Business, Management and Economics Research
ISSN(e): 2412-1770, ISSN(p): 2413-855X
Vol. 7, Issue. 2, pp: 52-64, 2021
URL: https://arpgweb.com/journal/journal/8
DOI: https://doi.org/10.32861/bmer.72.52.64

Academic Research Publishing Group

Original Research Open Access

A Study Between the Taxpayers' Perception Toward the Tax Policy Changes and the Tax Compliance in Sri Lanka: A Tax Relief in Response to the Impact of Covid-19 Epidemic, and its Implications

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Article History
Received: 28 April, 2021
Revised: 2 June, 2021
Accepted: 14 June, 2021
Published: 18 June, 2021

Abstract

Purpose – This paper primarily investigates the relationship between the taxpayers' perception of the tax policy changes and the tax compliance in Sri Lanka. The researcher also aims to provide advice to the policymakers about the specific approach to be followed when considering the tax relief measures and also emphasizing the importance of maintaining a flexible tax policy during the epidemic period which will be crucial in meeting the revenue target of the government. Design/Methodology/approach-The researcher used questionnaires to gather primary data from 125 respondents and then editing to spot errors and omissions for the aim of creating necessary corrections and at last, apply statistical tools for data analysis using SPSS software. Findings – The results show that taxpayers' attitudes toward the changes in the tax policy and tax compliance form a strong positive relationship and further, changes in its policy have a significant impact on their compliance level. Cronbach's alpha exceeds 0.7 implies that instruments are sufficiently reliable for the measurement. Originality/value- This was the first study undertaken to explore the link between the attitude toward the tax policy changes and the tax compliance in Sri Lanka during the Covid-19 epidemic period. This study guides to fill up the existing research gap in the country and further, directions are also useful for future researchers to undertake an identical survey.

Keywords: Tax compliance; Implications; Taxpayers' perception toward the tax policy changes; Tax relief in response to the impact of Covid-19 pandemic; Sri Lanka.

1. Introduction

Assessing the tax compliance in an exceedingly country like Sri Lanka is necessary for the present context therefore it's important to formulate necessary ways to spice up the extent of tax compliance in an exceedingly country to meet the govt. revenue targets which may facilitate to satisfy each capital and recurrent expenditure of the govt. On the other hand, natural disasters like the Covid-19 pandemic place some barriers for the govt. to gather stipulated tax amounts from their taxpayers. Moreover, It conjointly discourages taxpayers to pay their tax amounts on the due date because of the loss of their business income, which ends up in failure to meet the necessities concerning tax compliance. Xinhua (2019) explicits that the Sri Lankan government proclaimed a series of tax reductions and tax abolitions measures that quotes from the "Source: Xinhua News Agency". This could be one way of satisfying the taxpayers whereas providing additional tax edges to them more simply and economically. In line with the fiscal exchange theory, the main emphasis of the taxpayers is what they reciprocally get for his or her tax payments within the public service. In this respect, taxation and the provision of public goods and services form a kind of relationship between the taxpayers and also the regime (Moore, 2004). Similarly, another theory that is referring to as political legitimacy theory forms a strong link between the general public trust towards the government and also the tax compliance because it states that tax compliance is essentially influenced by the extent to that their citizens trust their government (Fauvelle-Aymar, 1999; Kirchler *et al.*, 2008; Tayler, 2006). In Sri Lanka, the declared direct tax revenue target for 2020 is LKR 613 billion which was LKR 893 billion in 2018 and LKR 785 billion in 2019 and it is more likely that Inland Revenue Department (IRD) may not be able to reach that target (Faculty of Humanities and Social Sciences, 2020). On the other hand, KPMG (2020) states that the government of Sri Lanka has already introduced the following tax reliefs to its taxpayers after the Covid-19 pandemic started to hit the economy in the country. These reliefs can be summarized as follows,

- Extension of the submission of the tax returns and the statements till 31st-December-2020
- Suspension of the "Notices of recovery of tax out of debts"

- Introduction of the facility for online tax payments with effect from 8th-April-2020
- Extension of the validity period

More importantly, researching these circumstances can identify the major sources of obstacles that forestall the govt. to achieve a considerable level of voluntary compliance and additionally future decision-makers to formulate necessary strategies as forecasted revenue figure for Sri Lanka in the year 2020 seems to be unrealistic and also appears to be difficult to reach by the country's main revenue authority. Therefore, researching to uncover the relationship between the taxpayers' perception toward the changes in the government tax policy and the tax compliance in Sri Lanka and also its impact on the tax compliance behaviour in the country can be justified due to the reasons highlighted above.

1.1. Problem Statement

It has been seen that both capital and recurrent expenditure of the government of Sri Lanka has been rising over the years. For example, in 2016, total government expenditure was Rs. 3,107 billion however, it went up to Rs. 3,470 in 2017. It was nearly Rs. 3,970 billion in 2018 but in 2019, it was projected to Rs. 4,646 billion (CBSL, 2019). Conversely, the Faculty of Humanities and Social Sciences (2020) illustrates that the tax revenue collected by the government of Sri Lanka through direct taxes was Rs.893 billion in 2018 but later it went down to Rs. 785 billion in 2019 however, it was forecasted to Rs. 613 billion in 2020 but it may not possible to reach that figure at the end of the year 2020 because of the occurrence of the Covid-19 pandemic during the first quarter of the year 2020 and it has been catastrophically hitting the key economic sectors of the country. Also, CBSL (2019) further highlights that the budget deficit of the country has also been rising year by year. It was around Rs. 1,381 billion in 2016 but it rose to Rs.1,556 billion in 2017. In 2018, it was approximately Rs. 1,997 billion. It was forecasted to Rs. 2,244 billion in 2019. The budget deficit as a percentage of the Gross Domestic Products (GDP) of Sri Lanka increased to 6.8% of GDP in 2019, compared to the deficit of 5.3 percent of GDP in 2018 and estimated 4.4 percent of GDP in the budget 2019 (CBSL, 2019) however, bring down deficit less than 5% that is extremely difficult during this ongoing Covid-19 pandemic period because of the government cannot meet the expected revenue targets.

