



**INLAND REVENUE (AMENDMENT)**

**LAW, No. 1 OF 1974**

**OF**

**THE NATIONAL STATE ASSEMBLY**

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*Inland Revenue (Amendment) Law,  
No. 1 of 1974*

L. D.—O. 73/72.

A LAW TO AMEND THE INLAND REVENUE ACT, No. 4 OF  
1963

BE it enacted by the National State Assembly of the Republic of Sri Lanka as follows:—

1. This Law may be cited as the Inland Revenue (Amendment) Law, No. 1 of 1974. Short title.

2. Section 3 of the Inland Revenue Act, No. 4 of 1963, hereafter in this Law referred to as the "principal enactment", is hereby amended as follows:— Amendment of section 3 of Act No. 4 of 1963.

(1) in subsection (1) of that section, by the substitution, for sub-paragraph (i) of paragraph (h) of that subsection, of the following new sub-paragraph:—

"(i) the change of ownership of any property occurring by sale, disposal, transfer, realization, exchange, or in any other manner whatsoever, other than—

(a) any such change of ownership of a fiduciary's rights in a property subject to a fidei-commissum as occurs by a transfer or extinction of those rights,

(b) a change of ownership of a right to exploit a property occurring by a transfer of that right,

(c) a change of ownership of any motor vehicle in respect of which a deduction for depreciation has not been allowed under section 10 or of any household effect or other article (excluding jewellery) of personal use, and

(d) a change of ownership of any property occurring on the donation of that property by its owner to the Government of Sri Lanka,"; and

(2) in subsection (4) of that section, by the substitution, for sub-paragraph (x) of paragraph (j) of that subsection, of the following new sub-paragraph:—

“(x) where the property consists of shares in respect of which there has been a return or distribution of capital, the value of the property at the time when such shares were acquired shall—

(a) if such shares were acquired by him before April 1, 1957, be an amount equal to the market value of the shares on April 1, 1957, less the amount of the capital returned or distributed, on or after that date, if the amount of the capital returned or distributed is not a dividend within the meaning of this Act, and

(b) if such shares were acquired by him on or after April 1, 1957, be an amount equal to the value to him of the shares at the time when they were acquired less the amount of the capital returned or distributed if the amount of capital returned or distributed is not a dividend within the meaning of this Act;”

Amendment of section 5 of the principal enactment.

3. Section 5 of the principal enactment, as last amended by Act No. 33 of 1971, is hereby further amended, in subsection (1) of that section as follows:—

(1) by the substitution, for paragraph (a) of that subsection, of the following new paragraph:—

“(a) the income of any local authority or Government institution, exclusive of—

(i) the income of any trust or other matter vested in or administered by such authority or institution to which such authority or institution is not beneficially entitled; and

(ii) the profits and income for any period commencing on the date of acquisition or vesting, as the case may be, of any business undertaking acquired by or vested in the Government under the Business Undertakings (Acquisition) Act, No. 35 of 1971; ”;

(2) by the insertion, immediately after paragraph (a) of that subsection, of the following new paragraphs:—

“ (aa) the profits and income for any year of assessment commencing on or after April 1, 1972, of the Insurance Corporation of Ceylon attributable to the life insurance business of that Corporation;

(ab) for any year of assessment commencing on or after April 1, 1973, the net annual value of not more than one place of residence owned and occupied by any individual who is not included in a family or in the case of individuals included in a family the net annual value of not more than one place of residence owned by any member of that family and occupied by that member or by any other member of that family;

(ac) the salary received by the President of the Republic from, and the rental value of any place of residence provided to him by, the Government of Sri Lanka;

(ad) for any year of assessment commencing on or after April 1, 1973, the profits and income derived by the owner or cultivator of any paddy land from the sale to the Paddy Marketing Board established under the Paddy Marketing Board Act, No. 14 of 1971, of paddy cultivated on such land ; ”;



(3) by the substitution, for paragraph (f) of that subsection, of the following new paragraph:—

“(f) the emoluments, and any income not arising in Sri Lanka, of any scientist, technician, expert, or adviser who is not a citizen of Sri Lanka and who is—

(i) employed in Sri Lanka on a contract of employment entered into on or after April 1, 1959, between him and the Government of Sri Lanka or between him and any such statutory corporation or institution as may be approved by the Minister for that purpose; or

(ii) engaged in the year preceding any year of assessment commencing on or after April 1, 1969, in performing any services in any project carried on by the Government of Sri Lanka or by such statutory corporation or by any other body corporate, approved by the Minister, to the capital of which the Government of Sri Lanka or such statutory corporation has made a contribution;”;

(4) by the substitution, for paragraph (gg) of that subsection, of the following new paragraph:—

“(gg) the emoluments, and any income not arising in Sri Lanka, for three years reckoned from the date of employment in Sri Lanka of any individual who is not a citizen of Sri Lanka and who is brought to and employed in Sri Lanka on or after April 1, 1966, by the proprietor of any such undertaking as is referred to in paragraph (v) of subsection (1) of section 6 or in paragraph (m) of subsection (1) of section 10 in such executive capacity or other capacity as may be approved by the Minister on the recommendation of the Ceylon Tourist Board;”;

- (5) by the substitution, for paragraph (kk) of that subsection, of the following new paragraph:—

“(kk) interest accruing for any period commencing on or after June 16, 1968, to any company, partnership or other body of persons outside Sri Lanka from any loan granted by that company, partnership or body of persons to the Government of Sri Lanka or to the Agricultural and Industrial Credit Corporation of Ceylon, or to the Development Finance Corporation of Ceylon or to the Ceylon State Mortgage Bank or to any other State corporation or to any Government institution or to any other institution to the capital of which the Government of Sri Lanka has made any contribution, or to any undertaking approved by the Minister in charge of the subject of Finance, or to any commercial bank for the time being operating in Sri Lanka if such loan is considered by the Minister in charge of the subject of Finance to be essential for the economic progress of Sri Lanka and is approved by him;”;

