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IRD is paying close attention to High Wealth Individuals

The Inland Revenue Department (IRD) will be paying closer attention to the tax compliance of highly wealthy individuals in the country as a part of the IRD's efforts to restore fairness and confidence in Sri Lanka's tax administration by ensuring that the wealthy contribute their fair share and pay the right amount of taxes. For this purpose, a High Wealth Individuals Unit (HWIU) has been established at the IRD, which is located in the Large Taxpayer Office. Accordingly, the HWIU has received additional resources to focus on high-income and high-wealth individuals.

As a first measure, the HWIU will be contacting a select number of wealthy individuals and will work with them and their advisors to ensure that they are up to date with their filings of Tax Returns. IRD will also help them identify and avoid mistakes or omissions early in the filing process. The HWIU will be conducting additional risk assessments and profiling of wealthy taxpayers to conduct audits on cases that have the highest risks.

At the same time, the IRD is enhancing its collaboration with both domestic and international organizations to access information that will help the HWIU to identify potential tax non-compliance. The IRD will also be working closely with Banks, the Financial Intelligence Unit (FIU) and other tax administrations through its extensive Treaty network with 45 countries. This collaboration will help the HWIU to identify banking records and assets of wealthy individuals that may not have been disclosed.

The IRD is committed to monitoring the tax compliance of wealthy individuals and their related groups. By enhancing the focus and engaging with them, the IRD can be confident that wealthy individuals are duly paying their right amount of taxes. Through this engagement approach, we hope to enhance their willingness to participate and contribute to the government's revenue collection efforts to overcome the critical socio-economic issues confronted by the country.



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Qs & As:

1- **How many resources are dedicated to HWIs?**

- a. There are currently 10 people dedicated to the HWI unit. The team is comprised of professionals with experience in audit, law, large taxpayer audits and statistics.

2- **How do you define a HWI?**

- a. Currently there is no set definition for a HWI. This definition tends to vary across tax administrations. As the HWI unit gains a better understanding of the income, assets, and planning strategies of the wealthy taxpayer segment, a set threshold will be identified. For now, the HWI unit is looking at taxpayers with the highest reported income from various streams and is also reviewing other sources of data, including third party data (real estate, FIU data, bank account details and information from treaty partners) to identify assets and other income sources to identify all potential HWIs.

3- **How many HWIs are there?**

- a. The HWI unit will identify an initial group of 100 HWIs to conduct a more thorough review of their income, assets and filing history. As this work progresses other individuals will be added to the group for review and ongoing monitoring.

4- **What do you mean by related groups?**

- a. We mean any related entity such as a corporation or private trust or company that the HWI controls. We will also be reviewing the tax filings of family members such as spouses and children.

5- **What do you mean by cases that have higher risk?**

- a. There are different factors that may contribute to higher risks for tax noncompliance such as complex arrangements including offshore investment structures or discrepancies between what is reported and what IRD has identified as income or assets. Files where higher risks are identified will be the subject of closer scrutiny and appropriate compliance actions.

6- **Why is this a new program or focus? Have you not been focusing on HWIs as you do other taxpayer segments? How is this program any different?**

- a. Although there was previously a HWI unit in IRD, the workload of this unit was not strictly focused on wealthy individuals and a HWI compliance approach had not been developed. The new HWI unit has 10 dedicated resources that will focus solely on wealthy individuals to ensure they are complying with their reporting obligations. The resources have expertise in tax, law, statistics and with large taxpayers so they will have the required expertise to deal with the HWI segment. Experience from other tax

administrations has shown that focusing on the HWI segment has a direct positive impact of their tax compliance so the IRD wants to pay close attention to this group to help them comply and pay the correct amount of taxes.

- 7- Do you feel that 10 people will be enough considering the number of HWIs?**
 - a. It is not unusual for HWI programs to start with smaller teams early in the development of their HWI compliance strategy. We feel this number will enable us to engage positively with the initial HWI taxpayer segment and their advisors and to begin with a collaborative approach to ensure they are compliant. The results from other tax administrations indicates that the HWI programs tend to grow based on the results that show a need to monitor this group because of the large tax impact they have on the tax base.

- 8- How much more taxes do you expect to assess from this segment?**
 - a. It is too early to discuss results but based on the experience of other tax administrations we expect to increase tax compliance significantly from this segment through our collaborative approach and through comprehensive audits. Tax gap analysis from other countries indicates that there is substantial tax leakage from this segment. We will be establishing clear key performance indicators and will be reporting on our results on an annual basis.

- 9- How will you be dealing with HWIs to ensure they pay their taxes?**
 - a. Experts in HWI unit will regularly review and assess information on the assets and income of a HWIs to ensure that their filings are up to date and that they have reported all their income and assets and paid the correct amount of taxes. This process will help identify individuals who may not be filing their taxes correctly so the HWI unit will assist the HWIs to make sure that the correct amount of taxes is filed and paid. The HWI unit will initiate audits and other investigations where they identify higher risks of tax noncompliance.

- 10- How can you know if they have money hidden offshore?**
 - a. We will be enhancing our collaboration with Banks, the Financial Intelligence Unit as well as our treaty partners. Through this collaboration we will be able to identify international transactions and bank accounts including potential offshore assets. We will also be accessing information from a growing number of beneficial ownerships registries and corporate registries from other countries.

- 11- Are wealthy people going to get special treatment by IRD through this program?**
 - a. The focus will be on reviewing the filings of wealthy people to make sure they are filing on time and accurately. The HWI unit will be sending out questionnaires to HWIs to clarify information reported on their returns and to obtain additional information on their assets both domestically and in other

countries. The HWI unit will assign a contact person for the HWI and their advisor to facilitate meetings and to help identify potential discrepancies or errors early in the filing process. This will provide an opportunity for the HWI to discuss complex tax situations and to provide guidance on the proper tax treatment of proposed arrangements. The increased attention on the HWI segment is to ensure they are compliant with their tax reporting and filing obligations, so they pay their fair share of taxes.

12- HWIs are often very influential people with political connections so how can you ensure they won't use their influence to pay less than what they should?

- a. The IRD has established a rigorous governance process for the HWI files including establishing an advisory committee comprised of senior members of IRD as well as a senior member from the Department of the Attorney General to provide advice on the audit process and decisions for HWI files.