

Informal Tax Culture among Wholesale Traders in Asan and New Road, Kathmandu: A Phenomenological Study

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Abstract

This study explores the lived experiences of informal taxation among wholesale traders in Asan Bazaar and New Road, Kathmandu. Despite the expansion of Nepal's formal tax system through tax registration, billing, bookkeeping, and electronic tax administration, informal tax-related practices continue to coexist with formal taxation. The study aims to understand how wholesale traders experience, interpret, and negotiate informal taxation in their everyday business activities. A qualitative phenomenological approach was adopted, and data were collected through semi-structured interviews with wholesale traders from Asan Bazaar and New Road. The interview data were analyzed thematically to identify recurring meanings, experiences, and patterns. The findings indicate that informal tax practices are influenced by social norms, peer relationships, intergenerational business practices, perceptions of tax fairness, trust in tax authorities, and experiences of unequal enforcement. Participants' experiences further suggest that certain informal practices become normalized within the trading environment and operate alongside formal taxation. The study also indicates that traders' willingness to comply with formal tax obligations is conditional upon their perceptions of fairness, transparency, trust, and administrative effectiveness. The study contributes to understanding informal taxation as a socially embedded phenomenon shaped by institutional and marketplace contexts rather than solely as an issue of legal non-compliance.

Keywords: Informal taxation, Tax culture, Tax compliance, Lived experience, Wholesale traders.

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1.0 Introduction

Since the Income Tax Act 2058 (2002) and the Value Added Tax Act 2052 (1996) were passed, there has been a significant expansion of formal tax laws and tax administration in Nepal. The aim of these laws was to improve tax compliance among business owners and to get more businesses and operations into the formal sector. Yet tax compliance among urban wholesale traders is still below what is desired. For instance, the Inland Revenue Department (IRD, 2022/23) observed a big gap between the expected and the actual revenues, with most of the traders who operate in the old market areas having either very little or low taxable sales or income. This is particularly evident in traditional wholesale markets such as Asan Bazaar and New Road, where informal methods of taxation have long been in use together with the official taxation procedures. In some cases, the informal practices do not just act as a supplement to the formal taxes but function as a substitute. Since I am a researcher who has been looking into informal taxation in both Asan and New Road, I have found that this is indeed so, there being a noticeable gap between the formal tax rules and how they are actually applied in both markets. Although both Asan and New Road are wholesale markets in Kathmandu, they are distinct markets in both their history and their nature. Asan Bazaar is one of the oldest wholesale trading areas in Kathmandu and, due to its strong traditional cultural, ethnic, religious, and social context, most traders belong to traditional merchant families; in contrast, New Road, which was established after the devastating 1934 earthquake, is more modern and is home to a diverse group of traders, many of whom sell electronics, garments, and other high-value commodities. Although the state has sought to formalize tax practices through, for example, the electronic filing of tax returns, registration for a tax identification number (PAN), and billing, the above-mentioned informal taxation practices are still prevalent among wholesale traders in both Asan and New Road markets. Most traders are aware of formal taxation practices and are not in opposition to formal taxation, but nevertheless do not fully comply with the aforementioned formal tax rules. Thus, what is important in this instance is not simply whether the traders in Asan and New Road pay tax, but how they understand, experience, and interpret informal taxation in their business life.

1.1 Research Questions

The study is directed by the following two research questions:

Research Question 1: How do wholesale traders in Asan and New Road perceive and experience informal tax culture in their day-to-day business operations?

Research Question 2: What socio-cultural, institutional, and economic factors sustain informal tax practices among wholesale traders in Asan and New Road, Kathmandu?

1.2 Research Objectives

This study is guided by the following two research objectives, formulated in direct alignment with the research questions:

- To explore and describe the perceptions and lived experiences of wholesale traders in Asan and New Road regarding informal tax culture in their day-to-day business operations.
- To identify and analyze the socio-cultural, institutional, and economic factors that sustain informal tax practices among wholesale traders in Asan and New Road, Kathmandu.

2.0 Literature Review

The literature that supports this research comes mainly from three themes: taxation and institutional theory; tax compliance and social norms; and Nepal and South Asia studies about informal market practices.

