OVERVIEW OF BUDGET 2025 &

PROPOSED AMENDMENTS TO

- INLAND REVENUE ACT NO 24 OF 2017
- VALUE ADDED TAX ACT NO 14 OF 2002









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BUDGET OVERVIEW

1. Expanding Exports of Goods and Services

Sri Lanka plans to enhance its export capacity through the National Export Development Plan (2025-2029), focusing on improving tariff rates, economic diplomacy, and leveraging the Sri Lankan diaspora. The country will also expand Free Trade Agreements (FTAs) and introduce a new Customs Law to improve trade facilitation.

2. Investment Promotion and Facilitation

The government will promote export-oriented investments and improve ease of doing business by establishing Public Private Partnerships (PPPs), offering investment protection, and streamlining the approval process. Financial support for exporters and quality certifications will be prioritized.

3. Leveraging Sri Lanka's Strategic Location

Sri Lanka aims to capitalize on its strategic location for trade, logistics, and the digital economy, with key infrastructure developments in ports and transportation. Investment in modern scanning systems and cargo tracking will enhance port efficiency.

4. Digital Economy Advancement

The government focuses on digital transformation to boost productivity and transparency, with a goal of growing the digital economy to USD 15 billion. Legislation supporting digital services, cybersecurity, and emerging technologies like AI and FinTech will drive this growth.



5. Tourism Sector

The government aims to increase tourism value by developing unique local destinations, improving infrastructure, and training youth in tourism skills. A digital ticketing system and safety enhancements will improve tourist experiences.

6. SMEs as the Backbone of Economic Development

A new development bank will be established to address SMEs' financing challenges, supported by the National Credit Guarantee Institution (NCGI) to aid rural entrepreneurs and foster growth.

7. Fostering Innovation & Entrepreneurship

The government will link R&D with industry needs, establish an Innovation Invention Fund to commercialize research, and protect global trademarks for exporters to maximize economic benefits.

8. Expenditure Management

Efforts to streamline state expenditure include reducing the number of ministers and reviewing allowances for public representatives. A focus will be on eliminating inefficiencies in state-owned enterprises (SOEs).

9. Supporting Women's Economic Participation

The government will allocate funds for women's health and empowerment programs, including nutritious food assistance, violence prevention, and maintaining a network for women-focused programs across the country.



10. Towards a Healthy Society

The government aims to improve healthcare with digitalization and rural healthcare development. Focus areas include non-communicable disease prevention, geriatric care, and support for children with disabilities.

11. Education Opportunities for Everyone

Significant investments will be made to upgrade school infrastructure and improve the university system, with a focus on preschool education, scholarships, and vocational education.

12. Energy Sector

Sri Lanka will prioritize renewable energy development and modernization of energy infrastructure, aiming to attract local and foreign investments and ensure energy security for industries and consumers.

13. Agriculture and Food Security

The government will boost agricultural productivity with fertilizer subsidies, improved irrigation systems, and enhanced land utilization. Focus will also be on youth entrepreneurship in agriculture.

14. Plantations and other export crops

Investments will be made in expanding coconut production and value-added exports such as cinnamon, with a focus on developing sustainable farming practices.



15. Fisheries & Aquaculture

The government plans to promote freshwater prawn farming and hatchery development through public-private partnerships, supporting the growth of aquaculture.

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16. Social Protection

Increased funds will be allocated for social protection programs, including cash grants for vulnerable groups, child welfare, and support for the elderly, with a focus on improving living standards.

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17. Sri Lankan Expatriates

The government proposes a more generous duty-free allowance for migrant workers to acknowledge their contribution to Sri Lanka's development through remittances and skills.

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18. Special Interest Scheme for Senior Citizens

The proposed scheme targets senior citizens aged 60 years and above, allowing them to invest in one-year fixed deposits with a **maximum limit of Rs. 1 million** per individual. Investors will benefit from an **additional annual interest rate of 3%** above the prevailing market rates. The scheme is scheduled for implementation starting July 2025.

