



**The Attractiveness of Tax Concession within Medium
Entrepreneurs for Economic Development of Sri Lanka**

CTT (Certified Tax Technician) project report on,
The attractiveness of Tax Concession within medium entrepreneurs for
economic development of Sri Lanka

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ABSTRACT

The national product of that country can be introduced as one of the main criteria used in evaluating development capability of a country. Accordingly, the increase in the national product of a country indicates that the country has entered the path of economic development. The contribution of large scale as well as medium scale enterprises to the said economic development of the country is highly appreciated. The foundation laid by a medium-sized business on the path of Economic development paves the way for speed on such a path in the country. Various factors affect the national product of a country and the contribution of taxes to the national income or national product of a country like Sri Lanka is significant. Accordingly, if country can uses its tax revenue efficiently, it can succeed in taking the country towards its economic development. Accordingly, it is the responsibility of the government to encourage taxpayers in a country as in return for their contribution to the economy. Based on that government of a country provides tax incentives with the aim of encouraging taxpayers in a country as well as increasing the level of investment in the country. Whether these incentives make a real contribution to the aforementioned economic growth is a matter of great concern and these contribution mainly depend on level of attractive of these concession within the entrepreneurs. Accordingly, if a country's economic growth can be successfully achieved through such incentives, it is in the best interest of the government to provide more such incentives.

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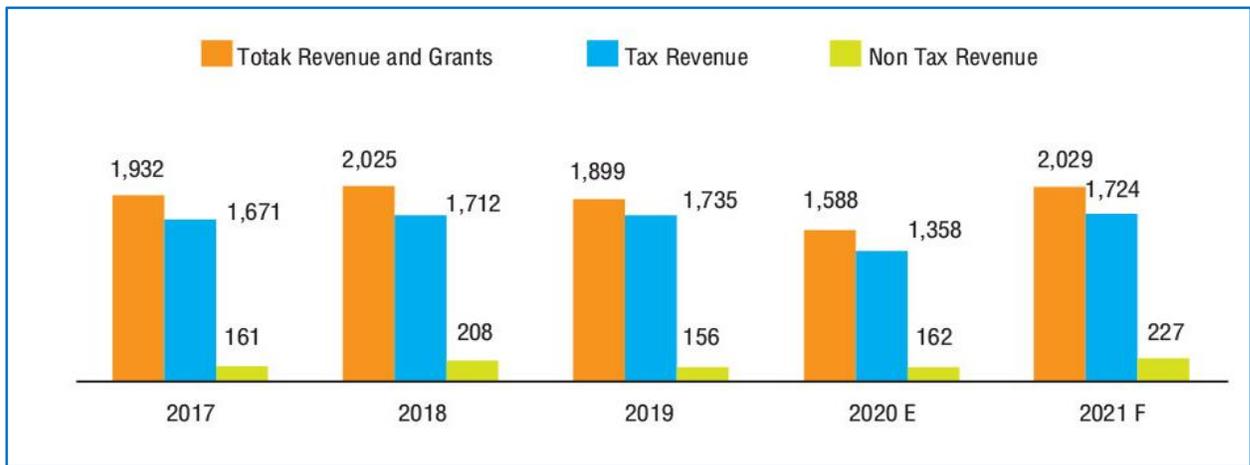
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CHAPTER 1: INTRODUCTION

1.1 Background of the study

Economy is an important concept that everyone needs to know. Because it can help improve living standards and make society a better place. So general economy is the large set of inter-related production, consumption, and exchange activities that aid in determining how scarce resources are allocated. Through effective & efficient resource management, every country is try to achieve a high economic pace by developing the economic condition of that country. So our next problem is what is economic development and how is it measure. Based on the historical ideas there are various ways which we can assess the economic development of a country, through the literature analysis, researcher is going to discuss about these various measures. But as a general idea, increase in the country's GDP (Gross Domestic product) can be taken as the country's economic growth. So the GDP is equal to the total expenditures for all final goods and services produced within the country in a stipulated period of time. So increase GDP or Economic growth rate can be consider as a basic of economic development. So growth rate is the percentage change in the value of all of the goods and services produced in a nation during a specific period of time, as compared to an earlier period.

The success of a country depends on its efficiency and effectiveness of management of income and expenditure of that particular country. That is by properly managing the country's national income and national expenditure gives them the strength to achieve the goal of economic development. But in a country like Sri Lanka, the past period shows a tendency to increase year by year in terms of economic expenditures. Accordingly, if the income of a country can be increased in the same way, the authorities of that country will be able to carry out country's economic activities smoothly. When we think about the national income especially national income of Sri Lanka, according to following graph, it can be seen that large portion of national income is covered by tax income.



Source: Budget Speech 2021, SC Securities

Accordingly, taxes are a key aspect that we should consider, when we are analyzing Sri Lankan economy. So taxation is imposition of compulsory levies on individuals or entities by governments. As researcher mentioned early, main purpose of introducing such of levies is to raise revenue for government expenditures. But on the other hand, it must be remembered that the development of a country cannot be achieved by increasing tax revenue alone. In a country like Sri Lanka, most of tax revenue comes from indirect taxes such as VAT. So increasing tax will create pressure on the general public. Directing an economy toward growth by imposing more and more taxes on the public, raises the question of whether sustainable development is really happening. That is, we have to focus on increasing non tax revenue such as profit and dividends, interest as well as fees and charges like that. To achieve this the business sector as well as investment of country should be significant part of an economy. But in the present, Sri Lanka as an economy which more depend on the tax revenue, business as well as investment are not making much progress.

