







# “Residential income tax compliance in Nepal: An empirical analysis”

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# RESIDENTIAL INCOME TAX COMPLIANCE IN NEPAL: AN EMPIRICAL ANALYSIS

## Abstract

Tax compliance is the determining factor in tax report submission, enhancing tax awareness. A low level of tax compliance (TC) directly affects the government revenue and low inflow of information regarding taxpayers. This study uses descriptive and explanatory research approaches to identify determinants of residential rental income tax compliances (TC) among property owners in Kathmandu Metropolitan City, Nepal. A total of 1,129 structured questionnaires were distributed among the households of Kathmandu Valley for the cross-sectional and primary data, and only 500 (44.29 percent) useful responses were received from the respondents as the population was unknown. The response rate exceeds the estimated sample size of 384. The findings revealed a significant positive impact of tax rate on tax compliances ( $r = 0.329^{**}$ ,  $P < 0.05$ ). Fines and penalty (FP) and tax compliance (TC) found a positive and significant association depicting ( $r = .398^{**}$ ,  $P < 0.05$ ). Similarly, there was a positive and significant relationship ( $r = .612^{**}$ ,  $P < 0.05$ ) between attitudes and perception (AP) and tax compliance (TC). Moreover, a positive and significant association was found ( $r = .410^{**}$ ,  $P < 0.05$ ) between tax knowledge (TK) and tax compliance (TC). Furthermore, tax policy (TP) was positively and significantly associated ( $r = .440^{**}$ ,  $P < 0.05$ ) with tax compliance (TC). This study enhances taxpayers' knowledge and helps to execute the policies to increase the efficiency and transparency of the tax system in Nepal.

## Keywords

attitude, rental income tax, tax awareness, tax compliance, tax knowledge, tax policy, tax rate

## JEL Classification

H20, H21, H22, H26

## INTRODUCTION

Residential properties include single-family homes, multi-family buildings, apartments, and flats that are predominantly utilized for residential rather than commercial use. Tenants' capacity and willingness to pay determine demand. Rental income taxation affects investments in the rental housing industry by influencing the relationship between property owners and tenants (Sani & Gbadegesin, 2015; Berhane & Yesuf, 2013). Empirical evidence within the tax compliances shows the significant influences of economic, social, and psychological factors and knowledge of tax rate, income, fine and penalty, attitude, tax policy, and tax knowledge (Geremew, 2017; Ali et al., 2018). Similarly, financial limitations, societal pressures, tax rates, and system complexity all affect residential tax compliance; the best way to increase compliance is through education, just rules, incentives, and appropriate punishments (Torgler, 2003; Erani & Meiliana, 2016; Tiwari, 2021; Chindengwike & Kira, 2022).

In Nepal, tax non-compliance impedes economic growth by creating serious obstacles to the enforcement of income tax rules and the achievement of sustained revenue collection. Stability depends on the creation of jobs, industrial growth, and fair sectoral contributions, all of which call for foreign investment that is encouraged by better in-

frastructure and policies. Effective tax compliance, which separates mandatory tax income from conditional non-tax earnings, is crucial for dependable government funding and a successful tax system (Sharma, 2013). Thus, tax compliance enhances government revenue generation by applying effective tax policy.

Tax rates have an impact on taxpayer compliance, and fair and transparent policies encourage good behavior. While taxpayers' opinions of effectiveness and fairness can influence compliance levels, excessive fines may discourage compliance. Despite possible rate or penalty increases, compliance is maintained through open communication and thoughtfully crafted tax legislation (Abdu & Adem, 2023).

Socioeconomic factors such as literacy rates, public trust in the government, and the informal economy all have an impact on tax compliance in Nepal. Non-compliance is exacerbated by a lack of knowledge about tax requirements, especially with relation to rental revenue. Further discouraging rental tax compliance in Nepal include high fines, a lack of public awareness, inadequate tax education, and policies that are seen as harsh (Tiwari, 2021). This evidence emphasizes the relevance of understanding behavioral factors in driving tax compliance dynamics in developing economies.

Weak execution of domestic investment and rental income laws is the main cause of Nepal's poor tax revenue. Enhancing compliance, particularly among landlords, is essential for urban economic growth and requires more government investment in tax administration. This study aims to examine how taxpayer attitudes, policy, knowledge, fines, income, tax rate, and other factors relate to compliance.

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## 1. LITERATURE REVIEW

### 1.1. Fiscal Exchange Theory (FET)

Charles Tilly, an American political scientist and sociologist, created the fiscal exchange theory. According to the notion, when taxpayers believe they are getting a fair trade-off between their taxes and the public services they receive, they will comply with tax rules. It is generally accepted that this specific concept originated from the social psychology and economic deterrence models. It is based on the idea that the people who pay taxes and the government have some sort of social, relational, or psychological agreement (McKerchar & Evans, 2009). According to this idea, government spending is the main incentive for tax compliance. The theory proposes that government spending on public goods and services is the primary incentive for tax compliance, highlighting the importance of tax negotiations in developing a duty-based relationship between the government and citizens.