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19. Creating a Drug-Free Society

A comprehensive program will focus on awareness campaigns, rehabilitation, and law enforcement to combat drug addiction, with an allocation of Rs. 500 million.



20. Skills Development Programme for Convicted Prisoners

The government will allocate Rs. 100 million to provide vocational skill development courses for prisoners to enhance their post-incarceration employability.

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21. Public Transport Modernization

Modernization efforts include adding advanced buses to Colombo, rehabilitating old railway coaches, and investing in expanding the Kelani Valley Railway Line. A study on rail transport for agricultural products will also be undertaken.

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22. Regional Development

Rs. 10 million will be allocated to each Member of Parliament to address regional disparities, with Rs. 9,000 million dedicated to essential development activities across the country.

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23. District Development Programme

Focus will be on addressing gaps in infrastructure, services, and institutional improvements at the district level, with Rs. 2,000 million allocated for inclusive development and private sector investment.

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24. Eastern Province Development

A comprehensive development program will support education, health, agriculture, fisheries, tourism, and community empowerment in the Eastern Province, with Indian assistance.



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

The government plans to allocate Rs. 7,583 million for housing, vocational training, and community development for the Malayagam Tamil community.

26. Industrial Development

Industrial zones will be established in the Northern Province for chemical manufacturing and in other areas for automobile and rubber products, with Rs. 2,000 million allocated.

27. Clean Sri Lanka

A national program will focus on social, environmental, and ethical development, promoting waste management, water quality, road safety, and heritage city renovations, with Rs. 5,000 million allocated.

28. Solid Waste Management

Rs. 750 million will be allocated for improving waste management in Anuradhapura, focusing on sustainable development practices.

29. Mitigating Elephant-Human Conflict and Conservation of Forests

Efforts to reduce conflict and conserve forests include improving electric fencing, habitat restoration, and reforestation, with Rs. 1,690 million allocated.



30. Sustainable Financing

Sri Lanka will promote Environmental, Social, and Governance (ESG) financing to access global funding for climate change initiatives.

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31. Developing Financial Markets

The government will encourage capital market growth, focusing on enhancing retail investor access to well-regulated financial products and fostering innovation.

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32. Governance Reforms

Legal reforms will be introduced to improve governance, support economic development, and strengthen anti-corruption measures, including the Proceeds of Crime bill.

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33. Sri Lanka Day

A Rs. 300 million allocation will support the "National Cultural Festival" to promote reconciliation and unity, involving the private sector.

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34. Housing for Internally Displaced People

Rs. 1,500 million will be allocated to support the resettlement and housing of displaced persons in the Northern and Eastern Provinces.

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35. Essential Maintenance of Housing Schemes Constructed by Government

Rs. 1,000 million will be allocated for maintaining government-built public housing schemes.



36. Housing for Artists/Journalists

Housing will be provided for artists and journalists, with 1996 units under construction, including 108 for artists and journalists in Kottawa.

37. Drinking Water Sector

Rs. 41,234 million will expedite key water supply projects, with a Rs. 20,000 million allocation in 2025 to improve water access across the country.

38. Filling Essential Vacancies in the Public Service

The government will recruit 30,000 individuals for essential public service roles, with Rs. 10,000 million allocated.

39. Public Service Salary Increase

Proposed Salary Increase - Minimum Monthly Basic Salary will be increased from Rs. 24,250 to Rs. 40,000, a net increase of Rs. 15,750. **The ad-hoc interim and special allowances will be integrated into the basic salary, resulting in a net increase of Rs. 8,250.**

The proposed salary increase applies to **judicial services, public corporations, statutory boards, university staff**, and **officers of the tri-forces** on the same basis.

Annual Salary Increment of 80%, raising the minimum increment from Rs. 250 to Rs. 450. This adjustment will be implemented across all public sector employees.

Phased Implementation will be applied. **Phase 1** (April 2025): Rs. 5,000 plus 30% of the balance amount. **Phase 2** (January 2026 and 2027): The remaining 70% will be paid in equal portions.



