IS DIGITAL TAX BITTER OR BETTER FOR AN ECONOMY? REFERRING TO A CASE ON EXPORT DRIVEN INFORMATION COMMUNICATION TECHNOLOGY SECTOR IN SRI LANKA[1]

Aluthgamage Hasintha S. Pemerathna[2]

ABSTRACT

Main intention of this study was to identify the significance of digital taxation on the economy of Sri Lanka. Moreover the study has observed factors such as investment potential, government tax collectability and citizen to government responsibility; referring to the export driven Information Communication Technology of Sri Lanka. Digital taxation policies and practices in other countries including USA, UK and India were reviewed under the literature review. Inductive method was followed in the study and the qualitative data was gathered through interviews and open-ended questionnaires. Results indicate that in the export driven ICT sector tax rates are comparatively low in Sri Lanka. Further, foreign investors' investment motives are increased as a result. Majority of the investors agreed that their investment motives are backed by a no tax environment; especially in sectors such as B2B Telecommunication, web design and development. This study reflects the existing tax policy on digital products. Further, areas of inefficiencies are highlighted indicating policy gaps in this sector. Moreover, this research contributes to the business fraternity by highlighting the benefits on tax savings in this industry.

Keywords: Government Policies, Digital Taxation, Digital Goods, Taxation Regimes, Digital Markets, Taxation Framework

1. Introduction

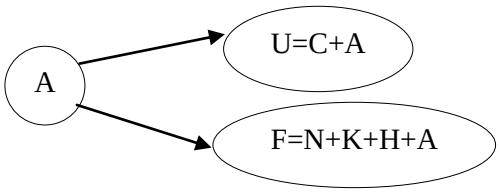
Intervention of digital economy has influence both the civil society and the business environment in a similar magnitude. It is known to be the most observed study area for many inventors and politicians. Digital products are in accordance of 0s and 1s that contains economic values; also known as bit strings. Due to the wider range of applicability, these products are demanded by both entrepreneurs and the end consumers. Greenstein, (2011) explains that despite having the risk of a spill over impact on the regarded economy, digital economy would increasing the aggregate macro-economic performance of that country. According to Danny Quah (2004) Traditional view of ICT, only as a facilitating platform to boost the production processors and business system is obsolete. Further, he explained that digital products are recipes that allow those entities to be produced and consumed isolated and separated from any form of significant physical sustains. West and Lakhani, (2008) argues that the business arrangements and efforts are in an increasing trend to create

[1] This paper was presented at the 13th International Conference on Business Management (ICBM), University of Sri Jayewardenepura, Sri Lanka, December 2016.

[2] Department of Management, Edulink International Campus, Sri Lanka.

such products more often due to the increasing demand. Christopher and Holweg, (2011) explain that manufacturing technology embedded with digital processors has created new trends and widened the business opportunities for the industrial sector. Moreover, the study claims that findings like manufacturing resource planning has allowed the manufacturers to increase the scope of economies while reducing the wastage and the average cost. Danny quah, (2003) has created an economic function incorporating the digital products.

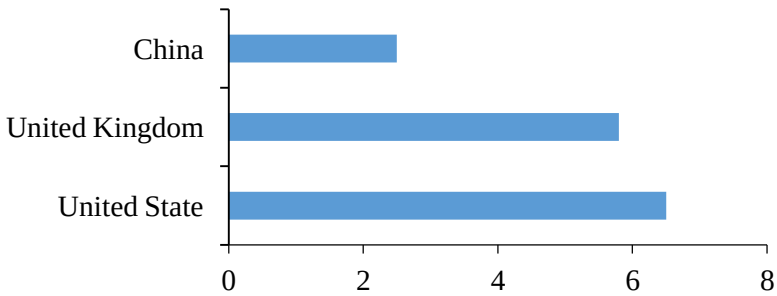
FIGURE 01
Contemporary Definition of Digital Goods



Source: Centre of Economic Performance; Digital Goods and the New Economy

Figure 01 elaborates a conceptual framework of the research carried out on digital products and their impact on the UK Economy. Further, in this model "F" denotes the production function while "U" denotes the Consumption Function. Moreover, letter "C" denotes the ordinary consumption while letters K & H represents the inputs of physical and human capital accordingly. Labour function is denoted with "N". Further, as depicted in the function, digital goods would be used to produce both ordinary and digital goods for the end consumer. Hence it is evidential that the digital products would have a direct contribution on the production and the consumption function of the economy. Following chart demonstrates the spread of digital economy in the world.

FIGURE 02
Country-wise Digital Share of Gross Domestic Products (GDP), 2015-2020



Source: Accenture strategy and oxford economics, Country-by-country digital share of gross domestic product (2015 and 2020).

According to Figure 02, the United States is expected to have more than 6.5% of their GDP from digital product creation in 2020, while the United Kingdom would have 5.8% of GDP from the same. While countries like China also had more than 12% growth in their digital economy, continuously over the last five years. Accenture Strategy (2015) reveals that the American economy benefited from an increased economic value of $368 billion in their gross domestic production mainly due to the rise in the digital economy. Further, the financial services market in the USA has the highest digital value addition in the world with a cumulative contribution of 58% through digital products. The report further claims that the UK has recorded 7.2% growth in this sector in 2014 while the total value creation stands at 118.3`billion pounds. Around 1.4 million job opportunities were created as a result, while contributing to the export industry by 43 billion pounds (World Economic Forum, 2015).

