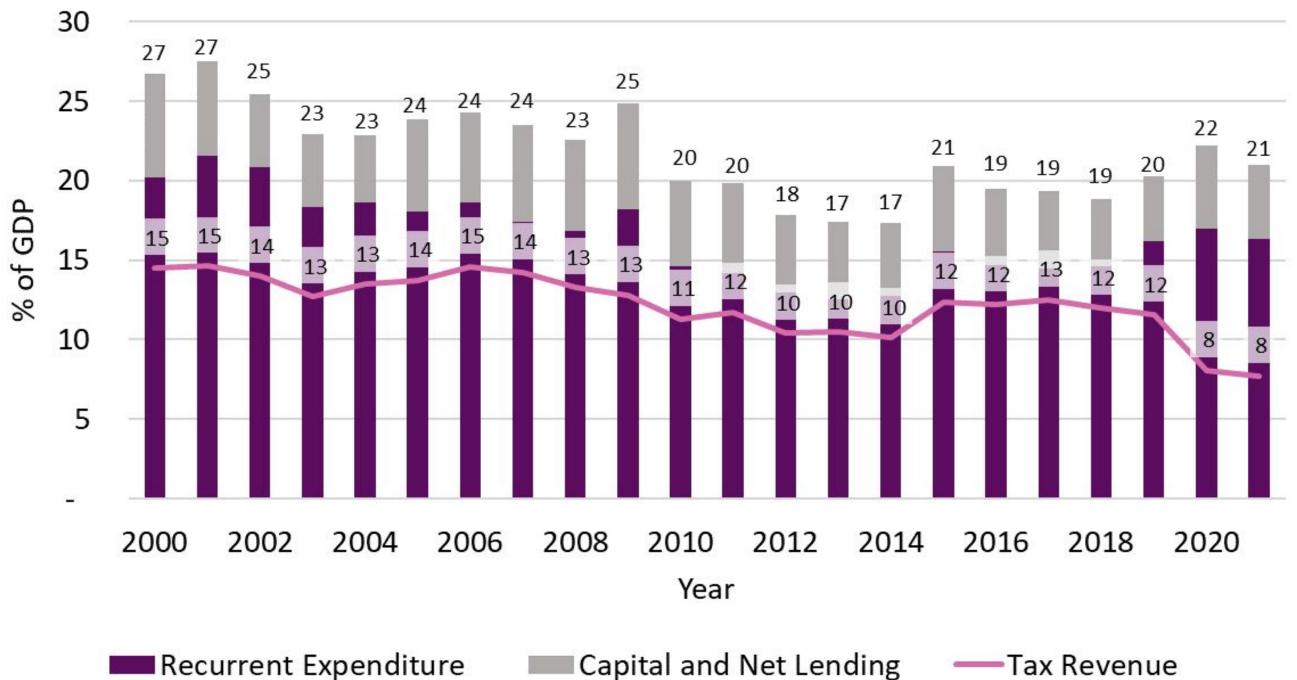
Taxation, Stability and Growth

ADVOCATA INSTITUTE

www.advocata.org

Based on Advocata Institutes research on Sri Lanka's Tax System by Thashikala Mendis, Roshan Perera, Naqiya Shiraz and Janani Wanigaratne





Government Tax Revenue and Expenditure as a % of GDP

Source: CBSL Annual Reports

2.

Underinvestment in key areas

20	16 LIDCsn=29	EMEsn=58	AEsn=34			Appropriation Bill - 2023*
Total	17.9	29.4	40.5	21	_	-
Education	2.3	3.2	5.2	1.8	1.2	1.4
Health	0.9	2.3	7.8	2.3	1.5	1.9
Social Protection	1.6	6.7	13	3.5**	-	_
Defence, order and safety	2.1	2.7	3.9	2.2	2.9	3.2
Interest	1.4	. 2.1	2	6.2	-	-

Source: IMF staff Calculations Source for Sri Lanka: Central Bank Annual Reports

3.

