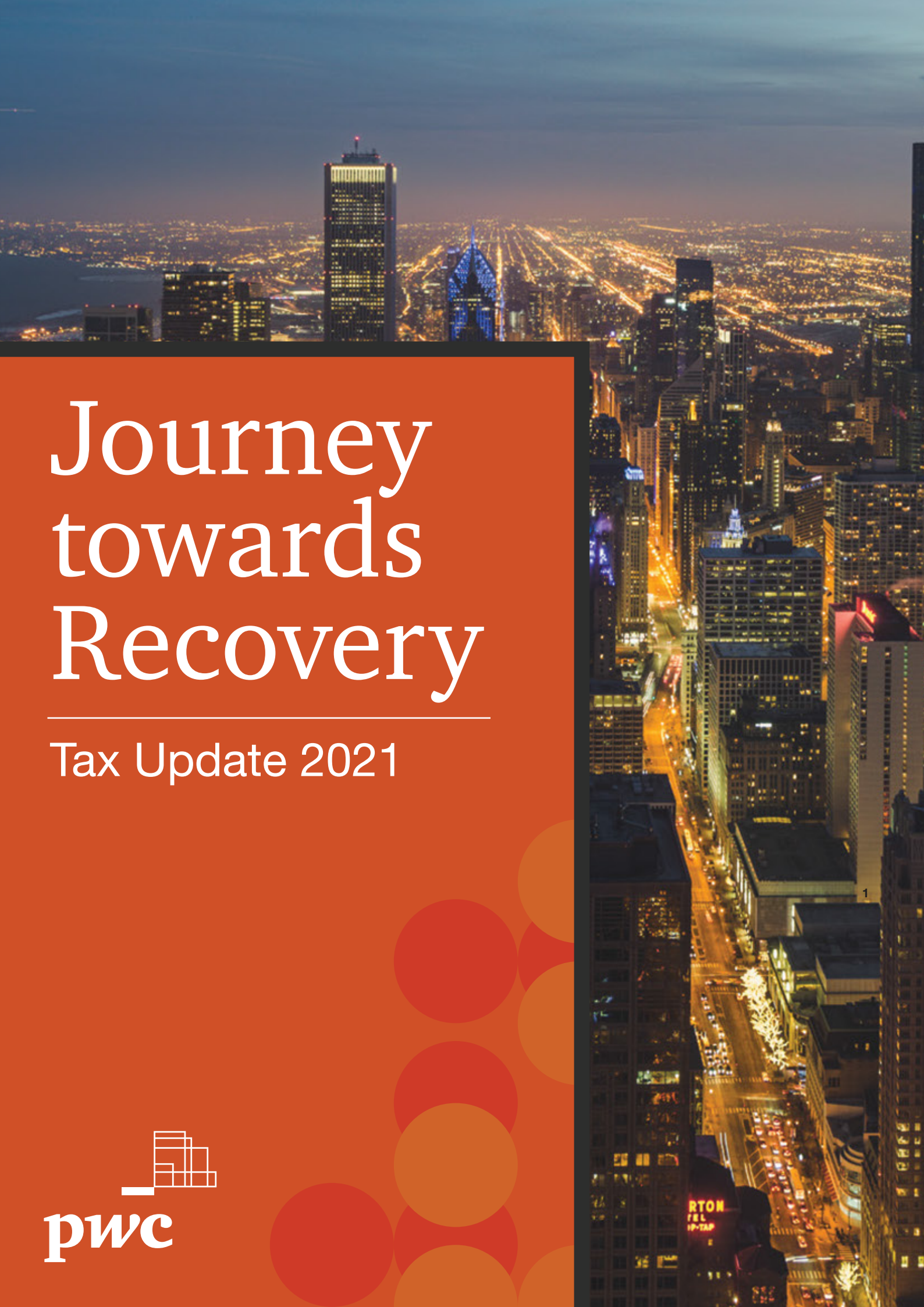




Journey towards Recovery

Tax Update 2021



Tax Updates 2021

A. Inland Revenue Act, No. 24 of 2017.....	5
1. Chargeability to Income Tax.....	5
2. Income Tax Base	5
2.1 Taxable income	5
2.2 Assessable income.....	6
2.3 Employment income.....	6
2.4 Business Income	7
2.5 Investment income	8
2.6 Other income.....	9
3. Sources of Income	9
4. Residence	10
4.1 Individual	10
4.2 Partnership.....	10
4.3 Trust.....	10
4.4 Company.....	11
5. Ascertainment of Profits and Income	11
5.1 Deduction of expenses – General rule	11
5.2 Disallowable expenses - General.....	11
5.3 Allowable/Disallowable expenses - Specific.....	12
6. Depreciation Allowances	19
6.1 Standard depreciation allowances	19
6.2 Enhanced depreciation allowance	20
6.3 Temporary Concessions.....	20
6.4 Finance Lease	21
7. Qualifying Payments and Reliefs.....	21
7.1 Qualifying payments	22
7.2 Reliefs	23
8. Exempt Amounts-Non Taxable Income	24
9. Taxation of Companies	30
9.1 Definition.....	30
9.2 General Rules	30
9.3 Corporate tax rate	30
10. Taxation of Individuals.....	36
10.1 Computation of the taxable income – Resident Individual.....	36
10.2 Computation of taxable income –Non- resident individual.....	36
10.3 Tax rates for Individuals.....	36
11. Taxation of Partnerships	38
11.1 Definition.....	38
11.2 General rules	38
11.3 Withholding tax	38
12. Taxation of Capital gains.....	39
12.1 Computation of Capital Gain / Capital Loss.....	39
12.2 Determinants in computing capital gains	39
12.3 Realisation of an asset - Realised amount - Specific cases	41
12.4 Exemptions.....	42

13. Tax Rates – Other entities.....	44
14. Method of Accounting	45
15. Tax Payment Procedure.....	45
15.1 Tax payable by withholding.....	46
15.2 Tax payable by instalment.....	48
15.3 Tax payable on assessment.....	49
15.4 Estimated tax payable.....	49
15.5 Penalty for late payment /under payment	49
16. Tax returns	50
16.1 General Rule.....	50
16.2 Penalty for late filing.....	50
17. Taxpayer Registration.....	50
17.1 Registration.....	50
17.2 Taxpayer Identification Number (TIN)	50
18. Assessments.....	50
18.1 Self-assessments	51
18.2 Default assessments.....	51
18.3 Advance assessments.....	51
18.4 Amended or additional Assessment	51
18.5 Time bar assessment.....	51
18.6 Assessments to counter Tax Avoidance Schemes	52
18.7 Finality of assessment.....	52
19. Review and Appeal Process	52
19.1 Administrative Review.....	53
19.2 Appeal to the Tax Appeals Commission (TAC)	53
19.3 Appeal to the Court of Appeal	54
B. Value Added Tax (VAT).....	55
1. VAT Law.....	55
2. What is VAT?.....	55
3. How VAT works	56
4. Self-assessment of VAT	56
5. Implementation Date of VAT	56
6. Chargeability of VAT	56
7. VAT on Imports.....	57
8. Deferment of VAT.....	57
9. Taxable Supply	61
10. Taxable Activity.....	61
11. Taxable Period	61
12. Time of Supply	61
13. Place of Supply	62
14. Registration for VAT.....	63
15. Wholesale and Retail Business	63
16. Voluntary Registration.....	64
17. Invoices for VAT.....	64
18. VAT Rates	65
19. VAT Exemptions.....	66

20. VAT Base	66
21. Calculation of VAT	68
22. Accounting for VAT	72
23. VAT Returns	73
24. VAT Payments	73
25. VAT Refunds	74
25A. Refund of VAT to tourists	74
26. VAT Assessments	74
27. Appeal Process	75
28. VAT Penalty Regime	75
29. VAT on Financial Services	76
29.1 Nature of the Tax	76
29.2 Definition of Financial Services	76
29.3 Taxable Persons	77
29.4 Calculation of VAT – Value Addition Attributable Method	77
29.5 Tax Rate	80
29.6 Threshold for Tax Payments	80
29.7 Threshold for Registration	80
29.8 Taxable Period	81
30. Islamic Financial Transactions	81
31. Exemption of certain small and medium enterprises from the payment of default taxes	81
32. Use of Electronic Communications or Electronic Records	82
Annex 1 – Guidelines on the operation of simplified Value Added Tax (SVAT) Scheme	83
Annex 2 – VAT – Supplies Eligible for Zero Rating (Section 7)	97
Annex 3 – VAT - Exempt Supplies	98
Annex 4 – Restriction on Allowability of Input Tax - Illustration	113
C. Ports and Airports Development Levy (PAL)	114
D. Stamp Duty	118

Updated including amendments made by the Inland Revenue (Amendment) Act No. 10 of 2021. An outline of the key provisions of the Inland Revenue Act, No 24 of 2017, which took effect for any year of assessment commencing on or after 1 April 2018, is given below.

1. **Chargeability to Income Tax**

Income tax will be payable for each year of assessment by -

- a) a person who has taxable income for that year, or
- b) a person who receives a final withholding payment during that year.

Section 2

The income tax payable by a person shall be calculated by,

- under (1.a) above,
 - applying the relevant rates as given in the First Schedule to the Act to that person's taxable income; and
 - deducting (a) any foreign tax credit, and (b) other tax credit granted or allowed under the Act; and
- under (1.b) above, applying the relevant rates set out in the First Schedule to the Act to each final withholding payment.

Section 2

- “*person*” means an individual or entity and includes a body of persons corporate or unincorporate, an executor, non-governmental organisation (NGO) and a charitable institution.

Section 195

- “*Year of assessment*” means the period of 12 months commencing on 1 April of any year and ending on 31 March of the succeeding year.

Section 20

2. **Income Tax Base**

2.1 **Taxable income**

- The taxable income of a person shall be equal to the total of the person's assessable income for the year from each employment, business, investment and other sources.
- The taxable income of each person and from each source shall be determined separately.
- In arriving at a taxable income, the aggregate qualifying payments and reliefs shall be deducted.

Section 3

2.2 Assessable income

The assessable income shall be equal to the income from employment, business, investment or other sources,

- in the case of a resident person, wherever the source arises, and
- in the case of a non-resident person, to the extent that the income arises in, or derived from, a source in Sri Lanka.

Section 4

2.3 Employment income

• *Definition of employment*

Employment is defined to mean the position of-

- (i) an individual in the employment of another person ;
- (ii) manager of an entity ;
- (iii) an individual entitled to a fixed remuneration for services rendered;
- (iv) an individual holding public office;
- (v) an individual who receives any payment or any other benefit as an employee or in a similar capacity;
- (vi) director of a company or corporation;

Employment includes past, present or future employment.

Section 195

• *Employment income*

An individual's income from an employment **includes** -

- a) payments of salary, wages, leave pay, overtime pay, fees, pensions, commissions, gratuities, bonuses and other similar payments;
- b) payments of personal allowance, including any cost of living, subsistence, rent, entertainment or travel allowance;
- c) payments providing discharge or reimbursement of expenses incurred by the individual or an associate of the individual;
- d) payments for the individual's agreement to conditions of employment;
- e) payments for redundancy or loss or termination of employment;
- f) retirement contributions made to a retirement fund on behalf of the employee and retirement payments received in respect of the employment;
- g) payments or transfers to another person for the benefit of the individual or an associate person of the individual;
- h) the fair market value of benefits received or derived by virtue of the employment by an individual or an associate person of the individual;
- i) other payments, including gifts received in respect of the employment; and
- j) the market value of shares at the time allotted under an employee share scheme including shares allotted as a result of the exercise of an option or right to acquire the shares, reduced by the employee's contribution for the shares; and

excludes

- a) exempt amounts and final withholding payments;

- b) a discharge or reimbursement of expenses incurred by the individual on behalf of the employer;
- c) a discharge or reimbursement of the person's dental, medical or health insurance expenses where the benefit is available to all full-time employees in the same grade of the service on equal terms;
- d) payments made to or benefits accruing to employees on a non-discriminatory basis that, by reason of their size, type and frequency, are unreasonable or administratively impracticable for the employer to account for or to allocate to the individual;
- e) the value of a right or option to acquire shares at the time granted to an employee under an employee share scheme (referred to in (j)) above; and
- f) subject to conditions as may be specified by the Commissioner-General, contributions made by an employer to an employee's account with a pension, provident, gratuity or savings fund or savings society approved by the Commissioner General.

Section 5

Note:

(Following exemptions in the previous Act have been removed:

- i. One vehicle provided by the employer for private use or an in-lieu cash allowance up to maximum LKR 50,000 per month.
- ii. Benefit accruing from concessionary interest rate loans given by the employer.)
- *Associated Persons:*
Two persons are associates or associated persons where the relationship between the two is -
 - (a) that of an individual and a relative (child, spouse, parent, grandparent, grandchild, sibling, aunt, uncle, nephew, niece or first cousin, including by way of marriage or adoption of the individual);
 - (b) that of partners in the same partnership;
 - (c) that of an entity and a person controlling the entity or benefiting from 50% or more of the voting power of the entity.

Section 196**2.4 Business Income**

- *"Business" is to defined to-*
 - a) Include -
 - (i) a trade, profession, vocation or isolated arrangement with a business character however short the duration of the arrangement; and
 - (ii) a past, present or prospective business; but
 - b) excludes an employment.
- Business income of a person for a year of assessment shall be the person's gains and profits from conducting a business for the year.
- Business income specifically includes -
 - a) service fees;
"Service fee" means a payment to the extent to which, based on market values, it is reasonably attributable to services rendered by a business of a person, but excludes interest, rent or a royalty;
 - b) consideration received in respect of trading stock;

- c) gains from the realization of capital assets and liabilities of the business (capital gains);
“*Capital Asset*” is defined as (i) land or buildings; (ii) a membership interest in a company, partnership or trust; (iii) a security or other financial asset; (iv) an option, right or other interest in an asset referred to in the foregoing paragraphs, but excludes trading stock or a depreciable asset;
- d) amounts derived on the realisation of the person’s depreciable assets of the business;
- e) amounts derived as consideration for accepting a restriction on the capacity to conduct the business;
- f) gifts received by the person in respect of the business;
- g) amounts derived that are effectively connected with the business and that would otherwise be included in calculating the person’s income from an investment; and
- h) other amounts required to be included under the Act.

Section 6

2.5 Investment income

A person’s income from an investment for a year of assessment shall be the person’s gains and profits from that investment for the year.

Included under the investment income are:-

- dividends, interest, discounts, charges, annuities, natural resource payments, rents, premiums and royalties.
“*Royalty*” means a payment, including a payment of a premium or like amount, derived as consideration for –
 - a) the use of, or right to use, a copyright of literary, artistic or scientific work, including cinematograph films, software or video or audio recordings, whether the work is in electronic format or otherwise;
 - b) the use of, or right to use, a patent, trade mark, design or model, plan, or secret formula or process;
 - c) the use of, or right to use, any industrial, commercial or scientific equipment;
 - d) the use of, or right to use, information concerning industrial, commercial or scientific experience;
 - e) the rendering of or the undertaking to render assistance ancillary to a matter referred to in paragraph (a), (b), (c) or (d); or
 - f) a total or partial forbearance with respect to a matter referred to in paragraph (a), (b), (c), (d) or (e);
- gains from realisation of investment assets (capital gains);
- consideration received for accepting a restriction on the capacity to conduct the investment;
- gifts received by the person in respect of the investment;
- winnings from lotteries, betting, or gambling; and
- other amounts required to be included under the Act.

Section 7

2.6 Other income

Income from other sources constitutes a person's gains and profits from any source whatsoever for the year of assessment, not including profits of a casual and non-recurring nature.

Section 8**3. Sources of Income**

The following payments shall have a source in Sri Lanka;

- a) payments in respect of employment
 - derived in respect of employment in Sri Lanka, wherever paid, or
 - if paid by, or on behalf of, the Government of Sri Lanka, wherever the employment;
- b) dividends paid by a resident company;
- c) interest, charges, annuities, a royalty, technical service fee or similar payment if
 - paid by a resident person (other than as a business expense of a resident person of a business concluded through a permanent establishment (PE) outside Sri Lanka), or
 - paid by a non-resident person as an expense of the business conducted by such person through a PE in Sri Lanka.

(*“Technical service fee”* means a service fee for managerial, technical, or consultancy services, including a fee for the provision of services of technical or other personnel.)
- d) winnings from lottery, betting or gambling held in Sri Lanka;
- e) natural resource payments made in respect of natural resources taken from land or sea within Sri Lanka territorial waters;
- f) rent paid for use of, or right to, use or forbearance from using an asset situated in Sri Lanka;
- g) premiums for general insurance paid to, and proceeds from general insurance paid by, a person in respect of the insurance of any risk in Sri Lanka;
- h) payments made by a person conducting transport business in respect of
 - land, sea or air transport (as operator or charterer) carrying passengers, cargo, mail or other moveable tangible assets, and
 - rental of containers and related equipment which are supplementary or incidental to such carriage;
- i) payments received by a person conducting the business of transmitting messages by cable, radio, optical fibre or satellite or electronic communication in respect of transmission of messages by apparatus established in Sri Lanka, whether or not such messages originate in Sri Lanka;
- j) Payments, including services fees attributable to service rendered –
 - in Sri Lanka, irrespective of the place of payment; or

- where paid by the Government of Sri Lanka, irrespective of the place of exercise or rendering;
- k) proceeds of life insurance and retirement, termination and pension payments if –
 - paid by a resident person (other than as an expense of a business carried on by the resident person through a P.E outside Sri Lanka),
 - paid by a non-resident person as an expense of a business carried on by a non-resident person through a P.E in Sri Lanka,
 - paid by, or on behalf of, the Sri Lanka Government;
- l) gifts and other ex-gratia payments to the extent received in respect of business or investment conducted with domestic assets;
- m) payments –
 - made in respect of the acquisition of a domestic asset, incurring of a domestic liability or realisation of such an asset or liability;
 - received in respect of activity conducted in Sri Lanka
 - except, in relation to a resident person, as attributable to a foreign P.E, and
 - in relation to a non-resident person as attributable to a P.E in Sri Lanka or any other activity (including sales in Sri Lanka of goods and merchandise) of the same or similar kind as that conducted by the non-resident person through a P.E in Sri Lanka, or
 - made to any foreign entertainer or artiste for activity relating to Sri Lanka.

Section 73

4. ***Residence***

4.1 **Individual**

An individual shall be deemed a resident in Sri Lanka for a year of assessment if he –

- a) resides in Sri Lanka,
- b) is present in Sri Lanka for a period/periods aggregating to 183 days or more in any 12 month period,
- c) is an employee or official of the Sri Lanka Government, and his spouse is posted abroad during that year,
- d) is employed on a Sri Lanka ship, within the meaning of the Merchant Shipping Act.

4.2 **Partnership**

A partnership shall be deemed resident in Sri Lanka if -

- a) it was formed in Sri Lanka, or
- b) the management or control of its affairs are exercised in Sri Lanka.

4.3 **Trust**

A trust shall be deemed resident in Sri Lanka if-

- a) it was settled or established in Sri Lanka,
- b) at any time during the year, the trustee of the trust is resident in Sri Lanka, or
- c) at any time during the year, a person resident in Sri Lanka directs the senior managerial decisions of the trust.

4.4 Company

A company shall be deemed resident in Sri Lanka if -

- a) it is incorporated or formed under the laws of Sri Lanka,
- b) it is registered or its principal office is in Sri Lanka, or
- c) the management and control of its affairs are exercised in Sri Lanka.

Section 69

5. *Ascertainment of Profits and Income*

5.1 Deduction of expenses – General rule

In calculating a person's income from **business or investment** for a year of assessments, expenses to the extent

- they are incurred during the year by the person and
 - in the production of income from the business or investment
- shall be deducted

Capital expense

- Expense of a capital nature (ie, an expense that provides a benefit lasting more than 12 months) will be disallowed.

Section 11

Note:

No deduction of expenses shall be made in calculating a person's income from employment

Section 10

5.2 Disallowable expenses - General

No deduction shall be made in calculating a person's income in respect of the following;

- domestic expenses;
- tax payable under the Act;
- interest, penalties and fines for breach of any written law;
- expenditure incurred in deriving exempt income or final with holding payment;
- retirement contributions, other than those included in an employee's income or contribution by the employer to an **approved** pension , provident, gratuity or saving fund or a saving society;
- dividends of a company
- entertainment expenses;
- amounts transferred to a reserve or provision for expenditures or losses not yet incurred but expected to be incurred in a future year of assessment;
- amounts incurred on lotteries, betting or gambling (other than those incurred in the business of conducting lotteries, betting or gambling);or
- taxes and levies specified by Commissioner General.

Note:

- Where a deduction is allowed for a payment on which tax is required to be withheld, no deduction will be allowed until the tax withheld is duly paid to the Commissioner General
- Where more than one deduction applies, the most specific deduction shall be applied.

Section 10

5.3 Allowable/Disallowable expenses - Specific

Interest expense

Interest incurred during a year of assessment under a debt obligation of a person shall be deemed to be incurred in the production of income to the extent that,

- a) where money was borrowed, the money is,
 - used during the year, or
 - used to acquire an asset that is used during the year in the production of income; and
- b) in any other case, the debt obligation was incurred in the production of income.

Section 12

Allowance for trading stock

- An allowance shall be deducted in respect of trading stock of a business in a year of assessment, calculated as follows –

Opening value of trading stock,

Plus

Cost of trading stock during the year,

Less

Closing value of trading stock,

- The closing value of trading stock of a business for a year of assessment shall be the **lower** of
 - cost at the end of the year; or
 - market value at the end of the year.

Section 13

Repairs and improvements

- Expenses for repairs or improvements of
 - depreciable assets, and
 - incurred in the production of income of a business or investment of a person for any year of assessment commencing from 1 April 2018 but prior to 31 March 2021 shall be deducted, irrespective of whether of a capital nature or not,
 - subject to the following limitations with respect of a depreciable asset of a person-
 - (i) in case of improvement to buildings structures, and similar works of a permanent nature – not exceeding 5% of the written down value (W.D.V) of the asset as at the end of the previous year;
 - (ii) in case all other assets-20% of the W.D.V of the asset at the end of the previous year;

in the order in which the expenses are incurred.

Any excess amount resulting from the aforesaid limitation shall be added to the depreciation basis of the asset at the end of the year, and depreciation allowance can be claimed on the aggregate sum. (See paragraph 3 of Fourth Schedule).

For any year of assessment commencing from 1 April 2021, the above restriction is not applicable for repairs, but repair expenditure can be claimed subject to section 11.

Expenditure in relation to improvement is restricted as above, and defined the term “improvements” as follows

“improvement” means the expenditure incurred by a person to make additions or alterations to a depreciable asset which enhances the value of such asset but excludes the expenditure incurred to maintain or repair a depreciable asset which temporarily enhances the value of such asset.

Section 14

Example 1

Company A is in the business of printing and purchased a printing machine on 15 July 2018 for LKR 10,000,000

It incurred an improvement cost of LKR 3,000,000 on July 2021 and claimed depreciation as follows

Year of Assessment	Depreciation base LKR	No. of years	Depreciation claimable LKR	written down value at the end of the year LKR
2018/2019	10,000,000	5	2,000,000	8,000,000
2019/2020	8,000,000	4	2,000,000	6,000,000
2020/2021	6,000,000	3	2,000,000	4,000,000
improvement cost	3,000,000			
claimable				
2021/2022	=	4,000,000 + 3,000,000		
	=	7,000,000	2	3,500,000
2022/2023	=	3,500,000	1	3,500,000
				-

Example 2

Company B runs a hotel at Negombo. The cost incurred in December 2018 on the hotel building is LKR 800,000,000. The Company has claimed depreciation allowance in respect of hotel building for each of the 3 years of assessment (2018/19, 2019/20 and 2020/21). Due to continuous usage, repairs are required to be carried out on the building during the 4th year (2021/22). The cost of repairs is LKR 15,000,000 whereas the cost of improvement is LKR 100,000,000.

	LKR
Cost of the hotel building	= 800,000,000
1 st year depreciation allowance at 5%	= 40,000,000
2 nd year depreciation allowance at 5%	= 40,000,000
3 rd year depreciation allowance at 5%	= 40,000,000
Written down value after 3 rd year	= 680,000,000
4 th year improvement cost	= 100,000,000
Improvement cost is restricted to 5% of the previous year depreciation base	= 680,000,000/20
	= 34,000,000
The balance 66,000,000 is to be added to the written down value of the y/a 2021/22	
Depreciation allowance for the y/a 2021/22	= 40,000,000
Depreciable base at the end of 4 th year	= 706,000,000
(680,000,000 – 40,000,000 + 66,000,000)	
5 th Year depreciation 706,000,000/16	= 50,428,571

Depreciation allowance for balance 15 years will remain at the same value of LKR 50,428,571 unless there is no any cost of improvements which could be added to the depreciation base in future years.

LKR 15,000,000 repair expenditure is allowed if the nature of expenditure is revenue.

Research and development expenses and agricultural start-up expenses.

Research and development expenses and agricultural start-up expenses incurred in the production of income may be deducted irrespective of whether they are of a capital nature or not.

Agricultural start-up expenses refer to

- a) opening up of any land for cultivation or for animal husbandry.
- b) cultivating lands with plants;
- c) purchase of livestock or poultry to be reared on the land;
- d) maintaining tanks or ponds for clearing inland water for rearing of fish , including purchase of fish for rearing in such tank, pond or inland water.

Research and development expenses mean expenses, otherwise not included in the cost of an asset, incurred by a person in carrying on

- a) any scientific industrial, agricultural or other research for
 - upgrading the person's business through any **institution in Sri Lanka, or**
 - innovation or research relating to high value products by the person, or through or a research institution in Sri Lanka; or

- b) developing the person's business and improving business products or process.

Section 15

Marketing and communication expenses

For any year assessment commencing on or after 1 April 2021 marketing and communication expenses incurred in the production of income during the year of assessment shall be deducted irrespective of whether they are of capital nature or not.

Marketing and communication expenses "means any expenses incurred any person in-

- (a) Carrying out a market research by such person or any institution in Sri Lanka on his behalf.
- (b) The development or production of marketing advertising and communication campaign to the extent that such development or production is carried out in Sri Lanka
- (c) Advertising on mainstem media or social media including television, radio, print or as outdoor advertising
- (d) Product launches or campaign activation carried out by such person or by any local institution on his behalf.
- (e) Development and printing of point of sale material by such person or by any local institution on his behalf.

Section 15A

Double deduction on Marketing and communication expenses Sixth schedule

A person is entitled to an additional deduction when calculating his income from business for a year of assessment, equal to 100% of the total amount of marketing and communication expenses deducted under the above section 15A during the years of assessment 2021/22, 2022/23 and 2023/24 if the following conditions are met.-

- (a) the payment should be made to a person who is not an associated person of that person;
- (b) internal marketing expenses, salaries of marketing staff, expenditure on maintaining an internal marketing department, expenditure on corporate social responsibility initiatives and foreign travel expenses should not be considered for the above additional deduction ;
- (c) expenditure should be attributable to goods and services with 65% of local value addition, the mode of calculation of which should be as specified by the Commissioner-General;
- (d) the total additional deduction should not exceed LKR 500,000,000 in any year of assessment;
- (e) the Commissioner-General shall specify the requirements to maintain records, source documents and underlying documents in this regard , in addition to the requirements of other sections of the IR Act.

Capital allowance

- Capital allowances are granted in respect of the depreciable assets owned and used by a person in the production of income in his business.
- Capital allowances granted with respect to a given year of assessment shall be taken in the year and not deferred to a later year.
- Where a depreciable asset is partly used in the production of income, an apportionment shall be made according to the market value of that part of the used asset.
- Depreciation for a year of assessment for each depreciable asset shall be calculated on the straight line method using the following formula-
$$A/B$$

A is the depreciation basis of the asset at the end of the previous year, and
B is the number of years applicable to that depreciable asset.
- No capital allowance shall be granted in respect of a road vehicle, other than
 - a) a commercial vehicle (ie, a road vehicle designed to carry loads of more than half a ton or more than 13 passengers or a vehicle used in transportation or vehicle rental business) ;
 - b) a bus or mini bus;
 - c) a goods vehicle ;
 - d) a heavy general purpose or specialised truck or trailer. or
 - e) A motor cycle

Note: Capital allowance & enhanced capital allowance, please see paragraph 6 -

Depreciation allowances is explained under below mentioned schedules,
- rates and classifications applicable to depreciable assets mentioned in the Fourth schedule. ,
- enhance capital allowance as stated in the Second schedule and
- Enhance capital allowance as temporary concessions stated in the sixth schedule

Section 16 Second, Fourth or Sixth Schedule

Balancing allowances

- *Balancing allowances are granted in respect of depreciable assets,*
 - *realised during the year, and*
 - *in respect of which, capital allowance are granted in that year or previous year.*
- *Balancing allowance is calculated in accordance with the following formula:*

B-A

Where -

A. is the consideration received by the person during the year of assessment: and

B. is the written down value (WDV) at the time of realisation of the asset

W.D.V means the expenses incurred in acquiring the asset less all capital allowances granted

Note: Balancing allowance represents the loss on realisation of a depreciable asset.

Section 16 Fourth Schedule

- Assessable charge represents the profit derived on realisation of a depreciable asset
- Assessable charge is included in calculating the person's income for the year of assessment calculated as follows.
- *Assessable Charge is calculated in accordance with the following formula:*

A-B

Where

- A. *is the consideration received by the person during the year of assessment:*
and
- B. *is the written down value (WDV) at the time of realisation of the asset*

Section 6 Fourth Schedule

Losses on realisation of business assets and liabilities

- The loss incurred on the realisation of capital assets used and on liabilities incurred in the production of income is a deductible in computing the person's business income.

The loss incurred on realisation of an asset or liability consists of the excess of the cost of the asset or liability,
over
the consideration received for the asset.

Sections 17 & 36

The gain from the realisation of an asset consists of the excess of-
consideration received for the asset or liability
over cost of the asset or liability.

Gain is included in calculating the person's income for the year of assessment

Section 36 Section 6

Deduction of Financial Cost (thin capitalization)

The amount of the interest to be deducted in calculating an entity income will be restricted to the debt to equity (share capital and reserves excluding reserve from revaluation of an asset) ratio of-

- 3:1 for manufacturing companies, and
- 4:1 for other companies.

For a year of assessment commencing from 1 April 2021 the debt to equity ratio is 4: 1 for all companies.

However, what is denied as a result of above restriction in any year of assessment can be carried forward to next six years of assessment subject to the same restriction and to the extent of the unused limitation in such subsequent years of assessment.

Above restriction will not be applicable to financial institutions.

