

Tax Flash News

Circular to Withholding Agents

The Department of Inland Revenue has issued Circular No. SEC/2026/E/04 dated 8 June 2026 for Withholding Agents, which is now available on its official website.

The Circular provides explanatory notes and sets out the guidelines to be followed by Withholding Agents in facilitating the implementation of Withholding Tax and Advance Income Tax in accordance with the provisions of the Inland Revenue Act, No. 24 of 2017 and amendments thereto.

The Circular is attached for your reference.



For More Details Contact: Tax Team – KPMG in Sri Lanka

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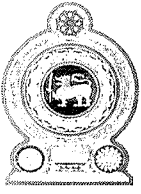


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INLAND REVENUE DEPARTMENT

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செயலகம்

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Circular No: SEC/2026/E/04

June 8th 2026

Circular to Withholding Agents

Deduction of Withholding Tax and Advance Income Tax

This Circular sets out explanatory notes and guideline to Withholding Agents (WHA), to facilitate the application of the Withholding Tax and Advance Income Tax (hereinafter referred to as “WHT”) imposed in terms of the Section 84, 84A and 85 of the Inland Revenue Act, No. 24 of 2017 (IRA), as amended.

This circular is effective from June 08th, 2026 and applicable for the deduction of Withholding Tax and Advance Income Tax under the above provisions, but other than the payments subject to WHT referred to in following circular and Extra Ordinary Gazette.

1. Circular to Banks and Financial Institutions - Deduction of Advance Income Tax on Interest or Discount on Deposits - Circular No. SEC/2025/E/02 [28 March 2025]
2. Extraordinary Gazette No. 2414/14 dated 11.12.2024 - Payments to persons outside Sri Lanka

I. Deduction of WHT

A person shall deduct WHT on following payments which has a **source in Sri Lanka** except the exempt amounts, at the relevant WHT rates.

Payment	Relevant WHT Rate (%)
Payments to non-resident person with respect to land, sea, air transport or telecommunication service in terms of section 85(2) and Extraordinary Gazette Notification No. 2064/51 dated April 01, 2018	2%
Sale price payable to the seller of any gem sold at an auction conducted by the National Gem & Jewellery Authority (A separate circular will be issued regarding the submission of monthly tax returns by the National Gem & Jewellery Authority.)	2.5%

Payment	Relevant WHT Rate (%)
Service fee payments to a resident individual who is not an employee of the payer (if aggregate payment exceeds Rs. 100,000 per calendar month) - (a) for teaching, lecturing, examining, invigilating or supervising an examination; (b) as a commission or brokerage to a resident insurance, sales or canvassing agent; or (c) for services provided by such individual in the capacity of independent service provider such as doctor, engineer, accountant, lawyer, software developer, researcher, academic, auditor, modeller, personal trainer, coach, valuer, artist, actor, dancer, singer, musician, event organizer, photographer, videographer, therapist, counsellor, beautician, cook, electrician, dentist, veterinarian, social media specialist, brand ambassador, sports person, specialist for information technology, advertising agent, advisor, translator, writer or debt collector.	5% on full payment
Interest or discount paid	10%
Rent (defined in Section 195 of the IRA) payments to a resident person (if aggregate amount exceeds Rs. 100,000 per calendar month)	10% on full payment
Amounts pays as winnings from a lottery, reward, betting or gambling	14%
Charge, natural resource payment (defined in Section 195 of the IRA) or premium	14%
Royalty (defined in Section 195 of the IRA)	14%
Rent payments to a non-resident person	14%
Service fee or an insurance premium payments to a non-resident person	14%
Dividend	15%

However, WHT is not required to be deducted when the,

- a. payments made by the Sri Lanka Government including any local authority and Government Departments (other than Public Corporations, Universities and Government owned entities and businesses);
- b. payments made by individuals, unless payment made in conducting a business;
- c. interest paid to a financial institution on the ordinary loans and advances provided by such financial institution;
- d. interest or discount paid to any person on Security or Treasury Bond under the Registered Stocks and Securities Ordinance (Chapter 420) or Treasury Bill under the Local Treasury Bills Ordinance (Chapter 417).

2. Exempt Amounts

WHA is not required to deduct WHT on following income tax exempted amounts.

- (i) Any winning from a lottery, the gross amount of which does not exceed Rs. 500,000/;

- (ii) A dividend paid by a resident company which is engaged in any one or more of the following businesses in accordance with the provisions of Part IV of the Finance Act, No. 12 of 2012 and which has entered into an agreement with the Board of Investment of Sri Lanka established under the Board of Investment of Sri Lanka Law, No. 4 of 1978: -
 - (a) entrepot trade involving import, minor processing and re-export;
 - (b) offshore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka;
 - (c) providing front-end services to clients abroad;
 - (d) headquarters operations of leading buyers for management of financial supply chain and billing operations;
 - (e) logistics services including bonded warehouse or multi-country consolidation in Sri Lanka;
- (iii) A dividend paid by a resident company to a member to the extent that such dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company;
- (iv) Any income earned by any person by way of interest or discount paid or allowed, as the case may be, on any sovereign bond denominated in foreign currency, including Sri Lanka Development Bonds, issued by or on behalf of the Government of Sri Lanka.
- (v) Amounts derived by
 - a) the Government of a foreign country of foreign territory to the extent specified under a diplomatic immunities law or a similar law;
 - b) an international organisation to the extent specified under a diplomatic immunities law or a similar law or an agreement between the organisation and the Government of Sri Lanka, provided that the exemption provided under the agreement shall be broader than that provided under diplomatic immunities law or a similar law;

The persons who have exempt amounts other than above exempt amounts are required to obtain income tax exemption confirmation letter for such amounts from the CGIR and submit to WHA prior to the WHT deduction. On behalf of the CGIR, relevant confirmation will be issued by the Commissioner of Consultation and Promotion Unit (2nd Floor, Inland Revenue Department, Sir Chittampalam A Gardiner Mawatha, Colombo 02) (Telephone: 0112134205 email: esp@ird.gov.lk). If CGIR has confirmed the exemption, relevant WHA shall not deduct WHT from the respective amounts paid to such person.

