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உள்நாட்டு இறைவரித் திணைக்களம்
INLAND REVENUE DEPARTMENT

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செயலகம்
14 வது மாடி
உள்நாட்டு இறைவரிக் கட்டிடம்
சேர் சிற்றம்பலம் ஏ காடினர் மாவத்தை
த.பெ.இல. 515, கொழும்பு - 2, இலங்கை

Secretariat
14th Floor
Inland Revenue Building
Sir Chittampalam A Gardiner Mawatha
P.O. 515, Colombo 2 - Sri Lanka

ෆැක්ස් / பக்ஸ் / Fax - 011 - 2338635

දුරකථන / தொலைபேசி / Telephone - 011- 2135300/ 2135410/ 2135412 / 2135413

E-Mail –tpl@ird.gov.lk / itp@ird.gov.lk
Web: www.ird.gov.lk

Circular No: SEC/2026/E/06 (Revised) **August 06th 2026**

Circular to Taxpayers

Circular on Calculating Quarterly Income Tax Instalments (Section 90 of the Inland Revenue Act, No. 24 of 2017 (as amended))

Applicable Period: Year of Assessment 2026/2027 and subsequent years of assessment

This revised circular amending the circular No. SEC/2026/E06 dated August 3rd, 2026 specifies the method for the computation of quarterly instalment payable amount along with the related procedures applicable to the year of assessment 2026/2027 and subsequent years of assessment. It has been issued in compliance with subsection (3) of Section 90 of the Inland Revenue Act, No. 24 of 2017 (as amended).

Changes made to the original circular are noted in *italic text.*

Payment instructions will be separately provided as an assistance for the taxpayers.

1. Statutory Due Dates & Formula

According to the Section 90 of the Inland Revenue Act, No 24 of 2017, an instalment payers shall pay quarterly instalments of tax for the year of assessment on or before the -

- **1st Instalment**: On or before August 15th of the Year of Assessment
- **2nd Instalment**: On or before November 15th of the Year of Assessment
- **3rd Instalment**: On or before February 15th of the Year of Assessment
- **4th Instalment**: On or before May 15th of the next succeeding Year of Assessment

The Calculation Formula

Following formula is applicable in calculating the amount of income tax payable for each installment by a person as provided in Section 90(3) of the Inland Revenue Act, No. 24 of 2017 as amended by the Inland Revenue (Amendment) Act, No. 11 of 2026.

$$\frac{A - C}{B}$$

Where,

A = the amount of tax payable by the person on the taxable income (gross income tax payable before deducting any tax credit) for the immediately preceding year of assessment

B = Number of Instalments Remaining for the Year of Assessment including Current Instalment. Accordingly,

- 1st Instalment: B= 4
- 2nd Instalment: B=3
- 3rd Instalment: B=2
- 4th Instalment: B=1

C = the total of tax paid during the year of assessment, prior to the due date of the instalment. This includes previous instalment payments, Withholding Tax (WHT) / Advance Income Tax (AIT) credits already withheld or to be withheld..

2. Methodology for Determining Component "A"

Methods for the calculating "A" in the above formula in different circumstances are discussed here.

Method 1: Standard Basis (Taxpayers with Preceding Taxable Income)

For all taxpayers **"A"** is the amount of tax payable by such taxpayer with respect to the **taxable income in the immediately preceding year of assessment**. For an example, if the calculation of "A" is for the year of assessment 2026/2027, then the immediately preceding year of assessment is the year of assessment 2025/2026 and the tax payable is the amount calculated by applying applicable tax rates to the taxable income for the year of assessment 2025/2026.

Example 1: Mr. X is running a hardware shop. His assessable income for the year of assessment 2025/2026 is Rs. 3,800,000.

Accordingly, his gross income tax liability of the year of assessment 2025/2026 is as follows.

	Rs.
Total Assessable Income	3,800,000
Less: Personal Relief	(1,800,000)
Taxable Income	**2,000,000**

Gross Income Tax Payable First Rs. 1,000,000 @ 6% = 60,000 Next Rs. 500,000 @ 18% = 90,000 Next Rs. 500,000 @ 24% = 120,000 Total Gross Tax = 270,000	

Therefore, 'A' in the above formula amounts to Rs. 270,000. If no withholding tax credits are available to him for the year of assessment 2026/2027, his first quarterly installment payment will be as follows.

$$\frac{A - C}{B} \qquad \frac{270{,}000 - 0}{4} = \text{Rs. } 67{,}500$$

Therefore, Mr. X should pay Rs. 67,500 as the first quarterly installment for the year of assessment 2026/2027, on or before August 15, 2026.

