

Introduction to Value Added Tax Part 2

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

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11. VALUE ADDED TAX (VAT)

6. Supplies which are not taxable

A registered person is chargeable with VAT only in relation to the taxable supply. Any supplies which are not taxable are not subject to VAT namely,

1. Excluded supply (sec. 3)
2. Exempt supply (sec. 8)

6.1.Excluded Supply (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, or
- (d) (6 of 2005)
- (e) any person who supply goods under any tender agreement (8 of 2006)
- (f) (11 of 2015)

any person or a partnership having "total supplies" for any consecutive period of three months in any calendar year of not less than Rs. 12,500,000 on or after 01.11.2016 (20 of 2016) including the supply under this paragraph and any supplies exempted under part II of the First Schedule.

For this purpose, the "total supply" means the aggregate value of supplies of (7 of 2014) -

- i. Any person or partnership engaged in the whole sale of retail business while carrying on other business of similar nature in one place or difference places under one or more registration of VAT including any business in which any director of a company or partner of a partnership is a director or partner of such other business or businesses (11 of 2015)

Aggregate value of supplies of each company of the group (the subsidiary or associated company of a group), other than any company not engaged in the whole sale or retail

6.2.Exempt Supply (Sec 8)

No tax shall be charged on the supply of goods or services and the importation of goods in the First Schedule to the Act, as such, supplies and imports are not taxable, unless zero rated under section 7.

The exemptions are provided the first schedule to the VAT Act under the following main category.

- (a) Supply or import
Any goods identified under this category is exempted where such goods are imported or supplied (sold).
- (b) Supply
Any goods or services identified in this category are exempted on their supplies only.
- (c) Import
Any goods identified under this category are exempt at the time of importation only.

Please refer Part II of the First Schedule as given in the Amendment Act, No. 13 of 2004 with subsequent amendments.

Exempt Supply

Cellular mobile phones are identified under category (a)(ix) of the first schedule to the VAT Act. Advise the chargeability of VAT of a company engaged in –

- (i) Import and sale of cellular mobile phones
- (ii) Manufacture and sale of cellular mobile phones
- (iii) Buying and selling of cellular mobile phones
- (iv) Export of manufactured cellular mobile phones

7. Calculating the Output Tax

7.1. Special cases

A. Supply made to a non registered person (Sec 5(2))

Where a supply of goods or services is made for an amount which is less than the open market value to a non registered person, the value of such supply shall be the open market value of the supply.

B. Supply made as a benefit from employment (Sec 5(3))

The consideration shall be the

- (a) open market value, or
- (b) If the open market value cannot be ascertained, the cost of a similar benefit enjoyed by any other employee, as may be determined by the Assessor.

C. Services made under any lottery or wagering contract or any business of like nature (Sec 5(4))

Total amount of money receivable less value of the prize or winnings awarded.

In case of services made under any lottery, any commission including VAT charged on such commission paid to any agent on the sale of lottery, if any, shall be deducted. (14 of 2007)

D. Supply of goods under hire purchase agreement (Sec 5(6))

Cash price determined under the Consumer Credit Act No. 29 of 1982 or open market value whichever is higher subject to the following.

- a) Where the cash price of any goods includes the tax charged by the supplier on the seller for which the seller cannot claim input tax credit, being a person who is not registered under the Act, the cash price and the market value shall be adjusted by deducting the tax so charged.
- b) If the hired goods are second hand and in circulation for a period of over one year, value specified in the agreement less hire purchase charges.

E. Supply of land and improvements (Sec 5(7))

Value of supply shall be the value of such supply less

- a) value of land at the time of supply, and
- b) value of any improvements on the land as at 31. 03.1998

which shall not be less than the open market value.

F. Supply on the issue of a ticket or by the deposit of money (Sec 5(8))

Value of supply shall be the amount paid less VAT payable under the Act, not being any amount which is refundable.

G. Transfer to goods to lessee at the termination of lease agreement (Sec 5(10))

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 agreement. (11 of 2015)

H. Supply is a combination of taxable and non taxable supplies (Sec 5(11))

Such part of consideration as is attributable to the taxable supply which shall not be less than the open market value.

