Tax Compliance: A Conceptual Research

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Abstract: *This paper aims to elaborate the various viewpoints held by different scholars in relation to tax compliance and its relationships with other variables. This will be more helpful for future researchers when they are planning to undertake any specific research in relation to this area, and it also plays a crucial role in gaining new knowledge as well as extending the existing knowledge in relation to this particular area. In order to identify the pertinent concepts and their significance to the current context, it reviews the prior literature that previous scholars have contributed. As a result, the researcher studied about 250 research articles that were published by various organisations and other different authors. Finally, an examination of over 100 papers was conducted to determine which themes were pertinent and how well they applied to Sri Lanka's current situation. As a result, the conceptual concepts presented in this review paper will establish a new line of inquiry for further studies that will aid in understanding the implications of these conceptual ideas. If it makes sense in further research, these ideas will apply to many real-world situations both in Sri Lanka and throughout the world.*

Keywords: Tax compliance, subsidies, economy, organisations

I. INTRODUCTION

Various academics have characterised tax compliance in different ways. Ayuba, Saad, and Ariffin (2016) defined tax compliance as the observance of pertinent tax rules and regulations by taxpayers; while, Marziana, Norkhazimah, and Mohmad (2010) emphasised tax compliance as the level of adherence to domestic tax laws and regulations by taxpayers. Furthermore, according to Alabede, Zaimah, and Kamil (2011), developing nations continue to have low rates of voluntary tax compliance because of the numerous barriers that exist in these countries. Tax audits and other enforcement actions are one of the main causes. According to (Lediga, 2018), South Africa has over 300,000 tax-evading businesses, although they nonetheless report lesser revenue than businesses that have always paid taxes. According to information provided by the Indonesian Minister of Finance, just 397,000 small and medium-sized businesses (SMEs), or around 0.7% of all SMEs, paid taxes in 2017, making them the sector with the lowest tax compliance rates overall (Rachman, 2017). (2017b). Researchers recently discovered that even though several states have already implemented several administrative reforms, levels of tax collected have remained quite low due to low levels of tax compliance, despite the fact that many governments around the world have been taking sufficient tax administration measures like penalties, tax audits, etc. to ensure tax enforcements.

Table 1. Corporate Income Tax Return Compliance 2011/2012 to 2015/2016

Year of Assessment	Compliance on the due date	Compliance within one month from the due date
2011/2012	56%	60%
2012/2013	56%	70%
2013/2014	53%	61%
2014/2015	52%	58%
2015/2016	30%	46%

Table 1 shows that for the corporate sector income tax assessment year 2015–2016, compliance rates were 30% on the due day, 46% within one month of the due date, and a further 48% within two months of the due date.

Table 2. Return compliance on other taxes

Year	VAT	ESC	NBT
2014	49%	71%	84%
2015	65%	68%	86%
2016	71%	79%	31%

Note. VAT=Value added tax; ESC=Economic service charge, NBT=Nation building tax.

The return compliance rate for all other taxes has been essentially constant, as indicated in table 2. However, NBT in the concerned year shows a considerable reduction in rate. According to the IRD's field survey, 75,811 new taxpayers were registered with NBT during the year. This drop might be due to such taxpayers not being familiarised with filing taxes.

II. LITERATURE REVIEW

To illustrate the relationships between tax compliance as a dependent variable and the other variables such as tax rate, tax information, taxpayers' attitudes, legal framework, and the cost of tax compliance as independent variables, the researcher discusses the various theories presented by the various scholars in relation to tax compliance as well as the various views already expressed by the various organisations and the other researchers under this heading.

2.1 Theories Relating to Tax Compliance

The following tax compliance theories were established by a variety of academics to demonstrate how different factors, such as public trust in the government and the calibre of the products and services it offers its citizens, might improve tax compliance. The following is a succinct explanation of these theories.

2.1.1 Optimal Tax Theory

This theory's fundamental tenet is that the government enjoys using taxation to gather a specific sum of money.
Emanuele (2012) provides an example of how this theory incorporates a number of models that focus on the characteristics of a tax system. Additionally, the goal of these models is to arrive at an equilibrium level of taxes levied by the government to meet its revenue goals. Additionally, these models are created in accordance with a number of excellent tax system characteristics, including equality, stability, adaptability, and transparency (Emanuele et al., 2012).

