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Sri Lanka's Labour Law & Employment Regulations

Overview

Sri Lanka is a strategically located island nation in South Asia, positioned along major Indian Ocean shipping routes that connect East Asia, the Middle East, and Europe. With a population of approximately 22 million ([IMF](#)), the country serves as a key commercial and logistics hub in the region, supported by ports such as Colombo, one of South Asia's busiest transshipment ports.

Sri Lanka's economy is underpinned by sectors including manufacturing, apparel, agriculture, logistics, and a growing services industry. The country offers a well-educated and cost-competitive workforce, with high literacy rates and strong professional capabilities across both skilled and semi-skilled roles. Sri Lanka's employment framework is highly regulated, with comprehensive labour laws designed to protect employees and govern areas, making compliance a key consideration for employers operating in the market.

Basic Country Facts



Capital

Sri Jayawardenepura Kotte



Population

22.88 million

[IMF](#)



Currency

Sri Lankan Rupee (LKR, Rs.)



GDP per Capita

USD 4,320 (as of 2026)

[IMF](#)

Why Sri Lanka

1. Strategic Location

Located on major East–West shipping lanes and proximate to India, Sri Lanka serves as a natural hub to access South Asian and wider Asian markets. Colombo Port consistently ranks among the best connected in the region, supported by Hambantota as a designated free port.

2. Educated & Adaptive Workforce

The workforce is bilingual, cost-competitive and versatile across IT, manufacturing, finance, and professional services. Tertiary and vocational pipelines deliver a steady flow of graduates and technicians each year, with deep pools of accounting and finance qualifications.

3. Fast Developing Infrastructure

- 2nd in the region for Quality of Infrastructure in Global Competitiveness Index 2019.
- Sea ports – two cargo handling seaports.

4. Access to Key Markets

Sri Lanka benefits from a strong network of bilateral, regional, and unilateral trade preference schemes that significantly enhance its export competitiveness. These agreements provide broad duty-free access, reduced tariffs, and strategic market entry into some of the world's largest consumer bases.

Bilateral Free Trade Agreements (FTAs)

1. Indo–Lanka Free Trade Agreement (ILFTA)

- Offers 100% duty-free access for 80% of product tariff lines.
- Provides tariff concessions and quotas for an additional 15% of tariff lines.

2. Pakistan–Sri Lanka Free Trade Agreement

- Grants 100% duty-free access on 80% of tariff lines for Sri Lankan exports.

3. Singapore–Sri Lanka Free Trade Agreement

- Sri Lanka's first comprehensive FTA, covering goods, services, investment, and economic cooperation.
- Expected to attract higher investments and expand trade in services and technology-driven sectors.

Regional Trade Agreements

1. South Asian Free Trade Agreement (SAFTA)

- Provides 0% - 5% tariff preferences for most products, excluding sensitive items.
- Enhances Sri Lanka's access to the wider South Asian market.

2. Asia Pacific Trade Agreement (APTA)

APTA members extend Margin of Preference (MOP) on thousands of tariff lines for Sri Lankan products:

Country	MOP Duty Concession	HS Codes Covered
India	5% - 100%	3,142
South Korea	20% - 50%	2,797
China	5% - 50%	2,191
Laos	10% - 38.5%	999
Bangladesh	10% - 70%	598

These concessions support competitive access to Asia's fastest-growing markets.

Unilateral Preferential Schemes

1. EU GSP+ (Generalised Scheme of Preferences Plus)

- Offers 100% duty-free access to the EU market of 450+ million consumers.
- Removes duties on over 66% of EU tariff lines.
- Allows Sri Lanka to export 6,400+ items duty-free to 27 EU countries.
- The EU is Sri Lanka's 2nd largest export destination after the USA.