Furthermore, it asserts that in most cases where taxpayers are highly inclined to have an opinion on the value of products and services, taxpayer compliance is heavily influenced by government

spending. This is because government spending often raises the cost of goods and services (Bello & Danjuma, 2014). Due to this factor, even without detection and punishment, taxpayers are more willing to comply with tax rules when they receive outstanding services from the government and are satisfied. This is because happy taxpayers are more inclined to pay their taxes. Furthermore, when taxpayers are not happy with the services they receive from the government or don't like how their taxes are being used, they typically modify their terms of trade by not complying with tax regulations. This is because when taxpayers are unhappy with how their taxes are being used, they modify their terms of trade (Torgler, 2003). This theory directly applies in this research for residential tax compliance if taxpayers are psychologically ready by having tax knowledge and tax related incentives rather than punishment and penalty.

### 1.2. Social Influences Theory (SIT)

The Social Influences Theory has no founder as it has evolved from various social psychology and behavioral economics theories. However, scholars such as Lewin (1947), Asch (1955), and Cialdini (1984) have contributed to its development.

Tax compliance is largely influenced by both individual behaviors and societal norms Ali et al. (2013). According to the theory, people comply with the rules of their social groupings because of their relationships with others, which impacts tax compliance. Perceptions that one's reference group adheres to tax laws increase the likelihood of compliance. Those who believe their group does not conform, on the other hand, are less likely to follow suit. This demonstrates how social networks have a big influence on how people pay taxes (Bello & Danjuma, 2014). Moreover, the fear of being socially stigmatized also plays a crucial role in taxpayer compliance with the tax system. Various social standards in the community greatly affect conformity behaviors (Kirchler et al., 2008). This idea argues that social norms and relationships with social groups and families heavily impact property owners' tax compliance. This theory directly applies in this study to enhance taxpayers' awareness about tax compliance's positive impact on taxpayers.

### 1.3. Review of the empirical literature

Taxpayers' compliance is crucial for accumulating residential taxes, which enhances tax knowledge and tax-paying behavior. Economic, social, and psychological aspects all impact tax compliance; thus, understanding these elements is crucial while dealing with noncompliance issues. Next, financial constraints, social influences, awareness, fairness perception, and a lack of incentives all significantly impact tax compliance, and tax compliance is directly influenced by improved taxpayers' education, fairness, and monitoring. (Brook, 2001; Geremew, 2017). Additionally, tax rates and compliance demonstrate that lower rates discourage tax compliance while higher rates promote tax compliance. Moreover, fair tax rules consider other elements, including the economy and taxpayer education (Chindengwike & Kira, 2022). The empirical previous findings reflect that tax compliance links to the mechanism of tax rules, education for tax, campaign, and tax rate implemented through social counseling.

The financial limitations, political instability, and opinions of tax regulators are responsible for tax non-compliance. Further, the tax compliance behavior of taxpayers heavily depends on the tax system and, with its complexity, inadequate implementation of the tax authority, transparency,

and poor awareness of taxpayers about tax compliance (Abdu & Adem, 2023; Eerola et al., 2019). Thus, the study's findings highlight the difficulties caused by non-compliance and the significance of taxes for government revenue. It suggests enhancing efficiency, transparency, and tax compliance education to increase compliance and tax collection.

The evidence showed that the low compliance with residential rental income tax was caused by several issues, including taxpayer illiteracy, high tax rates, dishonest officials, and challenges associated with the tax system. Moreover, the detection messages enhanced compliance in the short term and found a detrimental impact on capital gains and self-employment taxes, and it is also critical to file taxes on time for residential tax compliance (Mushinge et al., 2021; Castro et al., 2020; Tiwari, 2021). The study's findings reveal that consideration of factors influencing tax compliance is essential for tax payment.

Tax compliance is associated with government incentives, tax awareness, tax attitudes, peer influence, and tax compliance, and reduced adherence to tax regulations was associated with a lower cost of non-compliance (Tiwari, 2021). Thus, more emphasis is required to concentrate on government incentives and education rather than on fines. Further, it is essential to improve the organizational structure and implement tax laws more robustly while highlighting the significance of taxpayer attitudes and awareness. Therefore, the findings of the evidence revealed that the scope and objective of the study were inclined toward tax awareness, tax attitude, peer influences, and tax laws.

Capital gains, self-employment, and rental income taxes are equally important for government revenue. For generating revenue, rental income tax and self-employment tax play vital and crucial roles, which need to be regulated properly. Improper communications negatively affected taxpayers' behavior and knowledge and intent to promote rental income tax compliances through tax knowledge, but capital gain found no direct effects (Castro et al., 2022). The study revealed that to improve rental income tax compliance, regulatory authorities should focus on several factors, including capital gain and self-employment taxes, to enhance government revenue through a tax compliance strategy.

Tax penalties are important for enforcing laws, but fines that are too high can impede business formalization and compliance. It advocates utilizing penalties to deter and motivate rather than suppress, arguing for a balanced approach to tax compliance that includes reasonable fines, positive incentives, and open communication (Erani & Meiliana, 2016; Siamena, Sabijono, & Warongan, 2017; Siregar, 2017; Swistak, 2016). The focus on detection communication increases compliance with rental income taxes but has a detrimental effect on other taxes. The findings showed that tax incentives, two-way communication with taxpayers, and reasonable fines and penalties enhance tax compliance in the context of Nepal.

Tax compliance and taxpayers' accountability have a sound relationship with tax awareness. The responsibility and definite consequences improve compliance, but it does not contrast these actions with alternative enforcement tactics. Providing useful compliance tools customized with easily accessible penalty information will increase tax adherence. The improvement in tax compliance can be accomplished by focusing on taxpayers' accountability, transparent penalties, and easily accessible information, especially through low-cost verification and focused instruction. Adherence is further enhanced by accountability and customized compliance tools (Sanders et al., 2008). The conclusion of the study reflected that taxpayers' accountability, transparency, fair fines and penalties, and low-cost taxpayers' verification systems improve tax compliance.

