

# Are you ahead of the VAT reforms?

Amendment to the  
Value Added Tax Act

Tax Alert - December 12, 2023



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# Value Added Tax

## What more is changing?

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The Bill to amend the VAT Act was published on August 11, 2023, and the EY Tax Alert dated September 11, 2023, highlighted the proposed changes based on this Bill. Subsequently, during its passage through Parliament, a few significant changes were made, and the Bill was finally passed in Parliament on December 11, 2023, with these Committee stage amendments. This Tax Alert seeks to highlight some of the significant changes made to this legislation during the Committee stage.

### **1** Removal of more VAT exemptions

The Bill which was published on August 11, 2023, sought to remove many of the existing VAT exemptions. During the Committee stage, further exemptions were removed, which we have highlighted below. Hence, these supplies too will be liable to VAT effective from January 1, 2024.

- Motor vehicles
- Petrol, diesel & liquid petroleum gas
- Agricultural machinery, mamoties and forks
- Solar panel
- Sea sand
- Locally manufactured machinery used for the tea industry
- International telecommunication services provided by external gateway operators

Persons who were previously exempted would now have to register and charge VAT. Input VAT however will now be claimable for these supplies.

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**Have you considered the cost escalation on your purchases due to removal of VAT exemptions?**

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**How will you price your products and services if you are liable to VAT?**

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## **2 SVAT scheme/VAT deferment on imports to continue**

Whilst the VAT Bill initially sought to remove the SVAT system from January 1, 2024, during the Committee stage it has been decided to revoke this decision and to continue with the SVAT system. Accordingly, the status quo on SVAT would continue.

## **3 Date of implementation**

The removal of VAT exemptions will take effect from January 1, 2024.

## **4 Local supply of goods that qualify for import exemptions**

The Bill to amend the VAT Act did not make any changes to the exemption that was applicable to locally supplied goods which would have been exempted on importation, if imported. During the Committee stage amendments, this exemption was removed. Hence, with effect from January 1, 2024, this exemption will no longer be available.

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**Have you considered the impact of these changes to your existing stock?**

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**Have you considered the changes that have to be made to your IT systems to accommodate these VAT changes?**

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## Changes to the VAT rate

This VAT Amendment Act does not amend the relevant sections in the VAT law on the rate of VAT. Hence, the decision taken by the Cabinet to increase the rate of VAT to 18% from January 1, 2024, is expected to take effect through a Gazette Notification.

## Changes to the VAT liable threshold

This VAT Amendment Act does not have any amendments relating to the VAT liable threshold. The Cabinet decision to reduce the VAT liable threshold from Rs. 80 Mn to Rs. 60 Mn per annum was only taken on December 11, 2023. Hence this decision will have to be enacted through another Amendment Act.

# Changes to VAT exemptions

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## Agriculture and related industries

Description	Prevailing	As per Bill
<i>Import or supply of;</i>		
Machinery used for rice milling industry	Exempt	Liable
Machinery used for the production of rubber	Exempt	Liable
Fruit seeds	Exempt	Liable
Agricultural tractors and road tractors for semi-trailers classified under the HS codes	Exempt	Liable
Agricultural machinery and parts, mammoties, forks	Exempt	Liable
Wheat and wheat flour	Exempt	Exempt
Bio fertilizer*, artemia eggs and Peat moss, classified under the HS codes	Exempt	Exempt
<i>*fertilizer, (except bio fertilizer) maybe liable to VAT</i>		
Agricultural seeds, agricultural plants, shrimp feed inclusive of prawn feed and animal feed but excluding poultry feed;	Exempt	Exempt
<i>Supply of;</i>		
Food products made out of grains cultivated locally	Exempt	Liable
Locally produced rice products	Exempt	Liable
Locally produced rice bran oil	Exempt	Liable
Locally manufactured palm oil	Exempt	Liable
Locally manufactured coconut oil or coco peat, coir fiber, grow pellets, grow bags, twist fiber, or coconut husk made out of coconut waste	Exempt	Liable
Desiccated coconut	Exempt	Liable
Locally manufactured coconut milk	Exempt	Liable
Tea including green leaf	Exempt	Liable
Rubber, latex	Exempt	Liable

