

Responses of businessmen on VAT Amendment in 2016: A case of Anuradhapura urban area in Sri Lanka

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Introduction

Tax revenue plays a major role in development of a particular country's economy. Tax can be direct or indirect. Those are very supportive to a country for its economic expenditure part of national budget. Among these taxes, Value Added Tax (VAT) is an indirect tax which is very critical in terms of covering budget deficit of a country. VAT is a tax imposed and collected on the value added at each stage in the production and distribution of a good or service (U.S. Chamber of Commerce). In VAT system, business collect VAT from customers and pay collected taxes to government (Inland Revenue Department, 2017).

In Sri Lanka, there is huge contribution of tax revenue on total revenue earned by the country, which help to answer specially the budget deficit (see Table 1). In 2016, the Sri Lankan Government made few VAT amendments in order to increase the tax revenue of the country under the Act of No.20 in 2016. Under these reforms, VAT rate was increased from 11 percent to 15 percent and VAT coverage was expanded through newly adding wholesalers and retailers and reducing the minimum quarterly supply value from Rs 3.75 million to Rs. 3 million (Inland Revenue Department, 2017).

Table 1 Revenue structure of Sri Lanka

Year	Government revenue (LKR Million)		VAT revenue as a % of total tax revenue
	Non-tax revenue	Tax revenue	
2013	131,552	1,005,895	25
2014	144,844	1,050,362	26.13
2015	99,099	1,355,779	16.12
2016	222,374	1,463,689	19.54

Source: Central Bank of Sri Lanka, 2013-2016

The recent budget deficit data reveals (See Figure 1) that the government had been able to reduce budget deficit from -7.6 percent in 2015 to -5.4 percent in 2016 with the support of tightening fiscal policies (Central Bank of Sri Lanka, 2016). Though the government expected to address the revenue issue of the government budget through VAT reforms, responses of the business crowd of the economy to the reforms are mixed. There were some protests against the VAT

reforms in the different urban areas of the country organized by the group of businesspersons (Dailynews, 2016).

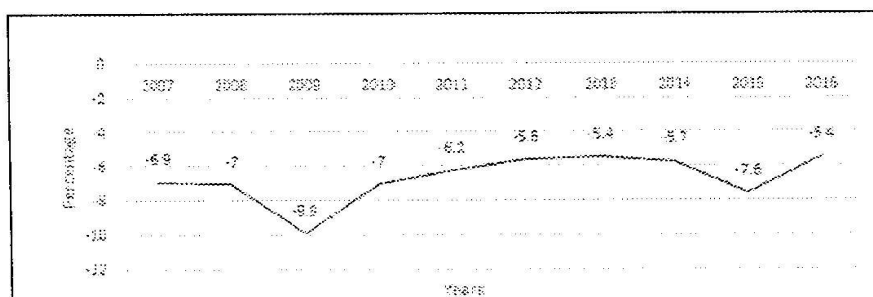


Figure 1 Budget deficit as a percentage of GDP in Sri Lanka

Source: Central Bank of Sri Lanka, Annual Report, From Year 207 to 2016

There are limited body of literatures on VAT reforms in both developed and developing countries. According to Jayakumar (2012), a study in India, emphasized that VAT system should be transparent and it should be on internet services that help everyone to access and find details. Qamruz et al. (2010) conducted a research study on VAT in Pakistan and identified that implementation of VAT system is not benefited on the country due to high poverty and high inflation rate. However, there are limited number of studies on Tax reforms in Sri Lanka and existing studies also provide rather blend results. According to Amirthalingam (2013), in order to reducing overwhelming dependency on public debt and money creation, Sri Lanka should take measures to increase the share of tax revenue in Gross Domestic Product (GDP) with the areas of broadening the tax base, simplifying the tax rates, simplifying the tax laws, reducing the numbers of taxes, facilitating voluntary compliance, improving tax administration with the usage of modern information technology, strengthening investigation, audit and enforcement capacity, introducing new taxes etc. Stark and Kirchler (2016) studied about inheritance tax compliance, earmarking with, normative value principles and found that normative value principles and other socio-psychological variables play an important role concerning inheritance tax behavior. Affectedness does not influence inheritance tax compliance. Feldstein (1999) found that the Portuguese corporate tax reform and international trends. Portugal was increasingly out of line with international trade in corporate taxation. Above literature relates with TAX related research, but perception of taxpayers on VAT could not be found. Then, it is very important to understand the perception of people especially on VAT amendments.

