CORPORATE AND PERSONAL TAXATION

Subject No: 3804

Updates for the

Year of Assessment 2025/2026

This supplementary can be used
only with CPT book printed in January 2026

IMPORTANT

Please note that the year of assessment tested for the forthcoming examinations under the new syllabus will be as follows;

Examination		Year of Assessment (Y/A)
2027 - January Exam	-	2025/2026

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Chapter 01 | Introduction to Taxation of Sri Lanka and Emerging Trends

-Page 9-

1.5.1 Who is liable to pay income tax?

Under, Accordingly, "Person" includes;

non-governmental organization amended as a governmental organization

-Page 9/10-

1.5.2 "How frequently" is the tax liability computed?

Year of assessment of the first sentence of last paragraph should be as follows:

For an example, year of assessment 2025/26 covers the period from 01.04.2025 to 31.03.2026.

-Page 11-

Example : Determination of Residency for Taxation

Table and the last paragraph should be as follows:

Arrival	Departure	Days present in Sri Lanka
03.04.2025	21.05.2025	48
04.06.2025	30.06.2025	26
15.09.2025	14.11.2025	60
01.12.2025	22.12.2025	21
Total		**155**

As per the above data during the year of assessment 2025/26 he has physically spent 155 days in Sri Lanka & hence he is a non-resident in Sri Lanka for tax purposes for that year of assessment.

-Page 14-

1.8 Transfer Pricing

First sentence of the paragraph starts with 'Regulations on transfer…' should be as follows:

Regulations on transfer pricing have been published through Gazette notification 2217/7 dated 02.03.2021 and they are effective from 01.04.2021.

-Page 18-

Under Taxation on Digital Services in Sri Lanka

First point should be as follows:

The Value Added Tax (Amendment) Act No. 04 of 2025 introduced Value Added Tax on supply of services by a non-resident person through an electronic platform to a person in Sri Lanka. This is effective from 1st July 2026.

-Page 20-

Solutions

In the 2nd solution No should be No.

Chapter 02 | Sources of Income

-Page 25-

2.1.3 Value of Benefits

First paragraph should be as follows:

Values specified for Non-Cash Benefits w.e.f. 01.04.2023 are as follows; (As per - Circular No. SEC/2023/E/02, dated 06.04.2023)

-Page 25-

2.1.3 Value of Benefits (2nd point)

Subparagraphs (ii), (iii) and (iv) should be as follows:

(ii) If the above value exceeds the cost incurred by the employer or market value of the place of residence, then, the value which ever is lower, shall be the value of benefit of such employee for such purpose.

(iii) Where the employer reimburses any expense incurred by the employee or pays any amount as a monthly allowance connected with a house or apartment occupied by the employee, the value of benefit shall be the actual expense reimbursed or the allowance paid by the employer.

(iv) If any amount is deducted from employee's salary for providing a place of residence or by way of rent, the employment benefit should be the benefit specified above less the amount deducted from the employee's salary.

-Page 28-

2.1.6 Basis of payment

Example 1 should be as follows:

Mr. Gamage is an employee of ABC Company. The company paid bonus of Rs. 500,000 in December 2025, out of the profit earned for the year of assessment 2024/25. Mr. Gamage is liable to tax on this bonus for the year of assessment 2025/26.

-Page 36-

2.2.5.4 Specific Deductions (Sec. 12 to 19)

Fifth point (Marketing and communication expenses (Section 15A)) been removed.

-Page 36-

2.2.5.4.1 Interest Expenses (Section 12)

Last two paragraphs should be amended as follows.

During the year of assessment 2024/2025, he paid Rs. 300,000 as interest for the loan. During the year of assessment 2025/2026 he sold the office building and loan interest for the year is Rs. 250,000.

During the year of assessment 2024/2025, under Section 12(a) Mr. Nimal is entitled for a deduction amounting to Rs. 150,000 (50% of the Loan interest) paid as interest on the funds used to construct the new office building as it is an asset used during the year. Similarly, (sec. 12)

-Page 37-

Y/A of point (b) should be 2025/2026

-Page 37-

Example

Y/A of should be 2025/2026

-Page 40-

Last paragraph below table 1 should be amended as follows.

For assets which were acquired before 01st April 2018, capital allowances are claimed based on previous Act and the following ratios are applied. Assets acquired under finance leases upto 31.03.2018 were not entitled to capital allowances.

-Page 42-

Enhanced Capital Allowances (Second Schedule)

A row been added as 5th row and added the followings.

5	w.e.f.01.04.2026, Depreciable assets other than intangible assets used in a new undertaking, in any part of Sri Lanka	Exceeds USD 250,000, but does not exceed USD 3 million.	100%

-Page 42-

Below the table after point 2, another point (point3) been added.

