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Effect of Tax Audit on Tax Compliance

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Abstract: ***The study's main focus was on how tax audits affected tax compliance in the Banganga Municipality with particular goals in mind. Numerous statistical tools, including the mean, standard deviation, coefficient of variation, coefficient of correlation, and ANOVA test, were used to achieve these goals. There is a significant correlation between desk audit, field audit, back duty audit, registration audit, and tax compliance. It has been discovered that greater levels of desk audit, field audit, back duty audit, and registration audit performance enhance factors related to tax compliance. Factors have been investigated in this paper. Desk, field, back duty, and registration audits were among the independent variables; tax compliance was the dependent variable.***

Keywords: Audit Desk, Field Audit, Back Desk Audit, Registration Audit, Tax Compliance.

1. INTRODUCTION

Background of the Study

Presently, Nepal has taken on self-appraisal arrangement of assessment organization. This framework has shared pivotal obligation with the expert assessment evaluator. Subsequently, the duty evaluators have turned into an indispensable piece of the expense framework functioning as delegates helping citizens to manage their assessment matters.

An impartial appraisal function called audit is set up inside an organization to go into and assess its operations as a service to the business. You can easily consult our business for internal audit since internal audit assists boards and senior executives in managing risk. Working with you, our internal audit specialists can comprehend your business strategy, the business drivers that support it, and how your strategy is implemented using an appropriate operational business plan and process framework.

Any accusation of fraud, tax evasion, or related offenses inevitably leads to a tax audit. An investigation process called a tax audit is used to find out how much fraud, willful default, or negligence a taxpayer has done and to gather evidence in case the offender is charged with a crime. A necessary condition for tax compliance is the equity of the system. Fairness is

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essential to the legitimacy of the tax system since it affects people's inclination to pay taxes or not, either directly or indirectly, depending on whether they think the system and authorities are legitimate. Fairness is also the most challenging as different people understand it differently. For example, taxpayers may evaluate the fairness of the tax system based on their tax burden, benefits financed by taxes, and alternatives for avoidance and evasion.
The tax gap, which results from tax audits through tax evasion, is the difference between the amount of taxes that a country can collect and the amount of taxes that are actually collected. Examining and, as a result, amending legislative provisions that are vulnerable to misuse is one strategy used to combat tax evasion. Consequently, the ongoing modifications to tax laws tend to increase their specificity and, eventually, their complexity.

Statement of the Problems
Past investigations have basically centered on characterizing charge intricacy; the impact charge intricacy has on consistence conduct and what consistence costs mean for on the taxation rate of citizens. An endeavor to diminish the taxation rate through tax avoidance has prompted the expense hole, which is portrayed as the dissimilarity between the duties a nation can gather and the charges really gathered. The investigative process is one tool used to combat tax evasion, and as a result, administrative structures that are prone to manipulation are modified. Even if the adjustments are significant, it just so happens that they also have an impact on lawful citizens in addition to the people who were the victims of the specific evaluation arrangements.

Objectives of the Study
This study's primary goal is to examine how tax audits affect taxpayer compliance. Specifically, it looks at the following:
1. To measure the relationships between desk audit, field audit, back duty audit, registration audit and tax compliance.
2. To examine the effect of desk audit, field audit, back duty audit, registration audit on tax compliance.

Research Hypothesis
The variables that follow alternative hypotheses are set to be tested.
H_1: Tax compliance and desk audit have a substantial relationship.
H2: Field audit and tax compliance have a substantial relationship.
H3: Tax compliance and back duty audits have a substantial relationship.
H4: Tax compliance and registration audits have a substantial relationship.
Hs: The impact of desk audits on tax compliance is substantial.
H6: The impact of field audits on tax compliance is noteworthy.
H7: The impact of a backduty audit on tax compliance is noteworthy.
H8: The impact of the registration audit on tax compliance is substantial.

Limitations of the Study
Some major limitations are listed as below;
- Data has been collected from Banganga Municipality of Kapilvastu.

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- It has been possible to employ statistical methods such as regression, correlation, mean, SD, and percentage.
- Questionnaires have been used to gather primary data for the research.

Literature Review
In this section of the study, the concept of tax audit system, Tax system discourages Investment, type of tax and tax related subjects are reviewed. Beside these, the past journal and articles, and thesis are also reviewed.

Theoretical Review
This study's primary goal is to investigate how taxpayers view the phenomenon of the tax system. This chapter's goals are to lay forth the theoretical framework supporting the investigation and to make clear where the topic stands in the body of existing literature.

Tax Audit
A tax audit is described as an obligatory levy on income, expenses, or capital assets that is imposed by the government or a body designated by the government (tax authority), for which the taxpayer is not paid anything in return. However, taxes can also be seen as a cost to the taxpayer, whether they are an individual or a business. The latter must devise plans and techniques for streamlining tax laws and procedures in order to create a balance between taxpayers and tax collectors. The application of improved tax payer education is one such tactic. (Lymer and Oats, 2009).

Tax Compliance
The willingness of taxpayers to abide by tax regulations through accurate tax liability computation, prompt return filing, timely payment of overdue amounts, and true reporting of tax bases is known as tax compliance (Sharma, 2008).

The extent of non-compliance determined by measuring the net tax gap, which results from both tax avoidance and tax evasion (the difference between an individual's "true" income tax burden and that ultimately collected voluntarily or through enforcement action). The majority of tax administrators and taxpayers held the view that one of the main reasons for the rise in tax noncompliance is the rising discontent with the fairness of the tax system. Tax noncompliance fosters a perception of dishonesty and fraud, which can lower revenue, skew the labor market, and undermine state stability (Dahal, 2010).

Research Gap
The expenditure hole, or the discrepancy between the amount of duties a nation can collect and the charges that are actually collected, is the result of tax evasion through charge review. One tactic to stop tax evasion is to examine and, subsequently, change regulatory structures that are susceptible to manipulation. The changes are big, but they unintentionally affect the fair people as well as the people who violate the particular obligation arrangements in a big way.

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As a result, researchers considered conducting a new study on taxpayer perceptions of tax complexity. Prior research has examined how Nepal's taxpayers perceive their tax system. As a result, unfortunately, no comprehensive inquiry has been carried out to find out what specific taxpayers think about the Municipality's tax structure. The current effort therefore attempts to bridge the gap and contribute to the corpus of knowledge. Previous research examined how individual taxpayers perceived the Nepali tax system, with a focus on five key areas: efficiency, policy, rate, tax education, and transparency. However, the primary focus of this study is on how tax audits affect tax compliance in Banganga Municipality of Kapilvastu with regard to four factors: desk, field, back duty, registration, and tax compliance.

2. RELATED WORKS

Berber (2012), has given a dissertation named "Contribution of tax audit to the national revenue of Nepal" He has researched the impact that different taxes have on GDP, tax revenue, and government income. In the income year 1982–1983 and the income year 2001–2002, he claims that the contribution of tax revenue to government revenue was 85.2% and 78.0%, respectively. Income taxes from individuals, private corporations, compensation, public and semi-public companies, and interest taxes make up Nepal's income tax revenue. The amount of income tax collected in 2001–02 was Rs. 8903.7 million. Persons have the largest revenue share from income taxes. Individuals play a significant role in income taxation, which is on the decline. In 1982–1983 they accounted for 69.23% of total revenue; by 2001–2002, that percentage had dropped to 49.63%. Individual income tax contributions rank highest. In 1959–1960, the income tax exemption limit in Nepal was Rs. 7000 for all taxpayers; however, as of 2003–04, the income tax exemption limit is Rs. 80000 for individuals and Rs. 100000 for couples and families. Non-residents, corporations, and partnership firms are not eligible for the exemption limit. It is discovered that the exemption limit has been adjusted based on income and time requirements. In 1980–81, the personal income tax rate was 5–50% with 7 slabs; however, as of 2003–04, there are only 21 slabs. Similarly, the corporation tax rate was 55% in 1980–1981; however, current taxpayers pay a flat tax rate. For personal income tax over the exemption limit, the rate is 25%; for bank and finance firms, it is 30%; and for other corporate taxpayers, it is 25%. According to his recommendations, the goals of taxes need to be economic growth, redistribution, and stabilization. Thus, it is imperative that the income tax policy be carefully crafted based on a critical evaluation of the current circumstances.

