Value Added Tax (Amendment)  
Act, No. 9 of 2011

[Certified on 31st March, 2011]


AN ACT TO AMEND THE VALUE ADDED TAX ACT, NO. 14 OF 2002

BE it enacted by the Parliament of the Democratic Socialist Republic of Sri Lanka as follows:-

1. This Act may be cited as the Value Added Tax (Amendment) Act, No. 9 of 2011 and shall be deemed to have come into operation on January 1, 2011 unless different dates of operation are specified in the relevant sections.

2. Section 2 of the Value Added Tax Act, No. 14 of 2002 (hereinafter referred to as the "principal enactment") is hereby amended as follows:-

   (1) in subsection (1) of that section-

   (a) by the repeal of sub-paragraph (iv) (b) thereof and the substitution therefor of the following :-

   "(b) (i) for the period commencing on August 2, 2005 and ending on September 30, 2005, at the rate of twenty percentum (Luxury Rate) of which the tax fraction is 1/6;

   (ii) for any taxable period commencing on or after October 1, 2005 and ending on November 23, 2010, in respect of goods at the rate of twenty percentum (Luxury Rate) of which the tax fraction is 1/6;

   (iii) for any taxable period commencing on or after October 1, 2005 and ending on December 31, 2010, in respect of services at the rate of twenty percentum (Luxury Rate) which the tax fraction is 1/6;
on the value of such goods or services supplied as referred to in the Fourth Schedule, other than such goods chargeable with the tax at zero percentum;

(b) in sub-paragraph (v) of that subsection-

(i) in item (ii) thereof, by the substitution for the words and figures "commencing on or after January 1, 2009" of the words and figures "commencing on or after January 1, 2009 and ending on December 31, 2010"; and

(ii) by the addition, immediately after item (ii) thereof, the following new item:

"(iii) for the period commencing on November 23, 2010 and ending on December 31, 2010, and for any taxable period commencing on or after January 1, 2011, at the rate of twelve per centum (of which the tax fraction is 3/28) on the value of such goods or services supplied, or goods imported, other than goods or services chargeable with tax at Zero percentum."

(2) in subsection (2) of that section-

(a) in sub-paragraph (iv) of paragraph (c) thereof, by the substitution for all the words from "until such time as the activities" to the end of that sub-paragraph of the following:

"until such time as the activities of such garment manufacture or service provider are carried out in the manner stipulated by the Commissioner-General in the guidelines issued for this purpose, on the submission of the reconciliation relating to -

(a) the disposal of such goods, stating that such finished goods have in fact been
exported by the recipient of the supplies; or

(b) the supply of value added services,
    stating that such services have in fact
    been used for the manufacture of
    garments which have been exported:

Provided that, with effect from April 1,
2011, deferment of tax under this paragraph
shall be administrated by the Commissioner-
General;:

(b) in sub-paragraph (d) thereof, by the
substitution for all the words from "until such
time as the activities" to the end of that sub-
paragraph, of the following :-

"until such time as the activities of such
manufacture of goods or service provider
are carried out in the manner stipulated by the
Commissioner-General of Inland Revenue in
the guidelines issued for this purpose, on the
submission of the reconciliation relating to -

(a) the disposal of such goods, stating that
    such finished goods have in fact been
    exported by the recipient of the
    supplies; or

(b) the supply of value added services,
    stating that such services have in fact
    been used for the manufacture of
    goods which have been exported:

Provided that, with effect from April 1,
2011, deferment of tax under this paragraph
shall be administrated by the Commissioner-
General;:
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(c) by the addition immediately after sub-paragraph (d) thereof the following new paragraph :-

"(e) on the supply of goods or services other than the goods or services referred to in sub-paragraphs (c) or (d), the Commissioner-General may after affording the applicant who is a registered person, an opportunity of being heard, and having regard to the nature of the business carried on or carried out by such applicant, defer the payment of tax, subject to the conditions stipulated by the Commissioner-General in the guidelines issued for this purpose, in respect of supplies made to :-

