



DETERMINANTS OF TAX COMPLIANCE AMONG THE OWNERS OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE KEGALLE DISTRICT

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ABSTRACT

Tax is an important means of revenue for the government. 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 still struggles to keep efficient and effective tax administration. Small and Medium-sized Enterprises (SMEs) are considered significant for economic growth and for generating taxable income for a country. However, SMEs have less compliance when compared to large business entities. This study aims to identify the determinants of tax compliance among the owners of small and medium-sized enterprises in the Kegalle District. A questionnaire was designed using the Five Point Likert Scale and distributed among the owners of SMEs in the Kegalle district which was the unit of analysis of the survey. Data was collected from a sample of two hundred Obtained data analyzed with statistical techniques of correlation, regression and descriptive statistics using IBM SPSS 25. There is a huge gap in the literature on tax compliance related to SMEs in Sri Lanka with Tax Knowledge, Tax Morale, Tax Rate and Tax Penalties. Thus, it is recommended for further surveys with more similar factors to increase the reliability of the study. By emphasizing these underlying factors, tax authorities will able to make necessary changes to the tax administrative system in Sri Lanka that greatly increase the compliance level of SMEs resulting being increasing the government revenues, allowing authorities to provide quality service to taxpayers and finally the government as a whole will able to provide more improved utilities to the citizens of the country.

Keywords: Tax Knowledge, Tax Morale, Tax Rate, Tax Penalties, Tax Compliance

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1. Introduction

Any government in the world needs financial resources to function as a government and fulfil the expectations of the general population. It makes every effort to meet the development objectives outlined in the nation's annual budget. In this regard, James (2000) provides evidence that one way to move resources from the private to the public sector is through taxation. Tax is a compulsory financial obligation of a nation's population income towards the government. One of the taxation objectives in Sri Lanka is to collect funds for financing the government's expenditure. However, taxation is a system of imposing a financial charge or levy on an individual or a legal entity by a state. Taxes could also be levied by a subnational organization. For any government, taxes are the main source of income, generally accounting for more than 90% of their income. The remaining funds for the government are obtained from borrowing and service fees. The amount of taxes that each nation has collected differs. Sri Lanka is a low-income country with low tax compliance.

Furthermore, the IRD of Sri Lanka continues to struggle to maintain efficient and effective tax administration to assure a higher level of tax compliance among Sri Lankan taxpayers. In general, tax income as a percentage of GDP is expected to rise with per capita GDP growth (Jayawardana et al., 2016).

The Department of Inland Revenue mainly administrated the central government tax. The goal of the Inland Income Department of Sri Lanka is to administer taxes, collect revenue, issue assessments, and enforce tax laws for non-compliers with professionalism and integrity. To do this, IRD separated its branches into 21 regional offices and the Head office. In Sri Lanka, several departments and councils deal with the collection of taxes on behalf of the government. Other departments like the Department of Customs and the Department of Excise also collect some levies on behalf of the central government. At the provincial level, the provincial councils, the municipal councils, and local councils (Local Government Authorities) also collect tax in their area. Currently, the Inland Revenue Department administrates different types of taxes under Tax Laws such as Income Tax, Nation Building Tax, Value Added Tax, PAYE Tax and Economic Service Charge.

Small and Medium-Sized Enterprises (SMEs) play a significant role in any economy through the generation of employment, contributing to the growth of Gross Domestic Product (GDP), embarking on innovations and stimulating other economic activities. This sector is regarded as the backbone of all developed and developing countries. As a result, the growth of this sector is critical for any country, regardless of its degree of development. This is especially essential in developing nations where poverty and unemployment are prevalent. SMEs help to growth and sustainability of the Sri Lankan economy. Mainly because, according to the Asian Development Blog, they contribute to 45% of total employment and 52% of GDP in Sri Lanka.

The government passed a new Inland Revenue Act in the parliament in 2017 (Act No: 24 of 2017), which has been continued since 1st April 2018. During the years 2021 and early 2022, under the new act, the government intends to modernize rules to address tax evasion, combat tax avoidance, and minimize complexity to enhance government revenue while maintaining a greater level of tax compliance among taxpayers (Central Bank Report, 2021). Section 195 of the Inland Revenue Act No.24 of 2017 defines SMEs as a person who does business solely in Sri Lanka, other than an individual who is engaged in providing professional services individually or in partnership, and the person does not have an associate that is an entity, and the person's annual gross turnover is less than Rs. 500,000,000.

There is no precise definition of SMEs in Sri Lanka. The majority of SMEs are involved in wholesale and retail, as well as providing goods and services to the public. It is vital to earn sufficient profitability and liquidity to carry out its business operations appropriately and smoothly. Otherwise, the entity will be unable to continue operating successfully.

Tax compliance refers to taxpayers' ability and willingness to comply with tax laws, declare the correct income each year, and pay the correct amount of taxes on time (Internal Revenue Service (IRS)). Tax compliance is essential because an entity cannot conduct business unless it complies with the government. Tax is a mandatory payment imposed by the government. Unless the entity complies with the tax liability, it must pay a significant penalty or surcharge. As a result, tax compliance has a significant impact on the profitability of SMEs. For many tax authorities, tax compliance is a big issue. According to James & Alley (2004), "tax legislations are not always precise in some aspects". Andreoni et al. (1998) suggested that tax compliance should be defined as taxpayers' willingness to observe tax laws to achieve a country's economic stability. Most developing-country governments are having problems collecting the necessary taxes due to tax noncompliance (Ahmed & Kadir, 2015). Most African countries have widespread tax avoidance and evasion (Ali et al., 2013). Furthermore, most taxpayers are hesitant to pay their taxes on time and in the correct amount (Ahmed & Kadir, 2015).