3. A tax payer who investing in depreciable assets is given a 3 year project implementation period to complete the intended total investment. The capital allowance related to total investment can only be claimed in the Y/A in which the tax payer completes to total intended investment as long as it is completed within 3 year implementation period.

-Page 42/43-

2.2.5.4.7 Improvements (Section 14)

WDL should be WDV.

-Page 47-

Exempt amounts (Third schedule)

Following paragraphs should be added at the end of the third point.

Subject to the conditions that the loan amount is remitted to Sri Lanka in foreign currency through a bank, and the loan proceeds are used within Sri Lanka.

-Page 49-

2.3.10 Realization of Investment Assets (Capital gains)

2nd and 3rd paragraphs amended as follows.

Accordingly, capital gains tax (CGT) is imposed on gains arising from realization of investment assets. The following rates are applicable w.e.f. 01.10.2023.

- for companies – 30%
- for other persons – 10%

As per Inland Revenue (Amendment) Act No. 11 of 2026, Capital Gain Tax rate of individuals and partnerships has been increased to 15% and CGT rate of others has been increased to 30%.

-Page 51-

Example

Y/A should be 01.05.2025

-Page 53-

Calculation of assessable income of other source

Should be amended as follows.

Income from other source		xxxxx
Less : Exempt amounts	xxx	
: Final withholding payments	xxx	
: Amounts included in employment, business or Investments	xxx	(xxxx)
less: As per Inland Revenue (Amendment) Act No. 11 of 2026,		
gains from the realisation of motor vehicles	xxx	(xxxx)
Liable income from other source		xxxx
Less : Allowable deductions		(xxx)
Assessable Income of other source		**xxxx**

Chapter 03 | Assess Income Tax of Individuals & Companies (Resident)

-Page 57-

3.2.1 Qualifying payments & reliefs for a person and an entity

Sub paragraph (a), point (i) should be as follows:

(i) A) Charitable institution established for the provision of institutionalized care for the sick or the needy;

B) On or after April 1, 2025, an institution incorporated, or registered under any law in force for the registration of social service organizations that provide healthcare facilities in collaboration with healthcare or education services of the Government and

-Page 59-

3.2.2 Conditions in claiming qualifying payments

Below the table following paragraph been added.

Any amount of donations referred to in paragraphs (i) to (v) of subsection 3(2)(b), which cannot be deducted due to insufficiency of assessable income, may be carried forward and deducted in subsequent years of assessment.

(Applicable from the Year of Assessment 2025/26 onwards.)

-Page 59-

3.2.2 Conditions in claiming qualifying payments

Under 'Personal Relief' point (a) shuld be as follows.

a. **Rs.1,800,000** for each year of assessment commencing on or after 01.04.2025 in respect of an individual who is a resident in Sri Lanka and a non-resident but a citizen in Sri Lanka.

-Page 59-

Question 01

Y/A should be 2025/2026

-Page 60-

Answer 1

Should be amended as follows.

Mr.Perera is entitled to apply the basic relief against his business income of Rs.2,400,000 but not against the investment gain of Rs.600,000. Accordingly, his taxable income will be Rs.1,200,000. (600,000 + 2,400,000 – 1,800,000)

-Page 60-

Question 2

Y/A should be 2025/2026

-Page 60-

Answer 2

Should be amended as follows.

She is entitled to apply the basic relief against her employment income, business income and rent. She is not entitled to any relief in respect of the gains from realization of investment assets. Taxable income for year of assessment 2025/26 will be Rs. 100,000.

(800,000 + 200,000 + 400,000) - 1,300,000 = 100,000)

-Page 60-

Question 3

Y/A should be 2025/2026

-Page 60-

Answer 3

Should be amended as follows.

Employment Income	Rs. 3,500,000
Less: Basic relief	Rs.(1,800,000)
Taxable Income	**Rs. 1,700,000**

-Page 61-

Question 4

Y/A should be 2025/2026

-Page 61-

Answer 4

First paragraph should be amended as follows.

He is entitled to apply the full Rs. 1,800,000 basic relief as well as the full rental income relief of Rs. 1,500,000 (25% of Rs. 6 million) against his investment income, resulting in taxable income of Rs. 2,700,000 from the investment income.

-Page 61-

Question 5 and Answer 5

Y/A should be 2025/2026

-Page 62-

3.3.2.1 Gains from realization of investment assets -10%

Following paragraph been added as follows.

As per Inland Revenue (Amendment) Act No. 11 of 2026, Capital Gain Tax rate of individuals has been increased to 15%.

-Page 63-

3.3.3. Higher tax rates applicable to individuals

Following paragraph been added as follows.

w.e.f. 01.04.2025 Income from a business consisting of betting and gaming, manufacture and sale or import and sale of any liquor or tobacco product - 45%.