- (6) by the substitution, for paragraph (t) of that subsection, of the following new paragraph:—

“(t) the accumulated interest payable to an individual in respect of any Ceylon Savings Certificate issued under the Savings Certificates Ordinance or any National Savings Certificate issued under the National Savings Bank Act, No. 30 of 1971, and purchased by that individual on or before March 31, 1973, so long as the amount of the certificates held by the individual who is for the time being the holder of such certificates does not exceed the amount which an individual is for the time being authorized to hold under the written law, rules or regulations relating to such certificates;”;

(7) by the substitution, for paragraph (u) of that subsection, of the following new paragraph:—

“(u) interest paid or credited in respect of any period ending not later than March 31, 1972, on sums not exceeding fifteen thousand rupees lying to the credit of any individual in the Ceylon Savings Bank and the Ceylon Post Office Savings Bank;” ; and

(8) by the insertion, immediately after paragraph (u) of that subsection, of the following new paragraphs:—

“(ua) the total interest not exceeding one thousand rupees payable to an individual in respect of—

(a) any savings certificates issued, or deemed to be issued, under the National Savings Bank Act, No. 30 of 1971, after March 31, 1973, and

(b) moneys lying in the National Savings Bank to the credit of such individual,

for the year preceding any year of assessment commencing on or after April 1, 1973, but so however that, where more than six individuals in the same family are qualified for the exemption conferred under this paragraph, the exemption shall apply only in respect of six such individuals;

(ub) the income accruing to any person from such moneys lying to his credit in any account in a commercial bank as, in the opinion of the Commissioner, represent moneys remitted by him to Sri Lanka under the Passport (Regulation) and Exit Permit Act, No. 53 of 1971;”.



4. Section 6 of the principal enactment, as last amended by Act No. 6 of 1969, is hereby further amended by the repeal of subsection (1) of that section, and the substitution therefor, of the following new subsection:—

Amendment of section 6 of the principal enactment.

“(1) This section shall apply—

(i) to any corporation established on or after April 1, 1951, and —

(a) to the capital of which the Government of Sri Lanka makes a contribution, and

(b) which prior to August 2, 1968, is declared by the Minister by Order published in the *Gazette* to be a corporation to which this section shall apply; and

(ii) to any industrial undertaking in respect of which the Commissioner is satisfied that the following conditions are fulfilled:—

(a) that it is an undertaking commenced on or after April 1, 1951, for the production or manufacture in Sri Lanka of goods or commodities;

(b) that the undertaking is not formed by the splitting up or reconstruction of any business previously in existence, or by the transfer to a new business of buildings, machinery or plant used in a business which was being carried on before April 1, 1951;

(c) that more than twenty-five persons are employed for the purposes of the undertaking;

(d) that the goods or commodities produced or manufactured by the undertaking are certified to be of satisfactory quality by an authority if and when an authority is prescribed for such purpose; and



- (e) that the prices at which such goods or commodities are sold are certified to be reasonable by an authority if and when an authority is prescribed for such purpose;
- (iii) to any undertaking of deep sea fishing commenced prior to August 2, 1968;
- (iv) to any undertaking carried on in any land for a purpose for which such land was leased in accordance with such notification as was, or may be, published in that behalf in the *Gazette* if the lease of such land was sanctioned upon an application made for that purpose prior to August 2, 1968;
- (v) to any such undertaking, commenced on or after April 1, 1966, of operating hotels for tourists as is on the recommendation of the Ceylon Tourist Board approved by the Minister by Order published in the *Gazette*; and
- (vi) to any such undertaking of providing buildings for the use of an undertaking referred to in paragraph (v) as is on the recommendation of the Ceylon Tourist Board approved by the Minister by Order published in the *Gazette*.

Provided that this section shall not apply to any industrial undertaking which on or after April 1, 1969, commences the production or manufacture in Sri Lanka of goods or commodities unless the Commissioner is satisfied that the conditions set out in paragraph (ii) are fulfilled in respect of that undertaking and unless such undertaking—

(a) is an undertaking—

- (i) which, if it is a company, has its ordinary shares held wholly or partly by, or if it is not a company, has a capital provided wholly or partly by, any company, partnership or body

of persons being a company, partnership or body of persons outside Sri Lanka;

(ii) which was approved by the Director of Industrial Development upon application made to the Ministry of Planning and Economic Affairs through the Permanent Secretary prior to August 2, 1968; and

(iii) which commenced the production or manufacture in Sri Lanka of goods or commodities on or before March 31, 1972; or

(b) is an undertaking—

(i) which was approved by the Director of Industrial Development prior to August 2, 1968;

(ii) in respect of which the Commissioner is satisfied that any land, plant, machinery, fixtures or building was acquired for the purposes of that undertaking prior to August 2, 1968, or that prior to that date a contract was entered into for the purchase of any land, plant, machinery or fixtures for the purposes of that undertaking or for the purchase or erection of any building for the purposes of that undertaking, and

(iii) which commenced the production or manufacture in Sri Lanka of any goods or commodities on or before March 31, 1972.”

Insertion of new section 7B in the principal enactment.

5. (1) The following new section is hereby inserted immediately after section 7A, and shall have effect as section 7B, of the principal enactment:—

Special provisions relating to the income of any person carrying on any undertaking to which the provisions of section 6 or section 7A are applicable.

