Comprehensive Analysis of Taxation in Sri Lanka: Direct and Indirect Taxes with Mathematical Framework (2025)

I. Executive Summary

Sri Lanka's taxation system comprises a dynamic interplay of direct and indirect levies, meticulously designed to generate government revenue, guide economic behavior, and promote social equity. This intricate framework is under the purview of key administrative bodies: the Inland Revenue Department (IRD), Sri Lanka Customs, and the Department of Excise. These entities, while distinct in their primary functions, operate within a cohesive fiscal policy environment overseen by the Ministry of Finance, Planning and Economic Development.

The year 2025 has been marked by substantial reforms across various tax categories. In the realm of direct taxation, individual income tax has seen an increase in personal relief and a recalibration of progressive tax slabs, aiming to adjust the tax burden on earnings. A particularly noteworthy development is the introduction of a preferential flat tax rate for foreign service income, contingent upon its remittance through the domestic banking system. This policy adjustment underscores a strategic effort to bolster foreign exchange reserves and formalize a growing segment of the economy.[1]

Indirect taxes have also undergone significant transformations. The Value Added Tax (VAT) framework has been expanded to encompass cross-border digital services, reflecting a global trend towards taxing the digital economy. This change, alongside the repeal of the Simplified VAT (SVAT) scheme and the mandate for electronic filing, signifies a push towards modernizing tax administration and broadening the tax base.[5] Furthermore, excise duties on imported vehicles, alcohol, tobacco, and sugary beverages have been substantially increased. These revisions serve a dual purpose: enhancing government revenue and influencing public health outcomes by discouraging the consumption of certain goods.[9]

For both individuals and corporations, compliance under Sri Lanka's tax regime largely operates on a self-assessment basis. This requires taxpayers to accurately calculate their liabilities, make timely quarterly advance payments, and submit annual returns by stipulated deadlines. The increasing emphasis on electronic services for tax payments and filings highlights a broader governmental drive towards digitalizing tax administration, aiming for greater efficiency and transparency. A robust system of penalties is in place to address non-compliance, including late filing, delayed payments, and understatement of tax liabilities, reinforcing the importance of adherence to regulatory requirements.[1]

II. Introduction to Sri Lanka's Tax System

Legal and Regulatory Framework (Key Acts and Amendments)

The foundation of Sri Lanka's tax system is laid by several key legislative acts and their subsequent amendments, which collectively define the scope, rates, and administration of various taxes.

Direct taxation, primarily income tax, is governed by the **Inland Revenue Act, No. 24 of 2017**. This foundational Act has been subject to continuous updates through various amendment acts, including No. 10 of 2021, No. 45 of 2022, No. 04 of 2023, No. 14 of 2023, and most notably, **No. 02 of 2025**. The amendments introduced by Act No. 02 of 2025 are generally effective from April 1, 2025, and provide the legal authority for charging, levying, and collecting income tax on the gains and profits of individuals and entities.[2]

For indirect taxation, the **Value Added Tax (VAT) Act, No. 14 of 2002**, serves as the principal legislation for VAT, having come into force on August 1, 2002. This Act replaced the Goods and Services Tax (GST).[7] Significant amendments have been introduced over the years, with the

VAT (Amendment) Act No. 04 of 2025 being particularly impactful. Certified on April 11, 2025, this amendment includes key provisions effective from January 1, 2024, and October 1, 2025, broadening the scope of VAT and modifying administrative procedures.[5]

The **Social Security Contribution Levy (SSCL)** was a more recent introduction, imposed with effect from October 1, 2022, by the **Social Security Contribution Levy Act, No. 25 of 2022**.[2]

Customs Duty is administered primarily under the long-standing **Customs Ordinance**. Specific tariffs, rates, and changes are regularly detailed in gazette notifications and comprehensive guides published by Sri Lanka Customs, such as the National Imports Tariff Guide.[20]

Excise Duty is levied under the **Excise (Special Provisions) Act, No. 13 of 1939**. The rates for excise duties are not static but are frequently updated through Ministerial Orders published in the Gazette, reflecting ongoing adjustments to fiscal policy.[9]

Stamp Duty is imposed through a dual legislative framework: the **Stamp Duty Act, No. 43 of 1982**, and the **Stamp Duty (Special Provisions) Act, No. 12 of 2006**. The latter Act reintroduced central government stamp duties for a specified set of instruments, following a period of suspension.[24]

The **Betting and Gaming Levy** is governed by the **Betting and Gaming Levy Act, No. 40 of 1988**, as amended by Act No. 7 of 2001.[15] Furthermore, a new

Gambling Regulatory Authority Act is currently in draft, signaling a governmental intent to repeal older gambling laws and centralize regulatory oversight, aiming for enhanced transparency and revenue collection.[32]

The **Share Transaction Levy (STL)** was introduced by **Finance Act No. 5 of 2005**, targeting transactions on the stock exchange.[16]

It is important to note for historical context that the **Nation Building Tax (NBT)** was abolished with effect from December 1, 2019.[34]

Roles of Inland Revenue Department, Sri Lanka Customs, and Excise Department

The administration and collection of taxes in Sri Lanka are primarily managed by three distinct governmental departments, each with specific responsibilities, yet operating under the overarching direction of the Ministry of Finance, Planning and Economic

Development.

The **Inland Revenue Department (IRD)** stands as the central authority for the administration of direct taxes, including Income Tax and Capital Gains Tax. Beyond direct taxes, the IRD is also responsible for several key indirect taxes such as Value Added Tax (VAT), Social Security Contribution Levy (SSCL), Betting and Gaming Levy, and Share Transaction Levy.[2] The department plays a crucial role in implementing tax policy, ensuring compliance, and collecting revenue. In recent years, the IRD has increasingly emphasized digital transformation, providing e-services for taxpayer convenience in making payments and filing returns.[1]

Sri Lanka Customs is charged with the critical function of collecting duties and levies on goods imported into and exported from the country. Its responsibilities extend beyond mere revenue collection to include trade facilitation, prevention of revenue leakages and frauds, and the collection of import and export data for national statistics.[20] Sri Lanka Customs regularly publishes comprehensive tariff guides and updates on tax changes that affect imports, providing essential information for businesses engaged in international trade.[20]

The **Department of Excise** specializes in administering excise duties on a specific range of goods. Its primary focus is on locally manufactured and imported articles such as alcoholic beverages, tobacco products, and certain categories of vehicles and sugary drinks. The department oversees the licensing, production, and movement of these excisable goods to ensure proper tax collection.[9]

The **Ministry of Finance, Planning and Economic Development** serves as the apex governmental body responsible for formulating, proposing, executing, and evaluating the country's economic and fiscal policies. This includes setting the strategic direction for tax policy and approving the legislative acts and gazette notifications that empower the IRD, Customs, and Excise departments to carry out their functions.[37]

Distinction Between Direct and Indirect Taxes

Understanding the fundamental difference between direct and indirect taxes is crucial for comprehending Sri Lanka's fiscal structure.

Direct Taxes are levies imposed directly on individuals or corporations based on their income, profits, or wealth. The defining characteristic of direct taxes is that the burden is intended to fall on the entity that pays them, and this burden cannot typically be shifted to another party. For instance, an individual's income tax is paid directly by that individual, and a company's corporate income tax is paid directly by the company. In Sri Lanka, key examples of direct taxes include Income Tax and Capital Gains Tax. These taxes are generally designed to be progressive, meaning that those with higher incomes or greater wealth pay a larger proportion of their earnings or assets in tax.

Conversely, **Indirect Taxes** are levied on goods and services rather than directly on income or wealth. While initially collected by an intermediary (such as a manufacturer, importer, or retailer), the economic burden of these taxes is typically passed on to the final consumer through higher prices. The government receives the tax revenue through these intermediaries, who act as collection agents. For example, when a consumer purchases an item, the Value Added Tax (VAT) is included in the price, and the retailer remits this tax to the government. Sri Lanka's indirect tax landscape includes Value Added Tax (VAT), Social Security Contribution Levy (SSCL), Customs Duty, Excise Duty, Stamp Duty, Betting and Gaming Levy, and Share Transaction Levy. These taxes are often considered regressive, as they tend to consume a larger percentage of income from lower-income individuals who spend a greater proportion of their earnings on goods and services.