2. UK DCTS (Developing Countries Trading Scheme)

- Effective since January 2023.
- Provides 100% duty-free access to the UK market of 67+ million consumers.
- Sri Lanka qualifies under "Enhanced Preferences", giving:
 - 85% of tariff lines duty-free
 - 156 more tariff lines duty-free than Standard Preferences
- The UK is Sri Lanka's 3rd largest export partner, after the USA and the EU.

Labour Law & Employment Regulations

Employment Contract

In Sri Lanka, written contracts are not mandatory by law but strongly recommended to avoid disputes and ensure compliance.

Type of Employment

- Permanent Contract (issued to employment which are on regular nature; can work until retirement of 60 years)
- Fixed Term Contract (commonly practiced in hotels, construction, short-term IT projects, etc.; has a specific timeline)
- Consultancy Contract (project-based; once the project is over, the contract will automatically be terminated)

Probation Period

There is no clear provision in labour laws on the duration of the probation period in Sri Lanka. Generally, the probation period is six months. The Shop and Office Employees Act require the employer to clearly mention the period of probation, conditions governing such probation, and circumstances under which the employment contract may be terminated during probation.

Employment of Trainees (Private sector) Act No. 8 of 1978 provides that employers and workers may enter a contract of training for up to a maximum of one year. At the end of the training period, unless for disciplinary reasons or for failure to attain satisfactory competencies in the vocation chosen, the employer should provide employment to the trainee or, in the alternative, find him a suitable employment.

Working Hours

For Shop & Office employees, normal hours are up to 8 per day and 45 hours per week. Under Wages Boards decisions (industry-specific), total hours generally may not exceed 9 per day or 48 hours per week. The Factories Ordinance also caps daily and weekly hours, with additional protections for women and young persons, including limits on night work and mandatory rest intervals.

Rest Times/Intervals

Sri Lanka's labour laws ensure that employees receive adequate rest during the workday and throughout the week. The requirements differ slightly depending on the legal framework:

1. Shop & Office Employees Act

- Employees working 8 hours or more must receive a rest break.
- A 30-minute break must be given after every 4 hours of continuous work.
- Weekly rest includes one full day and one half day, with full pay if the employee has worked at least 28 hours (excluding overtime) in that week.

2. Wages Boards Regulations

- Industry-specific rules apply.
- Rest or meal intervals must not exceed one hour on a normal working day.

3. Factories Ordinance (Section 73)

- Total working time, excluding rest and meal breaks, must not exceed:
 - 9 hours per day, and
 - 48 hours per week

Weekly Holidays & Public Holidays

1. Shop & Office Employees Act

- Employees are entitled to one full day and one half-day of paid weekly holidays.
- These holidays must be granted full pay if the employee has worked at least 28 hours during the week (excluding overtime).
- Weekly holidays may be taken either within the same week or the immediate following week.

2. Wages Boards Regulations

- Weekly holiday entitlements vary by trade.
- Each industry's respective Wages Board determines its own rules on weekly holidays and paid rest days.

3. Factories Ordinance (Section 73)

- Young persons cannot be employed in a factory on Sundays.
- Women and young persons in factories must be granted six full holidays across six consecutive weekdays each year, ensuring adequate rest and safety.

Leave Types & Entitlements

1. Shop and Office Employees Act – Annual Leave

- Employees become entitled to 14 days of paid annual leave after completing one year of service. During the first year, the number of leave days depends on the employee's start date:
 - a. 10 days if employment begins between 1 April and 30 June
 - b. 7 days if employment begins between 1 July and 30 September
 - c. 4 days if employment begins between 1 October and 31 December

2. Shop and Office Employees Act – Casual Leave

- Employees are entitled to 7 days of casual leave per year. In the first year of employment, casual leave is granted at a rate of 1 day for every 2 months worked.

3. Wages Board – Annual Leave

- Employees who fall under a Wages Board and who have completed one year of continuous service, while meeting the minimum working-day requirements of their specific trade, are entitled in the following year to the number of annual leave days set by the relevant Wages Board regulations for that industry.