2.1.2 Political Legitimacy Theory

According to this idea, the level of public trust in a country's government has a significant impact on tax compliance (Tyler, 2006). (Kirchler,2008). Additionally, Persson (2008) noted that developing national identity is more successful than they become significant political opponents.

2.1.3 The Tax Moral Theory

German researchers from the Cologne school of tax psychology were the first to create the tax morale hypothesis. Tax morale, a personal aspect that encourages people to fulfil their tax duties. Numerous research has revealed that tax morale is a factor in tax avoidance (Mocetti, Vol 18 No. 6). According to this notion, taxpayers are more likely to adhere to their tax duties if their friends, family members, and acquaintances do the same. Taxpayers may also avoid paying their taxes if they believe that others are getting away with it. In other words, a culture that focuses on tax evasion would encourage tax evasion (Waweru, 2004)

2.1.4 Theory of Planned Behaviour

An important hypothesis that is presented within the context of social psychology that seeks to explain human actions is the notion of planned conduct. This theory, which was created by Ajzen in 1991, is just a better version of the Theory of Reason and Action that Ajzen and Fishbein proposed in 1991 to explain conscious behaviour. This theory contends that social behaviours are influenced by a number of variables, have specific causes, and develop in a predetermined manner (Erten, 2002). However, the capacity to engage in a given conduct depends on the person's motivation for engaging in that behaviour.

2.1.5 Fiscal Exchange Theory

This demonstrates how the government may increase tax compliance by giving its citizens access to products and services in a more effective and efficient manner (Cowell & Gordon, 1988; Levi, 1988; Tilly, 1992; Moore, 2004). Additionally, this serves as a strong connection between the taxpayers and the government (Moore et al., 2004). Since taxpayers' conduct is more likely to be impacted by their level of satisfaction or discontent with the delivery of public goods and services, this assumption is more reasonable.

2.1.6 The Allingham and Sandmo Theory (AS Theory)

The authors of this hypothesis are Allingham and Sandmo. The AS theory asserts that the government seeks to prevent tax evasion by adopting a number of activities, such as enacting additional fines, conducting tax audits, etc., according to Sandmo (1972). When a taxpayer believes that the cost of dodging taxes is too low, that taxpayer will choose to do so. When a taxpayer believes that the cost of compliance is excessive, they may also try to avoid paying taxes.

2.1.7 Economic Deterrence Theory

Which claims a variety of factors, including tax rates, fines, and other considerations, have an impact on taxpayers' behaviour. According to (Becker, 1968), relatively few persons will attempt to evade paying taxes when the severity of tax audits and the penalties are severe. On the other hand, when the power of tax audits is weak and the penalties are light, it is highly likely that tax evasion will occur. Additionally, tax administrators heavily rely on this notion when creating effective methods.

2.1.8 Theory of Crime

According to the theory of crime, individuals act in a way that would maximise their predicted utility. Authorities should strike an acceptable balance between identifying non-compliant individuals and taking action before non-compliance becomes illogical, according to (Becker et al., 1968). In reality, research has shown that using threats and legal compulsion can result in undesirable conduct; these acts are more likely to lead to continued noncompliance, inventive compliance (McBarnet, 2003), criminal activities, or opposition (Murphy and Harris, 2007). (Fehr & Rokenbach, 2003).

2.2 Previous Empirical Evidence on Relationships between Tax Compliance and Other Variables

In order to establish a link between each of the following independent factors and the dependent variable, the researcher gathered empirical information from a variety of sources. The nature of these connections might vary depending on the circumstances, from favourable to negative. The next distinct header is where the researcher offers the empirical data.

