Sri Lankan budget: Tax bonanza for big business and increased burdens on working people

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Sri Lankan Prime Minister Mahinda Rajapakse, who is also the country's finance minister, presented his 2021 budget on November 17 amid an escalating economic collapse intensified by the coronavirus pandemic. The government, which is teetering on the edge of default, currently faces annual loan repayments of $4.5 billion for the next five years.

The spuriously entitled "development budget," which will be voted on by the parliament on December 10, is designed to boost foreign investment and enrich the wealthy while imposing further attacks on the living conditions of workers and the poor.

Budget expenditure next year will increase to 3.5 trillion rupees ($US19 billion) with estimated revenue of about 2 trillion rupees. The 1.5 trillion rupee deficit, or nine percent of gross domestic product (GDP), will be financed through foreign and domestic loans and increased taxes on working people.

The planned tax concessions for international investors and the country's big businesses include:

• Personal and corporate income taxes for manufacturing will be reduced from the current 28 percent to 18 percent and to 24 percent for trading and finance.

• Tax exemptions will apply to all investments exceeding $US10 million in the export dairy, fabric, tourism, agricultural products and information technology sectors for ten years; dividends of foreign companies for three years on the investments on their business, in the stock market or in Sri Lankan sovereign bonds; and profits on capital and interest income from Sri Lanka's international sovereign bonds for the commercial banks, subject to purchases of $US100 million.

• Personal and corporate income tax for agriculture, livestock, fish farming and information technology will be abolished.

• A 50 percent tax concession for three years for all listed local companies on the Colombo Stock Exchange.

• A one percent tax on the use of hidden local or international funds for investments facilitated by the budget—a measure that will further encourage "money laundering."

Jubilant over the concessions, the Ceylon Chamber of Commerce, the country's premier big business group, said it "welcomed the tax relief for investment" and called for the timely implementation of the "commendable proposals." The *Sunday Times* quoted apparel industrialists, who said they were "extremely delighted" with the budget plan.

While COVID-19 continues to ravage Sri Lanka, posing an escalating national health emergency, there are no new funds for overhauling the island's dilapidated health system or adequate financial assistance for the needy.

The health allocation, in fact, had already been reduced to 159 billion rupees in 2020, down from 187 billion in 2019. Facing public criticism, the Rajapakse regime is proposing a meagre additional 18 billion rupees.

A 0.25 percent levy will be imposed on businesses employing more than 50 people for an "insurance scheme" to pay for the loss of livelihood due to COVID-19 quarantining. The proposal, however, did not specify the amount that could be paid to impacted families.

Currently families are paid a pittance of just 5,000 rupees. Protests have erupted in poor areas of Colombo in the past few days denouncing the government for not providing adequate assistance.

A new special goods and services tax (GST) will also be introduced in January. No indication, however, has been given on what the rates will be. According to the budget speech, these taxes, which already apply to liquor, cigarettes and gambling, could also be extended to essential items affecting the needy. The existing value added tax (VAT) and special commodity levies that have driven up prices will be continued.

Rajapakse told parliament that the government plans to amend the Employees’ Provident Fund Act in order to lift the retirement age for both men and women in the private sector to 60 years. It is currently 55 and 50 years respectively. This measure is aimed at retaining the provident funds due to those workers when they retire for further five to ten years for the state to invest, mainly in the stock market.

Amid growing anger among plantation workers, Rajapakse, in a face-saving measure, said the government would increase their daily wage to 1,000 rupees—a long-outstanding demand by these low-paid workers. Rajapakse, however, did not say how and when this would be implemented. The Planters’ Association immediately criticised the proposal, telling the media that it did not agree with the wage increase “unless it is subsidised by the government.”

Rejecting any salary increase for public sector workers, Rajapakse contemptuously declared that these workers should be permitted to “engage in other jobs” outside office hours.

The government plans to reduce education spending to 126 billion rupees, from 166 billion rupees in 2019, another clear move against public education while promoting the private sector.

In his budget presentation, Rajapakse spoke about “disposing of non-strategic state enterprises,” without naming them, and “necessary reforms” to the public sector—in other words, further privatisation and public sector downsizing in line with repeated demands by the International Monetary Fund. Last week authorities announced that Sri Lankan Airlines will destroy 700 jobs via a “voluntary retirement scheme.”

While slashing health and education expenditure, the government plans to increase defence and police spending to 440 billion rupees in 2021, up from 393 billion rupees in 2019. In fact, every Sri Lankan government has boosted defence spending since the end of the 30-year communal war against the separatist Liberation Tigers of Tamil Eelam.

The latest boost to the military and the police is in line with President Gotabhaya Rajapakse intensifying the militarization of his administration and rapid shift towards a presidential dictatorship to take on the working class.

On the same day as the budget speech, President Rajapakse used the draconian Essential Public Services Act against port workers, threatening jail, fines and the confiscation of workers' possessions if they violated the law. The new measure was imposed as Colombo port workers began opposing demands that they continue working despite a growing number of COVID-19 infections at the ports.

Millions of workers and their dependents in the tourism and apparel industries, small business and the self-employed and rural poor are suffering from drastic income cuts caused by the pandemic. Rajapakse has not proposed any financial assistance for these workers.

By contrast, big businesses, including the major banks, have announced increased profits during the pandemic. The Hayleys group, for example, has announced a 600 percent increase in net profits in the six months up to September compared to last year and the net profit of mobile services giant Dialog in three months up to September increased by more than 100 percent to 4.8 billion rupees compared to the same period last year.

During last week’s budget debates, the opposition parliamentary parties engaged in empty posturing but offered no alternative to the government tax cuts for the rich and its austerity measures for workers and the poor.

Samagi Jana Balavegaya (SJB) leader Sajith Premadasa declared that the government’s “vision of prosperity” election manifesto was not reflected in the budget. Janatha Vimukthi Peramuna (JVP) leader Anura Kumara Dissanayake voiced his regret that the economy was collapsing as a result of the coronavirus and said the government’s “economic strategies are wrong.”

Two weeks ago on November 3, SJB, JVP and the Tamil National Alliance speakers in the parliament urged the government to call an all-party conference to confront the economic and pandemic crisis, promising their support. Both the government and the opposition parties fear an eruption of mass social opposition.