

Value Added Tax (VAT)
Amendments to the VAT Act as per the Budget 2015
VAT Rate Change (Effective from 01/01/2015)

Changes to the Value Added Tax, as announced in the Budget 2015 on 24.10.2014, have already been effected, pending formal amendments being made to the Value Added Tax Act No. 14 of 2002.

This note intends to provide you with clarification on how to make transitional adjustment due to change in the VAT Rate from 12% to 11% with effect from 01.01.2015. The tax fraction is 11/111. The same rate is applicable on the VAT on Financial Services as well.

The following transitional provisions should be noted, on supplies liable at Standard Rate.

(1) The application of the rate should be based on the time of supply.

If the time of supply falls prior to 01.01.2015 even though the invoice is raised on or after 01.01.2015, the rate applicable should be 12%.

This may arise on the following circumstances.

The time of supply is the earliest of:

- Date of invoice;
- Date of payment;
- Date of receipt of payment/advance; or
- Date of delivery of goods or date of performance of services (if invoice is issued within 10 days then that date, it is treated as the time of supply. Accordingly, if the 10 days period falls on or after January 1, 2015, the applicable rate of VAT on the invoice raised (tax invoice or tax inclusive invoice) is 11%, as the time of supply is the time the invoice is raised within 10 days.

The time of supply should be decided on the above basis.

Since, the tax invoice could be issued within 28 days; the date of issue of 'tax invoice' may fall in the month of January 2015. In such a case the rate applicable is 12% as the **time of supply** falls in December 2014.

However, if the approval is obtained by the supplier of services under section 23 (cash basis allowed only for construction services or consultation services), the time of supply

is the time on which the payments are made. Hence, if the payments are made on or after January 2015 by a supplier who is approved to make supplies on cash basis any tax invoice issued on or after 01.01.2015, the rate applicable is 11% {However, it should be checked carefully that in most of the cases even though the cash basis approval is obtained, tax invoices may have been issued prior to 01.01.2015, in such cases, the total VAT invoiced (at 12%) should be paid}. Special attention should be drawn on such cases as the issue of invoice is not permitted prior to payments.

(2) Advance Payments

If advances are received prior to 01.01.2015, both under cash basis or accrual basis, time of supply on such advance is received is the time of receipt of the advance. Hence, VAT is liable at 12%. Accordingly, any advance received prior to 01.01.2015, which is taxed at 12% should be deducted when the supply is invoiced on or after 01.01.2015.

Illustration:

It is assumed that;

Rent agreement is entered into in December 2014, on a monthly Rent Rs.100, 000/- and 20% of the total Rent for one year is received as an advance payment in the same month.

Advance received in December 2014 (20% x 1,200,000/-)	240,000
VAT @ 12%	<u>28,800</u>
Total invoiced	<u>268,800</u>
Month of January 2015 Rent	100,000
Less Advance (20% of the Rent)	<u>20,000</u>
Balance Rent for the month	80,000
Add- VAT @ 11%	<u>8,800</u>

(3) Adjustment in respect of

- **Bad debts written off on invoices issued prior to 01.01.2015**
- **Bad debts recovered which was written off prior to 01.01.2015.**
- **Adjustment for Debit Notes, Credit Notes etc.**

The adjustments also should be made based on the rate applied prior to 01.01.2015.i.e. 12%. Since there is no column in the latest VAT return for adjustments at the rate of 12%, the tax (VAT) should be shown in the column at 11% and by adjusting the value of supply accordingly. However, this is only for the purpose of filling the return. The value of supply for any other purposes should be the actual value of supplies. The registered person should keep a record of the adjustment made in this manner, for the reconciliation of the value of supplies for VAT purposes and the turnover for income tax purposes.

Illustration:

(i) Bad Debts written off on invoices issued prior to 01.01.2015

It is assumed that;

Value of supply liable for the month of January 2015 Rs. 500,000
VAT @ 11% 55,000
Bad debts written off on supplies declared in 2010
Rs.5,000 and VAT is Rs.600

	<u>Value of supply</u>	<u>VAT</u>
Value of supply	Rs. 500,000.00 and VAT @ 11%	55,000
Less-Bad debt 5,000 ($\frac{600 \times 100}{11}$)	Rs. 5,454.54	600
Value of Supply for VAT	Rs. 494,545.45	54,400

Value of supply for income tax purposes (500,000 - 5,000) = 495,000

(ii) Credit Note

It is assumed that;

Value of supply in the month of January 2015 600,000

Under-declared value of supply in the month of December 2014 which was adjusted through a credit note Rs. 6,000 and VAT Rs. 720.

The adjustment should be as follows.

	<u>Value of supply</u>		<u>VAT</u>
Value of supply	Rs. 600,000.00	11%	66,000
Add-Credit note 6,000 ($\frac{720 \times 100}{11}$)	Rs. 6,545.45		720
Adjustment			
Value of Supply for VAT	Rs. 606,545.45		66,720

Value of supply for income tax purposes (600,000 + 6,000) = 606,000


(4) Claim of Input Tax Credit

Claim of input tax on tax invoices received on or after 01.01.2015 on the supplies made prior to such date, is the rate of 12%.

There may be situation where tax invoice is raised on or after 01.01.2015, for supply made in December 2014, (as there is a time gap of 28 days to issue a tax invoice) or any tax invoice issued prior to 01.01.2015 received on or after such date.

In such cases, the input is claimable without any restriction based on the reduction of the rate subject to other restrictions specified in section 22 of the VAT Act.

A circular with comprehensive instructions on all the changes will be issued once the instructions are received from the Ministry of Finance including the subsequent changes with the new proposals introduced in the interim Budget passed by Parliament on 7th February 2015.


Wasanthi Manchanayake
Commissioner General of Inland Revenue

Wasanthi Manchanayake
Commissioner General of Inland Revenue