Damak Campus Journal 2023, **11 (1): 80-94**
ISSN : 2565-4772 (Print)

TAX PAYERS MORAL BEHAVIOR IN NEPAL

Paras Mani Acharya

Lecturer, Department of Management
Damak Multiple Campu
E-mail: acharyaparas017@gmail.com

ABSTRACT

This study analysis the Tax Payers' moral behavior In Nepal. Further, the Study attempts to deal in the underlying reasons for non-compliance. Data was gathered through Questioner with four hundred participants, and analyses using thematic analysis. Results suggest .Those taxpayers have inadequate technical knowledge and perceive VAT system as complex. Tax Knowledge and tax complexity are viewed as contributing factors towards non-compliance Behavior among taxpayers. The data are collected through well structured questionnaire. For the Purpose of analysis and interpretation the researcher has used the following statistical tools of SPSS. On the basis of analysis and interpretation the researcher introduces the major findings that the majority of the consumers pay tax but, they are not much aware of the VAT. Due to the High tendency of VAT the consumers try to avoid the payment of tax in Nepal.

Keywords: Tax payer's awareness, tax perception, tax knowledge and tax ethics.

INTRODUCTION

Value-added tax is regarded as one of the approaches adopted by countries in developing countries especially Nepal in raising revenue to fund development projects. Being one of the indirect taxes, it is attributed with 80% contribution of total tax revenue (Saleemi, 2015). Compliance to VAT has been the key concern among developing and developed countries of the world for the last decade. It is argued that the rationale behind economic development of any country is based on VAT compliance. Despite high cases of non-compliance to VAT from industry players including micro and small enterprises and large firms, developing countries should strive to develop mechanisms that will enhance VAT compliance from the formal and informal sector for socio-economic developments. Tax compliance as the taxpayers' willingness to obey tax laws in order to attain economic development and goal. From a wider perspective, tax compliance requires a degree of honesty; adequate tax knowledge and capability to use this knowledge, timeliness, accuracy, and adequate records in order to complete the tax returns and associated tax documentation.

A key component of any tax system is the manner in which it is administered. No tax is better than its administration, so tax administration matters a lot. An essential objective of tax administration is to ensure the maximum possible compliance by taxpayers of all types with their tax obligations. Unfortunately, in many developing countries, tax administration is usually weak and characterized by extensive evasion, corruption and coercion. In many cases, overall tax compliance levels are low and large proportion of the informal sector of the economy escapes the tax net entirely.

Economic development and growth are important indicators to reflect the real situation of a country in overall development of the nation. Therefore, it has been an important concern and target of the government policy tools in any underdeveloped countries like Nepal. Achievement of high rate of economic growth, reduction of income disparities and poverty are few development strategies towards which most of government efforts have been directed in the developing countries (Acharya, 2019).

Taxation is the most effective and powerful tool reserved in the hands of government of a country. It is taxation, which invest paramount power in the government to hold over the economy of country. The major objective of taxation is to make fund available for the economic development and economic stability. A major part of government revenue comes from taxation is much better than external resource mobilization. It is better for developing countries to maximize revenue through domestic source, which is much safer and fruitful as well. Taxation not only contributes in economic development and stability but also helps equal distribution of national income of a country (Adesola, 2021).

Taxes are usually classified into direct taxes and indirect taxes. There is a predominant role of indirect taxes in Nepalese tax structure. Value Added Tax (VAT) system has been considered as an attractive alternative to exist as an indirect tax system spreading around the world. Although it is the youngest form of taxation which; was innovated in the second half of the twentieth century. It has been emerging as a main element of the worldwide tax reform, in every attempt of tax reform; VAT is now gaining the primary preference (Adesola, 2021).

Tax becomes the main source of revenue of the state. Value Added Tax is the latest innovation in the field of taxation. VAT is considered as the reform tax system of the 21st century, which has already been implemented popularly in more than 135 countries in the world. VAT is multi staged, commodity and services based tax which is levied on the value added of business at different stages of production and distribution. It is imposed on different stages. It is imposed on additional value of goods and services. The value added tax is indirect tax depends upon consumer (Gwali, 2018 and Adhikari. 2020*).*

Especially it is supplementary of sales tax or improved form of sales tax. Since VAT generates less cost to the economy than other taxes, including customs duties and other domestic trade taxes except retail level sales tax, it is considered an efficient way of generating revenue. The goods are passed through different channels (i.e. producer-agent-whole seller–retailer-consumer) by adding the value in each channel. In this process, after beginning government has charged 10% on the added value that is called VAT. Therefore, at present, VAT rate is 13% collected at every stage of selling goods and services.

VAT is a recent and an important innovation in the field of modern taxation system. After its origin in France, it gained worldwide popularity at the academic level as well as practical level. After France adopted VAT for the first time in 1954.

Taxes as a major fiscal policy instrument and important government policy tools have an important role in increasing the rate of capital formation and thereby achieving the rate of economic growth. The role of taxation in economic development of country lies in its function of resources that country's productive capacity is enhanced. So every states needs resources whether to pay salary to government employees or to conduct development work, i.e. huge amount of money called revenue. The major source of revenue is tax.

