

Tax Flash News

Notice on IRA Amendments

The Inland Revenue Department (IRD) has issued a web notice dated 8 June 2026 outlining the key changes introduced by the Inland Revenue (Amendment) Act, No. 11 of 2026, following the issuance of the Amendment Act.

The notice is attached herewith for your reference.



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

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INLAND REVENUE DEPARTMENT

Notice to the Taxpayers

Amendments to the Inland Revenue Act, No. 24 of 2017

Inland Revenue (Amendment) Act, No. 11 of 2026 has been certified on 03.06.2026 and important changes made from such amendment Act to the Inland Revenue Act, No. 24 of 2017 (IRA) are as follows.

1. Other Income

Gains from the realization of motor vehicles shall not be treated as other income for the purposes of Section 8 of the IRA. Therefore, gains arising from the realization of motor vehicles that are neither trading stock nor depreciable assets eligible for capital allowances under the provisions of the IRA are not required to be included under sources of income. Likewise, losses arising from the realization of such motor vehicles are not allowable as deductions (effective date 01.04.2024).

2. Provisions Introduced to the IRA, Discouraging Cash Transactions and Encouraging Bank and Card Transactions - Section 10 (2A) of the IRA (See notice PN/IT/2023-02 dated 11.05.2023)

The provisions introduced by the Inland Revenue (Amendment) Act, No. 04 of 2023 were originally aimed at discouraging cash transactions. Following the amendment, the relevant provisions of the Act operate as follows.

If a person pays Rs. 500,000 or more to another person in cash or by any method other than:

- an account payee cheque,
- an account payee bank draft,
- a credit card,
- a debit card,
- an electronic payment system through a bank account,
- or by depositing cash in the bank account of the person entitled to the payment (amendment – effective from 08.05.2023),

and the payment is made: in a single day, for a single transaction, or through a series of transactions relating to the same event,
then:

- The payer cannot deduct the payment as a deductible expense when calculating assessable income.
- The payment cannot be included in the cost of an asset for tax purposes.

Exceptions

These rules do not apply to payments made to or by:

- the Government of Sri Lanka or a Government institution,
- a bank or financial institution, or
- any other persons or payments specifically exempted by the Minister.

3. Transfer of Assets to the Government or Universities as Gifts or Donation

The transfer of an asset by way of a gift or donation to the Government of Sri Lanka or to any university established or deemed to be established under the Universities Act, No. 16 of 1978, shall not subject to tax, as the consideration received from such transfer is deemed to be equal to the net cost of the asset. (Effective date 03.06.2026).

4. Donation to Government and Government Funds

A donation made by an individual or entity, whether in money or otherwise, to the Government of Sri Lanka or to a fund established by the Government of Sri Lanka, which is deductible in arriving at taxable income as a qualifying payment, may be carried forward to the next year of assessment and subsequent years after deduction from the total assessable income for the relevant year of assessment (effective date 01.04.2025).

5. Amounts from Life Insurance Policies

The clarity of the tax implications relating to receipts under life insurance policies has been improved through the introduction of the new Section 52A. Accordingly, any amount received by an individual under a life insurance policy, either as the policyholder or as a beneficiary, shall be excluded from the assessable income upon the death of the insured person, maturity of the policy, or surrender of the policy.

However, the above exclusion shall not apply to any amount received under a life insurance policy that constitutes employment income or business income, or to any annuity, pension, retirement or superannuation payment, or any payment received under a life insurance policy other than upon the death of the insured person or the maturity of the policy.

“Life insurance policy” means a contract of insurance issued by an insurer licensed under the Regulation of Insurance Industry Act, No. 43 of 2000, which provides for the payment of money on the death of an individual. (Effective date 01.04.2025).

6. Unit Trust or Mutual Fund

Unit trusts or mutual funds are required to issue every unit holder with a certificate containing details of income, exempt amounts, withholding tax, and any other information specified by the Commissioner-General, within five months after the end of each year of assessment (e.g., on or before 31 August following the end of the year of assessment). Accordingly, pass-through tax treatment shall apply to each unit holder.

If such certificate is not provided, the relevant unit trust or mutual fund shall be treated as a company, and the applicable tax shall be paid on or before 30 September following the end of the year of assessment. In such circumstances, the unit holder shall not be required to make any tax payment.

The necessary guidelines will be issued in due course (Effective date 01.04.2025).

7. Approved Charitable Institution

An institution incorporated, or registered under any law in force for the registration of social service organizations that provide healthcare facilities in collaboration with healthcare or education services of the Government shall be treated as an approved charitable institution for the purposes of the IRA.

Organizations that qualify to be gazetted as approved charitable institutions may apply to the Tax Policy and Legislation Unit of the Inland Revenue Department (IRD) and be included in the list published on the IRD website.

Donations made by taxpayers to such organizations shall be treated as qualifying payments, subject to the provisions of the Fifth Schedule to the IRA.

