

# FACTORS INFLUENCING ON INCOME TAXPAYERS' COMPLIANCE BEHAVIOR: SPECIAL REFERENCE TO KANDY DISTRICT, SRI LANKA

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## ABSTRACT

This study attempted to reveal the factors influencing income taxpayers' compliance behavior of Kandy District income taxpayers. The main objective of the study is to find out impact of taxpayers' perception of tax fairness on income tax payers' compliance behavior. The study used a cross-sectional survey method of research design. Given the scale ranking information of the dependent variable, income tax payer's compliance behavior was influenced by the perception of tax fairness. The study results from the survey conducted in Kandy district using 100 respondents, indicate that income taxpayers' compliance behavior influenced by exchange with government, special provision and tax rate structure. The result of this study can inform the government how the determinants influence tax income taxpayers' compliance behavior. The analysis focuses on tax compliance and its determinants and is therefore subject to an underlying assumption of taxpayers' understanding of income tax and other potentially relevant information. The result of this study also provides specific insights and allows the government to gain a benefit understanding of the variables that are significantly associated with tax compliance and enable them to implement suitable strategies to minimize potentially damaging factors and should also allow them to improve the government's tax revenue collections. In Sri Lanka, tax collection is evidenced to be low. The findings of the study indicated that the taxpayers' perception of tax fairness has moderately influence income taxpayers' compliance behavior. Hence, studying the factors influencing tax compliance is of enormous significance.

**Keywords:** *income taxpayers' compliance behavior and taxpayers' perception of tax fairness*

## **INTRODUCTION**

Some people are now on the better side of finance. That is some individuals and businesses whose basic requirements are fulfilled. They need to come up and contribute to the development of the country by making the maximum contribution. They can offer their contribution to the nation in terms of taxes. Tax is a charge imposed by the government as a compulsory contribution to its citizens, corporations or other legal entities for meeting all or part of its expenditures. Money collected from taxes help a country to become stronger and help the government provide a variety of services to its citizens. The money collected is used for infrastructure, education, health defense and other similarly vital sectors. The operation of the government is impossible without taxation revenue because it is the most important revenue stream for any government. Tax is a powerful means to achieve the goals of social progress and the objectives of economic development. Ultimately it leads to developing the country. Therefore, all citizens should pay their fair share of tax honestly and punctually. That is, all the citizens of a country are morally and legally bound to begin complaints with the taxation.

The revenue generated from income tax increased by 12.3 percent to Rs. 95,128 million in the first four months of 2018 compared to Rs. 84,721 million recorded in the same period of 2017. (Central Bank of Sri Lanka, 2017) The target average fiscal deficit is 4.8 percent of GDP. Though the increasing share of tax revenue in GDP is an instrumental objective of economic development policy, Sri Lanka has not been successful in raising adequate tax revenue to meet its public expenditure on general public service, social services, economic services, etc. The fiscal crises experienced by several developing countries in the past three decades underscored the importance of an adequate level of taxation as the main source of resources to pay for government spending. Therefore, mobilization of tax revenue is crucial for any country, including Sri Lanka. However, Sri Lanka could not raise its tax revenue significantly as a percentage of GDP for a long time in line with the theory and the Experience of developed and fast-growing countries. Increasing share of tax revenue in GDP is an instrumental objective of economic development policy. High-income countries have had rising shares of tax revenue and government expenditures to income as they become more economically advanced. The researcher is going to examine the factors influencing the perception of Tax fairness of income tax payer's compliance behavior. Ultimately it will measure the impact of attitude on tax compliance behavior of Income taxpayers, especially this study considered Kandy District Income Taxpayers compliance behavior.

## **Research Problem**

To the effective function of the government and to provide for the welfare and security of its citizens, every state must undertake the critical task of raising revenue from its populace. Every jurisdiction, tax authorities are empowered to collect revenue from taxpayers. Therefore, they collect revenue in terms of taxes. Although there are several taxpayers who have reported their income and paid their tax liabilities properly, there are some taxpayers who have not done so. Sri Lanka has the problem of the percentage of income tax to the total tax revenue shows in the declining stage for the last two decades. It is necessary to undertake to rectify this problem in the tax system of the country. The Sri Lankan government also could not collect full and sufficient amount of income tax as expected because most of the eligible income taxpayers do not complete their income tax dues on time and try to escape from the payment of income tax. The problem of income tax evasion and their non-compliance attitude is a major problem. Therefore, it is essential to increase tax compliance in order to collect more revenue. Increasing tax compliance is not merely a matter of applying higher penalties and/or increasing the frequency of audits.

