

GST GUIDE



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Department of Inland Revenue
1998

Guide to Goods and Services Tax

Department of Inland Revenue

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Section 1: Introduction

1.1 How to use this notice

This notice is a guide to all the main GST rules and will help you with most of the problems that you will meet. Not all the information will apply to your business – so don't try to read it all the way through.

Before you use this guide you may find useful to read the publication:

Registering for GST.

1.2 Free information and help

There are some features of GST which arise less frequently or only affect certain types of businesses. If you can't find the answer to your query in our publications, the GST Advice Unit is always ready to help you.

Section 2: General explanation of the GST

2.1 What is GST collected on?

GST is a tax on consumer expenditure. It is collected on business transactions and imports.

Most business transactions involve supplies of goods or services. GST is payable if they are:

- supplies made in Sri Lanka;
- by a taxable person;
- in the course or furtherance of business;
- and
- are not specifically exempted, zero-rated or excluded wholesale or retail supplies of goods.

Note – A GST registered person may elect to collect GST on their wholesale and retail supplies but they will also have to pay Turnover Tax (TT) to the Provincial Council. However, all importers must account for GST on their supplies.

Supplies which are made in Sri Lanka and which are not exempt are taxable supplies.

A *taxable person* is an individual, firm, company etc. which is, or is required to be, registered for GST. A person who makes taxable supplies above certain value limits is required to be registered. There is more about this in paragraph 2.5.

Supplies are outside the scope of the tax if they are:
made by someone who is not a taxable person
made outside Sri Lanka
or
not in furtherance of a business.

2.2 Liability to GST

There are two rates of GST – a standard rate, currently 12.5% and a zero rate. No GST is payable on zero-rated supplies but they are treated as taxable supplies in all other respects, including the right of the person making the supply to recover the GST on their own business expenditure. Some supplies are exempt from GST, which means that no tax is payable – but, equally, the person making the supply cannot normally recover any of the GST on their own expenses.

Appendix A tells you which are the areas of business where some of your supplies may be exempt or zero-rated.

2.3 How GST works

If you make standard-rated supplies, you have to account to the Department of Inland Revenue for the tax due. This is your *output tax*. Normally, you charge the tax to your customers. If your customers are registered for GST and the supplies are for use in their business, the tax is their *input tax*. In the same way tax is charged to you on your business purchases is your input tax.

As a registered person, you can claim from the Department of Inland Revenue as much of the GST on your purchases, and imports, as relates to the standard and zero-rated supplies you make. In principle, you cannot claim GST which relates to any non-business activity or to any exempt supplies you make.

At predetermined intervals, you pay to the Department of Inland Revenue the excess of your output tax over the GST you can reclaim as input tax. If the input tax is more than your output tax, you can reclaim the difference from the Depart-

the Inland Revenue Act No. 28 of 1979.)

If you make taxable supplies of goods or services to a customer for which you are not paid, you may be able to claim relief from GST on bad debts. You can find out more about this at Section 7.2.

2.4 Supplies

(a) *Supplies of goods*. You supply goods if you pass the exclusive ownership of goods to another person.

You can also supply goods if you:

- Transfer them under an agreement such as a hire purchase agreement – but not if you **transfer such an agreement**.
- Supply land and buildings
- Transfer goods permanently out of the business for your private use.

You do not make a supply of goods (such as overalls and tools) to employees solely for the purposes of their employment and make no charge.

(b) *Supplies of services*. You supply services if you do something other than supplying goods, for a *consideration*. A consideration is any form of payment in money or kind, including anything else which is itself a supply.

You supply services if you:

- Lend goods to someone for use outside your business;
- Hire goods to someone;
- Rent non-residential property;
- Produce goods from someone else's materials;
- Use goods owned by the business outside the business;
- Agree, for a consideration, to refrain from doing something;
- Agree to grant, assign or surrender a right for a consideration.

2.5 GST registration

If you are in business making taxable supplies, the value of these supplies is called your *taxable turnover*. If your taxable turnover is above certain limits, you are a *taxable person* and should be registered for GST. You must notify the GST Unit within 15 days of your liability to be registered. If you fail to notify at the proper time you may be liable to a financial penalty.

The registration limits are shown in the publication – **Registering for GST**.

Once you are registered you are known as a *registered person*.

2.6 Business and non-business

It is very important to understand the difference between business and non-business activities.

You must account for GST on all the taxable supplies you make by way of business – not just the things that you do in the course of your usual business activities;

but

If you also carry out non-business activities, it could effect the amount of GST you can treat as input tax. GST charged on goods and services which you do not obtain for your business is not input tax and you cannot reclaim it.

If you have no business activities you cannot be registered for GST.

(a) *Business*. For GST purposes business has a very wide meaning. It includes the way in which self-employed people carry on a trade, vocation or profession, as well as companies, earn an income. It also includes the activities of clubs and other recreational bodies. Some of the activities of charities and non-profit making bodies are business for GST purposes.

In GST terms, business means any continuing activity which is mainly concerned with making supplies to other people for a consideration. The activity must have a degree of frequency and scale to be continued over a period of time. Isolated

transactions are not normally business for GST purposes. However, even if your activities have some of the characteristics of a business, they are **not** business if they are essentially a recreation or hobby and the making of supplies is only incidental to this.

Some activities are always treated as business whatever the circumstances. These include:

The provision of membership benefits by clubs, associations and similar bodies in return for a subscription or other consideration;

Admission to premises for a charge.

(b) *Non-business*. If you have any non-business activities you will not be able to claim all the GST you are charged on your purchases. Many charities, philanthropic or voluntary bodies and other non-profit making organizations have non-business activities. For example, these are all non-business activities:

Providing free services or information

Maintaining museums, parks or historic sites (unless there is an admission charge), and

Publicising religious or political views.

An activity which is carried out mainly as a hobby, such as stamp collecting, is not a business. However, if you sell items you start to collect, or have made, on a regular or continuing basis then, under the rules outline above, your hobby could become a business for GST purposes.

You should ask the GST Advice Unit whether this affects you.

Non-business activities are often financed largely from grants or donations. As long as those making the grants or donations receive no direct benefit in return, this income is not the consideration for any supply and is outside the scope of the GST. A body whose main activities are non-business may still have some activities which are regarded as business for GST purposes, such as selling clothing or post cards to raise funds, running a staff canteen or charging admission fees. If the taxable turnover exceeds the registration limits, the body should be registered for GST.

2.7 Place of supply

To be within the Sri Lankan GST system a supply must be made in Sri Lanka. Supplies made outside Sri Lanka are outside the scope of Sri Lankan GST. Separate rules apply for working out the place of supply for goods and services. These are set out below.

(a) *Goods*. The place of supply is the location of the goods when you allocate them to a customer's order. If the goods are in Sri Lanka when you allocate them the supply is in Sri Lanka. This applies to goods supplied for export as well as to goods supplied to Sri Lankan customers. If they are not in Sri Lanka when you allocate them the supply is normally outside the scope of Sri Lankan GST. If, having read the paragraph you are still unsure you can get further advice from the GST Advice Unit.

If you supply goods that are assembled or built for the first time on site, then the place of supply is the place where the assembly or building takes place.

(b) *Services*. You supply services in the place you belong (this is known as the basic rule). You belong where you have a business or some other fixed establishment, including branch or agency. If you have no such establishment you belong where you live. In the case of a company this is where it is legally constituted. If you have an establishment in more than one country, the supply takes place at the location of the establishment most directly concerned with the supply.

2.8 Imports and exports

(a) *Imported goods*. When goods are imported into Sri Lanka, GST is normally due at the same rate as on a supply of those goods in Sri Lanka. GST must be paid when you import the goods or, if you are an exporter approved for GST deferment, or a person carrying on a new venture approved by the Commissioner General you can defer payment of GST.

