

Attitudes of Micro, Small and Medium Size Entrepreneurs on Nepalese Tax System

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Abstract

This study investigates how Nepalese micro, small, and medium-sized business (MSME) owners feel about the tax structure in their nation. Tax knowledge and awareness, perceived fairness of the tax system, tax process complexity, trust in the government and tax authorities, and perceived utility of tax income are all evaluated, as is their impact on attitudes toward tax compliance. Using convenience sampling and a structured questionnaire, information was gathered from 201 MSME owners in Chitwan. While correlation and regression analyses were used to look at relationships and test hypotheses, descriptive statistics provided a summary of the respondents' opinions.

The results show that MSME owners have a favorable view toward the tax system due to their moderate to high levels of tax knowledge and awareness. Moderately fair tax rates, penalties, and equity were perceived, however this raised questions about uneven application and unfair treatment. Entrepreneurs' perceptions of the complexity of tax procedures were varied; while they found some processes manageable, they frequently needed outside help. Positive tax views were moderately impacted by perceived utility of tax revenue and trust in government and tax authorities, highlighting the need of transparency and obvious public benefits in encouraging compliance.

Complexity was not a significant predictor of attitudes toward the tax system, according to regression results, but tax knowledge, perceived justice, trust in authorities, and perceived use of tax income all had a significant impact. To increase compliance among MSMEs in Nepal, our findings point to the necessity of focused tax education, enhanced equity and openness in tax administration,

and streamlined tax procedures. Based on self-reported data and restricted to urban MSMEs, the study offers guidelines for future research that could incorporate longitudinal methods and rural locations.

Keywords: MSME, Tax Knowledge, Perceived Fairness, Tax Complexity, Trust, Tax Compliance, Nepal

1. Introduction

Micro, Small, and Medium-Sized Enterprises (MSMEs) are classified by their size, typically measured by employee count and annual revenue, and are vital for economic growth as they drive innovation, generate employment, and contribute to national income. Nepalese tax system comprises various direct and indirect taxes aimed at generating revenue for government expenditures and promoting economic growth. [Damajanti and Karim \(2017\)](#) indicate that Indonesia's self-assessment income tax system depends on taxpayers' understanding of tax laws, and their study shows that improved tax knowledge significantly boosts compliance rates among individuals in Central Java's Tax Office. There are many factors that affect these opinions and some of them are the difficulty of tax process, perceived fairness of the tax system, tax knowledge and awareness, trust in the government and tax authorities, and the perceived value of tax income ([Deyganto, 2018](#)). [Mukti \(2019\)](#) highlights that small and medium enterprises are crucial for economic progress, emphasizing the need for investment in local labor and materials in Nepal. The study utilized Johansen Cointegration, VAR, and Granger Causality tests, and found a significant positive relationship between investment and real GDP, while the link between total SMEs and real GDP was found to be insignificant and negative, indicating that investment plays a more critical role in influencing economic growth in Nepal.

[Eerola et al. \(2019\)](#) highlights that understanding tax regulations and being aware of MSMEs greatly influences compliance behavior, as tax knowledge includes legal duties and procedures, while awareness integrates this knowledge with the skills necessary for effective tax management. Although several developing nations have effectively engaged with global value chains (GVCs), Nepal continues to struggle with its export performance ([Kharel & Dahal, 2020](#)). Micro, Small and Medium Enterprises (MSMEs) are crucial for economic development in several countries, with access to finance recognized as a significant barrier to their growth ([Madan, 2020](#)). Bhutan is recognized for its favorable financing environment for micro, small, and medium enterprises (MSMEs), unlike Cambodia, which faces a substantial financial gap that primarily affects microenterprises. Women-owned MSMEs in Bangladesh, Bhutan, and Nepal encounter minor financing challenges. However, they face more significant hurdles in Cambodia and Laos, where their presence is much larger

([Madan, 2020](#)). [Adhikari et al. \(2021\)](#) emphasize the vital role that small businesses play in the economic development of countries like Nepal. Their study found that over 90% of participants indicated experiencing various financial hardships. Only a small fraction of respondents reported facing no challenges at all. [Mishra \(2022\)](#) examines the challenges faced by small and medium enterprises (SMEs) in Nepal, highlighting the disparity between official policies and the realities they encounter.

Nepal's economy significantly relies on Micro, Small, and Medium Enterprises, which contribute over 22 percent to the GDP and create more than 1.7 million jobs. However, these enterprises encounter challenges with tax compliance and regulatory frameworks that obstruct their growth and sustainability. To formulate effective tax policies, it is essential to comprehend the factors influencing MSMEs' views on tax compliance ([Khanal et al., 2023](#)). Likewise, [Singh and Kharel \(2023\)](#) examine the challenges encountered by MSMEs in Nepal and evaluate innovation support programs designed to address these issues, while also assessing policies and stakeholder viewpoints on their effectiveness in promoting equity, diversity, and inclusion, especially for growth-oriented startups and export initiatives.

One of the major influencers of MSME attitude is the perceived equity in the tax system. Perceived fairness is the extent to which taxpayers consider the tax system to be fair and equitable ([Khanal et al., 2023](#)). [Dumre and Shrestha \(2023\)](#) investigate factors influencing tax compliance, finding a strong correlation between accounting practices and fiscal responsibility, while noting that social norms and fairness perceptions have minimal impact. Consequently, business owners should prioritize precise accounting and advocate for the use of tax revenues to enhance societal welfare. [Dhakal et al. \(2023\)](#) examine the influence of demographic factors on tax compliance behavior, revealing a mixed relationship between these factors and compliance levels.

In Nepal, the responsibility for income tax, value-added tax, and excise duty falls under the Inland Revenue Department; however, numerous MSMEs encounter issues with tax evasion and underreporting, largely because of confusion surrounding the tax system. A survey revealed that 61.5 percent of small businesses in Kathmandu identified the complexity of the system as an obstacle to tax compliance ([Thakur et al., 2024](#)). [Castañeda \(2024\)](#) examines the impact of fairness perceptions on tax compliance attitudes in developing countries, finding that individuals who prioritize fairness are less likely to view taxes as a civic duty and may justify tax evasion. Beliefs regarding reciprocity, merit, and income position are found to influence these perspectives significantly. This study seeks to find answers to the following questions: What is the current status of tax knowledge and awareness, perceived fairness of the tax system, complexity of tax procedures, trust in government and tax

authorities, perceived usefulness of tax revenue, and how do these factors relate to and impact MSMEs' attitudes towards the tax system? The study aims to examine the perceptions of MSMEs toward Nepalese tax system, with several specific objectives outlined. Evaluate the relationship between tax knowledge, perceived fairness, and procedural justice in tax-related contexts.

1.2 Hypotheses

The following are the proposed hypotheses for the study:

- H1: There is a positive significant relationship between tax knowledge and awareness and **perception towards the tax system** of MSME.
- H2: There is a positive significant relationship between perceived fairness of tax system and **perception towards the tax system** of MSME.
- H3: There is a positive significant relationship between complexity of tax procedures and **perception towards the tax system** of MSME.
- H4: There is a positive significant relationship between tax **trust in government and tax authorities** and **perception towards the tax system** of MSME.
- H5: There is a positive significant relationship between **perceived usefulness of tax revenue** and **perception towards the tax system** of MSME.

1.2 Limitations of the Study

The study's limitations include its focus on MSME owners in Nepal, a small geographical sample that lacks diversity, reliance on potentially biased self-reported data, and an emphasis on urban MSMEs that overlooks rural challenges and a narrow examination of current tax attitudes without considering long-term changes in tax policy or MSME behavior.

1. Literature Review

2.1. Theoretical Review

2.1.1. Theory of Planned Behavior (TPB)

The Theory of Planned Behavior (TPB) posits that MSME owners' intentions to file taxes honestly are influenced by their attitudes toward the tax system, subjective norms, and perceived behavioral control ([Ajzen, 1991](#)). In Nepal, the close-knit nature of business relationships means that social pressures significantly affect compliance behaviors, highlighting the importance of subjective norms rooted in community expectations ([Owusu et al., 2020](#); [Bobek et al., 2013](#)). Taxpayers' perceived capability to comply is also closely linked to their understanding of tax procedures and access to e-filing options ([Bhattarai,](#)

[2023](#)). Furthermore, integrating constructs like perceived fairness and trust is vital, as low institutional trust impacts citizens' attitudes toward taxation ([Lamichhane et al., 2025](#); [Singh & Kharel, 2022](#)). Thus, TPB serves as a flexible model for analyzing tax behavior by incorporating psychological and social dimensions within Nepal's institutional framework.

2.1.2. Economic Deterrence Theory

[Allingham and Sandmo \(1972\)](#) introduced the economic deterrence theory (EDT), a foundational concept in understanding tax compliance, which assumes that taxpayers weigh the costs of compliance against the benefits of evasion in a rational manner. This traditional model posits that fear of detection and penalties drives tax adherence, suggesting that increasing audits and penalties could effectively reduce non-compliance. However, this perspective oversimplifies human behavior and overlooks the complex interplay of institutional, moral, and emotional factors influencing taxpayers' decisions.

To address these shortcomings, researchers like [Brooks \(2001\)](#) and [Musimenta \(2020\)](#) have proposed an expanded version of the EDT. This model incorporates indirect deterrents, such as perceptions of tax equity, trust in authorities, and tax system complexity, which serve as either motivations or obstacles to compliance. For instance, businesses may feel discouraged from complying if they perceive the tax system as unfair or overly complicated. Studies in Kathmandu ([Lamichhane et al., 2025](#)) and among Tanzanian MSMEs ([Magasha et al., 2025](#)) indicate that compliance is more profoundly affected by institutional trust and support than by punitive measures alone. Ultimately, a behaviorally modified EDT provides a more nuanced understanding of tax compliance among MSMEs in developing nations, such as Nepal.

2.1. Conceptual Review

2.1.1. Tax Knowledge and Awareness

[Palil and Mustapha \(2011\)](#) emphasize the significance of tax knowledge in influencing compliance behavior under Malaysia's self-assessment system, highlighting the necessity for targeted tax education programs to enhance taxpayer awareness of their rights and responsibilities. Along the same line, [Bobek et al. \(2013\)](#) investigate the complex effects of social norms on tax compliance, employing a structured approach derived from Cialdini and Trost's classification. Their results indicate that individual norms and the expectations of those in close relationships have a direct impact on compliance, whereas wider societal norms and the actions of others affect compliance indirectly.

MSMEs need to know the registration requisites, filing process, payment timelines, and admissible deductions. Tax literacy is crucial in shaping tax behavior, as it empowers business owners to make conscious and confident decisions about compliance ([Damajanti &](#)

[Karim, 2017](#)). [Musimenta \(2020\)](#) highlights that although Ugandan taxpayers possess sufficient tax knowledge, the complexities of the tax system lead to increased compliance costs, ultimately affecting their adherence to tax obligations. [Adhikari et al. \(2021\)](#), full compliance with tax regulations in Nepal is consistently hindered by a generally low level of understanding among micro and small firms, which often find tax forms complex and feel that outreach efforts are inadequate. Many studies find that enhancing the tax knowledge directly contributes to voluntary compliance. [Andrean and Setyowati \(2022\)](#) conducted a qualitative research study aimed at investigating how Business Development Services (BDS) can enhance tax compliance among MSME taxpayers in Indonesia, utilizing a variety of literature for their analysis. Their results suggest that combining BDS with tax socialization efforts greatly enhances tax knowledge and perceptions of tax fairness among MSMEs, underscoring the importance of a compelling BDS program from the Tax Office. Similarly, [Bhattarai \(2023\)](#) examined the various elements that influence the compliance behavior of personal income taxpayers in the Kathmandu Valley, focusing on factors such as tax awareness, fairness, complexity, tax rates, and income levels. The study found that enhancing public services and increasing tax awareness could significantly improve compliance. It also suggested that future research explore how social norms affect tax-related behaviors.

Despite this, there is still a lack of MSME outreach in Nepal; The research pinpoints significant challenges faced by small and medium-sized enterprises (SMEs) in Nepal, including inadequate supportive policies, high collateral demands for financing, and limited access to information, and it suggests targeted policy improvements to enhance SME participation in GVCs ([Kharel & Dahal, 2020](#)).

2.1.2. Perceived Fairness of Tax System

A taxpayer's subjective assessment of the impartiality, equity, and consistency with which the tax code is administered to both individuals and businesses is known as perceived fairness. The three components of distributive fairness (the allocation of the tax burden), procedural fairness (the process of decision-making) and retributive fairness (the application of sanctions) are frequently employed to assess justice in taxation ([Brooks, 2001](#)). Moreover, [Brown and Mazur \(2003\)](#) emphasize that promoting sustainable voluntary compliance demands transparency and fairness in enforcement, especially in sectors dominated by informal activities. According to [Owusu et al. \(2020\)](#), when the public sees elites engaged in tax avoidance, they believe themselves to be morally entitled not to pay taxes as well.

Bhattarai (2023) highlighted that people's willingness to pay taxes in Nepal was directly impacted by how fair they thought the tax laws were. Thakur et al. (2024) highlight that tax compliance presents significant challenges, especially for small business owners in the Kathmandu Valley, where just 48.38% report being aware of their compliance intentions. The study stresses the importance of enhancing tax services, increasing tax morale, and streamlining tax procedures to encourage greater compliance among these businesses. In a similar vein, Sathasivam and Teck-Heang (2024) discovered that Malaysian MSMEs who had high opinions of justice were less likely to avoid paying taxes. According to these studies, improving distributive and procedural fairness raises public perceptions of the tax system.

Fairness is particularly crucial in Nepal because of systemic challenges, promoting unequal policy enforcement, lack of outreach to MSMEs and the public's perception of corruption.

2.1.3. Complexity of Tax Procedures

Complexity of tax procedures is the complexity of legal, administrative and procedural aspects of a tax system that complicate the ability of taxpayers to comply with the tax law. The other dilemma for SMEs is that complexity may overreach a small business owner's ability to comply with the law ([Tran-Nam, 2015](#)). A key reform approach for improved perception of fairness and real compliance among MSMEs is the simplification of tax processes. Similarly, tax attitude in Ethiopia have been impressive by reducing the bureaucracy and uncertainty in tax rule ([Deyganto, 2018](#)). The tax complexity imposes practical and psychological costs on entrepreneurs, which cause them not to willingly engage with tax systems. For instance, small enterprises in Uganda thought it was hard to pay tax due to the complicated nature of the processes leading to accidental tax evasion or tax avoidance ([Musimenta, 2020](#)). [Bhattarai \(2023\)](#) stated that individual taxpayers in the Kathmandu Valley, Nepal, also had equally unfavorable comments about the complexity and unavailability of the system as it did not have proper taxpayer assistance or education. [Magasha et al. \(2025\)](#) argue the administrative burdens mean that many of the small Tanzanian firms with minimal technical or human capacity often do not register for taxing at all.

As a result of procedural constraints, many MSMEs in Nepal are engaged in semi-informal activities, and these reforms are especially important for increasing MSME engagement in the formal sector. Uniformity in the tax system, regular advisory sessions and simplified digital filing and so on may help to increase trust, reduce the fear of penalties and alter perceptions about voluntary and long-term tax compliance.

2.1.4. Trust in Government and Tax Authorities

The trust in government and tax authorities as a concept refers to the perception that the state and its institutions are perceived to operate in an open, fair and public-beneficial manner independently in their capacity as tax enforcers and tax redistributors. Brown and Mazur (2003) trust which influences perceives of legitimacy and the psychological impact of tax is important in facilitating a cooperative instead of adversarial relationship between taxpayers and authorities.

The evidence suggests that trust has a large effect on views and behaviour in relation to tax. Owusu et al. (2020) found in Ghana that less trust in the government was associated with a higher likelihood of tax evasion, especially when people perceived the government as inefficient or corrupt. Alternatively, taxpayers may lose trust in the government and abstain from civic activities and rationalize tax evasion as a response to institutional failures. According to Bobek et al. (2013) taxpayers may morally disengage because they may no longer view tax evasion as an immoral act given government inefficiency or corruption. That is evident in developing countries such as Nepal where formal institutions are often perceived as obscure and beyond reach. Low outreach and trust towards institutions make many Nepali MSMEs avoid tax registration and government programs (Singh & Kharel, 2022). The same observation was also documented by Sathasivam and Teck-Heang (2024) where mistrust among MSMEs in Malaysia resulted to malfeasance practices. These findings shed light on how the moral and civic motivations for tax compliance are undercut by psychological distance from the government.

2.1.5. Perceived Usefulness of Tax Revenue

This also means that boosting taxpayer compliance is something that can be done in the short-term by increasing the profile of how taxes are spent.

The importance of perceived usefulness is also confirmed in international researches. Andrian and Setyowati (2022) in their study of Indonesian MSMEs observed that infusing tax education with exposure to real-life examples of public service delivery led to significantly higher levels of compliance. Singh and Kharel (2022) noted that compliances of MSME owners in Nepal and the transparency of government on efficiently utilizing the tax revenues influence each other. These studies show that perceived usefulness is influenced by both the level of actual government expenditures and the efficiency with which those expenditures are explained and understood. Tax morale rises when public

projects are relevant and visible; compliance tends to fall when government spending is obscure or politicized. Dumre and Shrestha (2023) recommend integrating taxpayer education with efforts at Government accountability. It follows that perceived usefulness can be regarded as a handle for strategic policy. When MSME owners feel that their tax money is being used for the well-being of the society, they are more willing to cooperate and this increases the capacity for long-term revenue generation as the trust of the public reinforces.

Shakya and Ojha (2024) find that in some regions unpredictable public investment and below-the-quality infrastructure decrease trust and tax legitimacy. These findings imply that the influence for public service delivery as a dimension of perceived fairness may have more of an effect on MSMEs' tax compliance than only statutory requirements. Likewise, perceived utility of tax revenue is the subjective value tax payers expect to see from their paid taxes for the society at large. Reciprocity between the state and the taxpayers increases the system's legitimacy and credibility. When they perceive that tax money is spent efficiently and transparently for other's development, property taxpayers in Nepal are more likely to cooperate (Lamichhane et al., 2025). Rai et al. (2025), a lot of micro-entrepreneurs in Nepal are hesitant to formalize their companies because they are unsure if taxes will truly help them.

2.3. Empirical Review

The study conducted by Deyganto (2018) focused on category "A" taxpayers in the Gedeo Zone of Ethiopia, utilizing a sample of 291 individuals selected from a total population of 1,069. A mixed research approach was adopted, combining both primary and secondary data, and employing binary logistic regression and Pearson correlation analysis using Stata and SPSS software to identify factors such as gender, age, and tax knowledge that significantly influence tax compliance attitudes. In contrast, education level and tax authority efficiency were not found to have an impact. Musimenta (2020) investigates the relationship between knowledge requirements, tax system complexity, and tax compliance among VAT-registered withholding agents in Uganda, utilizing a cross-sectional and correlational research design with data collected from compliant taxpayers. Findings indicate that while taxpayers possess sufficient tax knowledge, the complexity of the tax system increases compliance costs, ultimately affecting tax compliance, suggesting the need for further training and professional advice.

Owusu et al. (2020) conducted a study involving a sample of 662 students from the University of Ghana Business School, utilizing questionnaires to gather data within the framework of the Theory of Planned Behaviour. The findings revealed that while the

intention to evade tax was generally low and tax evasion was widely viewed as unethical, attitudes, subjective norms, and moral obligations were significant predictors of tax evasion intentions, analyzed through structural equation modeling. Adhikari (2020) carried out research involving 60 taxpayers registered at the Inland Revenue Office in Nepalgunj, employing convenience and purposive sampling techniques, while data was gathered through questionnaires that utilized a five-point Likert scale. The results indicated that both awareness and understanding among taxpayers positively affect compliance, with understanding exerting a more significant influence, thereby highlighting the necessity for regular tax education initiatives to improve compliance.

Saragih and Putra (2021) examined the ethical perceptions surrounding tax evasion through a survey of 291 individuals, including students, lecturers, professionals, and business owners from diverse backgrounds. Their findings revealed that idealism and tax knowledge negatively impacted ethical perceptions of tax evasion, while relativism had a positive effect. However, religiosity and educational level did not significantly influence these perceptions. Singh and Kharel (2023) investigate the innovation support landscape for micro, small, and medium enterprises (MSMEs) in Nepal, focusing on existing policies, key support programs, and stakeholder perspectives, while assessing the extent to which equity, diversity, and inclusion (EDI) are integrated. The study employed a mixed-methods approach, utilizing a sample size comprising various stakeholders, and analyzed both qualitative and quantitative data to identify significant gaps in the effectiveness and inclusivity of these initiatives, particularly for growth-oriented startups and export promotion.

Andrean and Setyowati (2022) conducted a qualitative study utilizing library research to assess how Business Development Services (BDS) can enhance tax compliance among MSME taxpayers in Indonesia, drawing data from journals, conference proceedings, books, and credible news sources. Their findings indicate that BDS plays a crucial role in fostering MSME growth and improving tax compliance by integrating tax socialization efforts into its programming, highlighting the need for the Tax Office to design more engaging BDS programs. Mandal (2022) conducted a study analyzing the relationship between various tax indicators—custom duty, excise duty, and value-added tax—and economic growth, specifically GDP, in Nepal from 1992 to 2022, utilizing time series data of annual observations from a sample size covering the years 1992 to 2020. The ARDL model findings revealed a long-term, but not a short-term, relationship, indicating that while customs duty and value-added tax negatively impacted economic growth, excise duty had a positive effect on the Nepalese economy.

Koirala (2022) evaluates nearly 24 years of VAT implementation in Nepal by analyzing secondary time series data from the Economic Survey 2021, focusing on revenue growth patterns; the study involves an econometric model to assess VAT revenue changes. The findings reveal a consistent increase in VAT collections and a declining revenue gap, attributed to rising imports, increased private consumption, and a newly implemented VAT withholding system. Dumre and Shrestha (2023) conducted a cross-sectional survey involving 46 respondents from the Butwal Industrial Estate to examine the impact of perceived fairness, social norms, accounting practices, and government fiscal responsibility on tax compliance behavior. The findings revealed a significant relationship between accounting practices and government fiscal responsibility with tax compliance, while social norms and perceived fairness were found to be insignificant in this context.

Dhakal et al. (2023) carried out a quantitative analysis of tax compliance behavior among taxpayers in Hetauda Sub-Metropolitan City, concentrating on a sample of 300 individuals who were surveyed using a questionnaire. The findings revealed mixed relationships between demographic factors and tax compliance, indicating that some factors negatively influence compliance while others have a positive effect, ultimately connecting low tax compliance to reduced tax revenue in Nepal. Bhattra (2023) examined the impact of tax awareness, perceived fairness, complexity, tax rates, and income levels on compliance behavior among registered individual income taxpayers in the Kathmandu Valley, revealing a significant positive correlation with compliance. The results indicated that many taxpayers struggle with understanding the tax system, emphasizing the need for improved public services, heightened tax awareness, and regular audits to boost compliance rates. Shakya and Ojha (2024) conducted a study examining the relationship between taxation and revenue generation in Nepal, utilizing a sample of 200 tax administrators and taxpayers. The findings highlight a substantial correlation between taxation and GDP, pointing out the adverse effects of tax evasion, and suggest measures such as stricter penalties and the creation of a comprehensive taxpayer database to improve compliance.

Putra et al. (2024) conducted a quantitative study examining the compliance behaviors of micro, small, and medium enterprises (MSMEs) in Indonesia, utilizing a sample of MSME taxpayers through questionnaires. They analyzed the collected data using SPSS, focusing on the effects of tax socialization, tax inclusion, and the involvement of tax volunteers on compliance rates. The findings revealed that tax socialization and inclusion significantly improved compliance levels, while the support from tax volunteers also positively impacted the compliance culture among MSMEs. Anwar et al. (2024) conducted a study focusing on the tax compliance of MSMEs in Kediri Regency, utilizing a sample drawn from local businesses, supported by data gathered through surveys and interviews, following a

quantitative research design. The results highlighted that the implementation of tax policies, fairness, and social interaction significantly improve tax compliance among MSMEs, emphasizing the importance of these elements in enhancing tax adherence in the region.

Dahal et al. (2024) conducted a study utilizing secondary data from 48 annual economic surveys to analyze the effects of value-added tax (VAT) on indirect and total tax revenue in Nepal, employing descriptive and exploratory research designs alongside various statistical tools, including regression analysis and variance tests. The findings revealed that a one percent increase in VAT leads to a 0.919 percent rise in indirect tax revenue and a 0.944 percent increase in total tax revenue, indicating that 98.9 percent of variations in indirect tax and 97.8 percent in total tax revenue are influenced by VAT. Sathasivam and Teck-Heang (2024) investigate the factors influencing tax evasion among Malaysian Micro, Small, and Medium Enterprises (MSMEs). They highlight that tax morale, views on fairness, the complexity of the tax system, and attitudes towards tax evasion are vital in this context, while tax knowledge does not have a significant impact. Their quantitative study, based on data from 159 participants, provides crucial insights for policymakers seeking to develop strategies to mitigate tax evasion.

