

PAY YOUR TAXES ITS YOUR DUTY

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Creating a taxpayer friendly environment is one of the top priorities for Nadun Guruge, Commissioner General of the Department of Inland Revenue. With ambitious plans to increase tax revenue collection to one trillion rupees by the end of 2019, the Commissioner General outlined his plans to transform the tax payment structure from a flawed perception of avoidance to instill a sense of duty and conscience in the citizens. He further elaborated on the giant leap taken to modernize the process through a foolproof system of revenue administration and management.

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Photography Mahesh Bandara and Menaka Aravinda.



Nadun Guruge, Commissioner General of the Department of Inland Revenue.

Can you elaborate on the role and responsibilities of the Department of Inland

Revenue?

Every country needs funds to provide services to the people and to promote economic development. Sri Lanka can be considered as a welfare state. As such the Government needed funds to perform economic activities. Since the income that was derived from non-taxed avenues was insufficient for this purpose, the State had to impose taxes, for which purpose the Department of Inland Revenue was established in 1932. The Department has 90 branches, which is served by nearly 2,500 employees. The main objective of the Department of Inland Revenue is to generate the funds required by the Government.

As mentioned, the Department has 90 branches. With such a large number, how do you ensure efficiency?

According to the organizational chart, there are nine Deputy Commissioner Generals serving under the Commissioner General, followed by 22 Senior Commissioners and 90 Commissioners. The Deputy Commissioners, Senior Deputy Commissioners, and Assistant Commissioners function as tax collectors under the 90 Commissioners. All are governed by established protocols. I do not manage the work of Assistant Commissioners or Assessors, whose work is overlooked by a Commissioner in charge of a branch. He or she is in turn managed by a Senior Commissioner, whose superior is a Deputy Commissioner General, and who functions directly under my purview. This negates the need for me to supervise officers in lower positions of the hierarchy, which is managed and administered according to established protocol. Thus, I can provide guidance and have an overall view of the function of the Department.

Sri Lanka Can Be Considered As A Welfare State. As Such The Government Needed Funds To Perform Economic Activities.

You were appointed as the Commissioner General this year, what are your plans for the organization?

As an institution entrusted with the collection of taxes from the public, my main objective is to generate the tax revenue required by the Government. The Department does not make any policy-related decisions. It is the Ministry of Finance that makes policy and we implement them.

I also plan to ensure that tax policies are implemented properly, to be fair by all, by

ensuring that the law is equally enforced across the board. Therefore, as the Commissioner General my goal is to administer taxation as envisaged by the Government and to secure the expected revenue from taxes. In addition, we will maintain the standards and achieve the targets expected by the Government, the citizens of this country, foreign countries, and international organizations.

I believe that we should introduce incentives for taxpayers. For instance, we had a meeting with the Minister of Education to explore the possibility of giving points to children whose parents pay tax to the Government (under specific criteria) at the admission to Grade one in national schools.

Further, although we provide silver and gold cards, commonly known as privilege cards, the public do not have any special benefits by acquiring these cards. I hope to introduce certain benefits to encourage people to pay tax. At banks, they can bypass queues and have direct access to the manager. I hope to sign an MoU with a bank in the near future, following which the Department of Inland Revenue and the bank can issue a credit card jointly. Through this, the cardholder will have access to VIP lounges at airports. I also hope to add more privileges to these cardholders, such as exclusion from surety for bank loans, and exemption from paying a deposit and annual fee for deposit safes. I also want cardholders to enjoy the privilege of being given priority boarding at the airport.

The Silk Route lounge services at the BIA offers concierge services, document processing to luggage handling at the cost of USD 50. We are in discussion with Airport and Aviation Services to introduce a system where the Department pays USD 50 to provide that facility to the taxpayer. We also hope to give priority to tax paying cardholders when they seek treatment at a hospital, and to bypass the queue when they pay their annual rates at the Municipal Council.

My vision is to introduce a range of facilities to the taxpayers of this country because just as much as we collect taxes, we also should offer incentives in return.

Creating a taxpayer friendly environment is a must. I have many challenges in this regard. I hope to take on one at a time without trying to solve all at once. The enormity of this challenge does not deter me, but I will face each problem according to the situation.

