

VALUE ADDED TAX

(Act No. 14 of 2002)

Presented by. Prabhath Weerasinghe
 [BB Mgt (HRM) SP, ACA, MAAT, ATII,
 ACMA, ASA, MIPA-Aus, AFA- UK,
 MBA in Taxation (PIM SJP)]

VALUE ADDED TAX

Section 2 Tax Shall be Charged,

- ▶ 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

(On Taxable supply from Taxable activity carrying on or carrying out by a registered person in Sri Lanka).

- ▶ On the importation of goods into Sri Lanka, by any person.
on the value of such goods or services supplied or the goods imported,

Territorial Tax - It is a tax on domestic consumption of goods and services supplied within the territorial limits of Sri Lanka.

Indirect Tax - Tax is borne by the final or the ultimate consumer of Goods or services.

VALUE ADDED TAX

Section 2A Tax Shall be Charged, at the following rates,

- ▶ for the period commencing on December 1, 2019 and ending on December 31, 2019 and for any taxable period commencing on or after January 1, 2020, but ending on or after May 31, 2022, at the rate of eight per centum (of which the tax fraction is $2/27$),
- ▶ for the period commencing on June 1, 2022 and ending on June 30, 2022 and for any taxable period commencing on or after July 1, 2022 but ending on August 31, 2022 at the rate of twelve per centum (of which the tax fraction is $3/28$); and
- ▶ for the period commencing on September 1, 2022 and ending on September 30, 2022 and for any taxable period commencing on or after October 1, 2022 at the rate of fifteen per centum (of which the tax fraction is $3/23$)

on the value of such goods or services supplied, or goods imported, other than the goods or services chargeable with tax at zero per centum.