2.1 Theoretical Foundations: Tax Compliance, Trust and Power

The Slippery Slope Structure, introduced by Kirchler, Hoelzl and Wahl (2008), helps explain why some people choose to comply with tax laws while others do not. The structure states that the level of compliance with tax laws is determined by the level of power and trust that people have in the tax authorities. If both power and trust are high, tax compliance will also be high. However, if trust is low and power is moderate, compliance will be low. Compliance will fall in between these two extremes but still show that people have some degree of trust in the tax authorities. So, tax compliance is dependent upon the level of power and trust that people have in the tax authorities. The situation in Asan Bazaar and New Road shows that tax compliance will increase as the trust and fairness of the tax system increases. Another important factor in tax compliance is tax morale. Tax morale is closely related to trust. Torgler (2007) found that trust in the government, corruption within the government and the perception of fairness within the tax system all have an important impact upon tax morale. When the tax system is seen as unfair or corrupt, people feel that it is their duty to comply with the tax system and to pay the taxes that are required of them. The traders in Asan and New Road only begin to pay taxes to the government when they perceive the tax system as being fair, open and without corruption.

2.2 Institutional Views on Informality

North (1990) explains why people follow rules. According to North, people tend to turn to institutions for rules when those institutions appear to be weak in terms of trust. Also, when there is no trust in the government and its institutions, people tend to resort to informal institutions. However, North (1990) notes that even when the state is strong, informal institutions can emerge among traders if they feel that the state is inefficient and lacks legitimacy. So, informality among traders does not necessarily emerge from the weakness of the state; it can emerge from the choice of traders to adopt such informal practices for their businesses.

Helmke and Levitsky (2004) discuss the concept of informality within a market. They explain that informality can exist within markets that have formalities in place for those markets. In other words, people tend to prefer informal institutions over formal ones due to the lack of trustworthiness or efficiency in those formal institutions. This helps to explain the presence of informal tax practices within the Asan Bazaar and New Road markets.

Olken and Singhal (2011) discuss how informal taxes are used within many developing countries. These informal taxes include things like community contributions and other fees that are collected outside of the established tax laws of the country. Joshi, Prichard and Heady (2014) further discuss how informal businesses within these countries often do not feel that the government provides them with the benefits necessary to justify the costs of complying with the government's regulations and laws.

2.3 Asian and Nepalese Studies

When one looks at Nepali literature, Shrestha (2021) examines the informal institutional arrangements existing among the various economic groups in Kathmandu.

He finds that trader associations function as mediators between traders and government authorities and explains how they assist in negotiating between traders and tax authorities as well as in arranging tax payments. This is consistent with what can be observed in Asan Bazaar and New Road, where traders explain the way in which they interact with tax authorities and describe their informal tax experiences.

Giri (2012) examines businesses in Kathmandu with a view to investigating the role of trust and customer experiences in the relationship between traders and tax officials. He discovers that small businesses which have reported negative experiences with tax officials are less likely to comply formally than those which have not reported such bad experiences; this is in agreement with our findings. Thakur and others (2024) looked at business owners in the Kathmandu Valley by using the Theory of Planned Behavior. They find that tax morale, procedural complexity and the level of perceived trust in the government are more important in determining compliance intentions than formal penalties alone.

According to Khan (2012), it is common among wholesalers in Pakistan to carry out dual bookkeeping, and this is not regarded as unusual. Our results support this since double-entry or dual bookkeeping is prevalent among traders and wholesalers in Asan Bazaar and New Road. Khan's observation is the same as ours in that traders do not consider bookkeeping to be illegal but see it rather as a normal practice which is accepted within the culture and which helps them cope with the realities of the market.

2.4 Research Gap

Research that has already been carried out has looked into tax compliance, tax morale, informal taxation, and the formal and informal institutions. Yet in the case of Nepal, only a small amount of research has investigated how traders perceive, understand, justify, and come to accept informal tax practices in their day-to-day business activities.

Furthermore, insufficient attention has been paid to wholesale traders in Asan Bazaar and New Road, and in order to fill this gap, the present study employs a phenomenological approach in order to examine informal taxation as a phenomenon that is experienced and embedded in social life, with a focus on social norms, trust, fairness, institutional relationships, and marketplace culture.

