

**A STUDY ON
INCOME TAX STRUCTURE OF NEPAL**

A Thesis

Submitted By

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VIVA VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by
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And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master's Degree in Business Studies (MBS).

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**A STUDY ON INCOME TAX STRUCTURE OF NEPAL**" submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Maser's Degree in Business Studies under the direct supervision of Prof. Dr. Bihari Binod Pokharel and Mr. Rewan Kumar Dahal.

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Tilak Raj Bhattarai

Researcher

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Abbreviations

CBS:	Central Bureau of Statistics
CEDA:	Centre for Economic Development and Administration
CITR:	Corporate Income Tax Revenue
DG:	Director General
DTR:	Direct Tax Revenue
FY:	Fiscal Year
GDP:	Gross Domestic Product
GON:	Government of Nepal
I.e.:	That is
IDT:	Indirect Tax
IRD/N:	Inland Revenue Department, Nepal
IRO:	Inland Revenue Office
ITA:	Income Tax Act
ITA:	Income Tax Administration
MOF:	Ministry of Finance
NRB:	Nepal Rastra Bank
R&D:	Research and Development
Rs.:	Rupees
SAARC:	South Asian Association for Regional Cooperation
TDS:	Tax Deducted at Source
TTR:	Total Tax Revenue
TU:	Tribhuvan University
VAT:	Value Added Tax
WTO:	World Trade Organization

CHAPTER - 1

INTRODUCTION

1.1 Background of the Study

Government has to spend a lot of money to fulfill its responsibility towards its people. The responsibility may be either for security or for health or education or other development activities. Every nation wants to improve its current status through proper utilization of resources. Government receipts may be in the form of taxes, charges etc as internal sources and borrowings, grants and loans as external sources. Those collected huge amount of fund is spent in maintaining peace and security in the country. It includes the purchase of arms ammunition, maintenance of army and police administration etc. The government also spends its funds for fulfilling the basic needs of the people, such as health, education, communication, drinking water and other public utility and facilities etc. Similarly, government has to spend on development of socio-economic infrastructure, which facilitates to promote the private sector. All round prosperity of the nation can be achieved through the equal participation of private sector in development activities, industry and commerce as well.

The government needs huge amount of fund, which can be mobilized through two sources, Internal sources and external sources. Developing country like Nepal, have limited sources of internal funds so most of the development activities depend on the external sources. The external sources of financing are bilateral and multilateral aids, grants and loans from foreign countries or donor agencies. These sources have been limited, inconvenient and not suitable to boost up our economy due to the vested interest of the donor agencies. The reality is that we have been implementing most of the policies and programs of the donor countries/agencies, paying high interest accepting the inappropriate conditions on taking loan.

On the other hand government tries to finance resources through internal sources. It is very important to developing country like Nepal. But it is not able to mobilize the internal resource satisfactorily. The major constraints in domestic resource mobilization are poor utilization of natural resources, small and stagnant industrial sector, partial monetization of the economy, poor performance of public sector enterprises, poor rate of economic growth, inadequate tax efforts, deficiencies in tax policies, laws and administration etc. (Agrawal, 1978:109)

Nevertheless, internal resource mobilization is equally important to both developed and developing countries. Internal sources of public funds are important not only for necessary financing funds, but also for proper utilization of external sources. Based on the nature of sources, public funds are also classified into revenue (public income) and borrowing. The public income or revenue includes taxes, fees, fines, penalties, special assessment, gift etc. Borrowing includes both internal and external. Most of the public expenditure is financed through taxation and borrowing. Taxes and charges are withdrawn from the private sector without leaving the government with a liability to the payee. Borrowing involves a withdrawal made in return for the government's promise to repay at a future date and to pay interest in the interim (Musgrave and Musgrave 1989:93). Countries use of borrowing to raise the necessary public fund is not good for economic development of every nation. It reduces liquidity position of the government and increases the inflation. Government has to impose higher taxes to repay the interest and the borrowed sum too. Generally speaking, as sources of public revenue, taxes are better than borrowing because it is merely transferring of funds to public treasuries. So, borrowing is likely to be meaningful only when it is complement to domestic effort rather than substitute for it. Thus, mobilization of resources from domestic sources through taxation seems to be the most viable solution, which is primarily non-inflationary as compared with borrowing.

The use of taxes is safer for financing public revenue in developing countries. Deficit financing brings dangerous situation of inflation and external

debt are not always reliable. Taxation, in the modern world has been taken as the best effective tools for raising the ratio of saving to national income. Taxation as a most viable method of resource mobilization may exist of imposition of new taxes, increase in rates of existing taxes, widening the tax coverage and improving the administrative effectiveness etc. In normal circumstances, taxation seems to be the most effective and perhaps the least harmful ways of mobilizing internal resource.

Taxes are emphasized in all countries developed as well as developing because they have the potentiality for increasing the yield of tax system and achieving a system of taxation that satisfies the demand for equity and social justice (Singh, 1991:127). Income tax more or less affects on production and growth, development of various small and cottage industries, distribution of income, employment, inflation and deflation etc. Tax is the main source of financing government activities in every country. The largest part of government revenue is raised through taxation.

A tax is compulsory contributions imposed by a public authority, irrespective of exact amount of services rendered to the taxpayer in return and are imposed as a penalty for any legal offense. According to Seligman, tax is a compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred. Tax may be classified as direct tax and indirect tax on the basis of impact and incidence. Direct taxes are those, which are imposed initially on the individual or household that is meant to bear the burden e.g. income tax, property tax, vehicle tax etc. In the word of Dalton, A direct tax is really paid by the same person on whom it is legally imposed. In contrast to direct tax, an indirect tax is that tax where the person paying the tax and the person bearing the tax is different. In the word of Dalton, an indirect tax is imposed on one person but paid partly or wholly by another. Customs, excise, value added tax, contract tax are the examples of indirect tax. Taxes on income may be levied on individual as well as business firm. The former is known as personal income tax and the later

is known as corporation tax. A proper tax system should be able to generate the required amount of revenue.

The contribution of income based taxes is much smaller to the total revenue for developing countries in comparison to developed countries and is likely to remain same for sometime to come despite the efforts over the years of many least developed countries to raise more revenue. There are mainly four reasons as why income tax yield is less in developing countries as compare to developed ones. They are: problems of defining income, problems of assessing and measuring it, the choice of rate, allowances and deductions and difficulties of tax collection. But the importance of income taxation in the under developed countries cannot be underestimated because savings in such a country do not always take the forms in which resource suitable for economic development are set free. Domestic savings, which might be the mainspring of economic development, may often go into unproductive and wasteful channels that abstracts economic development rather than feed it. Such examples are the holding of precious metals, holding of foreign currency, investment in real estate, speculations etc. Savings in those forms are either useless or positively harmful to economic development. The form has to be changed so the savings can be mobilized for economic development. In this regard taxation can play an important role by directing recourses from these channels into useful capital formation (Tripathy, 1968:83).

A company or corporation body is a legal organization that is voluntarily created, organized or characted under law. It is artificial people, which can own property, execute contracts, rise debts, and generate profits. Therefore, corporate tax is a tax levied on companies or corporate bodies in contrast to unincorporated enterprises. It is the tax on capital income that occurs in the form of profit and originates the corporate sector i.e. company. There are some obvious arguments in favor of raising a large amount by way of corporation taxation in developing countries. The first is the ease of collection. Corporations are easily identifiable, keep accounts and cannot escape tax liabilities by, for instance, rapid changes of

their place of residence. In these respects they are almost administrators dreams, a further point is that, taxes collected in this way often appear painless.

In Nepalese context, there are only a limited number of corporate bodies. Not only this, their economic performance is also very dismal. Because of these two reasons, the contribution of corporate tax to the government treasury is not much satisfactory in Nepal. Furthermore, the low revenue productivity from corporate tax is also the result of the various types of incentives especially, the provision of tax holyday to the incentives. The comparison of contribution of Nepalese corporate sector to government treasury with the counterpart of other countries shows that the contribution of Nepalese corporate sector to government is far lower than in OECD countries and India .

Nepal's income tax has features of both global and scheduler income tax system. Especially, after 1990's there is re-emergence of the liberalization, globalization and privatization system that focuses on the minimum intervention of the state on private economic matters. The 1950's concept of high incentive, high tax rate is changed to the concept of low rate, wide net. This trend in tax system is followed by most of the countries of the world. Nepal is also not an exception in this respect and Nepalese administrators and policy makers too have tried to change the policy of the country.

Although Nepal has a long history of taxation, corporate tax was introduced only in 1960 when the Business Profits and Remuneration Tax Act, 1960 was enacted, at the beginning, it was not differentiated from the personal income tax. The same tax rate with progressively and exemption limit were prescribed by the Finance Acts of 1960 to 1964 to all companies, private firms, individuals and families. From the financial year 1965/66, the tax exemption given to companies similar to personal taxpayers was withdrawn. A separate tax system to companies was introduced by the Finance Act 1976, Finance Act 1985 made a provision of giving 5% tax rebate from highest marginal rate of 55% to listed public companies and government enterprises. Financial year 1986/87 was

the year when the corporate tax was really recognized by imposing a flat rate of 40% tax on taxable income of listed companies. By the same coin, Finance Act imposed tax on dividend also to be deducted at source at the rate of 20% which after the filing of return by shareholders was to be reconciled. But this dividend tax was changed exempting dividend to a level of 85% in 1987/88. Finance Act, 1992/93 introduced compulsory self tax assessment system for public and private ltd. co. Besides these changes, taxing corporate income at flat rate to the private limited company was enacted from the financial year 1994/95. This change at last ended the discrimination between private company and the public company. Another major change is the inclusion of dividend of non-industrial within the tax net, since the financial year 1998/99 (Kandel 2000: 126). The corporation sector has been classified into three groups according to establishment and ownership. The major three groups are government sector, public sector and private sector. There are also special industries according to nature and liability of paying tax. Special sector's companies are levied 20% tax rate on the taxable income of the companies, as per Income Tax Act 2058. Normal industries including trading company and manufacturing industries have been taxed at 25% & 20% flat respectively and other industry at 25%. Banking and insurance industries have been taxed @30% flat rate. The industries established in backward areas are provided certain facilities, concessions, rebates and tax holding as per the ITA 2058 and Industrial Enterprise Act 2049. Similarly, dividend and capital gains have been also included in tax net.

1.2 Statement of the Problem

Economic development is the prime concern of every nation of the world. Underdeveloped countries are facing serious problem in the process of economic development. Nepal is also not an exception to this condition. The majority of people have not been able to get even basic facilities. The government wants to fulfill the basic needs of the people and accelerate development activities one at a time. Thus, every nation of the world is accomplishing various activities to fulfill

these objectives. It needs huge amount of capital. Despite the various measures adopted by the government to boost revenue collection, there is still a substantial resource gap between expenditure and revenue. The rate of government expenditure is exceeding the rate of growth revenue almost every year. In other words, Nepal has been facing persistent budget deficit from the beginning of her development phase. External deficits, currency depreciation, inflationary pressure, rising interest rates which may cause crowding out effect and reduction in economic growth are the consequences of the budget deficits. The mobilization of revenue has not increased to the level in which the level and speed of our expenditure is rising. Raising the government revenue helps to overcome from the serious bottleneck of resource gap in the process of economic development programs by mobilizing additional resources from domestic sources.

Income tax is one of the component of taxation and major sources of government revenue. Income tax in developing nations has been regarded as an instrument of growth and social justice. But Government of Nepal is being unable to mobilize the expected income tax from personal as well as corporation. Most of the personal taxpayers do not reveal the income sources even they earn significant amount. They hardly keep and show their proper accounts. Similarly, many research reports have addressed that tax evasion has become a serious problem as a result the actual collection of income tax is being very low. So, the role of corporate income tax revenue is justifiable. Corporations are easily identifiable, keep their accounts and cannot escape tax liabilities. But corporate sector is still in initial state of development in Nepal. The performance of corporate sector, especially, the industry is very poor. Their number, profitability, investment in fixed assets, share in market transaction are all in weak position. There is no agreement as regards to various issues in corporate tax area. The debate is going on as regards to base of tax, method of taxing corporation, method and rate of depreciation, use of appropriate type of tax incentive, treatment of tax inflation etc.

In view of the discussions of problem taken from the above studies, the research questions are as follows:

1. What is the income tax structure of Nepal?
2. What are the problem of resource mobilization and resource gap in Nepal?
3. What is the contribution of corporate income tax to Government revenue? Is it equally supporting to fulfill resource gap?
4. What is the trend and share of corporate income tax in government Revenue, tax revenue, direct tax revenue?
5. What are the problems/difficulties of Income Tax Act 2058 ?

1.3 Objectives of the Study

The main objective of study is to analyze the income tax structure of Nepal showing its contribution on government revenue of Nepal and point out some problems/difficulties of Income Tax Act 2058. Other specific objectives of the study are listed below:

- 1) To study and analyze the income tax structure of Nepal.
- 2) To examine the problems exist in the Income Tax Act 2058.
- 3) To evaluate the share and trend of corporate Income Tax on Government revenue of Nepal.
- 4) To provide necessary suggestions and recommendations to the concerned organizations on the basis of study findings.

1.4 Need and Significance of the Study

Nepal is an agro-based developing country with low speed in industrialization process. There are only a limited number of corporate bodies and their economic performance is very dismal. So, there is need to growth and development of corporate sector in our nation. The government needs huge amount of funds to spend on daily expenses as well as development activities. Every year, Nepal has been presenting deficit budget, there is increment in resource gap. Most of the development activities depend on bilateral and multilateral grants and loans. The nation is hardly bearing the loan and the

internal source of revenue is not sufficient even to meet the ordinary expenses. In this context, the easy and long lasting way to increase revenue to strengthen the internal source is through income tax in which corporate income tax is one of the major components. Thus, the contribution of income tax on government revenue and its impacts on fulfilling resource gap has been chosen as a relevant topic for the study.

The study is useful to economists, planners, tax officers, tax administrators, government and other interested persons about the structure of income tax and its contribution in internal resources and the problem and prospects of corporate sector. It also provides the information about trends and projection of corporate income tax.

1.5 Limitations of the Study

The study has the following limitations:

- a. This study is based on secondary and primary data. The reliability depends on them.
- b. Main focus is given to corporate income tax of Nepal.
- c. This study has been conducted to fulfill the requirement of the MBS program of T.U. for the prescribed time, not for generalization purpose.

1.6 Organization of the Study

The first **introduction** chapter includes the statement of problem, objectives of the study, need and significance of the study, limitations of the study and organization of study.

The second chapter deals with **review of literature** is done to know what research had been done in the related topic in previous days and what is to be done at present or in future. This chapter has been divided into two main aspects: (1) Conceptual framework and (2) Review of related materials i.e. review of books, review of thesis, review of newspapers, magazines, journals etc.

The third chapter deals with **Research methodology**. It includes research design, population and sampling, sources of data, procedure of data collection and tools used for analysis.

Fourth chapter deals with **presentation and analysis of data**. The data collected from various sources have been tabulated in their sequential order and data have been described and analyzed with statistical tool as well as general accounting and taxation principle. Empirical Investigation has been done on the basis of primary data collected from different taxpayers, tax experts and tax officers through questionnaire to address the problems/difficulties of current Income Tax Act 2058.

The fifth chapter consists of brief **summary, conclusions and recommendations of the study**. Lastly, essential bibliography has been presented at the end of the study.

CHAPTER - 2

REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Income Tax

Generally, income means the inflow of cash to the person or firm. Most of the people do not take the kind as an income. It is a best measure of economic well being of a person as well as of nation. Higher income denotes the high living standard and lower income from rendering various types of services, selling goods and producing crops for their own use. Thus, income may be cash or kind that is received by a person for livelihood.

Economists define the term 'income' in a broad sense. It is an economic gain or receipt to a person during a particular time by way of wages, interest, profit and rent. The money income of the people is generally used for two purposes. Part of income is spent on consumption and part is saved.

But for the purpose of taxation, the definition of income is somehow different from the aforesaid definition. According to Income Tax Act 1974 Income means the income earned or received in cash or kind from the sources mentioned in sec. 5". In this section five different heads of income were mentioned. They were as follows: [ITA, 1974]

1. Agriculture
2. Industry, Business, Profession or Vocation
3. Remuneration
4. House and land rent
5. Other sources

The existing Income Tax Act 2002 (2058), which has been enacted since 2058 Chaitra 19, (April 1, 2002), has defined income in section 2(a) as "person's income from any employment business as calculated in accordance with this Act (ITA, 2002). It includes all sorts of income received for the provision of labour or capital or both of whatever form or nature in the taxable income.

Tax, in simple terminology, is a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the taxpayers according to law. In the word of Seligman, taxation is the "compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred."

From the definition given above it can be said that firstly, a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. Secondly, taxpayer cannot receive any quid pro quo for the payment of tax. The taxpayer does not receive equivalent benefit from the government. Thirdly, the tax is paid to the government for running it. Fourthly, in case of tax, the amount is spent for common interest of the people. The tax is collected from haves and basically, spent for the interest of have-nots in the society. Fifthly, a natural or an artificial person pays the tax.

In conclusion, it can be said that tax is a liability to pay an amount to the state. The basis of a minimum amount from certain specified or that they own certain tangible or intangible property or that they carry-on certain activities which have been chosen for taxation.

Income tax refers to the tax levied on the income of a person and profits of corporation for the specific time period, particularly one year. Income tax is levied on the taxable income of a person or a company after deducting allowable expenses. Accounting profits may differ from taxable profits. For the computation of taxable income, generally incomes are added and expenses are

subtracted and losses, which are allowed to deduct under the provision of Income Tax Act are also subtracted. Then, tax-free incomes allowances and common expenses are also deducted to get taxable income. After giving the exemption limit as per law, the amount of tax to be levied on this computed income is the income tax.

2.1.2 Evolution of Taxation

In early days, taxes were collected at the time of emergencies, to finance wars and to provide communal services. Taxes were levied on the basis of welfare of the people. At that time tax was not compulsory payment. People voluntarily paid the tax because non-payment of tax was taken as sin in the Hindu tax system. According to Hindus' scripture, the duty of king was to serve and secure his people, maintain peace and harmony and carryout social works. For those purpose king used to levy tax by collecting crops and cattle from farmers, gold and silver and other metallic goods from traders.

Great Britain was the first country in the world to introduce the income tax in 1799. It imposed income tax in order to finance war with France. Similarly, in U.S.A. the first federal income tax was imposed in 1862 with the same objective (to finance civil war). However, in the beginning these countries imposed income tax as temporary until 1862. Thereafter, since 1913 it was accepted as permanent tax. This, income tax was adopted by different countries gradually. Italy started it in 1864, and New Zealand adopted in 1891, Australia and Canada have followed the income tax in 1915 and 1917 respectively. After the world war, the income tax became an important source of tax revenue in many developed countries. By 1939, it had become the most important source of revenue in most developed countries and had made appearance in a number of developing nations

In our neighboring country India, the income taxation was started in 1860 by the British government to relief from economic burden created due to first

democratic revolution. It was then regularly collected after the publication of Income Tax Act 1886 (Dhakal, 2057:134).

In this way, income tax has become the regular source of national receipts for many developed and developing countries of the world. In the beginning, income tax was generally levied at a flat rate. The principle of progressive rate of income tax had been adopted by the United Kingdom and New Zealand since 1909. Now a days the progressive rate is commonly used rather than flat rate in all over the world.

2.1.3 Taxation in Ancient Nepal

Reliable records about taxation in ancient and medieval Nepal are not available. However, tax has been one of the major sources of government's revenue from the ancient time in Nepal. Taxes were then levied on the merchants, travelers and farmers in the form of cash, kind and labour. On some occasions gold and agricultural products were also paid as taxes; but the nature of these taxes were temporary. In the Lichhavi's regime, income taxes from agriculture and business were introduced as a direct tax for the first time in Nepal. Agricultural income tax was called "Bhaga". The 1/6, 1/8, and 1/12 quality of the land that they owned. Income tax, which was levied on business income, was called 'kara'. There was irrigation and religious tax also in existence during the regime of king of Ansubarma of Nepal.

2.1.4 Taxation in Unified Nepal (1768-1846)

After unification of kingdom of Nepal, expenses for administration, military and other operational activities were increased significantly. During that period, taxation has been taken as main source of revenue and different types of taxes like land tax, transit tax, market duties, various levies and fines, forest product tax and mining tax were levied. Local administrations were directed "to take whatever is paid willingly by the people." Taxes were collected from the three levels (Agrawal, 1980:153).

- a. Royal Palace: To finance occasional and ceremonial needs. The taxes were broad based and progressive.
- b. Government: To finance administrative, military and other purposes assessed on official functionaries, occupational groups and other people.
- c. Local: Prerequisites of local officials, functionaries and mendicants.

The various taxes levied during this period were narrow in base and were imposed primarily on occupations and economic activities, not on income or property. The system of direct taxation was confined to land tax and special levies like "Darshanbhet", "Salami", "Walal" etc. After the unified period, land revenue system was divided into five main forms: Raikar, Birta, Guthi, Sera and Kipat. The main sources of revenue from land were Birta and Kipat.

King Prithvi Narayan Shah had introduced 'Pota' tax in 1772, which was regarded as a revolutionary measure in the fiscal system of Nepal. It was based on flat rate system and limited on small Birta owners. There was no taxation of income in the sense of modern income tax.

2.1.5 Taxation in Rana Regime (1846-1950 A.D.)

Imposition and collection of taxes during 104 years oligarchic rule of the Rana family in Nepal prior to 1951 was the prerogative of the feudal rulers. Only those taxes, which suited the objectives, needs and whims of the ruling Prime Minister, were imposed. No budget was framed during the Rana regime. Taxes were collected at the time of requirement due to lack of Income Tax Act and finance act. The collected taxes were directly deposited into the Prime Minister's Account.

Land tax, custom and excise duties in the form of lump sum contracts, royalties on felling trees, royalty on supply of porters and soldiers, entertainment

taxes were the major source of revenue. There was no direct tax in the country except land tax collected on a contractual basis and "Salami" which the government employees used to pay out of their salaries at a very small percentage.

Rana Prime Minister levied taxes for meeting specific expenditure of the royal household or extraordinary expenditure necessitated by war or other crisis rather than mobilizing revenue in the nation. During Nepal-Tibet war (1855/56), the first Rana Prime Minister Jung Bahadur had imposed a tax on the income of selected groups. Similarly, Bir Shamsher imposed a levy of 1% in the official value of Jagir assignment of government employees in 1891, to finance the transportation of water pipe supply in the capital. Ranoddip Singh imposed a 50% tax in the income made by fishermen in Deukhuri from the sale of fish in 1882.

2.1.6 Income Tax in Modern Nepal

Actually, the modern Income Tax Act was started in the year 1959 in Nepal. After the political revolution in February 1951 (2007 B.S. Falgun), the role of government has increased to developmental as well as philanthropic works. The government of Nepal had presented its first budget in 1952 (2008, Magh 21). The first five-year plan started in 1956. The planned activities of the government needed huge amount of source and means. So, huge revenue was demanded and Nepalese government started to levy tax on income as permanent source. As a result, it issued first finance ordinance in 1959(2016) to impose tax on business profit and remuneration. In 1960(2017) the income tax act named "Business Profit and Remuneration Act, 2017 was made with the provisions of finance ordinance 1959. That was the first Income Tax Act, which had 22 sections. But that act was found narrow and vague. So, it was replaced by the Income Tax Act 1962(2019). That act continued for 12 years and it was also replaced by the Income Tax Act 1974 (2031). That act was amended for eight times. That tax act was replaced by new Income Tax Act, 2002 (2058). This is the fourth income tax act of Nepal.

