

Fostering a Culture of Voluntary Tax Compliance among the Construction Contractors; Drivers and Barriers at Firm and Policy

Abstract

Effective tax money collection is crucial for any modern sphere of economic development. This research explores the unique challenges faced by construction contractors in meeting tax obligations and the factors that drive their compliance behavior. The study investigates the reasons behind noncompliance, including factors such as complex tax codes, financial constraints, inadequate knowledge and understanding of tax requirements, and perceived unfairness in the tax system. Additionally, the research explores factors that can encourage contractors to voluntarily comply with tax obligations, such as the benefits of maintaining a good reputation, avoiding penalties, and accessing government incentives. A literature survey was undertaken to identify drivers and barriers behind voluntary tax compliance. A questionnaire was piloted on five (5) senior construction practitioners those who have more than 25 years working experience to establish the appropriateness of the questions and alleviate the inconsistencies, if any. A structured questionnaire survey was subsequently carried out to test the reality on the ground. Based on the findings, the study suggests 13 key determinants inspiring voluntary tax compliance, 8 drivers that effectively encourage voluntary tax compliance and 19 reasons behind tax evasion in the construction industry. By addressing these drivers and barriers, this research aims to foster a tax system that enhances voluntary compliance at two tiers namely, firm and policy.

Keywords: *Voluntary tax compliance, Construction industry, Taxation, Noncompliance, Challenges, Attitude, Behavior*

Introduction

Taxation is a source of revenue intended for a shared benefit of the public (Preez, 2015). “Taxes are one of the government earning sources that plays a major role in the economy” (Fjeldstad et al, 2001). “Today the role of government is increasing, in which the more taxes are being imposed to finance their activities. Even so, governments are finding it difficult to collect the taxes owing to many reasons one of which is that the tax payers do not volunteer to pay tax obliged by law. Tax compliance is the extent to which taxpayers comply with their tax obligations as set out in tax law” (James and Alley, 2002), (Hamm, 1995). “Voluntary tax compliance is the correct, complete, and timely payment of taxes without the need for governmental intervention” (Kirchler et al, 2008). “For voluntarism to work effectively in this regard, taxpayers must first of all trust that taxes are levied relatively and that everyone pays their share and feel obligated to do so as community members” (Kirchler et al, 2008). Trust is an important factor in voluntary tax compliance which influentially stimulating tax compliance among citizens (Putong, IH 2016). “In Sri Lanka, tax violations have been frequent and tax frauds are becoming complicated. To overcome this problem, it is important that the government introduces measures to limit tax non-compliance and improve people’s understanding of tax laws and awareness of their rights and obligations. In order to ensure financial and budget resources to contribute to development goals and tasks for the year 2023 onwards, the Government of Sri Lanka has approved a financial strategy for 2030” (Report on Sustainable Sri Lanka 2030).

Accordingly, an electronic tax filing system will be introduced for non-corporate taxpayers, including employees to improve efficiency and increase compliance level. A tax audit and verification program is anticipated together with the steps to review and address deficiencies in the process of tax collection. Further, the IT based platforms will be available to ensure tax compliance across agencies. A mechanism will be developed to collect information from other relevant institutions and manage them in prudent manner. A tax Ombudsman will be appointed to address the concerns of taxpayers. A charter, covering rights and obligations of taxpayers, will be introduced.