4. Maternity Leave

- The duration of maternity leave is 12 weeks (84 days), excluding weekly holidays, Poya days, and statutory holidays. 14 days of maternity leave are before confinement (including the day of confinement) and 70 days following the day of confinement.
- Maternity Leave under the Shop and Office Employees Act is fully paid, while under the Maternity Benefits Ordinance, 6/7th (86%) of a worker's wages is paid for the period.
- For shop and office workers, the leave is reduced to 28 days if the confinement does not result in the delivery of a live child, and 6 weeks in case of the birth of a stillborn child, irrespective of the number of prior children.

5. Nursing Interval

- The employer of a woman worker in any trade shall, if she is nursing a child under one year of age, allow her, in any period of nine hours, two nursing intervals at such times as she may require.
- Each interval shall, where creche or other suitable place is provided by such employer to such worker for nursing such child, be not less than thirty minutes, and, where no creche or other suitable place is so provided, be not less than one hour, and shall be in addition to any interval provided to such worker for meals or rest under any written law and be regarded, for the purposes of her employment, as time during which she has worked in her employment.

Overtime

1. Shop and Office Employees Act

- In accordance with the Shop and Office Employees Act, normal working hours are 8 hours per day and 45 hours per week.
- If a worker works beyond the stipulated working hours, he/she is entitled to an overtime pay that is (1.5 of X) of the rate of his ordinary pay. The overtime hours in a week cannot exceed 12 hours.
- Calculation:
 - Monthly remuneration x 1.5/240
 - Hourly Rate x 1.5

2. Wages Boards

- Under Wages Boards regulations, overtime entitlements and any limits are prescribed on a trade-by-trade basis (including premiums and maximum hours). Employers must follow the applicable Wages Board decision for their trade.
- Example: Baking
 - Normal working day = (Monthly Rate/200) x 1.5
 - Short working day = (Monthly Rate/200) x 1.75
 - Weekly holiday = (Monthly Rate/200) x 2.5

Minimum Wages

Sri Lanka's national minimum wage for the private sector increased to Rs. 30,000 per month (Rs. 1,200 per day), effective 1 January 2026, covering all industries and services. This revision, mandated by an amendment to the National Minimum Wage Act, also includes previous budgetary relief allowances within the new base wage, and applies to employees hired directly or through contractors, with the Department of Labour overseeing compliance.



KEY DETAILS

- Monthly Wage: Rs. 30,000
- Daily Wage: Rs. 1,200

Social Security & Retirement

- Superannuation for private sector employees takes the form of Employees' Provident Fund, Trust Fund, and Gratuity.
- Employees' Provident Fund (EPF) is the largest superannuation fund in Sri Lanka for private sector employees. EPF was established under the EPF Act No.15 of 1958 as a mandatory defined contribution retirement scheme for the private and semi-government sector employees who do not enjoy pension benefits.
- EPF: 12% of the monthly salary from the employer and 8% from the employee.
- Employees' Trust Fund (ETF): 3% of the monthly salary from the employer as of the ETF Act No.46 of 1980.

Gratuity

Employers with 15+ employees at any time in the preceding 12 months must pay statutory gratuity upon termination to employees with 5 or more completed years of service. The formula is half a month's last-drawn monthly wage for each completed year of service. Deadlines and surcharges apply for late payment.

Period	Percentage
Not exceeding 1 month from the due date	10% of the sum due
1 to 3 months	15% of the sum due
3 to 6 months	20% of the sum due
6 to 12 months	25% of the sum due
Exceeding 12 months	30% of the sum due

Retirement

Statutory Minimum Retirement Age

Since 17 November 2021, Sri Lanka has a legally mandated minimum retirement age for private-sector employees under the Minimum Retirement Age of Workers Act, No. 28 of 2021.

