



TAX ALERT · JULY 2026

Amendments to the Value Added Tax Act No. 14 of 2002

Key changes introduced by the VAT (Amendment) Act No. 14 of 2026



20.5%

VAT ON FINANCIAL
SERVICES FROM 1 JULY
2026



Platform VAT

NON-RESIDENT DIGITAL
SERVICES TAXED FROM
1 JULY 2026



LKR 1 Mn

MAXIMUM FINES FOR
FRAUD & EVASION
OFFENCES

IRD NOTICE

SEC/PN/VAT/2026-03 dated 03 July 2026

AMENDMENT ACT

VAT (Amendment) Act No. 14 of 2026 —
certified on 30 June 2026

PRINCIPAL ACT

Value Added Tax Act, No. 14 of 2002

KEY EFFECTIVE DATES

1 October 2025 and 1 July 2026

SUPPLY, REGISTRATION & DIGITAL PLATFORMS


1

Film Exhibition Services — Value of Taxable Supply

From 1 July 2026

Where film exhibition services are provided through ticket sales, the **entertainment tax** charged by the local authority under the Entertainment Tax Ordinance (Chapter 267) may be **deducted when calculating the value of the taxable supply** — in addition to any other deductions permitted under Section 5(8) of the VAT Act.


2

Zero-Rating for Garment Buying Offices

From 1 October 2025

Services provided by a garment buying office registered under the Industrial Promotion Act No. 46 of 1990 to overseas buyers will be treated as **zero-rated supplies**, provided that:

- the customer is located outside Sri Lanka; and
- payment for the service is received in foreign currency.


3

VAT Registration Thresholds — Unchanged

The proposed reduction in the registration threshold has been **abandoned**. Registration remains mandatory where taxable supplies exceed, or are likely to exceed:

- **LKR 15 million** in any taxable period (quarterly); or
- **LKR 60 million** in the twelve-month period then ending (annual).


4

VAT on Electronic Platform Services by Non-Residents

From 1 July 2026

VAT will apply to services supplied by **non-resident persons through electronic platforms** to customers in Sri Lanka. A non-resident must register under Section 25L(1) where such services:

- exceed **LKR 60 million** (or foreign currency equivalent) in any consecutive 12-month period; or
- exceed or are likely to exceed **LKR 15 million** in any quarter beginning on or after 1 July 2026.

Registration applications must be submitted electronically within **three months** of becoming liable (or of the Commissioner-General specifying the form, whichever is later).

B2B carve-out (Section 25N): VAT shall not be charged on platform services supplied by a non-resident where the recipient is a VAT-registered person in Sri Lanka. Further guidelines on registration, charging, payment and compliance are to follow.

COMPLIANCE, RATES & ADMINISTRATION



5

Submission of VAT Schedules

A registered person may submit schedules relating to a VAT return **from the beginning of the relevant taxable period**. RAMIS facilitates this via:

- uploading Excel files in CSV format;
- direct entry through the IRD e-Service Portal; or
- **Web API integration** between the taxpayer's ERP system and RAMIS, enabling real-time transfer of invoice information.



6

Disallowance of Input Tax — Project Imports

From 1 July 2026

Where VAT on plant, machinery, equipment or vehicles imported for projects was **deferred on the assurance of re-exportation**, and the items are **not re-exported within one month** of project completion, any VAT subsequently paid will **not be allowed as deductible input tax**.



7

Financial Services — VAT Rate 20.5%

From 1 July 2026

For taxable periods commencing on or after 1 July 2026, the VAT rate applicable to the **supply of financial services shall be 20.5%**.

SSCL interaction: Under Item 25, Part II of the First Schedule to the SSCL Act No. 25 of 2022 (as amended), financial services subject to VAT at 20.5% are **exempt from the Social Security Contribution Levy**.



8

Write-off of Tax in Default — Tsunami Relief Projects

The Commissioner-General shall **write off tax in default** under the VAT Act in respect of taxable supplies made for tsunami relief projects, where payment of VAT on such supplies had been undertaken by the Government of Sri Lanka.



9

Secured Point-of-Sale (POS) Machines — Mandatory Use

Every VAT-registered person shall, **within three months from the date prescribed**, use secured POS machines for all transactions, the issuance of invoices, and the management and maintenance of records relating to taxable activities, in the prescribed manner. Machine specifications will be prescribed by the Commissioner-General in due course.

PENALTIES, ENFORCEMENT & TRANSPARENCY



Increased Penalties — Tax Fraud, Evasion & Fraudulent Refunds

Under Section 66, evading tax, wilfully and fraudulently claiming (or attempting to claim) a refund, or assisting another to do so, is an offence triable summarily before a Magistrate.

- **Offences before 1 October 2025:** a fine equal to twice the tax evaded or attempted to be evaded, plus a fine not exceeding **LKR 25,000** or imprisonment up to six months, or both.
- **Offences on or after 1 October 2025:** a fine equal to twice the tax evaded or refund fraudulently claimed (including misrepresentation, false or misleading information, or concealment of material facts), plus a fine not exceeding **LKR 1,000,000** or imprisonment up to six months, or both.