“Notwithstanding, Sri Lanka’s tax system has regularly undergone a series of amendments mainly focused on law” (Waidyasekara and Sirimewan, 2021). Therefore, many taxpayers have not supported voluntary tax compliance, and they seem to be facing specific difficulties (for example, tax knowledge is limited, they have to update too many changes due to legal changes, and tax authorities still use administrative orders to impose unfair treatment on taxpayers, etc.). This can be considered as one of the challenges that the Sri Lanka government has not thoroughly resolved. **This has no exception among the construction contractors who can be regarded in no doubt a contributor of a larger supply chain.** Therefore, the question is **how to foster a culture of compliance with tax laws without using mandatory legal measures?** In the recent past, many studies have analyzed factors affecting taxpayers’ tax compliance behavior (Mokry, 2006), (Smith, 2017), (Preez, 2018), (Putong et al, 2017), (Odabaş and Erdem, 2022), (Dörrenberg and Peichl, 2021) and (Grudnoff et al, 2021). Some studies have considered non-economic factors such as psychological, ethical, and social factors affecting the tax compliance behavior. Even so, the results of these studies still have some disparities and are inconsistent. Furthermore, previous studies on voluntary tax compliance were mainly conducted in developed countries with synchronous infrastructure and a fairly complete tax law system. Research especially on voluntary tax compliance in countries with economies in long term recession such as Sri Lanka for example is quite limited. Therefore, this study examines non-economic factors affecting taxpayers’ voluntary tax compliance behavior in small and medium scale contractors. While offering a broader theoretical perspective on tax compliance, the objectives are to identify the reasons behind noncompliance of tax obligations and suggest the ways to effectively encourage voluntary tax compliance.

Practical Importance

According to the Reports of Department of Census and Statistics, the construction sector has been contributing 16% to the GDP in Sri Lanka and according to Inland Revenue Department (IRD) Reports (2020/2021), the tax rate for the Gains and Profits from providing Construction Services is 14%. In Sri Lanka, the country’s per capita GDP has been increasing over the years but tax revenue to GDP ratio has been decreasing continuously year by year. For example, tax revenue to GDP ratio in 1990 was 19.5% and it was dropped down to 12.5% by 2011. Tax revenue to GDP ratio in Sri Lanka has decreased further by 1.5% from 2011 to 2014 (Kehelwatenna and Soya, 2020) Central bank in 2019 reports that, construction had become the fourth highest sector after services, manufacturing and agriculture but, the GDP from construction in Sri Lanka decreased to 148,966 LKR million in the first quarter of 2020 from 173,245 LKR million in the fourth quarter of 2019 due the Easter bomb attack and the Covid 19 faced by the country. According to the reports of Department of census and statistics in 2022, Gross Domestic Product of Sri Lanka construction industry had been decreased to 241786 LKR

millions in the second quarter of 2022 and 303772 LKR million in the first quarter. (Bandara and Weerasooriya, 2019) contends that “income tax compliance in the year of assessment 2015/2016 was 30% on the due date and 46% within one month from the due date and further 48% within two months from the due date. For example, tax revenue to GDP ratio in 1990 was 19.5% and it was dropped down to 12.5% in 2011”.

The suboptimal tax compliance among the contractors in Sri Lanka presents a critical challenge and understanding the reasons behind the decline in tax revenue in Sri Lanka holds a significant practical importance. By gaining insights into the challenges faced by the construction industry, policymakers can implement targeted measures to stimulate growth of tax revenue. Moreover, the anticipated research outcomes can provide valuable information for industry stakeholders, such as construction contractors who can make informed decisions regarding their own business operations and long term investments. Indeed, a comprehensive analysis of the decline in tax revenue from the construction industry can contribute to a broader discussion and debate. It can provide researchers, economists, and analysts with a deeper understanding of the macroeconomic challenges faced by Sri Lanka. This knowledge can inform future studies, policy recommendations and academic discourse surrounding economic development, fiscal policies, and taxation itself.

Methodology

This research used a mixed approach which will significantly reduce the problems associated with mono methods, so that the validity and reliability of results are enhanced and the triangulation of the studied phenomenon is enriched (Lund, 2012; Neuman, 2011). As the first step of the process, a literature survey was undertaken to identify drivers and barriers behind voluntary tax compliance. A questionnaire was piloted on five (5) senior construction practitioners those who have more than 25 years working experience to establish the appropriateness of the questions and alleviate the inconsistencies, if any. Some of the questions were amended to reflect the views of the pre-test respondents. A structured questionnaire involving tail-end closed-ended queries was subsequently disseminated among 167 small and medium scale contractors in Sri Lanka using online Google forms. The respondents (registered at the CIDA according to the national grading system) were requested to rank the extent to which each driver and barrier, using a 5-point Likert scale.