Retirement benefits for employees retiring on or after **01.01.2025** will be calculated based on the new salary structure, ensuring alignment with the 2025 salary scheme

The distress loan limit for public servants will be increased from **Rs. 250,000** to **Rs. 400,000**, considering the increase in the minimum basic salary.

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40. Private Sector Minimum Wage Increase

The monthly minimum wage for private sector workers will rise from Rs. 21,000 to Rs. 27,000 in April 2025, with an additional increase to Rs. 30,000 in 2026.

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41. Reconsideration of the Wage of Plantation Workers

The government plans to increase daily wages for plantation workers to Rs. 1,700 to improve their living standards.

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42. Public Sector Pensions

A **Rs. 3,000** monthly increase was implemented for pensioners who retired before **01st January 2020** after the Presidential election, addressing pension anomalies.

A pension anomaly is observed for pensioners who retired between **2016–2020**, particularly those affected by the **fifth phase salary scale** of **2020**. A resolution is proposed to address this anomaly in **three phases**, within the limited fiscal space.

Phase-wise Implementation will be applied. In **Phase 1** - Revision of pensions for pensioners who retired before **01.01.2018** based on **2018 salary scales** (Public Administration Circular No. 03/2016), effective **July 2025**. **Phase 2** - Revision for pensioners who retired between **2018 and 2020**, with salary conversions implemented in **July 2026**. **Phase 3** - Pension conversion for remaining pensioners based on the **fifth salary stage** in **July 2027**.



43. Legal Reforms

The government will introduce legal reforms to improve governance, public-private partnerships, and regulation in sectors like procurement and anti-money laundering.

44. Revenue Measures

The fiscal reform plan focuses on revenue-based consolidation, with adjustments in tax structures and measures to enhance tax administration and compliance.

45. Borrowing Limit

The 2025 borrowing limit is detailed in official annexures, aligning with the Public Financial Management Act of 2024.



PROPOSED AMENDMENTS TO THE INLAND REVENUE ACT

A Bill to amend the Inland Revenue Act No. 24 of 2017 was published on 21st February 2025. However, its provisions will come into effect only upon formal approval and after signing by the Honorable Speaker of Parliament.

REFUNDS – SECTION 150

1. Refundable amounts

For resident individuals

With effect from 01st April 2025 refund claims **up to Rs. 180,000** must be paid by The **Commissioner-General within three months** of the claim, before any tax audit is conducted.

For Senior Citizens (not an installment payer)

Annual Refund Claims - With effect from 01st April 2025 refund claims **up to Rs. 180,000** must be paid by the **Commissioner-General within three months** of the claim, before any tax audit is conducted.

Quarterly Refund Claims - With effect from 01st April 2025 quarterly refund claims **up to Rs. 45,000** must be paid by the **Commissioner-General within three months** of the claim, before any tax audit is conducted.

2. Refund Claim Period

- If the taxpayer files a return: Refunds/credits must be claimed **within 30 months** after the end of the assessment year.
- If initiated by the Commissioner-General: Refunds/credits must be claimed **within the timeframe specified by the Commissioner-General**.



PERSONAL RELIEF – FIFTH SCHEDULE

With Effect from 01st April 2025, the tax-free allowance has been increased to **Rs. 1,800,000**. This amount will be deducted as personal relief when calculating the taxable income for both resident and non-resident individuals.

TAX RATES FOR RESIDENT AND NON-RESIDENT INDIVIDUALS – FIRST SCHEDULE

1. Tax Table

The **taxable income** of a resident or non-resident individual for a year of assessment commencing from 01st April 2025 shall be taxed at the following rates.

