



DISSERTATION

TAX CONCESSIONS AND THEIR EFFECTS ON INVESTMENT

A STUDY BASED ON SUBCONTRACTORS IN MANUFACTURING INDUSTRY

IN SRI LANKA

Submitted by

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ABSTRACT

The primary function of a tax system is to raise revenue for the government for its public expenditure and reduce inequalities through redistribution of income and wealth. Also tax system can be employed for social purposes such as discouraging certain activities which are considered undesirable for the society. Further tax system is used to achieve economic goals through its influence on the allocation of resources and increase the level of savings and capital formation of an economy. This includes transferring resources from the private sector to the government sector for financing the public investment through programme directing private investment in to the desired channels through measures such as regulations of tax rates and granting of tax incentives whenever necessary. For this purpose tax incentives and concessions are sometimes granted through principals to promote SMEs of subcontractors in manufacturing industries, and this is important in achieving economic development of the country. Although various institutions and persons have made their attention on principals, less attention has been made to seek about the subcontractors in manufacturing sector through research or any other way to study the effect of tax incentives granted to subcontractors of the economy. Generally tax and investment incentives have in recent times become a favorite tool in development strategy both for domestic investors as well as foreign direct investment for attracting investment. The small and medium level enterprises (subcontractors) have the potential for generating more employment and growth and considerable amount of economic growth. . The government, therefore, should give priority to promoting and strengthening the SMEs in the economy. As such, the main purpose of this study is to identify the effect of tax concessions on the sub contractors' investment decisions. For this purpose a questionnaire was administrated to a sample of 100 investors randomly selected from Colombo, Gampaha and Kaluthara Districts with having a response rate of 69%. Based on the Likert scale analysis and relevant hypotheses testing, the study concludes that investors considerably rely on concessions and particularly on tax concessions as an important determinant of investment and also, investment is convincingly determined by tax concessions when compared with other factors mainly such as rate of interest, future business expectations and infrastructure facilities.

Key Words: Investment, Tax Concessions, Incentives, Manufacture, Sub Contractor