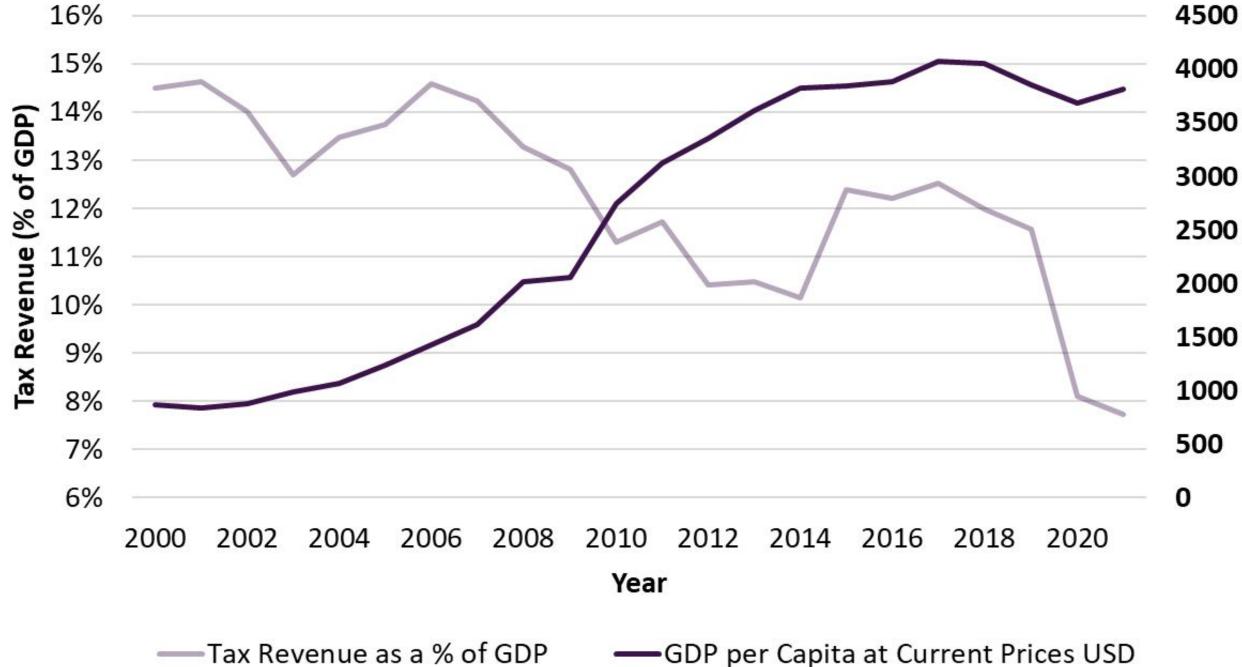
Note : * Based on 2021 GDP

****** Transfers to households and other

LIDCsn = Developing Countries, EMEsn = Emerging Markets, AEsn = Advanced Economies

Declining tax revenue despite rising GDP per capita

Declining Tax to GDP Ratio

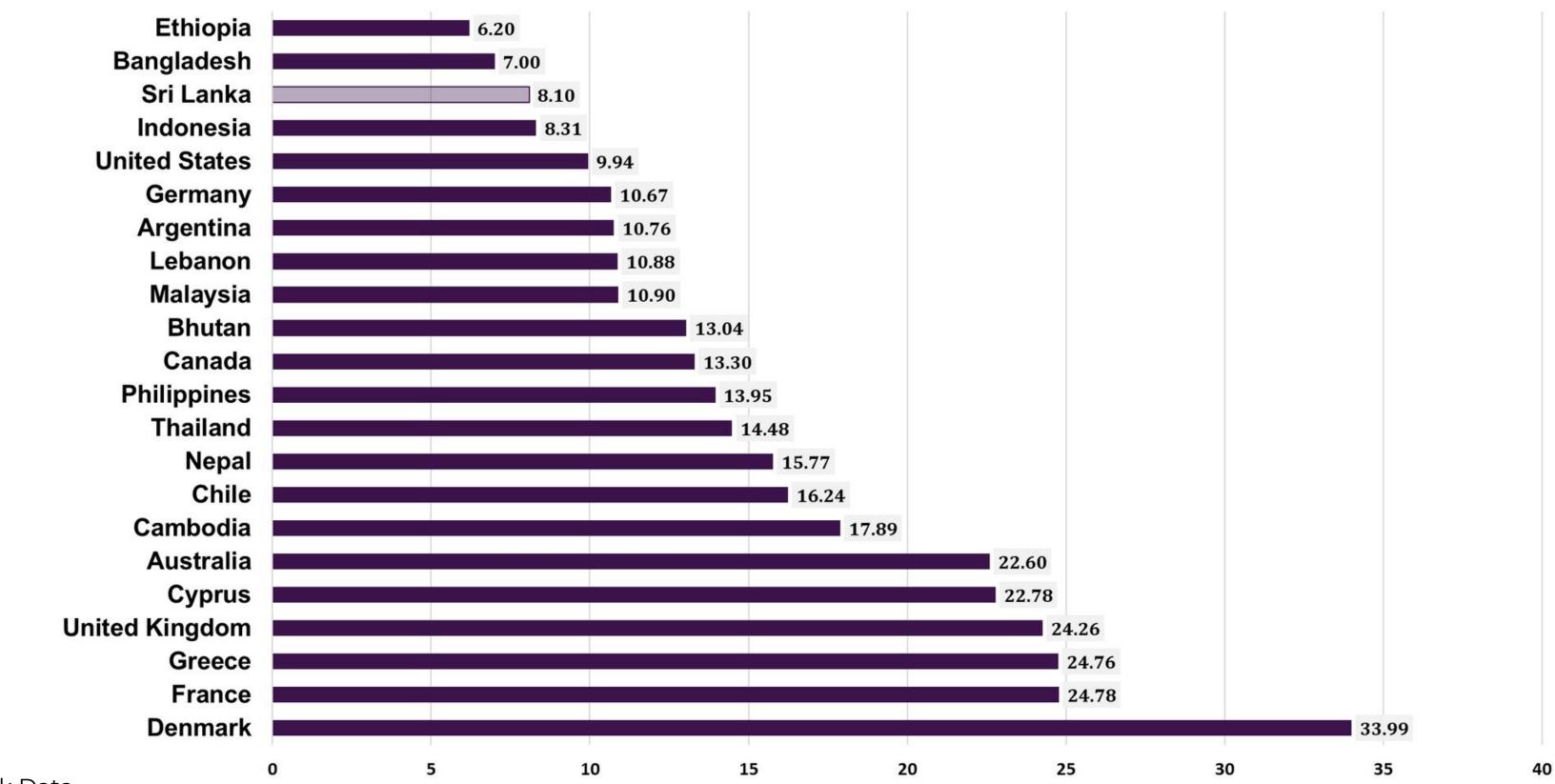


4.

GDP per Capita at Current Prices (USD)

Sri Lanka has one of the lowest Tax/GDP ratios in the world

Tax revenue as a % of GDP 2020



Source: World Bank Data

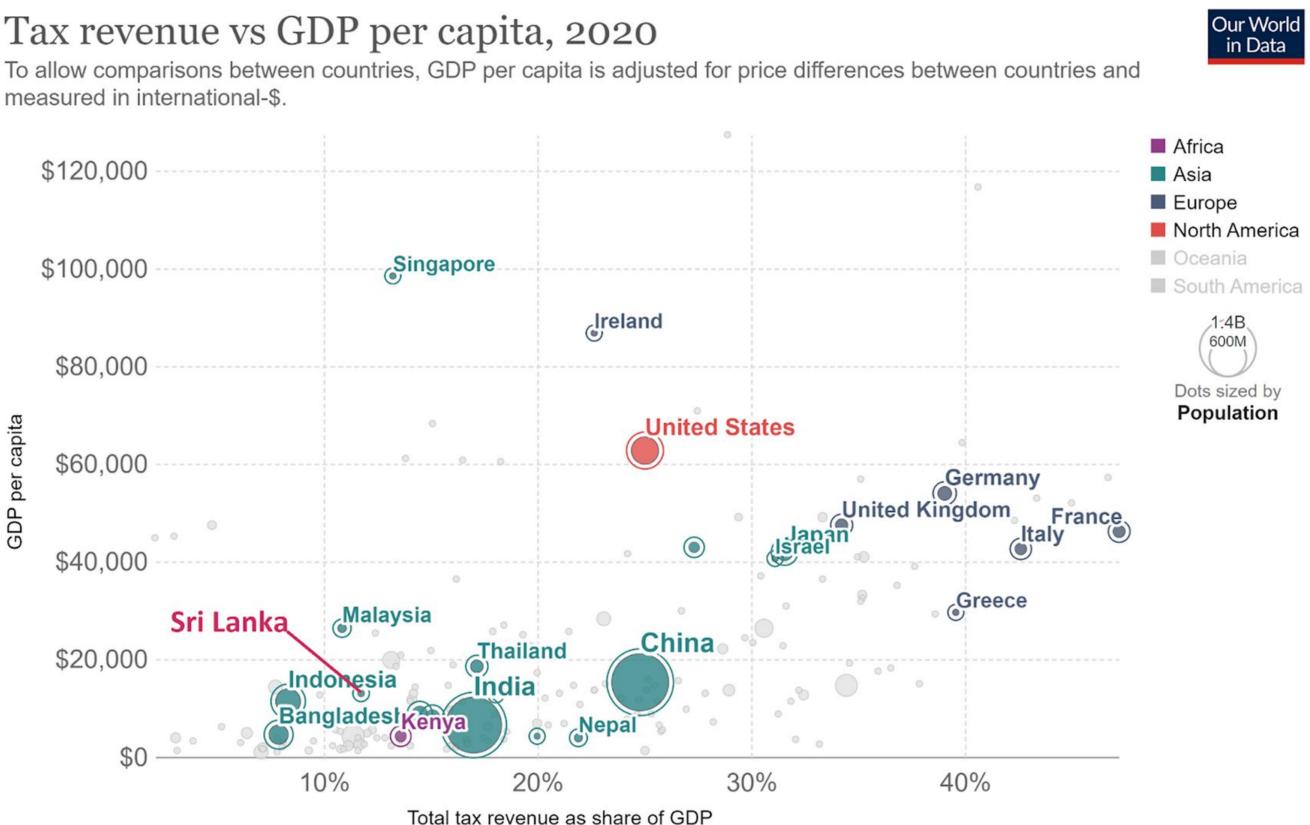
5.

