

PERSONAL INCOME TAX COMPLIANCE IN KATHMANDU VALLEY

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial
fulfilment of the requirements for the Master's Degree

by

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Personal Income Tax Compliance in Kathmandu Valley**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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Report of Research Committee

Mr. Atul Raj Pandey has defended research proposal entitled “**Personal Income Tax Compliance in Kathmandu Valley**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Prof. Dr. Gopi Nath Regmi and submit the thesis for evaluation and viva voce examination.

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ABBREVIATIONS

CIT	=	Corporate Income Tax
CTS	=	Complexity of Tax System
FTS	=	Fairness of Tax System
FY	=	Fiscal Year
IRD	=	Inland Revenue Department
PIT	=	Personal Income Tax
SPSS	=	Statistical Package for the Social Sciences
TC	=	Tax Compliance
TK	=	Tax Knowledge
TR	=	Tax Rates
VAT	=	Value Added Tax

ABSTRACT

This aim of this dissertation was to study the tax compliance behavior of registered personal income taxpayers in Kathmandu Valley and to find out if tax knowledge, tax fairness, tax complexity and tax rates influenced compliance behavior. Furthermore, the study attempted to delve the underlying reasons for non-compliance. This study examined the effect of four explanatory variables i.e. tax knowledge, fairness of tax system, complexity of tax system and tax rate on the response variable i.e. personal income tax compliance. A theoretical framework was developed and hypotheses were tested using the responses. Descriptive and analytical research design was adopted and questionnaires were distributed to elicit responses from registered personal income taxpayers in Kathmandu Valley. Data was collected using purposive judgmental sampling method, by distributing questionnaires to registered taxpayers. Least Squares and SPSS 22.0 were used to analyze the survey data. The results suggested that the four explanatory variables i.e. tax knowledge, fairness of tax system, complexity of tax system and tax rate had a significant positive impact on the dependent variable i.e. personal income tax compliance. Results also suggested that taxpayers have inadequate technical knowledge and perceive tax system as complex. Tax knowledge, tax fairness, tax complexity and tax rates are viewed as contributing factors towards non-compliance behaviour among taxpayers. Hence, attention on changing attitude of individual taxpayers as well as that of significant others (family members, friends, colleagues and opinion leaders - highly visible, respected people) whose influence is important in encouraging tax compliance is needed. Government should develop an education programme with multiple themes with a view of building a culture of tax compliance and the IRD should continuously work on tax payer's awareness creation and tax knowledge by giving adequate tax training and education to tax payers.

Key Words: *Tax Knowledge, Tax Fairness, Tax Complexity, Tax Rates, Tax Compliance*

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Jackson and Milliron (1986) defined tax compliance as reporting of tax liability to the relevant authority in compliance with applicable tax laws, regulation and court. It has also been defined as a process in which taxpayers file all the required tax returns by declaring all income accurately and paying the exact tax liability using applicable tax laws and regulation (Palil and Mustapha, 2011). Hence, tax compliance refers to a taxpayer's necessary and compulsory fulfillment of the obligations regarding filling of tax returns, citing incomes and deductions and paying the tax due within a given stipulated period of time.

Governments over the world require sufficient resources to finance and carry out their functions and duties and one of the ways they can achieve these is through the imposition of taxes on its citizens. Taxes form the major source of revenue to the government in most countries (Alabede, 2001). Devano and Blessed (2006) stated that awareness and compliance of tax payer to meet their tax obligation depended on both the technical issues that relate to the collection method, tax rates, technical inspection, investigation, penalties as the embodiment of the implementation of the provisions of the tax legislation, and service to taxpayers as the funder (term of paying taxes) of the state, and also on the willingness of taxpayers, that is the extent to which the taxpayer was going to comply with tax laws. The failure to follow the tax provisions suggest that a taxpayer may be committing an act of noncompliance (Kirchler, 2007). Tax non-compliance occurs through failure to file tax return, misreporting income or misreporting allowable subtractions from taxable income or tax due (Roth, Scholz & Witte, 1989).

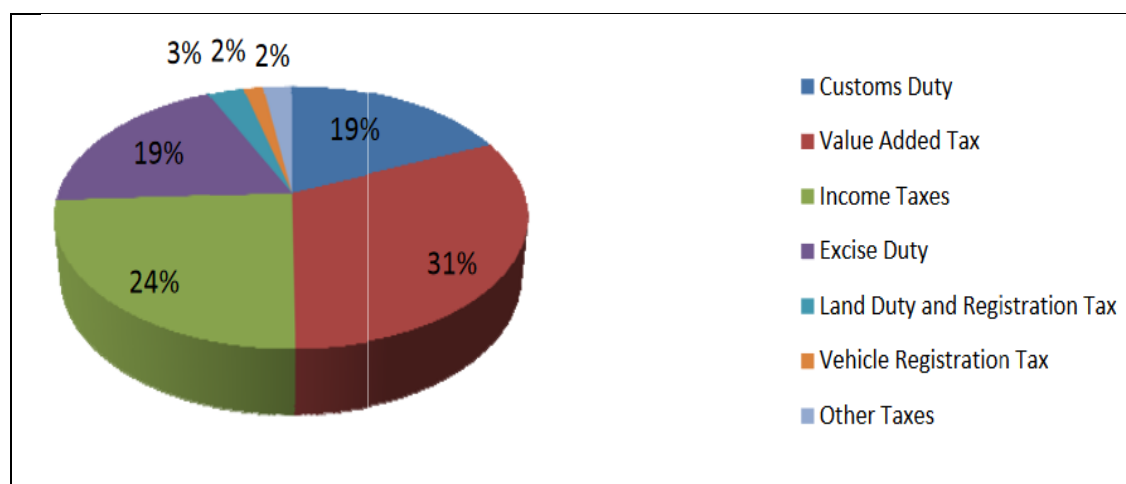
Adams (1921) stated that one of the factors that contributed to the dishonesty of taxpayers was the complexity of the tax system.

Tamás K. Papp and Előd Takáts (2008) in their IMF working paper concluded that tax rate cuts resulted in an increase tax compliance so much that tax revenues increased in response. Saad (2010) revealed that taxpayers' tax knowledge and tax complexity affected fairness perceptions towards tax compliance.

Saad (2011) results suggested that taxpayers' positive perceptions of the fairness of the income tax system helped shape their positive attitudes towards compliance.

The Government of Nepal generates revenue from tax and non-tax sources. The **Inland Revenue Department (IRD)** is responsible for the enforcement of tax laws and administration of the following taxes: Value Added Tax (VAT), Corporate Income Tax (CIT), Personal Income Tax (PIT), excise duty, health tax, education service fee and duties like entertainment fee (film development fee). (Ministry of Finance, 2019)

The income tax system of Nepal operates on a self-assessment basis. That is, the government expects the taxpayers to determine their own tax obligations and to pay voluntarily whatever is due—both regularly (through withholding from wages and through estimated tax payments) and at year end (by filing tax returns and paying any additional balances due).



Source: Inland Revenue Department 2018

Figure 1.1 Composition of Tax Revenue of FY 2017/18

In the FY 2017/18, total tax collection was Rs. 732.22 billion, which is 90 percent of total revenue and indirect taxes like VAT, customs and excise duties comprised 69 percent of the total tax revenue. Likewise, direct taxes like income taxes and property related taxes accounted for approximately 31 percent of the total tax revenue.

Studies conducted in developing countries alluded to the effect of a declining level of tax morality in the country and ascribe this to various factors. These include: resentment over what is regarded as unfair, burdensome or excessive taxation, deficiencies in administration

including poor collection, problems relating to recognition of income and expenditure, ineffective countering of avoidance, a high level of evasion, etc.

The government has taken several steps to strengthen voluntary compliance with the income tax laws. These actions fall into two major categories: requirements (e.g., requiring withholding of tax at the source of income and requiring third party information reporting) and deterrents (e.g., giving the Inland Revenue Department certain enforcement powers, and stipulating the penalties that those who are caught through this enforcement must pay).

1.2 Problem Statement

Hoelzl, Kirchler and Wahl (2007) suggested that tax knowledge, tax rate and tax fairness are relevant dimensions for understanding enforced and voluntary tax compliance.

Walsh (2012) examination suggested that tax compliance was determined by five broad factors: deterrence, norms, fairness and trust in tax administration, complexity of tax system and the role of government.

Poudel (2017) stated that tax knowledge had a significant impact. The results indicated that attention should be given to deliver tax related information.

The taxpayers' attitude on compliance may be influenced by many factors, which eventually influence taxpayer's behaviour. Those factors which influence tax compliance and/or non-compliance behaviour differ from one country to another and also from one individual to another (Kirchler, 2007). They include: taxpayers perceptions of the tax system and revenue authority (Ambrecht, 1998); peer attitude/subjective norms; taxpayers' understanding of the tax system/tax laws (Silvani, 1992; Le Baube, 1992); motivation such as rewards (Feld, Frey and Targler, 2006) and punishment such as penalties (Allingham and Sandmo, 1972); cost of compliance (Slemrod, 1992; Le Baube, 1992); enforcement efforts such as audit; probability of detection; difference across - culture; perceived behavioural control (Furnharn, 1983); ethics/morality of the taxpayer and tax collector; equity of the tax systems; demographic factors such as sex, age, education and size of income (Murphy, 2004) and use of informants.

There appears to be a significant gap between the income tax that is theoretically collectable from economically active persons in Kathmandu Valley and the income tax that is actually collected. One of the main reasons for the tax gap is non-compliance by taxpayers and potential taxpayers. Causes of non-compliance have been demonstrated to be the income

level, income source, occupation, age, gender, tax education and knowledge, fairness of tax system, peer influence, tax evasion, tax avoidance, complexity of tax system, probabilities of detection and penalties, tax rates, etc.

In order to change taxpaying behavior, all these factors must first be identified, and then should be influenced in a positive way towards tax compliance. To acknowledge personal income tax compliance, the following are the questions that will be taken.

1. Do people's knowledge about taxation contribute to compliance of income tax of personal tax payers in the Kathmandu Valley?
2. Do the fairness of tax system affect tax compliance behavior of personal income tax payers in the Kathmandu Valley?
3. Does the complexity of tax system affect tax compliance behavior of personal income tax payers in the Kathmandu Valley?
4. Do the prevailing tax rates affect tax compliance behavior of personal income tax payers in the Kathmandu Valley?

1.3 Objectives of the Study

The objective of this study is to determine the tax compliance behavior of Nepalese personal income taxpayers. The following objectives were set for this study.

1. To assess the effect of tax knowledge on personal income tax compliance among the taxpayers' in Kathmandu Valley.
2. To examine the impact of fairness of tax system on personal income tax compliance amongst taxpayers' in the Kathmandu Valley.
3. To explore the relationship between taxpayers' views with regard to complexity of tax system and personal income tax compliance.
4. To investigate if tax rates have a significant effect on personal income tax compliance.

1.4 Hypotheses

To achieve the objectives of the study and to answer the research questions, the following research hypotheses have been formulated and been tested for empirical verification.

Hypothesis 1

Kasippilai and Jabbar (2013) documented that possessing tax knowledge would lead to higher compliance rates. Studies undertaken in Malaysia (Loo, 2016; Loo et al., 2014)

proposed that tax knowledge is the most influential factor in determining taxpayers' compliance behaviour under the self-assessment system.

H₁: There is a significant effect of tax knowledge on tax compliance.

Hypothesis 2

Survey data from 1960-1980 by Etzioni (1986) documented that the fairness perception was more likely to affect tax compliance. If the tax system is perceived as unfair, tax non-compliance is likely to increase (Cowell, 1992), whereas a system experienced as fair might increase trust and consequently increase voluntary tax compliance.

H₁: There is significant effect of tax fairness on tax compliance.

Hypothesis 3

In Australia, McKerchar (2005), noted that tax agents were not happy with the increasing complexity of the tax law and claimed that the tax agents desired a much simpler tax law, with less regulatory material and ad-hoc change. Richardson (2006), found that complexity was the most important determinant of non-compliance.

H₁: There is significant impact of tax complexity on tax compliance.

Hypothesis 4

Clotfelter (1983) and Slemrod (1985) found that the marginal tax rate has a significant effect on underreporting. Some studies (Pommerehne and Weck-Hannemann, 1996) demonstrate that evasion increases with increasing marginal tax rates.

H₁: There is significant effect of tax rates on tax compliance.

Hypothesis 5

H₁: There is significant effect of tax knowledge, tax fairness, tax complexity and tax rates on tax compliance.

1.5 Rationale of the Study

This study aims to examine the tax compliance behavior of Nepalese personal income taxpayers. The result obtained so far on this issue which were conducted using primary source of data in different countries of the world and in Nepal itself, are conflicting. This research finding will help to draw conclusions if tax knowledge, fairness of tax system, complexity of the tax system and tax rates in Kathmandu would affect personal income tax compliance or not.

The results of this study can help the Nepalese policy makers understand the important segments of tax compliance so that appropriate improvements can be made to ensure high compliance in future. Furthermore, this study will be beneficial in terms of getting the idea about current taxation scenario. It will help to acknowledge how well the individuals have understood the effective and efficient implementation of income taxation identifying the loopholes and ways to mitigate them.

This paper will contribute to the tax literature in two ways: (1) the information obtained will add to the limited literature available in the region, and (2) the information on tax knowledge, tax fairness, tax complexity and tax rates may provide the basis to develop tax compliance measures.