As mentioned above, when taxes are a major factor influencing business decisions, at that point government can decide to give tax incentive/ Concession for a business as well as individual. Generally Tax concessions are the reduction made by the government in the amount of tax that a particular group of people or type of organization has to pay or a change in the tax system that benefits those people (Collins Dictionary, 2021). The primary purpose of giving such kind of tax concession is to improve economic development through business and entrepreneurship growing. Because when government give tax concession for a country, they can attract more business to the state by making it less expensive for businesses to operate. Because tax

concession are always designed to increase a firm's profitability by decreasing its overall tax burden. This can be explained in a very simple way as follows. As you aware, Investors generally tend to adopt a two-stage process when evaluating their business locations. In the first stage they examine countries and regions based on their fundamental determinants like market size, access to raw materials, availability of skilled labor, etc. (Witthans, 1984). Only those areas that satisfy these criteria go on to the next stage of evaluation where tax rates, grants and other incentives become important. Because tax incentive affect the profitability of their investment. But it contributes to increasing profitability in several ways. Such as

- Tax exemptions fully excuse firms from paying certain liabilities.
- Tax reductions partially offset the amount a firm is obligated to pay in taxes.
- Tax refunds and rebates repay a portion of the taxes a firm has already paid.

As researcher mentioned before to direct a country on the path of economic development, effective management of the country's economic activities is a very important. Accordingly, the economy of a country is tied to business activities of large scale business as well as small scale business. But many people think that only large scale enterprise is important in a country. But according world trade organization, SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. When we think about Sri Lanka, the Government of Sri Lanka recognizes SMEs as the backbone of the economy, as it accounts for more than 75% of the total number of enterprises, provides 45% of the employment and contributes to 52% of the Gross Domestic Production (National Policy Framework for Small Medium Enterprise (SME) Development). In that sense, it is safe to say that SME is a major contributor to a country's notational income. So it is important to manage large-scale entrepreneurs as well as small-scale entrepreneurs in economic development. Accordingly state authorities should ensure that such parties are targeted when decision tax policies. These parties are also important to consider, especially when it comes to benefits such as tax concession. Tax concession which are attractive within these SME entrepreneurs which make a clear contribution to economic development, accelerate the country's economic growth trajectory.

1.2 Problem Statement

The research problem being addressed is **how the attractiveness of tax concession within the medium entrepreneurs for the economic development of Sri Lanka?** Here researcher hope to discuss reasons for giving such kind of concession for the business and overall impact of tax concession on the economic development of Sri Lanka.

1.3 Purpose of the project

Researcher's main objective is to analyze how the attractive of tax concession and how it is effectively used for economic growth by identifying relevant rules and investigate effective income generating ways of Sri Lankan Economy based on the given concession.

Sub objectives

- To analyze the Tax revenue structure of the Sri Lanka.
- To provide recommendations regarding usefulness of tax concession to uplift the situation of Sri Lanka.

1.4 Research questions

Research questions are other important step in our research process. That is from research question guides our study as well as it determine whether we are going to do a qualitative or quantitative method. Furthermore, by research process reflects the direction and epistemological underpinnings of our research path. Here, the structure of our research question are changed based on the research methods we used, like in quantitative method we looking at casual relationships and in qualitative method exploring a phenomenon.

According to the main research problem, researcher build following question as my research questions,

1. How wide is their knowledge of taxation?
2. As a taxpayer, do you think tax payment is important to the country's economy? What's tie reason for it?
3. What do you think of tax concession in these areas?

1.5 Research objectives

In general, research objectives describe what we expect to achieve by our research. Thus, related to my research area, researcher identified following area as research objectives of this project,

1. To identify the wide level of knowledge regarding taxation.
2. To identify the importance of tax payment and tax concession for country's economy.
3. To verify the importance tax concession in these areas.

1.6 Significance of the study

This study is carrying out to determine the attractiveness of tax concession within medium entrepreneurs for economic development of Sri Lanka. So this research is significant based on the following reasons.

1. Theoretically, the findings of the study will fill the empirical gap on attractiveness of tax concession within medium entrepreneurs.
2. Practically, the findings will be beneficial to the tax administration of the country in order to enhance the attractiveness of tax concession within medium entrepreneurs.
3. The study will serve as a body of reserved knowledge to be referred by the future researchers.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

Firstly we should identify reason to doing literature review. According to Bryman and Bell (2015, p. 9) the literature review is an important part when conducting research since it involves what is previously known about the subject, which theories have been used, and which research methods have previously been tested. Because it guide the researchers for getting better understanding of scope of our purposed project. Furthermore, the review of empirical evidence explores the avenue for future and present research efforts related to the subject matter. Sometime research get conflicting and unexpected result. At that moment researcher can take advantage of knowledge get through the medium of published works.

Mainly this chapter consists of two parts. The first part of this chapter present some of literature review about Economic and Economic development with importance and measurement of those concept. The second part of this chapter present some of literature reviews on selected Tax concession such Enhanced Capital Allowances, Assessable Charges and Balancing Allowances, Research and Development, Information Technology, Marketing and Communication Expenses Allowance like that.