-Page 63-

3.3.4 The income tax rates applicable to companies (First Schedule)

Table been removed and Following paragraphs been added as follows.

Following rates are applicable for companies for any Year of Assessment commencing on or after 01.04.2025.

1. Foreign source income earned in Foreign currency and remitted to Sri Lanka through a bank - 15%
2. Gains and profits earned or derived from any service rendered in or outside Sri Lanka to any person to be utilized outside Sri Lanka, where payment is received in foreign currency and remitted through a bank to Sri Lanka - 15%
3. Gains and profits from conducting betting and gaming - 45%
4. Gains and profits from manufacture and sale or import and sale any liquor or tobaco other than export - 45%

5. Gains on realization of investment Assets - 30%
6. All other taxable income - 30%

-Page 63-

Point (ii) and (iii) been removed.

-Page 64-

Point (vi), (vii) and (viii) been removed.

-Page 65-

3.5 Format of a tax computation for a person

Year of Assessment 2025/26

Income from employment	xxxx		
Less			
Exempt amounts	(xxxx)		
Final withholding payments	(xxxx)		
Liable income from employment	xxxx		
Employment Income		xxxx	
Income from business	xxxx		
Less			
Exempt amounts	(XXXX)		
Final withholding payments	(XXXX)		
Amounts included in employment income	(XXXX)		
Liable income from business	XXXX		
Less: Allowable deductions	(XXXX)		
Business Income		XXXX	
Income from investment	xxxx		
Less			
Exempt amounts	(XXXX)		
Final withholding payments	(XXXX)		
Amounts included in employment income & business income	(XX)		
Liable income from investment	XXXX		
Less: Allowable deductions	(XXXX)		
Investment Income		XXXX	
Income from other sources	xxxx		
Less			
Exempt amounts	(XXXX)		
Final withholding payments	(XXXX)		
Amounts included in employment income, business income & investment income	(XXXX)		
Liable income from other source	XXXX		

Less: Allowable deductions	(XXXX)		
Other Income		XXXX	
Assessable Income (AI)			**XXXX**
Less			
Qualifying payments		(XXXX)	
Reliefs		XXXX)	
Personal reliefs for Individuals Rs.1,800,000 (For resident individuals & Sri Lanka Citizens only)		(XXXX)	
25% relief on Rent (For resident individuals only)		XXXX)	
Taxable Income (TI)			**XXXX**
Income Tax (At Relevant Rate/s as per First Schedule to the Act)			**XXXX**
Less; Tax Credits			
APIT		(XXXX)	
WHT / Installment payments		(XXXX)	
Balance Tax Payable/(Overpaid)			**XXXX**

-Page 67-

Point (i) sub-paragraph II, been amended as follows.

II. The interest accruing to or derived by any person outside Sri Lanka on any loan granted to any person in Sri Lanka or to the Government of Sri Lanka subject to the conditions that the loan amount is remitted to Sri Lanka in foreign currency through a bank, and the loan proceeds are used within Sri Lanka

-Page 69-

Point (u) been removed.

-Page 69-

Question 6

Y/A should be 2025/2026

-Page 69-

Answer 6

Amended as follows.

Employment Income	2,000,000
Business Income	1,300,000
Investment Income	200,000
Assessable Income	**3,500,000**
Less: Reliefs	
Personal relief	(1,800,000)
Taxable Income	**1,700,000**

-Page 73-

Question 7

Y/A should be 2025/2026

Under, (1) 2nd point should be as follows;

Bonus of Rs.200,000/- was received in March 2026

-Page 73/74-

Answer 7

Amended as follows.

	Sch No	Rs.	Rs.
Employment Income	01		3,740,000
Investment Income	02		821,500
Child's income - assessed under son's name			-
Assessable Income			**4,561,500**
Less: Reliefs			
Personal relief		1,800,000	
Relief for rent (600,000x25%)		150,000	
			(1,950,000)
Qualifying payments			
Cash donation of Rs.100,000/- to National Kidney Fund. Cash donation-village temple - Not allowed		100,000	(100,000)
Taxable income			**2,511,500**
First 1,000,000 x 6%		60,000	
Next 500,000 x 18%		90,000	
Next 500,000 x 24%		120,000	
Next 500,000 x 30%		150,000	
Balanced 11,500 x 36%		4,140	424,140
Less -Tax Credits			
APIT deducted		45,000	
Installment payments		10,000	(55,000)
Balance tax payable			**369,140**

-Page 74-

Question 8

Amended as follows.

ABC (Pvt) Ltd is a company engaged in the <u>manufacturing of shoes</u> to local market. Total turnover from the trade for the year ended 31.03.2026 is Rs. 558 million and the equity capital of the company as at 31.03.2026 is Rs. 10,000,000 (share capital + Reserves). The income statement for the financial year ended 31.3.2026 and other related details are as follows.

