Analysis of Tax Compliance Intentions amongst Small Business Owners in Kathmandu Valley: An application of the Theory of Planned Behavior

Umesh Thakur[1], Niranjan Devkota[2], Fanidra Acharya[3], Udaya Raj Paudel[4]

Abstract

Governments heavily rely on tax revenue, imposing taxes on incomes, assets, and products of individuals and entities. However, tax compliance remains a global challenge due to complexities, systemic flaws, and taxpayer ignorance. In Nepal, particularly among small business owners, there is a lack of research on tax compliance intentions. This study aims to understand taxpayers' intentions regarding tax compliance, focusing on small business owners in Kathmandu Valley. The Theory of Planned Behavior (TPB) was employed to measure intentions using structured questionnaires and structural equation modeling (SEM) with SPSS and AMOS software. The study surveyed 200 small business owners, revealing that only 48.38% were aware of their tax compliance intentions. Additionally, 61.5% reported difficulties in paying taxes and criticized the government for insufficient tax awareness initiatives. Despite this, 74.74% believed that staying updated with changing government regulations could help manage tax challenges. The SEM results showed significant correlations between tax compliance intentions and factors like tax morale, tax complexity, and trust in the government. Most small businesses were registered and filed taxes annually, yet their compliance intentions were largely influenced by fear of fines. Furthermore, variables such as attitudes toward paying and avoiding taxes, belief in government, and the complexity of tax procedures also impacted compliance. The study concludes that improving tax services, enforcing more effective penalties, enhancing tax morale, and ensuring information transparency are crucial to facilitating tax compliance among small business owners in Nepal.

Keywords: *Tax Compliance, Small Business Owners, Government, Kathmandu Valley*

1. Introduction

It is essential for all governments, whether rich or developing, to raise appropriate tax revenues (Kaldor, 1965; Burgess & Stern, 1993; Auriol & Warlters, 2005; Arvin et al., 2021; Pradhan et al., 2024). Tax compliance is crucial for success in the tax system, though challenging, as it reflects taxpayers' willingness to fulfill their tax obligations in accordance with existing legislation, within the context of government performance and the public finance system (Rahman, 2017). Historically, taxes began as secondary revenue sources for the state, collected from a small group of individuals.

As far back as 2500 BC, Babylonian tax payments were recorded on cuneiform tablets, with taxes

[1] Quest International College, Pokhara University, Gwarko, Lalitpur, Nepal, Email: umesh19s5@mba.questedu.np (Corresponding Author)

[2] Department of Economics, Patan Multiple Campus, Tribhuvan University, Patandhoka, Lalitpur, Nepal, Email: niranjandevkota@gmail.com

[3] Ministry of Finance, Singha Durbar, Kathmandu, Nepal, Email: fpacharya@gmail.com

[4] Quest International College, Pokhara University, Gwarko, Lalitpur, Nepal, Email: udayapaudel7@gmail.com

paid to and recorded by the temple, which served as both a religious and governmental institution in the theocracy (Samson, 2002). Additionally, tax collection has been a major driving force in the development of countries (Jia & Lin, 2021). Tax records have even been traced back to the time of King Scorpion, who ruled southern Egypt between 3300 and 3200 BC (Maisels, 2003). In 1799, the British government passed the Income Tax Act to raise funds for the war against France. Similarly, the Income Tax Acts were first enacted in the United States in 1862 (Kandel, 2020). In 1909, the U.S. federal government imposed the corporate excise tax, which had the twin objectives of regulating corporations and altering the existing tax structure (Mehrotra, 2010).

In Russia, small businesses make a negligible contribution to the state's financial resources, primarily centered in the service and trade sectors (Zenkov, 2017). Kamleitner et al. (2012) found that Australian small business owners were less supportive of taxpayer money being used for social welfare, unemployment, and health care programs. Similarly, in India, SMEs are considered the principal growth engine of the economy, with about 3 million SMEs accounting for roughly half of the country's industrial output and 42% of overall exports (Deepa, 2021). In Sri Lanka, the SME sector is recognized as a significant driver of inclusive economic growth, yet it faces numerous challenges in surviving, remaining profitable, and expanding operations. Tax compliance in Sri Lanka appears low, as many SMEs fall below the taxation threshold for turnover or income (Kelegama, 2017).

Small businesses benefit the economy not just in terms of job creation and social development, but also through taxation, innovation, and most significantly, economic growth (Temelkov & Samonikov, 2018). However, if the government imposes taxes on SMEs too forcefully, they may face desolation and other losses due to the tax burden. Many SMEs find tax compliance laborious and costly, necessitating a review of tax compliance costs and the overall regulatory tax burden. Given the government's current focus on SMEs and its desire to encourage the sector, tax authorities should be sensitive to SMEs' needs while administering taxes (Kelegama, 2017).

In 1959, Nepal's first elected government passed the Business Profit and Salaries Tax Act of 1960 (Khanal & Bracarense, 2021). The Income Tax Act of 2002 succeeded the Income Tax Act of 1974, which had been revised eight times and was in effect for 28 years (Ghimire, 2017). In 2002, the Nepalese government issued Income Tax Rules 2059, which clarified the Act's aim to increase revenue mobilization for the country's economic development. Khanal (2018) notes that the Nepalese government increased VAT from 10% to 13% on February 15, 2004. As a result, many small businesses have thrived by sticking to a strict budget. However, Subedi (2019) points out that small businesses with revenues of less than 2 million rupees are allowed to register. Due to poor performance, many SME taxpayers do not register and pay taxes willingly, and those who do often fail to maintain proper records, file tax reports, or promptly meet their tax obligations (Dissanayake & Premaratna, 2020).

Paying taxes offers many advantages, and small and medium-sized businesses are particularly crucial to economic growth by creating new jobs and significantly contributing to social development (Fitriasari, 2020). Despite being a low-income nation, Nepal has recently recorded the highest tax-

to-GDP ratio, surpassing Bangladesh, India, Pakistan, and Sri Lanka, all of which have lower tax-to-GDP ratios (ESCAP, 2020). From 2001 to 2013, Nepal's tax-to-GDP ratio grew at an annual rate of more than 73 percent, far exceeding the other four neighboring nations (Murshed & Saadat, 2018). The majority of small-business owners (69%) report paying taxes, while 31% of small businesses near the Sunauli border operate informally (Paudel & Devkota, 2018).

Due to a lack of awareness about tax filing, SMEs require rigorous and comprehensive education, such as socialization, more effective tax corners, seminars on SME taxation, and other activities that promote awareness and understanding of tax requirements (Muis & Putri, 2018). In the context of Nepal, several questions arise from existing studies that need to be addressed: What is the status of small business owners' knowledge of tax compliance? What are their intentions regarding tax compliance? What challenges do taxpayers face? What are the managerial solutions for these challenges?

