



Tax Update

Bill to Amend the
**Value Added Tax Act
No. 14 of 2002**

May 2026

A Bill to amend the Value Added Tax Act No. 14 of 2002 was gazetted on 29 April 2026, signalling the Government's continued focus on refining the country's indirect tax framework. The proposed amendments will become legally binding once the Bill completes the required Constitutional process.

1

Revision of the Registration Threshold

Effective from 01 July 2026

Threshold Basis	Current Threshold	Revised Threshold
Turnover	Rs. 15 Mn per quarter or Rs. 60 Mn per annum	Rs. 9 Mn per quarter or Rs. 36 Mn per annum

2

VAT Exemptions on Colombo Port City BSI

Goods or services supplied to businesses that have been designated as Businesses of Strategic Importance (BSI) - recognised in the national interest or for economic advancement under the Colombo Port City Economic Commission Act and its related regulations - will be exempt from VAT.

3

Zero-Rating for Garment Buying Office Services

Effective from 01 October 2025

Services provided by a garment buying office registered under the Industrial Promotion Act to overseas buyers will be zero-rated for VAT purposes, provided the services are rendered to a recipient outside Sri Lanka and payment is received in foreign currency.

4

VAT on Financial Services - Key Changes

Effective from 01 July 2026

The VAT rate applicable to financial services will increase from 18% to 20.5%.

Returns that were previously filed with reference to the IRA 2006, covering periods ending before 1 January 2026, will be treated as compliant.

The definition of "Emoluments" has been aligned with the Inland Revenue Act 2017, subject to specified exclusions, effective from 1 April 2018.

5

Submission of VAT Schedules

Taxpayers can upload and submit VAT schedules at any time during the taxable period, rather than waiting until the end to compile and submit all information at once.

6

VAT on Non-Resident Digital Service Providers

Effective from 01 July 2026

From 1 July 2026, VAT will apply to digital services provided by non-resident suppliers to recipients in Sri Lanka. Threshold: LKR 36 million per annum or LKR 9 million per quarter.

Registration: Non-resident providers must register for VAT by submitting the prescribed online application within 3 months from the date liability arises or the date the form is issued, whichever is later.

B2B Carve-Out: VAT does not apply where the recipient is a VAT-registered business, subject to appropriate documentation being in place.

7

Deemed Input Credit for Opening Stocks

Wholesale and retail traders who become VAT-registered on or after 1 April 2026 may claim a deemed input tax credit on unsold stocks held at the time of registration. First Schedule items are excluded from this relief.

The deemed input tax is calculated based on the VAT rate that applied at the time the goods were originally purchased. Traders are required to maintain records of such unsold stocks in the prescribed format and submit these records together with their VAT return.

8

Mandatory Secured Point-of-Sale Machines

All VAT-registered persons will be required to adopt secured Point-of-Sale (POS) machines within 3 months from the date prescribed by the CGIR.

The term "secured POS machine" is defined within the Bill and all systems used must carry CGIR approval. Approved systems must be capable of recording supplies of goods and services, generating invoices and receipts, and capturing transaction data in real time.

9

Penal & Criminal Provisions

Fraud (S.66)

From 1 October 2025, the maximum fine increases from LKR 25,000 to LKR 1 million, with up to six months imprisonment - or both. Offences now cover fraudulent refund claims, assisting such claims and failure to furnish valid tax invoices or authenticated documents.

New Offences (S.67)

Two new offences are introduced - fraudulent refund claims through misrepresentation, false documents or concealment of material facts, and failure to furnish valid tax invoices or authenticated documents under Section 21. Same penalties apply and both a fine and imprisonment may be imposed simultaneously.

Criminal Proceedings (S.68)

The CGIR investigates and the Attorney-General prosecutes. Total imprisonment for a single course of conduct is capped at 5 years. Double jeopardy protections apply. Time limits to commence proceedings range from 3 to 12 years depending on the nature of the offence.

Still have areas to clarify?

Reach out to us!

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