BUDGET PROPOSALS 2026

CIRCULAR TO CLIENTS

Jayasinghe & Company
Chartered Accountants
(Member Firm of Russell Bedford International)





STRATEGIC OBJECTIVES OF 2026 BUDGET PROPOSALS

JAYASINGHE COMPANY
MEMBER OF RUSSELL BEDFORD INTERNATIONAL

Sustainable and Inclusive Economic Growth

Achieve over 7% growth through productivity, innovation, PPPs, and export-led investment.

Higher Income through Export Diversification

Diversify exports, expand markets, introduce new tariff policy and Trade National Single Window (TNSW).

Ensuring Debt Sustainability

Maintain public debt below 90% of GDP by 2032, ensure repayment capacity, and secure interest relief via IMF-linked targets.

Strengthening the Production Economy

Build a self-reliant production economy by empowering SMEs and promoting local manufacturing through PPPs.

Eradicating Rural Poverty

Transform villages into productive and prosperous units ensuring inclusive economic growth and strong social protection.

Promoting Digitalization

Drive a USD 15 billion digital economy with enhanced transparency, efficiency, and modern infrastructure.



KEY ECONOMIC IMPROVEMENTS & CAPITAL MARKET PERFORMANCE

JAYASINGHE COMPANY
MEMBER OF RUSSELL BEDFORD INTERNATIONAL

KEY ECONOMIC IMPROVEMENTS (2024 → 2025)

- Growth: 4.6% → 4.8%
- Unemployment: 4.5% → 3.8%
- Exports: USD 8.5B → USD 9.1B
- Remittances: USD 4.8B → USD 5.8B
- Tourism Earnings: USD 2.3B → USD 2.5B
- Revenue & Grants: Rs. 2.9T → Rs. 3.8T
- Primary Balance: Rs. 0.8T → Rs. 1.5T

CAPITAL MARKET PERFORMANCE

- ASPI: 11,855 → 21,779
- S&P SL20: 3,453 → 6,127
- Market Cap: Rs. 4.4T → Rs. 7.8T
- Foreign Purchases: Rs. 37B → Rs. 47B

FISCAL REFORMS & REVENUE GOALS

- Strengthened legal fiscal framework for discipline & transparency.
- Revenue targets: 15.3% of GDP by 2026 → 20% in the long term.
- Tax ratio shift: Direct/Indirect from 25:75 to 40:60.

EXPENDITURE & INVESTMENT FOCUS

- Maintain primary expenditure ≤13% of GDP.
- Ensure public investment ≥4% of GDP for infrastructure & social welfare.



REVENUE PROPOSALS

JAYASINGHE COMPANY
MEMBER OF RUSSELL BEDFORD INTERNATIONAL

VAT AND SSCL ON IMPORTED COCONUT & PALM OIL

Current Status

Locally produced oils are subject to VAT and SSCL, while imported coconut and palm oil are under Special Commodity Levy (SCL) of Rs.150/kg and Rs.275/kg, respectively.

Proposal

Remove SCL on imported oils and apply VAT & SSCL to ensure fair competition with local producers.

Effective Date

1st April 2026

Key Takeaway: Imported coconut & palm oil to shift from Special Commodity Leavy to VAT + SSCL from 1st April 2026.

REDUCTION OF VAT AND SSCL REGISTRATION THRESHOLD

Current Threshold

Rs. 60 million annual turnover.

Proposed Threshold

Reduce to Rs. 36 million a year to broaden the tax base.

Effective Date

1st April 2026

Key Takeaway: More businesses to fall under VAT & SSCL with the lower registration limit.

REMOVAL OF CESS AND IMPOSITION OF VAT ON IMPORTED FABRIC

Current Status

Imported fabric exempt from VAT but subject to CESS of Rs.100/kg; local fabric subject to VAT.

Proposal

Remove CESS and apply VAT to imported fabric for equal treatment.

Effective Date

1st April 2026

Key Takeaway: VAT to replace CESS on imported fabric, ensuring parity with local manufacturers.

SSCL ON VEHICLES AT THE IMPORT OR MANUFACTURE STAGE

Issue

SSCL on vehicle sales is not properly collected.

Proposal

Charge SSCL at the import or manufacture stage and exempt at after-sales.

Effective Date

1st April 2026

Key Takeaway: SSCL collection streamlined – charged upfront at import/manufacture.

IMPLEMENTATION OF THE NATIONAL TARIFF POLICY

Current Duty Rates

0%, 15%, 20%

Proposed Rates

0%, 10%, 20%, 30% (effective April 2026)

Objective

Align with the National Tariff Policy and phase out para-tariffs gradually with minimal revenue impact.

Key Takeaway: Customs duty structure rationalized to promote trade competitiveness.

STRENGTHENING THE TAX AUDIT FRAMEWORK

Proposal

Introduce a modern tax audit system effective from January 2026.