Tax Profile in the Construction Industry

Tax systems have evolved over time, with the introduction of income tax in 1932 in Sri Lanka and subsequent amalgamation of other tax offices. Historically, Sri Lanka has focused more on indirect taxation, with the revision in 2002 introducing the Value Added Tax (VAT). Typically, as developing countries, the share of direct taxes in total tax revenue tends to increase. However, Sri Lanka has been criticized for its heavy reliance on indirect taxation (Amirthalingam and Liyanage, 2019). “Based on Law Number 7 of 1983 concerning Income Tax as last amended By Law Number 36 of 2008 (Income Tax Law), income tax is divided into two categories, namely income which is included as an object of income tax and income which is not included in the tax object income” (Hasan and Tjaraka, 2019). Inland Revenue Department Reports in 2021 stated that Income tax is charged on the basis of the provisions under the Inland Revenue Act, No. 24 of 2017 as amended by the Inland Revenue (Amendment) Act, No. 10 of 2021. The Inland Revenue Act provides the legal authority to charge, levy and collect income tax on the gains and profits of every person, which arose or is arising to such person for every year of assessment

commencing after 1st of April, 2018. The sources of income of the income taxes become employment income, business income, investment income and other income.

Vickneswaran in 2014 reported that “VAT is a tax on domestic consumption of goods and services. The goods imported into Sri Lanka and goods and services supplied within the territorial limits of Sri Lanka are the subject matter of this tax”. Alizadeh and Motallabi in 2016 denoted that the “VAT is a multistep tax obtained in various steps of importing, production and distribution based on some percent of added value of the sold goods or delivered services in each step. However, settlement in each step of import, production, and distribution chain transferred to the chain next step element so that finally paid by the final consumer”. According to the Abay in 2013, “VAT is primarily collected by business firms or individuals at all stages of production and distribution beginning with importers and producers of raw materials and ending with retailers. VAT is a multi-stage tax levied on the incremental value at every stage in the production and distribution chain of Goods and Services. The tax is borne by the final or the ultimate consumer of Goods or services. It is an indirect tax and the Government will receive at the end, through all the intermediary suppliers in the chain of production and distribution, an amount equal to the amount paid by the final consumer. The chargeability of the VAT will be for manufactures, importers, services providers, suppliers who supply goods under tender agreement and wholesale and retail trade. The current standard rate for VAT is 15 %”.

Construction is a taxable activity. According to the Inland Revenue Department Reports in 2015, Construction Industry Guarantee Fund Levy (CIGFL), is payable by any contractor on the value of any construction contract enforced in Sri Lanka (on or after January 1, 2005) at the specified appropriate rate. No CIGFL shall be charged on contracts to be entered into and enforced in Sri Lanka by any construction contractor, on their contract value in respect of contracts for the implementation of specified projects approved by the Minister of Finance, entered into from and after January 1, 2011. (PART IV of the Finance (Amendment) Act No 15 of 2011). “In terms of Section 114 of the Inland Revenue Act No. 10 of 2006 or Section in 83 of the Inland Revenue Act No.24 of 2017 (from 1st April, 2018), employers are required to deduct Income Tax on Employment Income of employees at the time of payment of remuneration. For this purpose the Commissioner General of Inland Revenue specifies Tax Tables which are to be used in making such tax deductions. Since the Tax is paid at the time of earning the remuneration, this is called Pay-As-You-Earn System (PAYE)”.(IRD Reports,2021).

National Building Tax was introduced by the Budget for 2017. Introduction of NBT on construction contracts has a cascading effect, due to the nature of construction projects, which have several layers of subcontractors and specialist contractors (e.g.: piling, air conditioning, electrical, lift installations, etc., which will be constituent components of a main contract). Also, with the present operation of NBT, there is a tax-on-tax situation, as VAT is charged on NBT as well. The Port and Airport Development Levy (PAL) introduced in 2009 has never been used for the development of Sri Lanka’s ports or airports as its name would have one believe. The PAL was introduced with effect from 1 January 2009 under Section 2 of the Finance Act No. 11 of 2002 and payable on all imported articles at the initial rate of 1% of CIF value with exemption for selected articles. According to Sri Lanka Customs reports 2022, PAL is calculated based on Cost, Insurance, and Freight (CIF) value of articles. The Finance Act No. 11 of 2002 says that raised funds are being transferred to the Consolidated Fund, making its utilization vague. The