This research aims to understand tax compliance knowledge among small business owners in Kathmandu Valley by analyzing the determinants of tax compliance intentions, highlighting the opportunities and challenges they face.

Figure 1: Conceptual Framework
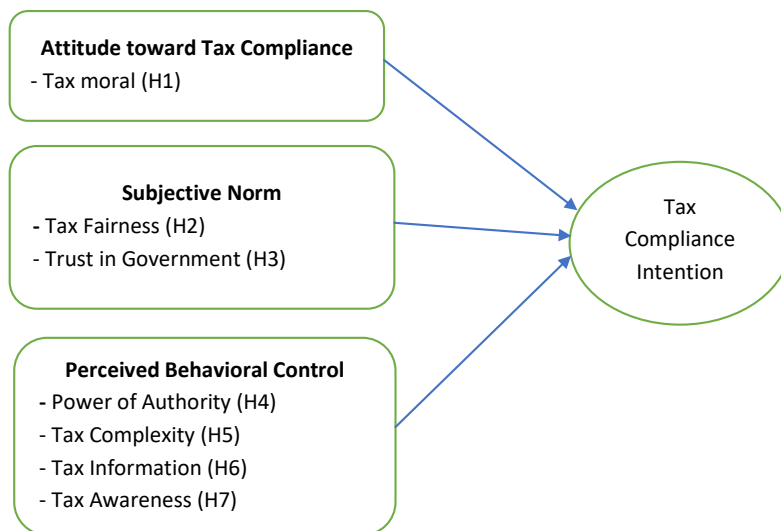
Source: Adapted and Modified from Taing and Chang (2020)

2. Research Methodology

Various theories such as: Socio political theory, expediency theory, theory of planned behavior, benefit received theory, and cost of service theory were discussed in this study. The Social Idea of Taxation is a common theory that asserts that a tax system should be structured to address society's issues as a whole, rather than benefiting individuals. The selection of taxes should be based on

social and political objectives, according to this taxation philosophy(Samuel, 2014). Similarly, expediency theory states the practicality test must be passed by any tax proposal and has to be the only consideration in the eyes of the authorities when deciding on a tax policy (Ogbonna & Appah, 2012). In benefit received theory, According to Anyanfo (1996), taxes should be allocated depending on the benefits obtained from government spending (Samuel, 2014). On the other hand, The Theory of Planned Behavior (TPB) is a common social psychology concept that tries to explain human behavior (Benk et al., 2011)Ajzen's (1991. Therefore, this study opted TPB as the best fit theory for the study of Tax Compliance and when is applied, it shows that attitudes, norms, and perceived behavior control all have an impact on tax compliance intentions (Donna et al., 2007), which also tries to explain the human behavior of Small Business Owners inside the Kathmandu valley.

Hypotheses Formulation

Tax moral

In the field of taxation, there are two moral considerations: (1) As a decent citizen, the taxpayer has a moral duty to fulfill his tax duties and (2) Addressing the taxpayer's moral awareness of the government's tax revenue allocation. Therefore, those with a good moral consciousness in executing their tax duties are distinct from citizens with no moral awareness (Purnamasari & Sudaryo, 2018). Additionally, taxpayers with better morale are more likely to comply with the law, indeed, even in the face of weak tax enforcement, people willingly pay tax due to their intrinsic motive, which is based on the belief that paying tax is a responsibility (Cummings et al., 2009). As a result, the following hypothesis is developed.

(H1): The greater the positive tax morale, the greater the likelihood of tax compliance intention.

Tax Fairness

Taxpayers will pay taxes freely if they believe the taxing authority is treating them properly. The literature has a variety of tax fairness conceptualizations (Benk et al., 2012)middle income earners tax share and tax burden, exchange with the government, tax rate structure, special previsions, tax system equality and inequality. While the previous studies point out significant differences in fairness perceptions among the countries, this study focuses on only the country, Turkey. The basic cause of this outcome is the difficulty in comparing the fairness perceptions due to differences in tax structure, time period, methodology, sample characteristics, and measures used in each (Benk et al., 2012) which is furthermore classified into distributive fairness, procedural fairness, and retributive fairness. The concept of distributive fairness focuses on the equitable allocation of costs and benefits in taxation whereas procedural fairness is referred as fair tax collection among groups of taxpayers. Finally, retributive fairness refers to how taxpayers are treated when coercive authority is used in sanctions and audits (Wenzel, 2003). According to research conducted in Malaysia, procedural fairness has a favorable influence on compliance behavior (Taing & Chang, 2020). To summarize, tax compliance is more likely to occur if taxpayers believe the tax burden is properly allocated among a peer group, leading to the following hypothesis.

(H2): The fairer that people think the tax system is, the greater the likelihood of tax compliance intention.

Trust in Government

Aside from the question of the role of enforcement played by the taxing authority, for taxpayers to pay tax voluntarily, it is necessary that they expect an equivalent fiscal exchange between the taxes they pay and the goods and services the government provides (Koessler, 2019). This relates to how far taxpayers' trust in government influences their tax-compliance decisions. For instance, if taxpayers perceive that tax revenues are effectively used, and the tax administration is open and transparent, they will place more trust in their government and perform compliance behavior. Thus, following hypothesis is proposed in this study.

(H3): With greater trust in government, the likelihood of tax compliance intention will be increases.

Power of Authority

The power of authority indicates the ability of the government to enforce tax compliance, which depends on how the taxing authority treats its citizens using coercive and legitimate power (Taing & Chang, 2021). Similarly, Hofmann et al. (2014) discloses that the power of authority is "the capacity of coercion implementing punishment and prosecution as determinants of tax compliance". Likewise, Kastlunger et al. (2013) finds power has a positive effect on enforced compliance, but enforced compliance then tends to increase the number of tax evaders. Therefore, following hypothesis is developed:

(H4): As the power of authority increases, the likelihood of tax compliance intention increases.

Tax Complexity

A complex tax system may restrict taxpayer likelihood to comply with tax obligations by generating higher compliance costs and barriers for the taxpayer, which decrease compliance preference. Taing and Chang (2021) discloses the tax complexity literature and categorizes the complexity of tax systems into the types "computational, tax forms, compliance cost, rule and procedural". Therefore, the tax system should be simple, expressed in simple and clear tax laws and procedures.

(H5): As the complexity of the tax system decreases, the likelihood of tax compliance intention increases.

Tax Information

Tax information should be accurate, informative, and sufficient; unintentionally non-compliant taxpayers might be unable to find sufficient and accurate information on their tax issue but improving the publicity of tax information could enhance taxpayer awareness (Cui et al., 2022). Likewise, Seno et al. (2021) conducted an experiment on information on tax evasion and tax compliance in several countries and find that when respondents receive positive information on tax compliance, their behavior is not influenced. By contrast, when they receive negative information, such as information asserting a high rate of tax evasion, their rate of non-compliance dramatically increases. Devos and Zackrisson (2015) conduct a comparative study between Australia and Norway, and found that releasing public tax information has a positive impact on tax compliance. Therefore, this study

constructs the following hypothesis.