Proper governance mechanisms, tax systems, audits, and taxpayer awareness directly affect company compliance and ensure favorable internal governance. Tax administration and the regulator of tax-related institutions should focus on customized training and seminars to improve tax compliance. Tax awareness and taxpayer attitude have the greatest impact on tax compliance (Rahmayanti et al., 2020; Wicaksono, 2017). The study's findings show the feasible application of Nepalese taxpayers' regulator to enhance rental income taxes.

Transparency in the tax management system and government accountability for tax compliance are equally significant. Government accountability and transparency have little bearing on compliance decisions, worries about tax payments and tax literacy

have a substantial impact, and they play a crucial role in tax compliance through tax education. Taxpayer knowledge influences tax compliance, and proper execution of tax regulation links with the awareness of taxpayers (Abdul, 2013; Adhiambo & Theuri, 2019; Bernard et al., 2018; Savitri & Musfaldy, 2016; Kamil, 2015). The study's findings reveal that taxpayers should understand the importance of taxes and the methods for implementing taxation, as well as government accountability and transparency to enhance tax regulations and compliances.

Tax compliances influence various factors, including taxpayers' attitudes and tax justice. In addition, tax awareness, penalties, tax audits, and tax rates also affect tax compliance. Tax compliance was found to be affected by a number of demographic dimensions, including age, gender, tax ignorance, system ease, views of justice, awareness of penalties, the possibility of an audit, and tax rates (Deyganto, 2018). The results of the study depict that education and the professionalism of the tax authority had a low bearing on tax compliance attitudes, and important characteristics for compliance comprise age, gender, tax expertise, and proper audit. The study helps in understanding to enhance adherence and advocate for additional learning on the functions of authority efficacy and education.

The unwillingness of property owners to pay taxes demonstrates obstacles to an efficient taxation system. Rental property taxes are important for government revenue generation, but their volume can be nominal (Ali et al., 2018). The study shows that improving policy is vital to comprehending their viewpoints, which address low revenue from property taxes and increase compliance with better analysis and policy formulation requirements. Additionally, resolving the issues raised by property owners can improve the efficiency of tax legislation.

Tax knowledge and tax compliance are significantly associated, raising taxpayers' awareness of promoting government revenue. Tax education improves compliance; the least preference is given to the behavioral economic aspect that suggests more understanding among the taxpayers, reflecting lower complexity and anxiety, improving compliance (Fauziati et al., 2020). The empirical findings show that tax education improves tax compliance, eliminating complexity and anxiety.

Taxpayers' morale, reputation, and fairness of tax policy enhance tax compliance and require less regulatory enforcement. Perceptions of fairness, economic conditions, and enforcement all impact compliance. Tax officials should mix enforcement, education, incentives, and transparency to boost tax morale and voluntary compliance. Insufficient tax regulations foster low tax compliance, demanding appropriate penalties that could improve tax compliance (Lisi, 2015; Fauziati et al., 2020). The study shows that morality, reputation, and tax process comprehension impact compliance. In addition to proper penalties and updated rules with a mix of enforcement, education, incentives, and transparency, it is advised to increase tax morale and voluntary compliance.

Tax regulations derived from several countries denoted tax regulations system which fosters tax compliance lowering complexity, anxiety, compliance cost, and regulatory cost for facilitating tax compliances and timely tax submission, reporting, payment, and tax clearances (Heyndels & Smolders, 1995; Cuccia & Carnes, 2001; Forest & Sheffrin, 2002; Brown & Maur, 2003; Junpath et al., 2016). Thus, extensive research emphasizes the importance of tax law simplification eliminating oversimplifying complexity.

The summary of empirical and theoretical findings shows the gap in literature depicting inconsistency in previous findings and could not cover the study in a multi-country context, which leads to diversifying consequences of compliance practices. The findings of previous research show that the key aspects of a rental property owner for adopting tax compliance are as follows: taxpayer awareness, perceived justice, budgetary restrictions, and tax audits; tax education for tax awareness plays a crucial role in tax compliance. To increase compliance, the focus is on education and incentives rather than fines. However, pre-

vious studies did not include tax rates for tax compliance, taxpayer income, attitude and perception of taxpayers, tax knowledge, and tax policy for enhancing tax compliance, which is especially absent in the context of Nepal. Thus, based on the literature survey, tax compliance is found to be a crucial factor, and its comprehensive study has not been conducted in the case of Kathmandu Valley residential property yet.

## 2. HYPOTHESES

The study has developed the following hypotheses for testing the association and effect of predictors on response variables.

- H1: *There is a significant relationship between tax rate and tax compliance.*
- H2: *There is a significant relationship between the income of taxpayers and tax compliance.*
- H3: *There is a significant relationship between fines and penalties and tax compliance.*
- H4: *There is a significant relationship between the attitude and perception of taxpayers and tax compliance.*
- H5: *There is a significant relationship between tax knowledge and tax compliance.*
- H6: *There is a significant relationship between tax policy and tax compliance.*

### 2.1. Conceptual framework

Figure 1 illustrates the relationship between tax compliance (TC), the dependent variable, and six key independent variables: tax rate (TR), taxpayer

Sources: Geremew (2017), Ali et al. (2018).