On the other hand, Weerarathne (2016) states that tiny and medium business entities are important for economic progress in Sri Lanka too; but, they frequently face problems in surviving, remain profitable, and grow their business, meanwhile, tax compliance also seems to be at a really low level and plenty of business enterprises found that tax compliance ends up in becoming cumbersome. Wijesinha (2009) demonstrates several issues, however, the impact on large business entities may be minimal, but issues like lack of enough knowledge about the existing tax system, handing over tax returns, and managing tax appealing matters guide tax compliance to become so difficult in Sri Lanka. Also, Kelegama (2017) highlights that approximately 93% of small and medium-sized enterprises in Sri Lanka do not pay taxes. This can be as a result of it is typically believed that taxpayers' trust towards the tax system in the country was low till recently because of the complexity and the bureaucratic nature of its tax legislation (Act No 10 of 2006) as highlighted by the IMF (2016) along with the fact that regime does not have a consistent and more rational tax policy (Kelegama, 2017). According to the existing tax literature relating to the tax compliance behavior in Sri Lanka and also the recent fiscal performance in the country, it is evident that the existing tax compliance problem in the country has been exacerbated by the devastating impact of the ongoing Covid-19 pandemic outbreak. Therefore, it is clear that the government in Sri Lanka should take enough steps to maintain a more stable level of tax compliance behavior throughout this pandemic period at least to meet the projected tax revenue of the country to run the state of affairs of the island more smoothly.

1.2. Research Questions

There is less empirical evidence in the literature to provide a conclusive answer to how does the taxpayers' attitude toward the changes in the tax policy impact the tax compliance behavior of the business entities in Sri Lanka. Therefore, this descriptive study attempts to ascertain the influence of the attitude of the taxpayers on their compliance behavior. This study focuses on finding answers to the questions given below:

- Is there any relationship between the taxpayers' attitude toward the changes in the government tax policy and tax compliance behavior in Sri Lanka?
- What does the impact of the changes in tax policy on the tax compliance behavior in Sri Lanka?

1.3. Research Gap

Since there is no enough research done to test the link between taxpayers perception toward the tax policy changes and the tax compliance behavior in Sri Lanka in particularly during the Covid-19 pandemic era, this study attempts to fill that gap and understand how changes in state tax policy impact on the taxpayers' tax compliance decision.

1.4. Significance of the Study

This research attempted to evaluate and analyze the impact of the state tax policy changes on tax compliance behavior in Sri Lanka and also looked at the link between the taxpayers' perception toward the tax policy changes and the tax compliance in the country. The main purpose of changing the state tax policy by the Sri Lankan Government during this Covid-19 outbreak period is to collect the required amount of revenue in terms of taxes to run the state of affairs, as usual, to prevent the decline of tax compliance behavior by undertaking enough voluntary compliance measures. The results of this study contribute to the existing tax literature and improve the tax system not only in Sri Lanka but also internationally by enabling both a comparison of the Sri Lankan tax system and its policy how the impact on tax compliance especially during this Covid-19 epidemic period and how can maintain the stable level of tax compliance after making effective changes toward its policy.

1.5. Purpose of the Study

During this study, the researcher expects to realize the following objectives. These are often listed as follows,

- To examine the relationship between the taxpayers' perception toward the changes in the tax policy and the tax compliance behavior of the business organizations in Sri Lanka.
- To study the impact of changes in state tax policy on their tax compliance behavior in Sri Lanka.
- To offer constructive comments and recommendations to varied stakeholders.

1.6. Scope of the Study

The researcher has considered the Sri Lankan government's all tax revenue (direct and indirect) and expenditure (both recurrent and capital) during the most recent consecutive four years for analysis purpose. For this purpose, most recent Annual Report issued by the Central Bank of Sri Lanka has been reviewed to collect the data concerning the government annual income, expenditure, and budget deficit for the above mentioned periods. It has also considered the responses given by the Inland Revenue Department (IRD) in Sri Lanka, Inland Revenue Board of Malaysia and the Royal Government of Cambodia against the impact of the Covid-19 pandemic since the beginning of the first quarter of the year 2020.

2. Background

2.1. Tax Compliance in Sri Lanka

It has been determined that country is exhibiting a weak tax compliance behaviour due to tax administration-connected problems (Jayaratne, 2015),who further highlights that the tax base in Sri Lanka has not broadened in line with the expansion in economic activities. This was partially due to the tax exemptions, tax evasion, and of course due to the poor tax administration and on the other hand, several tax laws were not updated and additionally, they are more complex and rather difficult to understand by average taxpayers that were caused to discourage by most of the taxpayers to comply with tax rules and regulations thereby, bit by bit declined the extent of compliance.

While the return compliance rate of all types of taxes in Sri Lanka has been consistent, however, a massive drop in the rate is seen in Income-tax (Non-Corporate) and Nation Building Tax (NBT) within the concerned year. This was mainly because of the soaring number of tax files and non-familiarizing taxpayers in submitting their returns through the recently enforced on-line tax system even though necessary support was offered to them. Also, data relating to the return compliance rates for income tax and the other three forms of taxes are given within the following Table 1, 2 respectively (CGIR, 2018).

