

30 January 2023

Honourable Ranil Wickremesinghe
President of the Democratic Socialist Republic of Sri Lanka,
Presidential Secretariat,
Galle Face,
Colombo 01.

Dear Honourable President,

“A Virtual Evening with the President”

An invitation to join a Zoom session organised by CA Sri Lanka

In our standing as the national body of accountants, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) shares an important relationship with the Ministry of Finance and the Department of Inland Revenue. As practitioners, members of CA Sri Lanka also work closely with relevant departments in our joint efforts to enhance the taxation structure in the country.

We acknowledge that taxes serve as the primary source of revenue for the Government. Currently, Sri Lanka relies heavily on indirect tax revenue, due to a low number of individual taxpayers. As responsible citizens, it is our duty to contribute to the country we live in by paying taxes promptly and without defaults. However, it is also our view that the tax policy should not have a negative impact in the long term, and taxation must be in a manner that does not unduly burden the citizen's ability to afford a reasonable living standard.

Practical Problems Faced by the Public

We have received numerous complaints from stakeholders, including our own members, regarding the recent implementation of the tax policy. The increased personal income taxes has been particularly palpable, as evidenced by reduced take-home pay. This has become a pressing issue for many white-collar employees, particularly considering high inflation levels and higher interest rates. The combined effect of these factors has led to a substantial decrease in disposable income and will likely have a significant impact on various industries, including financial services.

Additionally, we have observed a migration of young professionals from the country. While international exposure and the opportunity to accumulate wealth can be beneficial for young professionals, the departure of even experienced professionals is causing a significant knowledge gap. This trend is likely to result in a critical shortage of human resources and a lack of necessary expertise to drive the sustainable growth and development of our nation.

We believe that the Government's recent tax policy change was not accompanied by an adequate communication strategy. Our stakeholders are also of the opinion that the taxes were increased without a corresponding plan to reduce Government expenditures.

Reduction of Government Expenditure and Transparency on Tax Spending

In this regard, we would like to suggest that the Government could also announce a strategy to reduce expenditures along with the revised tax policy. Although Government expenditure cannot be reduced overnight, it can be done within a reasonable period. For instance, public salary costs could be reduced by not replacing retiring employees, and loss-making entities such as the Ceylon Petroleum Corporation, Ceylon Electricity Board, and SriLankan Airlines could be restructured to reduce expenses over the next two years at least, while also taking measures to reduce Government bond-related interest expenditure which will result in a reduction to the tax burden.

If a well-communicated, structured plan is implemented with a reasonable timeline, the taxpayers are likely to extend their support without much grievance. In the meantime, efforts must also be made to expand the tax base, which would reduce the tax burden on a small segment of taxpayers.

We are certain that your Government has a rational plan under your leadership, however, this has not been effectively communicated to the stakeholders. Lack of communication and high tax burden has created room for misinterpretation and could result in civil unrest and possible tax evasion, leading to lower-than-expected tax revenue for the Government.

Therefore, our main intention as the national body of accountants is to request your good office to give reasonable trust to the general public on the effective use of tax revenue, support the Government's actions to reduce Government expenditure and the use of tax revenue in an effective way where returns can be gained in the long term. As such, it is vital to communicate the benefits and the future tax burden reduction.

Therefore, to fulfill this objective, we would be most grateful to you if you would agree to a Zoom session organised by CA Sri Lanka on a date and time convenient to you, in an effort to provide our stakeholders including members of the public in-depth information on the Government's vision and how it hopes to ensure a reduction of expenditure and enhanced transparency.

We look forward to a favourable response from you to our request.

Thanking you in advance,

Yours sincerely,

**THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF SRI LANKA**

S. Bandara

Sanjaya Bandara
PRESIDENT