Economic development and growth are important indicators to reflect the real situation of a country in overall development of the nation. Therefore, it has been an important concern and target of the government policy tools in any underdeveloped countries like Nepal. Achievement of high rate of economic growth, reduction of income disparities and poverty are few development strategies towards which most of government efforts have been directed in the developing countries (Dewi, 2019).

Taxation is the most effective and powerful tool reserved in the hands of government of a country. It is taxation, which invest paramount power in the government to hold over the economy of country. The major objective of taxation is to make fund available for the economic development and economic stability. A major part of government revenue comes from taxation is much better than external resource mobilization. It is better for developing countries to maximize revenue through domestic source, which is much safer and fruitful as well. Taxation not only contributes in economic development and stability but also helps equal distribution of national income of a country.

Taxes are usually classified into direct taxes and indirect taxes. There is a predominant role of indirect taxes in Nepalese tax structure. Value Added Tax (VAT) system has been considered as an attractive alternative to exist as an indirect tax system spreading around the world. Although it is the youngest form of taxation which; was innovated in the second half of the twentieth century. It has been emerging as a main element of the worldwide tax reform, in every attempt of tax reform; VAT is now gaining the primary preference.

Value added tax usually shortened to VAT) is a levy on the amount a business add to the price (hence the name "value added") of goods during their production and distribution. Since it is a tax on commodities purchased, ultimately for consumption, rather than on the income of an individual or corporation, it is essentially a consumption tax.

The VAT is usually collected by the tax credit method; each firm applies the tax rate to its taxable sales, but is allowed a credit for value-added tax paid on its purchases of goods and services for business use, including the tax paid on purchases of capital equipment under a consumption-type value-added tax. As a result, the only tax for which no credit would be allowed would be that collected on sales made to households, rather than to businesses.

Since the sum of the values added at all stages in the production and distribution of a good are equal to the retail selling price of the good, the revenue base of a retail sales tax and a value-added tax with the same coverage are theoretically identical, and a given tax rate will

yield the same amount of tax revenue under either approach and under equal conditions of implementation, in other words, no exceptions or exemptions.

This is a study on contribution of Value Added Tax (VAT) in government's total revenue. The VAT refers to an indirect tax. VAT is a general consumption tax assessed on the value added to goods and services by the business enterprises at the successive stage of production and distribution. Value added for a firm is the gross receipt from the sales after subtracting all expenditure on goods and services purchased from other firm (Dewi, 2019).

It is a sales tax, hotel tax, contract tax, and entertainment tax. The type of VAT is determined on the basis of treatment of capital goods of a firm. Input tax paid for capital goods is allowed or not is the fundamental questions in the study of types of VAT. There are three types of VAT. Consumption, income, and gross national product types VAT. It is the major sources of public income by imposing to people in consumed goods and services.

Especially it is supplementary of sales tax or improved form of sales tax. Since VAT generates less cost to the economy than other taxes, including customs duties and other domestic trade taxes except retail level sales tax, it is considered an efficient way of generating revenue. The goods are passed through different channels (i.e. producer-agent-whole seller–retailer-consumer) by adding the value in each channel. In this process, after beginning government has charged 10% on the added value that is called VAT. Therefore, at present, VAT rate is 13% collected at every stage of selling goods and services.

VAT is a recent and an important innovation in the field of modern taxation system. After its origin in France, it gained worldwide popularity at the academic level as well as practical level. After France adopted VAT for the first time in 1954, the Ivory Coast adopted it in 1960 and then Senegal in 1961. Since 1967 onwards VAT gained worldwide momentum and as a result from that time to 2001, with the exception of 1974, 1978, 1979 and 1981, each year some or the other country has been adopting VAT. In Nepal VAT was introduced in mid-November 1997 as a major part of tax reform program and in the process of implementation various other reform- oriented activities have taken place.

Formulation of VAT Act and regulation, establishment of an appropriate organizational structure and personnel system, computerization system, imparting knowledge regarding various aspect of this tax to potential tax payers and to various sections of the society, etc. VAT is a modern tax that is based on the principle of self- assessment. VAT has done with administrative procedures such as taking approval of the price of the purpose of sales tax, submission of annual statement of accounts tax, assessment by the tax officer stamping of invoice, submission of the invoice at the tax office along with the tax returns.

VAT is the transparence tax system that is based on the taxpayer’s transaction. VAT is not only transparent but also it demands transparency as other tax system as well. Unless such environment is created vat cannot be implemented effectively. VAT is the youngest member of the sales tax family, which is broad based. Since the base of the VAT is extensive, under this tax resume more revenue can be collected through lower rates. The effective implementation of this tax can help in reducing the rates of custom duties and income tax along with reducing

smuggling of imported goods and hence improves the balance of payment, reduces the unintended distortions, services horizontal equity in a greater degree and makes the tax system simple and natural. In similar manner VAT has many provisions to correct its regressive nature.

"VAT is levied on all goods and services, unless specifically exempt by the law and collected at different stages in the process of production and distribution" (Dewi, 2019).

