Tax updates
2013

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These Notes on the “Inland Revenue (Amendment) Act No. 18 of 2013 “ Economic Service Charge (ESC)”, “Value Added Tax (VAT)”, “Nation Building Tax (NBT)”, “Ports and Airports Development Levy (PAL)”, “Crop Insurance Levy” and “Stamp Duty” are designed to keep clients up to date with tax developments. They are of a general nature and are intended only for your general information and guidance. They should not be quoted as authority or used as a basis to commit yourself to a course of action without study of the relevant Law.

Disclaimer

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21 November 2013
## Tax updates 2013

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Inland Revenue (Amendment) Act, No 18 of 2013
A summary

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Inland Revenue (Amendment) Act No 18 of 2013
A Summary

The Inland Revenue Act No 10 of 2006 has been further amended by the Inland Revenue (Amendment) Act No 18 of 2013, certified on 24 April 2013. The amendments set out in this Amendment Act take effect from 1 April 2013 unless otherwise stated. References to sections in the text are to those of the Inland Revenue Act No 10 of 2006.

<table>
<thead>
<tr>
<th>Inland Revenue Act No 10 of 2006</th>
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</thead>
<tbody>
<tr>
<td>Inland Revenue (Amendment) Act No 10 of 2007</td>
</tr>
<tr>
<td>Inland Revenue (Amendment) Act No 9 of 2008</td>
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<td>Inland Revenue (Amendment) Act No 19 of 2009</td>
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<tr>
<td>Inland Revenue (Amendment) Act No 22 of 2011</td>
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<tr>
<td>Inland Revenue (Amendment) Act No 8 of 2012</td>
</tr>
<tr>
<td>Inland Revenue (Amendment) Act No 18 of 2013</td>
</tr>
</tbody>
</table>

1. Tax Exemptions

1.1 Institutions

Exemption from income tax is granted in respect of the profits and income, other than dividends and interest, of –

(i) College of General Practitioners of Sri Lanka established by the College of General Practitioners of Sri Lanka Act, No. 26 of 1974;

(ii) Sri Lanka Social Security Board established by the Sri Lanka Social Security Board Act No. 17 of 1996;

(iii) any Public Corporation to the extent of provision of 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;

(iv) Sri Lanka Savings Bank Limited incorporated under the Companies Act, No.7 of 2007, which is merged with the National Development Trust Fund (NDTF);

(v) Lanka Puthra Development Bank Limited incorporated under the Companies Act, No. 17 of 1982; and

(vi) any Government assisted private school, other than that incorporated under the Companies Act, No.7 of 2007, which is registered with the Ministry of Education and mandated to follow the Government curricula set by the Ministry of Education and the circulars issued by such Ministry. Section 7(b)
1.2 **Specific Sources of Income**

Exemption from income tax is granted in respect of –

- **the emoluments arising in Sri Lanka of any expatriate expert employed in any BOI approved undertaking, which invested more than US$ 50 million as direct foreign investment made on or after 1 April 2013 during the period of its tax holiday under Section 17A or 16D of the Act;**
  
  *Section 8(ddd)*

- **the interest accruing to any person or partnership or other body of persons outside Sri Lanka from investment, made out of foreign currency brought into Sri Lanka on or after 1 April 2012, in any security or bond issued by any person in Sri Lanka;**
  
  *Section 9(aa)*

- **the interest or discount accruing or arising to any person from any investment made, or any profits and income from any investment made, on or after 1 January 2013 –**
  - in any corporate debt security quoted in any Stock Exchange, and
  - in any Municipal Bond issued by any Municipal Council with the approval of the Secretary of the Ministry of Finance;
  
  *Section 9(o) and Section 13(xxxxxxx)*

- **the interest earned by –**
  - the DFCC Bank, and
  - the National Development Bank

  from moneys lent, out of funds raised from outside Sri Lanka, to small and medium enterprises, plantations, construction industry or other manufacturing industries.
  
  *Section 13(xxxxxxx)*

- **the profits and income earned in foreign currency by any person for any year of assessment commencing on or after 1 April 2012 in respect of any business of procuring goods from one country and exporting to another country other than Sri Lanka;**
  
  *Section 13(bbb)*

- **any profits and income earned in foreign currency from outside Sri Lanka by any resident individual Sri Lankan, if such profits and income (less reasonable expenses) are remitted to Sri Lanka through a bank.**
  
  *Section 13(ddddd)*

- **the profits and income from any business of manufacture of any article, other than liquor or tobacco products, or any service of a Sri Lankan citizen, who employed abroad returns to the country on or after 1 January 2013 and invests his earnings from employment abroad to commence such business or service for a period of 5 years, commencing from the beginning of the year of**
assessment, in which the commercial operation of such business or service commenced.

Section 13(zzzzzzz)

- any royalty, franchising fee or any payment for designing received by any foreign collaborator from a company registered with the BOI during the period of tax holiday under Section 17A or Section 16D, where the foreign direct investment made in Sri Lanka exceeds US$ 50 million.

Section 13(yyyyyyy)

- the profit and income derived from outside Sri Lanka by an individual, who is a citizen of Sri Lanka and
  - citizen of any other country or
  - has obtained permanent resident states in any other country under which such individual may obtain citizenship in such country.

(Exemption granted to dual citizens has accordingly been extended.) Section 15

2 Tax Holidays (New)

Profits and income (other than any profits and income from the disposal of any capital asset) of any person or partnership from –

- any undertaking of cultivating any renewable energy crop in Sri Lanka for a period of 10 years,
- all transactions connected with manufacturing, distribution and marketing of organic fertilizers,

will be exempt from income tax, commencing on or after 1 April 2013.

New Section 16E

3 Restriction of Tax Holidays granted under Sections 16C and 17A

Income tax holidays granted to a new undertaking under Sections 16C and 17A will be available only to such new undertaking which is not formed by the splitting up or reconstruction or acquisition of any business which was previously in existence.

Amendments to Sections 16C and 17A

4 Allowable Expenditure

(a) Depreciation rates will be increased on the following assets.
### Assets acquired on or after 1.4.2013

<table>
<thead>
<tr>
<th>Description</th>
<th>New Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>• high tech plant, machinery or equipment acquired and used in any trade or business which meets more than 30% of the total power generation requirements of that trade or business out of alternative energy source (other than National grid);</td>
<td>100%</td>
</tr>
<tr>
<td>• any plant, machinery or equipment acquired and used in any business for technology upgrading purposes or introducing any new technology;</td>
<td>50%</td>
</tr>
<tr>
<td>• any plant, machinery or equipment acquired and used in any stockbroker company for the upgrading of information technology infrastructure;</td>
<td>100%</td>
</tr>
<tr>
<td>• any plant, machinery or equipment acquired and used in any trade or business, where at least 60% of the turnover consists of export turnover.</td>
<td>50%</td>
</tr>
</tbody>
</table>

(b) **Research Expenditure**

300% deduction of research expenditure will be allowed, even if such research is carried out through any institution in Sri Lanka, effective from 1 April 2013.

*Section 25(1)(z)*

(c) **Special Levy paid to the Government**

Any sum paid by a Public Corporation or Government Owned Business Undertaking to the Government as a special levy is deductible expense.

*Section 25(1)(u)*

(d) **Advertisement Expenditure**

100% advertisement expenses incurred on or after 1 August 2012 on sponsorship of international sport events approved by the Minister to whom the subject of sports has been assigned, will be deductible.

*Section 26(1)(v)*

5 **Qualifying Payment Relief to Employees**

On withdrawal of the tax exemption given to such part up to Rs 100,000 of employment income, the same tax benefit will be provided to employees as a
qualifying payment deduction, effective from 1 April 2013. Accordingly, there will be no change of the tax amount payable by an employee.

*Amendments to Sections 8 and 34*

## 5 Tax Rate Reductions applicable from 1 April 2013

<table>
<thead>
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<th>Applicable to</th>
<th>Maximum of</th>
</tr>
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<tr>
<td>employees on compensation for loss of employment which is not uniformly applicable to all the employees</td>
<td>16%</td>
</tr>
<tr>
<td>Part V of the 1st Schedule</td>
<td></td>
</tr>
<tr>
<td>Unit Trust Management Companies</td>
<td>10%</td>
</tr>
<tr>
<td>Part B of the 2nd Schedule</td>
<td></td>
</tr>
<tr>
<td>profits from the supply of services provided to garment manufacturers for export</td>
<td>12%</td>
</tr>
<tr>
<td>Item 22 of the 5th Schedule</td>
<td></td>
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<tr>
<td>profits from transhipment agency fee</td>
<td>12%</td>
</tr>
<tr>
<td>Item 23 of the 5th Schedule</td>
<td></td>
</tr>
<tr>
<td>profits from poultry farming referred to Section 46A</td>
<td>10%</td>
</tr>
<tr>
<td>Item 41 of the 5th Schedule</td>
<td></td>
</tr>
<tr>
<td>profits from the sale of goods by an export oriented company referred to Section 56A</td>
<td>12%</td>
</tr>
<tr>
<td>Item 42 of the 5th Schedule</td>
<td></td>
</tr>
<tr>
<td>profits from the supply of goods or services to foreign ships referred to Section 56B</td>
<td>12%</td>
</tr>
<tr>
<td>Item 43 of the 5th Schedule</td>
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</tr>
<tr>
<td>profits from the sale of products manufactured in Sri Lanka for payment in foreign currency referred to Section 56C</td>
<td>12%</td>
</tr>
<tr>
<td>Item 44 of the 5th Schedule</td>
<td></td>
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<td>profits from operating any alternative power generation projects referred to Section 59E</td>
<td>12%</td>
</tr>
<tr>
<td>Item 45 of the 5th Schedule</td>
<td></td>
</tr>
<tr>
<td>profits of an undertaking (other than holding, subsidiary or an associated company of a group of companies) engaged in the manufacture of any article or in the provision of service, where the turnover of such undertaking does not exceed Rs 500 million (before Rs 300 million)</td>
<td>10%</td>
</tr>
<tr>
<td>Section 59B</td>
<td></td>
</tr>
<tr>
<td>profits and income of any company, which listed its shares on or after 1 April 2013 and more than 20% of its shares are issued to the general public during the year of assessment in which such shares are listed and for 2 years of assessment immediately succeeding that year of assessment</td>
<td>Half of the applicable rate</td>
</tr>
<tr>
<td>Section 59D</td>
<td></td>
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7 Tax Rate applicable to BOI Undertakings after the expiry of the period of Tax Exemption

If the tax rate applicable to the business profits of any BOI undertaking after the expiry of the tax exemption under the BOI agreement is more burdensome, the tax rate under the Inland Revenue Act will be applicable to such profits of such BOI undertaking.

Section 48C

8 Increase in Threshold for Partnerships

Effective from the year of assessment 2013/2014, the threshold on the divisible profits of a partnership has been increased to Rs 1 million.

Section 78

9 Residence

New rule introduced in deciding the residency of an individual relates only to the number of days physically present in Sri Lanka. Effective from 1 April 2013, an individual who is physically present in Sri Lanka for 183 days or more during any year of assessment, will be deemed to be resident in Sri Lanka throughout that year of assessment.

Section 79

10 Transfer Pricing

- Provisions relating to transfer pricing now distinguish between cross border transactions (international transactions) and local transactions between associated undertakings.

- Definition of the “international transaction” has been provided in respect of any cross border international transaction entered into between two associated undertakings.

- An advance pricing agreement may be entered into between any person and the Commissioner General in respect of the arm’s length price on an international transaction.

- Where the profits and income have been ascertained having regard to the arm’s length price in an international transaction, the Assessor may refer the computation of transfer pricing to a Transfer Pricing Officer, who is an officer of Inland Revenue prescribed by the Commissioner General as a Transfer Pricing Officer.

Section 104

11 Dividends

The definition of dividends has been widen to exclude any excess amount over the listed price or market value of the shares paid to shareholders pursuant to a share buyback by a company.

Section 217
12  **Time-bar**

The current time bar period of 2 years is reduced to 18 months with effect from year of assessment 2013/2014.

*Section 163(5)*

13  **Tax Relief**

Where any person (other than a company) having an annual total turnover not exceeding Rs 300 million for any year of assessment commencing prior to 1 April 2011 from every trade or business, and such person has not complied with the provisions of any tax law administered by the Commissioner General but furnishes the return of income for any year of assessment commencing prior to 1 April 2014 together with an undertaking in writing that he has invested his earnings made prior to 1 April 2011 in any trade or business and that he will comply with the requirement of the Act for subsequent periods, then his return will be accepted and no assessment or additional assessment shall be made on such person in respect of such year of assessment for which a return of income is so furnished and for five succeeding years of assessment.

*Section 163 (10)*
## Economic Service Charge (ESC)

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Economic Service Charge (ESC)

1 The Law

- Economic Service Charge Act, No. 13 of 2006
- Economic Service Charge (Amendment) Act, No 15 of 2007
- Economic Service Charge (Amendment) Act, No 11 of 2008
- Economic Service Charge (Amendment) Act, No 16 of 2009
- Economic Service Charge (Amendment) Act, No 11 of 2011
- Economic Service Charge (Amendment) Act, No 11 of 2012
- Economic Service Charge (Amendment) Act, No 6 of 2013
- Gazette Extraordinary Nos:
  - 1502/10 of 20 June 2007
  - 1506/06 of 18 July 2007
  - 1546/9 of 22 April 2008

2 Chargeability

ESC is chargeable:

- from every person (definition of person is given under item 3 below) and partnership (which has the same meaning as in the Inland Revenue Act, No. 10 of 2006),
- in respect of every part of the relevant turnover (including the turnover from the business of any Islamic Financial Transaction) of every trade, business, profession or vocation of such person or partnership,
- for every relevant quarter of every year of assessment commencing on or after April 1, 2006,
- if the relevant turnover is not less than
  - Rs 10 million for any relevant quarter commencing before 31 March 2007;
  - Rs 7.5 million for any relevant quarter commencing on or after 1 April 2007 but before 1 April 2011;
  - Rs 25 million for any relevant quarter commencing on or after 1 April 2011 but before 1 April 2012; and
  - Rs 50 million for any relevant quarter commencing on or after 1 April 2012.

Effective from the quarter commencing on or after 1 April 2012, any person carrying on any trade, business, profession or vocation will not be liable to ESC, if he has a taxable income from such trade, business, profession or vocation, which is assessed to income tax for the year of assessment immediately prior to the commencement of the year of assessment to which such quarter belongs.
In effect, ESC will be payable only on the turnover of any trade, business, profession or vocation, which is eligible for income tax exemption or incurs a loss in the preceding year of assessment.

The maximum ESC to which any person or partnership is liable for any relevant quarter –
- ending on or before 31 March 2009 is Rs 15 million, and
- commencing on or after 1 April 2009 is Rs 30 million.