General Rule

Minimum retirement age: 60 years

Termination of Employment of Workmen Act (TEWA)

Under the Termination of Employment of Workmen (Special Provisions) Act, an employer cannot terminate the employment of a covered workman without the employee's written consent or prior written approval of the Commissioner of Labour, except for certain disciplinary dismissals where specific notifications apply.

Compensation payable on termination under Commissioner's orders follows a tiered formula based on completed years of service, subject to statutory maxima.

No. of years of service completed at the date of termination	No. of months' salary payable as compensation for each year of service	Maximum compensation
1 to 5	2.5	12.5 months
6 to 14	2	30.5 months
15 to 19	1.5	38 months
20 to 24	1	43 months
25 to 34	0.5	48 months

APIT (Advance Personal Income Tax)

Advance Personal Income Tax (APIT) in Sri Lanka is a mandatory, progressive tax deducted monthly by employers from employees' remuneration on employment income, including salaries, bonuses, and non-cash benefits. As of 1 April 2025, the tax-free threshold is increased to Rs. 150,000 per month (Rs. 1.8 million annually), with rates ranging from 6% to 36%.

1. Key Aspects of APIT in Sri Lanka (2025/2026):

- Taxable Threshold & Rates:
 - 0%: Monthly income up to Rs. 150,000
 - 6% - 36%: Progressive rates for income exceeding Rs. 150,000
 - Annual Threshold: Rs. 1.8 million

2. Employer Responsibilities:

- Employers must calculate and deduct APIT based on Inland Revenue Department (IRD) tables and remit it by the 15th of the following month.

3. Applicability:

- Applies to resident individuals, foreign employees, and non-resident citizens.

4. Annual Return:

- Employers must file an annual statement (APIT return) to reconcile deducted tax, with electronic filing being mandatory for companies and corporations.

5. TIN Requirement:

- Individuals with employment income exceeding the threshold must obtain a Taxpayer Identification Number (TIN).

Tax Slabs (Effective from 1 April 2025):

Tax Income Bracket	Tax Rate
Up to Rs. 150,000	0%
Rs. 150,001 – Rs. 233,333	6%
Rs. 233,334 – Rs. 275,000	18%
Rs. 275,001 – Rs. 316,667	24%
Rs. 316,668 – Rs. 358,333	30%
Above Rs. 358,333	36%

Employers must use the specific APIT tables provided by the IRD for these calculations.

APIT Table	Common Use
Table 01	Regular monthly salary (primary employment declaration submitted)
Table 02	Lump sum payments (bonus, arrears, leave encashment), sum payments (bonus, arrears, leave encashment)
Table 03	<ul style="list-style-type: none">• Rates for the deduction of tax from once-and-for-all payments (terminal benefits - all employees)• Terminal payments (gratuity, compensation for loss of office)
Table 04	Rates for the deduction of tax from any profits from employment made to non-resident employees who are non-citizens in Sri Lanka
Table 05	Deduction of tax on cumulative gains and profits from employment
Table 06	Tax-on-Tax rates
Table 07	Rates for the deduction of tax from the secondary employment
Table 08	Rate for the deduction of tax from the employment income received from foreign employer

Workmen's Compensation

This Act has made amendments to Workmen's Compensation Ordinance No. 19 of 1934. The Workmen's Compensation Ordinance provides for payment of compensation by the employer to the workmen who sustains personal injury in certain circumstances.

- If personal injury is caused in the course of their employment or while coming from their place of residence to the workplace or while returning to their place of residence from the workplace, his/her employer shall be liable to pay compensation in accordance with the provisions of this Act.
- Other than to the workman himself in a partial disability, compensation to be paid to the dependents of the worker, in the event of his/her demise because of a work-related accident or occupational disease.
- Schedule I of the Ordinance addresses permanent partial disablement because of injury. Where the injury is not listed therein, compensation will be computed proportionately with the loss of earning capacity.
- Schedule IV of the Ordinance addresses instances where death results from the injury and the worker was in receipt of monthly wages. It also addresses compensation for permanent total disablement because of the injury sustained. The maximum payable is up to Rs. 2,000,000/- (in line with the employee salary) in the case of death or permanent disablement.