2.2 Economic

As a start we need to identify what is economy. According to the Adems Smith, Economy is “an inquiry into the nature and causes of the wealth of nations”. As well as British economist Alfred Marshall defined economics as the study of man in the ordinary business of life. Marshall argued that the subject was both the study of wealth and the study of mankind. As we as Lionel Robbin, another British economist and he defined like this. According to him “Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses” (An Essay on the Nature and Significance of Economic Science, 1932).when we think about the modern definition, According to Samuelson, “Economics is the study of how people and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time and distribute them for consumption now and in the future among various persons and groups of society” Based on above idea we can summarized An economy is the large set of inter-related production, consumption, and exchange activities

that aid in determining how scarce resources are allocated. The production, consumption, and distribution of goods and services are used to fulfill the needs of those living and operating within the economy, which is also referred to as an economic system (will Kenton, 2021). Simply At the most basic level, economics attempts to explain how and why we make the purchasing choices we do.

Most of economic concept and theories build around the 4 basic economic concept. Those are scarcity, supply and demand, costs and benefits, and incentives (ANDREW BEATTIE, 2021 May). As you aware Scarcity explains the basic economic problem that the world has limited resources to meet seemingly unlimited wants, and this reality forces people to make decisions about how to allocate resources in the most efficient way.so it leads to people to get their demand and supply decisions. As well as result of scarce resources, humans are constantly making choices that are determined by their costs and benefits and the incentives offered by different courses of action.

When we move to Sri Lankan economy, Sri Lanka is a developing economy based largely on agriculture, services, and light industry. Agriculture accounts for approximately 21 percent of the gross domestic product (GDP) and employs 38 percent of the workforce. Manufacturing industries account for approximately 19 percent of the gross domestic product and employ about 17 percent of the workforce. Chief manufactures include textiles, ceramics, petroleum products, vegetable oils, fertilizers, and cement. The service sector is the largest of the Sri Lanka economy, employing 45 percent of the workforce and contributing roughly 60 percent of GDP. Tourism, banking, finance, and retail trade are the major components of the service sector.

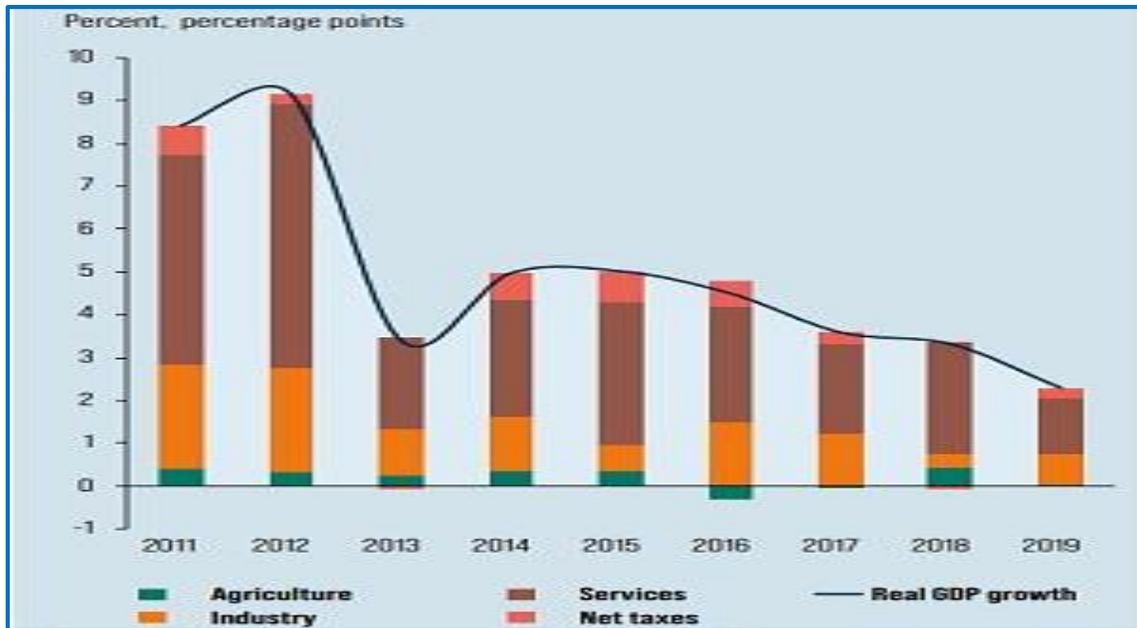
2.3 Economic development

Economic Development is the creation of wealth from which community benefits are realized. It is more than a jobs program, it's an investment in growing your economy and enhancing the prosperity and quality of life for all residents. There are various measurement basic for economic development. Those are,

1. Gross Domestic Product (GDP)

GDP measures the monetary value of final goods and services—that is, those that are bought by the final user—produced in a country in a given period of time (say a quarter or a year). It counts all of the output generated within the borders of a country. It can be measured by three methods, those are Production approach, Expenditure approach and Income approach (Department of Census and Statistics). So most of economists believe that increase GDP is an economic growth of country. So the economic growth rate is used to measure the comparative health of an economy over time (James Chan, 2020).

