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Brewing Pressure of Taxation: Effect of Unprecedented Government Tax Increases on Performing Factory Operations of Private Tea Factory Owners in Sri Lanka

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Sri Lanka's tea industry, a significant economic pillar, is grappling with the repercussions of substantial tax increases, including a surge in corporate income tax, the imposition of a windfall tax, and a rise in value added tax (VAT). This study investigates the influence of these fiscal policies on the operational performance of private tea factories in the Southern Province, utilizing a positivism philosophy, deductive approach, and quantitative approach. Employing a case study survey with simple random sampling, data from 123 factories were analyzed using descriptive and inferential statistics via SPSS. The findings confirm a significant negative correlation between tax increases and operational performance. Increased corporate tax reduces net income and investment, leading to wage reductions and price hikes. Windfall taxes create uncertainty and raise operating costs, while VAT increases production costs and contributes to unemployment and inflation. These results highlight the broader economic impacts of excessive taxation, aligning with existing literature. Recommendations include a balanced tax approach with potential tax relief for small and medium enterprises (SMEs), targeted incentives for modernization, and alternative taxation methods to mitigate inflationary effects. A predictable tax framework and active stakeholder engagement are essential to ensure the industry's sustainability. This study underscores the need for judicious fiscal policies that support the tea industry's growth and resilience, safeguarding its vital contribution to Sri Lanka's economy.

Keywords: corporate income tax, windfall tax, value added tax, business growth, cost of production

Introduction and Problem Statement

The verdant tea plantations of Sri Lanka, a cornerstone of the nation's economy, are facing an unprecedented tempest. Accounting for a substantial 15% of total exports in 2018, the tea sector has long been a vital engine for income generation, foreign exchange, and employment, directly impacting the livelihoods of nearly one million individuals (Thasfiha, Rameez, & Niyas, 2020). However, the resilience of this critical industry, particularly the private tea factories in the southern region, is now under severe strain. Recent fiscal policies, including the dramatic surge in corporate income tax from 14% to 30% in late 2022, the imposition of a windfall tax (KPMG, 2022), and the subsequent increase in value added tax (VAT) from 15% to 18% in early 2024 (KPMG, 2024),

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have erected formidable financial barriers. These abrupt tax escalations have precipitated a cascade of adverse effects, notably a sharp decline in net income and a crippling reduction in reinvestment capabilities, alongside a significant rise in operational costs.

While previous research has documented the immediate financial repercussions of tax hikes, such as diminished profitability (Pitulice, Vintila, & Filipescu, 2016) and escalating costs, a critical gap remains in understanding the holistic, long-term operational impacts on the Sri Lankan tea industry. Specifically, there is a dearth of empirical investigation into how these fiscal pressures influence crucial operational aspects such as market competitiveness, quality control, production capacity, and employment retention within the private tea factories of the southern region. This oversight is particularly alarming given the industry's central role in Sri Lanka's economic fabric.

The consequences of inaction are dire. As Samanga and Sachitra (2017) warn, failure to address these challenges could jeopardize the industry's ability to compete globally, potentially ceding market share to formidable competitors like Kenya and Indonesia. Without the capacity to modernize, invest in quality enhancements, and retain a skilled workforce, Sri Lanka risks a precipitous decline in its competitive edge. This decline would trigger far-reaching economic repercussions, including heightened unemployment, diminished foreign exchange earnings, and exacerbated strain on the national economy. Therefore, a comprehensive, empirical examination of the broader operational impacts of these tax policies is imperative, not only to safeguard the industry's sustainability but also to inform the development of judicious fiscal policies that support its continued growth and resilience.