The willingness of taxpayers to pay or not pay due tax is determined by their attitudes on taxation (Hariyadi & Bayu, 2013). People's attitudes, thinking, and behavioural patterns are influenced more by how they feel than by what they see and distinguish between two types of tax compliance, enforced and voluntary (Kirchler, 2007). People fulfil their primary tasks without the intervention of the tax authority in a voluntary compliance culture, whereas the authority collects tax from people forcefully in an enforced compliance culture. According to that, the Sri Lankan income tax system is voluntary. That is because people are free to arrange their financial affairs in such a way as to take advantage of any tax benefits. Voluntary does not mean that the tax laws do not apply to the entity. Voluntary means entity can minimize taxes by taking advantage of various deductions and tax credits. Voluntary also means that the entity must tell the Inland Revenue Department what the entity's tax liability is and the only way to do that is to file a tax return. Non-compliance with tax means that the actual tax is not paid on the due date or the tax defaults to the due date.

Most SMEs are defaulting on their tax liability. The tax base can be property, income or wealth. The government is continually trying to enhance government revenue through various tax strategies, whereas SMEs are always trying to minimize their tax liability. In this study, an effort has been made to identify the determinants of tax compliance among the owners of SMEs in the Kegalle district. The Inland Revenue Department in Sri Lanka takes numerous steps to collect tax revenue. It is a very difficult situation for the department. However, the government collects taxes in a variety of ways and uses them to fund development programs. Furthermore, that benefit is passed on to the owners of SMEs in an indirect manner. Unfortunately, the majority of SME owners do not realize it and they have low tax compliance. As a result, this condition is identified as an issue in this study for the reasons stated above. In this study, the main question is how to investigate the determinants of tax compliance among the owners of SMEs. Because tax compliance is one of the most powerful variables affecting the current practice of taxation in Sri Lanka.

The study outlines the broader context of taxation in Sri Lanka, including recent legislative changes aimed at enhancing tax compliance. However, it does not delve into the unique challenges and circumstances faced by SMEs in the Kegalle district that may affect their tax compliance behavior. Understanding these specific determinants is crucial for designing effective policies and interventions to improve tax compliance among SMEs, which are vital contributors to the Sri Lankan economy.

Additionally, the study could benefit from a more comprehensive examination of the attitudes, perceptions, and behavioral patterns of SME owners regarding taxation. By exploring these factors in depth, researchers can gain insights into the underlying motivations and barriers that influence tax compliance behavior among SMEs in the Kegalle district.

Overall, while the study acknowledges the importance of tax compliance among SMEs, it lacks a focused investigation into the specific determinants within the context of the Kegalle district. Addressing this research gap would provide valuable insights for policymakers, tax authorities, and SME owners seeking to enhance tax compliance and promote sustainable economic development.

Problem Statement

Small and medium enterprises (SMEs) contribute significantly to the country's gross domestic product (GDP) as well as the government revenue; evasion in tax payment has been part and parcel of their business attitude or behaviour and persists (Kamote & Ngowi, 2015). SMEs are considered significant for economic growth and for generating taxable income for a country. However, SMEs have less compliance when compared to large business entities. On the other hand, the compliance costs of SMEs are higher than those of larger corporations (Weichenrieder, 2007). Therefore, it tends to avoid taxes.

How a tax system is managed is a critical component. Because no tax is better than its administration, tax administration is extremely important (Bahl & Bird, 2008). One of the most important goals of tax

administration is to guarantee that all taxpayers comply with their tax obligations to the greatest extent possible. Unfortunately, in many developing countries, tax administration is typically inadequate, with widespread evasion, corruption, and coercion. In many circumstances, total tax compliance is low, and a considerable amount of the economy's informal sector avoids the tax net entirely (Bautigam et al., 2005). Therefore, this study aims to investigate the determinants of tax compliance among SME owners to increase their tax compliance.

Further, taxpayers are exposed to varying levels of tax compliance in the Kegalle district. The researcher's objective is to identify factors influencing tax compliance among the owners of SMEs in the Kegalle district in Sri Lanka. The researcher is not aware of any other study that has been carried out to establish what factors influence tax compliance in the Kegalle district in Sri Lanka and also the extent of the impact of tax knowledge, tax morale, tax rate, tax penalties on tax compliance is not well understood and studies in this area have not been carried out in Kegalle district. Different studies have been conducted on the reasons for non-tax compliance among small business taxpayers themselves but there is no specific study conducted on owners of SMEs' perceptions of tax compliance in the Kegalle district. Therefore, this study will help to determine the perception of SME owners on factors affecting tax compliance. In this context, the research problem for this study is "What is the impact of determinants of tax compliance on tax compliance among the owners of SMEs in Kegalle District?".

Research Objectives

- 1) To identify the impact of tax knowledge on tax compliance among the owners of SMEs in the Kegalle District.
- 2) To identify the impact of tax morale on tax compliance among the owners of SMEs in the Kegalle District.
- 3) To identify the impact of the tax rate on tax compliance among the owners of SMEs in the Kegalle District.
- 4) To identify the impact of tax penalties on tax compliance among the owners of SMEs in the Kegalle District.
- 5) To identify the variance of tax compliance of SME owners by demographic factors in the Kegalle District.

2. Literature Review

A tax is an obligatory fee that is paid by the taxed parties regardless of whether the government receives any goods or services in return (Bhatia, 1979). According to Auld and Miller (1984), taxes have the function of stabilizing the economy by lowering private demand and freeing up funds for use by the public sector. Because it creates the framework for economic growth and sustains the fundamental operations of a functioning state, taxes are essential to sustainable development. In order to fulfill its duties to the people, the government must stabilize the economy and redistribute wealth through the accomplishment of development goals, which call for significant capital expenditures that must be financed by taxes. In cases where individuals are willing to adhere to a nation's tax laws, taxes can serve these purposes.

Small and Medium-Sized Enterprises

Many diverse definitions are used around the world since there is no single data source that has all important information at a given point in time (Gale & Brown, 2013). The term SME refers to small and medium-sized enterprises. Depending on the stage of development, different countries use various definitions of SMEs. The most typically used criteria are total number of employees, annual turnover, and total investment. SME policy framework in Sri Lanka defines SME based on the number of employees and turnover (From the Ministry of Industry and Commerce).

Table 1: Defining SMEs in Sri Lanka

	Criteria	Medium	Small	Micro
Manufacturing Sector	Annual turnover	Rs. Mn. 251 - 750	Rs. Mn. 16 - 250	Less than Rs. Mn. 15
	Number of employees	51 - 300	11 - 50	Less than 10
Service Sector	Annual turnover	Rs. Mn. 251 - 750	Rs. Mn. 16 - 250	Less than Rs. Mn. 15
	Number of employees	51 - 200	11 - 50	Less than 10

(Source: Ministry of Industry and Commerce)

The Concept of Tax Compliance

Tax compliance is defined as the accurate reporting of income and expense claims in conformity with tax legislation (Sapiei et al., 2014). Tax compliance is a somewhat difficult concept to describe. Simply put, tax compliance means freely and completing all tax obligations prescribed by law (Marti et al. 2010). Pope & Abdul-Jabbar (2008) discovered that regulatory burdens disproportionately affect SMEs globally. Because of their nature and size, tax compliance is of particular relevance, especially because most SMEs have insufficient experience and limited resources to comply with diverse and complicated legislation.

In addition, tax compliance is defined by Jackson & Milliron (1986) as the timely filing of all income tax returns and payment of all applicable taxes. They think that paying taxes ought to be an elective process. Palil & Mustapha (2011) define tax compliance as an individual's attitude toward filing tax returns and truthfully disclosing all taxable income within the allotted time frame without any further action from the government. Ming-Ling et al. (2005) emphasize the importance of tax compliance and define it as a taxpayer filing an annual tax return and meeting the relevant payment dates as per the law as it is in effect at the time.

According to some sources (Tehulu & Dinberu, 2014), tax non-compliance can also refer to a taxpayer's incorrect reporting or nonpayment of taxes that have been assessed (Sapiei et al., 2014). Moreover, a taxpayer's intentional or inadvertent failure to fulfill their tax duties is referred to as tax noncompliance (James & Alley, 2004). However, because there are variations in the level of compliance, some noncompliance may not be criminal (Kirchler, 2007).

Branches of Tax Compliance and Non-Compliance

The tax compliance and non-compliance branches are depicted in Figure 1. The branches of tax compliance are an expansion of McBurnett's paradigm (as referenced in Alebede et al., 2011), which recognized three more tax compliance sub-divisions: innovative, committed, and capitulate. On the other hand, committed compliance refers to a situation in which taxpayers voluntarily pay taxes without protest or public coercion; and creative compliance refers to a situation in which taxpayers take action to reduce tax liability by reexamining income and expenses within the legal context. Capitulate compliance occurs when taxpayers unwillingly fulfill their responsibility, but they still do so. Another name for this is tax evasion.

Tax noncompliance occurs when a taxpayer, whether intentionally or unintentionally, fails to comply with tax requirements. Ignorance, omission, or misinterpretation while employing tax rules and regulations are situations in which taxpayers unintentionally fail to comply with tax laws (Alebede et al., 2011). Intentionally tax non-compliance is defined as purposefully understating income and overstating expenses, failing to

submit tax returns and making tax liability payments by the due date. Tax evasion is also categorized as tax non-compliance.

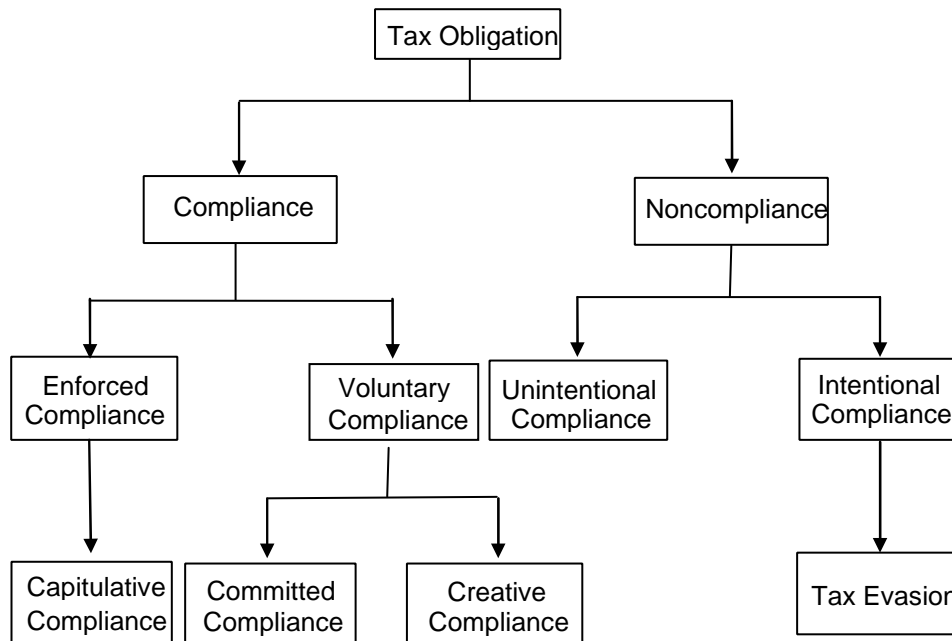


Figure 1: Branches of Tax Compliance and Non-Compliance

Source: (Alebede et al., 2011)

SMEs and Tax Compliance

According to several surveys, regulatory burdens disproportionately fall on SMEs globally (Pope & Abdul-Jabbar, 2008). Generally, the size and structure of SMEs make tax noncompliance a challenge, especially because most SMEs have limited access to resources and insufficient experience within the organization to comply with complicated and diversified legislation. Furthermore, high compliance costs increase the chances of tax evasion and fraud. If the tax structure is not effectively structured by certain environmental conditions, a greater burden on tax-paying organizations may be created, which may influence the final consumer due to tax shifting ability. As a result of these factors, SMEs in developing nations face numerous difficulties when dealing with tax issues (Patrick, 2014).

