



දේශීය ආදායම් දෙපාර්තමේන්තුව உள்ளாட்டு இறைவரித் திணைக்களம் DEPARTMENT OF INLAND REVENUE

ලේකම් අංශය
14 වන මහල

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SEC 2016/02

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Circular to all VAT Registered Persons

Value Added Tax (VAT) Implementation of the Policy Decision of the Ministry of Finance Deferment of Proposed Amendments to the VAT Act by Budget 2016

As instructed by the Ministry of Finance, in consequent to the announcement of the Ministry on deferment of implementation of amendment proposed to the Value Added Tax Act No. 14 of 2002 in the Budget 2016, all registered persons for VAT are notified that with effect from 01.01.2016:

- VAT rate continuous at 11% as prevailed as at 31st December 2015
- restriction on the exempt supplies applicable on whole sale and retail trade (deemed VAT) is removed

In respect of VAT collected from 01.01.2016 to 13.01.2016 on which VAT had been charged at the rate of 8% or 12.5% as announced in the Budget 2016, following steps should be adapted to restore the VAT rate at 11%.

1. adjust the **Tax invoices** raised (between registered persons) by issuing tax debit notes or a tax credit notes as stated in section 25 of the Act.

Accordingly, a supplier has to issue a **tax debit note** to collect the VAT undercharged (to increase from 8% to 11%) and a **tax credit note** to refund the VAT overcharged (to reduce from 12.5% to 11%).

The tax debit note or tax credit note, as the case may be, should be prepared in the specified form as appended in the illustrations.

Illustration 01.

- a. Let's assume that XY Ltd (VAT Regd. No. 000000000-7000) has issued a **Tax invoice** to AB Ltd, on **supply of goods**. Details of such invoice are as follows.

Date of the Invoice : 01.01.2016
Tax Invoice No. : 00001
Value of supply : 1000
VAT charged (8%) : 80

In order to adjust the VAT rate to 11%, a tax debit note should be prepared as follows.

Tax Debit Note					
Serial No. 0001					
Date: 28.01.2016					
Registered Person's Name: XY Ltd.					
Address: Colombo.					
VAT Registration No. 000000000-7000					
Name of the Customer: AB Ltd					
Tax Invoice No.	Date of Tax Invoice	Reason for Change	Change in Value/Price (A)	Change in Amount of VAT (B)	Total amount (A+B)
00001	01.01.2016	Price revision & change in VAT rate	-	30 **	30

** $1000 \times 11\% = 110 - 80 = 30$

Hence, output VAT payable on this invoice by XY Ltd is Rs. $(80 + 30 =) 110$

- b. In addition to the above information, let's assume that XY Ltd wishes to reduce the price as well, by Rs 10/- after having a negotiation with AB Ltd. Accordingly, a tax debit note should be prepared as follows.

Tax Debit Note					
Serial No. 0001					
Date: 28.01.2016					
Registered Person's Name: XY Ltd.					
Address: Colombo.					
VAT Registration No. 000000000-7000					
Name of the Customer: AB Ltd					
Tax Invoice No.	Date of Tax Invoice	Reason for Change	Change in Value/Price (A)	Change in Amount of VAT (B)	Total amount (A+B)
00001	01.01.2016	Price revision & change in VAT rate	(10)	28.90 **	18.90

** $1000 - 10 = 990 \times 11\% = 108.90 - 80 = 28.90$

Hence, output VAT payable on this invoice by XY Ltd is Rs. $(80 + 28.90 =) 108.90$

Illustration 02.

- a. Let's assume that LK Ltd (VAT Regd. No. 000000001-7000) has issued a **Tax invoice** to CD Ltd, on **supply of service**. Details of such invoice are as follows.

Date of the Invoice : 01.01.2016
Tax Invoice No. : 00001
Value of supply : 1000
VAT charged (12.5%): 125

In order to adjust the VAT rate to 11%; a tax credit note should be prepared and issued as appended.

Tax Credit Note					
Serial No. 0001					
Date: 28.01.2016					
Registered Person's Name: LK Ltd.					
Address: Kandy.					
VAT Registration No. 000000001-7000					
Name of the Customer: CD Ltd					
Tax Invoice No.	Date of Tax Invoice	Reason for Change	Change in Value/Price (A)	Change in Amount of VAT (B)	Total amount (A+B)
00001	01.01.2016	Price revision & change in VAT rate	-	15 **	15

** $125 - (1000 \times 11\% = 110) = 15$

Hence, output VAT payable on this invoice by LK Ltd is Rs. $(125 - 15 =) 110$

- b. In addition to the above information, let's assume that LK Ltd wishes to reduce the price as well, by Rs 20/- after having a negotiation with CD Ltd. Accordingly, tax credit note should be prepared as follows.