2.1.7 Gradual Developmental of Income Tax Act and Laws

2.1.7.1 Business Profit and Remuneration Tax Act, 1960 (2017 B.S.)

The finance act 1960, made provisions for the taxation of business profits and remunerations. An ordinance was issued by the king to collect the tax. In 1960, parliament of Nepal, enacted, "Business Profit and Remuneration Tax Act 1960(2017)", which consisted of 22 sections. With the enactment of that act, the salary tax or personnel income tax was levied upon those individuals whose personal income exceeded Rs. 6,000 per year. In the first three years, the exemption was Rs. 7,000. An examination of tax files in the Kathmandu District Office disclosed 577 personal income tax files of individuals who had paid taxes in one or more years.

The following were the salient features of the act.

1. Only remuneration and business profit were subject to tax. Deductions were not specified for the purpose of calculating the income.
2. Tax on remuneration was to be deducted at source.
3. The basis for calculating the tax liability for remuneration was the income of the current year and for the business profit, it was the profit of preceding year.
4. In case of default, fines up to Rs. 5,000 were prescribed.
5. The taxpayer was given the right to appeal against the tax assessment to local "Badahakim". Thereafter appeal could be lodged at revenue court. Every appeal could be accompanied by security deposit for the amount of tax payable.
6. The tax officers were empowered to assess tax on the basis of best judgement estimates.
7. Profits from industries were granted a rebate of 25% and profits from small industries were granted a rebate of 50%.

As high discretionary power in assessment of income tax granted to tax officers, various loopholes, narrow and vague tax base were the major shortcomings of that act which cause the Income Tax Act 1962(2019) came into existence.

2.1.7.2 Income Tax Act, 1962 (2019)

The main purpose of the imposition of this act was not only to raise government revenue but also to reduce inequality of income and wealth distribution with social justice and to create regular tax paying habit of the taxpayer. The Income Tax Act 1962 had 29 sections and it was amended in 1972 (2029 B.S). It had provision of imposition of income tax in agricultural income, but this provision was abolished by the Finance Act, 1966(2023). The additional features of this act was as follows:

1. Income was defined as kinds of income including income derived from business, remuneration, profession and occupation, house and land rent, investment in cash or kinds, agriculture, insurance business, agency and any other sources.
2. The personal as well as residential status of the taxpayer for the tax purposes was defined.
3. The income tax assessment and collection procedure were specified along with the method of computing net income. Certain deductions were allowed to calculate net income.
4. The basis was specified for assessing tax on the best judgment estimate of the tax officer.
5. Provision was made for the installment as well as advance payment of the tax for the first time.
6. Carry forward of loses was allowed for two years.
7. Provision was made for the exemption of income tax for the new industries for a period of not exceeding ten years.
8. The act granted power to constitute net income assessment committee.

The changing socio- economic environment of the nation had forced to change the Income Tax Act. As a result Income Tax Act 1974 (2031) came into existence.

2.1.7.3 Income Tax Act, 1974 (2031)

The Income Tax Act 1974 can be said to be the refined form of Income Tax Act, 1962 (Dhakal, 2057). It had 66 sections. This act has explained various aspects of taxes, containing many provisions for taxation. This act was amended for eight times i.e. 1977(2034); 1979(2036); 1980(2037); 1984(2041); 1985(2042); 1986(2043); 1989(2046); and 1992(2049) to make it more practical and to eliminate confusing terms. Government enacted the income tax rule 1982(2039), in 1982 (2039-1-27) in accordance with the authority given under sections 65 of income tax rule 1982, the Financial Act is also equally applicable for the proper administration of income tax in Nepal. Some of the features are as follows:

1. This act had clearly defined about income tax, taxpayer, year of income, personal status of taxpayer, non- resident taxpayer, net income and so on.
2. Five heads of income sources were specified viz. a) Agriculture, b) Industry, Business, Profession or Vocation, c) Remuneration, d) House and Land Rent and e) Other sources.
3. Method of computing the taxable income from each head had been specified with deductions allowable.
4. The act had made it obligatory for taxpayer to register their industries, business, profession or vocation in the tax office and any changes should be notified.
5. Carry forward of losses is allowed for within subsequent three years.
6. Provision was made for self-assessment of tax for the first time in Nepal.
7. Provision was made relating to deduction for life insurance premium and contribution made for philanthropic purpose.

8. Taxpayer was required to keep accounts and records of the income and to be preserved for six years.
9. Provision was made to make agreement for avoidance of double taxation with foreign government.
10. Provision was made relating to reassessment or additional assessment of tax.

2.1.7.4 Income Tax Act, 2002 (2058)

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation, and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted Income Tax act, 2002 (2058), since First April 2002(19th Chaitra, 2058)

This act was brought in Nepal to avoid the following defects of Income Tax Act 2031 .

- a. Narrow base of tax.
- b. Taxing only the income originated in Nepal.
- c. Dispersion of tax related acts, i.e. income tax related provisions were given in different acts.
- d. Low penalty rate to tax evader.
- e. Incompatible to self-assessment, and
- f. Unsuitable to modern economy.

The main objectives of ITA, 2058 are presented below:

1. To levy tax on all income sources and income earning transactions.
2. To impose uniform tax to all people and all sources.
3. To make income tax revenue more productive and elastic.
4. To develop the tax system by means of extended scope, clear- cut, transparent and simple procedure.
5. To make accountable and improve tax administration.

6. To reduce economic cost neutralizing income tax.
7. To emphasize statement based on accounting system.
8. To make responsible to income taxpayers emphasizing procedure of self- assessment system.

The key features of Income Tax Act, 2058 are:

1. All income tax related matters are confined within the act by abolishing all tax related concessions, rebates and exemption provided by different acts.
2. The act has broadened the tax base. Unlike previous tax act, tax rates are spelled out in the act. The tax rates and concessions are harmonized on equity grounds.
3. The act has introduced a pool system of charging depreciation. Intangible assets are also depreciated.
4. The act has first introduced taxation on capital gains.
5. The act has provided liberal loss set-off and carry forward/backward provisions, interhead adjustments of losses are clearly specified.
6. The act has provided a stringent fine and penalty for the defaulters.
7. The act has introduced a provision for administrative reviews to allow the tax administration to correct mistakes made by tax administrators internally.
8. Global incomes of a resident are made taxable. Non- residents are also taxed on their incomes with source in Nepal.
9. List of expenses is inclusive. All expenses relating to income have been made admissible.
10. The act has made provision of international taxation. Foreign tax credit has been introduced for the first time.
11. The act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.

2.1.8 Corporate Tax and Its Development in Nepal

2.1.8.1 Concept of corporate tax

A corporate body or company is an artificial person created by law. A company is a legal person just as much as individual. It is separate and distinct from its individual members. A company like a natural person can do every thing. It can conduct a lawful business and enter into contacts with others in its own name. A company or corporate body is a legal organization that is voluntarily created, organized or chartered under law. It is ‘an artificial person’ which can own property, execute contracts, raise debts and generate profits. Corporate tax, therefore, is a tax levied on companies or corporate bodies in contrast to unincorporated enterprise. It is the tax on capital income that occurs in the form of profit and originates in the corporate sector i. e. company. The history of tax was started from 1909 in USA when 1% excise was levied in corporation i. e. companies in the ground of the privilege they enjoy. Since then, corporate tax is contributing a substantial amount of revenue to the state treasury of most of the developed and developing countries. The statutory rate percent, however, was very low in initial period increased vehemently later on after First World War and again started to be turned slow since 1980s .

2.1.8.2 Development of Corporate Tax in Nepal

The history of corporate tax is not so long. This tax was introduced only in 1960 with the Business Profit and Remuneration Tax Act, 1960 at the first time. Initially, corporate income tax was not differentiated from personal income tax. All the taxpayer persons, companies and private firms were imposed at the same rate with progressive and exemption limit prescribed by Finance Act of 1960 to 1964. The tax exemption given to companies as similar to personal taxpayer was withdrawn from the financial year 1965/66. A separate tax system to companies was introduced by the Finance Act, 1976.

Nepal originally combined corporate income tax with individual income tax. The same rate structure was designed for corporate income and other income for many years. In 1986/87, a flat rate corporate tax was introduced for government corporations and public limited corporations listed with security exchange center. Corporate tax was extended to private limited companies in 1993/94 and partnership firms in 1995/96

The third Income Tax Act was introduced in 1974 with making new changes and provisions than old one. A separate tax system to companies was introduced by the Finance Act, 1976. Finance Act, 1985 made a provision of giving 5% tax rebate from highest marginal rate of 55% to listed public companies and government enterprises. Fiscal year 1986/87 was the year when the corporate tax was really recognized by imposing a flat rate of 40% tax on taxable income of the listed companies. The same Finance Act imposed tax on dividend also to be deducted at source at the rate of 20% which after the filing of return by shareholders was to be reconciled. But the dividend tax system was changed exempting dividend to a level of 85% in 1987/88 and cent percent in 1990/91. Compulsory self-tax assessment system for public and private limited company was enacted from the financial year 1994/95. This change supported to end the discrimination between private company and public company. Another major change carried out in the fiscal year 1998/99 was the inclusion of dividend of non-industrial companies within the tax net.

After enactment of Income Tax Act 2002, the corporate tax levied upon general industries is 25%, 30% for insurance company and financial institutions. Trading companies are levied tax at the rate of 25%, manufacturing industry at 20% and special sector company at 20%. Export profit which was taxed at a level of 8% or 0.5% of sales as per Finance Act 2057 was changed by the Fiscal Act 2058 has recommended, export profit from industry sector and trading sector are taxed at 20% and 25% respectively.

2.1.8.3 Corporate Tax Base in Nepal

There are controversies as regards to the choosing of corporate tax base since there may be various bases of taxation. For instance, these bases may be income, cash flow, turnover, total assets and added value etc. Among these, base-income and cash flow are mostly considered by the tax expert .

The standard tax base is corporate income, which is the difference between the revenues from the sale of goods and services plus financial income on the one hand, and wages, depreciation, inventory costs plus interest on the other. Such costs are broadly revenue expenses incurred in the ordinary course of conducting day-to-day operation, and amortization of capital costs. Under the income- based tax system, many developing countries provide substantial tax incentives in the form of exemptions and deductions such as accelerated depreciation, investment tax credits or allowances, tax holidays etc.

Tax base may depend on the relation between corporate tax rates and personal tax rates. Different countries of the world have different choice of base for corporate tax. Most of the countries prefer corporate- profits or book profits as the tax base. For, book profit as a tax base is stronger and superior than other types of tax bases. (Khadka, 1994:156)

If income is taken as the base of taxation, it is called income basis or net profit basis. It means deductions of interest on debt and depreciation of fixed asset from gross profit and adjustment of capital gain, stock appreciation or depreciation etc. Since it is calculating tax base is adding up all the incomes of the company and deducting expenses incurred in earning the income. However, because of its cumbersomeness in finding out taxable income, modern tax experts are in favor of replacing it. The main causes of the cumbersomeness are treatment of revenue and expenses on accrual basis, treatment of depreciation under historical cost, measurement of capital gain and effect of inflation either interest or valuation of stock. The cash flow tax, on the other hand, is the alternative considered by economists and tax experts to replace income based taxation.

Like other countries of the world, Nepal is also following the method of making income as base for corporate taxation. The procedure of finding out taxable income is adding up the all items of revenues that are taxable and deducting all expenses, which are allowable.

2.1.9 Concept of Tax Incentives

An income tax is a disincentive to save or invest and therefore, the incentive if to mitigate the disincentive, Tax incentive may imply a partial or complete exemption from one or a variety of taxes and special allowances for a certain period to motivate the behavior of saver or investor (Agrawal, 1978: 93). The main aim of tax incentive is to increase savings and encourage and canalize the investment to desired area or sector. It is supposed that they encourage investment in selected manufacturing activities or improvement of product quality or utilization of domestic resource in manufacturing.

Tax incentives are concession facilities and rebates granted to corporate bodies. These incentives reduce the tax burden of an organization. It may imply a partial or full exemption from one or a variety of taxes and special allowances for a certain period for motivation the new as well as existing organizations for balanced regional development, production of primary goods and development of the corporate bodies. It increases the habit of saving and encourages the investment by means of equity shares purchasing of an organization. Thus tax incentives are a phenomenon developed specially to accelerate the slow rate of investment in most of the developing countries.

2.1.9.1 Present Provisions Related to Tax Incentives in Nepal

Previously, tax exemption facilities were provided by different acts, in Nepal. More than 18 acts were responsible to provide such facilities, the Industrial Enterprise Acts was the main. Industrial Enterprises Act of 2018, 2031,

2038 and 2049 provided such facilities. The major facilities of such type were up to 18 years tax holiday to industry; no double taxation on dividend; fixation of tax rate to industry at 20% etc. The other facilities except those were complete exemption of income tax, sales tax and excise to cottage industries, extra depreciation facility of 33.33% of ordinary rate to special industry, deduction facility of 5% of net income as donation and 5% and 10% of gross income for promotion and development of technology respectively; tax rebate of 10% to industry employing 100% of Nepalese labour and more than 80% of Nepalese raw materials. Besides stated above, the other facilities were investment allowance of 40% of capacity is increased by more than 25%, facility or allowing 50% of the pollution control expenditure facility of capitalizing the manpower development expenditure, facility of deducting the expenses incurred for employee or labour residence, life insurance, health, education, training, partial tax holiday to priority industry, tax rebate to the industries in remote areas, no double taxation on raw materials use by the industries etc. As already stated, tax incentives were not the function of Income Tax Act and Industrial Enterprise Act only at that time. Electricity Act, Petroleum Act, Foreign Investment and Technology Transfer Act also provided different types of tax facilities to concerned industries. Facilities provided by these acts were full exemption of income tax to electricity producer of up to 1000 k.w., tax holiday of up to 15 years to electricity related works: only 18% tax rate applicable to electricity related industry; only 10% tax rate to petroleum industry and so forth .

The Income Tax Act, 2058 has also provided various types of tax incentives such as tax credit, accelerated depreciation, and loss set off and carry forward of losses. An individual may claim medical tax credit (sec. 51) for tax offset of medical expenses incurred for tax offset of medical expenses incurred for him self. Claim to be adjusted in year will be 15% of eligible medical expenses plus any amount carried forward in respect there from the previous year. Maximum amount that can be claimed in an income year will not exceed Rs. 750 as per rule 17. Likewise a resident person may claim a foreign tax credit as per section 71 for an income year for any foreign income tax paid by the

person to the extent to which it is paid with respect to the person's assessable foreign income for the year.

Business loss can be carried forward to 4 years as per sec. 20. In the case of Banking and General insurance, sec 59(2) and sec. 60(2), business loss can be carried back to 5 years. In the case of long term contract, loss can be carried forward as per the notice of Internal Revenue Department sec. 20(4). Similarly, loss of BOT/BOOT can be carried forward up to seven years. Depreciation can be charged only on pool of assets as per sec. 19(2). Accelerated rate of depreciation is available only to manufacturing industry as per sec.3 of Industrial Enterprise Act 1992 and other specific sections 19(2).

2.2 Review of Related Materials

2.2.1 Review of Thesis

A study done by **Mr. Shah**, (1995) had conducted a research on the topic, *Contribution of Income Tax in National Revenue of Nepal*. The problems were the increasing resource gap and how income tax can be the means for resource mobilization. The main objective of this research were; to show the contribution of income tax in government revenue, to show the resource gap in Nepalese finance, to highlight the importance of income tax as a source to avoid financial deficit, to find out the rate and per capital burden of income tax and trend and structure of income tax in Nepal.

His research design was historical and descriptive. He had used only secondary data of 21 years from 1974/75 to 1994/95. Data collection and analysis procedures were; consulting the required governmental and non- governmental offices, and simple arithmetic rule chart and diagrams were applied to analyze data. From that research he had found out and concluded that income tax can be the vital source for internal resource mobilization to fulfill resource gap. Only 0.35% of total population came under the categories of taxpayers in Nepal during his research period. He found that collection of income tax was gradually

growing and the contribution of income tax in total tax revenue and total national revenue were 9.95% and 7.94% respectively. Similarly, he also concluded that individual tax payer had higher contribution in income tax than salaried taxpayer.

A study done by **Mr. Tripathee** (1995) had presented a thesis entitle, *Income Tax System in Nepal and Some Potential Areas for Reform*". Deficit annual budget and deficit financing of the nation were his main concern of the study where he had tried to show the tax structure in Nepal, role of income tax in Nepalese economy, income tax administration and tax evasion in Nepal along with reforms.

Mr. Tripathee had conducted his research using the 15 years data since 1974/75 to 1989/90. Primary data were also used which were collected through opinion survey within Kathmandu valley. Simple statistical tool such as mean and time series were used to analyze the data Graphs, charts and diagrams were also used as necessary.

From that research, he had concluded that income tax from individual sector had provided maximum contribution in income tax structure and about 80% of total revenue was collected through taxation. Tax evasion had increased due to poor tax administration and delay in tax assessment process. Lastly, he had recommended levying tax on agriculture income, tax holiday should be given to the firms and administration should be sound and efficient.

Mr. Shakya. (1995) had presented his thesis entitled, *"Income Tax in Tax Structure of Nepal"* and had tried to give origin and meaning of income tax with its historical review, structure of government revenue in Nepal, importance of income tax, contribution of income tax to total tax revenue and total revenue.

In his study, he stated that the structure of the government revenue in Nepal is a composition of the tax revenue and non- tax revenue. The tax revenue is the

most important sources of government revenue that occupies 80% share in the total government revenue in the year 1993/94. The ratios of income tax to GDP, total revenue, total tax revenue and direct tax revenue had an increasing trend. But the increasing rate was low in comparison to other countries. He further added that the change in tax rate and exemption limit had made the assessment of income tax more complicated, which had given plenty of opportunities to evade income tax, which exist as a major problem.

Lastly, he had recommended many suggestions for the sound and effective income tax such as honest and effective tax administration scientific method in tax collection and encouragement of self- assessment of tax.

A study done by **Mr. Poudyal 'Kshetry'** (1998) had submitted a Ph. D. thesis entitled, "*Corporate Tax Planning in Nepal*". This thesis report was aimed to examine the implications of tax factors in strategic planning, project planning and operational planning in Nepalese companies. He had found that the majority (90%) of the companies (sample size of the study) considered tax factors while selecting the lint of business. He also found the positive correlation (+0.8) between tax rate and the debt equity ratio because of interest paid on debt is a tax-deductible item. Similarly, the correlation coefficient between average fixed assets and corporate tax was (0.75) in large companies and (+0.12) in medium size companies. As against this, in large companies, there was a negative correlation (-0.2), which showed that increase in fixed assets in large companies resulted in decrease in the corporate tax. He addressed that the tax planning should be considered while making corporate planning and so companies should set up separate tax section to get maximum benefit of provisions, provided by tax law. However, tax assessment under the best judgment blocked the application of tax planning in corporate planning. He had recommended that tax incentives should be given to non- industrial companies too, and tax rate should be differentiated for resident and non-resident companies.

Mr. Kandel (2000) also presented the Ph. D. thesis entitled, "*Corporate Tax system and Investment Behaviour in Nepal*" in 2000. He undertook the research work to find out the problems relating to corporate tax, which blocks the development of the private investments. The main objectives of his study were to evaluate the corporate tax system in general, to examine the sensitivity of certain policy like inflation, capital gain tax, dividend tax and interest tax etc. based on their impact on tax burden. He showed the relationship of private investments with average effective tax rate, marginal effective tax rate and tax incentives in Nepal. He found that it's for debt-financed project are almost negative i.e.-17% and positive for equity financed project and debt-equity project by 27% and 19% respectively. He had also found the impact of inflation to the METR. According to him, the statutory tax rate deduction had impact on private investments by 60% to 20%. In his regard, he had showed the adjusted value 0.87 at 5% level of significance. He had concluded that the statutory tax rate was in moderate level under the financing options: debt: mix and equity i. e. it was not much destructive. The relationship between inflation rate and effective tax burden in Nepal was negative.

Mr. Lamsal (2001) also presented a thesis entitled, *A study on Contribution of Income tax on Government Revenue*. His research had mainly focused on the removing and controlling income tax evasion for better resource mobilization. As his main objective was to analyze the impact of income tax evasion in government revenue of Nepal, he set further objectives which were to identify the ways and causes of income tax evasion, to estimate the volume and tendency of income tax evasion in small trade sectors and to examine the role of income tax in utilizing the resources in Nepal.

Mr. Lamsal had conducted that research following analytical as well as descriptive research design. Most of the data were from secondary sources and some were from primary sources. Primary data were collected through opinion survey, field visit and interviews. Simple statistical analysis such as average and percentage were used as for data analyzing, tools; Graphs, charts and tables were used to interpret visually the finding of the research.

From that research he had concluded that there was widespread evasion of income tax in Nepal and income tax is a suitable means for raising domestic resources. He had recommended for controlling tax evasion by controlling illegal business activities, increasing penalties and fines to tax evaders, compulsory maintenance of accounts etc.

2.2.2 Review of Books

Dr. Khadka (1994) had written a book entitled, *Nepalese Taxation: A Path for Reform*. The book dealt with both national and international taxes. The writer had detailed describe the scenario of Nepalese tax system from origin of income tax, adoption of quasi-global or a limited scheduler system, segregation of corporate income tax from individual income tax, increasing dependence on the presumptive basis, basic allowance and progressive rate structure, move from joint taxation to individual taxation and shift from itemized to flat system of standard expenses, experiment with an advance tax on impacts and the existing structure, commodity taxes and poverty taxes. He had evaluated the Nepalese tax system base on conventional, theoretical concepts and suggested various measures for its improvement. The book had not been directly focused on corporate tax only but explains the whole Nepalese taxation system and structure for its reform.

Mr. Mallik, (2003) had written a book entitled, "*Nepalko Adhunik Aayakar Pranali*". This book especially deals with the thorough analysis of income tax act, 2058 with example. Every section of income tax act has been clarified with suitable examples. He had written about the development of existing income tax and need and importance of income tax system in Nepal. The new provision made by income tax, 2058 about tax base, computation of income ,tax exempt amount, deduction allowable, accounting of tax , capital gain, retirement saving and tax, dividend tax, capital gain and international taxation tax

auditing have been clarified precisely in his book. Similarly, the book had also explained about tax administration, documentation, information collection payment of tax, installment tax, income statements, tax-assessment, tax collection, review and appeal, fees and interest, fine and penalties, tax rates and determination of provision of depreciation etc.

Aryal & Paudel (2004) had written a book entitled, "*Taxation in Nepal*". They had explained about the income tax system in Nepal along with house and land tax and value added tax. The book has been designed based on the curriculum of B.B.S. It had been divided into three parts. In the first part of the book introduction and development of income tax, capital and revenue nature expenses and income items, entity and retirement saving, dividend tax, computation of income from business, remuneration and investment have been explained with numerical and theoretical examples. House and land tax and value added tax have been explained in the second and third part respectively, the book also included proper bibliography and adequate appendix where various income tax, house and land rent and vat related forms, schedules and format had been described.

Lastly, he had recommended to mobilize additional domestic resources through taxation, tax structure should be redesigned in order to increase the role of direct tax; income tax should be reformed in Nepal etc.

A senior researcher in the field of Nepalese taxation, **Dr. Agrawal (1978)** had conducted a research entitled, "*Resource Mobilization for Development: The Reform of Income Tax in Nepal*" published by CEDA in July, 1978. The main objective of his study were to examine the problem of growing resource gap in Nepalese finance in the context of the role of income tax, to examine the buoyancy and elasticity of income tax in Nepal including projection if income tax, to examine the ways and means for increasing tax consciousness in Nepalese people etc.

Dr. Agrawal (1980) had written a book entitled, "*Resource Mobilization in Nepal*" published by CEDA. The book had been divided into eight chapters; the first chapter deals with special reference to Nepal. The second chapter deals with fiscal policies in developing nation and Nepal and third chapter looks at income tax in Nepal from the historical perspective, the fourth chapter deals with structure of Nepalese taxation.