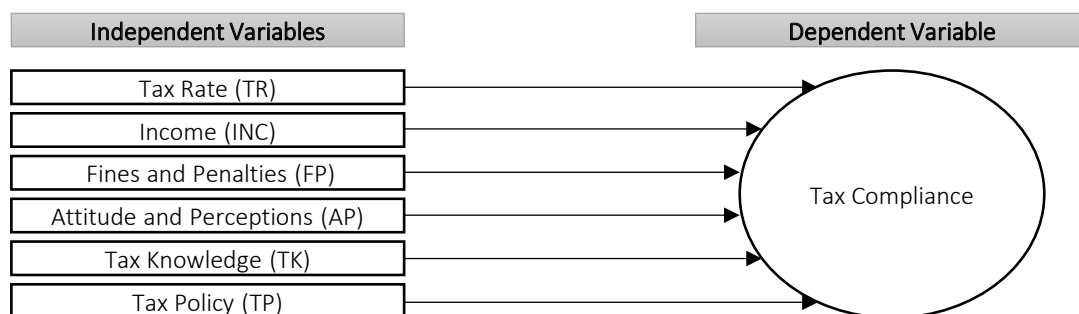


Figure 1. Conceptual framework

income (INC), fine and penalties (FP), taxpayer attitude and perception (AP), tax knowledge (TK), and tax policy (TP)

### 3. METHODS

This study employed both descriptive and casual relational research approaches. While inferential statistics are used to make conclusions that may be applied to correlation matrices and regression equations, descriptive statistics use measures of central tendency, such as frequencies, percentages, the mean, and standard deviation. The population for this study was the property owners in Kathmandu Metropolitan City who generate income from residential rental properties. There were 166,610 rented households in Kathmandu Metropolitan City (CBS, 2023).

The researcher randomly selected households from Kathmandu Valley, distributed a total of 1,129 structured questionnaires among the households, and received only 500 (44.29 percent) useful responses from the respondents. The structured questionnaires were distributed for primary sources of information based on cross-sectional data using a general information section and opinion survey with a five-point Likert scale.

Model specification

$$TC = \alpha + \beta_1 TR_i + \beta_2 INC_i + \beta_3 FP_i + \beta_4 AP_i + \beta_5 TK_i + \beta_6 TP_i + \varepsilon', \quad (1)$$

where  $TC$  = Tax Compliance,  $\alpha$  = Constant Variable,  $TR_i$  = Tax Rate,  $INC_i$  = Income,  $FP_i$  = Fines and Penalties,  $AP_i$  = Attitude and Perceptions,  $TK_i$  = Tax Knowledge,  $TP_i$  = Tax Policy, and  $\varepsilon'$  = Error Term.

Cronbach's alpha for overall variables is .95. Thus, Cronbach's alpha for overall variables is  $>.70$ , which means the data are reliable and show internal consistency.

#### 3.1. Descriptive statistics

This section provides a thorough synopsis of the information gathered, the analytical techniques utilized, and the results presented.

**Table 1.** Demographic profile of respondents

Source: Field Survey, 2023.

Demographic Variables	Demographic Characteristics	Frequency	Percent
Gender	Male	351	70.2
	Female	149	29.8
Age	18-24	6	1.2
	25-34	9	1.8
	35-44	119	23.8
	45-54	191	38.2
	55 and above	175	35.0
Occupation	Employed	134	26.8
	Self Employed	183	36.6
	Unemployed	98	19.6
	Student	8	1.6
	Retired	77	15.4
Income from Rent	Less than 100,000	59	11.8
	100,001-500,000	292	58.4
	Above 500,001	149	29.8
Rental Experience	Less than a Year	14	2.8
	1-3 Years	42	8.4
	3-5 Years	72	14.4
	5-10 Years	182	36.4
	More than 10 Years	190	38.0
Penalize for Non-Compliance	Yes	40	8.0
	No	460	92.0
Total		500	100

Table 1 shows the demographic profile of respondents. The high percentage of males, i.e., 70.20 percent, suggests that men are more likely to be landlords than women, i.e., 29.8 percent. This could be due to cultural factors, such as the fact that men are traditionally seen as the breadwinners in Nepali society. The high percentage of respondents in the age group of 45-54, i.e., 38.2 percent, followed by 55 and above with 35 percent, the age group of 35-44, 23.8 percent, the age group of 25-34 with 1.8 percent and the least age group 18-24 with 1.2 percent. This finding suggests that the study participants are relatively experienced landlords. This could be because people in this age group are more likely to have accumulated the necessary financial resources to purchase a property to rent out. The high percentage of self-employed respondents, i.e., 36.6 percent, suggests that many landlords run their rental businesses as a side hustle. This could be because self-employed people have more flexibility in their work schedules, which allows them to manage their rental properties more easily.

The high percentage of respondents who earn between 100,000 and 500,000 NPR, 58.4 percent

from rent, suggests that these landlords are relatively well-off. This could be because they own multiple properties or because they charge relatively high rents. The high percentage of respondents with rental experience of 5-10 years, 36.4 percent, suggests that these landlords understand the rental market well.

