Article

Impact of Power, Trust and Business Location on Tax Compliance Behaviour: Small and Medium-sized Entrepreneurs in Sri Lanka

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Abstract

The purpose of this study is to investigate whether the trust in tax authority and power of tax authority influence the tax compliance behaviour of SME entrepreneurs who engage in business activities in urban-rural locations. A quantitative research approach was applied, and a survey questionnaire was distributed among 408 SME taxpayers, who were selected using a simple random sampling method to gather data. The respondent's perception of the questions was measured using a 5-point Likert scale, and SPSS 26.0 was used to analyze the data. The results show that trust and power significantly affect individual tax compliance behaviour in both business locations. The power actions have more influence than the trust environment to increase compliance among SMEs. Also, the SME owners who have their business in urban areas are more likely to respond to tax compliance than those in rural areas. The urban SMEs need high trust in the authority to develop voluntary compliance behaviour, while rural SME entrepreneurs must be forced towards compliance with deterrence actions. The findings will be a significant endeavor for policymakers to improve the tax compliance strategies in Sri Lanka, focusing on SME taxpayers. The research will also help as a source to the scholars researching the same field. The academics should measure the impact of voluntary compliance on the macroeconomic concerns by conducting studies to explore modalities and a road map to attract urban-rural SME taxpayers' contribution towards government efforts. The tax administrators will get an insight into the SME taxpayers' compliance behaviour in different business locations.

Keywords:
power of authority, SME taxpayer compliance, trust in authority, urban-rural business location, voluntary compliance

1. Introduction

Governments settle their financial obligations largely through revenue generated from taxes. As a developing country, Sri Lanka still finds difficulty in achieving tax compliance. There is a need for an effective and efficient tax compliance system to increase government revenue in Sri Lanka as the tax system cannot collect sufficient money to cover desired national targets (CBSL, 2018). The situation became worse during the COVID-19 crisis for all countries in the world and especially the small and medium-sized enterprises (SMEs) were identified as one of the vulnerable groups (IMF, 2021).

The pandemic disturbed business operations by disrupting the ability to deliver products and services to customers. The situation varies according to different business locations, urban and rural, as each place has its demand and supply patterns. The impact of the crisis on entrepreneurs in different locations was not the same. Accordingly, the entrepreneurs' response to business challenges has changed. The reason for the various tax compliance responses maybe because each business setting includes different benefits.

Due to the pandemic, the government budget deficit increased from 9.6 percent in 2019 to 11.1 percent (provisional) in 2020 (The Ministry of Finance, 2020). Tax policy changes can support reviewing tax strategies and reduce the high budget deficit (Okafor et al., 2017). However, for the government, tax is a source of revenue generation, but it is a cost and additional burden to the cash flow of the business owners. SMEs who contributed significantly to the government revenue, were severely affected by the pandemic. SMEs' tax share towards revenue generation held up; instead, different bodies granted financial support to protect the SMEs (ADB, 2020). The tax authority offered short-term reliefs to safeguard them until re-establishment while encouraging them to fulfill tax obligations. Robinson and Kengatharan (2020) noticed that business owners require more government support to strengthen their business activities during the crisis. They identified long-term credit facilities, tax reduction and extensions, and marketing options as immediate solutions for the cash flow problems faced by entrepreneurs. Besides, the government can consider revamping existing tax, and company laws and practices to safeguard SMEs at high risk (Wimalaweera, 2020).

Background of the study

When the taxpayers receive privileges greater than what they pay as tax, they feel contribute more tax to the government (Williams & Franic, 2015). Hanson and Rohlin (2011) believe that receiving tax incentives by taxpayers and distributing of tax privileges by the government varies depending on their business location. The availability of skilled labor, transportation facilities, construction expenses, cost of utilities, and accessibility of infrastructure facilities of highways, seaports, and airports determine the business's success. Besides, the company's location influences customer attraction, recruitment of skilled employees, the gathering of information, gaining services relating to business, and the transport of raw materials. Therefore, the business place is vital for entrepreneurs as it influences many crucial functions like production, marketing, distribution, human resources management, and tax management. Business location is one factor that influences the success of a business and its profit. High profit will increase the total tax liability of the company, which affects the revenue collection.