(i) a registered person engaged in any specific project referred to in sub-paragraph (ii) of paragraph (f) of PART II of the First Schedule;

(ii) an exporter or to a manufacturer who supplies goods manufactured in Sri Lanka to an exporter;

(iii) any supplier who provides value added services to an exporter which results in the improvement of the quality, character or value of any goods manufactured for export;

(iv) any person registered under the provisions of subsection (7) of section 22 of the Act, during the project implementation period so far as such supplies are project related supplies

until such time as the activities of such suppliers of goods or providers of service are carried out as stipulated by the Commissioner-General in the guidelines
issued by him for this purpose, and on the submission of the reconciliation relating thereto, stating that such goods or services are in fact made to a registered person referred to in this sub-paragraph and such goods or services are utilized for the purposes of such specified activities."

3. Section 16 of the principal enactment is hereby amended by the addition immediately after subsection (2) thereof, the following new subsection :-

"(2A) Where the Commissioner-General cancels any registration under subsection (2), he shall cause a list of names and the registration numbers of such registered persons to be published in three daily newspapers in the Sinhala, Tamil and English languages, having a wide circulation."

4. Section 20 of the principal enactment is hereby amended in paragraph (b) of subsection (6) of that section by the substitution for words and figures "under paragraphs (a) or (c) of subsection (2) of section 2," of the words and figures "under paragraphs (a), (c), (d) or (e) of subsection (2) of section 2."

5. Section 22 of the principal enactment is hereby amended as follows:-

(1) in paragraph (e) of the proviso to subsection (5) of that section -

(a) in sub-paragraph (b) thereof, by the substitution for the words and figures "'if the excess is in respect of the taxable period commencing on or after January 1, 2006" of the words and figures "'if the excess is in respect of the taxable period commencing on or after January 1, 2006 and ending on March 31, 2011'".
(b) by the addition immediately after sub-
paragraph (b), of the following new sub-
paragraph :-

"(c) if the excess is in respect of any taxable
period commencing on or after April 1, 2011, such excess shall be refunded no later
than forty-five days after the end of that
taxable period or from the date of receipt
of the return for the relevant taxable period
whichever is later."

(2) in subsection (6) of that section, by the substitution
in the proviso to paragraph (iv) thereof, for the
words "to supply of goods or services to such
projects." of the words "to supply of goods or
services to such projects:
Provided further, notwithstanding the
provisions of subsection (2), the tax paid by the
employer as a registered person, on the payments
borne by him on the outsourcing of the supply of
meals and transport, in respect of a benefit referred
to in the exemption specified in item (iv) of
paragraph (b) of Part II of the First Schedule, may be
allowed as the input credit of a registered person."

(3) in subsection (10) of that section, by the
substitution for the words and figures from "The
amount of input tax allowable under the preceding
provisions of this section" to "subject however to
the same restriction：“ of the following:-

"The amount of any input tax allowable for any
taxable period, shall be subject to the following
further restrictions :-

(a) for any taxable period commencing on or after
January 1, 2007 but prior to December 31, 2010,
including in the case of a registered person who
imports goods for re-sale without processing
referred to in the third proviso to subsection (5)
of this section, the excess input tax as at December 31, 2006 to the lesser amount of eighty-five percentum of the output tax declared for that taxable period or the input tax allowable under the provisions of this Act. The residue, if any, shall be deemed to be a part of the input tax allowable in the subsequent taxable period or periods, subject however to the same restriction up to the taxable period ended as at December 31, 2010. The unabsorbed residue, if any, as at December 31, 2010 shall be carried forward and may be claimed by a registered person for any taxable period not exceeding a sum equivalent to ten percentum of the unabsorbed amount for each month, provided that such sum does not exceed five percentum of the net tax payable after deducting allowable input credit from the output tax by such person;

(b) for any taxable period commencing on or after January 1, 2011, excluding the input tax referred to in sub-paragraph (a) above claimed up to December 31, 2010, to the lesser amount of hundred percentum of the output tax declared for that taxable period or the input tax allowable under the provisions of this Act. The residue, if any, shall be deemed to be a part of the input tax allowable in the subsequent taxable period or periods, subject however to the same restriction:

Provided that, in the case of a registered person who has at December 31, 2010, an unabsorbed input credit, but from and after January 1, 2011, such person has no taxable supplies liable to tax under the provisions of this Act, then, the unabsorbed input credit referred to in paragraph (a) may be set off after ascertaining the amount of the unabsorbed
input credit, in the manner provided for in either paragraph (i), paragraph (ii) or paragraph (iii) as the case may be:

(i) Where the registered person is an operator of a telecommunication services licensed under section 17 of the Sri Lanka Telecommunication Act, No. 25 of 1991, the set off shall be made as against the sum payable by him as Telecommunication Levy payable under the Telecommunication Levy Act, No. 21 of 2011;

(ii) in the case of a registered person who is liable to pay income tax, the set off shall be made as against the sum payable by such person as income tax after January 1, 2011;

(iii) in a case of a person to whom the provisions of either paragraph (i) or (ii) above does not apply, the set off shall be made against the sum payable after January 1, 2011, by such person as tax under any written law for the time being in force, administrated by the Commissioner - General.

The set off for each month in terms of this proviso, shall not exceed ten per centum of the unabsorbed input credit as at December 31, 2011 or five percentum of the relevant tax imposed referred to in items (i), (ii) or (iii) above for that particular month, whichever is less.”.

6. Section 25b of the principal enactment is hereby repealed and the following section substituted therefor:

25b. (1) The taxable period of every registered specified institution or other person shall be:

(a) one month for any taxable period prior to January 1, 2011; and
(b) six months for any taxable period commencing on or after January 1, 2011.

(2) Every registered specified institution or other person shall furnish a return in the Form specified, in respect of each taxable period before the end of the following month of the taxable period.

(3) (a) Notwithstanding the provisions of subsection (1) of section 26, tax payable for any taxable period by every registered specified institution or other person shall be paid on a monthly basis on or before the twentieth day of the succeeding month subject to the making of the final adjustment, if any, with the submission of the return as specified in this section.

(b) Any tax which is not so paid as set out in paragraph (a) shall be deemed to be in default and any registered specified institution or other person to whom this subsection applies shall be deemed to be a defaulter within the meaning of this Act.”.

7. Section 25c of the principal enactment is hereby amended as follows:

(1) in subsection (1) of that section, by the substitution for all the words from "for avoidance of doubts it is here by declared” to the words "the tax payable under this Chapter” of the following :-

"for the purpose of this Chapter the value addition of such specified institution shall be computed as:

(i) for any taxable period commencing prior to January 1, 2011, based on the net profit or loss prior to the deduction of the tax payable under this Chapter; and

(ii) for any taxable period commencing on or after January 1, 2011, based on the net profit or loss after the deduction of the tax payable under this Chapter.”;
(2) by the repeal of subsection (3) of that section and the substitution therefor of the following :-

"(3) The amount of tax payable for any taxable period :-

(a) commencing from January 1, 2003 but prior to January 1, 2004 shall be ten percentum;

(b) commencing from January 1, 2004, but prior to January 1, 2005, shall be fifteen percentum;

(c) commencing from January 1, 2005, but prior to January 1, 2011, shall be twenty percentum; and

(d) commencing from January 1, 2011 shall be twelve percentum;

of the value addition specified in subsection (i);"

(3) by the repeal of subsection (8) of that section and the substitution therefor of the following :-

"(8) for the purpose of calculation of tax under this section, every specified institution or any other person shall follow the guidelines specified by the Commissioner-General having considered the uniform application of the calculation of such tax."

(4) by the addition immediately after subsection (8) of that section, of the following new subsection :-

"(9) eight percentum of the value addition specified in subsection (1) of section 25c shall be invested in the fund established in the Central Bank of Sri Lanka as specified in the guidelines issued for this purposes with the concurrence of the Commissioner - General for the period of three
years commencing from January 1, 2011 and the investment shall be made on a monthly basis on or before the twentieth day of the subsequent month.”.

