BUSINESS TURNOVER TAX SYSTEM IN SRI LANKA

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A.A. Wijetunga, B.A. (Ceylon)  June, 1980

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ABSTRACT

The business turnover tax was introduced in Sri Lanka over a decade ago as a measure both to recoup the declining revenues of the government and to provide additional revenues needed for development. Although the business turnover tax constitutes a major source of government revenue, comparatively little effort has been made so far to examine the subject in depth. This study therefore seeks to make a critical and more intensive survey of the operation of the business turnover tax and its role in the developing economy of Sri Lanka.

After a few introductory remarks on the nature and history of sales taxation, Chapter I examines in the historical perspective the evolution of the business turnover tax in Sri Lanka. The history of business turnover taxation is also traced up to 1976 with emphasis on the important revisions made in the law. The focus of Chapter 2 is on the role of business turnover tax as an instrument of development policy. The Chapter seeks to make an appraisal of the goals pursued by the government in the sphere of economic development and the effect of business turnover tax on the attainment of these objectives. In Chapter 3 the revenue importance of the business turnover tax and the trends in the revenue yield are examined. The dual structure of the economy, its vulnerability to fluctuations in international prices and the consequent decline of export and import revenues are briefly traced while the fiscal importance of the business turnover tax is analysed in the context of the bleak prospects for any expansion of revenues through other sources.

Chapter 4 analyses the manner in which the burden of the business turnover tax is distributed among the various sections of the community and the measures introduced to
reduce its regressivity. Chapter 5 deals with the business turnover tax administration focusing attention on the general administrative structure, the self-assessment system and the collection and enforcement procedures. Finally, with the current focus of interest in the value-added tax as an alternative to business turnover tax, the concluding Chapter analyses the feasibility of substituting a value-added tax in Sri Lanka and the potential implications of such a change.