

Taxation, Stability and Growth

05 August 2022

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Let's Reset Sri Lanka

Conference

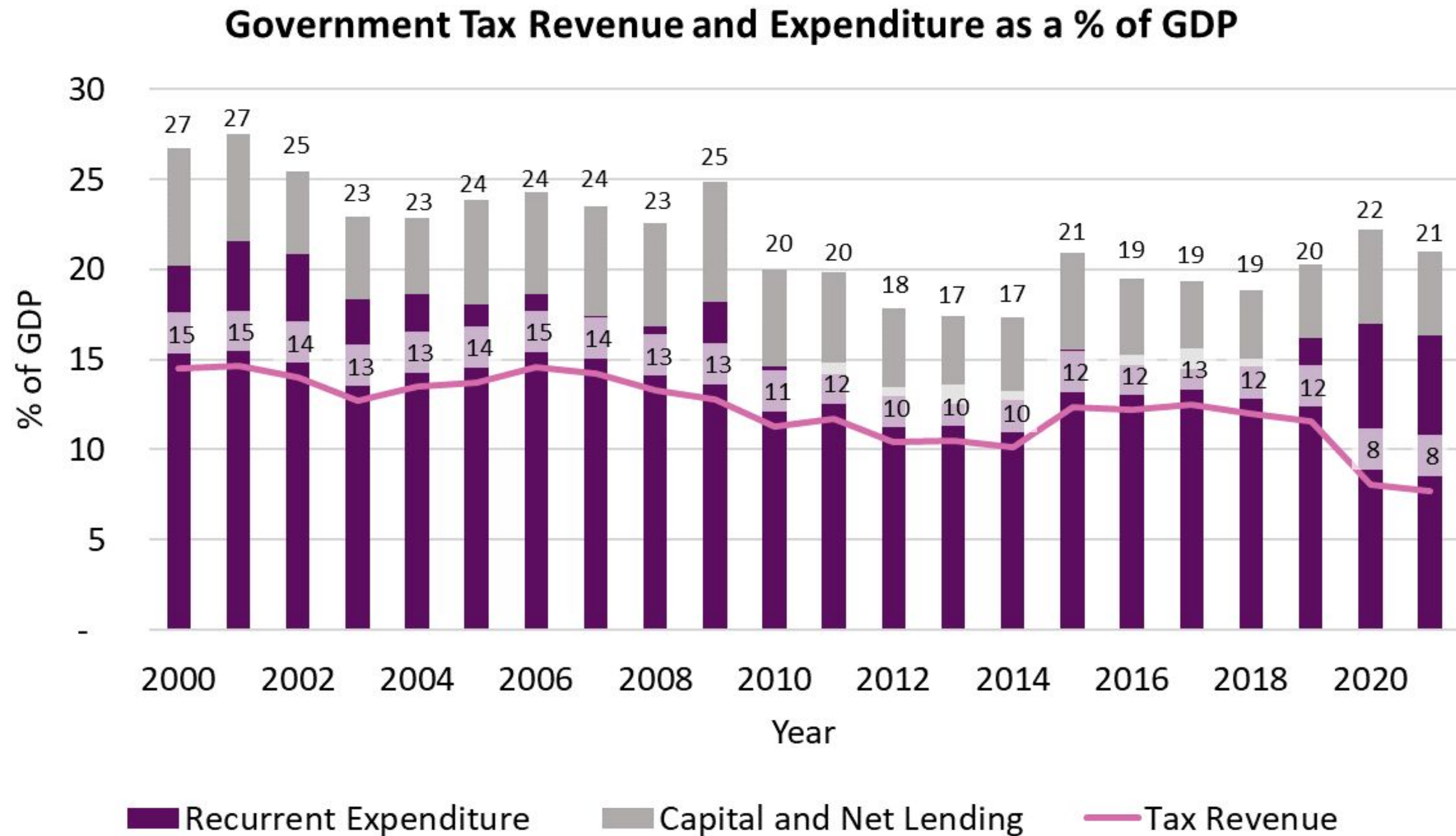
Advocata Institute

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Based on a research project 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
Education, health, infrastructure	4.9	7.3	15.5	6.1
Of which: Education	2.3	3.2	5.2	2
Health	0.9	2.3	7.8	1.6
Transport	0.9	1.5	1.9	2.1*
Fuel and Energy	0.4	0.2	0.3	0.4
Water	0.4	0.1	0.3	
Social Protection	1.6	6.7	13	2.6**
Defence, order and safety	2.1	2.7	3.9	4.4
Other primary spending	7.9	10.6	6.1	0.7
Interest	1.4	2.1	2	5.1
Total	17.9	29.4	40.5	19.6

Source: IMF staff Calculations

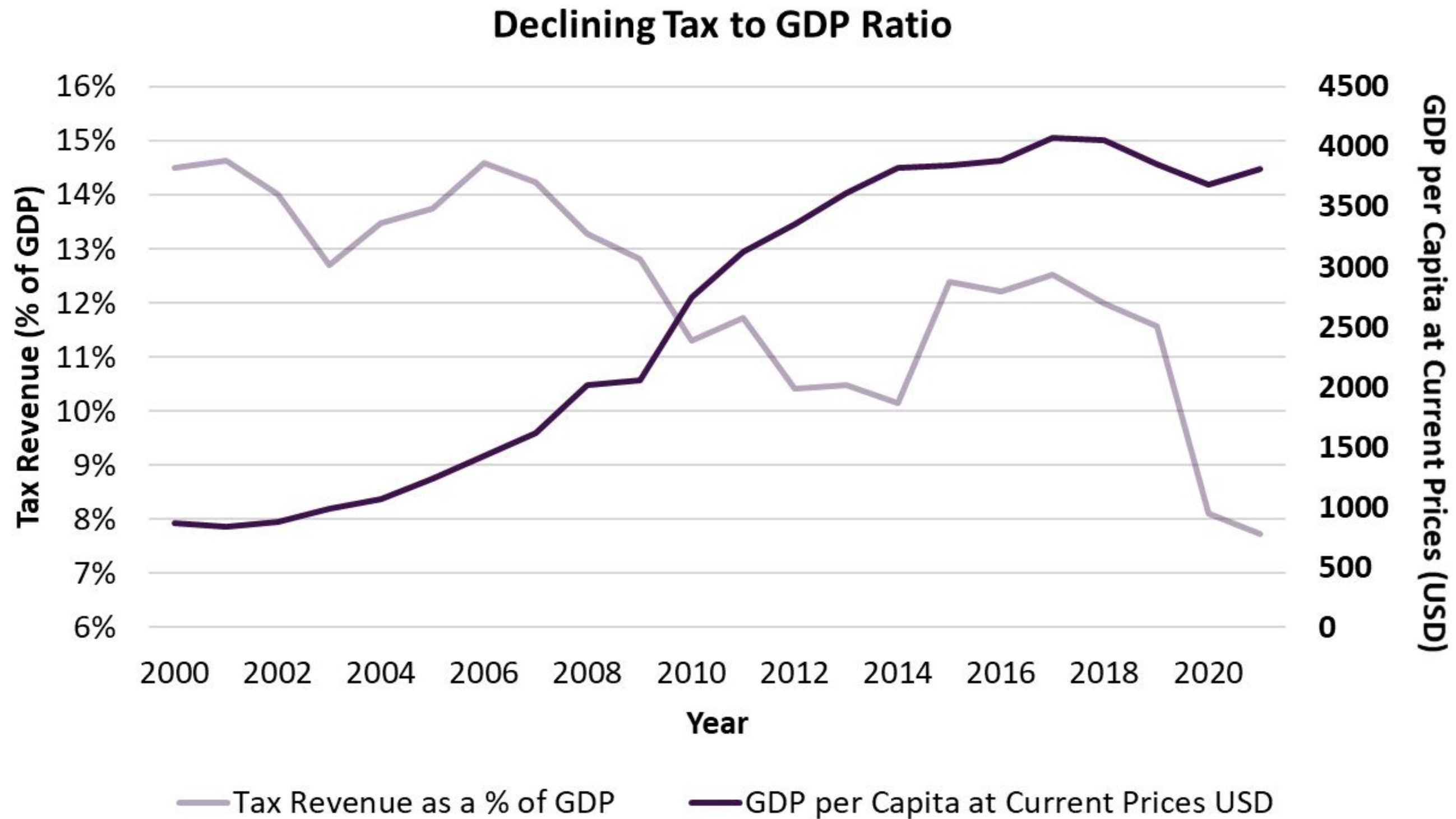
Source for Sri Lanka: Central Bank Annual Reports

* Transport value includes communication.

