

Simplified Value Added Tax Scheme (SVAT Scheme)

**Chartered Accountancy
Strategic Level
Corporate Taxation (TAX)**

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13. SIMPLIFIED VALUE ADDED TAX SCHEME (SVAT)

1. Simplified Value Added Tax scheme (SVAT scheme)

This scheme has been introduced to suspend VAT payable by such persons, so that the liquidity position is not affected and also to remove the refunds arising if VAT is collected at the point of the transaction. The provision applies to those who export and to those who supply goods and services to exporters.

The objective of introducing the Simplified VAT scheme was

- To solve the cash flow problems of the exporters, suppliers to special projects, strategic development project during the project implementation period etc. at least to a certain extent
- To reduce the difficulties faced by the exporters in obtaining the refunds, arising mainly from the overpayment of input tax
- To reduce the workload to Revenue Officers arising from the large amounts of cases claiming refunds
- To eliminate fraud connected with the payment of refunds

The Regulations for the SVAT scheme effective from 01st January 2016 has been provided in the Extra ordinary gazette No. 1986/9 - TUESDAY SEPTEMBER 27, 2016.

1.1. Who are entitled to register?

The following VAT Registered Persons and **the suppliers** of any goods or services to such registered persons (RIPs) are entitled to be registered under the SVAT Scheme.

i. Zero rated supplier

Any exporter or provider of zero rated services covered under section 7.

iii. Registered person engaged in specific project

Any registered person engaged in specific project referred to in Part II of the First Schedule.

iv. Indirect exporter

Any manufacture who supplies goods manufactured in Sri Lanka to any exporter.

v. Supplier who provides value added services to any exporter

Any supplier who provides value added services to an exporter which results in the improvement of the quality, character or value of any goods manufactured for export.

vi. Persons who are registered under section 22(7) during the project implementation period

Any registered person under section 22(7) including any strategic development project in terms of Strategic Development Act, No. 14 of 2008 as referred to in Part II of the First Schedule.

vii. Any person who supplies to the said persons more than 50% of the total supplies

Any registered person who supplies any goods or services to any registered person referred to in i, ii, iii, iv, v and vi above provided CGIR is satisfied that the value of such supplies exceeds 50% of the total supplies.

1.1.1. Persons eligible to register under Section 22(7)

Where any person has commenced a new enterprise and is able to prove to the satisfaction of the CGIR that he will undertake to commence any business or project in Sri Lanka and undertakes to make taxable supplies within 30 months from the commencement of such operation, he may register such person and allow credit for input tax.

CGIR may extend the period on the basis of an application made where is satisfied that the period of 30 months is not sufficient to commence making of taxable supplies. (13 of 2004)

Section 22(7) registration

ABC (Pvt) Ltd is a company incorporated in Sri Lanka under the Companies Act on 25.12.2019 to manufacture consumer products for the domestic market. It has just commenced construction of its factory in the District of Anuradhapura. The company intends to complete construction within two years and anticipates to start commercial operations in January 2022.

The accountant has pointed out that there is considerable amount of input tax payable during the project implementation period on the suppliers' invoices during the said two years.

Required:

- (a) Advise ABC (Pvt) Ltd the remedy available to avoid input tax payable on suppliers' invoices during the project implementation period.
- (b) State relevant procedures and the implication of VAT based on the advice.

1.2. RIP and RIS status

Under the SVAT scheme there will be Registered Identified Purchasers (RIPs) and Registered Identified Suppliers (RISs). If the total suspended supplies to a RIP by a RIS is more than 50% of his total supplies such RIS will be accorded (administratively) RIP status as well.

RIP and RIS status

Advise whether the following companies are entitled to register under the SVAT scheme as RIP or RIS.

1. Company A which is engaged in export of goods where export turnover is 80% of the total turnover.
2. Company B which is solely engaged in supply of goods to the company A for the company A to export.
3. Company C which is engaged in supply of goods to the company A for the company A to export where such supply is 70% of the total supplies.
4. Company D which is engaged in providing value added services to the company A and the turnover from such service is 60% of total turnover.
5. Company E which is engaged in providing value added services to the company A and the turnover from such service is 40% of total turnover.
6. Company F which is engaged in manufacture of goods has made exports, supplies to company A and local market. The value of direct and indirect exports is around 70% of the total value of supplies.
7. Company G which is engaged in manufacture of goods has made exports, supplies to company A and local market. The value of direct and indirect exports is around 30% of the total value of supplies.
8. Company H is incorporated to manufacture specialized materials to be sold to the local market. At present the company is in the process of constructing factories with the total project cost of Rs. 2 billion. The company has obtained the approval from the Commissioner General in terms of section 22(7) of the VAT Act to suspend VAT input tax during the project implementation period.
9. Company I being the construction company provides construction services to new projects. 70% of the company's turnover comprise of turnover in relation to construction of projects approved under section 22(7) of the VAT Act.