The government should take into account the variables that can impact business enterprises' competitiveness in its capacity as regulators and policymakers. It's not easy to evaluate how the tax system affects SMEs merely by looking at tax rates. In order to promote investment and innovation, ease international trade and mobility, and stimulate growth, taxation systems are crucial. For small and medium-sized enterprises (SMEs), cutting administrative costs without sacrificing compliance standards is crucial. Additionally, take into account the causes and consequences of operating in the informal economy. Patrick (2014) consequently hypothesized that taxes might be a significant problem for both start-up and existing companies.

Patrick (2014) identifies four major categories of obligations;

- (i) Registration in the tax system.
- (ii) Timely filling /lodging of required information.
- (iii) Reporting complete and accurate information.
- (iv) Payment of taxes within the relevant period.

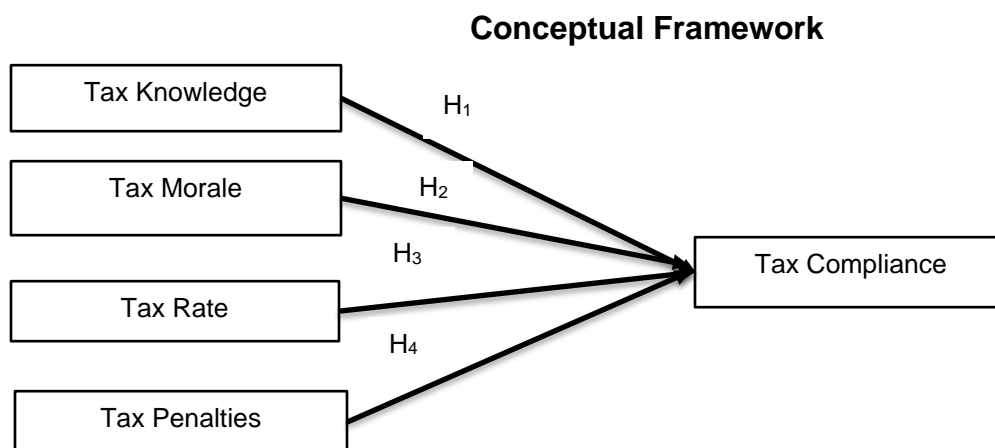
Existing legislation's scope, inconsistency, and volatility create unnecessary administrative barriers, which hurt business environments. This also hurts the growth of SMEs (Bartlett & Bukvic, 2001). SMEs face administrative barriers in a variety of areas, the most important of which is tax compliance, which is related to financial and accounting reporting. Daily, almost all businesses are involved in both of these fields. Compliance with the applicable legislation in these fields is becoming more difficult. Reducing administrative barriers in these two areas benefits public authorities as well as SMEs. Legal simplifications in certain fields reduce bureaucracy and, as a result, increase the efficiency of collecting taxes, which represent budget revenues (Dejan & Aristovnik, 2018).

The major challenge for tax administration in ensuring SMEs are included in the taxation bracket is hiding the nature of the firm. Because of their small size, these enterprises can easily avoid being taxed. Another key factor that allows for the avoidance of taxation in the informal sector is a lack of structural dialogue and mistrust between the government and the informal sector. There is considerable mistrust among tax agents and taxpayers, with agents perceiving SMEs as tax evaders when unable or unwilling to pay their applicable taxes (Patrick, 2014).

Empirical Finding

According to available works such as Loo (2006), Kirchler (2007), and Palil (2010), factors that affect taxpayers' compliance were separated into five major categories, they are economic factors (tax audits, perceptions of government spending and tax rates); institutional factors (probability of detection, the role of the tax authority and simplicity of the tax returns and administration); social factors (reference groups, perceptions of equity and fairness, ethics and attitude, morale, changes on current government policy and political affection); individual factors (awareness of penalty, tax knowledge and personal financial constraints) and other factors (income, culture, education level, gender, age).

3. Research Methodology



Source: (AlMakhzoum & Azam, 2021)

Study Population and Sampling

The population for this study comprised SME owners of the Kegalle district in Sri Lanka. The reason for selecting the Kegalle district is the easiness of primary data access by the researcher and a branch of the Department of Inland Revenue is located in the Kegalle district. Therefore, access to secondary data is also easily available. The population of small and medium-sized enterprise establishments in the Kegalle district was recorded as 2166. In this study, probability sampling is chosen as the sampling procedure because the population is known by the researcher. So, the sample was selected using a stratified sampling technique

among the population in the Kegalle district. The total population is stratified into divisional sectors and the sample of 200 was drawn from the total population of each division in the Kegalle district.

Table 2: Sampling Distribution

No.	Divisional sector	Population	Determined Sample
1	Aranayaka	123	11
2	Bulathkohupitiya	76	7
3	Dehiovita	179	17
4	Deraniyagala	64	6
5	Galigamuwa	124	11
6	Kegalle	419	39
7	Mawanella	378	35
8	Rambukkana	212	20
9	Ruwanwella	128	12
10	Warakapola	306	28
11	Yatinyanthota	157	14
	Total	2166	200

(Source: District Secretariat Office)

4. Analysis and Discussion

Analysis of Reliability of Instruments

This section interprets the internal consistency of the questionnaire used to measure the concepts of the research. Cronbach's Alpha was used to measure the reliability of the construct. Table 3 shows the Cronbach's Alpha Values of the independent variables (TK, TM, TR, and TP) and the dependent variable of TC.

