

Article

Strengthening Trust of Entrepreneurs of Medium-Sized Enterprises in Tax Administration – Evidence from Sri Lanka

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Abstract

This study examines the effectiveness of tax compliance strategies on building trust in the tax administration. We applied a qualitative research approach by collecting data through in-depth interviews with 15 entrepreneurs of medium-sized enterprises, doing business in the Colombo district, Sri Lanka and five experts in the tax field. We collected the data in 2020 and analyzed it using theme deduction through manual coding as a method. We defined trust by five indicators: trust in fiscal incentives, online support services, tax law, utilization of tax money, and awareness about the tax system. Our results suggest that the government must raise taxpayers' awareness of the tax system in order to build trust. Further, the government must utilize tax money transparently, accountably, and effectively and must improve legal procedures and online support services to meet the needs of entrepreneurs to strengthen taxpayers' trust. Additionally, our research points out the importance of developing taxpayers' trust in the government to strengthen voluntary tax compliance, even beyond the pandemic.

Key words: medium-sized entrepreneurs, post-pandemic, tax compliance, theme deduction, trust-building

1. Introduction

The COVID-19 pandemic creates economic hardship for people across the globe. It changes the pattern of economic and social activities and in some cases even leads to a

halt of these. Most of the businesses and individuals are disproportionately affected by sudden lockdowns, travel restrictions, and rules regarding home-office. The economic downturn during the crisis pushes tax administrators to collect more revenue supporting the government to protect people's health by providing various relief and recover packages to the most vulnerable groups.

In addition, entrepreneurs demand business-friendly fiscal and monetary packages to support their business activities during the pandemic. Even though, business owners are aware of the tax obligations and the consequences of non-compliance, they expect tax reliefs due to the sudden disruptions. To protect taxpayers while balancing their budget deficit, the government of Sri Lanka immediately adopted short run and long run fiscal measures. However, these measures, such as extensions of tax filing and tax payment deadlines, tax exemptions, penalty concessions, and tax waivers, could negatively affect government funding in the long run. While government revenues decreased by 8.7 percent due to the economic shrink, the higher demand for health and social and economic support during the pandemic caused the government expenditures to increase by 21 percent in 2021. Sri Lanka's budget deficit increased by 12.2 per cent of GDP in 2021 (CBSL, 2021).

The COVID-19 pandemic significantly hit the growth of business activities, including medium-sized entrepreneurs. The severely affected medium-sized business owners face serious liquidity problems due to lower business activity and therefore need more support, both economically and socially (Robinson & Kengatharan, 2020). Wimalaweera (2020) suggests considering reforming existing laws and practices to protect medium-sized enterprises. Among the critical challenges for medium enterprises during the lockdown the reduction of the demand for orders, difficulty in paying salaries and maintaining daily business operations, and less sales due to the shutdown and limited number of working hours (ADB, 2021) were significant. Another important reason was the lack of awareness of entrepreneurs about the availability of the government support systems, which should provide alternatives to solve business problems (ADB, 2021).

According to Belitski et al. (2021), the pandemic shock affects medium and small business more than large business. Therefore, medium-sized business owners seek extra financial support from the government and related state institutions (e.g. Labor Department and Inland Revenue Department) in order to continue their business. Dom et al. (2022) emphasize that an innovative tax compliance culture will create greater compliance and therefore higher tax revenue during the pandemic. Ensuring tax compliance is essential to overcome the present and future financial challenges created by the pandemic. Ogunmakin and Owoniya (2022) concluded from their

survey that the COVID-19 pandemic has substantial negative effects on tax compliance among southwestern states in Nigeria. Palupi and Putri (2021) conducted a study to understand the impact of different tax compliance strategies introduced by the governments during the pandemic. Their results show no effect of tax incentives on compliance. In addition, the authors summarized the literature and concluded that the relationship between tax incentives and tax compliance is ambiguous.

Another factor worth mentioning is that entrepreneurs became not only vulnerable but also desperate during the pandemic. They faced obstacles such as operational disruptions and supply chain delays. Since medium-sized entrepreneurs heavily rely on the velocity of money, an unprecedented economic fall disturbs their company's cash inflow. The government and the tax administration should get this opportunity to develop trust relationship with entrepreneurs and encourage them to abide with the tax system.

The provision of tax incentives can reduce the burden of business expenses and keep taxpayers more comfortable enabling them to survive during the crisis. Further, it can help business owners to remain in the industry and pay back their fair share to the country. Besides, conducting awareness workshops and educational programs provide insights about tax relaxations and understanding about the benefits of tax incentives to the taxpayers. At the same time it strengthens the public trust in the tax administration (Palupi & Putri, 2021). Providing taxpayer-friendly online services may motivate medium-sized business owners to register as taxpayers and file their tax returns.

