

ECONOMIC RENAISSANCE TOWARDS A BRIGHT FUTURE



BUDGET OVERVIEW 2025



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Dear Valued Client,

BUDGET OVERVIEW 2025

BDO Partners take great pleasure in presenting our views on the budget proposals for the year 2025. In this publication, we provide a synopsis of the budget proposals made by His Excellency Anura Kumara Dissanayake in his capacity as the Minister of Finance, in his budget speech presented in parliament today.

We believe that being proactive in analysing the tax exposure regarding the proposed changes may provide new tax planning opportunities for the taxpayer. The proposed changes may have an impact on the way you do business and manage your affairs. If you need any further clarifications in relation to the proposed changes our team of tax professionals would be pleased to assist you. Please refer the back cover for their contact details.

At BDO nothing matters more to us more than our clients. Our brand stands for exceptional client service, delivered by exceptional people. We trust you find our comments useful and hope you will engage with us to discuss any tax planning opportunities.

Yours faithfully,

BDO Partners
CHARTERED ACCOUNTANTS

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EXECUTIVE SUMMARY

Personal Income Tax

1. Tax Free Allowance

- The monthly tax free threshold will be increased from LKR 100,000 to LKR 150,000 increasing the annual tax free allowance to LKR 1.8Mn.
- The first band of Personal Income Tax (PIT) taxed at 6% will be extended to LKR 1 million.

2. Increase withholding tax (AIT) on interest income

- The AIT rate on interest income is 5% will be increased to 10%.
- Where any individual believes that they should not be subject to this higher withholding tax, such individual can approach the Inland Revenue Department and present their case regarding their tax status. A dedicated unit will be established to clarify the tax obligations of individuals and ensure the exemption are given where applicable.

3. Senior citizens

- Interest income earned by a senior citizen from a financial institution on any deposit will not be subject to withholding tax, where the assessable income from all sources of income of such senior citizen does not exceed LKR 1,800,000/- for any year of assessment. To avail of same, such individuals are required to submit a declaration to the financial institution as per the guidelines to be issued by the Commissioner General of Inland Revenue (CGIR).
- Senior citizens can file income tax returns manually from the year of assessment 2024/2025.

4. Relief on Interest income other than senior citizens

- Interest income earned by any person other than a senior citizen, whose assessable income from all sources does not exceed Rs. 1,800,000/- for any year of assessment will be entitled to a refund of WHT deducted on interest income.



5. Capital Gain tax rate for individuals

- Capital Gain tax rate on individuals and partnerships will be increased from 10% to 15%.

6. Tax on life insurance proceeds

- Chargeability for Income tax on life insurance proceeds and other amounts received by policyholders will be specified in the Inland Revenue Act.

Corporate Income Tax

1. Export service tax rate

- Certain export of services which is currently exempt from income tax will be subject to income tax at the rate of 15%.

Tax administration

- Filing the Statement of Estimated Tax payable (SET) from the Year of Assessment 2025/2026 will not be required. The income tax instalments payable by any person for a year of assessment will be computed based on the tax payable by such taxpayer for the immediately preceding year of assessment.
- CGIR will be authorized to waive interest imposed on any income tax liability arising for the year of assessment 2022/2023 or any previous year of assessment, provided that the total amount of tax is paid within six months from the date of passing the amendment law to the Inland Revenue Act No. 24 of 2017.

Value Added Tax

- Simplified Value Added Tax (SVAT) system will be replaced by a risk-based refund system. The Commissioner General of Inland Revenue will specify the conditions to issue refunds through the Risk based Refund Scheme.
- Services provided through digital platforms will be subject to VAT and provisions will be introduced to the VAT law and regulations to be issued on registration, charging, collection, filing of returns etc.
- Input tax on capital goods such as machinery, equipment or vehicles imported for projects where VAT at the time of import is differed will not be allowed as a deduction as input VAT.
- It is mandatory for all VAT registered persons to use Point of Sale (POS) machines.
- The following exemptions are proposed to be introduced
 - Supply of goods and services by/to any business identified and approved as a “business of strategic importance” under the Colombo Port City law.
 - Import of packing materials for the use of packing of pharmaceuticals or ayurvedic medicines manufactured in Sri Lanka.
 - Yogurt and other dairy products

Social Security Contribution Levy

- The following exemptions to be introduced
 - The exemption for petrol, diesel or kerosene will be available for wholesale and retail sale of such articles as well.
 - The exemption on “transportation of goods and passengers” will be expanded to include services provided in relation to international transportation by container terminal operators.
 - Any machinery or equipment imported or purchased locally by any institution which has entered into an agreement with the CEB prior to 18th February 2025 for the purpose of generating electricity will be exempt.

Stamp Duty

- Stamp Duty on any instrument relating to the lease or hire of any property will be increased from 1% to 2% on the aggregate lease or hire payable for the entire term with effect from 01st March 2025.

Betting and Gaming Levy

- The Gross Collection Levy will be increased from 15% to 18%.
- Casino Entrance Levy will be increased from USD 50 to USD 100.



CONCEPTUAL FRAMEWORK

The Hon. President Anura Kumara Dissanayake, in his capacity as the Minister of Finance, presented the budget for 2025 in the Parliament on 17th February 2025. This budget came as the first of the new government with key objectives of economic recovery and development, poverty alleviation and social well-being. It reflects the 2025 action plan of the long term strategy for the development of the country along with the IMF supported debt restructuring framework.

The Government presented the appropriation bill in the parliament on 9th January 2025 according to which total expenditure, excluding debt servicing, is estimated to be LKR 4,218 Billion. More than 90% of this is accounted by the top ministries as shown in figure 1.

The budget has been built on the economic policies centered around a market driven economy driven by the demand and supply side strategies to achieve growth.

Supply side strategies

- Growth of production of industry, services and agriculture;
- Active engagement and participation of people in production;
- Equitable sharing of gains from production across society.

Demand side strategies

- Ensuring continuous supply of essential goods and services.
- Supply of such goods and services at a fair and reasonable price.
- Goods and services must be of an acceptable level of quality.

These supply and demand objectives will be achieved through the following mechanisms;

- (i) Creation of a competitive market where supply, demand, and prices are determined through the forces of competition.
- (ii) Government must regulate and monitor the market through regulatory bodies.
- (iii) Active Government participation in supply and demand in certain areas/Organizing production in certain areas.

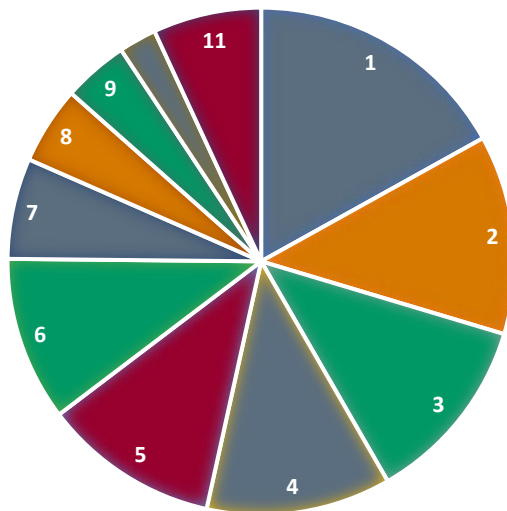
It is intended to set a foundation to create an economy where all citizens are active participants, active stakeholders, and active beneficiaries. The Government's role is to facilitate and remove the impediments for people to fulfil their economic potential. This is not an easy process that can be resolved overnight. It requires a great deal of effort to empower citizens to fulfill their economic potential.

The government has recognized the need to invest in education and training to build the required skills and capacity of the people. It is also important to invest in healthcare. Providing infrastructure to enable people to access markets and engage with economic opportunities in Sri Lanka and overseas is a key. The Government recognizes that competition is fair where there isn't excessive concentration of market power.

It is within this policy framework that the 2025 budget proposals have been presented.

Appropriation Bill 2025

FIGURE 1



	Ministry	LKR Billions
1	Ministry of Finance, Planning & Economic Development	714,178
2	Provincial Councils	535,750
3	Ministry of Health & Mass Media	508,500
4	Ministry of Public Administration, Provincial Councils & Local Government	496,500
5	Ministry of Transport, Highways, Ports & Civil Aviation	473,410
6	Ministry Of Defence	442,000
7	Ministry of Education, Higher Education & Vocational Education	271,000
8	Ministry of Agriculture, Livestock, Land & Irrigation	208,722
9	Ministry of Public Security & Parliamentary Affairs	175,445
10	Ministry of Urban Development, Construction & Housing	101,282
11	Other	291,462

BUDGET PROPOSALS 2025

1. Expanding Exports of Goods and Services

- Government will formulate the national export development plan (2025-2029)
- MSMEs will be facilitated to tap new export markets, expand existing markets or to connect in the value chains of large-scale exporters and global value chains.
- National Tariff policy to create a simple, transparent and predictable tariff framework.
- FTA network will be expanded to ASEAN region through the Regional Comprehensive Economic Partnership (RCEP)
- Enhanced focus will be placed through Sri Lanka's diplomatic missions towards enhancement
- Key border agencies and exporter registration will be automated and integrated through implementation of the Trade National Single Window (TNSW).
- The new Customs Law will be introduced to enhance trade facilitation and revenue collection.
- Double Taxation Avoidance Agreements (DTAs) will be expanded beyond the existing 44 DTAs.

