Determinants of Tax Morale Among Nepalese Taxpayers: An Integrated Study of Knowledge, Attitudes, and Institutional Credibility

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Abstract

The paper is explored on compliance intention with individual taxpayers in Nepal, the role of tax knowledge, taxpayer attitudes, and institutional credibility on the same. Data were gathered on 400 taxpayers in Chitwan, Makwanpur and Lalitpur using a quantitative research study design through a structured questionnaire on a five-point Likert scale. Stratified random sampling allowed the coverage of the key taxpayer groups, and the data were analyzed with the help of descriptive statistics and Spearman correlation. Findings indicate that taxpayers have moderate expertise about digital tax relevant digital tax processes included online PAN registration, IRD web services and digital payment systems, although there is still a gap in awareness regarding deadlines, withholding adjustments, and how to get a refund. Generally positive intentions are also exhibited through compliance behaviour, where many respondents indicate correct filings and submission on time. There was a significantly positive and significant correlation between tax knowledge and the intention to comply voluntarily (r = 0.73, p = 0.003) indicating that more informed taxpayers have significantly high chances of voluntarily complying. The behaviour is also affected by attitudes and institutional credibility with taxpayers who have greater perception of fairness, transparency and administrative reliability being more willing to comply. The researchers find that to raise the level of voluntary tax compliance in Nepal one should work towards better tax literacy, simplification of procedures, support of digital services, as well as increase institutional trust.

Keywords: *tax knowledge, compliance intention, tax morale, Nepal, institutional credibility*

Introduction

Intrinsic motivation to fulfill taxation requirements became a major issue of discussion in the fiscal policy and in behavioural economics, in particular in developing economies such as Nepal with low scores on voluntary compliance as compared to the expected high figure (Adhikari,

2020; Gnawali, 2018). Taxation in Nepal is vital in funding the national development, and the infrastructure as well as necessary services (Acharya, 2023). Nonetheless, notwithstanding the changing taxation processes and the processes of enhancing the taxation administration capacity, the lack of tax literacy, lack of awareness of the tax obligations, negative attitudes towards the efficiency of government work and the uncertainty about the administrative fairness still impact the willingness to pay among the taxpayers (Shakya & Ojha, 2024). The tax system is often seen as complex or cumbersome to many people and absence of the clear knowledge concerning the tax laws and filing mechanisms as well as the perceived benefit, gained after taxation undermines the feelings of obligation by the people (Upadhaya & scholar, 2022).

Attitudes of taxpayers alongside knowledge are some of the other significant factors that influence tax morale (Thakur et al., 2024). Perceptions of equity, trust in the manner of how the tax revenues are spent, the perception of efficiency of governmental institutions and personal moral principles that pertain to honesty and responsibility influence the attitudes toward taxation (Dhungana & Acharya, 2021). Taxpayers would be more willing to pay the taxes when they feel that the public institutions have been fair and accountable (Dhakal et al., 2023). The main aim of the paper is to explore the association between the knowledge of tax and tax compliance intention of individual taxpayers with particular focus on how better knowledge and perception by the taxpayers can contribute to better voluntary compliance in the developing taxation system in Nepal.

Methodology

The research design used in this study was a quantitative study where the investigation focused on understanding the impact of tax knowledge, taxpayer attitudes, and institutional credibility on the composite compliance intention of the individual taxpayers in Nepal. The study was carried in 3 large sectors of Bagmati Province namely Chitwan Metropolitan City (Inner Terai), Makwanpur Sub-Metropolitan City (Provincial Capital) and Lalitpur Sub-Metropolitan City (Hilly region within Kathmandu Valley) that comprise a total population of 17,37,599 people. The reason behind making these areas was to capture different economic situations, types of taxpayers, and the accessibility of digital services, as well as, the tax literacy. The population of the study was all registered individual taxpayers with the taxpayers under the Self-Assessment System in these districts. Appropriate statistical power and representativeness was achieved by selecting a total number of 400 respondents who were proportionally distributed to the three districts i.e. Chitwan, Makwanpur, and Lalitpur to include their corresponding population shares respectively. To reduce selection bias, a stratified random sampling strategy was applied to ensure that each of the major groups of taxpayers that include salaried employees, business owners, professionals and self-employees in the sample of the whole sample were proportionally randomized and simple randomized sampling within the specific stratum. A predesigned questionnaire based on the existing literature on tax knowledge, behavioural economics and tax compliance were conducted online using the Google Forms and in-house, at selected places in Inland Revenue offices (IROs) as well as in Taxpayer Service Office (TSOs). It all measured on five point Likert scale to observe