It is the matter of common knowledge that tax knowledge, fairness of tax system, complexity of the tax system and tax rates affect the tax compliance. This study is an attempt to address the effect of tax knowledge, fairness of tax system, complexity of the tax system and tax rates towards tax compliance.

1.6 Limitations of the Study

Limitations in the research are identified as the act of controlling the size or extent of something. This study will have the following limitations.

1. The study is based on primary data. So, the limitations of primary data may be inherent in the study.
2. There are sound reasons for caution in interpreting and generalizing experimental results. Some compliance experiments may not follow widely accepted procedures of the experimental paradigm, such as the use of repeated experiments and neutral instructions.
3. It is also possible that subjects may modify their behavior simply because they know that they are participating in an experiment.
4. It can be expected that the weakness of the research would be the amount of the information, documents, and reports available for the study will be limited as far as it is discovered. The data collected from survey interviews would be the additional information retrieved regarding the research.
5. The findings of the research may not be applied to other nations, principles as data collected for the investigation would be primarily focused on Kathmandu Valley.

6. Most of the data available from previously conducted research may not explain the scenario specifically to the context of our country.
7. Lack of sufficient literature review regarding this topic in the context of Nepal.
8. Sample size is limited.

1.7 Chapter Plan

Preliminary part of the report comprises the title page, certificate of authorship, approval sheet, acknowledgements, table of contents, list of tables, list of figures, abbreviations and abstracts. The main body part of this report consists of five sections namely: Introduction, Literature Review, Research Design and Methodology, Data Presentation and Analysis and Results and Conclusions. The subsequent part of this report comprises references and appendices where the questionnaire of this report and the outputs from SPSS 12.0 have been included.

Chapter One: Introduction

The first chapter gives a brief synopsis of the study. It provides an introduction and background to the study. This chapter states the problem statement and objectives, introduction of the subject explanations why the problem should be solved and who would be interested in the solutions. Other sub-topics include problem statement, purpose, research objectives, definitions and limitations. The importance and benefits of the study are highlighted. Next, the study is differentiated. The chapter concludes by providing an outline of the structure of the thesis.

Chapter Two: Literature Review

The second chapter highlights the important findings from the literature review. This discussion primarily revolves around reviews of previous writing, studies, which are relevant to the problem being explored within the conceptual framework. Previous empirical research performed relating to taxpayers in Nepal is explored. The manner, in which the term perception is applied, for the purpose of this study, is also considered. It also presents the summary of previous major researches being studied under separate heads as well as explains the reason for choosing the respective literature.

Chapter Three: Research Methodology

The third chapter discusses the research design and methodology applied for this study. This chapter provides details of the research design, the sampling method used to carry out data collection from respondents, processing, analysis and methodology used for the study,

as well as the manner in which the data is to be collected and analyzed for this study. In addition, the link between the theoretical framework (discussed in chapter 2) and the design of the questionnaire is discussed. The techniques used to enhance the validity and reliability of the research outcome are also described.

Chapter Four: Results and Discussion

This chapter discusses about the findings, analysis used to process data collected for research. It also identifies the degree of relationship between various variables identified as independent and dependent for the study. The main objective is to conduct the analysis of various data gathered and find out the relationship between various factors that are identified.

Chapter Five: Summary and Conclusion

Finally, this chapter summarizes the whole research finding and forwards the appropriate recommendations on the basis of the research and brings the study to a close. The summary of the findings reiterates the measures that are developed, explored from the research, data gathered and analyzed. Limitations to the study as well as recommendations for future research are also considered.

CHAPTER II

LITERATURE REVIEW

2.1 Conceptual Review

Tax compliance studies are multi-disciplines in nature. Therefore, accountants, sociologists, psychologists and economists are all interested in the study of tax compliance. Concerns about individuals' tax compliance behavior have motivated academic research for nearly a quarter of a century. Early models of taxpayer compliance were based on the theory of deterrence. It was believed that taxpayers economically measured the possible rewards and risks of noncompliance. Increased risks should increase compliance. Empirical research by disciplines such as sociology and psychology suggest that noneconomic aspects of taxpaying behavior are important determinants of the tax compliance decision. The alternative explanations and theories proposed by the various disciplines have led to the creation of an enormous list of determinants of taxpayer compliance.

Scholars have concluded that many factors influence tax compliance, so, there is no single theory that can entirely explain the phenomenon of tax compliance behavior (Alm, 1999). Accordingly, it has been suggested that theories from sociology, psychology and economy could be useful in explaining tax compliance behaviour (Alm, 1999; Jackson & Millron, 1986). For a better understanding, the present paper used variables from diverse sources.

The IRS (1978) first published a list of 64 factors that may influence taxpayer compliance. Subsequent researches have expanded the list. These determinants have been broadly categorized into four groups (Fisher, Wartick, and Mark, 1992): (1) demographic variables (e.g., age and gender); (2) those that proxy for noncompliance opportunity (e.g., education, income level, income source, and occupation); (3) attitudinal variables (e.g., ethics, perceived fairness of the tax system, and peer influence); and (4) structural variables (e.g., complexity of the tax system, IRS contact, sanctions, detection probability, and tax rates). Expanded models of taxpayer compliance utilize many of these variables.

It is commonly recognized that one of the major causes behind the phenomenon of tax noncompliance in many developing countries is tax system structure (Twum, 2014). Jackson and Milliron (1986) conducted a broad review of the tax compliance literature and identified 14 key factors that have been studied by researchers on the area. Fischer et al.(1992) categorized the factors of Jackson and Milliron model to four groups: demographic, noncompliance opportunity, attitudes and perceptions and tax system

structure. Based on this model proposed by Fischer et al.(1992), derived from Jackson and Milliron (1986), tax system structure contains four elements: tax rates, penalties, complexity of the tax system and probability of detection.

Hidayat, Handayani and Otok (2014) explained that since tax service quality has a direct impact on the level of taxpayers' satisfaction, and on taxpayers' behaviour, it is important to increase satisfaction of taxpayers through increased quality of service to taxpayers. Generally a lot of developed countries such as the USA, the UK, France, Sweden and Denmark are increasingly becoming aware of the necessity to accord the taxpayers the status of customers. They applied the concept of New Public Management on taxpayers by giving more consideration to their tax service requirements and taking care of them as clients (Kirchler, 2007).

Most taxpayers in developing countries, who are intending to evade tax payment, firstly look at two things: tax rate and penalties, and then decide whether to comply or not (Kumar Et al., 2012). In general, it is believed that a high tax rate is the main cause of tax noncompliance (Mwangi, 2014). Peter (2008) carried out a study to examine the relationship between tax rates and tax compliance. He concluded that high taxes and extreme regulation are two very general reasons of tax noncompliance. Meanwhile, Derwent (2000) studied taxpayers behaviour in five countries (USA, South Africa, Nigeria, Kenya and Gambia), and concluded that tax rate is considered as a major challenge of tax compliance.

2.2 Review of Journal Articles and Previous Theses

In order to establish the theoretical basis for the research, an extensive literature review was conducted and prior research conducted on various aspects were analyzed. The refined articles that have investigated the factors that affects the compliance level of individual taxpayers are few. To overcome this obstacle, articles that investigate the tax compliance in general were included.

Jackson and Milliron (1986), in their earlier review of 43 tax compliance studies undertaken from 1974 to 1985, identified fourteen key variables of compliance behaviour, which include: age; gender; education; income level; income source; occupation; peer influence; ethics; fairness; complexity; tax authority contact; sanctions; probability of detection; and tax rates.

The influence of tax knowledge on fairness perceptions was documented by Schisler (1995), who carried out a study comparing tax preparers and taxpayers. Schisler found that taxpayers had significantly lower fairness perceptions compared to tax preparers. The result might be due to the absence of tax knowledge among taxpayers compared to tax preparers.

Fallan (1999) later confirmed Schisler's (1995) findings that tax knowledge significantly changed attitudes towards the fairness of the tax system. In that experimental study, the author measured tax knowledge through an additive index of 12 questions concerning tax allowances and tax liabilities.

Devano and Blessed (2006: 113) stated that awareness and compliance of tax payer to meet their tax obligation depended not only on the technical issues that relate to the collection method, tax rates, technical inspection, investigation, penalties as the embodiment of the implementation of the provisions of the tax legislation, and service to taxpayers as the funder (term of paying taxes) of the state, but it also on the willingness of taxpayers, that is the extent to which the taxpayer would go to comply with tax laws.

Richardson (2006), in his research on 45 countries, found that complexity is the most important determinant of non-compliance, apart from education, income source, fairness and tax morale. His findings were consistent with Cox and Eger (2006) who focused on the State Road Funds in the US State of Kentucky. The authors found that procedural tax complexity contributes to an increase in tax non-compliance.

Frey and Togler (2007) had examined that an individual taxpayer is influenced strongly by his perception of the behavior of other taxpayers. If the taxpayers believe other to be honest, tax morale increases.

Gerald Chau and Patrick Leung (2009) carried out a critical review of Fischer tax compliance model (Fischer et al., 1992) and suggested that culture, noncompliance opportunity and tax system/structure influence tax compliance.

Loo, McKerracher and Hansford (2009) supported statements of Canada Revenue Authority (2009) as their findings reveal that gaining tax knowledge has a significant impact on Malaysian's compliance level when the self-assessment system had introduced. They further indicate that the ability of taxpayer's in complying tax by reporting taxable income, claim relief, rebates and compute tax liability correctly can be determined by the sufficiency of taxpayer's knowledge toward tax policy.

Saad (2009) found out that fairness had no significant effect on tax compliance while attitude and subjective norms significantly affected the tax compliance behavior. Tax knowledge and tax complexity affected the fairness. Saad (2012) related the tax non-compliance to income, attitude, perceived behavioral control, tax knowledge, complexity and fairness in Malaysia. Saad (2014) found out that taxpayers in Malaysia have inadequate knowledge and perceive the tax system as complex.

Mukasa (2011) agree that tax knowledge has a significant positive relationship with tax compliance behavior. As the result from their research, higher tax knowledge is expected to lead to higher compliance rates and lower tax knowledge lead to lower tax compliance rate in adverse. The survey among small and medium registered taxpayers operating in Kampala central division found that low tax knowledge is one of the significant factors which contributed to less compliance. This is because lack of knowledge of tax law coupled with inadequacy of taxation books in layman terms to guide them which will contribute to unintentional tax non-compliance.

Nicoleta (2011) in Romania concluded that taxpayers' attitudes towards the tax system and the way the taxpayers' feel treated by the tax authority were important in explaining taxpayers' compliance level. Perceptions of unfair tax burdens affect taxpayers' views. Tax fairness involved two different dimensions - the benefits one received for the tax given and the perceived equity of the taxpayer's burden in reference to that of other individuals. The second dimension related to taxpayers' perceptions of the vertical equity of the tax system. If a taxpayer were to feel that they pay more than their fair share of tax when comparing themselves to wealthy taxpayers, they were more likely to see paying tax as a burden.

The findings by Badara (2012) also showed that though tax audit may be used to ensure compliance, it is not effective as a result of the insufficient number and experience of tax personnel used, the negative attitude of tax payers to tax officials, poor sanctions for non-compliant taxpayers and the poor tax knowledge of taxpayers.

In UK, Hansford et al. (2012) found that tax cost, and complexity affect the tax compliance.

Maneekwan Chandarasorn (2012) suggested that that tax compliance strategies should be developed as a comprehensive package that included enforcement strategies, tax knowledge strategies, tax system fairness strategies, as well as long term government administration strategies.

Ibrahim (2013) found that usefulness and complexity of tax has a significant effect on tax compliance in Malaysia.

Peggy (2013) found that personal factors, trust, fairness affect tax compliance in US.

Sardjono (2013) stated that the willingness of tax payers to pay tax depends knowledge and understanding of tax rules and good perception of the effectiveness of the taxation system.

Aronmwan, Joshua, Imobhio, Ehichioya and Izedonmi (2014) concluded a significant positive relationship between tax rate and personal income tax compliance. Taxpayers' perception of the government, taxpayers' income, attitude of taxpayers on tax system had a significant impact on personal income tax compliance. But, gender of the taxpayer had no significant positive relationship with his/her level of tax compliance.

Masud, Aliyu and Gambo (2014) concluded that there was significant negative correlation between tax rate and tax compliance and tax rate had a negative effect on tax compliance in Africa.

Zeng (2014) found out that the tax law system is the most important factor that affected the participants' tax compliance behavior in Canada. Justification of using tax revenue by the government was the second important factor and enforcement and penalty by tax agency played a third significant role in affecting people's tax reporting behavior. The study also found out that participants were affected differently dependent upon their gender and filing experience.

Kamil (2015) concluded that taxpayer's awareness, knowledge, tax penalties and tax services has a significant effect on individual taxpayers' compliance.

Savitri (2015) found that tax socialization and knowledge affect the tax compliance in Malaysia.

Sinnasamy et al. (2015) proposed that tax rate, penalty, tax fairness, and peer influence moderated by tax agents could increase the tax compliance in Malaysia.

Yadav, Ali, Anis and Tuladhar (2015) opined that online tax payment system should be implemented, tax payers should be educated sufficiently on the importance of tax.

Jimenez and Iyer (2016) found that social factors, trust in government and fairness are important factors for the compliance intention in US.