Features

Transparent risk-based selection of audit cases.

Oversight by the Risk Management Unit and review committee.

Reduced discretion and corruption, ensuring fairness and accountability.

Key Takeaway: New audit framework to improve integrity and efficiency in tax administration.

TELECOMMUNICATION TAX & AML/CFT FRAMEWORK

Telecom Sector

Amend the Telecommunications Tax Act No. 21 of 2011 to include bad debts and recoveries in taxable value.

AML/CFT Strengthening

Enable data exchange between tax authorities and the Financial Intelligence Unit; introduce legal provisions for enforcement, prosecution, and penalties.

Key Takeaway: Enhanced telecom tax compliance and stronger anti-money laundering enforcement.

NATIONAL ELECTRONIC INVOICING SYSTEM (E-INVOICING)

Objective

Establish an API-based e-invoicing system integrated with RAMIS.

Phased Implementation

Phase 1: Export-oriented and pilot companies.

Phase 2: All VAT-registered taxpayers.

Phase 3: POS machine integration for real-time transaction tracking.

Outcome

Improved compliance, transparency, and efficiency.

Key Takeaway: Full digital invoicing to modernize VAT administration and reduce tax evasion.

ESTABLISHMENT OF A UNIFIED INLAND REVENUE OFFICE COMPLEX

Objective

Enhance efficiency and service quality through centralized operations.

Proposal

Establish a single premises for the Department of Inland Revenue and related offices.

Budget Allocation

Rs. 2,000 million for location selection and feasibility study.

Key Takeaway: Centralized Inland Revenue headquarters to enhance service delivery and strengthen digital transformation.



OTHER KEY PROPOSALS

JAYASINGHE COMPANY
MEMBER OF RUSSELL BEDFORD INTERNATIONAL

MODERNIZATION & DIGITALIZATION

Service Fee Waiver

From 01st January 2026, all service fees for electronic payments to Government institutions will be waived.

QR Code Payments

QR payments below Rs. 5,000 to Government institutions will be free of charge (tax incentive).

ENHANCED CAPITAL ALLOWANCE

Current Status

Under the Inland Revenue Act No. 24 of 2017, Enhanced Capital Allowances (ECA) are granted in addition to normal capital allowances for new investments or expansions exceeding USD 3 million, mainly for projects approved by the BOI. Currently, a 100% allowance applies to investments outside the Northern Province and 200% for those within it.

Proposed Change

The 2026 Budget proposes to reduce the qualifying investment threshold from USD 3 million to USD 250,000, enabling SME and service sector investors to claim enhanced capital allowances. Losses resulting from such claims can be carried forward for up to 10 years.

Objective

The objective is to encourage new and expanded SME investments, promote regional development, and create a more inclusive and growth-oriented investment environment by widening access to tax incentives.

TAX INCENTIVES ON THE CONSTRUCTION OF TOWERS

Current Practice

Tax concession granted for undertakings commenced between 1st January 2021 and 31st March 2023, for resident persons constructing and installing communication towers using local labour and raw materials in Sri Lanka.

Proposed Practice

To suspend the tax applicable to new towers constructed under the Digital Technology Expansion Programme for a 5-year period.

Objective

To accelerate digital infrastructure development and encourage private sector investment in communication technology.

TAXES TO BE INTRODUCED AND AMENDED

New Acts

Investment Protection Act

Public-Private Partnership Act

Public Commercial Business Management Act

Amendments for Existing Acts

Strategic Development Projects Act

Telecommunication Act

Colombo Port City Development Act

RAMIS 3.0

Implementation of initiatives to modernize RAMIS with the aim of building a fair, efficient, and transparent tax system.

FOR FURTHER INFORMATION, PLEASE CONTACT

Mr. Devinda Mendis

Senior Partner

Tel : +9411 2512514 / +94776108307

Email : devinda@aajco.lk

Ms. Tharushi Salgado

Director – Tax

Tel : +9411 2512514 /+94718730600

Email : tharushi@aajco.lk

Ms. Nirmala Deegalla

Director – Tax

Tel : +9411 2512514 / +94711027636

Email : nirmala@aajco.lk

Ms. Piumi Shashikala

Director – Tax

Tel : +9411 2512514 / +94779035459

Email : piumi@aajco.lk

Ms. Suchira Mendis

Manager – Tax

Tel : +9411 2512514 / +94775946208

Email : suchira@aajco.lk

Disclaimer: This document has been prepared based on the Budget Proposals presented in Parliament. These proposals will be effective only upon the enactment of the relevant Acts and Amendment Acts.

Our Office:

Jayasinghe & Company

Member of Russell Bedford International

Chartered Accountants

94/12, Kirulapone Avenue,

Colombo 05

Tel: 011 2512514/ 011 2512400

Email: tax@aajco.lk