I. Adjustment to maximum retail price (Sec 5(13)) (17 of 2013)

In case of VAT payable under section 3(f) of the Act, the maximum retail quoted price for the goods to be sold in a whole sale or retail business may be adjusted where necessary for the chargeability to tax.

J. Healthcare Services (Sec 5(15)) (20 of 2016)

The value of supply of healthcare services shall be the value of such supply less cost of diagnostic tests, dialysis, any healthcare services provided by the Out Patient Department (OPD) healthcare of any medical institution or professionally qualified person providing such care and medical consultation services. (25 of 2018)

Further, the Minister may order in the Gazette Notification the exclusions on the value of supply in consultation with the Minister in charge of the subject of Health.

Value of supply

Determine the value of supply in relation to the following transactions made by the registered persons.

1. The employees were gifted goods manufactured by the company at a nominal value of Rs. 1,000,000. The market value of such goods is Rs. 1,500,000.
2. The total consideration received for a certain transaction was Rs. 6,00,000. The company inadvertently has not charged VAT on this supply.
3. A company engaged in the business of lottery has received the total consideration of Rs. 156,750,000 from sale of lotteries. The company has paid a reward of Rs. 75,000,000 and commissions to the agents in relation to sale of lotteries of Rs. 27,500,000. The agents have charged VAT from the company separately.
4. A finance company has entered into an agreement to sell goods on hire purchase terms with the total value of Rs. 170,600,000. The cash prices of such goods are Rs. 103,450,000. The hire purchase value is to be settled over the period of terms in installments.

Apart from the above, the company has also entered into the agreements to sell the second hand goods on hire purchase terms with the total value of Rs. 65,000,000. Total charge on hire purchase facility amounts to Rs. 15,500,000.

5. A company has sold its factory for a total sum of Rs. 450,000,000. The value attributable to the land at the time of sale is Rs. 280,000,000. The costs incurred by the company in relation to this property were as follows.
 - The cost of acquisition of land in 2003 for Rs. 75,000,000.
 - Cost of construction of building in the year 2004 amounting to Rs. 85,000,000.

6. Calculating the Input Tax

A registered person shall be entitled at the end of each taxable period credit for so much of input tax as is allowable and then to deduct such amount from any output tax that is due from him.

6.1. Definition of "Input Tax" (Sec 83)

Input tax in relation to a registered person, means-

- (a) the tax charged by another registered person on any goods or services to be used by such registered person in carrying out a taxable activity,
- (b) tax paid by him or tax deferred under section 2(3) on the importation of goods which are used by such person for making taxable supplies.

6.2. Claim of Input Tax (Sec 22(2))

A registered person is entitled at the end of each such period to credit for so much of his input tax as is allowable and then to deduct such amount from any output tax that is due from him.

However, any person adopting a payment basis as approved by Commissioner General is entitled to claim credit on so much of his input tax as is allowable under this Act, in respect of a supply for which the payment has been made by such person.

6.3. Claim of Input Tax referable to Taxable Supply (Sec 22(3))

Where a supply of goods or services received by a registered person, or goods imported by a person are used or are to be used partly for the purpose of taxable activity on which tax can be levied and partly for other purposes, the tax on such supplies and importation shall be apportioned so that only so much of tax referable to his taxable activity on which tax can be levied shall be counted as input tax.

6.4. No Input Tax Claim for a Person who Accounts Output Tax at 5% (Proviso to Sec 22(3)) (6 of 2005)

Any person who accounts for the output tax at the rate of 5% shall not be entitled to deduct any input tax in relation to such supply.

However, there is no output tax applicable at the rate of 5% for the taxable period up to 31.03.2019.