Table-1. Recent trends of income tax return compliance in Sri Lanka

Period	Sector	Compliance on due date	Compliance after the due date
2013/2014	Corporate Non-Corporate	53% 42%	61% 57%
2014/2015	Corporate Non-Corporate	52% 47%	58% 62%
2015/2016	Corporate Non-Corporate	30% 48%	46% 59%
2016/2017	Corporate Non-Corporate	41% 45%	45% 56%
2017/2018	Corporate Non-Corporate	47% 31%	51% 38%

Source: Performance Report (CGIR, 2018)

Table-2. Return Compliance on other types of taxes

Period	VAT	NBT	PAYE
2016	71%	31%	57%
2017	47%	21%	14%
2018	42%	17%	41%

Notes: VAT=Value Added Tax, NBT=Nation Building Tax, PAYE=Pay As You Earn tax
Source: Performance Report (CGIR, 2018)

2.2. Recent Fiscal Performance in Sri Lanka

Before surveying to investigate the relationship between the taxpayers' attitude toward the tax policy changes and the tax compliance behavior and also the possible impact on the tax compliance behavior, it is important to do a proper analysis based on the recent fiscal performance in the country therefore, the researcher analyzed the government expenditure, tax revenue, and also the budget deficit in the country as follows.

Table-3. Payments of the Government of Sri Lanka (Rs. Million)

Item	2016	2017	2018	2019
Recurrent expenditure	1,770882	1,945,575	2,108,964	2,412,304
Capital expenditure	1,335,61	1,525,014	1,861,671	2,227,696
Total	3,107,151	3,470,589	3,970,636	4,646,000

Note: As given in the government accounts prepared by the Department of State Accounts of Ministry of Finance, Economic and Policy Development
Source: Ministry of Finance, Economic and Policy Development, Sri Lanka (CBSL, 2019)

Based on Table 3, it was clear that recurrent expenditure has been increased by 36.27% in 2019 compared with 2016. Similarly, capital expenditure has also been increased during this period but at a much higher rate (66.81%). The total expenditure of the government has risen to Rs. 4,646 billion in 2019 compared with it was around LKR 3,107 billion in 2016 that means total expenditure has been increased by 49.53% in 2019 in other words, this leads to create a huge budget deficit in 2019, and on the other hand, financing this budget deficit seems to be difficult.

Table-4. Government Revenue (Rs. Million)

Source	2016	2017	2018	2019
Tax revenue*	1,463,689	1,670,178	1,712,318	1,734,925
Non Tax Revenue	222,374	161,353	207,656	155,974
Total Revenue	1,686,062	1,831,531	1,919,973	1,890,899

Notes: As given in the government accounts prepared by the Department of State Accounts of Ministry of Finance, Economic and Policy Development/ Tax revenue* consists of both direct and indirect taxes
Source: Ministry of Finance, Economic and Policy Development, Sri Lanka (CBSL, 2019)

According to Table 4, even though tax revenue was increased over the period mentioned above, it was not increased at the same rate as the government expenditure was increased, therefore, which was heading toward a consistent budget deficit over the period. On the other hand, total tax revenue as a percentage of the country's GDP in 2018 was 11.9% but this ratio was declined to 11.6% in 2019 as a result of the lower revenue collection from Value added tax, Cess .etc (CBSL, 2019). This ratio is projected to drop further in 2020 and several years due to the devastating impact of the Covid-19 pandemic.

Table-5. Summary of the Budget Deficit in Sri Lanka (Rs. Million)

Item	2016	2017	2018	2019
Budget deficit	-1,381,873	-1,556,301	-1,997,130	-2,244,000

Note: As given in the government accounts prepared by the Department of State Accounts of Ministry of Finance, Economic and Policy Development
Source: Ministry of Finance, Economic and Policy Development, Sri Lanka (CBSL, 2019)

Above Table 5 exhibits the summary of the budget deficit in the country accordingly, based on Table 5, it was gradually increased over the period and it has reached to LKR 2,244 billion in 2019 which is more than the total tax revenue of the country in the same year (Tax revenue represents more than 85% of the total government income of Sri Lanka in any given year). This worse situation was further exacerbated due to the badly hit on the key economic sectors of the country by the devastating impact of the Covid-19 pandemic outbreak in the year 2020 and onwards.

2.3. Tax relief in Response to the Impact of Covid-19 Pandemic

2.3.1. Sri Lanka

In 2020, the Inland Revenue Department (IRD) in Sri Lanka proclaimed several tax relief measures in response to the impact of the Covid-19 pandemic outbreak.

Extension of statutory deadlines: Statutory deadline for filing the following tax returns/statements have been extended to 31 December 2020 (CGIR, 2020a):

- PAYE Tax return for the Year of Assessment (Y/A) to be submitted by employers
- Annual statement of Withholding Tax for Y/A 2019/20
- Economic Service Charge Return for Y/A 2019/20
- Compounded Stamp Duty Return for the quarter ending 31 March 2020
- Betting & Gaming Levy Return for the quarter ending 31 March 2020
- Value Added Tax (VAT) returns for February, March, April, May of 2020 and quarter ending 31 March 2020
- VAT on Financial Services (VAT on FS) return for the Y/A 2019/20 (for financial institutions that submit returns on an accounting year basis), and VAT on FS Interim Estimate for the last six months of the Y/A 2019/20 (for financial institutions which submit returns on the year of assessment basis)
- Debt Repayment Levy returns for the Y/A 2019/20 (for financial institutions that submit returns on an accounting year basis).

Suspension of the "Notices of Recovery of Tax out of Debts": Relief has been granted in the form of suspension of the notices issued to banks for the recovery of taxes in default from any defaulters' bank accounts, until 31

December 2020. In the case the defaulter is a Small and Medium Enterprise, the suspension has been granted until 30 April 2021 (CGIR, 2020b;2020c).

Value-added tax (VAT), the extension of validity periods: The period of validity of the extension letters issued last concerning credit vouchers due against the VAT deferred on imports under deferment facility are extended until 31 December 2020. The period for any temporary VAT registration scheduled to expire before 31 December 2020 has been extended until 31 December 2020 (CGIR, 2020d)

Introduction of the facility for online tax payments: Considering the prevailing situation, the Department of Inland Revenue has introduced an Alternative Tax Payment System (ATPS) for making tax payments through Online Fund Transfer Facility, with the collaboration of specific banks, with effect from 8 April 2020 (CGIR, 2020e).

