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செயலாற்றுகை அறிக்கை  
**PERFORMANCE REPORT**

2013



දෙශීය ආදායම් දෙපාර්තමේන්තුව - ශ්‍රී ලංකාව  
உள்நாட்டு இறைவரித் திணைக்களம் - இலங்கை  
**DEPARTMENT OF INLAND REVENUE - SRI LANKA**

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කාර්ය සාධන වාර්තාව

உள்ளநாட்டு இறைவரி ஆணையாளரின்  
செயலாற்றுகை அறிக்கை

PERFORMANCE REPORT  
OF THE  
COMMISSIONER GENERAL OF INLAND REVENUE

**2013**

මල්ලිකා සමරසේකර  
மல்லிகா சமரசேகர  
Mallika Samarasekara

දේශීය ආදායම් දෙපාර්තමේන්තුව  
உள்ளநாட்டு இறைவரி திணைக்களம்  
DEPARTMENT OF INLAND REVENUE

## **The Summary of the Performance during the Year 2013**

The total Revenue collected by the IRD during the year 2013 was Rs. 492,539 million and it shows an increase of 11.07% over that of the previous year. It was a 43.30% contribution to the total Government Revenue and 5.68% to the Gross Domestic Production of the year.

The IRD engaged in an integrated mechanism consisting of both facilitation and enforcement measures for the enhancement of tax compliance.

The success of those efforts is evident as the voluntary compliance by way of return submission has increased. The process of issuing privilege cards to taxpayers to recognize their contribution to the Government Revenue is continued during the year for the commendation of taxpayer.

On the other hand during the year, by regulating tax audits, undisclosed income and turnover amounting to Rs.254,654 million could be taxed. Additional taxes imposed during the year based on that were Rs.19,669 million.

Actions and steps have been taken continuously as stipulated in respective enactments in addition to the Default Tax Recovery Act for the recovery of tax.

The Committee for interpretation of Tax Laws issued interpretations on 54 cases during the year, in addition to necessary guidelines and instructions on certain provisions of the legislation.

A considerable number of new tax files had been opened with the initiatives taken by the Information Branch and Taxpayer Service Unit and other units and Regional offices.

During the year Taxpayer Service Unit had been equipped with officers to assist every person seeking help or information. A number of seminars and lectures were organized with a view to educating taxpayers as well as the staff of the Department.

Preliminary steps were taken to implement the Revenue Administration Management Information System (RAMIS) in the view of enhancing the efficiency of the IRD under the supervision of Ministry of Finance and Planning within the year of review.

## **Vision**

To be a taxpayer friendly tax administrator delivering excellent service to the taxpaying public, with well-trained and dedicated staff facilitated by fully automated system.

## **Mission**

To collect taxes in-terms of relevant tax and other related laws, by encouraging voluntary compliance while deterring tax evasion and tax avoidance, and

To enhance public confidence in the tax system by administering relevant tax and other related legislation fairly, friendly and expeditiously and thereby facilitate and foster a beneficial tax culture.

## **Strategic Goals**

- To improve voluntary compliance by taxpayers with the tax laws through programs, which encourage and assist in that and detect those who do not comply and, where necessary, take appropriate corrective action.
- To improve the effectiveness of the Department by the application of efficient work methods, technology and better utilization of available resources.
- To enhance the productivity and professionalism of the staff through management and technical training, work experience, and thereby to enable them to contribute more effectively towards the fulfillment, by the Department, of its mission.

## **PRINCIPAL OFFICIALS**

<b>Ms. M. Samarasekara</b>	<b>Commissioner General of Inland Revenue</b>
<b>Mr. H. B. A. Seneviratne</b>	<b>Senior Deputy Commissioner General</b> Tax policy, planning and Development, Legislation, Rulings and International Affairs, BOI Enterprises
<b>Mr. K.A.P. Kaluarachchi</b>	<b>Deputy Commissioner General</b> Direct Tax Administration
<b>Ms. L. Ramanayaka</b>	<b>Deputy Commissioner General</b> Investigation, Tax Surveillance and Risk Management
<b>Mrs. K. Dahanayake</b>	<b>Deputy Commissioner General</b> Indirect Tax Administration
<b>Mr. K.A.G. Abhayarathne</b>	<b>Deputy Commissioner General</b> Appeal, Legal, Default Tax Recovery and Information

<b>Mrs. W. Anulawathie</b>	<b>Commissioner</b> Human Resource Management
<b>Mrs. R.M.R.W Manchanayaka</b>	<b>Commissioner</b> Corporate Tax I
<b>Mr. D.M.L.I. Dissanayake</b>	<b>Commissioner</b> LTU
<b>Mr. A. N. Guruge</b>	<b>Commissioner</b> Corporate Tax II
<b>Mrs. P. Rohini</b>	<b>Commissioner</b> Zone I
<b>Mrs. R.M.P.S.K Rajapaksha</b>	<b>Commissioner</b> Collection and Clearance, Default Tax Recovery Information
<b>Mr. A.A.D.U. Abesinghe</b>	<b>Commissioner</b> Zone II, WHT (on Interest)
<b>Ms. D.G.P.W. Gunathilake</b>	<b>Commissioner</b> Tax Advisor- Ministry of finance and planning
<b>Mr. J.P.D.R. Jayasekara</b>	<b>Commissioner</b> ICT
<b>Mr. D.M.S. Disanayake</b>	<b>Commissioner</b> Taxpayer Services and Stamp Duty
<b>Mr. M.G. Somachandra</b>	<b>Commissioner</b> Human Resource Development
<b>Mrs. C.H. Weerasingha</b>	<b>Commissioner</b> Internal Audit and Assessment Control
<b>Mrs. H.M.D. Munasingha</b>	<b>Commissioner</b> LTU
<b>Mr. P.G.K. Samarathunga</b>	<b>Commissioner</b> VAT Refund
<b>Mrs. S. Karunarathna</b>	<b>Commissioner</b> VAT, SVAT
<b>Mr. O.P.P.K. Sirisena</b>	<b>Commissioner</b> Procurement and Supplies
<b>Mr. K. Dharmasena</b>	<b>Commissioner</b> Investigation
<b>Mr. H.M.G. Wijesinghe</b>	<b>Commissioner</b> International Tax Policy
<b>Mrs. B. A. D. D. Herath</b>	<b>Commissioner *</b> Tax Policy
<b>Mr. D. B. Dissanayake</b>	<b>Commissioner *</b> NBT, ESC, B&G
<b>Mr. D.D.N.P Koralearachchi</b>	<b>Commissioner *</b> Appeal
<b>Mr. T.M. Dayananda</b>	<b>Commissioner *</b> Information
<b>Mr. W.S.K. De Costa</b>	<b>Commissioner *</b> Zone III, PAYE, Unit 1, 2 & 3

\*Note : Duties of the post were assigned subject to approval of the PSC

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## Taxes Administered by the IRD during the year

Taxes imposed under enactments administered by the IRD during the year are as follows:

<b>Tax</b>	<b>Enactments</b>
Income Tax	Inland Revenue Act. No. 10 of 2006 as amended by Act No.10 of 2007, 9 of 2008 , 19 of 2009, 22 of 2011, 8 of 2012 and 18 of 2013
Value Added Tax (including VAT on Financial services, Advance Tax on VAT and Optional VAT)	Value Added Tax Act. No. 14 of 2002 as amended by Act No 7 of 2003, 13 of 2004, 6 of 2005,8 & 49 of 2006, 14 of 2007, 15 of 2008 ,15 of 2009 , 9 of 2011, 7 of 2012 and 17 of 2013
Economic Service Charge	Economic Service Charge Act. No. 13 of 2006 as amended by Act No 15 of 2007, 11 of 2008, 16 of 2009, 11 of 2011, 11 of 2012 and 6 of 2013
Nation Building Tax	Nation Building Tax Act. No.9 of 2009 as amended by Act No 32 of 2009 , 10 of 2011 , 9 of 2012 and 11 of 2013
Betting and Gaming Levy	The Betting and Gaming Levy Act. No. 40 of 1988
Stamp Duty	Stamp Duty Act. No. 43 of 1982 and the Stamp Duty (Special Provisions) Act. No. 12 of 2006 as amended by Act No 10 of 2008 and 13 of 2011
Share Transaction Levy	Finance Act. No. 5 of 2005 and Finance Act. No. 13 of 2007
Construction Industry Guarantee Fund Levy	
Social Responsibility Levy	Finance Act. No. 5 of 2005, Finance Act No. 11 of 2006 and Finance Act. No. 8 of 2008
Turnover Tax (Northern Province)	The Turnover Tax Act. No. 69 of 1981 as amended

The IRD continued to deal with the work of assessment and collection of following taxes, which were in force earlier and have since been repealed or abolished.

<b>Tax</b>	<b>Relevant Enactment</b>
National Security Levy	The National Security Levy Act. No. 52 of 1991 as amended
Goods and Services Tax	The Goods and Services Tax Act. No. 34 of 1996 as amended
Save the Nation Contribution	The Save the Nation Contribution Act. No. 5 of 1996 as amended
Surcharge on Wealth Tax	The Surcharge on Wealth Tax Act. No. 25 of 1982 and Act No. 8 of 1989
Surcharge on Income Tax	The Surcharge on Income Tax Act. No. 26 of 1982, Act No. 12 of 1984, Act No. 7 of 1989 as amended
Debits Tax	Debits Tax Act. No. 16 of 2002 as amended by Act No 05 of 2003, 12 of 2007, 17 of 2009 and 14 of 2011
Estate Duty	The Estate Duty Act. No. 13 of 1980 as amended



# PART I - HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT

## Chapter 1 - Human Resources

### 1.1 Approved Cadre, the number in post and vacancies

The following table shows the approved cadre of the Department, the number in post and the vacancies, as at 31, December 2013.

<b>Cadre as at 31.12.2013</b>			
<b>Position</b>	<b>Approved cadre</b>	<b>Number in post</b>	<b>Vacancies</b>
Commissioner General	1	1	-
Additional Commissioner General	1	-	1
Senior Deputy Commissioner General*		1	-
Deputy Commissioner General	9	2	7
Senior Commissioner	22	2	20
Commissioner	90	86	4
Deputy Commissioner**	-	15	-
Senior Deputy Commissioner/ Deputy Commissioner/Assistant Commissioner	1107	-	-
Senior Assessor/ Assessor***	-	609	-
Senior Tax Officer/ Tax Officer***	-	528	-
<b><u>Combined Service</u></b>			
Director (Administration)	1	1	0
Accountant	8	5	3
Internal Auditor	1	1	
Administrative Officer (Supra)	3	3	0
Translator	9	9	0
Librarian	2	1	1
Public Management Assistant	606	500	106
Budget Assistant	2	2	0
Transport Officer	1	0	1
Driver	74	72	2
KKS	319	292	27
<b><u>Other</u></b>			
Engineer	1	1	0
System Analyst	1	1	0
Director (IT)	1	0	1
Deputy/Assistant Director(Information Technology)	6	4	2
Info. Technology Officer	12	11	1
Info. Technology Assistant	30	26	4
System Controller	3	1	0
System Operator	3	2	0
Data Entry Operator	8	7	0
Receptionist	4	3	1
Supply Assistant	2	0	2
Technical Officer	2	0	2
Building Supervisor	1	0	1
Store man	2	0	2
Carpenter	1	1	0
<b>Total</b>	<b>2333</b>	<b>2187</b>	<b>188</b>

\* According to the recently introduced Inland Revenue Service Minute the officer who is currently holding the post of Senior Deputy Commissioner General, should be appointed as the Additional Commissioner General.

\*\* According to the new service minute officers who are currently holding the posts of Deputy Commissioners should be appointed as Commissioners.

\*\*\* According to the new service minute, posts of Senior Assessor/ Assessor/Senior Tax Officer/ Tax Officer have been abolished and replaced by aggregate of 1107 by Senior Deputy Commissioner/ Deputy Commissioner/Assistant Commissioner posts and they have to be appointed.

## 1.2 Promotions

The following Senior Commissioners and Commissioners were promoted to Deputy Commissioner Generals.

<b>Name</b>	<b>Effective date</b>
Mrs. K. Dahanayake	2013.04.02
Mr. K.A.G. Abhayarathne	2013.08.13
Mr. D.B. Jayasekera	2013.08.13
Mrs. W. Anulawathie	2013.12.19
Mrs. R.M.R.W. Manchanayake	2013.12.19

- Sixty Eight Deputy Commissioners were promoted to the rank of Commissioners.
- Three Deputy Commissioners were assigned with the duties of Commissioners and;
- Six Senior Assessors were assigned with the duties of Deputy Commissioners.

## 1.3 Retirements

The following senior officers retired from the service during the year.

- Mrs. D.M. Nandawathie Deputy Commissioner General
- Mr. W.M. Mendis Deputy Commissioner General
- Mr. A.L.A. Sirisena Deputy Commissioner General
- Mrs. H.M.C.I. Gunasekera Deputy Commissioner General
- Mr. D.B. Jayasekera Deputy Commissioner General
- W.V.P. Karunarathne Senior Commissioner
- Mr. P.A.V. Premarathne Senior Commissioner
- Mr. I.M.B. Senevirathne Banda Commissioner

### **Other Retirements**

- Deputy Commissioner 03
- Senior Assessor 02
- Assessor 11
- Public Management Assistant 16
- System Operator 01
- System Controller 02
- Drivers 03

### **Mrs. D.M. Nandawathie**

Mrs. D.M. Nandawathie joined the IRD on December 01, 1978 as an assessor. She served in various capacities with dedication and reached the rank of Senior Deputy Commissioner General in 2009. She retired from the service on April 02, 2013 having counted 34 years in the Inland Revenue service. Mrs. Nandawathie, during the tenure of her office, underwent training and participated in several overseas taxation programs including the Training programme on Practical Issues of Tax Policy and Tax Administration in Developing Countries in India in 2006 and Specialized Training Programme on Investigation and Management at NADT in India 2007.

### **Mr. W.M. Mendis**

Mr. W.M. Mendis joined the IRD in 1980 and he was promoted to the rank of Deputy Commissioner General with effect from December 27, 2011. Mr. W.M. Mendis completed 33 years of dedicated service in the Department when he retired on August 10, 2013.

### **Mr. A.L.A. Sirisena**

Mr. A.L.A. Sirisena who joined the IRD in 1981 reached the rank of Deputy Commissioner General on May 22, 2012. He retired from service on July 25, 2013. Mr. A.L.A. Sirisena, during the tenure of his office, underwent training and participated in several overseas taxation programs including Programme on Tax Analysis and Revenue Forecasting held in United Kingdom, 12<sup>th</sup> Annual International Taxation Meeting on Tax Treaties in France in 2007, Specialized Training Programme on Investigation and Management at NADT in India 2007 and Training Programme on E-governance and Change Management in Singapore in 2013.

### **Mrs. H.M.C.I. Gunasekera**

Mrs. H.M.C.I. Gunasekera joined the IRD in 1981 as an assessor. At the time of her retirement which took place on December 12, 2013, she was functioning as a Deputy Commissioner General. Mrs. Gunasekera counted 32 years of dedicated service in the IRD serving in respective capacities in the Inland Revenue Service. During her tenure of office, she underwent training and participated in several overseas taxation programs including Seminar on Taxation (JICA) held in Japan in 1993/1994, SAARC seminar on Tax Payer Services in Nepal in 2012, training programme on Practical Issues of Tax Policy and Administration in Developing Countries held in India in 2006, Specialized Training Programme on Investigation and Management at NADT in India in 2007 and Training Programme on E-governance and Change Management in Singapore in 2013.

