

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

SRI LANKA

REVENUE ADMINISTRATION DIAGNOSTIC

Technical Assistance Report

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PREPARED BY

International Monetary Fund

Fiscal Affairs Department

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Authoring Department

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Abbreviations and Acronyms

ARMS	Automated Risk Management System
AEO	Authorized Economic Operator
ASYCUDA	Automated System for Customs Data
ASYHUB	ASYCUDA Hub
BOI	Board of Investment
CD	Capacity Development
CDNS	Customs Document Notification System
CIP	Compliance Improvement Plan
CIT	Corporate Income Tax
CRM	Compliance Risk Management
CSOs	Civil Society Organizations
GDP	Gross Domestic Product
FIU	Financial Intelligence Unit
HWI	High-Wealth Individual
IAU	Internal Affairs Unit
IRM	Integrated Risk Management
IIT	Individual Income Tax
IRD	Inland Revenue Department
ISORA	International Survey of Revenue Administrations
IT	Information Technology
KPI	Key Performance Indicator
LTO	Large Taxpayer Office
MTRS	Medium-Term Revenue Strategy
MOU	Memorandum of Understanding
MSP	Madras Security Printers
OSI	Operational Strength Index
PIT	Personal Income Tax
PCA	Post-Clearance Audit
RAMIS	Revenue Administration Management Information System
RASED	Revenue Administration System for the Excise Department
SEZ	Special Economic Zone
SLC	Sri Lanka Customs
SLE	Sri Lanka Excise
TIN	Taxpayer Identification Number
VAT	Value Added Tax
WTO	World Trade Organization

Preface

At the request of the authorities, an IMF Fiscal Affairs Department mission visited Colombo, Sri Lanka, from June 24 to July 7, 2026. The mission team was led by Mr. Andrew Kazora Okello and included Ms. Cindy Negus (both from IMF headquarters), as well as IMF external experts, Ms. Maureen Kidd and Messrs. Philip Griffiths and Bob Hamilton. Mr. Gregory Topping, the Resident Revenue Administration Advisor for Sri Lanka also participated in the meetings.

The mission team supported the authorities in conducting a revenue administration diagnostic and laid the groundwork for the authorities to develop their own Medium-Term Revenue Strategy (MTRS), consistent with commitments under Sri Lanka's Extended Fund Facility (EFF) arrangement. The mission team also collaborated with a tax policy diagnostic mission that visited Colombo during July 1-7, 2026.

Meetings were held with Dr. Harshana Suriyapperuma, Secretary to the Treasury, Ministry of Finance; Dr. Kapila Senanayake, Director-General of Fiscal Policy, and his staff; Ms. Rukdevi Fernando, Commissioner General of the Inland Revenue Department (IRD); Mr. Wimal Liyanagama, Director-General of Sri Lanka Customs (SLC); Mr. Sudattha Silva, Additional Director-General of Sri Lanka Customs; Mr. M.B.N.A. Premarathne, Commissioner General of Sri Lanka Excise (SLE); and other senior officials. The mission team also met Dr. Nandika S. Kumanayake, Secretary to the President and Head of the Presidential Secretariat's Revenue Administration Reform and Modernization Bureau and his team.

Jointly with the tax policy mission, valuable meetings were also held with development partners, including representatives from the Asian Development Bank (ADB), Australia Taxation Office (ATO), the Foreign, Commonwealth and Development Office (FCDO), His Majesty's Revenue and Customs (HMRC), and the United Nations Development Programme (UNDP), as well as with members of civil society organizations (CSO), including the Advocate Institute, Arutha, the Centre for Poverty Analysis, the Ceylon Chamber of Commerce, Frontier Research Pvt. Ltd., the Institute of Policy Studies, Lime Asia, and Verité Research.

This report presents the mission's findings and is organized as follows: Executive Summary, (I) Introduction, (II) Inland Revenue Department Reforms, (III) Sri Lanka Customs Reforms, and (IV) Sri Lanka Excise Reforms.

Executive Summary

This report provides the revenue administration diagnostic and the proposed administration reform pillar for Sri Lanka's Medium-Term Revenue Strategy (MTRS); it does not itself constitute the complete MTRS.¹ It is intended to inform a subsequent government-led process that will integrate the administration agenda with a clearly defined revenue objective, expenditure needs, tax policy and legal reforms, political commitment, and coordinated external support.

Sri Lanka has made strong progress in restoring revenue performance after the 2022 crisis, with tax revenue rising from 7.3 percent of gross domestic product (GDP) in 2021 to 15.4 percent in 2025. This recovery reflects decisive policy and administrative actions under difficult circumstances, including major value added tax (VAT) reforms. The priority now is to make these gains durable by moving from crisis-driven revenue mobilization to a modern, risk-based, service-oriented, and digitally enabled revenue administration model.

The MTRS provides the framework for this next phase and should be anchored in a balanced, growth-compatible reform strategy. With many of the easier tax policy gains already realized, the MTRS should not rely mainly on further statutory rate increases. Instead, it should identify revenue options that are administratively feasible, politically credible, supportive of fairness and investor confidence, and capable of sustaining revenue gains. The reform agenda should therefore focus on broadening the base, improving voluntary compliance, simplifying taxpayer and trader interactions, strengthening the core functions of the Inland Revenue Department (IRD), Sri Lanka Customs (SLC), and Sri Lanka Excise (SLE), and bringing more non-compliant activity into the tax net.

Across the three revenue agencies, the reform agenda should concentrate on a limited number of practical but transformative priorities. These are: securing business-critical digital systems and data; embedding compliance risk management (CRM) and integrated risk management (IRM) as the main operating models; strengthening filing, payment, arrears, audit, customs control, excise licensing, and enforcement functions; modernizing legal and procedural frameworks; and improving coordination, accountability, workforce planning, and taxpayer and trader service. These priorities should be pursued as one modernization agenda, not as isolated initiatives.

Delivering these reforms will require sustained investment in institutional capacity and careful sequencing. Modernization will depend on reliable core systems, stronger data architecture and analytics, adequate technical support, and specialized skills in audit, CRM, arrears, taxpayer and trader service, project management, procurement, and change management. In the first 12–24 months, the authorities should focus on visible operational gains that also build the foundations for deeper reform, including securing business-critical systems, strengthening CRM and compliance follow-up, improving arrears, filing and payment controls, advancing customs risk management and paperless processing, strengthening excise controls, and reducing paper-based and discretionary processes.²

Over the MTRS period, implementation should evolve from individual projects into coherent agency operating models. This means a data-driven inland revenue model, an integrated risk-

¹ For planning purposes, the report assumes a five-year MTRS implementation horizon. The first 12–24 months constitute the foundational phase, focused on business continuity, administrative readiness, and early compliance gains; years 3–5 would consolidate these actions into sustainable operating models and complete the more demanding institutional, legal, and digital reforms. The final dates should be confirmed when the authorities formally adopt the MTRS.

² Sri Lanka's three revenue departments include Inland Revenue, Customs, and Excise Departments.

management customs model, and a systems-based excise model, supported by stronger information exchange and coordinated risk treatment across the three agencies.

The MTRS should also address institutional and legal reforms needed to sustain these operating models. This includes assessing whether the current split of excise responsibilities remains fit for purpose, including options for closer integration with SLC or a stronger Customs and Excise model, while ensuring that immediate action on alcohol, beedi, stamp, and market controls is not delayed. The strategy should also identify legal reforms needed for modern administration, including customs law amendments, stronger information-exchange powers, digital processes, and possible preparation of a modern tax procedures code.

Staff simulations suggest that raising Sri Lanka's internal revenue operational strength could generate additional revenue of about 1.9 percentage points of GDP over five years.³ This indicative estimate reinforces the importance of disciplined implementation, particularly in CRM, digitalization, core compliance functions, and reform enablers.

The immediate next step is for the authorities to translate the diagnostics and roadmap into a government-owned MTRS with clear revenue objectives and a time-bound implementation plan. The following remaining steps are proposed:

- Consistent with the authorities' commitment under the IMF-supported program, publish the agreed tax policy and revenue administration diagnostics, and MTRS objectives.
- Secure high-level political endorsement and establish governance arrangements.
- Assess expenditure and development needs and agree the medium-term fiscal and revenue objective.
- Integrate the revenue administration and tax policy diagnostics with the legal reform agenda into a unified, government-owned MTRS.
- Prepare a costed, sequenced MTRS implementation plan with responsibilities, milestones, and performance indicators.
- Align IMF and development-partner support behind the government-owned plan.
- Establish MTRS monitoring, reporting, and review arrangements.

The high-level matrix that follows sets out the strategic architecture for the revenue administration component of the MTRS, including the initial sequencing and coordination of reforms across the revenue system. A High-Level MTRS Matrix by Revenue Department is also provided in Annex I.

³ The estimated 1.9 percent of GDP represents an illustrative medium-term potential contribution from stronger internal revenue administration under sustained implementation. It is not the MTRS revenue objective, does not encompass the contribution of customs, excise, or tax policy measures, and should not be interpreted as a mechanical forecast or as revenue additional to the baseline without further analysis.

High-Level MTRS Revenue Administration Component

This matrix is intended to provide the strategic architecture for the revenue administration component of the MTRS. It identifies the main reform pillars, lead institutions, and sequencing logic needed to move Sri Lanka's revenue system toward a modern, risk-based, digitally enabled operating model. It also makes explicit that revenue administration reforms must be sequenced with the tax policy objectives and legal reforms needed to support broader bases, modern procedures, information exchange, digital administration, and effective enforcement. Annex I translates these strategic priorities into more operational agency-by-agency actions, enablers, and performance signals for IRD, SLC, and SLE.

Reform Pillar	Responsible Agency/Lead	Strategic focus: first 12–24 months	Strategic direction over the MTRS period
Digital Transformation and Data-Driven Administration	Ministry of Finance/Treasury; Ministry of Digital Economy; IRD; SLC; SLE	<ul style="list-style-type: none"> Secure continuity of business-critical revenue systems and manage near-term vendor-transition risks. Stabilize core data foundations, including taxpayer and trader registers and priority reporting capabilities. Use priority digital platforms to support risk targeting, reconciliation, paperless processing, and management control. Reduce paper-based and discretionary processes where they create compliance costs, weak audit trails, or integrity risks. 	<ul style="list-style-type: none"> Institutionalize whole-of-revenue data governance, interoperability, and information-sharing arrangements. Build integrated revenue-system data architecture linking IRD, SLC, and SLE. Embed mature business intelligence, analytics, and automated compliance monitoring capabilities. Strengthen governance for system ownership, data management, and digital investment decisions.
Integrated Compliance and Risk Management	IRD; SLC; SLE; Ministry of Finance/Treasury	<ul style="list-style-type: none"> Adopt CRM and IRM as the central operating models for revenue administration. Establish governance routines that connect risk identification, treatment design, operational action, and feedback loops. Prioritize shared risks that require coordinated action across IRD, SLC, SLE, BOI, and FIU. Use risk-based approaches to guide resource allocation, service, enforcement, facilitation, and compliance follow-up. 	<ul style="list-style-type: none"> Institutionalize a full compliance-cycle approach across the revenue system. Coordinate integrated cross-agency risk identification and treatment strategies. Adopt risk-based resource allocation models. Strengthen the balance between enforcement, facilitation, and taxpayer and trader service.
Strengthening Core Compliance Functions to Sustain Revenue and Fairness	IRD; SLC; SLE	<ul style="list-style-type: none"> Focus early action on filing, payment, arrears, audit, customs control, excise licensing, stamp, production, and market-control risks. Strengthen enforcement credibility while improving service, predictability, and facilitation for compliant taxpayers and traders. 	<ul style="list-style-type: none"> Institutionalize risk-based audit, enforcement, and service approaches across all agencies. Formalize joint IRD-SLC compliance programs and standard operating procedures. Scale up Authorized Economic Operator (AEO) programs and trusted-trader facilitation. Transition SLE toward a fully systems-based operating model supported by RASSED.

		<ul style="list-style-type: none"> Use operational results to refine risk rules, treatment strategies, and management priorities. 	
Legal and Tax Policy Framework for Modern Administration	Ministry of Finance/Treasury; Legal Draftsman; Attorney General's Department; IRD; SLC; SLE	<ul style="list-style-type: none"> Identify the legal, procedural, and tax policy constraints that most directly affect MTRS delivery. Prioritize legal changes that enable digital administration, information exchange, risk-based treatment, arrears management, penalties, enforcement, and taxpayer rights. Ensure that tax policy measures are tested against administrative readiness, including systems, data, taxpayer communication, compliance risks, and refund or enforcement implications. Align customs, tax, and excise legal reforms with the intended operating models and sequencing of implementation. 	<ul style="list-style-type: none"> Maintain a rolling tax policy-administration-legal alignment process under the MTRS. Draft a modern tax procedures code covering registration, filing, payment, audit, assessment, collection, penalties, objections, appeals, information powers, and taxpayer rights. Align tax, customs, and excise legislation with digital administration, data sharing, electronic records, digital signatures, and systems-based controls. Strengthen the legal basis for inter-agency information exchange, automated decisions, risk-based treatment, and coordinated enforcement. Institutionalize a regular legal and policy review mechanism to keep tax laws aligned with MTRS policy and administration reforms.
Strengthening Governance, Capability, and Reform Enablers	Presidential Secretariat; Ministry of Finance/Treasury; revenue agency leadership; reform steering committee	<ul style="list-style-type: none"> Establish clear accountability for MTRS delivery, monitoring, escalation, and reform governance. Strengthen headquarters capacity, project management, workforce planning, procurement readiness, and change management. Build taxpayer, trader, and stakeholder engagement into implementation planning from the outset. Cost and sequence the staffing, systems, data, and investment requirements for the highest-priority reforms. 	<ul style="list-style-type: none"> Link performance measurement and monitoring frameworks to MTRS outcomes. Roll out agency-wide KPIs and performance reporting systems. Clarify accountability and managerial autonomy arrangements. Review the institutional model for excise administration, including options for closer integration with Sri Lanka Customs or a Customs and Excise model, while ensuring that immediate alcohol, beedi, stamp, RASED, and market controls proceed in parallel. Sustain leadership, governance, and change-management arrangements. Secure sustainable financing and capability arrangements for digital systems, analytics, CRM, audit, and change management.

