

AWARENESS OF TAX IN NEPAL

Dr. Jitendra Prasad Upadhyay¹, Paras Mani Acharya², Sanju Kumar Singh^{3*}
Tribhuvan University^{1,2}, Universitas Airlangga³
Email: jupadhaya@yahoo.com¹, singhsanju@feb.unair.ac.id³

Abstract

This study analyzed the awareness of tax in Nepal. Additionally, the study seeks to address the Nepalese tax payers awareness specially on VAT and income tax. Out of total population data were collected by 630 participants and analyzed using thematic analysis. All the data were collected using a well-structured questionnaire. For analysis and interpretation SPSS has been used. The findings of the result clearly explain that Nepalese taxpayers do not have sufficient technical knowledge and perceive the VAT and income tax system. Similarly, it was found that the majority of consumers pay tax but are less aware of VAT. Consumers avoid paying tax in Nepal as VAT tends to be high.

Keywords: tax knowledge, tax law, tax perception, tax ethics, tax awareness

INTRODUCTION

The most potent and effective weapon at a nation's disposal is taxation. The government's absolute ability to manage an economy is derived from taxation. The primary goal of taxation is to raise money for economic stability and growth. Taxes provide the majority of government revenue, which is significantly better than bringing in outside funding. Maximizing income from domestic sources is preferable, safer, and more productive for emerging nations. Taxation promotes equitable distribution of a nation's national income in addition to economic growth and stability (Adesola, 2021).

Most stable economies are linked to effective and efficient tax systems as well as systems that enhance individual and corporate tax compliance. Developed nations with effective tax systems, such as the US, China, Japan, and Germany, keep track of and monitor all individual and corporate tax files in a timely manner, and this is something that is highly valued. It takes into consideration the capacity to gather necessary resources for socioeconomic advancement (Arum, 2022).

In Indonesia, taxpayer engagement and awareness have a major role in how the general public views taxes as an economic tool. In compliance with tax regulations, taxpayers are consistently viewed as cooperative when it comes to their tax duties, even when no threats, warnings, or administrative or judicial punishments are used. It is believed that some of the elements that support taxpayer compliance include counseling, conversations, and providing tax information to prospective taxpayers (Yayuk, Margono, Eka, and Sudjatno, 2017).

Furthermore, (Aksnes, 2014) notes that one of the main reasons why commercial organizations disregard VAT rules is the high cost of doing business in developing nations like Namibia and India. This was noted in Egypt. Alabede (2019) concurs that developing nations encounter numerous obstacles when it comes to complying with VAT laws. VAT is one of the indirect taxes, notwithstanding challenges to its enforcement from a variety of stakeholders, including individuals and enterprises, that developing nations employ to raise funds for socioeconomic development. Tax evasion and tax avoidance are key issues contributing to the poor performance of government revenue mobilization in developing nations, despite the structural differences between the tax systems of rich and developing countries.

In general, there are two types of taxes: direct taxes and indirect taxes. In Nepal's tax system, indirect taxes are largely used. The global indirect tax regime was viewed as having competition from the Value Added Tax (VAT) regime. Though it was developed in the latter half of the 20th century, this is the newest type of taxation. In every attempt at tax reform, it has been evident as a crucial element of global tax reform (Adesola, 2021). In the realm of contemporary taxation, VAT is a recent and significant invention.

Objective of the Study

The primary goal of the research is to evaluate Nepalese citizens' tax awareness. The following are the study's other specific goals:

1. To examine the taxpayers' knowledge, law, ethics and perception regarding VAT and income tax.
2. To assess the impact of knowledge, law, ethics and perception regarding VAT and income tax on awareness and income tax.

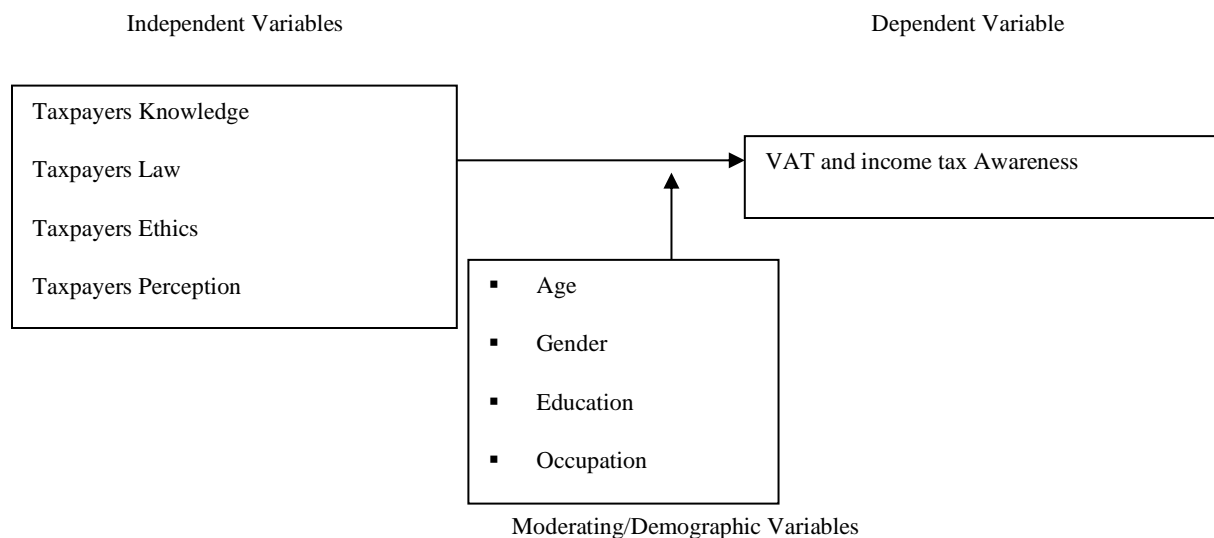
Limitations of the Study

The limitations of this study are as follows:

1. Primary data from surveys form the majority of the study's foundation, but secondary data is also included.
2. The knowledge, ethics, law, perception, and consciousness of taxpayers are the exclusive subjects of this study.
3. This study made use of descriptive statistical methods, such as frequency tables, percentages, mean scores, and standard deviation. Additionally, in order to quantify the statistical impact between the study's variables, regression and correlation analyses must be performed at a significance level of 5% and with a 95% confidence level.
4. The linear regression model is used for the analysis.