** Transfers to households and other

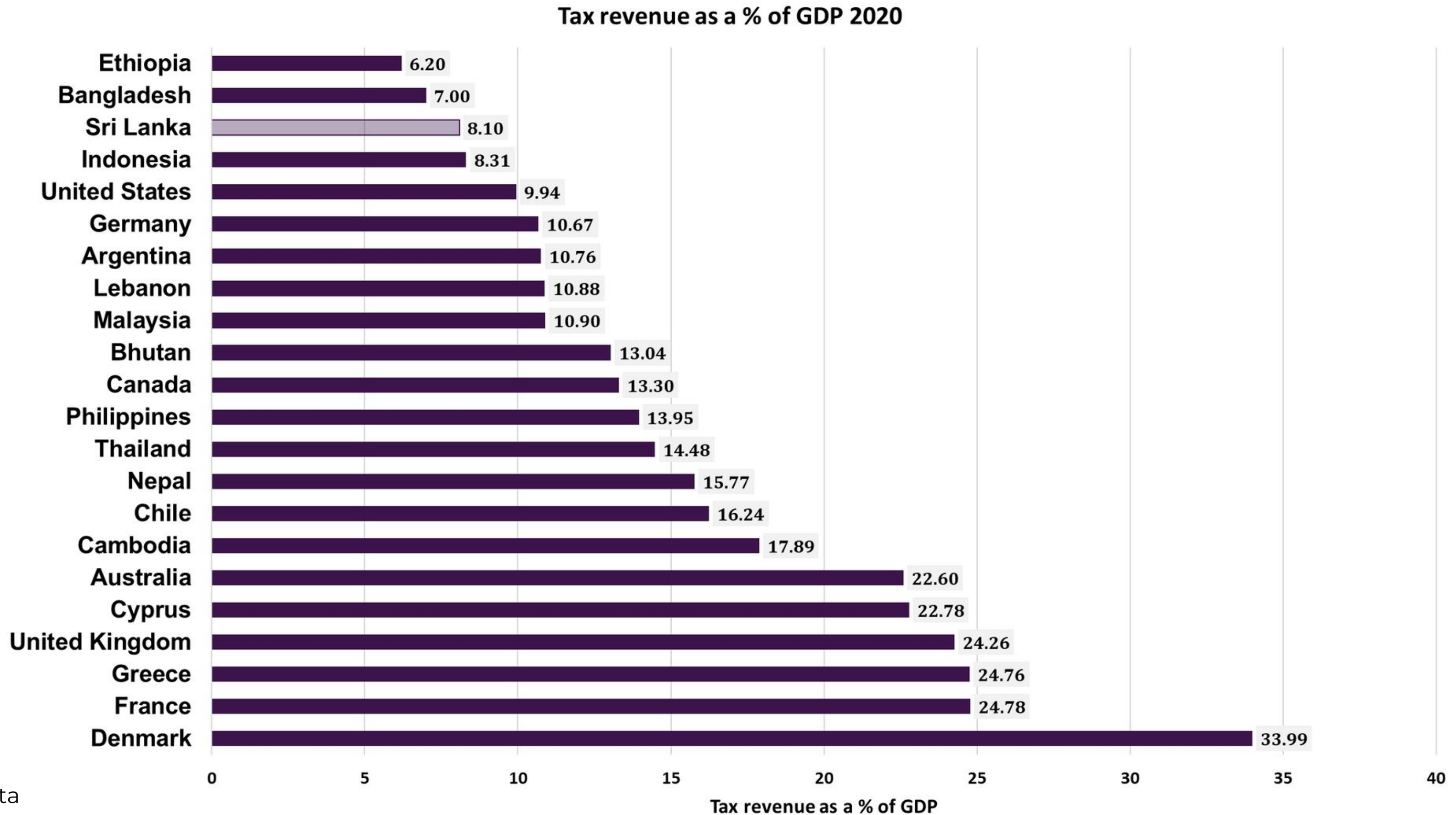
4.

Declining tax revenue despite rising GDP per capita



5.

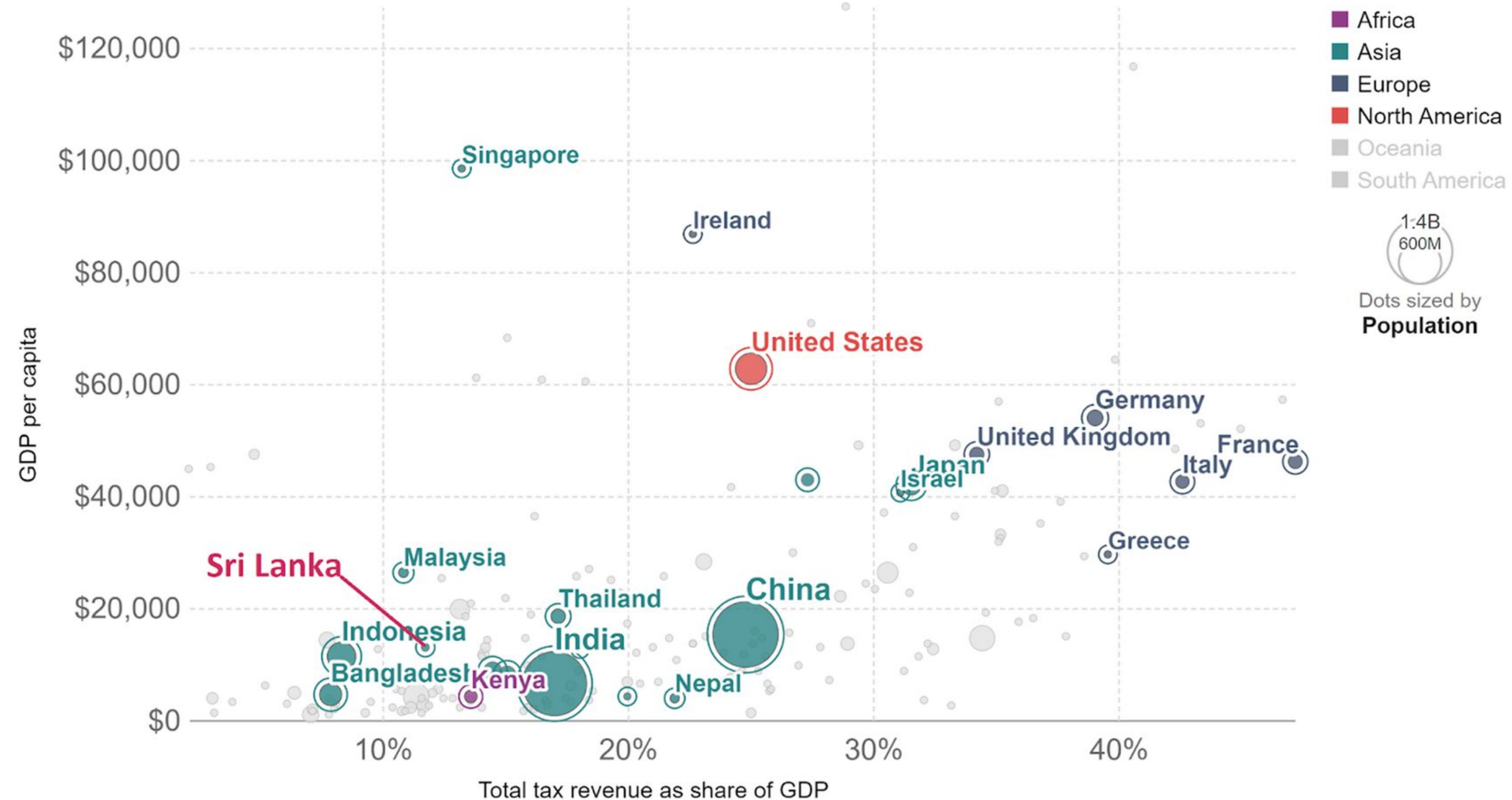
Sri Lanka has one of the lowest Tax/GDP ratios in the world



