

DETERMINANTS OF TAX COMPLIANCE AMONG RENTAL INCOME EARNERS

(A Study at Pokhara Metropolitan City)

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LETTER OF RECOMMENDATION

This thesis entitled **Determinants of Tax Compliance among Rental Income Earners: A Study at Pokhara Metropolitan City** has been prepared by Mr. Netra Bahadur Chhetri under my guidance and supervision. I, hereby, recommend it in partial fulfillment of the requirements for the Degree of Master of Arts in Economic for final examination.

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LETTER OF APPROVAL

We certify that this thesis entitled **Determinants of Tax Compliance among Rental Income Earners: A Study at Pokhara Metropolitan City** submitted by Netra Bahadur Chhetri to the Department of Economic , Prithivi Narayan Campus, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfillment of the requirements for the Degree of Master of Arts in Economic has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

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ABSTRACT

The main aim of this study is to examine the Determinants of Tax Compliance among Rental Income Earners: A Study at Pokhara Metropolitan City. For this a descriptive and survey design is utilized to present and determine the status of the phenomenon under investigation. The study sample involved the 183 house owners on the basis of non-probability quota sampling method atleast five respondents from each ward and six five households each from the three wards i.e., ward no. 9, 11 and 17 of Pokhara metropolitan city. The findings of the study indicate that tax compliance has a strong positive relationship with all the independent variables, including tax rate, income, fines and penalties, attitude and perceptions, and tax knowledge. The results of the correlation analysis indicate that tax rate, fines and penalties, attitude and perceptions, income, and tax knowledge are all positively associated with tax compliance. This means that as these factors increase, taxpayers may be more likely to comply with tax laws. Additionally, all correlations were found to be statistically significant, indicating that the observed relationships are unlikely to have occurred by chance. These findings suggest that tax authorities should focus on increasing tax knowledge, improving attitudes and perceptions towards taxes, enforcing penalties and fines strictly, and setting appropriate tax rates to encourage greater tax compliance. Overall, these results can help inform the development of effective tax policies and enforcement strategies aimed at improving tax compliance among taxpayers. Similarly, it can be concluded that tax rate, income, and tax knowledge are significant predictors of tax payer compliance, while fines and penalties and attitude and perceptions are not statistically significant predictors. An increase in tax rates and income is associated with an increase in tax payer compliance, while a greater understanding of tax laws and regulations is also associated with greater tax payer compliance. However, fines and penalties and attitude and perceptions do not have a statistically significant impact on tax payer compliance. The p-values support the significance of tax rate, income, and tax knowledge in predicting tax payer compliance, while fines and penalties and attitude and perceptions do not have significant predictive power.

Keywords: Rental tax, tax rate, tax knowledge, fines and penalties, tax compliance

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ABBERRVIATIONS

AP	: Attitude and Perceptions
B. S	: Bikram Sambat
Fig.	: Figure
FP	: Fines and Penalties
i.e.	: That is
INC	: Income
IRD	: Inland Revenue Department
MA	: Master in Arts
NRN	: Non-Resident Nepali
TAXR	: Tax Rate
TC	: Tax Compliance
TK	: Tax Knowledge
SPSS	: Statistical Package for Social Sciences

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Taxes are a crucial tool of fiscal policy and play an important role in achieving high rates of economic growth by facilitating capital formation. By increasing taxes, governments can encourage individuals to postpone consumption, leading to an increase in savings, which in turn can be used for productive investments. Taxation can also serve a dual purpose of maximizing the resources available to the public sector and promoting useful investment in the private sector while preventing wasteful and unproductive spending. In developing countries like Nepal, taxes serve as a vital means of generating revenue for the government. However, taxation can also be utilized as an effective tool for incentivizing savings, investment, and the growth of gross domestic product. Despite this potential, Nepal's tax policy is primarily focused on revenue generation.

Rental housing is an essential component of the housing market, with the demand for rental properties steadily increasing over the years. Taxation of rental income plays a vital role in regulating the rental market, promoting housing affordability, ensuring compliance with tax regulations, and generating revenue for the government. A residential property refers to a land primarily consisting of houses, meant for domestic use and not for industrial or commercial purposes. Housing units come in various forms such as single-family, multi-family and so on (Vadde, 2014). Depending on the type of housing unit, residential rental properties can be classified into different categories such as flats, stand-alone houses, apartments and so on. The demand for rental housing largely depends on an individual's ability and willingness to pay the required rent. The rental housing market has seen tremendous growth over the years, with many individuals and entities investing in rental properties (Sani & Gbadegesin, 2015). It is, therefore, crucial for the government to understand the taxation of rental income, as it affects the relationship between landlords and tenants.

Taxation is the process of precisely reporting income and expenses in accordance with government-established laws and regulations. (Sapiei & Kasipillai, 2013). The primary

purpose of taxation is to generate revenue that enables the government to finance development initiatives, which can result in an enhanced economy for a given nation or region. To accomplish this objective, the government must establish a mechanism to ensure that all citizens comply with tax regulations. Taxation is the primary revenue source for both developed and developing nations. (Vadde, 2014). Nevertheless, tax compliance levels have remained low despite the imposition of penalties, routine audits, and other measures. (Karanja, 2017). Improving tax compliance can result in increased tax revenue, which can boost the economy by allowing the government to invest more in infrastructure projects.

When individuals earn income from immovable property, such as residential properties, they are subject to rental income tax or withholding tax. This tax is collected at the source, typically from payments made for occupying residential property. In some cases, the ownership and occupation of residential properties are separate. Properties are often occupied under a contract between the tenant and landlord, in which the tenant agrees to pay the landlord rent in exchange for the right to use and occupy the premises (Munshifwa, 2011).

Tax compliance is a fundamental aspect of taxation systems, as it ensures the collection of revenue necessary for the functioning of the government and provision of public goods and services. According to Singh (2003), tax compliance is defined as the ability and willingness of taxpayers to comply with tax laws, accurately report their income, and pay the appropriate amount of taxes on time. Tax compliance can be categorized into two forms: judicious and administrative compliance. Judicious compliance refers to the accuracy of tax return filing, whereby taxpayers report their income correctly and pay the appropriate amount of taxes. This type of compliance is crucial in ensuring that taxpayers fulfill their obligations under the tax laws and regulations. Administrative compliance, on the other hand, focuses on compliance with the applicable tax laws as stipulated in the relevant regulations. This type of compliance includes maintaining proper records, submitting required forms and documents, and adhering to tax regulations in terms of deadlines, rates, and other requirements. Administrative compliance is essential in ensuring that taxpayers understand and follow the tax laws and regulations, and in turn, facilitating the collection of revenue by the government.

As is the case with many developing countries, Nepal faces challenges in building the capacity for tax administration. In Nepal, the self-assessment system under the Income Tax Act has been criticized for being unfair, opaque, and contributing to poor compliance with tax regulations. However, the cost of non-compliance has created a fear of not adhering to tax rules. Additionally, the adoption of fiscal federalism in Nepal has raised concerns among municipalities and other local government units about their sources of income, particularly given that rental income is a significant source of revenue for metropolitan cities like Pokhara. Against this backdrop, this study seeks to examine the tax compliance behavior of rental income earners in Pokhara Metropolitan City, Nepal. The research aims to identify the factors that influence the tax compliance behavior of rental income earners from both house and other rented property in Pokhara. Specifically, the study will analyze the relationship between various determinants and rental tax compliance behavior among this population. Overall, this study will shed light on the challenges and opportunities in enhancing tax compliance behavior among rental income earners in Pokhara Metropolitan City, Nepal. By understanding the factors that impact compliance, policymakers and tax authorities can develop effective strategies to improve revenue collection, ensure fiscal sustainability, and promote economic growth in the region.

1.2 Statement of the Problem

The issue of house rent tax compliance among taxpayers is a significant problem that affects government revenue collection and budgetary planning. Many taxpayers fail to comply with the tax laws and regulations related to house rent, leading to significant revenue loss for the government. The problem arises due to various factors, including a lack of awareness of tax laws and regulations, inadequate enforcement by tax authorities, and a complex tax system that is difficult for taxpayers to understand. Additionally, the lack of proper record-keeping practices among taxpayers and property owners also contributes to non-compliance. The non-compliance of taxpayers with house rent tax laws and regulations has several negative effects, including depriving the government of much-needed revenue, creating an uneven playing field for compliant taxpayers, and reducing public trust in the tax system's fairness and transparency.

The money the government spends comes from a variety of sources, including taxes, loans, and donations. Taxes bring in the most money of any source, but governments

in emerging nations often struggle to create fair taxation systems that bring in enough money to cover their costs. Increased government expenditure and debt funding have been noted alongside general economic development in Nepal. In theory, the government could use any of the available domestic or international financing sources to pay for the debt. Although the government brought in a lot of money in taxes and subsidies, it wasn't enough to cover all of its expenses. The debt might have been about as large without the subsidies. As a result, a disproportionate share of government spending will have to come from loans and grants. Almost half of the grants received by the government are grants in kind (or designated), while the other half are grants in the form of free currency. (IMF, 2006).

Despite the existence of a legal framework for house rent tax compliance in Nepal, taxpayers at Pokhara Metropolitan City are facing challenges in complying with their tax obligations. Taxpayers' compliance with house rent tax in Pokhara Metropolitan City is affected by various factors such as the high tax rate, which reduces the taxpayers' disposable income, thereby making it difficult for them to meet their tax obligations. Additionally, the imposition of fines and penalties for non-compliance has a negative impact on taxpayers' willingness to comply with tax regulations. The taxpayers' attitude and perception towards house rent tax compliance also play a significant role. Negative perceptions towards taxes, such as a belief that taxes are not used for the public good, may lead to non-compliance. Moreover, lack of knowledge regarding tax laws and regulations can also result in non-compliance as taxpayers may not be aware of their obligations.

Despite the fact that the average rates of house rental income tax and other similar taxes are lower or equivalent to those in many developing countries, tax collection in our country is not an easy task. The tax system has various complications, leading to challenges in different tax payment methods. Therefore, this study conducted on factors affecting tax compliance on residential rental income tax among landlords in Pokhara Metropolitan using factors like tax knowledge, taxpayer education and awareness, fines and penalties, attitudes and perceptions and tax rate which is a timely study, relevant and will add to knowledge gap. Mainly the following questions are raised:

- i. What is the level of awareness among residential income taxpayers at Pokhara Metropolitan City?

- ii. Does residential income tax compliance is adopted by the taxpayers?
- iii. What is the impact of determinants of tax compliance on residential income tax compliance?

1.3 Objective of the Study

The main objective of the study is to understand the selected determinants affect the rental income tax compliance by house owners. However, the specific objectives are as follows:

- i. To assess the level of awareness among rental income taxpayers at Pokhara Metropolitan City.
- ii. To analyze the residential income tax compliance in Pokhara Metropolitan City.
- iii. To examine the impact of determinants of tax compliance on rental income tax compliance at Pokhara Metropolitan City.

1.4 Significance of the Study

This study aimed to identify the factors that affect compliance with rental income tax by property owners in Pokhara Metropolitan City. The findings of this study will be beneficial to property owners as it highlights the crucial role of voluntary tax compliance in driving economic development and reducing non-compliance costs. As a result, property owners will appreciate the benefits of tax compliance and improve the government's performance by enjoying the low cost of doing business due to improved services. Additionally, the study provides recommendations on how property owners' tax compliance can be improved, which will assist policymakers in developing effective policies to promote compliance and reduce non-compliance and awareness to acceptable levels. Moreover, this study will contribute to the existing body of knowledge and serve as a resource for researchers and academics who wish to investigate the factors that influence voluntary tax compliance on rental income among landlords in Pokhara Metropolitan City or other areas. This study will lay the groundwork for future research on the same topic.

1.5 Limitation of the Study

There are some limitations while completing this research study, which will be listed as below:

- i. Though this study is based on primary data but small number respondents and those residing in Pokhara Metropolitan City might not be large enough to represent the whole population. On the other hand, in case of secondary data, limited literatures might be one of the limitations.
- ii. This research is conducted in Pokhara Metropolitan City and the data are collected from there so the result of research cannot be generalized for others.
- iii. Limited number of tax payers, may be one of the constraints of study.
- iv. The data are collected from Pokhara Metropolitan City.

