

ESTIMATION OF CORPORATE INCOME TAX LOSS DUE TO NON-COMPLIANCE: BASED ON DECLARED INCOME TAX OF COMPANIES

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Corporate income tax (CIT) is the key income tax in Sri Lanka and it generally accounts for about 52% of the total income tax revenue and about 9% of the total tax revenue of the government. However, many argue that the performance of the CIT is far below its potential. In fact, the GDP share of the CIT (CIT/GDP) as a percent has fallen from about 2.5% in the early 1980s to about 1% at present. Among many factors, tax non-compliance could be a reason for the low performance of income taxes. Dubin (2012) identified three reasons that lead to CIT revenue loss due to non-compliance: under reporting of due tax liability by tax paying companies, on-reporting of due tax liability by tax paying companies and non-payment of corporate income tax by companies on declared income and profits. The last reason is considered serious as it indicates the non-payment of tax based on income or receipts that companies have already declared. Further, the estimation of tax loss due to under reporting and on-reporting seems to be less straightforward as under-reporting and on-reporting are difficult to verify. The objective of this paper is to analyze the loss of CIT revenue due to non-payment of due CIT payment on actually revealed company income. The Annual, average corporate income tax revenue declared was Rs. 11,910 million in the sample of companies. The collected annual average CIT revenue was Rs.5519 million in the period and the annual average of CIT revenue loss due to non – payments of tax were Rs.6391 million. The annual average loss of CIT revenue of small, medium and large, scale companies is Rs.363 million, Rs.472 million and Rs.5556 million respectively. The percentage distribution of tax loss due to non – payment of tax by large, medium and small-scale companies is 87%, 7% and 6% respectively. In the assessment year 2016/17, per company tax loss due to this non-compliance stood as Rs. 70 million for large companies, Rs. 3 million for medium companies and Rs. 1 million for small companies. This indicates that compared to small and medium companies, large companies engage in a massive tax fraud through non-payment of tax due on declared income of the companies. More importantly, results show that tax loss due to non-compliance is on the rise and the relevant authorities have failed to address the issue and thereby making the fiscal position of the country weak.

Keywords: Corporate Income Tax, Declared Income, Non-payment of due CIT payment