



## Tax Flash News

# Value Added Tax (Amendment) Act No 04 of 2025

April 2025

The Bill to amend the Value Added Tax Act 14 of 2002 issued dated 21 February 2025 has been enacted as the Value Added Tax (Amendment) Act No 04 of 2025 (Amending Act) with certain Committee Stage Amendments and was certified by the Speaker on 11 April 2025 (the date of the commencement of the Amending Act). Further to the Amending Act, the Department of Inland Revenue (DIR) has issued a notice PN/VAT/2025-01 (Revised) dated 17 April 2025 providing the salient features of the Amending Act.

A snapshot of the latest amendments to the VAT Act is featured in this document.

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## VAT (Amendment) Act No 04 of 2025

# 1

### VAT at 18% on services supplied by a non-resident person via electronic platforms from 01 October 2025

The Value Added tax (VAT) chargeability is been 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 01 October 2025. In the Bill to amend the VAT Act the proposed date of implementation was 01 April 2025. However, this has now been deferred to 01 October 2025.

Provisions are to be introduced to empower the Commissioner General of Inland Revenue (CGIR) to prescribe the procedure for registration, payment and compliance with respect to the VAT liability of the above-mentioned persons.

#### The following phrases have been defined in the Amending Act.

“**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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## VAT (Amendment) Act No 04 of 2025

### 2

## Abolition of Simplified VAT scheme (SVAT)

The SVAT scheme will continue till 01 October 2025 and a Risk-Based Refund Scheme will be introduced to replace SVAT w.e.f. 01 October 2025.

Excess input tax of

- eligible exporters or
- registered persons whose value of supplies exceeds 50% of their total supplies to Strategic Development Projects or Specified Projects for the taxable period or
- projects approved under section 22(7) of the VAT Act,

will be refunded not later than 45 days from the due date of the VAT return submission and subject to the submission of proper VAT return.

The Amending Act provides the following definition :

- **“eligible exporter”** means a registered person whose value of zero-rated supplies as defined under Section 7 of this Act, during the preceding calendar year was greater than fifty percent of the total value of supplies made by that person during the same period;

Further, taxable period definition is modified to accommodate the removal of SVAT.

- a) A period of one month – mandatory for above mentioned registered persons.
- b) A period of 03 months – in respect of a registered person not referred in (a) above or who opts to submit quarterly returns on the prior written approval by the CGIR.

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## VAT (Amendment) Act No 04 of 2025

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### Value of supply to be treated as zero

The Value of Supply for VAT purposes of the below items will be treated as zero w.e.f. 01 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.

### 4

### Input credit on supply of staff meals and Transport

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

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### Introduction of VAT exemptions

The following exemptions are introduced w.e.f. 11 April 2025:

- (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.
- (b) The supply of liquid milk and yoghurt, produced out of locally produced fresh milk. *The DIR in its notice has indicated, that the liquid milk or yoghurt must contain at least 50% of locally produced fresh milk to qualify for this exemption.*

### 6

### Removal of exemption

The exemption for import of aircraft engines or aircraft spare parts will be removed w.e.f. 11 April 2025.

### 7

### Definition for “unprocessed agricultural products”

Currently the supply of unprocessed agricultural, horticultural or fishing products produced in Sri Lanka is exempt from VAT. However, the VAT Act did not include a definition for unprocessed agricultural products.

The following definition has now been provided in the Amending Act :  
“**unprocessed agricultural products**” means products derived from plants cultivated on land or in a green house, and include products that have undergone preliminary processing steps such as cleaning, sizing, sorting, grading, cutting or chilling for the purpose of sale”.

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### Mandatory VAT registration

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

### 9

### Format of the Tax Invoice

The Amending Act, permits the CGIR to specify the format of the tax invoice by issuing a Gazette notification.

### 10

### E - filing of VAT Return mandatory

It is mandatory to file VAT returns electronically with effect from 01 July 2025. Manual filed return submissions will only be allowed under exceptional circumstances approved by the CGIR

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

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## VAT (Amendment) Act No 04 of 2025

# 11

### 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. 01 October 2025.

# 12

### 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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