There is no empirical evidence in the literature to provide a conclusive answer to how taxpayers' trust in tax administration and procedures can be improved after the pandemic by revising the existing compliance approaches. This study attempts to fill that gap by pursuing the following objectives:

- Examining the influence of medium-sized business owners trust in tax administration and the procedures on their tax compliance behavior
- Studying the potential tax policy changes that could enhance taxpayer's trust in tax administration, to improve the compliance after the pandemic
- Offering constructive comments and recommendations to tax policymakers and tax administration

We collected thoughts and ideas about future tax strategies by conducting in-depth interviews with entrepreneurs and experts in the tax field. Our aim was to find out, how to strengthen trust in tax administration after the pandemic by reshaping the current

tax approaches, particularly with respect to medium-sized businesses. This study contributes to the existing literature about enhancement of trust in tax administrations after the pandemic.

Literature review

Pre-pandemic tax compliance behavior

Sri Lanka, as a developing country, faces financial challenges with a high budget deficit created during the pandemic. The drop in real GDP by 16.3 percent in 2020 (CBSL, 2020) and the continuous economic decline (IMF, 2021) weakened the revenue collection. The World Bank (2021) projects that tax revenues in Sri Lanka will remain low in 2022 and 2023. Even before the pandemic, the high trade deficit of 9.5 per cent of GDP and a current account deficit of 2.2 per cent of GDP in 2019 drove the government to the introduction of alternative fiscal policy measures to control the economic challenges. One example for these measures are import which turned out to be effective (CBSL, 2020).

As Weerasinghe (2022) posits, the additional expenditures related to the Easter Sunday attack and the high costs for presidential elections in November 2019 were the main reasons for the increase of the fiscal deficit in 2019. In addition, he notices tax cuts and exemptions, as well as a significant reduction in tax rates soon after the Presidential election. These measures lead to remarkably low levels in tax revenue in 2020 and further in 2021. On the other hand, taxpayers were not satisfied with the government's utilization of tax revenue on the economic support projects during the pandemic. The burden of expenses related to COVID-19 should have been carried by the larger taxpayers to reduce income inequality. Instead, the fiscal pressure shifted to poor people widening income gap in the country.

According to Dom et al. (2022), the government should be able to answer clearly how well they spend taxpayers money, if the taxpayers feel treated fairly by the tax administration, how well tax laws and amendments to the legislation are communicated, and whether overall the tax system is fair. Trust in tax administration and the government will create a positive interaction climate between taxpayers and tax collectors (Kastlunger et al., 2013). However, developing and strengthening taxpayers' trust, who are suffering economic shocks due to Covid-19, requires enormous effort and effective strategies. The pandemic opens doors for the tax administration and the government to develop trust and a synergistic interaction climate between the authorities and taxpayers.

Tax compliance can be differentiated into voluntary compliance and enforced compliance. Enforced tax compliance is more costly than voluntary compliance because of the expenditures for audits. When people comply with tax obligations without tax administration's involvement, it will support the government to save costs. Supporting this argument, van Dijke et al. (2019) assert that tax administration can enhance voluntary tax compliance if tax policies and laws are implemented according to the taxpayers views and wishes. Taxpayer commitment is another important fact to increase compliance during the pandemic (Mangoting et al., 2021). Trustful relationships motivate taxpayers to comply with the tax system. The extent to which tax administration can control and balance the power of authority and trust in authority regarding tax procedures during the COVID-19 pandemic show as tax compliance (Kirchler, 2007; Kirchler et al., 2008).

The key role of trust in strengthening tax compliance

Taxpayers' trust is a crucial topic in tax research. Trust could be increased by ensuring fairness, equity, reciprocity, and accountability to the tax system. Low trust of taxpayers in the tax procedures and the tax system challenges the willingness to cooperate and comply. Therefore, tax administrations and the government should consider effective holistic compliance approaches to raise funds in order to develop the country (Dom et al., 2022). Since the consequences of the pandemic limit the financial possibilities of entrepreneurs, they could be tempted to ignore their tax obligations. Therefore, to increase and stabilize compliance policymakers must take prudent measures to ensure that taxpayers are not further diverted from paying their fair share.

Trust is an essential determinant to increase tax compliance (Bornman, 2015). Through trust in the tax administration, taxpayers tend to contribute their fair share rather than evading taxes. One of the key elements to develop such a climate of trust is the respectful and friendly interaction between tax administration and taxpayers (Gangl et al., 2014). Several authors have also addressed the effects of trust on tax compliance with respect to the COVID pandemic. According to Mangoting et al. (2021), trust remains a key determinant influencing both the economic and psychological responses of taxpayers' compliance decisions. Further, Alm et al. (2020) emphasized that improving trust between tax collectors and taxpayers will increase tax compliance in the post-COVID era.