## Agriculture and related industries (Cont.)

Description	Prevailing	As per Bill
<i>Supply of; (Cont.)</i>		
Equipment for rubber industry so far as such products are manufactured locally	Exempt	Liable
Locally manufactured sugar	Exempt	Liable
Locally manufactured machinery used for tea industry	Exempt	Liable
Rice, rice flour and bread so far as such products are locally manufactured	Exempt	Exempt
Unprocessed agricultural, horticultural or fishing products produced locally	Exempt	Exempt

## Poultry, dairy and related industries

Description	Prevailing	As per Bill
<i>Import or supply of;</i>		
Items and spares ( <i>specified</i> ) for the poultry industry	Exempt	Liable
Milk processing machinery	Exempt	Liable
Infant milk powder	Exempt	Exempt
<i>Supply of;</i>		
Liquid milk	Exempt	Liable
Locally produced dairy products other than powdered milk containing sugar/sweetening matter out of locally produced fresh milk	Exempt	Liable
Eggs	Exempt	Liable
<i>Import of;</i>		
Poultry keeping machinery, poultry incubators and brooders	Exempt	Liable
Cattle, buffaloes, poultry, pigs, goats, sheep for breeding purposes and seimen/embryos of such animals for breeding purposes	Exempt	Liable

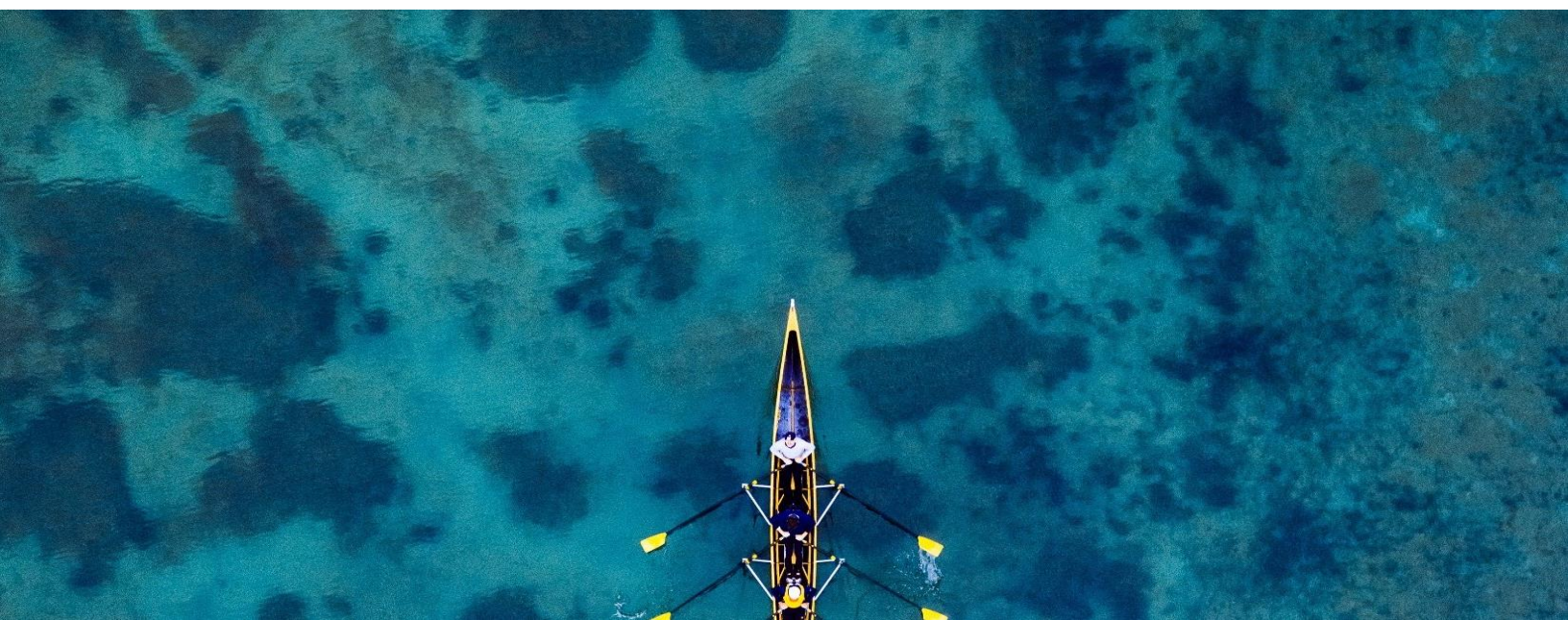
## Fisheries and related industries

Description	Prevailing	As per Bill
<i>Import or supply of;</i>		
Frozen bait, fish hooks/rods/ reels, fishing tackle and marine propulsion engines	Exempt	Liable
Prawns	Exempt	Liable
<i>Supply of;</i>		
Unprocessed prawns produced in Sri Lanka including the local supply of unprocessed prawns	Exempt	Liable



## Apparel and related industries

Description	Prevailing	As per Bill
<i>Import or supply of;</i>		
Ties and bows	Exempt	Liable
Yarn used for textile industry as identified under the HS codes	Exempt	Exempt
Dyes used for the handloom industry as identified under the HS codes	Exempt	Exempt
<i>Supply of;</i>		
Locally manufactured fabric in the domestic market by any manufacturer	Exempt	Liable
Services, which result in the improvement of quality, character or value of any yarn, fabric or garment, subject to conditions	Exempt	Exempt
Locally manufactured handloom textiles	Exempt	Exempt
Fabric subject to a Cess at a specific rate classified under the HS codes, in lieu of chargeability of any other tax on importation	Exempt	Exempt
<i>Import of;</i>		
Samples of garments for business purposes by any garment buying office in Sri Lanka	Exempt	Liable





