



Tax Flash News

Strategic Development Projects (Amendment) Act No 26 of 2025

KPMG in Sri Lanka

January 2026

Strategic Development Projects (Amendment) Act 26 of 2025

The Strategic Development Projects (Amendment) Act, No. 26 of 2025 has been certified by the Speaker on 17 December 2025 and published as a Supplement to Part II of the Gazette of the Democratic Socialist Republic of Sri Lanka on 26 December 2025, giving effect to the proposals announced in the 2026 Budget Speech by His Excellency the President .

The amendments introduced under this Act underscore the Government's commitment to rationalizing investment incentives, strengthening governance frameworks, and ensuring that tax concessions are strategically aligned with national economic priorities and sustainable revenue objectives.

The Effective date of the Amendment Act is 17 December 2025



Key Highlights of the Amending Act:

1 Tax Holiday

- The maximum tax holiday period is reduced from 25 years to 10 years.
- Tax holiday begins on the certified date of commercial operations and no extensions would be allowed under any circumstances

2 Transitional Provision

- Any tax holiday, exemption, concession, or other benefit that was lawfully granted to an SDP before the commencement of this Amendment Act (i.e prior to 17th December 2025) will remain valid for the originally specified duration, provided the project continues to comply with all applicable terms and conditions.



3 Revised Identification Procedure for Strategic Development Projects (SDP)

Board of Investment of Sri Lanka (BOI) identifies proposed project as SDP based on prescribed criteria



BOI refers the project to Ministry of Finance for ex-ante cost-benefit analysis



Ministry of Finance conducts analysis with BOI's technical input and submits recommendation within one month



BOI reviews recommendation and grants tax holiday and exemptions if criteria are met.



BOI communicates the decision to the Minister



Minister, with Cabinet concurrence, publishes Gazette specifying project details and exemptions



Gazette is placed before Parliament for information

4 Ex-Post Monitoring of the SDPs and Sanctions for Non-Compliance



Conduct Ex-post monitoring.

The BOI shall periodically conduct ex-post monitoring of SDPs



Submit monitoring report.

BOI must submit a monitoring report to the Ministry of Finance.



Publish report.

The Ministry of Finance must publish the report on its official website, disclosing project outcomes and fiscal impacts.

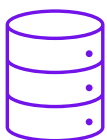


Issue notice of non-compliance

If an SDP fails to meet approved Key Performance Indicators (KPIs), BOI must issue a notice of non-compliance to project entity, detailing :

- The nature of the non-compliance
- A specified timeframe for corrective action

If the project fails to correct issues within the given timeframe, BOI (in consultation with the Ministry of Finance) may:



Restrict, suspend, or revoke any exemptions, or tax holidays



Impose administrative penalties to recover any fiscal losses

5 Procedure to be followed Prior to Imposing Sanctions

Issue a written notice

Before taking any sanctioning action, BOI must issue a written notice to the SDP Entity stating the grounds for the proposed action.



Require entity to show cause within 01 month

The notice must require the entity to show cause within 01 month why the proposed sanctions should not be imposed.



Give reasonable opportunity to be heard

The entity must be given a reasonable opportunity to be heard, either in person or through an Authorized Representative.



After considering the entity's representations, BOI may

Restrict, suspend, or revoke any exemptions, concessions, or tax holidays.

Impose administrative penalties to recover any fiscal loss.

Record decision in writing

Mandatory Tax Compliance

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SDP Entities with effect from 17 December 2025 must:

- File tax returns under the Inland Revenue Act, No. 24 of 2017.
- Pay income tax on withholding payments.
- Ensure employment income of all employees both residents and non-residents are taxed.

Issuance of the Expenditure Statement and Review Mechanisms

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- The Ministry of Finance must publish an annual report on tax expenditures related to all SDPs. This report must be made available on the Ministry's official website for public access.
- After 05 years from the commencement of this section (i.e. 05 years from 17 December 2025), the Ministry of Finance, in consultation with the BOI, may review the relevance and efficiency of the exemptions, concessions, or tax holidays granted under the SDP Act.

Power to make Regulations by the Minister

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- The Minister may make regulations for matters authorized or required under the SDP Act.
- All regulations must be published in the Gazette and will come into effect on the date of publication or a later specified date.
- Within 03 months of Gazette publication, the regulation must be presented to Parliament for approval. If not approved, the regulation is rescinded from the date of disapproval, but actions already taken under it remain valid.
- A Gazette notification must be issued to declare the date of disapproval.



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