"VAT is a modern and scientific tax system. It is not similar to custom, excise duty, income tax, or sales tax that has born the tradition and historical heritage. It is not a tax that has imposed and amended and accordingly inserted or deleted. It is a tax of the 21st century since it highly developed and refined. It is a tax that suits the present speeds of knowledge, development and skills .Moreover; it present context of liberalization, privatization and globalization. It is easily adoptable with the open economy system and matches with the private sectors and the market economy of present days. It is a tax that is transparent and has an in-built system of self control" (Dewi, 2019).

Tax is the price individuals pay to government for the law and order (Hughes, 2020). Tax compliance entails filing taxes on time and accurately reporting tax liability in accordance with tax law and court decisions (Roth, 1989). The taxpayer should follow the tax law, report the real tax base, compute correct the tax liability, submit tax statement on specified time, and pay due amount on time (Freanzoni , 2000).

Tax avoidance reduced tax liability using loopholes of tax law and creative designing income and deduction, so it is not illegal. Tax evasion is the purposeful breaking of the law in order to reduce the tax amount. Evasion is the act of not reporting or reporting falsely (Wenley, 2004). The evasion is willful act with the intention to reduce tax liability (Sour, 2004).

The annual report of IRD disclosed that less than 1 per cent of population is registered at the tax office. The IRD has been selecting less than 1 per cent of registered taxpayers for full audit, and IRD selected 3800 taxpayers for the full audit in the fiscal year 2021/22.

Objectives of the study

The study aims at uncovering the Tax Payers' moral behavior In Nepal. Further, the study also has some other objectives:

1. To analyze the major determinants of tax payers behavior among in Nepal.
2. To analyze the effect of marital status and education level on tax payers behavior in Nepal.
3. To analyze the moderating role of religiousness in explaining tax payers behavior with the change in economic deterrence, tax justice and tax knowledge in Nepal.

Review of literature

Literature Survey presents the theoretical concepts and empirical studies related to this study. This has enabled to develop ideas, which are served as a ground for comparing findings and finally concluding the aim of this study. Tax becomes the main source of revenue of the state. Value Added Tax is the latest innovation in the field of taxation. VAT is considered as the

reform tax system of the 21st century, which has already been implemented popularly in more than 135 countries in the world. VAT is multi staged, commodity and services based tax which is levied on the value added of business at different stages of production and distribution. It is imposed on different stages. It is imposed on additional value of goods and services. The value added tax is indirect tax depends upon consumer. Conducting the literature survey helps to know the theoretical aspects of the research topic and the tax compliance behavior has helped to develop a strategy for the higher-level tax compliance. Theoretical review. The following theories and empirical studies have been carried out for the study.

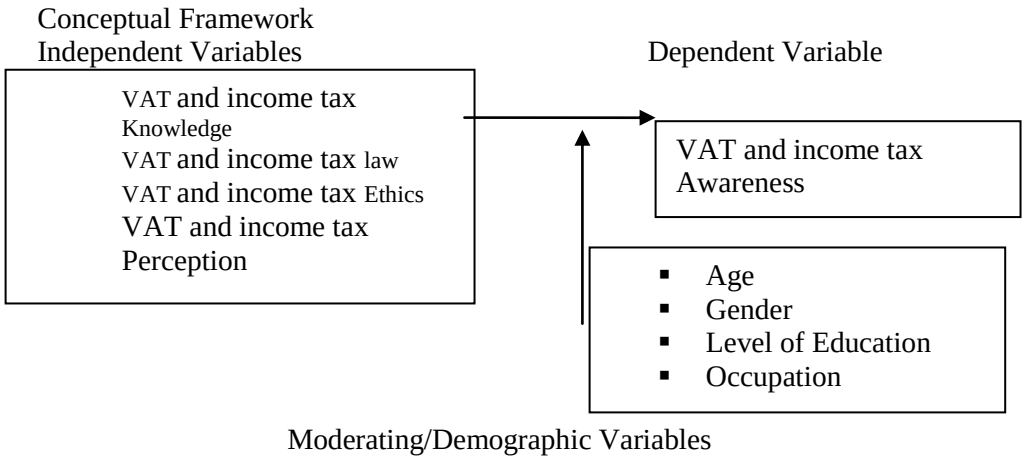
Economic crime model Becker (1968) introduced tools for developing optimal public and private policies to reduce social loss and combat illegal behavior, such as injuries, apprehension costs, conviction costs, and imprisonment costs. The study took into account behavioral factors, the number of offenses and costs, the corresponding punishments, public expenditures on police and the judicial system, the number of sentences, and the money spent on security and arrests. Tax evasion was one of the 15 violations covered by the model.

Fisher model of tax compliance Jackson and Milliron (1986) developed tax compliance research model by identifying 14 key factors used as a base for developing the research framework. The major factors were classified into four main categories naming as demographics, noncompliance opportunities, attitude & perception, and tax system and structure. Further, Fischer, Wartick , and Mark, (1992) incorporated economic, sociological, and psychological factors into a comprehensive one in the Fisher model of tax compliance.

