Task Force on the Digital Economy (TFDE)	Paris	04.10.2016-10.10.2016
22	Mr. E S De Zoysa Senior Commissioner	37 <sup>th</sup> CATA Annual Technical Conference 2016	Barbados	05.11.2016-14.11.2016
23	Mr. M H Densil Commissioner	Meeting of the Task Force on Tax and Development & OECD 5th Global Forum on Transfer Pricing	Paris	28.02.2016-01.03.2016
24	Mr. B J Jayaratne Commissioner	Meeting of the Task Force on Tax and Development & OECD 5th Global Forum on Transfer Pricing	Paris	28.02.2016-04.03.2016
25	Mr. L R Perera Commissioner	37 <sup>th</sup> CATA Annual Technical Conference 2016	Barbados	05.11.2016-14.11.2016
26	Ms. N T A Dissanayake Commissioner	37 <sup>th</sup> CATA Annual Technical Conference 2016	Barbados	05.11.2016-12.11.2016
27	Ms. B Athukorala Commissioner	2016 OECD Global Relations Programme in Taxation - MTC: International VAT/GST Guidelines	China	20.11.2016-26.11.2016
28	Mr. B Haputhantrige Commissioner	2016 OECD Global Relations Programme in Taxation - MTC: International VAT/GST Guidelines	China	20.11.2016-26.11.2016
29	Mrs. A D I S Abeysekera Commissioner	International Tax Avoidance – Focus on Hybrids and Interests	Korea	24.04.2016-01.05.2016
30	Mrs. S M Wickramaarachchi Commissioner	International Tax Avoidance – Focus on Hybrids and Interests	Korea	24.04.2016-01.05.2016
31	Ms. H A L Ranjanie Commissioner	Workshop on International Tax Avoidance and BEPS	China	16.07.2016-24.07.2016
32	Mr. G H M Thilakaratne Commissioner	70 <sup>th</sup> Congress of the International Fiscal Association	Spain	23.09.2016-02.10.2016
33	Mrs. S P Ranasinghe Commissioner	Asia-Pacific Regional Conference of the International Fiscal Association (IFA)	Korea	11.05.2016-14.05.2016
34	Mr. M D Anandasiri Deputy Commissioner	Meeting of the Forum on Harmful Tax Practices (FHTP)	Paris	03.07.2016-09.07.2016
35	Mr. I V Jayarathna Deputy Commissioner	Meeting of the Forum on Harmful Tax Practices (FHTP)	Paris	03.07.2016-09.07.2016
36	Mr. A M Nafeel Deputy Commissioner	Negotiations for the Revision of the Agreement for Avoidance of Double Taxation between Sri Lanka and Switzerland	Switzerland	11.12.2016-18.12.2016
37	Mr. S T Alawdeen Deputy Commissioner	Invitation to the Inaugural Annual Developing Country Forum for Cooperation in International Tax Matters	Indonesia	29.11.2016-03.12.2016
38	Ms. S I Senanayake Deputy Commissioner	Workshop on International Tax Avoidance and BEPS	China	16.07.2016-24.07.2016

39	Ms. S I Asanthi Assistant Commissioner	LHDNM – OECD: Tax Treaty – Special Issues	Malaysia	13.03.2016- 17.03.2016
40	Mr. K L P Dhanapala Assistant Commissioner	LHDNM – OECD: Tax Treaty – Special Issues	Malaysia	13.03.2016- 17.03.2016
41	Mr. D M G S K Dissanayake Assistant Commissioner	Workshop on Taxation of International Transaction	Malaysia	08.05.2016- 28.05.2016
42	Mrs. S P N Amarathunga Assistant Commissioner	Workshop on Taxation of International Transaction	Malaysia	08.05.2016- 28.05.2016
43	Ms. U P S K Gunathilake Assistant Commissioner	Workshop on Taxation of International Transaction	Malaysia	08.05.2016- 28.05.2016
44	Ms. M A C D Chandrasiri Assistant Commissioner	Workshop on Taxation of International Transaction	Malaysia	08.05.2016- 28.05.2016
45	Mrs. S A P D Dissabandara Assistant Commissioner	SAARC Regional Seminar on Tax Treaty Negotiation and Application	Kathmandu	10.07.2016 -14.07.2016
46	Ms. C G Balasuriya Assistant Commissioner	SAARC Regional Seminar on Tax Treaty Negotiation and Application	Kathmandu	10.07.2016- 14.07.2016
47	Mrs. S D Nirmala Devi Assistant Commissioner	International Program on Management (Audit)	Thailand	24.07.2016- 01.08.2016
48	Mrs. M A D Fernando Assistant Commissioner	IRBM-OECD: Introduction to the Application and Negotiations of Tax Treaties Course	Malaysia	25.09.2016- 01.10.2016
49	Mrs. J A D T Muriel Assistant Commissioner	IRBM-OECD: Introduction to the Application and Negotiations of Tax Treaties Course	Malaysia	25.09.2016- 01.10.2016
50	Mr. P D Selvam Assistant Commissioner	LHDNM-OECD: Transfer Pricing Dispute Resolution and Avoidance (MAPs and APAs)	Malaysia	23.10.2016- 29.10.2016
51	Ms. W T A Perera Assistant Commissioner	Negotiations for the Revision of the Agreement for Avoidance of Double Taxation between Sri Lanka and Switzerland	Switzerland	11.12.2016- 18.12.2016
52	Ms. C G Balasuriya Assistant Commissioner	Negotiations for the Revision of the Agreement for Avoidance of Double Taxation between Sri Lanka and Switzerland	Switzerland	11.12.2016- 18.12.2016