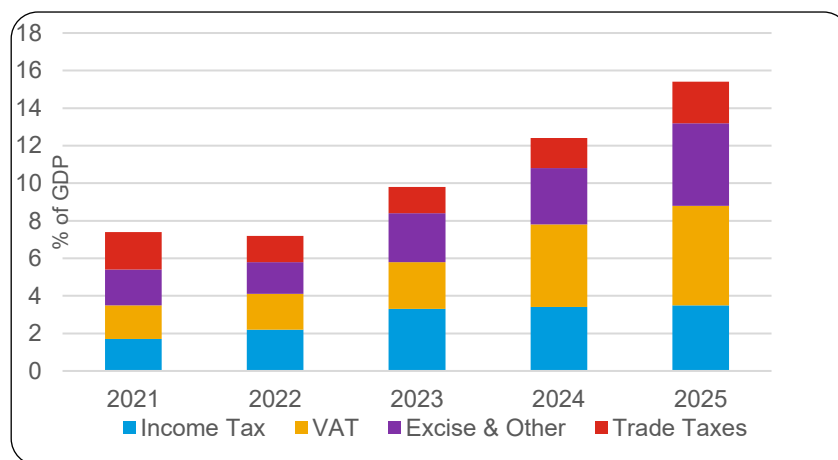
I. Introduction

1. This section provides a high-level synthesis of the revenue administration diagnostic across the IRD, SLC, and SLE. It situates the reform agenda within Sri Lanka's post-crisis fiscal adjustment and the preparation of an MTRS, including the legal and procedural enablers needed to support modern, risk-based administration.

A. Background and Strategic Context

2. Sri Lanka's revenue reform agenda is entering a new phase. Since the 2022 crisis, fiscal adjustment has delivered a strong improvement in the primary balance. Staff analysis indicates that revenue gains have accounted for the larger share of the adjustment, reflecting both major tax policy measures and stronger administration. This marks an important shift from crisis stabilization toward a revenue-led consolidation effort. The reform agenda also builds on the 2023 Tax Administration Diagnostic Assessment Tool (TADAT) findings and the March 2024 IMF technical assistance diagnostic, *Strengthening Revenue Outcomes in Customs and Excise*, which together highlighted the need to strengthen core tax administration functions, customs and excise controls, risk management, digital systems, and institutional accountability if recent gains are to become durable over time.

Figure 1. Sri Lanka Tax Revenue Performance 2021-2025⁴



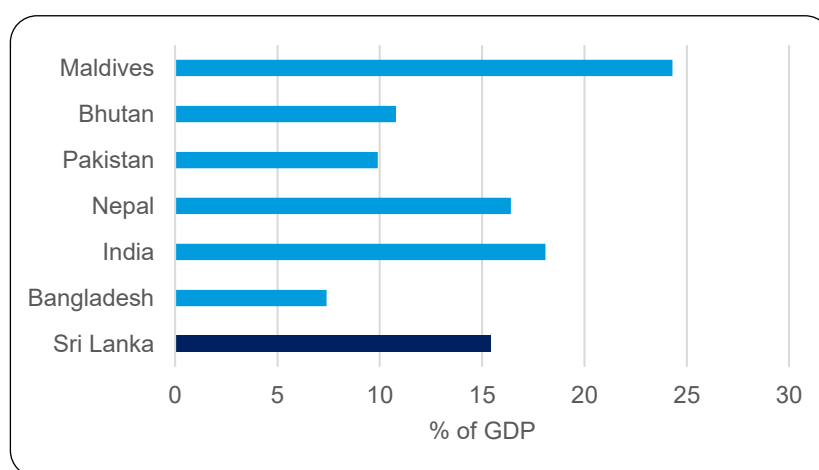
3. Tax revenues have rebounded sharply. Figure 1 highlights the scale and composition of Sri Lanka's revenue recovery between 2021 and 2025. Tax revenue doubled from 7.3 percent of gross domestic product in 2021 to 15.4 percent of GDP in 2025. The recovery was led by the value added tax, which rose from 1.8 percent of GDP to 5.3 percent of GDP and accounted for about half of the total increase. Excise and other taxes also increased significantly, from 1.9 percent of GDP to 3.2 percent of GDP, while income tax rose steadily from 1.9 percent of GDP to 3.5 percent of GDP. By contrast, trade taxes remained broadly unchanged at around 2 percent of GDP. The tax policy effort during this period centered on increasing tax rates, broadening the personal income tax and VAT, removing exemptions,

⁴ Sources: Sri Lanka Ministry of Finance; IMF EFF Staff Reports (5th/6th Reviews); WEO; WoRLD; ISORA; IRD APR 2024; staff estimates.

and, in October 2025, eliminating the Simplified VAT scheme and replacing it with a traditional VAT refund model. On the administration side, reforms have focused on strengthening compliance risk management, including improved segmentation and risk-based treatment of large taxpayers, high-wealth individuals, and tax crime risks, as well as stronger filing, payment, audit, refund, and enforcement follow-up. Together, these measures helped restore revenue performance from a low base and have positioned revenue mobilization as a central pillar of fiscal adjustment.

4. Sri Lanka’s tax-to-GDP ratio places it in the upper-middle range among the selected South Asian peers. At 15.4 percent of GDP, Sri Lanka exceeds Bangladesh, Pakistan, and Bhutan and is broadly close to Nepal, but remains below India and well below Maldives. This points to meaningful progress since the crisis, while underscoring the importance of sustaining reforms through stronger compliance, a broader tax base, and more effective revenue administration.

Figure 2. Tax Revenue, Selected South Asian Economies (% of GDP; 2024, except Sri Lanka 2025)⁵



5. Across the three revenue agencies, important reforms are underway. On the inland revenue side, the taxpayer register has expanded and is being cleaned up; CRM is becoming more focused on key segments, including large taxpayers, VAT, income taxes, and high-wealth individuals (HWIs); and filing and payment performance has improved, particularly in the Large Taxpayer Office (LTO) and for VAT. Risk-based audit practices, sector approaches, and stronger controls for large and medium taxpayers are being introduced, alongside initial HWI compliance work, stronger enforcement tools, expanded taxpayer services, and continued IT modernization through RAMIS 2.0. The next step is to institutionalize these reforms, so they become routine operating practice, supported by reliable data, stronger RAMIS ownership, and clearer management accountability.

6. Customs has also advanced several important reform initiatives that can support the MTRS. The review of customs legislation has been completed and approved by Cabinet, and draft amendments are being prepared. Risk management is being strengthened, with intrusive inspection rates reportedly reduced substantially and further reductions planned. Work is underway on ARMS, a data warehouse, Power BI analytics, the Customs Document Notification System (CDNS), and ASYHUB for pre-arrival risk assessment using manifest data. Progress is also being made on the AEO program, blue-

⁵ Source: IMF WEO/GFS World Bank WDI (GDP per capita, PPP). Author's calculations.

channel PCA, trade-based money laundering controls, integrity arrangements, and cooperation with IRD and the Board of Investment (BOI). These reforms now need to be consolidated into an integrated risk management operating model that reduces low-yield inspections, strengthens post-clearance audit feedback loops, expands paperless processing, improves information exchange, and secures effective customs control over BOI and special economic zone (SEZ) operations.

7. Recent excise reforms also provide a useful platform for modernization, but operational controls remain weak. A full-time Commissioner General has been appointed, senior management positions have been filled, a code of conduct and internal affairs function have been introduced, and procurement is underway for RASED. These reforms can support a shift from paper-based and resident-officer controls toward systems-based risk management. However, excise administration remains fragmented across institutions, and SLE continues to face significant risks in alcohol production, excise stamps, beedis, licensing, and market enforcement.

8. These achievements are significant, but they have been made from a weak institutional base and against the backdrop of still-large compliance gaps. Revenue administration remains constrained by uneven governance, fragmented responsibilities, capacity shortages, weak data foundations, and limited accountability for reform delivery. These issues are consistent with earlier TADAT findings, which pointed to weaknesses in taxpayer registration, filing and payment compliance, arrears management, audit effectiveness, dispute resolution, and the use of performance information. Across inland revenue, customs, and excise risk-based methods are emerging but are not yet consistently embedded in daily operations. Staff's indicative estimates suggest that Sri Lanka's VAT compliance gap remains significant—around 41 percent of potential VAT revenue in 2025, equivalent to about 3.6 percent of GDP.

9. The central challenge is to convert emerging revenue gains into durable domestic revenue mobilization through a credible MTRS. This government-led initiative should provide the organizing framework for Sri Lanka's next phase of reform by aligning tax policy, revenue administration, and legal and procedural reforms around clear revenue objectives, sequencing, responsibilities, and monitoring arrangements. In Sri Lanka's case, the MTRS should be seen less as a vehicle for short-term tightening and more as a platform for locking in recent gains, updating the legal framework needed for modern administration, and moving from a reactive post-crisis model toward a more modern and trusted revenue system.

10. The precise revenue objective of the MTRS has not yet been finalized. The authorities will need to determine, as part of the next stage of MTRS preparation, the extent to which the strategy should preserve recent gains, mobilize additional revenue to meet medium-term fiscal and expenditure needs, and support a more efficient and growth-compatible tax mix.

11. Discussions with the authorities underscored that the next phase should be anchored in a balanced, growth-compatible strategy rather than further reliance on higher statutory tax rates. With many of the easier tax policy gains already realized, the MTRS should provide a practical menu of revenue options that are administratively feasible, politically credible, and supportive of fairness, investor confidence, and sustained revenue gains. This points to a reform agenda focused on broadening the base, strengthening compliance, simplifying the system, and bringing more informal or non-compliant activity into the tax net.

12. Consultations with civil society organizations (CSOs) reinforced the importance of supporting revenue gains with a more modern, service-oriented, and risk-based revenue administration. Participants emphasized that low tax literacy, weak voluntary compliance, and difficult-to-use taxpayer-facing systems continue to undermine trust and compliance. They also stressed that broadening the tax base will require better taxpayer communication, simpler digital services, stronger data matching across institutions, and closer alignment between tax policy design and revenue agency implementation capacity.

B. Key Revenue Administration Issues

13. For inland revenue, the main challenge is to institutionalize reforms, so they become routine operating practice. Filing, payment, and employer withholding compliance remain weak outside the strongest taxpayer segments; arrears are large and poorly prioritized; CRM is not yet fully embedded in audit, enforcement, service, and arrears decisions; and RAMIS continuity is a critical near-term business-continuity risk. These priorities also directly respond to TADAT-identified weaknesses in the integrity of the taxpayer register, on-time filing and payment, arrears management, audit effectiveness, dispute-related bottlenecks, and performance monitoring. Taxpayer service modernization also remains incomplete, while stronger policy-administration coordination will be needed for VAT threshold reform, e-invoicing, and broader MTRS implementation.

14. For customs, the main challenge is to embed integrated risk management as the customs-specific expression of CRM and make it the core operating model. Risk management is increasingly used for selectivity, but it is not yet consistently applied across trader segmentation, valuation, classification, origin, post-clearance audit, paperless processing, BOI and SEZ control, integrity, and inter-agency information exchange. Inspection rates remain high, feedback from examinations and PCA is weak, valuation data are insufficiently granular, and paper-based processing continues to create cost and discretion. SLC also needs to activate effective customs control over BOI and SEZ operations and make information exchange with IRD, FIU, BOI, and SLE more systematic.

15. For excise, the main challenge is to close urgent control gaps while building a systems-based operating model. SLE faces staffing shortages, unclear allocation of staff between revenue and non-revenue functions, a vulnerable excise stamp regime with an urgent vendor-transition risk, significant illicit alcohol and beedi revenue risks, and continued reliance on manual data processes and resident officer controls. RASED provides an opportunity to strengthen licensing, production, movement, payment, stamp, and enforcement controls, but it will need to be implemented as a risk-management and reconciliation platform rather than only as an IT system. Given the split of excise responsibilities across institutions, the authorities should also review the institutional model for excise administration, including closer integration with Customs.

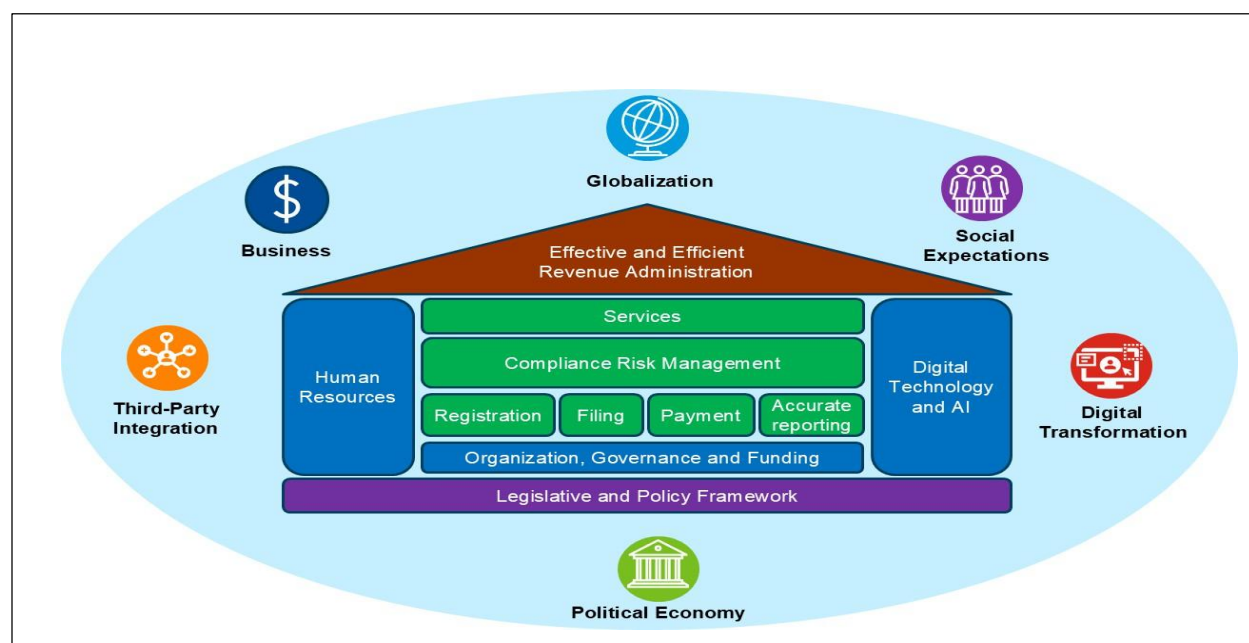
16. Across the three revenue agencies, organizational, human resources, and governance constraints are equally important. Capacity shortages are not only quantitative but also qualitative, particularly in audit, analytics, compliance strategy, and change management. Leadership continuity remains a critical factor for reform success, while broader governance weaknesses—slow decision-making, unclear accountability, and uneven implementation discipline—continue to constrain delivery. Institutional strengthening should therefore include stronger headquarters functions, clearer accountability

for delivery, dedicated project management capacity, specialized compliance and data teams, integrity safeguards, and performance monitoring linked to reform outcomes.

C. MTRS Reform Priorities

17. The hallmarks presented in Figure 3 provide a useful structure for organizing Sri Lanka's reform priorities, but the MTRS also needs to bring tax policy, legal reform, and revenue administration together as one package. Building on the diagnostic issues above, the agenda should be organized around five mutually reinforcing priorities: modernizing digital systems and data architecture; establishing integrated compliance risk management across revenue departments; strengthening core compliance functions; integrating tax policy reform and legal modernization with administrative readiness; and reinforcing the governance, capability, coordination, and change-management enablers needed to sustain reform. The sequencing is deliberate but not fixed: stronger digital and data foundations should support a more integrated compliance model, which in turn should guide operational improvements across tax, customs, and excise, while tax policy choices and legal reforms provide the enabling framework for broader bases, digital administration, information exchange, risk-based treatment, effective enforcement, and taxpayer rights.

Figure 3. Hallmarks of Effective and Efficient Revenue Administration in a Changing Environment⁶



18. The first priority is to modernize digital systems and data architecture across the revenue system. Digital technology and high-quality data should be treated as core foundations for modern compliance management, taxpayer and trader services, and managerial control. Digital modernization should focus first on business continuity and revenue control: securing RAMIS continuity in IRD, operationalizing ARMS and the data warehouse in SLC, and ensuring that RASD and the excise stamp transition strengthen reconciliation and risk visibility. Across the revenue system, modernization should

⁶ Source: <https://www.imf.org/-/media/files/research/imf-and-g20/2025/g20-background-note-enhancing-domestic-revenue-mobilization-through-strengthening-revenue-administration.pdf>

strengthen data governance, interoperability, cross-agency information use, and business intelligence tools that support segmentation, risk detection, performance monitoring, and managerial control.

19. The second priority is to establish integrated CRM across revenue departments. CRM should become the central operating model for inland revenue, SLC, and SLE, not a parallel analytical function. CRM should also be forward-looking, using data, intelligence, and operational feedback to identify emerging risks early, adjust treatment strategies, and reallocate resources as taxpayer and trader behavior changes. For IRD, this means moving from initial risk-based practices to a full compliance cycle supported by risk registers, analytics, sector-based compliance improvement plans, treatment strategies, feedback loops, and measurable results. For SLC, IRM should apply CRM principles to cargo selectivity, trader segmentation, valuation control, PCA, facilitation, enforcement, and BOI/SEZ oversight. For SLE, CRM should focus risk identification and treatment on licensing, production, distribution, stamp use, illicit alcohol, beedis, and market enforcement. Across the revenue agencies, an integrated CRM model should help identify shared risks, align treatment strategies, exchange information more systematically, and ensure that taxpayers and traders are managed consistently.

20. The third priority is to strengthen the core compliance functions that underpin revenue performance. These include registration, filing, payment, accurate reporting, audit, enforcement, valuation, inspection selectivity, post-clearance control, licensing, production monitoring, stamp verification, market inspections, and integrity safeguards. For IRD, reform should consolidate taxpayer register cleanup, intensify filing compliance follow-up outside the LTO, improve filing and payment controls, strengthen audit case selection and fieldwork, and apply quicker and more visible enforcement to medium taxpayers and other risk segments. For Customs, reform should strengthen PCA as a compliance improvement function, develop standard operating procedures for joint audits with IRD, improve valuation reference data and outlier detection, expand AEO and fast-track segmentation, and tighten controls over BOI and SEZ operations and high-risk import flows. For Sri Lanka Excise, reform should focus on licensing, production monitoring, stamp verification, alcohol and beedi fraud strategies, market inspections, and replacement of resident officer controls with systems-based controls. Across IRD, SLC, and SLE, the aim should be to make compliance easier, evasion harder, and treatment more predictable by strengthening enforcement credibility, reducing unnecessary discretion, and applying sanctions consistently. Where discretion remains necessary, it should be governed by clear guidelines, documented reasons, supervisory review, and regular monitoring to promote consistency, fairness, and accountability.

21. The fourth priority is to ensure that tax policy design and legal reform are integrated into MTRS implementation from the outset. The MTRS should not treat policy, law, and administration as separate workstreams. Tax policy measures should be tested against administrative readiness, including taxpayer register quality, digital filing and payment capacity, refund risk management, taxpayer communication, data availability, and compliance risks. At the same time, the legal framework should be modernized to support digital administration, electronic records and signatures, information exchange, risk-based treatment, penalties, arrears management, enforcement powers, objections and appeals, and taxpayer rights. This includes assessing the administrative feasibility of policy measures such as VAT base expansion, PIT base broadening, property-related taxation, and para-tariff rationalization; advancing customs law amendments already approved by Cabinet; and considering the preparation of a modern tax procedures code to consolidate common rules for registration, filing, payment, audit, assessment, collection, objections, appeals, information powers, and taxpayer rights.

22. The fifth priority is to strengthen the enablers needed to sustain reform. These include clear MTRS accountability; stronger coordination among the Ministry of Finance, revenue agencies, and other government departments; workforce planning and specialist skills in analytics, audit, CRM, information technology governance, procurement, integrity, and change management; stronger project management and vendor-transition planning; and improved taxpayer, trader, and stakeholder engagement. These enablers should support better digital usability, stronger tax literacy, clearer communication of obligations and rights, reduced reliance on physical visits and paper submissions, stronger inter-agency protocols, and more disciplined follow-through on implementation.

D. How Revenue Administration Reforms Support Tax Policy Reform

23. The MTRS brings together mutually reinforcing tax policy and revenue administration reforms to achieve Sri Lanka's revenue mobilization objectives. While tax policy reforms determine the structure of the tax system and the revenue potential available to the government, effective revenue administration is required to translate that potential into sustainable revenue outcomes. Accordingly, many of the revenue administration reforms proposed in this report are designed not only to improve current compliance performance but also to establish the administrative foundations necessary to support implementation of the broader tax policy reform agenda under the MTRS.

24. Several priority tax policy measures will depend on significant improvements in taxpayer information, digital systems, compliance risk management, and operational effectiveness. This includes broadening the personal income tax (PIT) base, expanding the VAT base over time, strengthening wealth and property taxation, and simplifying the trade tax regime through the gradual removal of para-tariffs. The modernization initiatives proposed for the IRD, SLC, and SLE therefore play a dual role: improving current compliance outcomes while creating the institutional capabilities needed to administer a broader and more modern tax system, as summarized in Table 1.

Table 1. Alignment of Revenue Administration and Tax Policy Reforms under the MTRS

Tax Policy Reform Objective	Key Revenue Administration Enablers
Broaden the PIT base and improve taxation of high-income individuals	Administrative readiness for broadening the PIT base and improving taxation of high-income individuals will depend on improved taxpayer registration and register quality, expanded use of third-party information, enhanced withholding controls, risk-based compliance programs, and greater use of data analytics.
Expand the VAT base over time	Administrative readiness for expanding the VAT base over time will depend on improved taxpayer registration and register integrity, reliable digital filing and payment services, effective taxpayer communication and service arrangements, operational refund risk management, stronger filing and payment compliance controls, and sustained implementation of compliance risk management.

Introduce or strengthen wealth-related taxation, including property taxation and imputed rental income tax	Administrative readiness for property taxation and imputed rental income tax will depend on reliable information on property ownership, taxpayer identification, property characteristics, and valuation data, supported by robust inter-agency data sharing. Revenue administration reforms in registration, data governance, digitalization, and information management will help build these foundations, but dedicated property databases and valuation systems may also be required.
Phase out distortionary taxes such as the Social Security Contribution Levy and para-tariffs ⁷	Administrative readiness for phasing out distortionary taxes such as the Social Security Contribution Levy and para-tariffs will depend on stronger VAT administration, enhanced customs risk management, effective post-clearance audit, improved excise administration, and stronger data sharing to protect replacement revenues and manage compliance risks during the transition.

25. The sequencing of reforms is equally important. Foundational investments in digital systems, taxpayer register quality, data governance, and compliance risk management should be prioritized because they support multiple tax policy objectives simultaneously. In this sense, the 12–24-month priorities below and in Annex 1 should be viewed as the minimum administrative readiness package for near-term policy implementation, while the medium-term actions provide the institutional capabilities needed to support more complex reforms such as property taxation, IRIT, broader VAT coverage, and the sustained replacement of distortionary trade and turnover-based taxes. Accordingly, the reform roadmap should be viewed not only as a program of administrative modernization, but also as a critical component of the broader MTRS reform agenda.

E. Sequencing and Implementation Considerations

26. For planning purposes, this report uses an illustrative five-year MTRS horizon. The first 12–24 months would constitute a foundational phase focused on securing business-critical systems, strengthening administrative readiness, and delivering early compliance gains. The subsequent phase would consolidate these foundations into sustainable agency operating models and advance more demanding policy, legal, organizational, governance, and coordination reforms. The authorities should confirm the precise implementation period when adopting the government-owned MTRS.

27. In the first 12–24 months, the priority should be to secure visible operational gains while building the foundations for deeper reform. This includes securing RAMIS continuity; operationalizing ARMS, the customs data warehouse, and inspection/PCA feedback loops; launching priority RASD modules with strong reporting and reconciliation functions; strengthening filing, payment, arrears,

⁷ Para-tariffs includes the Special Commodity Levy (SCL), Ports and Airports Development Levy (PAL), and the Commodity Export Subsidy Scheme (CESS).

valuation, BOI/SEZ, alcohol, beedi, and stamp controls; expanding paperless processing; and preparing for critical procurement and vendor transitions. These actions should reduce discretion, improve audit trails, strengthen risk visibility, and demonstrate practical improvements in compliance control and taxpayer and trader service.

28. Over the MTRS period, implementation should shift from discrete initiatives to agency-specific but integrated operating models. This means a data-driven inland revenue model, an integrated risk management-based customs model, and a systems-based excise model, connected through shared risk identification, coordinated treatment strategies, systematic information exchange, and feedback loops across IRD, SLC, and SLE. Core compliance functions such as registration, filing, payment, audit, enforcement, valuation, post-clearance control, licensing, production monitoring, movement of goods, and stamp control should increasingly be guided by risk analysis and performance information. This would help move the revenue system from fragmented interventions toward a more consistent, data-driven, and institutionally embedded approach to compliance management.

29. More fundamental legal, organizational, and governance reforms will also be needed to consolidate these gains. At a high level, the MTRS should identify the legislative and procedural changes needed to support modern administration, including customs law amendments, stronger legal bases for information exchange and digital processes, and the possible preparation of a modern tax procedures code. These reforms should be sequenced alongside measures to strengthen managerial autonomy, improve flexibility in human and financial resource management, clarify accountability for system ownership and data governance, and create more durable arrangements for leadership continuity across the revenue system. Options such as a revenue authority model, or other forms of closer structural integration, may merit consideration, but they should follow-and not substitute for operational, legal, and institutional foundations needed to make such reforms effective.

30. The principal implementation risk is a loss of momentum once the immediate crisis context fades. This risk is amplified by limited capacity, uneven leadership continuity, institutional resistance, weak implementation discipline, and insufficient attention to staff buy-in and taxpayer confidence. Mitigation will require clear prioritization, realistic pacing, strong central oversight, regular monitoring of reform delivery, active change management, and credible early wins—such as cleaner taxpayer and trader data, stronger filing and payment controls, more effective risk treatment, improved services, and more predictable treatment for compliant taxpayers and businesses—to sustain support for the MTRS while creating the conditions for deeper reform.

31. Given the centrality of RAMIS, ARMS, RASED, ASYHUB, CDNS, and related data platforms to the reform agenda, digitalization risks should be managed as core implementation risks rather than as technical IT issues. The MTRS implementation plan should therefore include specific risk-mitigation arrangements for major digital initiatives, including procurement and contract-management timelines, vendor-transition plans, knowledge-transfer requirements, cybersecurity and business-continuity safeguards, data-governance arrangements, system-ownership responsibilities, and contingency plans for delays or service disruption. These arrangements should be monitored by the reform governance structure and linked to resource planning, because delays or weaknesses in digital systems would directly affect compliance management, taxpayer and trader service, revenue control, and the credibility of the reform roadmap.

F. Assessment of Revenue Impact Potential

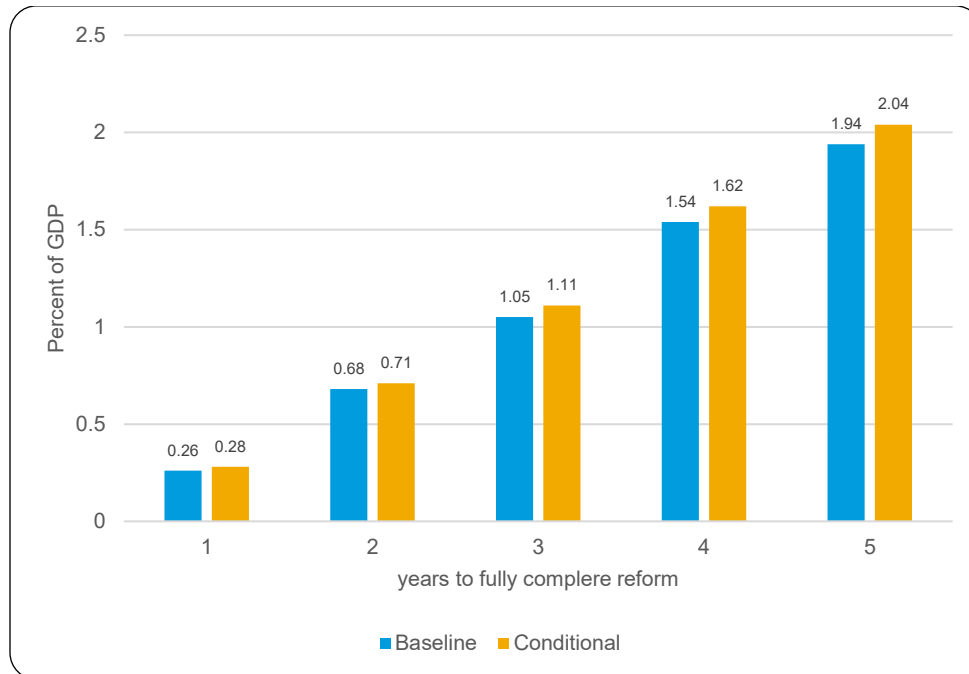
32. For illustration, staff estimate the potential revenue yield from Sri Lanka's MTRS-period internal revenue reforms using the Operational Strength Index (OSI). This draws on International Survey of Revenue Administrations (ISORA)⁸ datasets and methodologies developed by Atsebi et al. (2025) and Adan et al. (2023). The simulation assumes that the reform package raises Sri Lanka's OSI from 0.39 to 0.55 over five years, reflecting stronger operational capabilities needed to sustain compliance gains. Consistent with the reform priorities set out above, the assumed improvement is driven by five mutually reinforcing areas:

- Digitalization reforms aimed at modernizing core revenue systems, expanding data infrastructure, strengthening electronic checks during return filing, deploying analytics and emerging technologies, and improving the information base for compliance management and managerial control.
- CRM reforms aimed at embedding risk-based compliance management through stronger risk identification, automated compliance checks, data matching and analytics, proportionate treatment strategies, systematic risk reviews, and measurement of treatment effectiveness.
- Core compliance function reforms aimed at strengthening registration, filing, payment, audit, enforcement, taxpayer service, and operational feedback loops so that compliance risks are identified earlier, treated consistently, and followed through more effectively.
- Legal framework and tax procedures reforms aimed at enabling information exchange, digital processes, electronic records, risk-based administration, penalties, arrears management, enforcement, and common procedures for registration, filing, payment, audit, assessment, collection, objections, appeals, and taxpayer rights.
- Enabler reforms aimed at strengthening accountability, transparency, stakeholder communication, and reform follow-through by publishing strategic and operational plans, making key compliance risks public, and disclosing the results of taxpayer satisfaction surveys.

33. On this basis, the estimated revenue gain is presented prudently, using the lower of the available point estimates. The tool produces a baseline point estimate based on the main regression results in Atsebi et al. (2025) and a conditional point estimate based on the minimum yield across specifications that account for informality, financial development, and governance. For Sri Lanka's simulated reform path, the lower estimate indicates that raising the OSI from 0.39 to 0.55 would generate additional internal revenue of about 1.9 percentage points of GDP after five years (see Figure 4). This estimate should be interpreted as an indicative medium-term yield from sustained implementation rather than a mechanical forecast; actual gains will depend on implementation discipline, the depth of CRM institutionalization, and the effective use of digital, data, enforcement, and service reforms.

⁸ ISORA is the International Survey of Revenue Administrations, a multi-organization dataset covering tax administration performance, organization, staffing, operations, and digitalization. See International Survey of Revenue Administrations, available at: <https://data.rafit.org/>

Figure 4. Cumulative Revenue Yield Estimates



II. Inland Revenue Department Reforms

A. Background

34. The IRD will carry much of the operational responsibility for sustaining Sri Lanka's recent revenue gains and delivering the MTRS. Its mandate spans taxpayer registration, return processing, payment accounting, arrears management, audit, enforcement, dispute-related support, taxpayer services, and the administration of the main domestic taxes. The department therefore sits at the center of the relationship between the state and taxpayers, and its performance will strongly influence whether recent revenue gains can be sustained in a manner that is predictable, fair, and supportive of voluntary compliance.

35. The IRD is moving from a period of rapid adjustment to a more demanding implementation phase. During the post-crisis period, the department had to absorb major policy changes, expand taxpayer interactions, and respond to heightened revenue expectations while operating with legacy systems, capacity constraints, and uneven business processes. The next phase should focus less on launching new initiatives and more on making core functions work consistently. This will require stronger managerial control across the full compliance cycle, from registration and filing through audit, collection, enforcement, and service delivery, and clearer ownership of the systems and data that support these functions.

36. This chapter focuses on the practical constraints that limit IRD performance and links them to the relevant 2023 TADAT findings. The TADAT assessment found weaknesses in several core areas, including the accuracy of the taxpayer register, structured compliance risk management, the absence of a compliance improvement plan, low on-time filing and payment, limited automated non-filer follow-up, low use of electronic payment, high and aging arrears, weak audit case selection and quality assurance, limited automated data matching, excessive time to resolve disputes, and gaps in operational planning and performance information. These findings remain directly relevant to the issues discussed below: weak filing compliance and arrears follow-up outside the strongest segments; limited integration of risk analysis with audit, enforcement, and service actions; gaps in RAMIS ownership and data extraction; and the need to modernize taxpayer services while reducing unnecessary physical contact.

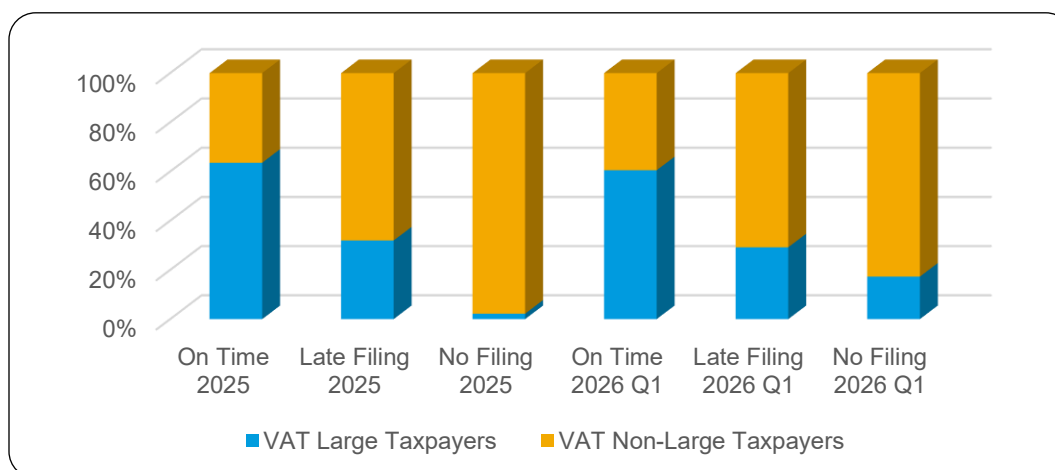
B. Key Issues

37. The IRD's central challenge is to institutionalize and scale reforms so that recent compliance gains become routine operating practice. This conclusion is consistent with TADAT findings that pointed to weaknesses in several core administration functions, including taxpayer registration, filing and payment compliance, arrears management, audit, dispute-related processes, and management information. Reforms are underway across key functions, but they remain unevenly embedded. The issue is therefore not the absence of reform activity, but the need to connect these initiatives into a consistent compliance management cycle, supported by clear ownership, reliable management information, and regular performance monitoring. Without this shift, reform progress will remain dependent on individual projects rather than becoming part of the department's normal way of working.

38. VAT filing data show a substantial compliance gap between the large and non-large taxpayers. In 2025, 80.1 percent of large taxpayers filed their VAT returns on time, compared with only 45.9 percent of non-large taxpayers. Although on-time filing improved in Q1 2026, reaching 85.7 percent for large taxpayers and 55.9 percent for non-large taxpayers, the compliance gap remained close to 30 percentage points. More importantly, non-filing increased among non-large taxpayers from 12.3 percent to 19.1 percent and among the large taxpayers from 0.3 percent to 4.0 percent, indicating that a significant proportion of taxpayers continue to remain outside the filing system altogether. These data suggest that recent compliance efforts have improved filing timeliness more than they have reduced non-filing, underscoring the need for stronger non-filer identification and follow-up.

39. Filing performance for annual income taxes is substantially weaker than for VAT. In 2025, only 23.6 percent of Corporate Income Tax (CIT) returns, 26.8 percent of PIT returns, and 15.9 percent of Individual Income Tax (IIT) returns were filed on time. Non-filing rates were particularly high, reaching 52.7 percent for CIT, 45.6 percent for PIT, and 67.8 percent for IIT. For all three taxes, more taxpayers failed to file than filed on time, indicating that the immediate compliance challenge is basic return submission rather than filing timeliness alone. These results point to weaknesses in non-filer detection, follow-up, and enforcement credibility, rather than the availability of electronic filing services. Figures 5 and 6 present VAT filing compliance outcomes for 2025 and Q1 2026 and filing compliance outcomes for CIT, PIT, and IIT.

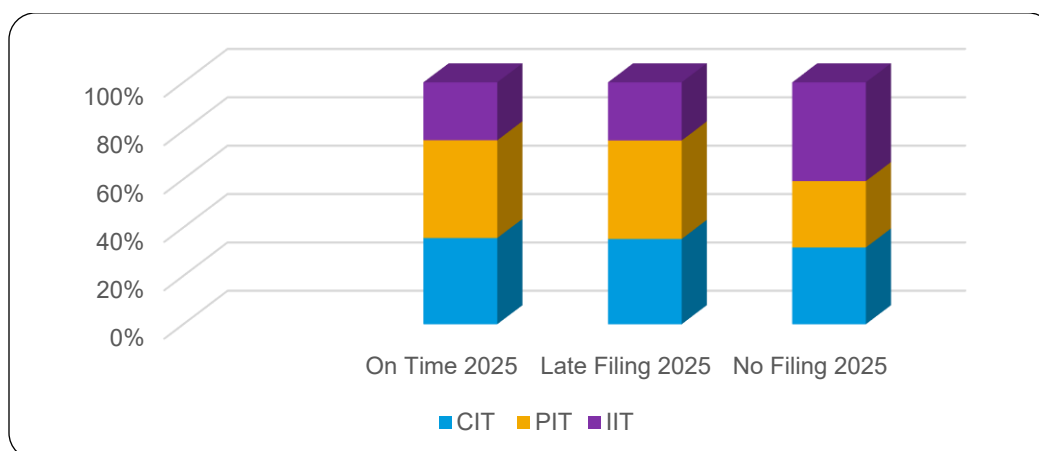
Figure 5. VAT Filing Compliance Rates for 2025 and Q1 2026⁹



Source: IRD Data

⁹ Source: IRD; IMF staff calculations

Figure 6. CIT, PIT, and IIT Filing Compliance Rates for 2025¹⁰

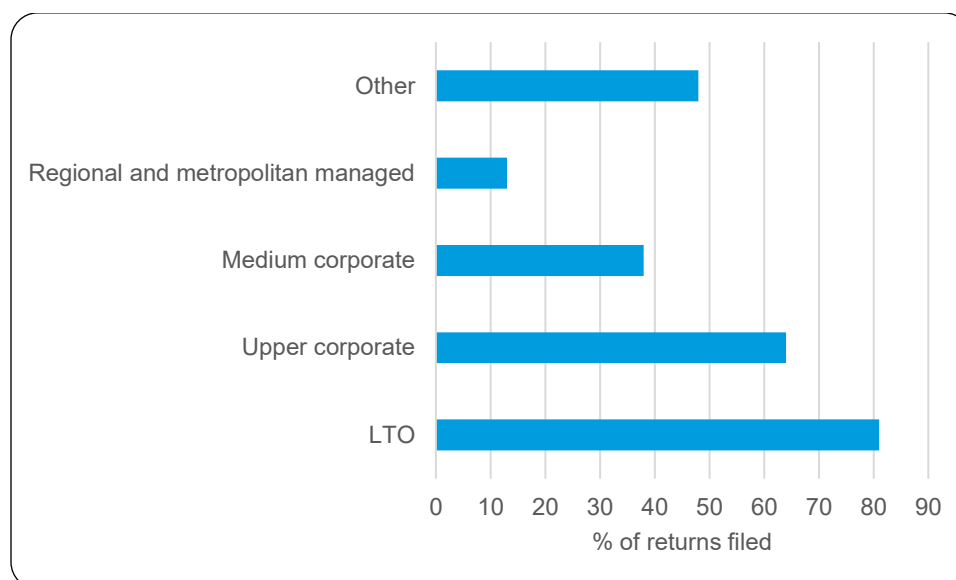


Source: IRD Data

40. Employer withholding compliance also shows significant weaknesses outside the strongest taxpayer segments. For the 2025/26 filing year, 47,662 registered employers were required to file employer withholding returns by April 30, 2026, including 739 employers managed by the LTO, 1,992 upper corporate taxpayers, about 14,000 medium corporate taxpayers, 27,600 employers managed by regional and metropolitan offices, and 338 other employers. On-time filing was strongest among large taxpayers, at 81 percent, but declined sharply across other segments: 64 percent for upper corporate taxpayers, 38 percent for medium corporate taxpayers, only 13 percent for regional and metropolitan employers, and 48 percent for other employers. Final filing outcomes for 2024/25 show a similar segmentation pattern. Almost all large taxpayers eventually filed, at 98 percent, and filing was also high among upper corporate taxpayers, at 93 percent. By contrast, only 66 percent of medium corporate taxpayers and 26 percent of regional and metropolitan employers filed at all, while the residual group reached 61 percent. These results indicate that employer withholding compliance is not primarily a large-taxpayer issue. The main risks are concentrated among medium and regional-office employers, where late filing and non-filing weaken oversight, delay reconciliation of employee income information, and reduce the IRD's ability to detect under-withholding or non-remittance. Figure 7 presents on-time filing compliance by employers.

¹⁰ Source: IRD; IMF staff calculations

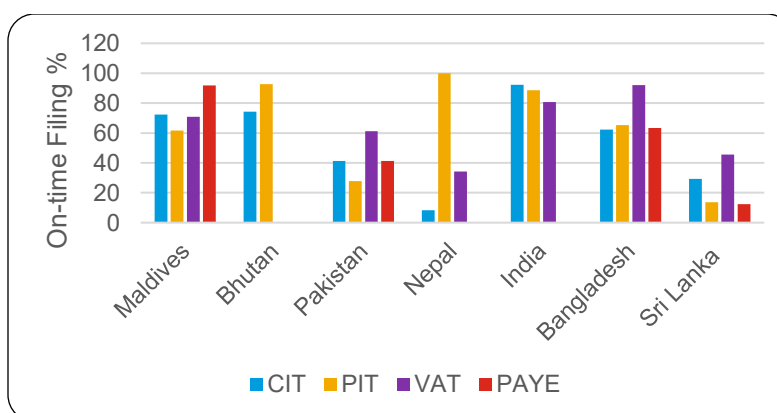
Figure 7. On-time Employer Filing Compliance for 2025/26



Source: IRD Data

41. Filing compliance performance across South Asia demonstrates that relatively high levels of on-time filing are achievable for most major tax types. Several administrations report on-time filing rates exceeding 60 to 90 percent for key taxes. As shown in Figure 8, which draws on most recent data reported through the ISORA, Sri Lanka is a clear outlier, recording the weakest filing performance across all major taxes. The data relate to 2024 for all countries shown except Bangladesh, for which the most recent available data are for 2023. By contrast, India, Bhutan, Bangladesh, and the Maldives report substantially stronger filing outcomes for several tax categories, demonstrating that significantly higher compliance levels are attainable within the region. Sri Lanka's results suggest that a large proportion of registered taxpayers are either failing to meet their filing obligations on time or have become inactive while remaining on the taxpayer register.

Figure 8. Comparison of On-time Filing Compliance for CIT, PIT, VAT, and PAYE in Selected Peer Countries



Source: ISORA

42. The weak and inconsistent use of penalties reduces the credibility of the compliance system. Although penalties are available in law, they do not appear to be applied consistently to late

filing, non-filing, non-payment, or other basic compliance failures. This weakens deterrence and may contribute to perceptions that non-compliance carries limited practical consequences. It also undermines fairness, as compliant taxpayers bear the cost of meeting their obligations while persistent non-compliers may avoid timely consequences. Penalties should therefore become a predictable, proportionate, and consistently applied part of the compliance management cycle.

43. Arrears management is constrained by legal, procedural, data, and dispute-related weaknesses. Under the Inland Revenue Act and VAT Act, the IRD does not have direct authority to write off bad debts, and write-off requires submission to the Ministry of Finance. Debts enter default after 30 days, when a default notice is issued and taxpayers may seek to discuss the debt or request a payment plan. However, debts older than five years appear to receive little or no collection action, even where they are not formally in dispute. Interest applies to outstanding CIT, while VAT late payment charges include an initial 10 percent charge and a further 2 percent charge, but repeat defaults do not appear to be treated differently.

44. The stock of arrears also appears large and may be overstated or poorly classified. As of December 31, 2025, total defaults were reported at about Rs 2.1 trillion, of which about Rs 1.6 trillion was in dispute. In 2024, reported defaults were about Rs 1.1 trillion, with about Rs 974 billion in dispute. Appeals therefore appear to be the largest barrier to collection. For debts not in dispute, continued aging points to staffing constraints, weak prioritization, and the absence of a risk-based framework to distinguish collectible debts from low-value, disputed, low-probability, or administratively uneconomic cases.

45. CRM is not yet fully embedded as the department's operating model. VAT compliance improvement plans are in place and progressing, providing a useful foundation for broader risk-based compliance management. However, risk registers, third-party data, analytics, feedback loops, and sector-based CIPs are not yet used consistently across tax types and taxpayer segments to guide operational priorities. The link between risk identification, treatment design, case selection, audit results, enforcement actions, and future risk profiling remains weak. As a result, risk analysis does not yet consistently determine who is contacted, audited, assisted, or enforced against.

46. Audit effectiveness remains constrained by weak case selection, limited fieldwork, and capacity gaps. The Introduction identifies these as core constraints, and they have direct implications for revenue performance and enforcement credibility. Audit resources are not yet directed consistently toward the highest-risk taxpayers, sectors, and behaviors, including medium taxpayers that may fall outside intensive LTO management but still present material compliance risks. Weak documentation of case selection, uneven audit quality standards, and limited feedback from audit results into the risk process constrain the use of audit as a strategic compliance tool. The practical test of CRM will be whether risk analysis determines operational choices — who is contacted, assisted, audited, monitored, or enforced against — and whether the results of those actions are fed back into future risk profiling.

47. Medium taxpayer compliance is weakened by delayed follow-up, limited sector approaches, and unclear procedures. This group sits between the structured oversight applied to large taxpayers and the more automated treatments needed for smaller taxpayers. Delayed follow-up, inconsistent escalation, and unclear procedures weaken compliance credibility, particularly where medium taxpayers present material filing, payment, and reporting risks but are not subject to the same intensity of account management as large taxpayers.

48. Staffing shortages and underinvestment in critical tools are slowing reform implementation and weakening operational follow-through. The IRD faces shortages in key technical and operational areas, including IT, analytics, audit, arrears management, taxpayer services, and compliance risk management. These gaps are compounded by long timelines to recruit or assign additional staff. Underinvestment in core tools, including a functioning data warehouse, adequate server capacity, and technical support for taxpayer register cleansing, further constrains management information, risk analysis, and follow-up. As a result, reform delivery depends heavily on stretched staff and manual workarounds, while critical initiatives such as taxpayer register cleanup, risk-based compliance management, arrears prioritization, and service modernization progress more slowly than required.

49. IT and data constraints continue to limit the IRD's ability to manage compliance risks effectively. The absence of a functioning data warehouse, limited capacity to extract and analyze data, server constraints, weak system ownership, and unresolved information and communications technology governance arrangements restrict the department's ability to use information for timely management decisions. These constraints are heightened by slippage against the IRD IT Strategic Plan for 2025-2027. Several foundational actions expected to begin in 2025, including data warehouse procurement, information and communication technology governance arrangements, infrastructure sustainability planning, and the definition of RAMIS 3.0 requirements, have not yet progressed as envisaged. These delays reduce visibility over filing, payment, arrears, audit selection, and compliance outcomes, making it harder to identify emerging risks and monitor whether treatments are producing results.

50. The scheduled expiry of the RAMIS vendor contract in January 2027 creates an immediate business-continuity risk. RAMIS underpins core revenue administration functions, including registration, filing, payment, arrears, audit, enforcement, refunds, and taxpayer services. This risk is heightened by the IRD's limited in-house capacity to maintain, troubleshoot, and enhance RAMIS independently and by the absence of a credible alternative support arrangement. Any interruption in vendor support, system maintenance, or operational troubleshooting could disrupt essential tax administration processes and put recent revenue gains at risk.

51. Taxpayer service modernization remains incomplete and continues to raise compliance costs and administrative burdens. CSOs consultations underscored that the IRD's current approach is perceived as heavily enforcement-oriented, with insufficient emphasis on helping taxpayers understand and meet their obligations. Continued reliance on physical visits and paper submissions consumes staff time, creates unnecessary contact points, and makes compliance more difficult for taxpayers. These weaknesses are becoming more important as the taxpayer base expands and more individuals and smaller businesses interact with the department.

52. These weaknesses should be addressed by treating taxpayer services as a core compliance function rather than a supporting activity. As the tax base expands and reforms such as VAT threshold changes, e-invoicing, and the new VAT refund model are implemented, the IRD will need a more deliberate service and communications strategy to help taxpayers comply voluntarily. This should include clear service standards, plain-language guidance, proactive outreach before major policy and system changes, stronger contact center and digital self-service channels, targeted education for new registrants and small businesses, and mechanisms to capture taxpayer feedback. Better service should also be integrated into CRM treatment strategies, so that education, reminders, nudges, and assisted

compliance are used alongside audit and enforcement to address the underlying causes of non-compliance. Without this shift, expanding the taxpayer base may increase taxpayer frustration and avoidable compliance risks.

53. The communications function is not yet sufficiently structured to support major reform implementation. The IRD will need a more deliberate communications capability that goes beyond issuing notices or responding to taxpayer queries. MTRS implementation will require planned, audience-specific messaging for taxpayers, tax practitioners, business associations, staff, the media, and other stakeholders, particularly for reforms that may affect filing obligations, VAT thresholds, e-invoicing, refund processing, registration, and enforcement. This should include clear ownership of the communications function, annual and reform-specific communication plans, plain-language guidance, message calendars, coordinated spokesperson arrangements, monitoring of taxpayer concerns, and close coordination with the Ministry of Finance on policy announcements. Without a stronger communications function, otherwise sound reforms may be misunderstood, resisted, or implemented unevenly, weakening taxpayer confidence and voluntary compliance.

54. Closer tax policy-administration coordination will be critical for VAT threshold reform, e-invoicing, VAT refund implementation, and broader MTRS implementation. The October 2025 removal of the Simplified VAT scheme and transition to a traditional VAT refund model is a major reform that will require strong refund risk management, timely verification, clear service standards, taxpayer communication, and effective controls to protect revenue while preserving taxpayer confidence. These reforms will place significant operational demands on the IRD, including changes to registration, taxpayer communication, systems, risk rules, audit approaches, refund processing, and service channels. Where administrative readiness is not assessed early, policy reforms may be harder to implement effectively and may create avoidable compliance, systems, refund, and communication risks.

C. Inland Revenue Priorities for the MTRS.

55. The IRD priorities for the MTRS should operationalize the five reform priorities identified earlier and respond directly to the weaknesses highlighted in the TADAT assessment. They include modernizing digital systems and data architecture; establishing integrated compliance risk management across revenue departments; strengthening core compliance functions; modernizing the legal framework and common tax administration procedures; and reinforcing the governance, capability, coordination, and change-management enablers needed to sustain reform. They should not be read as a separate reform agenda, but as the inland revenue contribution to a broader revenue-system reform program. For the IRD, the immediate focus should be to secure continuity of core digital systems, embed CRM in operational decision-making, strengthen filing, payment, audit, arrears, and enforcement follow-up, support the review of common tax administration procedures, and build the governance, service, and policy-administration arrangements needed to sustain reform over the MTRS period.

56. First, the IRD should urgently secure RAMIS continuity while modernizing digital systems and data architecture. The August 2025 IT Strategic Plan envisages a shift from the current out-of-country National Computer Support arrangement toward a Sri Lanka-based support model by the expiry of the current RAMIS maintenance contract on January 31, 2027. The plan identifies possible options, including a local service provider selected through an expression of interest/request for proposal process, a Ministry of Finance service bureau, or a hybrid model involving IRD staff, local support, and limited

continued support from National Computer Support. However, this transition is ambitious and high risk: the plan called for the support model to be decided in Q1 2025, procurement to begin in Q2 2025, contract award by Q4 2025, and phased transition through 2026-Q1 2027, yet the envisaged transition arrangements have not begun. The risk is compounded by reports that National Computer Support staff currently assigned to IRD are beginning to seek other employment, which could erode critical system knowledge before a replacement support model is in place. Given RAMIS's central role in registration, filing, payment, arrears, audit, enforcement, refunds, and taxpayer services, and IRD's limited in-house capacity, it is not realistic for IRD to manage RAMIS independently over the next three to five years. The authorities should therefore treat RAMIS continuity as an immediate business-continuity priority by securing vendor continuity or a credible transition arrangement, requiring structured knowledge transfer, addressing source-code and system-access constraints, strengthening in-house technical capacity, and preparing a contingency plan before the current contract ends.

57. Second, CRM should be embedded as the IRD's core operating model. VAT CIPs are already in place and progressing, providing a useful platform for more systematic risk-based compliance management. This approach should now be broadened and institutionalized so that risk registers, third-party data, analytics, sector-based CIPs, treatment strategies, and feedback loops guide day-to-day decisions on who is assisted, reminded, audited, enforced against, or monitored. CRM should not remain a parallel reform activity or a set of stand-alone documents. It should connect risk identification with treatment design, audit case selection, taxpayer service interventions, enforcement actions, and evaluation of outcomes. This would help ensure that scarce audit and enforcement resources are focused on the taxpayers, sectors, and behaviors that present the highest compliance risks.

58. Third, the IRD should strengthen the core compliance functions that underpin revenue performance. Immediate priorities should include completing taxpayer register cleanup, strengthening filing and payment compliance outside the LTO, following up non-filers, improving employer withholding compliance, applying penalties consistently, improving arrears management, strengthening audit case selection and fieldwork, and applying quicker enforcement for medium taxpayers and persistent non-compliance. VAT and CIT taxpayer registry cleanup is on track to meet the July 2026 structural benchmark, which is an important near-term achievement. IIT registry cleansing, however, can only proceed once adequate server capacity is available, given the large volume of records and the storage space needed to sort, match, and cleanse them.

59. These core functions should be managed through clear KPIs, consistent penalty application, and regular senior management review. Filing and payment compliance should be tracked through indicators covering filing, on-time payment, employer withholding filing and reconciliation, arrears stock, new arrears, arrears resolved, arrears aging, penalty application, and follow-up effectiveness. This should include a penalty application framework that defines when penalties are imposed, how cases are escalated, when remission or waiver may be considered, how decisions are recorded in RAMIS, and how management monitors consistency, proportionality, and results. Arrears management should also be supported by risk-based prioritization that distinguishes collectible debts from low-value, disputed, low-probability, or administratively uneconomic cases. These indicators should be reviewed regularly by senior management and used to trigger reminders, escalation, enforcement, and accountability for results.

60. Fourth, the IRD reform agenda should inform the broader review of tax administration procedures under the MTRS. In particular, reforms to filing, payment, arrears management, audit, enforcement, penalties, information access, objections, appeals, and taxpayer rights should be considered in any work toward a modern tax procedures code or other amendments to the Inland Revenue, VAT, and related laws. Greater transparency over these reforms, including publication of priorities, progress, and results, would provide a valuable driver of change and a clear measuring stick for improvement.