Conceptual framework

The conceptual framework that follows was created using several literature reviews as a basis.



RESEARCH METHODS

There has been usage of both the causal and descriptive comparative study design. Using a purposive sample technique, 630 samples of business VAT and income tax payers were chosen for this study out of 4830811 total tax payers in Nepal based on economic surveys conducted in 2078 and 1979. The formula developed by Raro Yamane (1967) to calculate the sample size from the entire population has been used for sample selection.

According to Yamane, (1967) $n = N / [1 + (Ne^2)]$

Where, n =sample size

N = is the population

e = is the error limit (0.05 on the basis of 95% confidence Level)

To obtain an accurate and true conclusion from this research, data from primary and secondary sources have been gathered. Data that were gathered were examined using the software program SPSS version 20.0. The data was analyzed using a 5-point Likert scale, where 5 represents strong agreement and 1 represents extreme disagreement. Standard deviation, mean scores, percentages, and frequency tables were among the descriptive statistics that were employed. To determine the statistical impact between the study's variables, further inferential statistics, such as regression analysis and correlation, were employed at a 5% significance level and 95% confidence level. The widely used generic linear regression model is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon,$$

Where;

Y = Taxpayers Awareness

β_1 to β_4 = represents regression coefficients

X1 = Taxpayers Knowledge

X2 = Taxpayers Law

X3 = Taxpayers Ethics

X4 = Taxpayers Perception

ε = error term (0.05)

RESULT AND DISCUSSION

Status of Value Added Tax (VAT) and Income Tax (IT) Knowledge

Items	Mean	Std. Deviation
1. Do you know about the concept of Income Tax?	3.8841	0.89739
2. Do you know about the concept of Value Added Tax (VAT)?	4.1683	0.84032

3. VAT is paid by final consumer rather than businessman.	3.5349	1.29616
4. "VAT and Income tax is based on self-assessment system," do you agree this statement	3.6619	1.19417
5. The government of Nepal is levying Tax on all kinds of income.	3.8349	1.08965
6. VAT increases the price of goods and services to final consumer	4.1302	0.99867
7. Tax increases the price of goods and services	3.8571	1.10724
8. VAT is charged on all VAT chargeable goods by single rate (i.e. 13%)	3.9302	1.1928
9. The final consumer cannot recover Tax on a purchase made by them.	3.5302	1.25642
10 Tax is the most important factor for raising government revenue in Nepal.	4.3952	0.8741
11. Issue of VAT invoice by VAT registered firm is necessary for the sales of goods and services?	4.219	0.78921
12. Exemption limit of natural resident individual status is Rs500000 and couple status is Rs600000 in income year 2079/80.	3.5159	1.18237

It was found that majority of the taxpayers perceived VAT and Income Tax as an important instrument for increasing the government revenue of the country. They also argued that issuance of VAT invoice is necessary. Likewise, taxpayers argued that VAT and Income Tax would increase the price of goods and services to final consumers. Therefore, it was found that the tax payers had more knowledge especially on three domains of VAT and Income Tax Knowledge i.e. increasing government revenue, issuance of VAT invoice and eventual price bear by the final consumers.

Status of VAT and Income Tax Law

Items	Mean	Std. Deviation
1. I believe it is my obligation as a citizen to support to the government by paying the tax.	4.1651	0.86518
2 Current legal provision and rules of tax are sufficient in Nepal.	3.5349	1.2937

3. VAT and income tax will be more effective in future for strong source of government revenue.	3.673	1.1819
4. The present threshold of VAT is enough in Nepal.	3.8111	1.1068
5. The present tax system in place motivates me to voluntarily comply with my tax obligations.	4.1143	1.02727
6. The payment of VAT and income tax is easily to pay in Nepal	3.8587	1.09517
7. Billing system is the main problem in the present VAT and income tax implementation.	3.919	1.21521
8. The provision of fine and penalty under Income Tax Act 2058, Value Added Tax Acts are Reasonable.	3.5476	1.26345
9. The present (2079/80) exemption limit from income of individual and couple status is enough in Nepal.	4.4127	0.86873
10. You have face problem in claiming Tax refund in Nepal.	4.2159	0.80799

It was found majority of the taxpayers accepted that paying VAT and Income Tax is the moral obligation as a citizen for the purpose of supporting the government. Likewise, they were also aware that paying VAT and Income Tax is not a choice but mandatory activity of eligible taxpayer. Also, taxpayers envisioned that VAT and Income Tax and Income Tax would be more important source of government revenue for future not only as present and past. The taxpayers also argued that public awareness program is necessary in Nepal for raising VAT and Income Tax revenue. Therefore, on the basis of findings, it can be concluded that the taxpayers had more knowledge especially on four domains of VAT laws i.e. obligation to pay VAT and Income Tax as a citizen, VAT and Income Tax not a choice but mandatory, significant source of future government revenue and importance of public awareness program on increases VAT and Income Tax revenue.

