

**MINISTRY OF FINANCE, PLANNING AND
ECONOMIC DEVELOPMENT**

**SRI LANKA
MEDIUM-TERM REVENUE STRATEGY
2027–2031
OBJECTIVES**

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Contents

1. Executive Summary	1
2. Purpose, Vision and Guiding Principles	1
2.1 Vision	2
2.2 Cross-cutting Priorities	2
2.3 Guiding principles	2
3. Medium-Term Revenue Framework and Revenue Objective	3
4. Key Medium-Term Revenue Objectives	4
Priority policy commitments	4
Objective 1: Modernise revenue administration	4
Objective 2: Improve the efficiency and competitiveness of the tax system	5
Objective 3: Enhance equity and fairness	6
Objective 4: Strengthen governance, accountability and predictability	7
Objective 5: Sustain revenue mobilisation	8
5. Revenue Quality and Composition	9

1. Executive Summary

This document sets out the background and proposed strategic objectives for Sri Lanka's Medium-Term Revenue Strategy (MTRS) 2027–2031. In line with commitments under the International Monetary Fund (IMF) supported programme, the revenue administration diagnostic and the MTRS objectives are to be published by end-October 2026. The detailed strategy and its time-bound implementation plan will be developed subsequently.

Sri Lanka has achieved a substantial fiscal adjustment since 2022, with the tax-to-GDP ratio nearly doubling between 2022 and 2025. The next phase of reform should consolidate these gains and move from crisis-era revenue mobilisation toward a durable revenue system that is efficient, equitable, simple and predictable, and capable of supporting fiscal and debt sustainability over the medium term.

The MTRS 2027–2031 will be Government-led and country-owned. It will link explicit revenue objectives with tax policy, revenue administration, the legal framework, institutional capacity, implementation arrangements and stakeholder engagement. Consistent with commitments under the IMF-supported programme, the MTRS will draw on the findings and recommendations of the tax-policy and revenue-administration diagnostics. Reforms will be sequenced according to fiscal priorities and implementation capacity, and the strategy will remain under Government ownership.

The Medium-Term Fiscal Framework (MTFF) published in the Fiscal Strategy Statement (FSS) 2027 projects total revenue of about 15.5 percent of GDP and tax revenue of about 14.2 percent of GDP over 2027–2031. The MTRS will preserve this structural revenue base while progressively increasing sustainable revenue mobilisation above the baseline. Through policy and administrative measures, tax revenue is expected to reach 17 percent of GDP by 2031. The full MTRS will reconcile the timing, overlap and feasibility of administrative and policy measures, rather than assuming their yields can simply be added to the MTFF baseline. An annually specified and fully costed revenue path will then be established in the full MTRS.

The objectives are underpinned by a limited set of concrete and verifiable tax-policy commitments. Implementation and revenue performance will be assessed by comparing actual outcomes with agreed revenue targets and reform milestones. Where material revenue shortfalls arise, compensating measures will be identified and implemented by the Government consistent with its fiscal and debt-sustainability objectives.

2. Purpose, Vision and Guiding Principles

The MTRS is a sequenced, multi-year programme of reforms to both the design and the administration of the tax system. It aims to improve the simplicity, efficiency and fairness of the tax system. Accordingly, the purpose of Sri Lanka's MTRS is to sustain revenue reform beyond

the programme period and to provide a clear, sequenced framework for tax policy, administration and legal reform. Mobilising domestic revenue in a systematic and predictable manner is essential for reducing reliance on external borrowing and for securing the resources needed to achieve Sri Lanka's fiscal and development objectives. A clear medium-term plan for revenue system reform allows taxpayers and investors to plan their activities with greater confidence, while giving administrators and policymakers a shared understanding of the sequence and timing of upcoming reforms.

