



**PARLIAMENT OF THE DEMOCRATIC
SOCIALIST REPUBLIC OF
SRI LANKA**

VALUE ADDED TAX (AMENDMENT)

A

BILL

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

*Presented by the Prime Minister and Minister of Buddha Sasana and
Religious Affairs on 21st March, 2014*

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STATEMENT OF LEGAL EFFECT

Clause 2: This Clause amends section 3 of the Value Added Tax Act, No.14 of 2002 (hereinafter referred to as the principal enactment) and the legal effect of that section as amended is to reduce the threshold of the liability of the wholesale and retail trade from Rs. 500 Million to Rs. 250 Million and related matters.

Clause 3: This Clause amends section 8 of the principal enactment and the legal effect of that section as amended is to limit the exemption granted to the wholesale or retail business subject to certain conditions.

Clause 4: This Clause amends section 10 of the principal enactment and is consequential to the amendment made to section 3 of the principal enactment.

Clause 5: This section amends section 20 of the principal enactment and the legal effect of that section as amended is to provide for the avoidance of the issue of tax invoices on deemed liability referred to in section 8 of the principal enactment.

Clause 6: This Clause amends section 22 of the principal enactment and the legal effect of that section as amended is to provide for matters in the case where long term and general insurance businesses are segregated by the persons carrying on both long term insurance business and general insurance business, and to allow any bank or finance company to claim the unabsorbed input credit where any acquisition or merger of such bank or finance company takes place.

Clause 7: This Clause amends section 25C of the principal enactment and the legal effect of that section as amended is to adopt only the profit calculation method referred to in that section in calculating the VAT of Financial services.

Clause 8: This Clause amends section 25D of the principal enactment and is consequential to the amendment made to section 25C of the principal amendment.

Clause 9: This Clause amends section 40 of the principal enactment and the legal effect of that section as amended is to expand the present preferential claims of default tax from one year to five years.

Clause 10: This Clause amends section 71 of the principal enactment and the legal effect of that section as amended is to reduce the contribution to the VAT refund fund by the Director- General of Customs on importation of goods from 10% to 6%.

Clause 11: This Clause amends section 83 of the principal enactment and the legal effect of that section as amended is to expand the definition of "international transportation".

Clause 12: This Clause amends PART II of the First Schedule to the principal enactment in order to add new exemptions and to restrict exemptions granted to certain items.

Clause 13: This Clause specifies the change of certain designations in keeping with the changes made to such designations in the Service Minute of the Inland Revenue Service.

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L.D. – O. 4/2014

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:-

5 **1.** This Act may be cited as the Value Added Tax (Amendment) Act, No. of 2014 and shall be deemed to have come into operation on January 1, 2014. Short title and date of operation.

2. Section 3 of the Value Added Tax Act, No.14 of 2002 (hereinafter referred to as the “principal enactment”) is hereby amended as follows:- Amendment of section 3 of Act, No.14 of 2002.

10 (a) by the renumbering of that section as subsection (1) thereof;

 (b) in the renumbered subsection (1) of that section, by the repeal of paragraph (f) and the substitution therefor of the following:-

15 “(f) any person or a partnership having total supplies for any consecutive period of three months in any calendar year of not less than rupees two hundred and fifty million, including the supplies under the preceding paragraphs of this section and any supplies exempted under Part II of the First Schedule:”;

20

(c) by the repeal of the Second proviso to that section and the substitution therefor of the following:-

25 “Provided further, the chargeability to tax referring to any registered person specified in paragraph (f) shall be subject to the exemption granted under section 8, subject to the conditions specified therein:”;

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(d) immediately after subsection (1) of that section, by the insertion of the following:-

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“(2) For the purposes of paragraph (f), the total supplies means, the aggregate value of supplies of-

10

(i) any person or partnership engaged in the wholesale or retail business while carrying on other business of similar nature in one place or different places under one or more registrations for the purposes of this Act; and

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(ii) with regard to any subsidiary or associated company of a group of companies, engaged in the wholesale or retail business, the aggregate value of supplies of each company of the group, other than any company not engaged in the wholesale or retail business.”.

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3. Section 8 of the principal enactment is hereby amended by the substitution for the words “in the First Schedule to this Act as such supplies and imports are not taxable unless zero rated under section 7.” of the following:-
Amendment of section 8 of the principal enactment.