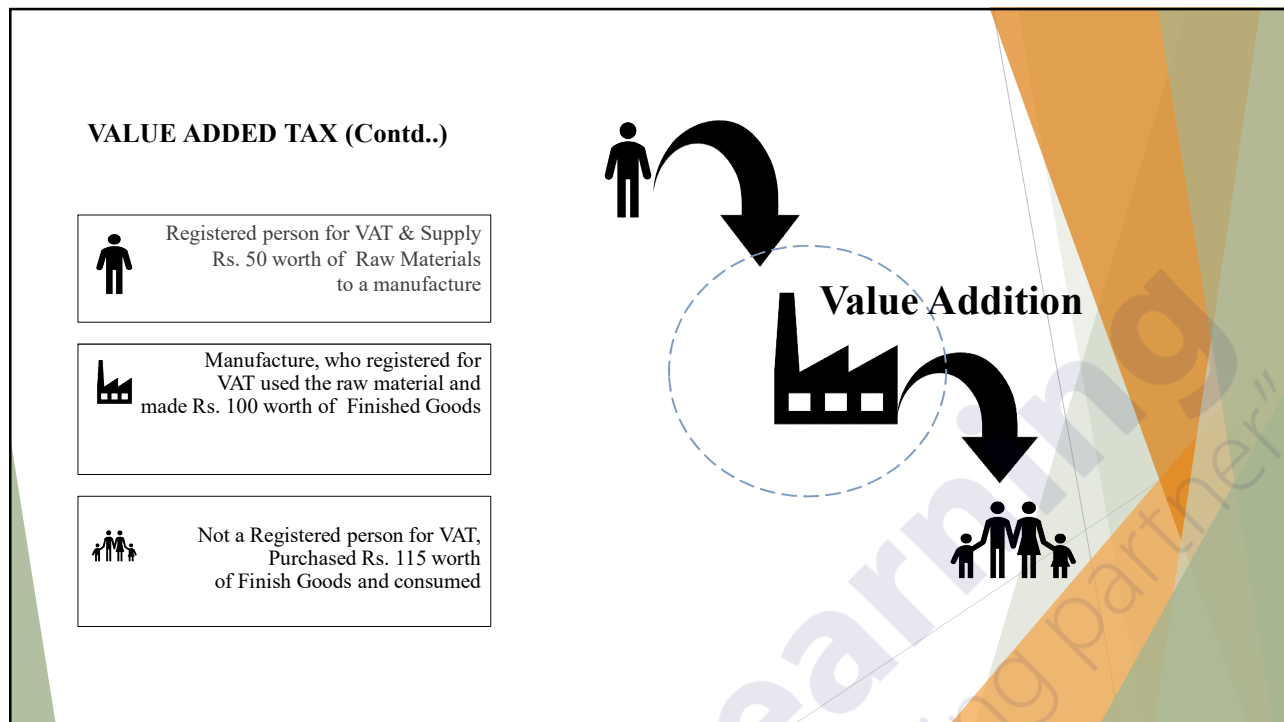
VALUE ADDED TAX

Section 2A Tax Shall be Charged, at the following rates (Summary 2022-23),

- ▶ 01st April 2022 to 31st May 2022 - at the rate of eight per centum (of which the tax fraction is $2/27$),
- ▶ 01st June 2022 to 31st August 2022 at the rate of twelve per centum (of which the tax fraction is $3/28$); and
- ▶ 01st September 2022 at the rate of fifteen per centum (of which the tax fraction is $3/23$)

on the value of such goods or services supplied, or goods imported, other than the goods or services chargeable with tax at zero per centum.

The Tax Fraction :



VALUE ADDED TAX (Contd..)

TIME OF SUPPLY

Supply of Goods

- ▶ Date of Invoice
- ▶ Date of money received for the goods including any advance payment received.
- ▶ Date of a payment for the goods is due
- ▶ Date of the delivery of the goods have been effected

occurrence of any one whichever, occurs earlier

Exception (delivery) :- where 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 (Contd..)

TIME OF SUPPLY

Supply of Services

- ▶ Date of Invoice
- ▶ Date of money received for the Service including any advance payment received.
- ▶ Date of a payment for the Service is due
- ▶ Date of the Service was performed

occurrence of any one whichever, occurs earlier

Exception (Delivery) : where 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 (Contd..)

TIME OF SUPPLY

a supply shall be deemed to take place-

- Where a supply is made under an agreement entered into, on or after April 1, 1998, 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; (Purchase agreement, which provides for periodical payments, when the payment is due or when the payment is received, whichever is earlier), and
- Where goods are supplied under a hire purchase agreement, at the time the agreement is entered into (Hire purchase agreement, at the time the agreement is entered into).

Approval obtained for Cash basis VAT Payment

Where the Commissioner-General directs any registered person to account for the tax on a payment basis under section 23, 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 (Contd..)

VALUE OF SUPPLY

The value of a taxable supply of goods or services, shall be such amount where the supply is -

- a) for a consideration in money, be such consideration less any tax chargeable under the Act which amount shall not be less than the open market value;
- b) not for a consideration in money or not wholly in consideration of money, be the open market value of such supply.
- c) 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 Assessor
- d) 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.

VALUE ADDED TAX (Contd..)

VALUE OF SUPPLY

The value of a taxable supply of goods or services, shall be such amount where the supply is -

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.

Where any goods supplied under a lease agreement is subsequently transferred to the lessee at the termination of such agreement for a consideration, such consideration shall be treated as a lease rental obtained under such lease agreement.

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 under the Finance Act, and any excise duty payable under the Excise (Special Provisions) on such goods

VALUE ADDED TAX (Contd..)

REGISTERTION FOR VALUE ADDED TAX

PERMANENT REGISTRATION

Every person, who has total value of taxable supplies made in Sri Lanka other than

- ▶ at the end of any taxable period of one month or three months, has Rs. 20 Mn; or
- ▶ in the twelve months period has exceeded Rs. 80Mn; or
- ▶ at any time, there are reasonable grounds to believe that the total value of the taxable supplies, in the succeeding one month or three months period, is likely to exceed Rs. 30 Mn or in the succeeding twelve months is likely to exceed Rs. 80 Mn.

Provided however, where the Commissioner-General is of opinion that the supply of goods relate to a single isolated transaction, the value of such supply may be excluded in calculating the total value of taxable supplies for the purposes of this section

This is only Registration threshold. Once registered no threshold for Payment of VAT.
No application for cancellation of VAT is entertain within a period of 12 Months.

VALUE ADDED TAX (Contd..)