The model depicted the relationship between demographic variables and tax compliance and major personal characteristics for which there is evidence of a relationship are age, gender, and education. The model suggested that demographic variables indirectly affect taxpayer compliance with the impacts on noncompliance opportunities and attitudes and perceptions. Likewise, the model also apprehended that noncompliance opportunity can affect taxpayer compliance directly through income level, income source, and occupation and indirectly through attitudes and perceptions. Major considerations for altering taxpayers' attitudes and perceptions of tax compliance are the fairness of the tax system and peer influence. Finally, the model also suggested that the tax load, easy tax system, high chance of caught and high fine and interest determine tax compliance.

Empirical review

Several international empirical studies have been carried out for the describing for the tax compliance behaviors in the world. The empirical studies are also carried out based on various theories such as crime model, fisher model, Institutional trust model, fiscal exchange, justice theory are major common for the analysis of taxpayers compliance . The crime model is found most effective in the developing countries and tax morale and ethics are playing greater role in developed world. The almost studies has been carried out in developed world rather than developing world. In this regard, review has been conducted based on following basically four variables Economic deterrence, tax justice, tax knowledge and religiousness.



RESEARCH METHODOLOGY

Considering the theoretical and empirical review on the tax compliance behavior, the study has developed the research framework as presented in Figure 1. In the research framework, tax compliance behavior (TXC) is the response behavior, and economic deterrence (ECD), tax justice (JUST), tax knowledge (TXK), and religiousness (REL) are the explanatory variables. Likewise, marital status and education level are the controlled variables. Finally, religiousness (REL) is also the moderating variable with two levels i.e., religious and non-religious.

Tax justice Tax justice, often known as tax law or enforcement fairness, and government spending (Kirchler, 2007). Tax systems are created and administered in a fair and competent manner. Tax compliance behavior if they believe the tax authority is conducting good and fair tax operations and procedures. Just treatment is far more valuable than justice in the form of benefits or punishment. Trust in tax administration can be enhanced by a sense of justice.

Tax knowledge Knowledge about tax law is assumed to be of importance for preferences and attitudes towards taxation. Tax knowledge covers fiscal, knowledge in evasion opportunities, general educational attainment or knowledge of tax law (Devos, 2016). Tax knowledge is defined perception in ability to obey tax laws, including technical tax knowledge and general tax knowledge about the tax system and tax compliance (Wong & Lo, 2015). Bornman (2019) stressed that taxpayer should have knowledge

Controlled variable A control variable is any variable that's held constant in a research study and which is not a variable of interest in the study, but it's controlled because it could influence the outcomes. Thus, it has two controlled variables namely marital status (married and unmarried), and education level (up to school, under graduate and post graduate). The study also used marital status and education level to see whether these have significant effect on tax compliance behavior when used individually. Further, these variables have also been used as controlled variables to measure the effect of ECD, JUST, TXK and REL.

Tax compliance behavior Tax compliance refers to the tax payer's ability to file all required tax returns on time and accurately report tax liability in accordance with the Internal Revenue Code, regulations, and court decisions in effect at the time the return is filed (Roth, 1989). By weighing the benefits of successful tax evasion against the risk of detection and punishment, a rational person is seen as maximizing the expected utility of the tax evasion gamble. The individual pays taxes as a result of this process because he or she is afraid of being caught and penalized if they do not report all of their income. Research design

Population and sample, and sampling design

The study determined 400 sample size as per the recommendation of Yamane (1967) which follows the rule that requires sampling it at a 95 percent confidence level .The sampling process took the period of 3 weeks in the month February 2022. Among them, 76 questionnaires (78.22 percent) were found useable.

Nature and sources of data and the instrument of data collection

This research is based on the primary data. The primary source of the data has been used to determine the perception of the taxpayers regarding tax compliance behavior of Nepalese entrepreneurs and how the economic tax deterrence, tax justice, tax knowledge, and religiousness affect the tax compliance behavior and how this behavior changes when controlling the controlled variables: marital status and education level. The data has been collected by distributing the questionnaire to 225 entrepreneurs of three industrial estates in Kathmandu valley with a valid response of 176 representing 78.22 response rate.

Method of analysis & tools used

The study employed descriptive and inferential statistics. The descriptive statistical tools such as frequency, percentage, bar diagram, mean, median, standard deviation, minimum and maximum has been used to describe the nature and characteristics of the data. Likewise, an independent sample t-test, ANOVA, correlation, and regression analysis has been employed as the inferential statistical tools to answer the research questions and test the formulated hypotheses under study. Likewise, the study has also used the Cronbach's alpha test for the reliability analysis of the scales, correlation analysis for testing the divergent validity of the scales, histogram and normal P-P plot of standardized residual for multivariate normality of response variable and Kolmogorov and Smirnoff, and Shapiro Willk test for statistical test of multivariate normality of the outcome variable under study.

