

Taxation, Stability and Growth

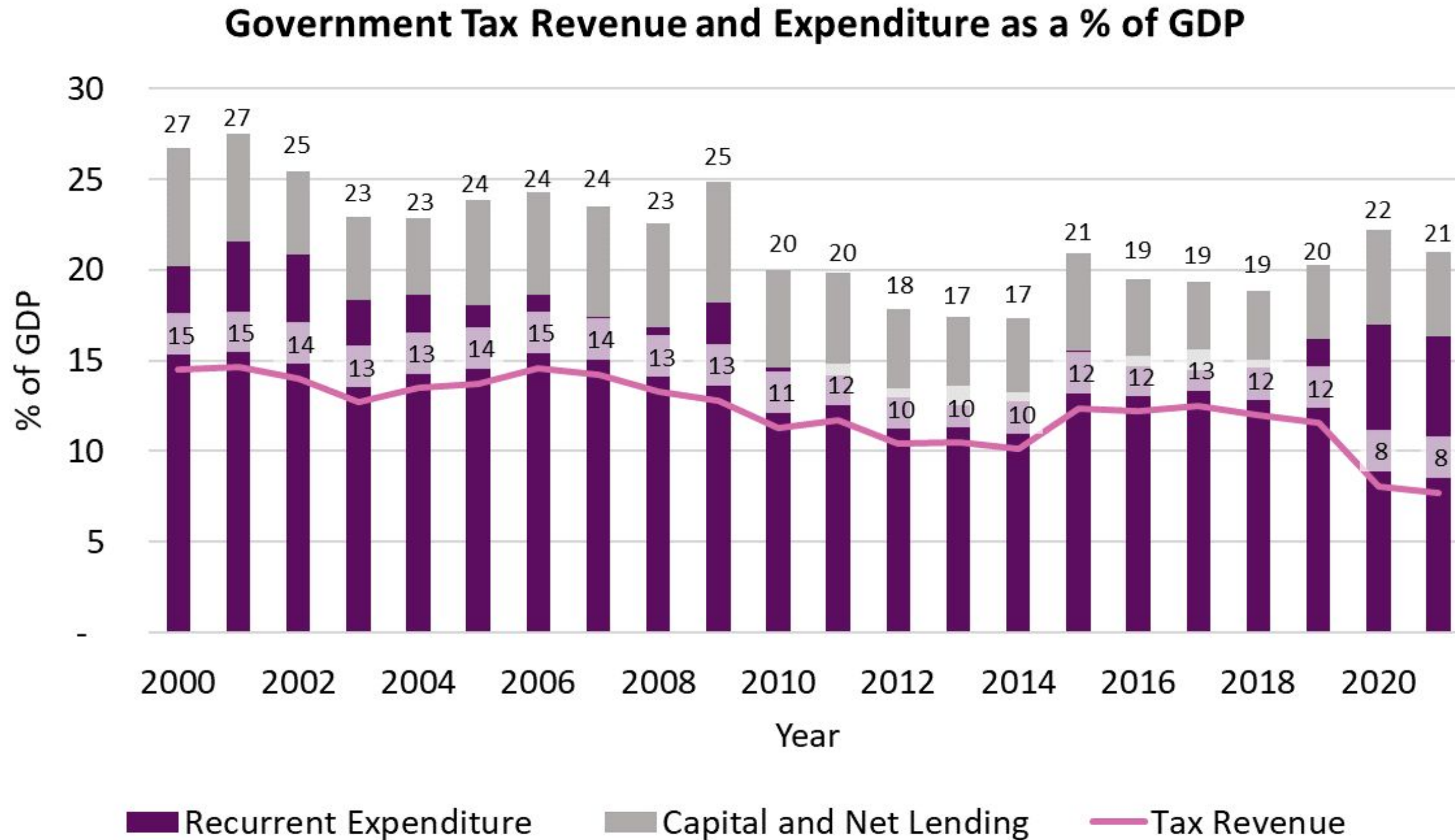
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Based on Advocata Institutes research on Sri Lanka's Tax System by Thashikala Mendis, Roshan Perera, Naqiya Shiraz and Janani Wanigaratne

2.

Revenue well below even recurrent expenditure



3.

Underinvestment in key areas

	2016	LIDCsn=29	EMESn=58	AEsn=34	Sri Lanka - 2021	Interim Budget - 2022*	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

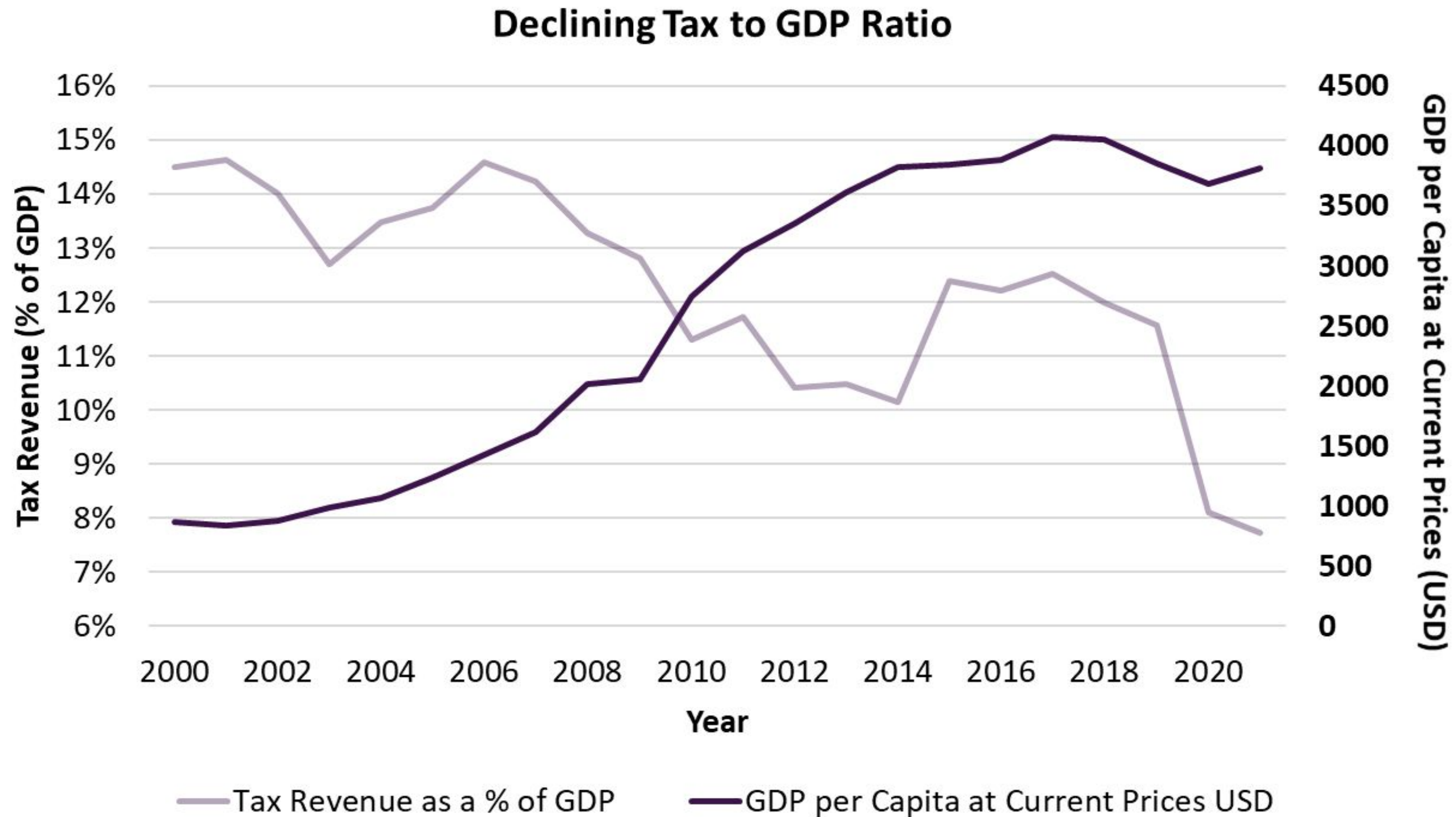
Note : * Based on 2021 GDP

** Transfers to households and other

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

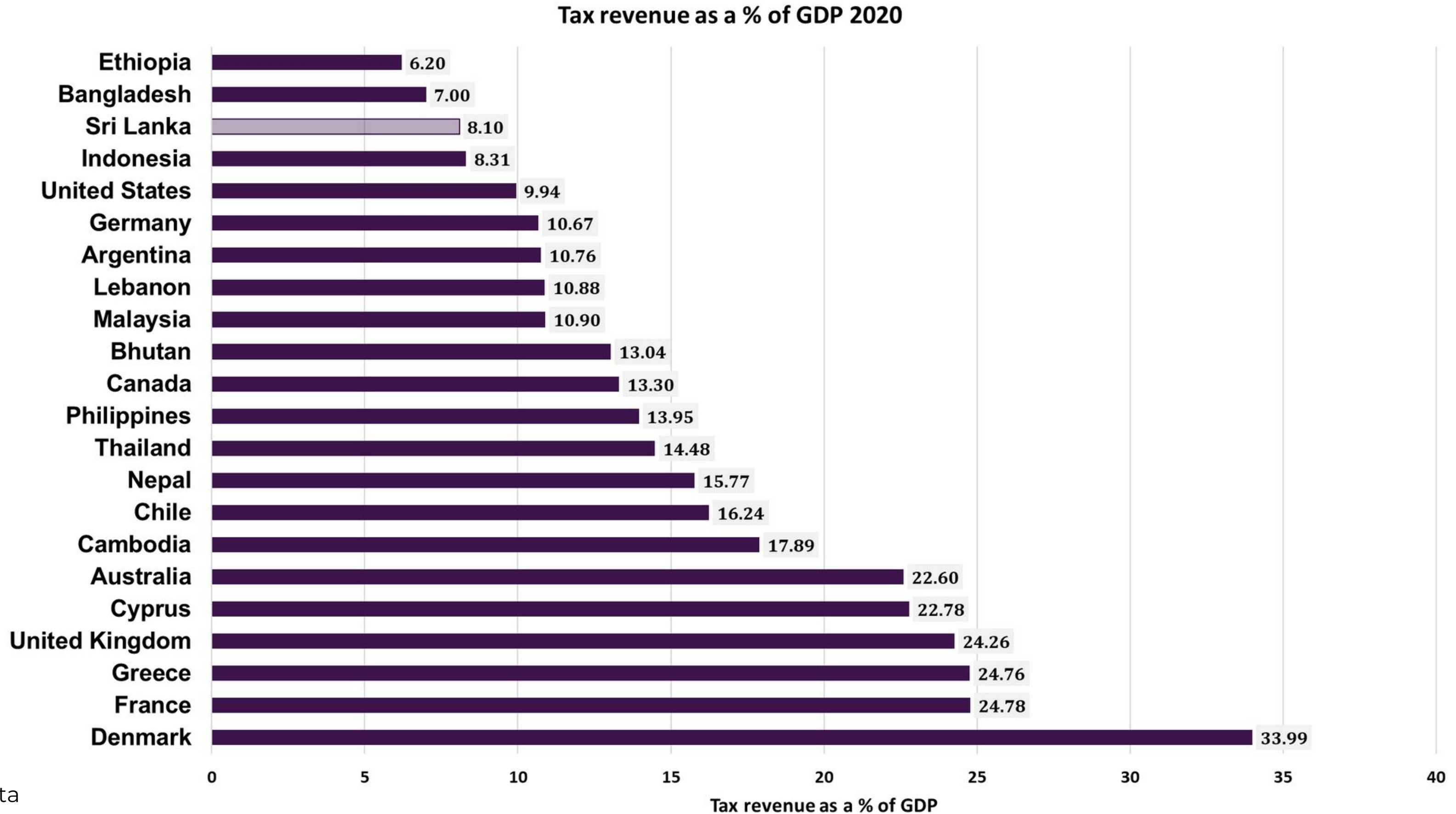
4.

Declining tax revenue despite rising GDP per capita



5.

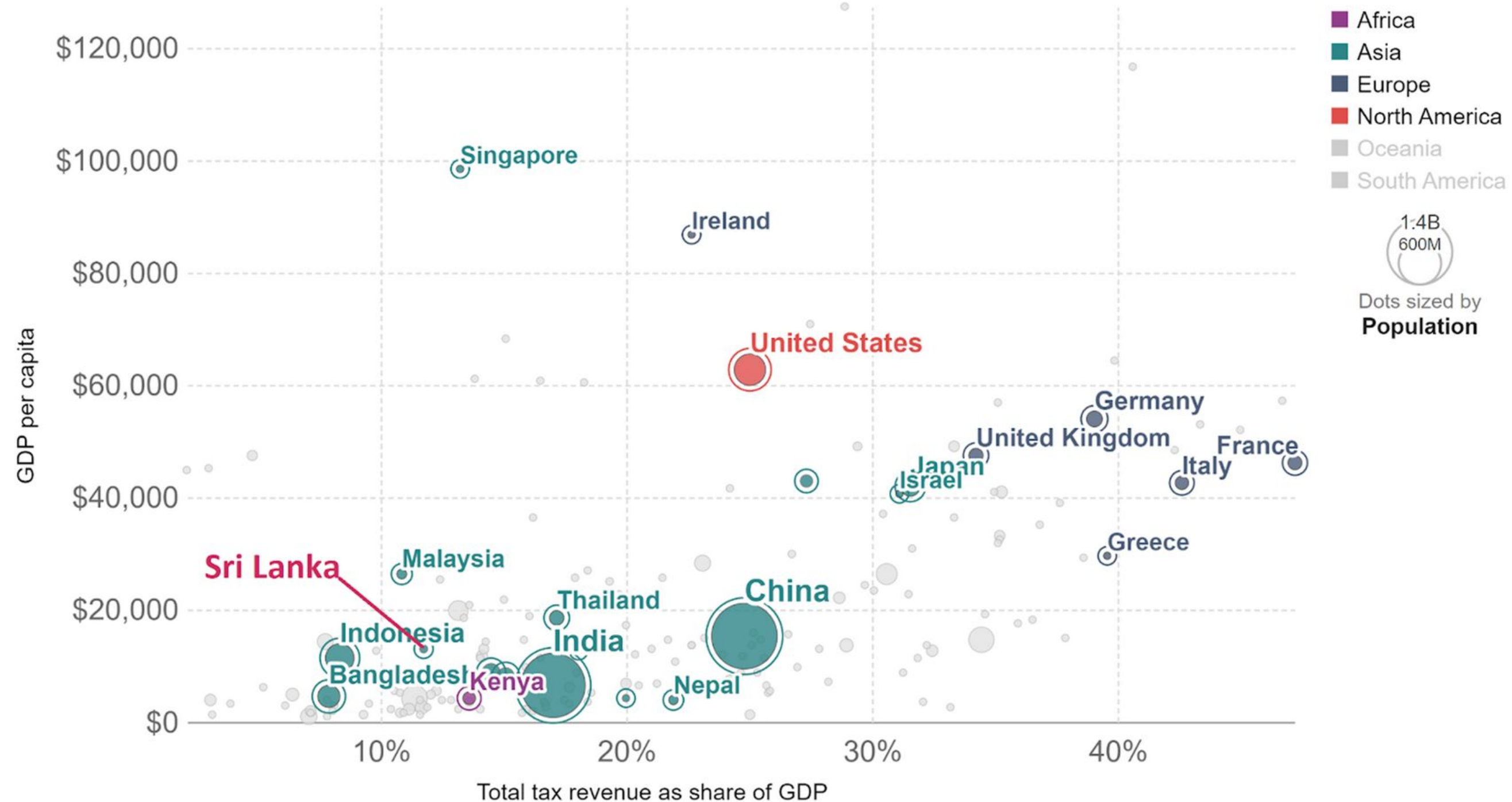
Sri Lanka has one of the lowest Tax/GDP ratios in the world



