



Tax Flash News!

A Bill to Amend the Colombo Port City Economic Commission Act

KPMG in Sri Lanka

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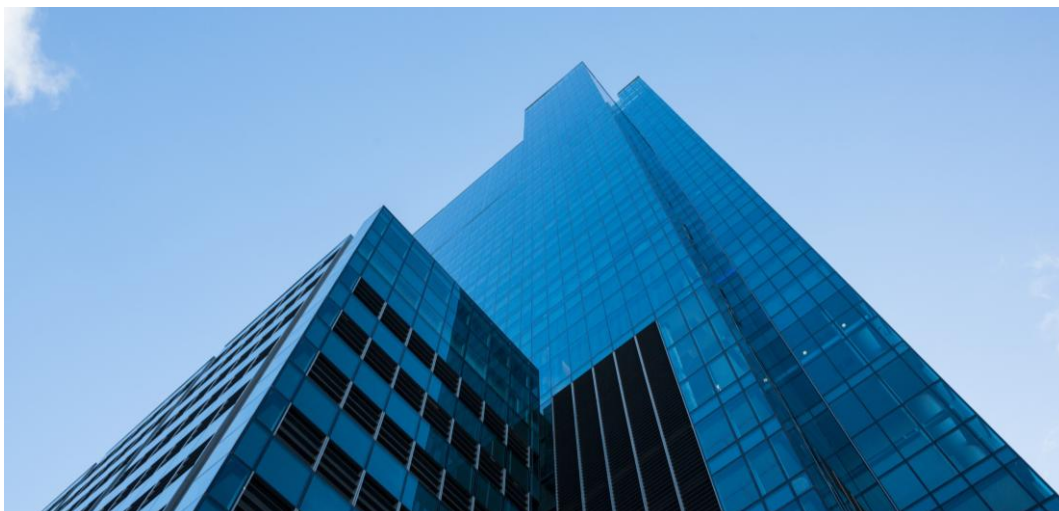
A Bill to Amend the Colombo Port City Economic Commission Act

In line with the policy statement delivered by His Excellency the President during the 2026 Budget, aimed at establishing a transparent framework for granting tax exemptions, a Bill to amend the Colombo Port City Economic Commission Act, No. 11 of 2021 (CPCEC Act), was published in the Government Gazette on 28 November 2025. The content of the Bill would obtain legal enforceability only after following the constitutional process pertaining to the enactment of a Statute.

The proposed amendments introduce significant changes to the existing regime, focusing on:

- Restricting the tax incentives and exemptions, including employment income tax relief
- Enhanced regulatory oversight and compliance obligations for strategic businesses
- New provisions governing offshore banking operations

These changes are intended to strengthen transparency, align with national economic objectives, and provide clarity on incentive structures within the Colombo Port City.



Key changes of the Bill are set out below:

1. Tax on Employment Income

The Bill seeks to terminate the exemption from income tax granted in respect of the employment income of an employee of the Authorized Person while transitional exemption is provided for entities already registered/licensed under the CPCEC Act.

Accordingly, the exemption/ concession will apply as follows :

- **Transitional Exemption:** Employees of entities registered/licensed prior to the commencement of the Amending Act will enjoy a 3-year income tax exemption on employment income from the month after commencement of the Act.
- **New Registrants:** Employees of entities registered/licensed post commencement of the Amending Act will be subject to standard income tax rate under the Inland Revenue Act, No. 24 of 2017 and amendments thereto.

2. No fees charged

No fees (including land use fees) would apply until licenses and registration certificates are issued, other than the non-refundable processing fees along with the application.



