

Value added Tax (VAT)

Part 02

AAT Level III

Corporate & Personal Taxation (CPT)

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Business Taxation VALUE ADDED TAX Contd.

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Value Added Tax Cont.

Important areas to look at.

- Value of supply
- Applicable VAT rates
- Time of supply
- Input tax credit
- Claim of bad debts
- Tax debit note and credit note
- Cash basis accounting
- SVAT scheme
- VAT Exempted goods and
- VAT administration.

Value Added Tax Cont.

- **Value of supply.**

- On supply of goods and services – VAT exclusive consideration or Open market value whichever is higher.
- If the consideration is not in the form of money – Open market value.
- On importation – $(C.I.F * 110\%) + (SC + Duty + Cess + PAL + ML)$

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Value Added Tax Cont.

- **Applicable VAT rates.**

- On Exports or Zero rated suppliers – 0%.
- Standard rate on importation and local sales – 8%.
- Local sales approved by BOI or TQB per unit Rs. 100/-
- Unit = 6 Nos of under pants/wears or other one unit of cloth

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Value Added Tax Cont.

- Time of supply
- In case of supply of goods which ever occurs first from following
 - a. Invoice issued by supplier,
 - b. Receipt of advance to the supplier,
 - c. Payment is due on the supply (Credit sales),
 - d. Goods delivered to customer.
- *When goods delivered and invoice issued within ten days the invoice date would be taken as time of supply.*

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Value Added Tax Cont.

- Incase of services which ever occurs first from following.
 - a. Services performed,
 - b. Advance received for current or future services,
 - c. Payment is due on current or future service (Credit),
 - Invoice is issued.
- * When service performed and invoice issued within ten days the invoice date would be considered as time of supply of service.*

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Value Added Tax Cont.

- **Input Tax Credit**

- When registered supplier has paid VAT on imports or local supply and it is supported by VAT invoice , which is applicable to out put shall claim against out put VAT within following time period.
- Local VAT invoice – within 12 months from date of invoice.
- On Importation CUSDEC – within 24 months from date of issue.

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- **Claim of Bad debts.**

- When there is bad debt amount which could be deducted in the period it is incurred.
- But at the time of recovery of such amount liable for VAT in the period that is recovered.

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Value Added Tax Cont.

- Debit note and Credit note adjustment.
- When there is errors in Sales or Purchases accordingly Debit note and Credit note will be issued and will be adjusted to VAT calculation.
- This adjustment to be made within **six month** of that occurrence.

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Value Added Tax Cont.

- Cash basis accounting.
- It is possible to have cash basis accounting for VAT calculation with the approval from CGIR.
- Then Out put VAT and In put VAT calculation will be on cash basis.

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Value Added Tax Cont.

- **Simplified VAT/ Suspended VAT=SVAT Scheme**
- This scheme introduced in 2011 in order to avoid VAT refund available to zero rated suppliers.
- For this purpose there will be three connected parties. i.e.
- IRD SVAT section
- RIP= Registered Identified Purchaser (Zero rate supplier)
- RIS = Registered Identified Supplier (Person who make supplies to RIP)

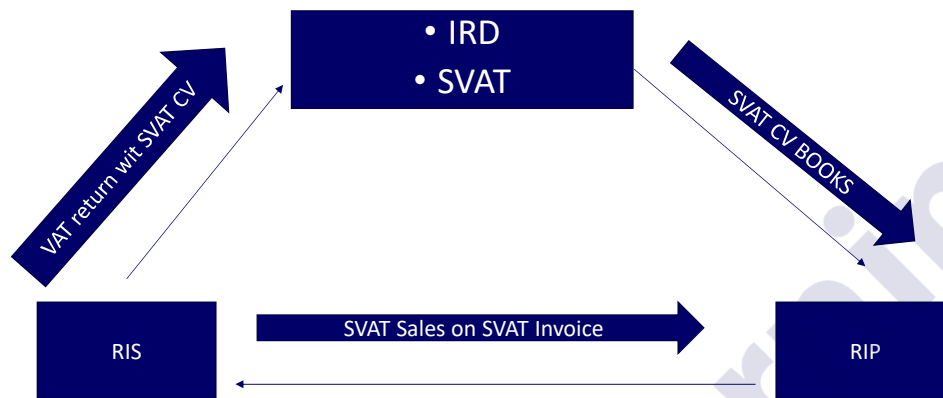
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VALUE ADDED TAX – SVAT

