Yenu Corporation (PVT) LTD

BUDGET BRIEFING
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Sri Lanka's 2027 Budget

— what it means for business, tax & foreign investors

A plain-language guide to the income tax, VAT, customs and investment proposals in the 81st Budget Speech presented to Parliament on 12 November 2026 — written for local business owners, individual taxpayers and foreign investors alike.



TAX UPDATES | VAT CHANGES | CUSTOMS MEASURES | INVESTMENT PROPOSALS | BUSINESS IMPACT

Based on the Budget Speech 2027, Ministry of Finance, Planning & Economic Development, Sri Lanka
Presented by Hon. Anura Kumara Dissanayake, Minister of Finance

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Read this first: everything below is a **proposal** presented to Parliament, not yet-enacted law. Most tax measures take legal effect only once Parliament passes the relevant amending Acts (to the Inland Revenue Act, VAT Act, etc.), and most are dated to take effect **1 April 2027** unless stated otherwise. Details can still change during the parliamentary process — see Section 9 for how to verify anything before you act on it.

SECTION 1

1 Why this Budget matters

The economic backdrop, in a few numbers

This is the current Government's third Budget, built around the theme *"A Thriving Nation – A Beautiful Life."* Its stated aim is to shift from the economic **stabilisation** of the last two years towards **transformation** — more investment, more exports, broader participation in growth.

Indicator	Where it stood	Where it is now
Economic growth	Severe crisis, 2022	5% in 2025; 5.1% in Q1 2026 despite Cyclone Ditwah and the Middle East conflict's effect on fuel prices
Budget deficit	Chronic, double-digit in past crises	2.3% in 2025 — the lowest in 68 years
Government revenue	8.2% of GDP (2022, a historic low)	16.6% of GDP (2025) — the highest in 23 years
Central Government debt	114% of GDP (2022)	95% of GDP (end-2025)
Credit rating (Fitch)	CCC+	Upgraded to B- in 2026
World Bank income classification	Lower middle-income (since 2020)	Upgraded back to upper middle-income in 2026
Inflation	2.1% (Dec 2025)	Risen to 8.3% (Oct 2026), driven by Middle East-linked fuel price rises

The IMF's Extended Fund Facility programme — the loan arrangement underpinning the recovery — is scheduled to conclude in March 2027, with a 17th and final review. A Cabinet-appointed committee is already examining whether a follow-on programme is needed.

> **Why it's relevant to you:** a credit rating upgrade and the return to upper middle-income status both make Sri Lanka a somewhat easier conversation for foreign investors, lenders and insurers than it was two years ago — even as inflation and global shocks (the Middle East conflict, an expected El Niño peaking February 2027) remain real near-term risks.

SECTION 2 · INDIVIDUALS INCOME TAX

2 For individuals — income tax relief

Who this affects: any salaried individual, local or foreign, paying personal income tax in Sri Lanka

The tax-free threshold is being raised again, and a new, gentler step has been added to the tax brackets so the jump from the lowest rate isn't as steep.

The headline change

- The **annual tax-free threshold** rises from Rs. 1.8 million to **Rs. 1.95 million** — in monthly terms, from Rs. 150,000 to **Rs. 162,500**. A person earning up to that amount a month pays no income tax at all.
- A **new 12% bracket** is inserted right after the first (6%) band, softening what used to be a jump straight to 18%.
- Each bracket above the tax-free threshold is also **widened** — from Rs. 41,667/month to Rs. 50,000/month per band — so less of a pay rise gets pushed into a higher bracket.

	Now		From the 2027 proposal	
Band (after the tax-free threshold)	**Width/month**	**Rate**	**Width/month**	**Rate**
1st band	~Rs. 83,333	6%	~Rs. 70,833	6%
2nd band *(new 12% step)*	—	—	~Rs. 50,000	**12%**
Next band	~Rs. 41,667	18%	~Rs. 50,000	18%
Next band	~Rs. 41,667	24%	~Rs. 50,000	24%
Next band	~Rs. 41,667	30%	~Rs. 50,000	30%
Balance	—	36%	—	36%

Figures are monthly equivalents of the annual bands set out in the Budget's Technical Notes, rounded for readability. The first (6%) band narrows slightly, but a new 12% step is inserted right after it — replacing what used to be an immediate jump to 18% — and every band above that is widened. Net effect: the top (36%) rate now only applies above roughly Rs. 433,000/month of taxable income, up from Rs. 358,000.