#### 4. RESULTS

Table 2 presents the results of tax compliance measured with tax rate (TR), income (INC), fine and penalties (FP), and AP. Several factors affect tax compliance: a lower tax rate may make compliance more attractive, whereas a higher tax rate may discourage compliance owing to the increased financial burden. Rich people may look for loopholes, but their desire to avoid legal ramifications can lead to better compliance at higher income levels. Serious fines and penalties serve as effective disincentives for non-compliance. Compliance is improved by favorable attitudes and views on taxes, which are cultivated by a conviction in the equitable utilization of tax income. Equitable and transparent tax laws lessen ambiguity and evasion chances, which increases compliance. These elements work together to influence how taxpayers behave about their tax obligations.

Table 2 presents the relationship between dependent variable tax compliance and independent variables tax rate, income, fines and penalties, at-

titude and perceptions, tax knowledge, and tax policy. The correlation between tax rate and tax compliance is 0.329, with the p-value < 0.05. This means a moderately significant positive relationship exists between tax rate and tax compliance. This suggests that people who are more familiar with tax rates are more likely to comply with them. The correlation between income and tax compliance is 0.297 and a p-value < 0.005. This means a lower significant positive relationship exists between income and tax compliance. This suggests that people with higher incomes are more likely to comply with tax laws.

The correlation between fines and penalties and tax compliance is 0.398, with a p-value <0.005. This means a moderately significant positive relationship exists between fines and penalties and tax compliance. This suggests that people with good filing practices are more likely to comply with tax laws. Similarly, the correlation between attitude and perception and tax compliance is 0.612, with a p-value <0.05. This means that there is a strong, significant positive relationship between tax compliance and attitudes and perceptions. This suggests that people who have positive attitudes and perceptions about tax compliance are more likely to comply with them. Furthermore, the correlation between tax knowledge and tax compliance is 0.410, with a p-value <0.05. This means a moderately significant positive relationship exists between tax compliance and knowledge of tax laws.

**Table 2.** Relationship between dependent variable and independent variables (Correlation analysis)

Source: Field Survey, 2023.

Variables	Test	TC	TR	INC	FP	AP	TK	TP
TC	Pearson Correlation	1	.329**	.297**	.398**	.612**	.410**	.440**
	Sig. (2-tailed)		.001	.001	.001	.001	.001	.001
TR	Pearson Correlation		1	.220**	.456**	.407**	.314**	.446**
	Sig. (2-tailed)			.001	.001	.001	.001	.001
INC	Pearson Correlation			1	.304**	.383**	.268**	.406**
	Sig. (2-tailed)				.001	.001	.001	.001
FP	Pearson Correlation				1	.559**	.396**	.500**
	Sig. (2-tailed)					.001	.001	.001
AP	Pearson Correlation					1	.454**	.571**
	Sig. (2-tailed)						.001	.001
TK	Pearson Correlation						1	.516**
	Sig. (2-tailed)							.001
TP	Pearson Correlation							1
	Sig. (2-tailed)							

Note: TC = Tax compliance, TR = Tax rate, INC = Income, FP = Fines and penalties, AP = Attitude and perception, TK = Tax knowledge, and TP = Tax policy. \*\*. Correlation is significant at the 0.05 level (2-tailed).



**Table 3.** Research model coefficients (Regression analysis)

Source: Field Survey, 2023.

Unstandardized Coefficients		t	Sig.	Collinearity Statistics		R Square	F Value	P Value
Model	B			Std. Error	Tolerance			
	(Constant)	.896	.231	3.873	.001	.405	55.879	.000 <sup>b</sup>
	Tax Rate	0.259	.052	1.337	0.00	.719	1.390	–
	Income	0.272	.042	1.075	0.00	.798	1.253	–
1	Fines and Penalties	0.344	.052	.358	0.00	.593	1.686	–
	Attitude and Perceptions	0.569	.051	10.054	0.00	.538	1.859	–
	Tax Knowledge	0.647	.027	3.169	0.00	.686	1.457	–
	Tax Policy	0.358	.059	1.028	0.00	.518	1.930	–

Note: a. Dependent Variable: Tax Compliance. b. Predictors: (Constant), Tax Policy, Income, Tax Rate, Tax Knowledge, Fine & Penalty, Attitude Perception.

This suggests that people who are more familiar with tax laws are more likely to comply with them. Additionally, the correlation between tax policies and tax compliance is 0.440, with a p-value <0.05. This indicates that tax policy and tax compliance have a somewhat positive association. This implies that people are more inclined to follow tax laws if they are more in favor of them.

Table 3 of the regression coefficients shows that the beta coefficient for a tax rate is positive, which means the one-unit tax rate changes tax compliance by 0.259. It also depicts that a higher tax rate and higher tax compliance show a positive impact of the tax rate on tax compliance and are statistically significant. However, higher tax rates could deter taxpayer compliance because they make the tax burden seem onerous. Due to the decreased motivation to avoid taxes, these are more likely to promote compliance.

Further, the beta coefficient for income shows a positive impact, depicting that one unit change in income leads to a change in tax compliance by 0.272, which means a higher income level and higher tax compliance, and it was also found significant. It also depicts that higher earners may be better able to afford tax advice or take advantage of tax breaks, which could result in less compliance if tax rates are thought to be unjust. Taxpayers with lower incomes may be less able to avoid paying taxes, but they may also lack the means and expertise necessary to do it.

