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Circular to Clients

New Tax Proposals on Value Added Tax (VAT)

New tax proposals made to Value Added Tax (VAT) and approved by the cabinet of ministers will be implemented subject to formal amendments to the Value Added Tax Act no 14 of 2002.

Accordingly, the significant changes to Value Added Tax (VAT) law are proposed to be as follows,

1. The Value Added Tax shall be charged;

   (a) On the supply of services by a hotel, guest house, restaurant or other similar businesses providing similar services, registered with the Sri Lanka Tourism Development Authority, if sixty per centum (60%) of the **total value of inputs are sourced from local supplies/sources**, at the rate of zero per centum (0%),
   Further, as per the Extraordinary Gazette Notification No. 2152/60 dated December 06, 2019, Total value of inputs and Inputs which are sourced from local supplies/sources are defined as set out below.
   "**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 per centum (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 ten per centum (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 per centum (0%) Value Added Tax rate applies.

   (b) On the supply of financial services, at the rate of fifteen per centum (15%),

   (c) On import of goods set out in the H.S code & description specified in column I and II of schedule of the Extraordinary Gazette Notification No.2095/20 dated November 1,2018, at the rate specified in the corresponding entry in column III of such schedule, (Zero per centum -0%))

   (d) On the import and/or supply of goods or supply of services, other than supply of services/import of goods as referred to under sub-paragraph (a) (b) and (c) of this paragraph, at the rate of eight per centum (8%).



Accordingly, different rates of VAT on the below goods & services are also revised to eight (8%) with effect from December 01, 2019, by rescinding the respective Gazette Notifications,

- supply or import of wood (sawn) (HS Code 4407 & 4408) as published in the Gazette Notification No. 2095/19, dated November 01, 2018,
- supply of services by a hotel, guest house, restaurant or other similar businesses providing similar services, registered with the Sri Lanka Tourism Development Authority, [if less than sixty per centum (60%) of the total value of the inputs are sourced from local supplies/sources] and supply of services in respect of inbound tours, by a travel agent as published in the Gazette Notification No. 2125/69, dated June 01, 2019

2. The Orders made under Section 2A of Value Added Tax Act, No. 14 of 2002, as amended by Act, No. 06 of 2005 and published in the Extraordinary Gazette Notifications No. 2095/19 dated November 01, 2018, No. 2125/69 dated June 01, 2019 and No. 2147/59 dated October 3 1, 2019 have been rescinded.

- Goods specified under Gazette Notification No. 2095/19 are as follows;

Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or en-jointed of a thickness exceeding 6mm	5%
Sheets for veneering (including those obtained by slicing laminated wood) for plywood or for similar laminated wood and other wood, sawn lengthwise, sliced or peeled, whether or not planed, sanded, spliced or en-jointed, of a thickness exceeding 6mm	5%

- Service specified under Gazette Notification No. 2125/69 are as follows;

Supply of services by a hotel, guest house, restaurant or other similar businesses providing similar services, registered with the Sri Lanka Tourism Development Authority.	7%
Supply of services in respect of inbound tours, by a travel agent registered with the Sri Lanka Tourism Development Authority.	7%

- Service specified under Gazette Notification No. 2147/59 is as follows;

Services being the supply of residential accommodation by way of sale of condominium housing unit.	6%

3. These Orders shall come in to **effect from December 01, 2019**.

4. The liable limit for registration of Value Added Tax (VAT) will be increased to Rs.300 million per annum with effect from **01st January 2020.**

   Accordingly, VAT Registration of persons of whose taxable supply has never exceeded Rs.75 million for any taxable period ended prior to December 31, 2019, will be inactivated and a list of such inactivated VAT registered persons with the details of name of the person and VAT registration no. has been published and available for your reference.

Such inactivated persons are not permitted to collect VAT on the supplies made on or after January 01, 2020 and are required to surrender their VAT Registration Certificate to the Commissioner, Customer Information Update Unit of the Inland Revenue head office or any nearest regional office.

However, VAT collected prior to January 01, 2020, shall be paid on or before January 20, 2020 and the VAT return shall be submitted for the period before 31st January 2020.

5. In line with the Inactivation of the VAT Registration, SVAT registration of such persons will also be inactivated with effect from January 01, 2020.

   Therefore, such inactivated RIPs are not permitted to issue SVAT Credit Vouchers on the purchases made on or after January 01, 2020. Further, such RIPs are required to surrender their unutilized credit voucher books and SVAT Registration Certificate to the Commissioner, Medium Corporate Default Collection Unit 1 & 2 of the Inland Revenue head office

   However, SVAT Credit Vouchers relevant for December 2019 to respective Registered Identified Suppliers (RIS) shall be issued and SVAT Form 04 shall be approved, on or before January 20, 2020 as required in the SVAT guideline.

6. Services being the supply of residential accommodation by way of sale of Condominium housing unit as published in the Gazette Notification No.2147/59 and the notice published by the Inland Revenue Department on 03rd December 2019 also revised by exempting from VAT with effect from 01st December 2019, by rescinding the respective Gazette Notifications and the IRD notice dated 03rd December 2019.

If any clarification is required on the above discussed, please do not hesitate to contact us.

JAYASINGHE & CO.
CHARTERED ACCOUNTANTS
02nd January 2020