-Page 75-

Question 8

Under Details of Expense table,

Interest paid...... phrase amended as follows;

Interest paid on Bank loan obtained in Y/A 23/24, loan balance as at 31.03.2025 was Rs. 44,900,000.

-Page 76-

Tables should be as follows.

Cost

Asset Type	Balance as at 01st April 2025 (Rs.)	Additions (Rs.)	Disposals (Rs.)	Balance as at 31st March 2026 (Rs.)
Building	15,000,000	-	-	15,000,000
Machinery	21,000,000	3,675,000	-	24,675,000
Computers	1,450,000	120,000	-	1,570,000
Locally developed Software	500,000	-	-	500,000
Motor vehicles	6,650,000	8,400,000	(4,000,000)	11,050,000
Furniture	1,240,000	50,000	-	1,290,000
Intangible assets	-	2,000,000	-	2,000,000
Total	**45,840,000**	**14,245,000**	**(4,000,000)**	**56,085,000**

Accumulated Depreciation

Asset Type	Balance as at 01st April 2025 (Rs.)	Depreciation for the year (Rs.)	Disposals (Rs.)	Balance as at 31st March 2026 (Rs.)
Building	6,750,000	750,000	-	7,500,000
Machinery	9,750,000	1,252,000	-	11,002,000
Computers	1,015,000	170,000	-	1,185,000
Locally developed Software	300,000	100,000	-	400,000
Motor vehicles	3,542,000	2,337,000	(1,500,000)	4,379,000
Furniture	1,116,000	136,000	-	1,252,000
Intangible assets	-	400,000	-	400,000
Total	**22,473,000**	**5,145,000**	**(1,500,000)**	**26,118,000**

-Page 76-

Y/A of 3rd point should be 2022/2023.

Date of 7th point should be 01.04.2025

-Page 77-

Y/A of 12th point should be 2024/2025.

Y/A of last paragraph should be 2025/2026.

-Page 77/78/79-

Answer 8 should be as follows.

Tax Computation for the Year of assessment 2025/26.

					+	-
					Rs.	**Rs.**
Profit before Tax					9,240,000	
Rent income						
Dividend - Investment Income						1,720,000
Interest from Treasury Bond - Investment Income						1,600,000
Accounting loss from disposal of lorry					1,200,000	
<u>Balancing allowance from Motor lorry</u>						
Profit/loss= 1,300,000-(4,000,000 – (4,000,000x20%x 3) = 1,300,000 – 1,600,000 loss = (300,000)						300,000
Accounting Depreciation					4,745,000	
Amortisation					400,000	
<u>Capital Allowances</u>	**<u>Year of Aquired</u>**	**<u>cost</u>**				
Building	17/18	15,000,000	10%			1,500,000
Machinery	17/18	21,000,000	33.33%	fully claimed		-
Machinery	25/26	3,675,000	5 years			735,000
Computers	17/18	1,450,000	25%	fully claimed		
Computers	25/26	120,000	5 years			24,000
Locally dev. Software	17/18	500,000	100%	fully claimed		0
Disposed Lorry	18/19	4,000,000	no CA			-
Vehicles - Balance	17/18	2,650,000	20%	fully claimed		
Leased lorry	25/26	6,400,000	5 years			1,280,000
Car	25/26	2,000,000	no CA			-
Furniture	17/18	1,240,000	20%	fully claimed		
Furniture	25/26	50,000	5 Years			10,000
Intangible asset	25/26	2,000,000	20 years			100,000
Repairs Rs.60,000- allowed					-	
Cost of construction - Capital Nature					600,000	

Improvement						
Tax written down value as at 31.03.2025		15,000,000 x 10% x 2		3,000,000		
	5% of WDV	150,000				
Actual cost		600,000				150,000
Gross Rent paid to manager's residence					504,000	
Monthly Remuneration of Sale Manager				170,000		
Housing benefit for Employment						
Provision for Bad and doubtful debt					280,000	
Written off - fully allowed					-	
Entertainment expenses - not allowed					210,000	
Advertising - allowance						
Donation					1,000,000	
Interest paid (application of section 18)						
Share Capital + Reserves				10,000,000		
A X B (B=4)			(10,000,000 x 4) = 40,000,000			
Interest paid				7,000,000		
Loan borrowed		44,900,000				
Lease capital (6,400,000 – 1,300,000)		5,100,000		50,000,000		
(assume no other creditors)						
Finance cost attributable to Financial Instruments			7/50 = 0.14			
Allowable amount = (A xB x attributable rate)			40,000,000 x 0.14	5,600,000		
Not allowable (C/F)			7,000,000-5,600,000		1,400,000	
Assume all other expenses incurred in production of Income and uncontrolled transactions.						
					19,579,000	7,419,000
Business Profit before adjusting losses					12,160,000	
less : B/F losses					(5,000,000)	
Business Income					7,160,000	
Investment Income - (note 1)					1,600,000	
Assessable Income					8,760,000	
Qualifying payments						
limited to 1/5 of TI or Rs. 500,000					(500,000)	
Taxable Income					8,260,000	
Tax liability 8,260,000 x 30% =					2,478,000	
Less - Tax Credits					-	
Balance Tax Payable					**2,478,000**	