(b) *Warehoused goods*. Similar arrangements apply if you remove goods from an approved **bonded** warehouse.

(c) *Free Trade Zones (under continuous surveillance by Customs)*. GST is not due on the importation to a free zone of goods for storage and/ or processing. Import GST is due on any goods removed from a free zone into the rest of Sri Lanka and on goods used or consumed in a free zone. It is not due on goods of Sri Lankan origin which have been in a free zone and are being removed in an unaltered state, for home use. Where goods manufactured in a zone are removed into Sri Lanka for use in the owner's business, as opposed to being sold or disposed of, GST is due only on the value of any imported elements of the goods.

Supplies of goods and services to, from and within a free zone are taxable in the normal way.

(d) *Exported goods*. If you export goods to a customer outside Sri Lanka your supply is normally zero-rated provided you meet the appropriate conditions.

Section 3: Output Tax

3.1 Tax value

The *tax value* is the value on which GST is due **excluding National Security Levy**. The amount of tax is the tax value multiplied by the tax rate.

(a) *General*. Usually the tax value depends on what you are given in exchange for a supply. This is called the consideration. A consideration is any form of payment in money or in kind, including anything which is in itself a supply. The consideration for a supply includes any payment which you are given to cover your cost in making the supply, unless you incur the costs as an agent.

(b) *Consideration wholly in money*. If the consideration for a supply is wholly an amount of money, the tax value is based on that amount. The amount paid usually includes GST (and any National Security Levy).

Unconditional discounts. If you offer a customer an unconditional discount, and the customer pays the discounted amount, the tax value is based on the discounted amount.

Discounts for prompt payment. If you offer a discount on condition that the customer pays within a specified time, the tax value is based on the discounted amount even if the customer does not take up your offer. But if your terms allow the customer to pay by installments, the tax value is based on what the customer actually pays.

Contingent discounts. If you offer a discount on the basis that something happens later the tax value is based on the full amount paid. If the customer later earns the discount, the tax value is then reduced and you adjust the amount of tax using a credit note.

(c) *Consideration not wholly in money*. If the consideration for a supply is not wholly in money, or if the consideration is part money or something else, the tax value of the supply is the monetary equivalent of the consideration. You should

normally calculate this by reference to the price, excluding National Security Levy and GST, which a customer would have to pay for the supply if money was the only consideration.

Other rules

(d) *Values expressed in a foreign currency.* For GST purposes amounts of money must always be expressed in Sri Lankan Rupees. You must use the Sri Lankan market selling rate at the time of supply. The rates published in national newspapers will be acceptable as evidence of the rates at the relevant time.

(e) *Excise duties.* In the case of goods subject to excise duty, the value is the value determined according to the principles outlined above plus the duty.

3.2 Mixed supplies

You make mixed supplies where you charge a single inclusive price for a number of separate supplies of goods and services. This is different from a single supply of a mixture of goods and services, to which a single rate of GST applies.

If you make mixed supplies and the individual supplies are liable to GST at the same rate, you can calculate the tax that is due in the normal way. If the individual supplies are not liable to GST at the same rate, you need to work out the tax value of each supply in order to work out how much tax is due. If the tax value is based on the total price you charge you do this by splitting the price between the supplies. This is called apportionment.

Apportionment must not be used if the goods and services supplied together make up a single supply. For example, a launderette cannot be treated as supplying separate goods and services – water, heat, use of the machine etc. – it is a single supply of services of washing and drying clothes taxable at the standard rate.

3.3 Packaging

Normal and necessary packaging, including ordinary tins, bottles and jars, is treated as part of the goods it contains. The price which your customer pays is treated as payment for the contents of the packaging alone. This means that if your supply of the contents is exempt, exemption also applies to the packaging. But;

- If the packaging is more than is normal or necessary there is a mixed supply and GST is due on the packaging. This applies to storage containers and other types of packaging that could be sold separately; If you make a separate charge for a container, tax is due based on this charge. This applies to a charge you make either when you send the container out or when it is not returned. It does not cover refundable deposits on containers (including bottles) but if you do not refund the deposit you must account for the GST.

3.4 Delivery charges (postage and packing etc)

If, when you supply goods, you make arrangement to deliver or post them for an extra charge, the extra charge is for the supply of a separate delivery service.

3.5 Hire-purchase, conditional sale and credit sales

Hire-purchase occurs under an agreement for the hire of goods for periodic payments, where the hirer has the option to purchase.

Conditional sale means the sale of goods where the price is payable by installments. The goods remain the property of the seller until the full price is paid or another condition is met by the purchaser.

Credit sale means the sale of goods which immediately become the property of the customer but where the price is payable by installments.

These are all supplies of goods, and tax is due on their full value at the time of supply.

(a) *Supplies not involving a finance company.* If you agree to supply goods in any of these way without involving a finance company, you might make a separate charge for credit. If you disclose the actual amount of this charge to your customer in writing, it is the consideration for a separate **exempt** supply of credit or credit facilities. The consideration for the taxable supply of goods is then the cash price stated in the agreement. If you make no exempt supply the consideration for the supply of the goods is the full amount payable by the customer.

Option fees in hire-purchase agreements and documentation fees in conditional sale agreements are also a consideration for exempt supplies if the fees are purely nominal.

(b) *Supplies involving a finance company.* If the finance company becomes the owner of goods, e.g. when a purchase is financed by a hire-purchase agreement, your supply of goods is to the finance company, not the customer. This supply is taxable and you do not make an exempt supply. The finance company, in turn, makes a supply of goods and of credit. The supply of credit is exempt if the credit charge is disclosed to the customer in writing.

If the finance company does not become the owner of the goods, e.g. when a purchase is financed by a loan agreement, your supply of goods is to the customer. It is not the finance company even though that company may pay you direct. This supply is taxable and GST is due on the selling price to your customer even if you receive a lesser amount from the finance company. You do not make an exempt supply. The finance company in a separate transaction makes a supply of credit facilities to the customer which is an exempt supply.

3.6 Retail sales

Where you opt to include your retail activities you will be required to keep a record of your daily gross takings and account for output tax. Where you make both taxable and exempt supplies you will need to calculate your output tax by:

apportioning your sales in the same ratio as your purchases; or
identifying each item at the point of sale.

Those businesses using tills or computers that can identify taxable or exempt supplies at the point of sale will not be entitled to use an apportionment method.

Separate stock records must be kept for retail activity. If 50% or more of your business's taxable supplies are by way of retail you may account for GST on cash received basis even though you may required to issue tax invoices to GST registered customers.

Section 4: Input tax

This section explains the basic rules about input tax, including when you can treat GST as input tax and when you can or cannot reclaim it.

Input tax is the GST you are charged on your business purchases and expenses:

- **Goods and services supplied to you in Sri Lanka**
- **Goods you import**
- **Goods you remove from a bonded warehouse**

4.1 General

You can normally reclaim input tax that relates to supplies you make which are standard or zero-rated.

You reclaim your input tax by deducting it from your output tax when you fill in your GST return. If your input tax is greater than your output tax you reclaim the difference from the Department of Inland Revenue.

But you cannot usually reclaim GST you have been charged:

- On a car, including fitted accessories and delivery charges and maintenance and running expenses.
- On independent trading by way of wholesale or retail activity unless you opt to pay GST on the supplies you make.

4.2 Evidence for claiming input tax

To reclaim GST as input tax you must hold valid evidence that you have received a taxable supply.

4.3 Amount of input tax

If you can reclaim input tax in full, the amount to reclaim will be the amount of GST shown on the GST invoice from your supplier. Where the value of a taxable

supply does not exceed Rs. 2,000 your supplier may issue a tax inclusive invoice on which you can claim input tax using the tax inclusive fraction after deducting any National Security Levy.