TABLE 01
Gross Value Addition from Digital Sector, 2009-2014

Year / Item	2009	2010	2011	2012	2013	2014
Gross Value Addition (£ Millions)	93,666	96,946	102,834	104,622	110,387	118,288
UK Total	1,348,507	1,397,744	1,443,281	1,485,776	1,546,914	1.618,346
% Share of UK Total	6.9	6.9	7.1	7.0	7.1	7.3

Source: Annual Business Survey, Department of Culture Media and Sport (2015).

When programming, consultancy and software development work recorded a high growth rate entertainment, filming and TV sectors scored even higher growth. Further, there is a significant increase in the telecommunication sector from 2013 to 2014 (Department of Culture Media and Sport UK, 2015). As indicated by the literature findings, many organizations in the contemporary environment are focused on creating e-products also referred to as non-tangible products in their product portfolio. This trend is spreading in Asian and East Asian countries. With the projected increase in population and labor force, Sri Lanka is planning to increase the number of IT parks and BOI projects to contribute to the IT export sector. According to the budget allocation for 2016 more than 42 million rupees were reserved to build district wise IT resource centres. The investment value of the Jaffna IT Park is 8.9 million rupees (Ministry of finance Sri Lanka 2016). Private telecommunication giants like Dialog Axiata has shown keen interest in investing in this field. The company has invested 25.6 billion rupees in a project to enhance the IT infrastructure of the country. Partnering up with the Board of Investment of Sri Lanka (Colombo Page, 2014). The life style of Sri Lankans is leaning towards dependence on E-

products. E-products like the "OTT Entertainment Platform", launched by Sri Lanka Telecom shows the enthusiasm for this sector by the business sector and the ICT sector. The product has many options such as access to a vast pool of PlayStation games, TV series, movies and songs. Further SLT's CEO Mr. Dileepa stated that they are expecting this product to be a success considering the high demand by the people for similar kinds of products (SLT Home, 2016). According to Techinasia (2015) Director of E-commerce for Google India has once acknowledged that Sri Lanka is ahead of India in digital penetration; with an internet penetration of 22% compared to the 16% internet penetration in Indian. According to the same source the country's projected penetration on internet is 50% in five years. The Intrusion of smart phones is regarded as the main reason for high internet penetration in Sri Lanka.

1.1. Problem Statement

At time where Digital subsistence of the Sri Lankan economy is thriving, the need of suitable tax system is increasing. Estimated interest on investment and the forecasted growth rate of Information Communication Technology would ascertain the need for a more suitable digital tax system in Sri Lanka. Such a system would be associated with economic benefits like time saving, less documentation, less pollution and more tax revenue (Swardt & Oberholzer, 2006; Lejeune, 2002).

1.2. Problem Significance

With high expected growth in digital products and related digital economic activities in Sri Lanka, the country is aiming towards a digitally driven economy. However, most of the offline businesses are sheltered with online and digital value creation. Moreover, these improved economic environments have not alarmed the policy makers to rethink about the current tax policies. However, India has stepped ahead in the policy making process for digital tax, where the Indian Income Tax Act was amended with a mandatory requirement for E-filling income tax for corporates. The amendment made in Section 44AB was the first step in moving towards a holistic online tax system in India where individuals are provided with the option to fill online tax (Gupta, 2009). The United States aligned their tax policy with the digital economy in 2011 with their "Digital Goods and Services Tax Fairness Act". The principle intention of this act was to protect its large IT sector from paying repeated tax, hence reduce the financial cost as much as possible. As a country with a high number of operation activities outside the territories, this policy movement seems timely and essential for their developing offshore multinational business sector. Further this would mimic the IT related export endeavours from the country due to reduction in total tax obligations (Avalara, 2015). The European region has also adjusted their economic activities parallel to their digital economy. The VAT MOSS system also known as Mini One-stop Shop scheme would enable the tax payers to refile for refund and correctly adjust the tax records with minimum effort. According to the new system the buyers' location is taxed instead of the sellers' location, reducing the possibilities of double counting of tax. This method is expected to have a favourable impact on the economy of the EU as the foreign sellers and multinational corporations would have to bare the tax liability instead of the local customer in Europe. It is a known fact that book online businesses like E-bay have largely

benefited from the previous tax system. However, with the new implementations those undue advantages will be waived off, leading to a high VAT income collection for governments from digital imports. In this sense this act has stipulated the digital payment records of the taxes and the identification of taxes on digital products (SelzBlog, 2015). Therefore, it is eminent that Sri Lanka is behind many countries and their policies on e-taxation or digital taxation. However, the Inland Revenue Department has taken measures to make online portals for tax payments but with a lack of policies and rules to back up the utility such systems are questionable. Another significance is that there was no Sri Lankan based literature found on this subject matter or any expert opinion, discussion for that matter. Hence the main intention of this research is to identify the suitability of a digital taxation system on business systems In Sri Lanka.

1.3. Objectives of the Study

- To generate qualitative findings on economic repercussions of implementing a digital taxation system.
- To identify the countries with the best practise on digital taxation through reviwing the relevant literature.
- To diagnose suitable digital taxation strategies that can be utilized in the digital economy of Sri Lanka.
- To make recommendations to amend the administration of the existing tax system.

The literature review analysis helped in identifying the best practices in this field by probing policies related to various Asian and European countries. While the data collection and analysis would focus on the positive ontology.

2. Literature Review

In this section, the researcher has used many related journals and papers from various authors published in various countries. Further the best practices of digital taxation and negative impacts of digital taxation on certain economies around the world has been investigated.

