Power, Trust, and Tax Compliance of SME Taxpayer

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Abstract: Sri Lanka is currently facing a problem with achieving its tax revenue targets. The government can collect tax money from citizens, either through enforcement or by letting them contribute voluntarily. However, the tax authority should take a firm decision to choose between enforcement of power of the revenue body or to develop mutual trust between the tax authority and the relevant parties of the society in the process of collecting tax. The objective of the study is to empirically examine the influence of power and trust on enforced tax compliance and that of voluntary tax cooperation. A survey was conducted from January 1, 2020, to January 31, 2020 to collect data, and 408 Small Medium Taxpayers responded. Simple Regression analysis was used to interpret and analyze the data. All hypotheses are accepted and proved that there are positive relationships between power, trust, voluntary compliance, and enforced compliance. The findings suggest that by improving trust and voluntary compliance, an efficient tax compliance could be developed.

Keywords: Tax compliance, Trust, Power, SMEs

Introduction

The taxpayers' willingness to pay or not to pay due tax depends on their personal views of taxation (Hariyadi & Bayu, 2013). Kirchler (2007) highlights that people's attitudes, thinking, and behavioral patterns are more affected by what they feel more than what it is and identify two tax compliance situations, namely enforced and voluntary. In a voluntary compliance nature, people fulfill their primary obligations without any involvement of the tax authority, while in the enforced compliance culture, the authority collects tax from people forcefully.

After ending the thirty years of civil war, Sri Lanka is looking for a rapid economic growth targeting doubling per capita income. The tax system of Sri Lanka has not been able to generate sufficient tax revenue. Hence, there exists a dire need for an effective and efficient tax collection system to increase government revenue (Central Bank, 2018). Like in most developing countries, only about 20 percent of the tax revenue is collected through direct tax, and 80 percent is generated through indirect tax. It is noted that in 2019, total revenue (tax and non-tax revenue) as a percentage of GDP has declined(Central Bank, 2019).

The OECD (2019) admits that tax compliance is an outcome of the complex behavior of an individual and, therefore, requires studying and analyze the compliance issues from a different point of view. Further, the observations of OECD (2014) confirmed that the level of tax contribution of Small Medium Enterprises (SMEs) to the government revenue collection is deficient. Combining the factors considered in economics and psychology models, Kirchler (2007) developed the Slipery-Slope Framework to determine the Taxpayer's behavior in the tax field with the influence of factors, power of authority, and trust in authority. Empirical research is conducted to explore

how power and trust as determinants of influencing tax compliance behaviour but the research findings vary according to the target populations and the geographic locations of the survey. Therefore, this study aims to contribute by empirically testing the power of authority and trust in the tax regime as determinants of SME taxpayers' compliance behavior in Sri Lanka. Furthermore, the researchers intend to identify the compliance pattern in Sri Lanka in terms of voluntary and enforced.

Literature Review and Hypothesis

A. Slippery - Slope Framework (SSF)

According to Kirchler et al. (2008), the belief and understanding of individuals and social groups on tax authorities create mutual trust between the two parties, the authorities, and taxpayers, and the well-developed collaboration between the tax collector and Taxpayer builds up a synergistic tax climate. In a cooperative tax climate, the authorities believe that taxpayers pay their due taxes accurately and honestly. Therefore, they compel to treat taxpayers in a friendly manner with respect. In turn, the Taxpayer's repose trust that authorities utilize their tax money transparently and provide excellent services for the citizens in the state. Thus, they automatically compel themselves to pay their due taxes on time. Explaining the power of authorities, Kirchler, et al., (2008) say that too much power leads to mutual distrust between the revenue authorities and taxpayers, which creates a hostile environment. In such a scenario, the authorities act on the assumption that taxpayers evade taxes whenever they have a chance to do so. Therefore, the authorities use substantial audits and severe punishment to coerce tax payments. Such unpleasant situations could demoralize the attitude of honest taxpayers to react

negatively by hiding and evading tax and cheating the tax authority (Kirchler, 2007).