Simply economic growth rate measures the change in a nation's GDP. Also In this research, researcher is going to use GDP as a measurement of economic development based on several reasons. Most important thing is GDP gives information about the size of the economy and how an economy is performing. The growth rate of real GDP is often used as an indicator of the general health of the economy. In broad terms, an increase in real GDP is interpreted as a sign that the economy is doing well (Tim Callen, 2020). When we analyze Sri Lankan's GDP, as can be seen in the graph below, it shows a declining trend in the last few years. The conclusion is that Sri Lankan Economy as a whole is gradually weakening.



Source: Department of census and statistic and staff calculations.

2. Gross National Product (GNP)

There is a group of certain economists which maintains the growth of national income should be considered most suitable index of economic development. They are Simon Kuznets, Meier and Baldwin, Hicks D. Samuelson, Pigon and Kuznets who favored this method as a basis for measuring economic development. For this purpose, net national product (NNP) is preferred to gross national product (GNP) as it gives a better idea about the progress of a nation.

3. GNP per capita

Some economists believe that economic growth is meaningless if it does not improve the standard of living of the common masses. Thus, they say that the meaning of economic development is to increase aggregate output. Such a view holds that economic development be defined as a process by which the real per capita income increases over a long period time. Harvey Leibenstein, Rostow, Baran, Buchanan and many others favour the use of per capita output as an index of economic development.

4. Economic Welfare as an Index of Economic Development:

Some economists like Coline Clark, Kindleberger, D. Bright Singh, Hersick etc. suggested economic welfare as the measure of economic development.

5. Measurement through Occupational Pattern

The distribution of working population in different occupations is also regarded as a criteria for the measurement of economic development. Some economists regard the changes in the occupational structure as a source for measuring the nature of economic development.

6. Standard of Living Criterion:

Another method to measure economic development is the standard of living. According to this view, standard of living and not rise in per capita income or national income should be considered an indicator of economic development. The very objective of development is to provide better life to its people through improvement of the standard of living. In other words, it refers to increase in average consumption level of the individual. But, this criteria is not practicably true.

2.4 Small and mid-size enterprise

It is important to study about medium entrepreneurs when we are going to analyze the attractiveness of tax concession within the medium entrepreneurs. So small and mid-size enterprise (SMEs) means is are businesses that maintain revenues, assets or a number of employees below a certain threshold (Daniel Liberto, 2020).

As well as according to OECD principle Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ less than a given number of employees. This number varies across countries. In Sri Lanka, a business is considered as an SME if its number of employees does not exceed 300 individuals and if its revenue does not exceed 750 million LKR (National Policy Framework for Small Medium Enterprise (SME) Development). As well as you can use following table to identify SME in Sri Lanka.

Size	Criteria	Medium	Small	Micro
Sector Manufacturing Sector	Annual Turnover	Rs. Mn. 251 - 750	Rs. Mn. 16 - 250	Less than Rs. Mn. 15
	No. of Employees	51 - 300	11 - 50	Less than 10
Service Sector	Annual Turnover	Rs. Mn. 251 - 750	Rs. Mn. 16 - 250	Less than Rs. Mn. 15
	No. of Employees	51 - 200	11 - 50	Less than 10

Source: National Policy Framework for Small Medium Enterprise (SME) Development

2.5 Taxation

Through this section researcher is going to explain about general idea about taxation and Sri Lankan tax system in brief. Before going to discuss about the tax system of Sri Lanka, everyone should have basic idea about the taxation. so taxation is imposition of compulsory levies on individuals or entities by governments. Main purpose of introducing such of levies is to raise revenue for government expenditures. So tax payers have liability to pay taxes on the total of the person's assessable income for the year from each employment, business, investment and other sources after considering the qualifying payment and reliefs. In here a taxpayer is an individual or business entity that is obligated to pay taxes to a federal, state, or local government (Kagan, 2021). As mentioned in the definition tax payer has to their taxes for every year of assessment so year of assessment is the year in which income tax is calculated and charged. It mean is the year starting on 1 April and ending on 31 march.

When we think Sri Lankan Tax System, there are 3 purposes/ function of taxation of Sri Lanka. As mention early primary function is to collect revenue for government expenditure. So it help to maintain various government expenditure such as security, law and order provided by the armed forces and police, free education provided by government schools and universities and free education services provided by government hospitals. Second purpose/ Function is Economic function. It means taxation is important to set local and foreign investment direction as well as protect local industries from foreign competition like that. Third and final function is social function, it means taxation is important to discourage activities which are undesirable by the society. The best example for this is, in Sri Lanka Business consisting of betting and gaming, liquor, and tobacco should have to pay 40% tax rate which higher than other business. (Inland Revenue department of Sri Lanka). As well as it help to encourage activities which are desirable by the society. So tax concession is also giving to encourage some activities of economy. There are 2 types of tax cane be identified. Those are direct tax and indirect tax. Direct tax are taxes that are paid by the person who earn income such as Income tax. As well as indirect tax are taxes borne by someone other than the person responsible for paying such as VAT. When we think about the Sri Lankan Tax system, it is necessary talk about the tax authorities in Sri Lanka. The main authority is IRD (Inland Revenue Department of Sri Lanka) and the IRD Acts (Act no 24 of 2017 and Amendment act no 10 of 2021) are issued by IRD

use as the main tax refer documents in Sri Lanka). Other authorities are Provincial Departments of Revenue, the Department of Customs, and the Exercise Department like that.