Moreover, the beta coefficient for fines and penalties found a positive and significant impact on tax compliance indicating that a unit change in fines and penalties brings the changes in tax compliance

by 0.344. It means the higher the fine and penalty and more would be tax compliance. Logically, tax evasion can be discouraged by imposing severe and effective penalties that raise the cost of non-compliance. Less harsh penalties could not have a big effect on compliance behavior.

Additionally, the beta coefficient for attitude and perception found a positive and significant impact on tax compliance depicting that one unit change in attitude and perception brings the change in tax compliance by 0.569. It means the better the attitude and perception, the higher would be the tax compliance. Similarly, Taxpayers' increased compliance stems from their sense of civic and moral obligation to pay taxes reduced compliance as a result of mistrust towards the government or the tax system.

Similarly, the beta coefficient for tax knowledge has a positive and significant impact on tax compliance, showing that one unit change in tax knowledge brings the change in tax compliance by 0.647. This means that the higher the level of tax knowledge, the higher the tax compliance.

Finally, the beta coefficient for tax policy is also found to have a positive and significant impact on tax compliance, reflecting that one unit change in tax policy brings the change in tax compliance by 0.358. It means that the tax policy launched by the government and more compliance would be in practice. Finally, the value is <0.05, which shows the overall model fit. Moreover, the F-value is 55.879 and the R-square is .405.

$$TC = 0.896 + 0.259 \cdot TR + 0.272 \cdot INC + 0.344 \cdot FP + 0.569 \cdot AP + 0.647 \cdot TK + 0.358TP. \quad (1)$$

**Table 4.** Summary of hypothesis testing

Hypothesis	List of Hypotheses	p-value	Results
$H_1$	There is a significant relationship between tax rate and awareness of tax compliance.	0.00	Supported
$H_2$	There is a significant relationship between the income levels of taxpayers and awareness of tax compliance.	0.00	Supported
$H_3$	There is a significant relationship between fines and penalties and awareness of tax compliance.	0.00	Supported
$H_4$	There is a significant relationship between the attitude and perception level of taxpayers and awareness of tax compliance	0.00	Supported
$H_5$	There is a significant relationship between tax-related knowledge of taxpayers and awareness of tax compliance.	0.00	Supported
$H_6$	There is a significant relationship between tax policy and awareness of tax compliance.	0.00	Supported

The results show a high correlation between tax compliance and efficient tax policy, increased tax understanding, and severe penalties. Tax compliance is adversely connected with high tax rates (if viewed as unjust) and little tax understanding. By balancing tax rates, enhancing taxpayer education, imposing appropriate fines, and implementing fair regulations, efficient tax systems that optimize compliance can be designed with an understanding of these relationships.

The study found a positive effect of factors determining tax compliance, with an emphasis on tax rates, taxpayer income, tax policy, taxpayer attitudes and perceptions, fines and penalties, and tax knowledge. It suggests that a reasonable and manageable tax rate, together with increased income levels, fosters compliance by easing the financial strain on taxpayers. Clear and consistent tax policies, together with positive taxpayer attitudes and perceptions, promote confidence and transparency, hence increasing compliance. The preventive effect of fines and penalties, along with enhanced tax knowledge, empowers taxpayers to meet their duties, resulting in better compliance. Thus, the study hypothesizes that these independent variables have positive guidance and effect on tax compliance, emphasizing their importance in supporting taxpayer behavior.

Hypothesis testing can be used to conjure up the result of a hypothesis performed on sample data from a larger population.

Table 4, a summary of the hypotheses test, depicted that the  $H_1$ , stating that there is a significant positive relationship between tax rate and awareness of tax compliance, a P-value < 0.00, was

supported by theory. Similarly,  $H_2$ , indicating that there is a significant positive relationship between the income levels of taxpayers and awareness of tax compliance, with a P-value < 0.00, was also consistent with the theory. Moreover,  $H_3$  was also supported by theory, reflecting a significant positive relationship between fines and penalties and awareness of tax compliance, with a P-value < 0.00. Further,  $H_4$ , depicting a significant positive relationship between the attitude and perception level of taxpayers and awareness of tax compliance, with a P-value < 0.00, was also consistent with the theory. Next,  $H_5$ , reflecting that there is a significant positive relationship between tax-related knowledge of taxpayers and awareness of tax compliance, with the P value < 0.00, was also supported by theory. Finally,  $H_6$ , indicating that there is a significant positive relationship between tax policy and awareness of tax compliance, with the P value < 0.00, was also supported by theory.

## 5. DISCUSSION

This study's primary aim was to investigate the compliance of taxpayers in Kathmandu, Nepal, about the house rent taxpayers. Most respondents state that they are comfortable with the current rental income tax rate system, considering it reasonable and appropriate.

Respondents also emphasize the need to comprehend and keep up with tax legislation and the necessity of effective enforcement through penalties and government support. They emphasize the importance of promoting laws and clear regulation. Complying with rules and paying taxes on time

are fully acknowledged as essential components of compliance behavior. In conclusion, the results highlight the positive impact of independent variables on tax compliance.

