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# Perception of Micro and Small Sized (SME) Business taxpayers towards the Tax System of Nepal

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**Abstract:** *SMEs in Nepal also have constrained access to finance, due to exorbitant interest rates, cumbersome procedures, dearth of knowledge, and inadequate institutional capacity. Analyzing SME business taxpayers' perceptions of Nepalese tax system is the study's primary goal. For this, descriptive research designed was used. The primary data comprised 340 (94.44%) valid respondents through questionnaire from Tripureshwor, Kathmandu with purposive judgmental sampling whereas secondary sources were research scholar's articles and IRD annual reports. Jamovi was used to analyze the factor; ANOVA, regression and reliability testing. The findings indicate that the four independent variables behavior tax obligation, tax system, tax policies and government activities, and tax compliance account for 96.3% of respondents' perception which is also significantly asserted by regression result. Government should give the incentives, for formalizing the decision to comply with effective tax regulations.*

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**Keywords:** compliances, Government initiative Perception, SMEs, tax behavior, tax policies, tax system

## I. INTRODUCTION

Taxes and non-tax sources are how the government raises money. The main source of revenue mobilization is taxation. Taxes are mandatory payments made by state inhabitants to the government as directed by law in exchange for a shared benefit. Taxes are a key tool for fiscal policy, and other key instruments for government policy play a significant role in accelerating capital creation and, ultimately, achieving rapid economic growth. There could be two roles for taxes as well. One way to maximize the number of resources available to the public sector is through taxation. However, taxes can also be used to encourage beneficial private sector investment. As a result, taxes are the most drastic way to raise money in developing nations.

Taxes are mandatory contributions levied on the general public by government agencies acting under legal authority. Taxpayers don't anticipate receiving a refund for their taxes paid. Because the government provides services like health care, education, and security, taxpayers profit from it indirectly. Income tax, service tax, VAT, custom duty, excise duty, and other direct and indirect taxes are the main sources of funding for the government (Bhagawoi, 1999).

Positive tax perception indicators were able to identify important variables linked to a favorable tax perception. Citizens are more likely to value taxes favorably when the tax system is open and provides clear information about how the government uses tax proceeds. Fair taxation is important, and people's good perception is strengthened when taxpayers feel that all citizens share the tax burden equally. When people see direct gains in public services, infrastructure, and social programs as a result of paying taxes, individuals are more likely to regard taxes favorably. The formulation of policies that support more favorable tax perceptions and, consequently, improved tax compliance and revenue production can be facilitated by a comparative examination of tax perceptions, which can offer insightful information about the effects of governance and demographics on tax attitudes (Mohammed & Tangl, 2024).

In Nepal, total expenses exceed total income because to poor project selection, significant investments made in development projects, rising debt servicing costs, and government employee salaries and benefits (Kandel, 2004). Nonetheless, there are a number of issues with income tax collection, including tax evasion, inadequate tax administration, unsound income tax, unclear tax law, a lack of tax-aware individuals, and so forth (Koirala, 2019, 2021).

### **Objective of the study**

The main objective of the study is to analyze the SME business taxpayer's perception regarding tax system of Nepal. The sub objectives are:

- To assess the taxpayer's behavior, tax system, tax policies and government tax initiatives and tax compliances to SMEs in Nepal
- To analyze the relationship between behavior obligation, tax system, tax policies, government initiative and tax compliances and taxpayer's perception and the effect of stated independent variables to taxpayer's perception in Nepal.

## **II. LITERATURE REVIEW**

**Small Medium Enterprises (SMEs) and tax system.** For SMEs, there is no universally accepted definition. While some countries only utilize two or one criterion, many use three: assets, employment, and annual turnover. India, the Philippines, Rwanda, Thailand,

Bolivia, and Mozambique, for instance, all use the same criterion, such as employment in the other nations or annual turnover in India (WBG, 2017). The Industrial Enterprise Act 2020 of Nepal uses the value of fixed assets to assess a firm's size. Small businesses can have fixed capital of up to NPR 150 million, medium-sized businesses can have fixed capital of more than NPR 100 million but less than NPR 500 million and large businesses can have fixed capital of more than NPR 500 million. The Act also defines microenterprises and cottage enterprises as two additional categories of businesses. Microenterprises are defined by three criteria: a minimum annual turnover of NPR 10 million, no more than NPR 2 million in fixed capital (excluding land and buildings), and no more than nine employees, including the entrepreneur. Technology, art, and traditional/local talents are the foundation of cottage businesses. Nepal does not have a nationally representative survey of businesses, including SMEs that would provide comprehensive data on business attributes such as employment, sourcing (including imports), production, sales, and exports. Because of this, it is impossible to determine how much the SMEs contribute to the economy. SMEs contribute 22% to the Gross Domestic Product (GDP) besides generating employment for 1.8 million people, especially women, making them invaluable to their empowerment (Verma, 2024). Nepal does not have a nationally representative survey of businesses, including SMEs that provides comprehensive data on company characteristics covering production, sales, employment, exports, and sourcing (including imports). Consequently, there is no reliable foundation for calculating the economic impact of SMEs (Chaulagain, 2019).

SMEs in Nepal also have limited access to financing due to a number of factors, including high interest rates, procedure annoyances, a lack of information, and insufficient institutional capacity (NRB 2019). In general, Nepali businesses have not yet fully benefited from the emergence of global value chains (GVCs), which present an opportunity to begin exporting or increase exports by integrating themselves into a particular stage of production.

In Nepal, all businesses must comply with tax laws, which significantly disadvantage micro and small businesses because of their limited operational volume and capabilities. Previously said; just 47% of the nation's MSMEs do so, according to the National Economic Census. Improving SMEs' adherence to tax regulations by using a streamlined VATS reporting system (Kharel, & Dahal, 2020). Entrepreneurs contacted for this study generally believe that tax compliance is difficult, particularly for micro and small businesses. They also noted that these businesses' yearly transactions can differ substantially from year to year. When tax officials estimate tax liabilities based on sales volumes instead of profits—which fluctuate more over time than the former—this issue is made worse and it happened in SMES mostly.

**Perception and tax system.** According to Besley and Persson (2014), investment and entrepreneurship may be discouraged, which could impede economic growth. Tax attitudes

are influenced by a variety of factors, including political, social, psychological, cultural, and economic ones. Roth and Valdez (2020) examine how a growing economy may alter people's perceptions of the legitimacy of the government. The statement "Perception is a kind of information management activity that connects a person with the environment" (Hanurawan, 2019, 22). Walgito (2017) asserts that perception is a sensory process that involves an individual receiving a stimulus and acknowledging it as such. Additionally, perception is an interconnected process that occurs inside the person (Supriyadi, 2017). To sum up, perception is an assumption or information about a person that comes from their attention, mental preparedness, needs, personality type, system of assessments, willingness to make decisions, and information from other people.

Cultural norms and values have an impact on tax compliance behavior and morale; claim (Ho & Hung, 2018). Besley and Persson (2014) shows that tax laws have a big impact on how swiftly economies grow in emerging nations. Positive economic results can be fostered by tax systems that are in line with financial incentives and that promote investment and entrepreneurship. Promoting favorable tax perceptions, improving compliance, and supporting sustainable economic development all depend on efficient tax policy, open governance, and culturally aware communication techniques. Mehmet (2023) examines the costs associated with tax compliance, with a special focus to how it affects businesses and individual taxpayers. Higher financial knowledge, according to Gensemer et al. (1965) and Rupert and Fischer (1995), has a favorable impact on tax rate perception. Rupert et al. (2003) examines the degree to which an intricate tax structure affects how individuals perceive marginal taxes and make decisions.

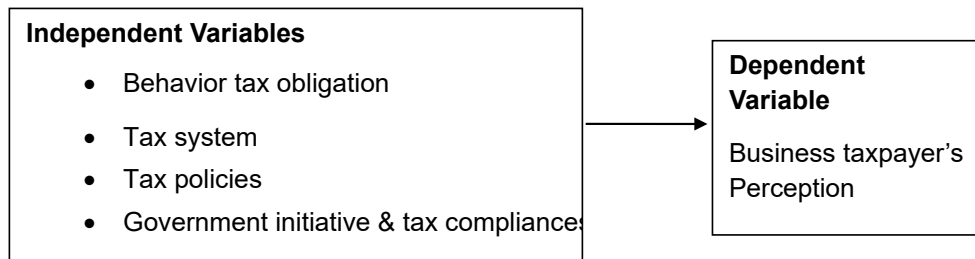
The different aspects of tax administration were demonstrated by Triphati (2012) depicted that the current tax administration is not operating effectively due to a number of issues, including incomplete application of tax law, a lack of transparency among taxpayers and administrators, a shortage of qualified tax officers, frequent changes to laws and policies, and inadequate training provided to those employed by tax offices. In order to properly apply income tax law, Rai (2013) finds that the current income tax system should be improved, and the tax administration should be modernized. According to Sharma (2013), tax planning is not commonly employed in Nepal for three primary reasons: tax administration is not cooperative, tax planning is time-consuming and expensive, and people are not aware of tax planning. Adhikari (2020) also depicted that there is relationship between taxpayer's satisfaction and positive perception regarding Nepalese tax system and basically focused on the E-filing VAT system implication and government tax policy flexibility implication. According to Shrestha (2023), direct and indirect taxes contributed, on average, 29% and 71% of total tax revenue, respectively.