Redae and Sekhon (2016) developed a questionnaire with 375 respondents including the tax payer's knowledge that impacted tax compliance. Their findings suggested that tax payer's knowledge indicated to obtain the degree of voluntary tax compliance so, understanding tax payer's knowledge and compliance behavior is an important issue for any government and revenue collecting authority particularly in a self-assessment environment. Also suggested that, policy makers, tax authority and government should do further study to know in which extent tax payers' tax knowledge is influence noncompliance behavior in the study area.

Poudel (2017) stated that tax knowledge has a significant impact, even though the level of tax knowledge varies significantly among the respondents. The results indicate that more attention should be given to deliver tax related information in order to increase tax knowledge among university teachers. Also, relating to tax knowledge, results reveals that there is no significant difference on the basis of marital status, type of college and gender.

Rahayu (2017) stated that the knowledge and understanding of tax regulation in the society will increase tax revenue of the government. The research proved that the knowledge and understanding of tax regulation and taxpayer awareness has significant direct effect on tax compliance, both individually and simultaneously.

Ghimire (2019) concluded that tax knowledge, tax system and tax fairness have significant positive relationship with compliance behavior of individual tax payers.

Table 2.1 Summary of Literature Review

S. No.	Author/ Year/ Country	Independent Variables	Dependent Variable	Sample size/ Methods	Findings
1	Jackson and Milliron, (1986)	Age; Gender; Education; Income level; Income source; Occupation; Peer influence; Ethics; Fairness; Complexity; Tax authority contact; Sanctions; Probability of detection; Tax rates.	Tax compliance		In their review of 43 tax compliance studies undertaken from 1974 to 1985, they concluded that the identified fourteen key variables have significant impact on compliance behavior.
2	Schisler, (1995)				Taxpayers had significantly lower fairness perceptions compared to tax preparers which may be due to
3	Fallan, (1999)				Tax knowledge significantly changed attitudes towards the fairness of the tax system.
4	Devano and Blessed, (2006)	Collection methods, Tax rates, Technical inspection, Investigation, Penalties, Service to taxpayers, Willingness of tax payers	Tax compliance		Awareness and compliance of taxpayer to meet their tax obligation depends on collection methods, tax rates, technical inspection, investigation, penalties, service to taxpayers and on the willingness of taxpayers.
5	Richarlison, (2006)	Tax complexity, Education, Income source, Tax fairness, Tax morale		Survey (n=45)	Tax complexity is the most important determinant of non-compliance, apart from education, income source, fairness and tax morale.
6	Frey and Togler (2007)				An individual taxpayer is influenced strongly by his perception of the behavior of other taxpayers.

7	Gerald Chau and Patrick Leung, (2009), Hong Kong	Demographic, Noncompliance opportunity, Attitudes and perceptions, Tax system/structure	Taxpayer compliance behavior		Culture, noncompliance opportunity and tax system/structure influence tax compliance.
8	Loo, McKerracher and Hansford (2009)	Tax knowledge	Tax compliance		Tax knowledge has a significant impact on compliance level. Taxpayer's knowledge towards the tax policy determine the ability of taxpayer's in complying tax.
9	Saad, (2009), Malaysia	Tax knowledge, Tax complexity	Tax compliance	Interviews (n=30)	Taxpayers have inadequate technical knowledge and perceive tax system as complex.
10	Mukasa, (2011)	Tax knowledge	Tax compliance		Tax knowledge had a significant positive relationship with tax compliance behavior.
11	Nicoleta, (2011), Romania	Economic factors (fines, level of actual income, tax rates, audit probabilities, tax benefit, tax audit and penalties) Non-economic factors (attitude towards tax, fairness of tax system, personal, social and national norms)	Tax compliance		Taxpayers' attitudes towards the tax system and the way the taxpayers' feel treated by the tax authority are important in explaining taxpayers' compliance level. Perceptions of unfair tax burdens can affect taxpayers' views.
12	Badara, (2012)	Tax audit, Attitude of taxpayers, Tax knowledge	Tax compliance		Poor tax knowledge of taxpayers' affects tax compliance.
13	Hansford et al. (2012), UK	Tax cost Tax complexity	Tax compliance	Survey (n=315)	Tax cost affect the growth of SMEs and the complexity of tax law make it difficult for the SMEs to comply.

14	Maneekwan Chandarasorn (2012), Thailand	Enforcement, Fair tax system, Government administration, Tax knowledge	Tax compliance	Survey (n=1,000)	Enforcement from government, tax system, government administration and tax knowledge had a significant positive relationship with tax compliance behavior.
15	Ibrahim (2013), Malaysia	Tax cost Usefulness Complexity Anxiety	Tax compliance	Survey (n=185)	Usefulness and complexity of tax law has a significant effect on tax compliance.
16	Peggy, (2013), U.S.	Personal factors, Trust, Fairness	Tax compliance		Personal factors, trust, fairness affect tax compliance in US.
17	Sardjono, (2013)	Tax knowledge, Tax rules, Perception of the effectiveness of the taxation system	Tax compliance		Willingness of tax payers to pay tax depends knowledge and understanding of tax rules and good perception of the effectiveness of the taxation system.
18	Aronmwan, Joshua, Imobhio, Ehichioya and Izedonmi, (2014), Nigeria	Taxpayers' perception of government, Taxpayers' gender, Taxpayers' attitude to the tax system, Tax rate, Taxpayer income	Personal income tax compliance		There is a significant positive relationship between tax rate and personal income tax compliance. Taxpayers' perception of the government, taxpayers' income, attitude of taxpayers on tax system had a significant impact on personal income tax compliance. But, gender of the taxpayer had no significant positive relationship with tax compliance.
19	Masud, Aliyu and Gambo, (2014), Africa	Tax rate	Tax compliance	N = 61 countries	There is significant negative correlation between tax rate and tax compliance.
20	Zeng, (2014), Canada	Tax law system Enforcement of the law, Nature of government expenditures	Tax compliance	Survey (n=174)	Tax law system is the most important factor that affected the participants' tax compliance behavior followed by nature of government expenditures and then by enforcement of the law.

21	Nurlis Islamiah Kamil, (2015), Indonesia	Taxpayer awareness, Knowledge, Tax penalties, Tax authorities services	Tax compliance	Survey (n=550)	Taxpayer's awareness, knowledge, tax penalties and tax services have a significant effect on individual taxpayers' compliance.
22	Savitri, (2015), Malaysia	Tax socialization, Tax knowledge	Tax compliance		Tax socialization and knowledge affect the tax compliance.
23	Sinnasamy et. al., (2015), Malaysia	Tax system and structure (tax rate, penalty rate) Attitude and perceptions (tax fairness, peer influence)	Tax compliance	Conceptu al paper	Tax rate and penalty, tax fairness and peer influence moderated by tax agents would increase the tax compliance of individual taxpayers.
24	Yadav, Ali, Anis and Tuladhar, (2015)				Tax payers should be educated sufficiently on the importance of tax.
25	Jimenez and Iyer, (2016), US	Injunctive Norms Descriptive Norms Subjective Norms Trust Fairness	Compliance intention	Survey (n=217)	Trust in government has a significant influence on both perceived fairness of the tax system and compliance decisions. In addition, fairness has a direct effect on tax compliance.
26	Redae and Sekhon, (2016)			Survey (n=375)	Understanding tax payer's knowledge and compliance behavior is an important issue for any government and revenue collecting authority particularly in a self-assessment environment.
27	Poudel, (2017)	Tax knowledge	Tax compliance		Attention should be given to deliver tax related information in order to increase tax knowledge.
28	Rahayu, (2017)	Tax knowledge Taxpayer awareness	Tax compliance		Knowledge, understanding of tax regulation and taxpayer awareness has significant direct effect on tax compliance.
29	Ghimire, (2019)	Tax knowledge, Tax system, Tax fairness	Tax compliance		Tax knowledge, tax system and tax fairness have significant positive relationship with compliance behavior of individual tax payers.

2.3 Research Gap

The review of relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. The main focus of this study is on individual taxpayer's tax knowledge, fairness of tax system, complexity of tax system and tax fairness and how these variables lead to personal income tax compliance. Review of different literatures revealed the different researches conducted in different period relating to tax knowledge, tax system and tax fairness and its influences on the perception of individual tax payers, both nationally and internationally in different approaches.

In the context of Nepal, very few efforts have been made to examine the issues associated with tax compliance but research on effect of tax knowledge, complexity of tax system, fairness of tax system and tax rate on tax compliance and how these variable lead to compliance behavior have not been made. Nepalese researchers have studied various aspects of tax policy in Nepal but study of tax policy and its effects on individual perception has not been studied. It certainly stimulates the curiosity to know the effect of tax knowledge, tax system and tax fairness in the framework of tax compliance. Do tax knowledge affect the compliance of individual tax payer? Do the tax fairness affect individual tax payer's tax compliance? Do the tax system affect the compliance behaviour of individual tax payer? Do tax rates affect the compliance behaviour of individual tax payer? Some of the major issues of the present study include, if tax rates affected the compliance of individual tax payer.

Notwithstanding the importance of tax rate and low level of tax simplification on compliance behavior, not much has been written on this issue in the Nepalese setting, except for few studies on general taxation. Thus, this paper has tried to address this gap.

2.4 Conceptual Framework

A conceptual framework is an analytical tool with several variations and contexts. It explains the path of a research and grounds. The overall aim of the conceptual framework is to make research findings more meaningful, acceptable to the theoretical constructs in the research field and ensures generalizability.

This research will revolve around a number of key concepts, such as compliance opportunity (income level, income source, occupation, etc.), demographic variables (age, gender, education, etc.), attitudes and perceptions (fairness of tax system, peer influence,

tax evasion, tax avoidance, etc.) and tax system and structure (complexity of tax system, probabilities of detection and penalties, tax rates, etc.).

All these variables are interrelated with each other. These variables can be classified into dependent and independent variables.

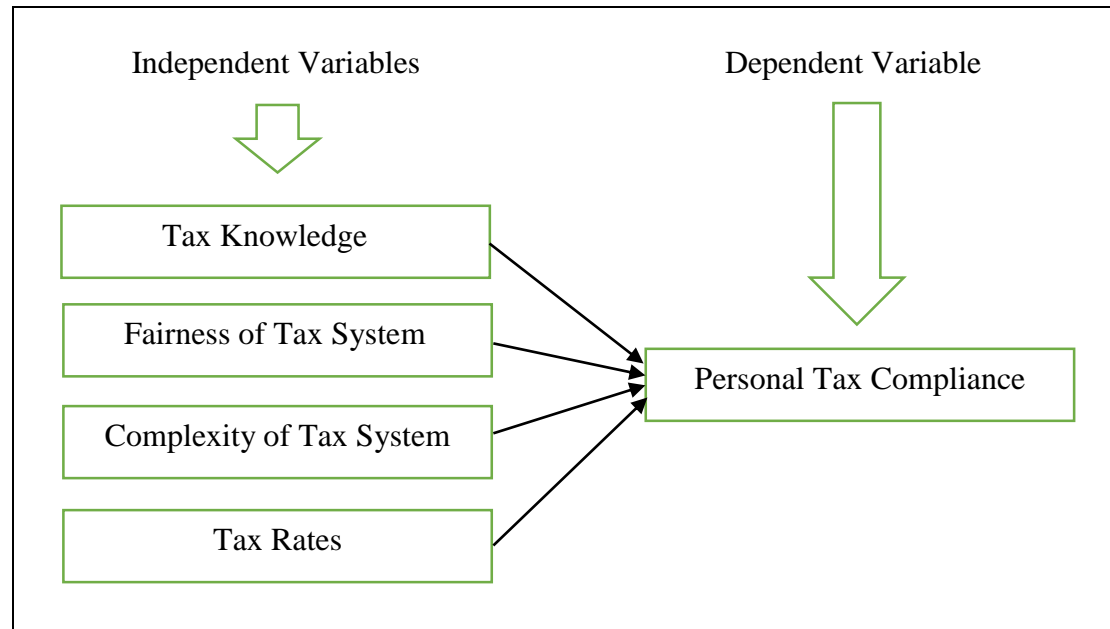


Figure 2.1 Conceptual Framework

The regression model specification for this study is:

$$PITC = \alpha + \beta_1TK + \beta_2FTS + \beta_3CTS + \beta_4TR + E \dots \dots \dots Eq_1$$

Where:

PTC = Personal Income Tax Compliance

TK = Tax Knowledge

FTS = Fairness of Tax System

CTS = Complexity of Tax System

TR = Tax Rates

E = Error Term

$\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients

Prior Expectation = $\beta_1, \beta_2, \beta_3, \beta_4 > 0$

From figure 2.1 and the regression model, it is clear that *Personal Tax Compliance* is the research variable which is being implemented and the respondents are the individual taxpayers whose *Tax Knowledge*, perceptions on *Fairness of Tax System* and *Complexity*

of Tax System and *Tax Rates* assist in determining the effectiveness of *Personal Tax Compliance* and how the taxpayers have perceived the tax compliance, either positively or negatively.

The concept of different terms, dependent variable and independent variables associated in this research has been discussed below.

Taxation: Taxation, for this study, is defined as: "...a compulsory unrequited payment to the government" (Organization for Economic Cooperation (OECD), 2004).

Nepalese taxpayers: Nepalese taxpayers, for the purpose of this study, include natural persons from Nepal who are 25 years and older.

Tax knowledge: Tax knowledge is the level of awareness or sensitivity of the taxpayers to tax legislation. Tax knowledge refers to the processes, by which taxpayers become aware of tax legislation and other tax-related information. The level of formal general education received by taxpayers is an important factor that contributes to the understanding of tax requirements regarding registration and filing requirements.

