

Factors Affecting Tax Compliance among Small and Medium Enterprises in the Southern Province of Sri Lanka: Special Reference to the Galle District

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Abstract

Tax compliance is vital to sustainable national tax collection, especially in developing economies like Sri Lanka. Despite various regulatory reforms, tax compliance among Small and Medium Enterprises (SMEs) in the Southern Province, particularly in the Galle District, remains relatively low. This study examines the key determinants of tax compliance among SMEs, focusing on the impact of tax knowledge, tax rates, tax penalties, and the cost of compliance. Adopting a quantitative, explanatory, and deductive research design, primary data were collected from 200 owners & managers in SMEs through structured questionnaires using convenience sampling. Secondary data were also used to develop the conceptual framework. The data were analyzed using SPSS software, employing descriptive statistics, Pearson's correlation analysis, and multiple regression to test the hypotheses. The findings reveal that tax knowledge and the enforcement of tax penalties significantly and positively influence tax compliance. Conversely, high tax rates and elevated compliance costs discourage compliance. These results provide valuable insights for policymakers and the Inland Revenue Department in formulating more effective tax policies and education programs. Enhancing voluntary compliance can broaden the tax base and stimulate overall economic growth. The study recommends simplifying tax procedures, expanding taxpayer education, and streamlining penalty mechanisms to create a more SME-friendly taxation system in the Galle District.

Keywords: cost of compliance, SMEs, tax compliance, tax knowledge, tax penalties