

Determinants of Tax Non-Compliance in Budget-Friendly Boutique and Economy-Class Hotels in Nepal



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Gaurav Ojha¹

¹Faculty Member of
Business Research at Mid-Valley
International College (MVIC),
Gyaneshwor, Marg, Kathmandu.
<https://orcid.org/0000-0001-8439-1915>

*Corresponding Author:
ojhagaurav84@gmail.com

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Abstract

This study examines tax non-compliance behavior among budget-friendly boutique and economy-class hotels in Nepal with reference to perceived fairness of the tax system, cost of tax compliance, coercive power of tax authorities, complexity of the tax system, and peer influence and social norms. A quantitative cross-sectional research design has been applied in this study to analyze the potential impact of these factors on the tax non-compliance behavior of these small, medium-sized, and economical hotels in Nepal. Data was collected from employees associated with 93 budget-friendly boutique and economy-class hotels located in Kathmandu, Lalitpur, Bhaktapur, Pokhara, and Bharatpur. Here, N=187 owner/investors, hotel managers, and heads of accounts and finance departments participated in this study. The results indicate that the cost of tax compliance and peer influence/social norms are influential determinants of tax non-compliance behavior among budget-friendly boutiques and economy-class hotels. Although counterintuitive, this study challenges the conventional deterrence-based assumption that coercive enforcement improves tax compliance behavior. This study concludes that tax regulators need to implement peer-based interventions and compliance-focused recognition programs and adopt supportive rather than punitive enforcement strategies for tax adherence among budget-friendly small- and medium-sized hotels in Nepal.

Key Words: budget friendly, deterrence-based assumption, economy class, hotels in Nepal, peer influence, social norms, tax non-compliance behavior

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Introduction

Comprehensive tax compliance from small businesses and medium-sized enterprises associated with hospitality sector is a challenge to tax authorities in developing economies where both individual and institutional taxpayers have weak compliance attitudes, widespread low profit margins, perceptions of corruption, issues with increasing operating cost, distrust in government, and perceptions of bureaucratic/administrative illegitimacy (Kogler et al., 2023; Abdu & Adem, 2023; Bhattarai, 2023; Dimitras et al., 2025). With a similar institutional framework, budget-friendly boutique and economy hotels in Nepal function with limited administrative capacity, heightened cost pressures, and exposure to competitive informal practices.

Budget friendly/economy hotels, like other small and medium-sized enterprises (SMEs) belonging to the retail/wholesale, manufacturing, service, and technology/software sectors in Nepal operate with constrained administrative capacities, together with heightened challenges arising from tax complexity, inconsistent government support, and gaps in understanding tax obligations (Kogler et al., 2023; Thakur et al., 2024). Similarly, tax non-compliance in small industries and medium size businesses are influenced by informal practices, limited tax literacy, and perceived burdens associated with navigating tax procedures (Thakur et al., 2024; Dimitras et al., 2025). Balaskas et al. (2024), with reference to SMEs in tourism and hospitality sector of Greece, indicate that perceived fairness does have a preventive effect on tax non-compliance when there is use of coercive power from relevant tax authorities.

Beyond structural factors, peer influences and social norms effects tax non-compliance behavior of budget-friendly boutique and economy hotels in Nepal. While international literature indicates that social norms positively affect tax compliance choices of taxpayers (Bobek et al., 2013), whereas Dumre and Shrestha (2023) in their study on industries operating in Butwal Industrial Estate find that social norms and peer pressures have no demonstrable impact on industrial sector tax compliance. Accordingly, based on review of existing literature, this study argues that peer pressure and social norms have a significant role in determining tax non-compliance behavior among budget friendly boutique and economy hotels in Nepal where informal practices, competitor evaluations and peer interactions impact tax related compliance and decisions (Dumre & Shrestha, 2023; Balaskas et al., 2024).

Among the dominant theoretical frameworks explaining tax behavior, deterrence theory argues that taxpayers weigh the expected costs of non-compliance driven by sanctions and enforcement mechanisms against potential benefits (Musimenta, 2020). In addition, evidence from different international research suggests that tax compliance in addition to deterrence-based factors are influenced by psychological, structural, and institutional conditions (Pickhardt & Prinz, 2014; Balaskas et al., 2024; Dimitras et al., 2025). Hence, contemporary and emerging perspectives on tax non-compliance emphasize a complex interplay between tax morality, perceived fairness, administrative complexity, social norms, and trust in authorities influences compliance behavior across diverse institutional contexts (Pickhardt & Prinz, 2014)

Moreover, the burden of compliance costs, including accounting expenses, administrative documentation, and time spent understanding tax rules affects the willingness to comply with tax regime (Ernest et al., 2022). The challenges associated with compliance are particularly acute for Small and Medium Enterprises (SMEs) like budget friendly boutique and economy hotels that operate on thin profit margins and enormous operating cost concerns (Bhattarai, 2023). Therefore, this study seeks to fill this research gap by examining the determinants of tax non-compliance behavior among budget friendly hotels in Nepal with a specific focus on five key predictors of tax-noncompliance: cost of tax compliance, peer influence and social norms, complexity of the tax system, coercive power of tax authorities, and perceived fairness of the tax system.