General Instructions to Registered Identified Purchasers and Registered Identified Suppliers

1. RIP should submit VAT return monthly.
2. All RIS should submit his VAT Return on quarterly basis.
3. RIP who made suspended supplies should follow the instructions applicable for RIS.
4. Value should be to the nearest rupee (do not enter cents).
5. Any of those forms should not contain information from more than one calendar month.
6. Request for change of address of a person registered for SVAT Scheme should be made to the Taxpayer Services Unit.
7. Loss of credit voucher books or credit vouchers should be informed immediately to the IRD with an affidavit and police report to cancel such credit voucher books or vouchers.

1.2.1. Registered Identified Purchaser (RIP)

All above eligible persons shall obtain the Registered Identified Purchaser status under the above SVAT Scheme. RIP is eligible to purchase goods or obtain services, for carrying on any respective activity which is mentioned above suspending VAT component. Such purchases are treated as purchases for specified purposes.

RIP is also eligible to make standard rate supplies, but the total zero rated supplies, suspended supplies and deemed taxable supplies of any such RIP for a calendar month should not be less than 50% of his total supplies. In such a situation, such registered person is eligible to purchase goods or obtain services under suspended terms which are used for its taxable supplies, and such purchase is treated as a purchase used for deemed specified purpose. In case where the zero rated supplies, suspended supplies and deemed taxable supplies relating to SDP are less than 50% of the total supplies of a RIP, he is required to get changed the status from RIP to RIS.

The list of the registered persons who are authorized to purchase under suspended terms is published in the official Web site of the IRD. Any RIS may refer to this information to ensure whether the purchaser is a RIP.

Obligations of RIP

1. The registering as RIP with the Department of Inland Revenue under the SVAT scheme.
2. Obtaining suspended tax invoice from RIS in relation to suspended purchasers.
3. Giving the approval for the form "SVAT 04" submitted by RIS with the Department of Inland Revenue under the RAMIS system.
4. Submitting the form "SVAT 06" with the Department to Inland.
5. Furnishing VAT returns for the relevant taxable period (monthly).
6. Issuing the credit voucher to RIS to support the suspended purchasers.

Suspended Purchases

All purchases of raw materials, capital goods and other services from RIS used for specified purpose or for deemed specified purpose are referred to as suspended purchases. RIPs are not permitted to purchase under normal tax invoice from another SVAT registered person. Suspended purchase should necessarily be for specified purposes or deemed specified purposes. If such suspended purchases have been used for any exempt supply (other than exempt supply which is treated as deemed suspended supply or any VAT input credit is disallowed under the VAT Act

Approval of Form SVAT 04 by RIP

When RIP logs into the list page under the e-Service, he is shown Form SVAT 04 submitted by RIS. Thereby, he is required to approve it giving the credit voucher number allocated to the respective RIS on or before 20 days from the end of the relevant month for which purchases were made.

Credit vouchers and submission of Schedule SVAT 06

The RIP is provided with **SIMPLIFIED VAT CREDIT VOUCHERS (SVCV)** on a request made by only by using the e-Service. It is issued in triplicate in a serial order by the IRD. A book of SVCV contains 50 credit vouchers. In issuing credit vouchers to respective suppliers, such SVCV should be signed by two authorized persons.

RIP is required to issue a Credit Voucher on suspended purchases to the RIS not later than 20 days from the end of any calendar month in which such purchases are made. However, in respect of supplies made to RIPs on irregular basis, credit vouchers may be issued at the time of the transaction. RIP is required to issue one credit voucher covering the aggregate purchases made from one supplier during any calendar month. RIP is required to keep copies of all vouchers issued.