Example 2: The following is the tax computation of Liqor (Pvt) Ltd for the year of assessment 2025/2026. The company has engaged in manufacturing liquor for the local market.

	Rs. '000
Business Income – from sale of manufactured liquor	1,650,000
Investment Income	6,000
Total Assessable Income	1,656,000
Less: Qualifying Payment	(3,000)
Taxable Income	**1,653,000**
Gross Income Tax Payable On gains and Profit from manufacturing and sale of liquor Products = 1,647,000 @ 45% =741,150 On investment income 6,000 @ 30% = 1,800 Total Gross Tax = 742,950	

Accordingly, for the year of assessment 2026/2027, 'A' in the above formula amounts to Rs. 742,950,000. If withholding tax (or Advance Income Tax – AIT) credits available to the company for the year of assessment 2026/2027 amount to Rs. 880,000, the first quarterly installment payment will be as follows.

$$\frac{A - C}{B} \qquad \frac{742{,}950{,}000 - 880{,}000}{4} = \text{Rs. } 185{,}517{,}500$$

Therefore, Liquor (Pvt) Ltd should pay Rs. 185,517,500 as the first quarterly installment for the year of assessment 2026/2027, on or before August 15, 2026.

Compliance Note:

1. No documentation needs to be filed with the Commissioner-General for payments made under this standard basis.
2. Any under payment, late payment or no payment will attract an interest and penalty on basis of these standard calculations.
3. If you are eligible to use the standard method to calculate your quarterly installments, you **cannot** use the alternative methods outlined below.

Method 2: Alternative Bases (No Income / Lower Expected Income)

The alternative methods are strictly reserved for taxpayers who meet either of the following conditions:

- **No prior tax liability:** You had no taxable income in the immediately preceding year of assessment.
- **Lower expected income:** You reasonably expect your taxable income for the current year of assessment to be lower than the previous year of assessment.

i. No Preceding Taxable Income & No Current Assessable Income Expected

If a taxpayer has no taxable income for the preceding year of assessment and expects no current assessable income (e.g., due to heavy deductible tax losses), **"A" is considered Zero (0).**

- *Requirement:* No instalment payment is due, but the taxpayer **must submit a statement** as specified in **Attachment 1**.

ii. No Preceding Taxable Income but Current Assessable Income is Expected

Where a person has no taxable income for the immediately preceding year of assessment but expects to have assessable income for the current year of assessment either due to the absence or reduction of deductible losses from previous years (as permitted under the Inland Revenue Act), or due to tax exemptions that applied in the immediately preceding year of assessment but will not apply in the current year of assessment, the gross income tax for the current year of assessment shall be estimated. In such cases, the tax payable for the current year of assessment should be estimated based on the figures for immediately preceding year of assessment, with 'A' of the formula calculated by applying all taxing rules and the income tax rates specified in the First Schedule to the IR Act to the taxable income of immediately preceding year of assessment, disregarding any losses deducted or tax exemptions applied in that year, as applicable. **These persons are required to submit a statement as specified in Attachment 1.**

Example 3: **[(Expiring Losses - ABC (Pvt) Ltd.]:**
The following is the tax computation of ABC (Pvt) Ltd for the year of assessment (Y/A) 2025/2026. The company engages in manufacturing biscuits for the local market. As at the end

of the year of assessment 2024/2025, the company had unrelieved losses of Rs. 526,000 carried forward to the next year of assessment. These losses were incurred during the year of assessment 2022/2023 and are allowable to be deducted under the provisions of the Inland Revenue Act.

The tax computation of the Y/A 2025/2026 is given below.

	Rs. '000
Business Income of the Year of Assessment prior to the deduction of tax losses brought forward	490,000
Less: B/F Business Loss setoff	(490,000)
Investment Income	12,000
Less: Business Loss setoff	(12,000)
Total Assessable Income	NIL
Business Loss Carried Forward to the Y/A 2026/2027 [526,000 – (490,000 +12,000)] =	**24,000**

Calculation of gross income tax liability for the year of assessment 2026/2027, based on the amounts of 2025/2026 is as follows.

	Rs. '000
Business Income of the Y/A 2025/2026 prior to the deduction of tax losses brought forward	490,000
Less: Business Loss B/F and available to set off in Y/A 2026/2027	(24,000)
Business Income	466,000
Investment Income	12,000
Total Assessable Income	478,000
Taxable Income	**478,000**
Gross Income Tax Payable 478,000 @ 30% = 143,400 Total Gross Tax = 143,400	

Accordingly, 'A' in the above formula amounts to Rs. 143,400,000. If withholding tax (or Advance Income Tax – AIT) credits available to the company for the year of assessment 2026/2027 amount to Rs. 1,200,000, the first quarterly installment payment will be as follows.

$$\frac{A - C}{B} \qquad \frac{143,400,000 - 1,200,000}{4} = \text{Rs. } 35,550,000$$

Therefore, ABC (Pvt) Ltd should pay Rs. 35,550,000 as the first quarterly installment for the year of assessment 2026/2027, on or before August 15, 2026.