Chapter 04 | Taxation of Miscellaneous Undertakings

-Page 84-

4.1.1 Taxation of a Partnership (Section 53 to 56)

Last point been amended as follows:

- Gains from the realization of an investment asset of the partnership will be taxed in the hands of the partnership as an entity at 10%. As per Inland Revenue (Amendment) Act No. 11 of 2026, Capital Gain Tax rate of partnerships has been increased to 15%.

-Page 85-

Following been added under the second point of 'Taxable income':

from 2026.06.08 15%

-Page 85-

Question 1

Y/A should be 2025/2026:

-Page 85-

Answer 1

Amended as follows:

Business income of the partnership	=	Rs.	20,000,000
Investment income of the partnership	=	Rs.	500,000
Assessable income		Rs.	20,500,000
Less Allowance	=		-
Taxable income	=	Rs.	20,500,000
Taxable Income not exceeding Rs. 1,000,000 at 0%	=	Rs.	0
Tax @ 6% [(20,500,000 - 1,000,000) * 6%]	=	Rs.	1,170,000
Partnership income share of Mr. A	=	Rs.	10,250,000
Partnership income share of Mr. B	=	Rs.	10,250,000

Tax payable by Mr. A

Partnership share of Mr. A	=	Rs.	10,250,000
Less: Allowance for individuals	=	Rs.	(1,800,000)
Taxable Income	=	Rs.	8,450,000

Tax Payable

Upto Rs 2,500,000	=	Rs.	420,000
Balance @ 36%	=	Rs.	2,142,000
Total tax	=	Rs.	2,562,000
Less: credit for partnership tax (1,170,000 x 50%)	=	Rs.	(585,000)
Balance payable	=	Rs.	1,977,000

-Page 87-

4.2.2.1.1 Taxation of trusts

Last paragraph been amended as follows:

Trust should pay tax on Gains from realization of investment assets at 10% upto Y/A 25/26 and at 30% (From Y/A 23/24) on other taxable income. As per Inland Revenue (Amendment) Act No. 11 of 2026, Capital Gain Tax rate of trusts has been increased to 30%.

-Page 87/88-

Question 2 and Answer 2

Amended as follows:

Varuni and Thanuja are twin sisters and young beneficiaries to a non-revocable trust set up by their father, Mr Meththananda. The trust is to be managed by a professional trustee, Ms Weerakkodi, who is paid an annual fee of Rs.1 Mn out of the income of the trust. Under the trust deed, the trust assets comprise three large tracts of farm land which are rented out to farmers (thus deriving rental income) for a rent of Rs. 40 million. The lands are to be held and managed by the trustee for the benefit of the beneficiaries for the rest of their lives, the income and proceeds from which are to be used only for educational and health purposes. Each of Varuni and Thanuja has the right to demand payment of up to LKR 10 million of rental income from the trust upon attaining 21 years of age. Varuni and Thanuja will turn 21 years old on 1 July 2025. The trust has a year of assessment ending 31 March 2026.

Calculate the tax liability of Varuni and Thanuja and trust separately for the Y/A 2025/2026.

A Answer 02

Person	Rental income	Deductions	Relief	Taxable income
Varuni (individual)	10 million	250,000	1,800,000	7,950,000
Thanuja (individual)	10 million	250,000	1,800,000	7,950,000
Trust (entity)	20 million	500,000	-	19.5 million

-Page 90-

4.3.2.1 Unit Trust not carrying out an "eligible investment business"

At the end of the 2nd point 'Budget proposals 2024' been removed and Following paragraph been added:

Amendment by Inland Revenue (Amendment) Act N0. 11 of 2026

with effect from the year of assessment commencing on April 1, 2025, a unit trust or mutual fund which fails to serve on every unit holder a certificate containing the details of income, exempt amounts, withholding tax and any other information as specified by the Commissioner-General within five months after the end of each year of assessment, shall be deemed to be a company resident in Sri Lanka and the provisions relating to companies resident in Sri Lanka shall apply.

-Page 90-

Y/A of 1st point under (b) is 2025/2026:

-Page 90-

Following sentence been added at the end of the point before question 03:

As per Inland Revenue (Amendment) Act No. 11 of 2026, Capital Gain Tax rate of NGOs has been increased to 30%.