8. Section 25H of the principal enactment is hereby amended in subsection (1) of that section, by the substitution for the words and figures "of this Chapter for every quarter commencing on or after January 1, 2007, at the rate of five per centum" of the following :-

"of this Chapter :-

(a) for every quarter commencing on January 1, 2007 and ending on December 31, 2010, and for every quarter commencing from the quarter in which the registration falls due, at the rate of five percentum; and

(b) every quarter commencing on January 1, 2011, in the following manner :-

(i) at the rate of two percentum, for every quarter falling within the three years commencing from the beginning of the quarter in which registration falls due, but after the December 31, 2010;

(ii) at the rate of four percentum, for every quarter falling within the three years commencing immediately after the end of the three years referred to in item (i);

(iii) at the rate of eight percentum, for every quarter falling within the three years commencing immediately after the end of three years referred to in item (ii); and

(iv) at the rate of twelve per centum, for every quarter falling within the three years commencing immediately after the end of three years referred to in item (iii);".
9. Section 25i of the principal enactment is hereby amended in subsection (1) thereof, by the substitution for paragraph (b) thereof, of the following :-

"(b) such registration shall be valid for a period of twelve years from the date of commencement of the quarter in which the registration is obtained by such person or partnership.”.

10. The following new section is hereby inserted immediately after section 25i and shall have effect as section 25j of that enactment :-

25j. (1) The values of supplies from any Islamic Financial Transaction shall be chargeable to tax in terms of the provisions of this Act.

(2) The Commissioner-General of Inland Revenue shall in order to determine the extent of liability to tax of any particular Islamic Financial Transaction, issue, from time to time, such rules and guidelines as may be required for the purpose of—

(a) identifying the circumstances which would amount to an Islamic Financial Transaction; and

(b) ascertaining the value of supplies arising out of any Islamic Financial Transaction.”.

11. Section 26α of the principal enactment is hereby amended in subsection (1) thereof, by the substitution for the words "Every Government Agency which makes payments in pursuance of a contract” of the words and figures "Every Government Agency which makes payments prior to January 1, 2011, in pursuance of a contract.”.
12. Section 33 of the principal enactment is hereby amended in subsection (2) thereof by the substitution for the words "within a period of five years from the end of the taxable period to which the assessments relates." of the words "at any time".

13. Sections 34 to 36 (both inclusive) appearing under the Heading "Chapter VI - appeals" of the principal enactment are hereby amended by the substitution for the words "Board of Review constituted under the Inland Revenue Act, No. 10 of 2006" and "Board of Review" respectively wherever such words appear in that Chapter, of the words "Board of Review or any Commission which may be constituted by any written law for the purpose of hearing appeals in terms of this Act."

14. Section 43 of the principal enactment is hereby amended in the proviso to subsection (1) thereof, by the substitution for the words "examine or decide the correctness of any statement in the statement of certificate of the Commissioner-General." of the words "examine or decide the correctness of any statement in the certificate of the Commissioner-General or to postpone or defer such proceeding for a period exceeding thirty days, by reason only of the fact that an appeal is pending against the assessment in respect of which the tax in default is charged.".

15. Section 55 of the principal enactment is hereby amended as follows :-

(1) by the re-numbering of that section as subsection (1) thereof;

(2) by the addition immediately after the re-numbered subsection (1), of the following new subsection :-

"(2) All the taxable supplies of a non-resident person shall be assessable either directly or in the name of his agent, in or derived from Sri Lanka, whether such agent
has the receipt of such supplies or not, and the tax in terms of this Act so assessed whether directly or in the name of the agent shall be recoverable in the manner provided for in this Act, out of the assets of the non-resident person or from the agent. Where there are more agents than one, they may be assessed jointly or severally in respect of the taxable supplies of the non-resident person and shall be jointly and severally liable for tax thereon, in terms of this Act.