Table 3: Cronbach's Alpha Coefficients

Instruments	No. of items	Cronbach's Alpha
Tax Knowledge	5	0.708
Tax Morale	5	0.748
Tax Rate	5	0.709
Tax Penalties	4	0.721
Tax Compliance	5	0.796

(Source: Survey Data)

Data Presentation

Gender

The questionnaires are distributed randomly among both male and female SME owners. As shown in Table 4 of the 200 respondents, 138 are male and 62 are female respondents which is 69% and 31% of the total respectively.

Table 4: Gender of Respondents

Gender	Frequency	Percent (%)
Male	138	69
Female	62	31
Total	200	100

(Source: Survey Data)

Age Group

When considering the age limits of the respondents, the majority of the sample (34.5%) is represented by the age level between 31-40 years. Also, 19% of respondents were contained in 18-30 and 28% belonged to the 41-50 age group. A lower representation of respondents is included in the age level of above 50 years (18.5%).

Table 5: Age Group of Respondents

Years	Frequency	Percent (%)
18-30	38	19
31-40	69	34.5
41-50	56	28
Above 50	37	18.5
Total	200	100

(Source: Survey Data)

Marital Status

According to Table 6, the majority of respondents (78.5%) were married and 21.5% were unmarried.

Table 6: Marital Status of Respondents

Marital Status	Frequency	Percent (%)
Married	157	78.5
Unmarried	43	21.5
Total	200	100

(Source: Survey Data)

Level of Education

When considering the education qualifications of the respondents, most of the respondents (40%) had only secondary education, 15.5% had only primary education, 22.5% were up to certificate diploma level, 19% were degree holders and 3% were masters or above.

Table 7: Education Level of Respondents

Education Level	Frequency	Percent (%)
Primary education	31	15.5
Secondary education	80	40
Certificate diploma	45	22.5
Bachelor degree	38	19
Masters or above	6	3
Total	200	100

(Source: Survey Data)

DATA ANALYSIS

Descriptive Analysis

According to Table 8, mean values of tax knowledge, tax morale, tax rate, tax penalties and tax compliance are at high levels as 3.8410, 3.8470, 3.7490, 3.8650 and 3.8710 respectively. Tax penalties show the highest mean value of independent variables. That means the taxpayers who are in the Kegalle district perceive that the tax penalties are held at a high level and it is almost “Strongly Agree”. When taken the overall perception of taxpayers in the Kegalle district is high level. Because all the mean values of variables range between 3.5 and 5.00. When considering the standard deviation values, all variables’ standard deviation values are lower than 1 which means the responses of participants were vary in a small range.

Table 8: Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Tax Knowledge	200	1.60	5.00	3.8410	0.78665	0.619
Tax Morale	200	1.40	5.00	3.8470	0.85630	0.733
Tax Rate	200	1.60	5.00	3.7490	0.83178	0.692
Tax Penalties	200	1.00	5.00	3.8650	0.87750	0.770
Tax Compliance	200	1.40	5.00	3.8710	0.88514	0.783

(Source: Survey Data)

Correlation Analysis

According to the results of the Pearson correlation shown in Table 9, there are positive significant correlations between the independent variables and the dependent variable. The correlations are significant at 0.01 (2-tailed) and as the Coefficient (r) of are more than 0.5 excluding tax rate. Tax knowledge, tax morale, and tax penalties are found as strong positive correlations and the tax rate is found a moderate positive correlation.

Table 9: Correlation between Independent and Dependent Variables

	Tax Knowledge	Tax Morale	Tax Rate	Tax Penalties
Pearson Correlation (r)	.828	.863	.491	.729
Significance Level (P)	.000	.000	.000	.000

**Correlation is significant at the 0.01 level (2_tailed)

Simple Regression Analysis

In this study, simple regression analysis is used to provide the pattern of the relationship between the predictors and the outcome factor (tax compliance). To meet the objective of the study one model is developed. The model includes four independent variables (tax knowledge, tax morale, tax rate, and tax penalties) and one dependent variable (tax compliance).

According to that, the Regression Equation is:

$$TC = 0.693 + 0.821TK$$

The b value of the equation, the gradient of the regression, is 0.821, which is significant at 5% (Sig. t = 0.000). As indicated by R Square, 69% of the variance of tax compliance is explained by tax knowledge with a standardized beta of 0.828. The F value is 431.931, which is significant at 5% (P = 0.000), and also T value

is greater than 2, which suggests that Tax Knowledge has significantly explained 69% of the variance of Tax Compliance.

Table 10: Statistics of Regression between Independent and Dependent Variables

Method	Linear			
	Tax Knowledge	Tax Morale	Tax Rate	Tax Penalties
R	0.828	0.863	0.491	0.729
R Square	0.686	0.744	0.241	0.531
Adjusted R Square	0.684	0.743	0.237	0.529
Std. Error	0.49750	0.44866	0.77323	0.60749
F	431.931	576.531	62.774	224.479
Sig. F	0.000	0.000	0.000	0.000
T	3.586	3.007	7.563	5.292
Sig. T	0.000	0.000	0.000	0.000
b- Constant	0.693	0.440	1.914	1.029
b-	0.821	0.892	0.522	0.735
Beta	0.828	0.863	0.491	0.729

(Source: Survey Data)

$$TC = 0.440 + 0.892TM$$

The b value of the equation, the gradient of the regression, is 0.892, which is significant at 5% (Sig. t = 0.000). As indicated by R Square, 74% of the variance of tax compliance is explained by tax morale with the standardized beta of 0.863. The F value is 576.531, which is significant at 5% (P = 0.000), and also T value is greater than 2, which suggests that Tax Morale has significantly explained 74% of the variance of Tax Compliance.

$$TC = 1.914 + 0.522TR$$

The b value of the equation, the gradient of the regression, is 0.522, which is significant at 5% (Sig. t = 0.000). As indicated by R Square, 24% of the variance of tax compliance is explained by tax rate with the standardized beta of 0.491. The F value is 62.774, which is significant at 5% (P = 0.000), and also T value is greater than 2, which suggests that the Tax Rate has significantly explained 24% of the variance of Tax Compliance.

$$TC = 1.029 + 0.735TP$$

The b value of the equation, the gradient of the regression, is 0.735, which is significant at 5% (Sig. t = 0.000). As indicated by R Square, 53% of the variance of tax compliance is explained by tax penalties with a standardized beta of 0.729. The F value is 70.915, which is significant at 5% (P = 0.000), and also T value is greater than 2, which suggests that Tax Penalties have significantly explained 53% of the variance of Tax Compliance.

