



INLAND REVENUE DEPARTMENT

Notice to the Taxpayers

Amendments to the Value Added Tax Act, No. 14 of 2002

Value Added Tax (Amendment) Act No. 04 of 2025, has been certified on April 11, 2025 and important changes from the amendment Act to the Value Added Tax Act, No. 14 of 2002 (VAT Act), are set out below.

1. Imposition of VAT on the Supply of Services through electronic platforms by Non-Resident Person

VAT will apply to services supplied by non-resident persons through electronic platforms to persons in Sri Lanka, with effect **October 1, 2025**. Procedures for registration, payment, and compliance will be specified by the Commissioner-General in due course. The terms 'electronic platform', 'fixed place', and 'non-resident person' are defined in the VAT Act.

2. Abolition of Simplified VAT Scheme & Introduction of Risk Based Refund Mechanism

The Simplified VAT Scheme will be abolished with effect from October 1, 2025, and replaced by a **Risk-Based Refund Scheme**. Excess input tax of eligible exporters or registered persons whose value of supplies exceeds 50% of their total supplies to strategic Development Projects or Specified Projects for the taxable period or projects approved under section 22(7) of the VAT Act, will be refunded **not later than 45 days** from the due date of the VAT return submission and subject to the submission of proper VAT return. Conditions of the Risk-Based Refund scheme will be specified by the Commissioner –General in due course.

“Eligible exporter” means a registered person whose value of zero-rated supplies as defined under section 7 of this Act, during the preceding calendar year was greater than fifty percent of the total value of supplies made by that person during the same period.

3. Zero Rated Supplies

Zero-rated supplies of goods or services, in terms of the provisions of Section 7 of the VAT Act (as amended), are subject to the condition that payment must be received in foreign currency through a bank in Sri Lanka licensed under the Banking Act, No. 30 of 1988, within six months from the end of the taxable period in which the exportation or supply of such services took place.

However, the corresponding provision that disallows the deduction of any input tax attributable to such supplies, if payment is not received in foreign currency through a licensed bank in Sri Lanka within the specified six-month period, will be applicable only until 10th April 2025.

4. Mandatory VAT Registration for Commercial Importers/Exporters

All persons **importing or exporting goods for commercial purposes** will be **required to register under the VAT Act**, regardless of turnover thresholds or exemptions.

5. The Value of Supplies treated as Zero

Value of the following supplies shall be treated as zero for the purpose of VAT, with effect from January 1, 2024:

- Supply of services by an employer to his employee in the form of meals free of charge or subsidized meals or transport free of charge or at a subsidized rate using a motor coach between the place of residence and work place. Input tax paid by an employer as a registered person, on the payments borne by him on the outsourcing of the supply of meals and transport is allowed.
- Any reinsurance commission or any compensation received in foreign currency through a bank by any local insurance company from a reinsurer outside Sri Lanka.
- Any unused postage and revenue stamps of the Government of the Democratic Socialist Republic of Sri Lanka or of a Provincial Council, to the face value of such stamps.

6. Mandatory Electronic Filing of VAT Returns

All VAT registered person shall furnish the VAT returns **by electronic means** from **July 1, 2025**. Manual filed return submissions will only be allowed under exceptional circumstances approved by the Commissioner-General.

7. The Following Definition is introduced for “unprocessed agricultural products”

“unprocessed agricultural products” means products derived from plants cultivated on land or in a green house, and include products that have undergone preliminary processing steps such as cleaning, sizing, sorting, grading, cutting or chilling for the purpose of sale”.

The removal of the VAT exemption on the **supply of eggs**, making it subject to VAT at the standard rate of 18%, is effective from January 1st, 2024, in accordance with provisions of the VAT Act as amended by the Value Added Tax (Amendment) Act, No. 32 of 2023. The above definition has no connection on the VAT liability for the supply of eggs.

8. New Exemptions (Effective from April 11, 2025)

- The **supply or import** of - chemical naphtha to be supplied to **Ceylon Electricity Board** by the **Ceylon Petroleum Corporation** for the generation of electricity;
- The **supply of liquid milk and yoghurt**, produced out of locally produced fresh milk. To qualify for this exemption, the **liquid milk or yoghurt must contain at least 50%** (based on the total content) locally produced fresh milk

9. Removal of Exemptions (Effective from April 11, 2025)

The **Import of aircraft engines or aircraft spare parts**, identified under **specified Harmonized Commodity Description and Coding System Numbers** for Custom purposes

Commissioner General of Inland Revenue

