

## Capital Gains Tax

It has been proposed to reintroduce tax on capital gains. Tax on capital gains from sale of shares quoted in the Colombo stock exchange was abolished in 1987 and tax on capital gains arising on other assets were abolished in 2002.

The methodology of taxation of capital gains and the rates of tax under such proposal are yet to be announced.

*Capital gain was defined in the past to mean the profits or income arising from any of the following:*

- a) The change of ownership of any property occurring in any manner whatsoever (sale, exchange, transfer, realization, etc. of movable or immovable property)*
- b) The surrender or relinquishment of any right in any property (not include the right of ownership of a property, but include annuities, leases, mortgages etc.)*
- c) The transfer of some of the rights in any property (It is possible that only some rights are surrendered keeping other rights)*
- d) The redemption of any share, debenture or other obligation*

- e) The formation of a company (the profits of the person promoting a company will be treated as capital gains)*
- f) The dissolution of a business or the liquidation of a company (applicable to the shareholders and not to the company)*
- g) The amalgamation or merger of two or more businesses or companies*
- h) Any transaction in connection with the promotion of which any person who is not a party to such transaction receives a commission or reward.*

*However, any profits or income falling under any other sources enumerated under section 3 of the Inland Revenue Act, in particular, (i) trade, business, profession or vocation, (ii) rents, royalties or premiums, (iii) income from any other source not including profits of a casual and non-recurring nature, do not fall within the meaning of capital gain.*

*Capital gains are calculated on the basis of realized increases in value at the time the gain is in fact realized. Therefore, capital gains do not accrue but arise on a particular date i.e., the date of realization. As the actual gain accruing over the whole period of ownership is taxed as income of one year, relief has been provided by fixing a lower maximum rate.*