Tax revenue as a % of GDP



Positive relationship between taxes and growth

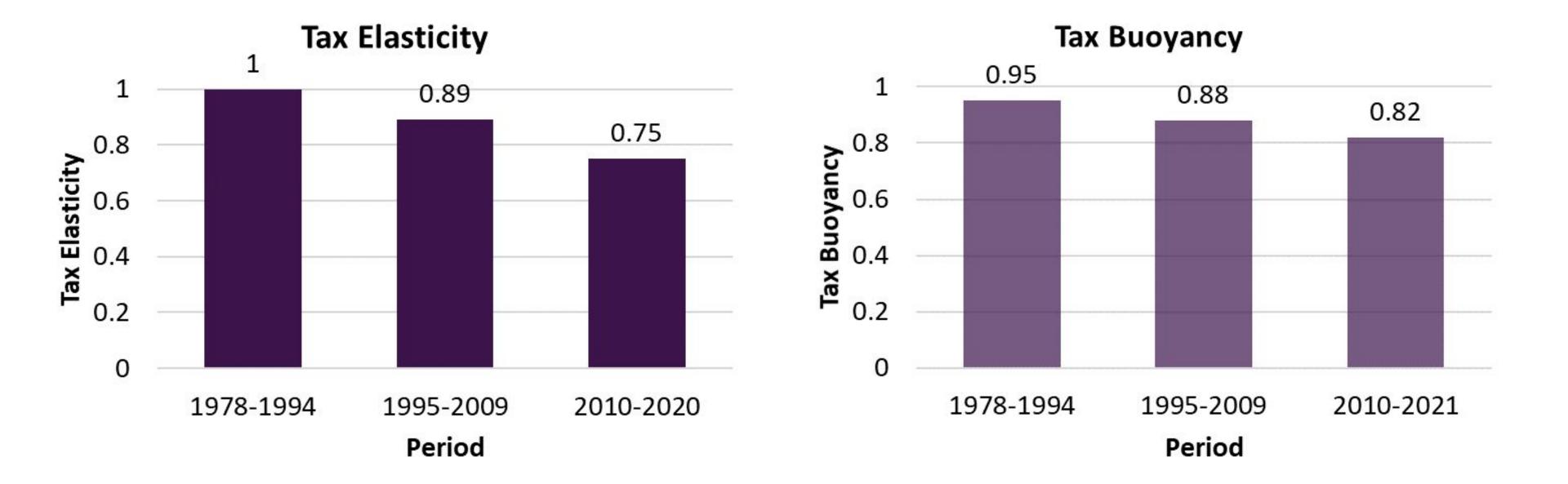
measured in international-\$.



Source: Data compiled from multiple sources by World Bank, ICTD/UNU-WIDER Government Revenue Dataset, August 2021 OurWorldInData.org/taxation/ • CC BY

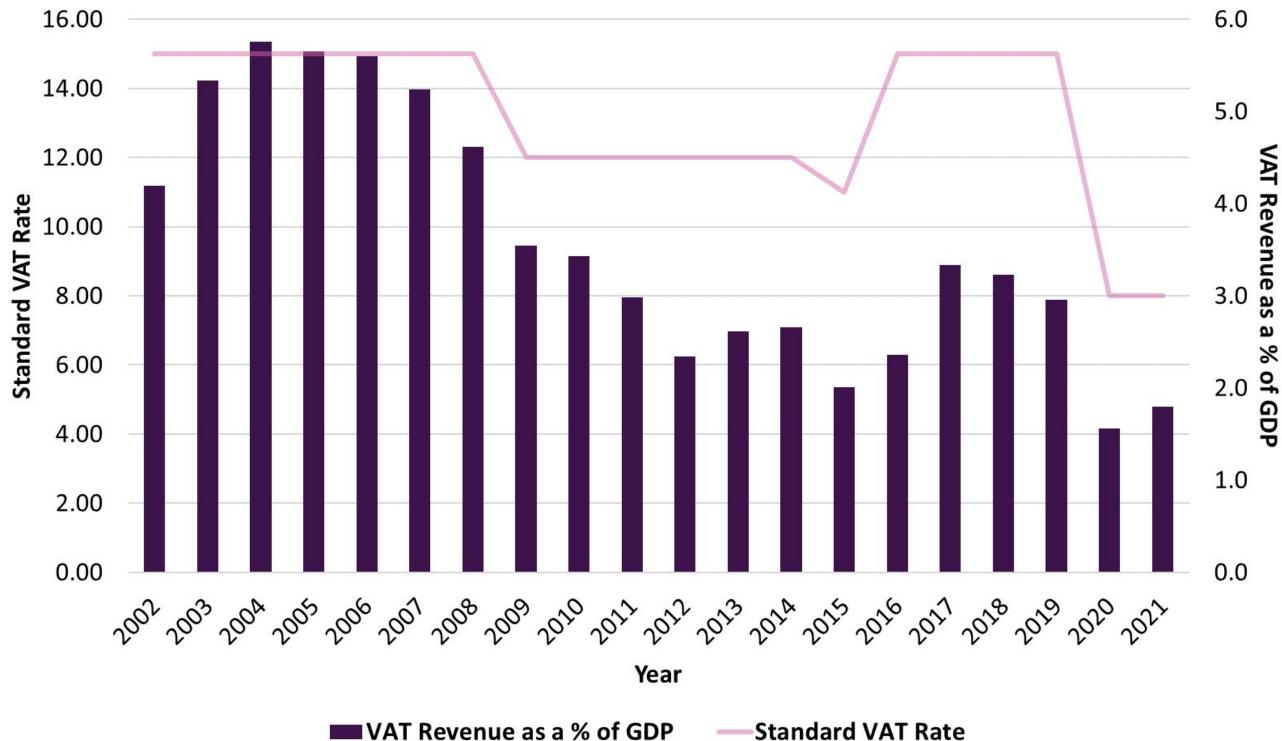
*Tax collection includes social security contributions