3.0 Research Methodology

A description of the research methodology used in the research study. This outlines the research design and paradigm, study area, participants and sampling, data collection, and data analysis. The research methodology is chosen in relation to the research objectives.

3.1 Research Design and Paradigm

This research is based on an interpretivist and constructivist perspective that posits social phenomena such as tax compliance as constructed by the people experiencing them (Lincoln & Guba, 1985; Creswell & Poth, 2018), and thus a phenomenological research design is used in this study (Moustakas, 1994; Van Manen, 1990) to gain an understanding of the traders' lived experiences of an informal tax culture. That is, the purpose is not to measure trading behavior but to understand how wholesale traders operating in Asan Bazaar and New Road experience, interpret, and attribute meanings to informal tax practices in their daily business activities.

3.2 Study Area

The research was conducted in the Asan Bazaar and the New Road/Juddha Sadak area under Kathmandu Metropolitan City at wards no.27 and no. 22, respectively. The Asan Bazaar is one of the most ancient markets in the Kathmandu Valley where mainly spices, cereals, and other dry goods are traded. This market is largely operated by Newars with a strong commercial background; however, New Road, constructed after the 1934 earthquake, operates mainly in electronics, clothes, luxury goods, etc. It is a much more plural society. Both sites are under the Kathmandu area of IRD (Inland Revenue Department), which are suitable to be the research sites on the informal and tax compliance behavior of the traders.

3.3 Participants and Sampling

Two participants were included in this study via purposive sampling, a purposeful approach by which to select information-rich cases from which to learn (Patton, 2002). The two participants met all three of the following criteria: (1) 15 years of wholesale trade experience, (2) experience and knowledge of both formal tax policy and informal practices, and (3) willingness to talk about their experiences with taxation.

Participant Hari is male, with 26 years' experience as a spice and dry goods wholesaler in Asan Bazaar and participant Namuna is female, with 17 years' experience as an electronics wholesaler in New Road. The two interview data were considered to be sufficient given that the two participants shared similar experiences of informal tax while at the same time, also reflecting context-specific differences.

3.4 Data Collection

All the participants were interviewed in February 2026 at their shops/business places during non-peak business time. All the interviews were conducted in Nepali and lasted 75 to 90 minutes. A semi-structured interview guide was designed ahead of time on the following topics: (a) demographic profile of the participants; (b) participants' perceptions and experiences regarding tax culture; (c) factors contributing to the persistence of informal tax systems; and (d) factors that may encourage the reform of informal tax systems. While a guide was adhered to throughout the interviews, participants were also free to raise any issues they felt relevant in explaining their situation. Written informed consent to audio record the interviews was sought from all the participants. All the interviews were recorded and then transcribed in Nepali immediately. Afterwards, they were translated into English. To ensure the reliability of in vivo statements, a native and multilingual colleague of the authors helped in back-translating key in vivo statements. An analytical journal was maintained to record interpretations, reflections, and decisions to enhance the transparency and reflexivity of the analysis throughout the course of the study.

3.5 Data Analysis

The approach used for data analysis is Braun and Clarke's (2006) inductive thematic analysis and Interpretative Phenomenological Analysis by Smith, Flowers, and Larkin (2009) to understand the experiences of the participants. Transcripts were read multiple times in order to get to know the data thoroughly. Codes were generated based on the direct words of the participants. Codes were then reviewed and refined to have a clear description of each code. The codes from both of the participants were brought together and grouped into a codebook. Codes were matched up with Hari and Namuna and assigned with a numerical value, for example, C1, C2, C3, C4, to ensure traceability of the codes. No pre-set theory-driven codes were used. The approach used

in the study was an inductive or bottom-up approach. Lincoln and Guba (1985) trustworthiness criteria were used by doing member checking, an audit trail, reflexivity and providing thick description in order to provide credibility and allow the reader to consider for transferability.

4.3 Findings

The two interview transcripts were each coded to produce a total of eight codes, with four codes derived from each individual. Table 1 shows these eight codes. The codes reflect the key experiential attributes of informal tax culture, as characterized by the two traders, one from Asan Bazaar, and the other from New Road. The codes are organized by respondent, and comparisons were therefore possible between the two trading environments and their experiences.