(H6): When more tax information is available, the likelihood of tax compliance intention increases.

Tax Awareness

Tax awareness refers to taxpayers' understanding of tax laws and regulations on the specific tax issues that relate to them. We assume that higher tax awareness is likely to increase tax compliance. The experiment conducted by Eriksen and Fallan (1996) examines the influence of tax awareness on taxpayer compliance. In it, two groups of bachelor's students are compared, one of which, the control group, is assigned to study marketing, and the other of which, the treatment group, is assigned to study taxation. The study found that students in the treatment group reported a more positive attitude toward tax compliance. Therefore, the following hypothesis is constructed.

(H7): As tax awareness increases, the likelihood of tax compliance intention increases.

Tax Compliance Intention

Tax compliance intention is the dependent variable. To reduce biasness, this study used an indirect question as a variable to assess taxpayer compliance intention. They claim that all small companies in Nepal are paying all taxes required by law freely and completely, that there are no restrictions on business houses that do not register in accordance with government regulations, and that it is incorrect for anybody to refuse to pay taxes.

2.1. Variable Description

The variables and hypotheses for the study are covered in this section. Determined and defined the variables used for the study. However, the following variables may not be the only one used in the study, and the variables needed are taken according to the essence of the study the following is a detailed description of the variables:

Table 1: Variable Description

Construct	Indicators	Variables	Details
Tax Morale (MR)	MR2	Failure in reporting	Tax payers shouldn't underreport tax liability.
	MR4	Obligation	Paying tax is the tax payers' obligation.
	MR5	Ethics	Evading tax is wrong.
Tax Fairness (FN)	FN1	Fair	Tax system fair for average taxpayer.
	FN2	Personal Perspective	Tax system is fair according to personal view.
	FN3	Burden of taxes	Overall, burden of tax fairly distributed.
	FN4	Fairness in tax distribution	Manner in which the tax burden is distributed across taxpayers is fair.

| Construct	Indicators	Variables	Details
Trust in Government (TG)	**TG1**	Utilization of revenues	Government utilizes the government revenues properly
	TG2	Transparency of tax department	Tax department required to be transparent.
	TG3	Transparency of tax officials	Tax officials required to be transparent.
Power of Authority (PA)	**PA1**	Less chance of evasion	Less chance of tax evasion due to authorized body.
	PA4	Tax policy among different level of people	Only literate individuals are targeted by the government's tax strategy.
	PA5	Action of Government	Government takes strict action to those who evade tax.
Tax Complexity (CP)	**CP2**	Not easy to calculate	Proper amount of tax not easy to calculate
	CP3	Complicated procedures	Procedures of tax declarations and tax payment are complicated
	CP4	Time consuming	Lots of time required for paying taxes.
Tax information (IF)	**IF3**	Responsiveness of officials	Clear responses of queries made by tax officials
	IF4	Sufficiency of information	Generally, receive sufficient information about tax issues
	IF5	Updateness of tax issues	Given up to date and relevant information about the tax issues
Tax Awareness (AW)	**AW1**	Knowledge	Know about the tax to pay
	AW2	Type of tax	Know about the type of tax to pay
	AW3	Time to pay	Know about the time to pay the specific type of tax
	AW5	Knowledge of penalty	Know about the penalties for tax evasion
Tax Compliance Intention	**TC1**	Following Rule	We should follow rule as per define by the government.
	TC2	Fulfilment of tax obligation	Every small business in Nepal are fulfilling all tax obligations as specified by the law freely and completely
	TC3	Knowledge of tax compliance	Government is actively working on spreading knowledge of tax compliance among small business owners.

Notes: The items including construct MR1*, MR3*, and MR6* form construct 1; FN5* from construct 2; TG4* and TG5* from construct 3; PA2* and PA3* from construct 4; CP1* and CP5* form construct 5; IF1* and IF2* form construct 6; AW4* form construct 7; TC4* and TC5* form construct 8; were dropped after performing Confirmatory and Exploratory Factor Analysis and these items value remain below 0.5.

2.2. Research Methods

Study Area and Population

The Kathmandu valley is chosen as the research region (figure 2) because many organizations and their head offices are saturated in these cities. The Kathmandu Valley is a 583-square-kilometer bowl-shaped intermontane valley in the center of the Himalayas, with a floor elevation of 1400 meters and surrounding mountains ranging in height from 2000 to 2800 meters. It is situated in Nepal's midhills, halfway between the Ganges Plains and the Tibetan Plateau (Panday & Prinn, 2009). The Kathmandu valley has been home to many significant businesses and has developed into a hub for many commercial and service activities since other parts of the country lack infrastructural development and services. Research will produce more precise and trustworthy information since the Kathmandu valley of Nepal has the highest population density and concentration of key enterprises. Small enterprises that are registered and unregistered that are situated in the Kathmandu valley are regarded as the population. According to Economic Survey 2020/2021 a total of 20,639 business entities have been registered and renewed as of mid-March of fiscal year 2020/21, with 18,986 being private enterprises (Government of Nepal, 2021).

Figure 2: Study Area
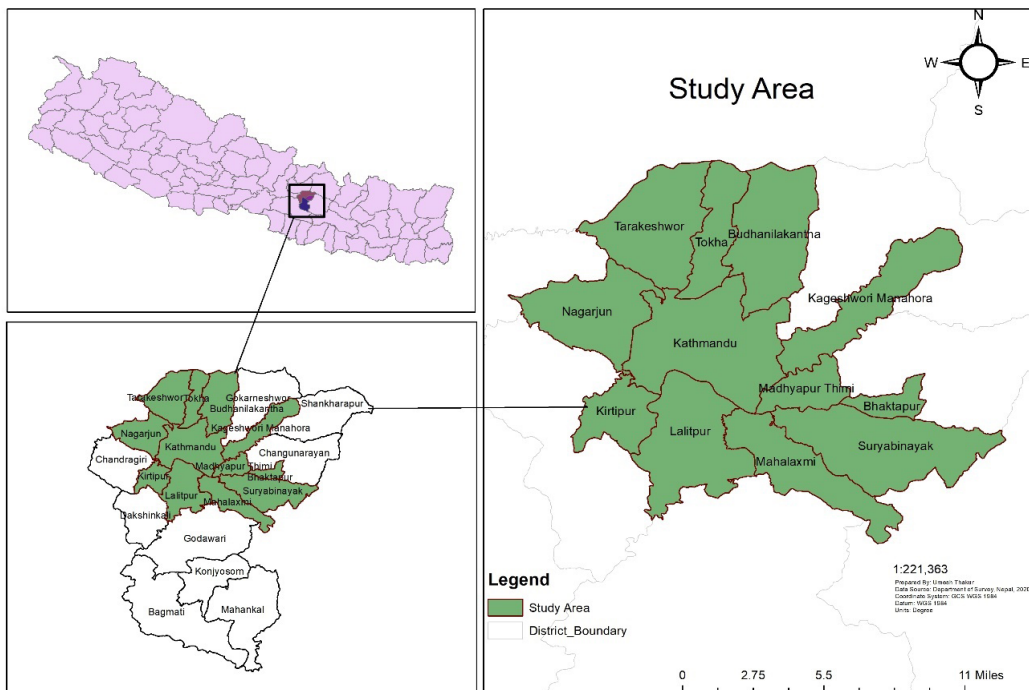
Source: Field Study