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“in the First Schedule to this Act as such supplies and imports are not taxable unless zero rated under section 7:

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Provided that, in the case of a registered person referred to in paragraph (f) of section 3 of this Act, the value of the supply of goods exempted under this Act made by such registered person directly or on behalf of any other person, which is in excess of twenty five *per cent* of the total supply of such registered person other than zero rated supplies and where the supply is

5 made by the importer himself, the value of supply of goods subject to Special Commodity Levy, shall be deemed to be treated as liable supplies of such registered person and chargeable to tax at the rate specified in section 2 of this Act using the fraction on the tax inclusive consideration:

Provided further, in the case of a registered person -

10 (a) who supplies pharmaceuticals, specified as exempted in PART II of the First Schedule to this Act; or

15 (b) who supplies software dedicated products including computers and computer accessories, exceeding seventy five *per centum* of the total value of supplies respectively of such registered person under paragraph (a) or paragraph (b) of this proviso, as the case may be, such registered person shall not be liable to tax on any deemed liable supplies referred to in this section.”.

20 **4.** Section 10 of the principal enactment is hereby amended in subsection (2) of that section by the substitution of the words “is not less than rupees five hundred million” for the words “is not less than rupees two hundred and fifty million”. Amendment of section 10 of the principal enactment.

25 **5.** Section 20 of the principal enactment is hereby amended by the insertion immediately after the first proviso to subsection (1) of that section, of the following:- Amendment of section 20 of the principal enactment.

30 “Provided further, any tax invoice shall not be issued on the supplies considered as deemed liable supplies referred to in section 8 of this Act.”.

6. Section 22 of the principal enactment is hereby amended by the insertion immediately after subsection (11) of that section, the following:-” Amendment of section 22 of the principal enactment.

35 “(12) in the case of a person engaged in the insurance business and carrying on both long term insurance

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business and general insurance business, and who segregates such long term insurance business and the general insurance business into two separate companies, as required by section 53 of the Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011, the balance, if any, of the amount unabsorbed input credit relating to the business of general insurance as at the date of such segregation, shall notwithstanding anything to the contrary in any other provision of this Act, but subject to the preceding provisions of this section, be treated as an unabsorbed input credit by the company carrying on the general insurance business after such segregation.

(13) any unabsorbed input credit of any bank established under the Banking Act, No.30 of 1988 or Finance Company licensed under the Finance Business Act, No.42 of 2011, relating to the liable business of such bank or finance company as at the date of acquisition or merger of such bank or finance company, as the case may be, shall be allowed to be claimed subject to the provisions of this Act, and in accordance with the guidelines issued by the Central Bank for this purpose.”.

7. Section 25C of the principal enactment is hereby amended in subsection (4) by the repeal of that subsection and the substitution therefor of the following:-

Amendment
of section
25C of the
principal
enactment.

“(4) Notwithstanding anything contained in subsection (1), any person to whom this Chapter applies-

(a) may in writing communicate to the Commissioner-General, his intention to calculate subject to the provisions of subsection (5), the tax to which he is liable in respect of any month commencing on or after July 1, 2003 but for the period prior to January 1, 2014. The provisions of subsection (5) shall

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however be applicable for the period subsequent to the communication in writing to the Commissioner-General which communication shall not be revocable.

5 (b) shall for any month commencing from January 1, 2014, be subject to the provisions of subsection (5).”.

8. Section 25D of the principal enactment is hereby amended by the substitution for the words “a tax credit shall be allowed” of the words and figures “a tax credit shall be allowed for any taxable period prior to January 1, 2014”.
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Amendment of section 25D of the principal enactment.

9. Section 40 of the principal enactment is hereby amended by the repeal of paragraph (iii) of the proviso to that section and the substitution therefor of the following:-
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Amendment of section 40 of the principal enactment.

“(iii) as regards movable property –

(a) for any taxable period ending prior to January 1, 2014, where tax for more than four taxable periods is in default, the tax for four taxable periods only to be selected by the Commissioner-General shall rank in priority to any lien or encumbrance created *bona fide* for value prior to the date of default of such tax; and
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(b) for any taxable period commencing on or after January 1, 2014, where the tax for more than taxable periods for five years is in default, the tax for taxable periods within five years only to be selected by the Commissioner-General, shall rank in priority to any lien or encumbrance created *bona fide* for value prior to the date of default of such tax.”.
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10. Section 71 of the principal enactment is hereby amended by the repeal of item (ii) of subsection (2) of that section and the substitution therefor of the following:-

Amendment
of section 71
of the
principal
enactment.

5 “(ii) (a) ten *per centum* for the period prior to January 1, 2014;

(b) Six *per centum* for any period from or after January 1, 2014

10 of the tax collected by the Director-General of Customs on importation of goods referred to in subsection (3) of section 2 on or before the fifteenth day of the month immediately succeeding that month and each month thereafter.”.