3 Definitions

“Person” includes a company or body of persons, but does not include –

(a) any registered society, within the meaning of the Co-operative Societies Law, No. 5 of 1972 or under the respective Statute enacted by a Provincial Council providing for such registration;

(b) any person carrying on business as an owner or charterer of an aircraft or ship;

(c) any government institution or local authority as defined in the Inland Revenue Act, No. 10 of 2006;

(d) any distributor;

(e) any dealer in a lottery;

(f) any Unit Trust or Mutual Fund;

(g) the Central Bank of Sri Lanka.

“Turnover” in relation to any trade, business, profession or vocation and to any relevant quarter means:

- total amount receivable, whether actually received or not, from every transaction entered into in that relevant quarter in the course of such trade, business, profession or vocation carried on or exercised by that person or partnership,

less

- any sum included in such total amount as representing VAT in respect of that transaction of the VAT registered person,

- proceeds from the disposal of capital assets,

- any bad debts incurred, being an amount included in the relevant turnover of any previous period of that trade, business, profession or vocation.

- proceeds of sale of any foreign currency denominated sovereign bond issued by the Government of Sri Lanka to any licensed commercial bank or to any non-resident person (effective from October 21, 2008);
proceeds of sale –

(a) of any Treasury Bill issued under the Local Treasury Bills Ordinance (Chapter 417); or

(b) of any Treasury Bond issued under the Registered Stocks and Securities Ordinance (Chapter 420), purchased out of the funds drawn from any Treasury Bond Investment External Rupees Account (effective from June 1, 2008);

proceeds from the sale of any clay roof tile or pottery product by any manufacturer of such product;

funds voted by Parliament from the Consolidated Fund or any loan arranged by the Government of Sri Lanka, for the provision of any service, free of charge, by any public corporation on behalf of the Government;

proceeds from the sale of any organic fertilizer by the manufacturer of such product.

Plus

any bad debt received during the relevant quarter which has been previously written off or allowed.

The definition is extended –

• to include in the case of a bank, financial institution or pawn broker, all receipts of a bank, financial institution or pawn broker by way of interest, discounts, dividends, exchange, service charges, commissions, brokerage and any other income derived in the course of its business, and

• to exclude in the case of insurance business, the insurance premia received or receivable in respect of –

(i) life insurance; and

(ii) insurance against damages or destruction by strike, riot, civil commotion, or acts of terrorism are paid into the consolidated fund.

“Financial institution” means any person corporate or unincorporated, whose business or part of whose business consists in the acceptance of money by way of deposit or loan in the form of debenture or bond or in any other form and the payment of interest thereon, whether such acceptance is on its own behalf or on behalf of any other person; and”

“Relevant turnover” in relation to any person or partnership and to any relevant quarter means the aggregate turnover for that relevant quarter of every trade, business, profession or vocation carried on or exercised by such person or partnership in Sri Lanka, whether directly or through one or more agents, and in relation to any manufacturing business and any business of a reopened factory
referred to in Section 24B of the Inland Revenue Act No 10 of 2006 only, if the commercial operations had commenced 3 years prior to the first day of the relevant quarter.

“Quarter” in relation to any year of assessment means the period of 3 months commencing on the first day respectively of April, July, October or January of that year of assessment.

“BOI Enterprise” means any enterprise in relation to which an exemption of its profits and income from income tax in terms of any agreement entered into by the Board of Investment of Sri Lanka (BOI) with such enterprise under Section 17 of the BOI Law No 4 of 1978, subsists during the whole or any part thereof of that relevant quarter.

“Distributor” in relation to any manufacturer or producer of any goods in Sri Lanka means any person or partnership appointed by such manufacturer or producer for the sale in the wholesale market, of such goods, at such price as may be determined by such manufacturer or producer from time to time.

4 Notice of Chargeability

Chargeability to ESC commences for every person or partnership from every quarter commencing on or after April 1, 2006 in respect of every part of the relevant turnover of such person or partnership for that relevant quarter.

Every person or partnership chargeable with ESC should give notice in writing to the Commissioner General of Inland Revenue of such chargeability before the 15th day of the last month of that relevant quarter disclosing the income tax file number or Taxpayer Identification Number (TIN), as the case may be.

5 Special Cases

As per the Regulations published in Gazettes referred to in paragraph 1, any person or partnership engaged in any trade or business of –

- freight forwarder,
- export of cut and polished diamonds,
- export of garments, or
- primary dealer,

for any relevant quarter commencing on or after 1 April 2007, and

- export of any article other than garments for any relevant quarter, commencing on or after 1 April 2008
- could opt to ascertain the turnover either under normal definition referred to in paragraph 3 or compute the ESC on the turnover of trade or business of –
- a freight forwarder, reduced by the sum payable to any person, on account of the carriage of cargo loaded into any ship or aircraft;
- export of cut and polished diamonds from raw diamonds imported, on the excess of the FOB value of such exports over the CIF value of such raw diamonds;
- export of garments manufactured from materials imported on NFE basis, on the excess of the FOB value of such exports over the CIF value of such materials;
- export of any article other than garments manufactured in Sri Lanka out of materials imported on NFE basis, on the excess of the FOB value of such exports over the CIF value of such materials;
- a primary dealer, on the excess of proceeds of sale of securities held by such primary dealer over the aggregate of
  - sum invested in that quarter in the purchase of securities, and
  - the interest paid or the discount allowed by such primary dealer in relation to any repurchase transaction entered into in that quarter.

6 ESC Rates

A For the period, commencing on 1 April 2011 and ending on 31 March 2012:

<table>
<thead>
<tr>
<th>Part of The Liable Turnover</th>
<th>ESC Rate Applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>1   Enterprises to which the Board of Investment of Sri Lanka Law, No.4 of 1978 is applicable (a) Apparel exporters; (b) Trading houses; (c) Manufacturers of textiles for exporters.</td>
<td>0.1 per centum</td>
</tr>
<tr>
<td>2   Persons granted Exemptions/Concessionary Rates/Others (a) who are exempt from income tax (including tax holiday companies); (b) who during certain periods are incurring losses; who are subject to tax under concessionary rates; (c) who are engaged in wholesale or retail trade other than products manufactured or produced by the seller (excepting distributors or dealers in motor vehicles or liquor); (d) who carry out primary conversion of any tea, rubber or coconut plantation including desiccated coconut, coconut oil (e) or fibre, copra and sheet rubber, but excluding any conversion which produces any alcoholic beverage (f) Advertising Agents.</td>
<td>0.25 per centum</td>
</tr>
</tbody>
</table>
any other businesses including those of which the
turnover is defined by Notice published in the Gazette
(including dealers in motor vehicles, liquor, tobacco
and petroleum) 1.0 per centum

B For the period commencing on 1 April 2012:
on the liable turnover 0.25 per centum

7 Set off from Income Tax

ESC paid by any person for any relevant quarter is deductible from the income
tax payable by that person for the year of assessment, of which that relevant
quarter is a quarter.

With respect to ESC paid by any partnership for any relevant quarter,

- the amount paid is apportioned among the partners of such partnership in
  the ratio in which such partners share the profits or loss of such partnership
  for the year of assessment, of which that relevant quarter is a quarter.
- the amount of ESC so apportioned to any partner is deductible from the
  income tax payable by such partner for the year of assessment, of which the
  relevant quarter is a quarter, and

The balance ESC, if any, can be carried forward and set off against the income tax
payable by such person or partner of such partnership for immediately
succeeding 4 years of assessment.

8 Payment Dates

ESC should be paid for each relevant quarter, on a self assessment basis on or
before the 20th day of the month following the end of the relevant quarter, i.e.

<table>
<thead>
<tr>
<th>Quarter commencing</th>
<th>Payable on or before</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st April</td>
<td>20 July of the same year,</td>
</tr>
<tr>
<td>1st July</td>
<td>20 October of the same year,</td>
</tr>
<tr>
<td>1st October</td>
<td>20 January of the following year,</td>
</tr>
<tr>
<td>1st January</td>
<td>20 April of the same year.</td>
</tr>
</tbody>
</table>

9 Filing of ESC Return

Every person or partnership, who or which is liable to pay ESC or registered for
ESC, is required to furnish –

- for any relevant quarter ending on or before 31 March 2011, the quarterly ESC
  return on or before the 20th day of the month following the end of the
  relevant quarter, and
• for any relevant quarter commencing on or after 1 April 2011, the annual ESC return for the year of assessment ending on 31 March of that year, on or before the 20th day of April of each year.

The basis of the calculation of the ESC should be given in the return.

10 Calculation of ESC

ESC should be calculated on the relevant turnover at the rates given in paragraph 6 of this note. ESC is not payable for any relevant quarter if the liable turnover for that quarter is below Rs 50 million (Rs 25 million prior to 1 April 2012). The maximum ESC payable by any person or partnership for any relevant quarter ending on or before 31 March 2009 is Rs 15 million, and Rs 30 million for any quarter commencing on or after 1 April 2009.

Example:

ABC Ltd. has shown a business loss for the year of assessment 2012/2013. Therefore, it is required to pay ESC for the year of assessment 2013/2014.

The following turnover for the quarter ended 30.06.2013 has been recorded by the ABC Ltd.

Export of tyres = Rs 300 million
Local sale of tyres = Rs 100 million
Liable Turnover = Rs 400 million

ESC payable for the quarter ended 30.06.2013 is

On the liable turnover

\[ \text{Total} = \text{Rs } 400,000,000 \times \frac{0.25}{100} = \text{Rs } 1,000,000 \]

11 Set off of ESC

ESC is payable on the relevant turnover of the relevant quarter on or before the 20\textsuperscript{th} day of the month following the end of that relevant quarter, and the ESC so paid is deductible from the income tax payable for the year of assessment of which that relevant quarter is a quarter.

In respect of the year of assessment 2012/2013, payments could be set off as follows:

<table>
<thead>
<tr>
<th>Quarter ended</th>
<th>ESC due date</th>
<th>Set off against income tax payable on</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.06.2013</td>
<td>20.07.2013</td>
<td>15.08.2013</td>
</tr>
<tr>
<td>31.03.2014</td>
<td>20.04.2014</td>
<td>15.05.2014</td>
</tr>
</tbody>
</table>
In relation to companies which have obtained the approval from the Commissioner General of Inland Revenue to make up accounts to 31 December, the statutory income for the year ended 31 December 2013 would be applicable to the year of assessment 2013/2014. Hence the relevant turnover for the relevant quarter is as follows:

<table>
<thead>
<tr>
<th>Quarter Ended</th>
<th>Relevant Turnover</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.06.2013</td>
<td>Turnover for the quarter ended 31 March 2013</td>
<td>20.07.2013</td>
</tr>
<tr>
<td>30.09.2013</td>
<td>Turnover for the quarter ended 30 June 2013</td>
<td>20.10.2013</td>
</tr>
<tr>
<td>31.12.2013</td>
<td>Turnover for the quarter ended 30 September 2013</td>
<td>20.01.2014</td>
</tr>
<tr>
<td>31.03.2014</td>
<td>Turnover for the quarter ended 31 December 2013</td>
<td>20.04.2014</td>
</tr>
</tbody>
</table>

The amount of any ESC paid by any person for any relevant quarter could be deducted from the income tax, if any, payable by that person for the year of assessment of which that relevant quarter is a quarter.

The balance if any, could be carried forward to immediately succeeding four years of assessment to deduct from the income tax payable, to the extent it can be so deducted.

12 **Maintenance of Records**

Records of transactions of the trade, business, profession or vocation carried on or exercised are required to be maintained by every person or partnership chargeable with ESC in such manner as would facilitate the reconciliation of the return of relevant turnover filed.

13 **Administrative Provisions**

- Assessor is vested with the power to make assessments in respect of
  - any unpaid ESC, or
  - any short payment of ESC.

- Any ESC unpaid on the specified date shall be deemed to be in default and any individual, partner of a partnership, a director or other principal officer of a company or any other corporate body, any member or an officer of any unincorporated body, which is liable to pay the ESC which is in default, shall be deemed to be a defaulter for purposes of the ESC Act.

- All relevant provisions of the Inland Revenue Act, No. 10 of 2006 pertaining to finalising of assessments, penalty for delayed payment and for incorrect returns, appeals, recovery of ESC, repayments, penalties and offences, administration, general and miscellaneous matters will apply respectively to ESC.
14 Exemption of certain small and medium Enterprises from the payment of default taxes

Under the provisions of the Economic Service Charge (Amendment) Act No 11 of 2011, any person or partnership carrying on an enterprise, having an annual turnover of a sum not exceeding Rs 100 million, who has defaulted in the payment of ESC 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 ESC 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 ESC payable by him in respect of any future periods commencing on or after 1 January 2011.
# Value Added Tax (VAT)
## Basic Rules & Procedures
(Updated including amendments made by the Value Added Tax (Amendment) Act No. 7 of 2012)

## Contents

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Value Added Tax (VAT)
Basic rules & procedures

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

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

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:

- Supply (domestic and export)
- Importation
- Supply (domestic only, no import)

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

- recovered at –
  - Rs 25 for each garment;
  - Rs 40 per kilogram of linen or curtains;
  - Rs 25 per each towel;
  - Rs 40 per bag made out of fabric;
  - Rs 25 per kilogram of excess fabric as cut pieces;
    not more than 2 metres in length;
  - Rs 40 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 Rs 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 Rs 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,

• 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 –

(a) the disposal of such goods, stating that such finished goods have in fact been exported by the recipient of the supplies, or

(b) 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 April 1, 2011, deferment of tax under this paragraph shall be administrated by the CGIR,

- on the supply, with the approval of the Export Development Board (EDB) with the concurrence of the Ministry of Finance,

  (i) 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

  (ii) 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 –

(a) the disposal of such goods, stating that such finished goods have in fact been exported by the recipient of the supplies, or
(b) 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 April 1, 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 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 April 1, 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:
- 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,

- any project related goods imported by a new business or project during the project implementation period,

- any plant or machinery for foreign government or agency (including UN and its affiliates) funded infrastructure project, during the project implementation period,

- 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,

- any goods 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,

- 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,

- 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,

- 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.

- 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,

- any project related goods imported by a new business or project during the project implementation period,

- any plant or machinery for foreign government or agency (including UN and its affiliates) funded infrastructure project, during the project implementation period,

- 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.

- 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,

- 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,

- 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,

- 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.

- 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,

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- 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,

- 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,

- 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,

- 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.

- 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,

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- any plant or machinery for foreign government or agency (including UN and its affiliates) funded infrastructure project, during the project implementation period,

- 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.

- 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,

- 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,

- 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,

- 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.

- 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,

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- 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,

- 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,

- 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,

- 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.