In the fourth chapter related to tax structure, the writer had concluded that taxation trend in Nepal have shown that role of indirect taxes have been predominant in the tax structure. More than 60% of tax revenue was derived from foreign trade alone. However, since 1974/75 the role of income tax had been increasing.

Dr. Agrawal had made an empirical study taking tax policy makers, tax experts, tax administration, tax lawyers and accountants and taxpayers of different parts of Nepal. From that study he had concluded that Nepalese taxpayers were favorably disposed to income tax. However, the major constraints in the effective functioning of tax system seem to be administrative deficiencies, poor tax paying habits, lack of taxpayer's education, complex procedures and defective tax information system.

2.2.3 Review of Research Reports and Articles

Mr. Pant had written an article entitled, "Problems in Tax Administration and their Remedies" published in Journal of finance and development 'Rajaswa' 2004, April vol. 1. He had comprehensively explained about the problems and their remedies related with tax revenue. The major types of practical problems and challenges, in tax administration. He had mentioned in his article were showing limited amount of transaction showing low selling price, lack of issuing and taking bills, lack of showing the real factory cost, commercial fraud, lack of co-operation in tax auditing, legal ambiguity and complexity in implementation and lack of coordination between Inland Revenue Department

and Revenue Investigation Unit. Meanwhile, he had recommended some valuable suggestions to solve the problems and to overcome the challenges. They were: statistical and information system should be properly managed, fixed norms and standards should be used to assess selling price and factory cost, the billing system should be made compulsory, coordination between Inland Revenue Office with various entities of Government, Revenue Investigation Department and its related units should play the important role.

Dr. Kandel had written an article entitled, "Are Tax Incentives Useful ? If so, which one?" published in Journal of Finance and Development, 'Rajaswa', Volume1 2004, April. In that article he had tried to seek the answer from the survey of various empirical studies earlier done in Nepal, India, Pakistan and other western countries. He found that the tax incentives are still the controversial matter whether they promote the investments or not. But he argued that most of the developing countries need tax incentives.

As per the empirical studies done in various countries the conclusion that among different types of tax incentives, investment allowance or investment tax credit and accelerated depreciation are superior to other types of tax incentives. Tax holiday is the most inferior type of tax incentive, which causes revenue loss without enhancing the investment environment. Meanwhile, most of the researchers have opposed the tax holiday system both within Nepal and outside Nepal.

He further added that the survey of the studies indicate that accelerated depreciation system had positive impact on investment. The work of reducing tax rate, especially, followed after 1990s to such lowest rate was not a proper decision. That is why, if Nepal wants to go to tax incentives again, she should adopt investment allowance or investment tax credit, not the full tax holiday in future.

United Nation published a journal on public finance entitled, "Guidelines for improving tax administration in developing countries" in 1977. The study was divided into four separate parts. Among them reforming the structural

organization of the tax administration and explained in two separate sub topics i.e. guidelines for appropriate initiatives and underlying consideration and explanatory commentary. Functions of tax administration are identification and registration of taxpayer's education, information provider and assistance etc. The study had explained these two functions and the study had recommended some valuable suggestions to the developing countries.

2.3 Research Gap

All the research studies mentioned above are concerned with study of laws, provisions, administrative aspects and structure of tax. Most of them have indicated the inefficiency of tax administration, widespread tax evasion. No attention is paid on a particular problem. Many of them have taken various problems as their research objectives and no thoroughly study on a particular subject problems is done except few of the research work.

Nepalese corporate sector is small and stagnant in nature and the performance of public sector, private and government sector is poor. Contribution of income tax from corporate sector plays vital role in Nepalese economy. Regarding the fact that the considerable contribution of corporate sector in the economy of other developing countries, I found no more study done in the contribution of corporate income tax to government revenue of Nepal. So, this study has been undertaken analytically and intensively to analyze the structural composition of income tax, to find about the condition of problem in income tax collection and to analyze corporate income tax contribution to government revenue and fulfilling the resource gap from an internal source.

CHAPTER-3

RESEARCH METHODOLOGY

This chapter is concerned to a detailed discussion of the methodology used in this study by covering the procedure of getting research problems answers as per the objectives. There are six parts as research design, population and sampling, sources of data, procedure of data collection.

3.1 Research Design

The research topic entitled “A Study on Income Tax Structure of Nepal,” is abstracted from the socio- economic environment of Nepal. As the income tax system and structure is based on various rules, regulations and acts, which are always setting on different countries, own socio- economic infrastructure, descriptive research design is more suitable to analyze Nepalese corporate tax structure. For contribution of corporate income tax, the study needs to analyze its past performance in different time period with respective indicators. So, I have been used to longitudinal as well as descriptive research design.

3.2 Population and Sampling

The targeted whole area relating to government revenue or national revenue is set for the research population. Income tax, especially, corporate income tax is taken as size.

3.3 Sources of Data

According to the nature of study, the study requires primary as well as secondary data.

3.3.1 Primary Data were collected through a schedule of self- structured questionnaires, informal dialogues, discussions and interviews with concerned persons. Separate sets of questionnaires were used to have options/information from two-sample population.

3.3.2 Secondary Data were annual report of IRD/N of different years, economic survey of various years, published by MOF, Nepal Rastra Bank's Economic bulletin of various time and Central Bureau of Statistics etc.

3.4 Data and Information Collection Procedure

Various numerical data and information are collected as per the objective of the study and research questions. Firstly, laws, rules, regulations and policies related to income tax and corporate tax are studied to get more information about corporate income tax including book related to public finance. Secondly, different libraries such as Chamber of Commerce, FNCCI, NRB are also consulted. Thirdly, the numerical data are collected from the publication of annual reports of IRD/N, economic bulletin of NRB, economic survey of MOF, publication of security board, CBS, publication of CEDA/TU, budget speeches etc. Lastly, various journals, national newspapers are also reviewed. Respective parties are consulted while analyzing the research questions.

3.5 Data Analysis Procedure

The collected data are classified, tabulated and analyzed in descriptive and analytical way as per the subject matter. Likewise, the required accounting principle, mathematical approaches and legal provisions of ITA, 2058 are taken into consideration in data analysis procedure.

3.6 Presentation and Analytical Tools

Various tools are applied while conducting this study, which is table, percentage, correlation and time series analysis.

- a. Table: Various tables are formulated to tabulate the data.
- b. Charts and diagrams: These tools are used for visually description of the data, trend line, bar diagrams and pie charts are used for this purpose.

Correlation: correlation may be defined, as the degree of linear relationship between two or more variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. Correlation analysis is defined as the statistical technique, which measures the variables, which lie between ± 1 . If the value of correlation (r) is nearer to $+1$, this relationship is said to be perfectly positively correlated and vice-versa.

- c. Analysis of time series: A series formed from a set of statistical data arranged in accordance with their time of occurrence is said to be a time series. A time series shows the relation between two variables one being the time. The size of the population in every decade, the price level of the different in every month the volume of population in every year indicate the relation between the time changes and the changes in the value of other variable. Time series analysis is mostly used in Business and economics, by which we can predict the value of variable for the future. Mathematically, a time series is defined as the functional relationship $Y = f\{t\}$, where y is the value of the variable consideration in time. The time 'T' may be yearly, quarterly, monthly, weekly etc. There is various method of analyzing time series, least square method is chosen as the best method in showing trend and prediction in our research. A widely and most commonly used method to describe the trend line and prediction is method of least square. Under this method, a trend line is fitted to data satisfying $\Sigma(Y - Y_1) = 0$, and $\Sigma(Y - Y_1)^2$ is least from that the line obtained by this method is the line of best fit.

Where y is the actual value and Y_1 is the computed value of Y .

CHAPTER - 4

PRESENTATION AND ANALYSIS OF DATA

4.1 Presentation and Analysis of Data on the basis of Secondary Source

4.1.1 Contribution of Direct and Indirect Tax on Total Tax Revenue

Direct and Indirect tax is directly affected to the total revenue of the country. The contribution of indirect tax is greater than direct tax that is shown in below.

Table No. 1

Contribution of Direct Tax and Indirect Tax on Total Tax Revenue

(Rs. In Million)

Fiscal Year	Total Tax Revenue	Direct Tax Revenue	% of DTR on TTR	Indirect Tax Revenue	% of Ind.TR on TTR
2000/01	28,752.7	7,296.5	25.38	21,456.20	74.62
2001/02	33,152.3	8,555.1	25.81	24,597.20	74.19
2002/03	38,865.1	9,729.8	25.03	29,135.30	74.97
2003/04	39,330.5	10,037.8	25.52	29,292.70	74.48
2004/05	32,586.9	9,380.4	28.79	23,206.50	71.21
2005/06	48,173.0	10,943.4	22.72	37,229.60	77.28
2006/07	54,104.7	11,958.6	22.10	42,146.10	77.90
2007/08	57,430.4	12,554.8	21.86	44,875.60	78.14
2008/09	71,127.0	17,287.5	24.31	53,839.60	75.70

Sources: Economic Survey of different years

From the above table, we find that there has been simultaneous increase in direct tax, indirect tax and total tax revenue in absolute terms. In 2000/01, these amounts were Rs. 7296.5 million, Rs. 21456.2 million and Rs. 28,752.7 million

respectively and during the period of nine years these amounts became Rs. 17,287.5 million, Rs. 53,839.6 million and Rs. 71127 million respectively.

Despite of absolute increment of direct tax, its contribution to total tax revenue in FY2000/01 was 25.38% amounting to Rs 7296.50 million, which increased up to 28.79% amounting Rs 9380.4 million in the FY 2004/05. But the direct tax contribution percentage to total tax revenue was decreased down to 21.86% amounting Rs. 12,554.8 million in FY 2007/08 and it slightly increased up to 24.31% amounting Rs. 17,287.5 million in the FY 2008/09. The contribution of indirect tax in FY 2000/01 was 74.62% amounting Rs. 21,456.20 million and decreased down to 71.21% amounting Rs.23206.5 million in FY 2004/05. After then it was increased to 78.14% amounting Rs 44,875.60 million in FY 2007/08 and it was 75.70% amounting to Rs 53,839.60 million in FY 2008/09.

Comparing direct and indirect tax, it reveals that the heavy reliance of economy is on indirect taxation. An indirect tax is considered regressive in nature; the tax structure of Nepal is not justifiable in equity ground and progressiveness. So, to direct the economy in the channel of development, it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax. Therefore the attention should be paid on the sufficient resource mobilization through internal sources.

4.1.2 Composition of Indirect Tax

Nepalese tax structure is heavily dependent on indirect taxes, which constituted 75.70% of total tax revenue in 2008/09. Nepalese tax revenue is dependent mainly on international trade and sales tax/VAT on goods and services supplemented by taxes on income and property to some extent.

The major components of indirect tax in Nepalese tax structure constitutes custom duty, excise duty, sales tax/VAT, vehicle tax and other taxes. Table shows the composition of indirect tax given as follows:

Table NO. 2

Component of Indirect Tax and their percentage

(Rs. In Million)

Fiscal Year	Indirect Tax Revenue	% age	Custom duties	% age	Excise duties	% age	Sales Tax/VAT	% age	Vehicle tax	% age	Other Tax	% age
2000/01	21,456.2	100	9517.7	44.36	2953.2	13.76	8765.9	40.85	219.4	1.02	0	-
2001/02	24,597.2	100	10813.3	43.96	3127.7	12.72	10259.7	41.71	396.5	1.61	0	-
2002/03	29,135.3	100	12552.1	43.08	3771.2	12.94	12382.4	42.50	429.6	1.47	0	-
2003/04	29,292.7	100	12658.7	43.21	3807	13.00	12267.3	41.88	559.7	1.91	0	-
2004/05	33,206.5	100	14236.4	42.87	4785.1	14.41	13459.7	40.53	559.5	1.68	165.8	0.50
2005/06	37,229.6	100	15554.8	41.78	6226.7	16.73	14478.9	38.89	700.6	1.88	268.6	0.72
2006/07	42,146.1	100	15701.6	37.26	6445.9	15.29	18885.4	44.81	806.5	1.91	306.7	0.73
2007/08	44,875.6	100	15344.0	34.19	6507.6	14.50	21610.7	48.16	847.6	1.89	565.7	1.26
2008/09	53,839.6	100	16708.00	31.03	9343.20	17.35	26095.60	48.47	995	1.85	697.8	1.30

Source: Economic Survey of different years

Note:

1. Custom duties includes imports + exports + Indian excise refund + others
2. Excise includes industrial production + Liquor contract
3. Sales tax/VAT includes entertainment tax + hotel tax + air flight tax + contract tax

Table reflects that the custom duty and VAT occupies major portion in indirect tax. In FY 2000/01 the contribution of custom duty was 44.36%, which fluctuated between 43% to 31%. And it was 31.03% in the FY 2008/09. The sales tax/VAT has become an important source of overall tax revenue which contributed 48.47% to indirect tax in FY 2008/09 as compared with 40.85% in FY 2000/01. The share of excise duty was 13.76% in 2000/01 and fluctuated between 12% 17%. In the FY 2008/09 its contribution on indirect tax was 17.35%.

4.1.3 Composition of Direct Tax

The major components of direct tax are income tax, land, house & land registration tax and urban house and land rent tax. The share of major components of direct tax is given in the following table.

Table No. 3

Component of Direct Tax and their percent on Direct Tax

(Rs. In Million)

Fiscal Year	Direct Tax Revenue	% age	Income Tax	% age	Land, H & land Regd	% age	Urban House & land rent	% age	Interest tax	% age
2000/01	7,296.6	100	5850.7	80.18	1003.1	13.75	123.3	1.69	319.5	4.38
2001/02	8,555.1	100	7006.2	81.90	1015.9	11.87	118.5	1.39	414.5	4.85
2002/03	9,729.8	100	8650.1	88.90	612.9	6.30	2.9	0.03	463.9	4.77
2003/04	10,037.8	100	8436.0	84.04	1131.8	11.28	2.3	0.02	467.7	4.66
2004/05	9,380.4	100	7102.1	75.71	1414.3	15.08	0	-	864	9.21
2005/06	10,943.4	100	8512.5	77.79	1697.5	15.51	0	-	733.4	6.70
2006/07	11,958.6	100	9402.4	78.62	1799.2	15.05	0	-	757	6.33
2007/08	12,554.8	100	9598.8	76.46	2181.1	17.37	0	-	774.9	6.17
2008/09	17,287.5	100	13979.10	80.86	2253.50	13.04	0.00	-	1054.9	6.10

Source: Economic Surveys of Different Years

Table shows that the contribution of income tax to direct was higher than other taxes and it occupied the largest share in the direct tax. The percent share of income tax to direct tax in FY 2000/01 was 80.18% amounting Rs. 5850.7 million, which gradually increased unto 84.04 percent amounting Rs. 8436 million in FY 2003/04. And in FY 2008/09 its contribution on direct tax is 80.86% amounting Rs. 13979.10 million. Land; and house and land registration tax has contributed 13.75% amounting Rs. 1003.1 million in the FY 2000/01, which has decreased to 6.30 % in FY 2002/03 and again increased to 17.37% in FY 2007/08. In FY 2008/09, its contribution on direct tax was 13.04%.

4.1.4 Contribution of Direct tax on GDP, Total Revenue and Total tax Revenue

The contribution of direct tax as percent of GDP, total revenue and total tax revenue is shown below.

Table No. 4

Contribution of Direct Tax on GDP, Total Revenue and Total Tax Revenue

(Rs. In Million)

Fiscal Year	GDP	Total Revenue	Total Tax Revenue	Direct Tax Revenue	%DTR on GDP	% DTR on TR	% DTR on TTR
2000/01	349,018.0	37,251.0	28,752.9	7,296.6	2.09	19.59	25.38
2001/02	386,251.0	42,893.8	33,152.2	8,555.1	2.21	19.94	25.81
2002/03	413,428.7	48,893.6	38,865.0	9,729.8	2.35	19.90	25.03
2003/04	430,396.6	50,445.6	39,330.6	10,037.8	2.33	19.90	25.52
2004/05	460,325.3	56,229.8	42,586.9	9,380.4	2.04	16.68	22.03
2005/06	500,699.1	62,331.1	48,173.2	10,943.4	2.19	17.56	22.72
2006/07	548,484.7	70,122.7	54,104.7	11,958.6	2.18	17.05	22.10
2007/08	611,088.5	72,282.3	57,430.4	12,554.8	2.05	17.37	21.86
2008/09	675,484.0	87,717.0	71,127.0	17,287.5	2.56	19.71	24.31

Source: Economic Surveys of different years

From the above table it is seen that the contribution of direct tax on total tax revenue was 25.38% in FY 2000/01, which decreased up to 22.10% in the FY 2006/07. But after that it was increased to 24.31% in the FY 2008/09. The share of direct tax to GDP seems to be very low. It was 2.09% in the FY 2000/01, which grew up to 2.56% in the FY 2008/09. In the other hand, the share of direct tax on total revenue was fluctuated between 19.9 % to 16.68% during the study period. It's contribution was 19.59% in FY 2000/01 and in FY 2008/09 it was 19.71%.

4.1.5 Contribution of Income Tax in Nepal

Nepal has late started practicing of income tax. The idea of introducing income tax in Nepal was originated along with the first budget on 1951. Finally in 1959, Business Profit and Remuneration Tax Act. 1960 was introduced. At that time income tax was levied only on business profits and salaries. After about three years of experience of income tax, the government replaced the prevailing tax and by Income Tax Act, 1962. In 1974, Income Tax Act 1974 (2031) was enacted. However, this act is replaced by Income Tax Act 2002 (2058). The contribution of income on various revenues is given in the following table.

Table No. 5

Contribution of Income Tax on GDP, Total Revenue, Total Tax Revenue and Direct Tax Revenue

(Rs. In Million)

Fiscal Year	GDP	Total Revenue	Total Tax Revenue	Direct Tax Revenue	Income Tax	% IT on GDP	% IT on TR	% IT on TTR	% IT on DTR
2000/01	349,018.0	37,251.0	28,752.9	7,296.6	5850.7	1.68	15.71	20.35	80.18
2001/02	386,251.0	42,893.8	33,152.2	8,555.1	7006.2	1.81	16.33	21.13	81.90
2002/03	413,428.7	48,893.6	38,865.0	9,729.8	8650.1	2.09	17.69	22.26	88.90
2003/04	430,396.6	50,445.6	39,330.6	10,037.8	8436.0	1.96	16.72	21.45	84.04
2004/05	460,325.3	56,229.8	42,586.9	9,380.4	7102.1	1.54	12.63	16.68	75.71
2005/06	500,699.1	62,331.1	48,173.2	10,943.4	8512.5	1.70	13.66	17.67	77.79
2006/07	548,484.7	70,122.7	54,104.7	11,958.6	9402.4	1.71	13.41	17.38	78.62
2007/08	611,088.5	72,282.3	57,430.4	12,554.8	9598.8	1.57	13.28	16.71	76.46
2008/09	675,484.0	87,717.0	71,127.0	17,287.5	13979.1	2.07	15.94	19.65	80.86

Source: Economic Surveys of different years

Above table reflects the contribution of Income tax on GDP, total tax revenue and direct tax revenue. Total income tax was Rs. 5850.7 million in the FY 2000/01. During the study period its is in increasing order and in FY 2008/09 it came to Rs. 13979.1 which was 2.07% of GDP, 15.94% of total revenue, 19.65% of total tax revenue, and 80.86% of direct tax revenue.

4.1.6 Structure of Income Tax in Nepal

Income tax revenue was divided into corporate tax and remuneration tax. Corporate tax is collected from government, public and private limited

companies, partnership firms and private firms. The structural composition of income tax is presented below.

Table No. 6

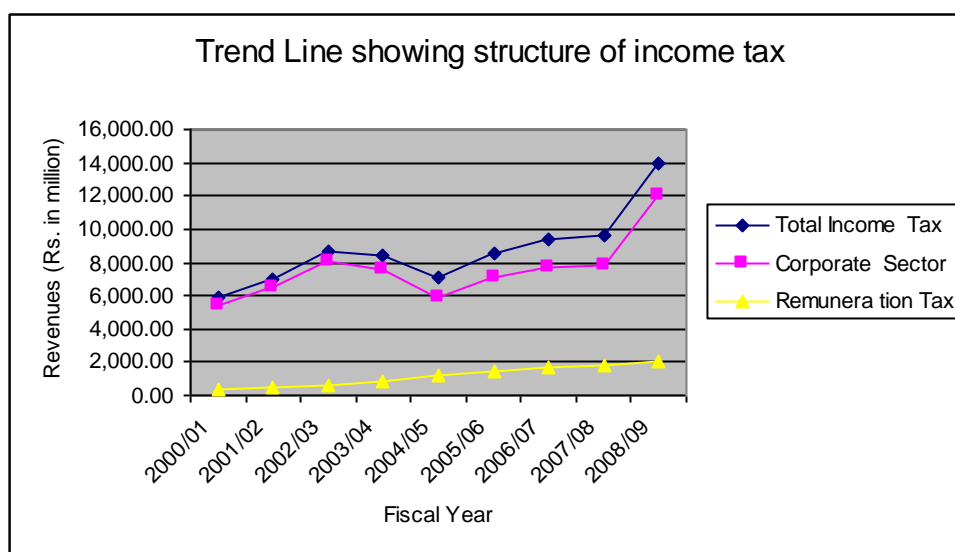
Composition of Income Tax

(Rs. In Million)

Fiscal Year	Total Income Tax	% age	Corporate Sector	% age	Remuneration Tax	% age
2000/01	5,850.7	100	5,454.2	93.22	396.5	6.78
2001/02	7,006.2	100	6,554.7	93.56	451.5	6.44
2002/03	8,650.1	100	8,052.8	93.09	597.3	6.91
2003/04	8,436.0	100	7,600.4	90.09	835.6	9.91
2004/05	7,102.1	100	5,849.5	82.36	1252.6	17.64
2005/06	8,512.5	100	7,121.3	83.66	1391.2	16.34
2006/07	9,402.4	100	7,726.5	82.18	1675.9	17.82
2007/08	9,598.8	100	7,834.7	81.62	1764.1	18.38
2008/09	13,979.1	100	11,971.2	85.64	2007.9	14.36

Source: Economic surveys of different years

Graph No. 1



The table shows that the share of income tax from corporate sector is very high in comparison of remuneration tax. Remuneration tax is in increasing trend whereas corporate sector income tax is following the trend of total income tax since it is the major part of income tax structure. About 90% portion of income tax is from corporate sector and remaining 10% only from remuneration tax. Corporate sector consists of government sector, public sector and private sector organizations.

4.1.7 Resource Mobilization and Problems of Resource Gap

The resource mobilization is the main challenge in the economic development of the country. The internal resource plays vital role in economic development of the country. Government collects the resources from different ways. The tax structure is major source of revenue for the government. Government has imposed two types of tax like direct and indirect tax. In the present tax structure, the government revenue comes more from indirect taxes rather than direct tax. Tax policy has to be made a part of the instrument of the development goals.

The resource mobilization has been a major problem in financing of growing government expenses. Since the beginning of planned development of Nepal, there has been tremendous increment in the size of government expenditure. The development works have to be carried out by the government in the initial stage. An increase in government expenditure creates additional demand in the economy through multiplier effects and thereby induces rise in aggregate output. The government resources have been concentrated more on expanding economic overhead in the form of transport, power and communication which will stimulate agriculture, industry and transport in the private sectors.

The government expenditure is the main source of gross national investment and capital formation. Many studies have been attempted to examine the problem of resource gap and prospect of internal resource gap. Domestic resource gap is the amount of excluding net foreign grants and loans. But the

overall resource gap includes the contributions made by foreign grants and loans in financing public expenditure.

The problem of resource gap has increased from one year to another which has been recovered through massive inflow of external capital. Regular expenditure is fulfilled by internal resources whereas development expenditure is mostly depending in external resources. The dependence on foreign aid and deficit finance has not shown any declining trend. If the resource gap is minimized through the over dependence of foreign loans, it can further create the resource problem in the near future.