Although several studies in Nepal have examined tax compliance among medium-sized manufacturing industries (Dumre & Shrestha, 2023) and small businesses (Thakur et al., 2024), there is no empirical research that specifically addresses budget-friendly boutique and economy hotels that operate under unique revenue structures, heavy seasonality, cash-based transactions, and peer-driven competitive practices. Moreover, inconsistencies in prior studies, such as the mixed impact of fairness (Bhattarai, 2023; Dumre & Shrestha, 2023) and the divergent effects of social norms (Bobek et al., 2013; Dumre & Shrestha, 2023; Balaskas et al., 2024), indicate a research gap. Hence, there is a need for a contextual understanding within specific sectors of the hospitality industry.

More importantly, hospitality SMEs in Nepal have unique industry-specific challenges like fluctuating revenue streams, partial seasonality, informal labor arrangements, and heavy reliance on peer networks; thus, there is a necessity for a differentiated understanding of how they interact differently with compliance-related factors compared to other industries (Naicker & Rajaram, 2019; Lestary et al., 2021). Besides, the findings of this study offer insights into context-specific evidence for tax policy reforms and targeted interventions to enhance tax compliance behaviors among SMEs in Nepalese hospitality sector.

Review of Literature

Theoretical Background

In this study, the Fiscal Psychology Theory (Lewis, 1982) provides theoretical foundations for psychological factors such as attitudes, perceptions, and moral beliefs that impact tax non-compliance behavior among owners, managers, and heads of finance departments of budget friendly boutique and economy hotels in Nepal. According to this perspective, taxpayers are more likely to comply with the tax regime when they perceive the tax system as fair, transparent, and beneficial to society. Within this framework, perceived fairness of the tax system (IDV1), including fairness in tax rates, procedures, and the treatment of taxpayers by authorities, becomes a crucial determinant of taxpayer non-compliance behavior (Dimitras et al., 2025).

Similarly, prospect theory, developed by Kahneman and Tversky (1992) provides insight into tax-related decision-making under uncertainty. This theory suggests when it comes to tax compliance institutions are sensitive to potential losses than to equivalent gains

(Kahneman, 2013). This perspective aligns with the concept of the cost of tax compliance (IDV2) that includes the financial, time, and administrative burdens associated with preparing tax returns, maintaining records, and hiring accounting professionals. Additionally, this theory provides theoretical foundations for the coercive power of tax authorities (IDV3), where audits, penalties, and other enforcement actions serve as deterrents that reduces intentional non-compliance, and tax complexity (IDV4) pushes small and medium-sized enterprises like budget friendly boutique and economy hotels toward non-compliance.

The Social Influence Theory (Kelman, 1958) further explains tax behavior through the lens of societal norms and peer influences. This theory argues that individuals align their behaviors with those of their peers through mechanisms such as compliance, identification, and internalization. For budget friendly and economy hotel operators, the tax practices adopted within their professional networks influence their own compliance decisions. This is reflected in the variable peer influence and social norms (IDV5), extent to which colleagues, competitors, or industry expectations affect perception of acceptable tax-related behavior among budget friendly boutique and economy hotels in Nepal (Lestary et al., 2021).

Empirical Review

Regarding review of literature, Ayuba et al. (2016) substantiate Fiscal Psychology Theory, as their study finds that the probability of detection, incentives, and public governance quality enhance tax compliance behaviors among Nigerian SMEs. In addition, empirical evidence from previous literature has consistently revealed the influence of compliance costs on tax behavior among small and medium-sized enterprises (SMEs). Buthelezi and Phesa (2025) found that SMEs' resistance to tax compliance is influenced by their perceptions of the financial and administrative burden associated with meeting tax obligations. Similarly, Appiah et al. (2024) further supported this view by indicating that tax compliance in small and medium-sized businesses is closely linked to perceptions of fairness and the extent of bureaucratic obstacles encountered within the tax system.

Moreover, a critical review of the literature indicates that the findings across multiple contexts are consistent with the fact that resistance to tax compliance is influenced by attitudes of small business and medium size enterprises toward the costs of tax compliance (Naicker and Rajaram, 2019;Thakur et al., 2024; Buthelezi & Phesa, 2025). The consensus among tax practitioners, as substantiated by Buthelezi and Phesa (2025), is that the compliance costs incurred by SMEs increases the likelihood of non-compliance behaviors among these enterprise. These findings have been further reinforced by Naicker and Rajaram (2019) that the high cost of compliance and onerous requirements contributors to the tax non-compliance behavior of SMEs.