DOCUMENTS/INFORMATION FOR VAT REGISTERTION

PERMANENT REGISTRATION

1. **Business Registration**
2. **Article of the Association – Company**
3. **Taxpayer Identification Number**
4. **Form 01 – Company**
5. **NIC/Passport – Owner/Directors**
6. **Confirmation for Address – Deed/Bill**
7. **Confirmation for Supply – Invoice**
8. **Bank Statements**
9. **Invoice schedule –Authorized**
10. **Letter from Divisional Secretary**
11. **Authority Letter**

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

TEMPORARY REGISTRATION

*Any person who imported any article

1. **Business Registration**
2. **Taxpayer Identification Number**
3. **Form 01 – Company**
4. **NIC/Passport – Owner/Directors**
5. **Authority Letter**
6. **Commercial Invoice – Bank certified**
7. **Bill of lading**
8. **Authority Letter**

VALUE ADDED TAX (Contd..)

COMPUTATION

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

▶ OUT PUT VAT

1. Taxable supply X Tax Rate
2. BOI Approved Garment Manufacture
 - Garment (linen or curtains per kg, towels per item, bags made out of fabric per item, excess fabric as cut pieces per kg) other than panties, socks, briefs and boxer shorts Rs. 25 for each.
 - Six pieces of panties, socks, briefs and boxer short Rs. 25.
 - Fabric Rs.100 per kg

▶ 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..)

COMPUTATION (Contd...)

Claimable amount of Input VAT

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

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

VALUE ADDED TAX (Contd..)

COMPUTATION (Contd...)

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..)

COMPUTATION (Contd...)

Adjustment of tax by credit or debit notes.

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.
2. 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..)

TAX INVOICE

- ▶ A registered person who makes a taxable supply shall issue to a registered person, if he has made a written request within fourteen days from the time of supply, a tax invoice shall be issued not later than twenty eight days after the time of such supply. (Copy of the VAT Registration Certificate can be obtained prior to the issue a Tax Invoice)
- ▶ However, no tax invoice shall be issued for deemed liable supplies.

COMPOSITION OF TAX INVOICE

1. Name, address and the registration number of the supplier.
2. Name and address of the person to whom the supply was made;
3. Date on which the tax invoice was issued and its serial number;
4. Date of supply and description of the goods or services;
5. Quantity or volume of the supply;
6. 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 (Contd..)

TAX INVOICE Contd...

- ▶ 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".
- ▶ 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.
- ▶ 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 by the person.

VALUE ADDED TAX (Contd..)

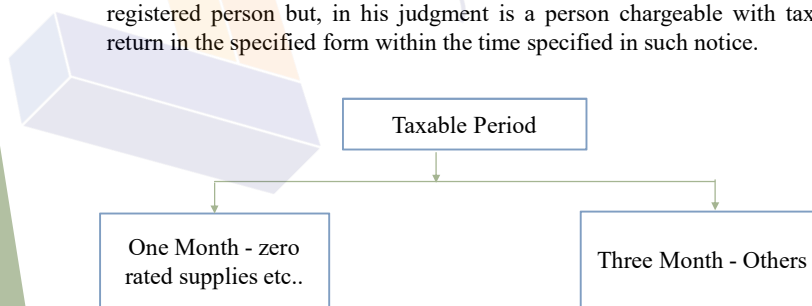
TAX INVOICE Contd...

- ▶ Any person who issued tax invoice to person who is not a registered person, 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 R. 250,000.
- ▶ In the event of the offence being continued to be committed, after conviction to a fine of R. 500 for each day on which the offence is so continued to be committed.
- ▶ Where any person convicted of an offence continues to commit such offence beyond a period of fourteen days from the date of his conviction, the court may upon an application for closure of the business being made by the Commissioner-General or any officer authorized in that behalf by the Commissioner-General order the closure of such business.

VALUE ADDED TAX (Contd..)

Return Submission and payments

1. 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.
2. 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.



VALUE ADDED TAX (Contd..)

Return Submission and payments (Contd..)

