

**CRITICAL ANALYSIS OF THE TAXATION POLICY ON SMALL BUSINESSES AND ENTREPRENEURIAL
ENTERPRISES IN SRI LANKA**

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Introduction.

The company must pay taxes correctly in accordance with the law. However, in reality, many obstacles encountered in the application of taxes. The Sri Lanka government tried to improve and perform tax services as much as possible, but there are still many businessmen who avoid tax obligations. These studies concerning awareness of taxpayer awareness and fiscal morale in the level of tax evasion are an interesting topic. The aim of this study was to test taxpayer awareness and fiscal morale on tax evasion of individual taxpayers whose income on non-taxable income of Rp15,840,000 annually residing in Bandung and on the condition that they have surrendered An SPT notification letter). Sampling in this investigation was carried out using an intentional sampling method. Independent variables: awareness of taxpayers and fiscal morals and dependent variables are: tax evasion. With trajectory analysis, examination through two simultaneous and partial equations of independent variables affect tax evasion show that awareness of tax morale and fiscal both partial and simultaneous significant effect on the level of tax evasion. It can be concluded that tax evasion affected by the attitude of taxpayer conscience and fiscal morality is present in each taxpayer.

Problem Statement.

It is a well-known fact that the income generated by the taxation of individuals and companies is an important flow of income to the government. In an economy like ours that is struggling to stay afloat, it is even more important. Tax revenues are the source of the funds used for development projects, such as provision of infrastructure such as adequate roads, stable energy supply, stable water supply, etc. All of which combine to create an enabling environment for business - and, in turn, for the economy at large. grow. It is also expected that small and medium-sized enterprises that generate profits will establish their quotas. The important question however is "how much tax should be taxed". Small and medium-sized enterprises are volatile establishments that need special treatment. Putting your nature into consideration, every small resource at your disposal can make a world of difference. For this reason, several SMEs in Sri Lanka decide to remain in the informal sector because they consider the cost of compliance to be too high. And a considerable number of those who pay only do so because they are coerced by the authorities. Since the individual SME pays a very small amount of tax compared to what the larger settlement would pay, tax authorities tend to give larger corporations attention. This means that a

large number of SMEs escape with not paying their taxes, therefore, revenues that would otherwise have been invested in development projects that will ultimately be of benefit even for SMEs is lost. Therefore, it is a situation that needs to be corrected. This highlights the reasons why the issue of the taxation of SMEs is really important. First, the tax provides revenue for the government to create an environment that will facilitate the operation of all business SMEs included. At the same time, if an SME faces high compliance costs, it tends to avoid paying taxes; **the** income that would have been used to create this environment has been reduced thus reducing the chances of survival of SMEs. Therefore, the purpose of this research is to assess the factors that encourage SMEs' non-compliance with tax obligations and, consequently, to determine if high tax rates are at the top of the list. In doing so, a study was conducted using SMEs in Sri Lanka.

[Factors affecting tax compliance among small and medium-sized enterprises \(SMEs\) in Sri Lanka.](#)

Objectives of the study.

Taxes are collected by the government to generate income used to provide services to the public, such as; Health centers, telecommunications, roads, schools and electricity, which has contributed to improving the performance of small commercial enterprises. Despite services provided, the performance of small businesses in Rivers State remains poor. This could be due to the increasing tax burden caused by the tax rates that are reviewed annually. These rates appear to be taking an upward trend (Gordon and Dawson, 1987) which has led to the liquidation of some small-scale enterprises.

Follow-ups are the objectives of the study.

1. To assess the performance of small scale business enterprises in Sri Lanka.
2. To find out if tax payers are aware of all their tax obligations and policies.
3. To find out problems affecting tax payers and their business

Literature Review.

Characteristics of Small and Medium Enterprises.

The concept of SMEs is relative and dynamic (Olorunshola, 2003). SMEs are characterized by uncertainty, innovation and evolution. A firm understanding of SMEs would require a good knowledge of their characteristics. As Aderemi (2003) points out, SMEs in Sri Lanka are generally small businesses run by owners or families offering basic goods and services, who tend to lack organizational and management structures with urban ones that tend to be more structural than their counterparts Rural areas. This is one of the most generic features of SMEs in Sri Lanka. Udechukwu (2003) continues to claim that they are mostly individual companies or associations, although on the surface, they may be registered as Limited Liability Companies as such, they are not usually separate legal entities. Olorunshola (2003) explains that this style of ownership has led small and medium-sized enterprises to have a simple management structure. Factors that also contribute to the reasons small and medium enterprises have a simple management structure are few number of employees and owners of low level of education. Since there is no legal personality between small and medium-sized enterprises and their owners, it means that the useful life of the company depends on the life of its owners, that is, there is no perpetual continuity. In addition, according to Hanefah, Ariff and Kasipillai (2002), the production processes of SMEs tend to be labor-intensive and often serve as suppliers for large manufacturing firms, with their operations highly dependent on locally obtained raw materials. They also require lower starting capital than larger companies (Akinsulire, 2010). The decisions of the managers have a greater tendency to be subjective since they are managed and controlled by the same individual. The employer-employee relationship found in most SMEs is predominantly informal. Another key feature of the SME sector in any country is that it is heterogeneous and varies in size from small retail outlets to highly paid professionals and major manufacturing companies. SMEs are also likely to vary organizationally from individual enterprises (with or without employees), small enterprises (public or private), professionals and associations. This characteristic often gives rise to different obligations for the maintenance of records for the company.

In addition, SME contributions to tax revenues are lower than their contributions to production and employment (International Tax Dialogue, 2007). However, SMEs have not achieved sufficient competitiveness to increase their share of the product, although they account for three-fifths of the number of manufacturing enterprises in which large manufacturing firms rely on SMEs for their supply (Hanukah et al 2002). SMEs are thought to be innovative spaces for engines because business activities such as innovation, risk, job creation, the search for new opportunities and the commercialization of their inventions have contributed to prosperity in all regions of the world . Further innovation will support the growth of SMEs because they also increase competition and entrepreneurship and therefore have external benefits over economy-wide efficiency and aggregate productivity growth. In addition, SME proponents often claim that SMEs are more productive than large enterprises, but the failure of financial markets and other institutions hinder the development of SMEs. Thus, pending financial and institutional improvements, direct government financial support to SMEs can boost economic growth and development (Avolio, Beck, Demircuc-Kunt and Levine, 2005). Honlglang and Jiaozben (n) agree on the fact that SMEs promote economic growth through innovation by stating that during the period of economic globalization and under intense competition conditions, research and development activities of small and medium-sized enterprises play an irreplaceable role The promotion of technological innovation and national economic development due to its adaptability in the market, flexible operating mechanism, as well as the spirit of innovation. As a result, they can adapt to new situations more easily than large corporations. Innovation is also critical for introducing new ideas into the economy (Hendy, 2003). Small and medium-sized enterprises serve as links between large enterprise and consumers as such, large enterprises can barely survive without them. Therefore, the importance of small businesses can not be underlined. Small enterprises make a greater proportionate contribution to the economy and with efficient SME control and management techniques, the benefit it offers can be much greater. Small and medium enterprises according to Akinsulire (2010) accelerate rural development, while reducing urban migration and congestion problems in large cities because they have less competition by serving dispersed local markets, are closer to their resources and are Cheaper The entrepreneurs of the area are attracted to invest thus discouraging the rural-urban migration and making for a uniform development. SMEs also contribute to the formation of national capital, play a value-added role, mobilize private savings and exploit them for productive purposes.