1.6 Organization of the Study

The first chapter of the study talks about the background and problem of the research. It also explains the objectives and significance of the study, as well as its limitations and how the study is organized. The second chapter of the study is a literature review, which provides a comprehensive overview of the previous research that has been conducted on the topic of rental income tax compliance. The chapter aims to identify the key themes, trends, and gaps in the existing literature, and to provide a critical analysis of the research that has been conducted to date. The third chapter of the study outlines the methodology that was used to conduct the research. It provides an overview of the research design, sampling method, data collection tools, and data analysis techniques that were used to gather and analyze the data. The chapter provides a detailed explanation of the research process, from selecting the research participants to analyzing the data. The fourth chapter presents the data that was collected and analyzed. Finally, the last chapter concludes the study, including the findings and recommendations. In addition bibliography, annexure are presented at the end of this study while the preliminary parts with cover pages are included before first chapter of the study.

CHAPTER II

LITERATURE REVIEW

This chapter provides a comprehensive review of relevant literature on tax compliance to establish a foundation of knowledge and background for the present study. Tax compliance has been studied extensively in various countries around the world, and several empirical studies have been conducted to identify the factors that influence tax compliance. However, the variables identified as determinants of tax compliance vary from study to study and from country to country. To begin, this chapter presents a discussion of theories about tax compliance. These theories offer insight into the factors that influence tax compliance and provide a framework for understanding the complex interplay of individual, social, and economic factors that affect tax compliance behavior. Next, the chapter examines the determinants of tax compliance, including individual factors, social factors, and economic factors. These determinants are discussed in detail, highlighting their impact on tax compliance behavior. Finally, the chapter reviews previous empirical studies on tax compliance, both in Nepal and in other countries. These studies provide insights into the factors that influence tax compliance and help to formulate the research questions for the present study. Overall, this chapter presents a thorough and comprehensive review of relevant literature on tax compliance, laying the groundwork for the present study and providing a basis for future research in this area.

2.1 Conceptual Review

Income tax is a tax that is charged on an individual's income or gains, as stipulated by the relevant income tax legislation. It is a direct tax that must be paid to the government, based on the income or gains earned by individuals or entities. According to the Income Tax Act 2058 (2002), there are three main sources or "heads" of income: business, investment, and employment. Employment income includes all inflows, while investment and business incomes are the surpluses or profits on which tax must be paid. Today, rental housing makes up a significant proportion of the housing stock in many countries, including some of the most developed societies in the world. In developing countries, about half of the urban population consists of tenants (UNCHS

1990). Rental housing reduces costs, making it easier for individuals to move around and find work in different locations. Economists recognize the importance of this as it helps to facilitate the adjustment of the labor market when there are changes in the geographic pattern of labor demand (Green & Hendershott, 2001). Renting allows people to stay mobile and move to areas where good work is available, without being tied down to any specific place.

2.1.1 Concept of Residential Rental House

Rental housing plays a significant role in the housing stock of many countries, including highly developed ones. In developing countries, approximately half of the urban population consists of tenants (UNCHS, 1990). Over the past two decades, progress has been made in developing countries by shifting the public sector's focus from directly providing rental housing to utilizing the potential and capacity of the informal sector. However, there remains a considerable gap between policy formulation and implementation, especially regarding rental accommodation. As a result, the provision and supply of rental housing are affected, and the current state of housing delivery is unsatisfactory.

Despite variations in the proportion of owner-occupiers, rental housing has become a common feature of housing in most developing countries. This trend is primarily due to the significant increase in the number of urban families living in rental accommodation. The sheer volume of urban growth, driven by both migration and natural increase, has contributed to this trend. Most migrants and new urban households typically rent or share accommodation initially. The expansion of cities and the growth of urban populations have created a high demand for housing, resulting in an increase in the construction of rental properties. As urbanization continues, the demand for rental housing is likely to rise further. Moreover, the inability of many urban families to purchase homes due to high costs or lack of access to credit also contributes to the high demand for rental properties. Additionally, the cultural and social norms in many developing countries often prioritize extended families living together or sharing accommodation, further increasing the demand for rental housing. The increasing prevalence of rental housing also has significant implications for policy and urban planning. Adequate housing policies and regulations are crucial to ensure the provision of affordable and quality rental housing, especially for low-income families. It is also

important to address issues such as tenure security, rent control, and the provision of basic services such as water and sanitation in rental properties (Tarki 2002).

Policy tables in developing countries did not prioritize the issue of renting and sharing two decades ago, resulting in neglected topics regarding rental housing. UN HABITAT (2003) reported a significant lack of knowledge about the identity of most tenants and sharers, the living conditions they experienced, and even about those who provide rental accommodation. Furthermore, the governments of developing countries were preoccupied with the notion that homeownership leads to a better life, neglecting tenants and sharers unless they could be converted into homeowners. There is more comprehensive knowledge about tenants, as reported by UN-HABITAT (2003). Since the 1990s, significant efforts have been made to bring renting back onto the housing agenda. Although there are still areas of ambiguity and issues that require further investigation, the broad outlines of the informal rental housing sector are no longer shrouded in obscurity. Policies are increasingly addressing the provision of affordable and quality rental housing, and there is growing recognition of the importance of tenants and sharers in urban development. As such, it is essential to address issues such as tenure security, rent control, and the provision of basic services in rental properties. The lack of attention given to the issue of renting and sharing two decades ago resulted in neglected topics regarding rental housing in developing countries. However, in recent years, significant efforts have been made to bring renting back onto the housing agenda, resulting in increased knowledge and recognition of the importance of tenants and sharers in urban development. Nonetheless, further investigation and policy development are necessary to address outstanding issues and improve the quality and affordability of rental housing in developing countries.

A meeting of experts organized by UN-HABITAT recognized the significant role that rental housing plays in meeting housing needs and recommended that governments review their housing policies and develop appropriate strategies for rental housing that remove biases against non-owners (UNCHS 1990). Unfortunately, little has been achieved in practical terms, and most national housing policies still have a significant gap when it comes to recognizing the important role of the rental sector in meeting housing needs in developing countries. It is challenging to find examples of developing country governments that publicly acknowledge the existence of a rental housing market (UN-HABITAT 2003). Even in countries like Nepal, where there is a housing

policy, there is no specific recognition or focus on rental housing. In South Africa, the government's neglect of rental housing has resulted in it failing to fulfill its social function of housing poorer segments of the population who have limited or no access to homeownership in a formal dwelling (Dubel & Pfeiffer, 1996).

Governments tend to discourage rental housing through the impact of aging statutes on rent control, and few discuss rental housing in public policy. However, as Datta (1996) noted, ignoring rental housing when half of the population is living in such dwellings is irresponsible. It is essential to develop policies that address the provision of affordable and quality rental housing and recognize the critical role that tenants and sharers play in urban development. Such policies should address issues such as tenure security, rent control, and the provision of basic services in rental properties. Recognizing the importance of rental housing in meeting housing needs in developing countries is critical. Although a meeting of experts organized by UN-HABITAT in 1989 recognized the significant role of rental housing and recommended appropriate strategies for governments, little has been done in practical terms. Governments need to develop policies that address the provision of affordable and quality rental housing, including issues such as tenure security, rent control, and the provision of basic services in rental properties.

The neglect of rental housing by many governments is often rooted in ideological reasons. Politicians have long claimed that owner-occupiers are in a better position than tenants. They argue that homeowners are more responsible and contribute more to the economy and society. It is also claimed that homeowners are politically conservative, which is beneficial to the economy as they save and invest. Moreover, the argument goes that constructing homes for owner-occupation generates employment and is beneficial for the overall economy. However, little empirical evidence has been presented to support these claims, yet they appear to resonate with the general public (UN-HABITAT, 2003).

2.1.2 Importance of Residential Rental House

According to Green and Hendershott (2001), rental housing reduces costs and allows for greater mobility, which helps speed up adjustments in the labor market when demand for workers changes in different geographic locations. This is because renters can move more easily to where work is available without being tied down to a particular

place. Additionally, rental housing can lower transaction costs and market inefficiencies, leading to fewer deadweight losses (Haurin & Gil, 2002). Furthermore, unlike homeowners, renters do not have to bear the risks of an undiversified investment in a single primary residence (Goetzmann & Spiegel, 2002). Rent prices are set in a competitive market, whereas homeownership costs depend on individual mortgage choices (Belsky & Calder, 2004). As a result, rental housing is more accessible to households that cannot obtain a mortgage, and renting can be a better deal for those with impaired credit histories since costs are not tied to past credit history (Avery & Canner, 2005).

Renting also provides individuals with flexibility in managing their household budgets. Renters can move to cheaper housing during tough times or upgrade to better housing when their incomes increase, freeing up more earnings for essential needs like food, education, and medical care. Renting allows people to invest in buying land or building a house in their hometown, as migrants often do (Gilbert, 2004). Moreover, rental housing can provide a source of income for poor and middle-income landlords, including women and the elderly (Gilbert, 2004). Renting is prevalent worldwide, but more pervasive in urban areas where opportunities attract people and lead to immigration. Ignoring the issue of rental housing could have serious consequences for any society (Gilbert, 2004). In conclusion, renting is a crucial component of housing that offers various benefits for individuals, landlords, and society as a whole.

2.1.3 Taxation

Taxation is a fundamental system for financing governments and is essential for economic, social, and political development. A robust tax system can play a crucial role in national development, including revenue generation, reducing inequality, and promoting good governance (Cobham, 2005). The most obvious and direct role of taxation is revenue generation. Tax revenues can be used to address immediate problems related to human development, such as famine and emergency medical treatment, as well as long-term financing of public infrastructure services such as roads, airports, hospitals, and schools. Income from aid and natural resources can substitute tax income, but it may not ensure that important development goals are achieved. Tax revenues also provide a government with income that it can use to distribute as welfare transfers to reduce extreme poverty. Moreover, taxation plays a

vital role in building institutions and democracy by making the state accountable to its taxpayers.

Taxes can be classified in different ways, such as direct or indirect tax. Direct taxes are those taxes whose impact (immediate burden) and incidence (ultimate burden) fall on the same person. In contrast, indirect taxes are those whose impact and incidence fall on different persons (taxpayers). In other words, a direct tax is one that is demanded from the very person from whom it is intended or desired. On the other hand, indirect taxes are demanded from one person with the expectation and intention that they will indemnify themselves at the expense of another.

Cobham (2005) explains that a strong tax system can also help reduce inequality by redistributing wealth and income to those who need it most. This can be done through progressive taxation, where those with higher incomes pay a higher percentage of their income in taxes. By redistributing wealth and income, taxation can help create a more equal society and reduce poverty and social exclusion.

Taxation is an essential system for financing governments and promoting national development. A robust tax system can generate revenue, reduce inequality, and promote good governance, and taxes can be classified as either direct or indirect tax. By implementing a strong tax system, governments can finance their operations and services, address immediate and long-term development challenges, and create a more equal society for their citizens.

2.1.4 Tax Compliance and Tax Non-Compliance

Tax compliance is a complex phenomenon that has been defined in various ways by different authors. Singh (2003) defines tax compliance as the act of reporting all incomes, paying all taxes, and fulfilling the provisions of laws, regulations, and court judgments. Tax compliance behavior is influenced by various factors, including economic determinants, institutional factors, social factors, psychological factors, and individual and demographic factors (Jackson & Mckee, 1992). Although tax compliance is a difficult concept to understand, it has been conceptualized from various perspectives.

According to Allingham and Sandmo (1972), taxpayers make decisions under uncertainty, and tax compliance behavior is predisposed to this situation. Punitive

policies, such as tax audit and penalty rate, have been used to explain tax compliance behavior (Alm, et al., 1993). However, these policies do not provide a complete explanation for tax compliance behavior. Recent studies have focused on the factors that affect tax compliance, both economic and non-economic. While economic factors explain tax compliance behavior using the economic framework, non-economic factors seek to explain the behavior using a more realistic situation.

Facilitating tax compliance involves providing clear instructions, easy-to-fill forms, and educating taxpayers on their duties and obligations. Monitoring tax compliance requires maintaining current accounts of taxpayers, establishing management information systems, and detecting and following up on non-filers, nil filers, and delayed payments (Masinde & Makau, 2010). Tax authorities can encourage tax compliance by improving services to taxpayers and making compliance processes more accessible and convenient. By establishing effective monitoring systems, tax authorities can identify and address non-compliance issues promptly, reducing the overall tax gap.

Tax compliance is a complex phenomenon that has been conceptualized from various perspectives. It is influenced by various factors, including economic determinants, institutional factors, social factors, psychological factors, and individual and demographic factors. Facilitating compliance involves improving services to taxpayers, while monitoring compliance requires establishing and maintaining current accounts of taxpayers and management information systems. Effective monitoring can help identify and address non-compliance issues promptly, reducing the overall tax gap.

Tax non-compliance refers to the failure of taxpayers to comply with tax laws and regulations by either not reporting their actual income, claiming improper deductions or failing to pay taxes on time. Mohani (2001) explains that it could be intentional or unintentional and includes acts such as understatement of income, claiming inappropriate expense deductions, seeking unfitting relief and refunds, and failing to pay the correct amount of tax within the stipulated period. Tax non-compliance can take two forms, tax avoidance, and tax evasion. Tax avoidance is a legal means of reducing tax liabilities by taking full advantage of tax codes, while tax evasion consists of illegal and intentional actions taken by individuals to reduce their tax obligations.

Tax non-compliance takes different forms, such as failing to file tax returns within the stipulated period, understating income, overestimating deductions, or failing to pay assessed taxes on time. Mansor (2005) notes that tax non-compliance results in revenue losses to governments, which could impact their ability to provide public services to their citizens. Governments and tax authorities can use different measures to combat non-compliance, including audit and penalty rates. However, the effectiveness of these measures may depend on factors such as economic, institutional, social, and psychological factors, as well as individual and demographic factors that influence tax compliance behavior.

Tax compliance levels have constantly remained minimal, even after use of sanctions such as penalties, audits, fines, and cessation of non-compliant taxpayers' businesses have not improved revenue collections to the expected targets. A recent report concluded that roughly half of the landlords in London do not report their rental income (Tuomas et al., 2018). Helhel and Ahmed (2014), concluded that high tax rates and unfair tax systems in European countries contribute to high rate of non-compliance. Statistics shows that In India only 36% of citizens are tax compliant while the rest are not. A study conducted by Nadia et al. (2019) in Malaysia shows that netizens find the Malaysian tax laws hard to follow while others have inadequate knowledge about the same. Sawyer (2016) conducted a study in New Zealand which concluded that the frequent changes in tax legislation together with a complex tax system resulted to low levels of tax compliance.

2.2 Theoretical Review

The Allingham-Sandmo (AS) Theory, Fiscal Exchange Theory, and Social Influences Theory can be used to understand the factors that influence house rent tax compliance among taxpayers.

2.2.1 The Allingham-Sandmo (AS) Theory

The Allingham-Sandmo (AS) theory is an economic theory that explains how individuals make decisions about tax compliance. Specifically, it suggests that individuals weigh the costs and benefits of tax evasion, and will choose to evade taxes if the expected benefits outweigh the expected costs. The Allingham-Sandmo (AS) theory, also known as the economic deterrence theory, was developed by Allingham and Sandmo to explain how a taxpayer's decisions are influenced by the costs and

benefits of tax evasion (Allingham & Sandmo, 1972). According to this theory, taxpayers are rational actors who weigh the costs (such as the probability of being caught and the fines or penalties associated with tax fraud) and benefits (such as the tax rate) of not paying taxes and choose to evade taxes if the benefits outweigh the costs (Walsh, 2012). The AS theory assumes that taxpayers aim to maximize the expected value of not paying taxes, which involves balancing the benefits of tax evasion with the risks of getting caught and punished. The underlying premise is that individuals tend to engage in actions that offer the greatest benefits while costing them the least. Tax amnesty is one such action that could be perceived as offering significant benefits with relatively low costs. According to the AS theory, the expected benefits of tax evasion include the amount of money saved by not paying taxes, while the expected costs of tax evasion include the likelihood of being caught, the severity of punishment if caught, and the social stigma associated with being a tax evader.

In the context of house rent tax compliance among taxpayers, the AS theory suggests that taxpayers will be more likely to comply with house rent taxes if the expected costs of non-compliance outweigh the expected benefits of non-compliance. This means that if the likelihood of being caught, the severity of punishment, and the social stigma associated with not paying house rent taxes are all high, then taxpayers will be more likely to comply with the tax. Therefore, policymakers can use the AS theory to design tax systems that are more effective at promoting tax compliance. This can be done by increasing the likelihood of detection, increasing the severity of punishment, and reducing the social stigma associated with tax evasion. By doing so, taxpayers will be more likely to comply with house rent taxes, which can ultimately help to improve revenue collection and reduce the tax gap.

2.2.2 Fiscal Exchange Theory

The Fiscal Exchange Theory is an economic theory that suggests that individuals are more likely to comply with taxes when they perceive that the benefits, they receive from government services or programs are roughly equal to the amount of taxes they pay. This theory is based on the idea that taxpayers view taxes as a form of payment in exchange for government services and programs, and they are more likely to comply with taxes when they feel that they are getting a fair return on their investment.

The theory that government spending is the primary motivator for people to pay taxes, and that a social, emotional, or psychological connection exists between the government and its citizens, was developed from the economic threat and social psychology models (McKerchar & Evans, 2009). The theory emphasizes that by utilizing the limited tax revenue collected, the government can enhance public goods and services, which would encourage citizens to pay their taxes. Additionally, the theory emphasizes the importance of negotiation between the government and its citizens in determining tax rates, as this can promote a sense of shared responsibility and accountability between the state and society (Fjeldstad et al., 2012).

In the context of house rent tax compliance among taxpayers, the Fiscal Exchange Theory suggests that taxpayers are more likely to comply with house rent taxes when they believe that the government is providing them with adequate services in exchange for their tax payments. If taxpayers perceive that the government is providing good quality public housing, maintaining clean and safe streets, and providing access to quality education and healthcare, they are more likely to view their house rent taxes as a fair exchange for these services and will be more likely to comply with the tax.

On the other hand, if taxpayers perceive that the government is not providing adequate services in exchange for their tax payments, they may view the house rent tax as an unfair burden and be more likely to evade or avoid paying the tax. This can occur when taxpayers feel that their tax payments are being wasted or misused, or when they do not see a direct connection between their tax payments and the services they receive from the government.

Therefore, policymakers can use the Fiscal Exchange Theory to design tax systems that are more effective at promoting tax compliance. This can be done by ensuring that taxpayers feel that they are receiving a fair return on their tax payments through the provision of high-quality government services and programs. This can help to build trust and goodwill between taxpayers and the government, which can ultimately improve tax compliance and revenue collection.

The Fiscal Exchange Theory suggests that taxpayers are more likely to comply with house rent taxes when they perceive that the benefits, they receive from government services and programs are roughly equal to the amount of taxes they pay. Therefore, policymakers should focus on providing high-quality government services and

programs to build trust and goodwill between taxpayers and the government, which can ultimately improve tax compliance and revenue collection.

2.2.3 Social Influences Theory

The Social Influences Theory is an economic theory that suggests that individuals are influenced by social norms and expectations when making decisions about tax compliance. This theory is based on the idea that individuals are social creatures who are influenced by the behavior of others in their social networks, and that they are more likely to comply with taxes when they believe that others in their social network are also complying. According to this theory, individuals' conformance with tax laws is affected in unique ways by the conventions and customs to which they are exposed. The theory postulates, like most other types of behavior, that social relations largely shape how individuals behave in financial situations (Ali et al., 2013). According to the theory, taxpayer compliance increases when an individual thinks that those in his reference group also conform, and decreases when that individual believes that those in his referent group do not.

In the context of house rent tax compliance among taxpayers, the Social Influences Theory suggests that taxpayers are more likely to comply with house rent taxes when they perceive that others in their social network are also complying with the tax. This can occur through a variety of social influences, including social norms, peer pressure, and social reputation. If taxpayers believe that paying house rent taxes is a social norm in their community, they may be more likely to comply with the tax in order to avoid social disapproval or ostracism from their peers. Similarly, if taxpayers believe that their peers are complying with the tax, they may be more likely to comply as well in order to maintain their social reputation as a law-abiding citizen. On the other hand, if taxpayers believe that tax evasion is common or accepted in their social network, they may be more likely to evade or avoid paying the tax in order to fit in with their peers. Therefore, policymakers can use the Social Influences Theory to design tax systems that are more effective at promoting tax compliance. This can be done by leveraging social influences to create a culture of tax compliance in which paying taxes is seen as a social norm and a desirable behavior. This can involve using public messaging campaigns to highlight the benefits of tax compliance and the negative consequences of tax evasion, as well as working with community leaders and influencers to promote a culture of tax compliance.

The Social Influences Theory suggests that individuals are influenced by social norms and expectations when making decisions about tax compliance. In the context of house rent tax compliance among taxpayers, policymakers can use this theory to design tax systems that leverage social influences to promote a culture of tax compliance and increase the likelihood that taxpayers will comply with the tax.

2.3 Review of Legal Provision

Income tax is a form of direct taxation imposed by the government on the income or gains earned by individuals or entities. The relevant income tax Act defines income tax as the tax levied on a person's income. According to the Income Tax Act of 2002, there are three primary sources, also known as heads, of income: business, investment, and employment. Employment income encompasses all forms of income received from an individual's job, while investment and business incomes refer to the profits or surpluses that are subject to taxation.

2.3.1 Income Tax Act, 2058

Income tax law in Nepal is governed by the Income Tax Act, 2058 (2002) and its subsequent amendments. The act outlines the procedures and regulations for the calculation, collection, and payment of income tax in Nepal.

In Nepal, income tax is levied on both individuals and businesses. The tax rate varies based on the income level of the taxpayer. Individuals are taxed on their worldwide income, while businesses are taxed on their profits. The tax year in Nepal runs from mid-July to mid-July of the following year. Taxpayers are required to file their tax returns by the end of the Nepali month of Shrawan (mid-August) for the preceding tax year.

The income tax rates in Nepal are progressive, meaning that higher earners pay a higher percentage of their income in taxes. As of present, the tax rates for individuals are Income up to NPR 400,000: 1%, Income between NPR 400,001 and NPR 1,600,000: 10%, Income between NPR 1,600,001 and NPR 3,200,000: 20%, Income above NPR 3,200,000: 30%. For businesses, the tax rate is a flat 30% on their profits.

There are certain deductions and exemptions available to taxpayers in Nepal. For example, donations to recognized charitable organizations are tax-deductible up to a certain amount. Additionally, taxpayers can claim deductions for contributions to a

retirement fund, life insurance premiums, and certain medical expenses. Non-compliance with income tax laws can result in penalties and fines. The tax authority in Nepal is the Inland Revenue Department, which is responsible for the administration and enforcement of income tax laws. Overall, the income tax law in Nepal aims to promote fairness and equity in the taxation of income, while also generating revenue for the government to provide essential services to the Nepalese people.

2.3.2 Tax Assignment in Nepal

Tax assignment in Nepal is governed by the Constitution of Nepal and the Local Government Operation Act, 2074 (2017). The Constitution of Nepal has assigned the authority to levy and collect taxes to the federal, provincial, and local governments. Each level of government has different tax assignments, and they are responsible for administering and enforcing their respective taxes. The federal government in Nepal has the authority to levy and collect taxes on income, customs, excise, value-added tax (VAT), and other indirect taxes. The federal government also has the power to distribute the revenue collected from these taxes to the provincial and local governments as per the formula prescribed by the federal law.

The provincial governments in Nepal have the authority to levy and collect taxes on land and property, entertainment, professions, trades, callings, and employments. The provincial governments can also levy taxes on businesses, which are not under the jurisdiction of the federal government. The revenue generated from these taxes is utilized for the provision of provincial-level public services. The local governments in Nepal have the authority to levy and collect taxes on land and property, entertainment, professions, trades, callings, and employments within their jurisdiction. Local governments can also impose certain fees for the use of public services, such as roads, parks, and garbage collection. The revenue generated from these taxes and fees is utilized for the provision of local-level public services.

In Nepal, tax administration is the responsibility of the Inland Revenue Department, which is under the Ministry of Finance. The inland revenue department is responsible for the implementation, enforcement, and collection of taxes across the country. It also provides taxpayer services and information to help taxpayers comply with tax laws. In conclusion, tax assignment in Nepal follows a three-tier system, with different levels of government having the authority to levy and collect various types of taxes. The tax

revenue generated from these taxes is utilized for the provision of public services at each level of government. The inland revenue department plays a vital role in tax administration, ensuring compliance with tax laws and providing services to taxpayers.

