

# Introduction to Value Added Tax

## Chartered Accountancy Strategic Level Corporate Taxation (TAX)

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## **12. VALUE ADDED TAX (VAT)**

### **1. Introduction**

Value Added Tax (VAT) is a tax on domestic consumption of goods and services. Therefore, goods imported into Sri Lanka and goods and services supplied within the territorial limits of Sri Lanka are the subject matter of this tax. It is a multi-stage tax levied on the incremental Value Added at every stage in the production and distribution chain of goods and services.

The tax is borne by the final or the ultimate consumer of goods and services. He does not pay it direct to the government but to the ultimate supplier who supplied the goods or services to him. However, the government will receive the money in the end, through all the intermediary suppliers in the chain of production and distribution, an amount equal to the amount paid by the final consumer, because each intermediary supplier in that chain is responsible to pay to the government, only the VAT he collects on the supplies made by him (output tax) less that VAT he paid on the supplied obtained by him (input VAT). Therefore, the seller or the supplier of goods/services does not pay tax himself as he is entitled to re-claim from the government the VAT he pays, on his factors of production, from the monies that he collects for the government. He is a mere collector of tax, from the consumers, on behalf of the government. The VAT collected by him from his customers is not part of his profit or turnover because he is responsible to account for VAT collected by him on every invoice. The collector (i.e. the seller or supplier of goods/services) becomes a “trustee” for that money on behalf of the Government.

### **2. Imposition of VAT**

VAT is imposed by the Value Added Tax Act No. 14 of 2002. This has been amended by the following amending Acts;

- Value Added Tax (Amendment) Act, No 07 of 2003
- Value Added Tax (Amendment) Act, No 13 of 2004
- Value Added Tax (Amendment) Act, No 06 of 2005
- Value Added Tax (Amendment) Act, No 08 of 2006
- Value Added Tax (Amendment) Act, No 14 of 2007
- Value Added Tax (Amendment) Act, No 15 of 2008
- Value Added Tax (Amendment) Act, No 15 of 2009
- Value Added Tax (Amendment) Act, No 09 of 2011
- Value Added Tax (Amendment) Act, No 07 of 2012
- Value Added Tax (Amendment) Act, No 17 of 2013
- Value Added Tax (Amendment) Act, No 07 of 2014
- Value Added Tax (Amendment) Act, No.11 of 2015
- Value Added Tax (Amendment) Act, No.20 of 2016

- Value Added Tax (Amendment) Act, No.25 of 2018
- Value Added Tax (Amendment) Act, No 19 of 2019
- Value Added Tax (Amendment) Act, No. 09 of 2021

Section 2 of the VAT Act outlines the chargeability of VAT;

*“Subject to the provisions of this Act, a tax, to be known as the Value Added Tax (hereinafter referred to as “the tax”) 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, and on the value of such goods or services supplied or the goods imported,.....”*

## 2.1. Who is liable to pay VAT

Section 83 of the VAT Act defines a person, to include a company or a body of persons in addition to the natural persons called individuals.

- Company means any company incorporated or registered under any law in force in Sri Lanka or elsewhere
- Body of persons means
  - Body corporate or un-incorporate
  - Provincial Council
  - Local Authority
  - Fellowship, fraternity or society of persons whether corporate or un-incorporate
  - Any partnership
  - Government Department or any undertaking of the Government of Sri Lanka
  - Any co-ownership of immovable property

According to section 2, all **registered persons** are liable to VAT. A person is obliged to register for VAT if;

- (i) At the end of one month or a 3 month taxable period, the total value of taxable supplies has exceeded Rs. 75 million (a calculation based on historical figures)

Eg:	End of January	Rs. 25 Mn
	End of February	Rs. 30 Mn
	End of March	Rs. 35 Mn
	Total for 3 months	Rs. 80 Mn

In this situation the registration threshold has been exceeded only at the end of March and therefore should apply for registration at the end of March.

Eg:	End of January	Rs. 90 Mn
	End of February	Rs. 30 Mn
	End of March	Rs. 5 Mn
	Total for 3 months	Rs. 125 Mn

In this situation the registration threshold has been exceeded at the end of January and should apply for registration at the end of January.

