



Tax Alert VAT on Digital Services

06 July 2025

Supply of services by a non – resident person on electronic platform, will become liable for VAT with effect from 01 October 2025.

In this regard, the outline of the procedure for collection and payment of VAT has been issued under Gazette Notification no. 2443/30 dated 01 July 2025.

This alert summarizes the salient requirements thereunder.

Supply of electronic services

The regulation provides for a non-exhaustive list of services, that will be considered as falling within the ambit of electronic services for VAT.

- i. Cloud Computing: Hosting, storage and computing power services
- ii. Software as a service (SaaS): Web-based applications
- iii. E-commerce Services: Online stores, payment gateways, and order fulfilment services
- iv. Digital Marketing and advertising: SEO, social media marketing, PPC ads, and email marketing
- v. Cybersecurity Services: Threat detection, firewall protection, and data encryption.
- vi. IT Support & Managed Services: Remote tech support, IT consulting, and helpdesk solutions
- vii. Streaming Services: Video, music, live content platforms
- viii. Financial Technology (FinTech): online banking, payment processors (PayPal, Stripe, and crypto currency exchanges
- ix. E-commerce Platforms
- x. Social Media Platforms
- xi. On-Demand Service Platforms
- xii. Content Sharing Platforms
- xiii. Cloud collaboration platforms
- xiv. Marketplace Platforms
- xv. Gaming Platforms
- xvi. Blockchain & NFT Platforms: OpenSea, Binance, Ethereum-based Apps.
- xvii. Subscription to membership websites
- xviii. Use of apps for hotel reservation, ticket booking

Any other service not specifically listed above, but which falls within the scope of “Supply of Services by a non-resident person through an electronic platform to a person in Sri Lanka”, will be liable for VAT.

VAT Registration

Obtaining a Taxpayer Identification Number (TIN) is a prerequisite for VAT registration. The application for registration, should be submitted through Inland Revenue Department (IRD) e-filing platform.

On fulfilment of the requirements, the Commissioner General of Inland Revenue (CGIR) will issue a registration number to the non-resident supplier.

VAT Registration and Compliance

A non-resident person who has supplied services through an electronic platform to consumers in Sri Lanka, is required to obtain the registration if the value of services supplied exceeds LKR 60 Mn within the last twelve months or LKR 15 Mn with the last three months.

The responsibility for the compliance requirements lies with the non-resident supplier.

Compliance		Due date
1	Filing of return	VAT return for every quarter, should be furnished not later than the last day of the month after expiry of each taxable period (quarterly returns)
2	Payment	On or before 20 th of the following month

Collection and Remittance of VAT

The non-resident supplier shall charge VAT from the consumers at the time of supply and based on the value of supply.

Under the Value Added Tax Act No.14 of 2002 as amended (VAT Act), the supply of services shall be deemed to have taken place, at the time, of the occurrence of any of the following whichever, occurs earlier: -

- a) the service was performed; or
- b) a payment is received for the services rendered or for future services; or
- c) a payment is due for the services rendered or for future services; or
- d) an invoice is issued in respect of the services rendered

However, where an invoice is issued within 10 days from the date of performance of a service, the time of supply of such service, shall be deemed to be the time at which the invoice was issued.

The VAT due on the supply of services, must be remitted to the designated bank accounts of the CGIR by the due date, irrespective of whether the registered non-resident supplier has collected the VAT from the consumer.

Payments should be made either in LKR or any other approved currencies by Central Bank of Sri Lanka.

Return Filing and Record Keeping

Regarding the filing of returns and record keeping, the following should be ensured.

- a) Accurately account for VAT and record in the financial statements.
- b) Maintain complete records of the supply of services through an electronic platform to customers in Sri Lanka.
- c) Supply of services records should include the information required in VAT Schedule 01 (i.e. Schedule on Output tax – this is available on the IRD web portal)
- d) The records may be maintained outside Sri Lanka and the retention period of such records is a minimum of 5 years for audit and compliance purposes.
- e) If requested by the IRD during compliance verification, additional supporting documents maybe required to be submitted.

- f) Any change in the business operations, such as address or nature of services, must be promptly informed and updated with the IRD.
- g) Filing of VAT returns must be done electronically (i.e. either through the use of a computer system or a mobile electronic device), together with VAT schedules through the IRD's e-service facility

Value of Supply

The value of supply of service should clearly indicate whether the VAT is included or added separately. As per the VAT Act, the following principles apply in determining the value of supply.

- a) Where supply is:
 - For a consideration in money, it will be such consideration less any VAT, and the amount should not be less than the open market value;
 - not for a consideration in money or not wholly in consideration of money, be the open market value of such supply.
- b) Where a supply of services is made by a registered person, for an amount which is less than the open market value to a person not being a registered person, the value of such supply, shall be the open market value of the supply.

In addition, the gazette specifically provides that the "Value of Supply" in the context of services provided by Non-resident person through an electronic platform is, ***the total consideration*** (i.e., payment) received or receivable by the non-resident supplier or electronic platform operator, for the services supplied to person in Sri Lanka, ***excluding the VAT charged***.

Accordingly, when a non-resident person provides services through an electronic platform by facilitating the supply of goods or services between a consumer in Sri Lanka and the supplier (i.e. the "original service supplier" for services), the value of the non-resident person's supply, excludes the value of the goods or services supplied by the original service supplier, regardless of whether the total consideration has been collected by the non-resident person.

In such instances, the value of the supply of service of the non-resident person does not include the value of supply of goods or supply of services made directly between the consumer in Sri Lanka and the supplier of the goods or the original service supplier.

VAT Invoice Format

The registered non-resident person should issue a Tax Invoice, specifying the information as provided under Section 20 of the VAT Act.

Below is the information required to be included in a Tax Invoice, per current law. Note that under the Value Added Tax (Amendment) Act No.04 of 2025, an amendment was introduced, stating that the new format of the invoice will be specified in a gazette. As of to date, such format has not been gazetted.

- a) the name, address and the registration number of the supplier
- b) the name , address and the registration number of the person to whom the supply was made
- c) the date on which the tax invoice was issued and its serial number which does not exceed 40 characters without any space
- d) the date of supply and description of the goods or services
- e) the quantity or volume of the supply
- f) the value of the supply, the tax charged and the consideration for the supply and
- g) the words "TAX INVOICE" at a conspicuous place in such invoice

Appropriate VAT Rate

It is the Standard VAT rate. As of today, VAT rate is 18%, and it should be applied on the value of supply.

Penalties for Non-Compliance

The following penalties will apply on late payments.

- A sum equivalent to 10% of the tax in the first month of default and
- From the second month in default a sum equivalent to 2% monthly of the default amount

However, the total amount payable as penalty for default is capped at 100% of the tax in default.

Further, collection measures may be imposed by the IRD for outstanding VAT liabilities based on the provisions of the VAT Act and the continuous non-compliance by the non-resident supplier may lead to service restrictions or being blacklisted from providing service in Sri Lanka.

Cancellation of Registration

A non-resident person who ceases to provide services through an electronic platform to persons in Sri Lanka, is required to notify the Commissioner General of Inland Revenue (CGIR) within thirty days from the date of such occurrence.

On being satisfied of the request, the CGIR may cancel the registration.

Further, the CGIR may also cancel the registration, if it transpires that the registered non-resident person is not liable or eligible to be registered.

The effective and approved date of the cancellation will be notified.

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