2.3.3 House Rent Tax Directive, 2068

In 2012, the Inland Revenue Department issued House Rent Directives under the Income Tax Act 2058, Section 139, to effectively collect tax from house owners. The government has taken measures to enforce these directives. Under the House Rent Directive 2068, natural persons are not required to file tax returns as their tax liability is covered under Section 92 final withholding tax. However, natural persons are not allowed to claim expenses paid such as property tax from their rental income. Entities, on the other hand, can claim expenses and are required to submit a tax return.

Tax officers are authorized to conduct an amended assessment of tax based on the tax collected from similar properties in similar locations, to ensure that the tax paid is accurate. Taxpayers are required to maintain a book provided by the tax office called "Abhilekh Pustika" for a period of four years. The format for this book is available on the inland revenue department website or can be obtained from tax service centers. Rent payers are required to obtain a personal PAN as per the directives. Taxpayers are also required to inform the tax office immediately by writing a letter and noting down the registration number (darta number). Rental income must be declared, and details of the property should be provided as per Annexure 1 of this directive in the Abhilekh Pustika.

2.4 Empirical Review

Kasipillai and Jabbar (2006) explored if there were significant differences in tax compliance attitudes between males and females, and across different ethnic groups. The study utilized t-tests to analyze the data collected and found that both males and females demonstrated similar levels of tax compliant attitudes. Additionally, they observed no significant differences in compliance attitudes between different ethnic groups. These results suggest that gender and ethnicity are not primary determinants of tax compliance attitudes and behaviors. The researchers also conducted regression analysis to identify the key determinants of non-compliant attitudes. The results showed that factors such as gender, education, and individual tax return preparation were significant predictors of non-compliant attitudes. Specifically, the analysis found

that male taxpayers were more likely to exhibit non-compliant attitudes than females. Similarly, individuals with lower levels of education were more likely to exhibit non-compliant attitudes. Additionally, those who prepared their own tax returns were more likely to exhibit non-compliant attitudes than those who relied on a professional to prepare their returns.

Teshale (2013) conducted a study on the challenges and opportunities in Tigray, which revealed that the majority of rental tax payers had only completed elementary and high school education, with the exception of a minority holding diplomas and degrees. As a result, they lacked sufficient knowledge to easily understand the laws and regulations of the tax system, as well as how their taxable income was calculated. Therefore, it is the responsibility of the tax authority to provide tax awareness training to rental tax payers, particularly those with only elementary and high school education. A series of training sessions should be conducted to ensure that rental tax payers are equipped with the necessary knowledge and understanding of the tax system.

Sharma (2013) study on the role of tax revenue in strengthening the Pokhara Sub-Metropolitan Corporation (PSMC) found that the collection efficiency of the PSMC was unsatisfactory due to several factors. These included ad-hoc budgeting, inefficient tax administration, frequent internal disputes, and ineffective tax collection procedures. The PSMC was unable to collect revenues as per the budget, and there was a lack of property mobilization of revenue from local taxes and other internal sources. Taxpayers were not paying their liabilities regularly, and the PSMC was unable to collect the minimum level of potential tax. The study showed that the PSMC projected revenue unscientifically, and the actual local tax fluctuated during the study period. The contribution of local tax to the revenue of the local government ranged from 24.72% to 0.15%. The PSMC neglected the private sector in resource mobilization, service delivery, and infrastructure development. There was a lack of political commitment and coordination with stakeholders, and the revenue administration of the PSMC was very poor. There was a lack of motivated, qualified, and trained staff, and there was no clear-cut job description. The PSMC had neither updated tax rolls nor dispatched tax liabilities to taxpayers, and there was no effective collection procedure. While revenue from local taxes was increasing, it was not sufficient to meet the financial requirements, indicating a need for better mobilization of local resources for local development.

Musau's (2014) study on Factors Influencing Tax Compliance among SMEs in Nairobi County, 398 respondents were surveyed using questionnaires and the data was analyzed through the binary probit regression model. The results showed that individuals who perceived tax evasion as difficult were more likely to be tax compliant among SMEs in Nairobi County. Additionally, those who were satisfied with the public goods and services provided by the government, had access to adequate tax information, trusted government officials to handle their taxes, and believed that simplifying tax filing procedures would increase tax compliance, were also more likely to comply with tax payment.

Mukabi (2015) conducted a study on Factors Influencing Turnover Tax Compliance in the Kenya Revenue Authority Domestic Taxes Department in Nairobi County. A sample of 56 respondents was selected using stratified sampling, and data was collected using questionnaires. The study results showed that taxpayers' perceptions of the tax system significantly influenced their level of compliance with turnover tax. Additionally, the study found that factors such as high compliance costs and complex tax systems contributed to low levels of compliance. The study also revealed that increased tax knowledge had a significant positive impact on taxpayers' perceptions of the tax system.

Adimasu and Daare (2016) conducted a study to investigate the influence of tax awareness and perception on voluntary tax compliance decision among Category A tax payers in selected Ethiopian cities. The study employed a descriptive research design and a sample of 377 individual tax payers was randomly selected. Both primary and secondary data sources were used and data was analyzed using descriptive statistics. The findings indicated that lack of tax awareness was a major hindrance to voluntary tax compliance, and many tax payers believed that the current tax and penalty rates were high, and the tax system was unfair. However, the study also found that tax payers' positive perception towards the tax system and government spending could encourage voluntary tax compliance.

Karanja (2017) examined factors affecting voluntarily tax compliance in Kenya by landlords in Nairobi County. The study adopted a descriptive research design and a sample of 45 respondents was selected and questionnaire used for data collection. The findings of the study established that attitude and perception that politicians misuse

taxes, financial and family obligation had strong positive responses. The study findings also revealed that social norms and respondent's income levels strongly influenced tax noncompliance level among the Kenyan taxpayers on rental income. The study concluded that attitude factors, high tax rate, unfair tax system, social norms, gender and education level factors are significant and play a great role towards the compliance or noncompliance of Kenyan taxpayers.

Mushinge et al. (2021) establishing the extent of residential rental income tax compliance among taxpayers and investigating the factors which impede residential rental income tax compliance among taxpayers in Zambia. The research was both qualitative and quantitative in nature and adopted a case study strategy, where residential properties in Kitwe city in Copperbelt Province were studied. Both primary and secondary data were collected. The research findings showed that there is low rental income tax compliance among taxpayers. Low taxpayers' compliance is caused by limited taxpayers' awareness on some aspects of rental income tax issues such as deadlines and modes of payments, tax officials not having the right attitude, the Zambia Revenue Authority website not being easy to navigate and use, high tax rate, erratic deregistration of taxpayers, and lack of a fair tax system. In view of the foregoing, the study recommends that in order to improve rental income tax compliance by taxpayers, there is need to: provide information to taxpayers on rental income tax, conduct training for tax officials, simplify Zambia Revenue Authority website, lower the rate for rental income tax, revert to landlords paying tax, and encourage fairness of the tax system.

Tiwari (2021) explored tax compliance behaviour among rental income owners in Pokhara. The study is based on a survey of 196 households located in wards 9, 11 and 17 of Pokhara Metropolitan City. The wards represent commercial, semi-urban, and densely populated areas of the city respectively. The required data were gathered employing a self-administered questionnaire comprising Likert scales to measure tax awareness, attitude towards tax, cost of non-compliance, peer influence for compliance, government incentives, and tax compliance behavior of the rental income earner. The data collected were analyzed employing ANOVA, correlation and multiple regression. The research revealed a positive relationship between tax awareness, attitude towards tax, peer influence, and government incentives with tax compliances. The study findings depict that the taxpayers' awareness and perception towards tax are

important variables that affect the compliance behavior of rental taxpayers. Moreover, the results reveal that the rental income earner in Pokhara does not comply with the tax rules due to the lower cost of non-compliance as negative relationship established was found between tax compliance and the cost of noncompliance. Metropolitan tax authority needs to focus on awareness and government incentives rather than the cost of non-compliance for better adherence to tax rules among rental taxpayers.

Chindengwike and Kira (2022) conducted a study to investigate the impact of tax rates on taxpayers' voluntary compliance in Tanzania, using both qualitative and quantitative research approaches. The study utilized a cross-sectional survey research design, which involved document review and surveys to collect primary and secondary data. Sampling procedures included systematic and unsystematic random sampling, as well as purposive sampling. The study sample comprised 99 SME taxpayers. The study revealed that there is a negative effect of tax rates on taxpayers' voluntary compliance. Additionally, the findings indicate that favourable tax rates increase taxpayers' voluntary compliance. The research also highlights that tax rates have a significant impact on voluntary taxpayer compliance in Tanzania. There is a statistically significant correlation between tax rates in Tanzania and the level of voluntary compliance by taxpayers. The study recommends that the estimation calculation base should be revised in tax rates. It also emphasizes the importance of critical participation in the process of formulating tax laws and regulations to improve corporate governance between the government and the people. Overall, the study emphasizes the need for policymakers to consider the impact of tax rates on voluntary compliance and take necessary measures to ensure tax compliance.

2.5 Research Gap

There is a significant research gap in understanding the compliance of taxpayers with house rent tax regulations in Nepal. Despite the government's efforts to collect revenue through taxes, studies focusing on the compliance behavior of taxpayers towards house rent tax are scarce. Additionally, there is a lack of research on the impact of various factors such as tax rates, fines and penalties, tax knowledge, attitudes and perceptions, and income levels on house rent tax compliance among Nepalese taxpayers. The limited studies that have been conducted on this topic have primarily focused on compliance with other types of taxes such as VAT and income tax, but not specifically on house rent tax. Thus, there is a pressing need to fill this research gap to gain a better

understanding of the factors influencing house rent tax compliance among Nepalese taxpayers. Such knowledge can help tax authorities in Nepal to design more effective tax policies and compliance strategies that can increase compliance rates and improve overall tax collection.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology refers to the systematic and structured approach used to conduct research, collect and analyze data, and draw valid conclusions based on evidence. It encompasses the overall design and framework of a study, including the research problem, research questions, data collection methods, data analysis techniques, and the interpretation and reporting of results. Research methodology is crucial in ensuring that a research study is conducted in a systematic and rigorous manner, with a clear understanding of the research problem, the population being studied, and the research questions. It involves selecting appropriate research methods and techniques to collect data, and ensuring that the data is reliable, valid, and relevant to the research questions being asked. The data analysis process should be thorough, systematic, and transparent, using appropriate statistical techniques and software. The methodology used in research should be based on established scientific principles and should be clearly documented in the research report. This ensures that the study can be replicated by other researchers, which is essential for validating the research findings and advancing knowledge in the field. Overall, research methodology is a critical component of the research process, as it helps to ensure the quality and integrity of the research study.

3.1 Research Design

In this research study, the framework or arrangement of action is presented by the research design, which is a combination of descriptive and survey research design. This approach provides a comprehensive picture of a circumstance or situation and enables the researcher to describe the features of a variable of interest for a specific situation. For the investigation of the determinants of rental income tax compliance by property owners in Pokhara Metropolitan City, a descriptive and survey design is utilized to present and determine the status of the phenomenon under investigation. This design enables the researcher to gather information through survey questionnaires and present a clear picture of the factors that influence tax compliance among property owners in Pokhara Metropolitan City. By using this approach, the researcher is able to identify and describe the key determinants of rental income tax compliance, and

provide a detailed explanation of their impact on compliance behavior. In conclusion, the descriptive and survey research design is an effective tool for conducting research and is particularly suitable for investigating complex phenomena such as tax compliance.

3.2 Population and Sampling

Population in this study is defined as the set of households in Pokhara Metropolitan City, with a population size of 105,630 households (CBS, 2011). To ensure that the sample is representative of the population and captures the variation in compliance levels across different wards, the researcher decided to use non-probability quota sampling method and stratify the population based on ward number. The researcher selected a proportional number of households from each stratum, targeting 5 house owners who provide their houses for rent from each ward. Therefore, the study sample involved 183 house owners, selected from different wards in Pokhara Metropolitan City using non-probability quota sampling method. The researcher targeted 5 households from each ward and more six households each from the three wards i.e., ward no. 9, 11 and 17 to ensure that the sample is representative of the population and captures the variation within each ward. There are a total of 33 wards in Pokhara Metropolitan City, and the researcher used non-probability quota sampling method to select the sample. This method requires the researcher to make assumptions about the population or the distribution of the sample, which can introduce bias into the results.