Dumre and Shrestha (2023) discovered that in Butwal Industrial Estate (BIE), accounting practices and government fiscal responsibility have a significant relationship with tax

compliance behavior, while social norms and taxpayers’ perceptions of fairness in tax compliance have an insignificant relationship. Adhikari (2023) also depicted that government announced the subsidies in tax policy but it’s not implemented in the operational level and taxpayers did not get the actual benefit due to the tax awareness and unable to change the e-filing system immediately basically in E-VAT. According to Mohammed and Tangl (2024) also revealed that the government compliances truly affect the taxpayer’s perception. In conclusion, government infrastructure and tax laws mirrored the compliance behavior of taxpayers.

The positive tax official perception and government flexible tax system towards entrepreneurs or businessmen led to increase the SMEs in Nepal. The overall amount of both taxes is rising, but the rise in their respective revenue collections is unsatisfactory. Previous researchers only focused the one variable or parts such as taxpayer’s behavior, tax obligation, tax system, government initiative and tax compliances. This study aims to ascertain as under.

**Figure 1**  
*Conceptual framework*



*Note:* Researcher’s construct from reevaluating various articles and tutorials

Under this study, business taxpayer’s perception has taken as dependent variables and independent variables are behavior tax obligation, tax system, tax policies and government initiatives and tax compliances.

### III. RESEARCH METHODOLOGY

This study is designed in both descriptive and inferential. The descriptive research basically focused the mean of all variables components whereas inferential analysis covered the regression and test of variables to get the relationship and effect among the variables. Data which is essential to describe this study are collected from two sources i.e. primary and secondary sources. Secondary data are collected from Ministry of Finance, AGM reports of IRD, websites of IRD, NRB and CBs, bulletins and publications of authorities, researcher, journals, unpublished thesis

reports and economic survey conducted by Ministry of Finance (MOF). Primary data is collected from the questionnaire survey. Survey Instrument Development was well-designed survey instrument which is essential for result accuracy (Hair et al. 2019).

According to IRD 2020/21, 4648 business taxpayers under VAT are operated in Tripureshwor, Kathmandu. According to Daniel (1999), sample size calculator at 5% margin error and 50% sample proportion at critical value  $Z=1.96$ , 355 or more measurements/surveys are needed to have a confidence level of 95% that the real value is within  $\pm 5\%$  of the measured/surveyed value. Hence 360 samples are taken through the convenience sampling by focusing SMEs business taxpayers. However, the 14 respondents fill the incomplete and 6 respondents do not fill the form. Henceforth valid respondents are 340 (94.44%). The data and information collected from the respondents are presented, interpreted, and analyzed according to response of respondents on the field survey March 5 to March 25, 2024. Forty questions were attached in the questionnaire on the five-point likert scale 1 = 'Strongly disagree' to 5 = 'strongly agree'. The demographic profiles of the respondents were also ascertained. Every questionnaire was thoroughly checked after the collection of all the questionnaires distributed. The data was first recorded in MS Excel and sorted according to the homogeneous components. Secondly, the data was imported into Jamovi for reliability test, factor analysis, and ANOVA and regression analysis.