## **Mr. D.B. Jayasekera**

Mr. D.B. Jayasekera joined the IRD in 1981 as an assessor. He completed 32 years of service in the Department in varied capacities. At the time of his retirement, which was on December 04, 2013, he was functioning as a Deputy Commissioner General (cover-up duties). Mr. D.B. Jayasekera, during the tenure of his office, underwent training and participated in several overseas taxation programs including Programme on Practical Issues of Tax Policy and Administration in Developing Countries held in India in 2006, Specialized Training Programme on Investigation and Management at NADT in India in 2007, Tax Administration course held in France in 2011 and Training Programme on E-governance and Change Management in Singapore in 2013.

### **1.4 Disciplinary Actions**

Category	Balance o/s as at 01.01.2013	Commenced during the year	Concluded during the year	Balance o/s as at 31.12.2013
Assessor	9	1	1	9
Tax Officer	-	-	-	-

### **1.5 Training**

#### **1.5.1 In House Training**

Training Branch of the IRD conducted training courses and examinations for assessors and tax officers, regularly with the aim of enhancing their knowledge and improving their analytical skills, particularly in taxation and accountancy. These courses are designed as to provide the training on subjects, required to fulfill various service requirements of officers for conformation in the respective grades and to acquire knowledge for discharging duties.

Details of personnel trained and the examinations conducted during the year were as follows.

#### **▪ For Assessors**

Course / Examination	Number of Trainees	
Training classes conducted for Assessors in Class II Grade II for the First Departmental Examination	60	
Training classes conducted for Assessors in Class II Grade II for the Second Departmental Examination	60	
Training classes conducted for Assessors in Class II Grade II for the Second Departmental Examination	3	
Second Departmental Examination for the Assessors in Class II Grade II	4 <sup>th</sup> Attempt	11
First Departmental Examination for the Assessors in Class II Grade II	1 <sup>st</sup> Attempt	54
	2 <sup>nd</sup> Attempt	12

▪ **For Tax Officers**

Course / Examination	Number of Trainees
Training classes conducted for Tax Officers in Class III Grade II for the confirmation in class II Grade II	3
Final Departmental Examination for Tax Officers in Class III Grade II for the confirmation in class II Grade II	3

▪ **Seminars, Work Shops etc**

Subject	No. of seminars/ workshops held during the year	No. of officers attended
VAT Audit Methods	1	60
Market Behavior and Government Intervention	1	48
National Income and Taxation	1	50
Income Tax Audit and Basic Structure for Transfer Pricing	1	57
Taxation of SMEs	1	85
Auditing of Wealth Declaration	1	60

### 1.5.2 Overseas Training

As usual arrangements were made for officials of the Department to participate in training programmes, seminars or workshops held abroad with a view to expose them to the advancement of administration of tax legislation and best practices of the other countries in order to maintain a high level of professionalism as tax administrators. Details of such officers who were sent abroad for seminars and workshops and the programmes they participated are as follows.

	Name and Designation of the Officer	Name of the Programme/Seminar/Workshop	Country of Training	Duration
1	Mr. K.A.P. Kaluarachchi Deputy Commissioner General	34th CATA Technical Conference	Rwanda	21.10.2013- 25.10.2013
2	Mr. K.A.G Aberathne Deputy Commissioner General (cover-up duties)	34th CATA Technical Conference	Rwanda	21.10.2013- 25.10.2013
3	Mrs. R.M.R.W. Manchanayake Deputy Commissioner General (cover-up duties)	Proposed Visit to Inland Revenue Authority of Singapore	Singapore	09.11.2013- 12.11.2013
4	Mr. D.M.L.I. Dissanayake Commissioner	34th CATA Technical Conference	Rwanda	21.10.2013- 25.10.2013
5	Mr. A.A.D.U. Abeysinghe Commissioner	Joint Tax Board 3rd International Tax Conference	Nigeria	21.10.2013- 25.10.2013
6	Miss D.G.P.W. Gunathillake Commissioner	5th International Tax Dialogue Conference	Morocco	03.12.2013- 07.12.2013

7	Mr. J.P.D.R. Jayasekera Commissioner	Visit to Inland Revenue Authority of Singapore	Singapore	09.11.2013- 12.11.2013
8	Mr.D.M.S. Dissanayake Commissioner	Effective EOI - An Auditors Perspective	Philippines	10.09.2013- 14.09.2013
9	Mr. M.G. Somachandra Commissioner	Joint Tax Board 3rd International Tax Conference	Nigeria	21.10.2013- 25.10.2013
10	Mr. P.G.K. Samarathunga Commissioner	International Capacity Building Workshop	Thailand & New Zealand	12.12.2013- 21.12.2013
11	Mr. K. Darmasena Commissioner	Effective EOI - An Auditors Perspective	Philippines	10.09.2013- 14.09.2013
12	Mr. H.M.G Wijesinghe Commissioner	IRBM- Transfer Pricing Aspects for Extractive industry	Malaysia	22.04.2013- 26.04.2013
13	Mr. K.A.D.P. Koralearachchi Commissioner	34th CATA Technical Conference	Rwanda	21.10.2013- 25.10.2013
14	Mr. A.A. Dayaratne Commissioner	Executive Training Program for the staff of finance & planning in public finance	Singapore	29.07.2013- 02.08.2013
15	Mr. M.G. Gunasiri Commissioner	Executive Training Program for the staff of finance & planning in public finance	Singapore	29.07.2013- 02.08.2013
		Visit to Inland Revenue Authority of Singapore	Singapore	09.11.2013- 12.11.2013
16	Mr. D. Rangalla Commissioner	IRBM: IBFD Anti money laundering & tax evasion	Malaysia	06.05.2013- 10.05.2013
		Visit to Inland Revenue Authority of Singapore	Singapore	09.11.2013- 12.11.2013
17	Mr. R.S. Samaranyake Commissioner	IRBM-OECD: Case Studies in Transfer Pricing	Malaysia	02.10.2013- 06.10.2013
18	Mr. M.S.M. Siyaan Commissioner	International Visitor Leadership Programme	USA	09.09.2013- 28.09.2013
		Visit to Inland Revenue Authority of Singapore	Singapore	09.11.2013- 12.11.2013
19	Mr. U.P.S.A. Jayalath Commissioner	Visit to Inland Revenue Authority of Singapore	Singapore	09.11.2013- 12.11.2013
20	Mr.D.U.A. Jayawardhena Commissioner	Executive Training Program for the staff of finance & planning in public finance	Singapore	29.07.2013- 02.08.2013
		Visit to Inland Revenue Authority of Singapore	Singapore	09.11.2013- 12.11.2013
21	Mr. G.A.J. Gajadeera Commissioner	IRBM:OECD; Tax and Crime	Malaysia	27.05.2013- 31.05.2013
22	Mr. G.P. Mahinda Kumara Deputy Commissioner	Seminar on Taxation	China	18.10.2013- 13.11.2013

23	Mr. G.L.G. Wimalarathne Deputy Commissioner	Joint Tax Board 3rd International Tax Conference	Nigeria	21.10.2013- 25.10.2013
24	Mr. L.R. Perera Deputy Commissioner (cover-up duties)	Joint Tax Board 3rd International Tax Conference	Nigeria	21.10.2013- 25.10.2013
25	Mrs. R.P.H. Fernando Deputy Commissioner (cover-up duties)	International Visitor Leadership Programme	USA	09.09.2013- 28.09.2013
26	Mr. B.K.S. Shantha Deputy Commissioner (cover-up duties)	International Visitor Leadership Programme	USA	09.09.2013- 28.09.2013
27	Mr. K.G.P.K. Dharamawardhana Senior Assessor	CATA : Achieving Management Potential	UK	29.07.2013- 06.09.2013
28	Mr. A.M. Nafeel Senior Assessor	Tax Analysis & Revenue Forecasting Programme	USA	23.06.2013- 19.07.2013
29	Mr. M.L.J.G. Chandrasiri Senior Assessor	Tax Analysis & Revenue Forecasting Programme	USA	23.06.2013- 19.07.2013
30	Miss A.A.D. Hemalatha Assessor	CATA :Commonwealth Tax Inspectors Course	UK	29.07.2013- 06.09.2013
31	Mr R.M.S.P.K. Rathnayake Senior Tax Officer	Community Driven Development Programme	India	02.09.2013- 27.09.2013

### 1.5.3 Overseas Training Provided through the FMRP

The training programme on “E-governance & Change Management” conducted in Singapore under the auspices of FMRP was carried out during this year. Accordingly, 117 officers participated in the specialized training programme on Revenue Administration Management Information System (RAMIS).

# PART 11 - TAX ADMINISTRATION

## Chapter 2 - Collection of Revenue

Inland Revenue Department collected net revenue of Rs.492,539,431,267/-(including Social Responsibility Levy which is accounted under Fiscal Policy Department, Stamp Duty which is transferred in full to Provincial Councils and the 1/3 of collection under Nation Building Tax which is transferred to Provincial Councils) during the year 2013. The aggregate number of files maintained by the IRD for the collection of different taxes stood at 577,414 as at 31.12.2013.

### 2.1 Number of Taxpayers and Tax Files

The number of persons registered with the Department for the payment of tax, as at the end of the year, is given in table 01.

<b>Table 01 - Number of Taxpayers and Tax Files as at 31.12.2013.</b>		
<b>Income Tax</b>		
<b><u>Corporate</u></b>		
Resident Companies	36,061	
Non Resident Companies	583	
State Corporations, Statutory Boards and State owned institutions	46	36,690
<b><u>Non Corporate</u></b>		
Individuals	161,482	
Partnerships	17,180	
Bodies of persons etc.	914	
Employees paying income tax under Pay- As- You- Earn (PAYE) Scheme (as at 31.03.2013)*	297,240	476,816
<b>Total Income Taxpayers</b>		<b>513,506</b>
<b><u>Other Taxpayers</u></b>		
Persons and Partnerships registered for <b>Economic Service Charges (ESC)</b>	4,561	
Persons registered for <b>Value Added Tax (VAT)</b>	14,851	
Persons registered for <b>Value Added Tax on Financial Services</b>	170	
Persons registered for <b>Optional VAT</b>	499	
Persons registered for <b>Nation Building Tax (NBT)</b>	20,480	
Betting Levy Files	1,067	
Gaming Levy Files	5	
<b>Total other Taxpayers</b>		<b>41,628</b>
<b>Employers</b> registered under PAYE Scheme	11,778	
Withholding Tax on <b>Interest (Withholding Agents)</b>	2,517	
Withholding Tax on <b>Specified fees (Regular Monthly Schedules Senders)</b>	84	
Construction Industry Guarantee Fund Levy	253	
Stamp Duty (Regular Monthly Schedules Senders)	7,648	<b>22,280</b>
<b>Total Number of Tax Files/ Taxpayers as at 31.12.2013</b>		<b>577,414</b>

\* Include 28,589 Government Employees and does not include employees in the incomplete declarations furnished by Employers



**Notes:**

- i. A separate file is not generally maintained in the IRD in respect of any employee from whose remuneration, tax is deducted under PAYE Scheme, unless such employee has any other income.
- ii. Individuals whose income is taxed at source as a final tax (such as interest on deposits, treasury bills and dividends etc.) have not been included in the category of non-corporate files.
- iii. Non-Government Organizations files amounting 218 have been included in the aforementioned total number of files.

**2.2 Total Revenue Collection**

The total revenue collection for the year, amounting to Rs.492,539 million shows an increase of Rs.49,084 million or 11.07% over that of the previous year. This achievement was possible mainly due to wide array of measures undertaken by the IRD for facilitating and enforcement of compliance. The identification of taxpayers assessment of the liabilities and collection of taxes were intensified paving the way for the said increase.

The ratio of the total revenue contribution by the IRD to the Government revenue in the year was 43.30%. Total collection of revenue indicates 89.90% achievement when compared to the revenue under each type of taxes with the corresponding estimates.

As per the policy decision included in the budget proposal for year 2013 steps were taken to inactivate the VAT registration of the persons whose taxable supply does not exceed Rs. 3 million per quarter or Rs. 12 million per year. However, the collection of VAT increased over that of the previous year by Rs. 13,031 million. The possible reason for the increase could be the expansion of the scope of the Value Added Tax by the inclusion of wholesale and retail trade sector as taxable activities.

The collection of income tax has increased by 26.21% in the year over the income tax of the previous year. When compared with the previous year, revenue from corporate income tax and withholding tax on interest has increased during 2013.

A comparison of revenue under each type of tax with the corresponding estimates is revealed in table 02 and illustrated in chart 01. The cash flow during the year is shown in the table 03 and is illustrated by chart 02.

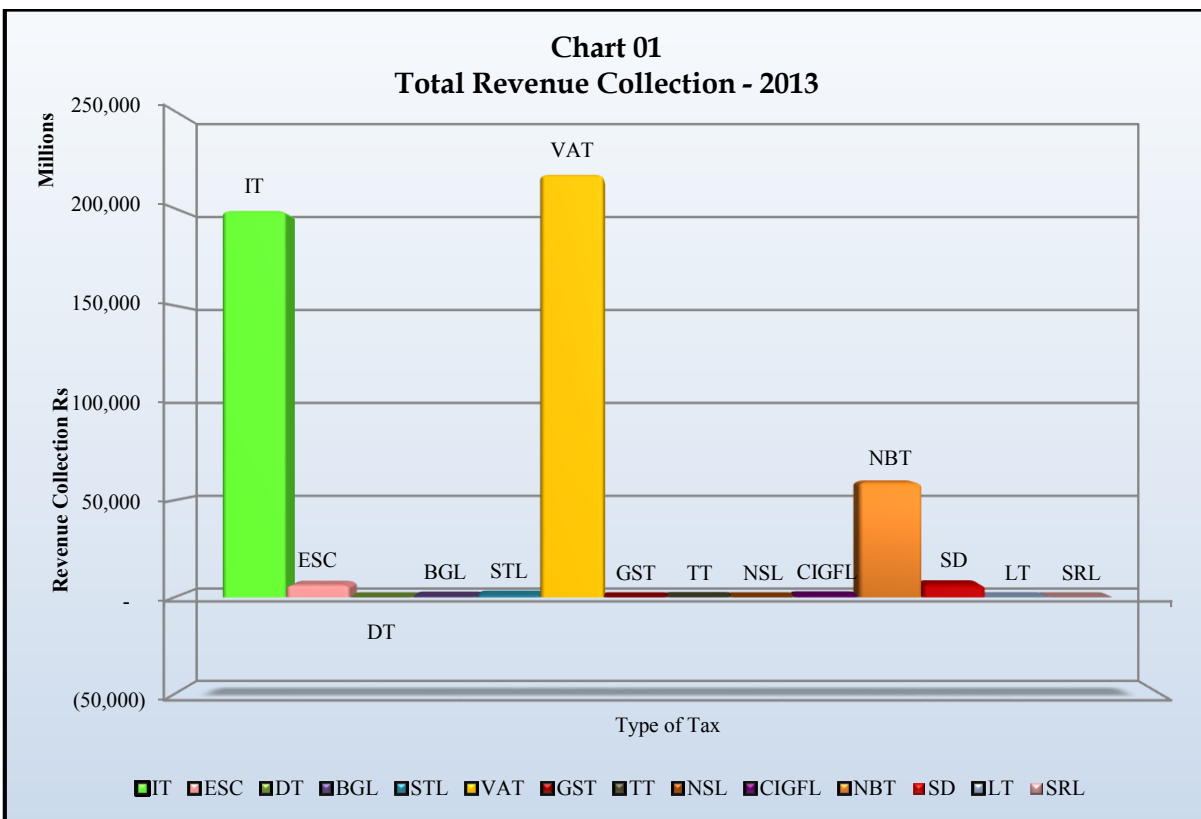
**Table 02 - Total Revenue Collection – 2013**

Type of Tax	Revenue Estimate Rs: (Revised)	Revenue collection Rs:	Collection as a % of Estimate	Collection as a % of Total Revenue
Income Tax	226,755,000,000	199,070,030,704	87.79%	40.42%
Economic Service Charge	12,763,000,000	6,595,600,863	51.68%	1.34%
Debit Tax	-	(83,401)		0.00%
Betting & Gaming Levy	850,000,000	591,870,451	69.63%	0.12%
Share Transaction Levy	2,000,000,000	1,197,409,071	59.87%	0.24%
Value Added Tax	255,353,000,000	217,686,923,042	85.25%	44.20%
Goods & Services Tax	15,200,000	15,976,746	105.11%	0.00%
Turnover Tax	11,776,000	218,080,060	1851.90%	0.04%
National Security Levy	2,435,000	2,149,612	88.28%	0.00%
Construction Industry Guarantee Fund Levy	1,250,000,000	750,907,497	60.07%	0.15%
Nation Building Tax *	48,782,000,000	59,397,332,038	121.76%	12.06%
Stamp Duty**	-	6,884,387,291		1.40%
Land Tax	82,000,000	96,741,230	117.98%	0.02%
Social Responsibility Levy***	14,000,000	32,106,064	229.33%	0.01%
<b>Total Revenue Collection</b>	<b>547,878,411,000</b>	<b>492,539,431,267</b>	<b>89.90%</b>	<b>100.00%</b>

\*Transferred amount of NBT collection to Provincial – Rs. 18,460,661,347.

