The value added tax increase in Sri Lanka: A brutal attack on the working class

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On December 11, the Sri Lankan parliament approved a proposal to increase the Value Added Tax (VAT) from 15 percent to 18 percent, and also to include 97 essential items that were previously exempted. This move is a brutal attack on the entire working class.

In the parliament, 100 members of the ruling party voted in favor of the tax increase, while 55 members of the opposition voted against it.

The newly included items in the tax bracket include fuel, cooking gas and fertilizer, among others. The tax increase will raise the prices of a variety of essential goods by nearly 20 percent. This comes at a time when 68 percent of the population is already facing challenges in affording food, and the country is grappling with high levels of child and overall malnutrition. In this context, the tax hike will be exceedingly burdensome for the working class.

President Ranil Wickremesinghe, in his 2024 budget speech, proposed the tax increase to take effect from January 1, citing inadequate state revenue to meet international debt and interest payments. This follows the International Monetary Fund's (IMF) warning of a default on the second tranche of a $3 billion loan, as the current revenues were insufficient. The increase was approved by the cabinet in October.

Finance Minister Ranjith Siyambalapitiya stated that the tax increase aims to raise state revenue from 9.1 percent of the Gross Domestic Product (GDP) to 12.5 percent by 2024. He stated that 70 percent of the state revenue is currently needed to service debt interest. Despite a 51 percent increase in government tax revenue in the first nine months of this year compared to last year, it still falls short of the IMF's targets.

According to the calculations of the Ministry of Finance, the VAT increase will boost the government's revenue by 56 percent, raising the total income from LKR 2.851 billion in 2023 to LKR 4.127 billion in 2024.

Siyambalapitiya stated that inflation is expected to rise sharply due to the tax increase. Government statistics indicate that food inflation reached 90 percent in 2022, and overall inflation exceeded 70 percent, suggesting that prices have risen significantly and are unlikely to decrease.

State Minister of Finance Shehan Semasinghe, in a statement to the parliament, warned that if the VAT increase was not approved, there was a risk of not receiving the second tranche of the loan from the IMF.

The IMF's executive board approved the second tranche of the loan, amounting to US$337 million, after the VAT increase was passed. According to Verité Research, by the end of November the government had fulfilled 63 percent of the conditions recommended by the IMF.

The ongoing Israeli genocide in Gaza against Palestinians, as well as the war led by NATO powers, primarily the United States, against Russia in Ukraine, have exacerbated the global economic crisis, significantly impacting Sri Lanka's economy. The burden of these circumstances, along with the compliance with the IMF's recommendations, is being placed on the working class.

The United National Party (UNP), the National People's Power (NPP), and the Tamil National Alliance (TNA), among other opposition parties are in agreement with the necessity of the IMF's austerity program. They demanded a parliamentary debate to exploit mounting public anger against these harsh measures. Although a session was scheduled for December 10, it could not proceed due to the lack of a quorum.

The opposition parties, confirming their commitment to uphold the agreement with the IMF upon coming to power, claim that they would renegotiate the terms of the agreement to obtain concessions. The IMF, as a representative of international financial predation, engages in a process of entrapping countries in debt. Securing "concessions" is a fiction, which the opposition parties are employing in order to channel and smother mass opposition.

The working class must reject the claims of the trade union bureaucracy that pressuring the Wickremesinghe government or replacing it with another opposition party will alleviate the IMF-backed assault. Instead, workers should establish independent action committees as their own democratic power institutions in every office, workplace and residential area.

These action committees, in alliance with the international working class, should move forward to organize a Democratic and Socialist Congress of Workers and Rural Masses. This Congress would reject the debts incurred by reactionary governments, nationalize major banks, large factories and big plantations under the democratic control of the working class, and allocate the billions in wealth controlled by the capitalists for human need. Such a Congress would pave the way for a workers' and peasants' government, to reorganize economic life on the basis of socialism.

The working class is being diverted from such a program of action by the destructive actions of parties like the Frontline Socialist Party (FSP), which outwardly opposes the IMF's measures but fails to offer a genuine alternative to the capitalist system. This must be understood by the working class and all other oppressed sections of the population. The maneuvers of the FSP and other organizations only opens the door for the IMF to intensify its austerity measures.

In addition to the VAT, working people are burdened with a range of taxes, including import duties, income tax, special taxes on essential items such as food, and taxes on alcohol and tobacco. A new law mandating all citizens over the age of 18 to open tax files will come into effect in 2024.

Plans are also underway to privatize, sell or completely shut down 430 state institutions. The Cooperative Wholesale Establishment has already been closed, laying off 300 workers. In his 2024 budget speech, Wickremesinghe announced the sale of 20 percent of state banks. This aggressive privatization agenda is set to destroy nearly half a million government jobs, while the financial burden on the public services is expected to increase significantly.

The cabinet has approved plans to break up and privatize the Ceylon Electricity Board (CEB), a major state-owned institution, into 14 segments, with legislation for this expected to be passed in parliament next month. According to the Minister of Power, Kanchana Wijesekera, the CEB, which currently employs 26,000 workers, can be operated with just 5,000. This statement highlights the scale of the planned attack.

There are already reports of electricity being cut off to around half a million households that are unable to pay their bills. With the VAT increase, this situation is likely to worsen. Plans are also underway to increase water bills.

According to World Bank statistics, poverty in Sri Lanka has risen to 28 percent, indicating that about a third of the population lives below the poverty line, earning less than LKR 16,000 (US$49) per month. Government statistics suggest that a family of four in the country needs an income of over LKR 100,000 (US$307) to survive decently.

According to UNICEF, 2.3 million children in Sri Lanka are in need of humanitarian aid. The poorest segments of society, who were entitled to the Samurdhi welfare allowance, have also seen cuts under the austerity measures. The promised additional relief of LKR 10,000 for government employees, announced by Wickremesinghe to be given from April 2024, has already evaporated before implementation.

While these harsh measures are being implemented, large corporations and wealthy capitalists are receiving tax breaks and reductions in loans and interest rates. Corporate taxes are maintained at a rate of 30 percent for net profits, and significant tax reductions are being made for ports and airports. Numerous large-scale companies are receiving these tax benefits.

The wealth of giant corporations and affluent businessmen continues to grow. For instance, Dhammika Perera, one of Sri Lanka's wealthiest individuals, owns Vallibel One, whose net profit in the second quarter of this year increased by 4.5 percent compared to the same quarter last year, amounting to LKR 13.7 billion. This disparity highlights the growing economic inequality in the country amidst a dire financial crisis affecting the most vulnerable sections of society.

In the face of increasing poverty and social crisis, the government is resorting to harsh anti-democratic laws to suppress potential uprisings and discontent. The recent enactment of the Anti-Terrorism Act and social media regulations are examples of this trend. The police and military, along with the judicial and prison systems, are being used to quell protests and dissent, particularly from the working population and student youth.

However, the failure of last year's public uprising to achieve its goals raises significant questions for the working and oppressed masses. The lack of a socialist strategy and revolutionary leadership was a fundamental reason for its inability to overturn the oppressive capitalist system, as repeatedly emphasized by the Socialist Equality Party (SEP). The SEP invites workers, youth, and intellectuals to discuss these issues and join in building a genuine socialist movement.