Table 1: Interview Codes Generated from Participant Data

S.N.	Participant Profile /	Code	Key Descriptor / In Vivo Extract (translated from Nepali)
1	Hari: Wholesale spice & dry-goods trader, Asan Bazaar; male, 52 yrs; 26 yrs in trade	Hari-C1	Routine informal cash payments made to ward-level inspectors to avert formal premises inspection; framed as a customary, collective norm: "Everyone in this lane does it — if you do not give, they will find a problem."
		Hari-C2	Dual record-keeping is maintained: official ledger reflects only invoiced transactions; a private notebook records actual cash sales to avoid VAT liability.
		Hari-C3	Anxiety is directed at the risk of selective audit rather than at the practice itself; formal enforcement is perceived as arbitrary and politically motivated.
		Hari-C4	Informal tax practice transmitted intergenerationally: father explicitly instructed participant in under-invoicing when he joined the family business, framing it as standard industry knowledge.
2	Namuna: Wholesale electronics trader, Newroad; male, 44 yrs; 17 yrs in trade	Namuna-C1	Transit-level informal payments to revenue checkpoint staff institutionalized as a predictable procurement cost: "The driver knows who to pay and how much at every checkpoint — it is already in the price."

		Namuna–C2	Under-invoicing coordinated collaboratively with cross-border suppliers; both parties reduce tax exposure through partial cash settlement outside the formal invoice.
		Namuna–C3	Social ostracism functions as a structural deterrent to formalization: a peer trader who attempted full VAT compliance was commercially marginalized until he reverted to informal norms.
		Namuna–C4	Conditional compliance: formal tax obligations accepted as legitimate in principle, but conditional on perceived equitable enforcement and productive use of revenues: "If everyone paid the same and the money was used properly, I would be happy to pay."

4.3.1 Findings from Participant 1 (Hari): Asan Bazaar

Hari's interview stands out for the casual manner in which he speaks about tax matters, indicating how normalized informal tax has become for him. In C1, he says that he and other shopkeepers in his neighbourhood make informal payments of NPR 500 to 2,000 to inspectors at the ward level during inspections, so that he would not be formally inspected. Hari did not perceive these informal taxes as being part of corrupt activities; rather, he viewed them as a normal, expected and predictable aspect of doing business, a type of informal service charge, or a business cost. Furthermore, the fact that this was happening in his own business lane implies it's difficult to avoid this, as not being in compliance would make them stand out. In C2, Hari describes how he is keeping two separate financial books. The first is for tax purposes and is submitted to the IRD. It shows transactions where he invoices other businesses. The second book is his personal book in which he records cash transactions, which comprise 40–60% of all turnover. They are not declared for tax purposes in the main book in order to pay less VAT. In C3, Hari is not concerned about under-invoicing in general but rather about who gets caught. He fears that perhaps it's just him, and others might be doing it. This indicates a sense that some people are being unfairly and arbitrarily selected for taxation enforcement. Lastly, the issue of the intergenerational transfer of informal tax practices becomes clear in C4. In the interview, Hari talks about his father. He says when he took over from his father, he was taught this practice of under-invoicing, which the father calls 'business techniques' that he had to master to become successful in Asan Bazaar.

4.3.2 Findings from Participant 2 (Namuna): New Road

The informal tax culture within the business context of Namuna was found to be the consequence of both supply chain effects and community-level effects. Within her specific industry of cross-border trade in high-end consumer electronics, informal payment systems were deeply ingrained within business practices.

In C1, Namuna stated that it was an everyday occurrence to pay off the revenue checkpoint staff on the Birgunj to Kathmandu trade route. Informal payments at the transit level were not considered unusual or unethical. On the contrary, they were seen as part of the routine business costs and were taken into account when calculating business costs. Furthermore, since they could predict the payments they needed to make to checkpoint staff, the transit level of her supply chain felt relatively stable and safe, unlike dealing with the formal tax procedures.

In C2, she observed that suppliers frequently did not declare the actual value of their goods. She mentioned that in order to keep costs down and evade taxes, cross-border suppliers tended to only declare a small portion of the actual trade value to the revenue checkpoint. They received the balance in cash. She noted that this was good for both traders and suppliers, as it helped to reduce costs. Under-invoicing was, therefore, not something uncommon at the supplier level; rather, it seemed that under-invoicing was embedded in the wholesale supply chain for electronic appliances.

The effects of community-level enforcement were captured in C3. Namuna stated that one of her acquaintances was a trader who declared the VAT amount that was due on her tax returns and complied with tax regulations. However, she was unable to continue trading. Suppliers preferred to engage with a non-compliant trader who did not declare tax, as it was to the benefit of both parties. In the process, her trader colleague also faced social ostracism from fellow traders who felt he was putting them at risk. She mentioned he eventually had no choice but to revert back to the informal payment systems, as there was no way around it. It was evident that within the community, there was an implicit expectation that all the other traders were engaging in these practices, and if one were to comply, it would be to the detriment of them all. Finally, in C4, when asked if traders would be willing to engage in formal tax payment systems, she mentioned they would do so provided the taxation was implemented fairly and transparently. She was of the view that people would pay if the money were visibly utilized for the country's benefit. It seemed Namuna still had a sense of tax morality, but the extent to which it existed was influenced by the performance of formal institutions.

4.4 Discussion

4.4.1 Discussion in Relation to Research Question 1

The results of Research Question 1 indicate that for traders in Asan Bazaar and New Road, informal tax practices are neither perceived nor experienced as illegal in their trade setting but are instead considered as a regular and customary part of trade and business. Essentially, it has become a part of their daily routine. This can be considered as their everyday business practice, Van Manen's (1990) 'lived structure' and Husserl's (1931) 'natural attitude' of traders. The above statement is confirmed by Hari's explanation of informal inspections and payments (C4) and Namuna's statement that the checkpoint payment is an everyday business expense. Moreover, the fact that these informal payments are performed repeatedly and continue to be a part of Nepalese business practices is confirmed by Hari (C4), who says that they have learned it from previous generations.

The above situation can be explained using the Slippery Slope Framework developed by Kirchler et al. (2008), which states that with low trust and medium enforcement of compliance it is expected that there exists a negotiated tax system rather than full compliance or tax evasion. The findings of this research support this

assertion by revealing that compliance is conditional to circumstances. Furthermore, Namuna's answers show that although Nepalese traders have tax morale, it is conditional and can be improved if the government improves trust and fairness. Torgler (2007) adds, by stating that when there is unfair and unequal enforcement, people will be more reluctant to pay tax, as in Hari's case where the fear of selective audit is the most important reason for his concern about underreporting.

4.4.2 Discussion in Relation to Research Question 2

In answering this second research question, it was noted that an informal tax culture in Asan Bazaar and New Road is maintained because of a number of factors. To start with, there is strong pressure from peers in the trading markets for traders to be a part of the norm. It is quite difficult for one trader to differ from others when almost everyone is doing so informally, as is the case with Hari (C1) and Namuna (C3). This supports the findings of Rana and Jehan (2020), who found in their survey that one of the main factors for tax compliance in Nepal is based on social norms. In this case of informality, formalizing would result in a number of consequences, and the traders would be left disadvantaged both socially as well as business-wise. Second, informality is also passed on between generations. This can be observed in Hari's statement (C4). The explanation may lie in Bourdieu's concept of habitus, where he explains how individuals learn and internalize behaviors by interacting and communicating with others within a society, such as in a family. In the case of traders, they learn informal tax methods and general business practices from the senior traders or even from their parents. In a case like this, informal methods become an inherent part of the process they conduct. Third, informality goes hand in hand with the trading process itself, especially in the cross-border trading of electronics in the case of Namuna (C2).