6.5. Restrictions of Input Tax Claim (Sec 22(6))

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

6.5.1. Input Tax in respect of motor vehicles (Sec 22(6)(i))

Input tax in respect of motor vehicles other than

- (a) Motor cycles

- (b) Bicycles
- (c) Motor coaches provided by an employer for the transportation of his employees
- (d) Motor vehicles used for excursion tours or for the transportation of tourists or transportation of goods or hiring cars
- (e) Motor vehicle forming part of any stock in trade of any taxable activity

6.5.2. Input tax not connected with taxable activity or not included in value of taxable supply (Sec 22(6)(ii))

Input tax on the supply of goods or services received is not connected with the taxable activity or not included in the value of taxable supply. (14 of 2007)

6.5.3. Input tax not supported by tax invoice or customs goods declaration (Sec 22(6)(iii)) (7 of 2003)

Input tax on the supply of goods or services received is not supported by

- (a) valid tax invoice, or
- (b) a customs goods declaration or other authenticated document issued by the Director General of Customs under this Act

and received within twelve months from the end of the taxable period in respect of which the tax invoice was issued or from the date of importation of goods.

6.5.4. Input Tax not claimed within the prescribed period (Sec 22(6)(iv)) (15 of 2009)

No input tax can be claimed, if

- (a) **In case of Tax Invoice**
not deducted from the output tax for any taxable period ending on or before the expiry of twelve months from the date of such tax invoice, by furnishing within the said period of twelve months the return for that taxable period
- (b) **In case of Customs Goods Declaration**
not deducted from the output tax for any taxable period ending on or before the expiry of twenty four months from the date of customs declaration, by furnishing within the said period of twenty four months the return for that taxable period.

6.5.5. Input tax on tax invoice issued prior to the commencement of the liability (Sec 22(6)(v)) (17 of 2013)

Input tax on any tax invoice issued prior to the commencement of the liability to tax unless such tax invoice is connected to any business approved under section 22(7) of the Act.

6.6. Claim of Deemed Input Tax

6.6.1. Claim of deemed input tax for a person registered as whole sale or retail trade on or after 02.05.2016 (Sec 22(14)) (20 of 2016)

Where any person referred to in sec. 3(1)(f) supplies goods in wholesale or retail trade is registered for VAT for any period on or after 02.05.2016 and supply of such goods is supported by invoice (other than tax invoice) on his purchases of goods from a person who is not registered for VAT and such goods are not specified in the First Schedule (exempt items), a deemed input tax may be allowed to such person on account of such purchases at the rate of the tax fraction, if an Assistant Commissioner is satisfied the goods which have been sold are such purchased goods.

A record shall be maintained for such purchases as the Commissioner General may specify an order by a gazette and submitted such records along with the relevant return. Please refer Gazette Notification No. 2012/2 dated March 27, 2017

6.6.2. Deemed input tax on remaining unsold stocks (Sec. 76(3)) (20 of 2016)

Where any person supplying goods in whole sale or retail trade, is registered for VAT for any period on or after 02.05.2016 and ending on 31.12.2016, and if there remains any unsold stocks of goods of such person as at the date of registration which are not specified in the first schedule (exempt items), deemed input tax may be allowed to such person for such taxable period where the registration become effective on account of such stocks at the rate in sec. 2.

Similar record shall be maintained as specified in the said gazette notification.

7. Rates of Tax (Sec 2)

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

- (i) Zero rated (Section 7)
- (ii) Standard rate of 15% for any other taxable supply of goods and services

7.1. Zero Rated Supply (Sec 7)

- (a) Goods shall be zero rated where such goods are exported by the supplier
- (b) Services are zero rated where such services are directly connected with-
 - i. any movable or immovable property outside Sri Lanka.
 - ii. any repair of foreign ship, aircraft or any merchant ship registered in Sri Lanka or refurbishment of marine cargo containers. (13 of 2004)
 - ii. a any goods imported for re export under entreport trade. (13 of 2004)
 - iii. a copyright, patent, license, trademark or similar intellectual property right, to the extent such right is for use outside Sri Lanka.
 - iv. international transportation (including transshipment) of goods or passengers as specified by CGIR by notice published in the Gazette.

Please refer Gazette Notification No. 1267/5 dated December 17, 2002.