The SSF discusses two types of tax compliance behavior. One is voluntary compliance behavior, and the other one is forced compliance behavior. These behaviors depend on the "power of the authorities" and the "trust that individuals have in the authorities." Voluntary compliance depends on trust in the authorities, which is mainly built up by perceptions of fairness and social norms. If a taxpayer does not pay taxes voluntarily, tax authorities use deterrence power and enforce citizens to pay tax with fines.

Under the antagonistic atmosphere, there grows mistrust between the relationship of taxpayers and tax authorities, known as the "cops and robbers" (Kirchler, et al., 2008). Tax authorities feel that taxpayers are always trying to evade paying taxes, and as a result, they find a way to punish them. From a synergistic climate, another relationship is created, namely "service and customers." Taxpayers and tax authorities work together in such an environment trusting each other. The tax authorities place their trust on taxpayers to pay taxes honestly. Taxpayers concurrently feel that the tax authorities treat them with courtesy and respect, and this process makes taxpayers pay fees voluntarily (Kirchler, et al., 2008). The SSF, illustrated in Figure 1, explains the potential interaction between trust and power in tax compliance (Kirchler, 2007).
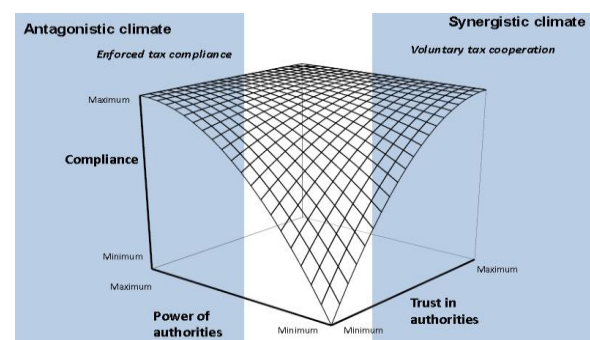

Figure 1. Slippery-Slope Framework
Source: Muehlbachera & Kirchler (2010, p. 608)

Trust refers to the relationship between taxpayers and tax authorities based on the belief that the taxpayers have on the tax officials and policymakers. If taxpayers have a high level of confidence in tax authority and policymakers, then tax compliance is perceived to have increased (Kastlunger, et al., 2013). Similarly, if the power of authorities increases, then tax payments are expected to increase as well (Kirchler, et al., 2008).

B. Tax Compliance

Jackson & Milliron (1986) describe tax compliance as the reporting of all incomes and payment of all taxes according to the laws. They believe that tax compliance should happen without any force. Agreeing with this, Palil & Mustapha (2011) noted, tax compliance is a person's attitude of filing the tax returns and declaring all taxable income accurately, within the stipulated period without having any follow-up actions from the authority. Highlighting the importance of the tax compliance Ming-Ling, et al., (2005) say, a taxpayer submitting a tax return every year and following the required payment time frames according to the existing law is tax compliance. Loo & Ho (2005), explaining the tax compliance behaviour say that the degree of honesty and sufficient tax knowledge will change the tax compliance pattern of the taxpayers. They further mention the adjustability to time schedules, accuracy, and proper record-keeping practices to complete the tax returns are also essential to creating a favorable compliance environment among taxpayers. According to Kirchler (2007), taxpayers' willingness to comply with tax laws, declaring the correct income, claiming the proper deductions, relief, and rebates, and paying all taxes on time is tax compliance.

However, Terkper (2003) studied the reasons for the poor performance of SME and found that many SME taxpayers do not register and pay tax voluntarily. Also, those who have registered often fail to keep adequate records, neglect to file tax returns, and settle their tax liabilities promptly.

C. Power of Authority

The power of taxation cannot be defined solely by persuading people to comply with their tax obligations, but also as to who has the potential to set the rules through policymaking. The tax authorities use the power delegated to them and control taxpayers' behavior. The controlling power or enforcement power applies to the tools of penalty and tax audit to increase compliance.

