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PART I : SECTION (I) — GENERAL
Government Notifications

VALUE ADDED TAX ACT, No. 14 OF 2002

BY virtue of the powers vested in me under sub-section (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. 7 of 2014, I, Mallika Samarasekera, 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 with effect from 01.01.2014 subject to the specific dates mentioned in the Schedule for the purpose of that section.

The guidelines already issued by the Commissioner General under circular No. BFSU/2011/01 in respect of VAT on Supply of Financial Services is effective for those respective taxable periods.

MALLIKA SAMARASEKERA,
Commissioner General of Inland Revenue.

Department of Inland Revenue,
Colombo 02,
23rd June, 2014.

Schedule

(1) Imposition of Value Added Tax on the Supply of Financial Services

In terms of Chapter III A of the Value Added Tax Act, No. 14 of 2002 as last amended by (Amendment) Act, No. 7 of 2014, VAT is imposed on the supply of financial services in Sri Lanka made by specified institutions or by any person.

“specified institutions” means —

- (a) any licensed commercial bank within the meaning of the Banking Act, No. 30 of 1988.
- (b) any finance company registered under the Finance Company Act, No. 78 of 1988 or Finance Business Act, No. 42 of 2011.
- (c) Any Licensed Specialized Bank within the meaning of the Banking Act, No. 30 of 1988.



“Any person” means —

Any Person carries on the business of supplying financial services.

(2) Calculation of the Total Value Addition—

- (a) In terms of section 25C (1) of the 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, emoluments payable to all the employees and adjustments for VAT on supply of financial services payable as per Chapter IIIA and Nation Building Tax (NBT) as per proviso to paragraph (iii) of sub-section (2) of section 3 of the NBT Act, No. 9 of 2009.

[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 NBT on supply of financial services charged to the Income Statement	XX	
Depreciation charged to the Income Statement	XX	
Emoluments Payable	<u>XX</u>	<u>XXX</u>
		XXX
Less : Economic Depreciation		<u>(XX)</u>
Total value addition prior to tax		XXX
Less : VAT payable as per Chapter III A		(XX)
NBT payable as per proviso to paragraph (iii) of Sub-section (2) of section 3 of the NBT Act.		<u>(XX)</u>
Total Value Addition		<u>XXX</u>
[Tax payable at 12% (VAT on supply of financial services) and 2% (NBT on supply of financial services)]		

(3) Calculation of VAT on Supply of Financial Services

- 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 the section 107(3) of the Inland Revenue Act, No. 10 of 2006, then the value addition of such activities shall be calculated separately.
- If any registered person who is liable to pay VAT on Supply of Financial Services under Chapter III A 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 non-financial 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 ;

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

(Total Value Addition means value addition computed as per item 2(d) of this schedule.)

(4) Rates

- 12% on the value addition shall be paid to Commissioner General, and
- In taxable periods, commencing on or after 01.01.2011 on or before 31.12.2013, 8% of the value addition shall be invested in the fund established in the Central Bank of Sri Lanka.

(5) Furnishing of Returns

The taxable period is one month for every specified institution or other person, and shall furnish the return in the form specified before the end of the following month of the taxable period.

With effect from 01.01.2011, the taxable period is six months, and every specified institution or other person shall furnish the return in the form specified before the end of the following month of the taxable period.

(6) Documents to be furnished with annual adjustment

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

- Audited statement of accounts for the relevant period.
- Detailed profit and loss account for the relevant period.
- A schedule in respect of emoluments payable.
- A schedule in respect of economic depreciation.
- Breakup of the value of supply declared in the Value Added Tax return furnished for the relevant periods as per section 21 of the Act.
- Reconciliation of turnover with the Financial Statement in the following format.

Item	Turnover applicable for the purpose of computation of			Total Turnover as per Financial Statement	Capital Portion of the Leasing Installments
	Value Added Tax payable as per section 2 of the Act	Value Added Tax payable as per section 25(A) of the Act	Value addition attributable for Non-Financial activities		
Total					