

Toolkit for Tax Policy Analysis

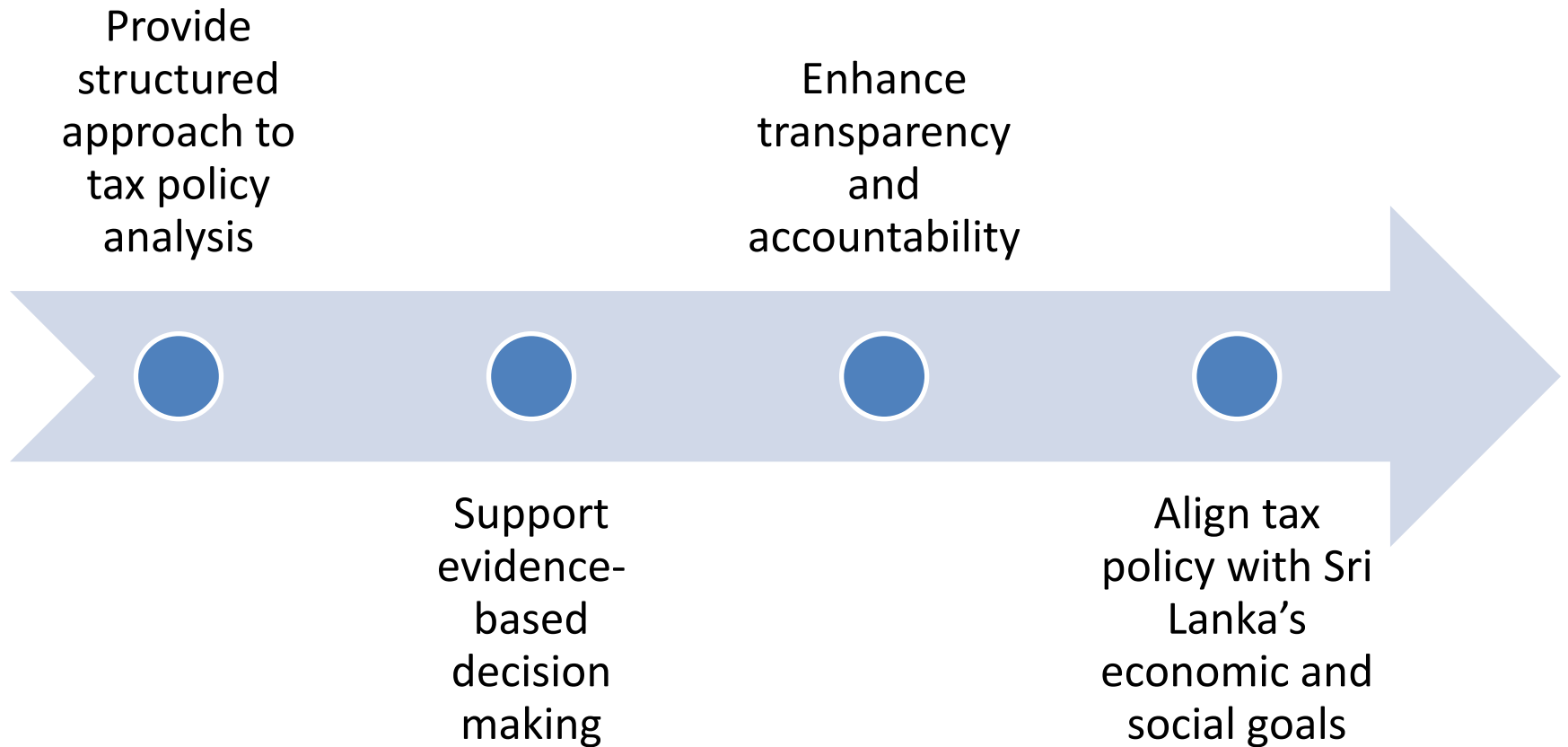
Strengthening Evidence-Based
Decision Making in Tax Policy (Sri
Lanka Focus)