- (ii) At any time there are reasonable grounds to believe that the total value of taxable supplies in the succeeding taxable period of one month or 3 months is likely to exceed Rs. 75 million (a calculation based on future estimated figures)
- (iii) In the preceding twelve months period, the value of taxable supplies has exceeded Rs. 300 million or the succeeding twelve months period is likely to exceed Rs. 300 million.

## 2.2. What is taxable supply? (Sec. 83)

Means any supply of goods or services

- Made in Sri Lanka or
- Deemed to be made in Sri Lanka
- Which is chargeable with VAT under the Act, and
- Includes a zero-rated supply
- But not an exempt supply

Exempt supplies are enumerated in schedule 1 to the VAT Act. Zero-rated supplies are given in section 7 of the VAT Act. All other supplies (whether they are made or deemed to be made) are taxable supplies. If it is in the course of carrying on or carrying out a taxable activity.

Value added tax is charged on;

- Supply of goods and services in Sri Lanka and
- Import of goods

On the supply of goods and services

VAT is charged on

- At the time of supply
- On every taxable supply
- Made in a taxable period
- By a registered person
- In the course of carrying on or carrying out a taxable activity in Sri Lanka

On imports

VAT is charged on

- On the importation of goods into Sri Lanka
- Made by any person
- At the time of import

## Goods

“Goods” means all kinds of movable or immovable property but does not include;

- (a) Money
- (b) Computer software made to customer’s specific requirements either as unique program or adaptation of standard program, inter company information data and accounts, enhancement and update of existing specific programs, enhancement and update of existing normalized programs supplied under contractual obligation to customers who have bought the original program or where the value of contents separately identifiable in a software such value of contents.

## Supply of goods

Means

- Passing of exclusive ownership of goods to another person
- By the owner of such goods or
- By another person under the authority of any written law.  
This includes among others;
  - Sale of goods by public auction
  - Sale of goods in satisfaction of a debt
  - Transfer of goods from a taxable activity to a non-taxable activity
  - Transfer of goods under a hire-purchase agreement.

## 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.
- Therefore any supply will be a supply of goods or services

### Example 1

If Mr. Alwis wants to terminate prematurely an agreement which he has entered into with Mr. Perera then Mr. Alwis has to pay liquidated damages to Mr. Perera. Assuming that both Mr. Alwis and Mr. Perera are engaged in taxable activities, and the agreement relates to these activities, this termination amounts to a loss incurred in a taxable activity for which an indemnity is due. It is therefore a “supply of service” as per above definition. If Mr. Perera is a registered person, he must invoice Mr. Alwis with VAT. The VAT paid by Mr. Alwis is his input tax and the VAT received by Mr. Perera is his output tax. If Mr. Alwis is also a registered person he can claim VAT paid to Mr. Perera from his output tax.

### 2.3. What is a Taxable activity? (Sec. 83)

Taxable activity means

- (a) Any activity carried on as a business, trade, profession or vocation other than in the course of employment or every adventure or concern in the nature of trade.

A professionally qualified lawyer – if he is employed under another, his employment income will not be liable to VAT.

The words trade, business, profession, vocation are not defined in the VAT Act.

In order to understand the meaning of adventure in the nature of trade, the following cases should be read

- Mahavitharana v CIR (65 NLR 561)
- Ram Iswara v CIR (65 NLR 393)

- (b) The provision of facilities to its members or others for a consideration and the payment of subscription in the case of a club, association or organization

It should be noted that the definition says taxable “means” and not “includes”. Therefore, any charge other than for the provision of facilities and subscription is outside the scope of the VAT Act.

The Bar sales would form part of activity liable to tax.

The tax is on the collection of membership fees or similar charges from the members of a society, club or association.

- (c) Anything done in connection with the commencement or cessation of any activity or provision of facilities referred to in (a) and (b) above will also attract VAT liability.
- (d) The hiring or leasing of any movable property or the renting or leasing of immovable property or the administration of any property

In the case of hire purchase agreements, the finance charge is exempt. Further, any installment payment will also be exempt. The VAT liability will be on the total value of the hire purchase agreement which is called the “cash price”.