Another crucial dimension is the influence of the tax system's structure and fairness. SME tax compliance is rooted in their perception of the system's fairness and the degree of bureaucratic obstacles they encounter (Appiah et al., 2024). Furthermore, studies on individual taxpayers in developing countries, such as Romania, in a study Trifan et al. (2023) emphasize that factors like tax system fairness, trust in government and tax

authorities, knowledge of tax legislation, and tax legislation simplicity are substantial drivers that increase the likelihood of compliance.

In a study [Dumre and Shrestha \(2023\)](#) find that social norms have an insignificant effect on tax compliance among SMEs in Butwal. However, in a study [Sinnasamy et al. \(2015\)](#) indicated that peer pressure and industry expectations influence compliance decisions. In Nepal, particularly, both individual and institutional tax payers rely on informal advice networks and peer reference groups, yet little empirical work has examined how such social dynamics influence tax compliance in the Kathmandu Valley with reference to budget friendly boutique and economy hotels ([Musimenta, 2020](#); [Bhattarai, 2023](#)).

Moreover, a study by [Balaskas et al. \(2024\)](#) on SMEs in Greece's tourism sector show that tax avoidance behaviors in tourism SMEs determined by coercive power, digital transformation, tax knowledge, firm performance, and perceived fairness. Their findings point to a complex interplay of structural and behavioral factors that jointly affect compliance. Similarly, [Matarirano et al. \(2019\)](#), studying SMEs in the construction sector, found that limited tax knowledge among SMEs contributes to their unintentional tax non-compliance.

In a study among five-star hotels in Nairobi County, Kenya, [Gitau et al. \(2025\)](#) find that knowledge complexity and uncertainty complexity reduce willingness or ability to comply among hotels. Besides, for budget friendly and economy hotels in Nepal that operate with limited managerial expertise and minimal accounting capacity, the insights from [Gitau et al. \(2025\)](#) imply that non-compliance germinates from difficulties in understanding tax requirements, ambiguous regulatory changes, and lack of professional support.

When it comes to coercive power, deterrence theory asserts that greater enforcement should reduce non-compliance ([Musimenta, 2020](#)). However, recent research indicates towards inconclusiveness as [Balaskas et al. \(2024\)](#) found that coercive power does not always deter avoidance instead it increases tax avoidance when businesses, industries and enterprises perceive enforcement as unfair or burdensome. In Nepal, where perceptions of corruption and bureaucratic inefficiency remain high ([Kogler et al., 2023](#)), hence coercive power can generate resentment rather than compliance among small business and medium size industries.

In the context of small business in Nepal, [Thakur et al. \(2024\)](#) indicate that complicated procedures reduce taxpayers' willingness to comply. Again, studies from Nigeria and South Africa show that complex procedures and the need to hire tax practitioners increase financial pressure and contribute to non-compliance ([Onoja & Odoma, 2020](#); [Buthelezi & Phesa, 2025](#)). [Naicker and Rajaram \(2019\)](#) further argue that excessive compliance costs undermine SME survival, ultimately encouraging tax avoidance.

Furthermore, empirical findings further indicate that psychological and organizational determinants such as cost of tax compliance, peer influence and social norms, complexity of the tax system, coercive power of tax authorities, and perceived fairness of the tax system explains compliance intentions of SMEs associated with tourism and hospitality

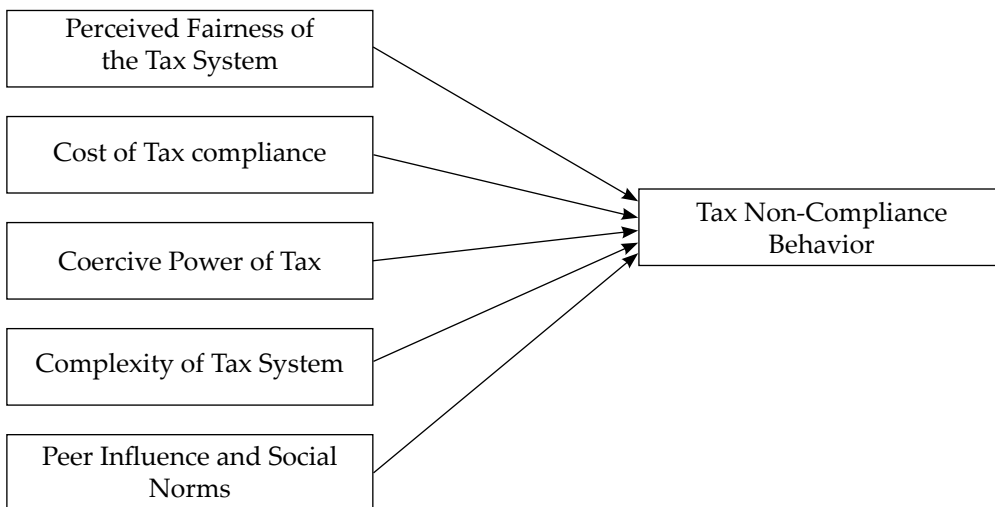
sector (Bani-Khalid et al., 2022; Balaskas et al., 2024). However, these insights are derived largely from European and Asian contexts outside Nepal, and no study has examined to what extent these determinants influence the risk of risk of tax non-compliance within Nepal’s hospitality sector with reference to budget friendly boutique and economy hotels.