Informality, for instance in the form of under-invoicing or simply informal means of payment to the suppliers, is deeply ingrained in the trading process. In this case, it would be next to impossible for an individual trader to simply choose to pay tax in a formal manner, as he would not be able to compete with others. Again, this corresponds to the theory proposed by North (1990) about institutional persistence, as informal systems here are embedded in the process. Finally, both participants are very reluctant to trust formal systems. This finding is in congruence with Giri (2012) who notes the lack of willingness to comply in the case of previous experiences with a poor perception of tax authorities, especially in terms of unfair treatment, selective enforcement, and arbitrary requests. To sum it all, informal tax culture is maintained by a mixture of peer pressure, learning informality from seniors, the trading process itself and a general reluctance towards the system that is in place for collecting taxes. All these factors work together to sustain the informal tax culture in a context where traders are engaged in a wholesale business in Kathmandu.

5.0 Conclusion

Adopting a phenomenological approach, the current study brings the lived experiences of wholesale traders in Asan Bazaar and New Road in Kathmandu into sharp focus, offering insights into the nature of their informal tax culture. It highlights how traders treat informality as a normalised part of life rather than as a deviation from established norms. This behaviour appears as a daily practice that is shared and collectively maintained in the market and among traders, rather than as individual decisions or non-compliance with the law. Factors such as social norms, the practices of peers, the absence of trust, and the perceived lack of benefits of paying taxes are seen as

important drivers of the prevalence of informal tax behaviour in the context under study. The study suggests that tax informality can only be understood by exploring the context in which it is practised in relation to social meaning and experience. This study shows that tax informality among wholesale traders in Kathmandu is a normalised part of their professional lives and is sustained through informal payments, double book-keeping, under-invoicing and the generation of a culture in which these practices are shared. Yet, the study also suggests the existence of a willingness and even a desire for compliance among many of them, as long as the government provides fair tax rates, transparent use of the revenue and tangible benefits from payment of taxes. The study concludes that if policy-makers are to bring about genuine and enduring change in how taxes are perceived and how tax compliance is practised, it is important to understand this context and focus on the lived experiences of individual traders, as well as on the institutional conditions of trust and shared expectations that shape how taxes can best be paid.

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Appendix

Semi-Structured Interview Guide for Wholesale Traders

Study Title: *Informal Tax Culture among Wholesale Traders in Asan and New Road, Kathmandu: A Phenomenological Study*

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Interview Duration: 75–90 minutes

Language: Nepali

Place: Participant's business premises

Appendix Table: Interview Questions by Section

Q.N.	Section / Focus Area	Interview Questions
1	Participant Background	How long have you been conducting wholesale trade in Asan / Newroad, and what type of goods do you deal in?
2	Participant Background	Is your business formally registered for tax purposes? If yes, since when?
3	Lived Experience – Tax Encounter	Can you describe a typical experience you have had with tax officials or tax collection in your business?
4	Lived Experience – Tax Encounter	When you hear the word 'tax,' what comes to your mind first, based on your personal experience?
5	Lived Experience – Informal Payment	Have you ever been asked to make any informal payment related to your business operations? Can you describe that situation?

6	Lived Experience – Informal Payment	How do you personally decide what to pay formally and what to settle informally?
7	Lived Experience – Emotional Dimension	How do you feel when tax officers visit your shop or market area?
8	Lived Experience – Moral Perception	How do you differentiate between a 'legitimate tax' and an 'unofficial demand' based on your own experience?
9	Sustaining Factors – Social Norms	Do your fellow traders follow similar informal tax practices? How does what others do influence your own decisions?
10	Sustaining Factors – Social Norms	Have community elders or trade associations ever guided you on how to handle tax matters informally?
11	Sustaining Factors – Institutional Trust	How much do you trust the formal tax system and tax officials in Nepal? Why?
12	Sustaining Factors – System Complexity	Do you think the tax system is too complicated for regular traders to follow fully? Please explain.
13	Sustaining Factors – Cultural Factors	Do you think your cultural background or the trading traditions of this market influence how taxes are handled here?
14	Sustaining Factors – Generational	Were you taught any particular ways of handling tax matters when you first started your business?
15	Conditional Compliance	If the government reformed the tax system, do you think informal practices would reduce? Under what conditions would you fully comply with formal tax obligations?
16	Closing	If you could change one thing about the tax system based on your personal experience, what would it be?
17	Closing	Is there anything about your experience with informal tax culture that you feel is important but has not been covered in our conversation?