2.1 Vision

The vision of this Strategy is to enhance fiscal sustainability by strengthening the formulation and implementation of medium-term revenue policy. Domestic revenue mobilisation will be strengthened through more effective and better-sequenced revenue strategies that are clearly communicated to all relevant stakeholders and aligned with the Government's broader economic and fiscal objectives.

2.2 Cross-cutting Priorities

The following four cross-cutting priorities underpin the five operational objectives set out in Section 4:

1. Reviewing and revising current revenue policies to broaden tax bases, improve efficiency and align the tax system with Sri Lanka's medium-term fiscal and development objectives;
2. Establishing an accessible, taxpayer-friendly system that fosters public confidence and encourages voluntary compliance;
3. Delivering the Government's broader development agenda, supporting fiscal and debt sustainability, inclusive growth and social equity; and
4. Ensuring transparency and accountability in revenue policy formulation, to build stakeholder confidence and signal stability in the economic environment.

2.3 Guiding principles

Principle	Application
Neutrality	Policies under this MTRS aim to uphold neutrality by minimising distortions and economic inefficiencies, and by reducing unnecessary overlap, cascading taxes and inconsistent treatment of similar economic activities.
Reliability	The mix of revenue policies will promote stability, certainty and sufficiency, through a diversified revenue structure that is balanced appropriately with the government budget. This requires consistency with the latest MTFF and the debt-sustainability path, a clear distinction between structural revenue needs and temporary expenditure deviations, and advance signalling of major reforms to reduce reliance on frequent, ad hoc tax changes.
Responsiveness	Policies will be responsive to domestic and global economic shocks and to competitive pressures, and will support the Government's broader economic development policies. Revenue measures will be subject to quantified analysis of their revenue, economic, distributional, behavioural and administrative effects,

	ensuring that reforms are evidence-based and can be adapted as conditions change.
Administrative feasibility	Policies will reflect the capacity of the revenue administration authorities and other implementing agencies, matching policy design to the information, technology, staffing, refund, service and enforcement capacity of the Inland Revenue Department (IRD), Sri Lanka Customs (SLC) and the Excise Department. External technical assistance will serve as analytical input, while the Government retains decision-making authority over policy design and sequencing.
Equity	Policies and strategies will pursue equity objectives through progressive tax policies that improve both horizontal and vertical equity while protecting vulnerable households. This includes balancing enforcement with timely refunds, clear procedures, accessible dispute resolution and respectful taxpayer service.

3. Medium-Term Revenue Framework and Revenue Objective

The MTRS will use the MTFF published in the FSS 2027 as the fiscal baseline while seeking a measurable improvement in structural tax revenue. The objective is to reach tax revenue at least 17 percent of GDP by 2031. It will be reconciled with the MTFF's specific 2031 tax-revenue baseline and the expected net effects of already committed reforms, including the para-tariff phase-out. The full MTRS will set out a more ambitious, fully costed annual revenue path based on the feasible contribution of specific tax-policy and administration measures.

The full MTRS will include a net revenue bridge that accounts for interactions, differences in timing, implementation capacity and the fiscal effects of existing commitments, particularly the para-tariff phase-out. Administration reforms will focus on registration, filing and payment compliance, arrears management, risk-based audit and enforcement, customs and excise controls, data use and taxpayer services. Tax-policy reforms will be sequenced to broaden effective bases, improve neutrality and equity, and secure replacement revenue where reforms reduce existing receipts. The full MTRS will specify each measure's expected annual net yield, prerequisites and implementation responsibilities.

Five further steps remain to translate this revenue objective into an operational MTRS:

- I. **Annual revenue path.** The annual revenue path must be determined from the bottom up, by costing the contribution of specific tax-policy and administrative measures. This costing must take into account the revenue implications of already committed reforms, including the para-tariff phase-out, and be justified against medium-term expenditure needs. Consensus around the selected path should be built through consultation with stakeholders.
- II. **Integrated reform programme.** The tax-policy and administration reforms selected to deliver that path must be integrated into a single, coherent programme, phased in over the coming years.