Following main services are covered in the Gazette

- i. Services provided by any airline
- ii. Services provided by any shipping line
- iii. Services provided by any general sales agent in relation to international transportation
- iv. Services provided by any airline agent
- v. Services provided by freight forwarders
- vi. Courier services connected with international transportation of goods

- v. Computer software development by a developer who develops software for the use wholly outside Sri Lanka, if specified documents are maintained to the satisfaction of CGIR and the payment is received in foreign currency through a bank.
- vi. Client support services provided over the internet or the telephone by an enterprise set up exclusively for the provision of such services to one or more identified clients outside Sri Lanka, for which payment is received in foreign currency through a bank.
- vii. Provision of services to the overseas buyers by a garment buying office registered with the Ministry of Industries under the supervision of the Textile Quota Board, where payment for such service is received in foreign currency through a bank in Sri Lanka in so far as such services are identified by the Commissioner General as being services essential for facilitating the export of garments to such overseas buyers.

(6 of 2005)

- (c) Any other services (other than (b) above) provided by any person in Sri Lanka to another person outside Sri Lanka to be consumed or to be utilized outside Sri Lanka shall be zero rated provided that payment for such service in full has been received in foreign currency from outside Sri Lanka through a bank in Sri Lanka. *(13 of 2004)*

In the case of zero rated supply,

- (a) no tax shall be charged in respect of such supply
- (b) the supply in all other respects be treated as a taxable supply and accordingly the rate at which tax charged on the supply shall be zero.

VAT Rates

Determine the implications of following supplies with applicable rates under the VAT Act.

1. Direct export of goods.
2. Sale of goods to an exporter.
3. Export of locally developed software for payment in foreign currency through a bank.
4. Consultancy services rendered outside Sri Lanka for payment in foreign currency.
5. Consultancy services rendered in Sri Lanka to a client outside Sri Lanka for payment in foreign currency and the service is consumed outside Sri Lanka.
6. Consultancy services rendered in Sri Lanka to a client outside Sri Lanka for payment in foreign currency and the service is consumed and utilized in Sri Lanka.
7. Consultancy services rendered in Sri Lanka to a client outside Sri Lanka for payment in SL rupees and the service is consumed outside Sri Lanka.
8. Consultancy services rendered in Sri Lanka to a client outside Sri Lanka for payment in SL rupees and the service is consumed in Sri Lanka.
9. Royalty received for the copyright used outside Sri Lanka.
10. Income from general sales agent of an airline.

8. CLAIM OF BAD DEBTS (SEC 24)

In ascertaining the amount of tax payable, an amount of tax on bad debt incurred on a debt created on or after April 01, 1998 is deducted in the taxable activity and which has become bad during such taxable period.

If any amount is subsequently received, 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.

Where any amount of tax corresponding to a bad debt has been deducted by any person, the amount so deducted shall be an output tax for the corresponding period of the person in respect of whom the bad debt was incurred if he is a registered person.

9. TAX INVOICE (SEC. 20)

9.1. Requirement to issue Tax Invoice (Sec. 20(1))

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 the Act and requires that a tax invoice be issued) a tax invoice not later than twenty eight days after the time of such supply.

9.2. Contents of Tax Invoice (Sec 20(2))

The tax invoice shall set out

- (a) the name, address and the registration number of the supplier
- (b) the name, address and the registration number (20 of 2016) of the person to whom the supply was made
- (c) the date on which the tax invoice was issued and its serial number which does not exceed 40 characters without any space (20 of 2016)
- (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.

Any tax invoice not issued within the period specified in 4.1 above and which does not conform to the provisions of 4.2 shall not be a valid tax invoice. (7 of 2003)

9.3. Customs Goods Declarations shall be treated as Tax Invoice (Sec 20(3))

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

9.4. Retention of Tax Invoice (Sec 20(4))

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.

9.5. Invoice Marked "Copy Only" (Sec 20(5))

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".

9.6. Simplified Invoice (Sec 20(6))

Where a registered person makes a taxable supply and the recipient of such supply is not a registered person, such supplier shall issue an invoice giving the total consideration of such supply including the tax charged. An invoice issued under this subsection shall not be considered as a tax invoice for the purpose of this Act.