However, the impact of business location on tax compliance performances has not been given prominence in previous research carried out based in Sri Lanka. The entrepreneurs' willingness to comply with tax obligations is not the same in different business settings. According to Williams (2020), business owners who run their enterprises in urban areas are significantly more compliant than rural ones. The insufficient research results in the literature, the authors attempt to examine the influence of the business location on SME taxpayers' compliance decisions in terms of voluntary and enforced. The primary objectives of this study are (a) to determine the correlations between trust in authority, power of authority, and compliance behaviour among SME taxpayers, and (b) to assess the influence of business location on an entrepreneur's tax compliance decision.

Research problem

The problem to be addressed in the study is whether the business location of SME's influence their tax compliance behavior. The government attempts to rake in money to meet the financing need for urban and rural development. Therefore, reaching full compliance has become the primary concern of policymakers and tax administrators. Ramdhani et al. (2017) found in their study that most taxpayers in rural areas recorded lower compliance than urban entrepreneurs. Further, they notice people's lack of knowledge and understanding about the tax structure and the procedures as one of the reasons for non-compliance in rural settings. People want to know how the government utilizes tax money for their welfare. Williams (2020) attempted to study the tax compliance differences between rural and urban locations and noticed that the availability of infrastructure facilities and other domestic expenses influences individuals' tax obligations in urban or rural areas. Tax administrators' thoughtfulness to design a system that could be applied to taxpayers in urban-rural settings to change their perception of tax obligation will increase the compliance rate. Sulila (2019) highlighted the need for modernization of tax administration, such as strengthening self-assessment and tax socialization, delivering better knowledge and deep awareness to taxpayers about their responsibilities in paying tax in both business settings.

People's failure to pay their due taxes will reduce the state revenue. Government can collect the tax by forcing people or by letting them contribute voluntarily. People need to realize the purpose of collecting tax by the government; then, they tend to abide by the requirements of the government. The taxpayer's faith in the tax authority makes voluntary contributions to the treasury (Adimassu & Jerene, 2016); therefore, it is paramount to build a healthy relationship between the taxpayer and the tax authority. Similarly, Faizal et al. (2017) confirmed that making a solid connection between taxpayers and tax collectors is essential for high tax compliance. Also, the quality of tax administration, fairness of the tax system, and transparency build up people's trust in the tax authority (Adekoya & Akintoye, 2019). The argument asserts that the quality of the relationship between the taxpayer and the tax regime has to be cordial in the process of revenue creation (Gangl et al., 2019). The problem arises whether the compliance behaviours of the entrepreneur doing business in different locations are the same and whether the power of authority and trust in the tax regime influence the compliance decision of taxpayers in various settings. The researchers intend to find answers to the questions: i) what is the response of SMEs in urban-rural business settings towards their decision of tax compliance? and ii) what is the influence of the power of authority and the trust in authority on SME's tax compliance behaviour in each business location?

Since there is no empirical evidence in the literature to provide a conclusive answer to the question of how the business location impact on tax compliance behavior of SME taxpayers, the study will fill this gap. A comparison of urban-rural business location on SMEs tax compliance behaviour has not done in Sri Lanka. Therefore, the study attempts to ascertain the influence of business location relying upon the perception of the SME taxpayers and their compliance behaviour will add new knowledge to the literature.