- III. **Governance arrangements.** Governance arrangements, including high-level political leadership must be established to sustain whole-of-government commitment throughout implementation.
- IV. **Monitoring framework.** A monitoring framework must be specified, with measurable indicators for assessing progress. These should include outcome-level indicators for revenue administration, the revenue effect of exemptions, the para-tariff phase-out and replacement measures, and an analytical framework for assessing equity under Objective 3.
- V. **Capacity development and donor support.** Capacity-development needs and donor support should be identified and coordinated under the Government's own leadership.

The full MTRS will include a transparent year-by-year revenue bridge from the MTFF baseline to the agreed targets, explicitly recording revenue losses and offsets to avoid double-counting.

4. Key Medium-Term Revenue Objectives

Priority policy commitments

The five objectives below define the scope of the reform agenda. Within them, the Government will prioritise a limited number of concrete and verifiable tax-policy commitments, against which implementation of the MTRS will be assessed. Other measures will be prioritised and sequenced in the full MTRS according to their expected revenue yield and feasibility. For each priority commitment, the full MTRS will specify a responsible institution, an implementation milestone, an observable performance indicator and, where applicable, an estimated revenue effect. The priority commitments are to:

- limit new corporate income-tax incentives to exceptional, narrowly defined cases subject to an assessment of additionality, fiscal cost, economic benefits and administrative feasibility over the MTRS horizon;
- assess the distributional incidence of the value-added tax (VAT) and retain VAT exemptions only where they effectively protect poor and vulnerable households;
- review how the personal income tax can more effectively tax high-income individuals; and
- phase out para-tariffs, in line with existing commitments, quantifying the revenue effect and introducing less distortionary replacement measures where needed.

Objective 1: Modernise revenue administration

Revenue administration will be modernised through a whole-of-revenue-administration model spanning the IRD, SLC and the Excise Department. The model will combine reliable digital systems and sound data governance with compliance risk management, stronger core compliance functions, improved taxpayer and trader services, enabling legal frameworks and

measurable performance management. This objective is central to securing the immediate revenue gains expected under the MTRS.

- Make compliance risk management the central operating model across the IRD, SLC and Excise Department, using risk registers, segmentation, treatment strategies and feedback loops to guide service, filing and payment follow-up, arrears management, audit, enforcement, customs selectivity and excise controls.
- Expand and maintain accurate taxpayer and trader registration, strengthen integration of information based on the Taxpayer Identification Number (TIN), enhance third-party reporting and data matching, and improve interoperability among relevant government databases, subject to appropriate legal and privacy safeguards.
- Strengthen the core compliance functions of registration, filing, payment, arrears collection, audit, investigation, enforcement and refund administration, supported by consistent procedures, risk-based escalation and reduced unnecessary manual discretion.
- Develop specialised compliance approaches for large taxpayers, high-wealth individuals, professionals, self-employees and higher-risk segments, combining risk profiling, targeted audit, enforcement and taxpayer service.
- Strengthen customs administration through improved selectivity, post-clearance audit, trader segmentation and controls over Board of Investment (BOI) and Special Economic Zone (SEZ) activities, while strengthening excise licensing, stamp verification, reporting and market-surveillance functions.
- Ensure the reliability and business continuity of critical revenue systems, including Revenue Administration Management Information System (RAMIS), Automated Risk Management System (ARMS), ASYHUB, Customs Document Notification System (CDNS), Revenue Administration System for Excise Department (RASED) and the excise stamp system, through clear ownership, vendor and knowledge-transfer arrangements, contingency planning and local support capacity.
- Improve taxpayer and trader services through clearer guidance, simpler procedures, timely refunds, effective digital and assisted service channels, and better communication of obligations, thereby supporting voluntary compliance.