The problem of resource mobilization and resource gap is related to the saving and investment. The level of income and the rate of interest influence the saving structure. The low rate of saving is prevailing in the country as a result of low level of income of the people. The low level of income creates the problem of resource mobilization for undertaking investment programmer in a large scale by both government and private sector.

Table No. 7
Domestic Resource Gap Pattern of Nepal

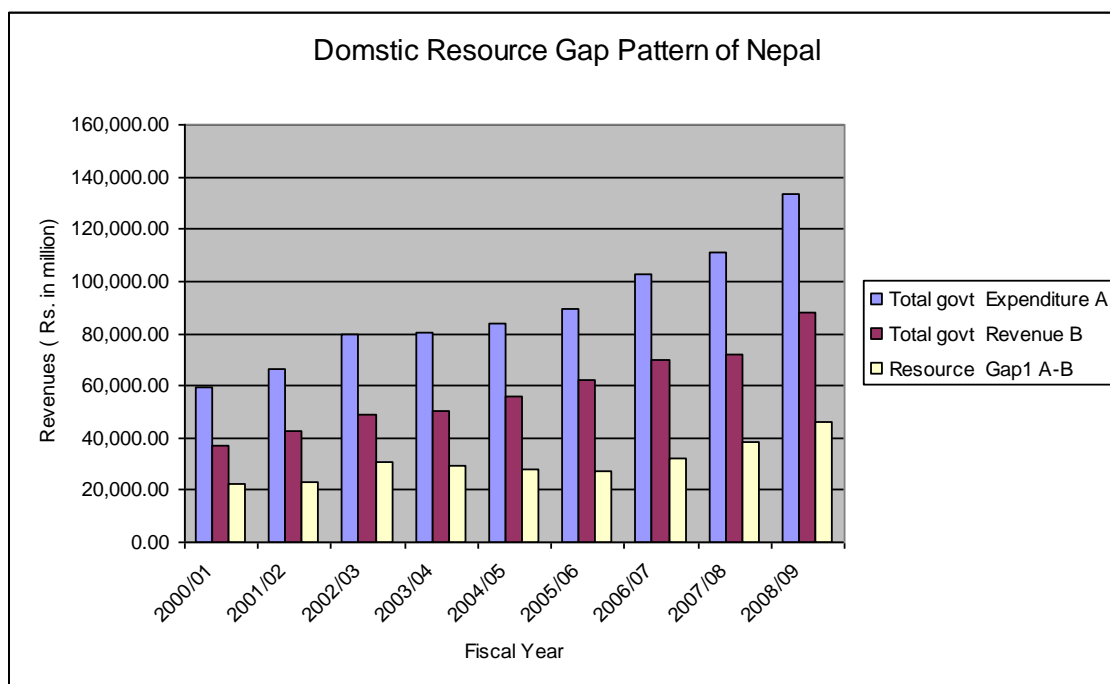
(Rs. In Million)

Fiscal Year	Total govt Expenditure	Total govt Revenue	Resource Gap1	% of Resource Gap to total expenditure
	A	B	A-B	
2000/01	59,579.0	37,251.0	22,328.00	37.5
2001/02	66,272.5	42,893.8	23,378.70	35.3
2002/03	79,835.1	48,893.6	30,941.50	38.8
2003/04	80,072.2	50,445.5	29,626.70	37.0
2004/05	84,006.1	56,229.8	27,776.30	33.1
2005/06	89,442.6	62,331.0	27,111.60	30.3
2006/07	102,560.4	70,122.7	32,437.70	31.6
2007/08	110,889.2	72,282.0	38,607.20	34.8
2008/09	133,604.6	87,717.0	45,887.60	34.3

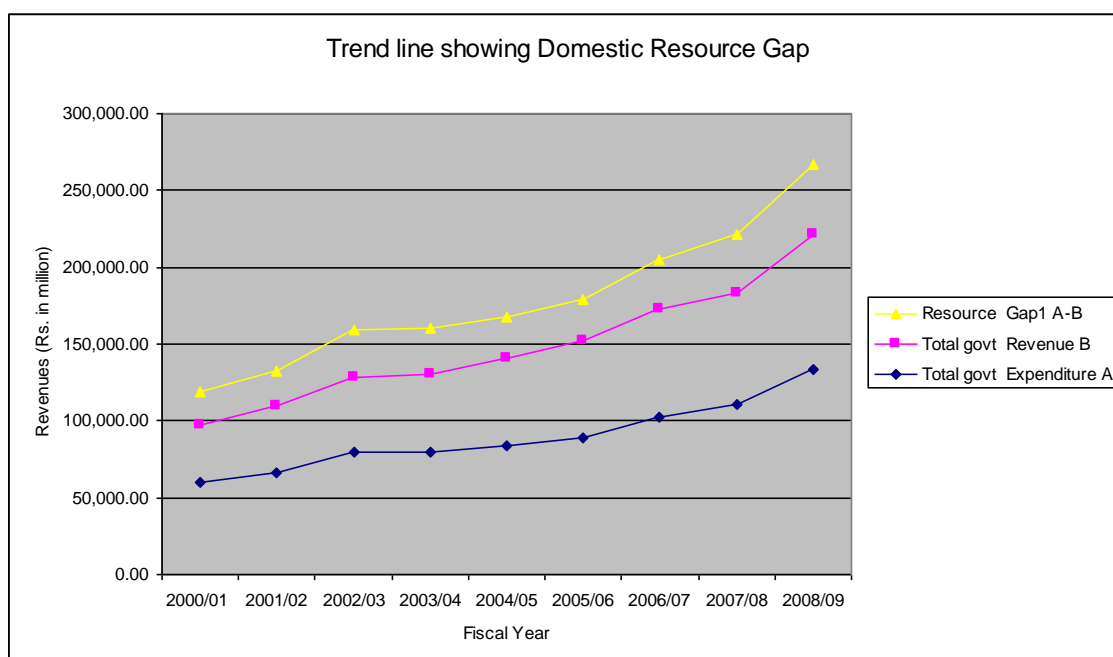
Source: Economic Surveys of different years

From the table, it is found that during the last nine years period there was 30.3% to 38.8% resource gap in Nepal. The amount of resource gap was fluctuating during the study period. In FY 2000/01, the resource gap was 37.5% amounting Rs. 22328 million, which decreased to 30.3% amounting Rs. 27111.60 million in FY 2005/06. In FY 2008/09, the resource gap is 34.3% amounting Rs. 45887.60 million. This domestic resource gap pattern can be also presented in the following chart and trend line.

Graph No. 2



Graph No. 3



The above trend line shows that the resource gap was gradually increasing up to the FY 2002/03 and again decreasing up to FY 2005/06. Again the resource gap started to increase and in FY 2008/09 reached to maximum level during the study period.

4.1.8 Revenue Expenditure

Revenue expenditure gap is known as resource gap. In this context, three types of gaps are measured and used in the analysis of resource gap.

Table No. 8

Overall Resource Gap Pattern of Nepal

(Rs. In Million)

Fiscal Year	Total govt Expenditure	Total govt Revenue	Resource Gap1	Foreign Grants	Resource Gap 2	Foreign Loan	Resource Gap 3
	A	B	A-B	C	A - (B+C)	D	A - (B+C+D)
2000/01	59,579.0	37,251.0	22,328.00	4,336.6	17,991.40	11,852.4	6,139.00
2001/02	66,272.5	42,893.8	23,378.70	5,711.7	17,667.00	11,812.2	5,854.80
2002/03	79,835.1	48,893.6	30,941.50	6,753.4	24,188.10	12,044.0	12,144.10
2003/04	80,072.2	50,445.5	29,626.70	6,686.1	22,940.60	7,698.7	15,241.90
2004/05	84,006.1	56,229.8	27,776.30	11,393.1	16,383.20	4,546.4	11,836.80
2005/06	89,442.6	62,331.0	27,111.60	11,283.4	15,828.20	7,629.0	8,199.20
2006/07	102,560.4	70,122.7	32,437.70	14,391.2	18,046.50	9,266.1	18,780.40
2007/08	110,889.2	72,282.0	38,607.20	13,827.5	24,779.70	8,214.3	16,565.40
2008/09	133,604.6	87,717.0	45,887.60	15,800.8	30,086.80	10,053.5	20,033.30

Source: Economic Surveys of different years

Resource Gap 1 (A-B)

The above table shows that the resource gap between revenue and expenditure rose from Rs. 22328 million in FY 2000/01 to Rs. 45887.60 million in FY 2008/09, which was about two times more than the FY 2000/01. This figure shows the poor performance of domestic resource mobilization.

Resource Gap 2 A-(B+C)

This type of resource gap was Rs. 17991.4 million in the FY 2000/01, which was gradually increased to Rs. 30086.80 million in the FY 2008/09. But in the FY 2005/06, this gap was Rs. 15828.20 million. This shows that foreign grants should be encouraged to increase for minimizing the gap.

Resource Gap 3 A-(B+C+D)

This resource gap is taken as the difference between total expenditure and total revenue plus foreign grants plus foreign loan. In FY 2000/01 the gap was Rs. 6139 million which was increased to Rs. 15241.9 in the FY 2003/04 and it was started to decrease gradually. It reached to Rs. 8199.20 million in the FY 2005/06. Again this gap started to increase rapidly and in the FY 2008/09, it reached to Rs. 20033.3 million. It measures the internal indebtedness of the government.

If any government has a resource gap, it has to resort a deficit budget. There was a large portion of foreign grants to meet the budget deficit in the early years budgets in Nepal. But in recent years, the percentage of foreign loans and foreign grants are rising. It is not a desirable direction for our country in self-reliance. Foreign loan creates extra burden to the economy because debt-servicing charge increases every year. The foreign loan should be taken as a complementary resource to mobilize internal resource properly.

4.1.9 Problems in Public Expenditure

Government expenditure is increasing along with its expanding activities in development and social activities. The increasing trend of government expenditure can be fulfilled either by internal resources or through inflow of foreign aid. The increasing rate of growth in government expenditure creates

many problems in public expenditure management. As a result, deficit financing takes place in the economy. On the one hand, the resource gap problem is increasing and on the other hand it has grown the inflation and price unstabilization in the economy. There is two way relationships between resource mobilization and expansion in budgetary size in developing country. Government policy should be reformed for maximum resource mobilization in accordance with the expansion in economy that has taken place through the investment of public sector in development activities.

Development expenditure is mostly prepared in accordance with commitment of the donor agencies. But the disbursement of foreign aid has not been as per the commitment. The lack of funding compels to delay the completion of the projects. In the same way, the donor agencies are too much involved in the decision making which creates many problems in implementation and for the completed project by the funding agencies the problem stands to the government on the operation and maintenance of the project.

Table No. 9

Share of Govt Revenue, Foreign aid, and CTR in Public Expenditure

(Rs. In Million)

Fiscal Year	Total govt Expenditure	Total govt Revenue	% age	Foreign Aid	% age	Total CTR	% age
2000/01	59,579.0	37,251.0	62.52	16,189.0	27.17	5,454.2	9.15
2001/02	66,272.5	42,893.8	64.72	17,523.9	26.44	6,554.7	9.89
2002/03	79,835.1	48,893.6	61.24	18,797.4	23.55	8,052.8	10.09
2003/04	80,072.2	50,445.5	63.00	14,384.8	17.96	7,600.4	9.49
2004/05	84,006.1	56,229.8	66.94	15,885.5	18.91	5,849.5	6.96
2005/06	89,442.6	62,331.0	69.69	18,912.4	21.14	7,121.3	7.96
2006/07	102,560.4	70,122.7	68.37	23,657.3	23.07	7,726.5	7.53
2007/08	110,889.2	72,282.0	65.18	22,041.7	19.88	7,834.7	7.07
2008/09	133,604.6	87,717.0	65.65	28,584.3	21.39	11,971.2	8.96

Source: Budget Speech of various years, GON.

Economic survey of various years, MOF/GON.

Above Table indicates the contribution of the government revenue in financing public expenditure. Government revenue share was 62.52% in the FY

2000/01 and reached to 69.69% amounting Rs. 62331.0 million, which is the maximum level. Its share in the FY 2008/09 was 65.65% amounting Rs. 87717 million.

It is also clear from the table that, contribution made by CITR to government expenditure was fluctuated between 6.96% to 10.09%. It was 9.15% in the FY 2000/01, which grew up and reached to 10.09% of maximum in the FY 2002/03. Then after its share started to decrease and in the FY 2008/09 it was 8.96% amounting Rs. 11971.2 million.

Conclusion from the above analysis is that government revenue is increasing in very slowly every year whereas government's expenditure is increasing in very quickly. The growth rate of domestic saving has not increased substantially even the external capital inflow has been increasing with higher rate. As a consequence of which the resource gap is highly increasing instead of minimizing.

4.1.10 Corporate Tax Structure

This chapter deals with the corporate tax rate and tax base.

4.1.11 Corporate Tax Rate Structure in Nepal

Tax rate is the base of measurement of tax liability. Tax should not be so high only for minimum revenue realization but should be activator for the private investment. Developing countries like Nepal needs to boost up their economic conditions by developing industries and trade within the country. For this, corporate tax rate also plays a vital role. Imposition of tax on corporate profit was started with the enactment of Business Profit and Remuneration Tax Act, 1960. The starting corporate tax rate was 25% and it was levied on progressive way. The tax amount was calculated on different slabs before FY 1985/86. The

corporate tax rate structure was combined with individual tax rate structure. The reason was the number of companies was limited and family generally managed private companies. In the year 1985/86 the progressive tax rate structure was abolished in case of government enterprises used to split into different units to take advantages of lower rates. The progressive rate of taxing to private companies was abolished in the fiscal year 1995/96. Thus, flat rate system has been continued for all corporate bodies since the FY 1995/96.

The corporate tax rate structure was increased up to 60% the maximum rate in the FY 1995/96 from 25%. During 1960/61 to 1975/76, increment of rates was made three times. After FY 1975/76, the tax rate again decreased up to 51% and 50%. This rate was again increased to 55% and remains continued from FY 1982/83 to till 1987/88. In the year, 1987/88, the listed public limited companies were levied 10% less than others. This concession was given to such companies by only 5% in the year 1985/86. After the FY 1987/88, the tax rate was continuously decreasing. Now, it is 20% to industry (except cigarette and alcohol) 25% to general companies and 30% to banks and finance companies. Special fee 3% of taxable incomes was levied to all corporate bodies. The corporate tax rate structure of different years is presented as below:

income from remuneration. The third amendment of Income Tax Act 2058 has further clarified about calculating the adjusted taxable income and net taxable income from business, investment and remuneration. All the taxable income are added as per law and deduction allowable expenses such as general deduction, cost of trading stock, interest expenses, repair and maintenance expenses, depreciation. Reserve and risk-bearing fund and expenses, related with business and investment were deducted as per the law, which occurs adjusted taxable income. Then, in case of business income, pollution control and R&D expenses should be deducted taking the adjusted taxable income as base, after that we get assessable income from business before loss adjustment. Then, loss from business in current year and previous year are deducted to get the net assessable income from business. Likewise, loss in business and investment of current year and business loss of previous year are deducted to get the net assessable income from investment.

Total assessable income is calculated by adding the net income from business and investment from where common expenses and donation expenses can be deducted as per the law to get total taxable income. No exemption limit is provided to the companies. Special additional fee of 15% of taxable income is charged to the second slab where 25% tax rate is charged.

In Nepal, taxable income of a company is computed in the following manner.

Specimen format for computation of Business Income Computation of taxable income of Co. for the assessment year.....

S.N.	Particulars	Amt. (Rs.)	Amt. (Rs.)
a	Service charges (U/S-7-2)	++	
b	Sales or disposal of business stock (U/S -7-2)	++	
c	Net profit or gain from the disposal of business assets or liability (U/S-7-2)	++	
d	Amounts received from the disposal of depreciable assets (U/S-7-2)	++	

e	Prize or gifts received in connection with business (U/S-7-2)	++	
f	Amount received in lieu of acceptance of restrictions regarding business (U/S-7-2)		
G	Amount received from any investment directly related to business (
h	U/S-22.6)		
i	Income included under the provision of accounting methods (U/S-24.3)		
j	Excess amount received due to exchange rate variation (U/S- 24.4)		
k	Bad debts recovered (U/S 25.1)		
l	Proportionate amount received under long- term contract (U/S-26.1)		
m	Underpayment of interest due to market rate variation (U/S 27.1d)		
n	Receivable amounts paid to others (U/S-29)		
o	Amount received for compensation (U/S-31)		
p	Other amount received under the head of business income		
A. Total	Gross (Assessable) income from Business		
	Less: Allowable deductions:		
a.	General deduction (U/S-13)		
b.	Interest expenses (U/S-14)		
c.	Cost of business stock (U/S-15)		
d.	Repair and maintenance expenses (U/S-16)		
e.	Depreciation expenses (U/S-19)		
f.	Reserve funds for banks and insurance business (U/S-59.1a)		
g.	Other expenses as per Income Tax Act, 2058		

B.	Deductible Business Expenses		
	Adjusted assessable income from Business (A-B)		
	Less:		
h.	Pollution control expenses (U/S-17) 50% of adjusted assessable income or Actual paid amount (whichever is less)		
i.	Research and development expenses (U/S-18) 50% of adjusted assessable income or Actual paid amount (whichever is less)		
C.	Net (assessable) income from Business before carry forward of previous loss and donation		
	Less: Carry forward of losses		
a.	Loss from other business in current year (U/S 20.1a)		
b	Previous years cumulative losses (U/S-20.1b)		
	Net (assessable) income from Business		++++

Format for computation of investment income

Computation of taxable income of for the assessment year....

S.N.	Particulars	Amt(Rs.)	Amt(Rs)
a.	Dividend (Gross) (U/S-9.2)	+++	
b.	Gain from insurance investment (Gross) (U/S-9.2)	+++	
c.	Interest received (Gross) (U/S-9.2)	+++	
d.	Rent received (Gross)(U/S-9.2)	+++	
e.	Payment received (Gross) (U/S-9.2)	+++	
f.	Royalty (Gross) (U/S-9.2)	+++	
g.	Amount received from disposal of depreciable assets (U/S-9.2)	+++	
h.	Gifts received in respect of investment (U/S-9.2)	+++	

i.	Amount received as consideration for accepting a restriction on investment (u/S-9.2)	+++	
j.	Incomes to be included due to change in accounting methods (U/S-22.6)	++++	
k.	Excess amount received due to exchange rate variation (U/S-24.4)	++++	
l.	Bad debts recovered related with investment (U/S-25.1)	++++	
m.	Underpayment of interest in comparison to market rate (U/S-27.1d)	++++	
n.	Receivable amount paid to others (U/S-29)	++++	
o.	Income received from joint investment (proportionate amount on the basis of investment ratio (U/S-30)	++++	
p.	Amount received from compensation the amount be included under investment income (U/S-31)	+++	
q.	Other amounts to be included under investment income	+++	
A.	Gross assessable income from investment Less: Deductible Expenses		
a.	Interest expenses (U/S-14)	+++	
b.	Repair and Improvement expenses (U/S-16)	+++	
c.	Depreciation expenses (U/S-19)	+++	
d.	Expenses related with investment	+++	
B.	Total deductible expenses		
	Assessable income before carry forward of loss (A-B)		
	Less: Carry forward of losses a. Loss in business (current year) b. Loss in investment (current year) c. Carry forward of loss from previous year		

	business		
	Net(assessable) income from investment		

Statement of Total Taxable Income

	Net (assessable) income from business		++++
	Net (assessable) income from investment		++++
	Total net (assessable) income shown by assesses		++++
	Less: Common expenses		
	Donation	++++	
	5% of net assessable income or Actual paid or Maximum limit Rs. 100,000 (Whichever is less)		++++
	Computation of tax liability		
	Total tax liability = Taxable income × Rate		++++
	Less: Advance tax paid		++++
	Tax amount to be paid		++++
	Add: Special fee (1.5% of Rs. Balance amount)		++++
	Total amount payable		++++

4.1.13 Contribution of Corporate Income Tax

Contribution of corporate income tax on total revenue, tax revenue, direct tax revenue, income tax revenue, its composition and its trend line for 9 years has been drawn in this sub-chapter. The relationship of CITR with other taxes and total revenue and its coverage portion has been examined.

4.1.14 Contribution of Corporate Income Tax on Total Revenue

Corporate income tax plays an important role in Nepalese government revenue. The following table has been drawn to show the contribution portion of CITR in different time periods in percentage and amounts also.

Table No. 10
Contribution of CITR on Total Revenue

(Rs. In Million)

Fiscal Year	Total Revenue	% age	Govt. Sector	% age	Public Sector	% age	Private Sector	% age	Total CITR	% age
2000/01	37,251.0	100	1526.5	4.10	1155	3.10	2772.7	7.44	5454.2	14.64
2001/02	42,893.8	100	2198.8	5.13	1339.5	3.12	3016.4	7.03	6554.7	15.28
2002/03	48,893.6	100	2928	5.99	1924.3	3.94	3200.5	6.55	8052.8	16.47
2003/04	50,445.5	100	1769.3	3.51	1412	2.80	4419.1	8.76	7600.4	15.07
2004/05	56,229.8	100	1251	2.22	1236.3	2.20	3362.2	5.98	5849.5	10.40
2005/06	62,331.0	100	2056.6	3.30	1531.3	2.46	3533.4	5.67	7121.3	11.42
2006/07	70,122.7	100	1332.4	1.90	2467.8	3.52	3926.3	5.60	7726.5	11.02
2007/08	72,282.0	100	195.7	0.27	3404.3	4.71	4234.7	5.86	7834.7	10.84
2008/09	87,717.0	100	1019.70	1.16	5717.10	6.52	5234.40	5.97	11971.2	13.65

Source: Economic Surveys of different years

Above table reflects that the contribution of corporate income tax to total revenue during the study period was fluctuating from 10.4% to 16.47%. The share of corporate income tax revenue was 14.64% amounting Rs. 5454.2 million in the FY 2000/01 in which 4.10% of total revenue was covered only by government sector. Later on, the share of CITR to total revenue has slowly increased up to 16.47% of maximum in the FY 2002/03 amounting Rs. 8052.8 million where intra-structural composition of corporate sector was also dominated by government sector contributing 5.99% of maximum percentage of amounting Rs. 2928 million during the study period. But that situation did not continue later on. Political imbroglio, unfriendly environment for smooth operation of business was some of the main reason for Nepalese corporate sector unable in improving its competency. As a result, contribution of CITR to total revenue was sharply decreased from 10.84% amounting Rs. 7834.7 million in the

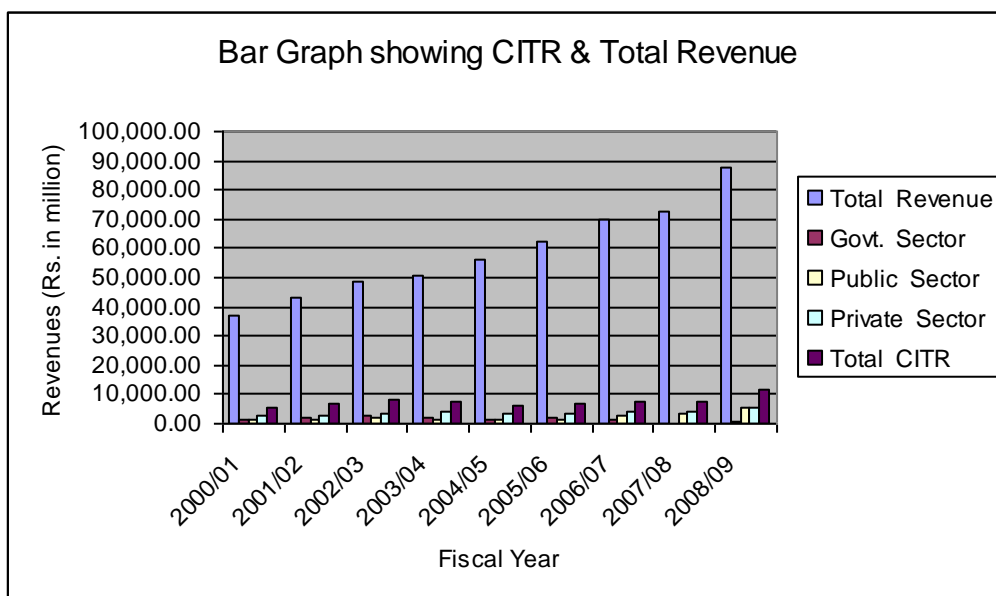
FY 2007/08. Amounting Rs. 11971.2 million which was 13.65% as maximum amounting. in 2008/09.