DATA Analysis

Gender of the respondents

The study has 124 male and 52 female respondents. This is equivalent to 70.5% male respondents and 29.5 % female respondents. This data is similar to the national data of central bureau of statistics, which presented that national average female entrepreneurs were 29.8 percentage (CBS, 2018). The detail frequency of the gender data, per centage and cumulative per centage

Descriptive and inferential analysis the descriptive statistics of the variables under study: economic deterrence, justice, tax knowledge, and tax compliance behavior of the

industries owners in industrial estates in Nepal. The mean value among the predictors understudy was highest for the economic deterrence (3.39, median =3.33) and tax knowledge (3.35, median =3.40). It was observed lowest for the variable justice (3.03, median=3.00). The standard error of the mean from zero-mean was 0.05, 0.07, and 0.07, respectively, for the variables: economic deterrence, tax knowledge, and justice, which are the evidence for the low deviation. The mean value of the response variable tax compliance was 3.72, and the standard error of the mean from zero-mean was 0.06. Likewise, the Table also depicts the per centile values of the variables under study. The per centile values of economic deterrence at the 25th, 50th, and 75th per centile are 3.00, 3.33, and 3.83, 2.40, 3.40, and 4.0 for tax knowledge, 2.50, 3.0. 3.75 for justice, and 3.05, 3.60, and 4.40 for tax compliance behavior.

Descriptive statistics

Statistics		Economic deterrence	Justice	Tax knowledge	Tax compliance
Mean		3.39	3.03	3.35	3.72
Std. Error of Mean		0.05	0.07	0.07	0.06
Median		3.33	3.00	3.4	3.60
Minimum		1.67	1.00	2.00	2.80
Maximum		4.67	5.00	5.00	5.00
Per centiles	25	3.00	2.50	2.40	3.05
	50	3.33	3.00	3.40	3.60
	75	3.83	3.75	4.00	4.40

Table depicts the linear regression analysis with tax compliance as the response variable and marital status, i.e., dummy variable (measured in nominal scale) as the predictor variable. The unmarried was coded as zero and married as 1. The intercept value of 3.433 is the mean value of tax compliance for unmarried (sig.=0.001). The coefficient value of 0.371 indicates the mean value of tax compliance for married is 0.371 higher than 3.433 (sig.= 0.014). For robustness check, the study conducted the independent sample t-test. The result in Appendix 14 supports the regression outputs, i.e., the mean value of tax compliance behavior is 3.805 (3.433+0.371) for the married business owners.

					95% Confidence Interval	
Parameter	B	Std. Error	t	Sig.	Lower Bound	Upper Bound
Intercept	3.433	0.13	26.337	0.001	3.176	3.691
Married	0.371	0.149	2.484	0.014	0.076	0.666
Unmarried	0	.	.	.	.	.

Exhibits the linear regression analysis with tax compliance as the response variable and education level, i.e., dummy variable (measured in nominal scale) with three levels as the predictor variable. The postgraduate was coded as zero and others as 1. The intercept value of 4.156 is the mean value of tax compliance for postgraduate (sig. =0.001). The coefficient value of -0.788 indicates the mean value of tax compliance for undergraduates is -0.788, lower than 4.156 (sig.= 0.001). Finally, the coefficient of -0.931 indicates the tax compliance is lower by -0.931 (sig.=0.001) in comparison to the tax compliance of postgraduate respondents. For robustness check, the study conducted the one-way ANOVA. The result in Appendix 15

supports the regression outputs. However, the post hoc result does not support the existence of differences in tax compliance across up to school level and undergraduate business owners. Effect of education level on tax payers behavior 95 % Confidence Interval

Parameter	B	Std. Error	t	Sig.	Lower Bound	Upper Bound
Intercept	4.156	0.083	49.882	0.001	3.992	4.321
Up to school	-0.931	0.175	-5.318	0.001	-1.277	-0.585
Under graduate	-0.788	0.123	-6.414	0.001	-1.03	-0.545
Post graduate	0	.	.	.	.	.

With two levels as the predictor variable. The non-religious were coded as zero and religious as 1. The intercept value of 3.148 is the mean value of tax compliance for non-religious (sig. =0.001), and the coefficient value of 0.746 indicates the mean value of tax compliance for religious is 0.746 higher than 3.148 (sig.= 0.001. For robustness check, the study conducted the independent sample t-test. The result in Appendix 16 supports the regression outputs, i.e., the mean value of tax compliance behavior is 3.894 (3.148+0.746) for religious business owners. Effect of religiousness on taxpayer's behavior.

					95% Confidence Interval	
Parameter	B	Std. Error	t	Sig.	Lower Bound	Upper Bound
Intercept	3.148	0.123	25.565	0.001	2.905	3.391
Religious	0.746	0.141	5.29	0.001	0.468	1.025
Non-religious	0	.	.	.		

The ECD, JUST, and TXK were correlated with TXC. As exhibited in the Table, the correlation for all the samples between TXC and ECD (0.755**), JUST (0.479**), and TXK (0.217**) are observed to be positive and significant, which means as the level of economic deterrence, justice and tax knowledge increases the tax compliance behavior also increases significantly.

