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MEDIA RELEASE

The unreasonable tax increases to be enforced after May Day

No state can exist without taxes. A government needs revenue to carry out its functions and taxes are charged not only on the incomes of the rich but on goods and services used by the general population as well. Even essential items such as fuel, telecommunications, electricity and food are often targeted for taxation because such goods and services will be bought regardless of the price and therefore guarantees revenue. However, taxes have to be justifiable and reasonable. It is in that light that we should examine the tax increases that are to come into effect from 2 May 2016.

The international prices of virtually everything that we import declined after this government came into power in January last year. In 2014 the average price of crude oil was 96 USD per barrel. Today it's around 40 USD. Wheat which cost 230 USD per tonne towards the end of 2014 is now around 165 USD. Milk powder which was over 5000 USD per tonne in 2013/14 is now around 2000 USD. Sugar which was 414 USD per tonne in 2014 is now 334 USD. Steel which was 300 USD per tonne in 2014 is now around 90 USD or less. Urea fertiliser which cost 325 USD per tonne in 2014, is around 200 USD today.

During my tenure in office from 2006 to 2014, the international prices of all these commodities were much higher. Between 2011 and 2013 crude oil was consistently above 105 USD per barrel and went below 100 USD only after September 2014. The price of urea fertiliser reached 750 USD per tonne in 2008 and remained above 500 USD throughout 2011-2013. Steel reached a high of 1,265 USD in 2008 and until 2013, was always over 500 USD per tonne. Wheat went up to 440 USD per tonne in 2008 and sugar reached a high of 655 USD per MT in 2011 and the prices of both commodities remained high throughout my tenure in office.

Given the declines in the international prices of all commodities that took place last year, prices in Sri Lanka should have gone down significantly. In January 2015, the price of petrol was reduced from Rs. 150 to 117 and diesel from Rs. 111 to 95 in keeping with the reduction in the global price of crude oil up to that time. However though oil prices continued to decline further, the benefit of that has not been passed on to consumers. Going by the price of crude oil, petrol should now be less than Rs. 80 and diesel less than Rs. 50 per litre even after all the usual government taxes.

Though international sugar prices have declined since 2014, the government has not passed the benefit on to the consumer. The import levy on sugar was reduced to Rs. 18 with much fanfare in January 2015. But in September 2015, it was increased to Rs. 30. The international price of milk powder has declined by as much as 60% since I was in office. The yahapalana budget for 2016 fixed the price of a 400 gram packet of milk powder at Rs. 295 which means that the retail value of a tonne of milk powder in Sri Lanka is Rs.

737,500 when the world market price is something like Rs. 290,000. Leaving aside a small amount for shipping and packing, the difference is what the government takes as taxes and importers get as profits.

Just last month the price of wheat flour went up by Rs.7.20 per kilo due to an increase in the import levy in a context where the world market price of a tonne of wheat has declined by about 40% since I was in office. In the case of items like milk powder and sugar, the government may claim that higher import levies were being charged to encourage local production. However, merely increasing the import levy is not going to increase local production. Import substitution needs a programme of action with targets to achieve and good publicity to obtain maximum public support. The present government has no such import substitution programme. All they seek from higher import levies is increased revenue.

While benefitting thus from lower global commodity prices, the government is now trying to increase the VAT rate from 11% to 15% and widen its applicability to hitherto exempt sectors like telecommunications, health and education. This will cause a 4% increase in the prices of goods on which VAT is already being charged and a sudden 15% increase in the costs of telephone and internet services, medical specialist channeling services, medical tests, private hospital care, private education from nursery school to tertiary level as well as private tuition classes. The applicability of the 2% Nation Building Tax has been extended to telecommunications and electricity as well. Telephone and internet services will see the highest price increases as it will be hit by the VAT as well as the NBT. The NBT on electricity will bring in huge revenues because it will be charged from all users of electricity.

As resentment built up against the impending tax increases the president tried to pacify the public by saying he would rather send the economic advisors of the government home, than have burdensome taxes imposed on the people. Two or three days later, a yahapalana minister called a press conference and announced that VAT would not apply to essential items like water, electricity, pharmaceuticals, rice and vegetables etc. These were items on which VAT had never been charged anyway. But the impression conveyed to the public was that these items had been exempted from VAT by the president to provide relief to the poor! That is the kind of cynical deception that the yahapalana government has been practicing on the people from the very beginning. Electricity may be exempt from VAT but not from the NBT. There will be an all round increase in the cost of living as both VAT and NBT will be charged even from retail businesses with a turnover of more than one million a month.

This government made irresponsible promises at the presidential election in order to win votes. After winning, they had to fulfill at least some of their election pledges if they were to win the parliamentary election. For more than a year now the government has been borrowing heavily in the foreign as well as domestic markets to pay for the salary increases and various handouts they gave to win elections. I have pointed out earlier that after January 2015, the government has taken 7,436 million USD in foreign loans, nearly half of which (3,298 million USD) has to be paid back before the end of this year. That is apart from the hundreds of billions of Rupees the government has been borrowing in the domestic market by issuing treasury bills and bonds. Now the government is trying to collect taxes from the people to repay these debts.

Though the government has been saying that they have had to borrow heavily to pay off the debts taken by my government, that is not true. In 1977, Mrs. Bandaranaike left behind a debt to GDP ratio of 68.6%. When the UNP was voted out in 1994, this had increased to 95.1%. When President Kumaratunga lost to the UNP in 2001, the debt to GDP ratio was 103.3%. It was still 102.3% when the UNP was voted out in

2004. When I assumed office in 2005, it had declined to 90.6%. By the time I left office in January 2015, the debt to GDP ratio was 75.5% - the lowest since 1979. Even if the debt of all public enterprises is added to the government debt, the debt to GDP ratio will still be much lower than it was more than a quarter of a century ago.

Some ministers have been saying that people can afford to pay the extra taxes because salaries had been increased. However only government servants who make up 15% of the employed population got a salary increase while the remaining 85% who are either in the private sector or self employed, have not seen an increase in their income. On the contrary, they are grappling with reduced incomes and employment opportunities due to the economic downturn. The government is going to increase taxes because there is no money to continue implementing the reckless pledges they made to the voting public to win power. They actually expected vast amounts of Western aid to flow in to sustain their government. But no country gives aid to fulfill election pledges. The yahapalana government is now trying to find the money for their political survival through increased taxes on the very people they deceived in order to win power. This is another cynical trick on the part of a government that won power through, and is sustained by deception. This is why the people should rise up as one against the impending tax increases.



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