Status of VAT and Income Tax Perception

Statistics		
Items	Mean	Std. Deviation
1. Contribution of VAT is the highest position in the tax revenue of Nepal.	3.7587	1.03924

2. Tax payers face many complications in paying VAT and income tax.	3.5889	1.10966
3. Proper maintaining purchase and sales book helps for effective collection of tax.	3.9889	1.04351
4. There is lengthy procedure to refund VAT for damage inventory.	3.6238	1.20402
5. VAT and Income Tax contribution significantly increases the gross domestic product (GDP) of Nepal.	3.5857	1.24494
6. TAX system encourages the foreign trade in Nepal.	3.8429	1.133
7 Nepalese tax administrations are efficient to collect the tax.	3.4492	1.21456
8. Impact of tax on economic efficiency depends on the level of development of the country.	3.5762	1.25952
9. The government of Nepal is levying Tax on all kinds of income.	3.8349	1.08965
10. Different types of information campaign program launched by government is sufficient for	1.5048	0.73897

The findings on taxpayers perception on effectiveness of VAT and Income Tax showed that majority of them argued that VAT and Income Tax will contribute significantly in increasing the size of Nepalese economy. The taxpayers also argued that contribution of VAT and Income Tax is the highest position in the tax revenue of Nepal. In general, the perception of tax payers regarding effectiveness of VAT and Income Tax in Nepal showed on positive domains. All the items intended to measure the VAT effectiveness were more than neither agree nor disagree and concentrated on Agreement side. As a whole, the findings showed that majority of the taxpayers agreed that VAT and Income Tax has a positive impact on increasing national economic size and other economic indicators.

Status of VAT and Income Tax Ethics

	Mean	Std. Deviation
1. I think that everyone is morally obliged to pay their tax obligations.	1.3143	0.64757

2. I would agree to an increase in tax rate for the development of country.	1.7508	1.23533
3. Reporting your main income fully, but not including small and outside income?	1.7603	0.89586
4. Tax liabilities must be determined on taxable income of tax payers	3.8857	0.89848
5. The present self assessment system about forecasting of own income is complicated	4.1635	0.84785
6. Self assessment system will be more fair compared to previous official assessment system	3.5349	1.29616
7. The self assessment system shows that government trusts the people	3.6571	1.19348
8. Self assessment system encourage to tax payers to cheat the actual taxable income	3.8349	1.08965
9. Do you think that the tax revenue is use for national welfares for the people	4.1222	1.00206
10. VAT and Income tax structure is complicated to understand for tax payers	3.854	1.10683
11. Tax payers need training program on VAT and Income tax rule.	3.9286	1.19471
12. Tax payers is confused with multiple tax rate structure in Nepal	3.5254	1.26031

The findings on taxpayers Ethics on effectiveness of VAT and Income Tax showed that majority of them argued that VAT will contribute significantly in increasing the size of Nepalese economy. The taxpayers also argued that contribution of VAT is the highest position in the tax revenue of Nepal. In general, the perception of tax payers regarding effectiveness of VAT in Nepal showed on positive domains. All the items intended to measure the VAT effectiveness were more than neither agree nor disagree and concentrated on Agreement side. As a whole, the findings showed that majority of the taxpayers agreed that VAT has a positive impact on increasing national economic size and other economic indicators.

Status of VAT and Income Tax Awareness

Statistics		
Items	Mean	Std. Deviation
1. Do you agree that tax payers education influence tax payers awareness?	4.1635	0.84785
2. Tax system influence of tax payers awareness on VAT and Income tax law	3.5349	1.29616
3. Tax system influence VAT and Income tax compliance	3.6571	1.19348
4. Public awareness program is necessary in Nepal for raising TAX revenue.	3.8349	1.08965
5. Tax as the extra burden to tax payers and increasing the price of goods	4.1222	1.00206
6. Do you think that the public are fully aware of tax system in Nepal?	3.854	1.10683
7. New program to be launched by the government for increasing consumer awareness in Nepal	3.9286	1.19471
8. Do you agree tax payers' awareness increases the tax revenue of government?	3.5254	1.26031
9. Ethics also influence the tax payers awareness	3.8349	1.08965
10. In your opinion, consumers are the final tax payers	4.1222	1.00206

The majority of taxpayers, according to the data on their awareness of income tax and VAT, believed that VAT would greatly expand the size of the Nepalese economy. Additionally, the taxpayers contended that Nepal's VAT contribution holds the highest rank in terms of tax revenue. Taxpayers' perceptions of the efficiency of the VAT in Nepal generally indicated favorable domains. Every item used to gauge the efficiency of VAT was centered on the agreement side and went beyond the neither agree nor disagree spectrum. Overall, the results demonstrated that most taxpayers concurred that VAT increases the growth of the national economy and other economic indicators.

Correlation Analysis

Correlation AnalysisCorrelations

		VTK	VTL	VTP	VTE	VTA
VTK	Pearson Correlation	1	.449**	.579**	.641**	.233**
	Sig. (2-tailed)		.000	.000	.000	.000
	N		630	630	630	630
VTL	Pearson Correlation		1	.240**	.595**	.400**
	Sig. (2-tailed)			.000	.000	.000
	N			630	630	630
VTP	Pearson Correlation			1	.346**	.114**
	Sig. (2-tailed)				.000	.004
	N				630	630
VTE	Pearson Correlation				1	.320**
	Sig. (2-tailed)					.000
	N					630
VTA	Pearson Correlation					1
	Sig. (2-tailed)					
	N	630	630	630	630	630

Table : Correlation matrix

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

The largest correlation coefficient is shown in the table between VAT Law and VAT Awareness, followed by VAT Impact and VAT Knowledge. This suggests that, in comparison to other independent variables, there is a greater correlation between VAT Law and VAT Awareness. There is a positive linear relationship between the independent variables and dependent variable in the study, as indicated by the correlation coefficients, which are all significant at the required level of significance. However, more statistical testing must be done to determine the degree to which changes in the independent variable affect the dependent variable.

