

Penalties for Late Filing and Late Payment of Taxes in Sri Lanka: A Complete Guide

Meeting your tax obligations on time is one of the most important responsibilities of every taxpayer in Sri Lanka. Failing to file tax returns or pay taxes by the prescribed due dates can result in significant financial consequences, including penalties, interest, and legal recovery actions by the Inland Revenue Department (IRD).

The **Inland Revenue Act, No. 24 of 2017 (as amended)** contains comprehensive provisions that empower the Commissioner-General of Inland Revenue to impose penalties and recover unpaid taxes. Understanding these provisions can help taxpayers remain compliant and avoid unnecessary costs.

Penalty for Late Filing of Tax Returns – Section 178

Every taxpayer who is required to submit a tax return must do so on or before the statutory due date. Failure to file a return within the prescribed time attracts a penalty under **Section 178** of the Inland Revenue Act.

The law provides that a taxpayer who fails to file a return is liable to a penalty equal to the greater of:

- **5% of the tax payable**, plus **1% of the tax payable for each month or part of a month** during which the failure continues; or
- **LKR 50,000**, plus **LKR 10,000 for each month or part of a month** during which the failure continues.

The maximum penalty for a single return is **LKR 400,000**.

This means that even where no tax is ultimately payable, a taxpayer may still incur substantial penalties simply for failing to submit the return on time.

Example

Assume an individual is required to file an income tax return but submits it four months after the due date. If no tax is payable, the penalty would generally be calculated as follows:

- Initial penalty: **LKR 50,000**
- Additional penalty: $4 \times \text{LKR } 10,000 = \text{LKR } 40,000$

Total penalty: LKR 90,000

This example highlights the importance of filing tax returns even when no tax liability exists.

Penalty for Late Payment of Taxes – Section 179

Filing a tax return does not, by itself, satisfy a taxpayer's obligations. Taxes must also be paid by the prescribed due date.

Under **Section 179**, if tax remains unpaid **14 days after the due date**, a late payment penalty is imposed.

The penalty is:

- **20% of the unpaid tax** for taxes other than instalment payments; or
- **10% of the unpaid instalment** where an instalment payment remains unpaid for more than 14 days after its due date.

Where the Commissioner-General grants an extension of time to pay under **Section 151**, the penalty applies only after the extended payment period expires.

Example

A taxpayer has an income tax liability of **LKR 500,000** but fails to pay within 14 days after the due date.

The late payment penalty will be:

$$20\% \times \text{LKR } 500,000 = \text{LKR } 100,000$$

This penalty is imposed in addition to any interest payable under the Act.

Interest on Late Payment – Sections 156 to 159

Late payment of tax also attracts interest under the Inland Revenue Act.

Interest is calculated from the original due date until the outstanding tax is paid in full.

Unlike the late payment penalty, interest continues to accrue until settlement of the outstanding liability. Even if the Commissioner-General grants additional time to make payment, interest generally continues to run unless otherwise provided by law.

Consequently, delaying payment can substantially increase the total amount payable.

Notice of Demand – Section 152

Where tax remains unpaid, the Commissioner-General may issue a **Notice of Demand**.

A Notice of Demand generally specifies:

- the outstanding tax liability;
- penalties imposed;
- accrued interest;
- the relevant tax period; and
- the date by which payment must be made.

If payment is not made within **21 days** after service of the notice, the taxpayer is regarded as being in default, allowing the Inland Revenue Department to initiate recovery proceedings.

Receiving a Notice of Demand should therefore be treated as a serious legal notice requiring immediate attention.

Recovery Proceedings – Sections 160 to 175

If a taxpayer continues to default after a Notice of Demand has been issued, the Commissioner-General has extensive powers to recover the outstanding taxes.

These powers include:

- instituting legal proceedings;
- creating a statutory charge or lien over property;
- recovering funds directly from bank accounts;
- requiring third parties who owe money to the taxpayer to pay the IRD instead;
- seizing and selling movable or immovable property;
- setting off tax refunds against outstanding liabilities; and
- taking other enforcement measures permitted by law.

These recovery provisions are designed to ensure that outstanding tax debts are effectively collected while protecting government revenue.

Can Penalties Be Waived?

The Inland Revenue Act allows the Commissioner-General, in appropriate circumstances, to remit or waive penalties either wholly or partially.

Taxpayers seeking relief should submit a written request explaining the reasons for the delay together with supporting documents. Each application is considered based on its individual facts and circumstances.

However, taxpayers should not assume that penalties will automatically be waived. Maintaining timely compliance remains the best way to avoid additional costs.

Practical Tips to Avoid Penalties

Taxpayers can significantly reduce the risk of penalties by adopting good compliance practices, including:

- Filing all tax returns before the due date.
 - Paying taxes and quarterly instalments on time.
 - Maintaining proper accounting records and supporting documents.
 - Regularly reviewing tax obligations and statutory deadlines.
 - Responding promptly to notices issued by the Inland Revenue Department.
 - Seeking professional tax advice whenever uncertain about compliance requirements.
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Conclusion

Late filing and late payment of taxes can become expensive very quickly. In addition to statutory penalties, taxpayers may also be required to pay interest and could face formal recovery proceedings by the Inland Revenue Department.

Understanding the provisions of **Sections 152, 156–159, 160–175, 178, and 179** of the Inland Revenue Act enables taxpayers to appreciate the consequences of non-compliance and reinforces the importance of meeting all filing and payment deadlines.

Timely compliance not only avoids unnecessary penalties and interest but also helps maintain a good compliance history with the Inland Revenue Department.

Disclaimer

This article is intended for general informational purposes only and does not constitute legal or tax advice. The discussion is based on the **Inland Revenue Act, No. 24 of 2017 (as amended)**. Taxpayers should consult a qualified tax professional or refer to the latest legislation and official guidance issued by the Inland Revenue Department before making tax-related decisions.