The supply, lease or rent of residential accommodation is exempt

The supply of finance leasing facilities by a person registered under the Finance Leasing Act No. 56 of 2000 was tax at 10%. The present rate is 108%. However, advance payments on account of the asset to be given on lease or in relation to such leasing transaction will also be liable to VAT. Any payment for the early settlement of the amount payable under the lease agreement which exceeds 10% of the total agreement value, would be considered a separate supply and the rate applicable for that asset will apply. If the amount payable does not exceed the said 10%, it will be considered as a lease rental and taxed accordingly.

- (e) The exploitation of any intangible property such as patents, copyrights or similar assets if such assets are registered in Sri Lanka or the owner is domiciled in Sri Lanka.

#### **Taxable Activity**

- Mr. Suresh sold a block of land which he received sometime back as dowry. Is he required to charge VAT on the sale price?
- Mr. Gupta is a registered person and he sold his car used in his travel agency business. Is the sale liable to VAT?
- ABC company is a registered person. It sold the scrap from its business activities. Is the sale liable for VAT?
- Sunil grows anthurium as a hobby. Occasionally he sells flowers and the total sales per annum is around Rs. 1 million.
- Saduni is collecting stamps and coins and belongs to a club for this. Occasionally she sells some of these items and enters into barter transactions with other members of the club. Is this transaction liable for VAT?



## 2.4. What is “taxable period”?

There are two taxable periods

- Month and
- Quarter

Taxable period is one month in the case of the following persons and undertakings;

- If any person makes zero rates supplies
- Where any person has entered into an agreement prior to 01.04.2001, with the Board of Investment referred to in (xxvii) and (xxviii) of the Schedule to the Goods and Services Act No. 34 of 1996 during the project implementation period and also where under (xxxviii) the person has not been able to commence making taxable supplies by 31.03.2001
- Where any person has commenced a business or started a project and undertakes to make taxable supplies within a period of 30 months. The person must make an application and satisfy the CGIR in this respect (section 22(7)). If the CGIR is satisfied that the period of 30 months is not sufficient he can extend the period.
- Where any person registered with the Textile Quota Board or Export Development Board makes supplies to an exporter registered with the above institutions. [Currently deemed exporters are registered under SVAT scheme]

The other taxable period is 3 months.

- This period would apply to all persons not referred to in the 1 month taxable period and
- Those who opt to come within the 3 months period. (ex: those who make zero rated supplies along with a higher percentage of other taxable supplies\_
- Such person has to send returns quarterly.

## 2.5. What is the value of supply of goods and services? (Section 5)

The VAT liability arises if you are registered under the VAT Act irrespective of whether the value of supplies exceed the registration threshold or not. In the case of ordinary sale or receipt of service, for a consideration in money, it is the amount before any tax charged under the VAT Act.

Ex.

	Rs.
Sale price of goods	300,000
VAT at 8%	24,000
Total Consideration	324,000
OR VAT inclusive price	324,000
Value of supply	300,000

Therefore Value of Supply = Total consideration less VAT



If the sale is not for consideration in money or not wholly consisting of money (i.e. may be an exchange or part exchange) the value of supply is the open market value of the goods. These same rules will apply to a supply of services.

If the supply of goods or services are made by a registered person to a non registered person at a price less than the open market value, the value of such supply will be the open market value. (Section 5)

### Open Market Value (Section 83)

The VAT Act specifies that this is the consideration (excluding VAT) that a particular supply will fetch if freely offered and made between persons who are not associated persons.

### The value of goods imported (Section 6)

Value Added Tax = (CIF Value in Rupees

+10% of CIF Value in Rupees

+Customs Duty

+Cess under Export Development Board Act

+Ports and Airports Development Levy

+Excise (Special Provisions) Duty) \* Rate of Value Added Tax

An importer of goods, who sells such goods as wholesale or retail trade will be liable to VAT on the sale price. He will be liable at the point of Customs as an importer on the value of imports. Further he will be liable to charge VAT on the sale price of such goods if such importer is a VAT registered person.

Example :

If "Company A" imports a stock of goods valued at Rs. 1,000,000 he will have to pay 8% tax at the point of import. Later if he sells these goods at Rs. 1,500,000 (before charging VAT) during the taxable period, he has to charge VAT on the sale price.

