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KPMG 2027 Budget Analysis

KPMG Budget Highlights



Momentum for Transformative Growth

Key Objectives of the Budget



01 Eradicating poverty

02 Building a just society

03 Uprooting bribery and corruption

04 Accelerating economic development

05 Restoring the trust of the people

06 Improve quality of life

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Key Economic Indicators - 2027

Source : 2027 Budget (with supplementary estimate for Ditwah reconstruction)



Rs. 4,992 Bn

Estimated Government service expenditure

Rs. 2,000 Bn

Capital expenditure

14.6%

Tax Revenue / GDP

5,687 Bn

Tax Revenue

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Key Economic Indicators - 2027

Source : 2027 Budget (with supplementary estimate for Ditwah reconstruction)

4.5% Budget Deficit / GDP

2.3% Primary Surplus / GDP



$7 Bn + External Foreign Reserves (as of Oct 2026)

CCC+ to B - Credit Rating

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Seven Strategic Objectives of the 2027 Budget

01
Safeguarding macroeconomic stability and strengthening the resilience of the economy

02
Accelerating economic growth driven by investment, production and exports

03
Enhancing productivity through technology, innovation and human capital

04
Empowering the rural economy and ensuring inclusive growth

05
Stability and continuity of the energy markets

06
Strengthening resilience to climate disasters

07
Modernizing the Government machinery

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Tax Revenue Composition



Tax category	2026 Amount (Rs. Bn)	%	2027 Budget Amount* (Rs. Bn)	%
Total tax revenue	**5,478**	**100%**	**5,687**	**100%**
Income tax	1,311	23.9%	1,341	23.6%
Taxes on Goods and Services	3,454	63.1%	3,592	63.2%
Taxes on External Trade	713	13%	754	13.3%

Source : Budget Speech 2027

**with supplementary*

- Direct / indirect ratio is approximately 24 : 76 in both years.
- Total tax revenue is estimated to rise by Rs. 209 Bn (an increase of 3.8% from 2026).
- Income tax growth stands at 2.3% while tax on goods and services is estimated to increase by 4%.
- Taxes on external trade are estimated to increase by Rs. 41 Bn (an increase of 5.8% from 2026).

Total revenue loss from income tax revisions: **Rs. 16 Bn**

Total revenue loss from VAT revisions: **Rs. 2.9 Bn**

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Tax Proposals



1. Personal Income Tax Revision - W.e.f. 1 April 2027

- It is proposed to increase the personal income tax relief from Rs. 1.8 Mn to Rs. 1.95 Mn annually (an increase of 8.3%), raising the monthly equivalent from Rs. 150,000 to Rs. 162,500.
- The 12% marginal rate is proposed to be reintroduced.
- The 18%, 24% and 30% bands each widen by 20%, from Rs. 500,000 to Rs. 600,000.
- The highest 36% rate remains unchanged. As per the proposal, the highest rate is reached at a monthly income of Rs. 433,333.

The above provides relief across taxable income levels, with annual tax savings reaching Rs. 189,000 for annual individual income of Rs. 5.2 Mn or more (considering personal relief only).

Illustrative example of proposed revisions to Personal Income Tax

Monthly salary (Rs)	Current tax / month (Rs)	Proposed tax / month (Rs)	Monthly saving (Rs)	Annual saving (Rs)
200,000	3,000	2,250	750	**9,000**
300,000	18,500	13,250	5,250	**63,000**
400,000	50,000	36,250	13,750	**165,000**
500,000	86,000	70,250	15,750	**189,000**
800,000	194,000	178,250	15,750	**189,000**
1,000,000	266,000	250,250	15,750	**189,000**

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Tax Proposals



1. Personal Income Tax Revision – Contd.

Comparative analysis of personal relief and progressive tax slabs / rates:

Marginal rate	Jan 2020-Dec 2022	Jan 2023-Mar 2025	From 1 Apr 2025	Budget Proposal - 2027
Personal relief	**3,000,000**	**1,200,000**	**1,800,000**	**1,950,000**
6%	First 3,000,000	First 500,000	First 1,000,000	First 850,000
12%	Next 3,000,000	Next 500,000	-	Next 600,000
18%	**Balance**	Next 500,000	Next 500,000	Next 600,000
24%	-	Next 500,000	Next 500,000	Next 600,000
30%	-	Next 500,000	Next 500,000	Next 600,000
36%	-	**Balance**	**Balance**	**Balance**

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Tax Proposals



2. Enhanced capital allowance of 200% for BOI-approved enterprises - W.e.f. 1 April 2027

- Option to claim an enhanced capital allowance equal to 200% of qualifying capital expenditure, for BOI-approved enterprises investing at least USD 3 Mn in export-oriented manufacturing or tourism development.
- Investment timeframe:
    - Manufacturing and tourism other than hotels: Within 3 years.
    - Hotels: Within 5 years.
- Enterprises opting for this benefit cannot claim existing capital allowances under the Fourth Schedule or enhanced capital allowances under the Second Schedule.

