

Economic Impact of Digital Taxation: A Case on Information Communication Technology Industry Sri Lanka.

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Abstract

The principle intention of this study is to diagnose the possible impact of digital taxation on the economic factors like, investment, consumption and export related facts. For this purpose researcher has identified the Information Communication Technology sector as the main sector as most of the digital products are created in this sector.

Literature review has been used to identify the history and the evolution of the digital goods taxation practices and has identified the policies related to digital taxation in USA and EU. The methodology of the research was emphasized on Qualitative approach. And the induction taken place in the research is mainly supported with qualitative interpretation with data collected through interviews and survey questions.

Sri Lanka was diagnosed as a low taxed country in Export oriented ICT industry. Also it was found out that Foreign MNCs investment intentions are encouraged with this approach, increasing investment flow to the country. The related case comparison with USA and EU zones has proven that Sri Lankan demand for digital goods are stimulated with no taxed environment. B2B ICT services like Telecommunication to web design and development are directly benefited from the non-tax environment of the country. Disadvantages like loss of income through digitally imported goods are also discussed in the study.

This paper would contribute to the academia of finance through the unique finding on the digital taxation. Further it would identify the necessary policy gaps of digital taxation that would enlighten the policy makers in the country. Lastly this research contributes towards the business fraternity and would throw some light on their future involvement in Digital media in their business activities.

Keywords: Digital Goods; Digital Taxation; Government Policies; Digital Markets; Taxation Regimes; Taxation Framework.

INTRODUCTION

Digital economy has revolutionized the way of life and business as usual. It is the most profound innovation in the twenty first century. Digital products can be identified as bit strings also known as accordance of 0s and 1s which contains economic value. Due to its vast spread applicability the products have drained in to the very essence of every economic system in the many countries. According to (Greenstein, 2011) it is increasing the aggregate economic performance of the country. Although it also can contain spill over impact on the considered economy. Danny Quah (2004) explained that, historical view of ICT as a facilitating mood to enhance the production and operating system has long passed. He further explained that digital products are recipes that allowed those entities to be produced and consumed isolated and separated from any form of significant physical sustains. West and Lakhani, (2008) explains that commercial initiations and efforts to produce such products are also increasing due to the incremental nature of the demand for such products. Christopher and Holweg, (2011) claims that Digital manufacturing technology has created waves in the industrial sector of the world economy, with main stream products like manufacturing resource planning. According to this report economies of scope can be achieved with the application of such seawares. The contribution of digital products are identified in an economic function created by the researcher Danny quah, (2003).

Digital goods and the New Economy

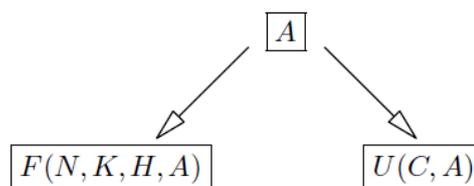


Figure 01: Definition of Digital goods

Source: Centre of economic performance; Digital Goods and the New Economy, Figure 01

Figure Number 01 explains the conceptual framework of the research done on digital product impact on the economy of London. According to this “Represents the production function and the “U” represent the Utility (Consumption) Function of the economy. “N” represents the labor function and letters K & H represents the physical and human capital inputs. Further the “C” denotes the ordinary consumption goods. Hence, as depicted in the function, digital goods would be used to produce both ordinary and digital goods for the end consumer. Therefore it can be concluded that there is dual impact on the economy (both production and

consumption) by digital products. Today the digital products has overtaken many activities in the world economy following chart would demonstrate the contribution made by digital products to the world economy.

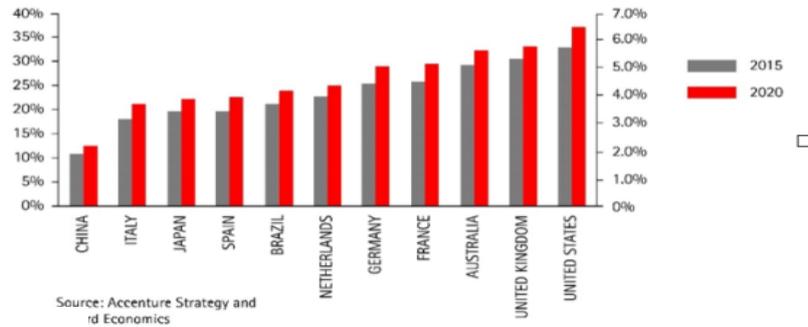


Figure 2: Digital share of gross domestic products (GDP), 2015-2020

Source: Accenture strategy and oxford economics, Country-by-country digital share of gross domestic product (2015 and 2020), figure 01.

