

CA Sri Lanka - Strategic Level

Strategic Tax Planning (SL - 25 - 4)

Tutorial 8 - Value Added Tax (I)

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Value Added Tax

Topic	Learning Outcomes
Value Added Tax Liability	At the end of the session students should be able to; 1. Understand the principle of Value Added Tax 2. Discuss different types of supplies, basis for VAT liability, and exempted supply. 3. Compute the Value of supply, out put VAT input Tax. 4. Assess Value Added Tax liability. 5. Assess balance VAT payable. 6. Identify and assess the risk of non-compliances for Value Added Tax

Value Added Tax

Value Added Tax (VAT) was introduced under the Value Added Tax Act. No. 14 of 2002, to Sri Lanka with effective from 01st August 2002.

- There are Two (02) type of Chargeable supplies identified by the Value Added Tax Act
 1. Value Added Tax chargeable on supply of Financial Services
 2. Value Added Tax chargeable on supply other than Financial Services

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

- Imposition of Value Added Tax - Chargeability for Value Added Tax (Sec 02)
- VAT shall be charged –
 - a) at the time of supply, on every taxable supply of goods or services, made in a taxable period, by a registered person in the course of the carrying on, or carrying out, of a taxable activity by such person in Sri Lanka;
 - b) on the importation of goods into Sri Lanka, by any person,

Tax shall be charged on the value of such goods or services supplied or the goods imported, at the following rates

- Standard rate – 18% [effective from 01.01.2024] Tax fraction [18/118]
- Zero rate – 0%
- Kg or piece basis – Only for BOI Apparel exporters

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Minister may vary the rates by an Order

1. The Minister may by Order vary the rates insofar as the same relates to the increasing or reducing of the rates previously specified, and to such extent as it relates to the imposition of Value Added Tax specified under the aforesaid section
1. The Order made by the Minister shall be in operation immediately upon the Minister affixing his signature thereto.
2. Every such Order shall as soon as convenient be published in the Gazette.
3. Every such Order shall as soon as convenient thereafter be approved by a Resolution of Parliament.
4. Where any such Order is not approved by Parliament it shall be deemed to be rescinded with effect from the date of such Resolution

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Supply

Compared to the sales the term supply has a broad definition. It is always not necessary to settle the transaction in cash.

Supply has can be categorized to three

1. Taxable supply :- any supply of goods or services made or deemed to be made in Sri Lanka which is chargeable with tax and includes a supply charged at the rate of zero percent other than an exempt supply.
 - Standard rate supply
 - Zero rate supply

In the computation of value of taxable supply following shall be deducted;

- Bad debt incurred during the taxable period [Recovery of bad debt shall be part of taxable supply in the period where it was recovered]
- Value Added Tax if the amount us included in the value of supply
- Export rebate

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Supply [Contd..]

2. Exempted supply : which is also a supply . However, such supply have been recognized as exempted supply by the Value Added Tax Act [First Schedule]
3. Excluded supply : Supply which is out of the scope of Value Added Tax Act

“Supply of goods” means the passing of exclusive ownership of goods to another as the owner of such goods or under the authority of any written law.

It includes,

- Sale of goods by public auction,
- Transfer of goods under a hire purchase agreement,
- Sale of goods in satisfaction of a debt
- Transfer of goods from a taxable activity to a non-taxable activity

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Supply [Contd..]

“**goods**” means all kinds of movable or immovable property but does not include

- money;
- computer software made to customers special requirements either as unique programme or adaptation for standard programme, inter company information data and accounts, enhancement and update of existing specific programmes, enhancement and update of existing normalized programmes supplied under contractual obligation to customers who have bought the original programme or where the value of contents separately identifiable in a software such vale of content

“**supply of services**” means any supply which is not a supply of goods but includes any loss incurred in a taxable activity for which an indemnity is due. [Ex. Receipt of Insurance claim]

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Time of supply

- a) The supply of goods shall be deemed to have taken place at the time of the occurrence of any one of the following whichever, occurs earlier:-
1. The issue of an invoice by the supplier in respect of the goods; or
 2. Payment for the goods including any advance payment received by the supplier; or
 3. Payment for the goods is due to the supplier in respect of such supply; or
 4. The delivery of the goods have been effect

When the first occurrence is delivery of the goods and an invoice is issued in respect of goods delivered, within ten days from the date of delivery of such goods, the time of supply of such goods, shall be deemed to be the time at which the invoice was issued

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Time of supply

- b) 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:-
1. The service was performed; or
 2. Payment is received for the services rendered or for future services; or
 3. Payment is due for the services rendered or for future services; or
 4. Invoice is issued in respect of the services rendered.

