

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is the one of least developed countries situated in the northern hemisphere, known as land of Mt. Everest and the birth place of Lord Buddha. Nepal is a tiny landlocked country, per capita income is \$470. The mainstay foundation of Nepal's economy is agriculture. 80 percent people are dependent on agriculture for livelihood. Agriculture contributes more than 40 percent of GDP. The preliminary estimates of per capita GDP at current price stands at NRs 30361 (US \$470) for the year 2007/08 (According to Nepal in Figures 2008 Central Bureau of Statistics).

Nepal Occupies only 0.03% and 0.3% of total land area of world and Asia respectively, the country has an extreme topography and climate. The altitude ranges from 70 meters to 8848 meters and the climate varies from tundra to polar. The country stretches from east to west with mean length of 885km. and widens from north to south with mean breadth of 193km. Economic development is the prime concern of every nation of the world. For the economic development, government has huge responsibilities towards the people.

To fulfill the responsibilities, government needs revenue to operate different activities in a country. Such activities include general activities and developing activities. General activities incurred for the protection of common people and public administration. Development activities incurred transportation, education, health and public utilities facilities to the community. Government collects revenue through two sources:

(I) internal (II) external sources. Developing countries like Nepal have limited sources of internal funds. So most of the development activities of the nation

depend on the external sources. The external sources of financial are bilateral and unilateral grants, loans from foreign countries and fund from donor agencies. These sources have been limited, inconvenient and not suitable to boost up the Nepalese economy due agencies and need to pay high interest accepting the in appropriate condition to take the loan. Government tries to finance resources through internal sources.

It is very important for developing country like Nepal to mobilize internal sources .where adequate natural resources and low cost labor force are available. Situation of Nepal is different. Nepal is not mobilizing its natural resources effectively, small and stagnant industrial sector, partial Monetization of the economy, poor performance of public sector, enterprise, poor rate of economic growth inadequate tax efforts, deficiencies on tax policies, laws and administration etc. exist here. Internal sources of public fund 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 in to revenue (public income) and borrowing (could be external and internal). The public income or revenue includes:

(a) Taxes (b) revenue from Government corporations and public enterprises (c) fees (d) special assessment (e) fines and penalties. Among them tax is the main sources of collecting the Government revenues.

The Government collects the estimated total tax revenue Rs116,560 in million which is from Existing sources Rs104,285 in million & from Tariff Ad.& Adm.Reform Rs 12,275 in million (sources: Pocket book of National planning commission 2008) . In Nepal about 77% of total revenues come from tax revenues and the rest 23% from non-tax revenue (Amatya, Pokheral and Dahal, 2004).

"Resources mobilization through taxation is an avoidable in the sense that if the government does not tax, now remaining dependent on foreign borrowing only for meeting the normal budgetary needs of the economy, it would be forced to tax in the future" (Bhargava, 1956:18).

"A tax is a compulsory contribution from the person to the government to defray the expenses incurred in the common interest of all without references to special benefit conformed." Kandel again, cited that the tax is levy paid or to be paid by the natural or an artificial person to the government without getting corresponding benefits of goods or services provided by government .Thus, taxes play vital role in the government revenue. Simply, tax is a compulsory contribution to the state from a person, the natural person or artificial person (entity or corporate body having tax liabilities pay taxes to the government).The taxpayer does not receive the equivalent benefit from the government .Tax is paid to government and the amount of tax is spent for common benefits and interest of the people. Taxes are classified in to major categories viz, direct tax and indirect tax. The tax directly paid by a person on whom it is legally imposed is known as a direct tax. Such tax is income tax, gift tax, interest tax, property tax, vehicle tax, house & land tax, contract tax etc.Indirect taxation means a tax may be custom duty, value added tax, entertainment tax, excise duty, sales tax, hotel tax, passenger tax etc. In Nepal direct tax contributes about 21% and indirect tax contributes about 79% in the tax revenue of government (Amatya, Pokharel and Dahal, 2004).

Income tax is one of the most popular direct taxes, it is charged on person income according to the law of nation. Income includes all the income, which are receiving from business, investment & employment. Income tax is superior to indirect tax because it is imposed on the basis of paying capacity of the taxpayer. People whose income is below the taxable income are free from the obligation of income tax. It may possible to reduce the gaps in income by imposing higher rate to those who are having high income and from that

collected amount, providing necessary to the people with very poor economic condition. It may help to make equitable economic distribution in the society. Balanced regional economic development is also possible through the provision of income tax. The government should charge higher income tax on the income from urban area and less on the income from remote area. Income tax holiday and incentives would help to develop the priority sector of a national economy. "Income tax has become an effective investment to ensure balanced socio-economic growth" (Mathew, Musgrave & Musgrave, 1998).

For the economic growth of the country, large volume of investment and expenditures on economic activities are needed. Whether it is developed or under developed economy, taxation is looked upon as the most powerful tool of the government for raising the ration of savings and capital formation.

"Taxation in the modern world has been taken as the best effective tool for raising the ration of savings to the national income." Income tax is recognized as a good financial tool to narrow inequality of income. It helps to reduce regional economic imbalance by providing tax concession and holiday to business or industry, which are established in remote area. It is also helpful for generating the concept of social responsibility towards the nation and keeps the people vigilant to see the public money may not be misused (Pant, 1996: 2).

The contribution of income taxes is much smaller to the total revenue for developing countries in comparison to developed countries and is likely to remain same for sometime despite the efforts over the years for the least developed countries to raise more revenue. There are mainly four reasons as why income tax yield is less in developing countries as compared to developed ones. They are problems of defining income, problems of assessing and measuring it, the choice of rates, allowance and deducing and difficulties of tax collection. Income tax is main source of government revenue; it is useful to balance economic development. Nobody can have doubt that the equal

distribution of income is also possible through progressive income tax. It is being realized that contribution of income tax to the revenue of government must be increased in Nepal. Nepal has adopted the income tax system for last four and half decades. But Nepal's past experience shows that the government is unable to maximize the share of income tax to the public fund as per expectation.

Being developing country Nepal has been facing many problems in financial sectors .Public Bank plays a vital role in economic and financial development of the country. They work in both zone like city & remote area of the country and also as a bridge which provides every kind of financial assistances to the industries, agriculture and commerce. They play a highly significant role in mobilizing funds of savers to ingestible channels assuring of promising return on investments and thus can help in meeting the widening demand for ingestible funds for economic activity. The service of public banker could cover project counseling and pre-investment activities, feasible studies, project reports, design of capita stricture, issue management and underwriting loan, syndication, foreign currency finance, merger, amalgamations and takeover, venture capital and public deposits.

1.2Statement of the Problem

The prime concern of every nation of the world is economic development. Underdeveloped countries are facing several problems in the process of economic development; Nepal is not than exception to this condition. The majority of people have not been able to get even basic facilities. The government also wants to fulfill the basic needs of the people within a certain period. It needs huge amount of capital for the growing aspirations of people to be fulfilled. One of the major sources of the public revenue is income tax in Nepal. It charged on person's income with the increase in government expenditure, the source government revenue must be increased. But the expenditure of government of Nepal has been increasing in a faster rate than

the increase revenue. The economic growth of the country measured by GDP is 5.56 percent per year in the year 2007/08. Being developing country most of Nepalese are below the poverty line nearly one third of the total population (about 30.8%) live below poverty line as per the Nepal Living standards survey 2003/04 and the Ginni coefficient, which indicates inequality between the poor and rich is 41.4 (Central Bureau of Statistics, 2008).

Nepal is a developing country. Most of the developing countries of the world should make investment heavily on infrastructure and activities for balance social and economic development of the nation. That is why the government has been pressured to spend huge amount in education, health, physical construction and so many areas. There seem to be three reasons contributing to strong pressure to spend (Leaving aside general price changes): the growth of population, the emergence of strong local and the emergence of strong world options. The development of the country will be possible when the government can mobilize its own internal revenue, which constitutes tax and non-tax revenue.

Tax revenue constitutes a significant position in government revenue. In the total tax revenue indirect tax has greater portion than direct tax. In Nepal only 0.5% of the total population pays the income tax (Economic survey 2005/06) past experience shows that, there is poor tax paying habit in Nepalese people. There are various problems about income tax administration like, no proper record about the number of income tax payers, defective selection of personnel, lack of training and education to tax payers and tax officers, undue delay in making assessment, lack of responsibilities of officials on their work, existence of corruption and lack of the motivation to concerned authorities etc. Because of the inefficiency of the administration and increasing corruption, people have to have faith in the working of government and its organizations. The income tax is vital source of the government revenue. Two types of income tax are applied i.e. Personal income tax and corporate tax. Most of the

personal taxpayers do not reveal the income sources even though they earn significant amounts. They hardly keep the accounts. Similarly, some companies have been practicing to evade tax liabilities by hiding incomes. As a result, the actual collection of income tax is very low and the problem has been stable continuously due to corruption too. The laws of tax authorities also cause low revenue generation for the government. The discretionary power of the tax personnel and the tax assessment procedure of the income tax system of Nepal harass the taxpayer in the payment of tax and establish the cause for reduction in the income tax revenue. Similarly, the department cannot find out the actual number of income tax payers. In the context of developing countries like Nepal, the government cannot raise more income tax from corporations because high income tax may discourage the formulation of corporations.

The Government of Nepal is being unable to realize the expected income tax from personal as well as corporations. There is no proper supervision over the staff members of the tax collection department. Corruption is the main problem of tax administration. There is no reliable and sufficient data for tax purposes and also they cannot even maintain their books of accounts, un-audited financial statements, intention to hide their ability to pay tax, low level of morale and honesty etc.

At last, without financial resources, domestic resources cannot be mobilized because it puts a heavy brake on the overall development. This problem is increasing very rapidly in the Nepalese economy. So this problem can be solved by income tax and bridge the gap of resource mobilization.

1.3 Objectives of the Study

The main objective of the study is to analyze the income tax collection from Citizen Investment Trust by the government for the last five years (2003/04 to 2007/8). The other objectives of this study are pointed below:

-) To analyse the role of income tax in Nepal.

-) To introduced Citizen Investment Trust in Nepal and evaluate the Contribution of income tax paid by Citizen Investment Trust to the Government revenue.
-) To examine the effectiveness of income tax revenue collection from Citizen Investment Trust in Nepal.
-) To show the contribution of income tax from Citizen Investment Trust to total tax and total income tax revenue of Nepal.
-) To provide the appropriate suggestions and recommendations for the identified issues.

1.4 Significance of the Study

Every year there is a need of mobilizing adequate resources for meeting the increasing financial requirement for Nepal Governments development process. Thus income tax seems to be one of the major potential resources for the mobilizing a huge amount of financial resources in Nepal.

Income tax plays significant role in the overall economic development in developing countries whether in develop and developing countries. Income tax occupies a very important role in overall tax structure. In the world share of income tax in the overall tax structure is increasing because of its important for the economic battlement of the country.

To increase the portion of national revenue, research and analysis should be done in the field of income tax. But the studies and research work is lacking in the area of income tax. Public Banks are also income taxpayers .The problems they are facing in tax saving in saving should be corrected so they may contribute more income tax the national receipt. Public Banks are such institutions, which are directly linked with most other business activities. The position of business trade and industries can be visualized through the analysis of activities of public bank. This study is concerned with appropriate suggestions for the estimation, correction and provides comprehensive

information about income tax. Besides, this analysis may be useful to make new policies for granting various facilities to the public bank for making more taxable income in the competitive environment and legal correction, vague section of income tax can be also rectified from such analytical study.

This study is concerned with these aspects and it tries to make appropriate recommendation for the correction of problems in paying income tax by Public Bank. Besides, this study will also be useful to the tax planners, bankers, tax authorities and many others like teachers, students, researchers and people who are interested on it.

1.5 Limitation of the Study

As every research study is followed by some limitations, this study is also not free from limitations. The major limitations are mentioned below:

-) This study concentrates on the income tax realization from selected Public Organization i.e. Citizen Investment Trust, Putlisadak, ktm.
-) The study has covered the data from fiscal year 2003/04 to 2007/08.
-) This study is mainly based on secondary data.
-) This study is only case study, thus the result may not be applicable to other enterprises thoroughly.
-) This study has been conducted to fulfill the requirement of the MBS Programs of T.U. for the prescribed time not for generalizations Purpose.
-) Since the study has been conducted in a year, there is limitation of Time.

1.6 Organization of the Study

The study has been divided in to major five chapters. They are as follows:

Chapter- I Introduction

The first chapter has covered introduction, background of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and design of the study.

Chapter- II Review of Literature

The second chapters will focus on review of literature. It will be related on the survey of books, journals, thesis and dissertation and articles.

Chapter - III Research Methodology

The third chapter deals with research methodology to be adopted for study consisting introduction, research design, population and sample nature and sources of data, data collection procedures variable and tools and technique employed.

Chapter - IV Data Presentation and Analysis

The fourth chapter is related with the presentation & analysis of gathered data with figure and picture and major findings

Chapter-V Summary, Conclusion and Recommendations

The fifth deals summary, Conclusion, recommendations and suggestion.

CHAPTER - II

REVIEW OF LITERATURE

A nation requires sufficient funds to carry out development plans handle day-to-day administration, maintain peace & security and launch other public welfare activities. The fund required by the government are normally collected either from internal sources: debt & revenues. The debt can be collected either from internal sources of external sources or external sources. The debt collected within the country is known as internal debt while the debt collected from outside the country is called external debt. The debt financing of the government is also known as deficit financing. The revenues of the government come basically from two sources: Tax and non tax. Non tax sources include different revenues like gifts, grants revenues from public enterprises, administration revenues such as registration fees, fines & penalties. Tax sources include customer, excise duty, vat, and income tax. In Nepal around eighty percentages of the government revenues come from taxation. Hence the tax is the major sources of government revenue. In simple terminology tax is a liability to pay an amount to the government. It is compulsory contribution to the national revenue from the tax payers according to law.

Findlays Shiras defined tax as “a compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefit”.

According to Plehn “Taxes are general contribution of wealth of wealth levied upon persons: natural or corporate to defray expenses incurred in conferring common benefits upon the residents of the states”.

From the above definitions we can say that tax is compulsory contribution by the people to the government due to this compulsory nature, some people have expressed their view in a satirical way. “Nothings are certain in this world but death and taxes are certain”. “Death means stopping to pay tax”. Death and taxes are both certain but death is not annual. “Taxpayer cannot claim the equal benefit from the state for the payment of tax. Tax is paid to the government to spend for public welfare or for common interest of the people. Tax is collected from haves and basically spent for the interest of have-nots in the society.

In conclusion, tax is a compulsory payment by the citizen to the government without the expectation of any personal benefit, which is redistributed, by the government in the nation in form of public services peace and security and development infrastructure. Tax can be classified on the basis of different views. Basically taxes are categorized in the following basis. Tax can be classified on the basis of different views. Basically taxes are categorized in the following basis:

A. On the basis of Burden Shifting (On the basis of liability to pay)

- (I) Direct tax: - According to Dalton, “A direct tax is really paid by the same person on whom it is legally imposed”. In direct tax the person paying and bearing tax is the same. Direct tax is levied on income and property. Some example of direct tax is income tax, vehicle tax, interest tax, death tax, property tax, gift tax etc. The Direct taxes have been used to bridge the gap of income and wealth inequality in the society.

- (II) According to Dalton, “An indirect tax is imposed on one person but paid partly or wholly by another. “In indirect tax, the person paying and bearing the tax is different. It is levied on consumption of goods & services. Indirect tax are imposed on the consumption of goods and services it include export-import duty, excise duty, sales tax, value added tax, entertainment tax, hotel tax, passenger tax etc.

B. On the basis of level of Government

(I) Central taxes: The tax collected by the central body of the nation is called central taxes e.g. customs, excise duty, vat, income tax etc.

(II) Local taxes: The tax collected by the sub-division of government (local govt.) is local taxes e.g. house & compound tax, vehicle tax, Octroi duty collected by municipalities.

Taxation is a major instrument of social and economic policy.

- It reduces inequality of economic development by reallocation of resources.
- It transfers recourse from the private to public sector.
- It is also useful for resource mobilization through capital formation.
- It promotes economic growth, stability and efficiency.

2.1 Concept of Income Tax

After the great depression of the 1930's the function of government has been increased considerably. Government has got various sources to collect revenue. Among various sources of revenue tax is a major source. Generally tax is defined as compulsory payment to the government. Every body upon which it is imposed should pay tax.

Income tax is imposed on net income of individual, and corporation must bear the burden of tax imposed on them. Generally, income means the inflow to person. Income tax is levied on the income derived from business, employment and investment. Income tax is levied on the net income i.e. total income less the allowable deduction. It is a best measure economic of a person as well a nation. Higher income denotes the high living standard and lower income refers to the low living standard of people.

Economists define the term income in a broad sense it is an economic gain receipt to a person during a particular period by way of wages, interest, profits and rent. The money income of the people is used for two purposes. Part of

income is spent on consumption and part is saved. This definition can be expressed in the formula as below:

$$Y=C+S$$

Where,

Y= Income

C=Consumption

S=Saving

According to Sec.2 (a) of income tax Act, 2031(1974) of Nepal has defined the income just like Indian income tax Act. It defines incomes as the cash or in kinds which are received from agriculture, Industry, Business, Profession or Vocation, remuneration, house & land rent and other sources.

In fact the income tax Act 2031 divided the income heads in the following points.

- i. Agriculture
- ii. Industry, Business, Profession or Vocation
- iii. Remuneration
- iv. House and Land rent
- v. Other sources

The new tax Act 2058 (2002) was passed and implemented for Chaitra 19,2058 (1st April 2002),the Act defines income as “a person’s income from any employment, business or investment and the total of that income as calculated in accordance with this Act”. Income tax act 2058 is also not different in respect of defining the income. Although it has reduced the sources of income from five to three, it defines income in terms of the sources only.

This act has classified the income into three different heads they are:

- (I) Business
- (II)Employment
- (III)Investment

2.2 Evolution of Taxation

The Great Britain is the first country in the world to introduce the income tax in 1799. It imposed income tax in order finance war with France. Similarly in USA the first federal income tax was imposed with the same objective (To finance civil war). However in the beginning these countries imposed income tax on a temporary basis until 1860. There after since 1913 it was accepted as permanent tax. Thus income tax was adopted by different countries gradually. Italy started it in 1864 and New Zealand adopted in 1891. Austria and Canada had followed the income tax in 1915 and 1917 respectively. After 1st world war the income tax became an important source of 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 number of developing nations (Agrawal, 1980).

In India the income taxation was started in 1860 by the British government to have relief from economic burden created due to 1st democratic revolution. It was then regularly collected after the publication of Income tax act 1886 (Dhakal, 2057). 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 had been adopted by the UK and New Zealand since 1909. Now a day the progressive rate is commonly use rather than flat rate all over the world.

2.3 Evolution of Income Tax in Nepal

In the kingdom of Amsuverma, there was existence of irrigation tax and religious monuments preservation tax. There was tax for purification of caste by priest and even cremation tax, which was extracted in gold by the ruler of Bhajang in far western Nepal. In ancient Nepal, the taxes were levied in the form of cash, kind and labor. In the regime of the licchavi period the main source of government income was taxes. These were very much specific in

nature. The taxes were known as “Bhaga”, “Bhoga,” and “Kara”. The “Bhoga” tax was levied on agriculture, “Bhoga” was levied on animals and “Kara” was levied on business.

During the period 1768-1816 (Unified Nepal), the main sources of Nepalese revenues were land and homestead taxes, monopolies customs, transit and market duties, mines, the export of forest products, birds, animals etc and various levies and fines. The taxes were usually collected at three levels:

- a. Royal palace (to finance occasional and ceremonial needs)
- b. Government (to finance administrative work, military and other purpose assessed of official)
- c. Local level (to finance local officials, functionaries and mendicants)

During the 104 years of rule of Rana family in Nepal, the taxation was imposed to fulfill the objectives, needs and whims of the then ruling prime ministers. At that time, the sources of revenues were land tax, customs and excise duties in the form of lump sum contracts, royalties on felling of trees, royalty on the supply of porters and soldiers, entertainment tax and few other minor taxes. After the downfall of the Ranas, in modern Nepal various types of direct and indirect taxes have been brought in use in order to finance the growing development expenditure.

2.3.1 Taxation in Ancient Nepal

Tax has been one of the major sources of national receipts since the ancient time in Nepal. In those days tax was collected in the form of cash, kind and labor from the merchants, travelers and the farmers. However the nature of the tax levied by the government was temporary type in the old age, in the Lichhavi regime, taxes were the main source of revenue. During the period, taxes were known as “Trikar” which mean three kinds of taxes i.e. Bhoga, Bhoga and Kara. The Bhaga tax was levied on agriculture, Bhoga was on animal and Kara was on business income. Direct taxes such as irrigation tax

and religious moment preservation taxes existed in the time of kin Amsuverma. The farmers had to pay tax on income from agriculture in 1/6, 1/8 and 1/12 shares of production depending on the quality of land possessed by them. All artists had to donate compulsory labor as the tax payment (Adhikari, 2059).

2.3.2 Taxation in the unified Nepal

After unification of Nepal, expenses for administration military and other operational activities were increased gradually. During that period the taxation had been taken as main source of revenue and different forms of tax like land tax, transit tax, market duties, forest product tax and mining tax was levied. The main objective of imposing those taxes was to maximize the national revenue. In that period taxes were collected from three levels, royal place, central government and local authorities. They collected cash or goods from tax payers as taxes. Royal place had levied taxes like walak, Gaddimubarak, Chumawan and Goddhuwa. Government had levied taxes like Darsan Bheti, Salami and local authorities had levied taxes on forest on forest and water sources. Commercial taxes like customs, transits and market duties, mines and mints, export of forest products like herbs, wax, drugs, wildlife and judicial fine. Taxes from land and business were type of direct tax among all the taxes during that period (Dhakal, 2001).

Walak was from each family in the period of national or festivals. Similarly Gaddimubarak was collected in the time of coronation ceremony of new king, Chumawan and Goddhawa was collected in the time of investiture and marriage ceremonies of royal princes, princesses. Gadam was levied at the time of reigning king's funeral expenses. Darshan Bhet was collected from civil and military employees at the time of appointment. On the other hand Salami was collected by local authorities in the Terai region. After the unified period land tenure system was divided in to five main forms: Raikar, Birta Guthi, Sera and Kipat. The main sources of revenue from land were birata and Kipat (Dahal, 2001). The founder of modern Nepal, King Prithvi Narayan Shah

had introduced pota tax in 1772, which was regarded as revolutionary measure in the FY system of Nepal. It was based on flat rate system and was limited on small Birata owners. Through taxation was started there was no income taxation in the modern sense (Dahal, 2001).

2.3.3 Taxation in Rana Regime

During the Rana Regime there was no provision of effective revenue administration. The main source of revenues of revenues were land revenue, customs on export of wood which was collected in lump sum contract basis during that period and the salami was collected from government employees as income tax. Besides these, other taxes were also collected. In those days, taxes were collected at the time of requirement because there were no formal tax and finance acts (Thapa, 1993). Rana prime minister levied taxes for meeting specified expenditure of the royal household or extra ordinary expenditures necessitated by war or other crisis rather than regular mobilization of the revenue in the nation. During Nepal Tibet war (1855-56), the first Rana Prime Minister Jung Bahadur Rana had imposed a tax on the income of selected groups. Similarly Bir Samsar imposed a levy of 1% on the official value of jagir assignment of government employees to finance the transportation of water pipe supply in the capital. Another Rana Prime minister Ranodip singh imposed a 50% tax on the income made by fishermen in Dhukuri from the sale of fish in 1892(Thapa, 1993).

2.3.4 Income Tax in Modern Nepal

After the political revolution in Falgun, 2007 (February 1951) the role of the government had increased. The government of Nepal had presented its first budget in 21st Magh, 2008 (1952). The first five year plan started in 1956 (2013-2018 B.S.). Thus the changing role of the government also felt to levy tax on income as a permanent source of revenues. As a result, it issued the first finance ordinance in 2016 B.S. (1959) to impose tax o business profit and remuneration. In 2017 B.S. the income tax Act named “Business profit and

remuneration Act 2017” was made with the provision of finance ordinance 1959. It was the first income tax which had 22 sections. But this Act was found to be narrow and vague. It was replaced by the income tax Act 2019B.S. (1962) .This Act continued for twelve years and was replaced by the income tax Act 2031B.S. (1974) this Act was amended for eight times in 1977,79,80,84,85,86,89 and 1992 respectively. This tax Act was replaced by new income tax Act by 2058 (2002) which is the forth income tax Act of Nepal.

2.4 Gradual Development of Income Tax Law in Nepal

The FY 1959-60 was the beginning of income tax Act in Nepal. The income tax Act 1974 remained for 27 years with 8 amendments. According to the section 65 of income tax Act 1974, Nepal government had made the “Income tax rules 1982” to implement the objectives of income tax Act. Each year the finance act is passed to translate the FY policies and programs in the budget speech in to law. It generally prescribes the tax rate and exemption limit for tax purpose and it may abolish, add or modify the provisions contained in the income tax act. The decisions of the Supreme Court also act as precedent for income tax law purpose. The notification in Nepal Gazette and circular by Inland Revenue department clarifies and complement the legal provisions. The income tax act therefore has relation with the constitution, finance act, income tax rules and decision of the Supreme Court. This makes the provisions in income tax clear.

2.4.1 Business profit and Remuneration Tax Act 2017 B.S. (1960)

The finance Act, 2017B.S. made provision 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 2017B.S.which consisted of 22section. With the enactment o that Act, the salary tax or personnel income tax was levied upon those individual whose personal income exceeded Rs.6000 per years. In the first three years, the

exemption was Rs.7000. An examination of tax files in the Katmandu district office disclosed 577 personal income tax files of individuals who had paid taxes in one more years.

The following were the silent features of the Act:

Only remuneration and business profit were subject to tax. Deductions were not specified for the purpose of calculating the income.

- 1) Tax on remuneration was to be deducted at source.
- 2) In case of default, fine up to Rs.5000 were prescribed. Profit from industries were granted a rebate of 25% and profit from small industries were granted a rebate of 50%
- 3) The tax officer was empowered to assess tax on the basis of best judgment estimates.
- 4) The basis of calculating tax liability for the remuneration was the income tax of the current year and for business profit, it was the profit of previous.

As high discretionary power in assessment of income tax granted to tax officers, various loop holes, narrow and vague tax base were the major shortcomings of that Act which caused the income tax Act 2019 B.S. to come into existence.

2.4.2 Income Tax Act 2019 B. S. (1962)

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 2019 B.S. had 29 sections and it was amended in 2029 B.S. (1972). It had provision of imposition of income tax in agricultural income but this provision was abolished by the finance Act 2031 B. S. (1966).

The additional features of this Act were as follows:

1. Income was defined as kinds of income including income derived from business, remuneration, profession and occupation, house & land rent, agency and any other sources.
2. 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.
3. It had the provision regarding carry forward of the losses from the period of two years.
4. The residential status of the tax payers for tax purpose was defined.
5. Provision was made for the installments as well as advance payment of the tax for the first time.
6. The Act granted power to constitute net income assessment committee.
7. Provision was made for the exemption of income tax for the new industries for a period of not exceeding ten years.

The changing socio-economic environment of the nation had forced to change the income tax Act. As a result, income tax Act, 2031 B.S. (1974) came in to existences.

2.4.3 Income Tax Act, 2031 B.S. (1974)

The income tax Act 1974 can be said as the refined form of income tax Act 1962. It had 66 sections; it contained many provisions of the old one and added certain new provisions. This Act was amended eight times i.e. in 1977, 1979, 1980&1984 for making it more practical eliminating confusing words. Its basic framework had been derived from the income tax Act 1962. It retained or amended certain provision of the old Act and added certain new provisions. Some of the points of the Act with amendment are as follows: (Tiwari, 1991). It had clarified certain definitions specially relating to tax, taxpayer, taxable income, gross income, net income, personal status of the taxpayers and non resident taxpayer, assessment of tax, philanthropic work, non resident etc.

The Sources of income were classified in to five categories:

- a. Industry, trade.
- b. Profession or occupation.
- c. House rent & Compound rents and others.
 1. This act had made provision for self-assessment of tax for the first time if any mistake arose of lower tax was assessed, tax officer might make final assessment.
 2. There was additional provision of exemption from income tax than the former act as follows: Income of Guthi, income of Village Development Committee (VDC/ Municipalities, Compensation for life insurance or after the expiry of the life insurance policy).
 3. The punishment provisions were specified in different headings Viz. Failure to submit particulars of income, false particulars, not maintaining the accounts, obstructions and others.
 4. The taxpayers had to register their industry, business, profession or vocation in tax office before starting the work.
 5. Carry forward of loss was allowed for subsequent three years.
 6. The process of assessment, reassessment, and advance payment of tax, deduction of tax at source and refund of tax had been specified.
 7. The Government of Nepal might form an income assessment committee consisting five members by publishing notice in the Nepal Rajpatra.
 8. The punishment limit to persons for violating laws and regulations was up to Rs.10, 000.

2.4.4 Income Tax Act, 2002 (2058 B.S.)

The draft of income tax act 2058 also proposed to bring all sources of income including capital gains into the tax net. This forth income tax act of Nepal has been made to minimize the weakness of previous act and for more collection of national receipt (revenue) for the economic development by improving collection procedure of the revenue. It is also necessary to amend and integrate according to modern age with international taxation system. It is essential to

make new income tax act corresponding with extended income tax scope and changing form of tax administration thus the new income tax act 2002(2058 B.S.) was passed. It was issued and implemented from 1st April 2002 (19th Chaitra 2058 B.S.) with government seal. This act has been amended two times by the finance ordinance of 24th Ashad and 22nd paush of 2059 B.S. (Khadka, 2001).

The main objective of the income tax act 2002 is pointed below:

1. To levy tax on all income sources and incoming earning transaction.
2. To impose uniform to all people and 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.
5. To make accountable improvement on 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 by emphasizing procedures of self-assessment system (Mallik, 2003).

This act is broad, scientific and meets the international standard level. The differences of this act with previous act are made clear by its salient features, given below:

1. This act has included all the provisions relating to income tax. It is a law of income tax code.
2. It has included all the financial transactions of the taxpayers considering present and future earnings.
3. Provision to impose tax t all income sources uniformly was made.
4. A provision of deduction of all expense relating to income earnings was made.
5. A provision of deduction o fall expenses relating to each income in accumulation from taxpayers income was made.

6. Carry forward of losses is allowed for the period of four subsequent years, this limit is extended up to five years for banking and insurance business.
7. Provision of tax incentives for infrastructure, electricity projects and special industries has continued.
8. It has accepted self-assessment system absolutely, provision to accept the statement submitted by tax payers as tax assessment was made and in case of non-submission of statement, the advance tax payment made by tax payer is taken as assessed tax amount.
9. It has clearly defined the rights and duties of tax payers.
10. It defines general anti-avoidance rule, control of transfer pricing, thin capitalization and control of dividend stripping as a tax evasion measure.
11. Provision to claim for deduction of installation expenses of pollution control device and research and development expenses was made.
12. It has classified the tax payer into natural person and entity. Entity includes company, partnership, and trust and so on.

Special provisions for banking and business:

Income tax act 2002 has made special provisions for banking business (Section 59), according to this section; provisions given to that sector are as follows:

1. Prime introduction: Banking business refers to the banking transaction of affiliated bank and financial institution in accordance with prevailing law (Income Tax Act 2002)
2. Banking transaction refers to accepting deposits and for providing loan and investment, paying back it at the time of demand by saver (Commercial Bank Act 1974 and Finance Company Act 1983).
3. Provisions of risk bearing Fund: Any provision debited in the profit and loss account is not deductible (Income Tax Act 2002), however the financial ordinance 2059 B.S. has amended it and provision has been made to claim for deduction of risk bearing fund up to 5% of outstanding loans that was only 3% (Income Tax Act 1974).

4. Written of loss: Loan loss of banks can be written off in compliance with NRB guidelines and it can be treated in the debit side of profit and loss account as expenditure for carry back of losses but it is not allowed if this amount has already been deducted from income as risk bearing fund.
5. Carry Back of Loss: Loss of any year from banking business can be carried back to the past five year for deduction of it from income of those years.
6. Interest Suspense: As per the directions of NRB t the banking Institutions, no interest can be treated as income on the accrual basis. Interest suspense account should be opened if the interest earned but not received each within one month. This type of income is given tax exemption by the income tax act1974 and it is continued by this act, issuing the finance ordinance 2059 B.S.

2.5 Concept of Income Corporate Tax

Corporate Income tax is a compulsory levy of the government. It is levied on corporate income. Since the fiscal year 1986/87, the corporate income tax has been introduced. Initially the government enterprises and listed companies in security exchange center of Nepal were paying corporate income tax on their net profit assessed by the tax officer (Finance Act, 1986).

The income from PEs, Semi PEs public ltd. Companies and private ltd. Companies are actually treated as the corporate income for the corporate income tax imposition. Private Ltd. Companies are established and managed by one or more owner but the public limited companies are established in participation of a large number of shareholders and managed by a team of experts of different discipline. These both companies are run to maximization of profit or wealth but PEs are established to maximize public interest rather than profit maximization and they are owned by government (Pradhan, 2001:42).

The after tax profit is disposable income of the taxpayers, high rate of corporate income tax minimizes disposable income and vice versa. The big stockholders of the corporation are in position to control and they are aware with the corporate income tax. PEs are run by the government and the whole amount of income generated by those enterprise are belonged to the government either in form of corporate income tax or in form of reserve and surplus of dividend. The government can withdraw the amount from PEs but cannot take out from the public limited, companies and private limited companies. Though private and public limited companies are crucial in corporate income tax, PEs also contributions in this field keeping its public interest objective (Bhattarai, 1997). PEs holds the second top most place of whole income tax structure.

The corporate income tax is direct tax, which cannot be shifted from the corporation. There is a widespread belief, especially in the business community that the tax is fully shifted forward to consumers, but much of the criticism of the tax also from the business community is based on the tax reduce the real income of the stockholders (Due,1959:12).

In developing country like Nepal, the corporate development is very necessary forth economic development process. Therefore it is required to exploit the available resources of the country. The corporate body would generate income through the exploitation of resources of the country and the government levies taxes. When corporate development takes place in a county and corporation are able to generate more revenue, automatically the government can collect a substantial amount of revenue through corporate income tax.

American Chief Justice Marshal defines company or a corporate body as a person, artificial, invisible, intangible and existing only in the eyes of the law. Being a mere creation of the law, it possess only those properties which the charter of its creator confers upon it, either expressly or identical to its very

existence. The above definition clearly states that a company or a corporate body can be defined in to transferable shares with limited liability. It has own property, it can execute contract, raise debt and generate profit.

2.5.1 Development of Corporate Tax in Nepal

Nepal has started informal taxation already from the beginning of the Lichhavi period. Although Nepal has a long history of taxation, the history of corporate tax is not so far long, corporate tax was first introduced only in 1960. During the early days, corporate tax was not differentiated form the personal income tax. The same personal tax rate was imposed to the entire tax payer in progressive manner ad exemption given to companies was withdrawn.

Nepal originally combined corporate income tax and individual income tax, the same rate structure was designed for the corporate income and other incomes for many years. In 1986/87 a flat rate of corporate income was introduced for the Government Corporation and public Limited Corporation listing with the security exchange centre. Corporate tax was extended to private limited companies in 1993/94 and the partnership firms in 1995/96.

Income tax Act 1974 was introduction with new provisions. The finance Act under this Act introduced a separate provision for the companies. Similarly, the finance Act 1985 made provision of giving 5% tax rebate from higher marginal rate of 55% to listed public companies and the government enterprises. The FY 1986/87 change the nature of tax rate to the corporate bodes (companies) from the progressive tax rate to flat tax rate. In this time the tax rate was 40% flat rate for all listed companies. The same finance Act imposed tax on the divided also to be deducted at the source rate of 20%. But the divided tax system was charged exempting dividend to a level of 85% in 1987/88 and the cent percent in 1990/91. Compulsory self-tax assessment system for public and private limited companies was introduced in the Finance Act 1992. The additional change was made that taxing corporate income at flat rate t the private limited

company and enacted from the financial year 1994/95. This change abolished the discrimination between private companies and public companies. Another major change carried out by FY 1998/99 was the inclusion of dividend of the non-industrial companies within the tax net. The initial corporate income tax amount in 1960/61 was 25%. It was increased to 60% in the FY 1975/76. It was dropped to 50% in 1979/80 and continued to 1981/82. Once again, the rate was increased up to 55% in 1982/83 and was stable for 3 years i.e. up to 1986. And declined thereafter to 40% and 30% for up to 1991/92 and now this rate is 20% for special industry and 25% for the general industry and 30% for the bank and finance companies.

2.5.2 Corporate Tax Rate Structure in Nepal

Developing countries like Nepal need to boost their economic condition by developing industries and trade within the country. Tax rate is the base of measurement of tax liability. It should not be high only for the maximum revenue but should be activator of private investment. Imposing of tax on corporate profit was started with the enactment of the business profit and remuneration 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 Fiscal year 1985/86. The corporate tax rate structure was combined with individual tax rate structure. The reason was the number of companies was limited and the family generally managed private companies. In the year 1985/86 the progress tax rate structure was abolished in case of government enterprises and public limited companies listed in the Nepal stock exchange because enterprises used to split in to different units to the private companies also was abolished in the FY 1995/96. Thus the flat rate system was been continues for all corporate bodies since the FY 1995/96.

In the FY 1975/76 the corporate tax rate was increased up to 60% the maximum rate from the 25%. During 1960/61 to 1975/76, increment of rates was made three times. After FY 1975/76 the tax rate was again decreased to

51% & 50%. This rate was again increased to 55% and remains continued from 1982/83 to 1987/88. In the year 1987/88, the tax rate was continuously decreased. Now it is 20% to industry (except cigarette and alcohol), 25% to general companies and 30% bank and finance companies. Special fee 3% of taxable income was levied to all corporate bodies. Now it is decreased to 1.5% as surcharge (additional income tax since FY 2062/063).

Table 2.1
Corporate Tax Structure of Nepal

Fiscal Year	Marginal Tax Rate		Nature of Tax Rate
	Pvt. Company	Public Company	
1960/61-1962/63	25	25	Progressive
1963/64-1964/65	30	30	"
1965/66-1966/67	40	40	"
1967/68	55	55	"
1968/69-1974/75	55	55	"
1975/1976	60	60	"
1976/77-1978/79	51	51	"
1979/80	50	50	"
1980/81-1981/82	50	50	"
1982-1983	55	55	"
1983/84-1984/85	55	55	"
1985/86	55p	55f	Progressive and Flat
1986/87-1987/88	55p	50f	"
1988/89-1989/90	50p	50f	"
1990/91-1991/92	40p	40f	"
1992/93-1994/95	35p	35f	"
1995/1996	33	33	Flat
1996/1997	30	33	"
1998/99-2002/03	20-25& 30	20-25 & 30	Flat Rate

Sources: Kandel, P.R. (200) corporate Tax system and Investment Behavior in Nepal

Note:

20% tax rate for special industries.

25% tax rate for general industries producing Liquor and Tobacco.

30% tax rate for non-industries for banking, Finance and insurance business.

2.5.3 Tax Incentive

The economic development of any country depends to a large extent on investment in the corporate sector. This incentive is becoming an integral part of the tax system for accelerating the pace of industrialization in most of the developing countries (Poudyal, 1998:26). Therefore, tax incentives increase willingness to invest and the profitability of investment. Tax incentives involve cost in the form of loss of revenue to the government but at the same time it results in increase corporate saving and investment. Tax incentive is necessary basically for two purposes. They are stretching the scope of tax beyond its revenue objective to achieve certain socio-economic ends and to mitigate and the adverse impact of high taxation on corporate saving and investment activities.

In different countries various tax incentives are offered, which are justifiable for reduction in tax burden and increase in investment. These incentives are investment allowance, investment tax credit, development rebate, depreciation allowances, extra shift allowance, initial depreciation allowance, tax holiday, liberal carry back or carry forward of losses, investment grants, deduction of tourist facilities or hotels, development of backward regions, rehabilitation of industries, permitting shareholders or creditors to offset against their own taxes, the losses suffered by their corporation or debtors and a host of export and other incentive (Paudyal, 2001).

The tax incentives are becoming important and getting wide support in short period. Specially, in developing countries like Nepal increase in corporate investment is the sign of socio-economic development of the nation. Development of the industry is necessary to utilize the natural resources. Investors desire can be fulfilled by providing them incentive as they are interested to invest only in such cases where the after tax probability is higher.

A variety of incentive laws prevail in various countries and are influenced by their economic and political nature. Among different varieties of tax incentive, the most popular incentives in different countries of the world are:

-) Tax holiday(Investment incentive)
-) Set off and carry forward of losses
-) Depreciation allowances
-) Tax rate deductions

Incentive tax holiday is the exemption of tax for a certain period of time. It is one of the most popular of tax incentives. This incentive is mainly concerned with newly established companies and short term project in the industry sector. Such a relief on tax is applicable on profit earned from new investment and it will automatically terminate after the holiday period. The aims of this incentive are:

-) Job Creation
-) Technology Transfer
-) Industrialization
-) Promoting Industry
-) Regional Development
-) Research and Development

After the expiry of tax holiday period, these corporate bodies will be subjected to the rate of taxation according to the prevailing Tax Act.

Among these types of incentive investment allowance is mostly used by British Commonwealth Nation like coast and central Africa, Srilanka, Canada, Australia etc. Besides these, Belgium, Germany, Japan UK, Brazil, Malaysia, China, Singapore, Taiwan, South Korea and Egypt are also using this method to encourage investment (Kandel, 2001).

In some developing countries like Philippines, Mexico etc. the incentive is mainly in the form of tax holiday. A combination of tax holiday with investment allowances and other rebate is also common in many countries. Aforesaid tax incentives have always been the important part of corporate tax system because they are important instrument in accelerating the pace of economic growth through mobilizing saving and investment. The type, size and magnitude vary according to the needs and aspirations of the people of different countries (Poudyal, 1993:40).

2.5.4 Tax Incentive in Nepal

The corporate sector is in its initial stage of development in Nepal. The Performance of corporate sector especially the industry is very poor. To develop the corporate sector in Nepal, there are many incentives provided by different laws. They are:

-) Industrial Enterprise Act 1992
-) Nepal Petroleum Act 1993
-) Electricity Act 1992
-) Foreign Investment and Technology Transfer Act 1992

Nepal petroleum Act 1992 has provided certain relief on tax rate to petroleum industries. Similarly, Electricity Act 1992 has given certain facilities to the Hydro Electricity power in Nepal and Foreign Investment and Technology Transfer Act 1992 has made the provisions regarding tax relief to the foreign investors. Most important law regarding the corporate bodies in Nepal is the Industrial Enterprises Act. The main agenda of this act is to provide FY Incentives to the industries. Till now, Nepal had experience four industrial enterprises acts, they are:

-) Industrial Enterprises Act 1962
-) Industrial Enterprises Act 1974
-) Industrial Enterprises Act 1981
-) Industrial Enterprises Act 1982

In relation to tax incentives provided, the first industrial Act 1962 made the provision of ten years tax holiday for new industries, tax rebate up to 25% of the tax liability on the discretion of Government of Nepal to existing industries, Full or partial rebate the tariff for exporting goods and importing machinery, parts and raw materials. The main type of incentive provided by the Industrials Enterprises Act 1974 were up to eighteen years tax holiday to different Industries established in different parts of the country, investment allowances and depreciation facility to extension and modernization, relief of import and export duty. Accordingly, the main type of tax relief provisions appended in Industrial provisions Act 1981 also was not so much different from that of its predecessors. It also included up to twelve years tax holiday to industries. Income tax rebate of up to 50% for export, 15% investment allowances to additional investments only 1% levy for imports of machinery spare parts and raw materials, excise exemption to different types of industries, exemption of sale tax to cottage industries on the import of machineries, spare parts etc and domestically produced goods.

There was also the provision relating to tax life of the assets, containing twenty years for building, and ten years for machinery, five years for furniture and vehicles and ten years for other remaining assets. Industrial Enterprises Act 1992 avengement 1997 has given various tax related facilities to the industrial communities. They are as follows:

- Complete exemption of any type of income tax, sales tax etc. for cottage industries.
- Specifying as maximum rate of tax to industries except those related to tobacco and alcohol.
- Ten years 50% tax holiday to the national priority industries related to the construction of roads, bridges, tunnels, ropeways, flying bridges, trolley buses and trains.
- Income tax rebate of 60%, 50%, 25% & 10% and excise rebate of 35%, 25%, 15% & 10% to the industries established in remote, underdeveloped

partially developed and developed area respectively except the industries based on tobacco and alcohol.

- 25% tax exemption for ten years to those industries which are not related to tobacco and alcohol are established in underdeveloped area stated in appendix III of the act.

2.6 Tax Evasion and Avoidance

Tax evasion and avoidance both are major cause for low income tax collection. Income tax checks the inequality between high and low income earners. It helps the government in the movement of resources from the private sector to the public sector. Income tax collection can only be effective if the tax evasion and avoidance is controlled.

2.6.1 Tax Evasion

Tax evasion is the way of reducing tax liability by illegal means. “Action by the taxpayer which entails breaking the law and which moreover can be shown to have been taken with the intention of escaping payment of tax”, is generally regarded as tax evasion. It is done through different ways:

- Non-reporting of income,
- Under reporting of income,
- Making fraudulent changes in account books,
- Operating business transactions under different names,
- Opening bank account in dummy name,
- Over-reporting of expenses,
- Fragmentation of income,
- Transfer pricing etc.

Tax evasion is unethical, illegal and uneconomic activity. It is unethical because the activity of not paying tax is against moral ethics. It is illegal because the law does not permit to evade the tax. In the same way, it is uneconomic because it promotes black money, i.e. underground economy in a

country. Such types of activities do not promote healthy economy in a country.

Basically, the reasons of tax evasion can be divided into two-non-tax factors and tax factors. Non- tax factors include educational background price policies of the government, government rules and regulations, public sector salaries, government's expenditure policy and others. Tax factors include tax rate, tax base, tax structure, penalty system, probability of detection, magnitude of the strictness of penalty and possibility of applying penalty if evasion is detected. Mainly, tax factors are more concerned with the tax evasion on income from legal activities, whereas non-tax factors are related with illegal activities.

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 economy, and
-) Creating wrong statistics leading to errors in government policies.

Evasion of income tax is also associated with the evasion of sales tax, excise duty, customs duty and so on. Since the government imposes higher tax rate to fulfill the growing need of the revenue, it is the honest taxpayers that really bear the burden of tax. Tax evasion is a major problem to the government in developing countries. There are several types of tax evasion:

-) Unilateral (Taxpayer himself)
-) Bilateral (With the connivance or assistance of Government Official),
-) Trilateral (from the collusion of Tax Officers, Tax Auditors and Taxpayers),and
-) Multilateral (all parties from Government to Taxpayer).

In a world of tax evasion, it is very difficult to choose between businessmen, professional, a person in service, or a politician who is not a tax evader. If we tear the mask the face looks alike. It means, more or less, all use to evade taxes.

2.6.2 Tax Avoidance

Tax avoidance is saving taxes without actually breaking the law. It is using the loopholes of the tax law. It is not illegal but unethical.

GSA Wheatcraft says, “Tax avoidance is the art of dodging tax without actually breaking the law”.

In other words, it is a transaction entered in to with full legal backing. However, such activities are of those kinds that the legislature does not want to encourage. The following are the criteria used by English and India court to find out tax avoidance:

-) Use of colorable devices,
-) Defeating the genuine spirit of law,
-) Twisting of facts,
-) Taking only strict spirit of law and suppressing the legislative intent.

We can see following characteristics of a tax evasion:

-) Basically, there is presence of an element of artificiality or, to put another way, the various arrangements involved in a scheme which do not have business or economic aims as their primary purpose.
-) In some cases tax advisers sell ready-made avoidance devices, one term of the contract of sale being that the taxpayer keeps the facts secret for as long as possible. It is in the interest of the avoiders keep the administration from learning about new schemes because official and public knowledge may be followed by legislation to counter that kind of avoidance.

-) Tax avoidance often takes advantage of loopholes in the law or of applying legal provisions for purpose for which they were not intended (i.e. provision designed to encourage manufacturing of equipment being used for leasing of motor vehicles).

In conclusion, we can say that tax avoidance is the reduction of tax liability through the manipulation of existing law. It is legally permissible but unethical.

2.7 Tax Administration

Tax administration implies the management of affairs related to tax. A sound system of tax administration is pre-requisite to assess the taxation policies of the government. For the success of tax administration of any government executive, legislative, reporting, auditing etc.

2.7.1 Income Tax Authorities

Income tax is administrated directly by the Inland Revenue department. It is responsible for the implementation and administration of the act. Government of Nepal has the highest authority of the tax offices of the department and prescribed their jurisdiction by notification in the Nepal Gazette to facilitate the department in fulfilling its responsibilities. The following officers and the other staff may be deputed in the department.

-) A Director General
-) Deputy Director General in the numbers as may required
-) Chief Tax Administrators
-) Directors
-) Chief Tax Officers
-) Other Officers
-) Other Staff

The Ministry of Finance is at the apex administration. The Ministry carries out the functions related to taxation on behalf of government of Nepal. The revenue department of the ministry is responsible for formulating tax related policies and coordinating the activities of all revenue departments. Similarly custom department, revenue investigation department and revenue administration training center are also involved in the administration of income tax.

2.7.2 Rights of Government of Nepal

Income tax act, 2058 has empowered the Government of Nepal as regards to the implementation of the tax laws. The rights of the Government of Nepal with respect to ITA, 2058 are:

-) Right to make double tax avoidance treaty with other countries to avoid the situation of double taxation (Sec.73).
-) Right to establish or remove tax office for the purpose of collecting tax. It has also the right to appoint tax officers and delegate powers (Sec.72).
-) Right to allow unlimited amount of donation given to tax exempt organization by publishing a notice in Nepal Gazette (Sec.12).
-) Right to make rules regarding tax for fulfilling the objective of the act (Sec.138).
-) Right to make changes as required in schedules other than schedule 1 (Sec.140).
-) Right to remit in whole or in part any tax payable by a person if the tax cannot be collected (Sec.112).
-) Right to issue an order or direction to Inland Revenue department for the purpose of making tax administration effective (Sec.137).

2.7.3 Power of Department

Inland Revenue department (IRD) can exercise the following powers given in ITA, 2058 and Income Tax Rule, 2059:

-) To take an official action against its employees (Sec.133)
-) To exercise power of the court for the purpose of this act (Sec.135)
-) To develop and issue directives as required (Sec.139)
-) To order for payment of penalty amount (Sec.129)
-) To decide an exempt amount (Rule3&4)
-) To specify accounting methods (Rule 8)
-) To specify about the long-term contract (Rule 12)
-) To characterize the amount in advance on the basis of arm's length principle(Rule 20)
-) To approve retirement fund (Rule 20)
-) To give permanent account number (PAN) and amend it as per request (Rule 23)
-) To provide tax clearance and tax exemption certificate (Rule 26 &27)
-) To specify taxpayers who are not required to submit returns (Rule 33)
-) To specify the place of auction (Rule 35)

2.7.4 Power of Director General and Other Officer

Government of Nepal or the Director General, a deputy Director General, Chief Tax Administrator, Director, Chief Tax officer, Tax officer appointed as the Chief of a Tax office may exercise certain power as per the tax act sec. 72 of the act has granted following power to them:

- Appoint officers under subsection (3)(c),
- Issue public circulars under section, 75
- Prescribe documents under section,77
- Stay or otherwise affect an objection decision under sectio,116(4)
- Compound an offence under section 129, and
- Delegate the exercise of any such, power to another tax officer.

Besides the above stated power, Director General of the IRD can exercise powers vested on department too as the head of the institution. The power which the IRD can exercise as given in income tax act, 2058 are as followings:

-) Taking official action against its employees (sec.133)
-) Exercising and issuing directive (sec.135)
-) Developing and issuing directive (sec.139)
-) Ordering for payment of penalty amount (sec.129)
-) Deciding to exemption tax (Rule 3& 4)
-) Specifying about the long term contact (Rule12)
-) Characterizing the amount in advance on the basis of arm's length principle (Rules15)
-) Giving PAN and amending it as per request (Rule 23)
-) Giving tax clearance certificate and tax exemption certificate (Rule 27&28)
-) Specifying the tax payers that do not need to submit return (Rule 33)
-) Approving the retirement fund (Rule 20)
-) Specifying the place of action (Rule 35)

As per sec.72 (6) of the act, an officer of IRD or officer appointed as the Chief of a tax officer may exercise all powers. But following powers can not be delegated by director General:

- Appoint officer under subsection, 3(c)
- Issue public circulars under section, 75
- Prescribe documents under section, 77
- Affecting a re-viewable decision under section, 116(5)
- Affecting an objection decision under section,116(4)
- Compounding an offence under section, 129

2.7.5 Right of Deputy General (DDG), Chief Tax Administrator, Director, Chief Tax officer or Officer appointed as the Chief of a Tax office

The above officials exercise any power granted to the department under this act other than the power:

-) To issue public circular under section,75
-) To Prescribe documents under section, 77
-) To stay or otherwise affects a revisable decision under section, 115(5)
-) To allow or disallow the objection by any person in whole or part under section,115(7)
-) To compound an offence under section, 129

Also the above officials can delegate the exercise of any such power to their tax officers.

2.7.6 Rights of Other Officers

An officer of the department other than Director General, a Deputy Director General, Chief Tax Administrator, Director, Chief tax Officer appointed as the chief of tax officer may: Exercise any power granted to the department than has been delegated to the officer other than.

-) To issue public circulars under section 75.
-) To prescribe documents under section 77.
-) To say or otherwise affect a review able decision under section 115 (5).
-) To allow or disallow the objection by person in whole or part under section 115 (7).
-) To compound an officer under section 129.
-) To authorize an officer under section 82 or issue a notice under section 109

2.7.7 Rights of Taxpayer (Assesses)

A taxpayer means a person (an individual or entity) whom the tax imposed as on and realized from as per income tax act 2058. As per section 74 if the act the taxpayer with respect of paying tax is entitled to enjoy the following rights.

-) Right to get respectful behavior
-) Right to receive tax related information as per prevailing law.
-) Right to get opportunity of submitting proof in own favor in respect of tax matter.
-) Right to appoint lawyers or auditors for self defense.
-) Right of secrecy in respect of tax matters and keeps it inviolable. Besides these a taxpayer can enjoy the following rights.
-) Right to obtain clarification on personal (advance) ruling.
-) Right to get refund of excess tax paid.
-) Right to appeal to review the decision.
-) Right to receive public circulars.
-) Right to extend time to file return.

2.8 Problem Associated with Tax Administration in Nepal

The government needs huge amounts for the expenses to be made in development activities. Each year the estimated expenditures exceed over expected revenue that arises revenue gap and it needs to borrow foreign loans. The income tax is only justifiable to increase the resource mobilization in the nation internally. However due to poor earning capacity of people it is difficult to raise the contribution ratio of income tax in the total revenue. On the other hand most of people who are earning significant amount are beyond the income tax net. The income tax system in Nepal has been facing many problems. Inefficiency of income tax administration is one of the reasons. Tax administration is a complex and difficult technical matter. There are explained some problems including passed period.

2.8.1 Failure to Locate New Tax Payers

G.R. Agrawal has pointed out that arguments related to the location of new tax payers in his book "Resource Mobilization in Nepal". Tax administration in Nepal lacks and up to date role of existing as well as potential tax payers (Agrawal, 1980:109). Tax administration set targets to collect income tax in certain percentage of GDP each year, and makes policy to extend the scope of taxation. But the target has not been fulfilled. The major problem is the location of new taxpayers in case of non resident and non citizen persons who are really outside the income tax net. This is due to open boarder with India. Similarly, self employed persons as professionals and skilled persons have also remained outside the effective reaction of income tax net. Brokers, speculators, speculators, dealers, suppliers in big hotels, tourist guides, insurance agents and persons remaining outside the income tax net. Administration deficiency, poor tax payers, morality and compliance about the income tax payment are the major responsible factors for problem of failure to locate the new payers.

2.8.2 Failure to Maintain Proper Account and Records

Most of tax payers in Nepal do not maintain account in proper way for the income tax purpose. They show hesitation in submission of accounts and tax returns in the Inland Revenue Department. On the other hand, large numbers of private business entities submit false income statements for tax purpose even though they maintain accounts of their business transaction; they make two sets of accounts and hide the real statement. That is why the income tax officers fail to find out the true and fair view of the financial state of affairs for the tax purpose. Some reasons are stated below.

2.9 Review of Related Studies

Since the period of introduction of income tax system in Nepal, many individuals as well as some institutions have made efforts on study of taxation the ways for the improvement of income tax system in Nepal in every aspect of income taxation. Many books research reports and articles have been published

in this respect. While doing researches and preparing the thesis some books thesis and some articles concerning with income taxation have been consulted. Some of them are presented below in brief.

Surendra Keshar Amatya, Dr. Bihari Binod Pokharel and Rewanta Kumar Dahal (2004) have written a book entitled “Taxation in Nepal”. They have described about income tax and its development in Nepal. They have also discussed about tax accounting, quantification, allocation and characterization of amount, exemption, concessions, facilities, and tax rates, expenditure expressly disallowed for deduction, capital or revenue income, and expenditures of taxpayers, special provision for natural person and entity, income heads and sources, income from employment, income from business, set-off long back and carry forward of losses, income from investment, net gain from disposal of assets, and liabilities and capital gain taxation, form of documentation, PAN and maintenance of documents, income returned and tax assessment payment, collection and refund of tax, tax administration, rights and duties of tax payers etc. This book has been written to fulfill the course requirement of Tribhuvan University. It is based on the syllabus of Bachelor Level of management, Law and CA and also for master level of management and law. This book is informative rather than analytical. They have also included numerical problems in regard to income tax assessment but failed to analyze the importance of income tax problem and defects in Nepalese income tax system.

Puspa Raj Kandel (2000) also presented the Ph.D thesis entitled “Corporate tax system and Investment behavior in Nepal”. He under took the research work to find out the problems relating to corporate tax which gave blocked the development of private investments. The main objectives of the 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 has shown the relationship of private

investments with average effective tax rate. (AETR), marginal effective tax rate (METR) and tax incentive in Nepal. He has found that the METR for debt-financed project are almost negative (i.e.-1.7) and positive for equity financed project and debt-equity ration project by 27% and 19% respectively. He has also found that the impact of inflation to the METR. According to him the statutory tax rate deduction had impact private investment by 60% to 20%. In this regard he has shown the adjusted r^2 value 0.87 at 5% level of significance. He has concluded that the statutory tax rate was in modern level under all financial options: debt, mix and equity i.e. it was not much distort.

Above studies shows that income tax is the main source of government revenue. It is useful to balance economic development. Nobody can doubt that, the equal distribution of income is possible through progressive income tax system. Nepal has adopted the income tax systems for the last four decades. But the past experiences show that the government is unable to maximize the share of income tax to public fund as per expectation.

Govinda Ram Agrawal (1978) presented the research report entitled “Resource mobilization for development. The reform of income tax in Nepal” which was published by the CEDA Katmandu. This research work was the first comprehensive study on the income tax in Nepal. In the research work, he analyzed various aspect of income tax system of Nepal such as role of income tax and administration in Nepal. In this report he showed the cause of problems facing by tax authorities in the tax administration. As per his study, the main cause of administrative problems are undue delay in tax assessment, failure to maintain proper account by tax payers, failure to maintain proper records by tax offices, failure to locate new taxpayer, unfriendly behavior of tax officials to the tax payers, assessment under the best judgment etc. He also showed the main reason of assessment delays. As mentioned by him delays in filing of returns of income, delays in settlement of appeals, defective assessment procedure, lack of proper taxpayer information and failure to maintain the

proper accounts and records by taxpayers/tax offices. He also found the buoyancy of income tax with respect to GDP for the period 1967/68 to 1975/76 and elasticity of income tax. He also showed that about 2.18 buoyancy and 2.01 elasticity of income.

Narayan Raj Tiwari (1978) book named “Income Tax System in Nepal”. The book has discussed about the historical background of income tax in Nepal. This book therefore is important to understand the theoretical aspect of income tax only as it failed to give the fact about the role and numerical information regarding income tax system in Nepal.

2.9.1 Review of Thesis

Siwakoti, Chudamani (1987), presented a dissertation entitled “Analytical study of income tax in Nepal”. His study has focused on role of income tax in Nepal. Income tax structure, personal management aspects of tax administration, problem of income tax administration etc. he found that the percentage of taxpayer to the total population is very low, only 0.25%. Although the number of income taxpayers is increasing each year, most of the country from income tax comes from a little group or persons. Usually the tax assessment is based mainly on the best judgment of the tax officers and committee so the due consideration to the books of accounts have been found negligible collection of income tax has been increasing gradually an average rate, of 6054% short of well trained and experts personal in sufficient number, absence of training and development opportunities for tax officer. In his study he suggest that explain tax law, the income tax administration should be made honest, efficient trained and effective, good information system should be adopted among the tax department tax offices financial institution and customs office to obtain information regarding tax-payers, computer and other scientific equipments should be used in all tax offices etc.

Bhandari, Hari Bahadur (1994) Presented a dissertation entitled, “Contribution of income tax to the economic development of Nepal, With reference to Kathmandu and Pokhara Valley”. He tried to examine the historical background of income tax in Nepal, trend of income tax collection and tax revenue, Nepalese income tax structure, contribution of income tax to the economic development of Nepal and identify the factors to increase tax paying habit of income tax payer. He has found that income tax as a means of raising domestic resources, poor tax paying habit of Nepalese people, the role of income tax for the economic development of Nepal is not significant. Lack of sufficient tax information and administrative in- efficiency are the major problems facing by Nepalese tax payer.

He had tried to examine historical background, tax structure in Nepal and contribution of income tax to economic development of Nepal. He has stated that actual collection of revenue through income tax was lower than its estimated targets because of the poor tax paying habit of Nepalese tax payer, poor tax administration system, wide spread evasion of income tax. He has suggested making effective personnel management, increasing habit of tax paying of Nepalese taxpayer through proper tax education and better public communication system, minimize tax evasion, reduce tax collection cost.

Shauh (1995) had conducted a research on the topic, “Contribution of income tax in National Revenue of Nepal”. His research 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 to avoid financial deficit, to find out the rate and per capital burden to 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 has 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 tax payers in Nepal during his research period. He found that collection of income tax was gradually growing 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 tax payer.

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 this 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, graphics, charts and diagram were also used as necessary.

From the 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.

Shakya (1995) had presented his thesis entitled, “Income tax system 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 started that the structure of the government revenue in Nepal is a composition of tax revenue and non-tax revenue. The tax revenue is the most important source 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.

Panta (1996) had presented a thesis entitled, "A study in income tax management in Nepal". His main objectives of research were to find out the share of income tax to government revenue, to review the income tax system and to identify the problem of income tax management. His research was based upon secondary as well as primary data. The primary data were collected within Kathmandu valley through interview, questionnaire etc.

He had concluded that income tax was a major source of internal resource mobilization, the income tax system was not efficient and income tax assessment was not efficient. Evasion of income tax was major constraint for resource mobilization. He also added that corporate tax rate was found high and exemption limit was not sufficient.

Lastly, he had recommended that income tax net should assessment procedure must be improved and income from agriculture and capital gain should be taxed.

Bhattari, Raj Kumar (1997) presented a dissertation entitled “Effectiveness of Corporate income tax in Nepal “in 1997. He tried to find out the role of corporate income tax in government revenue condition of corporate income tax payer, find out the problems and difficulties in corporate income tax practice in Nepal. He found that the government policies, Acts rules and regulation concerned with the corporate income tax was not effective in increasing tax paying habit in Nepal. Corporate tax planning was not effective. The corporate income tax payers were not satisfied with the existing rate of corporate income tax. He suggest that prepare separate corporate income tax act, Rules and Regulation considering the elements of the system and maintain stability; Design and develop job description and specification of tax personal on the basis of specialization, control forwards and backwards shifting of corporate income tax. Decrease corporate income tax rate to 17% as expected by the tax payers.

Poudyal, Karna Beer ‘Kshetry’ (1998) had submitted a Ph.D. thesis entitled, “Corporate tax planning in Nepal”. This thesis report was aimed to examine the implications of ax 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 line of business. He also found the positive correlation (+0.8) between tax rate and 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 small companies and (+0.12) in medium size companies. AS against this, in large companies, there was 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.

Timilisina, Satyendra (2001), presented a dissertation entitled, “personal income taxation in Nepal. A study of exemption and Deduction”. He tries to analyze the present system of tax exemption and the deductions; measure the extent of exemption limit provided to individual and family and examines its appropriateness to substance requirements. Analyze the existing nature of standard deductions. He found that the number of tax-payers paying personal income tax has increased by 114013% from 1990/91 to 1999/2000 at the average of 12.68% each year. Ratio of income tax to the gross domestic product is low. The ration of income tax to GDP has reached to 1.99% in 1998/99 and the same year the ration of personal income tax is only 0.97%. From his empirical analysis, he found that present income tax exemption limit was in appropriate, 70% of respondent refer this and, 70% of respondent suggest for increasing the proportion of corporate tax.

He recommended that government has to provide the family tax exemption in such a way that it would consider the number of family members. The exemption limit must be provided according to the number of dependents. The present tax base must be widened by including the incomes from agriculture sector, capital gains and other sources. The problem of tax evasion can be solved by efficient governance.

Kadel (2002) presented the Ph.D. thesis entitle, “Corporate tax system and investment behavior in Nepal”. 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 investment 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 METER. According to him, the statutory tax rate deduction had impact of 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.

Poudel (2002) presented a dissertation entitled income taxation in Nepal: A study of its structure and productivity. The objective of her study were to analyze the structure of income tax in Nepal, to estimate the elasticity and buoyancy of income tax in Nepal, to assess the role of income tax administration in Nepal to evaluate the success of voluntary disclosure of income scheme (VDIS) program in brief and to provide the suitable recommendation for improving the scenario of income tax. She has found that overall revenue of Nepal showed an annual growth of 16%, indirect taxation has more significant contribution in total tax revenue, income tax occupied the first rank among the direct taxes, personal income tax slabs has been changed radically from seven slabs in 1975/76 to two slabs in 1992/2000, VDIS could not attract more potential taxpayers into tax net due to lack of good planning and adequate homework of the government, working procedures of the tax administrators are still traditional and cost of administration has not been brought to the satisfactory level.

Lamsal, Bharat Kumar (2002) presented a master thesis report entitled “A Study on contribution of Income Tax on Government Revenue”. He tried to explain in brief about the structure of government revenue in Nepal, contribution of tax and non tax revenue, role of income tax in economic development of Nepal structure of income tax rate in Nepal, income tax assessment procedure, and contribution of income tax on GDP etc. In his study, he found that problem of income tax assessment was less consciousness of tax paying habit; the share of income tax as a percentage of total tax revenue was increasing from 9.67% to 21.98% income tax and the personal income tax’s share are increasing every year.

Kafle Sursh (2004) presented a dissertation entitled, “Income tax contribution from Nepalese public Enterprises with reference to Nepal Electricity Authority” in 2004. He tried to examine the effectiveness of income tax revenue collection from PEs and major problem of income tax system and he also tried to find out the contribution of income tax from Nepal electricity authority to total revenue and total income tax revenue on national revenue of Nepal. He found that income tax is increasing every year. The contribution of income tax to total tax revenue was 8.36% in the fiscal year 1991/92 and it increased up to 22.64% in fiscal year 2001/02. Income tax revenue to GDP ratio, income tax revenue to total tax revenue and income tax revenue to direct tax revenue to direct tax revenue ratio is 2.2%, 22.64% and 84.02% respectively and the fiscal year 2001/02. The contribution of income tax from Nepal electricity authority to total income tax revenue has also been fluctuation the average contribution is 2.75%. In the composition of income tax from Nepal electricity authority on the income tax public enterprise has shared 8.5% in an average. Lack of clear, transparent and progressive economic policy is the main reason for unsatisfactory with sound and effectiveness of income tax system of Nepal.

Chudati, Baburam (2004) presented a master thesis report entitled, “effectiveness of Nepali’s tax policy on various business sectors” in 2004. He tried to explain in brief about the tax system of various business sectors. He had found that 80% revenue comes from direct and indirect tax out of total revenue while only 20% revenue comes from nontaxable source like duties, fines, penalties, charge, royalties and so on, Nepalese tax policy was sound but poor implementation and some technical weak. He suggest that Nepalese tax policy should be immediately update and government should establish sufficient number of tax collection counter.

Pudasaini, Dipendra (2006) presented a master degree thesis entitled, “Income tax management in Nepal”. In which he has analyzed the present scenario of income tax management of Nepal. He has included the effectiveness of the administration, problems of income tax management in Nepal, he found that income tax system of Nepal is suffering from various problems such as narrow tax coverage, mass poverty of Nepalese people, lack of conscious of tax payers, widespread evasion and avoidance of income tax, un scientific tax assessment procedure etc. and he has suggested to established to establish separate department of income tax to specialized in the matter of income tax.

Shrestha, Neena (2007) has tried to shown the contribution of income tax on the structure of government revenue in Nepal. She stated that the composition of tax and non-tax revenue is still less satisfactory in Nepal. She round that total revenue, total tax revenue and direct tax revenue have an increasing trend in Nepal but in low rate. She has mentioned that tax evasion as the major problem of income tax system in Nepal. In her study, inefficient tax administration, unconsciousness of tax payer, lack of scientific method of tax assessment and collection have identified as the major reason for tax evasion at high level.

Subedi (2008) has analyzed about the role of income tax on National revenue of Nepal. He has examined the growth of income tax collection, its ratio to

GDP, cost of income tax collection and elasticity. He has also incurred historical perspective and legal aspect of income tax in his study. He has pointed out that tax evasion, inefficient tax administration and dominated role of indirect tax are the major problems in Nepalese tax system. He has suggested that tax administrative reform is the major necessity in development of income tax system.

Prof. Dr. Kamal Deep Dhakal (2008) had written as articles entitle "Historical perspective on Income tax in Nepal". This article has described previous income tax Act and shown main fatigue of income tax Act, 2058 are as follows:

-) Provision of set and carry forward of losses.
-) Classification and pooling of depreciable assets.
-) Tax on capital gain.
-) International taxation.
-) Medical Tax credit.
-) With holding payment and quantification allocation and characterization of the amounts.

2.10 Research Gap

There is only few research works conducted in income tax contribution by Public Bank in Government tax revenue. But such income tax related research work has not provided appropriate solution about effective implementation of income tax system in Nepal. Ruined practicing scenario was the main problem of income tax system. Researchers have provided general recommendation only. In this research researcher has tried to fulfill such research gap. For better implementation of income tax needs to be specific recommendation Researcher wants to eliminate research gap exist in the past and explore for in depth information, which can be helpful better implementation of income tax phenomenon.

CHAPTER – III

RESEARCH METHODOLOGY

This Chapter is devoted to the research methodology applied in the study for the achievement of desired objectives. Both primaries as well as secondary sources of data are used for the conduct of this study opinion survey technique was adopted while collecting the primary data to find out the opinion of respondents representing different groups related to income tax. While conducting the opinion survey questionnaires were distributed to the income tax administrations, income tax experts, income tax payers and Citizen Investment Trust officials in the sizable manner.

3.1 Research Design

It is an overall frame work of plan study for the collection and analysis of data. This research attempts to analyze the secondary data. Hence, descriptive and analytical both the research design has been used to analyze the contribution pattern of income tax from PEs to public revenue of Nepal with reference to Citizen Investment Trust.

3.2 Population & Sampling

The present public enterprises are the population of the study and Citizen Investment Trust is selected as sample for the evaluation. Similarly income tax of 5 Years (beginning from fiscal year 2003/04 to 2007/08) is selected as samples for the purpose of the research.

3.3 Sources of Data

Most of the data were collected from secondary sources. The major sources of data are as follow:

- i. Economic surveys and budget speeches of various years, MOF
- ii. Publication CEDA, TU (Tribhuvan University)

- iii. Reports and records of Department of taxation, MOF
- iv. Annual reports, News, and records of NRB.
- v. Books related to public Finance.
- vi. Books related to income tax.
- vii. Books related to public enterprises.
- viii. National newspapers, journals, souvenir and news magazines.
- ix. Unpublished dissertation.
- x. Extensive library research at Tribhuvan University, Central library and CEDA library etc.

3.4 Procedure of Data Collection

This study is mainly based on secondary data, obtained from various sources mentioned above. Besides, a data view of literature has been conducted in order to collect relevant data and information. Such view materials are mainly collected from central library of TU, library of central department of management, internal revenue Department (Lazimpat) and other public library.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with presentation and analysis of data related with income tax collection from Citizen Investment Trust. Under this selected public enterprises has been analyzed with tables, graph & line chart.

4.1 Structure of Nepalese Government Revenue

Government needs adequate budget for the development activities, operation of administration, maintaining peace, security and for other welfare activities. The required budget is collected from various sources. Generally the revenue collected by the government from various sources is known as public revenue/public receipt/ National exchequer. The structure of the government revenue in Nepal is the composition of tax revenue and non tax revenue. Tax revenue includes various direct taxes as well as indirect taxes. Direct tax includes income tax, property tax, house and building registration, Vehicle tax and others. An indirect tax includes customs, excise, and value added tax and others.

On the other hand, non tax revenue is the composition of various receipts from different government entities. The government revenue is therefore the mixture of tax revenue and non tax revenue of various sources. Mostly, income of the government is generated through indirect tax in Nepal. They are: custom duty, excise duty and sales tax or VAT. Custom duties consists of export, import, Indian excise refund and miscellaneous. The excise duty is the imposition of tax on liquor production, tobacco production and other industrial productions. The other indirect taxes, which are also important as the government revenue, comprise of contract tax, hotel tax, entertainment tax and air flight tax.

Direct tax revenue includes income tax, house and building registration, property tax, vehicle tax etc. The income tax is directly imposed upon the

individual's income or profits. Income tax is the tax composition of income or profit of public enterprises, semi public enterprises, private corporate bodies, individuals and remuneration. The house and land registration, property tax and vehicle tax is also the part of indirect tax.

Non tax revenue of the government includes various registration fees, income from sale of government services and products. Dividend received royalties, principle and interest received and miscellaneous. The registration fees also include the firm registration, vehicle registration, license registration and such.

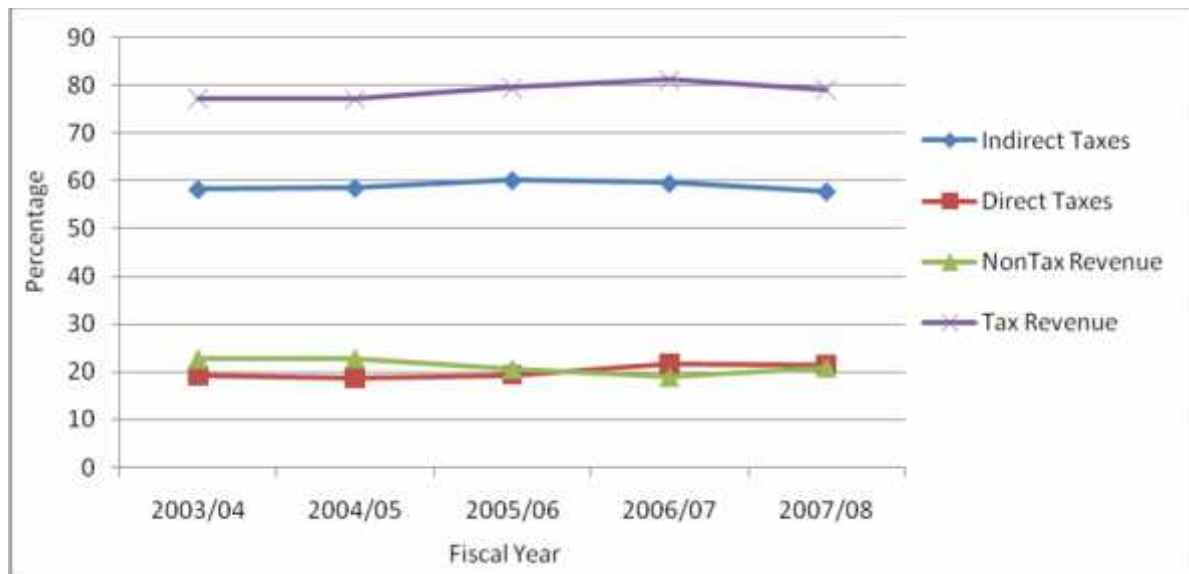
Table 4.1
Composition of Government Revenue in Nepal under Various Heads

Rs. in millions

Fiscal Year	2003/04		2004/05		2005/06		2006/07		2007/08	
	Rs	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Revenues										
1. Indirect taxes	36,274	58.2	41,043	58.5	43,466	60.1	52,188	59.5	62,076.3	57.77
a. Customs	15,554	24.95	15,702	22.39	15,344	21.23	16,699	19.04	21,062.6	19.57
b. Value Added tax	14,498	23.26	18,896	26.95	21,615	29.9	26,145	29.81	29,784.6	27.68
c. Excise	6,221.4	9.98	6,446	9.19	6,506.5	9	9,343.6	10.65	11,229.2	10.43
2. Direct Taxes	11,902	19.09	13,061	18.63	13,961	19.3	18,980	21.64	23,070.8	21.44
a. Income Tax	9,504	15.25	10,456	14.91	10,934	15.13	15,730	17.93	19,067.5	17.72
b. House and building Reg.	1,697.5	2.72	1,799	2.57	2,180.3	3.02	2,238.7	2.55	2,933	2.73
c. Property Tax	0	0	0	0	0	0	0	0	0	0
d. Vehicle Tax	700.4	1.12	806.1	1.15	847.6	1.17	1,011	1.15	1,070.2	0.99
3. Non tax Revenue	14,155	22.71	16,018	22.84	14,855	20.6	16,544	18.86	22,475.6	20.88
a. Duties and Fees	3,245	5.21	3,771	5.38	4,153.8	5.75	5,216.4	5.84	5,946	5.52
b. Fines and Forfeiture	133.2	0.21	173.5	0.25	551.6	0.76	251.3	0.29	235.9	0.22
c. Public Utilities	1,321.3	2.12	1,266	1.81	1,150.7	1.59	1,310.4	1.49	1,284.4	1.19
d. Dividends	2,661.1	4.27	4,590	6.55	3,394.8	4.7	4,937.7	5.63	5,025.8	4.67
e. Interests	1,656.5	2.66	1,467	2.09	1,734.6	2.4	1,049.8	1.2	756.9	0.7
f. Royalty and sales of govt. Property	1,465	2.35	1,932	2.75	1,195.6	1.65	1,095.7	1.25	5,769.9	5.36
g. Principle repayments	1,850.5	2.97	1,248	1.78	1,513.6	2.09	1,025.6	1.17	2,680.9	2.49
h. Miscellaneous income	1,822.7	2.92	1,571	2.24	1,160.4	1.61	1,747.2	1.99	775.9	0.72
A. Tax Revenue (1+2)	48,176	77.3	54,105	77.2	57,427	79.5	71,168	81.14	85,147.1	79.11
B. Non Tax Revenue (3)	14,155	22.7	16,018	22.8	14,855	20.6	16,544	18.86	22,475.6	20.88
Total Revenue (A+B)	62,331	100	70,123	100	72,282	100	87,712	100-	107622.7	100

Source: Economic Survey and Quarterly Bulletin, 2009

Figure 4.1
Composition of Government Revenue in Nepal



The government revenue includes different items. They are indirect taxes, direct taxes and non taxes. As shown in table & figure 4.1, more than 75% has been collected from tax revenue in every year by the government. Government had collected revenue from total taxes in FY (in A.D) 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 was 58.2%, 58.53%, 60.13%, 59.5% & 57.77% respectively. Though in FY 2007/08 the amount increased, it showed the increasing rate of collection in all other years. In individual, value added tax showed increasing trend than others. It was collected in FY 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 was 23.26%, 26.95%, 29.90%, 29.81% and 27.68% respectively.

Government had collected revenue from non-taxes in FY.2003/04,2004/05, 2005/06, 2006/07& 2007/2008 was 22.71%, 22.8%, 20.6%, 18.86 & 20.88% respectively. It showed the highest revenue in FY 2004/05 and the lowest in FY 2006/07. Hence non-tax revenue collection showed no consistent trend of increase or decrease in each year. In individual duties and fees showed increasing trend than others but in FY 2007/08 was getting decrease. It was

collected as 5.21%, 5.38%, 5.75%, 5.84% and 5.52% respectively in the FY 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08.

Thus the tax revenue is the highest contributing sources of total government revenue. But non-tax revenue has been also contributing a considerable rate among the other individual revenue items. It has captured second and third position in the different FY. When comparison is made among all revenue items individually. In conclusion, the composition of government revenue has different types of tax and non-tax revenue items. The income tax is in increasing order from the beginning of analysis and it to be progressive in future items. The income tax is in increasing order from the beginning and found to be progressive. This is supported by the higher growth rate of this revenue items.

4.2 Contribution of Tax Revenue to the Total Revenue

National Exchequer is the composition of tax and non-tax revenue. Tax revenue has also direct and indirect taxes customs, excise duty, sales tax, VAT and other miscellaneous are the main revenue items of the indirect tax revenue items of the indirect tax revenue. Direct tax however is the composition of income tax, land tax, property tax and other direct taxes. Non-tax revenue of the government is an also important revenue source that includes different types of fees, charges, dividends, royalty and principle with interests from components of non-tax revenue. Table 4.2 shows comparison between tax revenue and non-tax revenue collection.

Table 4.2

Contribution of Tax Revenue/Non-Tax Revenue to the Total Revenue

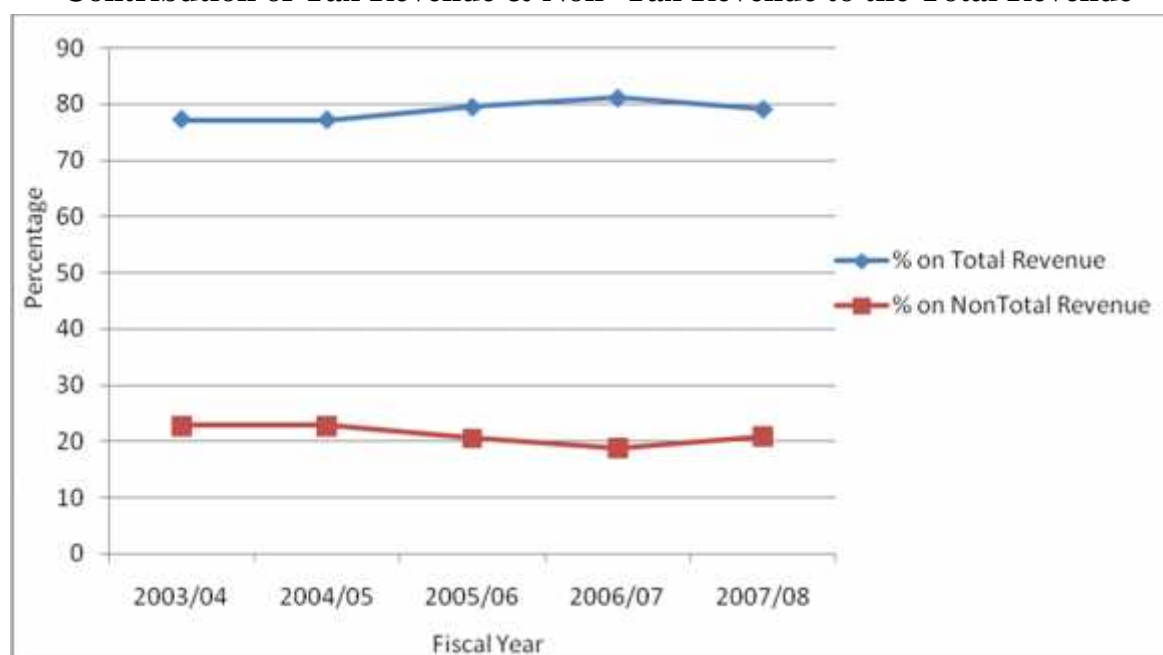
(Rs In million)

Fiscal Year	Total Revenue	Tax Revenue	Percentage	Non Tax Revenue	Percentage
2003/04	62,331	48,175.7	77.3	14,155.3	22.7
2004/05	70,122	54,104.7	77.2	16,017.9	22.8
2005/06	72,282.1	57,427	79.5	14,855.1	20.6
2006/07	87,712.1	71,168	81.14	16,544	18.86
2007/08	107,622.7	85,147.1	79.11	22,475.6	20.88

Source: Economic Survey & Economic Bulletin 2008/09

Figure 4.2

Contribution of Tax Revenue & Non- Tax Revenue to the Total Revenue



As shown in the table & figures 4.2, tax revenue contributed more than 75% in the total revenue realization. In FY 2003/04, tax revenue contributed 77.3%, FY. 2006/07 showed the highest realization of tax revenue i.e. 81.14%. It shows regular increase till FY.2007/08. In the FY. 2004/05, non tax revenue contributed highest revenue 22.8% and FY.2006/07 showed the lowest realization of tax revenue i.e. 18.86%. Non tax revenue contribution showed

slight up and down each year. The above analytical company thus shows that the tax revenue was contributing more than non tax revenues. Tax revenue decreased to 77.2%, the lowest in the FY. 2004/05. Non tax revenue was realized 22.8% the highest in the same FY. This analysis also showed the average revenue collection through tax revenue and non tax revenue (Average of 5 years). As shown by table, the average contribution of tax revenue was 78.85% where as the contribution made by non tax revenue was 21.85%. This interpretation is also understood through the given figure no. 4.2 which visualizes the same.

4.3 Share of Direct Tax on Total Tax Revenue and Total Revenue

Tax revenue is divided into two classes; direct and indirect. A direct tax is such type of tax which is imposed upon the person out of his income or property. A direct tax is really paid by the person or whom it is legally imposed. The taxpayer from other can not shift the burden of paying tax to the other person. He/ She must pay it from his/her own pocket. Like income tax, property tax, expenditure tax, gift tax, contract tax, vehicle tax is such type of tax which is imposed upon any person but without direct collection from him. An indirect tax is imposed on one person but paid partially or wholly by the others. Sales taxes, VAT, entertainment tax, customs, excise duty are the good examples of this sort of tax. Thus direct tax is any tax which is imposed to a person who bears its direct economic burden by him and indirect tax is any sort of tax in which economic burden is shifted to the other person. For instance, government imposes VAT on goods sold, but the amount of VAT is collected from the buyers or the customers. Here tax is imposed upon the sellers but buyer bears the responsibility of tax payment in an indirect manner by paying VAT additionally to the price of the goods or service.

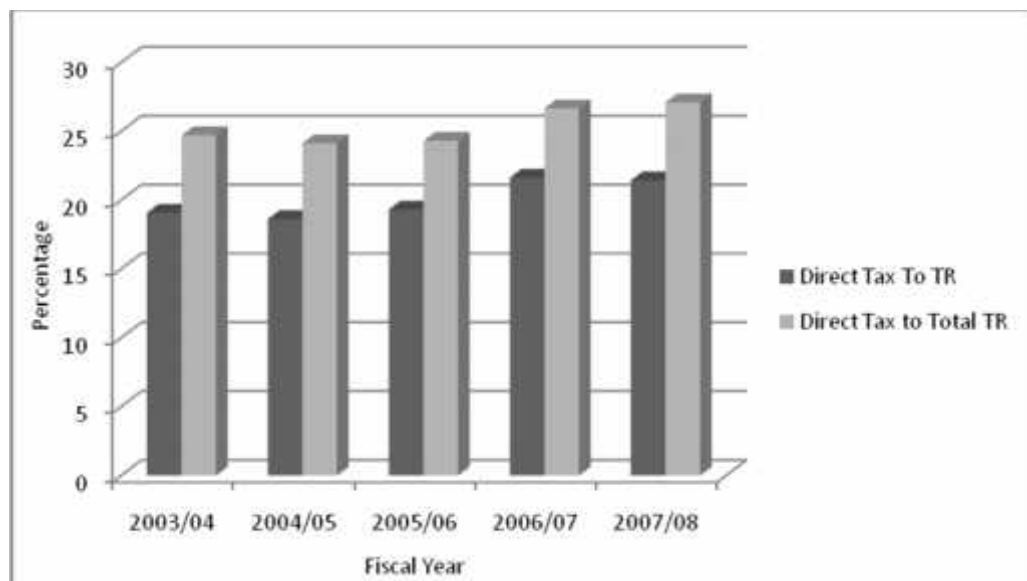
Table 4.3
Contribution of Direct Tax to Total Tax Revenue & Total Revenue

(Rs In Million)

Fiscal Year	Total Revenue	Total Tax Revenue	Direct Tax	Direct Tax To TR	Direct Tax to Total TR
2003/04	62,331	48,175.7	11,901.9	19.09	24.71
2004/05	70,122.8	54,104.9	13,061.3	18.63	24.14
2005/06	72,282.1	57,427	13,961.5	19.32	24.31
2006/07	87,712.1	71,168	18,979.6	21.64	26.67
2007/08	107,622.7	85,147.1	23,070.8	21.44	27.10

Sources: Economic Survey & Economic Bulletin 2008/09

Figure 4.3
Contribution of Direct Tax to Total Tax Revenue & Total Revenue



The table and figure 4.3 showed the Direct tax to total revenue is more fluctuating than Direct Tax to total tax revenue. The reason behind fluctuation was the highest collection from direct tax. The income tax collection has been increasing due to increase in number of the taxpayers and their taxable amount and profits. In conclusion, it can be said that the positive trend of direct tax denoted economic improvement of the nation, even though the nation is in deep trouble being in the transition phase.

4.4 Structure of Income Tax in Nepal

Income tax is levied on net taxable income. This means that not all incomes accrued from all sources brought into the payment of income tax. The income Tax Act 2002 has mentioned about income tax as personal income tax levied upon individual where as corporate tax levied upon organizations. The Government therefore imposes income tax upon the person (individuals, firms and companies) earning taxable incomes without direct benefit to them. Paying income tax is the duty of a person to the state.

Income Tax Act 2002 has clearly defined the related terms. It has defined tax head for computation of tax liabilities. According to this law, three income headings including various receipts are mentioned as follows:

1. Income from Business

It includes income and profit from industry, business, profession and other business transaction, Professional fees, service fees, sales proceeds of business stocks, amounts received from disposal of business assets and liabilities, proceeds from disposal of depreciable assets, business gifts, receipts from business restriction and receipts of amount from deeds directly related to business.

2. Income from Employment

It includes various receipts; they are wages, salaries, allowances, fees, commissions, awards, gifts, bonus and other facilities. The other facilities include additional payment for Dashain, housing facility, vehicle facility & telephone facility and so on. Similarly dearness allowance, house rent, entertainment, transportation costs and costs of living expenses are also the remuneration of employees. Besides, receipts made in agreement of doing job and many other receipts in retirement such as retirement contribution and other amount prescribed by income tax act are subjected to tax.

3. Income from investment

The third head of income is investment income, which includes various incomes received by investing assets in any business sector. They are dividend, interest, rent receipts, receipts from investment, insurance, gain from unrecognized retirement fund. It also includes proceeds from the sale of non-business assets. Capital gains from disposal of depreciable assets, gifts received in relation with investment, amount received in the acceptance of restriction of investment and others. Thus taxable income is a composition of above mentioned various income sources. Income tax is divided into two types in broad sense viz. personal income tax and corporate income tax. Both have different income sources. Corporate tax is a composition of three tax payers. They are Government enterprises, public limited company & private limited company. Individual income tax includes income tax from remuneration, industries, trade and profession of individual. Besides, rent and interest taxes are also included in income tax. This is shown in table no.4.4 for the last five years.

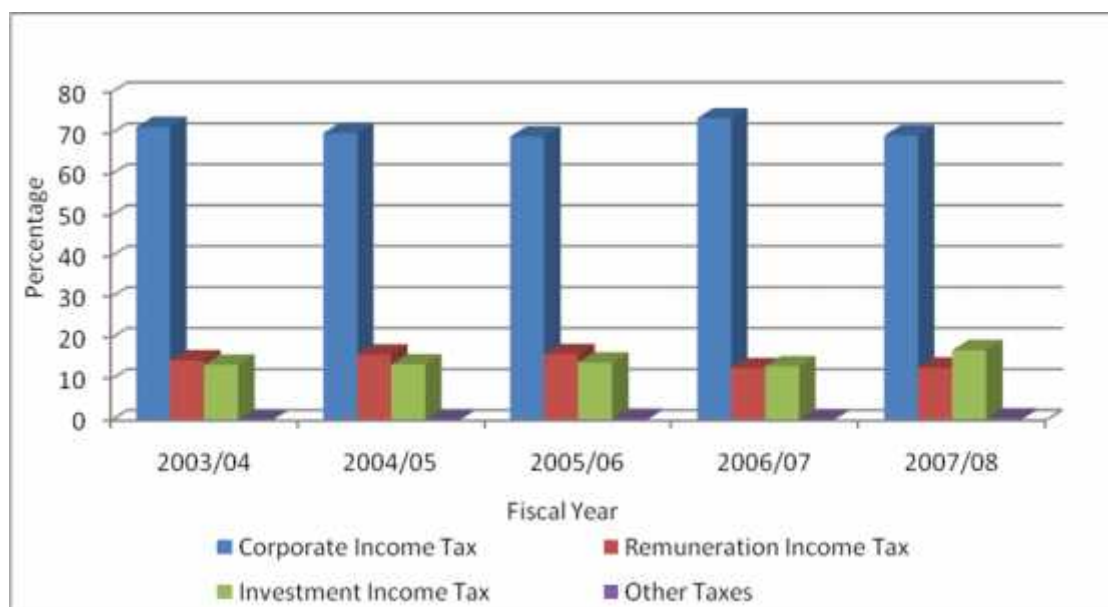
Table 4.4
Structure of Income Tax Revenue in Nepal

(Rs In million)

Fiscal Year	2003/04		2004/05		2005/06		2006/07		2007/08	
	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%
A. Corporate Income Tax	6,805	71.60	7,331.3	70.12	7,576.5	69.30	11,604.9	73.78	13,263.2	69.56
1. Government Corporation	2,056.6	21.64	1,331.5	12.73	195.8	1.79	1019.5	6.48	183.4	0.96
2. Public Ltd. Corporation	1,531.3	16.11	2,467.6	23.60	3,405.6	31.15	5716.4	36.34	7207.3	37.8
3. Private Ltd. Corporation	1,239.8	13.05	1,527.3	14.61	1,703	15.58	2310	14.69	3135.2	16.44
4. Individual & Sole Trading Firm	1,869.7	19.67	1,876.8	17.95	1,958.8	17.92	2303.4	14.64	2452.2	12.86
5. Income From Other Institutions	107.6	1.13	128.1	1.23	313.4	2.87	255.6	1.62	285.1	1.5
B. Remuneration Income	1,392.9	14.66	1,678.2	16.05	1,771.1	16.20	2006.8	12.76	2452	12.86
C. Investment Income	1,291.9	13.59	1,425.9	13.63	1,546.6	14.15	2080.1	13.22	3271.7	17.16
D. Other Taxes	14.2	0.15	20.6	0.20	39.3	0.35	38.2	0.24	80.7	0.42
Income Tax (A+B+C)	9,504	100	10,456	100	10,933.5	100	15730	100	19067.6	100
Growth Rate	14.43		9.10		4.37		30.49		17.50	

Sources: Economic Survey & Economic Bulletin 2009

Figure 4.4
Structure of Income Tax Revenue in Nepal



According to the table and figure 4.4 the total income tax realized in FY 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 was Rs 9,504, Rs10,456, Rs 10,933.5, Rs 15,730 & 19067.6 million respectively. In table 4.4 there are mainly four components as sources of income tax. They are as follows:

- A) Corporation Income Tax
- B) Remuneration Income
- C) Investment Income
- D) Other taxes

Sources of corporate income tax are mixed with Government Corporation, Public Ltd. Corporation, Private Ltd. Corporation & Individual and sole trading firm and income from other institutions. Under the corporate income, the highest income tax collection in FY 2003/04 by Government Corporation, in FY 2004/05 to 2007/08 by public Limited Corporation was 21.64%, 23.60%, 31.15%, 36.34% & 37.80% respectively.

The contribution of Corporation tax in FY 2003/04 was 71.60% where the contribution of remuneration income tax, investment income tax and other taxes were 14.66%, 13.59%, & 0.15% respectively. In FY 2004/05 the tax contribution by Corporate was 70.12% where the tax contribution by other sectors i.e. remuneration, Investment & other taxes were 16.05%, 13.63%, & 0.20 respectively. In FY 2005/06 the contribution of corporate income tax was 69.30% while the contribution from remuneration income tax, investment income tax and other taxes were 16.20%, 14.15% & 0.35% respectively. In FY 2006/07 the contribution of corporate income tax was 73.78% while the contribution from remuneration income tax, investment income tax and other taxes were 12.76%, 13.22% & 0.24% respectively. As same in table the last presented FY 2007/08 the contributed corporate tax was 69.56% where the other included income heads are normally contribute 12.86%, 17.16% & 0.42% i.e. remuneration income tax, investment income tax & other taxes. The table & figure 4.4 data showed that the corporate income tax has always been the highest contribution to total tax revenue. It's indicates that the major source of nation depends on corporation income.

4.5 Role of Corporate Tax in Nepal

Corporate tax has a very important role in the developing countries. Nepal, being an impoverished and land locked country, has always had budget deficits since the inception of the budgeting practice. Unfortunately, the whole economic sector of Nepal has been badly affected due to various reason such as poor education system, least development of infrastructure, poor trade relation with third countries, lack of strong commitment of the best and vital resource of national revenue that can be mobilized in the country to attain development. The increment in income tax is justifiable for the development of infrastructure as increasing other indirect taxes will give a tremendous burden to the already poor people. Increase in other taxes will also have a serious effect in other sectors of economy. The income tax can be increased as it is levied to the income generator without affecting others. It gives incentives to

the people to work hard and increase economic transaction. The number of tax payers can also be increased by investigating potential tax payers who are not contributing. The income tax has a positive effect on the people's ability to work. The individual deficit will be compensated by the government's expenditure on the poor and middle class to raise their level of income, providing them better housing and education. Thus, it is levied not only for raising national revenue but also to bridge the gap between the rich and the poor. A highly progressive income tax if administered properly should be able to reduce inequalities in the short run. Progressive income tax levies taxes at a low rate for low income earners and high tax rate for the high income earners. Therefore most countries have been using this policy not only for the revenue to the state but also to solve the problem of the main sources of capital formation as it will invest part of the tax proceeds in industries, transport and communication. Thus if the revenue from income taxes is devoted to national building, it stabilizes and promotes business activity and increase the volume of national income.

Most of the people in developing countries do not have to pay individual income tax because they are least income earners. In this situation, income tax from corporate bodies, play vital role in resource mobilization in the nation. The other points of corporate tax are that it is easily identifiable and accounts can be maintained in a proper way. They can not escape from tax liability and evade taxes as the individual tax payers can unfortunately, industrial sector has not been able to develop in Nepal. Some government enterprises have been privatized, most of which are not in operation. Even the private limited companies have been practicing tax evasion. This decreases the revenue from corporate income. As said earlier, there are only a limited number of corporate bodies in the country. Though their economic performance is very low and not much satisfactory, their contribution is still higher in total government revenue.

Table 4.5
Contribution of Corporate Tax to Total Income Tax Revenue
(Rs in Million)

Fiscal Year	Total Income Tax	Corporate Tax	% on Total Income Tax	Growth Rate
2003/04	9504	6805	71.60	18.38
2004/05	10456	7331.3	70.12	7.18
2005/06	10933.5	7576.5	69.30	3.24
2006/07	15730	11604.9	73.78	34.71
2007/08	19067.5	13263.2	69.56	12.50

Source: Economic Survey & Quarterly Economic Bulletin 2009

Figure 4.5
Contribution of Corporate tax to Total income tax Revenue
With Growth Rate

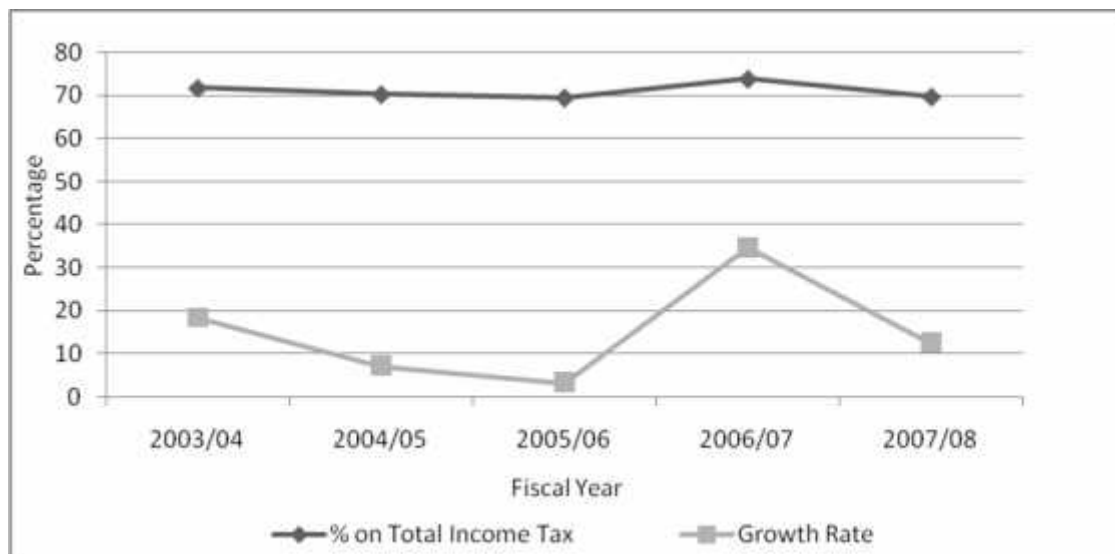


Table and figure 4.5 shows the contribution of corporate income tax on total income tax with its growth rate during Fiscal Year 2003/04 to 2007/08. About Rs 6805 has been raised in the Fiscal Year 2003/04 which was 71.60% of total income tax collection. It was continuously increased to Rs 7331.3 Million in the FY 2004/05 with contribution of 7012% of total income. In FY2005/06 was decrease and reached 69.30% and also increased in FY2006/07 to 73.78%.

Thereafter the contribution of corporate income tax rate was decreased and reached 69.56%.

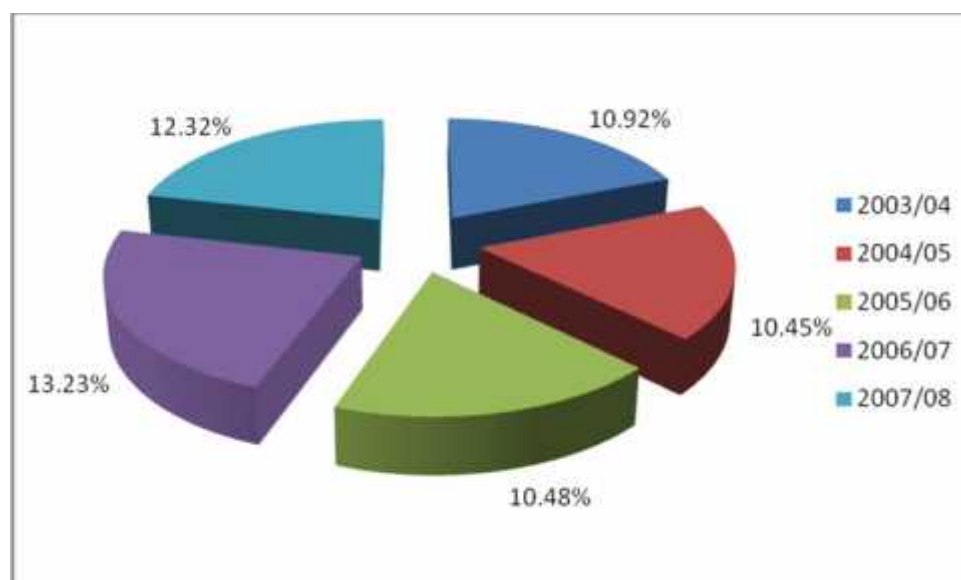
Actual growth rate of contribution of income tax to the total income tax revenue showed 71.60%, 70.12%, 69.30%, 73.78% & 69.56%.

Table 4.6
Contribution of Corporation Tax to Government Revenue
(Rs in Million)

Fiscal Year	Government Revenue (GR)	Corporate Tax	%Corporate Tax to GR
2003/04	62331	6805	10.92
2004/05	70122.8	7331.3	10.45
2005/06	72282.1	7576.5	10.48
2006/07	87712.1	11604.9	13.23
2007/08	107622.7	13263.2	12.32

Source: Economic Survey, & Economic Bulletin, 2009 NRB

Figure 4.6
Contribution of Corporation Tax to Government Revenue



The table & figure 4.6 shows the contribution of corporate tax on Government revenue in FY 2003/04 the contribution of corporate tax in Government

revenue was 10.92%. Similarly the contribution in FY 2004/05, 2005/06 & 2006/07 were 10.45%, 10.48% & 13.23% respectively. In FY 2007/08 it has decreased to 12.32%.

4.6 A Brief Introduction of Citizen Investment Trust

Citizen Investment Trust (CIT) is incorporated under Citizen Investment Trust ACT, 1990 with a view to expand investment opportunities by encouraging general public to save capital and to bring the dynamism in the development of capital markets. CIT is basically the saving and investment institution and it statutorily derives a special status and privilege, which adds up its strength to emerge as a national institution reaching wider spectrum of the population. CIT, at the same time, achieves a high professionalism in the financial intermediation and ability to provide varied capital market services. The head office of CIT is in Katmandu and may open branches of appoint representatives with in and outside the country.

4.6.1 Major Functions

A. Saving Mobilizations

1. Operate various unit and mutual fund schemes to both domestic and foreign investors.
2. Operate various kinds of retirement schemes like gratuity, Pension fund etc.
3. Operate investor's account scheme.

B. Investment / Financing:

1. Invest in corporate shares, debentures & government securities.
2. Invest term-loan and bridge financing to corporate bodies.
3. Provide credit for purchasing shares.

C. Capital Market Services:

1. Trustee services:

- a) Debenture trustee services.

- b) Escrow agent services.
- c) Custodian Services.

2. Corporate Finance Services:

- a. public issue management.
- b. underwriting & syndication of underwriting public issue.
- c. market maker of corporate & government securities.
- d. consultancy services in the area of capital markets. Such services are available for designing capital structure, Pricing of securities, corporate acts like merger, privatization and other related activities.

4.6.2 Share Capital Structure of Citizen Investment Trust

Table 4.7
Share Capita Structure

Particular		Current (In Rs)
Authorized Capital: 800,000 Equity share @ Rs 100		80,000,000
Issued of Share: 600,000 Equity share @ Rs 100		60,000,000
Government of Nepal: 600,000 Equity share @ Rs 100		6000,000
Central Bank of Nepal (NRB): 80,100 Equity share @ Rs 100		8,010,000
National Insurance company: 159,900 Equity share @ Rs 100		15,990,000
Nepal Stock Exchange Market: 60,000 Equity share @ Rs 100		6000,000
Financial Institutions: 120,000 Equity share @ Rs 100		12000,000
Public Subscribed: 120,000 Equity share @ Rs 100	12,000,000 8,200	11,991,800

Less: Calls in arrears 820share@ 100		
Total		59,991,800

Source: Annual Report of CIT 2064/065

4.6.3 Income Tax from Citizen Investment Trust

Government revenue is increasing every year. Every though income tax from Citizen Investment Trust is contributing a few part of total government, it is contributing regularly. The following table shows the proportion of income tax from Citizen Investment Trust on total government revenue of Nepal.

Table 4.8
Income Tax from CIT as a Proportion of Total Government Revenue
(Rs In million)

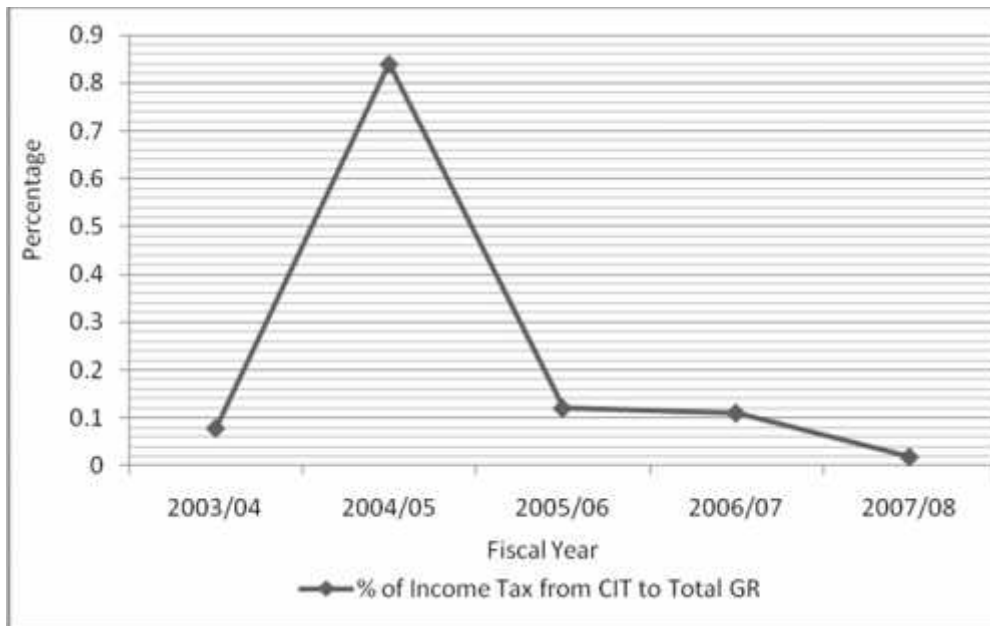
Fiscal Year	Total Government Revenue	Income Tax from Citizen Invest. Trust	% of income Tax from CIT to Total Govt. Revenue
2003/04	62,331	48.92	0.078
2004/05	70,122.8	58.56	0.084
2005/06	72,282.1	88.87	0.12
2006/07	87,712.1	94.70	0.11
2007/08	107,622.7	191.15	0.18

Source: Economic Survey 2008/09 & Various Annual Report of Citizen

Investment Trust

Where, Average Income tax = 0.12%

Figure 4.7
Income Tax from CIT to Total Government Revenue



The average contribution of income tax from citizen investment trust in Total government revenue is only 0.12%. The trend of income tax from Citizen Investment Trust is neither increasing nor decreasing but fluctuate within the range between 0.078% to 0.084%. In the fiscal year 2003/04 & 2004/05 the contribution of income tax to government revenue was 0.078% & 0.84% respectively. In the fiscal year 2005/06 & 2006/07, it had increased and reached to 0.18%. Thus the amount of income tax revenue is fluctuating every year. Government revenue is increasing rapidly every year but the income tax revenue from Citizen Investment Trust is fluctuating.

4.6.4 Share of Income Tax from Citizen Investment Trust to Total Tax Revenue

Tax revenue includes consumption, income and capital based tax. The following table shows the share of income tax from Citizen Investment Trust in the total tax revenue.

Table 4.9
Income Tax from CIT to Total Tax Revenue

(Rs In million)

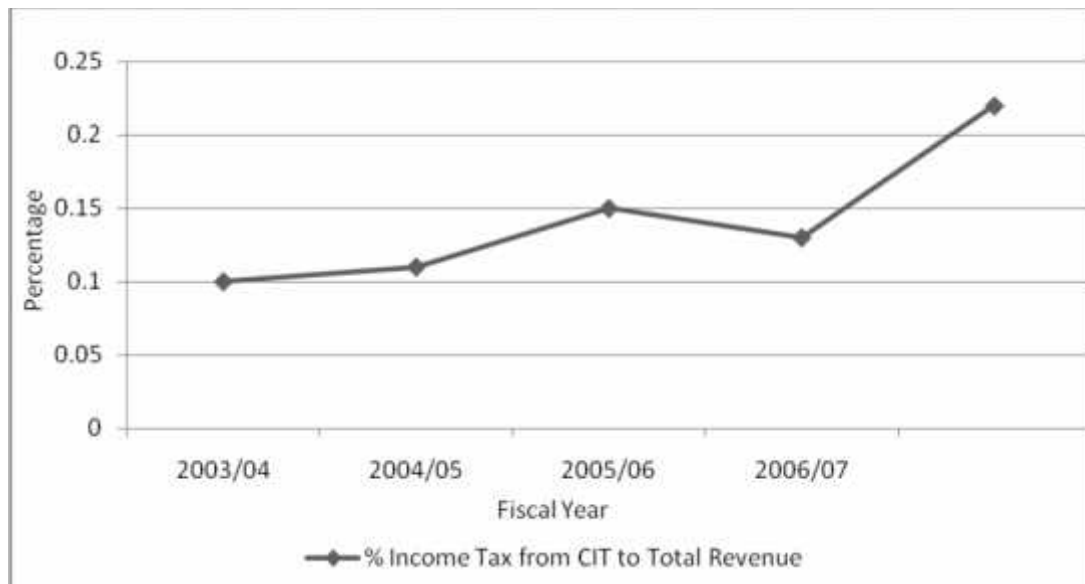
Fiscal Year	Total Tax revenue	Income Tax from Citizen Investment Trust	% of Income Tax from CIT to Total Tax revenue

2003/04	48,175.7	48.92	0.10
2004/05	54104.9	58.56	0.11
2005/06	57427	88.87	0.15
2006/07	71168	94.70	0.13
2007/08	85147.1	191.15	0.22
Total	316022.7	482.2	-

Source: Economic Survey 2008/09 & various Annual Report of CIT

Where, Average Income tax Contribution = 0.15%

Figure 4.8
Income Tax from CIT to Total Revenue



The above table and figure 4.8 shows the position of income tax from Citizen Investment Trust. In total tax revenue of Nepal. The share of income tax from Citizen Investment Trust was recorded in increasing trend for every year to the total income tax of government. The average tax contribution of Citizen Investment Trust was 0.15%.

The percentage tax contribution by Citizen Investment Trust was 0.10% in the fiscal year 2003/04. Thereafter it started to increase and reached up to 0.22% in fiscal year 2007/08. The percentage tax contribution in fiscal year 2004/05 to 2007/08. The percentage tax contribution in fiscal years 2004/05 to 2007/08 were 0.11%, 0.15%, 0.13%, & 0.22% respectively.

4.6.5 Share of Income Tax from Citizen Investment Trust to Direct Tax Revenue

Direct tax cannot contribute in our tax structure. In developed countries, direct tax plays a vital role as comparative to developing country. In Nepal, indirect tax has dominated the direct tax. Direct tax can not generate

more revenue because of the low level of income and standard of living in the country. According to economic survey conducted by ministry of finance, there is substantial contribution of income tax in direct tax of Nepal. The composition of income tax from Citizen Investment Trust to direct tax revenue is mentioned blow

Table 4.10

Income Tax from Citizen Investment Trust to Direct Tax Revenue

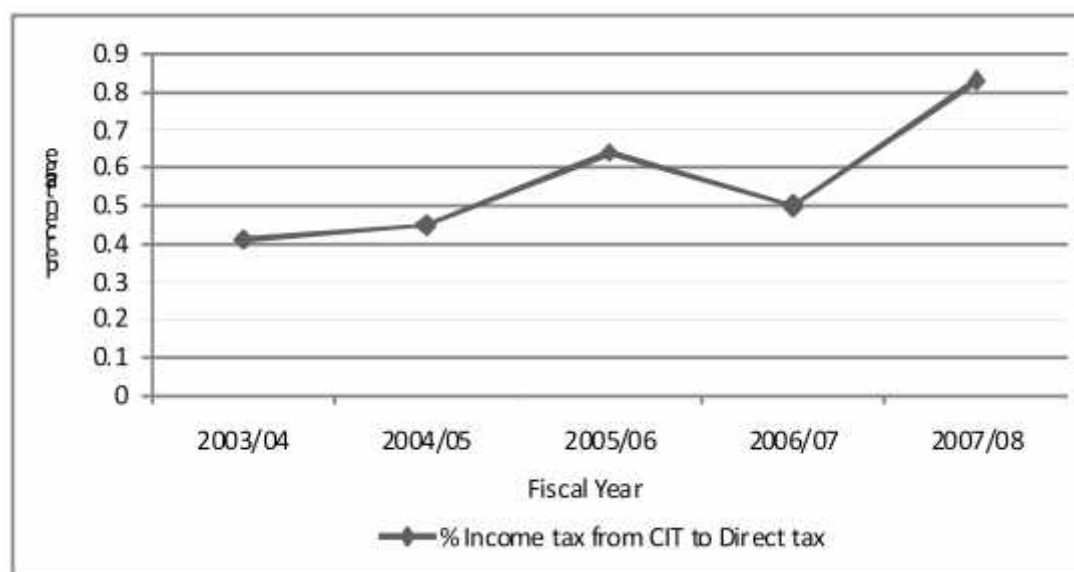
(Rs In million)

Fiscal Year	Direct Tax	Income tax from Citizen Investment Trust	%Income Tax from CIT to Direct Tax
2003/04	11,901.9	48.92	0.41
2004/05	13,061.3	58.56	0.45
2005/06	13,961.5	88.87	0.64
2006/07	18,979.6	94.70	0.50
2007/08	23,070.8	191.15	0.83

Source: Economic Survey 2008/09 & Various Annual Report of CIT

Where, Average income tax contribution = 0.60%.

Figure 4.9



Income tax from Citizen Investment Trust to Direct Tax Revenue

The given table and figure 4.9 shows the trend of income tax from Citizen Investment Trust in direct tax revenue of government of Nepal. The average contribution of income tax from Citizen Investment Trust is 0.60%. The tax contribution of Citizen Investment was increased in fiscal year 2003/04 to 2005/06 were 0.41%, 0.45% & 0.64% respectively. The percentage tax contribution by Citizen Investment Trust was decreased & reached to 0.50% in fiscal year 2006/07. Thereafter the tax contribution of CIT was getting increase up to 0.83% in fiscal year 2007/08. It shows that the tax contribution trend of Citizen Investment was fluctuating within the range between 0.41% to 0.83%.

4.6.6 Share of Income Tax from CIT to Income Tax Revenue

Almost every year, the role and importance of income tax in our country has been increasing. In total income tax structure individuals occupy the highest position among the different type of income tax. Therefore, the share of corporate income tax is necessary to increase Citizen Investment Trust is also a part of under the category of corporation. The following table shows the contribution of income tax from Citizen Investment Trust in total income revenue of Nepal.

Table 4.11
Income Tax from CIT to Income Tax Revenue

(Rs In million)

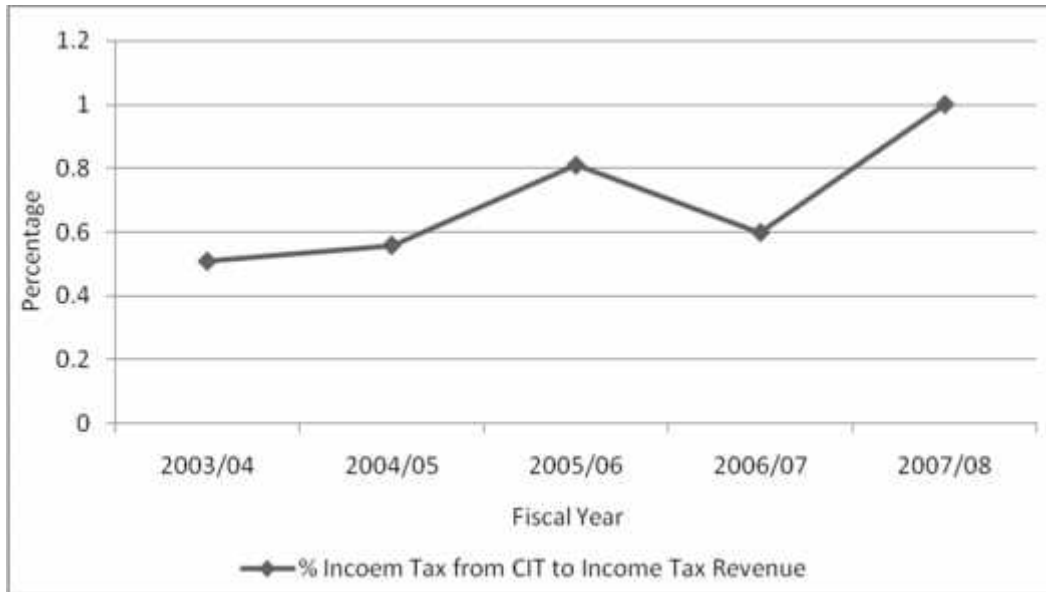
Fiscal Year	Income Tax	Income Tax From CIT	Income Tax from CIT As % of Income tax
2003/04	9,504	48.92	0.51
2004/05	10,456	58.56	0.56
2005/06	10,933.5	88.87	0.81
2006/07	15,730	94.70	0.60
2007/08	19,067.5	191.15	1.01

Source: Economic Survey 2008/09 & Various Annual Report of CIT

Average Income tax Contribution =0.73%

Figure 4.10

Income Tax from CIT to Income Tax Revenue



The table & figure 4.10 shows the share of income taxes from CIT to total income tax revenue of Nepal. The average percentage income tax contribution by Citizen Investment Trust in total income tax revenue is 0.73%. The percentage of income tax from Citizen Investment Trust on total income tax revenue was varied from 0.51% to 1%. In the year fiscal year 2003/04, the percentage contribution was 0.51%. Then after the tax contribution trend went up or increased. The tax contribution trend shows increased every year & reached up to 1%. In fiscal year 2003/04 to 2007/08, the tax contributions were 0.51%, 0.56%, 0.81%, 0.60% & 1% respectively.

4.6.7 Share of Income Tax from CIT to Corporate Income Tax

Corporate income tax is major portion of income tax. It is important for socio-economic development of the nation. Corporate houses play a major role to contribution the effort of nation building through income tax. The following table shows the share of income tax from Citizen Investment Trust to Corporate income tax.

Table 4.12
Income Tax from CIT to Corporate Income Tax

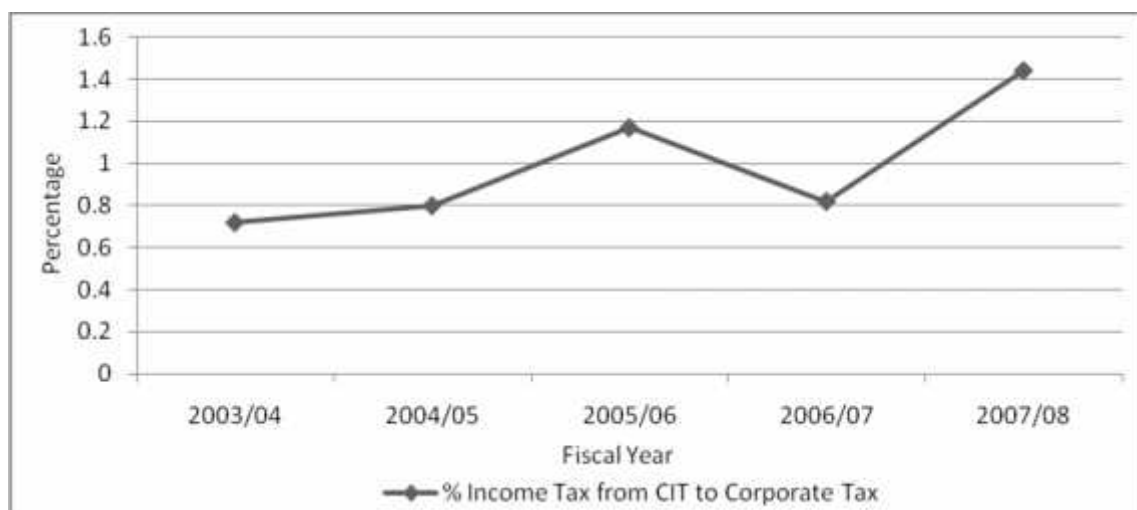
(Rs In million)

Fiscal Year	Corporate Income Tax	Income tax from CIT	Income tax from CIT as % of Corporate Tax
2003/04	6805	48.92	0.72
2004/05	7331.3	58.56	0.80
2005/06	7576.5	88.87	1.17
2006/07	11604.9	94.70	0.82
2007/08	13263.2	191.15	1.44

Source: Economic Survey 2008/09 & Various Annual Report of CIT

Where, Average Income tax Contribution =1.04%

Figure 4.11
Income Tax from CIT to Corporate Income Tax



The table and figure 4.11 shows the place of income tax from CIT to total corporate income tax. The contribution of income tax from CIT was recorded 0.72%, 0.80%, 1.17%, 0.82% & 1.44% respectively in fiscal year 2003/04 to 2007/08. The tax contribution of CIT was increased & reached up to 1.17% in fiscal year 2005/06, thereafter in fiscal year 2006/07; the percentage of tax contribution was decreased to 0.82% & increased in fiscal year 2007/08 to 1.44%. The percentage of tax contribution shows that the tax revenue does not show any systematic trend of increase or decrease but fluctuate within the range between 0.72% to 1.44%. The percentage of highest tax contribution to the Government of Nepal was in fiscal year 2007/08 i.e. 1.44%. The average tax contribution of CIT was 1.04%.

4.6.8 Composition of Income tax from CIT to Income Tax from Private Corporate

Private corporate bodies are contribution the second position in total income tax structure. Private corporate bodies are established with the objective of contributing toward fulfilling the government responsibility in the emerging socio- economic context as well as supporting the poverty alleviation program. Citizen Investment Trust is the part of the private corporate bodies. Citizen Investment bodies was providing the income tax to the government in spite of poor condition of county. It has succeeded to maintain profit providing the transportation service to the people through the cable. The following table demonstrates that the place of Citizen Investment Trust on private corporate bodies.

4.7 Analysis of Primary Data

The survey result has been conducted to find out the various aspects of income tax in Nepal. The structured questionnaire was prepared and distributed for this purpose. The opinion of the various 90 respondents associated with distinct denominations i.e. tax administration, tax expert and tax payers were collected. The questionnaire has covered role of income tax, major problem of income

tax system, problems facing by tax payer, the most important factors for the effectiveness of income tax system in Nepal. The respondents were asked either to response yes/no or for ranking of choice according to no of alternatives where first choice was the most important and last choice was least important. Number of respondents in each denomination is equal 30 persons. Information received from the respondents are tabulated and analyzed in the proper way. Table 4.13 the groups and number of respondents.

Table 4.13

Group of Respondents and Number from each Group

S.N	Groups of Respondents	No.
1.	Income Tax Administrators	30
2.	Income Tax Experts	30
3.	Income Tax payers	30
Total		90

4.7.1 Contribution of Direct Tax

Direct tax includes tax on poverty, tax on income, tax in interest and others taxes. The contribution of direct tax to nation revenue is about 24% in average total tax revenue on Government. To know whether the contribution of direct tax to national is effective or not, a question was asked, “**Do you think that contribution of direct tax to total revenue is effective?**” the responses are tabulated in table 4.14.

Table 4.14

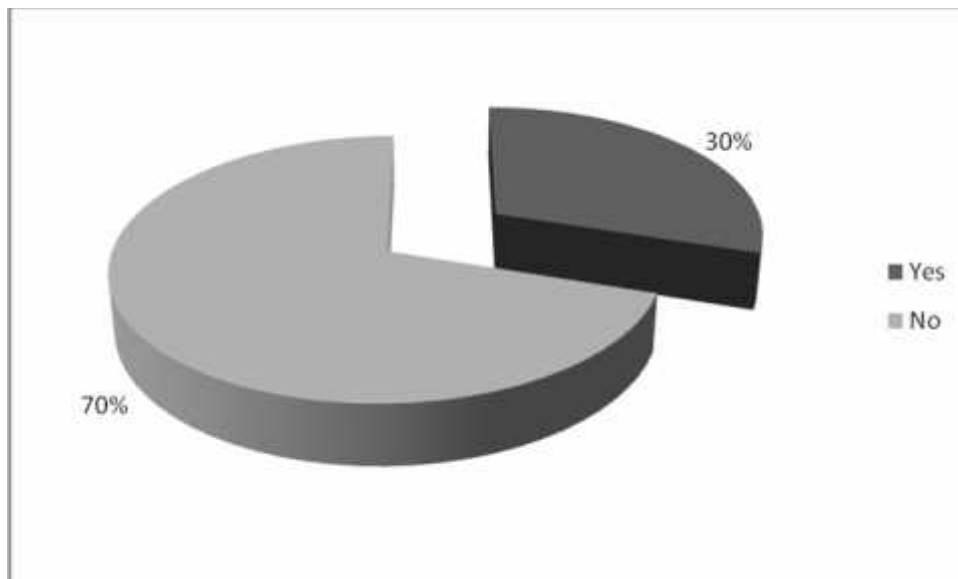
View Towards Effective Contribution of Direct Tax

Response Respondent	Yes		NO		Total	
	No.	%	No.	%	No.	%
Tax Administrator	8	26.67	22	73.33	30	100
Tax Expert	12	40	18	60	30	100
Tax payer	7	23.33	23	76.67	30	100
Total	27	30	63	70	90	100

Source: Opinion Survey, 2009

Figure 4.12

View towards effective Contribution of Direct Tax



The table and figure 4.12 shows only 26.67% of tax administrator, 40% of tax expert and 23.33% of tax payer recognized the contribution of direct tax to total revenue is effective. 70% respondent did not approve that contribution of direct tax to total revenue is effective. From this opinion it can be concluded that the contribution of direct tax to total revenue is not effective.

4.7.2 Reason for low Contribution of Income Tax

In order to know the major reasons for lower contribution of income tax, next question was asked, “**What are the major reasons for low contribution of Income tax to National Revenue?**” the respondents were requested to rank their choice from 1 to 5 answers, according to preference.