Bhattarai (2016), some issues with the income tax statute of 2002's implementation have been brought to light by the author in his thesis, "Tax Act 2058: Problems and Difficulties". His research revealed that the following are the main issues with the tax system: Intricate tax legislation, unlawful commercial operations, Abetting tax evasion with auditor support an inadequate tax administration record-keeping system, Revenue evaders' social recognition, A lack of confidence in the appropriate utilization of taxes and superfluous deductions and exemptions Drawing from his research, he said that the nation's economic policies should inform the formulation of income tax policy. He suggested broadening the tax base to bridge

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the resource deficit, while maintaining adherence to the ability to pay principle. Tax administrators should have clear rights and obligations. Promotion, punishment, and reward systems must to be linked to employee performance. Robust measures to deter tax evasion should also be established, and public awareness campaigns ought to be expanded.

3. RESEARCH METHODOLOGY

This chapter provides an overview of the research methods employed in this investigation. Three different research types are used in this study: analytical, empirical, and descriptive. The opinions of the numerous respondents linked with distinct denominations, i.e., various tax audits, were gathered through a standardized questionnaire in order to meet the study's objectives.

Research Design

The study was carried out using a casual comparative and descriptive research design. This study's descriptive research design is survey-based. In order to make inferences about the population under study, the descriptive research design summarizes the data and conducts investigations into phenomena or relationships between them.

Population and Sample

There are many tax payers in Banganga Municipality of Kapilvastu. In case of taxpayers there are 1768 taxpayers in the year 2077/78. Respondents have been selected under convenience sampling method from the total population.

Sampling Method

Sampling methods has been convenience sampling method to approach the sample respondent.

Nature and Sources of Data

Questionnaires were given to a sample of the population in the Banganga Municipality of Kapilvastu in order to gather primary data for the study. Individual taxpayers in Kapilvastu's Banganga Municipality are respondents for this purpose.

Data Collection Procedures

326 questionnaires were distributed; 320 were returned, and the remaining questionnaires were not. As a result, 98% of respondents responded. A five-point Likert scale questionnaire has been utilized as a research instrument. questionnaires used in the Banganga Municipality of Kapilvastu survey of a sample population.

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Research Framework and Definition of variables

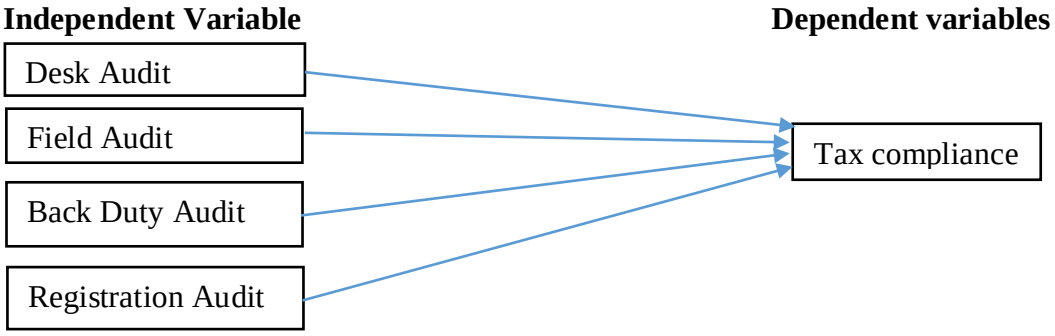


Figure 1.1 Research Frameworks

4. RESULT AND DISCUSSION

The primary focus of this research study is the data presentation and analysis. Thus, in order to accomplish the goal of this study, we evaluate the data utilizing the different statistical methods covered in "Research Methodology." Determining the effects of tax audits on tax compliance in Banganga Municipality Kapilvastu which are covered in this chapter is one of the primary particular aims of this study.

Result of Respondent Profile

To generalize the traits of the respondents, sample descriptions are carried out. The profile of the respondents has been examined in this part with regard to gender, age, profession, and education.

Table No. 4.1

Basis for classification	Categories	Frequency	Percentage
Gender	Male	118	58.8
	Female	132	41.2
Age	18-30	65	20.3
	30-40	164	51.2
	40-50	67	20.9
	50 more	24	7.5
Education	SLC	17	5.3
	Intermediate	54	16.9
	Bachelor	73	22.8
	Mater	176	55
Profession	Services	89	27.8
	Business	146	45.6
	Other	85	26.6

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The table 4.1, as illustrated above, reveals that 58.8% of the 320 respondents were men and 41.2% were women. This demonstrates that compared to the taxpayers shown in the table, more men were worried about local assembly concerns. The age group of 30–40 years old accounts for the largest percentage of responders (51.2%), followed by 40–50 years old (20.9%), 18–30 years old (20.3%), and 50 years and older (7.5%). The master group (55.0%) has the highest percentage of respondents, followed by the bachelors group (22.8%), intermediate (16.9%), and SLC group (5.3%) in order of decreasing percentage. The Profession of Business group has the biggest percentage of respondents (45.6%), followed by the Services group (27.8%) and other) and other group (26.6 percent) presented by table.

