

Tax Policy and Administration Issues (VAT)

J.M.S.S.Rathnawardhana
Inland Revenue Department
Sri Lanka

Tax Policy and Administration Issues (VAT)

Contribution of Tax Revenue to GDP (2024)

GDP at current market prices (LKR Bn) - 29,899

(USD Bn) - 99

Government Tax Revenue (LKR Bn) - 3,705

Tax to GDP Ratio :-

2020 7.78 %

2021 7.37 %

2022 7.28 %

2023 9.92 %

2024 12.39 %

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Revenue Collection (Tax Type wise) - 2024

Income Tax	39 %
VAT	50 %
SSCL	10 %
Other	1 %

VAT collection was increased by 89 % in 2024 (Year over-year basis)

- ▶ Decrease of registration Threshold
- ▶ Rate adjustment 15 % to 18%
- ▶ Removal of exemptions

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Gross collection of VAT (Sector wise) - 2024

Sector	% to Net VAT Collection	% to GDP
Manufacturing	18.3	0.8
Non Manufacturing	36.2	1.6
Non - financial services	27.0	1.2
Financial services	9.2	0.4
Imports	45.5	2.0

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Latest developments in VAT design

► Expansion to Digital services

- ❖ Applied 18% on services by non-resident providers via electronic platforms (effective from Oct 1,2025)
- ❖ Covers cloud services, online subscriptions, e-commerce, digital ads,...

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Latest developments in VAT design

- ▶ SVAT repeal & strengthen refund process
 - ❖ Simplified VAT (SVAT) system introduced in 2011
 - ❖ Reduced cash refunds by using vouchers
 - ❖ Identified misconduct, an obstacle to Smooth process of VAT
 - ❖ To be abolished from Oct 1,2025
 - ❖ Introduce a Risk Based Refund system
 - ❖ Refunds promise within 45 days for eligible exporters

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Latest developments in VAT design

► VAT registration expansion

- ❖ Mandatory VAT registration for all commercial importers and exporters
- ❖ Regardless of turnover exemptions
- ❖ Aims to increase tax net and compliance

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Latest developments in VAT design

► Electronic filing & Invoice Standardization

- ❖ Electronic filing of VAT returns mandatory from July 01,2025
- ❖ Standardized tax invoices format to be introduced

Thank
You.