There is a sound relationship between the dependent variable and independent variables. This means that tax rate, income, fine and penalty, attitude and perception, tax knowledge, and tax policy significantly affect tax compliance. According to the study, increased tax compliance is typically fostered by a better grasp of tax rates and higher income levels

The findings align with the empirical study by Ali et al. (2018), who emphasize the importance of understanding property owners' knowledge and attitudes toward taxation to improve compliance. Moreover, individuals exhibiting positive attitudes and perceptions toward tax compliance and those possessing comprehensive tax knowledge tend to adhere more consistently to tax laws. The study also emphasizes the positive relationship between good sentiments about tax laws and higher tax compliance rates. These results show how different factors, including financial, cognitive, and perceptual aspects, influence tax compliance. This affects how techniques to improve compliance behaviors are developed. About tax policy (TP), income (INC), tax rate (TR), tax knowledge (TK), fines and penalties (FP), attitude and perceptions (AP), and tax compliance (TC), the regression result examines the links between the dependent variable and the remaining independent variables.

Additionally, attitudes and perceptions, along with tax knowledge, emerge as key predictors of compliance, supported by their statistically sig-

nificant coefficients. These findings are consistent with the empirical findings of Attah-Botchwey et al. (2021), Wicaksono (2017), Abdul (2013), Deyganto (2018), Ali et al. (2018), and Fauziati et al. (2020) who underscore the impact of tax burden perceptions and knowledge on compliance; while Mushingi et al. (2021) emphasize the need for taxpayer education and system improvements. Also, these findings contradict the empirical findings of Chindengwike and Kira (2022) and Abdu and Adem (2023), who emphasize that tax rates and the complexity of the tax system significantly impact compliance behavior. The study findings showed that fines and penalties positively and significantly impact tax compliance. This finding is consistent with Sanders et al. (2008) and Rahmayanti et al. (2020). Finally, the study's findings showed the positive impact of tax policy on tax compliance. This finding aligns with Lisi (2015) and Damajanti (2017). Overall, these findings showed the positive impacts of the tax rate, income, fine and penalty, attitude and perception, tax knowledge, and tax policy on tax compliance.

The frequency of tax audit activities conducted by the authority and the imposition of fines were impacted by the low rates of compliance and non-compliance. However, previous research indicates that taxpayers' compliance behavior is influenced by a variety of factors, including their level of tax knowledge, their attitudes toward and perceptions of the tax system, including its fairness and the effectiveness of the tax authority's enforcement strategies, in addition to penalties and the frequency of tax audits; these findings are similar with Kirchler (2007), Torgler (2007), and Richardson (2006).

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## CONCLUSION

This study's main goal was to investigate how tax policy (TP), taxpayer income (INC), tax rate (TR), taxpayer attitude and perception (AP), fines and penalties (FP), and taxpayer knowledge (TK) affect tax compliance (TC). The study's conclusions shed important light on how well the Kathmandu Valley taxpayers comply with the house rent tax. Diverse views were found when the attitudes and beliefs of the respondents were examined for the present rental income tax rate. Most respondents, however, indicated satisfaction with its acceptability and fairness. The findings highlight the necessity of preserving a reasonable and uniform tax rate and indicate that tax laws should encourage rather than restrict the usage of rental properties. Notably, positive attitudes about tax compliance and a sense of social responsibility and civic duty have a major impact on tax compliance.

The main determinants of taxpayer compliance are emphasized in this study, along with the significance of solid enforcement tools like fines and government assistance and the requirement for transparent and intelligible tax legislation. The results also highlight the importance of paying taxes on time and in full, as this directly results from a willingness to abide by the law. Moreover, it is important to understand tax rates, income levels, attitudes, perceptions, tax knowledge, and policy alignment to promote more compliance. The correlation and regression results support these relationships and their impact on tax compliance. The regression analysis supports the idea that these variables together account for a significant impact. With statistically significant coefficients, all independent variables emerge as important predictors of compliance behavior.

Furthermore, there is a high correlation between tax compliance and efficient tax policy, increased tax understanding, and severe penalties. Tax compliance is adversely connected with high tax rates (if viewed as unjust) and little tax understanding. By balancing tax rates, enhancing taxpayer education, imposing appropriate fines, and implementing fair regulations, efficient tax systems that optimize compliance can be designed with an understanding of these relationships. Additionally, the study's findings suggest that policymakers can better understand key variables associated with tax compliance and implement strategies to minimize the potentiality of destructive factors, ultimately improving tax revenue collections. Furthermore, it is advised that this type of study can be undertaken at the national level to better understand factors associated with tax compliance.

## IMPLICATIONS AND FUTURE RESEARCH

Comparative research conducted in several locations may show how attitudes, perceptions, and compliance behavior change in various situations. Long-term research that monitors changes in compliance behavior over time may be able to determine how stable compliance drivers are and how successful policy interventions are. Using behavioral economics concepts, experimental research could go further into the psychological factors influencing taxpayers' choices to pay taxes or avoid them. Examining compliance practices within particular sectors or industries may reveal subtleties and difficulties particular to various economic sectors.

It is important to study how psychological elements like risk aversion, biases in decision-making, and cognitive dissonance influence taxpayers' compliance decisions, as well as to evaluate the efficacy of counterstrategies used by tax authorities and the potential for novel tax evasion tactics to undermine conventional compliance procedures. The results obtained will serve as a reference and guide for policymakers, academics, lawyers, regulators, and the government to help them make more informed decisions on housing tax revenue allocations based on the findings of this study.

## AUTHOR CONTRIBUTIONS

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Writing – original draft: Basu Dev Lamichhane, Padam Bahadur Lama, Bishnu Pathak, Mukund Kumar Chataut.

