

Factors Influencing Tax Evasion in Sri Lanka

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Abstract

This study investigates the key factors that influence tax evasion among individual taxpayers in Sri Lanka, a pressing issue that undermines public revenue and economic development. The present research focuses on five major independent variables: tax rate, tax knowledge, penalties for non-compliance, fairness of the tax system, and individual moral attitudes. The study limited its analysis to five variables based on prior literature and theoretical frameworks rather than factor analysis, with their validity and reliability confirmed through statistical tests. A quantitative research methodology was adopted, using a structured questionnaire administered to a sample of 384 individual taxpayers registered with the Inland Revenue Department of Sri Lanka. The 384 individual taxpayers were selected as the sample size, according to the Morgan table. The data were analyzed using descriptive statistics, correlation, and multiple regression analysis via SPSS software. The findings reveal that individual moral attitudes, tax rates, and penalties for non-compliance have a statistically significant impact on tax evasion, with moral attitudes showing the strongest influence. However, tax knowledge and perceived fairness of the tax system did not demonstrate a significant direct effect in the regression model, despite showing high correlations. These results underscore the complex interplay between taxpayer behavior and institutional structures. The study contributes to both academic knowledge and policy-making by identifying critical areas for intervention. Enhancing ethical tax behavior, improving the effectiveness of penalties, and rationalizing tax rates are recommended strategies to mitigate tax evasion. The research also highlights the need for further studies focusing on enforcement mechanisms and tax education within Sri Lanka's unique economic context.

Keywords: fairness of the tax system, individual moral attitudes, penalties for non-compliance, tax knowledge, tax rate