

**INCOME TAX SYSTEM AND ITS CONTRIBUTION TO
REVENUE IN NEPAL**

A Thesis

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MASTER OF ARTS

in

ECONOMICS

Submitted by

DHAKARAM SHARMA

Department of Economics

Prithvi Narayan Campus, Pokhara

Tribhuvan University

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LETTER OF RECOMMENDATION

This thesis entitled “*Income Tax System and Its Contribution to Revenue in Nepal*” is prepared by Dhakaram Sharma under my supervision. I hereby recommend it for approval by the thesis committee.

Date: 4th August, 2019

Prof. Deo Narayan Sutihar
Thesis Supervisor

APPROVAL SHEET

We certify that the thesis entitled “*Income Tax System and its Contribution to Revenue in Nepal*” submitted by Dhakaram Sharma to Department of Economics, Prithvi Narayan Campus, Pokhara, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfillment of the requirements for the degree of **MASTER OF ARTS in ECONOMICS** has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said Degree.

Thesis Committee

Prof. Deo Narayan Sutihar
Head, Department of Economics

Dr. Hari Prasad Pathak
External Examiner

Date: 9th August, 2019

Prof. Deo Narayan Sutihar
Thesis Supervisor

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Dhakaram Sharma

Roll No. 93/064

TU Registration No. 6-1-48-487-99

ABSTRACT

This study entitled “Income Tax System of Nepal and Its Contribution to Revenue in Nepal” has been carried out in partial fulfillment for the Degree of Master of Arts in Economics. This study focuses on the structure trend and composition of income tax and its contribution to government revenue. The present study is based on secondary data published by the government of Nepal covering a period between the FY 2008/09 to 2017/18. In order to analyse the study different mathematical and statistical tools are used.

The income of government is called government revenue to finance government expenditure. Nepal is an agriculture based under developed country. Various factors contributed to the economic underdevelopment i.e. lack of resource mobilization, landlocked position, weak infrastructures and a lack of policies conducive to development. Revenue generation is comparatively very lower than the expenditure in social and economic sector. Resource gap of the country has been widening since beginning. Developing countries like Nepal, highly depend on the indirect tax rather than the direct tax. Among the components of direct tax, income tax occupies the large share. The sources of income tax revenue are individuals, public and corporate enterprises, remuneration income and investment income.

Findings shows that the contribution of income tax during the study period all sources of income tax are increasing in all fiscal years. Therefore, to collect additional revenue, develops investment friendly environment is necessary to tap the economic development. But in individual income there is higher chances to tax evasion by submitting false documents. The problems can be solved to some extent by proper management of tax system and will lead to substantial increase in revenue. Nepalese tax system has been attempting to modify itself to meet changes in technology and economic policies.

Finally, Income tax is more convenient tools for collect government revenue, less procedural complication, easy to access, less paper work, more accurate information and safety of records and tax payers should be educate sufficiently on the importance of tax.

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LIST OF ACRONYMS

ADB = Asian Development Bank

CBS = Central Bureau of Statistics

CES = Constant Elasticity of Substitution

CPI = Consumer Price Index

CRB = Central Revenue Board

FY = Fiscal Year

GDP = Gross Domestic Product

GON = Government of Nepal

HMG = His Majesty's Government

ICHR = Indian Council for Historical Research

IMF = International Monetary Fund

IRD = Inland Revenue Department

IT = Income Tax

ITA = Income Tax Act

METR = Marginal Effective Tax Rate

MOF = Ministry of Finance

NRB = Nepal Rastra Bank

PAN = Personal Account Number

PAYE = pay-as-you-earn

PCI = Per Capita Income

PN = Prithvi Narayan

Pvt. Ltd. = Private Limited

SAARC = South Asian Association for Regional Cooperation

TDT = Total Direct Tax

TIT = Total Indirect Tax

TR = Total Revenue

TTR = Total Tax Revenue

TU = Tribhuvan University

UK = United Kingdom

US = United States

USA = United States of America

VAT = Value Added Tax

VDIS = Voluntary Declaration of Income Source

Vol. = Volume

WB = World Bank

WTO = World Trade Organization

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The government of each country has to spend a lot of money to fulfill its responsibilities towards the people. The responsibilities may be either security, health, education or other developmental activities. The government of a country needs sufficient revenue to handle day to day administration, to carry out developmental plans, to maintain peace and security, to launch various socioeconomic activities and to create various public welfare activities. So, the government expenditure is increasing day by day because of demand of time, increase in price of goods and services, increase of population, social progress and so on. The government needs more money to run these activities successfully. The money that is so much important to the government i.e. called public revenue which is received from different sources. These sources are external and internal. External source of fund is foreign grants and loans. This type of fund is received from foreign countries and international organizations. External sources of fund are important for undeveloped and underdeveloped countries. It is used for economic development, reconstruction, foreign exchange, to recover from crisis situation of nation and so on. But it is not good for developed countries because they have to pay after a certain period like developed countries. Developing countries try to mobilize their internal sources for regular developmental activities.

Internal sources of fund is own source within the nation and it includes both tax and non-tax revenues. Continuous use of external sources of fund to raise necessary public fund is not good because it reduces the liquidity position of the government, increase over dependence upon other countries and increase inflation in nation. Hence internal sources are more important and it is necessary for proper mobilization to fulfill governments financing necessities. Internal sources have no obligation towards the third party and are less risky as compared to external source.

Government revenue is the most important source of financing government expenditure. The government is required to make and implement various policies and planning, acts and procedures to achieve national objectives. Besides these functions, revenue mobilization is also most important function of the government. The income of the government is called government revenue or public revenue. Government revenue can be classified broadly into two groups. i.e.

- i. Tax revenue and
- ii. Non-tax revenue

Tax revenue includes the amount which is compulsory contributed by taxpayer to the government. Non-tax revenue is conditional source. Duty fee, penalty, fine, receipt from sale and rent from goods and services, dividend, interest, royalty, principal repayment and donation are the main sources of non-tax revenue. Non-tax revenue is uncertain and inconvenient because these are imposed according to the necessary to the government. Hence, tax revenue is better source of government revenue. The use of tax is safe for financing government necessities. So, taxation has been taken as the best effective tool for raising the government revenue for economic development. Tax is a compulsory contribution from the tax payer to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred. So, tax is compulsory levy paid or to be paid by a natural or an artificial person to the government without getting corresponding benefit of goods or services provided by the government. The person, who pays tax, does not get any equivalent benefit from the government. It is compulsory liberty of the person who has to pay tax. Generally, taxes are classified into two type on the basis of its form. One is direct and other is indirect tax. If someone who pays tax to the government from his/her own income is called direct tax. Income tax, property tax, interest tax etc are direct taxes. Indirect tax is that tax which is imposed on the person but paid partly or wholly by another. Custom duty, VAT and excise duty are indirect taxes.

Income tax is popular tax. It is considered as one of the major element of tax revenue. Income tax is a charge on person's income according to the law of nation.

Income includes all the income which is received from employment, business and investment. Income tax is superior to other taxes because it is imposed on the basis of paying capacity of the tax payer. People having taxable income have to bear the incidence to income tax. Income tax play very important role in the economic development of nation. It is also recognized as a good financial tool to make narrow the inequality in distribution of income. It reduces the regional economic imbalance by providing tax concession and holiday to the business and industries, which are established in remote and backward area. Income tax is essential not only for collecting government revenue but also control over consumption, to reduce inequality of income and wealth, to promote saving and investment and to accelerate development process of nation. Income tax is also helps to increase consciousness of the people because the people who have paid the income tax are keen towards public expenditure. One of the important characteristic of the income tax system is that it is impartial as compared to other taxes. The reason is that it is imposed keeping in view the capacity of taxpayer to bear the burden of tax. People whose income level is under prescribed limit are exempted from the income tax liability. Income tax is basically changed for two purposes; one is for collecting revenue to meet expenses for government and another is to create equalitarian society by minimizing the economic gap between haves and have nots.

There is resource gap problem in Nepalese economy. Public expenditure is greater than public receipt. The gap has been widening by every year. For the economic growth of the country, large volume of investment and expenditure on economic activities are needed. Taxation is the most powerful tool of government for raising revenue. In the modern world, taxation has been taken as the best effective tool for the raising the ratio of saving to the national income. It is very useful to equalize the distribution of national economy and reduce disparity in the distribution of income and wealth to maintain the economic stability. There are mainly four reasons as why income tax yield is less in developing countries as compare to developed one. The main reasons are as follows:

- i. Problem of defining income
- ii. Problem of assessing and measuring it
- iii. The choice of rate and

iv. Allowances, deductions and difficulties of tax collection.

In the Nepalese context, per capita income (PCI) is very low. According to economic survey 2017/18 published by Ministry of Finance states that the per capita income has been US Dollar (\$) 1004 (Survey, 2018). It is one of the lowest rate of the world. Income distribution is significantly influenced by disparities in the distribution of assets and income generating opportunities. Lower saving of the individual has been the major cause for the lower saving of household and lower investment. Very low level of revenue generation and relatively higher expenditure in social and economic infrastructure has been the feature of Nepalese economy. Most of the developmental projects and programs are financed through foreign loan and aid leading to problem of increasing debt servicing. There are not effective solution for problem of unemployment, inequality and poverty especially for minority and disables. Importance of government in economy seems to be more during depression phase of trade cycle. Some task such as implementation of development plan to improve lifestyle of people, maintain law and order, peace and security in the nation and lunch public welfare activities in health and education sector there is no alternatives of government. Therefore, role of government keep more importance in economy.

It is not doubt that income tax is the vital source of government revenue. It is also useable in the balanced economic development. Nepal has been adopted the income tax system since last six decade and is assessing in the yearly basis. Although, the legal provision has been made and update timely. There are many problems regarding income tax practice in Nepal such as leakage in tax, feeling of people about tax as a penalty, lack of consciousness of people, mobility of tax administration to cover new taxpayer, delay in computation and collection and lack of accuracy and unity in accounting system. Because of these reason, the present study has been designed to highlight the income tax system and its contribution to revenue collection in Nepal. The contribution of revenue from last few years has been analyzed for the study and some recommendation have also been offered to concern sector to increase the government revenue.

1.2 Statement of the Problem

Economic development is the prime concern of every nation of the world. To achieve the objective, every nation of the world is accomplishing various activities. Undeveloped and underdeveloped countries are facing various problem in the process of economic development with comparison to developed countries. Nepal is not an exemption to this condition. Nepal is one of the underdeveloped countries with relatively low per capita income. Most of the Nepalese people are depending on agriculture but their agricultural activities do not focus on revenue generation rather than maintaining their own life hood. The rate of government expenditure is exceeding the rate of government revenue in every year. The development of the country will be possible only when the government can collect its own internal revenue that constitutes tax and non-tax revenue. Tax revenue constitutes a significant portion on government revenue of the total revenue collected in the FY 2017/18, the share of tax and non-tax revenue was 90.7 percent and 9.3 percent respectively. Hence the major portion of government revenue is covered by taxation. Although the tax composition of Nepal shows that the government of Nepal is highly dependent on indirect tax. In the FY 2008/09 the indirect tax had contributed 70.5 percent of total revenue. As the mean of economic growth and social justice, income tax has not succeeded to play significant role in Nepalese tax structure. The income tax had contributed 21.3 percent of revenue in the FY 2017/18 (Survey, 2018).

People of the developing country tend to have greater propensity to evade tax. This is because, they have lesser knowledge about income tax and they have maintain their livelihood from their limited income. Rich people are avoiding tax by using loophole and taking advantages of an inefficient tax administration. In Nepal, the coverage of income tax is very low around 0.5 percent of the total population who pays the income tax. There is poor income tax paying habit of Nepalese people. The tax authorities are inefficient and ineffective in enforcement. There are no integrating programs for tax payer's education, assistance, guidance and counseling. The assessment

procedure of income tax is not effective, undue delay in tax assessment not only reduce the total revenue but also bring harassment to the tax payers.

Agricultural income, retirement payment received by Nepalese people being retired from service by army or police of foreign countries are exempted from income tax. So, exemption of these sources provided a loophole for tax evasion and complicates the tax administration. Contribution of income tax to the government revenue must be increased to achieve the goal of national development and equal economic distribution. So, large tax payers who are hiding their income should be brought into the tax bracket. Some exemptions granted to achieve certain objectives are not effective. Tax incentives are one of the examples of this. Tax incentives or concessions encourage the establishment of industries in certain areas but they vanish or change name ownership or place the business elsewhere when the tax concession period expires. The government of Nepal has adopted various policies to strengthen the revenue structure in the context of changing economic policy. Amount of total revenue collected in the FY 2008/09 was NRs. 143474.4 million and the next tenth year i.e. FY 2017/18 was NRs. 726715.7 million. The total contribution of income tax were NRs. 27479.7, 33832.1, 42066.3, 51313.7, 64178.3, 75609.2, 86168.0, 114174.7, 144978.5 and 154790.7 million in the FY 2008/09 to FY 2017/18 respectively (NRB, 2019).

To bridge the gap between total resources and supply of the resources, income tax plays a vital role. Collection of adequate income tax in Nepal has faced various problems like tax evasion, poor tax administration, unsound income tax collection, ambiguity in tax laws and lack of tax-conscious people etc. If these problems are improved, income tax can be a useful tool in the economic development of the country. There are many problems in the Nepalese income tax system. Government is already not able to increase the income tax as per requirement after the ambitious change in law. Inefficient tax administrative system, widespread income tax evasion, complication in explanation, tax provisions included in tax laws, lack of awareness, political instability, frequent change in government and feelings of responsibility in tax payers are appearing as major factors for low contribution of income tax in government revenue. Internal conflict of the nation and political instability has affected the economic system indirectly but very seriously. It

has damaged as well as destroyed the environment for generating more income tax where income was limited certainly the tax from income will not be so optimistic. At present the exemption limit to an individual has been provided into two distinct categories in Nepal. The present act and rules classify persons into an individual and the family. This classification does not recognize the size of the dependent family members. There is no discrimination between a tax payer having only spouse and tax payer with a spouse, parents and children. Therefore this limit in the Nepalese context neither shows any specific or definite relationship with per capita GDP nor with poverty norm. Income tax act has clearly mentioned about the expenses, which are allowed for adduction. But they are not sufficient and systemic. In Nepal, 10 percent of the gross profit was allowed as a deduction against net income on account of expenses related with technology, product development efficiency development. In the other hand, there is no special provision of deduction that keeps proper records and books of an account and files accurate returns. There has a big gap between formulation of policies and its implementation. This study will analyse both existence of such gap in income tax policy. To widen the base of tax different income should be include with in income tax. Thus what types of professional income are included in current tax system and what are excluded? To fulfill such gap how can broaden the tax base under this head need to be examined. So, this study has tried to assess the following research questions:

- i. What is the trend and composition of income tax in Nepal?
- ii. What is the contribution of income tax in government revenue of Nepal?
- iii. What is the current provision of income tax system in Nepal?

1.3 Objectives of the Study

The general objective of the study is to analyse the contribution of income tax in government revenue and appropriate suggestion to improve the collection of government revenue. Hence the government can collect more revenue. In this regards, following are the specific objectives of the study:

- i. To examine the trend, composition and structure of income tax in Nepal.

- ii. To analyse the contribution of income tax in government revenue of Nepal.
- iii. To examine the tax administrative system and income tax law of Nepal.

1.4 Significance of the Study

Developing countries like Nepal require higher magnitude of financial resources for the economic development programs. Internal resources are more significant role than the external resources for the developmental programs. Among the internal resources, income tax plays a significant role but it is a matter of great unpleasures to quote that the contribution of income tax to the government revenue is very low in Nepal. So it is heavily depending on the foreign aids and grants to undertake development activities. The resources of Nepal are sufficient to run day to day administrative activities to the country, but the revenue surplus is not adequate for development activities. Nepalese government has been presenting deficit budget, there is increment in resource gap. Most of the development activities depend on bilateral or multilateral grants and loans. In this context the easy and long lasting way to increase revenue to strengthen the internal resource in which employment income tax is one of the major components. It has been contributing to increase tax revenue of the nation being a regular source of government revenue. As this study has analysed the income tax system and its contribution to revenue collection in Nepal. Findings, conclusion and recommendation of the study will be useful to design and formulate policy by the concerned authorities. Besides, the study will be helpful to the tax payers, students, economists, planners, tax officers, tax administrators and research scholars as reference materials.

