

# Value Added Tax (Amendment)

A Bill to Amend the Value Added Tax Act, No. 14 of 2002

Passed in Parliament | May 04, 2021



## VAT Rate

### Reduction of Standard Rate

Standard rate of Value Added Tax (“VAT”) in respect of goods or services supplied and goods imported is reduced from 15% to 8% with effect from December 1, 2019.

### Restrictions on Specified Zero Rated Supplies

In terms of claiming the zero rate (0%) for exports, the payment must be received in foreign currency through a licensed bank within a period of six months from the end of the taxable period in which the export was made.

Similarly, such requirement is also applicable to the following zero rated supplies of services directly connected with;

- ▶ any movable or immovable property outside Sri Lanka;
- ▶ a copyright or similar intellectual property right, to the extent that such right is for the use outside Sri Lanka;
- ▶ computer software development, in respect of software developed by the developer for the use wholly outside Sri Lanka;

- ▶ client support services provided over the internet or the telephone to clients outside Sri Lanka;
- ▶ provision of services to overseas buyers by a specified garment buying office;
- ▶ services provided by a person in Sri Lanka to a person outside Sri Lanka to be consumed or utilized outside Sri Lanka.

Further, claiming credit for input VAT is not allowed if the payment is not received in foreign currency within the period specified above.

## Reduction of VAT Rate for Local Sale of Garments

VAT rate applicable on local supply of specified garments by export oriented (Board of Investment of Sri Lanka - BOI) companies is reduced from Rs. 100/- to Rs.25/- with effect from January 01, 2021.

# VAT Registration

## Increase of VAT Registration Threshold

The VAT registration threshold of Rs.3,000,000/- per quarter or Rs.12,000,000/- per annum is increased to Rs.75,000,000/- per quarter or Rs.300,000,000/- per annum. This is effective from January 01, 2020.

## Standardizing VAT Liability and Registration Threshold for Wholesale and Retail Trade

The higher threshold for VAT registration and the specified mechanism for calculation of the taxable supply in respect of wholesale and retail trade are removed and the standard registration threshold is applicable with effect from January 01, 2020.

Further, certain businesses of wholesale and retail trade registered for VAT after May 2, 2016 were granted a credit for deemed input VAT on purchases from non VAT registered persons. This will be discontinued from the date of commencement of the Amendment Act.

## Provision for Voluntary VAT Registration

Any person who carries on taxable activity is permitted to voluntarily register for VAT upon making a written request, irrespective of the VAT registration threshold being met.

## Restriction on Registration under SVAT Scheme

It is mandatory to meet the VAT registration threshold for any person to register under the Simplified Value Added Tax ("SVAT") Scheme. This

mandatory requirement will similarly apply to persons voluntarily registered for VAT.

However, the following persons can register under the SVAT Scheme despite not meeting the VAT registration threshold;

- ▶ person who is an exporter with total supplies being exported;
- ▶ person who may register as a Registered Identified Supplier.

## New Exemptions



### Local Supply of Goods Exempt from VAT at Import Point

Local supply of any goods, which would have been exempted at import point if otherwise imported, is exempt from VAT with effect from date of commencement of the Amendment Act.

However, this exemption will not extend to local supply of imported goods which are exempted only at import point.



### Information Technology

Information Technology and enabled services (to be prescribed) are exempt from VAT with effect from January 01, 2020.



### Tourism

Services in respect of inbound tours by a travel agent registered with the Sri Lanka Tourism Development Authority will be exempt from VAT for any period commencing from April 1, 2020.



## Health Protective Equipment

The supply of health protective equipment and similar products by any exporter, registered with the BOI, 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 on or after April 29, 2020 is exempt from VAT.



## Healthcare Infrastructure

The supply 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 Health, as required for the provision of health services to address the COVID 19 pandemic is exempt from VAT with effect from May 20, 2020.



## Residential Apartments

The scope of the existing VAT exemption for supply of specified condominium parcels is expanded to exempt any supply of residential accommodation, (without pre-requisites) to any supply made on or after December 01, 2019.

However, any lease or rent of any residential accommodation will continue to be liable for VAT.

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