Table: Summary statistics of the estimated model

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
VTK	630	2.11	4.89	3.7959	.60826	-.196	.097	-.758	.194
VTL	630	2.13	5.00	3.8310	.62378	-.247	.097	-.739	.194
VTP	630	2.00	4.88	3.6758	.62179	-.242	.097	-.726	.194
VTE	630	2.00	4.67	3.5483	.58464	-.160	.097	-.800	.194
VTA	630	1.50	5.00	3.8107	.70085	-.471	.097	-.619	.194
Valid N (listwise)	630								

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.233 ^a	.054	.053	.68214

a. Predictors: (Constant), VTK

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	16.740	1	16.740	35.976	.000 ^b
	Residual	292.219	628	.465		
	Total	308.959	629			

a. Dependent Variable: VTA

b. Predictors: (Constant), VTK

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.793	.172		16.246	.000
	VTK	.268	.045	.233	5.998	.000

a. Dependent Variable: VTA

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	52.681	4	13.170	32.119	.000 ^b
	Residual	256.278	625	.410		
	Total	308.959	629			

a. Dependent Variable: VTA

b. Predictors: (Constant), VTE, VTP, VTL, VTK

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.889	.204		9.252	.000
	VTK	.023	.063	.020	.369	.712
	VTL	.362	.051	.323	7.071	.000
	VTP	-.019	.050	-.017	-.386	.700
	VTE	.145	.064	.121	2.284	.023

a. Dependent Variable: VTA

With an estimated F value of 103.927 and a p-value of less than 0.05, the estimated regression model evaluating the impact of VAT on VAT knowledge and VAT laws is very significant. The R-square value was found to be 0.344, indicating that changes in the independent variables

account for around 34% of the variation in the VAT Impact. Each and every slope coefficient has great significance. The following choice was made based on the estimated model's summary statistics. Furthermore, based on standardized beta coefficient, VAT laws have a bigger impact on knowledge sharing behavior than trust and reward systems. The greater correlation coefficient between VAT laws and VAT awareness was supported by these data. Based on the calculated coefficient ($B=0.217$) and $p \text{ value} < 0.05$ significance threshold, the study results verified that taxpayers' awareness of VAT was significantly and favorably impacted by their knowledge of income tax and VAT. According to this finding, income tax and VAT will be more effective the more people know about them.

With a regression coefficient of $B=0.420$ and a p -value of less than 0.05, it is determined that there is a statistically significant positive link between VAT and Income Tax Laws and VAT and Income Tax Awareness. Therefore, the relationship between taxpayers' knowledge of current income tax laws and value added tax (VAT) will raise the perception of VAT's efficacy in boosting Nepal's economy..

Perception analysis on VAT and Income Tax

The respondents' opinions on seven distinct VAT and income tax concerns, each using a five-point Likert scale. The respondents were asked to use a 5-point scale, with 1 denoting strongly disagree, 2 disagree, 3 slightly agree, 4 agree, and 5 strongly agree, to indicate how much they agreed with a given statement. Likert-type scales were provided for each of the following statements: five about the complexity of the VAT and income tax rate; ten about administrative efficiency; ten about complicated legal provisions; twelve about VAT evasion; six about the effectiveness of the VAT and income tax; eleven about the incentives of the VAT and income tax; and eleven about improvements to the administration of the VAT and income tax. For each problem statement, the respondent frequencies by scale answer were translated into percentages. The following sections included the respondent's percentage distribution along with their mean scores, standard deviations, t -statistics, and p -values.

Statements under the issue of ‘VAT and Income Tax general knowledge.

Statement	No. of Respondents	Strongly disagree	Disagree	Slightly agree	Agree	Strongly agree	Mean	Standard deviation
1. Are you familiar with the idea of income taxes?	630	32	28	18	455	97	3.8841	0.89739
2. Are you familiar with the idea of Value Added Taxation (VAT)?	630	9	27	43	321	230	4.1683	0.84032
3. The final customer, not the enterprise, pays the VAT.	630	56	123	38	254	159	3.5349	1.29616
4. Do you agree that the self-assessment system serves as the foundation for income tax and VAT?	630	41	82	99	235	173	3.6619	1.19417

5. Taxes are imposed by the Nepali government on all forms of revenue.	630	25	81	41	309	174	3.8349	1.08965
6. VAT raises the end consumer's cost of products and services.	630	8	58	56	230	278	4.1302	0.99867
7 Taxes drive up the cost of goods and services.	630	26	71	68	267	198	3.8571	1.10724
8 All VAT-chargeable items are subject to a single rate of VAT (i.e., 13%).	630	39	61	54	227	249	3.9302	1.1928
9. Taxes paid by the end customer on a purchase they made are not refundable.	630	48	120	66	242	154	3.5302	1.25642

10 The main source of funding for the government of Nepal is taxes.	630	16	17	18	230	349	4.3952	0.8741
11. Is it required for sales of goods and services that a VAT-registered company provide an invoice?	630	15	13	13	367	222	4.219	0.78921
12. In the income year 2079–2080, the exemption limit for natural residents in single status is Rs. 500,000, and in couple status, it is Rs. 600,000.	630	35	133	57	282	123	3.5159	1.18237