RIP is required to submit summary of suspended purchases - Schedule SVAT 06

RIP is required to download the Schedule templates of such Schedule SVAT 06 and the verifier tool from the official Website of the Commissioner General of Inland Revenue. RIP should ensure that latest schedule templates are used for the preparation of Schedule SVAT 06.

VAT Return - Value of Purchase

The value of purchases should be declared under the suspended purchases in cage "J" of the VAT Return for the month in which the suspended tax invoice is received. In any case where such purchase has not been declared for that particular month, it can be

disclosed in a subsequent three months period within the same year of assessment for which accounts are made up for the purpose of section 28 of the Inland Revenue Act, No. 10 of 2006. The amount of suspended VAT should be entered in cage “K”. Under no circumstances VAT on suspended purchases shall be an input tax, and therefore, it could not be deductible from output tax. As such, suspended VAT is not refundable. In case where any input tax on purchases made under **suspended terms** is disallowable under the provisions of the VAT Act as mentioned in item (ii) of paragraph 5.1, it should be disclosed in cage 8A of the VAT return.

Refunds

The RIP is requested to make purchases from RIS. Refunds are not made under any circumstances other than any upfront payment made to the Director General of Customs and VAT paid in any situation where goods or services obtained from any other VAT registered person who is not a RIS.

RIP is not authorized to accept a normal tax invoice on purchases unless such purchases are identifiable as purchase on which the input relating to such purchases are disallowable for VAT purpose or the VAT component is claimable where goods or services obtained from any other VAT registered person who is not a RIS. Instead of normal tax invoice which could be considered for claiming of input tax RIP shall request the supplier to issue a suspended tax invoice by requesting him to get registered under SVAT Scheme as RIS, as far as possible.

1.2.2. Registered Identified Supplier (RIS)

Any VAT registered person registered under SVAT Scheme as a supplier is referred to as Registered Identified Supplier (herein after referred to as “RIS”). The supply made to any RIP is known as suspended supply, and the invoice raised on such supply is known as suspended tax invoice.

Any supply of a person who is engaged with specified projects and made such supply to relevant Government authority is an exempt supply under the Part II of the First Schedule of the VAT Act, but treated as deemed taxable supplies in terms of section 22 (10) of the VAT Act.

Obligations of RIS

1. The registering as RIS with the Department of Inland Revenue under the SVAT scheme.
2. Issuing suspended tax invoice for the supplies made to RIP.
3. Submitting the form “SVAT 04” with the Department of Inland Revenue under the RAMIS system from the end of each month.

4. After obtaining approval from RIP in relation to suspended supplies as submitted in SVAT 04, it is required to submit the forms “SVAT 05”, “SVAT 5a”, “SVAT 5b” and “SVAT 07”.
5. Furnishing VAT returns for the relevant taxable periods (quarterly).
6. Obtaining the credit voucher from RIP to support the suspended supplies.

Suspended Tax Invoice

Supplies to RIP can be made on a **Suspended Tax Invoice** (SVAT 02) showing the VAT component as “Suspended Value Added Tax”. Such suspended invoice should be issued without any delay. Before making supplies under suspended terms to a registered person, RIS is required to make sure that the person is a RIP. The lists of RIPs and RISs have been published in the official Web site of the Inland Revenue Department.

A tax invoice should not be issued to any RIP under any circumstances unless the input is disallowable under the provisions of the VAT Act.

The goods exempt from VAT except any supply which is treated as deemed taxable supplies made to SDP during the project implementation period, or to any specified project cannot be supplied under SVAT Scheme.

Submission of Form SVAT 04

RIS is required to key data to the goods/services declaration Form SVAT 04, by using e-Service within 15 days from the end of the relevant month in which the supplies are made in order to get the approval of respective RIP to get confirmed on the suspended supply and credit voucher numbers.

Credit Voucher and submission of Schedule SVAT 05 (if any SVAT 05a, SVAT 05b) and SVAT 07

RIS is provided a **SIMPLIFIED VAT CREDIT VOUCHER (SVCV)** by the RIP based on the Form SVAT 04 submitted by the RIS through the e-Service. RIS is required to collect such credit voucher irrespective of the fact that approval is granted electronically, and keep such credit voucher with him for five years.

All credit vouchers received by any RIS in respect of any taxable period are required to be submitted to the IRD to prove the suspended supplies if he is requested to do so.

