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# The Gazette of the Democratic Socialist Republic of Sri Lanka

## EXTRAORDINARY

අංක 2258/18 - 2021 දෙසැම්බර් මස 14 වැනි අඟහරුවාදා - 2021.12.14

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## PART I : SECTION (I) — GENERAL

### Government Notifications

#### INLAND REVENUE ACT, No. 24 of 2017

#### NOTICE UNDER PARAGRAPH 10 OF SIXTH SCHEDULE

BY virtue of the powers vested in me under item (c) and (e) of subparagraph (2) of Paragraph 10 of Sixth Schedule to the Inland Revenue Act, No. 24 of 2017 (herein after referred to as the Act) amended by the Inland Revenue (Amendment) Act, No. 10 of 2021, I, Herath Mudiyanseelage Wijaya Chandrathilaka Bandara do by this Notification, specify the mode of calculation of local value addition for goods and services in SCHEDULE 1 hereto. for the purposes of the item (c) of subparagraph (2) of Paragraph 10 of Sixth Schedule and the requirements to maintain records, source documents and underlying documents for the purposes of the item (e) of subparagraph (2) of Paragraph 10 of Sixth Schedule in SCHEDULE 2 hereto.

**HERATH MUDIYANSEELAGE WIJAYA CHANDRATHILAKA BANDARA,**  
Commissioner General of Inland Revenue.

Inland Revenue Department,  
Colombo,  
13th, December, 2021.



### SCHEDULE

#### 1. Local value addition shall be calculated by the person who sell goods, as follows :-

##### (a) The person who sells goods manufactured in Sri Lanka by such person

- (i) Subject to the conditions in items (ii), (iii) and (iv) of this subparagraph, such person is required to compute the local value addition for any year of assessment based on the following formula, using the actual amounts of the year of assessment immediately preceding that year of assessment.

$$\text{Local Value Addition percentage for the purpose of item (c) of subparagraph (2) of Paragraph 10 of Sixth Schedule to the Act for goods manufactured in Sri Lanka for the year of assessment under consideration.} = \frac{E \times 100}{A}$$

Where :

'E'	is equal to <b>A - (B+C+D)</b> ;
'A'	is the total value of sales of the respective goods;
'B'	is the total cost of directly imported materials used to produce such goods;
'C'	is the total cost of imported materials purchased from the local supplier who imported such materials and used to produce such goods; and
'D'	is the total cost of any service including any royalty, interest, management fees or head office expenses, paid or payable to a person outside Sri Lanka in relation to such goods.

- (ii) For the purpose of formula referred to in item (i), Petrol, Diesel, Kerosene and Liquid Petroleum Gas are not considered as imported materials.
- (iii) If any service or material is used commonly for all business activities of the person, the total of such service cost or material cost shall be apportioned based on the turnover of respective goods or services, for the purpose of above calculation.
- (iv) Value Added Tax charged as output tax or deducted as input tax in terms of the provisions of the Value Added Tax Act, No. 14 of 2002, shall not be considered for the amounts in above calculation.
- (b) If the local value addition calculated under subparagraph (a) is less than 65% or the relevant good has not been manufactured by the person during the year of assessment immediately preceding that year of assessment, such person is allowed to compute the local value addition for such goods based on the formula under the subparagraph (a) above, using the amounts in current year of assessment in relation to such goods and such value addition calculation prevails for the purpose of item (c) of subparagraph (2) of Paragraph 10 of Sixth Schedule to the Act.

Provided however, this subparagraph has no application in respect of any goods which has been considered for the local value addition calculated under above subparagraph (a) and applied for any previous year of assessment.

##### (c) The person who sells any goods manufactured in Sri Lanka by any other person

If such person undertakes the marketing and communication activities for relevant goods, confirmation should be obtained from the manufacturer with a local value addition percentage calculated as in the above subparagraph (a) or (b), for the purpose of item (c) of subparagraph (2) of Paragraph 10 of Sixth Schedule to the Act. Such confirmation shall be deemed as a statement to a tax official by the person who manufactures relevant goods and by the person who sells such goods.