Source: Field survey 2024

Statements under the issue of ‘legal provision of VAT and Income Tax’

Statement	No. of Respondents	Strongly disagree	Disagree	Slightly agree	Agree	Strongly agree	Mean	Standard deviation
1. I feel that paying taxes is my duty as a citizen to support the government.	630	10	30	42	312	236	4.1651	0.86518
2 Nepal's current tax laws and regulations are adequate.	630	56	123	36	258	157	3.5349	1.2937
3. In the future, income taxes and value-added taxation will be more reliable sources of funding for the government.	630	40	76	108	232	174	3.673	1.1819
4. In Nepal, the current VAT threshold is sufficient. .	630	26	86	42	303	173	3.8111	1.1068
5 I am motivated to voluntarily comply with my tax duties by the current tax system.	630	9	63	57	219	282	4.1143	1.02727
6. It is simple to pay income tax and VAT in Nepal.	630	22	73	77	258	200	3.8587	1.09517
7. The primary issue with the current application of income tax and VAT is the billing system.	630	42	64	48	225	251	3.919	1.21521
8. The Income Tax Act of 2058 and the Value Added Tax Acts have reasonable provisions for fines and penalties.	630	48	119	64	238	161	3.5476	1.26345
9. Nepal's current (2079–80) exemption limit from individual and couple status income is sufficient.	630	16	16	17	224	357	4.4127	0.86873
10. You are having trouble getting your tax refund in Nepal.	630	17	13	11	365	224	4.2159	0.80799

Source: Field survey 2024

Various statements under the issue of ‘perception of VAT and Income Tax

Statement	No. of Respondents	Strongly disagree	Disagree	Slightly agree	Agree	Strongly agree	Mean	Standard deviation
1. The largest portion of Nepal's tax revenue comes from the VAT contribution.	630	26	68	74	326	136	3.7587	1.03924
2. Paying income tax and VAT presents a number of challenges for taxpayers.	630	34	84	114	273	125	3.5889	1.10966
3. Keeping up-to-date purchase and sales records facilitates efficient tax collection. .	630	16	68	46	277	223	3.9889	1.04351
4. The process for receiving a VAT refund for damaged merchandise is drawn out.	630	38	108	67	257	160	3.6238	1.20402
5. The contribution of income tax and value-added tax (VAT) considerably boosts Nepal's GDP.	630	41	122	60	241	166	3.5857	1.24494
6. International trade is encouraged by Nepal's tax regime.	630	28	77	62	262	201	3.8429	1.133
The seven tax administrations in Nepal are effective in collecting taxes.	630	36	142	91	225	136	3.4492	1.21456
8. The influence of taxes on economic efficiency is contingent upon the nation's degree of development.	630	44	120	65	231	170	3.5762	1.25952
9. The government of Nepal is levying Tax on all kinds of income.	630	25	81	41	309	174	3.8349	1.08965
10. The government's various communication campaign programs are adequate to raise taxpayer awareness of income tax and VAT.	630	334	295	1	-	-	1.5048	0.73897

Source: Field survey 2024

Various statements under the issue of Ethics of VAT and Income Tax

Statement	No. of Respondents	Strongly disagree	Disagree	Slightly agree	Agree	Strongly agree	Mean	Standard deviation
1. In my opinion, it is morally required of everyone to pay their taxes.	630	487	96	40	6	1	1.3143	0.64757
2. I would consent to a tax rate rise in support of national growth.	630	198	431	1	-	-	1.7508	1.23533
3. Do you properly report your primary source of income but leave out smaller sources of income?	630	276	249	105	-	-	1.7603	0.89586
4. Taxpayers' taxable income must be used to calculate their tax responsibilities.	630	32	28	18	454	98	3.8857	0.89848
5. The current self-assessment method for estimating one's own income is intricate.	630	10	27	42	322	229	4.1635	0.84785
6. The self-evaluation system is expected to be more equitable than the former official assessment system.	630	56	123	38	254	159	3.5349	1.29616
7The self-assessment mechanism demonstrates the government's faith in the populace.	630	41	82	101	234	172	3.6571	1.19348
8. Taxpayers are encouraged to understate their true taxable income via the self-assessment system.	630	25	81	41	309	174	3.8349	1.08965

9. Do you believe that the people's national welfare programs are funded by tax revenue?	630	8	59	57	230	276	4.1222	1.00206
10. Taxpayers find it difficult to understand the structure of income tax and VAT.	630	26	71	69	267	197	3.854	1.10683
11. Taxpayers must attend training on income tax and VAT regulations.	630	39	62	53	227	249	3.9286	1.19471
12. The numerous tax rate system in Nepal is confusing tax payers.	630	49	120	66	241	154	3.5254	1.26031

Source: Field survey 2024

Various statements under the issue Awareness' of VAT and Income Tax

Statement	No. of Respondents	Strongly disagree	Disagree	Slightly agree	Agree	Strongly agree	Mean	Standard deviation
1. Do you agree that taxpayer awareness is influenced by taxpayer education?	630	10	27	42	322	229	4.1635	0.84785
2. Tax system's impact on taxpayers' knowledge of income tax and VAT laws	630	56	123	38	254	159	3.5349	1.29616
3. The tax system affects income tax and VAT compliance	630	41	82	101	234	172	3.6571	1.19348
4. In Nepal, a public awareness campaign is required to increase tax income.	630	25	81	41	309	174	3.8349	1.08965
5. Taxes as an additional burden on taxpayers and a rise in the cost of goods	630	8	59	57	230	276	4.1222	1.00206
6. Do you believe that everyone is aware of Nepal's tax system?	630	26	71	69	267	197	3.854	1.10683
7. The government of Nepal is going to introduce a new program to raise consumer awareness.	630	39	62	53	227	249	3.9286	1.19471
8. Do you agree that the government collects more taxes when taxpayers are aware of their rights?	630	49	120	66	241	154	3.5254	1.26031
9. The awareness of taxpayers is also influenced by ethics	630	25	81	41	309	174	3.8349	1.08965
10. You believe that the final tax payers are the customers.	630	8	59	57	230	276	4.1222	1.00206