In practice: every individual taxpayer gets an extra Rs. 750 to Rs. 15,750 a month in relief from this change alone. Combined with the relief already given in 2025, the Government says total monthly relief per taxpayer now ranges from **Rs. 4,250 to Rs. 36,250**, depending on income level.

SECTION 3 · BUSINESSES INVESTMENT INCENTIVES

3 For businesses — investment incentives

Who this affects: BOI-approved exporters, manufacturers and tourism developers — local or foreign-owned

A new 200% capital allowance

To encourage larger private investment, enterprises approved by the **Board of Investment of Sri Lanka (BOI)** that are engaged in **export-oriented manufacturing** or **tourism development** can now claim an enhanced capital allowance equal to **200% of qualifying capital expenditure** — i.e., a tax deduction worth double what was actually spent on qualifying assets — instead of the existing allowance regime.

Condition	Detail
Minimum investment	USD 3 million
Qualifying activity	Export-oriented manufacturing, or tourism development (including hotels)
Investment window	Within 3 years for manufacturing and non-hotel tourism; within 5 years for hotels
Restriction	Can't be combined with the existing Fourth Schedule allowance or the ordinary Second Schedule enhanced allowance — it's one or the other

> This sits alongside the Government's broader investment push: an officials' committee is working to cut delays in granting state land to investors, a new 100%-Treasury-owned investment promotion company (modelled on the GovTech agency) is being set up to professionally market Sri Lanka for investment, and a **National Single Window for Investment** is being built, with a consultancy firm currently being procured.

Trade facilitation, in brief

- A **National Single Window for Trade** piloted from 5 November 2026 for selected export goods; exporters connect in the first half of 2027, importers and re-exporters in the second half.
- **CESS import duty rates cut by 25%** across 800 tariff (HS code) lines, as part of a phased reduction in import tariffs generally.
- Rs. 1,000 million allocated for body and container scanners to modernise Customs border protection.
- The decades-old "Temporary Importation for Export Processing" (TIEP) regime is being modernised with tax concessions and new "inter-port trading" mechanisms, aimed partly at drawing SMEs into export activity.

SECTION 4 · BUSINESSES VAT & CUSTOMS

4 For businesses — VAT & customs changes

Who this affects: VAT-registered businesses, exporters, importers, publishers and the film industry

Value Added Tax (VAT)

- **Books exempted from VAT** — textbooks, dictionaries, encyclopaedias, children's drawing/colouring books, exercise books, printed sheet matter and music books are all removed from VAT.
- Two narrow exemptions are **removed**: artemia eggs and coconut coir pith now attract VAT.
- **Cinema tickets:** VAT on film revenue will be calculated on each party's actual share (producer, distributor, National Film Corporation, cinema operator) rather than on the full ticket price.
- **"Eligible Exporter" status is easier to reach** — a newly VAT-registered business now qualifies if more than 80% of its turnover in the *preceding six months* came from exports, rather than having to show a full prior calendar year of export-heavy trading.
- **Foreign-currency invoices:** VAT on supplies billed in foreign currency will use the Central Bank's own Indicative Exchange Rate, for consistency across businesses.
- **Digital invoices made legally valid** — electronic tax invoices are recognised on the same footing as paper ones, with format rules to be set by the Commissioner-General of Inland Revenue.
- Input tax claim windows are standardised: **12 months** for local purchases and **24 months** for imports, regardless of when the VAT return was filed.
- A one-off relief: VAT-registered businesses whose **COVID-era** returns were filed late will have those input tax claims treated as validly made, provided the outstanding returns are filed by **31 July 2026**.

Customs & other levies

- The **Ports and Airports Development Levy (PAL)** is removed on imported newsprint and on batteries used for solar energy storage, from 1 January 2027.
- The **Special Commodity Levy** is cut sharply on sprats, Maldive fish and dried chillies (to help cost of living) — but **increased by Rs. 10/kg on imported sugar**, to protect the domestic sugar industry. Effective 13 November 2026.
- The century-old **Excise Ordinance** will be amended to simplify it, pending a full replacement Excise Act.

SECTION 5 · TOURISM

5 Tourism sector: a levy abolished

Who this affects: hotels, tour operators and anyone running a tourism establishment

The **Tourism Development Levy** — a turnover-based charge on tourism establishments — is being **abolished** outright, effective 1 April 2027, to reduce the tax burden on the industry and improve its competitiveness.

> A replacement financing mechanism for tourism promotion is still being designed. Until it's in place, promotion and development funding will come directly from the Treasury on request from the Sri Lanka Tourism Development Authority (SLTDA) — so this is a genuine net relief for operators, not a swap for a different charge.

This sits alongside wider tourism investment: a Southern "Mist Triangle" nature-tourism project around Sinharaja, a centralised e-ticketing system for major attractions, restoration of historic Colombo Fort buildings (World Bank-financed), Dutch-fort tourism hubs in Jaffna, Mannar, Kalpitiya and Batticaloa under public-private partnerships, a Marine Tourism concessionary loan scheme, and a new cruise-ship passenger terminal planned for the Port of Colombo.

SECTION 6 · FOREIGN INVESTORS INVESTMENT

6 For foreign investors

Who this affects: anyone considering investing in, relocating to, or doing cross-border business with Sri Lanka

Legal protection & residency

- A draft **Investment Protection Bill** has already been referred to the Attorney General. It's designed to protect investors' assets, guarantee fair and equitable treatment, and set out how compensation and disputes are handled — the kind of legal backstop foreign investors typically look for before committing capital.
- **Legislative work has begun to grant permanent residency to investors**, based on the size of their investment and other criteria still being finalised. (A separate "Global Sri Lankan Heritage Citizen" programme also offers free dual citizenship to the spouse, children and third-generation descendants of diaspora Sri Lankans applying for dual citizenship — relevant if you have Sri Lankan heritage rather than being a first-time investor.)
- A draft amendment to the **Colombo Port City Economic Commission Act** aims to attract more foreign investment into Port City specifically, with added facilities for investors and the people who work there.

Clearer tax treatment for cross-border business

- The **14% withholding tax** on service fees and insurance premiums is clarified to apply **only** to payments made to non-resident persons who have **no permanent establishment** in Sri Lanka — removing a source of ambiguity for foreign service providers and insurers.
- Where income comes from **remote or digital services** — online advertising, cloud services and similar — its source will now be determined by reference to the **place of payment**, giving clearer income tax treatment for cross-border digital business.
- Confidentiality rules are tightened so that information Sri Lanka receives from a foreign tax authority is disclosed only to authorised persons, and only with that foreign authority's consent — aligning with standard international tax-information-exchange practice.
- Technical language in the Inland Revenue Act is being aligned with **OECD and UN Model Double Taxation Convention** terminology, replacing an older reference to "fiscal evasion" with "tax evasion and avoidance."

Capital Gains Tax: a wider net

The definition of a "capital asset" is being broadened to specifically include:

- **Digital and virtual assets, including cryptocurrencies**

- Telecommunications, broadcasting and similar licences and rights with commercial value
- Gems, jewellery, precious metals and other valuable movable assets above a threshold still to be prescribed

> If you hold crypto, valuable gems/jewellery, or commercially valuable licences connected to Sri Lanka, a disposal of these may now attract Capital Gains Tax where it may not have clearly done so before. Get specific advice before any disposal.