4.4 Exempt supplies and partial exemption

If you incur input tax which is related to exempt supplies you are partly exempt and will probably not be able to claim all your input tax. You must be able to relate your purchases and other expenses to supplies that you make. Although it is relatively straight forward to work out whether goods or services have been used wholly to make either taxable or exempt supplies, you will probably have incurred input tax on overheads that you cannot directly attribute in this way. You will have to adopt a *partial exemption method* to apportion your input tax.

4.5 The standard method of apportioning input tax

The standard method of apportioning input tax uses the relationship of the value of your taxable supplies compared to your total supplies to make this apportionment. If you do not think this is fair and reasonable you can use some other method. If that alternative method is later found to be unreasonable the Department of Inland Revenue will raise an assessment for any over-claim of input tax.

If you incur GST that is not input tax, for example input tax on excluded trading (by way of wholesale or retail), and you have to apportion that GST to determine your input tax, you must work this out before performing any calculation for partial exemption purposes. Partial exemption methods only concern the use of **input tax**.

4.6 Apportioning residual input tax

Residual input tax that cannot be directly attributed to a taxable activity may be apportioned as follows:

$$\frac{\text{Value of taxable supplies}}{\text{Total supplies (including excluded trading)}} \times \text{Residual input tax} = \text{Input tax allowable}$$

4.7 De minimus inputs rule

Where the input tax, in any taxable period, that cannot be directly related to taxable or exempt supplies is less than 1% of your total input tax and Rupees 20,000 you may reclaim all your input tax. This calculation must be reviewed on an annual basis.

4.8 Capital goods

You may claim input tax on all capital goods that relate to the making of taxable supplies.

4.9 GST on goods and services not used for your business

GST charged on goods and services which you do not obtain for your business is not input tax and you cannot reclaim it. This includes goods and services:

- for your private use
- supplied to you for another person's business
- supplied to someone else, even if you pay for them
- supplied to your business but for use in connection with a non-business activity.

Some goods and services may be used for only partly business purposes.

Common examples are:

- telephone services
- rent and repairs
- air conditioning and lighting
- repairs, maintenance, furnishings etc., if a building is not used only for your business – for example, if you carry on a business from home or live above your shop.

If this happens, you cannot reclaim as input tax all the GST you have been charged. If you buy goods partly for business and partly for non-business (or private) purposes, you may choose to apportion the tax, in the same way as for services, and only count as input tax the tax relating to business use. If you wish, however, you may treat all the tax incurred as input tax and then account for output tax in

each accounting period on the private and non-business use. If you recover the full input tax you will need to keep records to show how the asset has been used.

Section 5: Time of supply (tax point)

This section explains the rules for working out the time when a supply of goods and services is treated as taking place. This is called *the tax point*. You must account for GST in the tax period in which the tax point occurs at the rate in force at the time *unless* you use the cash accounting scheme. There are special rules when to account for GST under this scheme.

5.1 General

- (a) *Basic tax points.* If you supply goods the basic tax point is usually:
The date when you send them to your customer or the customer takes them away. This includes supplies under hire-purchase, credit sale or conditional sale agreements;

But if the goods are not to be sent or taken away, for example because you build them on site, the basic tax point is:

The date you make them available for your customer to use.

If you supply services, the basic tax point is the date the services are performed. It is normally taken as the date when all work except invoicing is completed.

But whether you supply goods or services, the basic tax point is overridden if an actual tax point is created under (b) below.

- (b) *Actual tax points.* If you

Issue a tax invoice or receive payment **before** the basic tax point, the tax point for the amount you invoice or receive is the date you issue the invoice or receive payment, whichever happens first. Payment can include payment by book entry, for example, the offsetting of supplies or mutual debts. The tax point is when the entry is made. If the payment by book entry is in the form of an adjustment in your annual account, the tax point is the date the accounts are approved, provided no previous tax point has occurred.

Issue a tax invoice up to 10 days **after** the basic tax point, the date when you issue the invoice becomes the tax point. But remember that if you have already issued a tax invoice (for part payment) or received a payment **before** the basic tax point, this will have created a tax point under (i) for the amount invoiced or received.

Issue a tax invoice more than 10 days after the basic tax point, tax will be due at the basic tax point. If you have already issued a tax invoice (for part payment) or received a payment **before** the basic tax point, this will have created a tax point under (i) for the amount invoiced or received.

To issue tax invoices you must send or give them to your customer for them to keep. A tax point cannot be created simply by preparing an invoice.

Remember, when a tax point is created by the issue of a tax invoice you must account for GST in the return covering that tax point. You cannot delay accounting for GST until you receive payment.

(c) *Deposits.* Most deposits serve primarily as advance payments and will create a tax point under (b) when you receive them. But some types of deposits are not a consideration for a supply and their receipt does not create a tax point. For example, if you take a deposit as a security to ensure safe return of goods you have hired out and the deposit is either refunded when the goods are safely returned or forfeited to compensate you for loss or damage, no tax point is created.

5.2 Continuous supplies of services

If you supply service on a continuous basis and receive payments regularly or from time to time, there is a tax point every time you issue an invoice or receive a payment, whichever happens first.

Section 6: Tax invoices

This section explains the general GST rules that apply to invoicing. It sets out the information that a tax invoice must show and when you can issue simplified invoices.

6.1 General

What is a tax invoice? Whenever you supply standard rated goods or services to another registered person, you must give that person a *tax invoice*. This is a document containing certain information about what you are supplying. Paragraph 6.2 sets out the information to be shown. Your customers need tax invoices to reclaim as input tax the tax you have charged them.

If your customer pays in cash – not by cheque – you must, if asked, clearly show on the tax invoice that payment has been received and the date of receipt.

6.2 Information required on a tax invoice

(a) *General.* Tax invoices must show:

- A serial number
- Your name, address and GST Registration Number
- The time of supply
- Date of issue (if different to time of supply)
- Your customer's name (or trading name) and address
- The type of supply (see (b) below)
- A description which identifies the goods or services supplied;

For each description:

- The quantity of goods or extent of services
- The charge made, excluding GST
- The rate of GST
- The total charge made, including GST

- The amount of any National Security Levy
- The rate of any cash discount offered
- The total amount of GST charged in Sri Lankan Rupees

(b) *Type of supply.* You must identify the types of supply separately:

- Sale
- Hire purchase, conditional sale, credit sale or similar transaction
- Loan of Goods
- Exchange
- Hire, lease or rental
- Process (making goods from someone else's materials)
- Sale on commission (for example by an auctioneer)
- Sale or return or similar terms.

You will find an example of a tax invoice at the end of this section.

6.3 Invoicing in a foreign currency

If you issue tax invoice in a foreign currency, all values for GST purposes must be converted into Sri Lankan Rupees.

6.4 Invoicing zero-rated or exempt supplies

If you issue a tax invoice which includes supplies that are exempt, you must ensure that those items show clearly that there is no GST payable and their values must be totalled separately. You can of course issue separate invoices for exempt supplies. This may be a helpful way of keeping the necessary records for your business.

6.5 Less detailed or modified tax invoices

If you make retail sales you should give your customer a tax invoice if asked for one. However, you may be able to use the option referred to below.

Where the value of a taxable supply does not exceed Rs. 2,000 you may issue an

invoice showing the following details:

- The name, address and GST Registration Number of the supplier;
- The date of the invoice and its serial Number;
- Description of the goods or services;
- The tax inclusive amount; and
- The rate of tax.

6.6 Cash and carry wholesalers

If you are a cash and carry wholesaler, you can adapt the till rolls produced by your cash registers to serve as tax invoices provided that you meet all the following conditions.