7B. Where a person carrying on any undertaking to which section 6 or section 7A applies, sells, discards, or otherwise disposes of, or ceases otherwise than by death to be the owner of, any building constructed by him and used for the purposes of that undertaking or any plant, machinery or fixtures acquired by him and used for the purposes of that undertaking, then the income on which tax is payable by that person shall, notwithstanding anything in section 6 or section 7A, as the case may be, include—

- (a) an amount ascertained under subsection (3) or subsection (4) of section 10, according as such person has or has not ceased to carry on such undertaking;
- (b) amounts treated as receipts of that undertaking under paragraph (l) or paragraph (m) of subsection (1) of section 10; and
- (c) the net capital gains arising from the change of ownership of such building, plant, machinery or fixtures, if that person has ceased to carry on such undertaking,

as though a deduction for depreciation has been made under paragraph (h) or paragraph (i) or paragraph (l) or paragraph (m) of subsection (1) of section 10 in respect of the things sold or discarded or otherwise disposed or otherwise ceased to be owned.”

(2) The provisions of the new section 7B inserted in the principal enactment by subsection (1) of this section shall apply in respect of every year of assessment commencing on or after April 1, 1973.

6. (1) Section 10 of the principal enactment, as amended by Act No. 26 of 1968, is hereby further amended as follows:—

Amendment of  
section 10 of  
the principal  
enactment.

(a) in subsection (1) of that section—

(i) by the substitution, for paragraph (i) of that subsection, of the following new paragraph:—

“(i) a prescribed lump sum for the depreciation by wear and tear of any building constructed in the year preceding the year of assessment—

(a) for the purpose of any agricultural or industrial undertaking or any approved project within the meaning of subsection (5) carried on by such person—

(i) for use as a staff welfare building,  
or

(ii) for occupation as a dwelling house by any member of the subordinate staff employed by such person in such undertaking or project, or

(iii) for occupation for the purposes of such undertaking or project otherwise than as a dwelling house,  
or

(b) for use solely as a warehouse for the purpose of a trade or business carried on by such person:



Provided that no deduction under the preceding provisions of this paragraph shall be allowed to such person in respect of any building constructed by him if such construction was to renew any building earlier used by him for any of the purposes specified in the preceding provisions of this paragraph and if the cost of such renewal is allowed as a deduction under paragraph (j);”;

(ii) by the substitution, for paragraph (m) of that subsection, of the following new paragraph:—

“(m) any sum expended in the purchase and installation, or in the purchase, as the case may be, of any plant, machinery, fixtures, furniture, utensils or articles or in the renovation of, or in the making of any additions or improvements to, any existing building or in the erection of any building, by such person for any such undertaking of operating hotels for tourists as is not referred to in paragraph (v) of subsection (1) of section 6 and is on the recommendation of the Ceylon Tourist Board approved by the Minister by Order published in the *Gazette* for the purposes of this paragraph:

Provided that where such person has, during the period for which the

profits are being ascertained, sold, discarded, otherwise disposed of, or otherwise ceased to be the owner of, any such plant, machinery, fixtures, furniture, utensils or articles without ceasing to carry on such undertaking, the sum realized by the sale or discard or other disposal or other cessation of ownership shall be treated as a receipt of that undertaking.”;

(b) by the substitution, for subsection (3) of that section, of the following new subsection:—

“(3) Where any person sells, discards, otherwise disposes of, or otherwise ceases to be the owner of, any plant, machinery or fixtures acquired by him after March 31, 1957, or such specified day as is referred to in subsection (2), and used in producing the income from any trade, business, profession, vocation, or employment carried on or exercised by him, or any building constructed after March 31, 1957, or such specified day as is referred to in subsection (2), which is—

(a) a staff welfare building or a building for use as a dwelling house by any member of the subordinate staff employed by him in or for the purposes of, or in connection with, any agricultural or industrial undertaking, or which is a building occupied for the purposes of such undertaking, otherwise than as a dwelling house, or

- (b) a building for use solely as a warehouse for the purposes of any trade or business carried on by him,

and the sale or discard or other disposal or other cessation of ownership occurs when or after he ceases to carry on or exercise such trade, business, profession, vocation, employment or undertaking, and a deduction for depreciation has been made under paragraph (h), or paragraph (i) of subsection (1) in respect of the things sold or discarded or otherwise disposed of or otherwise ceased to be owned, then, if the sale or discard or other disposal or other cessation of ownership is before the expiry of the period of likely use by reference to which the deduction for depreciation was determined, such part of the amount deducted for depreciation as is in the opinion of the Commissioner attributable to the unexpired part of such period shall be added to the profits or income of such person as a receipt of such trade, business, profession, vocation, employment or undertaking.”;

- (c) by the substitution, for subsection (4) of that section, of the following new subsection:—

“(4) Where any person sells, discards, otherwise disposes of, or otherwise ceases to be the owner of, any plant, machinery or fixtures acquired by him after March 31, 1957, or such specified day as is referred to in subsection (2), and used in producing the income from any trade, business, profession, vocation or employment carried on or exercised by him, or any building constructed after March 31, 1957, or such specified day as is referred to in subsection (2), which is—

- (a) a staff welfare building or a building for use as a dwelling house by any member of the subordinate staff employed by him in or for the purposes of, or in connection with, any agricultural or industrial

undertaking, or which is a building occupied for the purposes of such undertaking, otherwise than as a dwelling house, or

- (b) a building for use solely as a warehouse for the purposes of any trade or business carried on by him,

and the sale or discard or other disposal or other cessation of ownership occurs without his ceasing to carry on or exercise such trade, business, profession, vocation, employment or undertaking, and a deduction for depreciation has been made under paragraph (h) or paragraph (i) of subsection (1) in respect of the thing sold or discarded or otherwise disposed of, or otherwise ceased to be owned, then—