A transparent and fair tax system can encourage people to comply voluntarily (De Silva & Mudalige, 2019). Developing a clear understanding of the utilization of tax money on government services provided to the public will affect taxpayers' willingness to

contribute their fair share to the nation's development. When entrepreneurs understand that their tax contribution flows in the right direction and benefits those in need and the country in general, it will motivate them to comply with tax obligations voluntarily. Policymakers and tax administrators have recognized that, to meet the sudden need for government expenditures, disincentives like high tax rates, unbearable penalties, and endless audits are counterproductive. Therefore, they need to revise the current tax approaches to encourage medium-sized enterprises to abide by the law while building mutual trust.

Measures taken by the government and tax administration

The government and tax administrators understood the problems that entrepreneurs face due to the pandemic, and therefore were looking to strengthen voluntary compliance approaches to increase tax revenues (Dissanayake & Kirchler, 2021). One approach was to offer more efficient online support services. This happened in response to the shift of society towards the virtual world during the pandemic, where new practices, such as e-commerce and working from home, became popular among entrepreneurs. Addressing the changing needs during the pandemic, the tax administration offered online services that allowed taxpayers to register or change their profile status. These services included picking up clearance certificates, filing documents and tax returns, and making tax payments. Another approach by the tax administration was to improve tax knowledge, by holding online-courses. More tax knowledge could raise awareness about the tax system and hence, help seeing the benefits of it. In addition, granting tax exemptions for COVID-19 related medical equipment, introducing the provision of healthcare facilities and community awareness programs, extending payment and return submission deadlines for taxpayers, and tax exemptions and reliefs on health imports and service-related businesses were fiscal policy measures taken by the government to protect and uplift taxpaying entrepreneurs. Furthermore, the temporary suspension of recovering default tax supported taxpayers to remain in the tax system until the pandemic will settle.

It can be expected that these measures will increase trust in the tax administration and thus voluntary tax compliance. We assume that developing trust will increase the positive relationship between taxpayers and the tax administration, which will lead to higher tax compliance. However, developing trust is not an easy task. Our study evaluates the effectiveness of the government's current measures and suggests improvements. From this, targeted measures can be derived to strengthen trust in the tax administration.

Research context

In the present study, we draw on in-depth interviews with medium-sized entrepreneurs and focus group discussions with tax experts to provide insight into their thoughts about the tax policy during the pandemic. Furthermore, we actively asked for possible solutions for the time after the pandemic – how the tax system needs to change to strengthen trust in the tax administration and therefore increase tax compliance. We collected data on trust by focusing on five indicators, taken from Mangoting et al. (2021):

- Taxpayer's trust in fiscal incentives during the pandemic (Karen, 2017).
- Reliability of the online notices and support services during lock down period (OECD, 2020).
- Taxpayer's ability to understand the amendments to tax law and the degree of their trust in terms of application (Karen, 2017).
- Taxpayer's trust in the government's utilization of tax money in social and economic support projects (Dom et al., 2022).
- Taxpayer's awareness about tax compliance and the obligation as a citizen during the pandemic (Noviyanti & Azam, 2021).

We assume that the trust of entrepreneurs of medium-sized businesses in the current tax system is insufficient and therefore, policymakers should redesign their strategies for the time after the pandemic. Following the goals of qualitative research, we did not formulate specific hypotheses, but rather two broad research questions.

Research question 1: How does taxpayers' experience of trust in tax administration influence their compliance decisions after the pandemic?

Research question 2: How can taxpayers' trust in tax administration be strengthened after the pandemic?

Methodology

We applied an exploratory qualitative approach to investigate how taxpayers experience the current tax compliance strategies and which approaches potentially increase compliance and trust in the tax administration. We preferred a qualitative approach to a quantitative approach for two main reasons. First, building trust-relationships with taxpayers is relatively new in the context of Sri Lanka; hence, there is a lack of empirical data. Second, a qualitative approach, through the use of interactive conversation and open-ended questions, enables researchers to better understand different forms of behavior, experiences, and hidden ideas (Lee & Renzetti, 1990; Lee, 1993).

Sample

We considered medium-sized taxpayers registered at Inland Revenue and doing business in the Colombo district (see Appendix A). Accordingly, we selected 104 taxpayers who expressed consent to participate in the study. After the 12th interview, we could not generate new themes from the interviews. Therefore, data collection reached its saturation point (Saunders et al., 2017; Mocănașu, 2020). However, we continued data collection for three more interviews to ensure that no new themes will emerge.

The participants represent different business fields such as service, manufacturing, construction, and trade. The sample consisted of 40% female and 60% male respondents. Most respondents were aged 30 and over (86.7%). Many of the respondents' business nature related to services (40%), while the rest of them were involved in manufacturing, construction, and trade. The sample includes seven (46.7%) entrepreneurs with a diploma and four (26.7%) who graduated, while four (26.7%) of the respondents preferred not to answer this question. The annual income of two participants was below 500 Million LKR, four indicated to earn between 500 and 1,000 Million LKR, six respondents indicated more than 1,000 Million LKR, and three preferred not to respond. (see Appendix B).