Tax knowledge is an essential element in a voluntary compliance tax system (Kasippilai, 2000), particularly in determining an accurate tax liability (Palil, 2005; Saad et al., 2003).

More recent studies undertaken in Malaysia (Loo, 2006; Loo et al., 2008; 2009) also suggested tax knowledge to be the most influential factor to determine taxpayer's compliance behavior under the self-assessment system. Kasipillai & Jabbar (2003) and Kirchler et al. (2006) documented that possessing tax knowledge would lead to higher compliance rates. On similar note, the absence of tax knowledge may lead to noncompliance behavior among taxpayers, either intentionally or unintentionally. Such evidence was also documented among individual taxpayers in Malaysia who unintentionally committed mistakes in their tax return forms (Loo, et al., 2008).

Fairness of tax system: Tax fairness describes a system of taxation that is equitable for all taxpayers. Groups focused on tax fairness look to limit the amount of tax legislation and rules that benefit one segment of the tax-paying population over another.

Generally, advocates of tax fairness believe that taxes should be based on a person or company's ability to pay. This means that individuals and corporations with greater incomes pay a larger percentage of their income than low-income people or smaller

businesses. Advocates of tax fairness tend to advocate for closing loopholes in the tax code that allow certain individuals and corporations to avoid paying taxes.

Complexity of tax system: Tax complexity, in this research project has been distinguished into two different concepts, namely, design complexity and operational complexity.

Design complexity reflects the number of different commodities that are taxed but also the number of different tax rates that apply to those commodities. This can be divided into a number of different dimensions:

1. Whether, for any given commodity, the rate at which it is taxed varies with the amount of that commodity that the taxpayer supplies/consumes. The classic case where this happens is income tax –though there has been much discussion of flat rate income tax schedules.
2. Whether, for any given commodity, the tax rate paid by some taxpayers might be different from that of others purely because of the nature of the taxpayer (rather than, as in (1) above, the amount consumed/supplied).

Operational complexity essentially reflects how easy/costly it is for an honest taxpayer to comply with the informational, filing and payment requirements/obligations of the tax system.

Tax rates: Tax rates are the percentage at which an individual or corporation is taxed. The Government of Nepal (both the federal government and many of the states) uses a progressive tax rate system, in which the percentage of tax charged increases as the amount of the person's or entity's taxable income increases. A progressive tax rate results in a higher rupee amount collected from taxpayers with greater incomes.

Tax compliance: For this study, tax compliance, typically means: "...true reporting of the tax base; correct computation of the liability; timely filing of the return; and timely payment of the amounts due" (Franzoni, 1998:5). According to James and Alley (2002, p. 32), tax compliance refers to the willingness of individuals to act in accordance with in both the 'spirit' and the 'letter' of the tax law and administration without the application of enforcement activity. Prior to that, Roth et al. (1989) defined tax compliance as filing all required tax returns at the proper time and that returns accurately report tax liability in accordance with the tax law applicable at the time the return is filed.

CHAPTER III

RESEARCH METHODOLOGY

In order to achieve the objectives of the study, certain method of research has to be used. This chapter is, therefore, devoted to describe the methods used for carrying out the research. It covers the type of research design used for under taking, population and sample, sampling process, sources of data, data collection procedures and analytical tools used to analyze the data and develop the relationship between various variables involved.

3.1 Research Design

Descriptive research design has been used in this research. The purpose of the study has been fulfilled by examining the effect of four explanatory variables i.e. tax knowledge, fairness of tax system, complexity of tax system and tax rate on dependent variable i.e. personal income tax compliance. This study has been conducted in Kathmandu Valley to know the perceptions of individual taxpayer's tax knowledge, tax fairness, tax complexity and tax rate on individual income tax compliance. The purpose was to test the conceptual framework developed from the related literatures in this topic.

An interrogation/communication approach was followed as the data was collected from respondents by means of interviews using a questionnaire as the measuring instrument. Previous researches were taken into account when formulating the questions in the questionnaire. The study attempted to highlight a sample of Nepal's taxpayer's perceptions with regard to taxation and numeric inferences based on the data were obtained. The research was performed under actual environmental conditions.

3.2 Population and Sample

This research is focused on the eligible individual income tax taxpayers registered at the Inland Revenue Department in Kathmandu Valley. Thus, the population for the study comprised of all individual income taxpayers in Kathmandu Valley. This included workers in both the formal and informal sector. Those in the formal sectors are all civil servants and or officers with their different salary level and proportionate tax rates e.g. the police, teachers, doctors, soldiers, all the ministries workers whether at the federal, state or local government level. The informal sector include all the self-employed and their employees and or agents. As of fiscal year 2019/020, there is one Large Taxpayers Office, thirty-seven

Inland Revenue Offices, twenty Taxpayer Service Offices and one Medium Level Taxpayer Office all totaling to fifty-nine tax offices in Nepal.

A sample is simply a subset of the population. The concept of sample arises from the inability to test all the individuals in a given population. Purposive judgmental sampling technique has been followed in this research. Sample size of 150 who are registered as an individual income taxpayer at the Inland Revenue Department in Kathmandu Valley was taken on the basis of personal contacts.

3.3 Sources of Data

Primary source of data have been used to collect the data from the respondents. Under this study, a structured questionnaire was prepared and distributed to individual taxpayers and then these filled questionnaires were collected from the respondents. Respondents were selected carefully so that they have understanding of the subject matter to avoid random results. The preference for a questionnaire was based on the fact that respondents are able to complete it without help, anonymously, and it is cheaper and quicker than other methods while reaching out to larger sample (Bryman, 2008; Cohen et al., 2007).

3.4 Data Collection Procedure

As this study was based on primary data, data were collected through a questionnaire survey. The Likert based questionnaires included open-ended as well as closed-ended questions. The research supervisor, experts and professionals who were experienced in these sort of researches were requested to examine the questionnaire to check whether there were any items that needed change or rephrasing, as well as the appropriateness of the time set for. This process helped refine the questionnaire, enhance its legibility and minimize the chances of misinterpretation.

The data collection method used in this study is the survey method. A structured questionnaire was prepared and distributed to the respondent through personal visits and via emails. It was stressed that participation was totally voluntary and free of any obligations. The respondents filled out the questionnaire following the instructions given in the questions. Then, the responses were collected from the respondents directly and via emails. The questionnaire was distributed to 150 respondents. Some respondents filled the questionnaire at the same time and rest of the questionnaire were to be collected after four to five days of distribution. But, due to the COVID19 pandemic, most of the responses were collected after the government ended the lockdown on 23rd of July in 2020.

3.5 Instrumentation of Data Collection

The data was collected by using the research questionnaires for the purpose of collecting primary data. Structured questionnaires containing multiple choices, single responses and Likert scale were developed.

Because of the fact that every respondent was asked to answer the same set of structured and predetermined questions, coding, data treatment and interpretation was relatively easy. The questionnaire was divided into two parts. In the first part, the respondent's profile was asked which included gender, age group, academic qualifications, income level and employer. The second part comprised of 50 questions to measure independent and dependent variables. It contained closed-ended questions in order to consume as little time as possible. Most of the close-ended questions were measured using seven-point scales anchored by 1 (strongly disagree) and 7 (strongly agree) intended to create an easy to answer and unbiased questionnaire. One open-ended question was included at the very end of the questionnaire asking for any comments or suggestions that the respondents might have had. The questionnaire designed could be completed in less than 10 minutes.

After the questionnaire was completed, each item was analyzed separately or in some cases, item responses were summed to create a score for a group of items. In this study, a high score indicate a favorable tax knowledge, tax fairness, tax complexity and tax rate towards tax compliance of tax payer.

3.6 Data Analysis Tools and Techniques

After the completion of the data collection, the information gathered were edited, coded, categorized and properly recorded in the Microsoft Excel 2013 and SPSS 22.0. Data were processed in a manner so that they were accurate and consistent with the intent information obtained. The main purpose of data analysis in this study was to explore the relationship between dependent and independent variables in context of Nepal. Therefore, this section deals with statistical models used for the purpose of analysis of primary data including statistical test such as sample test, mean, median, standard deviation, etc.

Following were the different methods of data analysis that have been used in the study.

1. Descriptive statistics: Descriptive statistics has been used to explain the demographic characteristics of the respondents and analyze the attitude of respondent towards tax knowledge, tax fairness, tax complexity and tax rate.

Descriptive analytical tools like mean, standard deviation, minimum, maximum values have been used. The analyzed data has been presented by the use of tables.

2. **Correlation:** This study has also applied correlation analysis in causal comparative research design. In this study, correlation analysis has been basically adopted to identify the direction and magnitude of relationship between different pairs of dependent variables and explanatory variables. The relationship has been explained by using bivariate Pearson correlation coefficient. The value of correlation coefficient ranges from -1 to +1. If correlation coefficient is exactly -1, two variables are said to have perfect negative correlation as such that they move together exactly into opposite directions. On the other hand, if correlation coefficient is +1, the variables are said to be perfectly positively related.
3. **Regression analysis:** Regression analysis is the set of statistical process to identify the impact of independent variables on dependent variable. Multivariate regression analysis model was used. The primary model used in the study is presented as follows:

$$PITC = \alpha + \beta_1TK + \beta_2FTS + \beta_3CTS + \beta_4TR + E \dots \dots \dots (1)$$

where,

PTC = Personal Income Tax Compliance

TK = Tax Knowledge

FTS = Fairness of Tax System

CTS = Complexity of Tax System

TR = Tax Rates

E = Error Term

$\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients

Prior Expectation = $\beta_1, \beta_2, \beta_3, \beta_4 > 0$

4. **ANOVA:** ANOVA has been used to test the goodness of fit of regression line. It helped to identify the overall significance of the regression model.
5. **Multicollinearity Test:** The assumption of multiple regressions is that, there should not be strong correlation between or among explanatory variables. To test the multicollinearity, the correlations among the variables have been calculated.

6. Auto Correlation Test: When correlation exist between the errors in different time period, then there is auto correlation. If auto correlation existed, it needed to be corrected. To test the auto correlation, the Durbin Watson Test has been used.

3.7 Validity Test

Prior to study, a pilot test with 10% of samples was conducted to validate the reliability of questionnaire developed to carry out this research. Then the responses were analyzed using SPSS software to test whether the study tools were valid or not. The questionnaire was distributed randomly. Feedback and reviews received from them as well as opinions and suggestions from experts were incorporated and questionnaire was adjusted accordingly.

3.8 Reliability Test

The reliability of the data for the study purpose and its findings were checked by using the statistical tool, SPSS. The major use of reliability coefficients is to communicate the repeatability of results. To check internal reliability, this study has performed Cronbach's Alpha Test of Reliability. Cronbach's alpha is not a statistical test; it is a coefficient of reliability (or consistency). The coefficient of Cronbach's alpha vary from 0 to 1, and a value less than 0.60 generally indicate unsatisfactory internal consistency reliability and a value of Cronbach's alpha in the range of .90 to .99 is considered excellent internal consistency reliability. According to Nunnaly (1978), the value of Cronbach's alpha should be 0.7 or above.

Table 3.1 Reliability Analysis

Variable	Number of Items	Cronbach's Alpha
Tax Knowledge	10	0.825
Tax Fairness	10	0.838
Tax Complexity	10	0.785
Tax Rate	10	0.802
Tax Compliance	10	0.895

Source: SPSS 22.0 calculations based on Field Survey 2020

Table 3.1 showed that tax knowledge, tax fairness, tax complexity, tax rate and tax compliance yielded alpha coefficients of 0.825, 0.838, 0.865, 0.802 and 0.895 respectively. The results in the table 3.1 showed that the instrument was both reliable and valid as all the variables score above 0.70 on the Cronbach's alpha scale, as recommended by Nunnally (1978).

CHAPTER IV

RESULTS AND DISCUSSION

This chapter deals with the analysis, presentation and interpretation of data, which has been collected from one hundred and fifty personal income tax payers in Kathmandu valley. In this chapter, the data collected from the questionnaire for the study have been tabulated, presented and analyzed and interpreted. This part analyzed and interpreted the collected data through correlation and regression of dependent and independent variables under five dimensions: tax knowledge (TK), fairness of tax system (FTS), complexity of tax system (CTS), tax rates (TR) and tax compliance (TC). The main aim of this chapter is to present the characteristics of the variables studied and to present and interpret the result. The hypotheses which have been set in the previous chapter have been tested and analyzed individually.

4.1 Demographic Characteristics of the Respondents

The study collected information on demographic characteristics of the respondents. Detailed results on each of the demographic characteristics are presented below.

Table 4.1 Gender Group

Gender	Frequency	Percent
Male	84	56.0
Female	66	44.0
Total	150	100.0

Source: Field Survey 2020

Table 4.1 analyzes the demographic variable of the respondents' gender. In particular, the data showed that out of 150 respondents, 86 (56.0%) of the respondents were male while 66 (44.0%) were female which is presented in table 4.1.

Table 4.2 Age Group

Age Group	Frequency	Percent
25-35	90	60.0
35-45	41	27.3
45 and above	19	12.7
Total	150	100.0

Source: Field Survey 2020

Table 4.2 analyzes the demographic variable of the respondent's age and the analysis of 150 respondents showed that majority of the respondents were in the age bracket of 25 to 35 years which contributed to 90 out of 150 (60.0%). This was followed by those who aged from 35 to 45 years which contributed to 41 out of 150 (27.3%). And lastly, 19 (12.7%) out of 150 respondents were 45 years and above.

Table 4.3 Academic Qualifications

Academic Level	Frequency	Percent
10+2	12	8.0
Bachelor	80	53.3
Masters	52	34.7
Above Masters	6	4.0
Total	150	100.0

Source: Field Survey 2020

Academic qualifications of the respondents was the next demographic variable examined and the results have been presented in table 4.3. Analysis of 150 respondents showed that the majority of the respondents were bachelor's degree holders who accounted for 80 out of 150 (53.3%). Then, 52 out of 150 (34.7%) were master's degree holders. 12 out of 150 (8.0%) were 10+2 holders and 6 out of 150 (4.0%) had qualifications of above master's.

Table 4.4 Income Level (in Rs)

Income Slab	Frequency	Percent
Upto 4,00,000	55	36.7
4,00,001 to 5,00,000	46	30.7
5,00,001 to 7,00,000	26	17.3
7,00,001 to 20,00,000	18	12.0
Above 20,00,000	5	3.3
Total	150	100.0

Source: Field Survey 2020

The next demographic characteristic examined was the income level of the respondents which has been presented in table 4.4. The analysis showed that 55 of 150 (36.7%) earned upto Rs 4,00,000. 46 (30.7%) respondents earned between Rs 4,00,001 to Rs 5,00,000. 26 (17.3%) respondents earned between Rs 5,00,001 to Rs 7,00,000. 18 (12.0%) respondents

earned between Rs 7,00,001 to Rs 20,00,000 while the rest, 5 (3.3%) earned above Rs 20,00,000.

Table 4.5 Taxation Course

Response	Frequency	Percent
Yes	9	6.0
No	141	94.0
Total	150	100.0

Source: Field Survey 2020

Respondents were asked if they had attended or passed any formal taxation course organized or recognized by the Inland Revenue Department of Nepal. Out of the total 150 respondents, only 9 (6.0%) had answered in favor of the question which meant that they had attended or passed any formal taxation course organized or recognized by the IRD of Nepal while the rest 141 (94.0%) answered against the question.

Table 4.6 Current Employer

Sector	Frequency	Percent
Government	28	18.7
Self Employed	28	18.7
Private/Partnership	87	58.0
Others	7	4.7
Total	150	100.0

Source: Field Survey 2020

The last demographic characteristic asked for was the current employer of the respondents. 28 (18.7%) are currently working for the government. 28 (18.7%) are self-employed. Respondent who were working in a private or partnership firm accounted to 87 (58.0%) while 7 (4.7%) were working for other than mentioned in the questionnaire.

4.2 Descriptive Analysis

Descriptive statistics have been used to describe the basic features of the data in a study. They provide simple summaries about the sample and the measures that play important roles in drawing conclusion by presenting quantitative data in manageable form. Each descriptive statistic reduces lots of data into a simpler summary. Here descriptive analysis incorporates calculation of statistical measure such as mean, standard deviation, correlation

and maximum and minimum values. The values from seven point Likert scale helped analyze the data with respect to frequencies and percentage relating to research questions and variables in order get better insight to the respondents' behavior.

4.2.1 Descriptive Study of Tax Knowledge

The first part asked if tax knowledge had any effect on tax compliance where the respondents ticked for the appropriate option in seven Likert point. Thus, the analysis has been shown below.

Table 4.7 Impact of Tax Knowledge on Tax Compliance

Statements	N	Minimum	Maximum	Mean	Std. Deviation
Income tax is one of the major sources of revenue to the government.	150	1	7	5.87	1.662
Every person earning income must have a Permanent Account Number.	150	2	7	5.66	1.380
As far as I know, the IRD (Inland Revenue Department) is the government agency responsible for collecting taxes.	150	1	7	5.41	1.550
I am aware that penalty mechanisms will be applied if I do not submit a correct tax return within a stipulated time period and criminal offences may be charged against me.	150	2	7	5.24	1.417
I understand most of the laws and regulation relating to income tax.	150	1	7	4.39	1.566
I prepare and file my tax returns myself.	150	1	7	4.09	1.971
Income tax in Nepal is a progressive system which redistributes wealth at a certain stage.	150	1	7	4.51	1.583
To my knowledge, I can deduct all my personal expenses in calculating my tax liability.	150	1	7	4.44	1.607
I know that the income tax needs to be paid till the end of Ashwin under the Income Tax Act, 2058.	150	1	7	5.09	1.492
As a taxpayer, I believe that I have two obligations; to pay tax and to file the tax return.	150	1	7	5.19	1.345

Source: SPSS 22.0 calculations based on Field Survey 2020

With reference to Table 4.7, each question got their mean value above 4 which showed that the respondents believe that tax knowledge has its effects on tax compliance. With a highest mean of 5.87, respondents strongly believed that income taxes were one of the major

sources of revenue to the government. The standard deviation of the statement was 1.662 which indicated that the minimum and maximum deviation around its mean was +/- 1.662. With the lowest mean of 4.09, respondents agreed that they prepared and filed their tax returns themselves. The standard deviation of the statement was 1.971.

4.2.2 Descriptive Study of Fairness of Tax System

The second part asked if the fairness of tax system had any effect on tax compliance where the respondents ticked for the appropriate option in seven Likert point. The analysis has been shown below.

Table 4.8 Impact of Fairness of Tax System on Tax Compliance

Statements	N	Minimum	Maximum	Mean	Std. Deviation
The Income Tax Act, 2058 is a fair and a sustainable tax system.	150	1	7	4.43	1.439
IRD treats me fairly in my dealings with them.	150	1	7	4.41	1.533
IRD deals more firmly now with taxpayers who do not pay the correct amount of tax than it did a few years ago.	150	1	7	4.65	1.342
I believe it is fair that I pay the same amount of taxes as others making the same income.	150	1	7	4.90	1.446
Higher income earners should pay more taxes as compared to lower income earners.	150	1	7	5.57	1.543
My relatives and friends do not comply and they have never been penalized.	150	1	7	3.97	1.806
I receive fair value from the government in return for my income tax paid.	150	1	7	3.65	1.799
The government spends too much tax revenue on welfare assistance.	150	1	7	3.90	1.764
The degree of punishment for evading tax should depend upon the degree of noncompliance.	150	1	7	4.73	1.683
There is not enough enforcement despite the existing tax laws.	150	1	7	4.96	1.562

Source: SPSS 22.0 calculations based on Field Survey 2020

With reference to table 4.8, the mean value of the respondents towards their opinion regarding that the higher income earners should pay more tax than the lower income earners was 5.57 which signified a slightly high agreement to this statement with a standard

deviation of 1.543. Similarly, a mean value of 3.65 meant that the respondents believed that they do not receive fair value from the government in return for the amount of tax paid by them with a standard deviation of 1.799.

4.2.3 Descriptive Study of Complexity of Tax System

The third part asked if the complexity of tax system had any effect on tax compliance where the respondents ticked for the appropriate option in seven Likert point. The analysis has been shown below.

Table 4.9 Impact of Complexity of Tax System on Tax Compliance

Statements	N	Minimum	Maximum	Mean	Std. Deviation
The tax collection system is poor and tiresome.	150	1	7	4.85	1.737
The tax return is simple to compute and file.	150	1	7	4.21	1.490
The IRD is efficient in its dealings with taxpayers' correspondence (e.g. making refunds in short time).	150	1	7	3.87	1.490
Correction of errors in the calculation of my tax liability after submission is hassle free.	150	1	7	3.95	1.435
I find it tedious to maintain all my relevant records for the whole year for tax purposes.	150	1	7	4.79	1.454
The rules and provisions relating to individual income tax are complex.	150	1	7	4.65	1.524
The terms used in tax publications and in tax return forms are difficult for me to understand.	150	1	7	4.67	1.486
Most of the time, I need to refer to others for assistance in dealing with my tax matters.	150	1	7	4.68	1.569
Frequent changes in the slab rates and tax forms makes it difficult for me to file my tax liability.	150	1	7	4.58	1.615
Some incomes or deductions are ambiguously defined.	150	1	7	4.72	1.480

Source: SPSS 22.0 calculations based on Field Survey 2020

Table 4.9 shows the opinion of respondents towards the ten questions prepared for the impact of the complexity of the tax system on personal income tax compliance. A mean value of 4.79 suggested that the respondents highly agreed on the opinion that they found it tedious to maintain all the relevant records. Standard deviation was +/- 1.454. The mean

value of 3.87 showed that the taxpayers disagreed on the opinion that the IRD was efficient in its dealings.

4.2.4 Descriptive Study of Tax Rates

The fourth part asked if the tax rates had any effect on tax compliance where the respondents ticked for the appropriate option in seven Likert point. The analysis has been shown below.

Table 4.10 Impact of Tax Rates on Tax Compliance

Statements	N	Minimum	Maximum	Mean	Std. Deviation
The personal income tax rates are very high.	150	1	7	4.96	1.850
Low income earners should be taxed at a lower rate than middle income earners.	150	1	7	5.53	1.701
Individuals should be taxed at a single flat rate of income tax.	150	1	7	4.67	1.831
Tax rates matter to comply with the tax law.	150	1	7	5.07	1.452
The current tax rate is fair to an average taxpayer.	150	1	7	4.41	1.750
The existing tax exemption limit should be increased.	150	1	7	4.71	1.709
Nominal rates should be deducted from all employees at source, thereby avoiding the necessity for filing returns.	150	1	7	4.77	1.530
Tax slabs should be increased but the tax rates should be kept constant.	150	1	7	4.88	1.942
Tax rates in Nepal are high as compared to other countries.	150	1	7	4.76	1.701
There should be no change in the current personal income tax rate.	150	1	7	4.00	1.861

Source: SPSS 22.0 calculation based on Field Survey 2020

The table 4.10 shows the opinion of respondents towards the questions prepared for the impact of the tax rates on personal income tax compliance. The mean value of 5.53 suggested that the respondents highly agreed on the opinion that low income earners should be taxed at a lower rate than middle income earners and a standard deviation of 1.701 implied that the minimum and maximum deviation around its mean was +/- 1.701. The mean value of 4.00 showed that most of the respondents remain neutral on the opinion of

any change in the current personal income tax rate and a standard deviation of 1.861 implied that the minimum and maximum deviation around its mean was +/- 1.861.

Table 4.11 Summary Output

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Tax Knowledge	150	2.80	6.90	4.9880	0.84026
Tax Fairness	150	2.70	6.60	4.5173	0.80266
Tax Complexity	150	2.00	6.80	4.4973	0.83826
Tax Rates	150	2.40	7.00	4.7760	0.85150
Tax Compliance	150	2.40	7.00	5.1040	0.90405

Source: SPSS 22.0 calculations based on Field Survey 2020

Table 4.11 presents an overall descriptive summary. The total number of respondents were 150. The minimum values for tax knowledge, tax fairness, tax complexity and tax rates are 2.80, 2.70, 2.00, 2.40 and 2.40 respectively. The maximum values for tax knowledge, tax fairness, tax complexity and tax rates are 6.90, 6.60, 6.80, 7.00 and 7.00 respectively. The mean values of tax knowledge, tax fairness, tax complexity, tax rates and tax compliance were 4.9880, 4.5173, 4.4973, 4.7760 and 5.1040 respectively which meant that most of the respondents agreed on all the statements on the questionnaire. The standard deviation for tax knowledge, tax fairness, tax complexity, tax rates and tax compliance were 0.84026, 0.80266, 0.83826, 0.85150 and 0.90405 respectively.

4.3 Correlation Analysis

Attitude and intention have been used as the proxy for the tax compliance which is dependent variable and tax knowledge, tax fairness, tax complexity and tax rates are the explanatory variables used in this study. Therefore, it is reasonable to expect some kind of statistically significant relationship among these pairs of variables. This section therefore is devoted to explaining the direction and magnitude of relationship among different pairs of these variables. Hence, Pearson's correlation analysis between variables has been studied to find relations among them. This section deals with the what extent variables under study are correlated to each other. A positive correlation reveals that the direction of relationship is positive with one increasing in action to other increase. Meanwhile, a negative correlation reveals an inverse; an increase in one when the other decreases.

Table 4.12 Correlation Analysis

Variables		Tax Compliance	Tax Knowledge	Tax Fairness	Tax Complexity	Tax Rate
Tax Compliance	Pearson Correlation	1	0.293**	0.414**	-0.439**	-0.598**
	Sig. (2-tailed)		0.000	0.000	0.000	0.000
Tax Knowledge	Pearson Correlation	0.293**	1	.0450**	0.255**	0.211**
	Sig. (2-tailed)	0.000		0.000	0.002	0.010
Tax Fairness	Pearson Correlation	0.414**	0.450**	1	0.433**	0.355**
	Sig. (2-tailed)	0.000	0.000		0.000	0.000
Tax Complexity	Pearson Correlation	-0.439**	0.255**	0.433**	1	0.386**
	Sig. (2-tailed)	0.000	0.000	0.000		0.000
Tax Rate	Pearson Correlation	-0.598**	0.211**	0.355**	0.386**	1
	Sig. (2-tailed)	0.000	0.010	0.000	0.000	

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

Source: SPSS 22.0 calculations based on Field Survey 2020

4.3.1 Correlation between Tax Compliance and Tax Knowledge

Table 4.12 shows the Pearson correlation between dependent variable, tax compliance and explanatory variable, tax knowledge. The correlation coefficient between tax compliance and tax knowledge is 0.293 which is positively correlated. As the P-value is less than the alpha i.e. $0.00 < 0.001$ at the significance level of 0.01, it implies that there is significant positive relationship between tax compliance and tax knowledge. Thus it can be concluded that there is a positive and significant relationship between tax compliance and tax knowledge. Hence, tax knowledge has a significant role over tax compliance of the individual tax payers.