2.2.1 Relationship between tax rate and the tax compliance

(Clotfelter, 1983) used the logarithm of income evaded in three separate taxpayer groups, according to the source of their income, as a gauge of tax compliance. Additionally, he took into account factors including age, marital status, the taxpayers' fiscal home, and additional income sources. The dependent evaded income variable was favourably impacted by the variable marginal tax rate when three kinds of taxpayers were taken into account. Elasticity values specifically varied from 0.515 to 0.844. In the case of a marginal tax rate of 40%, for instance, a reduction of 10% of this percentage leads in an anticipated decline in evasion, which can range from 5% to 8%. These findings unquestionably support the theory that tax evasion will increase with increasing tax rates. According to certain research, tax evasion is encouraged by high tax rates. High tax rates are supposed to make paying taxes more difficult and reduce the taxpayer's disposable income as a result. Though it's possible that other factors may have a role in how people decide whether or not to pay taxes. There is a result for the entire tax system. If, for instance, the tax rate on corporate earnings is relatively low but the tax rate on individual income is high, then the person must suffer a significant tax burden, which is unfair and causes taxpayers to be reluctant to report their full income. In order to decide whether to avoid their tax duties or not, tax rates and the general design of the tax system are crucial factors. Furthermore, Atawodi and Ojeka (2012) discovered that the two biggest external factors influencing tax non-compliance are high tax rates and complicated filing procedures.

The tax rate and penalty structure, as noted by Sapiei and Kasipillai (2013), define the financial value of tax compliance, which influences taxpayers' compliance behaviours. Additionally, the taxpayer evaluates the expenses associated with continuing to be in default, the penalties associated with fraud, and the benefits of not paying taxes before deciding not to do so if the benefits outweigh the costs (Walsh, 2012). The tax rate has a positive and considerable influence on income tax compliance, according to (Ali, 2018), who also found that the tax penalty rate influences tax compliance. According to Mas' ul (2014), there is a sizable inverse relationship between tax rate and tax compliance. Increased tax rates that deterred tax evasion were found to have a favourable association (Anderhub, 2001).

According to Friedland, Collins, and Plumlee's (1991) and Collins' and Plumlee's (1978) research, there is a poor correlation between tax compliance levels and tax rates.

2.2.2 Relationship between tax information and tax compliance

The results of the study show that taxpayers with lower levels of education are subsequently less exposed to knowledge regarding tax compliance and the pertinent tax legislation. They thus need help constantly. Kenya, for instance, has been establishing ongoing tax education for taxpayers and youngsters who may eventually become taxpayers (Palil, 2010). Knowledge of tax laws, in addition to tax education, is a significant factor in determining taxpayers' compliance behaviour. Despite the fact that more than half (65 percent) of the surveyed SME's were aware that they had to pay taxes, more than half were not well educated as to why they did so, and more than 50 percent were unaware of the taxation of SMEs in the informal sector in Ghana, according to (Carroll, 2011). However, depending exclusively on tax education will not guarantee ongoing tax compliance. The research of Nugroho and Zulaikha (2012) and Munari (2005), which discussed the economic class of a society, is consistent with the findings of this study (Carroll et al., 2011). For instance, this will increasingly determine who will receive a great deal of information about taxation knowledge and all of its effects in society. In these situations, the option to pay taxes on time in order to avoid penalties is provided to the public, and this is one way to raise awareness of the value of paying taxes for the development of the country. This study establishes the link between tax regulatory knowledge and comprehension and increased societal compliance.

According to Krause (2000) and Santoso (2008), as more individuals become aware of the value of taxes to the state, the amount of state money generated from the tax sector rises. This study demonstrates formal compliance, or completing tax payments and reports on time, which shows that taxpayers are aware of the need of doing so. Furthermore, it was discovered by (Saad, 2003) that the lack of technical understanding among taxpayers in Malaysia caused a quick rise in the need for tax agents. A recent country study for Sri Lanka by the Institute of Policy Studies (IPS), 2015, highlighted some significant facts about the choice to comply with tax laws made by SMEs. This study proposes doing many tax awareness programmes and workshops to raise the degree of voluntary tax compliance among SMEs because the majority of SMEs are less concerned about the significance of being tax-compliant. According to tax study (Andreoni, J., and Errard, B., 1998), the level of information has a significant role in how taxpayers behave and how it affects tax evasion. Taxpayers with less education tend to be less concerned with tax compliance information and are more likely to engage in tax evasion. The intricacy of tax information might make it more difficult to interpret for certain taxpayers than for others. If people have trouble completing out tax forms, this intricacy may result in unintended noncompliance. (Troiano, 2017) noted that it has been discovered that exchanging tax information among American governments (federal governments, state governments) improves compliance. Tax knowledge and education have a negative and large influence on tax compliance, according to research by Beesoon (2016) and Geletaw (2017). The study by Bernadette (2010) found that small company owners are less likely to pay taxes because they lack information and comprehension of the tax system. Laksono and Ardiyanto (2007), Kariyoto (2010), Pratama (2012), and Sjursen (2014) all concurred that compliance with tax duties is influenced by tax knowledge and comprehension. Mckerchar (1995) and Loo (2008) found that a lack of technical expertise causes people to unintentionally violate tax laws.

