Capital Gains Tax in Sri Lanka – A Simple Guide for Property Owners and Investors

What is Capital Gains Tax?

Capital Gains Tax (CGT) is a tax charged on the **profit you make when you sell or transfer certain investment assets**. It is important to note that the tax is **not charged on the full selling price**, but only on the gain (profit) you make.

For example, if you bought a property for **LKR 10 million** and later sold it for **LKR 15 million**, your capital gain would generally be **LKR 5 million** (before considering any allowable costs). It is this gain that may be subject to Capital Gains Tax.

Capital Gains Tax is governed by the **Inland Revenue Act, No. 24 of 2017**, as amended.

Which Assets Are Subject to Capital Gains Tax?

Capital Gains Tax generally applies when you dispose of investment assets such as:

- Land and buildings
- Shares in private companies
- Partnership interests
- Securities and certain financial assets
- Other capital investments

Whether a particular asset is taxable depends on the circumstances of the transaction and the provisions of the Inland Revenue Act.

What Does "Disposal" Mean?

Many people think Capital Gains Tax applies only when an asset is sold. In fact, the law uses the broader term **"realisation"**, which includes several types of transactions.

Examples include:

- Selling an asset
- Giving an asset as a gift
- Exchanging one asset for another
- Transferring ownership
- Receiving compensation when property is compulsorily acquired

• Certain other events where ownership or rights in the asset come to an end

This means that even if no money changes hands, a transaction could still have Capital Gains Tax consequences.

How Is the Capital Gain Calculated?

In simple terms:

Capital Gain = Selling Price – Cost of the Asset – Allowable Selling Expenses

Allowable expenses may include costs directly related to acquiring or disposing of the asset, such as legal fees, valuation fees, or brokerage charges, where permitted under the Inland Revenue Act.

Example

Purchase price: **LKR 12,000,000**

Selling price: **LKR 18,000,000**

Legal and selling expenses: **LKR 300,000**

Capital Gain:

LKR 18,000,000 − LKR 12,000,000 − LKR 300,000

= **LKR 5,700,000**

Only the gain of **LKR 5,700,000** is considered for Capital Gains Tax purposes.

What If I Owned the Property Before 30 September 2017?

The current Capital Gains Tax system was introduced from **1 October 2017**.

If you owned an investment asset on **30 September 2017**, the law generally allows you to use the **market value of the asset on that date** as its cost when calculating the gain. This means that any increase in value before the introduction of the current CGT regime is generally not taxed.

A professional valuation may be required to establish the market value as at 30 September 2017.

Are Any Assets Exempt?

Yes. Certain disposals are exempt from Capital Gains Tax.

Examples include:

Your Main Home

If you sell your principal place of residence, the gain may be exempt if the conditions set out in the Inland Revenue Act are satisfied.

Listed Shares

Gains from the sale of shares listed on the Colombo Stock Exchange are currently exempt from Capital Gains Tax.

As exemptions can change through future legislation, it is advisable to obtain professional advice before completing a transaction.

What Are the Current Tax Rates?

Following the amendments introduced in 2026, the current Capital Gains Tax rates are:

Taxpayer	Tax Rate
Individuals	15%
Partnerships	15%
Trusts	30%
Unit Trusts	30%
Non-Governmental Organisations	30%

Do I Need to File a Tax Return?

Yes. If you realise an investment asset that gives rise to a taxable capital gain, you are generally required to:

- Calculate the gain correctly.
- Submit the required Capital Gains Tax return.
- Pay the tax within the time limits specified by the Inland Revenue Department.

Late filing or payment may result in interest and penalties.

Keep Good Records

Good record-keeping can make calculating Capital Gains Tax much easier. Keep copies of:

- Purchase agreements
- Sale agreements
- Title deeds
- Valuation reports
- Legal fee invoices
- Brokerage statements
- Improvement and renovation costs
- Other documents relating to the acquisition or disposal of the asset

These records may be needed to support your tax calculation if requested by the Inland Revenue Department.

Before You Sell an Investment Asset

Before completing a sale or transfer, consider the following questions:

- Is the asset subject to Capital Gains Tax?
- Can I claim any exemptions?
- What is my cost for tax purposes?
- Do I need a professional valuation?
- Have I included all allowable expenses?
- What filing and payment deadlines apply?

Obtaining advice before finalising the transaction can help avoid unexpected tax liabilities and ensure compliance with the Inland Revenue Act.

Final Thoughts

Capital Gains Tax is an important part of Sri Lanka's tax system and should be considered whenever you sell or transfer an investment asset. While the calculation may appear straightforward, the applicable rules, exemptions, and documentation requirements can significantly affect the amount of tax payable.

If you are planning to sell property, transfer shares, or dispose of another investment asset, consulting a qualified tax adviser before completing the transaction can help you understand your obligations and make informed decisions.