Tax Credit Note

Serial No. 0001

Date: 28.01.2016

Registered Person's Name: LK Ltd.

Address: Kandy.

VAT Registration No. 000000001-7000

Name of the Customer: CD Ltd

Tax Invoice No.	Date of Tax Invoice	Reason for Change	Change in Value/Price (A)	Change in Amount of VAT (B)	Total amount (A+B)
00001	01.01.2016	Price revision & change in VAT rate	20	17.20 **	37.20

** $125 - (1000 - 20 = 980 \times 11\% = 107.80) = 17.20$

Hence, output VAT payable on this invoice by LK Ltd is Rs. $(125 - 17.20 =) 107.80$

2. adjust the value of supply on **Commercial (VAT inclusive) invoices** raised (to persons other than registered persons) from 01.01.2016 to 13.01.2016 on which VAT had been charged on inclusive basis (at the fraction of 2/27 or 1/9, as the case may be), by treating the collected VAT equal to 11%.

Accordingly, declare the actual amount of VAT collected (either at 8% or 12.5%) in the rate column of the VAT return and adjust the value of supply accordingly.

Illustration 03

Let's assume that a commercial invoice was issued on 01.01.2016 on **supply of goods** by UV Ltd to a non-registered person. The amount of invoice is Rs. 1080.

Accordingly, value of supply for VAT purposes would be as follows.

Value of supply of goods = Invoiced amount $\times \frac{2}{27} \times \frac{100}{11}$

Value of supply of goods - $1,080 \times \frac{2}{27} \times \frac{100}{11} = 727.27$

VAT - $727.27 \times 11\% = 80$

Illustration 04

Let's assume that a commercial invoice was issued on 01.01.2016 on **supply of service** by KL Ltd to a non-registered person. The amount of invoice is Rs. 1,125.

Accordingly, value of supply for purpose of VAT would be as follows.

Value of supply of Service = Invoiced amount $\times \frac{1}{9} \times \frac{100}{11}$

Value of supply of Service = $1,125 \times \frac{1}{9} \times \frac{100}{11} = \mathbf{1,136.36}$

VAT - $\mathbf{1,136.36} \times 11\% = \mathbf{125}$

Input tax credit for the period 01.01.2016 to 31.03.2016 is claimable by any registered person is restricted to the amount of input VAT actually paid on the original tax invoices and on the subsequent adjustments made through debit/credit notes.

Illustration 05

- a. Let's recall the example "b" given under the illustration 01 where AB Ltd is the purchaser of goods and has issued a tax debit note by XY Ltd.

Accordingly, maximum input tax claimable is;

Based on the (purchase) tax invoice	Rs. 80.00
Paid based on the tax debit note received	<u>Rs. 28.90</u>
Total input tax claimable	<u>Rs.108.90</u>

- b. Let's recall example "b" given under the illustration 02 where CD Ltd is the purchaser of Services and has issued a tax credit note by LK Ltd.

Accordingly, maximum input tax claimable is;

Based on the (purchase) tax invoice	Rs.125.00
Refunded based on the tax credit note received	<u>Rs. 17.20</u>
Total input tax claimable	<u>Rs.107.80</u>

In case of importers, input VAT credit on imports is restricted to the amount of VAT actually paid to the Customs. Therefore, the importers should adjust the value of imports accordingly, and state the same in cage "II" of the VAT return.

Illustration 06

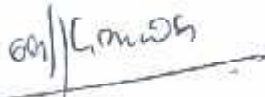
Let's assume that Customs has charged VAT Rs. 800 on the importation of goods for value Rs. 10,000 on 01.01.2016.

Accordingly, **value of imports** should be declared for the purpose of VAT is as follows.

Value of Imports = Input paid on imports $\times \frac{100}{11}$

$\begin{aligned}\text{Value of Imports} &= 800 \times 100/11 = 7,272.73 \\ \text{Claimable input VAT} &= 7,272.73 \times 11\% = 800\end{aligned}$

It should be noted that adjustment in value of supply and value of imports are applicable only for the purpose of VAT. However, for the purpose of income tax, ESC and NBT, the actual value should be stated along with reconciliation where it is applicable.



Kalyani Dahanayake
Commissioner General of Inland Revenue

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