Positive relationship between taxes and growth

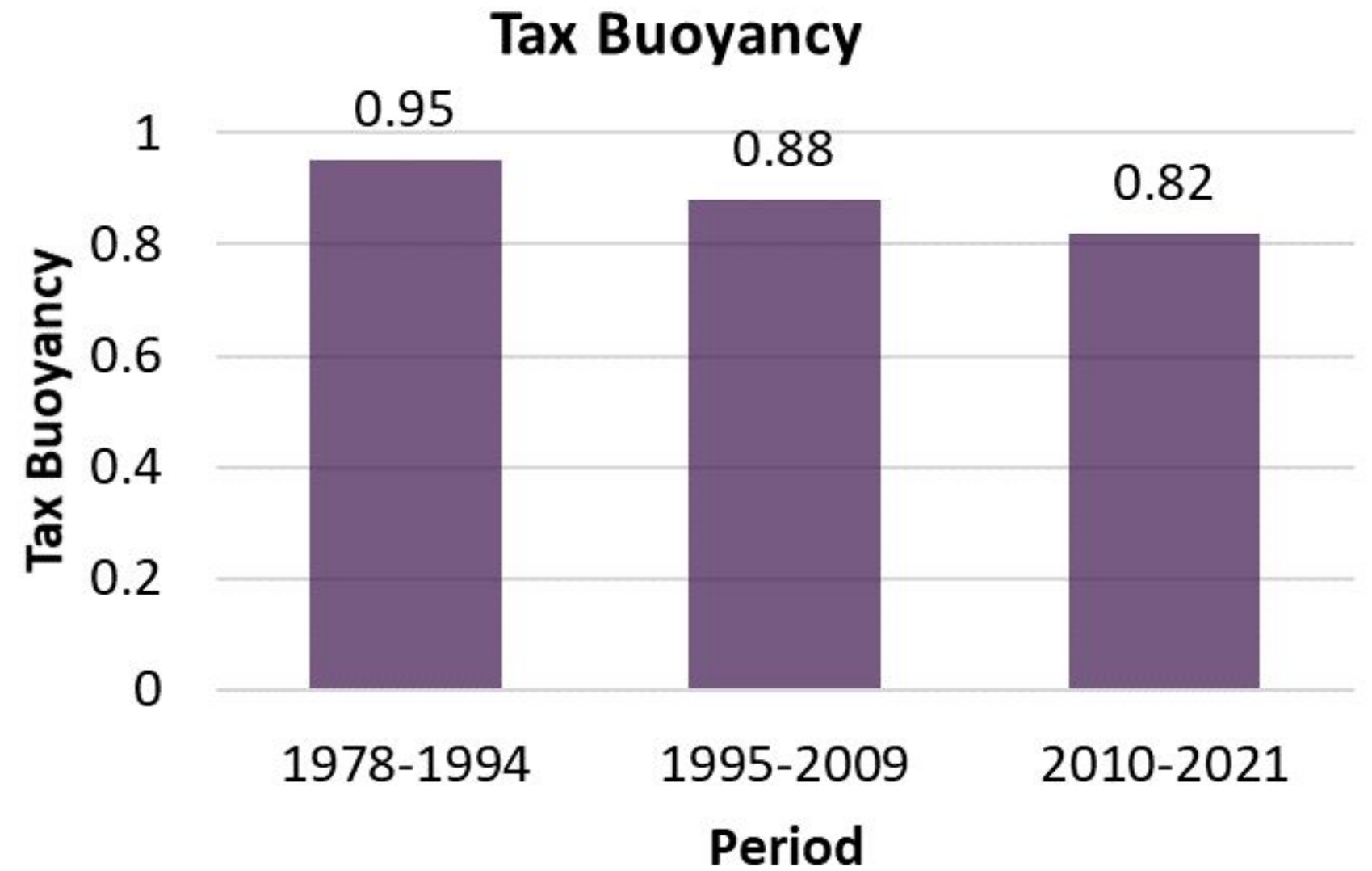
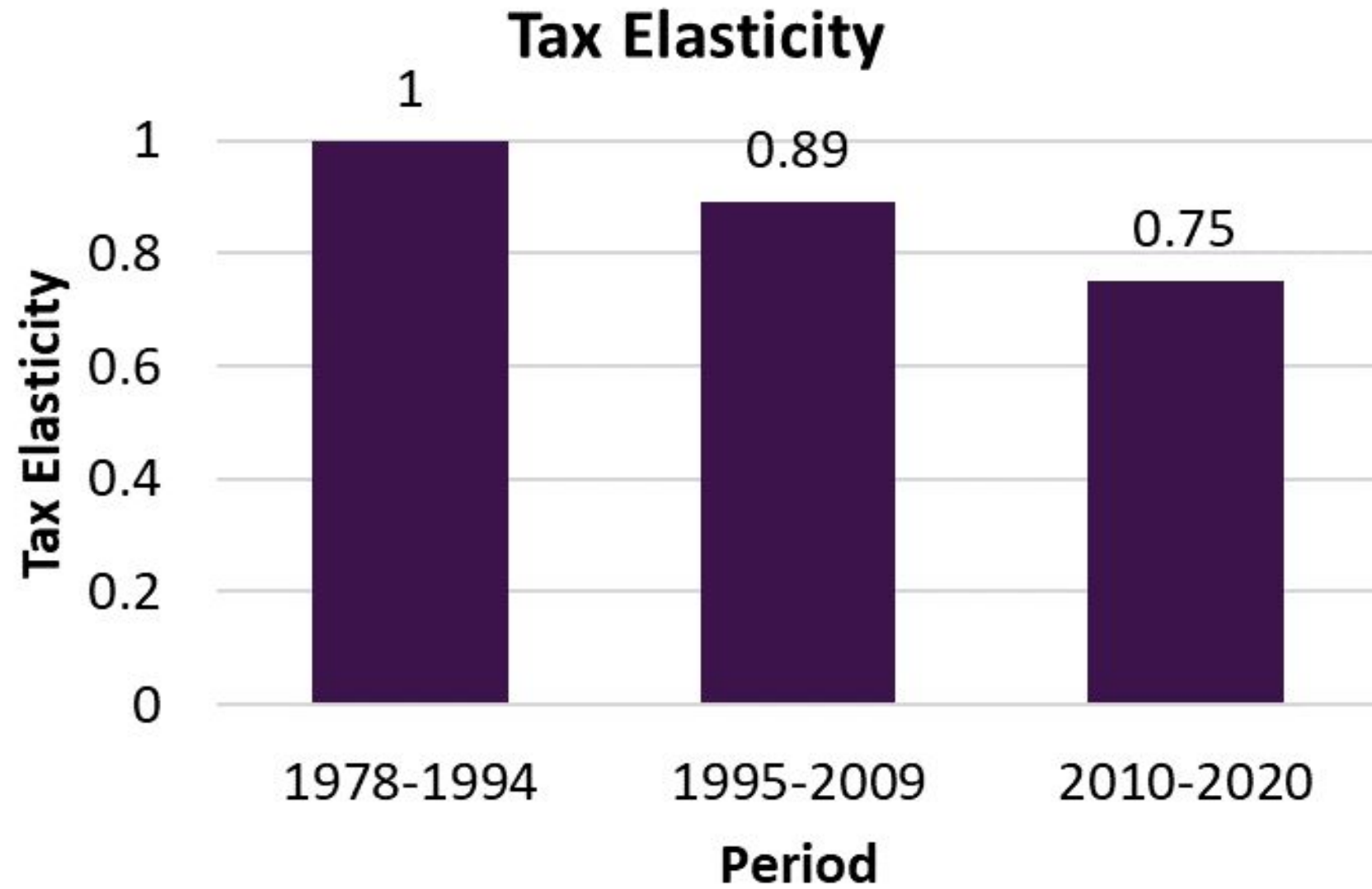
Tax revenue vs GDP per capita, 2020

To allow comparisons between countries, GDP per capita is adjusted for price differences between countries and measured in international-\$.
Our World in Data