Consolidated Fund is a fund which is not allocated by law to specific purposes. With effect from 1 January 2016, the rate of PAL increased from 5% to 7.5%. To encourage spending by tourists, the PAL rate reduced from 5% to 2.5% on certain electronic and electrical items. Under the Extraordinary Gazette Notification No. 2125/64 published by the Minister of Finance 2019, PAL has been reduced to 2.5% with effect from 1 June 2019. In the Budget reports 2019, PAL was said to be removed on the importation of a number of high-tech machinery and equipment items classified under HS Codes, was said to be reduced from 7.5% to 2.5%.

With the introduction of Withholding tax (WHT) on construction sector services with effect from 1 April 2018, 5% WHT is to be deducted from work subcontractors and other small service providers, if monthly payments exceed Rs. 50,000. But for employed persons, PAYE tax is applicable only when the monthly gross salary exceeds Rs. 100,000. As these small scale subcontractors are not registered with the Inland Revenue Department, this WHT cannot be recovered by them, and as such becomes an additional cost on the main contractors in the end.

Tax compliance

“Tax compliance can be understood as the accurate declaration of income and expenses by tax law provisions ensuring on time without the authorities’ tax managers” (Alm et al. 1996, Jackson and Milliron, 1986). “Tax compliance reflects a taxpayer’s willingness to pay taxes (Kirchler 2007) under tax law to achieve a country’s economic equilibrium” (Andreoni et al. 1998). (Jayawardane , 2016) denoted that “the tax compliance is the willingness to obey tax laws in order to obtain the economic equilibrium of a country”. “The conventional deterrent model emphasizes sanctions as a critical determinant in combating tax non-compliance issues. However, introducing stringent punishment will not be practical or effective as a deterrent if the violator knows that the possibility of detection is very high. Deterrence is approached in punitive and persuasive ways” (Fischer et al. 1992). However, there are mechanisms and policies to encourage, support, and create favorable conditions for taxpayers to comply voluntarily without having to be deterred.

“Voluntary compliance can be defined as the each taxpayer’s expectation to prepare and file returns; pay liable tax on due dates without any involvement from the tax authority or government” (Dissanayake and Premaratna, 2020). Manhire, (2015) denoted that, voluntary tax compliance refers to the dependence on taxpayers to accurately determine the appropriate amount of tax on their tax returns, file those returns correctly, and promptly pay the amount of tax owed. Palil and Mustapha (2011) defined voluntary tax compliance behavior "a combination of the readiness of taxpayers to comply with the tax laws, declare the correct income, claim the correct deductions, relief and rebates and pay all taxes on time". “Psychological Theory of Attribution connotes that the behavior is caused by both internal and external factors. Internally influenced behavior is believed to be under the personal control of the individual, while the externally influenced behavior implies that individuals will have to behave because of the demands of the situation or the environment. The readiness of the taxpayer to abide by directives and regulations of the tax authority makes voluntary compliance possible” (Kirchler 2007). (Kirchler et al, 2006). “Voluntary compliance is the readiness to report tax obligations by a taxpayer without deceiving” (McBarnet, 2001). Voluntary compliance with taxes has a more significant influence on overall tax compliance compared to enforced compliance. Voluntary intention to comply is described as an interaction between a taxpayer’s trust in the government and the authority’s right to monitor taxpayers. When trust in the authorities is high, taxpayers

will have a voluntary intention to pay taxes. Table 1 offers key determinants of taxation gleaned from the literature survey.

