Dividend Taxation in Sri Lanka – A Simple Guide Under the Inland Revenue Act

Dividends are one of the most common forms of investment income received by shareholders. Whether you invest in a listed company or a private company, it is important to understand how dividends are taxed in Sri Lanka.

Recent amendments to the **Inland Revenue Act, No. 24 of 2017 (as amended)** have changed the tax treatment of dividends. This article explains the current rules in simple terms.

What Is a Dividend?

A dividend is a distribution of profits made by a company to its shareholders.

If you own shares in a company, you may receive dividends when the company distributes part of its profits.

Under **Section 7** of the Inland Revenue Act, dividends are classified as **investment income**.

Are Dividends Taxable?

Yes.

The Inland Revenue Act charges Income Tax on a person's **taxable income**, which includes **investment income** such as dividends.

The relevant provisions are:

- **Section 2** – Imposition of Income Tax.
- **Section 3** – Taxable income.
- **Section 4** – Assessable income.
- **Section 7** – Investment income (which includes dividends).

However, the way tax is collected on dividends differs from many other types of income.

How Is Tax Collected on Dividends?

Instead of requiring shareholders to pay tax directly, the Inland Revenue Act requires the **company paying the dividend** to deduct **Advance Income Tax (AIT)** where applicable before making the payment.

This requirement is contained in **Section 84A** of the Inland Revenue Act.

The company deducts the prescribed amount of tax and remits it to the Inland Revenue Department (IRD) on behalf of the shareholder.

Final Withholding Payment – Section 88(1A)(aa)

One of the most important provisions affecting dividend taxation is **Section 88(1A)(aa)**.

This section provides that **dividends paid by a resident company on or after 1 January 2023 are treated as final withholding payments**.

In simple terms, this means that where the required tax has been deducted under the Inland Revenue Act, the shareholder is generally regarded as having met their Income Tax liability on that dividend.

In addition, **Section 88(2)** provides that tax withheld from a final withholding payment satisfies the recipient's Income Tax liability in respect of that payment.

Does This Mean I Do Not Need to File an Income Tax Return?

Not necessarily.

Although dividends may be treated as final withholding payments, this **does not automatically remove your obligation to file an Income Tax Return**.

Whether you are required to file a return depends on your overall tax position and the filing requirements under the Inland Revenue Act.

For example, you may still be required to file if:

- You receive income from multiple sources.
- You operate a business.
- You earn rental income.
- You receive a notice from the Inland Revenue Department requiring you to file.
- You are otherwise required to submit a return under the Act.

Each taxpayer's circumstances should be considered individually.

What About Dividends from Foreign Companies?

Dividends received from foreign companies are subject to different tax considerations.

The correct tax treatment depends on:

- Your tax residency status.
- Whether the dividend is considered foreign-source income.
- Whether a statutory exemption applies.
- Whether relief is available under a Double Taxation Agreement (DTA).

Professional advice should be obtained before reporting foreign dividend income.

Keep Proper Records

Shareholders should retain documents relating to dividend income, including:

- Dividend vouchers.
- Company payment notices.
- Advance Income Tax (AIT) certificates, where issued.
- Bank statements showing dividend receipts.

Maintaining proper records will assist if the Inland Revenue Department requests supporting documentation.

Common Misunderstandings

"Dividends are completely tax-free."

Not always. Dividends are **investment income** under Section 7. The Inland Revenue Act provides a mechanism for collecting tax through withholding, and resident-company dividends may be treated as **final withholding payments** under Section 88(1A)(aa).

"If tax is deducted from my dividend, I never need to file an Income Tax Return."

Not necessarily. Your filing obligation depends on your overall tax circumstances and the provisions of the Inland Revenue Act.

"Foreign dividends are treated the same as Sri Lankan dividends."

No. Foreign dividends may be subject to different tax rules depending on residency, source rules, exemptions, and any applicable Double Taxation Agreement.

Frequently Asked Questions

Are dividends considered investment income?

Yes. **Section 7** of the Inland Revenue Act classifies dividends as investment income.

Who deducts the tax on dividends?

Where applicable, the **company paying the dividend** deducts **Advance Income Tax (AIT)** under **Section 84A** before paying the shareholder.

What is a final withholding payment?

A final withholding payment is a payment where the tax deducted at source generally satisfies the recipient's Income Tax liability in respect of that income.

For dividends paid by a **resident company**, this treatment is provided by **Section 88(1A)(aa)** of the Inland Revenue Act.

Do I still need to keep dividend records?

Yes. Keep dividend vouchers, AIT certificates (where applicable), and bank records as evidence of your dividend income.

Need Professional Advice?

Dividend taxation is straightforward in many cases, but your reporting obligations depend on your overall tax position and the current provisions of the Inland Revenue Act.

At **eFiling Tax Consultants**, we can help you:

- Determine the correct tax treatment of dividend income.
- Review Advance Income Tax (AIT) deductions.
- Advise whether you are required to file an Income Tax Return.
- Assist with foreign dividend income and Double Taxation Agreements.
- Ensure full compliance with the Inland Revenue Act and IRD requirements.

Contact us today for practical, reliable, and professional tax advice.

Relevant Provisions of the Inland Revenue Act

- **Section 2** – Imposition of Income Tax.
- **Section 3** – Taxable Income.
- **Section 4** – Assessable Income.
- **Section 7** – Investment Income (includes dividends).
- **Section 84A** – Advance Income Tax on dividends and certain other payments.
- **Section 88(1A)(aa)** – Dividends paid by a resident company on or after 1 January 2023 are treated as final withholding payments.
- **Section 88(2)** – Tax withheld from a final withholding payment satisfies the recipient's Income Tax liability in respect of that payment.

Disclaimer: This article is intended for general information only and is based on the Inland Revenue Act, No. 24 of 2017 (as amended). It does not constitute legal or tax advice. The tax treatment of dividend income depends on the facts of each case, the applicable legislation, and any subsequent amendments or guidance issued by the Inland Revenue Department.