

## VALUE ADDED TAX

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### Chargeability

- (i) **Taxable activity** should have been carried on or carried out in Sri Lanka
- (ii) In the course of carrying on or carrying out a taxable activity, there must be a **taxable supply** of goods or services
- (iii) Such supply should have been made by a **registered person**
- (iv) Liable on Manufacturing, provision of service and on Importation.

### Taxable Activity

“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 a trade;
- 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;
- c) Anything done in connection with the commencement or cessation of any activity or provision of facilities referred to in (a) or (b);
- d) The hiring, or leasing of any moveable property or the renting or leasing of immovable property or the administration of any property;
- e) The exploitation of any intangible property such as patents, copyrights or other similar assets where such assets is registered in Sri Lanka or the owner of such assets is domiciled in Sri Lanka;

### Taxable Supply

“Taxable supply” means any supply of goods or services made in Sri Lanka which is chargeable with tax and includes a supply at the rate of zero percent other than an exempt supply.

### Goods

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

- money
- computer software made to customers special requirements

### Supply of Goods

The passing of exclusive ownership of goods to another as the owner of the goods or under the authority of any written law. This includes sale of good by public auction, transfer of goods under a hire purchase agreement, the sale of goods in satisfaction of a debt and the transfer of goods from taxable activity to a non-taxable activity.

### Supply of Services

“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- insurance claim received from an insurance company under an insurance policy is a supply of service.*

### Taxable Period

“Taxable Period” means

- (a) a period of **one month**
  - (i) Where any person makes zero rated supplies.
  - (ii) Where any person registered with Textile Quota Board (TQB) or Export Development Board (EDB) who makes supplies to an exporter registered with TQB or EDB.
  - (iii) Where any person has commenced a business and undertakes to comply with the requirements of Section 22(7).
  
- (b) A period of **three months** commencing respectively on 1<sup>st</sup> January / 1<sup>st</sup> April/ 1<sup>st</sup> July and 1<sup>st</sup> October of each year  
Three months period is applicable to the following persons
  - (i) Person other than (a) above.

### TIME OF SUPPLY (SEC 4)

This is the time at which the tax is chargeable and in other words the tax point.

## For Supply of Good or Services

The supply of goods or Services shall be deemed to have taken place, date of,

- (a) an invoice is issued in respect of the goods by the supplier or
- (b) a payment for the goods is received by the supplier or
- (c) a payment for the goods is due to the supplier in respect of such supply or
- (d) Delivery of the goods have been effected/Service is provided

Whichever **occurs earlier**

Notwithstanding (1) (d) above, where an invoice is issued in respect of goods supplied within ten days from the date of delivery of such goods or provision of such services, the time of supply of such goods shall be the time at which the invoice was issued.

## NO TAX ON WHOLE SALE OR RETAIL SUPPLY OF GOODS (SEC 3)

The tax shall not be charged on the wholesale or retail supply of goods, **other than** on the wholesale or retail supply of goods, by a

- (a) Manufacturer of such goods or
- (b) Importer of such goods or
- (c) Person who is unable to satisfy the Commissioner General as to the source from which the goods supplied by him were acquired.
- (d) any person who supply goods under any tender agreement

## REGISTRATION

### Compulsory Registration (Sec 10)

- ✓ Every person who carries on a taxable activity should register for VAT under the following circumstances.
  - Value of taxable supply in a taxable period (3 month) has exceeded Rs.20 Mn or
  - Value of total taxable supply in a twelve months period has exceeded Rs.80 Mn.

### **Voluntary Registration (Sec 12)**

Irrespective of the value of the taxable supplies, any person who wishes to register for VAT can apply for voluntary registration. However, such registration may be refused by the CGIR based on the facts of the case.

Voluntary Registration has been extended to wholesale and retail trade activity as well.

### **Forced Registration (Sec14 (1) (c))**

If the CGIR having regard to the nature of the activity is of the opinion that a person is required to be registered but has not made an application to that effect, he shall register such person.

### **Cancellation of Registration**

A registered person may make an application to cancel the registration at any time after the lapse of a period of 12 months following date of registration under the following situation.

- (i) where such registered person has ceased to carry on or carry out a taxable activity or,
- (ii) The value of taxable supply during any taxable period does not exceed the limits required for the registration.

### **VAT ON IMPORTATION**

"Importation" includes the bringing into Sri Lanka of goods from outside Sri Lanka by any persons or goods received from a custom bonded area and is deemed to include the purchase of goods on a sale by the Director General of Customs, the Sri Lanka Ports Authority or the Commissioner - General, for the levy of the tax and other dues.

VAT should be imposed at the time of Importation

### **COMPUTATION OF VAT PAYABLE on Importation**

Output VAT = Value of supply<sup>\*\*\*</sup> x Rate

**\*\*\*Value of supply = [(CIF value x 110%) + exercise duty + port development tax + CESS]**

## COMPUTATION OF VAT PAYABLE on Other supply

Summary of computation of VAT is given below. The liability of VAT is computed by claiming input tax against the output tax in a taxable period.

### Output TAX

Value of supply x Rate	XX
<b>Less: Input TAX</b>	<u>(X)</u>
<b>Balance payable</b>	<u>XX</u>

### Rates of VAT

The following rates are applicable on the taxable supplies of goods or services.