Exhibits the relationship between the variables across the religious and non-religious respondents. The relationship between economic deterrence and tax compliance is positive and significant for both types of respondents based on religiousness. However, the association is higher for religious respondents than non- religious respondents, i.e., 0.779** and 0.588**. Likewise, the relationship between justice and tax compliance is almost similar, i.e., positive and significant, i.e., 0.521** and 0.525**. However, the relationship between tax knowledge and tax compliance is negative and insignificant at -0.173 for non-religious business owners, which was positive and significant at 0.237** for religious business owners. Relationship between variables across level of religiousness

Religiousness	Variables	ECD	JUST	TXK	TXC
Religious	ECD	1			
	JUST	.427**	1		
	TXK	0.149	.194*	1	
	TXC	.779**	.521**	.237**	1
Non-religious	ECD	1			
	JUST	0.27	1		
	TXK	-0.095	-.359*	1	
	TXC	.588**	.525**	-0.173	1

** Correlation is significant at the 0.01 level (2 tailed). * Correlation is significant at the 0.05 level (2 tailed).

The study also attempts to analyze the effect of economic deterrence (ECD), justice (JUST), and tax knowledge (TSK) on tax compliance behavior. The exhibits the regression analysis for all samples. In model 1, the effect was positive and significant when regressing tax compliance on economic deterrence (0.986*). The study also observed the impact of justice, tax knowledge and religiousness as positive and significant (0.421*, 0.004*, and 0.746*) in models 2, 3 and 4. This result shows that economic deterrence is the most influencing factor for tax compliance behavior among business owners. All the four three simple regression models fit the model well, as the F statistics (230.8, 51.673, 8.609, and 27.982) were significant at the 0.01 level. Likewise, when two predictors were used in the regression model, the regression coefficients of economic deterrence and justice were positive and significant (0.875* and 0.193*) in model 5. The regression coefficients of economic deterrence and tax knowledge also were positive and significant (0.966* and 0.113) in model 6. In both of these models (models 5 and 6), the coefficients of economic deterrence were comparatively higher than the effect of justice and tax knowledge. Regression analysis without controlling variables

Model	Constant	ECD	JUST	TXK	REL	Adjusted R^2	F	Sig
1	0.372	0.986*				0.568	230.8	0.001
2	2.441*		0.421*			0.225	51.673	0.001
3	3.089*			0.004*		0.042	8.609	0.004
4	*2.401**				0.746*	0.134	27.982	0.001
5	0.163	0.875*	0.193*			0.607	135.991	0.001
6	0.062	0.966*		0.113*		0.58	121.993	0.001
7	1.908*		0.41*	0.169*		0.254	30.834	0.001
8	-0.133	0.857*	0.191*	0.109*		0.619	95.576	0.001
9	-0.641	0.789*	0.205*	0.087*	0.436*	0.661	86.493	0.001

*Significant at 0.05 level

Similarly, when relaxing the effect of economic deterrence, the impact of justice and tax knowledge were also positive and significant on tax compliance behavior (0.410* and 0.169*). Regression models 5, 6, and 7 fit the model well, as the F statistics (135.991, 121.993, and 95.576) were significant at the 0.01 level. Likewise.The results were similar to the findings of simple and two predictors' models (model 1 to 7), i.e., economic deterrence has the highest effect on tax compliance behavior and then justice and tax knowledge of the business owners. The variance extraction on tax compliance behavior by economic deterrence, justice, and tax knowledge by considering the co-variances among these variables is 61.9 per cent. The regression model fits well the data with significant F statistics of 95.576 (sig.=0.001). Test of multicollinearity

Parameters	Collinearity Statistics		Collinearity diagnostics		Condition Index
	Tolerance	VIF	Dimension	Eigenvalue	
(Constant)			1	4.816	1
ECD	0.799	1.251	2	0.083	7.639
JUST	0.846	1.182	3	0.057	9.212
TXK	0.972	1.029	4	0.029	12.953
REL	0.934	1.071	5	0.016	17.33

Dependent Variable: Tax compliance

For the regression result to be best and unbiased estimator, the regression result is free from multicollinearity among the predictors under study. Table 10 depicts collinearity statistics of all the predictors. Tolerance is used in applied regression analysis to assess levels of multicollinearity. Tolerance measures for how much beta coefficients are affected by the presence of other predictor variables in a model. Smaller values of tolerance denote higher levels of multicollinearity. Since the tolerance values were greater than 0.25, there is no problem of multicollinearity (Huber & Stephens, 1993). Distribution of the residuals for normality test it is evidence that the regression analysis fulfills the multivariate normality. The standardized residual was plotted on the Y-axis, and the standardized predicted value was plotted on the X-axis. The plot almost passes through the regression line for supporting the multivariate normality.