Table 4.15
Reasons for low Contribution of Income Tax

S.N	Method	Total Points Received				%	Rank
		Tax Administrators	Tax Expert	Tax Payer	Total		
1	Defective of income Tax Act	90	73	99	262	24.95	4
2	Mass Poverty and low income level	43	80	49	172	16.38	2
3	Increasing habit of tax Evasion	45	34	77	156	14.86	1
4	Inefficient income Tax Administrator	99	52	42	193	18.38	3
5	Inappropriate rate And Exemption limit	68	91	108	267	24.43	5
Total					1050	100	

Source: Opinion Survey, 2009

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

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

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

4.7.3 Appropriateness of Exemption and Deduction

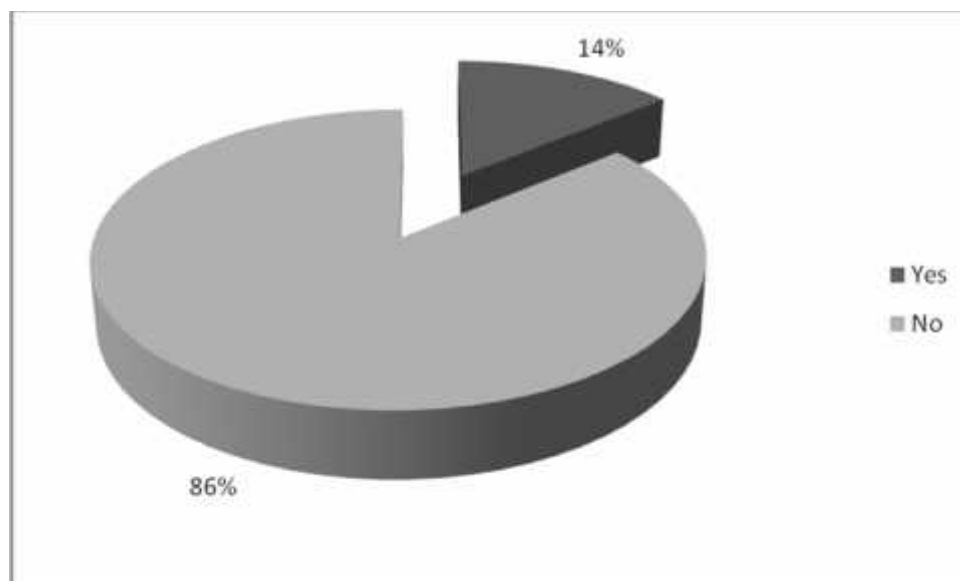
Adequate exemption and deduction is necessary to promote the business enterprises. Many exemption and deduction are provided by “Industrial Enterprises Act, 2049” and Income tax Act, 2058”. The question is “**Are exemption and deduction provided by Act appropriate?**” was asked to find out the opinion of the respondent regarding the exemption and deduction. Opinion result is summarized in the table 4.24

Table 4.16
Appropriateness of Exemption and Deduction

Response Respondent	Yes		NO		Total	
	No.	%	No.	%	No.	%
Tax Administrator	4	13.33	26	86.67	30	100
Tax Expert	6	20	24	80	30	100
Tax Payer	3	10	27	90	30	100
Total	13	14.44	77	85.56	90	100

Source: Opinion Survey, 2009

Figure 4.13
Appropriateness of Exemption and deduction



The above table and figure 4.13 shows only 14.44% of respondent agree with the government present exemption & deduction. But 85.56% of respondents are disagreeing with present Government Exemption & deduction.

4.7.4 Appropriate Method of Income Tax Assessment

Revenue collection from income tax also depends on the income tax assessment procedures. Therefore, assessment procedure should be appropriate and effective. A question, “Which income tax assessment method is more appropriate in Nepal?” was asked to know the respondents opinion about appropriate method of income tax assessment. The response is presented in the table 4.17 as below.

Table 4.17

Appropriate Method of Income Tax Assessment

S.NO.	Methods	Tax Administrator	Tax Expert	Tax Payer	Total	%
1.	Self Assessment	20	25	30	75	83.33
2.	Jeopardy	2	-	-	2	6.67
3.	Amended Assessment	8	5	-	13	43.33
	Total	30	30	30	90	

Source: Opinion Survey, 2009

The presented table 4.17 explains the survey opinion of appropriate method of income tax assessment of Nepalese Government. The result of survey 83.33% respondents is approved of self tax assessment method. They are openly told that the self assessment method is highly appropriate to assess income tax. 6.67% respondents are in favor of jeopardy assessment and 43.33% in favor of amended assessment.

4.7.5 Contribution of Income Tax Revenue

Income tax has contributed about 20% to public revenue in Nepal. It is blamed that contribution of income tax to national revenue is not satisfactory. To know

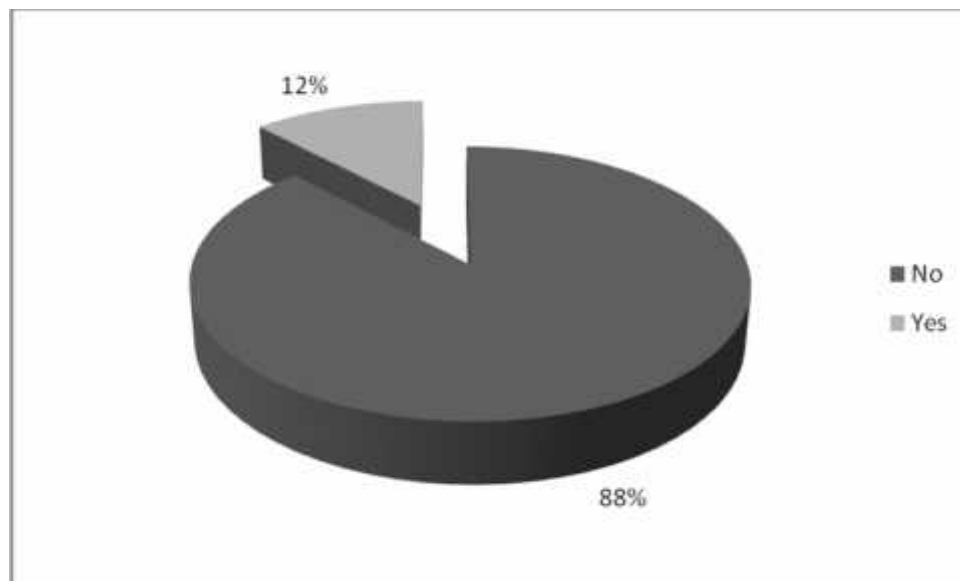
that fact, the question was asked to respondent **“In your opinion, is contribution of income tax to national revenue of Nepal satisfactory?”** Opinion result is presented in the table and figure 4.7.4

Table 4.18
Satisfactory Contribution of Income Tax Revenue

Response Respondent	Yes		NO		Total	
	No.	%	No.	%	No.	%
Tax Administrator	5	16.67	25	83.33	30	100
Tax Expert	4	13.33	26	86.67	30	100
Tax Payer	2	6.67	28	93.33	30	100
Total	11	12.22	79	87.78	90	100

Source: Opinion Survey, 2009

Figure 4.14
Satisfactory Contribution of Income Tax Revenue



The opinion result table and figure 4.14 shows that only 16.67% of tax administrators, 13.33% of tax expert & 6.67% of tax payer were approved that income tax contribution to public revenue is satisfactory. But the 87.78% of total respondent were dissatisfied with the view of respondent.

4.7.6 Suitable Tax Rate in Nepal

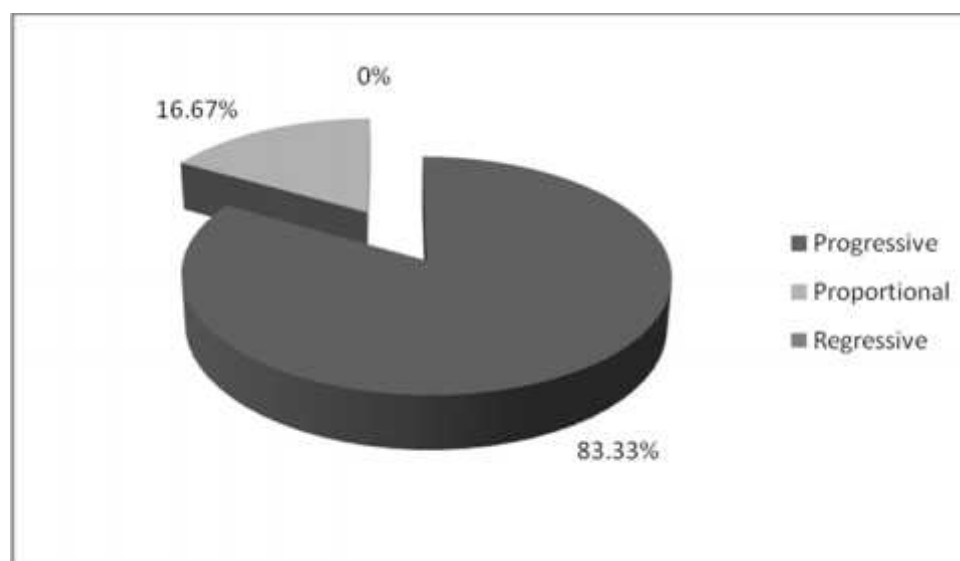
In order to find out the suitable income tax rate system in Nepal, respondents were requested to select any one among the three alternatives. The question was “In your opinion, which income tax rate is suitable for Nepal?” The response is tabulated in the table.

Table 4.19
Suitable Tax Rate in Nepal

S.N.	Methods	Tax Administrator	Tax Expert	Tax Payer	Total	%
1.	Progressive	25	30	20	75	83.33
2.	Proportional	5	-	10	15	16.67
3.	Regressive	-	-	-	-	-
Total		30	30	30	90	-

Source: Opinion Survey, 2009

Figure 4.15
Suitable Tax Rate in Nepal



From the above table & figure 4.15 shows that the most of the respondent agree with progressive tax rate in Nepal. It also clear that 83.33% of total respondent are prefer progressive income rate in Nepal. So, it can be concluded that very few Percentage of respondents are satisfy to the proportional tax rate in Nepal. The opinion survey results argue is that the progressive tax rate is suitable means of tax rate in Nepal.

4.7.7 Effectiveness of Income Tax Administration

To know the respondents views regarding effectiveness of income tax administration in Nepal a question, “Do you agree that Nepalese income tax administration is effective?” was asked, the responses are tabulated in the table.

Table 4.20

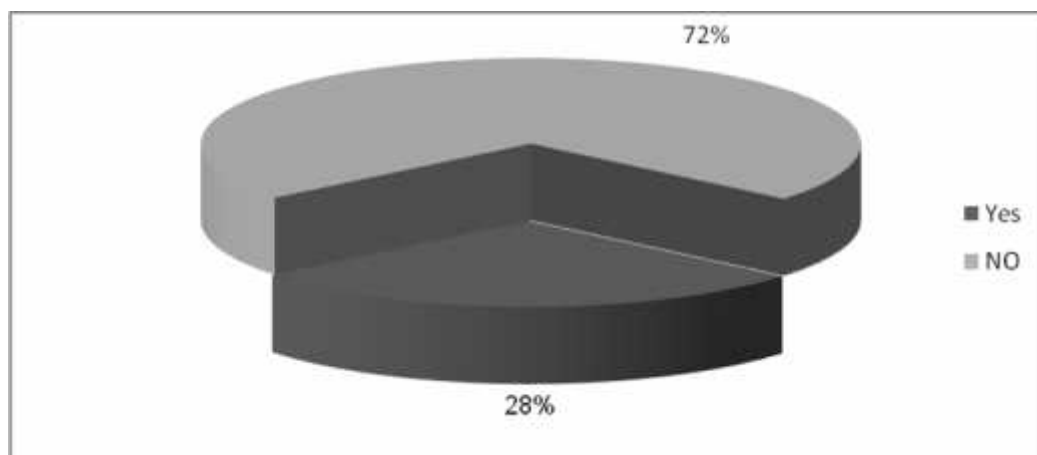
Effectiveness of Income Tax Administration in Nepal

Response	Yes		NO		Total	
	No.	%	No.	%	No.	%
Tax Administrator	20	66.67	10	33.33	30	100
Tax Expert	5	16.67	25	83.33	30	100
Tax Payer	-	-	30	100	30	100
Total	25	27.78	65	72.22	90	100

Source: Opinion Survey, 2009

Figure 4.16

Effectiveness of Income Tax Administration in Nepal



The table & figure 4.16 shows it has been clear that Nepalese income tax administrator is not effective. Most of the respondents i.e. 72.22% of respondent recognize it ineffective. The high percentage of respondent who are in favor of Nepalese tax administration is the tax administrators themselves.

4.7.8 Reasonableness of Existing Provision of Fines and Penalty

Fines and penalty also play significant role to reduce the tax evasion and illegal activities and make morality to the tax payer. To know the views of respondents about the fine and penalty, the respondents were requested to tick yes/no option. The question was, “**Are the provision of fines and penalty under the Nepalese tax system reasonable?**” the opinion of respondents tabulated in the table.

Table 4.21

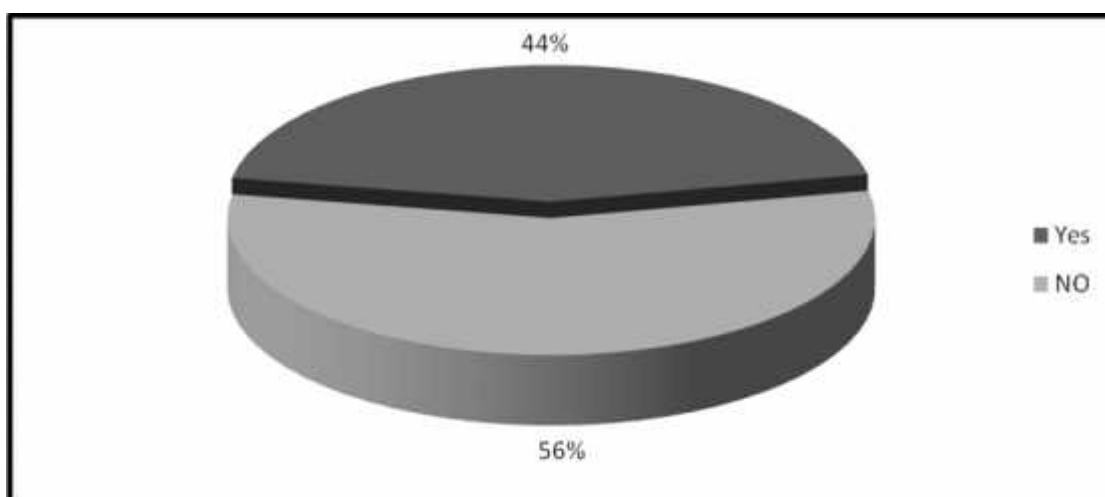
Reasonableness of Existing Provision of Fine & Penalty

Response Respondent	Yes		NO		Total	
	No.	%	No.	%	No.	%
Tax Administrator	20	66.67	10	33.33	30	100
Tax Expert	15	50	15	50	30	100
Tax Payer	5	16.67	25	83.33	30	100
Total	40	44.44	50	55.55	90	100

Source: Opinion Survey, 2009

Figure 4.17

Reasonableness of Existing Provision of Fine & Penalty



The table and figure 4.17 shows that 44.44% of total respondents are in favor of present provisions of fine & penalty but 55.55% of total respondents are against the current provision of fines and penalty. Out of total taxpayer

respondent, the highest 83.33% are against the present procedure of fine & penalty.

4.7.9 Soundness of Income Tax System in Nepal

To know the respondents view regarding soundness and efficient of income tax system in Nepal, a question, “**In your opinion is income tax system of Nepal sound and efficient?**” was asked the responses are tabulated in the table

Table 4.22
Soundness of Income Tax System in Nepal

Response Respondent	Yes		NO		Total	
	No.	%	No.	%	No.	%
Tax Administrator	10	33.33	20	66.67	30	100
Tax Expert	4	13.33	26	86.67	30	100
Tax Payer	2	6.67	28	93.33	30	100
Total	16	17.78	74	82.22	90	100

Source: Opinion Survey, 2009

The table 4.7.9 shows that most of respondents are dissatisfied with the statements (question) of soundness of income tax system in Nepal. 82.22% of the respondent are approve the present soundness and efficient tax system of Nepal.

4.7.10 Income Tax as Suitable Means of Raising Government Revenue

To know whether income tax as a suitable means of raising government revenue in Nepal, a question was asked “**Do you consider, that the income tax as a suitable means of raising Government revenue?**” the respondent’s responses are tabulated in the table

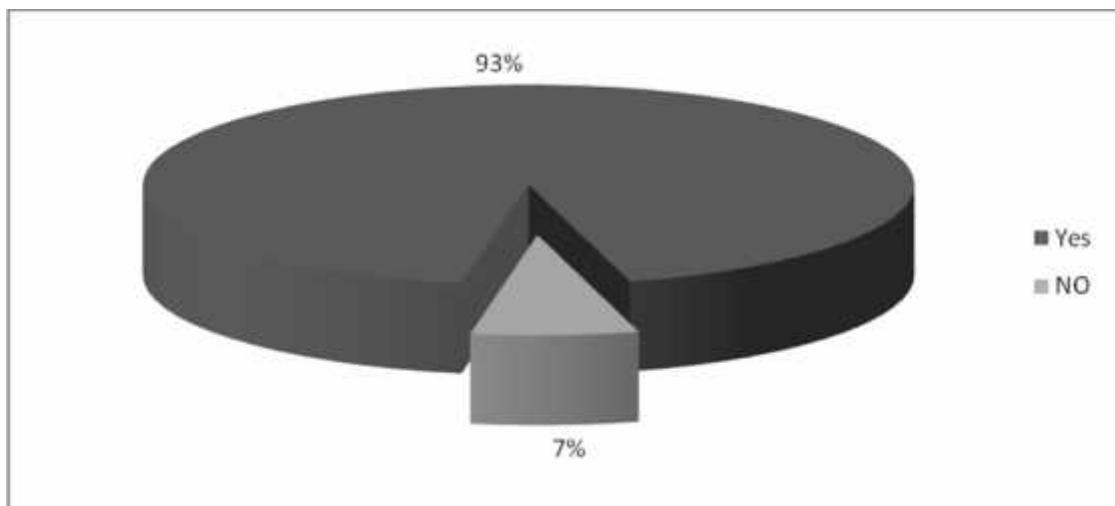
Table 4.23

Income Tax as Suitable means of Raising Government Revenue

Response Respondent	Yes		NO		Total	
	No.	%	No.	%	No.	%
Tax Administrator	28	93.33	2	6.67	30	100
Tax Expert	30	100	-	-	30	100
Tax Payer	26	86.67	4	13.33	30	100
Total	84	93.33	6	6.67	90	100

Figure 4.18

Income Tax as Suitable means of Raising Government Revenue



From The & figure 4.18 above opinion survey table, it is found that 93.33% of tax administrators, cent percentage of tax expert & 86.67% of tax payers recognize income tax as a suitable means of raising government revenue. The other hand only 6.67% of tax administrators & 13.33% of tax payers do not recognized income tax as a suitable means of raising government revenue in Nepal. Therefore the data is concluded that income tax is a suitable means of

raising revenue in Nepal. In total 93.33% of respondents is not support the question.

4.7.11 Most Important Factors for effectiveness of Income Tax

The respondents were requested to rank their choice from 1 to 5 according their preference to know the opinion of the respondents vies regarding to important factors for effectiveness of income tax in Nepal. A question, **“In your opinion, what is the most important factor for effectiveness of income**

S.N	Factors	Points Received				%	Rank
		Tax Administrator	Tax Expert	Tax Payer	Total		
1.	Clear Act, Rules & Regulation	79	70	90	239	21.24	4
2.	Conscious & honest tax payer	31	65	55	151	13.42	1
3.	Moral & honest Tax administration	60	75	45	180	16	2
4.	Effective Tax administration	98	60	70	228	20.27	3
5	Political non interruption	107	105	115	327	29.10	5
Total					1125	100	-

tax in Nepal to raise government revenue?” was asked responses are summarized in table 4.24

Table 4.24

Most Important factors for Effectiveness of Income Tax

Source: Opinion Survey, 2009

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

The important factors for effectiveness of income tax in Nepal according to the preference of the respondents were as follows:

1. Conscious and honest tax payers
2. Moral and honest tax officers
3. Effective tax administration

4.7.12 Attitude toward Problems in paying income Tax

To know the problems facing by the taxpayers while paying income tax, the respondents were requested to rank their choice from 1 to 5 according to their preference. The question was, “**In your thinking, what types of problems are facing by the tax payer while paying income tax**”. Response received from respondents is tabulated in the table.

Table 4.25
Problems in Tax Paying

S.N	Problems	Points Received				%	Rank
		Tax administrator	Tax Expert	Tax Payer	Total		
1.	Consuming unnecessary time	76	92	113	281	24.98	5
2.	Expectation of illegal Incentives by tax personnel	80	81	61	222	19.73	2
3.	Vague provision in income tax laws	58	37	51	146	12.98	1
4.	Lengthy process	70	88	94	252	22.50	4
5.	Lack of Cooperation by tax administrator	91	77	56	224	19.90	3
Total					1125	100	-

Source: Opinion Survey, 2009

In table rank 1 is given to the lowest percentage and 5 to the highest. Here lowest percentage is obtained by the problem which is treated as the important problem by the respondents. In the questionnaire, the respondents were requested to give number 1 to the most appropriate of last to the least appropriate.

From the table, the major problems facing by the taxpayer while paying income tax ranked in order of preference of the respondents are as follows.

1. Vague provision in income tax laws.
2. Expectations illegal incentives to the personnel.
3. Lack of co-operation by tax administrator.
4. Lengthy process.