Table 1; Factors inspiring voluntary tax compliance

Determinant	Description on willingness to comply with tax laws	Author
Ethical concerns	Fear of ethical breach arising out of a particular time and place or a sense of moral obligation	Song and Yarbrough, 1978
Risk of unreported income	high risks encountered with the expectation of benefits from unreported income (Allingham and Sandmo, 1972
Monetary reward	the monetary benefits received in return of honoring tax obligations	Becker, 1968
Trust	taxpayer's trust in the tax authorities	Putong, et al, 2017, Odabaş and Erdem, 2022, Kirchler et al. 2008
Intrinsic motivation	Enthusiasm stemming from the perception that paying taxes is an obligation (Cummings et al. 2009
Tax morale	positive influence on tax compliance behavior reciprocity increasing tax morale more than standard social treatment	Doerrenberg and Peichl, 2018 Halla 2012; Molero and Pujol 2012). Alm and Torgler, 2011 Mukhlis et al. (2014 Palil and Mustapha, 2011 Chau and Leung 2009. Gilligan and Richardson 2005. Gilligan and Richardson 2005; Natrah 2012. Alabede et al. 2011; Richardson 2006
Altruism	intrinsic motivation are feelings of pride and a positive self-image often associated with honesty, civic duty, toward others. Individuals may feel guilt or shame for not complying	Luttmer and Singhal (2014)
Personal and material well-being	Taxpayers can bear the costs of quantifying and paying taxes without significant negative impact on their personal and material well-being.	Mokry, 2006, Smith in 2017
Privacy	Taxpayer privacy should be respected, minimizing intrusive inquiries.	Mokry, 2006, Smith in 2017 Preez in 2018
Relief	the tax burden should not impede economic activity but rather provide relief to taxpayers	Mokry, 2006, Smith in 2017
Trade off / Break even	government's duty to strike a balance between taking too little and taking too much, Bearable tax rates.	Preez and Stiglingth in 2018, Chau and Leung 2009
Behavioral change	tax should minimize the change in behavior and change unwanted social behavior	Grudnoff et al, 2021, (Matarirano et al., 2018). du Preez, H. 2018
Solidarity and Equality	the tax should reduce inequality, in line with principle of solidarity and equality of citizens before the law.	Grudnoff et al, 2021, Matarirano et al., 2018
Ability to pay	the tax should be leveled on those who are best able to pay and	Grudnoff et al, 2021, Matarirano et al., 2018
Simplicity	the tax should be simple to comply with and the tax should be difficult to avoid. simplified administrative procedures simplify the tax collection system stated that simplicity in tax law	Grudnoff et al, 2021, Matarirano et al., 2018 Loo, 2006 Baer and Silvani 1997 Chau and

		Leung, 2009 Richardson, 2006 and Palil and1 Mustapha, 2011
Fear of penalty	perceived high costs of non-compliance	Kirchler, et al, 2008
Mindset	, psychological factors, including taxpayers' understanding of tax regulations, their opinions about the government and taxes, personal beliefs and values, perceived societal expectations and fairness, and their motivation to comply	Kirchler et al; 2012, Palil, Malek and Jaguli, 2016
Compliance cost	Reduced transaction costs in administering tax files etc	Sandford, 1989 Osebe, 2013 Mwangi, 2013, Salvador Barrios et al, 2020
Tax money works	perceptions of government spending	Hassan, Naeem and Gulzar, 2021.
Knowledge	training, and dissemination of tax policies	Chattopadhyay and Das Gupta's 2002 Hassan, et al, 2021.
Self-assessment	stated that the self-assessment system	Loo, 2006
Consistency	Having tax laws that are consistent and stable in enactment and performance will make the tax system less complex and can encourage tax compliance (Ahangar et al., 2011
procedural fairness	perception whether fair procedures and services are executed by the authority;	Kirchler et al. 2008 Niesiołędzka, M., Kołodziej, S. 2020
Tax payer assistance	increase and improve the services offered to those who are willing to meet their tax obligations	Kirchler et al. 2008
System fairness	Society's perception of whether a tax system is fair and just is very important. If such a perception exists, voluntary compliance also increases (Some researchers verified that fairness has a significant correlation with tax compliance)	Chau and Leung 2009 Gilligan and Richardson 2005, Gilligan and Richardson 2005; Natrah 2012
Fine and audit	probability of audits and severity of fines	Kirchler et al, 2006
Respect	treated with respect and provided support.	Muehlbacher et al, 2011
Tax jargon	Tax laws written in complex and difficult language can significantly impact taxpayers' understanding of the laws,	Razak, 2013 Ranasinghes and Kulathunga, 2016 (Saad, 2012
Publicity	Making the list of companies with high tax risks and debts public through the media can further incentivize other companies to actively engage in voluntary tax compliance	Nguyen <i>et al.</i> , 2020
Certainty	lack of certainty regarding future policy changes	Tee, Boadi and Opoku, 2016