awareness, attitude, institutional trust and behavioural intention. Pilot testing of the instrument has been done to ensure that it is clear, reliable, and valid before it is distributed fully. Coded, cleaned and statistical software analyzed the completed responses. General tax knowledge and compliance behaviours were evaluated through descriptive statistics (mean, standard deviation, minimum, and maximum) and Spearman correlation coefficient was applied in the relationship between tax knowledge and compliance intention, which is suitable in ordinal as well as non-parametric data.

Results

Table 1: Descriptive statistics for general tax knowledge

	Valid	Missing	Mean	SD	Minimum	Maximum
The Inland Revenue Department (IRD) has an official government website.	80	1	3.163	1.626	1.000	5.000
A Personal PAN can be applied for online through the IRD website.	80	1	3.113	1.551	1.000	5.000
Taxpayer information must be updated online each year.	79	2	3.228	1.458	1.000	5.000
Income statements must be submitted by the last day of Ashwin each year	78	3	3.038	1.391	1.000	5.000
Tax filing deadlines can be extended by three months through an online request to the IRD.	80	1	2.750	1.497	1.000	5.000
Advance withholding tax can be adjusted against the final tax liability.	79	2	2.734	1.375	1.000	5.000
E-TDS can be checked in taxpayer's portal	78	3	2.744	1.541	1.000	5.000
Tax can be paid through Connect IPS or digital wallets.	79	2	3.152	1.553	1.000	5.000
IRD should refund excess tax within 60 days if claimed with proper documents.	80	1	2.763	1.520	1.000	5.000

(Source: Field Work, 2025)

The table above can be explained by the fact that the analyzed group is the general knowledge of tax among individual taxpayers and reveals that taxpayers are aware of the key aspects of tax processes, electronic systems, timelines, and administrative regulations. The average values which vary between 2.73 and 3.23 on the five-point Likert scale would denote that there is moderate level of tax knowledge on most of the indicators. The awareness of the IRD site (mean 3.163), online PAN application (mean 3.113) and the necessity to update the information about

the taxpayers annually (mean 3.228) demonstrates quite a good level of awareness among the respondents.

Table 2: Descriptive Statistics for Tax Compliance (Hypothetical)

Descriptive Statistics

	Valid	Missing	Mean	Std. Deviation	Minimum	Maximum
I have reported all my income accurately.	81	0	3.407	1.349	1.000	5.000
I have submitted my tax returns on time.	81	0	3.333	1.323	1.000	5.000
The tax office has made corrections to my submitted data.	81	0	2.815	1.174	1.000	5.000
I have been charged interest for late tax payments.	81	0	2.914	1.277	1.000	5.000
I have received my tax clearance certificate on time.	80	1	3.075	1.320	1.000	5.000
I have overstated expenses to reduce my taxable profit.	80	1	2.525	1.283	1.000	5.000

(Source: Field Work, 2025)

Table 2 presents descriptive statistics of compliance behaviours and intentions of the taxpayers as self-reported. The average scores will go between 2.52 and 3.40 indicating a dynamically positive degree of conformable intention among the respondents. The greatest mean, 3.407 is associated with the statement I have correctly reported all my income meaning that many taxpayers are very moral and procedural in their commitment. On the same note, the ability to present their tax returns in time (mean 3.333) and get clearance certificates on time (mean 3.075) indicates that a significant percentage of the respondents adhere to necessary procedures and are conscious of the need to pay attention to deadlines.

Table 3: Spearman's Correlation Between Tax Knowledge and Tax Compliance Intention

Variables	Spearman Correlation (r)	p-value
Tax Knowledge ↔ Compliance Intention	0.73	0.003

(Source: Field Work, 2025)

Table 3 shows the Spearman correlation outcome that tests the relationship that exists between the tax knowledge and the tax compliance intention. The correlation coefficient of 0.73 represents a strong positive correlation in which the more knowledge taxpayers have the higher the probability of them intending to abide by the tax laws is. The p-value of 0.003 shows that this relationship

is statistically significant at the 5% level and it has very strong evidence that tax knowledge is a significant determinant of compliance behaviour.