According to figure 02 United States would have more than 6.5% of their GDP from digital products creation, while United Kingdom would have 5.8% of GDP while countries like china would also have more than 12% growth in their digital economy continuously over this five years. According to Accenture strategy (2015) American economy would have an uplift of \$368 billion in their GDP solely due to the value creation through digital products. Further, USA has highest digital value addition on financial services market making a cumulative contribution of 58% from total digital products (World economic Forum, 2015). In another report it is highlighted that gross value addition from this sector has improved by 7.2% in 2014 in UK. Making the total value creation as 118.3 billion Pounds. More than 1.4 million jobs were created as a result, while contributing to the export industry by 43 billion pounds.

Table:01 Digital Sector gross value addition from 2009-2014

	2009	2010	2011	2012	2013	2014
GVA (£m)	93,666	96,946	102,834	104,622	110,387	118,288
UK Total (Blue Book, ABML)	1,348,507	1,397,744	1,443,281	1,485,776	1,546,914	1,618,346
Percentage share of UK Total	6.9	6.9	7.1	7.0	7.1	7.3

Source: Department of culture media & Sport (2015): Annual Business survey; Table 1

Fastest growing sector recorded was the TV, filming and entertainment sector and the second fastest growing sector was the software development computer programming and consultancy work. Noticeably telecommunication sector also recorded a steep climb from 2013 to 2014 (Department of culture media and sport UK, 2015). As expected in the modern era many developed and developing countries are highly emphasized on creating an e-economy with high non tangible e-products in their product portfolio. The trend is evenly distributed to Asia and south East Asian countries. Especially Sri Lanka, with their increasing labor force and population, Country is planning to increase the number of IT parks and BOI projects directed at IT sector. This fact is evidential in the budget allocation 2016 were 42 million rupees were allocated to build a District IT resource Centre. While another IT park establishment in Jaffna for a cost of 8.9 million Rupees (Ministry of finance Sri Lanka 2016). Further the efforts of private and public partnership to stimulate the E- economy is an increasing trend in Sri Lanka were dialog Axiata has entered in to an agreement with Board Of Investment Sri Lanka to improve the IT infrastructure of the country. Total investment value was recorded as 25.6 billion rupees (Colombo Page, 2014). Sri Lanka as a nation has evolved much in their lifestyle to embrace the E-products where certain service expansions and adaptations has happened in the recent decade. Sri Lanka Telecom being the pioneer in the telecommunication industry in Sri Lanka has launched new E-product call “OTT Entertainment Platform” were the SLT customers are given various online coupled products to find new dimensions of online and TV combined entertainment. This product would enable the consumers to access vast pool of Movies, TV series Songs also PlayStation games. Further SLT CEO Mr.Dileepa mentioned that they are keen on their growing sales of this product due to the high demand by the population for similar kind of products.(SLT Home,2016). These are some clear indication that E-economy is dawning in our economic system. Both the service providers and the consumers are willing to accept e –lifestyle in their lives. E-commerce director of google India has acknowledged once that Sri Lanka is Ahead of India in terms of digital penetration were country’s internet penetration was 22% compared to Indian penetration on internet was 16% at that time. Country is expected to hit 50% mark in five years’ time. Main reason for high penetration on internet was found as the intrusions of smart phones in Sri Lanka (Techinasia,2015).

Problem Statements

The need of proper tax system is increasing as the digital existence of Sri Lankan economy is thriving. Expected investment and growth rate of Information Communication Technology

would assure the need of proper digital tax system in Sri Lanka. However Swardt & Oberholzer ,(2006); Lejeune (2002) have proved the benefits of digitalization of tax system like time saving, less documentation, less pollution and more tax revenue.