Literature Review

Unprecedented Government Tax Increases

Government tax increases occur in various forms, categorized as direct and indirect taxes (Waidyasekera, 2016). Direct taxes are imposed on individuals or organizations, whereas indirect taxes are levied on goods and services, allowing consumers to avoid them by altering their purchasing behavior. In Sri Lanka, corporate income tax, windfall tax, and value added tax (VAT) are key tax instruments impacting industries. Studies indicate that corporate tax increases negatively affect financial performance. Pitulice et al. (2016) found that substantial tax hikes reduce profitability, while Saelim (2019) observed that excessive taxation in the hospitality sector increases service costs, leading to lower guest preference and declining revenue. Similarly, businesses may react to tax hikes by reducing employee wages, affecting both morale and service quality (Wawire, 2020). In Kenya, Gitonga (2023) noted that a corporate tax rate of 30% constrained hotel industry profits, limiting financial growth. Windfall taxes, imposed on extraordinary profits, may discourage high-risk investments (Oladele & Agbaje, 2017). Critics argue that such taxes disregard operational costs (Banda, 2018), creating investor uncertainty and potentially inflating consumer prices (Freshfields, 2022). Additionally, some legal challenges arise, as Greggi (2022) highlights cases where windfall tax applications were deemed unlawful. The Treasury of New Zealand (2023) further warns that such taxes may erode investor confidence and deter long-term investments. VAT increases raise government revenue but can also burden consumers by inflating product prices (Kufanga & Mbewe, 2024). Cnossen (2017) notes that complex VAT systems pose challenges for small and medium enterprises (SMEs), necessitating tax simplification. Consumers may reduce consumption due to higher prices, while businesses might explore tax avoidance strategies (Cooter & Ulen, 2019). While lowering VAT rates can spur economic activity, it must be managed to ensure fiscal stability.

Factory Operations of a Tea Factory

The tea manufacturing process involves withering, rolling, fermenting, drying, and sorting, each step crucial to the quality, flavor, and aroma of the final product (Pan, Zhao, & Wang, 2015). The withering is defined as the affect's biochemical properties, reducing moisture while increasing amino acids and carbohydrates (Kumar, Das, & Sharma, 2018). The rollin is where breaks leaves, allowing oxidation and aroma development through essential oil release (Thasfiha et al., 2020). The fermenting converts green leaves to copper tones at controlled temperatures (24 ℃-27 ℃) over 1-3 hours (Thasfiha et al., 2020). The drying stops oxidation using hot air (85 ℃-88 ℃), turning leaves dark brown (Thasfiha et al., 2020). Finally sorting categorizes tea by leaf size, employing modern machinery such as sifters and color sorters (Thasfiha et al., 2020).

Unprecedented Government Tax Increases on Factory Operations

The tea industry is vital to Sri Lanka's economy, generating foreign exchange, employment, and economic growth (Samanga & Sachitra, 2017). Tea factories, integral to this sector, face significant challenges due to rising government taxes, which directly impact financial performance and operational efficiency.

Increase in corporate income tax. Corporate income tax, a direct levy on business revenues, forms a substantial portion of government income globally (Oladele & Agbaje, 2017; Jacob & Omar, 2023). While essential for public services, its impact on business performance is complex and often contentious. Studies reveal a clear link between higher corporate tax rates and reduced financial performance, demonstrated by research on Romanian companies (Pitulice et al., 2016). This aligns with concerns that excessive taxation can stifle competitiveness and deter foreign investment, as observed in Portugal (Borrego & Carreira, 2018).

The "Benefit Theory" suggests a fair exchange between taxes paid and government benefits received (Ahuja, 2016). However, the reality often diverges, with increased taxes potentially leading to a ripple effect: Businesses may pass the burden onto consumers through higher prices (Saelim, 2019) or reduce employee compensation, impacting morale and retention (Wawire, 2020). Profitability directly influences the effective tax rate, with higher profits naturally resulting in greater tax liabilities (Jaffar, Hussain, & Khan, 2021). Yet, the Organisation for Economic Co-operation and Development's data indicate that corporate income taxes represent a smaller fraction of overall tax revenue compared to consumption, social insurance, and individual income taxes (Bunn, 2022). Despite its revenue-generating potential, corporate taxation can impede business growth and innovation (Rodrigues, 2022). This is evidenced by studies in China, Thailand, and Japan, where high corporate tax rates negatively correlate with economic growth and investment (Kaewsopa, Lee, & Nguyen, 2022; Andriati & Andriatno, 2022). The "Tax Incidence Theory" (Gitonga, 2023), originally proposed by Musgrave, provides a valuable framework for understanding how the tax burden is distributed among stakeholders. In the context of Sri Lanka's tea industry, for example, increased corporate taxes could force factories to adjust employee wages or shareholder dividends. Similarly, the Kenyan hotel industry demonstrates how higher corporate tax rates can reduce net income and hinder growth (Gitonga, 2023).

