THE LATEST CHANGES TO COLOMBO PORT CITY LAW

THE COLOMBO PORT CITY ECONOMIC COMMISSION (AMENDMENT) ACT NO.1 OF 2026 (“CPCEC Act”)

PERSONAL TAX FOR EMPLOYEES		
EMPLOYEES' INCOME TAX LIABILITY	**SECTION 35**	Subject to some leeway for those employed prior to the amendment of law, the personal income tax exemption for employees of Authorized Persons **(AP's)** (i.e: Port City Companies) has now been abolished. This means: If **employed <u>prior</u> to the amendment -** ✗ Income tax **exempt (not payable)** - for 3 years starting from 1st February 2026 (the month after the operative date of this Section) ✓ **payable** - after the said 3 years If **employed <u>after</u> the amendment –** ✓ payable - from the date of employment

OFFSHORE BANKING BUSINESS (OBB)		
LICENSING	**SECTIONS 42 AND 43**	• The granting of OBB licenses has now been limited **exclusively to foreign banks** (i.e: excluding banks incorporated in Sri Lanka). • Part VIII of the CPCEC Act regarding OBB does not apply to Banks licensed under the Banking Act despite them carrying out operations in and from the Colombo Port City with CBSL approval. • OBB licenses will be issued under the CPCEC Act, not the Banking Act. • CBSL remains the primary regulator, overseeing OBBs under the CPCEC Act. • New sections 42A–42F have been introduced to regulate OBB in line with international standards including capital adequacy, supervisory review, market discipline, risk management, and liquidity, and disclosure and transparency requirements. • The power to revoke, cancel, or suspend an OBB license, (previously exercised by the Colombo Port City Economic Commission **("the Commission")** in consultation with the Monetary Board), is now vested in the Minister of Finance, acting on the recommendation of the CBSL.

OFFSHORE BANKING BUSINESS (OBB)		
OPERATIONS AND COMPLIANCE	**SECTIONS 46 TO 48**	• In addition to business with non-residents, Licensed OBBs are now also permitted to engage in certain business (accept deposits and lend) with **residents** subject to **prior written approval of CBSL**. • OBBs can also carry out such business with APs but is now subject to CBSL approval. • OBBs are also permitted to enter into the following bank transactions with Licensed Commercial Banks in Sri Lanka: o borrow in any designated foreign currency, subject to CBSL terms and conditions. o Open and maintain a non-interest-bearing rupee account to meet expenditure relating to its operations via foreign currency remitted by the OBB into Sri Lanka. • Stricter controls on OBB audited accounts now require auditors from a CBSL-approved list, adherence to international standards, and submission of reports as requested by CBSL. Reporting is primarily to CBSL, with a copy to the Commission.

BUSINESSES OF STRATEGIC IMPORTANCE (BSI)		
MONITORING BSI's	**SECTION 52 (WITH NEW SECTIONS 52A – 52E)**	• Ministry of Finance is required to conduct a **technical analysis** (with inputs from the Commission) when granting **tax exemptions** • The Commission monitors BSI performance and publishes outcomes online, while the Regulators (Ministry of Finance in consultation with the Commission) may review tax holidays and incentives **<u>every five years.</u>** • The continued **non-compliance** (after issuance of a notice of show cause) may result in **suspension** of exemptions granted or the imposition of a **penalty** to recover the costs arising from such non-compliance. • APs must file tax returns, and the Ministry of Finance will annually publish BSI tax expenditures online.

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