Source: Field survey 2024

Major Findings of the Study

- The majority of taxpayers believe that the VAT is a significant source of income for the government, according to an evaluation of their general tax knowledge. turned into. Additionally, they maintained that creating VAT invoices is an essential task.
- Based on an evaluation of taxpayers' awareness of relevant VAT regulations, it is evident that VAT is acknowledged as a civic duty and will persist as a means of funding the government. The taxpayer contended that in order to raise awareness of the significance of his Value Added Tax (VAT) and preserve the nation's macroeconomic stability, a public awareness campaign was imperative. bottom.
- There was a substantial positive link found between VAT awareness, impact, law, and knowledge. Additionally, there was a higher association between VAT method and VAT awareness than between VAT influence and VAT understanding.
- The results of multiple regression analysis, which was used to assess the influence of VAT knowledge and methods on VAT impact, showed that the relationship between VAT impact and knowledge and methods was positively linear. Standardized beta coefficient analysis revealed that VAT law has a greater impact than VAT understanding.
- To investigate the association between the taxpayer's impressions of VAT and several areas of his attributes, one-way ANOVA and independent-samples t-tests were employed. Every aspect of the taxpayer, such as age, gender, marital status, occupation, and degree of education, was evaluated in relation to impressions of the consumption tax. It's interesting to note that every attribute of the taxpayer—aside from gender—was proven to be a significant predictor of taxpayer awareness.
- Although in different quantities, the sales tax's share of overall tax receipts is growing upward. advantageous for sound economic growth. Despite a number of implementation challenges, the trajectory of VAT revenue collection is not too poor. In the upcoming days, it is anticipated to create an increasing amount of revenue. VAT brought in Rs. 7,093.04 crore in revenue during the 2011–12 fiscal year. It totaled Rs. He was 16.1683 billion in

2016–17, a 175.93% rise from the previous year.

- This suggests that the majority of respondents agreed with the statement regarding income tax and VAT-related matters.
- The majority of respondents from the business community, VAT specialists, and VAT payers expressed a "disagree" or "slightly agree" opinion on the average about each legislation provision. However, the VAT officers noted that the "agree" scale is typical. This suggests that the majority of respondents agreed with the statement for matters pertaining to legal provisions.
- The majority of respondents who identify as VAT payers and VAT payers observe with a "agree" scale when it comes to the average opinion of the respondents on each problem connected to VAT evasion. Nonetheless, the business community and VAT officers note that a "disagree" or "slightly agree" scale is typical. This suggests that the majority of respondents agreed with the statements made regarding VAT avoidance.
- The majority of respondents who represent the VAT payers, VAT officers, VAT specialists, and VAT business community, on average, see each statement pertaining to the VAT contribution with a "agree" rating. This suggests that the majority of respondents agreed with the statement on the VAT contribution.
- The majority of respondents, who include VAT payers, officials, specialists, and members of the business community, rated each statement pertaining to the difficulties with VAT as "agree." This suggests that the majority of respondents agreed with the claims of VAT challenges. The regression's findings demonstrate that each independent variable's sign corresponds to its priority. At the 99% level of significance, the computed F-statistic is likewise more than the table value, suggesting a strong positive correlation between perceived problems with VAT and evasion in VAT collection. The model's independent variables account for 53% of the variance in the dependent variable, as indicated by the adjusted R² of 0.5339.
- The regression model's findings demonstrate that the variable included in the model has the

predicted sign according to prior expectations. Complex legal provisions and VAT rate complexity are negatively correlated with one other, although administrative effectiveness and VAT collection incentives are positively correlated with VAT collection efficiency. Furthermore, at the 95% level of significance, the calculated F-statistic is greater than the table value.

- There was a positive and substantial correlation found between economic tax deterrent, tax justice, tax knowledge, and tax compliance behavior (0.755**, 0.479**, and TXK 0.217**). When the link between the variables tax knowledge and tax compliance behavior for the non-religious entrepreneurs was examined, the results were similar but not statistically significant (-0.173). This was the only difference between the results for religious and non-religious entrepreneurs.
- The controlled variables 0.789*, 0.205*, 0.087*, and 0.436* were not used in the observation of the positive and significant effects of economic deterrence, tax fairness, tax awareness, and religiousness. • The study also tried to ascertain the influence of covariates when controlling the controlled variables; however, the effect of religiousness in the whole model is relatively lower than the effect of religiousness when employed in simple regression model (0.746*). When controlling for marital status, the study showed that the following four factors had a positive and significant effect: tax awareness (0.089, Sig. =0.032), economic deterrent (0.785, Sig. =0.001), justice (0.206, Sig. =0.001), and religion (0.407, Sig. =0.001). According to the substantial and unfavorable effect of marital status (-0.214, Sig.=0.023), tax compliance behavior tends to decrease when one's marital status changes from married to single.
- The study also found that three covariates had a positive and significant impact: religiousness (0.358, Sig. = 0.001), economic deterrence (0.735, Sig. = 0.001), and justice (0.198, Sig. = 0.001). When the effect of education level was controlled for, the effect of tax knowledge was insignificant (0.072, Sig. = 0.071). The education level has a substantial and favorable impact (0.205, Sig.=0.001), suggesting that as education levels rise from high school to undergraduate and postgraduate, Nepalese entrepreneurs are more likely to comply with tax laws.