Objective 2: Improve the efficiency and competitiveness of the tax system

The tax system will be progressively broadened and simplified so that revenue is raised from wider and more neutral tax bases, rather than through repeated increases in statutory rates or reliance on distortionary levies. Reforms will seek to reduce unequal treatment of economically similar activities, improve neutrality between sectors and forms of income, and support investment, formalisation and competitiveness while preserving the revenue objective. For the purposes of this Strategy, a competitive tax system is one characterised by neutrality, low compliance costs, minimal cascading and predictable tax treatment. The full MTRS will quantify the revenue cost of exemptions and the expected net revenue from replacement measures.

These estimates will be updated as the reform design evolves, so that efficiency improvements remain consistent with the agreed revenue path.

- Rationalise tax exemptions, concessions and preferential treatments across VAT, income taxes, customs and special investment regimes, retaining them only where there is a clear and demonstrable economic or social justification, and strengthen the monitoring of tax expenditures.
- Broaden the VAT base through periodic review of exemptions, consistent treatment of comparable goods and services, appropriate registration thresholds aligned with administrative capacity, and modern destination-based rules for services and intangibles.
- Broaden effective direct-tax coverage of professionals, self-employed persons, businesses, investment and other income sources, supported by stronger third-party information and improved identification of income from multiple sources.
- Bring viable informal and digitally enabled economic activity progressively into the tax net through simpler registration, filing and payment arrangements, appropriate transition mechanisms for small businesses, and consistent tax treatment across traditional and digital business models.
- Protect the corporate income-tax base by reviewing existing investment incentives against measurable outcomes, strengthening transfer-pricing and related-party rules, and coordinating investment-promotion policy with the need to preserve the domestic revenue base, in line with the commitment to introduce no new corporate income-tax incentives over the MTRS horizon.
- Strengthen the taxation of property, capital gains and high-value transactions through improved ownership, transfer and valuation information, while ensuring that any property-tax framework is administratively feasible and appropriately protects vulnerable households.
- Phase out para-tariffs in line with existing commitments and progressively rationalise cascading, overlapping or low-value taxes and levies, with the revenue foregone quantified and less distortionary replacement measures specified where necessary to preserve the agreed revenue path.
- Modernise excise taxation through evidence-based reforms, including appropriate indexation of specific rates and review of alcohol, vehicle and other excises, with attention to externalities, affordability, valuation risks, illicit markets and trade commitments.

Objective 3: Enhance equity and fairness

Revenue reforms will strengthen both horizontal and vertical equity so that taxpayers in comparable economic circumstances are treated consistently and those with greater capacity to pay make an appropriate contribution. Equity considerations will be embedded in policy design, administration and the sequencing of reforms rather than treated as a separate adjustment after revenue measures are introduced. Progress will be assessed through an analytical framework, to

be specified in the full MTRS, covering effective tax rates, the treatment of comparable sources of income, and access to refunds and dispute resolution.

- Improve consistency in the taxation of individual income, business, capital and investment income and reduce opportunities for taxpayers undertaking similar activities to receive materially different tax treatment.
- Review how the personal income tax can more effectively tax high-income individuals, and strengthen effective taxation of high-wealth taxpayers, professionals, investment income, capital gains and high-value transactions, supported by improved information and risk-based compliance approaches.
- Assess the distributional incidence of VAT and use distributional analysis when reviewing VAT exemptions, retirement-income provisions, excises and other measures that may affect household welfare, retaining VAT exemptions only where they effectively protect poor and vulnerable households, and avoiding poorly targeted preferences that narrow the tax base.
- Coordinate tax-policy reforms with social-protection mechanisms to minimise burden on low-income or vulnerable households, create transparent and targeted support over broad tax exemptions where feasible.
- Promote fairness in administration by applying transparent rules, proportionate enforcement, timely refunds and effective dispute-resolution arrangements, while distinguishing deliberate non-compliance from genuine error or inability to comply.