## **Research Question**

How the taxpayers' perception of fairness impacts the Income taxpayers' compliance behavior?

## **Objectives of the Study**

The main objective of this research is to find out the impact of taxpayers' perception of Tax fairness on Income taxpayers' compliance behavior.

The sub-objectives of this study are

- to find out the impact of the perception of Tax fairness on exchange with the government towards income taxpayers' compliance behavior.
- to find out the impact of the perception of Tax fairness on special provision towards income taxpayers' compliance behavior.
- to find out the impact of the perception of Tax fairness on tax rate structure on income taxpayers' compliance behavior.

## **LITERATURE REVIEW**

There are various factors which influence the tax compliance behavior. However, numbers of researchers have investigated that attitude, apart from purely economic factors such as punishments, penalties are highly important in explaining and understanding the tax compliance behavior. Therefore, the attitude of the taxpayers is an essential component to be considered in managing tax compliance (Kegan and Scholz, 1984). Propositions suggest in tax compliance decisions that ethics can cause some taxpayers to seek only legitimate avoidance plans (and ignore illegal opportunities) even when the

expected return for illegal opportunities is greater. These taxpayers are not likely to alter their choice selection criteria, regardless of the context of the decision. Different taxpayers may view tax noncompliance differently, as every person may have a different set of ethical values (Etzioni, 1988).

Personal tax ethics and social norms have been understood as implying other forms of costs, such as guilt and self-concept dissonance, or shame and reputation loss, which can deter taxpayers from evading tax (Grasmick & Bursik, 1990). Behavioral component is the individual's behavior that occurs as a result of his or her feelings about a person, object or situation (Robbins, 2002). Actual tax compliance increased when taxpayers were treated as trustworthy in the first instance by tax authorities. Taxpayers are more compliant when they thought that they had been treated fairly and respectfully by the tax authority (Wenzel, 2009).

According to Odd-Helge and Collette Schulz-Herzenber et al. (2012) understanding taxpayer's compliance is a challenge and unsolved problem. A lot of researchers argue with this statement. Some taxpayers were primarily worried about getting caught and penalized. Moreover, others were more concerned about the behavior of other taxpayer's. Moreover, others think public services and they have accountability and affiance of the state. There are different factors in different countries, institutions and cultures for tax compliance. In Africa needs more systematic and matching information on taxpayer attitudes and behavior for better analysis and to design more informed tax policy. So should understand the way of taxpayers think about taxes and their experience about taxation. This information may provide an essential diagnostics of the tax base need a better understanding of how people perceive tax system if people perceive are they pay taxes or not, what they finally pay, and their views of tax administration. Furthermore, the required understanding of how taxpayer's behavior is correlated with how they perceive the state. According to their study, they said surveys about attitude and perception also help to identify the weakness of the tax system. And also enable tax authorities to focus attention efficiency on high risk categories of taxpayers.

There are some research articles which were written about Sri Lankan tax system and taxpayer perception. According to Amirthalingam (2010), he said the primary focus of Sri Lanka is to achieve a fast economic growth rate in the future years and to double per capital income by 2016. Furthermore, Sri Lanka should take comprehensive measures to reduce the over-dependency on indirect taxes in the long run and should continue to address the equity concern by way of zero ratings and exemption under Value Added Tax (VAT). The major consumption basket, such as food, milk powder, pharmaceuticals and etc., of the low-income group, should not be taxed even indirectly. Moreover, he said in his study at the same time, if comprehensive measures should be taken to improve the efficiency and productivity of the VAT, only then

will Sri Lanka be able to harness its indirect tax system as an instrument in attaining sustainable development. This will be a significant development challenge to the Sri Lanka.

