## Toolkit for Tax Policy Analysis

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

By
W. M. D. Wijebandara
Director – Department of Fiscal Policy
Sri Lanka

#### Objectives of the Toolkit

Provide structured approach to tax policy analysis

Enhance transparency and accountability





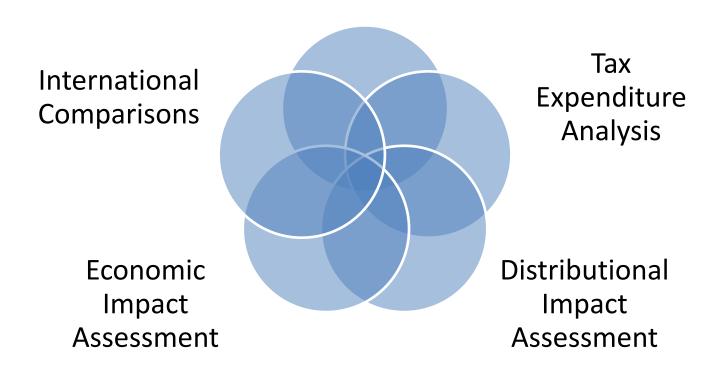




Support evidencebased decision making Align tax
policy with Sri
Lanka's
economic and
social goals

#### **Key Components**

Revenue Forecasting



#### 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**

High reliance on indirect taxes may discourage consumption

Balancing revenue needs with post-crisis growth recovery

Corporate tax incentives to attract FDI under BOI framework

#### 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

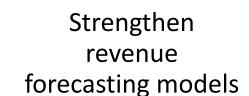
Weak tax compliance culture

Political economy resistance to reforms

## Way Forward

Enhance tax
administration
capacity
(digitalization, data
analytics)

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



#### Conclusion

Toolkit helps
Sri Lanka
design fair
and efficient
tax policies

Supports
fiscal
consolidation
and debt
sustainability

Promotes
equity,
growth, and
transparency

## The END

# **Every Ending Has New Beginning**

**Thank You**