- The study found three covariates—economic deterrence, justice, and tax knowledge—had a positive and significant effect on tax compliance behavior when the effects of the two controlling variables—marital status and education level—as opposed to an insignificant effect of tax knowledge when the education level was the only variable controlled. Likewise, the controlling variable's effect on marital status was found to be both negative and inconsequential, while the effect of education level was found to be both positive and significant ($p = 0.207$, Sig. = 0.001). • There are still plenty of taxable business owners that escape taxes. Consequently, there is a need to promote voluntary compliance and improve the effectiveness of enforcement. In order to encourage voluntary compliance, taxpayer services and education are essential components of contemporary tax administration.
- Since registered taxpayers engage with each other as buyers and sellers of goods and services, invoices must be reasonable and clear. Governments and their professional associations have responded by initiating awareness campaigns aimed at educating vendors about billing systems and assisting the public in being more knowledgeable, prudent, picky, and vigilant against vendor fraud. and ought to be encouraged.
- It is important for suppliers to maintain accurate and current invoicing systems in order to ensure account transparency. In addition to mastering marketing, they also need to become proficient in accounting and reporting while keeping legal considerations in mind. In this sense, accounting and tax training programs ought to be offered by both public and private institutions.
- Customers are inadvertent taxpayers. They fulfill the government's financial obligations by paying taxes, levies, gifts, etc. It is crucial that the funds that taxpayers give the government in lieu of taxes end up in the public coffers. Tax harassment or discouragement should not be accepted by taxpayers. In order for taxpayers to feel as though they are making a payment, we need a welcoming and supportive tax environment.
- By bringing concealed taxpayers into the tax system, the government ought to endeavor to broaden its revenue base. It is mandatory for all of her VAT taxpayers to prominently display their registration certificate, and more and more people are doing this. But tax

authorities should keep a close eye on this.

- There is no monitoring system in place for his VAT administration in Nepal. Tax avoidance is encouraged by this. As a result, it is necessary to create testing, investigation, and monitoring systems that are both effective and efficient, and to put strong penalties in place for rule breakers.
- A lot of VAT-related laws and regulations only exist on paper and are rarely applied in real life. Consequently, in order to effectively create revenue, all rules must be properly adhered to. In addition, we must impose stringent regulations on tax officials and prosecute individuals who are directly or indirectly associated with corruption.
- Demand incentives and voluntary registration from truthful taxpayers.
- The most efficient way to make money is through VAT; any additional revenue needs to be obtained through comprehensive tax education initiatives. Accuracy, comprehensibility, equity, and balance are essential components of taxpayer education and service principles. prompt, inexpensive, and accountable to taxpayers.
- To improve the application of his VAT in Nepal, a variety of awareness-raising initiatives should be put in place for actual taxpayers, or consumers, as well as business owners. To confirm tax leakage, tax officials are provided with a variety of seminars and lectures. Government employees must receive training in order for the system to function correctly. It is imperative that decision-making bodies and taxpayers work together to establish an organized civil society in order to put an end to the state's monopolistic practices and the economy's dictates of exploitation.

Discussion

- The study underwent a thorough discussion of earlier research in the theses' literature review section. As a result, the study's outcome is related to the conclusions drawn by many writers in various contexts, as the literature review discusses. The following describes the significance of our research findings in relation to other authors' earlier discoveries. It is in line with the findings of Alm and Gomez (2008), Ali, Fjeldstad, and Sjursen (2014),

Alasfour, Martin, and Bampton (2016), Inasius (2018), and (OECD, 2019) to observe a positive and considerable economic deterrence on tax compliance behavior. Furthermore, it was shown that tax justice and fairness had a favorable and significant impact. This finding is consistent with the research conducted by Alasfour, Martin, and Bampton (2016) as well as Farrar, Massey, Oseki, and Thorne (2020). Additionally, without utilizing the controlled variables, the effect of tax knowledge was shown to be positive and significant in the regression model. This result was consistent with the findings of Wong and Lo (2015), Bandara & Weerasooriya (2019), and Farrar, Massey, Oseki, and Thorne (2020). In comparison to single, nonreligious, and poorly educated taxpayers, the study found that married, educated, and religious Nepalese taxpayers complied with tax laws. This finding is in line with findings from studies by Alm and Gomez (2008), Torgler (2004), Cyan, Koumpias, and Vazquez (2016), OECD (2019), McGee and Benk (2019), and Horodnic (2018). The study also found that tax knowledge has a positive impact on tax compliance, which is consistent with the findings of Sussman & White (2018), who noted that partisan beliefs, personal and social norms, comprehension of tax information, salience of taxes or tax-relevant information, and knowledge of taxes can all influence attitudes toward taxes and related behaviors. By examining public opinion on tax knowledge in New Zealand, the findings further corroborate the views put forth by Saad (2014). Taxpayers agreed that attitude, perceived behavioral control, complexity, and fairness judgments all contributed to taxpayer noncompliance. The study, which was in line with the conclusions of Cumming, Jorge, Michae, and Torgler (2004), Horodnic (2018), McGee and Benk (2019), and Ozdemir, Celik, and Kara (2019), showed that religiousness has an impact on tax compliance among Nepalese tax payers. Lastly, it was found that the respondents' marital status and educational attainment had a substantial impact, at least on some level. These results were consistent with those of Horodnic (2018), Cumming, Jorge, Michae and Torgler (2004), Ozdemir, Celik, and Kara (2019), and Torgler (2004).