Example 4: (Expiring BOI Exemption - XYZ Pvt Ltd):
The following is the tax computation of XYZ (Pvt) Ltd for the year of assessment 2025/2026. The company is exempted from income tax, as per the Agreement entered with Board of Investment Sri Lanka up to the year of assessment 2025/2026.

	Rs. '000
Exempt Amounts (BOI Exemption)– Gains and profit from development of software for the Foreign Market (foreign currency received to the bank)	44,000
Total Assessable Income	NIL
Taxable Income	NIL

Estimation of gross income tax liability for the year of assessment 2026/2027, based on the amounts of 2025/2026 is as follows.

	Rs. '000
Business Income– Gains and profit from development of software for the Foreign Market (foreign currency received to the bank)	44,000
Total Assessable Income	44,000
Taxable Income	**44,000**
Gross Income Tax Payable 44,000 @ 15% = 6,600 Total Gross Tax = 6,600	

Accordingly, 'A' in the above formula amounts to Rs.6,600,000. The first quarterly installment payment will be as follows.

$$\frac{A - C}{B} \qquad \frac{6,600,000 - 0}{4} = \text{Rs. } 1,650,000$$

Therefore, XYZ (Pvt) Ltd should pay Rs. 1,650,000 as the first quarterly installment for the year of assessment 2026/2027, on or before August 15, 2026.

iii. Previous Income Existed but Significant Reduction is Expected in the Current Year of Assessment

Where a person has assessable income for the previous year of assessment and expects to derive a lower amount of assessable income for the current year of assessment (due to reasons such as a significant decline in business, an increase in expenditure or reduction of investment during the current year of assessment) such persons may recalculate the income tax payable for the previous year of assessment by excluding the gains or profits from business or investment activities that are not expected to arise in the current year of assessment. **These persons are required to submit a statement as specified in *Attachment 1*, along with supporting *details (calculations)* to prove the loss of business or investments.**
* *Where a person expects to have no taxable income for the current year of assessment due to losses or any other allowable deductions, the person shall declare that status in the statement set out in paragraph 8.2 of Attachment 1.*

Example 5 (Reduction of Revenue - UVW Pvt Ltd):
The following is the tax computation of UVW (Pvt) Ltd for the year of assessment 2025/2026. During the year of assessment, company lost business operations done with major DDD (Pvt) Ltd. 42% of business revenue generated from that company during the year of assessment 2025/2026. However, new customer added to the company business and estimated that 15% of previous sales amount can be made with that new customer. Further, company has withdrawn two fixed deposits which generated 80% of interest income.

Computation of 2025/2026 income tax liability is as follows

	Rs. '000
Business Income of the Year of Assessment	636,000
Less: B/F Business Loss setoff	(42,000)
Investment Income	26,500
Total Assessable Income	620,500
Taxable Income	**620,500**
Gross Income Tax Payable , 620,500 @ 30% = 186,150 **Total Gross Tax = 186,150**	

Estimation of gross income tax liability for the year of assessment 2026/2027, based on the amounts of 2025/2026 is as follows.

	Rs. '000
Business Income of the Year of Assessment (Adjusted net business reduction of 27%)	464,280

Less: B/F Business Loss setoff	(42,000)
Investment Income (Adjusted net business reduction of 80%)	5,300
Total Assessable Income (re-assessed)	427,580
Taxable Income	**427,580**
Gross Income Tax Payable 427,580 @ 30% = 128,274 **Total Gross Tax** = **128,274**	

Accordingly, 'A' in the above formula amounts to Rs. 128,274,000. If withholding tax (or Advance Income Tax – AIT) credits are not available to the company for the year of assessment 2026/2027, the first quarterly installment payment will be as follows.

$$\frac{A - C}{B} \qquad \frac{128{,}274{,}000 - 0}{4} = \text{Rs. } 320{,}685{,}000$$

Therefore, UVW (Pvt) Ltd should pay Rs. 320,685,000 as the first quarterly installment for the year of assessment 2026/2027, on or before August 15, 2026.

iv. Newly Registered Taxpayers

Since these persons may not have tax computation for the previous year of assessment, they must calculate their taxable income by estimating it for the current year of assessment. Applicable tax provisions and rates are also should be applied for the current year of assessment. This specification applies only one year of assessment for a particular taxpayer. For subsequent years of assessment, above specified appropriate procedure should be applied. **These individuals are also required to submit a statement as specified in Attachment 2**.