## Tourism Industry

Description	Prevailing	As per Bill
<i>Supply of;</i>		
Services in respect of inbound tours, by a travel agent registered with the Sri Lanka Tourism Development Authority	Exempt	Liable
Locally manufactured products using locally procured raw materials for tourist hotels	Exempt	Liable

## Gem and Jewellery

Description	Prevailing	As per Bill
<i>Import or supply of;</i>		
Pearls, diamonds, natural or synthetic, precious or semi-precious stones, diamond powder, precious metals, metals clad with precious metals, gold coins	Exempt	Liable
Articles use manufacture of fashion jewellery	Exempt	Liable
Electronic equipments or articles used to manufacture fashion jewellery	Exempt	Liable
<i>Supply of;</i>		
Locally manufactured jewellery	Exempt	Liable

## Energy and power industry

Description	Prevailing	As per Bill
<i>Import or supply of;</i>		
Plants, machinery or accessories for renewable energy generation	Exempt	Liable
Energy saving bulbs	Exempt	Liable
Raw materials for manufacture of energy-saving bulbs	Exempt	Liable
Solar panel modules, accessories or solar home system for the generation of solar power energy identified under the specified HS codes	Exempt	Liable
<i>Supply of;</i>		
Locally manufactured hydropower or wind power machinery and equipment	Exempt	Liable
Locally manufactured turbines	Exempt	Liable
<i>Import of;</i>		
Any machinery or equipment by the Ceylon Electricity Board (CEB) or an Institution in agreement with the CEB	Exempt	Liable

## Telecommunication industry

Description	Prevailing	As per Bill
<i>Import or supply of;</i>		
Cellular mobile phones	Exempt	Liable
<i>Supply of;</i>		
International telecommunication services provided by "External Gateway Operators" to local telecommunication operators	Exempt	Liable

## Construction and Infrastructure development

Description	Prevailing	As per Bill
<i>Import or supply of;</i>		
Bitumen	Exempt	Liable
Machinery used for construction industry	Exempt	Liable
Plant and machinery for use in a new undertaking qualifying for a tax holiday under the Inland Revenue Act No. 10 of 2006	Exempt	Liable
<i>Supply of;</i>		
Condominium units	Liable	Liable
Residential accommodation other than condominium units	Exempt	Liable
Clay roof tiles or chemical naphtha manufactured locally	Exempt	Liable
<i>Import of;</i>		
Goods to any project approved by the Commissioner-General	Exempt	Liable