When the first occurrence is service was performed and an invoice is issued in respect of services supplied, within ten days from the date of performance of such service, the time of supply of such service shall be deemed to be the time at which the invoice was issued.

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Time of supply

- c) where a supply is made under an agreement entered into, other than a hire purchase agreement, which provides for periodical payments, when the payment is due or when the payment is received, whichever is earlier; and
- d) where goods are supplied under a hire purchase agreement, at the time the agreement is entered into
- e) Where the Commissioner-General directs any registered person to account for the tax on a payment basis, the time of supply of goods and services supplied by such person shall be the time at which the payment in respect of such supply is received.

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Value of supply of goods or services.

- For a consideration in money, be such consideration less any tax chargeable under this Act which amount shall 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
- where a supply of goods or 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
- Where a supply of goods or services is made by an employer, to his employee as a benefit from employment, the consideration in money for the supply shall be the open market value of such supply or where the open market value of such supply cannot be ascertained, the consideration in money of such supply shall be the cost of a similar benefit enjoyed by any other employee, as may be determined by the Assistant Commissioner

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Value of supply of goods or services.

- Where a supply of services is made under any lottery, or any taxable activity of entering into or negotiating a wagering contract or any business of like nature, the value of such supply shall be the total amount of money receivable in respect of such supply less the consideration of the prizes or winnings awarded in such lottery, wagering contract, or any business of like nature as the case may be

Total amount of money receivable		xxxxx
Less.		
Any commission including the VAT charged by any agent	(xxx)	
Consideration of the prizes or winnings awarded	<u>(xxx)</u>	<u>(xxxx)</u>
Value of supply		<u>xxxx</u>

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Value of supply of goods or services.

- The value of the supply of goods under a hire purchase agreement shall be the cash price, and shall not be less than the open market value

[value of supply shall not be less than open market value]

- The value of supply of land and improvements thereon, shall be the value of such supply less the value of land at the time of supply and the value of any improvements on the land as at March 31, 1998 which shall not be less than the open market value of such supply excluding the value of such land at the time of supply and the value of any improvements on such land as at March 31, 1998

Total value of supply [say consideration]	xxxxx
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Less.

Market value of the Land as of the date of supply	(xxxx)
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Value of any improvements on such land as at March 31, 1998	<u>(xxxx)</u>	<u>(xxxx)</u>
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value of supply	<u>xxxx</u>
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Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Value of supply of goods or services.

- The value of supply of healthcare services shall be the value of such supply less the cost of diagnostic tests, dialysis, any healthcare services provided by the Out Patients Department health care of any medical institution or professionally qualified person providing such care and medical consultation services
- The Value of goods imported.
 - the value of the goods determined for the purpose of custom duty increased by ten per centum; and
 - the amount of any custom duty payable in respect of such goods with the addition of any surcharge, cess, any Port and Airport Development Levy payable, and any excise duty payable on such goods

$\text{CIF} + [\text{Custom Duty} + \text{Surcharde} + \text{CESS} + \text{PAL} + \text{Excuse Duty}] + 10\% \text{ on CIF}$

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Persons making supplies in the course of a taxable activity to be registered **on or after January 1, 2024**

Application made by a person

- at the end of any taxable period of one month or three months, as the case may be, the total value of his taxable supplies of goods or services or goods and services made in Sri Lanka in that taxable period of one month or three months, as the case may be, has exceeded fifteen million rupees; or
- in the twelve months period then ending, the total value of his taxable supplies of goods or services or goods and services made in Sri Lanka has exceeded Sixty million rupees; or
- at any time, there are reasonable grounds to believe that the total value of his taxable supplies in Sri Lanka of goods or services or goods and services in the succeeding one month or three months taxable period, as the case may be, is likely to exceed Fifteen Million rupees or in the succeeding twelve months period is likely to exceed Sixty million rupees:

shall be required to be registered for Value Added Tax

- Any person making imports or exports goods for commercial purposes shall be required to be registered under this Act.

