E-ALERT: RE-ACTIVATION OF THE STRATEGIC DEVELOPMENT PROJECTS ACT 2008, AND THE 2026 PROJECT ELIGIBILITY CRITERIA & TAX CONCESSIONS REGULATIONS

Sudath Perera Associates

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INTRODUCTION

The Strategic Development Projects Act, No. 14 of 2008 (as amended) ("SDPA")[**1**] was introduced to promote 'Strategic Development Projects' and to provide tax-free periods in relation to such projects. Under the SDPA, a 'Strategic Development Project' is defined as a project which is in the national interest, is likely to bring economic and social benefits to the country and has the potential to transform the country's landscape. Such projects typically include those that:

a) involve the strategic provision of goods and services for the benefit of the public;

b) result in a substantial inflow of foreign exchange into the country;

c) generate significant employment and enhance income-earning opportunities; and

d) contribute to technological advancement.

The primary objective of the SDPA is to attract large-scale foreign direct investment and promote economic growth. However, incentives under the SDPA had been effectively suspended from around 2023, following the commencement of the country's International Monetary Fund (IMF)-led economic restructuring programme, which limited Sri Lanka's ability to attract such investment.

In the 2026 Budget, the government indicated that the SDPA would be reinforced to increase foreign direct investment inflows, alongside proposed amendments aimed at streamlining approval processes and enhancing transparency and supervision of projects. In line with this Budget proposal, the SDPA was amended by way of the SDPA (Amendment) Act No. 26 of 2025 (the "**SDPA (Amendment) Act**"), effective from December 2025.

[**1**] The Strategic Development Projects (Amendment) Act, No. 12 of 2011 and the Strategic Development Projects (Amendment) Act, No. 26 of 2025

The SDPA (Amendment) Act introduced several key changes, including amendments to the process for identifying 'Strategic Development Projects', the introduction of post-approval (ex-post) monitoring of such projects by the Board of Investment of Sri Lanka ("**BOI**"), and provisions relating to tax liability. Subsequently, the Extraordinary Gazette No. 2474/66 dated 8 February 2026 (the "**Regulations**") was published, reflecting this renewed focus on attracting high-value investments.

Prior to the introduction of these Regulations, tax concessions under the SDPA were granted on a case-by-case basis through specific project approvals, without a standardised framework setting out clear eligibility criteria and incentive structures. The Regulations now establish the eligibility criteria for identifying a project as a 'Strategic Development Project', together with the applicable tax concessions.

The Regulations apply across a broad range of sectors, including infrastructure, services and utilities, tourism, manufacturing, agriculture, information communication technology (ICT) and education, with eligibility focused on large-scale investments and local employment generation across three categories, designated 'Category A', 'Category B' and 'Category C'.

PROJECT ELIGIBILITY CRITERIA AND CORPORATE INCOME TAX (CIT) HOLIDAYS

The eligibility criteria for a project to be identified as a 'Strategic Development Project' and the applicable tax concessions are set out in the table below:

<table>
<tr><th>Categories & Sectors</th><th>Investment</th><th>Minimum Local Job Creation</th><th>No. of years of Tax Holiday (CIT)</th><th>CID/VAT/PAL/CESS Exceptions</th></tr>
<tr><td rowspan="3">Category A
• Infrastructure
• Services & Utilities
• Tourism & Leisure excluding Casinos and any form of betting and gaming</td><td>USD 50 million – USD 150 million</td><td>100</td><td>6</td><td rowspan="3">During the 'Project Implementation Period', for the importation of capital goods and construction materials</td></tr>
<tr><td>USD 150 million – USD 300 million</td><td>100</td><td>8</td></tr>
<tr><td>Above USD 300 million</td><td>100</td><td>10</td></tr>
<tr><td rowspan="3">Category B
• Manufacturing</td><td>USD 50 million – USD 100 million</td><td>250</td><td>5</td><td rowspan="3">During the 'Project Implementation Period', for the importation of capital goods and construction materials</td></tr>
<tr><td>USD 100 million – USD 150 million</td><td>250</td><td>8</td></tr>
<tr><td>Above USD 150 million</td><td>250</td><td>10</td></tr>
</table>

Category C • Agriculture • Educational, Technological Establishments, Information Communication Technology	USD 50 million – USD 100 million	50	5	During the 'Project Implementation Period', for the importation of capital goods and construction materials
	USD 100 million – USD 150 million	50	8	
	Above USD 150 million	50	10	

Corporate income tax exemptions will apply to all gains and profits of a 'Strategic Development Project', as determined in accordance with the Inland Revenue Act, No. 24 of 2017 (as amended), and will take effect from the date of commencement of commercial operations.

Upon the expiry of the applicable tax holiday period, the project will be subject to taxes in accordance with the prevailing laws of Sri Lanka.

INDIRECT TAX CONCESSIONS

Across Categories A, B and C, exemptions from Customs Import Duty (CID), Value Added Tax (VAT), Port and Airport Levy (PAL), and CESS will be available during the 'Project Implementation Period' for the importation of capital goods and construction materials. However, the importation of motor vehicles intended for personal, or travel use will not qualify for such exemptions.

PROJECT IMPLEMENTATION PERIOD

The 'Project Implementation Period' refers to the period commencing on the date specified in the agreement between the BOI and the relevant enterprise and ending on the date of commencement of commercial operations, as certified by the BOI.

Overall, the Regulations signal a more targeted and structured approach by the government to attract high-value investments into certain priority sectors of the economy.

SPA comments

The Regulations introduce a structured and transparent incentive framework, supported by improved approval processes and enhanced oversight, while directing incentives towards high-value, strategic projects through minimum investment and employment thresholds. Notably, the minimum local employment requirements are fixed for each category and do not vary with the scale of investment. While this provides a degree of certainty to investors, a more graduated approach aligning employment thresholds with investment size may further enhance the overall economic impact of larger projects.

The availability of competitive fiscal incentives, including tax holidays of up to 10 years and exemptions from CID, VAT, PAL and CESS during the 'Project Implementation Period', further enhances Sri Lanka's present investment proposition (which had been dampened to an extent by IMF programme-related austerity measures). The regime's broad sectoral scope supports diversified economic growth and, overall, reflects a more investor-friendly, reform-driven approach, better positioning Sri Lanka to compete more effectively for international capital.

FOR FURTHER INFORMATION, PLEASE CONTACT:

Dushyantha Perera
Partner – Head of Corporate & Commercial Law
E: dushyantha@sudathpereraassociates.com
T: +94 11 7559944

Pamodi Pathirage
Associate (Corporate & Commercial Law)
E: pamodi@sudathpereraassociates.com
T: +94 11 7559944

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