# **Chapter 7 - Legislation**



## 7.1 Legislation enacted during the year

- i. Value Added Tax (Amendment) Act No. 20 of 2016
- ii. Nation Building Tax (Amendment) Act No. 22 of 2016

## 7.2 Approved Charities

There were one approval granted during the year

Charitable Institute	Gazette Number/Date of Registration
Moratuwa Social Services Society (Elders Home)	1982/39 – 02.09.2016

## 7.3 Gazette Notices

Following Gazette notices were issued during the year under the respective Acts administrated by the IRD.

	<b>Gazette No.</b>	<b>Date</b>	<b>Description</b>
I	1947/45	01.01.2016	Amend the item 05 of the Schedule of Order published under Sec. 3 of Stamp Duty (Special Provisions) Act, No. 12 of 2006 with effect from 01.01.2016
II	1947/46	01.01.2016	Amend the Order published under Sec. 5 of Stamp Duty (Special Provisions) Act, No. 12 of 2006 by addition of new item immediately after item 33 with effect from 01.01.2016
III	1947/48	01.01.2016	Amend the Order published under Sec. 2(1) of the Finance Act, No. 25 of 2003 with effect from 01.01.2016
IV	1960/39	31.03.2016	Regulations made under Sec. 212 of Inland Revenue Act, No. 10 of 2006 to amend the Regulations published in Gaz. Ex. Ord. No. 1823/05 12.08.2013, w.e.f. 01.04.2015
V	1960/42	31.03.2016	Amending the 'Part IA' of the Schedule to the notice Published in Gaz. Ex. Ord. No. 1907/26 of 25.03.2015
VI	1991/17	01.11.2016	Order to prescribe that the Cost of the any Healthcare Service other than the fees paid to medical practitioners, medical consultation fees etc. be excluded in calculating the value for the purpose of VAT w.e.f. 01.11.2016
vii	1991/35	02.11.2016	The Facilitation of the Implementation of Revenue Administration Management Information System (RAMIS)

## 7.4 Interpretation Committee

The Committee for Interpretation of Tax Laws (CITL), appointed in 2011 by the Commissioner General of Inland Revenue under the Section 208A of Inland Revenue Act, comprises of senior officials of Inland Revenue Department and Chaired by the Deputy Commissioner General (Tax Policy) presently, is responsible for the issuance of interpretations, clarifications, guidelines etc. on the provisions of Acts administered by the CGIR.

Any person, who finds any ambiguity in any provision of an enactment administered by The Inland Revenue Department, can request seeking interpretation thereon to the Committee. (Secretary of Committee, Secretariat, Inland Revenue Department). The CITL as mandated to issue necessary guidelines and instructions to ensure uniformity with regard to interpretations and procedures dealt with 18 cases during the year concerned. Table 33 shows the details of the interpretations given by the CITL.