2.3. Sampling Technique and Sample Size Determination

As the numbers of respondents or small business owners are unknown under the periphery of Kathmandu Valley, there is no defined sample frame for the collection of data, the non-probability

sampling will be suitable for this study. Specifically, convenience sampling was adopted in this research because of the time and cost effectiveness also. This sampling technique is the least expensive, and more data can be collected within a short period of time. For the sample size determination, this study uses the following formula: $n_0 = z^2pq/e^2$ (Naing, 2003). Where, n_0 = sample size required for study, Standard tabulated value for 5% level of significance (z) = 1.96, p= prevalence or proportion of an event 50 % = 0.50, So, p= 0.5 and q= 1-p, = 0.5 and allowable error that can be tolerated (e) = 6 %. Thus, final sample size for this study is 280. However, because of current pandemic i.e., COVID 19, there was restriction to contact to respondents physically. So, only 200 data had been collected.

2.4. Research Instruments, Data Collection and Data Analysis Technique

The structured questionnaire with interview was the primary tool employed in this investigation where researchers created a connected questionnaire to satisfy the study's multiple aims and are delivered in the KOBO toolkit. After the Questionnaire was entered into the KOBO toolbox, a trial survey of a few sample questions was conducted to ensure that the instrument was consistent and accurate. Moreover, the data was analyzed with descriptive and inferential approaches, including structural equation modeling with many latent components. KOBO Toolbox, Microsoft Excel, and SPSS AMOS were used for data analysis, whereas Microsoft Excel was used for data entry and tabulation. The first half is about descriptive statistics which includes socio-demographic data as well as detailed information on demographic variables including age, education, business registration, and the number of responders.

3. Results and Discussion

3.1. Descriptive Analysis

3.1.1. *Socio-Demographic Characteristics*

This section presents the personal characteristics towards Intention of tax compliance in Kathmandu Valley. The result indicates that majority of the respondents are male aged between 31-40 years and are young possessing higher secondary level education who registered their business from the PAN, respectively (see table 2). It concludes majority of male business owners operating small businesses in Kathmandu valley are formally educated and register their business through PAN as per concern authority. Similarly, Deepa (2021) found proportion of male small business owners is greater than female, Palil (2010)UK and Australia. This approach emphasises both the taxpayers' responsibility to report their income and the need for them to determine their own tax liability. Central to the motivations of self assessment system introduction is an increase in the efficiency of tax collection for the tax authority; however, of more vital importance is the need to enable this without having an unacceptable detrimental effect on the other key characteristics of a well-designed tax system (equity, wider administrative efficiency etc in Malaysia found respondents age is between age group of 26-30 and Salleh and Ibrahim (2011) found that majority of the small business owner have secondary level of education.

Table 2: Socio-demographic Characteristics

Variable	In Number	In Percentage
Sex		
Male	144	72.00%
Female	56	28.00%
Age		
Below 20	2	1.00%
20-30	75	37.50%
31-40	71	35.50%
41-50	38	19.00%
50 Above	14	7.00%
Education Level		
Illiterate	1	0.50%
Secondary (9 – 10)	35	17.50%
Higher Secondary (11 – 12)	86	43.00%
Bachelors	51	25.50%
Masters & above	27	13.50%
Business Registration		
PAN	149	74.50%
VAT	36	18.00%
Others	15	7.50%

3.1.2. *General Perspective of Small businesses Owner's Towards Tax Compliance*

In this part, the general understanding about tax to small business owners is attempted to be studied using a questionnaire, which aids in defining involvement in tax payments. The result indicates that majority (68.32%) of small business owners who file and pay taxes by themselves, who pays their taxes in yearly basis (70%) by visiting tax office (50.50%). However a study of Ling et al. (2005) states that there is a large number of taxpayers engage with tax authorities through tax practitioners, tax practitioners are an essential third party in the tax compliance setting in which tax practitioners are depicted as having the ability to have a major and direct effect on the tax compliance and administration process. Similarly, only 44% of the small business owners, who took tax related training in last 5 years (19%) notices tax information flow in different portal of social media and websites as they feel that when they are not update with policy, they might be cheated by tax agents.

According to income tax act 2078-79 in Nepal, the estimated Income Tax Return under Section 95(1) not filed by taxpayer, have to pay Rs 5,000 or 0.01% of the assessable income whichever is higher. Where A person who knowingly or recklessly aids or abets another person to commit an offence under Chapter 23 (Section 123 to Section 130), or counsels or induces another person to commit such an offence have to pay 100% of the underpayment of tax. However, this study erupts that majority (174) respondents have not charged with any fine till date due to tax evasion and keeps tax related documents for more than 7 years (78%). Therefore, it concludes the fact that small businesses follow income tax act of government and pay taxes on time to stay away fine and penalties.

3.1.3. *Factors Affecting Intention of Tax Compliance*

There are eight variables that examines the tax compliance Intention among small business owners in Kathmandu valley. i.e., tax moral, tax fairness, trust in government, power of authority, tax complexity, tax information, tax awareness, and tax compliance. These variables are measured in five scale i.e., Likert scale which indicates Strongly Agree (5), Agree (4), Neutral (3), Disagree (2) and Strongly Disagree (1). Results shows that, most small business owners in Kathmandu valley are aware of tax knowledges which relate to: knowledge, types of tax, time to pay tax and knowledge of fine and penalties that affect tax compliance intention but deficit that most of the people fails to report tax liability properly insisting there is fairness in Nepalese tax system. Similarly, in tax morale, small business owner agreed that the tax payers shouldn't underreport tax liability, evading tax is wrong and think that paying tax is the taxpayers' obligation. Likewise, majority of small business owners agree that there is tax complexity, which considers several factors such as not being easy to calculate, complicated government procedures, and time consuming. It implies that the intention of tax compliance among small businesses have to overcome several obstacles in order to make tax payments.