Jayawardane and Low (2015) researched taxpayer attitude and tax compliance decision in Sri Lanka. In their study, they researched Colombo district. This research was survey research. Data were collected from 200 individual taxpayers in the Colombo district, but only 160 respondents was a response to this research. According to them, the impact of the attitude of tax compliance decisions is not well understood in Sri Lanka. In their study, they found different perspectives on fairness of the Sri Lanka tax System. Taxpayers maintain their tax files, records, books and accounts. They should submit returns on due dates. In their study, 22% of respondents indicated that they filed tax returns by themselves. 52% percent of them are filled their tax returns by tax consultants. 26 % percent do not file their tax returns. Based on their results, they said the attitudes and taxpayer's view about the Department of Island Revenue as unfair with weekend tax administration purposes. That is why a lot of taxpayers neglect pay taxes. According to their study, they found some of the factors for noncompliance to be, are penalty rates are meager, the enforcement is high. So wealthy people evade pay taxes than poor people in Sri Lanka. They recommended the government must accountable and transferable for people's money and the government should work to peer attitude. They were attempted to explain the agreement and apparent disagreement between the evidence on the reaction of taxpayers' attitude towards tax compliance through psychological factors. However, taxpayers' attitude has been identified as a crucial one factor that play an important role in influencing tax compliance behavior. Many Economic types of research/studies have revealed that Tax compliance is based on individual decisions on paying and evading Tax compliance. The researches have further substantiated that the 'impact' of a large number of potential determinants of voluntary compliance on their individual income/profit, i.e., social norms, equity and fairness, perception of political/ government, and accountability towards tax compliance attitude.

Thevaruban (2018) did the research on the nexus between Sri Lanka tax revenue and economic growth as proxies by GDP. it is contributes to the understanding of tax revenue and economic growth in Sri Lanka. it identified Sri Lanka total tax revenue has a significant impact on economic growth. The researcher further explained about the main issuing facing the Sri Lanka tax system is the efficiency and effectiveness in the tax administration.

## RESEARCH METHODOLOGY

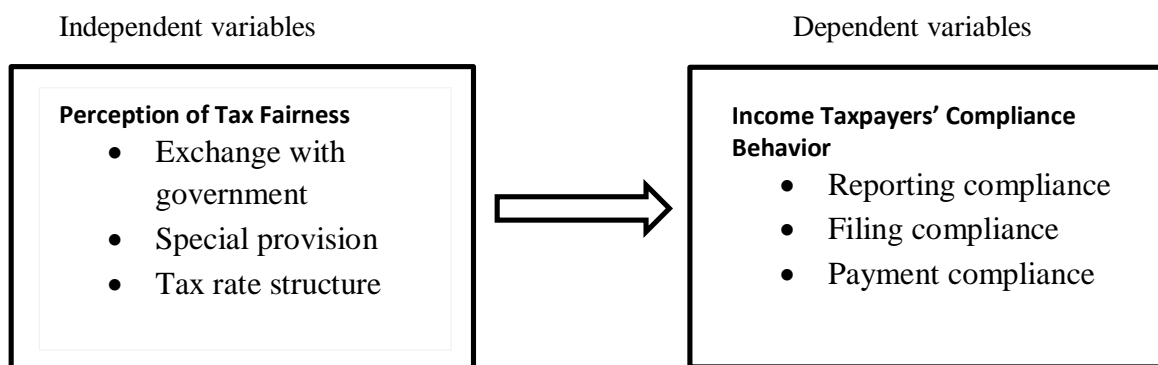


Figure 1 Conceptual framework

This study concerns the affective component of attitude. It is measured through the perception of tax fairness. Therefore, the impact of taxpayers' perception of tax fairness develops the impact of the attitude towards tax compliance behavior. This study concerned the perception of fairness as an Independent variable, which is measured by the proxies of Exchange rate with government, special provision and Tax rate structure. Income taxpayers compliance behavior is the Dependent variable, which is measured by proxies of reporting compliance, filling compliance and payment compliance.

### Hypotheses of the study

The purpose of this study is to examine the impact of taxpayers' perception of fairness on Income tax payer's compliance behavior. One leading hypothesis and three sub hypotheses were established in order to analyze this impact.

#### Main Hypothesis

H<sub>1</sub> - There is a significant impact of taxpayers' perception of Tax fairness on Income taxpayers' compliance behavior.

#### Sub Hypotheses

H<sub>1a</sub> - There is a significant impact of taxpayers' perception of Tax fairness on exchange with government towards Income taxpayers' compliance behavior.

H<sub>1b</sub> - There is a significant impact of taxpayers' perception of Tax fairness on special provision towards Income taxpayers' compliance behavior.

H<sub>1c</sub> - There is a significant impact of taxpayers' perception of Tax fairness on tax rate structure towards Income taxpayers' compliance behavior.

#### Econometric Model

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

$Y$  = Income taxpayers' compliance behavior

$\beta_0$  = Constant

$X_1$  = perception of fairness on Exchange with government

$X_2$  = perception of fairness on special provision

$X_3$  = perception of fairness on tax rate structure

$\epsilon$  = error

### Population

The target population of the research study is all the income taxpayers in the Kandy district in Sri Lanka.