- (i) if the sale or discard or other disposal or other cessation of ownership is before the expiry of the period of likely use by reference to which the deduction for depreciation was determined, the Commissioner shall take into account the unexpired part of such period and determine the amount of the loss, or the amount of the profit, arising in the event of a sale from the sale or in the event of a discard or other disposal or other cessation of ownership, from the likely sale of such plant, machinery, fixtures or building, and where the amount of the loss is so determined, there shall be deducted that amount for the purpose specified in subsection (1), and where the amount of the profit is so determined, that amount shall be added to the profits or income of such person as a receipt of such trade, business, profession,



vocation, employment, or undertaking, and where such plant, machinery, or fixtures was or were only partly used or employed for such trade, business, profession, vocation or employment, or such building was only partly used for the purposes of, or in connection with, such undertaking, the deduction or addition under this subsection shall be proportionately reduced; and

- (ii) if the sale or discard or other disposal or other cessation of ownership is after the expiry of the aforesaid period of likely use, the full amount of the sale proceeds in the event of a sale, or the full amount likely to be realized by the sale of such plant, machinery, fixtures, or building in the event of a discard or other disposal or other cessation of ownership shall be added to the profits or income of such person as a receipt of such trade, business, profession, vocation, employment, or undertaking, and where in the case of a sale or discard or other disposal or other cessation of ownership such plant, machinery, or fixtures was or were only partly used or employed for such trade, business, profession, vocation, or employment, or such building was only partly used for the purposes of, or in connection with, such undertaking, the addition under this subsection shall be proportionately reduced.”; and

(d) by the addition, at the end of that section, of the following new subsection:—

“(9) No deduction under subsection (1) (a) or (1) (h) or (1) (i) or depreciation by wear and tear or under subsection (1) (j) for any sum expended for renewal shall be allowed to any person in respect of any building, plant, machinery or fixtures constructed or acquired by him if—

(a) such person has let on hire—

(i) such building, plant, machinery or fixtures to any undertaking the profits and income of which are exempt from income tax under section 6 or section 7A ;  
or

(ii) such plant, machinery or fixtures for use in any undertaking carried on by the person from whom it was acquired or by any member of the family of that person or any member of his family in partnership with any other person or persons; or

(b) such person uses such plant, machinery or fixtures in any undertaking carried on by him in partnership with the person from whom it was acquired or with any member of the family of the person from whom it was acquired:

Provided that nothing in the preceding provisions of this subsection shall apply to any person in respect of an undertaking referred to in paragraph (vi) of subsection (1) of section 6 and carried on by that person.”.

(2) The amendment made in the principal enactment—

(a) by sub-paragraph (i) of paragraph (a), paragraph (b), paragraph (c) and paragraph (d) of subsection (1) of this section shall apply in respect of every year of assessment commencing on or after April 1, 1973; and

(b) by sub-paragraph (ii) of paragraph (a) of subsection (1) of this section shall be deemed to have come into force on June 16, 1968.

Replacement of  
section 19 of  
the principal  
enactment.

7. Section 19 of the principal enactment is hereby repealed and the following new section substituted therefor:—

“Individuals  
who are deemed  
to be a family.

19. (1) Where, according to a return of income furnished under this Act by a resident individual in respect of any year of assessment, he had a wife and no child or dependent relative in the year preceding that year of assessment, then, for the purpose of the computation of the income tax in respect of them for such year of assessment, they shall be deemed to be a family, and such individual shall be deemed to be the head of such family.

(2) Where, according to a return of income furnished under this Act by a resident individual in respect of any year of assessment, he had a wife and any child (other than a child who is in receipt of income which is entirely occupational income) or dependent relative in the year preceding that year of assessment, then, for the purpose of the computation of the income tax in respect of them for such year of assessment, they shall be deemed to be a family, and such individual shall be deemed to be the head of such family.

(3) Where, according to a return of income furnished under this Act by a resident individual other than an individual referred to in subsection (1) or subsection (2), in respect of any year of assessment, such individual had any child (other than a child who is in receipt of income which is entirely occupational income) or dependent relative in the year preceding that year of assessment, then for the purpose of the computation of the income tax in respect of them for such year of assessment such individual and child or dependent relative shall be deemed to be a family, and such individual shall be deemed to be the head of such family.”

8. Section 24 of the principal enactment, as last amended by Act No. 6 of 1969, is hereby further amended as follows:—

Amendment of  
section 24 of  
the principal  
enactment.

(1) by the substitution, for paragraphs (d) and (e) of that section, of the following new paragraphs:—

“(d) the provisions of Part III of the Second Schedule to this Act shall, in their application to that individual for the year of assessment commencing on April 1, 1965, and for each of the three years of assessment next succeeding, have effect as if each of the sums mentioned in that Part of that Schedule, or the aggregate of the sums computed in the manner mentioned in subsection (3) of section 23A, as the case may be, were reduced in the proportion which the number of days during which he is resident bears to the number of days in such preceding year,

(e) the provisions of Part IV of the Second Schedule to this Act shall, in their application to that individual for the year of assessment commencing on April 1, 1969, and for the year of assessment next succeeding, have effect as if each of the sums mentioned in that Part of that Schedule, or the aggregate of the sums computed in the manner mentioned in subsection (4) of section 23A, as the case may be, were reduced in the proportion which the number of days during which he is resident bears to the number of days in such preceding year, and ”:

(2) by the addition, at the end of that section, of the following new paragraph:—

“(f) the provisions of Part V of the Second Schedule to this Act shall, in their application to that individual for any year of assessment commencing on or after April 1, 1971, have effect as if each of the sums mentioned in that



Part of that Schedule, or the aggregate of the sums computed in the manner mentioned in subsection (4) of section 23A, as the case may be, were reduced in the proportion which the number of days during which he is resident bears to the number of days in such preceding year.”