- 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,

- any project related goods imported by a new business or project during the project implementation period,

- any plant or machinery for foreign government or agency (including UN and its affiliates) funded infrastructure project, during the project implementation period,

- 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.

- 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,

- 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,

- 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,

- 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) a bank guarantee in a case where the tax deferred is less than Rs 10,000; or

(b) a Treasury Bill as a guarantee in a case where the tax deferred is not less than Rs 10,000; or

(c) 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 Non-Chargeability of VAT on Wholesale or Retail Trade

• The supply of goods in a wholesale or retail trade activity (not connected with (a) any manufacture or importation, or (b) a supplier who is unable to satisfy the CGIR as to the source from which the goods supplied by him were acquired, or (c) supply under any tender agreement for such goods or (d) having a total supplies for any 3 month period in any calendar year of not less than Rs 500 million including any supplies excluded under Section 2 or exempted under Part II of the 1st Schedule to the Act) is an excluded supply and not subject to VAT.

• The supply of goods in a wholesale or retail activity wherein value of such supply (including exempt or excluded supply) in any 3 month period is Rs 500 million or more is subject to VAT.

10 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.

11 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.

12 **Taxable Period**

Taxable period means a period of one month –

- where the supplies are zero rated,
- for BOI undertakings at implementation stage,
- for new business enterprises approved under Section 22(7) by the CGIR, or
- where the supplies are made to exporters registered with Textile Quota Board
  (TQB) or Export Development Board (EDB) by any person registered with
  TQB or EDB, and

a period of three months commencing on the first day of January, April, July and
October for all others.

13 **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**

<table>
<thead>
<tr>
<th>Agreement for periodic payments:</th>
<th>When payment is due or when payment is made, whichever is earlier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hire purchase agreements:</td>
<td>When the agreement is entered into</td>
</tr>
</tbody>
</table>

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.

**14 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.

**15 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 -
• exceeds Rs 3 million for any taxable period (one month or quarter), or
• exceeds Rs 12 million for any twelve-month period, or
• is likely to exceed Rs 3 million in the succeeding one month or 3 month taxable period or Rs 12 million in the succeeding 12 month taxable period.

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,
• goods purchased locally without any process in a wholesale or retail activity unless the value of total supplies for a period of 3 months in one calendar year including the supplies excluded under section 2 or exempted under Part II of the 1st schedule to the Act.

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

**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, 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.

16 **Invoices for VAT**

There are two types of Invoices:

a) **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.**

- Date of invoice and serial number of the invoice;
- Supplier’s name, address and his VAT registration number;
- Customer’s name and address;
- Date of supply, quantity and description of goods or services supplied;
- Value of the supply;
- Amount of VAT charged and the total consideration;
- 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.**

b) **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 3/28 for 12% 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.

**17 VAT Rates**

VAT consists of 02 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 with the TQB 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 12% (Tax Fraction 3/28)** – Applies to the import or supply of all goods and supply of services (other than zero rated/exempt/excluded supplies).

18 **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.

19 **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
- **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.

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 permitted limits – tax of Rs 25 for each such garment sold.
- On fabric sold by any fabric manufacturer under agreement with BOI or under Customs supervision within permitted limits – tax at the following rates:
  1. linen or curtains at rupees forty per kilogram;
  2. towels at rupees twenty five per item;
  3. bags made out of fabric at rupees forty per item;
  4. excess fabric as cut pieces not more than two metres in length of each piece at rupees twenty five per kilogram;
  5. any other fabric at rupees forty per kilogram.

No other tax or levy at the point of import, including Customs duty and Cess, is chargeable on such sale of such garment or fabric, if the tax, specified above, has been paid on such sale.

**20 Calculation of VAT**

Basic formula:

\[
\text{Tax payable or refundable} = \text{Output tax} - \text{Input tax}
\]

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
debemed 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,
  - supply of goods or services to any specific project referred to in paragraph
    (f)(ii) of Part II of the first schedule 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
disallowables.

- 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.

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

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.

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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Rate</th>
<th>Items</th>
<th>Input Tax Credit Allowable to Supplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero Rate</td>
<td>0%</td>
<td>Exports, specified international services, services provided to overseas buyers by garment buying houses registered under the SVAT Scheme administered by the Commissioner-General</td>
<td>Credit Notes under SVAT Scheme</td>
</tr>
<tr>
<td>Standard Rate</td>
<td>12%</td>
<td><em>Deemed exports to export companies registered under the SVAT Scheme administered by the Commissioner-General</em> Items other than exempt or excluded supplies</td>
<td>Full but restricted to 100% of the Output VAT</td>
</tr>
</tbody>
</table>

**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.

21 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.

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.

22 VAT Returns

VAT registrants must file a prescribed return for each taxable period.

There are 2 taxable periods:

Monthly
Quarterly

Monthly returns should be filed by registered person who is –

- supplier of zero rated supplies;
- commencing a new business, and undertaking to make taxable supplies
  within 30 months of the date of commencement, subject to approval by CGIR
  under Section 22 (7) i.;
registered with Textile Quota Board (TQB) or Export Development Board (EDB) and who makes supplies to an exporter registered with TQB or EDB respectively.

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).

23 VAT Payments

VAT is payable on a self assessment basis

The tax in respect of any taxable period, commencing on or after 1 January 2013, is payable as follows:

a) Registered Manufacturer

<table>
<thead>
<tr>
<th>Period</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tax payable from the 1st day to the 15th of the month</td>
<td>on or before the end of that month.</td>
</tr>
<tr>
<td>• Tax payable from the 16th day to the end of the month</td>
<td>on or before the 15th day of the subsequent month.</td>
</tr>
<tr>
<td>• Any balance, subject to the making of any adjustments</td>
<td>with the submission of the return. Due on the last day of the month after the expiry of each taxable period.</td>
</tr>
</tbody>
</table>

b) Other (registered imports, services and registered wholesale and retail traders
Pursuant to the implementation of the SVAT Scheme, refunds will not be made other than any refunds arising on any input relating to invoices received up to 31 March 2011, upfront payment made after 1 April 2011 to the Director General of Customs and any excess of input claimed by a person, registered under simplified VAT scheme where such person is unable to obtain simplified VAT credit vouchers. 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.

### VAT Assessments

VAT operates as a self assessed tax. However, the Assessor 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 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 Assessor, 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 Assessor, to be less than the amount payable by him for that taxable period.

The Assessor 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 Assessor 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.

26 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 Board of Review or 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 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 Board of Review or the Appeal Commission. CGIR may also refer any valid appeal made to him to the Board of Review or the Appeal Commission.

27 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
- Failure to file VAT return: A fine not exceeding Rs. 25,000 and/or term of imprisonment not exceeding 6 months.
- 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 Rs. 25,000, and/or term of imprisonment not exceeding 6 months.

Penalties imposed by CGIR

- Failure to file VAT return: Penalty not exceeding Rs 50,000
- Failure to pay tax on due dates: 10% of unpaid tax plus 2% for each succeeding month subject to 100% of unpaid tax.

28 VAT on Financial Services

28.1 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 agrahara 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.

28.2 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:
• the operation of any current, deposit or savings account;
• the exchange of currency;
• the issue, payment, collection or transfer of ownership of any note, order for payment, cheque or letter of credit;
• 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;
• the issue, allotment, transfer of ownership of any equity security or a participatory security;
• underwriting or sub-underwriting the issue of any equity security, debt security or participatory security;
• the provision of any loan, advance or credit;
• 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 or hire purchase agreement which have been used in Sri Lanka for a period of not less than twelve months as at the date of such agreement.

28.3 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)
carrying on the business of supplying financial services including the following specified institutions –

a) a licensed commercial bank within the meaning of the Banking Act, No. 30 of 1988;
b) a finance company registered under the Finance Companies Act, No. 78 of 1988;
c) 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.
28.4 **Tax Calculation - Tax Credit Method**

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 tax, (book profit),
- Total Employee Remuneration,
- Book Depreciation charged to Profit and Loss Account

Less
- Economic Depreciation

Accordingly, **Total Value Addition** = Book Profit + Total Employee Remuneration + Book Depreciation – Economic Depreciation.

**Net Profit/Loss** will be the book profit before tax, after
- *inclusion* of any revenue receipt not reflected in the Profit and Loss Account, and
- *exclusion* of profit or loss of an associate company or other entity, if such profit or loss has been consolidated with the parent/relevant company profit/loss.

The net profit/loss, book depreciation and economic depreciation could be estimated in a realistic manner, and suitably adjusted in the 6th month after the accounts are closed. (If the accounts are made up to 31 March 2011, the final adjustment should be made by September 2011. If the accounts are made up to 31 December 2010, the final adjustment should be made in the month of June 2011.)

The total value addition of the entity should be computed based on the net profit or loss -
- for any taxable period commencing prior to 1 January 2011, before deducting the tax payable on the financial services, and
- for any taxable period commencing on or after 1 January 2011, after deducting the tax payable on the financial services.

**Total employee remuneration**

*will include* –
- salary, wages, allowances, benefits as computed for PAYE tax purposes, irrespective of whether employees are liable or not to PAYE tax.

*but will exclude* –
- terminal benefits.
**Economic depreciation** rates prescribed by Gazette Order No 1606/30 of 19.06.2009 are as follows:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data processing equipments &amp; their accessories, or computer software</td>
<td>25</td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td>20</td>
</tr>
<tr>
<td>Other Machinery, Plant, Equipments, Furniture or Fixtures</td>
<td>12 ½</td>
</tr>
<tr>
<td>Any intangible asset (other than goodwill)</td>
<td>10</td>
</tr>
<tr>
<td>Buildings</td>
<td>6 2/3</td>
</tr>
</tbody>
</table>

- 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 person should follow the guidelines specified by the CGIR for the purpose of the uniform application of the calculation of the tax.

### 28.5 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, and
- 12% for any taxable period commencing from 1 January 2011 on the value addition as computed as per sub-paragraph 29.4 above.

Further, 8% of the value addition should be invested in an Investment Fund Account established as per the guidelines issued by the Central Bank of Sri Lanka for a period of 3 years commencing from 1 January 2011, and the investment shall be made on a monthly basis on or before the 20th day of the following month. (Please see Annex 5 for the Guidelines.)
28.6 *Tax Credit*

The amount of VAT paid to CGIR after deducting the credit for input tax under normal provisions of the VAT Act during the same taxable period could be claimed as a credit against the tax payable on supply of financial services, subject to the following:

- There should be no material difference in the opinion of the CGIR in the recognition of the receipts of the concerned institution for calculation of profits to determine the tax on supply of financial services vis-à-vis that for calculation of taxable supplies under any other provision of the VAT Act.
- In relation to finance leasing, only ¼ (25%) of the net tax so paid would be allowed.

The tax payable will thus be -

- calculated on the base (paragraph 29.4), and
- multiplied by the 12% tax rate (paragraph 29.5), and
- from which should be deducted the tax credit (paragraph 29.6).

However, the tax credit cannot be claimed by those who adopt the value addition attributable method of calculating the tax as set out in paragraph 29.7.

28.7 *Tax Calculation – Value Addition Attributable Method*

28.7.1 An optional method of calculating the tax payable on financial services will be granted upon a written communication being made to the Commissioner General. Once the intention is communicated, this is not revocable.

28.7.2 Under this method, in computing the value addition (tax base) on financial services, there should be excluded the value addition attributable to the following supplies:

a) exempt supplies under item (xi) of the First Schedule to the VAT Act other than the financial services subject to tax under Chapter 111A.

b) zero-rated supplies,

c) other taxable supplies,

d) profits and income arising or accrued on interest from inter-company transactions of a group of companies in relation to any loan, advance or credit excluding the profits and income of a company in that group which is:

(i) any licensed commercial bank within the meaning of the Banking Act No. 30 of 1988,

(ii) any finance company registered under the Finance Company Act No. 78 of 1988,

(iii) any licensed specialized bank within the meaning of the Banking Act No. 30 of 1988, or
(iv) a person providing primary services similar to those provided by a finance company but not registered with the Central Bank of Sri Lanka.

e) profits or income arising or accrued on interest to any approved provident fund including Employees Trust Fund or a pension fund or any thrift, saving or building society or welfare fund to which contributions are made by employees only or any approved gratuity fund, or interest income (not being business income) arising or accrued to any person other than a person referred to in items (i), (ii), (iii) and (iv) of sub-paragraph (d) above.

f) dividend income arising to any person other than to any person referred to in items (i), (ii), (iii) and (iv) of sub-paragraph d) above.

g) profits or income 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 persons other than by any person referred in items (i), (ii), (iii) and (iv) of sub-paragraph d)above.

h) profits or income from the exchange of currency, excluding such profits or income arising or accruing to any person primarily engaged in the business of exchange of currency or any person referred to in items (i), (ii), (iii) and (iv) of sub-paragraph d) above.

For the above purposes, “Group of Companies” means a parent company and all its subsidiaries where the parent company has one or more subsidiaries and the “subsidiary” is controlled by the parent company either by controlling the composition of the Board of Directors of such subsidiary or by holding more than half in nominal value of the equity share capital of such subsidiary.

28.7.3 In practice, this attributable method entails that the value addition attributable to the excluded supplies (sub-paragraph 29.7.2) be calculated in the ratio of the value of the excluded supplies to the total value of all supplies. However, this method has not been stipulated in the Act.

<table>
<thead>
<tr>
<th>Value Addition attributable</th>
<th>Value of financial services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total value addition x</td>
<td>Total value of all supplies</td>
</tr>
<tr>
<td>to financial services</td>
<td></td>
</tr>
</tbody>
</table>

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

28.8 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 Rs 75,000.

28.9 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
- Rs 500,000 for any quarter, or
- Rs 1.8 million for any period of 12 months,

(b) on or after 1 January 2013
- Rs 3 million for any quarter, or
- Rs 12 million for any period of 12 months.

28.10 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, and
- 6 months for any taxable period commencing on or after 1 January 2011.

The return should be filed on or before the last day of the following month, and the tax should be paid monthly on or before the 20th day of the following month.

29 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.

30 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.
GUIDELINES ON THE OPERATION OF SIMPLIFIED VALUE ADDED TAX (SVAT) SCHEME

The set of Guidelines issued, under Circular No. SEC 2011/03 dated 08.06.2011, under Section 2(2) of the VAT Act No. 14 of 2002 as amended by the Amendment Act No. 09 of 2011, to facilitate the operation of SVAT scheme implemented effective from April 1, is hereby amended to incorporate changes arising from the VAT (Amendment) Act No 7 of 2012 and to streamline the operation of the scheme.

These amended Guidelines will be effective from August 01, 2012.

