MANAGEMENT OF VALUE ADDED TAX
–VAT–

By

MAHESH RANAWAKA

Basic Concept of VAT



Rs. 1,000,000 @ 15%
= 150,000/-

Value addition on process
1,000,000/-

Rs. 2,000,000 @ 15%
= 300,000/-

Basic Concept of VAT

Value Addition @ 15 %

1,000,0000/- @ 15%
= 150,000/-

Out put Tax	300,000/-
Input Tax	(150,000/-)
VAT Payable	**150,000/-**

Value Added Tax - VAT

Imposition of Value Added Tax

Section 2 of the V A T Act No. 14 of 2002

Impose VAT

- **At the time of supply, on every taxable supply of goods or services, made in a taxable period in the course of carrying out of a taxable activity in Sri Lanka by a registered person.**

- **On the importation of goods into Sri Lanka by any person**

On the value of such goods or services at the rates specified in the VAT Act

Main Condition should be prevail for Chargeability

- Taxable activity is carried on or carried out in Sri Lanka
- There must be Taxable activity and taxable supply of good or services
- Supply should be made by Registered person
- Any person imports good to Sri Lanka

Important elements covered on Section 02

- Taxable activity
- Taxable supply
- Supply of goods
- Supply of services
- Taxable period
- Time of Supply
- Registered person
- Value of goods/services
- Import of goods
- Tax rates

Taxable supply

- The term "taxable supply" refers to any supply of goods or services made or deemed to be made in Sri Lanka which is chargeable with VAT.

  -The supply chargeable with VAT at the standard rate of 15%

  - also includes at zero rate (0%) .

  - does not include an exempt supply

Taxable period

Taxable period is totally depend on the **filing of the return** as per the meaning of **Section 21(1)** of the Value Added Tax Act.

- There are two types of taxable periods,

  - A period of **One month (Monthly returns)**

  - A period of **Three months (Quarterly returns)**

Taxable period

Period of One month

- Zero rated supplies (Direct exporters/RIP)
- Person who supplies to an exporter (Indirect exporters/RIS)

  Any person who is registered with the Textile Quota Board (TQB) or Export Development Board (EDB) and who makes supplies to an exporter registered with TQB or EDB.

- Person registered under section 22(7)

  Any person who has commenced a business or a project and he has undertaken to comply with the requirements under section 22(7) of the Value Added Tax Act.

Time of Supply

Supply of Goods :-

The supply of goods shall be deemed to have taken place, on the earliest occurrence of any of the following.

- a payment for the goods is received by the supplier, or
- a payment for the goods is due to the supplier or
- delivery of the goods has been done or
- An invoice is issued in respect of the goods

If the invoice is issued within ten days from the date of delivery of goods, the time of supply of such goods is time at which the invoice was issued

Time of Supply

Supply of services :-

The supply of service shall be deemed to have taken place, on the earliest occurrence of any of the following

- a payment is received for the services rendered or future services, or
- a payment is due for the services rendered or future services, or
- the service was performed,
- an invoice is issued in respect of the services rendered

If the invoice is issued within ten days from the date of services performed, the time of supply of such goods is time at which the invoice was issued.

Time of Supply

Hire Purchase Agreement :-

In case of hire purchase agreement on the supply of goods, the time of supply is the time at which the agreement is entered into.

Agreement other than Hire Purchase :-

Time of supply in respect of any agreement other than hire purchase is when the payment is due or when the payment is received, whichever occurs earlier.

Time of Supply

Supply on Payment Basis :-

- make an application to CGIR to payment basis.
- CGIR has directed any registered person to account for tax on a payment basis under section 23,
- time of supply of goods and services supplied by such person is the time of any payment is received
- Input Tax credits can be claimed if payment is made

Registered person

- The person who is eligible to collect and pay VAT to the Department of Inland Revenue as per the provision of Value Added Tax Act is known as the REGISTERED PERSON

- There are two provisions for registration under the Value Added Tax Act in relation to supply of goods or services.
  - Compulsory registration
  - Forced registration

Compulsory Registration (Sec. 10)

The registration is compulsory when a person's Total value of taxable supply in a taxable period exceeds,

Before 31.03.2016

- For a Taxable period - exceeded Rs. 3,750,000.
- For Twelve months period - exceeded Rs. 15,000,000.