-Page 90-

Question 03

Y/A should be 2025/2026

-Page 91-

First point been amended as follows:

- As per sec. 68 (3), where any charitable institution provides in any year of assessment institutionalized care for the sick or the needy and where the Commissioner-General is satisfied that the cost of provision of such care is borne by such charitable institution, the Commissioner-General may, subject to specified conditions, grant a tax credit against the tax payable on the charitable institution's taxable income for the year of assessment upto Y/A 24/25, provided it appears to the Commissioner-General that such reduction or remission is just and equitable in all the circumstances of the case.

  In the case of an institution referred to in sub-paragraph (a) of paragraph 1 of the Fifth Schedule to the Act, with effect from the year of assessment commencing on April 1, 2025, where the Commissioner-General is satisfied that the cost of providing the services specified is borne by such institution, the CGIR shall grant a tax credit equal to the tax payable on the institution's taxable income for the year of assessment.

Y/A of question 04 should be 2025/2026

Chapter 05 | Obligations and Procedures

-Page 95-

5.1.1.2 How to calculate

Equation amended as follows and last two point of the same page and the 'note' been removed.

$$\text{Installment Payment} = \frac{A - C}{B}$$

- A = Upto Y/A 25/26, estimated tax payable for the Y/A From Y/A 26/27, the amount of tax payable with respect to the taxable income in the immediately preceding year of assessment.
- B = Remaining no. of instalments for Y/A
- C = Instalments paid + WHT upto due date of instalment

-Page 96-

5.1.1.3 Statement of Estimated Income Tax Payable (SET)

First paragraph been amended as follows:

As per the Section 91 of the Inland Revenue Act No.24 of 2017 upto Y/A 25/26 each person who is liable to pay income tax is required to submit a statement of estimated tax payable for a year of assessment by the due date of 1st instalment. If the estimate is changed subsequently a revised statement should be submitted.

-Page 96-

Question 1

Amended as follows:

Sarath has estimated his tax liability for Y/A 25/26 as Rs. 900,000. He has paid Rs. 225,000 for 1st installment payment and AIT credits up to 15.11.2025 is Rs. 45,000.

-Page 96-

Answer 1

'Due date' amended as follows:

Due date - 15th November 2025

-Page 96-

5.1.2 Tax payable on assessment

Following sentence been added at the end of the 2nd point.

(eg. for Y/A 2025/26 - 30.09.2026)

-Page 97-

5.2.2 Registration by any person (Section 102)

Following sentence been added at the end of the paragraph which is 'As per gazette…'.

As per Inland Revenue Amendment Act No. 11 of 2026, Every company incorporated or registered in Sri Lanka, shall register with the Commissioner-General not later than 30 days from the date of such incorporation or registration.

-Page 98-

5.2.2 Registration by any person (Section 102)

Following paragraph been added at the end of above topic.

w.e.f. 01.04.2023, every person (individuals and entities both) shall file tax return electronically through the use of a computer system or mobile electronic device. However, CGIR may autorise a person to file tax return in writing, where CGIR considers that such authorisation is just and equitable in the circumstance of the case, w.e.f.Y/A 25/26, a senior citizen can file his tax returns either in writing or electronically through a computer system or mobile electronic device.

-Page 98-

Question 2

Y/A should be 2025/26.

-Page 98-

Answer 2

Answer (i) amended as follows.

(i) Annual income tax return for the year of assessment 2025/26 should be furnished on before 30.11.2026.

-Page 101-

5.2.2 Registration by any person (Section 102)

Above 5.3.6 topic, Following paragraph been added.

With effect from the year of assessment commencing on April 1, 2025, where an individual, for any year of assessment ("current year of assessment"), has-

(a) filed a return of income and declared the tax payable not less than 120% of the tax payable on the taxable income for the year of assessment immediately preceding the current year of assessment ;

(b) paid the full amount of tax without claiming a tax refund; and

(c) furnished an affidavit stating that no fraud, evasion, or willful default has been committed in relation to the tax payable for the current year of assessment,

such return shall be accepted as filed, and no amended or additional assessment shall be made on such return for the current year of assessment.

Chapter 06 | Withholding Tax (WHT) and Capital Gain Tax

-Page 116-

6.1.2.2 Withholding on Investment Returns (Section 84 & 84A) & Service Fees (Section 85)

3rd row point (c) been amended as follows.

(c) for services provided by such individual in the capacity of independent service provider such as doctor, engineer, accountant, lawyer, software developer, researcher, academic auditor, modeller, personal trainer, coach, valuer, artist, actor, dancer, singer, musician, event organizer, photographer, videographer, therapist, counsellor, beautician, cook, electrician, dentist, veterinarian, social media specialist, brand ambassador,sports person, specialist for information technology, advertising agent, advisor, translator, writer, debt collector or any individual service provider as may be prescribed by regulation.