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

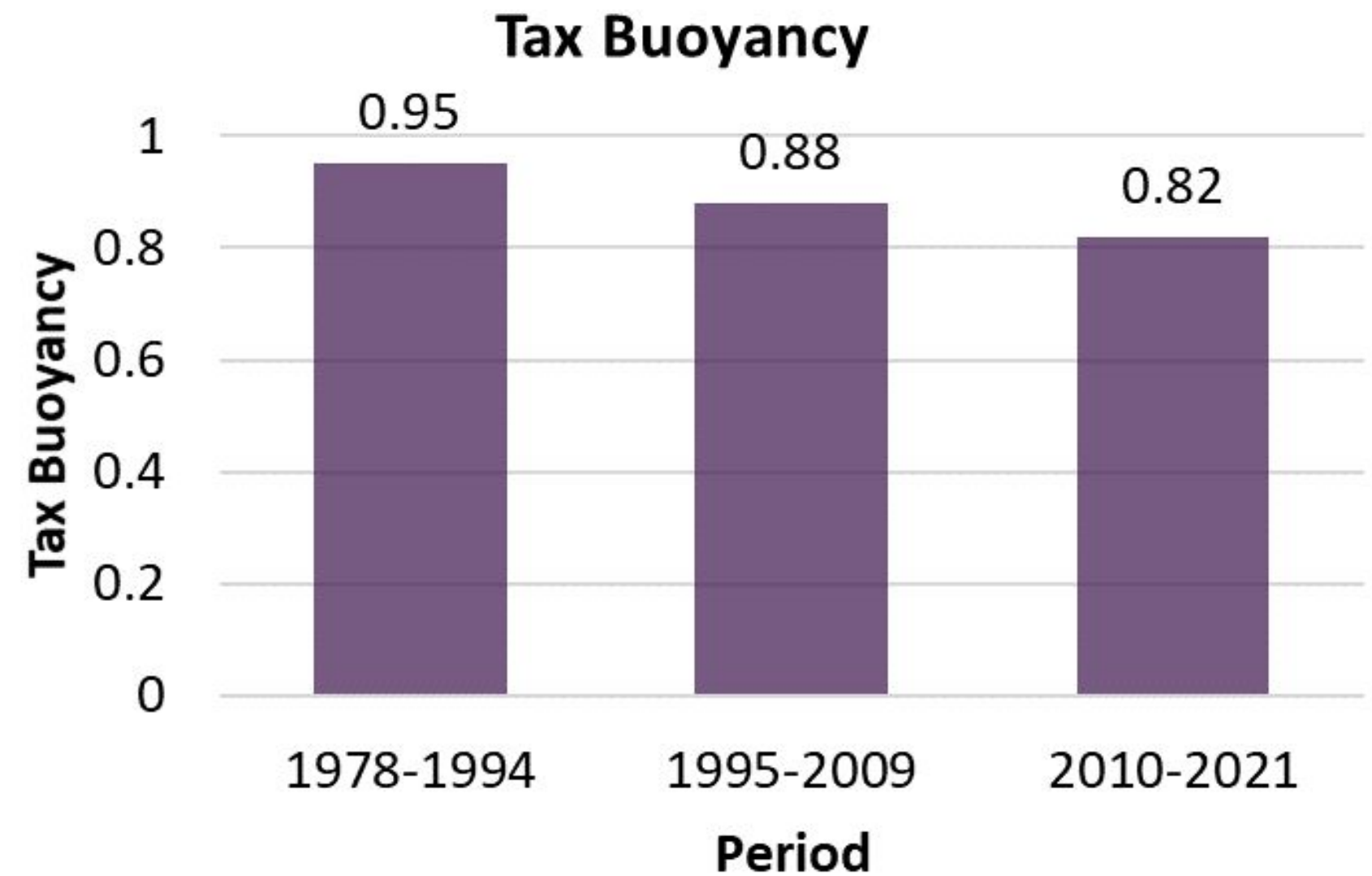
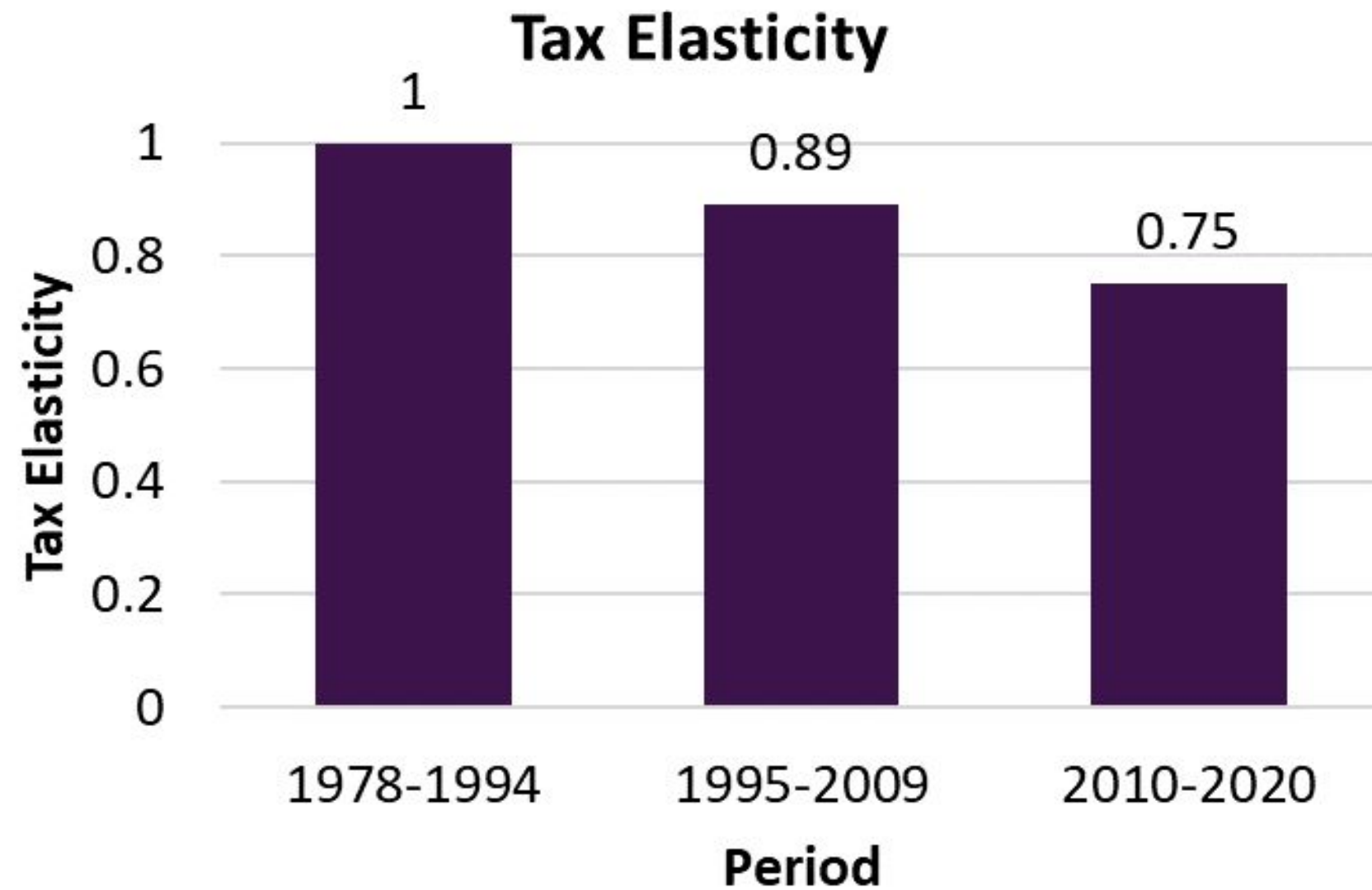


Source: Data compiled from multiple sources by World Bank, ICTD/UNU-WIDER Government Revenue Dataset, August 2021
OurWorldInData.org/taxation/ • CC BY

*Tax collection includes social security contributions

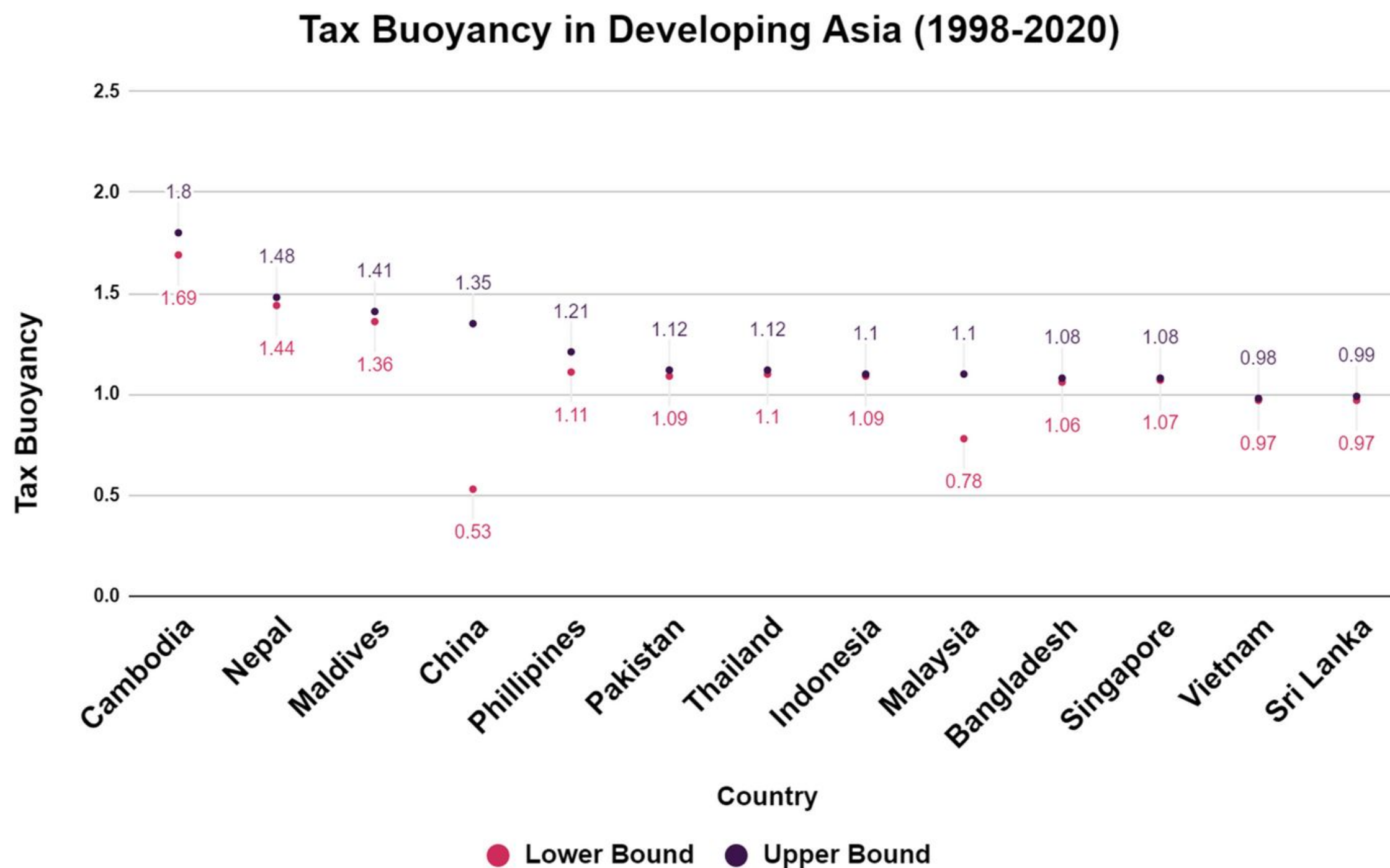
7.

Tax elasticity and buoyancy is low in Sri Lanka



8.