Problem Significance of The Study

Sri Lanka is aiming towards digitalized era with high future potential growth in digital products and digital economic activities. However most of the offline activities would also have a huge online and digital component in the respective products in form of supply chain management and after sales effort. Further, the improvement in internet penetration or the improvement in the usage on digital means has not alarmed the government to make preparations on reframing the digital tax policy. Despite comparative low internet penetration with Sri Lanka, India has already India foundation on digitalization of the taxation process by introducing E-filing of income tax refunds. In section 44AB of Indian Income Tax Act. Specifically made it mandatory for all the cooperates to fill tax forms online and digital , while other services like individual pay tax and other tax services related form filling was made voluntary (Gupta,2009). Further similar movements can be seen from the developed world. United States has imposed “Digital Goods and Services Tax Fairness Act of 2011” with the main intention of protecting its vast IT sector from double counting the tax burden and reduce the operational cost as much as possible. This movement is unique as the country has very high number of operation activities outside the territories of the country. Moreover, it allows their country to export the IT products at a lower cost by paying less tax portion on other territories (Avalara,2015). Moreover, in January 2015 EU has amended their VAT system so that the sellers’ location is not taxed, instead the buyers’ location is taxed. This method is said to have favorable consequences on the EU economy where the foreign sellers outside the EU are expected to pay higher Tax portion with the new system. This will have influence on online book sellers and online trading platforms like E-bey where the tax payable is high. However, the mentioned act would have a positive impact on the EU member countries were the VAT MOSS also known as Mini One stop Shop scheme would allow members to simplify the recording and claiming the VAT throughout the system. In the sense this act has stimulated the digital payment record of the taxes and 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 and tax payments but with lack of policies and rules to back up utility of such systems are questionable. Another significance is

that there was no Sri Lankan base Literature found on this subject matter or expert opinion, discussion for that matter. Hence the main intention of this research is to identify the suitability of digital taxation system on business system In Sri Lanka..

Objectives

- To identify literature on the digital taxation practices and policies of best practice countries.
- To get the qualitative opinion on economic consequences of implementing a digital taxation system.
- To identify future strategies on Digital taxation through an empirical study.
- To make recommendations to amend the administration of the existing tax system.

These objectives were tested through interviews and literature review analysis. And the research undergoing was more realism ontology with factor diagnosis on the implementation of digital products, tax and economy.

LITERATURE REVIEW

This chapter would focus on best practices of digital taxation and negative impacts of digital taxation on certain economies around the world. For this purpose, researcher, has used many related journals and papers from various authors published in various countries.

Intentions of Digital Tax

United States has been the pioneer in implementing new liberal economic policies (Feng et al., 2001). Their most prominent policy guide is based on the intention of business model superiority in the world and for this purpose they have implemented many policies including their tax policy which would favor the multinational organizations owned by United States. In the aspect of digital taxation, this trend would remain the same “Digital Goods and Services Tax Fairness Act of 2011” has eased the tax burden on their companies that operates on the foreign soil (Mazerov, 2001). In the European region 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. This implementation is mainly focused on the Big Non-EU companies who are listed and operated in minimum taxed member countries like Luxemburg to avoid large tax payments(Vatlive,2016). These conditions will include companies like Amazon and e-bey who implement mainly through the functioning of web sites and e- trading platforms.

However, under the guideline of UK government the new tax impose is applicable for even the non-Business customers are also considered in this method (HM revenue and customs, 2016). Some specialists have claimed that there are positive aspects in to the new amendment were previous threshold on Vat of 81,000-pound turnover is tandemly used with bottom up VAT impose. While some claims 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's were Indian government has made it compulsory for all the cooperate firms to register online and claim the tax refund online. While the individuals are also promoted to do the same in a volunteer basis. In this method, the government has given three potions to the tax payers and the first one require the tax payer to possess digital signature were after filling those refund papers individuals are required to digitally sing on the document. If the Tax payer do not have a digital account, then the tax amount needs to be played by visiting the tax authorities. Other option is that tax payer would have the service of E-return agent for refund and tax paying information. In this method, the involved intermediary would make arrangement for refund (Gupta, 2009).

Clear distinct can be seen from the western world intention on the Digital Tax behavior with the Developing world. Western world would integrate economic policies with the digital tax policies to get the positive economic impact through better mechanisms to protect indigenous industries and boost the local business generation on digitalized products.EU region and USA referred above are classical examples for that. While adopting their tax bases to face the boom in digital sector these countries would also consider possible tax increase on the rival foreign industries. Developing world on the other hand has focused on more functional strategies like filling tax papers online, online tax registration and return and online TAX payments. Most of those countries has not included proper policy framework to grasper the opportunities from foreign markets and to protest themselves from predator countries.