2.3.2. Malaysia

The Malaysian government responded to COVID-19 with three stimulus packages worth a total of USD 60 billion across the period from 27 February to 6 April 2020 to mitigate the impact of COVID-19, strengthen the economy, and assist low- and middle-income households and individuals. The present dominant revenue authority in Malaysia referring to as the Inland Revenue Board of Malaysia (2020) has assumed responsibility for the disbursement of this financial aid.

To supplement these policies, temporary tax incentives have been introduced and include:

- Tax deductions or capital allowance on expenses incurred in providing personal protective equipment to employees.
- A further tax deduction for owners of building or business space who reduced or waived rents for small and medium-sized enterprise (SME) tenants.
- An accelerated capital allowance for machinery and equipment, including ICT equipment, applying from 1 March to 31 December 2020.

Concerning tax administration, IRBM has supported taxpayers through:

- Extending deadlines for tax filing;
- Allowing for the revision of income tax estimates and deferral of payments;
- Supporting debt payment plans;
- Suspending debt recovery until 31 May 2020;
- Providing quicker refunds;
- Changing the audit policy; and
- Enhancing taxpayer communication initiatives.

2.3.3. Cambodia

According to the Royal Government of Cambodia (2020), Cambodia has implemented three rounds of emergency policy measures to support businesses, families, and the economy since the outbreak of COVID-19.

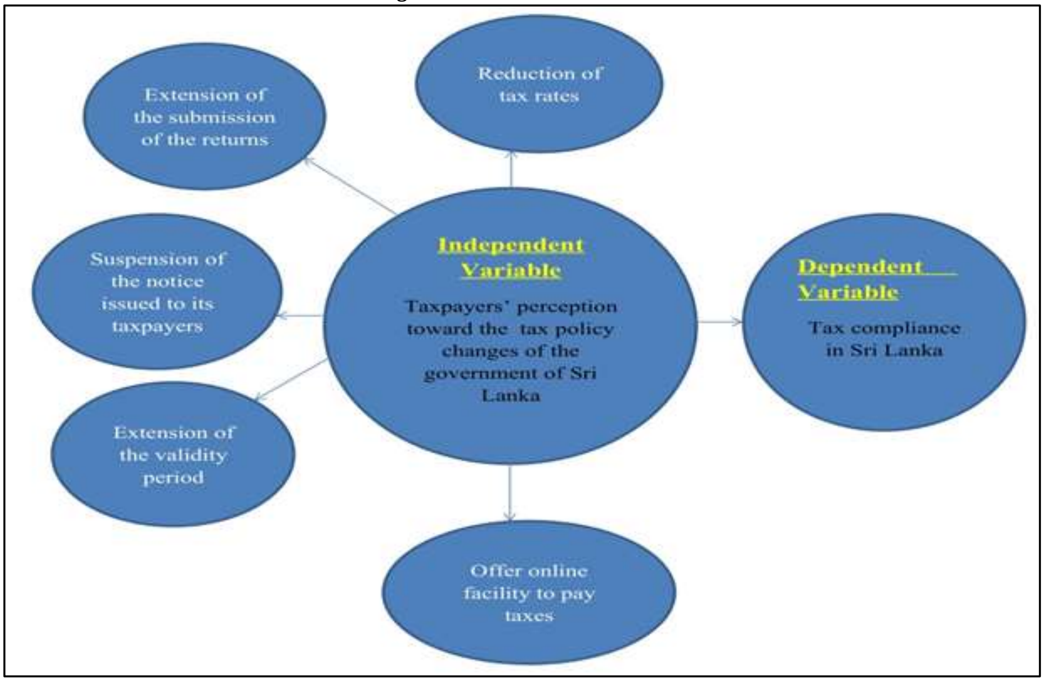
- The first round of measures provided tax relief to businesses in vulnerable sectors such as tourism, real estate, garment, footwear, textile, and others. For example, hotels and guesthouses in the province of Siem Reap were exempted from paying corporate income taxes for four months from February to May 2020, while comprehensive tax audits for these businesses were deferred for the entire year of 2020. The transfer tax was waived for any real estate purchases below USD 70 000 from licensed property developers in Cambodia for one year starting from February. Tax exemptions were also given to companies that recruit, train, send and supervise Cambodian workers to work abroad.
- The second round of emergency policies included income support for Cambodian workers, as well as more tax relief to businesses. For businesses, the corporate income tax exemption implemented in the first round was extended to cover hotels, guesthouses, restaurants, and travel agencies operating in the same areas. These businesses must file tax returns for 2019 by the end of March but can make payments by monthly instalments until November 2020. Airline companies in Cambodia received a three-month exemption from paying the annual Minimum Tax between March and May 2020, while aviation fees were deferred for six months and made payable by instalments.
- Tax policies were not included in the third set of emergency policies. These measures mostly consisted of measures to combat COVID-19 and stimulate the Cambodian economy, such as the extension of travel restrictions, enhanced lockdown measures, the establishment of a task force to control supply and prices of strategic goods, and improved budget financing and social assistance during the pandemic, as well as a co-financing scheme for SMEs.

2.4. Development of a Conceptual Framework

The theoretical framework illustrates in Figure 1 is supported by the results of the following previous studies. Dissanayake and Premaratne (2020), found that taxpayers from the manufacturing and trading sectors in Sri Lanka have strong positive relationships with their tax compliance behaviors. This was due to they received more tax benefits and relief from the tax concessions, re-scheduling default tax payment plans, extensions for tax return submissions and the new opportunities for taxpayers (Ex: introduction of online tax payment system) created during this pandemic period motivated the taxpayers' attitudes toward more tax compliance. The same study uncovered that tax policy changes introduced during this outbreak period resulted in the positive variation of the tax compliance behaviours by 43%.

Moreover, Vickneswaran (2014) found that there is a significant association between tax policy changes and tax revenue of the country (P<0.01) besides, the regression analysis confirmed that there is a significant impact of tax policy changes on the tax revenue of Sri Lanka furthermore the regression analysis revealed that tax policy changes impact by 49.6% on tax revenue of the country. Increasing the tax revenue of the country depends on how quickly the taxpayers comply with the requirements relating to the tax compliance in terms of payment of the taxes are concerned in other words, their perceptions toward the tax policy changes should be positive. If it is positive, this will automatically raise the tax revenue of a country so, it is more likely that the tax revenue of a country is correlated positively with the taxpayers' positive attitudes toward the tax system in a country. Similarly, complying with the tax compliance requirements is also correlated positively with their positive perception toward the tax system.

Figure-1. Self-constructed model



Source: Author Developed

3. Methodology

3.1. Population, Sample and Technique used for Deciding the Sample Size

The researcher distributed one hundred twenty-five questionnaires to the respondents of the business entities in the central province in Sri Lanka. These business entities consist of small, medium, and large entities operating in the construction, hotel, plantation, manufacturing, and other industries. Samples were selected on the basis of simple random sampling technique and the sample size was determined using Krejcie and Morgan table (Krejcie and Morgan, 1970).

3.2. The Questionnaire and Data Collection Techniques

Primary data was mainly collected through widely used questionnaires (Kothari, 2004). The responses from the taxpayers helped to see their impact on the extent of tax compliance. The questionnaires gathered the data which might be analyzed more statistically. Each questionnaire consists of two major elements. The first part of the each questionnaire deals with the background information regarding each business entity and the second section consists of a range of questions about the independent variable (Taxpayers' perception toward the changes in the government tax policy) and the dependent variable (Tax compliance) (Kothari, 1985). As a part of getting responses from the taxpayers, , this study employed a Five point Likert scale that consists of 5 options (not in the slightest degree, less extent, some extent, great extent, and extremely great extent). The researcher also decided to use purposive sampling thus, the investigator started the first field study tour covering the sampling areas to point out them concerning the aim of the study as well as to distribute the questionnaires to relevant persons. During this stage, the researcher targeted the employees who were representing the executive levels of the organizations like managing directors, accountants, and finance managers. However, throughout the study, the researcher allowed the taxpayers to precise their views freely with no bias involved. During the second field study tour, the researcher aimed to gather already stuffed respondents' questionnaires. About any in-completed questionnaires, the researcher determined to begin a third field study tour to fill any remaining questionnaires as well as to grasp the aim of the study to the respondents. Meanwhile, the researcher was expected to use the snowball sampling that the researcher was getting ready to collect the required data from few organizations initially thus asked them to identify other organizations as well and in turn, those identified become the basis for further data collection. The researcher expected to continue this technique until the specified number is reached in terms of the data being sought.

3.3. Data Analysis and the Techniques Used for Data Analysis

A comprehensive analysis of the completed questionnaires was done to make sure that the collected data was correct and reliable. Once the researcher was finished collecting the data, it had been rechecked through editing to spot the errors, omissions to make necessary corrections. Then, data were analyzed by coding in line with variables within the study. Once the coding was completed, data were classified according to the common features attributable to them. The Statistical Package for Social Sciences (SPSS-Version-21) was used to assist in the statistical analysis of the data.

4. Results and Discussion

4.1. Response Rate

One hundred completed questionnaires were received out of the 125 questionnaires distributed to the respondents of the business entities which finally gave an 80% response rate. The results could be given as follows in Table 6.

Table-6. Response Rate

Name of the Respondents	Number of questionnaires administered	Number of questionnaires filled/returned	Percentage
Registered taxpayers	125	100	80%

Source: Field study, (2020)

According to Mugenda and Mugenda (2003), who determine that a 50% response rate is adequate, 60% good, and 70% rated very well. This was in agreement with Bailey (2000) who highlights that a response rate of fifty percent (50%) is adequate, while a response rate of over seventy percent (70%) is very good. This implies that based on this assertion, the response rate in this case of 80% is so excellent. This response rate was created after the researcher visits to remind the respondents to fill in and return the questionnaires and also continued efforts to cue them of the aim of this study.

4.2 Reliability Analysis

The researcher carried out individual reliability tests for every variable to decide whether or not enough reliability exists between the variables but the results have shown that adequate reliability existed supported the measure of the Cronbach's alpha values given below Table 7.

Table-7. Results of the reliability tests

Name of the Variable	Cronbach Alpha Value
Taxpayers' perception toward the changes in government tax policy	.801
Tax Compliance	.725

Source: Field study, (2020)

Based on the calculations shown above Table 7, Cronbach's alpha coefficient ranges from 0.725 to 0.801, which is in line with the specified range of Cronbach's alpha value of 0.70 or above suggested by Nunnally (1978) and some of the other researchers within the field (George and Mallery, 2003; Hair *et al.*, 2010) who indicate that questionnaires are reliable for measurement. The construct validity of those instruments is considered reasonable because total correlations of most of the items were reasonably high as it is required to ensure the reasonableness of the construct validity of those (Brown, 2000). However, Lance *et al.* (2006) criticize Nunnally's practice as misleading and suggested that a more stringent cut-off ought to be used for basic research (0.80 or higher) and applied research (0.90 or higher).

4.3. Correlation Analysis

The correlation test shows the linear relationship that exists between the independent variable and the dependent variable. The results of the test can be shown as follows in Table 8.