Further, we selected a sample of five key informants (KIs) holding different roles in the tax field, using the criterion sampling method. Two of them were female and three were male. The KIs consisted of a tax official, a tax policy maker, an academic, a tax auditor, and an accountant. The age of the KIs ranged between 47 and 55 years. Their work experience ranged from 15 to 21 years and all of them had a diploma, at least (see Appendix C).

Data collection and analysis

Data collection took place from October to December 2020. We conducted one-to-one interviews with medium-sized entrepreneurs and the focus group interview with the five KIs. They were explained the purpose of the study and the nature of the interview before obtaining their consent to participate. Considering the language preference of the participants, we conducted the interviews in Sinhala or English, and translated the Sinhala interviews into English. To ensure anonymity in the evaluation, we assigned fifteen entrepreneurs a number from P1-P15 and five KIs from K1-K5 (for demographics, see Appendix B & C).

To survey the trust indicators developed by Mangoting et al. (2021), we asked participants open-ended questions during the interviews on trust in fiscal incentives,

online support services, tax law, and utilization of tax money, and awareness of the tax system (see Appendix D). The interview time span varied between 60-120 minutes (see Appendix E). We analyzed the data using the process of theme deduction through manual coding. This process includes six steps that are vital in analyzing interview transcripts: transcription, organizing the data, coding, deducing categories, identifying common themes, and maintaining a reflective journal (Manyam & Panjwani, 2019).

We applied methodological triangulation to avoid potential biases that could arise by just using a single methodology in our analysis (Tashakkori & Teddle, 2003). Our first methodology was to analyze the data using coding schemes. For this, we first read the findings several times and took notes of initial thoughts. The second step was to code the data into categories according to the five indicators of strengthening tax compliance by Mangoting et al. (2021). Then, we compared the codes and summarized related codes into broader themes (see Appendix F). As a further method, we developed a thematic analysis map to illustrate the main- and sub-themes and their relationships (Figure 1).

Results

The results presented in the following section show that business owners' trust in the tax system is necessary to strengthen compliance after the pandemic. In the first step, we analyze the interview data, and in the second step the data of focus groups, using coding schemes for both. Each paragraph will report one of the five indicators of strengthening tax compliance. Further, we present the results of the thematic analysis map.

Results of the interviews

Regarding the indicator trust in financial incentives, participants reported that entrepreneurs lack knowledge about incentives (P4), which prevents the desired effect of those - attracting entrepreneurs to the tax system. Further, participants noticed that the incentives are not equally distributed (P1). According to P3, entrepreneurs' unclear understanding about the intention of incentives limits their faith in the tax administration. Therefore, the objective and the application of the incentives should be clearly documented and communicated from top to bottom before implementation.

In relation to taxpayers' trust in online support services, our data indicate that online support services are sometimes hard to understand and not user friendly. This in part is because some entrepreneurs find it difficult to deal with information technologies. Also, for those, additional costs for consulting services arise.

One participant said that *“...if the support services are easily accessible and understandable, we will be motivated to comply with tax obligations”* (P8). Another factor is the lack of availability of technical infrastructure so that the business owners need to find additional assistance at higher prices, which finally add cost to the income (P12). The expert knowledge in computer literacy and technical expertise are unequally distributed among the business community. This detains some business owners from online support services (P2). More free training and awareness will support the access to online facilities.

Concerning taxpayers' ability to understand the amendments to tax law and the degree of their trust in terms of application it, one of the entrepreneurs stated, *“... the frequent amendments (of the tax law) create a lack of confidence in the system”* (P11). On the other hand, a reliable and non-discriminative law could help building a good relationship with the tax system. Most participants reported the need for more simplicity in order to enhance trust in the tax law. As P6 mentioned *“...in terms of the meaning, we find contradictions between the Sinhala and English Acts (...) even with in the same language sometimes we struggle to come to conclusion with interpretations and definitions (...)so we hire consultants at high cost seeking advice (...) we write different people to verify the terminologies (technical words) and pay for third-party bodies ...”*. Another participant stated that legal rules and procedures are very important to develop a civilized tax culture and *“...a clear and straight forward lax law will attract taxpayers to the system”* (P13).

For some entrepreneurs, tax is a very confusing and unfamiliar subject they do not know much about. For some *“...it is not clear for us why the government collect such a huge tax money from us and how they spend that money for the development of the country...”* (P5). Participants claim that if entrepreneurs could clearly understand the purpose of collecting taxes, they would comply more. According to (P14), *“... business owners should be educated about not only survive in the industry but also other responsibilities relating to business like auditing, accounting and tax commitments ...”* Another view is that, *“...good understanding about the benefits of tax compliance and the consequences of non-compliance will help to build positive tax compliance culture in the country ...”* (P8). Therefore, the participants are of the view that tax awareness is a key tool to communicate and create taxpayers' faith in the system during the pandemic.