- You use a product coding system which clearly identifies the different classes of goods sold. The system should be based on at least two digits, possibly three if you sell a wide range of products.
- You must prepare and maintain a product code list and provide all your GST registered customers with up-to-date copies of the lists.
- You must ensure that the till roll includes all the details required for a full tax invoice.
- You must keep a copy of till rolls and product codes for five years (unless the GST Unit agrees that you need only keep them for a shorter period).

If you cannot meet these requirements, you must issue a full tax invoice when a customer asks for one, showing all the details required by paragraph 6.2.

Example of a completed tax invoice

Sales Invoice Number 001 From ABC Limited 25, Raja Weediya Colombo 01 To M/S. Silva & Co., No.10, Galle Road Dehiwela GST Reg.No. 97654321 Sale: Time of supply: 14:04:98 Date of issue: 20:04:98				
Quantity	Description	Net of NSL	Amount exclusive of GST	GST Rate
10 Dozen	Marble Floor tiles	3600.00	36000.00	12.5%
12	Bags of cement	250.00	3000.00	Exempt
6	Mahogany doors	4000.00	24000.00	12.5%
	Delivery charge		1000.00	12.5%
	Total exempt supplies		3,000.00	12.5%
	Total standard rate		61000.00	
	Total GST @ 12.5%		7625.00	
	National Security Levy		3223.13	
	Invoice total		74848.13	

Section 7: Credits, debit note and bad debts

This section tells you what to do if you have to allow credit or contingent discount, replace goods to satisfy a debt or wish to claim relief from GST on a bad debt.

7.1 Credit notes and contingent discounts

When you allow a credit or contingent discount to a customer who can reclaim all the tax on your supply as input tax, you are not obliged to adjust the original GST charge, **provided both you and your customer agree not to do so**. Otherwise, you should both adjust the original GST charge; you should issue a credit note to your customer and keep a copy.

(a) *Debit notes.* If both parties agree, the customer may issue a tax debit note instead of the supplier issuing a credit note. A valid debit note places the same legal obligations on both parties as a valid credit note must fulfill the same conditions.

(b) *Valid credit or debit notes.* To be valid for GST purposes a credit or debit note must:

- Reflect a genuine mistake or overcharge or an agreed reduction in the value of the supply, and be issued within one month of this being discovered or agreed;
- Give value to the customer, i.e., represent a genuine entitlement (or claim) on the part of the customer for the amount overcharged to be either refunded or offset against the value of future supplies; and be Headed 'credit note' or 'debit note' as appropriate and show clearly all the following details:
 - The identifying number and date of issue
 - The name and address and GST Registration Number of the supplier
 - The name and address of the customer
 - The reason for its issue – for example, 'returned goods'
 - A description which identifies the goods or services for which credit is

being claimed or allowed

- The quantity and amount for each description
- The total amount credited, excluding GST
- The rate and amount of GST credited
- The amount of any National Security Levy
- The number and date of the original tax invoice. If you cannot do this (for example, because returned goods can not be related to a particular invoice) you must be able to satisfy the Department of Inland Revenue by other means that you accounted for GST on the original supply.

Credits for zero-rated or exempt supplies included in a credit or debit note must be totalled separately and the note must clearly show that no GST credit has been allowed for them.

If credit notes are issued without GST adjustment they should state 'This is not a credit note for GST'. Even if you and your customer agree not to adjust the GST on a credit note which passes between you, you will still need to adjust your records or outputs and inputs in order to complete your GST return.

(c) *Accounting for credit or debit note you issue or receive.* If you have to make an adjustment, you must adjust the record of taxable supplies you have made and your output tax for credits allowed. The nature of the adjustment and the reason for it must be clear from the accounts and supporting documents.

Any adjustment arising from the issue or receipt of a credit or debit note must be made in the GST account for the period in which you enter the adjustment in your business records.

If, exceptionally, the GST credits you allow your customers exceed the GST you charge on your sales in any tax period, you will have a minus figure to enter in the output tax box of your GST return. You must make clear it is a minus figure by writing it in brackets.

7.2 Relief from GST on bad debts

Relief from GST on bad debts is available provided that certain conditions are met. This applies to supplies made since 1st April 1998 and you must have paid the GST to the Department of Inland Revenue. In determining the amount of GST to be written off, if not advised, you can only claim relief in proportion to the original charge less any payments received. The amount of tax deductible is treated as input tax in the taxable period when the debt went bad and was written off.

The amount of GST to be treated as deductible must not exceed the original amount paid as output tax.

If you subsequently receive any payment following a claim for relief, you must account for the appropriate amount of GST to the Department of Inland Revenue by including it with any output tax, in the period of receipt, and make a separate entry in your GST account.

Section 8: Records and accounts

All taxable persons must keep and preserve certain records and accounts. These requirements are supported by regulation

This section sets out in detail the GST record-keeping requirements that must be complied with by anyone who is registered for GST

8.1 Records

(a) *General.* You must keep records and accounts of all taxable goods and services which you receive or supply in the course of your business. This includes both standard-rated and zero-rated supplies. You must also keep records of any exempt supplies or independent trading (wholesale and retail) that you make. In addition you must keep summary totals of your input and output tax for each period. This called a GST account (see example immediately following Section 8.11).

These records must be kept up to date and in a way that allows you to correctly calculate the amount of GST you have to pay to, or claim from, the Department of Inland Revenue.

You do not have to keep these records in any set way. But they must be kept in a way, which will enable an Assessor of Inland Revenue to check easily the figures that you have used to fill in your return. **If your records do not satisfy the requirements set out in this guide. The Department of Inland Revenue has the power to direct the necessary changes.**

However you decide to keep your records, you must be able to make them readily available to Department of Inland Revenue staff when they ask to see them.

If you have more than one place of business you must keep a list of all of your branches at your principal place of business.

(b) *Information to be recorded.* You must keep records of all operations connected with your business which affects the amount of GST you pay or can reclaim.

This includes:

- Every supply of goods or services you receive on which you are charged GST by your suppliers
- Every importation or removal from a bonded warehouse
- All supplies made by your business (including any zero-rated or exempt supplies)
- Any goods you have exported
- Any gifts or loans of goods
- Any taxable self-supplies – for example, cars
- Any goods, which you acquire or produce in the course of your business which you, put to private or other non-business use.

You must also record adjustments such as:

- Corrections to your accounts
- Any credits you allow or receive

(c) *Maintaining and preserving records.* You must normally keep your records for 5 years. If, however, this causes you storage problems, involves you in undue expense or causes you other difficulties, you can ask the GST Unit in the Department of Inland Revenue if you can keep some of your records for a shorter period. Small businesses with limited storage may find this particularly useful. You must get the agreement of the Department of Inland Revenue before any of your business records are destroyed before 5 years.

Examples of business records include:

- Orders and delivery notes
- Relevant business correspondence
- Appointment and job books
- Purchase and sales books
- Cash books and other accounts books

- Purchase invoices and copy sales invoices
- Records of daily takings such as till rolls
- Annual accounts, including trading and profit and loss accounts
- Import and export documents
- Bank statements and paying in slips
- Your GST Account
- Any credit or debit notes you issue or receive

(d) *Microfilm records.* You can keep your records on microfilm or microfiche provided that copies can be easily produced and that there are adequate facilities for allowing a Department of Inland Revenue Assessor to view them when required.

You should obtain clearance from the GST Advice Unit before any transfer to microfilm or microfiche.

The Department of Inland Revenue have power to refuse or withdraw approval for the use of microfilm or microfiche if the requirements are not met.

(e) *Computer records.* You can also keep your records on computer, for example, on magnetic tape, disc, etc., provided they can easily be converted into satisfactory legible form and made available to the Department of Inland Revenue on request. If you do keep accounts on computer, the Department of Inland Revenue can have access to it and can check its operation and the information stored. They can ask for help from you or anyone else having charge of, or otherwise concerned with the operation of, the computer or its software.