2. Investment Promotion and Facilitation

- Support for expansion of export-oriented investment, sector specific zones, establishing eco-industrial parks which focus on sustainable practices, resource management, and green technology through Public Private Partnership (PPPs) and privately run zones.
- Revisit the Economic Transformation Act with appropriate revisions to suit the emerging developments.
- Leasing out under-utilised state-owned land for productive economic activities.
- An Investment Protection Bill will be enacted to facilitate and protect investments.
- Improvements in the country's ease of doing business will be prioritised to attract foreign direct investments (FDI).
- Laws to implement the one-stop-shop concept consolidating all necessary approvals.
- Barriers for local firms to invest overseas will be reviewed and gradually rationalised.
- A Public Private Partnership (PPP) Bill will be introduced.
- Technical and financial assistance for exporters and importers to obtain quality testing and certifications (Proposed allocation - LKR 750 million).



3. Leveraging Sri Lanka's Strategic Location

- Support the land acquisition process and initial preparatory works of the Kerawalapitiya custom inspection yard and Bloemendhal Logistics Park (Proposed allocation - LKR. 500 million in 2025).
- Establish an Internal Container Dry Port (ICD) at Veyangoda as a rail based Integrated Multimodal Cargo and Logistic Center (IMCLC). (Proposed allocation - LKR. 500 million)
- Development of the National Single Window System, Truck Appointment System, E-Cargo Tracking.
- System and Port Community System (Proposed allocation - LKR. 500 million).
- Development and establishment of advanced scanning systems for Port of Colombo and Bandaranayake International Airport. (Proposed allocation - LKR. 1,000 million).

4. Digital Economy Advancement

- Introduction of Sri Lanka Unique Digital Identification (SL-UDI) for all citizens.
- New Legislation to accelerate the Digital Economy and to empower an Apex Digital Economy Authority as well as other subject specific agencies in the Digital Eco-System including institutions related to Cyber Security, Data Privacy and Data Protection.
- Digital Payment Infrastructure development to gradually shift away from a cash-based economy which would be implemented in a carefully phased process with clear communication.
- Sri Lanka's Digital Economy is expected to grow in excess of USD 15 Bn or 12 percent of the National Economy over the next 5 years. In achieving this ambition, the Government aims to facilitate an increase in the ICT industry's annual export revenue to USD 5 billion.

(Proposed allocation - Rs 3,000 million)

5. Tourism Sector

- Develop local destinations with local branding with required infrastructure facilities within 2025-2026.
- Allocation of LKR 500 million for 2025 for City branding and promotion campaign for these developed destinations.
- Facilitate training youth in communication and other skills, in the tourism sector.
- Develop and promote new tourist destinations.
- Introduction of digital ticketing.
- Expansion of the Bandaranaike International Airport Terminal 2 with the support of Japanese investments.
- Improve tourist safety and facilities linking the tourist police, Government agencies and civic organizations.

6. SMEs as the Backbone of Economic Development

- Setting up a development bank.
- The function of a development bank is to be established through a new administrative structure of an existing state bank mechanism, supported by the National Credit Guarantee Institution (NCGI).

7. Fostering Innovation & Entrepreneurship

- R&D projects will be aligned with the industry's needs in the following areas;
 - i. Providing co-financing for selected R&D initiatives.
 - ii. Coordinate linkages between public R&D institutions and relevant universities with Sri Lanka's diaspora engaged in similar fields globally.
 - iii. Facilitate exporters to receive trademark protection globally through accession to the Madrid Protocol.
- Allocation of LKR 1,000 million to create an Innovation Invention Fund for commercialization of Research Findings.

8. Expenditure Management

- The number of Ministers is to be limited to 21.
- Ministers' and Deputy Ministers' expenditure has been rationalized by reducing the public expenditure for the Government.
- Appointment of a Committee to recommend the best use of public resources such as mansions.
- All luxury vehicles that require heavy running & maintenance expenses to be auctioned.
 - **Minimizing state expenditure on vehicles**
To minimize heavy expenditure on vehicles by encouraging selected offices through an additional financial benefit.
 - **Rationalisation of State Agencies**
Committee to review the functions and utility of multiple Government agencies and to determine which agencies need to continue/ be amalgamated or discontinued.
 - **Institutional Governance of State-Owned Enterprises**
To set up a Holding Company under the full control of the Government under which selected SOEs are to be held as subsidiaries with a view to improving governance, financial discipline and operational efficiency.

9. Supporting Women's Economic Participation

- Allocation of LKR 7,500 million to provide monthly assistance for nutritious food especially for pregnant mothers.
- Allocation of LKR 5,000 million for the Triposha program for the nutrition of mothers and Children.
- Allocation of LKR 120 million for programs to prevent child and women violence, empower women and save women.
- LKR 720 million to be incurred in order to maintain the network spread across the island for the implementation of programs aimed at women.

10. Towards a Healthy Society

i. Digitalization of the Health system

- Digitalization of functions of National Medicines Regulatory Authority (NMRA), State Pharmaceuticals Corporation (SPC).
- Improvement and expansion of the “Swastha” system.

ii. Improving Rural-level Primary Health Care

- To improve service delivery at over 1,000 Primary Medical Care Units (PMcus) and Divisional hospitals with the focus on noncommunicable disease control and prevention.
- Palliative and geriatric care services to be available at selected PMcus in each district.

iii. Estate Health

- To strengthen estate level health care service through Public Private Partnership (PPP) with Regional Plantation Companies.

iv. Pandemic Preparedness

- To improve national capacity for pandemic prevention, preparedness, and response over the next three years.
- To strengthen surveillance and early warning capacity against all potential health hazards.
- Allocation of LKR 604,000 million as health budget for 2025.
- Allocation of LKR 185,000 million to facilitate the supply of pharmaceuticals and medical supplies.
- To take action through the Ministry of Health to ensure the procurement and distribution of quality pharmaceuticals and medical supplies while optimizing procurement processes and full utilization of funds.



v. Provision of healthcare treatment for Children with Neurodevelopmental Disabilities, including Autism

- To implement a 5-year national program to improve health, education and service facilities for children with neurodevelopmental disabilities across all 25 districts of Sri Lanka.
- To allocate LKR 200 million for 2025 to establish a treatment center for children with neurodevelopmental disabilities at the Lady Ridgeway Children's Hospital (LRH).
- To establish similar kind of treatment centers in every district with the necessary human resources within the next five years.

vi. Inclusive Early Childhood Development for Children with Neurodevelopmental Disabilities, including Autism

- Allocation of LKR 250 million for developing a model daycare center.

11. Education Opportunities for Everyone

- Allocation of over LKR 10,000 million to upgrade school infrastructure.
- Allocation of LKR 135,000 million to improve the quality of the university system.
 - **Pre-school Nutrition Programme**
 - Proposed to increase the payment per meal per student for pre-school morning meal programme from LKR 60 to LKR 100 from the budget allocation of LKR 1,000 million.
 - Allocation of LKR 80 million for the construction of a model early childhood education center.
 - Proposed to increase the monthly allowance by LKR 1,000 starting from June this year of pre-school teachers from the budget allocation of LKR 100 million.
 - **Modernization of school Education**
 - To develop a primary school within a 3 kilometer radius of children's residence or their parent's place of work.
 - To review the school system to prepare a national plan to relocate schools on the proposed allocation of LKR 500 million.
 - **Student Scholarships**
 - To increase monthly scholarship amount from LKR 750 to LKR 1,500 to Students who qualify for the grade 5 scholarship examination in low income families with a budget allocation of LKR 1,000 million.
 - Proposed to double the monthly Nutritious Food Allowance from LKR 5,000 to LKR 10,000 per student.
 - To increase the stipend from LKR 4,000 to LKR 5,000 per month for students in vocational Education.

- Proposed to increase monthly Mahapola scholarship from LKR 5,000 to LKR 7,500 and monthly Bursary payments from 4,000 to Rs 6,500 based on a provision of LKR 4,600 million.

All of these payments will be made from April, 2025.

- **Scholarship for Pursuing Undergraduate Courses at High-ranking Universities**

To create a programme to offer scholarships for outstanding students in G.C.E. A/L examination to study undergraduate degree programmes at high-ranking universities and return to Sri Lanka.