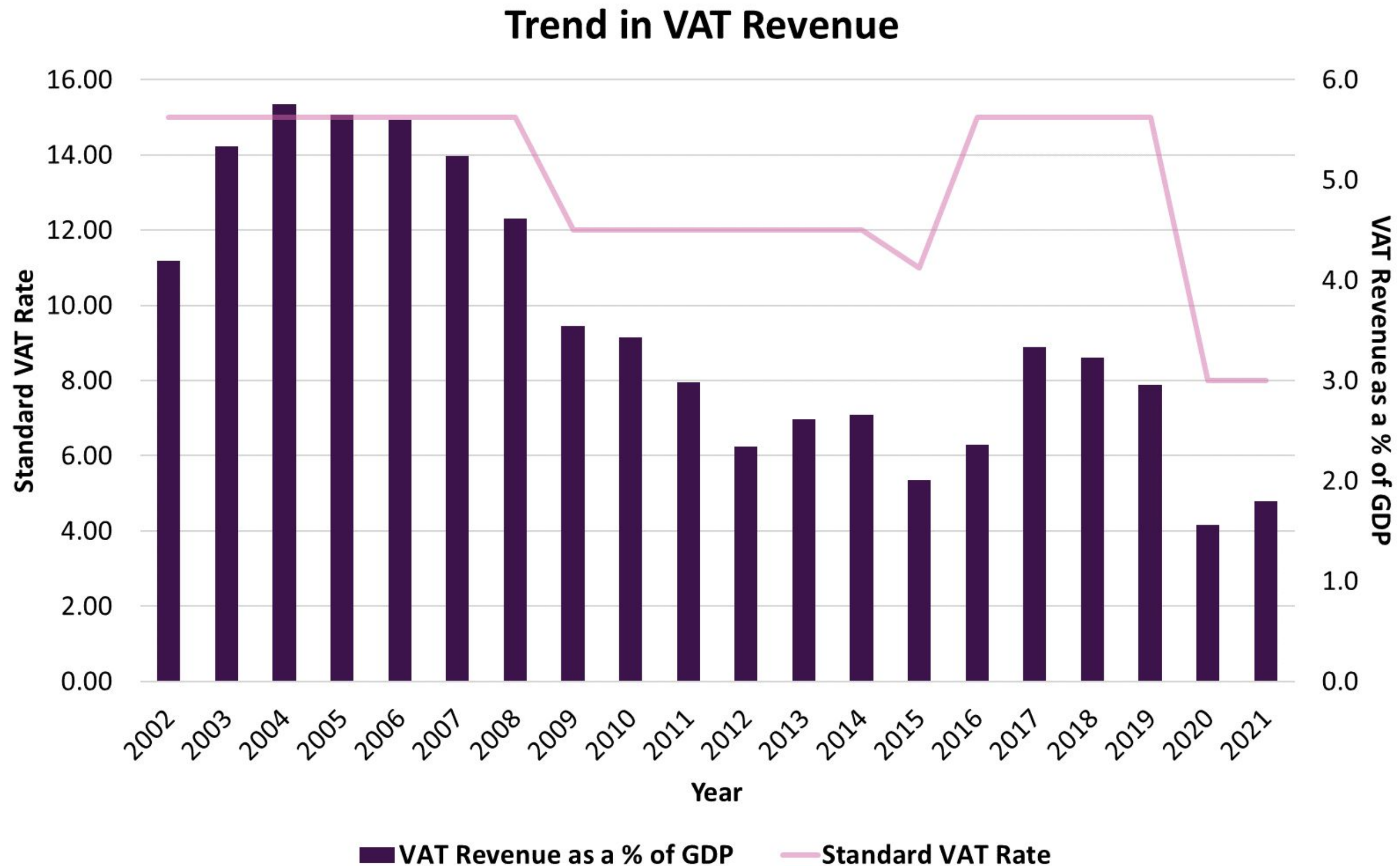


7.

Tax elasticity and buoyancy is low in Sri Lanka

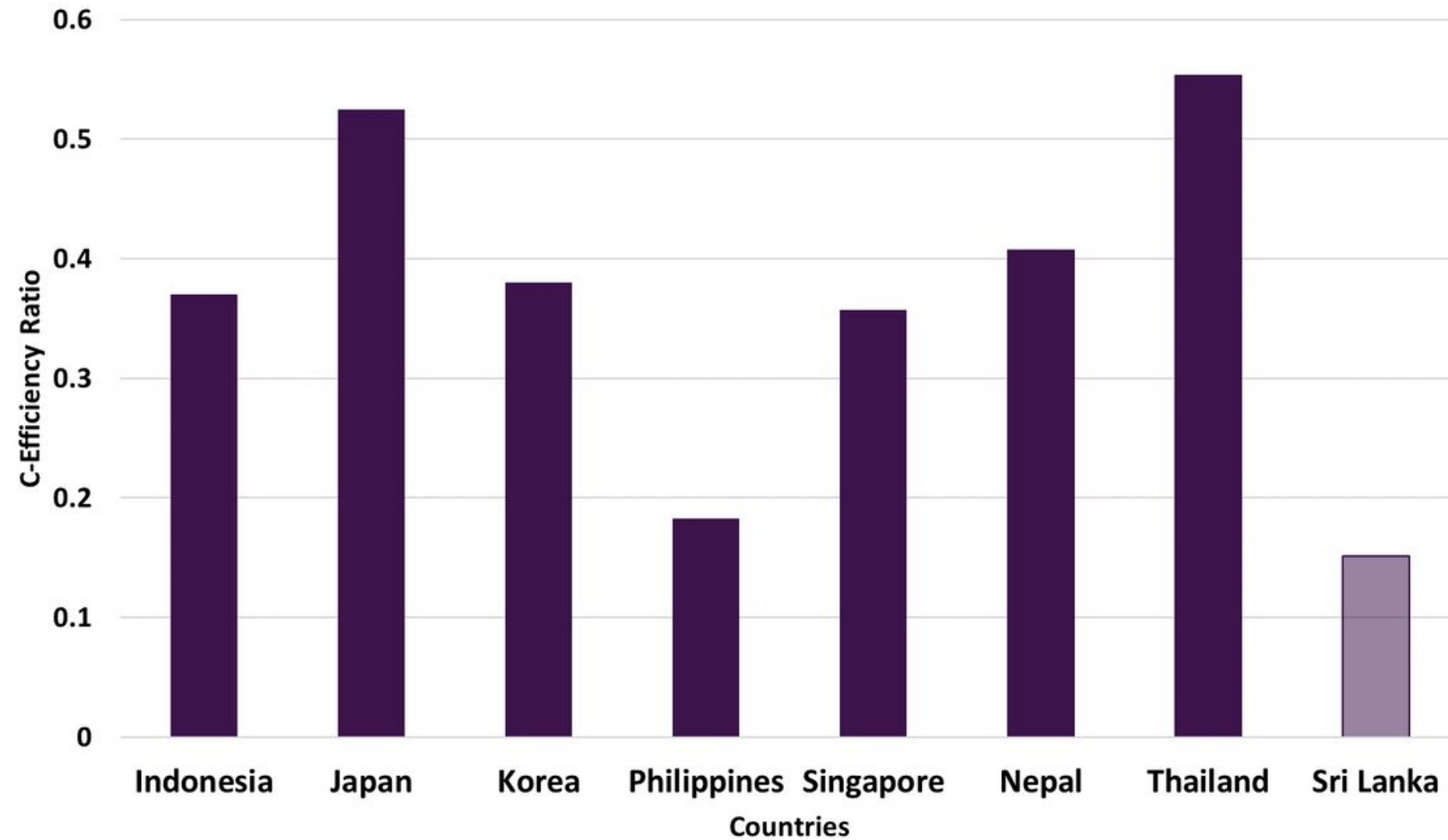


VAT - a major source of revenue internationally



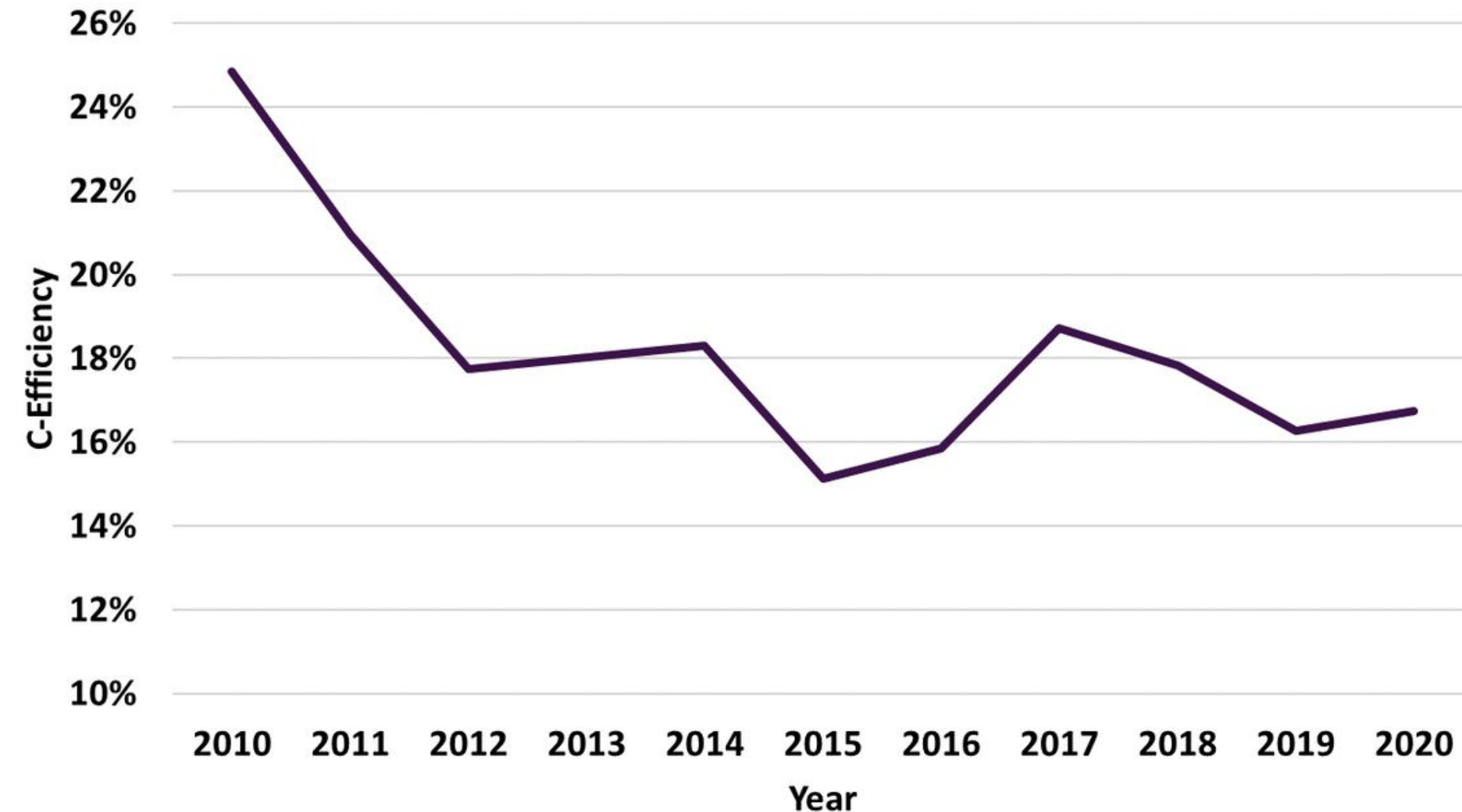
How efficiently is VAT revenue collected