A significant aspect of Sri Lanka's tax system is the intricate relationship between these administrative bodies and the various tax types. For example, the calculation basis for certain indirect taxes on imports, such as VAT and SSCL, explicitly incorporates values derived from other import-related duties like Customs Duty, Excise Duty, Cess, and Port and Airport Development Levy (PAL).[21] This means that a change in one levy, such as Customs Duty, directly impacts the base and, consequently, the final amount of other taxes calculated on that import. This creates a cascading effect where the total tax burden on an imported item is a cumulative result of multiple interdependent taxes. This interconnectedness highlights that tax reforms are not isolated events; changes in one area inevitably have ripple effects across the entire revenue structure, necessitating a coordinated and holistic approach to fiscal planning by the Ministry of Finance. For taxpayers, this complexity underscores the importance of consulting official tariff guides and gazettes for precise calculations and comprehensive understanding of their obligations.

III. Direct Taxes: Detailed Analysis and Calculation

A. Income Tax

Income tax in Sri Lanka is a primary direct tax, levied on the gains and profits of individuals and companies. The Inland Revenue Department (IRD) is the principal authority responsible for its administration.

1. Individual Income Tax

Legal Basis: Individual income tax is charged under the Inland Revenue Act, No. 24 of 2017, as amended by the Inland Revenue (Amendment) Act, No. 02 of 2025, with provisions generally effective from April 1, 2025.[2]

Taxable Income Sources: The Act identifies several categories of income subject to taxation:

- **Employment Income:** This includes all gains and profits derived from employment for a given year of assessment.[1]
- **Business Income:** Encompasses gains and profits realized from conducting any business activity.[1]
- **Investment Income:** Refers to gains and profits generated from various investment activities.[1]
- **Other Income:** This is a broad category covering gains and profits from any other source, explicitly excluding those of a casual and non-recurring nature.[1]

Residency and Scope: The tax liability of an individual depends on their residency status:

- **Resident Individuals:** Individuals deemed resident in Sri Lanka for a year of assessment are chargeable with income tax on their global income, meaning both income derived from Sri Lanka and income derived from outside Sri Lanka.[2]
- **Non-Resident Individuals:** Individuals deemed non-resident in Sri Lanka are chargeable with income tax only on gains and profits arising or derived from Sri Lanka.[2] However, a non-resident who is a citizen of Sri Lanka is also entitled to

personal relief.[2]

Personal Relief and Deductions:
A significant feature for individuals is the aggregate personal relief, a fixed amount that can be deducted from assessable income. The value of this relief has been adjusted over time to reflect economic conditions and policy objectives:

- For years of assessment prior to January 1, 2020: LKR 500,000.[2]
- For years of assessment commencing on or after January 1, 2020, but prior to January 1, 2023: LKR 3,000,000.[2]
- For years of assessment commencing on or after January 1, 2023, but prior to April 1, 2025: LKR 1,200,000.[2]
- **For years of assessment commencing on or after April 1, 2025: LKR 1,800,000 per annum** (equivalent to LKR 150,000 per month).[1]

It is important to note that this personal relief cannot be deducted by an individual acting as a trustee, receiver, executor, or liquidator, nor can it be deducted against gains from the realization of investment assets.[2] Beyond personal relief, certain qualifying payments may also be deducted. An individual can deduct the lowest of either one-third (⅓) of their taxable income for that year of assessment or LKR 75,000.[1] Specific reliefs such as rent relief and solar panel relief are also mentioned as potential deductions.[1]

Progressive Tax Slabs and Rates (Local Income):
Individual income tax in Sri Lanka operates on a progressive slab system. Tax liability for individuals commences if their monthly earnings surpass LKR 150,000, or LKR 1,800,000 annually, effective from April 1, 2025.1 The progressive tax rates for local income are applied as follows 4:

Taxable Income Slab (LKR)	Tax Rate (%)	Cumulative Tax (LKR)
Up to 1,800,000	Exempt	0
Next 1,000,000	6%	60,000
Next 500,000	18%	150,000
Next 500,000	24%	270,000
Next 500,000	30%	420,000
Balance	36%	(Calculated)

Foreign Service Income Taxation for Individuals:
A significant policy change effective April 1, 2025, impacts individuals providing services to foreign clients. All income earned from such services will be subject to a flat 15% tax rate if it is remitted through a Sri Lankan bank. This 15% rate acts as a final tax for these specific earnings.4 Conversely, if this foreign income is
not remitted through a Sri Lankan bank, it will be subject to the regular progressive tax rates applicable to local income, which could result in a tax rate as high as 36%.[4] To mitigate double taxation, individuals can claim a Foreign Tax Credit (FTC) if they have already paid taxes on this income in the foreign country.[4]

Mathematical Framework for Individual Income Tax:
The calculation of individual income tax involves several steps:

1. Calculate Assessable Income:
   Assessable_Income = Gross_Employment_Income + Gross_Business_Income + Gross_Investment_Income + Gross_Other_Income
2. Calculate Deductible Payments:
   Deductible_Payments = MIN((1/3) * Assessable_Income, 75,000 LKR) + Rent_Relief + Solar_Panel_Relief
3. Calculate Taxable Income (for local income progression):
   Taxable_Income_Local = MAX(0, Assessable_Income - Personal_Relief - Deductible_Payments)
   Where Personal_Relief is LKR 1,800,000 for 2025/26 assessment year.
4. Calculate Income Tax Payable (Local Component) using progressive slabs:
   Tax_Slab1_Amount = MIN(1,000,000, Taxable_Income_Local)
   Tax_Slab2_Amount = MIN(500,000, MAX(0, Taxable_Income_Local - 1,000,000))
   Tax_Slab3_Amount = MIN(500,000, MAX(0, Taxable_Income_Local - 1,500,000))
   Tax_Slab4_Amount = MIN(500,000, MAX(0, Taxable_Income_Local - 2,000,000))
   Tax_Slab5_Amount = MAX(0, Taxable_Income_Local - 2,500,000)
   Income_Tax_Payable_Local = (Tax_Slab1_Amount * 0.06) + (Tax_Slab2_Amount * 0.18) + (Tax_Slab3_Amount * 0.24) + (Tax_Slab4_Amount * 0.30) + (Tax_Slab5_Amount * 0.36)
5. Calculate Income Tax Payable (Foreign Service Remitted Component):
   Income_Tax_Payable_Foreign_Service_Remitted = Foreign_Service_Income_Remitted_via_SL_Bank * 0.15
6. Calculate Total Income Tax Payable:
   Total_Income_Tax_Payable = Income_Tax_Payable_Local + Income_Tax_Payable_Foreign_Service_Remitted - Foreign_Tax_Credit

Payment Schedule and Filing Requirements:

Individual income tax is payable on a self-assessment basis, requiring taxpayers to calculate their own liability and pay in quarterly installments.1

- **Installment Due Dates (Financial Year 2025/2026):**
  - 1st Installment (Income for April-June 2025): On or before August 15, 2025.[1]
  - 2nd Installment (Income for July-September 2025): On or before November 15, 2025.[1]
  - 3rd Installment (Income for October-December 2025): On or before February 15, 2026.[1]
  - 4th Installment (Income for January-March 2026): On or before May 15, 2026.[1]
- **Final Payment:** For the 2025/26 Assessment Year, any remaining tax after quarterly installments should be paid by September 30, 2026.[1]
- **Tax Filing Deadlines:**
  - The tax filing for the 2024/25 Assessment Year should be completed by November 30, 2025.[1]
  - The tax filing for the 2025/26 Assessment Year should be completed by November 30, 2026.[1]

    The Inland Revenue Department provides e-services for convenient online payments and filings, encouraging digital compliance.1