Regarding trust in the utilization of tax money, participants emphasized that the government must clearly show what they do with the money *“... providing health services, conducting COVID-19 awareness programs, and distributing dry rations to deserving people would be ways to show sensible usage of people's hard earning*

money ...” (P6). Participants further added that the circumstances of the pandemic are a good way to build trust in the tax system when people see that tax money is put to good use.

Results of the focus groups

Regarding the indicator trust in financial incentives, participants in the focus groups reported that *“The purpose of giving tax incentives to taxpayers should be properly communicated, so that, it encourages taxpayers’ compliance”* (K2). The experts also stated that the taxpayers are not certain about the fiscal incentives, which compliments the entrepreneurs’ statement that they lack knowledge about the incentives. For example, *“...incentives are not properly explained so that sometimes we don’t know whether we are eligible to claim such reliefs ...”* (K4). Further, *“frequent tax policy changes limit taxpayers’ level of adaption to the system”*(K1).

Concerning the online support services, the experts focused more on the quality of the service. They identified it as an essential component to build trust. According to (K1), *“...high satisfaction with online services could increase tax compliance ...”*. Taxpayers need efficient service to fulfil their tax commitments. Further, they expect more accurate results in online notices and assessments than in manual work. As (K5) highlighted, *“... sometimes when we submit documents online, they get lost or appear in an irrelevant Unit which needs many requests to correct it ...”*. A smooth online service will assist people to stay with the system, especially during the lockdown period (K1).

To enhance taxpayer’s ability to understand the amendments to tax law and therefore build trust in its application, the law should be simple and readable. *“...a clear procedure and administration increase the people’s trust in tax administration through understanding ...”* (K3).

Regarding the trust in tax law participants of the focus group pursued a rather enforcing approach. One of the participants said, *“...when the punishments are in order it reduces tax evasion (...) because people obey tax law”* (K5). This indicator is the one with the biggest deviation between entrepreneurs and KIs.

Finally, regarding trust in utilization of tax money, KIs are in line with the opinion of entrepreneurs. For them transparency and accountability are key points to enhance trust in the tax administration as well. The government’s attempts to reduce wastage and corruption will push entrepreneurs to support more in revenue contribution. This argument is supported by (K5) as, *“...when tax money is utilized in a productive manner feel taxpayers happy and give them self-satisfaction ...”*.

Thematic analysis map

Figure 1 presents the results of the thematic analysis map. It visually represents the connections of the five indicators to sub-themes. The sub-themes are in line with the results presented in the prior section and point out the most accentuated issues. A particularly interesting additional insight that can be gained from this is linkage points between indicators. These are sound knowledge regarding incentives and tax law and support from the media regarding awareness of the tax system and online support services.

Discussion

To support entrepreneurs through the challenging time of the pandemic, the Sri Lankan government has issued rules and regulations that offer tax incentives and relief. However, our data show that this alone is not enough, but the government must take many further measures to develop the trust of entrepreneurs in tax administration even beyond the pandemic. One example is creating awareness about the tax system. Participants believed that raising awareness could motivate people to comply with the system. Yet, entrepreneurs lack an understanding of what is required of them as business owners. This insufficient knowledge limits voluntary compliance. In addition, the literature suggests that awareness about benefits and tax incentives will persuade business owners to stay within or join the tax system (Alm et al., 1992).

Expectations towards the government also play an important role in the taxpayers' evaluation of their performance and hence, building trust in them. However, entrepreneurs' preferences are diverse. They use different measures to evaluate whether the government is spending tax money prudently and to the advantage of citizens. What one taxpayer considers another may not accept being fair. One criterion that is universally accepted to evaluate government performance is the transparency of their expenditures. According to Ibrahim et al. (2015), citizens will pay taxes voluntarily if they find the government trustworthy because their expenditures are transparent. Following this, transparency of expenditures is a key element to strengthen trust in the administration. Another important point is reciprocity. This describes that taxpayers also expect something back from the state, such as public goods, for their paid tax. This is also well observed in developing economies (Ortega et al., 2016). Therefore, it is of utter importance that the taxpayers can see that the government is spending the revenues well. On the contrary, when taxpayers observe that tax money is wasted (e.g., on high wages for politicians, extensive bureaucracy, etc.) their compliance will decline.

Another incentive to comply is making the process of paying taxes easier through better service, for example through providing online supporting systems (OECD, 2020).