Table-8. Results of the Correlation test

		TPTP
TC	Pearson Correlation	.910**
	Sig. (2-tailed)	.000
	N	100

Note: TPTP= Taxpayers' perception toward the changes in Government Tax Policy, TC= Tax Compliance
Source: SPSS –Version -21 created document – (2020)

According to Table 8, taxpayers' attitude toward the changes in the tax policy as an independent variable and the dependent variable of tax compliance forms a significant strong positive relationship as a result of its coefficient of correlation is close to a positive one and the P-value is less than the Alpha value of 0.05.

4.4. Univariate Analysis

The researcher applied a univariate model as a result of there are only one independent variable and a single dependent variable. Therefore, the researcher constructed the following formula to check whether each of the hypotheses is either accepted or rejected.

Model: Y = a + bx

Where:

Y= Tax compliance in Sri Lanka

a= Constant

b= Taxpayers' perception toward the changes in tax policy slope

x= Taxpayers' perception toward the changes in tax policy

TC= ao + X_1 GP

TC = .389+ .746x_1

Table-9. Results of the Univariate analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	.389	.233		1.667	.099
	TPTP	.746	.051	.857	14.720	.000

Note: TPTP= Taxpayers' perception toward the changes in Government Tax Policy, TC= Tax Compliance
Source: SPSS –Version -21 created document – (2020)

Based on Table 9, the P-value of .000 explains that the regression coefficient corresponding to taxpayers' attitude toward the changes in government tax policy (TPTP) is statistically significant in explaining the revenue by all categories of business entities. A regression coefficient of .746 implies that a unit in favour of their attitude toward the changes in tax policy leads to 74.6% changes in tax compliance. As a result of that, the government should focus on changing its tax policy in a way that gives a clear direction to ensure a better level of voluntary compliance behaviour specifically during this pandemic period.

Table-10. Hypotheses analysis

No	Hypotheses	Tools	P-value	Results
H_1	There is a significant relationship between the taxpayers' attitude toward the changes in the tax policy and the tax compliance in Sri Lanka.	Correlation	0.000	Accepted
H_2	There is a significant impact of the changes in the tax policy on tax compliance in Sri Lanka.	Regression	0.000	Accepted

Source: Author Developed

The first hypothesis which states that "There is a significant relationship between the taxpayers' perception toward the changes in the tax policy and the tax compliance in Sri Lanka ", was supported by the findings of Dissanayake and Premaratne (2020), who state that taxpayers from manufacturing and trading sectors in Sri Lanka motivated toward the tax policy changes made during the pandemic period and resulted in a strong positive relationship with tax compliance. The second hypothesis expresses that "There is a significant impact of the changes in the tax policy on the tax compliance in Sri Lanka", is supported by the results of the study done by Dissanayake and Premaratne (2020) found that positively changing the tax compliance behaviours by a significant margin of 43%. as per the regression analysis.

As stated in above Table 10, the first hypothesis which is supported by the finding of Vickneswaran (2014), found that there is a significant relationship between the tax policy changes and the tax revenue of the country. The second hypothesis is also backed by the results of the same survey, which revealed that tax policy changes impact the tax revenue by a significant percentage of 49.6% as per the regression analysis. This is because tax policy changes are motivated them to respond more positively to tax compliance requirements which will finally lead to an increase the tax revenue.

Table-11. Overall model summary

R	R Square	Adjusted R Square	F Change	R Square Change	Sig. F Change
.912[a]	.832	.825	117.638	.832	.000

Notes: a. Predictors: (Constant), TPTP
b. Dependent Variable: TC
Where, TPTP= Taxpayers' perception toward the changes in tax policy, TC= Tax Compliance.
Source: SPSS-Version -21 created document- (2020)

According to the above Table 11, the Adjusted R Square for all value tells us that the model accounts for 82.5% of the variations within the tax compliance by all sorts of business entities are often explained by the identified independent variable of taxpayers' perception toward the changes in tax policy (TPTP). Therefore, it is necessary to contemplate this variable in an attempt to spice up the tax revenue collection by the Revenue Authority from the business entities.

The model caused adjusted R^2 to vary from zero to .832 and this variation led to an increasing F ratio of 117.645, which is significant at a probability of .05. When it comes to increasing the level of tax compliance, the regression appears to be perfectly fit because the adjusted R2 was 82.5% and conjointly the overall relationship was significant ($F = 117.638$, $P<0.05$).

Taxpayers' attitude toward the changes in tax policy as an independent variable seems to be a significant determinant of the tax compliance behavior of all categories of business enterprises. Therefore, it is important to stay changes in government tax policy more sensitive to the requirements of the business communities as stated by Weerarathne (2016).

5. Implications

5.1. Theoretical Implications

The economic changes linked with Covid-19 will also affect tax types in different ways, corporate income tax (CIT) revenues, which are typically most responsive to economic cycles, are likely to decrease by more than the fall in economic activity. A reduction in employment and wages will likely result in lower personal income tax (PIT) revenues. Revenues from consumption taxes, especially from Value Added Taxes (VAT), are likely to fall due to the impact of lockdowns and lower consumer confidence, as well as a potential shift towards the consumption of staple goods. The structure of tax revenues in Asian and Pacific economies may render them more vulnerable due to their high reliance on corporate income tax (CIT), which accounted for 19% of total tax revenues in 2017 in the countries listed, on average, compared to 9.3% for OECD countries (OECD, 2020). Inland Revenue Board of Malaysia (2020) states that tax-related policies have been implemented in many countries to assist businesses and other taxpayers during the crisis. These included a holistic approach to tax relief measures that will help stabilize the economy. These measures need to be considered against the specific legal and regulatory operational framework, as well as the existing tax policies and incentives that vary from country to country. This should be done following the "Three Ts" Principle: the most effective immediate measures are those that are timely, targeted, and temporary (Summers, 2008). These policies have often been combined with other financings/liquidity measures to stabilize the economy, in particular, with those targeting small and medium-sized enterprises.

5.2. Managerial Implications

According to the Faculty of Humanities and Social Sciences (2020) in Southern University in Sri Lanka, the declared direct tax revenue target for the country in 2020 is LKR 613 billion which was LKR 893 billion in 2018, and LKR 785 billion in 2019 also, initial reports from Japan indicates a fall in revenues of 9.2% in the year ending March 2020 (Reuters, 2020), and in Korea, revenues for Q1 2020 declined by KRW 8.5 trillion relative to Q1 2019 (Eun-joo, 2020). However, given that the pandemic and its economic impact are still evolving, it is difficult to extrapolate from these initial indications. Also, it is difficult to classify the causes of revenue declines: the direct impact on tax receipts associated with declining economic activity and emergency fiscal response measures may be augmented by the deferral of tax payments. The nature and depth of the crisis are unprecedented. It is also clear that certain economies are likely to be more vulnerable than others. South Asia's revenues are particularly vulnerable to the current slowdown in global trade, which according to the World Trade Organization will be more severe than during the global financial crisis. Tax administrations across the globe have played a critical role in supporting citizens and the economy at a time of crisis, including by helping to mitigate cash flow difficulties and minimize compliance burdens and, in many cases, by working with other parts of government in assisting businesses and citizens, including through grants or loans (Suzuki, 2020). Slower economic growth during COVID-19 will have a significant impact on tax policy across the region. Besides, countries in Asia and the Pacific can take specific steps that will benefit their economies both during the pandemic and over the longer term. Throughout the region, countries must optimize tax policy to take into account shrinking economic growth during the pandemic and increased economic activity in the years that follow. Furthermore, during the pandemic, tax agencies have focused on maintaining the operation of essential business processes, including taxpayer registration, taxpayer services, tax return, and payment processing. The need to ensure the safety of staff to be deployed in the core business processes is an important part of this response, including strict compliance with policies on health and hygiene. Data and cyber-security are also of critical importance.

To ease the burden caused by the pandemic-induced state of uncertainty, delivering public services has also been a vital part of the response. Tax administration can aid this by being flexible in the use of staff to manage peaks in service demand and curtailing discretionary programs where necessary, such as field audits. To ease the business cash-flow situation of taxpayers, policy options that have been implemented include tax debt payment plans and the prioritization of value-added tax refunds to ensure quick payouts. According to ADB research, as economies open back up, economic growth in the region could rebound to 6.2% in 2021(ADB, 2020).In terms of debt sustainability and revenue mobilization, tax policymakers and administrators should consider what tax reforms are needed in the aftermath of the pandemic. Digital transformation will help tax administrations and it will promote effective, timely, and corruption-free delivery of public services to support greater accountability. According to ADB research.

Middle-income economies in Asia and the Pacific have increased spending on innovation, which is vital for productivity growth. Investment in research and development in these economies is three times bigger than their peers. Besides, innovations contribute to more inclusive and environmentally sustainable growth in the region. Tax policy should be part of this focus on innovation. New ideas and strategies will be needed for tax agencies working in the post-pandemic environment.

In the recovery period, governments will need to address several tax administration considerations: business restoration governance; scenario planning; analysis and monitoring; business restoration planning; the opening of offices; staff welfare; reputation management and communication; working methods; and longer-term implications for tax administrations. As in the crisis period, it is important to keep to the forefront the various factors that distinguish the Covid-19 pandemic from one-off events or events hitting particular sectors or locations. These are the continued risks to health, including possible further outbreaks; the impacts on staff, taxpayers, and administration systems from the need for continuing and careful adjustments; and the potential length and volatility of the recovery period given the depth and scale of the economic shock.

With regards to low income earning countries, additional support for consumers and businesses may be required both from internal and external sources to allow these countries to respond to the crisis and to support an economic recovery. Tax policymakers and tax administrations will play an important role in supporting the wider government response to coronavirus across the crisis and recovery stages (Steel and Phillips, 2020).

There are three important considerations that Ministries of Finance and revenue administrations in low-income countries need to keep in mind in responding to COVID-19:

- **Assessing revenue impacts and potentially take measures to shore up the fiscal position;**

It will be important that governments closely monitor the fluctuating situations and update revenue impacts as the crisis unfolds, which will be essential to support cash and debt management operations, determine external financing requirements, and identify space available for additional health and fiscal support measures. Importantly, the revenue impacts are more likely to be acute in low-income countries because of their more limited access to capital markets and lesser scope for temporary central bank financing of government debts, as well as widespread and simultaneous calls on external finance.

- **Developing, appraising, and implementing tax policy responses to different phases of the crisis and recovery;**

Phase 1: Support -Immediate support to businesses is the priority during this phase, to help them survive the economic fallout from the crisis. In this phase, support to households is also critically important. The measures taken during this phase include tax payment deferrals, expedited refunds, and targeted help for affected sectors. Targeted support rather than broad-based stimulus is more appropriate while social distancing measures prevent normal economic activity and where fiscal situations are tight.

Phase 2: Stimulus-In this phase, the goal of tax policy is to boost demand to support the economic recovery once social distancing measures have been eased or lifted. Governments may wish to consider using a different range of tax policy options to deliver support in this phase, such as temporary VAT reductions or increases in capital allowances.

Phase 3: Consolidation -Once the economic recovery is underway, tax measures to restore fiscal sustainability, building on existing strategies and domestic resource mobilization plans, will be increasingly important.

- **Facilitating the use of tax data for economic, social, and public health monitoring purposes.**

Official economic statistics are too slow to inform policy, and economic data lag events in the real world. Tax administrations may have access to data that become available earlier, particularly from taxes collected frequently and with a closer link to economic activity (e.g. VAT or goods and services taxes [GST], withholding on salaries, customs duties). To the extent possible under confidentiality rules, anonymized (and aggregated) tax data can be shared within the government, and with academics and researchers, to help them undertake analysis and inform policy.