	Rs.
On Importation	
Customs Value	1,000,000
VAT @ 8%	80,000
On Sale	
Sale Price	1,500,000
VAT @ 8%	120,000

Company A will pay Rs. 80,000 at the point of Customs and will collect Rs. 120,000 from the customer. If both the above transactions occur during the same taxable period, Company A will be able to claim input tax credit for Rs. 80,000 paid at the point of import. Therefore, the amount of VAT payable to the Commissioner General of Inland Revenue at the end of the taxable period will be Rs. 40,000/-.

## **2.6. What is “time of supply”?**

This is an important concept because VAT is charged at the time of supply. For the purpose of the VAT Act it does not mean the time of physically delivering the goods or performing the service. Time of supply by definition, varies according to the type of supply.

### Supply of goods – time of supply

If the invoice is issued within 10 days of the delivery of goods the time of supply is – the date of the invoice

If the invoice is issued after 10 days of the delivery of goods the time of supply is the earliest happening of

- The date of invoice
- The due date of payment
- The date of receipt of payment/advance
- The date of delivery

### Supply of services – time of supply

If the invoice is issued within 10 days of the performing of the service, the time of supply is – the date of issue of invoice

If the invoice is issued after 10 days of performing the service the time of supply is the earliest happening of

- When the invoice is issued
- When the payment is due
- When the payment is received
- When the service is performed

## **2.7. Where the supply is made**

The place of business or the taxable activity is as important as the taxable activity itself because VAT is charged;

- i. On the supply of goods and services
- ii. In the course of carrying or carrying out a taxable activity in Sri Lanka

Section 2(1) of the VAT Act by virtue of section 9 provides, goods or services shall be deemed to be supplied in Sri Lanka;

- a) If the supplier carries on or carries out the taxable activity in Sri Lanka and
- b) Goods are in Sri Lanka at the time of supply or
- c) Services are performed in Sri Lanka by the supplier or his agent.

Therefore, if a person in Sri Lanka is supplying services to another business in Sri Lanka such services are liable to VAT irrespective of the fact that the business which receives the supply of service may be carried on by a person outside Sri Lanka. The supplier is in Sri Lanka, he is carrying on or carrying out a taxable activity in Sri Lanka and the supply is made or service is rendered to a business in Sri Lanka and not to a business outside Sri Lanka although the owner of such business may be living outside Sri Lanka.

#### **Place of supply**

- Maya introduced clients to a foreign insurance company which has no branch in Sri Lanka. Maya received a payment in foreign currency which represents the fees for introducing the clients and commission and other charges for subsequent work done in respect of the insurance business carried on by the foreign company with the Sri Lankan clients introduced by Maya. This work includes making survey reports relating to claims made by the insured clients. Is Maya liable to VAT on the payment received from the foreign company which was received in foreign currency?
- Sunil is acting as the representative of a foreign company which is supplying goods in Sri Lanka. He takes orders on behalf of that company and fax the orders to that company. In a few cases the Sri Lankan traders who give the orders import the goods themselves. In other cases, Sunil imports the goods and supply them to the local traders, at the pre agreed price on behalf of the foreign company. Sunil is paid a fee for introducing customers and a commission in respect of the orders canvassed by him. Is Sunil liable to pay VAT?

#### **2.8. What are the applicable tax rates?**

The VAT Act has two rates that are applicable that is the standard rate and zero rate.

Standard rate - at 15% (up to 01<sup>st</sup> December 2019)

At 8% (from 01<sup>st</sup> December 2019) other than Financial Institutions

Zero rated supplies - Section 7 of the VAT Act

Certain supply of goods and services are exempt. The items that are exempt from VAT are listed in the First Schedule to the VAT Act.

The difference between zero rated and exempt supplies is that in the case of zero rated goods and services, the person is entitled to a refund of all input tax paid by him on goods purchased or imported by him and on services, since his output tax is NIL.

In the case of supplies which are exempt from VAT, while the person does not have to pay VAT, since he cannot charge VAT, he cannot claim his input taxes paid as a refund.

Zero rating applies mainly to export of goods and to certain specified services including international transportation. Goods are zero rated in cases, where the owner of such goods exports them. Therefore the exporter can claim all his input VAT as a refund. This would make Sri Lankan exports internationally competitive.