2.1. Digital Tax Policy as an Extension of National Economic Policy

Many economic liberal policies are introduced to the world for the first time by the United States of America (Feng et al., 2001). Business model superiority is the main aim of all those policies. Further the country has implemented many policies including their tax policy which favours the multinational organizations owned by the United States. In 2011 the country has introduced “Digital Goods and Services Tax Fairness Act” where the main intention of the policy introduction was to ease the tax burden on their companies that operates on foreign soil (Mazerov, 2001). In the European region a new implementation, called VAT MOSS Mini One Shop Stop, where the VAT is charged not on the point of supply but on the point of purchase, has been introduced. This implementation is mainly focused on the Big Non EU companies, who are listed and operate in minimum taxed member countries like

Luxemburg, to avoid large tax payments (Vatlive, 2016). These conditions will include companies like Amazon and e-bay, who operate mainly through the functioning of web sites and e- trading platforms. However, under the guideline of the UK government, the new tax impose is applicable for even the non-business customers who are also considered in this method (HM revenue and customs, 2016). Some specialists have claimed that there are positive aspects to the new amendment where the previous threshold on Vat of 81,000 pounds turnover is used in tandem with the bottom up VAT impose. Some claim that the new VAT MOSS would reduce the ambiguousness on VAT in the EU region, while others claim that it is a barrier for E-entrepreneurs who are increasingly performing well in the modern EU economy. Further, it is argued that the innovation of such entrepreneurs would hinder due to passing of this new law (Rob Carney, 2015). In India the focus and the intentions are somewhat differing from the above-mentioned criteria where the Indian government has made it compulsory for all the corporate firms to register online and claim the tax refund online. In this method, the involved intermediary would make arrangements for refund. Moreover, the individual taxpayers are not required to submit to this process since they are given the option to use this service. The government has given three main options to the tax payers and the first option involves the tax payer to possess a digital signature, where after filling those refund papers individuals are required to digitally sing on the document. In the final option the tax payer would have the service of an E-return agent to obtain refund and tax paying information. Further, the taxpayers would have to visit the tax office if they do not possess a digital signature (Gupta, 2009).

A marked difference can be seen between Asian and developing world digital tax policies and the western and developed world tax policies. Indigenous industries and local business are mainly focused on by many developed countries in their digital tax policies; the .EU region and the USA referred above are classical examples for that. While adopting their tax bases to face the boom in the digital sector these countries would also consider possible tax increases on the rival foreign industries. The developing world, on the other hand, have focused on more functional strategies, like filling tax papers online, online tax registration and return, and online tax payments. Many developing countries lack the focus and aptitude to maximize the opportunities and protect their indigenous industries through their digital tax policy. Hence, many multinational ventures have easily penetrated to the digital economies of those countries.

2.2. Digital Taxation and Economic Consequences

The concept of Government-to-citizen (G2C) service can be extensively practiced with an efficient digital tax system. Due to availability of necessary information, tax authorities are able to practice good governance more frequently (Saha et al., 2012). Hence, the business ethical practices on tax payment would increase as a result. It is explained that digitalization of tax would increase the accountability of both the tax payer and the government to be obliged to both pay the tax and to give an effective service. However, this practice would pave the way to increase the quality of the service given by the authorities as well as the possibility of introducing new practice would increase (Heeks, 2001; Irani et al., 2005). E-taxation is seen as one of the

prominent tools in implementing e-government services. Further, the paper argues that the practice of mandating tax payers to function online would bring about media discussions and vibe. Further, it would arouse the discussion on ICT utility hence contributing to reduce the digital divine of third world countries Zhou (2007). Hong Kong online Tax system has brought about a high e-government satisfaction rate on citizens. The researchers found out that the number of complains e-government had was dropping which has a direct link with E-taxation system. In the same research, it was found out that there is an improvement in collection of tax amount by the authorities. Brazil has introduced their own system of digital taxing through the project SPED which is a comprehensive accounting platform that would enable the TAX authorities to collect tax in a more accurate manner. Total tax collection was R$9 million from R$6.2 million last year; resulting in a total increase in 12.46% of total federal taxes collected per year. This rise was mainly due to digitalization of tax collection, recording and refund process that paved the way to increase in tax income without increase in number of tax payers. American tax policy on the other hand has a contradicting direction to that of many countries in the developed world. According to EY, (2015) US authorities have not made sufficient cooperate tax cuts unlike other economic unions like EU. However, the United State Tax system makes sure that the profit generated on foreign soil by national companies are being taxed less. This is evidential when you compare the tax collection rate of Hewlett Packard of 20% and to that of General Electrics which amounts to 3.6% mainly due to their operations flexibility in foreign lands. In the same research, it was found out that tax heavens compensate 1% of the global economy where 24% of united profits are generated from the United States' own companies listed in those countries. This condition is assured with their new Digital Goods and Services Act, which would focus on lenient tax policy on profit generated in foreign soil. Another study from Sweden has proven that increase of VAT on digital artwork would hinder the entrance of new individual artists. In the same research it was found that Spain has also practiced this practice by increasing the VAT on online and offline art work in 2012, amended soon to 10% to maintain the industry functioning capacity.