Record-Keeping & Compliance

The Shop & Office Act obliges employers to maintain up-to-date records for each employee: identity and grade, rates of pay, hours worked, overtime, leave, allowances, deductions, advances, employer/employee contributions to EPF/ETF, and dates/amounts of payments. Service records and remuneration records must be preserved for at least four years. These records also support audits by Labour Department, EPF/ETF authorities and the Inland Revenue Department.

Disciplinary Process

This procedure covers the steps that have to be taken after a complaint is received of an alleged breach of discipline or act of misconduct in employment.

Disciplinary Inquiry Procedure

1. Receiving initial complaint to the Human Resources department (through employees, superiors etc. or an external party)
2. Initiation of preliminary investigation: Required to assess the validity of the received complaint by conducting a preliminary investigation
3. Preliminary Inquiry: After gathering evidence via the Preliminary Investigation, preliminary inquiry needs to be held with the alleged employees in order to record written statements related to the incident. (Objective of this is to give a fair hearing to the alleged employees.)
4. Further investigation needs to be conducted based on the facts collected during the preliminary investigation.
5. Suspension: Based on the evidence and statements recorded thus far if it's prevalent that the alleged employees could hinder/interrupt the investigations which could result in an inconclusive inquiry, it's recommended to suspend the alleged employees with or without pay until the investigation is concluded.
6. Show cause letter: Need to give 5 working days for the employees to respond to the show cause letter.
7. Receipt of explanation: If the workman's written explanation is not accepted, he/she should be informed that the domestic inquiry will be held on a particular day. If the workman admits to the charges, no inquiry would normally be called for, but in exceptional cases it may still be necessary
8. No reply: Where the workman fails to submit an explanation by the given date or fails to request for an extension to respond, it would be deemed that the alleged employee has accepted the charges and he has no explanation to provide and could move to the next step. (No inquiry is necessary although it may sometimes be prudent to nevertheless hold an inquiry based on the situation)
9. The company needs to appoint an independent officer, a person who is not directly party to any of the matters in issue
 - a. When to hold Inquiries: A domestic inquiry is generally held in the case of an employee being charged with respect to an act/act of misconduct. Indiscipline includes Insubordination, dishonesty, damage to property etc. in the alleged act of misconduct.
 - b. Procedure prior to holding a domestic inquiry:
 - Must have reasonable notice of the case that he has to meet
 - Must have reasonable opportunity of being heard in his defense in terms of the "audi alteram partem" rule
 - The inquiry should be done by an impartial person
 - The person inquiring must act in good faith, reasonably and not arbitrarily

Employment Related Statutory Institutions

Key statutory bodies include the Ministry of Labour and Department of Labour (policy and enforcement), the Employees' Provident Fund (administered by the Central Bank), the Employees' Trust Fund Board, and the Inland Revenue Department for tax administration.

1. Department of Labour

Role: Principal enforcement agency for labour legislation.

Key functions:

- Enforcement of labour laws (Shop & Office Employees Act, Wages Boards Ordinance, Maternity Benefits, EPF Act, etc.)
- Registration and regulation of trade unions
- Conducting labour inspections
- Conciliation of industrial disputes

2. Industrial Courts & Labour Tribunals

a. Labour Tribunals

- Handle individual employment disputes
- Address wrongful termination, unpaid wages, disciplinary issues

b. Industrial Courts

- Resolve collective industrial disputes
- Typically dealing with trade unions and employer organisations

3. Inland Revenue Department (IRD) of Sri Lanka

- Established under: Inland Revenue Act No. 24 of 2017 (as amended)
- Primary role: Administration and collection of taxes payable to the Government of Sri Lanka.
- Although the IRD is mainly a fiscal authority, it plays a critical statutory role in employment through taxation of income, benefits, and employer compliance.

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