While the existing Second Schedule concessions are linked to depreciable assets and the location of investment, the proposed concession is based on qualifying capital expenditure, subject to the investment timeframe, without a location-based distinction.

3. Capital asset definition enhanced - W.e.f. 1 April 2027

- The proposal expands the “capital asset” definition under S. 195 of the Inland Revenue Act (IRA) with the intention of bringing the following within the scope of Capital Gains Tax (CGT):
    - Digital and virtual assets, including cryptocurrencies.
    - Commercially valuable licences and rights, including telecommunications and broadcasting licences.
    - Gems, jewellery, precious metals and other valuable movable assets exceeding a prescribed monetary threshold.

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Tax Proposals



4. Value Added Tax (VAT) Amendments - W.e.f. 1 April 2027

Proposed revision of VAT exemptions:

- Exemption introduced on imports and supplies of specified books, exercise books and printed material.

- Removal of exemptions on Artemia eggs and coconut coir pith.

Update to "Eligible Exporter" definition

- Definition to be amended in order to recognize newly VAT registered persons as eligible exporters (where exports exceed 80% of turnover in the preceding six months).

Validity of Electronic tax invoices

- Recognize electronic tax invoices as legally valid, subject to requirements prescribed by the CGIR.

Other VAT amendments

- **Cinema tickets:** Calculate VAT liability of film producers, distributors, the National Film Corporation and cinema hall operators based on each party's revenue share, using ticket value after Entertainment Tax but before VAT.

- **Foreign-currency supplies:** Proposed to apply the Central Bank's indicative exchange rate for VAT conversion, as specified by the CGIR.

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Tax Proposals



5. Social Security Contribution Levy (SSCL)

- Amendments to be introduced to expressly exempt the supply of bunker fuel to ships engaged in international transportation.

6. Tourism Development Levy (TDL)

- Currently applicable TDL will be abolished w.e.f. 01 April 2027.
- Annual revenue loss estimated - Rs. 40 Mn.

7. Betting and Gaming Levy

- Amendments to be introduced to the Betting and Gaming Levy Act No. 40 of 1988 for easier administration and compliance.

W.e.f. 01 April 2027

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Tax Proposals



Taxes / levies at the point of importation

8. Special Commodity Levy (SCL)

- W.e.f. 13 November 2026, SCL will be amended as follows:
  - Sprats and Maldive fish: Reduced to Rs. 10 per kg.
  - Powdered and unpowdered dried chillies: Reduced by Rs. 50 per kg.
  - Sugar: Increased by Rs. 10 per kg.

- Annual revenue increase estimated - Rs. 950 Mn.

9. Ports & Airports Development Levy (PAL)

- Removal of PAL w.e.f. 01 January 2027 on the importation of newsprint and batteries for solar energy storage.

- Annual revenue loss estimated - Rs. 350 Mn.

10. CESS

- W.e.f. 01 April 2027, CESS rates to be reduced by 25% in respect of 800 HS code line items.

- Annual revenue loss estimated - Rs. 10 Bn.

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Other Tax Proposals



Strengthening Tax Administration – Corporate Income Tax

Amendments to be made to the IRA for the following:

- **Cash transactions:** Certification of approved accountant/authorized-person to verify compliance with cash transaction restrictions.
- **Amalgamations / Mergers:** Introduction of anti-avoidance rules.
- **NGO donations:** Provisions to be introduced to prevent double taxation of inter-NGO donations where prior tax payment is proven.
- **Digital services:** Amendment of source rules to be introduced by reference to the place of payment for remote and digital service income.
- **Treaty terminology:** Definition of “Double Taxation Agreement” amended to be in alignment with OECD and UN Model Tax Conventions.
- **Non-resident WHT:** Clarification to be introduced that 14% WHT on service fees and insurance premiums applies only to payments made to non-residents without a Sri Lankan PE.
- **Confidentiality:** Provisions to be introduced for sharing of information from foreign tax authorities, with their prior consent, only with authorized persons.

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Other Tax Proposals



Strengthening Tax Administration - VAT

Amendments to be made to the VAT Act for the following:

- **VAT credits:** Input tax credits previously disallowed in respect of VAT returns submitted late due to COVID-19 pandemic can be claimed where outstanding returns were filed by 31 July 2026.
- **VAT claim periods:** Standardize input VAT claim periods at 12 months for local purchases and 24 months for imports, regardless of the VAT return submission date.
- **VAT text discrepancies:** Sinhala–English inconsistencies relating to input tax claims, to be corrected.
- **Revised timeframe for issuing debit and credit notes:** Align the timeline for issuance of credit / debit notes with input tax claims (12 month period).
- Clarify VAT rules for Non-Foreign Exchange (NFE) transactions, non-tax invoices, VAT exemptions and related matters.

Amendment to Tax Statutes

Amendments are proposed to the Tax Appeals Commission Act, Inland Revenue Act, Value Added Tax Act, Social Security Contribution Act, Betting and Gaming Levy Act, Ports and Airports Development Levy Act and Finance / Finance (Amendment) Acts.