Taxable Income	Tax Rate
First Rs. 1,000,000	6%
Second Rs. 500,000	18%
Third Rs. 500,000	24%
Fourth Rs. 500,000	30%
Balance	36%

Explanatory Calculation

Assessable Income	2,500,000	5,000,000	7,500,000	10,000,000
Less – Tax Free Allowance	(1,800,000)	(1,800,000)	(1,800,000)	(1,800,000)
Taxable Income	**700,000**	**3,200,000**	**5,700,000**	**8,200,000**
First 1,000,000 at 6%	42,000	60,000	60,000	60,000
Next 500,000 at 18%	-	90,000	90,000	90,000
Next 500,000 at 24%	-	120,000	120,000	120,000
Next 500,000 at 30%	-	150,000	150,000	150,000
Balance at 36%	-	252,000	1,152,000	2,052,000
Total Tax Liability	**42,000**	**672,000**	**1,572,000**	**2,472,000**



2. Advance Personal Income Tax - APIT

The proposed adjustments to the **tax-free allowance** and **tax slabs** will lead to a reduction in the **monthly APIT** deductions from employees' salaries. The updated **tax tables** will be available on the **IRD** website shortly after these changes become effective.

Monthly Salary	Monthly APIT up to 01st April 2025	Monthly APIT on or after 01st April 2025	Savings in APIT to Employee
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
600,000	142,500	122,000	20,500
700,000	178,500	158,000	20,500
800,000	214,500	194,000	20,500
900,000	250,500	230,000	20,500
1,000,000	286,500	266,000	20,500



3. Betting & Gaming, Liquor or Tobacco

With effect from **01st April 2025**, where an individual's taxable income includes income from a business consisting of **betting and gaming, liquor or tobacco** it shall be taxed at the rate of **45%**.

4. Foreign Currency Income

With effect from April 1, 2025, **Foreign Currency Income** (Remitted to Sri Lanka via a bank) will be taxed at a **maximum rate of 15%**

- **Income from International Services** - individual provides services either **inside or outside Sri Lanka** to a client who will use those services **outside Sri Lanka – Taxed at 15%**

- **Income from Foreign Sources** - income earned from any **foreign sources**, such as investments or other earnings from outside Sri Lanka – **Taxed at 15%**

TAX RATES – CORPORATE INCOME TAX – FIRST SCHEDULE

With effect from 01st April 2025, gains and profits included in a company's taxable income will be subject to the following tax rates

- **Income from International Services**

Profits earned from services provided **inside or outside Sri Lanka** to a client who will use those services **outside Sri Lanka** will be taxed at **15%**.

- **Income from Foreign Sources**

Profits earned from **foreign sources**, such as investments or other earnings outside Sri Lanka, will also be taxed at **15%**.



- **Income from betting and Gaming**

Profits earned from businesses engaged in **betting and gaming activities** will be taxed at **45%.**

- **Income from Liquor and Tobacco Businesses**

Profits from the **manufacture and sale or the import and sale** of **liquor or tobacco products** will be taxed at **45%**

WITHHOLDING TAX RATES – FIRST SCHEDULE

The rate of tax to be withheld from **interest or discount** will be 10% effective from **01st April 2025**.



PROPOSED AMENDMENTS TO THE VALUE ADDED TAX ACT

A Bill to amend Value Added Tax (VAT) Act No 14 of 2002 was published on 21st February 2025. However, its provisions will come into effect only upon formal approval and signing by the Honorable Speaker of Parliament.

IMPOSITION OF VALUE ADDED TAX - SECTION 2

- **With effect from 01st April 2025, 18 % VAT** shall be charged on the **supply of services by a non-resident person through an electronic platform** to a person in Sri Lanka.

- VAT payment must be made as prescribed by the Commissioner-General.

- Unpaid taxes will be considered as taxes in default and all responsible parties will be treated as defaulters.

- The assessor has power to make an assessment on any person who is chargeable with tax on the supply of services by a non-resident person through an electronic platform to a person in Sri Lanka.

Interpretations

1. **Electronic platform**

Any procedure in the form of a website or mobile application used by one or more service providers to provide their services to the service recipients.

2. **Fixed place**

A place which is characterized by a sufficient degree of permanence and suitable structure in terms of human and technical resources to supply services, or to receive and use services for its own needs.