Thakur et al. (2024) conducted a study on taxpayer compliance intentions among small entrepreneurs in the Kathmandu valley, utilizing a sample size of 200 participants surveyed through structured questionnaires and analyzed using structural equation modeling (SEM). The results indicated that more than half of the participants did not have a deliberate motivation to adhere to tax regulations, emphasizing key factors that influence compliance behavior, such as tax morale, trust in the government, and the perceived complexity of taxation processes. Lamichhane et al. (2024) investigated tax compliance among property owners in Kathmandu Metropolitan City, utilizing descriptive and explanatory research designs, with a sample size of 500 respondents derived from 1,129 distributed questionnaires. The analysis revealed significant positive correlations between tax compliance and various factors. Poudel (2025) analyzed Nepal's VAT impact on tax revenue using 20 years of data from 2001/002 to 2020/021. Despite VAT yielding the highest revenue compared to customs and direct taxes, its overall contribution was limited. Recommendations included reducing the number of zero-VAT-rated goods and adjusting transaction thresholds to enhance revenue. Magasha et al. (2025) conducted a cross-sectional study on tax compliance among Small and Medium Enterprises (SMEs) in Shinyanga, involving 201 participants selected through a combination of random and purposive sampling. The study found that moderate tax compliance is influenced by internal factors, such as tax knowledge and business size, as well as external factors, including tax incentives.

Bhandari et al. (2025) utilized a descriptive research design and a convenience sampling method, surveying 50 small enterprises in the Pokhara Valley through a self-administered questionnaire. The analysis employed statistical techniques, including multiple linear regressions and Pearson's correlation, revealing that while attitudes towards taxes negatively affected compliance, factors such as tax knowledge and policy had only a slight positive influence on compliance behavior. Sha and Singh (2025) researched VAT compliance within the Nepali government, with a focus on perceptions related to VAT collection. Their study, employing descriptive and explanatory research approaches, involved 400 participants and utilized structured questionnaires. It found that administrative challenges accounted for 39.1% of the variance in collection efficiency.

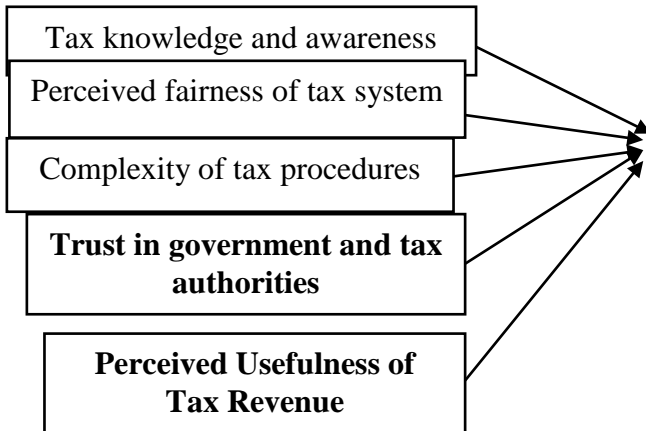
2.4. Research Gap

Despite the growing body of literature on tax compliance behavior among MSMEs and individual taxpayers, significant gaps persist concerning the attitudinal dimensions of tax compliance specific to Nepali MSMEs. Existing studies, such as those by Mishra (2022) and Singh and Kharel (2022), primarily focus on aspects like accessibility and policy fragmentation without directly addressing entrepreneurial attitudes toward tax enforcement. Furthermore, while Tiwari (2021), and Bhattarai (2023) investigate tax behavior in defined taxpayer groups, they overlook the unique behavioral and structural challenges faced by the MSME sector in achieving formal tax compliance. Critical attitudinal factors such as tax morale, perceived fairness, and system complexity, which are instrumental in understanding compliance behaviors, have been inadequately explored in the Nepali context (Sathasivam & Teck-Heang, 2024; Musimenta, 2020; Magasha et al., 2025). Consequently, this research aims to fill these gaps by examining the interplay of psychological and systemic factors affecting tax compliance among MSME entrepreneurs in Nepal, thereby offering both theoretical insights and policy recommendations to enhance voluntary compliance.

2.5. Conceptual Framework of the Study

This study examines the key factors that shape the attitudes of Nepali MSMEs toward different factors.

Independent Variables



Dependent Variable

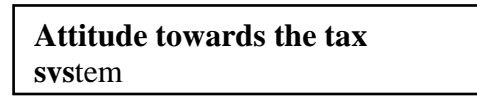


Figure 1: Conceptual framework of the study

2. Materials and methods

The study employs a descriptive and analytical research design. Primary data was collected directly from 201 MSME owners related manufacturing, services, retail/wholesale, and agriculture of Chitwan District in Nepal through survey questionnaire adapted from the existing studies (Palil, 2011; Bobek et al., 2013; Musimenta, 2020) to the Nepalese tax system. The survey utilized a five-point Likert scale for its closed-ended questions, allowing respondents to express their perceptions while maintaining comparability in data. The questionnaire was divided into three sections: Section A collected data on the demographic characteristics, Section B focused on independent variables associated with the study variables while section C focused on the dependent variable of the study.

The data collection procedure was carefully structured to protect respondent confidentiality and ensure ethical practices, including obtaining informed consent. Statistical tools, including multiple regression and correlation analysis, were employed to assess the relationships among variables and to measure how well independent factors predict MSME attitudes toward the tax system. The combination of descriptive and inferential analyses facilitates a comprehensive understanding of the factors influencing tax perceptions among MSME owners in Nepal. Descriptive statistics such as mean, standard deviation, frequency, and percentage have been used to summarize the demographic profile of the respondents and provide an overall view of the data. The statistical software SPSS has been used for both descriptive and inferential analysis. Reliability analysis using Cronbach's alpha has been conducted to test the internal consistency of the measurement scales.

For inferential analysis, Pearson correlation analysis has been used to examine the strength and direction of relationships between independent variables and the dependent variable. Additionally, multiple linear regression analysis has been applied to determine the extent to which the independent variables have influenced the dependent variable. These statistical tools have been selected to ensure accurate, valid, and interpretable findings aligned with the study's objectives.

4. Data Results and discussion

4.1. Profile of the Respondents

This section provides a demographic summary of the MSME entrepreneurs involved in the study, including company size, years of operation, yearly revenue, and industry, which helps contextualize the results and ensure a representative sample while also laying the

groundwork for analyzing how these characteristics may influence perceptions of the tax system.

Table 1

Profile of the Respondents

Demographic	Alternatives	Frequency	Percent
Business Sector	Agriculture	37	18.4
	Manufacturing	53	26.3
	Retail/Wholesale	82	40.8
	Services	29	14.4
	Total	201	100
Business Size	1–5	112	55.7
	6–20	46	22.9
	21–50	23	11.4
	51–100	8	4
	More than 100	12	6
	Total	201	100
Years in Operation	Less than 1 year	21	10.4
	1–3 years	78	38.8
	4–7 years	51	25.4
	More than 7 years	51	25.4
	Total	201	100
Annual Income	Less than NPR 1 million	29	14.4
	NPR 1–5 million	60	29.9
	NPR 5–10 million	58	28.9
	More than NPR 10 million	54	26.9
	Total	201	100

Source: Field study, 2025

The study found that the retail and wholesale sector comprised the largest portion of Nepal's MSMEs (40.8%), followed by manufacturing (26.38%) and agriculture (18.4%). Most respondents operated micro-enterprises with 1-5 employees (55.7%), and 38.8% had been in business for one to three years. Income distribution was relatively even, with 28.9% earning

between NPR 5 and 10 million annually and nearly 30% generating between NPR 1 and 5 million. Despite being predominantly small businesses, a significant portion reported moderate to high revenues, reflecting the sector's diverse economic contributions.

4.2. Descriptive Analysis

This section outlines key constructs related to MSME entrepreneurs' perceptions of the tax system, including fairness, utility of tax revenue, procedural complexity, and trust in government authorities, analyzed through descriptive statistics. By examining means and standard deviations, the study reveals general trends and sentiments among entrepreneurs that inform a deeper understanding of factors influencing voluntary tax compliance in Nepal.

Table 2

Attitude towards the tax system

Statements	Mean	SD	C.V
<i>Overview of Tax Knowledge and Awareness:</i>			
I am aware of the tax obligations applicable to my business.	3.7	1.163	1.352
I understand how to calculate the taxes my business owes.	3.55	1.232	1.519
I am familiar with the deadlines for tax filings and payments.	3.61	1.253	1.57
I have attended workshops or training sessions on tax regulations.	2.99	1.351	1.825
I know where to find reliable information regarding tax laws and updates.	3.64	1.141	1.301
<i>Overview of the Tax System:</i>			
The tax rates imposed on my business are fair.	3.26	1.197	1.433
The tax system treats all businesses equally, regardless of size.	2.9	1.2	1.44
Tax laws are applied consistently across different sectors.	2.86	1.192	1.42
I believe the penalties for non-compliance are proportionate to the offenses.	3.29	1.153	1.328
The tax system considers the challenges faced by small and medium enterprises.	3.17	1.231	1.515
<i>Overview of Complexity of Tax Procedures:</i>			
The process of filing taxes is straightforward for my business.	3.48	1.175	1.381
Tax forms and documents are easy to understand and complete.	3.43	1.219	1.486
I find it easy to access online tax filing systems.	3.53	1.179	1.39
The instructions provided by tax authorities are clear and helpful.	3.29	1.227	1.506

I rarely need external assistance to comply with tax procedures.	3.08	1.272	1.618
<i>Overview of Trust in Government and Tax Authorities:</i>			
I trust that the government uses tax revenues for the country's development.	3.35	1.2	1.44
Tax authorities are transparent in their dealings with businesses.	3.08	1.23	1.514
I believe that tax officials act with integrity and fairness.	3.08	1.176	1.384
The government provides adequate support to help businesses comply with tax laws.	3.23	1.186	1.407
I feel confident in the government's ability to manage the tax system effectively.	3.31	1.185	1.404
<i>Overview of Perceived Usefulness of Tax Revenue:</i>			
I can see tangible improvements in infrastructure funded by tax revenues.	3.28	1.15	1.322
Tax revenues are used to provide quality public services.	3.43	1.121	1.256
Paying taxes contributes to the overall development of the country.	3.54	1.113	1.24
I believe my tax contributions are making a positive difference.	3.35	1.161	1.348
The benefits received from public services justify the taxes paid.	3.12	1.204	1.449
<i>Overview of Attitude Towards the Tax System:</i>			
I believe it is important for businesses to pay taxes honestly.	3.74	1.197	1.433
I have a positive attitude toward complying with Nepal's tax regulations.	3.7	1.225	1.5
I feel that paying taxes is a civic responsibility that I take seriously.	3.84	1.16	1.345
I intend to continue paying taxes on time in the future.	3.88	1.186	1.406
The overall structure of Nepal's tax system motivates me to comply willingly.	3.28	1.168	1.364

Source: Field study, 2025

Tax Knowledge and Awareness

The highest average value of 3.70 concerning awareness of tax obligations indicates that a majority of micro, small, and medium-sized entrepreneurs possess a strong foundational understanding of their tax responsibilities. Conversely, the lowest average of 2.99 regarding attendance at tax-related workshops points to limited involvement in formal education on tax issues. The variability in responses demonstrates significant differences in participation in training sessions. Meanwhile, the consistent understanding of access to reliable tax information among respondents emphasizes areas that need improvement in practical tax knowledge and engagement in training opportunities.

Perceived Fairness of the Tax System

The analysis reveals mixed perceptions among entrepreneurs regarding the fairness and structure of the tax system, with a mean score of 3.29 indicating moderate agreement that penalties for non-compliance are proportionate to the offense. While the fairness of tax rates scored 3.26 and the consideration of SME challenges received a score of 3.17, lower scores of 2.90 and 2.86 reflect dissatisfaction with equal treatment of businesses and consistency across sectors. Additionally, the highest standard deviation of 1.231 for the SME challenges statement suggests significant variability in responses, indicating differing experiences among entrepreneurs. In contrast, penalty fairness showed the lowest standard deviation of 1.153, indicating more consistent views.