1.5 Limitations of the Study

This study is specially concentrated with income tax in Nepalese tax system but not a complete study of income tax system of Nepal. So, the limitations of the study are as follows:

- i. This study was done in partial fulfillment of the requirements for the degree of master of in Economics of Tribhuvan University.
- ii. Primarily this research depends on the secondary data. So, there may be some errors.
- iii. Due to time constraints, all data of Nepal is not taken.
- iv. The report will prepare on short time based. So the outcome of the study does not represents the extent of the problem for the country as a whole.
- v. This study covered the secondary data of past ten fiscal years (FY 2008/09 to FY 2017/18) only.
- vi. Tax is complicated and vague subject matter. So each and every aspect of the chosen topic may not be covered.

1.6 Organization of the Study

This study has been organized in five chapters. The first chapter is introductory chapter, which includes general background of the study, statement of the problem, objectives of the study, significance of the study, and limitations of the study. The second chapter provides literature review which includes review of international, national and theoretical background of income tax in Nepal. The third chapter highlights to research methodology used in the study. The fourth chapter analyses the trend and structure of income tax in Nepal. The fifth chapter presents summary, conclusions and recommendations.

CHAPTER TWO

REVIEW OF THE LITERATURE

This chapter deals with the literature review of the study. Review of the literature is basically a "stock taking" of available literature in the field of research. It supports the researcher to explore the relevant and true facts for the reporting purposes in the field of study. It develops the expert and help to find out contribution. Literature review also helps to know that what is uncovered and it will be clear that how the present study relates with past. Literature review guides not to conduct the study on already conducted area. Thus literature review establishes starting point for further research avoids duplication and reveals research needed area (Wolff & Pant, 2005).

To obtain the depth knowledge about the subject matter, some research works related with the study were reviewed. It includes the conceptual review and review of some previous studies.

2.1 Conceptual Framework

This section presents the theoretical aspect of the study. It includes concepts of income, government revenue, tax, income tax, objectives and principles of taxation and historical background of income tax, development of income tax act in Nepal and so on.

2.1.1 Concept of Income

Income consists of any economic gains of the people during a specific period. It is measured in monetary terms and came from business, employment, investment and property. Income is the value of goods and services consumed by an individual during a specific period of time. Generally income is regarded as the best measure of ability in the sense of economic wellbeing. Income is the basic determinant of level of living standard. Symbolically,

$$Y=C+I$$

Where,

Y=Income

C=Consumption

I=Investment

Professor Haig stressed that "Income is the economic power between consumption and net capital accumulation".

According to Dictionary of Economics the term income means "the wealth measured in money which is at the disposal of an individual or a community per year or other unit of times it may be regarded as a flow of purchasing power which may be expanded at once on goods and services or retained for the purpose of capital accumulation" (Agrawal, 1994, p.40).

A person's income for a specific period is a whether from accumulation of net saving or increase in the value of property held. The sum of personal wealth during the period may be negative so that income is less than the consumption. Income is derived from two sources i.e. the performance of personal service (under taking some kind of works) and the ownership of factors of production. Income is monetary or equivalent return that comes from property, business and employment etc. It is the value of goods and services consumed by an individual during a particular period.

2.1.2 Concept of Government Revenue

Government Revenue is regular income of government from internal sources for execution of different bodies of nation. Revenue means the amount that is to be paid to government as custom duty, income tax, VAT, vehicle tax, rent tax, property tax, building registration fee and the word also indicates other taxes according to the existing law (Revenue Leakage Investigation and Control Act, 1995).

Revenue amount is collected from different ways from people and spent by the government for welfare of people, so it is also called public income. Government levies

custom duty, excise duty, income tax, VAT, land tax, fees and penalty as major sources of revenue.

Government specified income in act and law to be paid by person, firms, industry, business, trade, profession or organization. For execution of some task or work or for holding of some kinds of assets are known as tax revenue. For example custom duty, excise duty, VAT, income tax etc.

Revenue gained by government for distribution of public service or for direct facilities provided or for fees and penalties to state against violation of rules and regulation is known as non-tax revenue. For example, income from sale of government goods and services, principle, interest, dividend, royalty, fine, penalty etc are non-tax revenue.

The government of any country needs adequate budget to undertake development activities run its administration, keep law and order and perform other works of public goods. This budget is collected by the government through various sources are termed as public revenue or national revenue. The major sources of government revenue are as following:

- i. Tax
- ii. Fee
- iii. Fine and Penalty
- iv. Gift and Donation
- v. Grants

2.1.3 Concept of Taxation

Tax is compulsory levy from individuals, households and firms to central or local government. It is simply an ability to pay an amount to the government. It is a compulsory contribution from the taxpayer. Tax is levied and paid as prescribed in the law of nation.

Among various distinguished scholars tax definition of Bastable comes into view substantial clear. The term is defined as, “A tax is a compulsory contribution of wealth of person or body of person for service of public power” (K.C, 2007, p. 5).

Prof. Saligman defined tax as, “A compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the tax payer in return and not imposed as penalty for any legal offence” (Bhattarai&Koirala, 2011, p. 2).

According to Plehn, “Taxes are general contribution of wealth levied upon person's natural or corporate to defray expences incurred in conferring common benefits upon the residents of the states” (Bhattarai&Koirala, 2011, p. 2).

According to P.E. Taylor, “A tax is compulsory payment to government without expectation of direct expenses of direct return in benefit to taxpayers” (Kandel, 2003, p. 14).

FindlaysShirras defined tax as, “A compulsory contribution to public authority to meet the general expenses of government which have been incurred for the public good and without reference to special benefits” (Kandel, 2003, p. 14).

From the above definitions, we can define tax as a compulsory contribution made by taxpayers to the government without having any direct personal benefits. It can be summarize as follows:

- i. Tax is compulsory levy imposed by government.
- ii. Tax is levied on persons as per the prevailing laws.
- iii. Those who pay tax did not get corresponding benefit from the government.
- iv. It is spent for common interest of the person.
- v. It is collected from haves and spent for the interest of have-nots in the society.

2.1.4 Objectives of Taxation

Taxation has been a very essential major sources of revenue in the developed and developing world as well. It has been an instrument of social and economic policy for the government. However, the objective of taxation has been differing in time span. In ancient period, the major objectives of taxation were strengthen the muscle of the arms of the state by providing the resources. Now the main objectives of taxation have been shifted from security perception to the economic development. The main objectives of taxation are;

- i. To raise more revenue
- ii. To prevent concentration of wealth in few hands
- iii. To redistribute wealth for the common goods
- iv. To boost up the economy
- v. To reduce unemployment
- vi. To remove regional disparities
- vii. To enforcing government policy
- viii. To increasing saving and investment

2.1.5 Classification of Taxation

Taxes are constituents of human life and are paid from birth to death. Nowadays, human activities cannot separate from taxes. It means there are many taxes are paid knowingly or unknowingly and directly or indirectly.

Moreover, these are impossible to signify individually. Thus economists have classified a long list of different types of taxes into five classes. There may be grouped on the basis of their form, nature, structure, essence and volume (K.C: 2007, 12). Which are shown in figure 2.1.

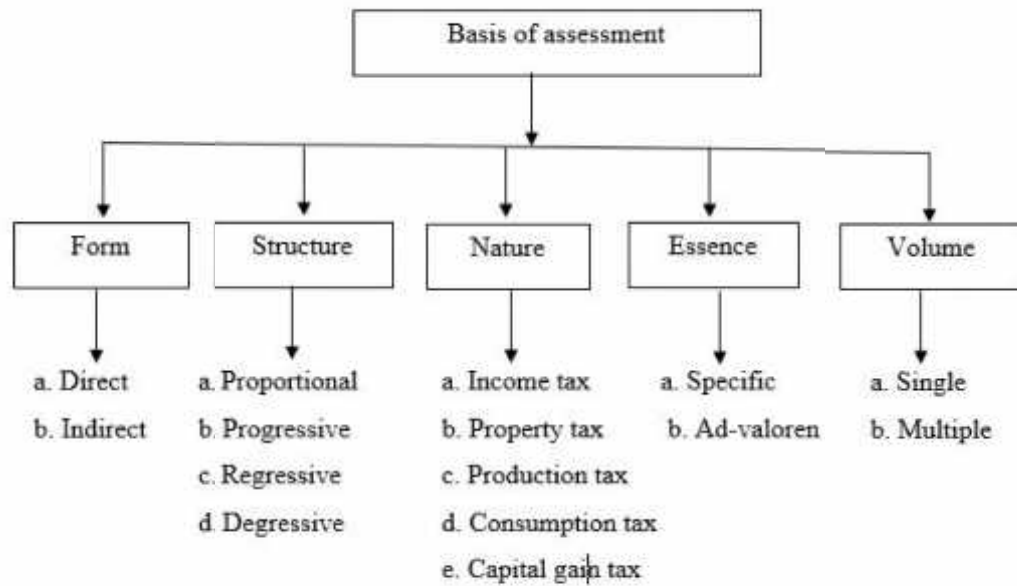


Figure 2.1: Types of taxes on different class

Currently in general, tax can be classified into two broad categories (Bhattarai&Koirala, 2011). It is shown in figure 2.2.

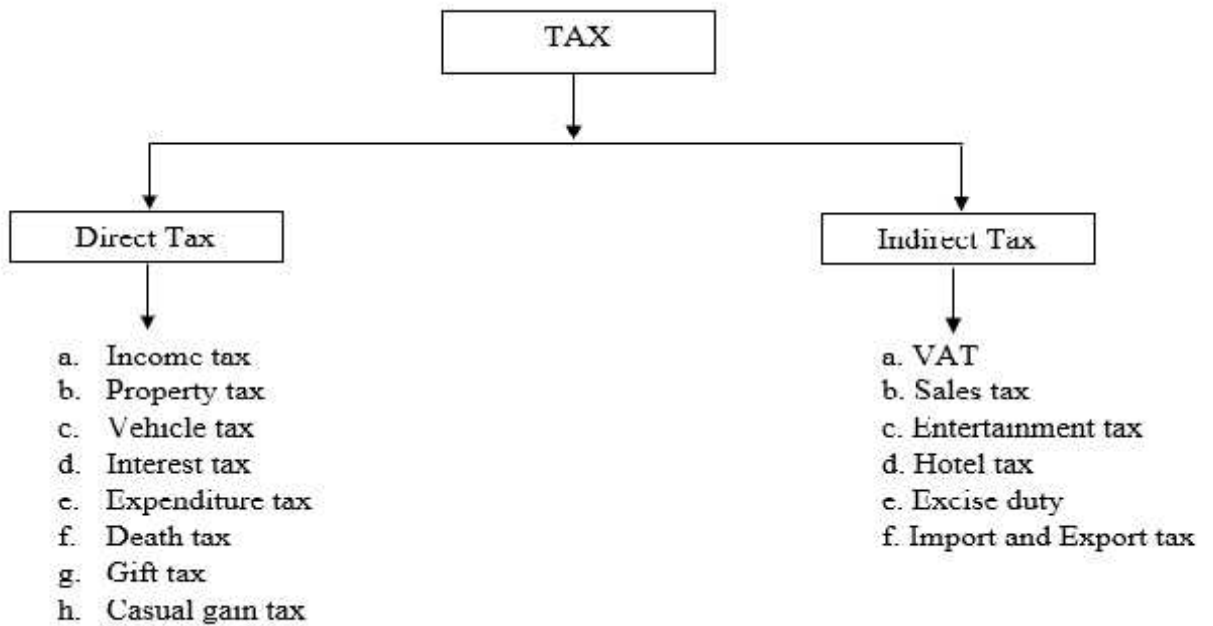


Figure 2.2: Classification of taxes

The economists who are devoted on the principles of taxation have defined it in their own way. In 1917, Bastable wrote 'public finance' and stated that," those taxes are direct which are levied on permanent and recurring occasions, while change on occasional and particular events are placed under the category of indirect taxation" (K.C, 2007, p. 12).

Brainly Encyclopedia describes in the United State the term direct and indirect taxes have more than one meaning, a colloquial and constitutional law meaning. In the colloquial sense, a direct tax is one paid directly to the government by person (legal or natural) on whom it is imposed (a tax return filed by the taxpayer). Since the state meaning income tax, property tax, vehicle tax, interest tax, expenditure tax, death tax, gift tax and casual gain tax are the examples of direct tax. In this sense, a direct tax is contrasted with an indirect tax (it may be called collected tax), VAT, excise duty, import and export tax are the example of indirect tax. Indirect tax is one which is collected by intermediaries who turnover the proceeds to the government and file the related tax return. In the constitutional law sense the term direct tax has a different meaning traditionally- a direct tax denotes a tax on property. Similarly, indirect tax means transfer tax. Moreover income taxes in income from personal services such as wages are also indirect taxes (K.C, 2007).

From the above definition, we can be concluded that direct tax is a tax paid by a person on whom it is legally imposed in which the person paying or bearing on income and property. An indirect tax is a tax imposed on one person but partly or wholly paid by another.

2.1.6 Evolution of Taxation

History of taxation started from the human civilization. It is also associated with the history of rise and fall civilization. All civilized societies, a central administration used to collect portions of people's productive output to use as a reserve in hard times in order to provide for needy and to increase wealth and power of rulers. Until the modern era, rulers and their administration would commonly take portions of people's crops with no consideration of costs of farm work. The resources that rulers obtained through

taxation allowed them to undertake such activities as building monuments and waging battles. Thus, taxes supported all early civilization, first in the Middle East and then all around the world.

2.1.6.1 International Context

Ancient great India: About the development of taxation Indian Council for Historical Research (ICHR) concluded that the Arthashastra was a compilation made by a scholar, Kautilya in 150 AD. The Arthashastra includes different types of cash and kind of taxes. For example, custom duty (Sukla), Vyaji, Bhaga, Kara, Pratikara, Vaidharana, Vartani, Parigha, Prakriya, Pindakara, Senabhaktham and Parsram (K.C, 2007).

Ancient Egypt: In ancient period tax collectors were known as scribes in Egypt. They taxed even on cooking oil to collect the adequate revenue from citizens. Charles Adams (as cited in Maan, 1992) wrote 'fight, flight and fraud' the story of taxation. This book concluded that the events of ancient Egypt as; Countiul tyranny of Egyption tax collection created a national wide decline in incentive. Egyption workers and farmers lost their desires to work, agricultural lands fell into disuse, business persons moved away and workers runaway. Sound money disappeared as an influential inflation destroyed the capital. It is a strong evidence of taxation in Egypt (K.C, 2007).

Ancient Greece: Adams stresses that in time of war, the Athenians imposed a tax referred as eisphora. No one was exempt from tax which was used to pay for special wartime expenditures, Athenians imposed a monthly poll tax on foreigners, people who did not have both an Athention mother and father of one drachma for men and a half drachma for women. The tax was referred to as metoikin (K.C, 2007).

Roman Empire: The earliest taxes in Rome were custom duties on imports and exports called Portoria. Augustus instituted an inheritance tax provide retirement fund for the military. The tax was 5 percent on all inheritances except gifts to children and spouse.

Great Britain: In 1215 AD King John of England was compelled to sign the Magna Catra. It was a charter of liberty obtained from King. It guaranteed free trade to

merchants with in England and it established the principle of "Separation of powers". Rosen concludes administrator in England attempted to collect the first time income tax, a tax on wages in 1404, but the public quickly demanded it repeal and all tax record were burned.

The modern form of income taxation of British income tax levied in 1799. This tax raised revenues for the Napoleonic wars against France, which Britain and a coalition of other European nations won in 1815. According to Adams, the tax returns of this law show a remarkable similarity to the returns of the modern tax law. This law adopted 10 percent income tax on a temporary basis to be removed six months after the war ended with Napoleon. By popular demand the income tax of 1799 was withdrawn by a large majority repelling a second income tax in 1816. All of these tax records of income tax 1799 were burned. In 1842 Sir Robert Peel adopted a temporary 3 percent income tax which was supposed to be repealed as soon as government revenue were in balance (K.C: 2007, 22).

American Tax War: Adams point out that American civil war more accurately, "the rich man's war and the poor man's fight" was caused by taxation. It was called the "American Tax War". At that time, the south paid about three quarters of all federal taxes. The tax system shifted wealth from the south to the north. The Proviso that broke the Camel's back was the moral tariff passed by congress in 1861 and signed by Abraham Lincoln. During the 19th century the German states also introduced income tax, unlike the British. The Prussian system summoned tax payers before revenue authorities. For example, all taxpayers were required to declare and pay their tax. This income tax was adopted by a different countries gradually. Italy starts in 1864 and New Zealand adopted in 1891. Australia and Canada had followed the income tax in 1915 and 1917 respectively. In our neighboring country India, the income taxation was introduced in 1860 by the British government to relief from economic burden created due to first democratic revolution. It was then regularly collected after the publication of income tax act 1861 (Dhakal&Luitel, 2002).