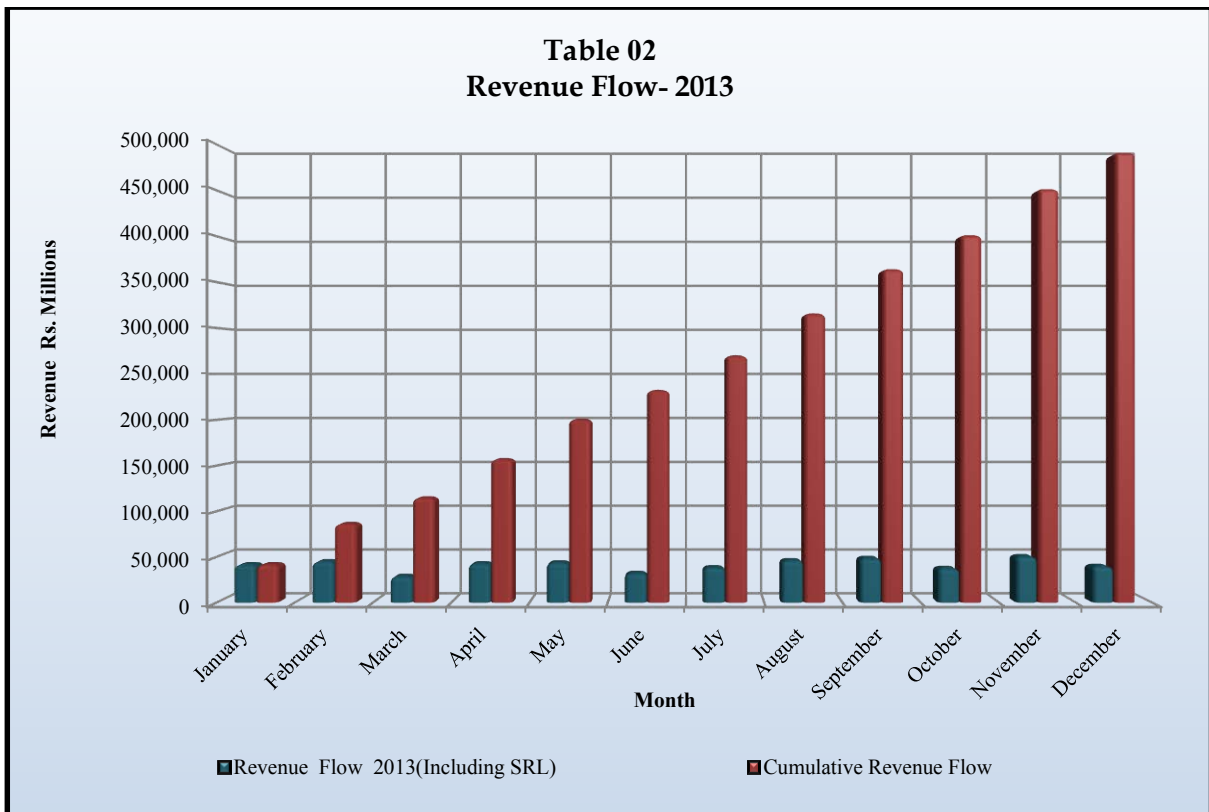
\*\*Transferred amount of Stamp Duty collection to Provincial – Rs. 6,884,387,291.

\*\*\* Transferred amount of SRL collection to Department of fiscal Policy – Rs. 32,106,064.



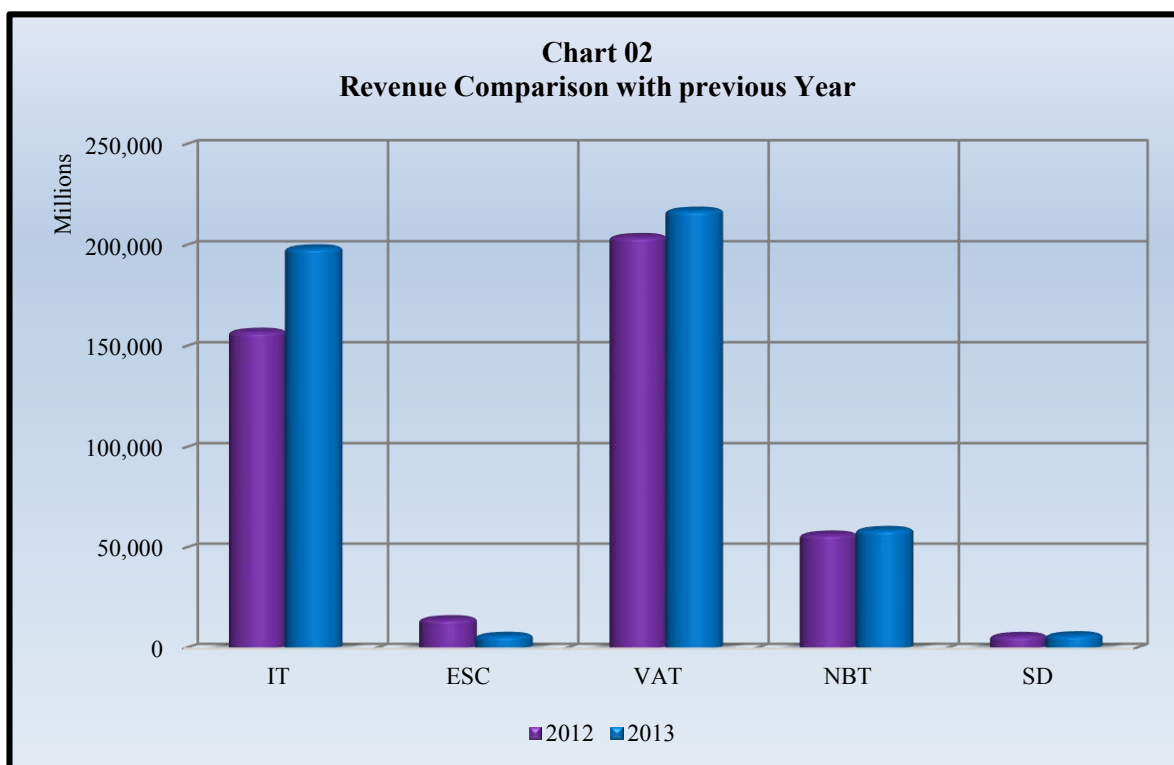
## 2.3 Total Revenue Flow

Table 03 - Total Revenue Flow 2013		
Month	Revenue Collection (Including SRL) Rs.	Cumulative Revenue Collection Rs.
January	41,485,980,187.68	41,485,980,187.68
February	44,795,059,800.28	86,281,039,987.96
March	28,496,653,516.91	114,777,693,504.87
April	42,509,977,707.84	157,287,671,212.71
May	43,511,825,075.19	200,799,496,287.90
June	31,815,053,590.19	232,614,549,878.09
July	38,080,548,642.05	270,695,098,520.14
August	45,960,792,774.97	316,655,891,295.11
September	48,461,067,046.53	365,116,958,341.64
October	37,342,569,392.60	402,459,527,734.24
November	50,451,232,385.65	452,910,760,119.89
December	39,628,671,147.42	<b>492,539,431,267.31</b>



## 2.4 Revenue Comparison with Previous Year

Type of Tax	2013 Revenue Collection Rs:	2012 Revenue Collection Rs:	Increase/ Decrease of Collection as a %
Income Tax	199,070,030,704	157,728,902,903	26.21%
Economic Service Charge	6,595,600,863	14,864,241,267	-55.63%
Debit Tax	(83,401)	-481,999	-82.70%
Betting & Gaming Levy	591,870,451	289,175,098	104.68%
Share Transaction Levy	1,197,409,071	1,285,744,429	-6.87%
Value Added Tax	217,686,923,042	204,656,032,805	6.37%
Goods & Services Tax	15,976,746	11,994,674	33.20%
Turnover Tax	218,080,060	138,260,169	57.73%
National Security Levy	2,149,612	3,930,354	-45.31%
Construction Industry Guarantee Fund Levy	750,907,497	709,648,933	5.81%
Nation Building Tax	59,397,332,038	57,105,793,114	4.01%
Stamp Duty	6,884,387,291	6,535,304,353	5.34%
Land Tax	96,741,230	-	0.00%
Social Responsibility Levy	32,106,064	127,218,990	-74.76%
<b>Total Revenue Collection</b>	<b>492,539,431,267</b>	<b>443,455,765,090</b>	<b>11.07%</b>



## 2.5 Transfer of Revenue of Stamp Duty and Nation Building Tax to Provincial Councils

In terms of amendments made to respective legislative provisions in pursuant to the Budget proposals of 2011 the following categories of revenue collected by the Commissioner General of the Inland Revenue have been transferred to the Provincial Councils.

Nation Building Tax	33.33% of the total collection
Stamp Duty	100% of the total collection

Table 04 shows the total collection and the amount of tax revenue transferred to Provincial Councils of respective taxes.

	Total Collection Rs.	Amount transferred to Provincial Councils Rs.	%
Nation Building Tax	59,397,332,038.00	18,460,661,347.00	33.33%
Stamp Duty	6,884,387,290.00	6,884,387,290.00	100.00%

## 2.6 Collection of Revenue – Self-Assessment and Other

Out of the total revenue collection during the year (excluding VAT & NBT on imports) payments under self-assessment contributed almost wholly the total whereas collection by way of official assessments was only 4% of the aggregate. This shows the success of the effort taken to encourage voluntary compliance as the prime part of the IRD's mission to collect the revenue under self-assessment basis. Necessary actions taken in this regard and facilities continually contributed for this success. Table 05 shows the comparison of figures.

	2011 (Rs'000)		2012 (Rs'000)		2013 (Rs'000)	
	Self Assessment	Other	Self Assessment	Other	Self Assessment	Other
<b>Income Tax</b>	130,990,294	4,983,219	152,640,354	5,088,549	189,657,462	9,412,569
<b>VAT (Excluding VAT on Imports)</b>	98,826,247	4,283,614	101,816,629	3,370,532	117,622,485	3,474,351
<b>NBT (Excluding NBT on Imports)</b>	27,950,249	609,927	30,496,246	3,233,290	35,840,240	1,113,648
<b>Others</b>	38,132,720	802,937	23,485,987	479,049	15,849,578	535,568
<b>Total</b>	295,899,510	10,679,697	308,439,216	12,171,420	358,969,765	14,536,136
<b>% to the Total Revenue (Excluding VAT and NBT on Imports)</b>	96.52%	3.48%	96%	4%	96%	4%

## 2.7 Inland Revenue Contribution to the Government Revenue

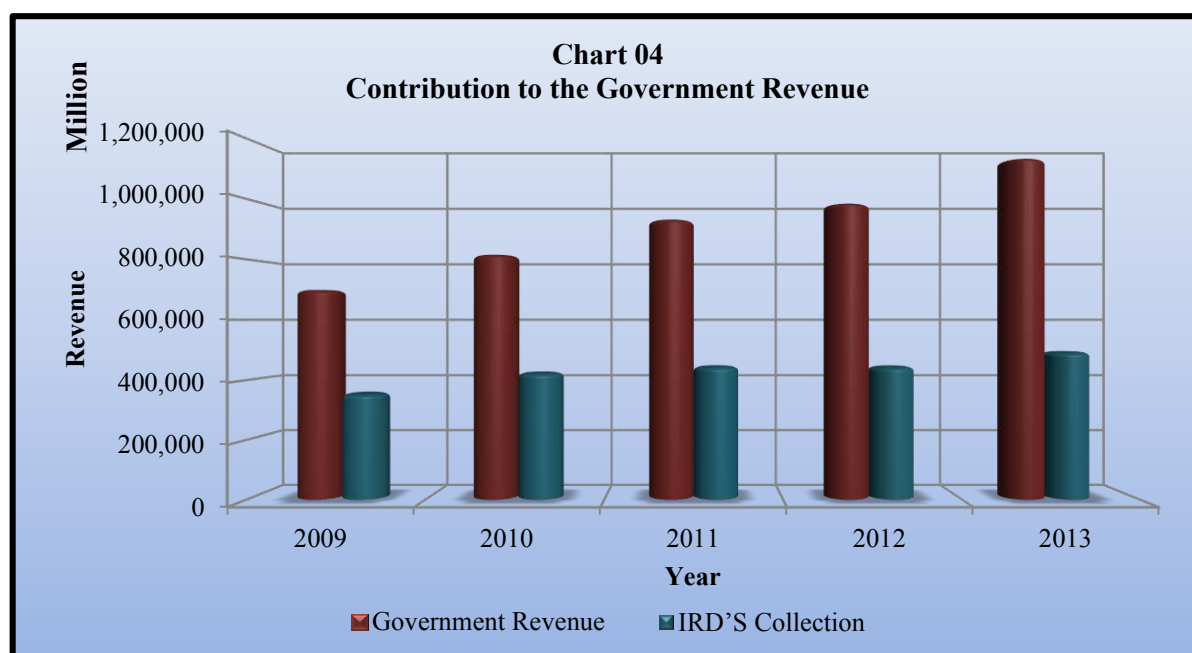
Table 06 shows the contribution of the Inland Revenue Department to the Government Revenue and to the GDP in 2013 and its trends in last four years. Chart 04 illustrates these contributions. Total Government Revenue in 2013 has increased to Rs.1,137,447 million (Annual Report of Ministry of Finance and Planning – 2013) recording a 43.30% contribution from the IRD to the total Government revenue.

The objective of developing the economy tends to a macroeconomic policy that vital economic and commercial activities consisting of infrastructure development opportunities, use of high tech plant and machineries, power generation, development of introduction of new technology and encouragement of export for the betterment in balance of payments etc are encouraged and facilitated. Tax policy has acted decisively and continuously to achieving these objectives during the recent past with tax incentives, holidays, exemptions and concessionary tax rates, inter alia, leaving a considerable volume of economic activities untaxed. This could probably be a reason for the decreasing trend of percentages.