Section 18

Example

ABC (Private) Limited obtained a bank loan for manufacturing of biscuits and incurs an interest cost of LKR 10,000,000 during the year of assessment 2020/2021. Balance sheet of the Company as at 31 March 2022 shows the following:

Stated capital	=	LKR 25, 000,000
Retained earnings	=	LKR 5,000,000
Loan balance	=	LKR 150,000,000
Allowable interest	=	LKR $\frac{10,000,000 \times 4 (25,000,000 + 5,000,000)}{150,000,000}$
	=	LKR 8,000,000
Disallowable interest	=	LKR (10,000,000 – 8,000,000)
	=	LKR 2,000,000

Relief for Financial cost incurred during the year of assessment 2021/22 - Sixth Schedule

Subject to the provisions of IR Act, any financial cost incurred (other than such amounts, of which deductions is denied in previous years) during the year of assessment 2021/22, should be deducted irrespective of the above mentioned limit. Further, the year of assessment 2021/22 should not be recognized for the purpose of six years period.

Business Losses

- Any unrelieved loss incurred by a person for a year of assessment from any other business income, and-
any unrelieved loss of the person for any of the previous six years of assessment
could be deducted from the business or any other business income.
- Unrelieved loss means the amount of a loss that has not been deducted in calculating a person's income.
- Commissioner General may allow the unrelieved loss to be carried back and treated as an unrelieved loss of an earlier year of assessment and limited to the profit, if any of that year, if it is relating to a long term contracts.
- Restrictions applicable:
 - Any loss incurred in a business, which is taxed at a reduced rate, could be deducted from the profits of a business which is taxed at the same reduced rate or from exempt income.

- Any business loss incurred in an exempt business could be deducted only from the business profit, which is exempt from tax.
- Unrelieved losses from a business may be deducted in calculating income from an investment.
- Unrelieved losses from an investment shall be deducted only in calculating income from an investment.

Section 19*Head office expenses*

The deduction for head office expenses incurred by a non-resident person carrying on business in Sri Lanka should not exceed 10% of that person's assessable income.

Note : this limitation is subject to the provisions in the double taxation agreements

Section 79**6. Depreciation Allowances****6.1 Standard depreciation allowances**

	Depreciable assets	Number of years	Rate
1	Computers and data handing equipment together with peripheral devices	5	20%
2	Buses and minibuses, goods vehicles; construction and earth moving equipment, heavy general purpose or specialized trucks, trailers and trailer mounted containers, plant and machinery used in manufacturing.	5	20%
3	Railroad cars, locomotives, and equipment, vessels, barges, tugs, and similar water transportation equipment, aircraft, specialized public utility plant, equipment, and machinery, office furniture, fixtures, and equipment, any depreciable asset not included in another class	5	20%
4	Buildings, structures and similar works of a permanent nature	20	5%
5	Intangible assets, excluding goodwill	The actual life or where the intangible asset has an indefinite useful life -20 years	
6	Milking machines with latest technology used to manufactures local liquid milk related products	2	50%

Fourth Schedule

6.2 Enhanced depreciation allowance

A person, who invests in Sri Lanka (other than in the expansion of an existing business) during a year of assessment, shall be granted enhanced depreciation allowances, computed in accordance with the schedule given below, in addition to the depreciation allowances computed on the investment made during the year of assessment on the depreciable assets other than intangibles assets. However, buildings, structures and similar works of a permanent nature constructed or made in a leasehold land are not considered as intangible assets and qualified for enhance capital allowance,.

Investment amount during the year of assessment	Place of investment	Rate of depreciation allowance
1. Exceeds USD 3 Mn but does not exceed USD 100 Mn	Any part of Sri Lanka other than Northern Province	100%
2. Exceeds USD 100 Mn	Any part of Sri Lanka other than Northern Province	150%
3. Exceed USD 250 Mn by a state owned company		150%
4. Exceeds USD 3 Mn	Northern Province	200%

Second Schedule**6.3 Temporary Concessions***Additional capital allowances*

Any person who invests in Sri Lanka (other than in the expansion of an existing business) on depreciable assets, other than intangible assets, shall be granted enhanced capital allowances during the first six -years of assessment commencing from 1 April 2018, in addition to the normal capital allowances, claimable as follows:

Investment amount during a year of assessment	Place of investment	Rate of depreciation allowances
Up to USD 3 Mn	Any part of Sri Lanka other than Northern province	100%
Up to USD 3 Mn	Northern Province	200%

Such depreciation allowances shall be taken in that year and cannot be deferred to a later year of assessment.

Information Technology

An amount equal to 135% of the taxable payments (salaries) made by a company to its employees (other than to its directors) is deductible, if such company-

- conducts predominately (80% or more) a business of providing information technology services,
- has, at least, 50 employees during the whole of the year, and
- reports those employees in the PAYE tax declaration form filed by the company.

Such company is not entitled for deduction of an enhanced capital allowance mentioned above. Further, when 135% salary cost deduction results in an unrelieved loss for the company, such loss shall not be deducted in any succeeding year of assessment.

Research and Development

An amount equal to 200% of the research and development expenditure incurred by any person could be deducted for the purpose of ascertaining the gains or profits of such person for 5 years of assessment, commencing from 1 April 2018.

Sixth Schedule

6.4 Finance Lease

- Finance lease instalments paid by a lessee to lessor will be treated as interest and repayment of capital under a loan made by the lessor. The interest and repayment of capital will be calculated as if the loan were a blended loan, which is a loan where the interest part is calculated on capital outstanding at the time of each payment with a uniform interest rate over the term of the loan
- Leasing business would be subject to tax on profits derived from the lease interest income less expenses.
- Where an asset is leased under a finance lease, the lessor shall be treated as transferring the ownership of the asset to the lessee at the time of entering into the lease agreement. Hence, the depreciation allowance on the leasing stock shall not be allowed as a deduction to the lessor. However, as the ownership of the lease asset is deemed to be vested with the lessee, the lessee can claim the depreciation allowance on the market value of the asset. The market value of the asset should consist of capital portion of the lease loan and any payment made by the lessee to the lessor, other than the interest or any payment made to seller of the asset.

Example

A trading private company B purchased a commercial vehicle from a vehicle importer for LKR 8,000,000, paying LKR 2,000,000 in cash and for the balance sum of LKR 6,000,000 arranging a leasing facility from a bank. The lease term is 4 years. During the 1st year the trading company B paid LKR 1,200,000 as capital portion and LKR 900,000 as interest to the bank.

The trading company B is entitled to deduct LKR 900,000 as interest expense, and also the depreciation allowance on the commercial vehicle of LKR 8,000,000 x 20 / 100 ie: LKR 1,600,000 during the 1st year.

7. Qualifying Payments and Reliefs

In arriving at the taxable income an **individual or entity**, the aggregate of the qualifying payments shall be deducted.

Section 52

7.1 Qualifying payments

- a) A donation made to an approved charitable institution established for the provision of institutionalized care for sick or the needy and declared by the Minister as an approved charitable institution, is deemed a qualifying payment.

Such deduction is subject to a maximum of -

- in the case of an individual, 1/3rd of the taxable income of the individual or LKR 75,000, whichever is less;
- in the case of an entity (company), 1/5th of the taxable income or LKR 500,000, whichever is less.

- b) A donation made by an individual or entity in money or otherwise to -

- i. Government of Sri Lanka;
- ii. Local authority;
- iii. Higher education institution established under Universities Act;
- iv. Buddhist and Pali University or Higher Education Institution established under the Buddhist and Pali University Act;
- v. A fund established by the Government of Sri Lanka;
- vi. A fund established by a local authority and approved by the Minister;
- vii. Sevana Fund established and administrated by the National Housing Development Authority;
- viii. Fund established by a Provincial Council and approved by the Minister;
- ix. Api Wenuwen Api fund;
- x. National Kidney Fund.

- c) Any sum paid to the consolidated fund or to the President's Fund by a public corporation, as required by the applicable law.

- d) with effect from 1 April 2021, contribution made by a resident individual in money or otherwise to establish a shop for a female individual who is from a Samurdhi beneficiary family as recommended and confirmed by the Department of Samurdhi Development;

- e) with effect from 1 April 2021, expenditure incurred by any financial institution by way of cost of acquisition or merger of any other financial institution where such cost is ascertained by considering all the facts on case-by-case basis and as confirmed by the Central Bank of Sri Lanka. Such deductible expenditure shall be apportioned in equal amounts over a period of three years of assessment and be deductible from the assessable income of that financial institution in each such year of assessment commencing from the year of assessment where the expenditure is incurred:

Provided however, any amount which was not deducted during the three years period, by reason of the total assessable income in a year has not exceeded the above permitted deduction, shall be deducted in the year of assessment immediately after the three years period and so on;

- f) expenditure incurred on or after 1 April 2021, by any person-
- (i) in the production of a film at a cost of (including promotional expenditure of such film) not less than five million rupees;
 - (ii) in the construction and equipping of a new cinema at a cost of not exceeding twenty-five million rupees;
 - (iii) in the upgrading of a cinema at a cost of not exceeding ten million rupees:

Provided that, the deduction under this subparagraph shall be restricted to one third of the taxable income of the year of assessment, and any amount which is not deducted in current year may be carried forward and deducted in the next succeeding year and so on, subject to the same restriction.

For the purpose of this subparagraph-

“film” means any audio-visual presentation of the moving image produced on any form or format whatsoever and which is intended primarily to be exhibited by projection on a screen in a cinema; and

the expenditure on construction and equipping or upgrading a cinema shall be certified by the National Film Corporation of Sri Lanka established by the National Film Corporation of Sri Lanka Act, No. 47 of 1971 as being equipped with digital technology, Digital Theatre Systems and Dolby Sound Systems.”;

Fifth Schedule

7.2 Reliefs

- a. (i) LKR 500,000 each year of assessment prior to 1 January 2020 and
 - (ii) LKR 3,000,000 for each year of assessment commencing on or after 1 January 2020, for a resident individual or citizen of Sri Lanka, (tax free allowance), but this relief is not available to be deducted against gains from the realization of investment assets (as tax free allowance).
- b. LKR 700,000 for a resident employee up to the total of the employment income for each the year of assessment but prior to 1 January 2020.
- c. In the case of a resident individual, an amount equal to 25% of the total rental income, being a relief for the repair, maintenance and depreciation of a residence.
- d. In the case of a Senior Citizen, deriving interest income LKR 1,500,000 for each year of assessment, up to the total of the interest income for the year up to 31 December 2019.
- e. In the case of a resident individual or partner of a partnership with income earned in foreign currency in Sri Lanka from any service, rendered in or outside Sri Lanka to any person outside Sri Lanka to be utilized outside Sri Lanka, LKR. 15,000,000 for each year of assessment, up to the total of such income for the year up to 31 December 2019.
- f) in the case of a resident individual, following expenditure up to a total sum of LKR 1,200,000, incurred for a year of assessment on or after 1 January 2020: -

- (i) health expenditure including contributions to medical insurance;
 - (ii) vocational education or other educational expenditure incurred locally by such individual or on behalf of such individual's children;
 - (iii) interest paid on housing loans;
 - (iv) contributions made to any local pension scheme, other than for a scheme under the employer or on behalf of the employer, by an employee;
 - (v) expenditure incurred for the purchase of shares or any other financial instrument listed in the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka or treasury bonds under the Registered Stocks and Securities Ordinance (Chapter 420) or treasury bills under the Local Treasury Bills Ordinance (Chapter 417);
- g) in the case of a resident individual who has acquired solar panels to fix on his premises and connected to the national grid, LKR 600,000 for each year of assessment, up to the total expenditure on such solar panels or up to the amounts paid to a bank in respect of any loan obtained to acquire such solar panels.”.

Note:

Resident individuals only qualify for the above reliefs, except (a) above which is expanded to Non-resident Sri Lanka citizens as well.

Fifth Schedule

8. Exempt Amounts-Non Taxable Income

Income tax is not payable in respect of the following:

Institutions

- amounts derived by –
 - i. Government of Sri Lanka or a local authority, including any Government department;
 - ii. Central Bank of Sri Lanka, including the Monetary Board;
 - iii. any University established under the Universities Act, No 16 of 1976 or the Buddhist and Pali University of Sri Lanka;
 - iv. any government assisted private school registered with the Ministry of Education
 - v. any registered Co- operative Society;
 - vi. the Government of a foreign country to the extent specified under a Diplomatic Immunities Law or a similar law;
 - vii. an international organisation to the extent specified under a diplomatic immunities law or a similar law or an agreement between the organisation and the Government of Sri Lanka, provided that the exemption provided under the agreement shall be broader than that provided under diplomatic immunities law or a similar law;

Individuals

- capital sums paid to a person as compensation in relation to –
 - i. personal injuries suffered ; or
 - ii. death of another person;
- Income of an individual entitled to the privileges under-
 - i. Diplomatic Immunities Law or a similar law;

- ii. Acts giving effect to Convention on (a) Privileges and Immunities of the United Nations and (b) Privileges, and Immunities of the Specialized Agencies of the United Nations;
- iii. Regulations made under the Act relating to an International Organization

Employment

- Pension paid by the Government or a government department;
- An amount paid to an employee at the time of retirement, from
 - i. a pension fund Employees Trust Fund as represents income derived from 1 April 1987 from investment made by it, and
 - ii. a provident fund approved by the Commissioner General or a regulated provident fund
- Benefits derived by a government employee from a road vehicle issued

Investment

Capital gains

- Capital gain made by a resident individual not exceeding LKR 50,000 on realization of an investment asset and not exceeding total gain of LKR 600,000 during the year of a assessment.
- Gains derived by a resident individual on the realization of his principal place of residence provided that
 - it has been owned by the individual continuously for a three year period prior to realization, and
 - lived by him for two of those three years.
- Gain made on sale / disposal of quoted shares.
- A gain made by a person on or after 1 April 2021 from the realization of land or building which , was sold exchange or transferred to a real estate investment trust listed in the Colombo Stock Exchange and licensed by the securities and Exchange Commission of Sri Lanka.

Interest / Annuity

- The interest accruing to or derived by-
 - (i) a charitable institution, where it is proved to the satisfaction of the Commissioner-General that such interest is applied solely for the purpose of providing care to children, the elderly or the disabled in a home maintained by such charitable institution;
 - (ii) any person outside Sri Lanka on any loan granted to any person in Sri Lanka or to the Government of Sri Lanka by such person;
 - (iii) any person on moneys lying to his credit in foreign currency in any foreign currency account opened by him or on his behalf, in any commercial bank or in any specialized bank, with the approval of the Central Bank of Sri Lanka, on or after 1 January 2020;
 - (iv) any person from a term deposit account titled as “Special Deposit Account” opened and maintained with an authorized dealer in Sri Lanka as prescribed by regulations made by the Minister under section 29 read with section 7 of the Foreign Exchange Act, No. 12 of 2017, (excluding the subsequently renewed accounts), either in any designated foreign currency or in Sri Lanka Rupees on or after 8 April 2020;
 - (v) any welfare society, on or after 1 April 2021;
In this subparagraph, “welfare society” means a fund or a society which has been set up or formed for the welfare of its members or their respective families and contributions are made by its members, including

benevolent fund which promotes the savings of members, but other than any company which is incorporated or registered under any law in force in Sri Lanka or elsewhere and a partnership;

- (vi) any multi-national company on any deposit opened and maintained in foreign currency in any domestic bank, if such deposit is maintained to cover its import expenditure for that year of assessment, on or after 1 April 2021;

In this subparagraph, “multi-national company” means a company that is part of a group of associated companies, with business establishments in two or more countries;”;

- any income earned by-
 - (i) any non-resident person other than a Sri Lankan permanent establishment by way of interest, discount or realization of any gain on any sovereign bond denominated in local or foreign currency:
 - (ii) any person by way of interest or discount paid or allowed, as the case may be, on any sovereign bond denominated in foreign currency, including Sri Lanka Development Bonds,

issued by or on behalf of the Government of Sri Lanka;”;

- a gain from the realisation of Sri Lanka international sovereign bonds issued by or on behalf of the Government of Sri Lanka and received or derived by a commercial bank or authorized dealer who made an aggregate investment not less than USD 100 Mn in such bonds on or after 1 April 2021;
- interest or discount accrued or derived on or after 1 April 2021 by any Samurdhi community-based banks established under the Department of Samurdhi Development from security or treasury bonds under the Registered Stocks and Securities Ordinance (Chapter 420) or treasury bills under the Local Treasury Bills Ordinance (Chapter 417);”;
- Amount derived by a Senior Citizen from an annuity for life for a period not less than 10 years, purchased from a bank or an insurance company

Dividend

- Dividend paid prior to 1 January 2020 by a resident company to a shareholder, which is attributable to:
 - another dividend received by that resident company, or
 - another resident company that was subject to withholding tax under section 84 of the Act.
- Dividend from (and gains on) realisation of shares in a non-resident company with respect to substantial participation in the non-resident company
“Substantial participation” means
 - i. holding 10% or more of the value of the shares in the company, excluding redeemable shares, together with
 - ii. control, directly or indirectly, of 10% or more of the voting power in the company.
- on or after 1 January 2020, a dividend paid by a resident company –

- (i) to a member to the extent that such dividend payment is attributable to, or derived from, gains and profits from dividend received by that resident company;

(in this paragraph, “gains and profits from dividend” means the dividend received by that company after the deduction of expenses or losses, if any, subject to the provisions of this Act and income tax paid or payable on such dividend received by that company);

- (ii) to a member who is a non-resident person;
- (iii) which is engaged in any one or more of the following businesses in accordance with the provisions of Part IV of the Finance Act, No. 12 of 2012 and which has entered into an agreement with the Board of Investment of Sri Lanka established under the Board of Investment of Sri Lanka Law, No. 4 of 1978: -
 - a. entrepot trade involving import, minor processing and re-export;
 - b. offshore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka;
 - c. providing front-end services to clients abroad;
 - d. headquarters operations of leading buyers for management of financial supply chain and billing operations;
 - e. logistics services including bonded warehouse or multicounty consolidation in Sri Lanka;”;
- dividends and gains on the realisation of units or amounts derived as gains from the realisation of capital assets of a business or investment by a unit holder, from real estate investment trust listed in the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka;”;

Property, Income

- Income from property donated by Royal or Grant before 1815 to a place of public worship administrated by a charitable institution, provided such income is applied to the purposes for which such grant was made.

Other Sources including Business

- Any amount derived by a person from the sale of gems on which tax has been deducted under section 84 (2) of the Act.
- Any sum, received from, the President’s Fund or National Defence Fund voted by parliament
- Any prize received as an award by the President or Government of Sri Lanka in recognition of an invention created or any research undertaken by a person
- Any winnings from a lottery, not exceeding LKR 500,000.
- Any public corporation out of the funds voted by parliament
- From the consolidated fund or out of any loan arranged through the government.
- any amount derived on or after 1 April 2018, by any non-resident person as any payment for aircraft, software licences or as for other related services from the Sri Lankan Airlines Limited;
- the gains and profits earned or derived by any person from-

- (i) the sale of produce from agro farming of such person within the period of five years of assessment commencing from 1 April 2019:

Provided that in relation to an undertaking which consists of the production of agro farming produces and utilizing such produce to agro processing or manufacture of any product, such produce shall be deemed to have been sold for the agro processor or manufacturer at the market price prevailing at the time of such deemed sale, and the gains and profits computed on the basis of such deemed sale in relation to the agro farming shall be considered as exempt gains and profits within the period of five years of assessment commencing on 1 April 2019;

- (ii) providing information technology and enabled services on or after 1 January 2020, as may be prescribed. (prescribed under Gazette Notification No. 2234/6 dated 29 June 2021);
- (iii) any service rendered in or outside Sri Lanka to any person to be utilized outside Sri Lanka, where the payment for such services is received in foreign currency and remitted through a bank to Sri Lanka on or after 1 January 2020;
- (iv) any foreign source (other than gains and profits referred to in subparagraph (iii)) where such gains and profits are earned or derived in foreign currency and remitted through a bank to Sri Lanka on or after 1 January 2020;
- (v) any vocational education programmes of any Vocational Education Institution which is standardized under Technical and Vocational Education and Training concept (TVET concept) and regulated by the Tertiary and Vocational Education Commission
 - (a) if such institution has doubled its student intake of the vocational education programmes for such year of assessment compared to the student intake of such programmes in the year of assessment immediately preceding that year of assessment;
 - (b) for a period of five years commencing on 1 April 2021:

Provided however, for the purpose of paragraph (a), any institution which doubled the student intake of the vocational education programmes as provided for in the first year and maintained the same student intake of such programmes of the first year for the next four years shall be deemed as an institution which fulfilled the requirement in such years;
- (vi) any business of export of gold, gems or jewellery or from the business of cutting and polishing of gems which are brought to Sri Lanka and exported after such cutting and polishing, where such gains and profits earned in foreign currency are remitted through a bank to Sri Lanka, with effect from 1 April 2021;
- (vii) any amount derived on or after 1 January 2020 by-
 - (i) any non-resident person from laboratory services or standards certification services;

- (ii) any religious institution which is registered with the Ministry in charge of the subject of religious affairs, by way of grants or donations;
- gains and profits received or derived from business (other than any gains from the realisation of capital assets and liabilities of the business as calculated under Chapter IV of this Act) by a person from following any new undertaking (which is not formed by splitting up or re-construction of an existing undertaking) commenced on or after 1 April 2021, for that period, subject to the conditions contained herein: -
 - (i) an undertaking which is involved in the sale of construction materials recycled in a selected separate site established in Sri Lanka to recycle the materials which were already used in the construction industry, (a person who is involved in the provision of construction services using construction materials recycled by him from a site with the same conditions, in the provision of such services provided by him shall be deemed to have sold such materials for the construction service at a market price prevailing at the time of such deemed sale), for a period of ten years;
 - (ii) any business commenced on or after 1 April 2021 by an individual after successful completion of vocational education from any Vocational Education Institution which is standardized under Technical and Vocational Education and Training concept (TVET concept) and regulated by the Tertiary and Vocational Education Commission, for a period of five years;
 - (iii) an undertaking commenced by a resident person for the purpose of manufacturing of boats or ships in Sri Lanka and received or derived any gains and profits from the supply of such boats or ships, for a period of seven years;
 - (iv) any renewable energy project established with a capacity to produce not less than one hundred Mega Watts of solar or wind power and supplied such power to the national grid, for a period of seven years;
 - (v) an undertaking commenced on or after 1 January 2021 by any resident person who constructs and installs communication towers and related appliances using local labour and local raw materials in Sri Lanka or provides required technical services for such construction or installation, for a period of five years;
 - (vi) an undertaking for letting bonded warehouses or warehouses related to the offshore business in the Colombo and Hambanthota Ports, if such person has invested on such undertaking on or after 1 April 2021;

Tax exemption periods provided in the above subparagraphs (other than in subparagraph (vi)) shall be reckoned from the year of assessment in which the undertaking commences to make profits (assessable income from such business) from transactions entered into in that year of assessment or from the commencement of the year of assessment immediately succeeding the year of assessment in which the undertaking completes a period of two years reckoned from the date on which the undertaking commences to carry on commercial operations, whichever occurs earlier.”.

Third Schedule

9. Taxation of Companies

9.1 Definition

Company means a corporation, unincorporated association or other body of person, and includes-

- (i) a friendly society, building society, pension fund, provident fund, retirement fund, superannuation fund or similar fund or society; and
- (ii) a government excluding Sri Lanka government, political sub-division of a government, or a public international organisation; but excludes a partnership or trust ; and the following shall be deemed to be a company
 - (i) a partnership in which at least 20 partners have limited liability for the debt of the partnership: and
 - (ii) a unit-trust or mutual fund that does not conduct an eligible investment business

Section 195

9.2 General Rules

- A company shall be taxed separately from its shareholders.
- All business activities of the company shall be treated as conducted in the course of a single company business
- Arrangements between a company and its managers shall be recognised
- Dividends distributed by
 - a resident company shall be taxed on the company shareholders; and
 - a non-resident company, the dividend shall be included in calculating the income of the shareholders

Sections 60 & 61

9.3 Corporate tax rate

A. Prior to 1 January 2020

Class of income	Resident company Rate	Non-resident company Rate
On taxable income		
Standard rate	28%	28%
Concessionary rate	14%*1	14%*1
Higher rate	40% 2	40% 2
On gains from realisation of investment assets	10%	10%
On dividends	14%	-
On remitted profits (Remittance tax)	-	14% 3

First Schedule

1. Concessionary rate of 14% is applied in the case of following:
 - Small and Medium Enterprises (SME);
 - Company predominantly conducting a business of exporting goods and services; export includes **Specified undertaking**;
 - Company predominantly conducting an agricultural business;
 - Company predominantly providing educational services;

- Company predominantly engaged in an undertaking for the promotion of tourism;
- Company predominantly providing information technology.
- *Specified undertaking* means an undertaking which is engaged in –
 - (a) entrepot trade involving import, minor processing and re-export;
 - (b) offshore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka;
 - (c) providing front end services to clients abroad;
 - (d) headquarters operations of leading buyers for management of financial supply chain and billing operations;
 - (e) logistic services such as bonded warehouse or multi-country consolidation in Sri Lanka;
 - (f) transshipments operations;
 - (g) freight forwarding;
 - (h) supply of services to any exporter of goods or services or to any foreign principal of such exporter directly, being services which could be treated as essentially related to the manufacture of such goods or provision of such services exported by such exporter either directly or through any export trading house, including any service provided by an agent of a ship operator to such agent's foreign principal, and the payment for such services are made by such exporter or foreign principal to such person in Sri Lanka in foreign currency;
 - (i) production or manufacture, and supply to an exporter of **non-traditional goods**; and
 - (j) the performance of any service of ship repair, ship breaking repair and refurbishment of marine cargo containers, provision of computer software, computer programmes, computer systems or recording computer data, or such other services as may be specified by the Minister by notice published in the Gazette, for payment on foreign currency;
 - (k) sale for foreign currency, of any gem or jewellery, being a sale made in Sri Lanka by any person authorized by the Central Bank of Sri Lanka to accept payment for such sale in foreign currency.
 - (l) sale of goods manufactured in Sri Lanka by any export oriented company which has entered into an agreement with the BOI under section 17 to –
 - (i) any company which has entered into an agreement with the BOI under section 17 including a company enjoying tax holidays under the strategic Development Project Act No 14 of 2008 and which is permitted to import project related goods or raw materials on duty free basis under the provisions of such agreement, during the project implementation period or
 - (ii) any person eligible to import specific goods on duty free basis under any government authority

but up to the quantity approved by BOI as import replacement within the 3 years period commencing on 1 April 2021.

- (m) With effect from 1 April 2021, bunkering services provided for the supply of marine fuel including the supply of marine fuel to local bunker suppliers within a specified port premises.

“non-traditional goods” means goods other than black tea not in packet or package form and each packet or package weighing not more than one kilogram, crepe rubber, sheet rubber, scrap rubber, latex or fresh coconuts, or agricultural, horticultural or dairy produce, and includes organic tea in bulk.

- *SME* means a person who satisfies the following conditions -
 - (a) the person conducts business solely in Sri Lanka other than an individual who is engaged in providing professional services individually or in partnership, being an individual who is professionally qualified;
 - (b) the person does not have an associate that is an entity (after 1 April 2020, unless such person’s and associates aggregate annual gross turnover is less than LKR 500,000,000) and
 - (c) the person’s annual gross turnover is less than LKR 500,000,000.
- *“Predominantly”* means 80% or more, calculated based on gross income.
- *“Providing information technology”* means –
 - (a) software development services; or
 - (b) the provision of information technology services under a business process outsourcing arrangement or a knowledge process outsourcing arrangement;
- *“Undertaking for the promotion of tourism”* means an undertaking for the operation of-
 - (a) any hotel or guest house approved by the Ceylon Tourist Board;
 - (b) any restaurant graded by the Ceylon Tourist Board as being in “Class A” or “Class B”;
 - (c) any business of travel agent who provides travel management services for domestic travel in Sri Lanka;
 - (d) any business of transporting tourists only; or
 - (e) any business approved by the Ceylon Tourist Board for providing facilities for recreation or sports.

Section 195 and First Schedule

2. Higher rate of 40% applies to income from betting and gaming, liquor and tobacco
3. *“Remitted profit”* means amounts remitted or retained abroad out of profits and income of a non-resident subject to Sri Lanka income tax and includes-
 - any amount received outside Sri Lanka from conducting business in Sri Lanka; but excludes -
 - dividends paid by a resident company to the non-resident person.

Section 62

B. with effect from 1 January 2020

Income (gains and profit)	Resident Company Rate	Nonresident company rate
Standard rate	24%	24%
Concessionary rate	14%	14%
gains and profits from manufacturing	18%	18%
Higher rate	40%	40%
On gains from realization of investment assets	10%	10%
On dividends	-	-
On remittance profits (Remittance tax)	-	14%

1. Concessionary rate of 14% is applied in the case of the following gains and profit from –
 - a. Business of a Small and Medium Enterprise (SME)
 - b. Conducting a business of sale of goods or merchandise including export of goods where the payment for such sale or export is received in foreign currency and remitted through a bank in Sri Lanka
 - c. Specified undertaking
 - d. Providing educational services
 - e. Undertaking for the promotion of tourism
 - f. Providing construction services
 - g. Argo processing
 - h. Providing health care services
 - i. Dividends received from a resident company
 - j. Derived by any export company which is registered with the BOI of Sri Lanka from the consideration received in respect of health protective equipment and similar products supplied to the Ministry of Health Department of Health Service Sri Lanka Army, Sri Lanka Navy Sri Lanka Airforce, Sri Lanka Police and COVID Center.
 - k. Any company (even through a higher rate of income tax is applicable) which lists its shares on or after 1 January 2021 but prior to 31 December 2021, in the Colombo Stock Exchange for three years of Assessment commencing from 1 April 2022.
 - l. The consideration received in respect of gems and jewelry
 - m. With effect from 1 April 2021 gains and profits from the supply of electricity to national grid using renewable energy resources by a company
 - n. gains and profits from manufacturing 18%. (subject to item a,b,c j or k of the above)

Higher rate of 40% is applied in the case of the following gains and profits from

 - Conducting betting and gaming

- The manufacturing and sale or import and sale of any liquor or tobacco products

Reduced tax rate

- a. Aggregate income tax payable by any BOI company on the basis provided in the BOI agreement (other than on gains from the realization of investment assets) which lists its shares on or after 1 January 2021 but prior to 1, December 2021 in the Colombo Stock Exchange shall be reduced by 50% for the year of assessment commencing from 1 April 2021. (i.e only for the y/a 2021/22)
- b. Such part of income tax payable on gains and profits from dividends by any multinational company shall be reduced by 25% for the year of assessment commencing from 1 April 2021 and 50% for the 2 years of assessment immediately succeeding that year of assessment subject to the condition that there shall be-
 - (i) Any increase in exports (other than specified undertakings) by 30% in the year of assessment commencing from 1 April 2021 compared to the immediate proceeding year of assessment (first year) or
 - (ii) An increase exports (other than specified undertaking by 50% in the year of assessment commencing from 1 April 2022 compared to the first year and maintains such status in the subsequent year of assessment.
- c. Tax rate for persons, who engage in agro farming together with agro processing or manufacturing.