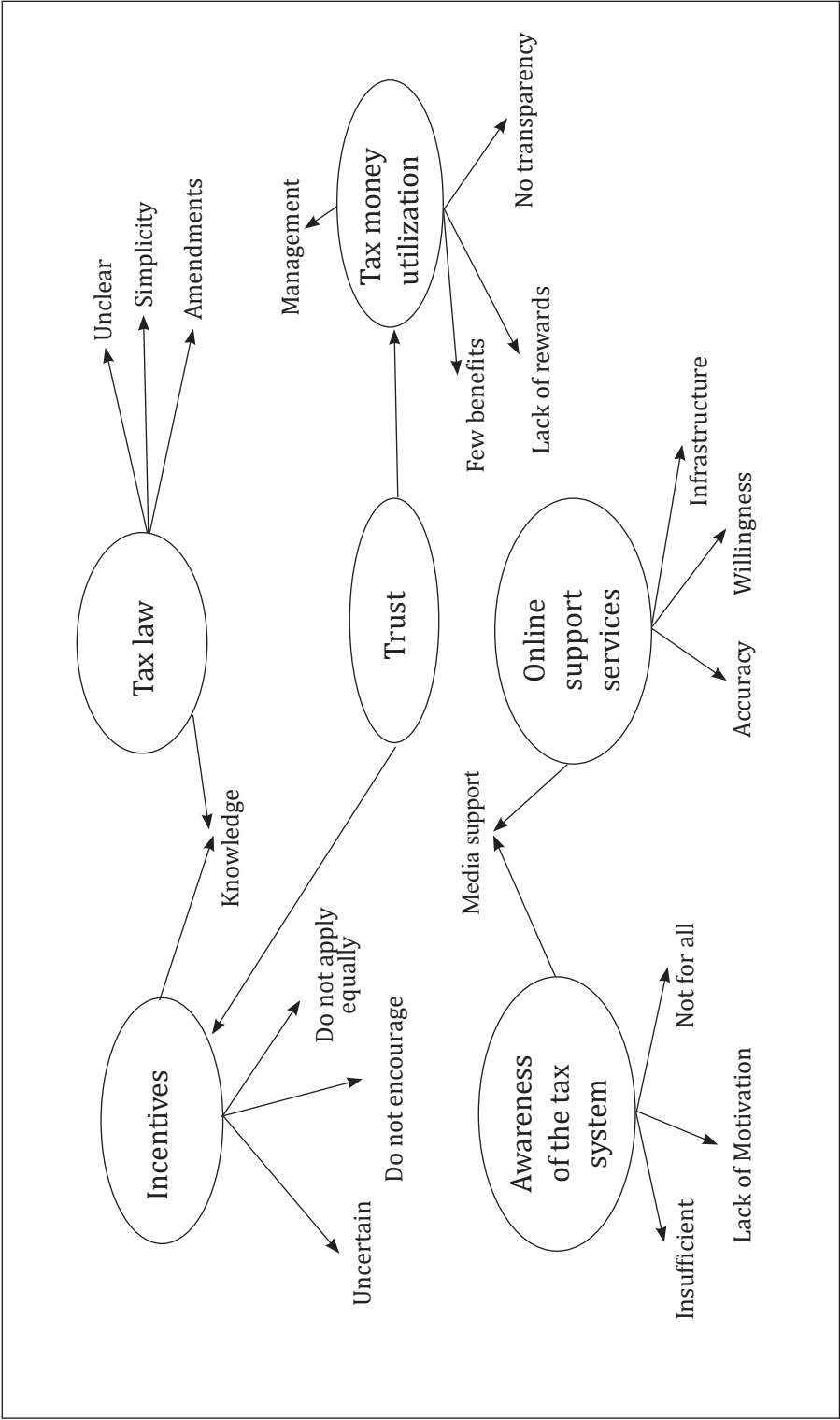


Figure 1: Thematic analysis map

Note: The five indicators of strengthening trust are shown in circles and the explanatory variable trust is in a rectangle. The connection to the respective sub-themes is illustrated through arrows.

Especially during a pandemic with many non-economic uncertainties, services provided to taxpayers can lead to higher compliance (Alm et al., 2020). Immediate solutions for tax-related matters and quick services such as issuing clearance letters and making payments help to create taxpayers' confidence in the tax process. This is also in line with previous research, that by increasing the quality of tax-related services, taxpayers will be more satisfied with the system (Mascagni et al., 2021). Especially for e-filing taxes, Zaidi and colleagues (2017) found evidence in a survey conducted in India that a better quality of online services leads to a higher user satisfaction. This, in turn, also leads to a higher likelihood that taxpayers will not only accept the online service provided by the government but are likelier to adopting online tax filing.

Our findings suggest that the tax law affects people's trust in the government and tax administration. Participants emphasized that frequent changes of the tax law can harm taxpayers' trust in legal rules and procedures. Stable regulations on the other hand will help to develop tax fairness and encourages tax compliance. In addition, according to the literature, it is important that tax law needs to be applied without discriminating to develop taxpayers' trust in the legal system (Widuri & Irawan, 2019). An interesting approach to the non-discriminative application of tax law is the expansion of informal tax law, as Blank and Osofsky (2022) suggest. This can guide taxpayers who are not knowledgeable about the tax code, which can help them to build trust in it.