Ha1: There is a negative relationship between increase in corporate income tax and factory operations of private tea factory owners in the southern region of Sri Lanka.

Implementation of a windfall tax. Windfall taxes, designed to capture excess profits, particularly in sectors like mining, present a complex fiscal tool (Banda, 2018). While intended to redistribute extraordinary gains, they can significantly alter investment risk profiles, potentially deterring high-risk ventures and favoring safer options (Oladele & Agbaje, 2017). A key critique is that windfall taxes often focus solely on revenue, neglecting operational

costs and deviating from the "ability to pay" principle (Banda, 2018). This can distort investment decisions and, as observed in Zambia, face opposition from tax specialists who argue that reinvestment by companies is more beneficial (Banda, 2018). Moreover, the implementation of windfall taxes can lead to unintended consequences. Businesses may shift the tax burden to consumers, increasing prices and reducing purchasing power (Freshfields, 2022). Legal challenges are also common, with courts in countries like Italy finding such taxes unlawful due to issues of selectivity, duration, and excessiveness (Greggi, 2022). The Italian Constitutional Court determined that a tax based solely on extra profits, and implemented as a permanent tax, was problematic. The retrospective application of windfall taxes, as seen in some EU countries like Poland, creates further complications. Such actions violate the "lex retro non agit" principle, which mandates that laws should not apply retroactively (Halasz, 2023). This can lead to double taxation and create significant uncertainty for investors, potentially affecting their behavior (Halasz, 2023; Treasury of New Zealand, 2023). Furthermore, the implementation of windfall taxes is not always mandatory. In Italy, for instance, a proposed windfall tax on banks was later amended, allowing companies to avoid the charge by reserving profits (Greggi & Miotto, 2024). This highlights the need for a thorough and precise legal framework when implementing such taxes. Greggi and Miotto (2024) advise that the introduction of windfall taxes is a permanent change to the tax system and should be considered as such.

Ha2: There is a negative relationship between implementation of a windfall tax and factory operations of private tea factory owners in the southern region of Sri Lanka.

Increase in value added tax. Value added tax, a consumption-based tax applied throughout the supply chain, originated in Europe during World War I (Helgason, 2017; Umenweke & Nwoke, 2023). While a significant source of government revenue, its impact on economies is multifaceted and often contentious. Studies demonstrate a clear link between VAT adjustments and consumer behavior. For instance, increased VAT can significantly affect the purchasing power of consumers, as seen in the Indonesian motor vehicle market (Sambur et al., 2015). Conversely, reducing VAT rates can stimulate economic activity, leading to increased employment in sectors like catering (Harju et al., 2015). However, complex VAT systems with multiple rates and exemptions can pose significant compliance challenges for businesses, particularly SMEs (Cnossen, 2017). VAT rate adjustments have far-reaching economic implications (Chanda, 2018). In Nigeria, VAT has been shown to significantly influence private investment (Adejare & Akande, 2017). According to rational choice theory, both consumers and businesses respond to VAT changes by acting in their self-interest (Cooter & Ulen, 2019). Consumers may reduce consumption due to increased prices, while businesses may engage in tax planning and avoidance strategies. Furthermore, increasing VAT can have adverse effects on production and employment. Anichebe (2019) suggests a positive correlation between VAT and unemployment. For SMEs, higher taxes can hinder growth (Alabi et al., 2019). Labor-intensive businesses are particularly vulnerable to VAT increases, necessitating considerations like reduced VAT rates for final services in sectors like restaurants (Jurušs et al., 2019). The regressive nature of VAT, affecting all consumers regardless of social class, creates societal dilemmas (Darma & Saputra, 2021). High unemployment, often linked to increased VAT, exacerbates poverty (Egunjobi, 2021). Additionally, increased VAT can lead to a decline in industrial performance due to reduced consumer demand and subsequent labor reduction (Omodero & Eriabie, 2022). Improper VAT implementation can also fuel inflation (Galeshkalami et al., 2023) and negatively impact consumer purchasing power of specific goods like electronics (Sastri et al., 2024). Ultimately, governments must navigate a delicate balance between revenue generation and economic stability (Kufanga & Mbewe, 2024). While increasing VAT can boost revenue, it can also burden consumers and stifle economic growth. Conversely, reducing VAT can stimulate spending but may