Where a person utilizes agro farming produce produced by him for his agro processing or manufacturing business activity in Sri Lanka, such portion of the tax payable in respect of such agro processing or manufacturing business activity that corresponds to the proportion of the farming produce produced by him to the total farming produce utilized in such agro processing or manufacturing, shall be reduced by 25% for the period of 5 years of assessment commencing on 1 April 2021.

Taxable portion in respect of business profit X total farming produce utilized in such agro x 75%

agro processing or manufacturing = $\frac{\text{processing or manufacturing}}{\text{total farming produce}}$

Taxable portion in respect of agro processing or Manufacturing

= business profits x $\frac{\text{total farming procure utilized in such agro processing or manufacturing}}{\text{Total farming produce}}$

Application of tax rates for different gains and profits where a persons taxable income consists of different sources of income or gains and profits from different business activities, the income tax rates applicable to each such source of income or such gains and profits from such different business activities shall be applied to such source of income or such gains and profits.

First Schedule

“Small and Medium Enterprise” (SME) means a person who satisfies the following conditions-

- (a) The person who conducts business solely in Sri Lanka other than an individual who is engaged in providing professional services individually or in partnership being an individual who is professionally qualified.
- (b) The person does not have an associate that is an entity unless such person’s and associates’ aggregate annual gross turnover is less than LKR 500,000,000 and
- (c) The person’s annual gross turnover is less than LKR 500,000,000

“agro farming” means

- (a) The tillage of the soil and cultivation of land with plants of any description cultivation in green house, bee-keeping, rearing of fish shrimp farming or animal husbandry, poultry farms, hatchery, veterinary or artificial insemination services.
- (b) The cleaning, sizing, sorting, grading, cutting or chilling of any produce produced out of any activity referred to in paragraph (a) by any person who is engaged in any such activity, in preparation of such produce for the market but excludes the agro or food processing.

“agro processing” means the processing of any locally produced agricultural, fishing or animal product and includes an undertaking for the dehydrating, milling packaging canning for the purpose of changing the form, contour or physical appearance of such product in preparation for the market but excludes an undertaking of deep – sea fishing or manufacturing.

“Manufacture” means a change in a non – living physical object, article of thing-

- (a) Resulting in transformation of such object, article or thing into a new and distinct, article or thing having a different name, character or use or
- (b) Brining into existence of a new and distinct object, article or thing with a different chemical composition or integral structure.

Section 195 .

Transitional rates

Gains and profits for three year of assessment had been taxed up to the year of assessment 2020/21 at-

- 14% in respect of
 - an insurer conducting the business of life insurance,
 - any person who has entered into a power purchase agreement with the C.E.B to provide electricity using renewable energy, and
- zero percent in respect of an institution in an international network, relocating its headquarters or regional head office in Sri Lanka, as specified by Commissioner General by Gazette Notice.

Sixth Schedule

10. Taxation of Individuals

- A. For a year of assessment commencing on or after 1 April 2018 but for the period prior to 1 January 2020.

10.1 Computation of the taxable income – Resident Individual

In computing the taxable income of a resident individual, there shall be deducted-

- (i) the aggregate of qualifying payments (refer item 7), and
- (ii) the aggregate reliefs – LKR 500,000 for a year of assessment *

* In case of an employee an additional relief of LKR 700,000 up to the total of his employment income can be claimed.

Section 52

10.2 Computation of taxable income –Non- resident individual

- In case of a non-resident individual, his income from employment, business investment or other source to the extent that it is sourced in Sri Lanka will constitute his assessable income, subject to Sri Lanka income tax.

Section 4

- Non-resident individual will not be eligible to the relief of LKR 500,000 and LKR 700,000 However a non-resident individual who is a citizen of Sri Lanka is eligible for the relief pf LKR 500,000.

Section 52

10.3 Tax rates for Individuals

- a) For any year of assessment, commencing on or after 1 April 2018 -

- On the taxable income, other than
 - gain from the realization of investment assets which is taxed at 10%, and
 - income from a business consisting of betting and gaming, liquor and/ or tobacco which is taxed at 40%,

On the first LKR 600,000	4%
On the next LKR 600.000	8%
On the next LKR 600.000	12%
On the next LKR 600.000	16%
On the next LKR 600.000	20%
On the balance	24%

- Rate for the deduction of tax from employee's terminal benefits:
 - Where the period of contribution is 20 years or less -

On the first LKR 2,000,000	Nil
On the next LKR 1,000,000	5%
On the balance	10%
 - Where the period of contribution is more than 20 years -

On the first LKR 5,000,000	Nil
----------------------------	-----

On the next LKR 1,000,000	5%
On the balance	10%

Terminal benefits include -

- a) amount received in commutation of a pension;
- b) amount received as a retiring gratuity;
- c) amount received as compensation for loss of office or employment under a scheme which the Commissioner General considers to be uniformly applicable to all individuals employed by the employer;
- d) amount paid to a person at or after the time of retirement from employment, from a provident fund approved by the Commissioner General that does not represent the person's contributions to that provident fund;
- e) amount paid to a person from a regulated provident fund that does not represent the contributions made by the employer to that provident fund before 1 April 1968, and the interest which has accrued on such contributions made by the employer, if tax has been paid by the employer at 15% on such contributions made and on the interest accruing thereon; and
- f) amount paid to a person, at, or after, the time of retirement from employment, from the Employees' Trust Fund, subject to exemptions given in item 8.

First Schedule**B. Commencing from 1 January ,2020**

Tax rates for individual

On the taxable income other than –

-gains from realization of investment assets which is taxed at 10% and -income from a business consisting of betting and gaming , liquor and /or tobacco which is taxed at 40%

On the first LKR 3,000,000	6%
On the next LKR 3,000,000	12%
On the balance	18%

Tax rates applicable to employee's terminal benefits –

On the first LKR 10,000,000	Nil
On the next LKR 10,000,000	6%
On the balance	12%

11. Taxation of Partnerships

11.1 Definition

“Partnership” means an association of two or more individuals or corporations carrying on business jointly for purposes of making profit, irrespective of whether the association is recorded in writing.

“Precedent partner” means an active partner resident in Sri Lanka, who is

- first named in the partnership agreement ;or
- if there is no such agreement, is specified by name or initial in the usual name of the partnership ; or
- first named in the statement under section 4 of the Business Names Act, No 1 of 1987.

11.2 General rules

- For the period prior to 1 January 2020 a partnership shall not be liable to pay income tax on its taxable income, (not be entitled to any credit with respect to that income),
other than on
gains from realisation of an investment asset (tax rate of 10%)

With effect from 1 January 2020, following rates applicable to taxable income.

On the first LKR 1,000,000	Nil
On the balance	6%

- Partnership income/loss shall be allocated to the partners, proportionately to each partner’s share, based on each partner’s percentage interest in the partnership income according to the partnership arrangement.
- A partner’s income from a partnership for a year of assessment shall be included in calculating the income of the partner and is taxed in his hands.

Sections 53, 54 & 55

11.3 Withholding tax

Prior to 1 January 2020, the precedent partner or in his absence an agent of the partnership is required to withhold tax at 8% on each partner’s share of any partnership income, excluding that part of the share relating to gains from realisation of an investment assets, in respect of which tax at 10% is payable by the partnership.

Section 53 First Schedule

Any tax paid withheld by the partnership shall be allocated proportionately to each partner and shall be treated as paid by each partner. However, after 1 January 2020, the tax allocated to a partner can be claimed as a credit without having any right to claim a refund.

Section 55

12. Taxation of Capital gains

12.1 Computation of Capital Gain / Capital Loss

Capital gains constitute a source of income from investment and are taxed as follows:

- On change of ownership/realisation of an asset, where,

Capital gain	=	Consideration received or receivable
		Less
		Cost of the asset or liability ;and
Capital loss	=	Cost of the asset for liability
		Less
		Consideration received or receivable (realised value) at the time of realisation /change of ownership of the asset.

Note:

1. Capital gain or loss accrues over the whole period of ownership of the asset and is calculated at the time the gain or loss is, in fact, realized, i.e. the date of realisation. As the actual gain over the whole period of ownership is taxed as income of one year, relief is provided by way of a lower rate of 10%.
2. Where in any year of assessment commencing from 1 April 2021, an asset owned by a person is used in the production of different gains and profit from business (including losses) taxable at different tax rates the cost of and consideration received for the asset shall be apportioned among such gains and profits according to the market value of the parts of the assets used to produce respective gains and profits

Section 36

12.2 Determinants in computing capital gains

a. Consideration received /receivable

Consideration received or receivable for an asset shall be the amount,

- received or receivable for the asset, including any fair market value of any consideration received in kind;
- derived in respect of owning the asset, including the amount for alterations and repair: or
- decreasing the value of the asset and by way of any agreement to repair or otherwise, and
- any entitlement in the future in respect of realizing the asset, and
- grant of an option in relation to the asset, but

shall not include

- an exempt amount;
- final withholding payment; or
- other than in the case of trading stock, any amount to be directly included in calculating a person's business income.

The consideration received for the realization of an investment asset of a person shall be the amount received or realizable by the person in respect of such asset or the assessed value at the time of realization whichever is higher .

Provided however a tax official may determine the consideration received for an asset if such tax official is of the opinion the assessed value is not indicative of the market value of such asset.

For the purpose of this “assessed value means the value at the time of the realization certified by a professionally qualified valuer in a valuation report.

Section 38

b. Cost of the asset

The cost of the asset of a person is the sum of expenditure incurred

- in acquiring the asset including, where relevant, expenditure on construction, manufacture or production of the asset;
 - in altering, improving, maintaining or repairing the asset; and
- includes -
- incidental expenditure in acquiring and realising the asset (such as advertising, transfer taxes, duties and other expenditure of transfer, expenditure of establishing, preserving or defending ownership of the asset and remuneration for the services of an accountant, agent, auctioneer, broker, consultant legal advisor, surveyor or value) and
 - an income amount required to be directly included in calculating the person's income or that is an exempt amount or final withholding payment of the person, but

excludes -

consumption expenditure, excluded expenditure and expenditure to the extent to which it is deductible in calculating a person's business income or included in the cost of another asset.

The cost of an investment asset held by a person as at 30 September 2017 is deemed equal to the market value of the asset at that time.

Section 37

c. Time of realisation of an asset

A person, who owns an asset, is treated as realizing the asset-

- a) when there is a change in ownership of the asset i.e. when the asset is sold, exchanged, transferred, distributed, cancelled, redeemed, destroyed, lost, expired, expropriated or surrendered,
- b) in the case of an asset of a person who ceases to exist including by reason of the death of an individual, immediately before the person ceases to exist,
- c) in the case of an asset other than trading stock or depreciable asset, where the sum of consideration received from owning the asset exceeds the cost of the asset;
- d) in the case of an asset that is a debt claim owned by a person, when the debt is written off as bad;
- e) in utilizing any trading stock, depreciable asset, capital asset of a business or an investment asset immediately before the person begins

to employ the asset in such a way that it ceases to be an asset of any of those types, and

- f) when a resident in Sri Lanka ceases to be resident in Sri Lanka, his assets prior to becoming a non-resident person other than domestic assets.

Where a person realizes an asset in any manner described in the above (c) to (f), the value of such asset is deemed to be the market value of the asset at the time of realization.

Section 39

d. Time of realisation of liability

A realisation of the liability arises -

- a) when the person ceases to own the liability, i.e. when the liability is transferred, satisfied, cancelled, realised or expired;
- b) in the case of the liability of a person who ceases to exist including by reason of the death of an individual, immediately before the person ceases to exist; and
- c) in the case of a person who ceases to be resident in Sri Lanka, his liability prior to becoming a non-resident.

Section 40

12.3 Realisation of an asset - Realised amount - Specific cases

Time of realization	Amount realized on disposal	Allowable expenditure to person acquiring
i. Transfer to spouse or former spouse (on death divorce settlement or separation)	Net cost of the asset before date of realization	Net cost (based on the election of the spouse or former spouse) Section 44
ii. Transfer on death to another person	Net cost at the time of realization	Net cost Section 45
iii. Transfer to an associate person or for no consideration on the interest in land or a building in Sri Lanka. (Associate person is a child, spouse, parent, grand parent, grans child, sibling, aunt, uncle, nephew, niece or first-cousin)	Greater of the market value or net cost before the realization	Net cost Section 46
iv. Transfer to any other person by way of gift including transfer to charitable institution	Greater of the market value or net cost before the realization	Net cost Section 46
v. Involuntary realization of an asset with replacement of a same type of asset six months	Net cost before realization and the excess over cost of	Net cost <i>plus</i> excess of expenditure over

before or within one year after the realization	acquisition of the replacement asset	amount realized. Section 47
vi. Transfer by way of security	Person granting the security - treated as still owning the asset Other person- not treated as acquiring an asset (owning secured debt)	- Section 49
vii. Transfer by way of finance lease or instalment sale (on a finance lease, lessor is treated as transferring ownership of the asset to lessee).	Lessor- market value of the asset before transfer,	Lessee- net cost in acquiring the asset Section 49

12.4 Exemptions

- Capital gain derived by a resident individual not exceeding LKR 50,000 on realisation of an investment asset and not exceeding total gain of LKR 600,000 during the year of assessment.
- Capital gain derived by an individual on realisation of his principal place of residence provided,
 - it has been owned by the individual continuously for a 3 year period before realised, and
 - has lived in by him for two of those 3 years (calculated on daily basis).
- Capital gains on sale of quoted shares held as an investment asset.
- Gain on realisation of shares in a non-resident company derived by any person with respect to substantial participation in the non-resident company.
“substantial participation” means-
 - (i) holding 10% or more of the value of shares in the company excluding redeemable shares; together with
 - (ii) control, directly or indirectly, of 10% or more of the voting power of the company.
- Gains on the realisation of units or amounts derived as capital assets of a business or investment by a unit holder, from real estate investment trust (REIT) listed in the CSE.

Third Schedule

Note:

The realisation of trading stock, depreciable asset and investment assets of business do not fall within the source of capital gains.

Example - I

Mr Silva returned to Sri Lanka from Dubai with his employment earnings in October 2017. In the first year of residence in Sri Lanka, he bought a house in Battaramulla for LKR 35 Mn (stamp duty and notary fees paid - LKR 1.75 Mn),

an apartment in Bambalapitiya for LKR 60 Mn (stamp duty and notary fees paid - LKR 3 Mn) and an apartment in Nawala for LKR 40 Mn (Stamp duty and notary fees paid LKR - 2.00 Mn). In the third year, Mr Silva passed away. As per his last will, houses were distributed as follows: -

- Battaramulla house to his wife,
- Bambalapitiya apartment to his son, and
- Nawala apartment to his daughter.

In the 4th year, the son sold the Bambalapitiya apartment to a foreigner for LKR 80 Mn.

The wife lives at Battaramulla house and the daughter shifted to Nawala apartment after her father's death (within 3rd year). In the 7th year, the daughter sold the Nawala property for LKR 55 Mn and shifted to her mother's house.

Computation of capital gains

a) For Mr Silva

Asset	Purchase price LKR	Expenses LKR	Market Value at the time of death LKR
Battaramulla	35 Mn	1.75 Mn	40 Mn
Bambalapitiya	60 Mn	3.0 Mn	65 Mn
Nawala	40 Mn	2.0 Mn	40 Mn

As per the section 45 of the Act, the cost of the asset is treated as the market value of such asset at the time of death. Accordingly -

Asset	Cost LKR	Value at the time of death LKR	Capital gain
Battaramulla	36.75 Mn	36.75 Mn	NIL
Bambalapitiya	63 Mn	63 Mn	NIL
Nawala	42 Mn	42 Mn	NIL

There is no capital gain consequence for Mr Silva.

b) For the Son

The son sold the Bambalapitiya apartment within a year after his father's death.

	LKR	LKR
Sale price		80Mn
Cost LKR Father paid	60 Mn	
Stamp duty and notary fees	3 Mn	
Son paid		
Stamp duty and notary fees	3.5 Mn	
Notary fees 3.5 MN		
Total	66.5Mn	(66.5Mn)
Capital gain		13.5Mn
		=====

Tax payable at 10%	1.35Mn
	=====

Son is required to file a capital gains tax return not later than one month after the realization of the asset (after 1 April 2021, capital gain return is to be submitted within 30 days after the end of the relevant month in which the realisation occurred).

c) For the daughter

Since the daughter has owned the Nawala property for more than 3 years and lived in for more than 2 years, any capital gain derived by her is exempt from tax.

Example - II

Sale of Shares

- a) Capital gains tax will be applicable to gains on sale of shares in Sri Lanka, other than sale of quoted shares

Accordingly, capital gains may arise from the change of the ownership of the shares of any private company, as follows:-

Capital gain = Consideration received - Cost of the shares.

If the amount is negative figure, it is a capital loss.

Assume that the shares were purchased on 1 October 2017 for LKR 60 Mn and sold on 01 October 2019 for LKR 100 Mn.

Capital gain on sale = Consideration received LKR 100Mn) - Cost (LKR 60Mn) of shares

= LKR 100 Mn - 60 Mn (including expenditure incurred)

= LKR 40 Mn

Capital gains tax = LKR 40 Mn * 10% Mn

= LKR 4 Mn

13. Tax Rates – Other entities

	Prior to 1 January 2020	with effect from 1 January 2020
• Trusts	24%	18%
• Unit Trust and Mutual Funds	28%	24%
• Charitable institutions	14%	14%
• Non-Governmental Organisations	28%	24%
• ETF, Provident or Pension Funds and Termination Funds	14%	14%

Note:

Where taxable income include gains from realisation of an investment asset, the rate of 10% applies.

First Schedule

14. Method of Accounting

- The timing of inclusion and deductions in computing a person's income shall be made according to generally accepted accounting principles.

In accounting for income tax purposes on

- | | |
|--|---|
| - employment or investment by an individual | - cash basis; |
| - business by an individual or entity | - accrual basis; |
| - investment and other sources of income by a person | - cash basis or accrual basis, whichever properly computes persons income |

Cash basis - when payment is received and when an incurred expenses is paid

Accrual basis - when an amount is recoverable and when an incurred expense is payable.

Sections 21 & 22

15. Tax Payment Procedure

Tax charged can be paid in 3 ways ;-

- (i) Tax payable by withholding;
- (ii) Tax payable by instalments;
- (iii) Tax payable on assessment;

Section 82

15.1 Tax payable by withholding

<i>Withholding tax on interest</i>	Prior to 1 January 2020	With effect from 1 January 2020
i. Interest or discount paid by banks and financial institutions - - to a resident person (other than to a senior citizen) (Relief of LKR 1,500,000 is available to a senior citizen; WHT is applicable in the manner prescribed in regulations.) - To non resident (Withholding tax will not apply to interest or discount paid to any person on Security or Treasury bond under the Registered Stocks and Securities Ordinance or Treasury bill under the local Treasury Bills Ordinance). Note: Withholding tax deducted from interest paid to- - a resident individual, or - a charitable institution is a final tax. Prior to 1 January 2020	5%	at the appropriate rate based on the request for AIT deduction 5%
ii. Dividends - paid by a resident company; - to a resident person - to a non resident - non-resident company on remittance of profits (Remittance Tax);	14% 14% 14%	at the appropriate rate based on the request for AIT deduction Nil 14% (if the profit is retained in Sri Lanka for three subsequent years of assessment and invested in given areas, no remittance tax is applicable)

<i>iii. Rent</i> - paid to a resident person; - paid to a non-resident person;	10%	at the appropriate rate based on the request for AIT deduction
	14%	14%
<i>iv. Royalty, premium, charge, natural resource payment;</i> - paid to a resident person; - paid to non residents	14%	at the appropriate rate based on the request for AIT deduction
	14%	14%
<i>v. Service fee and contract payments on an amount exceeding LKR 50,000 per month to a resident individual;</i> (No deduction if such payment is chargeable with the Economic Service Charge). To a non resident	5%	NIL
	14%	14% subject to DTA
<i>vi. Winnings from a lottery, reward, betting and gambling;</i>	14%	14%
<i>vii. Service fee or an insurance premium with a source in Sri Lanka to a non-resident person;</i> (No deduction if such payment is chargeable with the Economic Service Charge).	14%	14%
<i>viii. Partner's share of any partnership income</i> (Withheld by the Precedent Partner)	8%	NIL
<i>ix. Sum payable to a seller on sale of gems to the National Gem and Jewellery Authority.</i>	2.5%	2.5%
<i>x. Payments to non-resident persons for transport services in respect of the carriage of passengers, who embark or cargo, mail or other moveable tangible assets that are embarked in Sri Lanka other than as a result of transshipment or telecommunication services.</i>	2%	2%

Note: Withholding tax deducted on or after 1, January 2020 from

- (i) A amount paid as winning from a lottery reward betting or gambling other than amounts received in conducting a business consisting of betting and gaming.

- (ii) Payment made to a non- resident person who is not a citizen of Sri Lanka or to a non-resident entity other than payment derived through a Sri Lankan permanent Established is a final tax.

is a final tax. However, payments made to a non- resident individual who is a citizen of Sri Lanka and who does have less than LKR 3,000,000 from interest or from total assessable income, in his hand, such amounts are not final.

First Schedule & Section 88

Advance person income tax (APIT)

An employer is required to withhold an advance personal income tax (APIT) with effect from 1 April 2020 on any payment from an employment, made to his employee monthly if such employee,

- (a) is a non-resident or non-citizen of Sri Lanka, or
- (b) is a resident and citizen of Sri Lanka who has given his consent.

as specified by the Commissioner General. Such APIT so withheld is to be remitted on or before 15th day of the following month to Inland Revenue Department.

Section 83 A

15.2 Tax payable by instalment

A person, is required to pay income tax by quarterly instalments, and pay such instalments in the following manner:

Instalment	Due date
1 st Installment	On or before 15 August in that year of assessment
2 nd nstallment	On or before 15 November in that year of assessment
3 rd Installment	On or before 15 February in that year of assessment
4 th Installment	On or before 15 May of the next succeeding year of assessment

Instalment of tax payable is calculated using the following formula:-

$$\text{Instalment Payment} = \frac{\text{Current estimated tax payable for the year} - \text{Tax paid by previous instalments and any withholding tax deducted}}{\text{Remaining number of instalments including current instalment}}$$

Example:-

Estimated tax payable for the year of assessment 2021/2022 is LKR 10 Mn:

$$\begin{aligned}
 1^{\text{st}} \text{ Instalment} &= \frac{\text{LKR } (10 - 1 \text{ WHT})}{4} = \text{LKR } 9/4 \text{ Mn} \\
 &= \text{LKR } 2.25 \text{ Mn} \\
 2^{\text{nd}} \text{ Instalment} &= \frac{\text{LKR } 10 - (2.25 + 1.15 \text{ WHT})}{3} \text{ Mn} \\
 &= \text{LKR } \frac{10 - 3.4}{3} \text{ Mn} \\
 &= \text{LKR } \frac{6.6}{3} \text{ Mn} \\
 &= \text{LKR } 2.2 \text{ Mn}
 \end{aligned}$$

Further, any ESC paid could be also deducted before making the instalment payments.

Furthermore, any employee who is required to calculate the estimate tax payable, he can deduct the APIT paid or payable for the entire year prior to applying the above formula.

Section 90**15.3 Tax payable on assessment**

- Tax on capital gains - the due date is the date on which the capital gains tax return has to be filed which is not later than one month after the end of the relevant calendar month in which the realisation occurred.

Sections 82 & 93

Tax on notice of assessment - the due date for payment is the date stated in the notice.

Section 82**15.4 Estimated tax payable**

Every person, who is an instalment payer or employee who has given the consent for APIT should file a statement of estimated income tax payable for the year by the date for the first instalment (i.e 15 August of a calendar year)

The estimate should include:

- estimated assessable income for the year,
- taxable income for the year, and
- tax payable on that income.

Provision is made to file a revised estimate.

Section 91**15.5 Penalty for late payment /under payment**

- On failure to pay all or part of an instalment tax within 14 days of the due date 10% penalty of the tax due.

- On an amount of tax not paid by the due date – interest on such underpayment at 1.5% per month or part of a month computed monthly.

Sections 179 & 157

16. Tax returns

16.1 General Rule

- Every person chargeable with income tax shall furnish a tax return, either in writing or electronic means, not later than 8 months after the end of each year ie on or before 30 November of each year.
- The taxpayer or his duly authorised agent should sign the return, attesting to its accuracy and completeness
- Where a return or part of a return was prepared for reward by some other person, including an approved accountant (other than a full-time employee), that other person should also sign the return.
- A company incorporated in Sri Lanka or outside Sri Lanka or a public corporation should file its income tax return only via eservice.

Sections 93 , 113 & 126

16.2 Penalty for late filing

A person who fails to file a return by the due date shall be liable to pay a penalty equal to the greater of -

- (a) the penalty of 5% of the amount of tax owing, plus 1% of the tax for each month or part of the month in which the failure to file continues; and
- (b) LKR 50,000 plus LKR 10,000 for each month the failure to file continues, subject to the maximum of LKR.400,000

Section 178

17. Taxpayer Registration

17.1 Registration

Every person liable to furnish a return for a year of assessment should register with the Commissioner General not later than 30 days after the end of the basis period for that year.

Section 102

17.2 Taxpayer Identification Number (TIN)

Commissioner General shall assign a TIN, which number shall be set out on returns and correspondence with the Commissioner General.

Section 103

18. Assessments

There are 4 types of assessments:

1. Self-assessments
2. Default assessments
3. Advance assessments
4. Amended or additional assessments.

18.1 Self-assessments

A self-assessed taxpayer who files a self-assessment return in the manner specified by the Commissioner General and in the approved form, shall be treated as having made an assessment of the amount of tax payable (including a net amount for the related year of assessment).

Section 93, 95 & 132**18.2 Default assessments**

- Where a taxpayer has failed to file a tax return, the Assistant Commissioner may based on available evidence and to the best of his judgement, make a default assessment
- A default assessment shall contain -
 - amount of tax assessed;
 - penalty , if any, on the tax assessed;
 - late payment interest, if any ;
 - year of assessment applicable;
 - due date for payment of tax, penalty and interest, being a date that is not less than 30 days from the date of the service of the notice; and
 - manner of objection to the assessment.

A default assessment may be made at anytime

Section 133**18.3 Advance assessments**

- Assistant Commissioner may, based on available evidence and to the best of his judgement, ,make an advance assessment of the tax payable by a taxpayer for a year of assessment-
 - when the taxpayer has not filed a tax return for the year of assessment, and tax is collected by assessment,
 - before the date on which the taxpayer's return for the given year of assessment is due.
- The tax and penalty on an advance assessment shall be payable immediately.
- A taxpayer will not be relieved from the requirement to file a tax return on account of the issue of an advance assessment.
- The tax return filed, after an advance assessment has been served, will not be considered a self-assessment return.

Section 134**18.4 Amended or additional Assessment**

Assistant Commissioner may amend the original assessment (self-assessment, default or advance assessment) to ensure that the taxpayer is assessed in respect of

- a) correct amount of the loss carried forwarded, or
- b) correct amount of the tax payable for the year of assessment to which the original assessment relates.

Section 135**18.5 Time bar assessment**

No assessment of income tax payable could be raised on a taxpayer who has filed a return of income (self-assessment return) , after the expiry of a period of 30 months from the date the taxpayer filed the return or, from the date on which the Assistant Commissioner served notice of assessment in the absence of a return.

In the case of fraud or gross or wilful neglect by the taxpayer, Assistant Commissioner could issue an assessment of income tax at any time.

Section 135

18.6 Assessments to counter Tax Avoidance Schemes

Where the Commissioner General is satisfied that a person has entered into a scheme for the sole and dominant purpose of, as appears from the substance of the scheme, obtaining a tax benefit, Commissioner General may-

- determine the tax liability of such person as if,
 - the scheme has not been entered into or
 - a reasonable alternative to entering into to scheme would have been entered into :or
- make compensating adjustments to the tax liability of any other person on the ground that any transaction reducing the amount of tax payable by any person is artificial or fictitious; and

shall issue an assessment within 5 years from the last day of the relevant year of assessment giving effect to the determination or adjustment.

“*scheme*” includes any course of action, trust, grant, agreement arrangement, understanding, promise, plan , proposal or undertaking, whether, express or implied and whether, or not enforceable.

“*Tax benefit*” means

- a. reduction in tax liability, by way of a deduction, credit offset or rebate;
- b. postponement of a liability to pay tax, or
- c. any other advantage arising from a delay in the payment of a tax; or
- d. anything that causes.
 - i. an amount of gross revenue to be exempt income or otherwise not subject to tax; or
 - ii. an amount that would otherwise be subject to tax, not to be taxed.

Section 35

18.7 Finality of assessment

An assessment shall be treated as final,

- subject to the right of the Assistant Commissioner to issue a new or revised assessment within the timeline specified; and
- if no request for review is made within 30 days of the notification of the assessment, and
- provided, however, where the taxpayer files an amended return and the tax reported on such amended return exceeds the tax assessed, the amended return has the effect of revising the assessment.

Section 143

19. Review and Appeal Process

The Review and appeal process consists of three stages:

- i. Administrative review by the Commissioner General;
- ii. Appeal against from the decision of the administrative review to the Tax Appeals Commission (TAC): and
- iii. Appeal against the decision of the TAC to the Court of Appeal.

19.1 Administrative Review

- A taxpayer, dissatisfied with an assessment or other decision , may request for an administrative review
 - in writing to the Commissioner General,
 - within 30 days of the notification of the assessment and specify the grounds for such review, and
 - where the assessment has been made in the absence of a return, or annual statement together with a duty completed return or annual statement as the case may be
- The request for an administrative review received by the Commissioner General should
 - be acknowledged within 30 days of its receipt, and
 - the date of acknowledgement shall be deemed to be the date of receipt of such request.
- Notwithstanding a request for an administrative review, the tax payable on the assessment shall be due and payable unless the Commissioner General grants an extension of time.
- The burden of proof rests with the taxpayer to show the assessment is incorrect
- Commissioner General may delegate his authority to a tax official, other than the tax official who made the assessment, to consider the request made.
- Commissioner General may hear the evidence of the taxpayer or any other person in regard to the request and shall maintain a record of such evidence.
- Commissioner shall notify the taxpayer in writing of his decision
 - confirming the assessment, or
 - increasing the amount of the assessment, or
 - reducing the amount of the assessment.
 irrespective of the time limits specified in section 135.

Section 139**19.2 Appeal to the Tax Appeals Commission (TAC)**

- A person aggrieved by the decision of the administrative review of an assessment may appeal against that decision to the TAC provided that
 - a decision on the administrative review has been received, or
 - 7 months have lapsed since the request for administrative review has been made, and
 - within 30 days from the date of the decision of the Commissioner General or within 30 Days from the date on which the period of 7 months lapsed
 with a copy to the Commissioner General
- TAC may require the appellant to furnish security for payment of the tax in dispute.
- TAC may
 - reduce the amount of the assessment : or
 - increase the amount of the assessment ; or
 - Confirm or annual the assessment.