The Department of Inland Revenue have power to refuse or withdraw approval for the use of computer media in any individual case if their requirements cannot be met.

(f) *Audit.* Where your business is subject to an independent audit, the audit will normally cover the GST account and other records relating to GST. However, this does not mean that auditors must make specific reference to the GST account in their report.

8.2 Cash accounting

You may account for GST on a cash only basis if you meet one of the following criteria:

- 80% or more of your taxable supplies are cash sales
- 50% or more of your turnover is retail
- Your accounting system operates on a cash only basis
- You are a provider of personal services
- Any other activity as determined by the Commissioner General.

The scheme allows you to account for GST on the basis of payments received and made, rather than, tax invoices issued and received and is particularly beneficial if you give your customers lengthy periods of credit or if you have high levels of bad debts.

8.3 Keeping copies of invoices

Unless you make retail supplies and issue less detailed invoices you **must** keep a copy of all tax invoices that you issue.

8.4 Recording supplies you make and working out your output tax

(a) *General.* You must keep a record of all the supplies that you make in the course of your business. This includes any zero-rated or exempt supplies. This record must contain all the information that is required to be shown on tax invoices. If you issue invoices which give all the necessary details then, as long as you keep copies, you will only need to prepare a summary of your invoices. This should be in the same order as your copy invoices and should enable you to produce separate totals for each tax period of:

- (i) The amount of GST chargeable on your supplies. If you have to make an adjustment for credits you have allowed your customers, you should deduct the GST on those credits from the amount of GST payable in your

GST account;

- (ii) The GST-exclusive value of your standard rated supplies;
- (iii) The value of your zero-rated supplies;
- (iv) The value of any exempt supplies that you have made.

You should carry this amount forward to the **GST PAYABLE** side of your GST account

You must also keep a record of:

- Credits allowed to your customers in respect of all supplies that you make;
- Goods you send out on sale or return, approval or similar terms, showing their respective tax points;
- Special transactions you are involved in described in (b) and (c) below.

(b) *Goods given away or put to private use.* If you give away, or put to private or other non-business use, goods which you have acquired or produced in the course of your business, tax is due on cost and you need record only the:

- Date that the goods were given away, taken, or set aside for non-business use
- Description and quantity
- GST-exclusive cost
- Rate and amount of tax chargeable

(c) *Self-supplies.* If you are a motor vehicle converter or dealer, and use the motor cars you have produced or acquired in the course of your business, you should record for each car the:

- Tax point
- Value on which tax is chargeable
- The rate and amount of tax chargeable

8.5 Record of credits allowed to customers

You must keep a record of all credits allowed to your customers in respect of supplies that you make. (this includes zero-rated or exempt supplies.) When a credit relates to a tax invoice, you must show the details required in paragraph

7.1 or show clearly where the details can be found (for example, by cross-reference to filed copies of credit notes).

If you allow credit for a zero-rated or exempt supply, your record must show the date and amount of credit and whether it was for a zero-rated or exempt supply. If filed copies provide a complete and easily accessible record then you need not keep a separate record for GST purposes.

When you make a tax adjustment, you should deduct the GST on these credits from the amount of GST PAYABLE in your GST account. You must adjust the records of the taxable supplies you have made and your output tax in whatever way you find most convenient.

If the GST credits you allow your customers exceed the GST charged on your sales in any tax period, you will have a minus figure to enter into the output tax box of your GST return.

8.6 Evidence of input tax

(a) *General.* You must keep all invoices for, standard rated, zero-rated and exempt supplies that you receive for your business. They must be kept in such a way that, given the invoice date and supplier's name, they can easily be produced to the Department of Inland Revenue.

You cannot use an invoice which is marked 'pro forma' or 'THIS IS NOT A TAX INVOICE' as evidence for reclaiming input tax.

Only a registered person can issue a tax invoice. There are financial penalties for the unauthorised issue of tax invoices. If you receive an invoice from an unregistered person and knowingly use it to reclaim GST, you are committing an offence.

You should have no problem finding out from your suppliers whether they are registered. If you are in any doubt or are unsure about the validity of a supplier's

tax invoice you should consult the GST Advice Unit in the Department of Inland Revenue.

In your own interest you should obtain and retain tax invoices. Without them you may not be able to reclaim GST you have been charged.

(b) *Imported goods and goods removed from bonded warehouse.* You or your agent should make sure that official evidence is obtained, where required, of GST chargeable on imported goods and goods removed from warehouse. This evidence serves the same purpose as a tax invoice from a registered Sri Lankan supplier. Without it you may not be able to reclaim tax you have been charged. The evidence should be annexed or cross-referenced to the appropriate invoice from your supplier and both should be retained.

8.7 Recording supplies you receive and working out your input tax

(a) *General.* You must keep a record of all taxable and exempt supplies that you receive for your business. You must keep this record in such a way that the details of each transaction and the amount of GST are entered in full or can be easily found by referring to the:

- Supplier's invoice
- Evidence of GST on goods imported or removed from warehouse

If you have received invoices etc. which give all the necessary details and they are kept in such a way that they can be easily produced if required, your record need be no more than a summary of these documents in the same order as you keep them. The summary must enable you to produce totals for each tax period of:

- (i) The amount of GST you have been charged on goods and services you have received – including GST paid or deferred at import or on removal from warehouse. If you have to make an adjustment for credits received from suppliers in the tax period, you should deduct GST on these credits.
- (ii) You should carry forward the amount of deductible input tax at (i) minus any non-deductible items to the GST deductible side of your GST account.
- (iii) The GST exclusive value of all supplies you have received. This includes

goods you have imported or removed from warehouse. You should not make any deduction for cash discounts but you should deduct all credits you receive from suppliers in the tax period.

A working sheet or an add-list, for examples, would be an acceptable summary if it shows tax and values separately itemised in the order which you keep the tax invoices. Alternatively you may use the method in sub-paragraph (c) more suitable.

However you keep your record they must show the above totals.

You must also keep a record of:

- Credits received from suppliers in respect of all taxable supplies you receive
- Supplies you receive for your business on which tax is not deductible.

(a) *Non-deductible items.* As explained in paragraph 4.1 you cannot reclaim the input tax on certain supplies that you receive. You **must not** include tax that you are charged on these items in the total carried forward to your GST account.

(b) *Cash book accounting.* If it is your normal practice to claim input tax according to the time you pay your suppliers, you may find it easy to adapt your cash book payments record to serve also as a record of the taxable supplies you receive – for example, by including a tax column.

If you change to this method from another method of accounting, you must exclude and GST which you have already claimed on a previous return.

8.8 Record of credits received from suppliers

You must keep a record of all credits received from your suppliers in respect of any taxable supplies that you receive. This includes both standard and zero-rated supplies. When a credit relates to a tax invoice, your record must show either the details in paragraph 7.1 or show clearly where those details can be found (for example, by cross-reference to filed credit notes).

If the credit note is for a zero-rated supply, your record need only show the date and the amount of the credit. If filed credit notes provide a complete and

easily accessible record, you need not keep a separate record for GST purposes.

If you receive a credit relating to deductible input tax and you have to make a tax adjustment, you must adjust the record of supplies you receive and your input tax. Whatever method you use to do this, the nature of the adjustment and the reason for it must be clear from the accounts and supporting documents.

If the GST credits you receive from your suppliers exceed the GST you were charged on your purchases in any period, you will have a minus figure to enter in the input tax box of your GST return. You must make clear that this is a minus figure by entering it in brackets.

