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New IPS study explores impact of taxation on SMEs, calls for a better policy mix

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Tackling the twin challenge of providing a concessionary tax regime for Small and Medium Enterprises (SMEs) while aiming to expand the tax base will require a better policy formulation, argues a new study by the Institute of Policy Studies of Sri Lanka (IPS).

A recently launched Country Study for Sri Lanka is part of a wider study entitled 'Tax Policy and Enterprise Development in South Asia', which IPS conducted in collaboration with five other leading think tanks in the South Asian region. The study examines the impact on small enterprise development of tax exemptions and concessions, value-added taxes and property tax. A major finding on the tax concessions component was that the lack of awareness of SMEs is excluding many of them from benefitting from available incentives schemes.

The report highlights the importance for developing countries like Sri Lanka, which has a relatively small and unsophisticated private sector, to get the right policy mix with regard to SMEs. Co-author of the report, IPS Research Officer Raveen Ekanayake said: "This pioneering study finds that a majority of SMEs in Sri Lanka are misinformed with regard to the costs and benefits of tax compliance and are unaware of the tax concession available to them. Sri Lanka needs to focus more on creating better tax awareness and education amongst SMEs to increase compliance and formalisation."

Co-author of the Sri Lanka Country Report, former IPS Research Economist Anushka Wijesinha, stresses: "This study is unique because it is probably the first time in Sri Lanka that the tax agenda and SME agenda have been comprehensively brought together. Our findings have critical implications for the design of future policies and programs related to both tax and SME development in the country."

The regional study and country reports were funded by the International Development Research Centre (IDRC), Canada and were coordinated by the Governance Institutes Network International (GINI), Pakistan. The research aimed to analyse the effects of tax policy on the development of SMEs in the region. Manager Research, GINI Sabieh Haider points out: "The goal of the research is to provide decision-makers with data and insights to support more informed policy formulation and implementation for inclusive growth, productive employment and enterprise development."

The research also aims to examine these issues as they affect women entrepreneurs, promote positive learning experiences among countries, build fruitful exchanges and foster effective policy discussions in a

regional context

regional context.

The study adds to other recent IPS publications on SMEs - 'Banking on SME Growth: Concepts, Challenges and Policy Options to Improve Access to Finance in Sri Lanka' and 'Female Entrepreneurship and the Role of Business Development Services in Promoting SMEs for Women'. More than a decade ago the IPS provided the leadership to prepare the SME White Paper, which is one of the most comprehensive documents on the SME sector of Sri Lanka.

The Sri Lanka Country Study Report on 'Tax Policy and Enterprise Development in South Asia' can be found at <http://www.ips.lk/index.php/13-r-highlights/1216-country-study-report-on-sri-lanka-tax-policy-and-enterprise-development-in-south-asia>.

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