

# Sri Lankan government increases VAT and other taxes in a new round of social attacks

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On Tuesday, the Sri Lankan government sharply increased a range of taxes, driving up the cost of hundreds of items. These hikes will worsen existing inflation rates and push many more people into starvation. The already unbearable cost of essential food items has forced many workers and the poor to reduce the quality and quantity of basic foods, skipping at least one meal a day.

The cabinet-approved proposals presented by Prime Minister Ranil Wickremesinghe, who is also the finance minister, increases the Value Added Tax (VAT), income taxes and imposes surcharges on certain goods.

The prime minister's office estimates that these increases will add 300 billion rupees (\$US836 million) annually to the dried-up state coffers. Half of the amount is expected to come from the increase in VAT.

The new measures include:

- \* An immediate increase in VAT to 12 percent, up from 8 percent, and applicable to almost all products and services. The current VAT annual turnover threshold will be reduced from 300 billion rupees to 120 million rupees in October 2022, drastically hitting small businesses.

- \* The current levy on telecom services was immediately increased from 11.25 percent to 15 percent, driving up the cost of all telecommunications.

- \* The imposition of a 5 percent withholding tax on interest payments from savings, including pensioners' deposits. Pensioners over 60 years of age are exempted, but only up to 1.5 million rupees of their savings.

- \* The current 3 million rupees annual income threshold for Personal Income Tax relief will be slashed to just 1.8 million rupees, which means that tens of thousands more workers will have to pay tax.

- \* An increase in the corporate income tax rate from 24 percent to 30 percent, in line with other countries in South Asia, along with a 1 percent rise in the concessionary corporate tax applicable to some sectors, from 14 to 15 percent.

- \* Massive tax increases or surcharges were also imposed via a separate gazette on several imported items, including food, by branding them unessential. These include an 850 percent tax on butter, 250 percent on cheese, and 100 percent on other dairy products, 200 percent on chocolates and 100 percent on fruit juices, alcohol and tobacco. The cost of imported fruits, such as apple, oranges and dates, will be two or three times higher than current prices.

A 75 percent surcharge was also imposed on cosmetics and 25 to 50 percent on footwear and other imported goods, while basic electrical appliances, such as mobile phones, rice cookers and refrigerators, are now subjected to a 100 percent tax.

Justifying the harsh new measures, Wickremesinghe blamed President Rajapakse's previous government, headed by former Prime Minister Mahinda Rajapakse for reducing VAT, personal income and corporate taxes and increasing tax holidays. These reductions, he said, led to annual revenue losses of between 600 and 800 billion to the state coffers.

After being elected in November 2019, President Rajapakse's government announced some limited populist measures while granting huge tax concessions to big business. Rajapakse claimed these measures would "revive" the economy by attracting foreign investments.

The Sri Lankan economy, however, was battered by the COVID-19 pandemic, suffering a collapse of tourist income, and sharp falls in remittances and export earnings. The economic crisis worsened early this year with the US-led NATO war against Russia in Ukraine, resulting in spiraling oil prices, food shortages and supply chain disruptions. On May 18, Sri Lanka defaulted on a \$78 million interest payment for sovereign bonds, becoming the first country to do so in two decades.

Wickremesinghe's brutal attempts to cut Sri Lanka's fiscal deficit via higher taxes and other measures are in

line with International Monetary Fund (IMF) dictates. The *Daily FT*, the voice of Sri Lanka's business elite, praised Wickremesinghe's higher taxes, declaring, "It's payback time even though you are poorer."

The new measures were announced on the same day as Sri Lanka's latest official inflation rates were released. The annualised inflation rate for May climbed to 39 percent, up from 28 percent the previous month, and food inflation jumped to 57 percent from 45 percent in April.

As *Bloomberg* and other international business media outlets have noted, Wickremesinghe's austerity measures were imposed in preparation for the next round of negotiations with the IMF early this month for a \$3 billion bailout loan.

Next Tuesday, Wickremesinghe is expected to announce a 695-billion rupee "revenue collection" package with more austerity measures to follow. Power and Energy Minister Kanchana Wijesekera has declared that electricity tariffs will triple in the coming period. The cabinet is also expected to increase water tariffs.

The IMF is demanding drastic downsizing and privatisation of the state sector, as well as the slashing of social programs, including more cuts to public education and health. The cabinet is currently discussing how to reduce Sri Lanka's 1.7 million public employees by half or more.

On Thursday, Wickremesinghe met with the Joint Chambers leadership, who represent Sri Lanka's major business lobbies. According to a statement issued by his office, Wickremesinghe said the government was planning to claw back \$5 billion to repay foreign debts and another \$1 billion to bolster the country's reserves.

Even more vicious social attacks are being prepared against the Sri Lankan masses. Some indication of these measures were revealed by a World Bank spokesperson in comments published on the Voice of America website last Wednesday.

"The human development impact of the unfolding economic crisis [in Sri Lanka] is severe. The crisis has disrupted economic activities and households' capacity to afford basic necessities, including adequate nutrition... A worse-case scenario contraction in economic activity in 2022 and 2023 would translate into an increase of over 11 percentage points... with the resulting poverty rate close to 22 percent in 2023," he said.

Earlier this year, Central Bank Governor Nandalal Weerasinghe declared that the Sri Lankan economy in 2022 "will contract at a higher rate than in any other year

in history."

The pro-imperialist Rajapakse and Wickremesinghe regime is dragging the working class and the poor further into poverty and starvation. The opposition parties, such as the Samagi Jana Balawegaya, the Janatha Vimukthi Peramuna and the Tamil National Alliance, who support the IMF "reform" program, are continuing their empty criticisms of the government in order to hoodwink the angry masses.

The protests which erupted in early April and involved workers, youth and the poor calling for the resignation of President Rajapakse and his government, made clear that the masses will not tolerate the worsening social catastrophe. One day general strikes on April 28 and May 6 powerfully demonstrated the depth of working-class hostility and its social strength.

This movement, however, was politically blocked by the trade unions, backed by pseudo left groups, which directed it towards the official opposition parties and their calls for an interim parliamentary regime.

In order to fight the Rajapakse-Wickremesinghe government's deepening attacks, the working class needs an alternative socialist perspective. The Socialist Equality Party is the only organisation that has elaborated such a program. It calls for repudiation of foreign loans, the nationalisation of all major industries, estates and banks under workers' control, and the seizure of the wealth of billionaires in order to reorganise the economy and address the social needs of masses.

The SEP calls for the building of action committees in every workplace, estate and working-class suburb, independent of the trade unions and capitalist parties, to fight for this, and for a workers and peasants' government on a socialist and internationalist program.



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