Total revenue/national revenue was also in increasing trend, which was not only the cause of better implementation of fiscal policy and positive macro-economic indicator but also due to expansion of taxation and revenue net. This table also shows that the private sector’s tax collection was fluctuating between 5.60% to 8.76% during the study period. Its contribution was of 8.76% amounting Rs. 4419.1 million in the FY 2003/04 and in the FY 2008/09 its contribution was 5.97% amounting Rs. 5234.40 million. Tax collection from public enterprises seemed to be fluctuating from 2.20% to 6.52% during the study period. Its contribution was 2.2% in the FY 2004/05 amounting Rs. 1236.3 million and in the FY 2008/09, it was 6.52% amounting Rs. 5717.10 million.

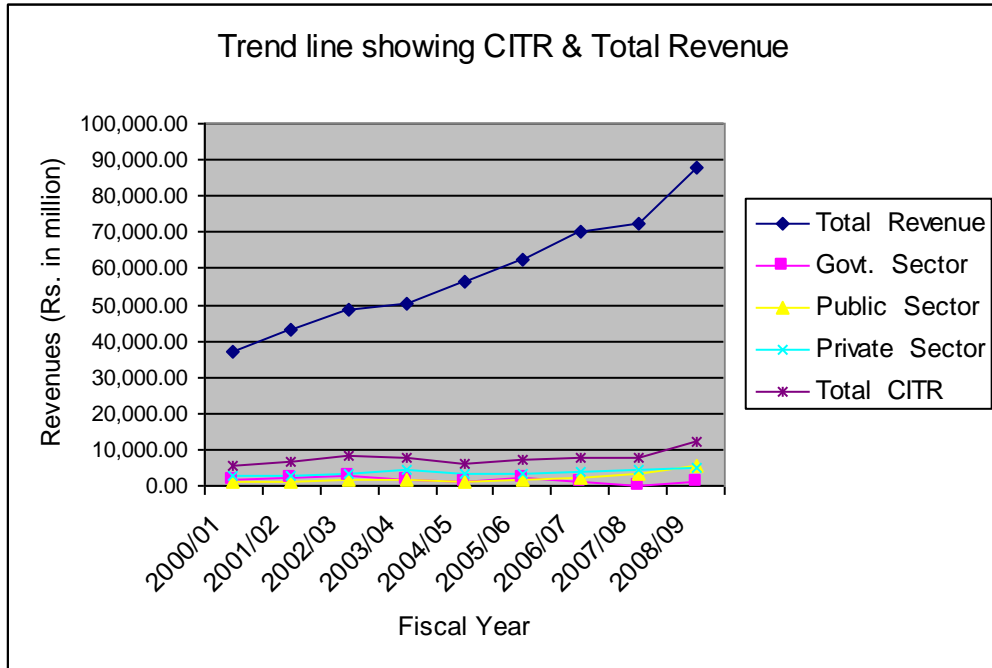
In totality, Nepalese corporate sector has been contributing to total revenue from 10.40% to 16.47%, which seems to be very small portion comparing to other developing countries.

The contribution pattern of corporate income tax to total revenue has been shown in the following bar diagram and trend line.

Graph No. 4



Graph No. 5



In this bar diagram, total revenue is shown in y-axis and fiscal year in x-axis. Comparing with total revenue, corporate income tax revenue seems to be very low. The intra-structural composition of corporate tax seems to be slightly changed. It is also known that the contribution private and public sector has increased comparing to beginning year of the study period.

4.1.15 Contribution of Corporate Income Tax on Total Tax Revenue

Total tax revenue is composed of direct tax and indirect tax. Total tax revenue is mostly affected by CITR and its enhancement by the country. The following table has been drawn to know the Nepalese CITR's contribution portion to total tax revenue.

Table No. 11
Contribution of CITR on Total Tax Revenue

(Rs. In Million)

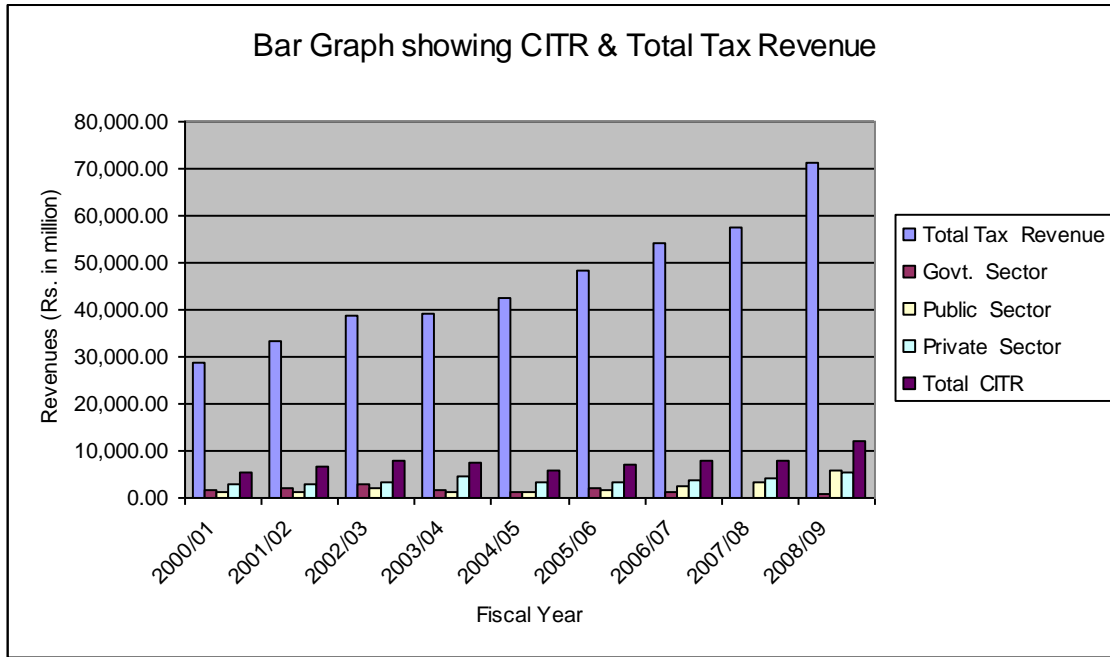
Fiscal Year	Total Tax Revenue	% age	Govt. Sector	% age	Public Sector	% age	Private Sector	% age	Total CITR	% age
2000/01	28,752.9	100	1526.5	5.31	1155	4.02	2772.7	9.64	5454.2	18.97
2001/02	33,152.2	100	2198.8	6.63	1339.5	4.04	3016.4	9.10	6554.7	19.77
2002/03	38,865.0	100	2928	7.53	1924.3	4.95	3200.5	8.23	8052.8	20.72
2003/04	39,330.6	100	1769.3	4.50	1412	3.59	4419.1	11.24	7600.4	19.32
2004/05	42,586.9	100	1251	2.94	1236.3	2.90	3362.2	7.89	5849.5	13.74
2005/06	48,173.0	100	2056.6	4.27	1531.3	3.18	3533.4	7.33	7121.3	14.78
2006/07	54,104.7	100	1332.4	2.46	2467.8	4.56	3926.3	7.26	7726.5	14.28
2007/08	57,430.4	100	195.7	0.34	3404.3	5.93	4234.7	7.37	7834.7	13.64
2008/09	71,127.0	100	1019.70	1.43	5717.10	8.04	5234.40	7.36	11971.2	16.83

Source: Economic Surveys of different years

The above table shows that the CITR^{'s} contribution to total tax revenue was fluctuated during the study period. It was 18.97% in the FY 2000/01, which was gradually increased and reached to 20.72% of maximum contribution in the FY 2002/03. But this contribution was decreased gradually and reached to 13.74% in the year 2004/05. CITR's contribution was 16.83% in the FY 2008/09. Such kind of lower contribution was due to the lower collection of corporate income tax that might be the result of political instability, unfriendly environment for operating industry, trade and business.

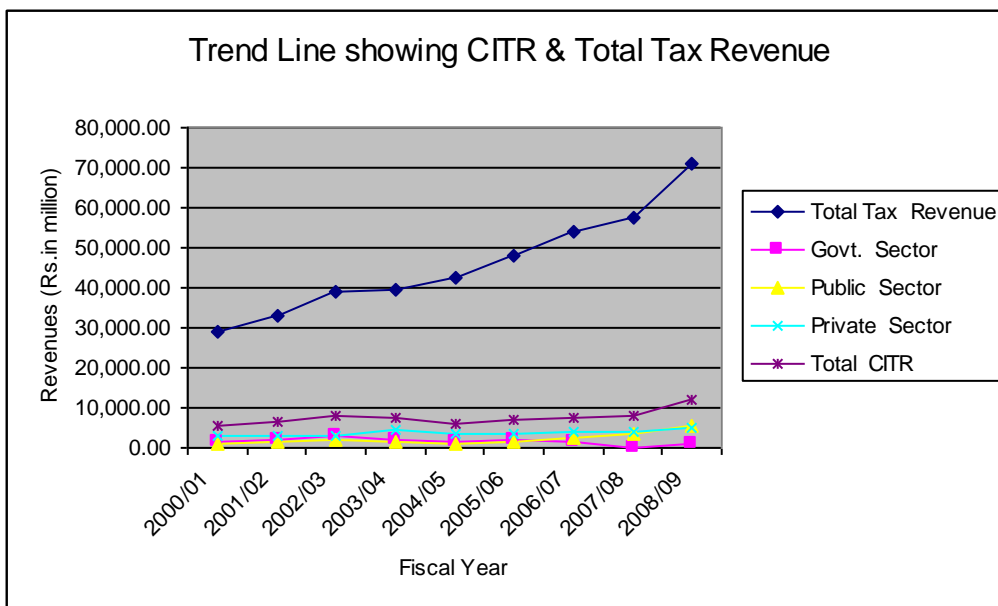
The contribution of CITR to total tax revenue has been shown in bar diagram and trend line as below:

Graph No. 6



In the above bar diagram various years are shown in x-axis and Total tax revenue is shown in y-axis.

Graph No. 7



The above trend line shows the increasing trend of tax revenue and CITR. The total tax revenue seems to be increasing every year during the study period. But CITR seems fluctuation. It was Rs. 5454.2 million in the FY 2000/01 and increased to Rs. 8052.8 million in the FY 2002/03 and again decreased to Rs.

5849.5 million only in the FY 2004/05. Then it started to increase again and reached to Rs. 11971.2 million in the FY 2008/09.

4.1.16 Contribution of Corporate Income Tax on Direct Tax Revenue

Direct tax comprises of income tax; land, house and land registration tax; urban house and land rent tax; and interest tax which has already been shown in Table 3. The contribution of corporate income tax on Direct tax revenue can be shown in the following table.

Table No. 12

Contribution of CITR on Direct Tax Revenue

(Rs. In Million)

Fiscal Year	Direct Tax Revenue	% age	Govt. Sector	% age	Public Sector	% age	Private Sector	% age	Total CITR	% age
2000/01	7,296.6	100	1526.5	20.92	1155	15.83	2772.7	38.00	5454.2	74.75
2001/02	8,555.1	100	2198.8	25.70	1339.5	15.66	3016.4	35.26	6554.7	76.62
2002/03	9,729.8	100	2928	30.09	1924.3	19.78	3200.5	32.89	8052.8	82.76
2003/04	10,037.8	100	1769.3	17.63	1412	14.07	4419.1	44.02	7600.4	75.72
2004/05	9,380.4	100	1251	13.34	1236.3	13.18	3362.2	35.84	5849.5	62.36
2005/06	10,943.4	100	2056.6	18.79	1531.3	13.99	3533.4	32.29	7121.3	65.07
2006/07	11,958.6	100	1332.4	11.14	2467.8	20.64	3926.3	32.83	7726.5	64.61
2007/08	12,554.8	100	195.7	1.56	3404.3	27.12	4234.7	33.73	7834.7	62.40
2008/09	17,287.5	100	1019.70	5.90	5717.10	33.07	5234.40	30.28	11971.2	69.25

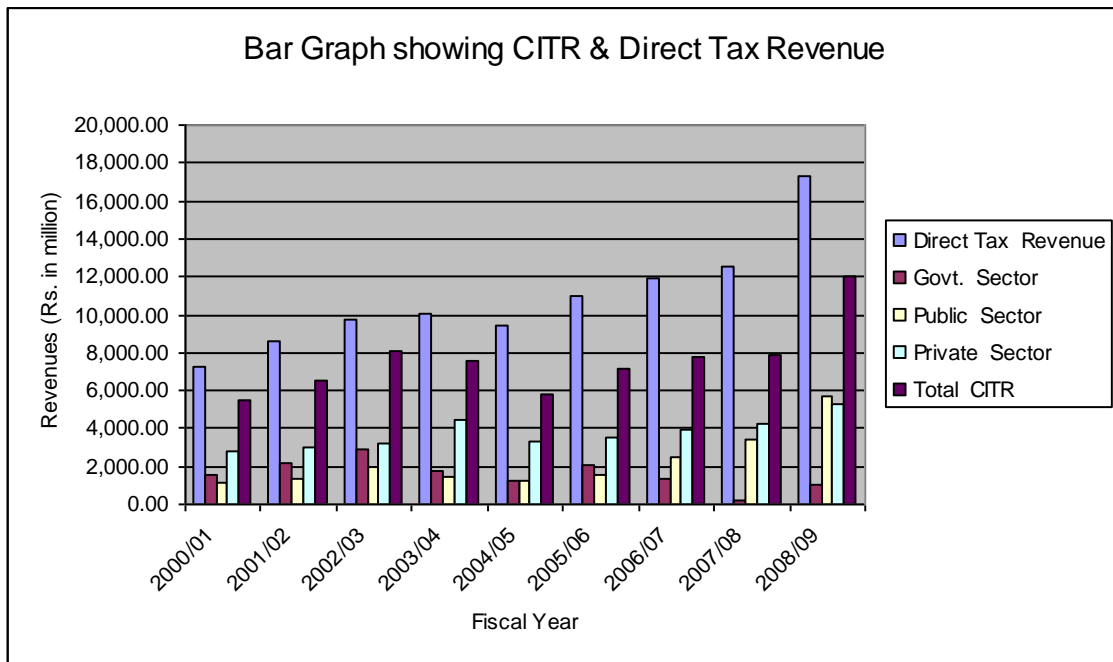
Sources: Economic Surveys of different years

From the above table, we can see that the contribution of CITR to direct tax revenue was fluctuated from 62.36% to 82.76% during the study period. Its contribution was 74.75% amounting Rs. 5454.2 million in the FY 2000/01, which increased to 82.76% amounting Rs.8052.8 million in the FY 2002/03 but later on it was decreased to 62.40% amounting Rs. 7834.7 million in the FY 2007/08. Then after its contribution grew up to 69.25% amounting Rs. 11971.2 million in 2008/09. That was possible due to the business friendly environment and Peace Treaty in the country.

This table has also shown the structural composition of corporate tax. Nearly, half portion of CITR was covered by government sector in the first two fiscal years 2000/01 and 2001/02. But it was decreasing the next years and only about 10% portion only covered in the FY 2008/09.

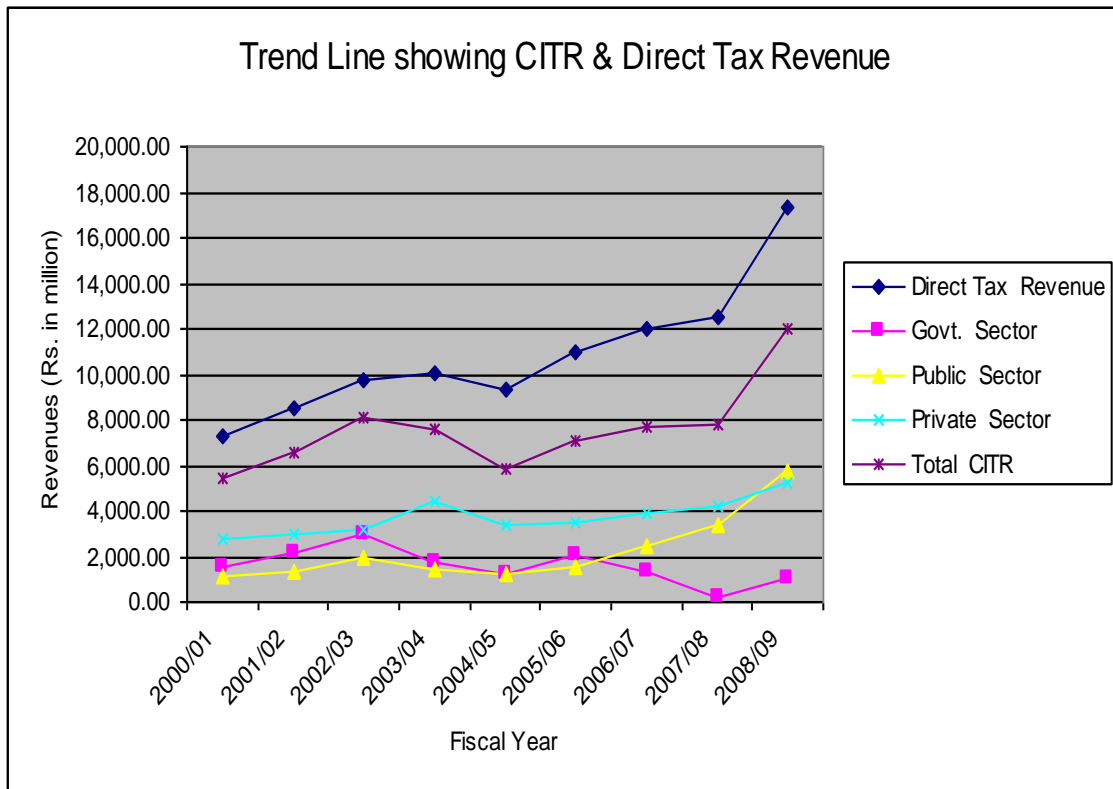
The contribution of CITR to direct tax revenue can be shown in bar diagram and trend line as follow:

Graph No. 8



In the above bar graph x-axis shows the different FY from 2000/01 to 2008/09 and y-axis shows different tax revenues. It shows the total direct tax revenue was increased continuously during the study period except the FY 2004/05.

Graph No. 9



The above trend line shows that the direct tax revenue has been increasing up to the FY 2003/04 and decreased in the FY 2004/05 and again it is in increasing trend and reached to Rs. 17287.5 million in the FY 2008/09. Contribution of CITR to direct tax revenue was also in increasing trend up to 2002/03 but it was sharply decreased within 2 years and came to 62.36% only in the FY 2004/05. Again its contribution started to rise and reached to 69.25% amounting Rs. 11971.2 million in the FY 2008/09.

4.1.17 Contribution of Corporate Income Tax Revenue on Income Tax Revenue

Income tax revenue comprises of income tax revenue from different types of corporate bodies i.e. government sector, public sector and private sector including individual income tax and as well as interest tax. The size of income tax revenue largely depends up on the size of corporate sector. Higher the size of corporate sector, higher will be the CITR and Total income tax revenue and vice versa. So, CITR in Nepal has played a vital role in income tax revenue, which has been presented in the following table projecting for three subsequent years.

Table No. 13

Contribution of CITR on Income Tax Revenue

(Rs. In Million)

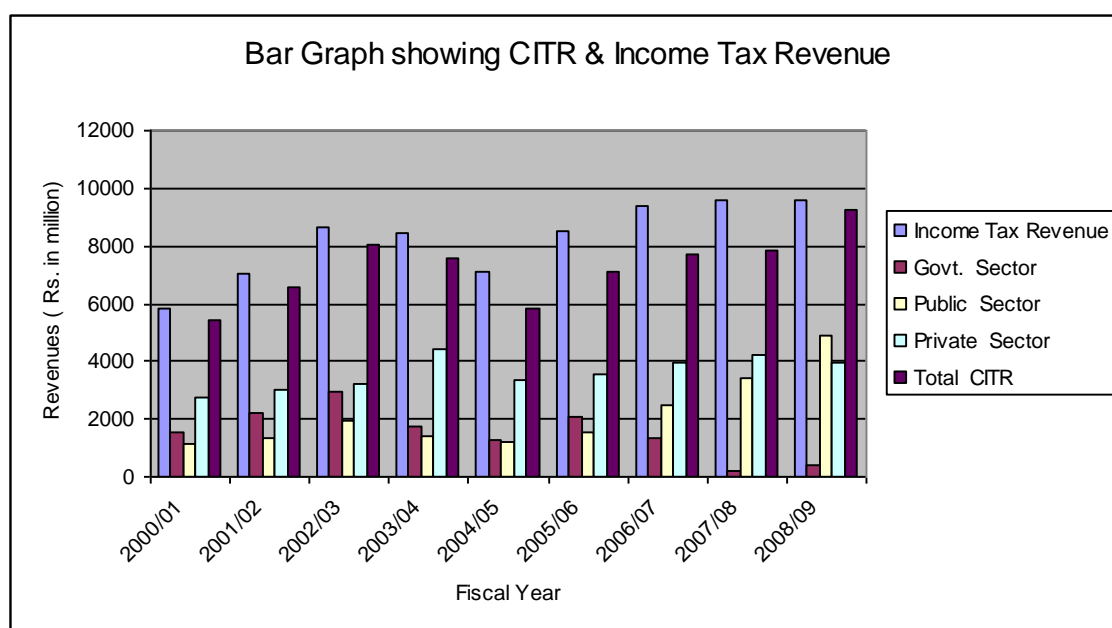
Fiscal Year	Income Tax Revenue	% age	Govt. Sector	% age	Public Sector	% age	Private Sector	% age	Total CITR	% age
2000/01	5850.8	100	1526.5	26.09	1155	19.74	2772.7	47.39	5454.2	93.22
2001/02	7006.1	100	2198.8	31.38	1339.5	19.12	3016.4	43.05	6554.7	93.56
2002/03	8650.1	100	2928	33.85	1924.3	22.25	3200.5	37.00	8052.8	93.09
2003/04	8436	100	1769.3	20.97	1412	16.74	4419.1	52.38	7600.4	90.09
2004/05	7102.1	100	1251	17.61	1236.3	17.41	3362.2	47.34	5849.5	82.36
2005/06	8512.5	100	2056.6	24.16	1531.3	17.99	3533.4	41.51	7121.3	83.66
2006/07	9402.4	100	1332.4	14.17	2467.8	26.25	3926.3	41.76	7726.5	82.18
2007/08	9598.8	100	195.7	2.04	3404.3	35.47	4234.7	44.12	7834.7	81.62
2008/09	9607.5	100	404.76	4.21	4889.33	50.89	3937.68	40.99	9231.77	96.09

Sources: Economic Surveys of different years

Above table reflects that the contribution of CITR to income tax revenue is fluctuating in different years. In the FY 2000/01, it was 93.22% amounting Rs. 5454.2 million. In the FY 2005/06 it was minimum i.e. 81.62% amounting Rs. 7834.7 million. Again in the FY 2008/09 its contribution became maximum and arrived to 96.09% amounting Rs. 9231.77 million.