Penalties for Non-Compliance:
Sri Lanka enforces a clear penalty structure for income tax non-compliance:

- **Late Filing of Return:** The penalty is the greater of 5% of the tax owing, plus an additional 1% of the tax owing for each month or part of a month during which the failure to file continues.[1]
- **Delay or Non-Payment:** A 20% penalty is applied to the tax amount if it is not paid within 14 days of the due date. Furthermore, a 1.5% interest charge per month (or part of a month) will be applied on the defaulted installment or part payment.[1]
- **Understating Payable Tax:**
  - If the understated amount is less than LKR 10 million or 25% of the total tax liability, a penalty of 25% of the understated amount is imposed.[1]
  - If the understated amount exceeds LKR 10 million, the penalty increases significantly to 75% of the understated amount.[1]

2. Corporate Income Tax

Corporate Income Tax Rate: The general corporate income tax rate applicable to companies in Sri Lanka is **30% of their net profit**.[1]

Qualifying Payments and Exemptions: Companies are permitted to deduct certain qualifying payments from their taxable income. The deductible amount for these payments is the lowest of either 20% of their aggregate taxable income for that year of assessment or LKR 500,000.[1]

Foreign Service Income Taxation for Corporates:
Mirroring the policy for individuals, companies engaged in service exports also benefit from a preferential tax regime effective April 1, 2025. A flat 15% tax rate is applied to their profits derived from such services, provided that these foreign earnings are channeled through a Sri Lankan bank.4 This serves as a final tax rate for these specific earnings. If, however, foreign earnings are not remitted through a Sri Lankan bank, they may be subject to the regular corporate tax rate of 30%.4 Companies can also claim a Foreign Tax Credit (FTC) to reduce their Sri Lankan tax liability if they have paid foreign taxes on their exported services.4

Table 2: Corporate Income Tax Rates (2025)

Income Type / Source	Tax Rate (%)	Conditions/Notes
General Corporate Profit	30%	Of net profit
Foreign Service Income (Remitted via SL Bank)	15%	Flat rate, acts as final tax
Foreign Service Income (Not Remitted via SL Bank)	Up to 30%	Taxed at regular corporate rates

Mathematical Framework for Corporate Income Tax:

1. Calculate Taxable Profit (Local Business):
   Taxable_Profit_Local_Business = Net_Profit_Local_Business - Exemptions - Deductible_Qualifying_Payments
   Where Deductible_Qualifying_Payments = MIN(0.20 * Aggregate_Taxable_Income, 500,000 LKR)
2. Calculate Corporate Income Tax Payable (Local Business):
   Corporate_Income_Tax_Payable_Local_Business = Taxable_Profit_Local_Business * 0.30
3. Calculate Corporate Income Tax Payable (Foreign Service Remitted Component):
   Corporate_Income_Tax_Payable_Foreign_Service_Remitted =

Profits_from_Foreign_Service_Exports_Remitted * 0.15
4. Calculate Total Corporate Income Tax Payable:
Total_Corporate_Income_Tax_Payable =
Corporate_Income_Tax_Payable_Local_Business +
Corporate_Income_Tax_Payable_Foreign_Service_Remitted - Foreign_Tax_Credit

Payment Schedule and Filing Requirements: Similar to individuals, corporate income tax is payable in quarterly installments based on self-assessment, adhering to the same due dates as individuals.[1] Annual tax filing deadlines also apply, consistent with individual filing dates.[1]

Penalties for Non-Compliance: The penalties for late filing, non-payment, and understatement of tax liabilities for corporations are consistent with those applied to individuals.[1]

The policy of introducing a distinct, significantly lower 15% flat tax rate for foreign service income, contingent on its remittance through a Sri Lankan bank, represents a strategic economic maneuver.[4] This measure is more than just a tax adjustment; it is a direct incentive designed to encourage the inflow of foreign currency into the formal banking system. This approach serves a dual purpose: it aims to bolster Sri Lanka's foreign exchange reserves, a critical need given recent economic challenges, and simultaneously seeks to formalize income generated by the burgeoning service export sector, which includes industries such as IT, Business Process Outsourcing (BPO), and freelancing. The imposition of higher progressive tax rates (up to 36% for individuals and 30% for corporates) if these earnings are not remitted through a Sri Lankan bank further reinforces this incentive, making the formal channel the financially advantageous option. This policy reflects a deliberate economic pivot towards strengthening the service export sector as a key driver of growth and foreign currency generation. It aims to diversify the economy beyond traditional sectors and enhance the transparency and traceability of foreign earnings. For individuals and businesses involved in service exports, this creates a clear financial imperative to utilize local banking channels, which is expected to lead to increased tax compliance and foster a more robust, digitally-enabled economy. This also illustrates the government's proactive utilization of tax policy as a tool to achieve broader macro-economic stability and growth objectives.

B. Capital Gains Tax (CGT)

Legal Basis: Capital Gains Tax (CGT) in Sri Lanka is imposed under the provisions of the Inland Revenue Act, No. 24 of 2017.[2]

Scope of Chargeability: CGT is levied on gains realized from the transfer of ownership of "investment assets." The Act broadly defines "transfer" to include various forms of disposition such as sale, exchange, distribution, cancellation, redemption, destruction, loss, expiry, expropriation, or surrender of an investment asset.[2] The tax specifically targets the gain derived from such realization.

Definitions:

- **Investment Asset:** An "Investment Asset" is defined (as per Section 195 of the Inland Revenue Act) as a capital asset held as part of an investment. However, it explicitly excludes an individual's principal place of residence, provided that the individual has owned it continuously for three years before disposal and has lived in it for at least two of those three years (calculated on a daily basis).[2]
- **Capital Asset:** A "Capital Asset" (as per Section 195) broadly includes:
  - Land or Building.[2]
  - A membership interest in a company, partnership, or trust.[2]
  - A security or other financial assets.[2]
  - An option, right, or other interest in any of the above-mentioned assets.[2]

    It is important to note that capital assets explicitly exclude trading stock or depreciable assets.2

Exemptions and Excluded Assets: Certain assets and gains are exempt from CGT:

- The principal place of residence of an individual, provided it meets the specific ownership and occupancy criteria mentioned above.[2]
- Quoted shares listed on the Colombo Stock Exchange are specifically excluded from CGT.[2]
- For resident individuals, a gain from the realization of an investment asset is exempt if the gain itself does not exceed **LKR 50,000**, and the total gains from all investment asset realizations in the year of assessment do not exceed **LKR 600,000**.[2]

CGT Rates: The rate of Capital Gains Tax varies depending on the type of taxpayer:

- For Companies: **30%** of the capital gain.[2]
- For entities other than Companies (e.g., Individuals, Partnerships, Trusts): **10%** of

the capital gain.[2]

Capital Loss Treatment: A significant aspect of CGT in Sri Lanka is that a loss incurred from the realization of an investment asset is explicitly *not deductible* against any gain from the realization of another investment asset.[2] This means capital losses cannot be offset against capital gains.

Table 3: Capital Gains Tax Rates and Exemptions

Taxpayer Type	CGT Rate (%)	Individual Exemption Threshold (per gain)	Individual Annual Exemption Threshold (total gains)
Companies	30%	N/A	N/A
Individuals, Partnerships, Trusts	10%	LKR 50,000	LKR 600,000

Mathematical Framework for Capital Gains Tax:

1. Calculate Capital Gain:
   Capital_Gain = Consideration_Received - Cost_of_Asset
   Where Cost_of_Asset for assets held as of September 30, 2017, is deemed to be the market value of the asset on that date.2
2. Calculate CGT Payable (Individual):
   CGT_Payable_Individual = IF(Capital_Gain <= 50,000 AND Total_Annual_Gains <= 600,000, 0, Capital_Gain * 0.10)
3. Calculate CGT Payable (Company/Other):
   CGT_Payable_Company_Other = Capital_Gain * 0.30 (for companies) or Capital_Gain * 0.10 (for partnerships/trusts, subject to individual exemption rules if applicable).