In the beginning of introducing time it was generally levied on flat rent. Only after 1909 the principles of progression was introduced pay- as you-earn (PAYE) system. This replaced annual or twice yearly collection. Tax was deducted by employers. When an employee left an employer, they were given a code number, income to date and tax paid to date. The scheme was piloted by Sir Kingly Wood (K.C, 2007).

2.1.6.2 National Context

History of income tax in Nepal can broadly divide into two parts:

- a. Ancient era (before 1951 AD)
- b. Modern era (after 1951 AD)

a. Ancient era (before 1951 AD)

- i. Taxation in ancient Nepal (before 1768 AD)
- ii. Taxation in unified Nepal (1768 to 1846 AD)
- iii. Taxation in Rana regime (1846 to 1950 AD)

i. Taxation in ancient Nepal (before 1768 AD)

Reliable records about taxation in ancient and medieval Nepal are not available. However, tax has been one of the major sources of government's revenue from the ancient time in Nepal. Taxes were levied on the merchants, travelers and farmers in the form of cash, kind and labour. On some occasions gold and agricultural products were also paid as taxes but the nature of tax was temporary. In the Lichhavis period (known as Golden era) taxes from agriculture and business were introduced as a direct tax for the first time in Nepal. Agricultural income tax was called 'Bhaga'. The farmers were supposed to pay agricultural income tax to the government in 1/6, 1/8 and 1/12 quality of land that they owned. Income tax, which was levied on business income, was called 'Kara'. There also exist irrigation and religious tax during the regime of King Anshubarma of Nepal.

ii. Taxation in unified Nepal (1768 to 1846 AD)

After unification of Nepal expenses for administration, military and other operational activities was increased significantly. During that period, taxation has been taken as main source of revenue and different types of taxes like land tax, transit tax, market duties, various levies and fines. Forest product tax and mining tax were directed to take whatever is paid willingly by the people. Taxes were collected from the three levels (Joshi, 1998).

- a. Royal revenue: to finance occasional and ceremonial needs. The taxes were broad based and progressive.
- b. Government: to finance administrative, military and other purposes assessed on official functionaries, occupational groups and others people.
- c. Local government: pre-requisites of local official functionaries and medicant. The system of direct taxation was confined to land tax and special levies like DarshanBhet, Salami, Walagetc after the unified period, land revenue system was divided into five main forms: Raikar, Birta, Sathi, Sera and Kipat. The main source of revenue from land was Birta and Kipat. In 1772 King Prithvi Narayan Shah introduced POTA based on flat rate system which was regarded as revolutionary measure in the fiscal system of Nepal. It was limited on small Birta owners.

iii. Taxation in Rana regime (1846 to 1950 AD)

During the Rana regime, there was no formal provision of effective revenue administration. Taxes were imposed according to the objective, need and whims of Prime minister. There was not provision for separating personal income of Prime minister and state treasury. There was no provision of government budget. Surplus of revenue over expenditure was considered as the personal income of ruling Prime minister.

During Nepal-Tibet war in 1855/56, the first Rana Prime minister Jung Bahadur Rana had imposed a tax on the income of selected groups. Similarly, Bir Shamser J B R imposed a levy of 1 percent on the official value of Jagir assignment of government

employers in 1891, to finance the transportation of water pipe supply in the capital. Another Prime Minister Ranodip Singh imposed 50 percent tax on the income made by Fisherman in Deukhuri from the sales of fish in 1882 (K.C, 2007).

b. Modern era (after 1951 AD)

After the establishment of democracy in 1959 in Nepal, the role of government has been changed. Actually the modern tax act was started in the year 1951 the role of government has increased to as well as Philanthropic works. The government of Nepal has presented its first five year plan which was started in 1956. The plan activities of government needed huge amount of sources and means. So, huge revenue was damaged and Nepalese government started to levy tax as permanent source of income.

Parliament made laws and implement the policies. The government levies and collects tax as per law. Different laws have been made and amended since 1951 in form of act and regulation. A brief overview on different laws related to income tax are described below:

2.1.7 Development of Income Tax Act in Nepal

a. Before 1959 AD (2016 BS)

The idea of introducing income tax law in Nepal originated in early 1950. When, multiparty democratic political system was introduced in 1951. The finance minister in his budget speech declared the intention of government to introduce an income tax. Attempts were made to introduce income tax in subsequent years. In 1954, an income tax with 10000 basic, allowances and progressive taxes ranging from 5 to 25 percent were proposed but due to political instability it could not be successful until 1958.

b. Economical Act, 1959 (2016 BS)

In 1959, income tax introduced through economical act. This act has made provision of tax from 5 to 25 percent in remuneration and business profit. The major provisions on this act were:

- i. Ten tax rate provision
- ii. Tax rebate provision for industries
- iii. Rebate for industry was 25 percent and that for small and cottage industry was 50 percent
- iv. Provision of tax for house and land of urban area
- v. Provision of tax on foreign investment

c. Business Profit and Remuneration Act, 1960 (2017 BS)

The government of Nepal introduced a formal tax act for the first time in 1960 in the form of Business Profit and Remuneration Act, 1960. According to this act, only business profit and remuneration or income is subjected to the tax but revenue from these taxes could not be collected properly as per estimate. The main features of the act were as following:

- i. Only business profit and remuneration income were subject to the tax (coverage of income tax was too short).
- ii. Tax on remuneration was to be deducted at source.
- iii. The basis for calculating the tax liability for remuneration was the income of the current year where as for business profit of the preceding fiscal year was taken.
- iv. There was a provision of tax exemption on salary of foreign citizen and dividend of shareholder profits to be spent in religious and public welfare activities, crop from own land, allowance granted by HMG to ministers, assistant ministers, chairman speaker and amount drawn from provident fund of saving fund.
- v. The tax office was empowered to access tax on best judgment estimation only in case of false statement or in absence of income tax return.

- vi. There was a provision of fines ranged from NRs100 to NRs 5000 in case of defaults.
- vii. The first court of appeal against the tax officer's assessment was local Badahakim or Magistrate. People could appeal to revenue and tax court but every appeal was to be accompanied by security deposit for the amount of tax payable.

d. Nepal Income Tax Act, 1962 (2019 BS)

Business Profit and Remuneration Act, 1960 was replaced by Nepal Income Tax Act, 1962. Which was implemented from July 1962. It was an extension of the Business Profit and Remuneration Act, 1960.

The main features of the act were as follows:

- i. Nine different types of income sources were defined. These were income from business, salaries, profession, rent from house and land, investment in cash, agriculture, insurance agency and any other sources.
- ii. Act has defined certain terminologies such as taxpayer, tax officer, company, firm, profit, remuneration, non-resident person etc...
- iii. Status of taxpayer was defined for the tax purpose such as individual and residential.
- iv. Procedure for income tax assessment and methods for calculating net income were stated. Act was based on Best Judgment System.
- v. Provision was made to carry forward of losses for a period of two years.
- vi. The provision was made to constitute the net income assessment committee with five members.
- vii. The basis was specified for assessing tax on the Best Judgment estimate of the officers.
- viii. The burden of tax coverage, agricultural income was brought under the income tax net for the first time. But the financial act 1966 exempted this income fully from tax net. Again it was brought into tax net by financial act 1973. It was again exempted from 1977.

- ix. This act had provision to bring Nepali citizen and government, personal income tax net earning everywhere of the world. But financial act 1963 limited it within the country.
- x. Provision was made for re-assessment of tax as well as rectification of arithmetic errors.

e. Income Tax Act, 1974 (2031 BS)

The Income Tax Act, 1974 can be said to be the refined form of Nepal Income Tax Act 1962. It had 66 sections and explained various aspects of taxes containing many provisions for taxation. This act was amended for 8 times to make it more practical and to eliminate confusing terms. His Majesty's Government (HMG) formulated and enacted the Income Tax Act Rule, 1982 in accordance with the authority given under sections 65 of Income Tax Act Rule, 1982 the financial act is also equally applicable for the proper administration of income tax in Nepal.

The main features of Income Tax Act, 1974 were as follows;

- i. Clarification of tax related terminologies such as income tax, taxpayer, resident, tax assessment, income year, gross income, net income, income from different sources and loss etc...
- ii. Classification of income head into five categories.
 - Agricultural income
 - Industry, business, profession and vocation
 - Remuneration
 - House rent and compound rent
 - Others
- iii. Agricultural income was removed after the fiscal year 1975/76.
- iv. Specification the method for computing net income from different sources.
- v. Clearly mention about rights of tax officers.
- vi. It had made provision for self-assessment of tax for the first time in Nepal and replacing the Best Judgment System.

- vii. Provision of carry forward of loss for three subsequent years.
- viii. Obligatory provision for taxpayer to register their industry, business, profession or vocation in the tax office before starting work.
- ix. Clear specification for expenses allowed for deduction in computation of net income.
- x. Specification of the procedure for tax assessment, re-assessment, Jeopardy assessment, tax deduction at source, payment and refund of tax etc.
- xi. Speciation about rights, duties, forms and appeal.
- xii. Provision of penalty up to NRs. 5000 in case of failure of maintain or preserve account.

f. Income Tax Act, 2002 (2058 BS)

To enhance revenue mobilization through effective revenue collection procedure for the economic development of nation and amend and integrate the laws relating to income tax, the parliament of Nepal enacted Income Tax Act, 2002. This act was brought in Nepal to avoid the following defects of Income Tax Act, 1974.

- i. Narrow tax base and not provision for worldwide income and capital gain etc.
- ii. Presence of separate income tax related acts such as Employee Provident Fund Act, 1962, Citizen Investment Trust Act, 1992, Industrial Enterprise Act, 1992 and Electricity Act, 1992.
- iii. Not ensuring the principle of equity and progressivism since tax was levied on the basis of nature of organization, nature of person, nature of income and natural person's taxable income had declared on the basis of organization's memorandum and objectives rather than transaction.
- iv. Low penalty rate according to change of time for evasion of tax.
- v. Not clarity for definitions, explanations, legal provisions etc related to administration for implementation of self-assessment system since provision of this was made by amendment.

- vi. Not clarity about accounting system and inadequate penalty for not maintaining account accordingly.
- vii. Not provision for controlling transfer pricing, interest expenses, thin capitalization.
- viii. In capable to fulfill the need of time brought by globalization and economic liberalization.

Income Tax Act, 2002 has been amended two times by the finance ordinance of July 2002 and January 2003.

- i. To levy tax on all income sources and income earning transaction.
- ii. To impose uniform tax to all people and all sources.
- iii. To make income tax revenue more productive and elastic.
- iv. To develop the tax system by means of extended scope, clear-cut, transparent and simple procedure.
- v. To make accountable and to improve tax administrative.
- vi. To reduce economic cost neutralizing income tax.
- vii. To emphasize statement based on accounting system.
- viii. To make responsible to income taxpayer emphasizing procedure of self assessment system.

This act was broad, scientific and international standard level. The differences of this act with previous act were made clearly by its features, which are given below:

- i. This act has introduced all provisions relating to income tax. It is a law of income tax code. It has introduced all the financial transactions of taxpayers considering present and future earnings.
- ii. Provision has made to impose tax to all income sources uniformly.
- iii. Provision has made for the deduction of all expenses relating to income earnings.
- iv. Provision has made to deduct of all expenses relating to each income in accumulation from taxpayer's income.

- v. Carry forward of losses is allowed for the period of subsequent years. This limit was extended up to five years for the banking and insurance companies.
- vi. Provision of tax incentives has continued for infrastructure, instructions, electricity projects and special industries.
- vii. It has accepted selfassessment system absoluting provision has also made to accept the statement submitted by taxpayer as tax assessment and in case of not submission of the statement, the advance tax payment made by taxpayer is taken assessed tax amount.
- viii. It had clearly included the rights and duties of taxpayers.
- ix. It includes general Anti-avoidance rule, control of transfer pricing, control of thin capitalization and control of dividing stripping to control tax evasions measure.
- x. Provisions have made to claim for deduction of pollution control device, research and development expenses.
- xi. It has classified the taxpayers into natural person and entity. Entity includes company, partnership trust and so on.
- xii. This act introduced taxation on capital gains in first time.
- xiii. The act has introduced a provision for administrative reviews to a allow tax administration to correct mistakes made by tax administrators internally.
- xiv. Global income of resident was made taxable. Non-residents are also taxed on their income with source in Nepal.
- xv. The act has made provision of international taxation. Foreign tax credit has been introduced for the first time.
- xvi. The act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the tax payers from criminal liabilities.

2.2 Income Tax

Income tax is defined as tax chargeable on income of person as per the relevant income tax Act. Income tax is the direct tax to be paid to government out of income or

gains of individual. As per Income Tax Act, 2002 there are three main sources of income which are: (ITA, 2002).

- i. Income from employment
- ii. Income from business
- iii. Income from investment

i. Income from Employment

Employment is defined by the Act under Section 2 (a) as 'employment that includes a past, present or prospective employment. In general terms employment a contract to between employer and employee to do certain job and pay compensation in return. Whatever the employee derives from the employment (in the form shape of salary, allowances, overtime payment, bonus and incentive) is included in the income from employment. Generally, an employment is known as a long-term employment but, in legal term, an employment may last for a short period and may also be a part time one.

The employer may be any person like an individual (a proprietorship firm), an entity, NGO, local body of NGO or any other institution but the employee is always an individual (a natural person).

A written appointment letter does not always qualify an individual to be an employee but an oral appointment or deemed appointment is sufficient to treat the individual as an employee. Income Tax Act, 2002 has describes income as income form employment are following: (ITA, 2002).

- a. Amounts for wages, salary, leave pay, overtime pay, fee, commission, bonus and other facilities
- b. Payments of any personal allowances including any cost of living, rent, entertainment and transportation.
- c. Payment provided as reimbursement or discharge of cost incurred by the individual or an associate of the individual.

- d. Payments for the individual's agreement to any conditions of the employment.
- e. Payments for the termination or loss or redundancy of the employment.
- f. Retirement Contribution including those paid by the employer to the retirement fund in respect of the employees and retirement payments.
- g. Other payments in respects of the employment.
- h. Other amount as given in chapter 6 of the act perquisites and gains due to change in tax according required to be included.

In addition to above stated items of remuneration, the following types of perquisites are also in remuneration of a person.

- a. Prizes and gifts
- b. Other payments made in respects of employment.

ii. Income from Business

Income Tax Act, 2002 has defined the business income as a source of income for income tax purpose. Profit and gains from conducting the business are considered as business income for the income tax purpose. Service fees, amount derived from the disposal of stocks, net gain from disposal of business assets, gifts relating to business and other amounts are consider as a business income.

For the purpose of computing income of business for any year income of such person shall include profits or gains from;

- a. Service Charge
- b. Sales or disposal of business/ trading stock
- c. Net gain from the disposal of person's business assets/liabilities of the business calculated as under chapter 8.
- d. Amount receives against the disposal of depreciable assets
- e. Prize or gift in connection with business
- f. Amount received instead of acceptance of any restriction regarding business

- g. Amount included as an effect of change in accounting method
- h. Excess amount received due to change in exchange rate of currency
- i. Bad debt recovered
- j. Proportionate amount under long term contract
- k. Amount received for compensation
- l. Other amount received under business income (ITA, 2002).

