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***Synopsis of the amendments introduced
by the Value Added Tax (Amendment)
Act to the Principal Act
(Value Added Tax (VAT)
Act No 14 of 2002)***

(The Amendments mentioned in this Note take effect from 1 November 2016 unless stated otherwise.)

VAT Rate

(a) Standard Rate

11% (tax fraction 11/111)

15% (tax fraction 3/23)

Applicable for the following periods:

Prior to 2 May 2016, and
From 12 July 2016 to 31 October 2016.

From 2 May 2016 to 11 July 2016, and
From 1 November 2016 onwards

(b) Alternate charges

VAT due on the local supply of garments / fabrics by BOI approved garment and fabric manufacturers:

	Prior to 1 November 2016	On or after 1 November 2016
• Each garment	Rs 25	Rs 75
• Each towel	Rs 25	Rs 75
• Each bag made out of fabrics	Rs 40	Rs 75
• Linen or curtains per kilogram	Rs 40	Rs 75
• Cut fabric pieces not exceeding 2 meters per kilogram	Rs 25	Rs 75
• Any other fabric per kilogram.	Rs 25	Rs 75

VAT Threshold

The VAT registration threshold (Standard)

Up to 31 March 2016

Exceeds Rs 3,750,000 for any quarter,
or
Exceeds Rs 15 million for any 12 month
Period.

From 1 April 2016

Exceeds Rs 3,000,000 for any quarter,
or
Exceeds Rs 12 million for any 12 month
Period.

Wholesale and retail sale

Prior to 1 November 2016

Rs 100 million for any quarter

From 1 November 2016

Rs 12.5 million for any quarter
or
Rs 50 million for any 12 month period

Supply of Financial Services

Prior to 2 May 2016

Exceeds Rs 3,750,000 for any quarter,
Or
Exceeds Rs 15 million for any 12 month
period

On or after 2 May 2016

Exceeds Rs 3,000,000 for any quarter,
or
Exceeds Rs 12 million for any 12 month
period

VAT Base - Value of Supply of Goods or Services

(i) Supplies made for the period 1 January 2016 to 13 January 2016:

a) Where tax has been collected.

- Goods - Value of supply be deemed to be the amount = total invoice value x $\frac{200}{297}$

(Goods charged at 8%; applicable VAT fraction = $\frac{8}{108} \times \frac{100}{11} = \frac{800}{1188} = \frac{200}{297}$)

- Services - Value of supply be deemed to be the amount = total invoice value x $\frac{100}{99}$

(Services charged at 12.5%; applicable VAT fraction = $\frac{12.5}{112.5} \times \frac{100}{11} = \frac{1}{9} \times \frac{100}{11} = \frac{100}{99}$)

b) Where no tax has been collected.

Value be deemed equal to the tax inclusive consideration and excluding the tax at the rate of 11%.

(ii) Healthcare services:

Value of healthcare services

Value of such supply shall be the value consisting of:

- hospital room charges, and
- consultation fees of medical consultants (including channel services).

(iii) “Deemed” liable supplies of goods - wholesale or retail trade

The applicability of “deemed” liable supplies (in relation to supplies that are VAT exempt) on which tax was chargeable on wholesale or retail traders will not be applicable from 1 January 2016.

VAT Exemptions – Removal

Exemption hitherto granted has been removed on the supply or import of goods.

- i) Milk powder
- ii) Locally produced milk powder containing added sugar or other sweetening matter
- iii) Telecommunication equipment
- iv) Machinery or high-tech equipment for telecommunication industry
- v) Copper cables for telecom industry
- vi) Cigarettes
- vii) Liquor
- viii) Perfume
- ix) Locally produced Jewellery
- x) Coal
- xi) Lightweight electronic and electrical goods
- xii) Spare parts and accessories for exclusive use by Sri Lanka Transport Board and Sri Lanka Railways.

Supply of Services

- 1 The supply of residential accommodation, other than leasing and renting of residential accommodation.
- 2 Healthcare services provided by medical institutions or professionally qualified persons (refer the definition given under item 3(ii).)
- 3 Telecommunication services
- 4 Services being the issue of licences to local telecom operators by Telecommunication Regulatory Commission.
- 5 Goods or services provided by any registered co-operative society or Lak Sathosa.

VAT Exemptions - New

Supply of services by the –

- Department of Commerce,
- Board of Investment of Sri Lanka (BOI), or
- Sri Lanka Ports Authority,

to any –

- i) Exporter or provider of zero rate services;
- ii) Registered person who supplies goods or services to any Strategic Development Project;
- iii) Registered person engaged in any specific project referred to in item f(ii) of the part II of the 1st schedule to the Act;
- iv) Manufacturer who supplies goods manufactured in Sri Lanka to any exporter;
- v) Supplier who provides value added services to any exporter which results in the improvement of the quality character, or value of any goods manufactured for export;
- vi) Person registered under the provision Section 22(7) of the Act during the project implementation period;
- vii) Registered person who supplies any goods or services to any registered person referred to in item i) to (vi) above.

VAT Documentation - Tax Invoice

The requirements, specified for a valid tax invoice, have been amended to include:

- The VAT registration number of the person to whom the supply was made, in addition to his name and address, and
- The serial number, “which does not exceed 40 characters without any space”, in the tax invoice, in addition to the date on which the tax invoice was issued.