Kilby (1969), quoted in Ekpenyong & Nyong (1992), sees SMEs as a quasi sponge for urban employment and a supplier of cheap consumer goods with little or no imported content, playing an important role in relieving pressure And well being. SMEs also contribute to long-term industrial growth by producing an increasing number of companies that grow and leave the small-scale sector. The emergence of small and medium-scale industries in Sri Lanka is likely to be a prerequisite for any lasting industrialization. Other contributions of SMEs to the economy according to Hendy (2003) include being able to remain profitable even in turbulent conditions because they are accustomed to operating in highly fragmented and heterogeneous markets. They also often play a special role in creating social capital (that is, they are often "entrenched" in local communities). Another advantage is that because they are fast and flexible, and close to their clients, they can be a stimulus Competitive for large companies. Growth of production; they perform important subcontracting functions; they can play an important role of import substitution, while others are exporters.

Taxation of SMEs.

Fiscal policy is one of the main components of macroeconomic policy and its tasks have been considered in a double context: first, the core of fiscal policy, and second, the consistency with the monetary policy (Holban, 2007). In general terms, the choice of tax policy to employ depends on the use of one or both two groups of instruments; the first one being the use of special tax preferences and the other incentives to support start-up and growth of small companies. The incentives include the lowering of corporate income tax rates, special tax exemptions and relieves for small businesses. The fundamental purpose of taxation is to raise revenue effectively, through measures that suit each country's circumstances and administrative capacity. In fulfilling the revenue function, a well designed tax system should be efficient in minimizing the distortionary impact on resource allocation, and equitable in its impact on different groups in society (Bolnick, 2004). It is important that the country's situation is properly analyzed before employing any tax policy in order have a properly working tax system because according to Slemrod, J. (n. d) Many of the difficulties with the tax authorities are the consequence of poorly conceived tax policies and a lack of certainty regarding future policy changes. The objective of a tax policy should be to achieve collection cost savings while minimizing the revenue loss, disruption to the economy, and the inequity and capriciousness of the tax burden. For an economy such as Sri Lanka that is still in the throes of a recession, the tax

regime must be versatile enough to encourage savings, stimulate investment and reward social responsibility and research funding. To widen the tax net, policy makers must never forget the urgency to provide infrastructure; create jobs and reduce unemployment; expand the productive sectors of the economy; stimulate exports, and substantially raise public revenues from non-oil sources (Punch, 2010). Hence, tax policies should aim at bringing all taxable adults into the tax net with a graduated rate that should ensure that the well-off pay their own share while the low income earners are given savings-enhancing incentives. An effective and efficient tax administration system is integral to any country's well being, it is as a result of this that Baurer (2005) believes that the tax administration must provide an even playing field for business by ensuring that all taxpayers meet their tax filing and paying requirements. The tax administration must balance its educational and assistance role with its enforcement role. The rationale behind the whole system of tax is consistent with two of the three major theories of tax namely; the Ability-to-Pay Principle and the Equal Distribution Principle. These two principles stress equality and fairness. While the Ability-to-Pay talks pushes that individuals should be levied taxes based on their ability to pay, the Equal distribution Principle suggests that income, wealth, and transaction should be taxed at a fixed percentage; that is, people who earn more and buy more should pay more taxes, but will not pay a higher rate of taxes (Gabay, Remotin, & Uy, n.d)

Tax Compliance and SMEs

According to Marti (2010) tax compliance is a complex term to define. Simply put, tax compliance refers to fulfilling all tax obligations as specified by the law freely and completely. It has been found that regulatory burdens fall disproportionately on small and medium enterprises internationally (Pope & Abdul-Jabbar, 2008). Their size and nature makes the issue of tax compliance one of particular importance especially since most SMEs have access to limited resources and inadequate expertise to comply with diverse and complicated regulation. He also believes that high compliance costs can result in tax avoidance, tax fraud, and inhibit investment by way of diminishing competitiveness of the country in terms of taxation attractiveness. Tax non-compliance may be in one of many forms; it could either be failure to submit a tax return within the stipulated period or non submission, understatement of income, overstatement of deductions, failure to pay assessed taxes by due date. (Kasipillai & Abdul Jabbar, 2006) and in some cases non-compliance may mean an outright failure to pay levied taxes. Studies have shown that the problem of tax evasion is a widespread one (Kasipillai & Abdul Jabbar, 2006).

Furthermore, Fagbemi, Uadile & Noah (2010) found that it is prevalent in developing countries and it hinders development thereby leading to economic stagnation and other socio-economic problems. Chipeta (2002) identified tax rates as one of the causes of tax evasion. He pointed out that a higher tax rate increases taxpayers' burden and reduces their disposable income therefore, the probability of evading tax is higher.

Tax Policy and Level of Voluntary Compliance among SMEs

Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. Reducing the compliance costs and tax rate increases the small enterprises profit margin. It also increases the Government's tax revenue, since the simplified provisions for small and medium enterprises reduce the size of the informal economy and the number of non-complying registered taxpayers (Vasak, 2008). Furthermore, SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert serious burden on their operations. An overly complex regulatory system and tax regime or one opaque in its administration and enforcement makes tax compliance unduly burdensome and often have a distortionary effect on the development of SMEs as they are tempted to morph into forms that offer a lower tax burden or no tax burden at all (Masato, 2009), and this results in a tax system that imposes high expenses on the society. A poorly executed tax system also leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2000). Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses

Tax Policy that will Encourage Voluntary Compliance by SMEs

SMEs constitute untapped revenue potential and an uneven playing field in many countries (International Tax Dialogue, 2007) as such they need to be captured by the tax net. However, though legislations are necessary regulator for protection of the business environment and security of the economic agents, for establishment of the necessary social security regulations, they may also hamper compliance and the growth of business through additional expenditures

and administrative obstacles. Thus Shahroodi, (2010) stated that for a tax system to be efficient, the tax policy needs to be designed such that the tax rates are appropriate and rational, the exemptions are lower in amount, the tax collection organization are more efficient, the tax burden of the indigent people should be lighter and the fight against corruption and tax evasion should be much more intense. Tax policies can be designed in such a way that they do not only directly affect SMEs but also indirectly push for voluntary compliance and their growth. Yaobin (2007), emphasized declared that special tax regimes for SMEs may be appropriate policy instruments for minimizing the cost of collection. Because awareness of the dangers of inadequate taxation of SMEs has grown because of the potential of uneven tax enforcement to cause distortions of competition, voluntary compliance by larger enterprises and by wage earners, (International Tax Dialogue, 2007), government intervention should help maintain balance while ensuring that countries exploit the social benefits from greater competition and entrepreneurship. Pro-business (and Pro-SME) Tax regimes and enforcement should be simple, consistent and predictable should to lower compliance and administrative costs, and hence reduce uncertainty faced by taxpayers as well as improve the levels of voluntary compliance (Kasipillai, 2005).

Theories of Tax Compliance

Various opinions exist about the best ways to improve tax compliance. Given the chance, a lot of businesses will not pay taxes unless there is a motivation to do so. Some believe that the best way is to increase incentives (Feld & Frey, 2007) others believe the best way is to increase penalties. Tax compliance theories can be broadly classified into two. They are; economics based theories and psychology based theories.

Economic Based Theories

They are also known as deterrence theory and they place emphasis on incentives. The theory suggests that taxpayers are amoral utility maximizers- they are influenced by economic motives such as profit maximization and probability of detection. As such they analyze alternative compliance paths for instance whether or not to evade tax, the likelihood of being detected and the resulting repercussions and then select the alternative that maximises their expected after tax returns after adjusting for risk. This process is referred to as “playing the audit lottery” by

Trivedi and Shehata (2005). Therefore according to the theory, in order to improve compliance, audits and penalties for non-compliance should be increased.

Psychology Theories

Psychology theories on the other hand posit that taxpayers are influenced to comply with their tax obligations by psychological factors. They focus on the taxpayers' morals and ethics. The theories suggest that a taxpayer may comply even when the probability of detection is low. As opposed to the economic theories that emphasize increased audits and penalties as solutions to compliance issues, psychology theories lay emphasis on changing individual attitudes towards tax systems.

Research Methodology

Methodology is the theory on the research undertaken and various steps taken to ensure dependability of the data (Cooper & Schindler, 2011:568; Creswell, 2009:15; Saunders et al. 2007:5). The methodology involved the research design, study population, sample size, data sources, data collection methods, data processing and analysis criteria. The detailed methodology is described as follows:

Research Design

In attempting to answer the research question, a mixed method of both qualitative and quantitative was used for data collection and testing the hypotheses. The use of both methods ensured that the data is effectively interpreted using SPSS. Statistical measures were applied to categorize qualitative information.

Research Population

The population for this paper comprised of small business owners from Sri Lanka. The list of small businesses and the tax payers in each selected markets were provided by Colombo city. This guided to identify the small businesses that pay the required tax by URA. The sampling frames were compiled and established with assistance from the office of the Market community based social workers/URA tax assessors and collectors in the area. After the lists were compiled, respondents were identified using the inclusion criteria and purposive/judgment sampling method discussed below;

Sample Size

It is from the large group of people who constituted the study population, a sample of 200 was selected, and of which 50 respondents were selected from each market. This particular sample size was selected because it would be easier to manage and it is enough to generate findings as well as to generalize the findings to a bigger population.

Purposive Sampling

A purposive sampling was used. This is a deliberately non-random method of sampling, which aims to sample a group of people or settings, with a particular characteristic, usually in qualitative research designs. This is also sometimes called judgment sampling where respondents are selected because they have knowledge that is valuable to the research process (Bowling, 2002:188).

Source of Data

The data was collected from both primary and secondary sources. Primary data was obtained from small business owners by the use of questionnaires and interview guide. Secondary data was obtained by reviewing market records/documents, reports brochures and other existing documents relevant to the topic of the study.

Data Collection Instruments

Qualitative Tools of Data Collection Unstructured Interviews: Unstructured interviews were used for the data collection. This guided the discussion with the respondents who were key informers and thus needed to elaborate on several issues. Each interview lasted for 50 minutes.

Quantitative Tools of Data Collection Questionnaires: The questionnaires were used to obtain the quantitative information because it is specific for the respondents to explain the exact situation without giving room for unnecessary and irrelevant information for the study topic.

Hypothesis Analysis.

The following hypotheses guided the research objectives:

H1: There is no significant performance of small business enterprises in Sri Lanka;

H2: There is no significant difference between Taxation and the survival of small business enterprises; and

H3: Tax payers are not aware of all their tax obligations and policies.

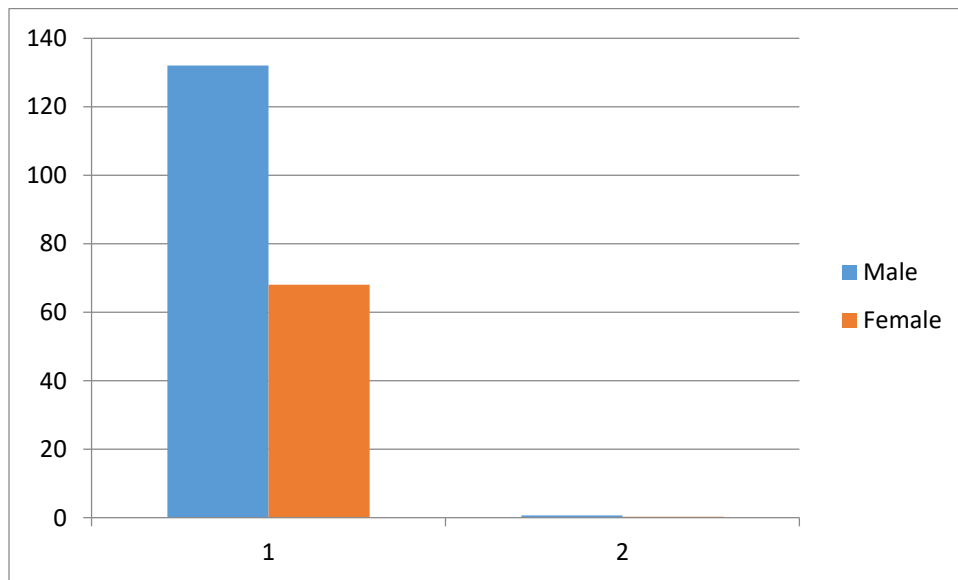
Data Analysis.

Gender Distribution

200 respondents, there were 132 males (66%) and 68 females (34%).