Conceptual Framework and Hypothesis

In this study, a conceptual framework has been developed on the basis of existing literature that have examined different variables that influence tax non-compliance behavior among small and medium enterprises associated with tourism and hospitality sector. This model is further informed by the empirical studies such as Sinnasamy et al. (2015); Matarirano et al. (2019); Bani-Khalid et al. (2022); Dumre & Shrestha (2023); Balaskas et al., (2024); Buthelezi and Phesa (2025) and Gitau et al. (2025)

Figure-1

Conceptual Framework



Perceived Fairness of the Tax System and Tax Non-Compliance

In this study fairness perceptions includes degree to which hotel operators believe that tax rules, procedures, and enforcement practices are just, unbiased, and equitable. Studies have shown that when taxpayers feel fairly treated their voluntary tax compliance increases (Sinnasamy et al., 2015; Bani-Khalid et al., 2022; Bhattarai, 2023;). However, in a study Dumre & Shrestha (2023) found an insignificant relationship between fairness and compliance. In tourism-related SMEs, where earnings fluctuate and competition is intense, this study assumes that perceived inequities in tax administration prompts non-compliance as a compensatory mechanism (Balaskas et al., 2024).

H1: *Perceived fairness of the tax system has a negative and significant effect on tax non-compliance behavior among budget-friendly boutique and economy class hotels.*

Cost of Tax Compliance and Tax Non-Compliance

The cost of tax compliance in this study comprises of financial, administrative, and time-related expenses. SMEs in developing economies lack in-house expertise and they have to rely on costly external tax professionals for managing their tax documentation and commitments (Matarirano et al., 2019). International research across various contexts confirms that high compliance costs burden small and medium size business and increases their non-compliance behavior (Naicker & Rajaram, 2019; Buthelezi & Phesa, 2025). Hence, based on review of literature this study assumes that cost of tax compliance influences *on tax non-compliance behavior*

H2: *Cost of tax compliance has a positive and significant effect on tax non-compliance behavior among budget friendly budget-friendly boutique and economy class hotels.*

Coercive Power of Tax Authorities and Tax Non-Compliance

According to traditional deterrence theory, higher enforcement and stricter penalties reduces non-compliance (Musimenta, 2020). However, a recent study challenges this view. Balaskas et al. (2024) found that coercive power sometimes increases tax avoidance, when hospitality industries perceived enforcement as unfair and excessive. As Kogler et al. (2023) indicates in a tax environments with distrust or perceived corruption, coercive approaches generate resentment and indifference to tax regulations rather than compliance. Hence, this study assumes that budget friendly boutique and economy hotel operators who view audits and penalties as arbitrary respond defensively by evading taxes. Hence, coercive power has an unintended negative consequences on compliance.

H3: *Coercive power of tax authorities has a negative and significant effect on tax non-compliance behavior among budget friendly boutique and economy hotels.*

Tax System Complexity and Tax Non-Compliance

Tax complexity has been acknowledged as a major driver of non-compliance among SMEs with limited administrative capacity and thin profit margins (Bani-Khalid et al., 2022). A research on the context of small business in Nepal (Thakur et al., 2024) reveal that unclear procedures and complex rules reduce taxpayers' willingness to comply. International research shows that complexity contributes to errors, delays, and deliberate avoidance (Onoja & Odoma, 2020). When taxpayers find tax rules difficult to interpret, this study assumes they inadvertently or intentionally fail to comply. Deterrence theory suggests that uncertainty reduces perceived detection risk, making non-compliance more attractive.

H4: *Tax system complexity has a positive and significant effect on tax non-compliance behavior of budget friendly economy hotels.*

Peer Influence, Social Norms, and Tax Non-Compliance

Social influence theory posits that individuals model their behavior based on perceived norms within their social or professional environment. Bobek et al., (2013) found that

both descriptive norms and injunctive norms have positive and significant impact on tax compliance. However, [Dumre and Shrestha \(2023\)](#) observed no significant effect in the industrial sector in Nepal. Considering this as a research gap. This study assumes that in Nepalese hospitality sector owner, manager, head of finance department and operators believe that peers commonly under-report income or tax avoid filing and these normative practices have normalized non-compliance behavior among owner, operators, managers and heads of finance department in economy hotels ([Lestary et al., 2021](#)).

H5: *Peer influence and social norms have a positive and significant effect on tax non-compliance behavior among budget friendly boutique and economy hotels.*

Enterprise Association and Tax Non-Compliance

Building upon the findings of [Thakur et al \(2024\)](#) that only 48.38% of small business owners were aware of their tax compliance intentions this study examines whether similar discrepancies exist within the hotel sector as well regarding non-compliance intentions. Although the earlier study lacked evidence on differences among owners, managers, and finance heads, the findings of the study suggests that organizational roles influence tax-related perceptions. Therefore, this research hypothesizes that enterprise association as an owner/investor, hotel manager, or head of Finance differentiate their attitudes toward tax non-compliance in economy hotels of Kathmandu Valley.