Proposed to allocate LKR 200 million to initiate this programme.

- **Development of Sports Schools**

To develop specialized sports schools in five provinces namely; Western, Northern, Central, Uva, and North Central.

To allocate LKR 500 million for the development of sports schools in five provinces.

- **Improvement of Jaffna and other Regional Libraries**

To allocate LKR 100 million from this budget to provide computers and other essential facilities for the Jaffna library.

To allocate LKR 200 million from the budget for the development of other regional libraries.



12. Energy Sector

To focus on diversifying energy sources with more weight on renewable energy and modernizing infrastructure.

To encourage energy investments based on the lowest tariffs and not provide preferential treatment purely on the company or the country of origin.

To develop the tanks at Jaffna collaborating with internationally recognized companies.

13. Agriculture and Food Security

To continue the fertilizer subsidy for paddy, for which the Government has allocated LKR 35,000 million.

Development of quality seeds, cascade management, efficient use of water in agriculture has been identified as priority areas to be supported by a budgetary allocation.

- A sufficient buffer stock to be maintained from this Maha 2024/25 season on the allocation of LKR 5,000 million.
- To establish a sound data and information system covering the entire value chain from the point of production up to the point of consumption under the ongoing Asian Development Bank funded “Food Security Livelihood Emergency Assistance Project”.
- To increase the production of green gram, black gram, chillie, red-onion, cowpea, soya, maize, potatoes and other selected cereals as well as tuber crops over the medium term 2025- 2027. (Proposed allocation of LKR 500 million).

To develop a regulatory framework to regulate the collection and storage of paddy and rice stock in the market.

To amend the Paddy Marketing Board Act vesting powers to regulate the collection and storage of paddy and rice.

▪ **Bringing Land into Production**

To bring in private investments for land presently managed by LRC, RPCs, SLSPC, JEDB and under utilized land.

Proposed to allocate LKR 250 million to undertake initial activities in this regard.

▪ **Youth Entrepreneurs and Producer Cooperatives**

To adopt an alternative production approach via a cooperative mechanism where the Government will support through provision of land, agricultural extension services, and other support.

To further strengthen legal empowerment and to provide the necessary infrastructure facilities and financial incentives, it is proposed to allocate LKR 100 million for this initiative for 2025.

- **Youth Entrepreneurship Development in Agriculture**

An allocation of LKR 500 million to empower youth entrepreneurs in agro-based SMEs, particularly for those who expect to scale-up or willing to engage in startups.

- **Dairy Production**

LKR 2,500 million to be invested during 2025-26 for the improvement of Dairy

Value Chains and to enhance dairy farming productivity through the ongoing Inclusive Connectivity Development Project.

- **Irrigation Sector Development**

The investment for irrigation sector development for 2025 is estimated at LKR 78,000 million.

The new water resources development projects, including Malwathu Oya, Gin, Nilwala, Maduru Oya Right Bank development, Mundeni Aru project to be gradually brought into implementation over the medium term.

Rehabilitation of down-stream development of Galoya, Rajanganaya, Minneriya and Hurulu Wewa schemes, with an allocation of LKR 2,000 million.

14. Plantations and other export crops

- **Increasing Coconut Production**

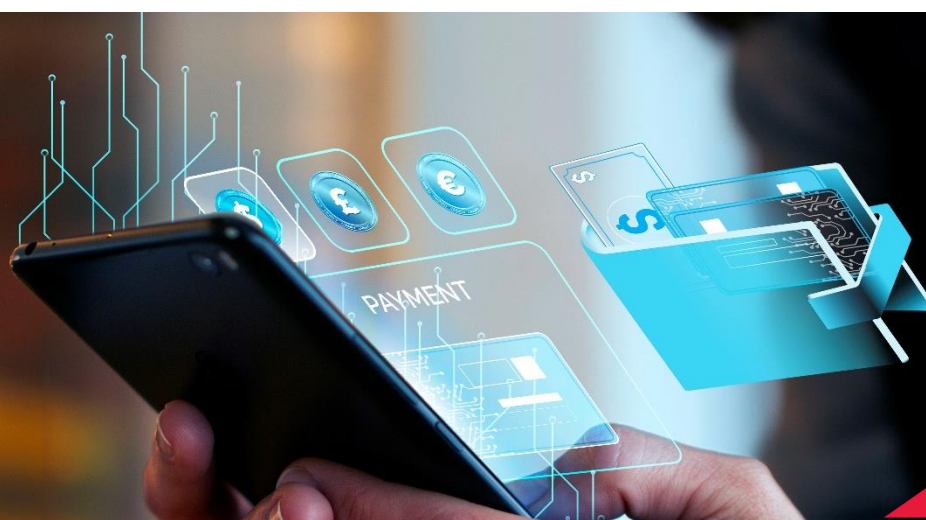
Proposed to allocate LKR 500 million for high-yielding coconut seedlings to the growers in the Northern region for planting 16,000 acres of new coconut land in established Northern Coconut Triangle based on CRI recommendation.

- **Other Export Crops - Spices**

To expand value addition in traditional exports such as Cinnamon by providing marketing and promotion of these products through Sri Lankan embassies.

The Government to provide technical assistance to farmers in order to improve supply quality and facilitate linkage with value added exporters, including through international joint ventures.

To allocate LKR 250 million to implement an integrated product development and trade promotion programme on Ceylon cinnamon and other export crops.



15. Fisheries and Aquaculture

To establish freshwater prawn hatcheries under Public-Private Partnerships (PPP) and farmer cooperatives under the allocation of LKR 200 million.

16. Social Protection

To increase the “Aswesuma” monthly benefits:

- Poor: LKR 8,500 → 10,000
- Extremely poor: LKR 15,000 → 17,500

(Benefits for transitional social groups extended until April 30, 2025, with enumeration for new beneficiaries set to conclude by May 2025)

To empower 1.2 million “Aswesuma” beneficiaries using local and foreign funds, with 25,000 families in a pilot program supported by the ADB and World Bank, and an additional LKR 500 million allocated for further expansion.

Other benefits:

Allowance / Benefit	Status (Effective April 2025)
Kidney Patients & disabled	Increased to 10,000
Elderly	5,000
Educational support from low-income families for stationery/books	LKR 6,000 per student
Kerosene subsidy	LKR 3 billion for fishermen (Oct 2024 - Mar 2025)

- Children’s Welfare & Institutional Support
 - Renovation of childcare institutions: LKR 500 million
 - Transport for institutionalized children: LKR 250 million
- Orphaned Children & Youth Support
 - Monthly allowance of LKR 5,000 per child
 - Housing grant: LKR 1 million per person (Allocation of LKR 1000 million)
- Database on People with Disabilities (Allocation of LKR 100 million)
- Disaster Relief Enhancements
 - Death/permanent disability compensation LKR 1,000,000
 - Property damage compensation for children’s homes, elderly homes, and disability centers: LKR 2.5 million

- For adolescent suicide prevention & mental health awareness. (Fund allocation: - LKR 250 million)
- To expand local manufacturing of assistive devices for Disabled Persons (Fund allocation: - LKR 500 million)
- For the provision of discounted essential food rations through Lanka Sathosa (Fund allocation: - LKR 1000 million)

(Total allocation LKR 232.5 billion)

17. Sri Lankan Expatriates

To introduce a more generous duty-free allowance for migrant workers, with criteria to be determined.

18. Special Interest Scheme for Senior Citizens

To implement a fund to subsidize 3% additional interest rate on fixed deposits of up to LKR 1 million for individuals over 60, starting in July 2025 with a fund allocation of LKR 15,000 million.

19. Creating a Drug-Free Society

To implement a program focusing on awareness, rehabilitation, social reintegration, and law enforcement to combat drug addiction using the allocation of LKR 500 million.

20. Skills Development Programme for Convicted Prisoners

To provide vocational training for prisoners, improving rehabilitation and employment prospects within the budget allocation of LKR 100 million.

21. Modernization of Public Transport

To upgrade road and rail transport systems with new technologies and enhance mobility in urban and suburban areas.

- Bus Sector Modernization: to deploy 100 air-suspension, low-floor, comfortable buses, with SLTB adding 200 low-bed buses. (Fund allocation: - LKR 3000 million)

Additionally, SLTB will add 200 low-bed passenger buses for its fleet through its own funds

- Railway Sector Modernization:
 - To rehabilitate old railway coaches (Fund allocation: - LKR 500 million)
 - To construct new coaches (Fund allocation: - LKR 250 million)
 - To extend Kelani Valley Railway Line. (Fund allocation: - LKR 250 million)

22. Regional Development

To implement a Decentralized Budget Programme, aimed at fostering a production economy, with an allocation of LKR 10 million per Member of Parliament (MP) in 2025, utilizing LKR. 2,250 million from the overall budget to reduce regional disparities.

The remaining LKR. 9,000 million will be dedicated to essential development activities.