Gender
Distribution

Male	132	66%
Female	68	34%
Total	200	100

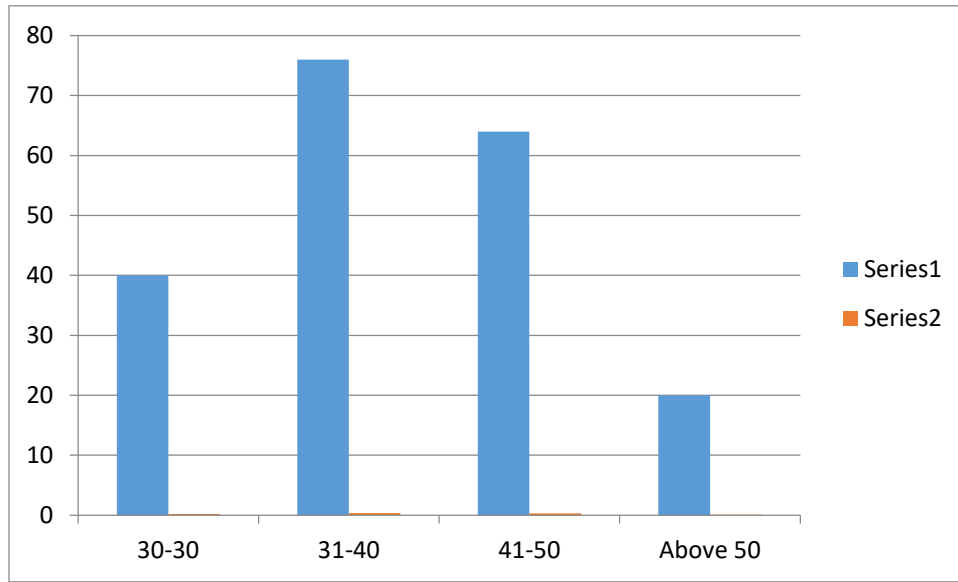


Age Distribution

10% were in the age bracket of 20-30, 20% were between 31-40 years, 38% were in the bracket of 41-50 and 32% were above 50 years

Age Distribution

30-30	40	20%
31-40	76	38%
41-50	64	32%
Above 50	20	10%
Total	200	100

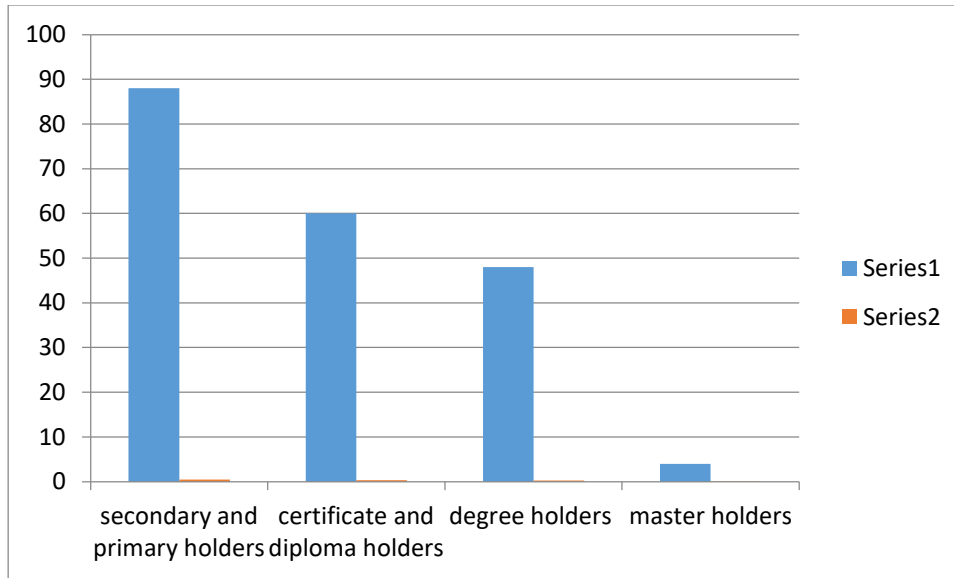


Education Distribution

44% of the respondents were secondary and primary holders, 30% were certificate and diploma holders, 24% were degree holders while 2% were master holders

Education Distribution

secondary and primary holders	88	44%
certificate and diploma holders	60	30%
degree holders	48	24%
master holders	4	2%
Total	200	100%

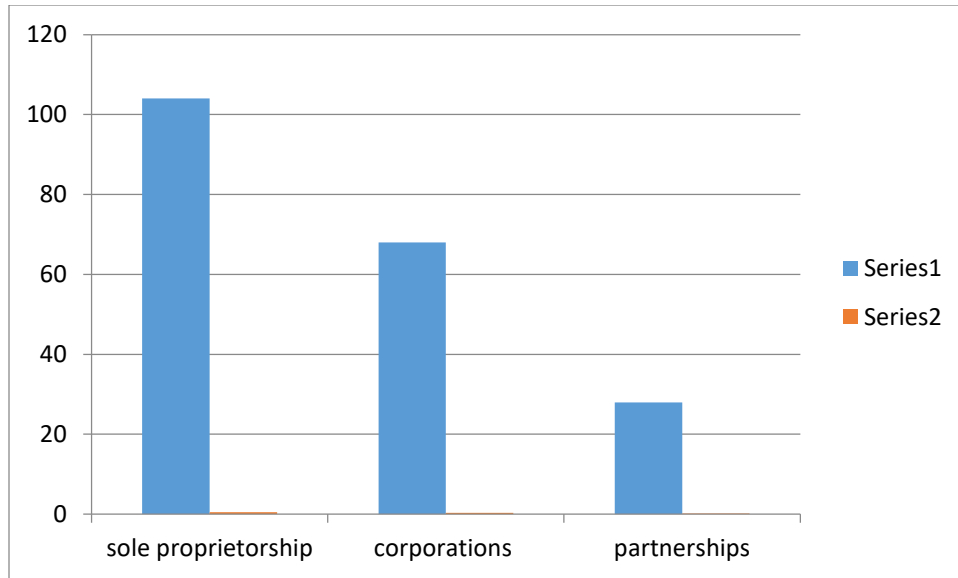


Business Nature

The study findings showed that 52% of businesses operated are sole proprietorship, 34% are corporations and 14% are partnerships

