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Value Added Tax (VAT) — transitionary provisions

In reports submitted by me in the past pertaining to the introduction of VAT and the abolition of GST and NSL, I have clearly stated the importance of obtaining refunds in respect of the following:

(1) Unabsorbed GST input credit as at 30.6.2002.

(2) Unabsorbed NSL input credit for the quarter ending 30.6.2002.

(3) NSL embedded in the stock-in-trade as at 30.6.2002.

Transitionary provisions in the new VAT law are necessary to obtain refunds pertaining the above matters.

It is generally believed that refunds in respect of categories (1) & (2) possible though refund in respect of category (3) would not be easy. Whether obtaining this refund is easy or not, it is a very important issue to the importers considering the following:

For eg: consider a shipment which is cleared on or around the 25th of June 2002. The importer would have paid NSL @ 6.5% which forms part of the landed cost of the item. Now, when he sells this stock on or after 1st July 2002 he has to pay VAT @ 20%. Therefore, if the NSL paid by him is not refunded to him, he would be paying taxes @ 26.50% on his July sale.

It could be argued that he could increase his selling price by 6.5% to counter balance this loss. Thus selling prices of goods in general will increase by 6.5%, which in turn will increase the cost of living. Already there is a cry from the public that the cost of living is on the increasing trend and an increase of this nature will worsen the position.

You cannot expect an importer to increase his prices say, for only 2-3 months till that particular stocks are sold:

(a) Generally, when prices once increased are never reduced subsequently.

(b) If the importer increases his prices for only 2-3 months and then reduces them, the distributors of his products will object that they are losing on the old stocks held by them.

It will not be possible for the importer to cut down his orders in advance, say in May and June, which will create an artificial shortage in the market. Importers are expected to maintain a re-order level of stocks and they cannot curtail the inflow of goods.

Usually companies carry 2-3 months stocks and the possible loss if refunds are not granted will be worth millions of rupees. This will cripple several enterprises.

Whenever, major changes are effected in the taxation policy, it is the duty of the Government to ensure proper relief is granted to all concerned.

When GST was introduced on 1.4.1998, refunds in respect of BTT embedded in the stocks held as at 31st March, 2002 were granted.

In the case of VAT, the refund in respect of stock-in-trade as at 30th June, 2002 could be granted in one of the following ways:

Direct Refund

(a) Stock-in-Trade is taken as at 30.6.2002.

(b) Particulars of these stocks, such as CIF value, Duty, NSL and the Exchange Rate are inserted for each category of item and a simple mathematical computation would finalise the refund due.

Since the accounts of most companies are now computerized, this computation would be accurate as well.

This statement could be certified ay the external auditors of the company and would serve as a substantial audit evidence when claims for refund are submitted by the company to the Dept. of Inland Revenue

Excluded Supply

In this method the importers are permitted to sell the goods held as at 30.6.2002 at the GST rate of 12.5% till the entire stock is depleted.

The second type of concession was also granted when GST was introduced in 1998. However, the first method is preferred in every aspect.

Regrettably, most of the importers have not realized the burden they will bear if the transitionary provision in respect of refund under category (3) is refused. They may be conveniently believing that this provision will be passed automatically,

Therefore, it is the duty of all importers to join hands and strengthen their appeal made to the Minister of Finance for relief through their trade chambers, professional bodies etc.

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Council Member
The National Chamber of Commerce of Sri Lanka

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