3.3 Nature and Source of Data

This study was based on the primary sources of data. Primary data were obtained through a questionnaire. The first section of the questionnaire gathered data on the respondents' background information while the other sections gathered data on the study variables, which comprised of tax rate, attitude and perception, income levels, fines and penalties, tax knowledge and how they affect rental income tax compliance. The questionnaires for study variables are based on five-point Likert Scale i.e., Strongly Disagree to Strongly Agree, while demographic questions are based on multiple choice options. In designing the questionnaires for the study, the questions are designed in such a manner as to attract vital answers, which helped the researcher in analyzing the situation at hand.

3.4 Method of Data Collection

A survey was used to collect data on the level of awareness of tax laws and regulations, compliance behavior, and the factors that influence compliance behavior. The survey was conducted through online platforms and in-person. A self-administered questionnaire was distributed to a sample of income taxpayers in Pokhara Metropolitan City. The questionnaires are based on five point likert scale.

3.5 Techniques of Data Analysis

Collected data are analyzed using descriptive and inferential statistics. Descriptive statistics involved the use of measures of central tendency, which included frequencies, percentages, the mean and standard deviation while inferential statistics was used to draw conclusions which can be adopted from correlation matrix and regression equation. This assesses the extent to which a questionnaire or survey measures the intended construct compared to other related or unrelated constructs. So, correlation analysis and regression analysis is used to examine the relationships between the items measuring the intended construct and other related or unrelated constructs.

Descriptive Statistics

Descriptive statistics are distinguished from inferential statistics in statistical language. When utilizing descriptive statistics, you may simply explain what the data is or what it implies. Inferential statistics may be used to derive conclusions that are broader than those based on direct data. Inferential statistics, for example, were used by researchers to infer what the broader population may think based on the sample data they obtained. So, based on the data in this study, the researcher utilizes inferential statistics to make inferences about more general situations, while the author uses descriptive statistics to merely explain what is going on in the data. In this research, descriptive statistics are utilized to analyze data. For this study the descriptive analysis is performed for the study variables.

Inferential Tools

Correlation Analysis

Correlation is the degree of linear connection that exists between two or more variables. A change in one variable is considered to be correlated when it is followed by a change in another one. A positive association exists when the rise (decrease) in the value of one variable on average is connected with the increase (decrease) in the value of

another variable. If an increase (reduction) in one variable is related with a decrease (increase) in the value of another variable, the connection will be negative. However, the correlation coefficient is usually between +1 and -1.

Regression Analysis

$$\text{Rental Income Tax Compliance} = \alpha + (\beta_1 \times \text{Tax Rate}) + (\beta_2 \times \text{Income}) + (\beta_3 \times \text{Fines and Penalties}) + (\beta_4 \times \text{Attitude and Perceptions}) + (\beta_5 \times \text{Tax Knowledge}) + \epsilon$$

In this equation, the regression constant (α) represents the expected value of the dependent variable (Rental Income Tax Compliance) when all the independent variables (Tax Rate, Income, Fines and Penalties, Attitude and Perceptions, and Tax Knowledge) are zero.

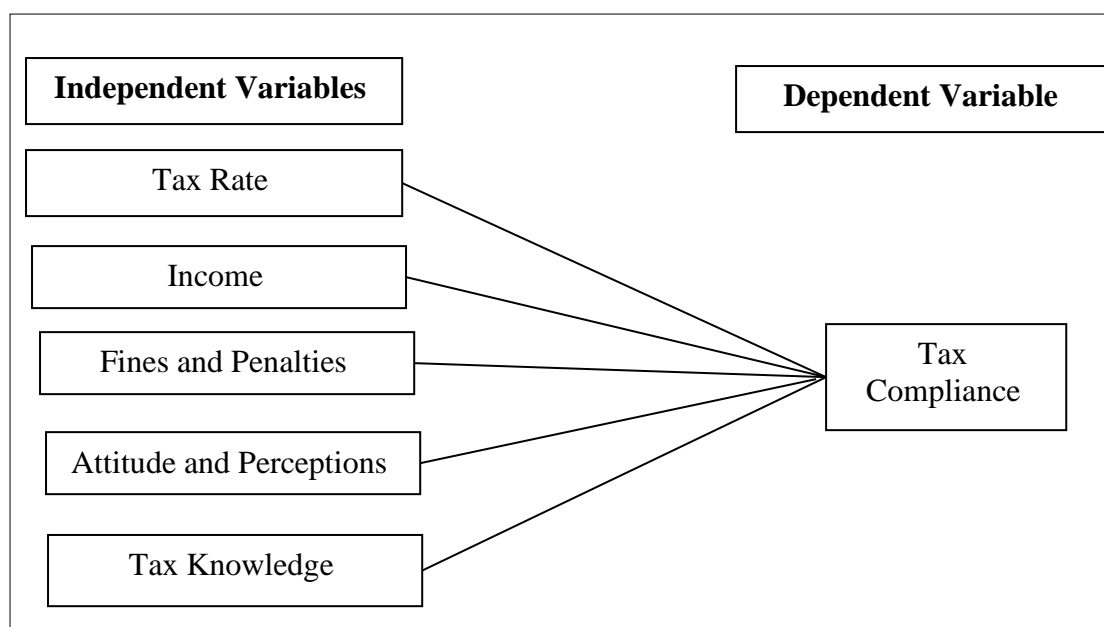
The coefficients ($\beta_1 - \beta_5$) represent the change in the dependent variable that is associated with a one-unit change in each independent variable, holding all other variables constant.

The error term (ϵ) represents the part of the dependent variable that cannot be explained by the independent variables and is assumed to be normally distributed with a mean of zero.

3.6 Conceptual Framework and Operational Definition of Variables

The study aim to investigate rental income tax compliance by property owners and its awareness in Pokhara Metropolitan City. The independent variables will include the Tax rate, Attitude and perceptions, Income Levels, Fines and Penalties and Tax Knowledge while dependent variable is rental income tax compliance. The economic deterrence theory explains that detection and penalties for fraud reduce the likelihood to evade taxes while several scholars have indicated that income levels, tax knowledge and attitude as key variables that influence tax compliance and awareness in several business entities. Figure 3.1 shows the conceptual framework for the study.

Figure 3. 1 *Framework for the Study*



Source: *Mushinge et al. (2021); Tiwari, (2021)*

Operational Definition

Tax Compliance (Dependent Variable)

Taxpayer compliance refers to the extent to which taxpayers in Pokhara Metropolitan City comply with tax laws and regulations. This can be measured by factors such as tax rate, Income, Fines and Penalties, attitude and perceptions and tax knowledge.

Independent Variables

Tax Rate

Tax rate refers to the percentage of taxable rental income that taxpayers are required to pay to the government in accordance with the tax laws and regulations in place in Pokhara Metropolitan City.

Income

Income refers to the total amount of money earned by taxpayers in Pokhara Metropolitan City from rental.

Fines and Penalties

Fines and penalties refer to the monetary sanctions imposed by the government on taxpayers who fail to comply with tax laws and regulations. These sanctions may include late payment fees, interest charges, or legal action.

Attitude and Perceptions

Attitude and perceptions refer to the subjective beliefs, opinions, and attitudes held by taxpayers in Pokhara Metropolitan City towards tax compliance. This can include perceptions of fairness, trust in government institutions, and perceived severity of penalties for non-compliance.

Tax Knowledge

Tax knowledge refers to the extent to which taxpayers in Pokhara Metropolitan City are knowledgeable about tax laws and regulations. This can include knowledge of tax requirements, available tax incentives, and the consequences of non-compliance.

Table 3.1
Methodology Matrix

SN	Objectives	Indicators	Tools of analysis	Sources of Data
1	To access the level of awareness among rental income taxpayers at Pokhara Metropolitan City.	Response from 183 Respondents on the basis of Likert Scale Questions	Descriptive Statistics	Primary
2	To analyze the rental income tax compliance in Pokhara Metropolitan City.	Response from 183 Respondents on the basis of Likert Scale Questions	Correlation Analysis	Primary
3	To examine the impact of determinants of tax compliance on rental income tax compliance at Pokhara Metropolitan City.	Response from 183 Respondents on the basis of Likert Scale Questions	Regression Analysis	Primary

A Likert scale is a type of rating scale that asks respondents to indicate their level of agreement or disagreement with a statement. Typically, the Likert scale includes a series of statements, each followed by a set of response options ranging from "strongly disagree" to "strongly agree". The response options are assigned numerical values that can be used in statistical analyses, such as regression models. To include Likert scale variables in a regression equation, the numerical values assigned to the response options need to be transformed into numeric variables that can be used in the regression analysis. One common approach is to compute a weighted average score for each respondent based on their responses to the Likert scale questions. For instance, if "Attitude and Perceptions" is measured using a 5-point Likert scale with response

options ranging from 1 (strongly disagree) to 5 (strongly agree), it can compute an average score for each respondent by summing their responses and dividing by the number of questions. This average score can then be used as the value of the "Attitude and Perceptions" variable in the regression equation.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter presents an overview of rental income tax and its compliance among taxpayers in Pokhara Metropolitan City. As discussed in the methodology section, a range of statistical tools including mean, standard deviation, and regression analysis were employed using SPSS software. Bar graphs were also utilized to aid in measuring the level of rental income tax compliance among taxpayers in the area. The analysis was conducted using the data collected through the research process, and the analytical tools and techniques presented in Chapter Three were utilized. To facilitate a clearer understanding of the findings, the collected data has been presented in tabular form, allowing for a simplified analysis. The tables enable the research to present the results in a structured format, making it easier for the reader to comprehend the data and the insights gained from it. This section of the paper thus provides a comprehensive overview of the data collected, the analytical tools utilized, and the manner in which the findings were presented. Overall, the use of statistical tools and tables in this study facilitates a detailed and accurate analysis of rental income tax compliance among taxpayers in Pokhara Metropolitan City, providing a valuable contribution to the existing literature in this area.

4.1 Demographic Profile of Respondents

Demographic profile of respondents refers to the characteristics of a group of people who have participated in a survey or research study, which typically includes information such as age, gender, income, occupation, education level, and other relevant factors. The demographic profile of respondents helps researchers to understand the characteristics of the population they are studying and to identify any trends or patterns that may exist. This information can be used to analyze the data collected from the survey and to draw meaningful conclusions about the study population. Demographic profiles are important in understanding how different factors affect the behavior or attitudes of a specific group and can help in developing targeted interventions or policies. For this study, demographic profile of respondents i.e.,

gender, age group, occupation, owning the house and monthly income from rent was analyzed in Table 4.1.

Table 4. 1
Demographic Profile of Respondents

Items		Frequency	Percent
Gender	Male	126	68.85
	Female	57	31.15
Age	20-30	2	1.09
	30-40	36	19.67
	40-50	68	37.16
	50 and above	77	42.08
Education	SLC	68	37.16
	+2	63	34.43
	Bachelor Degree	33	18.03
	Masters and above	19	10.38
Occupation	Employed	87	47.54
	Business	96	52.46
House Ownership	Less than Four Years	13	7.10
	Four to Ten Years	29	15.85
	Ten to Twenty Years	97	53.01
	More than Twenty Years	44	24.04
Monthly Income from Rent	Less than 30,000	47	25.68
	30,000-50,000	79	43.17
	50,000-1,00,000	48	26.23
	1,00,000 and Above	9	4.92
Total		183	100

Source: Field Survey, 2023

Based on the responses of 183 participants on house rent tax compliance among taxpayers in Pokhara Metropolitan city, the demographic profile shows that the majority of the respondents were male, accounting for 68.85%, while female respondents accounted for 31.15%. In terms of age, the majority of the respondents were in the 40-50 years age group, accounting for 37.16%, followed by those aged 50 and above, accounting for 42.08%. The age group with the least representation was the 20-30 years age group, accounting for 1.09%.

In terms of education level, the majority of the respondents had completed their School Leaving Certificate (SLC), accounting for 37.16%, while 34.43% had completed their

higher secondary education (+2). 18.03% of the respondents had a bachelor's degree, and 10.38% had a master's degree or higher.

Regarding occupation, the majority of the respondents were engaged in business, accounting for 52.46%, while 47.54% were employed. Concerning house ownership, the majority of the respondents had owned their house for ten to twenty years, accounting for 53.01%, while 24.04% had owned their house for more than twenty years. Only 7.10% had owned their house for less than four years, while 15.85% had owned their house for four to ten years.