H6: *There is a significant difference in attitudes toward tax non-compliance among Owners/ Investors, Hotel Managers, and employees working in Account and Finance department of budget friendly boutique and economy hotels.*

Research Methods

This study uses a quantitative approach with a cross-sectional study design to investigate the factors influencing tax non-compliance behavior among boutique and economy-class hotels operating in Nepal. This research design has been considered appropriate, as it enables the researcher to assess different predictor variables systematically at a single point in time for better understanding of those factors that influence decisions on tax issues within the hospitality industry.

In this study budget-friendly boutique and economy-class hotels and guesthouses have been categorized from 2-star / 1-star equivalents to budget friendly economy hotels offering basic comforts such as shared or private bathrooms, Wi-Fi, hot water, and clean bedding. In this study online platforms and websites like <https://www.tripadvisor.com> and <https://www.oyorooms.com/np/budget-hotels-in-kathmandu/> have been used to locate relevant hotels in Kathmandu Valley, Pokhara, and Bharatpur for field visits and data collection.

For the purpose of sampling, a non-probability convenience sampling technique has been adopted for respondent selection. The respondents for this study consist of 93 budget friendly boutique and economy-class hotels located in Kathmandu, Lalitpur, Bhaktapur, Pokhara, and Bharatpur. In this study the field survey and drop-and-pick method has been applied for data collection structured, self-administered questionnaire

was used in the study for data collection. This study employed a cross-sectional design for collecting data at a single point in time, and the 93 hotels represent the total number of registered budget-friendly boutique and economy-class hotels included in the data collection protocol for the selected study areas, aimed at minimizing sampling bias within this specialized hospitality segment.

Apart from the researcher himself, seven students studying hospitality management in different colleges based in Kathmandu further facilitated the distribution and collection of responses from the printed questionnaires from hotels outside Kathmandu between 18 July and 28 August 2025 during their semester break. The questionnaire was available in both English and Nepali translation depending upon the preference of the respondent. The main inclusion criterion for respondents in this study was their decision-making authority within the organizational structure for financial management, tax reporting, and compliance/non-compliance. Although 215 questionnaire were distributed in sampled hotels after evaluation of returned questionnaire, due to errors and omissions, only about 187 responses have been considered as valid for further data analysis. Hence, the final sample in this study included 187 owner/investors, hotel managers, and heads of accounts and finance departments.

The instrument was developed through the adaptation of items from previously validated scales in studies of tax compliance and tourism SMEs, which ensured its reliability and contextual relevance. This study adapted instruments from Bobek et al. (2013), Onoja & Odoma (2020), Balaskas et al. (2024), Thakur et al. (2024), Matarirano et al. (2019) and Bani-Khalid et al. (2022). All the measurement items used in this study have been formulated in a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Minor modifications have been made to conform these research items with Nepalese hospitality context without compromising content validity.

In this study, the questionnaire was divided into two broad sections: demographics and scale measurements. Scale measurements included subsets of two research items for each independent variables and the dependent variable, tax non-compliance behavior. Here a pilot test with 32 hotel managers and heads of accounts and finance was carried out prior to its full deployment to assess the instrument's validity and reliability. The Cronbach's Alpha coefficients for perceived fairness of the tax system (0.848), *cost of tax compliance* (0.833), coercive power of tax authorities (0.892), complexity of the tax system (0.832), peer influence and social norms (.817), and *tax non-compliance* (0.821) confirmed internal consistency and reliability.

Furthermore, in this study, data were analyzed using descriptive statistics and multiple regression at a 5% significance level. In this study, descriptive analysis has summarized the demographic characteristics and examined central tendencies of response associated with each variable. Multiple regression has been also applied to identify positive and statistically significant predictors of tax non-compliance intention. In addition, Analysis of Variance (ANOVA) in this study has been used to determine whether there are significant differences within the independent group consisting of owner/investors, general managers, and heads of accounts and finance departments in their attitude towards *tax non-compliance*. Here, data were coded and analyzed using IBM SPSS Statistics version 24.

Results and Analysis

This section of the study includes the demographic profile, descriptive statistics of the study variables, and multiple regression analysis.