When there is a "cops and robbers" relationship between taxpayers and tax collectors, it creates a hostile climate situation in the tax field (Muehlbacher, et al., 2011). People make mistakes, but at least they would get one chance to correct the error and learn a lesson for the rest of their life. If not, the hostile environment and the fear of the people to revenue authority persuade them to switch for possible alternatives such as bribe officers, use political contacts, and threaten tax officials at a personal level to evade or hide tax. The response of Taxpayers towards the legitimate and coercive power implemented by the government and the tax regime is considered as the power of authority in this study.

D. Trust in Authority

When taxpayers have faith with the tax authority, they are willing to comply according to the actions taken by the tax authority, with the confidence of their rights and interests will not be abused (Mayer, et al., 1995). When the level of Taxpayer's trust in tax authorities goes up, they willingly compel to accord (Faizal, et al., 2017). The objective of tax authorities is

to provide services to taxpayers that facilitate compliance according to the law. Findings from prior research show that trust in tax authorities is positively related to tax compliance (Torgler & Schneider, 2007).

When taxpayers do not trust the tax administration, it will be one of the reasons to increase the non-compliance rate (Murphy, et al., 2016). Collecting taxes in a fair system, without any discrimination and spending such revenues for the development of the country encourage taxpayers to concur in the process of revenue generation. Besides, Uslaner & Brown (2005) found that inequality is the most vital determinant of trust; therefore, people are more willing to pay tax when they feel that the tax system and tax authority are treating them equally. Also, treating taxpayers with trust and respect produces a more cooperative setup, improve compliance (Murphy & Tyler, 2008). Develop confidence within citizens in a transparent approach, and to emphasize the perceived fairness would improve tax collection (Wahlund, 1992). In line with the argument OECD (2010) noted that taxpayers treated as trustworthy would be more likely to repay this respect with voluntary compliance. Rothstein (2000) argues that two conditions need to be fulfilled within taxpayers' minds to build up the confidence of why pay tax. People need to believe that other taxpayers are paying their tax shares to the state, and tax authorities must ensure that the fees invested in the public welfare projects rather than filling the hands of tax administrators or other government officials. Therefore, both interpersonal trust and institutional trust are essential to ensure cooperation between taxpayers and collectors. Abdulsalam, et al., (2015) found that voluntary compliance is high when the authorities are trustworthy. Another point that when there is no trust between both

parties, that creates a forced compliance situation in the tax system.

In developing countries, tax authorities often show little confidence in taxpayers and use deterrent actions to solve all problems related to tax non-compliance. The enforced compliance environment, Kirchler, et al., (2008), explains as "cops and robbers" relationships between taxpayers and the tax authority. In a similar culture, taxpayers often try to hide due to tax but behave with fear and uncertainty. On the contrary, tax officials always suspect the taxpaying community, attempts to chase them until the discovery of a dispute in the declared tax return and the documents submitted. Collecting tax money in a "cops and robbers" culture is costly, time-consuming, full of conflicts, and unpleasant for both parties.

Another fact that corruption of the tax authority and tax officials damage taxpayers' trust in tax authority and decreases tax compliance (Torgler & Schneider, 2007). A systematic, transparent, and fair tax structure increases the faith in the government and reduces illegal tax activities. When the government spends tax money to make citizens satisfied, and develop their trust about the state, increase the tax compliance rate. This study considered the belief in authority with the Taxpayer's image of the transparency and the accountability of the government and tax regime.

E. Enforced Tax Compliance

The tax authority has two different powers to collect money from taxpayers, legitimate power and coercive power (Kirchler, et al., 2008). The legal power means reduce tax misconduct of taxpayers, using the power delegated through tax legislation by tax officers. The coercive power of authority permits tax collectors to detect and punish unlawful acts, like tax evasion and producing of wrong information. Then the

tax officers can punish taxpayers by imposing penalties, issuing additional assessments, issuing seizure notices to banks and the immigration Department, and taking prosecution action to collect default tax from taxpayers.

