

**TAXPAYER'S AWARENESS TOWARDS  
INCOME TAX IN NEPAL  
(With Reference To Kirtipur Municipality)**

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## **RECOMMENDATION**

This is to certify that the thesis

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INCOME TAX IN NEPAL**

**(With Reference To Kirtipur Municipality)**

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**(With Reference To Kirtipur Municipality)**

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## **DECLARATION**

I hereby declare that the work reported in this thesis entitled “**Taxpayer’s Awareness Towards income Tax In Nepal (With Reference To Kirtipur Municipality)**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Prof. Dr. Kamal Deep Dhakal** of Shanker Dev Campus, T.U.

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## CONTENTS

Cover Page	i
Recommendation	ii
Viva-Voce Sheet	iii
Declaration	iv
Acknowledgement	v
Contents	vi
List of Tables	x
List of Figures	xi
Abbreviation	xii
<b>CHAPTER – I: INTRODUCTION</b>	<b>1-9</b>
1.1 General Background	1
1.2 Statement of the Problem	5
1.3 Objectives of the Study	6
1.4 Need and Importance of Study	6
1.5 Research Methodology	7
1.6 Limitation of the Study	8
1.7 Organization of the Study	8
<b>CHAPTER – II: CONCEPTUAL FRAMEWORK AND REVIEW OF LITATURE</b>	<b>10-46</b>
2.1 Concept of Tax	10
2.2 Objective of Tax	12
2.3 Classification of Taxes	12
2.3.1 Direct Tax	12
2.3.2 Indirect Tax	13
2.4 Cannons of Taxation	14
2.5 Meaning of Income Tax	15
2.6 International History of Income Tax	16

2.7 Historical Aspects of Income Tax in Nepal	17
2.7.1 Business Profit and Remuneration Tax Act 1960	18
2.7.2 Income Tax Act 1962	18
2.7.3 Income Tax Act 1974	19
2.7.4 Income Tax Act 2002	20
2.8 Features of Income Tax Act 2002	20
2.9 Head of Income	22
2.9.1 Income from Employment	22
2.9.2 Income from Business	24
2.9.3 Income from Investment	26
2.10 Definition of Some Related Terms Used in Taxation	28
2.10.1 Income (Sec.2 Ja)	28
2.10.2 Income Year (Sec.2 Jha)	28
2.10.3 Company (Sec.2 Da)	28
2.10.4 Individual (Sec.2 Wa)	29
2.10.5 Entity (Sec.2 Bha)	29
2.10.6 Resident Person (Sec.2 Ka.Nga)	29
2.10.7 Partnership (Sec.2 Ka.Pa)	30
2.10.8 Exempt Organization (Sec.2 Jha)	30
2.10.9 Tax (Sec.2 Dha)	30
2.10.10 Business (Sec.2 Ka.Ja)	31
2.11 Provision for Individual Taxpayer under Income Tax Act 2002	31
2.11.1 Allowable Deduction	31
2.11.1.1 Retirement Contribution to an Approved Retirement Fund	31
2.11.1.2 Donation to Tax Exempt Organization	31
2.11.1.3 Exemption Limit	32
2.11.1.4 Medical Tax Credit	33
2.11.1.5 Foreign Tax Credit	34
2.12 Exempt Income under Income Tax Act 2002	34

2.13 Methods of Income Tax Assessment	35
2.14 Installment Payment	35
2.15 Appeal	35
2.16 Offences	36
2.17 The Super Act	36
2.18 Review of Literature	36
2.18.1 Review of Books and Reports	37
2.18.2 Review of Dissertation	40
2.19 Research Gap	46
<b>CHAPTER – III: RESEARCH METHODOLOGY</b>	<b>47-50</b>
3.1 Research Design	47
3.2 Population and Sample	48
3.3 Sources of Data	49
3.4 Data Collection Techniques	49
3.5 Methods of Analysis and Presentation	50
<b>CHAPTER – IV: DATA PRESENTATION AND ANALYSIS</b>	<b>51-74</b>
4.1 Analysis of Secondary Data	51
4.1.1 Numbers of Business Established in Kirtipur Municipality	52
4.1.2 Revenue Structure of Nepal	54
4.2 Analysis of Primary Data	57
4.2.1 Presentation and Analysis of Responses about Income Tax	57
4.2.1.1 Familiar with Nepalese Income Tax	58
4.2.1.2 Sufficiency of the Provision of Rebates, Concession and Facilities Included in Income Tax Act 2002	58
4.2.1.3 Charging of Depreciation is Adequate in Income Tax Act 2002	59

4.2.1.4 Current Income Tax Exemption Limit	60
4.2.1.5 Opinion about the Current Income Tax Rate	61
4.2.1.6 Sufficiency of Exempted and Deducted Items	62
4.2.1.7 Problems Faced by Tax payers while Paying Income Tax	64
4.2.1.8 Effectiveness of the Nepalese Income Tax System	65
4.2.1.9 What are the Most Important Factors for Effectiveness of Income Tax in Nepal?	66
4.2.1.10 Specific objectives of income tax in Nepal	67
4.2.1.11 Problems Facing by the Tax Administration in Nepal	69
4.2.1.12 Is Contribution of Income Tax to Total Revenue of Nepal Satisfactory?	70
4.2.1.13 Reason for Low Contribution of Income Tax to Total Revenue	71
4.3 Major Findings	73
<b>CHAPTER – V: SUMMARY, CONCLUSION AND RECOMMENDATIONS</b>	<b>75-81</b>
5.1 Summary	75
5.2 Conclusion	78
5.3 Recommendation	81

## **QUESTIONNAIRES**

## **BIBLIOGRAPHY**

## LIST OF TABLES

	<b>Page No.</b>
Table 3.1 Group of Respondent and Sample Size	48
Table 4.1 The Trend of Registration of Business in Kirtipur Municipality	52
Table 4.2 Trend of Various Types of Revenue Collection in Different Fiscal Year	55
Table 4.3 Familiar with Nepalese Income Tax	58
Table 4.4 Sufficiency of the Provision of Rebates, Concession and Facilities Included in Income Tax Act 2002	59
Table 4.5 Charging of Depreciation is Adequate in Income Tax Act 2002	60
Table 4.6 Current Income Tax Exemption Limit	61
Table 4.7 Opinion about the Current Income Tax Rate	62
Table 4.8 Sufficiency of Exempted and Deducted Items	63
Table 4.9 Problems Faced by Tax payers While Paying Income Tax	64
Table 4.10 Effectiveness of the Nepalese Income Tax System	65
Table 4.11 Most Important Factors for Effectiveness of Income Tax in Nepal	66
Table 4.12 Specific Objectives of Income Tax in Nepal	68
Table 4.13 Major Problem Facing by the Tax Administration in Nepal	69
Table 4.14 Contribution of Income Tax to Total Revenue of Nepal is Satisfactory?	71
table 4.15 Reason for Low Contribution of Income Tax to Total Revenue	72

## **LIST OF FIGURES**

	<b>Page no.</b>
Figure 3.1 Group of Respondents and Sample Size	49
Figure 4.1 Trend of Business Registered	53
Figure 4.2 Revenue Collection from Tax Revenue and Non- Tax Revenue	56

## ABBREVIATIONS

AD	:	Anno Domini
BS	:	Bikram Sambat
CIT	:	Citizen Investment Trust
DDC	:	District Development Committee
DG	:	General Director
etc	:	etcetera
F/Y	:	Fiscal Year
GAAP	:	Generally Accepted Accounting Principle
GDP	:	Gross Domestic Product
GFS	:	Government Financial Statistic
GON	:	Government of Nepal
ie	:	that is
IMF	:	International Monetary Fund
IRD	:	Inland Revenue Department
ITA	:	Income Tax Act
LIP	:	Life Insurance Premium
MBS	:	Master of Business Studies
MOF	:	Ministry of Finance
NG	:	Nepal Government
NO	:	Number
NTC	:	Nepal Telecommunication Corporation
PAN	:	Permanent Account Number
PF	:	Provident Fund
Prof	:	Professor
S.N	:	Serial Number
SAARC	:	South Asian Association of Regional Co-operation
T.U	:	Tribhuvan University
UK	:	United Kingdom
UN	:	United Nation

USA	:	United State of America
VAT	:	Value Added Tax
VDC	:	Village Development Committee
W.T.O.	:	World Trade Organization

# CHAPTER I

## INTRODUCTION

### 1.1 General Background:

Nepal is a small landlocked developing country situated in South Asia. It lies between two large countries India and China. India and China are advanced than Nepal. The economic growths of the both countries are in increasing trend. Nepalese economy is affected by the both countries directly or indirectly. In this situation Nepalese economy cannot stay alone without considering these countries economy. On the other side, it is rich in natural resources. However, it is rich in natural resources; it is facing a number of problems. They are unemployment, poverty, rapid growth of population, regional disparities, political instability etc.

A country needs a lot of money to carry out development plans to fulfill its responsibility towards the citizens. So, it requires sufficient funds to carry out development activities, to handle day to day administration, maintain peace and security, lunch other public welfare activities and for creation of various socio economic infrastructures. If the government allocates the budget in this sector properly, the Nepalese economy will increase near. But the government expenditure is increasing day by day because of various causes. To meet the expenditure, the government should collect fund from two sources: debt and revenue. The debt can be collected either from internal sources or from external sources. The debt collected within the country is known as internal debt while the debt collected from outside the country is called external debt. The revenues of the government come basically from two sources. These sources may be tax and non tax. Non-tax sources include different revenues like gifts, grants, revenues from public enterprises, administrative revenues such as registration fees, fine and penalties. Almost 20% of revenues come from these sources.

Another source of government revenue is tax. It is the main source of revenue to the government. It includes customs, excise duty, vat, income tax, property tax etc. Nepal gets almost 80% revenue from these sources. Tax is a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the tax payers according to law. The definition of tax will be more clear from the following definitions.

*According to Findlays Shiras, "Tax is a compulsory contribution to public authorities to meet the general expenses of government which have been incurred for public good and without reference to special benefits."*(Bhattarai and Koirala 2065)

*According to Selingman, "Tax is a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefits conferred."* (Dhakal 2001)

*According to Plehn, "Taxes are general contribution of wealth levied upon persons natural or corporate to defray expenses incurred in concerning common benefits upon the residents of the states."* (Dhakal 2001)

**From the above definition, it can be concluded that:**

- a) Tax is not a voluntary contribution by the taxpayer but it is compulsory in nature.
- b) It is collected from persons as per prevailing laws.
- c) Those who pay tax do not get corresponding benefits from the government.
- d) The amount of tax is spent for common interest of all people.
- e) Those failing to pay taxes are subject to punishment by law.
- f) There is an element of sacrifice in the payment of tax.
- g) Tax is collected from haves and spent for the interest of have-nots in the society.

Discussing about the historical development of income tax, the country Great Britain is the first country in the world to introduce income tax to generate revenue to finance war against France in 1799. USA introduced income tax in 1862 to generate revenue to finance civil war. India adopted income tax in 1860. The idea of introducing income tax in Nepal originated in early 1950s when a multi- party democratic political system was introduced. In 1951, the finance minister in his budget speech declared the intention of government to levy an income tax. The first elected government in 1959 finally introduced Business profits and remuneration Tax Act, 1960 in Nepal. After three years experience of income tax, the government replaced the prevailing Tax Act by Income tax Act, 1962. The act was amended for five times for Income tax Act 1974 (2031). This Act having 66 sections, classified into five groups (a) Agricultural (b) Industry, Trade, Profession or Occupation (c) Remuneration (d) House and Compound Rents (e) Other Sources.

The enhance revenue mobilization through effective revenue collection procedure for the economic development of a country and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted Income tax Act 2002 (2058). Similarly the new income tax rules 2059 have also been enacted for the effective implementation of the objective of this Act.

Income tax plays a very important role in the economic development of Nepal. It is a tool of achieving maximum social and economic objective as laid down by the constitution of Nepal. "Taxation in the modern world has been taken as the best effective tool for raising the ratio of saving of the national income."(Pant 1996). It is also recognized as a good financial tool to make narrow the inequality in income. It reduces the regional economic unbalance by providing tax concession and holidays to the business or industry, which is established in remote and backwards areas. Income tax is essential not only for collecting government revenue but also to control over consumption, to reduce

inequality of income and wealth to promote saving and investment and to accelerate economic development.

It is no doubt that income tax is the main source of government revenue. It is also usable in the balance economic development. Nobody can doubt that, the distribution of income is also possible through progressive income tax rate. The percentage of income tax in government revenue is increasing trend but government is unable to maximize the share of income tax to the public fund as per expectations. Income tax is assessed on yearly basis.

Although the legal provision has been made an updated timely, there are many problems in income tax practice in Nepal such as; leakage in tax, feeling of people about tax as a penalty, lack of consciousness of people, inability of tax administration to cover new tax payers, delays in computation and collection, lack of accuracy and unity in accounting system etc. The main objective of taxation is more revenue collection. Increasing the awareness of taxpayers plays important role to collect the tax.

### **Tax can be classified into two broad categories.**

**Direct Tax:** A direct tax is a tax paid by a person on whom it is legally imposed. It is collected directly by the government from the person who bears the tax burden. Tax payers need to file tax returns directly to the government. Therefore, direct tax cannot be shifted. The impact or the money burden and the incidence are on the one and the same person. In other words, the same person pays and bears the tax burden. It is the tax on income and property. Examples include income tax, property tax, vehicle tax, interest tax, expenditure tax, death tax, gift tax etc.

**Indirect Tax:** An indirect tax is a form of tax imposed on one person but partially or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform functions associated with filing tax returns. Hence, indirect tax can be shifted. In indirect tax, the impact and incidence of tax are on different person. In other words, the person paying and

bearing the tax is different. It is the tax on consumption and expenditures. Examples include VAT, excise duty, import and export duty etc.

To increase the government expenditure the government should increase his fund. To increase the government fund the government should increase the collection of tax. That is why, to get maximum benefits, the government should increase the collection of tax by adopting effective tax collection system.

## **1.2 Statement of Problem:**

Nepal is the least developed country. It needs huge amount of revenue to provide needed facilities to trade and industries. To make economic condition strong, Nepal needs more economic growth than now .It has not raised enough funds from tax revenue. In Nepal, there is no business friendly environment.

Nepal has gap between required resources and supply of source .To fulfill the gap, Nepal has to face various problem like tax evasion, lack of tax consciousness, poor tax administration etc. If Nepal manages the above mentioned problems, it can collect sufficient revenue to provide more facilities and simultaneously living standard of the people would be better.

The contribution of income tax to the national budget must be increased to achieve the goal of national development and equal economic distribution. The goal can be increased only if the government of Nepal takes steps by bringing the new taxpayers into tax act and implementing the tax law effectively. So as to discourage the tax evasion practice loopholes of tax must be traced out. So, this study mentions simple problems but it shows the real problems of this study .The statement of the problems can be mentioned as follows:

- ❖ What is the present position of awareness of tax payer towards income tax?
- ❖ Why they do not have knowledge about concession, rebates and facilities provided by the government in tax law?
- ❖ Why they do not register their firm?
- ❖ Why they do not pay tax according to Tax Act?

### **1.3 Objectives of the Study:**

Every study must have specific objective. So, this study has also some specific objectives. The main objective of this study is to analyze the awareness of taxpayers towards income tax. The following are the specific objectives.

- ❖ To analyze the contribution of tax and non-tax revenue to national revenue of Nepal.
- ❖ To analyze the view of taxpayer about the various aspects of income tax system of Nepal.
- ❖ To examine the awareness of taxpayer about concession, rebates and allowances provided by the tax Act 2058.
- ❖ To evaluate the effectiveness of the income tax.
- ❖ To analyze possible measure for future improvement in income tax and bring all taxpayer in tax act.

### **1.4 Need and Importance of Study:**

Every country needs huge amount of revenue to conduct various activities such as making infrastructures, security and other administrative works. Its source of income is tax, fines and penalty loan and subsidies and foreign Aid. Among them tax is the main source of income. The government collects tax mainly from two types of tax payers. The first type of tax payers is small taxpayer and another one is large tax payer. Nepal is a small least developed country that's why there are so many organizations and they contribute huge amount of tax in government revenue. Business is the back bone of economy. It represents the development of country. When there is strong business based economy; automatically they create employment and it keeps symmetrical relation to the purchasing power of people. Factors of production (land, labour, capital, and technology) are easily available in market. All these activities automatically increase the government revenue.

To bring all the taxpayer into tax act, the government should take steps to aware the taxpayers about present tax system. Taxpayers need to know about

the different facilities provided by the tax law. The government should make business friendly environment to all taxpayers and bring into tax act. The studies encourage the taxpayers to come into tax act to reduce tax burden by the tax planning rather than tax evasion and tax avoidance.

### **1.5 Research Methodology:**

This study deals with the research design population and sample of data, data collection procedures and tools for analysis.

#### **Research Design:**

To conduct the research analytical and descriptive research approach is adopted or the readily available historical data used in this study are primary and secondary data.

#### **Population Sample:**

Views of different types of businessmen are collected in this study, whereas 20 from books and stationary, 20 from wholesale and retail shop and 20 are other businessmen.

#### **Sources of Data:**

The primary as well as secondary data are collected. The major sources of data are as follows:

a) **Primary data:** Primary sources of data are collected in Kirtipur municipality.

b) **Secondary sources of data:**

Secondary sources of data are collected from the information received from books, economic survey, published and unpublished articles, newspaper, annual reports etc.

#### **Data Processing Procedure:**

To find out actual result different financial and statistical tools are used to analyze the information. Simply, these tools are used.

a) Simple percentage

- b) Simple average
- c) Graphs, Charts and diagrams.

### **1.6 Limitation of the Study:**

Resource and time availabilities are the main factors of the study. Here the time given by the resource department of the Tribhuvan University (TU) limits the macro level investigations and makes to find out exact truth. Similarly, this research depends mainly in primary data. Primary data, itself may not be accurate if the respondents bias. Its main limitations are as follows:

- ❖ Availability and reliability of data.
- ❖ To measure the degree of awareness exactly.
- ❖ This study covers only Kirtipur Municipality.
- ❖ Resources and time factors also limit the study.
- ❖ This study is case study .The finding may not be suitable for all cases.
- ❖ Limited businessmen are consulted to collect primary data.

### **1.7 Organization of the Study:**

Systematic organizing the study is the key factor for writing thesis. It makes the study easier and meaningful. The format provided by the research department to TU organization of the study is as follows:

#### **Chapter 1:- Introduction:-**

This chapter includes general background of the study, statement of the problems, objectives of the study, significance of the study, limitation of the study an organization of the study.

#### **Chapter 2:- Review of the Literature:-**

This chapter is about the review of the literature and conceptual frameworks. Books, unpublished dissertation, reports and articles etc. have been reviewed for the study. Conceptual frameworks includes legal provisions regarding

income tax act 2058, concept of tax, concept and meaning of income tax and some legal provisions of income tax in Nepal etc.

### **Chapter 3:- Research Methodology**

This chapter includes research design, population and sample, sources of data, data analysis tools.

### **Chapter 4:- Data presentation and Analysis:-**

This chapter is the major part of this study. This chapter is termed as presentation and analysis of data. This chapter includes Nepalese government revenue structure, composition of tax revenue in Nepal and opinion survey has been analyzed. It describes the awareness of tax payers towards income tax and problems and weakness of tax administration in Nepal. It contains major findings of the study also.

**Chapter 5:-** This chapter includes summary, conclusion and recommendation.

## **CHAPTER II**

### **CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE**

#### **2.1 Concept of Tax:**

Every government needs sufficient revenues to operate the development program, to handle day to day administration, to keep peace and security and to conduct other public welfare program. The Government collects revenues from various sources. Non tax revenues include revenues from Government Corporation and public enterprises, fees, special assessment, fines and penalties and foreign grants etc. Tax is the main source of collecting the public revenues because it occupies the most important part of government total revenue. In Nepal about 80% of total revenue comes from tax revenues and the 20% from non-tax revenues.

#### **Following are the main sources of government revenues:-**

- a) Tax: It is a compulsory contribution made by tax payers to the government without having any direct personal benefits.
- b) Price of goods and services provided by government. It is the amount collected from special sector for specific purpose.
- c) Receipt from public enterprises. The government's receipt amount from public enterprises owned by it.
- d) Fee: The amount paid for the government for receiving its services.
- e) Fines: It is the amount paid for breaking government's rules and regulations.
- f) Grants: The amount received by the government from other countries and international agencies.

Among all the above sources of the government revenues, tax is the major source covering most part of the government total revenue. It is a compulsory levy imposed by the government but it cannot be taken as fine. It is levied on

persons as per prevailing laws. It is spent for common interest of people. It is collected from haves and spent for the interest of haves-not in the society. Tax payers do not get any direct benefit from the state by paying tax. Government collects it with permission of legislature to fulfill financial need of the state. It is compulsory payment to government for the compensation of public welfare expenses. Tax fulfills the needs of central as well as local government. The main objective of tax is to distribute income and wealth equally among citizens. It can be mainly categorized into two groups. They are direct and indirect tax. It is a kind of revenue. So, it is a legal duty of every citizen to pay honestly. The experts have given definition regarding tax and some of them are explained here.

*According to Bastable, "A tax is compulsory contribution of wealth of a person or body of persons for the service of public power." (Bastable)*

*According to Dalton, "A tax is a compulsory contribution imposed by public authorities irrespective of the exact amount of service rendered to the tax payer in return and not imposed a penalty for any legal offence." (Dalton)*

*According to Prof, Seligman, "A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without references to special benefit conferred." (Dhakal 2001)*

From the above definition, it is clear that a tax is a compulsory levy and those who are taxed has to pay it without getting corresponding benefit of services or goods from the government. Those who pay tax do not get corresponding benefits from the government. Tax collected is spent for common welfare of the people. It is collected from natural as well as artificial person. There are many tax systems in the world. However two types of tax system are in practice. They are: direct and indirect tax.

## **2.2 Objective of Tax:**

Tax is permanent source of collecting revenues. It is most important element of state system without it a state cannot be operated. It has been an instrument of social and economic policy for the government. In ancient times, the chief objectives of taxation were to make strong the muscles of nation by providing resources. At the times of Adam Smith; the main objective of collection of tax was to provide resources to the government for providing security to an individual and society against violence, invasion and injustice and maintain public enterprises.

In modern times, the objective of tax is not only to maintain peace and security but also to conduct development activities. The objectives of tax are as follows:

- a. to raise more revenues
- b. to distribute income and wealth equally among citizens.
- c. to redistribute wealth for the common good.
- d. to increase the employment, saving and investment.
- e. to minimize regional disparity.
- f. to boost up the economy.

## **2.3 Classification of Tax:**

Taxes are classified into two groups. They are: Direct and Indirect taxes.

### **2.3.1 Direct Tax**

The tax that is paid by the person to whom it is imposed is called direct tax. In this, the person paying and bearing tax is same. This tax is imposed to the income and property of citizens and organizations. Examples of direct tax are: Income tax, Vehicle tax, Expenditure tax, Property tax, Interest tax, Death tax, Gift tax, Casual gain tax etc.

#### **Merits:**

- a) It is equitable as it is imposed on a person as per the property or income.

- b) Time and procedure and amount of tax to be paid are known with certainty.
- c) It is elastic. The government can change tax rate with the change in income level.
- d) It enhances the consciousness of the citizens. Tax payers feel burden of tax and so they can insist the government to spend their contributions for the welfare of community.

**Demerits:**

- a) It gives mental pinch to the tax payers as they have to curtail the income to pay the government.
- b) Tax payers feel inconvenience as the government imposes tax progressively.
- c) Tax evasion may increase to avoid tax burden.
- d) It is an expensive tax collection system.

**2.3.2 Indirect Tax**

The tax which is imposed on one person but partly or wholly paid by another is called indirect tax. In this tax, the person paying and bearing the tax is different. It is the tax consumption or expenditures. VAT, Sales tax, Entertainment tax, Excise duty, Hotel tax, Import and export duty etc are the examples of indirect tax.

**Merits:**

- a) It is convenient as the tax payer does not have to pay a lump sum amount for tax.
- b) There is a mass participation. Each and every person getting goods or services has to pay tax.
- c) There is less chance of tax evasion as the tax payers pay the tax collected from customers.

- d) The government can check on the consumption of harmful goods by imposing higher taxes.

**Demerits:**

- a) It is uncertain. As demand fluctuates, tax will also fluctuate.
- b) It is regretful as the tax burden to the rich and poor is same.
- c) It has bad effect on consumption, production and employment. Higher taxes will reduce all of them.
- d) Most of the taxes are included in the price of goods or services. As a result, tax payers do not know how much tax they are paying to the government.

**2.4 Canons of Taxation:**

The canons of taxation are the principles of taxation. They help to formulate suitable tax policy. They are widely accepted as providing a good basis by which to judge taxes. The 'Canons of taxation' were first developed by Adam Smith in his book entitled 'Wealth of Nation'. Some well-known canons of taxation are as follows:

- a) Canon of Equity
- b) Canon of Certainty
- c) Canon of Economy
- d) Canon of Diversity
- e) Canon of Simplicity
- f) Canon of Neutrality
- g) Canon of Co-ordination
- h) Canon of Productivity
- i) Canon of Elasticity
- j) Canon of convenience

( Source: Bhattraai and Koirala )

## 2.5 Meaning of Income Tax:

According to diverse economic structure nature of the government and status of people, the concepts of income tax is different in different country. In USA, Income tax is viewed as a matter of practice, recurrent is non-relevant to the tax status. In UK the original concept of the tax was that of a levy on recurrent income. Tax was applied to five schedules. Any item not falling within schedule was not subject to tax. In India, the personal income tax is levied in the net income of all individual, Joint Hindu families, unregistered firm and other associations of person. (Chelliah, 2011)

Income tax is a personal tax. It is imposed on the net income of individuals and corporation. The income tax is defined in terms of the 'flow of wealth' of receipt in money or goods from tax payer during the period in USA and Canada. In flow of wealth method, tax is imposed on realization. Hence, tax is imposed on cash basis income. It applies only when a transaction occurs between other persons and tax payers.

According to the economists - An income tax is a levy imposed upon the income of individuals after the exemption limit. Income tax is a direct tax based on total income of the payer from all sources and is graduated on special system of exemption. Income tax is the most important single source of revenue of government of every country either it contributes more or less in total revenue.

It is very difficult to define income tax. Income is the economic gain received by the person during particular period. Henry Simon has given the most satisfactory definition of income tax. According to him, Income tax is the sum total of the person's consumption and net increases in wealth during the period. Symbolically,

$$y = C + \Delta w,$$

Where,

$y = \text{Income}$

$C = \text{Consumption}$

$\Delta w = \text{net increase in wealth}$

It is very difficult to give clear and precise definition of income tax. So it is defined according to the income tax act of various countries. For example: According to income tax act 2058 (2002) sec. 2(h), income means a person income from any employment, business or investment and the total of that income as calculated in accordance with this act.

According to Indian Income tax act 1961 Sec 2. Income tax includes profits and gains, dividend, voluntary contribution received by Chain table trust, value of any perquisite or profit on lieu of salary, and capital gain, winning from lotteries, cross word puzzles etc.

## **2.6 International History of Income Tax:**

Great Britain is the first country in the world to introduce a modern income tax. It introduced income tax in 1799 to finance the war against France. Only after 1980, it was accepted as a permanent tax. In United State, the first federal income tax was imposed in 1862 to generate to revenue to finance civil war expenditure. However it became permanent feature only in 1913 after 16<sup>th</sup> amendment to US. Constitution In India, income tax was adopted in 1860. After introducing income tax act 1886 in 1886, it was imposed as permanent tax. Italy adopted income tax in 1864, New Zealand in 1891, Australia on 1915 and Canada in 1917. After First World War, income tax became the most important source of tax revenue in developed countries it has become the most important source of revenue in most developed countries and had made appearance in a number of developing nations.

In the beginning of introducing time, it was generally levied at flat rate. After 1909, the Principle of progression was introduced from the UK and New Zealand. It was introduced due to the cause of war and national emergencies. So we can say income tax as war tax. After the end of war, the tax was named

as income tax. It has become the most important for the equal distribution of wealth and prevention of poverty.

## **2.7 Historical Aspects of Income Tax in Nepal:**

Income tax is a direct tax. It is imposed on the earning of individual and corporation. The tax which is imposed on taxable income of individual and corporation is called income tax. It is charged by government on the income of the previous year at the rate of prescribed each year by the finance act. This tax is based on canon of ability. It could be adjusted as to exempt the lowest income groups from the operation of the tax and make rich people bear the burden of tax according to their income. Tax economists suggest that income tax should be imposed upon income of individual after the exemption limit. All incomes above the exemption limit are subjected to income tax.