impact revenue. Therefore, thorough analysis of VAT rate changes is crucial to mitigating potential harm to consumers, businesses, and government finances.

Ha3: There is a negative relationship between increase in value added tax and factory operations of private tea factory owners in the southern region of Sri Lanka.

Existing research extensively explores the effects of increased corporate income tax, windfall taxes, and VAT across diverse industries, from hospitality to mining (Sambur et al., 2015; Banda, 2018; Gitonga, 2023; Galeshkalami et al., 2023). However, a critical gap exists in understanding the specific impact of these tax increases on Sri Lanka's private tea factory operations, particularly in the southern region. While studies often focus on immediate financial consequences like reduced profitability and increased costs, they largely overlook the broader, long-term operational impacts. This includes changes in market position, quality output, employee relations, and investment in technology and innovation. Notably, the collective effect of these multiple tax increases on a single industry, such as the tea sector, remains largely uninvestigated. This research gap is particularly concerning given the unique socio-economic significance of Sri Lanka's tea industry. As Thasfiha et al. (2020) highlight, it employs approximately one million people and contributed 15% of total exports in 2018, making it vital to the national economy. Addressing this gap is crucial for providing policymakers with a comprehensive understanding of how tax policies affect tea factory operations. This knowledge will enable the drafting of balanced and supportive fiscal policies that not only generate government revenue but also safeguard the sustainability of private tea factory operations in the southern region of Sri Lanka. By delving deeper into the long-term operational effects, this research aims to provide actionable insights for a sector that is both economically and socially vital to the nation.

Methodology

This study investigates the influence of unprecedented government tax increases on the operational performance of private tea factories in the Southern Province of Sri Lanka. The researcher has chosen positivism philosophical stance, for achieving the research aim objectively and analyzing observable phenomena, facilitating empirical hypothesis testing regarding the impact of tax increases. A deductive research approach was adopted, wherein hypotheses were formulated based on established theoretical frameworks. A mono-method quantitative research design was implemented, utilizing a case study survey to examine operational impacts across a representative sample of private tea factories. Descriptive statistical analysis, including measures of central tendency (mean, mode) and dispersion (standard deviation), was utilized to summarize and illustrate the research findings for clear interpretation. Inferential statistical analysis, specifically Pearson correlation and chi-square tests, was conducted using SPSS software to assess the relationships between variables. The sampling frame, provided by the Sri Lanka Tea Factory Owners Association (SLTFOA), comprised 174 private tea factories operating within the Southern Province. Utilizing the Morgan table, a sample size of 123 factories was determined. Given the availability of a complete sampling frame, simple random sampling, a probability sampling technique, was employed to ensure a representative sample.

Results and Discussion

Reliability Test Analysis

The reliability test analysis, conducted using Cronbach's Alpha, demonstrated excellent internal consistency across all variables. The independent variables—Increase in Corporate Income Tax (0.942), Implementation of

a Windfall Tax (0.947), and Increase in Value Added Tax (0.962)—each exhibited high reliability. The dependent variable, Factory Operations, also showed strong reliability with a Cronbach's Alpha of 0.900. Overall, the combined reliability of all 21 items was 0.981, confirming the robustness of the measurement instrument.