Objective 4: Strengthen governance, accountability and predictability

The MTRS will be supported by clear governance arrangements, transparent implementation responsibilities and regular monitoring, so that tax-policy and administration reforms remain coordinated, sequenced and accountable. Stronger governance should also improve predictability for taxpayers and traders, protect taxpayer rights and ensure that external technical assistance is aligned with Government priorities and implementation capacity.

- Establish durable MTRS oversight under the Revenue Management Committee, with clear institutional ownership, implementation responsibilities, timelines and escalation arrangements for major reform risks or delays.
- Translate the strategy into annual implementation priorities and measurable milestones, with regular reporting on revenue performance, compliance outcomes, administrative indicators and progress against agreed reforms.
- Put in place the legal and institutional enablers required for digital administration, information sharing, risk-based compliance and modern enforcement, and monitor results through outcome-level indicators, including on-time filing and payment, arrears recovery, audit effectiveness and refund timeliness.

- Compare revenue performance and reform implementation regularly against the MTRS objectives, revenue path and priority commitments, and publish the results in an annual assessment that explains any material deviations. Where revenue falls short, compensating reforms will be identified and implemented under a time-bound action plan setting out the measures, their expected yield, implementing agencies and deadlines. The full MTRS will specify the baselines, targets, reporting frequency and responsible institutions for the indicators.
- Strengthen transparency and accountability by documenting major policy decisions, monitoring tax expenditures and administrative performance, and reducing avoidable discretion in the application of tax and customs rules.
- Improve predictability by announcing major reforms sufficiently in advance, using rule-based mechanisms where appropriate, and undertaking timely consultation and communication with affected taxpayers, traders and other stakeholders.
- Strengthen taxpayer rights, review and dispute-resolution mechanisms, and service standards, so that stronger enforcement is accompanied by transparent procedures and institutional accountability.
- Coordinate technical assistance from the IMF, development partners and other sources around Government-defined MTRS priorities and documented capacity gaps, with attention to knowledge transfer and sustainable domestic implementation capacity.

Objective 5: Sustain revenue mobilisation

The MTRS will secure a durable and predictable revenue base sufficient to support fiscal sustainability, debt reduction and priority public expenditure, while moving away from reliance on temporary or ad hoc revenue measures. Near-term gains are expected mainly from stronger revenue administration and compliance, while further progress toward the medium- to long-term objective will be supported by appropriately sequenced tax-policy measures.

- Set and monitor annual revenue targets consistent with the MTFF. The full MTRS will distinguish the baseline from the incremental net revenue expected from individual MTRS measures, and will update revenue-yield estimates as reforms are specified and implemented.
- Prioritise recurrent and sustainable revenue sources and protect the structural revenue base, while maintaining quantified contingency options and specifying the assessment and approval process for compensating reforms where revenue falls short of the MTRS targets.
- Sequence revenue-losing reforms, including the phase-out of para-tariffs, with credible replacement revenue, so that improvements in efficiency and competitiveness do not undermine the fiscal and debt-sustainability path.
- Use administrative reforms as the principal source of immediate gains, while phasing in tax-policy measures in line with implementation capacity, economic conditions and the need to maintain predictability.

- Assess major policy measures against their revenue, economic, distributional and administrative effects, so that the path toward the longer-term revenue objective remains credible and sustainable.

5. Revenue Quality and Composition

The MTRS should progressively improve the quality and composition of government revenue by increasing the contribution of recurrent and sustainable revenue generated through stronger compliance, formalisation, broader effective tax bases and improved revenue administration. In the near term, emphasis should be placed on increasing the productivity of existing taxes through stronger administration, rather than relying primarily on new or higher tax rates.

Over the medium term, tax-policy reforms should complement administrative gains by broadening effective tax bases, rationalising inefficient exemptions and distortions, and supporting a simpler, more neutral and equitable revenue structure. Changes in the direct-to-indirect tax composition should be treated as a structural outcome of these reforms rather than as a mechanical annual target, since the appropriate composition will also depend on economic growth, imports, inflation, compliance performance and reform sequencing.