### Sample

The expected sample will be 100 (Sole Proprietorship businesses) income taxpayers' in the Kandy District of Sri Lanka. This study focuses on individual taxpayers. Thus, the target population is self-business persons, including sole proprietorships and partnerships. A total number of 100 respondents are selected for the purpose. A random sampling technique is used to select eligible respondents for the survey.

## DATA ANALYSIS

### Reliability

In this study, the questionnaire is divided into three parts, namely demographic data, tax fairness and tax compliance. A reliability test was conducted for tax fairness and tax compliance questions. Cronbach's Alpha coefficient for tax fairness is 0.845 and 0.844 for tax compliance. Results indicated that the values of Cronbach's alpha for all the variables are more than 0.8. Therefore, it is at a good level. Further, it suggests that there is a high level of reliability.

**Table 01: Reliability Statistics**

Reliability Statistics		
Variable	Cronbach's Alpha	N of Items
Perception of Tax Fairness	.845	3
Tax Compliance	.844	3

Source: Survey Data (2019)

**Table 02: Descriptive Statistics (Level of Perception of Tax Fairness)**

**Descriptive Statistics**

<b>Variables</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Exchange with government	100	2	5	3.84	.459
Special Provision	100	2	4	3.56	.735
Rate structure	100	2	5	3.55	.760
Perception of Tax Fairness	100	1	4	3.57	.628
Valid N (list wise)	100				

Source: Survey Data (2019)

According to Table 2 the mean value for Perception of Tax Fairness of the taxpayers is 3.57, which is close to 4. Therefore, it can be analyzed that the Perception of Tax Fairness of the taxpayers towards tax compliance is at a better level. According to the results, this study further explains that the taxpayers have a better Perception of Tax Fairness of complying with taxation.

Further, it implies that the Perception of Tax Fairness of the taxpayers play a major role in determining tax compliance behavior. Hence the Perception of Tax Fairness towards tax compliance can be further analyzed through those 3 dimensions. According to Table 2, the mean value of Exchange with the government is 3.84. This mean value is close to 4, which is at a satisfactory level. This suggests that the taxpayers have a high level of Fair perception on Exchange with the government towards complying with the tax. Taxpayers possess a better level of perception of Tax fairness on Exchange with the government towards tax compliance behavior. The other dimension is the perception of Tax fairness on Special Provision. The mean value of the perception of tax fairness on Special Provision is 3.56. Which also close to 4. This mean value indicates that the perception of the tax fairness on Special Provision also at a better level. That means the taxpayers have a better perception of Special Provision towards Tax Compliance Behavior. The mean value of the perception of tax fairness on Tax Rate Structure is 3.55. Which also close to 4. This mean value indicates that the perception of the tax fairness on Tax Rate Structure also at a better level. That means the taxpayers have a better perception of Tax Rate Structure towards the Income Taxpayers Compliance Behavior. They perceive that the tax system is fair.

**Table 03: Descriptive Statistics**

<b>Variable</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Reporting Compliance	99	2.00	4.00	3.7071	.49492



Payment Compliance	100	2.00	4.50	3.6500	.61340
Filing Compliance	100	2.00	4.00	3.8900	.37322
Tax Compliance	100	2	4	3.71	.489
Valid N (list wise)	99				

Source: Survey Data (2019)

According to the results, the mean value for tax compliance is 3.71. That is close to 4. Therefore, it indicates there is a better level of tax compliance among the taxpayers. As per the results, taxpayers are highly complying with taxation. In this study, tax compliance variable is analyzed through three dimensions, namely reporting compliance, payment compliance, filling compliance. According to Table 3, the mean value of filling compliance is 3.89. The mean value is close to 4. Therefore, that indicates there is a satisfactory level of filling compliance. Taxpayers are highly concerned with filling compliance and pay their tax returns on time. The other two dimensions of the tax compliance are reporting compliance and payment compliance. The mean values for those two dimensions amount to 3.70 and 3.65. Both of those values are also very close to 4. Therefore, it confirms that the reporting compliance and payment compliance are also at a better level among the taxpayers. That indicates taxpayers' concern not only about filling compliance but also fulfilling their duty through reporting and payment compliance. When considering those three types of compliances in this study, filling compliance has the highest mean value of 3.89. Therefore, it can be analyzed that the taxpayers are highly concern about filling compliance than payment compliance and reporting compliance when they comply with the taxation. That further points out the taxpayer are generally complying with the taxation.

