QUARTERLY INSTALMENTS · SECTION 90

Understanding the Revised IRD Circular on Quarterly Income Tax Instalments

The Inland Revenue Department has replaced its 3 August circular with a revised version dated 6 August 2026. It sets out how to work out each quarterly instalment for the year of assessment 2026/2027 and, for the first time, tells you when you can change your basis mid-year. Here is what members need to know before the first payment falls due on **15 August 2026**.

LEGAL BASIS	APPLIES FROM	FIRST INSTALMENT DUE	REPLACES
Section 90, Inland Revenue Act No. 24 of 2017 (as amended by Act No. 11 of 2026)	**Y/A 2026/2027 and later years**	**15 August 2026**	**Circular SEC/2026/E06 of 3 August 2026**

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What the revision actually changed

The circular carries all the changes in *italics*, so the original text is easy to trace. Five points are new, and four of them are about paperwork and timing rather than arithmetic.

ADDED IN THE 6 AUGUST VERSION

NEW **A deadline for the credit schedule.**
It must reach the Central Document Management Unit (CDMU), a Regional Office or a Metro Office on or before the last day of the month in which the instalment falls due: 31 August, 30 November, 28/29 February and 31 May.

NEW **A deadline for the attachments.**
Statements required under the circular go to the CDMU, Metro or the relevant Regional Office on or before 15 August of the year in which the first instalment is due.

NEW **Mid-year revision requests.**
A taxpayer already paying on the standard basis can now move to an alternative basis part-way through the year. See section 06.

NEW **A declaration where no tax is expected.**
If you expect no taxable income for the current year because of losses or other allowable deductions, say so in paragraph 8.2 of Attachment 1.

NEW **Employees with APIT and AIT.**
A worked example (Example 6 in the circular) now confirms that many employees need not pay instalments at all, and need not file a credit schedule.

Payment instructions are not in this circular; the IRD says they will be issued separately.

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The formula, in plain terms

Every instalment, whatever your circumstances, is worked out the same way. What changes between the methods is only how you arrive at **A**.

$$\frac{A - C}{B}$$

Work out A once for the year. B falls by one each quarter. C grows as the year goes on, so each instalment is a fresh calculation, not a copy of the last one.

A The **gross** income tax payable on the taxable income of the **immediately preceding** year of assessment, before deducting any tax credit. For Y/A 2026/2027, that means the tax on your 2025/2026 taxable income.

B The number of instalments still remaining for the year, **including the one you are paying**: 4 for the first, 3 for the second, 2 for the third, 1 for the fourth.

C Tax already paid for the year before this instalment's due date. It includes earlier instalments **and** WHT / Advance Income Tax credits already withheld or still to be withheld.

STATUTORY DUE DATES UNDER SECTION 90

INSTALMENT	DUE ON OR BEFORE	B	CREDIT SCHEDULE DUE
First	15 August of the Y/A	4	31 August
Second	15 November of the Y/A	3	30 November
Third	15 February of the Y/A	2	28 or 29 February
Fourth	15 May of the next succeeding Y/A	1	31 May

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Method 1: the standard basis

This is the default, and most members will be on it: you had taxable income last year, so **A** is simply the gross tax on that taxable income.

In practice: take your Y/A 2025/2026 taxable income, apply the First Schedule rates to arrive at the gross tax, deduct the credits that make up **C**, and divide by four for the first instalment. Examples 1 and 2 of the circular work this through for an individual and for a company.

> **THREE THINGS TO REMEMBER ABOUT THE STANDARD BASIS**
>
> Nothing has to be filed with the Commissioner-General for payments made on this basis. Any underpayment, late payment or non-payment attracts interest and penalty measured against these standard calculations. And if you are eligible to use the standard basis, you **cannot** use the alternative methods instead.

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Method 2: the alternative bases

These are reserved for two situations only: you had **no taxable income** in the immediately preceding year, or you reasonably expect this year's taxable income to be **lower** than last year's. Four fact patterns are dealt with, and each one carries a filing obligation.

WHICH SITUATION ARE YOU IN?

SITUATION	HOW A IS DETERMINED	WHAT TO FILE
No taxable income last year, and none expected this year (for example, heavy deductible losses)	A is treated as **zero**, so no instalment is payable	Attachment 1 (a statement is still required)
No taxable income last year, but income expected this year: losses have run out or an exemption has ended	Estimate: apply the normal taxing rules and First Schedule rates to **last year's** taxable income, ignoring the losses deducted or exemptions applied in that year	Attachment 1
You had income last year, but expect a significant fall: declining business, higher expenditure, reduced investment	Recalculate last year's tax, leaving out the gains or profits from the business or investment activity you do not expect to recur	Attachment 1, **plus supporting calculations** proving the loss of business or investment

SITUATION	HOW A IS DETERMINED	WHAT TO FILE
Newly registered taxpayers	Estimate the taxable income of the *current* year, using current-year provisions and rates. Available for one year of assessment only; after that, the ordinary rules apply	Attachment 2

The principle behind the third situation is the one to take away: you do not forecast this year's profit from scratch. You take last year's computation, strip out the income you can show will not recur, and apply the ordinary rates to what is left.