- ▶ a period of three months commencing respectively on the first day of January, the first day of April, the first day of July and the first day of October of each year

Ex. 01:- Three Month Taxable period

Taxable period	Period Code	Due date of submission
01. 01. 2022 – 31.03.2022	2210	30.04.2022

Ex. 02:- One Month Taxable Period

Taxable period	Period Code	Due date of submission
01.01.2022 – 31.01.2022	2211	28.02.2022

VALUE ADDED TAX (Contd..)

Return Submission and payments (Contd..)

▶ Non submission of Tax Return

1. a penalty of a sum not exceeding Rs. 50,000/-
2. shall be liable on conviction after summary trial before a Magistrate to a fine not exceeding Rs. 50,000/- or to an imprisonment of either description for a term not exceeding 6 months or to both such fine and imprisonment.

▶ Incorrect Return

a Penalty not exceeding Rs. 25,000/- and a sum equal to twice the amount of the difference between the total tax claimed in the assessment and the tax paid on the return

VALUE ADDED TAX (Contd..)

Return Submission and payments (Contd..)

Installment VAT Payments

The tax in respect of any taxable period shall be paid not later than the twentieth day of the following month

Ex. 01:-

Installment	Period Code	Due date of Payment
01. 01. 2022 – 31.01.2022	22110	20.02.2022

VALUE ADDED TAX (Contd..)

Return Submission and payments (Contd..)

TIN

Date

Tax Type (70)

Period Code(1911)

SA or Assessment

VALUE ADDED TAX (Contd..)

Return Submission and payments (Contd..)

- ▶ No payment/under payment/late payment
- 1. Defaulter – Other implication and Recovery Action
- 2. Penalty

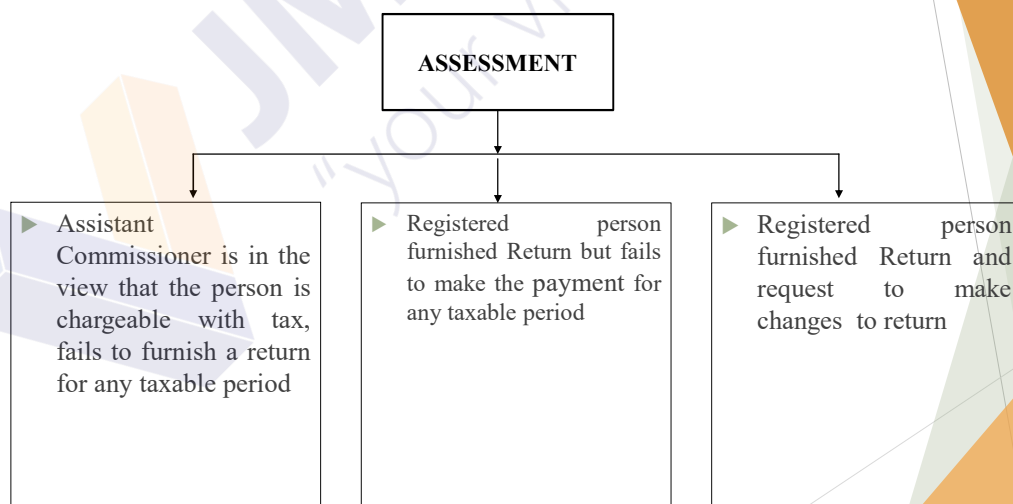
a sum equivalent to 10% of the amount in default; and

where the amount in default is not paid before the last day of the month , a further sum, equivalent to 2% of the amount in default in respect of each month or part of such period is in default:

However, the total amount payable as penalty shall in no case exceed 100% of the tax in default

- ▶ any such amount may be waived or reduced if the Commissioner-General is satisfied that by reason of any special circumstances in which the default occurred waiver or reduction of such amount would be just and equitable.

VALUE ADDED TAX (Contd..)



VALUE ADDED TAX (Contd..)

Zero Rate Supply

1. Export of any goods
2. Services directly connected with;
 - ▶ any movable or immovable property outside Sri Lanka
 - ▶ repair of any foreign ship, aircraft, marine cargo containers
 - ▶ entre-port trade
 - ▶ intellectual property right, such right is for use outside Sri Lanka
 - ▶ international transportation
 - ▶ computer software development for use wholly outside Sri Lanka payment is received in foreign currency through a bank
 - ▶ client support services provided (BPO/KPO) over the internet or the telephone d clients outside Sri Lanka, for which payment is received in foreign currency, through a bank.
 - ▶ any other service, provided by any person in Sri Lanka to person outside Sri Lanka to be consumed or utilized outside Sri Lanka payment for such service in full has been received in foreign currency through a bank in Sri Lanka

VALUE ADDED TAX (Contd..)