By

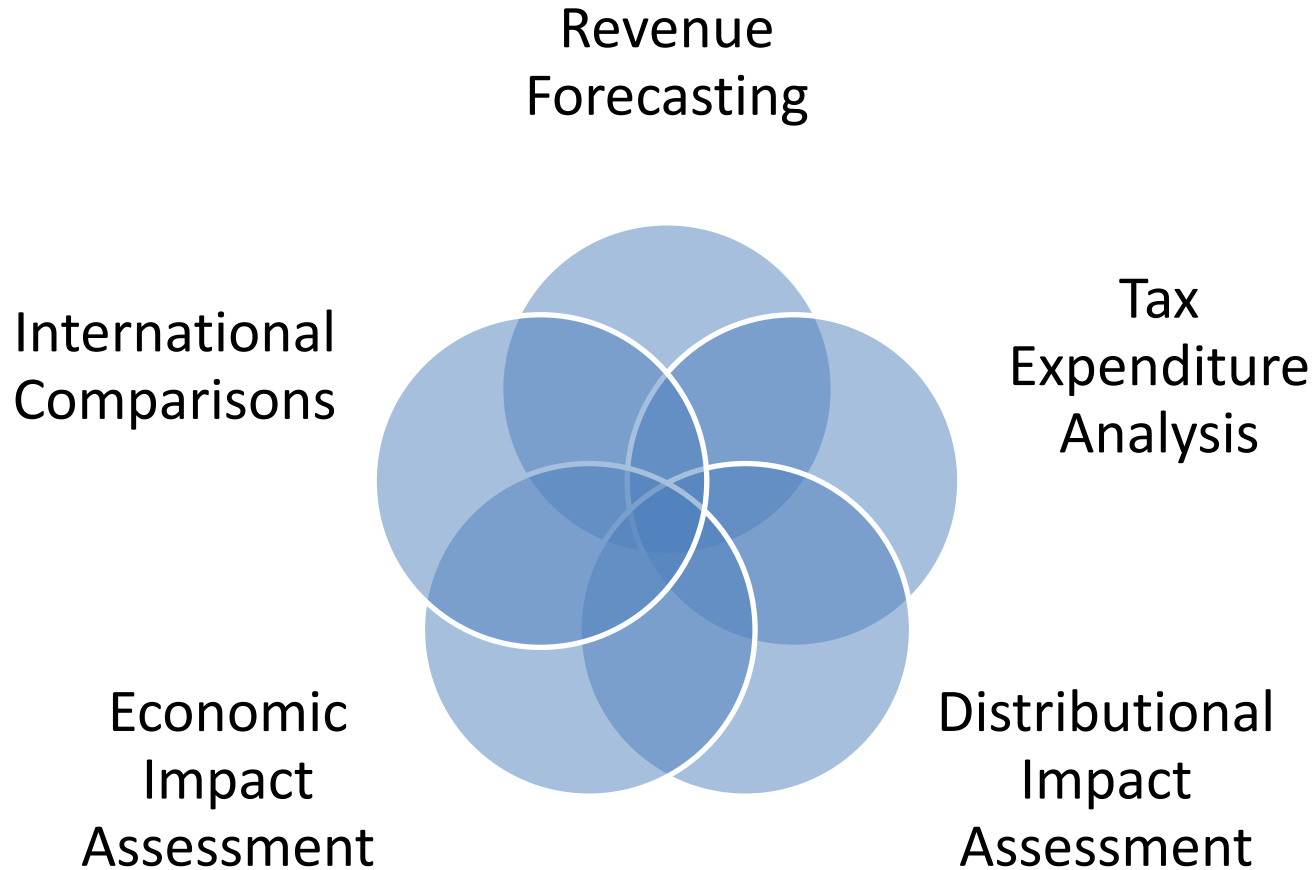
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Objectives of the Toolkit



Key Components



Revenue Forecasting in Sri Lanka

Trend extrapolation and macro assumptions

Behavioral analysis and experts' consultations

Improving compliance and efficiency

Need for realistic macroeconomic assumptions
(growth, inflation, imports)

Tax Expenditure Analysis (Sri Lanka)

High revenue cost of exemptions (e.g., VAT, CID, BOI concessions)

Estimation of foregone revenue of GDP

Ongoing reforms to rationalize incentives

Publish the tax expenditure statement with the budget.