**Table 06 - Contribution of Inland Revenue to the Government Revenue and GDP at Current Prices of Major Economic Activities**

Year	Government Revenue Rs. Mn*	IRD's Collection Rs. Mn	% of IRD's Collection to Govt. Revenue	GDP at current Prices of major Economic Activities Rs. Mn**	Percentage of IRD'S Collection to GDP
2009	699,643	353,015	50.46%	4,835,293	7.30%
2010	817,280	422,512	51.69%	5,604,104	7.54%
2011	934,812	443,830	47.48%	6,544,009	6.78%
2012	987,844	443,456	44.89%	7,582,376	5.85%
2013	1,137,447	492,539	43.30%	8,673,870	5.68%

Source: - \* Ministry of finance & Planning (Annual Report) \*\* Central Bank of Sri Lanka (Annual Report)



## 2.8 Return Compliance

The settled programme for enhancing taxpayer compliance in timely filing of tax returns and paying taxes on self-assessment basis continued during the year. providing benefits to individual taxpayers to enhance voluntary compliance towards the tax laws, such as awarding Privilege Cards (Gold & Silver), granting tax concessions on importation of motor vehicles, discounts on early tax payments were effectively continued.

Accordingly, during the year of assessment 2012/2013, the percentage of filing corporate income tax returns on the due date was 56% and within one month from the due date, it had increased to 70%. The compliance rate after two months from the due date was 75.5% in corporate sector.

In the case of non-corporate sector, it was 41% on the due date and 54% within one month from the due date. The compliance rate within two months from the due date was 60% in this sector.

Table 07 shows the income tax return compliance rate on due date, and within one month from the due date of the years 2008/2009 to 2012/2013. Table 08 shows the rates of return compliance on other taxes.

<b>Table 07 - Income Tax Return Compliance 2008/2009 to 2012/2013</b>			
<b>Year of assessment</b>	<b>Sector</b>	<b>Compliance on due date</b>	<b>Compliance within one month from the due date</b>
2008/2009	Corporate	49%	58%
	Non-Corporate	39%	48%
2009/2010	Corporate	52%	66%
	Non-Corporate	41%	53%
2010/2011	Corporate	56%	68%
	Non-Corporate	42%	59%
2011/2012	Corporate	56%	60%
	Non-Corporate	39%	48%
2012/2013	Corporate	56%	70%
	Non-Corporate	41%	54%

<b>Table 08 - Return Compliance on other Taxes</b>					
	<b>VAT</b>	<b>ESC</b>	<b>NBT</b>	<b>PAYE</b>	
Year 2011	94%	85%	89%	Year of Assessment 2010/2011	63%
Year 2012	89%	80%	79%	Year of Assessment 2011/2012	52%
Year 2013	78%	99%	77%	Year of Assessment 2012/2013	53%

## 2.9 Income Tax Collection

Revenue generation by income tax; the aggregate revenue from corporate income tax, personal (individual) income tax, dividend tax and withholding tax on interest increased to Rs.199,070 million in 2013. This is an excess of 26.21% when compared to Rs.157,728 million in 2012. The total income tax collection accounts for 40% of total revenue of the IRD for the year and that was 36.20% in year 2012.

### 2.9.1 Income Tax Collection – Sector-wise Classification

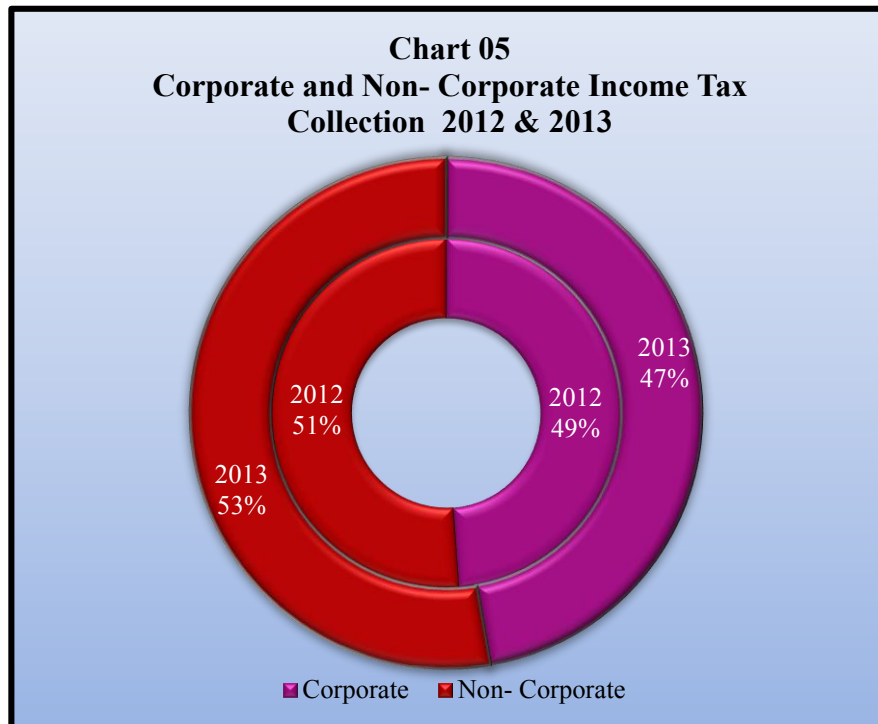
The contribution from the corporate sector to the total income tax collection (Rs. 199,070 million) was amounted to Rs.94,053 million or 47% of the total income tax collected. The non-corporate sector contributed Rs.105,016 million or 53%.

Table 09 shows the composition and chart 05 illustrates it.

<b>Table 09 : - Corporate and Non- Corporate Income Tax Collection – 2012 &amp; 2013</b>				
	<b>2013</b>		<b>2012</b>	
	<b>Tax Collection(Rs.)</b>	<b>%</b>	<b>Tax Collection (Rs.)</b>	<b>%</b>
<b>Corporate*</b>	94,053,497,550.00	47%	77,054,016,253.00	49%
<b>Non- Corporate**</b>	105,016,533,154.00	53%	80,674,886,650.00	51%
<b>Total</b>	<b>199,070,030,704.00</b>	<b>100%</b>	<b>157,728,902,903.00</b>	<b>100%</b>

Notes \* Includes Dividends Tax of 8,712 Mn in 2012 & 9,767 Mn in 2013

\*\* Includes WHT deducted and remitted from interest income, services rendered by corporate sector and Employees paying income tax under Pay-As-You-Earn (PAYE)





## 2.9.2 Source-wise Analysis of income tax Collection

Table 10 shows the source wise composition (employment and others) of income tax collected during the year.

<b>Table 10 - Income Tax Collection - 2013</b>		
<b>Source</b>	<b>Collection (Rs. Mn)</b>	
<b>Employment</b>		
Under PAYE Scheme	18,850.77	
Assessments with penalties including tax in default	83.33	<b>18,934.10</b>
<b>Others</b>		
Self-Assessment and Assessments with penalties	92,832.93	
Withholding tax on interest, deduction on payments of annuities, royalties or management fees	77,940.51	
Other deductions at source	9,962.92	
<b>Gross Collection</b>		<b>180,736.36</b>
Less: Refunds		(600.43)
<b>Net Collection</b>		<b>199,070.03</b>

The amount of Rs.92,833 by way of self assessments and assessments with penalties consist of taxes on trade business, profession, vocation and other service which do not fall within WHT mechanism.

## 2.9.3 Main Policy Changes relating to Income Tax

During the year concerned the following changes to Inland Revenue Act to accommodate the taxation proposals as announced at the budget have been facilitated.

### Exemptions

- i. Any profits and income (except dividend and interest) of the following institutions were exempted from income tax
  - College of General Practitioners of Sri Lanka established under Act No 26 of 1974.
  - Sri Lanka Social Security Board established under Sri Lanka Social Security Board Act No 17 of 1996.
  - Any Public Corporation to the extent of provision of services free of charges out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government.
  - Sri Lanka Savings Bank which is merged with National Development Trust Fund.
  - Lanka Puthra Development Bank.

- ii. The following profits and income were exempted from income tax
- (a) Profits from export of Goods from one Country to another Country (other than Sri Lanka)
  - (b) Profits and income of any Government assisted private school which is not established under the Companies Act and registered with the Ministry of Education which is mandated to follow the Government curricula set by the Ministry of Education and the circulars issued by such Ministry.
  - (c) Profits from manufacturing, distribution or sale of organic fertilizer and pesticides
  - (d) Royalty, franchising fee or payments for designing made to any foreign collaborator by a BOI registered company during the period of tax holiday under section 17A or Section 16D of Inland Revenue Act, where the foreign direct investment raised outside Sri Lanka exceeds US\$ 50Mn, if such services are
    - essential in carrying out activities in Sri Lanka; and
    - not obtainable in Sri Lanka;as determined by the BOI on request made for that purpose.
  - (e) Interest income from investment made in Corporate Debt Securities, quoted in any Stock Exchange licensed by the Securities and Exchange Commission of Sri Lanka (including the deduction of WHT)
  - (f) Interest income from any Municipal Bond issued with the approval of the General Treasury (Including the deduction of WHT)
  - (g) Emoluments of experts  
The income from emoluments arising in Sri Lanka of any individual who is an expert within the meaning of paragraph (dd) of subsection (1) of section 8 of Inland Revenue Act, and who is not a citizen of Sri Lanka and brought to Sri Lanka by a BOI registered company, during the period of tax holiday under section 17A or section 16D of the Inland Revenue Act, where the total investment made is out of foreign direct investments exceeding US\$ 50Mn, if such services are essential to carry out the activities of the company, as determined by the BOI on request made for this purposes. (Limited to maximum of 5 experts)
  - (h) Interest from investment in bonds
  - (i) Profits from cultivation of renewable energy crops in agricultural lands.

- (j) Sri Lankan citizens earning outside Sri Lanka
- The profits and income derived from any source outside Sri Lanka by an individual who is a resident and citizen of Sri Lanka, was exempted from income tax, if such income is remitted to Sri Lanka through a bank in Sri Lanka.
  - The exemption on profits and income derived from outside Sri Lanka applicable to dual citizens who arrive and stay in Sri Lanka referred to in section 15 of the Inland Revenue Act, was extended to individuals who have obtained permanent resident status in any other country or any similar status in which such individual obtains the citizenship in Sri Lanka and any other country.

(The rule in deciding residency of an individual based on his absence from Sri Lanka for an unbroken period of 365 days referred to in section 79(3) of the Inland Revenue Act was removed. Accordingly, only the 183 days rule is apply in deciding residency)

- (k) Any individual who returns from foreign employment and investing his/her savings to commence new businesses was exempted from all taxes payable on turnover and on the profits and income from all such new businesses for a period of 5 years.

### **Concessionary rates**

- i. The rate of tax applicable in relation to unit trust management companies was reduced to 10%
- ii. Profits from employment by pilots referred to in Section 40A and the qualified employees referred to in Section 40B was reduced to a maximum rate of 16%.
- iii. The maximum rate of income tax applicable on employment income being compensation for loss of employment which is not uniformly applicable to all the employees was reduced to 16%.
- iv. The tax rate on profits from poultry farming was reduced to 10%.
- v. Profit and income from supply of goods manufactured in Sri Lanka or provision of services, to foreign ships (to be consumed in the ship) for which payments received in foreign currency, is taxed at the rate of 12%.

- vi. The profit and income from sale of any product manufactured in Sri Lanka for payment in foreign currency through foreign exchange earning account authorized by the Central Bank of Sri Lanka is taxed at 12%.
- vii. The sale of goods manufactured in Sri Lanka by an export oriented BOI registered enterprise to :
  - Any BOI registered enterprise enjoying tax holiday under section 16C, 17A or 16D of the Inland Revenue Act or the Strategic Development Projects Act and which is , permitted to import project related goods or raw materials on duty free basis under the provisions of that BOI Agreement, during the project implementation period; or
  - Any person eligible to import specific goods on duty free basis under any Government Authority;

is treated as deemed exports of the manufacturer of such goods up to the quantity approved by the BOI as import replacement, for tax purposes.

- viii. “Organic tea in bulk” was classified as non-traditional goods, for the application of the concessionary rate of 12%.
- ix. The annual turnover of Rs 300Mn referred to in section 59B was revised to Rs 500Mn for the application of the concessionary rate of 10%.
- x. The profits and income of any person or partnership from operating any mini hydro power project or other alternative energy source taxed at the concessionary rate of 12%.
- xi. Tax payable by any company listed its shares on or after 01.04.2013, and more than 20% of its shares are issued to the general public, was reduced by 50% for the year of assessment in which such shares are listed, and for the two years of assessment immediately succeeding that year of assessment.

### **Ascertainment of Profits and Income**

- i. The cost of acquisition of any plant, machinery or equipment (acquired on or after April 1, 2013) for-
  - technology upgrading purposes or introducing any new technology was allowed for deduction at 50% per year;
  - energy efficiency purposes, which provides more than 30% of the total requirement of the power generation out of alternative energy resources was allowed for deduction in full;

- the establishment of Broker Back Office system to compliant with the CSE requirements in relation to the Risk Management System was allowed for deduction in full;
  - any export industry was allowed for deduction at 50% per year.
- ii. Special Levies charged by the Government  
Any sum paid by a Public Corporation or Government owned business undertaking as a special levy to the Government was allowed as an expenditure deductible.
- iii. Research and Development expenses  
The triple deduction allowed for expenditure on research and development carried out through Government institutions was extended to such expenditure incurred on research carried out through private institutions as well.
- iv. Advertisement expenses  
The restriction on the deduction of advertisement expenses (25%), for specific sponsorship of international sport events approved by the Minister of Sports was removed [with effect from August 1, 2012]

### **Withholding tax on interest income**

In relation to interest income on Corporate Debt Securities not exempt from income tax:

- a) Deduction is on the full interest for the respective period at the time of issue, or where the security is issued with floating rate of interest, at the time beginning of each reviewing period ; and
- b) Where no deduction has been made up front, deduction is at the time of payment of interest (payable on or after April 1, 2011)

### **Time bar**

The time bar period of 2 years was reduced to 18 months effective from the year of assessment commencing from April 1, 2013.

### **Transfer pricing regulations**

- (a) Separate provisions were made for the determination of arm's length price of goods and services in local transactions of associated undertakings;
- (b) Provisions were introduced for advance pricing arrangements.

## 2.10 Value Added Tax Collection

The Value Added Tax (VAT) collection of Rs.217,686 million during the year indicates a shortfall of Rs.36,667 million over the estimate of Rs.255,353 million for the year. However, this is an increase of Rs. 13,030 million or 6.37% over that of the previous year. The part of VAT collected on domestic supplies showed a drastic increase over that of the previous year while the VAT collected on imports during the year showed a slight decline. The total domestic VAT collected for the year was Rs. 121,096 million and this amount was an increase of Rs.15,909 million over that of the year 2012, which was Rs.105,187 million. The total VAT collected on imports during the year 2013 was Rs.96,590 million and in the year, 2012 it was Rs.99,468 million.

Table 11 shows the sector wise gross collection of Value Added Tax, refunds and the net collection, which is illustrated in chart 06.

