

VALUE ADDED TAX

Who is liable to pay Value Added Tax? (Section 2)

- i. The tax is charged at the time of supply, on every taxable supply of goods or services, made in a taxable period, made by a registered person in the course of the carrying on, or carrying out, of a taxable activity by such person in Sri Lanka
- ii. The tax is also charged on the importation of goods into Sri Lanka, by any person

What is a Taxable Supply ?

Any supply of goods or services made or deemed to be made in Sri Lanka which is chargeable with tax under VAT Act and includes a supply charged at the rate of zero percent other than an exempt supply.

What is the meaning of “Supply of Goods”?

Passing of exclusive ownership of goods to another as the owner of such goods or under the authority of any written law and includes the sale of goods by public auction, the transfer of goods under a hire purchase agreement, the sale of goods in satisfaction of a debt and the transfer of goods from a taxable activity to a non-taxable activity.

What is the meaning of “Supply of Services”?

Any supply which is not a supply of goods but includes any loss incurred in a taxable activity for which an indemnity is due

What is meant by “Taxable Period”?

(a) a period of one month-

- (i) where any person makes zero rated supplies,
- (ii) where any person has entered into an agreement with the BOI, during the project implementation period;
- (iii) where any person registered under Section 22(7) of VAT Act
- (iv) where any person registered with Textile Quota Board or Export Development Board as the case may be, who makes supplies to an exporter registered with Textile Quota Board or Export Development Board

(b) a period of three months, in respect of a registered person who do not fall under category (a) above

What is the Value of Supply of goods and services?

- *When the recipient is a registered person*
 - ✓ If the consideration is in money
 - Total consideration less VAT or
 - Open market valuewhich ever is higher
 - ✓ If not in money or partly in money
 - Open market value
- *When the recipient is not a registered Person*
 - tax inclusive consideration or
 - open market valuewhich ever is higher

What is the Time of supply?

- *For Supply of goods*
 - ✓ The time of supply is the earliest happening of
 - Date of invoice issued
 - Due date of payment
 - Date of receipt of payment/advance
 - Date of delivery (If the invoice is issued within 10 days of the delivery of goods then time of supply is the date of issue of invoice)
- *For Supply of Services*
 - ✓ The time of supply is the earliest happening of
 - Date of invoice
 - Due date of payment
 - Date of receipt of payment/advance
 - Date of performance of the service (If the invoice is issued within 10 days of performing the service, the time of supply is the date of issue of invoice)

Who are liable to be registered?

From 01.01.2015,

Every person who carries on a taxable activity should register for VAT, if the value of his taxable supplies exceeds or likely to exceed,

- Rs.3,750,000 per any one month or a 3 months period
- Rs.15,000,000 per annum

Who can apply CASH BASIS?

Registered Persons who have obtained approval of Commissioner General of Inland Revenue under Section 23 of VAT Act, can account for tax on cash basis.

What are the applicable Tax Rates?

- Zero rate 0% (section 7)
- Standard rate 11%
- Special Rate - Based on piece of product
(Rs. 25/- per piece of garment and Rs.40/- per kilogram of fabric sold in local market which were manufactured for export, by a BOI registered manufacturer.)

What should contain in a “TAX INVOICE “?

- (a) the name, address and the registration number of the supplier;
- (b) the name and address of the person to whom the supply was made;
- (c) the date on which the tax invoice was issued and its serial number;
- (d) the date of supply and description of the goods or services;
- (e) the quantity or volume of the supply;
- (f) the value of the supply, the tax charged and the consideration for the supply; and
- (g) the words “TAX INVOICE” at a conspicuous place in such invoice.

What is the due date to submit the return?

Every registered person is required to furnish the VAT return not later than the last day of the month after the expiry of each taxable period.

What are the due dates for Payment of Tax?

- *Manufacturers having Monthly taxable periods*
 - On or before 20th day of the month following the end of the taxable period.
- *Manufacturers having Quarterly taxable periods*
 - On the monthly basis on or before 20th day of the second month and 20th of the third month of the quarter and balance by the 20th of the month immediately after the quarter

- *Non manufacturers*
 - for the period from the 1st day to the 15th day of any month, on or before the end of that month; and
 - for the period from the 16th day to the end of the month, on or before the 15th day of the subsequent month
 - subject to the making of any final adjustments, if any , with the submission of the return

Computation of Tax

- *Basic formula to compute,*

$$VAT \text{ payable} = \text{output tax} - \text{input tax}$$

Example 01

ABC Company (Pvt) Ltd, is engaged in manufacturing soft toys for local market. The transactions for the quarter ending 31st December 2015 are given below: All transactions are shown exclusive of VAT where applicable except for sales to unregistered persons which are shown inclusive of VAT.

Sales to registered persons	Rs. 4,500,000
Sales to non registered persons (with VAT)	Rs. 1,665,000
Purchases of Air Conditioners for the factory	Rs. 850,000
Electricity	Rs. 112,000
Salaries and wages	Rs. 1,250,000
Purchases of raw materials from VAT registered persons	Rs. 3,400,000

Compute VAT payable by the company for quarter ended 31.12.2015.