## Manufacturing industry

Description	Prevailing	As per Bill
<i>Import or supply of;</i>		
Machinery and equipment for the use of leather or footwear industry or bags	Exempt	Liable
Machinery and equipment for the manufacture of grain mixed bakery products	Exempt	Liable
Machinery used for production of plastic products	Exempt	Liable
Moulding ( <i>steel, glass, rubber, mineral material or plastic</i> )		
Raw materials for the manufacture of spectacles and spectacle frames	Exempt	Liable
<i>Supply of;</i>		
Goods or services by any individual who is a citizen of Sri Lanka and who carries on any business of manufacturing of any article (subject to conditions)	Exempt	Liable
Locally manufactured canned fish using locally produced raw materials	Exempt	Liable
Locally manufactured pottery products using locally produced raw materials	Exempt	Liable
<i>Import of;</i>		
Finished leather to be used for the shoe manufacturing industry	Exempt	Liable
Brass sheets, brass ingots, thread, dyes paraffin wax or shellac for manufacture of brassware	Exempt	Liable

# The import of any article subject to the Special Commodity Levy is exempted from all import point taxes including VAT as per the Special Commodity Levy Act

Articles that are supplied without any processing (except adaption for sale), being liable to Special Commodity Levy at the point of importation is also exempted

## Information technology and related industries

Description	Prevailing	As per Bill
<i>Import or supply of;</i>		
Computers including computer accessories	Exempt	Liable
<i>Supply of;</i>		
Locally developed software	Exempt	Liable
Information technology and enabled services, as prescribed	Exempt	Liable
Photo sensitive semiconductor devices	Exempt	Liable

## Film industry

Description	Prevailing	As per Bill
<i>Supply of;</i>		
Any film, for distribution or exhibition	Exempt	Liable
Laboratory facilities for production of any film	Exempt	Liable
<i>Import of;</i>		
Apparatus and equipment for cinematographic laboratories, electric filament or discharge lamps, arc lamp carbon, speakers, amplifiers, digital stereo processors and accessories, cinema media players, and digital readers	Exempt	Liable
Any film which is produced in Sri Lanka and sent abroad for further processing/printing	Exempt	Liable

## Healthcare

Description	Prevailing	As per Bill
<b>Import or supply of;</b>		
High-tech medical equipment	Exempt	Liable
Medical machinery or medical equipment	Exempt	Liable
Machinery and equipment recommended by the Secretary to the Ministry addressing COVID-19	Exempt	Liable
Pharmaceutical products, drugs (other than cosmetics), <i>*the end use of which are confined to therapeutic or prophylactic effect and purchased on a prescription of a physician and raw materials for the production or manufacture of such products or drugs</i>	Exempt	Exempt*
Ayurvedic preparations belong to the Ayurveda Pharmacopoeia or ayurvedic preparations (other than cosmetic preparations) or unani, siddha or homeopathic preparations (other than cosmetic preparations) identified under the HS code description, <i>subject to conditions</i>	Exempt	Exempt
Artificial limb, crutches, wheelchairs, hearing aids, accessories for such aids or appliances which are worn/carried/implanted in human body, white canes for the blind, braille typewriters and parts, braille writing papers, braille writing boards and any other articles used by disabled persons, approved by the Minister	Exempt	Exempt
<b>Supply of;</b>		
Locally manufactured ayurvedic preparations that does not qualify for proposed exemptions	Exempt	Liable
All healthcare services provided by medical institutions or professionally qualified persons other than hospital room charges	Exempt	Exempt
Locally manufactured surgical gauze used for surgery;	Exempt	Exempt
<b>Import of;</b>		
Packing materials exclusively for the use of packing of pharmaceuticals or ayurvedic medicines manufactured/imported in/to Sri Lanka	Exempt	Liable
Pharmaceutical machinery and spare parts (for the pharmaceutical machinery which are not manufactured in Sri Lanka)	Exempt	Liable