Table 1

Reliability Analysis Results

Type	Variable	Cronbach's Alpha	No of items	Conclusion
	Increase in corporate income tax	0.942	6	Excellent
Independent variables	Implementation of a windfall tax	0.947	6	Excellent
	Increase in value added tax	0.962	7	Excellent
Dependent variables	Factory operations	0.900	2	Excellent
All questions		0.981	21	Excellent

Descriptive Statistical Analysis Results

The descriptive and inferential statistical analysis results for the study as given below.

Table 2

Descriptive Statistical Analysis Results of Increase in Corporate Income Tax

Increase in corporate income tax						
	Percentage increase in corporate income tax	Net income reduction	Decrease in reinvestment	Employee wages	Prices of products and services	Reduction in capital expenditures
Mean	1.54	1.58	1.54	1.59	1.56	1.58
Mode	1	1	1	1	1	1
SD	0.588	0.660	0.710	0.659	0.663	0.660

The descriptive statistical analysis for the increase in corporate income tax, based on 127 valid responses, indicates a generally low perceived impact across all measured factors. The mean values range from 1.54 to 1.59, suggesting that respondents largely reported minimal effects on net income reduction, reinvestment, employee wages, product and service prices, and capital expenditures. The mode for all variables is one, reinforcing the consistency in responses, with the majority perceiving a low impact. Standard deviations range from 0.588 to 0.710, indicating relatively low variability, which suggests a general consensus among respondents regarding the limited effect of corporate income tax increases on factory operations.

Table 3

Descriptive Statistical Analysis Results of Implementation of a Windfall Tax

Implementation of a windfall tax						
	Percentage of windfall tax applied	Investment patterns	Rise in prices	Company profits	Double taxation	Investor behaviour
Mean	1.61	1.59	1.61	1.57	1.57	1.58
Mode	1	1	1	1	1	1
SD	0.631	0.622	0.680	0.650	0.637	0.623

The descriptive statistical analysis for the implementation of a windfall tax, based on the given variables, indicates a generally low perceived impact across all factors. The mean values range from 1.57 to 1.61, suggesting that respondents largely reported minimal effects on investment patterns, company profits, double taxation, investor behavior, and price increases. The mode for all variables is one, indicating that the majority of responses aligned with the lowest impact category. Standard deviations range from 0.622 to 0.680, reflecting relatively low

variability in responses, suggesting a general consensus that the windfall tax had a limited effect on factory operations.

Table 4

Descriptive Statistical Analysis Results of Increase in Value Added Tax

Increase in value added tax							
	Percentage of VAT increase	Cost of production	Business growth	High poverty	Higher redundancy	High inflation	Business relocation to countries with lower VAT
Mean	1.65	1.61	1.62	1.60	1.63	1.57	1.62
Mode	1	1	1	1	1	1	1
SD	0.749	0.669	0.734	0.716	0.733	0.707	0.723

The descriptive statistical analysis for the increase in Value Added Tax (VAT) shows that respondents perceived a generally low impact across all variables. The mean values range from 1.57 to 1.65, indicating that most participants reported minimal effects on cost of production, business growth, poverty levels, redundancy, inflation, and business relocation. The mode for all variables is one, suggesting that the majority of responses fell within the lowest impact category. Standard deviations range from 0.669 to 0.749, showing relatively low variability in responses, which suggests a consistent perception that VAT increases had a limited effect on private tea factory operations.

Inferential Statistical Analysis Results

Table 5

Inferential Statistical Analysis Results

Independent variable	Pearson correlation	Remark 1	Chi-square	Remark 2	Rank of the factor
Increase in corporate income tax	0.849**	Strong correlation	0.000	Alternative hypothesis accepted	1
Implementation of a windfall tax	0.839**	Strong correlation	0.000	Alternative hypothesis accepted	2
Increase in value added tax	0.741**	Strong correlation	0.000	Alternative hypothesis accepted	3

The Pearson correlation results indicate a strong positive relationship between tax increases and factory operations, with corporate income tax (0.849), windfall tax (0.839), and VAT (0.741) all showing significant correlations at the 0.01 level. The Chi-square test results further confirm this, with p-values of 0.000 for all three variables, leading to the acceptance of the alternative hypothesis. This suggests that increases in corporate income tax, windfall tax, and VAT have a statistically significant impact on the operational aspects of private tea factories. Among the three factors, corporate income tax has the highest impact, followed by windfall tax and VAT.

