Factors influencing on Tax Revenue collection: Perception from the Tax payers in the Batticaloa District.

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1. Background of the Study

Sri Lanka is divided into nine provinces and twenty-five districts. The district of Batticaloa occupies the central part of Eastern province. Batticaloa district account for 3.8% of the country's total land area. According to the census taken in 2011, Batticaloa district has a population of six hundred thousand. The economy of the Batticaloa district is depending mostly on Agriculture and Fishing. A number of industrial establishments are mainly located in the Batticaloa town and Kattankudy D.S division. There are some well-known tourist destinations in this district. This district is divided into 14 administrative divisions. Manmunai North, Eravur patru, Manmunai South and Eruvil patru are the most populated divisions in this district. Batticaloa Town area, Kattankudy, Eravur Town area and oddamavady are very famous areas for business. The total number of registered business entities functioning in Batticaloa district is estimated as 11062. (District Statistical Hand book, Census and Statistical Department,Sri Lanka 2018). Industrial, trade and service entities are included in this amount.

Due to the civil war, this district was severely affected. A 30-year long war destroyed natural resources as well as human resources of this district. All the sectors, including business sector had been affected. In 2004, tsunami killed more people in this area and destroyed more natural and man-made resources. The war ended in 2009, and the normalcy began to prevail in this district. Business activities started to increase. Several establishments from various part of the country began to initiate their business activities in the Batticaloa district. Financial institutions started to provide financial assistance to the local businessmen. Employment opportunities and the Income level of the people of this district started to increase. In this geographic and economic background, let us have a look on the tax system of Sri Lanka.

Taxes are what we pay for a civilized society (Justice Oliver Wendell Holmes). Government must pay for their programs. The funds come mainly from taxes, and any shortfall is a deficit that borrowed from the public. In taxing, government is in reality deciding how to draw the required resources from the nation's households and businesses for public purposes. The money raised through taxation is the vehicle by which real resources are transferred from private goods to collective goods (P.A.Samuelson 2011). In Sri Lanka, government receives its revenue from various sources. One of the sources is tax revenue and the other is non-tax revenue. In 2018, the total government revenue was Rs. 2217,200 million. Of which, tax revenue was Rs.2034,000 million and non-tax revenue was 183,200 million. This shows that nearly 92% of the government revenue is collected from the taxation (Annual Report, Central Bank of Sri Lanka 2018). In Sri Lanka, taxes are classified as Taxes on Income and Taxes on Production and Expenditures. Of the total tax revenue, in the year of 2018, 18.2% of the tax revenue is collected from Income Tax and

81.8% of the tax revenue is collected from the taxes on Production and Expenditures.

In Sri Lanka, Inland Revenue Department is the authorized institution for the tax collection on behalf of the government of Sri Lanka. The headquarters of this department has been located in Colombo. It has some regional offices in various locations of the country. There is a regional office in the Batticaloa district. These regional offices have been executing their activities regarding the collection of direct and indirect taxes in their respective areas. In Sri Lanka, income tax is composed of the following three of taxes. They are Personal income tax, corporate income tax, and tax on interest income. Cooperate income tax is imposed by the government on the income of companies or legal entities. Personal income tax is imposed on individuals that vary with respective income or profit (Taxable Income). Tax on interest is related with the tax imposed on interest income of savings account kept on commercial banks and other financial institutions. Taxes on Production and Expenditure are consisted of the following taxes. They are Value Added Tax, Selective sales taxes on cigarettes, liquor and other items, and import duties.

This study focuses on the factors that influence on the tax collection in the Batticloa district. For the sake of convenience in collecting Information and data, only the personal income tax payers and VAT payers of the Batticaloa district are included in this study. Since the 1980s, a large number of developing countries have been in the process of making reforms in their financial and government sectors. Reforms were introduced because of the increasing need to raise more revenue through tax and reduce the revenue leaks. In order to fulfill this task, studies should be made on the factors which influence the tax revenue collection of an economy. Hence, this

study has been carried out in the Batticaloa district for the target of examine the factors which influence the tax revenue collection.

2. Research Problem

According to the annual report of Central Bank of Sri Lanka, the total tax revenue as a percentage of GDP (Tax-to-GDP ratio) in Sri Lanka was around 20% in the late 1970s. However, in recent years, this ratio has been declined and fluctuated in time to time.

Table 01. Tax-to-GDP ratio

Year	% of GDP
2011	12.9
2012	12
2013	11.6
2014	10.1
2015	12.4
2016	12.3
2017	12.4

Source: Annual Reports, Central Bank of Sri Lanka 2011-2017.

In OECD countries, this ratio has been in different level. In 2015, the average tax-to-GDP ratio was 33.7%, in 2016, it was 34.0%, in 2017 it was 34.2%. In 2017, in Canada, it was 32.2. In Germany, it was 37.5. In the UK, it was 33.3. In the USA, it was 27.1 (Revenue statistics 2018, OECD). This shows that in Sri Lanka, the annual collection of tax revenue and the efficiency in collecting of tax are in lower level.

