

TAXES AND SUBSIDIES ON THE PLANTATION SECTOR
AND FUTURE DIRECTIONS

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The plantation sector (Tea, Rubber and Coconut) in Sri Lanka is taxed firstly as a source of government revenue and secondly as source of funds to refinance subsidies.

The tax share from the plantation sector has declined over the years (45% in 1978 and 12% in 1988). In terms of quantity, it was Rs.946 million in 1981, and in real terms, it decreased to Rs.193 million by 1988. A determinant analysis indicated that of the 3 explanatory variables (viz. export quantities, FOB price and GSP) price had a significant (1% level) positive impact on tax collections for tea and rubber.

Over the years, production in the plantation sector has been declining or stagnating. An econometric analysis failed to establish that taxation had a negative impact on production and technology adoption. The percentage expenditure on subsidies from cess collections has declined over the years for tea (68% in 1983 and 41% in 1987). For rubber, it was more encouraging (64% in 1984 and 79% in 1987). However, for coconut, cess collections have been marginal and the subsidy component comprised of 30-60% of the total tax collections over the past decade.

To increase productivity and tax revenues, the plantation sector needs to be revitalized as a self-sustaining, self-managing commercial venture. As an initial step, the share of the cess that constitutes subsidies need to be increased. However, given that the relationship between the agricultural GDP on tax revenue is negative, the government cannot solely rely on the expansion of the sector, but must resort to discretionary changes in the tax-base/rate structure.