According to Du Plessis (2001) digital products are the hardest products to tax as the physical presence of the product is a necessary component in determining the source of tax. In another researcher Fridensköld (2004) pointed out that due to the increased digitalized economic environment the increase in utilization and imposing of digital tax would result in increase of tax income without any economic damage. if planned properly. Government spending would increase as a result while the opportunity to achieve social welfare has increased. In another research, it was found out that digital certification has increased the effectivity on identifying such taxes and improved the effectivity on paying the taxes. Digital certification is one of the main methods to identify the jurisdiction of the tax source. Governments with high online enabled economic systems should facilitate a proper process to generate and exchange such certificates (OECD 2003).

The previous research findings suggest that digital taxation proves to be a mainstream tool in implementing government policies. Further, compliance on such policies by the public has increased due to the growing interest about those policies. Moreover. many economists believe that a proper digital tax system would bring

about a set of economic benefits like increase in total tax collection and improvement in good governance practices.

3. Methodology

3.1. Population of the Study

ICT related digital products have the most complex characters that would make those products difficult to capture in a value chain (Danny Quah, 2004). According to the analysed data in the literature review, the ICT sector promises to have a high growth rate (World Economic Forum, 2015). Hence, the target population of this study is the ICT industry.

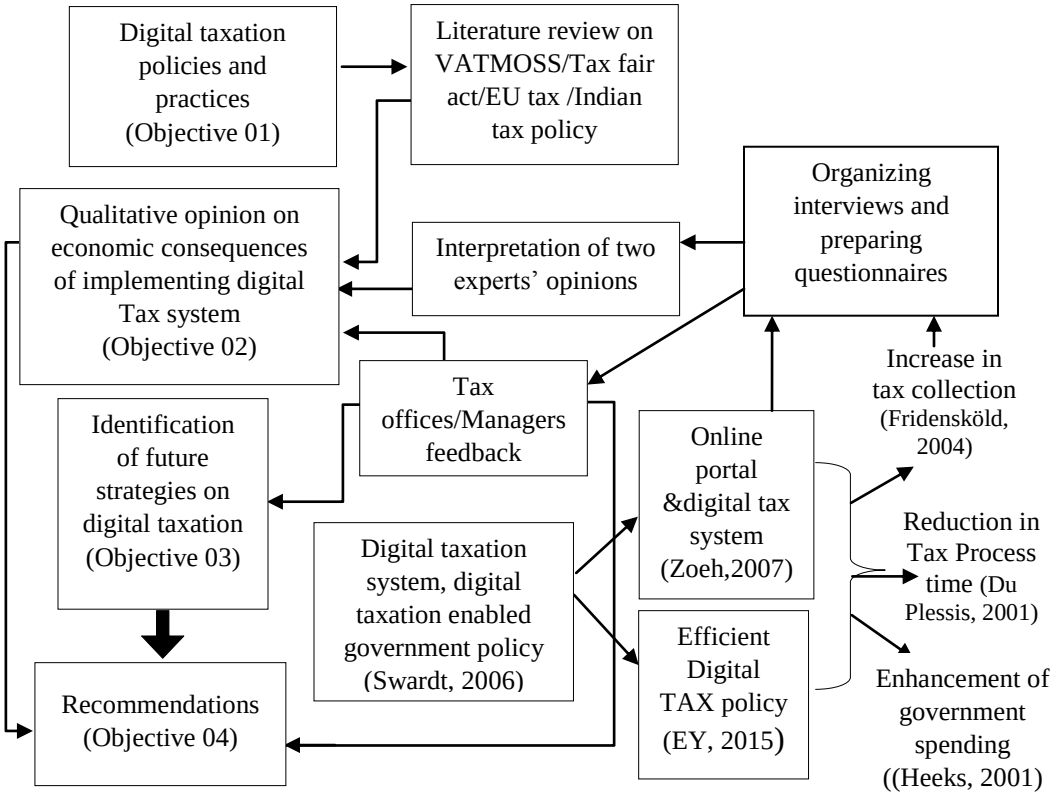
3.2. Sampling Method and Sample

Sampling method would be judgmental sampling as many qualitative studies have adopted this sampling method as a successful method (Trotter, 2012). This Sampling method would be more suitable as the set of people involved are unique and need to be sorted. Tax officers who make tax adjustments and calculations at organizations were interviewed along with finance managers who makes decisions. Further, two economic specialist were used in the study; one person is an assistant senior director of the Central Bank and one Deputy Commissioner in the Inland Revenue Department. The study involves 10 sample units, basing the company as the main sample unit. There are namely two observers in each sample unit; one tax officer and one finance manager. According to Schensul, & LeCompte, (2010) qualitative research with judgmental sampling would rarely exceed 15 observations. Collectively, 10 Tax offices, 10 Finance managers and two experts were interviewed in the study, culminating in a sample size of 22. Hence, the sample is more than the average sample size for this nature of study.

3.3. Research Process

Theoretical framework of the study is illustrated in Figure 03.

FIGURE 03
Theoretical Framework



Source: Author created.

4. Findings

Two main streams of input were analysed in the findings, namely the Tax officers in the respective organizations and the economic experts who have given a qualitative opinion on the selected economic incidents.

TABLE 02
Economic Rewards of Online System

Question 01 (Tax Officers)	What is the most useful feature of the online tax system? (Testing Objective 01)
Rationale	To identify the perceived value of online tax system
Relation to the literature	Increase in online interaction will increase revenue collection of the government (Horst et al., 2007)

Source: Research data/Literature review.

