

EFFECTIVENESS OF TAX ADMINISTRATION WITH RESPECT TO THE CONSTRUCTION INDUSTRY IN SRI LANKA

R.P. Siriwardana¹, N. Gunarathana² and S. Vivek³

ABSTRACT

The tax system is recognised as a major source of revenue for a country. The money will be utilised to meet the government expenditure as well as to develop the infrastructure of the entire country. Separate government agencies have also been set up for tax administration, and this research is about tax administration related to the construction industry. Given the current economic situation in Sri Lanka, all industries have declined, and tax rates have increased. It has also affected the construction industry. The study is focused on the existing status of tax administration in the construction industry in Sri Lanka. The study has utilised a mixed method of research to explore the subject under review. To gather the study data, an extensive literature review, expert interviews from quantity surveyors, financial managers, accountants, managers, and engineers who are currently engaged in related work in the construction industry, and a questionnaire survey have been used. Information has been included in this research with the responses of thirty (30) industry professionals and the opinions of six (6) industry experts. The information is about Sri Lanka's tax system, tax types, construction industry, concessions due from the government to the construction industry and tax administration related to the construction industry. From that information, it has become clear that there is no efficient tax administration in Sri Lanka regarding the construction industry.

Keywords: Construction Industry; Sri Lankan Tax System; Tax Administration.

1. INTRODUCTION

The construction sector forms a fundamental aspect of national development that maintains a symbiosis with the economic trend of a country (Dassanayake & Rathnayake, 2023). It makes significant contributions to the Gross Domestic Product (GDP) through direct and indirect means; in Sri Lanka, the industry usually contributes between 70 - 80 per cent to the national GDP (Chandrasekera et al., 2021). Even though some professional discussion exists whether high tax ratios and growth are positively correlated, it is widely agreed that taxation provides governments with the kind of revenue that cannot be ignored since it helps to invest in infrastructure and higher education, having a positive effect on the productive capacity of the economy (McNabb, 2018). Therefore, the tax system

¹ Graduate, Department of Quantity Surveying, Sri Lanka Institute of Information Technology (SLIIT), Sri Lanka, rashmipiyumika2019@gmail.com

² Lecturer, Department of Quantity Surveying, Sri Lanka Institute of Information Technology (SLIIT), Sri Lanka, nishanthi.g@sliit.lk

³ Academic Instructor, Department of Quantity Surveying, Sri Lanka Institute of Information Technology (SLIIT), Sri Lanka, vivek.s@sliit.lk

influences the long-term economic growth, and a flexible framework allows a controlled developmental course. Due to the cross-sectoral nature of the construction industry, it is prone to various types of taxes, such as Value Added Tax (VAT), Withholding Tax (WHT), Corporate Income Tax (CIT), National Building Tax (NBT), Ports and Airports Development Levy (PAL), and Customs Duties (Chandrasekara et al., 2021). This complex tax system affects many aspects of the industry, especially construction materials, labour, cost generally, and investment. There are typically direct and indirect taxes: the former are levied on income and corporate profits, and the latter are indirectly imposed in the form of the price of the product (Chandrasekara et al., 2021; Ashworth & Perera, 2010). Direct taxes have a significant share of gross revenue in developed economies, but not in developing economies; on the contrary, indirect taxes often become the dominant source of government income in developing countries like Sri Lanka (Amirthalingam, 2013). It is a source of indirect taxation, which frequently increases the cost of construction and makes financial management of such a project more difficult (Vickneswaran, 2014).

Sri Lanka, being a developing country, must fund basic infrastructure and government amenities. The government also tends to increase the ratio of taxes or introduce levies on the industry to raise funds, a concept that is considered a more sustainable source of income as compared to national debt (Amirthalingam, 2013). However, as much as the taxation system has both positive and negative impacts, it must be accompanied by a strong administrative system to make the industry stable. Although previous studies on the general taxation in Sri Lanka still exist, a major gap is prevalent about the tax administration within the construction sector. This study will address the gap by examining the performance of taxation in the Sri Lankan construction sector.

The research aims at achieving three main goals, namely, to investigate what kind of taxes are levied and what their consequences are on the industry; to explore the significance of an appropriate tax administration system; and to evaluate the sufficiency of the existing administrative practices in Sri Lanka. To achieve these objectives, a mixed-method research design was used in three phases. Stage 1 included a comprehensive literature search and initial expert interviews to record the type of tax and economic effects. Stage 2 used a questionnaire survey to understand the way in which industry professionals deal with the effects of taxes in their projects. Stage 3 entailed interviews with government officials, namely the Inland Revenue Department (IRD), the Ministry of Finance (MoF), and the Construction Industry Development Authority (CIDA), to assess the administrative environment. This study is also research on the Sri Lankan construction sector with a focus on how new administrative channels can be proposed to overcome the current setbacks.

2. LITERATURE REVIEW

2.1 GLOBAL CONTEXT OF TAXATION

The ultimate role of a tax system is to raise funds to be used in present-day spending and in other government institutions. The existing principle of taxation assumes that taxes should be calculated in line with the solvency of the taxpayer (Waidyasekera, 2016). Taxation is an obligatory fee of the state, and as Gangodawilage (2015) noticed, they do not provide any direct benefit to the population, though indirectly, they benefit the rest of the population. Taxpayers do not receive certain payoffs; they gain some indirect

advantages in the form of free healthcare, education, national defence, and infrastructure (Vickneswaran, 2014). Taxation laws are becoming a major issue of concern to policymakers worldwide, especially in the reporting of business revenue. In the example, the tax regime in the United Kingdom has been perceived to be complex and fluctuating (James & Edwards, 2008), compared to Latin America, where income tax has been the key determinant of decline in revenue (Bird et al., 2004). On the other hand, other countries like Ukraine have been able to raise the tax ratio even though the middle-income of the population is lower (Amirthalingam, 2013). Finally, taxation is a means of economic management that is aimed at reducing inflationary and deflationary pressures (Kelegama, 2017).

2.2 SRI LANKAN LANDSCAPE AND REVENUE COMPOSITION OF TAXATION

The tax system in Sri Lanka is defined by a variety of limitations, tax holidays, and a broad range of taxes (Kelegama, 2017). The largest part of the government's revenues is tax, which covers about 85 per cent of the total revenues (Vickneswaran, 2014). The Inland Revenue Department (IRD) is the key institution which has administration of taxes and is supervised by the Commissioner General of Inland Revenue (CGIR). During the years 1980 through 2011, the tax rates in the country have generally been lower than 16.5 per cent, which is a common trend among the lower middle-income economies (Amirthalingam, 2013). It is a bifurcated system of Direct Tax (DT) and Indirect Tax (IT) (Chandrasekera et al., 2021). In less developed countries like Sri Lanka, indirect taxes contribute to the government revenue more than direct taxes, but the theoretical models indicate a gradual change of direct taxation with the rise of economic development (Amirthalingam, 2013). Table 1 illustrates the sharp recovery of the construction sector in 2024, which rebounded from a 20.8% contraction to 19.4% growth. Simultaneously, tax administration efficiency is evidenced by a 36.2% increase in total tax revenue, largely driven by the expansion of indirect taxes like VAT following policy revisions

Table 1: Construction sector growth and government tax revenue performance (2023–2024)

Indicator	2023 (Revised)	2024 (Provisional)
Construction Sector Real Growth Rate (%)	(20.8)	19.4
Construction Share of GDP (%)	6.2	7.0
Total Government Tax Revenue (Rs. billion)	2,720.6	3,704.6

Note. Adapted from Annual Economic Review 2024 (pp. 10, 49), by Central Bank of Sri Lanka (2025).

Table 2 presents the composition of tax revenue in Sri Lanka from 2021 to 2024. It highlights the main tax sources and their contributions to total government revenue in Rs. million.

Table 2: Tax revenue by major categories in Sri Lanka (2021–2024)

Item	2021	2022	2023	2024
Tax Revenue (Rs. Mn)				
Taxes on Foreign Trade	349,836	273,926	335,266	400,149
Taxes on Domestic Goods and Services	627,786	873,706	1,428,694	2,205,341
VAT	308,213	463,072	694,460	1,309,680
Turnover Tax/NBT	687	586	362	206
License Fees	10,847	64,845	252,310	287,737
Taxes on Net Income and Profits	302,115	534,021	911,355	1,026,199
Stamp Duty	38,788	59,361	62,286	49,141
Other	30,560	85,313	74,488	97,056

Note. Adapted from Annual Report 2024, by the Ministry of Finance, Planning and Economic Development and the Ministry of Public Administration, Provincial Councils and Local Government (2025).

2.3 DIRECT AND INDIRECT TAXATION DYNAMICS

Direct taxes are imposed on income, and transferability to another entity is not possible. The major types of direct taxation in Sri Lanka are personal income tax, corporate income tax, and PAYE (Gangodawilage, 2015). Direct taxes are progressive; however, on the other hand, they can deter investment, savings, and consumption. Indirect taxes, on the contrary, are levied on goods and services that allow for the tax burden on other parties (Vickneswaran, 2014). This mechanism is especially applicable in developing countries since it can be administered more easily (Chandrasekera et al., 2021; Amirthalingam, 2010). Some of the important ones are Value Added Tax (VAT), National Building Tax (NBT), customs duties, and Economic Service Charges (ESC). The kind of taxes applied indirectly is often regressive, and the type of tax applied directly is progressive in nature; these two types of taxes play a significant role in distributing national income (Thilanka & Ranjith, 2021). Table 3 demonstrates the composition of tax revenue in Sri Lanka from 2016 to 2024, highlighting the distribution between direct and indirect taxes. The table also shows the percentage contribution of direct and indirect taxes to total tax revenue over the period, measured in Rs. million.