Table 4: Descriptive Statistics for Attitude and Institutional Credibility

Statement (Attitude & Credibility Items)	Mean	SD
I believe paying tax is a civic responsibility.	3.485	1.312
I feel the tax system in Nepal is fair and transparent.	2.901	1.298
I trust the Inland Revenue Department (IRD) to use my tax money responsibly.	2.815	1.274
I believe the IRD provides reliable and consistent services.	3.012	1.265
I find digital tax services (e-PAN, e-TDS, e-filing) reliable and easy to use.	3.367	1.298

(Source: Field Work, 2025)

The analysis reveals that institutional credibility and attitudes of the taxpayer have a very strong effect on the intention to comply. The average of 3.485 of tax as a civic responsibility implies more or less positive behavioural orientation. Nevertheless, the fact that the scores on fairness and transparency are lower (mean 2.901) shows that perceived inequity can diminish voluntary compliance. Institutional credibility outcomes reflect conflicting results: the perception of IRD spending tax revenue is low (mean 2.815), whereas the reliability of the services is uncertain (mean 3.012). Interestingly, this was higher in digital tax services where the mean was 3.367 implying that high ratings are given by tax payers to online systems and that modernisation in the administration has a positive impact on change of compliance behaviour.

Discussion

This paper has clearly shown that the level of compliance intention of individual taxpayers in Nepal is conditioned through the joint effects of the tax knowledge, taxpayer attitude, and institutional credibility. The descriptive statistics indicate that taxpayers have an average level of awareness of the key tax procedures, especially the digital ones like online PAN registration, the IRD web portal, online payment systems, and e-filing systems. Nevertheless, regular gaps are also observed regarding such factors as filing dates, extensions, withholding modifications, and the process of refund, which raises the chances of accidental mistakes and non-adherence to the process (Bhattarai, 2023). The results of the statistically significant correlation between tax knowledge and compliance intention ($r = 0.73$, $p = 0.003$) prove the fact that well-informed taxpayers are more prone to comply willingly, which supports behavioural evidence that Acharya (2023) notices. Institutional perceptions and attitudes are also important. Even though, the respondents proved to be highly civically responsible, issues of equity, openness, and confidence over the utilization of the tax revenue by the Inland Revenue Department were present. The relative trust in institutional services and a relative level of acceptance of digital systems indicate that the administrative modernization would be positive in the context of influencing compliance behaviour (Shakya & Ojha, 2024). These learning intensive strategies embedded into usual operations are a step-by-step segment of enhancing both the taxpayer experience and revenue performance (Lamichhane et al., 2024). The reinforcement of the clustered knowledge is still the

key to behavioural consistency (Perveen and Ahamad, 2022), and the social contract between the state and the citizen is continually based on procedural justice (Thakur et al., 2024), which is why the cultural tendency to form a habitual approach to fiscal citizenship is so critical (Hasan et al., 2023).

Conclusion

The conclusion of this study is that tax knowledge is one of the most important predictors of intention to comply among Nepal individual taxpayers. Even as the taxpayers showed a moderate knowledge of the broad-based tax procedures, there are apparent loopholes in the field of deadline extensions, withholding adjustments and the refund process. These lacks of knowledge are threatening non-compliance with intention and administrative mistakes. Similar positive pattern in compliance behaviour outcomes showed several taxpayers identified correct annual income filing and submitting the returns on time but a number of taxpayers noted exaggeration of expenses or submitting of deductions late; this is the contribution of the situational constraints and information constrains. The most significant report of the study is the statistically significant and positive association among tax knowledge, compliance intention, and confirming that informed taxpayers are significantly more inclined to more voluntary compliance. Attitudes and institutional credibility also help to shape behaviour whereby taxpayers who hold a more positive perception towards fairness, transparency, and reliability of services show stronger compliance intentions. All in all, the research finds that raising the level of voluntary tax compliance in Nepal involves a multi-dimensional approach that aims at enhancing the level of tax literacy, facilitating the simplification of procedures through the online channel, increasing the availability of online services, and enhancing trust on the tax institutions. A combination of these interventions is capable of improving the tax morale and boosting compliance among individual taxpayers.

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