In a nutshell, voluntary tax compliance is influenced by a range **number** of factors including economic aspects like tax rates and perceptions of government spending, social factors such as fairness perceptions, institutional factors like the simplicity of tax compliance, and behavioral factors like tax morale. Furthermore, enhancing voluntary compliance; tax authorities should increase the quantity and quality of tax inspections, impose stricter penalties for violations, and improve taxpayers; understanding of tax regulations through simplified administrative procedures, training, and dissemination of tax policies. Social norms that support tax avoidance

need to be changed, and tax culture should be promoted to establish tax compliance as a societal standard.

Result and Discussion

Piloting for interview is an integral part of qualitative research as it highlights the improvisation to the major study (Majid *et al.*, 2017). Hence, a pilot interview was conducted with five senior contracting personnel who have been holding the position of Managing Director for their own company registered as private limited liability business entities under the Sri Lankan laws. They all have over 25 years' experience in running the business of construction contracting and the purpose of this interview was to gauge their working experience in terms of the drivers and barriers in tax compliance. A questionnaire survey was subsequently administered among 167 firms of medium scale (CIDA grade M4 to M7) construction contracting using Google forms. As observed from Table 2, the professionals (64%) representing the contracting firms are holding the designation of Construction Manager, Site Manager, Project Manager, Accountant and Quantity surveyor. Table 2 indicates the interviewee profile.

Designation of the respondents	Years of Experience							
	10 to 15		15 to 20		20 to 25		more than 25	
	Distributed	Received	Distributed	Received	Distributed	Received	Distributed	Received
Construction Manager	5	4	5	3	5	4	5	3
Site Manager	5	3	5	2	5	2	5	2
Project Manger	5	4	5	4	5	4	5	3
Accountant	5	2	5	2	5	3	5	3
Quantity surveyor	5	3	5	4	5	5	5	4
<i>Total Responses</i>	25	16	25	15	25	18	25	15
<i>Rate of Response</i>	64%							

Table 2- Respondents for the questionnaire survey

Drivers and Barriers of Voluntary Tax Compliance

The degree of perception was taken on the Likert scale of 5 = strongly agree, 4 = agree, 3 = fairly agree (average), 2 = disagree, 1 = strongly disagree. RII was used for the analysis because according to Johnson and LeBreton (2004), RII aids in finding the contribution a particular variable makes to the prediction of a criterion variable both by itself and in combination with other predictor variables.

$$RII = \frac{\sum w}{A * N}$$

Where: RII= Relative Importance Index; w= Weighting given to each factor by the respondents, A= Highest weight and N= Total number of respondents. Table 3 gives the ranking of drivers and barriers.

Table 3: Ranking of Drivers and Barriers

Perceived Motivators (Drivers)	RII	Rank	Perceived De-motivators (Barriers)	RII	Rank
Concessions on loan interests	0.79	1 st	No confidence over tax money works	0.76	1 st
government's prudent expenditure on social wellbeing	0.71	2 nd	High tax rate	0.72	2 nd
access to borrowing facilities	0.69	3 rd	Tax on tax	0.69	3 rd
Procedural fairness	0.68	4 th	Highly technical tax jargon	0.68	4 th
Least transaction cost	0.67	5 th	Slim profit margin	0.67	5 th
Pride and self-image	0.67	5 th	Ever changing tax laws	0.66	6 th
Tax concessions Exempt projects	0.65	7 th	High fee of tax consultants	0.66	6 th
	0.64	8 th	Lack of tax rebate	0.66	6 th
	0.64	8 th	No apparent benefit	0.64	9 th
	0.60	9 th	Market is sluggish and volatile where income is uncertain	0.64	9 th
	0.59	10 th	Paying both direct and indirect tax	0.62	11 th
			Delay in payments with no interests	0.62	11 th
			Irregularities in processing tax by the authorities	0.60	13 th
			Pay when paid provisions	0.58	14 th
			No damages for delay clauses	0.55	15 th
			Delay in converting working capital into ready cash	0.54	16 th
			Heavy dependence on borrowed capital	0.53	17 th
			High premium on insurance	0.52	18 th
			Difficulty to prove losses from trade/business due to short stay with each employer	0.50	19 th