Table 3: Distribution of direct and indirect tax revenues in Sri Lanka (2016–2024)

Year	Tax Revenue			Direct tax / Total Tax (%)	Indirect tax / Total Tax (%)
	Rs. million				
	Direct Tax	Indirect Tax	Total		
2016	258,857	1,204,832	1,463,689	17.7	82.3
2017	274,562	1,395,617	1,670,178	16.4	83.6
2018	310,449	1,401,868	1,712,318	18.1	81.9
2019	427,700	1,307,225	1,734,925	24.7	75.3
2020	268,249	948,293	1,216,542	22.1	77.9
2021	302,115	995,904	1,298,019	23.3	76.7

Year	Tax Revenue			Direct tax / Total Tax (%)	Indirect tax / Total Tax (%)
	Rs. million				
	Direct Tax	Indirect Tax	Total		
2022	534,021	1,217,111	1,751,132	30.5	69.5
2023	911,355	1,809,208	2,720,563	33.5	66.5
2024 (Provisional)	1,026,199	2,678,378	3,704,577	27.7	72.3

Note. Adapted from publications of the Ministry of Finance, Planning and Economic Development and the Central Bank of Sri Lanka (2025).

2.4 THE CONSTRUCTION INDUSTRY IN SRI LANKA: OVERVIEW

The construction business is an essential branch of the economy that is indispensable to the development of the country, and it is highly diverse and competitive (Panagodage & De Silva, 2022; Chandrasekara et al., 2021). In Sri Lanka, the industry has a contribution of about 6 per cent of the Gross Domestic Product (GDP) and an inclusive workforce spread across the value chain (Dassanayake & Rathnayake, 2023; De Silva et al., 2023). However, the industry has been adversely affected by poor policies of the government and the economic recession that took place in 2019-2022, leading to loss of jobs and low wages (De Silva et al., 2008; De Silva et al., 2023). According to the Department of Census and Statistics, the growth in the construction sector has narrowed, and it is decreasing by 12.40% in 2021 to - 8.90% in the first half of 2022.

2.5 EFFECT OF TAXATION ON CONSTRUCTION OPERATIONS

The tax regime directly and indirectly influences the construction industry, which makes it one of the most constrained and intricate sectors in terms of resources (Chandrasekera et al., 2021). As a result of the raised tax rates, the cost of construction invariably increases, and contractors and manufacturers will be hesitant to spend on labour, machinery, and materials. The main industry-related taxes are VAT, which impacts inputs, including cement, steel, and bitumen, but that has currently been increased to 15 per cent (Dassanayake & Rathnayake, 2023). Other major taxes include the Ports and Airport Development Levy (PAL), which applies to all imports and the Nation Building Tax (NBT) (Chandrasekera et al., 2021; Vickneswaran, 2014). Despite the fact that the Construction Industry Guarantee Fund Levy (CIGFL) was in force, it is no longer applicable to contracts signed after 1st January 2011. Finally, there should be an efficient tax collection system to reduce the negative situation, such as labour shortage, scaling back of the projects due to increased industry costs (Ranasinghe & Kulathunga, 2016; Chandrasekera et al., 2021). Table 4 indicators reveal a transition toward deflationary costs for construction materials, with the Cost of Construction Index dropping by 4.6% in 2024. Furthermore, business sentiment reached a near-record high as the Purchasing Managers' Index (PMI) for Construction hit 75.0 in early 2026, indicating a significant acceleration in project activity and administrative compliance capacity.

Table 4: Construction industry operational and financial indicators (2024–2026)

Indicator	2023 Value	2024 / 2026 Status
Cost of Construction Index (Annual Avg. % Change)	(1.1)	(4.6)
PMI: Construction Total Activity (Index Value)	51.4 (Dec '23)	75.0 (Jan '26)

Note. Adapted from Sri Lanka Socio-Economic Data 2025 (p. 70), by Central Bank of Sri Lanka (2025); Monthly Economic Indicators: January 2026 (p. 4), by Central Bank of Sri Lanka (2026); and Annual Economic Review 2024 (p. 24), by Central Bank of Sri Lanka (2025).