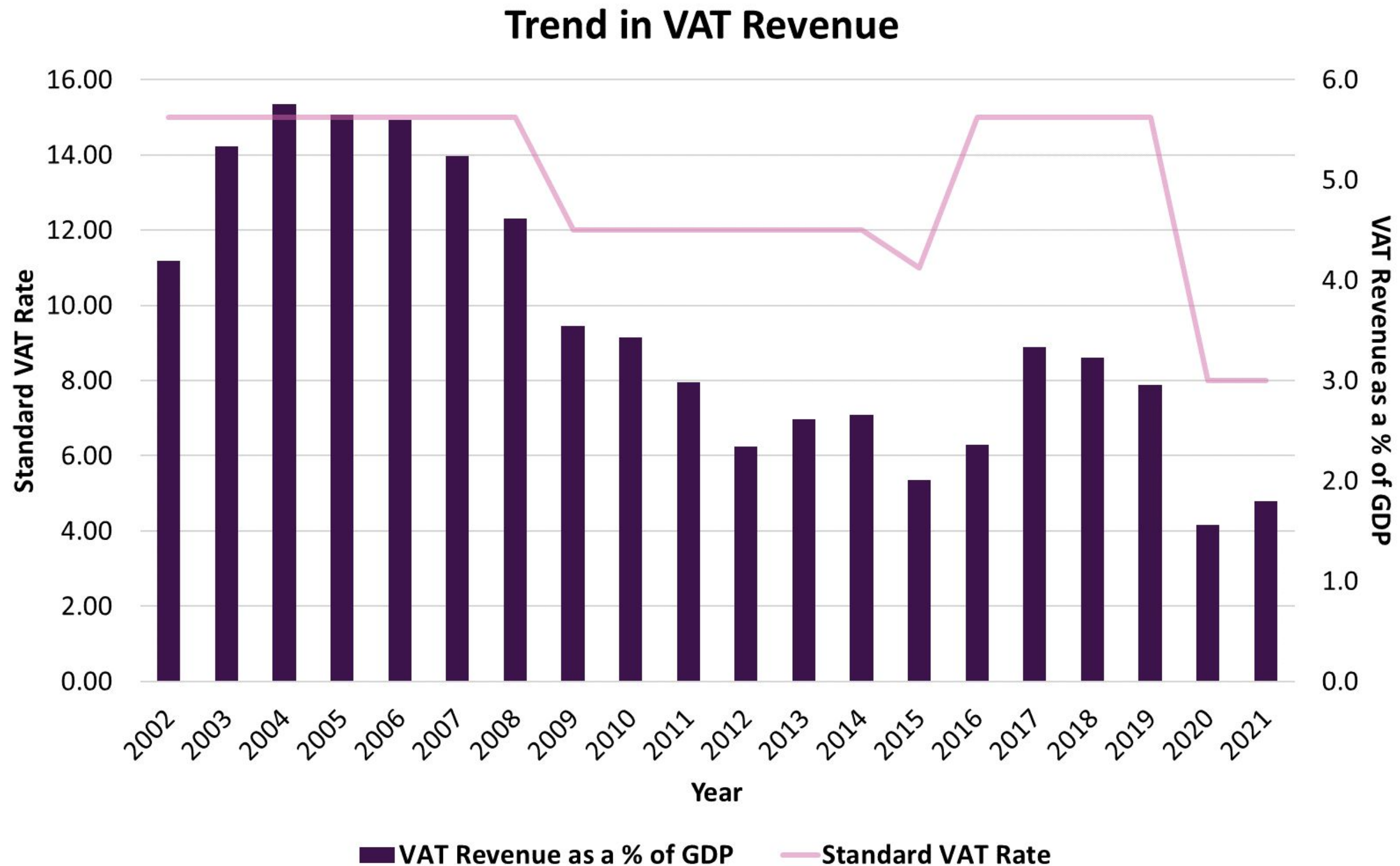
Tax Buoyancy is one of the lowest in Asia



Note:

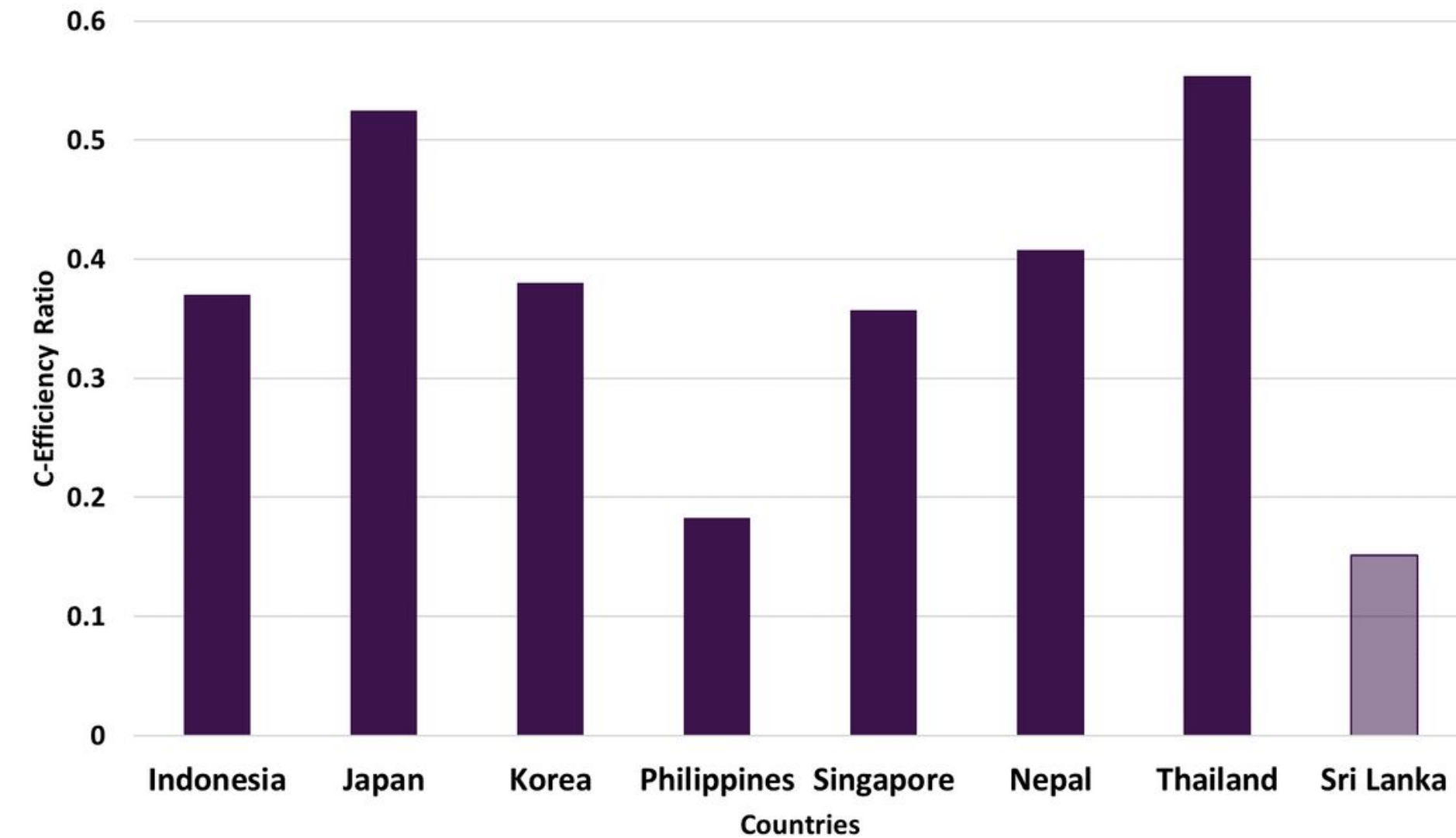
- Values may differ for Sri Lanka as the methodologies used to calculate Buoyancy are slightly different. In here, an error correction model has employed to estimate the tax buoyancy, Slide 7 adopted an ARDL model to get the tax buoyancy estimations.

VAT - a major source of revenue internationally



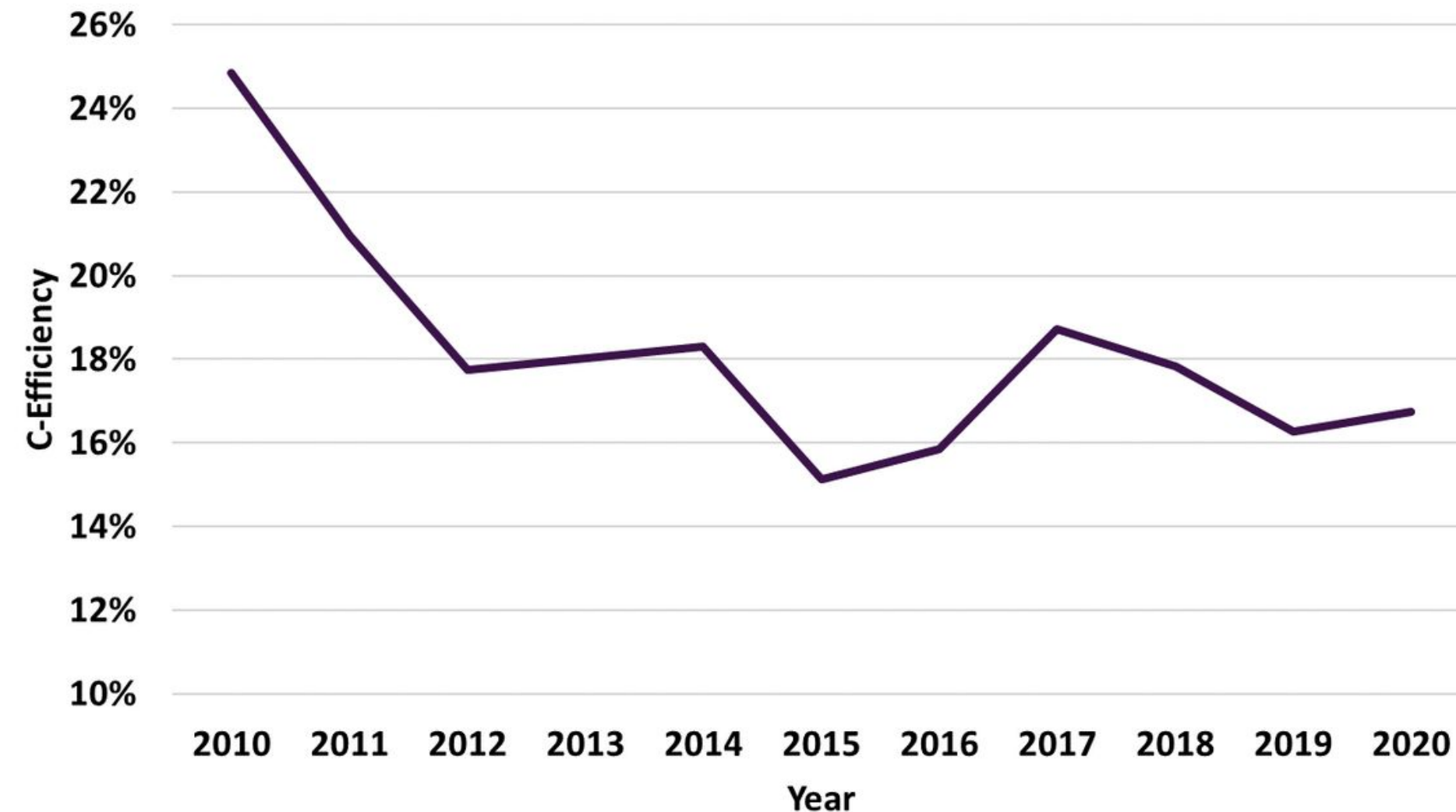
How efficiently is VAT revenue collected

