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PART I : SECTION (I) — GENERAL

Government Notifications

THE INLAND REVENUE ACT, No. 38 OF 2000

Notice

IT is hereby notified under Section 92 (1) (b) of the Inland Revenue Act, No. 38 of 2000, that the Additional Agreement entered into on 16th October 2000 between the Government of the Socialist Republic of Sri Lanka and the Government of the Republic of Finland, extending the scope of paragraph 03 of Article 11 of the Convention between the Government of the Democratic Socialist Republic of Sri Lanka and the Government of the Republic of Finland, for the avoidance of Double Taxation and for the prevention of fiscal evasion with respect to taxes on income signed on 18th May 1982 as set out in the Schedule hereto, has been approved by Parliament by resolution passed on 24th July 2003.

P. B. JAYASUNDARA,
Secretary,
Ministry of Finance.

Ministry of Finance,
Colombo 01,
17th June 2004.

SCHEDULE

THE ADDITIONAL AGREEMENT TO THE CONVENTION BETWEEN THE GOVERNMENT OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA AND GOVERNMENT OF THE REPUBLIC OF FINLAND

FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON
INCOME AND ON CAPITAL

Embassy of Finland
No. 464
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Ministry of Foreign Affairs,
Republic Building,
Colombo,
Sri Lanka.

The Embassy of the Republic of Finland presents its compliments to the Ministry of Foreign Affairs of the Democratic Socialist Republic of Sri Lanka and has the honour to refer to the Convention between the Government of the Republic of Finland and the Government of the Democratic Socialist Republic of Sri Lanka for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital, signed at Helsinki on 18 May, 1982, (hereinafter referred to as "the Convention") and to propose the following which shall form an additional agreement to the Convention :

1. In addition to the provisions of sub-paragraph (d) of paragraph 3 of the Article 11 of the Convention, the provisions of the present paragraph and paragraphs 2 to 4 below shall apply to interest arising in Sri Lanka and derived by a resident of Finland, where the credit in respect of which the interest is paid is a loan or credit supported by the Government of Finland the terms and conditions of which are determined according to the OECD arrangement on Guidelines for Officially Supported Export Credits or any other government supported loan or credit which is governed by internationally accepted guidelines for officially supported credits.

2. Any term defined in the Convention shall have the same meaning for the purposes of this additional agreement as it has under the Convention. As regards the application of the additional agreement by a Contracting Party any term not defined therein shall, unless the competent authorities of the Contracting States agree to a common meaning, have the meaning which it has under the laws of Sri Lanka concerning the taxes to which the additional agreement applies.

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3. This additional agreement shall apply to those Sri Lanka taxes that are covered by the Convention, Interest referred to in paragraph 1 shall be exempt from the taxes referred to in the preceding sentence.

4. If the foregoing is acceptable to the Democratic Socialist Republic of Sri Lanka, the Embassy has the honour further to propose that this Note and the Ministry's affirmative reply shall constitute an additional agreement as provided above. The additional agreement shall enter into force 30 days after the date on which the Contracting Parties have notified each other that the constitutional requirements for the entry into force of the additional agreement have been complied with, and the provisions of the additional agreement shall thereupon have effect in Sri Lanka with regard to taxes on interest, where the credit documents relating to the relevant credit have been approved by the creditor and the debtor on or after the date of the entry into force of the additional agreement.

The Embassy of the Republic of Finland avails itself of this opportunity to renew to the Ministry of Foreign Affairs of the Democratic Socialist Republic of Sri Lanka the assurances of its highest consideration.

Embassy of Finland,
New Delhi.

03rd July 2000.

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Ref. No. L/EA/TAX/18

The Embassy of the Republic of Finland,
New Delhi.

The Ministry of Foreign Affairs of the Democratic Socialist Republic of Sri Lanka presents its compliments to the Embassy of the Republic of Finland in New Delhi and has the honour to refer to the Agreement on the Avoidance of Double Taxation between Sri Lanka and the Republic of Finland and to the latter's Note No. 764 dated 03rd July 2000.

The Ministry is pleased to inform the Embassy that the proposals contained in the said Note No. 764 of 03rd July 2000 are acceptable to the Sri Lankan Authorities and accordingly, the aforementioned Note of Embassy and this Note in reply shall constitute an additional Agreement between Sri Lanka and Finland. The Ministry further wishes to inform the Embassy that notification of the completion of the constitutional requirements for the entry into force of this additional Agreement will follow, upon the completion of the necessary internal procedures by the relevant authorities in Sri Lanka.

The Ministry of Foreign Affairs of the Democratic Socialist Republic of Sri Lanka avails itself of this opportunity to renew to the Embassy of the Republic of Finland in New Delhi the assurances of its highest consideration.

Ministry of Foreign Affairs,
Democratic Socialist Republic of Sri Lanka.

Colombo,
16th October 2000.

The Article 11 of the Convention between the Government of the Democratic Socialist Republic of Sri Lanka and the Government of the Republic of Finland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to taxes on income and on Capital

Article 11

Interests

1. Interest arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.
2. However, such interest may also be taxed in the Contracting State in which it arises and according to the laws of that State, but if the recipient is the beneficial owner of the interest the tax so charged shall not exceed 10 per cent of the gross amount of the interest. The competent authorities of the Contracting States shall by mutual agreement settle the mode of application of this limitation.
3. Notwithstanding the provisions of paragraph 2 of this Article, interest arising in a Contracting State shall be exempt from tax in that State if :
 - (a) the payer of the interest is that Contracting State or a local authority thereof ; or
 - (b) the interest is paid to the other Contracting State or a local authority thereof or any agency or instrumentality (including a financial institution) wholly owned by that or the Contracting State or local authority thereof ; or
 - (c) the interest is paid to the Bank of Finland or to the Central Bank of Ceylon ; or
 - (d) the interest is paid to the Finnish Export Credit Limited or any similar organisation in Sri Lanka.
4. The term "interest" as used in this Article means income from debt-claims of every kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures, including premiums and prizes attaching to such securities, bonds or debentures. Penalty charges for late payment shall not be regarded as interest for the purpose of this Article.
5. The provisions of paragraphs 1, 2 and 3 of this Article shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on business in the other Contracting State in which the interest arises through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment or fixed base. In such case, the provisions of Article 7 or Article 14, as the case may be, shall apply.
6. Interest shall be deemed to arise in a Contracting State when the payer is that State itself, a statutory body, a local authority or a resident of that State. Where, however, the person paying the interest, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by permanent establishment or fixed base, then such interest shall be deemed to arise in the Contracting State in which the permanent establishment or fixed base is situated.
7. Where by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the interest, having regard to the debt-claim for which it is paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the law of each Contracting State, due regard being had to the other provisions of this Convention.