Business Nature

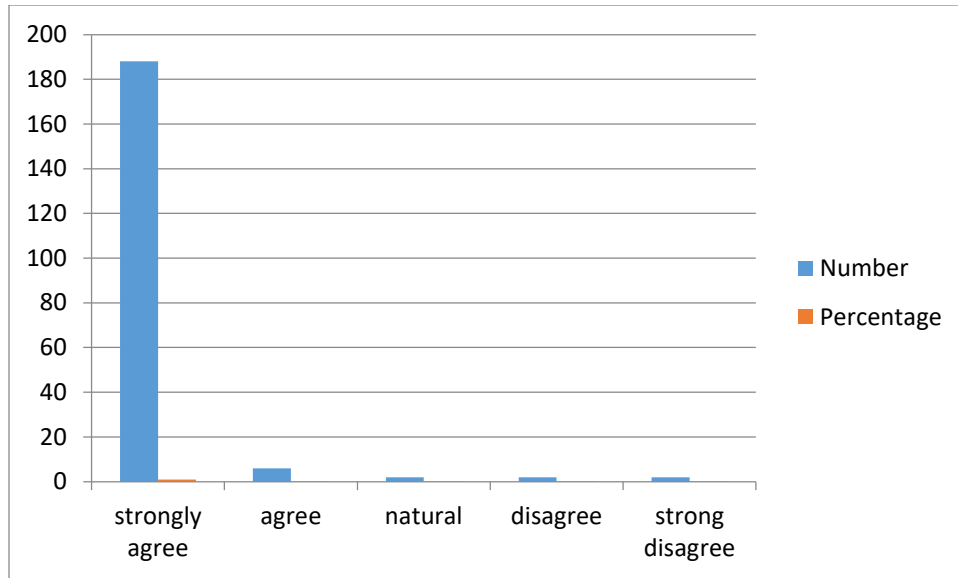
sole proprietorship	104	52%
corporations	68	34%
partnerships	28	14%
Total	200	100%



Tax system is fair

The findings indicates that 94% of the respondents strongly agree that tax system is fair to all traders and with equal treatment of businesses at the same level and type, 3% agree, 1% neutral, 1% disagree and 1% strongly disagree

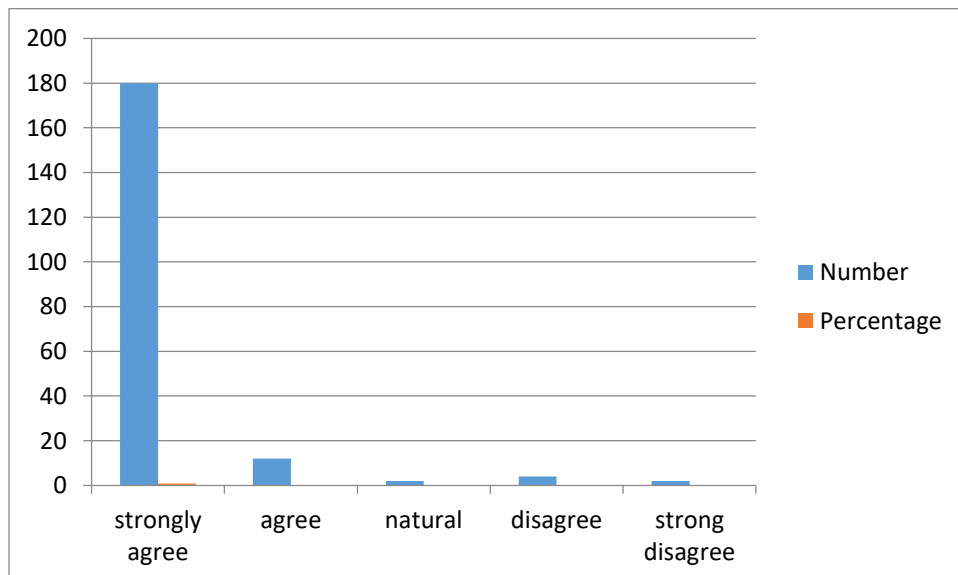
Tax system is fair	strongly agree	agree	natural	disagree	strong disagree
Number	188	6	2	2	2
Percentage	94%	3%	1%	1%	1%



Taxation reduces small business resources.

The findings revealed that 90% of the respondents strongly agree that taxation reduces small business resources, 6% agree, 1% neutral, 2% disagree and 1% strongly disagree

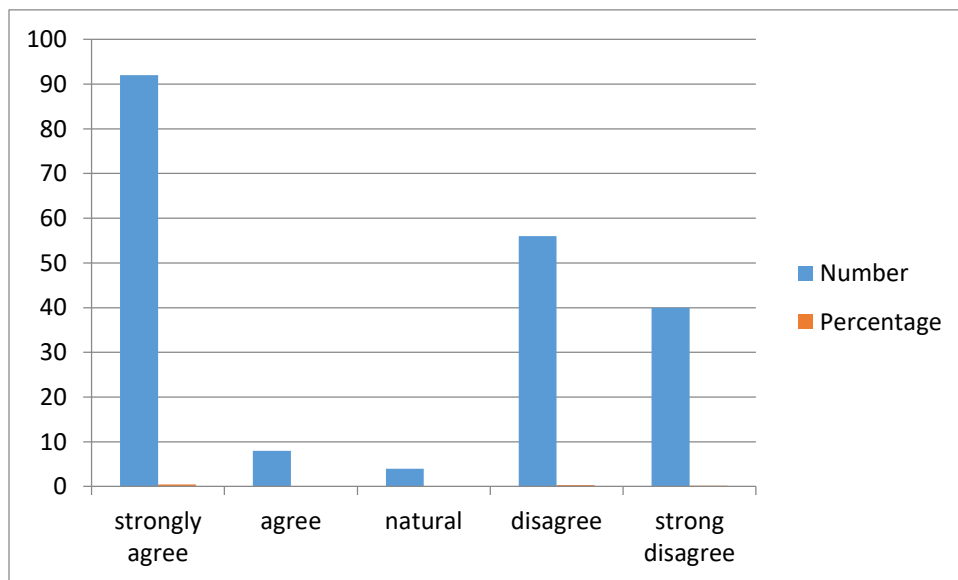
taxation reduces small business resources	strongly agree	agree	natural	disagree	strong disagree
Number	180	12	2	4	2
Percentage	90%	6%	1%	2%	1%



Tax payments have stopped reasonable number of traders in the markets.

46% of respondents strongly agreed that tax payments have stopped reasonable number of traders in the markets from operating, 4% agreed, 2% neutral, 28% disagreed and 20% strongly disagreed

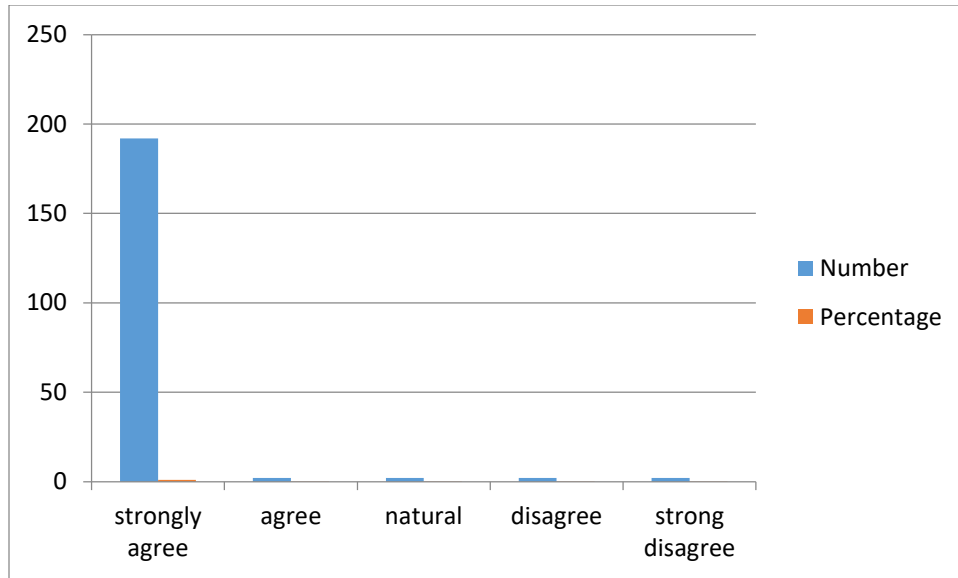
tax payments have stopped reasonable number of traders in the markets	strongly agree	agree	natural	disagree	strong disagree
Number	92	8	4	56	40
Percentage	46%	4%	2%	28%	20%



High tax rates encourage tax evasion and discourage business owners from starting enterprising firms.

The majority of the respondent 96% strongly agreed that there are various tax policies in place, 1% agreed, 1% Neutral, 1% disagreed and 1% strongly disagreed

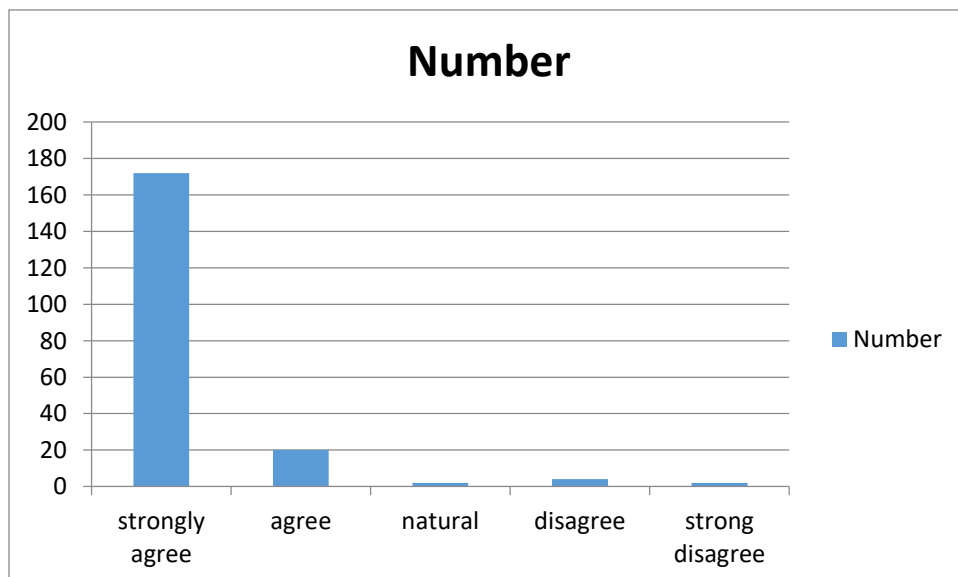
high tax rates encourage tax evasion and discourage business owners from starting enterprising firms	strongly agree	agree	natural	disagree	strong disagree
Number	192	2	2	2	2
Percentage	96%	1%	1%	1%	1%



Tax design focus on capacity building.

The findings show that 86% of the respondents strongly agreed that tax design focus on capacity building, 10% agreed, 1% neutral, 2% disagreed and 1% strongly disagreed

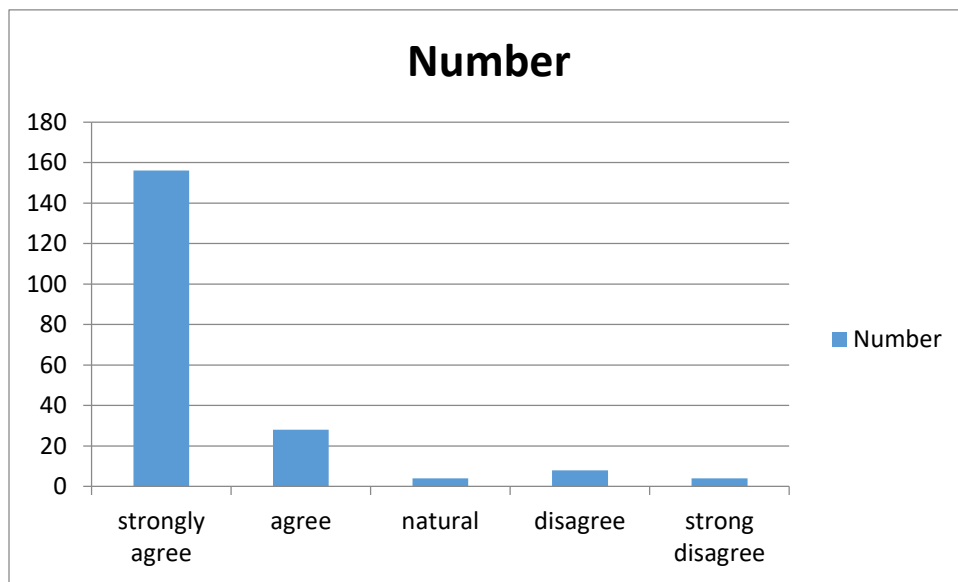
tax design focus on capacity building	strongly agree	agree	natural	disagree	strong disagree
Number	172	20	2	4	2
Percentage	86%	10%	1%	2%	1%