2.6 Tax Concessions

Through this section researcher is going to express brief introduction about the tax concession and importance with condition that must fulfill. First thing we want know is what the meaning of tax concession is. Tax concessions are the reduction made by the government in the amount of tax that a particular group of people or type of organization has to pay or a change in the tax system that benefits those people (Collins Dictionary, 2021). So main purpose is giving such kind of concession is to encourage those businesses and individuals to engage in behavior that is socially responsible and/or benefits the community (Rabinowitz, 2016).

As you aware not every company or individual can get benefit of tax concession. Because they have to fulfill certain conditions. But these condition can be different from one country to another country. As well as The qualifications often depend on the tax incentive's purpose, which might be creating new jobs, spurring private investment, or increasing research and development. But common things are,

- They must be belonging to certain industries
- They must invest certain amount in a particular project
- They must create a particular number of jobs
- They must reaches a minimum payroll threshold

(Jacob Bundrick, 2016)

When we analyze worldwide trend, government commonly use tax incentives to target certain preferred businesses or industries, such as agriculture, food, and environmental, information technology, Garments, Construction services, Healthcare services like that. When we think about Sri Lankan context, we can identify few tax concession which Sri Lankan government introduced. According IRD Act no 24 of 2017 introduced few tax concession regarding some areas such as Enhanced Capital Allowances, Assessable Charges and Balancing Allowances, Life Insurance, Information Technology, Headquarters Relocation, Renewable Energy, Research and Development like that. As well as make some additions to this by IRD Act no 10 of 2021. Those areas are Rate of Interest, Marketing and Communication Expenses and

Financial Cost like that. In particular, the 2021 budget proposes certain tax concessions (tax holidays for a period of years) for qualifying investments in export, dairy, fabric, agricultural, shipbuilding, recycling business sectors and for information technology. Other concessions are proposed for multinational entities, with a 25% reduction in tax on dividends in 2021 and a 50% reduction in 2023. So now Researchers hope to introduce more about Few concession introduced by Sri Lankan governments.

2.6.1 Enhanced capital allowances

The existing regulation in this regard as per Inland Revenue act no 24 of 2017 are explained as follows (DEMOCRATIC, 2017).

1. (1) A person who invests in Sri Lanka (other than expansion of existing business) on depreciable assets during a year of assessment shall be granted enhanced capital allowances computed in accordance with this paragraph, in addition to the capital allowances computed under the Fourth Schedule.
2. A Capital allowance of 100% for expenses incurred by a person, up to USD 03 million on depreciable assets during a year of assessment shall be granted to that person for that year where the depreciable assets are used in a part of Sri Lanka, other than the Northern Province.
3. A Capital allowance of 200% for expenses incurred by a person, that are used in the Northern Province up to USD 3 million on depreciable assets mentioned in subparagraph (4) during a year of assessment shall be granted to that person for that year where the depreciable assets are used in the Northern Province.
4. In here depreciation assets means
 - Class 1 and Class 4 assets within the meaning of paragraph 1 of the Fourth Schedule (being, buildings, structures and similar works of a permanent nature); and
 - Depreciable assets (other than intangible assets) comprising plant or machinery that are used to improve business processes or productivity and fixed to the business premises.

2.6.2 Balancing allowances

The existing regulation in this regard as per Inland Revenue act no 24 of 2017 are explained as follows (DEMOCRATIC, 2017).

Where an asset for which Capital allowances has been granted under this paragraph is disposed of (or deemed to be disposed of) during a year of assessment which the written down value of the asset exceeds the consideration received for the disposal, an additional Capital allowance shall be granted for the year in an amount equal to the excess.

Balancing Allowances = written down value of the asset > consideration received for the disposal

In here written down value of an asset means the cost of the asset less all Capital allowances granted with respect to expenditure included in that cost.

2.6.3 Information technology

The existing regulation in this regard as per Inland Revenue act no 24 of 2017 are explained as follows (DEMOCRATIC, 2017).

A company is entitled to an additional deduction when calculating the company's income from business for a year of assessment equal to 35% of the total amount deducted for the year under this Act that represents payments made by the company which are to be included in calculating the taxable income of its employees (other than as a company director), where that company—

- (a) Conducts a business which predominately consists of providing information technology services within the meaning of the First Schedule
- (b) Has at least 50 employees during the whole of the year
- (c) Report those employees in the statement that the company, as a withholding agent, is required to file under section 86.

2.6.4 Renewable energy

The existing regulation in this regard as per Inland Revenue act no 24 of 2017 are explained as follows (DEMOCRATIC, 2017).

According to that any person, who has entered into a Standardized Power Purchase Agreement on or before November 10, 2016 with the Ceylon Electricity Board to provide electricity generated using renewable resources shall be taxed at the rate of fourteen percent for the three years of assessment after the commencement of this Act.

2.6.5 Life insurance

The existing regulation in this regard as per Inland Revenue act no 24 of 2017 are explained as follows (DEMOCRATIC, 2017).

The portion of the gains and profits of any insurer engaged in the business of life insurance that is deemed as income of the life insurer under section 67 (2) shall be taxed at the rate of fourteen percent for three years of assessment after the commencement of the Act.