^{7.} Tax elasticity and buoyancy is low in Sri Lanka



VAT - a major source of revenue internationally

Trend in VAT Revenue



Source: CBSL Annual Reports

8.

How efficiently is VAT revenue collected

C-Efficiency of Selected Countries in 2015 0.6 26% 24% 0.5 22% C-Efficiency Ratio 5.0 5.0 5.0 5.0 C-Efficiency 18% 16% 14% 0.1 12% 10% n 2010 2011 **Philippines Singapore** Nepal Japan Thailand Sri Lanka Indonesia Korea Countries

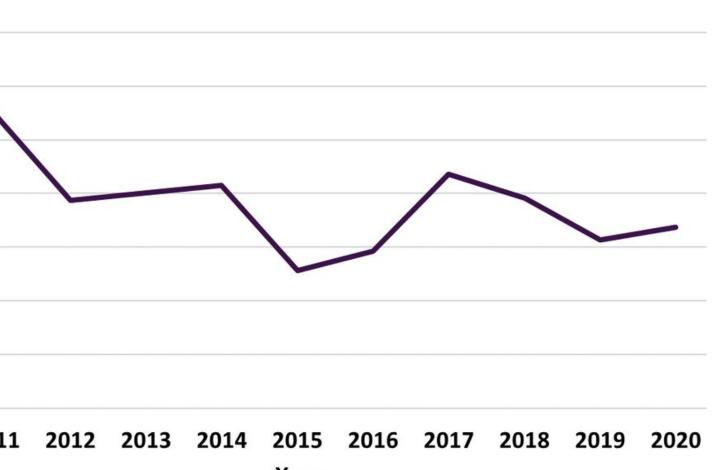
• Compared to other asian countries, Sri Lanka's c-efficiency ratio is one of the lowest.

Source: ADB and Advocata Calculation

9.





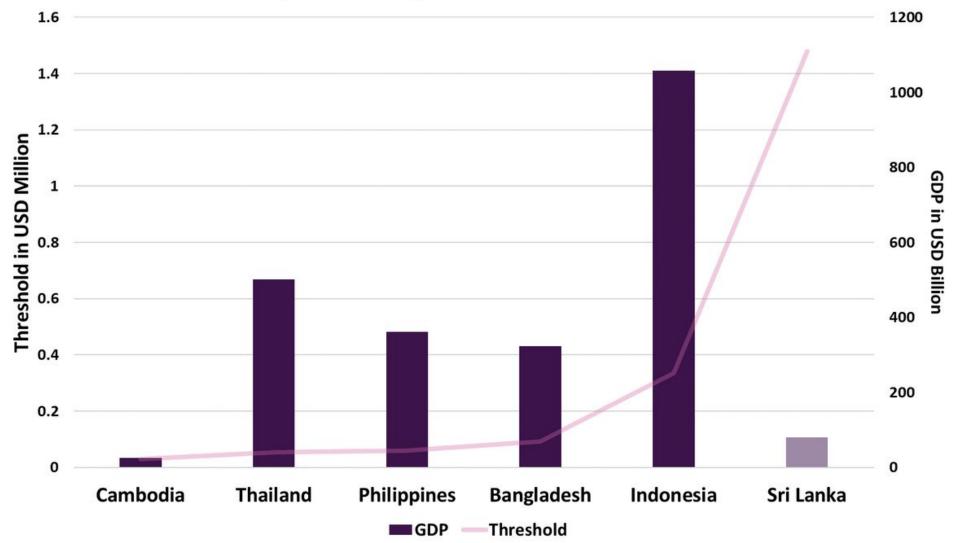


Year

• The C-efficiency value in Sri Lanka has declined from 25% in 2010 to around 17% in 2020.

SL had one highest VAT thresholds in the world in 2020 10.