According to VAT amendment Act No 20 of 2016, VAT rate was increased and new businesses (wholesalers and retailers) were added to the VAT portfolio. Government also reduced the benchmark of VAT registering quarterly revenue with this amendment. With these amendments, there was huge protest all over

the country by different kind of people like businesspersons (Dailynews, 2016). This leads to make economic unrest in the economy. This raises a question on why business crowd fear to VAT reforms even though they are not the payees of the tax.

The main purpose of the study is to examine the responses of the business crowd of the economy on VAT amendment in 2016. In this connection, the study aims to understand the nature of the VAT collecting system with the perception of businesspersons, to examine the responses of business crowd on newly amended VAT reforms, and to identify the issues prevailing in the VAT system with the view point of business crowd.

Methodology

In order to deal with the research subject, primary data for the study were drawn from a field survey conducted among the businesspersons in the Anuradhapura urban area in July 2017. Thirty VAT registered businesspersons in Anuradhapura urban area were selected by employing convenience-sampling method. Primary data were collected with the help of questionnaire and discussion. Questionnaire carried all the questions related to demographic factors, awareness of VAT system, awareness of amendment and their ideas. The study also interviewed tax collectors in Anuradhapura urban area to understand the tax collecting mechanism. In this research, descriptive statistic (graph, charts and tables) were used to analyze collected data.

Table 2 Characteristic of surveyed businessmen in Anuradhapura Urban area

	Factor	Frequency	Percentage(%)
Gender	Male	30	100
	Female	0	0
Age (Years)	Below 35	0	0
	36 – 45	11	36.7
	Above 45	19	63.3
Education	Did not go to school	5	16.7
	Primary Education	10	33.3
	O/L Passed	7	23.3
	A/L Passed	4	13.3
	Professional Courses	3	10
	Degree	1	3.4
Type of the business	Wholesaler and Retailer	14	46.7
	Production	3	10
	Service	13	43.3
Quarterly revenue of the businesses	Less than 3 Million	0	0
	3 million – 3.5 million	29	96.6
	3.5 million – 4 million	0	0
	More than 4 million	01	3.3

Results and discussion

According to descriptive statistics of the surveyed sample, businessmen covered by the survey are male and no female was found who is doing a business. All these businessmen are above 36 in ages. Reason could be that it takes long time to start a business and become a businessman who pay tax. The descriptive statistics of the surveyed businessmen further revealed that most of them are not well educated (See Table 2). Only 26.7 percent of businessmen have achieved the Advance Level qualifications and above, and rest have less than O/L (ordinary level) educational qualifications. A few types of businesses could be identified by the survey such as wholesaler, retailer, production, and service, mostly, almost all these businesses are having above 3 million average sale revenues per quarter (see Table 2).

First, the study attempted to analyze the tax collecting mechanism from view point of businessmen in Anuradhapura. VAT registered businesses need to calculate VAT (some calculate with the aid of audit firm with paying a fee) and pay calculated amount to relevant Inland Revenue Department (IRD). The results of the survey revealed that VAT collecting mechanism is in problematic and inefficiency. According to Table 3, 56.6 percent of businessmen were not satisfied with existing VAT collecting mechanism. The main reasons for this are that insufficient knowledge on VAT collecting mechanism and economic situation in the country, problem of working capital management (many businesses are offering credit facilities and hard to collect cash receivable and lack of cash to settle cash payable) and problems of VAT calculation (error calculation, frauds especially in manual system). Further, not enough advises of VAT officers lead to many problems. All surveyed VAT payees are not satisfied with the advices of officers in IRD. Most of the time IRD makes organizations aware only about deadline or amount of VAT payable using letters rather than others means (advices about VAT process, online VAT payments).