Payment and Filing Deadlines:
Every person liable for CGT is required to file a CGT return and make the payment after the realization of an investment asset.2

- **Due Date for Payment of Tax:** Not later than 30 days after the end of the month in which the investment asset was realized.[2]
- **Due Date for Furnishing Returns:** Not later than 30 days after the end of the month in which the investment asset was realized.[2]

Taxpayers have several options for submission: online through e-Services, at the relevant Inland Revenue Metropolitan/Regional Office, or at the Central Document Management Unit (CDMU) located at the Inland Revenue building.2

IV. Indirect Taxes: Detailed Analysis and Calculation

A. Value Added Tax (VAT)

Legal Basis: Value Added Tax (VAT) was introduced in Sri Lanka by the VAT Act, No. 14 of 2002, and became effective on August 1, 2002, replacing the Goods and Services Tax (GST).[7] The Act has been subject to numerous amendments, with the

Value Added Tax (Amendment) Act No. 04 of 2025 being a recent and significant update, certified on April 11, 2025. This amendment includes provisions that are retroactive to January 1, 2024, and others that became effective on October 1, 2025.[5]

Nature: VAT is a multi-stage indirect tax levied on the incremental value added at each stage of the production and distribution chain of goods and services. While collected by intermediaries, the tax burden is ultimately borne by the final consumer of the goods or services.[7]

Scope of Chargeability (excluding financial services): VAT is chargeable on a broad range of taxable activities:

- Manufacturers, Importers, Exporters, and Service providers.[7]
- Suppliers who supply goods under tender agreements.[7]
- Wholesale and Retail Trade.[7]
- **New for 2025:** A significant expansion of the VAT base includes the supply of services by a non-resident person through an electronic platform to a person in Sri Lanka, effective October 1, 2025.[5] This explicitly covers a wide array of digital services, such as e-commerce, cloud computing, Software as a Service (SaaS), digital marketing and advertising, IT support, streaming services, FinTech, subscription and membership websites, and apps for hotel bookings and ticket reservations.[5]

- **Mandatory Registration:** All persons importing or exporting goods for commercial purposes are now required to register under the VAT Act, irrespective of their turnover thresholds or existing exemptions.[7]

Registration Thresholds (Effective January 1, 2024):
Businesses are generally required to register for VAT if their taxable supplies meet certain thresholds:

- For taxable supply of goods or services (excluding financial services), including wholesale and retail trade: The value of supply exceeds **LKR 15 million for a quarter** OR **LKR 60 million for a 12-month period**.[7]
- For the supply of financial services by a specified institution or other person: The value of supply exceeds **LKR 3 million per quarter** OR **LKR 12 million per annum**.[7]
- Voluntary registration is also available for any person who carries on or carries out a taxable supply, regardless of whether they meet the registration thresholds.[7]
- Non-resident digital service providers, as part of the new regulations, must obtain a Tax Identification Number (TIN) before proceeding with VAT registration, provided their supply value meets the specified thresholds.[5]

VAT Rates:

- **Standard Rate:** The standard VAT rate in Sri Lanka has been **18% since January 1, 2024**.[7]
- **Zero Rate (0%):** Applies to Exports of goods or services.[7]
- **Specific Zero-Rated Provisions:**
    - Effective January 1, 2024, the value of employer-provided staff meals (free of charge or subsidized) and transport (free of charge or subsidized, using a motor coach between residence and workplace) is treated as zero for VAT purposes.[6]
    - Also effective January 1, 2024, any reinsurance commission or compensation received in foreign currency by a local insurance company from a reinsurer outside Sri Lanka, through a bank, is treated as zero-rated.[8]
- **Repeal of SVAT:** The Simplified VAT (SVAT) scheme has been repealed and replaced with a VAT refund scheme, effective October 1, 2025.[6]

Table 4: Value Added Tax Rates and Thresholds (2025)

Category / Type of Supply	VAT Rate (%)	Registration Threshold (Quarterly)	Registration Threshold (Annual/12-mont	Effective Date

			h)	
Standard Rate (Goods/Services)	18%	N/A	N/A	Jan 1, 2024
Exports	0%	N/A	N/A	Ongoing
Cross-border Digital Services (Non-residents)	18%	LKR 15M	LKR 60M	Oct 1, 2025
Financial Services	(Specific calculation)	LKR 3M	LKR 12M	Ongoing
Employer-provid ed Staff Meals/Transport	0%	N/A	N/A	Jan 1, 2024
Reinsurance Commission (Foreign Currency)	0%	N/A	N/A	Jan 1, 2024

Mathematical Framework for VAT:

1. Basic VAT Calculation:
   VAT_Payable = Output_VAT - Input_VAT
   Output_VAT = Taxable_Supply_Value * VAT_Rate
   Input_VAT = Taxable_Purchase_Value * VAT_Rate
2. VAT on Imports Calculation (as per Sri Lanka Customs National Imports Tariff Guide):
   VAT_on_Imports = (CIF_Value * 1.10 + Customs_Duty + Surcharge_on_CID + Excise_Duty + Luxury_Tax) * VAT_Rate 21

   The CIF_Value * 1.10 component implies a 10% uplift on the CIF value before other duties are added to the VAT base for import calculations. This uplift is a specific element in the calculation of the taxable base for VAT on imports.

Payment and Filing Requirements:

- Every registered person or partnership that supplies goods or services is required to make monthly VAT payments on or before the **20th day of the following month**.[7]
- **Mandatory Electronic Filing:** For taxable periods commencing on or after July 1, 2025, VAT returns must be furnished *by electronic means*. An acknowledgment will be generated through the Revenue Administration Management Information System upon successful submission.[6] A proviso allows the Commissioner-General to permit written returns in special circumstances.
- **VAT Refunds:** The process for refunding excess input tax for eligible exporters or registered persons supplying goods/services to Strategic Development Projects will be expedited to within 45 days from October 1, 2025, under the Risk Based Refund Scheme.[8] Concurrently, the contribution to the VAT refund fund has increased from 6% to 10%, effective October 1, 2025.[6]

Penalties: Non-compliance with VAT registration requirements can lead to penalties imposed by the Inland Revenue Department.[5]

The explicit introduction of an 18% VAT on cross-border digital services provided by non-resident companies to local consumers, effective October 1, 2025, along with the requirement for these foreign providers to register for VAT in Sri Lanka, signifies a substantial and forward-looking policy.[5] This is not merely a new tax; it represents a strategic adaptation of the tax system to the modern digital economy. By taxing services such as streaming, Software as a Service (SaaS), and online gaming, the government is ensuring that a rapidly expanding segment of consumption, which might have previously operated outside the domestic tax net, now contributes to national revenue. This also contributes to creating a more equitable playing field for local digital service providers, who were already subject to VAT. This policy move is a clear indication of Sri Lanka's concerted efforts to broaden its tax base and capture revenue from the burgeoning digital economy, aligning with international trends in digital service taxation. For consumers, this implies an increase in the cost of digital services. For the government, it opens up a new, potentially substantial, revenue stream and enhances its capacity to monitor and regulate digital transactions within the country, thereby contributing to overall fiscal stability. The concurrent shift to mandatory electronic filing for VAT further supports this formalization and efficiency drive, streamlining the collection process and improving compliance oversight.