Economic Impact of Digital Taxation

Saha, Nath & Sangari (2012) argues that efficient digital tax system would increase the efficiency of Government-to-citizen (G2C) service. Further, the research explains that when the taxation activities are digitally born, it improves the chances of good governance as all the information regarding the tax compliances are visible and available for the authorities. 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 and also 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 discussion and vibe and further it would arouse the discussion on ICT utility hence contributing to reduce the digital divide of third world countries Zhou (2007). Hong Kong online Tax system has brought about a high e-government satisfaction rate on citizens. And 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 more accurate manner. Total tax collection was R\$9 million from R\$6.2 million last year. And 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 has not made sufficient cooperate tax cuts unlike other economic unions like EU. However United State Tax system make surest 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 land. 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 united state 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 at foreign soil. Another study from Sweden has proven that increase of VAT on digital art work would hinder the entrance of new individual art work 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% maintain the industry functioning capacity. According to Du Plessis (2001) digital products are the hardest products to tax as the physical presence of the products

is a necessary component in determining the source of tax. In another researcher Friendswood, (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. And the 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 improves the effectivity on paying the taxes. Digital certification is one of the main methods to identify the jurisdiction of the tax source. And government with high online enabled economic system should facilitate a proper process to generate and exchange such certificates (OECD 2003).

According to this analysis it can be argued that digital taxation is a highly effective tool in implanting the government physical policies and due to its increasing utility and interest among the general public. Further the economic impact of implementing digital tax system is considered as favorable by most countries. Mainly it will increase the good governance practices and the collection of tax. Which will maximize the public welfare of the country.

METHODOLOGY

Population and Sampling

As discussed in the literature review ICT sector has higher growth forecasts (World economic Forum,2015) and the most complex digital structure that makes this industry difficult to TAX (Danny Quah ,2004). Hence the target population of this study is the ICT industry. And the 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 needs to be sorted

Sample

Tax offices who make tax adjustments and calculations at organizations were interviewed along with finance managers who makes decisions. Further two economic specialists were used in the study one person is an assistant senior director of central bank and one deputy commissioner in Inland Revenue department. The study has observed 10 companies. Therefore 10 Tax offices, 10 Finance managers and two experts were interviewed in the

study, comprising the sample Size of 22. According to Schensul, & LeCompte, (2010) qualitative research with judgmental sampling would rarely exceed 15 observations. Hence the sample is more than the average sample size of this nature of studies.

Research Procedures.

Research theoretical framework can be summarized as follows.