If you normally issue debit note to suppliers from whom credit is due and adjust your commercial records at that stage, you can adjust your input tax as well. The debit note must show similar details to those required for credit notes. If you later receive credit notes from your suppliers, they should be compared to the debit notes and any errors corrected. If you do this, you must ensure that the adjustments are made once only, and that the debit and credit notes are not both used as accounting documents. If you can reclaim all the tax on the supply as input tax and issue a debit note, you do not have to adjust the original GST charged to you, as long as the supplier agrees that you need not do so. However, if either you or the supplier wish to adjust the original GST charge, both of you must do so.

8.9 Adjusting errors in tax invoices

If the amount of the GST on a tax invoice you have issued is **higher** than the amount properly due, you must account for the higher amount in your records unless you correct the error with your customer by issuing a credit note.

If the amount of tax is **lower** than the amount properly due, you must account for the correct amount of tax due whether you correct the error with your customer or not. (for example, by issuing a supplementary tax invoice for the amount undercharged).

8.10 Correcting errors you find on previous GST returns

You can adjust your GST account to include the net value of errors in your current GST return provided that:

- errors in output tax are less than 5% of your total output tax
- errors in input tax are less than 5% of your total input tax.

All other errors of a significant nature must be notified to the Department of Inland Revenue.

8.11 Your GST account

General. For each period you must keep a summary of the totals of your input and output tax. This is called your *GST account*. You should keep it in a special book or ledger opening. You will find an example of a GST account at the end of this section but any form of account containing the same information will be acceptable.

A GST account

Period from 1 January 1998 to 31 March 1998

GST deductible – Input tax

GST payable – Output tax

Rupees		Rupees	
GST you have been charged on your purchases		GST you have charged on your sales	
January	19,000	January	135,321
February	19,789	February	112,020
March	17,221	March	110,988
	56,010		358,329
GST allowable on imports	62,010		
Over-claim of input tax	-150	Understatement of GST on previous returns	799
Bad debt relief	1,100		
Sub-total	118,970	Sub-total	359,128
Less:			
GST on credits received from suppliers	-234	GST on credits allowed to customers	-2,300
Total tax deductible	118,736	Total tax payable	356,828
		Less total tax deductible	118,736
		Payable to the Department of Inland Revenue	238,092

Section 9: GST returns and payment of tax

Each tax period you will be sent a GST return. You must fill in this return and take it to a branch of the Bank of Ceylon assigned for the purpose and pay any GST due for the period by the due date shown on the form. This section explains:

- **How to fill in your return**
- **Penalties for failing to send in your return and all the GST due on time; and**
- **The circumstances in which the Department of Inland revenue will pay interest for delaying a repayment that is due to you.**

9.1 GST returns

The GST return will be sent to you at regular intervals. You must complete each return and take it to a branch of the Bank of Ceylon assigned for the purpose and pay the tax due in full. If you are due a refund you should send the return direct to the Department of Inland Revenue (DIR).

The GST return form is issued in triplicate. This provides:

- an original for the DIR
- a copy for the bank; and
- a copy for your records.

If you have not traded at all during the whole period covered by the return you must still complete the form. You should write 'NONE' in every box, sign the declaration and send it back to the Department of Inland Revenue.

If you have not received a return or you have spoiled one or mislaid one, you can get a duplicate from the GST Unit in the Department of Inland Revenue. Remember that if you are away from your place of business you must arrange for GST returns and payments to be sent in at the proper time.

9.2 Filling in your GST return

If needed, the GST advice Unit will help you to fill in your GST return form

correctly. When you fill in your return you should always check your figures for accuracy.

If for any reason, you have a minus figure to enter in Box 2 or Box 11, you must make it clear that it is a minus figure by writing it in brackets.

Fill in clearly in ink all the boxes where you are asked to give information, writing 'none' where necessary. Don't write anything else on your return. Don't send any correspondence with your return.

If your return is incorrectly completed it may be sent back by the Department of Inland Revenue for correction or clarification. You should deal with this immediately. If you fail to make the necessary corrections within the time limit specified by the Department of Inland Revenue, you will be liable to a financial penalty.

9.3 Tax periods

The period covered by a return is called a 'tax period'. Your return and payment must be received no later than 1 month after the end of the tax period. If there is no tax due for the period you must still send in your return.

The standard tax period is 3 months but if the annual value of your taxable supplies exceeds Rs. 30 million you will be required to send in monthly returns.

9.4 Late, incomplete or incorrect returns and payments

(a) General. You must take your GST return and any payment due to the Bank of Ceylon by the due date shown on the return. If you fail to do this you could be liable to a penalty.

Prompt and correctly completed returns and payments are the best way of avoiding trouble. If you foresee any difficulty, your best course is to explain the circumstance in advance to the GST Advice Unit in the Department of Inland Revenue.

(b) Assessments. If you fail to make a return when it is due, or payment due on a return or make an incomplete or incorrect return, the Department of Inland Revenue have powers to assess, to their best judgement, the amount of tax you owe.

9.5 Excess input tax refunds

A refund of GST arises when your input tax exceeds your output in any monthly or quarterly tax period. The timing of the refund depends on whether:

- the value of your zero-rated supplies was not less than 50% of your taxable supplies; or
- the value of your zero rated supplies was less than 50% of your taxable supplies or you have none; or
- you are a BOI undertaking referred to in the exemption schedule to the GST Act, or a new venture approved by the Commissioner General.

(a) Where the value of your zero-rated supplies is not less than 50% of your taxable supplies you will receive a proportion of the excess input tax based on the ratio of zero-rated supplies to total taxable supplies, one month after the end of the tax period. Any excess not refunded or set off against subsequent tax due will be refunded in full after the expiry of six months. If all your supplies are zero-rated you will receive a full refund.

(b) Where the value of your zero rated supplies is less than 50% of your total taxable supplies, the excess will be carried forward and set off against any tax due in subsequent tax periods. Any residue excess remaining after expiry of six months will be refunded in full.

(c) If you are a BOI undertaking referred to in items (xxvii) or (xxviii) of the exemption schedule of the GST Act, or a new venture approved by the Commissioner General you are required to furnish monthly returns. Any excess input tax will be refunded in full, within one month of receiving the completed return.

The Department of Inland Revenue will pay interest from one month after the due date for the return until the refund is made.

The Department of Inland Revenue will calculate the excess input tax from the GST return furnished and they will provide periodic statements showing the balance of your tax account with them.

9.6 Delayed repayments

The Department of Inland Revenue have to pay you interest if they do not authorise repayment of an **acceptable claim** by the due date for refund – normally 30 days from the due date. But if the Department of Inland Revenue have to make enquiries to sort out errors, the 30 day period can be extended while enquiries are made.

Section 10: Supplies made by or through agents

This section tells you how you should account for GST if you use the services of an agent, or act as an agent in arranging supplies of goods or services.

10.1 General

You are an agent if you act for, or represent, someone else, (“your principal”) in arranging supplies of goods and services. Supplies which you arrange are made by or to the principal you represent. **Principals cannot avoid their liability to account for GST on their supplies or to pay GST on their purchases by using an agent.**

Persons who carry on a business on their own account sometimes use the word “agent” to describe their trading style. For example, distributors, sole concessionaires and motor agents usually trade as principals on their own account, and travel agents are not usually agents in all their activities. On the other hand, some people who normally trade as principals such as solicitors and architects may occasionally arrange supplies as agent for their clients.

To act as an agent, you must have agreed with your principal to act on their behalf in relation to the particular transaction concerned. This may be a written or oral agreement, or merely inferred from the way you and your principal conduct your business affairs. Whatever form this relationship takes:

- it must always be clearly established between you and your principal, and you must be able to show the Department of Inland Revenue that you are managing the transaction for your principal, rather than trading on your own account;
- you will not be the owner of any of the goods, or use the services you buy from your principal;
- you will not alter the nature or value of any of the supplies made between your principal and third parties.

