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மஹிந்த ராஜபக்ஷ
MAHINDA RAJAPAKSA

කාලුට් නිවස, තංගල්ල, ශ්‍රී ලංකා කාල්ටන් இல்லம், தங்காலை, இலங்கை Carlton House, Tangalle, Sri Lanka
T: +94 47 2240344 www.mahindarajapaksa.lk F: +94 47 2241113

 PresidentRajapaksa

 @PresRajapaksa

 +PresidentRajapaksa

 news@mahindarajapaksa.lk

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MEDIA RELEASE

All parliamentarians should oppose the VAT Bill on 11 August

The Bill to increase and broaden the application of the Value Added Tax will be taken up in parliament on 11 August. This draft legislation seeks to revive and give legal effect to all the objectionable features of the VAT reforms that were suspended by the Supreme Court last month. The new VAT Bill seeks to increase the VAT rate from 11% to 15%, to bring the small and medium retail and wholesale trade and the private health care services within the ambit of VAT and to mandatorily require all establishments with a turnover exceeding Rs. 33,000 a day to register for VAT. A tax on health care is in effect a tax on ill health. The more serious the illness, the more revenue the government will make from that patient. Everyone knows that those who make use of private health services are not only the rich.

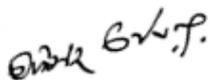
Traders and small businessmen countrywide, opposed the 15% VAT imposed on the wholesale and retail trade because it will cause an increase in the prices of goods when it is passed onto the consumer and lead to reduced sales. Previously the VAT on the retail and wholesale trade was limited to large establishments with a turnover of more than Rs. one million a day. But when the threshold is brought down to Rs. 33,000 a day, that brings even small establishments within the ambit of VAT. When retail sales drop as a result of increased prices, that leads to a chain reaction whereby the manufacturers who supply the goods don't get enough orders to be able to break even.

The small and medium sector has already suffered a reduction in turnover due to the general economic slowdown after the yahapalana government came into power. It was reported in the press that even the profitability of many large listed companies had declined in 2015. The fear is that the reduction in sales which will result from the VAT increase will destroy the small and medium sector. We have heard that due to the widespread opposition to VAT, the government is contemplating reducing the VAT rate and increasing the Nation Building Tax (NBT) rate. The public should be aware that VAT and NBT are both taxes imposed on turnover and the threshold for registering for both taxes is Rs. 33,000 and they are applicable to virtually the same goods and services so no

difference will be made as far as the public is concerned by reducing the VAT rate and increasing the NBT rate.

Such attempts at deception must be resisted. The imposition of VAT/NBT on small business like eateries, barber shops, retail shops, repair shops, service stations, furniture shops etc as well as cottage industries will be a severe burden on that sector as they operate mostly on credit. Operations of small and medium business places in economic hubs like Dambulla, Embilipitiya, Pamunuwa, Pettah – just to mention a few – will be endangered. The government should be mindful of the fact that the small and medium sector is the largest employer in the country – not the government or the formal private sector.

What makes this increase in VAT most objectionable is that it is being imposed on the public to finance the salary increase and various other concessions that the yahapalana government gave against all economic reasoning in order to win the August 2015 parliamentary election. No previous government has taken such liberties with public finances for political purposes. I call upon all members of parliament to oppose the Value Added Tax (Amendment) Bill when it comes before parliament on 11 August. I believe the president will also make an intervention in this matter as he has stated publicly that he will not allow unreasonable taxes to be imposed on the people. The VAT on ill-health and the VAT on the small and medium retail and wholesale trade should not under any circumstances be allowed to be passed into law.



Mahinda Rajapaksa
Former President of Sri Lanka