1. **Persons eligible to be registered under SVAT**

   The following VAT Registered Persons as well as the suppliers of any goods or services to such registered persons (not including optional VAT payers) are entitled to be registered under this SVAT scheme

   (i) Any exporter or provider of zero rated service under section 7 of the VAT Act, having zero rated supplies more than 50% of his total taxable supplies;

   (ii) Registered person engaged in any Strategic Development Project referred to in paragraph (f)(i) of PART II, or Registered persons engaged in any Specific Project (ie..specified or special project identified by the Minister of Finance) referred to in Paragraph (f)(ii) of PART II of First Schedule to the VAT Act;

   (iii) Persons registered under **Section 22(7)**, and who are entitled to claim input tax under the Act;

   (iv) Manufacturers who supply goods manufactured in Sri Lanka (liable to VAT) to exporters to be utilized for manufacture of goods for export, where the value of such supplies and zero rated supplies are more than 50% of his total taxable supplies;

   (v) Providers 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 servicers more than 50% of his total taxable supply;

   (vi) Suppliers of goods or services to the above persons where the total of such supply is more than 50% of his total taxable supply.

2. **Procedure for Registration under SVAT**

   Information about documents to be submitted for registration under SVAT, and SVAT 01 (Registration form) are available at the Simplified VAT Branch which is located in the 2nd Floor of the Inland Revenue Building. Applications could also be downloaded from the Department website www.ird.gov.lk.
For registration under Simplified VAT Scheme, the applicant should be an authorized individual. In the case of companies, the applicant should be one of the directors authorized by the Board of Directors (the resolution of the board must be submitted). In the case of partnerships, the applicant should be a partner. In the case of proprietorship, applicant should be the proprietor. Further, the applicant himself is required to be present for obtaining the registration. However, in the case of companies, the applicant or an authorized representative of the company is required to be present for the purpose of SVAT registration. New Registrations could be made only on Wednesdays.

**Note:**

(a) Persons who are otherwise eligible for refunds are advised to request their suppliers those who have not registered under SVAT scheme, to get registered 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 items (i) to (vi) of paragraph 1 of this Guidelines is named as Registered Identified Purchaser (RIP). However, in granting RIP status to a registered person under SVAT scheme (other than to a specified project or strategic development project, or any project approved under section 22(7) of the VAT Act), a verification is made from the computer system of the Department as to whether the zero rated supplies of such person referred to in aforesaid item (i) is more than 50% of his total taxable supplies, and the place of business is visited for getting confirmation.

(d) In granting RIP status to a person referred to in aforesaid item (iv) or (v), a verification is made to ascertain whether his suspended supplies (including zero rated supplies, if any), are more than 50% of his total taxable supplies and the place of business is visited for getting confirmation.

(e) Any VAT registered person registered under this system as a supplier is referred to as Registered Identified Supplier (RIS). If RIS is providing more than 50% of its supplies to RIPS for a calendar month, such RIS will be accorded the RIP status as well. In granting RIP status to a RIS, a verification is made from the computer system of the Department, as to whether the suspended supplies are more than 50% of his total taxable supplies and the place of business is visited for getting confirmation.

(f) Any registered person having more than 50% exempt supplies is not eligible to get registration as RIP.

(g) When an application is submitted by a person who is eligible to be a RIP, the names and NIC numbers of two persons, to whom the credit vouchers to be handed over, should be given in the application form. This authorization cannot be altered unless a written request is made to the Commissioner General 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.
(h) RIPs are eligible to purchase goods or obtain services, for carrying on any respective activity which is mentioned in item (i), (ii),(iii),(iv),(v) or (vi) of paragraph 1 of this guideline suspending VAT component. Such purchase is treated as purchase used for specified purpose. RIPs are also eligible to make local supplies, but the total zero rated supplies and suspended supplies of any such RIP for a calendar month should not be less than 50% of his total supplies. In such a situation, he 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.

(i) List of the registered persons who are authorized to purchase under suspended terms (i.e RIPs or RISs/RIPs) is published in the official web site of the Inland Revenue Department. Any RIS may refer to this information to have confirmed whether the purchaser is a RIP. The list will be updated at the end of each month giving information on new registrations, cancellations, changes in the status and the registered persons who are black listed under SVAT. Therefore, all RISs are requested to refer to above information in the web-site.

3. Specific guidelines to Registered Identified Purchasers:-

3.1 Suspended Purchases

(i) All purchase 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.

(ii) Suspended purchases should necessarily be for specified purposes or deemed specified purpose. If such suspended purchases have been used for any exempt supply or any VAT input credit is disallowed under the VAT Act, an adjustment should be made as specified under section 22 of the Act. If no adjustment has been made by the registered person, an assessment under section 31 of the VAT Act could be issued by the Department (decision has been taken not to waive any penalty on such assessment). If suspended purchases 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 purpose, the value of such suspended purchase and the gross profit margin thereon will be treated as a taxable supply and an assessment will be issued under section 31 of the VAT Act by the Department, any penalty thereon will not be 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 document to prove the purchases and the suspended VAT component, when it is required.
3.2 Credit vouchers

(i) The RIPs will be provided with SIMPLIFIED VAT CREDIT VOUCHERS (SVCV) in a serial order by the Department. A book of SVCV contains 50 credit vouchers. In issuing credit vouchers to respective suppliers, such credit vouchers should be signed by two authorized persons (signatories). Therefore, names of five signatories with their designations, specimen signatures and copies of National Identity cards should be provided to the Department 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 Commissioner General 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) Subsequent issue of credit vouchers will be made on the application made with relevant documents. The application can be downloaded from the Website of the Department. When new series of credit vouchers are requested, the copies of used credit vouchers should be produced to the Department with a list of suspended suppliers.

(iii) RIP is required to issue a Credit Voucher on suspended purchases to the RIS not later than 15 days from the end of any calendar month in which such purchases are made, provided that the submission of SVAT Form 04 and 05 are submitted to the respective RIP within 10 days from the end of the relevant calendar month in which the supplies are made. RIP is required to issue one credit voucher covering the aggregate purchases made from one supplier during any calendar month. However, in respect of irregular suppliers, credit vouchers may be issued at the time of the transaction. RIPs are required to keep copies of all vouchers issued.

(iv) In the case of bank transactions, RIPs are bound to produce SVAT credit voucher at the point of transaction or within 7 days from the end of a month in which the transaction is carried out irrespective of submission of forms SVAT 04 and 05 by a bank in respect of such transactions. No credit voucher is entertained by a bank after 07 days from the end of the relevant month in which the transaction is carried out.

(v) RIPs are required to issue credit vouchers to persons who have been granted special approvals by the Commissioner General of Inland Revenue to accept credit vouchers, without submitting SVAT 04 and SVAT 05 in respect of suspended supply. A list of such approved persons is published in the official website of the Department of Inland Revenue.

(vi) Not issuing due credit vouchers by RIPs, or not submitting necessary reports by them to the Commissioner General in time, which in any manner affects the other party in the process, will be strictly dealt with under the statutory provisions of VAT Act. Further, after hearing the complaints from suppliers with regard to non submission of credit vouchers on time, if it is proved to the satisfaction of the Commissioner General 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.

(vii) CGIR may refuse issuing SVCV to any RIP at any time if it appears that any guideline issued by the Commissioner General has not been complied with as mentioned in item

(vi) above.

(viii) Where any credit voucher is cancelled due to a mistake, such cancellation should be disclosed in the application made subsequently requesting for SVAT credit voucher and original credit voucher should be attached to the credit voucher book.

(ix) If Purchases have been returned to any supplier during the same month in which such purchases were made, it should be disclosed in SVAT 06(a) with such supplier’s details and credit voucher number, issued during the month. Original value of purchase should be disclosed in SVAT 06.

(x) If purchases have been returned to any supplier in respect of previously declared purchase, that information should also be disclosed in SVAT 06(a) with the credit voucher number, already issued in that regard. Further, it is necessary to disclose the credit voucher number of current period which is relevant to net purchases after accounting such returns. Original value of purchase should be disclosed in SVAT 06, irrespective of return of any supplies accounted during the month.

(xi) If there is no purchase in the current month, but there are returned purchases during the month which is related to previously declared purchases, it should also be disclosed in SVAT 06(a) with the credit voucher number previously issued for such purchases, together with the current credit voucher number which is issued.

(xii) The credit voucher is to be written on the net value of supplies based on the value given in SVAT 04 for any situation mentioned in item (ix),(x) or (xi) above.

(xiii) If it is a debit note, that information too should be disclosed in SVAT 06(a) as a minus value.

3.3 VAT Return

(i) 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 month within the same year of assessment. ‘year of assessment “ means the year of assessment defined in the Inland Revenue Act. The amount of suspended VAT should be entered in cage “K”. Under no circumstances VAT on suspended purchases will 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 sub-paragraph 3.1, it should be disclosed in cage 8 of the VAT return which is for entering disallowable input tax credit relating to imports or local purchases.

(ii) The value for suspended purchase in the VAT return is the difference between the value of purchase in SVAT form 06 and the value of returned purchase in SVAT from 06(a).

### 3.4 Refunds

(i) The RIPs are requested to make purchases from **RISs**. Refunds are not made under any circumstances other than any refund arising on any input relating to cus-decs received up to March 31, 2011, upfront payment made after 01.04.2011 to the Director General of Customs and VAT paid in any situation mentioned in item (ii) below.

(ii) RIPs are entitled to get excess of input (if any) where goods or services obtained from any other person who is not a RIS. However, if it appears that the VAT component has not been remitted to CGIR by such supplier to whom the VAT is paid, the Commissioner General may hold such claims of refunds till such VAT component is recovered. Further, if it appears that the purchase has been made from a person who has been black listed, no refund will be made on tax invoices received by RIPs from such persons.

### 3.5 Documents

(i) The goods/services declaration form **SVAT 04** and supplementary forms SVAT 05, 05(a) and 05(b) issued by suppliers should be mutually agreed with the RIP and returned to the RIS for submission to the Commissioner General. These forms may be received electronically from the respective Supplier, and the RIP may sign them and send the same electronically to the respective supplier after verifying the goods or services received. However, documents should be dispatched thereafter to such respective supplier for him to submit it to the department.

(ii) RIPs are required to submit summary of suspended purchases (i.e **SVAT 06**)

(iii) RIPs are required to give total output declaration. - **SVAT 03**.

(iv) All RIPs should send all necessary forms and details in relation to a calendar month with two copies of acknowledgement, the form of which can be downloaded from the Web site. All forms such as SVAT 03, 06, and 06(a), should be handed over to the simplified VAT Unit on or before the last day of the following month. Further, excel files of SVAT 06 and 06(a) prepared on email formats of which are available in the IRD web-site, should be emailed on or before the last day of the following month.

(v) Any of those forms should not contain information for more than one calendar month.
(vi) 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 the note to paragraph 1 of the guideline above.

(vii) 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).

4. Specific guidelines to Registered Identified Purchasers - NFE Manufacturers (Consignees)

(i) If RIP is a direct exporter who received materials or services 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 Commissioner General of Inland Revenue 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 SVAT 06(b) and SVAT 06(c) for information.

(ii) RIP who is a NFE manufacturer shall submit forms SVAT 06(b) and SVAT 06(c) in respect of ‘NFE credit vouchers’ to the department and it should be emailed to the assigned email address. [Items (i) and (ii) are applicable from 01.04.2011]

(iii) 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”.

(iv) All other guidelines and procedures will be applied in the same manner as applicable to RIPs.

5. Specific guidelines to Registered Identified Suppliers

5.1 Suspended tax Invoice

(i) Supplies to RIPs can be made on a Suspended Tax invoice (SVAT 02) showing the Value Added Tax 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, RISs are required to make sure that the person is a RIP. The lists of RIPs and RIP/RIS have been published in the official web site of the Commissioner General of Inland Revenue.

(ii) A tax invoice should not be issued to any RIP under any circumstances.

(iii) The goods exempt from VAT cannot be supplied under VAT suspended scheme.

(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. In such a case,
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) All RISs should follow the time of supply as stipulated in the VAT Act. Therefore, the suspended supplies as well should be declared on that basis.

(vi) The goods/services declaration form SVAT 04, supplementary form SVAT 05, (Suspended VAT debit notes form SVAT 05(a) and Suspended VAT credit notes form SVAT 05(b), if applicable) should be issued to purchasers within 10 days from the end of the relevant month in which the supplies are made by RIS and obtain confirmed forms from the RIP. (Scanned goods/service declaration form (SVAT 04) and the supplementary form[ SVAT 05, ( SVAT 05(a) and 05(b), if applicable) may be sent to respective RIPs to get their confirmation on the supply and credit voucher numbers. )

5.2 Credit Voucher

(i) RIP will issue a SIMPLIFIED VAT CREDIT VOUCHER provided by the Department subject to the receipt of SVAT 04 and SVAT 05. RIS is required to obtain credit vouchers within 15 days from the end of the relevant month in respect of supplies made by him during a period of one month. If RIS is a bank, it is permitted to collect credit vouchers without submitting SVAT 04 and 05 to respective RIPs. However, such bank is required to keep same information which is in SVAT 05 with the respective branch of the bank.

(ii) All SVCV received by any RIS in respect of any taxable period are required to be submitted to the Inland Revenue Department to prove the suspended supplies if he is requested to do so .

(iii) If supplies have been returned during the month in which such supplies were made, the information should be disclosed in SVAT 05(b) giving the value of the returned supplies with the credit voucher number received for that particular month. The original value of invoices should only be stated in SVAT 07 irrespective of such returns. However, credit voucher is issued by the RIP on the net value.

(iv) If the supplies have been returned during the month in respect of previously declared supplies, that information should also be disclosed in SVAT 05(b) of the current month with the credit voucher number previously obtained. It should also be disclosed current period credit voucher number in respect of net supplies is made during the current month, and the value of the returned supplies together with the current credit voucher number received. Original value of supplies should be disclosed in SVAT 07, irrespective of any supplies returned during the month.

(v) If there are no supplies in the current subsequent month, but there are returned supplies during the month which is related to previously declared supplies, it should also be disclosed in SVAT 05(b) with the previously obtained
credit voucher number for such supplies together with the current credit voucher number.

5.3 VAT Return

(i) **RIS should disclose VAT suspended taxable supplies in Cage B** 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 ‘2’. Any RIS who requests for settlement of his VAT payments on suspended supplies through SVCV for any calendar month, should make such request in cage “R” in the VAT return that the supply and relevant output tax is declared. Where there is a discrepancy between the amount entered in cage 2 and in cage ‘R’ of the VAT return exists, such discrepancy will be treated as a standard supply chargeable to VAT unless the relevant reconciliation is submitted to the satisfaction of the Commissioner General for the difference to prove that there is no revenue loss and the transactions were duly declared.