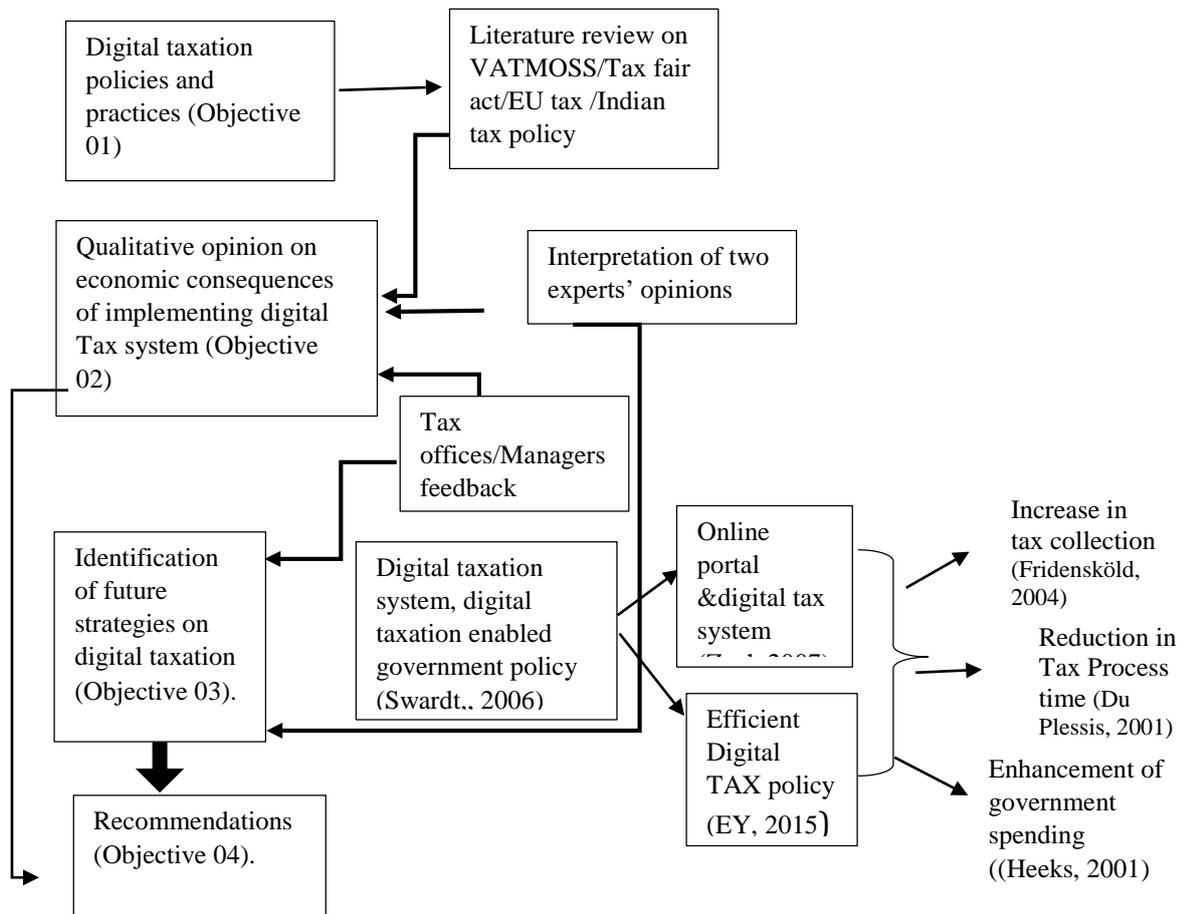


Figure 3: Theoretical framework of the study

Source: Author created

This structure will be tested in qualitative aspect and the questions will be mainly on two areas. Namely the impact of online tax payment methods on the business and the government policy on promoting or hindering the Digital products

FINDINGS

Findings were from two main sources one is from the Tax involved authorities in the companies and the next would be the expert opinion of the economic experts. Following are the main findings of the study.

Table: 02: Benefits of online system

Question1(Tax Officers)	What is the most useful utility of the online tax system? (Testing Objective 02)
Rationale	To diagnose 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 offices opinions are as follows.

“We use this system as it consumes less time and some auto corrections are included like VAT rate ect... So, 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, sometime going to inland revenue and getting the job done makes it one time effort”

Below figure will give information on that utility of online tax portal system by ICT companies

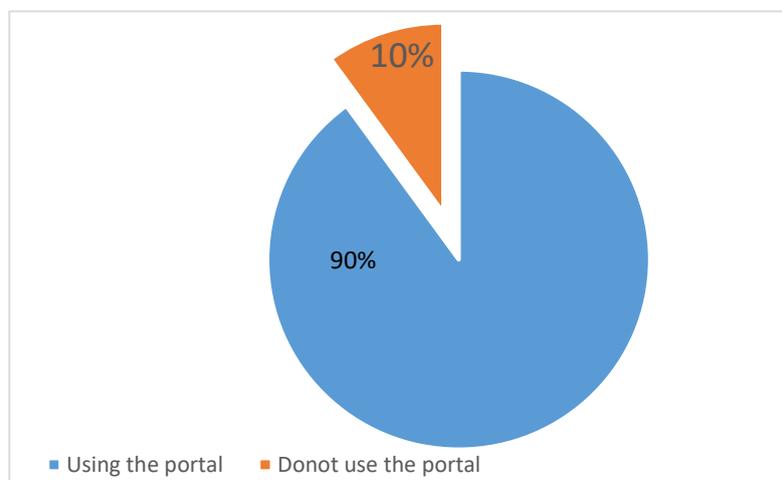


Figure 4: utility of online tax portal system by ICT companies

According to this data more than 90% of the ICT companies have already adopted the online tax payment system. There for it can be concluded that online tax payment system is heavily used by the ICT companies in Sri Lanka.