### Regression Model

$$Y = b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + \dots + e$$

Where, Y= Dependent variable; Perception

Independent variables:

$X_1$  = Behavior tax obligation and  $b_1$  is it's beta coefficient

$X_2$  = tax system and  $b_2$  is it's beta coefficient

$X_3$  = tax policies and  $b_3$  is it's beta coefficient

$X_4$  = government initiative and tax compliances and  $b_4$  is it's beta coefficient

e = error term

Then,

Perception =  $b_1$ Behavior tax obligation +  $b_2$ tax system +  $b_3$ tax policies +  $b_4$  government initiative and tax compliances + er

## IV. RESULT AND DISCUSSION

### Demographic profiles of entrepreneurs

**Table 1**

*Demographic profile of entrepreneurs*

	Frequency	Percent
<u>Age group</u>		
Below 25 Years	17	5
Between 25 years and 35 years	92	27.06
Between 35 years and 45 years	165	48.53
45 Years and above	66	19.41
Total	340	100
<u>Education level</u>		
Below SLC	100	29.41
SLC	16	4.71
Intermediate	128	37.64
Graduate	65	19.12
Post Graduate	31	9.12
Total	340	100
<u>Business operation</u>		
less than 5 Years	120	35.29
Between 5 to 10 years	128	37.65
more than 10 years	92	27.06
Total	340	100

*Note:* Field Survey, 2024

**Age group of respondents.** Table 1 shows that the most of respondents belongs to age group between 35 years and 45 years consisting 48.53% of the total respondents. In addition to this, 5%% respondents age group is below 25 years, 27.06% of them is between 25 years and 35 years, and 19.41% age group is 45 years and above years. This findings is also asserted by Supriyadi (2017) depicted that middle age tax payers are influenced the major portion of small and medium entrepreneurship development.

**Education background of the respondents.** The result shows the educational qualification of the respondents. The result shows that large numbers are intermediate respondents constituting 37.64% of the total respondents. In addition to this, 29.41% respondents were of below SLC, 4.71% is SLC, 19.12% respondents were of graduate and 9.12% respondents are below post graduate. According to Mehmet (2023) also affirmed that the demographic factors mainly undergraduate respondents are hold small and medium enterprises.

**Business operation tenure by respondents.** The result shows the business operation in years of the respondents. The result shows that large numbers are less than 5 years respondents constituting 35.29% of the total respondents. In addition to this, 37.65% respondents were of between 5 to 10 years and 27.06% respondents are more than 10 years.

**Descriptive analysis**

**Table 2**

*Mean analysis of behavior and tax obligation*

Details	Mean	P-value
The clarity and simplicity of the tax regulations positively influence the willingness to comply	3.21	0.00
Adequate support and guidance from tax authorities enhance the understanding of tax compliance requirements.	3.77	0.00
The perceived fairness of the tax system motivates to comply with tax obligations.	3.39	0.01
The level of trust in the tax administration influences the willingness to voluntarily comply with tax regulations.	3.21	0.00
The complexity of the tax filing process negatively affects the compliance behavior.	3.13	0.00
Adequate and timely access to tax information significantly contributes to the ability to comply with tax regulations.	3.22	0.00
The perceived benefits of tax compliance positively impact the attitude towards fulfilling tax obligations.	2.94	0.00

*Note:* Field Survey, 2024

The clarity and simplicity of the tax regulations positively influence my willingness to comply with taxpayers is agreed with the mean value 3.21. Similarly, the mean value 3.77 (agree) indicates the adequate support and guidance from tax authorities enhance taxpayers understanding of tax compliance requirements. Similarly, the perceived fairness of the tax system affects respondents’ motivation to comply with tax obligations is 3.39 and the level of trust in the tax administration influences the willingness to voluntarily comply with tax regulations is 3.21 i.e., agree value. However, the perceived benefits of tax compliance, such as access to government services, positively impact taxpayers’ attitude towards fulfilling tax obligations is below the agree value i.e., 2.94. The stated value of the variables is significant since p-value is less than 0.05 at 5% level of significance. According to Ho and Hung (2018) also proclaimed that tax compliance behavior is significant with taxpayer’s morale and perception as stated similar findings.