-Page 120-

6.2.1.6 Capital Gains Tax Rate

Amended as follows.

Upto Y/A 2025/26 For companies	30%
For others	10%

As per Inland Revenue (Amendment) Act No. 11 of 2026, Capital Gain Tax rate of individuals and partnerships has been increased to 15%. Further, 30% will be applicable to all entities other than charitable institutions.

-Page 122-

Solutions (i)

First sentence amended as follows.

Mr A - To be applied the relevant tax table.(The tax is zero as the monthly remuneration is not more than Rs 150,000).

Chapter 07 | Value Added Tax (VAT) & Other Taxes of a Business

-Page 125-

7.1.2.1 Liability of Value Added Tax (Section 2)

Following paragraph been added as the 3rd point.

3. On the supply of services by a non-resident person through an electronic platform in Sri Lanla, w.e.f. 01.07.2026.

-Page 126-

Below point (iv) Following paragraph been added.

v) Supply of services by a non-resident person through an electronic platform to a person in Sri Lanka.

-Page 130/131-

7.1.3.2 Composition of a Tax Invoice

Points from (a) to (g) been removed and Following paragraph been added.

As per Gazette notification No. 2463/05 dated 17.11.2025, following shall be included in a tax invoice.

1. Title and Heading

1.1 Every invoice issued pursuant to this specification shall be prominently titled “TAX INVOICE”.

1.2 The title shall appear in a conspicuous place on the face of the invoice, using bold or highlighted text to ensure clear identification.

2. Supplier Details as in the VAT Registration Certificate

3. Purchaser Details as in the VAT Registration Certificate

4. Invoice Details

5. Additional information of the supply

6. A sample tax invoice is provided below.

TAX INVOICE

Date of Invoice:	Tax Invoice No. :
Supplier's TIN : Supplier's Name : Address : Telephone No.:*	Purchaser's TIN : Purchaser's Name : Address : Telephone No.:*
Date of Supply :	Place of Supply :*
Additional Information if any:*	

Reference*	Description of Goods or Services	Quantity	Unit Price	Amount Excluding VAT (Rs.)
Total Value of Supply:				
VAT Amount (Total Value of Supply @ VAT Rate)				
Total Amount/consideration including VAT:				

Total Amount in words:*

Mode of Payment:*

-Page 135-

Answer 6

Refer para should be 7.2.3.

-Page 135-

7.3.1 Computation of Output Tax

Detailed para should be 7.2.1.

-Page 139-

Question 9 and Question 10

Quarter ended date should be 31.12.2025

-Page 140-

Answer 9

Amended as follows.

- 20.11.2025
- 20.12.2025
- 20.01.2026

-Page 140-

Answer 10

Should be as follows.

(i) M/S Hot Hot (Pvt) Ltd.

Computation of VAT for the Quarter Ended 31.12.2025

Output VAT

On supplies liable at standard rate of 18%

$$(33{,}062{,}500 + 50{,}312{,}500) \times \frac{18}{118} = 12{,}718{,}220$$

Less: Input VAT

Paid at Standard Rate:

Raw materials	(54,625,000 x 18 / 118) =	8,332,627	
Raw materials without tax invoices –		Not allowed	
Electricity		VAT Exempted	
Salaries & Wages		No VAT	
Sub Total			
Amount Claimed for the Quarter;			**(8,332,627)**
Balance Payable (Due on or before 20.01.2026)			**4,385,593**

Note:
If monthly payments have been made for November and December those to be considered as instalment payments

-Page 141-

7.4

Following clause been added at the end of the heading.

(effective from 01.04.2011 to 30.09.2025)

-Page 141-

7.4

Following paragraph been added at the beginning of the first paragraph.

In order to simplify the VAT system in operation and to minimize the transactions with regard to VAT collection and refunding, Simplified VAT (S-VAT) was introduced with effect from 01.04.2011 to 30.09.2025.

-Page 141-

7.4.4 Filing of Returns

Question 12 and Answer 12 been removed and following been added as 7.5.

7.5 The Operation of Risk Based Refund Scheme

Following the repeal of the Simplified Value Added Tax (SVAT) Scheme, a Risk Based Refund Scheme for Value Added Tax (VAT) refunds was implemented w.e.f.01.10.2025.

This scheme is designed to streamline the VAT refund process by assessing refund claims based on the level of risk associated with eligible persons for this scheme.

The Gazette no. 2456/02 dated 29th September 2025, outlines the conditions specified in the Risk Based Refund Scheme that is applicable for refund claims.