Overall all the offices agreed that the system would increase the filing, recording and submitting information on related to taxes. However, there few companies who are not using new online Inland Revenue site has following respond.

“I am the one who pay this VAT and everything its convenient for me to visit the branch and do it since I have been doing it for longtime and since I know people from there.”

Another person would say the same few companies who do not involve in this system as they believe the easy filling is not the case, which is a misinterpretation according to the specialists. 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 behavior 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 but over the time this correlation will increase. Therefore, it can be argued that the interaction of online behavior would increase the possibility of improving the overall tax collection and hence has a tendency on improving the government spending.

Table 03: Expected value additions for Online tax system.

Question02(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.

Figure number 5 shows the descriptive statistics of the answer for the above question.

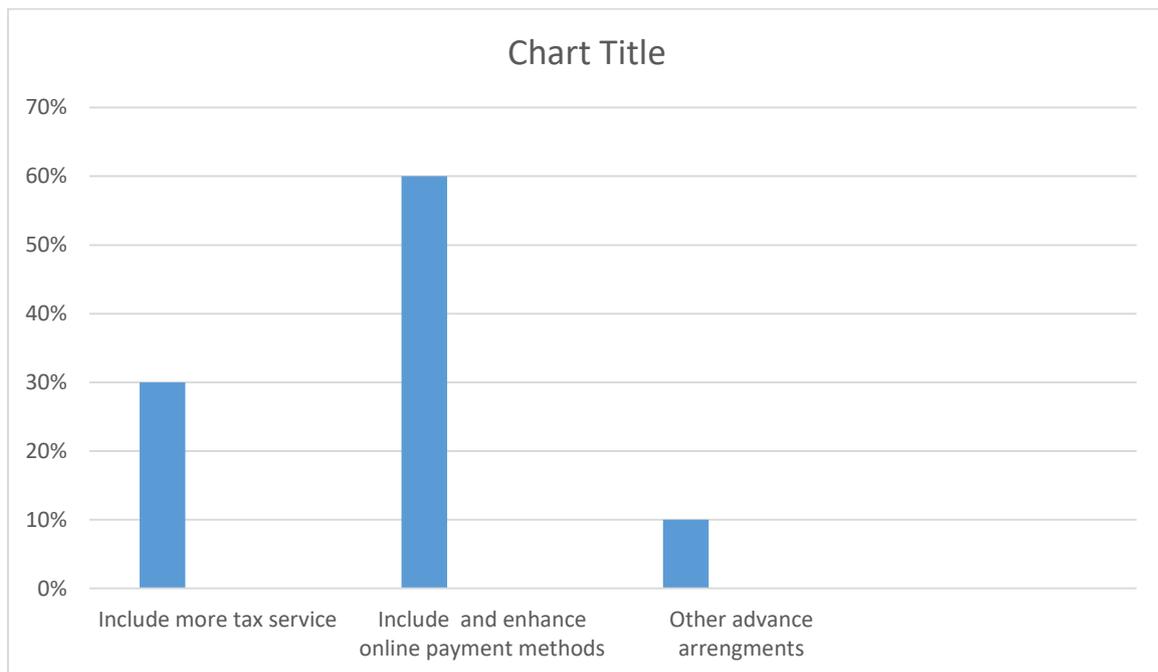


Figure5: Potential future required services

Source: Research Data

Most of the ICT organizations has claimed that having a better advanced tax payment system would be an added advantage. Most of them argued that the other services like comprehensive Tax assessment and informative and guided services would be good improvement. Another few set of offices claimed that tax advance services like direct feed in apps and usage of computer of things to make it comprehensive paper less system from the beginning. One CFO of App development company claimed that

“If the system can allow software plugins and integrate with the main ERP of the company the process will be much auto mated and faster as the system would do everything”

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

“What if that ;argue 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 the Government to citizen service satisfaction.

Table 04: Tax obligation of the export oriented ICT industry Sri Lanka

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.