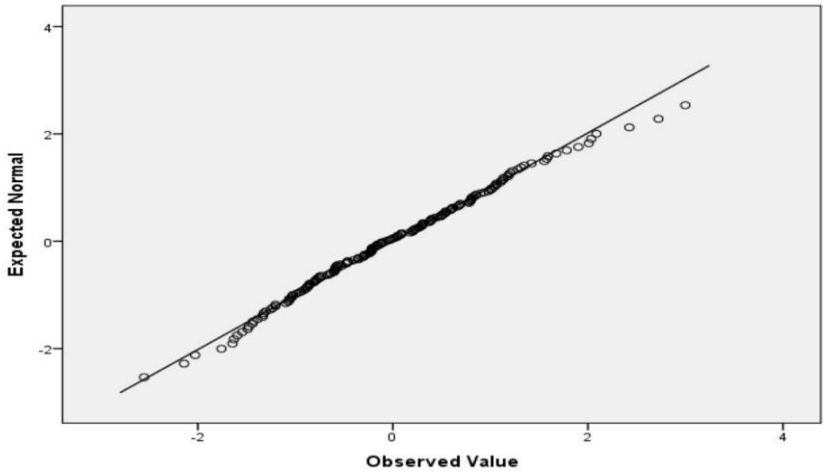


Figure 13: Normal P-P plot of standardized regression residual

Residual statistics

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	2.848	5.136	3.716	0.678	176
Residual	-2.351	2.588	0.000	0.525	176
Std. Predicted Value	-2.904	2.095	0.000	1.00	176
Std. Residual	-2.551	2.999	0.000	0.991	176

Dependent variable: Tax compliance

The predicted and residual mean values of tax compliance behavior are 3.716 and zero, with a minimum value of 2.848 and -2.351 and a maximum of 5.136 and

2.588. The dispersion in the predicted and residual values of tax compliance behavior were 0.678 and 0.525. Likewise, the dispersion in mean values of standardized predicted and standardized residual is almost 1.

For robustness check, the study also attempted to analyze the multivariate normality assumption statistically. The study performed Kolmogorov Smirnov and Shapiro-Wilk test. The Kolmogorov-Smirnov test assumes that the parameters of the test distribution are specified in advance. This procedure estimates the parameters from the sample and estimates the sample

mean, and sample standard deviation are the parameters for a normal distribution. The Shapiro-Wilks test for normality is designed to detect departures from normality for the variables under study. The Kolmogorov-Smirnov (0.046, sig.=0.200) and Shapiro-Wilk (0.993, sig.=0.626) statistic values in Table 12 evidence that the tax compliance does not departure from normality at 176 degrees of freedom. Statistical test of multivariate normality

Tax compliance	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	Df	Sig.
Standardized Residual	0.046	176	.200*	0.993	176	0.626

* This is a lower bound of the true significance. [a]Lilliefors Significance Correction

The marital status with two levels (married and unmarried) is controlled variable in the study. The Table 5 is the evidence that married level of the marital status has on average 0.371 higher tax compliance behavior. Likewise, the economic deterrence, justice and tax knowledge also have the positive and significant effect on tax compliance behavior(See Table 9).The Table 13 depicts the positive and significant effect of four covariates: economic deterrence (0.785, Sig.=0.001), justice (0.206, Sig.= 0.001), tax knowledge (0.089, Sig.=0.032) and religious (0.407, Sig.=0.001), when controlling the effect of marital status. The significant and negative effect of the marital status (-0.214, Sig. = 0.023) indicates that when the marital status shifts from married to unmarried, the tax compliance behavior tends to decline.

The education level with three levels (up to school, undergraduate and postgraduate) is another controlled variable in the study. Table 6 is the evidence that undergraduate respondents' level of the education level status has on average -0.788 lower tax compliance behavior compared to postgraduate respondents. Similarly, up to school respondents' level of the education level status has on average -0.931 lower tax compliance behavior compared to post graduate respondents. Likewise, the economic deterrence, justice and tax knowledge also have the positive and significant effect on tax compliance behaviors in Table

behavior. Likewise, Model 2 and 3 also exhibits the positive and significant moderation effect of religiousness on tax compliance behavior, with the increment in perceived level of tax justice and tax knowledge of the respondents (0.241* and 0.226*) and effect size of 0.187 and 0.142 respectively.

Analysis of moderation effect of religiousness

Model	Intercept	ECD	JUST	TXK	REL*ECD	REL*JUST	REL*TXK	Adjusted 2
	0.622*	0.796*			0.15*			
1	(0.046)	(0.419)			-0.13			0.622
	2.451*		0.234*			0.241*		
2	(0.550)		(0.079)			(0.187)		0.366
	3.21*			-0.025			0.226*	0.174
3	(0.549)			(0.001)			(0.142)	
4	0.139*	0.557*	0.258*	0.151*	0.292*	-0.066	-0.084	0.672
	(0.002)	(0.129)	(0.062)	(0.023)	(0.034)	(0.003)	(0.006)	

*Significant at 0.05 level. Values in Parentheses are partial eta square

Similarly, the final Model 4 depicts the positive and significant moderation effect of religiousness on tax compliance behavior (0.292*) with the effect size of 0.034, when the economic deterrence is high. However, the impact of justice and tax knowledge on tax compliance behavior is negative but insignificant (-0.066 and - 0.084), when there is a shift from non-religious to religious, indicating no moderation effect of religiousness on tax compliance behavior with increase in perceived level of tax justice and tax knowledge. Thus, the study concludes that there is at least a moderation effect of religiousness on the tax compliance behavior with the practices of economic deterrence.