Section 140

19.3 Appeal to the Court of Appeal

- Commissioner General or the taxpayer dissatisfied with the decision of the TAC may, provided that
 - a decision on the appeal has been received from the TAC, or
 - no response has been received within 90 days of the appeal to the TAC,

Within one month after being notified of the decision of the TAC, file a notice of appeal with the Court of Appeal.

- The party so appealing should serve a copy of the Notice of the Appeal to the other party,
- An appeal from the decision of the TAC shall be made only on a question of Law.
- On an appeal from the decision, of the TAC to the Court of Appeal, TAC shall provide
 - a written statement of the decision,
 - a summary of the evidence,
 - their finding of the facts, and
 - their conclusion on the points of law involved.

Section 144

(Updated including amendments made by the Value Added Tax (Amendment) Act No. 9 of 2021)

1. *VAT Law*

Principal Act : Value Added Tax Act, No. 14 of 2002

Amending Acts:

- No. 7 of 2003
- No. 13 of 2004
- No. 6 of 2005
- No. 8 of 2006
- No. 49 of 2006
- No. 14 of 2007
- No. 15 of 2008
- No. 15 of 2009
- No. 9 of 2011
- No. 7 of 2012
- No. 17 of 2013
- No. 7 of 2014
- No. 11 of 2015
- No. 20 of 2016
- No. 25 of 2018
- No. 19 of 2019
- No. 9 of 2021

Gazette Notifications:

- No. 1267 of 17/12/2002
- No. 1310 of 14/10/2003
- No. 1404/5 of 2/8/2005
- No. 1500/20 of 6/6/2007
- No. 1530/14 of 1/1/2008
- No. 1582/35 of 1/1/2009
- No. 1606/30 of 19/6/2009
- No. 1868/10 of 23/6/2014
- No. 1910/2 of 16/4/2015
- No. 1986/9 of 27/09/2016
- No. 1991/17 of 1/11/2016
- No. 2012/2 of 27/3/2017
- No. 2042/21 of 26/10/2017
- No. 2078/6 of 2/07/2018
- No. 2088/2 of 10/9/2018
- No. 2088/25 of 11/9/2018
- No. 2089/13 of 17/9/2018 rescinded by 2152/52
- No. 2095/20 of 1/11/2018
- No. 2125/69 of 1/6/2019 rescinded by 2152/52
- No. 2147/59 of 31/10/2019 rescinded by 2152/52
- No. 2151/52 of 29/11/2019
- No. 2152/60 of 09/12/2019
- No. 2234/7 of 29/6 2021

2. *What is VAT?*

VAT is essentially a multi-stage tax on the value added to goods and services at each stage in the production and distribution chain. In effect, it is a tax on the increase in the sales price of the goods and services as they pass through that

chain. Ultimately, the VAT will be borne by the final consumer and, therefore, VAT will operate basically as a tax on the domestic consumption of goods or services.

3. ***How VAT works***

VAT is chargeable on the supply of goods or services in Sri Lanka and on the importation of goods to Sri Lanka. It is broadly intended to be neutral on businesses (being ultimately borne by the final consumer) and, therefore, contains a credit mechanism within the chain of supply. Applying the tax in its simplest form, a business will charge VAT (output tax) on its sales (supplies); will deduct from the total of the output tax the VAT paid on its purchases (input tax), and will pay the net balance to the Department of Inland Revenue. Pursuant to a special provision introduced to the VAT Act, effective from 1 January 2007, a restriction is placed on the amount of input tax credit allowable. Please see paragraph 20.

4. ***Self-assessment of VAT***

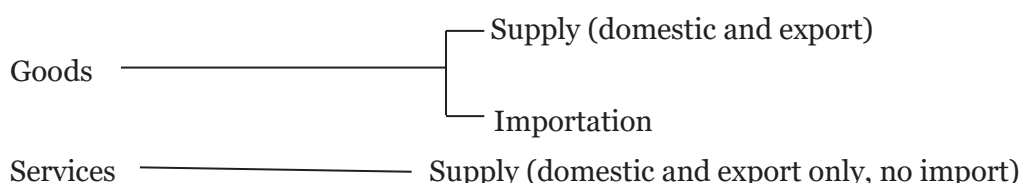
VAT is a self-assessed tax and liable persons are, therefore, responsible for determining the liability to VAT on any supply they make. It is, accordingly, important that anyone doing business considers in advance whether he is liable to account for VAT on the transaction concerned.

5. ***Implementation Date of VAT***

VAT came into force from 1 August 2002 replacing the GST.

6. ***Chargeability of VAT***

VAT is levied on every taxable supply under one of the following headings:



VAT will not be collected by Commissioner General of Inland Revenue (CGIR) where the tax is –

- recovered at –
 - LKR 25 for each garment other than panties, socks, briefs and boxer shorts for any period commencing on or after 1 November 2021
 - LKR 25 for six pieces of panties, socks, brief and boxer shorts for any period commencing on or after 1 January 2021
- On or after 1 November 2016,
 - LKR 75 per kilogram of linen or curtains;
 - LKR 75 per each towel;
 - LKR 75 per bag made out of fabric;
 - LKR 75 per kilogram of excess fabric as cut pieces; not more than 2 metres in length;
 - LKR 75 per kilogram of any other fabric sold locally as provided in the proviso to Section 22 of the VAT Act.

- deferred by –
 - CGIR
 - Director General of Customs (DGC).

No tax shall also be charged on –

- any goods which entered into a Customs bonded area or a free port referred to in Part iv of the Finance Act No 12 of 2012,
- any fabric imported by a BOI garment manufacturer for production of garments for export or transfer of such fabric, with BOI or Customs' approval, to another person for manufacture of garments for export,
- any fabric imported by a BOI approved Trading House for manufacture of garments for export through other garment manufacturers and transfer of such fabric for such manufacturing purposes,
- any fibre, yarn, grey cloth, finished cloth, chemicals and dyes used for manufacture of fabric imported by a BOI approved fabric manufacturer for purposes of such manufacture,
- any fabric or accessories imported by any person for the purpose of manufacture of garments for export, who has registered under the Simplified Value Added tax scheme administered by the Commissioner General, with the approval of the Commissioner General.

7. ***VAT on Imports***

VAT will be chargeable on the importation of goods into the country by any person other than on import of personal items and business samples worth less than LKR 10,000 through parcel post or courier. VAT payable on imported goods will be collected as it were a customs duty, applying the provisions of the Customs Ordinance.

8. ***Deferment of VAT***

The VAT law provides for deferment of the collection of VAT –

by the Commissioner General of Inland Revenue (CGIR)

- in respect of the supply of taxable goods or services by a VAT registered person to any other person
 - who has entered into an agreement as a contractor to supply any goods and services to any government department,
 - utilising funds provided by any foreign government or donor agency, approved by the Minister, and
 - where the value of the goods exceeds LKR 20,000,

for a period of 3 months from the end of the month in which such goods or services were purchased by such contractor (registered person). The registered person, to whom the deferment is granted, need not account for relevant output tax to the appropriate supplier until recovery of the tax due on such supplies within 3 months, (practically this provision is not applied)

- on the supply of -
 - any goods manufactured in Sri Lanka with the approval of the Textile Quota Board (TQB) if such supply has been utilised for the purpose of manufacture of garments for export either by garment manufacturers who are registered with the TQB or through export trading houses registered with the BOI, or
 - finished garments manufactured in Sri Lanka with the approval of the TQB if such supply has been exported through export trading houses registered with the BOI, or
 - garments by a manufacturer approved by the TQB, being the garments manufactured from fabric supplied by an exporter directly or through an export trading house which has entered into an agreement with the BOI, or
 - any service by any supplier approved by the TQB, being the service to improve the quality, character or value of any garment manufactured by any manufacturer of garments for export either directly or through any export trading house which has entered into an agreement with the BOI,
 - until such time as the activities of such garment manufacturer or service provider are carried out in the manner stipulated by the CGIR in the guidelines issued for this purpose, on the submission of the reconciliation relating to –
 - the disposal of such goods, stating that such finished goods have in fact been exported by the recipient of the supplies, or
 - the supply of value added services, stating that such services have in fact been used for the manufacture of garments which have been exported,
 - provided that, with effect from 1 April 2011, deferment of tax under this paragraph shall be administered by the CGIR,
- on the supply, with the approval of the Export Development Board (EDB) with the concurrence of the Ministry of Finance,
 - of any goods manufactured in Sri Lanka by such suppliers and supply by such supplier to any manufacturer to be utilized for the purpose of manufacture of goods (other than the goods referred to immediately above) by such manufacturers who are registered with the EDB as exporters; or
 - of any service by such suppliers provided to any manufacturer which results in the improvement of the quality, character or value of any goods manufactured by such manufacturer of goods for export who is registered with EDB as an exporter, being a service provided by such suppliers approved by the EDB as a supply of services identified for this purpose,

until such time as the activities of such manufacturer of goods or service provider are carried out in the manner stipulated by the CGIR in the guidelines issued for this purpose, on the submission of the reconciliation relating to –

- the disposal of such goods, stating that such finished goods have in fact been exported by the recipient of the supplies, or
- the supply of value added services, stating that such services have in fact been used for the manufacture of goods which have been exported,

provided that, with effect from 1 April 2011, deferment of tax under this paragraph shall be administrated by the CGIR.

- on the supply of goods or services by any registered person, who is registered under the Simplified Value Added Tax (SVAT) Scheme administered by the Commissioner-General, to:-
 - i) any exporter or provider of zero rated services specified in terms of section 7;
 - ii) any registered person who supplies goods or services to any Strategic Development Project as is referred to in sub-paragraph (i) of paragraph (f) of Part II of the First Schedule, during the project implementation period insofar as such supplies are project related supplies;
 - iii) any registered person engaged in any specific project referred to in sub-paragraph (ii) of paragraph (f) of Part II of the First Schedule (effective from 1 April 2011);
 - iv) any manufacturer who supplies goods manufactured in Sri Lanka to any exporter;
 - v) any supplier who provides value added services to an exporter which results in the improvement of the quality, character or value of any goods manufactured for export;
 - vi) any person registered under the provisions of section 22(7) of the Act, during the project implementation period insofar as such supplies are project related supplies;
 - vii) any registered person who supplies any goods or services, to any registered person referred to in sub-paragraphs (i), (ii), (iii), (iv), (v) or (vi) above, provided that the Commissioner-General is, on the information available, satisfied that the value of such supplies exceeds 50% of the total supplies of such registered person who supplies such goods or services,

until such time as the activities of such registered person are carried out to the satisfaction of the Commissioner-General in the manner stipulated by the Commissioner-General in the guidelines issued for such purpose and which are specified in the Order published in the Gazette.

For the Guidelines issued by the CGIR, please see Annex 1.

by the Director General of Customs (DGC)

- **for period of 60 days** or such other period not exceeding 90 days as may be determined by the Minister by Gazette Notification, on:
 - i) any goods imported, including goods received from a customs bonded area or a free port referred to in Part iv of the Finance Act No 12 of 2012, for purposes of manufacture and export of goods so manufactured,
 - ii) any project related goods imported by a new business or project during the project implementation period,
 - iii) any plant or machinery for foreign government or agency (including UN and its affiliates) funded infrastructure project, during the project implementation period,
 - iv) any purchase of fabric from a BOI approved fabric manufacturer by a BOI approved garment manufacturer who utilizes such fabric for manufacture of garments for export.,

- v) any plant or machinery imported or received from a customs bonded area by a registered person who imports or receives from a customs bonded area, such plant or machinery for the usage by such person for the manufacture of goods to be exported by such person,
- vi) any goods imported or received from a customs bonded area by a supplier, who has registered under the Simplified VAT Scheme administered by the Commissioner-General, and imports or receives such goods for the manufacture of goods or the provision of services to a manufacturer of garments for export,
- vii) any goods imported, including any goods received from customs bonded area by a person registered with the Simplified VAT Scheme administered by the Commissioner-General, who imports or receives such goods for the manufacture of goods or the provision of services to a manufacturer of goods for export,
- viii) any plant or machinery imported, including any plant or machinery received from a customs bonded area by a person registered under the Simplified VAT Scheme administered by the Commissioner-General who imports or receives such plant or machinery for the usage by such person for the manufacture of goods or provision of services for the manufacture of goods to be exported.

- **for such period until Completion of Project, Exhibition or Demonstration**

in respect of temporary import of –

- high value plant, machinery or equipment for use in any project, or
- any goods to be used as exhibition material or as materials in any technical demonstration,

on the approval of the Minister and to be re-exported after the completion of such project, exhibition or demonstration, as the case may be.

Deferment of the payment of tax shall be subject to a furnishing of;-

- a bank guarantee in a case where the tax deferred is less than LKR 10,000; or
- a Treasury Bill as a guarantee in a case where the tax deferred is not less than LKR 10,000; or
- a corporate guarantee which covers the amount of tax due subject to the conditions specified in the agreement in which the deferment is considered,

on the goods imported, received or purchased;

Provided that, in the case of such deferment under paragraph (b) no guarantee shall be required where such goods have been imported by a Government institution to be re-exported within one month from the date of importation.

- **for such period during the project implementation period, subject to the fulfilment of the conditions specified in the BOI agreement**

in respect of plant, machinery or equipment imported by any enterprise qualified for a tax exemption under section 16D and 17A of the Inland Revenue Act, No.10 of 2006, for the use by such enterprise for the purposes specified in the agreement entered into with the BOI where such agreement provides that

tax is exempted under item (xxxiv) of paragraph (c) of PART II of the First Schedule.

9. ***Taxable Supply***

Taxable supply is a supply of goods or services made or deemed to be made in Sri Lanka which is chargeable with VAT **including** a *zero rated supply* but **not including** an *exempt supply* and an *excluded supply*.

10. ***Taxable Activity***

Only supplies made in the course of carrying on or carrying out a taxable activity attract VAT. Accordingly, a person should register for VAT only if he carries on or carries out a taxable activity and the total value of his taxable supplies exceed the registration limits (given in paragraph 15).

A taxable activity means –

- any activity carried on as a trade, business, profession, vocation or every adventure in the nature of trade and anything done in connection with the commencement or cessation of such activity;
- provision of facilities to its members or others by a club, association or organisation (for a subscription or other consideration) and anything done in connection with the commencement or cessation of such provision;
- hiring or leasing movable property or renting or leasing any immovable property or administration of any property;
- exploitation of any intangible property such as patent, copyright or other similar asset, where such asset is **registered** in Sri Lanka or the owner of such asset is domiciled in Sri Lanka.

11. ***Taxable Period***

Taxable period means a period of one month –

- where any person registered with the Simplified Value Added (SVAT) scheme and accorded Registered Identified Purchaser (RIP) status as specified in the Guidelines issued and published in the Gazette. (Annex 1);
- where any person has commenced a business or started a project and undertakes to comply with the requirements of Section 22(7) of the Value Added Tax Act No 14 of 2002; and

a period of three months commencing on the first day of January, April, July and October for all others or who has opted to submit quarterly returns on the approval by the Commissioner General.

12. ***Time of Supply***

The time at which a supply of goods or services is treated as taking place and hence the date on which the VAT on the supply becomes chargeable is called the **tax point**. The supply must be accounted for in the **taxable period** in which the tax point occurs.

The time of supply is the **Basic Tax Point**.

Basic Tax Point

Goods

The time of the occurrence of any one of the following, whichever occurs earlier:

- Issue of an invoice by the supplier;
- A payment for the goods including any advance received by the supplier;
- A payment for the goods due to the supplier;
- Delivery of goods to customer or customer removes the goods.

Services

The time of the occurrence of any one of the following, whichever occurs earlier:

- The service was performed (i.e. when all work is completed other than invoicing);
- A payment is received for the services rendered or for future services;
- A payment is due for the services rendered or for future services;
- An invoice is issued in respect of the services rendered.

Actual Tax Point

Where an invoice is issued within 10 days from the date of delivery of the goods or date of performance of the service, as the case may be, the time of supply is deemed to be the time at which the invoice was issued.

If a tax invoice is issued 10 days after the date of delivery of the goods or the date of performance of the service, as the case may be, VAT has to be accounted for at the time at which the delivery of the goods has been effected or at the date of performance of the service.

Special rules apply to supplies made for	
Agreement for periodic payments:	When payment is due or when payment is made, whichever is earlier
Hire purchase agreements:	When the agreement is entered into

Notes:

- Where the Payment Basis (Cash Basis) of accounting is adopted (subject to approval by CGIR) - time of supply is the date of receipt of payment.
- Where a deposit (non-refundable) is made on goods or services to be supplied, a tax point is created.

13. *Place of Supply*

Place of Supply of goods or services is considered to be in Sri Lanka when the supplier carries on a taxable activity in Sri Lanka and the goods are in Sri Lanka at the time of supply, or when the supplier or his agent has performed any services in Sri Lanka.

14. Registration for VAT

Every person (individual, company, partnership, joint venture, club association, government institution, local government institution, provincial council etc.) must register for VAT if the value of total taxable supplies from his/its taxable activities -

(i) Prior to 1 January 2020

- exceeds LKR 3 Mn for any taxable period (one month or quarter), or
- exceeds LKR 12 Mn for any twelve-month period, or
- is likely to exceed LKR 3 Mn in the succeeding one month or 3-month taxable period or LKR 12 Mn in the succeeding 12 month taxable period.

(ii) On or after 1 January 2020

- Exceed LKR 75 Mn per quarter or LKR 300 Mn per annum

However, the value of supply should be excluded in respect of any supply of –

- goods relating to a private transaction (e.g. domestic or household articles),
- exempted goods or services,

Unregistered persons cannot charge VAT on supplies made and are unable to recover VAT paid on imports and local purchases.

15. Wholesale and Retail Business

The threshold with respect to the “value of supplies” applicable to any consecutive period of three months in any calendar year of any person or partnership carrying on a business of wholesale or retail trade, for the registration to VAT, is LKR 12.5 Mn commencing on or after 1 November 2016, but prior to 1 January 2020 With regard to any subsidiary or associate company of a Group of Companies, the “value of supplies” means aggregate value of supplies of each company of the Group other than any company not engaged in the wholesale or retail business.

Importers

Importers, who do not have permanent VAT registration numbers, are required to apply and obtain temporary VAT registration numbers, if the value of the respective supplies is below the VAT registration threshold, or if the import is a private and occasional one.

A temporary importer’s registration does not allow a person to charge VAT on his sale. If his sales exceed the VAT registration threshold, he should apply for permanent VAT registration.

De-registration

A registered person may apply to cancel his registration after the lapse of 12 months following his date of registration (under VAT or GST) provided –

- he has ceased to carry on his taxable activity, or
- the total value of his taxable supplies in any taxable period does not exceed the registration threshold.

Upon cancellation of the registration or upon such registration been listed as an inactive registration, he should return the certificate of registration to CGIR and should not issue any tax invoice.

Where the CGIR cancels any registration, he shall cause a list of names and the registration numbers of such registered persons to be published in three daily newspapers in Sinhala, Tamil and English languages having a wide circulation or where CGIR decides such registration as inactive, he shall publish the names and registration numbers of the persons whose registration has been decided as inactive in the official Web Site of the Department and the list so published shall be updated on monthly basis.

16. Voluntary Registration

Any person whose taxable supply is less than LKR 75 Mn per quarter or LKR 300 Mn Per annum can request for registration for VAT on or after 01 January 2020.

Such registered person shall not be eligible for registration with the simplified Value Added Tax scheme unless his taxable supply exceeds the total value of the taxable supplies LKR 75 Mn per quarter of LKR 300 Mn per annum.

17. Invoices for VAT

There are two types of Invoices:

- *Tax Invoice*

A tax invoice should be issued only to the recipient of the supply who is a VAT registered person and who makes a written request, within 14 days from the time of supply, for a tax invoice, or has stated that he is VAT registered or is deemed to be a VAT registered person and requires a tax invoice. (After the receipt of the first supply, he is not required to make such request for

subsequent supplies). **A tax invoice should be issued not later than 28 days after the time of supply.**

The tax invoice should set out the following specific details to be a **valid tax invoice**.

- i) Date of invoice and serial number of the invoice which does not exceed 40 characters without any space;
- ii) Supplier's name, address and his VAT registration number;
- iii) Customer's name, address and the VAT registration number;
- iv) Date of supply, quantity and description of goods or services supplied;
- v) Value of the supply;
- vi) Amount of VAT charged and the total consideration;
- vii) Words "Tax Invoice" at a prominent place in the invoice.

Any tax invoice not issued within the specified period and not conforming to the specified requirements will not be a valid tax invoice.

- *Invoice*

An invoice (a bill) - which is not a tax invoice – should be issued to recipients of supplies who have not made a request for a tax invoice or have not indicated they are VAT registered. This invoice should show the name, address and registration number of the supplier, date and serial number of the invoice, date of supply, quantity and description of the goods or services.

This Invoice should indicate the VAT inclusive consideration for the supply. The VAT charged should not be indicated separately in this Invoice.

Notes:

- **Tax fraction 2/27 for 8% rate** should be applied in calculating VAT on a tax inclusive invoice.
- Tax invoice should be issued not later than 28 days after the time of supply.
- CUSDEC or authenticated document issued by DGC, will be treated as a tax invoice.

Suspended Tax Invoice wherein the VAT component is shown as “Suspended VAT” can be issued by a registered person who makes taxable supplies, referred to in Section 8 (bullet points 2, 3 and 4 in order) of this note. Where the VAT component is so suspended, an invoice so issued is not considered as a valid tax invoice to claim input tax.

18. VAT Rates

a. Prior to 1 December 2019

VAT consists of 03 rate bands (inclusive of zero rate).

- **Zero rate** – Applies to export of goods, services connected with the international transportation, any service provided to a person outside Sri Lanka to be consumed outside Sri Lanka, provided the payment for such service is received from outside Sri Lanka through a bank in Sri Lanka and also services provided to overseas buyers by garment buying houses registered under the SVAT scheme and for which payment is received in foreign currency. (See Annex 2).
(A zero rated supply is a taxable supply and is subject to VAT but the rate applied is zero per cent)

- **Standard rate of 15% (Tax Fraction 3/23)** for any taxable period commencing on 2 May 2016 and ending on 11 July 2016 and for any period commencing on 1 November 2016 – Applies to the import or supply of all goods and supply of services (other than zero rated/exempt/excluded supplies).

Prior to 2 May 2016 and from 12 July 2016 but ending on or before 1 November 2016, the standard rate was 11% (Tax Fraction 11/111).

- **Lower rate of 5%** applies on the supply or import of wood sawn or chipped lengthwise, sliced or peeled (HS code 4407) and sheets for veneering (including those obtained by slicing laminated wood) for plywood or for similar laminated wood and other wood (HS code 4408) for any period commencing on 1 November 2018 as per the extraordinary gazette notification No 2095/19 of 1 November 2018.

Further, any input tax paid which is attributable to such supply on which VAT is charged at 5% shall not be allowed.

b. On or after 1 December 2019

Standard rate of 8% (tax fraction 2/27) for any taxable period commencing on or after 1 December 2019 applies to the import or supply of services (other than zero rated /exempt /excluded supplies.

19. VAT Exemptions

Exemption will apply to a limited range of supplies of goods or services and importation of specified goods – see Annex 3.

Exempt supplies are those which are not taxable, unless zero rated.

A person (other than an exporter) supplying exempt goods or services is not eligible to register for VAT and must not charge his customers any output VAT. As such person is out of the VAT system, he is unable to recover VAT charged on inputs used by him to make exempt supplies.

If any VAT registered person makes exempt supplies, he is required to display a list of such exempt supplies of each business.

20. VAT Base

The value of supply is the tax base on which VAT is calculated. It is normally the **total consideration** received from the purchaser and/or third party, **net of any discount and less any VAT chargeable**. (i.e. the amount of money, excluding VAT itself which the customer has to pay in order to obtain the goods or services).

The value (tax base) on which VAT is charged:

- Imports - (Value for Customs Duty x 110%) + Customs Duty + Surcharge + Cess + Excise (Special Provisions) Duty + Ports and Airports Development Levy
The Minister may, from time to time, prescribe by regulation the manner by which the value of goods specified in the regulation made is to be determined Such regulation shall be approved by the cabinet of Ministers and published in the gazette and shall be placed before the parliament for approval.
- Supply - Total Consideration chargeable (including Excise (Special Provisions) Duty **less** VAT charged.)

VAT will normally be charged on the invoice value of goods or services. This value should not be less than the open market value of such supply.

Special valuation rules are set forth for specific circumstances.

- The amount of VAT corresponding to any bad debt written off (not a provision for bad debts) can be deducted in the period it is written off. Where later whole or part of the debt is recovered, it will form part of the taxable supplies at the time of recovery. (Where any amount of VAT corresponding to a bad debt has been deducted by any person, the amount so deducted will be an output tax for the respective period of a registered person in respect of whom the bad debt was incurred).
- If the supply is for a consideration other than money, open market value is to be used.
- Where goods which are held for business purposes are applied to a non-business use, a supply is deemed to be made for a value equal to the open market value.
- Prior to 25 October 2014, where any goods supplied under a lease agreement are subsequently transferred to the lessee at the termination of such agreement for a consideration not exceeding ten per centum of the total consideration of the lease agreement, such consideration shall be deemed to be a lease rental recovered under such agreement, and where such consideration is more than ten per centum of the total consideration of the lease agreement, such supply shall be deemed to be a separate supply.
- On or after 25 October 2014, where any goods supplied under a lease agreement are subsequently transferred to the lessee at the termination of such agreement for a consideration, the total consideration of the lease agreement shall be treated as a lease consideration. Such consideration shall be treated as a lease rental obtained under such lease agreement.

Health Care Service

As per the Gazette No 2078/6 of 2 July 2018, the tax base for the health care service is the cost of the fees paid to hospital room charges.

Effective from 2 July 2018

Above tax base is further amended by the gazette No 2078/6 of 2 July 2018, to include only hospital room charges

Effective from 2 July 2018

Tax on garments and fabrics:-

On garments sold by a garment manufacturer under agreement with BOI or under customs supervision to the local market within permit limits.

- recovered at –
 - LKR 25 for each garment other than panties, socks, briefs and boxer shorts for any period commencing on or after 16 January 2018
 - LKR 25 for six pieces of panties, socks, brief and boxer shorts for any period commencing on or after 1 January 2021
 - Commencing on or after 1 November 2016
 - LKR 75 per kilogram of linen or curtains;
 - LKR 75 per each towel;
 - LKR 75 per bag made out of fabric;
 - LKR 75 per kilogram of excess fabric as cut pieces; not more than 2 metres in length;
 - LKR 75 per kilogram of any other fabric sold locally as provided in the proviso to Section 22 of the VAT Act.

21. Calculation of VAT

Basic formula:

Tax payable or refundable = Output tax – Input tax

The amount of VAT payable should be calculated by deducting the allowable input tax from the output tax that a supplier has charged on the goods and services so supplied. If the input tax exceeds the output tax, the excess should be carried forward.

Input tax is the VAT that a VAT registered person has paid (including VAT deferred) on inputs (whether imports or purchases, capital or revenue) used or to be used in his business of making taxable supplies.

Restriction on Input Tax Credit

- Input tax credit allowable for any taxable period should be restricted to:
 - 100% of the output tax declared for that taxable period, or
 - actual input tax credit otherwise allowable for that taxable period,

whichever is lower.

- The balance, if any, of any allowable input tax limited to 100% could be deemed to be part of the input tax allowable in the subsequent taxable period, subject to the same restriction.
- The 100% Cap will not apply to the input tax attributable to –
 - zero rated supplies,
 - supplies of goods or services which are deferred, being supplies made to exporters registered under the Simplified VAT Scheme administered by the Commissioner-General,
 - project related goods and services during the project implementation period, incurred by a person registered under Section 22(7) of the VAT Act,
- For an illustration, please see Annex 4.

Output tax is the VAT that a VAT registered person charges on his outputs i.e. on his taxable supplies of goods or services.

VAT does not observe the accounting convention of matching costs against the corresponding output. Hence, all input tax charged for any taxable period could be deducted from all output tax generated for the same period, subject to the 100% restriction on input tax credit.

Adjustments

Adjustments to output tax and input tax may arise on account of the following:

- Taxable fringe benefits to employees;
- Bad debt recoveries;
- Compensation received in relation to taxable items;
- Non-taxable use of goods/services;
- Other disallowable inputs e.g. input tax on motor cars or jeeps used for travelling;
- Tax credit notes issued/received;
- Tax debit notes received/issued.

Recovery of Input Tax

- If all the supplies are taxable, all the input tax is deductible, other than disallowable.
- If some but not all supplies are taxable, the common input tax must be apportioned so that only so much as is attributable to the taxable supplies is deductible. This would apply to businesses making mixed supplies (i.e. both tax-exempt or excluded and taxable items.)

The amount of common input tax deductible is normally calculated on a pro rata basis applying the following fraction to the residual input tax charged to the business in each taxable period.

$$\frac{\text{Taxable supplies (including zero rated items)}}{\text{Total supplies (i.e. taxable plus exempt/excluded supplies)}} \times \text{Residual Input Tax}$$

Note:

Non-deductible inputs (e.g. inputs on motor cars) are excluded from the calculation.

Input tax is not deductible

- **unless supported by –**
 - **a valid tax invoice** and claimed against the Output tax for any taxable period within 12 months from the date of such tax invoice, or
 - a Customs declaration and claimed against the Output tax for any taxable period within 24 months from the date of such Customs declaration,
- on expenditure attributable to exempt or excluded supplies,
- on the purchase and maintenance of, and lease rentals on, any motor vehicle used for business travelling,

Exception to the Rule of Ineligibility to Input Tax Credit on Exempt Supplies

On exempt supplies or excluded supplies (being non-taxable supplies), no input tax credit could be claimed. The supply of goods or services to any strategic development project or any specified project as referred to in paragraph (f)(ii) of Part II of the Exemption Schedule is exempt from VAT.

However, any registered person who supplies goods or services to such strategic development project or to such specified project, where the payment is borne by the Government, may be allowed input tax credit on the purchases of goods or services connected to supplies of goods or services to such projects as per the guidelines issued and published in the Gazette Notification by the Commissioner General.

For purposes of allowing input tax credit, the value of supply of goods or services to such projects shall be deemed to be a taxable supply, on which output tax is computed. The restriction of input tax credit to 100% of output tax will apply in ascertaining input tax credit allowable.

Further, the VAT paid by the employer on the payments borne by him on the outsourcing of the supply of meals and transport, even though such benefits of supply of meals and transport are exempt supplies, may be allowed as the input credit to such employer.

