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உள்ளநாட்டு இறைவரித் திணைக்களம்
INLAND REVENUE DEPARTMENT

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June 28, 2021

Guideline for Refund of Value Added Tax (VAT) to the Hotel Industry

This guideline intends to simplify the VAT refund procedure of the hotel industry with effect from 01.12.2019, in line with the Extraordinary Gazette Notifications No. 2151/52 dated November 29, 2019, No. 2152/60 dated December 06, 2019, published under section 2A of the Value Added Tax Act, No. 14 of 2002, as such Gazette Notifications are passed in Parliament on February 06, 2020.

With effect from December 01, 2019, VAT rate on the supply of services by a hotel, guest house, restaurant or other similar businesses providing similar services, registered with the Sri Lanka Tourism Development Authority (SLTDA), is zero per centum (0%), if sixty per centum (60%) of the **total value of the inputs are sourced from local supplies/sources**.

“**Total value of inputs which are sourced from local supplies/sources**” is defined as set out below.

- (i) “Total value of inputs” means the total value of the goods purchased during the taxable period which ended prior to the commencement of the taxable period immediately preceding to the taxable period for which the zero percent (0%) Value Added Tax rate applies.
- (ii) “Inputs which are sourced from local supplies/sources” means the total expenditure incurred for the purchase of locally produced agricultural, horticultural, fishing, animal husbandry or dairy products and any goods manufactured locally with minimum 10% local value addition, for the taxable period which ended prior to the commencement of the taxable period immediately preceding to the taxable period for which the zero percent (0%) Value Added Tax rate applies.”

Eligible Person for Refund

Any person registered for VAT who makes supply of services by a hotel, guest house, restaurant or other similar business providing similar services, which is registered with the SLTDA, eligible to charge VAT at zero percent.

Eligible VAT Input tax for Refund

Input tax paid on the purchase of goods or services or import of goods which made on or after 01.12.2019 and claimed credit for the taxable period (other than the brought forward input VAT) by the registered person is eligible input tax for refund to the extent that such goods or services are utilized in supply the services, set out under the paragraph "Services by the Hotel Industry", subject to the fulfilment of other conditions.

Services by the Hotel Industry

Following are the types of services provided by hotels, guest house & restaurant or other similar businesses fall under the category of hotel services:

Rooms sales, Food sales in the hotel including A'la carte sales (ordering individual dishes from a menu), Buffet and catering for weddings (excluding outdoor catering), Laundry (if it is billed to the guest by the hotel and if the laundry service is part and parcel of the taxable activity carried on by the hotel), Letting convention halls, All other services such as locker sales, Telephone, Swimming pool tickets, photo copy charges, beverages (whether package or outlet), wedding hall hires, miscellaneous sales (exhibitions, animation, corkage etc), commissions, service charges, herbal fitness if services provided to resident guests etc.,

However, services by hotels, guest house & restaurant or other similar businesses other than the above services shall not qualify for zero rate.

Eligible Criteria

- Refund of input VAT of a taxable period for which the zero percent (0%) VAT rate applies must be decided based on the fulfillment of the conditions with respect to the input taxes of the taxable period ended prior to the commencement of the taxable period immediately preceding to the taxable period for which the zero percent VAT rate applies.

Accordingly, for an example, a SLTDA registered hotel can apply zero percent for the taxable period ended with 31.12.2020 (2040) on its taxable supplies based on the fulfillment of the conditions with respect to the inputs of the taxable period ended with 30.06.2020 (2020)

However, if any person has collected VAT at 8% for that period, such tax should be paid to the Inland Revenue Department.

- Tax Invoices or import Cusdecs in which VAT is charged at 15% and claimed on or after 01.12.2019 (as the registered person has a time of 12 months or 24 months respectively to claim input) are not eligible for refund.
- Input VAT paid on or after 01.12.2019 at the rate of 8% will qualify for refund

Conditions to be fulfilled

For the taxable period which ended prior to the commencement of the taxable period immediately preceding to the taxable period for which the zero percent VAT rate applies, out of the total value of the goods purchased by the registered person during such taxable period, not less than 60% of expenditure should be incurred for the purchase of: -

- locally produced agricultural, horticultural, fishing, animal husbandry or dairy products;
or
- any goods manufactured locally with minimum 10% local value addition,