(ii) The value of suspended supply in the VAT return should be the difference between the value of supply in SVAT form 07 and value of returned supply in SVAT form 07(b)

5.4 Refunds

RIS is not entitled to any refund on any Value Added Tax paid in connection with suspended supplies made.

5.5 Documents

(i) All computer generated Suspended Tax Invoices (SVAT 02) /SVAT 02(a) should be e-mailed as per the under mentioned data specification in a TEXT format. “Supplier's VAT No, Purchaser's VAT No, Supplier's SVAT No, Purchaser's SVAT No, Invoice date, Invoice No, Item No, HS Code, Currency code, Currency rate, Quantity, Unit Price, Amount” If any suspended tax invoice has been issued manually and the total of such invoices for a calendar month is more than 10, it should be scanned and sent by mail. If such file could not be sent by mail, a CD ROM in which data is stored can be handed over to Simplified VAT Unit. If suspended tax invoices are not more than 10, it can be handed over to the Simplified VAT Branch.

(ii) The RISs are required to handover said SVAT 04, SVAT 05, 05(a) and 05(b) confirmed by both parties to the Simplified VAT Branch of the Inland Revenue Department in respect of all transactions taken place during a period of one month in respect of each customer separately.

(iii) RISs are required to submit total output declaration. - **SVAT 03**.

(iv) RISs are required to submit a Summary of all suspended supplies made during the month (**SVAT 07**) and it should be emailed to the assigned email address in the given excel format.

(v) RIS is required to submit a Summary of all debit notes issued during any month (**SVAT 07(a)**) and it should be emailed in the given excel format.
(vi) RIS is required to submit a Summary of all credit notes issued during any month (SVAT 07(b)) and it should be emailed in the given excel format.

(vii) RIS is required to email SVAT 05, SVAT 05(a), SVAT 05(b) to the assigned email address.

(viii) Bank is required to insert an additional column to SVAT 07 to give information in respect of the name of the respective branch (of the bank).

(ix) All RISs should submit all necessary forms and details in relation to a calendar month as per the covering letter which can be downloaded from the Web-site with a copy and all SVAT 03,04,05,05(a),05(b), 07, 07(a) ,07(b) , 07(c) and 07 (d) should be handed over to the simplified VAT Branch on or before end of the following month.

(x) Separate records should be maintained to ascertain supplies on which VAT is suspended.

(xi) The negligence of suppliers in issuing suspended tax invoices, issuing SVAT 04,05, 05(a), 05(b) or not make available required reports to the CGIR and if it would effect to the other party, in that regard, the statutory provisions of VAT Act in respect of non furnishing of returns will strictly be applied.

6. Specific Instructions to Registered Identified suppliers - NFE Suppliers

(i) If RISs 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 service, 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 will receive a “NFE credit voucher” provided by the Commissioner General and issued by the RIP who is a NFE Manufacturer in respect of such NFE supply. RIS is required to submit SVAT 04 and SVAT 05,
[and if applicable 05(a) and 05(b)] to RIP within 10 days from the end of the relevant month in respect of supplies made by RIS, and the SVCV should be obtained within 15 days from the end of the relevant month.

(iii) RIS (NFE Supplier) shall prepare forms SVAT 07(c) and SVAT 07(d) in respect of such supplies. Such person shall have all supporting documents for information which contents in the said forms.

(iv) RIS is required to submit forms SVAT 07(c) and SVAT 07(d) in respect of NFE supplies made during the month and it should be emailed to the assigned email address.

[Items (i) to (iv) are applicable effective from 01.04.2011]

(v) All other instructions and procedures will be applied in the same manner as applicable to normal credit voucher/Suspended VAT invoice.

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

(i) All RIPs should submit VAT returns monthly.

(iii) All RISs who have been accorded RIPs status as well, should submit their VAT returns on monthly basis. All RISs other than above should submit their VAT Returns on quarterly basis.

(iv) VAT returns should be submitted to the Data Processing and Revenue Accounting Unit (DPRU) on the 7th floor of the Inland Revenue Building except registered persons who make supplies to special projects. Such persons should furnish their return to the Commissioner, VAT Unit which is on the 2nd floor. All VAT returns should be furnished on or before 20th day of the following month.

(iv) RISs who have been accorded RIP status should follow all the instructions given above to RIP.

(v) All RIPs who made suspended supplies should follow the instructions applicable for RISs.

(vi) All schedules should be typed in Times New Roman font with 12 font size, and such schedules should be submitted to the department.

(vii) Value should be to the nearest rupee.(do not enter cents).

(vii) If a SVAT registered person submits reports which are not in such form and does not contain such particulars as specified by the Commissioner General in his guideline, he shall be deemed not to have furnished such SVAT reports.

(viii) If there is no suspended purchases or suspended supplies, NIL reports should be submitted.
(x) Change of address of a registered person for SVAT could be made subject to the submission of copies of new TIN certificate, new VAT certificate and form 13 obtained after the change of address.

(xi) Loss of credit voucher books or credit vouchers should be informed immediately to the Simplified VAT Branch with an affidavit and police report obtained in that regard for enable to cancel such credit voucher books or vouchers.

(xii) Cancelation of SVAT registration will be made after the cancellation of VAT registration and after receiving a request in that regard with the original certificate. SVAT system and IRD system is checked as to whether all VAT returns and SVAT schedules have been submitted. Further, once the cancelation is done, name of such person will be published in the website.

(xiii) RIS status can be changed to RIP status on a request made with the original certificate and after satisfying the requirements mentioned in sub-paragraph (d) or (e) of paragraph 2 of this guideline.

(xiv) RIP status could be changed to RIS on a request made with original certificate and credit voucher books obtained, if any.

(xv) Confirmation of suspended purchases or supplies will be made if both the persons have made available reports in given email format correctly.

(xvi) Confirmation requires under TIEP scheme will be given on the submission of an application (which is available in the website of the Commissioner General) and with other relevant documents.

8. The forms specified for the purposes of this scheme are as follows:

(a) The Registration Form – (SVAT 01)

(b) Suspended VAT invoice used for supplies without charging VAT - (SVAT 02)

(c) NFE suspended Tax Invoice - [SVAT 02(a)]

(d) Simplified VAT Credit Voucher which is to be obtained from the department and utilized by the purchaser for set off the liability of VAT on purchases from the RIS - (SVCV)

(e) Total output declaration is required to be submitted by Purchasers and Suppliers– (SVAT03)

(f) Confirmation of the supply from both parties. This is to be submitted by Suppliers (SVAT 04) - both party document

(g) Monthly supplementary declaration form (SVAT 05) – This is a summary of Supplies. The suppliers are required to submit this form with SVAT 04. – both party document
(h) Suspended debit notes declaration form. This documentation is required to be submitted by the supplier (SVAT 05(a) - **both party document**

(i) Suspended credit notes declaration form. This documentation is required to be submitted by the supplier(SVAT 05(b) - **both party document**

(j) Summary of the suspended purchase (including NFE Basis) – This documentation is required to be submitted by the purchaser (SVAT 06)

(k) Reconciliation of cancellation of credit vouchers and purchases returned during the month or in a subsequent month. This documentation is required to be submitted by the purchaser [SVAT 06(a)]

(l) Details of the suspended supply received on NFE basis .This documentation is required to be submitted by the purchaser [SVAT 06(b)]

(m) Summary of the export details received against the suspended supply received on NFE Basis. This documentation is required to be submitted by the purchaser [SVAT 06(c)]

(n) Summary of the suspended supplies - This documentation is required to be submitted by the supplier (SVAT 07)

(o) Summary of the suspended debit notes issued - This documentation is required to be submitted by the supplier (SVAT 07(a))

(p) Summary of the suspended credit notes issued - This documentation is required to be submitted by the supplier (SVAT 07(b))

(q) Summary of the suspended supplies made to NFE Manufacturers. This documentation is required to be submitted by the supplier [SVAT 07(c)]

(r) Summary of the foreign remittance received on account of supplies made to NFE Manufacturers. This documentation is required to be submitted by the supplier [SVAT 07(d)]

9. This set of guidelines is subjected to amendment from time to time.

31.07.2012

Mallika Samarasekera
Commissioner General of Inland Revenue
**VAT – Supplies Eligible for Zero Rating (Section 7)**

- A supply of goods where the person supplying the goods has exported such goods.

- A supply of services, where such supply of services is directly connected with
  - any movable or immovable property outside Sri Lanka;
  - 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;
  - the international transportation (including transhipment) 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 identified by CGIR, to overseas buyers by a garment buying office registered with the Ministry of Industries under the supervision of the TQB, where the payment for such service is received in foreign currency through a bank in Sri Lanka.

- 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.
Vat-Exempt Supplies
First Schedule - Part II

(a) The supply or import of:

- paddy, seed paddy, rice, wheat, cardamom, cinnamon, cloves, nutmeg, mace, pepper, desiccated coconuts, rubber, latex, fresh coconuts, tea including green leaf, rice flour, wheat flour, bread, infants powdered milk, eggs, liquid milk (not made out of powdered milk or grain) and powdered milk;

- pharmaceutical products and drugs (other than cosmetics) including such products and drugs certified by Cosmetics, Devices and Drugs Authority established by the Cosmetics, Devises and Drugs Act, No.27 of 1980, and raw materials for the production or manufacture of such products or drugs;

- ayurvedic preparations which belongs to the Ayurveda Pharmacopoeia or Ayurveda preparations (other than cosmetic preparations) or unani, siddha or homeopathic preparations (other than cosmetic preparations) and raw materials for such preparations;

- aircrafts, helicopters, 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).

- books (other than cheque books, periodicals, magazines, newspapers, diaries, ledger books and exercise books), and unused postage and revenue stamps of the Government of Sri Lanka or of Provincial Council;

- crude petroleum oil, kerosene, liquid petroleum gas and aviation fuel (effective from August 5, 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.

- 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;

- agricultural tractors or road tractors for semi-trailers;

- cellular mobile phones;

- agricultural machinery, mammoties 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);
• agricultural seeds, agricultural plants, shrimp feed inclusive of prawn feed and animal feed but excluding poultry feed;
• 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;

• 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;

• 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;

• Prawns;

• 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);

• 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.

• Petrol, Coal or Bitumen specified under Harmonized commodity Description and Coding System Numbers for Custom purposes with effect from November 26, 2010;

• i) machinery and equipment for manufacture of grain mixed bakery products with effect from November 29, 2010;

  ii) machinery and equipment for the use of leather or footwear industry or bags, motor homes, taxi meters, agricultural machinery and parts, electronic equipments or articles use manufacture of fashion jewellery with effect from January 1, 2011;

  iii) light weight electrical and electronic items with effect from June 1, 2010;

  iv) fruit seeds with effect from August 16, 2010;

  v) telecommunication equipment with effect from January 1, 2011;

as specified under Harmonized Commodity Description and Coding System Numbers for Custom purposes;
• 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 January 1, 2011;

• spare parts and accessories for exclusive use by Sri Lanka Transport Board and Department of Sri Lanka Railways (including imports made on or after 18.08.2010);

• (i) 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 (HS Code Nos. 9004.10, 9004.90), perfumes (HS Code No. 3303.00.10), moulding (steel, glass, mineral material, rubber or plastic - HS Heading 84.80), photo sensitive semi conductor devices;

(ii) raw materials for the manufacture of spectacles and spectacle frames;

(iii) 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);

(iv) wood (sawn – HS Heading Nos. 44.07, 44.08, 44.09));

(v) 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;

(vi) bowsers, bulldozers, graders, levellers, excavators, fire fighting vehicles;

(vii) raw materials for the manufacture of energy saving bulbs.

• 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;

(b) The supply of:

• educational services provided by an educational establishment (effective from January 1, 2006 and ending on December 31, 2010); and

• educational services provided by any person or partnership with effect from January 1, 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 public library services by the government, a Provincial Council or a local authority;
public passenger transport services (other than air transport, water transport, or transport of tourists, excursion tours, and taxi services) or the provision of leasing facilities for –

i) 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 is entered into prior to January 1, 2004 and ending on December 31, 2010;

ii) 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 April 1, 2012;

iii) bowsers, 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 January 1, 2013.

the provision of leasing facilities for three wheelers on any lease rental payable on the leasing facility for three wheelers on or after 1 January 2005, 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;

electricity including distribution;

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;

services in relation to burials and cremations by any institution or person;

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;

services at a restaurant situated beyond the immigration counter at the Bandaranaike International Air Port;

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;

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;

- the following financial services:
  - the operation of any current, deposit or savings account;
  - the exchange of currency;
  - the issue, payment, collection or transfer of ownership of any note, order for payment, cheque or letter of credit;
  - the issue, allotment, transfer of ownership, drawing, acceptance or endorsement of any debt security, being any interest in or right to be paid money owning by any person;
  - the issue, allotment or transfer of ownership of any equity security, debt security or participatory security;
  - the underwriting or sup-underwriting the issue of any equity security, debt security or participatory security;
  - the provisions of any loan, advance or credit;
  - 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;
    - of 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;
  - the life insurance, "Agrahara" insurance and crop and livestock insurance
  - 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;

- the supply, lease or rent of residential accommodation other than the supply, lease or rent of residential accommodation by an enterprise which has entered into an agreement with the BOI, under section 17 of the BOI 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 10 million US dollars or its equivalent in any other currency;

- all healthcare services provided by medical institutions or professionally qualified persons providing such care (effective from 1.7.2007);

- imported unprocessed timber logs or ships or any article subject to the Special Commodity Levy subject to the condition that such Nation Building Tax referred to in section 2(10)(d) of the Nation Building Tax Act, shall be payable in respect of such article;
- 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;

- 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;

- sea sand;

- any film for distribution or exhibition;

- laboratory facilities for production of any film;

- locally manufactured handloom textiles;

- locally manufactured coconut oil or coco peat, coir fibre, grow pellets, grow bags, twist fibre or coconut husk made out of coconut waste.

