



Tax Flash News

A Bill to Amend the Value Added Tax Act No 14 of 2002

February 2025

A Bill to amend the Value Added Tax (VAT) Act No 14 of 2002 was issued on 21 February 2025. The Bill includes tax proposals that were pronounced in Parliament by the Hon. President on 18 December 2024

VAT proposals referred to in the Budget Speech 2025 such as the introduction of POS machines, exemptions for the Port City Companies, write off of arrears of construction contractors involved in tsunami projects, etc. are not part this Bill

The content of the Bill would obtain legal enforceability only after following the constitutional process pertaining to the enactment of a Statute.

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A Bill to Amend the VAT Act

1

VAT 18% on services provided via electronic platforms

The VAT chargeability is extended to cover the supply of services by a non-resident person through an electronic platform to a person in Sri Lanka, with effect from 1 April 2025;

Provisions are to be introduced to empower the Commissioner General of Inland Revenue (CGIR) to prescribe the manner of payment.

The following phrases have been defined.

“**electronic platform**” means any procedure in the form of a website or mobile application used by one or more service providers to provide their services to the service recipients.

“**fixed place**” means a place which is characterized by a sufficient degree of permanence and suitable structure in terms of human and technical resources to supply services, or to receive and use services for its own needs.

“**non-resident person**” means any person who occasionally undertakes transactions involving supply of services, whether as principal or agent or in any other capacity, but who has no fixed place of business in Sri Lanka, and does not include a person registered under section 10, where such person carries on or carries out a taxable activity in Sri Lanka without a fixed place of business but having an agent to act on behalf of such person as referred to in section 55.

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2

Removal of Simplified VAT scheme (SVAT)

- The SVAT scheme will continue till 1 October 2025 and a VAT refund system will be introduced to replace SVAT w.e.f. 1 October 2025.
- Further, taxable period definition is modified to accommodate the removal of SVAT.
- Provisions to be introduced to specify a person eligible for tax refunds due to the abolition of the SVAT and the manner of making such refund.
 - Any excess for period ending before 30 September 2025, will be refunded within 45 days after the end of the taxable period or from the date of receipt of the Return for the relevant taxable period whichever is later.
 - Any excess for taxable period commencing on or after 1 October 2025 will be refunded
 - (i) after furnishing a proper Return containing all particulars in terms of subsection (1) of section 21; and
 - (ii) not later than 45 days from the last day of the month after expiry of such taxable period or from the date of furnishing a proper Return after issuing a notice by the CGIR for the relevant taxable period, whichever is later, subject to the conditions specified in the Risk Based Refund Scheme to be prescribed by the CGIR.

3

VAT Refund Fund

The contribution to the VAT Refund Fund established under Section 71 of the VAT Act, to be increased from 6% to 10% of the tax collected by the Director-General of Customs on importation of goods w.e.f. 1 October 2025.

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A Bill to Amend the VAT Act

4 Mandatory VAT registration

As per the Bill, it is mandatory to every person who engages in export or import of goods for commercial purposes to register for VAT, irrespective of the tax exemptions granted and the registration threshold specified under the VAT Law.

5 Format of the Tax Invoice

The Bill has permitted the CGIR to specify the format of the tax invoice by issuing a Gazette notification.

6 E - filing of VAT Return mandatory

Electronic filing of VAT Return is made mandatory for any taxable period commencing on or after 1 July 2025. An acknowledgement generated through the Revenue Administration Management Information System (RAMIS) shall be issued for the receipt of the Return at the time of furnishing the Return.

The VAT Return should be in the specified form containing all such particulars and relevant schedules as the CGIR may specify by Order published in the Gazette.

CGIR may permit to a person who makes a request to file a Return in writing on special circumstances which CGIR deems appropriate.

Any registered person will be able to lodge the VAT in writing or electronically up to 30 June 2025.

Electronic filing mean “the use of a computer system or a mobile electronic device”.

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7 Value of supply

The Value of Supply for VAT purposes of the below items will be treated as zero w.e.f. 1 January 2024:

- meals or transport provided by an employer to his employees, free of charge or at a subsidized rate;
- any reinsurance commission or any compensation received in foreign currency through a bank by any local insurance company from a reinsurer outside Sri Lanka; and
- any unused postage and revenue stamps of the Government or of a Provincial Council, to the face value of such stamps.

8 Input credit

Input credit to be allowed for the payments borne by an employer who is a registered person for the supply of meals and transport under Section 5 of the VAT Act.

9 Recovery of undeclared and unpaid taxes

The CGIR is empowered to collect taxes immediately from any person who has not paid any tax collected by him for the supply of goods or services which are subject to tax as indicated in the invoice issued by him, irrespective of whether such person is registered or not under the VAT Act.

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10 New VAT exemption

The following exemptions are introduced :

- (a) The supply or import of chemical naphtha to be supplied to Ceylon Electricity Board by the Ceylon Petroleum Corporation for the generation of electricity. In the current VAT Act only the import is exempt. This amendment seeks to extend the exemption for the supply as well.
- (b) The supply of liquid milk and yoghurt, produced out of locally produced fresh milk.

11 Removal of exemption

The exemption for import of aircraft engines or aircraft spare parts will be removed from the date of commencement of the Amendment Act.

All above changed other than item 7 above will come into effect from the date of commencement of the VAT Amendment Act.

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