This question was directed at both the categories including officers and the experts. Some of the officers' opinions were as follows:

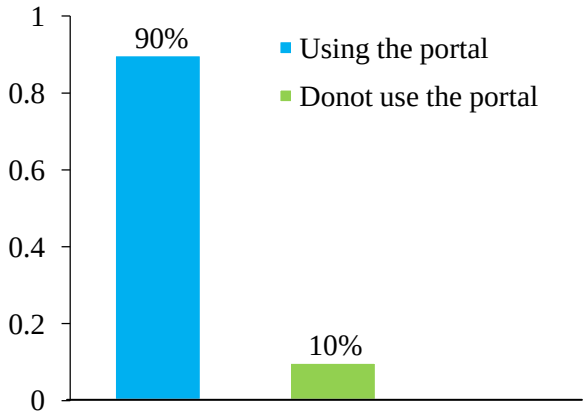
> We use this system as it consumes less time and some auto corrections are included like VAT rate, etc. Therefore, it corrects our mistakes. And our timely payments are also high.

Another officer has mentioned that:

> To be frank, I prefer the new system but it needs to improve the consistency, sometimes, going to the Inland Revenue and getting the job done makes it a onetime effort.

Figure 04 will give information on that utility of online tax portal system by ICT companies.

FIGURE 04
Utility of Online Tax Portal System by ICT Companies



Source: Research data.

More than 90% of the ICT companies have already adopted the online tax payment system, according to this data. Therefore, it can be concluded that the ICT companies in Sri Lanka heavily use the online tax payment system. Overall, all the officers agreed that the system would increase the filing, recording and submitting information related to taxes. However, a few companies who do not use the new online Inland Revenue site had the following response:

> I am the one who pays this VAT and everything; it's convenient for me to visit the branch and do it since I have been doing it for a long time; and since I know people from there.

Another person gave a similar opinion to the above; as they believed, easy filling is not the case, which they cite as a misinterpretation. The economic specialist however had a parallel view on this regard, one claimed:

> It is difficult to identify the direct relationship between implementing this new online tax system and government spending. But given the macroeconomic behaviour most of the tax increases has resulted in

increase in government spending, paving the way to boost aggregate demand.

Other specialist also claimed that, even though increase in tax collection might not increase government spending over time this correlation will increase. Therefore, it can be argued that the interaction of online behaviour would increase the possibility of improving overall tax collection and hence has a tendency to improve government spending.

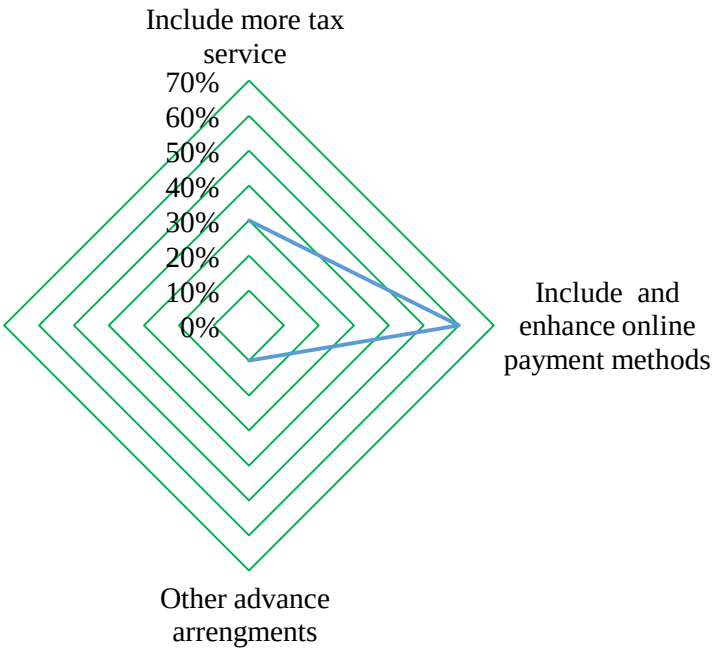
TABLE 03
Service Expectancy of Online Digital Tax System

Question 02 (Tax Officers)	What would you like to add or change in this system? (Objective 03)
Rationale	To identify potential future strategies
Relation to the literature	Online Tax collection portal should be a comprehensive one with fullest interaction and maximum government to citizen service G2C (Terrance Sanchez, 2009)

Source: Research Data/Literature Review.

Feedback on this question is demonstrated in Figure 05.

FIGURE 05
Service Expectancy



Source: Research data.

As the figure clearly shows most of the ICT export, oriented firms would like to have enhanced online payment options. Most of them argued that the other services like comprehensive Tax assessment and informative and guided services would be a good improvement. Another few sets of officers claimed that tax advance services like direct feed in apps and usage of computer would make it a comprehensive paper less system from the beginning. One CFO of App development company claimed that:

> If the system can allow software plug-ins and integrate with the main ERP of the company the process will be much automated and faster, as the system would do everything.

Expert opinion on the final discussion point however questioned its ability on certain grounds as:

> What is if the system is hacked? The economic loss will be billions?

