

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 the influence of business location on SME taxpayers' tax compliance behaviour. Also, the relationships between trust in tax authority, power of tax regime, and tax compliance of SME entrepreneurs who engage in business activities in urban-rural locations were explored. 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. The respondent's perceptions were measured using a 5-point Likert scale, and SPSS 26.0 was used to analyze the data. The results show that 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. Also, 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. The findings will be a significant endeavor for policymakers to improve the tax compliance strategies in Sri Lanka, focusing on SME taxpayers' business location. The government should present an accountable and transparent utilization of people's tax money while introducing more benefits to businesses in rural areas. The tax administrators will get an insight into the SME taxpayers' compliance behaviour in different business locations. The study concludes that improving the trust of SME taxpayers in rural settings will increase tax revenue. Also, proposing more awareness programs, enhancing taxpayers' tax literacy level, and improving public infrastructure facilities will attract rural small-medium entrepreneurs to generate revenue. More focus on developing a voluntary compliance environment while applying enforced approaches on non-comply SME business owners support to increase tax compliance.

Keywords:

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