WHERE TO FIND THE WORKED EXAMPLES

This briefing sets out the rules only. The circular itself carries six numbered examples, and members should work from those figures: **Examples 1 and 2** on the standard basis, for an individual and for a company; **Example 3** where brought-forward losses are running out; **Example 4** where a BOI exemption is coming to an end; **Example 5** on a fall in revenue; and **Example 6** on an employee with APIT and AIT credits.

ONE FIGURE TO CHECK IN EXAMPLE 5

Example 5 states the first instalment as Rs. 320,685,000, but dividing the Rs. 128,274,000 arrived at in that example by four gives **Rs. 32,068,500**, and every other example in the circular divides correctly. It reads as a typographical error. If you are following Example 5, work the division yourself and keep your own computation on file.

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Method 3: when you cannot estimate at all

If unusual circumstances make it practically impossible to calculate **A** under either of the alternative bases above, you may write to the **Commissioner, Tax Policy and Legislation Unit** (acting for the Commissioner-General), setting out the restrictions you face and asking for another reasonable method. This is a request, not a self-assessment: don't treat silence as approval.

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Mid-year revision: the useful new door

Previously, choosing the standard basis in August left you paying on last year's profit for the whole year even if trade collapsed in October. The revised circular fixes that.

If you are paying under Method 1 and your projected taxable income for the current year turns out to be lower than last year's, you may inform a revision of the basis of calculation and move to Method 2 or Method 3. The request goes to the CDMU with supporting information, on or before the last day of the month *preceding* the relevant instalment due date:

DEADLINES TO REQUEST A REVISION

TO REVISE THE…	INSTALMENT DUE	REQUEST BY
Second instalment	15 November	31 October
Third instalment	15 February	31 January
Fourth instalment	15 May	30 April

Note the gap: there is no revision window before the first instalment, because that is the point at which you choose your basis in the first place.

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Employees: you may have nothing to pay

APIT and AIT deducted, or expected to be deducted, during the year are taken off before the formula is applied. Two consequences follow for individuals whose APIT is calculated under **APIT Table 8**:

- If your income is **solely** employment income subject to APIT, no quarterly instalments are due and no credit schedule is required.
- If you also have **rent or interest income subject to AIT**, and the AIT deducted covers the remaining income tax liability for the year, you are likewise outside the instalment system and need not file the credit schedule.

Example 6 of the circular shows how this works out for an employee with both APIT and AIT credits. The test is the arithmetic, not the label, so check it each year: a pay rise or a fall in interest rates can push you back into the instalment system.

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Three details worth noting

Foreign tax credits

A foreign tax credit under section 80 may be taken into account when estimating **A**, but only if the foreign income tax has already been paid or is reasonably expected to be paid during the year.

Alternative accounting periods

If the Commissioner-General has approved an alternative 12-month period for computing your income tax, everything above applies unchanged.

The credit schedule is not optional

The circular deals only with **A**; B and C are unchanged. Because C now carries the WHT and AIT credits you are claiming, the credit schedule in the specified format is what substantiates the deduction you have made, so file it by the month-end deadline.

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Before 15 August 2026

- [ ] Settle your Y/A 2025/2026 taxable income and gross tax figure; that is your **A**.
- [ ] Decide honestly whether you are eligible for an alternative basis. If you are eligible for the standard basis, you must use it.
- [ ] Total the WHT / AIT credits already withheld or to be withheld, and any earlier payments; that is your **C**.
- [ ] Pay the first instalment on or before 15 August 2026.
- [ ] If you are on an alternative basis, lodge Attachment 1 or Attachment 2 (with calculations, where required) by 15 August 2026.
- [ ] Diarise the credit schedule for 31 August, and the revision deadlines of 31 October, 31 January and 30 April.
- [ ] Watch for the separate payment instructions the IRD has promised.

Source: Inland Revenue Department, Circular to Taxpayers No. SEC/2026/E/06 (Revised), dated 6 August 2026, signed by Rukdevi P.H. Fernando, Commissioner General of Inland Revenue. It amends Circular No. SEC/2026/E06 of 3 August 2026 and is issued under section 90(3) of the Inland Revenue Act, No. 24 of 2017 (as amended).

This briefing is a plain-language summary prepared for Lanka Tax Club members. It is general information, not advice on any particular case; where a figure matters, read the circular itself and consult your tax adviser.

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