#### **Impact of perception of taxpayers' fairness dimension towards Income Taxpayers' compliance behavior**

According to this study, the researcher has selected a variable which impacts upon the taxpayers' compliance behavior. Perception of tax fairness is a variable. In this section, the researcher is going to find out the impact of variable towards the dependent variable, which is the income tax compliance behavior. The beta coefficient is used to analyze the individual contribution of the variable.

**Table 04: Beta Coefficient**

Model	Standardized Coefficients Beta	t	Sig.
1 (Constant)		6.050	.000

Exchange with government	.082	.599	.550
Special provision	.424	2.955	.004
Tax rate structure	.056	.592	.555
Perception on Fairness	.484	5.483	.000

Source: Survey Data (2019)

According to Table 4, Beta coefficient values amount to 0.082 for the perception of taxpayers' fairness on exchange with government, 0.424 for the perception of taxpayers fairness on special provision and 0.056 for the perception of tax fairness on tax rate structure. That indicates the perception of taxpayers' fairness is positively correlated with tax compliance. That indicates the impact of the perception of tax fairness towards tax compliance is 0.484. That signifies the impact of tax payers' perception of tax fairness on the special provision of taxpayers is more influential to be tax compliant behavior by the taxpayers than other factors.

### Multiple Regression model

The Researcher developed a model for tax compliance based on the collected data. Multiple regressions are used to develop that model. The results of the multiple regression analysis are presented in Table 5 According to those statistics, the multiple regression models for tax compliance is developed as follows.

**Table 05: Beta Coefficient for the multiple regression model**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2.284	.377		6.050	.000
1 Exchange with government	.053	.088	.082	.599	.550
Special Provision	.282	.096	.424	2.955	.004
Tax rate structure	.060	.102	.056	.592	.555

a. Dependent Variable: Compliance behavior

Source: Survey Data (2019)

$$\text{Income Tax payers Compliance behavior} = 2.284 + 0.082 (\text{Exchange with government}) + 0.424 (\text{Special provision}) + 0.056 (\text{Tax rate Structure})$$

The individual impact of tax fairness is denoted by the standardized Beta coefficients values. The Beta coefficient for tax fairness on exchange with the government is 0.082, for tax fairness perception on special provision is 0.424 and for tax fairness perception on tax rate structure is 0.056. The perception of tax fairness positively correlated with the Income taxpayers tax compliance behavior. Further, the unstandardized Beta coefficient points out the constant component of tax compliance. Constant component signifies the level of tax compliance behavior by the taxpayers without having any impact from any other factors. According to the statistics indicated by Table 5 Constant component amounts to 2.284 for this study.

### **Impact of Taxpayers' perception of Tax Fairness on Income Tax Payers' Tax Compliance Behavior**

In this section, the researcher is going to analyze the impact of the taxpayers' fairness perception towards tax compliance. Regression is carried out in order to find out that effect. The beta coefficient is the statistic used for that analysis. Statistics are presented in Table 6. According to that Beta coefficient for the perception of Fairness is 0.378. That indicates a positive correlation between the perception of tax fairness of the taxpayers and the income taxpayers' compliance behavior.

Further, this analysis is carried out by using the R square value. The adjusted R square value gives the most useful measure. Statistics relating to this analysis is presented in Table 7. According to those results, the adjusted R square value is 0.227. That indicates that there is a 22.7% impact on the tax compliance behavior of the taxpayers.

**Table 06: beta coefficient for the perception of fairness**

#### **Coefficients**

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients		
	(Constant)	2.360	.249		.468	.000
1	Perception of fairness	.378	.069	.484	5.483	.000

a. Dependent Variable: Compliance behavior

Source: Survey Data (2019)

**Table 07: R<sup>2</sup> Statistics for the perception of fairness**

**Model Summary**

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.484 <sup>a</sup>	.235	.227	.430

Predictors:

(Constant),

Perception of tax fairness

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Source: Survey Data (2019)

**Hypotheses Testing**

H<sub>1a</sub>– There is a significant impact of income taxpayers’ perception of tax fairness on exchange with government towards income taxpayers’ compliance behavior.

**Table 08: Exchange with government towards income taxpayers’ compliance behavior**

		Compliance behavior	Exchange with government
Compliance behavior	Pearson Correlation	1	.423**
	Sig. (2-tailed)		.000
	N	100	100
Exchange with government	Pearson Correlation	.423**	1
	Sig. (2-tailed)	.000	
	N	100	100

\*\* . Correlation is significant at the 0.01 level (2-tailed).

