

Executive Summary

The Inland Revenue Department (IRD) is the second highest tax revenue collector to the government of Sri Lanka. Banking and Financial Services Unit (BFSU) is the largest corporate tax unit in the department, which contributes the largest proportion of tax revenue.

The key problem identified for this project was the under performance in the mechanism and practices adopted to monitor and evaluate Value Added Tax (VAT) on Financial Services (F S) monthly payment system. The VAT on F S revenue collection has not been increased significantly in proportion to the exponential growth in the financial services sector and stability in the country. Further, the IRD has also failed to collect potential revenue from VAT on F S and improve monthly payment compliance which is at fifty percent at present.

The literature reviewed on the theoretical background of the identified problem could be of assistance to find key components which needs to be addressed in order to solve the problem. The study framework was conceptualized for this project based on the literature reviewed. The key project components were identified under three drivers namely, process improvement by establishing compliance risk management processing model, automation of VAT on F S function, and capacity building through conceptual, technical and system applications skills for IRD staff at BFSU and other compliance units as well as conducting seminars for financial sector institutions.

The project objectives, key project components, resource allocation, cost estimates, and cost-benefit analysis were the major drivers of the project. The results with outputs and outcomes were discussed under project components including current situation analysis. This project is expected to be implemented from September to November 2018. The automated compliance model with monitoring and evaluation for VAT on financial services payments and returns would go live with integrating the IT infrastructure project of RAMIS.

The project will be using proposed simplified monthly payment estimation formula based on employee remuneration aligning with PAYE in the RAMIS. The author and the project team would get involved in implementing this project successfully.