

Proposal for Budget 2025

1. Improving Wealth Taxation

Wealth inequality is increasing globally; and one estimate suggests that the top 10% of Sri Lanka's population holds around 64% of the country's wealth¹. This disparity has necessitated the need to effectively tax wealth.

Table 01: Revenue Generated from Selected Taxes on Assets

Tax Type	Share of GDP	Share of Revenue
Assessment tax	0.06%	15% (Share of Local Government revenue)
Stamp Duties	0.36%	1.6% (Share of Total Revenue)
Capital Gains Tax	0.02%	0.3% (Share of Total Revenue)

Sources: Review of Financial Performance of Local Authorities, 2017; Annual Economic Review – CBSL, 2023; Annual Report - Ministry of Finance, 2022

We propose improving the efficiency of the overall tax administration and enhancing the effectiveness of existing taxes on assets as immediate objectives.

1.1 Data availability

- Digitise record keeping in the land registration department and revenue authorities to improve data collection, sharing, and administration including establishing a digital sales price and rents register with adequate data privacy protection measures. Best practices can be incorporated from cases such as Estonia's land registry system.

¹ <https://wid.world/data/>

- Develop and implement uniform templates for data collection and reporting for Local Authorities (LAs) and improve data sharing between the local and central levels.
- Consider implementing this through a digital platform for real-time information sharing such as the Goods and Services Tax (GST) network platform² in India.

1.2 Monitoring and compliance

- Use voluntary disclosure schemes to uncover hidden wealth and introduce measures to ensure whistleblower protection to encourage disclosure of information.
- Leverage digital imagery, such as Google Earth and Google Street View, to survey urban areas with higher concentrations of wealth and ensure adequate taxation. Implement simpler, cost-effective valuation method similar to India's unit area method to streamline valuation and reduce expenses. This method calculates property value by multiplying its area by a fixed unit rate determined by factors like location, land use, and market conditions.
- Make use of third-party reporting and cross-border information sharing initiatives like exchange of information on request (EOIR) and automatic exchange of information (AEOI), especially on high net wealth individuals.

1.2 Capacity and motivation of LAs

- Link staff salaries of LAs to property taxes by including these in the cost calculation. This will encourage authorities to improve revenue collection and reduce their reliance on the central government.

² <https://www.gst.gov.in>

- Equip LAs with necessary knowledge and skills, establish clear performance indicators, and incentivise efficient tax collection beginning in the Western Province. Ensure existing but inactive legal provisions for tax collection and penalties for non-compliance are enforced and publish regular performance reports to ensure transparency and accountability to the local community. These include:
 - Municipal Council Ordinance (1947) Section 252 (1)
 - Urban Council Ordinance (1939) Sections 163(9), 165A(4), 165B(3), 165D(2), 170(1)
 - Pradeshiya Sabhas Act (1987) Section 154(2), 158(1)

1.3 Improvements to the overall tax system

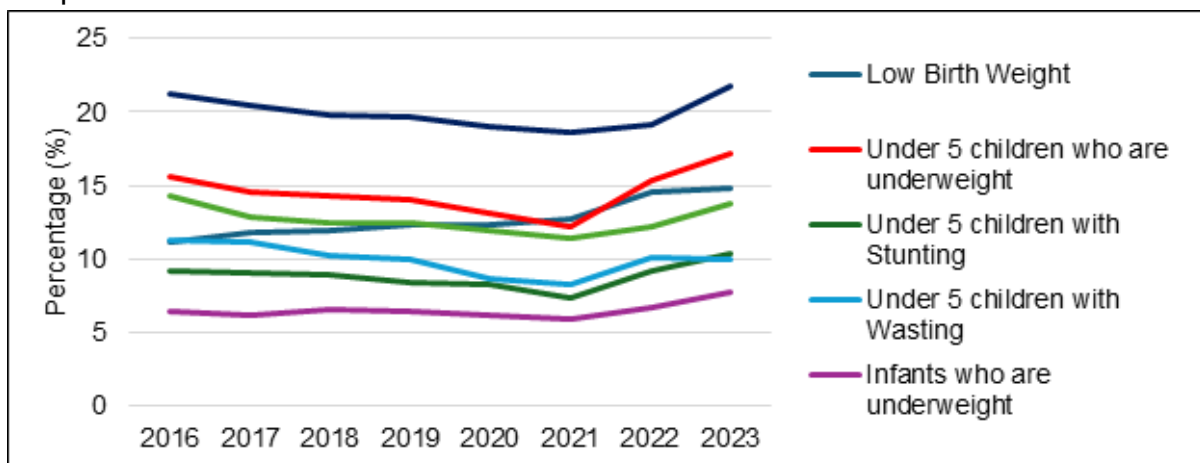
- To minimise inconvenience and cost of making payments, update the online tax registration and payment platforms to a user-friendly layout that is also compatible on mobile devices. And improve responsiveness of helplines for clarifications and account recovery support.

2. Addressing Malnutrition and Food Security

The economic crisis in Sri Lanka and the subsequent high inflation resulted in widespread malnutrition in the country. Inflation has since tapered, however access to food, particularly nutritious food items remain difficult for a large portion of the population. Child malnutrition is on the rise, and as indicated by recent data, there is an alarming reversal of gains made prior to the crisis.

In this backdrop, Sri Lanka’s trade policy – high tariffs which discourage the import of food items - hinders access to alternative sources of nutritious food items. It also greatly impacts domestic food production, which relies on imported raw materials that are also subject to heavy taxes at the border. Removing these barriers would have an immediate effect towards improving access and affordability of nutritious food items and contribute to improving domestic food production.

