



# INLAND REVENUE DEPARTMENT

## Implementation of Changes to Value Added Tax (VAT) and Nation Building Tax (NBT) as passed in Parliament on 26<sup>th</sup> October 2016

Changes to VAT and NBT will be implemented with effect from November 01, 2016 (unless a specific date is mentioned) as per the Bills to amend such Acts and subsequent Committee Stage amendments as passed in Parliament on the 26<sup>th</sup> October 2016 and would become law upon the certification of the Hon. Speaker.

According to the Bills passed in Parliament together with the Committee Stage amendments, the significant changes are as follows.

### VALUE ADDED TAX (VAT)

#### 1. Revision of VAT Rate

The VAT rate on supply of Goods or Services including the supply of Financial Services has been revised as follows.

Period	Rate
From 02.05.2016 to 11.07.2016	15%
From 12.07.2016 to 31.10.2016	11%
For any period from 01.11.2016	15%

#### 2. Threshold for VAT Registration

For any period commencing on or after April 1, 2016, the liable limit for registration of VAT by a person carries on any taxable activity other than wholesale or retail trade but including Financial Services is reduced to Rs. 3 million for a taxable period of three months or 12 million in the twelve months period.

The requirement for the registration by any person or partnership shall arise with effect from May 02, 2016 where the value of supply of them exceeds Rs. 3 Mn for the taxable period commenced on or after April 01, 2016.

#### 3. Wholesale or Retail Trade

i. Liable threshold for VAT registration for wholesale and retail trade for any consecutive period of 3 months in a calendar year is reduced from Rs. 100 million to Rs. 12.5 million with effect from November 01, 2016.

ii. VAT liability on wholesale and retail supply of goods continues other than deemed VAT liability on the supply of exempt goods (specified in PART II of the FIRST SCHEDULE to the VAT Act). The removal of the deemed VAT liability is effective from 01<sup>st</sup> January 2016.

iii. A deemed input VAT will be allowed [to persons who would become liable to be registered on or after May 2, 2016 under the category of wholesale or retail trade due to the reduction of the threshold of supply for registration referred to in item (i) above]:

- on account of the goods which are liable for VAT, if purchased from Non-Registered persons;
- On the stock (if any) of VAT liable saleable goods remain unsold as at the date of registration for VAT, if such registration takes place at any date on or after May 2, 2016 but prior to December 31, 2016,

subject to maintenance of proper records for such purchases or stocks as specified by the Commissioner General by Order published in the Gazette;

#### 4. The composite tax (in lieu of VAT, NBT and other taxes imposed at the Custom point) collected under the VAT Act, on Garments or fabric listed below by export oriented garment companies, is increased to Rs. 75/-

i. Locally supplied garments by export oriented garment companies as permitted by the BOI/DGC;

ii. Locally supplied fabrics or the following fabric products by such companies as permitted by the BOI/DGC:

- Linen or curtains/per kilogram;
- Towel /per item;
- Bag made out of fabric /per item;
- Excess fabric as cut pieces not more than two meters in length /per kilogram; or
- Any other fabric /per kilogram.

#### 5. Supplying of leasing facilities under any operating lease agreement is removed from VAT on financial services and made liable under normal VAT.

#### 6. Removal of Exemption

i. The following exemptions are made liable for VAT for the period from **May 2, 2016** to **July 11, 2016** and for any period with effect from **November 01, 2016**:

- Supply of telecommunication services;
- Import or supply of telecom equipment or machinery, high-tech equipment including copper cables for telecom industry;
- The issue of licenses to local telecom operators by TRC;
- Supply of healthcare services provided by medical institution or professionally qualified person.

However, when supplying the healthcare services, **VAT will not be charged** on the cost of the following services charged to the customer other than the cost related to medical consultation services included in such cost:

- diagnostic tests;
- dialysis; and
- services provided by the OPD

**(The Minister may from time to time prescribe any value of supply which may be excluded for this purpose by Order published in the Gazette and shall be effective upon the approval by Parliament).**

- The supply of goods or services to any specified project approved on or after 02.05.2016 other than housing projects.

ii. The following exemptions are removed and made such supplies liable to VAT with effect from **November 01, 2016**:

- The import or supply of milk powder;
- The supply of locally produced powdered milk containing added sugar or other sweetening matter out of locally produced fresh milk;
- The supply of any goods or services (other than exempt goods or services) provided by any Cooperative Society or Lak Sathosa;
- The import or supply of cigarettes;
- The import or supply of liquor;
- The import or supply of light weight electrical and electronics [referred to in sub item (c) of item (xix) of paragraph (a) of PART II of the First Schedule];
- The import or supply of perfumes;
- The supply of locally manufactured jewellery;
- The import or supply of coal;
- The import or supply of spare parts and accessories for exclusive use by Sri Lanka Transport Board and Department of Sri Lanka Railways; and
- The lease or rent of residential accommodation (including long term leases)

iii. The following services are made exempt from VAT with effect from **November 01, 2016**:

- The supply of residential accommodation other than lease or rent.

### NATION BUILDING TAX (NBT)

#### 1. NBT Rate

NBT rate should be continued at 2 %.

#### 2. Exempt Threshold

The present threshold of exempt turnover of NBT per quarter of Rs. 3.75 Mn or 25 Mn for certain sectors (other than the turnover of any locally procured agricultural produce in the preparation for sale), is reduced to Rs. 3 Mn from the quarter commencing on or after April 1, 2016.

Accordingly, any person or partnership is liable for NBT, if the turnover from any business (other than the turnover of any locally procured agricultural produce in the preparation for sale) including the turnover of following businesses, exceeds Rs. 3 million for any quarter:

- Operating a hotel, guest house, restaurant or other similar business;
- Providing educational services locally;
- Supply of labour.

The exempt threshold of turnover of any locally procured agricultural produce in the preparation for sale will remain at Rs. 25 Mn for a quarter.

#### 3. Liability to NBT During the Transitional Period

In case of any person or partnership who registered newly for NBT and liable turnover falls for the following quarters between:

- **Rs. 3 Mn and Rs. 25 Mn** for
- Operating a hotel, guest house, restaurant or other similar business
- Providing educational services locally
- Supply of labour
- **Rs. 3 Mn and Rs. 3.75 Mn** for others

is chargeable with the tax on the liable turnover arises during the period in the following quarters as follows.

Quarter commencing on	Period Code	Liability arises on the turnover during the following period
April 01, 2016	1620	02.05.2016 – 30.06.2016
July 01, 2016	1630	01.07.2016 - 11.07.2016
October 01, 2016	1640	01.11.2016 – 31.12.2016

#### 4. Removal of Exemption

The following exemptions are removed and made liable to NBT for the period from **02.05.2016** to **11.07.2016** and with effect from **November 01, 2016**:

- Telecommunication Service
- Supply of electricity (including the supply to the national grid)
- Lubricants (petroleum and petroleum products other than petrol, diesel or kerosene)
- The supply of goods or services to a specified project (other than any housing project approved by the Minister prior to May 02, 2016 and for the period from July 11, 2016 to 31.10.2016).

Commissioner General of Inland Revenue



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