Ready reckoner for claiming input VAT in relation to the respective Output VAT rates is set out below:

Category	Rate	Items	Input Tax Credit Allowable to Supplier
Zero Rate	0%	Exports, specified international services, services provided to overseas buyers by garment buying houses registered under the SVAT Scheme administered by the Commissioner-General	Without restriction , input tax is allowed if it is purchased from non RIS on a tax invoice.
Standard Rate	15% prior to 1 December 2019 8% on or after 1 December 2019	<i>Deemed exports to export companies registered under the SVAT Scheme administered by the Commissioner-General</i> Items other than exempt or excluded supplies	Full but restricted to 100% of the Output VAT

Set off of unabsorbed VAT as at 31.12.2010 against subsequent VAT liability

Where a registered person, including an importer who imports goods for re-sale without processing, has unabsorbed input VAT credit as at 31 December 2010, such unabsorbed residue, if any, as at 31 December 2010 can be carried forward and may be claimed.

- for any taxable period commencing on or after 1 January 2011 but prior to 1 January 2012 subject to –
 - 10% of the total unabsorbed input tax credit as at 31 December 2010 for each month, or
 - 5% of the net VAT payable, if any, for that taxable period after deducting allowable input tax credit from the output VAT
 whichever is lower.
- for any taxable period commencing on or after 1 January 2012 subject to –
 - 10% of the total unabsorbed input tax credit as at 31 December 2010 for each month but not exceeding the net tax payable for that taxable period after deducting allowable input tax credit from the output tax of such person.

Set off of unabsorbed VAT as at 31.12.2010 against other Taxes and Levies

In the case of a registered person who has unabsorbed input tax credit as at 31 December 2010 and has **no taxable supplies liable to VAT** on or after 1 January 2011, such person may set off such unabsorbed input tax credit as follows:

- i) Where such set off is applicable to any taxable period from 1 January 2011 but prior to 1 January 2012
 - a) in the case of a registered person who is an operator of a telecommunication service licensed under the Sri Lanka Telecommunication Act, the set off may be made against the sum payable as Telecommunication Levy;
 - b) in the case of a registered person who is liable to pay income tax, the set off may be made against the income tax payable by such person after 1 January 2011;
 - c) in the case of a person other than a person referred to a) and b) above, the set off may be made against the sum payable after 1 January 2011 by such person as tax (e.g. ESC) under any law administered by the CGIR.
 - d) in case of a person, other than a person referred in a), b) and c) above, the set-off may be considered, against the tax payable at the point of import after 31 July 2011, by DGC with the approval of CGIR.

Such set off is subject to

- 10% of the total unabsorbed input tax credit as at 31 December 2010 for each month, or
 - 5% of the relevant tax liability for that particular month
- whichever is lower.
- ii) Where such set off is applicable to any taxable period commencing on or after 1 January 2012:
 - a) in the case of a registered person who is an operator of a telecommunication service licensed under the Sri Lanka

Telecommunication Act, the set off may be made against the sum payable as Telecommunication Levy;

- b) in the case of a registered person who is liable to pay any tax under any law administered by CGIR, the set off may be made against the sum payable after 1 January 2012 as tax under any such law;
- c) in the case of a registered person to whom the above two provisions do not apply, the set off may be considered, against the tax payable at the point of import, by the DGC after 1 January 2012 with the approval of CGIR.

Such set off is subject to –

- 10% of the total unabsorbed input tax credit as at 31 December 2010, or
- the net unabsorbed balance as at 31 December 2011 after setting off the tax payable during the period of 12 months from the total unabsorbed balance as at 31 December 2010,

whichever is lower.

Insurance Business

Where the insurance business is segregated to two separate companies (one for the long term insurance business and the other for the general insurance business) as required by the Section 53 of the Regulation of Insurance Industry (Amendment) Act, the unabsorbed input credit relating to the business of general insurance as at the date of such segregation (if any) could be treated as an unabsorbed input credit by the company carrying on the general business after such segregation.

Banking or finance business

Any unabsorbed input credit of any bank or financial company, relating to the liable business as at the date of acquisition or merger of such bank, or finance company, is allowed to be claimed in accordance with the Guidelines issued by the Central Bank for this purpose.

22. Accounting for VAT

There are two ways in which VAT can be accounted for:

- Invoice basis
- Payment basis (cash basis).

Invoice Basis

Under the invoice basis, VAT is accounted for on the sales (supplies) in the earliest taxable period in which the supplies are deemed to be made.

All registered persons should account for VAT on an invoice basis.

Under the invoice basis, a registered person could claim for VAT incurred on purchases before making payment, but may have to account for output VAT before actually receiving payment.

Payment Basis

Payment basis (cash basis) requires a registered person to account for VAT when payments are made or received.

The payment basis can be followed upon a written application made by a registered person and such application is approved by CGIR.

Under the payment basis, a registered person may claim for VAT incurred on purchases or expenses only after making payment to the supplier and receiving a tax invoice.

23. VAT Returns

VAT registrants must file a prescribed return, either in writing or by electronic means, for each taxable period.

There are 2 taxable periods:

Monthly
Quarterly

Monthly returns should be filed by registered person who is –

- (i) registered with the Simplified Value Added Tax Scheme and accorded Registered Identified Purchaser status as specified in the guidelines issued and published in the Gazette by the Commissioner-General for that purpose referred to in paragraph (e) of subsection (2) of section 2;
- (ii) has commenced a business or started a project and undertakes to comply with the requirements of subsection (7) of section 22 of the Value Added Tax Act, No. 14 of 2002 or subsection (6) of section 22 of the Goods and Services Tax Act, No. 34 of 1996.

All other registered persons need to submit only **quarterly** returns. Returns should be filed not later than the last day of the month following the end of each taxable period (month or quarter).

24. VAT Payments

VAT is payable on a self assessment basis

The tax in respect of any taxable period, commencing on or after 1 October 2019, is payable as follows:

Period	Due Date
Tax payable for the first month of the quarter	not later than the 20 th day of the 2 nd month of that quarter.
Tax payable for the 2 nd month of the quarter	not later than the 20 th day of the 3 rd month of that quarter.
Tax payable for the quarter after making deductions for the amount paid for the 1 st month and the 2 nd month of that quarter	not later than the 20 th day of the month following the end of the taxable period.

25. VAT Refunds

Pursuant to the implementation of the SVAT Scheme, refunds will not be made other than any refunds arising on any input relating to , upfront payment made to the Director General of Customs and any input claimed on purchases from a non RIS (Registered Identified Supplier under Simplified VAT Scheme). This is as per Guidelines issued by CGIR under SVAT Scheme.

The input tax set off against the output tax is now subject to the 100% restriction. Therefore, refunds may not arise to registered persons other than under the special cases referred to above.

CGIR will credit the amount refundable only to the bank account assigned to a registered person for such purpose.

25A. Refund of VAT to tourists

Where a tourist has purchased any specified goods from an authorised retailer and paid VAT on such purchases as per the tax invoice issued by such authorised retailer, such tourist can claim such VAT amount as a refund in writing in the specified form, from the Commissioner General or any person authorized by him at the point of departure, if such goods are being removed from Sri Lanka. Once the Commissioner General or the authorised person may on being satisfied with the facts given in, refund such amount of VAT to such tourist.

Authorised retailer means any registered person who has been issued with a certificate of registration as an authorised retailer by the Commissioner General on the application made to him or any person authorised by the Commissioner General.

26. VAT Assessments

VAT operates as a self assessed tax. However, the Assistant Commissioner is empowered to issue an assessment of the tax payable if –

- a registered person chargeable with tax fails to file a return;
- a registered person files the return for a taxable period without payment or part payment;
- a person who files a return requests, in writing or by electronic means, that the return be altered;
- a person who has failed to file a return for any taxable period has paid for any taxable period tax which, in the opinion of the Assistant Commissioner is less than the amount payable by that person for that period;
- a person chargeable with tax has, for any taxable period, paid as tax an amount, which appears to the Assistant Commissioner, to be less than the amount payable by him for that taxable period.

The Assistant Commissioner is required to communicate to such person by registered letter, when making an assessment or an additional assessment upon rejecting a return, why the return filed is not accepted.

Where a registered person has filed a return or has been assessed for tax in respect of any taxable period, an assessment or additional assessment can be

made only within 3 years of the end of that taxable period. If the Assistant Commissioner is of opinion that the person has wilfully or fraudulently failed to disclose material facts necessary to determine liability for any taxable period, an assessment may be issued at any time.

27. Appeal Process

A three-stage appeal process is provided:

- The first level of appeal is to CGIR.
- The determination of CGIR can be appealed to the Appeal Commission.
- Final stage is the appeal to the Court of Appeal/Supreme Court.

An appeal from the determination of the CGIR must be made within 30 days of the decision.

An appeal, in writing or by electronic means, will be admitted only if the appellant has:

- stated precisely the grounds of appeal,
- filed the return,
- paid the full amount of tax shown in his return together with any penalty thereon accrued up to the date of such notice of assessment, and a receipt in proof of such payment is attached to the petition of appeal, and
- filed the appeal within 30 days after the service of the notice of assessment.

On an appeal lodged against the assessment, CGIR may defer the due date for payment of the tax assessed, if the appellant can prove that the tax due on the alleged supplies on which the assessment has been made has not been charged by him.

Every appeal should be settled by the Assessor other than the Assessor who made such assessment, or determined by the CGIR within 2 years from the date on which such appeal is received, unless the agreement or determination of such appeal depends on the furnishing of any documents or the taking of any action by any person other than the appellant or Assessor or CGIR. Where the appeal is not agreed or determined within such 2 year period, the appeal shall be deemed to be allowed and the tax charged should, accordingly, be amended.

If an appeal is disallowed or partly allowed by the CGIR, the appellant can further appeal against the determination of the CGIR to the Appeal Commission. CGIR may also refer any valid appeal made to him to the Board of Review or the Appeal Commission.

28. VAT Penalty Regime

Every person must comply with numerous requirements imposed under VAT Law. Failure to do so will result in the imposition of a range of penalties including the following:

Fines Imposed by a Magistrate on Conviction after Summary Trial

Failure to apply for registration	A fine not exceeding LKR 25,000 and/or term of imprisonment not exceeding 6 months.
Failure to file VAT return:	
Failure to issue an invoice/ tax invoice:	

Issue of more than one invoice for each taxable supply

Incorrect Returns

Twice the amount of tax deficiency plus LKR 25,000, and/or term of imprisonment not exceeding 6 months.

Penalties imposed by CGIR

- | | |
|---|---|
| <ul style="list-style-type: none"> ● Failure to file VAT return: ● Failure to pay tax on due dates: | <p>Penalty not exceeding LKR 50,000</p> <p>10% of unpaid tax plus 2% for each succeeding month subject to 100% of unpaid tax.</p> |
|---|---|

29. VAT on Financial Services

29.1 Nature of the Tax

Financial institutions do produce an added value to the services supplied by them and, therefore, the supply of financial services has been brought within the scope of VAT. In relation to normal VAT, the exemption of financial services continues. However, most financial services other than life insurance, crop and livestock insurance and aghara insurance have been brought within the scope of the new Chapter 111A of the Act duly amended.

Since the application of the general VAT formula to finance institutions is subject to constraints, an alternative method of taxing the value addition of financial services has been formulated. This method, instead of calculating the value added on the difference between outputs (sales) and inputs (expenses), determines the VAT base by aggregating the net profit of, and the expenditure incurred on employee remuneration by, financial institutions (subject to an adjustment for economic depreciation) and imposes a tax on that base. The financial institutions are, at most, entitled to deduct current business losses from the amount of employee remuneration, thereby reducing the tax base. However, any excess of current losses over employee remuneration does not entitle the financial institution to any refund; it could only be carried forward for set-off.

29.2 Definition of Financial Services

The VAT Act, in defining the term “financial services” in Section 25F of Chapter 111A, specifies a range of activities as constituting supplies of financial services. These activities are the following:

- (a) the operation of any current, deposit or savings account;
- (b) the exchange of currency;
- (c) the issue, payment, collection or transfer of ownership of any note, order for payment, cheque or letter of credit;
- (a) the issue, allotment, transfer of ownership, drawing, acceptance or endorsement of any debt security, being any interest in or right to be paid money owing by any person other than the transfer of non-performing loans of a licensed commercial bank to any other person in terms of a

restructuring scheme of such bank as approved by Central Bank of Sri Lanka, with the concurrence of the Minister;

- (b) the issue, allotment, transfer of ownership of any equity security or a participatory security;
- (c) underwriting or sub-underwriting the issue of any equity security, debt security or participatory security;
- (d) the provision of any loan, advance or credit;
- (e) the provision of –
 - the facility of instalment credit finance in a hire purchase conditional sale or credit sale agreement for which facility a separate charge is made and disclosed to the person to whom the supply is made;
 - goods under any hire purchase agreement or conditional sale agreement which have been used in Sri Lanka for a period of not less than twelve months as at the date of such agreement.
 - leasing facilities under any finance lease agreement or operating leasing agreement on any asset, other than any land or building, if such agreement is entered into on or after October 25, 2014 and not being an agreement for re-scheduling of any agreement entered into prior to October 25, 2014.

29.3 Taxable Persons

The liability to tax applies –

- prior to 1 January 2008 to any person, and
- on or after 1 January 2008 to any person other than Co-operative Society,
- on or after 1 January 2009 to any person, other than Co-operative Society, Lady Lochore Loan Fund, or the Central Bank of Sri Lanka (with effect from 1 July 2003) or
- the Sri Lanka deposit Insurance Scheme established by regulation made under the said Act, (with effect from 10 April 2018)

carrying on the business of supplying financial services including the following specified institutions –

- (i) a licensed commercial bank within the meaning of the Banking Act, No. 30 of 1988;
- (ii) a finance company registered under the Finance Companies Act, No. 78 of 1988;
- (iii) a licensed specialized bank within the meaning of the Banking Act, No. 30 of 1988.

Effective from 1 January 2012, a Unit Trust or Mutual Fund is not liable to pay VAT on financial services.

29.4 Calculation of VAT – Value Addition Attributable Method

Commencing from 1 January 2014, the VAT on the supply of financial services is to be calculated using only the Value Addition Attributable Method. The tax credit method cannot be used on or after 1 January 2014.

The base on which the tax will be charged is the Total Value Addition of an entity, which shall be the following:

Aggregate of –

- Net Profit/Loss before income tax, (book profit),
- Total Employee Remuneration,
- Book Depreciation charged to Profit and Loss Account
- Financial VAT (and NBT on Financial services prior to 1 December 2019) charged

Less:

- Economic Depreciation
- Financial VAT (and NBT calculated as per chapter IIIA prior to 1 December 2019)

Accordingly, Total Value Addition = Book Profit + Total Employee Remuneration + Book Depreciation + VAT (& NBT on financial services) – Economic Depreciation – VAT (& NBT on financial services) computed as per Chapter IIIA.

Net Profit/Loss constitutes the net profit or loss, as the case may be, before payment of income tax on such profit computed in accordance with the accepted accounting standards (prevailing for that taxable period), subject to adjustments for economic depreciation, emoluments payable to all the employees and adjustments for VAT on supply of financial services payable as per Chapter IIIA of the VAT Act and Nation Building Tax (NBT) as per proviso to paragraph (iii) of section 3(2) of the NBT Act.

(With effect from 01.01.2012, any specified institution or any person who is required to adopt Sri Lanka Financial Reporting Standards (SLFRS) for the preparation of financial statements should take into account the operating profit prepared as per SLFRS for the above purpose).

Total employee remuneration

“Emoluments payable” means gross remuneration payable to all the employees.

“Gross remuneration” means the aggregate of benefits in money and benefits not in money payable to the employees and includes any payment, contribution or provision in relating to terminal benefits, which is charged to the income statement in arriving at the operating profit.

Economic depreciation rates prescribed by Gazette Order No. 1606/30 of 19.06.2009 are as follows:

Asset	Rate (%)
Data processing equipment & their accessories, or computer software	25
Motor Vehicles	20
Other Machinery, Plant, Equipment, Furniture or Fixtures	12 1/2
Any intangible asset (other than goodwill)	10
Buildings	6 2/3

- These depreciation rates should be applied on the cost, using the straight line method.
- The provisions in the Inland Revenue Act restricting deduction of depreciation on motor vehicles, buildings constructed etc. will not apply in computing economic depreciation.
- No deduction for depreciation or depletion can be claimed other than the above-mentioned amounts.
- Economic depreciation should not be applied in relation to any asset of any person registered under the Finance Leasing Act No 56 of 2000, being an asset which is leased under the provisions of the said Leasing Act.

Taxable persons should follow the guidelines specified by the CGIR under the Extraordinary Gazette No 1868/10 of 23 June 2014 for the purpose of the uniform application in the calculation of the tax.

Total Value Addition:

Net Profit or Loss (before income tax related expenses)	XXX	
Add: VAT on supply of financial services charged to the Income Statement	XX	
Depreciation charged to the Income Statement	XX	
Emoluments Payable	<u>XX</u>	<u>XXX</u> XXX
Less: Economic Depreciation	<u>(XX)</u>	
Total value addition prior to tax	XXX	
Less: VAT payable as per Chapter IIIA of the Act	(XX)	
Total Value Addition	XXX	

[Tax payable at 15% (VAT on supply of financial services)]

Accounting Rules

- If any registered person prepares and maintains separate accounts for supply of financial services and, financial services provided out of Sri Lanka or activities mentioned under Section 25C(5), (hereinafter refers to as non-financial services), then the value addition of such activities shall be calculated separately.
- If any registered person who is liable to pay VAT on Supply of Financial Services under Chapter IIIA does not keep separate accounts for non financial services, such person is required to calculate the value addition on the proportionate basis. For such purpose, the value addition attributable to the non-financial services is to be taken as the sum which bears to the total value addition, as the same proportion of the turnover of the non-financial services for the month bears to the total turnover of the same month, if there is no material difference in the recognition of receipts for the calculation of the profits and for the purpose of calculation of the turnover.

The computation of Value Addition attributable to Supply of Financial Services shall be as follows:

$$\text{Value Addition attributable to the financial services} = \text{Total Value Addition} - \left\{ \frac{\text{Total Value Addition} \times \text{Turnover for Non-Financial services}}{\text{Total Turnover as per Income Statement}} \right\}$$

Where the attributable method is followed, **no credit can be claimed** for any tax paid under any other provision of the VAT Act.

29.5 Tax Rate

Tax is payable at -

- 10% for any taxable period commencing from 1 January 2003 but prior to 1 January 2004,
- 15% for any taxable period commencing from 1 January 2004 but prior to 1 January 2005,
- 20% for any taxable period commencing from 1 January 2005 but prior to 1 January 2011,
- 12% for any taxable period commencing from 1 January 2011 to 31 December 2014,
- 11% for any taxable period commencing from 1 January 2015 but prior to 2 May 2016, and commencing from 12 July 2016 but prior to 1 November 2016
- 15% for any taxable period commencing from 1 November 2016.

on the value addition as computed as per sub-paragraph 29.4 above.

29.6 Threshold for Tax Payments

Liability to tax will arise only if the value addition on the supply of financial services in respect of any month exceeds or equals to LKR 75,000.

29.7 Threshold for Registration

Any person carrying on the business of supplying any financial service must register for VAT if the value of such supplies exceeds –

- a. prior to 1 January 2013:
 - LKR 500,000 for any quarter, or
 - LKR 1.8 million for any period of 12 months.
- b. on or after 1 January 2013 but prior to 1 January 2015:
 - LKR 3 million for any quarter, or
 - LKR 12 million for any period of 12 months.
- c. on or after 1 January 2015 but prior to 2 May 2016:
 - LKR 3,750,000 for any quarter, or
 - LKR 15 million for any period of 12 months.
- d. on or after 2 May 2016:
 - LKR 3 million for any period of 3 months, or
 - LKR 12 million for any period of 12 months.

29.8 Taxable Period

Taxable period of every person engaged in the supply of financial services is –

- one month for any taxable period prior to 1 January 2011,
- 6 months for any taxable period commencing on or after 1 January 2011 but ending prior to 1 April 2017, and
- 12 months for any taxable period commencing on or after 1 January 2017 where the accounts are made up by a specified institution or any person for a period of 12 months ending on the 31st day of March, such period of 12 months may be commenced on the 1st day of April.

The return should be filed on or before –

the last day of the following month for any taxable period commencing prior to 1 January 2017 and

- six months immediately succeeding the end of the taxable period for any taxable period commencing on or after 1 January 2017.

Further, an interim estimate of the profits in the specified form in respect of each 6 months period of the taxable period should be filed before the 20th day of the succeeding month of the each such 6 months period.

The tax should be paid monthly on or before the 20th day of the following month.

30. *Islamic Financial Transactions*

The value of supplies from any Islamic Financial Transactions will be chargeable to VAT.

CGIR shall, in order to determine the extent of liability to tax of any particular Islamic Financial Transaction, issue such rules and guidelines as may be required for the purpose of–

- (a) identifying the circumstances which would amount to an Islamic Financial Transaction; and
- (b) ascertaining the value of supplies arising out of any Islamic Financial Transaction.

31. *Exemption of certain small and medium enterprises from the payment of default taxes*

Under the provisions of the Value Added Tax (Amendment) Act, No. 9 of 2011, any person or partnership supplying any goods or services, having an annual turnover of a sum not exceeding Rs 100 million, who has defaulted in the payment of VAT in respect of any period ending on or before 31 December 2010 due to the existence generally of any conflict environment or due to financial constraints of such person or partnership, shall be exempt from the payment of such default VAT and the Commissioner General of Inland Revenue (CGIR) shall issue a certificate of exemption in respect of the sum in default.

In order to obtain such certificate of exemption, the defaulter should apply to the CGIR giving the reasons of his inability to pay the default taxes. Further, such defaulter should forward to the CGIR a written assurance for the payment of VAT payable by him in respect of any future periods commencing on or after 1 January 2011.

32. *Use of Electronic Communications or Electronic Records*

On the recommendation of CGIR, the Minister of Finance may make regulations for the purpose of authorising or facilitating the use of electronic communication or electronic records in respect of matters as specified in Section 8 of the Electronic Transaction Act No 19 of 2006.

Annex 1 – Guidelines on the operation of simplified Value Added Tax (SVAT) Scheme

Government Notifications

As last amended by the Gazette No 1986/9 dated 27 September 2016

Value Added Tax Act, No. 14 Of 2002

By virtue of the powers vested in me under paragraph (e) of sub-section (2) of section 2 of the Value Added Tax Act, No. 14 of 2002 as last amended by the Value Added Tax

(Amendment) Act, No. 11 of 2015, I, Kalyani Dahanayake, Commissioner General of Inland Revenue, do by this notification, specify the guidelines to operates Simplified Value Added Tax Scheme effective from 01.01.2016, as set out in the Schedule hereto.

The guidelines already issued under *Gazette Notification No. 1910/2* dated April 16, 2015 are rescinded effective from 01.01.2016

KALYANI DAHANAYAKE
Commissioner General of Inland Revenue
Department of Inland Revenue
Colombo 02

23rd September 2016

Schedule

THE OPERATION OF SIMPLIFIED VALUE ADDED TAX (SVAT) SCHEME

1. Persons eligible to be registered under SVAT

- a) The following VAT Registered Persons and **the suppliers** of any goods or services to such registered persons are entitled to be registered under the SVAT Scheme.
 - (i) any registered person who supplies goods or services to any Strategic Development Project (herein after referred to as “SDP”) established in terms of sub-section (4) of section 3 of the Strategic Development Projects Act, No. 14 of 2008, as is referred to in sub-paragraph (i) of paragraph (f) of Part II of the First Schedule to the Value Added Tax Act, No. 14 of 2002 (herein after referred to as the “VAT Act”), and who is entitled to claim input tax under the proviso of sub-section (6) of section 22 of the VAT Act during the project implementation period so far as such supplies are project related supplies which exceeds 50% of the total supplies;
 - (ii) any person registered under the provisions of subsection (7) of section 22 of the VAT Act including SDP, and who is entitled to claim input tax under the VAT Act during the project implementation period so far as such purchases are project related Purchases;
 - (iii) any registered person engaged in any specified project referred to in sub-paragraph (ii) of paragraph (f) of PART II of the First Schedule to the VAT Act;

- (iv) any exporter or provider of zero rated services specified in section 7 of the VAT Act, having zero rated supplies exceeding fifty per-centum of his total supplies;
 - (v) any manufacturer who supplies goods (liable to VAT) manufactured by himself in Sri Lanka, to exporters to be utilized for manufacture of goods for export, where the value of such supplies and zero rated supplies exceed fifty per-centum of his total supplies;
 - (vi) any provider of value added services to exporters which results in the improvement of the quality, character or value of any goods manufactured for export where such supply of services exceed fifty per-centum of his total supplies;
 - (vii) any registered person who supplies any goods or services, to any registered person referred to in items (i), (ii), (iii), (iv), (v) or (vi) above, provided that the Commissioner General is, on the information available, satisfied that the value of such supplies exceed fifty *per-centum* of the total supplies of such registered person who supplies such goods or services.
- b) Any SDP referred to in item (ii) above is required to be registered under the SVAT Scheme irrespective of the fact that such SDP is not chargeable to VAT.

2. Procedure for Registration under SVAT Scheme

Application and the information about the documents to be submitted for registration under SVAT, are available at the Taxpayer Service Unit of the Inland Revenue Department. Applications could also be downloaded from the official Website of the Inland Revenue Department (herein after referred to as “IRD”). www.ird.gov.lk.

For registration under SVAT Scheme, the applicant should be an authorized individual. In the case of a company, the applicant should be an authorized representative who has been approved by the Board of Directors of the Company. A copy of such approval should be submitted. In the case of a partnership, the applicant should be a partner. In the case of a proprietorship, applicant should be the proprietor. Further, the applicant himself is required to be present for obtaining the registration. However, in the case of a company, the applicant or an authorized representative of the company is required to be present for the purpose of SVAT registration. In the case of foreign companies, applicant could be an audit firm or lawyers' firm.

e-registration is not applicable for the registration under the Simplified VAT Scheme.

Note :

- a) Persons who are otherwise eligible for refunds are advised to request their suppliers those who have not registered under SVAT Scheme, to register under SVAT Scheme.
- b) The back dated registration is considered only in respect of suppliers and only for a period not more than 14 days.

- c) Any registered person referred to in item (i) to (vii) of sub paragraph (a) of paragraph 1 of this Schedule is named as Registered Identified Purchaser (herein after referred to as “RIP”), and his purchase is known as suspended purchase. All above eligible persons shall obtain the Registered Identified Purchaser status under the above SVAT Scheme.
- d) In granting RIP status to any registered person referred to in item (i) of sub paragraph (a) of paragraph 1 of this Schedule, the Commissioner General of Inland Revenue (herein after referred to as “CGIR”) should be satisfied that the supplies made to the SDP is more than 50% of his total supplies. Further, for such purpose, the place of business is visited for getting confirmation, as required.
- e) In granting RIP status to a registered person referred to in item (iv), (v), (vi) and (vii) of sub paragraph (a) of paragraph 1 of this Schedule, a verification is made from the computer system of the IRD as to whether the supplies of such person referred to in aforesaid item (iv), (v), (vi), or (vii) is more than 50% of his total supplies. Further, for such purpose, the place of business is visited for getting confirmation, as required.
- f) Any VAT registered person registered under SVAT Scheme as a supplier is referred to as Registered Identified Supplier (herein after referred to as “RIS”). The supply made to any RIP is known as suspended supply, and the invoice raised on such supply is known as suspended tax invoice.
- g) Any supply of a person who is engaged with specified projects and made such supply to relevant Government authority is an exempt supply under the Part II of the First Schedule of the VAT Act, but treated as deemed taxable supplies in terms of section 22 (10) of the VAT Act.
- h) Any supply of goods or services by a registered person to any SDP is an exempt supply under the Part II of the First Schedule of the VAT Act, but treated as deemed taxable supplies in terms of section 22 (10) of the VAT Act. However, if such supply is made by any person registered under SVAT Scheme, such supply is treated as deemed suspended supply.
- i) When an application is submitted by a person who is eligible to be a RIP, the names and the National Identity Card (NIC) numbers of two persons (a valid Passport No. in case of a non citizen), should be mentioned giving authority to obtain SVAT credit vouchers from the CGIR. This authorization cannot be altered unless a written request is made to the CGIR by the person who has signed the application. If such person is no longer employed with the registered person, another authorized person can sign the request, but such person’s eligibility should be proved giving documentary evidence.
- j) RIP is eligible to purchase goods or obtain services, for carrying on any respective activity which is mentioned in item (i), (ii), (iii), (iv), (v), (vi) or (vii) of sub paragraph (a) of paragraph 1 of this schedule suspending VAT component. Such purchases are treated as purchases for specified purposes. RIP is also eligible to make standard rate supplies, but the total zero rated supplies, suspended supplies and deemed taxable supplies of any such RIP for a calendar month should not be less than 50% of his total supplies. In such a situation, such registered person is eligible to purchase goods or obtain services under suspended terms which are used for its taxable supplies, and such purchase is treated as a purchase used for deemed specified purpose. In case

where the zero rated supplies, suspended supplies and deemed taxable supplies relating to SDP are less than 50% of the total supplies of a RIP, he is required to get changed the status from RIP to RIS.

- k) List of the registered persons who are authorized to purchase under suspended terms is published in the official Web site of the IRD. Any RIS may refer to this information to ensure whether the purchaser is a RIP. The list is updated at the end of each month providing information on new registrations, cancellations, made inactive, changes in the status and the registered persons who are black listed under SVAT Scheme. Therefore, RIS is required to refer to above information in the Web-site of the Inland Revenue Department.
- l) In the case of foreign companies, if applicant or signatory or credit voucher collector is an audit firm or lawyers' firm, proprietor or partners of such firm is responsible and is legally bound for tax matters specified in this regulation.

3. Specific Regulations to Registered Identified Suppliers

3.1 Suspended Tax Invoice and submission of Form SVAT 04

- i) Supplies to RIP can be made on a **Suspended Tax Invoice** (SVAT 02) showing the VAT component as "Suspended Value Added Tax". Such suspended invoice should be issued without any delay. Before making supplies under suspended terms to a registered person, RIS is required to make sure that the person is a RIP. The lists of RIPs and RISs have been published in the official Web site of the Inland Revenue Department.
- ii) A tax invoice should not be issued to any RIP under any circumstances unless the input is disallowable under the provisions of the VAT Act.
- iii) The goods exempt from VAT except any supply which is treated as deemed taxable supplies made to SDP during the project implementation period, or to any specified project cannot be supplied under SVAT Scheme. Any such deemed taxable supply made by any person registered under SVAT Scheme to any SDP which is a RIP, is considered as deemed suspended supply as per Note (h) of paragraph 2 of this Schedule, and therefore, such person is required to follow the regulations applicable to RIS.
- iv) Supplies should be considered on accrual basis unless the approval is obtained under section 23 of the VAT Act for accounting on cash basis, if it is on cash basis, the time of supply is the time in which the payment is received by the supplier. However, under cash basis or accrual basis, any advance payment received should be declared in the taxable period in which such payment is received.
- v) RIS should follow provisions relating to the time of supply as stipulated in the VAT Act, Therefore, the suspended supplies as well should be declared on that basis.
- vi) RIS is required to key data to the goods/services declaration Form SVAT 04, by using e-Service within 15 days from the end of the relevant month in which the supplies are made in order to get the approval of respective RIP to get confirmed on the suspended supply and credit voucher numbers. In this regard, the RIS is required to download the quick guide on SVAT from the Web portal of the Commissioner General.