CONCLUSION

Tax compliance has been linked to economic and behavioral factors that influence the process of raising public levies. This is why governments are paying more attention to and considering economic and behavioral models of tax compliance. As suggested in prior studies, the tax compliance rate is higher when the taxpayer has a stronger moral belief that tax evasion is not ethical. This study aimed to investigate the tax compliance behavior and the extent to which economic deterrence, tax justice, tax knowledge and religiousness can explain tax compliance behavior among Nepalese entrepreneurs. In addition, the study ascertains the extent to which predictors influence tax compliance and verify the kind of relationship/influence it has on the tax compliance behavior of Nepalese entrepreneurs.

In addition, the study also concludes that more vital tax justice and perceived fairness and educating the entrepreneurs about tax knowledge might positively affect tax compliance. The perceived behavior of justice with tax administration can enhance tax compliance. To encourage tax compliance, fair treatment is more significant than fair advantages or penalty received by taxpayers. This conclusion supports the Fischer model. Noncompliance opportunity can affect taxpayer compliance directly through income level, income source, and occupation and indirectly through attitudes and perceptions and concludes that major considerations for altering taxpayers' attitudes and perceptions of tax compliance are the tax system's fairness and peer influence. This perception of justice will also raise taxpayers' trust in the tax authority, which can improve tax compliance behavior.. Thus, the study recommends that future tax policies be fully projected by taking the negative impact on tax justice.

The study also covered the crucial role of religious belief in maintaining a high degree of tax compliance and suggested that demographic variables, to some extent, directly affect taxpayer compliance by their impacts on noncompliance opportunities and attitudes and perceptions. Thus, tax policies should be concentrated on ethics and religion to avoid further tax evasion tendencies of the subject and encourage tax compliance. Therefore, the study suggests introducing general ethics education, including the practices of fairness and justice for all entrepreneurs in Nepal to enhance level of moral development to improve tax compliance at large.

Major finding

- During the research period, most business people and consumers remained unaware and ignorant about TAX. Therefore, it is necessary to organize his TAX program through training courses, seminars, report presentations, paper publications, journal publications and media to raise awareness of his TAX among the general public.

- Many taxable entrepreneurs are still outside the tax net. Therefore, there is a need to make enforcement more effective and encourage voluntary compliance. Here, taxpayer education and taxpayer services are key functions of modern tax administration to promote voluntary compliance.
- As registered taxpayers are both sellers and buyers of goods and services, invoices must be fair and transparent when transacting. To that end, governments and their professional organizations have launched awareness programs to educate vendors about billing systems and help people become more competent, rational, selective, and watchful for vendor fraud. and should be promoted.
- Suppliers are required to make accounts transparent through appropriate and up-to-date billing systems. They must develop professional skills not only in marketing, but also in accounting and reporting, taking into account the law. In this regard, both state and private institutions should organize training courses on accounting and tax issues.

REFERENCES

Alasfour, F., Martin , S., & Bampton, R. (2016). The determinants of tax morale and tax compliance: Evidence from Jordan. *Advances on Taxation*, 23(4), 125-171.

Banjade, Y. (2022). *Arthik briddidar ra GDP yogdanma Bagmati aghi*. Kathmandu: Kantipur.

Bank, S., Cakmak, A. F., & Budak, T. (2011). An Investigation of taxcompliance intention: Theory of planned behaviors approach. *European Jounal of Economics, Finance and Administrative Science*, *28*, 181-

Bobek, D. D., Hageman, A. M., & Kelliher, C. F. (2013). Analyzing the role of social norms in tax compliance behavior. *Journal of Business Ethics, 115*(3), 451- 468.

Farrar, J., Massey, D. W., Oseki, E., & Thorne, L. (2020). Tax fairness: Conceptual foundation and empirical measurement. *Journal of Business Ethics, 162*, 487- 503.

Fischer, C., Wartick , M., & Mark, M. (1992). Detection probability and taxpayer compliance: A review of the literature. *Journal of Accounting Literature, 11*, 1-46.

Government of Nepal (2020/2021). Economic survey.

Helhel, Y., & Ahmed, Y. (2014). Factors affecting tax attitudes and tax compliance: A survey study in Yemen. *European Journal of Business and Management, 6*(22), 48-58.

Hughes, J. F. (2020). *Moral basis of taxation.Ethics and Taxation*, Springer, Singapore 23-45.

Inasius, F. (2018). Factors influencing SME tax compliance: Evidence from Indonesia. *International Journal of Public Administration, 42*(5), 1-13.

IRD. (2020/21). Annual Report. Inland Revenue Department (IRD), Ministry of Finance.

Raro,Y (1967). Size of sample from the total population

WBG. (2018). *A glass half full: The promise of regional trade in South Asia.*Washington DC: South Asia Development Forum, World Bank Group.

WBG. (2019). *Growing in the shadow : Challenges of informality.* Washington DC: The World Bank Group.

WBG. (2020). *Economic profile of Nepal, doing business report.* Washington DC: World Bank.

Income Tax act 2058