2. Literature review
Tax compliance of SME taxpayer

Tax compliance behaviour is twofold; voluntary compliance and enforced compliance (Kirchler, 2007). The taxpayer's level of trust in tax authority and the powerful pressures of tax collectors create two different tax compliance cultures called voluntary compliance and enforced compliance (Kirchler,

2007). The voluntary tax compliance can be increased by developing trust between the taxpayer and tax authority, while the enforced tax compliance can be improved by increasing the power of tax authorities (Kirchler et al., 2008). Both compliance behaviours support increasing tax revenue. The compliance behaviour of the SME taxpayers doing business in urban and rural settings has led to declining during the crisis, placing significant financial strain on the government (UN, 2020). The study focuses to understand the association between the business location and an entrepreneur's tax compliance decision.

There are many economic and behavioral factors influencing the taxpayer's compliance behavior. Loo and Ho (2005) explain the tax compliance behavior as the degree of honesty, and sufficient tax knowledge, change the tax compliance pattern of the taxpayers. Palil and Mustapha (2011) note tax compliance is a person's act of filing the tax returns and declaring all taxable income accurately within the stipulated period, without having to wait for follow-up actions from the authority. According to IMF (2015) tax compliance means a degree to which the tax behaviour of taxpayers complies or not with the tax rules in the country. Tax compliance is the outcome of the taxpayer's behaviour in the tax world and this compliance behaviour can be recognized as voluntary or enforced.

However, the primary purpose of taxation is to please rather than penalize people; tax systems should be designed accordingly and not discourage the business community (Abuamria, 2019). Kirchler (2007) explains compliance as taxpayers' willingness to comply with tax laws, declaring the correct income, claiming the proper deductions, relief, and rebates, and paying all taxes on time. Kirchler et al. (2008) noted that tax compliance could happen either voluntarily or enforcing taxpayers. (Kastlunger et al., 2013) confirmed that power of authority creates enforced compliance while trust in authority builds up voluntary tax compliance behaviour.

In Sri Lanka the contribution of SMEs towards the process of revenue generation is not substantial (Inland Revenue, 2018). According to Musimenta et al. (2017), the SME owners' low contribution towards the government coffers due to many reasons such as fewer earnings may not be sufficient to make a significant contribution to the government authority, hence the income tax payable at times is negligible. In addition, Białek-Jaworska (2017) noted that SME entrepreneurs are not keeping proper records of the daily transactions since they mainly deal in cash. Lack of tax knowledge among SMEs also finds difficulties in understanding tax law and tax procedures. Another fact is that the unequal distribution of tax privileges due to locational issues will discourage taxpayers from complying with the system. Therefore, understanding SME taxpayers doing business in various places, compliance behaviours is essential.

Power of authority and enforced compliance

The tax authorities use the power delegated to them and control taxpayers' compliance behaviour. The enforcement power applies penalty and tax audit as tools to increase compliance. There are two types of power; legitimate power and coercive power, which enhance tax compliance either voluntarily or forcefully (Kastlunger et al., 2013). Turner (2005) explaining the legitimate power and coercive power relating to tax compliance and says that the authorities' power in which individuals willingly cooperate is legitimate power and coercive power attempts to rule people who do not obey the law. SMEs are new to tax procedures and practices; therefore, they need time to understand and adjust to the system. The immediate power strategies sometimes may not develop friendly relationships with taxpayers. If SMEs become fearful of the tax system at the beginning, it will increase non-compliance. When taxpayer feels that the power of tax authorities is legitimate, the level of their trust in tax authorities goes up, and they

compel to comply more (Faizal et al., 2017). The power of authority is required to control people and develop a civilized tax culture.

According to Kirchler et al. (2008), the legal power reduces the misconduct of taxpayers, while the coercive power of authority detects and punish unlawful acts, like tax evasion and producing incorrect information. The power of tax authority creates an enforced tax environment where taxpayers live with fear, anger, and stress. In line with this argument (Kirchler, 2019) noted that tax administrators should not depend on an enforcement approach to increase tax compliance. Also, if tax officers intend to apply enforcement tools, they should clearly identify the freeloaders and determine to protect cooperative people (Tisha & Jonathan, 2021).

Trust in authority and voluntary compliance

Taxpayer's trust in the tax regime is another determinant of individual tax compliance behaviour because it encourages people to comply more with tax obligations (Torgler & Schneider, 2007). Pereira and Silva (2020) posit that external rewards, punishment, and internal rewards influence people's dishonest behavior with regards to tax evasion practices. Taxpayers' uncertainty about the tax administration is one reason to increase the non-compliance rate of the country (Murphy et al., 2016). Collecting taxes without any discrimination and spending tax revenues by the government for the country's development build up faith in authority and motivate taxpayers to comply. Besides, Uslaner and Brown (2005) found that inequality is the most vital determinant of trust; therefore, people are more willing to pay tax when they feel that the tax system and tax authority treat them equally. Treating taxpayers with respect and trust will develop a more cooperative tax culture and improve compliance (Murphy & Tyler, 2008).

Accepting taxpayers as honest and believing what they declare in the tax return as correct will improve voluntary compliance (OECD, 2010). Rothstein (2000) highlights respect and accept taxpayers as genuine are the conditions need to be fulfilled to increase trust. Taxpayers need to believe that other taxpayers are paying their fair shares to the state. Tax authorities must ensure that the taxes are invested in the public welfare rather than filling the pockets of tax administrators or other government officials. Abdulsalam et al. (2015) found that both interpersonal trust and institutional trust are essential to ensure cooperation. Voluntary compliance is high when the authorities are trustworthy because no trust between tax collectors and taxpayers leads towards a forced compliance situation. The high fairness in the tax system will increase the trust among SME taxpayers (Prihandini et al., 2019).

In developing countries, tax authorities often show little confidence in taxpayers and use deterrent actions to solve tax non-compliance. According to Kirchler et al. (2008), 'cops and robbers' relationship between taxpayers and the tax administrators damage the trust between both parties. Also, the corruption of the tax officials erodes the trust of the taxpayers and decreases tax compliance (Torgler & Schneider, 2007). SMEs earn revenue with many challenges and when they are asked to contribute to government coffers, they comply but never expect to see the hard-earned money get misused by others. A systematic tax structure supports increase the faith in the government and reduces illegal tax activities. Also, when the government utilizes collected revenue in a transparent and accountable manner, it will improve citizens' trust in the state and increase the tax compliance rate.

The SMEs' lack of tax knowledge about tax-related activities requires strong foundation to buildup tax compliance attitudes among them. When taxpayers do not trust the tax administration and the tax system, it will increase the non-compliance rate, and as a result, the total revenue collection of the state

will reduce (Murphy et al., 2016). The taxpayer's lack of knowledge about tax laws, insufficient business experience, frequency of visiting tax officers negatively influenced voluntary compliance (Lubua, 2014). Therefore, most of the countries around the world work extensively to improve their taxation approaches focusing on voluntary tax compliance systems (Hauptman et al., 2015).

The literature shows that taxpayers doing business in different locations do not contribute to tax obligations in the same way and the entrepreneur's business setting has been identified as a determinant of his compliance decision. The claim has not been tested in the Sri Lankan context; therefore, understanding the influence of urban-rural business locations on business owners' tax compliance behaviour is essential. As less conclusive results have been set out in the empirical literature upon the impact of business place on SME owner's tax obligations in Sri Lanka; the present study tries to fill the existing gap in the current empirical literature. The researchers further examine how the compliance decision of entrepreneurs varies between voluntary and enforced compliance based on the business setting.

Conceptual framework

The framework shown in Figure 1 assumes that the taxpayer's business location controls their tax compliance behaviour. The power of authority and trust in authority are independent variables, while SME's tax compliance behaviour is fixed as the dependent variable. The business settings are categorized as urban and rural in the study. Besides, the researchers attempted to understand how the power of authority and trust in tax regimes tend to decide taxpayer's compliance behaviours in each location. The hypotheses were developed to examine the relationship between the variables considered as below.

H_1: *There is a relationship between the power of authority and SMEs' compliance behaviour*

H_2: *There is a relationship between trust in authority and SMEs' compliance behaviour*

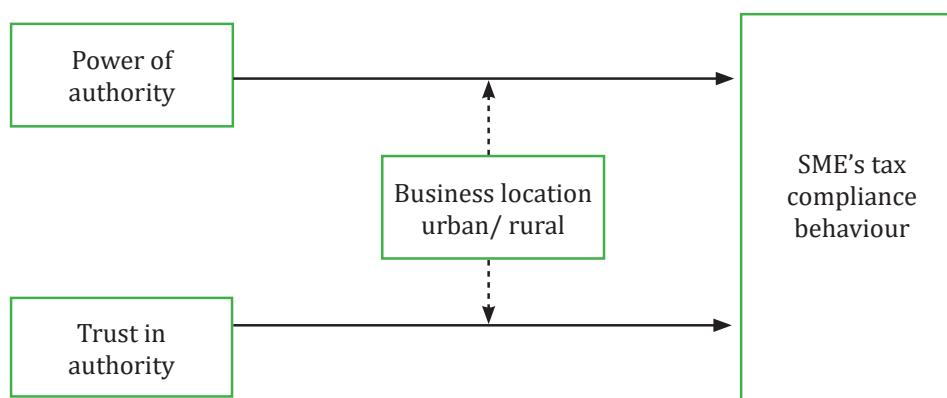H_3: *Business location has an influence on SME taxpayer's compliance decision*

Figure 1: Conceptual framework

3.Methodology
Sampling

The study has a population of 32,117 SME taxpayers registered at Inland Revenue as of December 31, 2019. The sample size was decided as maximum 400 cases according to Yamane (1967) formula and the sample was selected using the simple random sampling technique. However, the researchers decided

to post five hundred (500) survey forms expecting at least 400 responses. The SME business owners were divided according to their businesses, such as agriculture, service, manufacturing, trading, and construction. The composition of the sample is shown in Table 1.

Table 1: Sample composition of the study

Description	Number of taxpayers	Sample for the study
Agriculture	302	5
Services	20,020	312
Manufacturing	2,340	36
Trading	7,749	120
Construction	1,706	27
Total	**32,117**	**500**

Source: Developed by the researchers

Analysis of survey response

The mail survey response rate of SME owners is given below. The researcher collected data from 408 SME business owners (respondents) for the study. As shown in Table 2, the response rate of the survey study was 82%.

Table 2: Mail survey response rate of SME owners

Particulars	Quantity
Number of questionnaires mailed	500
Undelivered questionnaires	(68)
Returned due to no business operation	(13)
Incomplete responses to the questionnaire	(2)
Reluctant to respond	(9)
Number of completed responses received	408
Mail survey response rate	**82%**

Source: Developed by the researchers

The survey questionnaire consists of twenty-six (26) questions, was posted each taxpayer based on their language preference i.e., Sinhala, Tamil, and English. The researchers gathered data for the study from 408 responses. The quantitative research approach utilized in this study and the SPSS 26 version used to measure the statistical significance of the variables.

Participation in the survey was voluntary and assured that their answers would be kept confidential. The survey questionnaire was divided into two parts: section A of the survey was on the demographic characteristics of the respondents, while section B of the study was developed to test the research variables. The demographic background of survey respondents is shown in Table 3. The respondents' perceptions for the questions were measured using a 5-point Likert scale, in which the level of agreement spread from 1=strongly disagree to 5=strongly agree.