VAT Compliance -

Returns and Information to be furnished

- a) Every return furnished should be in the specified form containing all such particulars and relevant schedules as Commissioner General of Inland Revenue (CGIR) may specify by Gazette Order.
- b) Further rules with respect of furnishing of returns:
- A registered person who files a return not containing all the required particulars and schedules shall be deemed not to have filed a return.
 - Where a return, in the aforesaid circumstances, has been deemed not to have been filed, the Assistant Commissioner of Inland Revenue shall, not later than 14 days of the last month after the expiry of the relevant taxable period, issue a notice to the registered person informing him that the return filed by him does not contain all particulars in such form and relevant schedules as required.
 - On receipt of such notice, the registered person should furnish, within 14 days from the receipt of such notice, a proper return containing the particulars in the required form as well as the required schedules.
 - Assistant Commissioner will acknowledge receipt of the return only upon the receipt of a proper return.

Input Tax

a) Refund of excess input tax

Refund of excess input tax is allowed to any registered person who is -

- i) An exporter or provider of zero rated services;
- ii) Project related supplies of goods or services to a strategic development project during its project implementation period;
- iii) Registered person engaged in a specific project;
- iv) Manufacturers supplying goods locally manufactured to an exporter;
- v) Supplier providing value added services to an exporter;
- vi) Person registered under Section 22(7) of the VAT Act making project related supplies;
- vii) Registered person making supplies of goods or services to any registered person listed above.

The restrictions in relation to input tax attributable will not apply, inter alia, to any registered person listed (i) to (vii) above.

b) “Deemed” Input Tax

A registered supplier of goods in wholesale or retail trade will be eligible to claim a “deemed” input tax on his purchase of goods from an unregistered person supported by a non-tax invoice, provided such goods are not exempt as per the First Schedule to the VAT Act.

VAT on Supply of Financial Services

Taxable period

- The taxable period of every registered institution or other person, shall be 12 months for any taxable period commencing on or after 1 January 2016.
- For any taxable period
 - Ending prior to 1/1/2016 where accounts are made up for a 12 month period ending on 31st of March, the 6 month may be commenced on 1st April and 1st October for that period, and
 - Commencing on or after 1/1/2016 where accounts are made up for a 12 months period ending on 31st March, the 12 month period may be commenced on 1st April.

Furnishing of Returns

Every registered specified institution or person shall furnish a return in respect of each taxable period in the specified form –

- If such taxable period ends prior to the date this Amending Act comes into force, before the end of the following month of that taxable period; and
- If such taxable period commences on or after this Act comes into force, within 06 months immediately succeeding the end of that taxable period.

Failure to Furnish a Return

- Every registered person who –
 - Furnishes a return not in the specified form, or
 - Fails to furnish an interim estimate every 6 months, or
 - Fails to furnish the contents of such return or the interim estimate, as specified by CGIR shall be deemed not to have furnished a VAT return on Financial Services.
- Where a registered person is so deemed not to have furnished a return or interim estimate, the Assistant Commissioner shall, before the end of 30 days from the statutory filing date, inform such person in writing that his return / interim estimate does not contain all particulars in such form and the relevant specified schedules.
- Where such registered person furnishes all the particulars in such form and the relevant schedule to regularise the submission of a proper return, then he is deemed to have filed a return.

Tax Payment

For any taxable period commencing on or after this Amending Act comes into force,

- The tax payable by a registered person shall be so adjusted with the total liability for every 6 month period on the interim estimate, and
- Payable with the submission of the interim estimate –
 - If the monthly payments made are less than the tax calculated on the interim estimate,
 - Subject to the final tax with the submission of the return

Tax Calculation – Provision of Interim Estimate of Profits

In the event that the monthly profits cannot be readily ascertained for making monthly payments,

- Such amount may be estimated on available information, and
- Every registered specified institution or any other person shall furnish an interim estimate of the profits in respect of each six month period of the relevant taxable period before the end of the succeeding month of each such 6 month period.

Tax Base - Determination of Value Addition

- The exclusion of the profits arising to any person from the sale of company shares owned by such person or to any person who is instrumental in the purchase and sale of such shares by other person will apply only if such **profits and income does not arise from a business**.
- This exclusion does not apply to profits and income arising to any specified institution or to a person not registered with the Central Bank providing services similar to services provided by a finance company and includes any person or body or persons whose business, wholly or partly, consists
 - In the acceptance of money by way of deposit, debenture or bond or
 - In any other form,
 - and on payment of interest, profit or discount thereon, or
 - The provision of loans on interest, whether such acceptance is on its own behalf or on behalf of any other person.

Definition of Supply of Financial Services

The “supply of financial services” is redefined to include the supply of leasing facilities under any –

- Finance lease agreement; or
- Operating lease agreement in respect of any instalment for any period prior to date on which the Amending Act comes into force.

on any asset, if such agreement is entered into on or after 25/10/2014 and not being an agreement entered into prior to 25/10/2014.

Penal Provisions

Penal provisions in relation to offences have been enlarged to include –

- Submission of false documents for online registration,
- Uploading incorrect information for registration, or
- Submission of false documents under electronic filing system permitted under RAMIS.

Transitional Provision in relation to Wholesale or Retail Trade

Where a person supplies goods in wholesale or retail trade –

- Is registered for any period commencing on or after 2/5/2016 and ending on 31/12/2016, and
- If there remains any unsold stock of goods of such person as at the date of registration, which goods are not specified in the Exemption Schedule.,

a “deemed” input tax may be allowed to such person for such taxable period, where the registration became effective on account of such stocks at the applicable tax rate.

Records should be maintained for such stocks and submitted together with the relevant return of the person concerned.

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