C-Efficiency of Selected Countries in 2015



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

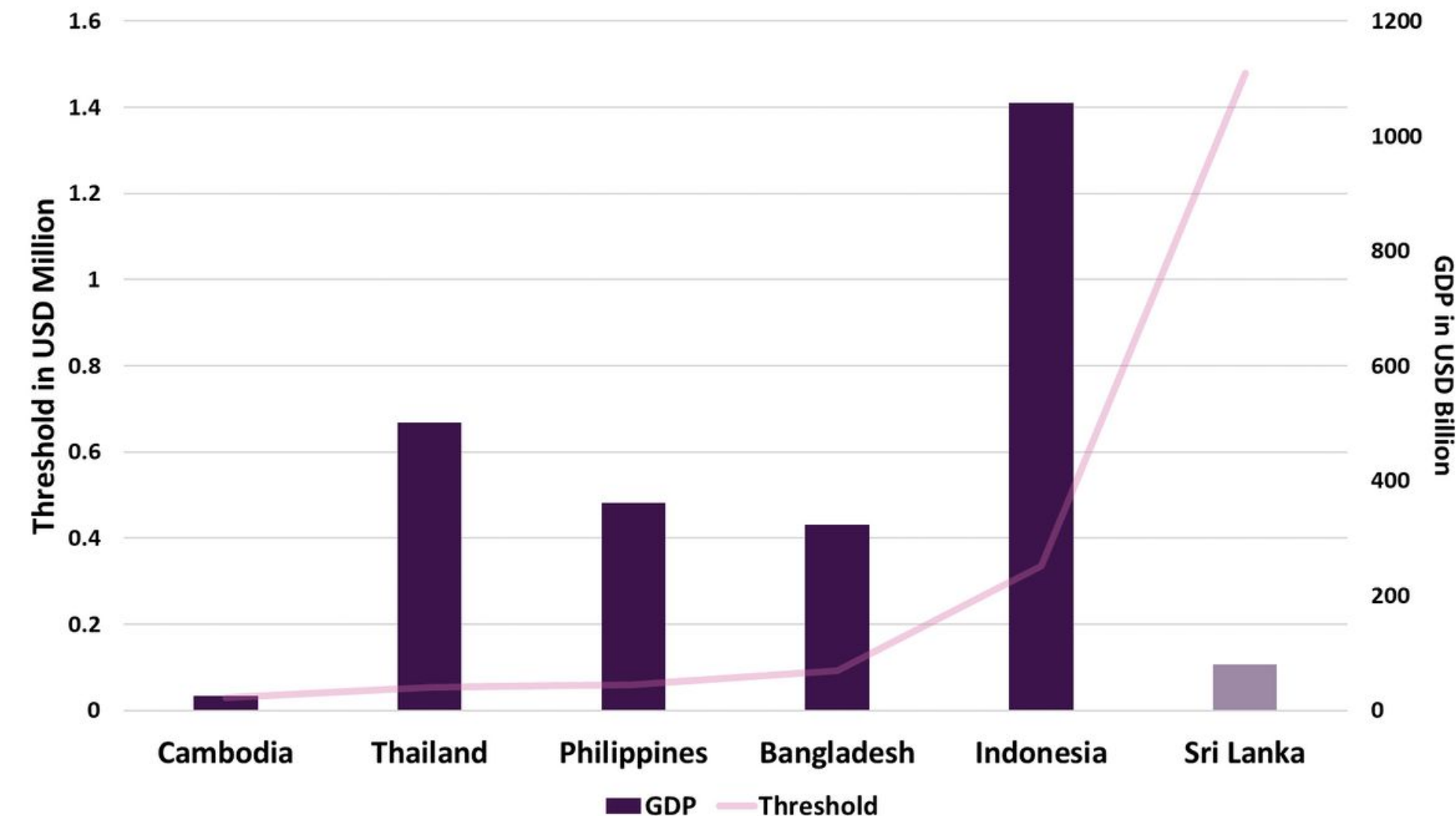
C- Efficiency



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

SL has one highest VAT thresholds in the world

Regional Comparison of VAT Threshold

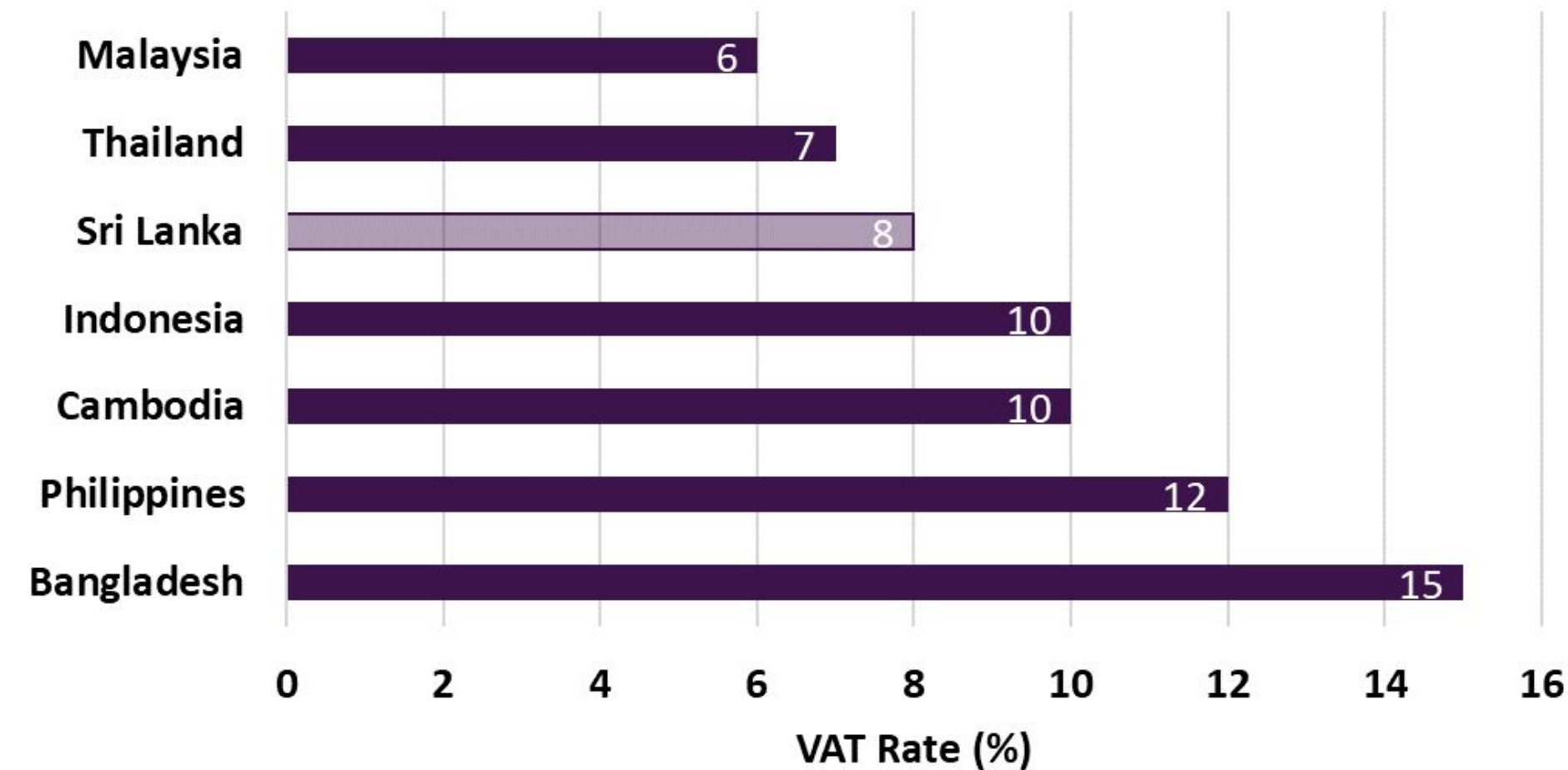


- VAT threshold one of the highest in Asia resulting in a large part of the economy exempt from VAT.

- 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: KPMG, Avalara, IRD, National Board of Revenue Bangladesh