Table 3 Responses of marketer on VAT collection problem

	Factor	Frequency	Percentage (%)
VAT collection mechanism	Strongly satisfy	1	3.3
	Satisfy	12	40
	None	0	0
	Not satisfy	16	53.3
	Strongly not satisfy	1	3.3
VAT officers' advices	Strongly satisfy	0	0
	Satisfy	0	0
	None	0	0
	Not satisfy	1	3.3
	Strongly not satisfy	29	96.7

Table 4 presents the responses of businessmen on amended VAT reform in 2016. 80 percent of respondents have average knowledge on VAT in terms of nature of VAT, VAT calculation method, and VAT collecting mechanism. Television was the most important method that most businessmen used to make them aware about VAT amendment which was introduced in 2016 (83.3% out of whole sample). Specifically, news or advertisements telecasted in television channel are not issued by the IRD attached to the Finance Ministry, and most of details received by the businessmen on VAT reforms were views raised at the political platforms. It indicates that businessmen's responses on amended VAT reforms were largely centered on informal sources of information. According to businessmen responses on VAT amendment, 56.6 percent businessmen reported that they are not satisfied with newly amended VAT amendment in 2016, while only 3 percent were satisfied, but not strongly satisfy on current VAT paying system in Sri Lanka. (See Table 4).

Table 4 Responses of surveyed businessman on amended VAT reforms in 2016

Factor		Frequency	Percentage (%)
Awareness on VAT	Very good	3	10
	Good	1	3.3
	Normal	24	80
	Bad	2	6.7
	Very Bad	0	0
Method of aware about amended VAT reforms in 2016	News paper	1	3.3
	Radio	1	3.3
	Television	25	83.3
	Internet	3	10
	Other	0	0
Responses on amended VAT reforms, 2016	Very satisfy	0	0
	Satisfy	0	0
	None	13	43.3
	Dissatisfy	13	43.3
	Strongly dissatisfy	4	13.3

Table 5 Responses of businessmen on VAT paying system

Factor		Frequency	Percentage (%)
Perception of paying VAT	Very satisfy	0	0
	Satisfy	1	3.3
	None	12	40
	Dissatisfy	16	53.3
	Strongly dissatisfy	1	3.3

During discussion, few problems that businessmen faced were identified. They are complex of VAT forms, inefficiencies of officer in IRD, calculation of VAT, instant changing VAT rate, unnecessary government expenditure, imposing VAT on necessary good, perception of businessmen that some large business are not

paying VAT, with the perception of not spending VAT revenue on country's development process etc.

Table 6 Reasons for dissatisfaction on newly amended tax reform

Reason	No. of businessmen (N = 17)	Percentage %
Wasting time of VAT calculation	12	70.58
Complex of VAT application form	15	88.23
Inefficiency of officers of IRD	10	58.82
Less awareness on new technology	6	35.29
Instant changing VAT rate	11	64.70
Unnecessary government expenditure	12	70.58
Not spending government revenue in the productive areas of the economy	13	76.47
Some are not paying VAT though they are in the VAT coverage range	7	41.17

Conclusion and recommendation

The most of businessmen was not satisfied with VAT collecting mechanism and is not much aware about VAT system, due to less education background. Thus, VAT information flow should be in formal way to keep efficient and effective communication with relevant parties. It was further identified that most effective method to communicate VAT information to business group is Television (especially through news) and informal methods may lead to create many problems such as misleading etc. Hence, having formal method of information flows is important. Research identified the main reasons for dissatisfaction among the businessmen on VAT amendment in 2016 are wasting time of VAT calculation, complex of VAT application form, inefficiencies of the officers of IRD etc. Increasing VAT rate up to 15 percent and adding wholesaler and retailer newly to VAT system boosted businessmen to protest.

Keywords: *Businessmen, Business organization, VAT, VAT amendment.*

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