10.2 How agents are involved in GST

As an agent you will usually be involved in at least two separate supplies at any one time:

the supplies between your principal and the third party, *and*

the supply of your own services to your principal, for which you will charge a fee or a commission. The normal GST rules apply to your services as an agent.

It is important to distinguish between the supplies of services which, you as an agent, are making yourself and the supply which you are arranging for your principal.

The liability of your supplies of agent's services to your principals will not necessarily be the same as the liability of the supply between your principals and the third parties.

10.3 Agents acting in the name of their principal

Sometimes as an agent you may take a minor role in a transaction, and simply introduce your principal to potential customers or suppliers (third parties). At other times you may more closely involved. You might receive or deliver goods, hold a stock for your principal, or make or receive payment. However, providing that the invoicing for the supply is between the principal and the customer, the only GST supply being made will be the provision of your services to the principal.

10.4 Agents who act in their own name

Sometimes you may be empowered by your principals to enter into contract with a third party on their behalf. In such cases, particularly if your principal wishes to remain unnamed or undisclosed, you may receive and issue invoices on your own behalf **in your own name** for the supplies concerned.

In commercial terms, the transaction you arrange as an agent remains between the principal and the third party involved. But if you issue an invoice in your own name for a supply of **goods** which you arrange for your principal, then for GST purposes only the transaction **must** be treated as though it was a supply to you and a supply by you.

If you are an agent arranging a supply of **services**, and

both you and the supplier are registered for GST; and
the supplies are taxable

you **may** treat yourself as both receiving and supplying those services. If you do this you will be regarded as acting in your own name and treated for GST purposes as above in the same way as an agent arranging supplies of goods.

In both circumstances, you are therefore liable to account for GST on the supply of goods and services, as well as on your own supply of services to your principal. But, you may also reclaim as input tax any GST charged on the supply made to you. As you do not alter the nature or value of your principal's supply, the amount of input tax reclaimed will normally be equal to the output tax you account for on that supply.

You must not reclaim input tax under this procedure before you have accounted for the relevant output tax. You must include the value of the supply in your GST account and on your GST return as a supply both made and received by you.

It is important to remember that the GST treatment of the supply you arrange does not affect your liability to account for GST on your own supply of services to your principal.

10.5 Auctioneers

The arrangements in this section apply if auctioneers offer goods for sale as an agent for the seller. If as an auctioneer, you issue an invoice in your own name, the goods are treated as supplied to you by the vendor and from you to the buyer.

This means you are liable to account for GST on the supply of the goods **as well as** on the commission you charge the seller and, if applicable, on the fee charged to the buyer.

Goods sold by auction are not considered wholesale or retail supplies of goods. Therefore, the exclusion under section 3 of the GST Act does not apply.

Section 11: Changes in circumstances

Your registration in the GST register is based initially on the information you supply at the time you are registered. You must notify any changes in that information in writing to the GST Unit of the Department of Inland Revenue . Failure to do so is an offence under law for which there are penalties.

11.1 Changes requiring cancellation of registration

- (a) the business is closed down;
- (b) the business is sold;
- (c) the proprietor of the business takes one or more persons into partnership;
- (d) a partnership ceases to exist, but one of the former partner becomes a sole proprietor;
- (e) a company is incorporated to take over a business previously carried on by a sole proprietor or unincorporated association of persons, such as a partnership, club etc.;
- (f) a business previously carried on by an incorporated company is taken over by a sole proprietor or unincorporated association of persons, such as a partnership etc.;
- (g) taxable supplies cease for any other reason;
- (h) you have been granted a voluntary registration and you no longer intend to make taxable supplies by way of business.

You must notify the GST Unit in the Department of Inland Revenue in writing within 14 days of the change taking place.

You may render yourself liable to a civil penalty if you fail to notify any of the above changes within the prescribed time limit.

11.2 Changes requiring amendment of registration.

Any of the following changes require your registration to be amended:

- (a) a change in the name or trading name of the business, or the name and/ or address of any partner in the business;
- (b) a change in the composition of a partnership, but one or more of the former partners remains in the partnership;
- (c) a change in the name and/or address of the Sri Lankan agent for GST purposes, appointed by an overseas company or resident;
- (d) a change of address of the principal place at which the business is carried on;
- (e) a change in the trade classification of the business;
- (f) a change in status from limited liability to unlimited liability, or vice versa.

You must notify the GST Unit in the Department of Inland Revenue within 14 days, quoting your GST Registration Number and giving the date on which the change took place.

11.3 Death, insolvency or incapacity

When an individual, proprietor or a partner of a business dies, or becomes bankrupt or incapacitated, the person carrying on the business must notify the GST Unit in the Department of Inland Revenue within 14 days. The nature of the incapacity should be explained. Similarly, when an administrator, administrative receiver or liquidator etc takes over the affairs of an incorporated company, the GST Unit should be advised of the date from which they became responsible and the circumstance in which they took over.

11.4 Transfer of a business as a going concern

If you sell your business as a going concern or transfer it to another registered person entity, the transfer of your business assets may not be a supply for GST

purposes and you must not issue a tax invoice or account for output tax and the new owner cannot reclaim input tax on the transaction.

11.5 Voluntary cancellation

Apart from the changes which require cancellation of your registration listed in paragraph 11.1, you can ask for your registration to be cancelled at any time after two years if your taxable supplies falls below the registration limits.

You may have to pay output tax on stock and capital assets on hand at the time of de-registration.

Section 12: Financial penalties

There are various measures with which the Department of Inland Revenue aim to encourage people to send in accurate GST returns, and on time. The measures include:

- **the penalty for late registration**
- **the penalty for incorrect returns**
- **the penalty for evasion involving dishonesty**
- **the penalty for failure to furnish a return**

12.1 Late registration penalty

If you fail to notify the Department of Inland Revenue at the proper time that you need to register for GST you may incur a penalty. The conditions for registration and the relevant time limits are set out in the publication 'Registering for GST'

For failing to register for GST you may receive a fine not exceeding Rs.10,000 and/or six months imprisonment

12.2 The penalty for incorrect returns

You may incur a penalty for incorrect returns if:

- You have shown too little tax due on your return; or
- You have claimed a repayment which is too large on your GST return.

For making an incorrect GST return you may receive a penalty of up to twice the amount of the GST error plus Rs. 25,000 .

12.3 The penalty for evasion or dishonesty

If you are found to have dishonestly evaded GST you may be liable, on conviction, to a penalty twice the amount of tax evaded plus Rs. 25,000 and/or six months imprisonment.

As an alternative to criminal proceedings the Department of Inland Revenue may accept a financial settlement in lieu of proceedings. This is referred to as compounding. The decision to prosecute or compound proceeding is taken on the merits of each case by the Commissioner General.

12.4 The penalty for failure to furnish a return

If you fail to furnish a GST return you may be liable to a penalty of up to Rs.50,000.

12.5 Other penalties

You can incur penalties for various other breaches of the Department of Inland Revenue's GST requirements, such as failure to keep or produce GST records and unauthorised issue of GST invoices.

Section 13: Appeals

This section sets out the procedures that exist to settle disagreements between you and the Department of Inland Revenue on GST matters. It explains how to appeal against a decision, the time limits involved and lists the matters appealable to the Board of Review or on a question of law to Court of Appeal.

13.1 General

If you disagree with a decision given by the Department of Inland Revenue you should write to the Commissioner General within 30 days of notification. You should do this if you can provide further information or facts which you think may not have been fully explored. This letter may be directed to the Deputy Commissioner.

Where an assessment or additional assessment has been issued in the absence of a return you must submit a completed return and full payment.