C-Efficiency of Selected Countries in 2015



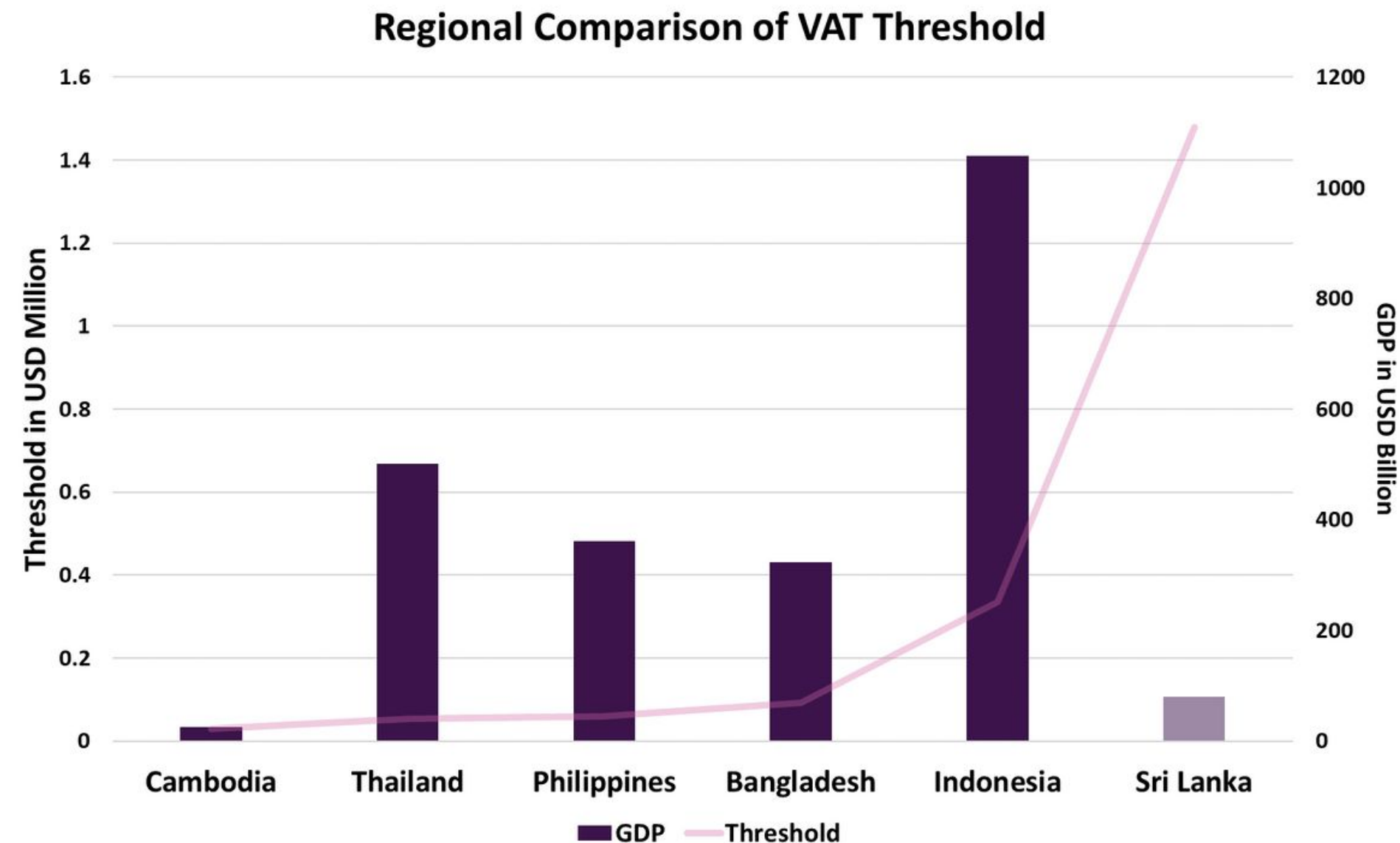
- Compared to other asian countries, Sri Lanka's c-efficiency ratio is one of the lowest.

C- Efficiency



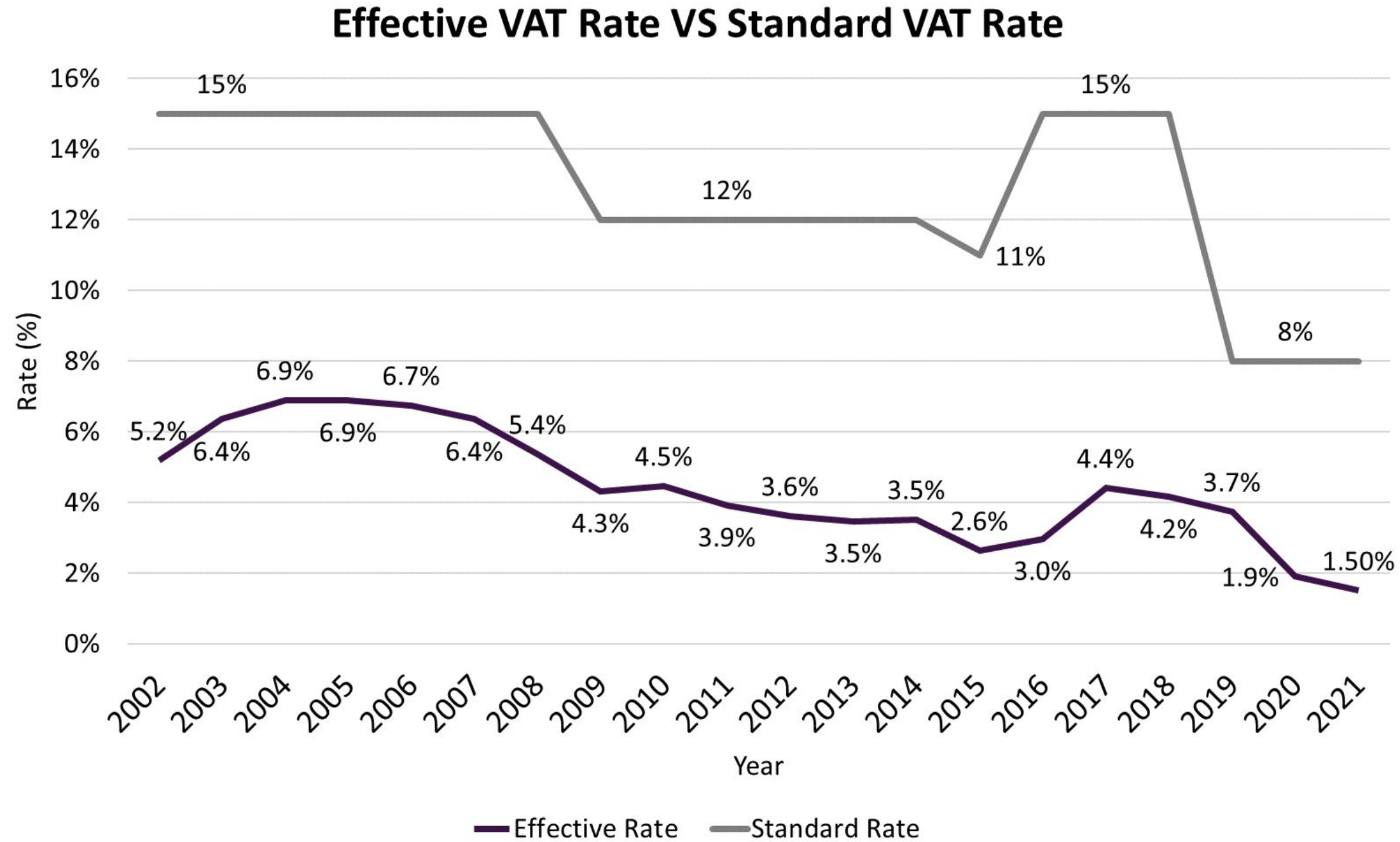
- The C-efficiency value in Sri Lanka has declined from 25% in 2010 to around 17% in 2020.

