

EXECUTIVE SUMMARY

The Inland Revenue Department is assigned with a greater responsibility of mobilizing government revenue. The Department being the main tax administration authority in Sri Lanka, despite of having all sort of resources in carrying out its functions, has not been able to mobilize the tax revenue in its full potential and thereby failed to achieve the given revenue targets.

The narrow taxpayer base driven by the low number of registered taxpayers, lack of taxpayer education and counseling system and lack of proper taxpayer information management is identified as the root cause for the low tax revenue. The number of taxpayers registered with the Inland Revenue Department is stagnated for years leaving the number of tax files both the corporate and non-corporate, at a level less than 5% of the population.

The number of the businesses registered at business registration authorities such as the Office of the Western Province Business Registrar, Registrar of Companies, etc. suggests that the potential taxpayers would be much more than the registered. Thus, leaving a significant gap between the actual number taxpayers registered with the IRD and the potential number of taxpayers.

This project is aimed at recommending systems to overcome the problem of narrow taxpayer base. There are three components of the project namely, Taxpayer registration, Taxpayer education and the management of taxpayer information. These components are based on the idea that the taxpayers' compliance behaviors are resulting from their perceived personal norms. While forcing the willful non-compliant taxpayers, the lazy compliant and lazy non-compliant are required to be encouraged to be within the tax net through compliance. Thus, they would be encouraged through tax payer education.

At the first phase the businesses registered at the Office of Western Province Business Registrar and the Registrar of Companies which are not within the tax net are recommended to be brought within tax system by registering them in the Inland revenue Department

On the other hand, compliant are to be facilitated through better taxpayer service and providing them with instructions and counseling free of charge. The procedures to file the returns and make the payments should be simple and easy to access.

A central unit to manage the taxpayer information, called Central Information Unit (CIU) is recommended to be established. The information received from third parties including the information provided by the taxpayers should be manage in a prudent manner. Identification of new registrants who are not within the tax net and collecting and dissemination of the information and details relating to the existing taxpayers are recommended to be done through the CIU. These details are to be utilized in assessing the correct tax liability of the taxpayers and thereby enhance the tax compliance.