

Fiscal Policy Circular No. 01/2005

To: All Secretaries to Ministries

Concessions on the payment of Value Added Tax on donations/purchases of goods and services by organizations or persons engage in the rehabilitation work in Tsunami affected areas.

01. Foreign Donors

In terms of the provisions of Value Added Tax Act, following concessions can be provided on Value Added Tax (VAT) payable by International Donor Agencies who have entered into Memorandum of Understandings with the government of Sri Lanka.

A. Exemption from payment of Value Added Tax

Hon. Minister of Finance can grant approval for VAT exemption for the import of goods donated by persons or organizations abroad and local purchases of goods funded directly by foreign organizations to be used in projects for the relief / rehabilitation and reconstruction of Tsunami disaster.

Accordingly, in order to obtain the VAT concession, the Secretary of the respective Line Ministry should recommend the project including required goods in quantities to be purchased for such projects with the names of the suppliers.

B. Deferment of payment of Value Added Tax on Local Purchases using foreign funds

A system on deferment of Value Added Tax on local purchases has been introduced for the following activities in terms of sub paragraph (b) of subsection (2) of section (2) of the Value Added Tax Act.

"Supply of goods (raw materials or finished goods) or services locally, by a VAT registered person to any direct contractor (local or foreign institution assigned by the Foreign Donor Agency)".

Accordingly, when a direct contractor awards a contract to a local supplier, on completion of the transaction, the supplier will issue an invoice to the direct contractor. Such invoices should be issued in the name of the project on behalf of the Line Ministry. Based on such invoices submitted by direct contractor, the Government of Sri Lanka will pay the VAT portion on the agreed contract value.

As per above, the following scheme will be implemented to defer the VAT payable.

- i. The Foreign Funded Donor Agency will inform the names and addresses of the direct contractors assigned for the work to be carried out, to the Fiscal Policy Department, Ministry of Finance & Planning.
- ii. Direct contractor (or the Donor Agency, in the case of Donor Agency and the direct contractor are the same) should submit the project report to the Fiscal Policy Department with the recommendation of Line Ministry. Such project reports should include estimated cost of the project, quantity of goods and services to be purchased and the names of the suppliers.
- iii. The Department of Fiscal Policy will inform the Department of Inland Revenue of the approved contracts
- iv. A letter will be issued to the direct contractor by the Commissioner General, Department of Inland Revenue, based on the approval granted by the Minister of Finance to obtain Value Added Tax deferment for local purchase of goods/services under this scheme.
- v. After the goods and services are provided locally, the Tax Invoices issued to direct contractor should be forwarded to the Fiscal Policy Department, with a schedule on quarterly basis, by the direct contractor.
- vi. Department of Fiscal Policy will check the Tax Invoices with the original estimate/consideration and if satisfied, make a fund transfer against each Value Added Tax registered supplier, to the Department of Inland Revenue and recover the funds allocated to such line Ministry on periodical basis.

02. Local Donor organizations

Local Donor organizations who have engaged in Tsunami the relief / rehabilitation and reconstruction activities on voluntary basis will be accorded following concessions.

A. Exemption from payment of Value Added Tax on import of goods

The Import of goods by Local Donor organizations for Tsunami relief activities will be considered for Tax exemptions on a case by case basis, by the Department of Fiscal Policy.

B. Deferment of payment of Value Added Tax on Local Purchases using local funds

The Value Added Tax deferment system has been extended to Local Donor organizations, though there are no provisions in the VAT Act. Until an amendment is brought in, pending such action, the same scheme introduced for Foreign Funded Donor Agencies (as stated in 1(B) above) will be applicable to such Local Donor organizations as well. In this case, Local Donor organization will be the direct contractor assigned for the work to be carried out.

- 03.** Secretaries to Line Ministries should furnish quarterly progress reports of such recommended projects to the Department of Fiscal Policy. The items of Value Added Tax payment, exempted, differed or paid by the Ministry of Finance & Planning or any other relevant government organization, as per the above instructions, are prohibited to use for any commercial purpose, to be sold, disposed of or transferred to another party without the approval of the Department of Fiscal Policy, Ministry of Finance and Planning.
- 04.** If you need any clarifications, please do not hesitate to contact following officers of the Fiscal Policy Department, Ministry of Finance & Planning.

Mr. R.P.L. Weerasinghe, Senior Advisor (Tax Policy) - Tel: 2484905
Mrs. K. Dahanayake , Tax Advisor - Tel: 2484654
Mr. S. R. Attygalle, Director (Revenue) - Tel: 2484651

P. B. Jayasundera
Secretary to the Treasury

- Cc: 1. Auditor General
2. Commissioner General, Department of Inland Revenue
3. Director General, Department. of Customs