Amendment of  
section 28 of  
the principal  
enactment.

9. Section 28 of the principal enactment is hereby amended by the insertion, immediately after paragraph (s) of that section, of the following new paragraphs:—

“(ss) the National Savings Bank established by the National Savings Bank Act, No. 30 of 1971;

(sss) the Colombo District (Low-lying Areas) Reclamation and Development Board established by the Colombo District (Low-lying Areas) Reclamation and Development Board Act, No. 15 of 1968;”

Amendment of  
section 31 of  
the principal  
enactment.

10. Section 31 of the principal enactment, as amended by Act No. 33 of 1971, is hereby further amended as follows:—

(1) in subsection (1) of that section, by the insertion immediately after paragraph (gg) of that subsection, of the following new paragraph:—

“(ggg) such moneys lying to his credit in any account in a commercial bank as, in the opinion of the Commissioner, represent moneys remitted by him to Sri Lanka under the Passport (Regulation) and Exit Permit Act, No. 53 of 1971;” and

(2) by the repeal of subsection (3) of that section, and the substitution therefor, of the following new subsection:—

“(3) Where a person has any share in the capital of any corporation or undertaking specified in section 6 of this Act, the amount of that share shall be excluded from his wealth for any year of assessment if the period during which the profits and income

of that corporation or undertaking are exempt from income tax does not expire earlier than the thirty-first day of March of the year preceding that year of assessment.”.

11. Section 32 of the principal enactment is hereby amended by the repeal of subsection (1) of that section and the substitution therefor, of the following new subsection:—

Amendment of  
section 32 of  
the principal  
enactment.

“(1) Where according to the return of wealth furnished by a person in respect of any year of assessment such person is the head of a family, the wealth of each individual who is a member of that family shall, for the purposes of this Act, be deemed to form part of the wealth of the head of that family and accordingly the value of the net wealth of all such members shall be aggregated with the net wealth of the head of that family for that year of assessment. Where, for the year of assessment ending on March 31, 1964, the aggregated net wealth of the head of that family amounts to or exceeds one hundred thousand rupees, such net wealth shall be his taxable wealth for that year of assessment and where, for any year of assessment commencing on or after April 1, 1964, the aggregated net wealth of the head of that family exceeds one hundred thousand rupees, such part of his net wealth as exceeds one hundred thousand rupees shall be his taxable wealth for that year of assessment, and the head of that family shall be liable to the wealth tax in respect of such taxable wealth.”.

12. Section 40 of the principal enactment is hereby amended as follows:—

Amendment of  
section 40 of  
the principal  
enactment.

(1) by the substitution, for paragraph (e) and paragraph (f) of that section, of the following new paragraphs:—

“(e) where there is a release, discharge, surrender or abandonment of any debt (other than a debt which is treated as a bad debt and allowed as a deduction for the purposes of income tax under this Act) or contract or of any interest in any property by any person, the value of the release, discharge, surrender or abandonment shall be deemed to be a gift made by him;

(f) the gift of any property on or after July 18, 1958, subject to a reservation in favour of the donor or any other person shall be deemed to take effect when it is made and not when the interest created by the reservation is extinguished; and ”; and

(2) by the addition, at the end of that section, of the following new paragraph:—

“ (g) subject to the provisions of paragraphs (b) and (c), where any property is transferred by any person to any member of his family or to any son or daughter of that person or of his spouse, being a son or daughter not included in the family of that person, and the entirety or a part of the consideration for the transfer is the creation of a debt or an annuity in favour of the transferor, such debt or annuity shall be disregarded and the transferor shall be deemed to have made a gift of such property to the transferee to the extent of the value of the debt or annuity created.”

Amendment of  
section 44 of  
the principal  
enactment.

13. Section 44 of the principal enactment, as last amended by Act No. 31 of 1971, is hereby further amended as follows:—

(1) by the repeal of subsection (2) of that section and the substitution therefor, of the following new subsection:—

“ (2) Subject to the provisions of subsection (2B) and subsection (4B), where in the case of a married woman the marriage subsists during part only of a year preceding any year of assessment,—

(a) the provisions of Chapter V shall apply only to such part of the wife's assessable income for that year of assessment as bears to the whole of such income the same proportion as the number of days in the period during which the marriage subsists in the year preceding that year of assess-

ment bears to the total number of days in the year preceding that year of assessment;

(b) the provisions of Chapter VII shall apply only to such part of the wife's net wealth for that year of assessment as bears to the whole of such wealth the same proportion as the number of days in the period during which the marriage subsists in the year preceding that year of assessment bears to the total number of days in the year preceding that year of assessment;

(c) the aforesaid provisions shall not apply to any source of profits or income or net wealth, as the case may be, which is not a source of profits or income or net wealth of the wife during that part of the year for which the marriage subsists." ; and

(2) by the repeal of subsection (4) of that section and the substitution therefor, of the following new subsection:—

“(4) Subject to the provisions of subsection (2B) and subsection (4B), where in the case of a married woman, the marriage is on a date after the first day of April in the year preceding any year of assessment or the marriage subsists for part only of that preceding year, then, as the case may be, she shall—

(a) for such period of the preceding year commencing on the first day of April and ending on the date of the marriage, if prior to that date she was an individual not included in a family, or

(b) for such period in that preceding year during which the marriage does not subsist,

be assessed separately on her income in respect of income tax, and on her net wealth, in respect of wealth tax and the provisions of this Act as to collection and recovery shall apply to her accordingly.”



Replacement of section 46 of the principal enactment.

14. Section 46 of the principal enactment is hereby repealed and the following new section substituted therefor:—

“ Separate assessment of child.

46. Where a child whose assessable income exceeds five hundred rupees for any year of assessment either reaches the age of twenty-five or marries or leaves the parental home during the year preceding that year of assessment, the income (other than income from employment) of that child for the period commencing on the date on which he attains such age or marries or leaves his parental home and ending on the last day of the year preceding that year of assessment and the income from employment of that child for the period commencing on the date on which he attains such age or marries or leaves his parental home and ending on the last day of that year of assessment shall not be aggregated with the income of his parent.”

Amendment of section 52 of the principal enactment.

15. Section 52 of the principal enactment is hereby amended as follows:—

(1) by the repeal of subsection (4) of that section and the substitution therefor, of the following new subsection:—

“(4) The statutory income of any partner from the partnership shall be computed in accordance with the provisions of section 12 by treating his share of the divisible profit of the partnership as though it were profits of a trade, business, profession, vocation, or employment carried on or exercised by him, and his share of other income as though it accrued to him solely:

Provided that where no return has been made as required by subsection (2) or a return made under that subsection has not been accepted, the Assessor may estimate the statutory income of any partner from the partnership to the best of his judgment:

Provided further that where the Assessor is of the opinion that the whole or a part of the divisible profit of the partnership has been appropriated by a partner, the Assessor may include in that partner's share of the divisible profit of the partnership the amount appropriated by him and the statutory income of such partner may be computed accordingly." ; and

- (2) by the addition, at the end of that section, of the following new subsection:—

"(10) Where for any year of assessment the statutory income of any person who is a partner in a partnership includes his share of the divisible profits of the partnership and the tax payable by that person is in default, such part of the tax in default as is in the opinion of the Commissioner, attributable to his share of such divisible profits may be recovered out of the assets of the partnership and accordingly, for the purposes of section 110, the assets of the partnership shall be deemed to be the assets of the partner:

Provided that the amount so recovered shall not exceed the interest of the partner in the partnership."

16. Section 54 of the principal enactment, as amended by Act No. 31 of 1971, is hereby further amended as follows:—

Amendment of  
section 54 of  
the principal  
enactment.

- (1) by the repeal of subsection (7) of that section and the substitution therefor, of the following new subsection:—

"(7) Where an individual arrives in Sri Lanka in any year of assessment commencing on or after April 1, 1970, and carries on or exercises any employment in that year of assessment or in the year following that year of assessment, the Commissioner may

direct that such individual shall be deemed to have been resident for the whole or a part the year preceding each of the aforesaid years of assessment or any one of those years for the purpose of granting such relief as the circumstances of the case may require. ”; and

(2) by the addition, at the end of that section of the following new subsections:—

“(8) Where an individual leaves Sri Lanka in any year of assessment commencing on or after April 1, 1970, his profits and income from employment arising in or derived from any place outside Sri Lanka during the period commencing on the date on which he leaves Sri Lanka and ending on the thirty-first day of March of the year of assessment immediately succeeding the year of assessment in which he leaves Sri Lanka shall be exempt from income tax unless he is deemed to be, or becomes, resident in Sri Lanka at any time during that period.

(9) An individual who is employed in a Ceylon ship, within the meaning of the Merchant Shipping Act, No. 52 of 1971, shall, for the purposes of this Act, be deemed to be resident in Sri Lanka during the period he is so employed:

Provided that whether any such individual is a citizen or subject of any country other than Sri Lanka he shall not, by reason of his being so deemed to be resident in Sri Lanka, be liable to income tax as a resident in respect of any income other than his income from employment in such ship.”.

Replacement of section 69B of the principal enactment.

17. Section 69B of the principal enactment, inserted therein by Act, No. 31 of 1971, is hereby repealed and the following new section substituted therefor:—

“Deduction from income tax in respect of profits from employment in the year of assessment commencing on April 1, 1971.

69B. Where the profits and income of an individual for the year of assessment commencing on April 1, 1971, include profits from employment, such individual or, if such individual is a member of a family, the head of such family shall be entitled to a deduction from the income tax payable by him or by the head

of the family of which he is a member, as the case may be, for that year of assessment, of a sum equal to income tax at the effective rate on such part of the profits from employment as bears to the total profits from employment the same proportion as the number of days during which such individual carried on or exercised an employment during the period from April 1, 1971, to September 30, 1971, bears to the total number of days during which he carried on or exercised an employment in that year of assessment:

Provided that such profits from employment for the purposes of this section shall not include any sum falling within section 3(4) (a) (ii).

For the purposes of this section—

- (a) the effective rate of tax for the year of assessment commencing on April 1, 1971, shall be the percentage which the amount of tax payable for that year of assessment without any deduction for any relief under section 27, or section 66 or section 70 or section 71, bears to the amount of the assessable income for that year of assessment, and
- (b) where a person is in receipt of a pension for the year of assessment commencing on April 1, 1971, or any part of that year, such person shall, in respect of the period he is in receipt of such pension, be deemed to be carrying on or exercising an employment."

18. Section 73A of the principal enactment is hereby repealed and the following new section substituted therefor:—

Replacement of section 73A of the principal enactment.



• Relief in respect of certain profits and income.

73A. Where a company carries on an undertaking which is referred to in paragraph (v) or paragraph (vi) of subsection (1) of section 6 and which has been approved thereunder by the Minister prior to April 1, 1976, such company shall, in respect of its profits and income from that undertaking for the period of fifteen years immediately following the period of five years for which the profits and income of that undertaking are exempt from income tax under subsection (2) of that section, be entitled to a deduction from the income tax payable by that company of a sum equal to fifty *per centum* of the specified sum.