The factors, causing for the lower level tax revenue collection in developing countries have been identified by researchers. Some of them are following. Administrative inefficiencies, lack of general sensitation, Political interference, corruption, tax evasion, absence of enough relevant information about taxes, lack of auditing of tax revenue returns and drafts, lack of enough tax education, tax incentives on revenue collection, tax

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exemptions, tax avoidance and evasions, and tax rates. These are the common factors which influence on tax revenue collection in the developing countries. Considering all the above factors for the research in the Batticaloa district is not appropriate. So the researcher considers only four main factors which influence the tax revenue collection. They are the tax payer's attitude of tax evasion and avoidance, present information and communication technology facilities that are used by the Inland Revenue Department of Sri Lanka, the level of tax incentives/exemptions provided by the government of Sri Lanka, The attitude of staff of Inland Revenue Department of Sri Lanka. So, the research problem is, to what extent these four factors influence on the tax revenue collection in the Batticaloa district.

3. Research Objectives

The main objective of this research is to examine to what extent the tax revenue collection in the Batticaloa district is influenced by various factors. Following are the sub objectives of this study.

01. To find out the extent of the influence of the tax payers' attitude of tax evasion and avoidance on tax revenue collection.

02. To find out the extent of the influence of the present Information and communication technology facilities of Inland Revenue Department used on tax revenue collection process.

03. To find out the extent of the influence of tax incentives/exemptions provided by the government.

04. To find out the extent of the influence of the attitude of the staff of the Inland Revenue Department on the tax revenue collection.

4. Research Questions

01. To what extent the tax payers' attitude on tax evasion and avoidance influence on the tax revenue collection?

02. To what extent the present Information and communication technology facilities used by the Inland Revenue Department influence on the tax revenue collection?

03. To what extent the tax incentives/exemptions provided by the government influence on the tax revenue collection?

04. To what extent the attitude of the staff of the Inland Revenue Department influence on the tax revenue collection?

5. Significance of the Study

The researcher of this study will be able to bring out the main factors which influence on the tax revenue collection in the Batticaloa district. At the same time, this study measures the extent of impacts of these factors on the tax revenue collection of this area. Business community, households, government officials, Staff of the IRD, Intellectuals, and other researchers on the government fiscal operations could be benefited by this study. Ministry of Finance, Inland Revenue Department, policy makers and the other relevant authorities will be able to identify the problems regarding the tax collection. The findings of this study will be useful to them in overcoming these problems and eliminating the shortcomings in tax collection.

6. Literature Review

A number of research studies were reviewed by the researcher. "Factors Influencing Tax Revenue in Ethiopia" (2017), a research done by Daniel Regasa was reviewed. The above study has indicated a set of factors which influence the tax revenue in Ethiopia in short run and long run. The findings are: GDP per capita income and exchange rate in the long

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run, have a positive and significant effect on the tax revenue. In the long run, Inflation has a negative and significant influence on tax revenue. Real GDP Per capita income and urbanization rate have a negative effect in the short run. Agricultural value added share of GDP and the exchange rate in short run have a positive effect. Ogeatum Julius in 2015, presented a thesis for the partial fulfillment of the requirement for the award of MBA in Makerere University, Uganda, titled "Factors Affecting Local Government Revenue Collection: Case study of Soroti Municipality". The results of the study says, that the Administrative inefficiencies, Lack of general sensitization, political interference, corruption, tax evasion, absent of information, and some other factors in various range influence on the revenue collection. Paul Mbithi Muia submitted a research proposal in 2017 for the Postgraduate Diploma in Tax Laws and Administration of school of the Kenya school of revenue administration titled "Factors affecting Tax Revenue Collection in Kenya: A case study of Kitui County. The following factors which influence on the tax revenue collection in Kenya have been identified by the researcher. They are Tax incentives, Tax exemptions, Tax avoidance and Tax rates. Another literature, studied on Kenyan taxation also reviewed by the researcher. The author of the study is Wanjiru Commande. He found that the political situation, Policies of policy makers, Kenyan authorities' support system are the main factors which played a significant role in the revenue collection.

7. Methodology

7.1 Sample size and distribution

The total number of tax payers identified in this district is 2637. 150 tax payers were selected as sample, based on the ratio of tax payers of each Divisional Secretariat Division. Sample distribution follows.

Table 02. Sample size and distribution

No	DS Divisions	No.of Tax Payers	Sample size
01	Manmunai North	488	28
02	Manmunai South & Eruvil patru	124	07
03	Eravur Town	224	13
04	Eravur Patru	182	10
05	Kattankudy	529	30
06	Koralai Patru South	218	12
07	Koralai Patru West	129	07
08	Korali patru Central	276	16
09	Manmunai Patru	117	07
10	Porathivu Patru	54	03
11	Manmunai South West	79	05
12	Manmunai West	121	07
13	Korlai Patru	55	03
14	Koralai Patru North	41	02
	Total	2637	150

7.2 Data Collection

A structured questionnaire prepared in Lickert scale was mainly used for the primary data collection. Interview and discussion also used for the primary data collection. Secondary data were collected from various reports of the Inland Revenue Department of Sri Lanka, Annual Reports of Central Bank of Sri Lanka and Census & Statistical Department of Sri Lanka. The questionnaire used for the collection of primary data contained statements regarding both personal and research data. Four main variables are identified as independent variables. They are, Tax payers' attitude of tax evasion and avoidance, the present information and communication technology facilities used by IRD, the level of tax incentives and tax exemptions and the attitude of staff of the IRD. The factors influencing on the tax

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revenue collection is considered as dependent variable. Statements regarding to these variables were given in the questionnaire and the responses from the tax payers were collected.