- services being chartering of any vessel;

- clay roof tiles (effective from 01.07.2007) or chemical naptha (effective from 17.7.2007), to the extent that such clay roof tiles or chemical naptha are manufactured in Sri Lanka;

- 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;

- 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 January 1, 2004 (effective from 01.01.2008);

- imported rattans (effective from 01.07.2007);

- locally produced dairy products out of locally produced fresh milk insofar as such milk is produced in Sri Lanka and locally produced rice products containing rice produced in Sri Lanka (effective from 01.01.2008);

- locally manufactured sugar (effective from 01.01.2008);

- 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);

- locally manufactured surgical gauze used for surgery (effective from 01.01.2009); and

- locally manufactured jewellery (effective from 1/4/2009);
• telecommunication services (with effect from January 1, 2011);

• locally manufactured briquettes and pallets using bio mass wastes (with effect from January 1, 2011);

• locally developed software with effect from January 1, 2011;

• services being receipts from re-insurance by any local insurance company by way of commission or compensation in an insurance business (with effect from January 1, 2011);

• services being the issue of licenses to local telecom operators by Telecommunication Regulatory Commission (with effect from January 1, 2011);

• locally manufactured –
  (i) hydropower or wind power machinery and equipment;
  (ii) turbines;
  (iii) canned fish or clay pottery products using locally produced raw materials;
  (iv) products using locally procured raw materials for the required specification of tourist hotels or airlines;
  (v) 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;

• (i) locally manufactured fabric by any domestic manufacturer who does not enjoy BOI concessions;
  (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;

• 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;

• painting, at the point of sale, by the artist thereof;

• services by the Department of Commerce, with effect from January 1, 2012, services by the Board of Investment of Sri Lanka or the Sri Lanka Ports Authority, with effect from April 1, 2012, in so far as such services are provided to exporters or to providers of services which are zero rated services;

• export development rebate paid out of the Export Development Fund, with effect from October 8, 2009;
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;

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;

locally manufactured palm oil;

services by a Unit Trust Management company insofar as such services are provided to any unit trust;

services being hotel accommodation to any sportsman, organizer of any sport 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.

c) The import of:

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;

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;

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

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 Rs. 500 million.

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.
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 August 1, 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;

- personal items and business samples of less than Rs. 10,000 through parcel post or courier;

- 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;

- 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;

- project related goods to any project approved by CGIR and having an investment of not less than Rs 100 million (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;

- 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;

- any ship;

- unprocessed timber logs;

- 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;

- 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;
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;

machinery identified under the specified Harmonized Commodity Description Number for Customs purpose, for modernization of factories by the factory owner with the approval of the Commissioner General of Inland Revenue;

poultry keeping machinery, poultry incubators and brooders, the import of cattle, buffaloes, poultry, pigs, goats, sheep for breeding purposes and the seimens 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;

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;

(a) plant, machinery or equipment of high value to be used for any project; or

(b) 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);

aircraft engines or aircraft spare parts identified under specified Harmonized Commodity Description and Coding System Numbers for Customs purposes (effective from 17.07.2007);

rattans under HS Code No. 1401.20 (effective from 01.07.2007);

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);

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;

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.

PwC
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);

chemical naptha by the Ceylon Petroleum Corporation to be supplied to Ceylon Electricity Board for the generation of electricity (effective from 01.01.2009);

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;

Cine Films, cinematographic films exposed or developed, magnetic cine sound recorders, cinematographic cameras and projector parts and accessories, 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;

aircraft stimulators and parts specified under Harmonized Commodity Description and Coding System Numbers for Custom purposes with effect from January 1, 2011;

samples in relation to a business worth not more than rupees twenty five thousand subject to such terms and conditions as prescribed by the Director General of Customs.

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;

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 June 1, 2011 under the same conditions on which VAT has been deferred;

green houses, poly tunnels and materials for the construction of green houses, by any grower of agricultural products or plants of any type, 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;

- 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;

- 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.;

- fabric, specified under HS Code Nos. for Custom purposes, 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;

- 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.

(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 January 1, 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 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 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.
Annex 4

Restriction on Allowability of Input Tax - Illustration

Illustration

A VAT registered exporter has claimed a VAT refund for the month of April 2013 giving the following details.

Output Tax

<table>
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<th>Description</th>
<th>Amount (Rs)</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local sales</td>
<td>8,000,000</td>
<td>@ 12%</td>
</tr>
<tr>
<td>Zero rated (exports)</td>
<td>2,000,000</td>
<td></td>
</tr>
<tr>
<td>Total turnover</td>
<td>10,000,000</td>
<td></td>
</tr>
</tbody>
</table>

Input Tax

Total allowable input tax

1,400,000

Allowable input tax attributable to

- Zero rated supplies = \( \frac{2,000,000 \times 1,400,000}{10,000,000} = 280,000 \) Rs
- Local sales = \( \frac{8,000,000 \times 1,400,000}{10,000,000} = 1,120,000 \) Rs

But restricted to 100% of 960,000 = Rs 960,000

Input tax claimable = Rs 960,000

Carried forward input tax = Rs 440,000

Of the excess input tax of Rs 440,000:

- Carried forward input tax = Rs 440,000
Annex 5

Guidelines to Licensed Commercial Banks and Licensed Specialised Banks on the Operations of the Investment Fund Account

1 Establishment of an Investment Fund Account (IFA)

As proposed in Budget 2011, every person or partnership who is in the business of banking or financial services, is required to establish and operate an IFA.

2 Initial Credits to IFA

As and when taxes are paid after 1 January 2011, licensed banks shall transfer the following funds to the IFA and build a permanent fund in the bank:

(i) 8 per cent of the profits calculated for the payment of Value Added Tax (VAT) on financial services on dates as specified in the VAT Act for payment of VAT.

(ii) 5 per cent of the profits before tax calculated for payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self assessment payments of tax.

3 Utilization of Funds

3.1 Banks shall commence utilization of funds in the IFA in the following manner within three months from the date of transfer to the IFA:

(i) Invest in long-term Government securities and/or bonds with maturities not less than seven years.

(ii) Lend on maturities not less than five years at interest rates not exceeding 5 year Treasury bond rates plus 2 per cent.

(iii) Lend only for the following purposes:

(a) Long-term loans for cultivation of plantation crops/agriculture crops including fruits, vegetables, cocoa and spices and for livestock and fisheries

(b) Factory/mills modernization/establishment/expansion

(c) Small and medium enterprises:

- loans up to Rs 30 mn or
- loans over Rs 10 mn to enterprises with annual turnover less than Rs 300 mn and employees less than 400

(d) Information Technology related activities and Business Process Outsourcing
(e) Infrastructure development

(f) Education – vocational training and tertiary education

(g) Restructuring of loans extended for the above purposes.

3.2 Lending may be in Sri Lanka Rupees and/or foreign currency loans granted within the country.

3.3 Banks shall invest funds in short-term Government securities until the commencement of utilization of funds as stated in 3.1 above.

4 Conditions

4.1 Applicability of Prudential Requirements

(i) Subject to paragraph (ii) below, transactions of the IFA shall be subject to all Regulations, Directions, Determinations and Circulars issued by the Central Bank of Sri Lanka as applicable.

(ii) Lending to the Agriculture sector in the case of licensed banks shall be in addition to the requirement on lending to agriculture by banks of 10 per cent of total loans and advances of the bank in terms of the budget proposal 2006.

4.2 Accounting for Transactions

(i) Transfers to the IFA shall be treated as appropriations of profit after tax.

(ii) The IFA shall be maintained as a separate item under general and other reserves and constitutes a part of shareholder funds.

(iii) Cost of operations of IFA and income from investments and lending operations shall be accounted for in the financial statements of the bank.

(iv) Banks shall maintain separate accounts with necessary details on all operations of the IFA.

(v) IFA shall not be impaired or reduced without the approval of the Central Bank of Sri Lanka.

4.3 Disclosures and Reporting to Central Bank of Sri Lanka

(i) The following disclosures shall be made in the “Notes to the financial statements”:

   (b) Number of loans granted and total amount outstanding for each purpose stated in paragraph 3.1(iii), interest rates and tenure of loans.

   (c) Total investments in Government securities, interest rates and maturity.

(ii) Information on the operations of the IFA shall be made available as and when required by the Central Bank of Sri Lanka and Ministry of Finance.
4.4 *Tax Treatment*

The tax liability in relation to the operations of IFA shall be computed in accordance with applicable tax laws. However, the following shall be noted:

(i) Interest income on investments, stated in paragraphs 3.1(i) and 3.3 is liable to income tax.

(ii) Interest income on loans granted utilizing the IFA will be exempt from income tax.

(iii) Specific provisions on loan losses will be subject to normal adjustments applicable to bad debts.

(iv) Any over-funding or under-funding shall be in accordance with the relevant tax laws/regulations/guidelines.

29 April 2011
# Nation Building Tax (NBT)

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Nation Building Tax (NBT)

1 The Law

- Nation Building Tax Act, No. 9 of 2009
- Nation Building Tax (Amendment) Act, No. 32 of 2009
- Nation Building Tax (Amendment) Act, No. 10 of 2011
- Nation Building Tax (Amendment) Act, No. 9 of 2012
- Nation Building Tax (Amendment) Act, No.11 of 2013

2 Effective Date

1 February 2009

3 Chargeable Persons

NBT is chargeable from every person (person includes any company, body of persons or any partnership) who –

(a) imports any article, other than any article comprised in the personal baggage of the passenger, into Sri Lanka,
(b) carries on the business of manufacture of any article,
(c) carries on the business of providing a service of any description, or
(d) carries on the business of wholesale or retail sale of any article other than such sale by the manufacturer of that article, being a manufacturer to whom the provisions of paragraph (b) above applies.

4 Tax Rate

From 1 January 2011 onwards -

(1) 2% on the liable turnover (other than any turnover from the wholesale or retail sale) of any article
(2) on the liable turnover from wholesale or retail sale of any article –

(a) 0% (Nil) on the 3/4th of the liable turnover of any distributor,
(b) 0% (Nil) on the 1/2 of the liable turnover of any article (other than any turnover of a distributor),
(c) 2% on the balance liable turnover.
5  **Chargeability**

NBT is chargeable in relation to -

- import of any article, on the liable turnover of the importer arising from such importation;
- business of manufacture of any article, provision of any service or wholesale or retail sale of any article, on the liable turnover of the relevant quarter.

6  **Definitions**

**Liable turnover** in relation to –

- imports means the value of any article, ascertained for the purpose of Value Added Tax under Section 6 of the Value Added Tax Act No. 14 of 2002, arising from the import of that article by any person, but does not include the value of any excepted article referred to in the Annex;
- manufacture means the sum receivable, whether received or not, from the sale in Sri Lanka in any relevant quarter of every article manufactured by any manufacturer other than any excepted article referred to in the Annex,
- provision of any service means the sum receivable, whether received or not, from the provision in Sri Lanka of any service other than any excepted service, referred to in the Annex, by any person during any relevant quarter, and
- wholesale or retail sale means the sum receivable, whether received or not, from the sale in that quarter of any article other than –

1. pharmaceuticals,
2. sugar, dhal, potatoes, onions, dried fish, milk powder or chillies under the provisions of the Special Commodity Levy Act, No.48 of 2007, where such article is subsequently sold by the importer of such article;
3. gems or jewellery, sold for the payment in foreign currency with the authorization of the Central Bank of Sri Lanka.
4. any printed book (with effect from July 1, 2011);
5. any article exported;
6. any article sold to any exporter for export;
7. fresh milk, green leaf, cinnamon or rubber (latex, crepe or sheet rubber) purchased from any manufacturer or producer thereof; and
8. petrol, diesel or kerosene sold in a filling station.

In relation to manufacture, provision of any service and wholesale and retail trade, liable turnover will arise after making the following adjustments:-

**Less**

- any bad debt incurred in the relevant quarter,
any Value Added Tax under the Value Added Tax Act No. 14 of 2002 paid in the relevant quarter,

any Excise Duty under the Excise Duty (Special Provisions) Act No. 13 of 1989, paid in the relevant quarter, other than such excise duty paid on the importation with effect from 1 February 2009,

rebate paid under the Export Development Rebate Scheme in relation to any international event, as approved by the Minister of Finance, and

any turnover from the supply of any goods or services in relation to any international event, as approved by the Minister of Finance.

Plus

any bad debt recovered in the relevant quarter.

Manufacture means any process for –

making an article;

assembling or joining any article, whether by chemical process or otherwise;

adapting for sale any article;

packaging, bottling, putting into boxes, cutting into pieces, cleaning, polishing, wrapping, labelling or in any other way whatsoever preparing for sale any article otherwise than in a retail store for the purpose of sale in such store exclusively and directly to the consumer.

“Person” includes any company, body of person or any partnership.

Quarter means the period of three months commencing on the first day of January, April, July or October of any year.

Year means a calendar year.

Threshold

(a) For any relevant quarter commencing on or after 1 January 2011 but prior to 1 January 2013.

(i) any person referred to in (b), (c) and (d) of the paragraph 3 above, other than any person referred to in item (ii) below, will not be liable to NBT for that quarter if the turnover for that quarter does not exceed Rs 500,000;

(ii) any person who –

(a) operates a hotel, guest house, restaurant or other similar business;
(b) processes any locally procured agricultural produce in the preparation for sale;
(c) provides educational services by establishing any local institution for that purpose, or
(d) supplies labour (manpower)

will not be liable to NBT for that quarter if the turnover for that quarter does not exceed Rs 25 million.

(b) For any relevant quarter commencing on or after 1 January 2013.

(i) any person referred to in (b), (c) and (d) of the paragraph 3 above other than any person referred to in item (ii) below, will not be liable to NBT for that quarter, if the turnover for that quarter does not exceed Rs 3 million;

(ii) any person who –
(a) operates a hotel, guest house, restaurant or other similar business;
(b) processes any locally procured agricultural produce in the preparation for sale;
(c) provides educational services by establishing any local institution for that purpose, or
(d) supplies labour (manpower)

will not be liable to NBT for that quarter if the turnover for that quarter does not exceed Rs 25 million.

(iii) any new business of manufacture of any article, other than liquor or tobacco, or the provision of any service by any individual who is a citizen of Sri Lanka will not be liable to NBT for a period of 5 years reckoned from the beginning of the year of assessment in which the commercial operation commences, if such individual -

- return from foreign employment on or after 1 January 2013, and
- invests his foreign earnings to commence such business.

8 Exemptions

Turnover (other than the turnover from wholesale or retail sale) of excepted articles and the turnover of excepted services will not be subject to NBT. The list is given in the Annex.

9 Credit for NBT paid

Where a manufacturer registered for NBT utilizes wholly or partly any goods purchased from another registered manufacturer, or imported by himself, in the
manufacture of goods liable to NBT, such manufacturer is entitled to tax credit in respect of NBT paid on such goods in proportion to the value of goods manufactured by such manufacturer which are liable to NBT.

However, if such credit for any relevant quarter exceeds the tax so payable for that quarter, the excess shall be deemed to be an advance payment of tax paid for the quarter immediately succeeding that relevant quarter.

For the purpose of claiming credit for the NBT paid, the NBT registration number is required to be entered in the invoice issued by the manufacturer.

10 Notice of Chargeability

Every liable person (manufacturer, service provider or wholesale or retail sale trader) whose liable turnover for any quarter exceeds the threshold referred to in paragraph 7 above, should give notice in writing to the Commissioner General of Inland Revenue (CGIR) of such chargeability for that quarter not later than 15th day of the last month of that relevant quarter.

The notification should disclose the name, the postal address, the taxpayer identification number (TIN), if any, or the income tax file number, if any, and such other information as the CGIR may specify by Order published in the Gazette.