23. District Development Programme

To address gaps in infrastructure, localized production, service delivery, trade, marketing, and institutional improvements, promoting inclusive and sustainable development, catalyzing private sector investment, and improving the local community's quality of life with the budget allocation of LKR 2000 million.

24. Eastern Province Development

To implement a comprehensive development programme in the Eastern Province with the Indian Multi-sectoral Grant Assistance, focusing on infrastructure and livelihood development in education, health, agriculture, fisheries, tourism, and community empowerment sectors.

25. Programmes to Uplift the Living Standards of Malayagam Tamil People

To improve the living conditions of the Malayagam Tamil community through housing, vocational training, livelihood development, and educational support within the allocation of LKR 7,583 million

- LKR 4,267 million for estate housing and infrastructure development
- LKR 2,450 million for vocational training, livelihood development, and infrastructure for Malayagam Tamil youth
- LKR 866 million for smart classrooms in Malayagam Tamil schools

26. Industrial Development

To enhance the industrial sector's role in providing employment, boosting income, fostering innovation, and driving exports.

- To establish an industrial estate in Paranthan with 5 parks for chemical production, including acids and alkalis. **(Total Estimated Expenditure: LKR 500 million)**
- To set up an industrial estate for automobile components and rubber products to strengthen exports. **(Total Estimated Expenditure: LKR 1,500 million)**

27. Clean Sri Lanka Program

Proposed key activities to elevate Sri Lanka focusing on social, environmental, and ethical development with an allocation of LKR 5,000 million include:

- Cultural festivals promoting unity and understanding.
- Support for differently-abled individuals.
- Capacity building for tourism sector facilitators.
- Renovation of cities, heritage sites, and schools.
- Improvement of sanitation, road safety, and drug prevention.
- Environmental conservation, including water quality and solid waste management.
- Enhancing public service efficiency and promoting a corruption-free system.

28. Solid Waste Management in Anuradhapura

To address the growing issue of solid waste, particularly from the Anuradhapura Teaching Hospital and the increasing population, a waste disposal facility will be established. **(Total Estimated Expenditure: LKR 750 million)**

29. Mitigating Elephant-Human Conflict and Conservation of Forests

LKR 300 million has been allocated for the improvement of security measures, to minimize crop damage, property destruction and loss of life caused by wild elephants.

Further LKR 100 million has been allocated to enhance the capacities of 270 wildlife zonal offices, guard offices and Bittu offices which play a vital role in wildlife crime prevention.

An additional LKR 240 million has been allocated for the compensation of victims of such conflicts.

Moreover, LKR 1,050 million has been allocated to support reforestation, conservation and eco-friendly tourism initiatives.

30. Sustainable Financing

The Ministry of Environment & Ministry of Finance will work in coordination to leverage opportunities in sustainable financing.

31. Developing Financial Markets

Development of the financial and capital markets is required to support the growth of the real economy through well-regulated financial products and innovations while ensuring due diligence and all necessary safeguards are being met.

32. Governance Reforms

Legal frameworks such as the CIABOC are to be strengthened with the support and assistance of international institutions to drive anti-corruption initiatives. Furthermore, the Proceeds of Crime legislation which is currently in the draft stage is to be reviewed and implemented.

33. Sri Lanka Day

LKR 300 million is to be allocated for the celebration of the Natural Cultural Festival.

34. Housing for Internally Displaced People (IDP)

Proposed to allocate LKR 1,500 million for resettlement of IDP's of the Northern & Eastern Provinces.

35. Essential Maintenance of Housing Schemes Constructed by Government

LKR 1,000 million to be allocated for essential maintenance and deficiencies of Housing Schemes constructed by the Central Government.

36. Housing for Artists/Journalists

To construct 1996 Housing Units with the assistance of the Government of the People's Republic of China for artists and journalists from the Kottawa, Palathururwatta area who make special contributions to the cultural enrichment of our society.

37. Drinking Water Sector

Allocation of LKR 20,000 million for the completion of water supply projects which were delayed due to the economic crisis.

LKR 2,000 million to be allocated for the commencement and completion of community-based water supply schemes in rural areas to enhance quality of rural life.

LKR 1,000 million to be allocated to re-initiate the Giribawa-Eppawala Water Supply Scheme to provide pipe-borne quality drinking water to the area.

Benefits for public sector employees

38. Filling Essential Vacancies in Public Service

LKR 10,000 million to be allocated for the employment of 30,000 individuals in essential public service roles, strictly in accordance with the available vacancies.

39. Public Service Salary Increase

As it has been 10 years since the previous basic salary revision, the following revisions have been proposed,

- Basic monthly salary to be increased from LKR 24,250 to LKR 40,000
- Special allowance of Rs 8,250 to be integrated into basic salary
- Minimum annual salary increments to be increased from LKR 250 to LKR 450
- Limit if distress loans to be increased from LKR 250,000 to LKR 400,000

LKR 110 billion, has been allocated to facilitate the above revisions.

40. Benefit for Private Sector Employees

- Increase the monthly minimum wage from LKR 21,000 to LKR 27,000 in April 2025 and to LKR 30,000 from 2026.

41. Wage of Plantation Workers

- Daily wage of plantation workers to be increase to LKR 1,700.

42. Benefit for Public Sector Employees

- Proposed to revise the pensions of all pensioners who retired before 01.01.2020 in three phases, corresponding to the salary scales applicable to the year 2020 as per the Public Administration Circular No. 03/2016.
- Pensions of pensioners retired before 01.01.2018 will be revised based on the third stage salary scales of 2018 and implemented in July 2025. (Estimated expenditure LKR 10,000 Mn for 2025)
- Pension conversions for the fourth and fifth stages of salary conversion will be implemented in July 2026 and July 2027, respectively.

43. Legal Reforms

- The **Act on the Exchange of Information between State Institutions** is set to improve public service efficiency.
- The institutions covered under this Act include the Department of Inland Revenue, Department of Customs, Department of Import and Export Control, Department of Registration of Persons, Department of the Registrar General, and the Department of Motor Traffic.
- **Investment Protection Act** to be introduced to safeguard the right of investors.
- Government will introduce **State Business Enterprises Management Act** to ensure the effective and independent management of state-owned enterprises, free from political influence.
- The **Public-Private Partnership Investment Management Act** is to be introduced to encourage foreign and domestic private investments in collaboration with the public sector to support rapid economic development.
- The **Statistics Act** will replace the existing legislation governing population statistics and the Census in Sri Lanka, incorporating updated methodologies and concepts.
- Government expects to introduce **Valuation Act** to modernize the Government Valuation Department, transforming its role to better support economic development.
- Government intends to introduce **Public Asset Management Act** to provide a legal framework for the effective utilization, maintenance, and value extraction of non-financial public assets.
- The **Public Procurement Law** will be introduced to ensure the efficient use of public funds, promote competitiveness, and ensure transparency in the procurement of goods, works, and services.

- The government will introduce the **Micro Finance and Credit Regulatory Authority Act** to address the shortcomings of the existing Micro Finance Act No. 6 of 2006 focusing on consumer protection, better supervision of microfinance institutions, particularly concerning market conduct.
- The government will strengthen the **Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT)** framework to promote financial sector integrity and ensure compliance with international standards.

Amendments to existing laws, such as the Convention on the Suspension of Terrorist Financing Act, Prevention of Money Laundering Act, and the Financial Reporting Act, have been prioritized to enhance Sri Lanka's AML/CFT regime and demonstrate technical competence in line with global standards.

- The government plans to amend the Paddy Marketing Board Act No. 14 of 1971 to address contemporary challenges in the paddy and rice market. The proposed amendment will establish a regulatory mechanism for paddy and rice stockpiling, while strengthening existing licensing provisions and related regulations.

44. Revenue Measures

- Digital Economy & Cashless Transactions
 - Promotion of a cashless economy to formalize transactions.
 - Implementation of POS machines, especially for VAT-registered businesses.
 - Reduction of tax evasion and illicit financial activities.
- Stakeholder Responsibility & Regulatory Compliance
 - Audit firms and tax accountants to support responsible tax practices.
 - Government to enforce compliance with regulatory and legal frameworks.
- Future Fiscal Sustainability & Public Relief
 - Targeting 15.1% of GDP in revenue for 2025.
 - Continued efforts to surpass revenue targets beyond 2025.
 - Potential for future public relief without compromising fiscal stability.

45. Borrowing Limit

The gross borrowings requirement of 2025 after provisioning for accounting transactions is presented below.

