



2021

RECENT CHANGES TO VALUE ADDED TAX

As per the Value Added Tax (Amendment) Act, No.9 of 2021

Analysis of Amendments made to Value Added Tax Act, No.14 of 2002 by the Value Added Tax (Amendment) Act, No. 9 of 2021

1. Effective date

The effective date of the amendments is the respective amendments.
May 13, 2021 unless specifically stated in

2. Amendment to Section 2 – Rate of Value Added Tax

Tax rate is reduced to 8% from 15% on taxable supply of goods or services and on importation of goods into Sri Lanka with effect from December 1, 2019. Tax Fraction is 2/27.

As per Extraordinary Gazette Notification No. 2151/52 dated November 29, 2019-

Tax rate on the supply of services by a hotel, guest house, restaurant or other similar businesses providing similar services which are registered with the Sri Lanka Tourism Development Authority, if sixty per centum (60%) of the total value of the inputs are sourced from local supplies/sources - **0%**

Tax rate on the supply of financial services continues at **15%**

Tax rate on importation of woven fabric specified under Extraordinary Gazette

Notification No. 2095/20 dated November 1, 2018 continues at **0%**

Tax rate on wood sawn, chipped or plywood etc. specified under Extraordinary Gazette Notification No. 2095/19 dated November 1, 2018 is **8%**

As per Extraordinary Gazette Notification No. 2152/60 dated December 6, 2019-

“Total value of inputs” means the total value of the goods purchased during the taxable period which ended prior to the commencement of the taxable period immediately preceding to the taxable period for which the zero percent (0%) Value Added Tax rate applies.

“Inputs which are sourced from local supplies/sources” means the total expenditure incurred for the purchase of locally produced agricultural,

horticultural, fishing, animal husbandry or dairy products and any goods manufactured locally with minimum 10% local value addition, for the taxable period which ended prior to the

commencement of the taxable period immediately preceding to the taxable period for which the zero percent (0%) Value Added Tax rate applies.

3. Amendment to Section 3 – Removal of the exclusion of VAT which was available for wholesale or retail supply of goods

The exclusion of VAT which was given in Section 3 for wholesale or retail supply of goods is not applicable on or after January 1, 2020.

From January 1, 2020, liability

threshold for wholesale or retail supply of goods is as follows.
Rs. 75 million or more per taxable period
Exceeding Rs. 300 million for twelve months period

4. Amendment to Section 7 – Zero Rating

To entitle for zero rating, it is mandatory to receive the payment in foreign currency through a bank in Sri Lanka licensed under the Banking Act, No.30 of 1988 within a period of six months from the end of the taxable period of which supply of goods or services are provided.

However, even if payment in

foreign currency is not received within a period of six months from the end of the taxable period of which supply of goods or services are provided, if it is proved to the Commissioner-General that such goods are exported or services are performed, standard rate should not be applied on such supply of goods or services.

5. Amendment to Section 10 – Threshold for the registration

On or after January 1, 2020, tax registration threshold is as follows.

Rs. 75 million or more per a taxable period
Exceeding Rs. 300 million for

twelve months period
If there are reasonable grounds to believe that total value of taxable supply of goods or/and services in succeeding taxable

period likely to exceed Rs. 75 million or in succeeding twelve months likely to exceed Rs. 300 million

6. Amendment to Section 12 - Voluntary registration

On or after January 1, 2020, a person who supplies goods and services and carries on a taxable activity or imports any taxable goods may make an application to the Commissioner-General for voluntary registration under the Act, even if his taxable supplies are below threshold given in the Act.

Voluntary registered person is not eligible for Simplified Value Added Tax scheme unless -

(a) his taxable supply exceeds

the total value of the taxable supplies referred to in Section 10(1); or

(b) he is an exporter who proves to the satisfaction of the Commissioner-General that his total supplies have been exported; or

(c) such person is willing to register for the purpose of the Simplified Value Added Tax Scheme as a Registered Identified Supplier as approved by the Commissioner- General.

7. Amendment to Section 22 – VAT payable by the exporter of garments on local supplies and credit for input tax against output tax

S.22(1)

On or after January 1, 2021, tax on local supply of garments by a manufacturer of garments for exports who is entered into agreement with Board of Investment (BOI) within permitted percentage by BOI or Director-General of Customs is as follows.

Rupees twenty five for any period commencing on or after January 1, 2021, for each such

garment other than panties, socks, briefs and boxer shorts identified under the Harmonized Commodity Description and Coding System Numbers for Custom Purposes.

Rupees twenty five for any period commencing on or after January 1, 2021, for six pieces of panties, socks, briefs and boxer shorts, identified under the Harmonized Commodity Description and Coding System Numbers for Custom Purposes.

S.22(6)

Input tax attributable to the supply of goods or services received should not be deducted if payment for supply of goods or services referred to in subsection (1) of Section 7 is not received in foreign currency through a bank in Sri Lanka within a period of six months from the end of the

taxable period of which supply of goods or services are provided.

S.22(4)

Deemed input tax allowed for wholesale or retail supply of goods is abolished.

8. Amendments to the First Schedule – Exemptions

Following are the new exemptions and changes to the current exemptions.

(1) Supply or import of machinery and equipment including medical, surgical and dental instruments, apparatus, accessories and parts thereof, hospital or medical furniture and drugs, chemical and similar items, as recommended by the Secretary to the Ministry of the Minister assigned the subject of Health, as required for the provision of health services to address the COVID 19 pandemic is exempt with effect from May 20, 2020.

(2) Services being the supply, lease or rent of residential accommodation, if such supply has taken place on or after December 1, 2019, by any person, other than lease or rent of residential accommodation, is exempt.

(3) Commencing on or after January 1, 2020, supply of information technology and enabled services as shall be prescribed is exempt.

(4) Supply of health protective equipment and similar products by any exporter, registered with the Board of Investment of Sri Lanka established by the Board of Investment of Sri Lanka Law, No.4 of 1978, to the Ministry of Health and Indigenous Medical Services, Department of Health Services, Sri Lanka Army, Sri Lanka Navy, Sri Lanka Air force and Sri Lanka Police on or after April 29, 2020 is exempt.

(5) Services in respect of inbound tours, by a travel agent registered with the Sri Lanka Tourism Development Authority for any period commencing from April 1, 2020 is exempt.

(6) With effect from May 13, 2021, local supply of any goods [other

than goods referred to in paragraph (c) of Part II of the First Schedule to the VAT Act], which would have been

exempted on importation if imported, is exempt.

9. Validation

Any person who is authorized to collect the Value Added Tax as provided for in the Amendment Act during the period commencing from December 1, 2019 and ending on the date on which the Certificate of the Speaker is endorsed in respect of the Act, shall be deemed to have acted with due authority and such collection shall be deemed to have been, and to be, validly made and such person is indemnified against all actions,

civil or criminal, in respect of such collection:

Provided that, the aforesaid provisions shall not affect any decision or Order made by any Court or any proceedings pending in any Court in respect of any tax collected as provided for in this Act during the said period.

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