Comparison of VAT Rates in 2021



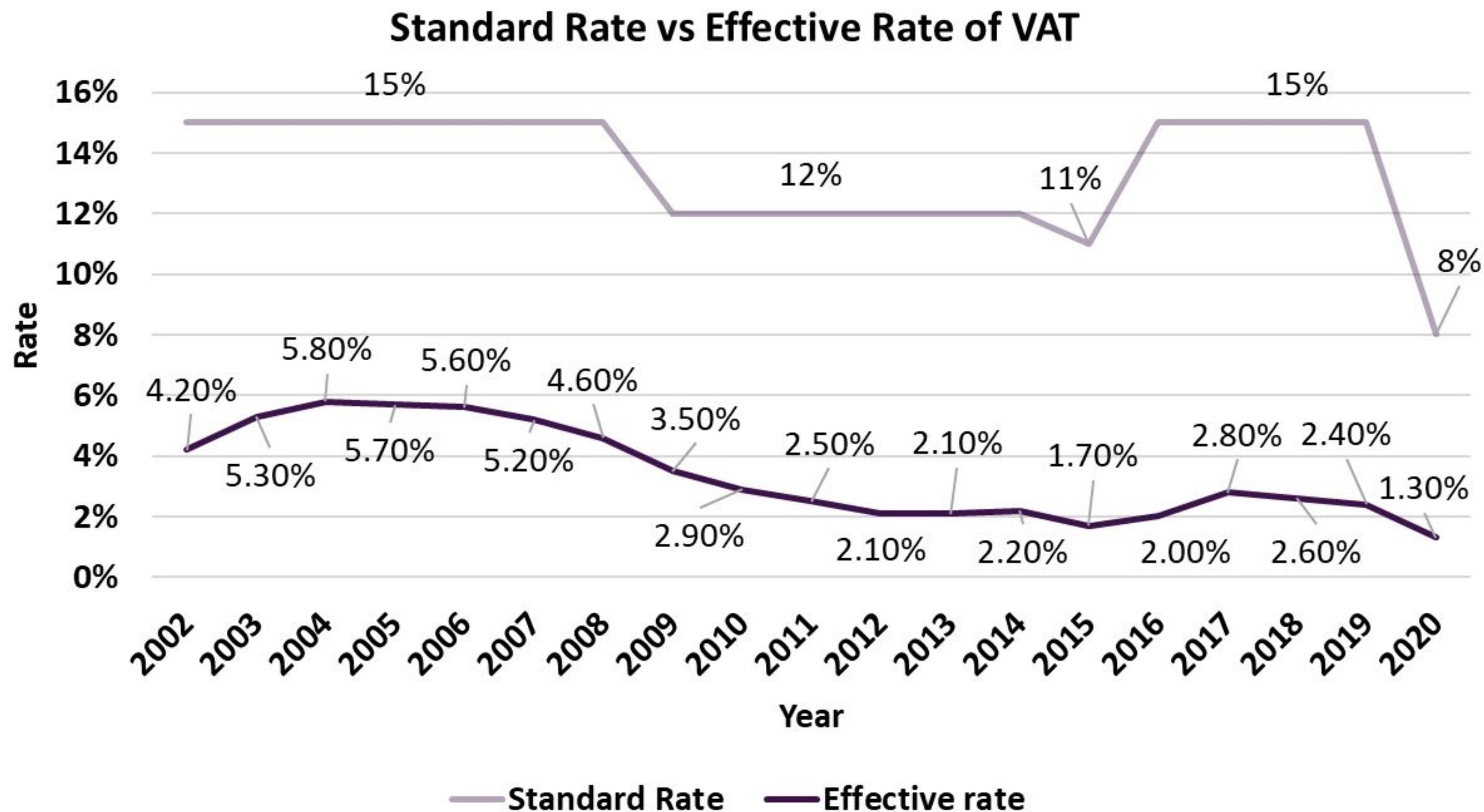
- VAT rate in Sri Lanka is the lowest in the history of VAT in Sri Lanka, as well as one of the lowest rates in Asia.

- VAT rate in Sri Lanka revised six times since the adoption of VAT in 2002.

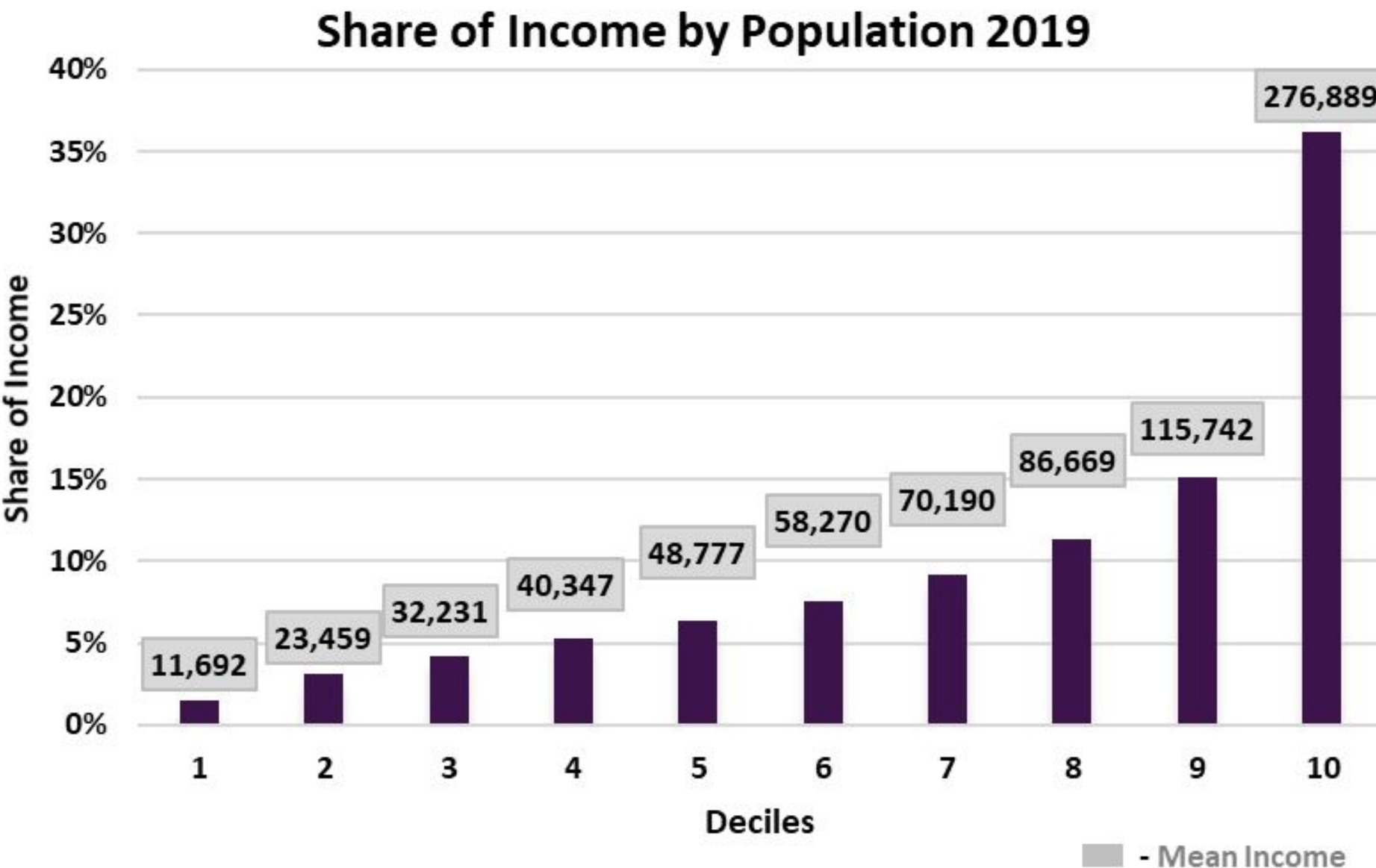
Source: PWC Value-added tax (VAT) rates, 2022

12.

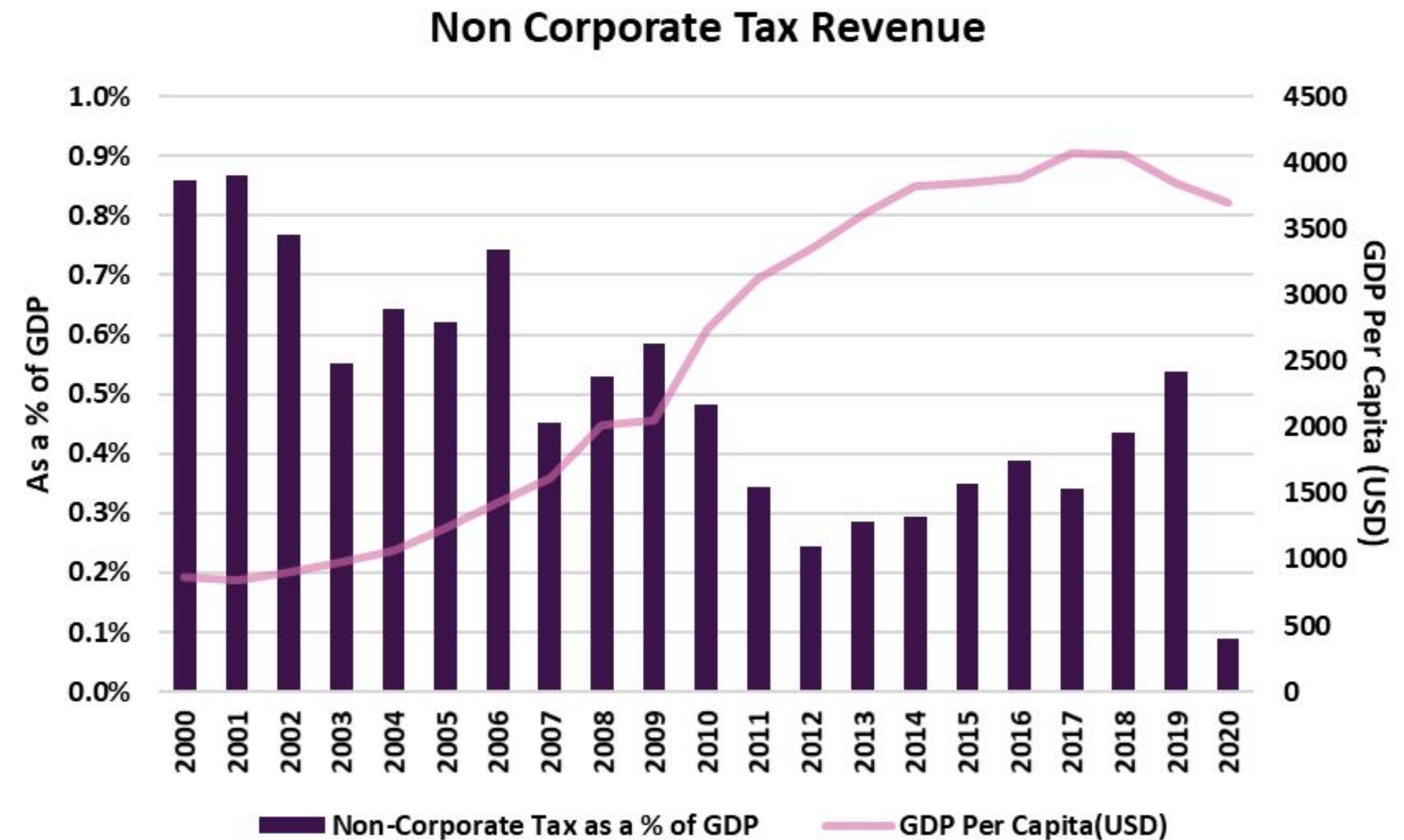
Effective tax rate well below the standard rate



