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PROFESSIONAL PERSPECTIVES ON DETERMINANTS OF TAX EVASION IN SRI LANKA: AN IN-DEPTH ANALYSIS

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ABSTRACT

This research explores the factors influencing tax evasion behavior by analyzing professional perspectives, focusing on the roles of non-compliance attitudes, institutional factors, economic factors, and socio-psychological factors in shaping tax evasion behavior. Additionally, the study examines the moderating effect of the profession on the relationship between these factors and tax evasion behavior. The present study finds that the factors contributing to tax evasion behavior are non-compliance attitudes, institutional factors, economic factors, and socio-psychological factors. Of these, the strongest influences are due to non-compliance attitudes and institutional factors. On the other hand, profession as a moderating role was not supported in the analysis since interaction terms were not statistically significant. These findings, therefore, suggest that, while some of these psychological and institutional factors remain vital in determining tax evasion behavior, the profession does not change the relationship of those factors with tax evasion behavior in Sri Lanka. It contributes to an understanding of the determinants of tax evasion in Sri Lanka, adding weight to calls for tackling individual attitudes and institutional structures in the fight against tax evasion.

Keywords: Tax evasion, Non-compliance attitude, Institutional factors, Economic factors, Socio-psychological factors, Profession, Sri Lanka, Moderation

CHAPTER 01: INTRODUCTION

1.1 Background of the study

Taxation serves as a fundamental pillar of government finance, essential for funding public expenditures (Central Bank of Sri Lanka, 2022). In Sri Lanka, the tax system operates under a comprehensive framework governed by various legislations. Key taxes include Income Tax, Value Added Tax (VAT), Nation Building Tax (NBT), Economic Service Charges (ESC), Customs Duties, Excise Duty, Stamp Duty, and Withholding Tax. The Inland Revenue Department oversees the administration and enforcement of these taxes. Tax evasion encompasses both non-payment and underpayment of taxes and poses significant challenges to revenue collection efforts, involving strategies such as income underreporting and the use of illicit business practices (Inland Revenue Department Sri Lanka, 2023)

Over the past three decades, many developing countries have struggled with macroeconomic deficits, often resulting in major financial crises due to unsustainable economic practices (Mahdavi, 2004). Sri Lanka, a country which is now experiencing modest growth, has faced a severe and prolonged economic crisis. In the case of Sri Lanka, despite the theoretical expectations and experiences of developed and fast-growing countries, the country has struggled to significantly increase its tax revenue as a percentage of GDP this inefficiency in tax collection can be attributed to several underlying factors. The importance of taxation extends beyond mere revenue collection, influencing economic decisions and social behaviors. Economically, taxation guides investment flows and protects domestic industries, while socially, it serves to deter undesirable activities and promote societal values (Central Bank of Sri Lanka, 2022). In developing and developed nations, perspectives on tax evasion vary due to differences in economic structures, income levels, and regulatory effectiveness. Developing countries often face challenges with less effective legal and regulatory systems, leading to widespread tax evasion through informal economies and corruption.

Conversely, developed countries contend with complex evasion schemes involving multinational corporations and offshore financial activities. Addressing these challenges requires robust legal frameworks, effective enforcement mechanisms, and international cooperation to combat sophisticated evasion strategies (OECD, 2023).

Tax evasion involves both failures to pay taxes and underpayment of taxes by an individual. Under Sri Lankan tax regulations, anyone who intentionally excludes income that should have been reported as taxable provides false information or gives misleading answers to avoid paying income tax is considered to have committed a criminal offence. While tax evasion is extensively debated in terms of public finance, there has been insufficient discussion regarding the motivations behind tax evasion from the perspective of taxpayers (Gunathilaka, 2007). Over the last ten years, Sri Lanka has seen an unstable economic environment, overcoming numerous obstacles that have put the country's fiscal stability to the test. Among these challenges, fluctuating tax revenues and persistent tax evasion have emerged as significant obstacles to economic stability and growth. This analysis delves into the tax policy changes from 2018 to 2023, examining their effects on tax revenue implications for tax evasion. The finding is based on a thorough review of government reports, financial analyses, and assessments from international organizations. Sri Lanka's economy has faced substantial pressures from both internal and external factors. Internal challenges include political instability, policy inconsistency, and structural weaknesses in the economy. Externally, global economic fluctuations, trade disruptions, and the COVID-19 pandemic have further strained the economic environment.

The government's proactive measures in enhancing tax policy and administration are critical amidst economic challenges such as high inflation and currency depreciation. Addressing these challenges requires sustained efforts to broaden the tax base, improve enforcement mechanisms, and mitigate evasion, supporting fiscal stability and effective resource management in Sri Lanka (Minister of Finance, Economic Stabilization and National Policies, 2023). In 2022, Sri Lanka implemented significant measures to strengthen tax revenue amidst structural weaknesses and declining trends. The government also enhanced tax administration by mandating Taxpayer Identification Numbers (TINs) in all tax-related documents and making e-filing mandatory for limited liability companies. Addressing these issues and simplifying the tax structure are crucial to bolster government revenue and ensure fiscal stability in the long term (Central Bank of Sri Lanka, 2022).

The stability seen in income tax revenues during 2018 and 2019 was followed by challenges in 2020, as reflected in the restated fiscal figures, which indicated economic pressures affecting tax collection efforts. Subsequent years, particularly from 2021

onwards, witnessed gradual recovery and growth in income tax revenues, aligned with broader economic stabilization efforts and policy reforms aimed at strengthening revenue streams. The significant increases observed in 2022 and 2023 in income tax revenues reflected improved economic conditions and enhanced tax compliance measures, contributing to overall revenue growth and fiscal stability (Central Bank of Sri Lanka, 2022). However, persistent challenges in tax evasion remained a concern throughout the period. Discrepancies between potential and actual tax revenues indicated significant gaps in enforcement and compliance across various sectors. Despite regulatory efforts and legislative reforms aimed at mitigating risks and enhancing transparency, evasion persisted, particularly in high-value transactions and informal sectors (The World Bank, 2023).

Looking ahead, sustaining revenue growth and addressing tax evasion in Sri Lanka require continued vigilance and comprehensive policy frameworks. Strengthening tax administration capabilities, leveraging technology for compliance, and fostering transparency are critical priorities (Asian Development Bank, 2024). These efforts not only aim to expand the tax base but also to ensure equitable contributions across the economy, supporting long-term fiscal stability and sustainable economic growth. Tax evasion can be categorized into monetary and non-monetary transactions, as noted by Schneider and Klinglmaier (2004). This study focuses on evasion related to monetary transactions, which includes various methods such as not registering as a taxpayer, failing to declare income, underreporting earnings, and inflating expenses (McGee, 2006). Additionally, the business environment significantly influences tax evasion (Nadirov, 2015). The extensive untaxed informal sector poses a significant challenge for tax systems. According to the (World Bank, 2020), about 70% of the global workforce is employed in the informal sector, encompassing various business types. In Sri Lanka, the Department of Census and Statistics' 2018 Labor Force Survey reported that 58.7% of the workforce is employed in the informal sector (Wimalaweera, 2020), complicating the integration into the tax system. Furthermore, tax evaders transfer the tax burden to compliant taxpayers, undermining the tax principle of efficiency (Barrios, 2017). Tax evasion is a major issue in Sri Lanka, hindering the country's economic stability and growth. (Dissanayake, 2024), Despite the important role of taxes in financing social and economic policies, the country faces significant challenges in achieving effective tax compliance especially in the second half of 2022. In recent policy initiatives, they

participated in tax reforms aimed at increasing revenue collection. These measures led to significant increases in income tax, VAT, excise duty, import duty, and special excise duty. However, despite these efforts, tax evasion persists, with a large informal sector making it difficult to join the tax system and shifting the tax burden to honest taxpayers (Central) (Central Bank of Sri Lanka, 2023).

In 2023, Sri Lanka achieved impressive growth in tax collection, especially with higher income tax and VAT collection. According to the Central Bank of Sri Lanka (2023), while tax revenue increased significantly earlier than expected, it was lower than the previous budget due to factors such as inflation, commodities' slower import demand and higher exchange rates e.g. 88.4%, with tax revenue accounting for 86.9% of the actual budget (Inland Revenue Department Sri Lanka, 2022). This discrepancy highlights the ongoing challenges of tax compliance and the need for more robust enforcement mechanisms, progressive awareness programs, and comprehensive reforms to tackle tax evasion and emphasize proper handling.

This study aims to fill the knowledge gap by examining the determinants of tax evasion behaviors from the perspective of employees directly involved in the tax system in Sri Lanka. Focusing on psychological, economic, institutional and demographic factors affecting tax evasion, this study provides actionable insights for policymakers to increase tax compliance and improve revenue generation. Understanding these factors will enable better policy interventions, ultimately contributing to economic stability and sustainable development.

1.2 Research problem

Taxation is fundamental to the modern economic system, it is a key source of government revenue and a means of redistributing wealth, keeping economic stability strong, and influencing behavior but any effective tax system stops as its taxpayers will comply. Tax evasion and evasion undermine the integrity of revenue collection and the achievement of broader economic goals, despite legal differences. Tax evasion is an important issue for many countries as it hinders their development. Taxes play an important role in the development of the country and are a major source of funds for social and economic initiatives. Consequently, taxes are necessary to finance public services and carry out basic national functions. Policy interventions and consequent targets to restore stability due to the socio- economic crisis

by 2022 resulted in lower tax revenues that year (Central Bank of Sri Lanka, 2023). Research shows that tax evasion is more common in developing countries than in developed countries. Tax evasion in these countries is high and is exacerbated by the lack of effort to understand the moral reasons behind it (Fagbemi, 2010). Several tax reforms initiated in the second half of 2022 and throughout 2023 increased revenue. The significant increase in tax revenue was primarily due to higher collections of income tax, VAT, excise duty, import duty and special commodity levy (SCL) besides, there was a nominal increase in non-tax revenue in real terms and real terms by 2023, mainly due to increased revenues from services. The reasons are According to the preliminary budget estimates for 2023, it was expected that revenue a total of 12.5% of GDP, with tax and non-tax revenues expected to be 11.3% and 1.2% of GDP respectively deficiency, imports, exports, the value of exchange rate income management, and the top plan of the income tax system in 2023 (Central Bank of Sri Lanka, 2024). Despite the notable improvement in revenue collection in 2023 compared to the previous year, actual revenue fell short of the initial ambitious budget estimates for 2023. The realized revenue for 2023 amounted to 88.4%, with realized tax revenue at 86.9% of the initial projections. This shortfall can be attributed to a faster-than-expected deceleration in inflation, continued subdued import demand, exchange rate appreciation, and issues related to revenue administration. Tax measures such as the upward revisions to the income tax structure increased the share of direct tax collection to 33.5% in 2023 from 30.5% in 2022 (Central Bank of Sri Lanka, 2022). Despite numerous tax improvements in 2022 and 2023 leading to increased revenue collection in Sri Lanka, the country continues to face significant challenges in achieving the full potential of its tax system due to persistent tax evasion. While much research has focused on individual taxpayer behavior (Dissanayake, 2024), (Ludigdo, 2023) there is a gap in understanding these factors from the perspective of professionals directly involved in the tax system. This study aims to bridge this gap by examining the psychological, non-compliance attitude, economic, institutional factors, and Demographic factors influencing tax evasion in Sri Lanka, as perceived by tax professionals, to provide actionable insights for improving tax compliance.