Table 11 – Value Added Tax Gross Collection and Refunds						
Sector	2012		2013			
	Net Collection (Rs.Mn)		Gross Collection Rs.(Mn)		Refunds	Net Collection Rs. (Mn)
<b>Manufacturing</b>		38,487.28		44,071.51	352.77	43,718.74
<b>Non - Manufacturing</b>						
-Service	45,507.60		56,256.74		106.92	56,149.83
-Financial Service	21,090.80		21,203.51			21,203.51
-Optional Vat	101.48	66,699.88	24.76	77,485.01		77,378.10
<b>Imports</b>		99,468.87		96,590.09		96,590.08
<b>Total</b>		<b>204,656.03</b>		<b>218,146.61</b>	<b>459.69</b>	<b>217,686.92</b>

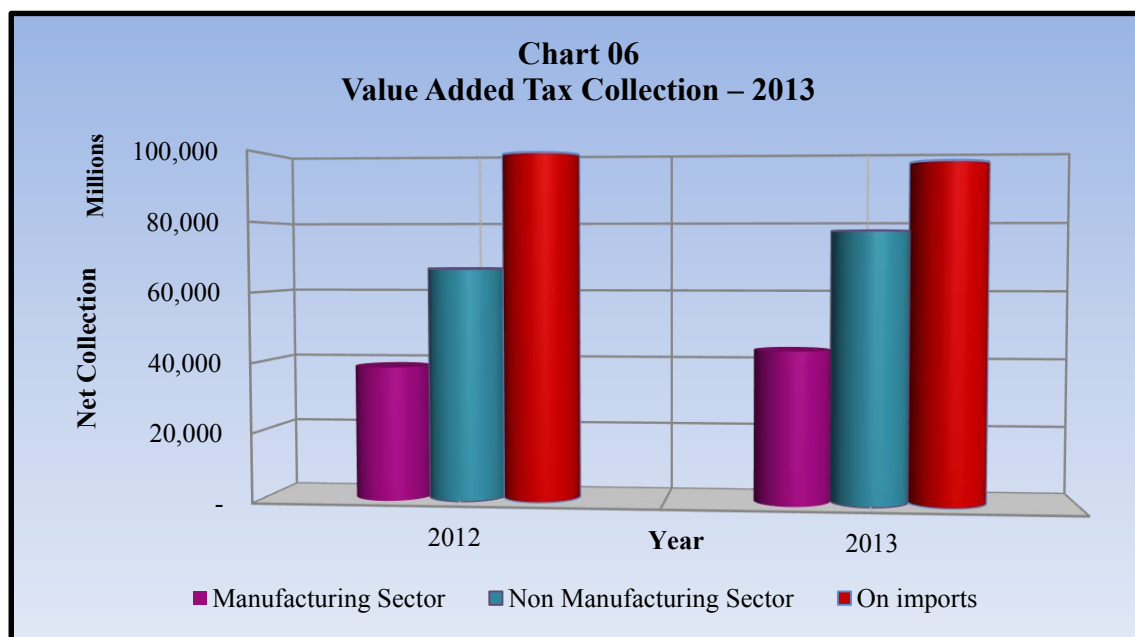


Table 12 shows the sector wise classification of Value Added tax collection and contribution to the GDP

Sector	2012		2013		Percentage of VAT collection to GDP	
	Net Collection (Rs)	%	Net Collection (Rs)	%	2012	2013
<b>Manufacturing sector</b>	38,487,278,292	18.81%	43,718,740,385	20.08%	0.51%	0.50%
<b>Non-Manufacturing Sector</b>	66,699,883,293	32.59%	77,378,096,221	35.55%	0.88%	0.89%
<b>On Imports</b>	99,468,871,220	48.60%	96,590,086,435	44.37%	1.31%	1.11%
<b>Total</b>	<b>204,656,032,805</b>	<b>100.00%</b>	<b>217,686,923,041</b>	<b>100.00%</b>	<b>2.70%</b>	<b>2.50%</b>

### 2.10.1 Industry wise Contribution of VAT

Table 13 shows the VAT on domestic supplies classified under banking, insurance, hotel and restaurant, construction, electricity and their contribution to the total VAT revenue.

Sector	2011 (Rs.Mn)	2012 (Rs.Mn)	% of decrease / increase compared to previous year	2013 (Rs.Mn)	% of decrease / increase compared to previous year
Banking	14,828	14,380	-3.02%	15,921	10.72%
Insurance	4,207	4,456	5.92%	4,882	9.56%
Hotel & Restaurant	4,590	5,396	17.56%	5,672	5.11%
Construction	6,828	5,871	-14.02%	5,293	-9.85%
Electricity & Gas	269	570	112%	502	-11.93%
Imports	16,103	6,949	-56.85%	9,113	31.14%
Financing	11,072	10,576	-4.48%	11,860	12.14%
Communication	1,048	211	-79.87%	256	21.33%
Petroleum Products	271	269	-0.74%	344	27.88%
Beverage - Alcoholic	8,877	9,043	1.87%	9,747	7.79%
Services not classified	7,291	7,633	4.69%	7,916	3.71%
Manufacturing not classified	7,588	7,105	-6.37%	9,517	33.95%
Others	20,139	32,723	62.49%	39,516	20.76%
<b>Total</b>	<b>103,110</b>	<b>105,187</b>	<b>2.01%</b>	<b>120,538</b>	<b>14.59%</b>

### 2.10.2 Main policy changes relating to VAT

#### Increase of the threshold

Any person or partnership, with an annual liable supplies not exceeding Rs.12 million, from all the businesses carried on by such person or partnership

During the year the following exemptions have been introduced to the Value Added Tax Act.

- (a) The supplies made by the following institutions
  - Central Bank of Sri Lanka (including the VAT on financial services)
  - Any Public Corporation to the extent of the provision of services on behalf of the government, free of charges out of any loan arranged through the Government.
  
- (b) The supply of:
  - Services to a unit Trust by the Unit Trust management company
  - Hotel accommodation to any sportsman, organizer of any sport event or sponsor arriving in Sri Lanka for participating in any event activity connected with sport
  - Locally manufactured products out of coconut waste (coco peat, coir fiber, grow pellets, grow bags, twist fiber, coconut husk)
  - Organic fertilizer and pesticides
  
- (c) The import and supply of:
  - Browsers under H.S. Code No. 8704.23.10, 8704.23.20, 8704.32.10, 8704.32.20.
  - Bulldozers, graders, levelers, excavators under H.S. Code No. 84.29
  - Fire fighting vehicles under H.S. Code No. 8705.30.10
  - Road tractors for semi-trailers under H.S. Code No. 8701.20.10
  - Raw materials for the manufacture of energy saving bulbs under H.S. Code No. 8543.90
  
- (d) Imposition of VAT for whole sale and retail businesses:
  - VAT was imposed on any person or partnership carrying on a business of whole sale or retail trade and making a quarterly turnover/ supplies (including exempt turnover/supplies) not less than Rs.500 million. However, the VAT is chargeable only on liable supplies.
  
- (e) The VAT exemption applicable on services which result in the improvement of quality, character or value of any fabric or garment was restricted to such services provided to non-exporters and extended to cover such services related to yarn.

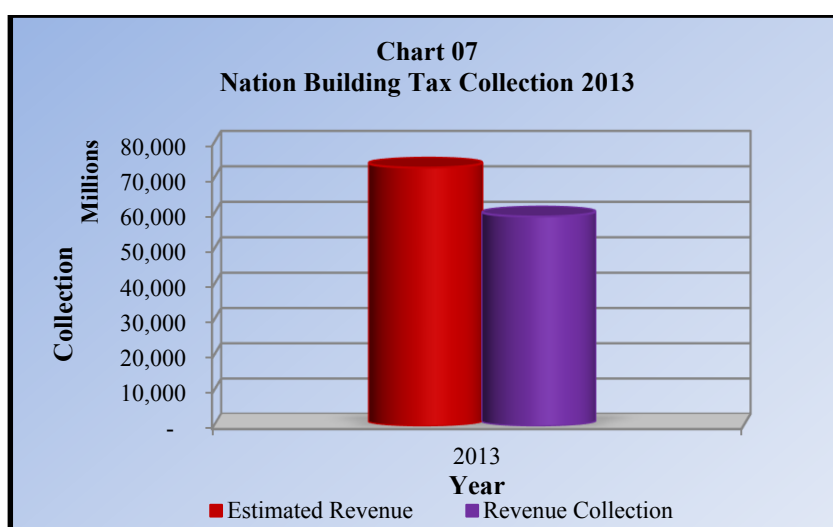
## **2.11 Nation Building Tax Collection**

NBT contributed Rs. 59,397 million to the total Revenue during the year concerned. Out of the total NBT revenue an amount of Rs.18,460 million was transferred to Provincial Councils. Total number of taxpayers registered for NBT as at 31.12.2013 was 20,480. Since the threshold for NBT was increased to 3 million rupees per quarter by the budget proposals for 2013 registration of the persons whose turnover was below threshold was cancelled during the year.



Table 14 –Sector wise Collection of NBT – 2013		
Sector	Net Collection (Rs.)	
	2012	2013
Manufacturing	11,617,896,700	16,418,159,594
Service	22,111,639,351	20,535,728,568
Imports	23,376,257,063	22,443,443,876
<b>Total</b>	<b>57,105,795,126</b>	<b>59,397,332,038</b>

Table 15 – Collection of NBT with Estimate			
Year	Estimated Revenue Rs.	Revenue Collection Rs.	%
2013	73,173,000,000	59,397,332,038	81%
2012	65,629,785,000	57,105,793,114	87%



### 2.11.1 Main policy changes relating to NBT

The following changes to the NBT Act were made as proposed by the Budget.

#### Increase of the threshold

Any person or partnership, with an annual liable supplies not exceeding Rs.12 million, from all the businesses carried on by such person or partnership.

#### Exemptions

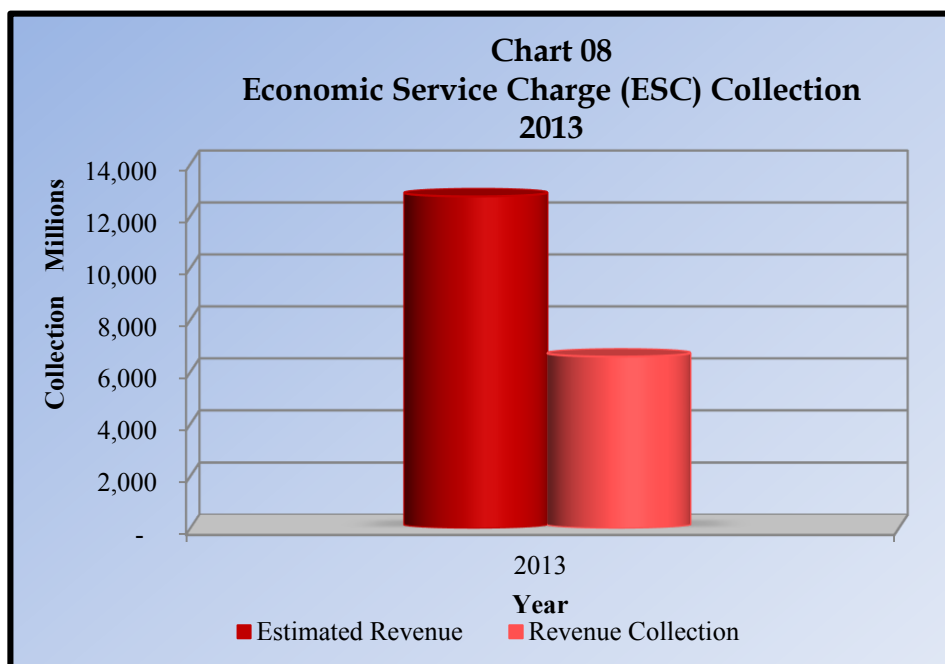
- (a) Solar panel modules, accessories or solar home systems for the generation of solar power energy under H.S Code Nos 7610.90.10, 8501.31.10, 8541.40, 8513.10.10, 9405.10.20, 9405.20.20, 9405.40.40, 9405.50.20, 9032.89.10 and 8539.31.20.
- (b) Coal under H.S. Code Nos 2701.11, 2701.12 and 2701.19.
- (c) The import of goods for any international sports event approved by the Minister of Finance.

- (d) Gems imported subject to Special Service Fee at the rate specified in the Gazette published under section 6A (a) of the Customs Ordinance (Chapter 235) including any subsequent sales of such gems as processed gem.
- (e) The turnover of the following Institutions will not be liable for NBT
- Central Bank of Sri Lanka.
  - Any Public Corporation to the extent of provision of services on behalf of the Government, free of charges out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government
- (f) Supply of organic fertilizer and pesticides

## 2.12 Economic Service Charge Collection

The aggregate of the ESC collected during the year amounted to Rs. 6,595 million and its contribution to the total revenue was 1.0%. It is 51.68% of the estimate for the year. Collection of ESC shows decline in the year mainly due to removal of liability to ESC on the turnover of businesses of which the profits are subject to income tax and expansion of the threshold from Rs.25 million to Rs.50 million.

Year	Estimated Revenue Rs.	Revenue Collection Rs.	%
2013	12,763,000,000	6,595,600,863	52%
2012	17,318,000,000	14,864,241,267	86%



### 2.12.1 Main Policy Changes relating to ESC

Several exemptions have been introduced to the list of exemptions to accommodate the proposals of the Budget.

#### Exemptions

- (a) Central Bank of Sri Lanka
- (b) Funds voted by Parliament from the Consolidated Fund or from any loan arranged through the Government for the provision of services on behalf of the Government of Sri Lanka by any Public Corporation.
- (c) Turnover from the manufacture or sale of organic fertilizer and pesticides

### 2.13 PAYE Collection

Gross revenue collected during the year under PAYE scheme as a part of the income tax on employment income was Rs.18,934 million, in comparison to Rs.14,779 million in 2012.

The number of employees paying income tax under Pay-As-You-Earn (PAYE) scheme recorded 297,240 (excluding the number of employees in the incomplete declarations made by certain employers) whereas the number of employers registered under PAYE scheme stood at 11,778.

<b>Table 17 - Analysis of Tax under PAYE and level of income</b>				
<b>Range Of Income Rs.</b>		<b>Total Gross Remuneration Rs.</b>	<b>No of Employees</b>	<b>Tax under PAYE Rs.</b>
Below 600,000	Tax Not Deducted	105,801,524,007	599,380	-
	Tax Deducted	15,308,606,446	78,235	156,692,566
600,001-1,100,000		76,307,380,239	106,082	956,252,427
1,100,001-1,600,000		39,968,834,036	45,312	1,196,170,368
1,600,001-2,100,000		18,890,054,347	10,572	973,516,297
2,100,001-2,600,000		11,694,606,881	5,017	816,645,552
2,600,001-3,600,000		16,454,070,299	4,632	1,330,162,783
Above 3,600,000		43,791,786,128	18,801	10,550,372,635
<b>Total</b>		<b>328,216,862,382</b>	<b>868,031</b>	<b>15,979,812,629</b>

*This information is based on records in the completed returns furnished by the Employers for the Year of Assessment 2012/2013.*

## 2.14 Withholding Taxes (on interest and Specified fees)

WHT on interest recorded a collection of Rs.77,679,112,229/- during the year, which consists of Rs.62,704,548,497/- on Government Securities (Rs.49,415,264,431/- in the year 2012) ,Rs 14,978,900,177/- from Financial Institution (Rs.8,790,601,147/- in the year 2012) and the balance from other instruments. Withholding tax revenue on interest increased by Rs.18,417 million over the previous year collection.

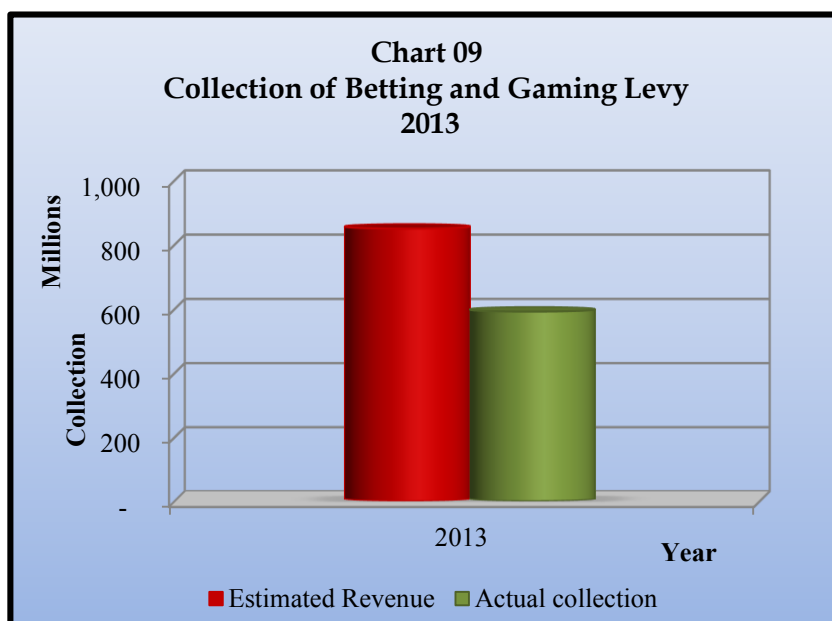
Rs.254,908,743/- was collected as WHT on specified fees ( Rs.344,211,910/- in the year 2012). As a result of discontinuation of WHT applicable on Specified fees, the revenue from WHT on Specified fees declined.

