Department of Inland Revenue

2017 Technical Conference CATA
Leveraging Technology to enhance Revenue Administration

Department of Inland Revenue of Sri Lanka is the highest government revenue pillar contributing 43.8 % of the government tax revenue and 38.02 % of total revenue, which witness the high reliance and dependence on tax revenue. Any fluctuations in tax revenues has a direct bearing on the economy as a country.

The primary objective of tax administration is to generate income for the government. In light of this objective there is need for tax systems to meet the following three criteria: they must be efficient, equitable and simple.

The efficiency of any tax administration is merely depend on high level of tax compliance and capacity in core tax administration functions (registration, return filling and payment enforcement, debt collection, audit, taxpayer services, processing of appeals including dispute resolution).

Voluntary compliance is the key to building a fair, sustainable, robust and cost-effective tax administration where every taxpayer contributes his fair share of tax.

Tax compliance is mainly achieved in the event that majority of taxpayers voluntarily file their tax returns and pay due tax liabilities as stipulated in the tax laws, without the intervention of the tax authorities through enforcement aiming to reduce the tax gap.

In country perspective of Sri Lanka, as far the compliance rate is concerned, taxpayers have been segmented on the basis of volume of turnover into two major categories for ease of monitoring, namely small and medium taxpayers (SMEs) and large taxpayers (LTU). The compliance rates of these two segments are 55% and 62% respectively.

Non-corporate and corporate are respectively 46 % and 59% for the year 2015/2016. The higher rate of compliance of 95% recorded in Banking, Insurance and Financial sector as they are being subjected to scrutiny of other government regulatory bodies such as Central Bank and bound by other laws (e.g. Lease Finance Act...)

Technology has become the enabler for new ways of doing business worldwide. Innovation takes place everywhere, on a daily basis, and is no longer limited to certain sectors such as social media or other apps. Technology is now business-as-usual, and the tax authorities are doing their part to embrace this trend.

The business are moving forward with new technological changes and electronic methods such as e-invoicing, e-accounting, e-reporting and e-auditing and technology has dramatically changed from traditional manual book keeping methods to book keeping software.

The Ministry of Finance is moving towards the automation of its core activities in a bid to improve efficiency, transparency and financial flexibility in a government revenue.

With the initiative of recent technological changes in other key government institutions, Department of Inland Revenue (IRD) has revolutionized and was able to change the land scape of the tax culture in Sri Lanka with the introduction of Revenue Administration Management Information System (RAMIS). Thereby it has proven with results that uplifting public organization could change a long-standing corporate culture to become attractive both as an employer and as an effective service provider.

The newly adopted RAMIS is an automated tax administration process which is great step towards creating a more efficient and an accountable tax environment in the economy. The design of RAMIS is expected to facilitate a number of web based services such as registration, returns, tax payments, appeals, collections, cancellation, directions, clearances etc.

The techniques that have been adopted manually for compliance and other administrative functions are now being in operation through technological means through RAMIS resulting to address the inherent challenges;

Preparation of a Master Index; Profile updating of all tax payers

Administrative difficulties and inefficiencies due to lack of updated tax payers master index have now been able to resolved with updating of taxpayer profile.

Identification of taxpayers, information verification and tracking through the system itself introduced that would helpful for entire administrative functions in every stage.

Code based business activates which is used for Department of Census and Statistics Sri Lanka, registration details along with Registrar of Companies, ownership, group and associate status, geographical locations, entire tax payer profile have now updated.

Data warehouse;

Maintenance of updated data warehouse to collect all important information with regard to tax payers all of their activities is one of the prime objectives in current transformation. IRD is in the process of real time transfer of updated information with other government agencies.

Interface with other 21 government institutions is currently in process; Linking with certain information fields maintain in other government institutions mainly Central Bank of Sri Lanka, Departments of Motor traffic, Immigration, import and exports etc. This could be recognized as remedy for inherent challenge of time consuming exchange of information, manual intervention and probable malpractices. This would enable SL as low tax regime to expand the tax base as well as the Taxpayers education and transparency also simplify the tax system.

Facilitating exchange of information in the international context;

At present Sri Lanka has 44 Double Tax Avoidance Agreements in force which provide for legal base for Exchange of Information process with Competent Authorities of the relevant country. The automation (RAMIS) has enable Sri Lanka to improve its compliance on exchange of information process. But the automation process is not yet fully prepared to carry out spontaneous exchange of information. Sri Lanka is expected to further develop its systems and provide for effective exchange of information process.

Compliance risk management:

In addition to the Tax payer identification (TIN), Personal Identification (PIN) is provided taxpayers and tax intermediaries for accessing to the system and review the status of tax affairs. Taxpayer education awareness programs were conducted countrywide, taxpayer services decentralized to all regional offices with improved taxpayer services, help desk established with the supporting staff, Call Centre and interactive dynamic web portal with quick guides are in operation now.

Compliance simplification;

E-filing; Online submission of returns, transmission of tax information directly to the tax administration using the internet. E-payment; Transfer of money from a person's bank account to the tax administration's bank account using the internet, payments can be made online, at any time (during and after banking hours), and from any place. Timely Compliance; Timely filling and reporting of required tax information, the correct self-assessment of taxes owed, and the timely payment of those taxes without

enforcement action, accessing to system with their PIN identification to view the tax status.
Follow-up action for non-filers are carried out with two reminders and following enforcement actions. No manual intervention what so ever for granting extension for submission of returns. Further return submission, temporary acknowledgement or permanent, data capturing to the system, Primary tax assessment (PTA) for basic errors and suspended cases.

In addition, risk base audit selection criteria introduced for both indirect and direct taxes such as ratio analysis, input tax claims and output claims auto comparison, imports and exports data with custom data. All taxpayers are subjected to 100 percent scrutiny process of analysis targeting compliance risk avoiding inadvertent errors, as well as limit opportunities for tax evasion.

The government also benefits by meeting the target of tax to be collected while the tax administration attains efficiency and reduced costs in administering and collecting tax.

Organizational structural changes;
With the objective of providing efficient service along with RAMIS new organizational structure was introduced merging existing divisions and establishing new divisions such as Intelligence and fraud prevention units, and the preview and supervisory capacity of the portfolios have changed.
Changes in human capital and asset management, functions focused more strategic for successful utilization of human resource with fully working environment, introduced performance base appraisal, merit rating mechanism, opportunities for talent acquisition. The Change Management Unit played a critical role with the transformation that every employee has responsibility ensuring the readiness and competency in supporting and adjusting to the changes taken place in an organization.

Challenges to technological reforms depend on development status of that country, administrative capacity, scope of tax abuse and evasion, tax payer's readiness to accept and utilize new technologies. Reforms need to be tailored to each country's circumstances. E.g. wider tax gaps and lower revenue productivity.

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