Exempted Supply

<u>Import & Supply</u>	<u>Supply</u>	<u>Import of</u>
<ul style="list-style-type: none"> ▶ Wheat, Wheat flour ▶ Pharmaceutical products Drugs (other than cosmetics) Raw materials for the production or manufacture of such products or drugs ▶ Ayurvedic preparations & Raw Materials for Ayurvedic preparations (other than cosmetic) with the recommendation of the Commissioner of Ayurveda, ▶ precious or semi -precious stones, Metals clad with precious metals Gold coins , ▶ Books (other than cheque books, periodicals, magazines, newspapers, ledger books and exercise books 	<ul style="list-style-type: none"> ▶ Educational services ▶ Public passengers transport services ▶ Electricity including distribution ▶ Goods and services to the mission/diplomatic ▶ Any article subject to the Special Commodity Levy ▶ Food products made out of grains cultivated in Sri Lanka ▶ Sea sand ▶ Locally manufactured handloom textiles 	<ul style="list-style-type: none"> ▶ Personal items and samples in relation to business worth not more than ten thousand rupees through parcel post or courier, Passenger's Baggage ▶ Any bus by the holder of any valid passenger service permit ▶ Finished leather to be used for the shoe manufacturing industry ▶ identified any motor vehicle liable to the Excise (Special Provisions) Duty under the Excise

VALUE ADDED TAX (Contd..)

Import & Supply (Contd..)

- ▶ Petrol, Crude petroleum oil, Kerosene, Liquid petroleum, gas, Aviation fuel, Diesel, Oil for ships, Fuel oil specified.
- ▶ Agricultural machinery/equipment and seeds, Fruit seeds, animal feeds (other than poultry feed), Prawns
- ▶ Identified Machinery used construction industry, Milk processing machinery, rice milling industry, grain mixed bakery products, leather or footwear industry or bags, Agricultural industry, Electronic equipment, manufacture of fashion jewellery, production of rubber or plastic products.

Supply (Contd..)

- ▶ Educational services
- ▶ Locally manufactured, coconut oil - coco peat - coir fiber - grow pellets, grow bags, twist fiber, coconut husk made out of coconut waste.
- ▶ Clay roof tiles manufactured in Sri Lanka
- ▶ Unprocessed agricultural, horticultural or fishing products, prawns, produced in Sri Lanka
- ▶ Locally produced dairy products (other than powdered milk or other sweetening matter), out of locally produced fresh milk.

VALUE ADDED TAX (Contd..)

Import & Supply (Contd..)

- ▶ Computers & Computer accessories
- ▶ Yarn, Dyes
- ▶ Solar panel & Accessories or solar home system, Raw Material energy saving bulbs.
- ▶ Lorries Trucks, Buses, Bowsers Bulldozers, Graders Levelers Excavators, Firefighting vehicles Gully bowsers, Semi-trailers for road tractors, Equipment used for garbage disposal activities Garbage trucks
- ▶ Sports equipment Machinery,
- ▶ Sunglasses
- ▶ Wood (sawn)
- ▶ Ethyl alcohol imported or manufactured and supply as a by-product

Supply (Contd..)

- ▶ rice products containing rice produced in Sri Lanka
- ▶ Locally manufactured sugar
- ▶ Locally developed software
- ▶ Canned fish using locally produced raw materials
- ▶ Clay pottery products using locally produced raw material.
- ▶ Painting sale by the artist
- ▶ Locally manufactured Desiccated coconut, Rubber, Latex, Tea, Green leaf, Rice Rice flour, Bread, Eggs, Liquid milk, coconut milk

**IMPOSITION OF VALUE ADDED TAX ON THE
SUPPLY OF FINANCIAL SERVICES BY
SPECIFIED INSTITUTIONS OR BY ANY
PERSON**



JMC vLearning
"your virtual learning partner"