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Source: Survey Data (2019)

The results of the regression analysis between the perception of tax fairness impact on exchange with the government towards income taxpayers’ compliance behavior are represented in Table 8. According to the results  $r > 0.01$ , therefore this hypothesis is rejected. That is, there is no impact of the perception of tax fairness on Exchange with government towards the income taxpayers’ compliance behavior. Further, according to the results, the Pearson correlation coefficient is 0.423. There is a positive moderate level relationship.

**Correlations**

**Table 09: Correlation statistic between Perception of fairness on special provision towards and income tax payers’ compliance behavior**

		Compliance behavior	Special provision
Compliance behavior	Pearson Correlation	1	.509**
	Sig. (2-tailed)		.000
	N	100	100
Special provision	Pearson Correlation	.509**	1
	Sig. (2-tailed)	.000	
	N	100	100

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Survey Data (2019)

Table 8 Correlation statistic between Perception of fairness on exchange with government and tax compliance

H<sub>1b</sub>- There is a significant impact on taxpayers’ perception of tax fairness on special provision towards income taxpayers’ compliance behavior.

The results of the correlation analysis between the perception of tax fairness Exchange with government and tax compliance are represented in Table 9. According to the results  $r < 0.01$ , therefore this hypothesis is accepted. That is, there is a significant impact of the perception of tax fairness on special provisions towards tax compliance behavior. Further, according to the results, the Pearson correlation coefficient is 0.509. That indicates a moderate level positive relationship of the perception of tax fairness on income taxpayers’ compliance behavior.

H<sub>1c</sub>- There is a significant impact of taxpayers’ perception of tax fairness on tax rate structure towards income taxpayers’ compliance behavior

**Table 10: Correlation statistics between the Perception of tax fairness on tax rate structure and income tax payers’ compliance behavior**

	Compliance Behavior	Tax Rate Structure
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Compliance Behavior	Pearson Correlation	1	.245**
	Sig. (1-tailed)		.007
	N	100	100
Tax Rate Structure	Pearson Correlation	.245**	1
	Sig. (1-tailed)	.007	
	N	100	100

\*\* . Correlation is significant at the 0.01 level (1-tailed).

Source: Survey Data (2019)

The results of the correlation analysis between the perception of tax fairness Exchange with government and tax compliance are represented in Table 10. According to the results  $r > 0.01$ , therefore this hypothesis is rejected. That is, there is no significant impact of the perception of tax fairness on special provisions toward tax compliance behavior. Further, according to the results, the Pearson correlation coefficient is 0.245. There is a weak positive relationship.

- **Taxpayers Perception of Tax Fairness and Income tax Payers' Compliance behavior**

The main hypothesis is established to measure the impact of the perception of fairness on tax compliance.

H<sub>1</sub> – There is a significant impact of income taxpayers' perception of tax fairness on income taxpayers' compliance behavior.

## Correlations

**Table 11: Correlation statistic between Perception of fairness and tax compliance.**

	Perception Compliance Behavior of Fairness		
Perception of Fairness	Pearson Correlation	1	.484**
	Sig. (2-tailed)		.000
	N	100	100

	Pearson Correlation	.484**	1
Compliance Behavior	Sig. (2-tailed)	.000	
	N	100	100

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Survey Data (2019)

The results of the correlation analysis between the perception of tax fairness and tax compliance are represented in Table 11. According to the results  $r < 0.01$ , therefore, the main hypothesis is accepted. That is, there is a significant impact of the perception of tax fairness on tax compliance behavior. Further, according to the results, the Pearson correlation coefficient is 0.484. That indicates a moderate level positive impact of the perception of tax fairness on tax compliance behavior.