Table 3: Demographic profile of the respondents

Description	Details	Frequency (N= 408)	%
Age	Below 30 years	72	18
	31-40 years	100	24
	41-50 years	117	29
	51-60 years	94	23
	Above 61 years	25	6
Gender	Male	218	53
	Female	190	47
Marital status	Married	280	69
	Single	115	28
	Divorced/Widowed	13	3
Ethnicity	Sinhala	247	61
	Tamil	103	25
	Moor	52	13
	Other	6	1
Religion	Buddhist	228	56
	Hindus	89	22
	Muslims	52	12
	Christians	39	10
Level of education	Ordinary level	12	3
	Advanced level	63	15
	Certificate level	140	34
	Diploma level	149	37
	Degree level	44	11
Annual level of income (Rs. Million)	< 100	143	35
	100-250	203	50
	250-500	55	13
	500-750	7	2
Business nature	Agriculture	1	-
	Manufacturing	20	5
	Construction	13	3
	Service	276	68
	Trading	98	24
Business location	Urban	245	60
	Rural	163	40
Years in business operation	0 to 5 years	133	32
	6 to 10 years	105	26
	11 to 15 years	80	20
	16 to 20 years	73	18
	More than 20 years	17	4

Source: Developed by the researchers

Data validity and reliability

The construct reliability was measured using the Cronbach's Alpha value. When the Cronbach's Alpha values are recorded as more than 0.7 the reliability is very good with internal consistency (Hair et al., 2014). The reliability test shows that all three variables, which consists of 16 items in total, have a Cronbach's Alpha of more than 0.7, (Trust=0.786, Power=0.812, and Tax compliance=0.856), which means all 16 items in the questionnaire are acceptable and reliable. The factor analysis confirmed the appropriateness of these group of data sets with the Kaiser-Meyer-Olkin measure of sampling adequacy value of 0.937 ($\rho<0.001$ Bartlett's test of sphericity).

Data analysis

The data collected through a survey questionnaire and measured the statistical significance of the variables to explore the variations of the tax compliance behaviour of SME entrepreneurs. Descriptive data, comparative data and relationship data were used to quantify the different perceptions of the target group towards SMEs tax compliance behaviour.

Table 4: Correlation of independent and dependent variables

Variable		Tax compliance	Power	Trust
Tax compliance	Pearson correlation		0.705	0.646
	Sig. (1-tailed)		0.000	0.000
	N		408	408
Power	Pearson correlation	0.705		0.680
	Sig. (1-tailed)	0.000		0.000
	N	408		408
Trust	Pearson correlation	0.646	0.680	
	Sig. (1-tailed)	0.000	0.000	
	N	408	408	

Souce: Authors' calculations
SPSS output

Hypothesis (H_1) predicted the relationship between power of authority and tax compliance. Data in Table 4 illustrates that the relationship is positive and statistically significant (r=0.705, $\rho<0.01$). The results confirmed that the power of authority significantly influence on the tax compliance behaviour of SME taxpayers (Haning et al., 2019).

Hypothesis (H_2) predicted the relationship between trust in authority and SMEs' tax compliance. Table 4 shows that the association is positive and statistically significant (r=0.646, $\rho<0.01$). The result is in line with the finding of the previous research that established an association of taxpayer's trust and tax compliance (Faizal et al., 2017).

Regression analysis

The study employs ordinal logistic regression analysis in conjunction with polychotomous universal model to describe the relationship between an ordered categorical response variable and explanatory variables.

Table 5: Regression results for business location

Model fitting information				
Model	-2 Log likelihood	Chi-square	df	Significance
Intercept only	550.424			
Final	528.931	21.493	3	0.000
Goodness-of-fit				
		Chi-square	df	Sig
Pearson		456.939	447	0.362
Deviance		359.365	447	0.999
Pseudo R-square				
Cox and Snell	0.051			
Nagelkerke	0.055			
McFaggen	0.019			

Source: Authors' calculations
SPSS output

The model fitting information illustrated in Table 5, determines whether the model improves the ability to predict the outcome, it is compared without any explanatory variables (the baseline or 'Intercept Only' model) against the model with all the explanatory variables (the business location coded as location 1=Urban). According to Table 5, the -2 log-likelihood (-2LL) values for the baseline (550.424) and the final model (528.931), and SPSS performs a chi-square to test whether there is a significant improvement in fit of the final model over the null model [$\chi^2(3)=21.493$, $\rho<0.01$]. The significance of Chi-square statistic ($\rho<0.05$) indicates that the final model gives a significant improvement over the baseline intercept-only model. Hence, the model gives better predictions than on the marginal probabilities for the outcome categories.

