

TAX AWARENESS AND QUALITY OF SERVICES ON TAX COMPLIANCE OF RATNANAGAR MUNICIPALITY.

Narayan Babu Shrestha

narayansth@gmail.com

Assistant Lecturer, Shaheed Smriti Multiple Campus Ratnanagar, Chitwan

Abstract

The study examines the effect of tax payers' awareness and quality of service provided by the local government on tax compliance in Ratnanagar Municipality. The descriptive and explanatory research design has been used to collect primary data through questionnaire. In this study 151 taxpayers, approximately 5% of total population were taken as sample from 16070 households of 16 wards by using convenience sampling method. The data were collected through the five-point Likert scale questionnaire analyzed with the help of SPSS software. The result revealed that tax payers' awareness and the quality of service provided by local government have a positive and statistically significant relation with tax compliance. In general, increased tax awareness and the provision of quality services by the local government to the tax payers can lead to higher tax compliance.

Keywords: *Tax Awareness, Quality Service, Tax Compliance and Local Government*

1. Introduction

Economic growth is generally given top attention in developing country. The amount of money required for developing is relatively high, and it has become more expensive with time. The government should be responsible for the nation and their people. So, government should perform various welfare activities for the betterment of its people and nation. Keeping their common interest at the focal points, government is to perform various developmental works like maintaining peace and security, creating employment opportunities, handling day to day administration works and launching other public welfare activities. Governments require huge funds to meet their targets, which can be collected through debt, revenue and foreign assistance. Debt comes from external loans, while revenue comes from tax and non-tax sources. Tax collection is a major task, if not collected, the government may face problems.

A tax is a payment made to the government by an individual or entity. It is a type of money that every citizen of the country is required by law to pay honestly without expecting anything in return. It is a monetary charge or levy levied on the local government. It is levied on a person's earnings, property, and commodities. Tax is

computed and paid at regular intervals in accordance with the law. If a person refuses to pay his/her taxes, he may face legal consequences. Buehler and Muhtada (2016), a mandatory contribution to public authorities to cover general government expenses incurred for the public good and without regard to special benefit.

Tax awareness refers to an individual's understanding and knowledge of tax laws, regulations, and policies. It includes the knowledge of how taxes are calculated, filed, and paid, as well as an understanding of own's rights and responsibilities as a taxpayer, tax awareness also includes understanding of the different types of taxes that may apply such as income taxes, value added tax and properly taxes, and how they impact individuals and businesses.

Additionally, tax awareness can also refer to the understanding of those implications of various financial decisions, such as saving, investing and spending. Being tax awareness can help individuals and business make informed decisions and ensure compliance with tax laws.

According to Sawitri et al. (2017) quality of service for taxpayers provided by local government can vary depending on a number of factors, including the resources and funding available the level of expertise and training of staff, and the level of technology and automation in place. In general, local governments that have adequate funding and resources, well-trained staff, and up-to-date technology are better equipped to provide high-quality service to taxpayers. Additionally local governments that prioritize transparency, accessibility, and customer services are more likely to provide positive experience for taxpayers. However, in some cases local governments may struggle to provide high quality service due to budget constraints, outdated system, or other challenges. A human or person who seeks to meet the needs and desires of consumers and the accuracy of delivery in offsetting consumer expectations is referred to as quality of service (Asrinanda, 2018). Service is how to serve by assisting in the management or preparation of all necessary items. Fiscal services can be defined as how tax officers assist taxpayers in managing or preparing all of their needs.

Yuesti et al. (2019) quality of service is a human or person who seeks to meet the needs and desires of consumers and the accuracy of delivery in offsetting consumer expectations. Service is how to serve by helping to manage or prepare all the things needed. Fiscal services can be interpreted as how tax officers help manage or prepare all the needs needed by taxpayers (Sawitri et al., 2017).

Tax compliance means observing to the tax laws of a given nation and paying tax immediately without any delay which led to heavy penalties being levied or threatened. Any difference between the real number of taxes collected and the amount of tax owed is known as non-tax enforcement. Non-tax enforcement involves both deliberate avoidance and accidental on-compliance owing to mistakes in estimation and poor knowledge of tax laws.

Having people pay their taxes without hesitation is a goal that policymakers have never achieved (Muturi & Kiarie, 2015). According to Andreoni et al. (1998), there are three types of factors that influence income tax compliance: economic determinants, socio-demographic determinants, and socio-psychological determinants.

Economic determinants include the tax rate, the penalties for evasion and the likelihood of audit and socio-demographic determinants of age, gender and education. Tax compliance is to submit the required tax information and report them in a timely manner and without enforcement action the correct assessment of the tax owed and to pay this tax in time.