3. RESEARCH METHODOLOGY

Research methodology is a systematic and scientific approach to solving research problems, requiring a tailored design for each specific issue (Patel & Patel, 2019). It outlines the methods of inquiry adopted to discover and assess the empirical evidence and offers a conceptual framework for the implementation of the study. The main aim of the research was to find the effectiveness of tax administration in the construction industry in Sri Lanka. To operationalise the aim of the study, three objectives that were interconnected were expressed, namely, (1) to categorise the different types of taxes, clarify how they operate and evaluate their effects; (2) to identify the importance of an effective tax management system at the global and domestic level and (3) to establish whether there exist and suffice tax management practices in the construction industry in Sri Lanka.

The mixed-method approach was employed to obtain a comprehensive understanding and combine the qualitative and quantitative methods based on the objectives and scope of the research. In its turn, this led to the use of qualitative data collection tools to gather accurate and subtle data and quantitative analyses to provide a reflective interpretation of the research parameters using numerical data obtained during the data-collection activities (Taherdoost, 2022). Through a combination of three methods, including a literature review, expert interviews, and a questionnaire survey, data were collected. The first objective was considered only through literature review, and the second one was considered in both literature review and expert interviews. The third goal was based mainly on the interviews with experts and the information gathered from questionnaires. Face-to-face meetings or electronic correspondence via Google Forms were selected as the method of expert interviews with the target professionals having substantive knowledge of the industry, such as senior quantity surveyors, financial managers, and accountants working at the Construction Industry Development Authority (CIDA) and representatives of the contracting and consulting firms and academia. Seeing that tax administration is a key issue, it was deemed necessary to address experienced professionals in the field to obtain relevant information. While tax administration is fundamentally a financial function, its operational impact directly alters project cost structures and contract management in construction. Therefore, the deliberate inclusion of quantity surveyors and engineers alongside financial professionals is vital. Quantity surveyors are directly responsible for cost estimation, budget forecasting, and the incorporation of tax fluctuations into contract pricing, while engineers manage procurement schedules and material variations affected by indirect levies. Targeting these

technical professionals ensures that the research captures the practical, project-level execution of tax policies beyond mere corporate accounting compliance.

The survey was distributed to the participants in the Sri Lankan construction sector, who were professionals, and the questionnaire survey was conducted using Google Forms and email and contained about 20 questions, including open-ended and closed-ended questions. In terms of data analysis, thematic analysis, which is a major approach to interpret qualitative data, was used to analyse interview data. The data from the surveys were analysed based on descriptive statistical methods. The mixed-method approach thus provided a formidable and methodical approach to researching the research problem and obtaining the required objectives.

4. DATA ANALYSIS AND FINDINGS

4.1 DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

The qualitative part of this research included semi-structured interviews with six (6) carefully chosen industry experts with a view to developing a baseline understanding of the tax administration environment in Sri Lanka. The participants included senior professionals like owners of construction companies, company directors, financial managers, engineers, and senior quantity surveyors, with half of them having over thirty years of professional experience. In a complementary manner, a quantitative questionnaire survey was distributed to a larger professional group comprised of quantity surveyors, managers and accountants working in the construction industry. Thirty (30) valid answers were received within two weeks. These respondents were distributed professionally, with the majority being quantity surveyors ($n = 22$), accountants ($n = 3$), financial managers ($n = 3$), and managers ($n = 2$), thus offering a multi-disciplinary profile in tax administration. The high representation of quantity surveyors ($n = 22$) and technical managers within the sample breakdown is heavily justified by the nature of construction financial management. In Sri Lanka's construction industry, quantity surveyors act as the frontline financial controllers of projects; they are the stakeholders who directly calculate tax inputs (such as VAT and SSCL) during bidding, evaluate tax-induced material price variations, and draft interim payment certificates. While accountants handle macro-level corporate tax filing, quantity surveyors and engineers experience the immediate, day-to-day operational frictions of tax administration on project cash flows, making their heavy involvement critical for assessing the practical effectiveness of the system. Table 5 and Figure 1 summarise the professional backgrounds and experience levels of the research participants.

Table 5: Expert interview participants

Participant	Position	Experience in a number of years
P1	Construction company owner & Director	More than 30
P2	Finance Director	10-15
P3	Consultant company owner & Quantity Surveyor	More than 30
P4	Engineer	15-20
P5	Engineer	15-20