Method 3: Taxpayers Unable to Estimate

If a taxpayer is practically unable to calculate "A" under the alternative bases of item ii or iii, *(due to unusual circumstances)* they shall submit a written request outlining their valid restrictions to the **Commissioner – Tax Policy and Legislation Unit** (on behalf of the Commissioner General) seeking for another reasonable alternative method.

3. General Administrative Rules & Special Clarifications

1. Credit Schedules (with respect to "C" of the Formula)

The above specifications relate solely to the calculation of amount "A" in the formula. As components "B" and "C" remain unchanged, you are advised to file a credit schedule in the specified format. *The credit schedule shall be submitted to Central Document Management Unit (CDMU), Regional or Metro Office on or before the last day of the relevant month in which the quarterly instalment is due (i.e., 31 August, 30 November, 28 or 29 February, and 31 May).*

2. Employment Income Exemptions (APIT/AIT):
According to the provisions of the IR Act, when calculating the tax payable by an instalment payer, any Advance Personal Income Tax (APIT) or Advance Income Tax (AIT) deducted or expected to be deducted by the employer for the year of assessment may be subtracted before applying the formula referred to above.

i. Therefore, if **an individual derives income solely** from the employment and that income is subject to APIT, there is no requirement to make quarterly instalment payments, and the credit schedule mentioned above is also not required.

ii. if an individual receives **employment income** as described above, **along with rent or interest income** that is subject to Advance Income Tax (AIT), and the AIT deducted on such rent or interest payments is sufficient to cover the remaining income tax liability for the current year of assessment, that individual is also not required to make quarterly instalment payments or submit the credit schedule.

This specification applies to employees whose APIT is being calculated and paid using APIT Table 8.

Example 6
Mrs. P's income details for the Year of Assessment 2025/2026 and her projected income details for the Year of Assessment 2026/2027 are as follows:

	2025/2026	*2026/2027 (projected)*
Employment Income	*5,000,000*	*5,800,000*
Interest Income	*1,000,000*	*900,000*
Total Assessable Income	*6,000,000*	*6,700,000*
Less: Personal Relief	*1,800,000*	*1,800,000*
Taxable Income	*4,200,000*	*4,900,000*
Gross Income Tax Payable	*First Rs. 1,000,000 @ 6% = 60,000* *Next Rs. 500,000 @ 18% = 90,000* *Next Rs. 500,000 @ 24% = 120,000* *Next Rs. 500,000 @ 30% = 150,000* *Balance Rs.1,700,000 @ 36% =612,000* *Total Gross Tax = 1,032,000*	

Accordingly, the value of 'A' in the above formula is Rs. 1,032,000. As the APIT credit of Rs. 960,000 and the AIT credit of Rs. 90,000 (APIT and AIT already deducted and to be deducted during the year of assessment) available to Mrs. P for the Year of Assessment 2026/2027 amount to a total of Rs. 1,050,000, she is not required to make any quarterly instalment payments.

3. Foreign Tax Credits

When estimating tax payable for a year of assessment on taxable income ("A" in the above referred formula), a person may take in to consideration a foreign tax credit available under section 80 of the IR Act. However, foreign income tax can only be considered if it has already been paid or is reasonably expected to be paid during the year.

4. Alternative Accounting Periods

If a person prepares accounts based on an alternative 12-month period for computing income tax for a given year of assessment, with the approval of the Commissioner General, the above specifications will still apply without any change.

5. Submission Deadline

Attachments required under this circular shall be submitted to the CDMU, Metro or the relevant Regional Office on or before 15 August of the year in which the first income tax installment is due.

6. Mid-Year Revision Requests

A taxpayer who has been paying quarterly instalments under Method 1 (Standard Basis) of this Circular may, on or before the last day of the month preceding the relevant quarterly instalment due date (i.e., 31 October, 31 January, or 30 April), inform a revision to the basis of calculation if the projected taxable income for the current year of assessment is lower than that of the preceding year. The request must be submitted to CDMU, together with supporting information, on or before the applicable deadline and the taxpayer may adopt either Method 2 or Method 3, as applicable.

Rukdevi P.H. Fernando
Commissioner General of Inland Revenue

Rukdevi P.H. Fernando
Commissioner General of Inland Revenue
Inland Revenue Department
Sir Chittampalam A. Gardiner Mawatha
Colombo 02.