Regarding the monthly income from rent, the majority of the respondents earned between Rs. 30,000 and Rs. 50,000, accounting for 43.17%, followed by those earning less than Rs. 30,000, accounting for 25.68%. Only 4.92% of the respondents earned more than Rs. 100,000 from rent.

In conclusion, the demographic profile of respondents on the basis of 183 respondents on house rent tax and its compliance among taxpayers at Pokhara Metropolitan city showed that the majority of the respondents were male, middle-aged, engaged in business, and had owned their house for ten to twenty years. The majority of the respondents had completed their SLC or higher secondary education, and the majority earned between Rs. 30,000 and Rs. 50,000 from rent.

4.2 Descriptive Analysis

The respondents were asked to rank different statements related to measurement bases for factors influencing rental income tax and its compliance. This analysis was based on various statements related to tax rates, income levels, fines and penalties, attitude and perceptions, and tax knowledge. The research model included 30 observed variables, with 25 related to the four influencing factors on taxpayers' compliance and five related to taxpayers' compliance itself. A sample size of 183 questionnaires was collected using a systematic approach, and the authors confirmed that all 183 questionnaires met the required sample size and respondents' opinions. The data collected was refined and processed using SPSS 25.0 software.

4.2.1 Descriptive Analysis of Tax Rate

In this section, the researcher reviewed the mean and standard deviation statistics for five tax rate statements based on a 5-point Likert scale interval. The statements were

classified as having a low level of agreement if the mean score was less than 2 for "strongly disagree" and "disagree," a moderate level of agreement if the mean score was between 2.00 and 3.00 for "neutral," and a high level of agreement if the mean score was greater than 3.00 for "agree" and "strongly agree." Tax rate refers to the percentage at which an individual or corporation is taxed by the federal government and some states based on their taxable income or earnings. Nepal has implemented a flat tax rate system for rental income, where the same tax rate is applied to all taxable amounts, regardless of income levels. Although the Constitution mandates local governments to collect various taxes, the federal government needed to clarify constitutional provisions regarding tax collection at the local levels and elucidate their financial and revenue rights, according to officials at the Ministry of Federal Affairs and General Administration (MoFAGA). This section evaluates descriptive statistics related to tax rates.

Table 4. 2
Descriptive Statistics of Tax Rate

Statements	N	Min	Max	Mean	SD
Calculating tax on gross rental income is simpler for house owners compared to net rental income.	183	1.00	5.00	3.1202	1.44373
The well-organized tax system implemented by the Pokhara Metropolitan City has made it easier for house owners to pay their rental income tax promptly.	183	1.00	5.00	3.2514	1.33103
The current tax rate for house rent is reasonable and just for house owners in Pokhara Metropolitan City.	183	1.00	5.00	3.2240	1.30471
The lower tax rate has encouraged house owners to comply with their tax obligations.	183	1.00	5.00	3.1366	1.36596
With the tax collection and enforcement measures taken by Pokhara Metropolitan City to ensure compliance with house rent tax	183	1.00	5.00	3.3443	1.17975
Tax Rate	183	1.20	4.80	3.2153	.81806

Field Survey, 2023

Table 4.2 shows that tax rate factors that influence the tax payer's compliance includes total mean value found is 3.21. It indicates the number greater than 3 i.e., agree. The mean value for first, second, third, fourth and fifth statement on tax rate were 3.12, 3.25,

3.22, 3.14 and 3.34 respectively. The tax rate impact on tax payer's compliance, respondents are agreeing that tax rate have a great impact to be compliance. The standard deviation of tax rates for the five statements ranges from 1.17975 to 1.44373, with an overall standard deviation of 0.81806. This indicates that the tax rates are somewhat dispersed around the mean, with a higher degree of dispersion in the individual statements than in the overall dataset. The result shows that the house owners at Pokhara Metropolitan City are satisfied with the house rent tax rate.

4.2.2 Descriptive Analysis of Income Levels

When it comes to analyzing the incidence of taxes, there is no one-size-fits-all concept of income that can be used for all analytical purposes. However, when studying the impact of taxes, it is inappropriate to compare tax payments with income subject to tax, as what we are interested in is the comparison between taxes paid and total incomes. To achieve this, researchers have adopted several statements for different income levels. In terms of rental property, the income levels may not be very impressive under a flat tax system, as this system does not adjust the tax rate based on the level of income.

Table 4. 3
Descriptive Statistics of Income Levels

Statements	N	Min	Max	Mean	SD
With the level of house rent income the tax rate should be differ.	183	1.00	5.00	3.1967	1.47678
House owners with low rental income levels are more likely to be non-compliant.	183	1.00	5.00	3.3388	1.45064
House owners with very low rental income should not be taxed.	183	1.00	5.00	3.3552	1.31331
The tax rate on house rent tax should be reduced for individuals with low income.	183	1.00	5.00	3.2350	1.38852
I believe that compliance with house rent tax is essential, regardless of my income level.	183	1.00	5.00	3.1749	1.40721
Income	183	1.40	4.80	3.2601	.90887

Field Survey, 2023

The descriptive statistics of income level for five statements in Pokhara Metropolitan City show that the mean values range from 3.1749 to 3.3552, with an overall mean of 3.2601. The standard deviation also varies across the statements, with values ranging from 1.31331 to 1.47678, and an overall standard deviation of 0.90887. These statistics

indicate that there is some variability in the income levels of taxpayers in Pokhara Metropolitan City. Overall, the descriptive statistics of income level provide a useful snapshot of the income distribution among taxpayers in Pokhara Metropolitan City. While they do not directly measure tax compliance, they can be used to identify potential factors that may influence compliance rates.

4.2.3 Descriptive Analysis of Fines and Penalties

This statement examines whether taxpayers can claim an income tax deduction for fines and penalties imposed on them by a statute or regulation, or imposed on third parties but paid by the taxpayer. Such penalties may arise from failure to file accurate tax returns or from errors on tax returns. Additionally, some acts may lead to forfeiture of the taxpayer's property. The provision of fines and penalties serves as a means of encouraging taxpayers to file their tax returns promptly. This section presents the descriptive statistics analysis results of several statements on fines and penalties, aimed at assessing their impact on the compliance of property owners.

Table 4. 4

Descriptive Statistics of Fines and Penalties

Statements	N	Min	Max	Mean	SD
Tax penalty and fines majorly affect the house owners for residential income tax compliance.	183	1.00	5.00	3.2678	1.41786
Fines and penalties on house rent tax encourages tax payers to submit the tax on time	183	1.00	5.00	3.2514	1.38762
The fear of fines and penalties is a significant motivator for me to comply with house rent tax.	183	1.00	5.00	3.2951	1.29680
Fines and penalties for non-compliance with house rent tax are unfair to individuals with low income.	183	1.00	5.00	3.1749	1.36761
Fines and penalties for non-compliance with house rent tax are effective in encouraging compliance.	183	1.00	5.00	3.1967	1.36059
Fines and Penalties	183	1.40	5.00	3.2372	.90925

Field Survey, 2023

The descriptive statistics of fines and penalties for five statements in Pokhara Metropolitan City show that the mean values range from 3.1749 to 3.2951, with an overall mean of 3.2372. The standard deviation also varies across the statements, with values ranging from 1.2968 to 1.41786, and an overall standard deviation of 0.90925.

These statistics indicate that there is some variability in the fines and penalties imposed on taxpayers in Pokhara Metropolitan City. The descriptive statistics of fines and penalties provide a useful snapshot of the penalties and fines imposed on taxpayers in Pokhara Metropolitan City. While they do not directly measure tax compliance, they can be used to identify potential factors that may influence compliance rates.

4.2.4 Descriptive Analysis of Attitude and Perceptions

Taxpayers' attitude is recognized as a crucial factor in shaping tax compliance behavior. Taxpayers expect the revenue generated from taxes to be utilized and accounted for in a meaningful manner by the state. Failure to do so can weaken taxpayers' commitment to fulfill their tax obligations. The performance of the local tax bureau is suggested to influence taxpayers' perception of tax compliance. Hence, the degree to which the tax office is fulfilling its mandate is believed to impact compliance. This section assesses the impact of several statements on attitude and perceptions on the compliance behavior of house owners.

Table 4. 5
Descriptive Statistics of Attitude and Perceptions

Statements	N	Min	Max	Mean	SD
Payment of rental income taxes is perceived by house owners as contribution to economic growth.	183	1.00	5.00	3.2404	1.43623
The government should provide more incentives for individuals who pay their house rent tax on time.	183	1.00	5.00	3.1749	1.38755
The government has put taxpayer's money into good use	183	1.00	5.00	3.1257	1.31373
I think that other taxpayers should also pay their house rent tax to maintain fairness in the system.	183	1.00	5.00	3.0437	1.39002
I believe that the government uses the revenue from house rent tax for public welfare.	183	1.00	5.00	3.2404	1.38956
Attitude and Perceptions	183	1.40	5.00	3.1650	.83711

Field Survey, 2023

Table 4.5 shows that attitude and perceptions factors that influence the tax payer's compliance includes total mean value found is 3.16. It indicates the number greater than 3 i.e., agree. The mean value for first, second, third, fourth and fifth statement on tax rate were 3.24, 3.17, 3.12, 3.04 and 3.24 respectively. The attitude and perceptions impact

on tax payer’s compliance, respondents are agreeing that attitude and perceptions have a great impact to be compliance. The standard deviation of attitude and perceptions for the five statements ranges from 1.31373 to 1.43623, with an overall standard deviation of 0.83711. This indicates that the attitude and perceptions are somewhat dispersed around the mean, with a higher degree of dispersion in the individual statements than in the overall dataset.

4.2.5 Descriptive Analysis of Tax Knowledge

In a voluntary compliance tax system, tax knowledge plays a crucial role in determining an accurate tax liability. Lack of tax knowledge can lead to noncompliance behavior among taxpayers, both intentional and unintentional. Changes in income classifications, deductions, relief, and tax rates render past years' knowledge obsolete. Tax knowledge also impacts taxpayers' attitudes towards the accuracy of their tax returns. This section evaluates the descriptive statistics of several statements on tax knowledge, aiming to determine its effect on compliance.

Table 4. 6
Descriptive Statistics of Tax Knowledge

Statements	N	Min	Max	Mean	SD
I am familiar with the deductions and exemptions that apply to house rent tax.	183	1.00	5.00	3.1366	1.40170
Most of the tax payers are familiar with online tax payer portal.	183	1.00	5.00	3.1148	1.37599
I am aware of the consequences of filing incorrect or incomplete house rent tax returns.	183	1.00	5.00	2.9016	1.31815
Effective tax education can change the attitude and perception of property owner towards tax compliance	183	1.00	5.00	2.8470	1.36220
I have received sufficient information or education about house rent tax from the government.	183	1.00	5.00	3.1803	1.46582
Tax Knowledge	183	1.20	4.80	3.0361	.73605

Field Survey, 2023

Table 4.6 shows that tax knowledge factors that influence the tax payer’s compliance includes total mean value found is 3.04. It indicates the number greater than 3 i.e., agree. The mean value for first, second, third, fourth and fifth statement on tax rate were 3.14, 3.11, 2.90, 2.85 and 3.18 respectively. The tax knowledge impact on tax payer’s

compliance, respondents are agreeing that attitude and perceptions have a great impact to be compliance. The standard deviation of tax knowledge for the five statements ranges from 1.31815 to 1.46582, with an overall standard deviation of 0.73605. This indicates that the tax knowledge are somewhat dispersed around the mean, with a higher degree of dispersion in the individual statements than in the overall dataset.

4.2.6 Descriptive Analysis of Tax Payers Compliance

Tax rate, income, fines and penalties, attitude and perceptions, and tax knowledge are all important factors that can influence taxpayers' compliance behavior. Five statements on tax payer's compliance and the respondent's response are presented in this section.

Table 4. 7

Descriptive Statistics of Tax Payers Compliance

Statements	N	Min	Max	Mean	SD
House owners declare the correct monthly residential income every month.	183	1.00	5.00	3.1148	1.37599
Every time I file return on appropriate time as required by law.	183	1.00	5.00	3.1202	1.44373
File a tax return on time is benefit because it saves from fines and penalties.	183	1.00	5.00	3.1749	1.36761
I enjoy paying tax and always I am a tax compliant.	183	1.00	5.00	3.1749	1.38755
I believe that paying house rent tax is important for the growth and development of Pokhara Metropolitan City.	183	1.00	5.00	3.1230	1.35440
Taxpayers Compliance	183	1.20	5.00	3.1415	.93656

Field Survey, 2023

The statements on tax payer's compliance on overall influencing factors shows that the sample respondents are agreed with the influencing factors including in this study. On tax payer's compliance statements on overall influencing factors the mean value shows 3.14 which denotes that the respondents are agreed with tax rate, income levels, fines and penalties, attitude and perceptions and tax knowledge which influence to be a tax compliance.