However a tax invoice shall be issued by a registered person who makes taxable supply to any Government Institution, Provincial Council, Local Government Institution or any public corporation, whether or not registered under the VAT. (7 of 2003)

9.6.1. Issue of Suspended Tax Invoice (Sec 20(6)) (6 of 2005) (9 of 2011)

In relation to supplies made under the deferred scheme, every registered person shall issue a tax invoice along with the value added tax component shown as "Suspended Value Added Tax".

An invoice issued under this shall not be a tax invoice for the purpose of VAT Act.

9.7. Penal Provisions for Non Compliance (Sec 20(7), 20(8), 20(9))

If a registered person has not complied with the requirement in issuing the tax invoice, he is liable to a penalty and he will be punished under the penal provisions specified in the Act.

10. ADJUSTMENT OF VAT BY TAX CREDIT NOTE OR TAX DEBIT NOTE (SEC 25)

Where a registered person has issued a tax invoice and accounted for an incorrect amount of VAT by undercharging or overcharging VAT 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, for the purpose of adjusting the amount of VAT so undercharged or overcharged.

This rule is provided in order to allow the adjustment to a tax invoice issued without reissuing a fresh invoice. Issuing two invoices for a supply is prohibited by the VAT Act.

Tax debit note or tax credit note shall be in the specified form.

Adjustment in respect of input tax claimed on original tax invoice shall be made by a tax debit note or tax credit note issued not later than six months after the issue of original tax invoice. (14 of 2007)

Tax debit note or tax credit note will result in following adjustments to the VAT payable.

For supplier

He shall pay as output tax in case of tax debit note issued (under charge of VAT) and claim as input tax in case of tax credit note issued (over charge of VAT).

For recipient of supply

Based on the tax credit note issued by the supplier, he shall declare such additional output tax. Further, based on the tax debit note issued by the supplier, he could claim such additional input tax.

11. TREATMENT FOR EXCESS INPUT TAX FOR THE TAXABLE PERIOD AFTER JANUARY 01, 2011 (7 of 2012)

Any input tax incurred for the taxable period after January 01, 2011 can be deducted against output tax for the relevant taxable period. The excess input tax is not refundable, but it can be carried forward to the next taxable period and so on to set off against output tax.

12. PAYMENT OF VAT ON GARMENTS AND FABRIC SOLD LOCALLY BY A PERSON WITHIN THE PERCENTAGE AS APPROVED BY BOI (SEC 22(1)) (20 of 2016)

No other tax or levy payable at the time of importation shall be charged or collected on the sale of garments or fabric, where the amount specified below has been paid on such sale. (25 of 2018)

- a. Rs. 75 for each such garment (other than panties, socks, briefs and boxer shorts identified under the HS code for Customs Purposes, for any period commencing on or after the date of commencement of the Amendment Act (i.e. 16.08.2018))
- b. Rs. 75 for six pieces of panties, socks, briefs and boxer shorts identified under the HS code for Customs Purposes, for any period commencing on the date of commencement of the Amendment Act (i.e. 16.08.2018))

13. REGISTRATION

As we discussed above, a registered person is chargeable with VAT as per section 2(1)(a).

13.1. Registered Person (Sec 14)

The Commissioner General shall register a person for VAT under the following circumstances.

- (a) Any person who made application for registration as required under section 10.
- (b)
- (c) If the Commissioner General 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.

13.2. Requirement of the Registration (Sec 10) (20 of 2016)

Every person who carries on a taxable activity in Sri Lanka shall register for VAT, if,

- (a) total value of taxable supplies in a taxable period (one month or three months) has exceeded Rs. 3,000,000 at the end of any taxable period or
- (b) total value of taxable supplies has exceeded Rs. 12,000,000 in any 12 months period then ending, or
- (c) at any time there are reasonable grounds to believe that total value of taxable supply is likely to exceed Rs. 3,000,000 in a taxable period (one month or three months), or Rs. 12,000,000 in a twelve months period.

Such person must notify the Commissioner General within 15 days of his liability to be registered.

In computing the value of supplies to determine the above threshold, the exempt supply shall be excluded.

