

Executive Summary

Governments undertake a considerable amount of projects for the development of the country. These can be in the form of capital and recurrent expenditure. All the public investments are being initiated only by the government as the private sector has hardly any involvement in them. To meet the government expenditure, the government needs money in billions, as a developing country. Taxes are imposed to collect revenue to meet the expenses borne by the government. Although there are several means of raising revenue, tax collection is free from other adverse effects to the developing economy. So the government is in the process of taking measures to increase tax revenue in the future to expedite the development process.

The purpose of this project is to propose an automated system to collect revenue, as tracking potential taxpayers and getting accurate information from the registered taxpayers are the hardest tasks the Department of Inland Revenue encounters. This solution of establishing an automated system was selected by doing a SWOT analysis as well as PESTEEL analysis for the whole department and conducting interviews with the top managers and analyzing the statistics maintained in the corporate and other income tax branches on return submissions and tax payments.

The proposed system will be linked to all the institutions of high importance which carry out financial transactions, such as supermarkets, airlines, Department of Motor Traffic, Department of Customs, Land Registry etc., and when a transaction takes place, it will be recorded online in the proposed system. When a tax officer wishes to determine tax liability of a person, the tax liability will be calculated on the summation of the transaction value. In addition, interest earned by one person from all the banks will be triggered by the proposed system. Vehicles used and the lands acquired by one person will be taken into consideration when the tax liability is calculated.

As this system will only be implemented for the Income Tax, the importance of other taxes will be less, as a significant amount of revenue to meet the government expenditure will be collected from Income Tax. Business transactions entered into with the businesses which have not

switched to this online system, cannot be traced and not taken for calculation of the tax liability. Categorization of sources of income may be difficult in some occasions as they are done online. If the property in which the real values cannot be determined, will create an issue in considering tax calculation.

The proposed project was divided into three main components such as current situation analysis, awareness and automation for ease of carrying out the tasks with the teams set, with different responsibilities. The cost was estimated for all the components. The outcomes of the project would be to have a fully automated online system for revenue collection, to track potential taxpayers automatically and to earn a good recognition for the department, as it will achieve the best possible target from that point onwards. By introducing the system there will be more intangible benefits such as saving time of both the officers and taxpayers, automatic identification of all the potential taxpayers, the saved time of the officers will be utilized in identifying new areas of taxation, stationery cost will be minimum and paperless environment will be gradually built, less staff will be recruited in the future and the department will earn a good recognition as, it will be able to provide a significant tax revenue to the government to meet its expenses.

There are some recommendations to be made to ensure smooth running of the system. Tax law should have to be made simple while eliminating tax incentives and tax concessionary rates. The tax rates should be made lower, as the tax net is broadened. Loopholes in tax legislations should be corrected and altered to resolve disputes and the system should be programmed with the corrected and loophole free tax laws which are being implemented. Changing attitudes of the school children will also be taken into consideration and the school education should be enriched with mechanisms to have the attitudinal change of the future generations.