After 1951, the role of government has changed. Government's work is not only limited to maintain law and order and collection of revenue. It has enforced to operate development activities for the welfare of public. A sound and efficient income tax system is essential to maximize the revenue collection from income tax. Whole income tax system has made of three sub-systems. They are income tax policy, income tax laws and income tax administration. Income tax policy is made by the government itself through Ministry of Finance. It should be such that the main objective of the income tax can be achieved.

Parliament marks the laws to implement the various policies. No taxes shall be imposed and collected illegally. The government imposes and collects income tax according to law. Interim constitution 2063 has made the clear provision about it. In 1960, a formal income tax act was enacted in accordance with the provision in Finance act 1959 for the first time in Nepal. After three years experience, the business profit and remuneration Act, 1960 was found. It was very narrow and vague. It was Income Tax Act 1962 was replaced by Income

Tax Act 1974. Income Tax Act 1974 was also replaced by Income Tax Act 2002. Present legal provision of income tax is associated with Income Tax Act 2002, Income Tax Rules 2002 and Finance Act of concerned financial year.

### **2.7.1 Business Profit and Remuneration Tax Act 1960.**

The government of Nepal introduced a formal income tax for the first time in Nepal in 1960 (2017 B.S.) in the form of 'Business Profits and Remuneration Tax'. Before the act, Finance Act was used to make the provision regarding income tax. According to this act Business profits and Remunerations income were subject to income tax but the revenue for these taxes should not be collected properly according to original estimates. It had 22 sections. The first was about short title, areas and commencement. Similarly second section was about definition and last section was authority to make regulations of government to regulate the tax act. According to this act, tax payment should be made within 35 days once the office and the tax payment to be made specified. Fine and penalty of Rs. 5000 to 500 used charge to them who do not pay tax and not submit account mentioned in the act. There was appeal system too; if any tax payer was not satisfied with regard to the order of tax assessment. Such tax payer could appeal within 35 days from the date of an order of tax assessment receipt.

### **2.7.2 Income Tax Act 1962.**

This tax act came into force on July 1962 by replacing the Income Tax Act 1960. This tax act was introduced as per the articles 93 of the constitution. This act had 29 sections. As per section 6 of this Act annual statement of income should be submitted to the concerned tax officer by the persons having annual income than Rs. 6000. The statement should file within 35 days of completion of fiscal year. The salaries of diplomatic representative of foreign country, salaries of foreign non-Nepali citizen working in the service of Nepal government, dividend paid to shareholders, income of Nagar panchayat, village

panchayat, public organizations, educational institutions, Nepal Rastra Bank, allowances granted by NG to ministers, employees saving fund etc were considered as tax free income by Act. As per Act  $\frac{1}{4}$  income from agriculture was taxable and remaining  $\frac{3}{4}$  were considered as expenditure to earn such income. The act was experienced for 13 years and was considered inadequate with the changing situation of Nepalese economy. This act was amended at once in 1972. The main feature of this Act can be mentioned as follows. Income was defined as all kinds of income including income from business, salaries any professions, rent from house or land, investment in cash or kind, agriculture, insurance agencies and any other sources. The status of tax payers was defined on personal as well as residential for tax purposes. Carry forward of losses for a period of two year's provision was made on this act. The provision of reassessment of tax as well as rectification of arithmetic errors was also included in this act. In this Act, provision was made for the exemption of income tax for new industries for a period not exceeding ten years.

### **2.7.3 Income Tax Act 1974.**

Everything should be adjusted according to the changing environment. According to the change in the socio economic environment of Nepal, the income tax act 1974 was enacted. The act was divided in basic 66 sections. This Act was practiced for 28 years, almost three decades in Nepal. Throughout this time the act was amended for eight times, ie.in 1977, 1979, 1980, 1984, 1985, 1986, 1989 and 1993. The act had classified the incomes in five groups as: (a) Agriculture (b) Trade, Industry, Profession or occupation (c) Remuneration (d) House and compound and (e) Other sources. However the agriculture income was kept outside the tax net except few years, through the Finance Acts. This act had made provision for self-assessment tax for the first time in Nepal. According to this act tax payers were required to keep accounts and records for their source of income and preserve the records for a period of six years. There were additional provisions of exemption from income tax. The former act had not provision regarding income from Gudhi, compensation for

life insurance or after the expiry of the life insurance policy. It had clear certain definitions specially relating to the tax, tax payer, taxable income, gross income net income, personal status of the tax payers and non -resident tax payers, assessment of tax, philanthropic work, nonresident etc beside this method of computing net income from each source including the deductions allowable had been specified.

#### **2.7.4 Income Tax Act 2002.**

To enhance revenue mobilization through effective revenue collection procedure for the economic development of nation, and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted Income Tax Act, 2002 (2058). This Act has replaced Income Tax Act 1974 (2031). This Act is quite advance Income tax that has ever introduced in Nepal. The main feature of this act is all the related matters within one Act. The Act is independent to levy income tax. This Act has 24 chapters and 143 sections. Amended Income Tax Act 2002 has dismissed the section 66. This Act has defined three different sources of incomes: (a) Business (b) Employment (c) Investment. Tax rates are different for different income groups. They vary as per individual and entities. There are clear provisions about depreciation rates, methods for all the five categories of depreciable assets. There are also provisions regarding international taxation, capital gain taxation, Penal provisions, appeal system. All matters income tax can be found within this act.

#### **2.8 Features of Income Tax Act 2002.**

- a) Income tax related all provisions are included within one act.
- b) This Act has clearly specified the amounts should be included while calculating a person's taxable income from conducting business or investment for an income year.
- c) All the expenses are allowed to deduct provided that the expenses are made by the same tax payer in the same year in the production of income.

- d) There is the provision of carry forward of loss for business or investment. Business and investment loss can be carried forward up to next 7 years while banking and general insurance business can carry backward the loss to preceding five income years.
- e) Incentives are provided to infrastructure constructor, hydropower projects and special industries.
- f) Now the economy of the most of the countries in the world is open one. The provision has introduced in the tax law related to international taxation. Transfer pricing, foreign tax credit, double taxation avoidance agreement etc are the provision of international taxation.
- g) This act has given the option for husband and wife as a separate natural individual until they do not accept as a couple.
- h) Capital gain, dividend etc has brought in tax net.
- i) Authorities of taxpayers have specified.
- j) To control tax evasion, provision of transfer pricing, thin capitalization, dividend stripping has made.
- k) Provision of fines and penalties have made more stringent in the new Income Tax Act 2002.
- l) This act has made a provision of relaxing the submission of income statement by a person who does not have taxable income and one who has the income from remuneration only.
- m) There has the special provision for deduction pollution control and research & development expenses.
- n) The income of an approved retirement fund is free from tax. But retirement payments in hand of employees are taxable.
- o) Resident persons are taxed in their worldwide income while non-resident persons are taxed only in their income sources in Nepal.
- p) The pool system of depreciation of fixed assets has introduced at first time. All types of assets are classified into five categories. Depreciation rate for classes A, B, C, D is based on diminishing balance method but straight line method for class 'E' (Intellectual Assets)

- q) There is facility of medical tax credit in this act. A resident individuals may claim medical tax credit of 15% of the amount of approved medical expenses and unabsorbed medical expenses can carry forward forever.

## **2.9 Head of Income:**

This Act has made the classification on incomes in three main categories. The sources of income have classified for the purpose of assessment under the following heads:

### **2.9.1 Income from Employment**

According to Income Tax Act 2002 section 2 (a) "employment includes a past, present or prospective employment." The act of performing a certain job for the person, who appoints one for the job, in consideration of a regular payment is called as employment. In other words, the payment or benefit received either in cash or kind with the help of labor is defined as employment income. It is the remuneration from the employment of an individual. There are two parties in the employment. They are employer and employee. Whatever the employee receives from employment in the shape of regular salary, allowances, overtime payment, bonus etc is included in the income from employment.

In common sense, an employment is meant as a long term employment. But in the eyes of law it may be short term also. It may be part time or full time. A single person may have more than one employment on a day.

The person who provides employment may be any natural as well as an artificial person. They may be like an individual (a sole trading concern), an entity, NG., a local body or NG, an institution, an organization, a foreigner etc but the employee is always an individual (a natural person). A couple working in the same entity are treated as creation of two employments, one for husband and another for wife. The employee must be present physically at the place of work to perform his or her duties. The employee is awarded on the basis of his

or her ability, education, experience, honesty, behavior etc and so a proxy is now here allowed to do work on behalf of the employee.

A written appointment letter does not always qualify an individual to be an employee but an oral employment or even the behavior of the employer and employee is sufficient to treat the individual as an employee. All the amounts or benefits received in connection with employment are taxable. As per section 8(2) the remuneration or income from employment for a income year include the following payments made by the employer:

- a) Payments of wages, salaries, gifts, bonuses and other facilities;
- b) Payments of any personal allowance, including any cost of living subsistence, rent, entertainment and transportation allowance;
- c) Payments providing any discharge or reimbursement of costs incurred by the individual or an associate of the individual;
- d) Payments for the individual's agreement to any conditions of the employment;
- e) Payments for redundancy or loss or termination of the employment;
- f) Retirement contributions (i.e. provident fund gratuity etc) including those paid by the employer to a retirement fund in respect of the employee, and retirement payments;
- g) Other payments made in respect of the employments; and
- h) Other quantified perquisites;
- i) Availability of motor vehicle wholly or partly for private purpose.
  - 1) 0.5% of salary in case of employees.
  - 2) 1% of market value of vehicle in case of other (i.e. consultant)
- j) The amount of difference of interest on loan paid by employer lower rate than market rate.
- k) Market value of assets in case of transfer of assets.
- l) For the payment other than stated above, the value of benefit of the payment to a third person.

## **2.9.2 Income from Business**

A business may be an industry a trade, a profession, or the like isolated transaction with a business character and includes a past, present or prospective business according to income tax Act 2002. It is an earning activity typically consisting of not only the provision of labor but of the combined provision of labor and capital. A person's income from a business for an income year is the person's profits and gains from conducting the business for the year. Business income is also a source of income in the eyes of income tax act 2002. Section 7 of income Tax Act, 2002 deals with the receipts or receivables to be included in income from business and section 13 and 19 deals the allowance expenses there from. Business includes trade, commerce, production, profession, vocation etc.

### **Trade and Commerce**

The Oxford Dictionary defines trade as follows:

- a) The exchange of goods and services for money or other goods.
- b) Buying and selling.
- c) To buy and sell a particular item, product, etc.

The activity of a trade starts from the moment a good purchased or otherwise acquired with an intention to sell it for some profit. It is not necessary that the goods are sold in due course and profit is acquired there from.

It is not only the purchase and sale of goods that constitutes a trade but a sale of service is also included in the definition. The transportation of good and human beings, tourism etc are examples of the trade services. Though commerce is some things similar to trade, it is used especially when the trade takes place between two countries.

## **Production**

The dictionary meaning of production is "to make or manufacture something especially in large quantities". The process of production may be manual or based on machinery. The machinery may or may not run by power. A production is a process whereby the form of a good is changed and the new product acquires a new commercial value.

## **Profession and Vocation**

A profession is a paid occupation, which requires advanced education or training. Chartered accountants, lawyers, Architects etc are some examples of profession. A vocation is also paid occupation and requires practice and skill but it does not require advanced education. Carpenters, craftsmen, etc are the examples of vocation.

For the purpose of computing income of business for any year of income, the income of such person shall include as profits or gains by him from business and should include

- a) Service charge (Sec. 7.2)
- b) Sales or disposal of business / trading stock (Sec 7.2)
- c) Net gain from the disposed of person's business assets / liabilities of the business calculated under sec. 7.2
- d) Gain from disposal of pool of depreciable assets. (Sec. 7.2)
- e) Prize or gift in connection with business. (Sec.7.2)
- f) Amount received instead of acceptance of any restriction regarding business (Sec.7.2)
- g) Amount included under change of accounting method. (Sec.24)
- h) Excess amount received due to exchange rate of currency. (Sec. 28)

- i) Bad debt recovered. (Sec.25)
- j) Proportionate amount under long term contract. (Sec.26)
- k) Under paid interest amount according to market price. (Sec.)
- l) Amount received for compensation. (Sec.31)
- m) Other amount received under business income. (Sec.7.2)
- n) Receivable amount paid by others. (Sec.29)

(Income Tax Act, 2002)

While computing income tax from business, the following amounts are excluded on profit and income from business for tax purpose.

- a) Exempt amounts under section 10.
- b) Taxation of dividends under section 54.
- c) Final withholding payment under section 92.

(Income Tax Act, 2002)

### **2.9.3 Income from Investment.**

Income Tax Act, 2058 has defined investment as an act of holding or investing one or more assets. But, it excludes:

- a) The act of holding of assets for personal use by the person owing the asset, or
- b) Business or an employment.

The section further says that the holding of a non-business chargeable asset is also known as an investment. Investment in general sense is an act of letting out a property by an owner to somebody else for its exclusive use for the period

of letting out. An amount given to another person for his utilization is also said to be an investment. The three points are the basic requirements for an investment are:

- a) A person has the legal ownership of a property;
- b) The owner transfers the right to use the property to another person; and
- c) For such a transfer of right the owner receives certain consideration from the transferee.

Section 9 (Income Tax Act, 2002) deals with the receipts or the receivables to be included in income from investment. Section 13, 14, 15, 16 and 19 deals with the deductions to be made while computing the taxable income. (Income Tax Act, 2002).

- a) Any dividend, interest, natural resources payment, rent, royalty, gain from investment insurance, gain from an unapproved retirement payment or retirement fund from approved retirement fund. (Sec.9.2)
- b) Net gains from the disposal of the person's non business chargeable assets of investment. (Sec.9.2)
- c) Excess amount of incomings over the depreciation basis including outgoings on the disposal of the depreciable assets of the investment of the persons. (Sec.9.2)
- d) Gifts or prizes received in connection with investment. (Sec.9.2)
- e) Retirement, contribution including those paid to retirement funds in respect of the person and retirement payments on respect of investment. (Sec.9.2)
- f) Amount received instead of acceptance of any restriction regarding investment. (Sec.9.2)
- g) Amount included under change of accounting method. (Sec.24)

- h) Excess amount received due to exchange rate currency. (Sec. 28)
- i) Bad debt recovered. (Sec. 25)
- j) Proportionate amount under long term contract. (Sec. 26)
- k) Under paid interest amount according to market price. (Sec. 27.1)
- l) Amount received as compensation. (Sec.31)
- m) Other amounts required to be included on tax accounting or qualification, allocation and characterizations of amounts or transaction between any entity and beneficiary or general insurance business. (Sec. 9.2)

(Income Tax Act, 2002)

## **2.10 Definition of some related terms used in taxation**

### **2.10.1 Income (sec.2 Ja)**

Income means a “person’s income from any employment, business or investment and the total of that income as calculated in accordance with this Act”. It includes all sorts of income received for the provision of labor or capital or both of whatever form or nature in the taxable income.