## Transportation and related industries

Description	Prevailing	As per Bill
<i>Import or supply of;</i>		
Motor homes	Exempt	Liable
Lorries, trucks, buses	Exempt	Liable
Taxi meters	Exempt	Liable
Hot air balloons	Exempt	Liable
<i>Supply of;</i>		
Imported ships	Exempt	Liable
Services being chartering of any vessel	Exempt	Liable
Locally manufactured products using locally procured raw materials for airlines	Exempt	Liable
Public passengers transport services (other than air transport, water transport or transport of tourists, excursion tours and taxi services)	Exempt	Exempt
<i>Import of;</i>		
Any goods (subject to conditions) required for the purpose of provision of services in international transportation, specific to three Airlines	Exempt	Liable
Any ship	Exempt	Liable
Any bus with the respective approval to replace any bus destroyed due to terrorist activities	Exempt	Liable
Any bus by a passenger service permit holder, subject to conditions	Exempt	Liable
Motor vehicle by a disabled person specially designed for use by disabled persons approved by the Minister	Exempt	Liable

## Costs of Employment

Description	Prevailing	As per Bill
<i>Supply of;</i>		
Free or subsidized meals by an employer	Exempt	Liabe
Transport provided at a subsidized rate or free using a motor coach between the place of residence and place of work	Exempt	Liabe



## Other key services

Description	Prevailing	As per Bill
<i>Supply of;</i>		
Unit trust management	Exempt	Liable
Services, being research and development services	Exempt	Liable
Services by any headquarters or regional head offices of institutions in the international network relocated in Sri Lanka as exempted for income tax purposes	Exempt	Liable
Services being receipts from reinsurance by any local insurance company	Exempt	Liable
Specific services for any international event approved by the Minister of Finance	Exempt	Liable
Public library service by the Government	Exempt	Liable
Sea sand	Exempt	Liable
Being any sum paid out of the Export Development Fund as export development rebate	Exempt	Liable
Financial services, as specified (as prevailing)*	Exempt	Exempt
Electricity including distribution;	Exempt	Exempt
Educational services provided by any person/partnership;	Exempt	Exempt
Any services by any public corporation - subject to conditions	Exempt	Exempt
Goods or services by the Central Bank of Sri Lanka established by the Central Bank of Sri Lanka Act, No. 16 of 2023;	Exempt	Exempt
Locally manufactured goods to duty-free shops for foreign currency payments;	Exempt	Exempt
Services by the Department of Commerce, the Board of Investment of Sri Lanka or the Sri Lanka Ports Authority, provided to any exporter or zero-rated service provider	Exempt	Exempt
Services by a person in Sri Lanka to any other person outside Sri Lanka to be consumed or utilized by such other person outside Sri Lanka for which the payment is made in Sri Lanka rupees	Exempt	Exempt

## Other key services (Cont.)

Description	Prevailing	As per Bill
<i>Supply of; (cont..)</i>		
Services, being construction services for Gama Naguma, and prescribed community irrigation projects,	Exempt	Liable
Goods or services by an institution set up for the rehabilitation of disabled soldiers	Exempt	Liable
Services by Tower Hall Theatre Foundation or Cultural Fund	Exempt	Liable
Services in relation to burials and cremations by any institution or person	Exempt	Exempt
Services at a restaurant situated beyond the immigration counter at the Bandaranaike International Airport;	Exempt	Exempt
Goods and services to the mission of any state or any organization to which the provisions of the Diplomatic Privileges Act apply or to any diplomatic personnel of such mission or organization who is entitled to such benefits	Exempt	Exempt
Goods or services funded directly by foreign organizations for the relief of sudden distress caused by natural/human disasters or to any activity having regard to the interest of the national economy, approved by the Minister;	Exempt	Exempt
Geriatric services and childcare services	Exempt	Exempt
Goods or services to any project identified as Strategic Development Project	Exempt	Exempt
Goods or services to any specified project identified by the Minister, or goods and services to any infrastructure development project funded through foreign loans or donations directly to the Government Ministries, approved by the Minister	Exempt	Exempt