Conclusion and practical implications

Our findings highlight the importance of entrepreneurs' trust in tax administration and that it needs to be further strengthened. Creating an environment to increase taxpayers' trust in tax incentives, online support services, tax law and utilization of tax money and awareness about the tax system is essential to develop a culture of voluntary compliance beyond the pandemic. Some suggestions, derived from this study, to strengthen trust include:

- The utilization of taxpayers' money requires transparency, accountability, and effectiveness
- Awareness about the tax system must be raised
- Legal rules and taxation procedures should be simple and understandable
- Tax incentives must be straightforward and equally implemented
- The quality of the online support services needs to improve

Future studies should consider different geographic areas in Sri Lanka as well as cross borders. Furthermore, extending the sample to taxpayers of various groups, such as small and large businesses and individual taxpayers can help to broaden the findings of this study.

Conflict of interest

The authors declared no potential conflicts of interests with respect to the authorship and/or publication of this paper.

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Appendix A: Description of the population – medium-sized entrepreneurs, Colombo district

| Category | Population | Sample selected (10% of the population) | Number of respondents |
|---------------|---------------|--|-----------------------|
| Service | 5060 | 50 | 6 |
| Manufacturing | 1440 | 14 | 3 |
| Construction | 810 | 8 | 2 |
| Trade | 3270 | 32 | 4 |
| Total | 10,580 | 104 | 15 |

**Authors' compilation based on the Inland Revenue data as at 31.12.2019*

Appendix B: Demographic characteristics of entrepreneurs of medium-sized businesses

| Characteristic | Number of participants (N=15) | |
|------------------------------|-------------------------------|-------|
| | N | % |
| Gender | | |
| Male | 9 | 60% |
| Female | 6 | 40% |
| Age (years) | | |
| 20-29 | 2 | 13.3% |
| 30-39 | 6 | 40% |
| 40-49 | 4 | 26.7% |
| 50-59 | 3 | 20% |
| Business nature | | |
| Service | 6 | 40% |
| Manufacturing | 3 | 20% |
| Construction | 2 | 13.3% |
| Trade | 4 | 26.7% |
| Highest level of education | | |
| Diploma | 7 | 46.7% |
| Graduate | 4 | 26.7% |
| Prefer not to respond | 4 | 26.7% |
| Yearly income in Million LKR | | |
| >1-250 | 2 | 13.3% |
| >250-500 | 4 | 26.7% |
| >500-750 | 6 | 40% |
| Prefer not to respond | 3 | 20% |

Appendix C: Demographic characteristics of key informants (N=5)

| Position | Working place | Experience (In years) | Gender |
|-------------------|----------------------------------|----------------------------------|---------------|
| Tax administrator | Inland Revenue | Twenty-one | Male |
| Policymaker | Ministry of Finance | Fifteen | Female |
| Academician | University of Jayewardenepura | Nineteen | Female |
| Auditor | Audit firm | Twenty | Male |
| Accountant | Service providing company | Eighteen | Male |

Appendix D: Interview guide

| Domain | Questions |
|--|--|
| Taxpayer's trust in fiscal incentives during the pandemic | 1) How does taxpayers' experience of trust in tax administration influence their compliance decisions in post-COVID? 2) How can taxpayers' trust in tax authorities be developed post-COVID? |
| Reliability of the online notices and support services during the lockdown period | 1) How would you describe taxpayers' trust in online support services that will influence their compliance decision post-COVID? 2) How taxpayer trust could be developed through online services? |
| Taxpayer's ability to understand the amendments to tax law and the degree of their trust in terms of application | 1) How would you describe taxpayers' trust in tax law will influence their compliance decision post-COVID? 2) How taxpayers' trust could be developed through tax law? |
| Taxpayer's trust in the government's utilization of tax money in social and economic support projects | 1) How would you describe taxpayers' trust in government utilization of tax money will influence their compliance decision post-COVID? 2) How taxpayer trust could be developed through government behaviour? |

| | |
|---|---|
| Taxpayer's awareness about tax compliance and the obligation as a citizen during the pandemic | <p>1) How would you describe taxpayers' awareness of the tax system that will influence their compliance decision post-COVID?</p> <p>2) How taxpayer awareness could be developed through government behaviour?</p> |
|---|---|

Appendix E: Details of data collection

| Respondent's code | Date | Interview mode | Duration |
|-------------------|------------|----------------|-------------|
| P1 | 3/10/2020 | Zoom | 80 minutes |
| P2 | 3/10/2020 | In person | 80 minutes |
| P3 | 4/10/2020 | In person | 60 minutes |
| P4 | 4/10/2020 | Zoom | 75 minutes |
| P5 | 4/10/2020 | In person | 60 minutes |
| P6 | 4/10/2020 | In person | 70 minutes |
| P7 | 5/10/2020 | Zoom | 60 minutes |
| P8 | 5/10/2020 | In person | 70 minutes |
| P9 | 7/10/2020 | Zoom | 60 minutes |
| P10 | 7/10/2020 | In person | 75 minutes |
| P11 | 10/10/2020 | Zoom | 60 minutes |
| P12 | 11/10/2020 | In person | 70 minutes |
| P13 | 13/10/2020 | In person | 75 minutes |
| P14 | 14/10/2020 | Zoom | 60 minutes |
| P15 | 17/10/2020 | In person | 60 minutes |
| K1 | 25/11/2020 | In person | 60 minutes |
| K2 | 25/11/2020 | In person | 120 minutes |
| K3 | 25/11/2020 | In person | 120 minutes |
| K4 | 25/11/2020 | In person | 120 minutes |
| K5 | 25/11/2020 | In person | 120 minutes |