Findings also indicates that the power of authorities increases among small business by tax authorities, which leads to a higher likelihood of tax compliance intention. Similarly, bulk small business owners agreed that they received tax information sufficiently and accurately which consider several factors such as responsiveness of official, sufficiency of tax information, and update of tax policy. However, less educated taxpayers are less exposed to tax compliance information and are less aware about applicable tax rules, according to survey data. Therefore, taxpayers must expect a comparable fiscal exchange between the taxes they pay and the products and services the government delivers in order to pay taxes willingly.

Finally, tax compliance entails understanding and adhering to state, federal, and international tax rules and regulations imposed by government officials and other taxing agencies. Findings indicates that there is 56.17% of the small business owners agreed that they are following government rules properly with knowledge of tax compliance which consider several factors such as following government's rule, fulfilment of tax obligation, and knowledge of tax compliance. It implies the Intention of tax compliance among small business owners that most of the small business owners are compiling tax as per government rule.

3.1.4. *Challenges and Managerial Solution in Tax Payment*

This section highlights the issues and solutions that small company owners encounter when it comes to tax payments. The modal response to the question of whether they face any challenges in tax payment practice reveals that 61.50% of the small business owners state there is challenges in tax payment due to loophole in system (45.54%), Lack of awareness (42.08%), the government appears to be less interested in conducting tax-awareness programs (33.66%). However, the other challenges in tax payment are: Fully depend on tax consultant (28.22%), chances of being fraud by tax consultant (27.72%) and the minor challenges of political instability (0.99%) (see figure 3).

Figure 3: Challenges in Tax Payment
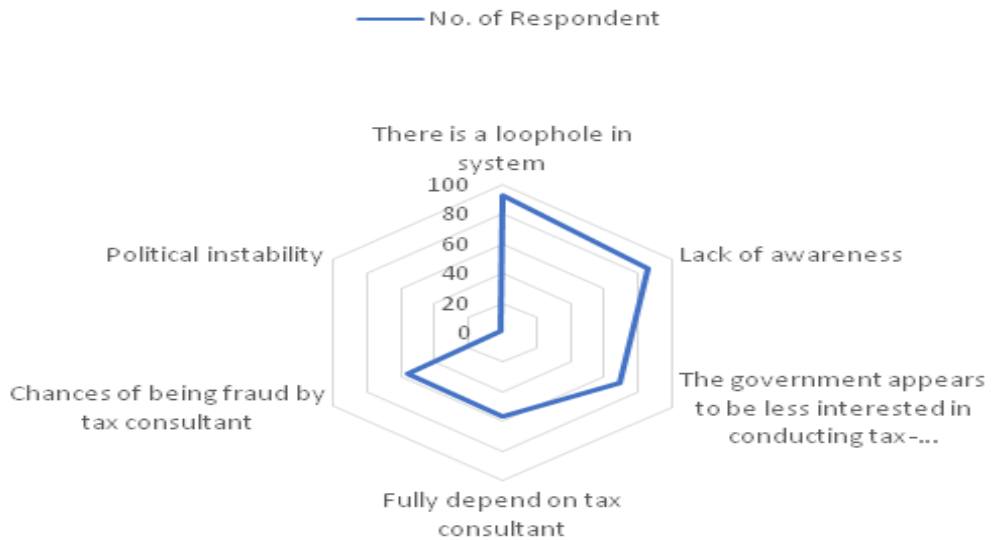
Source: Field Study

Likewise, respondents were also asked whether the challenges are manageable or not. The result indicates that majority (75.74%) of the small business owners believes that the challenges of tax issues are manageable where as 24.26% believes it can't be managed due to several factors such as: Changing the government's rule of law on a frequent basis due to changes in the political ruling parties, complicated policy of government, and lack of knowledge about tax. In the opinion of respondent, the critical factors for success of awareness of tax compliance among business owners are: Update with changing policies of the government (77.72%), regularly participate in tax related trainings and programs (74.26%), accounting practices within organization (63.37%), and perceived fairness in tax system (62.38%).

3.2. Inferential Analysis

3.2.1. *Descriptive Summary Statistics*

The mean, standard deviation, skewness, and kurtosis were all used to summarize the data. The responses' mean and standard deviation are 3.0800 to 4.2450 and 0.74214 to 1.23207, respectively, suggesting a low degree of dispersion in the responses. Skewness is a measure of distribution symmetry, whereas kurtosis is a measure of the peak or flatness of a distribution (Roser et al., 2020) considering the most frequent continuous distributions used in health, education, and social sciences (gamma, lognormal and exponential distributions. Similarly, the value of skewness of data lies from -0.119 to -0.939 representing the negative skewness of the data. Similarly, the value of kurtosis of data lies from -0.005 to +0.932 where all the measure of kurtosis and skewness lies in between -10 to +10 which reveals that data is free from normality problem.

3.2.2. *Exploratory Factor Analysis (EFA)*

In EFA, the applicability of the data should be checked using KMO and Bartlett's test before evaluating it. The KMO value in our study is 0.851, which meets the minimal requirement of 0.70. Similarly, the data is significant since the Bartlett's Test result is 0.001, which is less than 0.05, suggesting that the data is significant. Similarly, Harman's single-factor test is conducted examining the outcome of an EFA analysis so as to check whether the first extracted factor explains more than 50 % of the variance, the result indicates that, the total variance for single factor is 29.881% which is under 50% implying that the study doesn't have common method bias.

3.2.3. *Confirmatory Factor Analysis and Measurement Model*

Confirmatory Factor Analysis is a sort of structural equation modeling that looks at the link between observable indicators (test items, scores, and behavioral observation ratings) and latent variables or factors. The decision of whether the model fit is excellent or not is determined by using CMN/DF is 1.104<5, RMR is 0.069<0.08, RMSEA is 0.023<0.08, GFI is 0.884>0.80, IFT is 0.944>0.90, TLI is 0.925>0.90, and CFI is 0.937>0.90 as the fitness indicators. This study has excellent model fit as all the indicators lie under the criteria.

To analyze the measurement instruments in this study, only two validity approaches will be used: convergent validity and discriminant validity. They were used to verify the data's reliability and validity as indicated in table 2. The data must meet the criterion that the CR is larger than 0.7 in order to establish the convergence validity requirement. Likewise, AVE must be higher than 0.5. AVE must be larger than MSV and the square root of AVE must be bigger than the correlation to satisfy the requirement of discriminant validity. Because my analysis' conclusion fits all of the aforementioned criteria, it may be claimed that it demonstrates both convergence and discriminant validity. Table 3 represent reliability and validity whereas table 4 represents Latest Construct Correlation.

