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Government yet to decide on IMF's request to lift VAT exemptions

By Sanjeevi Jayasuriya

The introduction of Value Added Tax (VAT) from August 1 has simplified the country's tax base, said the economic adviser to the Finance Ministry P. Guruge. Speaking at a seminar on "VAT - Application and Impact on Trade and Industry" held last Tuesday, he said that it was too early to comment on the impact VAT was having on the economy.

'We have to wait and see till next month to assess its impact,' he said. Commenting on IMF's advice to the government to remove VAT exemptions with the aim of continuing with the path of fiscal consolidation, Guruge said that the government is yet to take a policy decision on this matter.

The IMF has also urged the authorities to extend VAT to the retail level and remove exemptions with a focus on controlling current expenditure. Among the list of exempted items (which were originally taxed under the GST and NSL) were spices, desiccated coconut, rubber, paddy and seed paddy, bunker fuel, aviation fuel, pharmaceuticals and raw materials, agricultural tractors, agricultural machinery and supply of second hand goods under hire purchase agreements.

Among the items that are subjected to a 10% VAT are poultry feed, copra, livebirds and day old chicks, CFL lamps, Solar Home Systems, professions, specified vocations, leasing, land transport of goods, bicycles, motor bicycles, electric motors and generators, electric generating sets and rotary converters and membership subscriptions, etc. Some items are also subjected to a 20% VAT at the point of import.