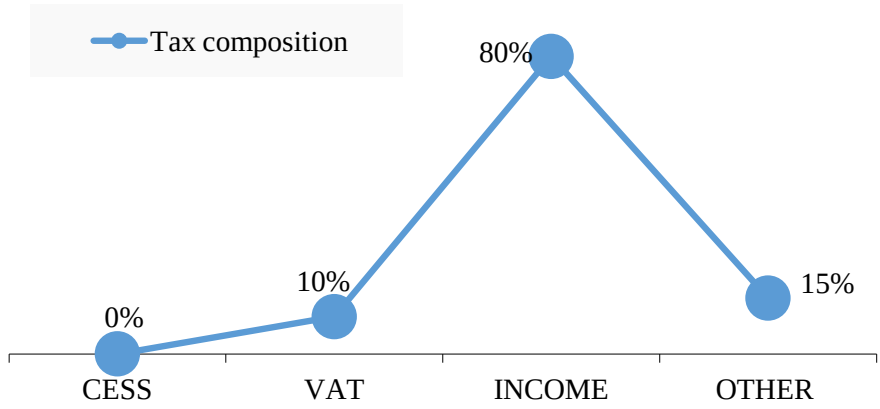
Further, both of the experts agreed on the fact that there needs to be an improvement in the level of service and the online payment option in a way to improve Government to citizen service satisfaction.

TABLE 04
Composition of Taxation of ICT Export Sector

Question3 (Tax Officers)	What are the tax types you are obliged to pay? (Testing Objective 02)
Rationale	To identify the tax rate on digital products
Relation to the literature	Reduction in tax level would have a positive impact on the digital industry (Oberholzer, 2006)

Source: Research Data/Literature review.

FIGURE 06
Nature of Tax Liability



Source: Research data.

According to Figure 06, only 80% of the ICT export companies pay the VAT and 80% pay income tax. While other taxes like Economic Service Charge for withholding tax is paid by only 15% of the ICT export companies.

According to the experts, this tax rate is comparatively less than the USA. Where in the USA the average corporate tax rate is around 38.9%, while in Sri Lanka that value is around 28% (Trading Economics, 2016). However, the average tax rate for export ICT are less than the average, as exports on software and web-based services are exempted from VAT (KPMG, 2015). However, some software companies and web development companies had to import software platforms and tools for which this 10% VAT is applicable. Further, the corporate income tax is paid by 80% of the companies, while the rest of the 20% have BOI or Ministry of Finance exceptions on corporate Tax. Other charges includes PAL charge and surcharges incurred during documents, equipment, and other imports. Further, the United States has imposed a sales tax for software and digital products based on the server download and upload activities (taxrates, 2015). EU tax on VAT remains to be imposable if the trade is happening outside the EU Zone (Europa, 2015) unlike Sri Lanka where both tax types are exempted from the ICT industry.

4.1. Movements of Foreign Direct Investment

According to expert opinion, one of the reasons for high FDI flow for the ICT export industry is the lower wage rate and high professionalism in the ICT industry in Sri Lanka. However, the experts also pointed out that the lower TAX rates on ICT Exports have attracted more forging investors to Sri Lanka despite their cost on establishment. One expert explained:

> The ICT Exports and BPO sector is showing high growth perditions. I believe that one of the main reason is that our tax reduction over the years along with increase in technical knowhow of the country. We are expecting the ICT sector to surpass other export dominant industries near soon.

The other expert commented:

> Policy makers do not worry about the loss of income through taxing export ICT products and services; as the future potential benefits aimed are high.

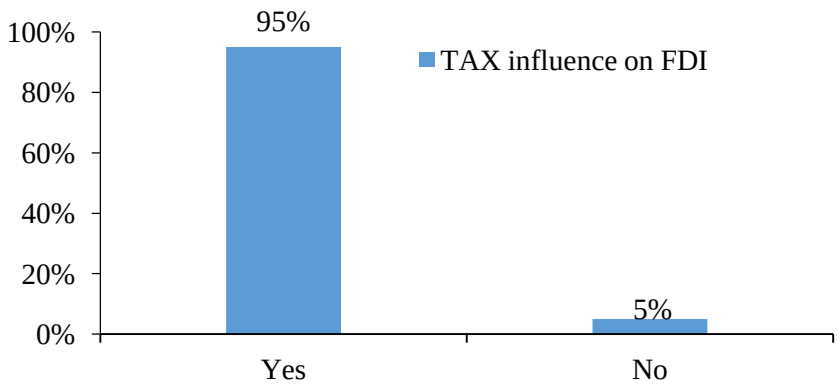
Overall, this analysis indicates that the Reduced TAX rate on ICT industry has a direct impact on the FDI flow for that industry.

TABLE 05
Relationship between Tax and Foreign Direct Investment

Question 04 (Tax Officers)	Do you believe Low TAX rates Attracted foreign investor to Sri Lanka? (Testing Objective 02)
Rationale	To identify the tax rate on digital products.
Relation to the literature	Reduction in tax level would have a positive impact on the digital industry (Oberholzer, 2006)

Source: Research Data/Literature review.

FIGURE 07
Foreign Direct Investment Flow and Tax



Source: Research data.

This answer is collected from the finance managers of these ICT companies and the data further confirms the arguments made by experts on the relationship between low tax rates and high FDI flow in the ICT sector in Sri Lanka.

4.2. Analysis of the Findings of Expert Opinion

In this section, analysis related to the findings of two expert opinions are elaborated. Further, the economic consequences of the digital taxation of the country are also reviewed.

Ability to create trade barriers: With the second Silicon Valley in the world as its neighbour, Sri Lanka has a huge threat posted from India and its growing work force towards IT. Sri Lanka recorded 700 Million US Dollars of revenue from IT exports, being the third largest export industry in Sri Lanka (Central Bank Report, 2015).

> Our digital tax system is not policy aligned like the American policy where they continue to find ways to tax less for offshore or export oriented businesses while tax more on local traded business.