- **Practical operation of SVAT**
- Issue SVAT CV to RIP by IRD
- RIS make supply on SVAT invoice to RIP
- Amount equivalent to VAT , SVAT CV will issue to RIS by RIP
- RIP will submit such SVAT CV to IRD which similar to their SVAT sales

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VALUE ADDED TAX – SVAT operation



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- VAT exempted Goods and Services.
- Exempted goods

- Rice flour,
- Wheat ,Wheat flour and Bread,
- Energy efficient bulb,
- Agriculture produce,
- Local manufactured coconut oil
- Pharmaceuticals.
- Computers and communication equipment

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Value Added Tax Cont.

- Exempted supply or services.
- Educational services,
- Public passenger services,
- Supply of electricity.
- Locally developed soft ware.

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Value Added Tax Contd.

- VAT administration

- VAT payment
- VAT return
- Time Bar
- Penalty
- Assessment
- Appeal
- De registration
- Refunds

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Value Added Tax Contd. VAT Administration

- **1.VAT Payment**
- * **Manufactures** on monthly basis i.e last month VAT payable on or before 20th of next month.
- * **Other suppliers**
 - Month first 15 days VAT payable on or before end of the month and
 - Second 15 days of the month VAT payable on or before 15th day of next month.

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Value Added Tax contd.

- **VAT return**
- * **Monthly return** applicable to **zero rated ,SVATand special project** suppliers shall submit return on or before end of next month.
 - i.e January return on or before 28th February.
- ***Quarterly return** will be applicable to those who suppliers not coming under monthly return shall submit return on or before end of next month after ending such quarter.
 - i.e If quarter ended 31st March on or before 30th April.

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Value Added Tax Cont.

- **Time bar on assessment**
- If return submitted within the stipulated time assessment time bar will be **three years**.
- i.e. if 31st December 2020 return submitted on or before 31st January 2021 time bar will be ended 31st December 2023.
- **No time bar will be effected in case of non submission of return, return filed after due date or CGIR of the view that willful of fraudulent activities happened**

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Value Added Tax Cont.

- **Penalty**
- 1. For non submission of return Rs. 50,000/-
- 2. For non payment or delay 10% and additional 2% on each month for delay. (Maximum penalty will be 100% of tax)

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Value Added Tax Cont.

- **Assessment**

- CGIR can issue an assessment due to following reason.
- 1.Non submission of return.
- 2. Non payment of due tax.
- 3.Request for alteration or addition to return submitted.
- 4.CGIR of the opinion that tax paid for the period is less than the actual.

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- **Appeal**

- A registered supplier dissatisfied with the assessment can make appeal to CGIR .
- **Condition to make valid appeal**
- 1. Appeal to be made to CGIR within 30 days on receipt of assessment notice..
- 2.It is to be a written petition indicating valid grounds to appeal.
- 3.Relavent prof documents such as return submitted and tax paying slips to be attached.
- 4.Due taxes must have been paid before the appeal

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- **Appeal settlement**

- Review by deputy commissioner. If settlement not reached ,
- Review by CGIR. If settlement not reached,
- Review by Tax Appeal Commission, if settlement not reached
- Appeal to Court of appeal and if needed go further to supreme court.
- **Finality of assessment**
- If valid appeal not received or tax has been finalized on assessment.

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- **De registration**

- This is possible after 12 months from registration
- Due to following reason registered supplier can apply for de registration
 - 1. His total supply now become exempted.
 - 2. Supplier VAT supply is less than liable thresh hold limit.
- **Then obligation of supplier**
 - 1. Hand over VAT registration certificate within 14 days on de registration and not to display it and not to issue VAT invoices.

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- **VAT Refund**
 - Any excess payment of VAT normally can not be refunded but it can be carried forward to next period and claim against VAT out put
- **But**
 - Refunds are possible for zero rated suppliers and
 - Those who started new project but satisfy that within 30 months there will be taxable supply then they can claim input VAT at the initial period fully.

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