Item	LKR Bn
Total Receipts other than Government Borrowings	5,042
Total Primary Expenditure	4,285
Recurrent	2,970
Capital	1,315
Debt Service Payments	4,550
Interest Payments	2,950
Debt Repayments	1,600
Provision for Advanced Accounts	7
Adjustments for book/cash Value of Government Securities	200
Total Gross Borrowing Requirement to be recorded in Government Accounts	4,000

Compiled by the Ministry of Finance

CORPORATE INCOME TAX

Removal of Exemptions

Export Service Tax Rate

Export of services which is currently exempt from income tax will be subject to income tax at the rate of 15%.

Our Comments

The OECD and G20 countries joined forces and developed an Action Plan to address BEPS in September 2013. The Action Plan identified 15 actions aimed at introducing coherence in the domestic rules that affect cross-border activities, reinforcing substance requirements in the existing international standards, and improving transparency as well as certainty. According to the same in-scope organizations will need to pay a minimum effective rate of tax of 15% in every country in which they operate. The above removal of exemption is deemed to be in line with the above requirement of the BEPS Action Plan.

Exemptions

The Budget 2025 proposes an exemption for payment of any aircraft software licenses and related other services which are purchased by the Sri Lanka Air Force from a non-resident person.

Transfer of asset to an associate or for no consideration

Any individual who transfers ownership of assets to an associate or a charitable institution and meets certain conditions is not required to pay capital gain tax. The budget proposes that the above exclusion from capital gain tax will apply to transfer of assets to the Sri Lankan Government or to a University established or deemed to be established under the Universities Act No 16 of 1978.

Our Comment

As per the above section, the recipient of the asset will be liable to pay capital gains taxes at the time of resale to a third party on the gain that was not taxed at the initial transfer in addition to the gain that they are making on the sale transaction. With the addition of the Sri Lankan Government and Universities to this section it is unclear whether the Government and Universities will be required to pay capital gain tax on re-sale to a third party on the entire gain.

PERSONAL INCOME TAX

Increase in Personal Relief and Expansion of Tax Bands

Residents and Citizens will be entitled to a Personal relief of Rs 1.8 Mn per year of assessment from Y/A 2025/2026 onwards.

Accordingly, any individual with gross monthly earnings in excess of Rs. 150,000 above would be liable to Income Tax.

The individual income tax rate structure will be revised as follows:

	Tax Rate
Personal Relief upto Rs.1,800,000	0%
Rs. 1,800,000 to Rs. 2,800,000	6%
Rs. 2,800,000 to Rs. 3,300,000	18%
Rs. 3,300,000 to Rs. 3,800,000	24%
Rs. 3,800,000 to Rs. 4,300,000	30%
Exceeding Rs. 4,300,000	36%

The table below represents a comparative analysis of tax savings resulting from the proposed revisions to the personal income tax schedule across different monthly income levels.

Monthly Income (LKR)	Current Tax per month (LKR)	Proposed Tax per month (LKR)	Tax savings (LKR)
100,000	-	-	-
150,000	3,500	-	3,500
200,000	10,500	3,000	7,500
250,000	21,000	8,000	13,000
300,000	35,000	18,500	16,500
350,000	52,500	32,500	20,000
400,000	70,500	50,000	20,500
450,000	88,500	68,000	20,500
500,000	106,500	86,000	20,500
550,000	124,500	104,000	20,500
600,000	142,500	122,000	20,500
650,000	160,500	140,000	20,500
700,000	178,500	158,000	20,500

Monthly Income (LKR)	Current Tax per month (LKR)	Proposed Tax per month (LKR)	Tax savings (LKR)
750,000	196,500	176,000	20,500
800,000	214,500	194,000	20,500
850,000	232,500	212,000	20,500
900,000	250,500	230,000	20,500
950,000	268,500	248,000	20,500
1,000,000	286,500	266,000	20,500

Our Comments

Given the country's economic situation most of the individuals are facing financial difficulties and the proposed concessions in tax rates will help reduce the tax burden of mid-income earners.

Return Submission by Senior citizens

Senior citizens will be permitted to submit their income tax returns manually beginning from the Year of Assessment 2024/2025.

Our Comments

At present, electronic submission of all income tax returns is mandatory. This proposal is a welcome move to accommodate senior citizens who requested the option of manual returns be granted due to unfamiliarity of the RAMIS.

Taxation of life insurance proceeds and other amounts received by policyholders

The Act will be amended to provide clarity on the tax calculation of life insurance proceeds and other amounts received by policyholders.

Our Comments

There is no explicit section in the law on how to compute the income tax liability on life insurance proceeds and other amounts received by the policyholders. In terms of section 67 of the Inland Revenue Act No. 24 of 2017, it is deemed that tax has been duly paid. Therefore, if it is taxed in the hands of the policyholder it would amount to economic double taxation.

The Capital Gain Tax (CGT) rate for individuals and partnerships

The Capital Gain Tax (CGT) rate for individuals and partnerships will be increased to 15%.

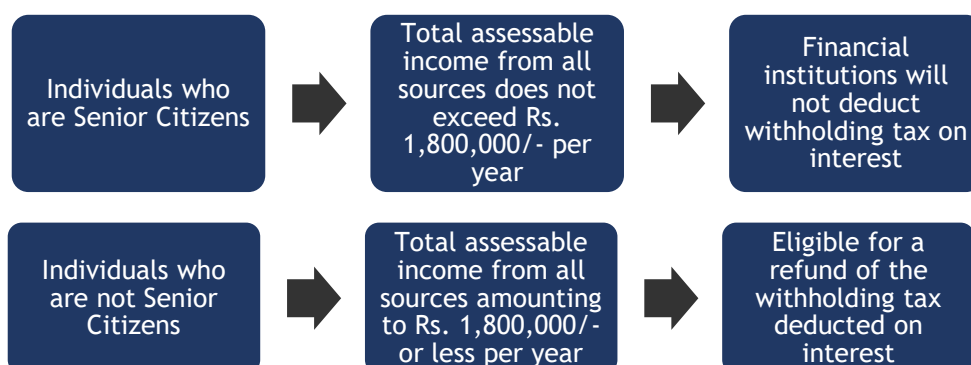
Our Comments

The increase of Capital gain tax to 15% will affect both individuals and partnerships. The increase in the tax rate will be a greater tax burden on taxpayers.

Increase of Withholding Tax on Interest Income

Prevailing Rate	Proposed Rate
5%	10%

Withholding tax on interest income for Individuals



Our Comments

The proposed change will require financial institutions to ascertain the monthly interest income earned by individuals across various products. It is not clear when an individual has several interest-bearing deposits in multiple financial institutions, how the LKR 150,000 threshold will be considered. Further, it is expected that a rule-based approach will be adopted when granting exemptions for individuals who contact the Inland Revenue Department in relation to their tax liability. The process may be similar to the “WHT Direction” which was previously in operation.

Tax Resident Rule

A Holder of Golden Paradise Resident visa will be treated as a non-resident person for the purpose of income tax.

Any individual person deemed to be a resident due to his employment in a Sri Lanka flagged vessel, will be treated as a resident person of Sri Lanka during the period he is so employed.

Any individual person who is a citizen of any other country other than Sri Lanka, but is deemed to be resident by the above reason, will not be liable for income tax as a resident person in respect of any other income that has no source in Sri Lanka.



TAX ADMINISTRATION

Statement of Estimated Income Tax Payable (SET)

It has been proposed to remove the requirement of filing the Statement of Estimated Tax payable (SET) with effect from the Year of Assessment 2025/2026. It will be replaced with a mechanism where the quarterly tax installment will be based on the income tax paid by such person in the immediately preceding year of assessment.

Our Comments

The above proposed mechanism was applicable under the Inland Revenue Act No 10 of 2006 and its subsequent amendments. While the above proposal facilitates ease of tax administration and collection through installments, it poses a risk of tax overpayment for years where the income/business performance depletes. The previous calculation method allowed the taxpayer to also opt to pay tax installments on actual basis, but to avoid penalties the taxpayer was required to pay at least 1/4th of the previous years tax. This will help the taxpayer to avoid having to claim tax refunds. It is assumed the same treatment will be adopted.

The same section of the Act also provided a concession to individuals, where if an individual pays a quarterly income tax installment at least 30 days before its due date, they can reduce the payment by 10%. It is not clear whether such concession will also be provided for individuals going

Interest Waive Off

It has been announced that the CGIR will be authorized to waive interest imposed under the provisions of the Inland Revenue Act No. 24 of 2017 and the Surcharge Tax Act No. 14 of 2022, provided that such interest arose for the Y/A 2022/2023 or any previous years of assessment. To avail yourself of this benefit, the taxpayer must pay the total amount of tax within six months of the statutory amendment of the Act.

Our Comments

Section 176(9) of the Inland Revenue Act no 24 of 2017 has granted the CGIR with the power to waive off the whole or part of penalty or refrain from assessing the penalty. However, the law did not allow the CGIR to waive off the interest imposed on taxes. This proposal allows the CGIR to waive the interest charged on any additional liability under the Surcharge Tax Act as the final date of assessment for same was 31st December 2025.