13. Income Tax - Non corporate



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

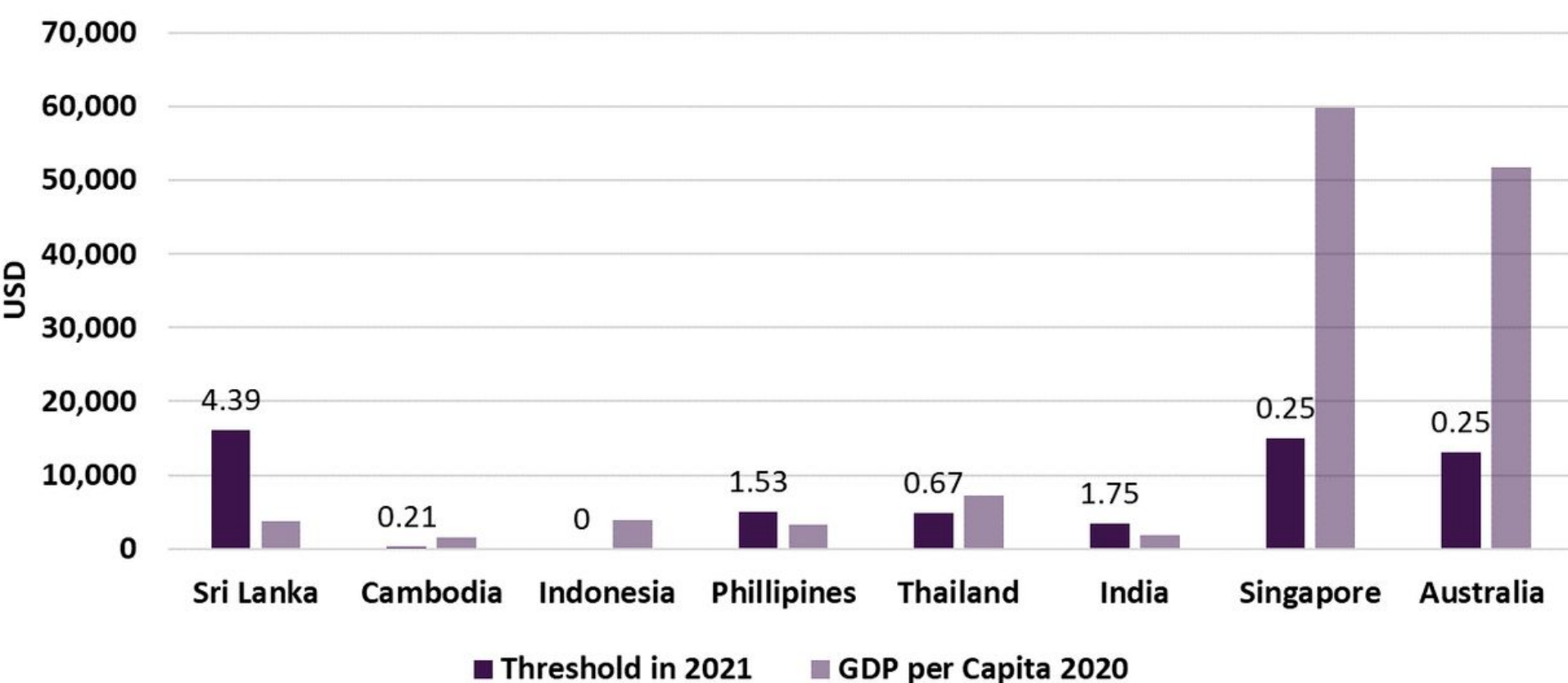


- Non corporate tax as a % of GDP has declined with increases in per capita GDP.

Tax free threshold is higher than the norm and 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.
- Average in advanced economies is around 0.25 times per capita GDP.

Note: Average 2020 USD rate was used for comparison purposes.

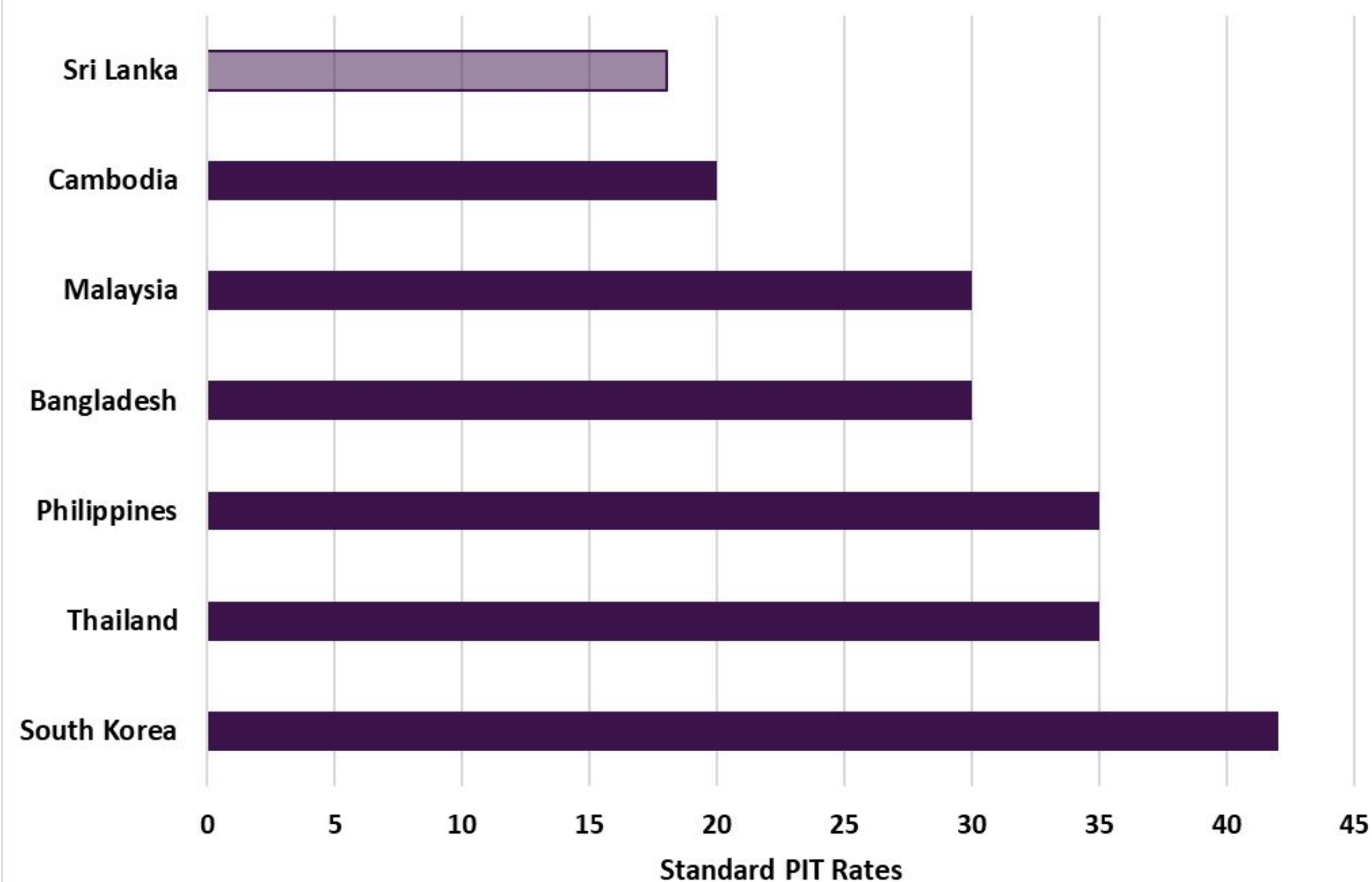
Source: CBSL, IRD Annual reports, various years

Source: World Bank Data and Central Bank data of respective countries.