Further, where the Commissioner-General is satisfied that the institution bears the cost of providing the specified services, a tax credit equal to the tax payable on the institution’s taxable income for that year of assessment shall be granted in accordance with Section 68.

8. Changes to the Residence Rules

An individual who is deemed to be resident in Sri Lanka due to employment on a Sri Lankan ship, but who is a citizen or subject of a country other than Sri Lanka, shall not be liable for income tax as a resident individual except on income earned from employment on that ship. (Effective date 01.04.2025).

An individual holding an Investor Category Residence Visa is not considered a

resident of Sri Lanka for income tax purposes during that year of assessment. (Effective date 01.04.2025).

- The residency rules for individuals have been clarified by stating that a person who leaves Sri Lanka to work abroad for at least one year under a contract with an unrelated foreign employer will not be considered a Sri Lankan tax resident during that contract period.

9. Source of Deducted Amounts

According to Section 72(2) of the IRA, certain payments are not allowed as direct deductions when calculating a person's domestic sources (sources of income in Sri Lanka) of income because they relate to foreign-sourced income and are therefore deductible only against such foreign sourced income. However, the relevant provisions were amended with effect from 01.04.2018 to allow these expenses to be deducted directly from domestic sources of income, provided that the expenses are incurred in relation to the export of goods or services from Sri Lanka.

10. Withholding Tax (WHT) Related Changes

10.1 WHT Deductible by the National Gem and Jewellery Authority on the Sale Price of any Gem Sold at an Auction Conducted.

The National Gem and Jewellery Authority is required to submit a monthly tax return within 30 days after the end of each month, including the information specified by the Commissioner-General. The format, required details, and submission procedure will be announced later. The income tax exemption under paragraph (s) of the Third Schedule to the Inland Revenue Act will be granted based on the information provided in that return. (Effective date 01.04.2026)

10.2 Self-Declaration for Resident Individuals Receiving Interest on Deposits Maintained in Banks and Financial Institutions.

Resident individuals who receive interest income from deposits maintained in banks or financial institutions may submit a self-declaration if they do not derive taxable income for the relevant year of assessment. The applicable procedures and forms are available on the Inland Revenue Department website. (Effective date 01.04.2025).

Important: If an individual submits a self-declaration containing false or misleading information, that individual can be charged a penalty of up to Rs. 200,000. Before imposing the penalty, the Commissioner-General will issue a notice specifying the false or misleading details in the declaration. In addition, the individual will not be allowed to submit another self-declaration.

10.3 Withholding Tax on Service Fee Payments to Resident Individuals

A 5% withholding tax applies to service payments made to resident individuals

specified in the Subsection (1C) of Section 85 of the Inland Revenue Act, if the monthly payment exceeds Rs. 100,000. From the effective date of the amendment, June 3rd 2026, this rule also applies to several additional professions, including 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. Accordingly, withholding agents are required to deduct a 5% withholding tax on payments to these individuals if the payment exceeds Rs. 100,000 in a month. **A revised withholding tax circular has been issued, and all deductions and compliance must follow the updated rules.**

10.4 Annual Statement for Withholding Tax

The Commissioner-General may specify the procedures, formats, and forms for submitting the annual statements and all withholding agents must comply with those requirements.

Important: A withholding agent who fails to comply with these requirements may be liable for a penalty of up to Rs. 200,000 per year of assessment. Before imposing the penalty, the Commissioner-General will issue a warning notice.

10.5 Withholding Certificate

All withholding agents must issue a withholding certificate to the withholder free of charge. Accordingly, banks and financial institutions are advised not to charge any fee on deposit holders for issuing such certificates.

11. Payment of Quarterly Income Tax Instalments

The requirement to file a statement of estimated tax (SET) payable has been discontinued. Accordingly, quarterly instalments shall now be paid based on the income tax payable for the immediately preceding year of assessment. Example: For the year of assessment 2026/2027, quarterly installment shall be paid based on the income tax liability of the Year of Assessment 2025/2026.

If a taxpayer had no taxable income in the previous year of assessment, or expects to derive a lower taxable income in the current year of assessment, the estimated tax payable for quarterly instalments shall be determined in the manner specified by the Commissioner-General. **The relevant procedure will be published in due course.**

12. Filing Returns of Income

An individual is not required to maintain an income tax file or submit income tax returns if their only income is employment income fully subject to Advance Personal Income Tax (APIT), with no quarterly instalments or final tax payments due. This relief also applies to employees who have interest income not exceeding Rs. 5,000, in addition to employment income fully subject to APIT. However, if the Commissioner-General opens an income tax file for such an individual, they

must continue to file returns until the file is officially closed. (Effective from 01.04.2025).

- Any person carrying on a Business of Strategic Importance as approved under the provisions of the Colombo Port City Economic Commission Act, No. 11 of 2021 shall file a tax return.
- Senior citizens are allowed to file such person's tax returns either in writing or electronically from the year of assessment 2025/2026.