- vii) If there is no suspended supplies made during the any month, RIS is required to tick no suspended supplies check box and update the Form SVAT 04 unless a value to be entered as value of debit notes or credit notes.
- viii) If the given information in Form SVAT 04 is rejected by respective RIP with reasons, RIS is required to resubmit Form SVAT 04 for the approval of RIP by using electronic filing facility.
- ix) In any case where RIS has not updated Form SVAT 04 within the given time frame, he is required to visit IRD with Form SVAT 04 which has been signed by the authorized RIP and with the relevant credit vouchers.
- x) When there is any amendment or deletion to be made to the record which has already been updated by the RIS and approved by RIP, RIS is required to visit IRD and get it done from the IRD officer if e-filing facility is not available.
- xi) Separate records should be maintained to ascertain supplies on which VAT is suspended.
- xii) RIS should e-mail Schedule SVAT 05 (Invoice breakdown) to RIP before updating the Form SVAT 04, if RIP request to do so.

3.2 Credit Voucher and submission of Schedule SVAT 05 (if any SVAT 05a, SVAT 05b) and SVAT 07

- i) RIS is provided a SIMPLIFIED VAT CREDIT VOUCHER (SVCV) by the RIP based on the Form SVAT 04 submitted by the RIS through the e-Service. RIS is required to collect such credit voucher irrespective of the fact that approval is granted electronically, and keep such credit voucher with him for five years.
- ii) All credit vouchers received by any RIS in respect of any taxable period are required to be submitted to the IRD to prove the suspended supplies if he is requested to do so.
- iii) RIS is required to download the Schedule templates of SVAT 05, SVAT 05a, SVAT 05b and SVAT 07, and the verifier tool from the official Website of the Commissioner General of Inland Revenue. RIS should ensure that the latest schedule templates are used for preparation of schedules.
- iv) SVAT quick guide available in the official Web site of the Inland Revenue Department which is updated on regular basis has to be followed with the e-Service procedure.
- v) Schedule SVAT 05 (and if applicable SVAT 05a and SVAT 05b) which have been prepared on the given template in respect of all suspended suppliers are required to be uploaded only by using e-Service by RIS himself or by using internet with the assistance of the IRD Officer on or before the end of following month.
- vi) Schedule SVAT 07 should be uploaded by using e-Service by RIS himself when more than 20 records are to be entered. When less than 20 records are to be entered, schedule may be uploaded or updated by using e-Service or by using intranet with the assistance of the IRD officer on or before end of the following month.

- vii) If the value of supplies is to be reduced due to the return of supply or on any other reason relating to any month where credit note is issued/received, the information should be disclosed in Schedule SVAT 05b giving the value of the supplies which is disclosed in the above schedule SVAT 05 with the credit voucher number received for that particular month. The original value of invoices and the value of credit notes should be stated in Schedule SVAT 07. However, credit voucher is issued by the RIP on the net value.
- viii) If the value of supplies has to be reduced during the month in respect of previously declared supplies, that information should also be disclosed in Schedule SVAT 05b of the current month with the credit voucher number previously obtained. It should also be disclosed with the current period credit voucher number in respect of net supplies, and the value of credit notes. However, credit voucher is issued by the RIP on the net value. Original value of supplies and the value of credit notes should be disclosed in Schedule SVAT 07.
- ix) If there are no suspended supplies made during the month, but there are returned supplies which are related to previously declared supplies, it should also be disclosed in Schedule SVAT 05b with the previously obtained credit voucher number for such supplies together with the current credit voucher number received on a negative value. The value of credit notes should be disclosed in Schedule SVAT 07.
- x) If the value of supplies have to be increased on any reason relating to any month where debit note is issued/received, that information should be disclosed in Schedule SVAT 05a giving the value of the supplies which is disclosed in the above Schedule SVAT 05 with the credit voucher number received for that particular month and relevant credit voucher relating to the supplies for which the increase of value of supply is to be made.
- xi) If schedules SVAT 05, 05a, 05b or 07 have not been submitted in time or if there is any amendment or deletion is to be made to the record which has already been uploaded, RIS is required to visit IRD and get it done from the IRD officer.

3.3 VAT Return

- i) RIS should disclose VAT suspended taxable supplies in Cage C of the VAT return considering the time of supply irrespective of the fact that a credit voucher is received or not, in respect of such suspended supply. Respective suspended VAT amount on suspended supply should be declared in cage 2A. Any RIS who requests for settlement of his VAT payments on suspended supplies through a credit voucher for any calendar month should make such request in cage R2 in the VAT return in which the supply and relevant output tax are declared. The value in R2 should be equal to the values approved by RIPs. Where there is a discrepancy between the amount entered in cage 2A and in cage R2 of the VAT return exists, such discrepancy shall be treated as a standard rated supply chargeable to VAT unless the relevant approval is obtained from RIP in any subsequent month after the submission of Form SVAT 04 to the satisfaction of the CGIR.
- ii) The value for suspended supply in the VAT return should be the excess of the value of supply over the difference between the value of credit notes

and debit notes declared in Schedule SVAT 07 based on SVAT 05a and 05b.

- iii) RIS who has any exempt supply of goods or services made to any SDP should not disclose the value of such supply in cage A2 with deemed tax in cage 1A, and deemed tax credit in cage R1, but such supply should be disclosed as suspended supply in cage C and respective tax in cage 2A and credit in cage R2 since it is considered as deemed suspended supply as per Note (h) of paragraph 2 of this Schedule.

3.4 Refunds

RIS is not entitled to any refund on any Value Added Tax paid. However, where RIS claims a refund of any input tax paid by him on any import on which upfront payment has been made to the Director General of Customs or on any local purchase made from any VAT registered person so far such purchases are connected to zero rated supply or to suspended supply made to Registered Identified Purchasers by whom suspended credit voucher has been issued on such supply, such refund will be released after six months from the end of the taxable period if the Commissioner General is satisfied after carrying out a special audit on the value addition of the business of such RIS, and if such amount is relating to the period commencing on or after January 1, 2016.

4. Specific Instructions to Registered Identified Suppliers - NFE Suppliers

- i) If RIS supply goods or services to RIP on Non Foreign Exchange (NFE) basis or non-cash basis on behalf of the foreign buyer, such RIS is named as NFE Supplier. Such RIS shall issue a NFE Suspended VAT Invoice on non-cash supply of goods or service (as specified in Form SVAT 02(a)) without any delay to RIP for such supply of goods or services, provided that :
 - a) RIS shall have a delivery request from RIP to deliver such supply of goods or services. Such delivery request should essentially contain description of purchased items, quantity and names and addresses of foreign buyers to whom the final product is intended to be exported.
 - b) RIS shall have a purchase order from foreign purchaser with the instruction to deliver the goods/ services to RIP. Name and address of the issuer of such purchase order, description and quantity should essentially be identical to details mentioned in the delivery request in (a) above ; and
 - c) RIS shall receive foreign remittance as settlement of such supplies directly from foreign purchaser and not from any other source (eg. not allowed to set off any third party liability of RIS with the consent of foreign purchaser).
- ii) If RIS is a NFE supplier, he should receive a “NFE Credit Voucher” provided by the CGIR and issued by the RIP who is a NFE Manufacturer in respect of such NFE supply. RIS is required to key data to Form SVAT 04, by using e-Service within 15 days from the end of the relevant month in which the supplies are made in order to get the approval of respective RIP to get confirmed of the suspended supply and credit voucher numbers.

- iii) RIS (NFE Supplier) shall have all supporting documents for information which contents in the said forms.
- iv) All other instructions and procedures are applied in the same manner as applicable to normal Suspended VAT Invoice, suspended supply and Credit Voucher.

5. Specific Regulations to Registered Identified Purchasers

5.1 Suspended Purchases

- i) All purchases of raw materials, capital goods and other services from RIS used for specified purpose or for deemed specified purpose are referred to as suspended purchases. RIPs are not permitted to purchase under normal tax invoice from another SVAT registered person unless such purchases are identifiable as purchase on which no input tax is allowed under section 22 of the VAT Act.
- ii) Suspended purchase should necessarily be for specified purposes or deemed specified purposes. If such suspended purchases have been used for any exempt supply (other than exempt supply which is treated as deemed suspended supply as per Note (h) of paragraph 2 of this Schedule) or any VAT input credit is disallowed under the VAT Act (if suspended purchases were made as disallowable part which was not identifiable at the time of purchase), an adjustment should be made as specified under section 22 of the VAT Act by disallowing the benefit received through the suspension. If no adjustment has been made by the registered person, an assessment under section 31 of the VAT Act could be issued by the Assistant Commissioner considering such suspended VAT as disallowable input credit (decision has been taken not to waive any penalty on such assessment). If suspended purchase have been used for taxable supplies, no adjustment is due (as above) since relevant output tax is payable in full to the CGIR without any input tax being deducted. However, if it is proved that any suspended purchases have not been used for specified purposes or for any deemed specified purposes, the value of such suspended purchase and the gross profit margin thereon is treated as a taxable supply, and an assessment is issued under section 31 of the VAT Act by the IRD. Any penalty thereon is not waived off.
- iii) The copies of VAT suspended invoices issued by the suppliers should be preserved at least for a period of five years as a source documents to prove the purchases and the suspended VAT component, when such details are required.

5.2 Approval of Form SVAT 04 by RIP

- i) When RIP logs into the list page under the e-Service, he is shown Form SVAT 04 submitted by RIS. Thereby, he is required to approve it giving the credit voucher number allocated to the respective RIS on or before 20 days from the end of the relevant month for which purchases were made.
- ii) If there is any amendment or deletion to be made to the record which has already been approved by RIP, is required to visit IRD and get it done from the IRD officer.

- iii) If there is no suspended purchases made during any month, RIP is required to tick no suspended purchases check box in RIP template.

5.3 Credit vouchers and submission of Schedule SVAT 06

- i) The RIP is provided with **SIMPLIFIED VAT CREDIT VOUCHERS (SVCV)** on a request made by only by using the e-Service. It is issued in triplicate in a serial order by the IRD. A book of SVCV contains 50 credit vouchers. In issuing credit vouchers to respective suppliers, such SVCV should be signed by two authorized persons (signatories). Therefore, names of five signatories with their designations, specimen signatures and copies of NICs (copies of passport in case of non-citizens) should be provided to the IRD at the time of collection of such SVCV. Any change of such signatories subsequently should be informed in advance. This information is to be made available to the CGIR by the person who has signed the application. If such person is no longer employed with the registered person, another person can sign the notification, but such person's eligibility to sign as authorized person should be proved giving documentary evidence.
- ii) Request for subsequent collection of credit vouchers is also made using the e-Service. When visiting IRD for collection of credit vouchers, authorized collector should visit IRD with the original SVAT certificate and relevant document for his identification. When requesting new series of credit vouchers, the copies of used credit vouchers should be produced to the IRD.
- iii) RIP is required to issue a Credit Voucher on suspended purchases to the RIS not later than 20 days from the end of any calendar month in which such purchases are made. However, in respect of supplies made to RIPs on irregular basis, credit vouchers may be issued at the time of the transaction. RIP is required to issue one credit voucher covering the aggregate purchases made from one supplier during any calendar month. RIP is required to keep copies of all vouchers issued.
- iv) In the case of bank transactions, RIP is bound to produce SVAT credit voucher at the point of transaction or within 07 days from the end of a month in which the transaction is carried out provided that the bank submits Form SVAT 04 using the e-Service within 07 days from the end of the relevant calendar month in which the supplies are made. No credit vouchers is entertained by a bank after 07 days from the end of the following month in which the transaction is made.
- v) Where any credit voucher is cancelled due to a mistake, original of the cancelled credit voucher should be attached to the credit voucher book.
- vi) CGIR may refuse issuing credit vouchers to any RIP at any time if it appears that required percentage of credit vouchers have not been released or required approval for Form SVAT 04 have not been granted on time.
- vii) RIP is required to submit summary of suspended purchases - Schedule SVAT 06

- viii) RIP is required to download the Schedule templates of such Schedule SVAT 06 and the verifier tool from the official Website of the Commissioner General of Inland Revenue. RIP should ensure that latest schedule templates are used for the preparation of Schedule SVAT 06.
- ix) SVAT quick guide available in the official Website of the IRD which is updated on regular basis has to be followed to learn the e-Service procedure.
- x) Schedule SVAT 06 should be uploaded by using e-Service by RIP when more than 20 records are to be entered. When less than 20 records are to be entered, schedule may be uploaded or updated by using e-Service or by using intranet with the assistance of the IRD officer on or before the end of the following month.
- xi) If Schedule SVAT 06 has not been submitted in time or if there is any amendment or deletion is to be made to the record which has already been uploaded, RIP required to visit IRD and get it done from the IRD officer.
- xii) If purchases have been returned or due to any other reason for which credit note is issued/received, to any supplier during the same month in which such purchases were made, it should be disclosed in Schedule SVAT 06 with such supplier's details and credit voucher number issued during the month and the original value of purchaser and value of credit notes.
- xiii) If purchases have been returned or due to any reason for which credit note is issued/received, to any supplier in respect of previously declared purchase, that information should be disclosed in Schedule SVAT 06 with the credit voucher number with the original value of purchase. If value of returned purchase is more than the purchase of the current period from such supplier, negative value credit voucher is to be written.
- xiv) If there is no purchase in the current month, but there are credit notes issued/received during the month which is related to previously declared purchases, it should also be disclosed in Schedule SVAT 06 together with the current credit voucher number which is issued on a negative value.
- xv) The credit voucher is to be written on the net value of supplies based on the value given in Form SVAT 04 for any situation mentioned in item (xii), (xiii) or (xiv) above.
- xvi) If the value of purchases have to be increased on any reason relating to any month where debit note is issued/received, that information should be disclosed in Schedule SVAT 06 giving the value of the purchases which is disclosed in the above Schedule SVAT 06 with the credit voucher number issued for that particular month and relevant credit voucher relating to the purchases for which the increase of value of purchase is to be made.
- xvii) Any RIP should , on request, prepare a statement of reconciliation to facilitate the officials of the Department to check whether the imports and locally purchased goods and services have been used for any specified purpose or deemed specified purpose as defined in Note (j) of paragraph 2 of this Schedule.

- xviii) RIP is required to submit, on request, a schedule of purchases made under suspended terms giving all invoice numbers under three sub headings (i. e. raw materials, capital goods and other goods and services obtained/consumed).
- xix) If any RIP has made suspended supplies, such RIP is required to comply with the requirements specified in paragraph 3 or 4 as the case may be, of this Schedule. During any period if RIP has not made suspended supplies, he is required to tick to suspended supply check box in RIS template.
- xx) RIP should not purchase goods or services which are exempted under PART II of the First Schedule of the VAT Act under suspended terms. If any case SVAT credit voucher has been issued on such purchases, it should be disallowed and enter such value in cage 8A of the VAT return.

5.4 VAT Return

5.4.1 Value of Purchase

- a) The value of purchases should be declared under the suspended purchases in cage “J” of the VAT Return for the month in which the suspended tax invoice is received. In any case where such purchase has not been declared for that particular month, it can be disclosed in a subsequent three months period within the same year of assessment for which accounts are made up for the purpose of section 28 of the Inland Revenue Act, No. 10 of 2006. The amount of suspended VAT should be entered in cage “K”. Under no circumstances VAT on suspended purchases shall be an input tax, and therefore, it could not be deductible from output tax. As such, suspended VAT is not refundable. In case where any input tax on purchases made under **suspended terms** is disallowable under the provisions of the VAT Act as mentioned in item (ii) of paragraph 5.1, it should be disclosed in cage 8A of the VAT return.
- b) The value of suspended purchases in the VAT return should be the excess of the value of purchase over the difference between the value of credit notes and debit notes declared in Schedule SVAT 06.

5.5 Refunds

- i) The RIP is requested to make purchases from RIS. Refunds are not made under any circumstances other than any upfront payment made to the Director General of Customs and VAT paid in any situation mentioned in item (iii) below.
- ii) RIP is not authorized to accept a normal tax invoice on purchases unless such purchases are identifiable as purchase on which the input relating to such purchases are disallowable for VAT purpose or the VAT component is claimable as referred to in item (iii) below. Instead of normal tax invoice which could be considered for claiming of input tax RIP shall request the supplier to issue a suspended tax invoice by requesting him to get registered under SVAT Scheme as RIS, as far as possible in the case of situations mentioned in item (iii) below.

- iii) RIP is entitled to claim input tax credit or get excess input (if any) where goods or services obtained from any other VAT registered person who is not a RIS.
- iv) If it appears that the purchase has been made from any RIP or RIS who has been black listed, no refund is made on tax invoices received by RIP from such persons

6. Specific Regulations to Registered Identified Purchasers - NFE Manufacturers (Consignees)

- i) If RIP is a direct exporters who received materials on Non Foreign Exchange (NFE) or non- cash basis from local suppliers (RIS) on behalf of the foreign buyer to whom the final product is exported, such RIP is named as NFE Manufacturer (Consignee) and is issued a “NFE Suspended Tax Invoice” by the RIS on non-cash basis supply, Thereafter, the NFE Manufacturer shall issue a “NFE Credit Voucher” obtained from the CGIR to such supplier (RIS), provided that such supplies are utilized only for the purpose of manufacture and export of goods to the foreign buyer. RIP shall have supporting documents for verification of the IRD officer.
- ii) The value of NFE purchases should be declared under Non Foreign Exchange Purchases in cage “J1” of the VAT Return. The amount of suspended VAT should be entered in cage “K1”
- iii) All other instructions and procedures shall be applied in the same manner as applicable to normal Suspended VAT Invoice, suspended purchase and Credit Voucher as applicable to RIP.

7. Documents

The goods/services declaration form SVAT 04 and supplementary Schedule SVAT 05, 05a and 05b issued by suppliers should be mutually agreed with the RIP if such Supplier does not use e-Service. The documents duly signed by RIP should be returned to the RIS for enable him to submit to the CGIR in order to get keyed data from the IRD Officer via intranet.

8. General Instructions to Registered Identified Purchasers and Registered Identified Suppliers

- i) RIP should submit VAT return monthly.
- ii) All RIS should submit his VAT Return on quarterly basis.
- iii) RIP who made suspended supplies should follow the instructions applicable for RIS.
- iv) Value should be to the nearest rupee (do not enter cents).
- v) Any of those forms should not contain information from more than one calendar month.
- vi) Request for change of address of a person registered for SVAT Scheme should be made to the Taxpayer Services Unit.
- vii) Loss of credit voucher books or credit vouchers should be informed immediately to the IRD with an affidavit and police report to cancel such credit voucher books or vouchers.

- viii) Cancellation of SVAT registration should be made after the cancellation of VAT registration and after receiving a request in that regard with the original certificate. Cancellation is done after receiving all due Form SVAT 04 and respective Schedules under SVAT Scheme. Further, once the cancellation is done, name of such persons are published in the Website of the Commissioner General of Inland Revenue. Further, cancellation could be made by CGIR on his discretion based on the information which shows that the registered person has not complied with the regulation issued by him.
- ix) RIS status can be changed to RIP status on a request made with the original certificate and after satisfying in the requirements mentioned in Note (d) or (e) of paragraph 2 of this Schedule.
- x) RIP status could be changed to RIS on a request made with original certificate and credit voucher books obtained, if any.
- xi) RIP status could be changed to RIS, based on the information available with the CGIR where the required percentage has not been met for three consecutive taxable periods.
- xii) Confirmation of suspended purchase or supplies will be made if both the persons have made available schedules in the given schedule templates and uploaded, updated or submitted correctly.

9. Penal Provisions

i) Registered Identified Purchasers

As the ultimate beneficiaries of the SVAT Scheme, the RIPs should strictly be adhered to the SVAT compliance, obligations while supporting RISs to be compliant with statutory obligations.

- a) Not issuing due credit vouchers by RIP, or not submitting necessary forms by any RIP to the CGIR in time, which in any manner affects the other party in the process, shall be strictly dealt with under the statutory provisions of VAT Act.
- b) After hearing the complaints from suppliers with regard to non-submission of credit vouchers in time, if it is proved to the satisfaction of the CGIR that the negligence of such act has affected to the supplier, an assessment could be made on the respective RIP, or such RIP would be black listed.
- c) Not approving of respective Form SVAT 04 and not submitting Schedule SVAT 06 to the CGIR by the RIP on time, which in any manner affects the other party in the process will be strictly dealt with under the statutory provisions of VAT Act relating to non-furnishing of returns.
- d) If any goods or services exempted under PART II of the First Schedule of the VAT Act has been purchased by any RIP under suspended terms, statutory provisions of the VAT Act will be strictly applied.

ii) Registered Identified Suppliers

- a) If suspended tax invoice has been issued in respect of goods or services which are exempted under PART II of the First Schedule of the VAT Act, statutory provisions of the VAT Act will be strictly applied.
- b) The negligence of suppliers in issuing suspended tax invoice, updating Form SVAT 04 and Schedule SVAT 05, SVAT 05a, SVAT 05b and SVAT 07 to the CGIR on time and which in any manner affects the other party in

the process will be strictly dealt with the statutory provisions of VAT Act relating to non-furnishing of returns.

10. The forms and Schedules specified for the purposes of this scheme are as follows :

- i) The Registration Form
- ii) Suspended VAT Invoice used for supplies without charging VAT - (SVAT 02).
- iii) NFE Suspended Tax Invoice - [SVAT 02 (a)].
- iv) Form SVAT 04 which is to be updated by RIS
- v) Simplified VAT Credit Voucher which is to be obtained from the IRD and utilized by the RIP for set off the liability of VAT on purchases from the RIS - (SVCV).
- vi) Monthly supplementary declaration - Schedule SVAT 05
- vii) Suspended Debit Notes declaration - Schedule SVAT 05a
- viii) Suspended Credit Notes declaration - Schedule SVAT 05b
- ix) Summary of the suspended normal and NFE supplies including suspended Debit Notes issued/received and Credit Notes issued/received - Schedule SVAT 07
- x) Summary of the suspended normal and NFE purchases including suspended Debit Notes issued/received and Credit Notes issued/received including - Schedule SVAT 06

11. This set of regulations is subjected to amendment from time to time.

The guideline issued by the CGIR under Circular No. SEC 2012/03 of 30.07.2012 and Gazette Notification No. 1910/2 dated April 16,2015 is prevail for the period prior to this Gazette.

Annex 2 – VAT – Supplies Eligible for Zero Rating (Section 7)

- A supply of goods where the supplier of such goods has exported such goods for which payment is received in foreign currency through a bank licenced under the banking Act No 30 of 1988 within a period of six months from the date of such exportation.
- Any goods supplied by any construction contractor to be utilized on a construction project carried out by such contractor outside Sri Lanka shall be deemed to be goods exported by such contractor.
- A supply of services, where such supply of services is directly connected with
 - any movable or immovable property outside Sri Lanka; for which payment is received in foreign currency through a bank licenced under the Banking Act No 30 of 1988 within a period of six months from the date of supply of such service.
 - the repair of any foreign ship, aircraft or any merchant ship registered in Sri Lanka or refurbishment of marine cargo containers;
 - any goods imported into Sri Lanka for re-export under entrepot trade;
 - a copyright, patent, licence, trade mark or similar intellectual property right, to the extent that such right is for use outside Sri Lanka; for which payment is received in foreign currency through a bank licenced under the Banking Act No 30 of 1988 within a period of six months from the date of supply of such services.
 - the international transportation (including transshipment) of goods or passengers as are specified by Commissioner General of Inland Revenue by notification published in the Gazette; (Gazette No.1267/5 of December 17, 2002)
 - computer software development, in respect of software developed by the developer for use wholly outside Sri Lanka, and for which payment is received in foreign currency through a bank if, and only if, documentary evidence is produced to the satisfaction of Commissioner General of Inland Revenue of the supply of such services;
 - client support services provided, on or after April 1, 2001 over the internet or the telephone by an enterprise set up exclusively for the provision of such services to one or more identified clients outside Sri Lanka, for which payment is received in foreign currency, through a bank.
 - Provision of services to overseas buyers by a garment buying office registered with the Textile Quota Board established under the Textile Quota Board Act, No.33 of 1996 or the SVAT Scheme, as the case may be, where payment for such service is received in foreign currency, through a Bank in Sri Lanka insofar as such services are identified by CGIR as being services essential for facilitating the export of garments to such overseas buyers.
 - Any other service not referred above provided by any person in Sri Lanka to another person outside Sri Lanka to be consumed or utilised outside Sri Lanka provided that the payment for such service in full is received in foreign currency from outside Sri Lanka through a bank in Sri Lanka.

Since the tax rate is zero, no VAT should be charged in respect of the above taxable supplies.

Annex 3 – VAT - Exempt Supplies

First Schedule - Part II

a. The supply or import of:

- i) Wheat, wheat flour or infant milk powder with effect from 1 November 2016";
- ii) pharmaceutical products and drugs (other than cosmetics) including such products and drugs certified by Cosmetics, Devices and Drugs Authority established by the Cosmetics, Devices and Drugs Act, No.27 of 1980, and raw materials for the production or manufacture of such products or drugs;
- iii) ayurvedic preparations which belong to the Ayurveda pharmacopoeia or Ayurvedic preparations (other than cosmetic preparations) or unani, siddha or homeopathic preparations (other than cosmetic preparations identified under the Harmonized Commodity Description and Coding System Numbers for custom purposes) and raw materials for such preparations with the recommendation of the Commissioner of Ayurveda;
- iv) aircrafts, or helicopters, (prior to 16 August 2018) pearls, diamonds, natural or synthetic, precious or semi-precious stones, diamond powder, precious metal, metal clad with precious metals, gold coins (effective from 17.7.2007);
- v) books (other than cheque books, periodicals, magazines, newspapers, diaries, ledger books and exercise books), for any period prior to 11 November 2016;
books, magazines, journals or periodicals (other than newspapers) for any period on or after November 11, 2016 identified under the Harmonized Commodity Description and coding System Numbers for custom purposes;
and
Unused postage and revenue stamps of the Government of the Democratic socialist Republic of Sri Lanka or of a Provincial Council;
- vi) crude petroleum oil, kerosene, liquid petroleum gas and aviation fuel (effective from 5 August 2005), diesel (effective from 1.8.2005) and oil for ships; or fuel oil specified under the Harmonized of Commodity Description Number 2710-19.60.
- vii) artificial limbs, crutches, wheel chairs, hearing aids, accessories for such aids or appliances which are worn or carried or implanted in the human body to compensate for a defect or disability, white canes for the blind, Braille typewriters and parts, Braille writing papers and Braille writing boards, and any other articles which are used by disabled persons which are approved by Minister taking into consideration the degree or relief requested by such persons on an application made for that purpose;
- viii) agricultural tractors or road tractors for semi-trailers;
- ix) cellular mobile phones;
- x) agricultural machinery, mamoties and forks (HS Code Nos. 8201.30.10, 8201.10), fertilizer (effective from 01.07.2004), artemia eggs and peat moss (HS Code Nos. 0511.91.20, 2703.00);
- xi) agricultural seeds, agricultural plants, shrimp feed inclusive of prawn feed and animal feed but excluding poultry feed;
- xii) machinery used for construction industry, milk processing machinery, computers including computer accessories, machinery, yarn used for the textile industry and dyes used for handloom industry as identified under the HS Code Nos. for Customs purposes and (effective from 1.1.2007) and

- machinery used for rice milling industry (effective from 23.12.2005) which are identified by the CGIR under Harmonized Commodity Description and Coding System Numbers for Customs purposes;
- xiii) plant and machinery by a company, for the use in a new undertaking by such company in any district other than Colombo and Gampaha as having a capital investment of not less than Rupees thirty million and the other criteria specified in Section 20 of the Inland Revenue Act for the purposes of the tax holiday;
 - xiv) media equipment or motor bicycles recommended by the Secretary to the Ministry of the Minister in charge of the subject of Media and approved by the Minister, for use by media personnel;
 - xv) Prawns;
 - xvi) solar panel modules, accessories or solar home system for the generation of solar power energy identified under the specified Harmonized Commodity Description Nos. for Custom purposes (effective from 01.01.2009);
 - xvii) high tech medical equipment or any machinery used for the manufacture of ticket issuing machinery identified under the specified Harmonized of Commodity Description Numbers for Customs purposes.
 - xviii) Petrol, Coal (if supplied prior to 1 November 2016) or Bitumen specified under Harmonized Commodity Description and Coding System Numbers for Custom purposes with effect from November 26, 2010;
 - xix)
 - a) machinery and equipment for manufacture of grain mixed bakery products with effect from 29 November 2010;
 - b) machinery and equipment for the use of leather or footwear industry or bags, motor homes, taxi meters, agricultural machinery and parts, electronic equipment or articles use manufacture of fashion jewellery with effect from 1 January 2011;
 - c) light weight electrical and electronic items with effect from June 1, 2010 but prior to 1 November 2016;
 - d) fruit seeds with effect from 16 August 2010;
 - e) telecommunication equipment with effect from 1 January 2011 but prior to 2 May 2016 and for the period commencing from 11 July 2016 but ending on or before 1 November 2016;

as specified under Harmonized Commodity Description and Coding System Numbers for Custom purposes;
 - xx) any machinery or high-tech equipment for the telecom industry, having identified that such machinery or equipment is imported or purchased exclusively for the use in the telecom industry and imported or purchased by any operator of telecommunication services, with effect from 1 January 2011 but prior to 2 May 2016 and for the period commencing from 11 July 2016 but ending on or before 1 November 2016.;
 - xxi) spare parts and accessories for exclusive use by Sri Lanka Railways prior to 1 November 2016;

xxii)

- a) lorries and trucks (HS Code Nos. 8704.10, 8704.21.11, 8704.21.20, 8704.22.10, 8704.23.10, 8704.23.30), buses (HS Code No. 8702.10.59), sports equipment (HS Heading 95.06), machinery used for the production of rubber or plastic products (HS Heading 84.77), sunglasses (prior to 16 August 2018) (HS Code Nos. 9004.10, 9004.90), perfumes (if supplied prior to November 1, 2016) (HS Code No. 3303.00.10), moulding (steel, glass, mineral material, rubber or plastic - HS Heading 84.80), photo sensitive semi conductor devices;
- b) raw materials for the manufacture of spectacles and spectacle frames;
- c) items and spares for the poultry industry (HS Code Nos. 3926.90.30, 3926.90.50, 8418.61.30, 8418.61.40, 8418.69.30);
- d) wood (sawn) (Prior to 16 August 2018) – HS Heading Nos. 44.07, 44.08, 44.09));
- e) fabric for domestic consumption subject to a cess at a specific rate in lieu of chargeability of any other tax payable on importation at the point of entry into the country, as specified in a Gazette Notification issued under the Sri Lanka Export Development Act;(prior to 16 August 2018 and from 17, September 2018)

as per the gazette notification No 2089/13 dated 17.09.2018, VAT rate has been reduced to 5% on importation of fabric with effect from 17.09.2018