Complexity of Tax Procedures

Entrepreneurs generally find tax procedures moderately manageable, with a mean score of 3.53 for accessing online tax filing systems, reflecting improved digital accessibility in Nepal. The simplicity of the filing process received a mean score of 3.48, indicating that many business owners view tax compliance steps as fairly straightforward. However, the need for external assistance scored the lowest at 3.08, highlighting reliance on outside help due to procedural complexities, with a standard deviation of 1.272 indicating significant variability in responses.

Trust in Government and Tax Authorities

The results show a moderate degree of trust among entrepreneurs in the government and tax authorities, with the highest average score of 3.35 indicating a belief that tax revenues play a role in national development. The ratings for the government's tax management and compliance assistance are 3.31 and 3.23, respectively. Conversely, there is evident skepticism regarding the transparency and integrity of tax officials, reflected in a mean score of 3.08. The standard deviation for transparency is the highest at 1.230, indicating diverse opinions, while the perception of integrity has a lower standard deviation of 1.176, suggesting a slightly greater agreement among respondents.

Perceived Usefulness of Tax Revenue

Entrepreneurs generally have a favorable view of tax revenues, with the highest mean score of 3.54 indicating a strong belief that taxes contribute to national development. While 3.43 of respondents view tax revenues as essential for providing quality public services, with a mean score of 3.35 reflecting a belief in the positive impact of their tax contributions, the lowest mean of 3.12 suggests skepticism regarding whether the benefits of public services justify the taxes paid. Additionally, the perception of improvements in infrastructure shows a moderate mean of 3.28, with variability highlighted by a low standard deviation of 1.113

for overall development contributions and a higher one of 1.204 for the justification of taxes by public services.

Attitude towards the Tax System

The mean scores reflect a generally positive sentiment among entrepreneurs towards the tax system, with the highest score of 3.88 indicating a strong commitment to timely tax payments. Additionally, mean values of 3.84 and 3.74 reveal robust beliefs in paying taxes as a civic duty and the importance of honest tax payments. In contrast, the mean score of 3.70 suggests favorable attitudes towards compliance with Nepal's tax regulations. However, the lowest mean score of 3.28 points raises some concerns about the effectiveness of the tax system in motivating voluntary compliance among entrepreneurs.

Table 3

Descriptive Analysis of Variables Based on Scale

Variable	Mean	SD	CV	Interpretation
Tax Knowledge Awareness	3.5	1.2	1.37	Moderate knowledge with some variation
Attitude Toward Tax System	3.7	1.18	1.43	Generally positive attitude but moderate spread
Trust in Tax Authorities	3.2	1.2	1.4	Moderate trust, mixed views among respondents
Complexity of Tax Procedures	3.4	1.2	1.4	Tax processes seen as moderately complex
Perceived Usefulness of Tax Revenue	3.3	1.15	1.35	Tax revenues perceived as somewhat useful

Source: Field study, 2025

The analysis of MSME entrepreneurs' attitudes toward taxation reveals several key findings. Tax Knowledge Awareness scored a mean of 3.5, indicating a moderate understanding, while Attitude toward the Tax System averaged 3.7, reflecting a generally positive outlook. Trust in Tax Authorities and Complexity of Tax Procedures both showed mean values between 3.2 and 3.4, and the Perceived Usefulness of Tax Revenue was rated at 3.3, highlighting a balanced yet varied perspective on tax-related issues in the sector.

Factor Analysis

Table 4

Reliability of Data

Variables	Cronbach Alpha
Tax knowledge and awareness	0.795
Perceived fairness of tax system	0.710
Complexity of tax procedure	0.857
Trust in government and tax authorities	0.823
Perceived Usefulness of Tax Revenue	0.838
Attitude towards the Tax System	0.859

Source: SPSS Calculation

Cronbach's Alpha was used to assess the internal consistency of the measurement scales, yielding reliability scores for all constructs ranging from 0.710 to 0.859, indicating a satisfactory to excellent level of reliability. Notably, the Attitude towards the Tax System exhibited the highest consistency ($\alpha = 0.859$), while the Perceived Fairness of the Tax System had the lowest acceptable reliability at $\alpha = 0.710$.

4.3. Correlation Analysis

The findings of a correlation study that looked at the direction and strength of the linear relationships between the five main independent variables; tax knowledge and awareness, perceived fairness of the tax system, complexity of tax procedures, trust in the government and tax authorities, and perceived utility of tax revenue and the dependent variable i.e. attitude toward the tax system are presented in this section.

Table 5

Correlation Analysis

Variables	TKA	PFT	CTP	TGTA	PUTR	ATTS
TKA	1					
PFT	0.537**	1				
CTP	0.692**	0.650**	1			
TGTA	0.532**	0.598**	0.697**	1		
PUTR	0.552**	0.601**	0.686**	0.705**	1	
ATTS	0.668**	0.513**	0.581**	0.527**	0.612**	1

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

The correlation analysis shows a strong positive relationship between tax knowledge awareness (TKA) and attitudes toward the tax system (ATTS), with a correlation coefficient of $r = 0.668$ ($p < 0.01$). Business owners who view the tax system as fair exhibit a favorable attitude, demonstrated by a moderate positive correlation of $r = 0.513$ ($p < 0.01$) between perceived tax fairness (PTF) and ATTS. Additionally, the complexity of tax procedures (CTP) has a moderate correlation with ATTS at $r = 0.581$ ($p < 0.01$), indicating that simpler tax processes lead to better attitudes. Trust in the tax system (TGTA) also correlates positively with ATTS at $r = 0.527$ ($p < 0.01$), showing that higher trust promotes a more positive attitude. Lastly, perceived utility of tax revenue use (PUTR) has a positive correlation of $r = 0.612$ ($p < 0.01$) with ATTS, suggesting that recognizing the benefits of tax revenue contributes to a more favorable perception of tax obligations.

4.4. Regression Analysis

Table 6
Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.629	0.215		2.922	0.004
	TKA	0.467	0.072	0.449	6.528	0
	PFT	0.089	0.08	0.077	1.121	0.034
	CTP	-0.011	0.084	-0.012	-0.134	0.893
	TGTA	0.042	0.079	0.04	0.528	0.048
	PUTR	0.315	0.081	0.298	3.907	0
	F = 45.103			Sig. (F) = .000		
	R = 0.732			Adj. R2 = 0.524		

a. Dependent Variable: ATTS

The regression model reveals that 53.6% of the variation in entrepreneurs' attitudes toward the tax system can be explained by factors like perceived fairness, tax knowledge, and trust in government ($R^2 = 0.536$). With a model F-value of 45.103 and p-value of 0.000, tax knowledge and awareness ($\beta = 0.449$, $p < 0.005$), perceived usefulness of tax revenue ($\beta = 0.298$, $p = 0.000$), and trust in authorities ($\beta = 0.040$, $p = 0.048$) significantly

enhance attitudes. Conversely, the complexity of tax procedures shows no significant impact ($\beta = -0.012$, $p = 0.893$) on these attitudes.