ANSWER

Sales to registered persons	4,500,000 x 11%	495,000
Sales to non registered persons	<u>1,665,000</u> x 11%	165,000
	111%	
Total Output Tax		660,000
Purchases of Air Conditioners for the factory	850,000 x 11%	93,500
Electricity	- No VAT	
Salaries and wages	- No VAT	
Purchases of raw materials from VAT registered persons	3,400,000 x 11%	<u>374,000</u>
Total Input Tax		467,500
VAT Payable	660,000 - 467,500	<u>192,500</u>

• ***Input Tax Credit***

1. For Motor vehicles used for traveling (business or private), no input credit is allowed. This includes repairs, lease, hire, insurance etc.
2. Input tax credit cannot be claimed on purchase of goods or services which are not connected with the taxable activity.
3. Normally input tax directly related to taxable supplies is deductible in full while input tax directly related to exempted supplies is not deductible. If the input tax is related to both exempt and taxable supplies the deductible portion of input tax is calculated on a general pro rata basis.
4. No input tax is deductible, if it is not supported by a valid tax invoice.
5. Allowable input credit for any taxable period is restricted to 100% of the output tax declared for that taxable period. The balance if any can be carried forward and claimed in the subsequent taxable periods subject to the same restriction. However, this restriction is not applicable to,
 - Zero rated supplies
 - Suspended taxable supplies
 - project related goods or services during the project implementation period, incurred by a person who is registered under Section 22(7).

Example 2

Details of supplies made by DEF Company (Pvt) Ltd, during the quarter ended 31st December 2015 are given below. All transactions are shown exclusive of VAT where applicable.

Local Sales – exempted supplies	Rs. 1,450,000
Local Sales – liable supplies	Rs. 5,800,000

Input tax details are as follows.

On packing material used to liable supplies	Rs.	12,000
On local purchases which used to make exempted articles	Rs.	25,000
On repair of a motor car	Rs.	15,000
On import of raw materials	Rs.	245,000
On office expenses	<u>Rs.</u>	<u>45,000</u>
	Rs.	342,000

Compute VAT payable by the company for quarter ended 31.12.2015.

ANSWER**Out put tax**

Exempt Local Sales	Rs. 1,450,000	-
Liabie Local Sales	Rs. 5,800,000 x 11%	<u>638,000</u>
		638,000

Input Tax

Total Input tax		342,000
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Less:Disallowable input tax

On packing material used to liabie supplies – claimable in full		
On local purchases which used to make exempted articles		25,000
On repair of a motor car		15,000

Input Tax Attributable to Exempt Supplies

On import of raw materials	245,000	
On office expenses	<u>45,000</u>	290,000
<u>Non Taxable Supplies</u> x Common Input Tax	<u>1,450,000</u> x 290,000	58,000
Total Supplies	7,250,000	
Total Disallowable Input Tax		<u>98,000</u>
Allowable Input Tax		244,000

Allowable Input Tax - limited to 100% of output tax on taxable supplies

VAT Payable	638,000 - 244,000	394,000
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Example 3

Details of supplies made by Roja Company (Pvt) Ltd, during the quarter ended 31st December 2015 are given below. All transactions are shown exclusive of VAT where applicable.

Direct exports	Rs. 1,500,000
Local Sales – exempted supplies	Rs. 750,000
Local Sales – liabie supplies	<u>Rs. 3,750,000</u>
	Rs. 6,000,000

Input tax details are as follows.

On import of raw materials	Rs. 645,000
On packing material used to make good exported	Rs. 20,000
On local purchases	<u>Rs. 67,000</u>
	Rs. 732,000

Assuming that the VAT paid on supplies received by the company are referable to local supplies and the exports of the company in equal amounts, compute VAT payable by the company for quarter ended 31.12.2015.

ANSWER**Out put tax**

Direct exports - Zero rated	1,500,000 x 0%	-
Local Sales – exempt	750,000	-
Local Sales – Liable	3,750,000 x 11%	<u>412,500</u>
		412,500

Input Tax

Total Input tax 732,000

Less:Disallowable input tax

On packing material used to make good exported – Fully claimable

Input Tax Attributable to Exempt Supplies

<u>Non taxable Supplies</u> x Common Input Tax	750,000 x 712,000	
Total Supplies	6,000,000	<u>89,000</u>
Allowable Input Tax		643,000

Input tax claimable without restriction

Directly related to zero rated supplies

On packing material used to make good exported 20,000

Zero rated supplies x claimable input tax 1,500,000 x 623,000

Total supplies excluding exempt supplies 5,250,000 178,000 **198,000**
445,000

Balance subject to 100% of output tax

Allowable amount **412,500**

Total input tax claimable (198,000 – 412,500) **610,500**

VAT Refund Due (412,500 - 610,500) 198,000

Unabsorbed Input Tax carried Forward (643,000 - 610,500) 32,500

Simplified Value Added Tax Scheme (SVAT)

There are two types of registered persons

- RIP(Registered Identified Purchasers)
- RIS (Registered Identified Suppliers)

- **Who are entitled to be registered under SVAT scheme?**

- i. Exporters and providers of zero rated services
- ii. Registered persons engaged in any Specific Project
- iii. Persons registered under Section 22(7) of VAT Act, and who are entitled to claim input tax
- iv. Manufacturers who supply goods manufactured in Sri Lanka to exporters to be utilized for manufacture of goods to be exported
- v. Suppliers who provide value added services to exporters which results in the improvement of the quality, character or value of any goods manufactured for export.