4.3 Inferential Analysis

Inferential analysis is commonly used in scientific research, social sciences, and business to draw conclusions from data. It is used to test hypotheses, estimate

parameters, and make predictions. Inferential analysis techniques include correlation analysis, regression analysis, and analysis of variance (ANOVA), among others.

4.3.1 Correlation Analysis

Correlation analysis is a statistical method used to examine the relationship between two or more variables. In the case of tax compliance, correlation analysis can be used to investigate the relationship between compliance behavior (dependent variable) and various independent variables such as tax rate, income, fines and penalties, attitude and perceptions, and tax knowledge. A study could be conducted to examine the correlation between tax compliance behavior and the tax rate. Similarly, the relationship between compliance behavior and other independent variables such as tax rate, income, fines and penalties, attitude and perceptions, and tax knowledge was examined. The results of the correlation analysis would provide insights into which factors are most strongly associated with tax compliance behavior and could inform strategies for improving compliance rates.

Table 4. 8
Correlation Matrix (N=183)

		TC	TAXR	INC	FP	AP	TK
TC	Pearson Correlation	1	.864**	.835**	.848**	.828**	.766**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
TAXR	Pearson Correlation		1	.812**	.887**	.865**	.769**
	Sig. (2-tailed)			.000	.000	.000	.000
INC	Pearson Correlation			1	.857**	.808**	.728**
	Sig. (2-tailed)				.000	.000	.000
FP	Pearson Correlation				1	.872**	.772**
	Sig. (2-tailed)					.000	.000
AP	Pearson Correlation					1	.784**
	Sig. (2-tailed)						.000
TK	Pearson Correlation						1
	Sig. (2-tailed)						

Note: **. Correlation is significant at the 0.01 level

The correlation analysis suggests a strong positive relationship between tax compliance (dependent variable) and all the independent variables: Tax rate, income, fines and penalties, attitude and perceptions, and tax knowledge. The correlation coefficients indicate that tax rate (.864**), fines and penalties (.848**), attitude and perceptions (.828**), and income (.835**) have a slightly higher positive correlation with tax

compliance than tax knowledge (.766**). The p-values indicate that all the correlations are statistically significant ($p < .001$), meaning that the observed relationships are unlikely to have occurred by chance.

Therefore, the results suggest that tax compliance is positively associated with tax rate, fines and penalties, attitude and perceptions, income, and tax knowledge. This means that as tax rates increase, taxpayers are more likely to comply with tax laws. Similarly, if taxpayers perceive that the government is strict in enforcing penalties and fines for noncompliance, they may be more likely to comply. A positive attitude towards paying taxes and higher income are also associated with greater tax compliance. Finally, tax knowledge is also positively related to compliance, suggesting that better understanding of tax laws and regulations may lead to greater compliance.

4.3.2 Regression Analysis

Regression analysis is a statistical method used to examine the relationship between a dependent variable and one or more independent variables. In the context of tax compliance, regression analysis can be used to examine the relationship between tax payers' compliance behavior and several independent variables, including tax rate, income, fines and penalties, attitude and perceptions, and tax knowledge. Similarly, the researcher can assess the impact of income on compliance, accounting for the influence of other variables. By using regression analysis, researchers can identify which factors have the most significant impact on tax compliance and determine which policies are likely to increase compliance.

Table 4. 9
Regression Results

Variables	Beta Value	P Value	VIF
Tax Rate	.411	.000	5.826
Income	.292	.000	4.120
Fines and Penalties	.101	.263	7.200
Attitude and Perceptions	.116	.174	5.498
Tax Knowledge	.161	.024	2.947
F Value	154.471	.000 ^b	-
R ²	0.814 (81.4%)		
Durbin Watson	1.834		

The R^2 indicates that the independent variables (tax rate, income, fines and penalties, attitude and perceptions, and tax knowledge) collectively explain a significant proportion of the variance in tax compliance (dependent variable). The coefficient of determination (r-squared) value of 0.814 indicates that approximately 81.4% of the variation in tax compliance can be explained by the independent variables in the model. This suggests that the model is a good fit and has high predictive power. The Durbin-Watson statistic of 1.834 is between the range of 1.5 and 2.5, indicating that there is no significant autocorrelation present in the model residuals. Overall, the model summary suggests that tax rate, income, fines and penalties, attitude and perceptions, and tax knowledge are important predictors of tax compliance. The model has good explanatory power and is not overfitting the data.

The F-value of 154.471 and the associated p-value of 0.000 indicate that the model is statistically significant, suggesting that at least one of the independent variables has a significant relationship with tax compliance. The F value suggests that the regression model, which includes tax rate, income, fines and penalties, attitude and perceptions, and tax knowledge as independent variables, has a significant relationship with tax compliance. The independent variables together explain a significant proportion of the variation in tax compliance, while the residuals represent the unexplained variation in tax compliance.

The beta value of .411 for tax rate suggests that as tax rates increase, tax payer compliance also tends to increase, while controlling for other factors. The beta value of .292 for income suggests that as income increases, tax payer compliance also tends to increase, while controlling for other factors. The beta value of .101 for fines and penalties suggests that the effect of fines and penalties on tax payer compliance is not statistically significant at the 5% level. The beta value of .116 for attitude and perceptions suggests that as positive attitudes and perceptions towards taxes increase, tax payer compliance also tends to increase, while controlling for other factors. The beta value of .161 for tax knowledge suggests that as tax knowledge increases, tax payer compliance also tends to increase, while controlling for other factors.

The p-values indicate the level of statistical significance of each independent variable in predicting the dependent variable. A p-value of .000 for tax rate and income indicates that these variables are statistically significant predictors of tax payer compliance at the

5% level. The p-value of .024 for tax knowledge indicates that it is a statistically significant predictor of tax payer compliance at the 5% level. However, fines and penalties and attitude and perceptions are not statistically significant predictors of tax payer compliance at the 5% level, as indicated by their p-values of .263 and .174, respectively.

The VIF (variance inflation factor) values indicate the level of multicollinearity among the independent variables. VIF values greater than 10 indicate the presence of multicollinearity. In this case, all the VIF values are less than 10, which suggests that there is no serious multicollinearity among the independent variables.

4.4 Major Findings

- House owners in Pokhara Metropolitan City generally show agreement and satisfaction with the house rent tax rate, with a mean value of 3.34 and a relatively low standard deviation of 1.17975, indicating little variation in their opinions.
- The descriptive statistics of income level for five statements in Pokhara Metropolitan City suggest that there is some variability in the income levels of taxpayers, with mean values ranging from 3.1749 to 3.3552 and an overall mean of 3.2601, along with a standard deviation ranging from 1.31331 to 1.47678 and an overall standard deviation of 0.90887.
- The descriptive statistics of fines and penalties for five statements in Pokhara Metropolitan City suggest that there is some variability in the penalties and fines imposed on taxpayers, with mean values ranging from 3.1749 to 3.2951 and an overall mean of 3.2372, along with a standard deviation ranging from 1.2968 to 1.41786 and an overall standard deviation of 0.90925.
- The descriptive statistics of attitude and perceptions factors that influence tax payer's compliance in Pokhara Metropolitan City indicate a total mean value of 3.16, with a mean value for each of the five statements on tax rate ranging from 3.04 to 3.24. The standard deviation for attitude and perceptions ranged from 1.31373 to 1.43623 for the individual statements, and an overall standard deviation of 0.83711, indicating some degree of dispersion around the mean.
- The descriptive statistics of tax knowledge factors that influence tax payer's compliance in Pokhara Metropolitan City indicate a total mean value of 3.04, with a mean value for each of the five statements on tax rate ranging from 2.85 to 3.18.

The standard deviation for tax knowledge ranged from 1.31815 to 1.46582 for the individual statements, and an overall standard deviation of 0.73605, indicating some degree of dispersion around the mean.

- The descriptive statistics of tax payer's compliance on overall influencing factors in Pokhara Metropolitan City indicate a mean value of 3.14, indicating agreement among sample respondents that tax rate, income levels, fines and penalties, attitude and perceptions, and tax knowledge have an impact on tax compliance.
- The correlation analysis reveals a strong positive relationship between tax compliance (dependent variable) and all independent variables: Tax rate ($r = .864^{**}$, $p < .001$), income ($r = .835^{**}$, $p < .001$), fines and penalties ($r = .848^{**}$, $p < .001$), attitude and perceptions ($r = .828^{**}$, $p < .001$), and tax knowledge ($r = .766^{**}$, $p < .001$). These correlation coefficients suggest that tax rate, income, fines and penalties, attitude and perceptions, and tax knowledge have a slightly higher positive correlation with tax compliance than tax knowledge. Moreover, the statistically significant p-values indicate that the observed relationships are unlikely to have occurred by chance.
- The model summary indicates that tax rate, income, fines and penalties, attitude and perceptions, and tax knowledge have a strong collective relationship with tax compliance, explaining approximately 81.4% of the variance in the dependent variable.
- The adjusted r-squared value of 0.808 suggests that the model is robust and not overfitting the data, while the standard error of estimate of 0.41007 indicates the average deviation of predicted values from observed values.
- The Durbin-Watson statistic of 1.834 suggests no significant autocorrelation in the model residuals. Overall, the model has good explanatory power and indicates that the aforementioned independent variables are important predictors of tax compliance.
- The F-value of 154.471 and p-value of 0.000 suggest that at least one independent variable has a significant relationship with tax compliance.
- The regression sum of squares (RSS) value of 129.876 represents the variation in tax compliance explained by the independent variables, while the residual sum of squares (ESS) value of 29.764 represents the unexplained variation in tax compliance.

- The mean square value of 25.975 for the regression and 0.168 for the residuals indicate the average sum of squared errors for the regression and residuals, respectively.
- The beta value of .411 for tax rate suggests that as tax rates increase, tax payer compliance also tends to increase, while controlling for other factors.
- The beta value of .292 for income suggests that as income increases, tax payer compliance also tends to increase, while controlling for other factors.
- The beta value of .101 for fines and penalties suggests that the effect of fines and penalties on tax payer compliance is not statistically significant at the 5% level.
- The beta value of .116 for attitude and perceptions suggests that as positive attitudes and perceptions towards taxes increase, tax payer compliance also tends to increase, while controlling for other factors.
- The beta value of .161 for tax knowledge suggests that as tax knowledge increases, tax payer compliance also tends to increase, while controlling for other factors.
- The p-values indicate the level of statistical significance of each independent variable in predicting the dependent variable. A p-value of .000 for tax rate and income indicates that these variables are statistically significant predictors of tax payer compliance at the 5% level.
- The p-value of .024 for tax knowledge indicates that it is a statistically significant predictor of tax payer compliance at the 5% level.
- Fines and penalties and attitude and perceptions are not statistically significant predictors of tax payer compliance at the 5% level, as indicated by their p-values of .263 and .174, respectively.
- The VIF (variance inflation factor) values indicate the level of multicollinearity among the independent variables. VIF values greater than 10 indicate the presence of multicollinearity. In this case, all the VIF values are less than 10, which suggests that there is no serious multicollinearity among the independent variables.

4.5 Discussions

The main aim of this study is to examine the house rent tax and its compliance among tax payers at Pokhara Metropolitan City. The tax rate has a significant impact on the tax payer's compliance. The respondents agreed that the tax rate plays an important role in their compliance. The standard deviation of tax rates for the five statements

ranged from somewhat dispersed to highly dispersed around the mean, indicating a higher degree of dispersion in the individual statements than in the overall dataset. Overall, the results suggest that the house owners at Pokhara Metropolitan City are satisfied with the house rent tax rate. The descriptive statistics of income level provide a useful snapshot of the income distribution among taxpayers in Pokhara Metropolitan City. While they do not directly measure tax compliance, they can be used to identify potential factors that may influence compliance rates. The descriptive statistics of fines and penalties provide a useful snapshot of the penalties and fines imposed on taxpayers in Pokhara Metropolitan City. While they do not directly measure tax compliance, they can be used to identify potential factors that may influence compliance rates. The influence of attitude and perceptions on tax payer's compliance. The total mean value indicates that respondents agreed that attitude and perceptions have a significant impact on tax compliance. These findings suggest that attitude and perceptions are important factors that influence tax compliance among house owners in Pokhara Metropolitan City.