It was revealed that concessions on loan interests, government's prudent expenditure on social wellbeing and access to borrowing facilities are in the order of fostering voluntary tax compliance. Lack of confidence over tax money works, tax jargon that is not understandable and high tax rates are demotivating the tax compliance. These findings are almost compatible with the secondary data. As Becker (1968) mentioned, the monetary benefits received in return of honoring tax obligations are the key in voluntary compliance. Hassan et al (2021) reiterated the fact that any prudent tax payer expects the government to spend tax money on social welfare. Taxpayers perceive the tax system as unfair if they believe that they are paying more than they receive from the government or in relation to what other taxpayers are paying. Many researchers have recommended that the tax policies, laws, and processes must be simple and consistent (Matarirano *et al.*, 2018).

Construction firms tend to base their noncompliance on different reasons, but under a common note, the policies, laws and process have been frequently changed. This has been a proven fact in the Sri Lankan's tax system which has undergone a series of policy changes and legal amendments (more than 40 times since 1941 as per the Inland Revenue website, 2023). Waidyasekara and Sirimewan (2021) pointed out this phenomenon as a source of major concern that discourages tax compliance. While taxpayers find specific difficulties owing to limited knowledge on new tax types, tax authorities continue to impose new regulations. Respondents confirm that there is complexity of the tax norm, tend to ignore the obligation to file a tax statement, find difficulties in completing such statements and difficulties to access the tax offices. As it may be inferred, this group of taxpayers is the target of most of the strategies or measures to facilitate and foster voluntary compliance. Meanwhile it should not be forgotten that the majority of taxpayers in the construction industry meet their tax obligations, by which these measures for voluntary compliance shall be equally aimed at compliant taxpayers overall. Ultimately, the strategies geared at facilitating and fostering voluntary compliance shall be aimed at achieving taxpayers' change of behavior to become part of this group, the compliant taxpayers. The research concludes (in response to a closed question) with a series of recommendations following the Drivers and Barriers cited in Table 4.

Table 4: Strategies to enhance drivers and overcome barriers

Perceived Motivators (Drivers)	Recommendation	Perceived De-motivators (Barriers)	Recommendation
Concessions on loan interests	concessionary debt moratoriums, loan restructuring/rescheduling, suspension of recovery actions, low-cost working capital loans and waivers of fees and charges for certain banking transactions, grace periods for capital or interest, revisiting non-performing credit facilities, Opportunity to settle the loans early without any additional cost:	Lack of confidence over tax money works	Act with fairness and integrity Pursue a flexible, customized approach Make taxpayers' obligations clear Make it easy to comply Exercise sanctions when appropriate Provide incentives Education and training
Government's prudent expenditure on social wellbeing	rationalize project selection Reliable forecasts Transparent procurement process Expenditure control Tax equity and Incidence	High tax rate	Rationalize the tax structure, withdraw PAL and NBT completely on all imported construction materials, •Limit Cess Levy to 15% on all imported construction materials and charge only on CIF value, equal playing field for local construction contractors
access to borrowing	facilities for making deposits and payments as well as	Tax on tax	Compute VAT wherever applicable only on the CIF