Further, any value of supply of goods purchased locally unless such value of total supplies exceeds Rs. 12,500,000 of a period of 3 months

13.3. Certificate of Registration (Sec 15)

The CGIR shall issue a tax registration number and a certificate of registration to a person registered under this Act.

The certificate shall set out the name and date of registration. The person to whom a certificate of registration is issued shall display the certificate at a place of the business.

The person to whom a certificate of registration is issued shall display the certificate at a place where he carries on or carries out the taxable activity. Copies of such certificate may be displaced in the event of there being more than one place of business.

Every registered person who makes exempt supply shall display the categories of such goods or services at each place of supply.

The person is liable for penalty in case of non compliance.

13.4. Cancellation of Registration (Sec 16)

13.4.1. Circumstances Applicable for Cancellation (Sec 16(1))

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

- i) where such registered person has ceased to carry on or carry out a taxable activity, or
- ii) total value of taxable supply during any taxable period does not exceed the limit required for the registration in section 10.

The Commissioner General may cancel the registration if he is satisfied with the application for cancellation. He may refuse to cancel the registration for the protection of revenue.

13.4.2. Deemed Supply Prior to the Date of Cancellation of Registration (Sec 16(5))

Any goods or services then forming part of the assets of a taxable activity shall be deemed to be supplied by that person in the course of taxable activity at a time immediately prior to the date of cancellation.

However, the said provision does not apply if the taxable activity (inclusive of all the assets) is carried out by another person who is a registered person.

14. VAT ON IMPORTATION OF GOODS (SEC 2(3))

The VAT on importation of goods shall be charged, levied and collected as if it is a customs duty and as if all goods imported into Sri Lanka are dutiable and liable to customs duty.

14.1. Definition of "Importation" (Sec 83)

The term "importation" is defined in the VAT Act as an inclusive definition as follows.

"Importation" includes the bringing into Sri Lanka of goods from outsider Sri Lanka by any person or goods received from a custom bonded area, 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.

14.2. Meaning of Customs Bonded Area (Sec 83)

According to the above definition, it is noted that any goods received from a customs bonded area is treated as an importation. As such, customs boned area is considered as an area outside the territory of the country for the purposes of VAT.

Accordingly, any goods stored in a customs bonded area do not attract VAT until such time the relevant goods are removed from such bonded area. In this case VAT is chargeable at the time of such removal as it is treated as an importation.

Customs bonded area is defined under section 83 as an exhaustive definition as follows.

“Customs bonded area” means

- (a) *a bonded warehouse approved under section 69 of Customs Ordinance*
- (b) *a bonded warehouse approved under section 84A of Customs Ordinance*
- (c) *a warehouse of the Republic as defined in section 167 of Customs Ordinance*
- (d) *a Free Trade Zone declared by the Board of Investment of Sri Lanka which is subject to monitoring by the Department of Customs*

14.3. Registration (Sec 11)

Every person who is an importer of goods into Sri Lanka shall notify the Commissioner General not later than 14 days prior to the clearing of such goods that he has imported such goods and obtain from the Commissioner General an identification number for the clearing of such goods.

He shall make an application in the specified form to the Commissioner General to obtain the identification number.

The said notification is not required in the following circumstances.

- (a) Importation under the Passenger Baggage (Exemption) Regulations made under section 107 of the Customs Ordinance.
- (b) Person who has already registered for VAT under section 10.

14.4. Value of the Goods Imported (Sec 6)

For the purpose of charging VAT, the value for importation shall be the total of the following.

- (a) value determined for the purpose of customs duty (i.e. CIF) increased by 10% (49 of 2006), and
- (b) the amount of customs duty, surcharge, cess and any Port and Airport Development Levy payable under the Finance Act, No. 11 of 2002 and any excise duty payable under the Excise (Special Provisions) Act, No. 13 of 1989.

14.5. Exemption on Importation (First Schedule)

The exemption on goods imported is listed in First Schedule to the VAT Act.

14.6. Exclusion from Imports (Sec 2(3))

There are certain imports that are excluded from the chargeability. The VAT shall not be charged by the Customs on the importation of the following goods.