Reliability of Constructs

Validity and reliability of a measurement tool are two crucial aspects of its evaluation. Validity is the extent to which an instrument measures what it is intended to measure. Reliability is the capacity of an instrument to quantify consistency. In 1951, Lee Cronbach developed alpha to measure a test's or scale's internal consistency. A number between 0 and 1 is used to denote alpha.

Table No. 4.2 Reliability of Construct

Dependent Variables	Dependent Variables	Dependent Variables
1	Desk Audit	0.982
2	Field Audit	0.939
3	Back Duty Audit	0.955
4	Registration Audit	0.808
5	Tax compliance	0.976

To ensure item validity, minimum coefficient alpha values of 0.70 are accepted. Two essential components in assessing a measurement tool's quality are validity and reliability. The degree to which a tool measures what it is supposed to measure is what's known as validity.

Descriptive Statistics

Desk Audit

Table No. 4.3 Descriptive Statistics

Items	Mean	SD
Tax audit takes within the premises of tax officials	3.256	0.941
Desk audit is cost effective	3.328	0.954
It affords auditors to independently determine the accurate tax liability of the tax payers	3.328	0.954
I am aware of most tax laws and guidelines about taxation of incomes for organization.	3.328	0.973
Average of Desk Audit	3.311	0.956

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Table 4.3 it is found that the mean value of desk audit is 3.310. It suggests that taxpayers' responses range from neutral to in agreement. Thus, it can be said that there is a deficiency of some kind concerning desk audit. Therefore, it is recommended that in order to increase taxpayer satisfaction, factors influencing tax compliance should concentrate more on the desk audit portion.

Field Audit

Table No. 4.4 Descriptive Statistics

Items	Mean	SD
Desk audit often times lead to field audit when additional documents are needed	3.334	0.962
It requires the taxpayers are well-informed before the commencement of the audit	3.309	0.95
It allows physical verification of tax payers claims so as to confirm the facts and figure of the returns	3.484	1.044
I understand most of the laws regulations relating to income tax	3.456	1.118
Average of Field Audit	3.396	1.019

Table 4.4, it is found that the mean value of field audit is 3.396. It indicates that the response of taxpayers is in between neutral and agrees. Therefore, it can be concluded that there is some sort of lacking with respect to field audit. Hence, it is suggested that the factors affecting on tax compliance of taxpayers should focus more on field audit part to make their taxpayers more satisfied.

Back Duty Audit

Table No. 4.5 Descriptive Statistics

Items	Mean	SD
It is used to reveal doubtful claim of capital allowance related to previous or current year	3.912	1.127
It corrects the mistake of lesser tax as a result of falsification of document submitted by the tax payers	3.181	0.972
It reveals the reduction of profit in the returns files in tax office	3.234	0.994
The Fiscal authorities (IRD) would notice decided to evade tax.	3.568	1.042
Average of Back Duty Audit	3.474	1.034

According to Table 4.5, the average back duty audit value is 3.474. It suggests that taxpayers' responses range from neutral to in agreement. Consequently, it might be said that the back duty audit is deficient in some way. Therefore, it is recommended that in order to increase taxpayer satisfaction, the factors influencing tax compliance should concentrate more on the back duty audit portion.

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Registration Audit

Table No. 4.6

Items	Mean	SD
Registration audit documents tax payers' identities and other business information obtained from Corporate Affairs Commission (CAC) and the Nigeria Custom Service (NCS)	3.278	1.0326
It ascertains organizations and other chargeable evading tax.	3.287	1.028
It is used to cage individuals and companies in the tax net	3.334	1.009
I know all what is required from me in respect of my business profit tax obligations	3.296	1.002
Average of Registration Audit	3.299	1.017

Table 4.6, it is found that the mean value of registration audit is 3.299. It indicates that the response of taxpayers is in between neutral and agrees. Therefore, it can be concluded that there is some sort of lacking with respect to registration audit. Hence, it is suggested that the factors affecting on tax compliance of tax payers should focus more on registration audit part to make their taxpayers more satisfied.

Tax Compliance

Table No. 4.7 Descriptive Statistics

Items	Mean	SD
Desk audit induces taxpayers to with tax laws and regulations	3.156	0.94
Field audit promotes reporting compliance of taxpayers	3.228	0.995
Back duty audit ensures full compliance of tax laws and remittance of tax	3.521	1.047
Registration audit influences taxpayers' compliance level and remittance of tax	3.596	1.039
Average of Tax compliance	3.515	1.01

Table 4.6 shows that the registration audit's mean value is 3.299. It suggests that taxpayers' answers range from neutral to in agreement. Thus, it can be said that there is a deficiency of some kind concerning registration audit. Thus, it is recommended that in order to increase taxpayer satisfaction, the factors influencing tax compliance of taxpayers should concentrate more on the registration audit portion.

Correlations Analysis

Table No. 4.8 Correlations

	Desk Audit	Field Audit	Back Duty Audit	Registration Audit	Tax compliance
Desk Audit	1				
Field Audit	.523**	1			

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Back Duty Audit	.499**	.761**	1		
Registration Audit	.547**	.850**	.945**	1	
Tax compliance	.221**	.187**	.107**	.119**	1

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
Table 4.8 shows that Desk Audit and Tax Compliance are positively correlated, with a correlation coefficient of r = 0.221. As can be seen from Table No. 4.8 above, the correlation coefficient value of 0.087 between field audit and tax compliance indicates a weakly positive link. It is possible to draw the conclusion that there is a positive correlation between tax compliance and back duty audits given that Table No. 4.8 above shows a correlation coefficient of r = 0.107. With a correlation coefficient value of 0.119, Table No. 4.8 above shows that tax compliance and registration audits are positively correlated.

Table 4.9 Relation Hypotheses Accept or Reject

Hypothesis	**Correlation**	**P-Value**	**Accept/Reject**
H_1: There is significant relationship between desk audit and tax compliance.	0.221	0.000	Accept
H2: There is significant relationship between field audit and tax compliance.	0.087	0.012	Accept
H3: There is significant relationship between back duty audit and tax compliance.	0.107	0.047	Accept
H4: There is significant relationship between registration audit and tax compliance.	0.119	0.033	Accept

Table No. 4.10 Model Summary

Model	**C**	**β_1**	**β_2**	**β_3**	**β_4**	**F-Statistics**	**Std. Error**	**Sig.**
Coefficient	1.851	0.211	0.72	0.25	0.37	9.234	0.6251	0.000[a]
P-Value	0.000	0.001	0.000	0.000	0.000			
	Adjusted R^2=0.659							

a. Predictors: (Constant), Desk Audit, Field Audit, Back Duty Audit, Registration Audit
b. Dependent Variable: Tax compliance
In the table above, Table 4.10 displays the estimation findings for the desk audit, field audit, back duty audit, and registration audit along with the p-values of 0.001, 0.000, 0.000, and 0.000. These audit categories have coefficient estimates of 0.211, 0.720, 0.246, and 0.0370. The effect of desk, field, back duty, and registration audits would be an increase in tax compliance. The findings showed that tax compliance was significantly improved by different audit methods. The variance in tax compliance on desk audits, subjective standards, and back duty audits is explained by the above equation, which has an R2 value of 0.665, indicating that overall tax compliance accounts for 66.5% of the variation.

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Table 4.11 Effect of Hypotheses Test Result

Hypothesis	P-Value	Accept/Reject
Hs: There is significant effect of desk audit on tax compliance.	0.001	Accept
H6: There is significant effect of field audit on tax compliance.	0.000	Accept
H7: There is significant effect of back duty audit on tax compliance.	0.000	Accept
H8: There is significant effect of registration audit on tax compliance.	0.000	Accept

The null hypothesis is not sufficiently supported because the t-statistic's p value (0.000) is less than 0.05. As a result, the other theory—that tax audits significantly affect tax compliance—is acknowledged. At the 5% significance level, the regression model is therefore significant. The estimation outcome and the p-values for the desk audit, field audit, back duty audit, and registration audit (0.001, 0.000, 0.000, and 0.000) are displayed in the above table.

5. DISCUSSION

One of the study's key findings is that tax audits significantly improve tax compliance. This finding indicated that desk, field, back duty, and registration audits had a significant impact on the quick rise in tax compliance. An argument arising from this discovery is that tax audits have the potential to enhance taxpayer compliance.

Desk audits and tax compliance are positively correlated; field audits and tax compliance are negatively correlated; back duty audits and tax compliance are positively correlated; and registration audits and tax compliance are positively correlated. The analysis's main finding is that every variable moves in the same direction. This implies that as the number of desk, field, back duty, and registration audits rises, so does the taxpayers' degree of compliance.

The many components of a tax audit include desk, field, back duty, and registration audits, as was previously mentioned. The purpose of this study is to ascertain how these attributes predict taxpayer compliance and remittance. As mentioned earlier, no single researcher has used these features to look at how closely taxpayers follow tax revenue rules, regulations, and remittance. The goal of the current study is to close that gap. All tax audit types are expected to improve tax compliance. The estimation results for the desk, field, back duty, and registration audits are shown in the table above. It provides p-values of 0.001, 0.000, 0.000, and 0.000, and coefficient estimates of 0.211, 0.720, 0.246, and 0.0370.

As a result, tax compliance would increase as a result of desk, field, back duty, and registration audits. The results demonstrated that these audit types had a considerable positive impact on tax compliance. The above equation's r2 value of 0.665 indicates that the overall tax compliance accounts for 66.5% of the variation in tax compliance on desk audits, subjective standards, and back duty audits. The ANOVA test result is shown in the table. Since the p value (0.000) in the table above is less than 0.05, we may conclude that the alternative hypothesis (H1, H2, H3, and H4) is accepted and that there is a significant

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relationship between tax compliance and registration audit at the 0.05 level of significance. It can be concluded that there is a positive correlation between tax compliance and audits conducted by desk, field, back duty, and registration.

6. SUMMARY, CONCLUSION AND IMPLICATION

Summary

The main objective of the study was to determine how tax audits affected taxes. These objectives were met by utilizing a wide range of statistical methods, such as the ANOVA test, coefficient of variation, standard deviation, and coefficient of correlation. A strong correlation has been found between tax compliance and desk, field, back duty, registration, and back duty audits. Higher desk, field, back duty, and registration audit performance levels improve tax-related aspects. The results of the quantitative data analysis are shown in several tables. This inquiry has examined a number of components. Tax compliance was the dependent variable, while the independent variables included back duty, desk, field, and registration audits. The study looked at theoretical and conceptual evaluations, reviews of pertinent publications, research gaps, and more in order to explore tax compliance. Because the data was acquired from the effects of tax audits on tax compliance, the study population is considered finite. Five Chapters comprise this study. The background, problem statement, goal, significance, and limitations of the study are all covered in the first chapter. The second chapter reviews relevant studies and material that have been published and prepared by researchers and specialists. This study's approach is presented in the third chapter, Research approach. It covers the nature and sources of data, data collecting, data processing, data analysis techniques, and research design. The study's objectives are achieved in the fourth chapter, which presents the data and analyzes it using a variety of statistical tools and techniques before moving on to methodology. The entire investigation is summed up in the fifth chapter, which also provides a summary conclusion and recommendations. Desk, Field, Back Duty, and Registration Audits all show positive correlations and agreement; as a result, the impacts of tax audits on tax compliance in Banganga Municipality, Kapilvastu, are positively significant in all aggregate variables.

Conclusion

According to the survey results, tax audits have significantly improved tax compliance in Banganga City. The findings linked the impact of desk audits, field audits, supplementary audits, and registered audits to the rapid increase in tax compliance. This finding suggests that tax audits can lead to improved taxpayer compliance. The focus of the study was on how tax audits affect tax compliance and revenue in Banganga City. From the findings, it is clear that tax audits promote tax compliance in Banganga City, Kapilvastu. Increased tax compliance and remittance through desk, field, back duty, and registration audits will boost the State's revenue pool. concludes that the response from taxpayers is indecisive, ranging from indifferent to agreement. As a result, it may be concluded that there are a number of issues with the registration audit, back duty audit, field audit, and on desk audit. Therefore, factors that impact tax compliance should prioritize field audits and back responsibilities more in order to boost taxpayer satisfaction. The results showed that desk, field, back duty,

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and registration audits greatly improve tax compliance; in other words, these audit types have a positive effect on tax law noncompliance.

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