Also, Table 5 shows the output of the Goodness-of-Fit of the model. The statistics contain Pearson's Chi-square statistic for the model as well as another Chi-square statistic based on the Deviance. The statistics are intended to test whether the observed data are consistent with the fitted model. Insignificance of the tests confirms that the model fits the data well. Therefore, if $\rho <0.05$, then the model does not fit the data well. Accordingly, the results for the analysis ($\rho>0.05$) suggest that the model fit to the data very well ($\rho=0.05<0.362$ and $\rho=0.05<0.999$).

The Pseudo R^2 values reported in Table 5 are treated as rough analogues to OLS R^2 values but that depends upon the nature of the outcome and the explanatory variables. The Pseudo R^2 values (e.g., Nagelkerke=5%) might indicates that business location of SME owner explains a variation between trust in authority, power of authority and tax compliance behaviour, however there is no strong guidance in the literature on the critical values or how these values should be used for the interpretation (Osborne, 2012; Pituch & Stevens, 2015). Hence, Pseudo R^2 values should be interpreted with caution. When the contextuality of this lower contribution is considered, it can be connected to theoretical also sector specific determinants of tax compliance.

Compared to the main determinants of tax compliance, the model contribution of the variable rural/urban is least but important in terms of policy perspective. Further, the urban and rural locations have its own advantages and disadvantages from the SME business owner's perspective, that finally decide the tax obligation of an individual.

Table 6: Parameter estimates for business location

Variable	Estimate	Std.error	Wald	df	Sig.	95% Confidence interval	
						Lower bound	Upper bound
Power	1.140	0.251	20.651	1	0.000	0.649	1.632
Trust	-0.047	0.331	0.020	1	0.886	-0.697	0.602
Urban	1.100	0.267	4.120	1	0.022	0.266	0.466
Rural	0[a]			0			

Link function: Logit
a.This parameter is set to zero because it is redundant
Source: Authors' calculations

The parameter estimates shown in the Table 6 is the core of the output. The estimates explain about the relationship between the explanatory variables and the outcome. The parameter estimates record a statistically insignificant result for trust (ρ = 0.89). The variable urban (β=1.1; ρ=0.022) is statistically significant at 5% level of significance. Further, standard error of the estimate is quite lower than the coefficient value and Wald value exceeds 2 (Field, 2012). Furthermore, confidence intervals did not cross zero confirming that the design variable Urban is significant. The positive sign of the coefficient indicates that compared to rural settings, the SMEs locate in urban areas are more likely to pay taxes. The value of the power coefficient is positive (1.14), which suggests that as power increases the tax compliance will increase. In addition, when SME owners have their business in urban areas are more likely to responded towards tax compliance than those who has business in rural areas. The hypothesis posts as (H_3): Being in an urban business location positively impact on SME owner's tax compliance is accepted. This result is novel and significant because literature is yet to be filled on the impact of business location on tax compliance behaviour.

4. Results and discussion

The results show that trust in authority and power of tax administration significantly affect individual tax compliance behaviour in both business locations. According to data, the power actions are more influential than the trust approaches in increasing compliance among SMEs in Sri Lanka. The reasons could be mainly because of the fear of the tax laws governing the taxpayer. Business owners do not want to get labeled as 'dishonest taxpayers' in the industry. Especially when applying for bank loans, bidding for tenders, or seeking investors, the business reputation is essential.

Another point is that getting spread news about taxpayers' misconduct in an urban area is faster than in rural areas. Hence, SME owners in urban settings comply with the tax system and attempt to protect their good name and image in the industry. Also, the SMEs' lack of tax knowledge limits their understanding and attending tax issues, forcing them to hire professionals to maintain accounts and audits (Al-Ttaffi et al., 2020). Another fact is that the business community does not attempt to violate tax obligations as the consequences will harm their reputation and resources: money and time; therefore, they obey tax law.

