



## Impact of attitude variables, Tax rate and perceptions of government fairness on Tax Compliance

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### Abstract

This study aims to scrutinize the interconnection between attitude variables and tax compliance behavior of the taxpayers. The survey research study regarding the people's attitude towards taxation is carried out in Hetauda Sub-Metropolitan City of Makawanpur district in June 2020. The sample size of this study encompassed 300 taxpayers selected randomly from entire population. The questionnaire involved twenty-seven five-point Likert scale questions, and seventeen categorical type questions were asked to the respondents. The study applied the logistic regression model to measure the effect of attitude on tax compliance behavior. This research study has some policy implications for encouraging the government to improve tax policy of the nation. The fairness of the tax system definitely affected the tax acquiescence behavior. The respondents doubted the fairness of the government concerning taxation based on data. The collective attitude of the taxpayers was highly negative among different taxpayers under the tax rate and government fairness. The results of the study revealed that taxation policy design and implementation mattered to taxpayers in Nepal. It further recommends the tax administration to reduce tax rates and adopt fair tax strategies for the welfare and justice of the various tax payers. A low tax compliance problem is related to low tax revenue of a particular country. The beauty of this study is to bridge the knowledge gap of emerging issue of the tax compliance behavior in several ways.

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**Keywords:** attitude variables, government fairness, tax rate, tax compliance, logistic regression

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### 1. Introduction

Tax compliance is a global burning issue for tax authorities and community strategy policy makers. Tax compliance is an emergent issue in the developing countries (Chau & Leung, 2009) <sup>[1]</sup>. Technically, tax compliance is the ratio of actual income tax revenue receipts (ITR) to the amount of taxes that were actually due to the government. Tax compliance is the measurement of the tax compliance index of the country. Tax compliance matter is a behavioral issue of the tax payers; it is either a taxpayer pays voluntarily or coerced to pay (Fagbeni & Abogun, 2015).

Tax compliance research became consequential in the 1970s as countries initiated to face rapidly growing budget deficits due to significant proliferation in the role of government in the public sector by the Keynesian recommendation. Tax negative compliance attitude is burning issue in developing countries like Nepal, which diminishes revenue generation capability as planned to be collected by the government that ultimately leads to budget deficit. Nepal ranks fifth in the SAARC region of a tax-compliant country. Tax compliance is a solemn and critical matter in the case of emerging countries like Nepal. Tax resources plays a dominant role to control Nepali economy. Tax is defined as 'a compulsory payment, imposed by government authority, on income, expenditure, profit, or capital assets, for which the taxpayer has no expectation to direct specific in return (Lymer & Oats, 2009). Tax is not similar to buying goods by money and getting money by goods.

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Nepal has insufficient resources to meet public expenditure. In 2022/23, the government announced the budget NPR 1.793 trillion and collected 1.1408 from tax sources (MoF, 2022/23). Based on the total tax revenue, tax has been the biggest contributor in the government budget in Nepal. But the amount of revenue to be generated by the government from taxes for its expenditure program depends on the willingness of the taxpayers to comply with tax laws of a country. Thus, the role of tax in supporting the economy of a country is important. In Nepali context, taxes collected by the government can be divided into two broad heading under direct and indirect taxes.

Most citizens of the country become unwilling to pay their tax obligation in the accurate amount, time and place due to presence of negative attitude. Tax negative compliance attitude is individuals' failure to comply with their tax commitment. Das, Gupta and Chattopadhyay (2002) state that compliance attitude with tax laws comprises true reporting of the taxable income; correct computation of the tax liabilities; timely filling of tax returns and timely payment of the amount owing as tax obligation. The researcher has to investigate the tax compliance behavior of the taxpayers. A limited investigation into taxpayers' attitudes has been executed in Nepal. The central pivotal point of this study was to conclude based on research objectives. In order to investigate taxpayers' behaviors of tax compliance, one needs to find the impact of attitude factors on tax compliance (2007).

## 2. Specific study Objectives

The aim of the study is to carry out an examination of the influence of attitudes factors on taxpayer compliance in Nepal. The specific objectives of the study are:

1. To investigate the impact of attitude factors of tax rate and government fairness on taxpayer compliance.
2. To recommend the impact of attitude factors on taxpayer compliance for implementation in Nepal

## 3. Hypothesis

**Hypothesis Ho:** Attitude factors of tax rate and government fairness has no impact on tax compliance behavior of taxpayers.

