



DEPARTMENT OF INLAND REVENUE

WITHHOLDING OF 33 1/3% OF VALUE ADDED TAX (VAT) PAYABLE TO CONTRACTORS BY GOVERNMENT AGENCIES

Section 26A of the Value Added Tax (VAT) [as amended by VAT (Amended) Act No. 14 of 2007] provides that any Government Agency is required to withhold 33 1/3% of VAT payable on supplies made by constructors / service providers to such Agency in respect of contract to which such Agency is a party (or on behalf of any other person who is a party to such contract), effective from January 01, 2007. VAT so withheld [VAT (Advance Tax)] by the Government Agency should be remitted to Commissioner General of Inland Revenue.

The following guidelines are applicable in the withholding and remittance of such VAT to the Commissioner General of Inland Revenue.

01. “Government Agencies” mean ;

- ❖ Ministries,
- ❖ Departments,
- ❖ Govt. Owned Business Undertakings,
- ❖ Public Corporations,
- ❖ Provincial Councils, Local Authorities,
- ❖ Universities,
- ❖ The Board of Investment,
- ❖ State Banks,
- ❖ Projects funded by the Government; and
- ❖ Any Institution to which funds are provided from the consolidated fund.

02. “Contract” means ;

- (i) Any Contract in respect of construction work, or services of whatever nature. (excluding contract of employment).
- (ii) Any contract for the supply of goods or services in respect of any contract specified in item (i).
- (iii) Any sub contract in respect of any contract specified in item (i) or (ii).
- (iv) Any contract for the provision of services including services as an entertainer or artist (excluding contract of employment).

The following contracts are, however, excluded from the liability to VAT (Advance Tax).

- (i) Any contract for supply of goods or services, the construction of which does not exceed Rs. 500,000/-,
- (ii) Any contract of supplying goods for which payment is made immediately.

03. The deduction is required to be made from the VAT component payable to the contractor at the time of making any payment to such contractor.
04. VAT (Advance Tax) so deducted during any calendar month should be remitted to the Commissioner General of Inland Revenue not later than the end of first week of the subsequent month.

05. A **Separate Cheque** should be drawn for the total VAT (Advance Tax) in respect of each Registered Person, in favor of the Commissioner General of Inland Revenue, and send to the VAT (Advance Tax) Branch, 9th Floor, Department of Inland Revenue, Colombo 02.

(Please note that a separate cheque is required in respect of each registered person covering all the payments made to such person, and not to send one cheque covering all the payments of all the registered persons).

06. **VAT Registration No. and the name of the VAT registered person** should be written overleaf of the cheque in order to identify that person when the cheque is deposited in the name of the same VAT registered person.
07. The VAT (Advance Tax) also is applicable to any contract commenced prior to 01.01.2007, and payments are due to be made on or after that date.
08. Government Agency should issue a withholding tax certificate to each VAT registered person on deductions made by such Agency as a documentary proof of such VAT deduction, specifying the following details.
 - i. The gross amount of the payment;
 - ii. The total VAT and the 1/3 of VAT so deducted;
 - iii. The net amount actually paid

Further, a statement should be sent to the Commissioner General of Inland Revenue by the respective Government Agency, together with separate cheques for each registered person, specifying the following details.

- i. Registered person's VAT Number, Name and Address.
- ii. The gross amount of the payment.
- iii. Total tax, 33 1/3% of VAT deducted, and the amount actually paid.
- iv. The name and address of the Government Agency. (VAT Registration No. if any)
- v. Details of remittances: the cheque numbers and the dates of payment.

Please note that the Standard Rate of 15% is reduced to 12% with effect from 01.01.2009 (vide extra ordinary gazette notification No. 1582/35 dated 01.01.2009). However, the application of the rate is decided based on the time of supply.

In any situation where the deduction of VAT (Advance Tax) is impracticable, please write to Commissioner General of Inland Revenue explaining reasons for such inability and make a request for a direction.

For any further clarification, please contact;

Deputy Commissioner General (Indirect Tax Administration)	Tel : 011 2324568 Fax : 011 2342084
Commissioner (Value Added Tax)	Tel : 011 2343176 Fax : 011 2343176
Deputy Commissioner [Value Added Tax (Advance Tax) Branch]	Tel : 011 2436836 Fax : 011 2436836
Senior Assessor [Value Added Tax (Advance Tax) Branch]	Tel : 011 2331845
Assessor [Value Added Tax (Advance Tax) Branch]	Tel : 011 2497757

PLEASE MAKE PAYMENTS IN TIME

Commissioner General of Inland Revenue



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