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

- a. Exempt amounts under section 10.
- b. Taxation of dividends under section 54.
- c. Final withholding payment under section 92.
- d. Expenses related to business can be deducted while calculating taxable income as per the following provisions.
- e. General Deductions
- f. Interest
- g. Cost of Trading Stock
- h. Pollution Control Cost
- i. Research and Development
- j. Repair and maintenance
- k. Depreciation Allowance
- l. Loss related to business (ITA, 2002).

iii. Income from Investment

Income Tax Act, 2002 defines investment as the holding of one or more properties or the investment in a property subject to the fact that:

The property should not be used by the owner himself; or the property must not be related to business or an employment. The section further says that the holding of a non-business chargeable asset is also known as an investment. Investment in general sense is an act of letting out a property by an owner to somebody else for its exclusive use for the

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

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

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

- a. Any dividend, interest, natural resource payment, rent, royalty, gain from investment insurance, gain from an unapproved retirement payment or retirement fund from approved retirement fund. Net gains from the disposal of the person's non business chargeable assets.
- b. Excess amount of incomings over the depreciation basis including outgoings on the disposal of the depreciable assets of the investment of the persons.
- c. Gifts or prizes received in connection with investment.
- d. Retirement contribution including those paid to retirement funds in respect of the person and retirement payments on respect of investment.
- e. Amount received instead of acceptance of any restriction regarding investment.
- f. Amount included under change of accounting method.
- g. Excess amount received due to exchange rate currency
- h. Bad debt recovered
- i. Proportionate amount under long term contract.
- j. Under paid interest amount according to market price.
- k. Amount received as compensation
- l. Other amounts required to be included on tax accounting or quantification, allocation and characterizations of amounts or transaction between any entity and beneficiary or general insurance business.

- m. Investment related expenses and losses can be deducted from investment income while calculating tax.

Income Tax Act, 2002 has treated windfall gains as taxable income subject to final withholding tax. The act has defined role and responsibilities of tax administration i.e. IRD and tax payers. Fine, penalties and interest for nonpayment or payment delay, judicial role of IRD and right to appeal for tax payers have also been prescribed in the law. Staying within the jurisdiction of law tax administration has the role to collect income tax revenue for government. Effectiveness of IRD is determined by efficiency of IRD to collect income tax at the optimal possible level based on sources of income available.

2.3 Review of Related Studies

There is no long history of income tax in Nepal, since 1959/60 income tax was started in Nepal. During the course of the study various books, articles, dissertations, research papers, reports and other reference materials were reviewed. Most of the books are found to be descriptive rather than analytical. Many books in this field are written to fulfill the course requirements of Tribhuvan University. Among them some useful study are summarized as below.

2.3.1 Review of Books, Articles and Reports

2.3.1.1 International Context

Gale (2014) has examined how changes to the individual income tax affect long run economic growth. The result revealed that the changes in the level of revenues and change in the structures of the tax system can influence economic activities, but not all tax changes have equivalent, or even positive, effective on long term growth. The argument that income tax cuts raise growth is repeated so often that it is sometimes taken as gospel. However, theory, evidence and simulations studies tell a different and more complicated story. Tax cuts offer the potential to raise economic growth by improving incentives to work, save, and investment. But they also create income effect that reduces

the need to engage in productive economic activity, and they may subsidize old capital, which provides windfall gain to asset holders that undermine incentives for new activity. In addition, tax cuts as a stand-alone policy (i.e. not accompanied by spending cut) will typically raise the federal budget deficit. The increases in the deficit will reduce national saving and with it, the capital stock owned by citizens and future national income and raise interest rates, which will negatively affect investment. The net effect of the tax cuts on growth is thus theoretically uncertain and depends on both the structure of the tax cut itself and the timing and structure of its financing.

Okafor (2012) has explored that the impact of income tax revenue on the economic growth of Nigeria as proxies by the gross domestic product (GDP). Ordinary least square regression method was adopted by the researcher to explore the relationship between GDP as proxy for economic growth and a set of federal government income tax revenue heads from 1981 to 2007. However the researcher found that there is positive relationship between tax revenue and economic development in Nigeria and significant relationship between income tax revenue and money supply.

Cremer, Gahvari and Ladous (2010) have studied the properties of two alternative tax structures to the current graduated tax system in France. The comparisons are based on a calibrated and simplified model of French economy containing four types of households with CES preferences. It has found that the switch to a flat tax leads at best to a small (and possible negative) welfare improvement unless the inequality aversion index for the society is extremely high. On the other hand, moving to an optimal general income tax improves welfare over the current system tremendously. To generate this, ten marginal income tax rates in France that are currently set to increase with income should be replaced with one that is U-shaped.

ADB (2009) has concluded that the strong revenue growth of Nepal has come mostly from increased income tax collection, which has now, for the first time exceeded custom revenue. The significant strides made in revenue collection are largely attributed to introduction of important tax reforms and improvement in tax administration, including implementation of a performance based incentive system for tax

offices/officers, strengthening the large tax payers office with information technology based tax returns filing and payment systems and overall strengthening of the tax monetary and audit system. The new one-off voluntary declaration of income source (VDIS) campaign and reduction in the property rent tax rate has also helped to improve revenue mobilization.

McGee (2008) has studied about interested-adjusted income tax and interest adjusted profit tax. He further states that Croatia was the first country in the world to fully accept the consumption accepts in the field of direct taxes in the alternative form the interest-adjusted income tax and interest-adjusted profit tax. Advocates of consumption as the appropriate claim that income as a tax base discriminates saving, which is taxed twice first as being part of the income that is taxed by income tax and second as capital income that is the part of the comprehensive income of the next period. Saving and investment escape this double taxation in consumption based income and profit taxes, where the METR (marginal effective tax rate) is zero.

Kuo (2000) has used the following mathematical form for estimating the income tax revenue, the logarithm of real individual income tax was regressed with logarithm of real CPI as $\text{Ln}(\text{income tax})=a+b\text{Ln}(\text{CPI})$ and the study concluded with a positive relationship between real CPI value and the income tax collection in china. This model was further used to estimate tax revenue in china.

Zeitlhofer (1999) has analysed about the macroeconomic relation between Australian income tax collection and interest rate in the Australian economy from 1982 to 2002 using Dicky-Fuller test and distributed lag model and tested for the causal relationship between income tax and interest rate using Granger-Causality test and concluded that interest rate Granger causes income tax in the long run.

Goode (1986) has studied about the importance of taxation and has explained that taxation diverts the economic resources from taxpayers to the state for its own use. Taxation not only restraints total spending by households and individuals but influences the allocation and affect the distribution of income and wealth. The level of taxation of a country is measured by the ratio of tax revenue to GDP, which is determined by the

demand for government expenditure, the availability and willingness to use non tax source of finance, including borrowing and money creation and taxable capacity. The taxable capacity primarily depends on the per capita income in excess of the subsistence level and ability of government to collect taxes depend on administrative effectiveness. The actual tax ratio reflects both taxable capacity and tax efforts.

2.3.1.2 National Context

Sharma and Duwali (2013) have presented major compliance issues and incentives for compliance enhancement, which are law registration in income tax and VAT. There is no supportive environment for compliance. There are no any new policy and tax rates for the last one year. Large no of case pending in Revenue Tribunal and huge amount of tax dues can be seen there. Similarly, there is problem of tax fraud, data mismatch, under invoicing and none invoicing. This study also includes some incentives for compliance enhancement, which are announcement of tax system reform year, implantation of 5 year strategic plan and 3 year reform plan, Human resource management plan prepared, celebration of National Tax Day along with that revenue research and forecasting unit established, Online taxpayer service system has been introduced.

Kandel and Lamsal (2012) have embraced sufficient numerical examples and questions, changed provision of the Act. A new chapter covering the problems related to resident and non-resident is added as per the demand of the teachers and students. It is updated as per the Finance Act, 2010. He has described about historical background, income tax act, rules and administrative aspects, house and land tax but has not shown problems related to income tax. Due to numerous changes and not availability of amended acts in English, the present edition of the book has not been able to update the act and so it is dropped out.

Bhattarai and Koirala (2011) have presented the description of tax laws and tax planning. A simplified version of Income Tax Act, 2002. He has presented theoretical as well as practical aspect on taxation in this book. This book is useful to anyone who is interested in the subject of taxation. This book is also helpful to research work. The aim

of writing this book is to provide the readers with basic knowledge of general principles and practices of tax law in Nepal and to develop in them basic skills to handle the tax matter in the text has been presented in a very simple and clear manner for better understanding of the law.

Adhikari (2011) found that the share of the tax revenue was always greater than the non- tax revenue, the contribution of indirect tax revenue ;and tax structure of Nepal was the consumption of tax from government sector, public sector, private corporate bodies and remuneration tax.

Aryal (2010) has prepared a paper under "Development of Income Tax System and Its Achievement in Nepal" and presented the scenario of the reforms in income tax by the government of Nepal in different time. He has pointed out the reform program and policy as simplification of procedure of income tax administration, enabling the awareness program for the taxpayers.

Dahal (2009) has written an article entitled "A Landmark in the History of Reforms In Nepal's Tax System" In this article he discussed about the proposal for formulating a semi-autonomous central revenue board (CRB) which was constituted by government of Nepal with a prime view to initiating reforms in tax system through streamlining overall tax structure by examining its inherent structural constraints with respect to existing organization structure, tax assessment and tax collection procedures, and administrative, technical and judicial complexities of revenue administration; reviewing the recommendations made by various studies and reports submitted to the respective governments in the past in the context of setting-up of an autonomous body for revenue administration; analysing the structure of revenue administration of neighboring countries especially in South Asia and South East Asia for international comparisons; taking into account of the commitments of the government.

Reforms in taxation are challenging proposition with great risks and uncertainties in Nepal. The spectacular growth in revenue collection during and after conflict should not be viewed in isolation as success syndrome, for revenue structure is entirely based on import duties and VAT on imported goods. The volume of imports is considerably rising

each year due to increasing population attached to changing pattern of demand with rise in income. The growth in customs duties and VAT is not a success indicator in true sense, but clearly a manifestation of underdevelopment. Alternatively, contribution of direct tax is one of the significant indicators, in addition to other parameters, of economic development. Central Revenue Board, a semi-autonomous body under Ministry of Finance but with full-fledged power and autonomy to formulate, implement and regulate tax policies under one umbrella. Although CRB will be an advisory body to Ministry of Finance in policy matters, it will exercise full autonomy to collect taxes free from political interference.

The author has wrote that all employees under CRB would be entitled to receive, in addition to salary, 0.5 percent of incentive package of total revenue mobilization depending on the performance. The incentive package would also be used for maintaining and expanding infrastructure under CRB. This is the biggest virtue of proposed CRB, which will be instrumental to boost up morals and dynamism of employees. At the initial stage, employees engaged in various departments to collect revenue will be transformed to CRB under civil service act.

Therefore, laws of blood circulation and taxation are analogous to each other. He expressed that we must know the reality that we can't escape from two things; one is death and other one is taxation.

Amatya, Pokharel and Dahal (2004) have defined all the terms relating to income tax and value added tax. The examples that are presented in this book are very useful to readers to know more about provisions and procedures of the Income Tax Act, 2002.

Mallik (2003) has explained Income Tax Act, 2002 with explains wherever necessary. The author has presented the complex act in simple and lucid manner so that it will be easy to understand the act. He has shared his expertise in his book. His book is descriptive and analytical. All the provisions in the act have been clarified in simple language. The author has also clarified why some of the tax exempted amounts have been brought into tax net by the new act. In some cases he has also compared the provision of the old act and the new act.

Aryal and Poudel (2003) have written a book entitled Taxation in Nepal. They have explained about the income tax system in Nepal along with house tax, land tax and VAT.

2.3.2 Review of Dissertations / Theses

Basnet (2017) has presented his research had mainly focused on the removing and controlling income tax evasion for better source mobilization. As his main objective was to analyse the impact of income tax evasion in government revenue of Nepal, he set further objectives to identify the ways and causes of income tax evasion, to estimate the volume and tendency of income tax evasion in small trade sectors and to examine the role of income tax in utilizing the resources in Nepal. He has conducted that research following analytical as well as descriptive research design. Most of the data were from secondary sources and some were form primary sources. From that research he has concluded that there was widespread evasion in income tax in Nepal is a suitable means for raising domestic resources. He had recommended for controlling tax evasion by controlling illegal business activities, compulsory maintenance of accounts and increasing penalties and fines to tax evades.

Aryal (2017) in her thesis entitled “Trend and Structure of Income Tax” has concluded that the income tax to GDP ratio in Nepal is very nominal compare to other developing countries. She has also concluded that income tax is the main component of direct tax and its average contribution on direct tax and total tax revenue is 78.78 percent and 19.02 percent respectively. She has further recommended that for the economic development of the nation, additional internal financial resource mobilization should be strengthened and generation of more revenue internally, planned development efforts, political stability and liberal economy may help to rise economic status of nation

Dahal (2013) has conducted that unnecessary exemption and rebates announced by government annually through finance Act have created difficulties for tax administration to implement the income tax law effectively. High earning groups are in

one way or other using such provisions to reduce their tax liability. Weak tax administration and improper public financial management are major causes of low tax compliance. Corruption has discouraged people to pay tax resulting in further corruption on the part of non-state agents through tax evasion. Forms to be filled up by taxpayers are not as simple they need. This has resulted in requirement of using middleman resulting in more transaction cost. Through IRD since its establishment in 2002 has been undertaking different campaigns to increase tax compliance it has not been able to get good results out of its effort.

Bharati (2012) has identified some problems of tax system in Nepal. His key objectives are to examine the income tax system in Nepal, and to know the difficulties in the process of assessing income tax under Income Tax Act, 2002. Similarly he focused on the ways and means of enhancing tax consciousness and on the contribution of income tax in government revenue. This study concluded that there are complicated act, rules and regulation, defective income tax administration, corruption and evasions as well as lack of consciousness among tax payers are the main problems of income tax system in Nepal. Similarly corruption and lack of trained personnel is the other problems lying within tax administration. According to him no corruption, trained personnel and awareness to taxpayers are the key requirements to improve tax system of Nepal.

Shrestha (2012) has identified economic problems and causes of low tax collections. His main objectives are to review the tax collection system findings and to find out the contribution of tax to national revenue, to find out the problems in tax collection system. Following are the main findings made by the study are income tax is the suitable means of raising government revenue, Public awareness program is necessary to increase tax consciousness and raising the government revenue. Similarly, this study show that mass poverty and low income level, increasing habit of tax evasion, inefficient income tax administrations are the major reasons for the low contribution of income tax to national revenue and lengthy process, vague provision in income tax laws, consuming unnecessary time are the major problems facing by the taxpayer while paying the tax.

Timilsina (2011) has tried to explain about the tax evasion behavior of taxpayers. People in developing countries like Nepal have greater propensity to evade taxes. Lack of proper measurement of tax assessment, Nepal is facing the problem tax evasion. Because of this, resources have not been mobilized efficiently. His main objectives of the study are to analyse the structure of income tax in Nepal, examine the income tax evasion tendency in Nepal and draw suggestion for the elimination of income tax evasion in Nepal. The composition of tax and non-tax revenue is still less satisfactory in Nepal. There were 79.14 percent tax and 20.86 percent non-tax revenue contributes during FY 1985/86. More than 83 percent tax contribution is supposed to be appropriate here in Nepal. Income tax evasion has a decreasing trend in Nepal. There was 107.39 percent income tax evasion in the FY 1975/76 and reduced to 58.47 percent in the FY 1979/80. In an average there was 54.70 percent income tax evasion in Nepal. He has suggested to the government for timely correct the problems by increasing tax coverage through different programs and legal actions should be taken towards tax evaders and corruption on the part of tax administration.

Karki (2010) has found that tax education is most necessary in Nepal to increase the tax consciousness of tax payers. Self-assessment method is more appropriate for Nepal while assessing income tax. Similarly, income tax evasion is the major problem of Nepal for income tax generation and income tax administration is not efficient for tax collection. He recommended there should be respected behavior for tax payer and quality service should be maintained to increase the contribution of income tax to Inland Revenue of Nepal. Training and career development should be provided to the tax personal time to time and also tax administration should be free from political pressure.

Rijal (2010) has pointed out some problems regarding tax law's implementation. His focus was on tax planning however findings and recommendations are useful in better implementation of income tax law in Nepal. Main objectives of his study are, to compare the past and present application of tax planning in Nepal so as to point out its degree of reform and to examine all the obstacles and challenges which are breaking the modernization path of tax planning. Similarly his study focused on the contribution of tax assess as well as government and tax authorities for enhancing the tax planning. This

study concluded that there are problems of tax evasion and avoidance. There is lack of adequate incentives, facilities, rebates, grants etc. Training opportunities to tax officers as well as tax payers are very poor, record keeping system is also very weak and there is lack of motivation for tax personnel. He has concluded his study with the suggestions of maintain up to date taxpayer registration, increase income tax coverage by bringing affluent taxpayers into tax net by using the legal and promotional means and techniques and Strictly enforce the registration of non-resident and non-citizen tax payers. Similarly, fixing target to tax offices in terms of increasing the number of meaningful taxpayers and strengthen co-ordination with other agencies and offices within the tax system are major recommendations.

Wasti (2010) has found that income tax system of Nepal is not sound and efficient, basically inefficient tax administration, practice of tax evasion and lack of awareness of tax payers. Tax education is most necessary to increase the tax consciousness of tax payers and honest tax officers. It is essential to make tax act clearer so that tax payers and tax officers may not get confused. Similarly rules and regulations are the most important factor for the effectiveness of income tax in Nepal. Lack of trained and competent tax personnel, complicated tax laws and undue delay in making assessment are the most important causes of ineffectiveness of Nepalese tax administration.

Shrestha (2009) has mentioned that income tax is the suitable means of raising government revenue, Public awareness program is necessary to increase tax consciousness and raising the government revenue. Similarly this study show that mass poverty and low income level, increasing habit of tax evasion, inefficient income tax administrations etc. are the major reasons for the low contribution of income tax to national revenue and lengthy process. Vague provision in income tax laws, consuming unnecessary time are the major problems facing by the taxpayer while paying the tax.

Neupane (2007) has shown that contribution of income tax to total tax revenue has decreased from 23.93 percent to 20.83 percent in the FY 1999/00 to FY 2004/05. It may be due to the collection of the property tax by municipalities. But it is not only the

cause; emphasis should be given to the income tax collection. To facilitate tax collection, Inland Revenue Department has implemented e-tads, e-pan and e-filing for the better tax compliance. There is provision of tax plate also. But the frequent change in the act decreases tax compliance which is a major drawback of instable political condition

Bhandari (2007) studied that the Nepalese tax structure, rate and contribution of income tax on national revenue. The author asserted that there is a dominant role of direct tax in Nepalese tax revenue structure. The author recognized that important factors for raising government revenue in Nepal where clear Act, rules and regulation, effective tax administration, conscious and honest tax payers, morals and honest tax officers, political non- interruption. The study recommended that income tax policy should be formulated on the basis of critical analysis of existing situation.

Koirala (2004) reported that the contribution of employment income to total income tax revenue of Nepal has not been satisfactorily due to various reasons like low pay scale of employees, ineffectiveness in the implementation of the Act, evasion and so on. Similarly, current exemption limit is not satisfactory. The author suggested that the separated provision should be made regarding exemption limit to couple and family, and they should be given higher exemption limit in corporation limit in comparison to the individuals. Some of the recommendation given by the author are income tax act should make effective in the implementation aspect, the contribution of income tax revenue to tax revenue and direct tax revenue should be increased by checking tax evasion and bringing few taxpayer into tax network, couple should be provided more tax exemption as compared to individuals because of the cost of living of them, pension income should be taxed by giving enough exemption limits to the pension holders because in the old age pension holders lack other sources of income and the troubles faced by employees should be minimized.

Poudel (2002) has explained that within the direct tax, income tax is the largest source, which is contributed more than 86 percent in FY 1999/00. The contribution of income tax to direct tax has increased significantly since its introduction. The elasticity and buoyancy coefficient of income tax has been found to be 0.16 and 1.36 respectively

in the FY 1975/75 to FY1999/00. This shows that Nepalese income tax is very inelastic and there are minimum chances for further discretionary changes.

Shrestha (2001) analysed the legal provision, structure of income tax and income tax administration in Nepal. The author found that the income tax to GDP ratio of Nepal is not satisfactory with compared to SAARC countries. The study found various problems of income tax in Nepal including narrow tax coverage, lack of consciousness among tax payers, widespread evasion and avoidance of income tax, unscientific tax assessment procedure, inefficient tax administration, complicated tax laws and procedures, instability in government policies.

In this way various books, articles published in the journals, newspapers and magazines and government publications such as economic survey, budget speech and national plan were reviewed while preparing this dissertation.

2.4 Research Gap

There was gap between present research and previous research conducted. Context has been changed every year but new problems and issues were found every year. The gap between government expenditure and internal resource is known as resource gap. In Nepal, internal resource mobilization is still poor due to resource constraints, mass poverty, rapid growth of population, aggressive dependence on agriculture, lack of proper education etc. and it is not sufficient to cover the growing expenditure. Mobilization of internal resource through income taxation is one of the vital solution for more revenue generate.

Income Tax is the one part of entire tax structure of Nepal. 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 to increase government revenue. Therefore, this study has been conducted analytically and intensively to analyse the role of income tax in government revenue.

Many individuals and institutions have studied different aspects of tax system in Nepal such as legal, administrative and historical. However, all of them help us to understand the theoretical concept of income tax. So, this research fills the gap of practical relevance to revenue generation through income tax in Nepal and this study will be fruitful to those interested persons, parties, scholars, businessmen, students, teachers, civil society and government for academically as well as policy perspectives.

CHAPTER THREE

METHODOLOGY

This chapter includes the brief description about research methodology used to fulfill the objectives of this research study. It includes research design, sources of data collection, and statistical tools used in the study. This chapter is concerned with detailed discussion of the methodology used in this study by covering the procedures of getting research problems and solutions as per the objectives.

3.1 Research Design

This study is based on descriptive method using secondary data. To assess the structure of income tax, the data from FY 2008/09 to FY 2017/18 have taken into consideration. This study analyses the structure of income tax in Nepal using descriptive method to describe the data, illustrating the data in tables, graphs and charts for clarity of the available data and information.

This research has been analytical and descriptive in design using historical data to assess the current role of income tax in resource mobilization internally and to explore some potential areas for additional domestic resource mobilization through income taxation to fill the gap of resource deficit in Nepalese economy.

3.2 Nature and Sources of Data

To fulfill the objective of the study, secondary data have been used. The nature of the study is descriptive as well as analytical. Analytical research has conducted to analyse the trend and contribution of income tax to government revenue in Nepal. Data and information used in this study have collected from secondary sources. The main sources of data are as followings:

- i. Quarterly Economic Bulletin various volume of Nepal Rastra Bank (NRB).
- ii. Economic survey of various years of Ministry of Finance (MoF).

- iii. Annual report of various years of Inland Revenue Department (IRD).
- iv. Official website of Inland Revenue Department, GoN.
- v. Related text books and reference books of income tax and public finance available at national and international level.
- vi. Related thesis available at the central library and regional library.

3.3 Tools and Techniques of Data Collection

In order to analyse the research study, different statistical and mathematical tools like ratio, percentage, average, median, diagrams, graphs have been used.

3.4 Analysis and Presentation of Data

To analyse the trend of income tax in Nepal, trend line has explored. This will be useful to highlight the income tax in different fiscal years under the study period. To show the relationship between income tax and total revenue, different graphic diagrams have been used. This graph will be helpful to show the relationship between two variables which are income tax and different revenue. Similarly, different statistical tools such as percentage, average, diagrams, graphs, charts and trend line are used to validate the study.

CHAPTER FOUR

DATA ANALYSIS

The main aim of this chapter is to examine, and empirically investigate the structure and trend of income taxation to government revenue in Nepal. This chapter also deals with the analysis and presentation of trend and composition of income taxes.

4.1 Structure of Government Revenue and Taxation

4.1.1 Composition of Total Revenue

The government revenue is composed of tax and non-tax revenue. The revenue of government comes from main two sources: tax and non-tax revenue. Tax source includes income tax, VAT, custom duty, excise duty, property tax and vehicle tax. Non-tax source includes different revenue like interest, dividend, rent, administrative fee, royalty, fine and penalties. In early period the share of non-tax revenue declined drastically because of the increasing contribution of indirect tax on foreign trade. The trend of tax and non-tax revenue of Nepal is shown in the following table 4.1 and graph 4.1.

Table 4.1 and figure 4.1 shows that the role of tax revenue is very important in revenue mobilization of Nepal to meet the government expenditure. In the FY 2008/09 government revenue mobilization has stands at NRs. 143474.4 million out of which NRs. 117051.8 million 81.6 percent is mobilized from tax revenue. The remaining NRs. 26422.6 million 18.4 percent is collected from non-tax sources such as fees, fines, interest and dividends. In the FY 2017/18 government revenue was increased to NRs 726715.7 million with contribution of tax revenue being 90.7 percent.

Table 4.1
Composition of Total Revenue

(NRs in million)

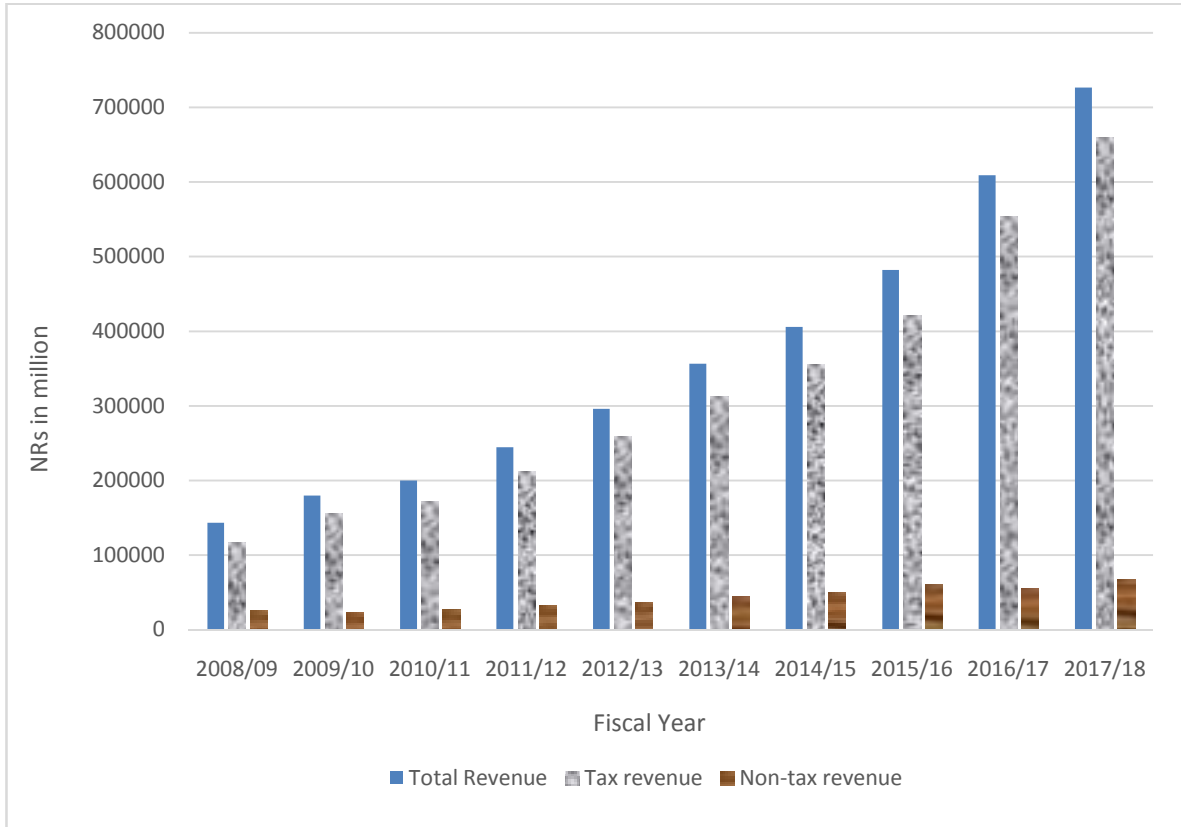
Fiscal Year	Total Revenue	Tax Revenue	% to Total Revenue	Non-tax Revenue	% to Total Revenue
2008/09	143474.4	117051.8	81.6	26422.6	18.4
2009/10	179940.4	156290.7	86.9	23649.7	13.1
2010/11	199819.6	172755.2	86.5	27064.3	13.5
2011/12	244369.7	211718.3	86.6	32651.4	13.4
2012/13	295936.5	259143.6	87.6	36792.9	12.4
2013/14	356620.6	312441	87.6	44179.5	12.4
2014/15	405846.4	355942.9	87.7	49903.5	12.3
2015/16	481978.1	421058.8	87.4	60919.4	12.6
2016/17	609114.4	553683.8	90.9	55430.6	9.1
2017/18	726715.7	659482.4	90.7	67233.3	9.3

Source: NRB Quarterly Economic Bulletin 2019.

The share of revenue from non-tax source was decreased to 9.3 percent. The highest contribution of tax revenue to total revenue is 90.9 percent in the FY 2016/17 during the study period. It can be shown clearly that the tax revenue of the government is very high in comparison to non-tax revenue and total revenue is in increasing trend.

Figure: 4.1

Trend of Total Revenue, Tax revenue and Non-tax Revenue



Source: Based on Table 4.1

4.1.2 Composition of Tax Revenue

Tax revenue is divided into two classes: direct and indirect tax. A direct tax is such a type of tax which is imposed upon the person out of his income or property. A direct tax is really paid by the person on whom it is legally imposed. Income tax, property tax, vehicle tax and social security tax are the best examples of direct tax. On the other hand, indirect tax is such a type of tax which is imposed upon any person without directly collecting from him. An indirect tax is imposed on a person but paid partially or wholly by another. VAT, custom duty and excise duty are good examples of this tax. The direct tax and indirect tax revenue from the FY 2008/09 to FY 2017/18 is presented in the following table 4.2 and graph 4.2.

Table: 4.2
Composition of Total Tax Revenue

(NRs. in million)

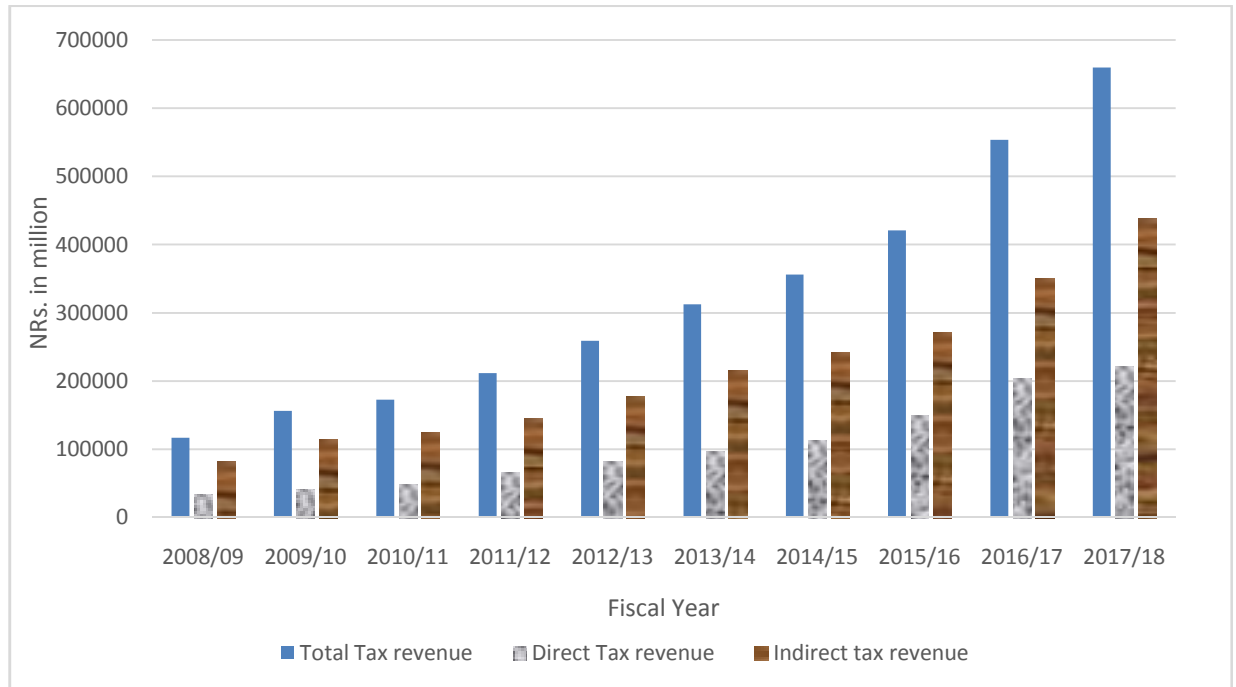
Fiscal Year	Total Tax Revenue (TTR)	Direct Tax Revenue	% to TTR	Indirect tax Revenue	% to TTR
2008/09	117051.8	34552.6	29.5	82449.2	70.5
2009/10	156290.7	41760.5	26.7	114530.2	73.3
2010/11	172755.2	48641.0	28.2	124114.3	71.8
2011/12	211718.3	66906.7	31.6	144811.6	68.4
2012/13	259143.6	81937.5	31.6	177206.1	68.4
2013/14	312441.0	97065.4	31.1	215375.6	68.9
2014/15	355942.9	113991.1	32.0	241951.8	68.0
2015/16	421058.8	149503.0	35.5	271555.8	64.5
2016/17	553683.8	203437.2	36.7	350246.6	63.3
2017/18	659482.4	221176.1	33.5	438306.4	66.5

Source: NRB Quarterly Economic Bulletin 2019.