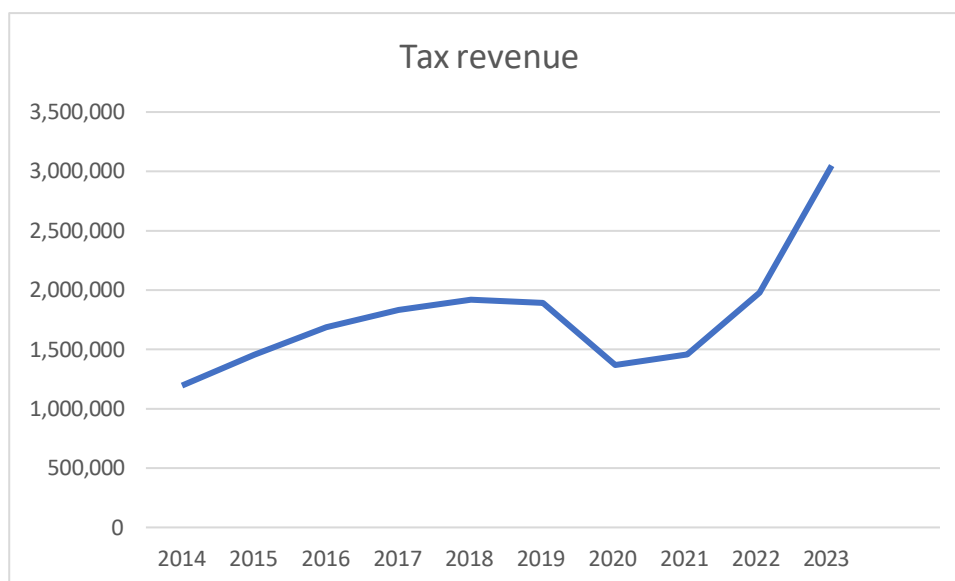


Figure 1.1 Source: (Central Bank of Sri Lanka, 2023)

Despite widespread tax reforms to increase revenue collection in Sri Lanka, tax evasion remains a significant challenge, holding back the country's fiscal stability and development. This research seeks to explore the determinants of tax evasion behavior from the perspectives of professionals directly involved in the tax system. By identifying these factors, the study aims to provide insights for policymakers to enhance tax compliance and improve revenue administration.

Graph Figure 1.1 shows that tax revenues have increased significantly in recent years, with a sharp increase in 2023. This increase is due to the implementation of various tax reforms in the second half of 2022 and throughout 2023. These changes include fees, VAT and 2023 changes. Introduction of excise, import, and special excise duties (SCL). While the increase in tax receipts demonstrates the effectiveness of these measures, the persistence of tax evasion highlights a serious underlying issue (Central Bank of Sri Lanka, 2023).

Table 1 Revenue Estimation and Collection - Year 2022

Name of Tax	Revenue Estimate (Rs)	Revenue Collection (Rs)	Collection as a % of Estimate	Collection as a % of Total Revenue
Income Tax	553,000,000,000	524,533,797,581	94.85%	49.57%
Capital Gain Tax	1,100,000,000	5,315,389,458	483.22%	0.50%
Value Added Tax	533,000,000,000	463,071,659,532	86.88%	43.77%
Tax on Voluntary Disclosure	3,900,000,000	3,969,890,410	101.79%	0.38%
Debt Repayment Levy	-	81,798,840	-	0.01%
Betting & Gaming Levy	2,000,000,000	5,244,762,337	262.24%	0.50%
Share Transaction Levy	3,000,000,000	4,215,856,857	140.53%	0.40%
Migrating Tax	11,000,000	10,728,103	97.53%	0.00%
Stamp Duty	-	12,719,609,022	-	1.20%
Economic Service Charge	-	201,752,669	-	0.02%
Nation Building Tax	-	585,045,019	-	0.06%
Turnover Tax	-	7,473,447	-	0.00%
National Security Levy	-	11,309,942	-	0.00%
Social Security Contribution Levy	35,000,000,000	36,111,030,506	-	3.41%

Casino License Fee	-	2,000,000,000	-	0.19%
Remittance Fee	500,000	-	0.00%	0.00%
Total Revenue Collection	1,131,011,500,000	1,058,080,103,723	93.55%	100.00%

Source by: (Inland Revenue Department Sri Lanka, 2022)

Despite various efforts to increase tax compliance and reform the tax system, tax evasion remains a major issue in Sri Lanka. This challenge is highlighted by the large Discrepancy between revenue estimates and actual collections across various tax brackets. For instance, although the revenue collection was close to the 94.85% figure, they found that revenue collected from other sources such as capital tax and gambling, gaming tax far exceeded their estimate, and highlights potential differences in accounting policies and compliance demonstrations, indicating avoidance or avoidance These inconsistencies reflect an underlying issue of compliance and importance that more stringent enforcement policies, progressive awareness programs, and comprehensive reforms be carried out to expand tax evasion and reduce evasion in Sri Lanka towards |

Under the IMF Extended Fund Facility (EFF) program, central government tax revenue targets were set as indicative criteria. The IMF's review mission saw significant improvement in tax collections. Government revenue grew 54.0% annually, and revenue-to-GDP increased 2.8 percentage points to 11.0% of GDP by 2023. While these numbers show growth, a consistent theme namely tax evasion implies that there is a gap in the system to promote and maximize revenue growth and must be addressed (Central Bank of Sri Lanka, 2023). Despite the adjustments, real revenue fell short of an ambitious budget in 2023, accounting for 86.9% of the original projection Inflation fell faster than expected, import demand went reduced, exchange rate appreciation and development of revenue policy statements, strengthened taxes and major tax units, and updated the Revenue Administration Management Information System (RAMIS) This system is intended to fund earnings have been streamlined and tax evasion reduced (Central Bank of Sri Lanka, 2023). A detailed analysis of tax revenues and the impact of recent reforms underscores the critical importance of understanding the determinants of tax evasion behavior. Recent reforms have boosted revenue, but the

decline relative to projections indicates ongoing challenges in tax compliance. By examining these factors from the perspective of employees directly involved in the tax system, this study aims to identify appropriate strategies for dealing with revenue management issues. Findings provide valuable insights for policymakers to enhance tax compliance and improve revenue (Central Bank of Sri Lanka, 2023).

1.2.1 Research Problem Statement.

Despite the implementation of comprehensive tax reforms aimed at increasing revenues in Sri Lanka, the country continues to deal with high levels of tax evasion. This ongoing challenge undermines economic stability and hinders development efforts. Given the important role that tax revenues play in financing social and economic programs, understanding the factors that contribute to tax evasion is of utmost importance. This study seeks to examine the determinants of tax evasion behavior from the perspective of employees directly involved in the tax system. By identifying these factors, the study aims to provide usable insights for policymakers to enhance tax compliance and improve revenue management.

1.2 Research Questions

- (1) What is the impact of non-compliance attitudes, institutional factors, Economic factors & Socio-Psychological factors on Tax evasion in Sri Lanka?
 - (a). what is the moderate relationship between profession, Tax evasion behavior & Determinants of Tax evasion behavior such as Non-compliance attitude, institutional factors, Economic factors & Socio-Psychological factors?

1.3 Research objective - Main objective:

1. To identify the impact of non-compliance attitudes on tax evasion among professionals in Sri Lanka.
2. To identify the impact of institutional factors on tax evasion among professionals in Sri Lanka.
3. To identify the impact of economic factors on tax evasion among professionals in Sri Lanka.
4. To identify the impact of Socio-Psychological factors on tax evasion among

professionals in Sri Lanka.

Sub Objective:

1. To examine how demographic characteristics moderate the relationship between tax evasion behavior and its determinants, including non- compliance attitude, institutional factors, economic factors, and socio- psychological factors.

1.4 Significance of the study

By understanding the determinants of tax evasion behavior and the relative role of profession, this study provides valuable insights for policymakers these insights can inform strategies and policies aimed at their vigilance to increase tax compliance, thereby improving revenue collection the findings of the survey can contribute to changes in revenue administration. Understanding the specific factors that affect tax evasion behavior and how these factors interact with demographic characteristics will enable fiscal authorities to design more effective tax policies and interventions.

Tackling tax evasion is critical to the sustainable economic development of Sri Lanka. By ensuring a more reliable and enhanced revenue stream, the government will be able to better finance, and ultimately contribute to, social and economic programs, infrastructure projects and public services for the development of the whole country.

This study contributes to the existing literature on tax evasion and avoidance. It provides a comprehensive analysis of the interplay between various determinants of tax evasion and demographic data, providing a deeper understanding of the complexities of taxpayer behavior.

The methodology and findings of the study can serve as a basis for future research on tax compliance. It opens the door to more detailed research on specific demographic groups and their unique interactions with the determinants of tax evasion and enriches the academic discourse on this important topic. In conclusion, this study not only aims to address an important issue in the Sri Lankan taxation system but also seeks to provide practical solutions and theoretical developments that can help policymakers and scholars also provide. The study seeks to create a more streamlined and efficient tax environment in Sri Lanka by bridging the gap between tax administration and taxpayers' behavior from the perspective of the professionals.

1.5 Chapter Summary

It outlines the centrality of taxation as a key source of government revenue and, by extension, public expenditure and economic development. This chapter discusses the Sri Lankan tax structure, key taxes, administrative reforms, and tax evasion challenges. The study gives importance to the influence of Sri Lanka's economic crisis on tax compliance and the effectiveness of recent policy measures like mandatory TINs and e- filing. The chapter identifies the gaps in understanding tax evasion from professionals' perspectives, especially in the Sri Lankan context, and frames the problem statement based on these gaps. This study, by investigating factors that influence tax evasion, attempts to provide practical insights into improving tax compliance, thus contributing toward fiscal stability and sustainable and fiscal stability in Sri Lanka.

CHAPTER 02: LITERATURE REVIEW

2.1 Introduction

Tax evasion is a global problem that erodes government revenue and adversely impacts the delivery of public services. It is an intentional act by individuals or entities to avoid their obligations to pay their taxes under the law, with severe consequences on economic and social aspects. Theoretical underpinning, such as the (Allingham, 1972), focuses on deterrents like penalties and risks of detection, which shape the behavior of the taxpayer. Psychological, institutional, and economic factors contribute differently to compliance. Understanding these determinants is important for policymakers to develop better tax systems and reduce evasion, especially in an environment like Sri Lanka, which is characterized by sharp socio-economic disparities and institutional inefficiencies.

2.2 Tax Evasion

The rise of academic research on tax evasion begins with Ellingham (Allingham, 1972). The preventive effect model, which borrows ideas from (Becker, 1968) Economics of crime model, This framework shows that risk-averse taxpayers weigh the potential benefits of tax avoidance against the risks of detection and punishment Key factors affecting their decision include tax rates, enforcement methods such as frequency accountability, and the likelihood of facing sanctions. Tax evasion, as a dependent variable, reflects the extent to which individuals or businesses deliberately avoid paying taxes owed to the government. Understanding the factors that influence tax evasion is critical for designing effective tax policies and enforcement strategies. This section reviews the literature on the determinants of tax evasion, focusing on the factors that contribute to its occurrence and the underlying reasons why individuals might engage in such behavior. A substantial body of research identifies various factors that influence tax evasion. (Alm, 2007), Argue that high tax rates can lead to increased tax evasion as taxpayers seek to minimize their financial burden. In contexts where tax rates are perceived as excessively high, individuals might view tax evasion as a justifiable response to what they consider an unfair tax system. This opinion is supported by (Torgler, et al., 2007), who find that higher tax rates and a lack of perceived benefits from taxation can correlate with increased tax evasion.

Furthermore, (Kirchler, 2007) Highlights that tax evasion is often rationalized by

perceptions of governmental inefficiency and corruption. When taxpayers believe that their tax contributions are wasted or misused by the government, they may be more inclined to evade taxes. This view is corroborated by (Frey, 2007), who notes that a perceived lack of transparency and accountability in tax administration can undermine trust and increase tax evasion.

Tax evasion occurs when eligible taxpayers intentionally neglect their tax obligations, leading to significant losses in total tax revenue and undermining the proper functioning of the public sector, including its ability to finance essential expenses. From an economic perspective, the issue of tax evasion arises because the variables that constitute the tax base, such as income, sales, revenue, and wealth, are often not directly observable. External observers typically cannot determine the actual size of an individual's tax base, making it difficult to ascertain true tax liability, particularly when the tax base is linked to cash transactions or illegal activities, which cannot be easily verified (Franzini, 1998). Although audits can sometimes uncover this information, they are often costly, and the principles of taxation suggest that tax collection costs should be kept to a minimum. The main source of government revenue is Tax. The government has to face difficulties in funding government projects and paying for government expenditures. There are strong arguments "Tax evasion is ethical if everyone is doing it" (Sri Lankans perceive tax evasion as ethical.) and "Tax evasion is ethical even if a large portion of money collected is spent on projects that do benefit the taxpayer". The government should take action to improve the tax collection from Sri Lankans to solve tax compliance. (Wijerathna & Perera , 2019) Several studies have explored the varying attitudes toward tax evasion across different demographic groups. Richard and Cheng (1996), in their study of 654 citizens in Hong Kong, found that while tax evasion on all or a significant portion of income is largely viewed as unacceptable, small-scale tax evasion (on less than 10% of income) is considered more acceptable, particularly among lower-income groups and manual workers compared to higher-income groups and professionals. Additionally, the study by (Khurana, 2009) on corporate tax evasion highlights that the ownership structure of a firm plays a significant role in tax compliance. Firms with higher levels of short-term institutional ownership tend to be more tax aggressive. In contrast, those with higher levels of long-term institutional ownership are generally less aggressive in their tax strategies. Gender differences in attitudes toward tax evasion have also been examined, with some studies indicating that women are more

ethical than men in this regard (Brown, 2005); (McGee, 2006). However, other research suggests no significant gender differences in tax evasion ethics (Rose & Gilbert, 2006). Interestingly, (McGee, 2005) found that in Romania, men were more opposed to Tax Evasion than women. These findings suggest that attitudes toward tax evasion are influenced by factors such as income level, occupational status, ownership structure, and gender.

2.3 Non-compliance attitude

Accordingly, non-compliant behavior refers to the deliberate behavior of taxpayers who choose not to comply with tax laws. This attitude is often shaped by several psychological, social and economic factors. (Alm, 2007). The main identified key findings are the literature suggests that a taxpayer's noncompliance attitude significantly affects the fairness of the tax system and the likelihood of detection and punishment. When taxpayers believe that the tax system is unfair or that others are also evading taxes, they are more likely to adopt noncompliant behavior. Moreover, taxpayers are more inclined to evade taxes if the risk of being caught and punished is low. This emphasizes the importance of enhancing the perceived fairness and effectiveness of the tax system to reduce non-compliance (Becker, 1968).

2.4 Institutional Factors

Tax evasion has been a persistent issue within the field of taxation, with institutional factors playing a significant role in influencing tax evasion behaviors, whether positively or negatively, depending on the quality of institutional practices (Kirchler, 2019) Key institutions, such as governments, regulatory bodies, and tax administrations, are crucial in combating tax evasion by implementing laws and policies that guide entrepreneurs in their investment decisions (Kirchler, 2019). (Alm, 2018) Note that corruption has a considerable impact on tax evasion, with larger bribes

Correlating with higher rates of evasion. In many emerging economies, multiple forms of corruption significantly contribute to tax evasion (Amoh, 2016). One of the studies analyzed data from 202 respondents in Nepal and found that ineffective tax administration and a lack of discipline within the tax system are major factors contributing to increased tax evasion (Kumar, 2020). Compliance decisions by individuals vary depending on the economic and legal environment, underscoring the need for a better understanding of tax

administration among taxpayers to reduce evasion (Kong, 2014). According to Kong and Wang (2014), measures such as stricter legal actions against corrupt activities, increasing public employee salaries, enhancing transparency, and reducing the discretionary power of tax administrations can help mitigate tax evasion. Institutional factors will include the quality of governance, the effectiveness of the legal system and the efficiency of tax administration. These factors collectively shape the environment in which taxpayers operate and make decisions regarding tax compliance. (Azevedo, 2020). The main key findings/implications are Research shows that strong institutions play a critical role in reducing tax evasion. Effective governance, a strong legal system and efficient tax administration create an environment where compliance is the norm and difficult to evade. Conversely, weak institutions with high levels of corruption, weak legal enforcement and inefficient tax administration exacerbate tax evasion. This underscores the need to strengthen institutional frameworks to combat tax evasion in Sri Lanka effectively (Alm, 2019).

2.5 Economic Factors

The tax rate is a significant factor influencing taxpayers' decision to comply with tax laws. While reducing tax rates can potentially discourage tax evasion, it is not the only Policy that can achieve this goal (Brown, 2005). The tax rate plays a significant role in influencing tax compliance behavior, though the precise extent of its impact is still uncertain and subject to debate (Kirchler, 2007). Raising marginal tax rates can indeed incentivize taxpayers to evade taxes (Allingham, 1972). Tax evasion poses a significant threat to government revenue, often resulting in fiscal deficits. These deficits can significantly constrain a government's ability to implement effective economic policies. Consequently, the failure to address tax evasion can undermine economic stability and hinder the delivery of essential public services (Perera, 2020). The analysis explores the relationship between tax rates and tax evasion, with empirical studies seeking to explain this connection. Findings by (Mengistu, 2021) suggest that taxpayers tend to comply with tax regulations by legally reporting their income, especially in response to higher tax rates. In contrast, (Abdul-Jabbar, 2020) argues that tax rates are difficult to adjust in practice, and few individuals are willing to experiment with rate changes.

Tax audits are widely recognized as a critical factor influencing tax evasion. Thorough audits can uncover information that compels tax evaders to comply with the system.

However, there is also an opposing perspective that an increase in tax audits may lead to a rise in tax evasion (Ameyaw, 2016). The likelihood of being audited significantly reduces tax evasion, as noted by (Allingham, 1972) and (Mengstu, 2022). Similarly, (Ajzen, 1991) argue that effective audit functions can reduce the shadow economy and boost government revenue. (Mengstu, 2022) Further observed that there is a negative and significant relationship between penalty rates and tax evasion. Consistent with this view, (Ameyaw, 2016) Explain that penalty charges can discourage compliance, thereby increasing evasion.

2.6 Socio-Psychological Factors and Tax Evasion

Tax evasion remains a significant challenge for many governments worldwide, including Sri Lanka. Understanding the factors that contribute to tax evasion is crucial for developing effective strategies to increase tax compliance. While economic, institutional, and legal factors are often highlighted, socio-psychological factors have gained increasing attention as critical determinants of tax evasion behavior. This literature review delves into how socio-psychological factors such as attitude, trust in tax administration, fairness of the tax system, and social norms influence tax evasion behavior, with a particular focus on the Sri Lankan context. One of the most studied socio-psychological factors is the individual's attitude towards tax compliance. Attitude refers to the predisposition to respond favorably or unfavorably to a specific behavior. In the context of tax compliance, a positive attitude towards paying taxes is likely to result in higher compliance, while a negative attitude may lead to evasion. Emphasized that taxpayer attitudes are shaped by their perceptions of the tax system's fairness, the benefits received in return for taxes paid, and the general trust in the tax authorities (Kirchler, 2019).

Economic and institutional factors had a significant impact on tax evasion, while socio-cultural factors, including attitudes, showed a less direct effect. This suggests that while attitudes are important, they interact with other factors, such as economic conditions and institutional trust, to influence behavior (Oduro, 2018) In Sri Lanka, attitudes towards tax compliance are heavily influenced by historical tax administration practices, public sector inefficiency, and perceptions of corruption, which contribute to a more incredulous view of the tax system (Dissanayake, 2020).

Trust in tax authorities is another critical socio-psychological factor influencing tax compliance. Trust is the belief that the authorities will act in the public's interest and use

tax revenues effectively. A high level of trust in the tax administration correlates with higher levels of tax compliance, as taxpayers are more willing to contribute to a system they perceive as fair and efficient (Feld, 2007). Research by (Abdul-Jabbar, 2020) Highlighted that trust in the tax administration, supported by peer influence and social interactions, significantly impacts taxpayer compliance decisions. In the Sri Lankan context, trust in the tax system is often undermined by perceptions of corruption and inefficiency, leading to higher levels of tax evasion. The psychological contract theory suggests that when taxpayers feel the government does not fulfil its obligations, such as providing adequate public services, their motivation to comply diminishes (Alm, 2019). Therefore, enhancing trust through transparency and efficient service delivery is crucial for improving tax compliance in Sri Lanka the perceived fairness of the tax system is another key socio-psychological factor influencing tax compliance. Tax fairness is typically assessed based on equity and justice in the distribution of the tax burden and the use of tax revenues. When taxpayers perceive the tax system as fair, they are more likely to comply voluntarily (Hartner, 2008).

The perceptions of fairness significantly affect tax compliance behavior, particularly when taxpayers believe the tax burden is equitably shared and the revenues are used for the public good (Kasper, 2022). In Sri Lanka, the perception of tax fairness is often challenged by the unequal distribution of tax burdens, where certain groups feel they are disproportionately taxed while others evade with impunity (McGee, et al., 2016). This perception leads to increased tax evasion as taxpayers rationalize their non-compliance based on the perceived inequity of the system. When tax evasion is perceived as a socially acceptable behavior, individuals are more likely to evade taxes. Conversely, in societies where compliance is the norm, individuals are more likely to comply to avoid social sanctions (Alm, 2019). Social norms are powerful determinants of tax compliance because they influence individual behavior through social approval or disapproval. (Alm, 2019) Argued that taxpayers' fear of social stigma and negative self-image from evading taxes could deter non-compliance. In Sri Lanka, social norms around tax compliance are influenced by community behaviors and the visibility of enforcement actions. When tax evasion is seen as common and unpunished, it becomes more socially acceptable, further eroding compliance (Gunathilaka, 2007) In Sri Lanka, cultural factors such as collectivism and respect for authority also play a role in tax compliance behavior. Indicated that in more collectivist societies, social norms and peer influences are stronger

determinants of tax compliance compared to individualistic societies. Therefore, understanding the cultural context is crucial when analyzing the socio-psychological determinants of tax evasion in Sri Lanka (Lewis, 1995).