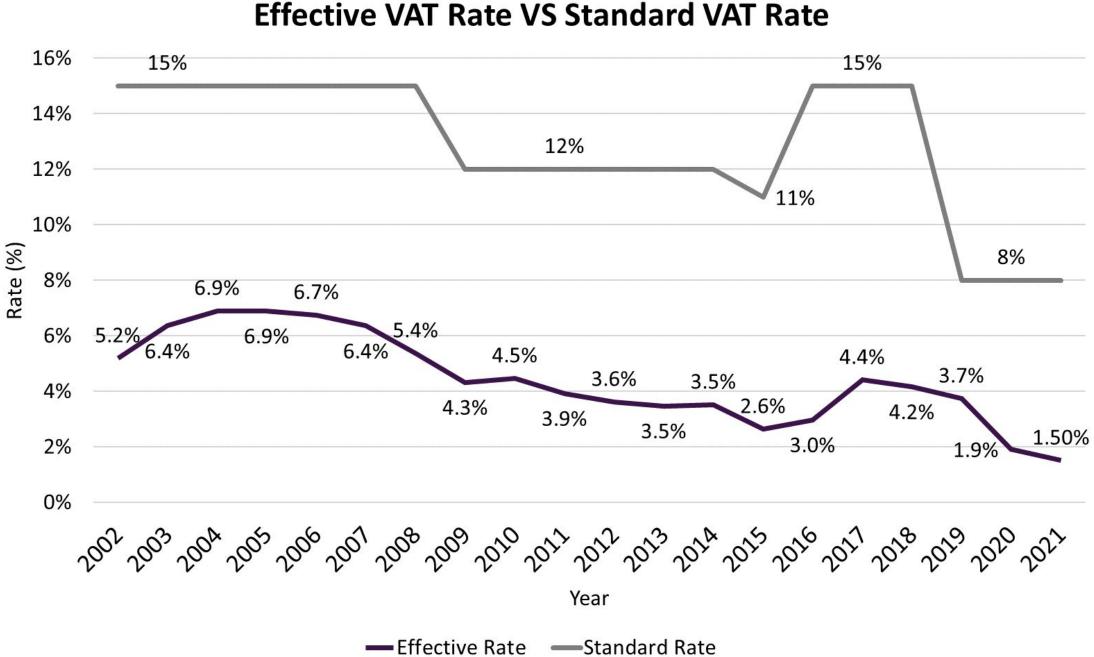
Regional Comparison of VAT Threshold



- VAT threshold one of the highest in Asia resulting in a large part of the economy exempt from VAT.
- Raising the threshold from Rs 12 million to Rs 300 million has reduced the number of persons registered for VAT from 28,914 in 2019 to 8,152 in 2020.

Source: PWC Value-added tax (VAT) rates, 2022

Effective tax rate well below the standard rate 11.



Effective VAT Rate VS Standard VAT Rate

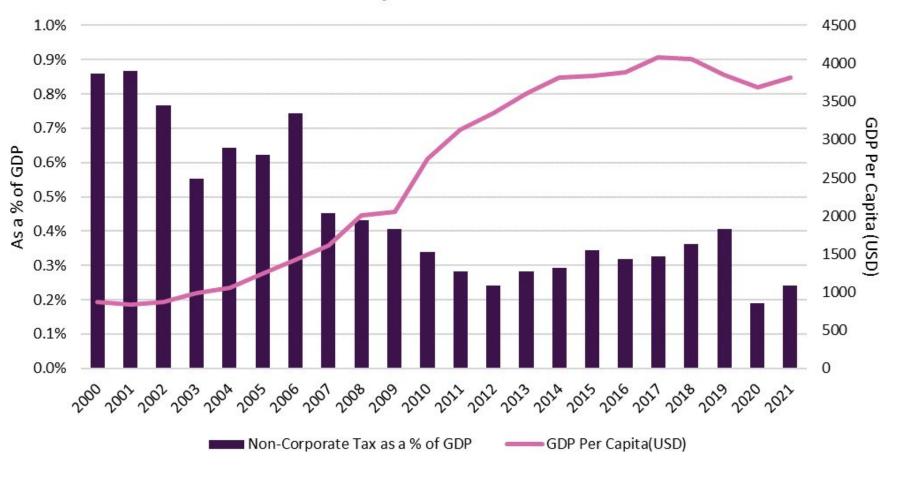
Source: CBSL Annual Reports & Advocata Calculation