2.6.6 Research and development

The existing regulation in this regard as per Inland Revenue act no 24 of 2017 are explained as follows.

A person is entitled to an additional deduction when calculating the person's income from business for a year of assessment equal to 100% of the total amount of research and development expenses deducted for the year under section 15, for three years of assessment after the commencement of this Act.

But according to the Inland Revenue act no 10 of 2021 extended the three year period shown here to a five year period (DEMOCRATIC, 2021).

2.6.7 Marketing and communication expenses

The existing regulation in this regard as per Inland Revenue act no 10 of 2021 are explained as follows (DEMOCRATIC, 2021).

a person shall be entitled to an additional deduction when calculating his income from business for a year of assessment, equal to 100% of the total amount of marketing and communication expenses deducted under section 15A during the three years of assessment commencing from April 1, 2021 subject to the following conditions: -

- I. The payment shall be made to a person who is not an associated person of the tax payer
- II. Internal marketing expenses, salaries of marketing staff, expenditure on maintaining an internal marketing department, expenditure on corporate social responsibility initiatives and foreign travel expenses shall not be considered for the purpose of the additional deduction under subparagraph (1)
- III. Expenditure shall be attributable to goods and services with 65% of local value addition, the mode of calculation of which shall be as specified by the Commissioner-General;

2.6.8 Financial cost

The existing regulation in this regard as per Inland Revenue act no 10 of 2021 are explained as follows (DEMOCRATIC,2021).

Financial cost incurred (other than such amounts, of which deductions is denied in previous years) during the year of assessment commencing on April 1, 2021, shall be deducted irrespective of the limit referred to in subsection (2) of section 18. That year of assessment shall not be recognized for the purpose of six years period referred to in subsection (3) of section 18.

CHAPTER 03: METHODOLOGY

3.1 Introduction

Research project require considerable attention to the research methods and the proposed data analysis. So in this chapter researcher attempt to provide some information about how to produce a research design for a study. Under that researcher supposes to do what are methods that can be applicable to solve research problem.

3.2 Choosing the study design

This step is most important step in our research because we decide how to do our research in this step. Accordingly, study design refers as framework of research methods and techniques chosen by researcher to fulfill the objectives and questions of our research. Here, firstly must be select matching research approach including inductive or deductive approaches. Thus, in this research, researcher conducted this based on inductive research approach due to researcher think that this study will be success based on his own observation rather than theory. Second must be select methodological choice for our research. Such as, qualitative and quantitative. Researcher continued this study through qualitative method due to the several reasons. Such as subject material can be evaluated in full details in this method so researcher could not find way to measure the variable due to lack of literature.as well as focusing on such investment avenue based on human behavior and emotions as result of that it cannot be measured numerically. Therefore, the qualitative method is best fit approach for this study. Further, research strategy take major place in study design. To identify the importance of tax concession to economic development, researcher selected the Phenomenology as my research strategy. When compared with other strategies, I think this method is applicable for my study. Because in this strategy researcher use participants experience and knowledge in particular phenomena.

3.3 Sample design

The sample for his research will be selected purposive sampling method under the non-probability sampling method. Here, can be select the sample according to the judgment of researcher. Accordingly, researcher selected as his sample population is middle class tax paying businessmen in Gampola area and sample size will be six businessmen.

3.4 Collecting data

Under purposive sampling method, researcher followed in-depth interview and observation techniques for collecting data. Here, unstructured, structured and semi structured are different interview techniques have for to used and among them researcher thought semi-structured interview method is suitable to this study. In addition, observation technique is also applicable to the research and it will be used to gather data.

3.5 Interview guide

How wide is their knowledge of taxation?

- I. Have you considered the concept of taxation when making your business decision when you start a business?
- II. Are you aware of the current tax laws in the country? If aware, how to become aware?

As a taxpayer, do you think tax payment is important to the country's economy? What's the reason for it?

- I. What do you think about paying tax?
- II. Are you satisfied with your income and the tax you pay?
- III. Do you think that tax payment which you paid as a businessman will lead to contribute the economy of the country?

What do you think of tax concession in these areas?

- I. Are you aware of the tax concession that are offered to your business?
- II. Are you satisfied with the relief provided by the government?
- III. If you are aware about those concession do you think that such concession area can be put into practice in your business?
- IV. Have you ever focused on attracting tax concession to your business? What are reasons for focusing or not focusing?
- V. If you have got tax concession for your business, you are sure you can contribute more to economy.

CHAPTER 04: DATA PRESENTATION AND ANALYSIS

4.1 Introduction

You know that ultimate goal of any research is to find solution for identified problem. For that purpose researcher collect some information and outcome of research can be measured by the systematic analysis of collected information. Simply As a part of research method, data analysis is one of the phases of measuring, analyzing and testing the research questions, which enables us to conclude some results through the research problem .So these collected information can be qualitative or quantitative. But in every research analyze of information is very important due to get a valid simplified state.

Through this research in ordered to come up with new theoretical explanation, the researcher has transcript the recorded interview and categorized the coded under meaningful and related categories after coding. Thereafter, the researcher has developed themes to address the research question based on those categories.

