

VAT CIRCULAR - 03

WITHHOLDING OF VALUE ADDED TAX - 1/3 OF VAT PAYMENT

This refers to the proposal made in Budget 2007, in which 1/3 of VAT is with held by the Government Agencies on supplies made by Contractors / Service providers to such Agencies with effect from 01.01.2007. (Pending formal amendments to the Value Added Tax Act).

01. Every Government Agency is required to deduct Withholding Tax (WHT) of 1/3 of the VAT payable to any registered person on supplies made on contract as specified in item 09.
02. The deduction is required to be made from the contractor when the payment is made to such contractor.
03. The WHT so deducted during any calendar month should be remitted to the CGIR during the first week of the subsequent month.
04. A Separate Cheque should be drawn for the total WHT made in respect of each Registered Person, in favour of the Commissioner General of Inland Revenue, and send to the VAT Branch (Optional VAT and Withholding the VAT Unit) on the 9th Floor, of the Department of Inland Revenue.
(please note that separate cheque is required covering all the payment of each registered person separately, and please do not send one cheque covering all the payment of all the registered persons).
05. VAT Registration No. (Tax-Payer Identification No.) and the name of the VAT registered person should be written overleaf of the cheque in order to identify the person when the cheque is deposited of the same VAT registered person.
06. The withholding provision of VAT is applicable including the contracts already started prior to 1.1.2007 on which payments are due to be made on or after 1.1.2007.

07. Government Agency should issue a withhold tax certificate to each VAT registered person on deductions made by such the Government Agency as a documentary proof of 1/3 of VAT including the following details.
- i. The gross amount of the payment.
 - ii. The total tax and the amount 1/3 of the tax so deducted.
 - iii. The net amount actually paid.

Further, the statement should be sent to CGIR by the Government Agency together with separate cheques for each registered person including the following details.

- i. Registered person VAT Number, Name and Address.
 - ii. The gross amount of the payment.
 - iii. Total tax, 1/3 of tax deducted, amount actually paid.
 - iv. The name and address of the Government Agency. (VAT Registration No. if any)
 - v. Details of remittances, the cheque nos. and the dates of payment.
08. Government Agencies will include
- Ministries,
 - Departments,
 - Govt. Owned Business Undertaking
 - Public Corporations,
 - Provincial Councils, Local Authorities
 - Universities,
 - The Board of Investments,
 - State Banks,
 - Project funded by the Government or
 - Institution for which funds are provided from the consolidated fund.

09. Contract will include the following;
- i. Any contract in respect of construction work or services of whatever nature. (Excluding contract of employment).
 - ii. Any contract for the supply of good 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 as an entertainer or artistic (Excluding contract of employment).
10. When deduction of withholding tax is impracticable, please write to Commissioner General of Inland Revenue explaining the reason for inability to deduct withholding tax and request for a direction.

The following contracts will be excluded from the liability to WHT.

01. When total consideration of the contract of Supply of goods or services does not exceed Rs. 100,000,
02. Supply of goods under a contract in which immediate payment is made for the supply of such good or services.

Any further clarification, please contact the Officer on Telephone Nos.

Value Added Tax Branch : 2451736, 2451741, 2451738,
2342097, 2331860, 2328427

Optional VAT & Withholding VAT Branch : 2436836, 2331845

Tax payer Service Unit : 2434314 , 2329116,

Secretariat Branch : 2327872, 2343174


18/1/07
R.K.H. Kaluarachchi

Deputy Commissioner General/
ICT Management & VAT

Mr. R. K. H. Kaluarachchi
Deputy Commissioner General
Direct Taxes and Information Technology
Justice of Peace