4.3.2 Correlation between Tax Compliance and Tax Fairness

Table 4.12 shows the Pearson correlation between dependent variable, tax compliance and independent variable, tax fairness. The correlation coefficient between tax compliance and

tax fairness is 0.414. Correlation of 0.414 suggests that tax fairness and tax compliance are positively correlated. As the P-value is less than the alpha i.e. $0.00 < 0.001$ at the significance level of 0.01, it implies that there is significant positive relationship between tax compliance and tax fairness. Thus it can be concluded that there is a positive and significant relationship between tax compliance and tax fairness. Hence, tax fairness has a significant role over tax compliance of the individual tax payers.

4.3.3 Correlation between Tax Compliance and Tax Complexity

Table 4.12 shows the Pearson correlation between dependent variable, tax compliance and explanatory variable, tax complexity. The correlation coefficient between tax compliance and tax complexity is -0.439. Correlation of -0.439 suggests that tax complexity and tax compliance are negatively correlated. As the P-value is less than the alpha i.e. $0.00 < 0.001$ at the significance level of 0.01, it reveals that there is significant negative relationship between tax compliance and tax complexity. Thus it can be concluded that there is a negative and significant relationship between tax compliance and tax complexity. Hence, tax complexity has a significant role over tax compliance of the individual tax payers.

4.3.4 Correlation between Tax Compliance and Tax Rates

Table 4.12 shows the Pearson correlation between dependent variable, tax compliance and explanatory variable, tax rate. The correlation coefficient between tax compliance and tax rate is -0.598. Correlation of -0.598 suggests that tax rate and tax compliance are negatively correlated. As the P-value is less than the alpha i.e. $0.00 < 0.001$ at the significance level of 0.01, it reveals that there is significant negative relationship between tax compliance and tax rate. Thus it can be concluded that there is a negative and significant relationship between tax compliance and tax rate. Hence, tax rate has a significant role over tax compliance of the individual tax payers.

Table 4.12 also shows a summarized correlation analysis between dependent variables and independent variables. As the correlation between the dependent variable with independent variables have been discussed above, here, interpretation shall be made among other remaining variables only.

The correlation coefficient between tax knowledge and tax fairness, tax knowledge and tax complexity and tax knowledge and tax rates are 0.450, 0.255 and 0.211 respectively, all of which are positively correlated. As the P-value is less than the alpha i.e. $0.00 < 0.001$ at the

significance level of 0.01 with all the variables associated, it can be seen that there is significant positive relationship between tax knowledge and tax fairness, tax complexity and tax rates. This means that changes in tax knowledge are strongly correlated with the changes in tax fairness, tax complexity and tax rates.

Similarly, the correlation coefficient between tax fairness and tax knowledge, tax fairness and tax complexity and tax fairness and tax rates are 0.450, 0.433 and 0.355 respectively, all of which are positively correlated. As the P-value is less than the alpha i.e. $0.00 < 0.001$ at the significance level of 0.01 with all the variables associated, it can be seen that there is significant positive relationship between tax fairness and tax knowledge, tax complexity and tax rates. This means that changes in tax fairness are strongly correlated with the changes in tax knowledge, tax complexity and tax rates.

Similarly, the correlation coefficient between tax complexity and tax knowledge, tax complexity and tax fairness and tax complexity and tax rates are 0.255, 0.433 and 0.386 respectively, all of which are positively correlated. As the P-value is less than the alpha i.e. $0.00 < 0.001$ at the significance level of 0.01 with all the variables associated, it can be seen that there is significant positive relationship between tax complexity and tax knowledge, tax fairness and tax rates. This means that changes in tax complexity are strongly correlated with the changes in tax knowledge, tax fairness and tax rates.

Lastly, the correlation coefficient between tax rates and tax knowledge, tax rates and tax fairness and tax rates and tax complexity are 0.211, 0.355 and 0.386 respectively, all of which are positively correlated. As the P-value is less than the alpha i.e. $0.00 < 0.001$ at the significance level of 0.01 with all the variables associated, it can be seen that there is significant positive relationship between tax rates and tax knowledge, tax fairness and tax complexity. This means that changes in tax rates are strongly correlated with the changes in tax knowledge, tax fairness and tax complexity.

In a nutshell, two independent variables (tax knowledge and fairness of tax system) have a positive and significant impact over the dependent variable, tax compliance. And two independent variables (complexity of tax system and tax rates) have a negative and significant impact over the dependent variable, tax compliance.

4.4 Regression Analysis

In order to test the statistical significance and robustness of the results, this study relies on primary data analysis based on regression model specified in chapter three. It basically deals with regression results from the model to examine and investigate the direction and strength of relationship between the explanatory variables (tax knowledge, tax fairness, tax complexity and tax rates) and response variable (tax compliance). The regression results have been presented in tables below.

Table 4.13 Model Summary of dependent variable and independent variables

Model Summary^b

Model	R	R ²	Adjusted R ²	Std. Error of Estimate	Durbin-Watson
1	0.661 ^a	0.437	0.422	0.68760	1.747

a. Predictors: (Constant), Tax Rate, Tax Knowledge, Tax Complexity, Tax Fairness

b. Dependent Variable: Tax Compliance

Source: SPSS 22.0 calculations based on Field Survey 2020

The impacts of dependent variables on tax compliance indicated by table 4.13 provides the values of R and R². The R value represents simple correlation and is 0.661, which indicates a high degree of correlation among the variables. The value of adjusted R² of the regression model is 0.422 which means that 42.2% variation in tax compliance can be explained by the regression equation involving four explanatory variables and the remaining by the other factors. The value of Durbin-Watson test for dependent variable in the model is 1.747, which indicates no existence of autocorrelation in our analysis.

Table 4.14 ANOVA Table

ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	53.223	4	13.306		
Residual	68.555	145	0.473	28.143	0.000 ^b
Total	121.778	149			

a. Dependent Variable: Tax Compliance

b. Predictors: (Constant), Tax Rate, Tax Knowledge, Tax Complexity, Tax Fairness

Source: SPSS 22.0 calculations based on Field Survey 2020

The analysis of ANOVA table 4.14 shows an overall significance of the regression model. The total sum of squares deviation of the observations is 121.778, in which the explained

sum of squares is 53.223 and the residual sum of square is 68.555. The significance value (p-value) is 0.000 which is less than alpha (0.05) so it can concluded that the model is significant.

Table 4.15 Beta Coefficient of dependent variable and independent variable
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.730	.453		1.611	.109
Tax Knowledge	.098	.075	.091	1.296	.197
Tax Fairness	.147	.086	.130	1.703	.091
Tax Complexity	.195	.078	.180	2.504	.013
Tax Rate	.492	.074	.463	6.674	.000

a. Dependent Variable: Tax Compliance

Source: SPSS 22.0 calculations based on Field Survey 2020

By the analysis of coefficients indicated by table 4.15, it is observed that the beta for tax knowledge is 0.098 which means that a 1-point increase in tax knowledge has an impact on tax compliance by 0.098 times. Similarly, the beta for tax fairness is 0.147 which means that a 1-point increase in tax fairness has an impact on tax compliance by 0.147 times. Likewise, the beta for tax complexity and tax rates are 0.195 and 0.492 respectively which mean that a 1-point increase in tax complexity and tax rates have an impact on tax compliance by 0.195 and 0.492 times respectively.

4.5 Multicollinearity Test

Multicollinearity is a common problem when estimating linear or generalized linear models. Multicollinearity occurs when there are high correlations among the predictor variables, leading to unreliable and unstable estimates of regression coefficients. The assumption for Ordinary Least Square regression analysis is, there should not be multicollinearity among the explanatory variables. The rule of thumb of correlation coefficient result is that, there should be correlation value less than 0.70 for no multicollinearity among the explanatory variables.

Table 4.16 Multi Correlation Analysis

Variables	Tax Compliance	Tax Knowledge	Tax Fairness	Tax Complexity	Tax Rates
Tax Compliance	1.0	0.293**	0.414**	-0.439**	-0.598**
Tax Knowledge	0.293**	1.0	0.450**	0.255**	0.211**
Tax Fairness	0.414**	0.450**	1.0	0.433**	0.355**
Tax Complexity	-0.439**	0.255**	0.433**	1.0	0.386**
Tax Rates	-0.598**	0.211**	0.355**	0.386**	1.0

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

Source: SPSS 22.0 Extract based on Field Survey 2020

Table 4.16 deals with the correlation coefficient among the explanatory variables, and identifies whether there is multicollinearity or not in each explanatory variable. For the regression analysis, the explanatory variables having correlation coefficient less than 0.70, are taken as explanatory variables of the model. Here, the correlation coefficient of all the explanatory variables are less than 0.70. So, these explanatory variables are suitable to be taken into the model because they are free from multicollinearity.

4.6 Summary of the Hypotheses Test Results

Table 4.17 Result of Hypotheses Test

S.No.	Alternative Hypothesis	Tools and Methods Used	Accept/Reject
1	There is a significant effect of tax knowledge on tax compliance.	Correlation	Accept
2	There is significant effect of tax fairness on tax compliance.	Correlation	Accept
3	There is significant effect of tax complexity on tax compliance.	Correlation	Accept
4	There is significant effect of tax rates on tax compliance.	Correlation	Accept
5	There is significant effect of tax knowledge, tax fairness, tax complexity and tax rates on tax compliance.	Regression	Accept

4.7 Major Findings

The following are the major findings of the study.

1. Majority of the respondents were well experienced. The respondents were taken on the basis of their experience not less than two years.
2. 150 respondents were the individual tax payers' of Kathmandu Valley, who have a fair knowledge about the tax policy.
3. The data showed that out of 150 respondents, 86 (56.0%) of the respondents were male while 66 (44.0%) were female.
4. The analysis showed that majority of the respondents were in the age bracket of 25 to 35 years which contributed to 90 out of 150 (60.0%). This was followed by those aged from 35 to 45 years which contributed to 41 out of 150 (27.3%). Followed by 19 (12.7%) who were 45 years and above.
5. Analysis of 150 respondents showed that the majority of the respondents were bachelor's degree holders who accounted for 80 out of 150 (53.3%). Then, here were 52 out of 150 (34.7%) master's degree holders. 12 out of 150 (8.0%) were 10+2 holders and 6 out of 150 (4.0%) had qualifications of above master's.
6. The analysis showed that 55 of 150 (36.7%) earned up to Rs 4,00,000. 46 (30.7%) respondents earned between Rs 4,00,001 to Rs 5,00,000. 26 (17.3%) respondents earned between Rs 5,00,001 to Rs 7,00,000. 18 (12.0%) respondents earned between Rs 7,00,001 to Rs 20,00,000 while the rest 5 (3.3%) earned above Rs 20,00,000.
7. Out of the total 150 respondents, only 9 (6.0%) had attended or passed any formal taxation course organized or recognized by the IRD of Nepal while the rest 141 (94.0%) answered against the question.
8. Among the respondents, 28 (18.7%) are currently working for the government. 28 (18.7%) are self-employed. Respondent who were working in a private or partnership firm accounted to 87 (58.0%) while 7 (4.7%) were working for other than mentioned in the questionnaire.
9. With a mean value of 4.9880, the respondents thought that tax knowledge had slightly high impact on attitude and intentions of individual tax payers.
10. The average respondents slightly agreed that tax fairness had an impact on tax compliance. Because the mean value of the respondent's opinion towards impact of tax fairness was 4.5173 which was greater than 4.

11. The mean value of the respondent's opinion towards the effect of tax complexity was 4.4973. Therefore, the individual tax payers, slightly agreed on the impact of tax complexity on attitude and intention.
12. The mean value of the respondent's opinion towards the effect of tax rate system towards attitude and intention was 4.7760. Therefore, the individual tax payers, slightly agreed about impact of tax rate system on attitude and intention towards tax compliance.
13. There was significant positive relationship between TK and TC at the significance level of 0.01 because the P- value was less than the alpha i.e. $0.00 < 0.001$. Also, the Pearson correlation value between the variable was 0.293, which showed positive correlation between TK and TC. Hence, TK had a significant role over TC of the individual tax payers.
14. There was significant positive relationship between FTS and TC at the significance level of 0.01 because the P- value was less than the alpha i.e. $0.00 < 0.001$. Also, the Pearson correlation value between the variable was 0.414, which showed positive correlation between FTS and TC. Hence, TF had a significant role over TC of the individual tax payers.
15. There was significant negative relationship between CTS and TC at the significance level of 0.01 because the P- value was less than the alpha i.e. $0.00 < 0.001$. Also, the Pearson correlation value between the variable was -0.439, which showed negative correlation between CTS and TC. Hence, CTS had a significant role over TC of the individual tax payers.
16. There was significant negative relationship between TR and TC at the significance level of 0.01 because the P- value was less than the alpha i.e. $0.00 < 0.001$. Also, the Pearson correlation value between the variable was -0.598, which showed that there was negative correlation between TR and TC. Hence, TR had a significant role over TC of the individual tax payers.
17. The value of adjusted R^2 of the regression model was 0.422 which meant that 42.2 percent variation in tax compliance was explained by the regression equation involving four explanatory variables- tax knowledge, tax fairness, tax complexity and tax rates. This implied strong explanatory power for the whole regression.
18. The value of Durbin- Watson test for dependent variable in the model was 1.747, which indicated no existence of autocorrelation in our analysis.

19. The slope of tax knowledge was 0.098 which meant that a 1-point increase in tax knowledge had an impact on tax compliance by 0.098 times. Similarly, the slope of tax fairness was 0.147 which meant that a 1-point increase in tax fairness had an impact on tax compliance by 0.147 times. Likewise, the slope of tax complexity was 0.195 which meant that a 1-point increase in tax complexity had an impact on tax compliance by 0.195 times. Lastly, the slope of tax rate was 0.492 which meant that a 1-point increase in tax rate had an impact on tax compliance by 0.492 times.
20. The correlation coefficient of all the explanatory variables were less than 0.70 which meant that the explanatory variables are free from multicollinearity.

4.8 Discussion

The research contributed in understating the tax compliance behavior of personal income tax payers in Nepal. It confirms previous research study in the topic with an empirical support from Nepal. The main purpose of this study was to determine the tax compliance behavior of Nepalese personal income taxpayers on various aspects with regard to taxation. This study investigated the different factors that can influence the tax compliance behavior of Nepalese personal income taxpayers.

Based on the literature review, four major variables affecting personal income tax compliance were recognized. The variables recognized were tax knowledge, fairness of tax system, complexity of tax system and tax rates. Individual tax payers who are sole proprietors doing own business, government officials, bankers, auditors, lecturers at the colleges of different universities of Kathmandu Valley had been chosen for the study.

The current study has successfully answered the research objectives and research questions. The result from generated from SPSS is adequately applied to prove and support the hypotheses testing.

This research was in line with Damajanti, Karim and Akt (2017), which indicated that the results of hypothesis testing using regression provided empirical evidence that the knowledge of tax reporting, tax calculation and knowledge of tax payments had significant effects on tax compliance.

This study [commensurate with](#) that of Hoelzl, Kirchler and Wahl (2007), which suggested that tax knowledge, tax rate and fairness are relevant dimensions for understanding enforced and voluntary tax compliance.

This study is also [in congruence with](#) Walsh (2012) who examined the motives of tax payers and their attitudes and behavior towards voluntary compliance and suggested that tax compliance was determined by five broad factors: deterrence, norms, fairness and trust in tax administration, complexity of tax system and the role of government.

A Nepali researcher Poudel (2017), stated that tax knowledge had a significant impact, even though the level of tax knowledge varied significantly among the respondents. This study is consistent with his results.

The results of this study is in conformity with those of Sinnasamy et al. (2015) who concluded that tax rate, penalty, tax fairness, and peer influence moderated by tax agents could increase the tax compliance in Malaysia.

Rahayu (2017) stated that the knowledge and understanding of tax regulation in the society will increase tax revenue of the government. This research also proved that the knowledge and understanding of tax regulation and taxpayer awareness has significant direct effect on tax compliance, both individually and simultaneously.

This report is in agreement with that of Loo, McKerracher and Hansford (2009), which supported statements of Canada Revenue Authority (2009) as their findings reveal that gaining tax knowledge has a significant impact on Malaysian's compliance level when the self-assessment system had been introduced.

CHAPTER V

SUMMARY AND CONCLUSION

This chapter comprises an in-brief summary of the whole study, conclusions drawn from the study and implications. The summary section provides an overview of the study and it covers a very brief introduction and justification of the study. It reports key findings based on the analysis and discussion section. The conclusion segment involves the corollaries drawn whereas implication segment involves the utility and contribution of the study.

5.1 Summary

This study aimed at examining the tax compliance behavior of Nepalese personal income taxpayers by taking four factors into consideration- tax knowledge, fairness of the tax system, complexity of the tax system and tax rates. To achieve the research objectives, five hypotheses were set for verification. The study tried to address issues associated with personal income tax compliance in Kathmandu Valley by finding out the possible causes for the gaps in the income tax. The main limitations of this study was the lack of sufficient literature review regarding this topic in the context of Nepal.

Relevant literature was reviewed and that has been referred under conceptual review and conceptual framework sections, which cover the concepts, definitions of tax compliance and revelation tax compliance determinants from various perspectives. Dependent and independent variables were defined and the relationship between those dependent and independent variables were enumerated. It also illustrated previous studies in relation to tax compliance. For this, various books, journal articles, articles in periodicals, conference proceedings, reports, cases, websites and other literary articles were studied.

Descriptive research design has been used in this study. The population for this study comprised all individual income taxpayers in Kathmandu Valley and a suitable sample size was chosen on the basis of personal contacts. The source of data was primary in nature. Data was collected through Likert based questionnaire survey which included both open as well as closed-ended questions. Descriptive statistics, correlation, regression, ANOVA test, multicollinearity test and auto correlation test were used for the analysis of data in the study. Validity and reliability tests were also carried out.

The identified factors i.e. tax knowledge, fairness of tax system, complexity of tax system and tax rates influenced the tax compliance behavior of individual taxpayers significantly. This study showed that the identified variables were decisive in fulfilling compliance behavior of individual taxpayers. The study confirmed the underlying fact in the literature by providing that all the identified variables were essential for the tax compliance. The aggregate mean responses in the statements developed relating to the dependent and independent variables were above average scale of response meaning these factors were satisfactorily managed by individual taxpayers.

There was a significant positive relationship between tax knowledge and tax compliance and fairness of tax system and tax compliance whereas a significant negative relationship between complexity of tax system and tax compliance and tax rates and tax compliance were found. Hence all the independent variables had a significant role over tax compliance of the individual tax payers.

Out of the four independent variables, tax rates had the most impact on compliance behavior of personal income tax payers as the slope of tax rate was 0.492 which meant that a 1-point increase in tax rate had an impact on tax compliance by 0.492 times.

The coefficient of multiple determination (R^2) was 0.422 which meant that 42.2 percent variation in tax compliance was explained by the regression equation involving four explanatory variables- tax knowledge, tax fairness, tax complexity and tax rates. This implied strong explanatory power for the whole regression.

Nepal lacks studies on effect of tax knowledge, fairness of tax system, complexity of tax system and tax rates on tax compliance. There have been a couple of studies but none of them have dealt with the all these factors and its effect on tax compliance. Hence, this research provides knowledge about the status of tax policy and tax compliance of Nepal and the factors that need to be taken into consideration during tax policy issuing to know about perception of individual tax payers.

5.2 Conclusions

The purpose of this study was to assess the impact of individual taxpayers tax knowledge, fairness and complexity of tax system and tax rates on tax compliance. The identified factors i.e., tax knowledge, fairness and complexity of tax system and tax rates significantly influenced tax compliance behavior of individual taxpayers.

Results show that tax compliance is affected by broad range of factors such as individual characteristics of tax payers, tax system, tax administration, and economical and political situation. Based on the findings above, it can be concluded that following problems should be solved immediately and are of the great importance in order to provide voluntary tax compliance in Nepal.

1. High tax rates are the primary problem of tax payers.
2. Poor tax morale and tax mentality of citizens.
3. Inappropriate public expenditure to the preferences of tax payers and disbelief in the existence of effective public spending.
4. Poor structure of the tax system and tax administration that does not meet the expectations and needs of tax payers.
5. Low level of governmental accountability and transparency. The government does not use means to collect tax efficiently.

Conclusions can be made on the fact that voluntary compliance to taxation is a phenomenon that cannot be resolved without effective tax policy and tax instruments or efforts of tax auditors. Long-term arrangements and wide range of regulations that are dependent upon legitimacy and social interaction between state and citizens' aspirations are required. Last, but by no means least, this study provides clear evidence that the tax knowledge, fairness of tax system, complexity of tax system and tax rates have significant potential to contribute to the personal income tax compliance.

5.3 Implications

Based on the results and findings this study has following implications.

5.3.1 Implications for Tax Administration Authorities

On the basis of the findings and conclusions the following implications for tax administration emerge.

1. The findings from this review imply that tax compliance is a wide and complex phenomenon. To be effective in inducing and enforcing tax compliance, public policy makers need to use a combination of persuasive methods (changing attitudes and norms) as well as the conventional coercive methods (subjective control).

2. There is a need for direct attention on changing attitude of individual taxpayers as well as that of significant others (family members, friends, colleagues and opinion leaders - highly visible, respected people) whose influence is important in encouraging tax compliance. In this way promotion of taxpayer compliance could be extended to enlisting influential members of the community, households, friends and colleagues to disseminate tax compliance messages. Thus, tax authorities are advised to engage in a balanced approach to tax enforcement that will encourage voluntary compliance.
3. Government should develop an education programme with multiple themes with a view of building a culture of tax compliance.
4. The role of tax awareness and perception of tax payers towards the tax system is pivotal for voluntary tax compliance decision; hence, the IRD should continuously work on tax payer's awareness creation and tax knowledge by giving adequate tax training and education to tax payers. The IRD should provide continuous and problem solving and practical trainings to tax payers by using Medias such as Television, Radio, and Newspapers, etc.
5. In addition, it's important to create awareness about taxation, how the government spends tax revenue by disclosing the government budget and expenditure and the total amount collected from the tax to citizens transparently.
6. Voluntary taxpayers may be discouraged if they believed that the current tax system is unfair and inequitable or if they perceive others escaping tax burden. This can be done by encouraging and caring truthful and loyal taxpayers by adopting fair competition and fair treatment. Hence, the IRD should maintain tax fairness through treating all tax payers fairly at the time of levying tax, registration, collection and so on. In addition, bringing non taxpayers to tax system has to be considered as a measure of ensuring tax equity and this can also protect honest and loyal tax payers.
7. The IRD should also try to make the tax system as simples as possible for calculating and filing tax returns such as by providing simple tax return forms and by revising complex tax laws and regulations, or by adopting economical modern technologies that facilitate tax collations.
8. The IRD should also encourage loyal tax payers through different mechanisms such as by giving recognition for them; this will ultimately encourage voluntary tax compliance.

5.3.2 Recommendations for Future Researchers

On the basis of the findings and conclusions the following implications for future researchers emerge.

1. The compliance model developed in this study has been shown to offer a good explanation of taxpayers' compliance behavior in Nepal. Thus replication of this model to other parts of the world is important so as to be able to generalize the findings in this study.
2. In addition, future research should continue to extend the compliance model to gain a better insight into the determining factors. Another way of extending the model is by including other potential variables such as tax socialization, taxpayers' awareness, service quality, penalty regimes, etc.
3. As indicated earlier, this study is limited to individual taxpayers of two different types (professional and employed earners in Nepal). Extending this study to other groups of taxpayers and to tax professionals would also be interesting.
4. In addition, the focus on actual non-compliant taxpayers, if possible, would provide a further picture of the role of fairness perceptions in taxpayers' non-compliance behavior.
5. Researchers can also use the quantitative data in this thesis to examine on the same objective since this study employs only qualitative data to come up with the results or study could be done by using both type of data.

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APPENDICES

A. Questionnaire

Dear valued respondent,

You have been chosen at random as one of a large number of respondents to this study of the personal income tax compliance behavior in the Kathmandu valley as a part of my dissertation for the completion of my Master's degree in Accounting at the Central Department of Management, Tribhuvan University.

The purpose of this survey is to find out more about the effects of tax knowledge, tax fairness, tax complexity and tax rate on personal income tax compliance.

Your participation is voluntary and you do not have to answer all the questions asked if you do not want to but it would be greatly appreciated if you could answer all questions honestly and answer as many as you can so that my research is as complete as possible. Your response will be treated confidentially at all times so you can be entirely open in your responses.

Completing the survey should not take more than 15 minutes at most. The instructions are included in each part of the survey.

Thank you for your cooperation!

Yours sincerely,

Atul Raj Pandey,

Central Department of Management,

Tribhuvan University.

Part I: Respondent's Profile

Please put a tick mark (✓) in the box in an appropriate option for each of the following.

1. Gender

Male Female Others

2. Age Group (in years)

- i) 25 to 35
- ii) 35 to 45
- iii) 45 and above

3. Academic Qualifications

- i) 10+2
- ii) Bachelors
- iii) Masters
- iv) Masters and above

4. Income level (in Rupees)

- i) $\leq 4,00,000$
- ii) 4,00,001 to 5,00,000
- iii) 5,00,001 to 7,00,000
- iv) 7,00,001 to 20,00,000
- v) $\geq 20,00,001$

5. Have you attended or passed any formal taxation course organized or recognized by the Inland Revenue Department of Nepal?

Yes No

6. Who is your current employer?

- i) Government
- ii) Self employed
- iii) Private/Partner
- iv) Others

Part II: Core Questions

Please put a tick mark (✓) in the box in an appropriate option for each of the following.

Strongly Disagree	Disagree	Slightly Disagree	Neutral	Slightly Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

S. No.	Statements	1	2	3	4	5	6	7
<u>Tax Knowledge</u>								
1	Income tax is one of the major sources of revenue to the government.							
2	Every person earning income must have a Permanent Account Number.							
3	As far as I know, the IRD (Inland Revenue Department) is the government agency responsible for collecting taxes.							
4	I am aware that penalty mechanisms will be applied if I do not submit a correct tax return within a stipulated time period and criminal offences may be charged against me.							
5	I understand most of the laws and regulation relating to income tax.							
6	I prepare and file my tax returns myself.							
7	Income tax in Nepal is a progressive system which redistributes wealth at a certain stage.							
8	To my knowledge, I can deduct all my personal expenses in calculating my tax liability.							
9	I know that the income tax needs to be paid till the end of Ashwin under the Income Tax Act, 2058.							
10	As a taxpayer, I believe that I have two obligations; to pay tax and to file the tax return.							
<u>Tax Fairness</u>								
1	The Income Tax Act, 2058 is a fair and a sustainable tax system.							
2	IRD treats me fairly in my dealings with them.							
3	IRD deals more firmly now with taxpayers who do not pay the correct amount of tax than it did a few years ago.							
4	I believe it is fair that I pay the same amount of taxes as others making the same income.							
5	Higher income earners should pay more taxes as compared to lower income earners.							
6	My relatives and friends do not comply and they have never been penalized.							