61. Fifth, the IRD should strengthen the enablers needed to sustain reform over the MTRS period. This includes clearer governance and accountability for reform delivery, stronger policy-administration coordination with the Ministry of Finance, improved taxpayer service channels, reduced reliance on physical visits and paper submissions, and stronger staff capability in analytics, audit, CRM, IT governance, arrears management, taxpayer services, procurement, and change management. Given the long timelines to recruit or assign additional staff, these enablers should include a time-bound staffing and investment plan for critical reform functions. They should also address underinvestment in core tools, including the data warehouse, server capacity, analytical software, and technical support needed to complete taxpayer register cleansing. These enablers are particularly important for VAT threshold reform, e-invoicing, and wider MTRS implementation, where policy measures will only deliver sustained revenue gains if they are supported by administrative readiness, taxpayer communication, system changes, and effective compliance treatments.

62. Sixth, the IRD should establish a structured communications function to support MTRS implementation and voluntary compliance. This function should be clearly owned within the department and linked to taxpayer services, CRM, policy implementation, and public affairs. In the short term, the IRD should prepare annual and reform-specific communications plans for major initiatives such as VAT threshold changes, e-invoicing, VAT refunds, registration expansion, filing campaigns, and enforcement measures. These plans should define target audiences, key messages, timing, delivery channels, spokesperson arrangements, taxpayer feedback mechanisms, and coordination arrangements with the Ministry of Finance. Over the MTRS period, communications should become a routine management tool used to explain obligations and rights, support assisted compliance, manage reform expectations, strengthen tax literacy, and build confidence that reforms are being implemented fairly and predictably.

63. Sequencing should focus first on securing critical systems and visible compliance gains. In the first 12-24 months, the emphasis should be on securing RAMIS continuity, improving filing and payment compliance follow-up, strengthening employer withholding follow-up and reconciliation, applying penalties more consistently, introducing risk-based arrears prioritization, producing reliable management reports, and applying CRM routines to audit, enforcement, and service decisions. Over the full MTRS period, these actions should be consolidated into a more integrated, data-driven operating model for internal revenue administration.

64. Finally, any future expansion of the VAT taxpayer population should be sequenced with improvements in administrative readiness. Before lowering thresholds or otherwise bringing a materially larger number of taxpayers into the VAT system, the IRD should have substantially improved taxpayer register quality, strengthened digital filing and payment channels, established reliable taxpayer communication and service arrangements, operationalized refund risk management, and embedded

CRM-based filing, payment, and reporting controls for both new and existing VAT taxpayers. The authorities should therefore define a realistic timeline for VAT-base expansion linked to measurable improvements in registration accuracy, digital service capacity, filing and payment compliance, refund processing, and compliance-risk treatment.

III. Sri Lanka Customs Reforms

A. Background

65. SLC will play a central role in protecting recent revenue gains while supporting trade facilitation under the MTRS. Its mandate spans border revenue collection, trade facilitation, enforcement, risk management, valuation, classification, origin, post-clearance audit, administration of international trade agreements, and control over high-risk regimes, including BOI and SEZ operations. The March 2024 IMF technical assistance report, *Strengthening Revenue Outcomes in Customs and Excise*, also highlighted the importance of strengthening customs and excise controls, risk management, digitalization, information exchange, and institutional accountability, making SLC's reform agenda a core component of the broader MTRS implementation effort.

66. A clear reform program is underway and can be leveraged for the MTRS. SLC has reduced inspection rates and plans further reductions, advanced several digital initiatives including ARMS and Cargo Flow, reduced clearance processing times, and developed plans to eliminate the physical long room. Initial steps have also been taken to establish customs control in SEZs. Integrity work has advanced through the creation of the Internal Affairs Unit (IAU), and Sri Lanka has largely met its World Trade Organization (WTO) trade facilitation commitments, with 34 of 36 measures completed. The remaining agenda includes the National Single Window and a repeat time-release study, which was underway at the time of this report. In addition, the review of customs legislation has been completed, Cabinet has approved the proposals, and legislative drafting has commenced.

67. As the MTRS is developed, SLC should use these reforms to become a fully risk-driven organization. This will require a cross-cutting strategic vision built on stronger data management, more effective use of technology, better integration of risk management into operational processes, and reduced discretion in decision-making. Recent progress provides a solid platform, but the main challenge is to consolidate these initiatives into an integrated operating model in which risk analysis guides facilitation, control, enforcement, and service decisions across the organization.

B. Key Issues

68. A modern, risk-based operating model is not yet embedded in SLC. Strengthening risk management is an SLC core strategic priority, and risk is increasingly used to balance trade facilitation with regulatory control. Although risk drives cargo selectivity to some extent, aggregate physical examination rates remain high by international standards at close to 38 percent, down from 53 percent in 2021. This aggregate rate should, however, be interpreted carefully: SLC's internal risk-targeting framework for core customs compliance accounts for about 16.3 percent of total import containers, while the balance reflects mandatory requirements imposed by other government agencies. SLC is continuing to work toward an expected target of about 20 percent. High hit rates from inspection have contributed to reluctance to reduce inspection rates further. Table 2 sets out cargo examination success rates and points to weaker findings in the Rank Container Terminal and less-than-container-load cargo, reflecting secondary selections required by other government agencies, with stronger results in the grayline yard. Feedback on the results of physical examinations is limited, including limited information on revenue impact. Examinations with no significant revenue result are an inefficient use of SLC resources, increase

compliance costs for traders, and should trigger a review of risk criteria. To lower interventions safely, SLC has established a Coordinated Risk Management Technical Working Group with other government agencies to standardize risk-management principles, improve recording of examination outcomes, strengthen understanding of HS structures, and address OGA-driven dependencies.

Table 2. Cargo Examination Success Rates

(percent of examinations resulting in findings)

Year	GL 1 and 2	Rank Container Terminal	Less-than-Container-Load Cargo
2024	51.6	7.4	11.6
2025	58.2	9.3	10.9
2026	58.5	8.5	7.3

Source: SLC Data

69. Despite substantial advances in digitalization, SLC still struggles to support fully integrated risk management. The ARMS is nearing completion, with a data analytics platform expected within two to three months. This includes the establishment of a centralized data warehouse to support performance monitoring, congestion analysis, and risk targeting, supported by Power BI dashboards. Importer data though remains insufficiently granular for full and robust analysis. In parallel, SLC is implementing ASYHUB Pre-Arrival Processing to enable pre-arrival risk assessment using manifest data. While a welcome addition, it will add pressure to already stretched staff. Adding and upskilling staff and providing access to training, equipment and licenses remain challenges to advancing digitalization.

70. An AEO program has been slow to take root. The program includes 75 companies that represent close to 10 percent of overall trade volume and inspection times are said to be reduced by over 40 percent. Plans to expand the program include phasing out the legacy Green Channel and Fast Track schemes and encouraging traders to apply for AEO status, subject to the standard validation process. Fast Track operators would not be automatically absorbed into AEO but would need to meet the criteria set out in the AEO Programme Operational Guide. Limited cooperation is in place with other key departments, including IRD on audits of shared concern, although a joint audit team was recently created. SLC is also using internal compliance information and inter-agency initiatives, including the Coordinated Risk Management Technical Working Group, to strengthen AEO validation and facilitation. There is also limited focus on more complex compliance issues, including valuation, transfer pricing, and phoenix companies that disappear only to reconstitute later as different companies. The expansion of the AEO program in terms of both client base, including MSMEs and logistics operators, and audit complexity needs to be addressed.

71. The post-clearance audit function is not yet positioned to serve as a central compliance-management tool. PCA should provide the feedback mechanism that tests whether initial risk decisions were accurate, quantifies revenue and compliance results, and informs adjustments to risk rules, trader profiles, and treatment strategies. At present, however, the function appears constrained by limited staffing, with four teams responsible for reviewing 304 blue-channel PCA shipments during January 1–March 31, 2026, alongside other desk and field audits conducted by the directorate. These field audits can cover multiple CUSDECs and therefore represent a larger audit workload than the blue-channel figure alone. This has led to greater reliance on desk reviews than field audits and limits the depth of analysis that can be undertaken. Although about one-third of reviewed blue-channel cases generated

findings, the revenue impact of the broader audit program is quantified separately, with reported results of Rs 4.6 billion in 2024, Rs 2.48 billion in 2025, and Rs 2.75 billion during the first five months of 2026, including additional entries, penalties, and mitigated forfeitures. Many findings relate to unclear or incomplete documentation, including among AEO traders, which suggests the need for both stronger trader education and more consistent consequences for documentation deficiencies. Strengthening PCA will therefore require additional resources, clearer audit selection and reporting procedures, continued systematic quantification of revenue and non-revenue results, and a formal feedback loop into ARMS, trader segmentation, valuation and classification controls, and the broader compliance improvement plan.

72. Challenges remain in the pursuit of paperless processing and the full elimination of the physical long room. SLC maintains physical face-vetting of customs declarations and supporting paperwork before the declaration is processed in ASYCUDA. This is an out-of-date practice, and paperless processing was initiated in 2025 with a pilot of three companies and a planned growth to 70 companies from June 1, 2026 (largely AEO companies). Uptake of paperless processing has been slow with reasons said to include fear of job loss in the broker community, concerns about the digital signature requirement, and the lack of automatic officer assignment, creating doubts that the entry will be processed; automatic officer assignment is expected to be completed in ASYCUDA by September 30, 2026. SLC and government more broadly need to encourage companies to move to paperless processing and phase out the long room, while ensuring that digital signature requirements are legally, operationally, and practically ready and that the costs and benefits for traders, especially AEO companies, are clear. Current expectations are that all AEOs will be paperless by August 1 and all importers by January 1, 2027, but firm transition deadlines should be applied only after outstanding operational frictions are addressed, to avoid undermining trusted-trader participation or increasing inspection rates.

73. Client service is underdeveloped and should be part of a compliance program. Basic customer service elements are in place. For instance, SLC has a detailed website with information for importers, exporters, and brokers and advertises a toll-free enquiry line. Traders are also facilitated to monitor containers subject to examination through Cargo Flow. As a customer support initiative, CDNS has been developed to improve transparency and trust by allowing traders to track the status of submitted documentation throughout the clearance process. SLC is also developing CDNS to provide real-time information on processing times, declaration issues, fines, and penalties, support trader education, and improve direct communication with consignees. Because the system is still at an early stage, it will require continued administrative attention and targeted investment to fully mature as a compliance-enabling platform. Unless accompanied by improvements in clearance times, such systems may increase frustration rather than be perceived as facilitation tools. Using education and service to mitigate compliance problems, rather than relying mainly on enforcement and penalties, is not yet actively developed and could form part of an integrated risk management approach. The number of mistakes found in documents provided by AEO traders suggests that a more thorough customer support initiative is needed.

74. Information exchange—although critical in modern customs risk management—remains weak in Sri Lanka. Despite the signature of a memorandum of understanding (MOU) with IRD this year, information sharing remains largely one way, with SLC providing information from ASYCUDA to IRD on a regular basis but little information flowing from IRD to SLC. The same is true with SLE, where SLC has limited visibility over that institution's work and no shared enforcement effort. This gap should be addressed because improved information exchange—especially on data, audit plans, and results—is

critical to stronger risk management and better compliance outcomes. The FIU represents another important source of information that is underutilized. Legal constraints limit what IRD can share, and these should be addressed.

75. An increased emphasis on anti-money laundering underlines the need for quick action and improvements in information exchange. This emphasis includes the establishment of a dedicated unit and alignment with the Financial Action Task Force recommendations. A working group has been established for knowledge sharing, and staff have received training on identifying anti-money laundering risk indicators. Current collaboration between SLC, IRD, and the FIU is not formalized in this area, and clear working methods are not in place.

76. Despite an MOU signed in 2025 with BOI, customs control and oversight in the SEZs remains incomplete. Customs responsibilities in SEZ have been the responsibility of the BOI rather than SLC for some 200 enterprises in the SEZs as well as 1,500 that operate outside these zones.¹¹ BOI did not carry out a full customs role, with no inspections and documentation being generally accepted as presented by the operator. It does not monitor closely the movement of goods, does not check inventory, and does not enforce any violations discovered. The opportunities for revenue leakage are therefore immense. Further to the 2025 MOU, the initial phase of SLC control included 83 companies that were selected for scrutiny, but little progress has been made. Many companies have expressed resistance to this change given the more intense oversight that will ensue. SLC has sought additional staff for July and for the time being only imports will be checked. With ADB support, a GPS tracking system is being procured that is expected to improve overall control.

77. Failure to make progress on customs management in the SEZs has real consequences. There is a commitment under the IMF program to grant SLC clear responsibility for import and export controls in the 12 BOI-administered SEZs. Without customs control, duty-exempt inputs imported into BOI zones could be diverted into the domestic market without payment of applicable taxes, reflecting gaps arising from fragmented oversight arrangements. This also creates unfair competition for compliant importers and domestic producers that pay applicable duties and taxes, while weakening confidence that BOI and SEZ regimes are being administered on a level playing field. Any slowing or reversal after formalizing such commitments through the MOU would introduce uncertainty about the regulatory framework. In Sri Lanka, the primary source of revenue loss is the extensive system of policy-based tax exemptions and incentives, including BOI regimes, which have resulted in very large foregone revenues, estimated at close to LKR 800–1,000 billion annually in recent years.

78. The establishment of the IAU is an important step in strengthening anti-corruption and integrity controls, but the function still needs time to mature. The IAU, established in February 2024, provides a dedicated operational mechanism to receive complaints through up to eight channels, investigate allegations involving officers, and refer cases for disciplinary action, criminal investigation, or review by the Commission to Investigate Allegations of Bribery or Corruption. Rising complaint volumes may reflect improved reporting channels and greater confidence in the mechanism, while also pointing to the need for continued vigilance over integrity risks. The next step is to build on this operational foundation by complementing officer investigations and complaint handling with more proactive

¹¹ Activities include manufacturing, processing, infrastructure projects, and tourism.

identification and mitigation of integrity risks in high-discretion processes, including inspections, valuation, clearance, post-clearance audit, and SEZ oversight.