For the purposes of this section, such specified sum shall—

(a) in the case of a resident company, be a sum which bears to the income tax payable by that company for any year of assessment under paragraph (a) of subsection (1) of section 25 after the deduction of any relief granted under section 70 or section 71 the same proportion as the profits and income of that undertaking bears to the profits and income of that company for that year of assessment, and

(b) in the case of a non-resident company, be a sum which bears to the income tax payable by that company for any year of assessment under section 26 (excluding such part of that tax as is computed under that section at the additional rate of 6 *per centum* or at the rate of 33 1/3 *per centum*) after the deduction of any relief granted under section 70 or section 71, the same proportion as the profits and income of that

undertaking bears to the profits and income of that company for that year of assessment.”

19. Section 79 of the principal enactment is hereby amended as follows:—

Amendment of section 79 of the principal enactment.

(1) by the repeal of subsections (1) and (2) of that section, and the substitution therefor, of the following new subsections:—

‘ (1) Where, in the case of a company controlled by not more than five persons.—

(a) the assessable income of the company for any year of assessment is computed on the profits of the company for any year ending on or after the first day of April, 1962, (hereinafter in this subsection referred to as the “previous year”); and

(b) the Assessor is satisfied that, in respect of the previous year, the company has not distributed to its shareholders a reasonable part of its profits,

the Assessor may, subject to the provisions of subsections (2), (3) and (4), treat the whole or a part of the profits of the company after deducting therefrom any expenditure incurred for the development of the business of the company other than the price paid for the purchase of an existing business or an agricultural undertaking as distributed in the form of dividends to the shareholders of the company on a date specified by the Assessor and the persons concerned shall, for the year of assessment commencing on the first day of April immediately following the date so specified, be assessable in respect of the amount treated as distributed in the form of dividends to them.

(2) In determining under subsection (1) whether a company has not distributed to its shareholders a reasonable part of its profits, the Assessor shall have regard—

(a) to the total amount of its profits;

- (b) to the additional assessments, if any, made on the company;
  - (c) to the current requirements of the company's business; and
  - (d) to such other requirements as may be necessary or advisable for the maintenance and development of the company's business." ; and
- (2) by the insertion, immediately after subsection (4) of that section, of the following new subsection:—

“(4A) Where the Assessor under subsection (1) treats the whole or a part of the profits of the company as distributed in the form of dividends to shareholders of the company—

- (a) the provisions of section 27 shall not apply to the profits treated as distributed in the form of dividends;
- (b) the shareholders shall be assessable on the actual amount of the profits treated as distributed in the form of dividends and shall not be entitled to any set-off under subsection (6) of section 27; and
- (c) where the shareholder is a company, the profits treated as distributed in the form of dividends to that company shall, notwithstanding any other provision of this Act, be treated as part of the assessable income of the company and assessed accordingly.”.

Insertion of new section 79A in the principal enactment.

20. The following section is hereby inserted immediately after section 79, and shall have effect as section 79A, of the principal enactment:—

“Provisions applicable where the profits and income of a company are appropriated by a director of that company.

79A. Where the profits and income of a company or any part of such profits and income are appropriated by any director, manager, shareholder or executive officer of that company, such profits and income or such part of such profits and income shall form part of the profits and income of the person by whom such profits or income or part



thereof are appropriated and also of that company and that person and that company shall be assessable accordingly."

21. Section 90 of the principal enactment is hereby repealed and the following new section substituted therefor:—

"Principal officer to act on behalf of a company or body of persons.

90 (1) The secretary, manager, director or other principal officer of every company or body of persons, corporate or unincorporate, shall be answerable for doing all such acts, matters, or things as are required to be done under the provisions of this Act by such company or body of persons:

Provided that any person to whom a notice has been given under the provisions of this Act on behalf of a company or body of persons shall be deemed to be the principal officer thereof unless he proves that he has no connection with the company or body of persons or that some other person resident in Sri Lanka is the principal officer thereof.

(2) Where an offence under this Act is committed by a company or body of persons, corporate or unincorporate, every person who at the time of the commission of that offence was the secretary, manager, director or other principal officer of that company or body of persons shall be deemed to be guilty of that offence unless he proves that the offence was committed without his knowledge and that he exercised all such diligence to prevent the commission of that offence as he ought to have exercised having regard to the nature of his functions in such capacity and to all the circumstances."

22. Section 107D of the principal enactment, inserted therein by Act No. 31 of 1971, is hereby amended by the addition, at the end of that section, of the following new subsection:—

Replacement of Section 90 of the principal enactment.

Amendment of section 107D of the principal enactment.



“(8) Where an employer has reasonable grounds to suspect that any particular set out in a declaration furnished by an employee under this section is incorrect, he shall forthwith notify the grounds for his suspicion to the Commissioner and also send him a copy of such declaration.”

Amendment of  
section 107G of  
the principal  
enactment.

23. Section 107G of the principal enactment, inserted therein by Act No. 31 of 1971, is hereby amended as follows:—

(1) by the insertion, immediately after subsection (2) of that section, of the following new subsection:—

“(2A) The Commissioner, or any officer authorized by the Commissioner, may, in respect of any employee chargeable with income tax under this Act, issue to the person who is the employer of that employee or who, in the opinion of the Commissioner or such officer, is the employer of that employee, a direction in writing (a copy of which shall be issued to that employee) requiring such person to deduct in accordance with such direction from the remuneration of such employee the income tax payable under this Act and such person shall deduct income tax from such remuneration in accordance with such direction:

Provided that any such direction may at any time be varied.

For the purposes of this Chapter a person in respect of whom a direction has been issued under this section shall be deemed to be a “specified employee.”; and

(2) by the repeal of subsection (3) of that section and the substitution therefor, of the following new subsection:—

“(3) Any employee who is dissatisfied with a direction issued under subsection (2) or under subsection (2A) may, within a period of thirty days after the date of issue of such direction, appeal to the Commissioner in writing setting out precisely the grounds of such appeal. The decision of the Commissioner on such appeal shall be final and conclusive.”