## 2.15 Betting and Gaming Levy

During the year, collection of Betting and Gaming Levy was Rs.591,870,451/- This reflects a shortfall by Rs.258,129,549/- when compared to the estimate for the year.

Table 18 compares the revenue estimate of Betting and Gaming Levy with the revenue collected in the year 2012 and 2013.

Year	Estimated Revenue Rs.	Revenue Collection Rs.	%
2013	850,000,000	591,870,451	70%
2012	312,000,000	289,175,098	93%



## 2.16 Construction Industry Guarantee Fund levy

Revenue from Construction Industry Guarantee Fund levy in 2013 was Rs.750,907,497/-. The total registered payers for this Levy amounted 253.

Table 19 compares the revenue estimate of Construction Industry Guarantee Fund levy with the revenue collected in the years 2012 and 2013.

## 2.17 Stamp Duty Collection

Year	Estimated Revenue Rs.	Revenue Collection Rs.	%
2013	1,250,000,000	750,907,497	60%
2012	950,000,000	709,648,933	75%

A revenue of Rs. 6,884 million generated from Stamp Duty during the year. In terms of Provincial Councils (transfer of Stamp Duty) Act No 13 of 2011, the total collection of Stamp Duty was transferred to respective Provincial Councils. The Department conducted advisory and supervisory visits with a view to enhance the compliance of stamp duty and accordingly 191 places were visited in the year 2013. Number of regular registered compounding agents of Stamp Duty was 7,623 (as at 30.09.2013) and out of this 7,591 have furnished Schedules recording 100% compliances.

## 2.18 Transfer Tax on Land

Collection for the year from land tax which implemented under 2013 budget proposals was Rs.96,741 million and it exceeded the estimate by Rs. 14.74 million.

Government has announced a revision of the 100% tax on transfer of property and prohibit the outright transfer of property to foreigners subject to several exceptions by 2013 budget proposals.

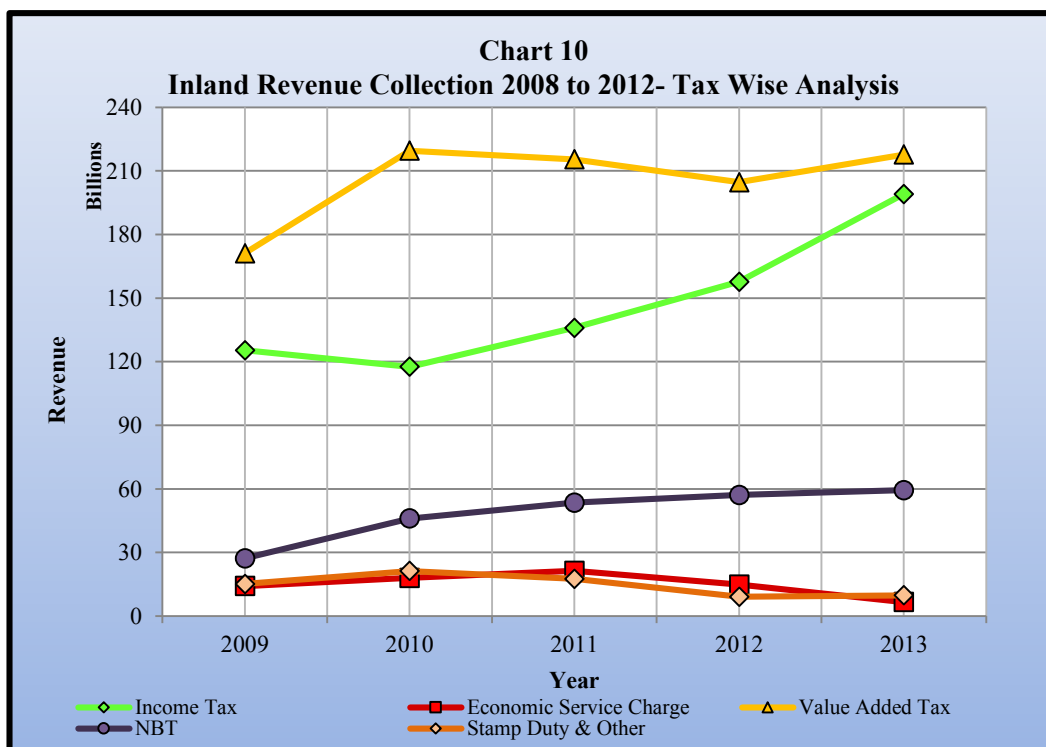
Transfer of property to foreign nationals and companies is allowed by way of lease subjected to a 15% tax on the related value.

## 2.19 Inland Revenue Collection 2009 to 2013 (Tax –wise)

Table 20 represents the tax wise classification of revenue collection of the IRD, from 2009 to 2013.

**Table 20 :- Inland Revenue Collection 2009 to 2013 - Tax Wise Analysis**

Type of Tax	2009		2010		2011		2012		2013	
	Colln. (Rs.Mn)	%	Colln. (Rs.Mn)	%	Colln. (Rs.Mn)	%	Colln. (Rs.Mn)	%	Colln. (Rs.Mn)	%
Income Tax	125,350	35.51	117,575	27.83	135,974	30.64	157,729	35.57	199,070	40.42
Economic Service Charge	14,207	4.02	18,048	4.27	21,335	4.81	14,864	3.35	6,596	1.34
Value Added Tax	171,118	48.47	219,563	51.97	215,420	48.54	204,656	46.15	217,687	44.2
Debits Tax	8,036	2.28	10,843	2.57	4,232	0.95	-	-	-	-
Betting & Gaming Levy	269	0.08	295	0.07	286	0.06	289	0.07	592	0.12
Share Transaction Levy	560	0.16	2273	0.54	3,264	0.74	1,285	0.29	1,197	0.24
Turnover tax	337	0.10	388	0.09	131	0.03	138	0.03	218	0.04
Stamp Duty	3,327	0.94	4,440	1.05	7,217	1.63	6,535	1.47	6,884	1.4
Goods & Services Tax	56	0.02	39	0.01	25	0.01	12	-	16	-
National Security Levy	17	-	23	0.01	15	-	4	-	2	-
Construction Industry Guarantee Fund Levy	571	0.16	830	0.20	1,106	0.25	710	0.16	751	0.15
NBT	27,205	7.71	46,022	10.89	53,501	12.05	57,106	12.88	59,397	12.06
Land Tax	-	-	-	-	-	-	-	-	97	0.02
Social Responsibility Levy	1,962	0.56	2,173	0.51	1,324	0.30	127	0.03	32	0.01
<b>Total Collection</b>	<b>353,015</b>	<b>100.00</b>	<b>422,512</b>	<b>100.00</b>	<b>443,830</b>	<b>100.00</b>	<b>443,455</b>	<b>100.00</b>	<b>492,539</b>	<b>100.00</b>



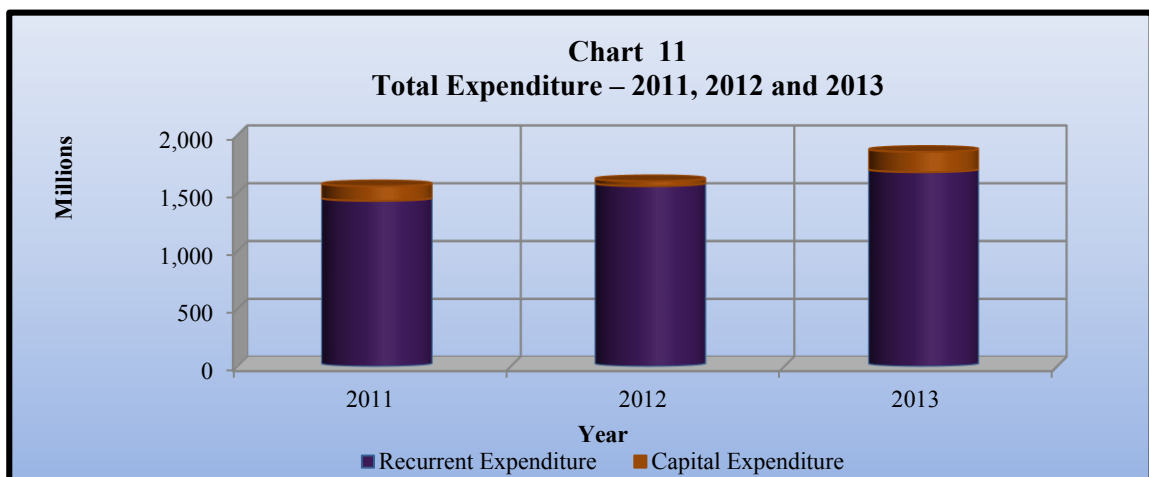
## Chapter 3 - Expenditure and Productivity Ratio

Total expenditure of the Department in the year was Rs.1,876 million which recorded a 16.93% increase when compared with the previous year's figure of Rs.1,604 million. Out of the total expenditure, 89.73% or Rs.1,683 million was spent for recurrent expenditure. In 2012, the corresponding amount was Rs.1,562 million. Expenditure on emoluments increased by 5.21% as against that of 2012 which was Rs.1,209 million. This was the largest single expenditure item that accounted for 67.85% of the total expenditure and 75.61% of the recurrent expenditure.

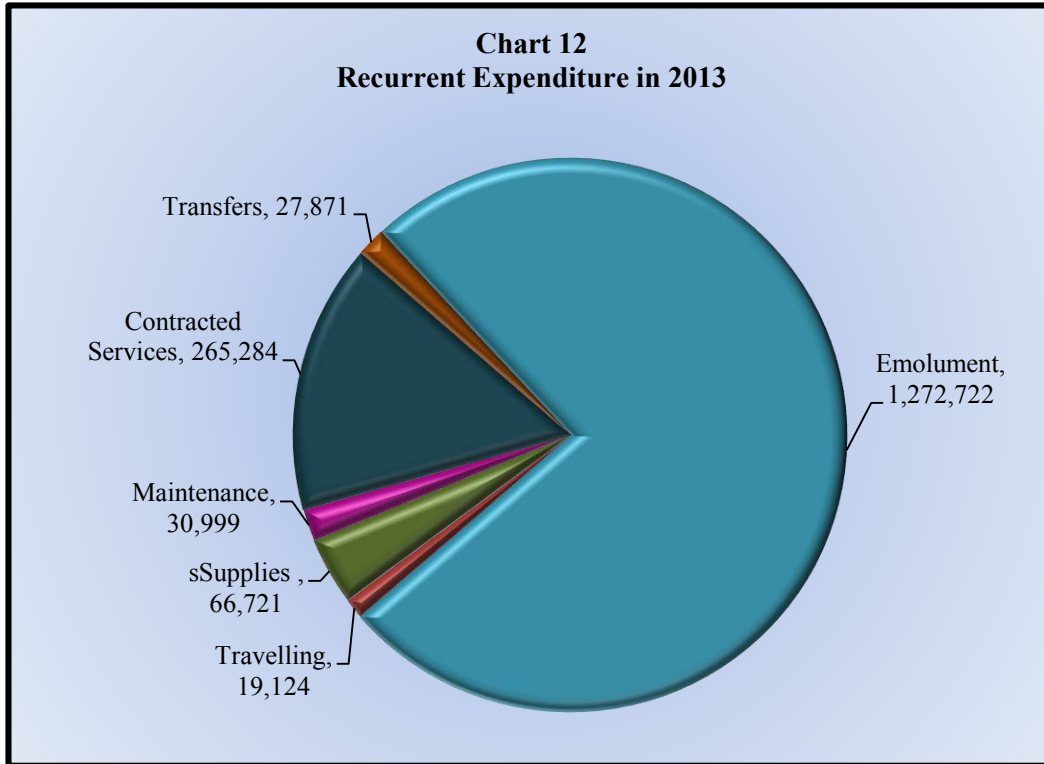
The capital expenditure during the year recorded an increase of 357.95% when compared to 2012 and reached Rs.193 million. That was Rs. 42 million in 2012. Out of the total expenditure of the Department, 10.27% represents capital expenditure (Year 2012 – 2.62%).

### 3.1 Comparison of the Total Expenditure incurred during the years – 2011, 2012 and 2013

<b>Table 21:- Total Expenditure – 2011, 2012 and 2013</b>						
Description	2011 (Rs.'000)	%	2012 (Rs.'000)	%	2013 (Rs.'000)	%
<b><u>Recurrent Expenditure</u></b>						
Emolument	1,110,669	71.17%	1,209,700	75.40%	1,272,722	67.85%
Travelling	15,844	1.01%	24,231	1.51%	19,124	1.02%
Supplies	58,217	3.73%	61,851	3.86%	67,269	3.59%
Maintenance	24,457	1.56%	33,851	2.11%	30,999	1.65%
Contracted Services	209,962	13.45%	210,813	13.14%	265,284	14.14%
Transfers	15,427	0.98%	21,761	1.36%	27,871	1.49%
Other	-	0.00%	60	0.00%		
<b>Sub Total</b>	<b>1,434,576</b>	<b>91.94%</b>	<b>1,562,267</b>	<b>97.38%</b>	<b>1,683,269</b>	<b>89.73%</b>
<b><u>Capital Expenditure</u></b>						
Rehabilitation and Improvements	108,142	6.93%	19,893	1.24%	131,414	7.01%
Acquisitions of capital Assets	7,717	0.49%	13,875	0.86%	40,243	2.15%
Capacity Building	9,987	0.64%	8,293	0.52%	20,963	1.12%
<b>Sub Total</b>	<b>125,846</b>	<b>8.06%</b>	<b>42,061</b>	<b>2.62%</b>	<b>192,620</b>	<b>10.27%</b>
<b>Total</b>	<b>1,560,422</b>	<b>100%</b>	<b>1,604,328</b>	<b>100%</b>	<b>1,875,889</b>	<b>100%</b>



### 3.2 Analysis of the Recurrent Expenditure in 2013



### 3.3 Productivity Ratio

The total expenditure of the Department in the year 2013 was Rs.1,875,888,898/- and the revenue collected was Rs.492,539,431,267/-. The productivity ratio (i.e. the revenue collected for every rupee of expenditure) therefore, works out to 262:1. In other words, the cost of collection for Rs.100/- was 38 cents. The cost of collection for the Rs.100/- excluding VAT and NBT on imports, accounted 50 cents. (in previous year the corresponding amounts were 36 cents and 50 cents respectively).