Source: HIES 2019

12. Income Tax - Non corporate

Share of Income by Population 2019

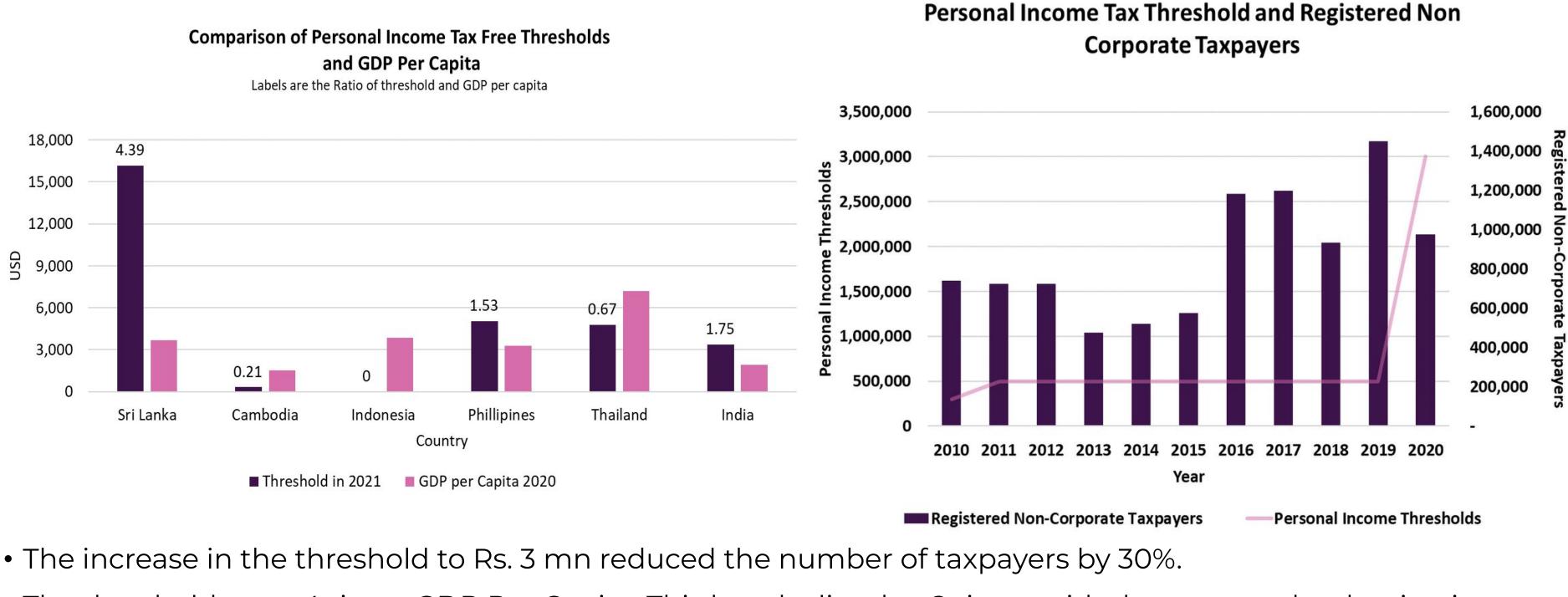
- 40% 276,889 35% PIT Tax Free Threshold (Rs. 100,000) 30% Share of Income 25% 20% 115,742 15% 86,669 70,190 10% 58,270 48,777 40,347 32,231 23,459 5% 11,692 0% 5 7 8 2 3 6 9 10 1 4 Deciles -Mean Income
- The top 20% of households account for 50% of income.



Non Corporate Tax Revenue

• Non corporate tax as a % of GDP has declined with increases in per capita GDP.

Tax free threshold was higher than the peer countries 13.

