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Govt says VAT will bring down prices

The introduction of the value-added tax (VAT) should bring down the cost of living because a range of essential food items, drugs and pharmaceuticals have been exempted from the new tax, Finance Minister K.N. Choksy said last week.

"The main aim of the VAT is to make it easier for the householder to manage his household budget and to simplify the tax system for the benefit of business houses," he told a news conference.

This was done despite the "very difficult" revenue position of the government and a heavy outflow of funds to service debt, he said.

Many items that were previously subject to the 12.5 percent Goods and Services Tax and the 6.5 percent National Security Levy were now exempt from VAT, he said.

These include rice, rice flour, wheat, bread, infant powder milk, liquid milk, coconuts and coconut products, vegetables, eggs, fish, fruit, spices, crude oil, kerosene, bunker fuel, pharmaceuticals and medical equipment.

These exemptions coupled with previous cuts in taxes and surcharges should result in lower prices, he said.

The government would lose about Rs. 800 million in

revenue because of these exemptions.

"We expect a very definite reduction in these prices," Choksy said. Traders should co-operate with the government to ensure the benefits of the VAT exemptions are passed on to consumers, he added.

Deputy Finance Minister Bandula Gunawardene said that the government would have to take stern action against businessmen trying to profit from the new tax system at a time when the country was facing serious economic difficulties.

With no taxes on most essential food items, any price

hikes would be the result of factors other than VAT such as the depreciation of the rupee and rain and drought which affect supplies, he said.

However, it was not clear how VAT on inputs would affect prices.

A 10 percent VAT has been imposed on poultry feed, planting materials and vegetable seeds, fertiliser including rock phosphate, unprocessed meat, powdered milk, coconut oil, potatoes, onions and chillies.

Gunawardene declined to answer a question on how taxes on inputs such as fertiliser would impact on prices.

Representatives of associa-

tions of traders of vegetables, fruit, rice, fish and motor vehicles and bicycles who were present at the news conference said there would be some reduction in prices.

But the official representing bicycle manufacturers was unable to say how the VAT will lead to a reduction in prices because of the tax charged on parts used to assemble the bicycles.

Importers of re-conditioned motor vehicles from Japan said there would be some reduction in prices but that they were unable to pass on the full benefit of a lower VAT owing to the appreciation of the yen.