**Table 22 - Revenue Collection, Total Expenditure and Cost of Collection (Rs. Million)**

Description	2011	2012	2013
<b>Revenue collection</b>			
Income tax	135,973.51	157,728.90	199,070.03
Economic Service Charge	21,335.09	14,864.24	6,595.60
Value Added Tax	215,419.83	204,656.03	217,686.92
Nation Building Tax	53,501.01	57,105.79	59,397.33
Debit Tax	4,232.33	-0.48	(0.08)
Betting And Gaming Levy	286.88	289.18	591.87
Share Transaction Levy	3,263.52	1,285.74	1,197.41
Turnover Tax	130.62	138.26	218.08
Stamp Duty	7,217.34	6,535.31	6,884.39
Goods and Services Tax	25.54	11.99	15.97
National Security Levy	14.74	3.93	2.15
Construction Industry Guarantee Fund Levy	1,106.04	709.65	750.91
Land Tax			96.74
Social Responsibility Levy	1323.56	127.22	32.11
<b>Total Collection</b>	<b>443,830.01</b>	<b>443,455.76</b>	<b>492,539.43</b>



<b>Expenditure</b>			
<b>Recurrent Expenditure</b>			
Emoluments	1,110.67	1,209.70	1,272.72
Travelling	15.84	24.23	19.12
Supplies and Equipment	58.22	61.85	67.27
Maintenance and repairs	24.46	33.85	31.00
Services	209.96	210.81	265.28
Transfers	15.43	21.76	27.87
Other		0.06	
<b>Capital Expenditure</b>			
Rehabilitation & Improvements	108.14	19.89	131.41
Acquisitions	7.72	13.88	40.24
Building capacity	9.98	8.29	20.96
<b>Total Expenditure</b>	<b>1,560.42</b>	<b>1,604.32</b>	<b>1,875.89</b>
<b>Cost of Collection per 100/-</b>	<b>0.35</b>	<b>0.36</b>	<b>0.38</b>
<b>Cost of Collection per 100/- , excluding VAT &amp; NBT on imports</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>

### 3.4 The Internal Audit

Audits carried out by the Internal Audit Branch included examining of all payments, daily vehicle running charts (maintained by the Head office and Regional offices), pay sheets, annual board of survey reports and bank reconciliation of Peoples bank, Bank of Ceylon, Central Bank). In addition to these activities, examining the actions taken to recover the amount due on dishonored cheques, refunds relating to income tax and VAT, checking imprest account and imprest cash account were the other main tasks performed by the Internal Audit Branch.

## Chapter 4 - Taxes in Default

### 4.1 Taxes in Default

Table 23 shows the default tax amounts, disputed amounts, penalties and the amount collectible as at 31.12.2013.

Type of tax	Gross Tax in Default Rs.	Penalty Rs.	Disputed Taxes Excluding Penalty Rs.	Penalty related to disputed Taxes Rs.	Collectible Tax Rs.	Collectible Penalty Rs.
<b>Income Tax</b>	40,589,933,958	29,351,269,412	36,875,815,971	27,159,402,087	3,714,117,987	2,191,867,325
<b>Surcharge on Income Tax</b>	667,380,976	511,022,570	663,803,828	509,232,244	3,577,148	1,790,326
<b>Income Tax (WHT on interest)</b>	1,448,532,023	633,876,377	1,358,583,354	593,652,671	89,948,669	40,223,706
<b>Value Added Tax</b>	49,653,075,695	26,746,339,378	44,591,886,331	24,026,545,870	5,061,189,364	2,719,793,508
<b>Value Added Tax (Financial Services)</b>	8,631,036,788	5,397,715,997	8,623,477,216	5,397,259,173	7,559,572	456,824
<b>Economic Service Charge</b>	4,844,148,037	2,770,569,835	3,370,431,050	2,057,012,141	1,473,716,987	713,557,694
<b>Nation Building Tax</b>	2,653,570,063	1,383,855,770	1,611,407,258	951,089,645	1,042,162,805	432,766,125
<b>Stamp Duty</b>	46,831,124	14,902,822	-	-	46,831,124	14,902,822
<b>Debit tax</b>	2,215,581,368	-	2215581368	-	-	-
<b>Turnover Tax</b>	3,708,257,287	1,805,763,704	3,708,257,287	1,805,763,704	-	-
<b>Good &amp; Services Tax</b>	1,007,014,395	1,098,684,757	1,007,014,395	1,098,684,757	-	-
<b>National Security Levy</b>	2,058,858,025	854,707,764	2,058,858,025	854,707,764	-	-
<b>Save the Nation Contribution</b>	29,598,611	8,045,839	29,598,611	8,045,839	-	-
<b>Wealth Tax</b>	919,732	504,648	919,732	504,648	-	-
<b>Gift Tax</b>	2,409	1,204	2,409	1,204	-	-
<b>Social Responsibility Levy</b>	2,276,342	188,856	1,940,879	147,605	335,463	41,251
<b>Compounding Penalty</b>	-	288,781,090	-	120,344,735	-	168,436,355
<b>Total</b>	<b>117,557,016,833</b>	<b>70,866,230,023</b>	<b>106,117,577,714</b>	<b>64,582,394,087</b>	<b>11,439,439,119</b>	<b>6,283,835,936</b>

Note:

- i. Total of taxes in default represents remained cumulative balances of respective taxes. However, taxes in default as classified above do not fully remain as arrears per se.
- ii. Arrears or defaults are created when an assessment is issued for whatever reason (non-furnishing a returns, non-payment of taxes on the basis of returns, furnishing incorrect returns or declarations etc. by the taxpayers). Penalty is generally, 10% for the non-payments on due date and further 2% for each month of default until it reaches 50% of tax in the case of income tax and as much as 100% with regard to VAT.
- iii. Where the taxpayers have lodged appeals invoking their rights, against assessments and consequently, when such appeals are taken up to higher appellate levels (Tax Appeals Commissioner, Courts of Appeal), related tax amounts are considered as default, such tax amounts are categorized as disputed taxes, penalties or held over taxes. On the settlements of the appeals, any excess amount assessed has to be discharged with the penalty added.

## 4.2 Plans for reduction of Default Taxes

- a. The respective enactments stipulate actions and steps to be taken for recovery of tax in default. Although, such actions were continuously taken after the issuing of assessments, considerable amount of taxes remained in default.
- b. The Default Tax Recovery Unit has prepared relevant reports of default taxes as provided in the Default Taxes (Special Provisions) Act No. 16 of 2010. (An Act to provide for a streamlined and speedier process for the recovery of taxes) and effective recovery actions with an added authority are intended for better results.

## 4.3 Maintenance of arrears of tax at 3%

In terms of section 12 of Default Taxes (Special Provisions) Act No. 16 of 2010, it shall be the duty of the Commissioner General to ensure that the increase of the aggregate of any tax, not including any penalty accrued thereon or any part of tax held over or deferred, which is in default under any law specified in the schedule to that Act as at the end of any calendar year commencing on or after January 1, 2010, over the aggregate of taxes in default as at the end of the immediately preceding year, shall not exceed three *per centum* of the total amount of the taxes levied and charged under the said laws, in the immediately preceding year.

Accordingly,

Net tax in default as at 31.12.2013	-	Rs.11,439,439,119
<u>less</u>		
Net tax in default as at 31.12.2012	-	<u>Rs.10,248,070,817</u>
Increase of Default Tax in 2013	-	Rs. 1,191,368,302
Total collection of taxes in the year ended 31.12.2012	-	Rs.418,423,600,997
3% of the total tax collection in 2012	-	Rs 12,527,080,299

Therefore, there is no net addition of taxes in default in 2013, thus it is below 3% of total tax collection in the preceding year, as required under the Default Taxes (Special Provisions) Act No.16 of 2010.

## Chapter 5 - Audits, Additional Tax Collection, Refunds, Recovery Action, and Appeals

### 5.1 Audits

Audits and investigations were undertaken during 2013 to a widest possible coverage of the taxpayer population, in terms of business activity, entity type and business size. It has been found that the most productive use of investigation resources has paid dividends in respect of the largest taxpayers. In the year under review, the selection process focused heavily on this category resulting in a notable increase in back duty. Accordingly, audit functions were carried out to a satisfactory level resulting in collection of additional taxes, which are shown in the Table 24.

	Income Tax	VAT	ESC	PAYE	NBT	Other	Total
Total amount of additional Tax assessed during the year	7,646,917	5,701,667	467,464	229,155	2,461,476	3,163,295	19,669,974
Total amount of additional Tax collected during the year	6,424,751	5,020,038	390,183	220,000	1,150,315	2,356,973	15,562,260
Number of tax auditing commenced during the year 2013	<b>5,248</b>						
Number of tax Audit finalized during the year 2013	<b>5,206</b>						

Description	Additional income/ Turnover assessed & agreed (Rs.'000)	Additional Tax Assessed & Agreed (Rs.'000)				Additional Tax Collected (Rs.'000) (includes Refund claims setoff)
		Corporate - LTU	Corporate - other	Other units	Total	
Income Tax	51,374,741	5,008,968	1,482,610	1,155,339	7,646,917	6,424,751
VAT	35,802,181	2,107,211	1,652,195	1,942,260	5,701,667	5,020,038
ESC	80,313,986	174,587	181,454	111,423	467,464	390,183
PAYE	494,793	163,000	66,155	-	229,155	220,000
NBT	69,935,407	1,722,750	436,177	302,549	2,461,476	1,150,315
Others	16,733,569	3,116,768	37,805	8,722	3,163,295	2,356,973
<b>Total</b>	<b>254,654,677</b>	<b>12,293,285</b>	<b>3,856,396</b>	<b>3,520,293</b>	<b>19,669,974</b>	<b>15,562,258</b>

### 5.2 Appeals

During the year, the Department has finalized 1,480 appeals received against the assessments issued, and the analysis of appeal position is as follows:

<b>Table 26 - Analysis of the Appeals Received settled</b>							
		<b>Income Tax</b>	<b>VAT</b>	<b>ESC</b>	<b>NBT</b>	<b>Others</b>	<b>Total</b>
<b>Balance as at 01.01.2013</b>	Units (as per APL 2)	147	367	28	39	2	583
	Appeal Branch (as per APL 2)	41	168	-	5	-	214
	CGIR'S Hearing	131	355	28	-	1	515
<b>Registered ( as per APL 2) during the year</b>		<b>411</b>	<b>933</b>	<b>70</b>	<b>60</b>	<b>2</b>	<b>1476</b>
<b>Finalized</b>	Determined (CGIR)	130	291	27	9	1	458
	Units (APL 4)	311	333	58	42	-	744
	Appeal Branch	56	204	8	10	-	278
<b>Submitted for CGIR's hearing</b>		<b>69</b>	<b>336</b>	<b>12</b>	<b>14</b>	<b>2</b>	<b>433</b>
<b>Balance as at 31.12.2013</b>	Units (as per APL 2)	114	135	-	15	2	266
	*Appeal Branch (as per APL 2)	49	460	20	23	-	552
	CGIR 's Hearing	70	400	13	5	2	490
<b>*Files received to appeal branch during the year</b>		<b>79</b>	<b>247</b>	<b>0</b>	<b>35</b>	<b>2</b>	<b>363</b>

### 5.3 Post VAT Refund Audits

Special VAT Audit Branch of the Department completed 226 cases (files) as post VAT refund audits during the year covering 5,424 taxable periods, resulting in the collection of Rs.439,034,814/- as additional tax.

### 5.4 Recovery Actions

Following table shows the number of cases attended and notices issued for recovery of taxes during the year.

<b>Table 27 – Recovery Action</b>		
	<b>Cases</b>	<b>Notices</b>
Issuing Seizure Notices	1,481	2,019
Prosecution Action	676	577
Other Action	5,853	4,324

### 5.5 Refunds

An analysis of refunds made during the year (excluding refunds, which were set off against outstanding taxes) is as follows:

**Table 28 - Refund Analysis**

Type of tax	2012		2013	
	Amount of Refund Rs.	% to Net Revenue Collection of each tax	Amount of Refund Rs.	% to Net Revenue Collection of each tax
VAT	3,149,577,623	1.54%	459,692,181	0.21%
Co – operate Income tax	194,026,255	0.25%	167,326,086	0.20%
Other non Co – operate Income tax	55,356,159	0.88%	50,932,924	0.59%
WHT on Specified fees	5,598,717	1.63%	2,154,419	0.84%
WHT on Interest	12,606,388	0.02%	4,326,494	0.01%
PAYE	15,808,330	0.11%	375,690,454	2.02%
Debit Tax	2,430,112	-	213,182	-
<b>Total</b>	<b>3,435,403,584</b>	<b>0.81%</b>	<b>1,060,335,740</b>	<b>0.23%</b>

The Department received 2,270 claims of VAT refunds during the year and 732 cases were finalized by refunding Rs. 459.69 million in the year. Out of total amount refunded during the year, a sum of Rs. 27.39 million was transferred or setoff against the total outstanding taxes.

The simplified VAT (SVAT) scheme minimizes the VAT refunds for VAT registered persons who are engaged in exports and special projects by transferring to the system of issuing credit vouchers. With the introduction of SVAT in 2011, amount refunded has come down, it was Rs. 6,348,377,132 for the year 2011, Rs. 3,149,577,623 for 2012 and for 2013 it has further reduced to Rs. 459,692,181. Under the SVAT Scheme monitored by the Commissioner General, more persons were qualified to purchase goods and services from SVAT registered persons, where the supply of goods or services to qualified persons are more than 50% of their taxable activities. Hence, no VAT is collectible in these cases, but previously paid VAT was claimed as input tax.

473 Persons were registered for SVAT scheme during the year.

<b>Table 29 - SVAT Credit Voucher Analysis</b>			
Year	Amount of Refunded VAT Rs.	% to Net Revenue Collection of the year	Value of VAT portion of issued SVAT Credit Voucher Rs. (related to local purchases)
2010	8,869,784,827	4.05%	
2011	6,348,377,132	2.94%	26,100,132,430 (from April 2011)
2012	3,149,577,623	1.54%	41,991,314,893
2013	459,692,181	0.21%	45,337,507,743

## Chapter 6 - International Relations

### 6.1 Double Tax Avoidance Agreements

Countries enter into Double Tax Treaties to eliminate or mitigate the incidence of juridical double taxation and fiscal evasions in the international trade (or transactions). These treaties are particularly important for developing countries as they play a great role by way of credit mechanism in attracting foreign investments, paving the way to obtain expertise, modern technology, employment opportunities etc.

In addition double tax conventions are entered in to having solidarity and corporation between countries like it happened with several treaty partners of Sri Lanka.

Sri Lanka has as at 31.12. 2013 entered into Double Tax Avoidance Treaties with 38 countries and a multilateral treaty (SAARC) as referred to in the table 30. Formalities of another six treaties have been almost completed during the year and they were pending entering in to force.

