

Executive Summary

Taxation system of a country is a major determinant of macro-economic policy and sustainable economic growth. Government revenue is a very important factor in this concern. Currently Sri Lanka's fiscal and taxation system is at a critical stage. End of the 30 years civil war situation, country has entered in to new era of growth and development challenges are in various levels.

Commencing with the analyzing the functions of tax system, it identifies the low contribution of direct taxes compare to the indirect taxes. This study identified the current tax portfolio and main two taxes as direct and indirect taxes and their components. Current contribution ratio is 20%-80% to total tax revenue and in this context, the composition of tax revenue reveals the preponderant role that indirect taxes play in the tax system in Sri Lanka in relation to direct taxes and the necessity to change the proportion to a more realistic figure.

Purpose of this study is to prepare a platform for defining a policy framework to have an effective revenue collection system of direct and indirect taxes. This can be useful to achieve the governmental revenue goals and fulfill the goals of taxpaying community with more effectively and efficiently with better satisfaction. To analyze the existing policy and to identify the factors that can be used to improve existing policy that will serve both the government and taxpaying community.

The study was done based on primary and secondary data collected from various sources. Questionnaires and Interviews were used as primary data and performance reports, handbooks, and other publications of Department of Inland Revenue are used as secondary data. Interviews were held with relevant authorities for gathering information and data. As well, a questionnaire was prepared relating to this topic for collecting data.

It was able to understand some reasons in macro level for low contribution of direct taxes and at the micro level, this study identified issues such as tax administration issues, requirements of structural changes, training and development of the staff, unsatisfactory tax base, improvement of audit and investigation, lack of coordination among the revenue departments, lack of modern technology etc. Discussion was mainly focused on above factors and recommendations for improvements with time line and responsible persons were discussed.