Unsettled cases will be referred to the Commissioner General. If after appeal you remain unsatisfied with his determination you should write within one month to the independent Board of Review located in the Department of Inland Revenue. The decision of the Board of Review is final where it relates to a matter of fact. You may ask the Board of Review to refer questions of Law to the Court of Appeal and to the Supreme Court.(For further details please refer to the Appeal provisions of the Inland Revenue Act No 28 of 1979.)

Section 14: Administration of GST

14.1 Visits by Assessors

From time to time an Assessor will visit you, at your principal place of business. The officer will examine your business records and give you guidance. The reason for this is to ensure that the correct tax is accounted for at the right time. We want you to pay no more and no less than is due.

When you are visited will depend on the size and complexity of your business and your past compliance with legislation. Businesses which send in late or incorrect declarations and payments will be visited more often. It is therefore in your interest to ensure that declarations are correct from the outset.

Before we visit we will agree a mutually convenient appointment date and time. On occasions we will call without appointment. One reason for this may be to see the day to day operation of the business.

APPENDIX A

Zero rating and exemption

Zero Rating

Goods. If you export goods to a customer outside Sri Lanka, your supply is normally zero-rated provided that you meet the appropriate conditions. No tax is chargeable on the supply and input tax can be claimed.

Services. Services are zero-rated where the supply is directly connected with:

- The international transportation (including transshipment) of goods and passengers;
- Any moveable or immovable property outside Sri Lanka;
- Any repair of any foreign ship or aircraft, refurbishment of marine cargo containers or any other goods imported for the purpose of re-export;
- A copyright, patent, license, trademark or similar intellectual property right to the extent that such rights is for use outside Sri Lanka.

Exemption

This Appendix reproduces the exemption Schedule to the Goods and Services Act, No 34 of 1996. In principle, **you cannot reclaim any GST on any exempt supplies** that you make. You should note the following:

- Supply - means only the supply is exempt from GST
- Import - means only the import is exempt from GST
- Supply or import - means either supply or import is exempt from GST
- Import and supply - means both import and supply is exempt from GST

As a general principle, supplies and imports follow the same liability to GST or exemption. You should read the schedule carefully and if you are uncertain about the liability of any supply of goods or services you should contact the GST Advice Unit.

Exemption schedule

- (i) The **supply or import** of coconuts, desiccated coconuts, coconut poonac, tea, green leaf, paddy, cardamoms, cinnamon, cloves, nutmeg, pepper or any other unprocessed produce of any agricultural, horticultural, forestry, animal husbandry, poultry or fishing undertaking;
- (ii) The **supply** or import of potatoes, onions and chilies or vegetable seeds;
- (iii) The **supply or import** of rice, rice flour, wheat, wheat flour or any other grains;
- (iv) The **supply or import** of bread of any description;
- (v) The **supply or import** of milk or powdered or condensed milk excluding any article manufactured or produced from milk;
- (vi) The **supply or import** of water other than in sealed containers or in bottles;
- (vii) The **supply or import** of pharmaceutical products, or ayurvedic, siddha, unani, or homeopathic preparations, or any raw materials to be used in such production or preparation;
- (viii) The **supply** of any services by an educational establishment or school to which grants from state funds are paid or to which such grants were earlier paid but are not paid at present;
- (ix) The **supply or import** of any books other than newspapers, periodicals or magazines;
- (x) The **supply or import** of any dried fish and maldivian fish;
- (xi) The **supply or import** of sugar, jaggery and sakkara;
- (xii) The **supply or import** of kerosene, diesel, and liquid petroleum gas and petrol;
- (xiii) The **supply or import** of cement including clinker;
- (xiv) The **supply or import** of fertilizer including rock phosphate;
- (xv) The **supply or import** of crude petroleum;
- (xvi) The supply of the following financial services:-
 - (a) The operation of any current, deposit or savings account;

the exchange of currency;

- (c) The issue, payment, collection or transfer of ownership of any note or order for payment, cheque or letter of credit;
- (d) The issue, allotment, or transfer of ownership, drawing acceptance or endorsement of any debt security, being any interest in or right to be paid money owing by any person;
- (e) The issue, allotment, or transfer of ownership of any equity security or a participatory security;
- (f) Underwriting or sub underwriting the issue of an equity security, debt security or participatory security;
- (g) The provision of any loan, advance or credit;
- (h) The provision of the facility of instalment credit finance in a hire purchase, conditional sale or credit sale agreement for which facility a separate charge is made and is disclosed to the person to whom the supply is made;
- (i) Life insurance

i) The **import or supply** of goods and services to Diplomatic Missions, United Nations Organization and its specified agencies, and the staff of those missions and organizations, which or who under the Vienna Convention on Diplomatic Relations (1961) relating to privileges and immunities are entitled to these benefits provided that reciprocal benefits are available to their counterparts from Sri Lanka and identified as such by the Commissioner-General, including the import under temporary admission carnet for re-export;

i) The **import and supply** of goods at duty free shops for payment in foreign currency;

The **import or supply** of unused postage or revenue stamps of the Government of the Socialist Republic of Sri Lanka or of a Provincial Council;

The **import** of any article entitled to duty free clearance under the Passenger's Baggage (Exemptions) Regulations made under section 107 of the Customs Ordinance or any article cleared duty free re - importation

certificate as provided in schedule A under the Customs Ordinance or any article cleared ex-bond for re-export or for use as ship stores;

(xxi) The **import** of goods by any organization approved by the Minister in charge of the subject of Finance and proved to his satisfaction to be gifts from persons or organizations overseas for the relief of distress caused by natural or other disaster;

(xxii) The **import or supply** of aviation fuel, and bunker fuel;

(xxiii) The **supply** of public passenger transport services (other than air or water transport, services for the transport of tourists, or in the form of excursion tours or tax services) or the **import or supply** of a motor coach or chassis or a body of a motor coach for such public passenger transport services;

(xxiv) The import or supply of tractors to be used exclusively for agricultural work;

(xxv) Repealed

(xxvi) The supply of electricity up to 90 Kwh per consumer as defined under Electricity Act, No 19 of 1950, per month;

(xxvii) Import by any person who has entered into an agreement –

- (a) Prior to May 16th, 1996; or
- (b) Prior to the appointed date in respect of a project the total cost of which is not less than Rs. 500 Million,

with the Board of Investment of Sri Lanka, under Section 17 of Board of Investment of Sri Lanka Law, No 4 of 1978, of any article which is prescribed as a project related article to be utilised in the project specified in the agreement during the project implementation period of such project as specified in such agreement or up to the date of completion of the project, whichever is earlier;

(xxviii) **Import** by any person who has entered into agreement with the Board of Investment of Sri Lanka under Section 17 of Board of Investment of Sri Lanka Law, No 4 of 1978 of any article which is prescribed as a project related article to be utilised in the project specified in the agreement –

- (a) For a period of 3 years, from the appointed date, or
 - (b) Until the completion of such project,
- whichever is earlier;

(xxix) Repealed

(xxx) **Supply**, in Sri Lanka, of architectural, engineering, quantity surveying or construction management services by a non-resident person within the meaning of the Inland Revenue Act, No 28 of 1979, to a company with which an agreement has been entered into by the of Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No 4 of 1978, on or before the appointed date, if the total cost of the project to which such an agreement relates is not less than US\$ 50 Million or its equivalent

(xxxi) The supply of services by a person in Sri Lanka to another person, to be consumed or utilized wholly, by such other person outside Sri Lanka.

(xxxii) The supply, lease or rent of residential accommodation;

(xxxiii) The supply or import of timber;

(xxxiv) The supply of all health care services provided by medical institutions or professionally qualified persons providing such care;

(xxxv) The supply of hotel accommodation to tourists during the period of two years commencing from the appointed date.