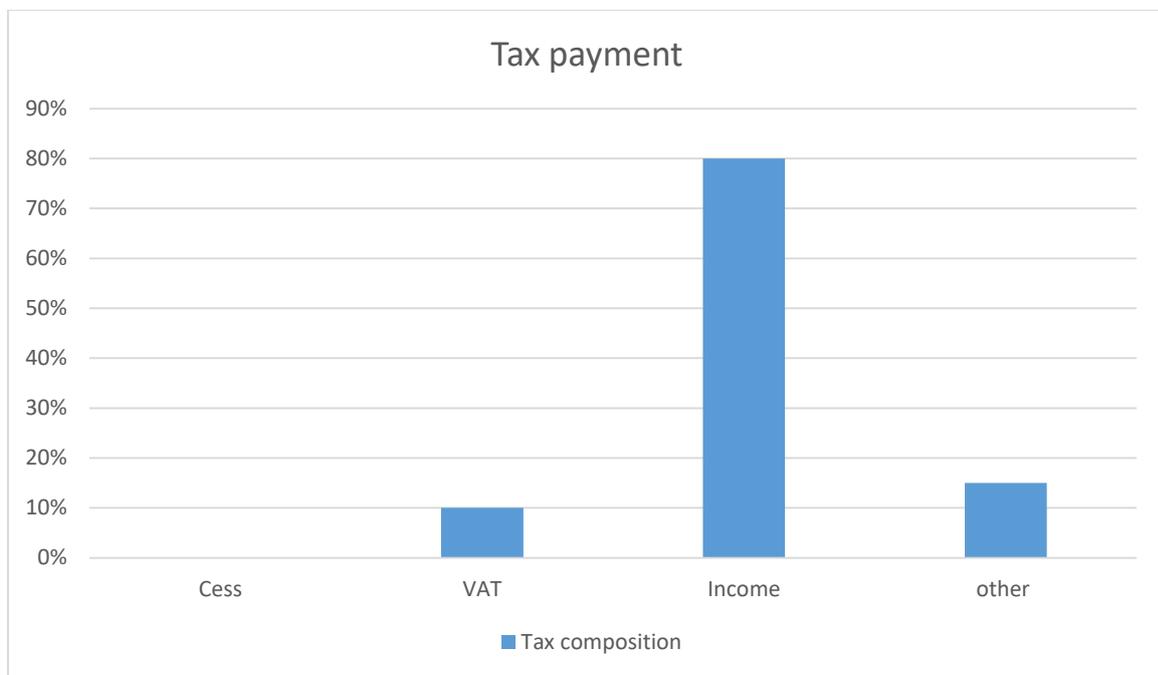


Figure 06: Nature of Tax liability

Source: Research Data

According to the graph only 15% of the ICT export companies pays the VAT and 80% pays income tax. While other taxes like Economic service charge and withholding, tax is paid by only 15% of the ICT export companies.

According to the experts this tax rate is comparatively less than USA. Where in USA average Corporate tax rate is around 38.9% while in Sri Lanka That value is around 28%

(tradingeconomics,2016). However, the average tax rate for export ICT are less than that average as the tax as the VAT exports on software and web base 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 pay by 80% of the companies while rest of the 20% have BOI or Ministry of finance exception on corporate Tax. Other charges include PAL charge and surcharges that is incurred during documents equipment and other imports. Further United States has imposed a sale tax for software and digital product 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 were both tax types are exempted from the ICT industry.

FDI Attraction

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

“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 ICT sector to surpass other export dominate industries near soon.”

the other expert says

“Policy makers do not worry on the loss of income through taxing export ICT products and service 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: FDI flow and tax

Question4(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.