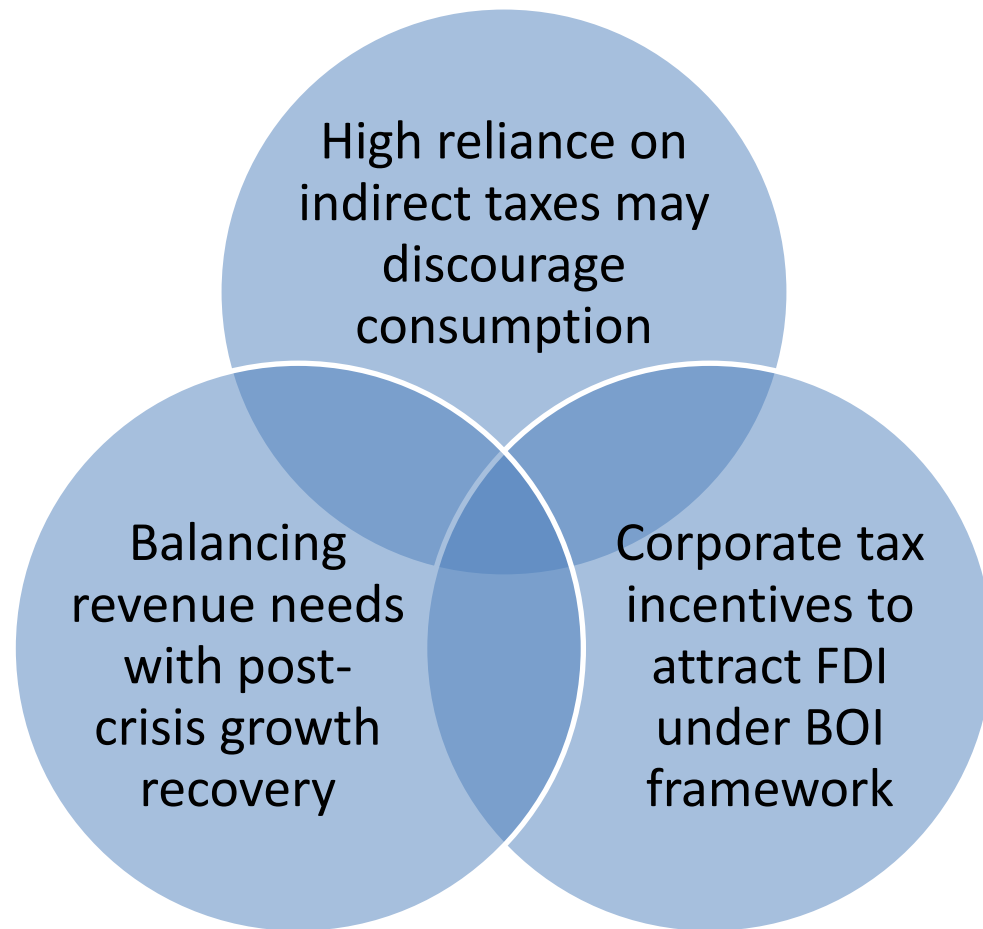
Distributional Impact Assessment

Indirect taxes affect lower- and middle-income groups disproportionately

Progressive income tax reforms introduced

Focus on protecting vulnerable households via social transfers “*Aswesuma*”

Economic Impact Assessment



International Comparisons

Sri Lanka's tax-to-GDP ratio (2025 est. 13.9%) vs. regional peers

Lessons from VAT reforms in peers

Need for stronger administration and compliance

Practical Applications

Ongoing Inland Revenue Act reforms

Broadening the VAT base and improving e-filing compliance

Using tax data to monitor equity outcomes

Using technology to enhance compliance

Challenges in Sri Lanka

Limited tax base and informality

Weak tax compliance culture

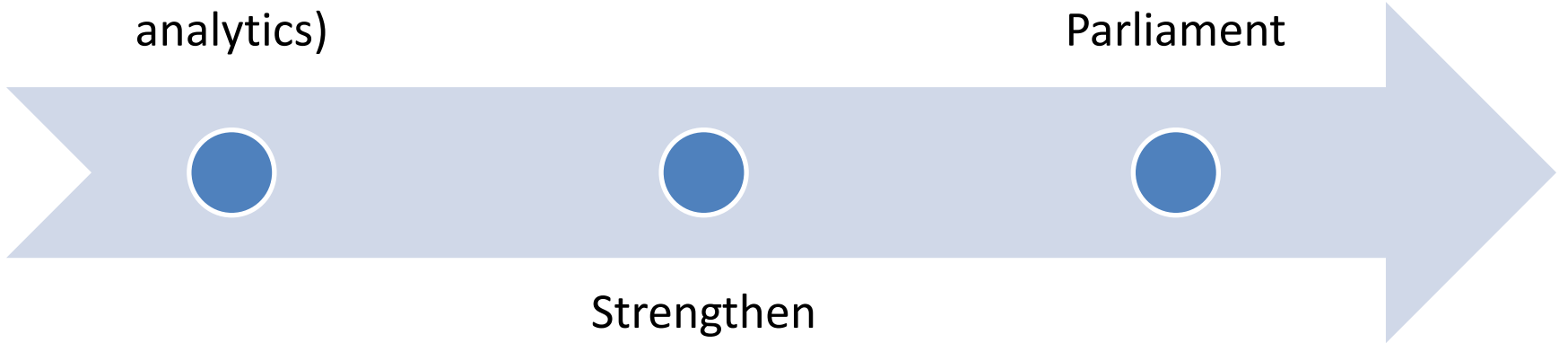
Political economy resistance to reforms

Way Forward

Enhance tax
administration
capacity
(digitalization, data
analytics)

Improve dialogue
between Ministry
of Finance, Inland
Revenue, and
Parliament

Strengthen
revenue
forecasting models



Conclusion



The END

Every Ending Has New Beginning

Thank You