Graph 01: Malnutrition Indicators in Sri Lanka



Source: Family Health Bureau, Ministry of Health, Sri Lanka

2.1 Remove import duties (including para tariffs) and VAT on milk products including milk powders, butter and cheese.

- VAT from such products raise 6% of total VAT revenues. Import duties from such products contribute only 2% to total import taxes (excluding VAT). Removal of such will lead to better nutrition outcomes through improved affordability while having only a negligible impact on government revenue.

2.2 Remove import duties including and especially para tariffs on cereal imports including maize corn, wheat and rice.

- Import duties from these items contribute to 4% of import taxes raised, but the heavy duties levied on imported cereals which contribute to the production of food significantly raise the costs of livestock producers.
- 93% of the import tax revenues on maize corn comes from the Special Commodity Levy and 41% of revenues from wheat and meslin flour from the Ports and Airport Levy. These para-tariffs, generally implemented to promote local food production but instead inhibit it due to the high cost.
- The removal of these para tariffs will therefore improve domestic food production which will help improve food and nutrition security.

2.3 Significantly increase budget allocations to government nutrition programmes such as school meals, Thripasha and food vouchers.

- Greater resources for such programmes will directly combat malnutrition among vulnerable groups like children, pregnant & lactating mothers, disabled people and low-income households.

3. Enhancing Technical and Vocational Training

Sri Lanka's TVET system is essential for economic growth but faces a supply-driven approach that does not align with labour market needs. The Skills Toward Employment and Productivity (STEP) survey highlights this mismatch, with half of the firms surveyed being dissatisfied with TVET graduates. To improve trust and attractiveness, TVET courses must be tailored to market demands, boosting employability and earning potential, while industries can address skills shortages, enhance productivity, and remain competitive in a fast-evolving economy.

3.1. Quality of programmes

- Develop professional training programmes for instructors that emphasises industry experience and modern teaching methods, while offering competitive compensation.
- Upgrade training centres with modern equipment and advanced technologies in occupations such as Masonry, Carpentry, and Plumbing and integrate technologies of Building Management System (BMS).
- Streamline accreditation with clear criteria to ensure consistent quality across all providers, to enhance stakeholder confidence and international recognition.

3.2 Alignment with industry needs

- Involving industry stakeholders, such as employers, in designing and delivering training programmes by endorsing the curricula, providing trainers and upgrading competency standards.
- Establish robust labour market information systems to track skill gaps, monitor TVET performance, and update training strategies regularly.

- Encourage Industry Sector Skills Councils (ISSC) to facilitate collaboration between industries and TVET providers. ISSCs can help define sector-specific competency standards, bridge skill gaps, and ensure training outcomes meet employer expectations.

3.3 Addressing low enrolment and negative perceptions

- Conduct targeted awareness campaigns in schools and communities, highlighting the benefits of TVET and debunking misconceptions and stigmas.
- Introduce a robust school counselling programme on TVET career paths.
- Establish articulation agreements between TVET institutions and universities to allow graduates to pursue higher education.
- Establish direct connections between private sector and TVET institutions to provide internships, apprenticeships, mentoring programmes and recruitment pipelines.

3.4 Equity in access

- Implementing flexible and distance learning options can further expand access to TVET programmes.
- Enhance financial aid for TVET students by increasing National Apprentice and Industrial Training Authority (NAITA) funding to offer free courses for disadvantaged students, especially in rural areas and Expand scholarships, grants, and low-interest loans for those pursuing private training.

3.5 Recognition for Prior Learning (RPL)

- Integrate RPL into all training processes nationwide and implement a National Skills Development Strategy that includes the RPL model, offering recipients guidance and support beyond certification.
- Involve all stakeholders in the vocational training sector and conduct trainer training programmes for workplace trainers, guided by the National Apprenticeship and Industrial Training Authority (NAITA).
- To increase employer confidence, collaborate with industry stakeholders to ensure RPL assessments are aligned with current industry standards.

4. Improving Public Transportation System

Sri Lanka's transport system is overly reliant on private vehicles, causing severe congestion, pollution, and inadequate public transport access. Public transport accounts for only 40% of passenger share since 2019. With a growing number of private vehicles and a stagnant public bus fleet, issues like overcrowding, safety hazards, and limited accessibility for people with disabilities persist.

4.1 Overcrowding in buses and trains

- Provide low-interest loans and tariff reductions for the importation of modern buses, ensuring profitability for private operators without fare hikes.
- Reserve at least one-third of road space on major roads within dense urban areas for high-occupancy vehicles. This space should be designated for high-priority bus lanes on key routes like Galle Road (Route 100, 101, 02, 430 etc.), Kandy Road (Route 01, 04, 15 etc.) and the High level Road (Route 138, 120 etc.).
- Replace the out-dated route permit system with a transparent route permit awarding system.

4.2 Poor maintenance of vehicles and infrastructure

- Deploy low-floor buses, starting with SLTB, supported by interest subsidies for private operators.
- Upgrade train compartments and signaling systems to reduce delays and operational costs, ensuring reliable services for passengers.

4.3 Safety and accessibility

- Establish mandatory safety protocols, including maximum passenger capacities, staff training, and stricter enforcement of penalties for violations like sexual assault.
- Develop transport hubs with wheelchair ramps, hand railings, and accessible signage, ensuring inclusivity for passengers with disabilities.
- Address safety concerns through better urban planning, such as street lighting and pedestrian-friendly pathways near transport hubs.
- Task the National Transport Commission (NTC) with monitoring and enforcing compliance with safety and accessibility standards across all public transport operators.

4.4 Lack of regulation and coordination

- Implement live tracking, digital payment systems, and feedback mechanisms to streamline operations and improve user experiences.
- Develop connectivity hubs in urban centres to reduce congestion.
- Promote the touch travel card system for buses to resolve ticketing issues and encourage the adoption of similar technology for trains.