

EXECUTIVE SUMMARY

The Department of Inland Revenue (IRD) is still facing a higher tendency of noncompliance among taxpayers. Thus, this study attempted to investigate one of the underlying reasons for noncompliance behavior and what extent the complexity in the income tax system had negatively impacted on return and payment tax compliance.

The purpose of the study was to scrutinize whether there is a connection in between the complexity in income tax system and the continuing tendency in declining of tax revenue and taxpayer compliance. Further, it intended to suggest possible ways to reduce the complexity in the income tax system. The four objectives of the study lead the study towards its purpose. The both sources of data were used for the study. Primary data was gathered through telephone, face-to-face interviews and discussions with forty participants. Secondary data was gathered from Inland Revenue Acts, regulations and rulings, performance reports, other public and private institutional information and from various researches and studies relating to the subject.

When analyzing the data it was found that some factors, which were stimulated by both, tax law and procedure complexities, had adversarial affected on tax compliance. These findings included increasing the cost of compliance, reducing the fairness in the tax system, tax avoidance and evasion, errors and mistakes in the tax documents, complications in tax administration and burden on authorized for representatives. These findings suggested that the tax complexly is a contributing factor towards noncompliance behavior among the taxpayers.

The tax experts all over the world are of the view that there is a room for simplification of tax systems at some extent. Therefore, at the end of the study a key recommendation were made to establish a powerful presidential commission with the premier objective of simplification of Income tax system. Further, it was made some recommendations, which should be considered by the suggested commission. They included establishing of consistence tax policy, Quality tax payer service, Simplification of tax procedures and tax documents, reducing the heavy burden lies on small business holders, imposing a simple tax for informal sector, do away with “one size fits all” approach and reducing the discretionary inconsistencies in tax administration. A simplified tax system would enhance the voluntary compliance creating a good relationship between taxpayers and tax authority.