16. Section 58 of the principal enactment is hereby amended as follows: -

(1) in the second proviso to subsection (1) of that section, by the substitution for the words "Provided further, that any such amount" of the words and figures "Provided further, that any such amount prior to any taxable period commencing on April 1, 2011,"

(2) in subsection (3) of that section, by the addition immediately after paragraph (b) of that subsection of the following: -

"(c) (i) fails to furnish the fuller and further information relating to any claim of refunds within the period specified in the letter issued to such person,

(ii) fails to attend in person or make representation by an authorized representative at such place and on such date and at such time as may be specified in the letter issued to such person,

by any Assessor, the Commissioner-General may disregard the claim of refund made by such person:

Provided however, if the registered person within a reasonable period after the
claim of refund being disregarded by the Commissioner-General prove to the satisfaction of the Commissioner-General that he or his authorized representative was prevented from submitting the required information as specified in the letter or due attendance at the interview, as the case may be, by reason of absence from Sri Lanka, or sickness or other unavoidable cause, the Commissioner-General may re-open the inquiry of the refund claim subject to any conditions specified by him;";

(3) by the addition immediately after subsection (3) of that section, of the following new subsection:-

"(4) The Commissioner-General shall credit, the amount refundable under this section only to the bank account assigned to a registered person for such purpose."

17. Section 58A of the principal enactment is hereby repealed.

18. Section 67 of the principal enactment is hereby amended in paragraph (f) of that section, by the substitution for the words and figures "return under section 21 or comply", of the words and figures "return under section 21, section 25B or subsection (4) of section 25I or comply.".

19. Section 83 of the principal enactment is hereby amended as follows:-

(1) by the insertion immediately before the definition of the expression "Assessor" of the following definition:-

"agent" in relation to a non-resident person or
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to a partnership in which any partner is a non-resident person, includes-

\(a\) the agent, attorney, factor, receiver or manager in Sri Lanka of such person or partnership; and

\(b\) any person in Sri Lanka through whom such person or partnership is in receipt of any profits or income, arising in or derived from Sri Lanka;"

(2) in the definition of the expression "educational services" by the substitution for the words "by any educational establishment" of the words "by any person or partnership."

(3) in the definition of the expression "taxable period" by the repeal of item (i) of paragraph \(a\) and the re-numbering of items (ii), (iii), (iv), (v), and (vi) as items (i), (ii), (iii), (iv) and (v) respectively;

(4) by the addition immediately after the definition of "taxable supply" the following new definition:-

"telecommunication service" means the service provided by telecommunication operators licensed under section 17 of the Sri Lanka Telecommunication Act, No. 25 of 1991 to other similar operators and to end subscribers."

20. The First Schedule to the principal enactment is hereby amended in Part II thereof as follows:-

(1) in paragraph \(a\) of that Part by the addition immediately after item (xvii) the following:-

"(xviii) Petrol, Coal or Bitumen specified under Harmonized commodity Description and Coding System Numbers for Custom purposes with effect from November 26, 2010;
(xix) (a) machinery and equipment for manufacture of grain mixed bakery products with effect from November 29, 2010;

(b) machinery and equipment for the use of leather or footwear industry or bags, motor homes, taxi meters, agricultural machinery and parts, electronic equipments or articles use manufacture of fashion jewellery with effect from January 1, 2011;

(c) light weight electrical and electronic items with effect from June 1, 2010;

(d) fruit seeds with effect from August 16, 2010;

(e) telecommunication equipment with effect from January 1, 2011;

as specified under Harmonized Commodity Description and Coding System Numbers for Custom purposes;

(xx) any machinery or high-tech equipment for the telecom industry, having identified that such machinery or equipment is imported or purchased exclusively for the use in the telecom industry and imported or purchased by any operator of tele communication services, with effect from January 1, 2011;

(xxi) spare parts and accessories for exclusive use by Sri Lanka Transport Board and Department of Sri Lanka Railways (including imports made on or after 18.08.2010); ";
(2) in paragraph (b) of that part:

(a) in sub-paragraph (a) of item (i), by the substitution for the words and figures "educational services by an educational establishment (effective from January 1, 2006); or" of the words and figures -

"(a) (1) educational services provided by an educational establishment (effective from January 1, 2006 and ending on December 31, 2010); and

(2) educational services provided by any person or partnership with effect from January 1, 2011); or"

(b) in paragraph (b) of item (ii), by the repeal of sub-paragraph A of that item and the substitution therefor of the following -

"(A) (i) such motor coaches with a seating capacity not less than twenty-eight passenger seats and used for such public passenger transport services if such lease agreement is entered into prior to January 1, 2004 and ending on December 31, 2010;

(ii) lorries, tractors or motor coaches with seating capacity not less than twenty-eight passenger seats and used for public passenger transport services by the holder of any passenger service permit issued by the National Transport Commission established by the National Transport Commission Act, No. 37 of 1991 or any Provincial Road Passenger Transport Authority, in respect of any rental falling due for payments on or after January 1, 2011;"
(3) by the addition immediately after item (xxx) the following :-

"(xxxi) telecommunication services (with effect from January 1, 2011);

(xxxii) locally manufactured briquettes and pallets using bio mass wastes (with effect from January 1, 2011);

(xxxiii) locally developed software with effect from January 1, 2011;

(xxxiv) services being receipts from re-insurance by any local insurance company by way of commission or compensation in an insurance business (with effect from January 1, 2011);

(xxxv) services being the issue of licenses to local telecom operators by Telecommunication Regulatory Commission, established by the Sri Lanka Telecommunications Act, No. 25 of 1991 (with effect from January 1, 2011)";

(4) in paragraph (c) of that Part by the addition immediately after item (xxviii) thereof the following new items :-

"(xxix) aircraft stimulators and parts specified under Harmonized Commodity Description and Coding System Numbers for Custom purposes with effect from January 1, 2011;

(XXX) samples in relation to a business worth not more than rupees twenty five thousand subject to such terms and conditions as prescribed by the Director General of Customs";
(5) in paragraph (f) of that Part, by the repeal of items (ii) and (iii) and the substitution therefor of the following items :-

"(ii) (a) goods or services to any specified project identified by the Minister in charge of the subject of Finance, taking into consideration the economic benefit to the country, on which the tax is borne by the Government with effect from January 1, 2008); or

(b) goods or services to any infrastructure development project funded through foreign loans or donations directly to the Government Ministries (with effect from January 1, 2011);

and every such project shall be approved by the Minister of Finance, and Notification of such approval shall be published in the Gazette;

(iii) any goods or services provided by any society registered under the Co-operative Societies Law, No. 5 of 1972, or under the respective Statutes enacted by the Provincial Councils providing for such registration, or Lak Sathosa registered under the Companies Act, No. 7 of 2007;

(6) by the addition immediately after paragraph (g) of that Part, the following new paragraph :-

"(h) goods or services by an institution set up by the Ministry of Defence for the rehabilitation of disabled soldiers, in so far as the activities are carried out by the participation of such soldiers. (with effect from January 1, 2011)".
21. Any person or partnership supplying any goods or services having an annual turnover of a sum not exceeding rupees one hundred million who has defaulted in the payment of taxes payable by him under this Act in respect of any taxable period ending on or before December 31, 2010, due to the existence generally of any conflict environment or due to any financial constraints of such person or partnership, shall be exempt from the payment of such charge as is in default under this Act:

Provided that, the Commissioner-General of Inland Revenue shall on a request made to him in that behalf, issue to such person or partnership a Certificate of Exemption in respect of the sum as in default:

Provided further, the person or partnership to whom the Certificate of Exemption is issued, shall simultaneously forward to the Commissioner-General of Inland Revenue a written assurance to the effect that such person or partnership shall be responsible for the payment of all sums which may become payable by him under this Act, in respect of any future taxable period commencing on or after January 1, 2011.

22. Any person who collects the Value Added Tax as provided for in this Act during the period commencing from December 31, 2010, and ending on the date of the coming into operation of this Act, shall be deemed to have acted with due authority and such collection shall be deemed to have been, and to be, validly made and such person is hereby indemnified against all actions civil or criminal, in respect of any such collections.

23. In the event of any inconsistency between the Sinhala and Tamil texts of this Act, the Sinhala text shall prevail.
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