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The Gazette of the Democratic Socialist Republic of Sri Lanka

EXTRAORDINARY

අංක 2316/13 - 2023 ජනවාරි මස 24 වැනි අඟහරුවාදා - 2023.01.24

No. 2316/13 - TUESDAY, JANUARY 24, 2023

(Published by Authority)

PART I : SECTION (I) — GENERAL

Government Notifications

VALUE ADDED TAX ACT, No. 14 OF 2002

BY virtue of the powers vested in me under Subsection (8) of Section 25C of the Value Added Tax Act, No. 14 of 2002 as last amended by the Value Added Tax (Amendment) Act, No. 13 of 2022, I, Don Ranjith Sisirakumara Hapuarachchi, Commissioner General of Inland Revenue, do by this order specify matters relating to and the manner in which tax is calculated in respect of Value Added Tax on Supply of Financial Services (hereinafter referred as VAT on Supply of Financial Services) as set out in the Schedule hereto.

These Regulations operate effective from October 01, 2022 and rescind the Regulations published in the *Gazette Extraordinary* No. 1868/10 of June 23, 2014, effective from the same date.

DON RANJITH SISIRAKUMARA
HAPUARACHCHI,
Commissioner General of Inland
Revenue.

Colombo,
23rd January, 2023.



SCHEDULE

(1.) Calculation of the Total Value Addition for the purpose of Value Added Tax on supply of Financial Services.

- (a) In terms of Section 25C (1) of the Value Added Tax Act, No. 14 of 2002 (VAT Act), every registered specified institution or any person shall be liable to tax for each taxable period on its total value addition which includes net profits or loss as the case may be before payment of income tax on such profit computed in accordance with the accepted accounting standards (Prevailing for that taxable period), subject to adjustments for economic depreciation [Calculated as provided under following paragraph (b)], and the emoluments payable to all the employees and adjustments for VAT on supply of financial services payable as per Chapter IIIA of the VAT Act and Social Security Contribution Levy (SSCL) on supply of financial services payable as per sub item (a) of item 3 of second schedule to the Social Security Contribution Levy Act, No. 25 of 2022 (SSCL Act).

[With effect from 01.01.2012, any specified institution or any person who is required to adopt Sri Lanka Financial Reporting Standards (SLFRS) for the preparation of financial statements shall take into account the operating profit prepared as per SLFRS for the above purpose].

(b) Economic Depreciation

(i) Rates

The rates of economic depreciation determined by the Minister and published in the *Gazette Notification* No. 1606/30 of 19.06.2009 are as follows;

<i>Asset</i>	<i>Rate (Per annum)</i>
Data Processing equipment and accessories including Computer Software	25%
Motor Vehicles	20%
Other Machinery, Plant, Equipment, Furniture or Fixture	12 1/2%
Intangible assets (other than Goodwill)	10%
Buildings	6 2/3%

- (ii) Statement of economic depreciation should be prepared for the whole year. These depreciation rates shall be applied on the basis of the cost and straight line method (equal installment method). Restrictions imposed by the Inland Revenue Act on allowances for depreciation shall not be applied.

After the adoption of the SLFRS, the classification of assets shall be on the basis of SLFRS. However, in relation to any asset acquired prior to the adoption of SLFRS, the classification followed earlier shall be continued in calculating economic depreciation.

- (iii) No deduction is available as economic depreciation in relation to any asset of any person registered under the Finance Leasing Act, No. 56 of 2000 or Finance Business Act, No. 42 of 2011, being an asset which is leased under the provision of the aforesaid Acts.

(c) “Emoluments payable” means gross remuneration payable to all the employees.

“Gross remuneration” means the aggregate of both benefits in money and benefits not in money payable to the employees and it includes any payment, contribution or provision in relating to terminal benefits which is charged to the income statement in arriving at the operating profit.

(d) Total Value Addition

Net Profit or Loss (before income tax expenses)		XXX
Add : VAT and SSCL on supply of financial services charged to the Income Statement	XX	
Depreciation Charged to the Income Statement	XX	
Emoluments Payable	XX	XXX
		XXX
Less : Economic Depreciation		(XX)
Total value addition prior to tax		XXX
Less : VAT payable as per Chapter III A of the VAT Act		(XX)
SSCL payable as per sub item (a) of item 3 of Second schedule to the SSCL Act		(XX)
Total Value Addition		<u>XXX</u>

[VAT on Financial Services payable at the rate specified in Section 25C of the VAT Act (VAT on supply of financial services) and SSCL on financial Services payable at the rate specified in Section 3 of the SSCL Act (SSCL on Supply of financial services)]

(2.) Calculation of VAT on Supply of Financial Services

- (a) If any registered person prepares and maintains separate accounts for supply of financial services and, financial services provided out of Sri Lanka or activities mentioned under Section 25C (5), (hereinafter refers to as non-financial services), and such accounts are certified by an approved accountant under Section 120 of the Inland Revenue Act, No. 24 of 2017, then the value addition of such activities shall be calculated separately.
- (b) If any registered person who is liable to pay VAT on Supply of Financial Services under Chapter III A of the VAT Act, does not keep separate accounts for non-financial services, such person is required to calculate the value addition on the proportionate basis. For such purpose, the value addition attributable to the non-financial services is to be taken as the sum which bears to the total value addition, as the same proportion of the turnover of the nonfinancial services for the month bears to the total turnover of the same month, if there is no material difference in the recognition of receipts for the calculation of the profits and for the purpose of calculation of the turnover.

The computation of Value Addition attributable to supply of financial services shall be as follows;

$$\text{Value Addition attributable to the financial services} = \frac{\text{Total Value Addition}}{\text{Total Value Addition}} \times \left\{ \text{Total Value Addition} \times \frac{\text{Turnover for Non-Financial Services}}{\text{Total Turnover as per Income Statement}} \right\}$$

(Total Value Addition means value addition computed as per item 01 (d) of this schedule.)

(3.) Documents to be furnished with annual return

Following documents shall be submitted with adjustment referred to the Section 25C (1) of the VAT Act for the purpose of fulfillment of the submission of the return referred to the Section 25B.

- (a) Audited Statement of Accounts for the relevant period.
- (b) Detailed profit and loss account for the relevant period.
- (c) A schedule in respect of emoluments payable.
- (d) A schedule in respect of economic depreciation.
- (e) Breakup of the value of supply declared in the Value Added Tax return furnished for the relevant periods as per Section 21 of the VAT Act.
- (f) Reconciliation of turnover with the Financial Statement in the following format.

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PART I : SEC. (I) - GAZETTE EXTRAORDINARY OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA - 24.01.2023

<i>Item</i>	<i>Turnover applicable for the purpose of computation of</i>			<i>Total Turnover as per Financial Statement</i>	<i>Capital Portion of the Leasing Installments</i>
	<i>Value Added Tax payable as per Section 2 of the Act</i>	<i>Value Added Tax Payable as per Section 25(A) of the VAT Act</i>	<i>Value addition attributable for Non Financial activities</i>		
Total					

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