### **2.10.2 Income year (Sec.2 Jha)**

Income year means the period from the start of shrawan of a year to the end of ashad of the following year. Income tax act 2058 has regarded Nepalese fiscal year as an income year.

### **2.10.3 Company (Sec. 2 Da)**

Company means a company established under the company laws for the time being in force besides, the following institutions are also treated as company for tax purpose:

- 1) Corporate body established under the laws for the time being in force.
- 2) Any unincorporated association, committee, institution, society or group of persons other than a partnership or a proprietorship firm (whether or not registered) or a trust.
- 3) A partnership firm(whether or not registered under the laws for the time being in force) that has 20 or more partners, a retirement fund, a co-operative, a unit trust, or a joint venture.

- 4) Foreign company and
- 5) Any foreign institution prescribed by the director-general.

#### **2.10.4 Individual (Sec 2 Wa)**

Individual means a natural person and a proprietorship firm whether registered or unregistered owned by the person, if any, and a couple making an election as single natural person under section 50.

#### **2.10.5 Entity (Sec. 2 Bha)**

Entity means the following institution or organizations:

- 1) A partnership, trust or company
- 2) a V.D.C., municipality or D.D.C.
- 3) The government of Nepal
- 4) A foreign government, or a political subdivision of a foreign government , or a public international organization established under treaty and
- 5) A permanent establishment of an individual or an entity that is not situated in the country in which the individual or entity is resident.

#### **2.10.6 Resident person (Sec. 2 KaNga)**

Resident person with respect to an income – year means-

1. In the case of an individual, an individual-
  - i. Whose normal place of abode is in Nepal
  - ii. Who is present in Nepal for 283 days or more in any period of 365 consecutive days; or
  - iii. Who is an employ or an official of a Government of Nepal posted abroad at any time during the income year.
2. Any partnership
3. In the case of trust, a trust that
  - i. Is established in Nepal;
  - ii. Has trustee that is a resident person for the income year; or
  - iii. Is controlled directly or through one or more interpose entities by a person or persons one of whom is a resident person for the income year.
4. in case of company, a company that-
  - i. is incorporated or formed under the laws of Nepal; or
  - ii. has its effective management in Nepal during the income year,
5. a V.D.C., municipality or D.D.C.
6. in case of a foreign government or a political subdivision of the foreign government, such an entity-

- i. if it is established under the laws of Nepal; or
  - ii. has its effective management in Nepal during the income year-
7. any institution or entity established under treaty; and
8. a foreign permanent establishment of a non-resident person situated in Nepal.

**2.10.7 Partnership (Sec. 2 ka. Pa):**

Partnership means a firm (whether or not registered) that has fewer than 20 partners. However, the term does not include a proprietorship firm (whether or not registered) or a joint venture.

**2.10.8 Exempt organization (Sec. 2 Dha):**

Exempt organization means the following entities:

1. Following entities registered with Inland Revenue Department as tax exempt entity-
  - i. A social, religious, educational, or charitable organization of public character registered without having a profit motive.
  - ii. An amateur sporting association formed for the purpose of promoting social or sporting amenities not involving the acquisition of gain.
2. A political party registered with the election commission.
3. A V.D.C., municipality or D.D.C.

However, any benefits acquired by any person out of the assets of and amounts derived by the entity except in pursuit of the entities function or as payment for assets or services rendered to the entity by the person are not exempt from tax.

**2.10.9 Tax (Sec. 2 Dha):**

Tax means income tax imposed under this Act and includes following payments:

- i. Expenses incurred in the process of creating charge and performing auction of the property of tax creditor by the Department.
- ii. Amount payable by a withholding agent or withholdee or amount payable by an installment payer and on assessment.
- iii. Amount payable to the Department in respect of a tax liability of a third party.
- iv. Amount payable by way of interest and penalties.
- v. Amount payable by way of fines in order of the Department

### **2.10.10 Business (Sec. 2 Ka.Ja)**

Business means an industry, a trade, a profession, or the like isolated transaction with a business character and includes a past, present, or prospective business. However, the term does not include employment.

## **2.11 Provision for Individual Taxpayer under Income Tax Act, 2002**

### **2.11.1 Allowable deduction**

#### **2.11.1.1 Retirement contribution to an approved retirement fund:**

The amount contributed to an approved retirement fund Provident Fund (PF), Citizen Investment Trust (CIT) and other approved retirement fund is allowed for deduction up to a specified limit.

i.e. - Actual Contribution (employees + employee)

Or 1/3 of assessable income

Or Rs. 300000

Whichever is less

The retirement contribution made to an unapproved retirement fund is not allowed for deduction.

#### **2.11.1.2 Donation to tax exempt organization:**

Donation paid to tax-exempt organization registered at IRD may be deducted from taxable income under the following conditions-

i.e. - Actual donation

or 5% of Adjustable taxable income

or Rs. 100000

whichever is less

However, the government of Nepal may prescribe, by a notification in the Nepal Gazette, as to allow full or partial deduction at the time of assessing income of the expenses incurred for special purpose or donation given by the person.

Expenditure incurred by a company for the protection and promotion of ancient, religious and cultural heritage located in Nepal and for building public physical infrastructures of sports are allowed for reduction up to Rs. Lakhs or 10% of assessable income whichever is lower. However preapproval of IRD is required to take this facility.

### **2.11.1.3 Exemption Limit:**

Exemption limit is available only for the resident natural person. There are four types of exemption limit available only for the resident person.

- a) Basic exemption: Basic exemption is available only for resident natural person as per his family status.

Single / Individual	200000
Couple / Married	250000

- b) Additional exemption limit is available for the resident natural person (both for single and couple) working (residing) in remote areas of Nepal.

Remote areas	Additional Exemption Limit
'A'	Rs. 50,000
'B'	Rs. 40,000
'C'	Rs. 30,000
'D'	Rs. 20,000
'E'	Rs. 10,000

- c) For Pension income: A resident natural person (both for single and couple) having pension gets 25% additional exemption limit. But should not be more than pension income.

Single / Individual  $115000 \times 25\% = \text{Rs.}28750$

Couple / Married  $140,000 \times 25\% = \text{Rs.}35000$

- d) Life Insurance Premium (LIP): Life Insurance Premium paid by a resident natural person for his own life is allowable for deduction from taxable income up to the following limit:

Actual Premium paid

Or, Max Rs. 20,000

Whichever is less.

#### **2.11.1.4 Medical Tax Credit**

Approval medical expenses incurred for a resident natural person can be claimed for a resident natural person can be claimed for deduction from his/her tax liability up to a specified limit:

Allowable medical tax credit:

15% of eligible medical expenses

Or, Rs. 750

Whichever is less

Note: For non-resident natural person no tax exemption limit of any kind is available and charge 25% flat tax rate. And special additional fee is charged on total taxable income of non-resident natural person. But 5% rebate on remaining slab is get if the income is derived by operating special industry or from export business.

### **2.11.1.5 Foreign Tax Credit (Sec.71)**

A resident person claims a foreign tax credit for an income year for any foreign income tax paid by the person to the extent to which it is paid with respects to the person's assessable foreign income for the year.

The maximum allowable foreign tax credit to a person is calculated by applying following formula.

Foreign Tax Credit = Assessable income from foreign source × average rate of income tax in Nepal

Average rate of income Tax in Nepal

$$= \frac{\text{Total tax amount (Payable) before any foreign tax credit}}{\text{Total taxable income}} \times 100\%$$

### **2.12 Exempt Incomes under Income Tax Act 2002**

- a) Amount derived by person entitled to privileges under a bilateral or a multilateral treaty conducted between Nepal Government and a foreign country or an International organization (like - employment income of foreign diplomats and employment income of UN representative)
- b) Remuneration under the employment of public services of a foreign government.
- c) Remuneration paid by NG to foreign citizen on terms of tax exemption.
- d) Pension received by retired army / police from public fund of foreign government.
- e) Allowance paid by NG to widow, elder citizen, disabled person.

- f) Amount derived by ways of gift, bequest, inheritance or scholarship except as required to be include in calculating income under business, investment, or employment.
- g) Agricultural income otherwise then a firm, company, partnership and registered corporate body and by those who has not holding of land more then as prescribed in land act, is non-taxable income.
- h) Income and dividend distributed by co-operative societies registered under co-operatives act, 2048 is non-taxable income.

### **2.13 Methods of Income Tax Assessment**

Income Tax Act, 2058 has specified three types of assessment. They are as follows:

- a) Self assessment (Sec. 99)
- b) Jeopardy assessment (Sec. 100)
- c) Amended assessment (Sec. 101)

Self assessment is done by the assesses himself whereas jeopardy and amended assessments are the assessments based on judgment of the Department.

### **2.14 Installment payment**

There is a provision of payment of income tax of the current year by three installments that is 40%, 30% and 30% by the end of Poush, Chaitra and Ashad respectively.

### **2.15 Appeal**

The taxpayer who is not satisfied with the assessment made by tax officials can lodge an objection against the assessment with the Director General (DG) of Inland Revenue Department or go to Revenue Tribunal. The Act has made it

mandatory for the taxpayers first to file an objection with the Inland Revenue Department for an administrative review and then if unsatisfied with the decision of Director General, he/she can go to Revenue Tribunal.

## **2.16 Offences**

Offences are dealt within the Act in a sense of criminal offences of taxpayers as well as tax administrators. They lead to punishable in the form of fines and imprisonment on conviction. The offences attracting both a fine and the imprisonment include failure to comply with the Act, failures to pay tax, maintaining documentation or filing income returns and statements of estimated tax, making false or misleading statements, impeding or coercing the tax administration, offences by the authorized and unauthorized persons, offences of aiding or abetting, etc. In case if the Tax Return file is not submitted within the period prescribed by the Act, the late fee and interest amount will be charged at the rate of 0.1% per year of the assessable income.

## **2.17 The Super Act**

This tax act is super in regard to all income tax matters. No other Acts except this Act had made capable to make changes, amendment and other tax related provisions other than the provisions relating to imposition, assessment, reduction, increment, exemption or remission of tax to be made by amending this act itself by annual Finance Acts.

## **2.18 Review of Literature**

Income tax was imposed in Nepal by the first Parliamentary Government in 1959. Thereafter, various studies were made and researches conducted by different individuals and institutions concerning with various aspects of this act such as the structure, role, productivity, legal and administrative framework etc. Some of the books reports and dissertations that are reviewed during this study are as follows.

### **2.18.1 Review of Books and Reports**

Amatya (1965) had published a book "Nepal Ma AayakarkoBebastha". He has tried to describe about income tax and provision regarding income tax. His contribution was first in the field of income tax in Nepal. Basically, he analyzed legal aspect of income tax in Nepal at that period.

The book published in 1967 by NirmalBhattarai and RatnaSansarShrestha, gave information about the legal aspects of taxation in Nepal of that period.

Lent (1968), has presented a report entitled, "Survey of Nepalese Tax Structure" under the request of IMF, Fiscal Affairs Department. He has critically analyzed the scope of income tax in Nepal, tax structure, taxable income exemption and allowances given at that time. He has suggested reforming both the income law and administration to increase government revenue through income tax.

Poudyal and Timilsina (1990) presented a book based on B.com syllabus. This book is designed to give theoretical as well as practical ideas of income tax in Nepal. Provisions and methods of assessment have been described with numerical examples but the major problems and defects of income tax system of Nepal have not been analyzed.

Tiwari (2050), presented a book about income tax system in Nepal. This book is published mainly for the students of Tribhuvan University but it is equally useful to the tax payers, tax administrators and those who desire to get theoretical as well as practical knowledge about income tax. He has described the provisions under Income Tax Act 1974, income tax rules, information and acts related to income tax etc. He has not analyzed the major problems of income tax system.

Khadka (1995), had discussed the economic policy of Nepal, VAT as a long term tax for Nepal, Income tax, improving tax, administration tax, tax reform strategy. He had analytically described about development, existing structure,

main problems and possible direction of reform of income tax. He had identified the major problems of income tax as narrow coverage, unscientific tax assessment and collection, defective system from the perspective of international taxation. Weak tax administration, imbalance and inadequate tax training, predominance of law level non-technical posts, debatable scope of revenue investigation department, and lack of information system were the major problems of tax administration identified by him.

He had suggested some suggestions to overcome from the problems of income tax which were extension of tax coverage, scientific method of tax assessment, extension of withholding tax, inflation adjustment etc. He had also identified some possible direction for administrative reform. They were reorganization and expansion, applying integrated information system; research unit on taxation, strengthening the revenue service. His book was analytical and very useful to obtain the various aspects of income tax.

Adhikari (1999) has published a book which is mainly based on the T.U. syllable of B.B.S. third year. Apart from the theoretical concept of taxation, he has also presented the historical background, income tax laws and its implementations, assessment of tax and tax authorities, rights and duties. He has also described the management of VAT, property Tax and Sales Tax. The book includes precedents of Supreme Courts about Income Tax, classification and interpretation of revenue code, tax planning and income tax management in Nepal. The book is based in Income Tax Act, 2031

Dhakal (2001), presented his extended, enlarged and modified edition of his book including value added tax. This book is mainly based on the syllabus of BBS third year. The provisions made under income tax laws and the methods of income tax assessment have been described with numerical examples. This book is more helpful to know about general information and provisions made under Income TAX Act 1974. But he has not analyzed the role of income tax, income tax structure and defects of income tax system of Nepal. His book is informative rather than analytical.

Khadka (2001), published a book on income tax of Nepal. The book contains many interesting articles on various aspects of income tax. It first traces out the evolution of income tax around the world. It then analyzes relative importance of income tax in the tax system of some selected countries. It also defines various concepts, which are widely used in the modern income tax literature. The book also reviews major changes introduced in the field of the Nepalese income tax system since its inception in 1959 AD and examines its existing structure and operation. It also analyzes the current problems and makes recommendations for the rationalization of the structure and modernization of operation of the income tax system. The book also includes income tax acts of 1959, 1962 and 1974 A.D.