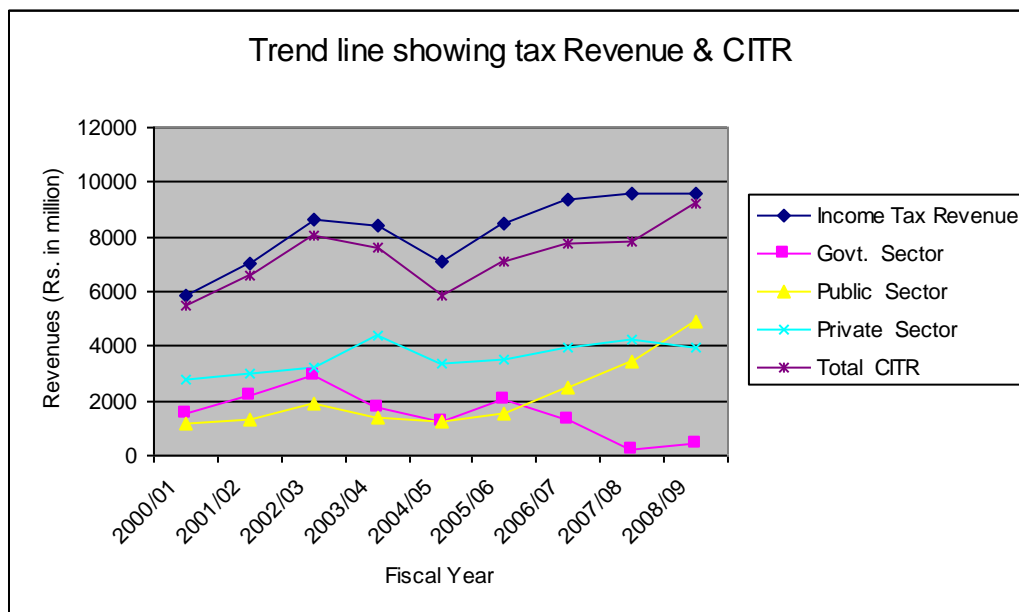
The CITR and income tax revenue position has been shown in the following bar diagram and chart.

Graph No.10



In the above bar diagram, different years are shown in x-axis and Total Income Tax Revenue is shown in y-axis, where we can see the maximum contribution of CITR to tax revenue in the FY 2001/2002, then its share continuously decreased and came to 81.62% only amounting Rs. 7834.7 million in the FY 2007/08 and again in the FY 2008/09 it increased to 96.09% amounting Rs. 9231.77 million.

Graph No. 11



The above trend line shows that the income tax revenue was increasing regularly up to 2002/03 and it started to decrease regularly for three years. Again it seems to be in increasing trend.

4.1.18 Structural Composition of Corporate Income Tax

The corporate income tax structure comprises of government sector, public and private sector. Corporation taxable income is calculated adding all the taxable incomes and deducting all the allowable expenses. The corporate tax base is explained and presented in the preceding sub chapter. After the enactment of Income Tax Act, 2058, the books of account of corporate sector have been kept a little bit differently. From the FY 2002/03, the total corporate sector income tax

is computed by adding government, public and private income tax including individual and sole trading form and income from other institutions too. The following table has been drawn to show the structural composition of corporate income tax from the FY 2000/01 to 2008/09.

Table No. 14
Structural Composition of Corporate Income Tax

(Rs. In Million)

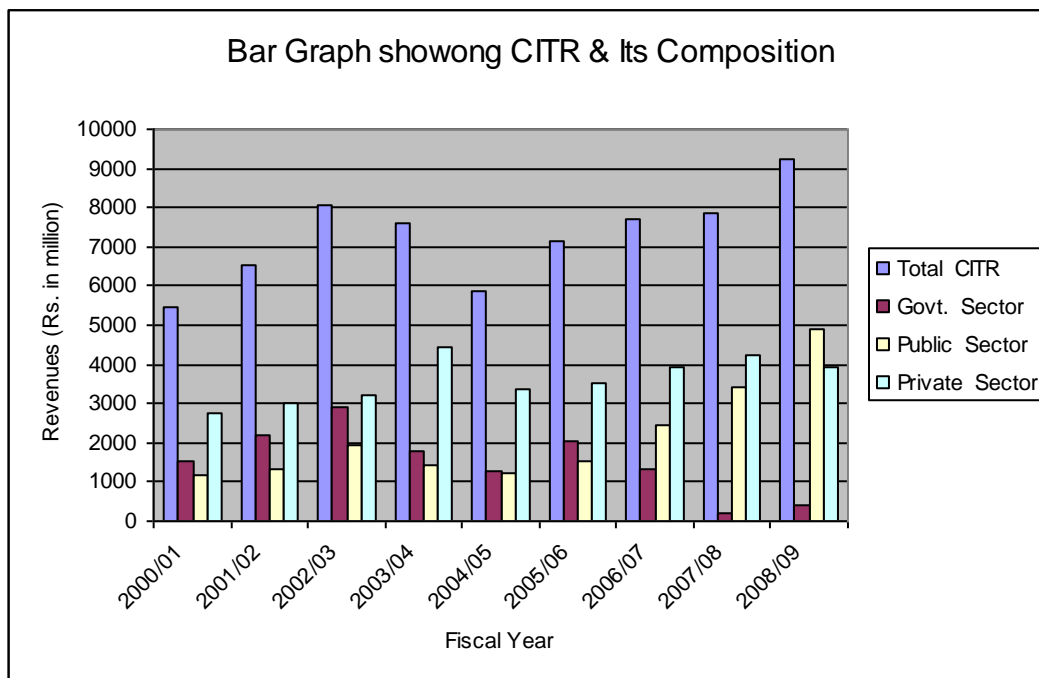
Fiscal Year	Total CITR	% age	Govt. Sector	% age	Public Sector	% age	Private Sector	% age
2000/01	5454.2	100	1526.5	27.99	1155	21.18	2772.7	50.84
2001/02	6554.7	100	2198.8	33.55	1339.5	20.44	3016.4	46.02
2002/03	8052.8	100	2928	36.36	1924.3	23.90	3200.5	39.74
2003/04	7600.4	100	1769.3	23.28	1412	18.58	4419.1	58.14
2004/05	5849.5	100	1251	21.39	1236.3	21.14	3362.2	57.48
2005/06	7121.3	100	2056.6	28.88	1531.3	21.50	3533.4	49.62
2006/07	7726.5	100	1332.4	17.24	2467.8	31.94	3926.3	50.82
2007/08	7834.7	100	195.7	2.50	3404.3	43.45	4234.7	54.05
2008/09	9231.77	100	404.76	4.38	4889.33	52.96	3937.68	42.65

Sources: Economic Surveys of different years

The above structural composition of corporate tax shows that in the years. 2000/01 to 2001/02, major portion was covered by government sector. The share of government sector was started to decrease from the FY 2002/03 and reached to 4.38% only in the FY 2008/09. The contribution of public sector was ultimately seems to be increasing during the study period from 21.18% in the FY 2000/01 to 52.96% in the FY 2008/09 with some fluctuations. The private sector's contribution was fluctuated from 18% to 41% during the period. But during recent four years it's contribution is in increasing order and came to 43.72% in the FY 2008/09. It seems public and private sectors are paying more tax and government sector is paying less tax as the passes of time. Public and private sectors are growing their business and government sector is not so.

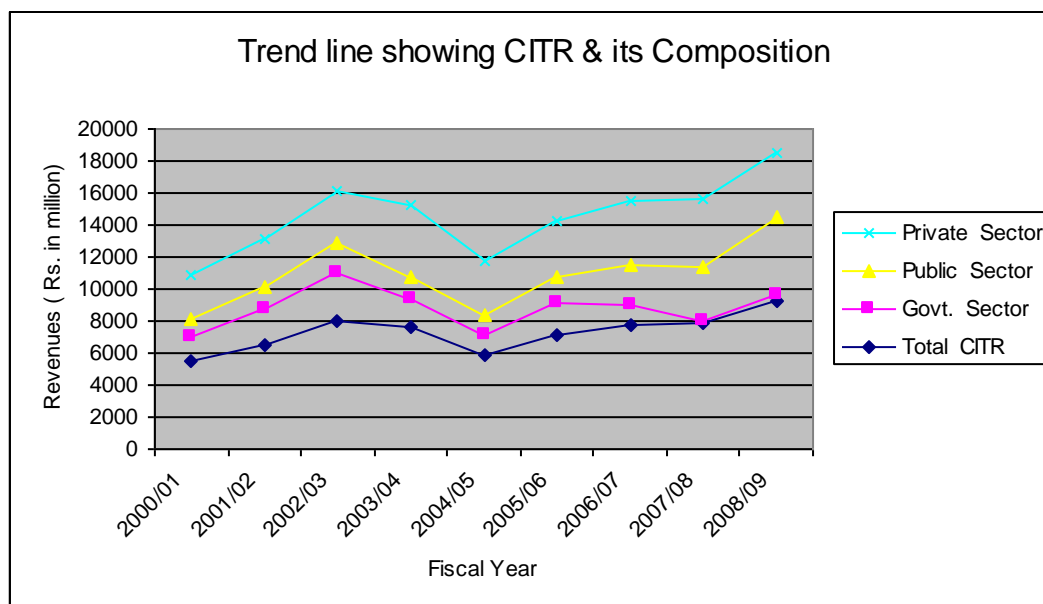
The structural composition of CITR can be presented in bar graph and chart as follows:

Graph No. 12



In the above bar diagram, different years are shown in x-axis and CITR shown in y-axis..

Graph No. 13



The above trend line represents the CITR, government sector revenue, public sector revenue and private sector revenue respectively. It shows that the CITR was mostly fluctuated during the FY 2002/03 and 2005/06. All the trend

line seems to be gone down in the FY 2004/05 and again started to increase in the following years.

4.2 Presentation and Analysis of Data on the basis of Primary Source i.e. Empirical Investigation

4.2.1 Introduction

When a researcher collects data possession original character himself or through agent for the first time from related field, such data are called as primary data (source). And when such primary data are reused by anybody else they are called secondary data. Once primary data have been used, it loses its originality or primary characteristics and becomes secondary. In this study, this part is entirely related with primary source of data.

An empirical investigation has been conducted in order to find out various aspects of problems for the administration of Income Tax Act, 2058 in Nepal from the real life experience. For this purpose, questionnaire was developed and responses were collected from the respondents. A set of 80 questionnaires was received out of 100 questionnaires distributed to the respondents. Respondents were classified into two groups - tax experts and taxpayers. The responses received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study. (See the format of questionnaire and the list of the respondents in appendix A and B respectively.

The questionnaire was asked for a yes/no response or asked for ranking of the choices according to the number of alternatives where first choice was the most important and the last choice was the least important. For analysis purpose, choices were assigned weight according to number of alternatives. If the number of alternatives were 8 then the first preferred choice got eight points and the last preferred choice got one point. Any alternative, which was not ranked, didn't get

any point. The total points available to each choice were converted into percentage in reference to the total points available for all choices. The choice with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as last choice.

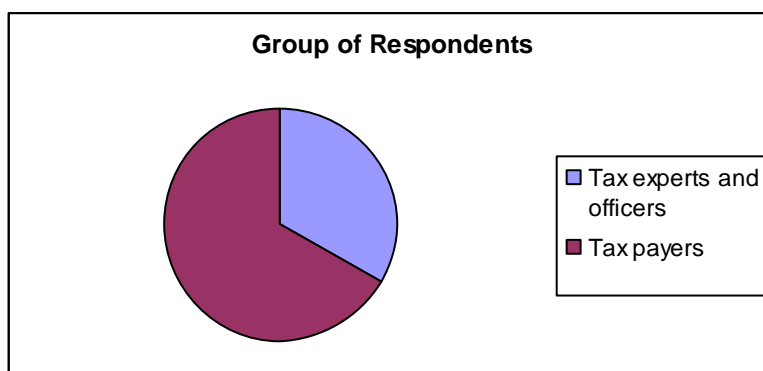
The following table 4.2.1 shows the group of respondents.

Groups of Respondents and Code Used

Table 15

Respondent Groups	Sample Size	Codes Used
Tax experts and officers	20	Y
Tax payers	40	Z
Total	60	

Pie chart



4.2.2.1 Opinion towards Tax Paying Habit of Nepalese People

To know the respondents opinion about the tax paying habit of Nepalese people, the first question, "Do you think there is poor tax paying habit of Nepalese people?" was asked. The responses received from respondents are tabulated as under:

Table 16

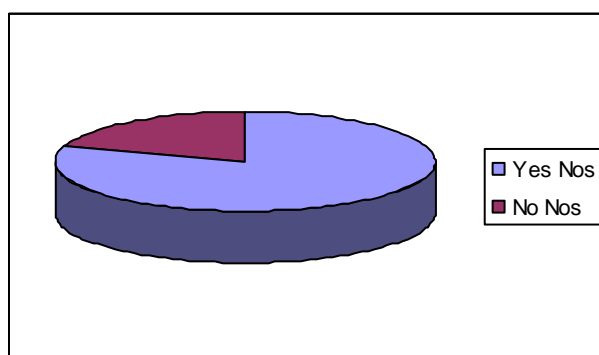
Opinion towards tax paying habit of Nepalese people

Respondent Groups	Yes		No		Total	
	Nos	% age	Nos	% age	Nos	% age
Y (Tax experts and officers)	16	80	4	20	20	100
Z (Tax payers)	34	85	6	15	40	100
Total	50	83.33	10	16.67	60	100

Source: Opinion Survey

Pie chart

Opinion towards tax paying habit of Nepalese people



From the above table, 80% of tax experts and 85% of tax payers approved there is poor tax paying habit of Nepalese people and 20% of tax experts and 15% of tax payers approved there is not poor tax paying habit of Nepalese people. Out of 60 respondents, 50 respondents, i.e. 83.33% voted for poor tax paying habit of Nepalese people and 10 respondents i.e. 16.67% voted for there is not poor tax paying habit of Nepalese people.

From the above table, it has been clear that there is poor tax paying habit of Nepalese people.

Test of Hypothesis

Hypothesis: 1

We have 2x2 contingency table with cell frequency less than 5 as follows:

Respondent Groups	Yes	No	Total
Y (Tax experts and officers)	a = 16	b = 4	(a+b) = 20
Z (Tax payers)	c = 34	d = 6	(c+d) = 40
Total	50	10	N = 60

Null Hypothesis H_0 : There is no significant relationship between the views of tax experts and taxpayers with respect to there is poor tax paying habit of Nepalese people.

Alternative Hypothesis H_1 : There is significant relationship between the views of tax experts and taxpayers with respect to there is poor tax paying habit of Nepalese people.

Applying Yates Correlation

$$\begin{aligned}\chi^2 &= \frac{N[(ad-bc)-N/2]^2}{(a+b)(c+d)(a+c)(b+d)} \\ &= \frac{60[(16 \times 6 - 4 \times 34) - 60/2]^2}{20 \times 40 \times 50 \times 10} \\ &= 0.01\end{aligned}$$

\therefore Calculated value of $\chi^2 = 0.01$

Level of Significance, $\alpha = 5\% = 0.05$ (Suppose)

Degree of freedom = $(r-1)(c-1) = (2-1) \times (2-1) = 1 \times 1 = 1$.

From the table, tabulated $\chi^2_{(0.05, 1)} = 3.84$

Decision: Since, calculated χ^2 is less than tabulated $\chi^2_{(0.05, 1)}$ i.e. $1.03 < 3.84$, we accept null hypothesis (H_0) at 5% level of significance. It means there is no significant relationship between the views of tax experts and taxpayers with respect to there is poor tax paying habit of Nepalese people i.e. both tax experts and taxpayers have approved there is poor tax paying habit of Nepalese people.

4.2.2.2 Reasons Behind Poor Tax Paying Habit of Nepalese People

Most of the respondents voted that there is poor tax paying habit of Nepalese people. To know the causes of poor tax paying habit of Nepalese people, the question was asked, "If Yes, what are the major causes of poor tax paying habit of Nepalese people?" The respondents were requested to rank their answer from 1 (most important) to 7 (least important). The responses received from the respondents are tabulated below:

Table 17

Major causes of poor tax paying habit of Nepalese people

SN	Major causes	Group		Total Points	% age	Rank
		Y	Z			
1	Poverty ness of tax payer	40	88	128	6.00	7
2	Little knowledge of tax and its importance	120	231	351	16.45	2
3	Widespread practices of illegal business	110	228	338	15.84	3
4	Lack of incentives for regular tax payers	136	260	396	18.56	1
5	Defective tax administration system	112	219	331	15.51	4
6	Complexity of tax laws and policies	85	198	283	13.26	6
7	Poor public relation by tax office and authorities	98	209	307	14.39	5
	Total			2134	100.00	

Source: Opinion Survey

The major causes of poor tax paying habit of Nepalese people were ranked in order of the preference of the respondents as follows. (Please refer table 5.2.3 for details)

1. Lack of incentives for regular taxpayers
2. Little knowledge of tax and its importance
3. Widespread practices of illegal business
4. Defective tax administration system
5. Poor public relation by tax office and authorities
6. Complexity of tax laws and policies
7. Poverty ness of taxpayers

To know whether there is positive or negative correlation between the above views of tax experts and taxpayers, it is tested by Spearman's rank correlation coefficient.

Test of Spearman's Rank Correlation:

Rank correlation: 1

We have;

$$r_s = 1 - \frac{6\sum d^2}{n(n^2-1)}$$

Where;

r_s = Spearman's rank correlation coefficient

d = difference of the corresponding ranks

n = number of pairs of observations

The value lies between -1 and +1.

Calculation of Spearman's Rank Correlation Coefficient

SN	Major causes	Total Points	Re-rank	Total Points	Re-rank	Diff. Of Rank	% age
		Y	R1	Z	R2	d=R1-R2	d ²
1	Poverty of tax payer	40	7	88	7	0	0.00
2	Little knowledge of tax and its importance	120	2	231	2	0	0.00
3	Widespread practices of illegal business	110	4	228	3	1	1.00
4	Lack of incentives for regular tax payers	136	1	260	1	0	0.00
5	Defective tax administration system	112	3	219	4	-1	1.00
6	Complexity of tax laws and policies	85	6	198	6	0	0.00
7	Poor public relation by tax office and authorities	98	5	209	5	0	0.00
	Total						2.00

Source: Opinion Survey

Note: Y refers to tax experts and Z refers to taxpayers.

The above table gives $\sum d^2 = 2$ and $n = 7$ to compute rank correlation coefficient as:

$$\begin{aligned}
 r_s &= 1 - \frac{6\sum d^2}{n(n^2-1)} \\
 &= 1 - \frac{6(2)}{7(49-1)} \\
 &= 1 - \frac{12}{336} = +0.96
 \end{aligned}$$

Decision: The correlation coefficient i.e. +0.96 indicates that there is highly positive correlation between the tax experts and tax payers ranking regarding the major causes of poor tax paying habit of Nepalese people.

4.2.3 Opinion towards Effectiveness of Income Tax to Reduce Gap between Rich and Poor People in Nepal

Income tax is levied on the income of the person or organization after allowing deductions of genuine expenses incurred to generate such income. And collected income tax is spent in public expenditures for everyone's benefit. The person or organization, which doesn't generate income, doesn't pay tax. So, income tax is supposed to be an effective tool to reduce the gap between rich and poor people. In this context, the respondents were asked the question, "Do you think income tax is an effective tool to reduce the gap between rich and poor people in Nepal?" and the responses received from them are tabulated below:

Table 18

Opinion towards effectiveness of Income Tax to reduce the gap between rich and poor people

Respondent Group	Yes		No		Total	
	Nos	% age	Nos	% age	Nos	% age
Y (Tax experts)	14	70	6	30	20	100.00
Z (Tax payers)	32	80	8	20	40	100.00
	46	76.67	14	23.33	60	100.00

Source: Opinion Survey

From the above table, it is clear that income tax is an effective tool to reduce the gap between rich and poor people. About 76.67% of the respondents responded that income tax is an effective tool to reduce the gap between rich and poor people and only 23.33% of respondents accepted that income tax is not effective tool to reduce the gap between rich and poor people in Nepal.

In conclusion, it can be said that most of the respondents opined that income tax is an effective tool to reduce the gap between rich and poor people.

Test of Hypothesis

Hypothesis: 2

We have 2x2 contingency table with cell frequency less than 5 as follows:

Respondent Groups	Yes	No	Total
Y (Tax experts and officers)	a = 14	b = 6	(a+b) = 20
Z (Tax payers)	c = 32	d = 8	(c+d) = 40
Total	46	14	N = 60

Null Hypothesis H_0 : There is no significant relationship between the views of tax experts and taxpayers with respect to income tax is effective tool to reduce the gap between rich and poor people.

Alternative Hypothesis H_1 : There is significant relationship between the views of tax experts and taxpayers with respect to income tax is effective tool to reduce the gap between rich and poor people.

For 2x2 contingency table, the value of χ^2 can be calculated by using following formula;

$$\begin{aligned} \chi^2 &= \frac{N(ad-bc)^2}{(a+b)(c+d)(a+c)(b+d)} \\ &= \frac{60(14 \times 8 - 6 \times 32)^2}{20 \times 40 \times 46 \times 14} \\ &= 0.74 \end{aligned}$$

$$\therefore \text{Calculated value of } \chi^2 = 0.74$$

Level of Significance, $\alpha = 5\% = 0.05$ (Suppose)

Degree of freedom = $(r-1)(c-1) = (2-1) \times (2-1) = 1 \times 1 = 1$.

From the table, tabulated $\chi^2_{(0.05, 1)} = 3.84$

Decision: Since, calculated χ^2 is less than tabulated $\chi^2_{(0.05, 1)}$ i.e. $0.74 < 3.84$, we accept null hypothesis (H_0) at 5% level of significance. It means there is no significant relationship between the views of tax experts and taxpayers with respect to income tax is effective tool to reduce the gap between rich and poor people in Nepal.

4.2.4 Opinion towards Modern-ness and Effectiveness of Income Tax Act 2058

To measure the modern ness and effectiveness of Income Tax Act, 2058 in comparison to the previous Income Tax Act 2031, a question, "In you opinion is the Income Tax Act 2058 a modern and more effective Tax Act than Income Tax Act 2031?" was asked. The responses received from the respondents are tabulated as below:

Table 19
Opinion towards modern-ness and effectiveness of Income Tax Act 2058

Respondent Group	Yes		No		Total	
	Nos	% age	Nos	% age	Nos	% age
Y (Tax experts)	19	95	1	5	20	100.00
Z (Tax payers)	37	92.5	3	7.5	40	100.00
	56	93.33	4	6.67	60	100.00

Source: Opinion Survey

From the above table, it is clear that 93.33% of the respondents approved Income Tax Act 258 is a modern and more effective that Income Tax Act 2031 and only 6.67% of the respondents don't recognize Income Tax Act 2058 as a modern and more effective that Income Tax Act 2031.

Hence, it can be concluded that Income Tax Act 258 is a modern and more effective than Income Tax Act 2031.

Test of Hypothesis

Hypothesis: 3

We have 2x2 contingency table with cell frequency less than 5 as follows:

Respondent Groups	Yes	No	Total
Y (Tax experts and officers)	a = 19	b = 1	(a+b) = 20
Z (Tax payers)	c = 37	d = 3	(c+d) = 40
Total	56	4	N = 60

Null Hypothesis H_0 : There is no significant relationship between the views of tax experts and taxpayers with respect to Income Tax Act 2058 is modern and more effective than Income Tax Act 2031.

Alternative Hypothesis H_1 : There is significant relationship between the views of tax experts and taxpayers with respect to Income Tax Act 2058 is modern and more effective than Income Tax Act 2031.