Ratnanagar is a municipality in the Chitwan district of Nepal, with a population of 83,000 people in 16 wards. Tax compliance is a challenge due to lack of awareness, poor enforcement, and corruption, but the government is implementing initiatives to improve it. In most cases, taxpayers have been caught with penalties for failure to comply with tax laws, on which most of the taxpayers complain that they are not aware of this procedure

2. Literature review

Tax compliance is a critical component of any functioning economy. It is the act of adhering to tax laws and fulfilling tax obligations. Because governments rely on tax revenue to fund public services and initiatives, tax compliance is a societal issue. This review of the literature investigates the relationship between tax awareness, quality service, and tax compliance. The review aims to provide insights into how increasing tax awareness and providing quality service can influence the compliance behavior of individuals and businesses.

2.1 Taxpayer awareness

According to Handoko et al. (2020), taxpayer awareness is the taxpayer's behavior in the form of views or perceptions involving beliefs, knowledge, and reasoning, as well as the tendency to act in accordance with the stimulus or stimulus provided by the system and the applicable taxation provisions. Taxpayers' willingness to pay taxes and file tax returns, as well as their level of order and discipline in paying taxes, are indicators of taxpayer awareness (Kastlunger et al., 2009).

2.2 Quality of service

Alm et al. (1995) taxpayers in the United States and Canada tended to have a higher level of satisfaction with the QoS provided by their tax compliance agencies than taxpayers in developing countries. Dronca (2016) found that the quality of service provided by tax compliance agencies in Latin America tended to be lower than that provided in developed countries. Nugroho and Zulaikha (2012) concluded that quality services have a positive effect on awareness of paying taxes, then the variable of paying taxes has a positive effect on willingness to pay taxes.

2.3 Tax compliance

According to Kurniawan (2020) examines the factors that influence tax compliance in Nepal using data from a survey of taxpayers. The study finds that factors such as the perceived fairness of the tax system, the perceived effectiveness of the tax administration, and the level of trust in government institutions are positively associated with tax compliance. The study also finds that factors such as the level of economic development and education, as well as cultural and societal norms and values, are also positively associated with tax compliance.

2.4 Hypothesis

Tax compliance is an essential aspect of government revenue collection and economic stability. Factors such as the quality of service provided by local government and the level of tax awareness among taxpayers can influence the level of compliance.

The following hypothesis are set to find the relationship between these variables.

H₁: There is significant impact of level of tax awareness among taxpayers on compliance rate.

H₂: There is a significance relationship between quality service provided by local government with tax compliance.

3. Methodology

The article applies a descriptive and explanatory research design with a quantitative approach. Explanatory research collects data in order to explain the causal relationship between variables through hypothesis testing so that a conclusion can be reached. The survey method was used in this study, with the research object being Individual Taxpayer Compliance in the Tax Department in Ratnannagar Municipality. In this study 16070 total households of Ratnanagar Municipality were considered as a population. It was taken 151 taxpayers by suing convenience sampling method, approximately 5% of total population as a sample to conduct research on effect of tax awareness and quality services provided by local government on tax compliance. The primary data collected through the questionnaire were analyzed and interpreted with the help of MS Excel and Statistical Program for Social Science, (SPSS 26). Cronbach alfa was used to test the reliability of the items in the questionnaire.

Reliability test

Reliability tests measure the consistency and stability of a system or process over time. Cronbach's alpha was tested for the reliability test of each variable.

Table 1

Reliability score

Reliability score	Result
≥ 0.9	Excellent
≥ 0.8	Good
≥ 0.7	Acceptable
≥ 0.6	Questionable
≥ 0.5	Poor
≤ 0.5	Unacceptable

Source: George and Mallery (2018)

Therefore, the Cronbach's alpha was tested on every question item of each variable for reliability of data as follows:

From the Table 2, the overall reliability test result of the study variables is 0.754 which is more than 0.7, so this Cronbach's alpha value

Table 2

Reliability Test

Variables	No of items	Cronbach's alpha value
Tax Awareness	6	0.787
Quality Service	6	0.842
Tax Compliance	5	0.634
Overall	17	0.754

sources:

is acceptable or reliable. The reliability of individual items of the study variables are acceptable or reliable which are shown in annex.

Result and discussion

From the demographic result there were 68% male and 32% female respondents. Which indicates that the most of the taxpayers of every household was male in Ratnanagar Municipality. It shows that still women are less participation in involving outside activities in the Nepalese society.

Concerning the age of respondents, the highest 35.3% respondents were in age group of 18-25, whereas lowest participant in age group of above 50. In general, the study result shows that almost taxpayers were between 18-41 years age group.

According to the survey results on the marital status of the sampled respondents, there were a significant number of married respondents (56%), and there were approximately 40.7% single respondents. According to the outcome, most taxpayers in the research area were married.

