



Tax Alert

Cabinet approval to Increase VAT rate to 18% w.e.f. 01 January 2024

October 2023

Tax Alert

As per the Cabinet Decisions dated 30 October 2023 (published on the website of the Department of Government Information), the Cabinet of Ministers have granted approval to escalate the Value Added Tax (VAT) rate up to 18% w.e.f. 01 January 2024. In accordance with Section 2A of the Value Added Tax Act No. 14 of 2002 and Amendments thereto (VAT Act), the Minister of Finance is empowered to vary the tax rates specified in the VAT Act via a Gazette Notification.

Said Cabinet decision also implies that certain new tax proposals proposed recently will come into effect from 01 January 2024.

Extract of Cabinet Decision dated 30 October 2023 is attached below.

13. Tax Policy Reforms to strengthen State Finance Contemplation based on revenue.

Various tax based enhancing and developmental tax policy proposals have been implemented from the month of June 2022 for the state financial stability based on the income with the objective of ensuring loan sustainability and as a result of that, the state tax revenue of the first 09 months of 2023 has been escalated by 51% compared to the year 2022. However, tax collection targets agreed with the International Monetary Fund have not yet been accomplished. Accordingly, the Cabinet of Ministers granted approval to escalate the value added tax rate up to 18% with effect from 01.01.2024, impose the said tax on certain goods and services to which the value added tax is not yet applicable and implement some of new tax proposals with effect from 01.01.2024 including the imposition of that tax to enable accomplishment of tax revenue and primary balance targets as agreed with the International Monetary Fund.

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