Key changes of the Bill are set out below:

3. Businesses of Strategic Importance (BSI)

The Bill provides for amendments to make provision to prescribe the criteria for the identification of BSI. These amendments include :

Technical Analysis by the Ministry of Finance	Granting tax-related exemptions to BSI requires a technical analysis by the Ministry of Finance, with input from the Commission. Additionally, the Commission is responsible for monitoring the ongoing performance of these businesses against specified targets
Regulations may prescribe	<ul style="list-style-type: none"> • Minimum investment levels • Job creation requirements, and • Applicable exemptions/incentives and period of validity
5-year review	The Ministry of Finance, in consultation with the Commission, will review these exemptions and incentives every 05 years.
Tax expenditure	The Ministry of Finance must publish an annual report on tax expenditures for all BSI's under this Act on its official website for each financial year.
Review of tax holiday	The Ministry of Finance, in consultation with the Commission, may review the tax holiday period & the applicable exemptions and incentives for BSI under this Act after the completion of 05 years.
Mandatory Tax Filings	All Authorized Persons must file tax returns in accordance with the Inland Revenue Act, No. 24 of 2017, and amendments thereto.

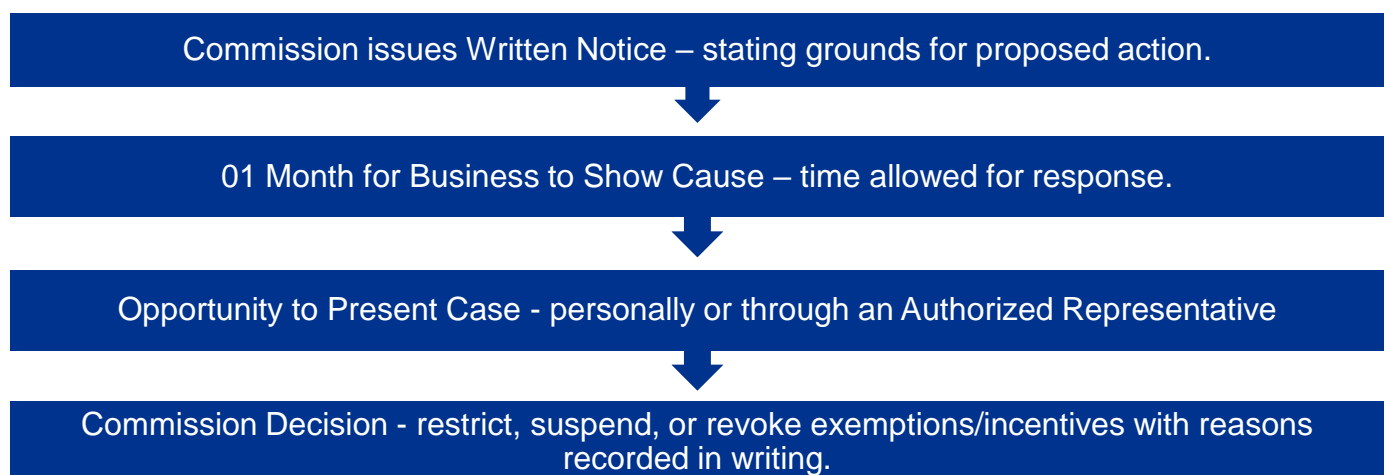
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4. Ex-post monitoring of BSI

The Bill seeks to introduce certain amendments to make provision for the evaluation of the performance of the BSI. These include :

- **Periodic review:** The Commission will periodically assess actual performance against approved KPIs for Strategic Businesses. Results of such performance, including fiscal effects, must be published on the Commission's official website. If a Strategic Business fails to meet KPI targets, the Commission will issue a notice.
- **Repercussions if no action:** If no corrective action is taken within the specified timeframe, the Commission may restrict, suspend, or revoke exemptions or incentives granted to the business. Additionally, administrative penalties may be imposed to recoup any losses incurred.

5. Procedural Safeguards Before Enforcement



Key changes of the Bill are set out below:

6. Offshore Banking Regulation

The Bill provides guidance that the Offshore banking licenses will now be governed under the CPCEC Act, restricting eligibility to foreign-incorporated entities. Amendments have been proposed to make provision for the Central Bank of Sri Lanka (CBSL) to carry out regulations and supervision of authorized persons licensed to carry on offshore banking business in accordance with international standards on (but not limited to) capital adequacy, liquidity, risk management, disclosures, and audits.

For more details contact:
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