5. Consuming unnecessary time.

4.7.13 Need of Public Awareness Program

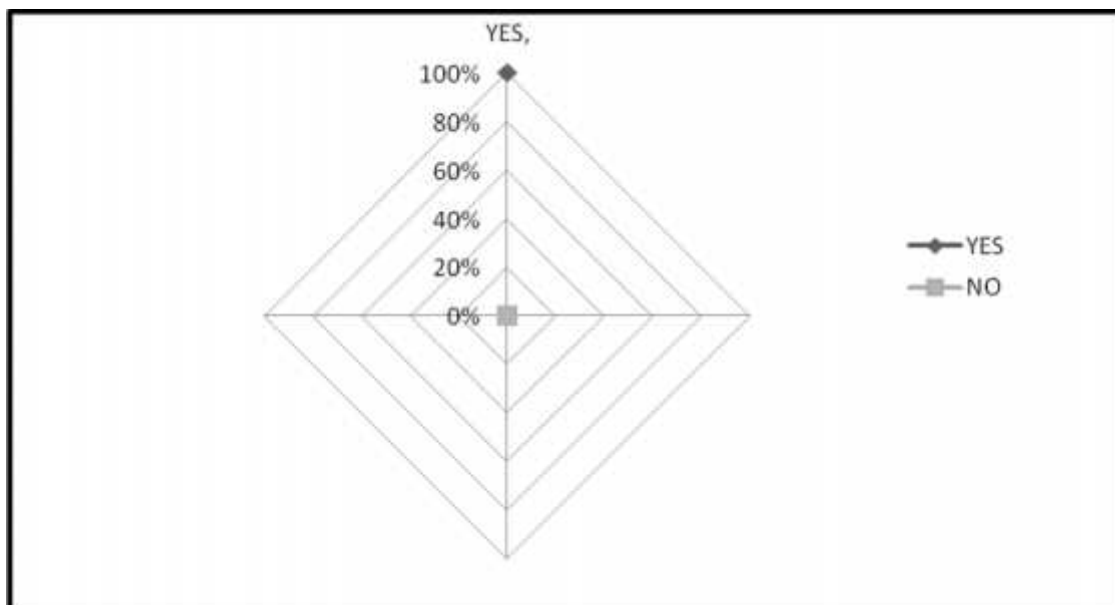
To know the respondents' views towards public awareness program the questions were put "Do you think that public awareness program is necessary in Nepal for raising the government revenue?" opinion result summarized in the table 4.7.13.

Table 4.26
Need of Public Awareness Program

Response Respondent	Yes		NO		Total	
	No.	%	No.	%	No.	%
Tax Administrator	30	100	-	-	30	100
Tax Expert	30	100	-	-	30	100
Tax Payer	30	100	-	-	30	100
Total	90	100	-	-	30	100

Source: Opinion Survey, 2009

Figure 4.19
Need for Public Awareness Program



The table and figure 4.19 shows that all of the sample of tax administrator, tax expert and tax payer approved that public awareness program are necessary in

Nepal for raising government revenue. Thus, it can be concluded that public awareness program is very much necessary for raising Nepalese government revenue.

4.8. Major Findings

4.8.1 Findings from the Study of Secondary Data

On the basis of preceding chapters, Data Presentation and analysis, some important findings can be drawn. The major findings of this research study are summarized below.

1) The study has shown that the contribution of tax revenue in total revenue were 77.3%, 77.2%, 79.5%, 81.14% & 79% respectively in the fiscal year 2003/04 to 2007/08. It shows that the total tax revenue trend was increasing during the five fiscal year and also shows that the tax revenue is major part of composition of Government revenue.

2) Tax revenue is the composition of Direct & Indirect tax .The Direct tax focus the different tax revenue heads i.e. Income tax , House & Building registration, Property tax,& vehicle tax. The Direct tax contribution to the government during the fiscal year 2003/04 to 2007/08 were 19.09%, 18.63%, 19.3%, 21.64% & 21.44% respectively. The contribution trend of Direct tax is increasing without fiscal year 2004/08

The next, Indirect tax contribution to the national income were 58.2%, 58.5%, 60.10%, 59.5% & 57.77% respectively. The trend analysis of indirect tax is fluctuating in the fiscal year 2003/04 to 2007/08. Comparatively the Indirect tax contribution to the government is higher than the Direct tax. So we kindly say that the indirect tax play vital role in the National income to the Nation.

3) Non-tax revenue is the composition of various components i.e. Duties & fees, fines & forfeiture, Public Utilities, Dividend, Interest, Royalty & Sales of government property, Principle repayment & miscellaneous income. The total non tax revenue contribution to the government was 22.71%, 22.84%, 20.6%, 18.86% & 20.88%

respectively. The presented data shows the fluctuating nature of non-tax revenue and reached to 20.88% in fiscal year 2007/08. The increasing or decreasing fluctuate rate is not so far variance but the condition is not satisfactory.

- 4) Income tax revenue is the compositions of corporate tax and other incomes i.e. Remuneration income tax, Investment income tax and other taxes. The calculated growth rate of income tax were 14.13%, 9.10%, 4.37%, 30.49% & 17.50% respectively in the fiscal year 2003/04 to 2007/08. The growth rate shows that the growth rate of income tax is positive but the growth trend was fluctuating. It's indicate that the country economic and political scenario. The political environment is going stable its plays positive role in the business & other activities.
- 5) The contribution of corporate tax to total income tax was 71.60%. 70.12%, 69.30%, 73.78% & 69.56% respectively. In the composition of income tax, the corporate income tax is most important part of income tax. So, that the corporate income plays vital role in national income. The studies do not say good condition of corporate income tax. In the European countries they must want to increase the corporate income tax in the composition of tax revenue.
- 6) Corporate tax is the part of income tax revenue. It is a direct tax and the corporate income tax is the main sources of income tax revenue. The contribution of corporate tax in the government revenue was 10.92%, 10.45%, 10.48%, 13.23% & 12.32% respectively.
- 7) Public Ltd. Corporation holds in second position of the total income tax revenue. It is a major part of corporate income tax.
- 8) Income tax revenue from Citizen Investment Trust is increasing every year. The Contribution of income tax from Citizen Investment was 48.92 million to 191.15 million in fiscal year 2003/04 to 2007/08. The average tax contribution by Citizen Investment Trust is 0.12%.

4.8.2 Findings from the Study of Primary Data

The opinion survey plays vital role in improving the present Act, provision & procedure of Income tax of Nepalese Government. It also suggests the government tax policies & other many more. The study covered the tax administrator, Tax Expert & Tax Payer's view about the current rule, regulation & procedure of Nepalese Government.

An opinion survey has been conducted in order to find out the role of income tax in Nepal and some other aspects of income tax. From the opinion survey with tax administrators' tax experts and tax payers, the following findings have been drawn.

- 1) The Current income tax administration is not running satisfactorily and is not efficient.
- 2) Lengthy process, vague provision in income tax laws, consuming unnecessary time etc are the major problems facing by the taxpayer while paying the tax.
- 3) Income tax system of Nepal has not reached at the satisfactory level yet.
- 4) Clear act, rules and regulation, effective tax administration are the most important instruments for effectiveness of income taxation in Nepal.
- 5) Progressive income tax rate is considered as the suitable means of tax in Nepal.
- 6) Contribution of direct tax to national revenue.
- 7) To increase the voluntary compliance by tax payers, self- assessment method is the appropriate method while assessing the income tax.
- 8) Mass poverty and low income level, increasing habit of tax evasion, inefficient income tax administration etc is the major reasons for the low contribution of income tax to national revenue.
- 9) Exemption and education should be increased to promote the special industry and export.
- 10) Public awareness program is necessary to increase tax consciousness and raising the government revenue.
- 11) Income tax is the suitable means of raising government revenue.

- 12) The fine and penalty under the Nepalese tax system are not reasonable and it should be increase to discourage tax evader and illegal activities.

CHAPTER – V

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 SUMMARY & CONCLUSION

In developing countries like Nepal, lack of sufficient financial resources is the main constraint for the economic development. Total expenditure of Government of Nepal has been increasing every year due to the expansion of Government activities. Nepal is always facing with the financial problems every year. There is serious problem of resource gap which is in increasing trend. In Nepal, Government accumulates requires fund mainly from internal and external sources to finance regular and development of the nation, Nepal comes under compulsion to rely on foreign loan and grants.

Nepal has been unable for proper mobilization of internal resources; therefore, fiscal deficit of Nepal has been increasing. Among the internal resources, income tax is pivotal one. Income tax should play important role to solve the problem of fiscal deficit. But in Nepal, actual collection of revenue through income tax is lower than its estimated targets. It is so because of the poor taxpaying habit of Nepalese taxpayer, poor tax administrative system, wide spread evasion of income tax.

Income tax is a direct tax and a tax on income on the basis of the total income of the taxpayer from all sources granting on a special system of exemptions and abatements. It is annual tax charged by the government at the rate prescribed in income tax act.

In Nepal, income tax appeared only in 1959/60 in the form of business profit and remuneration tax. The income tax Act introduced a comprehensive income

tax, 1962 which was replaced by income tax Act, 1974. Income tax Act, 2002 also replaced this Act. The income tax Act 2002 and income tax Rules 2002(2059) are the existing law relating to income tax administration. Currently, income tax system encompasses three taxes viz, income tax from employment, income tax from business and income tax from investment.

Nepal is one of the underdeveloped countries, which is still in its crawling stage of industrial development. So, in Nepal, PEs are not a matter of choice, rather they are a matter of necessity. In various sectors of the economy, where the private sector has not come forward or has only in limited extent, the public sector has to come into existence. The contribution of income tax from PEs plays a vital role for the development of the national economy like poor country Nepal. Besides income tax, PEs have contributed through import substitution, export promotion and strengthening the revenue generation of the Government of Nepal and save foreign currency by reducing imports as well as to provide the consumable goods/services at a fair price.

The Nepalese economy is quite dynamic with favorable economic indicators, viz, stable prices, strong balance of payments position and average annual economic growth of more than 4 percent during the decade of the 1990's. The government needs a huge amount to achieve the maximum objectives of the nation. In developing countries like Nepal, lack of sufficient financial resources is the main constraint for the national economic development. Nepal is facing a serious problem of resource gap and high dependency on foreign loans. The resource gap has been increasing at a faster rate than the increase in revenue. The resource gap is widening continuously with the increment of total expenditure in respect to total revenue collection. To solve such a serious problem of efficient fiscal, income tax should play an important role. But resource mobilization in Nepal is still poor.

Developing countries such as Nepal utilize external borrowing as a technique to address the gap between the government revenue and investment as well as to meet the export- import gap. This kind of borrowing adds to the total resources available to the government over a given period and enables the government to incur higher expenditure than would be otherwise possible. These resources can contribute to poverty alleviation and economic growth if properly employed.

The governments of Nepal introduce a formal tax for the first time in Nepal in 1959 (2017 B.S.) in the form of “Business profits and Remuneration tax”. According to this Act, income only from business profits and remuneration were subjected to tax. At present, in income tax Act 2002, which became effective since April 1st 2002, sources of Nepalese income are classified into business income, investment income and employment income for the tax purpose. The percentage share of income tax to government revenue is not satisfactory in comparison to other developing countries like India, Pakistan, Bangladesh, and Sri Lanka etc. There are three major income tax assessment methods in the Nepal.

Currently, income tax revenue in Nepal is collected through four sectors i.e. corporate income tax, individual income tax, house and land rent tax and interest tax. Among them, share of the individual’s income tax is the highest. Exemption limit and tax rate of the income tax is determined according to the income level and sector wise but is not adjusted according to the inflationary situation of the country and number of dependents. Exemption limit is not provided to the corporate bodies.

The success or effectiveness of income tax system entirely depends upon implementation of provisions, which is the major responsibility of income tax administration. Income tax system of Nepal has been blamed as not efficient enough. Various problems existed in the income tax such as increasing habit of

tax evasion, inefficient income tax administration, defective income tax law are the reasons of lower contribution of income tax. But if we analyze the data relating to it then we can find out that revenue collection from income tax is increasing continuously. Provisions in Act and language have to be made clear. Some reforms in income tax administration are needed to raise the income tax revenue.

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

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

For the study of income tax collection from public organization in Nepal, especially I have chosen the Citizen Investment Trust. During fiscal year 2003/04 to 2007/08 income tax collection from Citizen Investment Trust was Rs 48.92 million, 58.56 million, Rs88.87 million, Rs94.70 million and 191.15

million respectively. In comparison within five fiscal year income tax collection from citizen investment trust in Fiscal year 2007/08 was highest collection & fiscal year 2003/04 was minimum or least collection.

In Fiscal year 2003/04 to 2007/08 the income tax collection from Citizen Investment Trust were 48.92 million, 58.56 million, 88.87million, 94.70 million & 191.15million which was 0.78%, 0.84%, 0.12%, 0.11% & 0.18% respectively on total Government revenue. The percentage tax collection of Citizen Investment Trust on total government revenue was increasing and reached in 0.18%. The tax contribution trend of CIT shows positive.

5.2 Recommendations

On the basis of this study, the following recommendation is made in order to increase the contribution of income tax on government revenue of Nepal.

- 1) The income tax policy should be made such that the main objectives of imposing income tax can be achieved. For this, it should be formulated according to the economic policy of the country.
- 2) The following recommendations are made to solve the problem faced by Citizen Investment Trust regarding to income tax system.
 -) Income tax administration should be efficient.
 -) Income tax act, rules and regulations should be clear and simple.
 -) High discretionary power of income tax offices should be reduced.
 -) Income tax assessment process should be made fast.
 -) Corrupted tax officers should be punished.
 -) Income tax imposition on Citizen Investment Trust should be reduced.

- 3) The Government should levy tax on agricultural income after providing certain exemption limit. It helps to broaden the Nepalese income tax base and to increase the income tax revenue.
- 4) For the convenience of taxpayer the existing exemption limit should be adjusted according to inflationary situation of the country. The exemption limit for the family should be made more than couple.
- 5) The provisions of rewards, prize, incentives should be introduced in the act to encourage the taxpayers to pay tax voluntarily rather through coercive measures.
- 6) Tax personnel should be encouraged, punished and transferred on the basis of their work and experience. Regular and effective training system, reward, prize and punishment system should be established for the effective personnel management.
- 7) Effectiveness of income tax system depends upon the income tax administration. In Nepal, one of the most important reasons for unsound income tax system is inefficient and unscientific income tax administration. Following recommendations are made for improvement of income tax administration.
 -) delays in assessment should be reduced as possible.
 -) computerized information system is necessary to keep up to date records of income tax.
 -) proper tax education should be provided to tax officials as well as tax inspectors and taxpayers regularly.
 -) unnecessary outside pressure should be avoided.
 -) income tax experts/ profession should be increased in tax administration.
- 8) The following suggestions are made to minimize the corruption.

-) There should be severe actions to corruptors.
 -) Check and balance system should be developed.
 -) Tax officers' discretionary power should be reduced.
 -) Additional incentives to tax personnel should be provided.
 -) Consciousness should be developed to hate the corruptors.
 -) There should be regular supervision to tax personnel.
 -) Moral education should be provided to tax personnel.
 -) Tax department should be free from political pressure.
- 9) There is important role of tax administration in developing countries like Nepal. Therefore, the administrative reform is critical to the success of tax policy. In view of the administration problem stated elsewhere, the following measures are suggested:
-) As the role of information is central to the success of tax administration, information collection should be consolidated. Intra departmental as well as inter-departmental networking at least among the departments within the Ministry of Finance should be established at the earliest. The scope of PAN should be expanded to cover such things as purchases and sale of land, vehicles etc. It should be provided to as many taxpayers as possible. Taxpayers who hesitate to come to IROs or are either unaware about it, should be provided the PAN in their doorsteps.
 -) The tax authorities also need to be reoriented to implement the new act smoothly. They should be familiarized with recent innovations in the field of public administration particularly in the tax administration whereby taxpayers are treated as clients. And hence, client orientation should be the thrust of the administrative reforms.
- 10) For making a striking impression to the personnel management the following recommendations have been made.

) he salaries and incentives should be increased in accordance with the inflation. So, the personnel will motivate towards their work.

) Impartial appointment of the personnel is essential; they should be recruited on the basis of their academic merit system.

) System of reward and punishment should be effectively established and implemented to the better performers and poor performers' respectively.

) In order to motivate the tax personnel in work, their performance should be appraised and the appraisal should be based on the more scientific technique i.e. Management by objective (M.B. O.)

Training should be given to all personnel before they are posted at their job and further development programmes should be arranged from time to time.

11) Effective public participation is necessary to minimize the income tax evasion. Tax authority should do continuous effort in order to develop the taxpayers' positive attitude towards taxation.

12) The habit in business sector of not keeping the complete accounts of the transactions or not submitting the real account for tax assessment must be abolished.

13) With a large and growing population of taxpayers it is simply not possible to check the returns filed by every assessee. It is better to proceed on the basis of "self-assessment", subject to random checks. Every taxpayer should be under a credible threat of getting caught for any misstatement.

14) The tax assessment system should be scientific, the tax is largely assessed under the presumptive and the income of many taxpayers is not associated on regular basis. Tax officers of the previous year's income made tax assessment. The result is that the income tax system is less

revenue productive, inefficient and has become less effective. Thus, it should be replaced by the current year's basis and self-assessment system should be developed gradually in place of the official assessment system.

15) The following suggestions are given for minimizing the wide spread evasion of income tax.

-) Enforce tax laws effectively and plug loopholes.
-) Strict actions should be taken against tax personnel who encourage tax evasion. Honest and efficient tax personnel should be rewarded.
-) Control illegal business activities especially at open borders with India.
-) Give attractive rewards to those persons who supply information about tax evasion.
-) Establish effective co-ordination with customs, excise, banks, public enterprises and semi public enterprise, local bodies and voluntary organizations

16) The following suggestions are given for reducing tax collection cost.

-) Improve the self-tax assessment procedure.
-) Reduce the cost of staffs those engaged in tax collection in some extent.
-) Reduce the delay in submitting income statement.
-) Simplify collection procedure.

17) There must be partnership between the government and the private sector leadership like FNCCI, CNI etc.in respect of making the taxpayers aware of the taxation.

18) The administration should pay great attention to bring the income from house and land rent, doctors clinic, consultancy service, tuition, research works in to income tax net. In these sectors income tax has been highly evaded.

- 19) Separate income tax department should be established so that the specialization could be achieved in matter of income tax.
- 20) A research and intelligence center should be established in each tax office for proper planning and to collect the information in regard to income tax evaders, potential new taxpayers and non-residents who have conducted business without registration.
- 21) The definition made in Income Tax Act should be further clarified and well defined in simple language.
- 22) Clear provision should be made in case of deduction. All the items of deductions should be clearly defined in the act.
- 23) Income tax policy should be formulated according to the economic policy of the country. Income tax policy should be revised timely.
- 24) There are insufficient numbers of tax offices within and outside the Katmandu valley. Therefore the number must be increased to provide the services conveniently.
- 25) The tax base must be widened by broadening its coverage and institutions, which are philanthropic and non-profit, oriented by name but profit earner and without wide social service motive must not be exempted from income tax.
- 26) Continuous efforts should be done by tax authority in order to develop the taxpayers' positive attitude towards taxation.

The income tax system of Nepal is facing a lot of problems. If the above mentioned suggestions and recommendations are managed timely and implemented properly, the problems can be solved in some extent and the income tax will lead to substantial increase revenue. Then income tax can help bridge the resource gap that exists in the planned economic development of the nation.

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Website

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APPENDIX – A

QUESTIONNAIRE

Dear Sir,

Would you please provide me necessary information for the following questionnaire in the partial fulfillment of master's Degree in Business Studies (M.B.S.) to Conduct research work and submit to the University as the thesis?

I also assure you that the information supplied by you will be exclusively used for academic research.

Khagendra Raj Khatri
Researcher
Shanker Dev Campus, Ktm

Information about respondent:

- a) Name:
- b) Designation and Nature of Work :
- c) Academic Qualification:
- d) Experience in Taxation work:

No. of years:

1. Do you think that contribution of direct tax to total revenue is effective?

YES ()

NO ()

2. What are the major reasons for low contribution of income tax to National Revenue? Please rank according to the priorities.

- a. Defective of income tax act ()
- b. Mass poverty and low income level ()
- c. Increasing habit of tax evasion ()
- d. Inefficient income tax administration ()

e. Inappropriate rate and exemption limit ()

3. Are exemption and deduction provided by Act appropriate?

YES ()

NO ()

4. Which income tax assessment method is more appropriate in Nepal?

a. Self- assessment ()

b. Jeopardy Assessment ()

c. Amended Assessment ()

5. In your opinion, is contribution of income tax to national revenue of Nepal satisfactory?

YES ()

NO ()

6. In your opinion, which income tax rate is suitable for Nepal?

a. Progressive

b. Proportional

c. Regressive

7. Do you agree that Nepalese income tax administration is effective?

YES ()

NO ()

8. Are the provision of fines and penalty under Nepalese tax system reasonable?

YES ()

NO ()

If no, how should it be made reasonable?

A. By increasing

B. By Decreasing

9. In your opinion, is income tax system of Nepal sound and efficient?

YES ()

NO ()

10. Do you consider, that the income tax as a suitable means of raising

Government revenue?

YES ()

NO ()

11. In your opinion, what is the most important factor for effectiveness of income tax in Nepal to raise Government revenue?

I. Clear Act, rules and regulation ()

II. Conscious and honest tax payers ()

III. Moral and honest tax officers ()

IV. Effective tax administration ()

V. Political non interruption ()

VI. Other please specify.....

12 In your thinking, what types of problems are facing by the tax payers while paying income tax?

a) Consuming unnecessary time ()

b) Expectation illegal incentives by tax personnel ()

c) Vague provision in income tax laws ()

d) Lengthy process ()

e) Lack of co-operation by tax administrator ()

13. Do you think that public awareness program is necessary in Nepal for raising the government revenue?

YES ()

NO ()

14. Do you have any other suggestions for achieving effectiveness of income tax in Nepal? If yes, please specify.....

"THANKS FOR CO-OPERATION"