Tax administrations can also make use of existing data-sharing protocols and agreements, or introduce them when necessary. These are some potential uses of tax data, for example:

- **Securing supplies of essentials** - using customs data to anticipate shortfalls in essentials and identify trade dependencies;
- **Dealing with health impacts** - falling receipts could be an indication of whether social distancing is effective or not;
- **Monitoring economic situations** -getting a snapshot of how the economy is developing by comparing weekly or monthly data with an equivalent period in previous years;
- **Developing targeted responses** - identifying the worst-affected sectors or regions, and targeting policy responses accordingly; and
- **Preparing for recovery** - using tax data to identify early signs of recovery and potential bottlenecks.

6. Conclusion and Recommendations

In this paper, the researcher investigated the link between the taxpayers' perception toward the changes in the tax policy of the government and the tax compliance in Sri Lanka and their impact on the tax compliance behavior. Also, looked at how various tax authorities respond against the impact of Covid-19 in terms of giving a range of tax relief for the business communities and finally searched about both theoretical and managerial implications linked with it. The researcher found that based on the supported results of the correlation test and the results of the regression analysis, taxpayers' perception toward the changes in the tax policy of the government forms a strong positive association with tax compliance in Sri Lanka and also has a significant impact on their compliance behavior.

Further, the researcher has already identified priority areas which require to provide recommendations to the policymakers of the country accordingly, at first, a prospective investigator should provide recommendations to the policymakers of the Sri Lankan government to look into the possible new opportunities that the Revenue Authority in Sri Lanka should employ through using its Revenue Administration Management Information System (RAMIS) during this pandemic period which facilitates its clients once they meet their tax obligations and also it helps to maintain their compliance level. Additionally, it is important to advise to formulate a fair tax policy supported by the six tax principles because an effective tax system is important especially during this ongoing Covid-19 outbreak period to motivate taxpayers to comply with its requirements promptly. Further, in line with the Weerarathne (2016) also demonstrates that future policymakers in Sri Lanka need to review the taxable threshold as a result of a large proportion of the little and medium-sized business entities do not seem to be creating enough money to be brought into the taxable threshold and on the other hand, should also provide enough support in the form of business development services, staff training, access to credit, technology, infrastructure, and government regulatory services that are important to growing their business entities so as that they become taxpayers in future.

Finally, creating a conducive environment for its clients to meet their tax obligations is necessary during this pandemic period and hereafter which will help the Sri Lankan government to meet the goals of its fiscal policy.

7. Directions for Future Research

As shown in this research paper, within the past two or three decades, an outsized number of studies have concentrated on understanding the taxpayers' behavior and its role in determining tax compliance. However, the majority of them supported industrial analyses. Considering the taxpayers' behavior and their willingness to comply with the tax compliance necessities can change over time (Torgler, 2002a) therefore, more long-term analyses would enable both researchers and the policy decision-makers to measure how different policy measures change the taxpayers' behavior on a long term basis.

Not only the government can use measures to alter formal bodies in a positive way for improving taxpayers' behavior and tax compliance but also people can influence the state by electing members that can express their views on the expectations of formal bodies. Therefore, investigating the interaction effects between the formal and the informal bodies to decide the taxpayers' behavior might bring great impact into the present field (Chan *et al.*, 2018)

The majority of the studies on taxpayers' behavior and tax compliance have used surveys or science lab tests but, recently some researchers collaborated with the revenue authorities once they were doing field experiments. This approach certainly helps to look at the direct result of any policy measure (Hallsworth, 2014; Hallsworth *et al.*, 2017)

Finally, this study highlights the additional matters for further research in the future.

1. Concentrate to hold out a different research concerning the impact of adopting the digitalized tax system on tax compliance behaviour in Sri Lanka during this ongoing covid-19 epidemic period on the criteria given above.
2. Consider performing an equivalent survey as given (1) above after changing the area of population and increasing the existing sample size of one hundred twenty-five taxpayers.

Notes

1. Value-added tax (VAT) reduced from 15% to eight with effected from 1st-December-2019 and abolished different other taxes like Nation building tax (NBT), Economic service Charges and Pay as you earn (PAYE) with effect from 1st-January-2020 (Xinhua, 2019).
2. The article published within the Sunday Leader E-Newspaper on 14th-August-2016, that was belonged to the Leader Publications Ltd in the country but later this E-Newspaper and the website, has been ceased operations (Weerarathne, 2016).
3. The article published within the Island Newspaper on 21st-October-2017, is one in each of the E-Newspapers presently published on-line by the Upali Newspapers Ltd inland (Kelegama, 2017)
4. The article published within the Daily Financial Times on 18th-December-2015, is one in every of the E-Newspapers currently published on-line by the Wijeya Newspapers Ltd in-country (Jayaratne, 2015)
5. The study employed five Likert scales that consist of 5 options (not in the slightest degree, less extent, some extent, great extent, and extremely great extent).
6. The six tax principles that were derived from the four key principles of fair taxation that were developed by the British Economist Adam Smith should be considered when formulating an effective tax system. These six principles are equity reflects the view that taxes ought to be fair as one of the principles that offer direction in determining the tax policy (Wise and Berger, 2010), simplicity refers to the tax rules and regulations that ought to be simple to grasp by an average taxpayer (Smith, 1776), efficiency means it needs to change the market processes to a certain extent as a result of taxpayers' attempts to avoid and evade their tax liabilities whenever they can (Nhekairo, 2014), neutrality contributes to the tax system to boost revenue whereas minimizing discrimination in favors of, or against, any explicit economic alternative (OECD, 2014), certainty refers to "the tax that each individual is liable to pay needs to be certain, and not arbitrary" (Smith, 1776) and proportionality, and progressivity highlights that each state needs to contribute towards

the support of the govt, in proportion to the revenue that they hold. However, this does not automatically justify progressive taxation (Smith, 1776).

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