

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

Preface

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has decided to issue an addendum to the *Statement of Alternative Treatment (SoAT) on Accounting for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022*, issued on 22nd April 2022, in order to provide additional clarifications on accounting and the presentation of the surcharge tax and to permit a practical expedient to comply with the requirements of the said Act.

The SoAT on Accounting for Surcharge Tax, together with this addendum supersedes paragraph 46 of LKAS 12 “*Income Tax*”. Furthermore, the SoAT and this Addendum shall be applied by Companies who are liable to pay Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022.

Requirement

In accommodating the legal requirement under the Surcharge Tax Act No. 14 of 2022, which can be considered a statutory override, the preparers who are liable to pay surcharge tax under the said Act, shall account for the said surcharge tax as follows;

The Surcharge Tax liability be recognized as on 7th April 2022 and record the corresponding expenditure as an adjustment to the opening retained earnings in the Statement of Changes in Equity in the first day of the financial year, which includes 7th April 2022, with necessary disclosures. (Eg: For 1st January 2022 for a December year-end entity / 1st April 2022 for a March year-end entity/ 1st July 2021, for a June year-end entity)

No further retrospective or prospective adjustments shall be required for presentation purposes or otherwise in this regard.

Basis of Conclusion

Section 6 of the Surcharge Tax Act No. 14 of 2022 states that, “*Notwithstanding any provision to the contrary in any other written law*, and this provision was caused to supersede the Sri Lanka Accounting Standards issued under the Sri Lanka Accounting and Auditing Standards Act No 15 of 1995.

Since the Surcharge Tax, under the Surcharge Tax Act No. 14 of 2022, is deemed to be an expenditure for the year of assessment which commenced on 1 April 2020, it shall not be recognized as an expense in the current period.

This above circumstances give rise to a contradiction between the timing of recognition of the expense and the corresponding liability due to the statutory requirement of the said Act.

Hence, this Addendum recommends to recognize Surcharge Tax through the Statement of Changes in Equity as an equity adjustment on the first day of the first reporting period ending after enactment of the said Act.

Illustration

ABC Company PLC

Statement of Changes in Equity as at the Beginning of the Financial Year (Rs. Million)

	Retained Earnings
Balance As at 1 st January 2022/ 1 st April 2022/ 1 st July 2021	xxxx
Adjustment for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022	(xx)
Adjusted Balance as at 1st January 2022/ 1st April 2022/ 1st July 2021	xxx