

<b>PLAN OVERVIEW</b> The <b>VAT Compliance Improvement Program</b> consists of two compliance improvement plans (CIPs). <b>Plan 1</b> addresses risks presented by Registered Identified Supplier and Purchasers (RIS/RIP), with predominant focus on RIS, transitioning to the VAT system following repeal of the Simplified VAT (SVAT) regime from October 1, 2025. RIS: 3,519, RIP: 1,074* <b>Plan 2</b> will cover risks to the VAT system for the period April 1, 2026 to March 31, 2027. (*Based on return data as at February 2025)		<b>CONTEXT</b> When the Simplified Value Added Tax (SVAT) regime is repealed from October 1, 2025, approximately 20 per cent of Sri Lanka’s active VAT registrants (22,055) must settle their business-to-business VAT transactions with cash rather than SVAT credit vouchers. SVAT has been in place since 2011, so this change represents a significant shift from long established compliance requirements. In addition to being predicably resistant to change, these taxpayers may face challenges in knowing how to properly comply with their new obligations. There is risk to revenue if they are not properly educated, monitored and supported - before, during and after transition. <b>Plan 1:</b> Identifies the principal compliance risks posed by these taxpayers, and outlines treatment responses to mitigate those risks. Focus is on building a taxpayer mindset and providing quality communications/education to increase understanding, closely monitoring initial compliance, and providing tailored support for proper compliance to the largest withholder/remitters. Emphasis is on assistance during transition and exit from SVAT regime. <b>Plan 2</b> will outline graduated enforcement measures commensurate with levels of noncompliance and egregiousness of behaviours encountered across the full VAT population of large and upper corporate taxpayers.																																									
<b>Segment Profile</b>		<b>Risk Assessment</b>																																									
<b>Revenue at Risk SVAT</b> Estimates indicate that in the absence of SVAT, RIS businesses will contribute an additional LKR 191 billion to VAT cash flows annually. <b>Turnover Profile</b> <table><tr><td>No of registrants</td><td>Total supply</td><td>Expected VAT (LKR)</td></tr><tr><td>• 1,011</td><td>&gt; LKR 1B</td><td>157.6 billion</td></tr><tr><td>• 2,161</td><td>&gt;LKR 50M</td><td>32.8 billion</td></tr><tr><td>• 347</td><td>LKR 0-49M</td><td>460 million</td></tr></table> <b>Risk Hypothesis</b> The nature and magnitude of revenue risk from this population aligns with size and sophistication of the business. <b>Registrants with highest turnovers</b> present the major revenue risk, are likely to resent changes in their cash flow, and will require close compliance monitoring and intervention. Some portion of this group will respond to education and compliance support. <b>Registrants with lower turnovers</b> pose less revenue threat but considerably more non-compliance threat. A communications and service-oriented approach is more appropriate to this segment <b>Registrants in the middle turnover segment</b> will require a range of treatments applicable to both large and smaller taxpayers. A small stratum of this group (2,161 registrants) account for 15 per cent of expected VAT revenue risk in this grouping. The remainder of this grouping call for educational and support treatments similar to the lower turnover segment.		No of registrants	Total supply	Expected VAT (LKR)	• 1,011	> LKR 1B	157.6 billion	• 2,161	>LKR 50M	32.8 billion	• 347	LKR 0-49M	460 million	<b>Risk Assessment SVAT</b> <b>Correct Registration: Low</b> <ul style="list-style-type: none"><li>RIS/RIP businesses are already registered</li></ul> <b>On Time Filing: Moderate</b> <ul style="list-style-type: none"><li>Significant portion of RIS/RIP population have poor filing habits. More elevated in middle/lower turnover segments.</li></ul> <b>Accurate Reporting: High</b> <ul style="list-style-type: none"><li>Participants in the SVAT regime have experienced little monitoring or revalidation. Reporting risk considered high across VAT population overall due to the historical absence of compliance activities.