



Tax Flash News

Notice to the VAT Registered Persons

KPMG in Sri Lanka

April 2026

Tax Flash News

The application of VAT on the importation and supply of fabric has undergone several changes as a result of the revision to chargeability of CESS on fabric.

As per the Department of Inland Revenue Notice no. PN/VAT/2026-04/1 dated 08 April 2026, with effect from 01 April 2026:

- The importation of fabric
 - Liable to VAT at the rate of 18%
 - Consequent to the removal of CESS on fabric as per Gazette Notification No. 2479/38 dated 10 March 2026
- The supply of fabric in the local market
 - Liable to VAT at the rate of 18%
 - Consequent to the Gazette Notification No. 2478/07 dated 03 March 2026 issued under S.2A of the VAT Act
- Transitional provision
 - The supply of fabric which had been imported, subject to a CESS levy at the point of importation prior to 01 April 2026, would be exempt from VAT
 - Proper and separate records and documentation to be maintained for such transactions

Attached herewith the relevant notification.



For more details contact:
Tax Team – KPMG in Sri Lanka

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INLAND REVENUE DEPARTMENT

Notice to the VAT Registered Persons

Value Added Tax (VAT)

Notice is hereby given to all registered persons that, in the exercise of the powers vested under Section 2A of the Value Added Tax Act, No. 14 of 2002, the Minister of Finance, Planning and Economic Development, by Order published in Extraordinary Gazette Notification No. 2478/07 dated March 3, 2026, **has rescinded, with effect from April 1, 2026**, Extraordinary Gazette Notification No. 2095/20 dated November 1, 2018, in which the importation of fabric was subject to VAT at the zero rate.

Subsequently, by Order published in Extraordinary Gazette Notification No. 2479/38 dated March 10, 2026, the Minister of Industry and Entrepreneurship Development has prescribed the goods on which the CESS levy is applicable **with effect from April 1, 2026** and Extraordinary Gazette Notification No. 2325/06 dated March 28, 2023 including certain other Gazettes have been **rescinded**.

As a result, the CESS levy previously imposed on the importation of fabric classified under the HS Codes specified in the said Gazette is **removed with effect from April 1, 2026**.

Further, in terms of Item (XV) of Paragraph (b) of Part III of the First Schedule to the VAT Act (as amended), *the supply of fabric which are subject to a CESS at a specific rate classified under the Harmonized Commodity Description and Coding System Numbers for Custom purposes, in lieu of chargeability of any other tax on importation at the point of entry into the country, by the Director-General of Customs as specified in a Gazette Notification issued under the Sri Lanka Export Development Act, No. 40 of 1979 is exempted from VAT.*

Accordingly, **with effect from April 01, 2026:**

01. The importation of fabric is liable to VAT at the rate of eighteen percent (18%).
02. The supply of fabric in the local market is liable to VAT at the rate of eighteen percent (18%).
03. The supply of fabric which had been imported, subject to a CESS levy at the importation prior to April 1, 2026, shall be exempt from VAT. However, proper and separate records and documentation shall be maintained for such transactions.

Commissioner General of Inland Revenue



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