



INLAND REVENUE DEPARTMENT

Notice to the Taxpayers

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

Value Added Tax (Amendment) Act No. 04 of 2025, has been certified on April 11, 2025 and important changes from the amendment Act to the Value Added Tax Act, No. 14 of 2002, are set out below.

1. Imposition of VAT on Digital Services Supplied by Non-Resident Person

VAT will apply to services supplied by non-resident persons through electronic platforms to persons in Sri Lanka, with effect October 1, 2025. Procedures for registration, payment, and compliance will be specified by the Commissioner-General in due course. The terms 'electronic platform', 'fixed place', and 'non-resident person' are defined in the VAT Act.

2. Abolition of Simplified VAT Scheme & Introduction of Risk Based Refund Mechanism

The Simplified VAT Scheme will be abolished with effect from October 1, 2025, and replaced by a **Risk-Based Refund Scheme**. Excess input tax of eligible exporters or registered persons whose value of supplies exceeds 50% of their total supplies to strategic Development Projects or Specified Projects for the taxable period or projects approved under section 22(7) of the VAT Act, will be refunded **not later than 45 days** from the due date of the VAT return submission and subject to the submission of proper VAT return.

“**Eligible exporter**” means a registered person whose value of zero-rated supplies as defined under section 7 of this Act, during the preceding calendar year was greater than fifty percent of the total value of supplies made by that person during the same period.

3. Mandatory VAT Registration for Commercial Importers/Exporters

All persons **importing or exporting goods for commercial purposes** will be **required to register under the VAT Act**, regardless of turnover thresholds or exemptions.

4. Zero-Rated Supplies

The following supplies will be treated as **zero-rated** for VAT, with effect from **January 1, 2024**:

- Meals and transport provided by employers to employees (within specified conditions)
- Reinsurance commissions and foreign currency compensation to local insurers
- Unused government or provincial council postage/revenue stamps (at face value)

5. Electronic Filing of VAT Returns

All VAT returns **must be filed electronically** from **July 1, 2025**. Manual filed return submissions will only be allowed under exceptional circumstances approved by the Commissioner-General.

6. The Following Definition is introduced for “unprocessed agricultural products”

“**unprocessed agricultural products**” means any product produced from any plants which are cultivated on land or in a green house, and includes products prepared by cleaning, sizing, sorting, grading, cutting or chilling of such product for sale;”.

7. New Exemptions (Effective from April 11, 2025)

- The **supply or import** of - chemical naphtha to be supplied to **Ceylon Electricity Board** by the **Ceylon Petroleum Corporation** for the generation of electricity;
- The **supply of liquid milk and yoghurt**, produced out of locally produced fresh milk. To qualify for this exemption, the **liquid milk or yoghurt must contain at least 50%** locally produced fresh milk

8. Removal of Exemptions (Effective from April 11, 2025)

The **Import of aircraft engines or aircraft spare parts**, identified under **specified Harmonized Commodity Description and Coding System Numbers** for Custom purposes

Commissioner General of Inland Revenue