Tax reforms and performance are closely linked

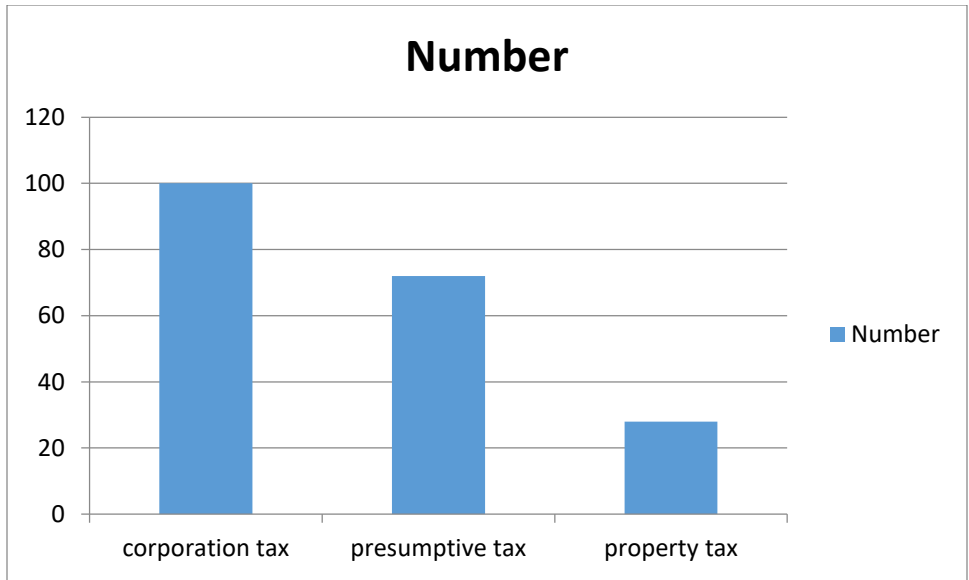
According to the findings, 78% of the respondents strongly agreed that tax reforms and performance are closely linked, 14% agreed, 2% neutral, 4% disagreed and 2% strongly disagreed

tax reforms and performance are closely linked	strongly agree	agree	natural	disagree	strong disagree
Number	156	28	4	8	4
Percentage	78%	14%	2%	4%	2%



Business owners are faced with various forms of taxes

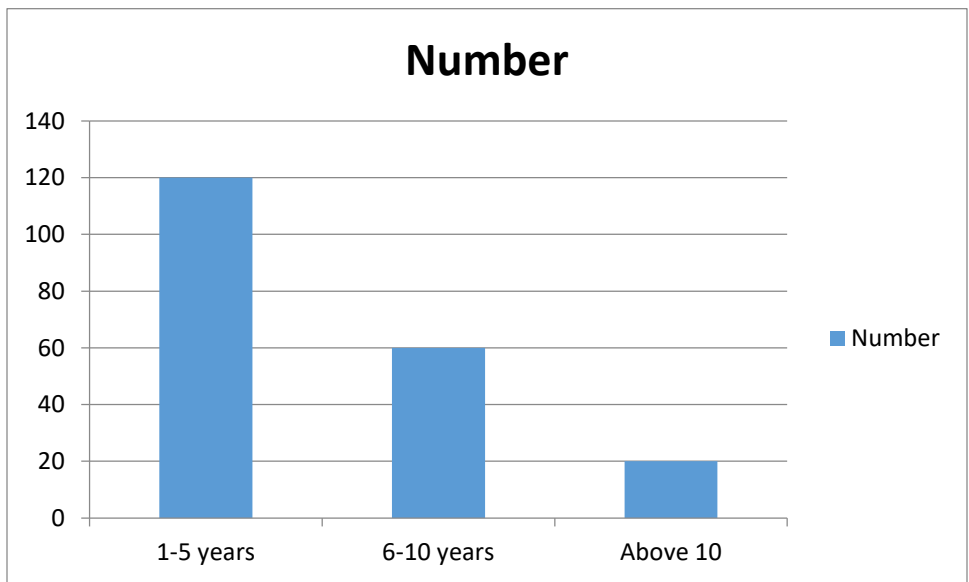
Business owners are faced with various forms of taxes	corporation tax	presumptive tax	property tax
Number	100	72	28
Percentage	50%	36%	14%



Assess the influence of taxation policy on small business.

120 (60%) of the respondents have been in operation of small business for a period of 1-5 years, 30% gave 6-10 years and 10% have been in operation for above 10 years

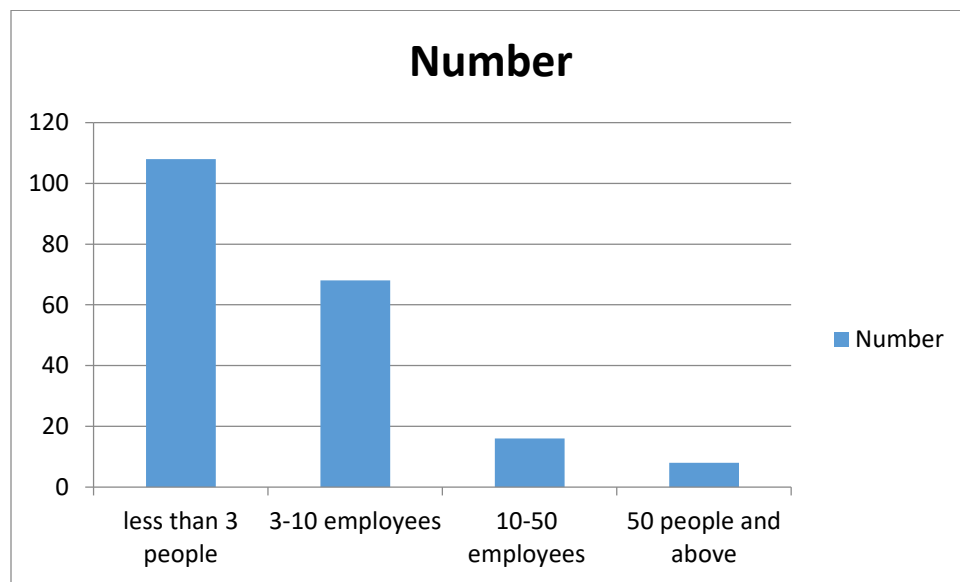
assess the influence of taxation policy on small business	1-5 years	6-10 years	Above 10
Number	120	60	20
Percentage	60%	30%	10%



Small businesses employed.

Small businesses in Sri Lanka are in age between 1-5 years. The findings revealed that 108 (54%) of small businesses employed less than 3 people in their business, 34% employed 3-10 employees, 8% said 10-50 employees and 4% employed 50 people and above.

small businesses employed	less than 3 people	3-10 employees	10-50 employees	50 people and above
Number	108	68	16	8
Percentage	54%	34%	8%	4%



Conclusion and Recommendations.

Findings

Respondents were asked about their gender, age, education levels and the form the business. Their responses were summarized below: It was evident that the male respondents were more than the female respondents; of the 200 respondents, there were 132 males (66%) and 68 females (34%). This was an indicator that majority of small business owners are male thus supporting

findings. Further support is from Orobia (2013) who established gender differences among small business owners. 10% were in the age bracket of 20-30, 20% were between 31-40 years, 38% were in the bracket of 41-50 and 32% were above 50 years. The findings revealed 44% of the respondents were secondary and primary holders, 30% were certificate and diploma holders, 24% were degree holders while 2% were master holders. This implied that respondents had capacity to interpret the questionnaires given and able to give relevant answers. The study findings showed that 52% of businesses operated are sole proprietorship, 34% are corporations and 14% are partnerships. This was a clear indication that most enterprises were sole proprietorship as argued by Sri Lanka Development Bank (2010:15). Tax Treatment: The first objective of the paper was to examine tax treatment on the performance of SMEs in Sri Lanka. In order to generate findings, respondents were asked about the tax system, business resource, tax payment, tax policies, tax design and tax relief. The respondents were asked to the statements using strongly agree, agree, natural, disagree and strong disagree. The findings indicates that 94% of the respondents strongly agree that tax system is fair to all traders and with equal treatment of businesses at the same level and type, 3% agree, 1% neutral, 1% disagree and 1% strongly disagree. Therefore, the tax system is fair to all small business owners. For instance, Minniti (2008:782)'s research show that favorable tax system encourage more people to start businesses. Further, the findings revealed that 90% of the respondents strongly agree that taxation reduces small business resources, 6% agree, 1% neutral, 2% disagree and 1% strongly disagree while 46% of respondents strongly agreed that tax payments have stopped reasonable number of traders in the markets from operating, 4% agreed, 2% neutral, 28% disagreed and 20% strongly disagreed hence high tax rates encourage tax evasion and discourage business owners from starting enterprising firms (Minniti, 2008:782). The majority of the respondent 96% strongly agreed that there are various tax policies in place, 1% agreed, 1% Neutral, 1% disagreed and 1% strongly disagreed. The findings show that 86% of the respondents strongly agreed that tax design focus on capacity building, 10% agreed, 1% neutral, 2% disagreed and 1% strongly disagreed. According to the findings, 78% of the respondents strongly agreed that tax reforms and performance are closely linked, 14% agreed, 2% neutral, 4% disagreed and 2% strongly disagreed. Business owners are faced with various forms of taxes; 50% said they pay corporation tax, 36% presumptive tax and 14% paid property tax. 112 (56%) of respondents said that income

tax is a tax relief measure available to small businesses and 44% said capital gains tax. Accordingly the null hypothesis H1 is rejected.

The Influence of Taxation Policy:

The second objective was to assess the influence of taxation policy on small business and entrepreneurial enterprises in Sri Lanka as summarized below. 120 (60%) of the respondents have been in operation of small business for a period of 1-5 years, 30% gave 6-10 years and 10% have been in operation for above 10 years. This implies that majority of the enterprises do not survive for more than five year after commencement which supports MFPEd (2011) research that most of the small businesses in Sri Lanka are in age between 1-5 years. The findings revealed that 108 (54%) of small businesses employed less than 3 people in their business, 34% employed 3-10 employees, 8% said 10-50 employees and 4% employed 50 people and above. In addition, 98% of the respondents accepted that stock levels have an effect on the level of profitability and 2% disagreed with that fact. 102 (51%) of the respondents revealed that the average daily sales of their business is less than 29,000 shillings, 40% between 30,000-49,000, 6% between 50,000-69,000, 2% between 70,000-89,000 and only 1% above 100,000. Small businesses are characterized by low capital investment, 55% of the respondents had invested less than 10m shillings, 18% invested 11-20m, 12% invested 21-30m, 8% invested 31-40m, 4% invested 41-50m and 3% invested above 50m. This implied that majority of small business comprised of limited capital. Furthermore, 144 (72%) of small business owners revealed that taxes are paid on an annual basis, 26% said monthly and 2% said quarterly basis. 196 (98%) of the respondents indicated that the tax system used is progressive in nature for example the higher the size and return, the higher the tax and vice versa. 1% said proportionate and 1% said regressive system is used. Moreover, 128 (64%) of the respondents accepted to have complaints as far as taxation of small business enterprise is concerned and 36% said that there are no complaints. 108 (54%) complained that there is high tax rates, 26% complained of forceful tax collection and 20% did not give any complaint. The findings showed 98% agreed that there is a relationship between taxation and the survival of business, 2% said there is no relationship between taxation and survival of enterprise. Accordingly the null hypothesis H2 is rejected.

Tax Obligations: The third objective was to find out if tax payers are aware of all their tax obligations and policies, the results are presented below. The findings revealed that, 194 (97%) of small business owners accepted that they fulfill their tax obligations and 3% said they do not fulfill

their tax obligations. In addition, the findings indicated 88% of the respondents strongly agree that government promotes a culture of tax compliance, 9% agreed, 1% neutral, 1% disagreed and 1% strongly disagreed. Therefore the government of Sri Lanka promotes tax compliance. 70% of the respondents strongly disagree that there is lack of information on how to register the business, 10% disagreed, 1% neutral, 3% agreed, 7% strongly agreed. This implied that government provided information on how to register the business. The findings showed that 55% of the respondents strongly agreed that URA expand its mandate to include education for small business owners and outreach tax payers on accounting skills, 10% agreed, 1% neutral, 22% disagreed and 12% strongly disagreed. This shows that more improvement is required. The findings revealed that 198 (99%) of the respondents do not keep tax records, 1% did have the tax records for their business. In regard to the tax authority giving assistance on tax awareness; 198 (98%) of the respondents accepted that the tax authority provides awareness, 2% disagreed while 80% of the respondents said that the tax authority (URA) was using manuals to spread tax awareness, 20% said that it was done through workshops. Accordingly the null hypothesis H3 is rejected.

Implication of Findings:

Taxation reduces the capital base of small business enterprises. In addition, taxes hinder the performance of small and entrepreneurial enterprises in Sri Lanka thus more tax relief measures are imperative. The tax policies and reforms that applied to small businesses need better implementation from government. URA should give more assistance to tax payers in regard to tax awareness.

Conclusion and Recommendation

According to views of different writers on tax, taxation and business performance, it should be noted that high taxes and poor taxation policies largely affect small business performance (Bruce & Mohsin, 2006). The URA system should ensure periodic reviews and revisions, strengthen measures to ensure proper keeping and maintenance of records and books of accounts, taxpayers education to focus on small businesses, regular investigative audits be carried out to ensure that non-compliant taxpayers are penalized and fined according to the tax laws, rules and regulations. It is necessary, if not imperative that government promotes tax compliance that contribute

positively and encourage productive among small businesses and entrepreneurial enterprises in Sri Lanka .

Recommendations

From the findings the following recommendations were made: The URA should educate the business community about different tax rates, mode of payment because some tax payers do not know those rates and the mode of assessment; URA should improve on the methods of collecting taxes by designing and updating simplified system, simplicity of the system; the government should harmonise the tax base by defining sanctions for taxpayers non-compliance.

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