

Tax Policy and Enterprise Development in South Asia
IPS, Sri Lanka Research Design Document

1. Institutional Information	
1.1. Name of institution	Institute of Policy Studies of Sri Lanka
1.2. Country of origin	Sri Lanka
1.3. Research theme	Theme 1. The Impact of Tax Exemptions and Concessions on Enterprise Development
1.4. Institution Focal Person / Member, Steering Committee	Dushni Weerakoon, PhD Deputy Director Institute of Policy Studies of Sri Lanka 100/20 Independence Avenue Colombo 7 Sri Lanka Tel: +94-11-2143100 dushni@ips.lk
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2. Literature Review	
2.1. Data sources	Board of Investment tax incentives regime (Section 17 of BOI Act) Inland Revenue Act No.22 (2011) (with particular reference to sections on tax exemptions) Government of Sri Lanka Budget Proposals 2011 (and subsequent Gazette notifications) Government of Sri Lanka Budget Proposals 2012 (and subsequent Gazette notifications) Inland Revenue Department Performance Report (various years including latest 2011)

	<p>World Bank Enterprise Surveys 2011 World Bank-IFC Doing Business Report (various years) PriceWaterhouseCoopers (PWC) ‘Paying Taxes’ report (various years including 2012) Ministry of Finance and Planning Fiscal Management Report (various years including 2012) World Bank Investing Across Borders report (2010) Final Report of the Presidential Commission on Taxation 2009/10 Annual Survey of Industries (various years including latest 2010)</p> <p><i>(literature review of international experience + international refereed journals pending)</i></p>
2.2. Key knowledge gaps	<p>No previous studies have been undertaken in relation to tax incentives in Sri Lanka and their impact on enterprises. No government agencies collate/calculate ‘tax expenditures’. Enterprise-level (microeconomic) data on value-addition, earnings/wages, turnover, fixed capital, etc. are not available. Sri Lanka does not have an established, national definition of “small enterprise”, “Small and Medium Enterprise (SME)”. Different definitions/categorizations are employed by different institutions including banks, Central Bank, government agencies and other SME-mandated institutions.</p>
3. Conceptual and Theoretical Framework	
3.1. Research Questions	<p>a. Do income tax concessions/exemptions offered by the government cause biases between SMEs and larger enterprises in Sri Lanka? b. Do income tax concessions/exemptions offered by the government cause biases between registered SMEs and SMEs operating informally? c. Are SMEs owned/managed by women particularly impacted by this (a.)? d. What is the extent to which income tax concessions/exemptions impact the performance of SMEs vs large firms?</p>
3.2. Definitions of key concepts and their translation into measurable parameters of enquiry	<p>For the purpose of this study, SMEs will be defined as a firm employing 49 workers or less, while a larger enterprise will be defined as firm employing 50 workers or more</p> <p>SMEs that are not registered with either the Divisional Secretariat or incorporated with Company’s Registrar at the national level will be treated as firms operating in the informal</p>

	<p>economy (i.e. undocumented)</p> <p>Income tax incentives/concessions will refer to corporate income tax (CIT) holidays and/or reduced/special rates offered under the government's tax laws</p> <p>Improvements in performance of an enterprise will be measured by increases in annual profits, expansion in employment, ease of/cheaper access to credit, proportion of retained profits reinvested in the enterprise, and willingness to formalize</p>
3.3. Hypothesized relationships between parameters	<p>Firms enjoying tax incentives/concessions have better enterprise performance</p> <p>SMEs have benefited less from income tax exemptions/concessions/incentives offered by the government, than larger firms, and women owned/managed SMEs are worse off</p> <p>Enjoying tax incentives/concessions cause differences in enterprise performance of registered SMEs vs informal SMEs</p> <p><i>Additional possible hypothesized relationship to be tested:</i> Continued informalization (non-registration) to avoid tax payment results in constrained access to (formal) credit (which may be more concessionary/SME-friendly in nature)</p>
4. Analytical Framework	
4.1. Policy analysis framework (problem definition, policy alternatives, evaluation criteria for policy alternatives, and recommendation of alternative)	<p>Are government tax incentives achieving the objectives the government set out to achieve? i.e., to promote enterprise growth/employment expansion</p> <p>How can government tax incentives be better targeted to promote SME development and create a more level playing field between large enterprises and SMEs?</p> <p>How can government tax incentives be structured so as to encourage more formalization by undocumented SMEs?</p>
4.2. Level of analysis (national, sub-national, etc.)	Sub-national (Western Province)
4.3. Analytical approach and assumptions	<i>Assumptions:</i>