Demographic Profile

The demographic characteristics of respondents are shown in Table 1. Among the respondents, 67.4% were male and 32.6% were female. The majority of the respondents (62%) are between the ages of 40-60 range. Similarly, most of the respondents (94.7%) have graduate and post graduate degree and above degree. In terms of enterprise association, the majority of the respondents (57.2%) are associated with finance and account department, followed by 28.8% of hotel managers and 14% of respondents consists of owners and investors

Table 1

Demographic Information of Owners, Hotel Managers, Head of Account/Finance

Respondent Profile	Frequency	Percentage (%)
N= 187		
Gender		
Female	61	32.6
Male	126	67.4
Age (in years)		
20-30	12	6.4
30-40	42	22.4
40-50	64	34.2
50-60	52	27.8
60 and above	17	9.2
Education		
High School	10	5.3
Graduate Degree	62	32.1
Post-graduate degree and above	115	62.6
Enterprise Association		
Owner/Investor	26	14
Hotel Manager	54	28.8
Employee of Finance/Account Department	107	57.2
Ownership Structure		
Sole Proprietorship	46	24.5
Partnership	94	50.2
Family Business	47	25.3

Note. Field Survey (2025)

Table 2
Descriptive Analysis of the Variables

Variables	Mean Value	SD Value
Perceived fairness of the tax system		
I believe the tax rates applied are fair and reasonable	2.83	0.64
The procedures and treatment by tax authorities are impartial to my hotel	2.74	0.73
Overall Value	2.78	
Cost of tax compliance		
The financial costs associated with tax compliance are a burden for my hotel.	4.57	0.79
The time and effort required to prepare and file tax returns increase operating cost of the hotel	4.55	0.89
Overall Value	4.56	
Coercive power of tax authorities		
I believe there is a likelihood of my hotel being inspected by tax authorities if I underreport my income.	2.67	0.78
I am concerned about the financial and legal consequences associated with tax non-compliance.	3.17	0.72
Overall Value	2.92	
Complexity of Tax System		
The tax rules and procedures for hotels are too complicated to understand easily.	3.27	0.65
Complex tax regulations make it difficult for my hotel to comply accurately.	2.93	0.75
Overall Value	3.10	
Peer Influence and Social Norms		
Most of the hotels I know engage in some form of tax non-compliance.	4.89	0.31
The hotel industry in the Nepal does not have a strong social expectation to pay taxes honestly.	4.58	0.43
Overall Value	4.73	
Tax non-compliance behavior		
My hotel intentionally underreports its income to reduce its tax liability.	4.27	0.75
I have engaged in practices that reduce tax liabilities of the hotel beyond what is legally permitted.	4.32	0.78
Overall Value	4.29	

Note. From the Researcher's Survey (2025)

Descriptive statistics presented in Table 2 in this study indicate that the respondents in this study perceive higher levels of tax non-compliance in their hotels (Overall Mean = 4.29). Similarly, the overall mean of 4.73 for peer influence and social norms suggests that their tax non-compliance behaviors are influenced by the tax filing practices of hotels operating in their business context. Likewise, the overall mean value of perceived fairness of the tax system is 2.78, and for coercive power of tax authorities, it is 2.92. In addition,

the overall mean for the cost of tax compliance is notably high (i.e., 4.56), indicating that the additional operation of the cost of tax filing and compliance influences their tax avoidance behaviors. Likewise, the overall mean for complexity of the tax system is 3.10, which means it has a moderate impact on tax non-compliance behavior.

Analysis of variance

Table 3

Analysis of variance in Tax non-compliance based on Enterprise Association

	Enterprise Association	Weighted MEAN	F-value	P-value
Tax non-compliance	Owner/Investor	4.19	5.43	0.193
	Hotel Manager	4.35		
	Head of Finance/Account	4.22		

P value significant at <0.05

As the data above suggests, ANOVA test indicates that there is no statistically significant different between owner/investors, hotel managers, and heads of accounts and finance departments on their perception towards tax-non-compliance behavior. The signifies that perception on tax compliance across different levels of institutional associations do not differ significantly. Hence Hypothesis-6 of this study has been rejected as enterprise association as an Owner/Investor, Hotel Manager, or Head of Finance doesn't significantly differentiate their attitudes toward tax non-compliance in boutique and economy hotels in Nepal.

Multiple Regression Analysis

In this study, multiple regression analysis has been used to examine the causal relationship between the perceived fairness of the tax system (IDV1), the cost of tax compliance (IDV2), the coercive power of tax authorities (IDV3), the complexity of the tax system (IDV4), and peer influence and social norms (IDV5) and their influence on *tax non-compliance behavior among boutique and economy hotels inside Kathmandu Valley*. In this study, multicollinearity and tolerance values for all five independent variables are within the accepted threshold of <0.10, together with corresponding VIF values below the critical threshold of 5. Here, VIF values are as follows: 1.83 (IDV1), 1.87 (IDV2), 1.83 (IDV3), 2.31 (IDV4), and 2.23 (IDV5).

Table 4

Model Summary

Model	R	R Square	Adjusted R-Square	Std. Error
1	.689	.523	.413	.4742

Note. a. Predictors: (Constant): cost of tax compliance, peer influence and social norms, complexity of the tax system, coercive power of tax authorities, and perceived fairness of the tax system. *b.* Dependent Variable: tax non-compliance behavior

Table 4 indicates that 52.3% of the variance in *the tax non-compliance* behavior of hotels is collectively accounted for by the cost of tax compliance, peer influence and social norms, the complexity of the tax system, the coercive power of tax authorities, and the perceived fairness of the tax system. This suggests a moderate level of explanatory power for these variables in predicting tax compliance behavior among boutique and economy hotels in Nepal.