- GPT-3.5 demonstrates the attributes of taxpayers, including their gender, age, marital status, degree of education, and awareness of VAT, are significantly correlated. Nevertheless, the study could not discover a meaningful connection between VAT knowledge and occupation.

- The results imply that public awareness campaigns are necessary to improve taxpayers' understanding of Nepal's income tax and value-added tax regulations. These initiatives have the potential to significantly boost tax compliance and boost government income. The study also emphasizes how crucial it is to have effective tax administration systems in place in order to streamline tax collection and lessen issues for taxpayers. The results also highlight the necessity of ongoing reforms to VAT laws and policies in order to guarantee taxpayers' simplicity and fairness.
- The study underscores the significance of taxpayer education and awareness initiatives in fostering tax compliance and enhancing Nepal's tax systems as a whole.

CONCLUSION

In summary Nepal, one of the least developed nations in the world has long struggled with social and economic issues. The veil of widespread poverty, hunger, disease, unemployment, over-reliance on agriculture, lack of suitable industry, low income levels, socio-political and geographic restrictions, and poor internal revenue performance cannot be torn. The ideal tax system for emerging nations like Nepal is the value-added tax (VAT). Nepal is not an exception, as nations of this type place more emphasis on revenue generation. The transparent nature of the VAT system, which increases the revenue base and deters tax evasion, is the explanation. It follows that the VAT is the primary source of funding for the government. The biggest benefit of the VAT is that it generates income, which is crucial for mobilizing resources, particularly in an economy when resources are practically limited. VAT broadens the tax base, does rid of tax cascades, creates an investment-friendly tax system, creates a contemporary, straightforward tax system that doesn't charge basic goods or exports, and ultimately lets you make more money. With the implementation of the VAT, Nepal has proudly joined a significant international tax structure. Nepal began implementing VAT on November 16, 1997. Nepal has put in place a strategy to make VAT its primary revenue source. A key component of the tax reform agenda was the implementation of VAT. Throughout this course, several reform-focused activities have been conducted. But since its establishment, the VAT system has encountered numerous issues that have diminished its benefits and efficiency. The business community's resistance slows down the process first, followed by administrative problems. The VAT was

broadly embraced by businesses and taxpayers despite early opposition, and governments viewed it as a crucial instrument for raising the funds required to support public spending. Theoretically, Nepal's VAT system has no lax regulations. of the world's greatest models. Spending on development is gradually rising, which is unfavorable for a nation like Nepal. Because only development spending can undertake several programs aimed at improving social circumstances like health and education, as well as build the infrastructure required for economic progress. The main source of funding for the needs of public spending, public revenue, is not keeping up with public spending. Tax revenue and non-tax revenue are the two categories of revenue. Approximately 75% of overall revenue comes from taxes, and the remaining 25% comes from non-tax sources. Because it is so rigorous, increasing your income through tax-exempt income is a very challenging undertaking. Thus, every attempt should be made to increase revenue by the imposition of taxes on real estate, income, and goods. In actuality, though, this system is still out of date. The majority of the problems with his VAT in Nepal have been found. The primary issue, or the source of all issues, is the taxpayer's ignorance of her VAT. Empirically speaking, VAT has shown to be the most effective way to reduce economic inefficiencies in the nation and greatly increase potential revenue. As a result, the most crucial thing to remember is that taxpayer knowledge and public tax collection are positively correlated. e. Of course, a larger taxpayer base contributes to the nation's increased ability to generate income. This emphasizes the necessity of motivating taxpayers to voluntarily comply, and this should be the goal of all tax administration improvements. For the successful implementation of VAT, governments must take the required action to address new concerns. The main roles are awareness campaigns and taxpayer education on taxes. The public's opinion of VAT, as well as the integrity, morality, and trust of the business community and tax officials, are critical to its success. It requires action and willpower. It is best to refrain from interfering needlessly in economic activity. To increase income, governments require the full participation of tax officials, business owners and taxpayers, and consumers. That being said, in order to improve system efficiency, governments must draw lessons from their past actions. In addition, it is critical that governments demonstrate by deeds, not just words, the reasonability of the policies they enact and the confidence of the public in those policies. The study also finds that tax honesty can be positively impacted by educating business owners about perceived fairness, tax justice, and tax expertise. has additionally arrived at Tax compliance may increase if tax

authorities are treated fairly. Fair treatment is more important to encourage tax compliance than the rewards and penalties that taxpayers receive. The Fischer model is supported by this conclusion. The likelihood of noncompliance can have an impact on taxpayer compliance in two ways: directly through factors like income level, source, and occupation, and indirectly through factors like attitudes, perceptions, and the tax system's fairness. You come to the conclusion that the most crucial factor in influencing taxpayer views is peer influence. and acknowledgment. The sense of fairness has the potential to boost taxpayer trust in tax authorities and enhance their compliance with tax laws. Consequently, given the detrimental effects on tax equity, the report advises making careful plans for upcoming tax regimes. The significance of religious convictions in preserving high levels of tax compliance was also covered in this study, which also discovered that demographic factors had an impact on attitudes and perceptions of non-compliance as well as chances for tax compliance. Therefore, in order to prevent additional tax evasion tendencies and to promote tax integrity, tax policy should concentrate on ethics and religion. Consequently, the study suggests that in order to raise the moral standards of all entrepreneurs in Nepal, general ethics education should be implemented, encompassing fairness and justice practices. • The majority of consumers and businesspeople were unaware of VAT during the research period. To increase public knowledge of his VAT, it is therefore essential to set up his program through training sessions, conferences, report presentations, paper publishing, journal publications, and media

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