New Offences — VAT Returns & Compliance From 1 July 2026

The following are added as offences under Section 67:

- obtaining or attempting to obtain a refund by fraud, misrepresentation, false or misleading information or documents, or concealment of any material fact; and
- failing to furnish valid tax invoices, customs goods declarations or other authenticated documents required under Section 21.

On conviction: fine up to **LKR 25,000** (offences before 1 Oct 2025) or up to **LKR 1,000,000** (offences on or after 1 Oct 2025), and/or imprisonment up to six months.



Criminal Proceedings under the VAT Act From 1 July 2026

Under Section 68 as amended, the **Commissioner-General may investigate** any offence under the Act; the **Attorney-General** (or a person authorised by the Attorney-General) shall prosecute; and all criminal proceedings shall be instituted **in the name of the Commissioner-General**.



Publication of VAT-Registered Persons' Information

Notwithstanding Section 73(1), the Commissioner-General **shall publish the name, address, Tax Registration Number and registration status** of every registered person — to facilitate administration and enforcement, ensure public transparency, enable identification of tax-compliant entities, and support the operation of Section 25N.

EVOLVE

DEFINITIONS & NEW EXEMPTIONS



New Interpretations — Section 83

From 1 July 2026

New definitions have been added in relation to VAT on services supplied by non-residents through electronic platforms: **"Electronic platform"**, **"Fixed place"**, **"Marketplace in relation to educational courses"** and **"Non-resident person"**.



New Exemptions

From 1 July 2026

- Supplies of goods or services to any business identified and approved as a **Business of Strategic Importance** under Section 52 of the Colombo Port City Economic Commission Act, No. 11 of 2021 and regulations thereunder.
- The following services supplied through an electronic platform by a non-resident person:
 - **Educational services** — online courses, seminars, training, digital education platforms, virtual classrooms, LMS and marketplace courses;
 - **Healthcare services** — online consultations, digital prescriptions, AI-assisted diagnostics, digital health tracking and telemedicine;
 - services supplied to organisations or **diplomatic missions** as specified under relevant written laws or Government agreements.

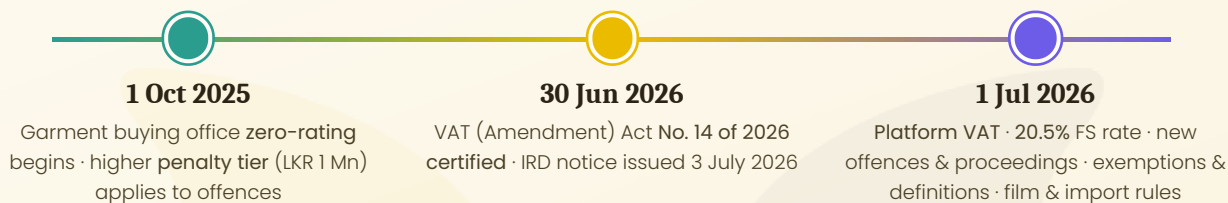
EVOLVE



THE AMENDMENT AT A GLANCE

15KEY
AMENDMENTS**20.5%**VAT ON FINANCIAL
SERVICES**15/60 Mn**LKR THRESHOLDS
UNCHANGED**LKR 1 Mn**MAXIMUM FINE FOR
OFFENCES

EFFECTIVE TIMELINE



WHAT CHANGED — BY THEME

Supply & Rates

- **1** Entertainment tax deductible for cinema tickets
- **2** Garment buying offices zero-rated (forex, overseas)
- **7** Financial services 20.5% — SSCL exempt
- **15** Port City BSI + platform education & healthcare exempt

Digital Platform VAT

- **4** Non-residents register: LKR 60 Mn/yr or 15 Mn/qtr
- **4** B2B supplies to VAT-registered persons excluded
- **14** Four new Section 83 definitions
- **13** Registered persons' details published (supports 25N)

Compliance & Administration

- **3** Thresholds unchanged — reduction abandoned
- **5** Schedules via CSV, e-Portal or ERP—RAMIS API
- **9** Secured POS mandatory within 3 months of prescription
- **6** • **8** Import input-tax disallowance · tsunami write-off

Penalties & Enforcement

- **10** Fraud/evasion: 2× tax + up to LKR 1 Mn &/or 6 months
- **11** New offences: fraudulent refunds, missing invoices
- **12** CG investigates · AG prosecutes in CG's name
- Old-tier fines (pre-1 Oct 2025) capped at LKR 25,000



How do these changes affect your business?

From platform VAT registration and the 20.5% financial services rate to secured POS requirements and strengthened penalties — our tax advisory team can help you assess your exposure and stay fully compliant.

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This summary is based on IRD Notice SEC/PN/VAT/2026-03 dated 03 July 2026 and is provided for general information only. It does not constitute professional advice. Please consult us before acting on any matter covered herein.

ÉVOLVE