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Documents supported with an application made by a person for permanent registration

- Business Registration
- Article of the Association – Company
- Taxpayer Identification Number
- Form 01 – Company
- NIC/Passport – Owner/Directors
- Confirmation for Address and letter from Divisional Secretary – Deed/Bill
- Confirmation for Taxable Supply – Agreement/Invoice
- Bank Statements with Invoice schedule –Authorized
- Authority Letter

Application to be launched not later than fifteen days from the date on which is so liable to be registered.

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Persons making supplies in the course of a taxable activity to be registered **on or after January 1, 2024**

Commissioner General's opinion

Where an application for registration, has not been made but the Commissioner-General is of opinion having regard to the nature of the activities carried on or carried out by such person, that such person is required to be registered for Value Added Tax , and after affording such person an opportunity of being heard, register such person with effect from such date as may be determined by him.

Importer

Every person who is an importer of goods into Sri Lanka shall notify the Commissioner-General not later than fourteen days prior to the clearing of such goods that he has imported such goods and obtain from the Commissioner-General an identification number for the clearing of such goods

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Documents supported with an application made by a person for temporary registration

- Business Registration
- Taxpayer Identification Number
- Form 01 – Company
- NIC/Passport – Owner/Directors
- Authority Letter
- Commercial Invoice – Bank certified
- Bill of lading
- Authority Letter

Application to be launched not later than fourteen days from the date on which is so liable to be registered.

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Certificate of Registration.

Commissioner-General shall, issue to a person registered upon such registration

1. a tax registration number; and
 2. a Certificate of registration.
- The Certificate of registration shall set out the name and other relevant details of the registered person, the date on which registration comes into effect, and the tax registration number of such person.
 - The person to whom a certificate of registration is issued shall, display such certificate at a conspicuous place in the place where he carries on or carries out the taxable activity. Copies of such certificate may be displayed in the event of there being more than one place of business.
 - Every registered person who makes an exempt supply specified in the First Schedule shall display the categories of such goods and services supplied by him as given in the First Schedule at each such place of supply.



Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Failure to register and comply with above provision

Where any person fails to comply with the above provisions the Commissioner-General may impose on such person a penalty of a sum not exceeding fifty thousand rupees and give notice in writing to such person;

- a) to pay such penalty; and
- b) to comply with the provisions within such period as may be specified in such notice.

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

The Commissioner-General may reduce, or annul any penalty imposed on any person if such person proves to the satisfaction of the Commissioner-General that his failure to comply with the provisions was due to circumstances beyond his control and that he has subsequently complied with such provisions.

Cancellation of registration

❖ Application for cancellation

A registered person may make an application to have his registration cancelled at any time after the lapse of a period of twelve months following the date of registration, where such registered person has;

1. Ceased to carry on or carry out a taxable activity or
2. The total value of his supplies during any taxable period within such period does not exceed the registration threshold

The Commissioner-General may refuse to cancel the registration of any person, where he is of the opinion that such person has not ceased to carry on or carry out a taxable activity or that it is necessary and expedient to continue the registration for the protection of revenue.

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Cancellation of registration

❖ The Commissioner-General-

- shall, on receipt of an application for cancellation of registration
- may at any time,

and upon being satisfied that the applicant or any registered person as the case may be,

1. has ceased to carry on or carry out a taxable activity or
2. that the total value of his taxable supplies does not exceed the registration threshold , or
3. the facilities under the Customs Ordinance in respect of him have been suspended by the Director-General of Customs or
4. that the continuation of such registration may impede the protection of revenue,

cancel his registration or list such registration as an **inactive** registration until further inquiries are made prior to such cancellation.