#### 6.1.1 Details of Double Tax Treaties and Multilateral Treaties

Table 30 - The countries with which double tax treaties are in force as at 31.12.2013					
	Country	Date of Signing the Agreement	Gazette		Operative in Sri Lanka From the Year of Assessment
			No.	Date	
1	Australia	18-Dec-1989	657/2	8-Apr-1991	1992/93
2	Bangladesh	24-Jul-1986	448/13	7-Apr-1987	1989/90
3	Belgium	3-Feb-1983	292/6	9-Apr-1984	1984/85
4	Canada	23-Jun-1982	253/8	13-Jul-1983	1986/87
5	China	11-Aug-2003	1374/20	6-Jan-2005	2006/07
6	Denmark (Rev.)	22-Dec-1981	228/15	20-Jan-1983	1980/81
7	France	17-Sep-1981	210/17	17-Sep-1982	1982/83
8	Finland	18-May-1982	253/8	13-Jul-1983	1981/82
9	Germany (Rev.)	13-Sep-1979	113	31-Oct-1980	1982/83
10	Hong Kong (Limited)	26-Mar-2004	1374/21	6-Jan-2005	2005/06
11	India (Rev.)	22-Jan-2013	1828/9	17.09.2013	2014/15
12	Indonesia	3-Feb-1993	789/10	21-Oct-1993	1995/96
13	Iran	25-Jul-2000	1187/16	6-Jun-2001	2002/03
14	Italy	28-Mar-1984	322/4	5-Nov-1984	1978/79
15	Japan	12-Dec-1967	14803/5	29-May-1968	1969/70
16	Korea	28-May-1984	342/11	29-Mar-1985	1980/81
17	Kuwait	5-Feb-2002	1245/19	18-Jul-2002	2002/03
18	Malaysia (Rev.)	16-Sep-1997	1028/21	22-May-1998	99/2000
19	Mauritius	12-Mar-1996	958/10	15-Jan-1997	1998/99
20	Nepal	6-Jul-1999	1116/6	26-Jan-2000	2001/02
21	Netherlands	17-Nov-1982	281/13	26-Jan-1984	1979/80
22	Norway (Rev.)	1-Dec-1986	464/4	27-Jul-1987	1989/90

23	Oman (Limited)	26-Jul-1994	881/7	26-Jul-1995	1979/80
24	Pakistan (Rev.)	15-Oct-1981	210/17	17-Sep-1982	1983/84
25	Philippines	11-Dec-2000	1237/7	21-May-2002	2010/11
			1256/27	2-Oct-2002	
26	Poland	25-Apr-1980	130	27-Feb-1981	1984/85
27	Qatar	7-Nov-2004	1422/10	5-Dec-2005	2008/09
28	Romania	19-Oct-1984	371/9	15-Oct-1985	1986/87
29	Russia	2-Mar-1999	1101/22	15-Oct-1999	2003/04
30	Saudi Arabia (Limited)	16-Dec-1999	1101/23	15-Oct-1999	1983/84
31	Singapore	29-May-1979	57/11	10-Oct-1979	1977/78
32	Sweden (Rev.)	23-Feb-1983	297/28	18-May-1984	1985/86
33	Switzerland	11-Jan-1983	292/6	9-Apr-1984	1981/82
34	Thailand	14-Dec-1988	571/16	18-Aug-1989	1990/91
35	U.A.E. (Limited)	7-Jul-1992	824/13	23-Jun-1994	1979/80
	U.A.E. (Comprehensive)	24-Sep-2003	1346/1	21-Jun-2004	2004/05
36	U.K.	21-Jun-1979	60/23	2-Nov-1979	1977/78
37	U.S.A	14-Mar-1985	398/4	22-Apr-1986	2004/05
	U.S.A. Protocol	20-Sep-2002	1298/8	21-Jul-2003	
38	Vietnam	26-Oct-2005	1455/9	24-Jul-2006	2007/08
<b>Multi National Treaties</b>					
39	SAARC Multilateral Treaty	13-Oct-2005	1447/3	29-May-29	2011/2012

## 6.1.2 Affairs related to Double Tax Treaties during the Year 2013

### Revised Agreement with India

Agreement was signed at Government level in January and gazetted on October 23, 2013 after the negotiations held in Sri Lanka and initialing at the official level.

### Agreement with Palestine

Agreement which was signed at Government level in 2012 in Colombo after negotiations was gazetted on November 26, 2013.

### Agreement with Belarus

Negotiations were held in Minsk during 05-09 August 2013 and the text of the Agreement was initialed and finalized at official's level. The Cabinet Approval was obtained on August 15, 2013 and signed at the Government level on August 26, 2013. The Parliamentary approval was obtained and the Agreement was Gazetted on November 20, 2013.



### **Revised Agreement with Singapore**

Negotiations for the revision of Agreement for the Avoidance of Double Taxation between Sri Lanka and Singapore was held in Novena during 21-26 October 2013. The Agreement was initialed at official level.

### **Revised Agreement with Poland**

Negotiations were held on revision of Double taxation Avoidance Agreement with Poland during 2<sup>nd</sup> to 6<sup>th</sup> of December 2013 in Warsaw the text of the Agreement was initialed and finalized at official's level. Approval of the Cabinet to sign the agreement at Government level and for presenting for the Parliamentary approval is to be taken.

### **Agreement with Luxembourg**

Agreement which was negotiated and initialed at official level in 2010, signed at Government level on January 31, 2013 and gazette published on November 26, 2013.

### **Agreement with Seychelles**

Agreement which was signed at Government level in 2011 was gazetted on November 20, 2013.

### **Revised Agreement with Oman**

Negotiations for the revision of Agreement for the Avoidance of Double Taxation between Sri Lanka and Oman was held in Colombo during 07-10 October 2013 and signing at the Government level and entering in to force are pending .

## **6.2 Participations at International Taxation Matters Abroad**

	<b>Name and Designation of the Officer</b>	<b>Programme</b>	<b>Country</b>	<b>Duration</b>
1	Mr. H.B.A. Senevirathne Sineor Deputy Commissioner General	Second Meeting of the SAARC cometent Authorities	Nepal	22.05.2013- 23.05.2013
2	Mr. H.B.A. Senevirathne Sineor Deputy Commissioner General	Agreement on the Avoidance of Double Taxation	Belarus	05.08.2013- 09.8.2013
3	Mr. H.B.A. Senevirathne Sineor Deputy Commissioner General	Agreement on the Avoidance of Double Taxation	Singapore	21.10.2013- 26.10.2013
4	Mr. H.B.A. Senevirathne Sineor Deputy Commissioner General	Agreement on the Avoidance of Double Taxation	Poland	02.12.2013- 06.12.2013

5	Mrs. K. Dahanayake Deputy Commissioner General	67th Congress of the IFA	Denmark	25.08.2013- 30.08.2013
6	Mrs. R.M.R.W. Manchanayake Deputy Commissioner General	OECD : 18th Annual Tax Treaty Meeting	Paris	25.09.2013- 27.09.2013
7	Mrs. P. Rohini Commissioner	OECD : 18th Annual Tax Treaty Meeting	Paris	25.09.2013- 27.09.2013
8	Mrs. R.M.P.S.K. Rajapakse Commissioner	OECD : 18th Annual Tax Treaty Meeting	Paris	25.09.2013- 27.09.2013
9	Miss D.G.P.W. Gunathillake Commissioner	IRBM- OECD Tax policy Analysis	Malaysia	18.02.2013- 22.02.2013
10	Miss D.G.P.W. Gunathillake Commissioner	Agreement on the Avoidance of Double Taxation	Singapore	21.10.2013- 26.10.2013
11	Mr. J.P.D.R. Jayasekera Commissioner	Forth High level Tax Conference for Asian Countries	Japan	02.04.2013- 04.04.2013
12	Mrs.K.S.B.R.D.S. Karunaratne Commissioner	IRAS-OECD : Regional GST/VAT Conference	Singapore	22.05.2013- 23.05.2013
13	Mr. H.M.G. Wijesinghe Commissioner	IRBM-OECD : Tax Treaties special issues	Malaysia	18.03.2013- 22.03.2013
14	Mrs. B.A.D.D. Herath Commissioner	IRBM-OECD : Tax Treaties special issues	Malaysia	18.03.2013- 22.03.2013
15	Mrs. B.A.D.D. Herath Commissioner	Agreement on the Avoidance of Double Taxation	Belarus	05.08.2013- 09.08.2013
16	Mrs. B.A.D.D. Herath Commissioner	Agreement on the Avoidance of Double Taxation	Singapore	21.10.2013- 26.10.2013
17	Mr. T.M. Dayananda Commissioner	OECD-IBFD : Taxation of Financial Markets	Malaysia	26.08.2013- 30.08.2013
18	Mr. D.R.S. Hapuarachchi Commissioner	Second Meeting of the SAARC competent Authorities	Nepal	22.05.2013- 23.05.2013
19	Mr. D.R.S. Hapuarachchi Commissioner	Agreement on the Avoidance of Double Taxation	Poland	02.12.2013- 06.12.2013
20	Mr. M.I.M. Muzzammil Deputy Commissioner	LHDNM-OECD: Introduction to the Application and Negotiations of Tax Treaties	Malaysia	30.09.2013- 12.10.2013
21	Miss. H.A. Lalitha Ranjani Deputy Commissioner (cover-up duties)	IRBM : CATA; Workshop on taxation of International Transaction	Malaysia	03.06.2013- 21.06.2013
22	Mr. Bandula Haputhathrige Deputy Commissioner (cover-up duties)	IRBM-OECD: International Tax Avoidance, Base Erosion and Profit Shifting	Malaysia	21.10.2013- 25.10.2013
23	Mrs. H.S.Y. Soysa Assessor	Agreement on the Avoidance of Double Taxation	Belarus	05.08.2013- 09.08.2013
24	Mrs. H.S.Y. Soysa Assessor	Agreement on the Avoidance of Double Taxation	Singapore	21.10.2013- 26.10.2013
25	Ms. M.C. Gunathilake Assessor	Agreement on the Avoidance of Double Taxation	Poland	02.12.2013- 06.12.2013
26	Mrs. P.D.I.D. Jayarathne Assessor	Agreement on the Avoidance of Double Taxation	Belarus	05.08.2013- 09.08.2013
27	Mrs. P.D.I.D. Jayarathne Assessor	Agreement on the Avoidance of Double Taxation	Poland	02.12.2013- 06.12.2013

## Chapter 7 - Legislation

### 7.1 Legislation enacted during the year

- i. Inland Revenue (Amendment) Act No. 18 of 2013
- ii. Economic Service Charge (Amendment) Act No. 06 of 2013
- iii. Value Added Tax (Amendment) Act No. 17 of 2013
- iv. Nation Building Tax (Amendment) Act No. 11 of 2013
- v. Betting and Gaming Levy (Amendment) Act No 19 of 2013
- vi. Tax Appeal Commission (Amendment) Act No. 20 of 2013

### 7.2 Approved Charities

There were no approval granted during the year

### 7.3 Gazette Notices

Following Gazette notices were issued during the year under the respective Acts administered by the IRD.

	<b>Gazette No</b>	<b>Date</b>	<b>Description</b>
I	1813/17	06.06.2013	Published the names of villages identified by virtue of and for the purpose of paragraph (2) of Sub Section 34 of the Inland Revenue Act No. 10 of 2006 (economically marginalized villages)
II	1823/05	12.08.2013	Methods to arrive at the arm's length price to assess the profits of transactions between associated enterprises

### 7.4 Interpretation Committee

The Committee for Interpretation of Tax Laws (CITL), appointed in 2011 by the Commissioner General of Inland Revenue under the Section 208A of Inland Revenue Act, comprises of senior officials of Inland Revenue Department and Chaired by the Senior Deputy Commissioner General, is responsible for the issuance of interpretations, clarifications, guidelines etc. on the provisions of Acts administered by the CGIR.

Any person, who finds any ambiguity in any provision of any enactment administered by The CGIR, can request for an interpretation thereon to the Committee. (Secretary of Committee, Secretariat, Inland Revenue Department). The CITL as mandated to issue necessary guidelines and instructions to ensure uniformity with regard to interpretations and procedures dealt with 54 cases during the year concerned. Table 33 shows the details of the interpretations given by the CITL.

**Table 33 - Details of Interpretations given by the CITL during the year 2012**

<b>Tax Type</b>	<b>Area</b>	<b>No. of interpretations issued</b>
<b>Income Tax</b>	Liability of Income Tax	3
	Dividends	1
	Exemptions	8
	Deductions allowed in ascertaining profits & income	3
	Employment Income	2
	Concessionary rates	8
	Definition	3
	Reduction or waiver of penalty	1
<b>VAT</b>	Liability for VAT	5
	Supplies of the company fall within zero rated Category	2
	Set off Input Tax	1
	Investment fund Account	1
<b>NBT</b>	Definitions and Computation for liable Turnover	6
	Liability for NBT	2
	Exemptions	1
<b>Stamp Duty</b>	Exemptions	1
	Liability on share certificates on transfer or Issue of shares	3
<b>ESC</b>	Computation of Liable Turnover	2
<b>B&amp;G Levy</b>	Liability for B&G	1
	<b>Total</b>	<b>54</b>

## Chapter 8 - Other Work

### 8.1 Taxpayer Service Unit

The taxpayer service unit facilitated the taxpayers and the public to access for Department's service conveniently. The unit is equipped with officers to assist every person seeking help or information. Relevant enactments, Departmental publications, paying in slips, forms etc. are available in this Unit. To avoid possible delays and inconveniences, arrangements had been made to issue Taxpayer Identification numbers (TINs) and temporary VAT numbers at this unit. Accordingly, the Unit issued 7,666 TIN certificates during the year. (3,523 temporary VAT applications were forwarded by the Unit to Information Branch for opening new files and 4,034 TIN applications to corporate Units for the maintenance of these files).

Furthermore, 276 clearance certificates were issued for non-taxpayers and several types of leaflets were prepared during the year for the benefit of taxpayers. Moreover Taxpayer Service Unit provided tax consultancy services to the taxpayers through the "One Stop Service Center" established at the ground floor of the IRD head office in addition to organizing 33 awareness programmes during the year.

### 8.2 Details of the Directions and Clearance Certificates issued by the Department

Description	2013	2012
<i>Directions issued</i>		
• To employers in respect of PAYE deduction	-	-
• To Banks for WHT on interest	97	123
• In relation to Specific Fees	7	16
<i>Clearance Certificates issued</i>		
• In relation to withdrawals from provident Fund	125	333
• In relation to persons leaving Island	276	33
<i>Privilege Cards Issued</i>		
• Gold Cards	157	150
• Silver Cards	93	65
<i>Certificate issued for tax concession on imports of Motor Cars</i>		
• No of certificates	129	233

### 8.3 Analytical Reports

The Economic Research and Planning Unit of the IRD carried out different types of researches by analyzing data received from various sources including Central Bank and Census & Statistics Department.

The following reports were prepared during the year by the Economic Research and Planning Unit

1. Report on analysis of revenue drop of the Banking Sector
2. Bench Marks for 04 selected sectors. (Hair dressers & Beauty shops, Hotel sector, Construction industry, Advertising sector).
3. Quarterly VAT Refund report (30.09.2012, 31.12.2012, 31.03.2013 & 30.06.2013).
4. Report on analysis of the impact of exemptions granted on Income tax, increase of threshold for VAT & NBT and introduction of S VAT on Revenue.
5. Analysis report on revenue , considering the economic indicators by sector wise, activity wise and tax wise (annually, quarterly, monthly, daily).
6. Monthly and Quarterly Tax Bulletins (up to 30.04.2013).

#### **8.4 Revenue Administration Management Information System (RAMIS)**

In the view of enhancing the efficiency of the Department, Ministry of Finance and Planning wanted to implement Revenue Administration Management Information System (RAMIS) as the most important and vital part of the fiscal management reform programme, which was undergoing during the year.

Ministry of Finance and Planning has received Cabinet approval on 29.11.2012 to engage Singapore to help implement RAMIS.

A memorandum of understanding was signed on 05.06.2013 between Ministry of Finance and Planning and Infocomm Development Authority International of Singapore for this purpose.

The objections of RAMIS have been identified as follows.

- i. Conversion of taxpayer services in to self-services to minimize the efforts for taxpayers to comply with tax laws and to reduce administrative burden for tax officials in processing transactions.
- ii. Minimize the cost of tax compliance for taxpayers and the cost of tax administration for the IRD.
- iii. Establishment of integrated view on taxpayer information and tax liabilities across the taxes based on information available within and outside the IRD.
- iv. Implementation of service delivery channels to cater all segments of taxpayers with or without access to computers and internet.
- v. To create a centralized tax payer database and to implement a unique identification number for both individual and corporate taxpayers
- vi. To establish integrated systems to facilitate exchange of information between the IRD and other key stake holders such as Ministry of finance and planning, Banks,

- Custom Department and other relevant systems to improve operational efficiencies, revenue collection and compliance monitoring.
- vii. To improve tax revenue through effective monitoring of tax compliance and analysis of external transactional data sources related to the taxpayers.

A team comprising 5 Commissioners and a Deputy Commissioner General, appointed by Commissioner General of Inland Revenue met representatives from Infocomm Development Authority International of Singapore and officers from Ministry of Finance and Planning to discuss the necessary steps.

Infocomm Development Authority International of Singapore submitted their comprehensive proposal in August 2013. A Negotiating Committee was appointed by the Cabinet to evaluate the proposal and to negotiate the terms.

A team of IRD officers visited Singapore in November 2013 for evaluating ongoing sites and a report was submitted to Cabinet Appointed Negotiating Committee.