### **3. CALCULATION OF VALUE ADDED TAX**

A registered person has to account for tax by reference to the taxable period on a self-assessment basis. The basic formula for computing the tax is

$$\text{VAT payable} = \text{Output tax} - \text{Input Tax}$$

#### **Output Tax**

The output tax is the tax chargeable by a registered person in respect of the supply of goods or services made by him. (This is the tax payable as VAT on his supplies)

#### **Input Tax**

The input Tax is the tax paid or payable by the registered person on the purchase of goods and on the services used by him in his trade or business and also includes any VAT paid by him on the imports used by him in his business.

Input Tax is allowed only in respect of the VAT paid in carrying out a taxable activity. Where taxable supplies as well as exempt supplies are made (a mixed supply) the input tax that will be allowed is only the amount relevant to the taxable supplies on which tax is charged. Further no input credit where goods or services are included in the value of taxable supply.

### VAT calculation

ABC Company (Pvt) Ltd, is engaged in manufacturing soft toys for local market. The transactions for the quarter ending 31st September 2021 are given below: All transactions are shown exclusive of VAT where applicable except for sales to unregistered persons which are shown inclusive of VAT.

- Sales to registered persons Rs. 4,500,000
- Sales to non registered persons (with VAT) Rs. 1,265,000
- Purchases of Air Conditioners for the factory Rs. 850,000
- Exchange gain Rs. 112,000
- Salaries and wages Rs. 1,250,000
- Purchases of raw materials from VAT registered persons Rs. 3,400,000

**Compute** VAT payable by the company for quarter ended 31.09.2021.

### 3.1. Apportioning of input credit

If the Registered person engaged in making taxable supplies as well as exempt supplies (i.e. mixed supply) only the input tax credit that is relevant to the taxable supplies (that is, the supplies which is liable to VAT) will be allowed as an input tax deduction against the output tax. In such cases the VAT input tax has to be apportioned between the amount attributable to the taxable supplies and to the amount attributable to exempt supplies. What is allowed as input tax deduction would be the amount attributable to the taxable supplies.

No such adjustment is necessary in the case of zero rated supplies as these items also form part of a taxable supply.

The VAT Act does not provide a basis for apportioning the input tax credit in the law. However, the Department will normally allow input VAT on the basis of turnover. The formula is as follows;

$$\frac{\text{Taxable Supplies}^*}{\text{Total Supplies}^{**}} \times \text{Input Tax}$$

\*Includes zero rated supplies

\*\*Includes both zero rated supplies as well as exempt supplies

If the person can prove that a certain input tax is attributable only to the taxable supplies, that particular input tax should be allowed in full. In the case of VAT paid on

raw materials used in the manufacture, the input tax can be claimed based on the amount of raw material used in the production of liable and zero rated items.

#### **Apportioning Input VAT**

Taxable supplies     Rs. 2,000,000  
Zero rated supplies Rs.   750,000  
Exempt supplies     Rs.   250,000  
Purchases subject to VAT   Rs. 50,000

#### **Required;**

Compute

1. Output VAT
2. Input VAT
3. Balance tax payable

### **3.2. Disallowing of input tax credit**

The input tax credit will not be allowed unless a valid tax invoice is in possession. This tax invoice should have been received by him within 12 months of relevant taxable period in respect of which such invoice was issued.

The input tax on an invoice will be disallowed unless the amount is declared and claimed in a return furnished within 12 months of the date of such invoice. A customs declaration for claiming input tax is claimable against the output tax for any taxable period ending on or before the expiry of 24 months from the date of such customs declaration.

Allowable input credit for any taxable period is restricted to 100% of the output tax declared for that taxable period. The balance if any can be carried forward and claimed in the subsequent taxable periods subject to the same restriction. However, this restriction is not applicable to,

- Zero rated supplies
- Suspended taxable supplies
- project related goods or services during the project implementation period, incurred by a person who is registered under Section 22(7).

### Disallowing input VAT

Details of supplies made by DEF Company (Pvt) Ltd, during the quarter ended 31st September 2021 are given below. All transactions are shown exclusive of VAT where applicable.