B. Social Security Contribution Levy (SSCL)

Legal Basis: The Social Security Contribution Levy (SSCL) was introduced in Sri Lanka with effect from October 1, 2022, by the Social Security Contribution Levy Act, No. 25 of 2022.[2] Every registered person is required to account for the levy on an accrual basis.[19]

Scope of Liability: SSCL is payable by every taxable person, whether an individual or an entity (including bodies corporate or unincorporated, executors, non-governmental organizations, and charitable institutions), who engages in specific activities [14]:

- Imports any article.
- Carries on the business of manufacture of any article.
- Carries on the business of providing a service of any description.
- Carries on the business of wholesale or retail sale of any article, including the importation and sale of such article (excluding sales by the manufacturer of that article if the manufacturer is already liable under the manufacturing category).
  It is notable that importers are liable for SSCL at the point of import, with no turnover threshold applied to them.14

Registration Thresholds (Effective January 1, 2024):
A business must register for SSCL if its turnover meets either of the following criteria 14:

- Quarterly turnover exceeds **LKR 15 million**, OR
- Turnover exceeds **LKR 60 million** in any four consecutive quarters.
- Historically, the threshold was LKR 30 million per quarter or LKR 120 million per year, which was subsequently lowered.[14]

SSCL Rate: The SSCL is charged at a rate of **2.5%** on the liable turnover.[14]

Liable Turnover Percentages by Category: The percentage of total turnover considered "liable turnover" for SSCL calculation varies based on the business category [14]:

- Importers: **100%** of the turnover.
- Service providers: **100%** of the turnover.
- Manufacturers: **85%** of the turnover.
- Wholesale distributors (specifically local manufacturers): **50%** of the turnover.
- Other wholesalers/retailers: **25%** of the turnover.

Table 5: Social Security Contribution Levy (SSCL) Liable Turnover Percentages

Category	Liable Turnover Percentage (%)
Importers	100%
Service Providers	100%
Manufacturers	85%
Wholesale Distributors (Local Manufacturers)	50%
Other Wholesalers/Retailers	25%

Exempt Articles and Services: Certain articles and services are exempt from SSCL [14]:

- **Exempt Articles:** Exported goods, pharmaceuticals, fertilizer, petroleum, LP gas, equipment for differently-abled persons, imported motor vehicles liable to Excise Duty, rough gems imported for re-export, goods sold at duty-free shops, and rice from local paddy.
- **Exempt Services:** Electricity (except by licensed distributors), medical and water supply services, passenger/goods transport, life insurance, government and Central Bank services, and services by registered Air Transport Sales Agents.

Mathematical Framework for SSCL:

1. Calculate Liable Turnover:
   Liable_Turnover = Total_Turnover * Liable_Turnover_Percentage (based on the category from Table 5)
2. Calculate SSCL Payable:
   SSCL_Payable = Liable_Turnover * 0.025
3. SSCL on Imports Calculation (as per Sri Lanka Customs National Imports Tariff Guide):
   SSCL_on_Imports = (Value_of_Article + 0.10 * Value_of_Article + Customs_Duty + Cess_Levy + PAL_Rate + Excise_Duty + Surcharge) * SSCL_Rate 21

   The Value_of_Article + 0.10 * Value_of_Article component implies a 10% uplift on the import value before other duties are added to the SSCL base for import calculations.

Payment and Filing Deadlines:

- **Monthly Payments:** SSCL payments are due by the **20th of the following month**.[14]
- **Quarterly Returns:** Every registered person must furnish a written return for every quarter on or before the **20th day of the month after the end of each relevant quarter** (i.e., January 20, April 20, July 20, October 20).[14]
- **Tax Type Code:** The Tax Type Code for SSCL is 32.[14]
- **Payment Period Codes:** The Payment Period Code is a five-digit number in the format YYQMM (e.g., 25101 for January 2025, where 25 denotes the year 2025, 1 indicates the first quarter, and 01 represents January).[14]

Penalties for Non-Compliance:

- **Late Payments:** A 10% penalty is imposed on late payments.[14]
- **Interest:** An additional 2% interest per month is charged on the outstanding amount.[14]
- **Maximum Penalty:** The maximum penalty is capped at 100% of the tax due.[14]

De-registration Option: Businesses have the option to apply for cancellation of their SSCL registration if their turnover falls below LKR 60 million in four consecutive quarters, a provision effective from January 1, 2024.[14]

C. Customs Duty (CD)

Scope and Application: Customs Duty (CD) is a fundamental indirect tax levied on goods imported into Sri Lanka.[20] It is a primary source of government revenue and is administered by Sri Lanka Customs.

General Duty Rates: The primary Customs Import Duty (CID), also referred to as General Duty, is typically calculated as **20% of the CIF (Cost, Insurance, and Freight) value** of the imported goods.[39]

Surcharge on Customs Import Duty: In addition to the basic CID, an additional surcharge of **50% of the CID** is applied.[39] This surcharge effectively increases the total Customs Import Duty to 30% of the CIF value.[39] This means that for every LKR 100 of CIF value, LKR 20 is initially charged as CID, and then LKR 10 (50% of LKR 20) is added as a surcharge, totaling LKR 30 in Customs Duty.

Mathematical Framework for Customs Duty and Surcharge:

1. Calculate Customs Import Duty (CID):
   CID = CIF_Value * 0.20
2. Calculate Surcharge on CID:
   Surcharge_on_CID = CID * 0.50
3. Calculate Total Customs Levy:
   Total_Customs_Levy = CID + Surcharge_on_CID

Table 6: Illustrative Customs Duty and Surcharge Calculation for Imports

Component	Formula/Rate	Example Value (assuming CIF = LKR 1,000,000)	Calculated Amount (LKR)
CIF Value	N/A	1,000,000	1,000,000
Customs Import Duty (CID)	20% of CIF Value	1,000,000 * 0.20	200,000
Surcharge on CID	50% of CID	200,000 * 0.50	100,000
Total Customs Levy	**CID + Surcharge**	**200,000 + 100,000**	**300,000**

Role of Sri Lanka Customs: Sri Lanka Customs is the responsible authority for the collection and administration of Customs Duty. The department provides essential resources such as Import Tariff Guides and publishes information on recent duty changes, which are crucial for importers to determine their liabilities accurately.[20]

Other Import Levies (mentioned in Customs Tariff Guide): In addition to Customs Duty, several other levies are imposed on imports, which contribute to the overall cost and form part of the tax base for other taxes like VAT and SSCL. These include [21]:

- **Port and Airport Development Levy (PAL):** Calculated as CIF_Value * PAL_Rate. For instance, the PAL rate for gasoline is 7.5%.[21]
- **Export Development Board Cess (Cess):** Calculated as Value * Cess_Levy_Rate.
- Special Commodity Levy (SCL): Calculated as Quantity * Unit_rate_of_SCL. These additional levies are significant as they contribute to the final landed cost of imported goods and directly influence the calculation of other consumption taxes.

D. Excise Duty

Scope: Excise Duty in Sri Lanka is a tax charged on specific articles that are manufactured or produced within Sri Lanka, or imported into the country.[23] The rates of excise duty are not fixed by statute but are specified by the Minister of Finance through Orders published in the Gazette, allowing for flexibility in fiscal policy.[23] The Department of Excise is the primary body responsible for the administration and collection of these duties.[36]

Key Categories and Recent Adjustments (from January 2025 Gazettes):
Recent gazette notifications, particularly from January 2025, have introduced significant adjustments to excise duties across several product categories, reflecting a dual objective of revenue generation and influencing public health or economic behaviors.

- **Vehicles:**
  - Import duties on vehicles have seen substantial increases, ranging from **200% to 300%** for vehicles not more than 10 years old from their date of manufacture.[9]
  - The rates are determined based on the engine cylinder capacity (cc) or motor power (kW).[9]
  - Examples of rates per cubic centimeter (cc) for cars (effective January 2025) [12]:
    - 1,000-1,300 cc: LKR 2,750 per cc (increased from LKR 2,600).
    - 1,300-1,500 cc: LKR 3,450 per cc (increased from LKR 3,250).
    - Not more than 1,600 cc: LKR 4,800 per cc (increased from LKR 4,550).
    - 1,600-1,800 cc: LKR 6,300 per cc (increased from LKR 5,900).
    - Vehicles exceeding 3,000 cc can attract duties of up to LKR 13,300 per cc.[9]
  - **Hybrid and Electric Vehicles:** Duties are influenced by motor types and battery capacities. Electric vehicles, for instance, face duties ranging from 200% (for those older than 3.5 years) to 300% (for newer units).[9] A specific rate of 60% is also mentioned for electric vehicles.[39]
  - **Luxury Tax:** A luxury tax is applied when the CIF value of a vehicle exceeds a specified threshold, which has been increased from LKR 3.5 million to a range of LKR 5 million – LKR 6 million, depending on the fuel type. The rates for luxury tax vary by vehicle type (e.g., Petrol: 100%, Diesel: 120%, Electric: 60%).[39]