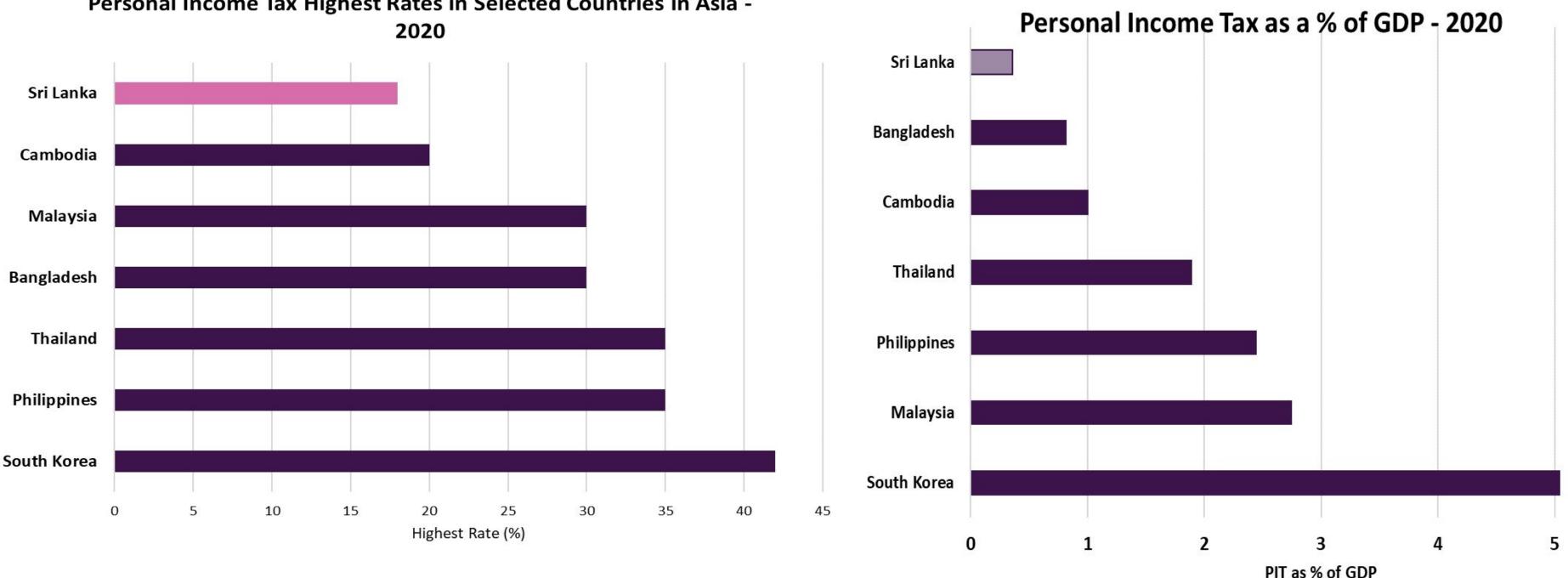


- The threshold was >4 times GDP Per Capita. This has declined to 2 times with the proposed reduction in threshold to 1.2 mn.

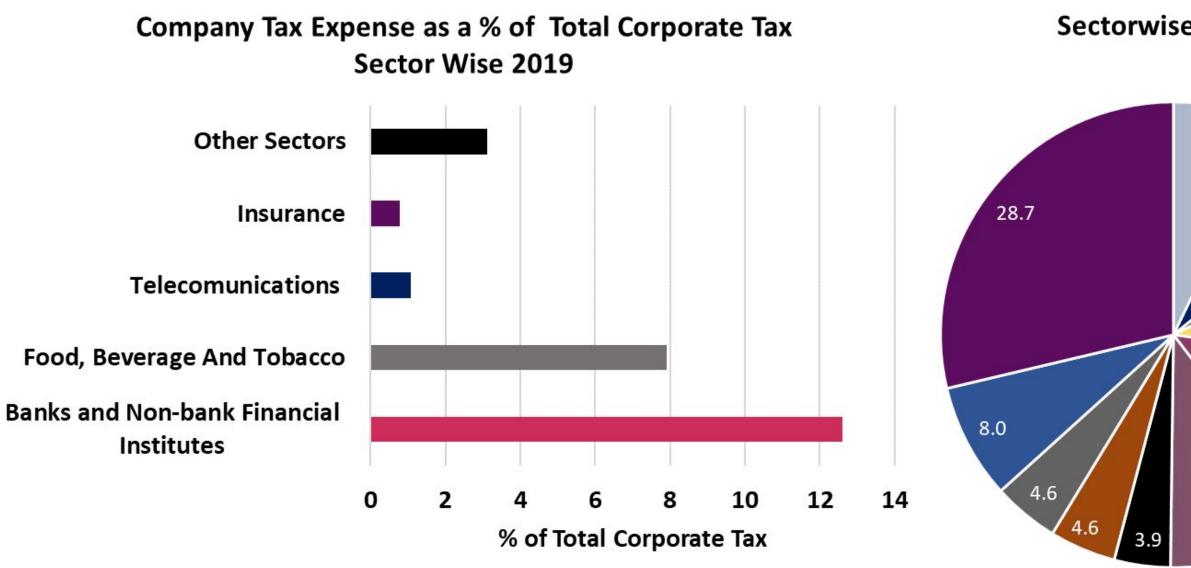
Note: Average 2020 USD rate was used for comparison purposes. Source: World Bank Data and Central Bank data of respective countries.

Personal income tax rates and collection are one of the 14. lowest in the region in 2020





15. Corporate income taxes - dependent on a few sectors of the economy

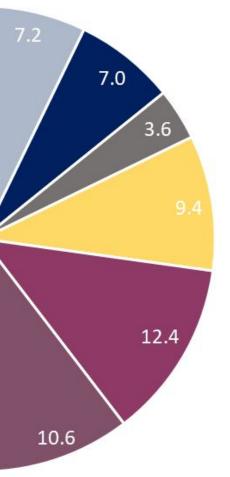


- Approximately 230 companies account for about 25% of total corporate taxes.
- Main sectors financial services and food & beverages
- Many sectors of the economy are exempt or subject to lower tax rates

Note:

Based on the taxes paid by more than 250 of the listed companies on the stock exchange in 2019/2020 Source: Company Annual Reports

Sectorwise Share of GDP at Constant Prices 2019



- Agriculture, Forestry and Fishing
- Manufacture of food, beverages & Tobacco
- Manufacture of textiles, wearing apparel, leather
- Construction
- Wholesale and retail trade
- Transportation of goods and passengers & Warehousing activities
- Financial Service activities, except insurance and pension funding
- Real estate activities, Including Ownership of dwelling
- Public administration and defense; compulsory social security
- Other personal service activities

Other

Note: "Other" consists of 23 sectors Source: Department of Census and Statistics

Thank You!

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