<b>Area</b>	<b>Income Tax</b>	<b>VAT</b>	<b>NBT</b>	<b>Land Tax</b>	<b>Total</b>
Tax Liability	3	2	2	-	7
Dividends	1	-	-	-	1
Exemptions	-	2	2	-	4
Employment Income	1	-	-	-	1
Qualifying Payments	1	-	-	-	1
Definition	-	-	-	1	1
Others	3	-	-	-	3
<b>Total</b>	<b>9</b>	<b>4</b>	<b>4</b>	<b>1</b>	<b>18</b>

# **Chapter 8 - Other Work**



## 8.1 Taxpayer Service Unit

The taxpayer service unit facilitated the taxpayers and the public to access for IRD's service conveniently. With the modernization program of the IRD the unit was reformed to provide wider range of facilities. Accordingly facilities were provided for registration of any type of tax which was earlier done by several units. The unit is equipped with officers to assist every person seeking help or information. Relevant enactments, Departmental publications, paying in slips, forms etc. are available in this Unit. During the year unit has issued 11,435 TIN certificates. New registrations made under different types of taxes are as follows.

VAT	SVAT	VAT (Temporary)	NBT	IT	PAYE	WHT	ESC
2,994	384	29,685	29,869	3,562	1,380	438	197

Several types of leaflets were prepared during the year for the benefit of taxpayers. Moreover Taxpayer Service Unit provided tax consultancy services to the taxpayers.

## 8.2 Details of the Directions and Clearance Certificates issued by the Department

Description	2015	2016
<i>Directions issued</i>		
• To Banks for WHT on interest	144	142
<i>Clearance Certificates issued</i>		
• In relation to persons leaving Island	396	-
<i>Privilege Cards Issued</i>		
• Gold Cards	411	97
• Silver Cards	234	78
<i>Certificate issued for tax concession on imports of Motor Cars</i>		
• No of certificates	299	-

## 8.3 Transfer Pricing Regulation Unit

During the year Transfer Pricing Regulation Unit has organized 2 residential workshops for a group of officers who were selected representing different units of the Department to improve the knowledge on transfer pricing methods and to gain understanding of global transfer pricing issues. This was a continuation of 3 workshops held in last year with the assistance of Organization for Economic Corporation and Development (OECD).

Officers of the Transfer Pricing Regulation Unit have finalized the determination of arm's length price in 13 cases which were received from different assessing Units of the Department.

A comprehensive guideline on Transfer pricing has been drafted taking in to account the new developments and legislative changes.

#### **8.4 Training Branch**

Training branch of the IRD organized several awareness programs for taxpayers during the year in addition to training courses conducted for officers of the department.

<b>Table 33 - Details of Awareness programs</b>		
<b>Subject</b>	<b>Institute</b>	<b>No. of persons attend</b>
Programme for newly recruited officers to the Sri Lanka Accountant service	Sri Lanka Institute of Development of Administration	130
Awareness programme for taxpayers on Practical Issues of Taxation	Nuwara Eliya	120
Programme on tax system in Sri Lanka for the academic staff and students of Department of Accounting and Finance, University of Ruhuna	University of Ruhuna	300

**Chapter 9 –  
Revenue Administration Management  
Information System (RAMIS)**



Implementation of Revenue Administration and Management Information System (RAMIS) is aimed at supporting the IRD in simplifying the tax administration and tax compliance for taxpayers. RAMIS is also envisioned to support in increasing the revenue collection and tax compliance by enabling IRD to reach out to taxpayers in a more efficient and effective way. It is expected to increase the number of registered taxpayers and improve compliance, enhancing the efficiency of the revenue collection process, increasing the quality of work environment to generate higher productivity, and provide better service to taxpayers with a view to increasing voluntary compliance.

In 2013 Preliminary steps were taken to implement RAMIS of the IRD under the supervision of Ministry of Finance and Planning. During 2014, the Inception Report was prepared and completed requirement gathering, validation and Business process Reengineering. IRD Web Portal in three languages was launched in 2015. Having completed the development user acceptance testing for Phase 1 was commenced in the same year.

In 2016, the RAMIS commenced its operation. Taxpayer registration under RAMIS system has been started from February 2016 and e-registration facilities were enabled from March. Taxpayers were facilitated to submit the returns of VAT, NBT, PAYE, WHT and CIT through e-Service. Submission of relevant schedules together with VAT, PAYE, WHT returns has been introduced with the e-Service.

IRD conducted a number of awareness programs for all stakeholders, regional offices and the staff emphasizing functional areas of the system, benefits and the prospective services of the system in order to improve the effectiveness RAMIS project.