2.2.3 Relationship between Taxpayers' Attitudes and Tax Compliance:

(Torgler, 2005) reported that over 46% of the respondents believed a heavy tax burden to be the reason why individuals did not pay taxes; "because the taxes are too high" was the most often cited excuse. The study examined tax morale in 17 Latin American nations. Participants in certain studies (Alm, Jackson, & Mckee, 1992) that were conducted outside of the study era but are still significant in this field were subjected to tax rates ranging from 10% to 50% as well as fines that were equal to or more than the amount of taxes avoided. The results demonstrated that participants' views about noncompliance and tax evasion were most strongly influenced by their income and tax rates. The participants' views about noncompliance and attempts to evade paying taxes increased as the tax rate increased and as income decreased. The majority of research discovered that both developed and developing nations' attitudes toward tax compliance suffer from high tax burdens. According to (Garboua, 2006), who conducted a poll in Romania and questioned respondents

about the country's taxation system, the majority of taxpayers stated that justice was more essential than tax burden, tax rate, and government spending efficiency. A large majority said that there is a direct correlation between justice and tax compliance. The study also found that the greatest tax rate that Americans will tolerate is 50%. A poll conducted by Porschke & Witte in 2002, however, revealed that a 30% tax rate seemed to be reasonably acceptable.

The results of a research on Sri Lankan taxpayers' perceptions regarding the country's income tax system conducted by M.B.M. Amjath have been published, according to Asia Pacific Journal of Research (2015). The following are a few of the conclusions:

- 38% of respondents expressed support for the tax authority's role in enforcing tax laws.
- 42% of respondents said it was preferable to have tax audit and prosecution fear.
- According to 63% of respondents, tax evasion is moral if it is justified by unjust tax laws.
- 57% of respondents thought that it is ethical to evade taxes when the tax system is unjust.
- 52% of those surveyed said that tax evasion is morally acceptable when tax rates are excessive.
- 50% of respondents voiced their opposition to the idea that tax cheating is moral if the chances of being found are slim.

Even if tax rates are not excessive, 54% of respondents said tax evasion was moral.

If everyone is doing it, tax dodging is moral, according to 54% of the respondents.

71% of the respondents disagreed that it is morally acceptable for a taxpayer to evade taxes if they are unable to pay them.

The researcher aimed to learn different respondents' opinions regarding Sri Lanka's general tax system within the same poll.

- 51.5% of respondents said that the current tax system is justified; 48.5% said that the tax system was not.
- The International Journal of Arts and Commerce (2016) reports that Damayanthi Jayawardane, a Ph.D. student, conducted research on the attitudes of taxpayers in the Colombo metropolitan region and published the results of that study.
- 74% of taxpayers said the Sri Lankan tax system is unjust and has poor tax administration.
- The tax system is fair, according to 26% of taxpayers.