- f) bowzers, bulldozers, graders, levellers, excavators, fire fighting vehicles, gully bowzers, semi-trailers for road tractors, machinery, equipment used for garbage disposal activities or garbage trucks;
- g) energy saving bulbs, for any period with effect from January 1, 2017 and raw material for the manufacture of energy saving bulbs;”
- h) ties and bows, or designer pens;
- xxiii) goods for any international event approved by the Minister of Finance taking into consideration the economic benefit to the country, by conducting such event in Sri Lanka;
- xxiv) frozen bait, fish hooks/roads/reels, fishing tackle and marine propulsion engines identified under the HS Code Nos. for Customs purposes;
- xxv) copper cables for telecom industry –
 - imported prior to 2 May 2016 where such copper cables are not available in Sri Lanka; or
 - purchased from a local manufacturer prior to 2 May 2016 and for the period commencing from 11 July 2016 but ending on or before 1 November 2016.
- xxvi) ethyl alcohol imported or manufactured and supply as a by-product which is liable to Customs duty and Cess on importation or excise duty under the Excise Duty Ordinance on manufacturing of such products.
- xxvii) plants, machinery or accessories for renewable energy generation identified under the Harmonized Commodity Description and Coding System Numbers for Custom Purposes with effect from 11 November 2016;
- xxviii) electrical goods identified under the Harmonized Commodity Description and Coding System Numbers for Custom Purposes with effect from 1 November 2016;

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- xxix) medical machinery or medical equipment identified under the Harmonized Commodity Description and Coding System Numbers for Custom Purposes with effect from 11 November 2016;
- xxx) hot air balloons identified under the Harmonized Commodity Description and Coding System Numbers for Custom Purposes with effect from 1 January 2017.”.
- xxxi) machinery and equipment including medical surgical and dental instrument , apparels , accessories and parts thereof, hospital or medical furniture and drugs, chemical and similar items as recommended by the secretary to the Ministry of the Minister assigned the subject of health, as required for the provision of health services to address the COVIC 19 pandemic, with effect from 20 May 2020.
- b. The supply of:
- i) (a) (1) educational services provided by an educational establishment (effective from 1 January 2006 and ending on 31 December 2010); and
- (2) educational services provided by any person or partnership with effect from 1 January 2011; or
- government schools or schools funded by the government or schools registered with the Ministry of Education that followed the government curricula other than any service not within the context of educational services or any part of such educational services not within the government curricula, and
- (b) public library services by the government, a Provincial Council or a local authority;
- ii) (a) public passenger transport services (other than air transport, water transport, or transport of tourists, excursion tours, and taxi services) or
- (b) the provision of leasing facilities for –
- such motor coaches with a seating capacity not less than twenty eight passenger seats and used for such public passenger transport services, if such lease agreement has been entered into prior to 1 January 2004 and ending on 31 December 2010;
 - lorries, tractors or motor coaches with a seating capacity of not less than twenty eight passenger seats, in respect of any rental falling due for payment on or after 1 April 2012, if such lease agreement has been entered into on or before 24 October 2014;
 - bowsters, bulldozers, graders, levellers, excavators, fire fighting vehicles or road tractors for semi-trailers as exempted for Custom purposes under HS Code Nos. in respect of any rental falling due for payment on or after 1 January 2013, if such lease agreement has been entered into on or before 24 October 2014.
 - three wheelers on any lease rental payable on the leasing facility for three wheelers on or after 1 January 2005, if such lease agreement has been entered into on or before 24 October 2014, and the provision of leasing facility for any bus by the holder of any valid passenger service permit issued by the National Transport Commission or any Provincial Road Passenger Transport Authority for the replacement of a bus which is being used for the transport of

passengers and which has been so used for not less than five years at the time of such import;

- iii) electricity including distribution;
- iv) free or subsidised meals by an employer to his employees at their places of work and transport free or at a subsidised rate by an employer to his employees using a motor coach between the place of residence and work place of such employees;
- v) services in relation to burials and cremations by any institution or person;
- vi) services by a person in Sri Lanka to another person outside Sri Lanka to be consumed or utilised by such other person outside Sri Lanka for which the payment is made in Sri Lanka rupees;
- vii) services at a restaurant situated beyond the immigration counter at the Bandaranaike International Air Port;
- viii) goods and services to the mission of any state or any organisation to which the provisions of the Diplomatic Privileges Act, No.9 of 1996 applies or to any diplomatic personnel of such mission or organisation who is entitled to such benefits provided that reciprocal benefits are available to their counterparts from Sri Lanka and identified as such by the Commissioner General;
- ix) goods and services funded directly by foreign organizations for the relief of sudden distress caused by natural or human disasters or to any activity having regard to the interest of the national economy, as approved by the Minister;
- x) the following financial services:
 - (a) the operation of any current, deposit or savings account;
 - (b) the exchange of currency;
 - (c) the issue, payment, collection or transfer of ownership of any note, order for payment, cheque or letter of credit;
 - (d) the issue, allotment, transfer of ownership, drawing, acceptance or endorsement of any debt security, being any interest in or right to be paid money owing by any person;
 - (e) the issue, allotment or transfer of ownership of any equity security, debt security or participatory security;
 - (f) the underwriting or sup-underwriting the issue of any equity security, debt security or participatory security;
 - (g) the provisions of any loan, advance or credit;
 - (h) the provision of -
 - the facility of instalment credit finance in a hire purchase conditional sale or credit sale agreement for which facility a separate charge is made and disclosed to the person to whom the supply is made;
 - goods under any hire purchase agreement or conditional sale agreement, which have been used in Sri Lanka for a period not less than twelve months as at the date of such agreement;
 - leasing facilities under any finance lease agreement or operating leasing agreement on any asset, other than any land or building, if such agreement has been entered into on or after 25 October 2014 and not being an agreement for re-scheduling of any agreement entered into prior to 25 October 2014.

- (i) the life insurance, "Agrahara" insurance and crop and livestock insurance
- (j) the transfer of non-performing loans of licensed commercial bank by way of transfer of such loans to any other person in items of a re-structuring scheme or other scheme of such bank as approved by the Central Bank of Sri Lanka with the concurrence of the Minister;
- xi) services being the supply, lease or rent of residential accommodation -
 - (a) if such supply has taken place prior to 1 November 2016, other than the supply, lease or rent of residential accommodation by a person, being an enterprise which has entered into an agreement with the Board of investment of Sri Lanka, under Section 17 of the Board of Investment of Sri Lanka Law, No.4 of 1978, on or after 1 April 2001 and the total cost of the projects which such agreement relates is not less than ten million United States Dollars or its equivalent in any other currency and the project relates exclusively to the aforesaid supply, lease or rental.
 - (b) on or after 1 November 2016 but prior to 1 April 2019 by any person, other than any lease or rent of residential accommodation.
 - (c) If such supply has taken place on or after 1 April 2019, but on or before 30 November 2019 other than any lease or rent by any person, and where such supply-
 - (i) Is not relating to a sale of any condominium housing unit; or
 - (ii) Is a supply of a condominium housing unit of a condominium housing project and the maximum price of the market value (whichever is higher) of any single unit of that project does not exceed rupees twenty five million."
 - (iii) Is relating to a sale of any condominium housing unit and where there is an agreement to sell in respect of such supply which is executed in term of the Notaries Ordinance (chapter 107) prior to the date of commencement of this (Amendment)Act:or
 - (iv) Is a supply of a condominium housing unit of a condominium housing project in respect of which a certificate of conformity has been issued by the relevant local Authority prior to the date of commencement of this (Amendment) Act in respect of such supply

With effect from 1 April 2019

- (d) If such supply has taken place on or after 1 December 2019 by any person , other than any lease or rent of residential accommodation
 - xii) (a) all healthcare services provided by medical institutions or professionally qualified persons providing such care, prior to May 2, 2016 and for the period commencing from 11 July 2016, but ending on or before 1 November 2016;
 - (b) on or after, 16 August 2018 all healthcare services provided by medical institutions or professionally qualified persons providing such care other than hospital room charges.";
- Effective from 25 July 2018, as per the gazette No 2018/6 of 2 July 2018 exemption is available to cost of any healthcare services other the hospital room charges,
- xiii) imported
 - (a) unprocessed timber logs, ships, rattans or

- (b) any article liable to the Special Commodity Levy, subject to the condition that such goods are sold without any processing except adaptation for sale;
- (xiv) food products made out of grains cultivated in Sri Lanka, as identified by the CGIR as high protein and high energy agro foods provided that procurements of such grains with backward integration from out growers is undertaken;
- (xv) services by Tower Hall Theatre Foundation established by the Tower Hall Theatre Foundation Act No. 10 of 1978 or Central Cultural Fund established under Central Cultural Fund Act, No 57 of 1980;
- (xvi) sea sand;
- (xvii) any film for distribution or exhibition;
- (xviii) laboratory facilities for production of any film;
- (xix) locally manufactured handloom textiles;
- (xx) locally manufactured coconut oil or coco peat, coir fibre, grow pellets, grow bags, twist fibre or coconut husk made out of coconut waste.
- (xxi) services being chartering of any vessel;
- (xxii) clay roof tiles (effective from 01.07.2007) or chemical naphtha (effective from 17.7.2007), to the extent that such clay roof tiles or chemical naphtha are manufactured in Sri Lanka;
- (xxiii) unprocessed agricultural, horticultural or fishing products produced in Sri Lanka, including the local supply of unprocessed agricultural, horticultural or fishing products where value added tax has not been collected or paid to the Department of Inland Revenue on or after 01.07.2007;
- (xxiv) unprocessed prawns produced in Sri Lanka, including the local supply of unprocessed prawns, where value added tax has not been collected or paid to the Department of Inland Revenue on or after 1 January 2004 (effective from 01.01.2008);
- (xxv) imported rattans (effective from 01.07.2007);
- (xxvi) locally produced dairy products other than powdered milk containing added sugar or other sweetening matter, out of locally produced fresh milk in so far as such milk is produced in Sri Lanka and locally produced rice products containing rice produced in Sri Lanka; and with effect from 1 November 2019 locally produced rice bran oil made out of locally produced rice.
- (xxvii) locally manufactured sugar (effective from 01.01.2008);
- (xxviii) locally manufactured machinery used for tea industry and identified by Sri Lanka Tea Board established by the Sri Lanka Tea Board Law No. 14 of 1975 as a tea machinery (effective from 01.10.2008);
- (xxix) locally manufactured surgical gauze used for surgery (effective from 01.01.2009); and
- (xxx) locally manufactured jewellery prior to 1 November 2016 and for any period from 22 November 2016.”
- (xxxi) telecommunication services subject to the telecommunication levy under the Telecommunication Levy Act, No. 21 of 2011, and the services specifically excluded from such liability in the definition of the

- expression “telecommunication services” in that Act prior to May 2, 2016 and for the period commencing from 11 July 2016, but ending on or before 1 November 2016;
- (xxxii) locally manufactured briquettes and pallets using bio mass wastes (with effect from 1 January 2011);
 - (xxxiii) locally developed software with effect from 1 January 2011;
 - (xxxiv) services being receipts from re-insurance by any local insurance company by way of commission or compensation in an insurance business (with effect from 1 January 2011);
 - (xxxv) services being the issue of licenses to local telecom operators by Telecommunication Regulatory Commission, established by the Sri Lanka Telecommunications Act, No. 25 of 1991, prior to 2 May 2016 and for the period commencing from 11 July 2016, but ending on or before 1 November 2016;
 - (xxxvi) locally manufactured –
 - (a) hydropower or wind power machinery and equipment;
 - (b) turbines ;
 - (c) canned fish or clay pottery products using locally produced raw materials;
 - (d) products using locally procured raw materials for the required specification of tourist hotels or airlines;
 - (e) specified products to identified state institutions replacing imports by the manufacturer in so far as such products are locally value added products, as per the conditions specified in the guidelines issued for this purpose;
 - (xxxvii)
 - (a) locally manufactured fabric by any domestic manufacturer who does not enjoy BOI concessions;
 - (b) (ii) fabric which are subject to a cess at a specific rate in lieu of chargeability of any other tax on importation by DGC as specified in a Gazette Notification issued under the Sri Lanka Export Development Act;
 - (xxxviii) research and development services provided by the supplier of such services as referred to in Section 25 of the Inland Revenue Act, No.10 of 2006;
 - (xxxix) painting, at the point of sale, by the artist thereof;
 - (xl) services by the Department of Commerce, with effect from 1 January 2012 services by the Board of Investment of Sri Lanka or the Sri Lanka Ports Authority, with effect from 1 April 2012, in so far as such services are provided to any person referred to in item (i) to (vii) of paragraph (e) of Section 2(2) or to providers of services which are zero rated services;
 - (xli) export development rebate paid out of the Export Development Fund, with effect from 8 October 2009;
 - (xlii) specific services for any international event approved by the Minister of Finance having taken into consideration the economic benefit to the country by conducting such an event in Sri Lanka;

- (xliii) services which result in the improvement of quality, character or value of any yarn, fabric or garment insofar as such services are provided to persons other than exporters of such products;
- (xliv) locally manufactured palm oil;
- (xlv) services by a Unit Trust Management company insofar as such services are provided to any unit trust;
- (xlvi) services being hotel accommodation to any sportsman, organizer of any port event or sponsor arriving in Sri Lanka for participating in any sport event or activity connected with sports, as may be approved by the Minister of Sports;
- (xlvii) desiccated coconut, rubber, latex, tea including green leaf, rice, rice flour, bread, eggs, liquid milk, provided such products are manufactured locally;
- (xlviii) machinery or equipment for tea or rubber industry or agricultural tractors or road tractors for semi-trailers, provided such products are manufactured locally;
- (xlix) services by any headquarters or regional head offices of institutions in the international network relocated in Sri Lanka as exempted for income tax purposes under Section 7 of the Inland Revenue Act, No. 10 of 2006, provided payments for such services are received in foreign currency;
- (l) locally manufactured ayurvedic preparations which belong to the Ayurveda Pharmacopoeia or Ayurveda preparations (other than cosmetic preparations) or unani, siddha or homeopathic preparations (other than cosmetic preparations);
- (li) Locally manufactured coconut milk (with effect from 1 November 2015)
- (lii) Geriatric services or child care services:
- (liii) International telecommunication services provided by “External Gateway Operations” to local telecommunication operators.’
- (liv) Commencing on or after 1 January 2020 information technology and enabled service as, shall be presented. (prescribed 2234/7 June 29, 2021)
- (lv) 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 Lanka Law No 4 of 1978 to the Ministry of Health and Indigenous Medical services, Sri Lanka Army , Sri Lanka Navy, Sri Lanka air force and Sri Lanka police on or after 29 April 2020.
- (lvi) Services in respect of inbound tours, by a travel agent registered with the Sri Lanka Tourism Development Authority for any period commencing from 1 April 2020.

c. The import of:

- i) goods by the mission of any state or any organisation to which the provisions of the Diplomatic Privileges Act, No.9 of 1996 applies, or by any diplomatic personnel of such mission or organisation, including the import under a temporary admission carnet for re-export;

- ii) any article entitled to duty-free clearance under the Passenger's Baggage (Exemptions) Regulations made under section 107 of the Customs Ordinance, or any article cleared duty-free;
- iii) goods by any organisation approved by the Minister, where he is satisfied that such goods are gifts from persons or organisations abroad, or are out of funds received from such organizations, for the relief of sudden distress caused by natural; or
- iv) goods by any person who has entered into agreement -
 - prior to 16 May 1996; or
 - prior to 1 April 1998 in respect of a project, the total cost of which is not less than LKR 500 Mn.
with the BOI under section 17 of the BOI Law No.4 of 1978, which goods are prescribed as a project related article, to be utilised in the project specified in the agreement, during -
 - the project implementation period of such project as specified in such agreement; or
 - up to the date of completion of such project, which date shall not be later than 36 months from the date of the last agreement entered into prior to the 19 November 2003.

whichever is earlier, other than any article in the negative list published by the Secretary to the Treasury for the purpose of this paragraph.
- (v) goods by any person who has entered into an agreement with the BOI under section 17 of the BOI Law No.4 of 1978, which is prescribed as a project related article, to be utilised in the project specified in the agreement, which project once completed will be solely in the business of making exempt supplies:
 - for a period of two years from 1 August 2002; or
 - until the completion of the project as determine by the Board of Investment of Sri Lanka;

whichever is earlier, other than any article in the negative list published by the Secretary to the Treasury for the purpose of this paragraph;
- (vi) personal items and business samples of less than LKR 10,000 through parcel post or courier;
- (vii) a motor vehicle by a disabled person specially designed for use by disabled persons approved by the Minister, on his being satisfied that such vehicle is for use specifically by such persons;
- (viii) any capital items required for the purposes of providing training by any institution providing vocational training or practical training approved by the Minister in charge of the subject of Tertiary Education and Training in consultation with the Minister where the Government has provided funds or other assistance to such institution and the surplus funds of such institution are re-invested for the maintenance or improvement of such institution;
- (ix) project related goods to any project approved by CGIR and having an investment of not less than LKR 100 Mn (other than goods on the negative list published by Secretary to Treasury – cement, wire and cable, Tor Steel, granite, wall tiles and floor tiles, paints, PVC products and goods chargeable for VAT at 20%) during the project implementation of 3 years from commencement of the project, provided such project makes taxable supplies upon completion of the project;

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- (x) sample of garments for business purposes by garment buying office in Sri Lanka registered with the TQB so long as the item is not sold;
 - (xi) any ship;
 - (xii) unprocessed timber logs;
 - (xiii) any machinery or equipment by the Ceylon Electricity Board or an Institution which has entered into an agreement with the Ceylon Electricity Board to supply electricity required for the purpose of generating electricity identified under specified HS Codes for Customs purposes, approved by the Minister;
 - (xiv) any film which is produced in Sri Lanka and sent abroad for further processing or printing with the approval of the Chairman of the National Film Corporation;
 - (xv) any bus by the holder of any valid passenger service permit issued by the National Transport Commission or any Provincial Road Passenger Transport Authority for the replacement of a bus which is being used for the transport of passengers and which has been so used for not less than five years at the time of such import;
 - (xvi) machinery identified under the specified HS Code Nos. for Customs purpose, for modernization of factories by the factory owner with the approval of the Commissioner General of Inland Revenue prior to 1 January 2014;
 - (xvii) poultry keeping machinery, poultry incubators and brooders, the import of cattle, buffaloes, poultry, pigs, goats, sheep for breeding purposes and the semen and embryos of such animals for breeding purposes, under specified Harmonized of Commodity Description Number for the Customs purpose, with the approval of the Commissioner General of Inland Revenue;
 - (xviii) finished leather to be used for the shoe manufacturing industry, on the recommendations of the Secretary to the Ministry of Industrial Development subject to approval by the Minister in charge of the subject of Finance;
 - (xix)
 - plant, machinery or equipment of high value to be used for any project; or
 - goods to be used as exhibition material or as materials in any technical demonstration and which are re-exported after the completion of such project, exhibition or demonstration, as the case may be, and in respect of which tax is deferred in terms of paragraph (b) of the second proviso to section 2(3) (effective from 17.07.2007);
 - (xx) aircraft engines or aircraft spare parts identified under specified Harmonized Commodity Description and Coding System Numbers for Customs purposes (effective from 17.07.2007 but prior to 16 August 2018)
 - (xxi) rattans under HS Code No. 1401.20 (effective from 01.07.2007);
 - (xxii) plant and machinery by an undertaking qualified for a tax holiday under section 24c of the Inland Revenue Act, No. 10 of 2006, for use by such undertaking for the purpose of manufacturing or for the provision of services (effective from 01.01.2008);
 - (xxiii) goods for a strategic development project under the provisions of the Strategic Development Projects Act, No.14 of 2008, during the project

- implementation period or any special project referred to in paragraph (f) with the approval of the Minister of Finance;
- (xxiv) any bus with the approval of National Transport Commission or any Provincial Road Passenger Transport Authority by the owner of such bus to replace any bus destroyed due to terrorist activities (effective from 9. 7. 2008); (Manufacturers who are registered with the National Craft Council are entitled to import aforesaid items through that organization.);
 - (xxv) brass sheets, brass ingots, thread, dyes, paraffin wax or shellac for manufacture of brassware by the National Craft Council with the approval of Ministry of Rural Industries and Self Employment Promotion (effective from 01.01.2009);
 - (xxvi) chemical naphtha by the Ceylon Petroleum Corporation to be supplied to Ceylon Electricity Board for the generation of electricity (effective from 01.01.2009);
 - (xxvii) packing materials exclusively for the use of packing of pharmaceuticals or ayurvedic medicines manufactured in Sri Lanka and which are imported by the manufacturer of such pharmaceuticals or ayurvedic medicines, insofar as such packing materials are not manufactured in Sri Lanka, as approved by the Secretary to the Ministry of Health or the Commissioner of the Department of Ayurveda, as the case may be;
 - (xxviii) Cine Films, cinematographic films exposed or developed, magnetic cine sound recorders, cinematographic cameras and projector parts and accessories, Prior to 16 August 2018 apparatus and equipment for cinematographic laboratories, electric filament or discharge lamps and arc lamp carbon, speakers, amplifiers, digital stereo processors and accessories, cinema media players and digital readers (HS Code Nos. 8518.29, 8518.40, 8519.81, 8519.89), with the approval of the Chairman, National Film Corporation;
 - (xxix) aircraft stimulators and parts specified under Harmonized Commodity Description and Coding System Numbers for Custom purposes with effect from 1 January 2011 but prior to 16 August 2018
 - (xxx) samples in relation to a business worth not more than rupees –
 - twenty five thousand, on such imports made prior to 1 January 2015, and
 - fifty thousand on such imports for any period on or after 1 January 2015,
 subject to such terms and conditions as specified by the Director-General of Customs;
 - (xxxi) pharmaceutical machinery and spare parts for the pharmaceutical machinery which are not manufactured in Sri Lanka (HS Code Nos. 8479.89.90, 8424.80, 8413.81, 8481.80), imported by pharmaceutical manufacturers on the recommendation of the Secretary to the Ministry of Health, including pharmaceutical machinery or parts imported after June 1, 2011 under the same conditions on which VAT has been deferred;
 - (xxxii) machinery for the manufacture of bio mass briquettes and pallets so far as such machinery is imported by the manufacturer of such products (HS Code No. 8479.30), including such machinery imported after 1 June 2011 under the same conditions on which VAT has been deferred;
 - (xxxiii) green houses, poly tunnels and materials for the construction of green houses, by any grower of agricultural products or plants of any type prior to

- 16 August 2018 subject to the condition that such items are not manufactured in Sri Lanka, and approved by the Director-General, Department of Fiscal Policy on the recommendation of the Secretary to the Ministry of Agriculture;
- (xxxiv) plant, machinery or equipment by any enterprise qualified for a tax exemption under Section 16D and 17A of the Inland Revenue Act, for the use by such enterprise for the purposes specified in the BOI agreement on which tax is deferred during the project implementation period, subject to the fulfilment of the conditions specified in the agreement, during the project implementation period;
 - (xxxv) any goods, (other than motor vehicles and goods for personal use) required for international transportation, consigned to Sri Lankan Airlines Limited, Mihin Lanka (Pvt) Ltd. or Air Lanka Catering Services Ltd.;
 - (xxxvi) fabric, specified under HS Code Nos. for Custom purposes, prior to 16 August 2018 for the sale in the domestic market without any value addition, subject to the chargeability of a Cess at a specific rate classified under the HS Code Nos. for Custom purposes, in lieu of chargeability of any other tax on importation at the point of entry into the country, by the Director-General of Customs as specified in a Gazette Notification issued under the Sri Lanka Export Development Act, No.40 of 1979;
as per the gazette notification No 2089/13 dated 17.09.2018, VAT rate has been reduced to 5% on importation of fabric with effect with effect from 17.09.2018.
 - (xxxvii) gully bowsers, semi-trailers for road tractors, any machinery or equipment used for garbage disposal activities carried out by any local authority, for the purpose of provision of such services to the public, as approved by the Secretary to the relevant Ministry;
 - (xxxviii) machinery, equipment or spare parts imported by Sri Lanka Ports Authority to be used exclusively within the ports of Sri Lanka Ports Authority.
- d. The import and supply of goods at duty free shops for payment in foreign currency.
 - e. The supply of locally manufactured goods to duty free shops for payment in foreign currency.
 - f. The supply of –
 - i. goods or services to any project identified as a Strategic Development Project, in terms of the Strategic Development Projects Act, No. 14 of 2008 (effective from 01.01.2008); or
 - ii. (a) goods or services to any specified project identified by the Minister in charge of the subject of Finance, taking into consideration the economic benefit to the country, on which project the tax is borne by the Government (with effect from 1 January 2008); or
(b) goods or services to any infrastructure development project funded through foreign loans or donations directly to the Government Ministries (with effect from January 1, 2011);
and every such project shall be approved by the Minister of Finance, and Notification of such approval shall be published in the *Gazette*;
 - iii. any goods or services provided prior to November 1, 2016 by any society registered under the Co-operative Societies Law, No. 5 of 1972, or under the respective Statutes enacted by the Provincial Councils providing for such

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- registration, or Lak Sathosa registered under the Companies Act, No. 7 of 2007.
- g. Supply of services, being construction services for Gama Naguma, Maga Naguma, Samurdhi Projects or for community irrigation projects, carried out through the participation of the community and approved by Secretary to the Ministry of the Minister in charge of the subject of Nation Building and State Infrastructure Development (effective from 01.01.2009).
 - h. Goods or services by an institution set up by the Ministry of Defence for the rehabilitation of disabled soldiers, in so far as the activities are carried out by the participation of such soldiers (with effect from January 1, 2011).
 - i. Supply of goods or services by the Central Bank of Sri Lanka.
 - j. Supply of any services by any public corporation to the extent of provision of such services on behalf of the Government of Sri Lanka, free of charge out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government.
 - k. Supply of goods or services by any individual who is a citizen of Sri Lanka and who carries on any business of manufacturing of any article, other than any liquor or tobacco product, or supply of any services after returning from a foreign employment, for a period of five years reckoned from the beginning of the year in which such business commences if such individual-
 - (i) returns from such foreign employment on or after January 1, 2013; and
 - (ii) invests his earnings from such foreign employment to commence such business.
 - l. with effect from 25 October 2014, the import or supply of –
 - (a)
 - (i) any motor vehicle identified under the H.S Code Nos. for Custom purposes and liable to the Excise (Special Provisions) Duty on the importation of such vehicle or any motor vehicle liable to the same duty on the manufacture of any such vehicle;
 - (ii) any motor vehicle which remains unsold as at October 25, 2014, which would otherwise have been liable to the same duty on the importation or manufacture of the same, if imported or manufactured after October 25, 2014, other than any vehicle supplied under a financial leasing agreement entered into prior to 25 October 2014, which is disposed after the repossession of same by the lessor, on which input tax had been claimed;
 - (b) cigarettes identified under the H.S Code Nos. for Custom purposes and liable to the Excise (Special Provisions) Duty and Cess on the importation or manufacture of the same including cigarettes in the stocks remaining unsold as at October 25, 2014, which would have been liable to the same duty on the importation or manufacture of the same, if imported or manufactured after October 25, 2014 but prior to 1 November 2016; or
 - (c) liquor prior to 1 November 2016 identified under the H.S Code Nos. for Custom purposes and subject to the Customs Duty and Cess on the importation or Excise (Ordinance) Duty on manufacture of the same including liquor imported or manufactured prior to October 25, 2014 remaining unsold as at 25 October 2014,

which would have been liable to the same duty and Cess on importation or Excise (Ordinance) Duty on manufacture of the same, if imported or manufactured after 25 October 2014.

- m. With effect from 1 January 2021 , local supply of any goods other than goods referred to in paragraph (c) which would have been exempted on importation, if imported.

Annex 4 – Restriction on Allowability of Input Tax - Illustration**Illustration**

A VAT registered exporter has claimed a VAT refund for the month of January 2021 giving the following details.

Output Tax	LKR		LKR
Local sales	8,000,000	@ 8% output VAT	640,000
Zero rated (exports)	2,000,000	@ 0%	
Total turnover	10,000,000		
Input Tax			
Total allowable input tax	=	1,600,000	
Allowable input tax attributable to			
• Zero rated supplies	=	$\frac{2,000,000}{10,000,000} \times 1,600,000$	= Rs 320,000
• Local sales	=	$\frac{8,000,000}{10,000,000} \times 1,600,000$	
	=	LKR 1,280,000	
But restricted to 100% of 640,000	=	LKR 640,000	= LKR 640,000
Input tax claimable			LKR
960,000			
Carried forward input tax			LKR 640,000
VAT Refund for the month			LKR 320,000



Ports and Airports Development Levy (PAL)

Law

- :
- Ports and Airports Development Levy Act, No. 18 of 2011.
 - Ports and Airports Development Levy (Amendment) Act, No. 10 of 2012.
 - Ports and Airports Development Levy (Amendment) Act, No.5 of 2013.
 - Ports and Airports Development Levy (Amendment) Act, No.21 of 2016.
 - Ports and Airports Development Levy (Amendment) Act, No.5 of 2020
-
- Gazette Order No. 1546/6 of 22 April 2008.
 - Gazette Order No. 1582/15 of 31 December 2008.
 - Gazette Order No. 1681/33 of 24 November 2010.-Rescinded by 1837/46
 - Gazette Order No. 1703/1 of 25 April 2011.
 - Gazette Order No. 1733/17 of 22 November 2011.
 - Gazette Order No. 1757/3 of 09 May 2012.
 - Gazette Order No. 1783/34 of 9 November 2012.
 - Gazette Order No. 1837/46 of 22 November 2013.
 - Gazette Order No. 1992/51 of 11 November 2016 Rescinded by 2049/16
 - Gazette Order No. 2049/16 of 13 December 2017. Rescinded by 2152/32
 - Gazette Order No. 2065/42 of 6 April 2018. Rescinded by 2152/32
 - Gazette Order No. 2079/34 of 11 July 2018 Rescinded by 2152/32
 - Gazette Order No. 2113/10 of 5 March 2019 Rescinded by 2152/32
 - Gazette Order No. 2122/16 of 7 May 2019 Rescinded by 2152/32
 - Gazette Order No. 2125/64 of 31 May 2019 Rescinded by 2152/32
 - Gazette Order No. 2142/7 24 September 2019 Rescinded by 2152/32
-
- Gazette Order No. 2152/32 of 5 December 2019

Levy

- : PAL is charged and levied on the CIF value of every article originating from outside Sri Lanka and imported into Sri Lanka.