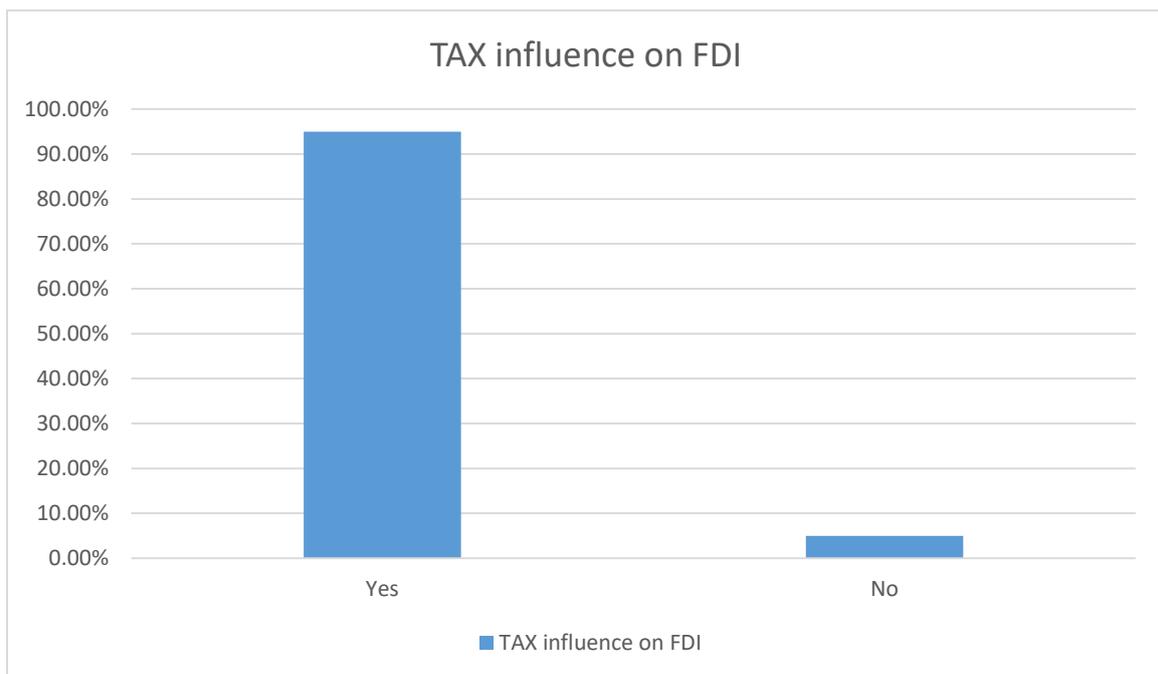


Figure 07: FDI flow and tax

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 rate and high FDI flow in the ICT sector Sri Lanka.

Other Findings Based on Expert Opinion

This chapter would focus more on the expert opinion on the economic impact exerted from digital tax policy of the country.

Ability to Use as a Protectionism Mechanism: With second Silicon Valley in the world as neighbor's Sri Lanka has 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 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 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. 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 pool of policies.

Relationship Between Aggregate Demand and Increase In Tax Collection Due To Digital Tax System And Tax Policy. Once again both the economic experts has argued that this is positively correlated.

“As I mentioned there are number of researches done on online tax payment systems that has increased the collected tax income without increasing the number of tax payers .”

This is direct tallying with the literature review finding in this research where the same facts were explained with the case of Brazil (OECD 2003). Other expert would also have 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 increased aggregate demand of the country”

However when confronted the Tax officers it was told that 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. But they commented positively on the experts’ suggestion that the government ability to collect the tax faster would increase the efficiency of government spending.

DISCUSSION

According to the interpretation of question 03 and 04 it is evident that the Tax rates of ICT export sector in Sri Lanka is Low relative to other regions like USA and EU (taxrates, 2015). However, the authorities have more scope to cover as the expected service from the industry are high (Question 02). However, the expert opinion clarifies that the reduction in the Tax rate of the ICT export industry in the country is favorable for the development of the economy and the industry itself. According to the study more the enthusiasm of the corporate players to use online TAX system is high (Discussed in question 01). However the authorities can extend their service individual tax payers were the expected TAX collection would be high.

CONCLUSION

After looking at the two sources of data and interpreted information it is evidential that the Digital tax system in the country has higher opportunity to maximize the government to citizen service provided. And also the demand for such service is in the increasing trend. 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 is tallying with the industrial survey and collected comments from the industrial tax officers, were both the parties agrees on the requirement of the country to improve the proper digital tax policy to face the competition from outside the country like India Malaysia. And the research also shade some light on possible strategy to increasing efficiency on the protectionism policy of the country.

RECOMMENDATIONS

According to the study following recommendations can be included in the study.

- To improve the online Tax facilities other than just online filing system to online system that would enable the online payment.(discussed in Question 02)

- Improve the other tax services like online advisory services and TAX validation services from the existing portal (Discussed in Question 02)
- Continue to give tax benefits for ICT export sector until its fully mature and stable industry and a global player (Question 03,04)
- Introduce the proper taxation system that will capture online movements like paid e-book downloads services, and online websites services based on membership fee (Based on discussion with experts).
- Promote online Tax Filing system to individuals (Gupta,2009)

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