

Statement of Alternative Treatment (SoAT) on Accounting for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022

Preface

The Government of Sri Lanka has issued Surcharge Tax Act No. 14 of 2022 which has a direct impact on the application of Sri Lanka Accounting Standards issued for the preparation of Financial Statements. According to Section 6 of the Surcharge Tax Act No. 14 of 2022, ***“Notwithstanding any provision to the contrary in any other written law, the tax levied under this Act shall be deemed to be an expenditure in the financial statement relating to the year of assessment commenced on April 1, 2020.”*** This provision would supersede any other written law.

Therefore, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) needs to direct the accounting treatment of the said provision since the said Act supersedes the Sri Lanka Accounting Standards issued under the Sri Lanka Accounting and Auditing Standards Act No 15 of 1995. Accordingly, CA Sri Lanka has decided to issue a Statement of Alternative Treatment (SoAT) on Accounting for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022 with the purpose of directing the companies/ individuals on how to present the Surcharge Tax that arose as a result of the said Act on the current financial statements.

This SoAT supersedes paragraph 46 of LKAS 12 *“Income Tax”*. Furthermore, this **SoAT must be applied** by all Companies who are liable to pay Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022 without any option.

Recommendation

In accommodating the legal requirement under the Surcharge Tax Act No. 14 of 2022, the preparers who are liable to pay surcharge tax under the said Act, shall account as follows;

There is no adjustment from the Surcharge Tax imposed under this Act in the financial statements for the period ending on or before 7th April 2022.

Since such expense is deemed to be an expenditure for the year of assessment which commenced on 1 April 2020, **it shall be recorded as an adjustment to the opening retained earnings reported in the Statement of Changes in Equity on the first day of the previous financial year (e.g. 1 January 2021 for a December year-end entity / 1 April 2021 for a March year-end entity) with necessary disclosures.**

However, if a Company is required to present the effects of retrospective application or retrospective restatement in accordance with LKAS 8 in the Statement of Changes in Equity in the current financial year, such company should record Surcharge Tax for the year 2020/ 2021 in accordance with Section 6 of the Surcharge Tax Act.

Example: Disclosure in the Financial Statements

Note xx: Basis of preparation of financial statements

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Further, the tax liability arising from the Surcharge Tax Act No: 14 of 2022 has been accounted as recommended by the Statement of Alternative Treatment (SoAT) issued by the Institute of Chartered Accountants of Sri Lanka as disclosed under the *note xx on Income Taxes*.

Note xx: Income Taxes

As per the Surcharge Tax Act No. 14 of 2022 which was certified on 8th April 2022, the Company is liable for the surcharge tax of Rs. xx million out of the taxable income of Rs. xxx million pertaining to the year of assessment 2020/21. According to the said Act, the surcharge tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment which commenced on 1 April 2020. Since the Act supersedes the requirements of the Sri Lanka Accounting Standards, the surcharge tax expense is accounted as recommended by the SoAT on Accounting for Surcharge Tax issued by the Institute of Chartered Accountants of Sri Lanka, in April 2022.

The impact of the surcharge tax under the Surcharge Tax Act on the comparative year would have been as given below:

| | |
|--|------|
| Profit after Tax for 31/3/2021 | XXXX |
| Surcharge tax levied under Surcharge Act | (XX) |
| Comparable Profit for the year 2020/2021 | XXXX |

**Note: This Reconciliation is not required if a Company presents the effects of retrospective application or retrospective restatement in accordance with LKAS 8 in the Statement of Changes in Equity in the current financial year.*