    - **Concessionary Permits:** Public officers purchasing locally manufactured or imported vehicles under concessionary permits are eligible for substantial duty reductions, with waivers of LKR 22 million, LKR 16 million, or LKR 12 million depending on their category. Sri Lankan diplomatic officers who have served abroad are eligible for a deduction of LKR 3.6 million.[11]
- **Alcohol:** Excise duties on alcoholic beverages were also revised in January 2025, leading to increased prices.[13]
    - **Rates per liter:** Special arrack: LKR 7,244; Molasses, palm, coconut, and seasoned arrack: LKR 7,752; Locally produced foreign liquor: LKR 7,969.[13]
    - **Price increases per bottle:** Rock arrack: +LKR 102 (now LKR 3,682); Coconut arrack: +LKR 109 (now LKR 3,959); Old arrack: +LKR 109 (now LKR 4,109); Special old arrack: +LKR 109 (now LKR 4,359).[13]
    - **Beer:** Low-alcohol beer saw an increase of LKR 30 per bottle, while high-alcohol beer increased by LKR 40 per bottle.[13]
- **Tobacco (Cigarettes):** Excise duties on cigarettes have been increased, with rates now depending on the length of the cigarette [11]:
    - Up to 60mm: LKR 19.35 each.
    - Between 60mm and 67mm: LKR 50.15 each.
    - Between 67mm and 72mm: LKR 71.45 each.
    - Between 72mm and 84mm: LKR 81 each.
    - Exceeding 84mm: LKR 90.05 each.
- **Sugary Drinks:** Excise duties on beverages, particularly those high in sugar, have also risen [11]:
    - **Mineral and aerated waters with added sugar or flavouring:** Taxed at LKR 15 per liter or 36 cents per gram of sugar (excluding 6 grams per 100 ml), whichever is higher. This rate also applies to energy drinks.
    - **Fruit and vegetable juice-based beverages with more than 6 grams of sugar per 100 ml:** Taxed at 36 cents per gram of sugar (excluding 8 grams per 100 ml).
- **Electronics:** Selected electronic items are subject to new levies ranging between 20% and 30%, depending on the product category.[11]

Table 7: Selected Excise Duty Rates (Effective January 2025)

Product Category	Item/Unit	Rate (LKR or %)	Notes
Vehicles (Imports)			

Passenger Vehicles	200% - 300%	Based on engine capacity/motor power, age	[9]
Cars (1000-1300cc)	per cc	2,750	[12]
Cars (1300-1500cc)	per cc	3,450	[12]
Electric Vehicles	% of value	60% - 300%	Varies by age/type [9]
Alcohol			
Special Arrack	per liter	7,244	[13]
Molasses, Palm, Coconut, Seasoned Arrack	per liter	7,752	[13]
Locally Produced Foreign Liquor	per liter	7,969	[13]
Low-alcohol Beer	per bottle	+30 (increase)	[13]
High-alcohol Beer	per bottle	+40 (increase)	[13]
Tobacco (Cigarettes)			
Up to 60mm	per stick	19.35	[11]
60mm - 67mm	per stick	50.15	[11]
67mm - 72mm	per stick	71.45	[11]
72mm - 84mm	per stick	81.00	[11]
Exceeding 84mm	per stick	90.05	[11]

Sugary Drinks			
Mineral/Aerated Water (with sugar/flavoring)	per liter	15.00	Or 36 cents/gram sugar (excl. 6g/100ml), whichever higher [11]
Fruit/Vegetable Juice (>6g sugar/100ml)	per gram sugar	0.36	(Excl. 8g/100ml) [11]
Electronics	% of value	20% - 30%	Varies by product category [11]

Mathematical Framework (Illustrative, as specific formulas vary widely):

1. Excise Duty on General Imports (as per Customs Tariff Guide):
   Excise_Duty_Import = (Value_of_Article + 0.15 * Value_of_Article + Customs_Duty + Cess_Levy + PAL_Rate) * Excise_Rate 21

   The Value_of_Article + 0.15 * Value_of_Article implies a 15% uplift on the value before other duties are added to the excise duty base for general imports.
2. Excise Duty on Specific Items (e.g., Alcohol, Cigarettes):
   Excise_Duty_Specific = Quantity * Unit_Rate (where Unit_Rate is per liter, per cc, or per cigarette stick).
3. Excise Duty on Sugary Drinks (Mineral/Aerated Water example):
   Excise_Duty_Sugary_Drinks = MAX(Quantity_in_Liters * 15, MAX(0, Total_Sugar_Grams - (Quantity_in_Liters * 60)) * 0.36)
   This formula captures the "whichever is higher" rule, comparing a flat rate per liter to a rate based on sugar content exceeding a certain threshold (6 grams per 100ml, or 60 grams per liter).

The recent significant increases in excise duties on vehicles, alcohol, tobacco, and sugary drinks, particularly evident in the January 2025 gazettes, demonstrate a clear policy direction that extends beyond mere revenue generation.[9] The substantial hikes on alcohol, tobacco, and sugary beverages indicate a deliberate strategy to influence public health outcomes by making these items less affordable, thereby aiming to discourage their consumption. Similarly, the high duties on vehicle imports, especially following a five-year suspension, serve a strong revenue imperative, likely also intended to manage foreign exchange outflows and curb luxury consumption. The provision of concessionary permits for public officers within this framework also highlights specific social policy considerations. This approach illustrates how indirect taxes, such as excise duties, are powerful instruments for both fiscal policy (maximizing revenue) and broader social policy objectives (public health, foreign exchange management, and discouraging certain consumption patterns). This also suggests that these rates are subject to frequent adjustments based on prevailing economic conditions and evolving governmental priorities.

E. Stamp Duty (SD)

Legal Basis: Stamp Duty in Sri Lanka is charged under two primary legislative acts: the **Stamp Duty Act, No. 43 of 1982**, and the **Stamp Duty (Special Provisions) Act, No. 12 of 2006**.[24] The 2006 Act reintroduced central government stamp duties for specific instruments after they were suspended from May 1, 2002.[25]

Scope: Stamp duty is levied on various instruments and documents, both those executed or drawn in Sri Lanka and those executed outside Sri Lanka but relating to property or matters within Sri Lanka and presented domestically.[24]

- **Specified Instruments (under Stamp Duty (Special Provisions) Act No. 12 of 2006):** These include affidavits, policies of insurance, warrants to act as Notary Public, periodic licenses for trade/business/profession/vocation, claims/demands/requests made by service providers from credit card holders for transaction payments, share certificates (new issue, additional issue, transfer, or assignment), bonds or mortgages for definite sums of money affecting property, promissory notes, leases or hires of any property, and receipts or discharges given for money or other property.[25]
- **Other Instruments:** Stamp duty is also charged on instruments relating to the transfer of immovable property and documents presented or filed in proceedings instituted in any Court of law.[29]

Central vs. Provincial Levy: A key distinction in Stamp Duty administration is its devolution. Stamp duties on immovable property and certain movable properties were devolved to the Provincial Councils by the 13th Amendment to the Constitution.[25] This means that rates for property transfers can vary by province, as illustrated by the Central Province example provided in the research. The central government's reintroduction of stamp duty in 2006 focused on a specific list of instruments, distinct from the provincial purview.[25]

Rates for Key Instruments (Illustrative):

The rates for stamp duty vary significantly depending on the type of instrument and, for immovable property, potentially by province.