We have invested six billion rupees for the installation of the Revenue Administration Management Information System (RAMIS), which has completely automated the system. We hope to introduce e-payment in the future, which will allow the public to pay their taxes from home. Since all taxpayers have to submit their returns each month, there is a long

queue to make the payments, which will be replaced with the RAMIS. Meanwhile, taxpayers can submit their returns through e-filing. There are a few issues related to the introduction of new facilities and I am in the process of dealing with them. I have to motivate the Department's human resources to embrace these changes. I hope to take those issues head-on in order to create a conducive environment for the taxpayer and thereby generate the revenue the country requires.

There are three institutions that provide revenue for the Government - the Department of Inland Revenue, Sri Lanka Customs and the Excise Department - of which my Department provides close to 50 percent of the revenue, which I hope to increase. Our current target is to collect an annual income of 800 billion rupees. We collected 652 billion rupees in 2018. I am happy to say that by now, we have been able to achieve nearly 60 percent of the targeted revenue compared with the other two Government institutions. This makes the Department of Inland Revenue the only institution to achieve the highest target in terms of revenue. I hope to go beyond the target of 800 billion rupees to achieve 1,000 billion rupees in 2019, and to make this figure three trillion rupees in another two to three years by ensuring that all prevailing issues are resolved. I am supported by the Ministry of Finance, especially the Minister of Finance Mangala Samaraweera, Secretary, and advisors. I believe that I will be able to resolve all the current issues and collect the revenue that the Government requires.

I Intend To Increase The Number Of VAT Payers From 26,000 To 150,000, While Also Focusing On Increasing The Number Of Tax Files By Widening The Tax Base.

How do you propose to increase the target from 800 billion rupees to one trillion rupees?

Sri Lanka has a population of 22 million. But not all are taxpayers and many have not opened tax files. I hope to increase the number of taxpayers in the future, for which I am in the process of developing the essential strategies. We hope to interface with nearly 30 organizations, in the future through RAMIS. Banks, Sri Lanka Customs and the Excise Department, are already in this network. In addition, we hope to add the Registrar of Companies, the Land Registry, the Department of Motor Traffic and more institutions into this interface. This way, when an individual registers a vehicle, his or her Tax Identification Number (TIN) gets registered at the Inland Revenue Department, thereby providing information about the owner and the type of vehicle, which will not allow anyone to evade

payment of taxes. Likewise, when an individual registers a property at the Land Registry, the Department is privy to all the relevant information. This linkage will ensure that from the first citizen to every ordinary citizen of this country, all will have to pay tax.

I intend to increase the number of VAT payers from 26,000 to 150,000, while also focusing on increasing the number of tax files by widening the tax base. In the meantime, there has been an issue on the taxing of professionals, and in response, I have set up a new branch, whose target for the next six months is to ascertain the tax liability of professionals in the country. All professionals will be taxed at the end of the next two years.

We pay a commission maximum of 15 percent to informants who provides additional information regarding any person who has a tax file with us but has failed to declare all the assets or liabilities. The intelligence branch of the Department investigates such information. In addition, I gather information after perusing newspapers, which sometimes gives information on what professionals are engaged in and a glimpse of their assets. The Department has two investigation branches, namely corporate and non-corporate, and the corporate branch performs an audit, following which the Department is able to claim a significant amount in unpaid taxes. Sri Lanka has a system of tax payment based on selfassessment and hence rather than enforcing the payment of tax, I want to change it to ensure that there is greater compliance.

In 2018, I led an advertising campaign in the media, which was a first in the history of the Department of Inland Revenue. Each advertisement began by thanking the taxpayer. Then we urged every individual with a profit or income of over 500,000 rupees to open a file with us and explained the consequences of avoiding tax. We first thanked the taxpayer in the advertisement, because Sri Lanka is a welfare state and our tax policy is self-assessment. The Government provides free education, for which there is a ten percent allocation in the annual budget. For instance, in 2018, the Government had spent nearly 200 billion rupees to provide free education up to university entrance, which included free books and maintenance of schools. There are Sri Lankans who have the means to educate their children in a fee levying private school, but it is not so for the majority. Compared to many countries, Sri Lanka's literacy rate is very high mainly because the Government spends a large amount of money on providing free education.