(a) Goods entered into a customs bonded area

Any goods which entered into a customs bonded area or a free port referred to in Part IV of the Finance Act, No. 12 of 2012. *(17 of 2013)*

(b) Import of fabric for manufacture of garments for exports

Any fabric imported for the manufacture of garments for export by a person who has entered in to an agreement with Board of Investment of Sri Lanka (BOI) under section 17 of the BOI law and transfer of such fabric with or without the value addition with the approval of Director General of Customs or the BOI to any other person for the purpose of such manufacture of garments for export.

(c) Import of fabric by trading house for manufacture of garments for exports

Any fabric imported by a Trading House who has registered with the BOI for the purpose of manufacture of garments for export through other garment manufacturer as approved by the BOI and transfer of such fabric with the approval of Director General of Customs or BOI to such garment manufactures for the purpose of manufacture of garments for export.

(d) Import of other items for manufacture of fabric

Import of any fibre, yarn, grey cloth, finished cloth, chemicals and dyes used for the manufacture of fabric by a BOI company, entered into an agreement under Section 17 of the BOI law for the purpose of manufacture of fabric.

(e) (7 of 2003)

(f) Import of fabric etc; by person registered with the Simplified Value Added Tax Scheme (6 of 2005) (17 of 2013)

Any fabric or accessories imported by any person for the purpose of manufacture of garments for export, who has registered with the simplified value added tax scheme as administered by the CGIR with the approval of the CGIR.

14.7. Deferment on Imports (Proviso to Sec 2(3))

Deferment facility is provided in order to prevent the payment of VAT on imports by the supplier who engaged in exports. Therefore, generally, zero rated suppliers (direct export of goods and export of services) and indirect exporters (whose supplies are suspended under the SVAT scheme) can obtain deferment facility.

Deferment is made on the amount of VAT on imports on the production of a bank guarantee or corporate guarantee as follows. *(17 of 2013)*

- (a) A bank guarantee in a case where the tax deferred is less than rupees ten thousand; or

- (b) A treasury bill as a guarantee in a case where the tax deferred is not less than rupees ten thousand ; or
- (c) A corporate guarantee which covers the amount of tax due subject to the conditions specified in the agreement in which the deferment is considered

14.7.1. Imports eligible for deferment scheme

The Director General of Customs may defer the payment of VAT on the following.

Deferment for sixty days to ninety days

i. Import of goods for use to manufacture for exports

Any goods imported including any goods received from customs bonded area by a registered person to be used for the purpose of manufacture and export.

ii. Import of goods by a person registered under section 22(7)

Any goods imported by a registered person referred to in section 22(7) which are project related goods during such project implementation period.

iii. Import of capital goods for infrastructure project

Any goods being any plant or machinery imported for any infrastructure project funded mainly by a foreign government or any regional or multinational agency including UNO and its affiliates during the project implementation period.

iv. Purchase of fabric for manufacture of garments for export

Purchase of fabric manufactured by a person who has entered into an agreement with BOI under section 17 of the BOI law for the manufacture of fabric by another person who has entered into an agreement with BOI under section 17 of the BOI law for the manufacture of garments for export.

v. Import of capital goods by an exporter (8 of 2006)

Any plant or machinery imported (including such items received from customs bonded area) by a registered person for the usage for the manufacture of goods to be exported.

vi. Import of goods by a person registered with simplified VAT scheme (17 of 2013)

Any goods imported (including any goods received from customs bonded area) by a person registered with the simplified VAT scheme administered by the CGIR for the manufacture of goods or provision of services to manufacture goods for exports.

vii. Import of capital goods by indirect exporter of garments (17 of 2013)

Any plant or machinery imported (including such items received from customs bonded area) by a person registered with the simplified VAT scheme administered by the CGIR

for the usage for the manufacture of goods or provision of services to manufacture goods for exports.

Viii Any goods temporarily imported and re-exported (15 of 2008)

Any following goods temporarily imported into Sri Lanka and which are re-exported after the completion of the project, exhibition or demonstration with the approval of the Minister.

- i. Plant, machinery or equipment of high value to be used for any project , or
- ii. Goods to be used as exhibition material or as materials in any technical demonstration