2.2.4 Relationship between the legal framework and the tax compliance:

According to research on tax loads on SMEs in South Africa done by the economy watchdog (2015), tax required processes operated as a barrier to tax compliance. This is due to the fact that paying taxes often used up resources that SMEs could have used to run their firms more economically. Most SMEs see their tax obligations as a rising burden since they don't have enough qualified people to deal with tax compliance issues and are thus obliged to pay "additional" tax charges. The report also pointed out that a tax system might become even more complicated as a result of changes in tax laws. The fact that complex tax incentive programmes frequently lead to higher compliance expenses rather than actual tax savings was a glaring observation. These programmes need sophisticated technology and knowledgeable personnel. Since tax evasion lowers the degree of tax compliance, small companies (and likely other taxpayers as well) would prefer straightforward reductions in tax rates and penalties. According to various studies conducted in the past, taxpayers with higher levels of education grasp the meaning of the tax code rather thoroughly, and as a result, they comply with the law more often than taxpayers with lower levels of education (Schmolders, 1960; Song & Yarbrough, 1978; and (Spicer & Lundstedt, 1978).

According to Mehari, Daniel, and Pasha (2017), the methods for tax collecting and law enforcement have a favourable impact on taxpayers' voluntary tax compliance behaviour. For while nations like Australia, France, New Zealand, and the USA have already made sufficient measures to make tax law simpler, their efforts haven't had much of an influence overall. However, it had little impact on the rise in tax compliance. According to (Kogler, 2016), any delay in tax audit replies has a much greater impact on compliance than quick reply. According to Jayawardane and Low (2016), the complexity of the tax code has a detrimental impact on individuals' choices about tax compliance. The complexity of Bangladesh's VAT legislation and the expense of compliance were cited by a significant number of compliant SMEs taxpayers as the two main causes influencing VAT non-compliance in SMEs (Nahida, 2014). It has been shown by Marshall (1998) and Owens and Hamilton (2004) that it is very difficult to tell if a taxpayer's actions are in compliance

with the tax code. According to several research, the complexity of tax legislation causes people to feel unsure, which lowers their level of tax compliance.

2.2.5 Relationship between the Cost of Tax Compliance and Tax Compliance

Taxpayers generally believe that paying taxes is burdensome, especially small and medium-sized businesses (Vihanto, 2000) As a result, the willingness of taxpayers to pay tax is significantly influenced by the cost of compliance with taxes. According to the (IPS, 2015), various significant facts regarding the Small and Medium Enterprises operating in Sri Lanka's tax compliance decision have come to light. One of the key findings was that the majority of SMEs are unaware of the advantages and disadvantages of tax compliance. Furthermore, this survey found that most SMEs do not give the tax breaks the government occasionally offers much thought, which prevents them from considerably benefiting from the tax advantages. As a result, it is recommended that tax knowledge be retained inside the company or outsourced to a third party. The benefits of keeping such specialised personnel, either domestically or outside, may, in the majority of circumstances, outweigh the costs. According to the study, such professional staff may assist SMEs in making timely tax compliance choices, hence reducing financial costs in the form of penalties. In addition to the hassle of planning, submitting, and paying taxes, small businesses sometimes suffer significant fees. In poorer nations, these compliance expenses frequently impede the development of new businesses. Investigations into the costs of tax compliance can give important advice on how to lower compliance costs and hazards for small firms. These studies measuring the constraints on business were carried out in nations including South Africa, the Republic of Yemen, Ukraine, and Peru. These polls assisted in adjusting the reforms' design to reduce company expenses and increase their competitiveness (Coolidge, 2010). High compliance costs can make a country less competitive in terms of taxation attractiveness, which in turn can discourage investment and lead to tax evasion and fraud (Ojeka, 2012).

Eragbhe and Modugu (2015) claim that after doing research to assess the cost of tax compliance for SMEs in Nigeria, they eventually discovered that this cost is made up of internal compliance costs, external compliance costs, and a number of incidental expenditures, such as psychological costs. Additionally, they discovered that smaller SMEs are taxed more heavily than relatively big SMEs, resulting in the presence of tax compliance costs in Nigeria. The Organization for Economic Cooperation and Development (OECD), in a study on tax compliance and simplifications, found that compliance costs tend to rise with the number of taxes that an entrepreneur is required to pay, the complexity of the tax laws, the frequency of filing tax returns, and the number of levels of government involved in tax levying and collection. Because it has an impact on their business, this causes SMEs to avoid paying taxes. The cost of compliance and tax compliance were found to be positively correlated by Chebusit, Namusonge, Biraori, and Kipkoech (2014). This showed that as compliance costs increased, tax compliance would improve. Additionally, it agrees with Hijattulah and Pope (2008) that since costs incurred by a firm are beyond of its management's control, compliance costs are likely to have an impact on SMEs. According to a survey conducted in the Kenyan real estate industry by Osebe (2013), compliance costs negatively impacted the real estate industry's level of tax compliance. They contend that a poor level of tax compliance can be caused by high compliance costs, which can then lead to tax evasion, fraud, etc.

