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Circular No: SEC/2025/E/02

March 28th, 2025

Circular to Banks and Financial Institutions

DEDUCTION OF ADVANCE INCOME TAX ON INTEREST OR DISCOUNT ON DEPOSITS

This Circular sets out explanatory notes and guideline to any Bank or Financial Institution to facilitate the application of the Advance Income Tax (AIT) imposed under the provisions of the Inland Revenue Act, No. 24 of 2017 (IRA) as amended by the Inland Revenue (Amendment) Act, No. 10 of 2021, 45 of 2022 and 02 of 2025 from **payments of any amounts as the interest, discounts, income from Islamic financial transaction payable to any deposit holder.**

This circular is effective from April 01, 2025.

1. Imposition of AIT

In terms of Section 84A(1A) of the IRA (as amended), with effect from April 1, 2025, a person (Withholding Agent – WHA) shall deduct Advance Income Tax (AIT) from the payment of interest or discount which has a source in Sri Lanka, at the rate of 10%.

Accordingly, any bank or financial institution acting as a WHA for payments of interest (excluding exempt interest), discounts, and Islamic financial transactions (equivalent in substance as referred to in Section 32 of the IRA), which have a source in Sri Lanka and are payable to any person, is required to deduct AIT at a rate of 10%.

2. Application of Provisions of Double Tax Avoidance Agreement

Provisions of the Double Tax Avoidance Agreement (DTAA) between Sri Lanka and other countries are applicable in respect of AIT on interest payments to non-resident persons. If any deposit holder who is a non-resident person seeks a lower AIT rate (compared to the rate of 10%) from the bank or financial institution, such person should instruct to the deposit holder to obtain a tax clearance certificate from the Commissioner General of Inland Revenue (CGIR) prior to the deduction of AIT. On behalf of the CGIR, relevant tax clearance certificate will be issued by the Commissioner, Clearance and Direction Unit (2nd Floor, Inland Revenue Department, Sir Chittampalam A Gardiner Mawatha, Colombo 02) (Telephone: +94112134204 email: cd@ird.gov.lk). The CGIR will consider lower rates (if applicable)

according to the DTAA provisions) when issuing such tax clearance certificates. If the CGIR has confirmed the lower rate in the tax clearance certificate, relevant bank or financial institution shall apply the rate specified therein and deduct AIT accordingly.

3. Exempt Interest

The banks or financial institutions are not required to deduct AIT on following income tax exempted interest payments.

- (i) The interest accruing to or derived by any person on moneys lying to his credit in foreign currency in any foreign currency account opened by him or on his behalf, in any commercial bank or in any specialized bank, with the approval of the Central Bank of Sri Lanka.
- (ii) Amounts derived by
 - a) the Government of a foreign country of foreign territory to the extent specified under a diplomatic immunities law or a similar law;
 - b) an international organisation to the extent specified under a diplomatic immunities law or a similar law or an agreement between the organisation and the Government of Sri Lanka, provided that the exemption provided under the agreement shall be broader than that provided under diplomatic immunities law or a similar law;.

Other persons and institutions whose interest is exempted from income tax in terms of the provisions of the IRA (as amended), shall require to obtain (deposit holder) income tax exemption confirmation letter from the CGIR, prior to the AIT deduction by the bank or financial institution. On behalf of the CGIR, relevant confirmation will be issued by the Commissioner of Consultation and Promotion Unit (2nd Floor, Inland Revenue Department, Sir Chittampalam A Gardiner Mawatha, Colombo 02) (Telephone: 0112134250 email: csp@ird.gov.lk). If CGIR has confirmed the exemption, relevant bank or financial institution shall not require to deduct AIT from the interest payments to such deposit holder.

4. Self-Declaration of Non-Taxable Status by a Resident Individual

As per the instructions received from Secretary to the Treasury in his letter dated March 28th, 2025(FP/R/01/01/05/09/2025), following the meeting with the Minister of Finance, Planning and Economic Development, a self-declaration procedure has been introduced (subject to formal amendments to the Inland Revenue Act, No. 24 of 2017, to be passed in Parliament). Accordingly, any resident individual whose assessable income from all sources does not exceed Rs. 1,800,000 for a given year of assessment are eligible to submit a **self - declaration** of their non-taxable status to banks and financial institutions to get relieved from the deduction of AIT on interest. **The submission of a self-declaration by such eligible individuals is optional and not mandatory. However, the relief from withholding AIT on interest payments should be granted only to the resident individuals who have submitted a valid self-declaration.** The procedure for the submission of such declaration by resident individual is outlined in the Circular [Circular to Resident Individuals with Interest Income Subject to Advance Income Tax (Withholding Tax) but No Taxable Income] SEC/2025/E/03, dated 28/03/2025.