7.3 Method of Data analysis and Evaluation

The data collected from the tax payers through the questionnaire were analyzed using univariate analysis. The latest version of SPSS package was used to derive the mean value. The Likert's scale is given 1-5 to each indicator in the questionnaire. Based on the value indicated in the questionnaire, the average value for each indicator is considered. The average (mean) value will lie between 1-5.

7.4 Decision Criteria

Table 03. Decision Criteria

Degree of Influence	Range
Low level influence	$1 \leq X \leq 2.5$
Moderate level influence	$2.5 \leq X \leq 3.5$
High level influence	$3.5 \leq X \leq 5$

8. Assumptions

There is no any change in the tax policy of the government during the research period in this district. The information given by the Tax payers are true and correct. No any major crisis in the business situation in this region. Law and order conditions are being normal in this area. Only personal income tax payers and VAT payers are included in this study.

9. Results and Discussion

In analyzing of personal data, the following results have been obtained. About 75% of the tax payers are male and 25% are female. 18% of the tax payers are within the age group of 26-35 years, 29% of the tax payers are aged 45 years, 9% of the tax payers are less than 25 years, and those who are above 45 years are 44%. 36% of the tax payers have qualified

GCE Advanced level and the above. 64% of the tax payers have secondary level of educational qualification. 53% of the tax payers engaged in business. 14% of tax payers receive income from agricultural activities. Rest of the tax payers are employees, and the people who are engaged in other businesses. 25% of the tax payers have been paying the tax for more than 15years. 17% of the tax payers have been paying the tax for 11 to 15 years. 58% of the tax payers have been paying the tax for 5years to 10 years.

In analyzing of research data, the following results have been obtained. Regarding the factor of **tax payer's attitude of tax evasion and avoidance,** the mean value of the all indicators lies between 2.5 and 3.5. This indicates that the above factor has a moderate level of influence on the tax revenue collection. It shows that the above factor moderately contributes to the decline of tax revenue collection in the Batticaloa district. Regarding the factor of **Present Information and communication technology facilities of Inland Revenue Department**, mean value of all indicators lies between 1 and 2.5. This indicates that the above factor has a lower level of influence on the tax revenue collection. It shows that the present ICT facilities are not sufficient to the effective tax collection. So, the present ICT facilities in the IRD, considerably contribute to the decline of tax revenue. Regarding to the factor of **the level of tax incentives and exemptions**, the mean value of the all indicators lies between 2.5 and 3.5. This indicates that the above factor has a moderate influence on the tax revenue collection. It shows that the factor of the level of tax incentives and exemptions moderately contribute to the decline of tax revenue collection in the Batticaloa district. Regarding the factor of **the attitude of the staff of Inland Revenue Department**, the mean values of all indicators lies between 1 and 2.5. This indicates that the above factor

has a lower level of influence in the tax revenue collection. There is no positive attitude towards the tax revenue collection among the staff of IRD. It shows that the attitude of the staff of IRD, considerably contribute to the decline of tax revenue collection in the Batticaloa district.

10. Conclusion.

Under the title of "Factor influencing on tax revenue collection: Perception from the tax payers in the Batticaloa District" a study has been done in the Batticaloa district. Finally, the researcher has come to the following conclusions.

Majority of the tax payers are above 35 years old. Major part of the tax payers is male. More tax payers are GCE ordinary level qualified. More tax payers have been engaged in Business. Majority of the tax payers have been paying tax for more than 06 years. Tax payer's attitude of tax evasion and avoidance has moderately contributed to the decline of tax collection in the Batticaloa district. Present information and communication facilities of Inland Revenue Department of Sri Lanka have considerably contributed to the decline of tax revenue collection in the Batticaloa District. The level of tax incentives and exemptions provided by the government of Sri Lanka has moderately contributed to the decline of tax revenue collection in the Batticaloa district. The attitude of the staff of the Inland Revenue Department of Sri Lanka has considerably contributed to the decline of tax revenue in the Batticaloa district.

11. Recommendations

The Inland Revenue Department should employ more staff. Promotion of existing staff should be given in Merit base. Stringent penalties should be levied on tax evasion and avoidance. Attention should be given in the area of audit and the Skill development of the staff. More attention should be given to tax payer's education, compliance and tax audit. Efficiency of tax administration should be increased. ICT network of IRD should be improved to allow tax payers access services online more effective and efficiently. Present ICT facilities should be upgraded. Review and rationalization of tax rates should be enhanced. In order to create a positive attitude, government should increase tax collectors' salary. IRD should review their staff employment scheme.

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