When RIS sells goods to a RIP, he issues a “**SUSPENDED TAX INVOICE**” showing the Value Added Tax component as “Suspended Value Added Tax”. These supplies should be declared in the VAT return as suspended taxable supplies.

RIP will issue a **SIMPLIFIED VAT CREDIT VOUCHER (SVCV)** to RIS, in relation to the supplies made to such RIP.

VAT amount of all SVCV received by RIS in respect of any taxable period can be deducted from tax payable of that taxable period.

Example 4

Details of supplies made by Soori Company (Pvt) Ltd, during the quarter ended 31st December 2015 are given below. All transactions are shown exclusive of VAT where applicable.

Direct Exports	Rs. 2,100,000
Sales to exporters - Under SVAT scheme	Rs. 1,275,000
Local Sales - taxable	<u>Rs. 4,125,000</u>
	Rs. 7,500,000

Input tax details are as follows.

On import of raw materials	Rs. 290,000
On local purchases	<u>Rs. 35,000</u>
	Rs. 325,000

- All SVAT credit Vouchers were received on time.

Compute VAT payable by the company for quarter ended 31.12.2015.

ANSWER

Out put tax

Zero rated Supplies - Exports	Rs. 2,100,000 x 0%	-
Suspended Supplies - Sales to exporters	Rs. 1,275,000 x 11%	140,250
Taxable Supplies - Local Sales	Rs. 4,125,000 x 11%	<u>453,750</u>
		594,000

Input Tax

Total Input tax	325,000
<u>Input tax claimable without restriction</u>	

Zero rated supplies + SVAT Supplies x Claimable input tax

Total supplies		
<u>(2,100,000 + 1,275,000)</u> x 325,000	146,250	
7,500,000		
Balance subject to 100% of output tax on taxable supplies	<u>178,750</u>	
Total input tax claimable		325,000
VAT Payable (594,000 - 325,000)		269,000
Less: SVAT credit Vouchers		140,250
Balance Payable		128,750

Example 5

Details of supplies made by Bossy Company (Pvt) Ltd, during the quarter ended 31st December 2015 are given below.

Direct Exports	Rs. 2,822,800
Sales to exporters - Under SVAT scheme	Rs. 1,850,000
Local Sales – exempt	Rs. 1,416,000
Local Sales - taxable	<u>Rs. 5,711,200</u>
	<u>Rs.11,800,000</u>

Input tax details are as follows.

On import of raw materials	Rs. 583,000
On local purchases	Rs. 513,000
On Insurance of motor car used by CEO	Rs. 20,000

- Unclaimed input VAT brought forward from previous quarter amounts to Rs. 28,000/-.
- The company has received Simplified VAT Credit Vouchers (SVCV) amounting to Rs. 195,000/- in respect of suspended supplies made.

Assuming that the VAT paid on supplies received by the company are referable to local supplies and the exports of the company in equal amounts, compute VAT payable by the company for quarter ended 31.12.2015.

ANSWER

Zero Rated Supplies - Exports			2,822,800	0%	
Suspended Supplies - Sales to exporters			1,850,000	11%	203,500
Taxable Local Sales			5,711,200	11%	628,232
Exempt Local Sales			<u>1,416,000</u>		-
					831,732
<u>Input Tax</u>					
On import of raw materials					583,000
On local purchases					319,000
On Insurance of a car					
Total Input Tax					922,000
Less: Disallowed input tax - insurance of car					<u>(20,000)</u>
					902,000
less: Input tax on exempt supplies	<u>,416,000</u>	x	902,000		<u>(110,640)</u>
	11,800,000				
Allowable input tax for the period					791,360
B/F input tax					<u>28,000</u>
Claimable input tax including B/F input tax					819,360
Input tax claimable without restriction					
	<u>(2,822,800 + 1,850,000)</u>	x	791,360	356,112	
	(11,800,000 - 1,416,000)				
balance claimable subject to 100% of output tax on taxable	628,232	or	463,248	463,248	
Total Claimable Input Tax					819,360
unabsorbed input tax carried forward				NIL	
Tax payable					
Less: SVAT Credit Vouchers					(195,000)
Refund Due					(182,628)

Note: This article is based on amendments made up to 31st March 2015 and budget proposals of 2016 are not considered.