The declaration must be submitted on a duly completed form (Please refer Attachment 1), which can be downloaded (form) from the Inland Revenue Department's website www.ird.gov.lk. Banks and financial institutions are advised not to issue their own forms for this purpose. On behalf of a minor child, the Guardian can submit the declaration form. In the case of a joint deposit, each depositor must submit a separate declaration. If a new deposit is opened, leading to a change in the previous status, any self-declaration previously submitted becomes invalid. However, if a valid self-declaration can still be submitted even after the change in the previous status, and if it is expected to do so by the depositor, a fresh self-declaration can be submitted for the year of assessment.

Banks and financial institutions are required to assess the validity of declarations based on the information provided by the individual (the completeness of all required information in the declaration), as well as the available information held by the respective bank or financial institution. Incomplete or fraudulent declarations must be rejected and cannot be considered as valid declaration for this purpose.

Once a **valid self-declaration** is submitted by an individual, it will apply only to the relevant year of assessment, and the bank or financial institution shall not deduct AIT on interest payments made to the declarant (including a child or minor, for whom the declaration is submitted by the guardian) during that year of assessment.

Inland Revenue Department (IRD) has developed a software program to verify the accuracy of declarations submitted by each individual. Banks and financial institutions are required to **provide quarterly withholding schedules with the information of valid self-declarations submitted by the individuals**. If any invalid declaration is submitted as found by the IRD, the relevant bank or financial institution will be notified through a notice. From the date of receipt of such notice, the bank or financial institution must deduct AIT at a rate of 10% from interest payments to the relevant individual not accepting his/her self-declaration.

5. Important Consideration for AIT Deduction

- (i)** Gross interest (other than the repayment of deposit) is considered as an interest for the deduction of AIT. Any sum referred to as “excess” over the original payment (in the case of any certificate of deposit), discount or income from Islamic financial transaction is considered for amount subject to the deduction of AIT.
- (ii)** If the Deposit is jointly owned by a person with another person, relevant interest or discount payment shall be apportioned among the joint owners in proportion to their interests in the Deposit. Where the interests of joint owners cannot be ascertained, they shall be treated as equal.

6. Time of AIT Deduction

AIT should be deducted at the time where the relevant interest or discount is paid, credited, re-invested, accumulated, capitalized or made available to the person; as the case may be; by a Bank or Financial Institution in making such payments.

7. Payments of AIT Deducted

Every Bank or Financial Institution which has deducted AIT shall pay the relevant tax to the CGIR within fifteen days after the end of each calendar month. AIT could be paid through the Online Tax Payments Platform (OTPP) and if manually pays, relevant payment should be made to the Peoples Bank and the tax type code for the payment is as follows.

- AIT on Interest 43

8. Certificate of AIT Deduction

Every Bank or Financial Institution which has deducted AIT is required to issue a certificate of AIT deduction to every person in the specified format (Please Refer Attachment 2). The AIT certificate shall cover a calendar month and **shall be served within 30 days after the end of the month that the AIT has deducted.**

The bank or financial institution may provide AIT certificate in soft copy format, if deposit holder is ready to accept the same. However, if deposit holder requires printed AIT certificate, bank or financial institution shall serve the same without a charge.

9. Records to be Maintained by the Bank or Financial Institution and their Obligations

- (i) The Bank or Financial Institution which is deducting AIT shall be a registered Withholding Agent under the CGIR. If the registration has not been obtained, the person is required to obtain a registration number from the Commissioner General not later than 30 days prior to the commencement of deduction of AIT.
- (ii) Any bank or financial institution which has already been registered as a withholding agent can continue same registration for the purpose of deduction of AIT.
- (iii) Bank or financial institutions shall keep proper records, either in soft copies or hard copies format (including the declarations of individuals, copies of tax clearance and exemption confirmations received by them) in given format (Please refer attachment 3) for all the AIT subjected payments and shall be furnished at the request of tax officials or for the inspection of the tax officials.
- (iv) Schedules to the Annual Statements should be submitted on AIT deductions and such schedules are required to be furnished in (Excel csv format) electronic form. Further, banks and financial institutions are required to furnish a quarterly schedule within

fifteen days after the end of each quarter ending on the thirtieth day of June, thirtieth day of September and thirty first day of December as specified by the Commissioner General (Published in IRD web www.ird.gov.lk).

- (v) Bank or financial institution shall keep all declarations submitted by individuals in their custody to the verification purpose of Commissioner General.

10. Clarifications on this Circular

Further clarification, if any, can be obtained via email at tpl@ird.gov.lk

11. Circular Issued Prior to this Circular

Circular No. SEC/2022/E/02 issued on 20.12.2022 is terminated with effect from the date of this circular.



Rukdevi P.H. Fernando

Commissioner General of Inland Revenue

Copies to:

1. Secretary to the Ministry of Finance and Planning
2. Controller of Exchange, Department of Exchange Control
3. Director, Banks Supervision Branch
4. Secretary, Sri Lanka Banks' Association (Guarantee) Limited.
5. Auditor General, Auditor General's Department

} For circulation -
to all Banks and
Financial
Institutions

Attachment 1



Form No. ISD/WHT/01-E
Please refer to the Circular before filling out this declaration.

To :

.....

.....

(Name and Address of the Bank/Financial Institution)

DECLARATION OF NON-TAXABLE STATUS BY A RESIDENT INDIVIDUAL

Account Number/s

Year of Assessment: From 01st April 20..... to 31st March 20 (20..../ 20)

Taxpayer Identification Number (TIN)

National Identity Card Number

I,

.....

(Full Name of the Declarant) of

.....

(Address) hereby declare that;

1) I am a resident individual of Sri Lanka (as per the provisions of the Inland Revenue Act, No. 24 of 2017).

2) *I am the guardian of.....
.....
(Full name of the minor child).

3) The total interest received and receivable by *me/him/her, from the deposits in the above account/s* with this *bank/financial institution, or from any other account with any other bank or financial institution, along with the aggregate of *my/his/her other **assessable income** for the above year of assessment, does not exceed Rs. 1,800,000.

Therefore, I kindly request that Advance Income Tax not to be deducted from the interest payable on all accounts maintained with this *bank/financial institution under *my/his/her name.

4) I declare that the information provided in this statement is true to the best of my knowledge and belief. I am aware that this statement is made to a tax official in accordance with the provisions of the Inland Revenue Act, No. 24 of 2017 (as amended), and I understand that false or misleading statements to a tax official may result in penalties and legal consequences.

Date:

Signature

(* please strike-off the statements not relevant)

Assessable income is the total income received, expected to be received, or derived during the year of assessment from employment, business, investments (including interest income), and other sources of income. Kindly refer the circular for more details.

Attachment 2

Certificate No:/ Serial No:

TIN of the Bank/ Financial Institution:

Certificate of Advance Income Tax (AIT) Deduction

Name and address of the Bank/Financial Institution:
.....

Name and address of the Deposit Holder:
.....

National Identity Card No. /Passport No. / Tax payer Identification
No.....

Interest/Discount paid in Period: from: to:

Gross amount of Interest/Discount (Rs.):

Interest/Discount Amount Subject to AIT (Rs.)	AIT Rate	Amount of AIT Deducted (Rs.)	Net Interest/ Discount Paid (Rs,)
	10%		
	Other (..... %)		

Above deducted AIT has paid to the Commissioner General of Inland Revenue as follows.

.....

Pay order Bank Draft No. /Auto Payment Receipt No.

Date of Payment

.....

Name and Signature of the Authorized Officer

Date:

Advance Income Tax Deduction

TIN of the Bank/ Financial Institution:

Name and address of the Bank/Financial Institution:

Period:

Serial Number															
Name of the Deposit Holder															
Address of the Deposit Holder															
Country of Residence															
TIN/ NIC or Passport Number															
Account Number(s)															
Deposit Amount (Rs.)															
Interest / Discount Payment Period															
Gross Interest/ Discount Paid (Rs.)															
Declaration/ Tax Clearance Certificate / Exemption Confirmation Reference No.															
Interest/Discount Amount Considered for Deduction (Rs.)															
Tax Rate (%)															
Amount of Tax Deducted (Rs.)															
Net interest/ discount paid (Rs.)															
AIT Paid to the IRD (date and payment reference)															
AIT Certificate Reference															