

Factors Affecting Tax Compliance of Small and Medium-Sized Enterprises in Sri Lanka: Reference to Anuradhapura District

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Abstract

Tax is an important mean of revenue for the government and therefore all efforts must be made by the governments to accurately and efficiently collect relevant taxes for continuing the government's operations. But in reality, many obstacles have been encountered in the application of taxes. Department of Inland Revenue is still struggling to keep efficient and effective tax administration. Small and Medium-size Enterprises (SMEs) considered significant for economic growth and for generating taxable income for a country. But SMEs have less compliance when comparing to large business entities. This study aims to identify the factors that influence tax compliance of SMEs in Sri Lanka, with special reference to the Anuradhapura District. A structured questionnaire was used to collect data from a sample of 107. Obtained data analyzed with statistical techniques of correlation, regression and descriptive statistics using IBM SPSS. The researchers have outlined a detailed literature review to identify the variables for the study as tax rates (TR), tax compliance cost (CC), tax penalties (TP) and tax attitudes (TA) of SME's. The results of the analysis proved that tax rates, tax compliance cost, tax penalties and tax attitudes have strong positive relationships with TC. Furthermore, by an average of both correlation and regression results, TP and TA fully supported and the other two variables (TR, TC) partially supported. Above sixty per cent of tax compliance of SMEs is described by four independent variables of the study. By emphasis on these underlying factors, tax authorities will be able to make necessary changes to the tax administration system in Sri Lanka and help to fill the literature gap. The end result is increasing the government revenues and finally, the government as a whole will be able to provide more improved utilities to the citizens of the country.

Keywords: SMEs, tax attitudes, tax compliance, tax compliance cost, tax penalties, tax rates