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Effect of Tax Revenue on Unemployment in Sri Lanka

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Taxes are compulsory, unrequited payments represent 93.2%(Central Bank Annual Report, 2015) public total income. The main roles of taxation are finance government expenditure, resource mobilization, income distribution and economic stabilization. According to the Bureau of Labor Statistics (BLS) unemployment is defined as people who do not have a job, have actively looked for work in the past four weeks, and are currently available for work. Therefore, economic stability and growth is inevitable without reducing the unemployment rate in one country.. The significance of studying the impact of tax revenue on unemployment researchers established an objective as to determine whether the tax revenue significantly affects the unemployment rate in Sri Lanka. Based on quantitative secondary data based on Central Bank Annual Reports in Sri Lanka for twenty years of time (1996-2015). Regression and correlation analysis were performed by using the SPSS. Simple Regression confirmed that there is ($R^2=0.733$) a significant impact of tax revenue on unemployment. Significant value (þ=0.000) defined that tax revenue significantly affects to the unemployment. Taxation is an important policy tool to stimulate capital accumulation and generate more employment opportunities. . An accurate and a proper tax administration structure to avoid the drawbacks of the existing tax collection systems in Sri Lanka to reduce unemployment as tax revenue helps affects unemployment in two effect: as income effect and substitution effect. Moreover, the generated tax revenue must be utilized efficiently in order to ensure sustainable economic development.

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