Those who have already registered for VAT, would be automatically registered for NBT, and such registrants would be duly informed. However, if there is no NBT liability, such persons should inform CGIR accordingly.

11 Payment Dates

NBT is payable by every liable person on a self assessment basis in three instalments for any relevant quarter as follows:

<table>
<thead>
<tr>
<th>Instalment</th>
<th>Amount payable</th>
<th>Payable on or before</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st instalment</td>
<td>NBT payable for the 1st month of that quarter</td>
<td>20th day of the 2nd month of that quarter.</td>
</tr>
<tr>
<td>2nd instalment</td>
<td>NBT payable for the 2nd month of that quarter</td>
<td>20th day of the 3rd month of that quarter.</td>
</tr>
<tr>
<td>3rd instalment</td>
<td>Balance amount payable for that quarter after deducting 1st and 2nd instalments from the NBT payable for that quarter</td>
<td>20th day of the month immediately succeeding the end of the relevant quarter.</td>
</tr>
</tbody>
</table>
Illustration

Quarter ended 30-6-2013

A NBT registered footwear manufacturer has liable turnover for the quarter ended 30-6-2013 as follows:

For the month of April 2013 = Rs 2,200,000
For the month of May 2013 = Rs 2,500,000
For the month of June 2013 = Rs 2,100,000
Total = Rs 6,800,000

1st instalment (month of April)
NBT payable at 2% on or before 20 May 2013 = Rs 2,200,000 x 2 = 44,000

2nd instalment (month of May)
NBT payable at 2% on or before 20 June 2013 = Rs 2,500,000 x 2 = 50,000

3rd instalment
Total liable turnover for the quarter ended 30-6-2013 = Rs 6,800,000
NBT payable for the quarter = Rs 6,800,000 x 2 = Rs 136,000
Balance payable on or before 20 July 2013 = Rs 136,100 – 44,000 – 50,000 = Rs 42,000

12 Collection of NBT on Imports

The tax chargeable in respect of every article imported by any person shall be collected by Director General of Customs (DGC) at the time such article is imported as if it were Customs duty chargeable under the Customs Ordinance. DCG would specify the amount of NBT collected on the import invoice relating to the import of the relevant article.

13 Filing of NBT Return

A quarterly return of turnover, in such form and containing such particulars as may be specified by CGIR, is required to be filed on or before 20th day of the month following the end of that quarter.
14 Administration Provisions

All relevant provisions of the Inland Revenue Act No 10 of 2006 pertaining to returns, assessments, appeals, finality of assessments and penalty for incorrect returns, recovery of tax, miscellaneous, penalties and offences, administration and general matters will apply respectively to NBT.

15 Exemption of certain small and medium enterprises from the payment of default taxes

Under the provisions of the Nation Building Tax (Amendment) Act No 10 of 2011, any person or partnership carrying on an enterprise, having an annual turnover of a sum not exceeding Rs 100 million, who has defaulted in the payment of NBT 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 NBT 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 NBT payable by him in respect of any future periods commencing on or after 1 January 2011.
Excepted Articles and Services

Excepted Articles

(i) any article exported by the manufacturer of such article;

(ii) any article not being plant, machinery or fixtures imported by any person exclusively for use in, or for, the manufacture by such person of any article for export;

(iii) any article sold by any person, to whom NBT Act applies, to any exporter, if the CGIR is satisfied, on the production of any documentary evidence, that –
   a) such article; or
   b) any other article manufactured of which such article is a constituent part,

   has in fact been exported from Sri Lanka by such exporter directly or through a trading house established for export purposes.

(iv) any article which is imported, if proved to the satisfaction of CGIR, that such article is imported to Sri Lanka for –
   a) display at an exhibition,
   b) the temporary use in Sri Lanka in any project approved by the Minister,
   c) the purposes of repairs to that article to be carried out in Sri Lanka, or
   d) any other similar purpose,

   and is to be re-shipped by such person, within a period of one year from the date of importation of such article to Sri Lanka or within a period of ninety days after the completion of such project;

(v) any article imported, if proved to the satisfaction of DGC, that such article was, prior to its importation, taken out of Sri Lanka for repairs;

(vi) any cinematographic film or teledrama produced in Sri Lanka and sent out of Sri Lanka for further processing or printing with the approval of the National Film Corporation.

(vii) any spare part imported by any airline or shipping company, if proved to the satisfaction of CGIR, that such spare part is to be used for the maintenance of any aircraft or ship, used in international traffic and owned or chartered by such airline or shipping company;

(viii) any article sold to the United Nations Organization or to any specialized agency of such organization or to the diplomatic mission of any foreign Government or to any member of the diplomatic staff of such mission or to any other person approved by the Minister on the recommendation of the Minister of Foreign Affairs as being of the status of a diplomatic mission.

(ix) any article imported if such article is subject to the Special Commodity Tax charged under the Special Commodity Tax Act No 48 of 2007;

(x) Fertilizer;
(xi) Petroleum and Petroleum products;
(xii) L P Gas;
(xiii) Pharmaceuticals;
(xiv) tea supplied by the manufacturer being a manufacturer registered with the Sri Lanka Tea Board Law No 14 of 1975 to any registered broker for sale at the Colombo Tea Auction;
(xv) any article for the use in any project approved by the relevant Minister and by the Minister in charge of the subject of Finance taking into consideration the economic benefit to the country, and where the tax in respect of such project is borne by the Government;
(xvi) any goods imported or supplied to a specified project carried on, out of foreign funds or donations received by the Government, as approved by the Minister considering the economic benefit to the country;
(xviA) any goods (other than motor vehicles and goods for personal use) required for the purpose of providing of services connected to international transportation, being goods consigned to Sri Lankan Air Lines Ltd., Mihin Lanka (Pvt) Ltd. or Air Lanka Catering Services Ltd;
(xvii) bitumen classified under HS code No. 2714;
(xviii) any article imported or sold by any society registered under Co-operative Societies Act, No. 5 of 1972 or under the respective statutes enacted by the Provincial Councils providing for such registration, or Lak Sathosa Limited registered under the Companies Act, No. 7 of 2007;
(xix) tractors classified under HS codes 8701.10.10, 8701.10.90, 8701.90.10 and 8701.90.20;
(xx) raw materials or packing materials imported for the manufacture of pharmaceuticals, subject to the approval of the relevant authority;
(xxi) gold imported (effective from March 1, 2010);
(xxii) plant, machinery or equipment imported on temporary basis for the use of large scale infrastructure development projects approved by the Minister in charge of the subject of Finance as being of beneficial for the economic development of Sri Lanka, on condition that goods will be re-exported after the completion of work (effective from July 1, 2010);
(xxiii) foreign currency notes imported, being notes classified under HS codes 4907.00.90 (effective from June 1, 2010);
(xxiv) raw materials or packing materials imported for the manufacture of ayurvedic preparations which belong to the ayurveda Pharmacopoeia or ayurveda preparation subject to the approval of the relevant authority;
(xxv) pure-bred breeding animals under HS 0102.10 or HS 0104.20.10, milking machines under HS 8434.10, dairy machinery under HS 8434.20 and spare parts under HS 8434.90, at the point of importation (effective from 18.01.2011);
(xxvi) import of samples in relation to business which is worth not more than Rs 25,000, subject to terms and conditions as prescribed by the Director – General of Customs;
(xxvii) aircraft or ships classified under HS Code Nos. 8802.11, 8802.12, 8802.20, 8802.40, 89.01, 89.02, 89.05, 89.06, 89.07 and 89.08 at the point of importation (with effect from August 1, 2009);

( xxviii) timber logs classified under HS Heading No. 44.03, at the point of importation;

(XXIX) yarn classified under HS Code Nos. 50.01, 50.02, 50.03, 50.04, 50.06, 51.01, 51.02, 51.03, 51.04, 51.05, 51.06, 51.07, 51.08, 51.09, 51.10, 52.01, 52.02, 52.03, 52.05, 52.06, 53.01, 53.02, 53.03, 53.06, 53.07, 54.02, 54.03, 54.04, 54.06, 55.01, 55.02, 55.03, 55.04, 55.06, 55.07, 55.09, 55.10, 55.11, 56.04, 56.05 and 56.06, at the point of importation;

(xxx) white canes for the blind, classified under HS Code No. 6602.00.10, at the point of importation (effective from December 1, 2011);

(xxxi) Braille typewriters classified under HS Code No. 8469.00.10, at the point of importation (effective from December 1, 2011);

(xxxii) parts of Braille typewriters classified under HS Code No. 8473.10.10, at the point of importation (effective from December 1, 2011);

(xxxiii) braille writing papers and boards under HS Codes for Customs purposes at the point of importation;

(xxxiv) carriages for disabled persons, whether or not motorized or otherwise mechanically propelled, classified under HS Heading No. 87.13, at the point of importation (effective from December 1, 2011);

(xxxv) orthopaedic appliances (including crutches, surgical belts and trusses, splints and other fracture appliances, artificial parts of the body, hearing aids and other appliances which are worn or carried or implanted in the body, to compensate for a defect or disability), classified under HS Heading No. 90.21, at the point of importation (effective from December 1, 2011);

(xxxvi) fabric on which Cess at the rate specified in a Gazette Notification issued under the Sri Lanka Export Development Act No 40 of 1979 has been paid at the point of importation;

(xxxvii) locally manufactured clay roof tiles and pottery products, at the point of sale, by the manufacturer;

(xxxviii) paintings, at the point of sale, by the artist thereof;

(xxxix) solar panel modules, accessories or solar home systems for the generation of solar power energy classified under H.S Code Nos. for Custom purposes at the point of importation;

(XL) coal;

(XLI) articles imported for any international event approved by the Minister of Finance;

(XLII) gems imported subject to special service fee at the rate specified under paragraph (a) of section 6A of the Customs Ordinance (Chapter 235), and any subsequent sale of such gems as processed gem;

(XLIII) any gully bowser, machinery or equipment imported for the use of 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 line Ministry;

(XLIV) any article manufactured by a company identified as a Strategic Development Project in terms of the Strategic Development Project Act sold to another Strategic Development Project or to a specialized project approved by the Minister of Finance or to a company registered with the BOI insofar as such articles are considered as import replacement and supplied during the project implementation period; and

(XLV) any machinery or equipment imported for the purpose of generating electricity by the Ceylon Electricity Board (CEB) or any institution which has entered into an agreement with CEB to supply electricity, being machinery or equipment classified under H.S Code Nos. for Customs purposes, and approved by the Minister of Finance.
Excepted Services

(i) business of banking or finance;
(ii) supply of electricity;
(iii) medical services;
(iv) supply of water;
(v) transport of goods or passengers
(vi) leasing of movable properties.
(vii) services –
   i) prior to 1 January 2011 of a construction contractor, not being a sub-contractor or
   ii) on or after 1 January 2011 of a construction contractor or sub-contractor,
       insofar as such services are in respect of constructing any building, road, bridge,
       water supply, drainage or sewerage system, harbour, airport or any infrastructure
       project in telecommunication or electricity;
(viii) services provided to any exporter of any article, being services directly related to
       improving the quality and character of such article;
       the services of sewing garments provided to any exporter of such garments;
(x) services of a freight forwarder, shipping agent licensed under the Licensing of
    Shipping Agents Act No. 10 of 1972 or courier insofar as such services are in
    respect of the export of any article from Sri Lanka;
(xi) services provided by a public corporation, insofar as such services are in respect
    of the export of any article from Sri Lanka;
(xii) for any period ended prior to 1 January 2011, operating a hotel, guest house,
     restaurant or other similar business, if, such hotel, guest house, restaurant or
     other similar business registered with the Ceylon Tourist Board;
(xiii) the services of an auctioneer, broker, insurance agent or commission agent of any
      local produce;
(xiv) the services of a travel agent in respect of inbound tours, if such person is
     registered with the Ceylon Tourist Board.
(xv) services of a computer software developer in respect of software developed by
    such person for use wholly outside Sri Lanka and for which payment is received
    in foreign currency through a bank
(xvi) services provided over the Internet, using custom-built software, by an
     enterprise, exclusively for the provision of such services being services enabling
     or facilitating the sale of goods, or for the provision of services, by a person in Sri
     Lanka to persons outside Sri Lanka, for payment in foreign currency;
(xvii) client support services provided over the internet or telephone, by an enterprise,
     exclusively for the provision of such services, to one or more identified clients
     outside Sri Lanka, for payment in foreign currency;
(xviii) the business of life insurance;
(xix) distribution or production and supply, of any cinematographic films primarily for exhibition in cinemas;

(xx) exhibiting films in a cinema;

(xx) any service provided to the United Nations Organization or to any specialized agency of such organization or to the diplomatic mission of any foreign Government or to any member of the diplomatic staff of such mission or to any other person approved by the Minister of the recommendation of the Minister of Foreign Affairs as being of the status of a diplomatic mission;

(xxii) any service rendered in or outside Sri Lanka to any person or partnership outside Sri Lanka for payment in foreign currency if such foreign currency is remitted to Sri Lanka through a bank.

(xxiii) The services of any “general sales agent” registered under the Civil Aviation Authority of Sri Lanka Act, No. 34 of 2002.

(xxiv) the services provided by foreign consultancies for the large scale infrastructure development projects being projects which have been approved by the Minister of Finance, as beneficial for the economic development of Sri Lanka (effective from July 1, 2010);

(xxv) services provided to any specific project carried on, out of foreign funds or donations received by the Government, as approved by the Minister considering the economic benefit to the country;

(xxvi) services provided to the port or airline in relation to international transportation;

(xxvii) services provided in relation to ship building for the international market for payments made in foreign currency;

(xxviii) telecommunication services;

(xxix) supply of locally developed software;

(xxx) services provided by any Government Department, Ministry or any undertaking fully owned by the Government;

(XXX) services provided by Sri Lankan Airlines Ltd.;

(XXXI) services provided by Mihin Air (Pvt) Ltd.;

(XXXII) services provided by Air Lanka Catering Services Ltd.;

(XXXIV) services provided by any society registered under the Co-operative Societies Law No. 5 of 1972 or under any Statute enacted by a Provincial Council, or Lak Sathosa Limited, registered under the Companies Act, No. 7 of 2007.

(XXXV) any service provided by the Central Bank of Sri Lanka; and

(XXXVI) any service provided free of charge by any public corporation out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government, on behalf of the Government.
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.
- Gazette Order No. 1681/33 of November 24, 2010.
- Gazette Order No. 1703/1 of April 25, 2011.
- Gazette Order No. 1733/17 of April 22, 2011.
- Gazette Order No. 1757/3 of May 09, 2012.
- Gazette Order No. 1783/34 of November 9, 2012.

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, the rate of the levy is 5% 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 9/5/2008.

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 April 22, 2008
“ “ 1582/15 of December 31, 2008
“ “ 1681/33 of November 24, 2010
“ “ 1703/1 of April 25, 2011
“ “ 1733/17 of November 22, 2011
“ “ 1757/3 of May 09, 2012
“ “ 1783/3 of November 9, 2012

Deferral Facility : The Director General of Customs (DGC) shall defer the collection of the levy on the importation of any article –

(i) 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
(ii) 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.

Section 4(2)

Payment of PAL : 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.

Section 4(2)

Purchase of certain articles deemed to be imported : When any article imported into Sri Lanka is sold -

(a) 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;

(b) by the Sri Lanka Ports Authority for recovery of any dues; or

(c) 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

Section 6

Recovery of PAL : 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.

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 –

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(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
Crop Insurance Levy

Pursuant to Gazette No 1824/23 of August 23, 2013, a Crop Insurance Levy is charged in terms of the Finance Act No 12 of 2013.

The Crop Insurance Levy shall be 1% of the profit after tax, being the percentum payable by every institution under the purview of the:

i. Banking Act, No. 30 of 1988;
ii. Finance Companies Act, No. 78 of 1988; or
iii. Regulation of Insurance Industry Act, No. 43 of 2000,

to the National Insurance Trust Fund Board, effective from 1 April 2013, as per Schedule given below:

(1) Such levy shall be calculated based on the estimated profit after tax, in each quarter (period of three months commencing from April, July, October of any year and January in the immediately succeeding year) in a year of assessment (Y/A) and in case of any additional liability arising subsequent to the reconciliation at the end of relevant Y/A, it should be paid on or before the 30th September in the Y/A immediately succeeding the Y/A concerned and in case of any excess of payment, it can be set off against the levy payable in any subsequent Y/A.

(2) Every institution shall pay such levy to the account opened for this purpose by the National Insurance Trust Fund Board within 30 days from the end of each quarter. Where such levy or part thereof is not paid on or before the due dates, in addition to the levy payable, a penalty equivalent to 10% of such levy in default shall be charged in respect of first 30 days in which the payment was in default and further 2% of the levy for each further period of 30 days or part thereof (not exceeding 50% levy) shall be charged in addition to the levy payable.

Provided that, the penalty shall not be charged, if at least ¼ of the relevant levy calculated based on the after tax profit of the immediately preceding Y/A has been paid for each quarter on or before the specified dates and the balance if any, has been paid after ascertaining the actual liability on or before 30th September of the Y/A succeeding the said Y/A.

Provided further, the penalty shall not be charged for the levy payable for the quarter ended 30th June 2013, which is due on or before 31st July 2013, if such levy is paid on or before 31st October 2013 along with the levy payable for the quarter ended 30th September 2013.
Stamp Duty

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Stamp Duty

1 Stamp Duty Law

- Stamp Duty (Special Provisions) Act, No. 12 of 2006 (effective from 4 April 2006).


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

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*

(*Includes item 7A to the List of Exemptions)
2 Chargeability of Stamp Duty

Stamp duty is chargeable on every “specified instrument” –

a) executed, drawn or presented in Sri Lanka; or
b) 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

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Rate Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affidavit</td>
<td>25.00</td>
</tr>
<tr>
<td>Policy of insurance for every Rs 1,000 or part thereof</td>
<td>0.50</td>
</tr>
<tr>
<td>Warrant to act as a notary public</td>
<td>1,000.00</td>
</tr>
<tr>
<td>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</td>
<td>1,000.00 or 10% of the licence fee whichever is less</td>
</tr>
<tr>
<td>Any licence issued authorising the holder to carry on any trade or business for sale of liquor for any period specified in such licence</td>
<td>10,000.00</td>
</tr>
<tr>
<td>A claim, demand, or request presented for the payment of any sum of money due in respect of any transaction entered into during any period by issuing any credit card for every Rs 1,000 or part thereof of such sum of money</td>
<td>10.00</td>
</tr>
<tr>
<td>Share certificate issued consequent to the issue of transfer or assignment of any number of shares of any company. for every Rs 1,000 or part thereof of the aggregate value of such number</td>
<td>5.00</td>
</tr>
<tr>
<td>Mortgage for any definite and certain sum of money affecting any property for every Rs 1,000 or part thereof</td>
<td>1.00</td>
</tr>
<tr>
<td>Promissory Note for every Rs 1,000 or part thereof</td>
<td>1.00</td>
</tr>
<tr>
<td>Lease or hire of any property for every Rs 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.</td>
<td>10.00</td>
</tr>
<tr>
<td>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.</td>
<td></td>
</tr>
<tr>
<td>Hire Purchase Agreement for every Rs 1,000 or part thereof of the aggregate amount payable under a hire purchase agreement entered into</td>
<td>10.00</td>
</tr>
<tr>
<td>a) Receipt or discharge given for any money or property up to and including</td>
<td></td>
</tr>
<tr>
<td>- Rs 25,000</td>
<td>Nil</td>
</tr>
<tr>
<td>- Above Rs 25,000</td>
<td>25.00</td>
</tr>
</tbody>
</table>
b) Receipt or discharge given for payment to any employee of a gross remuneration
- Rs. 25,000 or less
  Nil
- Above Rs 25,000
  25.00

- 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

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

### 5 Exemptions

1. Affidavit made on the request of any public officer or in compliance with any requirement imposed by any written law;

2. Bond or mortgage given by any public officer or his sureties for due execution of his office;

3. 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. 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 (stock 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 (a) Any Policy of life or medical insurance; or

(b) Any Policy of insurance on

(i) plant, machinery or equipment used in the construction industry or agriculture; or

(ii) any motor vehicle other than any motor vehicle used for private travelling.

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 Rs 3,000,000 or less taken for the –

(a) construction of a house or

(b) 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 motor vehicles used for travelling);

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 motor vehicle used for travelling.

17 Any lease or rent in respect of a building where such lease or rent payment does not exceed Rs 5,000 per month;

18 Receipt or discharge given for any money or other property amounting to not more than Rs 1,000, or for remuneration amounting to not more than Rs 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 officii, 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.

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:

<table>
<thead>
<tr>
<th>Quarter ending</th>
<th>Payment on or before</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 March</td>
<td>15 April</td>
</tr>
<tr>
<td>30 June</td>
<td>15 July</td>
</tr>
<tr>
<td>30 September</td>
<td>15 October</td>
</tr>
<tr>
<td>31 December</td>
<td>15 January (of subsequent year)</td>
</tr>
</tbody>
</table>

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

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 Rs 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 29 February 2008 is given in Annex 2.)*
### Annex 1

**Stamp Duty (Special Provisions) Act**

Registration Form for Compounding Authorities

<table>
<thead>
<tr>
<th>Field</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of Institution or paying office seeking authority to compound</td>
<td></td>
</tr>
<tr>
<td>Name of Officer requesting registration</td>
<td></td>
</tr>
<tr>
<td>National Identity Card Number</td>
<td></td>
</tr>
<tr>
<td>Designation</td>
<td></td>
</tr>
<tr>
<td>Telephone Number</td>
<td></td>
</tr>
<tr>
<td>TIN (if available) of Compounding Authority</td>
<td></td>
</tr>
<tr>
<td>Assessment Number</td>
<td></td>
</tr>
<tr>
<td>Building Name</td>
<td></td>
</tr>
<tr>
<td>Street Name</td>
<td></td>
</tr>
<tr>
<td>Address</td>
<td></td>
</tr>
<tr>
<td>Village</td>
<td></td>
</tr>
<tr>
<td>Postal Town</td>
<td></td>
</tr>
<tr>
<td>Postal Code</td>
<td></td>
</tr>
<tr>
<td>If Compounding Authority is not the Principal Institution, the name of</td>
<td></td>
</tr>
<tr>
<td>Principal Institution</td>
<td></td>
</tr>
<tr>
<td>TIN of the Principal Institution</td>
<td></td>
</tr>
<tr>
<td><strong>Signature and date</strong></td>
<td></td>
</tr>
</tbody>
</table>
# Schedule of Specified Instruments - Rates, Exemptions etc

*Updated 01 November 2007*

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Rate</th>
<th>Rs</th>
<th>Exemptions</th>
<th>Payable By</th>
<th>Compounding Authority</th>
<th>Time of Stamping</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Affidavit</td>
<td></td>
<td>50.00</td>
<td>Affidavit made on the request of any public officer or in compliance with any written law</td>
<td>Person making or executing</td>
<td>-</td>
<td>Before or at the time of signing</td>
</tr>
<tr>
<td>2. Policy of insurance</td>
<td>For every Rs 1,000 or part thereof</td>
<td>1.00</td>
<td>• Life or medical insurance&lt;br&gt;• Insurance on –&lt;br&gt;  - plant, machinery or equipment used in the construction industry or agriculture; or&lt;br&gt;  - any motor vehicle other than any motor vehicle used for private travelling (cars, jeeps etc)</td>
<td>Policy holder</td>
<td>Insurance Company</td>
<td>Before or at the time of issuing the policy</td>
</tr>
<tr>
<td>3. Warrant to act as a notary public</td>
<td></td>
<td>2,000.00</td>
<td></td>
<td>Notary Public</td>
<td>Court (if affixing stamp is impractical)</td>
<td>Before or at the time of signing the warrant</td>
</tr>
<tr>
<td>4. A licence issued authorizing the holder to carry on</td>
<td></td>
<td></td>
<td></td>
<td>Licensee</td>
<td>Licensing Authority</td>
<td>Before or at the time of issuing the licence</td>
</tr>
<tr>
<td>a) any trade, business, profession or vocation, other than any trade or business for sale of liquor</td>
<td></td>
<td>2,000.00</td>
<td>10% of licence fee, whichever is less</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) any trade or business for sale of liquor</td>
<td></td>
<td>20,000.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instrument</td>
<td>Rate</td>
<td>Exemptions</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>------------</td>
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</tr>
<tr>
<td>5. A claim, demand or request presented for the payment of any sum of money due in respect of any transactions entered into during any period by using any credit card</td>
<td>For every Rs 1,000 or part thereof</td>
<td>15.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. On the issue, transfer or assignment of any shares of a company on the market value determined by the Commissioner General of Inland Revenue</td>
<td>For every Rs 1,000 or part thereof</td>
<td>5.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- 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.</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>- 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.</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>- Issue of any share in the credit Information Bureau of Sri Lanka established act No 18 of 1990.</td>
<td></td>
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</tr>
<tr>
<td>- Unit Trust Certificate issued by Unit Trust or Mutual Fund.</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>- Share certificate on the issue of any shares to the government of Sri Lanka.</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>- Share certificate on the transfer or assignment of any share belongs to the government of Sri Lanka.</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>- Share certificate on the initial issue of any share by:</td>
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<td></td>
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</tr>
<tr>
<td>- a company to another company where both companies are owned by the Government of Sri Lanka; or</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- a company which has entered into</td>
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</tr>
<tr>
<td>Instrument</td>
<td>Rate</td>
<td>Exemptions</td>
<td>Payable By</td>
<td>Compounding Authority</td>
<td>Time of Stamping</td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
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<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------</td>
<td>------------------------</td>
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<td></td>
</tr>
<tr>
<td>an agreement with the Board of Investment of Sri Lanka under the</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Strategic Development Projects Act, No.14 of 2008 to a company owned by</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>the Government of Sri Lanka.</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>• Any instrument of transfer of stocks by any person to a margin trading</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>account (slash account) or vice versa.</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>7. Mortgage for any definite and certain sum of money affecting any</td>
<td>For every Rs 1,000 or part thereof</td>
<td>• By any public officer or his sureties for the due execution of his office.</td>
<td></td>
<td></td>
<td>Before or at the time of signing the mortgage</td>
<td></td>
</tr>
<tr>
<td>property</td>
<td>1.00</td>
<td>• Food crops or jewellery</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Aircraft registered under the Air Navigation Act (Chapter 365), or ship registered under Merchant Shipping Act.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Any loan for Rs 3 million or less relating to - construction of a house or - purchase of a house or site for the construction of a house.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mortgagee</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>where mortgagee is any bank, Finance Company, any institution registered</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>under the Co-operate Societies Law, any public corporation, any provident</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>fund approved by the CGIR or any other institution approved by Minister of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Promissory Note</td>
<td>For every Rs 1,000 or part thereof</td>
<td></td>
<td>Person signing the promissory note</td>
<td></td>
<td>Before or at the time of signing the promissory note</td>
<td></td>
</tr>
</tbody>
</table>
### Tax Updates 2013

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Rate</th>
<th>Rs</th>
<th>Exemptions</th>
<th>Payable By</th>
<th>Compounding Authority</th>
<th>Time of Stamping</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Lease or hire of any property Value – aggregate rent/hire for the whole term including premium.</td>
<td></td>
<td></td>
<td>• Finance lease other than motor vehicles used for traveling</td>
<td>Lessee</td>
<td>Lessor (to be regularized)</td>
<td>Before or at the time of signing the lease or hire agreement</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Lease or rental not more than Rs 5,000 per month on buildings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Hire purchase agreement - Value – aggregate amount payable under hire purchase agreement</td>
<td></td>
<td></td>
<td>• Hire purchase agreement in respect of moveable property other than any motor vehicle used for traveling</td>
<td>Hирer</td>
<td>Supplier</td>
<td>Before or at the time of signing the hire purchase agreement</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. a) Receipt or discharge given for payments for any money or property</td>
<td>Rs 25,000 or less</td>
<td>Nil 25.00</td>
<td>• Amounting to not more than Rs 1,000</td>
<td>Issuer of receipt</td>
<td>Issuer (with approval)</td>
<td>Before or at the time of receipt or discharge given</td>
</tr>
<tr>
<td></td>
<td>Above Rs 25,000</td>
<td></td>
<td>• Any receipt given for any sum deposited with or withdrawn from any finance company or commercial or specialized bank.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Above</td>
<td></td>
<td>• Any receipt given by any person receiving payment for any goods sold or services provided immediately upon such sale or such provision</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rs 25,000</td>
<td></td>
<td>• Any receipt given on receiving any death gratuity or compensation for death or injury.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>or less</td>
<td>Above</td>
<td>• Any receipt acknowledging the receipt of pension</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Above</td>
<td>Rs 25,000</td>
<td>• Any commercial paper of debenture</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rs 25,000</td>
<td>or less</td>
<td>• Gross remuneration up to and including Rs 25,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Receipt or discharge given for payment to any employee at a gross remuneration</td>
<td>Rs 25,000 or less</td>
<td>Nil 25.00</td>
<td></td>
<td>Employee</td>
<td>Employer</td>
<td>Before or at the time of receipt or discharge given</td>
</tr>
<tr>
<td></td>
<td>Above</td>
<td>Rs 25,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 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.
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