3. Important Considerations in WHT Deduction

- (i) Gross amount excluding any Value Added Tax payable (only to the Commissioner General of Inland Revenue of Sri Lanka) is considered as the payment for the deduction of WHT.

- (ii) If any WHA wants to pay the total amount of any invoice, the invoiced amount should be treated as the net amount and the relevant WHT should be calculated based on the grossed-up amount.
- (iii) WHA is required to apply the currency exchange rate (selling rate) published in the Central Bank Website which is relevant for the date of payment to convert foreign currency amount into rupee amount for applicable cases.
- (iv) If the investment is jointly owned by the withholder with another person, relevant payment shall be apportioned among the joint owners in proportion to their interests in the investment. Where the interests of joint owners cannot be ascertained, they shall be treated as equal.

4. Time of WHT Deduction

WHT should be deducted at the time, that the relevant amount is paid, credited, re-invested, accumulated, capitalized or made available to the person; as the case may be; by the payer/ WHA in making such payments.

5. Payments of WHT Deducted

Every WHA who has deducted WHT shall pay the relevant tax to the CGIR within fifteen days after the end of each calendar month. WHT could be paid through the Online Tax Payments Platform (OTPP) and if manually pays, relevant payment should be made to the Peoples Bank and tax type codes for the payment is as follows.

- WHT/AIT on Interest 43
- WHT on Other Payments 44

However, WHT due on the payments to non-resident persons will be collected as specified in the Extraordinary Gazette No. 2414/14 dated 11.12.2024.

6. Certificate of WHT Deduction

Every WHA who has deducted WHT is required to issue a WHT certificate to each person in the specified format (**Attachment 1**). The WHT certificate shall cover a calendar month and must be issued within 30 days after the end of the month in which the WHT was deducted.

The WHA may provide the WHT certificate in electronic format or issue a certificate covering a period longer than one month, but not exceeding a full year of assessment, if the withholder agrees to accept it. However, if the withholder requests a printed certificate or a monthly certificate, the WHA must provide it.

Important: A withholding agent shall provide a WHT certificate to the withholder free of charge (this is a legal requirement).

7. Records to be Maintained by the WHA and their Obligations

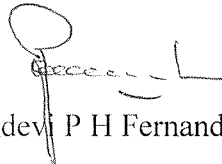
- (i) The WHA who is deducting WHT shall be a registered as WHA with the CGIR. If the registration has not been obtained, the person is required to obtain a registration number from the CGIR not later than 30 days prior to the commencement of deduction of WHT.

- (ii) Such Persons shall keep proper records, either in soft copies or hard copies format (including the copies of tax clearance and exemption confirmations received by them) in given format (Please refer to attachment 2) for all the WHT subjected payments and shall be furnished at the request of a tax official or for the inspection of a tax official.
- (iii) Schedules to the Annual Statements should be submitted for WHT deductions and must be provided in electronic format (Excel CSV format). However, if the number of AIT-deducted persons (taxpayers) is fewer than 20, hard copies may be submitted.

Every withholding agent must comply with the procedures, formats, and forms specified by the Commissioner General when furnishing the Annual Statements and Schedules. Failure to comply may attract a penalty of up to Rs. 200,000.

8. Circular and Notices Issued Prior to this Circular

Circular No. SEC/2022/E/03 issued on 23.12.2022 is terminated with effect from the effective date of this circular.



Rukdevi P H Fernando
Commissioner General of Inland Revenue

Rukdevi P.H. Fernando
Commissioner General of Inland Revenue
Inland Revenue Department
Sir Chittampalam A. Gardiner Mawatha
Colombo 02.

Copies to:

1. Secretary to the Ministry of Finance and Planning
2. Auditor General, Auditor General's Department

Attachment 1

Certificate No./ Serial No:

TIN of the Withholding Agent:

Certificate of Withholding Tax (WHT)/ Advance Income Tax (AIT) Deduction

Name and address of the Withholding Agent:

Name and address of the Withholdee:

National Identity Card No. /Passport No. / Tax Identification No.....

Payment made for Period: from: to:

Gross Amounts (Rs.):

Payment Type	Amount Subject to WHT/AIT (Rs.)	Amount Not Subject to WHT/AIT (Rs.)	WHT/AIT Rate (%)	Amount of WHT/AIT Deducted (Rs.)	Net Amount Paid (Rs.)
Total					

Above deducted WHT/AIT was paid to the Commissioner General of Inland Revenue as follows.

.....

Cheque/Auto Payment Receipt No.

Date of Payment

.....

Name and Signature of the Authorized Officer

Date:

Attachment 2

Withholding Tax (WHT) / Advance Income Tax (AIT) Deduction

TIN of the Withholding Agent:

Name and address of the Withholding Agent:

Serial Number	Name of the Withholdee	Address of the Withholdee	Country of Residence	TIN/ NIC or Passport Number	Type of payment	Payment Period	Tax Clearance Certificate / Exemption Confirmation Reference No.	Amount Not Considered for WHT/AIT Deduction (Rs.)	Gross Amount Considered for WHT/AIT Deduction (Rs.)	WHT/AIT Rate (%)	Amount of WHT/AIT Deducted (Rs.)	Net Amount Paid (Rs.)	WHT/AIT Paid to the IRD (date and payment reference)	WHT/AIT Certificate Reference