Provided that, any person who gives any confirmation to another person under this subparagraph, shall maintain the records with respect to the calculation of local value addition of his product.

**2. Local value addition shall be calculated by the person who supplies services (including mixed and composite services with goods) as follows :-**

**(a) The person who supplies services including mixed and composite services with goods**

- (i) Subject to the conditions in item (ii), (iii), (iv) and (v) of this subparagraph, such person is required to compute the local value addition for any year of assessment, based on the following formula using the actual amounts of the year of assessment immediately preceding that year of assessment.

Local Value Addition percentage for the purpose of item (c) of subparagraph (2) of Paragraph 10 of Sixth Schedule to the Act for services supplied for the year of assessment under consideration. 
$$= \frac{E \times 100}{A}$$

Where :

'E'	is equal to $A - (B+C+D)$ ;
'A'	is the total gross service income of the respective service;
'B'	is the total cost of directly imported materials, if any, used for such service;
'C'	is the total cost of imported materials purchased from the local suppliers who imported such materials, if any, used for such service; and
'D'	is the total cost of any service including any royalty, interest, management fees or head office expenses, paid or payable to a person outside Sri Lanka in relation to such service income.

- (ii) For the purpose of formula referred to in item (i), Petrol, Diesel, Kerosene and Liquid Petroleum Gas are not considered as imported materials.
- (iii) If any service or material is used commonly for all business activities of the person, the total of such service cost or material cost shall be apportioned based on the turnover of respective goods or services, for the purpose of above calculation.
- (iv) Value Added Tax charged as output tax or deducted as input tax in terms of the provisions of the Value Added Tax Act, No. 14 of 2002, shall not be considered for the amounts in above calculation.
- (v) If the marketing and communication expenses incurred by a person is separately identifiable for each service when the person supplying different services, then, such person shall perform separate calculations for each relevant service.
- (b)** If the local value addition calculated under subparagraph (a) is less than 65% or the relevant service has not been provided by the person during the year of assessment immediately preceding that year of assessment, such person is allowed to compute the local value addition for such service based on the formula under the subparagraph (a) above, using the current year amounts in relation to such service and such value addition calculation prevails for the purpose of item (c) of subparagraph (2) of Paragraph 10 of Sixth Schedule to the Act.

Provided however, this subparagraph has no application in respect of any service which has been considered for the local value addition calculated under above subparagraph (a) and applied for any previous year of assessment.

## SCHEDULE 2

Following documents and records shall be maintained by the person who intends to deduct the additional deduction as provided in subparagraph (1) of Paragraph 10 of Sixth Schedule to the Act.

1. List of Marketing and Communication expenses deducted under section 15A of the Act as per following format.

Date of expenditure	Trade name of good or service for which the expenditure incurred	Nature of good or service for which the expenditure incurred	Invoice/ Bill No.	Payee	Nature of Marketing and Communication Service obtained	Amount paid

2. List of Marketing and Communication expenses which were not considered (under item (a) and (b) of subparagraph (2) of Paragraph 10 of Sixth Schedule) for additional deduction under subparagraph (1) of Paragraph 10 of Sixth Schedule to Act, as per following format.

Date of expenditure	Trade name of good or service for which the expenditure incurred	Nature of good or service for which the expenditure was incurred	Invoice/ Bill No.	Payee	Nature of Marketing and Communication Service obtained	Amount paid

3. List of associated persons for the year of assessment.
4. Worksheets for the calculation of local value addition in accordance with **SCHEDULE 1** for each good or service.
5. Every expenditure shall be supported by **an agreement/ contract** specifying the name of the supplier, address of the supplier, Tax Identification Number of the supplier, detailed scope of the service provided, fees and other terms and conditions.
6. All expenses should be supported by **appropriate invoices/ tax invoices** clearly describing the services provided and linked to a contract/ agreement as mentioned in item 5 above.

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