VALUE ADDED TAX

The Value Added Tax (VAT) was introduced in place of the Goods and Services Tax (GST) with effect from August 1, 2002. This was enacted under the **Value Added Tax Act No. 14 of 2002**. Since its introduction, the principal VAT law has undergone 22 amendments.

A review of the current VAT system led to a proposal in the previous budget to consolidate and update the VAT law. However, despite this proposal, the consolidation process has not been implemented. Furthermore, the budget does not provide any further updates or clarifications on the status of this proposed consolidation.

Introducing VAT on digital services

Provisions will be introduced to the VAT law to impose VAT on services provided through digital platforms. These provisions will include the establishment of regulations that will outline the process for registration, charging, collection, and filing of returns for such services. These regulations are expected to specify the procedures and guidelines for ensuring compliance with VAT requirements in the context of digital platforms.

Our Comments

Digital services may be services supplied over the internet or other electronic networks with the use of information technology and where the supply is essentially automated. The regulations apply to a broad range of digital services, including online search engines, online marketplaces, cloud services, digital goods (e.g., e-books, software, streaming content), e-learning platforms and online advertising. Collecting tax on such platforms will require special technical knowledge on how such platforms operate and the Inland Revenue Department will be required to acquire such skills in order to administer such taxes effectively. Further, such digital services may also be provided by non-residents who are not having any business presence in Sri Lanka. In such case, tax administrators may have to use diplomatic channels to impose and collect taxes.



Exemptions

It has been proposed that the following will be exempt from VAT;

- Import of packing materials for the use of packing of pharmaceuticals or ayurvedic medicines manufactured in Sri Lanka and which are imported by the manufacturer of such pharmaceuticals or ayurvedic medicines, so far as such packing materials are not manufactured in Sri Lanka as approved by the Secretary to the Ministry of the Minister to whom the subject of Health is assigned or the Commissioner of the Department of Ayurveda.
- Supply of goods or services by/to any a business identified and approved as a “Business of Strategic Importance” in terms of Section 52 of the Colombo Port City Economic Commission Act, No.11 of 2021 subject to the Colombo Port City (guidelines on the grant of exemptions or incentives to Businesses of Strategic Importance) regulations, No. 2 of 2023, as specified in the Extraordinary Gazette Notification No.2343/60 dated 04.08.2023, with effect from 01.01.2024.
- Yogurt and other dairy products

Concessions

The Entertainment tax charged by the local authorities will be allowed as a deduction on film theatres, where such amount can be deducted in ascertaining the value of supply of film exhibition services.

Administration

Removal of SVAT and Introduction of Risk Based Refund Scheme

- The SVAT scheme will be removed and in its place a Risk based Refund scheme will be introduced to facilitate VAT refunds, especially for exporters and other zero rated goods and service providers.
- To ensure a smooth transition to the new system, a pilot project will be implemented to issue refunds through RAMIS, subject to the conditions specified in the Risk Based Refund Scheme. The Commissioner General will specify the regulations and guidelines on implementing the Risk Based Refund scheme by an order published in the gazette.

Our Comments

Impact of Removing SVAT

The removal of the Simplified Value Added Tax (SVAT) system will primarily impact exporters as they will be required to pay VAT upfront which means that it will create a strain on their working capital requirements. Additionally, if the VAT refund process is not carried out in a streamlined manner, it may take a long time for such taxpayers to recover the taxes paid. As a result, exporters will have to bear additional financial costs.

However, under the new proposal, a Risk-Based Refund System is planned to be implemented as a pilot project. Therefore, it is assumed that the present SVAT system will be continued and the proposed Risk based refund scheme will only be implemented based on the effectiveness of the new mechanism.

Value Added Tax to be written off

- Value Added Tax Arrears as per records of the Commissioner General of Inland Revenue in respect of projects carried out by construction contractors of Tsunami projects, will be written off.

Input Tax will be denied deductions

- Any VAT paid on capital goods such as machinery, equipment or vehicles imported for projects where the value added tax at the time of import is differed, will be disallowed.

Our Comments

Input tax denied on taxpayers under deferment facility

The proposed change seems to be applied on the deferment facility provided for temporary importation and re-export of goods. The customs is not in a position to track re-export of goods where the deferment has been provided and therefore, the proposed change to the law will ensure that the deferment for temporary import and re-export will not be misused.

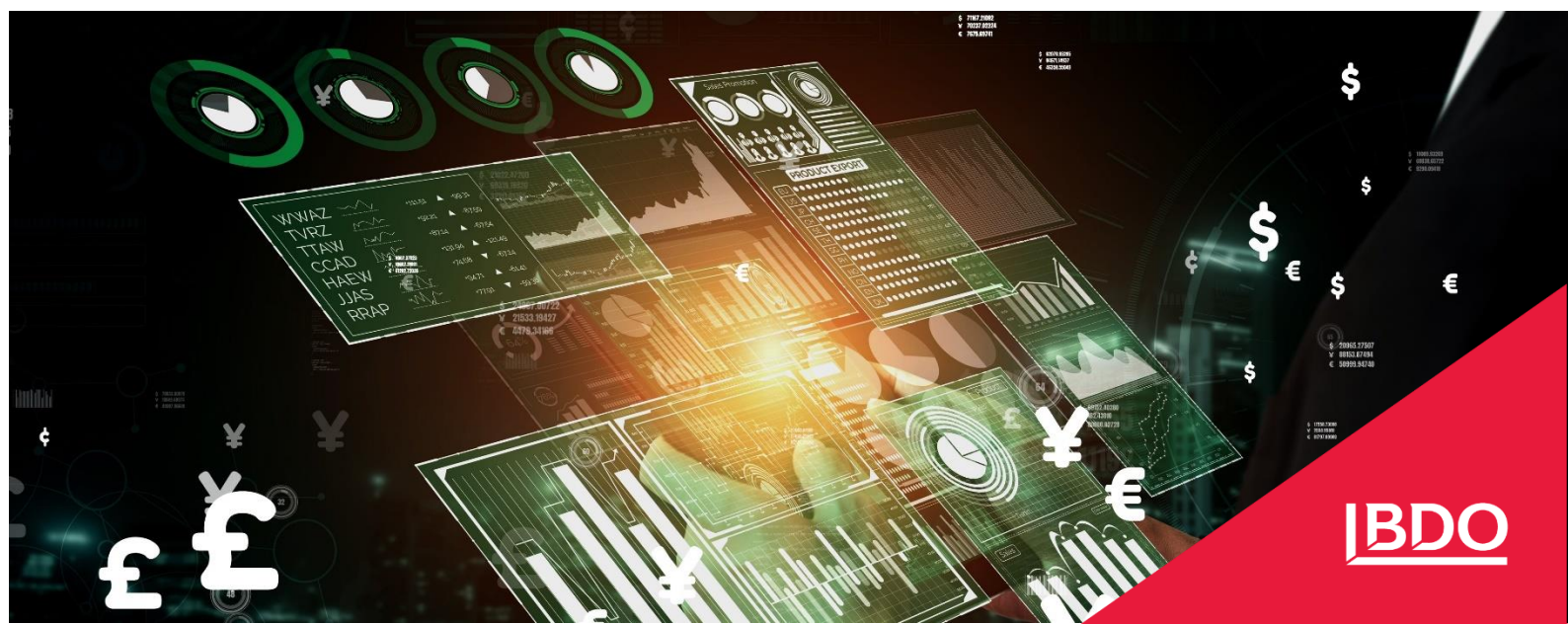
Point of Sale (POS) Machines will be introduced

- It has been proposed to mandate that all VAT Registered persons must use Point of Sale Machines to record supply of goods and services accurately.

Our Comments

Mandatory Implementation of Point of Sales (POS) Machines

With the mandatory implementation of Point of Sales (POS) machines, sales transactions of VAT-registered businesses will be directly recorded through a computer system. This will assist to minimize potential tax fraud and ensure that VAT revenue is correctly recorded and paid to the government. This will reduce the tax leakage in the VAT system.



SOCIAL SECURITY CONTRIBUTION LEVY (SSCL)

Social Security Contribution Levy (SSCL) was introduced with effect from 01st October 2022 by the Social Security Contribution Levy Act, No. 25 of 2022. SSCL is charged at the rate of 2.5% in respect of every liable person whose aggregate turnover exceeds LKR 60 Mn per annum or LKR 15 Mn per quarter.

Exemptions

The budget proposals for 2025 have extended the exemptions for SSCL to include the following items:

1. Services provided in relation to international transportation by container terminal operators.
2. Wholesale or retail sale of petrol, diesel or kerosene.
3. Machinery or equipment imported or purchased locally for the purpose of generating electricity by any institution which has entered into an agreement with the CEB prior to February 18, 2025.