## 4. Literature Review

Attitude is considered to be one of the crucial determinants of tax compliance behavior of the taxpayers (Ajzen & Fishbein, 1975). Attitudes are combination of the many factors such as, government fairness, tax rate, knowledge burden. Knut and Lars (1996) find that tax knowledge and tax fairness also influence the attitude towards taxation. These attitudes impact reinforced inclination towards tax compliance. This study added to the psychological factors of tax compliance behavior of taxpayers. Torgler and Slemrod (2003)<sup>[6]</sup> discovered that tax compliance consumes a positive relationship with faith in government across countries. In other words, greater tax compliance is related to higher faith in the government.

There are many economic factors relevant to the study of tax compliance (Kinsey, 1992). In this content, several factors such as occupation, income level, tax rate, and tax audit is relevant to tax compliance (Loo *et al.*, 2012). These factors may affect the tax compliance behavior of the taxpayers. According to Alm (1999, p. 753), empirical findings advocate that higher tax rates or unfair tax rates lead to less

compliance. The tax rate should be designed based on efficiency and equity concerns (Sandmo, 2005). The policymaker must be greatly concerned with the unfair tax rate.

Most studies have proven that high tax burdens hurt tax compliance attitudes in both developed and developing countries. The finding suggested by (Garboua, 2006) who surveyed Romania while doing survey inquired questions regarding the taxation system in Romania, most of the taxpayers stated that impartiality is the most imperative issue rather than tax encumbrance, tax rate and efficacy of government expenses.

## 5. Theory of Planned Behavior

This theory developed by Ajzen (1991) proposes that human activities are influenced by subjective factors that lie within the possibility of social psychology and attempts to explicate human behaviors. And, it is merely the improved practice of the Theory of Reason Action advocated by (Ajzen & Fishbein, 1991) to explicate conscious behaviors. It maintains that behaviors of individuals inside the society are under the influence of several factors, originate from certain reasons and emerge in a planned way (Erten, 2002). Nevertheless, the ability to perform a particular behavior depends on the fact that the individual has a purpose towards that behavior. This study also uses the psychology-based theory to explain the tax compliance behavior of taxpayers.

## 6. Methodology

This study believes in post-positivist view because there is a single reality. According to survey findings in social phenomena, post-positivism ignores multiple reality (Bryman, 2016). The ontology of the research is that people have to pay taxes as compulsory and they generally feel a negative compliance. The way of gaining its reality outcome will be both objectivists and value-free methods. The researcher did not feel that there was a value in the researcher 'subjectivity concern. The main focus of the study is objective concern.

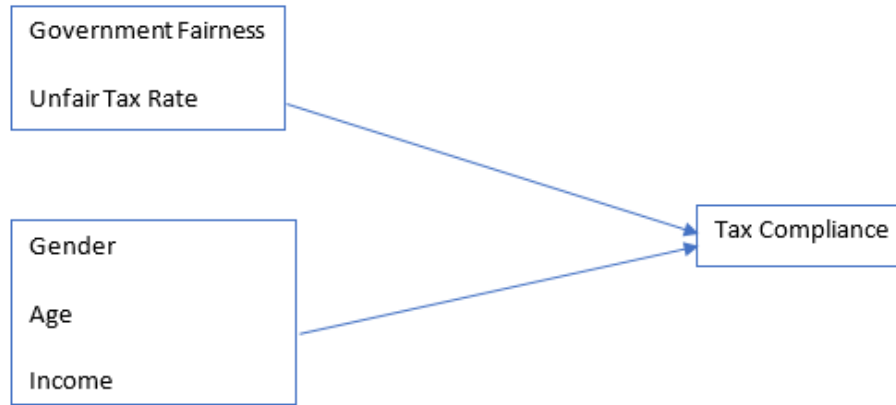
This research study incorporated quantitative survey method to obtain the impact of attitude factors on their relation with tax compliance behavior in Hetauda. Quantitative research approach involving numerical or statistical data and emphasis was on the quantifiable observations of the research which is mainly objective.

The researcher focused on the collection of first-hand primary raw data from the research area of Hetauda Sub-Metropolitan City. To collect primary data structured questionnaires and direct personal interview were used. The total population of this research study is different tax payers selected from Hetauda. The sample size of this study was 300 among 1300 taxpayers, they were enlisted from job holders of private and public sectors and businesspeople. The respondents were randomly chosen and proportionate stratified random sampling was used to cover the sample size among different strata because it gives more reliable and detailed information about the sample through a structured questionnaire (Etikan, 2017).

The validity of the scales was ensured by conducting a pilot study. Cronbach's Alpha-test was applied to find the validity of the questionnaire but it generally could be used for the Likert scale. The pilot study was conducted on 10 percent of the total sample.

**7. Conceptual Framework**

Independent variable and Dependent variable Figure:



Source: own construct based on the theory of planned behavior

Fig 1

This article maintains that behaviors of individuals inside the society are under the influence of several factors including demographic originate from certain reasons and emerge in a planned way which is from planned behavior side (Erten, 2002). The variable in the rectangles at the right-hand side (tax compliance attitude) is dependent variable and the other variables (attitude and demographic factors) that listed in the rectangles surrounding the left-hand side are independent variables.

This model examines the relationship between independent variables of attitude variables such as government fairness and unfair tax rate with demographic factors like age, income cast, types of job, education, gender and dependent variables (tax compliance).

Fiscal psychology and social psychology models resolve that tax compliance behavior is determined by non-economic factors such as socio-demographics, socioeconomic, attitudes and perceptions (e.g. Kinsey, 1984) different from economic determinants. Accordingly, the researcher has developed the model by driving logit function from odds ratio and incorporated six explanatory variables with attitude variables which disclosed as follows. COM is Function of [UTR, FAIR, GEND, AGE, EDU, TOJ, CAST, and LINC]. Hence, the researcher has developed the logistic regression model to achieve the objectives of this study. Logistic regression is one

of binary choice models (or dichotomous models), which is designed to model the ‘choice’ between two discrete alternatives.

$$TC_i = \alpha + \beta_1 FAIR_i + \beta_2 AGE_i + \beta_3 LINC_i + \beta_4 CAST_i + \beta_5 TOJ_i + \beta_6 EDU_i + \beta_7 GEND_i + \epsilon_i$$

$$TC_i = \alpha + \beta_1 UTR_i + \beta_2 AGE_i + \beta_3 LINC_i + \beta_4 CAST_i + \beta_5 TOJ_i + \beta_6 EDU_i + \beta_7 GEND_i + \epsilon_i$$

**8. Analysis, Finding and Implication**

This was primarily observed by the level of the government fairness with one or many demographic variables on tax compliance behavior of the taxpayers. These different models showed only the trend and degree of tax compliance on the all demographic variables in this study. The finding is mixed in different model of the government fairness with the demographic variables on tax compliance behavior of the taxpayers. The degree is 0.9, 0.28, 1.3, 0.9 & 1.0 in all models including one to another and the relations are significant with a p-value less than 0.05. It is concluded that government fairness affects tax compliance behavior. Misu (2011) categorizes tax acquiescence factors into two, which are fiscal and non-fiscal factors. One of those noneconomic features is tax impartiality.

Table 1: Tax Compliance & the Government Fairness with Independent Variables

Variables	Model1	Model2	Model3	Model4	Model5
Taxcol_fairgov	-0.9(0.000)	-0.28(.002)	-1.3(0.00)	-0.9(0.00)	- 1.0(0.00)
GEND	-	- 0.17(0.3)	0.02(0.4)	0.04(0.5)	-
AGE	-	-	0.01(0.1)	-	- 0.01(0.2)
LINC	-	-	-	0.8(0.1)	-
EDUC	-	-	-0.08(0.4)	-	-
TOJ	-	-	-0.2(0.1)	-	-0.1(0.4)
CASTE	-	-	0.02(0.7)	0.04(0.2)	0.03(0.1 )
Constant	1.01(0.00)	0.9(0.000)	0.8(0.2)	-3.8(0.2)	-2.5(0.2)
Walid Test	11.071	11.071	11.071	11.071	11.071
S. E.	0.118	0.118	0.117	0.117	0.118
2 Log	404.024	403.953	397.745	401.58	400.69
Nagelkerke R 2	0.003	0.003	0.003	0.014	0.018
N	300	300	300	300	300

Note: Taxcol\_fairgov = the government Fairness, GEND = Gender of the respondent, AGE = Age of the respondent, LINC = Log income, EDUC = Education status, TOJ = Job type of the respondent, CASTE = Cast of the respondent, C = constant. The values in the parentheses represent p-values.

The minus sign of the government shows the inversely associated with tax compliance behavior. Similarly, different models also revealed the same finding including the income and education level of tax payers. Age and tax compliance had a positive relation. Similarly, gender and cast were positively correlated with tax compliance. However, it revealed that there was no significant difference between male and female taxpayers according to the level of the government fairness. The positive magnitude proved this result but the result was not significant in which the p-value is less than 0.05. Hofmann et. al. (2017) proved that the relationship between tax compliance and age, sex, education as well as income level showed the inconsistent result. It thus appears socio-demographic characteristics had little impact on compliance because of the strength of the impact by considering geographical regions. The single variable of government fairness combined with and without demographic variables on tax compliance under different models is presented in the above table. The first model shows the simple logistic model of fairness on tax compliance.

The coefficient of income was a positive sign. The relation did not exist in this thesis at a p-value of less than 5 percentage Jackson and Milliron (1986) pointed out that the income level had an assorted and unclear effect on compliance; great income earners are possible to be more acquiescent rather than lesser income earners, as pinpointed by Wearing and Heady (1997) and Torgler (2007) [7]. Similarly, age and education were insignificant. This result

was also very similar to Frederick and Peter (2019). They did not find a significant relationship between age and education on compliance under the primary sources of data with 300 samples in Uganda. They found a similar result in the case of the education status of the respondents in the same article. Whether someone was educated or not, they tended to be fewer tax complaints since this relationship was not significant. Nevertheless, a previous investigation by Richardson (2006) recognized that age and sex were considerably correlated.

These different models showed merely the trend and magnitude of the unfair tax rate with different demographic variables including one or more in this study. The result finding is mixed in all cases on tax compliance. The result obtained from all model with or without demographic variables had minus sign indicating negative tax compliance by the taxpayers. This was primarily observed by the level of the tax rate, income distribution of the tax revenue, and equal distribution of the income tax among taxpayers. Similarly, different models also revealed the same finding including the income and education level of tax payers. Age and tax compliance have a positive relation. Regarding the age impact of respondents, the probability of having a positive tax compliance attitude was positive and statistically not significant. There are various types of casting among different taxpayers. Fredrick and Peter (2019), Wearing and Heady (1997), and Torgler (2007) [7] concluded that the many socio-demographic variables were insignificant.

**Table 2:** Tax Compliance & Unfair Tax rate with Independent Variables

Variables	Model 1	Model 2	Model 3	Model 4	Model 5
UTR	-0.18(0.05)	-0.18(0.05)	-0.18(0.05)	-0.06(0.00)	-0.17(0.05)
GEND	-	- 0.03(0.8)	0.07(0.7)	0.04(0.7)	-0.04(0.8)
AGE	-	-	0.01(0.1)	-	-
LINC	-	-	-	-	0.7(0.1)
EDUC	-	-	-	-0.04(0.4)	-0.06(0.5)
TOJ	-	-	-	-0.15(0.3)	-0.16(0.3)
CASTE	-	-	-	0.04(0.5)	0.04(0.5)
Constant	0.9(0.00)	0.9(0.01)	1.2(0.04)	0.8(0.00)	-3.5(0.3)
N	300	300	300	300	300
S. E.	0.266	0.267	0.270	0.118	0.118
Nagelkerke	0.029	0.030	0.039	0.043	S 0.053

Note: UTR = Unfair Tax Rate, GEND = Gender of the respondent, AGE = Age of the respondent, LINC = Log income, EDUC = Education status, TOJ = Job type of the respondent, CAST = Cast of the respondent, C = constant. The values in the parentheses represent p-values.

## 9. Conclusion

This study concludes that there is an intricate relationship between attitude variables, tax rates, perceptions of government fairness, and tax compliance. The findings suggest that the attitude of the taxpayers was highly negative among different taxpayers under the tax rate and government fairness, and their attitudes play a crucial role in influencing compliance behavior. Specifically, individuals are more likely to comply with tax obligations when they perceive the tax rate as fair and the government as just and transparent in its actions. However, high tax rates alone do not necessarily lead to decreased compliance if accompanied by a perception of fairness. Conversely, low tax rates may not always ensure high compliance if there is a perception of government unfairness. These insights underscore the importance of not only tax policy but also the broader socio-psychological factors in shaping taxpayer behavior. Policymakers should consider strategies to enhance perceptions of fairness and transparency in tax systems to promote voluntary

compliance, ultimately contributing to a more efficient and equitable tax regime. Further research in this area is warranted to explore additional factors and distinctions influencing tax compliance in diverse socio-economic contexts.

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