- **Affidavit:** LKR 50.[30]
- **Policy of Insurance:** LKR 1 for every LKR 1,000 or part thereof.[30]
- **Warrant to act as Notary Public:** LKR 2,000.[30]
- **Foreign Liquor License:** LKR 20,000.[30]
- **Credit Card Transactions in Foreign Countries:** LKR 25 for every LKR 1,000 or part thereof.[30]
- **Bond or Mortgage (for definite sum):** LKR 1 per every LKR 1,000 or part thereof.[30]
- **Promissory Note:** LKR 1 per every LKR 1,000 or part thereof.[30]
- **Lease or Hire of Property:** LKR 10 per every LKR 1,000 or part thereof of the aggregated rent or hire (not exceeding the sum for the first 20 years of lease term, where it exceeds 20 years).[30]
- **Receipt or Discharge (for amount exceeding LKR 25,000):** LKR 25.[30]
- Immovable Property (Central Province example, rates may vary by province) [41]:
  - **Sale:**
    - Value LKR 100,000 or less: LKR 3 for every LKR 100 or part thereof (effectively 3%).
    - Value exceeds LKR 100,000: LKR 3,000 on the first LKR 100,000, then LKR 4 for every LKR 100 or part thereof (effectively 4%) on the balance.
  - **Gift:**
    - Value LKR 50,000 or less: LKR 3 for every LKR 100 or part thereof (effectively 3%).
    - Value exceeds LKR 50,000: LKR 1,500 on the first LKR 50,000, then LKR 2 for every LKR 100 or part thereof (effectively 2%) on the balance.
- Court Documents [41]:
  - High Court: LKR 2 for every LKR 1,000 or part thereof (maximum LKR 2,000).
  - District Court: LKR 1 for every LKR 1,000 or part thereof (maximum LKR 1,000).

Table 8: Key Stamp Duty Rates for Common Instruments (Illustrative)

Instrument Type	Rate (LKR or % and basis)	Notes
Affidavit	LKR 50	[30]

Policy of Insurance	LKR 1 per LKR 1,000 or part thereof	[30]
Warrant to act as Notary Public	LKR 2,000	[30]
Foreign Liquor License	LKR 20,000	[30]
Credit Card Transactions (foreign)	LKR 25 per LKR 1,000 or part thereof	[30]
Bond or Mortgage	LKR 1 per LKR 1,000 or part thereof	[30]
Promissory Note	LKR 1 per LKR 1,000 or part thereof	[30]
Lease/Hire of Property	LKR 10 per LKR 1,000 of aggregated rent	Max for first 20 years [30]
Receipt/Discharge (over LKR 25,000)	LKR 25	[30]
Immovable Property Sale (Central Prov.)		
Value <= LKR 100,000	3% (LKR 3 per LKR 100)	[41]
Value > LKR 100,000	LKR 3,000 + 4% on balance	[41]
Immovable Property Gift (Central Prov.)		
Value <= LKR 50,000	3% (LKR 3 per LKR 100)	[41]
Value > LKR 50,000	LKR 1,500 + 2% on balance	[41]
Court Documents		

High Court	LKR 2 per LKR 1,000 (max LKR 2,000)	41
District Court	LKR 1 per LKR 1,000 (max LKR 1,000)	41

Mathematical Framework (Illustrative):

1. Stamp Duty on Property Sale (Central Province):
   Stamp_Duty_Property_Sale = IF(Sale_Value <= 100000, Sale_Value * 0.03, (100000 * 0.03) + (Sale_Value - 100000) * 0.04)
2. Stamp Duty on Insurance Policy:
   Stamp_Duty_Insurance = CEILING(Policy_Value / 1000) * 1 (where CEILING rounds up to the nearest integer)

Compounding of Stamp Duty: For certain categories of persons, stamp duty can be compounded. This requires obtaining registration from the Inland Revenue Department. Entities such as insurance policy issuers, licensing authorities, credit card service providers, and employers with over 100 employees are typically required to register for compounding. These compounding authorities must remit the relevant Stamp Duty to the Commissioner General of Inland Revenue quarterly, within 15 days from the end of the quarter.[25]

F. Betting and Gaming Levy (B&GL)

Scope: The Betting and Gaming Levy (B&GL) is an indirect tax imposed on businesses engaged in bookmaking and gaming activities in Sri Lanka.[15]

Legal Basis: The levy is primarily governed by the Betting and Gaming Levy Act, No. 40 of 1988, as amended by Act No. 7 of 2001.[15]

Annual Levy Amounts (from Betting and Gaming Levy (Amendment) Act, No. 7 of 2001): The Act specifies fixed annual levy amounts for different types of businesses in the sector, effective from April 1, 2001, onwards [15]:

- For a person carrying on the business of a **bookmaker**: **LKR 1,000,000** per year.[15]
- For a person carrying on the business of **gaming**: **LKR 25,000,000** per year.[15]

Table 9: Betting and Gaming Levy Annual Amounts

Business Type	Annual Levy (LKR)	Effective Date
Bookmaker	1,000,000	April 1, 2001 onwards
Gaming Business	25,000,000	April 1, 2001 onwards

Mathematical Framework:

1. Betting and Gaming Levy (Bookmaker):
   BGL_Bookmaker = 1,000,000 LKR_per_annum
2. Betting and Gaming Levy (Gaming Business):
   BGL_Gaming_Business = 25,000,000 LKR_per_annum

Recent Legislative Developments: The Sri Lankan government is actively working on a draft bill to establish a new Gambling Regulatory Authority. This proposed legislation aims to repeal outdated gambling laws, including the Horse Racing Betting Ordinance, the Gambling Ordinance, and the Casino Ordinance. The objective is to centralize regulation, enhance transparency, improve revenue collection from the sector, and combat unlawful gambling operations.[32] This indicates a move towards a more structured and potentially more revenue-efficient framework for the betting and gaming industry.

Penalties for Default: The Act also specifies penalties for default in paying the levy. If any installment of the levy is in default, the defaulter is liable to pay, in addition to the defaulted installment, a sum equivalent to 10% of the installment in default. Furthermore, if the default continues, an additional 2% of the installment in default is charged for each period ending on the fifteenth day of each succeeding month or part of such period, with the total penalty capped at 50% of the installment in default.[15] The Commissioner-General has the discretion to reduce or waive penalties under special circumstances.[15]

G. Share Transaction Levy (STL)

Scope: The Share Transaction Levy (STL) is an indirect tax specifically charged on share transactions that take place on the stock exchange in Sri Lanka.[16]

Legal Basis: STL was introduced by the Finance Act No. 5 of 2005, with effect from January 1, 2005.[16]

Rate: The rate of STL has seen some adjustments over time:

- From January 1, 2005, to December 31, 2010: **0.2% of turnover**.[16]
- From January 1, 2011, to December 31, 2015: **0.3% of turnover**.[16]
- The levy was temporarily abolished from January 1, 2016, to March 31, 2016.[16]
- **From April 1, 2016, to date: 0.3% of turnover**.[16]

Imposition: A distinctive feature of STL is that the levy is charged on **both the seller** (on the disposal value of the share) **and the buyer** (on the purchase value of the share).[16] This means each side of the transaction incurs the levy.

Table 10: Share Transaction Levy Rates

Period	Rate (%) of Turnover	Applicable Parties
Jan 1, 2005 - Dec 31, 2010	0.2%	Buyer and Seller
Jan 1, 2011 - Dec 31, 2015	0.3%	Buyer and Seller
Jan 1, 2016 - Mar 31, 2016	Abolished	N/A
Apr 1, 2016 - Present	**0.3%**	**Buyer and Seller**

Mathematical Framework:

1. STL per Party:
   STL_per_Party = Transaction_Value * 0.003 (using the current rate of 0.3%)
2. Total STL on a Transaction:
   Total_STL_on_Transaction = (Purchase_Value * 0.003) + (Disposal_Value * 0.003)

Collection Mechanism: The Share Transaction Levy is collected by the relevant stockbroker, stock dealer, or custodian bank, which is responsible for the settlement of the share transaction. The collected levy is then paid to the stock exchange through which the transaction took place. The stock exchange, in turn, is responsible for remitting the collected levy to the Commissioner-General of Inland Revenue within three working days from the date of settlement. Additionally, the Stock Exchange must furnish a monthly statement to the Commissioner-General, detailing the total turnover for which the levy has been remitted, within fifteen days from the last day of each month.[16]

Penalties for Default: Any stockbroker, stock dealer, or custodian bank that fails to pay the total amount of the Share Transaction Levy by the due date is deemed a defaulter. Such a defaulter is liable to pay a surcharge in addition to the defaulted levy. This surcharge is calculated at a rate of 10% of the defaulted amount for the subsequent period of one month or part thereof from the due date. An additional 2% of the defaulted amount is charged for each subsequent month or part thereof. The Commissioner-General is authorized to take action to recover the defaulted levy and accrued surcharge if the default persists for more than three months.[16]

V. General Tax Compliance and Administration

Effective tax compliance in Sri Lanka hinges on understanding and adhering to a set of general requirements and administrative processes, which are increasingly digitalized.