11. Section 83 of the principal enactment is hereby amended in the definition of the expression “international transportation” by the addition immediately after paragraph (c) thereof, of the following new paragraph:-

Amendment
of section 83
of the
principal
enactment.

“(d) from an international airport in Sri Lanka to another international airport in Sri Lanka by way of air transportation.”.

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

Amendment
of the First
Schedule of
the principal
enactment.

(1) in paragraph (a) of that Part, -

(a) by the repeal of item (i) and the substitution therefor of the following:-

25 “(i) wheat, wheat flour or powdered milk;”;

(b) by the repeal of item (iii) and the substitution therefor of the following:-

30 “(iii) ayurvedic preparations which belong to the Ayurveda Pharmacopoeia or ayurvedic preparations (other than

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- 5 cosmetic preparations) or unani, siddha or homeopathic preparations (other than cosmetic preparations identified under the Harmonized Commodity Description and Coding System Numbers for custom purposes) and raw materials for such preparations with the recommendation of the Commissioner of Ayurveda;”;
- 10 (c) by the repeal of item (viii) and the substitution therefor of the following:-
- “(viii) agricultural tractors or road tractors for semi-trailers prior to January 1, 2014;”;
- 15 (d) in item (xxii), by the repeal of sub item (vi) and the substitution therefor of the following:-
- 20 “(vi) bowsers, bulldozers, graders, levelers, excavators, firefighting vehicles, gully bowsers, semi-trailers for road tractors, machinery, equipment used for garbage disposal activities or garbage trucks;”;
- (e) by the addition immediately after item (vii) the following new item:-”
- 25 (viii) ties and bows or designer pens;”;
- (f) by the addition immediately after item (xxiii) of the following items:-
- 30 “(xxiv) frozen bait, fish hooks/rods/ reels , fishing tackle and marine propulsion engines identified under the Harmonized Commodity Description and Coding System Numbers for Custom proposes.;

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(xxv) copper cables for telecom industry -

- imported where such copper cables
are not available in Sri Lanka; or -

5 - purchased from a local
manufacturer.”.

(2) in paragraph (b) of that Part:-

(i) by the repeal of item (xiii) and the
substitution thereof of the following item:-

10 “(xiii) imported unprocessed timber logs,
ships, rattans or any article subject
to the Special Commodity Levy
under the Special Commodity Levy
Act, No. 48 of 2007 subject to the
15 condition that such goods are sold
by the importer himself without any
processing except adaptation for
sale;”;

(ii) by the addition immediately after item (xLvi)
of the following new items:-

20 “(xLvii) desiccated coconut, rubber, latex,
tea including green leaf, rice, rice
flour, bread, eggs, liquid milk so
far as such products are
manufactured locally;

25 (xLviii) machinery or equipment for tea or
rubber industry or agricultural
tractors or road tractors for semi-
trailers, so far as such products are
manufactured locally;

5 (xLix) services by any headquarters or regional head offices of institutions in the international network relocated in Sri Lanka as exempted for income tax purposes under section 7 of the Inland Revenue Act, No. 10 of 2006, so far as such receipts are in foreign currency received.

10 (L) locally manufactured ayurvedic preparations which belong to the Ayurveda Pharmacopoeia or Ayurveda preparations (other than cosmetic preparations) or unani,
15 siddha or homeopathic preparations (other than cosmetic preparations).”.

20 (3) in item (xvi) of paragraph (c) of that Part by the substitution for the words “machinery identified under” of the words and figures “machinery prior to January 1, 2014 identified under”.

13. In the principal enactment, -

General amendment to the principal enactment.

25 (a) by the substitution for the word “Commissioner” wherever that word appears of the words “Senior Commissioner”;

(b) by the substitution for the words “Deputy Commissioner” wherever such words appear of the word “Commissioner”;

30 (c) by the substitution for the word “Senior Assessor” wherever that word appears of the words “Senior Commissioner” or “Deputy Senior Commissioner”;

(d) by the substitution for the word “Assessor” wherever such word appears of the words “Assistant Commissioner”.

14. Any person who is authorized to collect the Value Added Tax as provided for in this Act during any period commencing from January 1, 2014 and ending on the date on which the Certificate of the Speaker is endorsed in respect 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 such collection :

Provided that, the aforesaid provisions shall not affect any decision or Order made by any Court or any proceedings pending in any Court in respect of any tax collected as provided for in this Act during such period.

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

Validation.

Sinhala text to prevail in case of inconsistency.

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