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## APPENDIX A

### QUESTIONNAIRE

Dear Respondents,

The recent research on “Residential Income Tax Compliance in Nepal: An Empirical Analysis” aims to study the tax compliance behavior of households in Kathmandu Valley. Therefore, the researcher requests you to express your opinion on this questionnaire by providing your valuable time for completing the research questionnaires. The researcher assures that the information received from you will be highly confidential and used only for academic purposes in aggregate form. So, you are kindly requested to fill out the form by providing authentic information.

With warm regards

Basu Dev Lamichhane  
Padam Bahadur Lama  
Bishnu Pathak  
Mukund Kumar Chataut

### GROUP A

#### Demographic Information of Respondents

1. Name of Respondents (Optional)

2. Age Range (Please Tick ✓)

- |                 |                          |
|-----------------|--------------------------|
| a) 18-24        | <input type="checkbox"/> |
| b) 25-34        | <input type="checkbox"/> |
| c) 35-44        | <input type="checkbox"/> |
| d) 45-54        | <input type="checkbox"/> |
| e) 55 and above | <input type="checkbox"/> |

3. Gender (Please Tick ✓)

- |           |                          |
|-----------|--------------------------|
| a) Male   | <input type="checkbox"/> |
| b) Female | <input type="checkbox"/> |
| c) Other  | <input type="checkbox"/> |

4. Occupation (Please Tick ✓)

- |                  |                          |
|------------------|--------------------------|
| a) Employed      | <input type="checkbox"/> |
| b) Self-employed | <input type="checkbox"/> |
| c) Unemployed    | <input type="checkbox"/> |
| d) Student       | <input type="checkbox"/> |
| e) Retired       | <input type="checkbox"/> |



5. Annual Income Range from Rent (Please Tick ✓)

- a) Less than NPR 100,000
- b) NPR 100,001-500,000
- c) NPR 500,001-Above

6. Rental Experience (Please Tick ✓)

- a) Less than 1 year
- b) 1-3 Years
- c) 3-5 Years
- d) 5-10 Years
- e) More than 10 Years

7. Have you ever been penalized for non-compliance with residential income tax regulations? (Please Tick ✓)

- a) Yes
- b) No

## GROUP B

### Opinion Survey

Please choose one of five options for each item to express your opinions. The options represent SD = strongly disagree, D = Disagree, N = Neutral, A = Agree, and SA = Strongly agree.

**Table 1.** Opinion of respondents on tax rate, income, fines and penalty, attitude and perception for tax compliance

S.N.	Statement	Strongly Disagree (SD)	Disagree (D)	Neutral (N)	Agree (A)	Strongly Agree (SA)
		1	2	3	4	5
<b>Tax Rate (TR)</b>						
1	I am satisfied with the current tax rate for rental income.					
2	I believe the tax rate for rental income is fair.					
3	I do not mind paying rental income tax if the tax rate is reasonable.					
4	I believe the rental income tax rate should be stable and predictable.					
5	I think the rental income tax rate should not discourage property owners from renting their properties.					
<b>Income (INC)</b>						
6	My rental income provides me with a good source of additional income.					
7	I am happy with the amount of rental income I receive.					
8	I feel financially secure because of my rental income.					
9	I believe my rental income has increased my standard of living.					
10	I am grateful for the rental income I receive from my property.					

**Table 1. (cont.)** Opinion of respondents on tax rate, income, fines and penalty, attitude and perception for tax compliance

S.N.	Statement	Strongly Disagree (SD)	Disagree (D)	Neutral (N)	Agree (A)	Strongly Agree (SA)
		1	2	3	4	5
<b>Fines and Penalties (FP)</b>						
11	I believe the fines and penalties for rental income tax evasion are appropriate.					
12	I support the government's efforts to enforce rental income tax regulations.					
13	I do not want to take the risk of being penalized for not complying with rental income tax laws.					
14	I think fines and penalties are necessary to encourage tax compliance among property owners.					
15	I feel relieved when I know I have followed all the rental income tax regulations and avoided penalties.					
<b>Attitude and Perceptions (AP)</b>						
16	I have a positive attitude towards complying with rental income tax regulations.					
17	I believe paying rental income tax is my civic duty as a property owner.					
18	I think complying with rental income tax laws helps to build a better society.					
19	I feel proud when I comply with rental income tax laws.					
20	I am confident in my ability to comply with rental income tax regulations.					

**Table 2.** Opinion of respondents on tax knowledge and tax policy for tax compliance

		<b>Tax Knowledge (TK)</b>				
		1	2	3	4	5
21	I feel confident in my knowledge of rental income tax laws and regulations.					
22	I am familiar with the rental income tax laws and regulations.					
23	I know how to calculate my rental income tax accurately.					
24	I am aware of the consequences of not complying with rental income tax laws.					
25	I keep myself updated with the latest changes in rental income tax laws and regulations.					
		<b>Tax Policy</b>				
		1	2	3	4	5
26	I believe the government should create policies that encourage property owners to rent out their properties.					
27	I support the government's efforts to simplify rental income tax laws and regulations.					
28	I think rental income tax policies should be transparent and easy to understand.					
29	I believe the rental income tax policies should be flexible to accommodate different property owners' circumstances.					
30	I feel positive about the government's rental income tax policies and how they are applied.					
		<b>Tax Compliance (TC)</b>				
		1	2	3	4	5
31	I make sure to file my rental income tax on time.					
32	I always pay my rental income tax in full.					
33	I am willing to comply with the rental income tax regulations.					
34	I feel good when I pay my rental income tax on time.					

Thank You!