In 2001, Revenue Consultation Committee Report has studied the overall taxation situation in depth. It highly emphasized to simplify the tax policy to increase voluntary compliance. This report recommended for written communication between taxpayer and tax administration rather than the informal relation. This report suggested widening the income tax bases by including all kinds of taxpayer of new sector. For this, the report suggested to make the act more transparent and clear in order to attract foreign and domestic investors. It was further suggested to increase income tax exemption limit with considering purchasing power and inflation rate.

Adhikari (2002) has discussed the legal provision of new Income Tax Act, 2002. His book is analytical rather than informative. Writer has not included administrative aspect, role and structure of income tax in his book. The book has only focused on the legal aspect of income tax. Agreement and protocol relating to avoidance of double taxation and the prevention of fiscal evasions with respect to taxes on income between different countries had also included in his book.

Kandel (2003) had criticized the income tax act 2002 on several grounds. Exemption of agriculture from income tax, export duties levied on export, inequality between different capital earned income (i.e. tax on interest,

dividend, and capital gain), and withdrawal of the provisions of exemption suddenly and no adjustment for inflation are the major issue he raised in his article. He further criticized the Act for the provision for income tax from export as 0.5 percent of total export because it is not good choice of income tax base.

Mallik (2003), has published book named, "Nepalese Modern Income Tax System". He described historical aspects of income tax and legal provisions relating to income tax with numerical examples. This book is very useful to know the general information and legal provision of Income Tax Act, 2002. His focus is on Income tax in Nepal, role of income tax, administrative and legal aspects of income tax in Nepal. His study is useful to find out facts and figures about the income tax in Nepal at that time.

Agrawal (2004) has published a book entitled, "Income Tax; Theory and Practice." This book has focused on the students of chartered accountants and taxation. This book has also focused to be practitioners' reference and handbook, rather than theoretical compilation on the subject. His book is not only based on description fact but also has interrupted the various provisions of the new act. Simple and clear language has been used in this book. Sufficient theoretical concepts with clear interpretation as well as sufficient examples are included in this book. This book has depth theoretical concept and examples. Some sections of ITA 2058 act have compared with the international accounting standard. Gain or loss adjustment of depreciated assets in an example. All terms are clearly defined with sections under which the terms are included.

### **2.18.2 Review of Dissertation**

Shrestha (2001), study had covered the historical background, legal provisions, structure of income tax, income tax administration in Nepal and empirical investigation. Her findings about tax structure were: there was dominant share of tax revenue in Nepalese government revenue. But the contribution of tax

revenue showed the decreasing trend. The tax / GDP ratio was not found satisfactory with compare to other SAARC countries. It was 6.81 percent for the period of 1984/85 and 9.36 percent in 1998/99. There was serious and growing financial resource gap in Nepal seems to be never ending problem for Nepalese economy. There was dominant role of indirect tax revenue in Nepalese tax revenue. The contribution from individuals to income tax revenue was 17.76 percent and 82.24 percent respectively in 1984/85 which becomes 26.14 and 73.86 percent in 1998/99. The contribution from individuals to income tax revenue was greatest in every fiscal year and it was increasing trend. Income tax revenue was playing a significant role in direct tax revenue because the share of income tax in direct tax was increasing rapidly. She had found various problems of income tax system in Nepal. They were Narrow tax coverage, mass poverty of Nepalese people, and lack of conscious of taxpayer, widespread evasion and avoidance of income tax, unscientific tax assessment procedure, inefficient tax administration, complicated tax laws and procedures, instability in government policy. She had also identified the major weak points of income tax administration in Nepal. They were failure to locate new taxpayers, failure to maintain proper accounts and records, defective selection of personnel, undue delay in making assessment, lack of motivation in tax personnel, existence of corruption. She had also suggested broadening the Nepalese income tax base by bringing agriculture income and capital gain under income tax net. She had suggested to make consciousness to people, reform of income tax assessment, reform the tax administration and minimizing the tax evasion. For the improvement of income tax administration, she had suggested computerization and effective exchange of information, tax education to tax payers, tax inspectors and officials, effective personnel management, Her suggestion for minimizing tax evasion were control illegal business activities, enforce proper auditing and investigation, enforce heavy fines and penalties and maintain proper records and accounts.

Pradhan (2002), study is basically concerned with historical background, contribution of income tax to the public revenue, contribution of Nepal Telecommunication Corporation (NTC) to income tax, effectiveness of income tax collection. She had found the contribution of income tax from public enterprises in Nepal was not significant due to poor achievement, weakness in government's economic policy and deficiency in legislation. NTC has been controlling effectively to total income tax revenue. Contribution of tax revenue on GDP of Nepal was lower than other SAARC countries except Bangladesh. Average contribution of income tax from NTC to total tax revenue, total income tax revenue and total government revenue was 2.37 percent, 15.60 percent and 1.93 percent in her study period. Her suggestion about income tax system were clear cut provision, discretionary power of tax officers should curtailed, assessment and collection provision should be made clear and simple, provision of reward, prize, incentive should introduce to encourage the taxpayer to pay voluntarily, compulsorily provision of auditing, etc. For the improvement income tax administration in Nepal, she had suggested promotion and rewards to active, efficient and honest tax personnel, tax education to tax payers, strict actions against corruption, and reduction of delays in tax assessment. Specially, her study had focused on the study on Nepal Telecommunication Corporation.

PalliMagar (2003) had covered tax structure role of income tax and exemptions and deduction provided in the law. He had found that there was dominated share of tax structure in Nepalese government revenue. Income tax had occupied third position in his study period and it was in increasing trend. The tax/ GDP ratio was not found satisfactory. With the income tax, there was the dominated role of corporate income tax but it was in decreasing trend and contribution of individual income tax was second position and it was in increasing trend. Lack of employees, shortage of income tax experts professionals in tax administration, lack of public participation, faulty organizational structure of tax administration, weakness in government policy,

defective income tax act were the major cause for inefficient tax administration, observed by him. His suggestions about exemption were: revision of the exemption limit, elimination of double taxation on dividend, tax rebate for submitting true income statement in time, increase in income tax rate slab up to 10, increase the exemption limit for individual as well as family etc. Besides above, suggestions about deduction were: clear provisions for improvement expenses, research and development expenses. He is totally concentrated on the exemption and deduction in his study. He has not studied various aspects of income tax.

Besides these reports, books and master level dissertations, some articles about income tax published in Kathmandu Post, Rising Nepal, Gorkhapatra, The Kantipur, The Kathmandu Post etc. and publications of the Ministry of Finance such as Budget speech, Economic Survey were reviewed in the study period.

Sherchan (2003), study had covered tax structure, role of income tax and legal provision of income tax. But specially, his study has focused on provision of fines and penalties. He had found that there was a dominated share of tax revenue in Nepalese government structure. Income tax had occupied third position in his study period and it was an increasing trend. The tax/GDP ratio was not found satisfactory. With the income tax, there was a dominated role of corporate income tax but it was in a decreasing trend and contribution of individual income tax was second position and it was in an increasing trend.

He had suggested to revise the position of fees and penalties, introducing reward, prize, incentives position, clear income tax, rules and regulation, clear rights and duties of tax officers. Further, his suggestions were: timely revision in income tax policy, computerized system for payment of income tax. This study was done with the main objective of analyzing tax structure of Nepal, analyzing the position of fines and penalties under income tax law, knowing the taxpayers' knowledge and tax officers' view about fines and penalties. His study had focused only on provision of fines and penalties. So, this study is an incomplete study.

Shrestha (2006) has tried to show the contribution of income tax on the structure of government revenue in Nepal. She stated that the composition of tax and non tax revenue is still less satisfactory in Nepal. She found that total revenue, total tax revenue and direct tax revenue have an increasing trend in Nepal but in low rate. She has mentioned that tax evasion as the major problems of income tax system in Nepal in her study, inefficient and administration, unconsciousness of tax payer, lack of scientific method of tax assessment and collection have identified as the major reasons for tax evasions at high level.

Shrestha (2009) has tried to show the revenue collection from income tax and its practical difficulties in Nepal. In his thesis he has written that the revenue collection from income tax is in increasing trend. He has also explained the revenue collection from income tax of different years. He has also stated various practical difficulties of income tax. To remove the practical difficulties of income tax, he has given suggestions to the government. Some of his suggestions are as follows:

- a) Income tax policy should be formulated according to the economic policy.
- b) It should be revised timely.
- c) The members involved in formulating income tax policies must have depth knowledge about income tax.
- d) Tax should be increased gradually on long term basis to meet the deficit in the budget. For this tax base should be widened.
- e) There must be co-ordination between the departments of tax and so on

Basnet (2010) had presented a dissertation named Attitude of People towards Exemptions and Deduction under Income Tax Act, 2058. He has described the

contribution of income tax to national revenue of Nepal, Deduction facility provided by the Income Tax Act, 2058. He has found that:

- Present exemption limit is not sufficient.
- Income tax rules and regulations should be clear and simple for all tax payers.
- Clear provision should be made in case of deduction.

Luitel (2010) had presented a dissertation named Income Tax & its Contribution on National Revenue of Nepal. He has described the structure and trend of income tax in Nepal, revenue structure in Nepal and problems & prospects of income tax in Nepal. He had found that:

- Tax revenue has the largest share of contribution in total revenue.
- People are not well informed about tax system of Nepal.
- Main problems of tax administration are delay in making assessment, complicated tax laws, lack of coordination etc.
- Tax evasion is a serious problem in the tax system.
- Inefficient income tax administration is the major problem of income tax system.

Mahato (2011) presented a dissertation named A Study on Tax Administration in Nepal, he has described the structure of tax and non-tax revenue in Nepal, contribution of tax and non-tax to total revenue and tax administration system in Nepal. He has found that:

- After restoration of democracy, particularly from point of conflict there has been a dramatic change in the composition of public expenditure.
- Public revenue, main source to fulfill the need of public expenditure has not been able to pace with public expenditure.
- Income tax is one of the most important resources of the government revenue and it is considered as a good remedy to cure growing and serious resources gap problems of Nepal.
- Nepal attracts foreign assistance in the form of grants and loans from different bilateral and multilateral donors.
- Non-tax revenue cannot be used as an effective instrument of revenue mobilization

Dhakal (2012) presented a dissertation named An Analysis of Nepalese Taxation: Structure and Weakness. He has described the structure of Nepal, productivity and responsiveness of tax yields in Nepalese tax structure. He had found that:

- Sound administrative capacity is one of the major bottlenecks that have to be overcome for increasing the built-in-flexibility of Nepal's tax system.
- The present Nepalese tax structure depends heavily on indirect taxes.
- The absence of a progressive tax structure creates disparity in the distribution of income and wealth.

## **2.19 Research gap**

Tax is the strong sources of government revenue. It plays important role in revenue collection. To increase the revenue collection from tax the government should either increase the tax to make wide coverage. If tax collection is effective the government revenue will increase well. Tax system depends on its legal provision and its popularity also depends on its transparency for providing a lot of information about tax. Different researches have research on the topics of income tax in different ways. Their objectives and analyzing system are in different way. After studying different research paper held on "Tax Payers and their awareness towards income tax ", the researcher found various gap on selected topic to make this research different for other research also analyze theoretical concepts. Analyze the reliable data and analyze the different views of different respondents.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

Research word can be divided into two parts re and search, which means search again and again .Previous researcher found some things and further researcher are not cover all the facts and findings .We should make different types of research according to subject matter like as descriptive experimental, case study etc. Thus the objective of the study is to find out awareness of taxpayer towards income tax so this study follows descriptive as well as Analytical research tools.

#### **3.1 Research Design**

The analysis of the study is based on certain research design keeping as the objectives of the study in mind. Generally, research design means definite procedures and techniques which guideline profound ways for research ability. Most of the materials of this study are concerned with past phenomena in numerical or theoretical terms. The study oriented to:

##### **I) Analytical Research**

In analytical research, the researcher uses the facts and the information already available and analyzes to make a critical evaluation of the materials. Analytical research was carried in terms of role of tax and non-tax revenue to national revenue of Nepal.

##### **II) Descriptive Research**

Descriptive research includes surveys and facts finding enquiry of different kinds. It is concerned with finding of facts relating to the subject matter, obtaining important data and getting new areas of knowledge by describing

them descriptive research will be carried out in this study on taxpayers awareness towards income tax.

This study is concerned with awareness of taxpayers towards income tax it takes primary as well as secondary data .While collecting primary data, questionnaires were developed and distribute to different business person to know their awareness towards income tax. Data obtain fromKritipur Municipality and Ministry of Finance, which is the main source of secondary data relating to tax.

### 3.2 Population and Sample

Population is the whole size of related study. Covering all the population while taking data study gives more accurate finding .It is not possible due to various constraints likes as time money etc. So this study take sample from large population, All the business person of Kathmandu area was considered as total population .There are altogether 2500 business organization registered in Kritipur Municipality.Out of them 60 business organizations are taken as target sample .They are from 20 Stationary, 20 Wholesale & Retail Shops and 20 other business.

The following table shows the group of respondents and sample size.

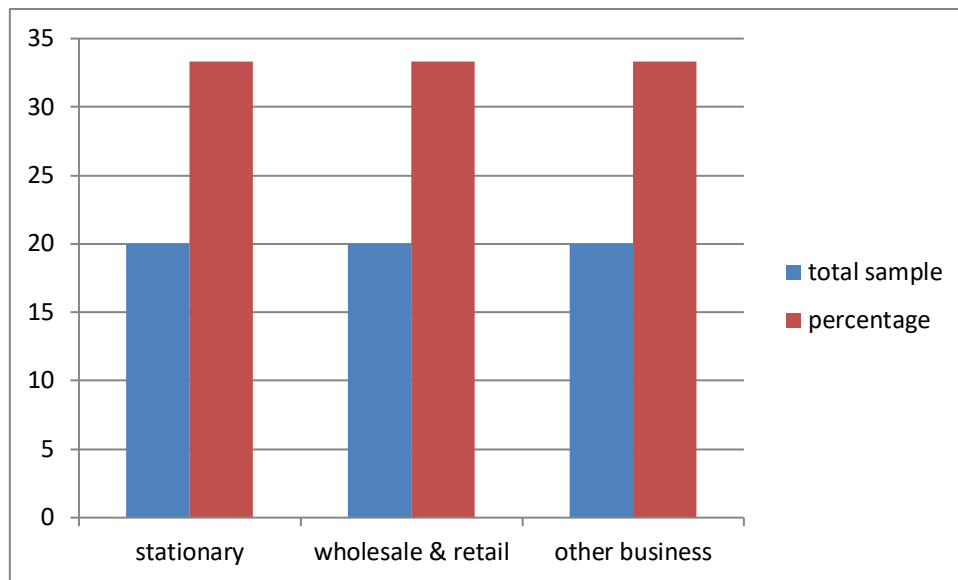
**Table 3.1**

**Group of Respondents and sample size.**

<b>S.N.</b>	<b>Groups of Respondents</b>	<b>Total Sample</b>	<b>% (Percentage)</b>
1.	Stationary	20	33.33
2.	Wholesale & Retail	20	33.33
3.	Other Business	20	33.33
	Total	60	100

**Fig. 3.1**

**Group of Respondents and sample size.**



### **3.3 Source e of Data**

This study mainly based on primary data. It also took secondary data as the study demanded .The main objective of primary data was to find out different business persons view relating to income tax and test their awareness towards income tax. Questionnaire, interview related to income tax is the main weapon to test the awareness of taxpayers.While secondary data is obtained from Ministry of Finance and Kirtipur Municipality to find out increasing trend of business registration in that office.

### **3.4 Data Collection Techniques**

This study is concerned with taxpayer’s awareness towards income tax. So, it is necessary to collected data from both primary as well as secondary data primary data are collected by making questionnaire , interview and telephone calls Questionnaire is distributed to different business person to get needed

information .While secondary data is obtained from Ministry of Finance &Kritipur Municipality .

### **3.5 Methods of Analysis and Presentation**

At first both primary and secondary data were presented in tabular form and then make necessary diagrams, and other as requirement .then analysis is made on the basis of their character. Analysis is made with the help of different mathematical and statistical tools.

## **CHAPTER IV**

### **DATA PRESENTATION AND ANALYSIS**

The presentation of data is the basis organization and classification of the data for analysis .After data collection is completed, the data is in raw form .It is necessary to arrange the data to makes some senses to researcher and other .It can later be presented to the reader of the research .Similarly, the purpose of analyzing the data is to change it from an unprocessed from to an understanding presentation .The raw data convey little information as such. These must, therefore be compiled; analyzed and interpreted carefully .This process of transforming data is called analysis of data. This chapter deals with the presentation and analysis of data .The main objective of the study is to find out the awareness of taxpayers towards income tax so it mainly focuses the primary data .Though the secondary data taken from the Ministry of Finance and office of Kritipur Municipality to find out revenue structure of Nepal and the exact number of business Established in Kritipur Municipality. The primary data is taken from 60 business person .Out of them 20 are Books and Stationary, 20 are wholesale and Retail shop and 20 are other different business which of them fancy store, hardware shop and Liquor center .The primary data obtained by making questionnaire about Income Tax. 60 sets of question are distribute and received about different types of taxes to know the awareness of taxpayers towards income tax.

#### **4.1 Analysis of Secondary Data**

This chapter focuses on the presentation and analysis of secondary data the secondary data have been obtained from Kirtipur Municipality and Ministry of Finance. The available data related to the study have been tabulated, presented an analyzed and interpreted to reach at some finding.

#### **4.1.1 Number of Business Registered within 8 years in Kirtipur Municipality:**

To know how many businesses registered in Kirtipur Municipality within 8 years from fiscal year 2063/64 to 2070/71 (Magh), we take data from office of Kirtipur Municipality and these data are tabulated as follows:

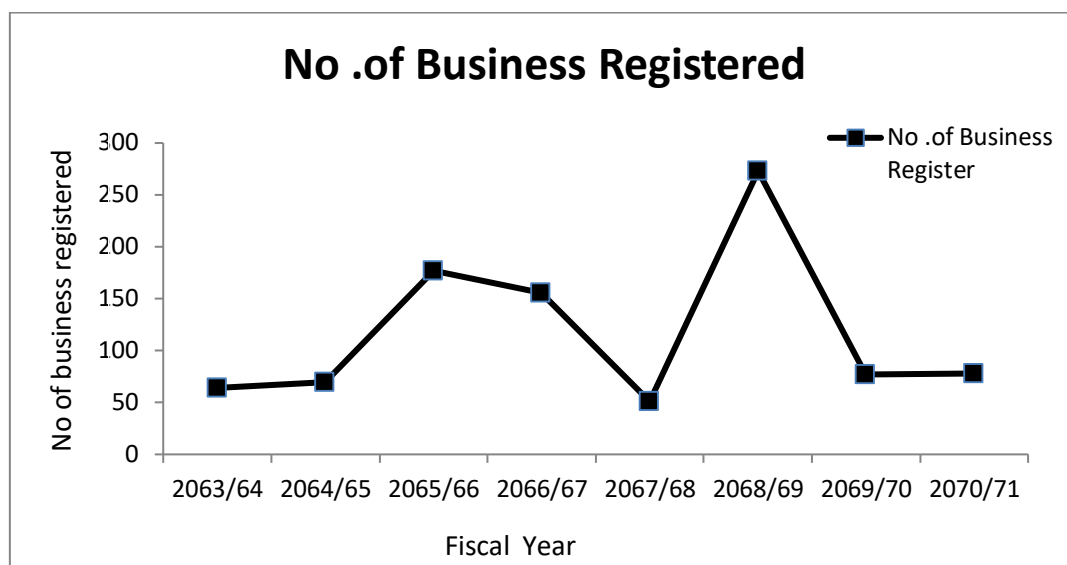
**Table 4.1**

#### **Trend of Registration of Business in Kirtipur Municipality**

<b>Fiscal Year</b>	<b>No .of Business Register</b>
2063/64	64
2064/65	70
2065/66	177
2066/67	156
2067/68	51
2068/69	273
2069/70	77
2070/71	78
<b>Total</b>	<b>946</b>

Source: KirtipurMunicipality

**Fig. 4.1 Trend of Business Registered**



In fiscal year 2063/2064, the number of business firm registered in municipality was 64. In 2064/ 2065, the number of business firm registered in municipality was 70. In the fiscal year 2065/2066, the number of business firm registered in municipality was 177. In the fiscal year 2066 / 2067,the number of business firm registered in municipality was 156. In fiscal year 2067 / 2068 the number of business firm registered in municipality was 51.In fiscal year 2068/2069 the number of business firm registered in municipality was 273. In fiscal year 2069/2070 the number of business firm registered in municipality was 77, and in fiscal year2070/71 the number of business firm registered in municipality is 78 till now. So the total number of business registered within these 8 years has found to be 946. The above increasing trend business firm established up to 2065/66 showed that the awareness of taxpayer about business taxation is increasing and then two years decrease later on the registration of business firm increased by huge amount after that the firm registered decreasing order. In the conclusion the business firm registration trend is fluctuate in these years. They registered their firm and doing business legally as compared to the past years.

#### **4.1.2 Revenue Structure of Nepal**

Every government is responsible to perform numerous functions for the betterment of the people in the country. A government needs high volume of income to fulfill different type of expenditures. For this purpose, government collects revenue from different sources. Thus, the income of the government through all sources like taxes, borrowings, fees, donations etc. are called public revenue. In general, government income sources are mainly classified into two categories named tax revenue and non-tax revenue. These both sources are subject to non-repayment and their sum constituted the government revenue. Beside these sources, government has other sources, which are subject to repayment such as loans and grants. However, grants are not compulsorily repaid. These are desirable only to meet the fiscal deficits.

The trend and composition of tax revenue and non-tax revenue in different fiscal years are presented below:

**Table 4.2**

**Trend of Various Types of Revenue Collection in Different Fiscal Year  
(in billion)**

<b>Fiscal Year</b>	<b>Total Revenue</b>	<b>Tax Revenue</b>	<b>Non Tax Revenue</b>	<b>% of Tax Revenue</b>	<b>% of Non-Tax Revenue</b>
2005/06	72.28	57.43	14.85	79.45	20.55
2006/07	87.71	71.12	16.59	81.09	18.91
2007/08	107.63	85.16	22.47	79.12	20.88
2008/09	143.47	117.05	26.42	81.59	18.42
2009/10	178.00	159.79	18.21	89.77	10.23
2010/11	198.38	177.23	21.15	89.34	10.66
2011/12	244.37	211.72	32.65	86.64	13.36
2012/13*	289.60	252.57	37.03	87.21	12.78

\*Estimated

Note: Government of Nepal has started to records its revenue and expenses using Government Financial Statistic (G. F. S ) 2001. Since the fiscal year 2011/12, the data of previous fiscal year may therefore differ.

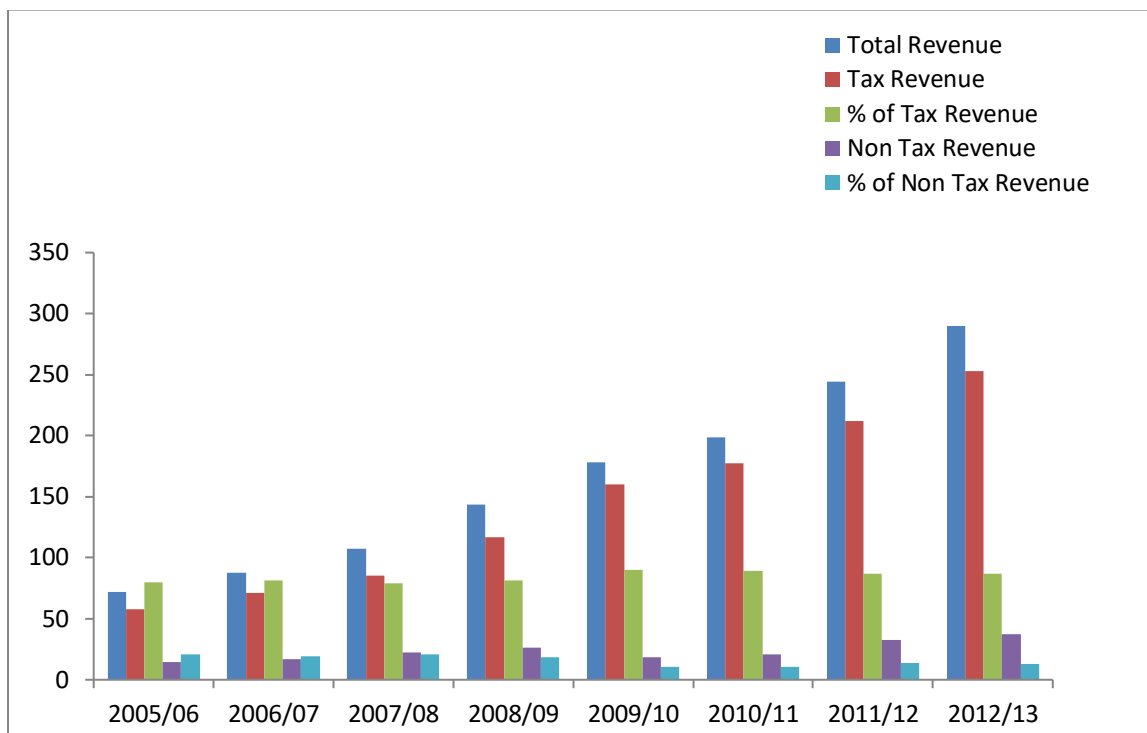
Source: Economic Survey, 2012/13 GON

From table 4.1, it can be seen that in fiscal year 2005/06 total revenue of nepal is 72.28 billion where tax revenue contributes 79.45% and non tax revenue contributes 14.85% of total revenue. The trend of revenue collection is increasing trend. Also contribution of tax revenue plays vital role for the government income. Revenue has increased by 23.2 percent and reached Rs. 244.37 billion in fiscal year 2011/12 as compared to fiscal year 2010/11. Revenue collection in fiscal year 2012/13 is estimated to rise by18.5 percent and reach Rs. 289.60 billion as compared to the previous fiscal year.

Contribution of tax revenue to the total revenue stood at 89.8 percent in fiscal year 2009/10 while its and dropped to 86.6 percent in fiscal year 2011/12. The contribution of non-tax revenue has increased in those years. In this fiscal year, contribution of tax revenue to the government’s total revenue is estimated to increase and reach 87.2 percent. Given information can be presented in the bar diagram.

**Figure 4.2**

**Revenue collection from tax revenue and non-tax revenue**



Tax revenue plays important role to the Total revenue of the country. The main source of government revenue is tax revenue. In fiscal year 2005/06, contribution of tax revenue is 79.45% of total revenue. From the above figure it can be concluded that normally tax revenue contributes to the government revenue more than 80% of total revenue. It is also increasing trend. In fiscal year 2009/10 and 2010/11 tax revenue contributes nearly 90% of the total revenue. So that tax revenue play important role to the revenue collection of Nepal. Tax revenue has increased by 19.5 percent in fiscal year 2011/12 as

compared to fiscal year 2010/11 reaching Rs. 211.72 billion which is further estimated to rise by 19.3 percent in this fiscal year and arrive at Rs. 252.57 billion. Contribution of goods and services based tax that was more than 52 percent of the tax revenue in fiscal year 2009/10 is still hovering around the same figure in this fiscal year. Value Added Tax is the source of two third of goods and services based tax receipts. Tax from this source is expected to rise by 22.3 percent and reach 135.25 billion in current fiscal year. This amount is 46.7 percent of the estimated total revenue of this year.

#### **4.2 Analysis of Primary Data**

The main objectives of this study are to find out the awareness of taxpayers about income tax. Awareness of taxpayer about income tax means whether they have knowledge about different provision of Income Tax Act, 2058,.So In this chapter Income Tax Act related questionnaires was design and distribute 60 sets of question were distributes and all question were collected.

The questionnaire was asked for Yes / No response or for ranking of alternatives where the first choice was the most important and least choice was the least important. The following table shows the profile of respondents.

<b>S. No.</b>	<b>Group of Respondents</b>	<b>Sample Size</b>
1.	Stationary	20
2.	Wholesale & Retail	20
3.	Other Business	20

##### **4.2.1 Presentation and Analysis of Responses about Income Tax**

Income Tax is the major source of Government Revenue Government collected huge amount of revenue from this tax. So it is necessary to make aware about

the Income Tax to taxpayer. So, to check the income tax knowledge of taxpayer 60 respondents are taken for the study. The responses received for different questionnaire are present below.

#### 4.2.1.1 Familiar with the Nepalese Income Tax

To check the knowledge of the Nepalese taxpayer, this question was asked. The responses received from the respondents are tabulated as below:

**Table 4.3**  
**Familiar with the Nepalese Income Tax**

Response Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Stationary	18	90	2	10	20	100
Wholesale & Retail	12	60	8	40	20	100
Other Business	14	70	6	30	20	100
<b>Total</b>	<b>44</b>	<b>73.33</b>	<b>16</b>	<b>26.67</b>	<b>60</b>	<b>100</b>

Source: Field Survey, 2013

The above table showed that 73.33% of the respondents have knowledge about Nepalese income tax. 26.67% of the respondents did not have knowledge about Nepalese income tax.

In conclusion, most of the respondents were familiar about Nepalese Income Tax. But it is not sufficient.

#### 4.2.1.2. Sufficiency of the provision of Rebates, Concession and Facilities Included in that Income Tax.

This question was ask to respondents to know their opinion about the facilities provided in Tax Laws. The responses received from the respondents are tabulated as follows:

**Table 4.4**

**Sufficiency of the provision of Rebates, Concession and Facilities Included in that Income Tax.**

Response Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Stationary	8	40	12	60	20	100
Wholesale & Retail	6	30	14	70	20	100
Other Business	4	20	16	80	20	100
<b>Total</b>	<b>18</b>	<b>30</b>	<b>42</b>	<b>70</b>	<b>60</b>	<b>100</b>

Source: Field Survey, 2013

The above table showed that in aggregate 30% of the respondents were satisfied the provision of rebates concession and facilities includes in that Income Tax Law 70% of respondents were not satisfied with provision .In Conclusion ,most of the respondents are not satisfied with this provision in Income Tax .

**4.2.1.3 Charging of Depreciation is Adequate in Income Tax Act, 2058**

This question was asked to know the opinion of respondents about provision of depreciation in Tax Act whether they were satisfied with this provision or not. The responses received from respondents are tabulated as below:

**Table 4.5**

**Charging of Depreciation is Adequate in Income Tax Act, 2058**

Response	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Stationary	5	25	15	75	20	100
Wholesale & Retail	4	20	16	80	20	100
Other Business	6	30	14	70	20	100
<b>Total</b>	<b>15</b>	<b>25</b>	<b>45</b>	<b>75</b>	<b>60</b>	<b>100</b>

Source: Field Survey, 2013

The above table showed 75% was disagreeing with the question. Those in aggregate 25% of the respondents were agreeing with the question.

In conclusion, most of the respondents feel that the provision of charging of depreciation is not adequate.

**4.2.1.4 Current Income Tax Exemption Limit.**

This question was developed to know the opinion of respondents about current income tax exemption limit, weather they were satisfied with this exemption limit or not. The responses received from respondent are tabulated as follows:



**Table 4.6**

**Current Income Tax Exemption Limit is Appropriate**

Response	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Stationary	7	35	13	65	20	100
Wholesale & Retail	5	25	15	75	20	100
Other Business	6	30	14	70	20	100
<b>Total</b>	<b>18</b>	<b>30</b>	<b>42</b>	<b>70</b>	<b>60</b>	<b>100</b>

Source: Field Survey, 2013

The above table showed that 70% of the respondents' that the current exemption limits is not appropriate. But in aggregate 30 % of the respondent responded that current income tax exemption limit is appropriate.

In conclusion, most of the respondents opined that current Income Tax exemption limit is not appropriate.

**4.2.1.5 Opinion about the Current Income Tax Rate. :**

This question was asked to know the opinion about the current tax rate whether it is high medium or low .The responses received from respondent are presented below.

**Table 4.7**

**Current Income Tax Rate**

Response Respondents	High		Medium		Low		Total	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Stationary	6	30	12	60	2	10	20	100
Wholesale & Retail	8	40	11	55	1	5	20	100
Other Business	8	40	9	45	3	15	20	100
<b>Total</b>	<b>22</b>	<b>36.67</b>	<b>32</b>	<b>53.33</b>	<b>6</b>	<b>10</b>	<b>60</b>	<b>100</b>

Source: Field Survey, 2013

The above table showed in aggregate 36.67% of the respondent responded that the income tax rate is high .Similarly, 53.33 & 10 % of the respondent responded that the current tax rate is medium and low respectively. Some of the respondents tell that the tax rate is considered as tax paying capacity of the Nepalese people.

In Conclusion, most of the respondents responded that the current tax rate is medium.

**4.2.1.6 Sufficiency of Exempted and Deduction Items.**

To know the respondent’s opinion about the exempted and deduction items are sufficient or not, a question was asked “Do you think that exempted and deduction items are sufficient“? The responses received from the respondents are tabulated below:

**Table 4.8**

**Exemption and Deduction Items are Sufficient**

Response	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Stationary	8	40	12	60	20	100
Wholesale & Retail	9	45	11	55	20	100
Other Business	12	60	8	40	20	100
<b>Total</b>	<b>29</b>	<b>48.33</b>	<b>31</b>	<b>51.67</b>	<b>60</b>	<b>100</b>

Source: Field Survey, 2013

From the table 4.9 it can be concluded that 48.33 percent respondents agreed that exemption and deduction items are sufficient. 51.67 percent respondents disagreed about the sufficiency of exempted and deducted items.

As who gave the negative response about the sufficiency of exempted and deducted items of income were asked another question “If no what kind of income should be exempted?” They were requested to write their opinion, most of the disagreed respondents suggested that following income must be tax exempted from incomes.

- Income from interest and rent.
- Overtime allowance.
- Income from life insurances.
- Medical allowances.
- Remote area allowance.
- Income derived by tax exempted organization.

#### 4.2.1.7 Problem faced by Taxpayers While Paying Income Tax

To know problem faced by Taxpayers while paying income tax the respondents were requested to rank their choice from 1 to 4 according to their importance. The question was “What kind of problems faced by Taxpayers while paying income tax” responses received from respondents are tabulated as follows.

**Table 4.9**

**Problem faced by Taxpayers While Paying Income Tax**

<b>S.N.</b>	<b>Problem</b>	<b>No of Respondent</b>	<b>% of Respondent</b>	<b>Rank</b>
1	Due to lack of Knowledge about taxpaying	15	25	2
2	Complicated procedure	30	50	1
3	Weak And immature feeling of tax administration	8	13.33	3
4	Other	7	11.67	4
	Total	60	100	

Source: Field Survey, 2013

In table 4.11 rank 1 is given to the highest percentage and 4 to the lowest, which problem obtain lower percentage this is lowest important and which

problem obtained higher percentage this problem is highest important problem. The respondents were requested to no.1 to the most important and 5 to the list important. From the table the most important problem faced by taxpayers while paying income tax is ranked in order of preference of the respondents are as follows.

1. Complicated procedure.
2. Due to lack of knowledge about taxpaying.
3. Weak and immature feeling of tax administration.
4. Others.

#### **4.2.1.8 Effectiveness of the Nepalese Income Tax System.**

This question was developed to know the responses about the effectiveness of Nepalese Tax. The responses received from respondents are presented below.

**Table 4.10**

#### **Effectiveness of the Nepalese Income Tax System.**

Response Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Stationary	5	20	15	75	20	100
Wholesale & Retail Shop	7	35	13	65	20	100
Other Business	12	60	8	40	20	100
<b>Total</b>	<b>24</b>	<b>40</b>	<b>36</b>	<b>60</b>	<b>60</b>	<b>100</b>

Source: Field Survey, 2013

The above table showed that 60% respondents were not agreeing with this question but 40% of the respondent agrees with this question.

In Conclusion, most of the respondents feel that Nepalese Income Tax system is not effective.

#### 4.2.1.9 What are the most important factors for effectiveness of Income Tax in Nepal?

To know what are the most important factors for effectiveness of income tax in Nepal, the respondents were requested to rank their choice from 1 to 5 according to their importance. The question was “In your thinking what are the most important factors for effectiveness of income tax in Nepal.” Responses received from respondents are tabulated in the table.

**Table 4.11**  
**Effectiveness of income tax in Nepal**

S.N.	Factors	Points Received				Percent	Rank
		Books & Stationary	Wholesale & Retail Shop	Other Business	Total		
1	Honest Tax Payers	56	58	58	172	19.11	4
2	Honest Tax Officers	64	65	60	189	21	3
3	Clear & Simple Act, Rules & Regulation	61	69	66	196	21.78	2
4	Effective Income Tax Administration	73	66	69	208	23.11	1
5	Political non interruption	46	42	47	135	15	5
	Total	300	300	300	900	100.00	

Source: Field Survey, 2013

In table 4.11, Rank 1 is given to the highest percentage and 5 to the lowest, which factor obtain lower percentage this is lowest important and which factor obtained higher percentage this factor is highest important factor. The respondents were requested to given no. 1 to the most important and no.5 to the least important. From the table the most important factors for effectiveness of income tax in Nepal ranked in order of preference of the respondents are as follows.

- 1) Effective income tax administration.
- 2) Clear and simple act, rules and regulation.
- 3) Honest tax officer
- 4) Honest tax payers.
- 5) Political non interruption.

#### **4.2.1.10 Specific objective of Income Tax in Nepal**

To know the specific objectives of income tax in Nepal, the respondents were requested to rank their choice from 1 to 5 according to their importance. The question was “In your view what should be the specific objective of income tax in Nepal.” Responses received from respondents are tabulated in the table.

**Table 4.12****Specific objective of Income Tax in Nepal**

SN	Factors	Points Received				Percent	Rank
		Books & Stationary	Wholesale & Retail Shop	Other Business	Total		
1	To enhance the government revenue	67	72	68	207	23	1
2	To meet government expenditure	56	50	55	161	17.89	4
3	To achieve national economic development	69	70	66	205	22.78	2
4	To control inflation	64	58	65	187	20.78	3
5	Others	44	50	46	140	15.55	5
	Total	300	300	300	900	100.00	

Source: Field Survey 2013

In table 4.12, Rank 1 is given to the highest percentage and 5 to the lowest, which factor obtain lower percentage this is lowest important and which factor obtained higher percentage this factor is highest important factor. The respondents were requested to given no. 1 to the most important and 5 to the least appropriate. From the table the most important factors for effectiveness of income tax in Nepal ranked in order of preference of the respondents are as follows.

- 1) To enhance the government revenue.
- 2) To achieve national economic development.

- 3) To control inflation.
- 4) To meet government expenditure.
- 5) Other.

#### 4.2.1.11 Problem facing by the tax administration in Nepal

To know what the major problems are facing by the tax administration in Nepal, the respondents were requested to rank their choice from 1 to 5 according to their importance. The question was “In your view what should be the specific objective of income tax in Nepal.” Responses received from respondents are tabulated in the table.

**Table 4.13**

#### Major Problem Facing by the Tax Administration in Nepal

S.N.	Factors	Points Received				Percent	Rank
		Books & Stationary	Wholesale & Retail Shop	Other Business	Total		
1	Lack of trained & competent tax personnel	57	59	62	178	19.78	3
2	Lack of proper direction	58	58	60	176	19.55	4
3	Complicated tax laws	66	63	56	185	20.55	2
4	Unnecessary outside pressure	63	62	69	194	21.56	1
5	Lack of coordination	56	58	53	167	18.56	5
	Total	300	300	300	900	100.00	

Source: Field survey 2013

In table 4.13, Rank 1 is given to the highest percentage and 5 to the lowest, which factor obtain lower percentage this is lowest important and which factor obtained higher percentage this factor is highest important factor. The respondents were requested to given no. 1 to the most important and 5 to the least appropriate. From the table the most important factors for effectiveness of income tax in Nepal ranked in order of preference of the respondents are as follows.

- 1) Unnecessary outside pressure
- 2) Complicated tax law
- 3) Lack of trained and competent tax personnel.
- 4) Lack of proper direction.
- 5) Lack of coordination.

#### **4.2.1.12 Is Contribution of Income Tax to Total Revenue of Nepal Satisfactory?**

To know the opinion about the contribution of income tax to total revenue of Nepal, a question was asked with the respondents “In your opinion is contribution of income tax to total revenue of Nepal is satisfactory?” Responses received from respondents are tabulated in the table.

**Table 4.14**

**Contribution of income tax to total revenue of Nepal is satisfactory?**

Response	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Stationary	8	40	12	60	20	100
Wholesale & Retail	10	50	10	50	20	100
Other Business	11	55	9	45	20	100
<b>Total</b>	<b>29</b>	<b>48.33</b>	<b>31</b>	<b>51.67</b>	<b>60</b>	<b>100</b>

Source: Field Survey, 2013

From the table 4.14 it can be concluded that questions received 100 percent response as 48.33 percent of total respondents agree that the contribution of income tax to total revenue of Nepal is satisfactory and 51.67 percent of the total respondents do not agree about the contribution of income tax to total revenue of Nepal is satisfactory. Most of the respondents are disagree about the question so it can be concluded that the contribution of income tax to total revenue of Nepal is not satisfactory.

As who gave the negative response about the contribution of income tax to total revenue of Nepal were asked another question "If no what are the reason for low contribution of income tax to total revenue of Nepal?" They were requested to write their opinion, the response received from disagreed respondents are as follows.

**4.2.1.13 Reason for low contribution of income tax to total revenue**

In order to find out those major reasons for lower contribution of income tax, next question was asked, "If no, what are the major reasons." The respondents were requested to rank their choice from 1 to 5 according to preference.

**Table 4.15****Reason for low contribution of income tax to total revenue**

S.N	Factors	Points Received				Percent	Rank
		Books & Stationary	Wholesale & Retail Shop	Other Businesses	Total		
1	Defective of income tax act	33	31	32	96	20.74	2
2	Mass poverty & low income level	55	41	38	137	28.94	1
3	Increase habit of tax evasion	46	27	17	90	19.44	4
4	Inefficient income tax administration	32	32	30	94	20.30	3
5	Inappropriate rate & exemption limit	14	17	18	49	10.58	5
	Total	180	148	135	463	100.00	

Source: Field survey, 2013

In table rank 1 is given to the highest percentage and 5 to the lowest. Here highest percentage is obtained by the method which is regarded highly appropriate by the respondents. In the questionnaire, the respondents were requested to given number 1 to the most appropriate of last to the last appropriate.

From the above table, the major reasons for low contribution of income tax to total revenue ranked in order of preference of the respondents are as follows:

1. Mass poverty and low income level.
2. Defective income tax act.
3. Inefficient income tax administration.
4. Increase habit of tax evasion.
5. Inappropriate rate and exemption limit.