7	I receive fair value from the government in return for my income tax paid.							
8	The government spends too much tax revenue on welfare assistance.							
9	The degree of punishment for evading tax should depend upon the degree of noncompliance.							
10	There is not enough enforcement despite the existing tax laws.							
<u>Tax Complexity</u>								
1	The tax collection system is poor and tiresome.							
2	The tax return is simple to compute and file.							
S. No.	Statements	1	2	3	4	5	6	7
3	The IRD is efficient in its dealings with taxpayers' correspondence (e.g. making refunds in short time).							
4	Correction of errors in the calculation of my tax liability after submission is hassle free.							
5	I find it tedious to maintain all my relevant records for the whole year for tax purposes.							
6	The rules and provisions relating to individual income tax are complex.							
7	The terms used in tax publications and in tax return forms are difficult for me to understand.							
8	Most of the time, I need to refer to others for assistance in dealing with my tax matters.							
9	Frequent changes in the slab rates and tax forms makes it difficult for me to file my tax liability.							
10	Some incomes or deductions are ambiguously defined.							
<u>Tax Rate</u>								
1	The personal income tax rates are very high.							
2	Low income earners should be taxed at a lower rate than middle income earners.							
3	Individuals should be taxed at a single flat rate of income tax.							
4	Tax rates matter to comply with the tax law.							
5	The current tax rate is fair to an average taxpayer.							
6	The existing tax exemption limit should be increased.							
7	Nominal rates should be deducted from all employees at source, thereby avoiding the necessity for filing returns.							
8	Tax slabs should be increased but the tax rates should be kept constant.							
9	Tax rates in Nepal are high as compared to other countries.							
10	There should be no change in the current PIT.							

<u>Tax Compliance</u>							
1	If the tax laws and regulations are simple to understand, I will comply with the tax law.						
2	Fair tax system encourages voluntary compliance.						
3	If the government spends money on basic needs wisely, I will voluntarily comply with tax law.						
4	If the government ensures transparency by disclosing the budget and expenditure and the total amount collected from the tax, tax compliance will increase.						
5	Voluntary taxpayers may be discouraged if they believed that the current tax system is unfair and inequitable or if they perceive others escaping tax burden.						
6	IRD should encourage loyal tax payers through different mechanisms such as by giving recognition for them; this will ultimately encourage voluntary tax compliance.						
7	I submitted a self-assessment tax return in the last fiscal year.						
8	The probability of being audited would affect my decision to report my incomes and expenses correctly.						

S. No.	Statements	1	2	3	4	5	6	7
9	I prefer not to report some earnings from interests or investments that the government would not be able to find out about.							
10	There is a need for improvement in taxpayer service to reduce compliance cost.							

End of questions!

Do you have any other comments or suggestions?

.....

B. SPSS Output

Tax Knowledge

Case Processing Summary

		N	%
Cases	Valid	150	100.0
	Excluded ^a	0	.0
	Total	150	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.825	10

Tax Fairness

Case Processing Summary

		N	%
Cases	Valid	150	100.0
	Excluded ^a	0	.0
	Total	150	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.838	10

Tax Complexity

Case Processing Summary

		N	%
Cases	Valid	150	100.0
	Excluded ^a	0	.0
	Total	150	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.785	10

Tax Rate**Case Processing Summary**

		N	%
Cases	Valid	150	100.0
	Excluded ^a	0	.0
	Total	150	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.802	10

Tax Compliance**Case Processing Summary**

		N	%
Cases	Valid	150	100.0
	Excluded ^a	0	.0
	Total	150	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.895	10

All Variables**Case Processing Summary**

		N	%
Cases	Valid	150	100.0
	Excluded ^a	0	.0
	Total	150	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.757	5

Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	84	56.0	56.0	56.0
Valid Female	66	44.0	44.0	100.0
Total	150	100.0	100.0	

Age group

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 25-35	90	60.0	60.0	60.0
Valid 35-45	41	27.3	27.3	87.3
Valid 45 and above	19	12.7	12.7	100.0
Total	150	100.0	100.0	

Academic qualification

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 10+2	12	8.0	8.0	8.0
Valid Bachelor	80	53.3	53.3	61.3
Valid Masters	52	34.7	34.7	96.0
Valid Above Masters	6	4.0	4.0	100.0
Total	150	100.0	100.0	

Income level (in Rupees)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Upto 400000	55	36.7	36.7	36.7
Valid 400001 to 500000	46	30.7	30.7	67.3
Valid 500001 to 700000	26	17.3	17.3	84.7
Valid 700001 to 200000	18	12.0	12.0	96.7
Valid Above 2000000	5	3.3	3.3	100.0
Total	150	100.0	100.0	

Attend or passed any formal taxation course organized or recognized by the Inland Revenue Department of Nepal

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	9	6.0	6.0	6.0
Valid No	141	94.0	94.0	100.0
Total	150	100.0	100.0	

Current employer

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Government	28	18.7	18.7
	Self employed	28	18.7	37.3
	Private/Partner	87	58.0	95.3
	Others	7	4.7	100.0
	Total	150	100.0	100.0

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Income tax is one of the major sources of revenue to the government.	150	1	7	5.87	1.662
Every person earning income must have a Permanent Account Number.	150	2	7	5.66	1.380
As far as I know, the IRD (Inland Revenue Department) is the government agency responsible for collecting taxes.	150	1	7	5.41	1.550
I am aware that penalty mechanisms will be applied if I do not submit a correct tax return within a stipulated time period and criminal offences may be charged against me.	150	2	7	5.24	1.417
I understand most of the laws and regulation relating to income tax.	150	1	7	4.39	1.566
I prepare and file my tax returns myself.	150	1	7	4.09	1.971
Income tax in Nepal is a progressive system which redistributes wealth at a certain stage.	150	1	7	4.51	1.583
To my knowledge, I can deduct all my personal expenses in calculating my tax liability.	150	1	7	4.44	1.607
I know that the income tax needs to be paid till the end of Ashwin under the Income Tax Act, 2058.	150	1	7	5.09	1.492
As a taxpayer, I believe that I have two obligations; to pay tax and to file the tax return.	150	1	7	5.19	1.345
Valid N (listwise)	150				

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
The Income Tax Act, 2058 is a fair and a sustainable tax system.	150	1	7	4.43	1.439
IRD treats me fairly in my dealings with them.	150	1	7	4.41	1.533
IRD deals more firmly now with taxpayers who do not pay the correct amount of tax than it did a few years ago.	150	1	7	4.65	1.342
I believe it is fair that I pay the same amount of taxes as others making the same income.	150	1	7	4.90	1.446
Higher income earners should pay more taxes as compared to lower income earners.	150	1	7	5.57	1.543
My relatives and friends do not comply and they have never been penalized.	150	1	7	3.97	1.806
I receive fair value from the government in return for my income tax paid.	150	1	7	3.65	1.799
The government spends too much tax revenue on welfare assistance.	150	1	7	3.90	1.764
The degree of punishment for evading tax should depend upon the degree of noncompliance.	150	1	7	4.73	1.683
There is not enough enforcement despite the existing tax laws.	150	1	7	4.96	1.562
Valid N (listwise)	150				

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
The tax collection system is poor and tiresome.	150	1	7	4.85	1.737
The tax return is simple to compute and file.	150	1	7	4.21	1.490
The IRD is efficient in its dealings with taxpayers' correspondence (e.g. making refunds in short time).	150	1	7	3.87	1.490
Correction of errors in the calculation of my tax liability after submission is hassle free.	150	1	7	3.95	1.435
I find it tedious to maintain all my relevant records for the whole year for tax purposes.	150	1	7	4.79	1.454
The rules and provisions relating to individual income tax are complex.	150	1	7	4.65	1.524
The terms used in tax publications and in tax return forms are difficult for me to understand.	150	1	7	4.67	1.486
Most of the time, I need to refer to others for assistance in dealing with my tax matters.	150	1	7	4.68	1.569
Frequent changes in the slab rates and tax forms makes it difficult for me to file my tax liability.	150	1	7	4.58	1.615
Some incomes or deductions are ambiguously defined.	150	1	7	4.72	1.480
Valid N (listwise)	150				

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
The personal income tax rates are very high.	150	1	7	4.96	1.850
Low income earners should be taxed at a lower rate than middle income earners.	150	1	7	5.53	1.701
Individuals should be taxed at a single flat rate of income tax.	150	1	7	4.67	1.831
Tax rates matter to comply with the tax law.	150	1	7	5.07	1.452
The current tax rate is fair to an average taxpayer.	150	1	7	4.41	1.750
The existing tax exemption limit should be increased.	150	1	7	4.71	1.709
Nominal rates should be deducted from all employees at source, thereby avoiding the necessity for filing returns.	150	1	7	4.77	1.530
Tax slabs should be increased but the tax rates should be kept constant.	150	1	7	4.88	1.942
Tax rates in Nepal are high as compared to other countries.	150	1	7	4.76	1.701
There should be no change in the current personal income tax rate.	150	1	7	4.00	1.861
Valid N (listwise)	150				

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Tax Knowledge	150	2.80	6.90	4.9880	.84026
Tax Fairness	150	2.70	6.60	4.5173	.80266
Tax Complexity	150	2.00	6.80	4.4973	.83826
Tax Rate	150	2.40	7.00	4.7760	.85150
Tax Compliance	150	2.40	7.00	5.1040	.90405
Valid N (listwise)	150				

Correlations

		Tax Compliance	Tax Knowledge
Tax Compliance	Pearson Correlation	1	.293**
	Sig. (2-tailed)		.000
	N	150	150
Tax Knowledge	Pearson Correlation	.293**	1
	Sig. (2-tailed)	.000	
	N	150	150

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

Correlations

		Tax Compliance	Tax Fairness
Tax Compliance	Pearson Correlation	1	.414**
	Sig. (2-tailed)		.000
	N	150	150
Tax Fairness	Pearson Correlation	.414**	1
	Sig. (2-tailed)	.000	
	N	150	150

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

Correlations

		Tax Compliance	Tax Complexity
Tax Compliance	Pearson Correlation	1	-.439**
	Sig. (2-tailed)		.000
	N	150	150
Tax Complexity	Pearson Correlation	-.439**	1
	Sig. (2-tailed)	.000	
	N	150	150

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

Correlations

		Tax Compliance	Tax Rate
Tax Compliance	Pearson Correlation	1	-.598**
	Sig. (2-tailed)		.000
	N	150	150
Tax Rate	Pearson Correlation	-.598**	1
	Sig. (2-tailed)	.000	
	N	150	150

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

Correlations

		Tax Compliance	Tax Knowledge	Tax Fairness	Tax Complexity	Tax Rate
Tax Compliance	Pearson Correlation	1	.293**	.414**	-.439**	-.598**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	150	150	150	150	150
Tax Knowledge	Pearson Correlation	.293**	1	.450**	.255**	.211**
	Sig. (2-tailed)	.000		.000	.002	.010
	N	150	150	150	150	150
Tax Fairness	Pearson Correlation	.414**	.450**	1	.433**	.355**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	150	150	150	150	150
Tax Complexity	Pearson Correlation	-.439**	.255**	.433**	1	.386**
	Sig. (2-tailed)	.000	.002	.000		.000
	N	150	150	150	150	150
Tax Rate	Pearson Correlation	-.598**	.211**	.355**	.386**	1
	Sig. (2-tailed)	.000	.010	.000	.000	
	N	150	150	150	150	150

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

Regression**Variables Entered/Removed^a**

Model	Variables Entered	Variables Removed	Method
1	Tax Rate, Tax Knowledge, Tax Complexity, Tax Fairness ^b	.	Enter

a. Dependent Variable: Tax Compliance

b. All requested variables entered.

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.661 ^a	.437	.422	.68760	.437	28.143	4	145	.000	1.747

a. Predictors: (Constant), Tax Rate, Tax Knowledge, Tax Complexity, Tax Fairness

b. Dependent Variable: Tax Compliance

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	53.223	4	13.306	28.143	.000 ^b
Residual	68.555	145	.473		
Total	121.778	149			

a. Dependent Variable: Tax Compliance

b. Predictors: (Constant), Tax Rate, Tax Knowledge, Tax Complexity, Tax Fairness

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.730	.453		1.611	.109
	Tax Knowledge	.098	.075	.091	1.296	.197
	Tax Fairness	.147	.086	.130	1.703	.091
	Tax Complexity	.195	.078	.180	2.504	.013
	Tax Rate	.492	.074	.463	6.674	.000

a. Dependent Variable: Tax Compliance

Residuals Statistics^a

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3.3979	7.0602	5.1040	.59766	150
Residual	-1.93654	2.06226	.00000	.67831	150
Std. Predicted Value	-2.855	3.273	.000	1.000	150
Std. Residual	-2.816	2.999	.000	.986	150

a. Dependent Variable: Tax Compliance