**Table 12: Hypotheses Testing**

Hypothesis	Sig. Value	Hypothesis Testing	
H <sub>1</sub> –There is a significant impact of taxpayers’ perception of tax fairness on income taxpayers’ compliance behavior.	0.00	H <sub>1</sub> Accepted	Sig. Value less than 0.01
H <sub>1a</sub> – There is a significant impact of income taxpayers’ perception of tax fairness on exchange with government towards income taxpayers’ compliance behavior.	0.550	H <sub>1a</sub> Rejected	Sig. Value more than 0.01
H <sub>1b</sub> – There is a significant impact of taxpayers’ perception of tax fairness on special provision towards taxpayers’ compliance behavior.	0.004	H <sub>1b</sub> Accepted	Sig. Value less than 0.05
H <sub>1c</sub> - There is a significant impact of taxpayers’ perception of tax fairness	0.555	H <sub>1c</sub> Rejected	Sig. Value more than 0.01

on tax rate structure towards taxpayers' compliance behavior			
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## DISCUSSIONS

Within the taxation literature, perception of tax fairness has certainly been recognized widely for some time as one of the most essential variables that can influence income taxpayers' compliance behavior (Gilligan and Richardson, 2005). The level of public perception that the taxation system is fair and equitable is important if that system relies for its success on a significant degree of voluntary tax compliance, (Gilligan and Richardson, 2005). According to Marti et al. (2010), relating to tax compliance behavior in Kenya, most respondents disagreed (Mean=2, and the standard deviation is insignificant) that they are paying a fair share of tax. It was found that most taxpayers view the Kenyan tax system as unfair. However, according to this research, the mean value for the perception of tax fairness is 3.57, which is more than 3. This mean value is at a satisfying level. Therefore, this indicates that there is a good level of perception of tax fairness among taxpayers. As per the results of this study, taxpayers perceive the tax as a somewhat fair concept.

The questionnaire used in this study is modified from Richardson (2006). According to that, the perception of tax fairness is divided into three tax fairness dimensions. Namely exchange with government, special provisions, tax rate structure. The findings of this study relating to those dimensions can be discussed with the available literature as follows.

- **Exchange with government According to the results of this study**

The mean value for the exchange with the government is 3.84, which is at a satisfactory level. It implies that the taxpayers' perception towards exchange with the government is at a better level. It is essential criterion to be assured by the tax authorities in order to improve the tax compliance level. It was discussed in several previous studies also. According to research done by Wenzel, (2002), actual tax compliance increased when taxpayers were treated as trustworthy in the first instance by tax authorities. Taxpayers are more compliant when they thought that they had been treated fairly and respectfully by the tax authority. Berenson, (2007) for a compliant society interacting with a citizen-based state, the expectations would be that tax compliance depends mainly on trust in the state and/ or satisfaction with tax bureaucrat's level



of customer service from prior encounters. The government must create confidence in their credibility and their capacity to deliver promised returns for tax as well as must convince taxpayers that taxpayer contributions make a difference in producing the desired goods. Momani (2008). Income taxpayers in Jordan believe that they receive enough services from the government when they compare the amounts of income tax that they pay with those services. In other words, income taxpayers in Jordan believe that the value of the services they receive from the Jordanian government is higher than the value of income taxes that they pay to the government. Further, according to Tilahun (2018) the study has also examined the relationship between tax compliance and perceptions of government spending and has revealed a positive significant relationship, which implies that taxpayer's perception of government spending as goodwill boost their decision to comply with the tax laws of the country. Therefore the research findings of the study compromise with earlier researchers' findings.

- **Special provision**

The mean value for the special provision is 3.56, which is at a satisfactory level. It implies that the taxpayers' perception of special provision is at a better level. Income taxpayers in Jordan perceive the dimension of special provisions that are related to the income tax as fair. Income taxpayer looks to most aspects of income tax law as fair. (T-Value 16.921). Marti et al. (2010), the business owners think that getting better services from the government tax agencies is more important than getting tax holidays. However, reduced tax rates are considered most important. From this data, it can be said that most SMEs do not mind paying taxes provided the tax rates are lower and they can simply file their taxes.

- **Tax Rate Structure**

The mean value for the tax rate structure is 3.55, which is at a satisfactory level. It implies that the taxpayers' perception of the tax rate structure is at a better level. That income taxpayers in Jordan do not perceive income tax rate structure as a fair rate. (t -value 23.471) Income taxpayers believe that the Jordanian income tax rate structure as fair because this rate increases as the amount of income become higher. According to the Jordanian income tax rate structure, rich people are required to pay more than those who have a lower ability to pay. This study

examines the correlation as well as the effect of the tax rate on tax compliance in Africa using cross-country data for 2012 and 2013. The finding from the study shows that the tax rate has a significant positive correlation with tax compliance in Africa. Therefore, based on these findings and based on descriptive statistic results, they recommend that those countries in which low tax compliance couple with a high tax rate can adjust their tax rate to the mean value of 29.1985% or approximately 29.2%. This mean value is the average of a maximum tax rate of 35% and a minimum tax rate of 18.10% in Africa. (Tilahun, 2018) From the study finding it can be understood that the tax rate has a negative and significant impact on tax compliance and higher tax rates encourage taxpayers to evade and avoid tax. Therefore, it should be in a way that encourages tax compliance behavior and the tax authority is required to keep it as much as possible to the minimum. From the above, it could also be seen that the major cause of tax non-compliance is high tax rates. Therefore in Sri Lanka tax system also consider the Tax Rate structure, which will give Tax compliance behavior of taxpayers favorably.

