Sri Lankan government passes IMF-backed tax bill

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The Sri Lankan parliament passed an amended Inland Revenue Bill on September 7, effectively implementing the dictates of the International Monetary Fund (IMF). The vote, originally scheduled for August 25, was delayed after the government, fearing opposition from the working class, was forced to make various cosmetic changes.

The new version will become law on October 1 and go into force next April. While it incorporates more than 100 amendments, some members of parliament complained they were not given all the proposed changes. The purpose of the legislation is to extract direct taxes from workers, "self-employed" and small traders, while providing concessionary taxes for big business.

Under the previous version of the bill, non-residents' and residents' monthly income of 50,000 rupees ($US328) was to be taxed at 4 percent, increasing up to 24 percent for those with a 250,000-rupee monthly income. The first threshold of the tax now has been raised to 100,000 rupees. Monthly interest income of 125,000 rupees from pensioners' savings will be taxed. The previous proposed threshold was 100,000 rupees.

While these two changes were made to deflect opposition from workers, professionals and pensioners, other taxes impacting on broader layers of the population remain. Pension funds above a lump sum of 2 million rupees, for example, will be subjected to taxes of between 5 to 10 percent, and taxes are imposed on those involved in drama, cinema and literature.

A low tax rate of 14 percent will be enjoyed by industries involved in agriculture, tourism, information technology and education and exports. Taxes on other business will be just 28 percent. This compares with India and Bangladesh, where the rates are 30 percent and 35 percent respectively.

Speaking to a big business gathering, State Minister of Finance Eran Wickramaratne boasted that Sri Lanka would have "some of the lowest rates, even compared to other Asian countries."

The government pushed through its new tax law in order to receive $US190 million, the third instalment of an IMF loan.

Speaking in the parliamentary debate, Finance Minister Mangala Samaraweera claimed that "everyone over age of 18 will have a tax file according to the act but it doesn't mean everyone will pay tax." His reassurance is duplicitous, however, and implies that the government will target "everyone" in future.

In fact, Wickramaratne explicitly told his business meeting that "the government wants to widen the tax net and take money [levy taxes] from the people in proportion to their capacity to pay." He continued: "Each citizen and each corporate entity should contribute by paying taxes to help the government's effort to provide essential and vital services in education, health, transport, agriculture, technology, research and development, etc."

Wickramaratne's claims are a fraud. Against the backdrop of deepening global economic turmoil, the government is slashing spending in all these sectors and cutting subsidies to the poor in an attempt to place the burden of Sri Lanka's growing debt onto the back of workers.

The new taxes, which fall most heavily on the poor, are aimed at boosting corporate profit while slashing the country's fiscal deficit to 3.5 percent of gross domestic product (GDP) as demanded by the IMF.

An IMF review on July 27 praised the government of President Maithripala Sirisena and Prime Minister Ranil Wickremesinghe, but noted "high risks." It demanded that the government speed up its "economic reforms," including the "restructuring" and privatisation of state-owned enterprises (SOEs).

"The main external downside risk is the resumption of capital outflows in response to a significant further strengthening of the US dollar and higher rates, or due to a weakening of the external position," the review declared.

One reason for the capital outflow, the IMF said, was the government's "unproven commitment to exchange rate flexibility." This is a reference to IMF concerns over the government intervening in the exchange market and selling dollar reserves to defend the rupee's exchange rate.

Other risks included "further delays in revenue mobilisation and SOE reforms" and "the government's large gross financing needs of which 40 percent is financed externally."

The IMF has long demanded the restructuring of the Ceylon Electricity Board, the Petroleum Corporation, the ports and the Water Supply Board.

Successive governments, with muted support from the trade unions, have taken steps to privatise these state corporations by seeking to restructure them along the lines of Singapore's Temasek "state holding corporation" or "wealth trust" model. Fearful of working-class resistance, these plans, however, have been delayed.

The IMF wants these "reforms" to be expedited, along with "energy pricing reforms"—i.e., increased fuel prices and electricity charges—in order to slash the debts of these corporations.

The international bank also warned that the "public debt is expected to rise slightly to 85 percent of GDP in 2017 due to a still large fiscal deficit and exchange rate depreciation." It cautioned the government over the increasing trade deficit, which rose to $4.2 billion during the first four months of this year. If this trend continues, this year's trade deficit could exceed last year's and hit the $10 billion mark.

Remittances of Sri Lankan employees abroad declined by 7.2 percent during the first half of this year, compared to the same time last year. War tensions in the Middle East, including Saudi Arabia-led moves against Qatar, have affected this income. Garment export earnings also declined by 5.32 percent. These are the country's two main sources of foreign income.

Confronted with this escalating economic crisis and intensifying IMF demands, Colombo is preparing to deepen its attacks on the living and social rights of workers and the poor.

Cabinet ministers were recently briefed on budget allocations for 2018, which will be presented to parliament on November 9. The largest amount in the Appropriations Bill will be for the military. According to the *Daily FT*, the Ministry of Defence will receive 290 billion rupees (nearly $2 billion), a 6 billion-rupee increase from the last year's allocation of 284 billion.

The increase in military expenditure is no accident. It is in line with the government's determination to crush all resistance to its class war attacks.