III. METHOD AND ANALYSIS

The researcher emphasises the main goal of delivering this conceptual paper under this subject, along with the methodology, which is based on the study and includes population and sample methods used to determine the pertinent ideas and their importance to the current social environment.

3.1 Research Objectives

To identify the numerous ideas and their significance to the current situation in Sri Lanka, this review article will concentrate on the many viewpoints held by various researchers on tax compliance and its linkages with other variables.

3.2 Methodology

The primary goal of this study is to illustrate the conceptual viewpoints that diverse scholars have in relation to this particular field. In order to identify the pertinent concepts and their significance to the current context, it reviews the prior literature that previous scholars have contributed. As a result, the researcher studied about 250 research articles

that were published by various organisations and other different authors. Finally, an examination of over 100 papers was conducted to determine which themes were pertinent and how well they applied to Sri Lanka's current situation.

IV. RESULTS AND DISCUSSIONS

The correlation matrix and regression analysis, two important statistical methods, were used by the researcher to examine the data and to identify relationships between the tax compliance and the other independent variables. The findings can be shown in a three-line table as follows:

Table 3. Results of the analysis based on the relationships between tax compliance and the following independent variables

Independent Variable	Results based on the Correlation matrix	Results based on the Regression analysis
Tax rate	Reveals that the Coefficient for tax rate was .013, which mean r value is less than 0.3 therefore, there is a lower level of positive correlation exist between the level of tax compliance and the tax rate.	Found that the coefficient for tax rate was -.076 which means when the tax rate increase by one unit, this would result in the level of tax compliance is reduced by (.076). So, exist a negative relationship between the level of tax compliance and the tax rate.
Tax information	Findings reveal that the Coefficient for tax information was 0.290, which means the r value is less than 0.3 therefore, there is a lower level of the positive correlation between the level of tax compliance and the tax information.	Found that the Coefficient for tax information was 0.021, which means when increasing the availability of the tax information, which results in the level of tax compliance is increased by .021, hence occur a positive relationship between them.
Taxpayers' attitudes	Reveals that the coefficient for taxpayers' attitudes is .546 which means r value is more than 0.5 hence; there is a positive correlation between the level of tax compliance and the taxpayers' attitudes.	Found that coefficient for taxpayers' attitudes was .655 that means when the taxpayers' attitudes towards the tax system improve, which is lead to increase the level of tax compliance by .655. So, exist a positive relationship between them.
Legal framework	Found that the coefficient for a legal framework was -.162, hence there is a negative correlation exist between the level of tax compliance and the legal framework.	Found that coefficient for the legal framework was -.209 which means when tax law becomes more complex to the taxpayers, then this would lead to reducing the level of tax compliance by -.209 therefore, exists a negative relationship between them.
Cost of tax compliance	Found that the coefficient for the cost of tax compliance was -.010, therefore there is a negative correlation occur between the level of tax compliance and the cost of tax compliance.	Found that the coefficient for the cost of tax compliance was .083 which means when increasing the cost of tax compliance by one unit, which results in an increase in the level of tax compliance by .083 So, exists a positive relationship between each other.

V. CONCLUSION

In order to gain new knowledge and broaden the knowledge base on this particular subject area, it is crucial for any future researchers to be able to recognise the various concepts and their relative importance to the current situation in Sri Lanka. This review paper illustrates various viewpoints held by various scholars in relation to tax compliance and its relationships with other variables. As a result, the conceptual concepts presented in this review paper will establish a new line of inquiry for further studies that will aid in understanding the implications of these conceptual ideas. If it makes sense in further research, these ideas will apply to many real-world situations both in Sri Lanka and throughout the world.

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