Tax Identification Number (TIN) Requirements: A Tax Identification Number (TIN) is a fundamental requirement for tax registration across various tax types in Sri Lanka. For instance, non-resident digital service providers, under the new VAT regulations, must obtain a TIN before they can proceed with their VAT registration.[5] This underscores the importance of a unique identifier for all taxable entities and individuals, facilitating efficient tax administration and tracking.

e-Services for Tax Payments and Filings: The Inland Revenue Department (IRD) has significantly invested in digital infrastructure to streamline tax processes. The IRD provides comprehensive e-services that allow taxpayers to make income tax payments and file their returns online.[1] This move towards digitalization is further reinforced by the mandatory electronic filing of VAT returns for taxable periods commencing on or after July 1, 2025.[6] This shift indicates a strong governmental push towards a fully digital tax administration system, aiming to enhance efficiency, reduce administrative burdens, and improve compliance through automated processes. The Ministry of Finance's mention of "Treasury Management Systems" also points to ongoing technological upgrades supporting these initiatives.[37]

Penalties for Non-Compliance: Sri Lanka maintains a stringent framework of penalties to deter non-compliance across its various tax regimes. These penalties are designed to encourage timely and accurate fulfillment of tax obligations.

- **Income Tax:** Penalties include a charge for late filing (the greater of 5% of tax owing plus 1% per month), additional payments for delay or non-payment (20% plus 1.5% interest per month), and substantial penalties for understating payable tax (25% or 75% depending on the understated amount).[1]
- **Value Added Tax (VAT):** Non-compliance with VAT registration requirements can lead to penalties imposed by the IRD.[5]
- **Social Security Contribution Levy (SSCL):** Late payments incur a 10% penalty, with an additional 2% interest per month on the outstanding amount, capped at 100% of the tax due.[14]
- **Betting and Gaming Levy:** Penalties for late payment include a 10% surcharge on the defaulted installment, plus 2% for each subsequent 15-day period of default, with a maximum penalty of 50% of the defaulted installment.[15]
- **Share Transaction Levy (STL):** Defaulting parties face a 10% surcharge for the first month of default, followed by 2% for each subsequent month. The Commissioner-General is empowered to initiate recovery actions for prolonged defaults.[16]

The pervasive shift towards mandatory e-filing for taxes like VAT from July 2025, the widespread availability of e-services for income tax, and the consistently clear and often substantial penalties for non-compliance across various tax types demonstrate a concerted effort by the Sri Lankan government to enhance tax collection efficiency and reduce evasion through digitalization and stricter enforcement.[1] This indicates a strategic commitment to modernizing the tax system. For taxpayers, this means increased transparency in their obligations but also less tolerance for errors or delays. The explicit and significant penalties serve as a powerful deterrent against non-compliance, emphasizing the critical importance of adhering to deadlines and accurate reporting. This trend is expected to continue, with more tax processes likely transitioning online, further solidifying the digital backbone of Sri Lanka's tax administration.

VI. Conclusion: Navigating Sri Lanka's Tax Environment

Sri Lanka's taxation system is a sophisticated and evolving landscape, characterized by a strategic interplay between direct and indirect taxes. Direct taxes, primarily Income Tax and Capital Gains Tax, are designed to levy contributions directly on the income and wealth of individuals and corporations. In contrast, indirect taxes, encompassing Value Added Tax (VAT), Social Security Contribution Levy (SSCL), Customs Duty, Excise Duty, Stamp Duty, Betting and Gaming Levy, and Share Transaction Levy, are primarily imposed on consumption and transactions.

A notable feature of this system is the intricate relationship between various levies, particularly concerning imports. The calculation base for indirect taxes such as VAT and SSCL on imported goods frequently includes other duties like Customs Duty and Excise Duty, creating a cascading effect where changes in one duty can amplify the total tax burden.[21] This interconnectedness necessitates a holistic understanding of the tax framework for accurate financial planning. Furthermore, recent policy adjustments, such as the preferential 15% direct tax rate on foreign service income tied to foreign currency remittance, illustrate a deliberate blurring of traditional tax distinctions to achieve broader economic objectives, particularly in bolstering foreign exchange reserves.[4]

Implications of Recent Tax Reforms for Individuals and Businesses

The recent tax reforms in Sri Lanka carry several significant implications for both individuals and businesses:

- **Increased Compliance Burden:** The introduction of new VAT rules for cross-border digital services, coupled with the mandate for electronic filing, requires businesses to promptly update their internal systems and compliance processes. Non-resident digital service providers, in particular, face new registration and remittance obligations.[5]
- **Strategic Opportunities for Service Exporters:** The attractive 15% flat tax rate on foreign service income, provided it is remitted through a Sri Lankan bank, presents a substantial incentive for individuals and companies in the service export sector. This policy aims to stimulate growth in this sector and formalize foreign currency inflows, offering a clear financial advantage for those who comply with the remittance requirement.[4]
- **Higher Costs for Specific Goods and Services:** The significant increases in excise duties on imported vehicles, alcohol, tobacco, and sugary drinks will inevitably translate into higher consumer prices and increased import costs for

businesses dealing in these goods. This reflects a governmental strategy to both raise revenue and influence public consumption patterns.[9]
- **Enhanced Enforcement and Digitalization:** The clear and often substantial penalties for non-compliance across various tax types, combined with the increasing reliance on mandatory e-filing and e-services, signal a stricter and more digitized tax regime. This trend aims to improve tax collection efficiency and reduce evasion, requiring taxpayers to maintain meticulous records and adhere strictly to deadlines.[1]

Recommendations for Compliance and Planning

Navigating Sri Lanka's dynamic tax environment effectively requires proactive engagement and informed decision-making. To ensure compliance and optimize financial planning, the following recommendations are crucial:

- **Stay Updated with Legislative Amendments:** The tax landscape in Sri Lanka is subject to frequent legislative amendments and gazette notifications. Continuous monitoring of official government publications, particularly from the Ministry of Finance, Inland Revenue Department, and Sri Lanka Customs, is paramount to remain compliant.[2]
- **Leverage E-Services:** Utilize the e-services provided by the Inland Revenue Department for tax payments and filings. Embracing digital platforms can enhance efficiency, reduce errors, and ensure timely submissions, thereby mitigating the risk of penalties.[1]
- **Seek Professional Advice:** Given the complexity and frequent changes in tax laws, particularly concerning international transactions, new digital economy taxes, and specific industry levies, seeking expert advice from qualified tax consultants or financial advisors is highly recommended. Professional guidance can help in accurate tax planning, compliance, and optimization of tax liabilities.
- **Maintain Meticulous Records:** Comprehensive and organized record-keeping is essential for supporting all deductions, exemptions, and input tax credits claimed. Robust documentation is critical for demonstrating compliance during audits and avoiding penalties for understatement or non-payment.
- **Strategic Remittance Planning:** For individuals and businesses earning foreign income, careful planning of remittance channels through Sri Lankan banks is crucial to benefit from the preferential 15% tax rate on foreign service income, thereby minimizing overall tax liability and contributing to national foreign

exchange stability.[4]

By diligently adhering to these recommendations, taxpayers can effectively navigate the complexities of Sri Lanka's tax system, ensure compliance, and contribute to the nation's economic stability and growth.

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