In addition, the Government spends nearly eight percent of its annual budget to provide free healthcare. Sri Lanka is doing very well in health indices, with a drastic reduction in maternal and infant mortality, which places us way above other countries in Asia. If the Government did not provide such facilities where would the public go? Those who can, will access healthcare in private hospitals, but the poor have the only option of saving their lives

by accessing Government hospitals. The Government has undertaken an enormous responsibility to provide free education and healthcare. I have been able to come to this position and speak with you because of free education. Had I not received free education, I may not have been in this position today. The Government has to pay the salaries of the 1.5 million state sector employees. The Government is able to pay its employees and the pensions of retirees, provide fertilizer subsidies and Samurdhi benefits and pay interest on foreign debt because the honorable citizens of this country pay taxes. We must create awareness in this regard. I believe rather than practicing a regime of enforcement, we must speak to the heart of the individual.

While I Hope To Reach The 800 Billion Rupees Target, My Final Target Is To Generate One Trillion Rupees By The End Of 2019.

I am grateful to the Minister of Education for coming up with the proposal to support taxpaying parents. My view of change is to make the child ask his or her parents as to why they do not pay taxes to the Government. I want to imbue the need to pay tax into individual conscience. We cannot continue the system of dragging people to court, imposing fines and imprisoning them. We have to make a change, and we have been working for this change since last year. The new Inland Revenue Act has ensured that we can earn a more significant revenue, and that is how I hope to achieve my target of three trillion rupees. Finance Minister Mangala Samaraweera has urged me to give every person in this country, including the laborer, the opportunity to pay even ten rupees as tax, so that he or she feels that they are contributing to the development of this country. This, in turn, gives the person a sense of pride as a taxpayer. We need to internalize the necessity to pay tax. The majority of people are afraid to pay tax, which I believe has reduced. I hope to instill the value that paying tax is not social responsibility, but a duty by society. We will work towards creating that awareness to encourage more and more people to pay, which will automatically increase our revenue.

How do you plan to achieve your target given the current economic situation? We have experienced an improvement in the payment of direct taxes. But there has been a reduction in indirect taxes, such as VAT. We have currently achieved a revenue of around 98 percent in our target, whereas we have achieved a target of 125 to 130 percent in other taxes up to now. The April 21st incident was a tremendous blow to the economy. We received 20 billion rupees annually from the tourism industry, which has declined to a certain extent, but now that tourism is gradually returning to normalcy, we expect to receive the same income that we received from indirect taxes by November. While I hope to reach the 800 billion rupees

target, my final target is to generate one trillion rupees by the end of 2019. We are working hard to provide the required revenue for the Government. Of course, it is a challenge, but I do not take challenges too seriously, and as of today, I am on the targeted revenue path. I believe with my dedicated team of human resources, I can reach this target.



How do you hope to create a tax-friendly environment in the country because people are generally frightened to come to the Department?

Most problems could be resolved if the taxpayer comes directly to the Department. People quite often are accompanied by a tax consultant. Several tax consultants prevent the taxpayer from coming to the Department to pay tax. Sometimes tax consultants create unnecessary fear in people. But people should not be frightened as they can access our website for information and can approach us for any advice. People can also meet me through an appointment. As I mentioned, we hope to create a taxpayer friendly environment through e-services, and the 1944 hotline is available for people to obtain advice. Although earlier people had to come to Colombo to open a tax file, today they can do the same at a regional office of Inland Revenue. And as we are connected through the network, every regional office has the same facilities.

With The Introduction Of RAMIS, Every Aspect Has Been Automated...This Way, We Can Serve The Taxpayer Better. Personal Agendas Cannot Be Brought Into The Situation When We Work With RAMIS, Which Ensures High Standards In Serving The Public.

Under a taxpayer-friendly regime, how have members of the staff changed their approach?

With the introduction of RAMIS, every aspect has been automated. For instance, earlier, we used to follow the manual audit procedure in which a lot of issues have been observed. But those malpractices have been overcome by the new system. This way, we can serve the taxpayer better. Personal agendas cannot be brought into the situation when we work with RAMIS, which ensures high standards in serving the public.