4.2 Level of knowledge regarding taxation

The knowledge of businessmen regarding taxation based on the result of analyze the data gathered from interview can be explained in the following themes.

4.2.1 Theme 1 : Very low initial tax knowledge

After analyze of interview data, first thing research was identified that most of entrepreneurs do not have much knowledge about the concept of tax when starting a business. This means that they have heard about it but have no conceptual knowledge regarding tax concept.

Following are the some of the comments of interviewee.

Expert 1

A businessman who runs a medium sized garment factory

“I started the business about the seven years ago and did not know much about the concept of taxes when I started it. But I have heard from several people if I start a business, I will become a tax payer and I have to pay tax to the government. But I did not concern about it much because I was intent on starting a business somehow.”

Expert 2

A businessmen who runs an educational institution

“Even though I had heard of tax, I had no idea exactly what to do about it and how to do it when starting business and one of the main question I faced at the time was whether I would have to pay tax for my business especially for educational institutes.”

4.2.2 Theme 2: moderate present knowledge

Although business people may not have much idea about taxes when starting a business, it is progressive factor that businessmen now have significant tax knowledge. Although Despite their lack of conceptual knowledge of taxes, they now have considerable knowledge regarding why tax should be paid, when it should be paid and to whom it should be paid like that.

Following are the some of the comments of interviewee regarding their current tax knowledge.

Expert 1

A businessmen who runs an educational institution

Like I said before, although I did not know much about taxes when I start my business, I think I have some knowledge about taxation at present. That is, if we talk about a way I acquire that knowledge, the first thing is that about a month after I registered my business, I got a call from institution that handled my business registration asking “can we get your tax identification number”. I remember in those days they were said that if your income was more than 1.2 M, you would have to pay taxes. The another incident I encountered after adding new teacher to my institution is that they always asked from me can i reduce the tax they owed in monthly basis and sent it to government.so again I asked about this form particular institution regarding what the mean and how I do it”.

4.3 Importance of tax payment to the economy

The tax payers conclusion about importance of tax payment to the Sri Lankan economy based on the result of analyze the data gathered from interview can be explained in the following themes.

4.3.1 Theme 1: Satisfied tax payment

Most of the entrepreneurs I have chosen are small entrepreneurs. Some entrepreneurs are registered as private limited company and some people run their business as a sole proprietorship. Therefore although some people are not satisfied with the tax they pay, many are satisfied regarding their tax payment due to reason tax changes. Specially based on the reasons tax relief increment.

Following are the some of the comments of interviewee regarding their satisfaction about their income and tax payment.

Expert 1

A businessmen who runs a Hardware shop

“As a middle level business still I don’t really have the ability to pay big amount of tax. Due to the corona pandemic, our income decreased and we stuck in business loan which we have to pay. But based on the current relief, the amount of tax which we would have to pay decreased.”

Expert 2

A businessman who runs a medium sized garment factory

“As a businessmen I always look to maximize my business profit. There we have to say that tax is definitely a significant factors. Because of that based on the current tax changes, especially due to increase our relief amount, I hope my tax liability will decreased. But I have an idea that the declining tax liability of people based on these relief with the present situation in our country will adversely affect the economy.”

4.3.2 Theme 2: Unsatisfied tax administration

Many thought they were paying taxes but were also curious about whether it would contribute to the country's economy. General opinion is that there is a big crisis in a country like Sri Lanka regarding administration of taxes from registration to collection and after managing of these tax collection.

Following are the some of the comments of interviewee regarding their satisfaction about current tax administration.

Following are the some of the comments of interviewee regarding their dissatisfaction about the tax administration of Sri Lanka.

Expert 1

A businessman who runs a medium sized garment factory

As mentioned earlier, it has been almost seven years since the business was started. As I remember I had paying taxes to the government for about five years. But we do not see as taxpayer, tax revenue is properly controlled in Sri Lanka. We know that the government gets a lot of revenue from taxes but it is question for everyone whether they are properly managed it. The other things is business is business sector makes very important contribution to the economic development of the country. But as a businessman we have to face a lot of practical problems while we dealing with tax department. Then we feel that if business sector is the main contribution factor of the economic development of the country then why not they give us an efficient services.

4.4 Knowledge about tax concession and its use

The tax payers' conclusion about level of knowledge regarding tax concession and its usefulness to economic development based on the result of analyzing the data gathered from interview can be explained in the following themes.

4.4.1 Theme 1 : Very low level knowledge regarding tax concession

In particular, it was revealed that although businessmen have some knowledge regarding taxes, their knowledge regarding tax concession is very low level.

Following are some of the comments of interviewees regarding their very low level knowledge regarding tax concession

Expert 1

A businessman who runs a construction company

“In fact, I still understand the need to pay taxes, as I did when I started the business. But I did not have any knowledge regarding tax concession when I started the business. But at present there is some knowledge about the tax benefit related to the asset. That knowledge was gained only on the basis of what you said when you obtained information from us in calculating our annual tax liability. But I am not really aware of some of the benefits you mentioned.”