Ha1: There is a negative relationship between increase in corporate income tax and factory operations of private tea factory owners in the southern region of Sri Lanka.

The findings indicate that an increase in corporate income tax significantly influences factory operations among private tea factory owners in Sri Lanka's southern region, with respondents predominantly agreeing on its effects. The strong Pearson correlation (0.849) confirms this relationship (Schober et al., 2018), and the Chi-square test ($p = 0.000$) supports the alternative hypothesis, demonstrating a substantial association between tax

increases and factory performance. Existing literature supports these findings, as Vržina (2023) and Saurav and Kuo (2020) highlight that high corporate tax rates deter foreign investment and hinder local business productivity. Similarly, Gitonga (2023) notes that Kenya's 30% corporate tax reduces net income, limiting financial growth, a factor reflected in this study with a mean value of 1.58 for net income reduction. Additionally, Rodrigues (2022) and Andriati and Andriatno (2022) emphasize how higher corporate taxes suppress reinvestment, aligning with this study's findings (mean = 1.54). Wage reductions due to tax hikes are also well-documented (Fuest et al., 2018; Wawire, 2020), which is consistent with this study's results (mean = 1.59). Furthermore, rising corporate tax rates lead to increased product prices, passing the burden to consumers (Fuest et al., 2018; Saelim, 2019), a trend confirmed by the study (mean = 1.56). Finally, Jayaweera et al. (2023) and Mukherjee et al. (2016) assert that high corporate taxes reduce capital expenditures and innovation, further reinforcing this study's conclusions (mean = 1.58). Overall, the study confirms that corporate income tax increases negatively impact factory operations, highlighting the need for a balanced fiscal approach to sustain the tea industry (Thasfiha et al., 2020).

Ha2: There is a negative relationship between implementation of a windfall tax and factory operations of private tea factory owners in the southern region of Sri Lanka.

The study found that the implementation of a windfall tax significantly affects the factory operations of private tea factory owners in Sri Lanka's southern region, with strong agreement among respondents. This is evidenced by mean values close to one and standard deviations below one, indicating data consistency. The Pearson correlation coefficient (0.839) demonstrates a strong relationship between the windfall tax and factory operations (Schober et al., 2018). Additionally, the Chi-square test yielded a significant p-value of 0.000, confirming a substantial association between the variables. The findings align with existing literature. Maneely and Ratnovski (2024) discuss how the Czech Republic's 60% windfall tax on bank profits led to increased operating costs, reinforcing the study's conclusions. The research's indicator, "percentage of windfall tax applied", demonstrated consistency with this notion (mean = 1.61, SD = 0.631). Nicolay et al. (2023) highlight that windfall taxes create uncertainty, discouraging future investment, aligning with the study's findings on "investment patterns" (mean = 1.59, SD = 0.622). Further, Freshfields (2022) and Sharma (2024) argue that businesses may pass windfall tax costs onto consumers, raising prices, which the study corroborates (mean = 1.61, SD = 0.680). Tetlow (2022) states that such taxes reduce business capital, hindering investment, supporting the research's indicator "company profits" (mean = 1.57, SD = 0.650). Halasz (2024) notes double taxation concerns, reflected in the study's "double taxation" indicator (mean = 1.57, SD = 0.637). Investor behavior is another critical factor. Treasury of New Zealand (2023) and Baunsgaard and Vernon (2022) suggest windfall taxes create investor uncertainty, leading to withdrawals, which aligns with the research's "investor behavior" indicator (mean = 1.58, SD = 0.623). Overall, the findings support the alternative hypothesis that the windfall tax impacts factory operations, reinforcing conclusions from existing literature.

Ha3: There is a negative relationship between increase in value added tax and factory operations of private tea factory owners in the southern region of Sri Lanka.

