# Tax Alert: Value Added Tax (Amendment) Act No. 14 of 2026 — Key Changes You Need to Know

**Source:** Inland Revenue Department Notice SEC/PN/VAT/2026-03, dated 3 July 2026

The Value Added Tax (Amendment) Act No. 14 of 2026 was certified on 30 June 2026, introducing a wide range of changes to the VAT Act No. 14 of 2002. Below is a summary of the key amendments and what they mean for your business.

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## 1. Registration Thresholds Remain Unchanged

The previously proposed reduction in the VAT registration threshold has been **abandoned**. The existing thresholds continue to apply:

- **LKR 15 million** in any taxable period (quarterly); or
- **LKR 60 million** over the preceding twelve-month period (annual)

**Action point:** No change needed to your current registration status assessment.

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## 2. New VAT on Digital Services from Non-Residents (Effective 1 July 2026)

Non-resident persons supplying services to Sri Lankan customers through electronic platforms are now within the VAT net.

- **Registration trigger:** LKR 60 million (or foreign currency equivalent) over any 12-month period, or LKR 15 million in any quarter from 1 July 2026 onward.
- Registration must be done electronically under **Section 25L(1)** within three months of becoming liable.
- **Important relief:** Under **Section 25N**, VAT will *not* be charged if the Sri Lankan recipient is already VAT-registered — meaning B2B transactions with registered local businesses are excluded.
- Further operational guidelines on charging, payment, and compliance are expected from the Commissioner-General.

**Action point:** If your business procures digital services from foreign suppliers (software, SaaS, cloud, digital advertising, etc.), confirm your own VAT-registered status is on record with the supplier to avoid being charged VAT unnecessarily.

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## 3. New Exemptions Effective 1 July 2026

Several digital and strategic-sector exemptions have been introduced:

- Supplies to businesses approved as **"Businesses of Strategic Importance"** under the Colombo Port City Economic Commission Act.

- Cross-border digital **educational services** (online courses, virtual classrooms, LMS platforms).
- Cross-border digital **healthcare services** (telemedicine, online consultations, AI-assisted diagnostics).
- Services to diplomatic missions/organizations under applicable agreements with the Government.

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## 4. Zero-Rating for Garment Buying Offices (Effective 1 October 2025)

Services provided by garment buying offices registered under the Industrial Promotion Act to overseas buyers are now **zero-rated**, provided:

- The customer is located outside Sri Lanka, and
- Payment is received in foreign currency.

**Action point:** Garment sector clients should review invoicing to apply zero-rating and ensure supporting documentation (foreign currency receipts) is retained.

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## 5. Financial Services VAT Rate Increased to 20.5%

Effective for taxable periods commencing on or after **1 July 2026**, the VAT rate on financial services rises to **20.5%**. As a corresponding relief, financial services taxed at this rate are **exempt from SSCL**.

**Action point:** Financial institutions should update billing systems and confirm SSCL exemption is correctly applied to avoid double taxation.

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## 6. Film Exhibition Services — Entertainment Tax Deduction (Effective 1 July 2026)

Entertainment tax charged by local authorities on cinema ticket sales may now be deducted when calculating the VAT-taxable value, in addition to existing deductions under Section 5(8).

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## 7. Input Tax Disallowance on Deferred-VAT Project Imports (Effective 1 July 2026)

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

**Action point:** Project-based importers should tighten tracking of re-export deadlines to preserve input tax credits.

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## 8. Mandatory Secured POS Machines

All VAT-registered persons must, within three months of a date to be prescribed, use **secured Point-of-Sale (POS) machines** for transactions, invoicing, and record-keeping. Technical specifications will follow from the Commissioner-General.

**Action point:** Budget for POS system upgrades and watch for the prescribed compliance date.

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## 9. Sharply Increased Penalties

Penalties for tax fraud, evasion, and fraudulent refund claims (Section 66) and for return/compliance offences (Section 67) have increased significantly for offences committed **on or after 1 October 2025**:

| | Before 1 Oct 2025 | On/after 1 Oct 2025 |
|---|---|---|
| **Fraud/evasion fine** | 2x tax evaded + up to LKR 25,000 | 2x tax evaded/refund claimed + up to **LKR 1,000,000** |
| **Returns/compliance fine** | Up to LKR 25,000 | Up to **LKR 1,000,000** |
| Imprisonment | Up to 6 months | Up to 6 months |

New offences added under Section 67 include fraudulently obtaining refunds and **failing to furnish valid tax invoices or customs declarations**.

**Action point:** Ensure invoicing and documentation practices are airtight — the cost of non-compliance has risen 40-fold.

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## 10. Public Disclosure of VAT Registration Data

The Commissioner-General will now publish the name, address, TIN, and registration status of every VAT-registered person, overriding prior confidentiality provisions in Section 73(1).

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## 11. Other Administrative Changes

- **VAT schedules** can now be submitted from the start of the relevant taxable period (via CSV upload, direct e-Service Portal entry, or API integration with your ERP through RAMIS).
- **Tsunami relief project** tax defaults will be written off where the Government undertook the VAT payment.

- Criminal proceedings under the VAT Act will be investigated by the Commissioner-General and prosecuted by (or under authority of) the Attorney-General, effective 1 July 2026.

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## Recommended Next Steps

1. Review contracts with foreign digital service providers and confirm VAT-registration status is communicated to them.
2. Update ERP/invoicing systems for the financial services rate change and SSCL exemption.
3. Assess RAMIS integration options for schedule submission efficiency.
4. Tighten internal controls around tax invoices and re-export documentation given the steep rise in penalties.
5. Monitor IRD announcements for the POS machine prescribed date and technical specifications.

*This alert is a general summary of the notice issued by the Inland Revenue Department and does not constitute tax advice. Please contact our office to discuss how these changes specifically affect your business.*