Other expert would also bare the same attitude towards to problem:

> We have a great opportunity to create a good online tax policy, which will increase the international competitive advantage of the country's digital products.

Both the experts agreed on the fact that policy and digital tax can be aligned parallel to each other. However, the implementation of such policies is far from consideration in the national policy framework of Sri Lanka. Expert opinion is that the country has necessary resources and the scope to create such a pool of policies.

Connection between Macroeconomic Performance and Digital Tax System: Once again, both the economic experts argued that this is positively correlated as:

> As I mentioned there are a number of researches done on online tax payment systems that have increased the collected tax income without increasing the number of tax payers.

This directly tallies with the literature review finding in this research, where the same facts were explained in the case of Brazil (OECD 2003). The other expert also had the same opinion:

> I believe that when the tax collection is increased and swift it has a direct impact on the economy and the pattern of government spending FDI Rate of the country hence would result in the increased aggregate demand of the country.

However, when confronted by the Tax officers it was told that the benefit of attracting FDI due to utility of E-tax system is not a concurrent reality as most of the organizational tax officers claimed that Investors would not consider whether you are online TAX registered or not. However, they commented positively on the experts' suggestion that the government's ability to collect the tax faster would increase the efficiency of government spending.

5. Discussion

According to the feedback from question 02, ICT corporate TAX payers have higher expectation on the existing Digital Tax system. According to the interpretation of question 03 and 04, it is evident that the Tax rates of the ICT export sector in Sri Lanka is Low in comparison to other regions like the USA and the EU (Tax Rates, 2015). However, expert opinion clarifies that the reduction in the Tax rate of the ICT export industry in the country is favourable for the development of the economy and the industry itself. As discussed in question 01, findings corporate taxpayers are more enthusiastic about the online tax system given the expected benefits. Further, the study reflects that the tax service for online tax system should be improved.

6. Conclusion

The export driven ICT sector promises to have healthy growth in the future economic environment of the country. Moreover, the study findings indicate that the proper establishment of the digital tax system would enable the economy to increate Government to Citizen Service and relationships, increasing the social wellbeing of the country. Further, the study concludes that many corporations are positively

responding to this change in the tax system. However, some improvements need to be made to the system itself to convert the non-users in to regular users of this service. The expert opinion and the industrial survey results are parallel where both the parties are on a consensus on the notion that existing tax system needs to be improved for it to ripen more economic benefit to the country, while the experts believe that such a tax system should align with the countries protectionism mechanism.

7. Recommendations

According to the findings of the study, the following recommendations are made:

The first recommendation would be to enhance the tax service by allowing the online payment methods for the various corporates as discussed in question number two. The next recommendation would be to improve other tax services like tax validation services and various tax advisory services for the users that would increase the usage rate of this new system. Further, the new system can include tax validation services on the corporates tax obligations. Another important recommendation would be to continue to grant the same level of tax benefit for the considered industry (ICT Export sector) enabling that industry to have a competitive advantage among rival countries. Another recommendation would be to re-invent another accurate online tax policy that would capture these online transactions triggered from offshore locations. The final recommendation would be to identify a strategy to publicize online tax filling among the general public in Sri Lanka.

References

Anon., 2001. Trends in using CD-ROM is academic libraries of three South Asian countries - Pakistan, Bangladesh and Sri Lanka",. *Aslib Proceedings,* 53(2), pp. 68-76.

Anon., 2013. *European Parliamentary Research Service Blog.* [Online] Available at: https://epthinktank.eu/2013/11/11/21-gdp-productivity-growth-why-the-digital-economy-is-important/ [Accessed 21 07 2016].

Anon., 2015. *Tax administrationis going digital,* Newyork: EY.

Avalara, 2015. *Avalara Taxrate.* [Online] Available at: http://www.taxrates.com/download-tax-tables/?CampaignID=70133000001QHPQ&lso=Paid%20Digital&lsmr=Paid%20Digital&_bk=sales%20tax%20in%20states&_bt=155251495148&_bm=b&_bn=g&gclid=CPOi48uomNACFQ2ZGwoddBwMaw [Accessed 02 auguest 2016].

Chowdary, T., 2002. Diminishing the digital divide in India. *Library Review,* 4(6), pp. 4-8.

Cole, G., 2015. *Game Changing Tax Rules for 2015,* Newyork: Avalara.

Daniel Ho Aldous Mak Brossa Wong, 2001. Assurance of functionality of tax in the e-business world: the Hong Kong. *Managerial Auditing Journal,* 16(6), pp. 339-346.

Department for Culture, M. a. S., 2016. *Digital Sector Economic Estimates,* London: Department for Culture, Media and Sport.

Edward Alden, B. L. S. S. F. a. R. S., 2016. *counsil on forign Relations Publications.* [Online] Available at: http://www.cfr.org/tax-policy/standard-deductions-us-corporate-tax-policy/p32655 [Accessed 04 07 2016].

Europ, Y., 2015. *VAT exemptions.* [Online] Available at: http://europa.eu/youreurope/business/vat-customs/buy-sell/exemptions/index_en.htm [Accessed 02 Augest 2016].

Finance, M. O., 2016. *treasury.lk.* [Online] Available at: http://www.treasury.gov.lk/web/guest/article/-/article-viewer-portlet/render/view/germany-grants-13-million-euros- [Accessed 02 Augest 2016].

Greenstain, 2010. Illustrations from the Histories of Microsoft and IBM. In: *Schumpeterian Competition and Diseconomies of.* Chicago: University of Chicago Press, pp. 203-271.