Our Comments

There are no significant changes made to the SSCL laws and the exemptions listed above provide clarity on areas where there was some ambiguity. There was an ambiguity as to whether the activities of the container terminal operators could be covered under 'transport of goods' since it is zero rated for VAT purposes as well. However, the wording in the SSCL Act did not clearly provide for it. Therefore, the proposed change will extend the exemption to container terminal operators. However, the exemption would only apply prospectively once the law is enacted.

The existing exemption on sale of petrol, diesel or kerosene is only available for sale at a filling station. However, these products are exempt at the point of importation as well. Therefore, the proposal extends the exemption on such products at wholesale and retail point which effectively exempts these products from SSCL throughout the supply chain.

The effective date for the proposed changes has not been specified.

TAX APPEAL COMMISSION ACT

It has been proposed to make a few changes to the Tax Appeals Commission Act, No.23 of 2011 which has been listed below;

1) Fee Increases

- Fees on Appeal to the Court of Appeal on a question of law will be increased from LKR 1,500 to LKR 10,000.
- Fees on Appeal to the Tax Appeal Commission will be increased from LKR 2,500 to LKR 15,000.

2) Cash Deposit Requirement of 25%

- An appeal to the TAC shall be supported by a cash deposit equivalent to 25% of the assessed tax, penalty, or interest, which must be deposited into a special account maintained under the authority of the CGIR.

Our comments

The existing law allows the taxpayer to provide a bank guarantee of 25% (which is refundable) on the total amount outstanding on cases stated on disputed taxes other than Income Tax (after April 01, 2018). The requirement of making the proposed cash deposit will be a severe drain on the cash position of companies which will have liquidity implications which will be a significant deterrent to take matters up at the Tax Appeal Commission. Accordingly, the proposed Cash Deposit requirement will trigger the principle of natural justice of the Taxpayer as such provision indirectly restrict taxpayer's right to appeal.

Where the TAC gives a decision in favour of the taxpayer, the cash deposit will have to be refunded by the CGIR, which may have to be processed without delays outside the normal refund process.



3) Appeal to the Tax Appeal Commission

- An appeal to the TAC will only be permitted if either of the following conditions has been satisfied;
 - A request for an administrative review has been made, and a decision has been received.
 - A request for an administrative review is deemed to have been disallowed.

Our comments

The existing law also restricts the taxpayer from appealing to the Tax Appeals Commission unless a request for administrative review has been submitted, and a decision has been received from the Commissioner-General. However, currently there are no provisions where the request for administrative review is deemed to have been disallowed. Therefore, the law should first specify the circumstances under which appeals may be treated as deemed to be disallowed in order to implement the second part of the proposed amendment.

4) Settlement at the stage of Tax Appeal Commission

- To introduce provisions to mediate settlements between the CGIR and the appellant under the supervision of the Tax Appeal Commission.

5) Amendment at the point of appealing to the court of appeal

- to make it mandatory to transfer the bank guarantee (25%) to the Commissioner General of Inland Revenue (CGIR), even if the appellant appeals to the Court of Appeal against the determination of TAC.

6) Restriction on submission of additional information at the TAC

- No additional information can be submitted during the hearing of the appeal at the TAC, unless such information has been submitted during the tax audit or in the process of hearing of the administrative review.

7) Restriction on raising additional contentions at the stage of TAC

- No additional issues can be raised during the hearing of the appeal at the TAC, unless such issues have been raised during the tax audit or in the process of hearing of the administrative review.

8) Administrative changes made with regard to members of the commission and panel of legal advisers

- The members of the Legal Advisers panel will serve for the same length of time as the members of the Commission, and they can be reappointed when their term ends.
- The term of office for members of the Commission will be extended to 5 years from 3 years, starting from the date of their appointment.

IMPORT TARIFF AND TAXES

Sri Lanka's main trade policy instrument has been import tariffs. In November 2017, Sri Lanka Customs adopted the WTO's new Harmonized Commodity Description and Coding System in its tariff schedule.

Currently there are three custom tariff bands 0%, 15% and 30%. In addition to the custom duty the following supplementary taxes and levies are charged on imports;

- 1) Special Commodity Levy
- 2) Port and Airport Development Levy (PAL)
- 3) Excise (Special Provisions) Duty
- 4) Export Development Board (EDB) Cess
- 5) Customs Duty
- 6) Social Security Contribution Levy (SSCL)
- 7) Value Added Tax

Removal of Temporary Suspension on Import of Motor Vehicle

Sri Lankan government has officially lifted the temporary suspension of importation of motor vehicle through Gazette Extraordinary Notification No.2421/44, dated 31st January 2025. This took effective from 01st February 2025.

Newly introduced Conditions for Vehicle Imports

1. Required number of vehicles can be imported by the importers registered with the Department of Motor Traffic and State Institutions subject to the Regulations imposed by the said Gazette Notifications.
2. Any importer other than the importer referred in the (1) above is permitted to import only one (01) vehicle within a period of twelve (12) months.
3. Any imported motor vehicle shall be registered with the Department of Motor Traffic in the name of the buyer (on instances when purchasing a motor vehicle from a registered importer) or in the name of importer within ninety (90) days from the date of Bill of Entry/ Customs Declaration (CUSDEC).
4. The importer or buyer is required to submit an Affidavit including the Tax Payer Identification Number (TIN) issued by the Department of Inland Revenue along with other required documents to the Commissioner General of Department of Motor Traffic for the registration of motor vehicles.

Further, importers, other than the importers referred in the (1) above, must mention in the said Affidavit that they have not imported any other vehicle during a period of 12 months (from the date of the CUSDEC) after importing the first vehicle.

5. If any imported motor vehicle is not registered within 90 days by the importer, such importer shall be liable to pay a monthly late fee of 03% of the Cost-Insurance-Freight (CIF) value up to maximum cap of 45% CIF value, at the time of registration of motor vehicles at the Department of Motor Traffic.
6. No waiver pertaining to the payment of monthly late fee shall be granted under any circumstances.
7. When determining the age of the motor vehicle, the period between the Date of Manufacture and date of the Bill of Lading or Airway Bill of that motor vehicle shall be calculated.
8. It shall not be allowed for importation and Customs release of any motor vehicle using the motor vehicle import permits which have been issued with concessionary rates of duties.
9. If any motor vehicle is imported in violation of any prevailing Rules and Regulations, such motor vehicles (s) shall be re-exported by the respective importer within ninety (90) days from the date of the Bill of Entry/ CUSDEC.

Custom Duty on Imports of vehicles

The Gazette Extraordinary Notification No. 2421/05, dated 27th January 2025, re-imposes the Customs Import Duty (CID) of 20% on motor vehicles (under Chapter 87 of the HS Codes), effective from 28th January 2025, due to the provisions of the Customs Ordinance.

Additionally, Gazette Extraordinary Notification No. 2421/43, dated 31st January 2025, was issued to impose a 50% surcharge on the CID, raising the total Customs Import Duty to 30% of the CIF value, effective from 01st February 2025. This means the 20% CID will now be increased by a 50% surcharge, totaling a 30% Customs Import Duty on motor vehicles.

Proposed changes

- A new Customs Law will be introduced to enhance trade facilitation and revenue collection.
- A new Act on the "Exchange of Information between State Institutions" is set to be introduced to enhance the efficiency of public services and ensure the proper collection of state revenues, especially to facilitate the seamless exchange of information among relevant state institutions, including the Department of Inland Revenue, Department of Customs, Department of Import and Export Control, Department of Registration of Persons, Department of the Registrar General, and the Department of Motor Traffic.

Our Comments

The government expects a significant revenue gain from lifting the temporary suspension on importation of motor vehicles. However, while lifting this restriction, the government must ensure that it does not lead to a trade deficit or depreciation of the local Rupee value. If these issues arise, the positive impact of lifting the restriction could be negated.

OTHER TAXES

Stamp Duty on Lease/Hire

Stamp Duty is applicable on any instrument relating to the lease or hire of any property. It has been proposed to increase the stamp duty from 1% to 2% on the aggregate lease or hire including any premium, payable for the whole term comprised in the lease or hire Agreement (other than a hire purchase agreement), with effect from 01.03.2025.

Instrument	Existing Rate	Proposed Rate
Lease or hire of any Property	LKR 10/- for every LKR 1,000/- or part thereof, of the aggregate rent or hire. The aggregate rent or hire payable for the whole term comprised in the lease or hire agreement shall be deemed to be the aggregate of the hire or lease payable for the first twenty (20) years of such term.	LKR 20/- for every LKR 1,000/- or part thereof, of the aggregate rent or hire. The aggregate rent or hire payable for the whole term comprised in the lease or hire agreement shall be deemed to be the aggregate of the hire or lease payable for the first twenty (20) years of such term.

Betting and Gaming Levy

- Betting and Gaming levy is payable on the gross collection earned by the business of bookmaker and the business of gaming. It has been proposed to increase betting and gaming levy from 15% to 18% on the gross collection.
- The Casino entrance levy (CEL) of USD 50 or its equivalent in any other convertible foreign currency or in Sri Lanka currency is charged from any person who is a citizen of Sri Lanka who enters such place of business of gaming. It has been proposed to increase CEL from USD 50 to USD 100.

Type of Levy	Existing Rate	Proposed Rate
Betting and Gaming Levy	Payable at 15% on the gross collection	Payable at 18% on the gross collection
Casino Entrance Levy	USD 50	USD 100

Our Comments

Currently, both the above levies come within the purview of the Betting and Gaming Levy Act 40 of 1988. To implement the proposed changes relating to Betting and Gaming Levy, an amendment Act, was passed by the Parliament in the year 2023. According to the Annual performance report 2023 issued by the Inland Revenue Department, it was recorded that the levy collected exceeds the estimated revenue.

ECONOMIC ANALYSIS

Global Economy

The global economy proved quite resilient in 2024, despite heightened geopolitical tensions and significant political uncertainty amid elections across much of the globe. Both the World Bank and IMF estimate that the global economy grew by 3.2% in 2024, higher than their forecasts of 2.9%. Nevertheless, the pace of global growth was understandably lower than the 3.7% average in the two decades before the global pandemic.

Last year, by far the most consequential event for the 2025 global economy was the election of President Trump for a second term as US president. In his election campaign, among other things, he called for increased deregulation and various tax reforms. His initial action of imposing tariffs of between 10% and 20% on imports from the rest of the world, particularly Canada, Mexico and China, has received significant attention internationally and increased the policy uncertainty.

Amidst the political tensions the World Bank forecasts that the global economy will expand by 3.2% in 2025. US tops the list of major developed economies with a projected growth of 2.3% while India and China lead the Asia Oceanian region with projected growth rates of 6.7% and 4.5% respectively. In addition to closely monitoring the usual economic and financial markets data throughout the year, there are some key trends that are expected to have a significant influence in the global economy. The potential three key trends are: i) developments with artificial intelligence (AI); ii) rising geoeconomic fragmentation; and iii) further retreating by governments from policies intended to achieve the green transition.



Sri Lankan Economy

Restoration of macro-economic stability

During 2024, the Sri Lankan economy achieved significant strides in restoring macroeconomic stability and maintaining the stability of its financial system. The Extended Fund Facility arrangement with the International Monetary Fund (IMF-EFF) continued, supporting the stabilisation of economic conditions. While marking a major milestone in the country's journey of economic recovery, the Government virtually completed its debt restructuring process successfully by end 2024, re-establishing the relations with creditors and external partners. Following these developments, the sovereign rating of the country was upgraded by two leading rating agencies, thereby notably reducing the country's risk premium.

Inflation

Inflation declined steadily throughout 2024 and eventually reached deflationary levels towards the latter part of the year. There was a temporary acceleration in headline inflation in early 2024 due to the increase in Value Added Tax (VAT) and the removal of VAT exemptions from several items in the consumer basket. However, inflation decelerated thereafter, reaching levels below the target of 5%, driven by the higher-than-predicted downward revisions to the energy prices, stronger currency as well as the decline in food prices. Consequently, in September 2024, headline inflation reached deflationary levels for the first time in nine years. Meanwhile, core inflation, which mainly reflects the demand pressures in the economy, also reached lower positive levels. With the notable deceleration of headline inflation and subsequent deflation, the inflation target was breached for the last three quarters in 2024 consecutively.

Economic Growth

The Sri Lankan economy rebounded strongly in 2024, initially benefiting from the base effect, but also supported by accommodative monetary policy and a low-inflation environment. Accordingly, real GDP is projected to have grown by around 5.0% in 2024. This higher-than-expected growth also provides evidence that deflation in recent months was not due to demand factors but mainly due to supply-side factors, including administrative price adjustments.

Monetary Policy

The Central Bank eased monetary policy on three occasions during 2024, effecting considerable downward adjustments in market interest rates. Domestic money market liquidity remained broadly at surplus levels during 2024, and short-term money market rates were maintained in line with the monetary policy stance supported efficient market operations. Further the Central Bank shifted to a single policy interest rate mechanism from its dual policy interest rate system with the introduction of "Overnight Policy Rate (OPR)" as the primary tool of monetary policy in November 2024, which signals the monetary policy stance of the Central Bank.

The low interest rate environment, coupled with adequate levels of market liquidity, supported the economy to progress through its recovery phase. These enabling conditions are expected to continue resulting in encouraged consumer spending and promoted investments that laid the basis for economic recovery.

External Sector

The external sector continued its positive momentum in 2024 building on renewed resilience. The Balance of Payments position strengthened, and the current account is estimated to have recorded a surplus in 2024 for the second consecutive year. The Central Bank purchased the highest-ever annual amount of foreign exchange from the domestic foreign exchange market in 2024, exceeding USD 2.8 billion (net). Gross official reserves increased to around USD 6.1 billion by the end of 2024 compared to US dollars 4.4 billion at end 2023. As mandated by the Central Bank Act, the flexible exchange rate policy was continued in 2024, complementing the Flexible Inflation Targeting (FIT) framework. The Sri Lanka rupee recorded an appreciation and demonstrated greater stability in 2024 as well, driven by net forex inflows and improved market sentiments.

During the year, the restrictions on investments made outside Sri Lanka by resident Sri Lankans and capital transfers by emigrants were significantly relaxed. These restrictions were in place since 2020. Similarly, the rules relating to the repatriation of export proceeds to Sri Lanka and their conversion into Sri Lanka rupees were relaxed.

Finance Sector

The financial system remained resilient and showed greater stability in 2024. with the improvement of the soundness of the banking sector. Credit growth continued while the default risk of the sector declined during the year as reflected by the reduction in the non-performing loan (NPL) ratio. Further, the Liquidity Coverage Ratios (LCRs) of the sector remained well above the minimum regulatory requirements. During 2024, the Return on Equity (ROE) of the banking sector also improved considerably. The Capital Adequacy Ratio (CAR) of the banking sector improved during 2024 reflecting the higher growth recorded in regulatory capital than the Risk Weighted Assets. Meanwhile, the NBFIs sector also recorded a steep recovery in total loans and advances, while profitability indicators improved in 2024.

Fiscal Sector

Fiscal sector performance continued to improve in 2024 supported by consolidation measures in line with the IMF-EFF arrangement. These policy reforms have been reflected in government finances in 2024, with a notable increase in tax revenue collection and broad-based improvements in key fiscal indicators, including achieving a sizeable primary surplus.



Additionally, the continuation of structural reforms, including cost-reflective pricing mechanisms for major utilities, have largely supported reducing the burden of state-owned business enterprises on the fiscal balances and the banking sector. Improved fiscal performance along with reduced risk premia in an environment of declining market interest rates helped notably reduce yields on government securities, thereby reducing the interest cost to the Government. Further, fiscal consolidation measures complemented the Central Bank's efforts to ease monetary policy, which highlights the importance of fiscal prudence for monetary policymaking.

Future Outlook

With normalcy being restored and stability attained through the implementation of much-needed sound macroeconomic policies, including monetary policy, one of the priorities going forward will be to stabilise inflation around the target of 5%, while ensuring that the economy remains on track towards achieving sustained growth over the medium term.

The deflationary environment resulting from the one-off effects of supply-side price adjustments is expected to continue in early 2025. However, inflation is projected to converge to the target during the latter half of the year with the conditions expected by relaxed monetary policy.

The broad-based recovery of credit to the private sector observed in 2024 is expected to continue in the period ahead as well, supported by the prevailing accommodative monetary policy stance and improving business and investor sentiment. This is expected to enhance the productive capacity of the economy, thereby supporting domestic economic expansion.

The recovery in credit to the private sector has been supported by the noteworthy reduction in market lending interest rates. However, it can be observed some excessive rates of interest on facilities extended to Micro, Small and Medium Scale Enterprises (MSMEs) as well as marginal borrowers, which are not consistent with the prevailing relaxed monetary policy stance. Moreover, risks associated with lending are expected to further decline while the credit appetite of banks and financial institutions is expected to continue. While banks and financial institutions are likely to be supported by the Central Bank to maintain low interest rates, those lending at higher rates could come under pressure to reduce the rates.

The near completion of the Government's external debt restructuring, coupled with the significant progress made under the IMF-EFF program, has created a solid foundation for boosting investor confidence and ensuring the stability of the external sector. Sri Lanka needs to maintain the external current account at sustainable levels over the medium term. A gradual recovery in import expenditure is expected, particularly in the context of the planned relaxation of vehicle import restrictions. Furthermore, the external current account will be supported by inflows from the services trade and workers' remittances, which together are expected to reach historically high levels.

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