

## **Executive Summary**

This management field project was endeavored to recommend solutions to increase the income tax return compliance on due date in the Small and Medium Enterprise (SME) sector. Income tax is a main revenue contributor to the direct taxes of Sri Lanka. Return compliance is a first and foremost obligation of the registered tax payers and also important activity in tax administration process of Inland Revenue Department. Small and Medium Enterprise sector represents a significant number of registered tax payers to the income tax. Therefore, return compliance of SMEs is more important to the Inland Revenue Department.

This study was carried out in order to recommend solutions for low income tax revenue compliance in the SME sector. Secondary data were used to find out the performance gap of the income tax return compliance in the SME sector. Additionally, brainstorming sessions and discussions among the project team and expert officers of the department were carried out to identify the current situation of the problem and it revealed that the SMEs are less tax compliant in compared to large scale tax payers. Root cause analysis and secondary data analysis were done accordingly and provided a clear picture of the problem.

According to the above analysis and literature, project components were identified. Process improvement to simplify the SME sector return filing process and information and awareness on recurrent income tax law and procedures were identified as project components. Under the project improvement, simpler income tax return form for smaller businesses compared to the standard form, introduction of simple income-expense calculation for smaller businesses and introducing “One Entry Point” to provide consultation and services for SMEs were identified as sub components. Information and awareness included information seminars and sessions on recurrent income tax law and procedures and disseminate required information through printed media.

Accordingly, recommendations were given to implement the above components to achieve the project objective of increasing income tax return compliance in SME sector.