Table 3: Reliability and Validity

Construct	Indicators	Factor Loading	Cronbach's Alpha	CR	AVE	MSV
Tax Morale	MR2	0.875	0.857	0.847	0.650	0.034
	MR4	0.853				
	MR5	0.873				
Tax Awareness	AW1	0.794	0.891	0.909	0.715	0.428
	AW2	0.850				
	AW3	0.781				
	AW5	0.820				
Tax Fairness	FN1	0.804	0.901	0.921	0.745	0.520
	FN2	0.795				
	FN3	0.748				
	FN4	0.838				

Construct	Indicators	Factor Loading	Cronbach's Alpha	CR	AVE	MSV
Power of Authority	PA1	0.819	0.873	0.899	0.751	0.070
	PA4	0.936				
	PA5	0.893				
Tax Complexity	CP2	0.866	0.843	0.826	0.614	0.059
	CP3	0.886				
	CP4	0.813				
Tax information	IF3	0.739	0.858	0.879	0.707	0.531
	IF4	0.798				
	IF5	0.672				
Trust in Government	TG1	0.742		0.924	0.803	0.531
	TG2	0.818	0.917			
	TG3	0.790				
Tax Compliance	TC1	0.915	0.916	0.922	0.798	0.053
	TC2	0.939				
	TC3	0.902				

Source: Field Survey

Table 4: Latest Construct Correlation

	TG	MR	AW	FN	PA	CP	IF	TC
TG	**0.896**							
MR	-0.185	**0.806**						
AW	0.561	-0.110	**0.845**					
FN	0.721	-0.184	0.603	**0.863**				
PA	0.037	0.050	0.265	0.180	**0.866**			
CP	-0.086	0.173	-0.242	-0.003	-0.044	**0.783**		
IF	0.729	-0.117	0.654	0.691	0.151	-0.143	**0.841**	
TC	0.230	0.151	0.095	0.053	-0.083	0.151	0.045	**0.893**

Source: Field Survey

3.2.4. *Test of Hypothesis*

Figure 2 depicts the study's route analysis, which demonstrates the haphazard link between several factors. To compare their predictions to the actual connection between the variables, the IBM AMOS is utilized to generate the route diagram. Exogenous variables are those that are independent variables rather than dependent variables. These exogenous variable boxes, which are shown graphically at the outside margins of the model, only have single-headed arrows leading out of them. Exogenous variables are not pointed at by single-headed arrows. Endogenous variables are those that are either purely dependent variables or both independent and dependent variables. Endogenous variables are represented graphically by at least one single-headed arrow. Here, TC is the dependent variable, while the independent variables are MR, AW, FN, PA, TG, IF, and CP. Similarly, e is the error term that is depicted in figure 4 in that order.
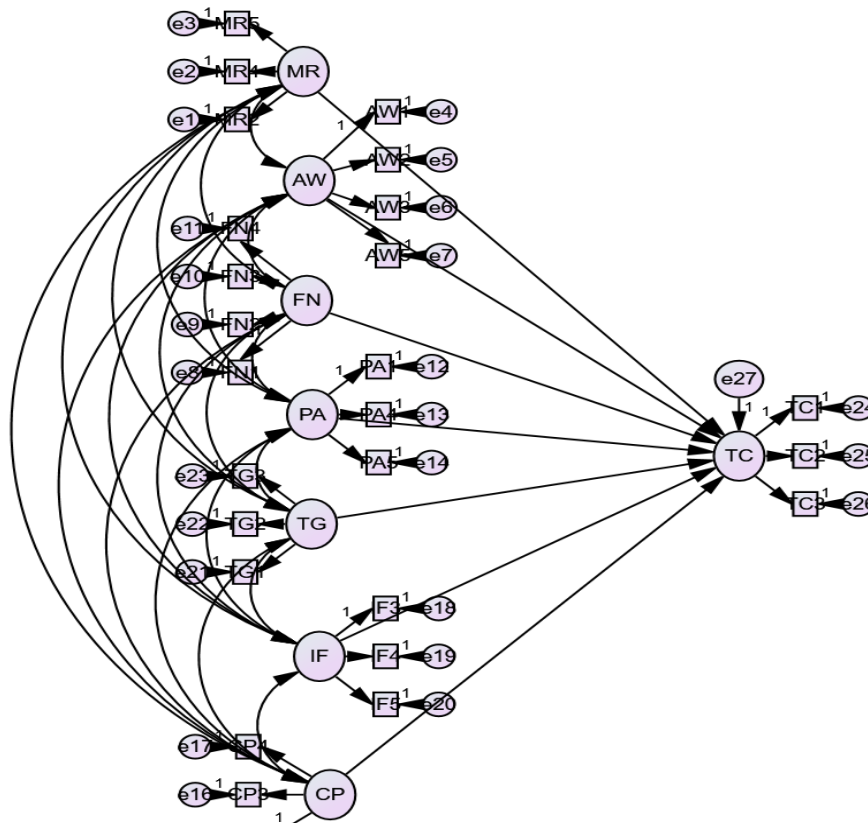
Figure 4: Structural Model

Table 5: Path Estimates for Structural Model

Hypothesis	Estimate	S.E.	C.R.	P	Hypothesis result
H1: Tax morale → Tax Compliance Intention	0.232	0.120	1.937	0.053	Significant
H2: Tax Fairness → Tax Compliance Intention	-0.144	0.105	-1.362	0.173	Insignificant
H3: Trust in Government → Tax Compliance Intention	0.285	0.086	3.329	***	Significant
H4: Power of Authority → Tax Compliance Intention	-0.118	0.128	-0.919	0.358	Insignificant
H5: Tax Complexity → Tax Compliance Intention	0.205	0.123	1.660	0.097	Significant
H6: Tax Information → Tax Compliance Intention	-0.181	0.116	-1.555	0.120	Insignificant
H7: Tax Awareness → Tax Compliance Intention	0.119	0.091	1.313	0.189	Insignificant

In table 5, H1, H3 and H5 are accepted which implies that there is significant relationship. In contrast, H2, H4, H6, H7 are rejected that leads to the conclusion that there is insignificant relationship between the variable in the respective hypothesis. SEM is utilized in the inferential phase of the inquiry to look at regression analysis, variable analysis, and the normality pattern. Eight factors are investigated when latent variables are compared to observable variables. The model's fitness criteria show the fitness. The result shows that the value obtained from X^2/df (CMIN/DF) is 1.104 which is less than 3. The p value suggesting a meaningful association between latent variables and observable variables is less than 0.05, according to the data. Because the meaning level of all hypotheses (p-value) is less than 0.05, the hypotheses in this study are broadly accepted.

3.3. Discussion

To create and test the relationship between the variables in this study, the reliability test and multiple linear correlations were utilized. Table 5 shows that three out of seven hypotheses are significant. In our investigation, four hypotheses were found to be inconsequential, indicating that there may be a flaw in the research. It might be because the sample size used was insufficient to conduct the study, or it could be because other factors, such as the questionnaire pattern or the respondents' responses to my questions, were not genuine. However, three of them are full satisfied with conditions whose hypothesis were significant.