For 2x2 contingency table, the value of χ^2 can be calculated by using following formula;

$$\begin{aligned}\chi^2 &= \frac{N(ad-bc)^2}{(a+b)(c+d)(a+c)(b+d)} \\ &= \frac{60(19 \times 3 - 1 \times 37)^2}{20 \times 40 \times 56 \times 4} \\ &= 0.13\end{aligned}$$

\therefore Calculated value of $\chi^2 = 0.13$

Level of Significance, $\alpha = 5\% = 0.05$ (Suppose)

Degree of freedom = $(r-1)(c-1) = (2-1) \times (2-1) = 1 \times 1 = 1$.

From the table, tabulated $\chi^2_{(0.05, 1)} = 3.84$

Decision: Since, calculated χ^2 is less than tabulated $\chi^2_{(0.05, 1)}$ i.e. $0.13 < 3.84$, we accept null hypothesis H_0 at 5% level of significance. It means there is no significant relationship between the views of tax experts and taxpayers with respect to income tax is effective tool to reduce the gap between rich and poor people in Nepal.

4.2.5 Opinion towards Contribution of Income Tax on National Revenue

Income taxes are most essential for the development of a country especially underdeveloped and developing countries. Nepal is underdeveloped country requiring development on various sectors to export the resources of the country. It is blamed that the contribution of income tax on national revenue is not satisfactory through Income Tax Act 2058. To know the fact a question was asked, "Do you think that contribution of income tax on national revenue is not satisfactory through Income Tax Act 2058?" The responses received from the respondents are tabulated below:

Table 20
Opinion towards contribution of Income Tax on National Revenue

Respondent Group	Yes		No		Total	
	Nos	% age	Nos	% age	Nos	% age
Y (Tax experts)	7	35	13	65	20	100.00
Z (Tax payers)	10	25	30	75	40	100.00
	17	28.33	43	71.67	60	100.00

Source: Opinion Survey

From the above table, it is clear that the contribution of income tax on national revenue is not satisfactory through Income Tax Act 2058. 71.67% of the respondents approved contribution of income tax on national revenue not satisfactory and only 28.33% of the respondents recognize that contribution of income tax on national revenue is satisfactory through Income Tax Act 2058.

Hence, it can be concluded that the contribution of income tax on national revenue is not satisfactory through Income Tax Act 2058.

Test of Hypothesis

Hypothesis: 4

We have 2x2 contingency table with cell frequency less than 5 as follows:

Respondent Groups	Yes	No	Total
Y (Tax experts and officers)	a = 7	b = 13	(a+b) = 20
Z (Tax payers)	c = 10	d = 30	(c+d) = 40
Total	13	43	N = 60

Null Hypothesis H_0 : There is no significant relationship between the views of tax experts and taxpayers with respect to the contribution of income tax is not satisfactory through Income Tax Act 2058.

Alternative Hypothesis H_1 : There is significant relationship between the views of tax experts and taxpayers with respect to the contribution of income tax is not satisfactory through Income Tax Act 2058.

For 2x2 contingency table, the value of χ^2 can be calculated by using following formula;

$$\begin{aligned}\chi^2 &= \frac{N(ad-bc)^2}{(a+b)(c+d)(a+c)(b+d)} \\ &= \frac{60(7 \times 30 - 13 \times 10)^2}{20 \times 40 \times 17 \times 43} \\ &= 0.66\end{aligned}$$

\therefore Calculated value of $\chi^2 = 0.66$

Level of Significance, $\alpha = 5\% = 0.05$ (Suppose)

Degree of freedom = $(r-1)(c-1) = (2-1) \times (2-1) = 1 \times 1 = 1$.

From the table, tabulated $\chi^2_{(0.05, 1)} = 3.84$

Decision: Since, calculated χ^2 is less than tabulated $\chi^2_{(0.05, 1)}$ i.e. $0.66 < 3.84$, we accept null hypothesis H_0 at 5% level of significance. It means there is no significant relationship between the views of tax experts and taxpayers with respect to the contribution of income tax is not satisfactory through Income Tax Act 2058.

4.2.6 Opinion towards Effectiveness of Revenue Administrative and Revenue Tribunal

A taxpayer may not be satisfied with the decision made by tax officials. In such case, he may lodge an objection against the assessment with the Director General (DG) or revenue tribunal. In order to ensure justice or impartiality, it is necessary to establish a sound appeal system. Income Tax Act, 2058 has made provision for two types of appeal system: first to the Inland Revenue Department (IRD) for and administrative review and second to review tribunal. The Act has made it mandatory for the taxpayers to file an objection with IRD for an administrative review before appealing the revenue tribunal.

In order to know the effectiveness of the revenue administrative and revenue tribunal to give the correct decision to the taxpayer, a question was asked, "Are the revenue administrative and revenue tribunal offices effective to give the correct decision to the taxpayer?" The responses received from the respondents are tabulated below:

Table 21

Opinion towards Effectiveness of Revenue Administrative and Revenue Tribunal Offices

Respondent Group	Yes		No		Total	
	Nos	% age	Nos	% age	Nos	% age
Y (Tax experts)	9	45	11	55	20	100.00
Z (Tax payers)	10	25	30	75	40	100.00
	19	31.67	41	68.33	60	100.00

Source: Opinion Survey

From the above table, it is clear that the revenue administrative and revenue tribunal offices are not effective to give the correct decision to the taxpayers. Out of the 60 respondents 41 respondents i.e. 68.33% voted against the effectiveness of revenue administrative and revenue tribunal office and 19 respondents i.e. 31.67% voted for the effectiveness of revenue administrative and revenue tribunal offices.

In conclusion, on the basis of the above survey, it can be said that the revenue administrative and revenue tribunal offices are not effective to satisfy the taxpayers in their cases.

Test of Hypothesis:

Hypothesis: 5

We have 2x2 contingency table with cell frequency less than 5 as follows:

Respondent Groups	Yes	No	Total
Y (Tax experts and officers)	a = 9	b = 11	(a+b) = 20
Z (Tax payers)	c = 10	d = 30	(c+d) = 40
Total	19	41	N = 60

Null Hypothesis H_0 : There is no significant relationship between the views of tax experts and taxpayers with respect to the effectiveness of revenue administrative and revenue tribunal offices to give the correct decision to the taxpayers.

Alternative Hypothesis H_1 : There is significant relationship between the views of tax experts and taxpayers with respect to the to the effectiveness of revenue administrative and revenue tribunal offices to give the correct decision to the taxpayers

For 2x2 contingency table, the value of χ^2 can be calculated by using following formula;

$$\begin{aligned}\chi^2 &= \frac{N(ad-bc)^2}{(a+b)(c+d)(a+c)(b+d)} \\ &= \frac{60(9 \times 30 - 11 \times 10)^2}{20 \times 40 \times 19 \times 41} \\ &= 2.52\end{aligned}$$

\therefore Calculated value of $\chi^2 = 2.52$

Level of Significance, $\alpha = 5\% = 0.05$ (Suppose)

Degree of freedom = (r-1) (c-1) = (2-1)x(2-1)= 1x1=1.

From the table, tabulated $\chi^2_{(0.05, 1)} = 3.84$

Decision: Since, calculated χ^2 is less than tabulated $\chi^2_{(0.05, 1)}$ i.e. $2.52 < 3.84$, we accept null hypothesis (H_0) at 5% level of significance. It means there is no significant relationship between the views of tax experts and taxpayers with respect to the to the effectiveness of revenue administrative and revenue tribunal offices to give the correct decision to the taxpayers.

4.2.7 Opinion towards Effectiveness of Income Tax Act 2058 in the Coming Years

In order to know the effectiveness of Income Tax Act 2058 in the coming years, a question was asked, "Will the Income Tax Art 2058 be more effective in the coming years?" The responses received from the respondents are tabulated below:

Table 22

Opinion towards Effectiveness of ITA 2058 in the coming years

Respondent Group	Yes		No		Total	
	Nos	% age	Nos	% age	Nos	% age
Y (Tax experts)	15	75	5	25	20	100.00
Z (Tax payers)	28	70	12	30	40	100.00
	43	71.67	17	28.33	60	100.00

Source: Opinion Survey

From the above table, it is clear that Income Tax Act 2058 will be more effective in the coming years. Out of the 60 respondents 43 respondents i.e. 71.67% voted for the effectiveness of Income Tax 2058 in the coming years and 17 respondents i.e. 28.33% voted against the effectiveness Income Tax 2058 in the coming years.

In conclusion, on the basis of the above survey, it can be said that Income Tax 2058 will be more effective and productive in the coming years.

Test of Hypothesis

Hypothesis: 6

We have 2x2 contingency table with cell frequency less than 5 as follows:

Respondent Groups	Yes	No	Total
Y (Tax experts and officers)	a = 15	b = 5	(a+b) = 20
Z (Tax payers)	c = 28	d = 12	(c+d) = 40
Total	43	17	N = 60

Null Hypothesis H_0 : There is no significant relationship between the views of tax experts and taxpayers with respect to the effectiveness of Income Tax 2058 in the coming years.

Alternative Hypothesis H_1 : There is significant relationship between the views of tax experts and taxpayers with respect to the to the effectiveness of Income Tax 2058 in the coming years.

For 2x2 contingency table, the value of χ^2 can be calculated by using following formula;

$$\begin{aligned}\chi^2 &= \frac{N(ad-bc)^2}{(a+b)(c+d)(a+c)(b+d)} \\ &= \frac{60(15 \times 12 - 5 \times 28)^2}{20 \times 40 \times 43 \times 17} \\ &= 0.16\end{aligned}$$

$$\therefore \text{Calculated value of } \chi^2 = 0.16$$

Level of Significance, $\alpha = 5\% = 0.05$ (Suppose)

Degree of freedom = $(r-1)(c-1) = (2-1) \times (2-1) = 1 \times 1 = 1$.

From the table, tabulated $\chi^2_{(0.05, 1)} = 3.84$

Decision: Since, calculated χ^2 is less than tabulated $\chi^2_{(0.05, 1)}$ i.e. $0.16 < 3.84$, we accept null hypothesis (H_0) at 5% level of significance. It means there is no

significant relationship between the views of tax experts and taxpayers with respect to Income Tax 2058 will be more effective in the coming years.

4.2.8 Opinion towards Existence of Corrupt Practices in Income Tax Administration

Administration is the design of implementation of government policies. Tax administration is regarded as having the responsibility for determining the policies & programmes of government related to tax. Specially, it is the planning, organizing, directing, coordinating and controlling of government organizations related to taxation. Income Tax Act 2058 has made a provision regarding the design of tax administration also. However, Income Tax Administration of Nepal has got blame as a corruption center and administrator as the member of the center. In order to find out whether the corruption is existed in Nepalese income tax administration or not, a question, "Do you think corrupt practice exists in Income Tax Administration of Nepal?" was asked. The responses received from the respondents are tabulated below:

Table 23

Opinion towards Existence of corrupt practices in income tax administration

Respondent Group	Yes		No		Total	
	Nos	% age	Nos	% age	Nos	% age
Y (Tax experts)	10	50	10	50	20	100.00
Z (Tax payers)	40	100	0	0	40	100.00
	50	83.33	10	16.67	60	100.00

Source: Opinion Survey

From the above table, it is clear in the view of taxpayers there is corrupt practice in the income tax administration i.e. 100% of the taxpayers accepted that there is corrupt practice. However, according to the opinion of tax experts/officers, they have opined differently. 50% of the respondents have voted for there is corrupt practice and 50% have voted against the corrupt practice i.e. out of 20 respondents of tax officers/experts only 10 respondents opined that

there is corrupt practice in the income tax administration of Nepal. In aggregate, 50 respondents out of 60 i.e. 83.33% voted that there is corrupt practice in the income tax administration of Nepal. We can also believe the same.

Test of Hypothesis

Hypothesis: 7

We have 2x2 contingency table with cell frequency less than 5 as follows:

Respondent Groups	Yes	No	Total
Y (Tax experts and officers)	a = 10	b = 10	(a+b) = 20
Z (Tax payers)	c = 40	d = 0	(c+d) = 40
Total	50	10	N = 60

Null Hypothesis H_0 : There is no significant relationship between the views of tax experts and taxpayers with respect to there is corrupt practice in the income tax administration of Nepal.

Alternative Hypothesis H_1 : There is significant relationship between the views of tax experts and taxpayers with respect to there is corrupt practice in the income tax administration of Nepal.

For 2x2 contingency table, the value of χ^2 can be calculated by using following formula;

$$\begin{aligned}\chi^2 &= \frac{N(ad-bc)^2}{(a+b)(c+d)(a+c)(b+d)} \\ &= \frac{60(10 \times 0 - 10 \times 40)^2}{20 \times 40 \times 50 \times 10} \\ &= 24\end{aligned}$$

$$\therefore \text{Calculated value of } \chi^2 = 24$$

Level of Significance, $\alpha = 5\% = 0.05$ (Suppose)

Degree of freedom = $(r-1)(c-1) = (2-1) \times (2-1) = 1 \times 1 = 1$.

From the table, tabulated $\chi^2_{(0.05, 1)} = 3.84$

Decision: Since, calculated χ^2 is greater than tabulated $\chi^2_{(0.05, 1)}$ i.e. $24 > 3.84$, we accept alternative hypothesis (H_1) at 5% level of significance. It means there is

significant relationship between the views of tax experts and taxpayers with respect to there is corrupt practice in the income tax administration of Nepal.

4.2.8.1 Causes behind the Existence of Corrupt Practices in the Income Tax Administration of Nepal.

In order to know the causes of corrupt practices existed in the income tax administration of Nepal the next question was asked, "If yes, what are the major causes of corruption in the income tax administration of Nepal?" The respondents were requested to rank their answers from 1 to 5 scales. Table 5.2.16 gives a breakdown of the responses.

Table 24

Major causes of corrupt practices in income tax administration of Nepal

SN	Major causes	Group		Total Points	% age	Rank
		Y	Z			
1	Dishonest taxpayers	40	23	63	8.95	5
2	Dishonest tax personnel	8	186	194	27.56	1
3	Political uncertainty	35	148	183	25.99	2
4	Lower remuneration of tax personnel	28	118	146	20.74	3
5	Weaknesses of acts, rules and regulations	15	103	118	16.76	4
	Total			704	100	

Source: Opinion Survey

Note: Y: Tax experts/Officers

Z: Taxpayers

The major causes of corrupt practice existed in income tax administration of Nepal were ranked in order of preference of the respondents as follows. (See Table 5.2.16 for detail)

1. Dishonest tax personnel
2. Political uncertainty

3. Lower remuneration of tax personnel
4. Weaknesses of acts, rules and regulations
5. Dishonest taxpayers

To know whether there is positive or negative correlation between views of tax experts and taxpayers, it is tested by Spearman's rank correlation coefficient.

Test of Spearman's Rank Correlation

Rank correlation: 2

We have;

$$r_s = 1 - \frac{6\sum d^2}{n(n^2-1)}$$

Where;

r_s = Spearman's rank correlation coefficient

d = difference of the corresponding ranks

n = number of pairs of observations

The value lies between -1 and +1.

Calculation of Spearman's Rank Correlation Coefficient

SN	Major causes	Total Points	Re-rank	Total Points	Re-rank	Diff. Of Rank	
		Y	R1	Z	R2	d=R1-R2	d ²
1	Dishonest taxpayers	40	1	23	5	-4	16.00
2	Dishonest tax personnel	8	5	186	1	4	16.00
3	Political uncertainty	35	2	148	2	0	0.00
4	Lower remuneration of tax personnel	28	3	118	3	0	0.00
5	Weaknesses of acts, rules and regulations	15	4	103	4	0	0.00
	Total						32.00

Source: Opinion Survey

Note: Y refers to tax experts and Z refers to taxpayers.

The above table gives $\sum d^2 = 32$ and $n = 5$ to compute rank correlation coefficient

as:

$$r_s = 1 - \frac{6\sum d^2}{n(n^2-1)}$$

$$= 1 - \frac{6(32)}{5(25-1)}$$

$$= 1 - \frac{192}{120} = -0.6$$

Decision: The correlation coefficient i.e. -0.6 indicates that there is moderate negative correlation between the tax experts and tax payers ranking regarding the major causes of corrupt practice existed in the income tax administration of Nepal.

4.3 Comments and Suggestions from the Respondents

An open question was asked to the respondents to know their comments and suggestions regarding effective administration of Income Tax Act 2058. The responses received from them are presented below:

4.3.1 Comments from the Respondents:

1. Do correct practices by all.
2. Tax paying culture should be expanded.
3. Taxpayers can check the undesirable practices by tax officials.
4. There are very few tax brackets. Tax brackets should be more.
5. Lack of clear-cut definition and language accuracy in ITA 2058.
6. Difficult to understand language.
7. There is no sufficient tax rebates and no encourage for taxpayers.
8. Administration is poor and the practice of income tax is not effective.
9. Inconsistent policies due to unusual situation of the country.
10. Unmanageable size of taxpayers compared to tax offices specially in valley.
11. Don't give priorities to the relatives, friends, and commission players.
12. Due to the political problems of nation as well as poor implementation of rules and regulations of tax, assessment methods are not being effective.
13. Tax evasion and reduction exist.

14. Personal expenses booked as business expenses are to be discouraged.
15. Most taxpayers oriented no address on human resource post, structural problem and power centralization.
16. Complicated language.
17. Lack of effective training and motivation, taxpayer's education, and morality to both taxpayers and tax personnel.
18. Lack of proper utilization of collected tax.
19. Lack of reward and punishment to both taxpayers and tax personnel.
20. Lack o political stability, so it effect to the proper administration of Income Tax Act 2058.
21. Income Tax Act 2058 is based on highly educated taxpayers and developed economy i.e. inappropriateness according to our income situation.
22. There is not clear in law, tax officer is not well knowledge about tax law and being boss not service oriented.
23. This act provision cannot reduce the illegal business activities, tax evasion and avoidance.
24. There is ineffective enforcement of fine and penalty so corrupt practice exists in Income Tax Administration of Nepal.

4.3.2 Suggestions from the Respondents:

1. It is necessary to build a strong information system and public awareness.
2. Income Tax Act should be compatible with international practices.
3. Performance based incentive system should be applied.
4. Revenue authority board should be set up.
5. Fully functional system should be adopted.
6. Tax administration should run in electronic system.
7. Free from political interfere.
8. Strong commitment by political leaders, which must reflect in result.

9. More information to be given to the tax offices and authorities in time and again.
10. Training and logistics should be provided to tax offices sufficiently.
11. Hard penalties needed for tax related fraud.
12. Tax administration should be supported by adequate information about business.
13. Taxpayer's education is to be strengthened.
14. Private organizations and civil societies are to be supportive to better tax compliance.
15. The system is not scientific. So make it scientific and progressive.
16. Widening the tax base or expanding the tax network.
17. Controlling the mal practices and tax evasion.
18. Severe penalties to the concerned tax corruptors.
19. There should be clear definition, and not be two-way languages in the act.
20. Sound tax policies should be necessary and simplification of procedures.
21. Behavioral change in tax personnel.
22. Define various sources and level of taxpayers.
23. Concerned department and group should be identified.
24. Develop ethnicity in auditor or define source to taxable income.
25. Effective implementation of code of conduct.
26. Develop proper check and balance system through electronic media to control tax related malpractices.

4.4 Major Findings

4.4.1 Major Findings from Analysis of Secondary Data

On the basis of data presentation and analysis in above mention sub-chapter some important findings of the study are summarized below:

- (1.) There are two categories of sources of government revenues i.e. tax-revenue and not tax-revenue.
- (2.) Revenue collection increased by Rs.15435 million in the FY 2006/07 totaling Rs. 87717 million as compared to FY 2005/06.
- (3.) The study shows that the contribution of total tax revenue to total revenue was 81.08% and that of non-tax was 18.92% in FY 2006/07. It shows that taxation has been a major source of government revenue.
- (4.) Nepalese tax revenue is composed of both direct and indirect tax revenue. There is major role of indirect tax revenue in Nepalese tax revenue. The contribution of direct tax and indirect tax to total tax revenue was 25.38% and 74.12% respectively in FY 1998/99, which became 24.3% and 75.3% respectively in 2006/07. It reveals that tax structure of Nepal is not justifiable on equity ground and progressiveness because indirect tax is considered regressive in nature.
- (5.) The contribution of custom duty, excise duty, sales tax/vat, vehicle tax and other tax on indirect tax were 44.36%, 13.76%, 40.85%, 1.02% and 0% respectively in FY 1998/99 and the contribution of each taxes reached to 31.03%, 17.35%, 48.47%, 1.85%, and 1.30% respectively in FY 2006/07. It shows that excise duty, sales tax/vat, vehicle tax and other taxes are in increasing trend and custom duty is in decreasing trend.
- (6.) The contribution of income tax; land, house and land registration tax; urban house and land rent tax; and interest tax to direct tax revenue in FY 1998/99 were 80.18%, 13.75%, 1.69% and 4.38% respectively which reached to 80.86%, 13.04%, 0% and 6.10% respectively in FY 2006/07. In the composition of direct tax, income tax was the giant one whose contribution seems to be increasing every year. The percentage contributions of other taxes are nominal and fluctuating during the study period.
- (7.) Income tax has been considered as suitable sources for mobilizing internal resources. It can be used as a positive instrument to boost up government revenue collection, to develop the economic condition of Nepalese people and promote distributive justice and to cure resource gap problem.

- (8.) The total tax revenue/GDP ratio in FY 1998/99 was 8.24%, which increased to 10.53% in the FY 2006/07. But this ratio is not regarded as satisfactory increment.
- (9.) The direct tax/GDP ratio, contribution of direct tax to total tax revenue and total revenue in FY 1998/99 were 2.09%, 25.37% and 19.58% respectively which reached to 2.56%, 24.3% and 19.71% respectively for the FY 2006/07, which is not satisfactory increment for the developing country like Nepal.
- (10.) The income tax/GDP, income tax/total revenue, income tax/total tax revenue and income tax/direct tax revenue ratio were 1.68%, 15.71%, 20.35% and 80.10% respectively in FY 1998/99 which, reached to 2.07%, 15.94%, 19.65% and 80.86% respectively for the FY 2006/07. It is not satisfactory increment.
- (11.) The domestic resource gap has been fluctuating from 38% to 30% of total expenditure during the study period which is not favorable, such gap should decrease every year.
- (12.) The overall resource gap has increased from FY 1999/2000 to 2001/02, which decreased in FY 2003/04, and 2004/05. Again this gap increased continuously and reached to Rs. 20033.30 million in the FY 2006/07. It is not good because it shows our dependency on others.
- (13.) The contribution of the government revenue in financing public expenditure was 62.5% in the FY 1998/99, which reached to 65.65% in the FY 2006/07. It is not satisfactory increment that also depicts the internal indebtedness of the country.
- (14.) The contribution made by CITR to total expenditure was 9.15% in the FY 1998/99 which reached to 10.09% as maximum in the FY 2000/01 and with some fluctuations, it reached to 8.96% in the FY 2006/07. It seems very low contribution of CITR on total government expenditure.
- (15.) The corporate tax rates have been revised for several times in the history of corporate. Now a days private and public companies are taxed at a flat rate of 20, 25 and 30 percent respectively which are the lowest rate in the history of more than one decade.

- (16.) Nepal has been practicing book profit or corporate profit as tax base for the corporate taxation. ITA 2058 has clarified about the format for calculating different head of income.
- (17.) The contribution of CITR to total revenue was 14.64% in the FY 1998/99 which decreased to 13.64% in the FY 2006/07. It shows corporate sector is not getting better environment to grow its business activities so that large amount of tax can be paid.
- (18.) CITR portion in income tax revenue was 93.32% in the FY 1998/99, which gradually decreased to 81.62% in the FY 2005/06 and it was 85.64% in the FY 2006/07. This shows that CITR occupied major portion in income tax.

4.4.2 Major Findings from Empirical/Primary Study

On the basis of empirical investigation made with the respondents I have found following remarkable findings regarding Income Tax Structure of Nepal and its administration.