Multiple Regression Analysis

The data was entered into the analysis and undertook a multiple regression. And results substituted the understanding coefficient into the regression equation:

$$TC = \alpha + \beta_1TK + \beta_2TM + \beta_3TR + \beta_4TP$$

$$TC = \alpha + 0.451TK + 0.518TM - 0.039TR + 0.118TP$$

Tax knowledge, tax morale and tax penalties are found a positive impact on tax compliance and tax rate is found as a negative impact on tax compliance. The results indicated tax morale is the most important factor

to consider as basically for tax compliance. Because the standardised coefficient of beta is 0.501 and the significant value is 0.000 ($p < 0.05$).

Table 11: Model Summary for Multiple Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin Watson
1	.912 ^a	.831	.827	.36771	1.921

a. Predictors: (Constant), Tax penalties, Tax knowledge, Tax morale, Tax rate

Table 12: Multiple Regression Results of Variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.261	.130		-3.107	.022
	Tax Knowledge	.451	.052	.401	8.715	.000
	Tax Morale	.518	.051	.501	10.138	.000
	Tax Rate	-.039	.042	-.037	-.917	.360
	Tax Penalties	.118	.052	.117	2.265	.025

a. Dependent variable: Tax Compliance

(Source: Survey Data)

As per table 11, the R^2 value shows as 0.831 and it implies the proportion of the variance for the dependent variable that is explained by independent variables in a regression model. Therefore, 83.1% of tax compliance was explained by the independent variables in the study and remain 16.9% of tax compliance is described by the other factors which exist beyond the study.

Adjusted R^2 value is used to compare the goodness-of-fit for regression models that include the number of independent variables. Also, it is the technique that can be used to measure the overall significance of the model. As per the results of the study adjusted R^2 was 0.827. There is no accepted rule to measure the goodness of R^2 and the value of the study is at a sufficient level.

Durbin-Watson is a statistic that is used to identify the existence of autocorrelation in the sample. The Durbin-Watson value lies between 0 and 4 and values around 2 indicate that there is no autocorrelation identified in the sample. In the study, the Durbin-Watson value was 1.921 which is so close to 2. It indicates that there is a strong positive relationship between independent variables and dependent variables. Otherwise, it describes there were no autocorrelations in the sample.

In Table 12, three variables out of four are significant at either 0.01 or 0.05 while other variable is not supported. It can be concluded that tax knowledge, tax morale and tax penalties have a significant positive impact on tax compliance ($P < 0.05$) and the tax rate hasn't a significant impact on tax compliance decisions ($P > 0.05$). Finally, when summarizing, tax knowledge, tax morale and tax penalties have a significant impact on tax compliance of SMEs while tax rate hasn't a significant impact on tax compliance of SMEs.

Multicollinearity

In this study, multicollinearity was conducted to test whether there were any issues of correlation between independent variables.

Table 13: Results of the Multicollinearity Test

Variable	Multicollinearity Statistics	
	Tolerance	VIF
Tax knowledge	0.411	2.435
Tax morale	0.356	2.813
Tax rate	0.544	1.838
Tax penalties	0.326	3.070
Dependent variable: Tax compliance		

(Source: Survey Data)

Independent Sample T-Test

In this study independent sample T-Test was used to check whether there is a variance of gender and marital status on the dependent variable of TC.

Table 14: Test for Gender on Tax Compliance

Independent Sample T-Test					
Gender	N	Mean	Std. Deviation	Sig. (2 tailed)	T value
Male	138	3.8594	0.92757	0.783	0.275
Female	62	3.8968	0.78906		

(Source: Survey Data)

According to Table 14, the T value is 0.275 and it is not statistically significant because a significant value is greater than 0.05. Therefore, there is no significant difference between the two groups of males and females. It can be concluded that there is no significant difference in tax compliance between male and female SME owners. ($p = 0.783 > 0.05$).

Table 15: Test for Marital Status on Tax Compliance

Independent Sample T-Test					
Marital status	N	Mean	Std. Deviation	Sig. (2 tailed)	T value
Married	157	3.8662	0.89997	0.885	0.145
Unmarried	43	3.8884	0.83871		

(Source: Survey Data)

Considering Table 15, the T value of marital status is 0.145 and it is not statistically significant because a significant value is greater than 0.05. Thus, there is no significant difference between the two groups of married and unmarried. It can be concluded that there is no significant difference in tax compliance between male and female SME owners. ($t = 0.145, p = 0.885 > 0.05$).

ANOVA Test

The analysis of variance (ANOVA) is used to check whether there are significant differences between the means of two or more variables. To recognize the impact of age, race and educational level of respondents on tax compliance was analyzed through one-way ANOVA.

According to Table 16, the results of the ANOVA test imply that there is no significant difference in age group on the tax compliance decisions ($F = 1.112, p = 0.351 > 0.05$). Furthermore, it implies that the tax compliance decision does not significantly deviate from the race of respondents ($F = 1.599, p = 0.205 > 0.05$). Moreover, the test of ANOVA revealed that the decision on tax compliance is not significantly deviate from the level of education of the SME owners ($F = 0.492, p = 0.782 > 0.05$). Therefore, the results of ANOVA concluded that

there are no significant differences in the level of age, race and level of education of the respondents on tax compliance decisions of SME owners in the Kegalle district.