Table 4.2 and figure 4.2 shows that total tax revenue, direct tax and indirect tax are in increasing trend. The amount of direct tax is NRs. 117051.8 million in the FY 2008/09. It is increasing each year and has reached to NRs.221176.1 million in the FY 2017/18. Contribution of direct tax to total tax revenue is fluctuating over the study period from 26.7 percent to 36.7 percent. Similarly, the amount of indirect tax is NRs. 82449.2 million in the FY 2008/09. It is increasing each year and has reached to NRs. 438306.4 million in the FY 2017/18. Contribution of indirect tax to total tax revenue is fluctuating from 63.3 percent to 73.3 percent over the study period.

Figure: 4.2

Trend of Total Tax Revenue, Direct Tax and Indirect Tax



Source: Based on Table 4.2

4.1.3 Composition of Direct Tax Revenue

The major components of direct tax are income tax, property tax, social security tax and others tax (including land revenue and registration). The share of major components of direct tax is given below in the following table 4.3 and figure 4.3.

The data mentioned in the table 4.3 and figure 4.3 clearly shows that the trend of direct tax is increasing every year during last 10 year of study period. The table also shows that the contribution of income tax to direct tax is higher than other tax and it has occupied the largest share in the direct tax. The percentage share of income tax to direct tax is 79.5 percent amounting NRs. 27479.7 million in the FY 2008/09 and in the FY 2017/18 income tax is 70.0 percent amounting NRs. 154790.7 million. On the other hand, the percentage of property tax, social security tax and other tax to direct tax are very low in comparison to income tax.

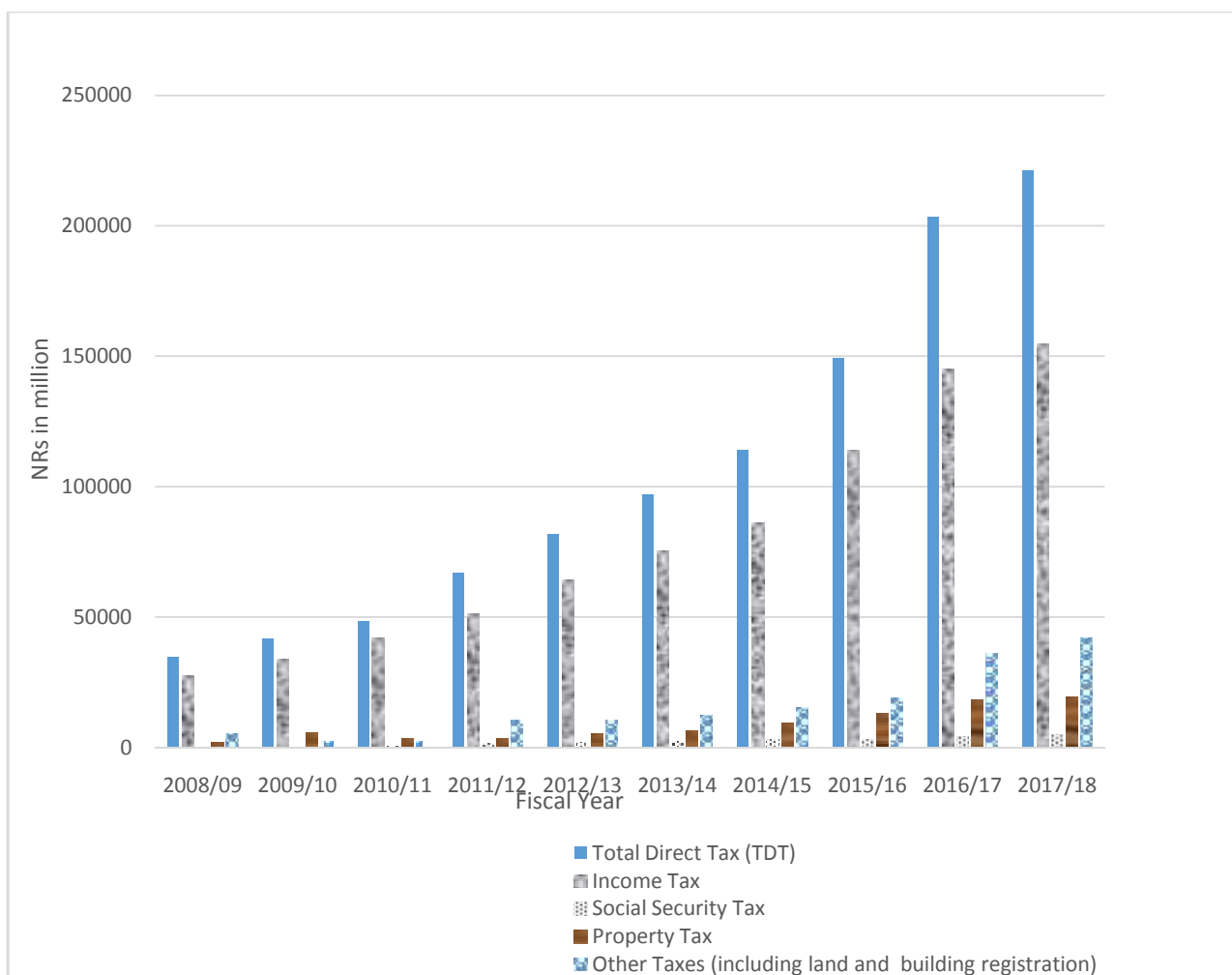
Table 4.3
Composition of Direct Tax Revenue

(NRs. in million)

Fiscal Year	Total Direct Tax (TDT)	Income Tax		Social Security Tax		Property Tax		Other Taxes (including land and building registration)	
		Amount	% to TDT	Amount	% to TDT	Amount	% to TDT	Amount	% to TDT
2008/09	34552.6	27479.7	79.5	-	-	1850.0	5.4	5222.9	15.1
2009/10	41760.5	33832.1	81.0	-	-	5551.0	13.3	2377.4	5.7
2010/11	48641.0	42066.3	86.5	709.8	1.5	3572.5	7.3	2292.4	4.7
2011/12	66906.7	51313.7	76.7	1566.2	2.3	3587.5	5.4	10439.3	15.6
2012/13	81937.5	64178.3	78.3	1880.9	2.3	5312.8	6.5	10565.5	12.9
2013/14	97065.4	75609.2	77.9	2449.2	2.5	6671.2	6.9	12335.8	12.7
2014/15	113991.1	86168.0	75.6	2927.9	2.6	9353.3	8.2	15541.9	13.6
2015/16	149503.0	114174.7	76.4	3271.7	2.2	13147.0	8.8	18909.6	12.6
2016/17	203437.2	144978.5	71.3	4144.8	2.0	18287.0	9.0	36026.9	17.7
2017/18	221176.1	154790.7	70.0	5098.6	2.3	19332.9	8.7	41953.9	19.0

Source: NRB Quarterly Economic Bulletin 2019.

Figure 4.3
Trend of Direct Tax Revenue



Source: Based on Table 4.3

4.1.4 Composition of Indirect Tax Revenue

The composition of indirect tax in Nepal is presented below in table 4.4. An indirect tax is imposed on one person but paid partly or wholly by another. Indirect tax includes custom duty (export and import), VAT, excise duty and others.

Table 4.4
Composition of Indirect Tax Revenue

(NRs. in million)

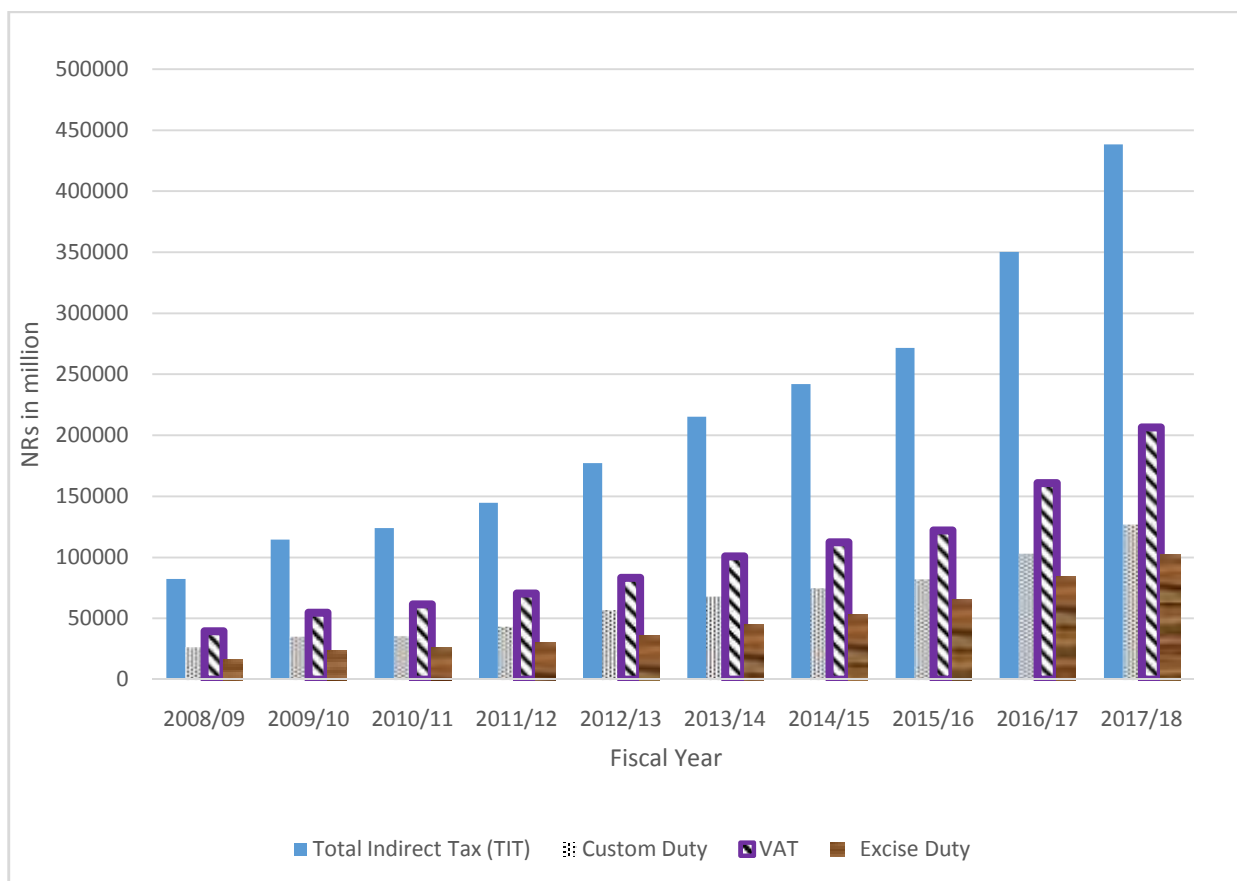
Fiscal Year	Total Indirect Tax (TIT)	Custom Duty		VAT		Excise Duty	
		Amount	% to TIT	Amount	% to TIT	Amount	% to TIT
2008/09	82449.2	26622.5	32.3	39604.2	48.0	16272.5	19.7
2009/10	114530.2	35151.6	30.7	54896.5	47.9	24315.1	21.2
2010/11	124114.3	35708.6	28.8	61659.1	49.7	26542.2	21.4
2011/12	144811.6	43395.4	30.0	70669.3	48.8	30256.2	20.9
2012/13	177206.1	56914.9	32.1	83391.1	47.1	36244	20.5
2013/14	215375.6	67980.6	31.6	101110.6	46.9	45411	21.1
2014/15	241951.8	74844.5	30.9	112518.2	46.5	53540.3	22.1
2015/16	271555.8	82184	30.3	122318.6	45.0	65768.1	24.2
2016/17	350246.6	103039.6	29.4	161032.1	46.0	84548.2	24.1
2017/18	438306.4	126867.0	28.9	206795.4	47.2	102531.2	23.4

Source: NRB Quarterly Economic Bulletin 2019.

The table 4.4 and figure 4.4 indicate that the structure of indirect tax revenue. The contribution of custom duty is fluctuating year by year between 28.8 to 32.3 percent. In the FY 2008/09 it contribute 32.3 percent, but in the FY 2017/18 the contribution is

only 28.9 percent. The contribution of excise duty is also fluctuating between 19.7 to 24.2 percent. On the other hand, VAT is in increasing trend. The contribution of VAT in indirect tax is in between 45.0 to 49.7 percent.

Figure: 4.4
Trend of Indirect Tax Revenue



Source: Based on Table 4.4

In the FY 2008/09 VAT contribute 48.0 percent and in the FY 2010/11 it reached to 49.7 percent and slightly decreased. In the FY 2017/18 its share is 47.2 percent. It is clear that VAT is the backbone of tax revenue of our country. These statistics shows that the future of VAT is bright and its contribution is very important to indirect tax, tax revenue and government revenue.

4.2 Structure, Trend and Contribution of Income Tax

4.2.1 Structure of Income Tax

The system of income tax in Nepal has around 60 years of history commencing from FY 1959/60. Income tax was initially levied on business income and salary income. Until FY 1993/94, income tax revenue was divided into corporate income tax, individual income tax, and tax on remuneration. However, from FY 1994/95, income tax revenue has been divided into four groups including corporate income tax, individual income tax, house and rent tax and interest tax. Corporate income tax is collected from the government corporations, public and private limited companies, and partnership firms. Individual tax is collected from individuals and proprietorship firms. Interest tax is collected from banks or finance companies as they pay interest on all types of deposits. House rent tax is levied on income obtained from the renting of houses and land in urban areas. Income Tax Act, 2002 has been revised the different income tax topics and new components of income tax includes corporate income tax, income tax on remuneration, income tax on investment, and others. The corporate income tax includes tax revenue obtain from government corporation public limited corporation and private limited corporation. Tax on remuneration comprises personal employment income tax. Similarly, the income tax on investment includes an interest tax on lease or rent.

The rate of income tax has been changing continuously since its introduction in FY 1959/60 to the present time. Finance Act, 2018 prescribes the tax rate of taxable income and exemption limit for individual and couple are shown in table 4.5.

An individual or a couple having taxable income exceeding NRs. 25 lakh is imposed an additional tax of 40 percent of tax liability. The resident share normally taxed as two single individuals. A resident individual and the resident spouse of the

individual may be treated as couple. Even if the assessable income from employment is less than exemption limit 1 percent social service tax is imposed on whole exemption amount. An individual having pension income is entitled to a 25 percent additional exemption.

Table: 4.5

Tax Exemption and Tax Rate for an Individual or a Couple for the FY 2017/18

For Individual	For Couple	Tax Rate (%)
Up to NRs. 3,50,000	Up to NRs. 4,00,000	1
Next NRs. 1,00,000	Next NRs. 1,00,000	15
Next NRs. 21,50,000	Next NRs. 21,00,000	25
Balance	Balance	40

Source: IRD annual report, 2018.

A disable individual or couple is taxed only after deducting 50 percent of additional exemption from their taxable income. A female having taxable income from employment is taxed after deducting 10 percent from payable tax amount. If an individual has invested in life insurance the annual premium paid maximum of NRs. 20000 is subject to deduction from taxable income. An individual working in a remote area is entitled to a hardship allowance called a remote area allowance up to a maximum of NRs. 50000 by way of additional basic exemption.

4.2.2 Components of Income Tax

As discussed earlier, of income tax was introduced in Nepal very late. At the beginning income tax was levied only on business profit and salaries. After the introduction of the new Income Tax Act 2002, the share of income tax has been gradually increased. The share of major components of income tax is given below in the following table 4.6, 4.7 and 4.8.