Table 5*Regression Analysis*

Model		Unstandardized Coefficients		Standardized Coefficients	t-value	p-value
		(β)	Std. Error	(β)		
1	(Constant)	4.104	0.1707		4.087	.031*
	IDV1	-0.108	.0603	0.137	1.54	.112
	IDV2	1.087	0.0757	1.082	1.41	.003*
	IDV3	0.139	0.0227	0.130	1.67	.061
	IDV4	0.168	0.0486	0.161	1.21	.060
	IDV5	3.469	0.0143	3.455	4.03	.001*

Note (s). F = 43.0792; Significant at p value <0.05 Level

Table 5 shows the findings of multiple regression analysis based on the causal relationship developed in the research model. In this table as illustrated, the cost of tax compliance (IDV2) ($\beta = 1.087$, $p = .003$) and peer influence and social norms (IDV5) ($\beta = 3.469$, $p = .001$) have a positive and significant impact on tax non-compliance behavior. Hence, hypotheses 2 and 5 of this study have been supported by the data analysis. On the other hand, perceived fairness of the tax system (IDV1) has $\beta = -0.108$ with $p = 0.112$, indicating an inverse relationship that is statistically insignificant. In addition, although counterintuitive, a positive coefficient $\beta = 0.139$, suggests that coercive power (IDV3), such as the threat of penalties and auditing strictness, increases tax non-compliance slightly.

However, as indicated in the table, this relationship is not statistically significant. Here again, the complexity of the tax system (IDV4), $\beta = 0.168$, has a positive yet statistically insignificant relationship with tax non-compliance. Here, the Intercept has a coefficient of 4.104, with a P-value of 0.031, indicating the model applied in this study statistically significant at the 5% level. Based on regression analysis the following equation can be used to predict Tax non-Compliance behavior (DV using the regression model applied in this study:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 - \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Tax Non-Compliance behavior = -0.108 (Perceived fairness of the tax system) + 1.089 (Cost of tax compliance) + 0.139 (coercive power of tax authorities)+0.169 (complexity of the tax system)+3.469 (peer influence and social norms) +4.104

Discussion

The findings of this study provide empirical evidence on the determinants of tax non-compliance within Nepal's hospitality sector, specifically with reference to economy hotels across Kathmandu Valley, Pokhara, and Bharatpur. The results of this study indicate that the cost of tax compliance has a positive and significant influence on tax non-compliance. This result aligns with earlier research showing that high compliance costs discourage voluntary compliance among SMEs (Faridy et al., 2017; Naicker & Rajaram, 2019). Within the hotel sector, this study argues that the administrative burden associated with VAT filing, record-keeping, and service charge reporting creates pressure on financial managers and reinforces a perception among owners/investors, managers, and heads of finance that compliance is costly. These findings align with Compliance Cost Theory, as any business and enterprise, including economy hotels, evaluate the costs associated with fulfilling tax obligations before taking over their compliance behavior (Musimenta, 2020).

In addition, Buthelezi and Phesa (2025) found that SMEs' resistance to tax compliance is elaborated by their perceptions of the financial and administrative cost associated with meeting tax obligations. The finding of the study regarding the cost of tax compliance reflects prospect theory: individuals associated with enterprises are generally more sensitive to potential losses than to equivalent gains. Moreover, in this study peer influence and social norms emerged as the strongest predictor of tax non-compliance. The findings of this study indicate that in the hospitality sector, social learning has a significant role: when managers perceive non-compliance as a normative practice within their professional network, they are more likely to rationalize similar behavior (Gitau et al., 2025).

Here, the findings reflect arguments of Social Influence Theory (Kelman, 1958) that individuals and institutions align their behaviors with those of their peers through mechanisms such as compliance, identification, and internalization. This finding mirrors Sinnasamy et al. (2015), who indicated that peer pressure and industry expectations guide compliance decisions. This study broadens the argument with Dumre and Shrestha (2023) that although social norms have an insignificant effect on tax compliance, when it comes to tax compliance, both social norms and peer pressure have a positive and significant impact on the tax-related decisions of small- and medium-scale enterprises. This finding aligns with the extended theory of planned behavior that subjective and social norms influences managerial tax compliances and decisions (Bani-Khalid et al., 2022).

The study finds that tax system complexity has a positive but statistically insignificant impact on tax non-compliance. This result echoes Faridy et al. (2017), linking complex VAT rules, ambiguous reporting requirements, and unclear tax laws to higher instances of non-compliance. However, this study, in line with Thakur et al. (2024), argues that although tax complexity significantly correlates with tax compliance intentions, it is not a determining factor in tax non-compliance. Similarly, this study finds that perceived fairness of the tax system has a negative yet statistically insignificant effect on tax non-compliance behavior in economy hotels. This finding confirms with Balaskas et al. (2024) that perceived fairness is not positively related to tax avoidance intention.