Table 16: Test of ANOVA

Demographic Factors		Mean	Std. Deviation	F	Sig.
Age Level	18 – 30	3.8474	0.74896	1.112	0.351
	31 – 40	3.9913	0.76806		
	41 – 50	3.7071	0.87433		
	Above 50	3.9189	0.96662		
Race	Sinhala	3.9771	0.80255	1.599	0.205
	Tamil	3.7500	0.98167		
	Muslim	3.7547	0.95949		
	Other	0	0		
Level of Education	Primary education	3.8000	0.89972	0.492	0.782
	Secondary education	3.8275	0.93686		
	Certificate / Diploma	3.8400	0.71172		
	Bachelor degree	4.0474	0.72251		
	Masters or above	3.9333	0.81256		

(Source: Survey Data)

Hypothesis Testing

Table 17: Hypotheses Testing

Hypotheses	Results	Decision
H1: There is a significant positive impact of tax knowledge on tax compliance among the owners of SMEs in the Kegalle district.	0.000	Accepted
H2: There is a significant positive impact of tax morale on tax compliance among the owners of SMEs in the Kegalle district.	0.000	Accepted
H3: There is a significant positive impact of the tax rate on tax compliance among the owners of SMEs in the Kegalle district.	0.360	Rejected
H4: There is a significant positive impact of tax penalties on tax compliance among the owners of SMEs in the Kegalle district.	0.025	Accepted

(Source: Survey Data)

Discussion

The Level of Tax Compliance

The level of tax compliance among the owners of SMEs in the Kegalle District is discussed here. 90% of respondents have a high level of compliance. It indicates that the majority of SME owners comply with the tax system. Tax Compliance is measured through five indicators namely compliance with timely payment, compliance with relevant tax payments, voluntary tax registration and payments, correct tax reporting

compliance and tax liabilities accurately. It indicates that Tax Compliance, which falls within the range of $3.5 < X < 5.0$, the mean value is 3.8710 with a high level of compliance among the owners of SMEs with a standard deviation of 0.88514. It implies a close response among the sample.

The Level of Determinants of Tax Compliance

Tax Knowledge, Tax Morale, Tax Rate and Tax Penalties are the predictor variables of this study. All the independent variables' mean values were greater than 3.5 which positively supports the variables. The following description of indicators may give a good understanding.

Discussing the level of tax knowledge of the respondents in the sample, it is found that they have a high level of compliance with the tax knowledge, a mean value of 3.8410 and a standard deviation of 0.78665. Level of tax morale of the respondents in the sample, it is found that they have a high level of compliance with the tax morale, a mean value of 3.8470 and a standard deviation of 0.85630. Level of tax rate of the respondents in the sample, it is found that they have a high level of compliance with the tax rate, a mean value of 3.7490 and a standard deviation of 0.83178. Discussing the level of tax penalties of the respondents in the sample, it is found that they have a high level of compliance with the tax penalties, a mean value of 3.8650 and a standard deviation of 0.87750.

Tax penalties have the highest mean value of 3.8650 and tax rate has the lowest mean value of 3.7490. The influence of tax penalties on the perception of SME owners is indicated as high.

Discussion on Relationship and Impact between Tax Knowledge and Tax Compliance

A significant relationship is found between tax knowledge and tax compliance. According to Table 5.8, the Pearson Correlation Coefficient between the two variables is 0.828, which is positive. This result shows that there is a strong relationship between tax knowledge and tax compliance. The found relationship is statistically significant as the correlation is significant at 0.01 levels. In addition, the p-value is less than 0.01 at the level of significance. Therefore, it can be statistically claimed that there is a significant relationship between these two variables. ($r = 0.828$, $p < 0.01$).

As per the results of multiple regression analysis between these two variables, tax knowledge is found to have a significant positive impact on tax compliance with the strength of B value of 0.451 the, which is significant at 5% (Sig: 0.000) which is less than 0.05 thus null hypothesis is reject and alternative hypothesis accept which indicate the ***'There is a significant positive impact of tax knowledge on tax compliance among the owners of SMEs in Kegalle district.'***

This finding is similar to other studies, either empirically or theoretically, like Agbadi (2011), Inasius (2015), Mukasa (2011), Oladipupo & Obazee (2016), Palil & Mustapha (2011), Razak & Adafula (2013), Waithira (2016), who agreed that tax knowledge does influence tax compliance positively.

The results are consistent with the research by Loo (2016) and Loo et al. (2014) which stated that tax knowledge is the most influential factor in determining taxpayers' compliance behaviour in a self-assessment system. Since lack of knowledge has been considered a challenge faced by SMEs (Fjeldstad & Heggstad, 2012; Braithwaite et al., 2012; OECD, 2019), the findings suggest that the government should consider a tax education policy to improve tax compliance.

Discussion on the Relationship and Impact between Tax Morale and Tax Compliance

A significant relationship is found between tax morale and tax compliance. The Pearson Correlation Coefficient between the two variables is 0.863, which is positive. This result shows that there is a strong relationship between tax morale and tax compliance. The found relationship is statistically significant as the correlation is significant at 0.01 levels. In addition, the p-value is less than 0.01 at the level of significance.

Therefore, it can be statistically claimed that there is a significant relationship between these two variables. ($r = 0.863$, $p < 0.01$).

As per the results of multiple regression analysis between these two variables, tax knowledge is found to have a significant positive impact on tax compliance with the strength of a B value of 0.518, which is significant at 5% (Sig: 0.000) which is less than 0.05 thus null hypothesis is reject and alternative hypothesis accept which indicate the ***'There is a significant positive impact of tax morale on tax compliance among the owners of SMEs in Kegalle district.'***

Similarly, the finding from Alm et al. (1992) also reported a significant favourable effect on tax compliance. The same result supports that have found that a high degree of tax compliance is explained by tax morale (Torgler, 2012; Torgler & Schneider, 2007). Overall, the results indicate that tax morality has the highest magnitude, which confirms that tax morality holds a large role in explaining taxpayer decisions (Alm & McClellan, 2012; Yücedođru & Hasseldine, 2016; Luttmmer & Singhal, 2014).