	SME definition chosen can be applied right across the chosen sample (registered SMEs, informal SMEs)
4.4. Analytical tools and techniques to be applied	Regression analysis investigating impact of tax incentives on key dependent variables measuring enterprise performance (<i>see 3.2</i>) (Specific econometric methodology will be decided after completing thorough literature review of previous studies done of a similar nature)
5. Data Collection Methodology	
5.1. Research Methods	
5.1.1. Key Informant Interviews	
5.1.1.1. List of intended respondent types with examples	<p><i>Officials of revenue administration agencies</i> Director General, Department of Customs Former Director General, Department of Customs Commissioner General, Department of Inland Revenue Deputy Commissioners, Department of Inland Revenue</p> <p><i>Officials of other government agencies</i> Director Fiscal Policy Department, Ministry of Finance and Planning Director Investment Promotion, Research and Policy Advocacy, Board of Investment Secretary, Ministry of Industry and Commerce Addl Secretary – Policy, Ministry of Industry and Commerce Chairman, National Enterprise Development Authority (NEDA) Secretary, Ministry of Traditional Industries and Small Enterprise Development Director - SME, Ministry of Traditional Industries and Small Enterprise Development Chairman, Industrial Development Board Director - Private Sector Development, Ministry of Economic Development</p> <p><i>Representatives from non-governmental organizations/chambers of commerce/tax consultants</i> President or General Secretary, Sri Lanka Institute of Taxation President, Institute of Chartered Accounts (CA Sri Lanka) President or CEO, Federation of Chambers of Commerce and Industry</p>

	<p>Director – SMED Programme, Federation of Chambers of Commerce and Industry President or CEO, Chamber of Small and Medium Industries President or CEO, National Chamber of Commerce Senior Partner, KPMG Senior Partner, Ernst and Young Senior Partner, Pricewaterhouse Coopers</p>
5.1.1.2. Instrument (semi-structured interview outline)	<p>Semi-structured questionnaire Basic information on the Key Informant (type of organization, location, designation, etc) Sections examining particular areas of inquiry, with structured as well as open ended questions</p>
5.1.2. Survey Research	
5.1.2.1. Sample frame (including secondary sources tapped for developing it)	<p>Three districts in Western Province, Sri Lanka, i.e., Colombo, Gampaha, Kalutara Selected Grama Niladhari Divisions (GN Divisions) in each district</p> <p><i>Registered SMEs (50)</i> Population: Database of the district-level SME associations obtained from the National Chamber of Commerce of Sri Lanka (NCCSL) Sample: Randomized selection of enterprises</p> <p><i>Registered large enterprises (50)</i> Population: Board of Investment (BOI) database (including Section 16 and Section 17-registered enterprises) Sample: Randomized selection of enterprises</p> <p><i>Un-registered SMEs (50)</i> Population: Snowballing operation to identify enterprises in each GN Sample: Randomized selection of enterprises</p>
5.1.2.2. Sampling design and rationale	<p>Western Province is selected as it is the largest contributor to national Gross Domestic Product (GDP) of over 45 per cent, and the three districts constituting it have the highest concentration of private enterprises in the country. Moreover, due to the proximity to the capital city, administering the survey (including arranging field-testing, monitoring, etc) and</p>

	<p>data collection is made easier, to fit in with the study's time and resource constraints.</p> <p>For registered SMEs, the NCCSL database will be used owing to its credibility and ease of access (IPS has existing links with NCCSL on ongoing SME research) For registered large enterprises, the BOI database owing to credibility and ease of access (IPS has existing links with BOI on previous taxation research)</p> <p>For unregistered SMEs, there is no clear database of enterprises. A snowballing exercise has to be conducted as an alternative to the ideal but highly cost-intensive listing operation)</p>
5.1.2.3.Survey instrument (including field pre-testing procedure)	<p>Questionnaire</p> <p>Pre-testing will be conducted on a representative sample of 6 enterprises (2 from each enterprise category above)</p>
5.1.2.4.Action Plan (primary sampling units and dates they are sampled)	<p>Primary sampling unit will be the GN Division (for unregistered SMEs) and the District level (for registered large enterprises and SMEs)</p> <p>Will be sampled in April 2013 onwards</p>
5.1.2.5.Data collection protocols (including field team training, organization, monitoring and reliability checks)	<p>Enumerators will be employed for questionnaire administration/data collection Training and briefing will be provided to enumerators by the study team Study team will accompany enumerators during the field pre-testing period Study team will participate in randomly selected surveys to conduct monitoring In the middle of the survey period the study team will revisit selected completed interviewed enterprises to conduct simple verification/reliability checks.</p>
5.1.2.6.Data entry and verification protocols	<p>Data will be entered by data entry operators selected by the study team and be housed within the institute with close guidance from the study team For quality checking, data cleaning will be conducted by the study team (and enterprises re-visited if there appears to be mistakes)</p>
6. Reporting Formats for Year 1, 2 and 3 deliverables	

7. Team Composition	
7.1. Names, designations, qualifications, experience, and responsibilities of Team Leader and other Team Members	