VAT Return

RIS should disclose VAT suspended taxable supplies in Cage C of the VAT return considering the time of supply irrespective of the fact that a credit voucher is received or not, in respect of such suspended supply. Respective suspended VAT amount on suspended supply should be declared in cage 2A.

Refunds

RIS is not entitled to any refund on any Value Added Tax paid. However, where RIS claims a refund of any input tax paid by him on any import on which upfront payment has been made to the Director General of Customs or on any local purchase made from any VAT registered person so far such purchases are connected to zero rated supply or to suspended supply made to Registered Identified Purchasers by whom suspended credit voucher has been issued on such supply, such refund will be released after six months from the end of the taxable period if the Commissioner General is satisfied after carrying out a special audit on the value addition of the business of such RIS, and if such amount is relating to the period commencing on or after January 1, 2016.

2. Payment of tax on importation of goods

The tax on importation has to be paid at the point of Customs to the Director General of Customs (DGC) when goods are imported. The customs will not charge VAT on goods which are exempt from VAT.

2.1. No VAT chargeable

However, no VAT will be charged on;

- a) Any goods entered into a Customs bonded area or any goods entered into a free port
- b) Fabrics imported by certain BOI companies for the purpose of manufacture and export of garments and also the transfer of such fabrics to others for the purpose of manufacture of garments for export.
- c) Fibre, yarn, grey cloth, finished cloth, chemicals, dyes used for the manufacture of fabric imported by any fabric manufacturer who has an agreement with the BOI for manufacture of fabric

2.2. Deferment of VAT to importers by DGC

The DGC has the power to defer the collection of tax for a period of 60 days (maximum 90 days) the period to be determined by the Minister and published by gazette in the following cases;

- a) The tax due on any goods imported by a registered person to be used by such person for manufacture and export
- b) Section 22(7) projects
- c) Tax due on any plant and machinery imported for an infrastructure project funded by a foreign government, UN, regional or multilateral agency during the project implementation period
- d) The tax due on any purchase of fabric from a registered BOI manufacturer by another registered BOI manufacturer for the manufacture of garments for export and utilizes the fabric for such export
- e) The tax due on any plant or machinery imported including any plant or machinery received from a customs bonded area by a registered person, who imports or received such items for usage by such person for the manufacture of goods to be exported by such person
- f) Any goods/plant or machinery imported including any goods received from customs bonded area by a person registered with the Simplified VAT scheme administered by the CGIR, who imports or receives such goods for the manufacture of goods or the provision of services to a manufacturer of goods for export referred to in item (i) of paragraph € of subsection (2) of section 2.

In the case of plant and machinery or equipment of high value imported and re-exported within 12 months, the deferment facility is available up to the time of re-export.

2.3. Procedure to obtain a deferment

- In order to obtain the deferment facilities the registered person must furnish a bank guarantee or a corporate guarantee to cover the estimated tax due on import.
- The importer who is importing for export should submit the return on form 20A along with the return giving the details of the deferred tax/ Cusdecs on imports made during the relevant month. This should match with the recorded of the DGC.
- The Department of Inland Revenue will issue a credit voucher in favour of the DGC to cover the VAT deferment. This credit voucher has to be forwarded to the DGC to cover the deferred amount.

CHAPTER REVIEW EXERCISES

Question 1

Widac Packaging Limited (WPL) is engaged in the manufacture of cardboard boxes and metal boxes. It is also a registered identified supplier for purpose of Simplified Value Added Tax system. It supplies goods manufactured to the local market including following two registered identified purchasers

- Silver Tex Limited- a garment manufacturer and exporter.
- Goodland Limited- a value added tea manufacturer and exporter.

Information for the quarter ended 30.09.2021 is as follows.

a) Supplies

1. To Registered Identified Purchasers (RIP)

Name	Invoice No.	Value of Supplies (Rs.)	SVAT Credit voucher No.
Silver Tex Limited	A08	800,000	C000007158
	A10	40,000	Not received
Goodland Limited	A07	300,000	C000000300
	A09	200,000	C000000300

2. Value of supplies to others Rs.5, 650,000

- b) As per the information credit voucher relating to the invoice no "A10" is not collectible.
- c) Input taxes paid by the company are as follows.
- On local purchases Rs. 36,000
 - On imports of raw materials Rs.180,000
 - On imports of machinery Rs. 20,000
- d) Company has received a VAT debit note which shows VAT amount of Rs. 4,800 from a local purchaser of goods.
- e) The company had brought forward input credits of Rs.180,000.