- Local Sales – exempted supplies Rs. 1,450,000
  - Local Sales – liable supplies Rs. 5,800,000
  - Input tax details are as follows.
    - On packing material used to liable supplies Rs. 12,000
    - On local purchases which used to make exempted articles Rs. 25,000
    - On repair of a motor car Rs. 15,000
    - On import of raw materials Rs. 245,000
    - On office expenses Rs. 45,000
- Rs. 342,000**

Compute VAT payable by the company for quarter ended 31.09.2021.

### Disallowing input VAT

Details of supplies made by Rani Company (Pvt) Ltd, during the quarter ended 31st September 2021 are given below. All transactions are shown exclusive of VAT where applicable.

- Direct exports Rs. 1,500,000
  - Local Sales – exempted supplies Rs. 750,000
  - Local Sales – liable supplies Rs. 3,750,000
- Rs. 6,000,000**

Input tax details are as follows.

- On import of raw materials Rs. 645,000
  - On packing material used to make good exported Rs. 20,000
  - On local purchases Rs. 67,000
- Rs. 732,000**

Assuming that the VAT paid on supplies received by the company are referable to local supplies and the exports of the company in equal amounts, compute VAT payable by the company for quarter ended 31.09.2021.



### 3.2.1. Motor Vehicle expenses

For Motor vehicles used for traveling (business or private), no input credit is allowed. This includes repairs, lease, hire, insurance, fitted accessories, delivery charges, maintenance etc. However, the Department has ruled that input tax on a motor vehicle including fitted accessories, delivery charges, maintenance and running expenses is allowed if such vehicle forms part of the stock in trade (including leasing stock) or used in tourist transport, excursion tours or taxi service.

### 3.2.2. Entertainment expenses

It should be noted that VAT on entertainment expenditure too is allowed if the expenditure is connected with the taxable activity.

### 3.2.3. Capital Goods

The VAT paid on capital goods, that is plant, machinery etc. also can be claimed in full in the taxable period in which such plant, machinery etc. was acquired.

## 4. Special cases

### 4.1. Receipts such as compensation, insurance claims etc.

The question whether such receipts are connected to items that are taxable or not has to be considered. If the receipt related to items where VAT input credit has been disallowed, in principle such receipt should not be considered as a taxable supply.

Ex : In the case of a car used for travelling the full input credit is disallowed. If the car which was purchased for Rs. 5 Mn is a complete wreck after an accident and the Insurance Company pays Rs. 3 Mn the insurance receipt should not be taxable as both the input credit on the purchase as well as the premium paid is not allowed. However, if the insurance receipt refers to a delivery vat on which VAT input has been allowed, the receipt of Rs. 3 Mn would be considered as a taxable supply and VAT would be payable.

### 4.2. Treatment of Bad debts for VAT (Sec 24)

The amount of VAT output tax paid earlier on a debt written off during a later period can be claimed as a deduction against the output tax paid or payable for the later period.

Ex :

Output tax payable by ABC Ltd for the quarter ending 31<sup>st</sup> September 2020 = Rs. 600,000  
Mr. Perera to whom goods valued at Rs. 1,000,000 were sold in June 2020 has paid only Rs. 900,000. The balance is considered as a bad debt and has been written off in the quarter ending 31.09.2020. Compute the output tax.

### 4.3. Bad debt recoveries

Bad debt recoveries received in any taxable period in respect of transactions taken place at any time whether an adjustment has been made in respect of output tax or not,

disregarding time bar provisions, irrespective of the VAT rate prevailing at the time of the relevant debt written off, the recoveries will be taxed at the rate prevailing at the time of such recovery.

#### 4.4. Tax credit notes and Tax debit notes

In the case of certain transactions, after an invoice is issued by the supplier with VAT to another registered supplier, adjustments to input/output taxes have to be made due to several reasons. This is for the purpose of adjusting the VAT that is undercharged or overcharged.

The adjustment in respect of input tax under claimed on an original tax invoice can be made in respect of credit and debit notes only if such notes are issued within 6 months after the issue of the original tax invoice.

The adjustments to the original records are done by the issue of a credit or a debit notes. These are issued by the supplier of the goods. The supplier will issue a credit note, if the tax charged is more than the amount to be charged. He will issue a debit note where the tax charged is less than the amount to be charged.