F. Voluntary Tax Compliance

Research on taxation focuses not only on enforcement strategies like audits and fines but also on trust-related strategies like social norms and fairness as determinants of tax compliance. As emphasized by Kirchler (2007), the individual motivation for cooperation or evasion varies across the Taxpayer's trust in a different set of actors in the field of tax. Further, he is of the view that faith is the foundation of civic commitment. A study done by (Hauptman, et al., 2015) found that national and social norms are a significant factor of voluntary tax compliance. Modern tax systems rely heavily on voluntary compliance for revenue collection. Voluntary compliance means that each Taxpayer expected to prepare and file returns; pay liable tax on due dates without any involvement from the tax authority or government. The study conducted Lubua (2014) based on SMEs of Tanzania observed the factors of Taxpayer's awareness of tax laws, business experience, frequency of visiting tax officers influenced voluntary compliance. When there is a voluntary compliance situation, the cost incurred with revenue collection is meager and efficient. Therefore, most of the states around the world work extensively to improve their taxation approaches focusing on voluntary tax compliance systems.

However, the decisiveness of tax compliance is directly connected with the nation of the country indirectly bridging with many other economic and psychosocial factors. Under a voluntary compliance situation, the Taxpayer does not need to be coerced or forced into

paying taxes, and he does not see tax payment as a burden on him; instead, he sees it as a duty he owes to the government. Voluntary compliance is, therefore, an essential determinant in tax administration and helps in achieving higher tax revenue at a lower cost.

G. Hypothesis Development

There is a question of why some are paying taxes, while others do not pay. The answer is some are aware of the responsibility of a citizen, and some do not have any faith in the authority. If the taxpayers have high trust in the tax system and the government, they pay their fair share to the government coffers without any force being applied (Kirchler, 2007). A hypothesis developed to study the relationship between the Taxpayer's trust in authority and voluntary compliance pattern as follows;

H1: Taxpayer's trust in revenue authority is positively related to the voluntary tax compliance behavior of SME taxpayers in Sri Lanka

In a voluntary compliance culture, tax officers respect and trust taxpayers; treat them with dignity (Kirchler, 2007). The authority accepts what the Taxpayer declared in the tax return as accurate. In the absence of audit or additional queries by the tax authority, it would make the taxpayer content with the existing tax system. Simultaneously, the government utilizes peoples' money; in a transparent, fair, and efficient manner that would encourage the people to join hands with the tax system. The hypothesis developed to study the relationship between voluntary compliance and total tax compliance as follows;

H2: Voluntary tax compliance is positively related to tax compliance behavior of SME taxpayers in Sri Lanka

Tax officers can use the power assigned to them to collect taxes efficiently and

effectively. If the officers identify tax evaders, they will attempt to charge them for not complying with tax regulations; thus, officers tend to use coercive methods such as penalty and audit to collect due taxes from evaders (Kirchler, et al., 2008). A hypothesis was developed as below to study the relationship between the power of authority and enforced tax compliance behaviour

H3: Power of tax authority is positively related to enforced tax compliance behavior of SME taxpayers in Sri Lanka

According to SSF assumptions (Kirchler, 2007), the higher the power used by tax authority increases tax compliance and, at the same time, tends to decrease the volume of honest taxpayer contributions. Such an impression imparted by the tax authority could distract the relationship of the genuine Taxpayer and the authority since it creates an atmosphere to change their mindset (Taxpayer). Treating them as untrustworthy taxpayers would have an ultimate effect on the efforts of the authority when the Taxpayer is emotionally perturbed. The below hypothesis was suggested to study the relationship between enforced compliance and tax compliance,

H4: Power of tax authority is positively related to enforced tax compliance behavior of SME taxpayers of Sri Lanka

Methodology

The quantitative research approach has been utilized in this study. The Primary Data required to test the hypotheses obtained through a questionnaire applied to all the SME taxpayers, registered at the Inland Revenue Sri Lanka, as at 31.12.2019. Thirty-two thousand one hundred seventeen (32,117) taxpayers are covering all-island, and they have been categorized under six subgroups, namely agriculture, services, manufacturing, trading, and

constructions. The questionnaire used in this study has been adapted from the previous reviews about SSF to reflect the Sri Lankan situation.