- (i) Zero rated (Section 7) - (Export goods and services)
- (ii) 15% (any other goods and services) from **01.10.2022**

### Following Input VAT are not allow to set off against Output VAT

- Input tax not claim within 12 month from the date of tax invoice issued and within 24 month from date of custom declaration (on importation) issued.
- Input tax on motor cars and double cabs used for personal travelling purpose.
- Where not support valid Tax Invoice.
- VAT on expenses not relevant to the taxable activity.
- VAT on expenses relevant to VAT exempted supply.
- Tax credit note and debit note which are not claimed within 06 month from which original tax (vat) invoice issued.
  - Credit not will issue by the supplier, if the tax is charged is more than amount to be charged.
  - Debit not will issue by the supplier, if the tax is charged is less than amount to be charged.
- VAT on staff meals

## TAX INVOICE (SEC 20)

### Requirement to Issue 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 stating that he is a registered person under this Act or is deemed to be a registered person under this Act, 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.

### Contents of Tax Invoice

The tax invoice shall set out

- (a) the name, address and the registration number of the supplier
- (b) the name and address of the person to whom the supply was made
- (c) the date on which the tax invoice was issued and its serial number
- (d) the date of supply and the description of the goods or service
- (e) the quantity or volume of the supply;
- (f) the value of the supply, the tax charged and the consideration for the supply and
- (g) the words "TAX INVOICE" at a conspicuous place in such invoice.

### What is Input Tax?

Input tax is the VAT payable by a registered person

- (a) to another VAT registered person in respect of goods and services obtained from such person to be used in a taxable activity and
- (b) to the Customs in respect of goods imported to be used in a taxable activity.

**Both Sales and Imports are exempt from VAT on the following items**

1. Certain Agricultural Produce (Ex: flowers)
2. Pharmaceutical Products and Drugs
3. Ayurvedic Preparations
4. Printed books
5. Agricultural tractors
6. Cellular mobile phones
7. Agricultural machinery and fertilizer
8. Agricultural seeds, agricultural plants, shrimp feed inclusive of prawn feed and animal feed but excluding poultry feed.
9. Prawns.
10. Buses and Lorry
11. Computer
12. Petrol, diesel and kerosene
13. High technology equipment
14. Local software

**These supply of services excepted from VAT**

1. Educational Service
2. Electricity including distribution
3. Healthcare Services
4. Sea sand
5. Public passenger transport services

6. Any film for distribution or exhibition
7. Laboratory facilities for production of any film
8. Locally manufactured handloom textiles
9. Locally manufactured coconut oil
10. Locally manufactured sugar
11. Locally manufactured machinery used for tea industry
12. Locally manufactured surgical gauze used for surgery and locally manufactured Jewelry.

#### Payment of Tax (Section 26)

On or after 01.10.2019 every person should pay tax as follows,

- Monthly taxable periods  
On or before the 20<sup>th</sup> day of the month following the taxable period.
- Quarterly taxable period  
On monthly basis, first month payment on or before the 20<sup>th</sup> of the second month and second month payment on or before 20<sup>th</sup> day of third month and balance by on or before 20<sup>th</sup> day of month immediately after the quarter.

#### Filling of VAT Return (Section 21)

Every Registered person is required to furnished the VAT return to the IRD not later than (on or before) last day of the month after expiry of each **taxable period**.

- Monthly taxable periods,  
Return should furnish monthly, on or before last day of following month.
- Quarterly taxable period  
Return should furnish quarterly, on or before last day of the month after expiry of each quarter.



### Special note

Penalty for non-compliance of return furnish is up to Rs.50, 000 per return.

### Refunds (Section 58)

Generally excess input VAT shall not be refunded in cash, hut shall be set-off against the output tax for next taxable period and so on.

### Question1

Siril (Pvt) Ltd is a VAT registered company engaged in the business of importing and selling of bags. The following information is extracted for the quarter ended 30<sup>th</sup> September 2023.

Turnover (Exclusive of VAT)	Rs.12,500
Input VAT paid on local purchases	Rs. 120
Input VAT paid on imports	Rs. 540
Payment of VAT for July and August	Rs. 250

You are required calculate balance value added tax payable for the quarter ended 30<sup>th</sup> September 2023.

### Question 2

- a. You are the accountant of ABC (PVT) LTD. Which was incorporated and commenced business of manufacturing biscuits on 1<sup>st</sup> January 2022?

You have been asked by the management on the turnover threshold to register for Value added tax. Advise them.

### Question 3

- a. Briefly explain the term “Taxable supply” for VAT purposes.

- b. Mr. Perera is a VAT registered supplier and has made following supplies and purchases during the quarter ended 30<sup>th</sup> September 2022.

Taxable supplies	4,500,000
Zero rated Supplies	900,000
Exempt supplies	1,000,000

Expenses	
Purchases of taxable supplies	2,750,000
Telephone	54,000
Water	15,000
Other general expenses liable for VAT	45,000

VAT paid for the months of July and August 2022 were Rs. 33,000/= and Rs. 55,500/= respectively.

**You are required to compute** the final VAT liability for the quarter ended 30<sup>th</sup> September 2022.

