



# INLAND REVENUE DEPARTMENT

## Notice to Taxpayers

### Implementation of Changes to the Value Added Tax (VAT) Act as amended by the Value Added Tax (Amendment) Act, No. 9 of 2021

Value Added Tax Act, No. 14 of 2002 (VAT Act) is amended by the Value Added Tax (Amendment) Act, No. 9 of 2021 as certified by the Speaker on May 13, 2021. The amendments are operative from the date of certification of the amendment Act unless different dates of operation are specifically stated in the respective provisions.

According to the Amendment Act, the significant changes are set out below.

#### 1. Revision of VAT Rate

##### i. Standard Rate

VAT rate on import and / or supply of goods or supply of services other than financial services has been revised to 8% from 15% with effect from December 01, 2019.

Further, different rates of VAT on the,

- supply or import of wood (sawn) (HS Code 4407 & 4408) as published in the Gazette Notification No. 2095/19, dated November 01, 2018,
- supply of services in respect of inbound tours, by a travel agent as published in the Gazette Notification No. 2125/69, dated June 01, 2019, (Prior to April 01, 2020)

are also revised to eight (8%) per centum with effect from December 01, 2019, by rescinding the respective Gazette Notifications by the Extraordinary Gazette Notification No. 2151/52, dated November 29, 2019, published under section 2A of the VAT Act.

##### ii. Zero Rate

supply of services by a hotel, guest house, restaurant or other similar businesses providing similar services, registered with the Sri Lanka Tourism Development Authority, if not less than sixty per centum (60%) of the total value of the inputs are sourced from local supplies/sources - Zero per centum (0%) with effect from December 01, 2019.

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## 2. Inward Remittance for exports of goods or services

Receipt of inward remittance for exports of goods or services is made mandatory in order to make refund on the input VAT paid on materials used and services consumed in such exports.

Accordingly, payment in respect of the export of goods or services should be received in foreign currency through a bank in Sri Lanka, within a period of six months from the end of the taxable period of which such export of goods or services has taken place, in order to qualify such export/supply for zero rating [Sec. 7(1)(a), (b) & (c)].

However, if the export proceeds are not received within such period of six months, while the goods or services are exported;

- The standard rate of VAT (8%) is not be applicable on such (supply of) export of goods or services [Sec. 7(3)]
- Any input tax claimed on the purchases of goods or services (expenses incurred) for such export of goods or services shall be disallowed [Sec. 22(6)(vi)].

*(Effective from May 13, 2021)*

## 3. Registration Threshold

### i. Increase of Registration Threshold

With effect from January 1, 2020, value of taxable supplies for the purpose of registration for VAT by any person carrying on a taxable activity including any person who engages in wholesale and retail trade has been increased to Rs. 75 million per quarter or Rs. 300 million per annum from Rs. 3 million per quarter or Rs. 12 million per annum [Sec 10(1)(vi)].

### ii. Removal of special calculation of registration threshold for wholesale and retail trade

Conditions laid down in section 3(2) and 10(2),

- to obtain the aggregate value of supplies of related entities which engage in similar nature of wholesale or retail trade in a same or different locations and
- VAT liable, exempt and exclude supplies of such person/related party,

for the purpose of calculation of registration of wholesale and retail trade has been removed.

Accordingly, for any period on or after January 1, 2020, registration threshold for wholesale and retail trade is determined based only on the value of **taxable supplies** of each and every person separately.

## 4. Voluntarily Registration for VAT

For any taxable period commencing on or after January 1, 2020, any person who carries on or carries out a taxable activity but the value of taxable supplies is less than the required registration threshold, also can apply for VAT registration under the voluntary registration

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scheme upon making a written request to the Commissioner General made by such person [Sec. 12(1)].

However, persons registered for VAT under the voluntary registration scheme are not eligible to obtain registration under Simplified Value Added Tax (SVAT) Scheme, until the taxable supply of such person is lesser than the registration threshold referred to in section 10 of the VAT Act (Rs. 75 million per quarter or Rs. 300 million per annum) other than;

- i. any exporter who proves to the satisfaction of the Commissioner General that his total supplies are exported; or
- ii. any person who is willing to register for the purpose of the Simplified Value Added Tax Scheme as a Registered Identified Supplier as approved by the Commissioner General for the purpose of such scheme.

[Sec. 12(2)]

### **5. Reduction of piece-based VAT rate**

Piece based VAT rate applicable on local supply of certain garments by export-oriented enterprises which entered into agreement with the Board of Investment, has been reduced to: -

- Rs. 100/- for the period from November 1, 2019 to December 31, 2020
- Rs. 25/- with effect from January 01, 2021.

### **6. Discontinuation of Deemed input facility granted to wholesale and retail trade**

Claimability of Deemed Input VAT calculated on the purchases made from suppliers who have not registered for VAT by any person registered for VAT as wholesalers and retailers on or after 02.05.2016, is terminated with effect from 13.05.2021. [Sec. 22(14)]

### **7. Exemptions**

- i. Import or supply of-
    - machinery and equipment including medical, surgical and dental instruments, apparatus, accessories and parts thereof, hospital or medical furniture and drugs, chemical and similar items as recommended by the Secretary to the Ministry of Health, as required for the provision of health services to address the COVID 19 pandemic, with effect from May 20, 2020;
  - ii. Supply of –
    - Condominium housing units on or after December 1, 2019, by any person, other than any lease or rent
    - commencing on or after January 1, 2020, information technology and enabled services as shall be prescribed
    - health protective equipment and similar products by any exporter, registered with the Board of Investment of Sri Lanka established by the Board of Investment of Sri
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Lanka Law, No. 4 of 1978, to the Ministry of Health and Indigenous Medical Services, Department of Health Services, Sri Lanka Army, Sri Lanka Navy, Sri Lanka Air force and Sri Lanka Police on or after April 29, 2020

- services in respect of inbound tours, by a travel agent registered with the Sri Lanka Tourism Development Authority for any period commencing from April 01, 2020

iii. Local supply of any goods [other than goods referred to in paragraph (c)], which would have been exempted on importation, if imported.

## Commissioner General of Inland Revenue



**TAXES - FOR A BETTER FUTURE**