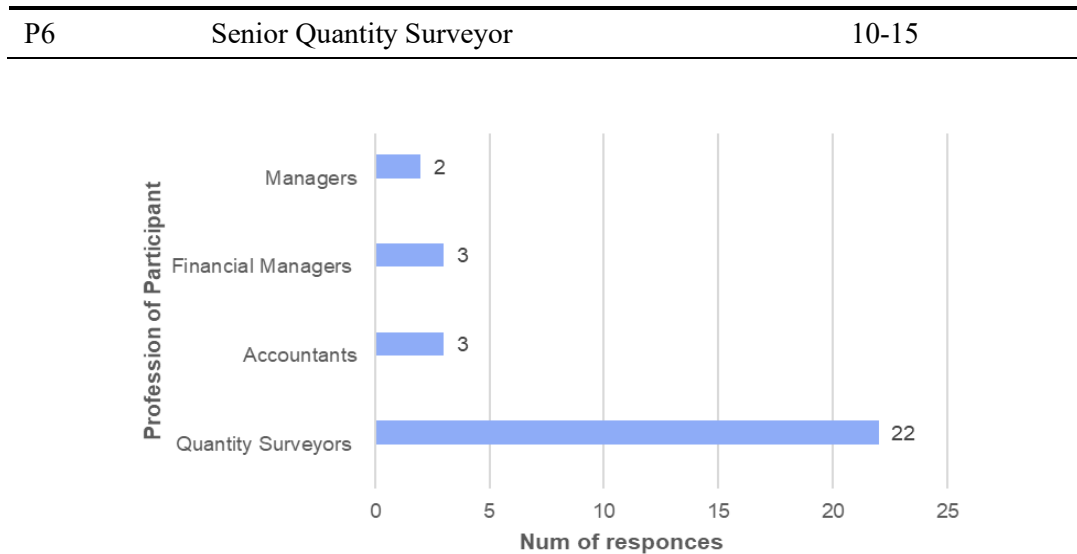


Figure 1: Questionnaire survey participants

4.2 TAX MANAGEMENT AND SYSTEMS IN SRI LANKA

Thematic analysis of the interviews with the experts revealed that, despite tax revenue being the key source of government revenue used in the national infrastructure, free education, and medical care, there is a current system which is viewed as inefficient. Expert P1 mentioned that the Sri Lankan tax system is not simplified, and it has a drawback of a mess of tax types, which do not favour industry stakeholders. In addition, the lack of a stable structure and the cycling of the tax rates were also discovered as major disadvantages. The agreement of the participants was that there are peculiarities of anomalies in the current administration, specifically the introduction of new levies, including the Social Security Contribution Levy (SSCL), without a qualitative evaluation of the future effect on the construction industry.

4.3 APPLICABLE TAXES FOR THE CONSTRUCTION INDUSTRY

The research established some of the relevant taxes that directly affect the construction operations, which include Value Added Tax (VAT), Corporate Income Tax (CIT), Social Security Contribution Levy (SSCL) and other customs duties. Among them, SSCL received a significant amount of criticism as professionals in the industry claimed that the rate of 2.5 % significantly interferes with the feasibility of a project. Other than active taxes, the respondents also contemplated the Construction Industry Guarantee Fund Levy (CIGFL) that was suspended in 2011. Professional group P2 and P4 supported the reintroduction of such a duty that was previously charged at low rates of 0.25 to 1 per cent, arguing that such a duty would provide the benefits needed since small contractors would be able to obtain the required bonds and guarantees via the Construction Industry Development Authority (CIDA). Table 6 presents the specific tax categories identified by each participant during the study.

Table 6: Applicable taxes for the construction industry

Participants	Identified Applicable Taxes
P1	VAT, Corporate Income tax, SSCL, Custom duty

Participants	Identified Applicable Taxes
P2	VAT, Corporate Income tax, SSCL, Custom duty
P3	VAT, Corporate Income tax, SSCL, Custom duty
P4	VAT, Corporate Income tax, SSCL, Custom duty, PAL, PAYE
P5	VAT, Corporate Income tax, SSCL, Stamp duty
P6	VAT, Corporate Income tax, SSCL

4.4 DIRECT BENEFITS AND STAKEHOLDER IMPACT

One of the most important findings of the study is the lack of direct benefit reimbursements to the construction industry as a reward for paying taxes. Most of the respondents insisted that despite the act of collecting tax revenue in the industry, it is diverted to the general government spending instead of being invested in the industry. Even though agencies like CIDA are involved in the provision of indirect assistance in terms of skill-development workshops and training to students, the funding to such programs is not based on any form of explicit nexus of tax-benefit. Quantitative evidence also supports the fact that the burden of tax is so widespread; half of the respondents in the survey confirmed that the tax burden affects clients, contractors, and suppliers alike, and 30 per cent of those surveyed specifically claimed that the contractor is the most burdened. Figure 2 illustrates the distribution of stakeholder groups identified by respondents as being affected by tax obligations.