3. **Non-resident person**

Any person who occasionally undertakes transactions involving supply of services, whether as principal or agent or in any other capacity, but who has no fixed place of business in Sri Lanka, and does not include a person registered under section 10, where such person carries on or carries out a taxable activity in Sri Lanka without a fixed place of business but having an agent to act on behalf of such person as referred to in section 55.

DISCONTINUATION OF SVAT

The **SVAT** scheme will be **discontinued with effect from 01st October 2025.**

Abolishment of VAT deferment available under SVAT scheme with effect from 01st April 2025

- Any **goods imported**, including any goods received from Custom bonded area by a person who imports or receives such goods for the manufacture of goods or the provision of services to a manufacturer of goods for export by a person who is registered in the Simplified Value Added Tax Scheme administrated by the Commissioner-General who supplies to any exporter or provider of zero-rated services specified in terms of section 7 in the Value Added Tax Act.

- Any **plant or machinery imported**, including any plant or machinery received from a custom bonded area who imports or receives such plant or machinery for the usage by such person for the manufacture of goods or provision of services by a person who is registered in the Simplified Value Added Tax Scheme administrated by the Commissioner-General who supplies to any exporter or provider of zero-rated services specified in terms of section 7 in the Value Added Tax Act.

Abolishment of VAT relief with effect from 01st October 2025

- VAT relief on any fabric or accessories imported, for the purpose of manufacture of garments for export, who has registered with the Simplified Value Added Scheme.



VALUE OF SUPPLY OF GOODS OR SERVICES - SECTION 5(3)

With effect from 01st January 2024, the value of supply for the following items **shall be treated as zero**.

- **Meals or transport** provided by an employer using a motor coach between the place of residence and the work place at free of charge or at a subsidized rate.

- Any reinsurance **commission** or any compensation received in foreign currency through a bank by any local insurance company from a reinsurer outside Sri Lanka.

- Any **unused postage and revenue stamps** of the Government of the Democratic Socialist Republic of Sri Lanka or of a Provincial Council, to the face value of such stamps.

VAT REGISTRATION - SECTION 10

Importers or exporters of goods for commercial purposes must register for VAT starting from the commencement date of the (Amendment) Act.

TAX INVOICE - SECTION 20

From the commencement date of the (Amendment) Act, the tax invoice format will be as specified by the Commissioner-General by order published in the Gazette



VAT RETURN - SECTION 21 (1)

With effect from 01st July 2025, every registered person must submit a return of their supplies only using an **electronic means** (computer system or a mobile electronic device) by the last day of the following month. The Commissioner-General may **allow to furnish the return in writing in special cases**.

Acknowledgement shall be issued by the RAMIS at the time of furnishing the return.

All returns must be followed the specified format and requirements, which may be specified in the Gazette by the CGIR.

INPUT TAX CREDIT

Employers can claim input tax credit on outsourced meal and transport expenses for employee benefits, even if the benefit's value is zero.

VAT REFUND

With effect from 01st October 2025, the **Risk-Based Refund Scheme** specified by the Commissioner-General will be introduced to process refunds.

Upon receiving a proper return, containing all particulars in the specified format, including all required details and schedules, as set by the Commissioner-General, the refund will be processed within 45 days from the later of

- The month following the taxable period's end, or
- The receipt of a proper return.



RECOVERY OF UNDECLARED AND UNPAID TAXES - SECTION 48(B)

A new provision (Section 48B) allows the Commissioner-General to collect unpaid taxes from any person who has collected tax on goods or services but failed to remit it, regardless of their registration status under the Act.

NEW EXEMPTIONS

- The supply or import of **chemical naphtha to be supplied to Ceylon Electricity Board** by the Ceylon Petroleum Corporation for the generation of electricity

- The supply of **liquid milk and yoghurt**, produced out of **locally produced fresh milk**.

REMOVAL OF EXEMPTIONS

- Import of aircraft engines or aircraft spare parts, prior to the date of commencement of the (Amendment) Act, identified under specified Harmonized Commodity Description and Coding System Numbers for Custom purposes;