Furthermore, the findings on the coercive power of tax authorities reveal a positive but statistically insignificant relationship with non-compliance. This contrasts with classical deterrence theory, which would predict a negative relationship (Abdu & Adem, 2023). However, this finding remains congruent with Balaskas et al. (2024) that coercive power in the context of hospitality industry increases tax avoidance. Likewise, as indicated by the finding, this study argues that in the context of budget friendly and economical hotels, discretionary enforcement corrupt practices, and administrative inefficiencies have generated perceptions among managers, owners, account and finance in-charge that coercive measures taken by relevant authorities are just minimalistic ways for expressing their concerns without proper corrective, supportive or punitive actions (Kogler et al., 2023).

Further, this study aligns with psychological perspective as Bani-Khalid et al. (2022) observed that taxpayers who perceive tax compliance as financially unfavorable either avoid or evade tax commitments. Together with Bani-Khalid et al. (2022) this study also reflects that the attitudes toward the value of compliance, social pressures from family and business associates, and perceived ease or difficulty of complying collectively determine behavioral intentions of small and medium size businesses and industries in hospitality sector in Nepal. Besides, the overall findings of this study are relatable with Abdu and Adem (2023) the that inefficiency of tax authorities, negative perception of taxpayers and lack of transparency of tax system impacts tax non-compliance behavior among managers, owners and finance/account department heads of economy hotels in Nepal.

In this study, the statistically insignificant relationship between fairness perceptions and tax noncompliance suggests that abstract notions of tax equity are irrelevant before practical financial concerns of budget-friendly boutique and economy hotels in Nepal. In addition, the positive, though insignificant, coefficients for coercive power and tax complexity hint at a complex environment where existing tax deterrence factors do not function as intended. And these findings would be explained by a proposition that if non-compliance is a sectoral norm, small and medium-sized hotels in Nepal become desensitized to the threat of enforcement and view complexity.

Within the Nepalese context, the findings of this study relate to perceived fairness of the tax system has a negative influence on tax non-compliance. With Bhattarai (2023) this study agrees that taxpayers are willing to comply with tax regime when they believe the system is just and unbiased. Besides, this study supports Thakur et al. (2024) that administrative challenges and tax complexity have a critical role in determining compliance behavior. More importantly, the findings of this study confirm that economic, psychological, institutional, and social factors impact tax non-compliance (Pickhardt & Prinz, 2014).

Conclusion & Implications

This study examined the determinants of tax non-compliance among economy hotels in major tourism hubs of Nepal using a sample of 187 responses from general managers, owners/investors, and finance heads. This study examined the determinants of tax non-compliance among economy hotels in Nepal and found that economic, psychological,

institutional, and social factors jointly elaborate non-compliant behavior. Peer influence, perceived social norms, and the financial costs of compliance emerged as important predictors, aligning with [Bani-Khalid et al. \(2022\)](#), who in their study have emphasized the roles of attitudes, subjective norms, and perceived behavioral control in determining tax compliance intentions. Hence, this study concludes that hotels that perceive tax non-compliance as financially rewarding and socially acceptable are more likely to engage in such behavior. Similarly, the findings of this study challenge the conventional deterrence-based assumption that coercive enforcement improves compliance ([Musimenta, 2020](#)).

Moreover, the findings of this study underscore the importance of simplifying the tax system, reducing administrative burdens, and adopting more supportive rather than punitive enforcement approaches. As a theoretical implication based on social influence theory, this study argues that the tax authorities need to reshape the social norms of tax behavior among economy hotels. From the viewpoint of compliance cost theory, this study suggests that the government needs to reduce both financial and administrative burdens related to compliance among budget friendly and economy hotels.

Concerning policy implications, this study suggests that tax authorities need to simplify tax procedures, particularly VAT filing and service charge reporting, to reduce compliance costs. More importantly, enforcement strategies must shift from coercive approaches to more trust-based and facilitative interactions that emphasize education, transparency, and support. Here, government and hotels associations need to work together to modify social norms around tax compliance by promoting success stories of compliant businesses and raising awareness of long-term benefits of tax transparency.

Despite its contributions, this study is limited by the exclusion of several potentially relevant variables, such as digital transformation, tax knowledge, and firm-level financial performance, which interact significantly with compliance behavior in modern hospitality operations. The analysis was restricted to a sample of 93 budget friendly boutique and economy hotels across Kathmandu, Lalitpur, Bhaktapur, Pokhara, and Bharatpur with only 187 respondents. However, this study flashes out directions for future research to incorporate organizational and technological factors, expand the geographic scope, and employ mixed-method research designs to capture dynamic changes in compliance behavior ([Bani-Khalid et al., 2022](#)). Besides, examining digital accounting adoption, real-time tax reporting systems, and post-pandemic economic recovery effects would offer deeper insights into evolving determinants of tax compliance/non-compliance in Nepal's hospitality industry.

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