SL had one highest VAT thresholds in the world in 2020



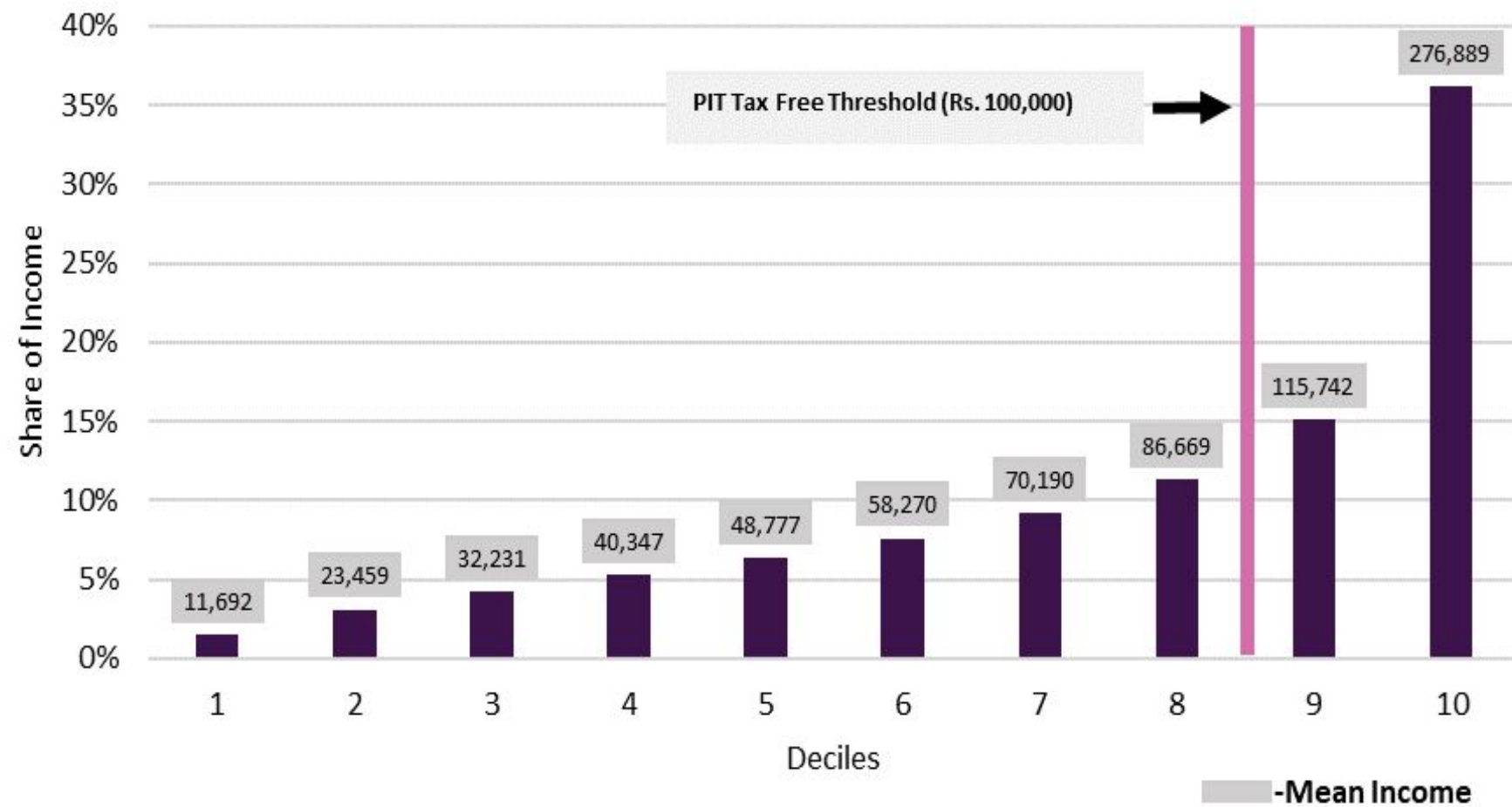
- VAT threshold one of the highest in Asia resulting in a large part of the economy exempt from VAT.
- Raising the threshold from Rs 12 million to Rs 300 million has reduced the number of persons registered for VAT from 28,914 in 2019 to 8,152 in 2020.

Effective tax rate well below the standard rate



12. Income Tax - Non corporate

Share of Income by Population 2019



Non Corporate Tax Revenue



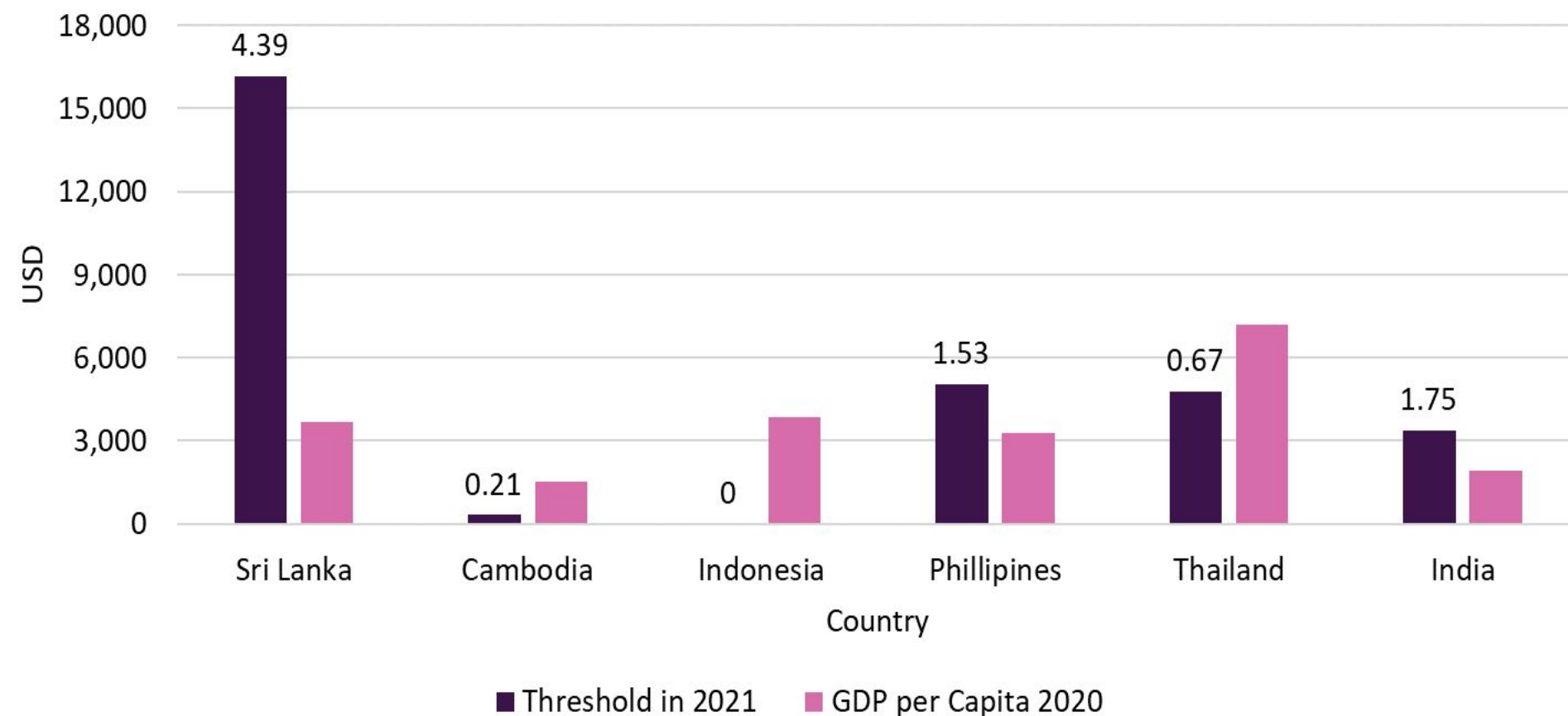
- The top 20% of households account for 50% of income.