Required:

Assess the Value Added Tax payable for the quarter ended 31.09.2021 showing the details of supplies, Output Tax, Input Tax, Rates and other necessary information.

Question 2

Mr. Fernando, incorporated a new company in October 2018 called Agri Pohora (Pvt) Ltd (APPL). APPL imports and distributes fertilizer including powdered fertilizer and liquid fertilizer, chemicals such as pesticides and weedicides, and poly tunnels and other materials used for the construction of greenhouses.

APPL imports fertilizer and chemicals in bulk mainly from USA. The process of blending fertilizer and chemicals is carried out in its factory, and they are then packed into small containers of different weight.

APPL has also obtained an agency license to distribute fertilizer of a reputed brand. It conducts mass promotion with the intention of expanding the market share of this new brand. APPL has recruited two dedicated employees as brand promoters to promote fertilizer of this brand to potential customers in Sri Lanka. The supplier in USA pays a brand promotional fee in foreign currency through a bank in Sri Lanka for this service provided by APPL. APPL obtained VAT registration in December 2018.

Revenue (total amount received inclusive of VAT) of APPL for the quarter ended 30 September 2021

	Rs. '000
Fertilizer	12,000
Chemicals (pesticides and weedicides)	4,600
Poly tunnels and other greenhouse materials	2,300
Interest income	180

	USD
Brand promotional fee received from the supplier in USA (USD 1 = Rs. 150)	6,900

Input VAT paid on purchases made during the quarter ended 31 September 2021

	Rs.
Input tax paid at Sri Lanka Customs on importation of chemicals	376,450
Input tax paid on purchase of packing material to pack fertilizer	38,500
Input tax paid on purchase of bottles to pack chemicals	142,000
Input tax paid on other administrative expenses	15,250

Required:

- Advise** the finance manager of APPL, on the VAT liable and not liable revenue sources of APPL, referring to the relevant provisions of the VAT Act No. 14 of 2002.
- Assess** the output tax, allowable input tax and the balance tax payable/refund due for the quarter ended 31 September 2021 of APPL.

Question 3

Ranthuru Industrial Automation (Pvt) Ltd (RIAL) is a company incorporated in Sri Lanka, engaged in the following business activities:

- Designing residential houses based on customer requirements.
- Renting the building owned by the company for commercial purposes.
- Providing electrical engineering services including designing, fabricating, assembling, installation, commissioning etc. directly to customers or as a sub-contractor.

At present, RIAL provides sub-contracting services for a hotel project in the Maldives. The main contractor of this project is SL Construction (Pvt) Ltd (SLC), another company incorporated in Sri Lanka. The work performed by RIAL includes designing and installing the electrical system of the Maldivian hotel. The engineers and technical staff employed by RIAL are stationed in the Maldives until the system is commissioned. The material and equipment required for this project are also supplied by RIAL. SLC makes payments for the services rendered by RIAL in Sri Lankan rupees.

The directors of RIAL wish to expand the business operations in Sri Lanka and are considering constructing a mixed development project in Colombo, which includes office space as well as apartments for residential purposes. The directors are proposing to invest USD 14 million on this project and to obtain a loan from a UK bank to fund part of this investment.

The following detailed breakdown is provided in relation to the total supplies (exclusive of VAT) made by RIAL for the quarter ended 31 September 2021

	Rs.
Income received from designing residential houses	8,000,000
Income received from renting premises	77,000,000
Construction related services provided locally to SVAT registered contractors	23,000,000
Construction related services provided locally to other customers	13,000,000
Income received from the Maldivian hotel project	20,000,000
	141,000,000

Details relating to input VAT for the quarter ended 30 September 2021 are as follows:

	Rs.
Input tax specifically relating to taxable supplies	14,000,000
Common input tax	2,000,000
Input tax on raw materials and equipment used exclusively in the Maldivian hotel project	3,000,000
Cost of machinery imported to be used in construction work	347,000,000

All due credit vouchers relating to suspended supplies have been received on time.
There was no input tax brought forward from the previous quarter.

Required:

- (a) **Assess** the output VAT, allowable input VAT and the balance VAT payable/refund due for the quarter ended 31 September 2021.
- (b) **Advise** the board of directors whether RIAL can claim input VAT incurred on this Colombo project during the construction period.