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Other Fiscal Proposals



1. Attracting FDI and Facilitating Investment

- **Investor protection:** The Investment Protection Bill to be enacted, which provides for fair and equitable treatment, compensation and dispute settlement for investors.
- **Professional investment promotion:** A Treasury-owned investment promotion company will be set up, staffed by professionals with private-sector and international experience.
- **One-stop investment approvals:** A consultant to be appointed for the creation of the National Single Window for Investment.
- **Faster access to State land:** A committee of officials has been appointed to minimize delays in releasing State land to investors.
- **Port City enhancements:** The Colombo Port City Economic Commission (Amendment) Bill will offer more facilities to investors and their employees.

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Other Fiscal Proposals



2. Modernizing the legal and institutional framework

- **The following Acts have been legislated:**
  - Rescue, Rehabilitation and Insolvency (Corporate and Personal) Act, No. 12 of 2026, Prevention of Money Laundering (Amendment) Act, No. 16 of 2026, Financial Transactions Reporting (Amendment) Act, No. 17 of 2026, Convention on the Suppression of Terrorist Financing (Amendment) Act, No. 18 of 2026.

- Public-Private Partnership Act has been published in the Gazette and is expected to be presented in Parliament in early 2027.

- The State Owned Business Enterprises Management Bill has been drafted and referred to the AG's department for comments.

- Amendments are expected to the following enactments:
  - Customs Ordinance
  - Finance Business Act
  - Financial Reporting Regulatory Act
  - Excise (Special Provisions) Act

- A Public Asset Management Act will also be introduced.

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Other Fiscal Proposals



3. Trade Facilitation and Exports

- **National Single Window for Trade (Rs. 1.99 Bn):** Pilot project is underway and proposes to connect exporters in early 2027 and importers and re-exporters in late 2027.
- **Customs modernization:** Rs. 1 Bn allocated for purchase of body scanners and container scanners.
- **Modernized TIEP:** The Scheme will facilitate clearing goods imported for export processing with tax concessions, introduce inter-port trading and encourage SME industrialists to export.
- **Export promotion:** Rs. 750 Mn allocated for Sri Lanka Expo 2027 and the National Export Development Plan.
- **Industrial estates**: Rs. 4 Bn allocated for new and existing industrial estates, including Valachchenai, Ingiriya, Dambulla, Raigama–Millaniya and Katunayake.

- **Enabling wider market access**
    - **Regional agreements:** A committee of officials will work on the India FTA and a new FTA with China. Sri Lanka has also applied to join the Regional Comprehensive Economic Partnership (RCEP).
    - **Gulf partnerships:** Comprehensive Economic Partnership Agreements (CEPAs) with the UAE and Oman are expected.
    - **EU partnership:** The Sri Lanka–EU Sustainable Trade and Economic Integration Project will be implemented from 2027 to 2030, funded by an EU grant of Rs. 3.4 Bn.

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Other Fiscal Proposals



4. Deepening the capital market

- "A Share for Everyone": Grade 13 students aged 18 and over can receive a share portfolio of up to Rs. 10,000.
- An SME Listing Support Mechanism will encourage SMEs to list on the CSE.

5. Developing tourism

- Government to provide loans in relation to the below:
    - Home-stay loans of up to Rs. 2 Mn at an interest rate of 3% to be provided to develop home-based tourist accommodation.
    - Rs. 500 Mn in concessionary loans for purchase of marine tourism equipment.
- A cruise passenger terminal to be developed at the Port of Colombo, and upgrades to be made at the Galle, Tangalle and Trincomalee Ports.
- Restoration of Colombo Fort heritage buildings and Dutch forts at Jaffna, Mannar, Kalpitiya and Batticaloa through PPPs.
- A central e-ticketing system to be introduced for major attractions and a stronger Tourist Police service with a 24-hour hotline.
- Hotel schools to be developed at Polonnaruwa and Pinnawala and development of the Sigiriya Domestic Airport.

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Other Fiscal Proposals



6. Access to finance for SMEs

- Rs. 67.6 Bn to be provided for interest subsidies and refinancing, which is expected to unlock Rs. 174 Bn in concessionary loans.

- **Re-MSME Plus:** Refinance and Interest Subsidy Loan Scheme for reviving the Micro, Small and Medium Enterprise Sector.

- Sector specific loan schemes:
  - **Fisheries exporters and suppliers:** Loans of up to Rs. 500 Mn at an interest rate of 5%.
  - **Tourism home-stay:** Loans of up to Rs. 2 Mn at 3% interest rate to upgrade / start a home-stay business.
  - **Paddy mills:** An interest free pledge loan scheme for small and medium mill owners.

- Other loan schemes:
  - **Rural enterprises:** Loans of up to Rs. 5 Mn to be provided at interest rate of 4%, where the business employs at least five Aswesuma beneficiaries.
  - **Women-headed households:** Group loans of up to Rs. 1 Mn to be made available at an interest rate of 3%.

- Information on all the schemes is available through a newly introduced 1819 hotline.

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