The correlation analysis conducted revealed that tax compliance has a strong positive relationship with all the independent variables, including tax rate, income, fines and penalties, attitude and perceptions, and tax knowledge. The results indicated that tax rate, fines and penalties, attitude and perceptions, income, and tax knowledge had a slightly higher positive correlation with tax compliance than tax knowledge. Additionally, all correlations were found to be statistically significant, which suggests that the observed relationships are unlikely to have occurred by chance. Overall, the results suggest that tax compliance is positively associated with tax rate, fines and penalties, attitude and perceptions, income, and tax knowledge. This means that as tax rates increase, taxpayers may be more likely to comply with tax laws. Similarly, if taxpayers perceive that the government is strict in enforcing penalties and fines for noncompliance, they may be more likely to comply. Having a positive attitude towards paying taxes and higher income are also associated with greater tax compliance. Finally, having a better understanding of tax laws and regulations may lead to greater compliance, indicating a positive relationship between tax knowledge and compliance.

The beta values indicate the strength and direction of the relationship between each independent variable and tax payer compliance, while controlling for other factors. The beta value for tax rate suggests that an increase in tax rates is associated with an

increase in tax payer compliance. Similarly, the beta value for income suggests that an increase in income is associated with an increase in tax payer compliance. However, the beta value for fines and penalties indicates that the effect of these penalties on tax payer compliance is not statistically significant. The beta value for attitude and perceptions suggests that a positive attitude towards paying taxes is associated with an increase in tax payer compliance. Finally, the beta value for tax knowledge indicates that greater understanding of tax laws and regulations is associated with greater tax payer compliance. The p-values indicate the level of statistical significance of each independent variable in predicting the dependent variable. A p-value for tax rate and income indicates that these variables are highly significant predictors of tax payer compliance. The p-value for tax knowledge indicates that it is a significant predictor of tax payer compliance, but to a lesser degree than tax rate and income. However, fines and penalties and attitude and perceptions are not statistically significant predictors of tax payer compliance. This result is consistent with the empirical findings of Musau (2014), Mushingi et al. (2021), Tiwari (2021) and Chindengwike and Kira (2022).

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This study focuses on understanding the level of compliance with rental income tax among property owners in Pokhara Metropolitan City. The research seeks to investigate the extent to which property owners are adhering to tax regulations and the factors that influence their compliance behavior. Specifically, the study aims to identify the key determinants of tax compliance among property owners, including tax rates, income levels, fines and penalties, attitude and perceptions towards tax compliance, and tax knowledge.

This study utilized a primary data collection method to gather information on tax payer compliance among rental income taxpayers in Pokhara Metropolitan city. The sampling method used was non-probability quota sampling method, which involved selecting 183 sample respondents from different wards in Pokhara Metropolitan City, ensuring that at least five respondents were selected from each ward and more six respondents each from the three wards i.e., ward no. 9, 11 and 17. The sample was stratified by relevant demographic characteristics such as ward number, to ensure that the sample was representative of the population. A pre-structured questionnaire was utilized to collect data from the respondents, and the data was analyzed using statistical tools. The primary data collected from the respondents was analyzed using statistical tools such as mean, standard deviation, and regression analysis.

The findings of the study showed that Tax rate, income, fines and penalties, attitude and perceptions, and tax knowledge. The correlation coefficients indicate that tax rate (.864**), fines and penalties (.848**), attitude and perceptions (.828**), and income (.835**) have a slightly higher positive correlation with tax compliance than tax knowledge (.766**). The p-values indicate that all the correlations are statistically significant ($p < .001$), meaning that the observed relationships are unlikely to have occurred by chance. The beta value of .411 for tax rate suggests that as tax rates increase, tax payer compliance also tends to increase, while controlling for other factors. The beta value of .292 for income suggests that as income increases, tax payer

compliance also tends to increase, while controlling for other factors. The beta value of .101 for fines and penalties suggests that the effect of fines and penalties on tax payer compliance is not statistically significant at the 5% level. The beta value of .116 for attitude and perceptions suggests that as positive attitudes and perceptions towards taxes increase, tax payer compliance also tends to increase, while controlling for other factors. The beta value of .161 for tax knowledge suggests that as tax knowledge increases, tax payer compliance also tends to increase, while controlling for other factors.

In many countries, tax authorities are facing the challenge of maintaining high-quality and efficient tax revenue collection despite budget cuts. To address this challenge, there is a need to improve tax compliance while reducing the costs of tax administration. One approach is to automate controls and audit selection of taxpayers since audits can be costly. This paper highlights the lack of awareness of tax regulations as a factor that contributes to tax evasion. Moreover, we observe a causal relationship between tax rates and tax evasion. Taxpayers typically correct the type of tax evasion that we directly identify in tax returns approved by the tax administration. Misreporting is more likely to occur with greater complexity and with a lower probability of detection. Tax authorities' relatively low detection rate may be due to their slow adjustment in enforcement and audit strategies following the implementation of new tax rules and forms.

House rent tax compliance in Nepal refers to the level of adherence or obedience to the tax laws and regulations regarding the taxation of rental income from properties. According to the Income Tax Act of Nepal, individuals and entities earning rental income from properties are required to pay house rent tax. The tax rate varies based on the amount of rental income earned, and failure to comply with the tax laws and regulations can result in penalties and fines. However, the level of compliance with house rent tax in Nepal is a subject of debate, as many property owners may not be aware of their tax obligations, or may deliberately avoid paying taxes on their rental income. The Nepalese government has been implementing various measures to improve house rent tax compliance, such as awareness campaigns, simplification of tax forms and procedures, and stricter enforcement of tax laws and regulations.

5.2 Conclusion

From the findings and discussion of the study it can be concluded that the tax rate is an important factor that affects tax payer compliance, and house owners in Pokhara Metropolitan City are generally satisfied with the house rent tax rate. Descriptive statistics of income level and fines and penalties can be used to identify potential factors that influence tax compliance rates. Additionally, the study found that attitude and perceptions have a significant impact on tax compliance among house owners in Pokhara Metropolitan City. Overall, these findings suggest that tax authorities should consider the tax rate and taxpayer attitudes and perceptions when designing and implementing tax policies and enforcement strategies.

Based on the correlation analysis, it can be concluded that tax compliance has a strong positive relationship with all the independent variables, including tax rate, income, fines and penalties, attitude and perceptions, and tax knowledge. The results of the correlation analysis indicate that tax rate, fines and penalties, attitude and perceptions, income, and tax knowledge are all positively associated with tax compliance. This means that as these factors increase, taxpayers may be more likely to comply with tax laws. Additionally, all correlations were found to be statistically significant, indicating that the observed relationships are unlikely to have occurred by chance. These findings suggest that tax authorities should focus on increasing tax knowledge, improving attitudes and perceptions towards taxes, enforcing penalties and fines strictly, and setting appropriate tax rates to encourage greater tax compliance. Overall, these results can help inform the development of effective tax policies and enforcement strategies aimed at improving tax compliance among taxpayers.

Based on the regression analysis, it can be concluded that tax rate, income, and tax knowledge are significant predictors of tax payer compliance, while fines and penalties and attitude and perceptions are not statistically significant predictors. An increase in tax rates and income is associated with an increase in tax payer compliance, while a greater understanding of tax laws and regulations is also associated with greater tax payer compliance. However, fines and penalties and attitude and perceptions do not have a statistically significant impact on tax payer compliance. The p-values support the significance of tax rate, income, and tax knowledge in predicting tax payer compliance, while fines and penalties and attitude and perceptions do not have significant predictive power.

5.3 Recommendations

Based on the findings and conclusion of the study, the following recommendations were made.

- The study found that tax knowledge significantly influences rental income tax compliance by property owners. Based on study finding, to create awareness on rental income tax compliance by property owners.
- The study also found that attitude and perception towards the tax authority influences compliance of rental income tax by property owners. The study therefore recommends that the Pokhara Metropolitan need to develop effective policies to develop a positive relationship and trust with taxpayers since this would encourage tax compliance.
- The study further established that punitive fines and penalties encourage compliance with rental income tax by property owners. The study therefore recommends that the tax Pokhara Metropolitan should revise its fines and penalties to make them more severe to encourage tax compliance.
- This study collected data from property owners to establish the various factors which influence compliance with rental income tax. Thus, this study recommends a similar study, which incorporates the views of the Pokhara Metropolitan to establish the factors behind rental income tax non-compliance by property owners.
- The study found that the considered research variables explain 81.4% of variation in rental income tax compliance by property owners thus the study recommends an additional study on the other factors that influence compliance of rental income tax by house owners.

APPENDIX: I

Research Questionnaire

Dear Respondents,

As a researcher conducting a survey **Determinants of Tax Compliance among Rental Income Earners at Pokhara Metropolitan**, your participation is greatly appreciated. The information you provide on this questionnaire will be kept confidential and used solely for research purposes. Your truthful and accurate responses are essential to the completion of this project.

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Part A Customers Profile

1. Gender

- Male
- Female

2. Age Group

- 20-30
- 30-40
- 40-50
- 50 and above

3. Education

- SLC
- +2
- Bachelor Degree
- Masters and above

4.What is Your occupation status?

- Employed
- Businessperson

5. How long have you own this house?

- Less than four years
- Four to ten years
- Ten to twenty years
- More than twenty years

6. What is your monthly Income from rent?

- Less than 30,000
- 30,000-50,000
- 50,000-100,000
- Above 100,000

PART B Statement on Rental Income Tax and Its Compliance Among Taxpayers at Pokhara

Below are some of the possible factors that might influence the tax payer’s compliance.

To what extend do you get satisfied with the below factors.

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

Statements		SD	D	N	A	SA
(A) Tax Rate						
TR1	Calculating tax on gross rental income is simpler for house owners compared to net rental income.					
TR2	The well-organized tax system implemented by the Pokhara Metropolitan City has made it easier for house owners to pay their rental income tax promptly.					

TR3	The current tax rate for house rent is reasonable and just for house owners in Pokhara Metropolitan City.					
TR4	The lower tax rate has encouraged house owners to comply with their tax obligations.					
TR5	With the tax collection and enforcement measures taken by Pokhara Metropolitan City to ensure compliance with house rent tax					
(B) Income						
IL1	With the level of house rent income the tax rate should be differ.					
IL2	House owners with low rental income levels are more likely to be non-compliant.					
IL3	House owners with very low rental income should not be taxed.					
IL4	The tax rate on house rent tax should be reduced for individuals with low income.					
IL5	I believe that compliance with house rent tax is essential, regardless of my income level.					
(C) Fines and Penalties						
FP1	Tax penalty and fines majorly affect the house owners for residential income tax compliance.					
FP2	Fines and penalties on house rent tax encourages tax payers to submit the tax on time					
FP3	The fear of fines and penalties is a significant motivator for me to comply with house rent tax.					

FP4	Fines and penalties for non-compliance with house rent tax are unfair to individuals with low income.					
FP5	Fines and penalties for non-compliance with house rent tax are effective in encouraging compliance.					
(D) Attitude and Perceptions						
AP1	Payment of rental income taxes is perceived by house owners as contribution to economic growth.					
AP2	The government should provide more incentives for individuals who pay their house rent tax on time.					
AP3	The government has put taxpayer's money into good use					
AP4	I think that other taxpayers should also pay their house rent tax to maintain fairness in the system.					
AP5	I believe that the government uses the revenue from house rent tax for public welfare.					
(E) Tax Knowledge						
TK1	I am familiar with the deductions and exemptions that apply to house rent tax.					
TK2	Most of the tax payers are familiar with online tax payer portal.					
TK3	I am aware of the consequences of filing incorrect or incomplete house rent tax returns.					

TK4	Effective tax education can change the attitude and perception of property owner towards tax compliance					
TK5	I have received sufficient information or education about house rent tax from the government.					
(F) Tax Payers Compliance						
TPC1	House owners declare the correct monthly residential income every month.					
TPC2	Every time I file return on appropriate time as required by law.					
TPC3	File a tax return on time is benefit because it saves from fines and penalties.					
TPC4	I enjoy paying tax and always I am a tax compliant.					
TPC5	I believe that paying house rent tax is important for the growth and development of Pokhara Metropolitan City.					

THANK YOU

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