Trade agreements in progress

Agreement	Status
India	Existing Free Trade Agreement being expanded (officials' committee appointed)
China	A new Free Trade Agreement is under consideration
RCEP (Regional Comprehensive Economic Partnership)	Sri Lanka has applied to accede
UAE & Oman	Comprehensive Economic Partnership Agreements expected
European Union	EU-funded "Sustainable Trade and Economic Integration Project" (Rs. 3,430 million, 2027–2030) to boost export competitiveness

SECTION 7 · SECTORS TO WATCH

7 Sectors to watch

Where new money and new rules are concentrated

Digital economy & fintech

- Electricity tariff concessions and other incentives are being offered to investors who build **data centres** in Sri Lanka.
- A legal framework for **Virtual Asset Service Providers (VASPs)** is being prepared — the first formal regulatory basis for crypto-asset businesses in the country.
- The **Digital Startup Fund of Funds** is being strengthened specifically to attract private investment into Sri Lankan startups.
- Rs. 10,000 million is proposed for AI, cybersecurity and digital-government initiatives, including a new National AI Centre of Excellence.

Capital markets

- Only about 0.7% of Sri Lankans over 18 actively trade on the Colombo Stock Exchange (CSE). A new financial-literacy and share-ownership programme ("A Share for Everyone") targets school students over 18 in Grade 13.
- A new **SME Listing Support Mechanism** is proposed to make it easier for small and medium enterprises to list on the CSE.

Energy, petroleum & mining

- Oil and gas exploration bids (Sri Lanka Licensing Round 2026) for four blocks in the Mannar Basin are expected to open 2 February 2027.
- The Sapugaskanda Oil Refinery is planned to double its capacity (50,000 → 100,000 barrels/day) through a public-private partnership; requests for proposals follow in 2027.
- Several mineral deposits — graphite at Kahatagaha, mineral sands along the eastern coast, silica sand at Nattandiya and quartz at Kotigambokka — are at the stage of identifying investors for mining and value-addition projects.

Ports & logistics

- Target: over 30 million TEU shipping capacity at the Port of Colombo by 2040, with ambitions to become a regional bunkering and re-export hub (also at Galle and Trincomalee).
- A Logistics Centre at the Port of Colombo will be tendered as a public-private partnership within two months of the Budget.
- Feasibility work continues on developing a new Colombo North Port.

SECTION 8

8 Key dates at a glance

So you know what to plan for, and when

Date	What changes
13 November 2026	Special Commodity Levy revisions (sprats, Maldive fish, chillies down; sugar up)
31 July 2026 (deadline)	Deadline to file outstanding COVID-era VAT returns to validate previously disallowed input tax claims
1 January 2027	PAL removed on newsprint and solar-storage battery imports
2 February 2027	Mannar Basin oil & gas exploration bids open
1 April 2027	Default effective date for most tax measures: income tax changes, VAT changes, Tourism Development Levy abolition, CESS phase-2 cut, unless stated otherwise above
First half of 2027	National Single Window for Trade connects exporters; Investment Protection Bill, PPP Act and Digital Economy Bill expected before Parliament
March 2027	IMF Extended Fund Facility programme scheduled to conclude (17th review)

Dates above are as stated in the Budget Speech and its Technical Notes. Parliamentary passage of the underlying amendment Acts can shift an effective date, so always confirm the current position before relying on one for a transaction.

SECTION 9

9 Sources & how YenuIT can help

Verify the detail; get support acting on it

Primary source

Budget Speech 2027 (81st Budget Speech), presented to the Parliament of Sri Lanka on 12 November 2026 by Hon. Anura Kumara Dissanayake, Minister of Finance, Planning and Economic Development — including its Technical Notes (Annexure V) and Summary of Revenue Impact (Annexure I). Published by the Ministry of Finance, Planning and Economic Development, Colombo.

This guide simplifies, it doesn't replace, the Budget documents and the legislation that will follow. Figures have been converted between annual and monthly terms for readability, and some technical conditions are summarised. Before making a business, tax or investment decision based on anything in this guide, verify the current position directly against the Budget Speech, its Technical Notes, and the relevant amendment Acts once passed — or talk to us.

Need help acting on any of this?

YenuIT offers Tax Registration (TIN) and Tax Filing services for Sri Lanka, Customised ERP & POS systems built around local tax rules, and business registration & proposal support — for local businesses and foreign investors alike.

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