Reasons for Tax Evasion in Sri Lanka – A Taxpayer's Perspective

Kaushalya, A.N.[1] and Wijerathna A.G.H.S.K.[2]

[1]nadeekaushalya98@gmail.com; [2]shashikalaw@kln.ac.lk.

Abstract

Tax evasion, a global phenomenon, disproportionately impacts developing economies like Sri Lanka, hindering crucial government revenue and undermining public services. This study delves into the internal and demographic factors influencing taxpayers' attitudes toward evasion in this context. Employing a sample of 200 individuals, including accounting professionals and management undergraduates, the research sheds light on taxpayer perspectives beyond the typical fiscal lens. The study identifies key independent variables affecting taxpayers' attitudes towards evasion (ATE): fairness perception (FP), tax knowledge (TK), corruption (C), and complexity in the tax system (CTS). Fairness perception, surprisingly, does not significantly impact ATE, suggesting alternative priorities like personal gain. High tax knowledge, however, positively correlates with ATE, potentially emboldening evasion through familiarity with procedures. Similarly, increasing complexity in the tax system positively influences ATE, highlighting its burden and potential motivation for evasion. Conversely, perceived corruption demonstrably discourages evasion, emphasizing its deterrent effect. Demographic characteristics act as moderating factors, influencing the relationships between these variables and ATE. Higher education amplifies the positive association between tax knowledge and ATE, indicating that educated individuals may leverage their knowledge for evasion. Income, on the other hand, weakens the negative influence of perceived corruption on ATE, suggesting that wealthier individuals might be less sensitive to its deterrent effect. Certain professions also moderate the relationship between corruption and ATE, implying that professional ethics or codes of conduct can mitigate the influence of corruption in specific occupational groups. This research offers valuable insights for Sri Lankan policymakers seeking to improve tax compliance. By enhancing tax knowledge, reducing corruption, and simplifying the tax system, while tailoring interventions based on demographic factors, authorities can create a more equitable and compliant tax environment. It highlights the need for future research to delve deeper into cultural influences, external factors, and longitudinal studies to capture a more nuanced understanding of taxpayer behavior and the dynamic influences on tax evasion attitudes.

Keywords: Tax Evasion, Taxpayer Attitudes, Fairness Perception, Tax Knowledge, Corruption, Complexity of Tax System.