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

Tax free threshold was higher than the peer countries

Comparison of Personal Income Tax Free Thresholds and GDP Per Capita

Labels are the Ratio of threshold and GDP per capita



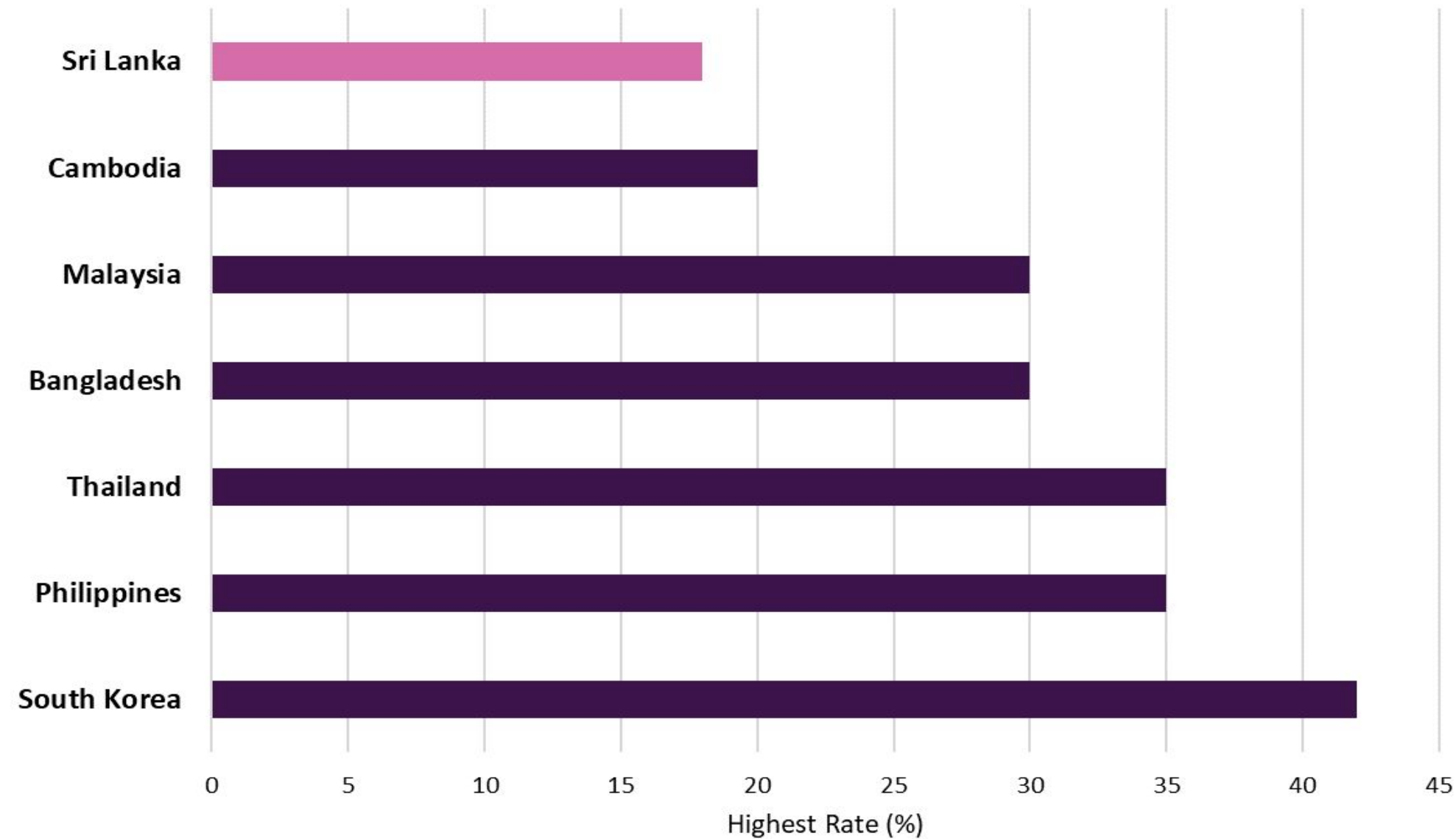
Personal Income Tax Threshold and Registered Non-Corporate Taxpayers



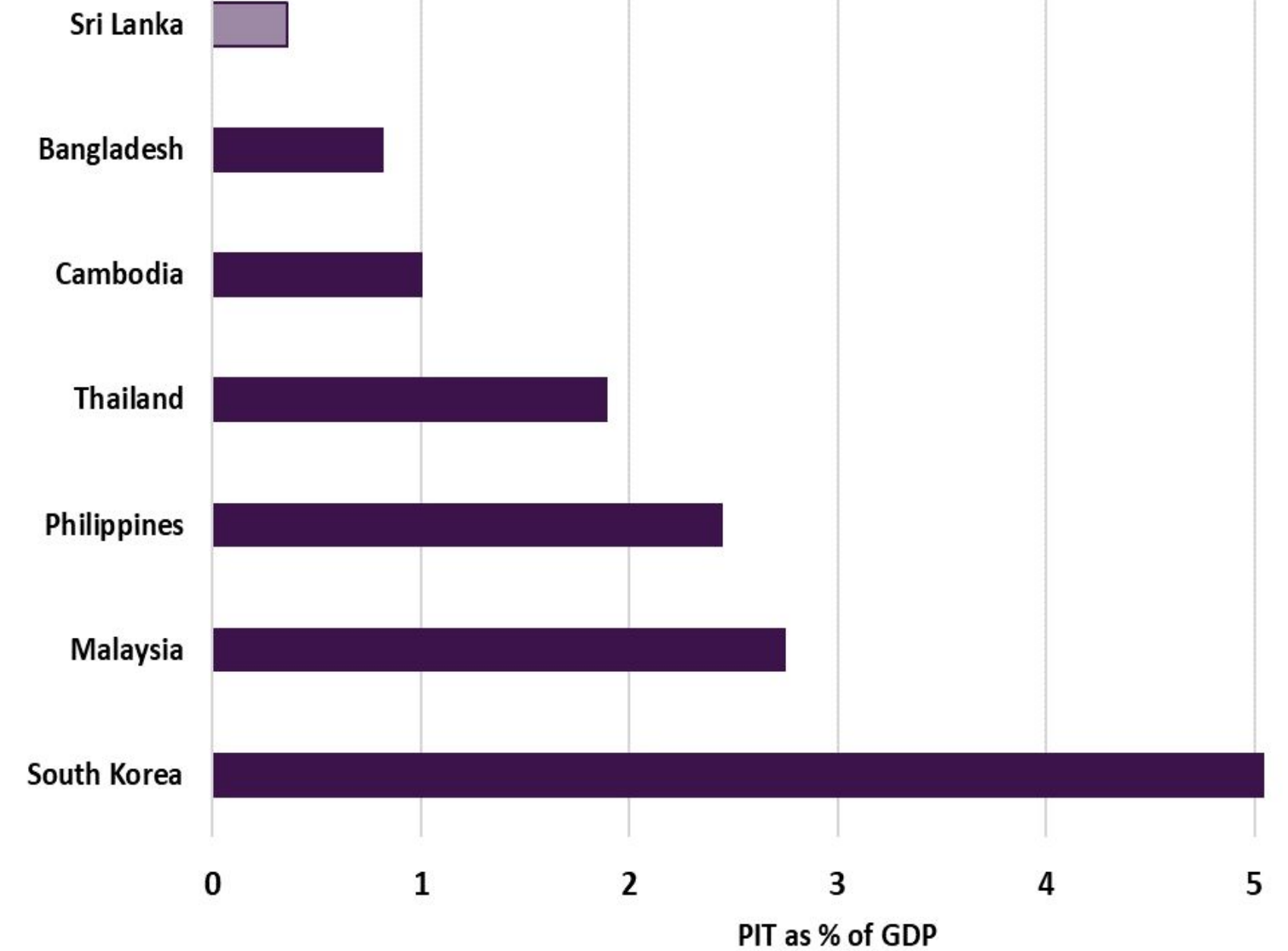
- The increase in the threshold to Rs. 3 mn reduced the number of taxpayers by 30%.
- The threshold was >4 times GDP Per Capita. This has declined to 2 times with the proposed reduction in threshold to 1.2 mn.