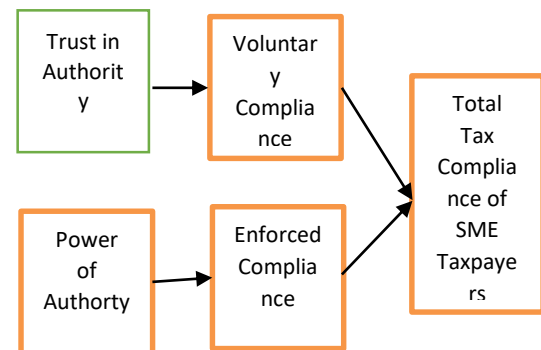Based on the hypothesis, the conceptual framework of the study is as follows;

Figure 2. Hypothetical Framework
Source: Developed based on previous research

3.1 Sample Selection

From the registered SME taxpayers of Inland Revenue as of December 31, 2019, under the Medium Corporate category, a sample of 408 respondents was randomly selected based on Yamane's (1967) sample selection formula. The survey conducted from January 1, 2020, to January 31, 2020, and the five hundred questionnaire forms were sent by mail to the business addresses of SME taxpayers expecting to reach the required number of four hundred of a sample.

3.2 Measurement Instrument

Participation in the study was voluntary and assured that their answers would be kept confidential. There were twenty-eight (28) questions in the survey form relating to the variables measured in this study. The questionnaire consists of two parts. Section A of the questionnaire was on the demographic characteristics of the respondents, while Section B of the questionnaire developed to test the research hypothesis. The respondents' perceptions for the questions were measured using a 5-point Likert scale, in

which the level of agreement spread from 1 = strongly disagree to 5 = strongly agree.

When designing the survey form, the medium of language was a factor to be concerned to be very much. Sri Lanka is a multi-ethnic, multi-religious country, and people speak several languages. Since the respondents of the survey comprise different ethnic groups, the questionnaire was designed in three main languages used in Sri Lanka; Sinhala, Tamil, and English. At the time of addressing and posting the survey forms, the medium was selected based on the available taxpayer profile data at Inland Revenue. The profile database was developed with the information submitted by the Taxpayer at the time of registration. Keeping participants comfortable and easy to understand the survey questions and motivate them to respond actively was the focus.

Research Results and Analysis

The Exploratory Factor Analysis (EFA) was conducted to examine whether the questionnaire also consists of a single factor. The Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Bartlett's Test of Sphericity were used to verify the suitability of the data set is for factor analysis. In this study, the Kaiser-Meyer-Olkin Measure of Sampling Adequacy value was 0.924 (p<0.001 Bartlett's Test of Sphericity). Therefore, these groups of data sets were statistically significant, and factor analysis is appropriate for these groups of data sets.

According to the eigenvalues, seventeen items emerged with an eigenvalue above 1 in all samples, and the initial eigenvalues percentage of variances were less than 41.2%. However, the difference between the eigenvalue of the first component and the following components is so massive (7.415), and all the eigenvalues were in the positive range that implied all the items in good condition.

The average factor loadings were 0.563 (range 0.30 – 0.81), and all item loadings easily exceeded the critical value of 0.30, indicate that all the items fit well with the other items in their components in this sample.

The next measure is to evaluate the construct reliability, and the Cronbach's Alpha value measures it. The rule of thumb for Cronbach's Alpha is that it should be 0.6 or higher than 0.6 (Hair, et al., 2014). Jayasinghe-Mudalige, et al., (2013, p. 7), confirming this argument and say that Cronbach's Alpha value should be 0.6 or higher, but 0.7 or higher means that reliability is very good with internal consistency. In this study, the influence of the variables of trust, power, voluntary compliance, and enforced compliance on overall tax compliance of the SME taxpayer was studied.