4.5. Hypotheses Testing

This section summarizes the findings of a hypothesis test that looked at the relationships between MSME owners' opinions of the tax system in Nepal and several important factors, including perceived fairness of the tax system, tax knowledge and awareness, complexity of tax procedures, trust in the government and tax authorities, and perceived utility of tax revenue.

Several hypotheses were created to evaluate by means of statistical analyses the strength and significance of these associations, which were based on the aims and the theoretical framework of the study. This was achieved using multiple regression analysis, making it possible to analyze the unique contributions of the independent variables to the dependent variable (attitude towards the tax system).

The effect size and direction were expressed using standardized beta coefficients, and the significance of each predictor were reported at a 95% confidence level ($p < 0.05$). We use the findings from this hypothesis testing to provide further interpretation in the discussion chapter and to gain a better understanding of which factors are more prevalent in determining tax attitudes of MSME entrepreneurs expressed in our study.

Table 7
Hypotheses Testing

Hypotheses	P value	Level of sig.	Remarks
H1: There is a significant relationship between tax knowledge and awareness and attitude towards the tax system of MSME.	0	0.05	Significant
H2: There is a significant relationship between perceived fairness of tax system and attitude towards the tax system of MSME.	0.034	0.05	Significant
H3: There is a significant relationship between complexity of tax procedures and attitude towards the tax system of MSME.	0.893	0.05	Insignificant
H4: There is a significant relationship between tax trust in government and tax authorities and attitude towards the tax system of MSME.	0.048	0.05	Significant
H5: There is a significant relationship between perceived usefulness of tax revenue and attitude towards the tax system of MSME.	0	0.05	Significant

The hypothesis testing reveals that four out of five proposed hypotheses are statistically significant at the 0.05 level. Specifically, tax knowledge and awareness (H1, $p = 0.000$), perceived fairness of the tax system (H2, $p = 0.034$), trust in government and tax authorities (H4, $p = 0.048$), and perceived usefulness of tax revenue (H5, $p = 0.000$) all have significant positive relationships with the attitude toward the tax system among MSME entrepreneurs. However, complexity of tax procedures (H3, $p = 0.893$) shows an insignificant relationship, indicating that perceived complexity does not significantly affect attitudes toward the tax system in this context.

4.7. Discussion

The present study explored various factors influencing MSME owners' tax attitudes and compliance in the context of tax knowledge, fairness perceptions, government trust, tax utility, and procedural complexities. The findings are consistent with previous research, highlighting the relationship between these variables and their implications for improving tax compliance among MSMEs.

The present study found tax knowledge to have the most substantial impact on tax attitudes ($\beta = 0.449$, $p < 0.001$). This aligns with Damajanti & Karim (2017), who emphasized the significance of tax knowledge in individual taxpayer compliance in Indonesia. The importance of enhancing tax literacy resonates with the findings of Bhattarai (2023), who indicated that higher awareness correlates with more favorable tax compliance views among MSMEs.

A weak but significant link ($\beta = 0.077$, $p = 0.034$) was observed between tax attitudes and perceptions of fairness. Deyganto (2018) also noted the positive relationship between taxpayer compliance and perceived fairness in Ethiopia. MSMEs in the present study expressed dissatisfaction with the enforcement of tax laws, echoing insights from Saragih and Putra (2021) regarding the moral dimensions of tax compliance influenced by fairness perceptions.

Trust in government was identified as a slight predictor ($\beta = 0.040$, $p = 0.048$) of tax attitudes, corroborating findings from Kharel and Singh (2022) and Thakur et al. (2024). Both highlighted that a lack of trust in tax authorities discourages tax compliance, suggesting that transparency and accountability in tax administration are crucial for fostering a compliant tax culture.

The perceived effectiveness of tax revenue ($\beta = 0.298$, $p < 0.001$) aligned with Lamichhane et al. (2025), who linked compliance to the perceived benefits of taxes. This study

reinforced the idea that when MSMEs perceive tangible benefits from their tax contributions, their willingness to comply improves.

While the regression analysis found no significant relationship ($\beta = -0.012$, $p = 0.893$) between tax procedure complexity and attitudes, the study noted that many MSMEs still found tax processes cumbersome. This finding indirectly supports Musimenta (2020), who argued that complex tax procedures in Uganda increased compliance costs and deterred adherence, particularly among smaller enterprises.

6. Conclusion

The study highlights that the attitudes of MSME entrepreneurs in Nepal toward the tax system are primarily influenced by their knowledge of tax obligations, perceptions of fairness, trust in authorities, and beliefs about the effective use of tax revenues. These cognitive and perceptual factors shape a generally positive disposition toward tax compliance, overshadowing the impact of procedural complexities. The results emphasize the critical role of taxpayer education and transparent government accountability in fostering favorable tax attitudes among MSMEs, which can lead to greater economic formalization and revenue generation.

Therefore, policymakers should prioritize initiatives that enhance tax literacy, improve communication about the benefits of tax contributions, and strengthen trust through fair and consistent enforcement of tax regulations. Rather than focusing solely on simplifying tax procedures, efforts should aim to build a cooperative and transparent relationship between the government and MSME operators. Such strategies are essential to encourage voluntary compliance and expand the tax base, ultimately supporting equitable economic growth in Nepal.

7. Implications for Further Study

The study highlights the importance of tax knowledge, perceived fairness, confidence in tax officials, and the value of tax income in shaping the tax attitudes of Nepali MSME owners, emphasizing the need for improved institutional trust and transparency. Future research should incorporate a more diverse geographical and economic sample, with a particular focus on rural MSMEs and their unique challenges. Longitudinal studies provide a more comprehensive assessment of how MSME tax compliance evolves in response to policy changes and economic conditions. At the same time, qualitative research could explore the cultural and psychological factors influencing tax behaviors. Additionally, investigating the impact of digital tools on tax compliance could reveal ways to bridge existing divides and enhance participation in the tax system.

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