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

Personal Income Tax Highest Rates in Selected Countries in Asia - 2020



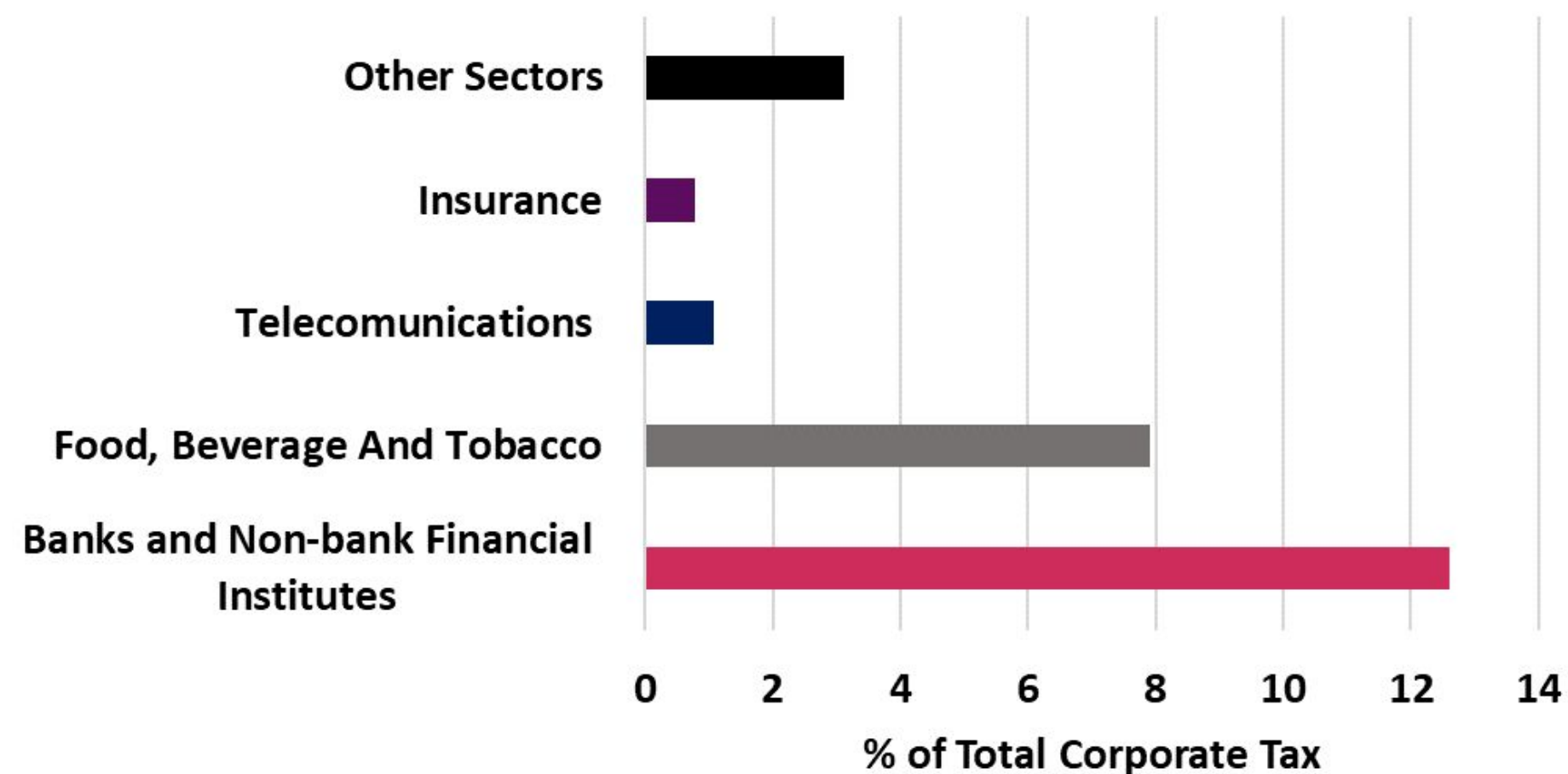
Personal Income Tax as a % of GDP - 2020



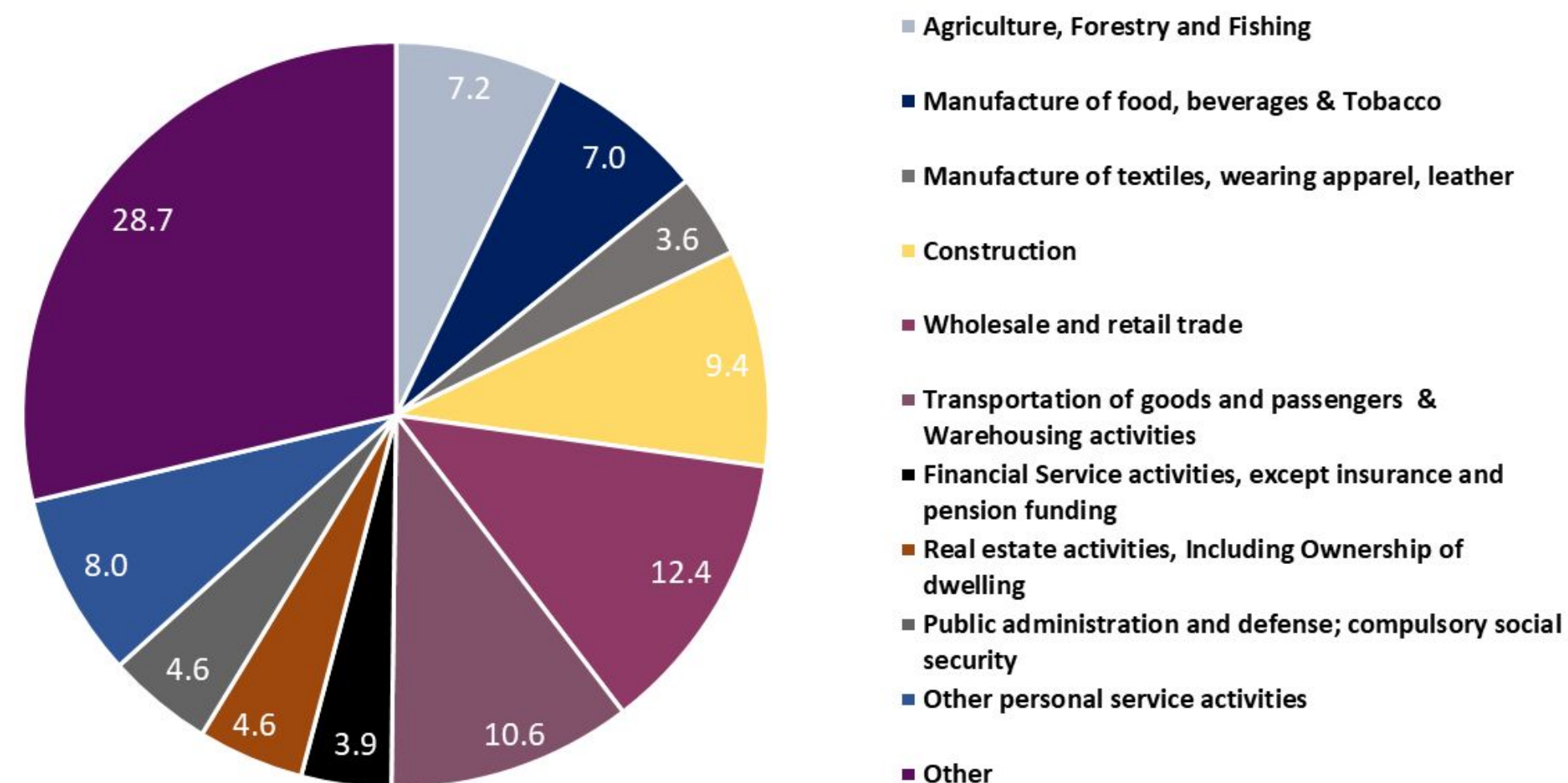
Note : Tax includes Taxes on individual income, profits and Capital
Source : IMF, PWC

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

Company Tax Expense as a % of Total Corporate Tax
Sector Wise 2019



Sectorwise Share of GDP at Constant Prices 2019



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

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

Thank You!

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