Perceived Motivators (Drivers)	Recommendation	Perceived De-motivators (Barriers)	Recommendation
facilities	accessing credit, equity and guarantees Gold and silver card facility		Value to avoid tax-on-tax
Procedural fairness	enhance tax payment assistance distribution of tax burdens across citizens introduce multiple revenue brackets enhance government services received by a taxpayer the degree of taxpayer participation quality of information provided by legislators and tax authorities Ability to offset refunds via various means	Highly technical tax jargon Slim profit margin Ever changing tax policies, laws and regulations	Simplify the tax jargon Issue operational definitions Reduce tax rate Search for new tax bases a robust system or framework that leverages technology so that they can keep up with regulatory developments in a timely manner. Self-reliance via education and training Offer concessions Revisit pros and cons
Least transaction cost	enhance tax literacy harmonize tax bases training use of digital platforms	High fee of tax consultants Market is sluggish and volatile where the income is uncertain	Adopt commercial strategies for long term sustenance in the building industry Rationalize the tax structure Lodge claims for recovery of consequential losses
Pride and self-image	pay their correct share of taxes on time participate more actively in local debates about taxation. become an agent for the dissemination of tax knowledge national reward and appreciation schemes	Delay in payments with no interests	Creating a tax system that is rational, equitable, and simple, Reducing the monopoly and discretionary power of tax officials, competition among officers will drive the level of bribes to zero. Monitoring and auditing, intensive and repetitive training for promoting a code of conduct, with emphasis on ethical values, such as integrity, honesty, public service, justice, transparency, accountability, and rule of law. Salaries should be high enough that officials are able to support themselves
Tax concessions	offer tax incentives for strategic development projects declare tax holidays for nationally important projects exempt dividends received by shareholders needing more presence in projects		

Perceived Motivators (Drivers)	Recommendation	Perceived De-motivators (Barriers)	Recommendation
Exempt projects	Exclude VAT for importation of project related goods		and their dependents without accepting bribes, Decentralization
	Exclude tax for purchase of local materials		
	Offer tax rebates for cases of high compliance	Irregularities in processing tax by the authorities	Negotiate for equitable contracts, Bring laws on payment guarantees
	Reduce tax rate where possible with a technical rationality	Pay when paid provisions	Negotiate for equitable contracts, illegalize unfair terms
	Introducing multiple thresholds		
	Declare qualified exempt projects and allow contractors to purchase building materials for use in construction contracts with state agencies and other exempt entities (e.g., municipalities and nonprofit organizations) without paying sales and use tax on them.	No damages for delay clauses	Define mode of payment and enhance liquidity
		Delay in converting working capital into ready cash	Resort to borrowed capital only when needed. Negotiate for fair terms
		Heavy dependence on borrowed capital for which premium is high	Negotiate reasonable premium. Seek Construction Guarantee Bonds for government projects
			Adopt commercial strategies for long term sustenance
		High premium payable on insurance and bonds that curtails profit margin	Adopt commercial strategies for long term sustenance
	Difficulty to prove losses from trade/business due to short stay with each employer	Adopt commercial strategies for long term sustenance	

Conclusion

Various reasons for the hesitancy towards tax compliance have been identified, such as Lack of confidence over tax money works, high tax rate, tax on tax and highly technical tax jargon,

utilizing tax shelters, increasing net operating losses, and engaging in complex financial arrangements. Several challenges have also been recognized in the process of tax payment, including lack of confidence in the tax system, issues related to tax awareness, lack of fairness, ineffective taxation campaigns, which contribute to increased tax evasion and avoidance, and negatively impact the distribution of individual income. It is necessary to refer to a series of principles that shall be considered in any effort aimed at fostering voluntary compliance: These include the full respect of the rights and guarantees of citizens as set forth by law, the commitment towards citizen assistance for the compliance with tax obligations, offering convenient, expeditious and simple procedures regarding tax obligations, avoiding unnecessary proceedings and facilitating the payment of tax debts. It has also been suggested to promote expeditious and harmonious communication with citizens based on the modern technologies. Fairness and transparency in the acts of the tax administration, is a key to generate trust among the contractors. Based on the respondents' level of understanding and experience, the most highly anticipated benefit derived from tax payment is the potential for receiving concessions on loan interests, particularly from foreign lenders. Notably, the overall well-being of the construction industry resulting from the government's prudent expenditure on construction projects, as well as access to borrowing facilities under more favorable terms, were considered influential benefits. Conversely, the benefit of reduced pressure on the government to rely on borrowings for public welfare and development was deemed to have the least impact among the identified benefits. Increasing and improving the facilities and assistance offered to those who wish to meet their tax obligations is in essence fundamental to voluntary compliance. Tax information and assistance constitutes, in consequence, the right of taxpayers to enable compliance with their obligations, considering the complexity entailed by the tax system.

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