Does the tax structure in Sri Lanka give a clear picture to the public?

As you know, taxation is a complex subject in each country of the world. As such, previous Inland Revenue Acts were complex. Subsequently, we introduced more straightforward Inland Revenue Act no 24 of 2017. Under this new Act, we have reduced the sources of income to five, which had earlier been nine.

Do you think people are reluctant to pay tax despite the new Act because they have this perception that they are unfairly taxed or that they are the only ones paying taxes while some others get away?

What can be done to rectify this? We can overcome this solely by creating awareness. We are creating public awareness on why people should pay tax. Entities and individuals have to make income tax payments by September 30th, while returns have to be submitted by November 30th. We will be organizing a meeting for accountants and company directors to instruct them on how to fill this report. In this way, we create awareness among all relevant sections. In addition, we have a concept called the Tax Clinic, which is carried out in every regional office. All the issues that people have are discussed at this special forum. Our tax experts attend the meetings to inform the taxpayers effectively. Through that we will be able to build up a taxpaying community in turn increase tax compliance and collection.

What are your thoughts on the role of accountants in ensuring an effective and efficient tax system?

Every taxpayer has to submit an audited financial statement. Although an individual may be business savvy, he or she will not be an expert in accounting; therefore, such a person needs a consultant. But the tax consultant should not resort to tax evasion, but rather engage in providing tax education and tax planning to the client. Tax evasion is cheating on taxes. Tax planning, on the other hand, is to organize taxes within the confines of the prevalent law. I expect the role of the accountant to be that of a tax advisor and tax planner. People feel that middle-income earners are the most taxed, while the high-income earners get away. There are many who do not come under the tax umbrella, how can we ensure that this system is fair on everyone and all are included? We monitor continuously. We have nine Deputy

Commissioner Generals. Among them, there is one Deputy Commissioner General in charge of the Large Tax Payer audit, who monitors tax compliance of all the entities under his or her purview. The largest tax revenue is received from banks. We also have a branch dealing with taxation of inter-company transactions. For instance, if we have 250 files on banks, we regularly monitor all the files to check whether they have paid for the current quarter and how much was paid for the same quarter the previous year to make comparisons. We raise questions if there is a reduction in the amount. Unless they produce justifiable reasons, the deficit has to be paid. Monitoring is easy as we have 23 regional offices in Sri Lanka. A single Deputy Commissioner General monitors all 23 regional offices. There are monthly progress review meetings and I conduct a progress review meeting at the end of every month, at which I receive a summary from all the regional offices.

The Tax Consultant Should Not Resort To Tax Evasion, But Rather Engage In Providing Tax Education And Tax Planning To The Client. Tax Evasion Is Cheating On Taxes.

Therefore, no officer can avoid performing their job. We penalize those who fail to carry out their duty. We monitor the best 1,000 tax files in Sri Lanka and we monitor them so well that we ensure that taxes are paid every quarter, or else they are pulled up for questioning. Our human resources are invaluable. Almost every staff officer has a Master's degree and receives training in Sri Lanka and abroad. The employees at the Department are an asset and are capable of carrying out the duties entrusted in them.

How about double taxation?

With regard to double taxation, we hope to sign an MoU regarding the tax regime for a citizen of Sri Lanka doing business overseas. The IMF and the US Treasury officials are discussing with our officials with the approval of the Ministry of Finance to identify the weaknesses in our system of collection and hope to obtain their help to introduce better strategies and systems to ensure better revenue collection in due course.

You have been with the Department for 35 years, can you speak about your journey and your experiences over the years?

I joined the Department in 1984. When I joined, 52 personnel were hired from outside as Assessors, while 26 were taken from the internal cadre. At that time, I felt that I would someday be the Commissioner General. I started my journey to be in this position from day

one. From my first position as Assessor, I was promoted to Senior Assessor, then to Deputy Commissioner and Commissioner, Senior Commissioner, Deputy Commissioner General and finally as Commissioner General. I have the experience of working in the lowest rank to the top, such as how to work and carry out an audit, and more importantly, I have the ability to listen to people's grievances.

