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SEC/PN/VAT/2026-03
03.07.2026

INLAND REVENUE DEPARTMENT

Notice to the Taxpayers

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

Value Added Tax (Amendment) Act No. 14 of 2026, has been certified on June 30, 2026 and important changes from the amendment Act to the Value Added Tax Act, No. 14 of 2002 (VAT Act), are set out below.

1. Value of a Taxable Supply for Film Exhibition Services (Effective from 1 July 2026)

When film exhibition services are provided through ticket sales, **the entertainment tax** charged by the local authority under the Entertainment Tax Ordinance (Chapter 267) may be deducted when calculating the value of the taxable supply. This deduction is allowed in addition to any other deductions permitted under subsection (8) of Section 5 of VAT Act.

2. Zero-Rated Supply

With effect from **1 October 2025**, services provided by a garment buying office registered under the Industrial Promotion Act No. 46 of 1990 to overseas buyers will be treated as zero-rated supplies for VAT purposes, provided that:

i The customer is located outside Sri Lanka; and

ii The payment for the service is received in foreign currency

3. Continuation of VAT Registration thresholds

The proposed reduction in the VAT registration threshold has been abandoned. Therefore, the existing VAT registration thresholds remain unchanged.

Accordingly, a person is required to register for VAT if the value of his taxable supplies of goods, services, or both exceeds or is likely to exceed either of the following thresholds:

i **LKR 15 million** in any taxable period (quarterly); or

ii **LKR 60 million** in the twelve months period then ending (annual).

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4. VAT on Services Supplied through Electronic Platforms by Non-Resident Persons

With effect from 1 July 2026, VAT will apply to services supplied by non-resident persons through electronic platforms to customers in Sri Lanka.

A non-resident person must register for VAT if the value of such services:

- i Exceeds **LKR 60 million** (or its equivalent in foreign currency) during any consecutive 12-month period; or
- ii Exceeds or is likely to exceed **LKR 15 million** (or its equivalent in foreign currency) in any quarter beginning on or after 1 July 2026.

Such persons are required to register for VAT under Section 25L(1) of the VAT Act (as amended). The application for registration must be submitted electronically in the form specified by the Commissioner-General within three months from the date the person becomes liable to register or from the date the Commissioner-General specifies the registration form, whichever is later.

Under Section 25N of the VAT Act, VAT shall not be charged on services supplied through an electronic platform by a non-resident person if the recipient of the services is a VAT-registered person in Sri Lanka.

The Commissioner-General will issue further guidelines on the registration process, charging VAT, payment of tax, and compliance requirements.

5. Submission of VAT Schedules.

A registered person may submit the schedules relating to a VAT return from the beginning of the relevant taxable period.

For this purpose, RAMIS provides the following facilities:

- i. Uploading Excel files in CSV format
- ii. Entering schedule records directly through the IRD e-Service Portal
- iii. Web API-based integration between the registered person's ERP system and RAMIS, enabling the real-time transfer of invoice information.

6. Disallowance of Input Tax on Imports for Projects (Effective from 1 July 2026).

Where the payment of VAT on plants, machinery, equipment, or vehicles imported for use in projects on the assurance of re-exportation has been deferred under the provisions of the VAT Act, and the plants, machinery, equipment, or vehicles are not re-exported within one month of the completion of the project, any VAT paid subsequently will not be allowed as deductible input tax.

7. VAT Rate Change for the Supply of Financial Services (Effective from 1 July 2026)

For any taxable period commencing on or after 1 July 2026, the VAT rate applicable to the supply of financial services shall be 20.5% (twenty point five per cent).

Note: In terms of Item 25 of Part II of the First Schedule to the Social Security Contribution

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Levy Act, No. 25 of 2022, as amended ("SSCL Act"), the supply of financial services that is subject to VAT at the rate of 20.5% (twenty point five per cent) is exempt from the Social Security Contribution Levy (SSCL).

8. Write-off of Tax in Default under the VAT Act in Relation to Tsunami Relief Projects

The Commissioner-General shall write off any tax in default under VAT Act, as recorded by the Commissioner-General, in respect of taxable supplies made for tsunami relief projects, where the payment of VAT on such supplies under VAT Act had been undertaken by the Government of Sri Lanka.

9. Use of Secured Point-of-Sale (POS) Machines by VAT-Registered Persons

Every registered person shall, within three months from the date prescribed, use secured point-of-sale (POS) machines for all transactions, the issuance of invoices, and the management and maintenance of records relating to the taxable activities carried out by such person, in the prescribed manner.

The specifications for the secured point-of-sale (POS) machines shall be prescribed by the Commissioner-General in due course.

10. Increased Penalties for Tax Fraud and Willful Tax Evasion or Fraudulent Refund Claims.

Under Section 66 of the VAT Act, any person who evades tax, or wilfully and fraudulently claims or attempts to claim a refund, or assists another person in doing so, commits an offence under the VAT Act. Such person shall be liable, upon summary trial before a Magistrate, to a fine, imprisonment, or both.

i. For offences committed before 1 October 2025:
   - (a) A fine equal to twice the amount of tax evaded or attempted to be evaded for the relevant taxable period; and
   - (b) A fine not exceeding LKR 25,000 or imprisonment for a term not exceeding six months, or both.

ii. For offences committed on or after 1 October 2025:
   - (a) A fine equal to twice the amount of tax evaded or the refund fraudulently claimed or attempted to be claimed (including cases involving misrepresentation, false or misleading information or documents, or concealment of material facts); and
   - (b) A fine not exceeding LKR 1,000,000 or imprisonment for a term not exceeding six months, or both.

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11. Increased Penalties for Offences Relating to VAT Returns and Compliance.

From 1 July 2026, the following acts shall be added as offences under Section 67 of the VAT Act:

i. obtains or attempts to obtain a refund of tax by fraud, misrepresentation, or the provision of false or misleading information or documents, or by the concealment of any material fact; or

ii. fails to furnish valid tax invoices or customs good declarations or other authenticated documents as required under section 21.

Further, under the same section of the VAT Act as amended, a person convicted of an offence after summary trial before a Magistrate shall be liable to the following penalties:

(a) For offences committed before 1 October 2025:

- A fine not exceeding LKR 25,000; or
- Imprisonment of either description for a term not exceeding six months; or
- Both such fine and imprisonment.

(b) For offences committed on or after 1 October 2025:

- A fine not exceeding LKR 1,000,000; or
- Imprisonment of either description for a term not exceeding six months; or
- Both such fine and imprisonment.

12. Criminal Proceedings for Offences under the VAT Act (Effective from 1 July 2026).

In terms of Section 68 of the VAT Act, as amended, the Commissioner-General may investigate any offence under this Act.

The Attorney-General, or any person authorized by the Attorney-General, shall prosecute any person who commits an offence under this Act.

All criminal proceedings shall be instituted in the name of the Commissioner-General.

13. Publication of Information Relating to VAT Registered Persons

Notwithstanding anything to the contrary in subsection (1) of Section 73 of VAT Act, the Commissioner-General shall publish the name, address, Tax Registration Number, and the status of registration of every registered person.

Such publication shall be made for the purposes of facilitating the administration and enforcement of this Act and any other relevant written law, ensuring public transparency, enabling the identification of tax-compliant entities, and for the purposes of Section 25N of this Act.

14. New Interpretations Added to Section 83 of the VAT Act

The following interpretations have been added to Section 83 of the VAT Act in relation to the VAT on services supplied by non-resident persons through electronic platforms to persons in Sri Lanka, with effect from 1 July 2026:

(a) "Electronic platform"
(b) "Fixed place"
(c) "Marketplace in relation to educational courses"
(d) "Non-resident person"

15. New Exemptions (Effective from July 1, 2026)

(a) The supply of goods or services to any business identified and approved as a Business of Strategic Importance having regard to the national interest or in the advancement of the national economy, in accordance with the provisions of section 52 of the Colombo Port City Economic Commission Act, No. 11 of 2021 and the regulations made thereunder;

(b) The supply of the following services through an electronic platform by a non-resident person:

i Educational services including online courses, seminars, training, digital education platforms, virtual classrooms, learning management systems and courses in marketplaces;

ii Healthcare services including online consultations, digital prescriptions, AI-assisted diagnostic, digital health tracking and telemedicine;

iii Services supplied to an organization or to the diplomatic missions to the extent specified under any relevant written laws or in accordance with any written agreement entered into with or on behalf of the Government of Sri Lanka.

Commissioner General of Inland Revenue

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