**Table 3***Descriptive Respondent's perceived and tax system*

Details	Mean	P-value
The perceived level of corruption in the tax administration negatively impacts the trust in the tax system.	3.79	0.00
The tax system in Nepal is fair of its treatment to SMEs entrepreneurs.	3.52	0.00
The tax regulations are transparent and easy to understand for SMEs entrepreneurs.	3.43	0.00
The tax assessment process is conducted fairly, without bias or discrimination against micro and small-sized entrepreneurs.	3.23	0.00
Micro and small-sized (SMEs) entrepreneurs have adequate opportunities to express their concerns or seek clarification regarding tax matters.	3.02	0.02
SMEs entrepreneurs feel that the tax system in Nepal treats all businesses equally, regardless of size.	3.24	0.00
The tax system fosters transparency in terms of where tax revenues are allocated within the country.	3.47	0.01
SMEs entrepreneurs believe that the tax regulations are consistently applied without favoritism.	3.24	0.00
The tax system encourages open communication between tax authorities and micro and small-sized entrepreneurs.	3.58	0.01
Overall, SMEs entrepreneurs perceive the tax system in Nepal as transparent and fair.	3.22	0.00

*Note:* Field Survey, 2024

Respondents trust in the tax system is badly impacted by a perceived level of corruption in the tax administration, which is extremely agreeable with a mean score of 3.79. According to the results, the tax system in Nepal promotes open communication between tax authorities and micro and small-sized business owners, and the government provides clear information on how taxes are used to help the business community. Micro and small-sized entrepreneurs feel that the tax laws are consistently applied without showing preference. SMEs entrepreneurs feel that the tax system in Nepal treats all businesses equally, regardless of size. Finally, the procedure of assessing taxes is carried out equitably. The stated value of the variables is significant since p-value is less than 0.05 at 5% level of significance. Similar findings; taxpayer's perception is associated with tax behavior compliances, is contended by Fochmann, et.al (2010). Moreover, Adhikari (2020) also found the similar findings and

asserted that Nepalese tax system is effective after implementation of e-filling tax system and taxpayers perceive positively.

**Table 4**

*Descriptive of respondent's value regarding tax incentives and policies*

Details	Mean	P-value
Tax incentives provided by the government positively influence the decision to formalize the business.	3.07	0.02
The current tax policies in Nepal encourage SMEs entrepreneurs to operate the businesses within the formal sector.	3.53	0.00
Tax policies that support formalization positively impact the overall compliance behavior of SMEs entrepreneurs.	3.59	0.00
The ease of accessing government incentives for formalization affects the decision to comply with tax regulations.	4.05	0.00
Clear communication of tax policies and incentives by the government enhances the understanding of the benefits of formalization.	4.17	0.00
The current tax structure supports the growth and sustainability SMEs businesses in the formal sector.	4.39	0.00
Tax policies that reduce the administrative burden on formalized businesses positively influence the compliance behavior.	4.03	0.00
The perceived fairness of tax incentives plays a role in the decision to comply with formalization requirements.	3.6	0.00
Reforms in the tax system would positively impact the overall business climate for micro and small-sized entrepreneurs.	3.36	0.01
Overall, the impact of tax policies and incentives in Nepal encourages micro and small-sized entrepreneurs to formalize their businesses and comply with tax regulations.	3.05	0.00

*Note:* Field Survey, 2024

The government's tax incentives have a beneficial impact on the choice to register the business. The existing tax laws in Nepal encourage small and micro business owners to run businesses in the official economy. The desire to adhere to formalization standards is influenced by the availability of tax incentives or exemptions, as stated above; the respondent's value is more than 3, indicating a moderately agreeable value. Tax policies that support formalization have a positive impact on the overall compliance behavior of SMEs and entrepreneurs. The ease of accessing government incentives for formalization influences the decision to comply with tax regulations. In a similar vein, government transparency on tax laws and incentives enhances comprehension of the advantages of formalization. The way taxes are now structured encourages the expansion and viability

of SMEs. The stated value of the variables is significant since p-value is less than 0.05 at 5% level of significance. According to Mohammed, and Tangl (2024) also pointed that the government compliances positively affect the taxpayer’s perception. Adhikari (2023) also asserted that the government made the tax policy for government subsidies but it’s not implemented in the functional level basically in E-VAT as tax official depicted which is opposed to the findings.