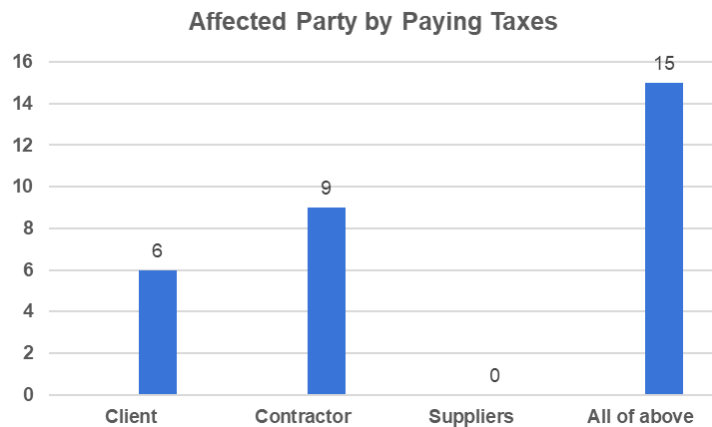


Figure 2: Affected party by paying taxes

4.5 EFFECTIVENESS OF TAX ADMINISTRATION PROCESS

According to the survey findings, the current system of tax administration is not satisfactory, as 77 per cent of the respondents reported that a proper system is not applicable in the construction industry. The causes of this negative perception can be divided into a lack of a clear administrative process, an overall failure to improve the current system, and the government's failure to cut taxes despite the increase in the cost of raw materials. According to the respondents, the constant change of tax rates and the appearance of new taxes like SSCL have a negative impact on the planning of a project in the long term. Experts P1 and others argued that they need an efficient, possibly

computerised system that will promote transparency in tax revenue management and its strategic use in developing the industry.

4.6 REINVESTMENT AND GOVERNMENT SUPPORT EXPECTATIONS

The study has investigated the topic of reinvestment of tax revenue; 60 per cent of interviewees were convinced that tax receivables acquired in the construction sector are not reinvested in its favour. The views about such reinvestment were mixed, and 53 per cent had a neutral position, and 27 per cent held that reinvestment is a necessity to the development of the industry. Regarding the future governmental assistance, 54 per cent of the respondents concurred that a hybrid approach that includes low-cost raw materials, unalterable tax rates, and low interest rates by the banks is essential. It was proposed by experts that the establishment of a fixed rate of tax over a specific type of project (such as five years) would alleviate the risks of unexpected cash-flow interruptions at the end of large-scale projects. Table 7 outlines the proposed support measures as identified by respondents, categorised by their percentage of preference.

Table 7: Proposed government support for the construction industry

Proposed Support Measure	Respondents (%)
Reducing the cost of raw materials required by industry	20%
Keeping tax rates unchanged and creating a fair tax system	16%
Deduction of interest rates on bank loans (for tax-paying entities)	10%
All of the above	54%

5. DISCUSSION

The current research demonstrates that there is a great discrepancy between the theoretical role of taxation and its practice in the Sri Lankan construction industry. The basic concept of a tax system is presented as the ability to pay to raise revenue and limit the economic disparities (Waidyasekera, 2016). Nonetheless, the results of the research expose a failure to uphold this principle; despite 100 % of the respondents admitting that taxes are necessary to develop the country (Vickneswaran, 2014), dissatisfaction with the current administration is high (77%), indicating that the perceived benefits of free healthcare and infrastructure no longer equate with the existing tax burden. This confirms the claim by Amirthalingam (2013) that tax structure is a sensitive macro-economic parameter that may either strangle or spur the growth of the sector.

One of the main arguments that has been found in the data relates to the Social Security Contribution Levy (SSCL). Although the Ministry of Finance (2022) states that levies like PAL and SSCL are working towards achieving the requisite government revenue, the results reveal a ripple effect where the taxation pressure is increased along the supply chain. Because 50% of respondents pointed out that the clients, contractors, and suppliers are all adversely affected, the current system is not as simplistic as Gangodawilage (2015) suggests. This is further complicated by the frequency with which the rates are changed, a point that Chandrasekera et al. (2021) validated when asserting that an unsustainable tax structure interferes with long-term industrial layout and investment. Furthermore, a notable operational challenge in the Sri Lankan construction supply chain arises when clients or main contractors procure goods and services from small-scale suppliers or

informal sub-contractors who are not VAT-liable due to falling below the statutory registration threshold. Because these transactions do not generate input tax invoices, VAT-registered construction entities are unable to claim input tax credits. This creates a tax cascading effect that drives up total project costs and compresses profit margins. This structural disadvantage directly aligns with the survey findings, where 50% of the respondents highlighted that the tax burden is not isolated but heavily impacts clients, contractors, and suppliers simultaneously. According to experts P2 and P4, a targeted, industry-specific levy is much more efficient than generalised taxes due to the way it offers a real-life safety net, that is, helping small-scale contractors to secure necessary bonds and guarantees. This implies that the industry adopts a model of fiscal reciprocity whereby a part of the taxation gets ring-fenced to reinvest into the sector instead of consumption by the general treasury.