Tax morale and tax compliance have a positive impact on behavioral Intention to small business owners. According to supported hypothesis 1, the study of (Cummings et al., 2009)its investigation requires use of a variety of methods and data sources. Results from artefactual field experiments conducted in countries with substantially different political histories and records of governance quality demonstrate that observed differences in tax compliance levels persist over alternative levels of enforcement. The experimental results are shown to be robust by replicating them for the same countries using survey response measures of tax compliance. Similarly, a study of (Alm & Mckee, 2006) states, tax compliance is a complicated issue influenced by a number of factors. The possibility of detection and punishment is undoubtedly a role, and data from a number of sources suggests that increasing enforcement leads to higher compliance. However, observed compliance levels are often greater than the level of enforcement warrants. Small company owners' behavioral intentions are positively influenced by government trust and tax compliance. According to supported hypothesis 3, the findings of (Aktaş Güzel et al., 2019) are similar. Government needs to utilizes the revenues properly, tax department required to be transparent, and tax officials required to be transparent have the substantial effect on the behavioral intention to small business owners who file taxes every as per predetermined rule. Another study discovered that trust in government had a favorable and statistically significant impact on tax compliance. This indicates that as accountants' confidence in the government increases, so will tax compliance rates. The findings are consistent with those of other research in the literature (Aktaş Güzel et al., 2019).

In this study small business owners believes that the process of tax calculation not easy, government policy is also hard to understand, and when it comes to the tax payment, they spend more time on processing. Which shows tax complexity and tax compliance have significant relation among small business owners in Kathmandu valley. Similarly, according to the supporting hypothesis 5

the findings of (Gambo et al., 2014) shows that tax complexity has a major negative impact on tax compliance in Africa: in a self-assessment system, taxpayers spend one day (19 hours) more on tax compliance than the regional average. To achieve an acceptable degree of tax compliance among taxpayers, an effective self-assessment system should be straightforward and less complicated. In study of Fischer tax compliance model (Chau & Leung, 2009) argue that the tax system should be straightforward, with simple and unambiguous tax rules and processes. A simplified tax system and legal procedure improve compliance by making it easier for taxpayers to comprehend their tax responsibilities and determine the amount of tax due.

4. Conclusion

The study provides significant insights into the factors influencing tax compliance among small business owners, applying the Theory of Planned Behavior (TPB). The findings highlight that while there is a general awareness of tax obligations, compliance is often driven more by the fear of penalties than by a genuine understanding of or commitment to tax laws. This suggests that tax morale, though present, is not the primary motivator for compliance, underscoring the importance of enhancing tax education and awareness. One of the critical conclusions drawn from this study is the complexity of the tax system as a significant barrier to compliance. The results show that small business owners struggle with the intricacies of tax regulations, which not only complicates their tax filings but also leads to a reliance on tax consultants. This reliance, coupled with limited tax knowledge, increases the risk of fraud and unintentional non-compliance. Therefore, simplifying tax procedures and providing clear, accessible information are essential steps toward improving tax compliance rates.

Moreover, trust in government emerged as a crucial factor influencing tax compliance intentions. The study indicates that when small business owners perceive the government as transparent and trustworthy, their willingness to comply with tax regulations increases. This finding emphasizes the need for the government to build and maintain trust through consistent and fair tax policies and by ensuring that tax revenues are utilized effectively and visibly for public welfare. In conclusion, while the study reaffirms the importance of tax morale and government trust in fostering tax compliance, it also reveals the pressing need for systemic reforms. Simplifying tax procedures, enhancing transparency, and increasing taxpayer education are vital strategies that the government of Nepal must adopt to improve tax compliance among small business owners in Kathmandu Valley.

Although this study focuses on tax compliance intentions in the Kathmandu Valley, it may not fully capture the nuances of tax compliance across the entire nation. Further research could extend to other regions of the country to gain a more comprehensive understanding. Additionally, exploring the potential differences between the effectiveness of rewards and penalties in enhancing tax compliance could provide valuable insights for future studies.

References

Aktaş Güzel, S., Özer, G., & Özcan, M. (2019). The effect of the variables of tax justice perception and trust in government on tax compliance: The case of Turkey. *Journal of Behavioral and Experimental Economics* , *78*(1), 80–86.

Alm, J., & McKee, M. (2006). Audit certainty, audit productivity, and taxpayer compliance. *National Tax Journal*, *59*(4), 801-816.

Arvin, M. B., Pradhan, R. P., & Nair, M. S. (2021). Are there links between institutional quality, government expenditure, tax revenue and economic growth? Evidence from low-income and lower middle-income countries. *Economic analysis and policy*, *70*, 468-489.

Auriol, E., & Warlters, M. (2005). Taxation base in developing countries. *Journal of Public Economics*, *89*(4), 625-646.

Benk, S., Budak, T., & Cakmak, A. F. (2012). Tax professionals' perceptions of tax fairness: Survey evidence in Turkey. *International Journal of Business and Social Science*, *3*(2), 112–117.

Benk, S., Çakmak, A. F., & Budak, T. (2011). An investigation of tax compliance intention: A theory of planned behavior approach. *European Journal of Economics, Finance and Administrative Sciences*, *28*, 180–188.

Burgess, R., & Stern, N. (1993). Taxation and development. *Journal of economic literature*, *31*(2), 762-830.

Chau, G., & Leung, P. (2009). A critical review of Fischer tax compliance model : A research synthesis. *Journal of Accounting and Taxation*, *1*(2), 34–40.

Cui, W., Hicks, J., & Xing, J. (2022). Cash on the table? imperfect take-up of tax incentives and firm investment behavior. *Journal of Public Economics*, *208*, 104632.

Cummings, R. G., Martinez-Vazquez, J., McKee, M., & Torgler, B. (2009). Tax morale affects tax compliance: Evidence from surveys and an artefactual field experiment. *Journal of Economic Behavior and Organization*, *70*(3), 447–457.

Deepa, M. (2021). Awareness towards goods and services tax (Gst) among small and medium traders: A study with special reference to Pollachi Taluk. *PalArch's Journal of Archaeology of Egypt/Egyptology*, *18*(1), 4765-4770.

Devos, K., & Zackrisson, M. (2015). Tax compliance and the public disclosure of tax information: An Australia/Norway comparison. *eJTR*, *13*, 108.

Dissanayake, N., & Premaratna, S. P. (2020). Power , trust , and tax compliance of SME taxpayer. *Journal of Tax, 1(1)*, 105–116.

Donna D. Bobek, Richard C. Hatfield, and K. W. (2007). An investigation of why taxpayers prefer refunds: A theory of planned behavior approach. *Journal of the American Taxation Association*,

29(1), 93–111.