Attachment 1

Form No. SEC/2026/SA/01

For office use only

Serial number	Unit /RO	Officer

Declaration of Tax Amount Payable / Not Payable in Installments
Year of Assessment: …………………….

1. **Name of the Taxpayer:**……………………………………………………………………………

2. **TIN:** …………………………………………………………………………………………

3. **Address:** ……………………………………………………………………………………

……………………………………………………………………………………………………

4. **Type of the Taxpayer**: Individual / Partnership/ Company (incorporated in or outside Sri Lanka) / Public Corporation/ Trust / Unit Trust or Mutual Fund/ Charitable Institution/ Non-Governmental Organization/ Employees Trust Fund / Employees Provident Fund / Pension Fund/ Employees Termination Fund/ Employees Gratuity Fund/ Other Fund /Other (Please specify)…………………………………………

5. **Whether Resident or Non Resident for the Relevant Year of Assessment:**

……………………………………………………………………………………………………

6. **Brought Forward Unrelieved Losses (Rs.)**

Year of Assessment	Business Losses	Investment Losses	Total

7. Income Tax Exemptions Claimed During the Previous Year/s of Assessment with Amounts (Rs.)

……………………………………………………………………………………………….

……………………………………………………………………………………………….

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……………………………………………………………………………………………….

(Explain the exemption/s together with applicable law/agreement details)

8. 8.1 Estimated Assessable Income during the Year of Assessment (After the deduction of losses) ** In the event of any loss adjustment, a separate computation must be attached. **Rs.**

Year of Assessment	Employment Income	Business Income	Investment Income	Other Income	Total
Taxable Income					
Gross Tax Payable					

8.2 Estimated losses/*deductions* during the Year of Assessment (if no assessable income)

Rs.

Year of Assessment	Business Loss	Investment Loss	***Deductions*** *(Ex: Qualifying Payments)*	Total

**** Attach calculation details for estimated losses during the year of assessment.**

9. Declaration

I declare to the best of my knowledge and belief that all particulars furnished in this form are accurate and complete. I am aware that making an incorrect or false statement or giving false information is an offence.

Full Name of the Declarant: ……………………………………………………………………

……………………………………………………………………………………………….

Designation: ………………………………………………………………………………

(Individual/Partner/Managing Director/Director/Secretary/Principal Officer/Duly Authorized Agent)

Telephone Number: Office ……………………………… Mobile: …………………………...

E-mail : …………………………………………………………

Signature: Official Frank

NIC Number/ Passport Number:

Attachment 2

Form No. SEC/2026/SA/02

For office use only

Serial number	Unit /RO	Officer

Declaration of Tax Amount Payable / Not Payable in Installments
Year of Assessment:

1. **Name of the Taxpayer:** ………………………………………………………………

…………………………………………………………………………………………….....

2. **TIN:** …………………………………………………………………………………..…

3. **Address:** ………………………………………………………………...…………

…………………………………………………………………………………………..…

4. **Type of the Taxpayer**: Individual / Partnership/ Company (incorporated in or outside Sri Lanka) / Public Corporation/ Trust / Unit Trust or Mutual Fund/ Charitable Institution/ Non-Governmental Organization/ Employees Trust Fund / Employees Provident Fund / Pension Fund/ Employees Termination Fund/ Employees Gratuity Fund/ Other Fund /Other (Please specify)………………………………………………

5. **Whether Resident or Non Resident for the Relevant Year of Assessment**:

…………………………………………………………………………………………

6. **6.1 Estimated Assessable Income during the Year of Assessment (After the deduction of losses) ** In the event of any loss adjustment, a separate computation must be attached.** **Rs.**

Year of Assessment	**Employment Income**	**Business Income**	**Investment Income**	**Other Income**	**Total**
Taxable Income					
Gross Tax Payable					

6.2 Estimated loss during the Year of Assessment (if no assessable income)

Rs.

Year of Assessment	**Business Loss**	**Investment Loss**	**Total**

**** Attach calculation details for estimated losses during the year of assessment.**

7. Declaration

I declare to the best of my knowledge and belief that all particulars furnished in this form are accurate and complete. I am aware that making an incorrect or false statement or giving false information is an offence.

Full Name of the Declarant: ………………………………………………………………………
…………………………………………………………………………………………………..

Designation: ……………………………………………………………………………………
(Individual/Partner/Managing Director/Director/Secretary/Principal Officer/Duly Authorized Agent)

Telephone Number: Office …………………………… Mobile: …………………………...

E-mail : ……………………………………………………

Signature: Official Frank

NIC Number/ Passport Number: