

CHAPTER I

INTRODUCTION

1.1 Background of the study

Agriculture sector is a major sector of the economy in terms of income, employment and food security in Nepal (Karn, 2021). More than 66 percent of the population was dependent in agriculture. This highlights the significance of agriculture sector in the country. The sector not only provides employment opportunities to a large number of people, but also contributes significantly to the national income. Thus, agriculture is a backbone of Nepalese economy and there is a need for the government and other stakeholders to invest in the sector, provide necessary support and encourage innovation to increase productivity, improve food security and enhance the livelihoods of the people dependent on agriculture.

The contribution of agriculture sector to GDP has been declining while the contribution of service sector has been increasing since last many years. The contribution of the industrial sector has remained almost stable. The contribution of agriculture, industry and service sector to GDP was 37.4 percent, 17.5 percent and 45.1 percent respectively in two decades ago, however such contribution is estimated to be 23.9 percent, 14.3 percent and 61.8 percent respectively in the current fiscal year (Economic Survey, 2022). Therefore, it is important for Nepal to focus on industrial development to create more employment opportunities and promote economic growth. The shift from an agrarian economy to a service economy can be advantageous, but a balanced contribution from all sectors is necessary for sustainable development. Nepal can attract foreign investment in the industrial sector by improving the investment climate, providing necessary infrastructure, and offering incentives to investors.

The major sources of revenues are to accrue from taxes on income, capital gains and profits which are a direct tax on entities (24%), VAT (26%), taxes on foreign trade of which import taxes (and duties) comprise the majority (23%) and excise duty (15%). The extent that domestic revenue performance is hampered because of the ongoing Covid-19 pandemic and the extent that Nepal's ability at leveraging debt is adversely affected would determine realized revenue flows and hence expenditures. Nepal's budget relies extensively on foreign sources on two fronts. First, on the domestic revenues front, it plans to raise 23.75% of budgeted expenditures are expected to be

financed from domestic revenues which are mainly from taxes. To the extent there is a shortfall in domestic tax revenues recurrent expenditures could be at risk of being underfunded. Similarly, there is a high dependence on capital and financial management expenditures on loans – both internal and foreign and to the extent these targets are not realized, these two expenditure headings would have to be curtailed (Unicef, 2021). Therefore, the impact of Covid-19 on Nepal's revenue collection and debt leverage capacity could have significant implications for the country's ability to finance its budgeted expenditures. A shortfall in domestic tax revenues due to the pandemic could potentially lead to underfunded recurrent expenditures, while a failure to meet loan targets could result in curtailed capital and financial management expenditures.

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The need for higher revenue mobilization for developing countries is substantial. They need to spend a significant amount of public resources to meet high development aspirations of people without compromising macroeconomic balance and debt sustainability (NRB, 2017). Therefore, It is true that many developing countries face significant challenges in mobilizing adequate resources to finance their development goals. These countries often require substantial investments in areas such as infrastructure, education, healthcare, and social protection to meet the basic needs of their populations.

Increment of gross domestic product (GDP) of the country perpetually sounds as economic growth. Low economic growth is a core obstacle of economic development (Bajracharya, 2014). Therefore, Nepal's government should prioritize policies to increase GDP growth rates through tax reforms. Simplifying the tax system, reducing tax rates, and strengthening tax administration can attract investment and encourage entrepreneurship while preventing tax evasion. Increased revenue can then be used for critical infrastructure and research and development. A higher GDP growth rate and efficient tax system can lead to sustainable economic development and improve living standards.

Economies with large public sectors grow slowly because of large tax wedges but a lack of growth-enhancing government initiatives may stymie growth in countries with very small governments (Shrestha & Kautish, 2020). Therefore, Nepal's government must strive to balance the size of the public sector and taxation system to promote sustainable economic growth. The government must also focus on initiatives to enhance economic growth, such as investment in infrastructure, research and development, and incentives for startups. Achieving this balance is crucial for Nepal's long-term economic development (Yadav et al., 2015).

Taxation is the primary source of revenue for governments throughout the world to implement their social and political agendas and to deliver services to the citizens (Thananga et al., 2013). Therefore, taxation is a crucial source of revenue for governments to implement their agendas and provide services to citizens. To ensure effective revenue mobilization, tax policies must be fair, transparent, and efficient, while also exploring alternative sources of revenue to reduce dependence on taxation.

Internal sources of the fund include both tax and non-tax revenue. The government receives tax revenue as a compulsory payment when non-tax revenue is a conditional source. Non-tax sources are uncertain and inconvenient because they are imposed according to the necessary to the government (Sharma, 2013). Therefore, tax revenue is a compulsory payment that the government receives, while non-tax revenue is conditional and dependent on the needs of the government. Non-tax revenue sources may be uncertain and inconvenient since they are not guaranteed, and their availability is subject to fluctuation. Overall, it is essential for the government to balance its tax and non-tax revenue sources to ensure a stable and sustainable funding base for its operations.

Tax, is the payment we make to the government, for a goods and service. It is this money that government uses for all the functions it is expected to deliver in various like military, infrastructure- economic and social, basic amenities and welfare. In Nepal, the taxes are classified in to two types, direct taxes and indirect taxes (Khanal, 2018). Therefore, a well-structured taxation system is critical for the economic development of Nepal. A balance between direct and indirect taxes should be maintained, while ensuring that the tax system is fair, efficient, and transparent. This

can help to generate the necessary revenue for the government to deliver essential services and improve the standard of living for Nepalese citizens.

Taxes imposed by the government (direct and indirect) are one of the most important and important sources of public funding for the advancement of its economic process (Abdu & Adem, 2023). Therefore, taxes are crucial for the government's ability to fund public services and support the economic development of a country. However, it is also essential to maintain a balance in the taxation system to ensure fairness and avoid excessive burdens on individuals or businesses. Moreover, measures must be in place to prevent tax evasion and ensure that tax revenue is utilized effectively for the benefit of the public.

Developing countries like Nepal, having low per capita income, highly depend on the indirect tax rather than the direct tax. The share of income tax is much lower in the composition of direct tax revenue (Yadav et al., 2015). Therefore, the Nepalese government should increase the proportion of direct taxes in overall tax revenue by implementing policies to encourage high-income earners to come under the tax net. As the economy progresses, the reliance on indirect taxes should be reduced, and the government can collect more revenue through direct taxes like income, corporate, and property taxes. Alternative revenue sources like a carbon tax or increased excise duty on luxury goods can also be explored.

Income earned from immovable property such as residential property is taxed and the tax is known as rental income tax or withholding tax. Rental income tax is tax collected at source from some payments like rent for occupying residential property. Some of the residential properties on the market have a separation of ownership and occupation (Mushinge et al., 2021). Therefore, the imposition of rental income tax on immovable property is an essential source of revenue for the government, and the separation of ownership and occupation in the residential property market provides an opportunity for individuals to invest in the market and generate rental income. However, it is crucial to ensure that the tax system is fair, transparent, and accessible to avoid undue burden on taxpayers and promote compliance with tax laws.

Compliances of rental tax rules play a vital role in the collection of government revenue. Timely submission of tax returns and payments of the actual amount of tax is the best practice of rental tax compliances for rental income earners (Tiwari, 2021).

Therefore, compliance with rental tax rules is valid and holds true in the context of most economies. In the case of Nepal, compliance with rental tax rules is crucial for the government to collect revenue that can be used to fund public services and infrastructure projects that benefit society.

In Nepal, it is a law that any income generated from any investment in the country is subject to taxation. However, the low tax revenue is more attributed to lack of good mechanisms to enforce tax collection. The Nepal government needs to invest more on tax administration so as to ensure that no tax revenue is lost or uncollected. As such, Nepal is also ranked among countries with low compliance as far as tax revenue collection is concerned. The contribution by landlords has been very low despite all the efforts by government taxing all Nepalese to support the development of the economy by paying their fair share of taxes.

1.1.1 Rental tax system in Nepal

In this context rental income is one of the major sources of revenue for metropolitan cities (Tiwari, 2021). In Nepal, rental income tax is governed by the Income Tax Act, (2058) which requires individuals earning rental income to pay taxes on it. However, compliance with this tax law is often challenging in Nepal, as many individuals may not be aware of their tax obligations or may attempt to evade taxes. To ensure compliance with rental income tax, the government of Nepal could consider implementing measures such as educating individuals on their tax obligations, increasing the penalties for non-compliance, and improving tax enforcement mechanisms. This could potentially increase the revenue generated from rental income tax and help to support the development of metropolitan cities.

House rent directives has been issued by Inland Revenue Department in 2012 to collect effective tax from house owners under the authority under income tax act 2058 section 139. Government has taken measures to effectively collect the tax. Following are the main provision in House Rent Directive 2068:

- Natural persons do not have to file tax return as it is covered under section 92 final withholding tax.
- The rate of tax on house rent is same as before which is 10% (ten percent).
- Natural person cannot claim expenses paid like property tax etc. from rent income.

- Entity is allowed to claim expenses, while submitting return which is compulsory.
- Tax officer can do amended assessment of tax as per tax collected from similar property in similar locations, so we should pay proper tax on actual basis.
- Have to maintain a book provided by tax office (Abhilekh pustika) for 4(Four years). The format is provided in IRD website or can be collected from tax service centers.
- Rent payer should get personal PAN as per directives.
- Tax payer should immediately inform tax office by writing letter and note the darta number (Registration Number).
- Taxpayers have to declare rental income and details of property should be provided as per annexure 1 of this directive (Abhilekh pustika)

From the above provision for house rent tax system highlights in the House Rent Directive 2068 sets out several requirements that landlords and tenants must follow to ensure compliance with the tax law. It's important to understand and adhere to these provisions to avoid any penalties or legal action by the tax authorities.

1.2 Problem statement

The rental income tax is a crucial source of revenue for the government of Nepal, particularly in metropolitan cities like Kathmandu. However, compliance with rental income tax obligations remains a significant challenge among taxpayers in Kathmandu. Many taxpayers are not aware of their tax obligations or may attempt to evade taxes. This lack of compliance results in revenue loss for the government, which hinders the development and maintenance of necessary infrastructure in the city. Furthermore, non-compliance with rental income tax also creates an uneven playing field for law-abiding taxpayers and negatively impacts the overall tax system's fairness. This problem highlights the need for effective measures to improve rental income tax compliance in Kathmandu and promote tax awareness among taxpayers to ensure a more equitable and sustainable tax system.

Government finances its expenditures through the fund acquired from the service given by the government, tax, loan and donation. From all sources of finance, tax is the major source; however, in most developing countries, it is a common phenomenon to notice serious problems in developing adequate tax systems that permits a government to

sufficiently finance its expenditures. Along with the growth in the overall Nepalese economy, it has been observed that there has been an increased government spending and deficit financing. In principle, government could use both domestic and external sources of finance that a country can tap to finance the deficit. The government collected significant amount of revenue including grants, which could not fully finance the total expenditure. Without grants, the deficit could have been also about significant. This makes the borrowing and grant element of government's total expenditure counts too much. Of the external grant that constitute part of government revenue, almost half comes in the form of grants in kind (or earmarked) and the remaining comes in the form of untied cash (IMF, 2006).

In Nepal, the law requires that any income generated from any investment within the country is subject to taxation. This includes rental income generated from residential properties. However, despite these legal requirements, the country has struggled to collect adequate tax revenue, and the compliance rate among taxpayers remains low. One of the primary reasons for this low compliance rate is the lack of effective mechanisms to enforce tax collection. The Nepal government needs to invest more in tax administration to ensure that no tax revenue is lost or uncollected. This investment could include the introduction of more sophisticated tax collection systems, increasing the number of tax collectors, and implementing tax education programs to increase awareness of tax obligations among citizens.

Tiwari (2021) revealed a positive relationship between tax awareness, attitude towards tax, peer influence, and government incentives with tax compliances. The study findings depict that the taxpayers' awareness and perception towards tax are important variables that affect the compliance behavior of rental taxpayers. Mushinge et al. (2021) found that low taxpayers' compliance is caused by limited taxpayers' awareness on some aspects of rental income tax issues such as deadlines and modes of payments, tax officials not having the right attitude, the Zambia. Adimasu and Daare (2017) found that tax awareness was the major problem for voluntary tax compliance attitude and most tax payers viewed the current tax rate and penalty rate is high and they also believed that existing tax system is unfair. Besides, this study shows that tax payer's positive perception towards the tax system and government spending also encourages voluntarily tax. Karanja (2017) study concluded that attitude factors, high tax rate,

unfair tax system, social norms, gender and education level factors are significant and play a great role towards the compliance or noncompliance of Kenyan taxpayers.

The statement of problem for the study on house rent tax and its compliance among taxpayers at Kathmandu Valley is to investigate the factors that influence tax compliance behavior among taxpayers in the region. Specifically, this study aims to examine the impact of tax rate, income, fines and penalties, attitude and perceptions, tax knowledge and tax policy on tax compliance as the dependent variable. Despite the tax laws in place in Nepal, the level of compliance with house rent tax among taxpayers is low, and the government has not been able to collect the full amount of taxes owed. This problem could be attributed to several factors, including lack of knowledge about tax laws, negative attitudes towards taxes, low income, and low penalties and fines. Therefore, this study seeks to provide a comprehensive understanding of the factors that influence tax compliance behavior among taxpayers in Kathmandu Valley, with the aim of informing tax policy and promoting compliance in the region. Mainly the following questions are raised:

- What is the level of awareness among residential income taxpayers at Kathmandu Metropolitan City?
- What is the impact of determinants of tax compliance on residential income tax compliance?
- What is the effectiveness of residential income tax in overall tax system in Nepal?

1.3 Objective of the study

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

- To assess the level of awareness and understanding of residential income taxpayers towards the residential income tax system.
- To analyze the impact of determinants of tax compliance on residential income tax compliance.
- To evaluate the effectiveness of residential income tax as a part of the overall tax system in Nepal, and its contribution to the government revenue.

1.4 Research hypothesis

Based on the statement of the problem and objective of the study, the following hypothesis were formulated and tested.

Hypothesis 1: There is a significant relationship between the level of awareness and understanding of residential income taxpayers towards the residential income tax system.

Hypothesis 2: Tax rate, attitude and perceptions, income levels, fines and penalties, tax knowledge and tax policy have a significant impact on residential income tax compliance among taxpayers.

Hypothesis 3: The effectiveness of residential income tax as a part of the overall tax system in Nepal has a significant contribution to government revenue.

1.4 Rationale of the study

The study on house rent tax and its compliance among taxpayers at Kathmandu Valley is an important research topic that can have significant implications for the tax system in Nepal. House rent tax is a crucial source of revenue for the government, and understanding the level of compliance among taxpayers is critical for ensuring the effectiveness of the tax system.

- The findings of the study could inform the development of policies and interventions to improve rental income tax compliance in Kathmandu. For instance, the study may identify the most common types of non-compliance and provide insights into the factors that influence taxpayer compliance behavior. Policymakers could then use this information to design targeted interventions to improve compliance behavior and enhance revenue collection.
- The study could have significant revenue implications for the government of Nepal. By improving compliance behavior among taxpayers, the government could increase the revenue generated from rental income tax. This additional revenue could then be used to support the development of necessary infrastructure and public services in Kathmandu.
- Improving compliance with rental income tax obligations could also enhance the overall fairness of the tax system in Nepal. Non-compliance can create an uneven playing field for law-abiding taxpayers, who may feel unfairly burdened by the tax system. Improving compliance behavior among taxpayers could help to promote a more equitable and sustainable tax system.

- A study on rental tax compliance among taxpayers in Kathmandu would also contribute to the research literature on tax compliance in developing countries. This could help to advance our understanding of the factors that influence taxpayer compliance behavior in similar contexts and provide insights into the effectiveness of different compliance strategies.

Overall, a study on rental tax compliance among taxpayers in Kathmandu would have significant implications for policymakers, revenue collection, fairness, and research in the field of tax compliance. This study will contribute to tax paying awareness regarding house rent tax system.

1.6 Limitation of the study

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

- The study cannot go back in time to gather data on tax compliance behaviors and practices of taxpayers in the past.
- The study cannot read the minds of taxpayers to accurately assess their motivations and reasons for non-compliance.
- The study cannot assume that all taxpayers have perfect information and knowledge about their tax obligations and compliance requirements.
- The study cannot control for external factors such as political instability or natural disasters that may affect taxpayers' income and compliance behavior.
- The study cannot predict with certainty how taxpayers will behave in the future in response to changes in tax policies or enforcement measures.

CHAPTER II

LITERATURE REVIEW

The objective of studying the relevant literature is to learn, analyze, and explore the research studies that have been conducted in the same field as the topic under consideration, as well as to identify what gaps still exist in that field. To achieve this goal, the researcher reviews a broad range of publications, papers, journals, and research studies that have been published by various institutions. Furthermore, the researcher examines unpublished dissertations submitted by master's level students.

2.1 Conceptual review

Income tax is a direct tax that is payable on the income earned by an individual or entity. The Income Tax Act of 2058 (2002) identifies three primary sources of income: employment, investment, and business, and any income earned through these sources is subject to tax. Employment income encompasses all the inflows that an individual receives as remuneration for their services rendered to an employer. This includes salary, wages, bonuses, commissions, and other benefits or perquisites. Any income that an individual earns through employment is subject to income tax.

Investment and business incomes, on the other hand, are the surpluses or profits earned from investments or business activities. This includes income from rental properties, dividends, interest on investments, and capital gains from the sale of assets, among others. Any income earned through investments or business activities is also subject to income tax, and the tax is calculated based on the net income or profit earned.

Understanding the different sources of income and the applicable tax laws is essential to ensure compliance and avoid penalties. It is the responsibility of individuals and entities to accurately calculate and report their income and pay the appropriate amount of tax as per the relevant income tax Act. Failure to comply with the income tax laws can result in penalties, fines, and legal consequences. Therefore, it is essential to seek professional guidance and advice to ensure compliance with income tax laws and regulations.

Rental housing today constitutes a significant proportion of the housing stock in many countries, including some of the world's most developed societies. About half of the urban population in developing countries is made up of tenants (UNCHS 1990).

2.1.1 Concept of government revenue

Government revenue refers to the funds that the government collects from various sources to finance its expenditures, such as public services, infrastructure, and social welfare programs. Taxes, including Value Added Tax (VAT), are the most significant sources of government revenue. Taxation is one of the most important sources of government revenue. Rental income tax is a type of taxation on the income generated from rental properties. According to Alm, Martinez-Vazquez, & Wallace (2009), rental income tax is an important source of government revenue, especially in developing countries where property taxes are underutilized. The study found that rental income tax can be an effective tool for increasing government revenue and reducing reliance on other forms of taxation.

Bird & Gendron (2007) found that VAT is a significant source of government revenue in many countries, accounting for a substantial portion of total tax revenues. The study highlights the importance of proper administration and enforcement of VAT laws to maximize revenue collection. Taxes such as rental income tax and VAT play a crucial role in generating government revenue, which is essential for funding public goods and services such as education, healthcare, and infrastructure development.

2.1.2 Residential property

Rental housing forms a large component of the housing stock in a number of nations, including some of the world's most advanced cultures. Approximately half of the urban population in emerging nations consists of renters (UNCHS, 1990). Despite the fact that significant progress has been made in developing countries over the past two decades, where the public sector's role has shifted from direct provision of rental housing to a focus on the utilization of the potential and capacity of the informal sector, there is still a significant gap between policy formulation and its implementation, particularly with regard to rental housing. This has damaged the quantity and availability of rental homes, and the current state of housing delivery is far from adequate.

According to UN HABITAT (2003), in many emerging nations, the number of urban families living in rental housing has increased due to the sheer volume of urban expansion resulting from migration and natural increase. Despite this trend, rental housing concerns were overlooked in policy agendas until the 1990s, and governments

were primarily focused on promoting homeownership. As a result, there was little knowledge of renters and their living circumstances, and the sector of informal rental housing remained largely unknown. However, efforts have been made to reinstate renting to the housing agenda, and today we have a better understanding of renters and their situations.

The United Nations Human Settlements Programme (UN-HABITAT) convened a meeting of experts in 1989 to discuss the role of rental housing in meeting housing needs. The meeting concluded that "governments should review their housing policies and devise appropriate strategies for rental housing that eliminate discrimination against non-owners" (UNCHS 1990). Unfortunately, little has actually transpired in practice, and the failure of most national housing strategies to acknowledge the crucial role of the rental sector in providing the housing requirements of emerging nations remains possibly the largest deficiency. It is rare to locate more than a handful of developing nation governments that officially acknowledge the existence of a rental housing market (UN-HABITAT 2003). There is a housing strategy in Nepal, however there is little acknowledgment and emphasis on rental housing (Tarki 2002).

According to Dubel & Pfeiffer (1996) in South Africa, the government's neglect of rental housing "fails to serve its traditional social duty, namely sheltering the poorest segments of the population with little or no access to property in a formal abode." Few governments consider rental housing, and when it does feature into public policy, it is hindered by the effect of outdated rent control laws. According to Datta (1996), it is irresponsible to disregard rental housing considering that half of the population resides in these houses.

Several administrations have disregarded rental housing for primarily ideological motives. Politicians have testified throughout the year that owner-occupants are better off than renters. Numerous politicians have said that owners are more mature than renters and make more contributions to the economy and society. Additionally, owners are politically conservative and contribute to the economy by saving and investing. There is an argument that developing houses for owner occupancy generates employment and is generally beneficial to the economy. These arguments were supported by few empirical data, yet they seemed to resonate with the voters (UN-HABITAT, 2003).

There are renters with average and above-average incomes who are better off than certain landlords. This is not to minimize the importance of self-employment; it provides families a great deal, but the benefits are vastly inflated. Equally exaggerated are the criticisms of rental housing, which ignore the advantages that renting provides to tenants, landlords, and governments, and which perpetuate illusions about the nature of landlordism. As shown by the following facts and comments, rental housing has been carelessly disregarded. As more and more houses in a subdivision are converted to rentals, residents are inclined to feel that rental units will have a negative influence on their community. Numerous homeowner associations aim to lower the number of rental properties by controlling the placement of signs, limiting the number of rental homes in the subdivision, and, in some instances, outright prohibiting rental units.

The impact of low-density apartment developments on residential property values was found to be minimal. The document summarized various studies, in which the authors concluded that property values were either higher in areas near multi-family housing or that proximity to subsidized housing made no difference in housing values (Obrinsky, 2007). This challenges the conventional belief that low-density apartment developments and subsidized housing may negatively affect property values in surrounding areas. The research suggests that the presence of multi-family or subsidized housing may not significantly reduce the value of nearby residential properties. Additionally, some studies found that proximity to low-density apartment developments may even increase property values due to factors such as the convenience of nearby amenities and the reduction in traffic congestion resulting from a more compact urban design (Obrinsky, 2007). Overall, these findings suggest that low-density apartment developments can coexist alongside traditional single-family homes without negatively affecting nearby property values.

2.1.3 Residential rental income tax

The term "tenant" refers to the person who occupies a property under a contract with the owner, who is referred to as a "landlord," under which the tenant agrees to pay the owner of the property (referred to as "rent") a certain amount of money in exchange for the right to occupy and use the premises (Munshifwa, 2011).

Although the broader population as a whole receives some benefit, the taxpayer does not get a direct return on the money that they spend in taxes (Mohammed Ali, 2005).

Therefore, the rental income tax is a compulsory contribution that the government collects in order to cover the costs of a variety of public tasks, including the construction of schools, hospitals, and road infrastructure.

The legislation imposes penalties for violators who fail to pay taxes, evade taxes, or oppose tax collection efforts (Raskolnikov, 2006). Therefore, tax is a payment to the government by the people, the aim of tax collection is public welfare, the benefit received is not directly the return of tax, the persons pay taxes, and tax is a legal provision. These are some of the characteristics of rental income tax, but the list is not exhaustive.

Tax is a compulsory payment, tax is a payment to the government by the people, the aim of tax collection is public welfare, the benefit received is not directly the return of tax, and tax is (Mohammed Ali, 2005). The benefit received from paying taxes is not directly related to the amount paid as a return of tax. Instead, the taxes collected are used by the government to provide public goods and services, such as infrastructure, education, healthcare, and national security. As such, tax collection is an essential tool for governments to mobilize resources and promote the development and well-being of their citizens.

2.1.4 Tax compliance and tax non-compliance system

Tax compliance is the declaration of all income and payment of all taxes in accordance with applicable laws, rules, and court orders. It is also described as the act of submitting tax forms, disclosing all taxable income properly, and paying all due taxes within the allotted time frame without having to wait for authority follow-up activities (Singh, 2003). Therefore, tax compliance is a critical aspect of a functioning tax system, as it enables governments to collect the necessary revenue to fund public goods and services. Non-compliance can have serious consequences, including fines, penalties, and legal action, and can lead to a loss of trust in the tax system by citizens.

Compliance with tax laws is not a straightforward phenomenon. It is influenced by economic causes, institutional factors, psychological factors, individual and demographic variables (Jackson & McKee, 1992). Therefore, it has been conceived from several standpoints. Tax compliance is a theoretically and practically complex topic. The difficulties of tax compliance may be divided into conceptualization issues and terminology ambiguity.

Tax compliance behavior is inclined to a circumstance in which taxpayers make judgments under ambiguity (Allingham & Sandmo, 1972). Therefore, when taxpayers are faced with uncertainty about tax laws or enforcement procedures, they tend to rely on their own perceptions of fairness and the probability of detection. This can lead to noncompliance behavior or "tax evasion." Additionally, the level of perceived social norms and moral values surrounding tax compliance can also influence taxpayers' decisions. Therefore, policymakers need to consider the role of ambiguity, fairness, and social norms in promoting tax compliance behavior.

The behavior of tax compliance has long been described by punishment-oriented regulations, such as tax audits and penalty rates (Alm, et.al., 1992). However, the theoretical model did not fully explain tax compliance behavior. Numerous studies have attempted to explain tax compliance behavior in a more realistic setting. They have concentrated, respectively, on economic and noneconomic elements that influence tax compliance. Utilizing the economic framework, non-economic variables explain tax compliance. Facilitating compliance includes components such as enhancing services to taxpayers by giving clear instructions and easy-to-complete forms, as well as supporting and educating people about their responsibilities.

Monitoring compliance requires establishing and maintaining current taxpayer accounts and management information systems covering both ultimate taxpayers and third-party agents such as banks involved in the tax system, as well as appropriate and prompt procedures to detect and follow up on non-filers, nil filers, and late payments (Masinde & Makau, 2010). Therefore, this requires establishing and maintaining accurate taxpayer accounts and a comprehensive management information system that covers all relevant parties involved in the tax system, including banks and other third-party agents. In addition, it is essential to have appropriate and prompt procedures in place to detect and follow up on non-filers, nil filers, and late payments. To achieve this, tax authorities must develop a robust enforcement strategy that includes auditing, investigating, and imposing penalties on non-compliant taxpayers, while at the same time providing guidance and support to those who are struggling to meet their obligations.

Tax compliance is described as the capacity and desire of taxpayers to comply with tax rules, report the proper amount of income in each year, and pay the appropriate amount

of taxes on time. This definition includes all aspects of the tax process (Singh, 2003). Therefore, to increase tax compliance, governments need to focus on both voluntary and enforced compliance. This can be achieved by improving the quality of taxpayer services and support, simplifying tax laws and regulations, and increasing the transparency of the tax system. It is also important to have effective enforcement measures in place, such as tax audits and penalties, to ensure that taxpayers comply with the tax rules and regulations. Overall, tax compliance is a complex issue that requires a comprehensive approach to ensure that taxpayers comply with the tax laws and regulations.

Tax compliance may be broken down into two distinct categories, namely rational compliance and administrative compliance. Administrative compliance involves conformity with the applicable tax rules as defined in the relevant regulations, while judicious compliance refers to the precision with which tax return forms are filled out (Chow, 2004). Therefore, the distinction between rational compliance and administrative compliance is important in understanding the tax compliance behavior of taxpayers. Rational compliance is based on the taxpayer's perceived fairness of the tax system and the degree to which the taxpayer believes that they will be caught if they fail to comply. In contrast, administrative compliance is dependent on the taxpayer's ability to comply with the tax laws and the clarity of the regulations governing the tax system. Compliance can also be affected by a range of factors such as complexity, the amount of time and effort required to comply, the level of enforcement, and the availability of tax assistance (Klepper & Nagin, 2012).

Studies have shown that taxpayers are more likely to comply with tax regulations when they perceive the tax system as fair and just, and when they believe that their fellow citizens are also complying with tax regulations. Additionally, tax compliance behavior is influenced by the level of social trust in society, the strength of institutions, and the degree of social control exercised by the government (Frey & Torgler, 2007). Therefore, policymakers should focus on creating an environment that fosters trust and compliance in the tax system by providing clear and consistent tax regulations, enforcing the law fairly and justly, and investing in taxpayer education and assistance programs.

Compliance with tax laws is influenced by a number of factors, including but not limited to the following: levels of income, tax rate, tax fines and penalties, attitudes toward tax, perceived fairness of tax system, awareness of taxpayers, transparency and accountability, and education status of taxpayers (Geremew, 2017).

Noncompliance is also regarded as a taxpayer's failure to record true income, claim excessive deductions and rebates, and timely pay the tiny amount of tax due to the tax authorities. In brief, it is the purposeful or inadvertent failure of a taxpayer to satisfy his or her tax responsibilities (Mohani, 2001). Therefore, Noncompliance with tax laws may take the shape of either tax avoidance or tax evasion.

Tax avoidance is the legal reduction of tax liabilities through strategies that take full advantage of the tax code, such as income splitting and tax deferral, whereas tax evasion consists of illegal and intentional actions taken by individuals to reduce their legally owed tax obligations, such as by underreporting incomes, sales, or wealth, overstating deductions, or failing to file appropriate tax returns. (Mansor, 2005). Tax noncompliance may take several forms, including failure to file a tax return within the prescribed time frame or non-filing, understatement of income, overstatement of deductions, inability to pay assessed taxes by the due date, and in rare situations, outright refusal to pay levied taxes.

2.1.5 Determinants of tax compliance

The study from the OECD (2008) states that all individuals and firms would voluntarily disclose all of their taxable income and pay all of their tax obligations in a timely manner in complete compliance with the law. All taxing authorities are required by law to enforce four core tax compliance requirements on the part of their constituents and enterprises. These include getting yourself set up as a taxable entity, filing your tax returns on time (i.e., by the date prescribed by law), accurately reporting your tax responsibilities (including as withholding agents), and paying your taxes on time. Jackson and Milliron (1986) conducted the first comprehensive research of tax payer behavior and found 14 major characteristics that influence taxpayer compliance. Fischer et al. (1992) improved this model by categorizing these elements into the four distinct structures shown below. I characteristics of the population, including but not limited to age, gender, and level of education Factors such as salary, source of salary, and line of work are included in the second category, which represents a potential for

noncompliance. Finally, the tax structure/system, including elements such as the likelihood of discovery and penalties, tax rates, and punishments; attitudes and perceptions; and the tax structure/system, including factors such as the perceived fairness of the tax system, ethics, and peer influence.

2.1.5.1 Tax rate

In Fischer's compliance model, a significant aspect of the tax system and structure is represented by the tax rate. According to Clot Felter (1983), empirical evidences demonstrated that a progressive and flat tax rate is an essential characteristic that is associated to tax compliance behavior. On the other hand, studies that are conducted based on experiments indicated that higher tax rates lead to reduced tax compliance. This was shown to be the case (Friedland et al., 1978). It was demonstrated in the research conducted by Alm et al. (1993) on the audited tax returns of individual tax payers in Jamaica that the probability of underreporting and the level of underreporting are closely related to the marginal tax rate. This was the case even though the researchers did not control for the marginal tax rate.

2.1.5.2 Income

Contradictory and ambiguous findings emerged from the research the authors analyzed that examined the relationship between income and compliance. There was evidence in favor of all three competing hypotheses: (a) the rich are the least obedient; (b) the poor are the least complying; and (c) the middle class is the most compliant. These discrepancies, as pointed out by Jackson and Milliron (1986), might be the consequence of interactions between income and other compliance characteristics, notably the source of money. Most respondents agreed that taxpayers' compliance behavior is significantly impacted by their source of income. Where withholding tax was in place (such as in the case of sales subject to withholding tax and salary or wages), taxpayer compliance with tax rules was found to be higher than in cases where such restrictions were absent (for example, where the taxpayer was self-employed). Although the effect of this variable on compliance was widely agreed upon, Jackson and Milliron (1986) pointed out that much remained to be discovered about the connection between income source and other important compliance factors including occupation, income level, and the likelihood of discovery.

2.1.5.3 Fines and penalties

It stands to reason that a high level of tax compliance would be observed whenever there is a possibility that an audit will be carried out or whenever there is a significant penalty associated to tax non-compliance. Believed a circumstance in which there is a propensity for the appropriate tax authority to fish out tax payer's non-compliance intents and demand remedy to that conduct, the chance of detection is a condition that is considered to have a high likelihood of occurring. It is in the nature of humans to try to get out of paying their tax obligations; the only time this is impossible is when there is a chance that they may be discovered (Massimo, 1993). The risk of incurring penalties is another factor that influences taxpayer compliance with tax laws. In a typical scenario, the fear of being punished prevents an individual from committing any offense, which results in non-compliance. Establishing a procedure for the imposition of penalties on individuals who do not comply with their tax obligations is an essential step in putting a stop to the behavior. When there is a rigorous system of consequences in place for tax evaders, tax payers are more likely to comply with the law. In light of the research conducted by Allingham and Sandmo (1972), it has been shown that imposing severe consequences for disobedience motivates prompt cooperation.

2.1.5.4 Attitude and perceptions

Peers are tax payers in the same age group. This includes family, friends, and other people you know, like colleagues (Jackson & Milliron, 1986). Peers have a bigger impact on each other's decisions. In 1982, Grasmick and Scott did a study that showed that a respondent who hangs out with a friend who doesn't follow the rules can take the same attitude as his friend and decide not to follow the rules either. Mason et al study (1975) showed that people who aren't compliant can make their peers less likely to be compliant. Chan et al. (2000) also made sure in their study that taxpayers who are part of a group of non-compliant peers can also be non-compliant if that kind of behavior is common and expected among that group. Most of the studies that looked at the link between ethics and tax compliance found that a person's level of ethics is linked to how well they pay their taxes. Jackson and Milliron (1986) did say, though, that the importance of the link between ethics and compliance tended to change depending on how ethics was defined. So, they said that more research was needed in this area to come up with a more universal way to measure ethics and to learn more

about this variable. A bad tax system makes both tax payers and tax administrators feel bad about what the government does for its citizens. This makes people less likely to pay their taxes, which is bad for the government.

2.1.5.5 Tax knowledge

One of the possible explanations for taxpayers who do not comply with their tax obligations is that the tax system has become more complicated as a result of an excessive number of legislative changes (Jackson & Milliron, 1986). The following are some of the perspectives that can be used to understand complexity: it may be because there is an excessive amount of detail in terms of the tax rules and directives that are involved; it may also be because there are requirements when it comes to the computational aspect within the context of tax compliance decisions. In order to improve appropriate tax compliance, the rules for tax compliance need to be straightforward, easy to understand, and all-encompassing for the individuals who pay the tax. This will allow tax payers to do calculations in advance according to their own preferences. In general, the complexity of the tax system grows along with the number of tax regulations that are in place as time passes. According to Milliron (1985), the complexity of the tax system is a factor that should be considered while making decisions on tax compliance. If taxpayers have trouble filling out the tax form, which needs at least an acceptable degree of simplicity, complexity may also result in inadvertent non-compliance. This is especially true if the form is difficult to understand.

2.2 Theoretical review

2.2.1 The Allingham-Sandmo (AS) theory

The Allingham-Sandmo (AS) Theory is named after its two founders, economists Mark Allingham and Agnar Sandmo, who developed the theory in 1972. The theory suggests that taxpayers' compliance behavior is based on a cost-benefit analysis of paying taxes versus the expected cost of penalties for non-compliance. In other words, taxpayers weigh the costs and benefits of complying with tax laws and regulations.

The foundational work that Allingham and Sandmo did together resulted in the development of the Allingham-Sandmo (AS) hypothesis, which is also known as the economic deterrence theory. According to this hypothesis, the variables that determine the advantages and costs of tax evasion often have a significant impact on the actions

and decisions that taxpayers make (Allingham & Sandmo, 1972). The economic deterrence model, in its most fundamental form, views the individual taxpayer as a rational economic agent who evaluates the costs (determined by probability of detection and penalties or a fine for the fraud) and benefits (determined by tax rate) of evading taxes, and then chooses not to pay if the benefit of non-compliance outweighs the costs. In other words, the economic deterrence model assumes that taxpayers act in a manner that is consistent with a rational economic (Walsh, 2012). The idea works on the assumption that taxpayers would try to get the most out of their tax gambles by breaking the law. That is, striking a balance between the advantages of tax evasion and the risks of identification and punishment.

One of the activities that falls under this category is tax amnesty, and the fundamental idea underlying it is that individuals will typically engage in pursuits that offer the possibility of increasing their returns or rewards while simultaneously reducing the amount of effort required on their part. In general, taxpayers have a propensity to engage in activities that have a high possibility of maximizing their returns while also minimizing their expenses. This is because taxpayers want to maximize their profits while simultaneously minimizing their expenditures. In most cases, an appraisal is carried out, and if there is a high chance of punishments and the expenses associated are very high relative to the potential benefits of an action, then the action in question will not be carried out (Mengere, 2014). It states that the compliance levels on taxes will be heavily based on concerns such as personal and societal conventions, audits, penalties, or fines. This research comes to the conclusion that tax compliance is more dependent on tax audits and the penalties or fines that are imposed for noncompliance.

Many instances of excessive compliance with taxes on the part of taxpayers may be attributed to their fear of being sanctioned. As a consequence, a rise in the number of sanctions, or fines and penalties, leads to a rise in the amount of money collected in taxes. As a result of these presumptions, this model promotes more stringent auditing standards and harsher punishments for lawbreakers as a foundation for bringing down the rate of non-compliance (Fjeldstad, et.al., 2012). This model is connected to the compliance with the residential rental income tax in the sense that when there is a low probability of audit and penalties, the tendency for evasion by property owners will be higher. On the other hand, when there is a high tendency for detection and the penalties are severe, fewer property owners will try to evade the residential rental income tax.

Regarding rental tax compliance among taxpayers in Kathmandu Valley, the AS theory could be applied to analyze the factors that influence taxpayers' compliance behavior. If the perceived benefits of paying rental tax, such as improved public services or avoidance of legal penalties, outweigh the costs of paying the tax, such as the financial burden of paying the tax or the complexity of the tax system, taxpayers are more likely to comply. Conversely, if the expected costs of non-compliance, such as legal penalties or negative social sanctions, are lower than the expected benefits of non-compliance, taxpayers may be more likely to evade rental taxes.

2.2.2 Fiscal exchange theory

Fiscal Exchange Theory was developed by Charles Tilly, an American sociologist and political scientist. The theory argues that taxpayers comply with tax laws when they perceive a fair exchange between the taxes they pay and the public services they receive.

It is widely believed that the economic deterrence model and the social psychology model gave rise to this particular idea. It is predicated on the fact that there is some kind of social, relational, or psychological contract in place between the government and the people who pay taxes (McKerchar & Evans, 2009). This theory suggests that government expenditures are the primary motivator of tax compliance, and the government has the ability to ensure that its citizen comply by offering more improved public goods and services with the little they collect in the form of tax revenue. Further significant assumption that is supported by this theory is the idea that taxpayers and the government should engage in tax negotiating. This idea is seen as being essential to the process of constructing a relation of responsibility and duties between the state and society (Fjeldstad, et al., 2012).

In addition, it states that taxpayer compliance is strongly driven by government expenditures in most circumstances where there is a high inclination of taxpayers to have a view on valuing goods and services. This is because government expenditures tend to increase the value of products and services (Bello & Danjuma, 2014). Because of this aspect, taxpayers are more eager to comply with tax requirement when they get excellent services from the government and they are pleased, even in the absence of detection and penalty. This is because satisfied taxpayers are more likely to comply with tax obligation. In addition to this, taxpayers, in most cases, adjust their terms of

trade by low compliance to tax requirements in situations in which they are dissatisfied with the services provision from the government, or even in situations in which they dislike the way their taxes are spent. This is because taxpayers adjust their terms of trade when they are dissatisfied with the way their taxes are spent (Torgler, 2003).

The significance of this theory lies in the fact that property owners may be willing to pay residential rental income tax because they place a high value on the public goods and services that are provided by their government and believe that the more taxes they pay, the more increased and improved goods and services they will be offered in return for their financial contribution. On the other hand, property owners can be unwilling to cooperate if they believe that they do not get any advantage from the taxes that are collected by the government or if they believe that there is frivolous spending and looting in public coffers.

2.2.3 Social influences theory

The Social Influences Theory does not have a single founder as it has evolved from various social psychology and behavioral economics theories. However, scholars such as Lewin (1947), Asch (1955) and Cialdini (1984) have contributed to its development.

According to the theory proposed by Ali et al. (2013), tax compliance is largely influenced by both individual behaviors and societal norms. The theory suggests that an individual's compliance with tax regulations is primarily driven by social interactions, as individuals tend to conform to the norms of the groups they associate with. Thus, an individual is more likely to comply with tax requirements if they believe that members of their reference group also comply, and less likely to comply if they believe that members of their referent group do not comply. This idea highlights the significant impact of social connections on individuals' behavior towards tax compliance (Bello & Danjuma, 2014). Moreover, the fear of being socially stigmatized also plays a crucial role in taxpayer compliance with the tax system. The existence of various social standards in the community greatly affects conformity behaviors (Kirchler et al., 2008).

This theory is particularly relevant to property owners, as they are heavily influenced by social norms, social groups, family members, and friends who significantly impact their decisions regarding the compliance and payment of residential rental income tax.

Thus, this theory can be applied to property owners, highlighting the importance of social interactions and social norms in shaping taxpayer behavior.

2.3 Empirical review

Geremew (2017) assessed the compliance of non-residential house rental income taxpayers with the tax system in Hawassa City Administration, SNNPRS. The researcher collected both primary and secondary data and used the Statistical Package for Social Science (SPSS) version 20 for data analysis. The study used descriptive statistics, reliability test, correlation, and multiple regressions to analyze the quantitative data. The study found that certain factors such as financial constraints, referent group influences, awareness of taxpayers, perception of tax fairness, understatement of income, educational status, absence of government incentives, trust in tax assessment and collection procedures, and rental tax audit were the major determinants of non-residential house rental income taxpayers' voluntary compliance. Based on the findings, the researcher recommends building taxpayers' understanding of tax systems, upholding tax fairness and equity, constructing the capacity of tax authorities, and providing required social services to gain trust from society and conducting critical follow-up on taxpayers who evade taxes due to personal problems.

Ali et al., (2018) aimed to examine the knowledge and attitudes of property owners towards tax compliance in Tanzania. The study found that property taxation is a crucial issue in Tanzania and is considered a vital component of the government's efforts to improve direct taxation. However, despite its potential to generate revenue and improve local services, property tax in Tanzania generates limited revenues. The study highlights the resistance faced by property owners towards paying property tax, which creates a barrier to effective taxation. The authors suggest that understanding property owners' knowledge and attitudes towards the property tax system is essential for designing informed tax policies. Overall, the study emphasizes the need for better analysis and policy design to improve tax compliance among property owners in Tanzania.

Eerola et al., (2019) investigated the impact of two types of treatment letters on rental income tax compliance. The study is based on a large-scale randomized field experiment using register data with third-party information on apartment ownership. The researchers found that both types of letters increased the likelihood of landlords

reporting rental income. However, the letter notifying landlords of the use of third-party information in tax enforcement had the strongest effect. The study also examined spillover effects in tax enforcement and found evidence of positive reporting spillovers within households, but not between landlords in local rental markets.

Castro et al., (2020) evaluated the effectiveness of three different types of messages on rental income taxpayers' compliance with tax laws and their spillover effects on capital gains and self-employment income taxes. The research used a randomized controlled trial and a long-term follow-up to determine if the treatment increased tax revenues. The messages sent to taxpayers included detection, social norms, and altruism. The study used statistical analysis techniques to evaluate the direct and spillover effects of each message. The results showed that the detection message had a positive and sustained direct effect, with a negative but transitory spillover on the other two taxes. The social norms message had no direct effect but produced a permanent negative spillover on the capital gains tax. The message appealing to altruism had a transitory negative effect and no spillovers, with no effect on tax revenues in the long run.

Attah-Botchwey et al., (2021) assessed the compliance behaviour of property owners in the Weija-Gbawe Municipal Assembly with rent income tax rules. The study used a mixed-methods approach to collect and analyze data from 231 individuals, using descriptive statistics and regression analysis to examine the factors that affect tax compliance behaviour. The results showed that there was a low level of knowledge and compliance regarding rent income tax in the area. The study found that perceptions of the tax burden and government utilization of tax revenue had a significant negative impact on rent income tax compliance behaviour, while knowledge of rent income tax had a significant positive impact. The study identified several obstacles facing tax administrators, including the absence of a complete database on property owners, inadequate field officers, insufficient staff capacity, and corruption among some tax officials. The study recommended that frequent tax education and awareness campaigns should be conducted for citizens, with information on the government's use of tax revenue.

Mushinge et al., (2021) establishing the extent of residential rental income tax compliance among taxpayers and investigating the factors which impede residential rental income tax compliance among taxpayers in Zambia. The research was both

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

Tiwari (2021) explored tax compliance behaviour among rental income owners in Pokhara. The study is based on a survey of 196 households located in wards 9, 11 and 17 of Pokhara Metropolitan City. The wards represent commercial, semi-urban, and densely populated areas of the city respectively. The required data were gathered employing a self-administered questionnaire comprising Likert scales to measure tax awareness, attitude towards tax, cost of non-compliance, peer influence for compliance, government incentives, and tax compliance behavior of the rental income earner. The data collected were analyzed employing ANOVA, correlation and multiple regression. The research revealed a positive relationship between tax awareness, attitude towards tax, peer influence, and government incentives with tax compliances. The study findings depict that the taxpayers' awareness and perception towards tax are important variables that affect the compliance behavior of rental taxpayers. Moreover, the results reveal that the rental income earner in Pokhara does not comply with the tax rules due to the lower cost of non-compliance as negative relationship established was found between tax compliance and the cost of noncompliance. Metropolitan tax authority needs to focus on awareness and government incentives rather than the cost of non-compliance for better adherence to tax rules among rental taxpayers.

Castro et al., (2022) described a randomized controlled trial aimed at evaluating the impact of three different types of messages sent to taxpayers on their compliance with the rental income tax, as well as the indirect effects on capital gains and self-employment income taxes. The study used a randomized controlled trial design, with

participants randomly assigned to one of three treatment groups receiving different messages: detection, social norms, or altruism. The researchers also included a 15-month follow-up period to assess sustained impacts on tax revenues. The study found that the message emphasizing detection produced a positive and sustained direct effect on compliance with the rental income tax, but resulted in a negative spillover on the other two taxes. The social norms message had no direct effect, but produced a sustained negative spillover on the capital gains tax. The message appealing to altruism had a transitory negative effect and no significant spillovers.

Chindengwike and Kira (2022) find out the effect of the tax rate on taxpayers' voluntary compliance in Tanzania. In addressing this objective, both qualitative and quantitative research approaches were used. A cross-sectional survey research design technique was used. The study employed document review, and survey in collecting both primary data and secondary data. Besides, systematic, unsystematic random sampling and purposive sampling were used as sampling procedures in this study. The study involved a sample size of 99 respondents who are SMEs' taxpayers. The findings of the study showed that there is a negative effect of the tax rate on taxpayers' voluntary compliance. Again, the findings of the research suggest that the existence of favourable tax rates contributes to an increase in taxpayers' voluntary compliance, and the study also demonstrates that tax rates have an effect on taxpayers' voluntary compliance. There is a statistically significant correlation between Tanzania's tax rates and the level of compliance shown by voluntarily paying taxpayers. According to the findings of the study, the estimation calculation base should be reset in tax rates, and the study also recommends that critical involvement or participation in the process of formulating tax laws and regulation is very important to improve corporate governance, particularly between the government and the people.

Abdu and Adem (2023) attempted to assess the tax compliance behavior of taxpayers in Ethiopia. The objectives were specifically to identify determinants and challenges of tax compliance behavior of taxpayers in Ethiopia. Taxes are the most important sources of the government that make it possible to finance infrastructure, investment, and the provision of services for citizens. Tax compliance involves being aware and complying with tax laws and regulations set by the government and tax authorities. Tax non-compliance is an unwillingness in obeying tax laws and regulations. Tax non-compliance has been a challenge to the government and tax authorities in collecting as

much tax as required for the nation. Failure to comply with tax prevents adequate revenue collection of the state. The major challenges of tax compliance in Ethiopia are the complexity of the tax system, inefficiency of tax authorities, lack of tax knowledge and awareness, negative perception of taxpayers, a negative act of tax assessors, absence of tax training, lack of transparency of tax system, arbitrary estimation of taxes, personal financial constraints, political instability and lack of timely tax audit.

2.3 Research gap

The studies provide insights into factors affecting tax compliance behavior among property owners and landlords in various regions. Geremew (2017) found that financial constraints, awareness of taxpayers, perception of tax fairness, trust in tax assessment and collection procedures, and rental tax audit were the major determinants of non-residential house rental income taxpayers' voluntary compliance in Hawassa City Administration, SNNPRS. Ali et al., (2018) emphasized the need for better analysis and policy design to improve tax compliance among property owners in Tanzania. Eerola et al., (2019) found that notification letters to landlords had a positive impact on rental income tax compliance. Castro et al., (2020) evaluated the effectiveness of different messages on rental income taxpayers' compliance with tax laws and found that the detection message had a positive and sustained direct effect. Attah-Botchwey et al., (2021) found that there was a low level of knowledge and compliance regarding rent income tax in the Weija-Gbawe Municipal Assembly. Mushinge et al., (2021) found that there is low rental income tax compliance among taxpayers in Zambia due to limited taxpayers' awareness, tax officials' attitude, high tax rates, and lack of a fair tax system. Tiwari (2021) explored tax compliance behavior among rental income owners in Pokhara and found that tax awareness, attitude towards tax, cost of non-compliance, peer influence for compliance, government incentives, and tax compliance behavior of the rental income earner influenced tax compliance behavior. Overall, these studies highlight the importance of tax education and awareness campaigns, policy design, and trust-building measures to improve tax compliance among property owners and landlords.

Despite several studies investigating taxpayer compliance with residential income tax in Nepal and other countries, there is a research gap on the factors affecting compliance behavior in Kathmandu, specifically concerning tax rate, attitude and perceptions, income levels, fines and penalties, tax knowledge and tax policy as independent

variables. While previous studies have explored the impact of socio-economic factors on tax compliance, such as education level and income, there is a lack of research on how taxpayer perceptions and knowledge influence compliance behavior in the context of Kathmandu.

Moreover, existing studies have mainly focused on the overall compliance rate, and not specifically on residential income tax compliance in Kathmandu. There is a need for more in-depth research to determine the specific factors that influence compliance behavior in this particular tax category. Additionally, the majority of studies in Nepal have relied on survey methods, which may not provide a comprehensive understanding of taxpayer behavior. There is a need for more diverse research methods, such as interviews and focus group discussions, to capture a more nuanced understanding of taxpayer compliance behavior.

Therefore, there is a research gap on the specific factors influencing taxpayer compliance with residential income tax in Kathmandu. Further research is needed to understand how tax rate, attitude and perceptions, income levels, fines and penalties, and tax knowledge affect compliance behavior. Furthermore, diverse research methods are necessary to capture a more comprehensive understanding of taxpayer compliance behavior in this context.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research design

The descriptive and explanatory research design used in this study aims to provide a comprehensive understanding of the phenomenon under investigation, which is the determinants of residential rental income tax compliance by property owners in Kathmandu Metropolitan City.

A descriptive research design is used to describe the characteristics of a population or phenomenon. In this study, the descriptive design aims to describe the current status of residential rental income tax compliance by property owners in Kathmandu Metropolitan City. This could involve collecting data on the percentage of property owners who comply with tax regulations, their demographic characteristics, and their tax compliance.

On the other hand, an explanatory research design aims to explain the relationship between variables. In this study, the explanatory design aims to identify the determinants of residential rental income tax compliance by property owners in Kathmandu Metropolitan City. This could involve collecting data on various factors that could influence tax compliance, such as the level of income, the size of the property, the education level of the property owner, and the perceived fairness of tax regulations.

By combining the descriptive and explanatory research designs, this study can provide a comprehensive picture of the phenomenon under investigation. The descriptive design provides a foundation for understanding the current status of tax compliance, while the explanatory design helps to identify the factors that influence tax compliance.

3.2 Population and sample, and sampling design

The population of interest for this study is the set of all property owners in Kathmandu Metropolitan City who generate income from residential rental properties. To obtain a representative sample, a random sampling method should be used to select participants from all directions of Kathmandu Metropolitan City.

To achieve this, the researcher could divide Kathmandu Valley into different regions on geographic location, and then randomly select a proportional number of participants from each region. In this study, the researcher stratify the population of property owners in Kathmandu Valley based on geographic location into different regions. This could ensure that the sample represents the entire population and avoids any potential bias that may arise from selecting participants from only one area.

There are 166,610 rented households in Kathmandu Metropolitan City (CBS, 2023). Researcher divided the population (rented households) of Kathmandu Metropolitan City into five regions based on geographic location. Then researcher calculated the proportion of the total population for each region and used it to determine the sample size for each stratum. Researcher then randomly selected households from each region to reach a total sample size of 500. The sample size for each stratum was calculated on the basis of this formula:

Sample size for each stratum = (Proportion of population in stratum) x (Total sample size)

3.3 Nature and source of data, and the instruments of data collection

This study is integrated with the primary sources of data. Primary data are obtained through a questionnaire. The first section of the questionnaire gathered data on the respondents' background information while the other sections gathered data on the study variables, which comprised of tax rate, attitude and perception, income levels, fines and penalties, tax knowledge and how they affect residential rental income tax compliance. The questionnaires for study variables will base on five-point Likert Scale i.e., Strongly Disagree (1), Disagree (2), Neutral (3), Agree(4) and Strongly Agree (5), while demographic questions are based on multiple choice options. In designing the questionnaires for the study, the questions are designed in such a manner as to attract vital answers, which helped the researcher in analyzing the situation at hand.

Various data obtained through different sources can't be used directly for the analysis in their original form. So, they were rechecked, re-evaluated, edited and tabulated to bring them into appropriate form for the analysis purpose. The researcher makes the collected data trust worthier getting them form authorized

sources. The data were tabulated according to subject matter and they are shown in table in sequential way.

3.4 Method of analysis

Collected data are analyzed using descriptive and inferential statistics. Descriptive statistics involved the use of measures of central tendency, which included frequencies, percentages, the mean and standard deviation while inferential statistics will be used to draw conclusions which can be adopted from correlation matrix and regression equation

3.4.1 Descriptive statistics

Descriptive analysis is used to provide a summary of the tax compliance situation in Nepal in relation to the variables of tax rate, income, fines and penalties, attitudes and perceptions, tax knowledge and tax policy. Minimum, maximum, mean and standard deviation was utilized to analyze the data.

3.4.2 Correlation analysis

It is a single number that describes the degree of relationship between two variables. Correlation analysis is used to examine the relationships between tax compliance and the variables of tax rate, income, fines and penalties, attitudes and perceptions, tax knowledge and tax policy in Nepal.

3.4.3 Regression analysis

A multiple regression model was adopted. Regression analysis is a technique used to estimate relationships between two or more variables. The multiple linear regressions were as follows

$$Y = \alpha + \beta_1 TR_i + \beta_2 IC_i + \beta_3 FP_i + \beta_4 AP_i + \beta_5 TW_i + \beta_6 TP_i + \epsilon$$

Y = Residential Income Tax Compliance

α = Constant Variable

TR_i = Tax Rate

IC_i = Income

FP_i = Fines and Penalties

AP_i = Attitude and Perceptions

TW_i = Tax Knowledge

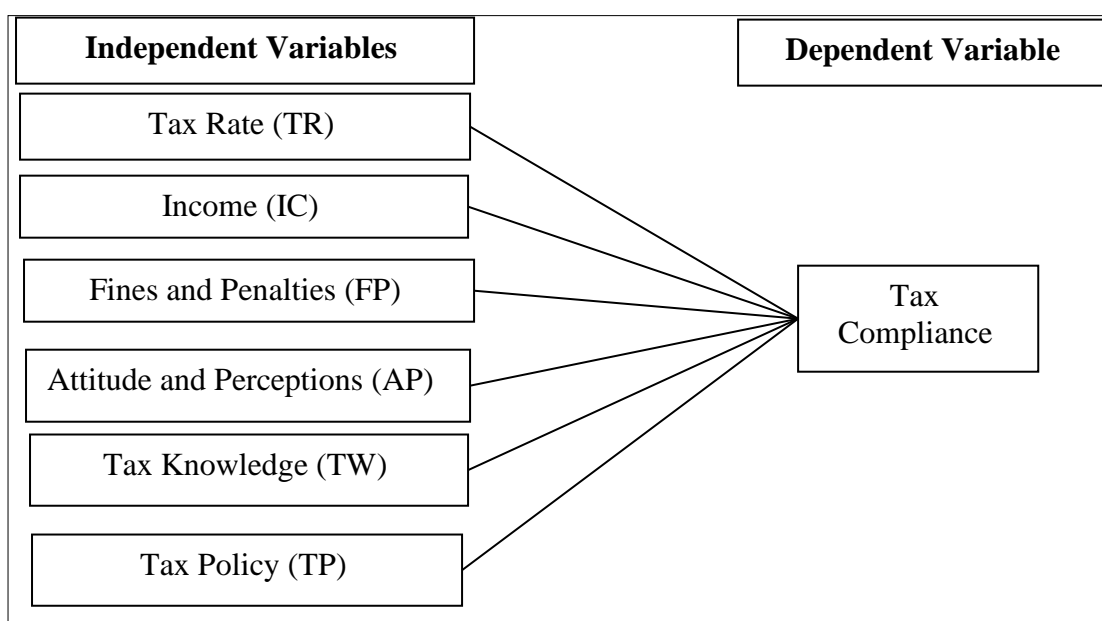
TP_i = Tax Policy

ϵ = Error Term

3.5 Research framework and definition of variables

The study aims to investigate residential rental income tax compliance by property owners and its awareness in Kathmandu Metropolitan City. The independent variables include the Tax rate, Attitude and perceptions, Income Levels, Fines and Penalties, Tax Knowledge and Tax Policy while dependent variable is residential rental income tax compliance. The economic deterrence theory explains that detection and penalties for fraud reduce the likelihood to evade taxes while several scholars have indicated that income levels, tax knowledge and attitude as key variables that influence tax compliance and awareness in several business entities. Figure 1 shows the research framework for the study.

Figure 1 Research Framework



Source: Geremew, (2017); Mushinge et al. (2021); Tiwari, (2021)

Above figure shows the framework for the study variables. Tax rate, income, fines and penalties, attitude and perceptions, tax knowledge and tax policy were used as independent variables in this study while tax compliance was used as dependent variable.

Tax compliance

Rental income tax compliance is the degree to which landlords and property owners follow tax laws and regulations related to the rental income they earn from their

properties. Compliance includes filing tax returns, accurately reporting income and expenses, and paying taxes owed to the government in a timely manner (Singh, 2003).

Tax rate

The rental income tax rate is the percentage of rental income that landlords and property owners are required to pay to the government as tax. The tax rate may vary depending on the tax policy of the government and the location of the property. Rental income tax rates can be progressive or flat, depending on the rules and regulations set by the government (Alm et al., 1993).

Income

Rental income is the money earned by landlords and property owners from renting out their properties to tenants. It is used as the basis for calculating taxes owed to the government. Rental income can be categorized into different types, such as residential or commercial rental income, and can be subject to different tax rates (Jackson & Milliron 1986).

Fines and penalties

Rental income tax fines and penalties are punishments imposed on landlords and property owners for failing to comply with tax laws or regulations related to their rental income. These may include fines, interest charges, or even imprisonment in some cases. Fines and penalties are intended to encourage compliance with tax laws and ensure that everyone pays their fair share (Massimo, 1993).

Attitude and perceptions

Rental income tax attitude and perceptions refer to the subjective opinions, beliefs, and feelings of landlords and property owners about rental income tax compliance, tax laws, and tax authorities. These can influence their willingness to comply with rental income tax laws and their perceptions of the fairness of the rental income tax system. Understanding attitudes and perceptions is important for designing effective rental income tax policies and improving compliance rates (Mason et al., 1975).

Tax knowledge

Rental income tax knowledge is the understanding that landlords and property owners have of rental income tax laws and regulations, including their rights and obligations as taxpayers. It is important for landlords and property owners to understand rental

income tax laws in order to comply with them and avoid fines and penalties. Improving rental income tax knowledge can help increase compliance rates and reduce errors on tax returns (Jackson & Milliron 1986).

Tax policy

Rental income tax policy refers to the set of rules and regulations established by the government to govern the taxation of rental income. These policies may include the tax rate, deductions and exemptions, and reporting requirements for rental income. Tax policies related to rental income can influence compliance rates, tax knowledge, and attitudes and perceptions of landlords and property owners towards the rental income tax system. Understanding rental income tax policy is important for complying with tax laws and designing effective tax policies (Abdu & Adem, 2023).

CHAPTER IV

RESULTS AND DISCUSSION

This chapter provides an outline of the status of residential income tax and its observance among taxpayers in Kathmandu Metropolitan City. As outlined in the methodology section, a variety of statistical techniques such as mean, standard deviation, and regression analysis were utilized via the SPSS software. The examination was carried out using the data collected during the research process, and the tools and methodologies detailed in chapter three were employed. To enhance the clarity of the findings, the amassed data has been presented in tabular arrangement, streamlining the analysis process. These tables offer a structured format for presenting outcomes, aiding readers in comprehending the data and the insights extracted from it.

4.1 Results

This segment of the paper offers a comprehensive outline of the accumulated data, the employed analytical approaches, and the manner in which the findings were showcased. On the whole, the incorporation of statistical techniques and tables in this research facilitates an exhaustive and precise evaluation of residential income tax compliance among taxpayers in Kathmandu Metropolitan City, thus contributing significantly to the current literature on this subject.

4.1.1 Demographic profile of respondents

The background section of the study focuses on the demographic profile of respondents participating in the research concerning house rent tax and its compliance among taxpayers within the Kathmandu Valley. This region, as the capital and economic hub of Nepal, harbors a diverse population engaged in various economic activities. Understanding the demographic characteristics of the respondents is crucial to contextualize their perspectives and behaviors regarding house rent tax compliance. The demographic profile encompasses variables such as age, gender, educational background, income level, rental experience etc. These aspects play a pivotal role in shaping individuals' financial capacities, knowledge about tax regulations, and overall willingness to comply.

Table 1 *Demographic Profile of Respondents*

Items		Frequency	Percent
Gender	Male	351	70.2
	Female	149	29.8
Age	18-24	6	1.2
	25-34	9	1.8
	35-44	119	23.8
	45-54	191	38.2
	55 and above	175	35.0
Occupation	Employed	134	26.8
	Self Employed	183	36.6
	Unemployed	98	19.6
	Student	8	1.6
	Retired	77	15.4
Income from Rent	Less than 100,000	59	11.8
	100,001-500,000	292	58.4
	Above 500,001	149	29.8
Rental Experience	Less than a Year	14	2.8
	1-3 Years	42	8.4
	3-5 Years	72	14.4
	5-10 Years	182	36.4
	More than 10 Years	190	38.0
Penalize for Non-Compliance	Yes	40	8.0
	No	460	92.0
Total		500	100

Source: Field Survey, 2023

Table 1 shows the demographic profile of respondents. The high percentage of male i.e., 70.08 percent suggests that men are more likely to be landlords than women i.e., 29.8 percent. This could be due to cultural factors, such as the fact that men are traditionally seen as the breadwinners in Nepali society.

The high percentage of respondents in the age group of 45-54 i.e., 38.2 percent followed by 55 and above with 35 percent, age group of 35-44 with 23.8 percent, age group of 25-34 with 1.8 percent and least from age group 18-24 with 1.2 percent. This findings suggests that the study participants are relatively experienced landlords. This could be because people in this age group are more likely to have accumulated the necessary financial resources to purchase a property to rent out.

The high percentage of self-employed respondents i.e., 36.6 percents suggests that many landlords are running their rental businesses as a side hustle. This could be

because self-employed people have more flexibility in their work schedules, which allows them to manage their rental properties more easily.

The high percentage of respondents who earn between 100,000 and 500,000 NPR i.e., 58.4 percent from rent suggests that these landlords are relatively well-off. This could be because they own multiple properties or because they charge relatively high rents.

The high percentage of respondents with rental experience of 5-10 years i.e., 36.4 percent suggests that these landlords have a good understanding of the rental market. This could be because they have been landlords for a long time or because they have received training or education on rental property management.

The high percentage of respondents who have not been penalized i.e., 92 percent for non-compliance suggests that the enforcement of house rent tax laws in Kathmandu Valley is not very strict. Overall, the demographic profile of the respondents in the study suggests that they are relatively experienced and well-off landlords. This could have implications for the study's findings on house rent tax compliance.

4.1.2 Descriptive Statistics

The respondents were asked to rank different statements related to measurement bases for factors influencing residential income tax and its compliance. This analysis was based on various statements related to tax rates, income, fines and penalties, attitude and perceptions, tax knowledge and tax policies. The research model included 34 observed variables, with 30 related to the six influencing factors on taxpayers' compliance and four related to taxpayers' compliance itself. A sample size of 500 questionnaires was collected using a systematic approach, and the authors confirmed that all 500 questionnaires met the required sample size and respondents' opinions. The data collected was refined and processed using SPSS 25.0 software.

4.1.2.1 Descriptive statistics of tax rate

Descriptive statistics of tax rate is a statistical analysis that summarizes the distribution of tax rates. It can be used to describe the central tendency and variation. Tax rate have five statements which was measured on five point likert scale i.e., strongly disagree to strongly agree. The level of agreement with these statements can be used to measure tax compliance. People who strongly agree with all of the statements are more likely to comply with their tax obligations, while people who strongly disagree with all of

the statements are less likely to comply. If there is a positive relationship between tax compliance and the level of agreement with these statements. This means that people who are more understanding of the tax rate, believe that it is fair, are willing to pay it, and are confident that the money will be used for good purposes are more likely to comply with their tax obligations. The descriptive statistics of tax rate is presented in Table 2.

Table 2 *Descriptive Statistics of Tax Rate*

Statments	N	Min	Max	Mean	SD
I am satisfied with the current tax rate for rental income.	500	1	5	3.19	1.08
I believe the tax rate for rental income is fair.	500	1	5	3.16	1.10
I do not mind paying rental income tax if the tax rate is reasonable.	500	2	5	4.23	0.62
I believe the rental income tax rate should be stable and predictable.	500	1	5	4.21	0.59
I think the rental income tax rate should not discourage property owners from renting their properties.	500	1	5	4.58	0.62
Tax Rate	500	1.4	5	3.87	0.53

Source: Field Survey, 2023

In the first statements respondents are satisfied with the current tax rate for rental income. The minimum tax rate that people are satisfied with is 1 and the maximum is 5. The mean tax rate that people are satisfied with is 3.19. The standard deviation of the tax rates that people are satisfied with is 1.08. This suggests that most people are satisfied with the current tax rate for rental income. However, there is a significant amount of variation in the responses, with some people being very satisfied and others being very dissatisfied.

In second statements respondents believe the tax rate for rental income is fair. The minimum tax rate that people believe is fair is 1 and the maximum is 5. The mean tax rate that people believe is fair is 3.16. The standard deviation of the tax rates that people believe is fair is 1.10. This suggests that most people believe the tax rate for rental income is fair. However, there is a significant amount of variation in the responses, with some people believing the tax rate is too low and others believing it is too high. Similar to statement 1, a reasonable and fair tax rate is one of the factors that affects tax compliance. When people believe the tax rate is fair, they are more likely to comply with the tax laws.

In third statement statement do not mind paying rental income tax if the tax rate is reasonable. The minimum tax rate that people are willing to pay is 2, and the maximum is 5. The mean tax rate that people are willing to pay is 4.23. The standard deviation of the tax rates that people are willing to pay is 0.62. This suggests that most people are willing to pay rental income tax if the tax rate is reasonable. However, there is a significant amount of variation in the responses, with some people being more willing to pay than others. A reasonable tax rate is one of the factors that affects tax compliance. When people are willing to pay the tax, they are more likely to comply with the tax laws.

In fourth statement respondents believe the rental income tax rate should be stable and predictable. The minimum tax rate that people believe should be stable and predictable is 1 and the maximum is 5. The mean tax rate that people believe should be stable and predictable is 4.21. The standard deviation of the tax rates that people believe should be stable and predictable is 0.59. This suggests that most people believe the rental income tax rate should be stable and predictable. When people know what to expect, they are more likely to comply with the tax laws.

In fifth statement majority respondents think the rental income tax rate should not discourage property owners from renting their properties. The minimum tax rate that people believe should not discourage property owners from renting their properties is 1 and the maximum is 5. The mean tax rate that people believe should not discourage property owners from renting their properties is 4.58. The standard deviation of the tax rates that people believe should not discourage property owners from renting their properties is 0.62.

This suggests that most people believe the rental income tax rate should not discourage property owners from renting their properties. When the tax rate is too high, it can discourage property owners from renting their properties, which can lead to a shortage of rental housing. Overall, the statements suggest that a reasonable, fair, stable, and predictable tax rate that does not discourage property owners from renting their properties will lead to higher tax compliance with mean of 3.87 and standard deviation of 0.53.

4.1.2.2 Descriptive statistics of income

Descriptive statistics of income is a statistical analysis that summarizes the distribution of tax rates. It can be used to describe the central tendency and standard deviation. The five statements in the five-point Likert scale are measured on the basis of respondents' response with strongly disagree to strongly agree. The level of agreement with these statements can be used to measure the perceived value of rental income. People who strongly agree with all of the statements are more likely to value their rental income highly, while people who strongly disagree with all of the statements are less likely to value their rental income highly. The descriptive statistics of income is presented in Table 3.

Table 3 *Descriptive Statistics of Income*

Statements	N	Min	Max	Mean	SD
My rental income provides me with a good source of additional income.	500	1	5	3.78	0.81
I am happy with the amount of rental income I receive.	500	1	5	3.91	0.68
I feel financially secure because of my rental income.	500	1	5	3.80	0.81
I believe my rental income has increased my standard of living.	500	1	5	3.71	0.86
I am grateful for the rental income I receive from my property	500	1	5	4.02	0.64
Income	500	1.2	5	3.84	0.61

Source: Field Survey, 2023

The mean value of first statement is 3.78, with a standard deviation of 0.81. This means that most people agree or strongly agree with this statement. A good source of additional income can help people meet their financial obligations and improve their standard of living. This can make people more willing to comply with tax laws, as they may feel that they are getting something in return for their taxes.

The mean value for second statement is 3.91, with a standard deviation of 0.68. This means that most people agree or strongly agree with this statement. Being happy with the amount of rental income received can make people more willing to comply with tax laws, as they may feel that they are not being unfairly taxed.

The mean value of third statement is 3.80, with a standard deviation of 0.81. This means that most people agree or strongly agree with this statement. Feeling financially

secure can make people more willing to comply with tax laws, as they may feel that they are not at risk of financial hardship if they are audited or have to pay back taxes.

The mean value of fourth statement is 3.71, with a standard deviation of 0.86. This means that most people (74%) agree or strongly agree with this statement. An increased standard of living can make people more willing to comply with tax laws, as they may feel that they are better off financially and can afford to pay their taxes.

The mean value of fifth statement is 4.02, with a standard deviation of 0.64. This means that most people (80%) agree or strongly agree with this statement. Feeling grateful for rental income can make people more willing to comply with tax laws, as they may feel that they are not being taken advantage of. Overall, the statements suggest that people who are happy with their rental income with mean value of 3.84 and SD of 0.61 and feel that it provides them with a good source of additional income are more likely to comply with tax laws. This is because they may feel that they are getting something in return for their taxes and that they are not being unfairly taxed.

4.1.2.3 Descriptive statistics of fines and penalties

Descriptive statistics of income is a statistical analysis that summarizes the distribution of tax rates. It can be used to describe the central tendency and standard deviation. The five statements in the five-point Likert scale are measured on the basis of respondents' response with strongly disagree to strongly agree. The level of agreement with these statements can be used to measure the perceived effectiveness of fines and penalties in encouraging tax compliance. People who strongly agree with all of the statements are more likely to believe that fines and penalties are effective in encouraging tax compliance, while people who strongly disagree with all of the statements are less likely to believe that fines and penalties are effective. The descriptive statistics of fines and penalties is presented in Table 4.

Table 4 *Descriptive Statistics of Fines And Penalties*

Statments	N	Min	Max	Mean	SD
I believe the fines and penalties for rental income tax evasion are appropriate.	500	1	5	3.93	0.85
I support the government's efforts to enforce rental income tax regulations.	500	1	5	4.00	0.74
I do not want to take the risk of being penalized for not complying with rental income tax laws.	500	1	5	4.16	0.71
I think fines and penalties are necessary to encourage tax compliance among property owners.	500	2	5	4.27	0.70
I feel relieved when I know I have followed all the rental income tax regulations and avoided penalties.	500	1	5	4.03	0.73
Fines and Penalties	500	1.4	5	4.08	0.58

Source: Field Survey, 2023

The mean value of first statement is 3.93, with a standard deviation of 0.85. This means that most people agree or strongly agree with this statement. Appropriate fines and penalties can deter people from evading taxes. This is because people may be less likely to break the law if they know that they will be punished severely.

The mean value of second statement is 4.00, with a standard deviation of 0.74. This means that most people agree or strongly agree with this statement. Supporting the government's efforts to enforce tax regulations can also deter people from evading taxes. This is because people may be less likely to break the law if they know that the government is serious about enforcing the law.

The mean value of third statement is 4.16, with a standard deviation of 0.71. This means that most people agree or strongly agree with this statement. The fear of being penalized can also deter people from evading taxes. This is because people may be less likely to break the law if they are afraid of the consequences.

The mean value of fourth statement is 4.27, with a standard deviation of 0.70. This means that most people agree or strongly agree with this statement. This statement is similar to the first statement, but it emphasizes the importance of fines and penalties in encouraging tax compliance.

The mean value of fifth statement is 4.03, with a standard deviation of 0.73. This means that most people agree or strongly agree with this statement. This statement suggests that people who are aware of the fines and penalties for tax evasion are more likely to

comply with the tax laws. This is because they may want to avoid the stress and hassle of being audited or penalized.

Overall, the statements suggest that the fear of being penalized and the support for government enforcement are important factors in encouraging tax compliance with overall mean value of 4.08 and standard deviation of 0.58. This is because people may be less likely to break the law if they are afraid of the consequences or if they believe that the government is serious about enforcing the law.

4.1.2.4 Descriptive statistics of attitude and perceptions

Descriptive statistics of attitude and perceptions is a statistical analysis that summarizes the distribution of tax rates. It can be used to describe the central tendency and variation. Attitude and perceptions have five statements which was measured on five point likert scale i.e., strongly disagree to strongly agree. The level of agreement with these statements can be used to measure the attitude and perceptions towards tax compliance. People who strongly agree with all of the statements are more likely to have a positive attitude and perception towards tax compliance, while people who strongly disagree with all of the statements are less likely to have a positive attitude and perception towards tax compliance. The descriptive statistics of attitude and perceptions is presented in Table 5.

Table 5 *Descriptive Statistics of Attitude and Perceptions*

Statments	N	Min	Max	Mean	SD
I have a positive attitude towards complying with rental income tax regulations.	500	1	5	4.06	0.70
I believe paying rental income tax is my civic duty as a property owner.	500	2	5	4.26	0.68
I think complying with rental income tax laws helps to build a better society.	500	1	5	4.03	0.79
I feel proud when I comply with rental income tax laws.	500	1	5	4.00	0.76
I am confident in my ability to comply with rental income tax regulations.	500	1	5	4.05	0.71
Attitude and Perceptions	500	1.6	5	4.08	0.62

Source: Field Survey, 2023

The mean value of first statement is 4.06, with a standard deviation of 0.70. This means that most people agree or strongly agree with this statement. A positive attitude

towards complying with tax regulations can encourage people to follow the law. This is because people may be more likely to do something if they believe it is the right thing to do.

The mean value of second statement is 4.26, with a standard deviation of 0.68. This means that most people agree or strongly agree with this statement. The belief that paying taxes is a civic duty can also encourage people to comply with the law. This is because people may feel that they have a moral obligation to pay their taxes.

The mean value of third statement is 4.03, with a standard deviation of 0.79. This means that most people agree or strongly agree with this statement. The belief that complying with tax laws helps to build a better society can also encourage people to follow the law. This is because people may want to contribute to the common good.

The mean value of fourth statement is 4.00, with a standard deviation of 0.76. This means that most people agree or strongly agree with this statement. Feeling proud when complying with tax laws can also encourage people to follow the law. This is because people may want to feel good about themselves and their actions.

The mean value of fifth statement is 4.05, with a standard deviation of 0.71. This means that most people agree or strongly agree with this statement. Confidence in one's ability to comply with tax regulations can also encourage people to follow the law. This is because people may be more likely to do something if they believe they can do it successfully.

Overall, the statements suggest that a positive attitude towards paying taxes, the belief that it is a civic duty, and the belief that it helps to build a better society are all important factors in encouraging tax compliance with the mean value of 4.08 and standard deviation of 0.62. Additionally, feeling proud when complying with tax laws and being confident in one's ability to do so can also encourage people to follow the law.

4.1.2.5 Descriptive statistics of tax knowledge

Descriptive statistics of tax knowledge is a statistical analysis that summarizes the distribution of tax rates. It can be used to describe the central tendency and variation. Tax knowledge have five statements which was measured on five point likert scale i.e., strongly disagree to strongly agree. The level of agreement with these statements can

be used to measure the tax knowledge of individuals. People who strongly agree with all of the statements are more likely to have a good understanding of tax laws and filing procedures, while people who strongly disagree with all of the statements are less likely to have a good understanding of tax laws and filing procedures. The descriptive statistics of tax knowledge is presented in Table 6.

Table 6 *Descriptive Statistics of Tax Knowledge*

Statments	N	Min	Max	Mean	SD
I feel confident in my knowledge of rental income tax laws and regulations.	500	1	5	3.67	1.12
I am familiar with the rental income tax laws and regulations.	500	1	5	3.65	1.22
I know how to calculate my rental income tax accurately.	500	1	5	3.63	1.23
I am aware of the consequences of not complying with rental income tax laws.	500	1	5	3.93	0.92
I keep myself updated with the latest changes in rental income tax laws and regulations.	500	1	5	3.54	1.26
Tax Knowledge	500	1	5	3.68	1.06

Source: Field Survey, 2023

The mean value of first statement is 3.67, with a standard deviation of 1.12. This means that most people somewhat agree or agree with this statement. Having a good understanding of tax laws and regulations can help people to comply with the law. This is because people may be more likely to follow the law if they know what it is.

The mean value of second statement is 3.65, with a standard deviation of 1.22. This means that most people somewhat agree or agree with this statement. Similar to the first statement, having a basic familiarity with tax laws and regulations can help people to comply with the law.

The mean value of third statement is 3.63, with a standard deviation of 1.23. This means that most people somewhat agree or agree with this statement. Knowing how to calculate one's rental income tax accurately can help people to comply with the law. This is because people may be more likely to follow the law if they know how much they owe.

The mean value of fourth statement is 3.93, with a standard deviation of 0.92. This means that most people agree or strongly agree with this statement. Being aware of the

consequences of not complying with tax laws can also encourage people to follow the law. This is because people may want to avoid the penalties associated with non-compliance. The mean value of fifth statement is 3.54, with a standard deviation of 1.26. This means that most people somewhat agree or agree with this statement. Keeping up-to-date with the latest changes in tax laws and regulations can help people to comply with the law. This is because people may be more likely to follow the law if they know what the current rules are. Overall, the statements suggest that having a good understanding of tax laws and regulations, being aware of the consequences of non-compliance, and keeping up-to-date with the latest changes can all encourage tax compliance with the mean value of 3.68 and standard deviation of 1.06.

4.1.2.6 Descriptive statistics of tax policy

Descriptive statistics of tax policy is a statistical analysis that summarizes the distribution of tax rates. It can be used to describe the central tendency and variation. Tax policy have five statements which was measured on five point likert scale i.e., strongly disagree to strongly agree. The level of agreement with these statements can be used to measure the perceived fairness, efficiency, transparency, ease of compliance, and public benefit of the tax system. People who strongly agree with all of the statements are more likely to have a positive perception of the tax system, while people who strongly disagree with all of the statements are less likely to have a positive perception of the tax system.

Table 7 *Descriptive Statistics of Tax Policy*

Statments	N	Min	Max	Mean	SD
I believe the government should create policies that encourage property owners to rent out their properties.	500	2	5	4.67	0.66
I support the government's efforts to simplify rental income tax laws and regulations.	500	1	5	4.39	0.72
I think rental income tax policies should be transparent and easy to understand.	500	1	5	4.63	0.65
I believe the rental income tax policies should be flexible to accommodate different property owners' circumstances.	500	1	5	4.41	0.68
I feel positive about the government's rental income tax policies and how they are applied.	500	1	5	3.27	1.13
Tax Polilcy	500	1.6	5	4.28	0.55

Source: Field Survey, 2023

The mean value of first statement is 4.67, with a standard deviation of 0.66. This means that most people agree or strongly agree with this statement. Policies that encourage property owners to rent out their properties can help to increase the supply of rental housing, which can lead to lower rents. This can benefit both renters and the economy as a whole.

The mean value of second statement is 4.39, with a standard deviation of 0.72. This means that most people agree or strongly agree with this statement. Simplifying rental income tax laws and regulations can make it easier for property owners to comply with the law. This can lead to increased tax compliance.

The mean value of third statement is 4.63, with a standard deviation of 0.65. This means that most people agree or strongly agree with this statement. Transparency and ease of understanding can make it easier for property owners to comply with rental income tax policies. This can lead to increased tax compliance.

The mean value of fourth statement is 4.41, with a standard deviation of 0.68. This means that most people agree or strongly agree with this statement. Flexibility can make it easier for property owners to comply with rental income tax policies, even if their circumstances are unique. This can lead to increased tax compliance.

The mean value of fifth statement is 3.27, with a standard deviation of 1.13. This means that most people somewhat agree or agree with this statement. A positive attitude towards the government's rental income tax policies can encourage people to comply with the law. This is because people may be more likely to follow the law if they believe it is fair and reasonable.

Overall, the statements with mean value of 4.28 and standard deviation of 0.55 suggest that policies that encourage property owners to rent out their properties, simplify rental income tax laws and regulations, and are transparent and easy to understand can all encourage tax compliance. Additionally, flexibility in rental income tax policies and a positive attitude towards the government's rental income tax policies can also encourage tax compliance.

4.1.2.7 Descriptive statistics of tax compliance

Descriptive statistics of tax compliance is a statistical analysis that summarizes the distribution of tax compliance. It can be used to describe the central tendency and shape of the distribution. The four statements in the five-point Likert scale were used to measure the response from the respondent from strongly disagree to strongly agree. The response from respondents in tax compliance is presented in Table 8.

Table 8 *Descriptive Statistics of Tax Compliance*

Statments	N	Min	Max	Mean	SD
I make sure to file my rental income tax on time.	500	1	5	4.17	0.76
I always pay my rental income tax in full.	500	1	5	4.17	0.79
I am willing to comply with the rental income tax regulations.	500	1	5	3.99	0.72
I feel good when I pay my rental income tax on time.	500	1	5	3.99	0.76
Tax Compliance	500	1.5	5	4.08	0.67

Source: Field Survey, 2023

The mean value of first statement is 4.17, with a standard deviation of 0.76. This means that most people agree or strongly agree with this statement. Filing taxes on time is an important part of tax compliance. This is because it shows that the taxpayer is taking the law seriously and is willing to meet their obligations.

The mean value of second statement is 4.17, with a standard deviation of 0.79. This means that most people agree or strongly agree with this statement. Paying taxes in full is another important part of tax compliance. This is because it shows that the taxpayer is not trying to avoid paying their taxes.

The mean value of third statement is 3.99, with a standard deviation of 0.72. This means that most people agree or strongly agree with this statement. A willingness to comply with tax regulations is also an important part of tax compliance. This is because it shows that the taxpayer is willing to follow the law.

The mean value of fourth statement is 3.99, with a standard deviation of 0.76. This means that most people agree or strongly agree with this statement. Feeling good about paying taxes can also encourage people to comply with the law. This is because people may be more likely to do something if they enjoy it or feel good about it.

Overall, the statements suggest that filing taxes on time, paying taxes in full, and being willing to comply with tax regulations are all important factors in tax compliance. Additionally, feeling good about paying taxes can also encourage tax compliance.

4.1.3 Relationship analysis

Relationship (correlation) analysis is a statistical method that is used to examine the relationship between two or more variables. In this study on house rent tax compliance, the independent variables were the factors that are believed to influence tax compliance, such as tax rate, income, fines and penalties, attitude and perceptions, tax knowledge, and tax policy. The dependent variable was tax compliance. Relationship analysis can be used to answer a variety of questions about the relationship between the independent and dependent variables. It can be used to determine whether there is a statistically significant relationship between the variables, the direction of the relationship (positive or negative), and the strength of the relationship. Relationship analysis is important in a study on house rent tax compliance because it can help to identify the factors that are most influential in determining tax compliance. This information can then be used to develop strategies to improve tax compliance. The correlation analysis is presented in Table 9.

Table 9 *Relationship between dependent variable and independent variables*

		TC	TR	INC	FP	AP	TK	TP
TC	Pearson Correlation	1	.329**	.297**	.398**	.612**	.410**	.440**
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.000
TR	Pearson Correlation		1	.220**	.456**	.407**	.314**	.446**
	Sig. (2-tailed)			.000	.000	.000	.000	.000
INC	Pearson Correlation			1	.304**	.383**	.268**	.406**
	Sig. (2-tailed)				.000	.000	.000	.000
FP	Pearson Correlation				1	.559**	.396**	.500**
	Sig. (2-tailed)					.000	.000	.000
AP	Pearson Correlation					1	.454**	.571**
	Sig. (2-tailed)						.000	.000
TK	Pearson Correlation						1	.516**
	Sig. (2-tailed)							.000
TP	Pearson Correlation							1
	Sig. (2-tailed)							
	N							

**. Correlation is significant at the 0.05 level (2-tailed).

Table 9 presents the relationship between dependent variable tax compliance and independent variables tax rate, income, fines and penalties, attitude and perceptions, tax knowledge and tax policy. The relationship between tax rate and tax compliance is 0.329 with p value of 0.000. This means that there is a moderate significant positive relationship between tax rate and tax compliance. This suggests that people who are more familiar with tax rate are more likely to comply with them. The relationship between income and tax compliance is 0.297 and p value of 0.000. This means that there is a lower significant positive relationship between income and tax compliance. This suggests that people with higher incomes are more likely to comply with tax laws.

The correlation between fines and penalties and tax compliance is 0.398 with p value of 0.000. This means that there is a moderate significant positive relationship between fines and penalties and tax compliance. This suggests that people who have good filing practices are more likely to comply with tax laws. The relationship between attitude and perception and tax compliance is 0.612 with the p value of 0.000. This means that there is a strong significant positive relationship between tax compliance and attitudes and perceptions. This suggests that people who have positive attitudes and perceptions about tax compliance are more likely to comply with them. The relationship between tax knowledge and tax compliance is 0.410 with p value 0.000. This means that there is a moderate significant positive relationship between tax compliance and knowledge of tax laws. This suggests that people who are more familiar with tax laws are more likely to comply with them. The relationship between tax policies and tax compliance is 0.440 with p value of 0.000. This means that there is a moderate positive relationship between tax compliance and tax policies. This suggests that people who are more supportive of tax policies are more likely to comply with them.

4.1.4 Regression analysis

Regression analysis is a statistical method that is used to predict the value of a dependent variable based on the values of one or more independent variables. In this study on house rent tax compliance, the dependent variable was tax compliance, and the independent variables were the factors that are believed to influence tax compliance, such as tax rate, income, fines and penalties, attitude and perceptions, tax knowledge, and tax policy. Regression analysis is important in the study of house rent tax compliance because it can help to identify the factors that are most influential in determining tax compliance. This information can then be used to develop strategies

to improve tax compliance. In the context of the study on house rent tax compliance, the model summary provide information about the overall fit of the model, the significance of the independent variables, and the amount of variance in tax compliance that is explained by the model. The ANOVA provide information about the statistical significance of the difference between the predicted and actual values of tax compliance. The coefficients provide information about the estimated effects of the independent variables on tax compliance. The result of regression analysis is presented from Table 10 to Table 12.

Table 10 *Model Summary of Study Variables*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.636 ^a	.405	.398	.52065	1.923

a. Predictors: (Constant), Tax Policy, Income, Tax Rate, Tax Knowledge, Fines and Penalties, Attitude and Perceptions

b. Dependent Variable: Tax Compliance

Table 10 shows the results of a model summary where the dependent variable is tax compliance (TC). The independent variables are tax policy (TP), income (INC), tax rate (TR), tax knowledge (TK), fines and penalties (FP), and attitude and perceptions (AP). The table shows that the R-squared value is 0.405. This means that the independent variables explain 40.5% of the variation in the dependent variable. The adjusted R-squared value is 0.398. This means that the independent variables explain 39.8% of the variation in the dependent variable, after taking into account the number of independent variables in the model. The standard error of the estimate is 0.52065. This is the standard deviation of the residuals. The residuals are the difference between the actual values of the dependent variable and the predicted values.

The Durbin-Watson statistic is 1.923. This is a measure of autocorrelation. Autocorrelation is the correlation between the residuals from one time period and the residuals from another time period. A Durbin-Watson statistic of 2 indicates no autocorrelation. In this study the Durbin Watson value is 1.923 which is near by 2, which indicate no autocorrelation in the residuals.

Table 11 *ANOVA of Study Variables*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	90.886	6	15.148	55.879	.000 ^b
	Residual	133.642	493	.271		
	Total	224.527	499			

a. Dependent Variable: Tax Compliance

b. Predictors: (Constant), Tax Policy, Income, Tax Rate, Tax Knowledge, Fines and Penalties, Attitude and Perceptions

Table 11 shows the results of an analysis of variance. ANOVA is a statistical test that is used to compare the means of two or more groups. In this study, the dependent variable is tax compliance (TC). The independent variables are tax policy (TP), income (INC), tax rate (TR), tax knowledge (TK), fines and penalties (FP), and attitude and perceptions (AP). The table shows that the F-statistic is 55.879. This is a very large value, which means that the independent variables are significantly different from each other. The p-value is 0.000, which is less than 0.05. This means that the difference between the means is statistically significant. In other words, the independent variables can explain the variation in the dependent variable.

Table 12 *Coefficients*

Model		Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	VIF
1	(Constant)	.896	.231		3.873	.000	
	Tax Rate	.070	.052	.055	1.337	.182	1.390
	Income	.046	.042	.042	1.075	.283	1.253
	Fines and Penalties	.019	.052	.016	.358	.721	1.686
	Attitude and Perceptions	.513	.051	.476	10.054	.000	1.859
	Tax Knowledge	.084	.027	.133	3.169	.002	1.457
	Tax Policy	.061	.059	.050	1.028	.304	1.930

a. Dependent Variable: Tax Compliance

Table 12 presents the regression coefficients of dependent and independent variables. The constant is 0.896. This means that the predicted value of tax compliance when all independent variables are equal to zero is 0.896. The coefficient for tax rate is 0.070.

This means that for every one-unit increase in the tax rate, the predicted value of tax compliance is expected to increase by 0.070, holding all other independent variables constant. However, the p-value for this coefficient is 0.182, which is greater than 0.05. This means that the coefficient is not statistically significant.

The coefficient for income is 0.046. This means that for every one-unit increase in income, the predicted value of tax compliance is expected to increase by 0.046, holding all other independent variables constant. However, the p-value for this coefficient is 0.283, which is greater than 0.05. This means that the coefficient is not statistically significant.

The coefficient for fines and penalties is 0.019. This means that for every one-unit increase in fines and penalties, the predicted value of tax compliance is expected to increase by 0.019, holding all other independent variables constant. However, the p-value for this coefficient is 0.721, which is greater than 0.05. This means that the coefficient is not statistically significant.

The coefficient for attitude and perceptions is 0.513. This means that for every one-unit increase in attitude and perceptions, the predicted value of tax compliance is expected to increase by 0.513, holding all other independent variables constant. The p-value for this coefficient is 0.000, which is less than 0.05. This means that the coefficient is statistically significant.

The coefficient for tax knowledge is 0.084. This means that for every one-unit increase in tax knowledge, the predicted value of tax compliance is expected to increase by 0.084, holding all other independent variables constant. The p-value for this coefficient is 0.002, which is less than 0.05. This means that the coefficient is statistically significant.

The coefficient for tax policy is 0.061. This means that for every one-unit increase in tax policy, the predicted value of tax compliance is expected to increase by 0.061, holding all other independent variables constant. However, the p-value for this coefficient is 0.304, which is greater than 0.05. This means that the coefficient is not statistically significant. Overall, the results of the coefficients table suggest that attitude and perceptions and tax knowledge are the most important predictors of tax compliance.

The collinearity statistics table shows the tolerance and VIF values for each independent variable. Tolerance is a measure of how much variance in the independent variable is not shared with the other independent variables. VIF is the inverse of tolerance. A high VIF value indicates that there is a strong correlation between the independent variable and the other independent variables. The value below 3 indicate no multicollinearity issues in the model. In this study, the VIF values for all independent variables are less than 3 which indicate that there is no multicollinearity issues in this model.

4.2 Discussions

The main aim of this study is to examine house rent tax and its compliance among taxpayers at Kathmandu Valley. Respondents generally express satisfaction with the existing tax rate for rental income, perceiving it as fair and acceptable. However, variations in opinions suggest a diversity of viewpoints among taxpayers. The study underscores the significance of a reasonable and stable tax rate, along with the belief that the tax system should not hinder property rental. Respondents' positive attitudes towards tax compliance, civic duty, and societal contributions emerge as pivotal drivers of adherence.

Furthermore, respondents stress the importance of effective enforcement through penalties and government support, while also emphasizing the value of understanding tax regulations and staying updated with them. The role of encouraging policies and transparent, simplified regulations is highlighted. Timely and complete tax payments, coupled with a willingness to adhere to regulations, are also recognized as crucial aspects of compliance behavior. In summary, the findings underscore the intricate interplay of factors influencing tax compliance, encompassing attitudes, government involvement, policy effectiveness, and clarity in regulations.

The correlation result indicate a relationships between the dependent variable, tax compliance, and various independent variables, including tax rate, income, fines and penalties, attitudes and perceptions, tax knowledge, and tax policy. The findings indicate notable associations between these variables and tax compliance. The study identifies that a better understanding of tax rates and higher income levels tend to foster greater tax compliance. The fidnings align with the empirical study of Ali et al. (2018) who emphasize the importance of understanding property owners' knowledge and

attitudes towards taxation to improve compliance. Moreover, individuals exhibiting positive attitudes and perceptions towards tax compliance, as well as those possessing comprehensive tax knowledge, tend to adhere more consistently to tax laws. Additionally, the study underscores the positive correlation between favorable attitudes towards tax policies and higher levels of tax compliance. These outcomes highlight the multidimensional nature of factors influencing tax compliance, including financial, cognitive, and perceptual aspects, which have implications for devising effective strategies to enhance compliance behaviors.

The regression result which explores the relationships between the dependent variable, tax compliance (TC), and various independent variables including tax policy (TP), income (INC), tax rate (TR), tax knowledge (TK), fines and penalties (FP), and attitude and perceptions (AP). The R-squared and adjusted R-squared values indicate that the independent variables collectively explain a substantial portion of the variation in tax compliance, underscoring the significance of these factors in influencing compliance behaviors. The standard error of the estimate highlights the precision of the model's predictions, while the Durbin-Watson statistic suggests the absence of autocorrelation in the residuals. The analysis of variance, reinforces the meaningful distinctions among independent variables, as indicated by the F-statistic and its associated p-value. Moreover, the regression coefficients, revealing the varying impacts of independent variables on tax compliance. Notably, attitudes and perceptions, along with tax knowledge, emerge as key predictors of compliance, supported by their statistically significant coefficients. This findings are consistent with the empirical findings of Attah-Botchwey et al. (2021) who underscore the impact of tax burden perceptions and knowledge on compliance, while Mushinge et al. (2021) who emphasize the need for taxpayer education and system improvements. Also these findings are contradict with the empirical findings of Chindengwike and Kira (2022) and Abdu and Adem (2023) who emphasize the impact of tax rates and the complexity of the tax system have signifianct impact on compliance behavior. Overall, these findings underscore the multifaceted nature of factors influencing tax compliance and offer valuable insights for policy formulation and enforcement strategies.

Collectively, these studies echo the significance of various factors such as knowledge, perceptions, fairness, communication, and tax system design in shaping compliance behaviors. The correlations and regression results in this study complement these

findings, emphasizing the interconnectedness of these variables and their potential to influence tax compliance patterns. The combination of insights from this study and the reviewed literature contributes to a deeper understanding of the multifaceted dynamics that drive tax compliance behaviors.

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

House rent tax is a tax levied on the rental income of property owners. It is a type of property tax. The amount of house rent tax payable is calculated based on the assessed value of the property, the rental income, and the applicable tax rate. Tax compliance is the act of paying taxes as required by law. It is a measure of how willing and able taxpayers are to comply with their tax obligations. Tax compliance is important for a number of reasons, as it ensures that everyone pays their fair share of taxes, it helps to fund government services and it helps to maintain a fair and equitable tax system. The topic of house rent tax and its compliance among taxpayers at Kathmandu Valley is a relevant and timely one. Kathmandu Valley is a densely populated area with a large number of rental properties. The government of Nepal collects house rent tax from property owners in Kathmandu Valley. However, there is a growing concern about the level of tax compliance among taxpayers. The study of house rent tax and its compliance among taxpayers at Kathmandu Valley can help to shed light on the factors that influence tax compliance in this region. The findings of the study can be used to develop strategies to improve tax compliance and ensure that everyone pays their fair share of taxes.

This study focused on analyzing the compliance of taxpayers in the Kathmandu Metropolitan city with the residential income tax. The research explored the factors that influence tax payer compliance using various techniques. Tax rate, income, fines and penalties, attitude and perceptions, tax knowledge and tax policy were considered as independent variables, while tax payer compliance was the dependent variable. The study was based on primary data collected from 500 sample respondents using a simple random sampling method. Pre-structured questionnaires were used to gather primary data, and statistical tools such as mean, standard deviation, and correlation analysis and regression analysis were utilized to conduct the study.

The findings of the study shows that the coefficient associated with the tax rate variable is 0.070, indicating that for each one-unit increase in the tax rate, the anticipated tax compliance value is projected to rise by 0.070, assuming other variables remain constant. However, with a p-value of 0.182, surpassing the significance threshold of

0.05, this coefficient lacks statistical significance. Similarly, the coefficient for income is 0.046, suggesting that a one-unit income increase corresponds to a 0.046 uptick in tax compliance, yet its p-value of 0.283 renders it statistically insignificant. The coefficient for fines and penalties is 0.019, implying that a one-unit escalation in fines and penalties leads to an anticipated tax compliance elevation of 0.019. However, the p-value of 0.721 renders this coefficient statistically insignificant. Conversely, attitude and perceptions exhibit a substantial coefficient of 0.513, signifying that a one-unit increase in this variable is linked to a tax compliance increase of 0.513. The p-value of 0.000, below 0.05, highlights its statistical significance. Likewise, tax knowledge displays a significant coefficient of 0.084, denoting that a one-unit knowledge increase is tied to a tax compliance increase of 0.084, supported by a p-value of 0.002. While the coefficient for tax policy is 0.061, indicating that a one-unit tax policy increase corresponds to a 0.061 compliance elevation, its p-value of 0.304 renders it statistically insignificant.

This study on house rent tax and its compliance among taxpayers in Kathmandu Valley offers valuable insights into the determinants of compliance behavior within a specific geographical context. The study's results provide nuanced understandings of the factors influencing compliance, highlighting the importance of attitudes, perceptions, and tax knowledge. By doing so, the research contributes to the broader understanding of tax compliance strategies and informs the design of effective policy measures that can enhance voluntary tax adherence rates in the region.

5.2 Conclusion

In conclusion, this study has provided valuable insights into the landscape of house rent tax compliance among taxpayers in Kathmandu Valley. The examination of respondents' attitudes and perceptions towards the existing tax rate for rental income reveals a diverse range of viewpoints, yet generally expresses satisfaction with its fairness and acceptability. The findings underscore the importance of a reasonable and stable tax rate, alongside the belief that the tax system should facilitate rather than hinder property rental practices. Importantly, positive attitudes towards tax compliance, coupled with a sense of civic duty and societal contribution, emerge as key drivers of adherence.