Table 4.6
Components of Income Tax and their Share

(NRs in million)

Fiscal Year	Total Income Tax	Corporate Income Tax	% of Total Income Tax	Individual Income Tax	% of Total Income Tax	Investment Income Tax	% of Total Income Tax
2008/09	27479.7	19646.4	71.5	3398.5	12.4	4434.8	16.1
2009/10	33832.1	24054.3	71.1	4420.0	13.1	5357.8	15.8
2010/11	42066.3	28807.2	68.5	5863.8	13.9	7395.3	17.6
2011/12	51313.7	30415.8	59.3	12382.7	24.1	8515.2	16.6
2012/13	64178.3	37069.6	57.8	15532.9	24.2	11575.8	18.0
2013/14	75609.2	45429.8	60.1	19433.2	25.7	10746.2	14.2
2014/15	86168.0	51900.3	60.2	22718.1	26.4	11549.6	13.4
2015/16	114174.7	71004.6	62.2	29974.4	26.3	13195.7	11.6
2016/17	144978.5	92644.4	63.9	34992.4	24.1	17341.7	12.0
2017/18	154790.7	87604.7	56.6	41402.9	26.7	25783.1	16.7

Source: NRB Quarterly Economic Bulletin 2019.

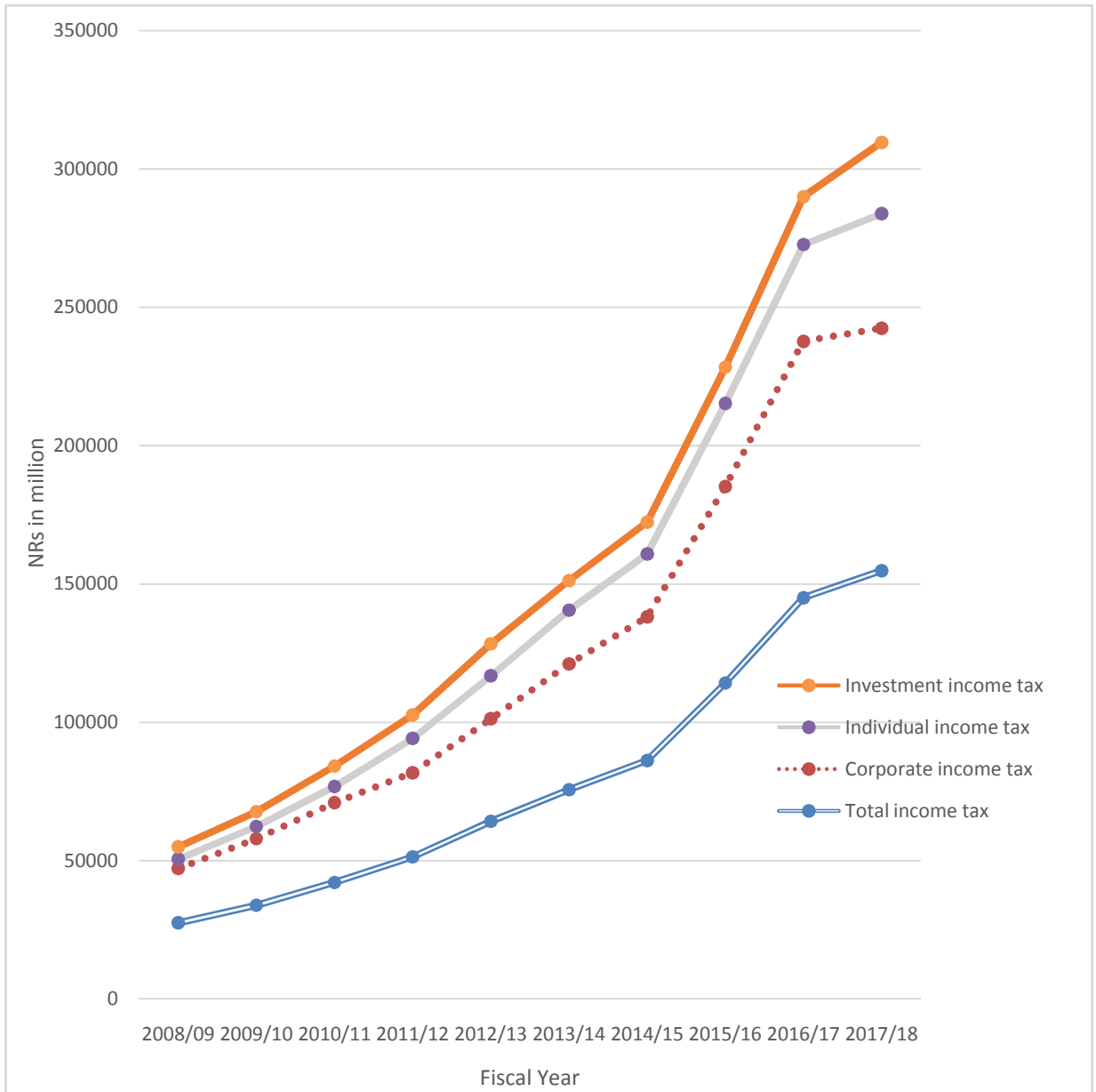
Table 4.6, shows that the aggregate amount of corporate income tax gradually increased till the FY 2016/17 but decreased in the FY 2017/18. Corporate income tax had

contributed about 60 to 71 percent during study period. The corporate income tax plays the vital role in contributing to income tax revenue. The amount of individual income tax to the total income tax is in increasing trend. Its share in the FY 2008/09 was NRs. 3398.5 million which increased up to NRs. 41402.9 million in the FY 2017/18 but the contribution trend was slightly fluctuating during the study period. Similarly, the amount of investment income tax was also increasing trend. Its contribution was NRs. 4434.8 million in the FY 2008/09 which was increased up to NRs. 25783.1 million in the FY 2017/18.

The components of income tax and their contribution in total income tax has been shown graphically as follows:

Figure: 4.5

Components of Income Tax and their Share



Source: Based on table 4.6

Table 4.7
Component of Income Tax as a Part of Direct Tax

(Old series)

(NRs in million)

Fiscal Year	2008/09	2009/10	2010/11

Direct Taxes	34552.6	41760.5	48641.0
Income Tax	27479.8	33832.1	42066.3
a. Corporate Income Tax	19646.4	24054.3	28807.2
i. Government Corporation	959.7	1132.5	1282.0
ii. Public Ltd. Corporation	9428.2	12023.5	13967.2
iii. Private Ltd. Corporation	4200.5	6268.5	7332.9
iv. Individual & Sole Trading Firm	4481.6	3842.3	4895.7
v. Income from Other Institutions	576.4	787.1	1429.5
b. Remuneration Income	3398.5	4420.0	5863.8
c. Investment Income	4169.7	5087.8	7108.9
d. Other Income	265.1	270.0	286.5

Source: NRB Quarterly Economic Bulletin 2019.

Table 4.7 explain that the components of income tax as direct tax of old series. Corporate income tax has been gradually increased from NRs 19646.4 million in the FY 2008/09 to NRs. 28807.2 million in the FY 2010/11. The share of Public limited company and private company is also increasing at faster rate. The Remuneration income has been increased from NRs. 3398.5 to NRs. 5868.0 million in the FY 2010/11. Investment income has been also increased at faster rate it's become NRs. 7109 million in the FY 2010/11. In the same way the components of income tax as direct tax of new series (after FY 2011/12) were shown in the following table.

Table 4.8
Components of Income Tax as a Part of Direct Tax
(New series) (NRs in million)

Headings	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Direct Tax	66906.7	81937.0	97065.4	113991.1	149503.0	203437.2	221176.1
a. Income, Profit and Capital Gain	52313.7	64178.3	75609.2	86168.0	114174.7	144978.5	154790.7
i. Individual and Sole Traders	12382.7	15532.9	19433.2	22718.1	29974.4	34992.4	41402.9
ii. Enterprises and Corporation	30415.8	37069.6	45429.8	51900.3	71004.6	92644.4	87604.7
iii. Investment and Other Income	8515.3	11575.8	10746.3	11549.7	13195.7	17341.7	25783.2
b. Payroll and Workforce (Social Security Tax)	1566.2	1880.9	2449.2	2927.9	3271.7	4144.8	5098.6
c. Tax on Property	3587.5	5312.8	6671.2	9395.3	13147.0	18827.0	19332.9
i. Immovable Property (Annual Property Tax)	31.7	3.8	28.5	9.0	5.6	136.0	11.0
ii. House and Land Registration	3555.8	5309.0	6642.8	9386.3	13141.3	18151.0	19322.0
d. Tax on Use of Goods	9116.2	8959.6	10327.6	12928.0	16196.8	31064.6	36598.5
e. Other Taxes	1323.1	1605.9	2008.1	2571.9	2712.8	4962.3	5255.2

Source: NRB Quarterly Economic Bulletin 2019.

Table 4.8 shows that total direct tax was collected NRs. 66906.7 million in the FY 2011/12 which was increased to NRs. 221176.1 million in the FY 2017/18. The increased in the total direct tax supported by the increased in their main components. The

amount of income, profit and capital gain, payroll and workforce and property tax are increasing year by year during this study period. Income, profit and capital gain tax amounted to NRs 52313.7 million in the FY 2011/12 which increased up to NRs. 154790.7 million in the FY 2017/18. Payroll and workforce amount increased from NRs. 1566.2 million to NRs. 5098.6 million in the FY 2017/18. Similarly, the property tax also increase in positive trend.

4.2.3 Contribution and Trend of Income Tax

The contribution and trend of income tax in different fiscal year under the study period to total direct tax, total tax revenue, total revenue and gross domestic product (GDP) at basic price in Nepal is shown in following table 4.9.

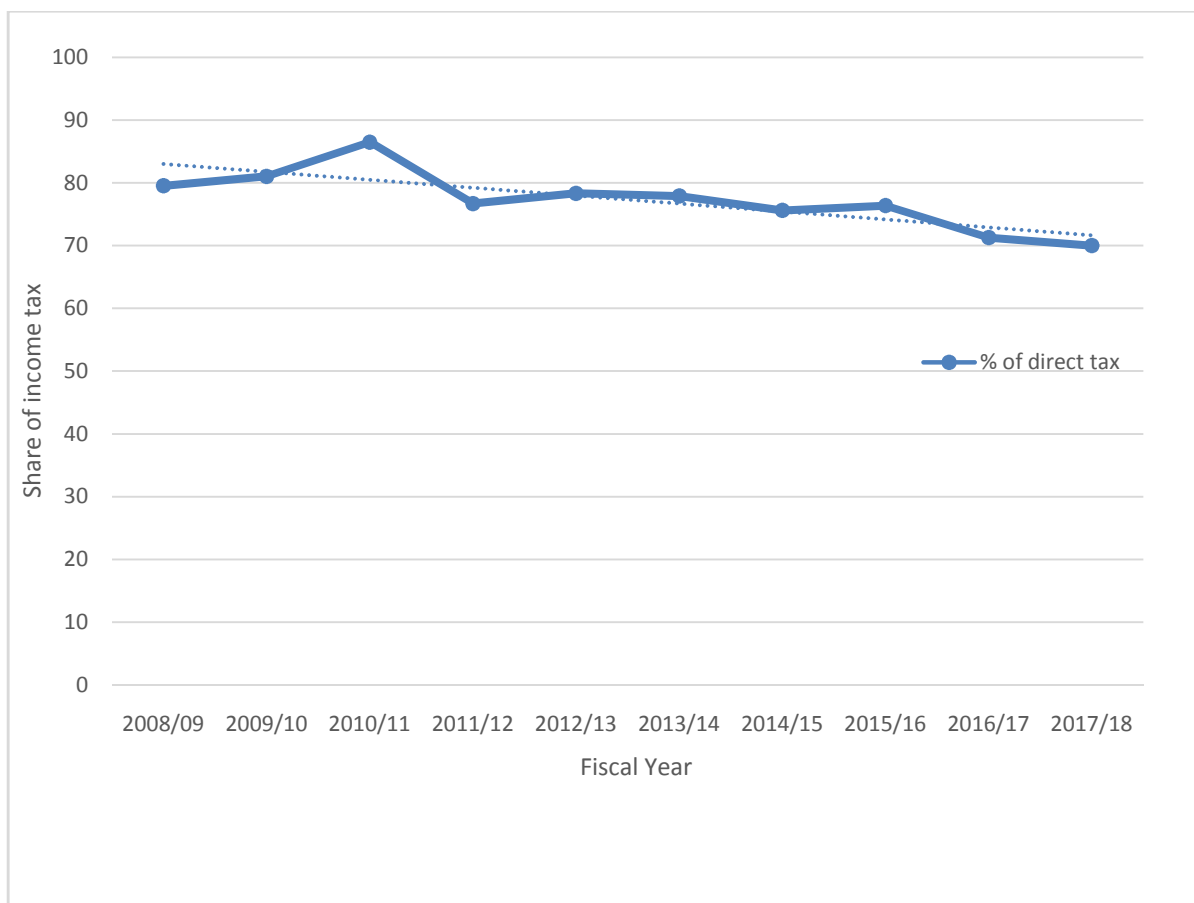
Table 4.9 reflects that the income tax and their contribution share to different revenue. Total amount of income tax was NRs 27429.7 million in the FY 2008/09 and it was increased up to NRs 154790.7 million in the FY 2017/18. According to table 4.9, the contribution share of income tax to total direct tax, total tax revenue, total revenue and GDP explain with the help of following graphs 4.6, 4.7.4.8 and 4.9.

Table: 4.9
Contribution of Income Tax on Different Revenue Head
(NRs in million)

Fiscal Year	Total Income Tax	Total Direct Tax (TDT)	% of TDT	Total Tax Revenue (TTR)	% of TTR	Total Revenue (TR)	% of TR	GDP	% of GDP
2008/09	27479.7	34552.6	79.5	117051.8	23.5	143474.4	19.2	909528	3.0
2009/10	33832.1	41760.5	81.0	156290.7	21.6	179940.4	18.8	1083415	3.1
2010/11	42066.3	48641.0	86.5	172755.2	24.4	199819.6	21.1	1248482	3.4
2011/12	51313.7	66906.7	76.7	211718.3	24.2	244369.7	21.0	1387482	3.7
2012/13	64178.3	81937.5	78.3	259143.6	24.8	295936.5	21.7	1525221	4.2
2013/14	75609.2	97065.4	77.9	312441	24.2	356620.6	21.2	1758738	4.3
2014/15	86168.0	113991.1	75.6	355942.9	24.2	405846.4	21.2	1899089	4.5
2015/16	114174.7	149503.0	76.4	421058.8	27.1	481978.1	23.7	1993560	5.7
2016/17	144978.5	203437.2	71.3	553683.8	26.2	609114.4	23.8	2307586	6.3
2017/18	154790.7	221176.1	70.0	659482.4	23.5	726715.7	21.3	2600939	6.0
Average	79459.1	105897.1	77.3	321956.9	24.4	364381.6	21.3	1671404	4.4

Source: NRB Quarterly Economic Bulletin 2019.