**Table 5**

*Respondent’s value in Government initiatives and tax compliances to SMEs*

Details	Mean	P-value
Government initiatives aimed at promoting tax compliance are clear and easy to understand for SMEs entrepreneurs.	3.35	0.00
The information provided by the government regarding tax compliance is accessible and readily available.	3.07	0.01
The government provides adequate support and resources help to understand and meet their tax obligations.	3.05	0.00
Government initiatives effectively communicate the benefits of tax compliance to SMEs entrepreneurs.	3.23	0.00
The government's efforts to simplify tax processes positively influence the willingness to comply with tax regulations.	3.36	0.00
The level of responsiveness from government agencies to queries or concerns regarding tax compliance is satisfactory.	3.25	0.00
The government provides effective incentives or rewards for SMEs entrepreneurs who consistently comply with tax regulations.	3.08	0.00
Government initiatives address the specific challenges faced by SMEs entrepreneurs in meeting the tax obligations.	4.04	0.00
The communication channels used by the government to disseminate information on tax compliance are effective.	3.66	0.00
Overall, government initiatives aimed at promoting tax compliance have a positive impact on SMEs entrepreneurs in Nepal.	3.25	0.00

*Note:* Field Survey, 2024

The government offers sufficient support and resources to help micro and small-sized entrepreneurs understand and meet their tax obligations; government initiatives effectively communicate the benefits of tax compliance to micro and small-sized entrepreneurs; the government’s efforts to simplify tax processes positively influence taxpayer’s willingness to comply with tax regulations; and that the average value of government initiatives aimed at promoting tax compliance is clear and easy to understand for micro and small-sized entrepreneurs. When micro and small-scale business owners regularly adhere to tax laws, the government offers them incentives or awards that are more than three, i.e., in agreement. Similarly, government programs tackle the unique difficulties encountered by micro and

small-sized entrepreneurs in meeting their tax obligations is highly agree with 4.04 mean value. Overall, tax compliance-related government actions benefit small and medium-sized enterprises (SMEs) in Nepal, according to 3.25. The stated value of the variables is significant since p-value is less than 0.05 at 5% level of significance. This finding is also supported by Hanurawan, (2019) as claimed that compliance behavior, government tax system i.e. simplify tax system is positively significant with taxpayer's perception. Adhikari (2017) also depicted that taxpayer's perception is associated with simplification of Nepalese tax system /VAT system and significant positively.

**Reliability test.** The reliability of variables can be tested as following manner.

**Table 6**  
*Item reliability statistics*

	Mean	SD	Item-rest correlation	If item dropped Cronbach's $\alpha$
Perception	3.31	1.07	0.958	0.894
Behavior tax obligation	3.24	1.02	0.748	0.934
Tax system	3.12	1.03	0.817	0.921
Tax policies	3.00	1.08	0.800	0.925
Government initiative & tax comp	3.12	1.10	0.813	0.922
Overall Scale Cronbach's $\alpha$				0.935

The mean value of all stated variables perception, behavior tax obligation, tax system, tax policies and government initiatives and tax compliance are more than 3 i.e. agree value. Similarly Cronbach's  $\alpha$  value of all variables is greater than 0.80 i.e. meets the reliability. George and Mallery (2009) demonstrated that Cronbach's  $\alpha$  of all variables is more than 0.60 is sufficient for the reliability to accept the questionnaire.

**Table 7**  
*Exploratory factor analysis*  
*Factor Loadings*

Items	Factor		Uniqueness
	1	2	
Perception	0.800		-0.00549
Behavior t obligation	0.844		0.35389
Tax system	0.932		0.21486
Tax policies		0.943	0.15387
Gov initiative & tax comp		0.659	0.25473

Note. 'Minimum residual' extraction method was used in combination with a 'oblmin' rotation

**Table 8**

*Principal component analysis  
Component Loadings*

	Component	
	1	Uniqueness
Perception	0.977	0.0464
Behavior t obligation	0.835	0.3020
Tax system	0.887	0.2138
Tax policies	0.872	0.2397
Gov initiative & tax comp	0.881	0.2231

Note. 'varimax' rotation was used

The table 7 and Table 8 demonstrates that exploratory Factor analysis and principal component analysis shows the all value of loading variables are greater than 0.60 which shows the reliability.

**Table 9**

*Homogeneity of variances test (Levene's)*

F	df1	df2	P
0.638	2	338	0.710

The p –value is 0.710 which is more than 0.05 i.e. there is not relationship among the variables with (SME taxpayers) by testing homogeneity of variances test.

**Test of hypothesis statistics/ANNOVA test**

**Table 10**

*Kruskal-Wallis ANNOVA test*

	$\chi^2$	Df	P	$\epsilon^2$
Behavior tax obligation	261	4	<.001	0.771
Tax system	253	4	<.001	0.745
Tax policies	231	4	<.001	0.682
Government initiative & tax compliances	234	4	<.001	0.691

Dependent variable: Respondent’s Perception

Source: Field survey 2024, by using Jamovi

The SME with tax perception, SME p-value is less than 0.05. It further depicts that the P-value of Kruskal-Wallis ANNOVA test also shows the less than 0.05 which means the variable SME is also affected by other variables.

**Table 11**

*Model fit measures*

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	AIC	BIC	RMSE	Overall Model Test			
							F	df1	df2	P
1	0.982	0.965	0.963	-97.3	-39.8	0.201	687	13	326	<.001

Source: Field survey 2024, by using Jamovi

The r square value is 0.982 and adjusted r square value is 0.963. The adjusted r square 0.963 indicates that 96.3% perception of respondents is determined by the stated four independent variables behavior tax obligation, tax system, tax policies and government initiatives and tax compliances. RMSE shows the data is around the line of best fit. Overall model test is fit since p-value 0.001 is less than 0.05 at 5% level of significance.

**Regression analysis.** The regression is used to determine the statistical relationship between two or more variable and to make predicates of one variable based on the others. In this analysis multiple regression analysis has been done.

**Table 12**

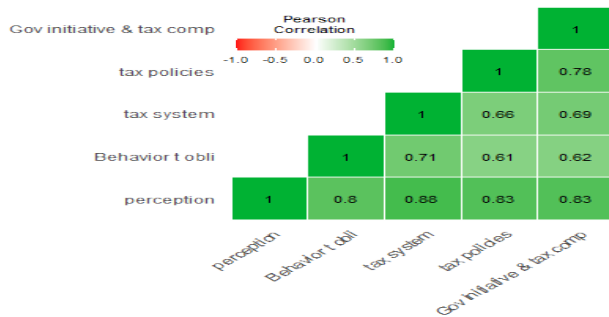
*Model coefficients –perception*

Predictor	Estimate	SE	lower	Upper	t	P	Std. E
Intercept	0.936	0.051	0.835	1.0369	18.247	<.001	
Behavior t obligation	1.098	0.083	0.934	1.2622	13.179	<.001	1.025
tax system	4.127	0.115	3.900	4.3533	35.871	<.001	3.852
tax policies	-1.992	0.118	-2.224	-1.7594	-16.853	<.001	-1.85
Gov initiative & tax comp	-0.176	0.041	-0.2569	-0.096	-4.315	<.001	-.164

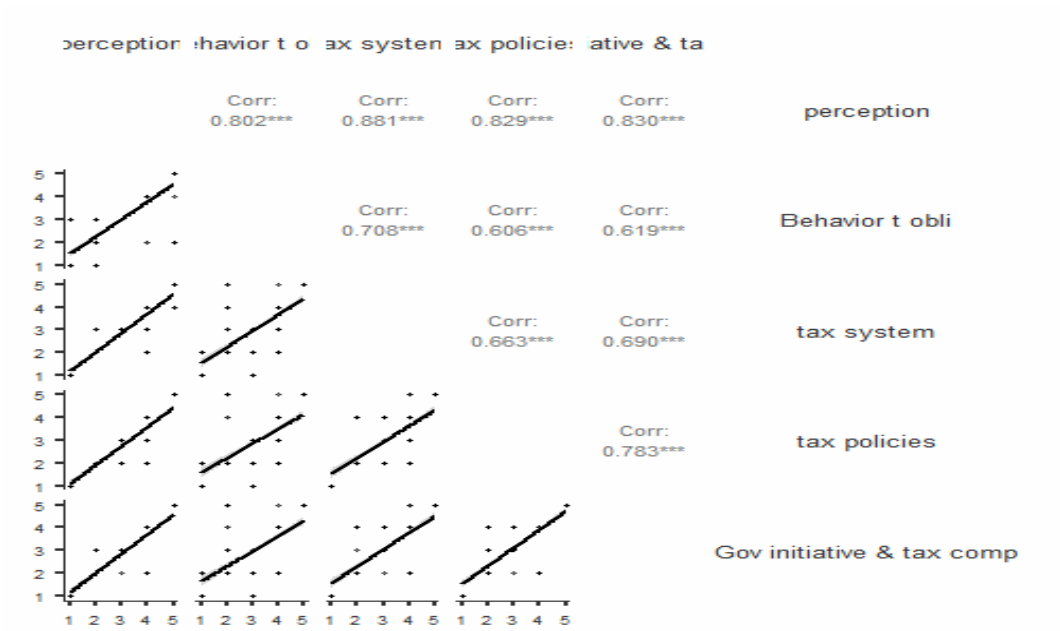
Note: Field Survey 2024

The regression analysis shows that respondent perception with behavior obligation, tax system, tax policies and government initiatives and tax compliances is significant since p value is less than 0.05 at 5% level of significance.

