



Snapshot

Budget 2026



KPMG in Sri Lanka



**Reviving Growth.
Rebuilding Trust.**

Budget 2026 Snapshot

Key strategic objective:
sustained economic growth
exceeding

7%

Within next few years



87%

Debt-to-GDP ratio by 2030

4%

Estimated Public Investment
to GDP in 2026



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14.2%

Estimated total tax revenue
to GDP in 2026

2.5%

Estimated Primary Surplus to
GDP in 2026

40:60

Direct to indirect tax ratio to be adjusted gradually from 25:75 to
40:60

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Maintain Gross financial
requirement to GDP below

13%

4.5%

Foreign Currency Debt
Servicing to GDP

15.3%

The Government
Revenue target to GDP
while IMF target is 15.2%
for 2026

Budget 2026 Snapshot

- ❑ The Budget 2026 follows a year of sustainable economic and fiscal growth as a result of necessary economic reforms under the International Monetary Fund's Extended Fund Facility arrangements.
- ❑ **Port City and SDP Acts:** The Government will amend the Port City Act and Strategic Development Act to ensure fair and transparent tax concessions on a rule-based incentive regime. A bi-annual statement of tax expenditure will be published on the Ministry of Finance website.
- ❑ The RAMIS system will be upgraded to version 3.0
- ❑ **Encouraging SME Investment:** The minimum investment threshold to qualify for tax incentives will be reduced from USD 3 million to USD 250,000, aiming to boost participation from small and medium enterprises. Further, SMEs will receive targeted subsidies.
- ❑ Five-year tax exemption for investments in digital towers.



Budget 2026 Snapshot

Fostering Investments for Sustainable Economic Growth

- ❖ A new committee has been appointed to review the existing FTAs and negotiate new FTAs.
- ❖ Introduction of a new Investment Protection Act.
- ❖ Public-Private Partnership (PPP) framework to be introduced next year.
- ❖ Proposed implementation of a National Export Development plan.
- ❖ A single-point system to be introduced for investors.
- ❖ A resident visa system to be introduced for investors.
- ❖ It is proposed to promote digitalization through establishment of a Startup-eco System, Information Technology zones, Data Centers and Strategic Digital Infrastructure projects.
- ❖ Key SME support agencies including IDB, NEDA, and SEDA to be reorganized and established under IDB.



Budget 2026 Snapshot

Tax Proposals Revenue Proposals

As per the Budget Speech 2026, the total estimated Tax Revenue is Rs. 4,910 Bn, which includes revenue from Income Tax Rs. 1,210 Bn, taxes on Goods and Services Rs. 3,056 Bn and taxes on external trade Rs. 644 Bn. The total revenue expectation for the year 2026 is Rs. 5,300 Bn (this includes tax revenue, non-tax revenue and grants) and is an increase of 4% from 2025. The following is a synopsis of the revenue proposals.

1. Reduced Registration Thresholds - VAT & SSCL

To broaden the tax base, it is proposed to reduce the annual VAT and SSCL registration threshold from Rs. 60 Mn to Rs. 36 Mn.

This change will take effect from 1 April 2026.

2. VAT on Imported Fabric

- To ensure fair competition, it is proposed to remove CESS and impose VAT on imported fabric.

This change will take effect from 1 April 2026.

3. VAT & SSCL on Import of Coconut & Palm Oil

It is proposed to eliminate the Special Commodity Levy on imported coconut and palm oil, and instead, apply VAT and SSCL, aligning the tax treatment with that of locally produced items.

This change will take effect April 2026.

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Tax Proposals Revenue Proposals

4. SSCL on Vehicles

It is proposed to impose SSCL at import or manufacture and sale of vehicle and exempt at the time of after sale.

This change will take effect April 2026.

5. Implementation of the National Tariff Policy

- Revision of Customs Import Duty rates in line with the National Tariff Policy to 0%, 10%, 20%, 30%, effective April 2026.
- Gradual phase-out of para-tariffs.

This is to achieve increase competitiveness in external trade and support economic growth.

6. Improving the Tax Audit Process

- Introduction of a modern tax audit framework.
- Selection of audit cases based on transparent risk assessment.

This will be applicable for all the Returns lodged after January 2026.

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Tax Proposals Revenue Proposals

7. Amendments to Telecommunications Tax Act & AML/CFT Measures

- Bad debts and recoveries to be recognized in computing the Telecommunication Levy.
- Exchange of information with the Financial Intelligence Unit regarding AML & CFT frameworks.
- Introduce legal provisions for prosecution of tax-related crimes, including fines and penalties.

8. Development of National Electronic Invoicing System (E-Invoicing)

Initiation of national e-invoicing system for connectivity between the Taxpayers' ERP systems and RAMIS.

A phased approach to be adopted.

9. A single office premise for DIR

Due to digitalization, it is proposed that a single office premises would provide a more efficient service and strengthen tax collection processes.



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