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Fairer tax system

The Inland Revenue Department has existed about 50 years. Still we have not come up with a fair simple effective tax system in Sri Lanka.

At present there are: I. About 175,000 Paye tax files. II. About another 175,000 personal tax files. Total tax collections last year approximately was 110 billion rupees. Made up thus I. Payee 4 billion rupees, II. Personal tax files 25 billion rupees.

Of this amount 90 percent came from 400 big multimillion turnover companies.

The remaining taxes came from GST. (indirect taxes) amounting to approximately 80 billion rupees. GST is now replaced by VAT.

The tax threshold was Rs. 12,000 a month or 144,000 a year, which has been increased to Rs. 20,000 a month or Rs. 240,000 tax free per year.

Thus it will be seen that the Paye section will dwindle by at least 50 percent. A similar reduction could be expected in the personal tax files too. Thus effectively Paye tax files will come down to about 80,000. Similarly personal tax files too will drop to again another 80,000. A massive 160,000 files will be non-functional.

The taxslab too has been extended. 1st 180,000 rupees at 10 percent 2nd 180,000 rupees at 20 percent.

This will lead to further reduction in the collections per file with these new rates imposed. To illustrate this point, I wish to give this example. If a person has a income of Rs. 50,000 amonth, his total income for the year will be Rs. 50,000 x 12 = Rs. 600,000. Rs 240,000 will be tax free. 600,000 - 240,000 = 360,000 a year. This is his taxable income. He will pay on the 1st Rs. 180,000 at 10percent = Rs. 18,000 2nd Rs. 1,80,000 at 20percent = Rs. 36,000. Total tax payable will be Rs. 54,000. In the present day context it's very low yield.

On the other hand 80 percent of the taxes will come from VAT operating at three rates - Zero, 10 percent and 20 percent. These taxes will be paid by the rich and the poor alike, whether they have a taxable income or not. Thus it will be clearly seen, direct taxation in Sri Lanka is a massive failure. The tax net is actually getting smaller (350,000 files coming down to 150,000 files. And also the yield from these files will approximately be half of what was collected earlier, due to the expansion of the tax slab. In effect it's the big 400 companies that pay 90 percent of the direct taxes. In short if you close down all the tax files both in the Paye and the personal tax section, the amount lost to the state will be negligible (of course taxes on big companies should continue).

I would like to give an example in the direct tax section. (VAT) if you buy a small car like a 'Maruti' which sells at approximately six lakhs, VAT has to be paid at 20 percent. This amounts a massive Rs. 120,000 as VAT! Now this is the amount each and every one has to pay whether you are a tax payer or not.

Thus it will be seen clearly that 80 percent of the taxes are collected NOT on one's income but it's on one's expenditure.

Finally is it not prudent to shut down the personal tax files. Allow people to earn freely and tax them when they spend, via VAT ! The department will have a handful of files pertaining to the few giant companies (Direct taxes). All the other revenue will come through the indirect taxes of VAT.

Consideration in implementing VAT should be given to the poor. Essentials like food, clothing etc. should be VAT free. Majority of the items could be at a reasonable rate like 7.5percent. Semi luxuries at 15 percent and luxuries like Benzes - Volvos etc. at super VAT rate of 35 percent. Gold, sweeps and many more items that are presently tax free could be brought under VAT taxation, increasing the tax yield.

Presently taxes yield only 15 percent of the GDP. This is highly inadequate. A properly structured and a well implemented VAT, could give us almost 50% of the GDP. VAT should be decentralized. VAT should be collected from all those who are liable.

Once such a scheme is in force our dependence on money lending institutions like the World Bank and the IMF, will be minimal. This form of reform will be very fair and effective.

Couple this with an enthusiastic export drive, we will come out of the red and be a proud nation. And not a nation of beggars as we are at present.

In summary direct taxation is a massive failure. At present 80 percent of our taxes come from indirect taxes (VAT). According to the latest figures there are only 2035 millionaires - people whose income is above Rs. 3000 daily Rs. 3000 X 30 = Rs. 90,000month. Isn't this a joke - Mr. Choksy please tell us (90,000 X 12 = 1,080,000 year]

Concerned Sri Lankan
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