Discussion on the Relationship and Impact between Tax Rate and Tax Compliance

A significant relationship is found between tax rate and tax compliance. According to The Pearson Correlation Coefficient between the two variables is 0.491, which is positive. This result shows that there is a moderate relationship between tax rate and tax compliance. The found relationship is statistically significant as the correlation is significant at 0.01 levels. In addition, the p-value is less than 0.01 at the level of significance. Therefore, it can be statistically claimed that there is a significant relationship between these two variables. ($r = 0.491$, $p < 0.01$).

As per the results of multiple regression analysis between these two variables, the tax rate is found to harm tax compliance with the strength of B value of -0.039, which is not significant at 5% (Sig: - 0.360) which is greater than 0.05. Therefore, according to multiple regression analysis, the null hypothesis is accepted and the alternative hypothesis rejected which indicates that ***'There is no significant positive impact of the tax rate on tax compliance among the owners of SMEs in Kegalle district.'***

The results of the analysis are aligned with the results of some previous studies (Anderhub et al., 2001), (Nzaro et al., 2013), (Olowookere & Fasina, 2013), (Ali et al., 2014) which mentioned that, significant positive impact on tax compliance.

Discussion on the Relationship and Impact between Tax Penalties and Tax Compliance

A significant relationship is found between tax penalties and tax compliance. The Pearson Correlation Coefficient between the two variables is 0.729, which is positive. This result shows that there is a strong positive relationship between tax penalties and tax compliance. The found relationship is statistically significant as the correlation is significant at 0.01 levels. In addition, the p-value is less than 0.01 at the level of significance. Therefore, it can be statistically claimed that there is a significant relationship between these two variables. ($r = 0.729$, $p < 0.01$).

As per the results of multiple regression analysis between these two variables, tax penalties are found to have a significant positive impact on tax compliance with the strength of B value of 0.118 and the, which is significant at 5% (Sig: - 0.025) which is less than 0.05 thus null hypothesis is rejected and the alternative hypothesis is accepted which indicate the ***'There is a significant positive impact of tax penalties on tax compliance among the owners of SMEs in Kegalle district.'***

The result of the analysis is aligned with the results of some previous studies (Allingham & Sandmo, 1972), (Appah & Wosowei, 2016), (Gadi, 2016), (Gemmell & Ratto, 2017), (Nuridayu & Rosiati, 2017) which mentioned that tax penalties have a significant positive impact on tax compliance.

Empirical Finding for Insignificant Variable

Tax Rate

The study by Nigam (2016) and Mas'ud et al. (2014) showed tax burden in terms of tax rates is the main reason behind tax evasion and found tax rates have a negative influence on tax compliance. The study of Mansor (2016) on the factors affecting tax evasion in Gombe state, Nigeria showed that tax rates positively but not significantly influence tax evasion. This is similar to the finding of Agbadi (2011) that the tax rate was not significantly correlated with tax compliance.

However, most studies found that the relationship concerning tax compliance and the tax rate is negative (Inasius, 2015; Yusof et al., 2014). Moreover, some studies established an insignificant association between tax rate and tax compliance (Olowookere & Fasina, 2013).

Discussion on the Relationship and Impact between Demographic Factors and Tax Compliance

In the study, an independent sample T-test was used to measure the influence of gender and marital status on the tax compliance decision. Gender was not statistically significant because significant value was greater than 0.05 ($p = 0.783 > 0.05$). It concluded no significant difference between the two groups of males and females. The significant value of marital status was 0.885 and also concluded no significant difference.

In this study, ANOVA was used to analyze the age, race and educational level of the respondents. Significant values were 0.351, 0.205 and 0.782 respectively in age, race and educational level. Finally, with the results, it can be concluded that ***'There is no significant difference in tax compliance between demographic factors of SME owners in Kegalle District'***.

Similarly, the studies of (Al-Mamun et al., 2014), (Roxas & Stoneback, 2004) showed that there is no difference in tax compliance between men and women. The study (Adimassu & Jerene, 2016) revealed that taxpayer's age has an insignificant impact on compliance level. A study (Tadesse & Goitom, 2014) has found that the level of education is insignificant in improving tax compliance

5. Conclusion

This study was undertaken on determinants of tax compliance behaviour of small and medium enterprise owners in the Kegalle district. For achieving what is aimed, primary data was collected using Likert scale questionnaires and analyzed using descriptive statistical tools. Correlation and regression analysis were used to measure the strength of the relationship and the degree of association between dependent and determinant factors of tax compliance behaviour of small and medium enterprise owners. Four determinants of tax compliance of taxpayers were considered for this study namely tax knowledge, tax morale, tax rate and tax penalties. The correlation analysis of the study shows that there are statistically significant associations between independent factors and tax compliance behaviour of small and medium enterprise taxpayers. From these potential determinants, the findings of the investigation showed that the tax compliance behaviour of small and medium enterprise owners was positively affected by tax knowledge, tax morale, tax rate and tax penalties.

The multiple regression analysis was conducted and evaluated the impact of independent variables (tax knowledge, tax morale, tax rate and tax penalties) on the dependent variable (Tax compliance). According to the results of multiple regression analysis, the R^2 value was 0.831 and the adjusted R^2 was 0.827. It indicates that the model was strongly fitted to the data at the level of 83.1%. 83.1% variance of tax compliance was described by the independent variables in the study (tax knowledge, tax morale, tax rate and tax penalties)

on the dependent variable (tax compliance). Only 16.9% of the variance in tax compliance was described by other factors.

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