A . "Risk Based Refund Scheme" refers to a scheme of refund processing whereby refund claims are processed subject to risk assessment, based on predefined criteria to identify the likelihood of inaccuracy, non compliance and overall behavior and reliability of eligible persons. The eligible persons are categorized as low risk eligible persons, medium risk eligible persons or high-risk eligible persons based on the above criteria. The eligible persons categorized as low or medium risk will be eligible to receive refunds without pre verification of the claim. However, such refunds shall remain subject to pre-verification by the officials, where necessary. The eligible persons classified as high risk shall be eligible to receive refunds only after the completion of pre-verification.

B. Eligible persons : The following persons are eligible to claim VAT refunds under this Scheme. i. Eligible Exporter - as defined in section 83 of the Value Added Tax Act, No. 14 of 2002 (VAT Act) as amended.

ii. Supplier to Strategic Development Project - a registered person whose value of supplies of goods or services was more than fifty per centum of his total supplies for that taxable period, to any Strategic Development Project identified under Subsection (4) of Section 3 of the Strategic Development Project Act, No. 14 of 2008.

iii. Supplier to Specified Project - a registered person whose value of supplies of goods or services was more than fifty per centum of his total supplies for that taxable period, to any specified project identified by the Minister under item (ii) of paragraph (f) of Part II of the First Schedule to VAT Act or item (xxi) of paragraph (b) of Part III of the First Schedule to the VAT Act.

iv. Project approved by the Commissioner General of Inland Revenue under section 22 (7) of the VAT Act during the project implementation period.

Developing Risk Criteria and calculation of the risk ratings

1. The Commissioner General of Inland Revenue will develop the criteria for identifying the likelihood of accuracy, compliance, and assessing the overall eligible person's behavior and reliability but not limited to that.
2. The Commissioner General of Inland Revenue will categorize eligible persons as low-risk, medium risk or high-risk for the purpose of administration of this scheme.
3. Such risk rating shall be effective from the taxable period commencing from October 1, 2025, and shall remain in effect until it is reviewed or cancelled. The Commissioner General of Inland Revenue will review at six-month intervals or at any time as deemed necessary the risk rating.

-Page 143/144-

Topic No. 7.5 (Tourist VAT Refund Scheme of Sri Lanka) been changed as 7.6 and subtopics been changed accordingly.

-Page 145/146/147-

Topic No. 7.6 (VAT On Financial Service Supplies (Sec. 25 A-25 J)) been changed as 7.7 and subtopics been changed accordingly.

At the end of the topic (before question 14) following been added.

- w.e.f. 01.07.2026 - 20.5%

-Page 148-

Point (iv) been amended as follows.

(iv) from 01.01.2022 to 30.06.2026
w.e.f.01.07.2026 - 20.5% financial VAT rate is 18%.

-Page 148 to 151-

Topic No. 7.7 (Stamp Duty (SD)) been changed as 7.8 and subtopics been changed accordingly.

-Page 152/153-

Topic No. 7.8 (Share Transaction Levy (STL)) been changed as 7.9 and subtopics been changed accordingly.

-Page 153/154-

Topic No. 7.9 (Tourism Development Levy (TDL)) been changed as 7.10 and subtopics been changed accordingly.

-Page 154 to 156-

Topic No. 7.10 (Excise Duty chargeable under the Excise (Special Provisions) Act) been changed as 7.11 and subtopics been changed accordingly.

-Page 156-

Topic of 7.11 changed as 'Social Security Contribution Levy' and the topic No. been changed as 7.11 and subtopics been changed accordingly.

3rd point (registration) been amended as follows.

3. **Registration (Section 4)**

   Every taxable person other than an importer who carries on or carries out a taxable activity shall be required to be registered;

   - aggregate of turnover for a quarter exceeds or likely to exceed Rs. 15 Mn or aggregate of turnover for a period of consecutive four quarters exceeds or likely to exceed Rs. 60 Mn for any period commencing from 01.01.2024 to 30.06.2026.

   - For any period commencing on or after July1, 2026, the aggregateof the turnover for a quarter exceeds or likely to exceeds Rs. 9 million or aggregate of the turnover for a period of consecutive four quarters exceeds or likely to exceeds Rs. 36 million rupees.

-Page 157-

Below the table after first (*) following been added.

w.e.f. 17.12.2025, Financial Services of any person who carries on the business of providing financial services in Sri Lanka and liable to VAT on financial services on supply of such financial services at the rate of 20.5% and exempted from SCLL.

-Page 160-

Exercises

Following been added as 3rd question.

1. What are the due dates for settling the VAT liability & filing returns for the quarter ended 31.12.2025?

2.

-Page 160-

Solutions

Answer 3 should be as follows.

3. Date of filing return - on or before 31.01.2025

   Tax payment dates -

   - 20.11.2025
   - 20.12.2025
   - 20.01.2026