Regarding respondents' educational backgrounds, the study's findings show that roughly 45.3% of sampled taxpayers held a master's degree or more, followed by 42% of respondents with a bachelor's degree. The findings showed that 87.3 percent of respondents had higher education than a bachelor's degree. As a result, it presents a chance for taxpayers to comprehend the conditions necessary for tax compliance.

Concerning to the profession of sampled taxpayers in the study area, Table 3 shows that the tax payers (36%) of respondents were students. Similarly, about 21.3% and 18% of the respondents were private servant and others. This implies that the majority of taxpayers in the study area had students and private servant. It indicates that the local government can provide the knowledge about the taxation in the educational institutions

Data collected using a five-point Likert scale are analyzed in this subtopic. Two independent variables, such as tax payers' awareness and the quality of service

provided by local government, and one dependent variable, tax compliance, were identified (Witte & Woodbury, 1985). To simplify the analysis, the researcher used proposed mean score range techniques, where the mean score was between 4.2 to 5.0 is strongly agree, agreeing if the mean score was greater than 3.4., neutral if the mean score was between 2.60 and 3.39, disagreeing if the mean score was between 1.00 and 2.59 and 1.0 to 1.79 is strongly disagree respectively. Based on these classifications, the interpretations of all Likert scale items, such as tax payer's awareness, quality of service provided by local government, and tax compliance, were presented as follows:

Table 3

Descriptive Analysis of Likert Scale Question

Variables	Minimum	Maximum	Mean	Std. Deviation
Tax awareness	1.5	5	3.57	0.60636
Quality service	1.5	5	3.07	0.7254
Tax compliance	2.2	5	3.82	0.50858

Sources: SPSS output

From the Table 3 the mean score of level of taxpayers' awareness was 3.568 with a standard deviation of 0.606. It indicates that the understand level of tax awareness in existing and changing tax laws, regulation and provisions and process of documentation for tax file and return seems satisfactory. Likewise, the tax compliance of local government authorities mean score was 3.82. which indicates that the taxpayer's willingness and capacity to comply with tax laws and the most of the taxpayers paid tax with honestly and fairly within the deadline also seems satisfactory. However, quality of services provided by local government authorities was not enough (Mean = 3.07). The key informants also stated that because the majority of the taxpayers had experienced, they are not having good quality services concerns with knowledge and information related to tax laws, regulation and provisions and services provided by the local authorities is less than satisfactory level in Ratnanagar Municipality.

Multicollinearity test and other regression analysis.

Table 4

Regression Analysis

Model	Constant	TA	QS	R ²	F	P	VIF
1	2.867	0.267		0.101	16.696	0	1
	-12.124	(4.086)**					

2	3.2		0.202	0.083	13.371	0	1
	-18.385		(3.657)**				
3	2.576	0.152	0.218	0.145	12.483	0	1.08
	-10.115	(2.745)*	(3.274)*				

Sources: Annex-IV

Note:

Figures in parenthesis are t-value.

**Significant at 5 percent level*

***Significant at 1 percent level*

TA-Tax awareness, QS- Quality service

The regression coefficient table contains multicollinearity statistics, which are related to the degree of correlation between independent variables. If there is a high correlation between two independent variables, the regression model assumes redundancy of one of these variables, lowering its significance and negatively affecting its coefficient. Tolerance and Variance Inflation Factor are used to evaluate the problem (VIF). A tolerance of $>.10$ and a $VIF < 5$ are considered adequate for mitigating the effects of multicollinearity (Whicker & Miller, 1999). As a result, the result implies that higher correlation between two independent variables has no effect on the regression model. It indicates that there is no multicollinearity between independent variables, level of taxpayer's awareness and quality service provided by Ratnanagar municipality.

The value of R in the model summary of multiple linear regression analysis was 0.381, indicating a moderate degree of relationship between independent and dependent variables. The adjusted R^2 value of the regression model was 0.145, indicating that the level of taxpayer awareness and the quality of service provided by Ratnanagar Municipality explained 14.5% of the variance in tax compliances. Other variables outside the model influence the remaining variance.

Concerning the multiple regression model, which indicates that the multiple regression model itself is statistically significant or not significant. According to the results of the ANOVA table, the model is statistically significant when the level of taxpayer awareness and the quality of service provided by Ratnanagar Municipality are included ($F(2, 147) = 12.483, p < 0.001$). This meant that the overall model of equation was statistically significant. Based on the regression result the following regression equation is formed:

Tax compliance = $12.879 + 0.127 \times \text{Tax Payers' Awareness} + 1.08 \times \text{Quality Service} + e$

From the equation the impact on tax compliance due to tax payers' awareness and quality of service are found to be significant. The hypothesis developed were tested as below.

H₁ there is significant impact of level of tax awareness among taxpayers on compliance rate.