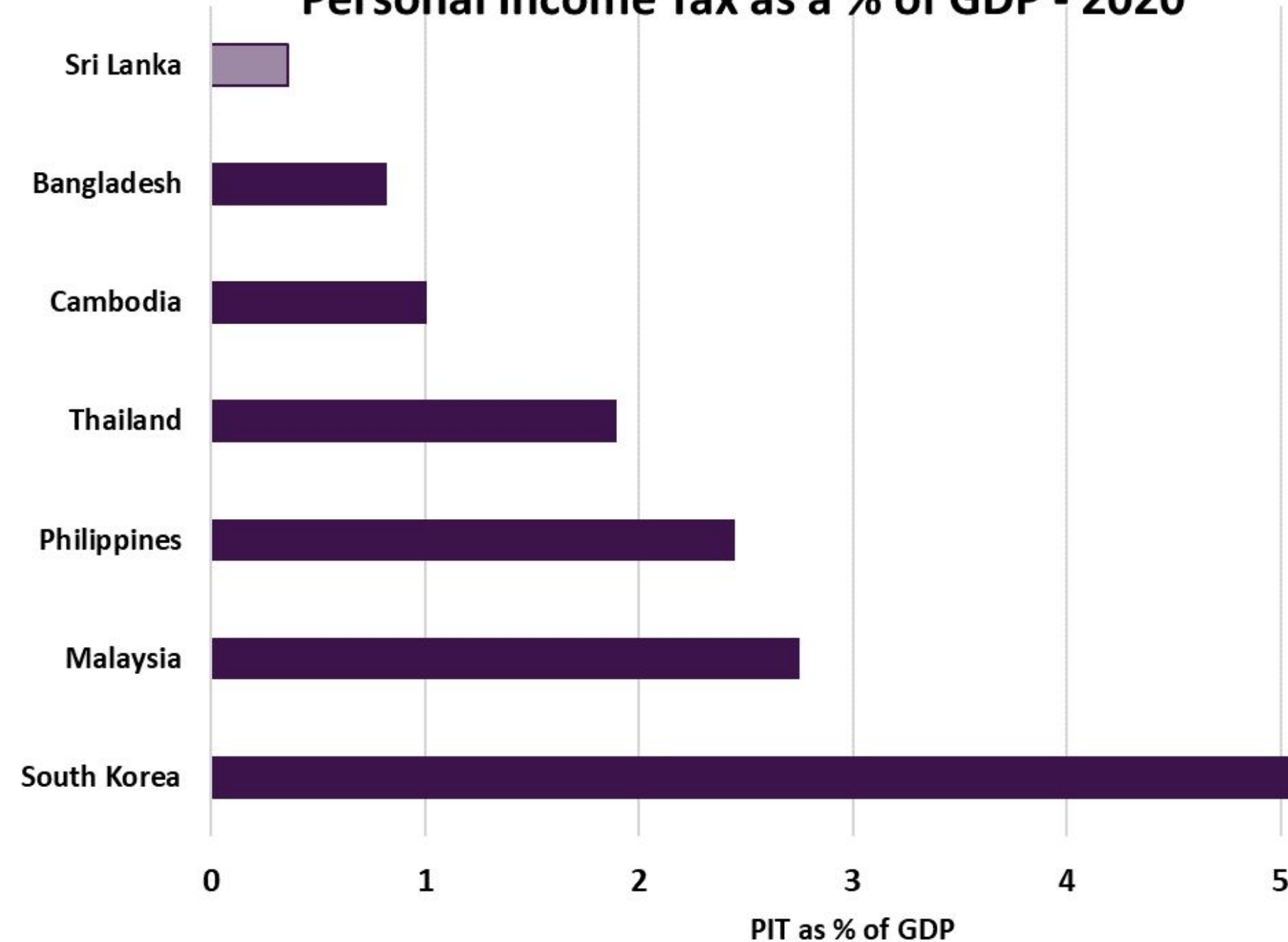
15.

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

Personal Income Tax Rates in Selected Countries in Asia - 2020



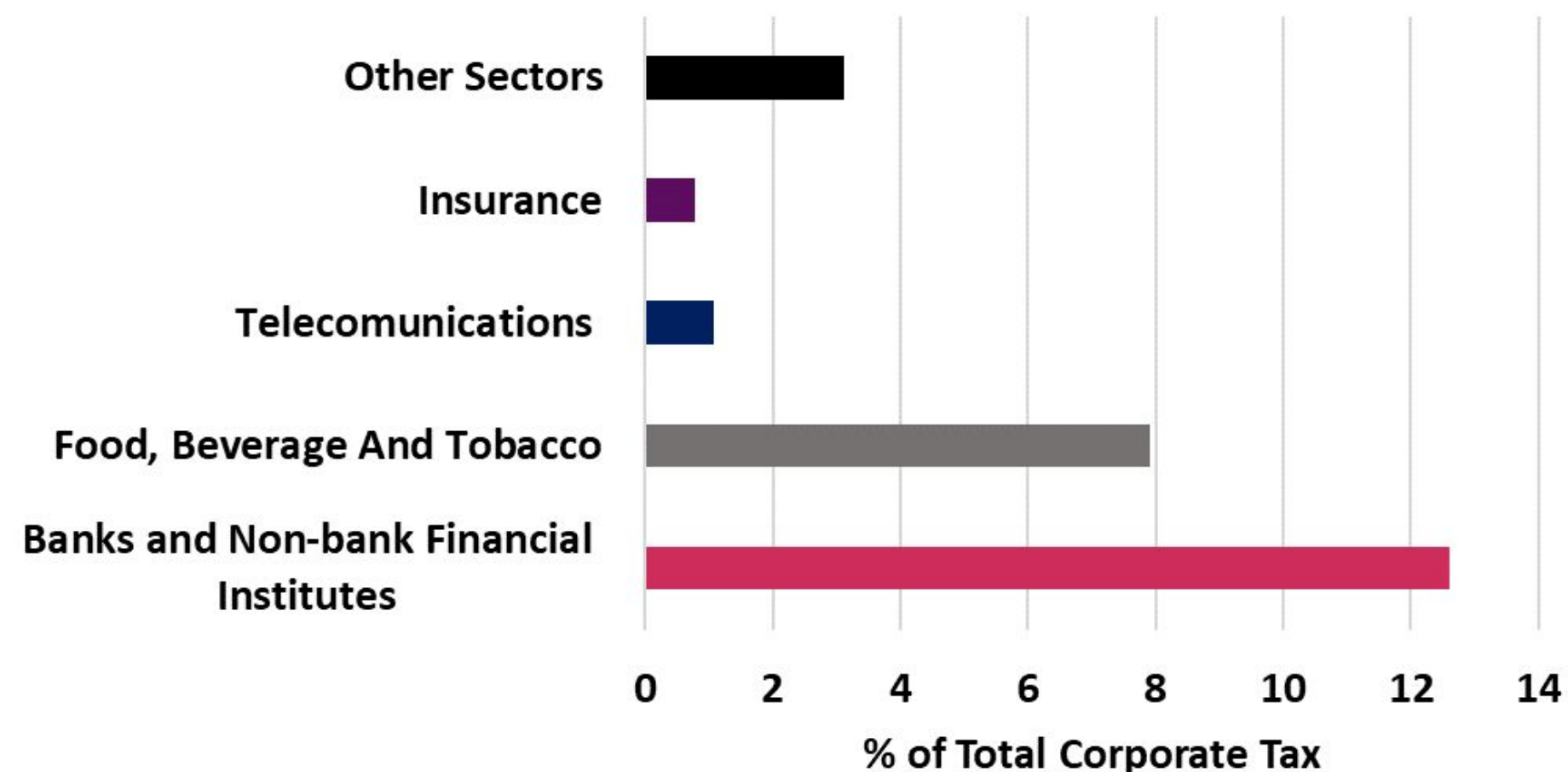
Personal Income Tax as a % of GDP - 2020



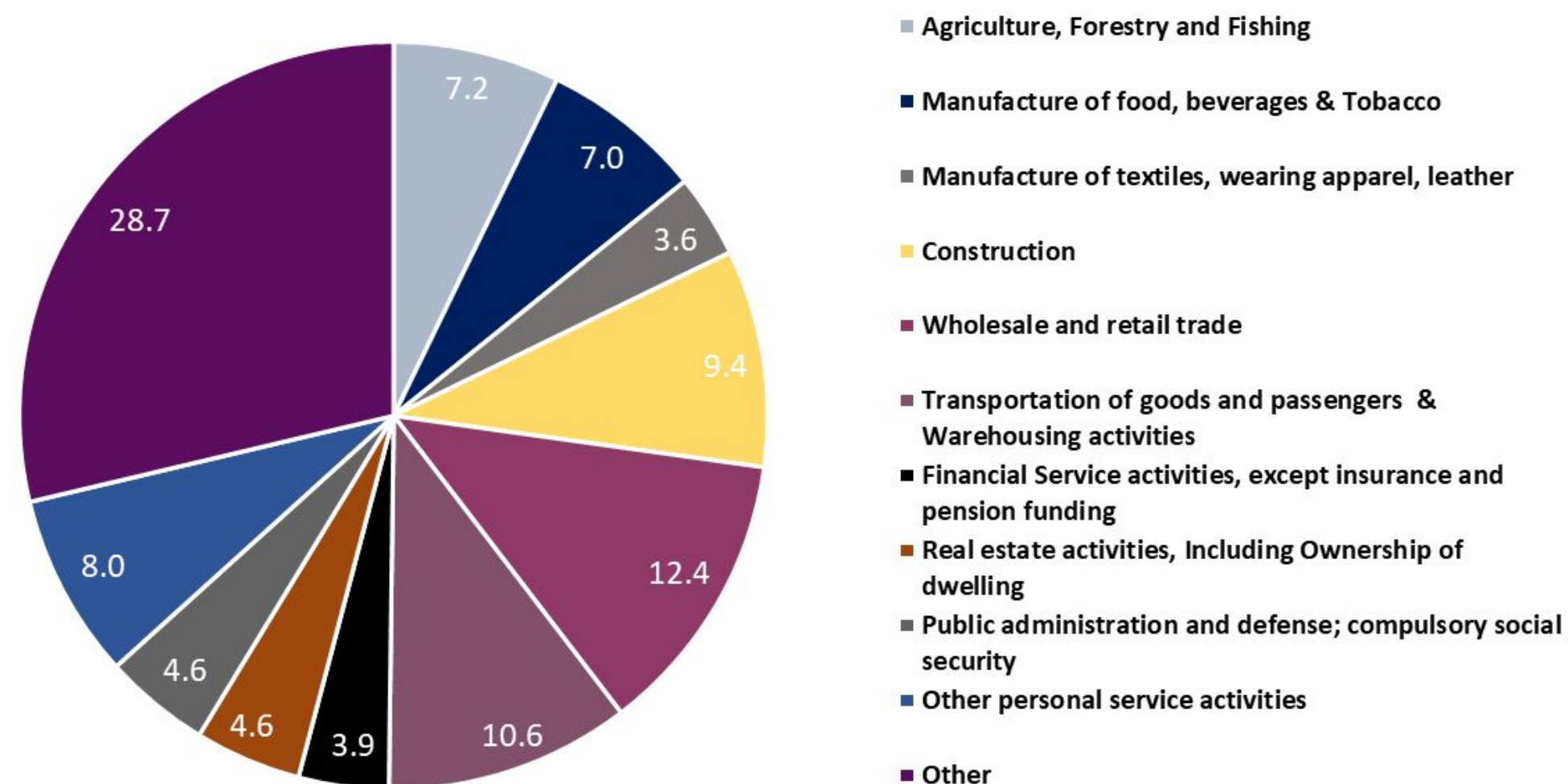
Note : Tax includes Taxes on individual income, profits and Capital
Source : IMF, PWC

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!