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Cancellation of registration

Where the Commissioner-General cancels the registration of a registered person he shall inform such person of the date of cancellation of the registration by registered post.

With effect from the date of cancellation of the registration, any goods or services then forming part of the assets of a taxable activity carried on or carried out by that person shall be deemed to be supplied by that person in the course of carrying on or carrying out a taxable activity at a time immediately prior to the date of cancellation, unless the taxable activity (inclusive of all such assets) is carried on or carried out by another person who is a registered person.

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Cancellation of registration

Where the registration of a registered person has been cancelled by the Commissioner-General, such person shall

- Surrender the certificate of registration issued to him not later than fourteen days from the last day of the last taxable period during which the registration was valid
- not, display in any place where such taxable activity is carried on or carried out, the certificate of registration or a copy thereof
- not, issue any tax invoice, tax debit note or tax credit note

Failure to comply with above provision may be a reason to impose a penalty of a sum not exceeding fifty thousand rupees.

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Registered person to notify certain changes.

Every registered person shall notify the Commissioner-General in writing by electronic means of any change –

1. in the name, address and place at which any taxable activity carried on or carried out by such person; in the nature of the taxable activity carried on or carried out by such person ;
2. in the person authorized to sign returns and other documents; and
3. in ownership of the taxable activity,

not later than fourteen days after the occurrence of the change.

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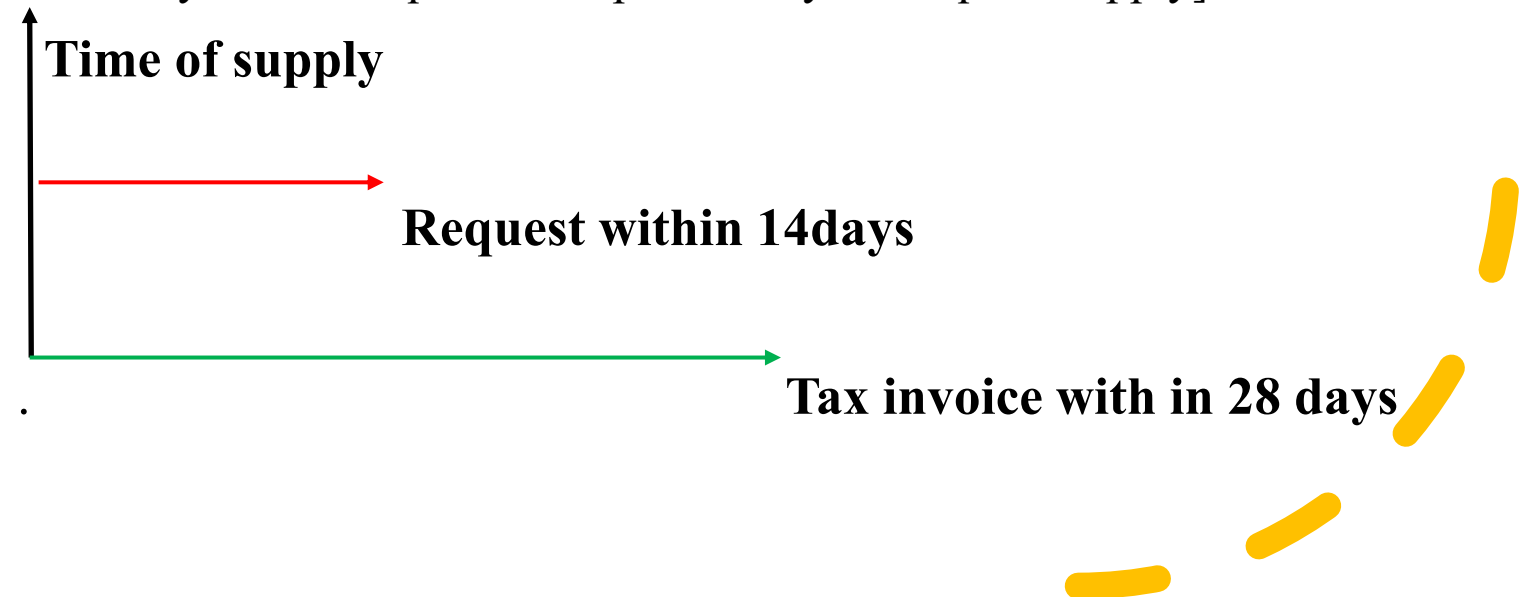
Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Tax invoice

