

VAT on wholesale and retail sectors

In accordance with the Budget proposals announced on 6.11.2002, VAT would be imposed on the wholesale and retail sectors as well, effective from July 1, 2003.

This move has been condemned by professional institutions, trade chambers etc. Though the government expects an increase of Rs.800M in revenue, this has several drawbacks such as increase in:

- (1) the number of files to be maintained by the Dept. of Inland Revenue by approx. 5000, resulting in additional burden to them and inability to monitor tax collection efficiently.
- (2) selling Prices which will increase the cost of living.
- (3) sales Invoices to be prepared by the trader.
- (4) documents to be maintained by the trader for the purpose of claiming VAT input credit,

I computation which shows as to how prices would increase with the imposition of VAT on the wholesale and retail trade:

OBSERVATIONS

- (a) If the trader wishes to maintain the same selling price (Action A), even after the imposition of VAT, the margin earned and the margin rate will drop.

(b) If he increases the selling price (Action B), he will earn improved margin, but the rate will remain the same.

(c) If he increases the selling price (Action C), he will earn the same margin, but the rate will drop.

Therefore, it is likely that most of the traders will resort to Action B.

With VAT @ 10% - Increase in Selling Price from A to B = 2.04%
- Increase in Selling Price from A to C = 1.68%

With VAT @ 20% - Increase in Selling Price from A to B = 4.16%

- Increase in Selling Price from A to C = 3.38%

Therefore, it is obvious that selling prices would be increased resulting in a rise in cost of living which will earn the dissatisfaction of the public-at-large.

I appeal to the Ministry to reconsider the decision of imposing VAT on the Wholesale and Retail sectors.

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Executive Committee Member
Income Tax Payers' Association

Cost Price Rs.	Action	Selling Price Rs.	Margin Earned Rs.	Margin Rate %
100.00 (without VAT)		120.00	18.80	15.67
90.91 (after VAT input credit of 10%)	A	120.00	16.98	14.15
	B	122.45	19.19	15.67
	C	122.02	18.80	15.41
83.33 (with VAT input credit of 20%)	A	120.00	15.47	12.89
	B	125.00	19.59	15.67
	C	124.05	18.80	15.16

NOTE:It should be noted that Turnover Tax paid to the Provincial Councils 1 % on total Selling Price (including the VAT recovery) continues.

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