This could arise either through sales returns or due to a wrong price being included on the goods or services.

The tax credit note/debit note must be in the specified form, as in the case of a valid tax invoice.

Ex : Goods purchased by ABC Ltd from XYZ Ltd are returned by ABC Ltd. A credit note has to be issued by XYZ Ltd to ABC Ltd. The format is given below;

**XYZ Ltd,  
Colombo.**

**VAT Registration No. ....**

*Issued to:*  
ABC Ltd,  
Colombo

Tax Credit Note No. ....  
Serial No. ....  
Date : 14.12.2018

Tax invoice No.	Date of Tax invoice	Reason for Change	Change in Value/Price	VAT (Rs.)
0110043	20.04.2019	Goods Returned	200,000.00	30,000.00


In this case the recipient ABC Ltd must pay VAT originally claimed as input tax (based on the original invoice) on the tax so reduced. What it means is that if the purchases and return are in the same quarter, the purchaser ABC Ltd can claim input credit only on the amended tax.

Tax debit notes and Tax credit notes must be issued in duplicate and a copy should be kept with the supplier of the goods and services. Since a tax invoice has to be retained by the supplier for a period of five years after the expiry of the taxable period in which such invoice is issued, one can conclude that such debit notes and credit notes also should be retained for 5 years.

## 5. Tax invoice (Sec. 20)

A tax invoice should be issued by a registered person only to another registered person. Where a registered person (purchaser) requires a tax invoice the registered person (supplier) must issue this invoice within 28 days of such supply on a written request by the purchaser within 14 days from the time of supply.

The tax invoice should contain the following particulars;

- Name, address and the VAT registration number of the supplier
- Name, Address of the person to whom the supply is made (ie. The name of the purchaser or client)
- The date on which the tax invoice was issued and its serial number
- The date of supply and the description of the goods or services
- The quantity of the volume of the supply
- The value of the supply, tax charged and the consideration for the supply
- The word "TAX INVOICE" written or printed at a conspicuous place in such invoice.

No tax invoice should be issued on the supplies considered as deemed liable supplies.

An example of a Tax invoice is given below;

TAX INVOICE  
ABC (Pvt) Ltd  
No. 15, Maya Road, Colombo 06

To : PQR (Pvt) Ltd  
No. 34, Siripa Road,  
Dehiwela

VAT Reg. No. 12345678-  
7000

Date : 15.08.2019

Date of supply : 13.08.2021

Invoice No. : 1038902394

Description of supply	Quantity/ Volume	Rate	Rs.
Supply of chairs	12	20,000.00	240,000.00
Supply of tables	10	30,000.00	300,000.00
			540,000.00
VAT at 15%			81,000.00
<b>Total payable</b>			<b>621,000.00</b>

.....  
Authorised  
Signatory

The duplicate of the tax invoice should be retained for 5 years. If a copy of a tax invoice is issued, the words "Copy only" should be written on the invoice. A photocopy of a tax invoice will not be accepted.

When the VAT is suspended under the S-VAT scheme a suspended VAT invoice should be issued which is not a tax invoice.

### 5.1. Cusdec

In the case of imports;

- The Customs Goods Declaration (Cus-Dec) or
- Any other document authenticated by the Director General of customs

Shall be treated as a tax invoice.

### 5.2. Supply to non-registered persons

Where the supply is to a non registered person a tax invoice as referred above should not be issued. In the case of such supplies the total consideration including the tax charged should be given as one item. The supplier should keep records for these supplies separately as he is required to satisfy the Department of Inland Revenue on the sales subject to VAT.

## CHAPTER REVIEW EXERCISES

1. Sumudu Tours & Transporters Ltd. is a Value Added Tax (VAT) registered company providing transport services. The following information for the quarter ended 31st September 2021 was extracted from the books of the company:

(1) Sales (exclusive of VAT):

	Rs.
From transport of tourists	3,280,000
From public passenger transport	1,430,000
From hiring cars	3,625,000
Total	8,335,000

(2) Input VAT paid by the company:

	Rs.
On insurance of cars - used for hiring	248,000
On expenses relating to transport of tourists	137,000
On expenses relating to public passenger transport service	86,000

- (3) The company has paid Rs.220,000/- for the quarter ended 31<sup>st</sup> September 2021 as installments.

