



5%

Expected economic growth in 2025.

13.9%

Estimated total tax revenue to GDP in 2025.



15%

Estimated total revenue to GDP in 2025.





19 Bn

Projected revenue from export of goods and services in 2025.

4%

Allocation of 4% of GDP for capital expenditure.



2.3%

Estimated Primary Surplus to GDP for 2025.

Estimated Budget deficit of 6.7% to GDP for 2025.



- ⌘ **Budget Vision** : Ensure economic rights and well-being of the people. The budget has been developed with a focused sense of fiscal discipline, economic vision and guidance.
- ⌘ **Subsidy for Senior citizens (above 60 years of age)** - Interest subsidy of additional interest of 3% to be provided in July 2025 (Estimated expenditure Rs 15 bn).
- ⌘ **Free Trade agreement (FTAs) and Double Tax Avoidance Agreement (DTA's)** - FTA network will be expanded and DTA will also be expanded with priority given to countries with high trade and investment potential.
- ⌘ **Imputed Rental Income Tax (IRIT)** - Government has decided not to pursue this revenue proposal although it was part of the IMF proposal as an alternative to Property Tax in the short term.

⌘ Promoting SME Sector and Entrepreneurship –

- Government is working towards setting up a Development Bank.
- A stimulating loan scheme to re-energize the development SME Sector.

⌘ Promoting Commercializable R & D Activity –

- Co – financing for specific R&D projects, while efforts will be made to enhance coordination between public research institutions, universities, and Sri Lankans working in related fields abroad.
- Rs. 1 Bn has been allocated for Innovation Invention Fund to promote commercialization of research findings.

⌘ **Legal Reforms** – To establish robust systems that promote rapid economic growth, good governance, and effective public service delivery.

- Introduction of new enactments such as;
 - An Act to enable Exchange of Information between State Institutions, Investment Protection Act, State Business Enterprises Management Act, Public – Private Partnership Investment Management Act, Statistics Act, Valuation Act, Public Asset Management Act, Public Procurement Law and Micro Finance and Credit Regulatory Authority Act.
- Strengthening of Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Framework.
- Amendment to Paddy Marketing Board Act No 14 of 1971.

⌘ Reforms to Customs -

- A New Customs Law to be introduced.
- A simplified Tariff structure to be established to create a simple, transparent and predictable Tariff framework to increase the accessibility to high quality raw materials.

⌘ The Economic Transformation Act to be amended to suit the emerging developments.

⌘ Promotion of digitalization and digital economy -

- Sri Lanka Unique Digital Identification (SL-UDI) for all citizens will be introduced.
- Government intends to grow Sri Lanka's Digital economy in excess of USD 15 Bn or 12% of the national economy over the next 5 years.
- Digital Economy will be governed and protected through the creation of new legislations and by strengthening the existing legislations. An Apex Digital Economy Authority to be established.

⌘ Revision to Salary Structure of Government Sector Employees -

- Basic salary for employees of Public Sectors, Universities and other SOE's to be increased by Rs 15,750 (maximum of 65% increase).
- Minimum annual increment revised to Rs 450 from Rs 250 w.e.f. 01 April 2025. All Government Sector employees' annual salary increments would be similar.
- Withdrawal of specified Public Administration circulars on Monthly interim allowance and monthly allowance.
- Further revisions on allowance and overtime regulations have been proposed.

Tax proposals

Revenue Proposals

As per the Budget Speech 2025, the total estimated Tax Revenue is Rs.4,590 Bn, which consists of Revenue from Income Tax Rs 1,167 Bn, Taxes on Goods and Services Rs 2,772 Bn and Taxes on External Trade Rs 651 Bn. The total revenue expectation for the year 2025 is Rs. 4,990 Bn (this includes tax revenue, non-tax revenue and grants) and is an increase of 22% from 2024. The following is a synopsis of tax proposals that would contribute to the tax revenue.

1 CGT Rate Increased

The Capital Gains Tax (CGT) rate applicable for individuals and partnerships will be increased to 15%. The CGT rate applicable for all other entities will be raised to 30% in par with the corporate capital gains tax rate.

The CGT collection in 2023 was Rs 5,315 Mn. The increase in the CGT rate should contribute to an enhanced tax revenue.

2 Service Exporters' Exemption

- The exemption on gains and profits from services provided to a person outside Sri Lanka where foreign currency is remitted through a bank in Sri Lanka, is removed with effect from 01 April 2025.
- Clarity is required if the exemption removal effects both corporate and individuals.

Currently, to claim the exemption, a taxpayer is required to remit money to Sri Lanka. However, removing this exemption may encourage the taxpayers to retain the funds outside the country.

3 CIT Rate of 15%

- While the aforementioned exemption is removed, service exporters to be taxed at a concessionary rate of 15% w.e.f. 01 April 2025.

This proposal is estimated to contribute 0.04% of the GDP as per the IMF second review report.

There remains an ambiguity on the removal of exemption for individuals.

Revenue Proposals

4 VAT 18% on Digital Services

- Provisions will be introduced permitting the issuance of regulations prescribing the manner of registration, charging, collection, filing return, etc. relating to the imposition of VAT on the services provided through digital platforms.

The Budget speech does not indicate the quantum of revenue expected from this proposal or the effective date of the proposal.