### **The level of tax Compliance**

Tax compliance is a complex term to define. It is a multi-faceted measure and theoretically, it can be defined by considering three distinct types of compliance, such as payment compliance, filing compliance and reporting compliance (Brown and Mazur, 2003). In this study also, the researcher found out the level of tax compliance based on filling compliance, reporting compliance and payment compliance. The finding of this study relating to those dimensions can be discussed with the available literature as follows.

- **Filling Compliance**

In this research, the level of tax filling compliance is measured through the mean value. The mean value for filling compliance is 3.89. That implies a better level of tax filling compliance by the taxpayers.

- **Payment Compliance**

In this research, the level of tax payment compliance is measured through the mean value. The mean value for the tax payment compliance is 3.65, which indicates a satisfactory level of tax payment compliance by the taxpayers.

- **Reporting compliance**

In this research, the level of tax reporting compliance is measured through the mean value. The mean value for the tax reporting compliance is 3.70, which indicates a satisfactory level of tax payment compliance by the taxpayers.

### **Taxpayers' Perception of tax fairness on income taxpayers' compliance behavior**

One of the objectives of this study is to examine the impact of the perception of tax fairness on Income taxpayers' compliance behavior. As per the analyzed data, there is a significant impact on the perception of tax fairness on tax compliance behavior. According to the results, the Pearson correlation coefficient is 0.484. That indicates a strong positive impact of taxpayers' perception of tax fairness on income taxpayers' compliance behavior. This relationship has been tested by several previous studies also. According to a research done by Allingham and Sandmo, (1972) If the society perceives that the tax system is equitable and fair, voluntary compliance is expected to increase Trivedi et al. (2005), have found that the focus should be on changing individual' attitudes toward the tax system by increasing its perceived fairness and making it easy to comply with the tax.

Further to this study, Tyler et al., (2000) found that if individuals trust the motives of authorities, feel that they behave neutrally, and feel treated with respect and dignity, it appears that they will be more willing to defer to authorities and obey their decisions. Gerbing (1988) Taxpayers' perception of the tax system is vital because fairness of the tax system will instill compliant behavior among taxpayers. Understanding taxpayers' motivation and developing tax policies and strategies that can influence compliance will bring more revenue and less administrative cost to the tax authority.

### **CONCLUSION AND RECOMMENDATIONS**

The evidence clearly shows various factors that influence the perception of fairness towards tax compliance. Therefore, the researcher has selected that three-dimension which influence the perception of fairness to analyze the impact of perception of fairness on tax compliance behavior. Ultimately it measures the relationship between perception of fairness and tax compliance because the perception of fairness on exchange with government, special provision and tax rate structure is three dimensions of perception of fairness. The main objective of this study was also to find out the impact of the taxpayers' perception of tax fairness towards the income taxpayers' compliance behavior. According to this study, the level of perception of tax fairness among taxpayers is at a better level. Tax compliance is the most crucial factor to be

considered because it assures the tax revenue of the Kandy District of Sri Lanka. The level of overall tax compliance is at a satisfactory level. The taxpayers are highly concern about filling compliance with payment compliance and reporting compliance when they comply with the taxation. The perception of tax fairness has a great impact on determining the attitude of the taxpayers and income taxpayers' compliance behavior. Hence, when influencing the attitude of taxpayers, it is essential to consider the perception of tax fairness of taxpayers. It should take necessary actions to improve the perception towards the tax fairness of the taxpayers. It will motivate the attitude of taxpayers towards tax compliance and further it will increase the income tax compliance payers level.

Thus, it is recommended that tax authorities should be friendly with the taxpayers during the process of tax enforcement. Taxpayers have the lowest score on fairness can assist the Inland Revenue Department of Sri Lankan by focusing attention on possible ways to improve this aspect of fairness among income taxpayers, while maintaining the positive perceptions of tax fairness on the remaining dimensions. Finally, Income taxpayers' compliance behavior will be developed just with the voluntary cooperation of the society with the tax authority.

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