The research has illuminated the multifaceted nature of factors influencing tax compliance behavior. Respondents emphasize the significance of effective enforcement mechanisms, including penalties and government support. Moreover, a strong emphasis is placed on the value of comprehending tax regulations and staying updated with them. The study highlights the role of clear, transparent, and simplified regulations, as well as encouraging policies, in promoting compliance behavior. Notably, timely and complete tax payments, underpinned by a willingness to adhere to regulations, are recognized as pivotal components of compliance.

The correlation results confirm the associations between tax compliance and various independent variables, highlighting the significance of understanding tax rates, income levels, attitudes, perceptions, tax knowledge, and policy alignment in fostering greater compliance. The regression analysis further reinforces the collective impact of these variables in explaining a substantial portion of the variation in tax compliance. Attitudes and perceptions, alongside tax knowledge, emerge as critical predictors of compliance behavior, supported by their statistically significant coefficients.

The study has successfully achieved its objectives by assessing awareness and understanding of taxpayers towards residential income tax, analyzing the determinants of tax compliance, and evaluating the effectiveness of residential income tax within Nepal's overall tax system. These findings collectively underscore the intricate interplay of factors that shape compliance behavior and offer valuable insights for policy formulation, enforcement strategies, and improvements in the tax system. Moving forward, a holistic approach that considers not only financial aspects but also cognitive and perceptual dimensions will be crucial in fostering a culture of tax compliance and contributing to government revenue goals.

5.3 Implications

Based on the findings, discussion and conclusion of the study, the following implications have been made:

Theoretical Implications:

- The study contributes to tax compliance theories by highlighting the multidimensional nature of factors influencing compliance behavior. It underscores the importance of attitudes, perceptions, tax knowledge, and policy alignment in shaping taxpayers' adherence to tax regulations.

- The finding that positive attitudes towards tax compliance and a sense of civic duty are pivotal drivers adds depth to the understanding of behavioral motivations for tax compliance.
- The study emphasizes the role of effective enforcement mechanisms and government support in promoting compliance, shedding light on the interplay between external factors and compliance behavior.
- The recognition of transparent, simplified, and clear tax regulations as factors influencing compliance behavior contributes to the discourse on the role of regulatory clarity in fostering compliance.
- The positive correlation between favorable attitudes towards tax policies and higher compliance levels underscores the significance of aligning tax policies with taxpayers' perceptions and expectations.

Practical Implications:

- Policymakers can leverage the findings to design tax policies that align with taxpayers' attitudes and perceptions, fostering a positive compliance environment.
- Tax authorities can enhance enforcement strategies by focusing on effective enforcement mechanisms, such as penalties, and offering government support to encourage voluntary compliance.
- Tax education and awareness campaigns can address the knowledge gaps identified in the study, ensuring taxpayers have a comprehensive understanding of tax regulations.
- Tailored communication strategies can emphasize the benefits of tax compliance, highlighting civic duty and societal contributions to positively influence taxpayers' attitudes.
- Streamlining tax regulations and ensuring their clarity can reduce confusion among taxpayers, promoting better understanding and compliance.

Implications for Further Studies:

- Comparative studies across different geographical areas could provide insights into how attitudes, perceptions, and compliance behavior vary across diverse contexts.

- Long-term studies tracking changes in compliance behavior over time could reveal the stability of compliance drivers and the effectiveness of policy interventions.
- Experimental research employing behavioral economics principles could delve deeper into the psychological aspects influencing taxpayers' decisions to comply or evade taxes.
- Exploring compliance behavior within specific industries or sectors could uncover nuances and challenges unique to different segments of the economy.
- Qualitative research methods, such as in-depth interviews and focus groups, could provide a richer understanding of the underlying motivations and challenges associated with tax compliance behavior.
- Investigating the role of technology, including digital platforms and tools, in facilitating or hindering tax compliance in the modern era.
- Studying the influence of social norms and peer behavior on taxpayers' decisions to comply with tax regulations.
- Investigating psychological factors, such as risk aversion, decision-making biases, and cognitive dissonance, in shaping taxpayers' compliance choices.
- Examining innovative tax evasion strategies and their potential to counteract traditional compliance measures, along with the effectiveness of counter-strategies employed by tax authorities.

APPENDIX I
Questionnaires For Residential Income Tax And Its Compliance Among
Taxpayers At Kathmandu Valley

Dear Respondents,

The recent research on “Residential Income Tax and Its Compliance among Taxpayers at Kathmandu Valley. For this purpose, I would like to request to express your opinion by providing your valuable time for completing research questionnaires. I assure you that the information received from you will be highly confidential. You have kindly requested to fill-up the form by providing authentic information.

प्रिय उत्तरदाताहरू,

“काठमाडौं उपत्यकामा करदाताहरू बीचको आवासीय आयकर र यसको अनुपालन” । यस उद्देश्यका लागि, अनुसन्धान प्रश्नावलीहरू पूरा गर्नको लागि आफ्नो बहुमूल्य समय प्रदान गरी आफ्नो विचार व्यक्त गर्न अनुरोध गर्न चाहन्छु। म तपाईंलाई आश्वासन दिन्छु कि तपाईंबाट प्राप्त जानकारी अत्यधिक गोप्य हुनेछ। प्रमाणिक जानकारी प्रदान गरी फारम भरिदिनुहुन विनम्र अनुरोध छ।

Yours,

Bishnu Pathak

Master in Business Studies (MBS)

Saraswati Multiple Campus

A. Demographic Factors of Respondents

1. Name of Respondents (नाम):

2. Age Range (उमेर) (Please Tick ✓)

- | | |
|-------------------------------|--------|
| a) 18-24 (१८-२४) | [] |
| b) 25-34 (२५-३४) | [] |
| c) 35-44 (३५-४४) | [] |
| d) 45-54 (४५-५४) | [] |
| e) 55 and above (५५ र माथिको) | [] |

3. Gender (लिंग) (Please Tick ✓)

- a) Male (पुरुष) []
b) Female (महिला) []
c) Other (अन्य) []

4. Occupation (पेशा) (Please Tick ✓)

- a) Employed (कार्यरत) []
b) Self-employed (स्वरोजगार) []
c) Unemployed (बेरोजगार) []
d) Student (विद्यार्थी) []
e) Retired (सेवानिवृत्त) []

5. Annual Income Range from Rent (भाडाबाट वार्षिक आय) (Please Tick ✓)

- a) Less than NPR 100,000 (१००००० भन्दा कम) []
b) NPR 100,001-500,000 ((१००००१ - ५०००००) []
c) NPR 500,001-Above (५००००१ भन्दा माथि) []

6. Rental Experience (भाडा अनुभव) (Please Tick ✓)

- a) Less than a year (एक वर्षभन्दा कम) []
b) 1-3 years (१-३ वर्ष) []
c) 3-5 years (३-५ वर्ष) []
d) 5-10 years (५-१० वर्ष) []
e) More than 10 years (१० वर्षभन्दा बढी) []

7. Have you ever been penalized for non-compliance with residential income tax regulations? के तपाईंलाई आवासीय आयकर नियमहरूको पालना नगरेकोमा दण्डित गरिएको छ? (Please Tick ✓)

- a) Yes (हो) []

b) No (होइन)

[]

2 Likert Scale Based Questionnaires

Below are the statements, in which extend did you agree please rate. SD=Strongly Disagree, D=Disagree, N=Neutral, A=Agree and SA=Strongly Agree

तल कथनहरू छन, जसमा तपाईं सहमत हुनुहुन्छ कृपया मूल्याङ्कन गर्नुहोस्। SD= पूरै असहमत, D=असहमत, N=तटस्थ, A=सहमत र SA=पूरै सहमत

S.N.	Statement	SD	D	N	A	SA
Tax Rate						
1.	I am satisfied with the current tax rate for rental income. भाडा आम्दानीको लागि हालको कर दरसँग म सन्तुष्ट छु।					
2.	I believe the tax rate for rental income is fair. मलाई लाग्छ कि भाडाको आयको लागि कर दर उचित छ।					
3.	I do not mind paying rental income tax if the tax rate is reasonable. करको दर उचित छ भने भाडाको आयकर तिर्न मलाई कुनै आपत्ति छैन।					
4.	I believe the rental income tax rate should be stable and predictable. मलाई विश्वास छ कि भाडा आयकर दर स्थिर र अनुमानित हुनुपर्छ।					
5.	I think the rental income tax rate should not discourage property owners from renting their properties. मलाई लाग्छ कि भाडा आयकर दरले सम्पत्ति मालिकहरूलाई उनीहरूको सम्पत्ति भाडामा लिन निरुत्साहित गर्नु हुँदैन।					
Income		SD	D	N	A	SA
6.	My rental income provides me with a good source of additional income.					

	मेरो भाडा आम्दानीले मलाई थप आयको राम्रो स्रोत प्रदान गर्दछ।					
7.	I am happy with the amount of rental income I receive. मैले प्राप्त गरेको भाडा आम्दानीसँग म खुसी छु।					
8.	I feel financially secure because of my rental income. म मेरो भाडा आम्दानीको कारण आर्थिक रूपमा सुरक्षित महसुस गर्छु।					
9.	I believe my rental income has increased my standard of living. म विश्वास गर्छु कि मेरो भाडा आम्दानीले मेरो जीवनस्तर बढाएको छ।					
10.	I am grateful for the rental income I receive from my property. मैले मेरो सम्पत्तिबाट प्राप्त गरेको भाडा आम्दानीको लागि म आभारी छु।					
Fines and Penalties		SD	D	N	A	SA
11.	I believe the fines and penalties for rental income tax evasion are appropriate. मलाई विश्वास छ कि भाडा आयकर छलीको लागि जरिवाना र दण्डहरू उपयुक्त छन्।					
12.	I support the government's efforts to enforce rental income tax regulations. भाडा आयकर नियमहरू लागू गर्न सरकारको प्रयासलाई म समर्थन गर्छु।					
13.	I do not want to take the risk of being penalized for not complying with rental income tax laws. म भाडा आयकर कानूनको पालना नगरेकोमा दण्डित हुने जोखिम लिन चाहन्न।					

14.	I think fines and penalties are necessary to encourage tax compliance among property owners. मलाई लाग्छ कि जरिवाना र दण्डहरू सम्पत्ति मालिकहरू बीच कर अनुपालनलाई प्रोत्साहित गर्न आवश्यक छ।					
15.	I feel relieved when I know I have followed all the rental income tax regulations and avoided penalties. मैले सबै भाडा आयकर नियमहरू पालना गरेको छु र दण्डहरू बेवास्ता गरेको थाहा पाएपछि म राहत महसुस गर्छु।					
Attitude and Perceptions		SD	D	N	A	SA
16.	I have a positive attitude towards complying with rental income tax regulations. भाडा आयकर नियमहरूको पालना गर्न मसँग सकारात्मक दृष्टिकोण छ।					
17.	I believe paying rental income tax is my civic duty as a property owner. मलाई लाग्छ कि भाडा आयकर तिर्नु एक सम्पत्ति मालिकको रूपमा मेरो नागरिक कर्तव्य हो।					
18.	I think complying with rental income tax laws helps to build a better society. मलाई लाग्छ कि भाडा आयकर कानूनको पालनाले राम्रो समाज निर्माण गर्न मद्दत गर्दछ।					
19.	I feel proud when I comply with rental income tax laws. मैले भाडाको आयकर कानूनको पालना गर्दा गर्व महसुस गर्छु।					
20.	I am confident in my ability to comply with rental income tax regulations. भाडाको आयकर नियमहरूको पालना गर्ने मेरो क्षमतामा म विश्वस्त छु।					

Tax Knowledge		SD	D	N	A	SA
21.	I feel confident in my knowledge of rental income tax laws and regulations. भाडाको आयकर कानून र नियमहरूको मेरो ज्ञानमा म विश्वस्त छु।					
22.	I am familiar with the rental income tax laws and regulations. म भाडा आयकर कानून र नियमहरूसँग परिचित छु।					
23.	I know how to calculate my rental income tax accurately. मलाई मेरो भाडा आयकर सही रूपमा गणना गर्ने तरिका थाहा छ।					
24.	I am aware of the consequences of not complying with rental income tax laws. भाडा आयकर कानूनको पालना नगर्दा हुने परिणामहरूबारे म सचेत छु।					
25.	I keep myself updated with the latest changes in rental income tax laws and regulations. भाडाको आयकर कानून र नियमहरूमा भएका नयाँ परिवर्तनहरूसँग म आफूलाई अद्यावधिक राख्छु।					
Tax Policy		SD	D	N	A	SA
26.	I believe the government should create policies that encourage property owners to rent out their properties. मलाई लाग्छ कि सरकारले सम्पत्ति मालिकहरूलाई उनीहरूको सम्पत्ति भाडामा दिन प्रोत्साहित गर्ने नीतिहरू बनाउनुपर्छ।					
27.	I support the government's efforts to simplify rental income tax laws and regulations.					

	म सरकारको भाडा आयकर कानून र नियमहरूलाई सरल बनाउने प्रयासलाई समर्थन गर्दछु।					
28.	I think rental income tax policies should be transparent and easy to understand. मलाई लाग्छ कि भाडा आयकर नीतिहरू पारदर्शी र बुझ्न सजिलो हुनुपर्छ।					
29.	I believe the rental income tax policies should be flexible to accommodate different property owners' circumstances. मलाई लाग्छ कि भाडाको आयकर नीतिहरू विभिन्न सम्पत्ति मालिकहरूको परिस्थितिहरू समायोजन गर्न लचिलो हुनुपर्छ।					
30.	I feel positive about the government's rental income tax policies and how they are applied. सरकारको भाडा आयकर नीतिहरू र तिनीहरू कसरी लागू हुन्छन् भन्ने बारे म सकारात्मक महसुस गर्छु।					
Tax Compliance		SD	D	N	A	SA
31.	I make sure to file my rental income tax on time. म मेरो भाडा आयकर समयमा फाइल गर्न निश्चित छु।					
32.	I always pay my rental income tax in full. म सधैं मेरो भाडा आयकर पूर्ण रूपमा तिर्छु।					
33.	I am willing to comply with the rental income tax regulations. म भाडा आयकर नियमहरूको पालना गर्न इच्छुक छु।					
34.	I feel good when I pay my rental income tax on time. मैले समयमै भाडाको आयकर तिर्दा मलाई राम्रो लाग्छ।					

Thank you for time to answer the questionnaire.

प्रश्नावलीको जवाफ दिन दिनुभएको महत्त्वपूर्ण समयको लागि धन्यवाद।