1. Major portion of income tax is covered by corporate sector. People in individual normally do not pay tax though they earn very handsome amount of money because of their negligence and poor administration/implementation of income tax rules and regulations.
2. It is easy for the individuals to evade tax because they are not found in organized form.
3. There is poor administration/implementation of income tax laws, rules and regulations. Government officials and government officers themselves are neglecting for the effective implementation of ITA rules and regulations. Besides, officials do not motivate taxpayers to pay tax but they directly or indirectly cooperate to avoid and evade tax.
4. The performance of tax administration office and revenue tribunal is doubtful. Both taxpayers and tax experts/officers have proved their inability as per the report of the respondents (taxpayers and tax experts/officers)

5. There is corrupt practice in income tax administration for which tax officials are more responsible than the taxpayers as per the report from the respondents.
6. Effective check and balance; and monitoring system is to be implemented for better administration of income tax laws, rules, and regulations.
7. Modern innovations and technologies help tax offices to monitor effectively in the tax related activities. So, tax offices should have such facilities.
8. Tax officials are to be trained time and again. Severe penalties are to be offered to the concerned officials in tax related frauds made knowingly and for the frauds made unknowingly last written warnings are to be charged, so that if they do same mistake, they can be dismissed from the job.
9. Honest and loyal taxpayers are to be rewarded time and again and they are to be advertised by the means of advertisement like television, newspapers, radios etc. to motivate other taxpayers to pay their income tax in time.

CHAPTER – 5

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 Summary

In today's world, there are hardly a few areas where tax shows its absence. It has become a matter to be known by everyone. An individual's income is reduced by tax, which affects his future savings. No one is out of the grip of tax. Tax has become an indispensable part of business world.

Great Britain is the first country to introduce the modern income tax. It introduced income tax in 1799 to finance war fought with France. USA introduced income tax in 1862 to generate revenue to finance civil war. Although the taxes were collected in various forms in ancient era, the history of modern income tax is not very old in Nepal. The idea of introducing income tax in Nepal originated in the early 1950s when a multiparty democracy political system was introduced.

Income tax should be justifiable to achieve maximum social and economic objective. It helps in redistribution of economic means by the transformation of wealth from persons with higher economic level to lower economic level. Income Tax Act 2058 has been enacted with wide perspective. Various new concepts are introduced in this Act, as compare to Income Tax Act 2031.

The study has been designed to analyze the income tax structure and resource gap; identify the share and trend of corporate income tax to government revenue; and identify the major problems of existing Income Tax Act 2058.

Taxation is the compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to

special benefit conferred. Tax may be of different types, rates and natures; it may be direct and indirect tax.

Income Tax Act 2058 has replaced the previous Act 2031, which was carried for 28 years. The Act 2058 has 24 chapters and 143 sections plus schedules. In the Act, there are so many types of additional and new provisions which can't be found in previous Act 2031. Income Tax Act 2058 has divided heads of income into three divisions i.e. business, employment, and investment whereas previous Act 2031 had made it five. ITA 2058 has kept certain provisions for depreciation in Appendix 2 of the Act. Similarly it has also made the provision of inter-head and intra-head loss recovery system. Carry forward and carry backward system also have been introduced in this Act.

Tax evasion and tax avoidance reduce tax liability of the government by unethical means - one is done legally whereas another is illegal. Basically, there are three types of effects of tax evasion in the economy. They are: loss of revenue to the state, redistribution of income which affects the efficiency of resource allocation in the economy and creating wrong statistics leading to errors in government policies.

According to Income Tax Act 2058, the Inland Revenue Department (IRD) has overall responsibility for the implementation and administration of income tax. However, Nepal government is the highest authority of the tax administration. The Ministry of Finance, on behalf of Nepal government, exercises the management function of tax administration by carrying out the functions such as planning, organizing, direction, coordinating, and controlling of the government organizations related to taxation.

Income Tax Act 2058 has included detailed penal provisions, which are divided into two parts; interest & penalties ad offences. Interests are charged on delinquent taxes so that taxpayers may not delay tax Penalties are fixed to correct the misbehavior of the taxpayers. If penalties are not levied on the taxpayers who

violate the Act, there may be a tendency not to follow rules and non-compliance will increase.

Income Tax Act 2058 has introduced a concept of administrative review that will allow the tax administration to correct mistakes, if any, made by the administration internally. The administrative revision may not be sufficient to establish effective and efficient appeal system for assurance of the justice and impartiality. It is because there may be existence of human error as personal biasness and official biasness in the administrative review. So, the current tax laws assure in this regard. As per law a person (the appellant) who is not satisfied by a decision on an objection filed against reviewable decision may appeal to the revenue tribunal.

Out of total revenue collection in the FY 2006/07, the share of tax revenue was 81.08% whereas the share of non-tax revenue was 18.92%. In the FY 2006/07, tax revenue increased by 23.84% as compared to previous fiscal year. The contribution of indirect tax revenue has always been greater than direct tax revenue during the study period. Similarly, the contribution of income tax has been larger than other components of direct tax. Contribution of income tax to direct tax revenue was 80.18% in the FY 1998/99 and its percentage came to 80.86% in the FY 2006/07. Income tax is an important source of the direct tax. Its structure in Nepal is the composition of tax revenue from government sector corporations, public sector corporations, private sector corporations including private institutions and remuneration tax. In the FY 1998/99 the amount of income tax was 5850.7 million whereas in the FY 2006/07 it was Rs. 13979.1 million. Income tax revenue collection increased by 45.63% in the FY 2006/07 totaling Rs. 13979.1 million as compared to last FY 2005/06.

In the opinion of the respondents, it has been found that there is a problem in the administration of Income Tax Act 2058 in Nepal. Most of the respondents thought that there is a problem. There is also a poor tax paying habit of Nepalese people. On the opinion of the respondents, lack of incentives for regular taxpayers

is the most powerful reason behind the poor tax paying habit. Similarly, little knowledge of tax and its importance, widespread practices of illegal business, defective tax administration system, poor public relation by tax offices and authorities, and complexity of tax laws and policies are other reasons. The contribution of income tax on national revenue is not satisfactory. It has also been found that revenue administrative and revenue tribunal are not effective to give correct decision to the taxpayers. Tax administration is not providing effective service to the taxpayers and other related people still after introducing the new Income Tax Act 2058. There is corrupt practice in income tax administration of Nepal. Out of 60 respondents, 50 respondents i.e. 83.33% voted for corrupt practice and 10 respondents i.e. 16.67% voted against the corrupt practice in income tax administration of Nepal.

5.2 Conclusion

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 achieved only if the government of Nepal takes steps for making the income tax management/administration efficient. Income tax system i.e. income tax administration and management has been criticized.

To fulfill desired goal, shortcomings in income tax system must be avoided. Government has adopted various policies to strength the revenue structure of Nepal. To broaden the tax base it is necessary to enhance the government revenue and for this purpose income tax revenue is reliable one among the different sources of revenue.

If the government has been effective in its revenue collection by Income Tax and other internal reasons the amount of foreign loan would have been increased less rapidly. So, to create the huge internal resources, the revenue administration of the country must be systematic and the people of the country must have

knowledge of income tax rules and regulations and willingness to pay income tax then only the prospect of revenue collection from income tax will be higher for internal resource mobilization.

Income Tax Act 2058 is quite advanced and is in accordance with international standards; however some analysts are saying the Act is photocopy of the Act of United Kingdom. For financial years gone by the Act 2058 in the revenue collection from income tax not seems satisfactory. Taxpayers and tax administrator have not got proper orientation and trainings before the application of the Act.

Income Tax Act 2058 could be an effective means to generate more revenue from income taxation if the Act is effectively implemented since the act has so many features. As taxpayers must response positively toward their duties and rights, the tax administrations must liable to fulfill the responsibility provided by the law to them. Otherwise they will pronounce as corrupt.

The share of tax revenue has always been greater than the share of non-tax revenue. Similarly, the contribution of indirect tax has been always greater than direct tax revenue during the study period from 1998/99 to 2006/07. Income tax is an important source of direct tax. Its structure of Nepal is the composition of tax from government sector, public sector, private corporate bodies and remuneration tax.

In the opinion survey, it has been found that there is poor tax paying habit of Nepalese people for which lack of incentives for regular taxpayers is the main reason. There is problem in income tax administration. However, ITA 2058 is modern and effective that the previous Act. But, contribution of income tax on national revenue is not satisfactory. There is corrupt practice in the income tax administration. On the opinion of the respondents the most powerful reason for corrupt practice is dishonest tax personnel and political uncertainty.

At last, in conclusion, it can be said that so many problems should be managed timely and implemented properly, the problems can be solved in some extent and income tax will lead to substantial increase revenue and the Nepalese tax administration has been attempting to modify itself to meet the pressing challenges brought by change in technology and economic policies and then we can solve the problem in administration of Income Tax Act 2058 in Nepal.

5.3 Recommendations

To achieve the result according to our expectations from income tax, it is essential to change our attitude and behaviors towards income tax. In accordance with the findings of the study, I personally, forward the following recommendations:

1. Considering our culture and economic situation, we should adopt the international taxation system and technology.
2. We are facing political uncertainties. Policies are well designed but very poorly implemented in Nepal. So, to promote industries, political problem should be solved at first i.e. one stable government is required at least for coming 20 years so that they won't change the policies time and again and implement them very minutely.
3. The contribution of income tax on national revenue should be increased by the following ways:
 - a) Corruption should be minimized
 - b) New sources of revenue should be found out
 - c) Effective tax collection tribunals should be established
 - d) No political placement and pressure in revenue department.
 - e) Over staffing is to be controlled.
4. To solve the administration problem in income tax, following ways are to be adopted:
 - i) There must be political stable environment for the business activities.
 - ii) Illegal business activities must be controlled.

- iii) Tax evasion and avoidance must be eradicated by effective implementation of fine and penalties and charging severe actions to such people.
 - iv) Provide effective training to tax personnel time and again.
 - v) Ensure public awareness by conducting various programs.
5. Tax assessment under ITA 2058 are effective however there are lots of trouble during tax assessment and no clear language (dual meaningful) in this Act. The following recommendations are made to make more effectiveness of assessment methods:
- i) Self-assessment should be carried by auditors.
 - ii) Tax assessment methods under ITA 2058 are an average so further treatment needed.
 - iii) Assessment must be made timely and without using discretionary power.
 - iv) Every tax return should be compulsory assessed.
 - v) Management assessment procedure should be clearly defined.
 - vi) Whether the assessee files his/her income tax return to the revenue office, the office should assess his/her tax without any hassles and harassment.
6. The revenue administrative and revenue tribunal offices should be easily accessible by the taxpayers, wherever they go with their problems; such problems are to be solved very quickly. These offices should give appropriate working environment to the taxpayers. No procedural delay or filing works are to be added to the taxpayers.
7. Following recommendations may be useful to improve the effectiveness of income tax administration:
- a) Training and career development should be provided to the tax personnel time to time.
 - b) There should be reward and punishment system to the tax officers.
 - c) There should be sufficient field offices.
 - d) Tax personnel should be given necessary physical facilities to minimize the corruption.

- e) Tax administration should be free from political pressure.
 - f) Weakness of Income Tax Act, rules and regulations should be amended by the government time to time.
 - g) There should be sufficient tax offices. Specially in the valley there should be more offices.
8. In the opinion of the respondents' corruption is the major problem on income tax administration in Nepal. Corruption is unethical or wrongdoing. A closer look in human behavior in economic life reflects corruption, poverty more than that of normal it reflects a lack of ethics. The following recommendations are put forward to minimize the corruption:
- a) Check and balance system should be developed in tax offices.
 - b) There should be adequate salary and the facilities to the tax personnel.
 - c) Dishonest tax personnel and taxpayers should be punished severely.
 - d) The political scenario of the country should be clear and stable.
 - e) Nepalese government should bring thousands of activities to uplift the living standard of the people.
 - f) Consciousness should be developed to hate corruptors.
 - g) Every citizen of the nation should be aware that measure income of the nation in tax and should be ready to pay own part honestly.

The Income Tax Act 2058 is facing different types of administrative problems. If the above recommendations are managed/implemented minutely, the problems can be solved in some extent and we can collect more income tax revenue to the country.

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APPENDIX - 1

QUESTIONNAIRE

A STUDY OF INCOME TAX STRUCTURE OF NEPAL

(The Questionnaire asked with the Respondents)

Please tick (√) the answer of your choice and put the alternatives in order of preferences.

1. Do you think there is poor tax paying habit of Nepalese people?

- a. Yes (.....) b. No (.....)

If Yes, what are the major causes of poor tax paying habit of Nepalese people.
(Please rank your answer 1 to 7 scales)

- a) Poverty ness of tax payer [.....]
- b) Little knowledge of tax and its importance [.....]
- c) Widespread practices of illegal business [.....]
- d) Lack of incentives for regular tax payers [.....]
- e) Defective tax administration system [.....]
- f) Complexity of tax laws and policies [.....]
- g) Poor public relation by tax office and authorities [.....]
- h) If others, please specify.

2. Do you think that income tax is an effective tool to reduce the gap between rich and poor in Nepal?

- a. Yes (.....) b. No (.....)

If No, what are the major causes of ineffectiveness of income tax in reducing the gap between rich and poor in Nepal? (Please rank your answer 1 to 9 scales)

- a) Widespread evasion of tax [.....]
- b) Small number of tax payers [.....]

- c) Avoidance of tax liability [.....]
- d) Poor tax paying capacity [.....]
- e) Lack of tax consciousness [.....]
- f) Defective government expenditure programs [.....]
- g) Defective tax rates [.....]
- h) Raising inflation [.....]
- i) Poor income tax administration [.....]
- j) If others, please specify.

3. Do you think there is problem in Income Tax Act 2058 in Nepal?

- c. Yes (.....) b. No (.....)

If Yes, what are the major problems in implementation of Income Tax Act 2058 in Nepal? (Please, rank your answer in order of priority)

- a) Lack of educated people [.....]
- b) Political problem [.....]
- c) Complicated language [.....]
- d) Ineffective enforcement of fine and penalty [.....]
- e) Illegal business activities [.....]
- f) Tax evasion and avoidance [.....]
- g) Low responsibility of tax payer and tax authorities [.....]
- h) Lack of appropriate assessment procedure [.....]
- i) Inappropriate rate and exemption limit [.....]
- k) Inadequate economic policy [.....]
- l) Other (Please specify)

4. In your opinion is the Income Tax Act 2058 a modern and more effective Tax Act than Income Tax Act 2031?

- a. Yes (.....) b. No (.....)

5. Do you think that contribution of Income Tax on national revenue is satisfactory through Income Tax Act 2058?

- a. Yes (.....) b. No (.....)

6. Is rebate and facilities provided by Income Tax Act 2058 to special industries are adequate? (please tick (√) anyone).

- a. Yes (.....)

If Yes,

- a. Very low (.....) b. Low (.....) c. Medium (.....)
d. High (.....) e. Very high (.....)

7. Do you think tax assessment methods under income tax Act 2058 are effective?

- a. Yes (.....) b. No (.....)

If no, what suggestion you can give? Please specify.

.....
.....
.....

8. Are the revenue administrative and revenue tribunal are effective to give the correct decision to tax payer?

- a. Yes (.....) b. No (.....)

9. Is the tax administration office providing effective service to the tax payer and other related people after the new act 2058?

- a. Yes (.....) b. No (.....)

If no, why may be the reasons? (Please rank your answer in the order of priority)

- a) Lack of training and career development [.....]
b) Lack of motivation [.....]
c) Lack of reward and penalties [.....]
d) Political effect [.....]
e) Lack of physical facilities [.....]

- f) Lack of sufficient budget [.....]
- g) Lack of sufficient field offices [.....]
- h) Negligence of tax payer and tax authorities [.....]
- i) If others (please specify)

10. Will the Income Tax Act 2058 be more effective in the coming years?

- a. Yes (.....) b. No (.....)

If no, what may be the reasons? (Please rank your answer in the order of priority)

- a) The Act itself is not effective [.....]
- b) Lack of tax consciousness in people [.....]
- c) Political uncertainties have increased day by day [.....]
- d) Increasing tax evasion and avoidance [.....]
- e) Other (please specify)

11. Do you think corrupt practice exists in Income Tax Administration of Nepal?

- a. Yes (.....) b. No (.....)

If Yes, what are the major causes of corruption in Income Tax Administration of Nepal? (Please rank your answer in the order of priority)

- a) Dishonest tax payers [.....]
- b) Dishonest tax personnel [.....]
- c) Political uncertainties and political pressures [.....]
- d) Lower remuneration of Tax personnel [.....]
- e) Weaknesses of acts, rules and regulations [.....]
- f) Other (please specify)

12. How can corrupt practice existed in Nepalese Income Tax administration be minimized? (Please rank your answer in the order of priority)

- a) Severe actions to corruptors [.....]

- b) Development of check and balance system [.....]
- c) Moral education to tax personnel [.....]
- d) Reduction of tax officer's discretionary power [.....]
- e) Additional incentives to tax personnel [.....]
- f) Regular supervision of tax personnel [.....]
- g) Other (please specify)

13. Do you have any comments and suggestions for addressing or solving the problems of Income Tax Act 2058, please specify.

Comments:

- a)
- b)
- c)
- d)
- e)

Suggestions:

- a)
- b)
- c)
- d)
- e)

Thank you very much for your kind help and cooperation.

APPENDIX - 2

LIST OF THE RESPONDENTS

Tax Experts and Officers

SN Name and Designations of the Respondents

- 1 Badri Gautam, Director, Inland Revenue Department, Laximpat, Kathmandu
- 2 Bishnu Prasad Upadhyaya, Tax Officer, Inland Revenue Office, Babarmahal, Kathmandu.
- 3 Dasi Ram Khanal, Registered Auditor, D. R. Khanal & Company, Naxal, Kathmandu.
- 4 Dilip Kumar Chaudhary, Registered Auditor, D. K. & Company, Kathmandu,
- 5 Dinesh Sharma, Tax Officer, Inland Revenue Office, Babarmahal, Ktm.
- 6 Ghan Shyam Panthi, Section Officer, Inland Revenue Department, Lazimpat.
- 7 Gopal Shrestha, Registered Auditor, Shrestha & Company, Kathmandu,
- 8 Laxman Budhathoki, Tax Officer, Inland Revenue Office, Babarmahal, Ktm.
- 9 Madhusudan Pokhrel, Chief Tax Officer, Inland Revenue Office, Babarmahal, Kathmandu.
- 10 Mohan Singh Basnet, Tax Officer, Inland Revenue Office, Babarmahal, Ktm.
- 11 Nirmal Hari Adhikari, Deputy Secretary, Ministry of Finance
- 12 Nishit Kumar Poudel, Director, Inland Revenue Department, Laximpat, Ktm.
- 13 Rajendra Prasad Chudal, Tax Officer, Inland Revenue Office, Babarmahal,
- 14 Ram Prasad Ghimire, Tax Officer, Inland Revenue Office, Babarmahal, Ktm.
- 15 Sagar Man Singh, Registered Auditor, Sagar & Company, Kathmandu, Nepal
- 16 Sharad Kumar Pradhan, Tax Officer, Inland Revenue Office, Babarmahal, Kathmandu.
- 17 Sharad Kumar Pradhan, Tax Officer, Inland Revenue Office, Babarmahal, Kathmandu.
- 18 Tanka Nath Poudel, Tax Officer, Inland Revenue Office, Babarmahal, Ktm.
- 19 Tej Bahadur K. C., Tax Officer, Inland Revenue Office, Babarmahal, Ktm.
- 20 Umesh Shrestha, Tax Officer, Inland Revenue Office, Babarmahal, Ktm.

APPENDIX - 3

Tax Paryes

SN Name and Designation of the Respondents

- 1 Amit Singh Karki, Assistant Manager, Laxmi Bank, Limited, New road Branch.
- 2 Arjun Mani Guragain, Country Coordinator, Child Haven International, Aarubari, Kathmandu
- 3 Bhim Shahi, Principal, Lovely Angels English Secondary School, Mahankal, Kathmandu
- 4 Bikram Poudel, Branch Manager, Nabil Bank, Jorpati Branch
- 5 Bishnu Panta, Campus Chief, Pashupati Multiple Campus, Chabahil, Ktm.
- 6 Bishnu Prasad Dahal, Campus Chief, Kumari Multiple Campus, Boudha, Kathmandu.
- 7 Chitra Bahadur K. C., Executive Director, New Sadle, Kapan, Kathmandu.
- 8 Devi Prasad Adhikari, Campus Chief, Padma Kanya Multiple Campus, Bagbazaar, Kathmandu
- 9 Dhurba Subedi, Proprietor, Dhurba Emporium, Jorpati
- 10 Diwakar Chalise, Proprietor, Sigma Institute, Dillibazaar, Kathmandu
- 11 Gambhir Man Shrestha, Architecture, Stupa Community Hospital, Boudha, Kathmandu
- 12 Govinda Prasad Dhungana, Officer, Everest Bank, Chabahil Branch
- 13 Govinda Prasad Ghimire, Ex Asst. Secretary, Ministry of Health, Nepal Government.
- 14 Harihar Koirala, Officer, NCC Bank, Chabahil Branch
- 15 Ishwari Prasad Lamichhane, Principal/Campus Chief, Arunima Higher Secondary School, Boudha, Kahtmandu.
- 16 Keshab Prasad Sharma, M.D., Benchmark Publication, New Baneshwar
- 17 Keshab Prasad Dangal, Chairman, St. Lawrence College, Chabahil, Ktm.
- 18 L. B. Thing, Deputy Director, ICFC Bittiya Sanstha Limited, Main Branch, Bhatbhateni.
- 19 Mahesh Bhattarai, Executive Officer, NCC Bank, New road Branch.
- 20 Niranjana Dallakoti, Air Traffic Controller, Civil Aviation Nepal, Bharatpur Airport Office, Bharatpur, Chitwan.
- 21 Prem Raj Satyal, Proprietor, PR Export Company, Jorpati
- 22 Puran Sapkota, Proprietor, Lama Engineering Workshop, Chuchchepati, Ktm.
- 23 Rabi Prasad Chalise, Proprietor, Technical Engineering Works, Jorpati, Ktm.
- 24 Rabin Thapaliya, Coordinator, Kathmandu Higher Secondary School, Chabahil, Kathmandu
- 25 Rajendra Giri, Director, Annapurna Finance Company Limited,
- 26 Raju Shrestha, Principal, Saraswati Secondary School, Jorpati, Kathmandu
- 27 Rakesh Kumar Chaulagain, Officer, Global Bank, Limited
- 28 Ram Prasad Adhikari, Campus Chief, Dillibazaar Kanya Multiple Campus, Kathmandu
- 29 Ram Prasad Koirala, Proprietor, Koirala Medical Hall, Jorpati

- 30 Ramji Poudel, EMBA Program Coordinator, Ace Institute of Management,
Kathmandu
- 31 Ranjit Lama, Program Associate, UNDP, Pulchok, Lalitpur
- 32 Ratna Bazra Lama, Chairman, Kumari Multiple Campus, Boudha, Ktm.
- 33 Sanjeev Thapaliya, Branch Manager, ICFC Bittiya Sanstha Limited, Boudha
Branch, Boudha, Kathmandu
- 34 Shambhu Gole, Lawer, Sujib Law Firm, Putalisadak, Kathmandu
- 35 Sharada Lohani (Pandey), HOD Accountancy, Brilliant Multiple Campus,
Chabahil, Kathmandu
- 36 Suman Lama, Principal, Brihaspati Shikshya Sadan, Kathmandu
- 37 Suman Prasad Chaudhary, Assistant Campus Chief, Kumari Multiple
Campus, Boudha, Kathmandu.
- 38 Suresh Kumar Upadhyaya, Director, Kumari Multiple Campus, Boudha,
Kathmandu.
- 39 Surya Bahadur Pandey, Section Officer, National Park, Babarmahal, Ktm.
- 40 Uddhav Prasad Lamichhane, Proprietor, New Boudha Books and
Distributors, Boudha, Kathmandu