Section 2

Rate of Levy

- :
- Commencing from 1 January 2011 and ending on 31 December 2015, the rate of the levy was 5% of the CIF value of every article imported.
 - Commencing from 1 January 2016 and ending on 5 December 2019 the rate of the levy was 7.5% of the CIF value of every article imported.
 - Commencing from 6 December 2019 the rate of the levy is 10% of the CIF value of every article imported.

Section 3(1)

Concessionary Rate: Concessionary rate of 2% is granted in respect of petroleum oil, raw materials used for manufacturing pharmaceutical specified medicaments, taxable and knitting, sewing machines etc. See Gazette Nos. 1582/15 of 31/12/2008 and 1757/3 of 9/5/2012.

Exemptions

- :
- Any article imported into Sri Lanka –

- (a) for the purpose of processing and re-export;
- (b) to be used as a raw material for the manufacture of goods for export; or
- (c) for storage, fabrication, repairing, servicing or exportation as the case may be, being equipment, tools, materials, consumables in or from a bonded facility to be used in the petroleum operations conducted within or outside Sri Lanka.

For the purposes of paragraph (c), the expression “petroleum operations” shall have the meaning assigned to it under the Petroleum Resources Act, No. 26 of 2003.

- Foreign currency notes as specified under the relevant H.S Code Nos. for purposes of the Customs Ordinance.
- Goods for the use of international events conducted in Sri Lanka, on donations from abroad, as approved by the Minister of Finance.
- Goods for any infrastructure development project out of donations directly to the Government Ministries, as approved by the Minister of Finance.
- Goods for any specified project funded through foreign loans and on which the tax is borne by the Government, as approved by the Minister of Finance.
- Any article imported into Sri Lanka in respect of the provision of any service by a mission of any state or any organization whom the provisions of the Diplomatic Privileges Act, No 9 of 1996 apply.

Sections 3(2), 4(1) & (7)

Definition of “Article” : “Article” means any goods, materials, foreign currency notes, any agricultural or horticultural product or merchandise **but does not** include diamonds, gems, gold, jewellery and electronic items imported for the purpose of processing and re-export.

Section 10

Other Exemptions/ Concessionary Rates : Minister of Finance may, having regard to the interest of the national economy, by Gazette Order exempt from the operation of the levy, any article as specified in the Gazette Order.

Section 3

Exemption from PAL has been granted on the importation of certain articles in terms of –

Gazette No. 1546/6 of 22 April 2008
 “ “ 1582/15 of 31 December 2008
 “ “ 1681/33 of 24 November 2010 Rescinded
 “ “ 1703/1 of 25 April 2011
 “ “ 1733/17 of 22 November 2011
 “ “ 1757/3 of 09 May 2012
 “ “ 1783/34 of 09 November 2012
 “ “ 1837/46 of 22 November 2013
 “ “ 2049/16 of 13 December 2017 Rescinded
 “ “ 2152/32 of 5 December 2019

<i>Deferment Facility</i>	:	The Director General of Customs (DGC) shall defer the collection of the levy on the importation of any article – - for the use of any specified project identified by the Finance Minister having regard to the interest of the national economy on which the tax is borne by the Government, with effect from July 1, 2009, until such time the article is re-exported after the completion of such project, subject to the furnishing of a corporate guarantee which covers the amount of the tax due on the article so imported; or - being plant, machinery or equipment by any undertaking qualified for a tax exemption under section 16D or 17A of the Inland Revenue Act, No. 10 of 2006, as the case may be, during the project implementation period, for the use by such undertaking for the purposes specified in the agreement entered into with the BOI on which tax is exempted subject to the fulfilment of the conditions specified in the agreement entered into, and to the furnishing of a bank guarantee which covers the amount of the tax due on the article so imported.
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Section 4(2)

<i>Payment of PAL</i>	:	The payment of PAL on an article imported into Sri Lanka shall be made by the person importing such article to DGC. Upon payment of PAL, DGC shall cause an endorsement specifying the amount of levy recovered to be made on the import invoice relating to that article.
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Section 4(2)

<i>Purchase of certain articles deemed to be imported</i>	:	When any article imported into Sri Lanka is sold - - by DGC for recovery of any customs duty or other levy payable or deemed payable under the Customs Ordinance or for any contravention of the Customs Ordinance; - by the Sri Lanka Ports Authority for recovery of any dues; or - by the Commissioner General of Inland Revenue for any taxes administered by him the purchaser of that article shall be deemed to be the importer of that article and the provisions of this Act shall apply to such purchaser
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Section 6

<i>Recovery of PAL</i>	:	For recovery of the Levy, such levy shall be deemed to be a customs duty payable under the Customs Ordinance and, accordingly, the provisions of the Customs Ordinance shall apply to the recovery of such levy.
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Section 8

Applicability of Gazettes:
under Finance Act No.11
of 2002

Every Order made under section 2 of the Part I of the Finance Act, No. 11 of 2002 and published in the Gazette prior to January 1, 2011 –

- (a) exempting specified articles from the payment of PAL; and
- (b) specifying a concessionary rate to be charged and levied.

shall be deemed to have been made under section 3 of the PAL Act, No. 18 of 2011 and shall continue to be in force.

Section 16

1. Stamp Duty Law

- Stamp Duty (Special Provisions) Act, No. 12 of 2006 (effective from 1 April 2006).
- Stamp Duty (Special Provisions) (Amendment) Act, No. 10 of 2008.

Stamp duty was first imposed in Sri Lanka by the Stamp Duty Ordinance of 1909. It was replaced by the Stamp Duty Act No 43 of 1982. The imposition of stamp duty was abolished, effective from 1 May 2002 in terms of Part III of the Finance Act No 11 of 2002. Part III of the Finance Act No 11 of 2002 has now been repealed. Consequently, the provisions of the Stamp Duty Act No 43 of 1982, insofar as they are not inconsistent with the provisions of the Stamp Duty (Special Provisions) Act No 12 of 2006 will apply.

The Rates and Exemptions under the provisions of the Act No 12 of 2006 are specified in the following:

Gazette Notifications:

Rates:	Gazette No. 1439/1 of 3 April 2006
	" " 1439/3 of 3 April 2006
	" " 1441/17 of 20 April 2006
	" " 1465/19 of 5 October 2006
	" " 1530/13 of 1 January 2008
	" " 1789/9 of 17 December 2012
	" " 1809/19 of 10 May 2013
	" " 1864/2 of 26 May 2014
	" " 1933/14 of 21 September 2015
	" " 1947/45 of 1 January 2016
	" " 2104/5 of 31 December 2018

Exemptions:	Gazette No. 1439/2 of 3 April 2006
	" " 1441/18 of 20 April 2006
	" " 1465/20 of 5 October 2006
	" " 1478/7 of 1 January 2007
	" " 1546/7 of 22 April 2008
	" " 1752/17 of 4 April 2012
	" " 1757/4 of 9 May 2012
	" " 1778/32 of 4 October 2012
	" " 1789/15 of 18 December 2012*
	" " 1878/3 of 1 September 2014
	" " 1889/48 of 21 November 2014
	" " 1947/46 of 1 January 2016
	" " 2007/24 of 21 February 2017

(*Includes item 7A to the List of Exemptions)

2. Chargeability of Stamp Duty

Stamp duty is chargeable on every "specified instrument" –

- executed, drawn or presented in Sri Lanka; or
- executed outside Sri Lanka being an instrument which relates to property in Sri Lanka, at the time of such instrument presented in Sri Lanka,

at rates prescribed in the Gazette in respect of different classes or categories of instruments.

3. Specified Instruments and Applicable Rates

Instrument	Rate LKR
Affidavit	50.00
Policy of insurance for every LKR 1,000 or part thereof	1.00
Warrant to act as a notary public	2,000.00
A licence issued authorising the holder to carry on any trade, business, profession or vocation other than any trade or business for the sale of liquor for any period specified in such licence	2,000.00 or 10% of the licence fee whichever is lower
Prior to 1 January 2019 any licence issued authorising the holder to carry on any trade or business for sale of liquor for any period specified in such licence	20,000.00
On or after 1 January 2019:	
(i) Any license issued authorising the holder to carry on any trade or business for sale of liquor for any period (as specified in such license) other than arrack licenses AFL 1, AFL2, AFL 3, AFL 4, which are issued together with foreign liquor (FL) license and license for the sale of bottled toddy.	LKR 20,000.00
(ii) Arrack licenses AFL 1, AFL2, AFL 3, AFL 4 which are issued together with foreign AFL 1, AFL2, AFL 3, AFL 4, liquor (FL)license and licenses for the sale of bottled toddy.	LKR 2,000.00 or 10% of license fee whichever is higher per each license"
Any claim, demand, or request presented for the payment of any sum of money, not including any finance or service charge, due in respect of every credit card transaction entered into during any period commencing on or after 1 January 2016, where the merchant country (the country in which the purchase of goods or service or the withdrawals of money taken place) thereof is a country other than Sri Lanka, irrespective of whether it was a card present or not present transaction in any currency for every LKR 1000 or part of thereof of such sum of money.	25.00
Share certificate issued consequent to the issue of transfer or assignment of any number of shares of any company. for every LKR 1,000 or part thereof of the aggregate value of such shares, being the value which in the opinion of the Assessor/Assistant Commissioner/Deputy Commissioner/ Senior Deputy Commissioner/Commissioner that such shares would have fetched in the open market on the date of such issue, transfer or assignment	Prior to 1 January 2016 5.00 On or after 1 January 2016 exempt
Any Bond or Mortgage for any definite and certain sum of money affecting any property for every LKR 1,000 or part thereof	1.00
Promissory Note for every LKR 1,000 or part thereof	1.00
Lease or hire of any property for every LKR 1,000 or part thereof of the aggregate lease or hire payable for the whole term comprised in the lease or hire agreement including any premium. Provided that where the term of the lease or hire exceeds 20 years, the aggregate lease or hire payable for the whole term comprised in the lease or hire agreement should be deemed to be the aggregate of the lease or hire payable for the first 20 years of such term.	10.00

Instrument	Rate LKR
Hire Purchase Agreement for every LKR 1,000 or part thereof of the aggregate amount payable under a hire purchase agreement entered into	10.00
Receipt or discharge given for any money or property up to and including LKR 25,000	Nil
Above LKR 25,000	25.00
Receipt or discharge given for payment to any employee of a gross remuneration	Nil
LKR 25,000 or less	25.00
Above LKR 25,000	
Any other instrument, which the Minister may, in the interest of economic progress of Sri Lanka, specify by Order published in the Gazette	-

4. **Who is liable to Stamp Duty**

Instrument	Payer
Affidavit	Person making or executing the affidavit
Policy of Insurance	Policy holder
Transfer/Assignment of shares	Transferee or assignee prior to 1 January 2016
Warrant to act as a notary public	Notary public
Promissory Note	Person signing the Promissory Note
Lease	Lessee
Hire Purchase Agreement	Hirer
Claim, demand or request by service provider from holder of credit card	Credit card holder
Licence	Licensee
Other instruments	Drawer, maker or executor
Receipt or discharge given for payment of gross remuneration	Employee

5. **Exemptions**

1. Any Affidavit made on the request of any public officer or in compliance with any requirement imposed by any written law;
2. Any bond or mortgage given by any public officer or his sureties for due execution of his office;
3. Any instrument executed by, or on behalf of, or in favour of the Government of any country; being a country in respect of which an Order under Section 67(3) of Act, No 43 of 1982 in force;
4. Any deed for the mortgage of food crops or jewellery;

5. Any share certificate issued in lieu of share certificate lost or destroyed, or new share certificate for a greater or less number of shares in lieu of existing share certificates but not exceeding in value of the existing share certificates;
6. Share certificate issued, consequent to the sale by one person and purchase by another, of any share, being a sale or purchase in relation to which Share Transaction Levy under Part II of the Finance Act, No 5 of 2005, has been charged;
7. Any share certificate issued in pursuance of the issue, transfer or assignment of any share in the Credit Information Bureau of Sri Lanka established by Act No 18 of 1990;
- 7A Any instrument of transfer of stocks by any person to a margin trading account (slash account) or vice versa;
8. Any instrument executed in pursuance of the provisions of the Farmers Pension and Social Security Benefit Scheme Act No 12 of 1987;
9. Any instrument executed by, or on behalf of, or in favour of, a registered co-operative society within the meaning of the Co-operative Societies Law, No 5 of 1972;
10. Any instrument executed by a member of a registered co-operative society within the meaning of the Co-operative Societies Law, No. 5 of 1972 in favour of and relating to the business of such registered society;
11. Any instrument in respect of supply of any good or service to a Diplomatic Mission of any State or any organization to which the provisions of the Diplomatic Privileges Act No 9 of 1996, apply provided that reciprocal benefits are available to their counterparts from Sri Lanka;¹²
12. (A) Any Policy of life or medical insurance; or
(B) Any Policy of insurance on
 - plant, machinery or equipment used in the civil construction industry or agriculture; or
 - any motor vehicle other than any car or dual purpose motor vehicle of Class B of classification of driving licences for motor vehicles within the meaning of the Section 122 of the Motor Traffic Act, No. 14 of 1951 as amended by the Motor Traffic (Amendment) Act, No. 8 of 2009.
13. Any deed of Mortgage or lease affecting any aircraft registered under the Air Navigation Act (Chapter 365) or any ship registered under the Merchant Shipping Act No.52 of 1971.
14. Any deed of Mortgage executed in respect of any loan for LKR 3,000,000 or less taken for the –
 - construction of a house or
 - purchase of a house or site for the construction of a house,
 where the mortgagee is any bank registered under the Banking Act, No 30 of 1988 or any finance company registered under the Finance Company Act, No 78 of 1988, any institution registered under the Co-operative Societies Law No 5 of

- 1972, any public corporation, any Provident Fund approved by the Commissioner General of Inland Revenue for the purposes of the Inland Revenue Act, No 10 of 2006. or any other institution approved by the Minister in charge of the subject of housing.
15. Any instruments relating to any finance lease executed in respect of any property other than any such finance lease in respect of car or dual purpose motor vehicle of Class B of classification of driving licences for motor vehicles within the meaning of the Section 122 of the Motor Traffic Act, No. 14 of 1951 as amended by the Motor Traffic (Amendment) Act, No. 8 of 2009;
 16. Any hire purchase agreement entered into under the Consumer Credit Act No.29 of 1982 in respect of any moveable property other than any car or dual purpose motor vehicle of Class B of classification of driving licences for motor vehicles within the meaning of the Section 122 of the Motor Traffic Act, No. 14 of 1951 as amended by the Motor Traffic (Amendment) Act, No. 8 of 2009.
 17. Any instrument relating to the lease or rent in respect of a building where such lease or rent payment does not exceed LKR 5,000 per month;
 18. Receipt or discharge given for any money or other property amounting to not more than LKR 1,000, or for remuneration amounting to not more than LKR 25,000 payable by any employer to any employee;
 19. Any receipt given for any sum deposited with or withdrawn from, any finance company registered under the Finance Company Act, No. 78 of 1988, commercial or specialised bank registered under Banking act, No.30 of 1988 or any institution registered under the Co-operative Societies Law No.5 of 1972.
 20. Any instrument executed by or on behalf of, or in favour of, the Government in any case where, but for this exemption, the Government would be liable to pay the duty chargeable in respect of such instrument;
 21. Any receipt given by any person receiving payment, for any goods sold or services provided, immediately upon such sale or such provision;
 22. Any receipt given by any person receiving any capital sum by way of death gratuity or as compensation for death or injury.
 23. Any receipt given for acknowledging the receipt of any pension;
 24. Any commercial paper of debenture;
 25. Any deed of conveyance or transfer by the Government or by any person, for or on behalf of the Government, where no consideration was received;
 26. The following documents filed in legal proceedings:
 - a. documents filed in any court, by public officers suing, or being sued or intervening, virtue office, in any proceedings instituted in such court;
 - b. documents filed in any court, by a person duly admitted to sue, defend or intervene, as a pauper in any proceedings instituted in such court;
 - c. documents filed in any court, by a person applying to be declared an insolvent by such court;

- d. all documents filed in any court for the purposes of an application for an order in the nature of a writ of habeas corpus;
 - e. all documents filed by or on behalf of any person, who is certified by a prescribed officer as suing, defending or intervening with legal aid provided under the Legal Aid Law, No 27 of 1978;
 - f. all documents filed in any court by, or on behalf of any person claiming damages arising from death or damage caused by a motor vehicle
 - g. motions filed in any court;
 - h. warrant issued by any court, whether on application or on its own motion;
27. Any unit trust certificate issued in pursuance of the issue, transfer or assignment of any unit in the unit trust or mutual fund;
 28. Any instrument required or authorized to be made or executed by any Bank established under the Regional Development Banks Act No. 06 of 1997 or any instrument made or executed in connection with the business of such Bank by the Bank, and any instrument made or executed by any other person in favour of such Bank in respect of any security for a loan;
 29. Share Certificate on the initial issue of any share by:
a company to another company where both companies are owned by the Government of Sri Lanka, or a company which has entered into an agreement with the Board of Investment of Sri Lanka under the Strategic Development Project Act, No. 14 of 2008 to a company owned by the Government of Sri Lanka;
 30. Share Certificate on the transfer or assignment of any share belongs to the Government of Sri Lanka;
 31. Share Certificate on the initial issue of any share by:
a company to another company where both companies are owned by the Government of Sri Lanka, or
a company which has entered into an agreement with the Board of Investment of Sri Lanka under the Strategic Development Project Act, No.14 of 2008 to a company owned by the Government of Sri Lanka;
 32. Any share certificate issued by an insurance company in complying with and/or connection with the segregation of the long-term insurance business and the general insurance business into two separate companies, as required by Section 53 of the Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011;
 33. Any share certificate issued consequent to the consolidation of any bank licensed under the Banking Act, No.30 of 1988, any finance company licensed under the Finance Business Act, No.42 of 2011 or any leasing company registered under the Finance Leasing Act, No.56 of 2000, by way of merger, acquisition or absorption, as approved by the Monetary Board under the Financial Sector Consolidation Process;
 34. Any claim, demand, or request presented for the payment of any sum of money due in respect of every credit card transaction entered into during any period commencing on or after 1 January 2016, where the merchant country thereof is Sri Lanka (in which the purchase of goods or services or the withdrawals of money

taken place), irrespective of whether it was a card present or not present transaction in any currency.

35. Any share certificate issued consequent to the issue, transfer or assignment of any number of shares of any company.

6. ***Compounding of Stamp Duty***

Section 7 of the Stamp Duty (Special Provisions) Act provides for compounding of Stamp Duty. For this purpose, registration with Inland Revenue Department (IRD) should be made by the following persons:

- a) any person issuing insurance policies;
- b) any authority issuing licences;
- c) any service provider, on the presentation of a claim, demand or request for the payment of any money on the use of a credit card;
- d) an employer employing more than 100 employees accepting receipts for payment made to the employees; and
- e) any other person issuing any other instrument of a category having regard to an impracticability or inexpediency of stamping instruments of such category, at the time and in the manner prescribed.

Procedure for Registration

The procedure set out in the press notice by CGIR in the Daily News of 27 March 2006 needs to be followed. A copy of the application form for registration is given in the **Annex 1**.

Issue of Certificate

Where any Stamp Duty which has been compounded, is paid, the person authorised to compound such duty should issue to the person liable to pay stamp duty a Certificate substantially in the form set out below:

“It is hereby certified that a sum of Rs payable as stamp duty in respect of (specify type of instrument) has been collected and remitted in terms of Section 7 of the Stamp Duty (Special Provisions) Act, No 12 of 2006.”

Remittance of Stamp Duty

When the stamp duty is being compounded, the amount of stamp duty deducted should be remitted quarterly to IRD as follows:

Quarter ending	Payment on or before
31 March	15 April
30 June	15 July
30 September	15 October
31 December	15 January (of subsequent year)

Penalties will be imposed for late payments.

7. ***Time and Mode of Stamping***

Stamp Duty should be paid prior to or at the time of execution of an instrument, by one of the following means:

- a) Affixing adhesive stamps to the required value;
- b) Stamp duty, payable on any instrument relating to mortgage or lease of any immovable property, may be paid to a prescribed bank (any branch of the Bank of Ceylon A/c No 7041555) and affixing the receipt, certified by the Bank, of such payment to the instrument.
- c) Where the stamp duty cannot be paid prior to or at the time of execution of the instrument, for reasons beyond the control of the person liable to pay the stamp duty, stamp duty should be paid within 7 days from the date of such execution to the prescribed bank.
- d) Crediting of the Stamp Duty payable to the bank account of CGIR (Stamp Duty). This is in respect of stamp duty compounded.

Share transfers executed in Sri Lanka should be stamped within one month of execution of the same.

All adhesive stamps on instruments should be cancelled by writing or marking in ink on or across each stamp, the name or initials of the executor. However, if the value of each stamp is Rs 50 or more, such stamp should be cancelled by perforating same by cutting or pricking with a suitable instrument.

8. Valuation for Stamp Duty

Prior to the exemption, the valuation of unquoted shares for purposes of charging stamp duty on issue, transfer or assignment of such shares will be on the market value, as determined by CGIR, on the date of such issue, transfer or assignment. Market value would generally be the price of a share that it would have fetched in the open market as at the relevant date.

9. Instruments Insufficiently Stamped

Where an Assessor of IRD is of the opinion that an instrument liable to stamp duty has not been duly stamped, he could assess the value of stamp duty in respect of such instrument on the person liable to such duty.

10. Issue of Receipt

Obligation to give receipts

A receipt stamped with appropriate stamp should be given by every person who receives a payment of LKR 1,000 or over, **other than in this case of selling goods or services where the payment is received immediately.**

What is a receipt?

It includes any note or writing by which, if any,

- money, cheque or bill of exchange is acknowledged, or
- movable property, a debt or a demand is acknowledged whether the same is signed or not signed with the name of any person.

11. *Administrative Provisions*

Provisions of Inland Revenue Act relating to Assessments, Appeals, Determination of Appeals and Finality of Assessments, Recovery or Refund of income tax shall apply mutatis mutandis in relation to stamp duty.

12. *Stamp Duty Payable to a Provincial Council*

All stamp duty payable to a Provincial Council in respect of an instrument or a document should continue to be paid to such Provincial Council within whose limits the respective instrument was executed. Where, however, a Provincial Council is dissolved, the stamp duty chargeable thereon should be paid to a Bank prescribed by the CGIR until such time the Provincial Council is established in such Province. CGIR will endorse on the instrument the amount of the stamp duty and the date of payment.

(A Schedule of specified instruments with applicable rates, exemptions etc, updated as 1 January 2021 is given in Annex 2.)

Annex 1**1. Stamp Duty (Special Provisions) Act**

Registration Form for Compounding Authorities

Name of Institution or paying office seeking
authority to compound

Name of Officer requesting registration

National Identity Card Number

Designation

Telephone Number

TIN (if available) of Compounding Authority

Assessment Number

Building Name

Street Name

Address

Village

Postal Town

Postal Code

If Compounding Authority is not the Principal
Institution, the name of the Principal
Institution

TIN of the Principal Institution

Signature and date

Annex 2**2. Schedule of Specified Instruments - Rates, Exemptions etc.**

	Instrument	Rate	LKR	Exemptions	Payable By	Compounding Authority	Time of Stamping
1.	Affidavit		50.00	Affidavit made on the request of any public officer or in compliance with any written law	Person making or executing	-	Before or at the time of signing
2.	Policy of insurance	For every LKR 1,000 or part thereof	1.00	- Life or medical insurance - Insurance on – - plant, machinery or equipment used in the construction industry or agriculture; or - any motor vehicle other than any motor vehicle used for private travelling (cars, jeeps etc)	Policy holder	Insurance Company	Before or at the time of issuing the policy
3.	Warrant to act as a notary public		2,000.00		Notary Public	Court (if affixing stamp is impractical)	Before or at the time of signing the warrant
4.	A licence issued authorizing the holder to carry on a) any trade, business, profession or vocation, other than any trade or business for sale of liquor b) Prior to 1 January 2019, any trade or business for sale of liquor On or after 1 January 2019		2,000.00 or 10% of licence fee, whichever is lower 20,000.00		Licensee	Licensing Authority	Before or at the time of issuing the licence

	Instrument	Rate	LKR	Exemptions	Payable By	Compounding Authority	Time of Stamping
	(i) Any license issued authorising the holder to carry on any trade or business for sale of liquor for any period (as specified in such license) other than arrack licenses AFL 1, AFL2, AFL 3, AFL 4, which are issued together with foreign liquor (FL) license and license for the sale of bottled toddy.		20,000.00				
	(ii) Arrack licenses AFL 1, AFL2, AFL 3, AFL 4 which are issued together with foreign AFL 1, AFL2, AFL 3, AFL 4, liquor (FL) license and licenses for the sale of bottled toddy.		LKR 2,000.00 or 10% of license fee whichever is higher per each license”				

	Instrument	Rate	LKR	Exemptions	Payable By	Compounding Authority	Time of Stamping
5.	A claim, demand or request presented for the payment of any sum of money, not including any finance or service charge, due in respect of every credit card transaction entered into during any period commencing on or after January 1, 2016, where the merchant country (the country in which the purchase of goods or service or the withdrawals of money taken place) thereof is a country other than Sri Lanka, irrespective of whether it was a card present or not present transaction in any currency	For every LKR 1,000 or part thereof	25.00		Credit card holder	Service provider (Credit card Provider)	Before or at the time of claim demand or request presented
6.	On the issue, transfer or assignment of any shares of a company on the aggregate value of such shares being the value, which in the opinion of the Assessor/Assistant Commissioner/Deputy Commissioner/Senior Deputy Commissioner, that such shares would	For every LKR 1,000 or part thereof Prior to 1 January 2016 On or after 1 January 2016	5.00 Exempt	- Share certificate issued consequent to the sale by one person and purchase by another of any share being a sale or purchase in relation to which share transaction levy has been charged. - Share certificate issued in lieu of share certificate lost or destroyed or new share certificate for a greater or less number of shares in lieu of existing share certificates but not exceeding in value of the existing share certificates.	Transferee or Assignee	Issuer	Share transfer executed in Sri Lanka -within one month of such execution

	Instrument	Rate	LKR	Exemptions	Payable By	Compounding Authority	Time of Stamping
	have fetched in the open market on the date of such issue, transfer or assignment.			• Issue of any share in the credit Information Bureau of Sri Lanka established act No 18 of 1990. • Unit Trust Certificate issued by Unit Trust or Mutual Fund. • Share certificate on the issue of any shares to the government of Sri Lanka. • Share certificate on the transfer or assignment of any share belongs to the government of Sri Lanka. • Share certificate on the initial issue of any share by: - a company to another company where both companies are owned by the Government of Sri Lanka; or - a company which has entered into an agreement with the Board of Investment of Sri Lanka under the Strategic Development Projects Act, No.14 of 2008 to a company owned by the Government of Sri Lanka. • Any instrument of transfer of stocks by any person to a margin trading account (slash account) or vice versa. Any share certificate issued by an insurance company in complying with and/or connection with the segregation of the long term insurance business and the general insurance business into two separate companies, as required by Section 53 of the Regulation of Insurance Industry (Amendment) Act, No.3 of 2011. • Any share certificate issued consequent to the consolidation of any bank licensed under the Banking Act,			

	Instrument	Rate	LKR	Exemptions	Payable By	Compounding Authority	Time of Stamping
				No.30 of 1988, any finance company licensed under the Finance Business Act, No.42 of 2011 or any leasing company registered under the Finance Leasing Act, No.56 of 2000, by way of merger, acquisition, or absorption, as approved by the Monetary Board under the Financial Sector Consolidation process. - Any claim, demand, or request presented for the payment of any sum of money due in respect of every credit card transaction entered into during any period commencing on or after January 1, 2016, where the merchant country thereof is Sri Lanka (in which the purchase of goods or services or the withdrawals of money taken place), irrespective of whether it was a card present or not present transaction in any currency. - Any share certificate issued consequent to the issue, transfer or assignment of any number of shares of any company.			
7.	Mortgage for any definite and certain sum of money affecting any property	For every LKR 1,000 or part thereof	1.00	- By any public officer or his sureties for the due execution of his office. - Food crops or jewellery - Aircraft registered under the Air Navigation Act (Chapter 365), or ship registered under Merchant Shipping Act. - Any loan for LKR 3 Mn or less relating to - construction of a house or	Mortgagee		Before or at the time of signing the mortgage

	Instrument	Rate	LKR	Exemptions	Payable By	Compounding Authority	Time of Stamping
				- purchase of a house or site for the construction of a house where mortgagee is any bank, Finance Company, any institution registered under the Co-operate Societies Law, any public corporation, any provident fund approved by the CGIR or any other institution approved by Minister of Housing.			
8.	Promissory Note	For every LKR 1,000 or part thereof	1.00		Person signing the promissory note		Before or at the time of signing the promissory note
9.	a) Lease or hire of any property Value – aggregate rent/hire for the whole term including premium.	For every LKR 1,000 or part thereof	10.00	• Finance lease other than motor vehicles used for traveling • Lease or rental not more than LKR 5,000 per month on buildings	Lessee	Lessor (to be regularized)	Before or at the time of signing the lease or hire assignment
	b) Hire purchase agreement - Value – aggregate amount payable under hire purchase agreement	For every LKR 1,000 or part thereof	10.00	• Hire purchase agreement in respect of moveable property other than any motor vehicle used for traveling	Hirer	Supplier	Before or at the time of signing the hire purchase agreement
10.	a) Receipt or discharge given for payments for any money or property	LKR 25,000 or less Above LKR 25,000	Nil 25.00	• Amounting to not more than LKR 25,000 • Any receipt given for any sum deposited with or withdrawn from any finance company or commercial or specialized bank. • Any receipt given by any person	Issuer of receipt	Issuer (with approval)	Before or at the time of receipt or discharge given

	Instrument	Rate	LKR	Exemptions	Payable By	Compounding Authority	Time of Stamping
	b) Receipt or discharge given for payment to any employee at a gross remuneration	LKR 25,000 or less Above LKR 25,000	Nil 25.00	receiving payment for any goods sold or services provided immediately upon such sale or such provision • Any receipt given on receiving any death gratuity or compensation for death or injury. • Any receipt acknowledging the receipt of pension • Any commercial paper of debenture Gross remuneration up to and including LKR 25,000	Employee	Employer	Before or at the time of receipt or discharge given

Following would also be exempt –

Any specific instrument in respect of supply of any goods and services to Diplomatic Mission of any State or any organization to which the provision of the Diplomatic Privileges Act No. 9 of 1996 apply, provided that reciprocal benefits are available to their counter parts from Sri Lanka.

Instrument executed by or on behalf of or in favour of the Government of any country; or any deed of conveyance or transfer by Government, where no consideration received

Instrument executed in pursuance of the provisions of the Farmers Pension and Social Security Benefit Scheme Act No.12 of 1987.

Instrument executed by a member of the registered co-operative society within the meaning of the co-operative Societies Law No.5 of 1972.

Documents (specified) filed in legal proceedings in court.

Any instrument required or authorized to be made or executed by any Regional Development Bank.

Let's Talk

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