Gupta, A. O. G. S. M., 2009. Antecedents of paperless income tax filing by young. *Transforming Government: People, Process and Policy,* 3(1), pp. 65-90.

Horst, S. L. R. A. d. M. B. J. a. E. W., 2010. Corporate tax harmonization in the EU . In: C. f. E. P. Research, ed. *Economic Policy.* Lodon: Wiley , pp. 537-590.

Jodie Houston, A. T., 2015. A survey of tax evasion using. *Advances in Taxation,* pp. 69,94.

Jouni Partanen, J. H., 2014. *Emarald Insight journals and books.* [Online] Available at: http://www.emeraldinsight.com/doi/full/10.1108/SCM-10-2013-0387 [Accessed 24 07 2016].

KPMG, 2015. *2016 Budget Analysis,* Colombo: KPMG International.

Lakhani, J. W. a. K., 2008. getting Clear About Communities in Open Innovation. *Industry and Innovation,* 15(2), pp. 223-231.

Lanaka, C. b. S., 2015. *National Output, Expenditure and Income,* Colombo: Government press Sri Lanka.

Liang, I. P. J., 2012. Downloading digital video games: predictors, moderators and consequences. *Marketing Intelligence & Planning,* 30(7), pp. 740 - 756.

Li, S., 2003. Future Trends and Challenges of Financial Risk. *Managerial Finance,* 29(5), pp. 111-125.

Li, S., 2003. Future trends and challenges of financial risk management in the digital economy. *Managerial Finance,* 29(5), pp. 111-125.

Li, S., 2011. Financial risk management: is it a value-adding activity?. *Managerial Auditing Journal,,* 26(7), pp. 566-585.

Martin Christopher, M. H., 2011. Supply Chain 2.0": managing supply chains in the era of turbulence. *International Journal of Physical Distribution & Logistics Management,* 41(1), pp. 63-82.

Martin, 2015. *EU VAT MOSS for Digital Products,* s.l.: selzblog.

MAZEROV, M., 2012. *Digital Goods and Services Tax Fairness Act" Would Impair Funding for Education, Health Care and Other State and Local Services,* Washington: Center on Budget and Policy Priorities.

Oberholzer, S., 2006. Digitised products: how compliant is South African value-added tax?. *Meditari Accountancy Research,,* 14(1), pp. 15 - 28.

OECD, 2003. *SEIZING THE BENEFITS OF ICT IN A DIGITAL ECONOMY*, France: OECD Publications Service.

Quah, D., 2003. , 2003. Digital goods and the new economy. CEP discussion paper; CEPD. Centre for Economic Performance,. , *London School of Economics and Political Science*, pp. 563-563.

Quah, D., 2003. *Digital Goods and the New Economy*, London : Centre for Economic Performance.

Rao, M., 2016. *Why investing in Sri Lanka is like turning the clock back for Google India chief.* [Online] Available at: https://www.techinasia.com/investing-sri-lanka-turning-clock-google-india-chief [Accessed 02 augest 2016].

Rooks, B., 1998. *Emerald Insight, Journaks and books.* [Online] Available at: http://www.emeraldinsight.com/doi/full/10.1108/01445159810201405 [Accessed 24 06 2016].

Saha, n., 2012. Evaluation of government e-taxwebsites: an information quality and system quality approach. *Transforming Government: People,Process and Policy*, 6(3), pp. 300-321.

Schensul, J. L., 2010. *Designing and Conducting Ethnographic Research An Introduction.* 2 ed. CA: AltaMira Press.

Swardt, R. d., 2006. Digitised products: how compliant is South African value-added tax?. *Meditari Accountancy research,* 14(1), pp. 15,28.

T.H. Chowdary, 2004. The changing face of India. Part I: bridging the digital divide. *Library Review*, 04(4), pp. 213-219.

Telecom, s. L., 2016. *slt.* [Online] Available at: https://www.slt.lk/en/content/slt-launch-%E2%80%9Cott-entertainment-platform%E2%80%9D-sri-lanka [Accessed 02 Auguest 2016].

Terrance Sanchez:Adnan Omar, M. K. S. B., 2009. The impact of e-taxation policy on state and local government revenue. *Electronic Governement* , 6(4), pp. 378-390.

tradingeconomics, 2016. *Sri Lanka Corporate Tax Rate 1997-2016 | Data | Chart | Calendar*.[Online] Available at: http://www.tradingeconomics.com/sri-lanka/corporate-tax-rate [Accessed 02 Augest 2016].

Trotter, R. T., 2012. Qualitative research sample design and sample size: Resolving and unresolved issues. *Preventive Medicine*, 55(1), pp. 398-400.

uk.Gov.Publications, 2016. *VAT: businesses supplying digital services to private consumers*, London: HM Revenue and customs .

Wallace, R. M. B., 2015. Is it Really so Hard Tax the Hard-to-Tax? The Context and Role of Presumptive Taxes. *Lessons from Theory and Practice*, pp. 121-158.

Wickramanayake, L., 2010. Information-seeking behavior of management and commerce faculty in Sri. *Library Review*, 59(08), pp. 624-636.

WIcramasinghe, W., 2009. *emerald insight journals and books.* [Online] Available at: http://www.emeraldinsight.com/doi/full/10.1108/00483480910956355 [Accessed 27 04 2016].

Zekos, G., 2005. Foreign direct investment in a digital economy. *European Business Review,*, 17(1), pp. 52-68.