Eriksen, K., & Fallan, L. (1996). Tax knowledge and attitudes towards taxation; A report on a quasi-experiment. *Journal of economic psychology*, *17*(3), 387-402.

ESCAP, U. (2020). Towards sustainable graduation of South Asian LDCs in the aftermath of COVID-19: Challenges, prospects and policy lessons, 1-50.

Fan, Y., Chen, J., Shirkey, G., John, R., Wu, S. R., Park, H., & Shao, C. (2016). Applications of structural equation modeling (SEM) in ecological studies: An updated review. *Ecological Processes*, *5*(1), 1-12.

Gambo, E., Masud, A., Mustapha, N., & Oginni, S. (2014). Tax complexity and tax compliance in African self-assessment environment. *International Journal of Management Research & Review*, *4*(5), 575–583.

Government of Nepal, MOF. (2021). *Economic Survey of Nepal 2020/2021, 1-28*.

Hofmann, E., Gangl, K., Kirchler, E., & Stark, J. (2014). Enhancing T ax Compliance through Coercive and Legitimate Power of T ax Authorities by Concurrently Diminishing or Facilitating Trust in T ax Authorities. *Law & policy*, 36(3), 290-313.

Kaldor, N. (1965). The role of taxation in economic development. In *Problems in Economic Development: Proceedings of a Conference held by the International Economic Association* (pp. 170-195). London: Palgrave Macmillan UK.

Kamleitner, B., Korunka, C., & Kirchler, E. (2012). Tax compliance of small business owners: A review. *International Journal of Entrepreneurial Behaviour and Research*, *18*(3), 330–351.

Kandel Jr, R. (2020). Contribution of tax revenue to national revenue of Nepal, *NepJol, 3(5), 1-10*.

Kelegama, S. (Ed.). (2017). *Tax Policy in Sri Lanka: Economic Perspectives*. Institute of Policy Studies of Sri Lanka.

Khanal, K., & Bracarense, N. (2021). Institutional Change in Nepal: Liberalization, Maoist Movement, Rise of Political Consciousness and Constitutional Change. *Review of Political Economy*, 33(1), 145-166.

Khanal, M. (2018). Nepalese tax structure: An analytical perspective. *JMC Research Journal*, *7*(1), 15–26.

Koessler, A. K., Torgler, B., Feld, L. P., & Frey, B. S. (2019). Commitment to pay taxes: Results from field and laboratory experiments. *European Economic Review*, *115(1)*, 78-98

Ling, L. M., Obid, S. S., & Meera, A. (2005). Tax practitioners and the Electronic Filing System: An emperical Analysis. *Academy of Accounting and Financial Studies Journal*, *9*(1), 93–109.

Mehrotra, A. K. (2010). The public control of corporate power: Revisiting the 1909 U.S. corporate tax from a comparative perspective. *Theoretical Inquiries in Law*, *11*(2), 497–538.

Muis, M. A., & Putri, N. S. (2018). Jurnal akuntansi dan pasar modal. Influence of knowledge and understanding of taxation, level of income of taxpayers, legal provisions and tax sanctions, and perception of taxpayers on the willingness of sme to pay taxes. *Empirical Study Of Sme In Pasar Tanah Abang Blok A*, *1*(1), 68–85.

Murshed, M., & Saadat, S. Y. (2018). Modeling tax evasion across South Asia : Evidence from Murshed & Saadat. *Journal of Accounting, Finance and Economics*, *8*(1), 15–32.

Naing, N. N. (2003). Determination of sample size. *Malaysian Journal of Medical Sciences*, *10*(2), 84–86.

Ogbonna, G. N., & Appah, E. (2012). Impact of tax reforms and economic growth of Nigeria : A time series analysis. *Current Research Journal of Social Sciences*, *4*(1), 62–68.

Palil, M. R. (2010). *Tax knowledge and tax compliance determinants in self assessment system in Malaysia* (Doctoral dissertation, University of Birmingham), 14(1), 126-140.

Panday, A. K., & Prinn, R. G. (2009). Diurnal cycle of air pollution in the Kathmandu valley, Nepal: Observations. *Journal of Geophysical Research Atmospheres*, *114*(9), 1–19.

Paudel, U. R., & Devkota, N. (2018). Socio-economic influences on small business performance in Nepal–India open border: Evidence from cross-sectional analysis. *Economics and Sociology*, *11*(4), 11–30.

Pradhan, R. P., Arvin, M. B., Nair, M., Bennett, S. E., & Bahmani, S. (2024). Some determinants and mechanics of economic growth in middle-income countries: The role of ICT infrastructure development, taxation and other macroeconomic variables. *The Singapore Economic Review*, *69*(01), 297-333.

Purnamasari, D., & Sudaryo, Y. (2018). The effect of knowledge taxpayer, moral taypayer and tax sanctions on taxpayers compulsory. *International Journal of Trade, Economics and Finance*, *9*(5), 214–219.

Rahman, A. (2017). Tax compliance in Indonesia: The role of public officials as taxpayers, *International Journal of Taxation, 1(1),1-10.*

Roser, B., Jaume, A., Rafael, A., & Maria, B. J. (2020). Bias, precision, and accuracy of skewness and kurtosis estimators for frequently used continuous distributions. *Symmetry*, *12*(19), 2–17.

Salleh, F., & Ibrahim, M. D. (2011). Demographic characteristics differences of risk taking propensity among micro and small business owners in Malaysia. *International Journal of Business and Social Science*, *2*(9), 149–153.

Samson, W. D. (2002). The international taxation system. *The International Taxation System*, *5*(1), 15-35.

Samuel, O. L. (2014). The impact of value added tax on revenue generation in Nigeria. *Olabisi Onabanjo University, Nigeria*, *4*(1), 1–13.

Subedi, S. (2019). Small size business in Nepal: A sole proprietor, *Nepjol, 1(1), 1-18.*

Taing, H. B., & Chang, Y. (2020). Determinants of tax compliance intention: Focus on the theory of planned behavior. *International Journal of Public Administration*, *44*(1), 62–73.

Temelkov, Z., & Gogova Samonikov, M. (2018). The need for fintech companies as non-bank financing alternatives for sme in developing economies. *International Journal of Information, Business and Management*, *10*(3), 25-33.

Wardhani, N. W. S., Nugroho, W. H., Fernandes, A. A. R., & Solimun. (2020). Structural equation modeling (SEM) analysis with warppls approach based on theory of planned behavior (TPB). *Mathematics and Statistics*, *8*(3), 311–322.

Wenzel, M. (2003). Tax compliance and the psychology of justice: Mapping the field. *Taxing Democracy*, 26(2), 41–70.

Zenkov, I. A. (2017). Taxation issues facing small business in the Russian Federation. *Journal of Economics and Social Sciences*, *4*(10), 1–4.