13. Tax Liability on Arrears Salary

Relief is provided for employees who receive arrears of salary due to reinstatement in service of an employment or re-appointment to the same employment after a disciplinary action, promotion to a post with effect from a previous date, entitlement to any remuneration increment with effect from a previous date of a previous year of assessment and similar reasons as specified by the Commissioner- General (Effective from 01.01.2024). **The refund and calculation procedures will be published in due course.**

14. Confidentiality

Information and documents received by the Commissioner-General in an official capacity relating to a specific taxpayer may be disclosed to the Director of the Financial Intelligence Unit of the Central Bank of Sri Lanka, the Inspector-General of Police, and to the Sri Lanka Accounting and Auditing Standards Monitoring Board for specified purposes, subject to the provisions of the Inland Revenue Act.

15. Registrations and the Use of Taxpayer Identification Number (TIN)

- Every company incorporated or registered in Sri Lanka must register with the Commissioner-General within 30 days of incorporation or registration.
- The Commissioner General will issue a TIN certificate for all who assigned a TIN and that TIN shall not be a secret or confidential information.
- TIN is a mandatory requirement for the following purposes, and relevant responsible officials may request a TIN certificate to carry out their duties. This is not applicable to any individual who is not mandatory to obtain a TIN.
 - to open any account at any financial institution
 - to obtain approval for a building plan
 - to register a motor vehicle
 - to renew the license of a motor vehicle
 - to register a land or title to a land
 - to register a business
 - to transfer shares of a company incorporated in Sri Lanka, by the transferee and transferor

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- to obtain a credit card

Important: The procedure for verifying the TIN by the relevant officials will be specified by the Commissioner-General, and these requirements will take effect upon the issuance of those specifications

16. Amended or Additional Assessments

If an individual files an income tax return declaring tax payable of at least 120% of the tax paid in the immediately preceding year of assessment, pays the full tax without claiming a refund, and submits an affidavit confirming no fraud, evasion, or wilful default, the return shall be accepted as filed and no amended or additional assessment will be made for that year of assessment. Procedure and format of the affidavit will be specified in due course. (Effective from 01.04.2025)

17. Income Tax Refunds due to Cash Basis Accounting

If a person accounts income under the cash basis for income tax purposes and later receives a refund because the original contract is cancelled or changed, they can claim a refund of any excess income tax paid on that amount. The refund must be claimed within 30 months from the date the amount was refunded.

The relevant procedures will be issued in due course.

18. Court Proceedings

- With effect from the year of assessment commencing on April 1, 2026, recovery of default taxes through the court proceedings as a fine according to the certificate submitted by the Commissioner General to the Magistrate of the Magistrate's Court within the local limits of whose jurisdiction the defaulter resides or the place of business of the defaulter is situated.

However, certificate shall not be submitted for any default tax disputed by the taxpayer under an administrative review or appeal process.

- Despite section 100, if the Commissioner-General or a court is unable to serve a notice or summons on a person, they may record the reasons in writing and publish the details in newspapers in Sinhala, English, and Tamil to ensure proper notification.

19. Prosecution Actions

Where any person fails to,

- ✓ comply by submitting an annual statements (withholding/APIIT returns);
- ✓ file an income tax return;
- ✓ register with the Commissioner-General;
- ✓ appear before the Commissioner-General when requested; and
- ✓ submit a tax return under section 126;

that person may subject to a prosecution action.

Before initiating an action, The Commissioner-General will issue a written notice to the person stating that legal action will be taken unless they comply with the provisions of the Act within 30 days of receiving the notice.

If the person not complied for that notice also, that person who commits an offence is liable, upon conviction after a summary trial before a Magistrate, to a fine not exceeding Rs. 400,000, imprisonment for up to six months, or both.

A separate explanation will be issued describing how the Inland Revenue Department will use these provisions to improve income tax compliance and prevent tax evasion.

Therefore, all taxpayers are requested to comply for the requirement promptly.

20. Revision of Capital Gain Tax Rates

Capital Gain tax (Gains from the realization of an investment assets) rates are revised and the applicable new rates from 03rd June 2026 are as follows.

Individuals	15%
Partnerships	15%
Trusts	30%
Unit trusts or mutual funds	30%
Non-governmental organizations	30%

21. Enhanced Capital Allowances (ECA)

A person who invests in depreciable assets (excluding intangible assets) for a new business undertaking during a year of assessment is entitled to a 100% Enhanced Capital Allowance (ECA). This applies if the total investment in such assets used in the undertaking in Sri Lanka is more than USD 250,000. (Effective from 01.04.2026).

22. Interest Waiver

Interest on late payments or underpayments of tax under the Inland Revenue Act, No. 24 of 2017 including surcharge tax and debt repayment levy, will be waived up to the year of assessment 2024/2025. However, the principal tax amount must be paid in full by 02nd December 2026 or should already have been settled. **A detailed web-notice has been issued regarding this matter.**

Commissioner General of Inland Revenue

