



# KPMG Sri Lanka

## Tax News Flash

April 2021

### TAX UPDATE

#### For clients of KPMG in Sri Lanka

A Bill to amend the Value Added Tax Act No. 14 of 2002 ("VAT Act") has been published in the Gazette on 18<sup>th</sup> March 2021. We have provided below a synopsis of the proposed amendments to the VAT Act as indicated in the Bill. Once the Bill is certified by the Speaker of the Parliament, all proposals introduced via web notice would be given legal effect. Please note that the Bill is subject to change via Committee stage amendments.

#### **A. Change of standard tax rate**

- The standard tax rate applicable on the taxable supply of goods or services, or on the importation of goods has been revised to 8% with effect from 1<sup>st</sup> December 2019. We note the above change has already been legislated via the Gazette Notification No. 2151/52 dated 29<sup>th</sup> November 2019.

#### **B. Increase of the general threshold for registration for VAT from Rs. 3 Mn to Rs. 75 Mn per quarter.**

- It has been proposed to increase the threshold for registration to Rs. 75 Mn per taxable period or Rs. 300 Mn per annum with effect from 1<sup>st</sup> January 2020.
- The above change was already announced via the notice dated 29<sup>th</sup> November 2019 issued by the Department of Inland Revenue ("DIR") on the implementation of new tax proposals.
- Accordingly, VAT Registration of persons whose taxable supplies have never exceeded Rs.75 million for any taxable period ended prior to 31<sup>st</sup> December 2019, were inactivated by the DIR, with effect from 1<sup>st</sup> January 2020 and the details of such inactivated VAT registered persons were published in the official web portal of DIR.



### **C. Change to the taxation of wholesale/retail traders**

- Previously, wholesale and retail traders were not liable for VAT, unless they met the threshold of having total supplies of goods ( including exempt supplies ) of Rs. 12.5 Mn or more for a quarter. If a wholesale or retail trader has met such threshold, such trader was required to register for VAT. Such registered traders were afforded a credit for deemed input tax for purchases from non-VAT registrants.
- The Bill provides for the removal of such exclusion from liability to VAT for wholesale and retail traders who did not meet the above-mentioned threshold with effect from 1<sup>st</sup> January 2020.
- Accordingly, from 1<sup>st</sup> January 2020, the requirement to register for VAT for wholesale and retail traders will depend on the general registration threshold, i.e., having taxable supplies exceeding Rs 75 Mn per taxable period or Rs. 300 Mn per annum.
- Furthermore, the Bill provides for the removal of the above mentioned deemed input tax credit, which was afforded to wholesale and retail traders, with effect from the date the Amendment Act is certified by Parliament.

### **D. Introduction of additional conditions to be met for claim of Zero-rated status**

- The Bill provides for additional requirements for specified supplies to be eligible for zero rated status with effect from the date the Amendment Act is certified by Parliament.
- The following supplies will qualify for zero rate status for VAT provided the payment for such supplies is received in foreign currency through a bank within six months from the date of export/supply of services:
  - I. Export of goods.
  - ii. Services directly connected with any movable or immovable property outside Sri Lanka
  - iii. Services directly connected with a copyright, patent, license, trademark or similar intellectual property right, to the extent that such right is for use outside Sri Lanka.

## **E. Voluntary registration for VAT**

- The Bill provides for voluntary registration by persons whose taxable supplies are less than the threshold specified for mandatory VAT registration, with effect from 1<sup>st</sup> January 2020.
- In terms of such proposal, a person who supplies goods or services and carries on a taxable activity may make an application to the DIR for obtaining registration for VAT.
- The above change was already announced via the notice dated 7<sup>th</sup> January 2020 issued by DIR.
- However, a person registered for VAT on a voluntary basis under the above provision, is not entitled to register under Simplified VAT Scheme unless such person's taxable supplies exceed the general registration threshold.

## **F. Reduction of tax from Rs. 100 to Rs. 25 for local sale of garments by Board of Investment ("BOI") companies**

- It has been proposed to reduce the piece-based VAT rate on garments sold by export-oriented BOI companies to the local market (within such percentage permitted by the BOI) as follows, with effect from 1<sup>st</sup> January 2021:
  - i. VAT to be charged at Rs. 25 for each garment other than panties, socks, briefs and boxer shorts identified under the HS Codes for customs purposes;
  - ii. VAT to be charged at Rs.25 for six pieces of panties, socks, briefs and boxer shorts, identified under the HS Codes for customs purposes.
- The above items were previously liable to VAT at the rate of Rs. 100.

## **G. Exemption on supply of residential accommodation**

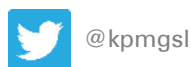
- As per the notice dated 27<sup>th</sup> December 2019 published by DIR, an exemption from VAT was granted on the supply, other than lease or rent, of residential accommodation including condominium housing units with effect from 1<sup>st</sup> December 2019.

## H. Other exemptions

- The following exemptions with effect from the dates specified in the table below:

<b>Exemptions</b>	<b>Effective date</b>
Supply of information technology and enabled services to be prescribed.	1 <sup>st</sup> January 2020
Supply of services in respect of inbound tours, by a travel agent registered with the SLTDA.	1 <sup>st</sup> April 2020
Supply of health protective equipment and similar products by any exporter, registered with the BOI, to the following institutions: <ul style="list-style-type: none"><li>Ministry of Health and Indigenous Medical Service;</li><li>Department of Health Services;</li><li>Sri Lanka Army;</li><li>Sri Lanka Navy;</li><li>Sri Lanka Air force; and</li><li>Sri Lanka Police.</li></ul>	29 <sup>th</sup> April 2020
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 Health, as required for the provision of health services to address the COVID 19 pandemic.	20 <sup>th</sup> May 2020
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.	1 <sup>st</sup> January 2021

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