

EXECUTIVE SUMMARY

The annual performance report 2016 of the Department of Inland Revenue shows that there were only 23,373 SME tax files. Further, their contribution to the total tax revenue was 2.08%. Moreover, their due date income tax return compliance rate was recorded as 53% in the same year. These statistics provided an indication of contemporary issue of low tax contribution to GDP by SMEs. The project "Increase income tax contribution to GDP through enhancing tax compliance in SMEs" aimed to overcome this issue.

The theoretical background of the problem was utilized as an approach to find the ways to resolve the identified problem of low income tax compliance of SME sector. Study framework of the project was designed according to that.

The project identified four components including the current situation analysis. The current situation analysis was used to identify the performance gap while other components of training, process management and communication used as combination tools of this field project to resolve the problem.

The simplification of the existing income tax return and increasing the number of tax audits were recognized as the major process improvement areas. Further, for the purpose of handling all tax issues which relevant to the SMEs, a new branch was established and it named as SME branch.

On the other hand, it was identified that training on SME taxation and auditing is the essential factor which is directly affected to tax administration performance in the training stage.

Finally, the project was recommended to simplify the income tax return by evaluating the weak areas and recommended to increase the number of SME tax audits based on the proposed tax compliance ranking system. Furthermore, it was recommended to establish SME branch with technological advancement to create friendly tax environment culture. And also, the project was recommended to do training need analysis at individual to improve the tax knowledge of IRD officers for the purpose of delivering excellent service to the taxpayers.