

KPMG Sri Lanka

Tax News Flash

May 2021

TAX UPDATE

For clients of KPMG Sri Lanka

The Value Added Tax (Amendment) Act No. 9 of 2021 was passed in Parliament and certified by the Speaker on 13th May 2021. We have provided below a synopsis of the key changes in the Amendment Act compared to the Bill which was published in March 2021 (we have already circulated a synopsis of the Bill via Tax Alert dated 9th April 2021).

A. Conditions to be met on zero-rated supplies

- As per the Bill, the following sectors were required to remit proceeds in foreign currency within six months from the date of supply:
 - i. Export of goods.
 - ii. Services directly connected with any movable or immovable property outside Sri Lanka.
 - iii. Services directly connected with a copyright, patent, license, trademark or similar intellectual property right, to the extent that such right is for use outside Sri Lanka.

The Amendment Act revises same to apply not from the date of making the supply, but from the end of the taxable period.

- The Amendment Act also extends the above condition to apply to the following supplies:
 - i. Services directly connected with any goods imported into Sri Lanka for re-export under entrepot trade.
 - ii. Computer software development services, in respect of software developed by the developer for use wholly outside Sri Lanka.
 - iii. Client support services provided over the internet/ telephone by an enterprise set up exclusively for the provision of such services to identified foreign clients.

- iv. Services to overseas buyers by a garment buying office registered with the Textile Quota Board or the Simplified VAT ("SVAT") Scheme.
 - v. Any other service provided by any person in Sri Lanka to a person outside Sri Lanka, to be consumed or utilized outside Sri Lanka.
- Accordingly,
 - An input credit can be claimed against the above supplies only if the payment condition is satisfied;
 - If such payment condition is not satisfied, but if it could be proved to the Commissioner General of Inland Revenue that the goods have been exported or services have been performed, then zero rate of tax can be applied on such supplies. On such supplies, no input credit would be afforded.

B. Registration under SVAT Scheme for persons who voluntarily register for VAT

- The Amendment Act provides for the following persons, who do not meet the mandatory registration threshold but who have registered for VAT under voluntary registration basis, to be eligible to be registered under the SVAT Scheme:
 - i. An exporter who proves to the satisfaction of the Commissioner General that his total supplies have been exported;
 - ii. A person willing to register as a Registered Identified Supplier under the SVAT Scheme as approved by the Commissioner General.

C. Exempt supplies

- The effective date of the following exemption has been revised to 13th May 2021:
 - i. Local supply of any goods other than goods referred to in paragraph (c) of Part II of the First Schedule to the VAT Act, which would have been exempted on importation, if imported.

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