C. Customs Priorities for the MTRS

79. The customs priorities for the MTRS should translate the five cross-cutting reform pillars into an integrated SLC operating model. The immediate objective should be to move SLC from a transaction- and inspection-heavy model toward a data-driven, risk-based customs administration that protects revenue while facilitating legitimate trade. This requires operationalizing digital tools and feedback loops; embedding integrated risk management across selectivity, trader segmentation, valuation, PCA, AEO, BOI and SEZ control, integrity, and information exchange; strengthening core control functions; aligning the legal framework with modern customs practices; and building the governance, staffing, integrity, stakeholder engagement, and performance-management arrangements needed to sustain reform.

80. First, SLC should operationalize digital transformation and data-driven administration as the foundation for risk-based customs control. Priority should be given to completing and using ARMS, the customs data warehouse, Power BI dashboards, ASYHUB, CDNS, and paperless processing to improve risk targeting, management reporting, congestion analysis, trader transparency, and operational feedback. These tools should not be treated as stand-alone IT projects. They should support practical operational decisions, including selectivity, trader segmentation, inspection targeting, PCA case selection, valuation and classification controls, BOI and SEZ monitoring, AEO management, and performance review.

81. Second, integrated risk management should become the core operating model for customs. SLC should use risk analysis to guide cargo selectivity, trader segmentation, valuation control, post-clearance audit, AEO facilitation, enforcement, and oversight of special regimes. The Risk Management Directorate has begun operationalizing structured workflows to feed investigation, audit, and physical inspection results into the analytical cycle, including through the ASYCUDA Feedback Control system and post-clearance audit data from the eCCR system. This requires stronger risk governance, a senior risk-management lead, regular review of risk results, and a customs compliance improvement plan that links identified risks to treatments, responsibilities, key performance indicators, and feedback loops. Longer-term improvements in cargo selectivity will also require technical upgrades to the ASYCUDA World selectivity module, formal rollout of the Risk Reporting Officer initiative, and expanded human resource capacity, including more specialized data analysts in the Risk Management Directorate.

82. Third, SLC should strengthen the core customs compliance functions that protect revenue and support fair trade. PCA should be developed into a central compliance-management function; valuation, classification, and origin controls should be strengthened; low-yield inspections should be reduced; paperless processing should be accelerated; and customs control over BOI and SEZ operations should be fully activated. These functions should work as part of one compliance cycle, with inspection and PCA results feeding back into ARMS, trader profiles, valuation reference data, AEO monitoring, BOI and SEZ oversight, and future treatment strategies.

83. Fourth, the customs reform agenda should be supported by a modern legal and procedural framework. The pending customs law amendments and implementing regulations should

enable integrated risk management, pre-arrival processing, paperless processing, post-clearance audit, digital records, information exchange, automated decisions, BOI and SEZ control, and stronger enforcement. Legal reform should also clarify the basis for systematic information sharing with IRD, FIU, BOI, SLE, and other agencies.

84. Fifth, SLC should strengthen the governance, capability, integrity, and stakeholder engagement arrangements needed to sustain reform. This should include clearer accountability for risk management, specialized staffing for analytics, valuation, PCA, AEO, BOI and SEZ control, integrity, and anti-money laundering work; stronger internal affairs and integrity risk controls; structured communication with traders and brokers on paperless processing and compliance expectations; and regular performance monitoring of inspection results, PCA outcomes, clearance times, revenue findings, and trader service improvements.

85. Sequencing should focus first on operationalizing digital tools, embedding risk management, and securing visible gains in facilitation and control. In the first 12–24 months, the emphasis should be on completing and using ARMS, the data warehouse, ASYHUB, CDNS, and paperless processing; strengthening inspection and PCA feedback loops; reducing low-yield inspections; closing the physical long room; activating the BOI MOU for SEZ control; improving information exchange with IRD, FIU, BOI, and SLE; and reinforcing valuation, classification, PCA, AEO, integrity, and anti-money laundering controls. Over the full MTRS period, these actions should be consolidated into an integrated, data-driven SLC operating model in which risk analysis guides selectivity, trader segmentation, post-clearance audit, valuation control, SEZ oversight, facilitation, enforcement, integrity management, and coordinated inter-agency action.

IV. Sri Lanka Excise Reforms

A. Background

86. Recent excise reforms provide a useful platform for modernization, and RASED should be the central bridge from current manual controls to a future systems-based operating model. A full-time Commissioner General of Excise has been appointed, senior management positions in enforcement, legal, and administration have been filled through internal promotions, a code of conduct has been introduced, and an Internal Affairs Unit now investigates complaints and allegations of poor practice. RASED is expected to include 15 modules covering licensing, production, payments, movement of goods, and other core functions, with the first module planned for launch in October 2026 and full implementation expected by 2028. The priority now is to ensure that RASED is implemented not simply as an information technology system, but as a control and reconciliation platform that links licensing, production, removals, duty payments, stamp verification, relevant import information supplied by SLC, market inspections, enforcement, reporting, and management review. Used in this way, RASED can help SLE move from paper-based, self-declared, and resident-officer controls toward a more risk-based model supported by reliable data, exception reporting, management dashboards, and stronger follow-through on compliance risks.

87. Responsibility for excise administration is currently split across several institutions, which complicates accountability and control. SLE is responsible for alcohol and alcoholic beverages, including controls over domestic production and domestic-market excise administration relating to imported products, as well as beedis and excise on tobacco leaf. SLC is responsible for customs and border controls over imported alcohol and other imported goods and administers excise on domestically produced and imported tobacco products, vehicles, and sugary soft drinks, while excise on petroleum products is managed separately by the Ceylon Petroleum Corporation. This allocation differs from common international practice, where customs generally administer excise on imports and domestic excise functions are managed through a domestic tax or excise administration. The split creates coordination challenges for imports, domestic production, tobacco, alcohol, stamps, licensing, market enforcement, and cross-agency risk management, and should be reviewed as part of the MTRS reform agenda.

88. The MTRS should treat the institutional split as a medium-term strategic reform issue while ensuring that urgent operational controls proceed immediately. A time-bound institutional review should assess whether closer integration with Sri Lanka Customs, including a possible Customs and Excise model, would strengthen accountability, reduce duplication, improve control over supply chains, and support more consistent treatment of imported and domestically produced excise goods. This review should be evidence-based and should consider legal, staffing, systems, data, governance, and transition requirements. It should also make clear that immediate action on alcohol, beedi, stamp, RASED, and market controls should not wait for institutional restructuring.

89. The differential excise treatment of imported and domestically produced alcohol should be integrated into the MTRS policy and administration agenda. Excise duty on alcohol and alcoholic beverages is generally based on a fixed rate per liter of pure alcohol by product category. However, imported alcoholic beverages are subject to a lower fixed rate per liter than domestically produced

alcohol. This differential treatment is unusual, as imported and domestically produced excise goods are typically subject to equivalent excise rates to protect revenue, support neutrality, and reduce opportunities for arbitrage. It may also complicate administration where responsibility for imports and domestic production is split across agencies. The MTRS should therefore assess whether imported and domestically produced alcohol should be brought onto a more neutral rate basis, while ensuring that any policy change is supported by stronger border controls, stamp verification, production monitoring, and market surveillance.

B. Key Issues

90. Staffing levels are low, and resource allocation is not sufficiently focused on revenue risks. According to the cadre information reported by SLE as at December 31, 2025 in its Annexure 1 submission, the approved cadre was 1,649 positions and actual staffing totaled 1,140, leaving 509 reported vacancies. The submission also provides the following category figures: 70 approved, 19 actual, and 51 vacancies at the senior level; 381 approved, 300 actual, and 81 vacancies at the territory level; 1,052 approved, 767 actual, and 283 vacancies at the secondary level; and 148 approved, 54 actual, and 94 vacancies at the primary level. These category figures and aggregate totals should be reconciled with SLE before finalization. SLE operates through 62 excise offices. Its revenue responsibilities include controlling domestic alcohol production, ensuring excise stamps are applied where legally required, monitoring beedi production, and overseeing licensing and market compliance. Staff are also assigned to non-revenue functions, including illegal narcotics control and liquor licensing activities that do not contribute directly to SLE's annual revenue target. A detailed annual operating plan, supported by key performance indicators, is needed to clarify priorities, align available resources with revenue risks, and track operational results.

91. The excise security-sticker regime remains a critical revenue-control mechanism and requires careful transition and further strengthening. The current alcohol security-sticker system is provided by Madras Security Printers (MSP), whose contract expires in January 2027. SLE has advised that bids for procurement of the next security-sticker vendor have already been opened. Approval from the Sri Lanka Computer Emergency Readiness Team (CERT) for the Sticker Management Mobile Application used to verify stickers was expected by July 22, 2026; the current approval status should be confirmed. The original sticker was susceptible to fraud, but an enhanced sticker introduced in 2025 appears to have strengthened control. SLE's official production statistics, provided in its Annexure 2 submission, show that licensed liquor production reached 43.3 million absolute liters in 2022 following introduction of the security-sticker system, declined in 2023 and 2024, and recovered significantly to 40.4 million in 2025. SLE attributes the recovery primarily to a substantial reduction in illegal products and, based on the current trend, expects 2026 production to approach the 2022 level. The Department has also identified the introduction of an Export Security Sticker as essential, noting that the absence of such a control could materially increase corruption and illicit-practice risks. Procurement, application approval, contract transition, equipment installation, producer communication, and contingency arrangements should therefore be managed through a time-bound implementation plan to avoid disruption when the current contract expires.

92. The scale of the illicit alcohol market has not yet been established through a sufficiently reliable and scientifically validated study. SLE does not consider the previously cited estimate that illicit alcohol accounts for approximately 40 percent of the market to be sufficiently reliable. Accordingly,

the report does not use that estimate to quantify a potential revenue loss. The Department intends to procure a comprehensive research study through an open bidding process, to be undertaken by a government university approved by the University Grants Commission, with the objective of obtaining scientifically validated and accurate market data. In the meantime, official production statistics provided in SLE's Annexure 2 submission show that licensed liquor production reached its highest level in 2022 at 43.3 million absolute liters, declined to 35.1 million in 2023 and 35.3 million in 2024, and recovered to 40.4 million in 2025. Production totaled 20.8 million absolute liters through June 30, 2026; because this is a partial-year figure, it is not directly comparable with the annual observations. SLE expects full-year 2026 production to be broadly comparable with the 2022 level if the current trend continues. Continued vigilance remains warranted, but future estimates of illicit market share and associated revenue effects should be based on the proposed independent study. Domestic compliance action should focus on untaxed removals from licensed producers and unlicensed production, while border controls should be led by Sri Lanka Customs in accordance with its statutory mandate.

Table 3. Liquor Production from Licensed Premises in Sri Lanka

(millions of absolute liters)

Year	Liquor Production
2022	43.3
2023	35.1
2024	35.3
2025	40.4
2026 (to June 30)	20.8

Source: SLE Data

93. Beedi production tax collection remains difficult and requires a more systematic compliance approach. The tax was introduced only in 2023, and significant vacancies in SLE's approved cadre constrain implementation. Monitoring is also complicated by the nationwide distribution of beedi products, particularly in rural areas, and by the decline in legally imported tendu leaves following the imposition of high taxes on this principal input. SLE reports that this has increased incentives for smuggling through illegal maritime routes, although border detection and enforcement fall within the statutory mandates of SLC and other authorized agencies. These conditions support a compliance strategy focused on producer registration, declarations, input controls, distribution-chain traceability, market surveillance, and coordinated enforcement, while avoiding unsupported estimates of consumption or revenue loss.

94. SLE still relies heavily on manual data processes, limiting management visibility and timely risk detection. Although excise duty returns are now submitted electronically, limited reconciliation and analysis are conducted on the data received. As a result, production, removals, payments, stamp use, relevant import information supplied by SLC, and market inspection results are not yet routinely reconciled to identify anomalies, under-declaration, missing payments, or unexplained changes in declared production. This leaves SLE heavily dependent on self-declared information and manual checks, with weak exception reporting and limited ability for headquarters to monitor risks across producers, products, regions, and supply chains. RASSED should strengthen systems-based control, but full implementation is not expected until 2028. SLE has advised that a detailed module-by-module

implementation roadmap for the RASSED Project will be prepared and submitted to the relevant authorities in due course. This roadmap should prioritize the functions most important for revenue control, including licensing, production, movement of goods, payments, stamp verification, enforcement, reporting, reconciliation, and management dashboards.

95. Excise revenue losses also reduce VAT collections and weaken the wider tax base. When excise goods move through legitimate channels, excise duty is included in the taxable value for VAT. Revenue losses from illicit or under-declared excise goods therefore reduce both excise and VAT collections, creating a cascading revenue effect that is larger than the excise loss alone. This is particularly relevant for alcohol and beedis, where under-declaration, illicit production, or diversion from legal channels can remove products from both the excise and VAT net. However, given the Excise Department's concerns regarding the beedi data and the absence of a comprehensive, recognized consumption study, the scale of any associated beedi-related excise and VAT losses should not be quantified without a stronger evidence base. These spillovers reinforce the need to treat excise controls as part of the broader revenue administration agenda, including information exchange with IRD and SLC, reconciliation of production and sales data, and targeted action against high-risk supply chains.

96. Resident officer controls should be replaced gradually by proportionate systems-based controls as RASSED becomes operational. SLE has advised that two liquor manufacturing facilities are currently fully automated, while effective automation of the remaining facilities will depend on the operationalization of the RASSED Project. Resident officers stationed at producer premises are resource-intensive and can become routine, reducing their effectiveness as a control mechanism over time. They may also create familiarity and discretion risks if officer presence substitutes for documented reconciliation, independent verification, and supervisory review. At the same time, a considerable number of manufacturers continue to use traditional production methods. Any future automation initiative should therefore be carefully designed and phased so that it preserves and safeguards legitimate traditional manufacturing practices while achieving the intended regulatory, monitoring, and revenue-control objectives. Resident officers may continue to have a transitional or targeted role at higher-risk premises until suitable RASSED-enabled controls are operational. As RASSED modules are launched, SLE should progressively expand automated reconciliation of production, removals, payments, and stamp use; exception reporting; risk-based visits; targeted audits; and market surveillance, with requirements calibrated to the scale, production methods, and risk profile of each manufacturer. This would allow staff to focus increasingly on higher-value work involving illicit alcohol, beedi controls, market inspections, intelligence-led enforcement, and follow-up of high-risk producers and supply chains.