On or After 01.04.2016

- One month or three month - exceeded Rs. 3,000,000.
- Twelve months period - exceeded Rs. 12,000,000.

Compulsory Registration

at any time, there are reasonable grounds to believe that total value of taxable supply

On or After01.04.2016

- **In the succeeding one month or three month taxable period is likely to exceed Rs. 3,000,000.**

- **In the succeeding twelve months taxable period is likely to exceed Rs. 12,000,000.**

Compulsory Registration

- The registration is compulsory for wholesale and retail trading

- If Value of total supply for taxable period of three months in one calendar year exceeds the liable threshold for the registration under the following circumstances.

- From 01.01.2013 to 31.12.2013	– Rs.500,000,000
- From 01.01.2014 to 31.12.2014	– Rs.250,000,000
- From 01.01.2015 to 30.10.2016	– Rs.100,000,000
- From 01.11.2016 on word	– Rs. 12,500,000

Forced Registration [Sec. 14 (1) (c)]

If the Commissioner General having regard to

- the nature of the activity and is of the opinion that a person is required to be registered
- but has not made an application for compulsory registration
- will be registered such person for VAT by using the power empowered by the Value Added Tax Act.

Value of goods/services

- **Where the consideration is in money,**

  the value of supply would be the total consideration less any tax chargeable under the VAT Act and not be less than the open market value.

  In arriving at the value of supply, the taxes charged such as nation building tax, excise duty etc; are included except for VAT charged.

- **Where the consideration is not in money or partly in money,**

  value of supply would be the open market value.

Value of goods/services

- Benefits from Employment
- Supply of Goods under Hire Purchase Agreement
- Supply of Land and Improvement
- Supply of Goods under Lease Agreement
- Cash Basis Method

Import of goods

- **Where a person caries on or carries out a taxable activity or not,**

  when such person imports a good, he is chargeable with VAT on the value of goods imported at the time of importation.

- **The VAT on importation is recovered by the Sri Lanka Customs.**

Import of goods

Meaning of Importation

The term "importation" is defined in the VAT Act as an inclusive definition as follows.

"Importation" includes the

bringing into Sri Lanka of goods from outside Sri Lanka by any person or

goods received from a custom bonded area, the purchase of goods on a sale by the Director General of Customs, the Sri Lanka Ports Authority or the Commissioner General of Inland Revenue for the levy of the tax and other dues.

Tax rates

- There are two applicable VAT rates to compute output tax
  - Zero rate - 0%
  - Standard rate
    - Up to 31.12.2014 - 12%
    - From 01.01.2015 - 11%
    - From 02.05.2016 - 15%
    - From 12.07.2016 - 11%
    - From 01.11.2016 - 15%

- Apart from this special payment of VAT for local sale of garment and fabric as approved by BOI and scheme of deferment facility for local sales.

  - In case of garments, Rs. 75 for each garment
  - In case of fabric, Rs. 75 per kilogram

Computation of VAT Payable

The VAT is computed on the sale value (value of supply) which is called "output tax".

- **When a person buys goods or services or imports goods, the VAT paid on such purchase or importation, known as "input tax"**

- **Net VAT payable computed as follows**

Output Tax			
Value of supply	**x**	**Rate**	**XX**
Less: Input Tax			**(X)**
Net VAT payable			**XX**

Restrictions of Input Tax Claim

Any input tax attributable to the supply of goods or services received shall not be deducted in respect of the following,

- Input Tax Not Connected with Taxable Activity or Not Included in Value of Taxable Supply.

- Input Tax in respect of Motor Vehicles using for travelling purpose.