5 VAT - Use of POS machines

- Use of Point of Sale (POS) Machines by the VAT registered persons will be made mandatory.

Use of POS machines for VAT purposes was included in the previous Budget Speech of 2024, however it was not implemented. The proposal this year has made the use of POS machines mandatory.

6 Abolishing of S VAT

- The SVAT scheme will be abolished and replaced by a Risk Based Refund Scheme.
- To ensure the smooth operation of the new system, a pilot project will be implemented, to issue refunds through RAMIS, subject to the conditions specified in the Risk Based Refund Scheme as may be specified by the CGIR, by an Order published in the Gazette.

This proposal may improve the CGIR's cashflow in the short term. The proposal does not state the effective date of the abolition of SVAT.

Tax proposals

Revenue Proposals

7 Betting & Gaming Levy

- The Gross Collection Levy will be increased to 18% from 15%.
- Casino Entrance Levy will be increased from USD 50 to USD 100.

The revenue from Betting and Gaming Levy in 2023 was Rs 7.4 Bn. The rate increase should contribute to enhanced revenue (the quantum of revenue collection is not specified in the Budget Speech)

8 Stamp Duty on Leases

- Stamp Duty applicable on any instrument relating to the lease or hire of any property will be increased from 1% to 2% of the aggregate lease or hire including any premium, payable for the whole term comprised in the lease or hire Agreement. (other than a hire purchase agreement).

This proposal will be effective from 01 March 2025.

9 Tax Appeals Commission (TAC) Act

- Revision of fees paid to TAC
 - The fee levied to state a case for the opinion of the Court of Appeal - Rs.10,000/-.
 - To make an Appeal to TAC - Rs.15,000/-.
- It is mandatory to transfer the bank guarantee to the CGIR irrespective of the Appellant's decision to Appeal to the Court of Appeal.
- 25% Cash deposit is required for making an Appeal to TAC.
- Further administrative provisions are to be introduced in relation to TAC.

The Tax Appeals Commission Act No 23 of 2011 is subject to amendments as per the Budget Technical Notes. The proposals seems to be more stringent towards taxpayers (the Appellant) .

Tax proposals

Revenue Proposals

10 CIT Rate Revised from 40% to 45%

- The CIT rate applicable for companies with business income consisting of betting and gaming, liquor & tobacco will be 45% w.e.f. 01 April 2025 while the current rate is 40%.

The CIT rate of 40% was introduced in April 2011 and was not revised for a period of 14 years till now. The revised rate is expected to be effective from 01 April 2025

11 Personal Income Tax Relief

- The personal relief threshold increased to Rs 1.8 Mn p.a. from Rs 1.2 Mn
- The first tax slab will be Rs 1 Mn and will be taxed at 6%. The next slabs will be Rs 500,000 each and taxed at 18%, 24% & 30%, respectively. Any amount exceeding Rs 4.3 Mn will be taxed at 36%.

This proposal aims to provide a benefit to all in different proportion. A person earning Rs 200,000 p.m. will experience a tax saving of Rs 7,500 (71% tax saving). A person earning Rs 1 Mn p.m. will experience a tax saving of Rs 20,500 (7.16% tax saving).

12 AIT on interest

- The AIT rate is increased from 5% to 10%.
- Direction mechanism to be introduced to prevent income below the personal relief being subject to tax at source.
- Currently, the AIT on Interest is not a final tax. No changes to this status has been proposed.

The AIT rate revision was not explicitly mentioned in the Budget Speech, but stemming from the President's pronouncement in the Parliament on 18 December 2024. This proposal allows the CGIR to collect taxes conveniently at source rather than awaiting the quarterly instalment payments. For the taxpayer, this revision will affect the cashflow position since tax is deducted at source.

Tax proposals

Import Taxes on MV

Following the pronouncement on 18 December 2024 by the Hon. President the restrictions placed on the importations of MV was removed. The Importation of the MV was temporarily suspended from May 2020. The Government of Sri Lanka is expected to achieve a bulk of the revenue from the liberalization of the vehicle importation.

1 Excise Duty (Special Provisions) on MV

- The Excise Duty Gazette Notification No 2418/43 dated 10 January 2025 increased the Excise Duty rate by 5.9% (as inflationary adjustment) for all vehicles.
- The Gazette Notification No 2421/42 dated 31 January 2025 was issued imposing further Excise duty on Electric vehicles (the excise duty rate was doubled) and this was effective from 01 February 2025.

2 Customs Duty & Surcharge

- The Exemption for Customs duty on motor vehicle which was effective from 2014 has been removed with effective from 28 January 2025 and the Customs Duty rate is 20%.
- Surcharge of 50% of the Customs Duty on MV applicable "(i.e. 10%) will be charged from 01 February 2025 on the importation of MV.

3 Luxury Tax

Luxury Tax rates remain the same as previously (60%, 80%, 90% ,100%,120%), however the tax-free thresholds were increased by Rs. 1.5 Mn. The applicable tax is published via the Gazette Notification 2421/41 dated 31 January 2025.

Tax proposals

Import Taxes on MV

4 VAT

The VAT exemption which was implemented from 2014 was removed w.e.f. 01 January 2024. Hence currently the importation of MV will be liable to VAT at 18%.

5 SSCL and PAL

Currently the importation of MV is exempted from SSCL and PAL.



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