The effect on tax compliance by the level of tax awareness among taxpayers was found to be positive and significant ($\beta=0.127$, $p<.001$) and implies that a one-unit change in level of tax payers' awareness leads to change in tax compliance by 0.127 units.

According to Asrinanda (2018)'s research, the results of the research for tax awareness variables obtained partially have a significant and positive impact on taxpayer compliance. The positive direction indicates that the higher the level of tax awareness, the higher the level of taxpayer compliance, and the lower the level of tax awareness, the lower the level of taxpayer compliance. Taxpayer awareness is linked to tax knowledge; once a person understands taxation, he or she will pay taxes consciously and voluntarily without being coerced. Individuals with a high level of tax knowledge understand how taxes work in terms of both societal and individual benefits. As a result, the greater taxpayer awareness, the greater the intention to faithfully pay BPHTB taxes.

These findings are in accordance with research conducted by Asrinanda (2018), the results of the research for tax awareness variables obtained partially have a significant and positive impact on taxpayer compliance. The positive direction indicates that the higher the awareness of taxation, the higher the taxpayer compliance and the lower the tax awareness, the lower the taxpayer compliance. Taxpayer awareness is linked to tax knowledge; once a person has a good understanding of taxation, he or she will act consciously and voluntarily to pay taxes without being coerced. People with a high level of tax knowledge will grasp how taxes work, both in terms of societal and individual benefits. As a result, the greater taxpayer awareness, the greater the intention to pay BPHTB taxes faithfully (Soewardi & Ananda, 2015). H₂: There is a significance relationship between quality service provided by local government with tax compliance.

Regarding quality service provided by local government, Table 4.5 shows that quality service provided by local government has positive and significant relationship with tax compliances. Therefore, the null hypothesis which states quality service has no significant effect on tax compliance is rejected and the alternative hypothesis is accepted. The results of the beta coefficient ($\beta= 1.088$, $p> 0.001$) indicates that a one-unit change in quality of service provided by local government leads to change in tax compliance by 1.088 units.

The results of the influence analysis using structural models show that tax service quality has a significant positive effect on tax compliance. This demonstrates that improving the quality of tax services can lead to increased tax compliance. Taxpayer compliance in fulfilling the obligation to pay taxes is determined by how tax officers provide the best quality service to taxpayers (Alm et al., 1995).

Furthermore, the findings of this study support the attribution theory, which explains the quality of tax services by stating that if the service quality provided by tax authorities is good and very satisfying to taxpayers, the taxpayer's perception in carrying out his tax obligations becomes positive or towards the good, and the taxpayer will always be obedient in carrying out his tax obligations. This could be the justification for taxpayers complying with their tax obligations related to the quality of tax authorities' services.

Conclusion

The level of tax payer awareness and the quality of service provided by local government both influenced tax payer compliance. Being aware of any changes in existing tax laws, regulations, and provisions, laws, and regulations relating to income tax, processing and requiring documents for tax payment, completing and filing tax return forms without any problems, knowing when tax return is paid, knowing what will happen if tax return is late or fails to file, and knowing the exact day of tax return all have a significant impact on taxpayers' tax compliance. Similarly, being able to easily obtain necessary tax information and updates, receiving timely services and responding to any queries when visiting the tax authority before the deadline, knowing the exact time when tax should be paid, and having received training on timely payment of expected tax are all significant determinants of taxpayers' tax compliance.

The level of taxpayer awareness of tax rules and regulations can affect compliance with paying taxes directly or indirectly through awareness of paying taxes. This demonstrates that as taxation knowledge increases through awareness, so will tax compliance. As a result, it can be stated that tax awareness can mediate the influence of tax knowledge on tax compliance. This study's findings back up the Theory of Planned Behavior (TPB) and Attribution Theory.

Quality of service can have a direct impact on tax compliance and can also have an indirect impact on tax compliance through tax awareness. It implies that by improving the quality of services, tax compliance will improve. As a result, it can be stated that tax awareness can mediate the influence of the quality of tax services on tax compliance. This study's findings back up the Theory of Planned Behavior (TPB) and Attribution Theory.

In general, increased tax awareness and the provision of quality services by the local government to the tax payers can lead to higher tax compliance. When individuals are more knowledgeable about their tax obligations and the reasons why paying taxes is important, they are more likely to comply with the tax laws. On the other hand, if the local government provides poor quality services, it can reduce the public's confidence in the government and decrease their motivation to comply with tax laws. Thus, both factors play crucial role in determining tax compliance level. Also, the local government should be responsible towards the society, so it might be performing different welfare activities for the betterment of the peoples and to develop the society. These activities also make trust in the government, perceived fairness of the

tax system and personal values related to civic duty and obligations, which influence self-motivate to comply with the tax laws.

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