

## EXECUTIVE SUMMARY

On the one hand, the Central Bank of Sri Lanka's annual reports indicate that the gross domestic production and per capita income has been increased continuously. On the other hand, the country is experiencing continuous fiscal deficit which leads to create public debt crisis. The reason behind the continuous fiscal deficit is, continuous declining trend of tax ratio. Likewise, the reason behind the public debt crisis is continuous fiscal deficit. One of the major reason behind the low trend of tax ratio is, continuous lower level of income tax contribution to GDP. According to the past records, IRD's Income Tax contribution to GDP is still around two percent. It indicates the country's incapability of increasing Income Tax revenue.

So, increasing Income Tax contribution to the GDP has become a contemporary issue to resolve.

According to annual reports of Central Bank of Sri Lanka and Department of Inland Revenue's for the period 2008-2016, IRD is still maintaining one percent of income tax files to the population. Even with PAYE files that percentage is not exceeded the four percent. Likewise, the return compliance also not in the desired level. It only showed less than 50% of due date compliance. Further, audit productivity is also not within the desired level. Its productivity ratio in 2016 is 0.5% from the existing tax files.

So, the suggested project aimed to address the problem of low Income Tax compliance which create low Income Tax contribution to GDP. First, the existing situation analysed by using the SWOT and cause and effect analysis. SWOT analysis was adopted as a macro analysis, to get the whole picture of the Department of Inland Revenue. It provided the idea about the prevailing structures, procedures, systems, skills, shared values and etc. It analysed the internal capacity of the IRD through in depth analysis of strength and weaknesses. At the same time, external environment also examined with the intention of searching opportunities to expand the IRD revenue generation capacity while minimizing the threats (external challenges). Further, cause and effect diagram was used as a micro analysis of the problem of low income tax compliance which create low Income Tax contribution to GDP.

The secondary data and brainstorming techniques were used to gather information to construct the project.

For the purpose of developing a study framework for the problem to solve and identifying project components, the theoretical background to the problem was reviewed.

The project identified two major components other than the component of current situation analysis: capacity building and social distance. Limited resources were properly allocated according to a resource plan. The cost is a challenging factor of any project. It is analyzed before implementing the project.

The main outputs of the project are, improvement of tax competency of existing, potential and future taxpayers, development of employee capacity through capacity building and improvement of communication and relationship (between the tax authority and the taxpayers, within the IRD,IRD and other stake holders as well as taxpayers and taxpayers).

These outputs are link with the social distance. It results to reduce the social distance between taxpayer and the tax authority.

By taking into account these, the author introduced a new model of Income Tax compliance by adding sustainable value creation to the project. It named as 'STAR MODEL' and created by combining two triangles. One is distance triangle, and the other is project component triangle. By applying that angle and model the author finally discussed recommendations with potential risk and benefits to get the ultimate outcome of increased Income Tax contribution to GDP through increasing Income Tax compliance by reducing social distance.