An Evaluation of the effect of Information Technology Usage on Tax Compliance in Sri Lanka

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Abstract

Taxation is a common way of finding government revenue in any country in the world and it is usually collected from the public in various ways. Taxes are of two kinds, namely direct and indirect. Adam Smith, the famous economist, enunciated four principles of a tax, namely, equality, certainty, convenience and economy. Equality establishes the principles that everybody should pay tax to the State according to his ability. A tax should be certain. Time of payment, manner of payment, and the amount to be paid should be definite and known. Tax payers should be provided convenient method of payment and it should be time saving and less costly to both tax payer and tax authority.

In the modern world, there are uncountable numbers of monetary transactions. People have various types of sources of income than the past. So the maintenance of the above tax principles is very difficult by using manual systems. IT usage is obviously important in every area in taxation to enforce compliance and minimizing the number of defaulters.

Tax compliance is an important concept in taxation. Tax compliance drops because of many reasons affected to the efficiency of the revenue administration. IT usage of the tax authority and the taxpayers is one of the reasons that may increase the tax compliance by way of providing timely information, better communication facilities and easy payment methods etc to tax payers as well as to automated office facilities to the revenue staff.

This research examines the present situation of the IT usage in the Department of Inland Revenue and how IT is used in handling tax and related documents by the tax payers. The report contains hypothesis testing for the relationship between IT usage and tax compliance and concludes with recommendations to the future enhancements of IT applications in tax administration.

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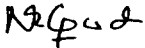
Declaration

I certify that this thesis does not incorporate without acknowledgement any material previously submitted for a degree or diploma in any university to the best of my knowledge and belief it does not contain any material previously published, written or orally communicated by another person or myself except where due reference is made in the text. I also hereby give consent for my dissertation, if accepted, to be made available to outside organizations.

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Date:... 11 / 01 / 2007 ....

To the best of my knowledge, the above particulars are correct.

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Prof. N.D. Gunawardena
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Date: 11 / oc / 2007 ....

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ABBREVIATIONS

ADB – Asian Development Board

ATM – Automatic Teller Machine

ATO - Australian Taxation Office

CGIR – Commissioner General of Inland Revenue

EDI - Electronic Data Interchange

EFT – Electronic Fund Transfer

ELS - Electronic Lodgment Service

EU – European Union

FMRP - Fiscal Management Reform Program

GDP – Gross Domestic Product

GPRS – General Packet Radio Service

ICT – Information Communication Technology

IFB – Invitation for Bids

IRD - Inland Revenue Department

IRIN - Inland Revenue Interactive Network

IRS - Inland Revenue Service

IT- Information Technology

LAC – Latin American Countries

OECD – Organization for Economic Cooperation and Development

PAYE – Pay As You Earn

PKI - Public Key Infrastructure

PSMP - Public Sector Management Project

SMS – Short Message Service

TCMP - Taxpayer Compliance Measurement Program

UK – United Kingdom

UNPAN – United Nations Public Administration Network

VAT – Value Added Tax