The concept of a psychological contract between taxpayers and the government, as proposed by (Frey, 2007), is an important framework for understanding the socio-psychological determinants of tax compliance. This theory posits that taxpayers are willing to comply with tax obligations when they perceive a fair exchange between the taxes they pay and the public services they receive. When this contract is perceived as violated either through poor service delivery or unfair tax administration taxpayers may feel justified in evading taxes (Dissanayake, 2024). Tax morale, or the intrinsic motivation to pay taxes, is another socio-psychological factor that influences tax compliance. High tax morale is associated with a strong sense of civic duty and a belief in the importance of taxes for societal welfare. The tax morale is higher when taxpayers perceive the tax authorities as competent, fair, and supportive (Barone, 2011). In Sri Lanka, tax morale is often low due to a combination of historical mistrust in the government, perceptions of unfair taxation, and the visibility of tax evasion among peers. Increasing tax morale requires efforts to rebuild trust in the tax system, enhance the perceived fairness of taxation, and promote the civic responsibility of paying taxes (Frey, 2007).

2.7 Moderating Variable – Profession

This profession has various faces: a moderating role as a tax professional, ethical decision maker of the tax consultant, and accounts representative as a professional. Tax professionals can serve as facilitators for tax evasion or fulfil their responsibilities to be information sources in terms of the extent each one was able to withstand evasion and the kind of informational externalities produced. The dual nature of impacts on the behaviors of the taxpayer is reflected in these two distinct roles. The professionalism of tax consultants and account representatives, for instance, can moderate ethical decision-making and compliance, respectively, by affecting the ethical standards and practices in the profession itself (Brown, 2005); (Perera, 2020).

Public and private sector professionals in Sri Lanka operate under different regulatory and ethical environments, which can influence their tax compliance behavior. Public sector employees are typically subject to stricter oversight and are expected to adhere to

higher ethical standards due to their role in government institutions. In contrast, private sector professionals may face different pressures, such as profit maximization and competitive market conditions, which can affect their attitudes towards tax compliance (Hite, 2001). Tax professionals can significantly influence tax evasion through social spillover effects, wherein the average evasion behavior of a professional's clients influences individual taxpayer behavior. It identifies two mechanisms: self-selection of taxpayers into professionals with varying tolerance for evasion and informational externalities from the professional's activities (Brown, 2005). These mechanisms therefore underline the important role of tax professionals in shaping the behavior of taxpayers. The professionalism of tax consultants may thus moderate the effect of Machiavellian traits, ethical perceptions, and risk preferences on ethical decision-making. High professionalism reduces unethical decisions through a strong emphasis on ethics and social responsibility (Franzini, 1998). This means that the ethical standard imposed by the tax consultant would significantly affect the attitude towards tax compliance for the clients and reduce the tendency or opportunity to evade taxes.

The professionalism of account representatives can moderate the impact of systems like e-filing and tax sanctions on taxpayer compliance. Though professionalism enhances compliance through structured systems and sanctions, it does not considerably moderate the effect of tax socialization 2023. This implies that while professionalism is of utmost importance in ensuring increased compliance, it may have a minimal effect on other factors such as socialization. Yet, the influence of the profession on the taxation burden, communication about it by governments, and current economic status can only play a regulating role. According to recent studies, decreases in the tax burden, more efficient and clear explanations and information provided on where taxpayers' money goes, lead to reduced levels of evasion by self-employed (Perera, 2020). Additionally, it becomes higher when the economic situation in a country deteriorates or there is corruption (Oduro, 2018). This further underlines the interaction between profession and other external factors in moderating tax evasion.

The informal sector in Sri Lanka, where many entrepreneurs operate, is characterized by cash transactions and minimal documentation, which can facilitate tax evasion. The lack of formal oversight in this sector increases the likelihood of tax evasion. However, entrepreneurs who eventually transition to the formal economy, or those who aspire to do so, maybe more compliant with tax regulations due to the benefits of legitimacy and access to credit. This transition moderates their tax evasion behavior (Allingham, 1972). The ethical standards associated with different professions also play a crucial role in moderating tax evasion behavior. Public sector professionals and private sector employees in well-regulated industries tend to have higher ethical standards compared to those in cash-intensive professions, where opportunities for evasion are more prevalent. Ethical training and awareness programs can enhance compliance across all professional groups by raising the perceived risks and moral implications of tax evasion. (Ludigdo, 2023). This literature review has highlighted the significant role that the profession plays as a moderating variable in tax evasion behavior in Sri Lanka. While economic, social, and legal factors are important determinants of tax evasion, the influence of professional ethics.

2.10 Research gap

Tax evasion has been one of the extensively studied areas in both the developed and developing world and a wide range of research has been conducted on the individual taxpayer's behavior as well as the economic consequences of the non-compliance (Alm, 2007). The critical lacunae persist within the literature on these variables and call for a close watch in any meaningful analysis of tax evasion in Sri Lanka. Essentially, the gaps will provide the basis for structuring the approaches to dealing with such problems. An important ingredient, therefore, involves empirical, knowledge, and conceptual gap identification. Most empirical studies on tax evasion focus on taxpayer behavior, often neglecting the role and perspectives of professionals such as tax consultants, auditors, and tax officials who play a pivotal role in the tax system. For instance, (Dissanayake, 2024) examined individual taxpayer behavior but did not include insights from professionals who interact with the tax system regularly. Most of the empirical literature confines itself to surveys and data on general taxpayers, hence lacking empirical evidence on perceptions held by these professionals and the resultant impact on tax compliance or evasion.

In addition, studies in Sri Lanka, as in most developing countries, also focus on the results

of tax evasion, including fiscal deficits and a decline in the funding of public service, rather than its determinants (Mahdavi, 2004) However, empirical research on Systemic constraints to compliance based on the perspective of tax professionals is limited. This identifies a deficiency in the studies that adopt empirical analysis of the psychological, economic, institutional, and socio-demographic factors, which drive or impede tax evasion from the professional perspective.

The knowledge gap in literature becomes evident from the less-than-adequate levels of understanding of the immense roles tax professionals play both in mitigating or unconsciously encouraging tax evasion. Very little research has focused on attitudes toward tax evasion, at an individual level such as those by (Dissanayake, 2024); (McGee, 2006), but the interrelationships between tax professionals' attitudes and their impact on compliance behavior remain under-investigated. Research has shown that decisions to comply with or evade tax, among other factors, depend on moral beliefs and economic incentives, but most studies ignore the perception of such professionals who implement or advise on such policies (Fagbemi, 2010).

Secondly, a scant knowledge base exists regarding the way non-compliance attitudes together with institutional factors impact the behavior of tax professionals. For example, (Ludigdo, 2023) examined the general behavior of taxpayers and did not discuss the knowledge and attitude of professionals, which may directly affect the efficiency of tax administration. The absence of such knowledge is considered a knowledge gap, which this study has been set up to fill through the examination of the factors influencing tax evasion concerning the viewpoint of tax professionals in Sri Lanka. The extant literature also lacks a coherent framework of the various factors that influence tax evasion, especially from the perspective of tax professionals. Most studies

Currently consider these factors in isolation, such as economic pressures or ethical considerations, without integrating them into a comprehensive model reflecting the complex decision-making processes of professionals in the context of the tax system (Khurana, 2009). The conceptual gap is related to the lack of an integrated approach, which would consider simultaneously psychological, economic, institutional, and socio-demographic factors, as perceived by tax professionals.

Besides, the literature still lacks a robust theoretical framework that accounts for the moderating role of professional engagement in the relationship between tax evasion behaviors and their determinants. While there are studies such as those by (Brown, 2005),

that have focused on gender differences in ethical perceptions of tax evasion, no study has extended such findings to see how professional roles may modify these dynamics. This gap points to the conceptual model that captures the singular influences of professional roles on tax evasion behaviors as highly relevant and needed to develop targeted interventions that will improve tax compliance. Empirical, knowledge and conceptual gaps are addressed in this study, therefore, to develop a deeper understanding of the factors that influence tax evasion in Sri Lanka from the perspective of professionals who are directly involved in the tax system. This study addresses these gaps to contribute to the literature by providing new insights into systemic and professional influences on tax compliance that could underpin more effective tax policy and administrative reforms.

2.11 Chapter Summary

Tax evasion is a multifaceted issue influenced by economic, institutional, and socio-psychological factors. High tax rates, weak governance, and lack of trust in authorities exacerbate non-compliance, while fair systems and efficient administration foster voluntary compliance. Addressing evasion requires a comprehensive approach, integrating stricter enforcement, enhanced transparency, and public engagement. For Sri Lanka, strengthening institutional frameworks and fostering taxpayer trust are critical steps toward reducing evasion and ensuring sustainable revenue generation

CHAPTER 03: METHODOLOGY

3.1 Introduction

This chapter details the research methods that shall be used in answering the objectives of the study. It outlines the research design, methods of data collection, techniques of sampling, and procedures for data analysis to be used in testing the hypothesized relationships among variables. The purpose of this chapter is to be transparent and to allow for replicability by providing a clear roadmap of how the study was conducted.

3.2 Research Design

This is quantitative research with a descriptive and correlational design. Descriptive statistics highlight the sample's characteristics while the correlation analysis establishes how different variables relate to each other concerning magnitude and direction. Regression analysis is performed to establish predictors and test the hypotheses of this study. Where relevant, the interaction terms will be used to test for moderation effects.

3.3 Data Collection

The primary data were collected with the help of a structured questionnaire, using Google Forms, among professionals in selected provinces of Sri Lanka. The selection was based on having the highest concentration of professionals so that the data would relate to the research objectives. Scales and items were adapted from previous studies where reliability and validity have already been ensured. In addition, both online and offline responses were collected to increase the scope of reach and convenience.

3.4 Sampling Technique

The study will use stratified sampling, with provinces as strata, to ensure a representative sample of the service sector. Convenience sampling in each province will be effected from the following self-selecting samples: self-employed, corporate employees, the public sector, professionals with cash-intensive businesses, and entrepreneurs. The key focus would be on Western, North Central, Sabaragamuwa, Central, and Eastern provinces, with service sector employment data guiding stratification. Convenience sampling will then be used in each stratum based on the availability and willingness of participants.

3.5 Conceptual framework

Conceptual framework

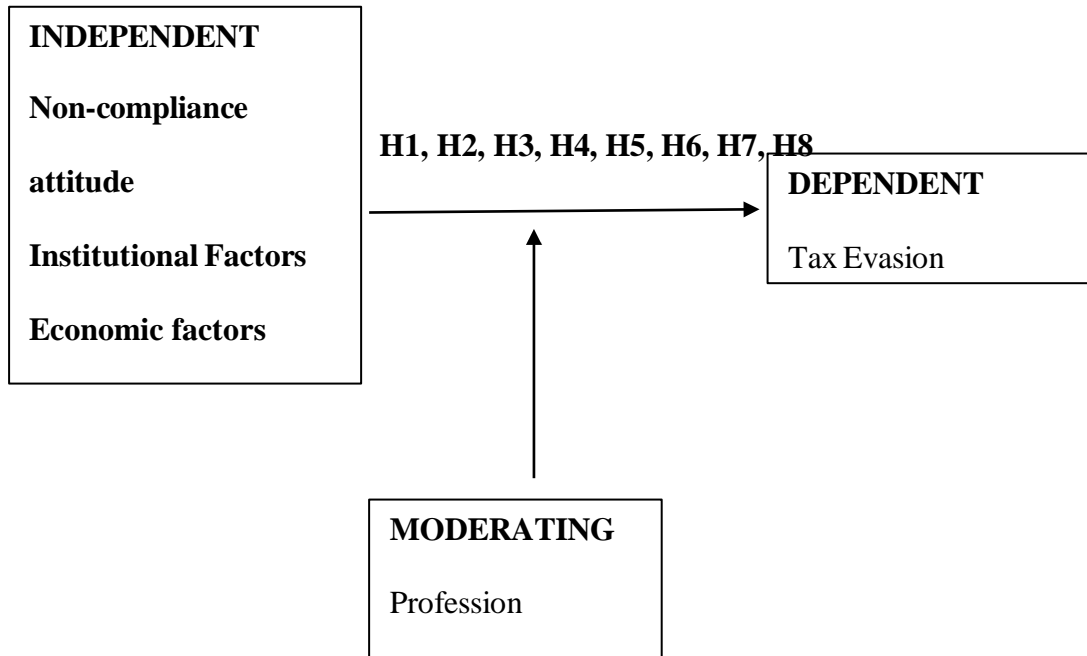


Figure 1 Figure 1: Conceptual Framework (Adapted from MBM Amjath & K. Vijayarani, 2015; Yamen et al., 2018; Ryšavá & Zídková, 2021; Al-Rahamneh & Zainol, 2022; (Kirchler, 2019)

The conceptual framework for this study investigates the factors influencing tax evasion behaviors, with a focus on how these factors interact with the moderating variable of the profession. The framework is organized into four primary domains: non-compliance attitudes, institutional factors, economic factors, and socio-psychological factors, with tax evasion as the dependent variable. Non-compliance attitudes are analyzed through perceptions of fairness and compliance (MBM.Amjath & K. Vijayarani, 2015), understanding of tax laws, penalties and rewards, enforcement and detection, fear and consequences, tax harassment, and tax reporting behavior. These dimensions assess how individuals' perceptions and attitudes towards tax compliance impact their likelihood of engaging in tax evasion.

Institutional factors include elements such as corruption among tax officers (Yamen et al., 2018), infrastructure facilities, tax officers' behavior and efficiency, and tax administrators' understanding. These factors evaluate how the quality and integrity of tax institutions influence tax evasion.

Economic factors encompass high tax rates (Ryšavá & Zídková, 2021), changes in tax rates, benefits, penalties, tax audits, harassment, and the equal application of penalties. These variables assess how economic conditions and tax policies affect tax evasion behaviours. Socio-psychological factors (SPF), as identified by Al-Rahamneh et al. (2022) and (Kirchler, 2019) focus on taxpayer trust in the tax authority, the fairness and transparency of the tax system, and the correctness of tax reports. These factors examine the role of psychological and social trust in influencing tax compliance. Including "profession" as a moderating variable in the conceptual framework is substantiated by research indicating that occupational roles significantly affect individuals' attitudes towards compliance and regulatory behaviors. For example, (Frey, et al., 2007) argue that professionals in different sectors experience and respond to tax regulations differently due to varying industry norms and levels of regulatory exposure (Khurana, 2009) supports this notion, suggesting that professionals with specialized financial knowledge may have different compliance behaviors compared to those in less regulated fields. Additionally, (Devos, 2014) highlight that job- related factors and industry-specific characteristics can shape taxpayers' perceptions of tax fairness and system effectiveness. By incorporating profession as a moderating variable, the framework acknowledges these distinctions and offers a more detailed understanding of how different professional contexts influence the relationships between non-compliance attitudes, institutional factors, economic conditions, socio- psychological perceptions, and tax evasion. This approach ensures a comprehensive analysis of tax compliance across various occupational groups, providing valuable insights for tailored policy recommendations.

In this framework, the profession is introduced as a moderating variable, recognizing that the impact of attitudes, institutional quality, economic conditions, and socio-psychological perceptions on tax evasion may vary depending on the professional context of individuals. By incorporating profession as a moderating variable, the framework aims to provide a nuanced understanding of how different occupational backgrounds might influence the relationships between the independent variables and tax evasion.

3.6 Operationalization

Table 2 Operationalization

Variable type	Variable	Dimensions	Items	Source
Independent	Non-compliance attitude	Perception of Fairness and Compliance	We are paying a fair share of tax. Your peer pays tax honestly.	MBM.Amjath & K. Vijayarani, 2015
		Understanding of Tax Laws	Tax laws are easy to understand to you.	
		Penalties and Rewards	You are paying tax fines and penalties. The Inland Revenue Department gives rewards to you.	
		Enforcement and Detection	Tax authority makes aggressive tax enforcement. Non-taxpayers are detected at the maximum level.	
		Fear and Consequences	There is fear of tax audit and prosecution.	
		Tax Harassment	There are tax harassments by IRD.	
		Tax Reporting Behavior	Business profits are not reported properly.	
Independent	Institutional factors	Corruption among tax officers	The level of corruption among tax officers is high	Yamen et al., 2018
		Infrastructure facilities	The infrastructure facilities available with the tax system motivate taxpayers to comply.	
		Tax officer's behaviour	Tax officers treat taxpayers friendly.	
		Tax officer's efficiency	Tax officers efficiently take action to detect tax evaders.	

		Tax administrators' understanding	Tax administrators clearly understand their role in increasing tax compliance.	
Independent	Economic factors	High rates	Tax rates are very high	(Ryšavá & Zídková, 2021)
		Changing rates	Tax rates get changed frequently.	
		Benefits	Tax benefits help to reduce tax evasion.	
		Penalty	Tax penalty supports to reduction of tax evasion.	
		Tax audits	Effective tax audits reduce tax evasion.	
		Harassments	Tax officers harass taxpayers when doing audits.	
		Equal application of penalty	Charging penalty is not equally applied to all taxpayers.	
Independent	Socio-Psychological Factors (SPF)	Taxpayer trust in tax authority	The tax system is fair and transparent	(Al-Rahamneh & Zainol, 2022); (Kirchler, 2019)

		Taxpayer trust in tax authority	Taxpayers have trust in tax administration.	
		Correctness of reports	Most of the people pay taxes correctly.	
		Understanding of tax obligations	Paying tax is an obligation of each person.	
Dependent	Tax Evasion	Tax rates are too high	Tax evasion is ethical if tax rates are too high	MBM.Amjath & K. Vijayarani,

		Tax rates are not too high.	Tax evasion is ethical even if tax rates are not too high.	2015
		Unfair tax system	Tax evasion is ethical if the tax system is unfair.	
		Government waste	Tax evasion is ethical if a large portion of money is wasted by the Government.	
		Everyone is doing it.	Tax evasion is ethical if everyone is doing it.	
		Money ends up with dishonest politicians.	Tax evasion is ethical if a significant portion of the money collected winds up in the pockets of dishonest politicians or their family and/or friends.	
		The probability of getting caught is low	Tax evasion is ethical if the probability of getting caught is low	
		Unjust tax law	Tax evasion is ethical if it is supported by unjust tax laws.	

This approach seeks to offer a more comprehensive insight into the multifaceted drivers of tax evasion across diverse professional settings.

H1: Non-compliance attitude positively impacts Tax evasion behavior in Sri Lanka.

H2: Institutional factors positively impact Tax evasion behavior in Sri Lanka.

H3: Economic factors positively impact Tax evasion behavior in Sri Lanka.

H4: Socio-psychological factors positively impact Tax evasion behavior in Sri Lanka.

H5: profession moderates the positive relationship between Non-compliance attitudes and tax evasion behaviors in Sri Lanka.

H6: Profession moderates the negative relationship between Institutional factors and tax evasion behaviors in Sri Lanka.

H7: Profession moderates the positive relationship between Economic factors and tax evasion behaviors in Sri Lanka.

H8: Profession moderates the positive relationship between Socio-Psychological factors and tax evasion behaviors in Sri Lanka.

3.7 Data Analysis

Reliability Analysis: Cronbach's alpha was computed to confirm the internal consistency of the measurement scales. Descriptive Statistics: Summary statistics were used in describing the data, which include means, standard deviations, and frequencies.

Correlation Analysis: The study examined the relationships among the variables for significant associations. Regression Analysis: This method assessed the impact of independent variables on the dependent variable.

Moderation Analysis: To test the potential moderation effects, interaction terms were developed. This was only considered when theoretical justification and patterns in data supported the presence of moderators.

3.8 Ethical Considerations

Ethical principles were strictly adhered to in the research process. Respondents participated in the research on a purely voluntary basis, and anonymity and confidentiality were guaranteed for the respondents. Informed consent was sought, and the data was used exclusively for academic purposes.

CHAPTER: 04 ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents the results of the study on Professional Perspectives on Determinants of Tax Evasion in Sri Lanka: An In-Depth Analysis. The reliability analysis confirms that the internal consistency of the measurement scales exists. Descriptive statistics summarize the key variables into central tendencies and distributions. The linear regression analysis is employed to investigate the relationship between tax literacy, perceived fairness, and enforcement mechanisms as the determinants of tax evasion. Moreover, the research investigates the moderating effect of professional background to investigate how these relationships vary across different professions. The findings provide useful lessons that can be learned on the factors that influence tax compliance behavior among Sri Lankan professionals, bringing into focus certain key areas of policy and practice. These results provide the basis for the discussions and recommendations in the next chapter and add to the broader understanding of the dynamics of tax evasion in the local context.

4.2 Reliability test

Table 3 Reliability test

Variables	Reliability Statistics	
	Cronbach's Alpha	N of Items
Tax evasion	0.876	10
Non-Compliance attitude	0.732	7
Institutional factors	0.710	5
Economic factors	0.731	7
Socio Psychology factors	0.712	4
Overall	0.895	33

Reliability statistics are shown to reflect the internal consistency of the scales used in this study. The Cronbach's Alpha values confirm that all the scales have acceptable to excellent reliability. The variable Tax Evasion shows a high-reliability score of 0.876 across 10 items; Non-Compliance Attitude, acceptable reliability of 0.732 across 7 items; Institutional Factors, 0.710 across 5 items; Economic Factors, 0.731 across 7 items; and Socio-Psychological Factors, 0.712 across 4 items. The overall reliability stands at a Cronbach's Alpha of 0.895 for 33 items, underlining the robustness of the whole scale. With appropriate and reliable instruments used for measuring the variables, the results show confidence in the validity of data for further analysis.

4.3 Descriptive statistics

Table 4 Frequency for Gender

Gender					
		Freq uenc y	Per cent	Valid Percent	Cumulative Percent
Valid	Male	78	45.1	45.1	45.1
	Female	95	54.9	54.9	100.0
	Total	173	100.0	100.0	

Table 4 illustrates the gender distribution among the 173 respondents. Of the total sample, 45.1% are male (78 respondents), while 54.9% are female (95 respondents). This indicates a slightly higher representation of females compared to males in the study.

Table 5 Frequency for Age

Age					
		Freq uen cy	Per cent	Valid Percent	Cumulati v e Percent
Valid	20-30 years	55	31.8	31.8	31.8
	31-40 years	58	33.5	33.5	65.3
	41-50 years	39	22.5	22.5	87.9
	Above 50 years	21	12.1	12.1	100.0
	Total	173	100.0	100.0	

Table 5 shows the age distribution of the 173 respondents. The majority of participants are in the 31-40 years age group (33.5%), followed by 20-30 years (31.8%). Respondents aged 41-50 years constitute 22.5%, while those above 50 years make up 12.1%. This indicates a well-distributed sample across various age groups, with a concentration in the 20-40 years range.

Table 6 Frequency for Profession

Professionals					
		Freq uen cy	Per cent	Valid Percent	Cumulativ e Percent
Valid	self-employed	16	9.2	9.2	9.2
	public sector	54	31.2	31.2	40.5
	corporate employees	92	53.2	53.2	93.6

Professionals in cash-intensive business	3	1.7	1.7	95.4
Entrepreneurs	8	4.6	4.6	100.0
Total	173	100.0	100.0	

The data presents the distribution of professionals across different sectors and provinces. In terms of profession, the majority are corporate employees (53.2%), Followed by those in the public sector (31.2%). Smaller groups include self-employed individuals (9.2%), entrepreneurs (4.6%), and those in cash-intensive businesses (1.7%).

Table 7 Frequency for Provinces

Province					
		Freq u ency	Per cent	Valid Percent	Cumulativ e Percent
Val id	Western	62	35.8	35.8	35.8
	Northcentral	19	11.0	11.0	46.8
	Sabaragamuwa	27	15.6	15.6	62.4
	Central	35	20.2	20.2	82.7
	Eastern	30	17.3	17.3	100.0
	Total	173	100.0	100.0	

Regionally, the Western Province has the highest representation with 35.8%, followed by the Central (20.2%) and Sabaragamuwa (15.6%) provinces. The Eastern Province accounts for 17.3%, and the North Central region is (11.0%) listed.

Table 8 Descriptive Statistics of Factors Influencing Tax Compliance and Evasion

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
TE	173	1.00	5.00	3.4711	.67933
NCA	173	1.71	5.00	3.5078	.52610
IF	173	1.80	5.00	3.4613	.57279
EF	173	2.43	5.00	3.6135	.50554
SPF	173	1.25	5.00	3.3049	.70958
Valid N (listwise)	173				

Table 8 summarizes the descriptive statistics of the five variables of interest: Tax Evasion, Non-Compliance Attitude, Individual Factors, External Factors, and Social Pressure Factors. It followed that the observed means of tax-related behaviors were moderate. It was also observed that EF, with a mean of 3.6135, may have the strongest influence among the factors, while SPF showed the highest variation, which suggests Diversity in responses to social pressure. The means across all variables are relatively similar, which indicates a somewhat consistent response across the sample.

4.4. Correlation analysis

The analysis of tax evasion in Sri Lanka is crucial for understanding the dynamics that lead to non-compliance and identifying the factors influencing the overall tax compliance culture. The primary objective of this study is to explore the relationships between tax evasion (TE) and several independent variables: non-compliance attitude (NCA), institutional factors (IF), economic factors (EF), and societal pressure factors (SPF). Furthermore, the role of professionals in these relationships is examined. This section presents a comprehensive analysis of the data, illustrating the correlations, regression model outputs, and statistical significance across various variables.

4.4.1 Correlations between Tax Evasion and Independent Variables

The Pearson correlation matrix in Table 1 illustrates the strength and direction of the relationships between tax evasion and several key variables, namely NCA, IF, EF, and SPF.

Table 9 Correlation analysis

Variables	TE	NCA	IF	EF	SPF
TE	1	0.404**	0.416**	0.204**	0.319**
NCA	0.404**	1	0.586**	0.487**	0.454**
IF	0.416**	0.586**	1	0.350**	0.444**
EF	0.204**	0.487**	0.350**	1	0.326**
SPF	0.319**	0.454**	0.444**	0.326**	1

Note: Correlation is significant at the 0.01 level (2-tailed).

From Table 1, it is evident that tax evasion (TE) is positively correlated with all independent variables, with significant correlations at the 0.01 level. The strongest relationship is with institutional factors (IF) at 0.416, indicating that weaknesses in institutional frameworks, such as inefficiencies in law enforcement and regulatory shortcomings, significantly contribute to the occurrence of tax evasion in Sri Lanka. The next strongest correlation is with non-compliance attitude (NCA) at 0.404, highlighting the role of individuals' attitudes towards tax compliance. Economic factors (EF) exhibit a weaker yet still significant positive correlation with tax evasion at 0.204, suggesting that financial pressures and macroeconomic instability play a moderate role in influencing tax evasion tendencies. Societal pressure factors (SPF), which encompass the influence of

social norms and peer behaviors, show a moderate correlation with TE at 0.319, underscoring the importance of societal attitudes toward tax compliance. Additionally, the independent variables themselves exhibit significant intercorrelations. For example, NCA has a strong positive correlation with IF (0.586), suggesting that non-compliance attitudes are closely linked to institutional inefficiencies. Similarly, both NCA and IF correlate strongly with SPF (0.454 and 0.444, respectively), implying that societal norms align with individual attitudes and institutional frameworks, which together shape tax compliance behavior.

4.4.2 Professionals' Influence on Tax Evasion

The role of professionals in tax evasion is an essential consideration in this study. The correlation matrix for professionals, TE, and the independent variables (NCA, IF, EF, and SPF) is presented in Table 2.

Table 10 : Pearson Correlation Matrix for Professionals and Other Variables

Variables	Professionals	TE	NCA	IF	EF	SPF
Professionals	1	0.114	-0.035	0.034	-0.109	-0.013
TE		1	0.404**	0.416**	0.204**	0.319**
NCA			1	0.586**	0.487**	0.454**
IF				1	0.350**	0.444**
EF					1	0.326**
SPF						1

Note: Correlation is significant at the 0.01 level (2-tailed).

The correlation between professionals and tax evasion (TE) is weak (0.114) and not statistically significant ($p = 0.135$). This suggests that professional characteristics do not significantly influence tax evasion in this study's sample. Likewise, the professional variable shows weak and non-significant correlations with NCA, IF, EF, and SPF, further indicating that professionals may not have a strong direct impact on the factors affecting

tax evasion.

4.5 Linear Regression Analysis

4.5.1 Non-compliance attitude

The first regression model explores the predictive power of NCA on tax evasion (TE).

The model summary is presented in Table 3.

Table 11 Model Summary for NCA and TE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.404	0.163	0.158	0.62328

The model summary shows that the predictor variable NCA has a moderate correlation with TE, with an R-value of 0.404. This suggests that NCA contributes to explaining a moderate portion of the variance in tax evasion. The R Square value of 0.163 indicates that approximately 16.3% of the variation in TE can be explained by NCA, while the remaining 83.7% is unexplained.

Table 12 ANOVA for NCA and TE

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	12.945	1	12.945	33.323	0.000
Residual	66.43	171	0.388		
Total	79.375	172			

The ANOVA table confirms that the regression model is statistically significant, with an F-value of 33.323 and a Sig. Value of 0.000. This suggests that NCA is significant in explaining the predictor of tax evasion (TE).

Table 13 Coefficients for NCA and TE

Model	B	Std. Error	Beta	t	Sig.
Constant	1.642	0.32		5.125	0.000
NCA	0.521	0.09	0.404	5.773	0.000

The coefficients table shows that the unstandardized coefficient for NCA is 0.521, indicating that for each unit increase in NCA, TE increases by 0.521 units. The standardized Beta value of 0.404 indicates a moderate positive effect of NCA on TE. The t-value for NCA is 5.773, which is significant ($p = 0.000$), confirming that NCA has a strong impact on tax evasion. Therefore, with the regression analysis results, the Sig. < 0.05 ; therefore, it can be asserted that the reject the null hypothesis and the proposed alternative hypothesis H1 is accepted. It concludes that there is a significant positive impact of noncompliance attitude on tax evasion behavior.

4.5.2 Institutional factors

The second regression model examines the impact of institutional factors (IF) on tax evasion (TE). The model summary is presented in Table 14.

Table 14 : Model Summary for IF and TE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.416	0.173	0.169	0.61944

The R-value of 0.416 indicates a moderate correlation between IF and TE, and the R Square of 0.173 implies that IF explains 17.3% of the variation in tax evasion.

Table 15 : ANOVA for IF and TE

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	13.761	1	13.761	35.863	0.000
Residual	65.615	171	0.384		
Total	79.375	172			

The ANOVA table assesses the overall significance of the regression model, which includes Institutional Factors as a predictor for tax evasion behavior. The F-value of 35.863 and the p-value of 0.000 indicate that the regression model is statistically significant. Since the p-value is less than 0.05, we can reject the null hypothesis.

Table 16 Coefficients for IF and TE

Model	B	Std. Error	Beta	T	Sig.
Constant	1.368	0.33		4.145	0.000
IF	0.494	0.08	0.416	6.372	0.000

In this table, the coefficient for Institutional Factors (IF) is 0.494, with a p-value of 0.000, indicating that Institutional Factors (IF) have a statistically significant positive impact on tax evasion behavior. Specifically, for every one-unit increase in IF, tax evasion behavior increases by 0.494 units. Since the p-value is less than 0.05, we reject the null hypothesis (Institutional factors have no impact) and accept the alternative Hypothesis H2 that institutional factors positively influence tax evasion behavior in Sri Lanka.

4.5.3 Economic Factors

Table 17 Model Summary for EF and TE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.204	.042	.036	.66694

The Model Summary table provides an overview of how well the independent variable Economic Factors (EF) predicts the dependent variable Tax Evasion (TE). The R value is 0.204, indicating a weak positive correlation between EF and TE. The R-squared value is 0.042, meaning that only 4.2% of the variance in tax evasion behaviour can be explained by the economic factors in the model

Table 18 Anova for EF and TE

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.313	1	3.313	7.448	.007 ^a
	Residual	76.063	171	.445		
	Total	79.375	172			

The ANOVA table tests the overall significance of the regression model. The F-value is 7.448, and the p-value (Sig.) is 0.007, which is less than 0.05, indicating that the model is statistically significant. This suggests that Economic Factors (EF) have a significant impact on Tax Evasion (TE). As the p-value is below the 0.05 threshold, we can reject the null hypothesis (H_0) that economic factors do not explain the variance in tax evasion behavior.

Table 19 The coefficient for EF and TE

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.313	1	3.313	7.448	.007 ^a
	Residual	76.063	171	.445		
	Total	79.375	172			

The Coefficients table presents the relationship between Economic Factors (EF) and Tax Evasion (TE). The unstandardized coefficient for EF is 0.275, meaning that for every one-unit increase in EF, tax evasion behavior increases by 0.275 units. The p-value for EF is 0.007, which is less than 0.05, indicating that EF has a statistically significant impact on Tax Evasion (TE). The standardized coefficient (Beta) of 0.204 suggests a weak but positive relationship between EF and TE. The t-value of 2.729 further supports this significance, as it is greater than the critical value at a 95% confidence level.

4.5.4 Socio-psychological factors

Table 20 Model Summary for SPF and TE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.319	.102	.096	.64578

The Model Summary table shows a moderate positive correlation between the predictors and the dependent variable, with an R-value of 0.319. The model explains only 10.2% of the variance in the dependent variable, as indicated by the R-squared value of 0.102, and the Adjusted R-squared value of 0.096 suggests a slight adjustment for the number of predictors.

Table 21 Anova table for SPF and TE

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.063	1	8.063	19.333	.000
	Residual	71.313	171	.417		
	Total	79.375	172			

The ANOVA table shows the significance of the regression model as a whole. The F-value is 19.333, and the p-value is 0.000 (Sig.), which is less than 0.05; hence, this regression model is statistically significant. This means that at least one of the independent variables in the model significantly explains some of the variance in the dependent variable. The sum of squares for regression is 8.063, which expresses variation explained by the model, and the residual sum of squares is 71.313, which reflects unexplained variation.

Table 22 The Coefficients for SPF and TE

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.463	.235		10.500	.000
	SPF	.305	.069	.319	4.397	.000

The Coefficients table gives the relation of the independent variable SPF with the dependent variable. An unstandardized coefficient for SPF was 0.305, implying that for every increase in one unit of SPF, the dependent variable increases by 0.305 units; this was presumably tax evasion behaviour but is just an arbitrary outcome variable. Beta is a standardized coefficient of 0.319, suggesting a medium positive relationship between SPF and the dependent variable. The t-value for SPF is 4.397, and the p-value is 0.000, both of which are statistically significant at $p < 0.05$. This indicates that SPF has a significant positive effect on the dependent variable, and we reject the null hypothesis of no influence of SPF on the dependent variable.

4.6 Moderation Analysis of Professional Factors on tax evasion

4.6.1 Impact of Profession as a Moderator in the Relationship Between NCA and TE

Table 23 Model Summary for NCA and TE with moderation relationship

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.425 ^a	.181	.166	.62033

The Model Summary table indicates the fitness of the regression model being moderate. The R-value of 0.425 expresses a fair positive relationship between independent and dependent variables, hence the predictors are moderately able to explain the variance in the outcome. The R-squared value of 0.181 shows that 18.1% of the variance in the dependent variable is explained by the model.

Table 24 The ANOVA for NCA and TE with a moderate relationship

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.342	3	4.781	12.424	.000 ^a
	Residual	65.033	169	.385		
	Total	79.375	172			

This ANOVA table tests the overall significance of the regression model. Thus, the sum of squares of the regression amounts to 14.342, indicating the variation of the dependent variable explained by the model, and the residual sum of squares of 65.033 shows unexplained variation. The F-value of 12.424 signifies that independent variables collectively are doing a good job in explaining the dependent variable, while the p-value of 0.000 depicts the statistical significance of the model and hence means that at least one independent variable is having a significant effect on the dependent variable.

Table 25 Coefficients for NCA and TE with moderate relationship

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.349	.355		3.803	.000
	interaction term	-.021	.043	-.035	-.491	.624
	NCA	.525	.090	.407	5.834	.000
	Professionals	.107	.056	.135	1.901	.059

The Coefficients table gives the individual relationships for each predictor with the dependent variable. The unstandardized coefficient for the constant is 1.349, which represents the predicted value of the dependent variable when all predictors equal zero. The unstandardized coefficient for the interaction term is -0.021, which indicates a slight negative relationship; however, this effect is not statistically significant as the

p- Value is 0.624. This means that the coefficient for NCA is 0.525, indicating that it has a positive and significant effect on the dependent variable. Thus, the t-value is 5.834, and its p-value is 0.000, which demonstrates great evidence on the impact of NCA. The coefficient for Professionals is 0.107, while the p-value is 0.059, indicating that though there is a positive effect, it is marginal, and hence being a professional may have a small positive effect on the dependent variable. Overall, NCA is the most significant predictor, with the professional variable showing marginal effects.

4.6.2 Impact of Profession as a Moderator in the Relationship Between IF and TE

Table 26 Model summary for IF and TE with moderation variable

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.434 ^a	.189	.174	.61726

Table 26 shows that the regression model for IF and TE with the moderation variable has a moderate fit, with an R-value of 0.434 and an R-squared of 0.189, indicating that about 18.9% of the variance in the dependent variable is explained by the model. The Adjusted R-squared of 0.174 reflects a slight decrease after accounting for the number of predictors, and the Standard Error of the Estimate is 0.61726, showing the average distance between the observed and predicted values.

Table 27 The ANOVA for IF and TE with a moderate relationship

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.984	3	4.995	13.109	.000 ^a
	Residual	64.391	169	.381		
	Total	79.375	172			

The ANOVA table evaluates the overall significance of the regression model. The Sum of Squares for Regression (14.984) indicates the variation in the dependent variable explained by the model, while the Residual Sum of Squares (64.391) represents the unexplained variation. Together, these sum to the Total Sum of Squares (79.375), which captures the total variation in the dependent variable. With 3 degrees of freedom for regression and 169 for residuals, the Mean Squares are 4.995 and 0.381, respectively. The F-value of 13.109, calculated as the ratio of Regression Mean Square to Residual Mean Square, demonstrates that the independent variables collectively explain a significant portion of the dependent variable's variation. The p-value of 0.000 confirms the model's statistical significance, indicating that at least one independent variable has a significant effect on the dependent variable.

Table 28 Coefficients for IF and TE with a moderate relationship

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.636	.324		5.053	.000
	Professionals	.074	.055	.093	1.340	.182
	interaction term IF	-.044	.042	-.075	-1.063	.289
	IF	.475	.083	.401	5.697	.000

It shows that Professionals and the interaction term have no significant impact on the dependent variable, with p-values of 0.182 and 0.289, respectively. However, IF has a significant positive effect (t-value = 5.697, p-value = 0.000), with a Beta of 0.401, suggesting that IF is a strong predictor in this model.

4.6.3 Impact of Profession as a Moderator in the Relationship Between EF and TE

Table 29 *The model summary of EF and TE with moderation variable*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.247 ^a	.061	.044	.66408

It shows that indicates that the model for EF and TE with the moderation variable has a weak fit, with an R-squared of 0.061, meaning only 6.1% of the variance in TE is explained by EF and the moderators. The Standard Error of the Estimate is 0.66408, indicating a higher average distance between observed and predicted values.

The ANOVA for EF and TE with a moderate relationship

The above table shows that the model is statistically significant (F-value = 3.662, p-value = 0.014), suggesting that the independent variables explain a significant portion of the variance in EF and TE.

Table 31 *Coefficients for EF and TE with a moderate relationship*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.121	.414		5.122	.000
	Professionals	.111	.060	.140	1.861	.064
	EF	.293	.101	.218	2.903	.004
	interaction term EF	-.012	.044	-.021	-.282	.778

It reveals that EF has a significant positive effect on TE (Beta = 0.218, p-value = 0.004), while Professionals has a marginal positive effect (p-value = 0.064). The interaction term does not significantly affect TE, with a p-value of 0.778, indicating that the moderation effect is not significant.

4.6.4 Impact of Profession as a Moderator in the Relationship Between PSF and TE

Table 32 The model summary for PSF and TE with moderation variable

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.343 ^a	.118	.102	.64367

The above table shows that the model for PSF and TE with the moderation variable has a moderate fit, with an R-squared of 0.118, explaining 11.8% of the variance in TE. The Standard Error of the Estimate is 0.64367, suggesting a relatively high degree of variability in the predictions.

Table 33 The ANOVA for PSF and TE with a moderate relationship

Model	Sum of	df	Mean	F	Sig.
Regression	9.357	3	3.119	7.528	.000 ^a
Residual	70.018	169	.414		
Total	79.375	172			

It indicates that the regression model is statistically significant (F-value = 7.528, p-value = 0.000), meaning the independent variables significantly explain the variance in PSF and TE.

Table 34 Coefficients for PSF and TE with a moderate relationship

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.192	.281		7.807	.000
	Professionals	.100	.058	.127	1.726	.086
	SPF	.308	.069	.321	4.448	.000
	Interaction term SPF	-.029	.044	-.049	-.670	.504

The above table shows that SPF significantly influences TE (Beta = 0.321, p-value = 0.000), while Professionals has a marginal positive effect (p-value = 0.086). The interaction term for SPF does not significantly affect the dependent variable, with a p-value of 0.504, indicating that the moderation effect of Professionals on PSF and TE is not significant.

4.7 Hypothesis testing and an overall summary

This part of the research focuses on a deep analysis of the relationship between tax evasion and all independent variables: NCA, IF, EF, and SPF. Pearson's correlation and regression analysis indicate a significant positive correlation between TE and all factors; NCA and IF factors have been the strongest predictors. While the results did not find significant impacts on tax evasion by professionals' characteristics in this dataset, Institutional and social factors, along with the attitudes of individuals, have a crucial role to play. This analysis provides evidence that improving compliance attitudes, institutional effectiveness, and societal norms will probably reduce the incidence of tax evasion in Sri Lanka. These factors, such as attitude towards non-compliance, institutional factors, economic factors, and socio-psychological factors, all are positively related to the tax evasion behaviour in Sri Lanka, thus supporting hypotheses H1 to H4. In causing tax evasion, influences of non-compliance attitudes and institutional factors are the strongest, although the other sets of factors such as economic and socio-psychological factors are also quite prominent but with relatively low correlations. However, profession has not emerged to moderate the various relationships of the factors with tax evasion, since the interaction terms for profession in hypotheses H5 through H8 have been insignificant. This infers that while some factors bear a strong influence on tax evasion, the profession does not significantly alter its effects on the tax evasion behaviors of an individual. The below table provides a summary of the findings.

Table 35 Summary of hypothesis testing

Hypothesis (H)	Description	Findings	Conclusion
H1	Non-compliance attitude positively impacts Tax evasion behavior in Sri Lanka.	Supported ($r = 0.404, p < 0.01$)	There is a significant positive relationship between non-compliance attitude and tax evasion.
H2	Institutional factors positively impact Tax evasion behavior in Sri Lanka.	Supported ($r = 0.416, p < 0.01$)	Institutional factors have a significant positive impact on tax evasion.
H3	Economic factors positively impact Tax evasion behavior in Sri Lanka	Supported ($r=0.204, p < 0.01$)	Economic factors show a Positive, though weaker, relationship with tax evasion.
H4	Socio-psychological factors positively impact Tax evasion behavior in Sri Lanka.	Supported ($r = 0.319, p < 0.01$)	Socio-psychological factors positively influence tax evasion.
H5	Profession moderates the positive relationship between Non-compliance attitudes and tax Evasion behaviors in Sri Lanka.	Not Supported (interaction term $p = 0.182$)	Profession does not significantly moderate the relationship between non-compliance attitude and tax evasion.
H6	Profession moderates the negative relationship between Institutional factors and tax evasion	Not Supported (interaction term $p = 0.289$)	Profession does not significantly moderate the relationship between institutional factors and tax evasion.

	behaviors in Sri Lanka.		
H7	Profession moderates the positive relationship between Economic factors and tax evasion behaviors in Sri Lanka.	Not Supported (interaction term $p = 0.289$)	Profession does not significantly moderate the relationship between economic factors and tax evasion.
H8	Profession moderates the positive relationship between Socio-Psychological factors and tax evasion behaviors in Sri Lanka.	Not Supported (interaction term $p = 0.504$)	Profession does not significantly moderate the relationship between socio-psychological factors and tax evasion.

CHAPTER 05: DISCUSSION

5.1 Introduction

The findings of this study have provided further detailed insights into the dynamics of tax evasion behaviors in Sri Lanka. Based on how non-compliance attitudes, institutional factors, economic factors, socio-psychological factors, and tax evasion behaviors influence one another, and based on an assessment of the moderating role of the profession, several critical observations arise. These help extend the debate on greater tax compliance and evasion issues in developing economies.

5.2 Noncompliance attitude & Tax evasion

The positive and significant relationship between attitudes of non-compliance and tax evasion behavior reinforces the fact that attitude plays a key role in shaping the behavior of the taxpayer. This result is in line with the theory of planned behavior, which postulates that people with unfavorable attitudes towards compliance are more likely to commit tax evasion (Ajzen, 1991). In the Sri Lankan context, these may be induced by perceptions of inefficiency or inequity in the tax system. The study by (Kirchler, 2007) pointed out that if taxpayers consider the tax system as unfair or not trustworthy, they have lower compliance intentions. These results support the notion that attitudes of non-compliance are addressed by creating a more transparent and fairer system that instils confidence among taxpayers. Furthermore, recent studies indicate that such attitudes are not only shaped by personal beliefs but also by systemic inefficiencies that undermine the public's confidence in tax administration (Azevedo, 2020). In Sri Lanka, where tax-related grievances are common due to perceived inefficiencies, improving the transparency and accountability of tax institutions could play a critical role in reducing tax evasion (Gunathilaka, 2007).

5.3 Institutional Factors and Tax Evasion

The research found that institutional factors were significantly and negatively related to tax evasion behavior; hence, for addressing tax evasion, strong institutions must be present. The institutional variables such as transparency, efficient mechanisms for enforcement as well as good quality of governance are the crucial determinants of taxpayer behavior. In the opinion of (Devos, 2014), strong institutions develop trust in the taxpayers' minds that their contributed money is utilized proficiently and hence, they

comply. The results of this study support the above hypothesis since institutional trust seems to act more like a universal factor in deterring evasion. However, the profession did not moderate this relationship significantly. This finding suggests that, regardless of professional background, individuals' trust in institutions plays a more significant role in shaping tax compliance behavior than does their profession. This also concurs with (Barone, 2011) in stating that trust in institutions is a very strong determinant of compliance, particularly in conditions of weak or inconsistent enforcement. In Sri Lanka, for example, where there is widespread skepticism by the public against government institutions, improving the efficiency of tax administration and increasing transparency can go a long way toward reducing the incidence of tax evasion (Gunathilaka, 2007).

5.4 Economic Factors and Tax Evasion

The economic factor is the most predominant cause of tax evasion. More often than not, there is some form of financial incentive that motivates people to evade taxes, such as Retaining more income, as indicated in the text. Taxpayers cheat more when they perceive that the financial benefits of tax evasion outweigh the potential costs. This association is particularly strong in developing nations where discrepancies in wealth and economic burdens may make tax evasion more tempting (Kirchler, 2007).

Besides these monetary incentives, the state of the overall economy could also serve to influence matters of tax compliance. The general attitude of people like not being assisted by the government in extricating people from this economic mire, especially during the times of depressed economies and inflation, usually promotes one major way in which people resort to evasion (Alm, 2018). On the other hand, compliance rates are normally high in stable and expanding economies where the taxpayers feel their government's fiscal policies further their best interests. Based on this study's conclusions, in Sri Lanka, there exist important economic reasons for consideration of policymakers. This makes non-compliance lower if efforts are directed towards ensuring economic conditions improve and where inducements to evade taxation are removed. This would cover actions such as enhancing public services, providing tax breaks, and promoting a voluntary compliance culture. The result indicates that economic factors are related significantly positively to tax evasion behavior because of financial pressure and profit maximization motive; this underlines the part played by economic constraints as drivers of non-compliance. According to (Alm, 2019), individuals experiencing economic hardship might regard tax evasion as one way of surviving. This is supported by the findings of this study,

particularly in the Sri Lankan context where high inflation, unemployment, and income inequality may further escalate economic pressures and force an individual to commit tax evasion an act of tax evasion; (Perera, 2020). However, the inability of the profession to act as a moderator suggests that economic pressures surpass professional ethics. This agrees with Braithwaite's 2009 research on competitive contexts in which it was determined that even individuals with a sound moral base may be swayed by the pressure of economic necessities to meet business objectives. As the economic difficulties prevail quite strongly in Sri Lanka, the underlying economic incentives of tax evasion like income inequality and unemployment, therefore, will be kept in consideration for compliance by the policymakers (Dissanayake, 2020).

5.5 Socio-psychological Factors and Tax Evasion

Social norms, attitudes, and values are the socio-psychological factors affecting tax evasion. Literature suggests that compliance behavior is significantly influenced by the attitudes of society towards taxes (Alm, 2012). Compliance rates are usually lower in those communities where tax evasion is accepted as the norm or even considered as a moral right. Contrastingly, taxpayers are more compliant with the tax laws of those countries where paying taxes is considered a civic duty and a way to give back to social welfare. This study highlights the crucial sociopsychological factors in the Sri Lankan context. The need to pay taxes in Sri Lanka may be influenced by general societal attitudes and cultural norms of taxes. For example, if tax evasion is either viewed as a socially acceptable behavior or as a necessary survival strategy, compliance rates will probably stay low. For this reason, these cultural norms must be confronted in any approach to deter tax evasion. As stated by (Alm, 2012), the attitude toward paying taxes, for instance, can be changed to result in greater compliance, by indicating the importance of taxes towards the betterment of society. This study shows that sociopsychological, institutional, and economic factors meaningfully predict tax evasion behavior. Concerning the problem of tax evasion, policymakers should focus on both institutional reforms and cultural changes. Future studies should investigate certain occupations and additional moderating factors explaining intricate dynamics of tax compliance.

5.6 Profession as moderator

Probably the most interesting result of this research is the no significance of the profession as a moderator of the relationships between the studied factors and tax evasion behavior. Such a result may indicate that professional ethics and norms are not able to play a significant role against the broader societal, economic and institutional influences. While professionals may be bound by a code of ethics, systemic problems in tax administration and societal attitudes towards taxation can undermine the moderating effect of the profession. The finding is in tandem with the work of (Frey, 2007), who argue that individual or professional characteristics are often overridden by societal and institutional factors in tax compliance. This is also suggested by the fact that occupation does not importantly moderate this, which accords with the results obtained by (Dissanayake, 2020) that professional ethics are also not very influential on the behavior of the individual taxpayer in settings which are described by weak enforcement and widespread evasion. This would mean that improving tax compliance in Sri Lanka could only be realized with much more than fostering professional ethics; it would have to be systemic reforms and a change of attitude toward institutions and tax equity.

5.7 Chapter Summary

The following paper examines the determinants of tax evasion in Sri Lanka with a focus on non-compliance attitudes, institutional factors, economic factors, and socio-psychological influences. Results indicated that a positive attitude towards the system of taxation was significantly related to tax evasion, consistent with the theory of planned behaviour. Similarly, institutional factors- transparency and effective enforcement identified as vital in lessening evasion, though the profession did not moderate this relationship significantly. Specifically, compared with professional ethics, economic pressures in the forms of financial difficulties and motives for profit maximization strongly enhanced tax evasion. A multi-faceted approach is needed to foster compliance in the tax environment within Sri Lanka.

CHAPTER 06: CONCLUSION & RECOMMENDATION

This study underlines the intricate interaction of the attitudes towards non-compliance, institutional factors, economic pressures, and socio-psychological influences in shaping the phenomenon of tax evasion in Sri Lanka. It underlined that a non-compliance attitude represents an important precursor in setting the behavior related to tax evasion, in which the individuals holding unfavorable perceptions regarding the equity and opacity of the tax system are more likely to commit evasion. Moreover, institutional trust will also have a central role in such a phenomenon. Stronger institutions bring higher tax compliance. The current study has indicated that some economic factors such as financial burdens or profit maximization factors seem to override professional ethics more than others.

Indeed, results suggest that societal norms, as well as perceptions about tax fairness, are socio-psychological factors more strongly associated with compliance behavior. This reaffirms that tax evasion cannot be characterized strictly as an individual decision in a vacuum; rather, it is greatly influenced by and inherent in a larger social and cultural atmosphere. Besides, the insignificance of the profession as a moderator has shown how little professional ethics and norms can do against greater systemic factors. It would, therefore, mean that professional ethics, while important, may not suffice in combating tax evasion without deeper economic, institutional, and societal factors.

This study, therefore, contributes to a broader understanding of tax evasion in developing economies, particularly Sri Lanka, and provides a foundation for effective policy interventions targeted at improved tax compliance.

Improve Institutional Trust and Transparency

Among the key recommendations of this study is the enhancement of institutions that collect and enforce taxes. It would greatly help improve perceptions if transparency in the use of taxpayer money were evident and effectively communicated to represent a contribution to national development. Stronger governance structures, increased accountability, and an assurance that the tax revenues are put to work in the interest of the public will instill further trust in the system and reduce non-compliance attitudes.

Use Public Awareness Campaigns to address Socio-Psychological Influences.

Considering that societal attitudes and subjective social norms play a serious role in shaping tax evasion behavior, public awareness about the fairness and importance of tax compliance needs to be emphasized. The focus of such campaigns should be to outline the role that taxes play in national development, eliminate false notions about the unfairness of the tax system, and stress the social obligation toward paying taxes. The use of peer influence can also alter social norms by having more influential community leaders persuade their fellow citizens to follow the laws on paying taxes.

Economic Incentives and Support for Compliance

Among the major drivers of tax evasion, economic pressures have been identified. It is, therefore, very important that policymakers address the economic challenges facing individuals and businesses to reduce non-compliance. For instance, policymakers can offer tax incentives to small businesses, provide financial relief programs, or allow the deferral of payment for people in financial distress. These measures would lighten the economic load on taxpayers and minimize the urge to evade taxes. Also, financial literacy and awareness of legitimate tax deductions would increase the ability of the taxpayer to navigate the system without tax evasion.

Reform Professional Ethics Training

Although in this study professional ethics was not a significant moderator in tax evasion behaviors, it is an important ingredient in inculcating a compliance culture. There is a clear need for more extensive ethics training on the societal and economic implications of tax evasion, for example, for tax professionals, accountants, and auditors in Sri Lanka. In addition, professional organizations need to develop more robust codes of conduct and ensure that ethics within the profession are properly policed. The assurance of the understanding of tax professionals regarding their role in promoting compliance, rather than simply adhering to technical standards, would help check unethical practices within the profession.

Future Directs

Given the multidimensional nature of tax evasion behavior and that one-size-fits-all solutions may not work, there is a need for further research to understand how tax evasion dynamics unfold across different sectors and regions of Sri Lanka. Future research should seek to examine the influence of demographic factors, such as age, income level, and education, on the pattern of tax compliance behavior. Moreover, the longitudinal effect of policy interventions could also be captured through studies, which is very useful in determining how effective reforms are in improving tax compliance over time. The holistic approach required to bring about improved tax compliance in Sri Lanka must, therefore, be harnessed from drivers related to economic, institutional, and socio-psychological spheres. Though relevant to professional ethics, which should not be ignored, it is systemic reforms that provide the necessary catalyst toward more compliant tax environments.

These recommendations, when applied, would lead Sri Lanka significantly closer to mitigating evasion and strengthening the overall tax regime. Exploration of Additional Moderators: Future research should investigate other potential moderating factors, such as societal norms, education levels, or governmental transparency. Longitudinal Studies: Long-term studies can help identify trends and causal relationships in tax evasion behavior over time.

Limitations

Cross-sectional Design: The study's cross-sectional nature limits the ability to draw causal conclusions. A longitudinal approach could provide deeper insights into the temporal dynamics of tax evasion.

Generalizability: The study is based on a specific population in Sri Lanka, which may not be generalizable to other countries with different tax systems or cultural norms.

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