Appendix F: Coding scheme of the qualitative analysis

In the following table, we illustrate how we deducted the central themes from the answers of our interviewees and participants of the focus groups. The left column describes one of the five indicators for strengthening trust in tax administration. Next to it, we display the interview/focus group questions that target these topics. The answers of the participants are in the second column from the right. Those are direct transcripts from the interviews/focus groups. Based on these transcripts, we deducted the central themes. These are topics, we derived from the transcripts, the quintessence of the participants' statements.

| Variable | Interview questions | Natural unit (Examples from the transcript) | Central themes |
|----------------------------------|--|--|---|
| Trust in tax incentives | 1) How does taxpayers' experience of trust in tax administration influence their compliance decisions post-COVID? 2) How can taxpayers' trust in tax authorities be developed post-COVID? | "Of course, we need incentives during this pandemic... but all taxpayers do not equally benefit from the tax incentives and exemptions... also, the entrepreneur's knowledge about incentives is not sufficient, so we don't know how to get the maximum benefit from tax incentives..." (P4) "The purpose of giving tax incentives to taxpayers should be properly communicated, so that, it encourages taxpayers' compliance... understanding how taxpayers get government's attention during a pandemic will support to them to remain in the system even after the crisis... besides taxpayers are not sure about the incentives as the government's frequent policy changes" (K2) | Incentives are not equally distributed among taxpayers Taxpayers' knowledge about incentives is not sufficient The encouragement given through tax incentives toward compliance is not enough Taxpayers are not certain about incentives |
| Trust in online support services | 1) How would you describe taxpayers' trust in online support services that will influence their compliance decision post-COVID? 2) How taxpayer trust could be developed through online services? | "Every business owner cannot handle information technology, so we should hire professionals at a cost which is an additional expense to us ...also, lack of infrastructure facilities to access online services and language barriers are other challenges we face... though we do payments on the due date we receive notices for non-compliance... not transferring money from the bank to tax authority properly is the issue that is beyond our level... if the support services are easily accessible and understandable, we will be motivated to comply with tax obligations..." (P8) "...quality of service affects taxpayer's trust that affects his satisfaction... taxpayer's high satisfaction with online services could increase tax compliance..." (K1) | Online support services should be simple and understandable Quality of the service is essential for compliance continuity |

| | | | |
|-----------------------------------|---|--|---|
| Trust in receiving awareness | 1) How would you describe taxpayers' awareness of the tax system that will influence their compliance decision post-COVID? 2) How taxpayer awareness could be developed through government behaviour? | <p>"We do not object to paying taxes if we understand clearly the purpose of collecting tax...we know the business, but tax is a different subject and very confusing...through awareness, we can trust the process of collecting and spending our tax money..." (P5)</p> <p>"When taxpayers are aware of the tax system, they know the consequences of non-compliance...a clear procedures and administration increase people's trust in tax authority through understanding...better awareness motivate people to comply more..." (K3)</p> | Awareness increases taxpayer's trust |
| | 1) How would you describe taxpayers' trust in tax law will influence their compliance decisions during post-COVID? 2) How taxpayers' trust could be developed through tax law? | <p>"...tax law should be simple ... frequent amendments create lack of confidence of the system...also, the law should be applied to all people who are liable to pay tax without any discrimination...law can highly influence on our trust in the system while developing strong relationship..." (P11)</p> <p>"...tax laws should reform for efficient tax compliance environment...when the punishments are in order it reduces tax evasion...because people obey tax law...tax law supports to develop discipline tax culture..." (K5)</p> | Awareness motivates people to pay tax |
| Trust in law | | | Trust in law increases compliance |
| | | | Law develops tax discipline |
| Trust in utilization of tax money | 1) How would you describe taxpayers' trust in government utilization of tax money will influence their compliance decision post-COVID? 2) How taxpayer trust could be developed through government behavior? | <p>"... we prefer to experience how our tax money will be utilized...COVID-19 is a good opportunity for the government to perform their efforts to the outside world... providing health services, conducting COVID-19 awareness programs, and distributing dry rations to deserving people are good examples...this is the best time to develop taxpayers' trust..." (P6)</p> <p>"The public needs to know things more clearly...tax administrators should encourage taxpayers through transparency...government should account and exhibit people the development projects and other public services they do with tax money..." (K4)</p> | Need to show clearly the work done with tax money |
| | | | Need transparency and accountability |