### Required;

(a) Assess the balance amount of VAT payable / (overpaid) for the quarter ended 31st September 2020.

(b) The tax paid on a tax invoice dated 05th May 2019 has not been claimed by the company as an allowable input tax for the quarter ended 30th June 2019 and thereafter in any subsequent taxable periods. The company wishes to claim this for the quarter ended 31st September 2021. State the statutory time limit to claim this input tax as per the provisions of the VAT Act.

2. Rosy (Pvt) Ltd. is a Value Added Tax (VAT) registered company engaged in the business of manufacturing soft toys. The following information for the quarter ended 31st September 2021 were extracted from the books of the company:

(1) Sales (exclusive of VAT):

Direct Exports (USD 1 = Rs.150/-)	USD 14,500/-
Sales to local customers	Rs.5,325,000/-

- (2) Sale proceeds from disposal of computers were Rs.300,000/-.

(3) Input VAT paid:

	Rs.
On imported raw materials	636,000
On local purchases	244,000
On Insurance premium of motor car used by CEO	42,000

- (4) The excess input VAT brought forward from the previous quarter amounts to Rs.24,000/-.

**Required**

Assess the balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 31st September 2021.

3. Avotel Technologies Ltd. is a company registered for Value Added Tax (VAT) purposes and engages in the business of importing and selling of computers, software development and other related services:

The following information for the quarter ended 31st September 2021 was extracted from the books of the company:

(1) Income (exclusive of VAT)

	Rs.
Sale of computers	5,200,000
Network cabling and installation	3,900,000
Maintenance services provided to SVAT registered persons	1,350,000
Foreign currency income earned from a software developed to a foreign buyer to be used in India (USD 1 = Rs.150/-)	4,000,000
Total	14,450,000

(2) Input VAT paid by the company:

	Rs.
On imported network cables	320,000
Input VAT paid on transport of computers sold to Jaffna	17,000

- (3) The excess input VAT brought forward from the previous quarter amounts to Rs.52,000/-.

- (4) The company has received Simplified VAT Credit Vouchers (SVCV) on SVAT sales.

**Required**

Assess the balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 31st September 2021.

4. HMS is a VAT registered person. During the quarter ended 31 September 2020, the following income was earned.

Turnover (exclusive of VAT)	Rs.
Sale of air conditioners (ACs)	6,500,000
Sale of generators	3,800,000
Sale of computers	2,200,000
Income from AC installations, computer networking and repair services	1,800,000
<b>Total</b>	<b>14,300,000</b>

- Input tax paid at the point of customs for importation was Rs. 110,000.
- During the quarter, certain computer networking jobs were subcontracted to another VAT registered person and Rs. 180,000 was paid as input VAT.
- Input tax paid for clearing and transporting computers from the port was Rs. 30,000.
- Input tax on the rent paid for the office and showroom premises for the quarter was Rs. 240,000.
- Installment payments made was Rs. 1,150,000.

**Required:**

**Calculate** the balance VAT payable/(refund due) by/to HMS for the quarter ended 31 September 2021.

5. “Pretty Woman” is a registered person for Value Added Tax (VAT) and details of income earned during the quarter ended 31 September 2021 are given below.

Description	Amount (Rs.) (exclusive of VAT)
Income from salon services	7,200,000
Sale of cosmetics	2,700,000
Income from diploma courses	3,850,000
	<b>13,750,000</b>

Details of input tax paid during the quarter ended 31 September 2021 are as follows.

- On import of cosmetics: Rs. 276,000 and on local purchases of cosmetics: Rs. 145,000. Cosmetics are not used in diploma courses.
- On outsourced transport facility to transport salon employees: Rs. 7,500.
- On common expenses: Rs. 168,000.



The partnership has received a VAT debit note which shows a VAT amount of Rs. 2,600 from a local supplier of cosmetics. The original tax invoice of that supply was issued on 20 June 2021.

The partnership has paid a total of Rs. 800,000 as instalments of VAT for the quarter ended 31 September 2021.

**Required:**

**Calculate** the balance VAT payable/(refund due) by the partnership in respect of the quarter ended 31 September 2021.

