

## Efficiency of VAT policy after 2005

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In economic terms, taxation transfers wealth from households or businesses to the government of a nation. The side effects of taxation and theories about how best the taxes are an important subject in microeconomics. Taxation is not a simple transfer of wealth. Economics theories of taxation approach the question of how to minimize the loss of economic welfare through taxation and also discuss how a nation can perform redistribution of wealth in the most efficient manner. Taxation has a long history. Early taxation is also described in "Tripitika, Pansiya panas jathakaya and Bible" and also we had to pay taxes under the colonialism and also after the independence. After 1977 most of these taxes became indirect taxes. Business turnover tax is offered to that and later the goods and services tax replaced the existed the BTT other than for certain specified financial and few other services. However, the turnover Tax payable to the Provincial Councils on the commercial activity of buying and selling still continuous. The turnover tax has several defects and disadvantages. And that time GST system has more advantages and is superior to the Turnover Tax System.

Later a new tax called value added tax (VAT) was introduced on 1<sup>st</sup> August 2002. As a low income country, VAT is the most important source of government revenue.

This research focused on VAT efficiency within the period of 2005 – 2007. The research was based on quantitative analysis through the secondary data. Sri Lanka's political system was changed after the 2004 with new vision. VAT policy efficiency shows a progress in tax policy.

**Key words:** Value Added Tax, Efficiency, Goods and Services Tax, Business Turnover Tax, Taxation.

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