A registered person who makes a taxable supply shall issue to the person to whom such supply is made, if he has made a written request within fourteen days from the time of supply or has made a request stating that he is a registered person, and requires that a tax invoice be issued, a tax invoice shall be issued not later than twenty-eight days after the time of such supply:

[after the receipt of the first supply such person shall not be required to make any further request in respect of any subsequent supply].



Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Tax invoice

However, a tax invoice shall be issued by such registered person who makes such taxable supply to any Government institution, Provincial Council, Local Government institution, or any public corporation, for any taxable supply made to such institution, Council or such corporation, as the case may be, whether or not such institution, Council or corporation is registered for Value Added Tax.

Issuing tax invoices to non-registered person/ or duplicate tax invoices

Any person who contravenes the provisions of issuing tax invoices shall be guilty of an offence and shall be liable on conviction after summary **trial before a Magistrate**, to a fine not less than **Rs. 25,000/-** and not exceeding **Rs. 250,000/-** and thereafter in the event of the offence being continued to be committed, after conviction to a fine of **Rs. 500/-** for each day on which the offence is so continued to be committed.

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Composition of a Tax invoice [Valid Tax invoice]

1. the name, address and the registration number of the supplier;
2. the name , address and the registration number of the person to whom the supply was made
3. the date on which the tax invoice was issued and its serial number
4. the date of supply and description of the goods or services;
5. the quantity or volume of the supply;
6. the value of the supply, the tax charged and the consideration for the supply; and
7. the words “TAX INVOICE” at a conspicuous place in such invoice.

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

Valid Tax invoice

- Any tax invoice not issued within the specified period and which does not contain the composition shall not be a **valid tax invoice**.

Tax invoice for importation

Where goods have been imported into Sri Lanka the customs goods declaration or any other document authenticated by the Director General of Customs shall be treated as a tax invoice.

Original of Tax invoice

The original of the tax invoice shall be issued to the person to whom the supply was made and the duplicate of such invoice shall be retained by the person who makes such supply for a period of five years after the expiry of the taxable period in which such invoice was issued.

It shall not be lawful to issue more than one tax invoice for each supply. If a registered person claims to have lost the original tax invoice, the person who makes the supply may issue to such registered person a copy clearly marked **“copy only”**.

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

- Commercial Invoice to be issued for taxable supply made to a person, who is not a registered person for VAT.
- No proper records maintained for supplies, all such supplies shall be considered as taxable supplies.

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

RETURNS AND CALCULATION OF TAX

Tax Return

Every registered person shall furnish a return either in writing or by electronic means of his supplies during that taxable period to the Commissioner-General not later than the last day of the month after the expiry of each taxable period

The Assistant Commissioner may, by notice in writing or by electronic means, require any person who is not a registered person but, in his judgment is a person chargeable with tax, to furnish, a return within the time specified in such notice

A return shall always contain such particulars in such form and relevant schedules.

Where any person fails to comply with the provisions, or fails to comply with the requirements of a notice given to such person by an Assessor directing him to furnish within the time specified, a return containing such particulars may require, the Commissioner-General may impose on such person a penalty of a sum **not exceeding fifty thousand rupees**

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

RETURNS AND CALCULATION OF TAX

Tax Calculation

Any input tax attributable to the supply of goods or services received shall not be deducted in respect of the following:-

- (i) if the supply is in respect of motor vehicles other than motor cycles, bicycles, motor coaches provided by an employer for the transportation of his employees, motor vehicles used for excursion tours, or for the transportation of tourists, or transportation of goods or hiring cars, or motor vehicle forming part of any stock in trade of any taxable activity;
- (ii) if the supply of goods or services received is not connected with the taxable activity or not included in the value of taxable supply;
- (iii) if the supply of goods or services received is not supported by - (a) a valid tax invoice ; or (b) a customs goods declaration or other authenticated document issued by the Director-General of Customs under this Act or under the Goods and Services Tax Act, No. 34 of 1996, and received within twelve months from the end of the relevant taxable period in respect of which such tax invoice was issued or from the date of importation of goods, as the case may be;

Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

RETURNS AND CALCULATION OF TAX

Tax Calculation – Credit for Input Tax

Any input tax attributable to the supply of goods or services received shall not be deducted in respect of the following:-

- iii. if the supply of goods or services received is not supported by –
 - a) a valid tax invoice ; or
 - b) a customs goods declaration or other authenticated document issued by the Director-General of Customs,
- iv. any invoice has not been deducted as provided for in this Act, from the output tax for any taxable period ending on or before the expiry of twelve months from the date of such tax invoice , by furnishing within the said period of twelve months the return for that taxable period; and any custom declaration , has not been deducted, from the output tax for any taxable period ending on or before the expiry of twenty four months from the date of such custom declaration , by furnishing within the said period of twenty four months the return for that taxable period



Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

RETURNS AND CALCULATION OF TAX

Tax Calculation

Provided further, the tax paid by the employer as a registered person, on the payments borne by him on the outsourcing of the supply of meals and transport, in respect of a benefit, may be allowed as the input credit of a registered person irrespective of value of such benefit is zero.



Value Added Tax

Value Added Tax chargeable on supply other than Financial Services

RETURNS AND CALCULATION OF TAX

Tax Calculation

$$\text{VAT Liability} = \text{OUT PUT VAT} - \text{INPUT VAT}$$

- OUT PUT VAT

Taxable supply X Tax Rate

- DISALLOWABLE INPUT VAT

1. Not connected to Taxable supply
2. No Valid Tax Invoice (Local Purchases)/Cus-dec (Importation)
3. Time expiration of Tax Invoice – within 12 month & Cus-Dec within 24 months
4. Specially recognized by the VAT Act. Eg. Motor Vehicle used for Travelling purpose

VALUE ADDED TAX (Contd..)

Tax Calculation (Contd...)

Claimable amount of Input VAT

1. Limit to 100% output VAT on Stranded Rate supply
2. No limitation on Zero rate supply and SVAT supply

Un absorbed allowable Input VAT - Carried forwarded to next taxable period and claim (no time limitation)

VALUE ADDED TAX (Contd..)

Tax Calculation (Contd...)

Adjustment for Bad Debts.

1. In ascertaining the amount of tax payable in any taxable period, there shall be deducted an amount of tax corresponding to any bad debt incurred in the taxable activity of a registered person on a debt created and which has become bad during such taxable period. The amount of tax deductible shall not exceed the amount paid as tax in a previous taxable period in respect of the debt which is to be written off:
2. Provided that, any amount written off as bad debt is received in any taxable period by that person on account of the bad debt so written off, the amount received shall be treated as a taxable supply during the taxable period in which it was received and shall be liable to tax:

VALUE ADDED TAX (Contd..)

Tax Calculation (Contd...)

Adjustment of tax by credit or debit notes.

- Sec 21 (1). Where a registered person, has issued a tax invoice and accounted for an incorrect amount of tax by undercharging or overcharging tax on a supply made to another person, he shall be entitled to issue to such other person a tax debit note or a tax credit note, as the case may be, for the purpose of adjusting the amount of tax so undercharged or overcharged.
- Provided however, the adjustment in respect of input tax under claimed on an original tax invoice shall be made in respect of a tax debit note or a tax credit note issued not later than six months after the issue of the original tax invoice, to which the tax debit note or the tax credit note relates.

VALUE ADDED TAX (Contd..)

Return Submission and payments



Every registered person shall furnish, not later than the last day of the month after the expiry of each taxable period a return either in writing or by electronic means of his supplies during that taxable period.



An Assistant Commissioner may, by notice in writing, require any person who is not a registered person but, in his judgment is a person chargeable with tax, to furnish, a return in the specified form within the time specified in such notice.