I am a content man when I leave office knowing that I have successfully helped an individual with a solution for a tax problem because I do it within the law. I use the power entrusted to me as the Commissioner General to help every individual that comes to me by working within the boundaries of the Inland Revenue Act. I gain immense satisfaction by helping people. I am constantly asked about the volume of revenue I can earn for the Government. For me providing the funds, the Government needs to provide people with free education and healthcare gives me immense satisfaction and contentment. I did a great deal of work as Deputy Commissioner General, highly supported by Ivan Dissanayake, the former Commissioner General. I provide the same support to my Deputy Commissioner Generals. I do not have any files on my table because I have delegated work. I leave office only when I have finished all the tasks for the day. I am extremely gratified by the fact that I can do a great deal for this generation and future generations. I am in this position today because our parents paid taxes in their day, and likewise, if people pay their taxes today only, will our grandchildren be able to enjoy the benefits of free education and healthcare continuously. I am proud that I am the head of an organization that provides nearly 50 percent of the country's revenue. I am not afraid of challenges. I had many challenges, but I have never been discouraged. I am in this position because of my qualifications, and I hope to render the maximum for the Department of Inland Revenue and the country before retirement, for which I am supported by the Ministry of Finance.

Your message to the readers?

The non-payment of taxes and tax evasion according to the new Inland Revenue Act is a criminal offense. Under the earlier law this violation was deemed as a civil offense. We can enforce the payment of tax by filing a case in a court of law, impose a fine and confiscate property. My request to the public is not to force us to resort to such measures, because it is a lot of work for us as well when we are forced to take such action. Paying tax must be understood by the people as a social duty and not as a social responsibility and thereby support the development efforts of any serving Government. I mentioned the amount the Government spends on free education, which is funded by the honorable taxpayer. We respect the taxpayer, because without the taxpayer the Government cannot perform the activities that it does. Therefore, everyone must understand the importance of paying tax and their duty thereby. I respectfully ask those paying minimum tax or evading tax not to do

so, because tax evasion is a criminal offense. In developed countries like the UK, the percentage of income tax after an individual reaches a certain income level is as high as 55 percent, but in Sri Lanka it is only 28 percent.

The Nonpayment Of Taxes And Tax Evasion According To The New Inland Revenue Act Is A Criminal Offense... My Request To The Public Is Not To Force Us To Resort To Such Measures... Paying Tax Must Be Understood By The People As A Social Duty And Not As A Social Responsibility

Our VAT is 15 percent. We have direct and indirect tax. Direct tax includes the tax imposed on an individual's income, whereas indirect tax includes VAT and NBT, similar to what we pay when we patronize a restaurant, which the owner includes in the bill, which in turn is paid by the owner to the Department. The ratio between indirect and direct taxes is 80 to 20 percent; 80 percent in indirect taxes and 20 percent in direct taxes. Every average citizen pays indirect taxes. The Government wants to change this ratio to 60:40 percent to lessen the tax burden on the ordinary masses by moving the weight to those who pay direct taxes. My request to the public is not to evade tax payments as it is a criminal offense and to provide the necessary revenue for the Government to continue its journey of development. My message to those who do not pay any tax is that it is their duty and to do one's duty by the country and the future generation by visiting the Department to open a file. The media also has a responsibility to take this message to the public. Sri Lankans are afraid to pay taxes, but people in developed countries do not have the same issue because their tax deductions are routine, which we are yet to achieve.

The media can help people to overcome their fear of paying taxes by imbuing awareness. The media must tell the people that they can enjoy free education and healthcare and fertilizer subsidies, Samurdhi benefits, pay salaries of state employees and more importantly ensure national security only if they pay taxes.

The salaries paid to the Armed Forces to ensure national security is done through the tax revenue. It was the honorable taxpayers of this country who provided the funds to end the decades-old war. From pension payments to irrigation work to road construction, including the construction of highways, have been possible because of the revenue from taxes. The media has a responsibility to create this awareness among the public. The public should know why they pay taxes. People have this perception that they do not enjoy instant benefits, having paid tax. Paying taxes is a future investment, just like I was able to enjoy a good education and in this position because our ancestors paid tax. Paying tax is an

investment in the future, a perception that has to be internalized among our people. The Department is geared to help the taxpayer.