The study found that each indicator of the independent variable "increase in value added tax (VAT)" influences the "Factory Operations of Private Tea Factory Owners in the Southern Region of Sri Lanka", with most respondents agreeing. This is indicated by mean values close to one and low standard deviations, suggesting data consistency. The Pearson correlation coefficient of 0.741 signifies a strong correlation between VAT increase and factory operations, aligning with Schober et al. (2018). The Chi-square test further reveals a

significant relationship, supporting the rejection of the null hypothesis (p-value = 0.000), confirming a strong association.

The research aligns with existing literature. Jurušs et al. (2019) highlight that VAT negatively affects labor-intensive businesses, while Chanda (2018) emphasizes the wide-reaching effects of VAT rate changes. The indicator "percentage of VAT increase" showed a mean of 1.65, supporting the assertion that VAT increases influence factory operations. Ghavami et al. (2022) and Obeng (2018) argue that VAT increases production costs, and the research's "cost of production" indicator with a mean of 1.61 reinforces this. Similarly, Kufanga and Mbewe (2024) suggest that higher VAT rates decrease consumer spending, which can hinder business growth, aligning with the "business growth" indicator (mean = 1.62). The study also confirmed the impact of VAT on poverty, with a mean value of 1.60 supporting the notion that VAT increases the risk of poverty, as noted by Kufanga and Mbewe (2024) and Deyshappriya (2018). Further, "higher redundancy" (mean = 1.63) supports Olabiyi et al. (2024) and Schneider and Buehn (2017), who found that VAT increases can lead to higher unemployment rates. The "high inflation" indicator (mean = 1.57) corroborates Galeshkalami et al. (2023) and Cooter and Ulen (2019), who discussed the negative impacts of VAT on inflation and consumer behavior. Additionally, the "business relocation to countries with lower VAT" indicator (mean = 1.62) supports Babu et al. (2020), suggesting that VAT increases can influence investment decisions and relocation.

Conclusion

The study confirms that increases in corporate income tax, the implementation of a windfall tax, and the rise in value added tax (VAT) significantly negative impact the factory operations of private tea factory owners in the Southern Region of Sri Lanka. The findings show strong statistical correlations, reinforcing the negative effects of tax increases on financial performance, investment capacity, wage payments, production costs, and business sustainability. Increased corporate income tax reduces net income and reinvestment, leading to wage reductions and higher product prices. Windfall tax implementation creates financial uncertainty, discouraging investment and causing increased operating costs, with businesses often transferring the burden to consumers. Similarly, VAT increases production costs, decreases business growth, and contributes to higher unemployment and inflation. The results align with existing literature, emphasizing the broader economic consequences of excessive taxation on business operations.

As recommendations the government should consider a more balanced tax approach, reducing excessive corporate tax burdens to enhance business sustainability while maintaining necessary public revenue. This could include tax relief measures or tiered tax structures for small and medium enterprises (SMEs), ensuring that businesses are not disproportionately affected by tax increases. Additionally, implementing targeted tax incentives, such as deductions for reinvestment in modernization and sustainability initiatives, can help tea factory owners mitigate the financial impact of tax increases and improve their competitiveness in the market. To prevent inflationary effects caused by higher taxation, policymakers should explore alternative taxation methods that minimize price hikes on tea products, ensuring the industry's competitiveness in both local and international markets. Further, the government can introduce tax exemptions or subsidies for capital expenditures to encourage investment in innovation, infrastructure upgrades, and workforce expansion within the tea industry. These measures can support long-term business growth and enhance the sector's overall sustainability. A predictable and transparent tax policy framework is essential to reducing investment uncertainty and fostering a stable business environment. Clear and consistent tax policies can help prevent capital flight and factory closures

due to sudden tax hikes. Additionally, tea factory owners should engage in active dialogue with policymakers and industry associations to advocate fair tax policies and reforms. By fostering collaboration among stakeholders, Sri Lanka can develop a tax policy framework that balances revenue generation with economic growth, ensuring that the tea industry remains competitive and sustainable.

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