## Other items

Description	Prevailing	As per Bill
<i>Import or supply of;</i>		
Electrical goods ( <i>identified by specific HS codes</i> )	Exempt	Liable
Books magazines, journals or periodicals	Exempt	Liable
Unused postage and revenue stamps of the Government of Sri Lanka	Exempt	Liable
Media equipment or motor bicycles for the use by media personnel	Exempt	Liable
Machinery used for the manufacture of ticket issuing	Exempt	Liable
Bowsers, bulldozers, graders, levelers, excavators, firefighting vehicles, gully bowsers, semi-trailers for road tractors, machinery, equipment used for garbage disposal activities or garbage trucks	Exempt	Liable
Designer pens	Exempt	Liable
Goods for any international event approved by the Minister of Finance	Exempt	Liable
Ethyl alcohol imported or manufactured and supply as a by-product which is liable to customs duty, Cess or excise duty	Exempt	Liable
Sports equipment	Exempt	Liable
Liquid petroleum gas, petrol, diesel specified under the HS code description for Custom purposes	Exempt	Liable
Any motor vehicle identified under specific HS codes and liable to Excise (Special Provisions) duty on the importation or any motor vehicle liable to the same duty on the manufacture	Exempt	Liable
Crude petroleum oil, kerosene, aviation fuel, oil for ships or Fuel oil specified under the HS code description for Custom purposes;	Exempt	Exempt

## Other items (Cont.)

Description	Prevailing	As per Bill
<i>Supply of;</i>		
Unprocessed timber logs or rattans;	Exempt	Liable
Locally manufactured briquettes and pallets using bio-mass wastes	Exempt	Liable
Imported rattans	Exempt	Liable
Painting, at the point of sale, by the artist	Exempt	Liable
Manufactured specified products to identified state institutions replacing imports	Exempt	Liable
Services of hotel accommodation for participants/organizers of sports events	Exempt	Liable
<i>Import of;</i>		
Personal items and samples in relation to business worth not more than ten thousand rupees through parcel post or courier	Exempt	Liable
Any capital items required for the purposes of providing training by any institution providing vocational training or practical training	Exempt	Liable
Unprocessed timber logs	Exempt	Liable
Rattans	Exempt	Liable
Plant and machinery by an undertaking qualified for a tax holiday under section 24C of the Inland Revenue Act No 10 of 2006	Exempt	Liable
Samples in relation to a business worth not more than Fifty thousand Rupees on such imports	Exempt	Liable
Plant, machinery or equipment by any enterprise qualified for a tax exemption the Inland Revenue Act, No.10 of 2006	Exempt	Liable
Gully bowsers, semi-trailers for road tractors, any machinery or equipment used for garbage disposal activities carried out by any local authority	Exempt	Liable
Machinery, equipment or spare parts imported by Sri Lanka Ports Authority	Exempt	Liable

## Other items (Cont.)

Description	Prevailing	As per Bill
<i>Import of; (Cont..)</i>		
Machinery for the manufacture of bio-mass briquettes and pallets	Exempt	Liable
Any article entitled to duty-free clearance under the Passenger's Baggage (exemptions) Regulations, or any article cleared duty-free on a re-importation certificate, or any article cleared ex-bond for use as ship stores;	Exempt	Exempt
Goods to be used as exhibition material or as material in any technical demonstration and which are re-exported after the completion of such project, exhibition or demonstration	Exempt	Exempt
Plant, machinery or equipment which are imported to be used in projects and re-exported after the completion of the project	Exempt	Exempt
Aircraft engines or aircraft spare parts identified under specified HS codes;	Exempt	Exempt
Chemical naphtha by the Ceylon Petroleum Corporation to be supplied to Ceylon Electricity Board for electricity generation;	Exempt	Exempt
Goods for any specified project identified by the Minister/strategic development project during the project implementation period/any infrastructure development project funded through foreign loans to any Ministry	Exempt	Exempt
Goods to a mission of any state or any organization to which the provisions of the Diplomatic Privileges Act applies or to any diplomatic personnel of such mission or organization who is entitled to such benefits, subject to conditions	Exempt	Exempt
Goods from any foreign organization or out-of-the funds from such organization for the relief of sudden distress, as approved by the Minister.	Exempt	Exempt
The import and supply of goods at duty free shops for payment in foreign currency	Exempt	Exempt



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