### 4.5 Correlation analysis



There is highly positive correlation between the dependent and independent variables and highest with tax system and their relationship is significant. It can be also demonstrated in the following plot.



### V. CONCLUSION AND IMPLICATIONS

Business taxpayers sharply agree regarding the clarity and simplicity of the tax regulations and positively influence the willingness to comply. Similarly, adequate support and guidance from tax authorities enhance taxpayer’s understanding of tax compliance requirements is moderately value is agree. The perceived fairness of the tax system affects taxpayer’s motivation to comply with tax obligations are also highly agreeing. The level of trust in

the tax administration influences taxpayer's willingness to voluntarily comply with tax regulations is agreeing mostly. The perceived benefits of tax compliance, such as access to government services, positively impact taxpayer's attitude towards fulfilling tax obligations and the severity of penalties for non-compliance influences taxpayer's decision to adhere to tax regulations is sharply agreed. The tax system in Nepal is fair of its treatment to micro and small-sized entrepreneurs fifty percent of them is disagree. The tax regulations are transparent and easy to understand for SMEs entrepreneurs with moderate respondents agreed. The tax assessment process is conducted fairly, without bias or discrimination against micro and entrepreneurs agree value which is also consistent to Tripathi (2012), Besley and Persson (2014).

SMEs entrepreneurs have adequate opportunities to express their concerns or seek clarification regarding tax matters respondent's value. The tax authorities in Nepal provide clear information on how taxes are utilized for the benefit of the business community. SMEs entrepreneurs feel that the tax system in Nepal treats all businesses equally, regardless of size is agree mostly. This result is also consistent to Roth and Valdez (2020). Overall, SMEs business taxpayers perceive the tax system in Nepal as transparent and fair most of the respondents agree. Tax incentives provided by the government positively influence respondent's decision to formalize the business. Tax policies that support formalization positively impacts the overall compliance behavior of micro and small-sized entrepreneurs respond with sharply agree. The ease of accessing government incentives for formalization affects taxpayer's decision to comply with tax regulations as similar agree value majority of respondents. This result is also proclaimed by Sharma (2013).

Overall, government initiatives aimed at promoting tax compliance are clear and easy to understand for SMEs entrepreneurs, almost respondents. The moderate value of the respondents agreed that the information provided by the government regarding tax compliance is accessible and readily available to SMEs entrepreneurs. Similarly, respondent disagree that the government provides adequate support and resources to help micro and small-sized entrepreneurs understand and meet their tax obligations whereas agree with simplifying the tax procedures. Overall, government initiatives aimed at promoting tax compliance have a positive impact on micro and small-sized entrepreneurs in Nepal are agreeing moderately as respond which is also supported by Bhattarai and Koirala (2004). The result shows that the tax authorities in Nepal provide clear information on how taxes are utilized for the benefit of the business community, the tax system encourages open communication between tax authorities and micro and small-sized entrepreneurs is agree value.



Tax policies that support formalization positively impact the overall compliance behavior of micro and small-sized entrepreneurs, the ease of accessing government incentives for formalization affects the decision to comply with tax regulations as stated all, the respondent's value is more than 3 mean value i.e. moderately agree. Overall, the impact of tax policies and incentives in Nepal encourages micro and small-sized entrepreneurs to formalize their businesses and comply with tax regulations. This result is also supported by Shrestha (2023). Similarly, the statistical test with ANNOVA, Regression, and correlation shows the relationship between variables.

**Further implication.** Government should increase the incentives for SMEs and collaborate with Nepal Rastra bank and other government institutions to uplift the SMEs business taxpayers and feel equity and informative tax system. Similarly, Government agencies and IRD/IROs/TSO (Inland Revenue Department/Inland Revenue offices/Taxpayers' Service offices) also conduct the taxpayer awareness program towards SMES taxpayers and also operates the responsive service delivery and feels partnership approaches and positively perceive with taxpayers. It is necessary that government of Nepal or tax administration concentration is not only given to the generation of taxes but also the wellbeing of tax payers and simplified the tax regulations and procedures hence, SMEs.

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