Lastly, it becomes a pressing need to have fixed tax rates over the period a project is going to last. Since construction projects are typified by long-term construction services and fixed-pricing contracts, there should be a specialised approach to revenue collection (Engen & Skinner, 1996). The results prove that without a separate, stable, and computerised administration system, the construction industry, which is one of the main pillars of the national development (Dassanayake & Rathnayake, 2023), will remain in financial instability. To reinvigorate the sector, the government should go beyond collection and apply the supportive measures suggested by 54 per cent of the respondents, such as stabilised material costs and lower interest rates.

6. CONCLUSIONS

The research was effective in capturing the efficiency of tax administration in the construction sector of Sri Lanka, and thus, its three main goals were fulfilled. A review of the literature showed that the current taxation system (both direct and indirect taxes; VAT, Corporate Income Tax, and the Port Authority Levy) has had a considerable impact on the industry. It was analysed that the sudden rise of taxation rates in the recent past, along with the general economic difficulties within the land of Sri Lanka, has triggered the occurrence of a sharp rise in the price of raw materials and the general project expenses. Besides, the research noted the paramount significance of the effective system of the tax administration, pointing out that a well-designed and equitable system is indispensable to maximise the government revenue without simultaneously damaging the national industries and undermining the accumulation of capital. However, the analysis of the existing practices revealed a conspicuous gap: the construction sector does not have a specific tax administration system, which has irregularities and is significantly deficient in transparency when it comes to the distribution of the collected revenues to the development of the industry.

To deal with these problems, the research suggests that the government should introduce a fairer tax regime by ensuring that tax rates are stabilised and unnecessary frequent changes that destabilise industrial planning are checked. Such policy aspects as the decrease of the tax rates to reduce the cost of raw materials and the introduction of policies that will decrease the bank interest rates on the construction-related loans should also be viewed as important. Also, they recommend that the government and relevant agencies, like the Construction Industry Development Authority (CIDA), proceed with providing finances and running professional training workshops to boost the technical expertise and tax acumen of the workforce. To restore the healthy status of the construction sector, the

government must conduct an extensive review of industry-specific demands and provide some facilitating factors, such as a reduction of corporate income taxes to reduce the financial load experienced by contractors and consultants. Since the participants showed overall awareness of the tax requirements, the study pointed out that there is a knowledge gap that is related to tax administration, which necessitates future programs that will help to fill the information gap so that improved compliance and stability within the sector is achieved.

7. REFERENCES

- Amirthalingam, K. (2010). Indirect taxation in Sri Lanka: The development challenge. *Economic Review*, 36(7–8), 11–15. https://www.researchgate.net/publication/294729165_Sri_Lanka_Indirect_Taxation_in_Sri_Lanka_The_Development_Challenge
- Amirthalingam, K. (2013). Importance and issues of taxation in Sri Lanka. *Colombo Business Journal*, 4(1), 13–22. <https://doi.org/10.4038/cbj.v4i1.30>
- Ashworth, A., & Perera, S. (2010). *Cost studies of buildings* (5th ed.). Routledge. <https://doi.org/10.4324/9781315847122>
- Bird, R. M., Martinez-Vazquez, J., & Torgler, B. (2004). *Societal institutions and tax effort in developing countries* (CREMA Working Paper No. 2004-21). Center for Research in Economics, Management and the Arts (CREMA). <https://www.econstor.eu/bitstream/10419/214307/1/2004-21.pdf>
- Central Bank of Sri Lanka. (2024). *Annual economic review 2024*. <https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-economic-review/annual-economic-review-2024>
- Central Bank of Sri Lanka. (2025). *Sri Lanka socio-economic data 2025*. Statistics Department, Central Bank of Sri Lanka. https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/otherpub/publication_sri_lanka_socio_economic_data_folder_2025_e.pdf
- Central Bank of Sri Lanka. (2026). *Monthly economic indicators: January 2026*. <https://www.cbsl.gov.lk/en/statistics/economic-indicators/monthly-indicators>
- Chandrasekera, A. D. D. J., Waidyasekara, K. G. A. S., & Sirimewan, D. C. (2021). The impact of frequent tax reforms on construction industry in Sri Lanka. *Sri Lankan Journal of Banking and Finance*, 4(1), 124–140. <https://www.researchgate.net/publication/354393588>
- Dassanayake, D. R. S., & Rathnayake, L. (2023). Cost of construction update for the year 2022: Position of Sri Lanka (Colombo) within the South Asian region. In P. S. Dissanayaka (Ed.), *IQSSL technical research proceedings 2023* (pp. 23–27). Institute of Quantity Surveyors Sri Lanka. <https://iqssl.lk/docs/publications/publication-iqssl-2023-08-28-uid454.pdf>
- De Silva, N., Rajakaruna, R. W. D. W. C. A. B., & Bandara, K. A. T. N. (2008). Challenges faced by the construction industry in Sri Lanka: Perspective of clients and contractors. In *Proceedings of the CIB W107 International Symposium on Innovation in Architecture, Engineering and Construction* (pp. 1–12). CIB. <https://www.irbnet.de/daten/iconda/CIB11344.pdf>
- De Silva, S. S., Wijekoon, W. M. C. L. K., & Kalugala, C. (2023). Impact of economic crisis on employees of contractors' organisations in the Sri Lankan construction industry. In Y. G. Sandanayake, K. G. A. S. Waidyasekara, T. Ramachandra, & K. A. T. O. Ranadewa (Eds.), *Proceedings of the 11th World Construction Symposium* (pp. 557–568). Ceylon Institute of Builders. <https://doi.org/10.31705/WCS.2023.46>
- Department of National Planning. (2024). *Annual performance report*. Ministry of Finance, Economic Stabilization and National Policies. <https://npd.treasury.gov.lk/files/3.%20PP%20English.pdf>
- Engen, E. M., & Skinner, J. (1996). Taxation and economic growth. *National Tax Journal*, 49(4), 617–642. <https://doi.org/10.1086/NTJ41789231>
- Gangodawilage, D. (2015). *Business taxation*. The Institute of Chartered Accountants of Sri Lanka. <https://www.casrilanka.com/casl/images/stories/EDBA/study%20text%20business%20taxation%20m1%204.pdf>