24. The following section is hereby inserted in the principal enactment immediately after section 107s, and shall have effect as section 107ss, of that enactment:—

Insertion of section 107ss in the principal enactment.

“ Compliance with the provisions of this Chapter relating to forms, &c.

107ss. Where under the provisions of this Chapter an employer is required to record or furnish particulars in such form and in such manner as may be prescribed by the Commissioner, it shall be sufficient compliance with those provisions if the particulars are recorded or furnished by the employer in such form and in such manner as may be approved in writing by the Commissioner upon an application made by the employer.”

25. Section 123 of the principal enactment is hereby amended by the repeal of subsection (1) of that section and the substitution therefor, of the following new subsection:—

Amendment of section 123 of the principal enactment.

“(1) For the purposes of this Act, there shall be appointed a Commissioner of Inland Revenue, an Additional Commissioner of Inland Revenue, a Senior Deputy Commissioner of Inland Revenue, and such number of Deputy Commissioners of Inland Revenue, Assistant Commissioners of Inland Revenue and Assessors of Inland Revenue as may be necessary.”

26. Section 129 of the principal enactment is hereby amended as follows:—

Amendment of section 129 of the principal enactment.

(1) by the insertion, immediately after the definition of “active partner”, of the following definition:—

“ “Additional Commissioner” means an Additional Commissioner of Inland Revenue appointed under this Act ;” ;

(2) by the insertion, immediately after the definition of “agricultural undertaking”, of the following definition:—

“ “annuity” for the purposes of the year preceding any year of assessment commencing on or after April 1, 1973, means an annual payment

(other than a payment of a capital nature) made in money or money's worth—

(a) by any person to any other person under an order of court, the payment being in the nature of alimony or maintenance payment, or

(b) by one spouse to the other under a duly executed deed of separation, or

(c) by any person in return for full consideration in money or money's worth to any other person who is not the son, daughter, father, mother, brother or sister of that person or of his wife;";

(3) by the insertion, immediately after the definition of "business", of the following new definition:—

"Ceylon Tourist Board" means the Ceylon Tourist Board established under the Ceylon Tourist Board Act, No. 10 of 1966;";

(4) by the substitution, for the definition of "Commissioner", of the following new definition:—

"Commissioner" means the Commissioner of Inland Revenue appointed under this Act, and includes an Additional Commissioner, a Senior Deputy Commissioner, a Deputy Commissioner, and an Assistant Commissioner specially authorized by the Commissioner either generally or for some specific purpose to act on behalf of the Commissioner;";

(5) by the insertion, immediately after the definition of "company", of the following new definition:—

"Controller of Exchange" means the officer designated as the head of the Department of Exchange Control of the Central Bank;";



(6) by the substitution, for the definition of "dividend", of the following new definition:—

"dividend" includes any distribution of profit by a company to its shareholders in the form of money or of an order to pay money, or in the form of shares or debentures in the company or in any other company, and the amount of any capital returned or distributed to the extent of the paid-up value of any shares distributed by the company to its shareholders within six years preceding the date of the return or distribution of capital, such paid up value representing the capitalization of the whole or any part of the profits of the company, but does not include—

(a) a distribution made wholly out of profits from the sale of fixed capital assets where such profits are not chargeable with tax under the provisions of this Act,

(b) the paid-up value of any shares distributed by a company to its shareholders to the extent to which such paid-up value represents the capitalization of the whole or any part of the profits of the company;

(7) by the insertion, immediately after the definition of "family", of the following new definition:—

"foreign currency" has the same meaning as in the Exchange Control Act;

(8) by the insertion, immediately after the definition of "industrial undertaking", of the following new definition:—

"interest" for any year of assessment in relation to a saving certificate within the meaning of the National Savings Bank Act, No. 30 of 1971—



- (a) where the certificate is acquired by any person prior to the commencement of the year preceding that year of assessment (hereinafter referred to as the "preceding year") and is held by him during the whole or a part of the preceding year, means the amount by which the surrender value of the certificate on the thirty-first day of March of the preceding year or on the date on which such person ceases to be the holder of the certificate, as the case may be, exceeds the surrender value of the certificate on the first day of April of the preceding year or its purchase price, according as the certificate has or does not have a surrender value on the afore-mentioned first day of April; or
- (b) where the certificate is acquired by any person after the commencement of the preceding year and is held by him during the whole or a part of the remaining portion of the preceding year, means the amount by which the surrender value of the certificate on the thirty-first day of March of the preceding year or on the date on which such person ceases to be the holder of the certificate, as the case may be, exceeds the surrender value of the certificate on the date of acquisition of the certificate or its purchase price, according as the certificate has or does not have a surrender value on the date of acquisition;'
- (9) by the insertion, immediately after the definition of "resident", of the following new definition:—
- "Senior Deputy Commissioner" means the Senior Deputy Commissioner of Inland Revenue appointed under this Act;"; and

(10) by the insertion, immediately after the definition of "taxable income", of the following new definition:—

" "tourist" means any person who is not a citizen of Sri Lanka and who holds a valid passport which bears an endorsement granted to him by an authorized officer under the Immigrants and Emigrants Act;".

27. The First Schedule to the principal enactment, as amended by Act No. 18 of 1965, is hereby further amended by the insertion, immediately after the item relating to "Public Corporations established with capital wholly or partly provided by the Government of Ceylon", of the following new item:—

Amendment of  
the First  
Schedule to  
the principal  
enactment.

" Business Undertakings }  
acquired or vested in the } The rate of tax  
Government under the Busi- } chargeable in res-  
ness Undertakings (Acquisi- } pect of resident  
tion) Act, No. 35 of 1971— } companies."

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