4.4.2 Theme 2 : Moderate satisfaction about tax concession with doubt about usefulness these areas to economic development

The main reason for moderate satisfaction in here is that they have no prior knowledge regarding these tax concessions. So it is very difficult to get a real idea about it. Therefore, they are less likely to focus on such areas. The other things I have studied that there are problems with the practical application of such benefits provided by government to businesses. This is because the medium scale businesses I have studied do not cover the above mentioned areas of tax concession in their day to day business activities. Another disadvantage I see is that they try to reduce the costs of such areas due to lack of knowledge about such tax concessions in the past. But even they thought that if they paid attention to certain areas, they too would be able to achieve the benefits of those areas.

Following are the some of the comments of interviewee regarding their topic discussed above.

Expert 1

A businessmen who runs an educational institution

“Really I do not have much knowledge about these tax concession. So I never make me decision based on these tax benefit. But if the area you mentioned can be applied to the business, they are sure to bring benefits to the business as well as country. As I think receiving business benefits means that the country also getting benefit. Because really developing an area like the North is a great victory for us as a war-torn country. If such things can be developed, it is not a problem for a country to achieve economic development. But for us, it is very difficult to look such investment avenues.as an entrepreneur who runs an educational institution, benefits other than the benefits associated with asset purchase, I have practical difficulties in using my business.”

4.4.3 Theme 3 : Higher future expectation

many of them had the same idea that small businesses would be a great help to economic development if they could provide the benefits to activates which are occurs frequently in medium scale business.

Following are the some of the comments of interviewee regarding their expectation about other tax concession areas.

Expert 1

A businessmen who runs a construction business.

“In fact, we should appreciate that a government provide such kind of benefits. Because I think it is a great help to country to achieve economic development due to increased business performance. If we as medium scale entrepreneurs have the opportunity to invest more in the greats who can reap such benefits, it will greatly help our business as well as the overall economic growth of the country. But we also have the potential to focus on greats like research and development, marketing and communication”.

CHAPTER 05: CONCLUSION & RECOMMENDATION

5.1 Introduction

In this chapter of the research, it will be discussed about whether the research purposes which have been mentioned in the first chapter of this research paper have been fulfilled through the study. Further, major findings revealed through conducting the research, also will be summarized along with the conclusions and the recommendations.

5.2 Conclusion

The conclusion that can be accessible after evaluating the data collected as a whole is as follows. Accordingly, as many medium entrepreneurs commented that when starting the business, they had very little knowledge about taxes. At present, however, they have gained some knowledge about tax relief through various channels. And also, it was observed that many people are in favor of the method of reducing the tax liability which has taken place with the change in the present tax concessions. The main reason for this is the business crash caused by the Covid-19 pandemic. And also, another major reason for discouragement of taxpayers is the inefficiency of the existing tax administration in the country and their ineffectiveness in paying taxes for many years. On other hand, looking at the tax concessions, their lack of knowledge about tax concessions can be identified as one of the main factor for slowing down the progress of providing such concessions in the country like Sri Lanka. Also, the medium scale entrepreneurs which I have selected has problems in implementing the above tax concessions in the businesses on a day to day basis. But as they believe that tax revenue, which contributes to the bulk of the country's revenue, can have a direct impact on the country's economic development, encouraging taxpayers through such tax concessions, as well as boosting the country's investment and creating optimism for the country's economy in the future. so but in the present those tax concession area are not attractive within the medium entrepreneurs according to the participations response.

5.3 Recommendation

01. Increasing the number of studies being conducted on this sector.

One of the major shortcomings which I found in studying this was the limited number of studies on such areas. In particular, the lack of such studies in Sri Lanka limits the success of its concessions-seeking objectives. If they can do this kind of research before introducing such kind of concession, they can assess the practicability and benefit of those concessions.

02. Increasing the knowledge of medium taxpayers about taxes and tax concessions.

As another major shortcoming I have seen is the lack of knowledge about tax concessions and taxes among taxpayers. Due to it, increases the likelihood that taxpayers will constantly come to wrong conclusions, and that they have the potential to achieve real result by instilling knowledge in them. As an example tax administration can conduct workshops on taxation with specially focus on tax concessions provide by government to people who pay tax.

03. Efficient streamlining of tax administration.

One of the main point that became clear to me in this study was the dissatisfaction of the taxpayers with the tax administration of the country. Accordingly, by strengthening the tax administration, taxpayers will be encouraged to pay taxes, which will enable them to achieve greater development in the country.

04. Reviewing and improving tax concessions areas.

Giving tax concessions to medium scale entrepreneurs in the right sectors will enable them to contribute more to the economic growth of the country. Because according their response, most concessions cannot be applied to the medium entrepreneurs' day to day activities. As an example if country can provide tax incentive to the company which save the energy consumption of the country, company and country will benefit from that concession.

Appendix

1. How long has it been since you started this business?
2. Is this the first business you have started or have you run any other business like this before?
3. Have you considered the concept of taxation when making your business decision when you start a business?
4. Are you aware of the current tax laws in the country? If aware, how to become aware?
5. What do you think about paying tax?
6. Are you satisfied with your income and the tax you pay?
7. Do you think that tax payment which you paid as a businessman will lead to contribute the economy of the country?
8. Are you aware of the tax concession that are offered to your business?
9. Are you satisfied with the relief provided by the government?
10. If you are aware about those concession do you think that such concession area can be put into practice in your business?
11. Have you ever focused on attracting tax concession to your business? What are reasons for focusing or not focusing?
12. If you have got tax concession for your business, you are sure you can contribute more to economy.

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