- James, S., & Edwards, A. (2008). Developing tax policy in a complex and changing world. *Economic Analysis and Policy*, 38(1), 35–53. [https://doi.org/10.1016/S0313-5926\(08\)50005-1](https://doi.org/10.1016/S0313-5926(08)50005-1)
- Kelegama, S. (Ed.). (2017). *Tax policy in Sri Lanka: Economic perspectives*. Institute of Policy Studies of Sri Lanka. https://www.ips.lk/wp-content/uploads/2017/10/Tax-Policy-in-Sri-Lanka-Economic-Perspectives_E_Book.pdf
- McNabb, K. (2018). Tax structures and economic growth: New evidence from the government revenue dataset. *Journal of International Development*, 30(2), 173–205. <https://doi.org/10.1002/jid.3345>
- Ministry of Finance. (2022). *Fiscal management report 2023*. <https://www.treasury.gov.lk/api/file/f3256b98-539f-4645-85a6-6fe50a7a865f>
- Panagodage, T. L., & De Silva, P. (2022). Critical supply chain problems in contractor - Subcontractor interface of Sri Lankan building construction projects. In *Proceedings of the SLIIT International Conference on Engineering and Technology*, 57–68. <https://doi.org/10.54389/cjfm8214>
- Patel, M., & Patel, N. (2019). Exploring research methodology: Review article. *International Journal of Research and Review*, 6(3), 48–55. https://www.ijrrjournal.com/IJRR_Vol.6_Issue.3_March2019/IJRR0011.pdf
- Ranasinghe, S. R. S. H., & Kulathunga, K. M. M. C. B. (2016). Impact of the income tax system on tax payers' satisfaction: With special reference to Kegalle district income tax payers. *International Journal of Accounting and Business Finance*, 2(2), 24–37. https://www.maco.jfn.ac.lk/ijabf/wp-content/uploads/2017/11/vol2_issue2_3.pdf
- Taherdoost, H. (2022). What are different research approaches? Comprehensive review of qualitative, quantitative, and mixed method research, their applications, types, and limitations. *Journal of Management Science & Engineering Research*, 5(1), 53–63. <https://doi.org/10.30564/jmser.v5i1.4538>
- Thilanka, H. R. A. C., & Ranjith, J. G. S. (2021). The effect of tax composition on income inequality: Sri Lankan experience. *Sri Lanka Journal of Economic Research*, 8(2), 3–20. <https://doi.org/10.4038/sljer.v8i2.134>
- Vickneswaran, A. (2014). *Tax policy changes, tax revenue and budget deficit: A case in Sri Lanka* [Unpublished manuscript]. University of Jaffna. <https://www.researchgate.net/publication/314116840>
- Waidyasekera, D. D. M. (2016). *Taxation in Sri Lanka: Current trends and perspectives* (Research Studies Series No. 25). Institute of Policy Studies of Sri Lanka. <https://www.ips.lk/wp-content/uploads/2017/01/Taxation-in-Sri-Lanka.pdf>