</li></ul> <b>Timely Payment of VAT: High</b> <ul style="list-style-type: none"><li>RIS/RIP businesses have not used cash settlement in their business-to-business transactions for many years, close monitoring in transition required.</li></ul> <b>Risk Assessment</b> <b>Workflows and Monitoring (see VAT CIP Committee Operational Plan)</b> <table><tr><td>Treatments</td><td>Plan</td><td>Numbers</td></tr><tr><td rowspan="5">Communications</td><td>1. Email: change in obligations : payment reminders (per month)</td><td>3,519</td></tr><tr><td>: filing reminders (quarterly, end Jan ’26 and Apr’ 26)</td><td>7,038</td></tr><tr><td>2. Online awareness events</td><td>2</td></tr><tr><td>3. Mega awareness event (hybrid with online/offline components)</td><td>1</td></tr><tr><td>4. Other awareness: ad hoc requests by stakeholders (Jul 1 to Oct 1)</td><td>23</td></tr><tr><td>5. SMS (close to repeal date)</td><td>3,519</td></tr><tr><td>Pre-emptive reminders</td><td>Email to RISs - return filling rate is less than 50 per centum as per data in 2024</td><td>1,291</td></tr><tr><td>Field visits – assistance to comply</td><td>Return not submitted/payment anomalies:<ul style="list-style-type: none"><li>all SVAT population over 1 billion</li><li>25 per cent of population between 50 million to 1 billion</li><li>10 per cent of population less than 50 million</li></ul></td><td>TBD</td></tr><tr><td>Desk audits – report accuracy</td><td>(2 quarters – 10 per cent of &gt;1 billion RIS</td><td>202</td></tr><tr><td>Collection calls</td><td>As necessary - for late payment population (estimate 1 per cent of RIS population)</td><td>350</td></tr></table>		Treatments	Plan	Numbers	Communications	1. Email: change in obligations : payment reminders (per month)	3,519	: filing reminders (quarterly, end Jan ’26 and Apr’ 26)	7,038	2. Online awareness events	2	3. Mega awareness event (hybrid with online/offline components)	1	4. Other awareness: ad hoc requests by stakeholders (Jul 1 to Oct 1)	23	5. SMS (close to repeal date)	3,519	Pre-emptive reminders	Email to RISs - return filling rate is less than 50 per centum as per data in 2024	1,291	Field visits – assistance to comply	Return not submitted/payment anomalies: <ul style="list-style-type: none"><li>all SVAT population over 1 billion</li><li>25 per cent of population between 50 million to 1 billion</li><li>10 per cent of population less than 50 million</li></ul>	TBD	Desk audits – report accuracy	(2 quarters – 10 per cent of >1 billion RIS	202	Collection calls	As necessary - for late payment population (estimate 1 per cent of RIS population)	350
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		<b>Accurate Reporting</b> <ul style="list-style-type: none"><li>Communications campaign focusing on education and taxpayer service targeting the entire RIS population. Deliver in three phases starting from passage of legislation.</li><li>Initiate random, reporting accuracy checks (202 desk audits) for 10 percent of top 1,011 taxpayers from implementation to March 31, 2025 (two quarters). Adjust based on results.</li></ul> <b>Timely Payment</b> <ul style="list-style-type: none"><li>Six-month payment monitoring, field visit and outbound collection call program focused on largest 1,011 taxpayers.</li><li>Monitoring and reporting of payment patterns of entire population during post repeal implementation.</li></ul> <b>Timely Filing</b> <ul style="list-style-type: none"><li>Pre-emptive compliance communication with all taxpayers that have missed/filed late at least one VAT return in 2025.</li><li>All phases of communications will include instruction on timely filing.</li></ul>																																									
		<b>Resource Requirements/Dependencies</b> <ul style="list-style-type: none"><li>Augment SVAT Repeal Project Team as necessary.</li><li>Fully operationalize existing communications plans.</li><li>Dedicated analytical resource(s).</li><li>Operational Plan governance as determined by VAT CIP Committee</li></ul>																																									
		<b>Capacity Development Needs</b> Remote and in-country support for adjusting and redirecting <b>CIP 1</b> implementation based on trends identified through close monitoring by VAT CIP Committee.																																									
		<b>VERSION 7: 30052025</b>																																									