

## FACTORS INFLUENCING ON TAX COMPLIANCE OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN SRI LANKA

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### ABSTRACT

Small and Medium Enterprises (SMEs) are a crucial component of the Sri Lankan economy, playing a pivotal role in fostering innovation, generating employment, and facilitating economic diversification. This sector also serves as a significant contributor to the nation's tax revenue. However, ensuring robust tax compliance within this sector presents a challenge for tax authorities. Therefore, this study examines the factors influencing the tax compliance of SMEs in Sri Lanka, focusing on variables such as tax rate, taxpayer's attitude, rewards and incentives, fines and penalties, tax audits, and perceptions of government expenditure. A quantitative research approach was employed utilizing a structured questionnaire to collect data from a sample of 100 SMEs registered in Sri Lanka. The study sample was selected using convenience sampling. The total population of SMEs registered in Sri Lanka served as the basis for this selection. Data analysis was conducted using the SPSS Statistical Package, employing descriptive statistics, reliability tests, correlation, and regression analysis. The study found a positive and significant relationship between taxpayers' attitudes ( $r = 0.61$ ,  $p < 0.01$ ), rewards and incentives ( $r = 0.52$ ,  $p < 0.01$ ), fines and penalties ( $r = 0.58$ ,  $p < 0.01$ ), perceptions of government expenditures ( $r = 0.19$ ,  $p < 0.01$ ), and tax compliance. Additionally, the results reveal a significant negative relationship between the tax rate ( $r = -0.47$ ,  $p < 0.01$ ) and tax compliance. These insights suggest the need to revise the current tax rate structure to alleviate the burden on taxpayers. Implementing targeted tax incentives, simplifying the tax processes, and promoting transparency in tax policies and authorities can enhance compliance. This study provides valuable information for policymakers and tax authorities aiming to improve tax compliance among SMEs in Sri Lanka.

**Keywords:** SMEs, tax compliance, taxpayers' attitudes, tax policy, tax rate