

EXECUTIVE SUMMARY

As the main tax administrator, The Inland Revenue Department's (IRD) prime responsibility is to ensure that it collects the due taxes effectively and efficiently. However, The IRD has failed to collect the tax liabilities of life insurance sector in Sri Lanka effectively in recent past. This was due to the disagreement prevailed between the IRD and the life insurance companies with regard to the diverse computation of life insurance tax and interpretation of income tax law. Consequently, it had given rise to accumulation of large sums of dispute tax against life insurance sector. As a result, by 2016 the unsettled disputed tax was worth of Rs 15 billion which represent 21.88% of total dispute tax at department. This field study was carried out with the purpose of developing and recommending of an alternative dispute resolution system for the IRD as compared to litigation and administrative tribunals. This would in turn lead to fulfillment of the following objectives of the study: settlement of 40-60 % of disputed tax by September 2019 and to get 40 % of operating life insurance companies to comply with the provision of the Inland Revenue Act no 10 of 2006 by September 2019. This is important as current conventional available dispute resolution mechanisms of the IRD, is unable to find an agreeable solution for the stakeholders to overcome the above problem thus far.

For the study secondary data were used. The data were collected from both internal (IRD) and external sources such as the Annual Reports of Central Bank of Sri Lanka Insurance Board of Sri Lanka and Inland Revenue Department. The root cause analysis was conducted through SWOT and PESTEEL analyses. Finally, the principle of Kaizen Continuous Improvement Strategy (KCIS) was used to develop an alternative dispute resolution system. This study has shown that introducing an alternative dispute resolution mechanism with external third party involvement to the dispute resolution process of the IRD would improve the efficiency of resolving tax assessment disputes in life insurance sector. Furthermore, current situation analysis, process enhancement and training and awareness programs are key components of the recommended alternative dispute resolution mechanism.