EVOLVE

TAX ALERT · JUNE 2026

The Inland Revenue Act just changed

The Inland Revenue (Amendment) Act **No. 11 of 2026** is now law — bringing **22 key changes** to capital gains, withholding tax, deductions, filing and enforcement.

Certified 03.06.2026 IRD NOTICE SEC/PN/IT/2026/02

WHAT EVERY TAXPAYER SHOULD KNOW →

22 key changes to the Inland Revenue Act

Inland Revenue (Amendment) Act No. 11 of 2026 · certified **03.06.2026**
IRD Notice **SEC/PN/IT/2026/02** of 08.06.2026

New Capital Gains Tax rates

15% – 30% depending on taxpayer type, from 03.06.2026

5% WHT net widened

Service-fee withholding extended to 25+ more professions

TIN now mandatory

For bank accounts, vehicles, land, credit cards & more

100% capital allowance

For new business investments above USD 250,000

SWIPE FOR THE FULL BREAKDOWN →

Income & gains

WHAT CHANGED

- **Motor vehicle disposals:** gains on selling vehicles that are neither trading stock nor depreciable assets are no longer taxed as other income — and losses on them are not deductible. from 01.04.2024

- **Life insurance receipts (new s.52A):** amounts received by a policyholder or beneficiary on the **death of the insured, maturity, or surrender** of the policy are excluded from assessable income. from 01.04.2025

- The exclusion does **not** cover amounts that are employment or business income, or any annuity, pension, retirement or superannuation payment.

- **Arrears of salary:** relief for employees receiving back-pay due to reinstatement, backdated promotions or increments. Refund and calculation procedures to be published. from 01.01.2024

New Capital Gains Tax rates

Gains from the realization of investment assets · applicable from **03 June 2026**

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

INVESTMENT INCENTIVE

100% Enhanced Capital Allowance (ECA)

Invest over **USD 250,000** in depreciable assets (excluding intangibles) for a **new business undertaking** in Sri Lanka and claim a full 100% capital allowance. **Effective 01.04.2026.**

Deductions & donations

CASH PAYMENTS OF RS. 500,000+

- Payments of **Rs. 500,000 or more** made in cash (not via account payee cheque/draft, credit or debit card, electronic bank payment, or deposit to the payee's account) are **not deductible** and **cannot be added to an asset's cost** — whether in a single day, single transaction, or series for the same event.

- Exceptions: payments to or by the **Government, banks and financial institutions**, or persons exempted by the Minister.

DONATIONS & GIFTS

- Gifting an asset to the **Government or a university** triggers no tax — consideration is deemed equal to the asset's net cost. from 03.06.2026

- Qualifying donations to the **Government or government funds** can now be **carried forward** to future years of assessment. from 01.04.2025

- Social-service organizations providing **healthcare with Government collaboration** can be gazetted as approved charitable institutions — donations to them are qualifying payments.

- **Exporters:** expenses relating to the export of goods or services are deductible directly against domestic income. from 01.04.2018

Withholding tax changes

5% WHT ON SERVICE FEES — NET WIDENED

- 5% WHT applies to service payments to resident individuals exceeding **Rs. 100,000 a month** — now extended to many more professions **from 03.06.2026**:

Auditors · Valuers · IT specialists · Photographers · Videographers · Artists · Actors · Singers & musicians · Event organizers · Personal trainers & coaches · Therapists & counsellors · Beauticians · Cooks · Electricians · Dentists · Veterinarians · Social media specialists · Brand ambassadors · Sports persons · Advisors · Translators · Writers · Debt collectors · + more

OTHER WHT UPDATES

- **Bank interest self-declaration:** residents with no taxable income can self-declare to avoid WHT on deposit interest — but a false declaration carries a penalty up to **Rs. 200,000** and a bar on future declarations. from 01.04.2025

- Withholding agents must follow CGIR-specified **annual statement** formats — non-compliance risks a penalty up to **Rs. 200,000** per year.

- Withholding certificates must be issued to withholdees **free of charge** — banks should not bill deposit holders for them.

Filing & payments

SIMPLIFIED COMPLIANCE

- **SET discontinued:** quarterly instalments are now based on the **previous year's income tax** (e.g. 2026/27 instalments follow the 2025/26 liability). A procedure for lower-income years will be specified.

- **No return needed** if your only income is employment income fully under APIT — including where interest income is Rs. 5,000 or less. If the CGIR has opened a file, keep filing until it's closed. from 01.04.2025

- **Senior citizens** may file returns in writing or electronically from Y/A 2025/2026.

- Businesses of **Strategic Importance** under the Port City Act must file tax returns.

CERTAINTY & REFUNDS

- **120% safe harbour:** declare tax of at least **120% of the prior year**, pay in full without claiming a refund, and file an affidavit of no fraud — your return is accepted with **no amended or additional assessment**. from 01.04.2025

- **Cash-basis refunds:** tax overpaid on amounts later refunded (cancelled or changed contracts) can be reclaimed — within **30 months** of the refund date.

TIN, residence & unit trusts

TAXPAYER IDENTIFICATION NUMBER

- Companies must register with the CGIR within **30 days** of incorporation. TIN certificates will be issued — and a TIN is **no longer confidential**.

- A TIN becomes **mandatory** for: opening bank accounts, building plan approvals, registering or renewing motor vehicles, land registration, business registration, share transfers, and obtaining credit cards. on CGIR specifications

RESIDENCE RULES

- Foreign nationals working on Sri Lankan ships are taxed **only on that ship employment income**; Investor Category Visa holders are **not tax residents**. from 01.04.2025

- Working abroad for **at least one year** under a contract with an unrelated foreign employer? You're **not a Sri Lankan tax resident** for that period.

UNIT TRUSTS & MUTUAL FUNDS

- Funds must issue unit holders an income certificate within **5 months of year-end** (by 31 August) for pass-through treatment — otherwise the fund is **taxed as a company** by 30 September, and unit holders pay nothing. from 01.04.2025

Enforcement is tightening

- **Court recovery:** from Y/A 2026/27, default taxes can be recovered as a fine through the **Magistrate's Court** — though not for taxes under an active review or appeal.

- **Prosecution:** failing to file returns or annual statements, register, or appear when summoned can lead — after a 30-day warning notice — to a fine up to **Rs. 400,000, six months' imprisonment, or both**.

- **Information sharing:** taxpayer information may be disclosed to the **Financial Intelligence Unit, the IGP, and the Accounting & Auditing Standards Monitoring Board** for specified purposes.

- **Interest waiver:** interest on late or underpaid taxes up to Y/A 2024/25 is waived if the principal is settled by **02.12.2026** — see our earlier alert for the full breakdown.

With recovery powers expanding and the interest waiver window open until 02 December 2026, this is the moment to get your tax affairs in order.

Need help navigating these changes?

Our team at Evolve Consultants can review your exposure, instalment obligations and relief eligibility. Reach us at **info@evoluer.lk** or **011 271 9762** — 136/1, Hill Street, Dehiwala.