- Input Tax Not Supported by Tax Invoice or Customs Goods Declaration.

- Input Tax Not Claimed within the Prescribed Period.

Computation of VAT Payable

- The claim of input tax is restricted only to the extent of the input tax that is related to the activity of making taxable supplies .

- The input taxes related to the non taxable supplies, namely
  exempt supplies and
  excluded supplies
  are not deductible.

Tax Invoice

Issued when……

- A registered person who make a taxable supply to any there registered person
- He made the written request within 14 days from time of the supply
- Required to issue a Tax Invoice within 28 days from the time of supply
- No further request for subsequence supply
- Content prescribed on Section 20 of VAT Act.

Tax Invoice

- Where the supply is made to a non registered person, the supplier shall be issued Commercial invoice and not a tax invoice.

- However, a tax invoice shall be issued by a registered person who makes taxable supply to any Government Institution, Provincial Council, Local Government Institution or any public corporation, whether such institutions are registered or not under the VAT.

Input Tax Not Claimed within the Prescribed Period

Tax Invoices

12 months from the date of Invoice

Customs Goods Declaration (CUSDEC)

24 months from the date of CUSDEC

Apportionment of Input Tax Credit

- Engaged in taxable supply and non taxable supply
- Input Tax credit that related to taxable supply will be only allowed.
- Input tax which are directly identified to taxable supply can be claimed.
- Input tax which are incurred commonly , has to be apportioned based on the turnover.
- Act does not provide a basis for apportioning the input credit

Apportionment of Input Tax Credit

Allow to use basis of turnover

$$\frac{\text{Taxable supplies} * \text{Input tax for common Expenses}}{\text{Total Supply}}$$

- **Taxable supply would include zero rated supplies.**
- **Total supply would include both the zero rated supplies as well as exempted supplies.**

Zero Rated Supply (Sec. 7)

- In the case of zero rated supply, the supply is taxable, but the rate of VAT is zero percent (0%).
- No tax shall be charged in respect of zero rated supply, but the supply in all other respects be treated as a taxable supply.
- The input tax on the purchase of goods or services to be used for such supply is deductible.
- No 100% limitation applicable for Input tax claim.

Zero Rated Supply (Sec. 7)

The following supplies are specified as zero rated supplies.

- Direct Exports

- Certain identified services provided

- Other services provided to the person outside Sri Lanka

Zero Rated Supply (Sec. 7)

Other services provided to the person outside Sri Lanka

- Provided by any person in Sri Lanka
- To any person out side Sri Lanka
- To be consumed or utilized out side Sri Lanka
- Payment of Such service in full, received on foreign currency
- Payment received through a Bank in Sri Lanka.

Excess Input Tax (Section 22)

Excess input tax can be categorized as follows.

- **Excess Input Tax arises for the suppliers other than Exporters and Other specified suppliers from taxable period on or after 01.01.2011. (On the 100% restriction)**

Value Added Tax Refunds (Section 58)

The excess input tax incurred by the following persons is treated as refundable input tax.

- Zero rated supplier
- Supplier whose payment of VAT is deferred
- Persons who are registered under section 22(7) during the project implementation period
- Persons making supplies to following projects
  - Specified project
  - Strategic Development Project

Value Added Tax Refunds (Section 58)

Supplier who makes Zero Rated Supplies

- **Direct export of goods as well as certain identified services are zero rated supply under section 7 of the VAT Act.**
- **Technically, zero rated supply is a taxable supply liable for VAT, but the rate of VAT is 0%.**
- **The input tax attributable to zero rated supply is a refundable tax.**

Section 22 (7) – Project Implementation

- Commence a **new business or project** implementation period.
- Obtained the **approval from CGIR**
- **Agreed to make taxable supply** with in agreed period
- Credit for **input tax will be given** , though there is no taxable supply during that period
- Required to submit the **monthly return**
- If taxable supply will not be made with in agreed period, recovery action will be taken to **recover the refund** realised.

Thank You