Formula to Test the Eligibility to Refund

The Eligibility to Refund for the period, if the purchases of the taxable period which ended prior to the commencement of the taxable period immediately preceding to the taxable period for which the zero percent VAT rate applies is,

$$\frac{(A + B)}{C} \geq 60\%$$

Where,

A - Locally produced;

- agricultural products,
- horticultural products,
- fishing products,
- animal husbandry products
- dairy products

B- Manufactured goods with minimum 10% local value addition

- goods manufactured in Sri Lanka
- goods assembled or joined by whatever process in Sri Lanka
- goods adapted in Sri Lanka for sale,
- goods packed in Sri Lanka,
- goods bottled in Sri Lanka,
- goods put into boxes in Sri Lanka,
- goods cut, cleaned, or polished in Sri Lanka
- goods wrapped or labelled in Sri Lanka,
- goods, in any other way (other than above stated) prepared in Sri Lanka for sale (other than in a wholesale or retail activity e.g. Packing sugar into 1 Kg pack)

For this purpose, the value addition does not refer to just merely the price increase with minimum of 10% profit margin from the import cost of such product, but in fact there should be a value addition which should be reflected in the physical appearance of the product in any way enumerated above.

C- Total Value of goods Purchased

- goods referred to under A or B
- goods imported directly by the registered person
- imported goods locally purchased
- goods include capital goods as well
- exempted goods

However, the purchases of goods or services or imports of goods on which the input tax are brought forward from the preceding period should not be considered anywhere in the formula.

Onus of Proof

It is the responsibility of the registered person to prove his purchases of goods as to whether such goods are locally produced or manufactured with minimum 10% local value addition.

A detailed breakup should be obtained as set out in the annexure from the registered person who claims refund, prior to commence the audit for refund.

Failure to fulfill the Condition

Each refund request must be thoroughly audited and satisfied with the request. In any case, if it is found that the above stated conditions are not fulfilled by the registered person, assessment should be issued as usual on the supply declared treating as the price charged on VAT inclusive basis. In this circumstance, any excess input tax does not qualify for refund but could be carried forward to the succeeding period.

Registration under SVAT Scheme

Persons who make supply of services by a hotel, guest house, restaurant or other similar business providing similar services and eligible to charge VAT on such supplies at zero *per centum* are not entitled to register under SVAT Scheme as the application of the zero rate depends on the facts of the case.

H. M. W. C. Bandara
Commissioner General
Inland Revenue Department
Sir Chittampalam A. Gardiner Mw
Colombo 02


Commissioner General of Inland Revenue

Information for Hotel Industry VAT Refund

1. Name of the registered person
2. TIN
3. i. Name of the Hotel/ guest house/ restaurant /similar businesses
ii. Address
4. i. SLTDA Registration
ii. Validity of the SLTDA Registration for the Period of Refund Claimed
5. Refund claimed Taxable period
6. i. Due Taxable Period in which 60% of the total value of the inputs are sourced from local supplies/sources

ii. Detail of imports and purchases for period referred to in item 6.1

Serial No.	Description of Imports/Purchases	Value of VAT Exempt Goods/service		Value of VAT Liable Goods/service		Amount of Input VAT Paid	
1	Goods Imported	1.1		1.2		1.2.0	
2	Goods locally Purchased	2.1		2.2		2.2.0	
2.1	Imported goods	2.1.1		2.1.2		2.1.2.0	
2.2	Locally produced goods	2.2.1		2.2.2		2.2.2.0	
2.3	Locally manufactured goods	2.3.1		2.3.2		2.3.2.0	
3	Sub Total (Add respective cages of row No. 1 & 2)	3.1		3.2		3.2.0	
4	Services	4.1		4.2		4.2.0	
5	Total (Add respective cages of row No. 3 & 4)						

7. Testing the Refund Eligibility

$$\frac{(A + B)}{C} \geq 60\%$$

Where,

A= {sum of value in cage 2.2.1 and cage 2.2.2}

B= {sum of value in cage 2.3.1 and cage 2.3.2}

C= {sum of value in cage 3.1 and cage 3.2}

I hereby declare that all the particulars provided in this statement are true and accurate to the best of my knowledge.

Name of the Declarant:

Capacity of the Declarant: Managing Director/Precedent Partner/Proprietor

Signature:

Date: