



Tax update

Value Added Tax (Amendment) Act

No. 09 of 2021

May 2021

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The Value Added Tax (Amendment) Act No 09 of 2021 ("Amendment Act") was certified by the Honorable Speaker on 13 May 2021.

Under the VAT Amendment Act, the following amendments have been made to the Value Added Tax Act No. 14 of 2002 ("VAT Act").

1. Reduction of VAT rate

It has been reduced from 15 percent to 8 percent with effect from 01 December 2019 in respect of supply of goods or services and import of goods (excluding zero-rated supplies and VAT on financial services).

2. Wholesale and retail trade

With effect from 1 January 2020, the standard VAT registration threshold will apply for wholesale and retail supply of goods as well. Before this amendment, the VAT turnover registration threshold for wholesale and retail supply of goods was LKR 12.5 M per quarter (i.e., from 01 November 2016 to 31 December 2019).

Further, the provisions that permitted deemed input credit for wholesale and retail trade have been removed from the date of commencement of the Amendment Act (i.e., from 13 May 2021).

3. Zero-rated supplies

The following are listed as "zero-rated" supplies under the VAT Act.

- a. Goods export
- b. Supplies of services directly connected with:
 - Any moveable or immovable property outside Sri Lanka
 - Re-export under entreport trade
 - A copyright, patent, licence, trademark, or similar intellectual property right, to the extent that such right is for used outside Sri Lanka
 - Computer software development in respect of software developed by the developer for use wholly outside Sri Lanka
 - Client support services provided over internet or telephone by an enterprise set up exclusively for the provision of such services to clients outside Sri Lanka
 - Services to overseas buyers by a garment buying office registered with the Textile Quota Board established under the Textile Quota Board Act, No. 33 of 1996; where the commissioner general identified such services as being essential to facilitate garment export overseas
- c. Any other service not referred to in paragraph (b) and provided by any Sri Lankan to another person outside Sri Lanka to be consumed or used outside Sri Lanka

Under the amendment, such supplies will be considered as zero rated only if payment for these supplies, is received in foreign currency through a bank licenced under the Banking Act, No. 30 of 1988, within six months from the end of the relevant taxable period.

However, when payment for the zero-rated supplies is not received within a period of six months from the end of the taxable period (of which such exportation has taken place or supply of such service is provided), zero rate could still be applied where it is proved to the satisfaction of the commissioner general that the export of goods or services has taken place.

Input tax credit cannot be claimed where payment is not received within the stipulated six-month period.

4. VAT registration threshold

The VAT turnover registration threshold has been amended as follows:

| Before 01 January 2020 (i.e, from 01 April 2016 to 31 December 2019) | With effect from 01 January 2020 |
|---|---|
| LKR 3 M per quarter or LKR 12 M per annum | LKR 75 M per quarter or LKR 300 M per annum |

5. Voluntary registration

Voluntary registration was provided for taxable periods before 01 January 2013. However, the commissioner general refused the application for such voluntary registration, if the applicant's value of taxable supplies in the two preceding taxable periods and the probable value of the taxable supplies would not exceed the VAT registration threshold applicable to the respective taxable period.

With effect from 1 January 2020, the amendment act permits voluntary registration for VAT without reaching the VAT turnover registration threshold, by any person who supplies goods or services and carries on a taxable activity, without restrictions placed earlier in respect of voluntary registration.

However, a person who voluntarily registers for VAT, is not eligible to register under the Simplified VAT (SVAT) scheme, unless:

- Taxable supplies exceed the VAT registration threshold or
- He is an exporter who proves to the satisfaction of the commissioner general that the total supplies have been exported or
- He is willing to register for the purpose of the SVAT scheme as a registered identified supplier approved by the commissioner general

6. Piece-based rate on local sale of garments by BOI companies

| Description | From 16 August 2018 to 1 November 2019 * | From November 2019 to 1 January 2021 | From 1 January 2021 |
|--------------------|---|---|---------------------|
| Garments each | LKR 75 | LKR 100 | LKR 25 |
| Six (6) pieces of: | LKR 75 | LKR 100 | LKR 25 |
| undergarments | | | |
| socks | | | |
| briefs | | | |
| boxer shorts | | | |

7. New exemptions

| Description | Effective date |
|---|-----------------|
| 1 The supply or import of: Machinery and equipment, including medical, surgical, and dental instruments, apparatus, accessories, and parts thereof; hospital or medical furniture and drugs; chemical and similar items; as recommended by the Secretary to the Ministry of the Minister assigned the subject of health, as required for the provision of health services to deal with COVID 19. | 20 May 2020 |
| 2 Sale of condominium housing units <i>Supply (other than lease or rent) of condominium housing units was made liable for VAT from 01 April 2019, subject to certain exemptions. However, this amendment limits such a liability period only up until 30 November 2019.</i> | 1 December 2019 |
| 3 Supply of residential accommodation by any person (other than any lease or rent) | 1 December 2019 |
| 4 Supply of information technology and enabled services as prescribed | 1 January 2020 |
| 5 Supply of health protective equipment and similar products by any exporter, registered with the Board of Investment of Sri Lanka established by the Board of Investment of Sri Lanka Law, No. 4 of 1978, to the Ministry of Health and Indigenous Medical Services, Department of Health Services, Sri Lanka Army, Sri Lanka Navy, Sri Lanka Air Force, and Sri Lanka Police | 29 April 2020 |
| 6 Supply of services in respect of inbound tours by a travel agent registered with Sri Lanka Tourism Development Authority | 1 April 2020 |
| 7 Local supply of any goods [other than goods referred to in paragraph (c) i.e., goods exempted at the point of import], which would have been exempted on importation, if imported. | 13 May 2021 |

8. Validation of VAT collected from 01 December 2019 to date of endorsement

Any authorised person who collected VAT in line with the Amendment Act from 1 December 2019 to 13 May 2021 (i.e., ending on the date on which the Certificate of the Speaker is endorsed on the Amendment Act), is deemed to have acted with due authority and such collection shall be deemed to have been validly made.

Such person is indemnified against every civil or criminal action in respect of such collection.

Any decision or order made by any court or any proceedings pending in any court, in respect of any tax collected under the VAT Act during the said period, is not affected by the validation.



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