C. Excise Priorities for the MTRS

97. First, SLE should close urgent operational risks that directly affect revenue protection. Immediate priorities should include completing the security-sticker procurement and transition, obtaining CERT approval and operationalizing the Sticker Management Mobile Application, introducing an Export Security Sticker with appropriate safeguards, adopting an annual operating plan with key performance indicators (KPIs), reallocating staff toward revenue risks, strengthening licensing and domestic producer controls, improving sticker verification, and intensifying market surveillance. The operating plan should distinguish revenue-generating and non-revenue activities, assign responsibilities to headquarters and field offices, and require regular management review of performance against targets.

98. Second, RASED should become the central bridge from current manual controls to a proportionate systems-based excise operating model. RASED should be implemented as a control, reconciliation, and management-information platform, not only as an information technology system. Each module should include reporting, reconciliation, exception-detection, and management-dashboard functions from the outset. Priority should be given to licensing, production, movement of goods, returns, payments, stamp application and verification, relevant import information supplied by SLC, enforcement, reporting, and management review. SLE has advised that two liquor manufacturing facilities are already fully automated and that effective automation of the remaining facilities will depend on the operationalization of RASED. The rollout should therefore be supported by business process redesign, staff training, data-quality controls, and a phased roadmap for expanding systems-based risk controls as modules become operational. Because many manufacturers continue to use traditional production methods, automation requirements should be risk-based and appropriately tailored so that legitimate traditional manufacturing practices are preserved and safeguarded while regulatory, monitoring, and revenue-control objectives are achieved.

99. Third, SLE should implement targeted alcohol and beedi compliance strategies within its statutory mandate, supported by coordinated action with SLC and other relevant agencies. The alcohol strategy should map and treat the main illicit domestic supply chains, including untaxed removals from licensed producers, unlicensed production, and diversion from legal channels. With respect to imported alcohol and other border-related measures, SLE has advised that these matters fall within the statutory responsibility of SLC and that SLE does not possess the necessary legal authority to implement or enforce them. Accordingly, controls over imported alcohol and other measures requiring action at the border should be led and enforced by SLC, with appropriate information sharing and operational coordination with SLE. The beedi strategy should be grounded in the SLE's verified data and should focus on licensed manufacturers, under-declaration, unlicensed production, and nationwide distribution risks. It should also support timely implementation of the measures identified by the Department: establishing the proposed Reward Fund under the Tobacco Tax Act to strengthen joint enforcement against illicit tendu leaves; assessing and introducing an effective security sticker system for beedi products; operationalizing and monitoring the new invoice system for supplies to retail traders; and regulating the quantities of both tendu leaves and tobacco used in production. Measures relating to the detection, seizure, and prevention of illegally imported tendu leaves should likewise be undertaken by the agencies possessing the relevant statutory powers, led by SLC at the border, with SLE contributing within its legal mandate. Both strategies should define risk indicators, intelligence sources, agency-specific responsibilities, information-sharing arrangements, treatment actions, and measurable outcomes, including improved declarations, traceability, seizures, assessments, and compliance trends.

100. Fourth, the authorities should review the institutional model for excise administration over the medium term. The current allocation of excise responsibilities creates duplication, weakens accountability, and leaves control gaps where SLE and SLC both have roles in tobacco, alcohol imports, and related supply chains. A time-bound review should assess whether closer integration with Sri Lanka Customs, including a possible Customs and Excise model, would strengthen accountability, reduce duplication, improve control over supply chains, and support more consistent treatment of imported and domestically produced excise goods. The review should consider governance, staffing, systems, data sharing, legal requirements, and transition arrangements. Any institutional change should follow a clear implementation plan and should not delay immediate action to strengthen alcohol, beedi, stamp, RASED, and market controls.

101. Fifth, sequencing should clearly distinguish immediate revenue-protection actions from the medium-term shift to a systems-based excise model. In the first 12–24 months, SLE should complete the security-sticker transition and related verification arrangements; launch priority RASED modules with reporting, reconciliation, and exception-management functions; adopt an annual operating plan with KPIs; reallocate staff toward revenue risks; implement domestic alcohol and beedi compliance strategies within its statutory mandate; procure the proposed independent study of the illicit alcohol market; and support information sharing and coordinated action with SLC on border-related risks. Border controls, including measures relating to imported alcohol and illicitly imported tendu leaves, should be led and enforced by SLC and other agencies possessing the relevant statutory powers. Over the full MTRS period, these actions should be consolidated into a systems-based excise operating model in which RASED links licensing, domestic production, movement, payments, sticker verification, market inspections, enforcement, and management reporting. Institutional reform options should be assessed in parallel but should not delay immediate operational controls.

Annex I. High-Level MTRS Matrix by Revenue Department

Cross-Cutting Revenue Administration Initiatives

Strategic objective	Build a whole-of-revenue operating model linking IRD, SLC, and SLE through shared data, coordinated risk management, legal enablers, stronger governance, and accountability for MTRS delivery.
Immediate priorities: 12–24 months	<ul style="list-style-type: none"> Establish reform governance with clear accountability, escalation, monitoring, and reporting across MoF, IRD, SLC, and SLE. Create a common information-sharing framework covering data quality, access, security, legal gateways, exchange protocols, and permitted use. Adopt a common CRM/IRM framework covering risk registers, CIPs, treatments, governance routines, feedback loops, and effectiveness measurement. Identify shared risks, including BOI/SEZ leakage, VAT/import mismatches, valuation and transfer pricing, alcohol, tobacco, beedis, AML, and high-risk taxpayers or traders. Compile a prioritized tax policy and legal reform inventory covering policy-administration readiness, digital administration, information exchange, risk-based treatment, penalties, arrears, enforcement, and taxpayer rights.
Medium-term direction	<ul style="list-style-type: none"> Institutionalize a whole-of-revenue compliance cycle covering tax, customs, excise, enforcement, facilitation, and service. Build integrated data architecture for cross-agency analytics, automated monitoring, reporting, and coordinated risk treatment. Formalize joint compliance programs and procedures for shared risks and overlapping taxpayer or trader populations. Link agency KPIs, senior management reviews, financing, procurement, and change management to MTRS outcomes.
Enablers	Central ownership; sustained agency leadership; legal authority for data sharing and digital administration; interoperable systems; realistic workforce and financing plans; procurement flexibility; and coordination among MoF, IRD, SLC, SLE, BOI, FIU, and other agencies.
Performance signals	<ul style="list-style-type: none"> MTRS reports reviewed by senior leadership. Data-sharing arrangements used in compliance work. Cross-agency risk registers and treatment plans prepared. Joint compliance actions launched and results tracked. Common dashboards, legal priorities, workforce plans, and investment needs agreed.

Inland Revenue Department

Strategic objective	Move IRD from project-based reform to a data-driven, risk-based operating model that secures revenue gains, strengthens voluntary compliance, and supports VAT, income tax, and MTRS reforms.
Immediate priorities: 12–24 months	<ul style="list-style-type: none"> Secure RAMIS continuity before January 2027 through vendor transition, knowledge transfer, system access, contingency planning, and a credible support model. Complete VAT and CIT register cleanup and resolve server constraints affecting IIT registry cleansing. Strengthen filing, payment, employer withholding, and medium-taxpayer compliance follow-up. Apply penalties consistently through a clear penalty, escalation, remission, and monitoring framework. Introduce risk-based arrears management and embed CRM routines across audit, enforcement, service, arrears, penalties, and feedback loops. Prepare operationally for VAT refunds, VAT threshold reform, and e-invoicing.
Medium-term direction	<ul style="list-style-type: none"> Build data warehouse and business intelligence capability for segmentation, risk analysis, case selection, reconciliation, and performance monitoring. Institutionalize CRM across registration, filing, payment, reporting, audit, arrears, enforcement, refunds, and taxpayer service. Develop sector- and segment-based CIPs for large, medium, VAT, income tax, employer withholding, HWI, and refund risks. Strengthen digital service delivery and contribute to modern tax administration procedures.
Enablers	RAMIS continuity; server capacity; data warehouse procurement; analytical tools; IT governance; CRM, audit, arrears, analytics, service, communications, procurement, and change-management capacity; and close MoF coordination.
Performance signals	<ul style="list-style-type: none"> Higher on-time filing and payment rates for VAT, CIT, PIT/IIT, and employer withholding. Lower non-filing and late filing outside the LTO. Arrears segmented by age, dispute status, collectability, and recovery action. More audits selected through risk-based methods. Regular management reports on filing, payment, arrears, audit, penalties, refunds, and treatment results.

Customs Department

Strategic objective	Move SLC from a transaction- and inspection-heavy model to a data-driven, integrated risk-management customs administration that protects revenue, facilitates compliant trade, and strengthens control over high-risk regimes.
Immediate priorities: 12–24 months	<ul style="list-style-type: none"> Operationalize ARMS, the data warehouse, Power BI dashboards, ASYHUB, CDNS, and paperless processing as tools for risk targeting and management control. Adopt IRM as SLC's core operating model, with clear risk governance, senior ownership, regular risk review, and a customs compliance improvement plan. Reduce low-yield inspections and feed inspection results into ARMS, trader profiles, valuation controls, and treatment strategies. Develop PCA as a central compliance-management function, with stronger selection, fieldwork, reporting, revenue quantification, and feedback loops. Activate BOI/SEZ customs control and implement the BOI MOU, including imports, exports, inventory, movements, and enforcement follow-up. Accelerate paperless processing, close the physical long room, and strengthen trader and broker communication.
Medium-term direction	<ul style="list-style-type: none"> Institutionalize IRM across selectivity, trader segmentation, valuation, classification, origin, PCA, AEO, BOI/SEZ oversight, enforcement, integrity, and service. Maintain analytics capability for automated risk rules, dashboards, performance monitoring, and continuous risk refinement. Scale up trusted-trader facilitation while maintaining post-clearance assurance and timely enforcement for high-risk cases. Formalize joint IRD-SLC programs for valuation, transfer pricing, VAT/import mismatches, income tax risks, phoenix companies, and high-risk trader behavior.
Enablers	Sustained use of ARMS, ASYHUB, CDNS, data warehouse, and paperless processing; customs law amendments; skills in analytics, valuation, PCA, AEO, AML, integrity, BOI/SEZ control, and digital systems; trader engagement; and inter-agency information exchange.
Performance signals	<ul style="list-style-type: none"> Lower inspection rates with better targeting and documented revenue or compliance results. PCA cases selected, completed, quantified, and fed back into ARMS and trader profiles. Paperless processing expanded and the physical long room closed. BOI/SEZ imports, exports, inventory, movements, and enforcement actions under customs control. AEO, trader segmentation, and dashboards used to differentiate facilitation and control.

Excise Department

Strategic objective	Move SLE from manual, resident-officer, and fragmented controls to a systems-based excise model that protects domestic alcohol, beedi, sticker, licensing, and market-revenue risks within its statutory mandate, while strengthening coordination with SLC and other agencies responsible for border controls over excise supply chains.
Immediate priorities: 12–24 months	<ul style="list-style-type: none"> ▪ Complete the security-sticker procurement and transition before January 2027, obtain CERT approval and operationalize the Sticker Management Mobile Application, introduce an Export Security Sticker with appropriate safeguards, and manage producer communication, equipment installation, and contingency planning. ▪ Launch priority RASED modules with reporting, reconciliation, exception management, and dashboard functions. ▪ Adopt an annual operating plan with KPIs, distinguish revenue and non-revenue activities, and reallocate staff toward revenue risks. ▪ Strengthen verification of security stickers on domestically produced alcohol, including beer, and establish clear information-sharing and coordination arrangements with SLC for verification and enforcement relating to imported products. ▪ Implement domestic alcohol and beedi compliance strategies within SLE's statutory mandate, covering licensed producers, unlicensed production, under-declaration, nationwide distribution, market surveillance, the proposed Reward Fund, beedi security stickers, retail invoice traceability, and controls over tendu-leaf and tobacco inputs; procure an independent, scientifically validated study of the illicit alcohol market; and coordinate with SLC and other authorized agencies on imported alcohol and illicit tendu-leaf border risks. ▪ Improve reconciliation of production, removals, payments, stamp use, returns, market inspection results, and relevant import information supplied by SLC.
Medium-term direction	<ul style="list-style-type: none"> ▪ Use RASED as the core platform for licensing, domestic production, movements, payments, stamps, market inspections, enforcement, reconciliation, reporting, and analysis of relevant import information supplied by SLC. ▪ Institutionalize CRM across excise licensing, domestic production, removals, duty payment, stamp verification, market surveillance, enforcement, and use of relevant import information supplied by SLC. ▪ As RASED becomes operational, progressively replace routine resident officer controls with proportionate systems-based controls—including automated reconciliation, exception reports, targeted audits, risk-based visits, and market surveillance—while tailoring automation to manufacturers' scale, production methods, and risk profiles and safeguarding legitimate traditional manufacturing practices. ▪ Coordinate with SLC, IRD, and other authorized agencies on cross-agency risk treatments for imported alcohol, illicit tendu leaves, tobacco risks, VAT spillovers, and other illicit supply chains, with border enforcement led by SLC. ▪ Review the excise institutional model, including closer integration with SLC or a Customs and Excise model, without delaying operational controls.
Enablers	RASED delivery and data quality; stamp transition planning; headquarters oversight; CRM, analytics, licensing, production, stamp, enforcement, AML,

	integrity, and systems capacity; legal authority for data sharing and systems-based control; coordination with SLC, IRD, BOI, FIU, and enforcement agencies; and sustainable financing.
Performance signals	<ul style="list-style-type: none"> ▪ RASSED modules launched with usable reporting, reconciliation, exception, and dashboard functions. ▪ Stamp transition completed without disruption to control or revenue collection. ▪ Alcohol and beedi production, removals, payments, and stamp use routinely reconciled. ▪ Domestic alcohol and beedi strategies implemented with tracked results; independent illicit-market research procured; and coordinated SLC-led action on imported alcohol and other border risks documented. ▪ Resident officer controls reduced and replaced by documented systems-based controls.