Another significant finding is that SME taxpayers are more thoughtful towards their trust with the tax system and the administrators. People need to see how the government utilizes their tax money and

what privileges they will receive in return. The taxpayer's faith in the authority could be developed by introducing a taxpayer-friendly environment and improving the tax procedures' fairness, transparency, and accountability (Adekoya & Akintoye, 2019). However, the difficulties in rural areas to access resources and facilities to settle unclear tax issues and enhance tax knowledge discourage SME owners from complying with tax law. Besides, the tax expertise in rural areas is less reachable than in urban locations, leading to the reluctance with rural tax obligations (Gangl et al., 2015). Also, the SMEs' justification for what they receive in return for their tax money impacts their compliance decision (Saad, 2012). People expect infrastructure development, protection by the law, a proper sanitation scheme, an effective garbage collection system, and rural and urban road development projects that directly impact business tax returns.

Another finding is that SME owners who have their business in urban areas are more likely to respond to tax compliance than those in rural areas. Availability of ax information is one of the most significant drivers of tax compliance (Vincent, 2021). The researchers confirm when taxpayers receive more awareness, they tend to contribute more tax to the government (Omondi & Theuri, 2019). SME owners locate their business in urban areas, they get more information about infrastructure facilities to develop and expand their industry. In addition, they receive more benefits than rural taxpayers like free roads, garbage facilities, streetlights, caring for security and health, etc. To run their business for the money they paid to the government, they motivate to pay tax.

5. Conclusions and recommendations

The study aims to determine the influence of business location on SME's tax compliance behavior. The findings confirm that business location is vital in SME tax compliance behaviour. The urban SMEs' compliance attitude is higher than the rural taxpayers. Also, the research findings indicate that taxpayers' confidence in the tax authority and the power used by the tax administrators to collect tax contribute towards increasing the volume of total revenue simultaneously. Improving tax literacy and awareness among the business community in rural settings will support building up voluntary compliance behaviour. Besides, maintaining a solid relationship between taxpayers and tax administrators while visualizing the effective use of people's tax money will help increase the voluntary compliance index among SME taxpayers who do business in urban locations.

The study findings will be a significant endeavor for policymakers to improve the tax compliance approaches in Sri Lanka, focusing on SME taxpayers. The government should present an accountable and transparent utilization of people's tax money while introducing more benefits to businesses in rural areas. Promoting better tax culture in rural SMEs and improving tax knowledge among rural SME entrepreneurs will increase government revenue. The results will also help serve as sources for scholars researching the same field. The academics should measure the determinants of voluntary compliance in urban-rural SME taxpayers. Besides, the tax administrators will get an insight into the SME taxpayers' compliance behaviour in different business locations that will help them handle taxpayers with various mindsets.

The limitation found in the study is the analysis based on self-reports. The respondents may not have declared the truth regarding their tax compliance behaviour and perception, as taxpayers are aware that non-compliance is illegal. Further, the respondents may not have answered the questionnaire independently due to their busy schedules and lack of experience. They may have got assistance from an unidentified person, which might reduce the quality of the perception. Another limitation is the study mainly focused on the segment of SME taxpayers; the other taxpayers, large corporate taxpayers,

and individual/sole proprietor taxpayers are not considered. Further research could consider covering the above limitations. Also, conducting a mixed-method study for the same topic will give more insight.

The researchers suggest improving SME taxpayers' trust in tax authority in urban-rural settings to increase tax compliance. Also, it is needed to introduce more awareness programs to enhance taxpayer's tax literacy in rural areas while improving infrastructure facilities to attract them toward the system. More focus is required to develop a voluntary compliance environment while enforced approaches apply to non-comply SME business owners in both urban and rural settings.

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Conflicts of interest:

The authors declare no conflict of interest.

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