Table 1. Results of the construct
Source: Based on a sample survey, 2020

Construct	Cronbach's Alpha Value
Trust	0.636
Power	0.705
Voluntary Compliance	0.602
Enforced Compliance	0.655
Tax Compliance	0.601

The total Cronbach's Alpha value was 0.886, and the rest of the construct reliability is illustrated in Table 2. The internal consistency of the questionnaire was good, and it can, therefore, conclude as it is a reliable instrument. Since the Cronbach's Alpha value of all constructs is more significant than 0.6 so that it can be supposed that indicators were consistent in measuring the construct.

Also, to measure the strengths and directions of the linear relationships between pairs of variables as mentioned above under the research framework was

measured using the Pearson Correlation. The Pearson Correlation is a statistical technique that shows how strongly two variables are related to each other or the degree of association between the two variables. There was a strong, positive correlation between all the compared variables, which was statistically significant. Table 3 below explains the correlation between power and trust, voluntary and enforced compliance as well as tax compliance.

Table 2. Results of the Hypothesis
Source: Based on a sample survey, 2020

Hypotheses	Relationship	Standard Error	t Statistics	Pearson Correlation	P-values
H1-Accepted	T / VC	0.399	15.941	0.620	<0.001
H2-Accepted	VC / TC	0.452	17.118	0.647	<0.001
H3-Accepted	P / EC	0.333	18.543	0.677	<0.001
H4-Accepted	EC / TC	0.518	11.181	0.485	<0.001

Where, T = Trust; VC = Voluntary Compliance; TC = Tax Compliance; EC = Enforced Compliance; P = Power

Hypothesis 1: Results in Table 3 revealed that there is a significant relationship between the Taxpayer's trust in revenue authority and voluntary tax compliance behaviour $(\beta = 0.399, t = 15.941, p < 0.000)$. This association further confirms the value of (r =0.62). Therefore, H_1 is accepted and similar to the findings of (Kirchler, 2007). According to the Sri Lankan scenario, there is a significant relationship between the Taxpayer's trust and voluntary compliance. When the Taxpayer aptly realizes that he is part of the citizenry that utilizes the infrastructure

facilities provided by the state for the common good and the welfare of the people, he becomes aware of the efforts of the government to offer such benefits. As a person who received privileges of free education, he feels that his hard-earned money has a direct link to the government's involvement in these benefits, he inevitably explores the avenues of income generation by the state. His spontaneous reactions would be to subscribe to the government's efforts; hence, the only way he could discharge this duty is through the voluntary payment of taxes. There he becomes part and parcel of the strategic development of the country.

Hypothesis 2: Results in Table 3 revealed that there is a significant relationship between the Taxpayer's voluntary tax compliance behaviour and the total tax compliance $(\beta = 0.452, t = 17.118, p < 0.000)$. This association further confirms the value of (r =0.647). Therefore, H_2 is accepted, and it is in line with the findings of (Kirchler, 2007). Voluntary compliance is a salient feature as far as the Sri Lankan SME taxpayers are concerned. The positive relationship between voluntary tax compliance and the total tax compliance correspondently increases the tax payment. Such a scenario reduces administrative and legal ambiguities.

Hypothesis 3: Results in Table 3 explained that there is a significant relationship between the power of revenue authority and the enforced tax compliance culture $(\beta = 0.333, t = 18.543, p < 0.000)$. This association further confirms the value of (r =0.677). Therefore, H_3 is accepted and similar to the findings of (Kirchler, et al., 2008). There is ample evidence that has been found to prove that there is a positive relationship between the power of authority and enforced tax compliance. Enforce tax compliance always increases government revenue. However, it appears

to be cumbersome for the tax officers who are armed with legitimate power to discharge their duties in an unfriendly environment.

Hypothesis 4: According to the results in Table 3, it is revealed that there is a significant relationship between the power of revenue authority and the enforced tax compliance behaviour ($\beta = 0.518, t = 11.181, p < 0.000$). This association further confirms the value of (r =0.485). Therefore, H$_1$ is accepted and similar to the findings of (Kirchler, 2007). Enforced tax compliance has a direct effect on tax compliance. In the Sri Lankan context, neglect of compliance brings in several implications such as harassments, unnecessary correspondents, waste of time, stress, fear, and more than anything; it would create an indelible stigma among the business community and the society in general. This will compel most of the tax evaders to fall in line with tax compliance. The hostile atmosphere tends to reverse the relationship between the Taxpayer and the tax regime. The fear that a taxpayer is blacklisted causes pain of mind forcing him to avoid such situations. In another related sequence, the Taxpayer keeps confidential information close to his heart as a measure to prevent them from being leaked out to even his kith and kin and other business associates. All four hypothetical situations have been significant, and the study further envisages to explore the tendency of the Taxpayer's tax compliance behavior vis-à-vis voluntary or enforced.

This study aims to identify the tax compliance pattern among the SME taxpayers in Sri Lanka. According to table 4 below, when the enforced tax compliance is increased by 1, correspondingly, the total compliance results in an increase by 0.2, while the voluntary compliance is increased by 1, the total compliance tends to increase by 0.7. Hence, these results

show that there is a marked improvement in voluntary tax compliance though it poses a very pertinent question of whether voluntary compliance in Sri Lanka is genuine. This argument is based on low revenue collection for the government coffers. Further inquiry shows that voluntary compliance is linked to the risk the taxpayers facing owing to the legal framework of the tax authority. Question number 48 of the survey signifies that 390 respondents out of 408 survey sample have been answered in the affirmative, stating that they either "agree" or "strongly agree" with the query. The question that has a bearing on these answers is as, "I pay tax, though I would prefer not to pay any taxes," which indirectly sounds that the voluntary compliance of SME taxpayers is accurate or not. The determination of the preceding is that voluntary compliance is far from being genuine.

Table 3. Regression Path Coefficient – The Dynamic Relationship
Dependent Variable = Total tax compliance
Source: Based on a sample survey, 2020

Model	Unstandardized Coefficients		Standardized Coefficients		Significant
	B	Std. Error	Beta	t	
(Constant)	0.592	0.203		2.916	0.004
Enforced Compliance	0.168	0.063	0.128	2.650	0.043
Voluntary Compliance	0.661	0.056	0.567	11.722	0.550

Conclusion

The research findings confirm the main assumptions of Slippery-Slope Framework by Kircher in 2007. All four hypotheses are significant and proved that there are positive relationships between power,

trust, voluntary compliance, and enforced compliance. Further, this study reveals that the theory in SSF also can be applied to the Sri Lankan context.

The study has several limitations that can affect the results. The study only considered the SME taxpayers in Sri Lanka. As there are large taxpayers as well as Pay-As-You-Earn taxpayers in the revenue contributing group, it is an important fact to understand their tax compliance behavior. Also, all dimensions of trust and power, such as perceived trust and coercive power does not cover in the research. Still, this study gives the insight to explore more on the influence of faith in authority and power of tax authority on tax compliance patterns such as voluntary and enforced. Besides, further research could be conducted considering the demographic factors of the respondents and the business nature wise.

The tax compliance system should be designed to encourage and attract SME taxpayers. The SME taxpayer's revenue contribution is essential in the economic development of the country. The findings of the study show that a mix of both voluntary and enforced tax compliance behaviour exist among SME taxpayers in Sri Lanka. Nevertheless, increasing the Taxpayer's faith and trust in the authority will cause to increase in voluntary compliance patterns among SME taxpayers. The government and tax policymakers should pay their attention to this area.

Policymakers should review the existing laws and the weightage carried out by tax law, which creates an unhealthy environment as far as Taxpayer is concerned. Also, the academicians should have ideas of the coercive methods used and implemented by the tax officers to collect required revenue for the state. The SME taxpayer's perception towards the accountability of government and the tax

regime should be adequately addressed to create a better tax culture that will inevitably place the SME taxpayer in a comfort zone caused to increase revenue collection of the country.

Acknowledgment

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