#### **4.2.4. Major Findings**

From the opinion survey some important findings can be drawn. The major findings of this research are:

- Most of the respondents were familiar about Nepalese Income Tax. But it is not sufficient.
- The provision of rebates, concession and facilities included in income tax act 2002 are not sufficient.
- Most of the respondents feel that the provision of charging of depreciation in income tax is not adequate.
- The current income tax exemption limit is not appropriate.
- It found that the current income tax rate is medium in Nepal.
- The exempted and deducted items in tax act 2058 are not sufficient.
- The majority of respondents responded that the most important problem faced by businessman while paying tax are: procedural complicated, due to lack of knowledge about taxpaying and weak and immature felling of tax administration.
- Nepalese income tax system is not effective. To make it effective, the following factors must be considered
  - Income tax administration must be effective.
  - Act, rules and regulation must be clear.
  - Tax officer and tax payers must be honest.

➤ Political interruption should be established.

- The specific objectives of income tax in Nepal are: to enhance government revenue, to achieve national economic development and to control inflation.
- Major problem facing by the tax administration in Nepal are: lack of trained and competent tax personnel, lack of proper direction, complicated tax laws, unnecessary outside pressure and lack of coordination.
- Contribution of income tax to total revenue of Nepal is not satisfactory.
- Mass poverty and low income level, defective of income tax act, inefficient income tax administration, increase habit of tax evasion, and inappropriate rate and exemption limit are the reason for low contribution of income tax to total revenue.

## CHAPTER V

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 5.1 Summary

A government requires sufficient fund to launch the development programs to handle the daily administration to keep peace and security and to launch other public welfare programs. For that government collects funds from various sources such as, taxes, fees, special assessment, fine and penalties, foreign grants etc. Funds are generally called revenue in the language of government. Among various sources of revenue, tax is the main source of collecting the public revenues because it occupies the most important part of the government treasure.

Tax is compulsory payment made to the government by a person from his/her taxable income according to law. Tax is contributed to the government without expectation of any direct benefit. In the broad sense there are two types of taxes: direct and indirect tax. Income tax, gift tax, interest tax, property tax, vehicle tax, house & land tax, contract tax etc are the example of direct tax. Export/import duty, excise duty, sales tax, value added tax, entertainment tax, hotel tax, passenger tax are example of indirect tax.

The idea of introducing income tax in Nepal originated along with the first budget on 21Magh 2008 (1952). Then the first elected government introduced "Business profit and remuneration Act 2017" to impose income tax on remuneration and business profit in Nepal. Business profit and remuneration tax act 2017 had so narrow coverage that income tax was imposed only on business profit and remuneration. It was replaced by the Nepal income tax act 2019 after two years. After that income tax rule 2020 were enacted with the view of implementations the objective of the income tax act. As "Nepal income tax act 2019" was incapable to fulfill the needs of the time, it was replaced by another income tax act 2031. In the course of development and modernization of income tax system the new income

tax act 2058 has been enacted. Similarly the new income tax rules 2059 have also been enacted for the effective implementation of the objective of the act. Income tax act 2058 has classified the heads of income in to three categories viz. employment, business and investment.

Now, individual income tax is levied with two rates 15% and 25% while corporate income tax is levied with a single or flat rate of 25% however bank and financial institutions are liable to pay income tax @ 30% of taxable income. The special industrial enterprises are liable to pay income tax only at the rate of 20% of taxable income. The industry established in backward and operated in remote area are entitled some facilities concessions and rebates.

When a person derives an amount or incurs expenses, tax is determined according to Generally Accepted Accounting Principle (GAAP) considering the provisions made by the act. As per the law natural person is required to maintain the accounts on the cash basis. A company is required to maintain the accounts on the accrual basis within the framework of GAAP. Other entity operating a business or having investment may adopt either cash or accrual basis for maintaining its accounts. Similarly a natural person operating a business may adopt either cash or accrual basis unless the department prescribes by written notice.

Income tax act 2058 intends to bring all the incomes in to the area of tax. However certain incomes of some individuals or entities are especially exempt from income tax by the law. Furthermore the act has provided the facilities of relaxing with the concession tax rate for specified individuals or entities.

Income tax is imposed on taxable income that is obtained by subtracting deductible expenses from chargeable incomes. But sometimes a taxpayer may face the situation of loss due to the occurrence of deductible expenses in excess of chargeable incomes. In respect of business or investment a

taxpayer is entitled to set off or carry backward or forward of such unrelieved loss as per tax law. The unrelieved loss of an income year incurred by a person from any business or investment is calculated as calculated as the excess of deductible expenses over chargeable income ignoring the treatment of unrelieved losses.

Income tax assessment refers to the procedure of ascertaining the taxable income and tax liability of a person and tax payable by a person. Income tax is assessed adopting different methods of tax assessment practiced in Nepal are self assessment, jeopardy assessment and amended assessment.

To fulfill the general objective of this study different source of data are used to find out the accurate and actual conclusion. Mainly the secondary data are collected from economic survey, published by ministry of finance Nepal government annual report published by Inland Revenue department and other publicities. And primary data are used from field survey in different area of kirtipur municipality.

By analyzing the secondary data it is found that the government revenue collects from tax revenue and non-tax revenue. Tax revenue includes tax from customs, tax on consumption and product of goods and services, land revenue and registration, tax on property, profit and income. In conclusion the main source of government revenue is tax revenue.

Total tax revenue collection in fiscal year 2011/12 was Rs 211.72 billion and non-tax revenue Rs.32.65 billion. According to the field survey, most of the respondents are conscious about the payment of tax. But they have no proper knowledge about it. The government should conduct the awareness programs about it.

## 5.2 Conclusion

The government need huge amount of revenue to achieve the objectives of nation. In developing countries like Nepal, lack of sufficient financial resource is the main constraint for the economic development. Nepal is facing serious problem of resource gap and high dependency on foreign loan. Resource gap is increasing at a faster rate than the increase in revenue. The resource gap is widening continuously with the increment of total expenditure in respect to total revenue collection. To solve such serious problem of financial deficit, income tax should play important role. But, resource mobilization in Nepal is still poor. Developing country like Nepal utilize external borrowing as a technique to address the gap between the government revenue and investment as well as to meet the export-import gap. This kind of borrowing adds to the total resources available to the government over a given period and enables the government to incur higher expenditure than would be otherwise possible. These resources can contribute to poverty alleviation and economic growth if properly employed .

The government of Nepal introduced a formal tax for the first time in Nepal in 1959 (2017 B.S.) in the form of "Business profits and Remuneration Tax." According to this Act, incomes only from Business profits and remuneration were subjected to tax. At present, in Income Tax Act, 2002 which became effective since April 1<sup>st</sup> 2002, sources of Nepalese income are classified into Business income, investment income and employment income for the tax purpose. The percentage share of income tax to government revenue is not satisfactory in comparison to other developing countries like India, Pakistan, Bangladesh and Srilanka etc. There are three major income tax assessment methods in Nepal. Currently, income tax revenue in Nepal is collected through four sector i.e. corporate income tax, individual income tax, house and land rent tax and interest tax. Among them, share of the individuals' income tax is in the highest position. Exemption limit and tax rate of the income tax is determined according to the income level and sector

wise but is not adjusted according to the inflationary situation of the country and number of dependents. Exemption limit is not provided to the corporate bodies.

The success or effectiveness of income tax system entirely depends upon implementation of provisions, which is the major responsibility of income tax administration. Income tax system of Nepal has been blamed as not enough efficient. Various problems existed in the income tax such as inefficient income tax administration, defective income tax law, are the reasons of lower contribution of income tax. But if we analyze the data relating to it then we can find out that revenue collection from income tax is increasing continuously. Provisions in Act and language have to be made clear. Some reforms in income tax administration are needed to raise the income tax revenue.

Due to reform, the corruption in income tax administration can be decreased, the efficiency and transparency can be improved and the tax administrations will treat the taxpayers as responsible citizen to a considerable extent. The cost of tax collection from taxpayers, government and economy as a whole can be reduced to some extent.

The role of revenue is crucial for the overall development of the country. In this context, the Nepalese government needs to develop a sustainable broad based source of revenue. Since more than 80 percent of the total revenue is collected from the tax source, efficient tax system has to be developed and strengthened. In recent years, the government has taken several measures to reduce tax-induced distortions, strengthening tax administration, simplifying tax laws and procedures to make them more transparent. With an aim to broaden the tax base the government enacted new Income Tax Act in 2002. This Tax Act brought all sources of income - from employment, business and investment - under the tax net and helped maintain neutrality of taxation in various income generating activities. The Customs Act was amended to make the Nepalese system compatible with the WTO valuation system, broaden the tax base and

mobilize additional revenues by curtailing wide range of exemptions. In 1997, the government introduced VAT aiming to develop it as the backbone of Nepalese Revenue.

The Conclusion of this study is mentioned as below:

- Taxpayer were agreed that good knowledge of tax reducing illegal business.
- Without knowledge of taxation small taxpayers may not be included in the tax system.
- Defective Income Tax Act, rule, ineffective taxpayer education program, rapids changing government economic and taxation policy, ineffective tax administration are the major problems of income tax system which affect income tax knowledge to taxpayers in Nepal.
- Most of the respondents were familiar about Nepalese Income Tax. But it is not sufficient.
- Most of the respondents are not satisfied with provision of rebates, concession and facilities include in income tax act, 2058.
- Most of the respondents feel that the provision of charging of depreciation is not adequate.
- Most of the respondents opined that current Income Tax exemption limit is not appropriate.
- Most of the respondents responded that the current tax rate is medium.
- Exemption and deduction items are quite sufficient.
- Most of the respondents responded that contribution of income tax to total revenue of Nepal is not satisfactory.
- The majority of responded that the most important problem faced by business man while paying tax is procedural complication.
- Most of the respondents feel that Nepalese Income Tax system is not effective.

- Major problem facing by the tax administration are unnecessary outside pressure, complicated tax law, lack of trained and competent tax personnel, lack of proper direction and lack of coordination.

Finally it is concluded that most of the taxpayers are not aware towards income tax but few taxpayers are aware in some terms of income tax.

### **5.3 Recommendations**

On the basis of this study, the following recommendations are made in order to increase the contribution of income tax in total revenue of government of Nepal.

- Present tax related education is not effective. Most of the taxpayer does not aware about changing tax rule and regulation. So, to increase awareness of taxpayer, dynamic tax administration, billing enforcement, clear and effective tax policies are recommended.
- Tax office collects Income Tax in their own office. It must be collect from business house door to door. So that, businessman pay their tax in time without hesitation. This mechanism should be also recommended.
- There should categories the businessman who paid tax in time and who do not pay tax in time. Those who paid tax in time give more priorities in government office and others. This system can be seen in our neighboring country India.
- Most of the countries follow the self-assessment system of tax. So, Nepal should also follow it bit there should be establishing strong mechanism to check the fraud of businessman.
- The provision of concession, rebates and facilities should be implemented effectively for encouragement to businessman.
- Co-ordination between tax policy maker, tax personnel and other department should be established.
- The school as well as campus level curriculum should include tax related education. So, that taxpayer education program can be more effective.

- Income tax policy should be formulated according to the economic policy of the country. Income tax policy should be revised timely.
- Tax ratio should be increased gradually on long run basis to meet the deficit in budget. From this, the tax base should be widened.
- The members involved in formulating income tax policies must have deep knowledge about income tax.
- Tax personals should be encouraged, punished and transferred on the basis of their work and experience, regular and effective training system, reward, prize and punishment system should be established for the effective personnel management.
- Income tax, rules and regulations should be clear and simple for all the taxpayers as well as for tax administrators.
- Unnecessary outside pressure should be avoided.
- Income tax experts/profession should be increased in tax administration.
- The habit in business sector of not keeping the complete account of the transaction and not submitting the real account for assessment must be abolished.
- There are insufficient numbers of tax offices within and outside the Kathmandu valley. Therefore the number of tax offices must be increased to provide the service conveniently.

There has been the problem of collection income tax revenue from a long time in Nepal. The problem can be minimized and income tax will follow a substantial increment in revenue structure of Nepal if the above-mentioned recommendations are managed timely and effectively.

**TAXPAYER’S AWARENESS TOWARDS INCOME TAX  
IN NEPAL (WITH REFERENCE TO KIRTIPUR  
MUNICIPALITY)**

Name of the Respondent: .....

Name of Business Organization: .....

Type of Business: .....

Address: .....

PAN No.: .....

Date of Response: .....

*(Please tick your answers in the following and put in order of preference from first to last number if there are more than four alternatives)*

## QUESTIONNAIRE ABOUT INCOME TAX

- 1) Are you familiar with the Nepalese Income Tax?
  - a) Yes      b) No
  
- 2) Do you think that, the provision of rebates, concession and facilities included in income tax are sufficient?
  - a) Yes      b) No
  
- 3) Do you think that the charging of depreciation is adequate in Income Tax act 2058?
  - a) Yes      b) No
  
- 4) Do you think that the current Income Tax exemption limit is appropriate?
  - a) Yes      b) No
  
- 5) What is your opinion about the current tax rate? The current Income tax rate is:
  - a) High      b) Medium      c) Low
  
- 6) Do you feel that exempted and deducted items are sufficient?
  - a) Yes      b) No

If no, what kind of income should be exempted?

Please note in order:

  - .....
  - .....
  - .....
  - .....
  
- 7) What types of problem that taxpayers faced while paying Income tax?
  - a) Due to lack of knowledge about taxpaying procedure.
  - b) Complicated procedure.
  - c) Weak and immature feeling of Tax Administration.
  - d) Others.
  
- 8) Is the Nepalese Income Tax System is effective?
  - a) Yes      b) No
  
- 9) What are the most important factors for effectiveness of Income tax in Nepal? (Please Rank)
  - a) Honest tax payers.

- b) Honest tax officers.
- c) Clear and simple act, rules and regulation.
- d) Effective income tax administration.
- e) Political non interruption.

10) What are the specific objectives of Nepalese income tax? (Please Rank)

- a) To enhance the government revenue.
- b) To meet government expenditure.
- c) To achieve national economic development.
- d) To control inflation.
- e) Others, if any

11) What kind of problem facing by the tax administration in Nepal? (Please Rank)

- a) Lack of trained and competent tax personnel.
- b) Lack of proper direction.
- c) Complicated tax laws.
- d) Unnecessary outside pressure.
- e) Lack of coordination.

12) Do you think that contribution of income tax to total revenue of Nepal is satisfactory?

- a) Yes
- b) No

If no, what are the reasons for low contribution of income tax to total revenue of Nepal? (Please Rank)

- a) Defective income tax act.
- b) Mass poverty and low income level.
- c) Increase habit of tax evasion.
- d) Inefficient income tax administration.
- e) Inappropriate rate and exemption limit.