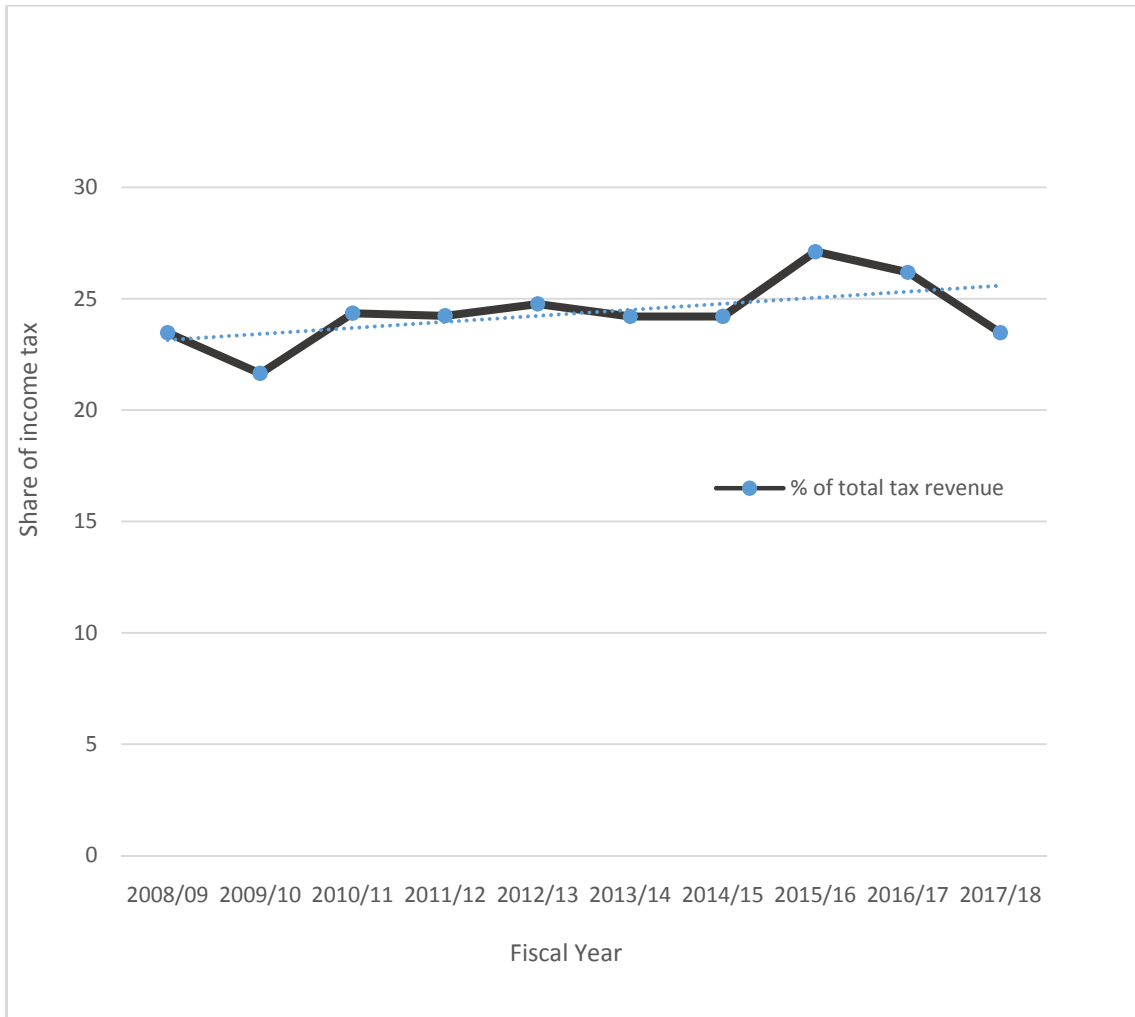
Figure: 4.6
Contribution of Income Tax to Total Direct Tax Revenue



Source: Based on Table 4.9

Table 4.9 and Figure 4.6 shows that the contribution of income tax to total direct tax revenue over the study period of 10 years. It is clear that the dominant part of direct tax revenue is income tax. The maximum contribution of income tax to total tax revenue is 86.5 percent in the FY 2010/11 while the minimum contribution stands at 70.0 percent in the FY 2017/18. The average contribution of income tax to direct tax revenue was 77.3 percent. In overall the contribution of income tax to total revenue is in fluctuating trend. It was 79.5 percent in the FY 2008/09, which was increased up to 86.5 percent of maximum in 2010/11 and then it was continuously decreased to 70.0 percent in the last year of study period. This decreasing trend of income tax to direct tax is not fruitful for the tax structure of developing country like Nepal.

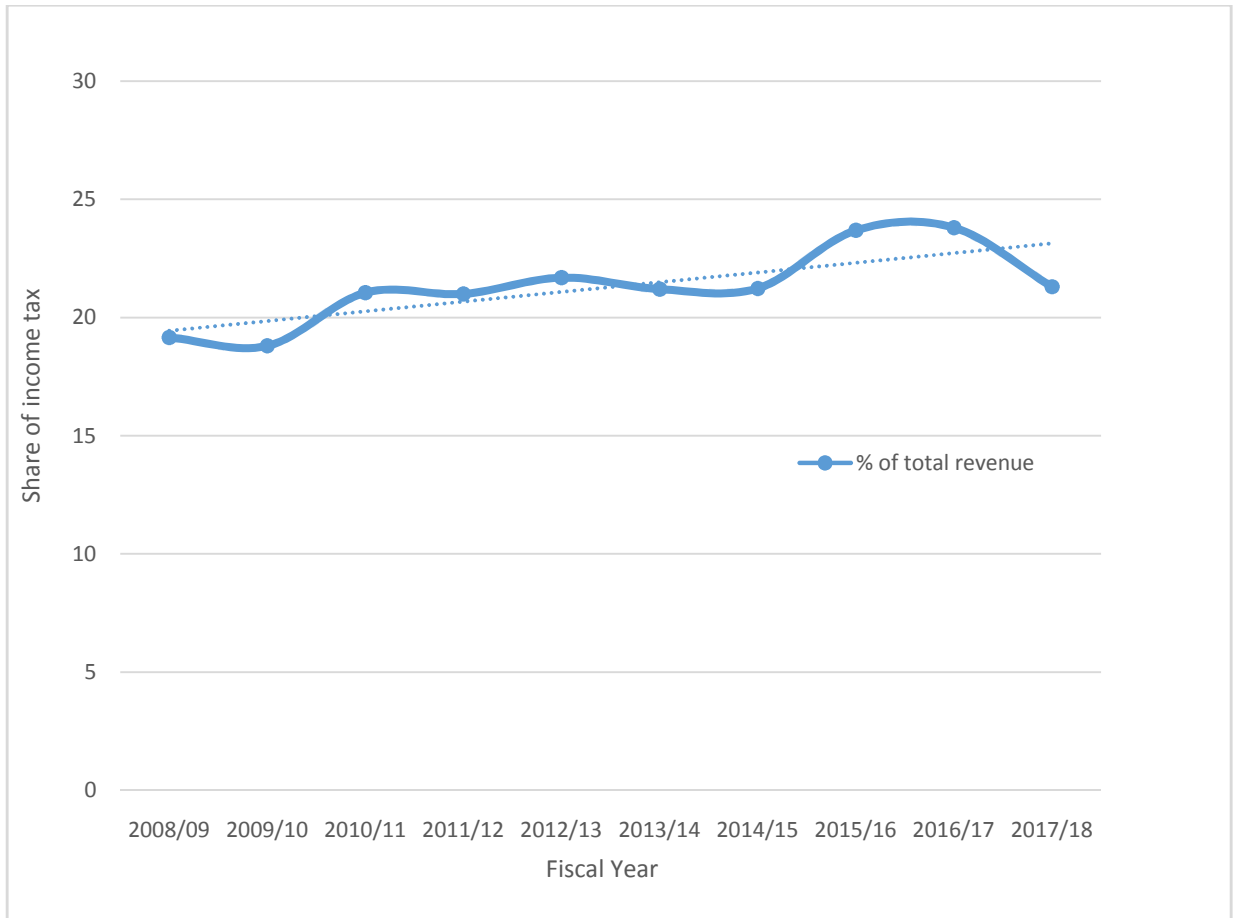
Figure: 4.7
Contribution of Income Tax to Total Tax Revenue



Source: Based on Table 4.9

Table 4.9 and Figure 4.7 shows that the contribution of income tax to total tax revenue over the study period of 10 years. The maximum contribution of income tax to total tax revenue was 27.1 percent in the FY 2015/16 while the minimum contribution stands at 21.6 percent in the FY 2009/10. The average contribution of income tax to total tax revenue is 24.4 percent. The share of income tax to tax revenue was fluctuated 21.6 to 27.1 percent but it was 23.5 percent in the both first and last year of study period.

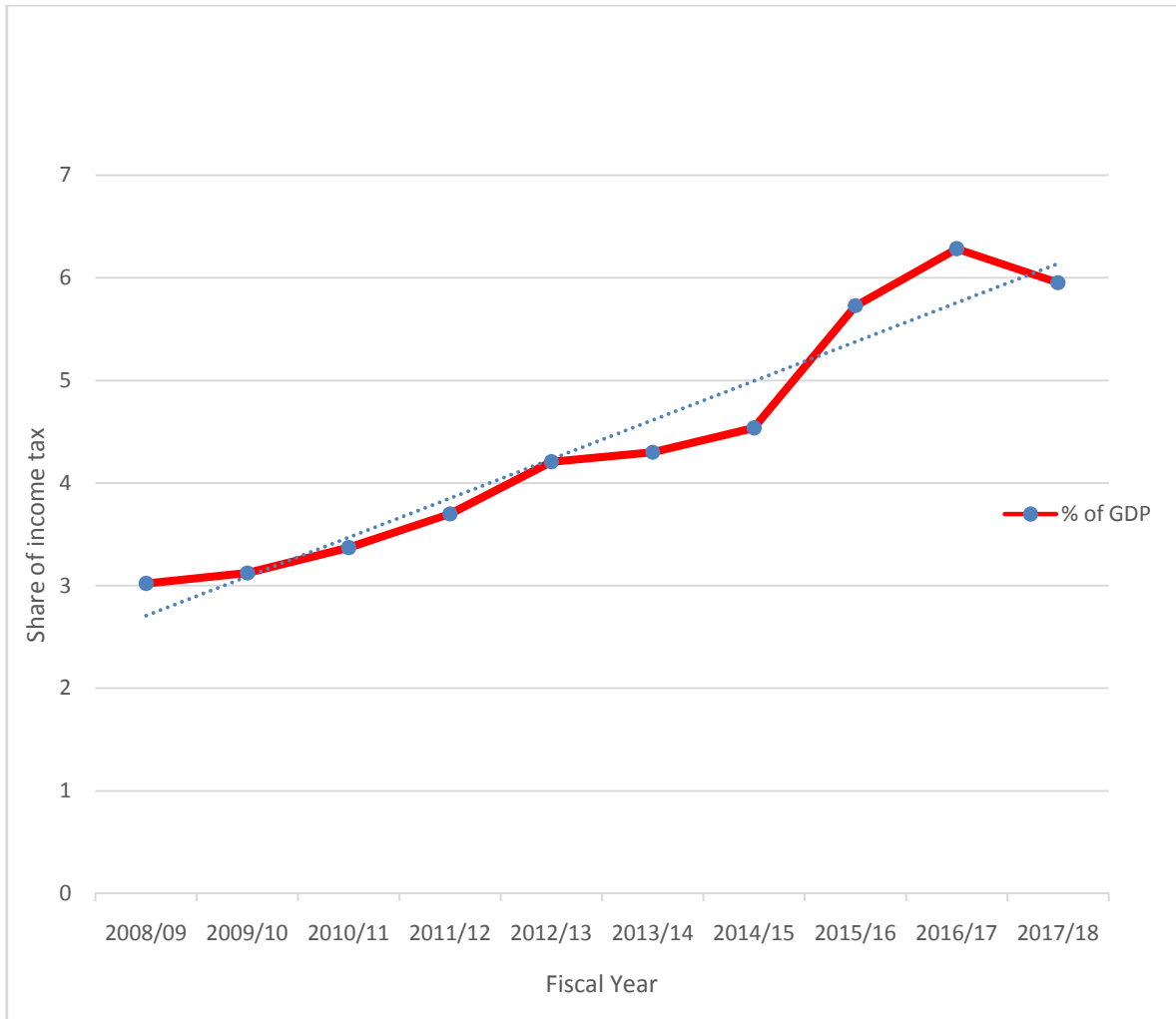
Figure: 4.8
Contribution of Income Tax to Total Revenue



Source: Based on Table 4.9

Table 4.9 and Figure 4.8 shows that the contribution of income tax to total revenue over the study period of 10 years. The maximum contribution of income tax to total revenue was 23.8 percent in the FY 2016/17 while the minimum contribution stands at 18.8 percent in the FY 2008/09 and the average contribution of income tax to total revenue is 21.3 percent. The contribution of income tax to total revenue was 19.2 percent in the FY 2008/09, which was gradually increased and reached up to 23.8 percent in the FY 2016/17 and it was decreased to 21.3 percent in the FY 2017/18.

Figure: 4.9
Contribution of Income Tax to GDP



Source: Based on Table 4.9

Table 4.9 and Figure 4.9 shows that the share of income tax on GDP at basic price of Nepal was very low. It lays only 3.0 percent to 6.3 percent during the study period of 10 years. It was 3.0 percent in the FY 2008/09 and gradually increased up to 6.3 percent in the FY 2016/17 then it was slightly decreased to 6.0 percent in the FY 2017/18. The average contribution of income tax to GDP at basic price was 4.4 percent and overall contribution of income tax to GDP was increasing trend after the FY 2013/14 of this study period.

4.3 Major Findings

The major findings of this research study are summarized as follows:

- i. There has been a largest share of tax revenue in the total government revenue. However, there is fluctuating trend of contribution of tax revenue to total government revenue. For instance, in the FY 2008/09 the tax revenue contributed to 81.6 percent in the total revenue but the contribution increased to 90.7 percent in the FY 2017/18.
- ii. In Nepalese economy tax revenue comprises of direct and indirect taxes. The contribution of direct and indirect tax to total tax revenue was 29.5 percent and 70.5 percent respectively in the FY 2008/09. The contribution of direct tax to total tax revenue was increase to 36.7 percent in the FY 2016/17 whereas the percentage of indirect tax to total tax revenue was little decreased to 63.3 percent in the FY 2016/17.
- iii. The major components of direct tax are income tax, social security tax, property tax, and other tax (including land and building registration). Among them income tax occupies the large share, which is 79.5 percent of direct tax in the FY 2008/09 at beginning of the study period and 70.0 percent at the end of study period.
- iv. Income tax is the composition of corporate income tax, individual income tax and investment income tax. Corporate income tax is collected from Government Corporation, public limited companies, partnership firms and private limited companies. Individual tax is collected from remuneration, industry and business profession and investment tax is collected from dividend tax, interest tax, royalty and rent tax.
- v. Among the component of income tax corporate income tax has a dominant share amounting NRs. 19646.4 million in the FY 2008/09 which increased substantially to NRs. 154790.7 million at the FY 2017/18. But the share of corporate income tax to total income tax has been decreased down 71.5 percent to 56.6 percent in the FY 2017/18. The share of individual income tax shows gradual increment

from 12.2 percent to 26.7 percent in the FY 2017/18. The share of investment income tax has also gradually increased from 16.1 percent to 18.0 in the FY 2012/13 and then declines to 11.6 percent at the end of the FY 2015/16. After that it was increased up to 16.7 percent in the FY 2017/18.

- vi. The tax exemption limit in Nepal has been continuously increased from NRs. 15000 for an individual, and NRs. 20000 for couple in the FY 1992/93 and increased up to NRs. 350000 for an individual and NRs. 400000 for couple during the FY 2017/18.
- vii. The share of income tax as a percentage of GDP at basic price was 3.0 percent in the FY 2008/09 and reached 6.0 percent at the end of study period FY 2017/18. This shows that share of income tax to GDP was in increasing trend.
- viii. The contribution of total revenue, tax revenue and direct tax on GDP were 15.8 percent, 12.9 percent and 3.8 percent respectively in the FY 2008/09. The contribution of total revenue, tax revenue and direct tax on GDP were 27.9 percent, 25.4 percent and 8.5 percent respectively in the FY 2017/18. These shows that all taxes have been increased but the rate of increment are very slow.
- ix. There has been a gradual and consistent increase in the collection of corporate income tax, investment income tax and individual income tax. These increment contributing to the overall increase in the total income tax collection.
- x. Increasing revenue collection through tax, fee or service charge reduce the dependence of the state on foreign transfer. The government has to be able to finance and provide public to justice, security or social services independently to the people. The underlying assumption was that there exists a close link between mobilizing internal revenue and good governance.

CHAPTER FIVE

SUMMARY AND CONCLUSIONS

5.1 Summary

In this current period, independence and power of any nation are determined by status of economic development. Nepal is one of the developing countries facing serious problems in the process of economic development. Lack of sufficient financial resource is the main constraint for economic development of Nepal. So, Nepal needs huge amount of fund to meet the objectives of economic development. To increase the government revenue, Nepalese government is trying to extract money from people through taxation. Tax is a compulsory contribution made to the government without any benefit in reciprocal. Taxation is an important fiscal policy to achieve desired level of economic development. It helps to minimize the effects of regional disparity and unequal distribution of wealth and income and contribute to welfare of the society. Tax revenue is composition of direct tax and indirect tax. Direct tax is such a tax whose burden cannot be shifted. Income tax, house rent tax and land registration tax are the examples of direct tax. Indirect tax is such a tax whose burden can be shifted. Taxes on goods and services fall under the regime of indirect tax. VAT, Sales tax are the examples of indirect tax. Within direct tax, income tax is the most important source of government revenue. It is consider as a good remedy to cure growing resource gap problem in Nepal. Despite the various measures adopted by the government to boost the revenue collection, there is still a substantial resource gap between expenditure and revenue.

In Nepal, the history of income tax is not so long. The income tax was introduced as a trial on business profit and the remuneration income. The first elected government levied the first income tax and not a specific act was made to define and to treat income tax. The first Income Tax Act was made only in 1959/60. Since then four Income Tax Acts has been implemented. From the very beginning, the concept of exemption, concession, deduction and other form of tax relief in income tax have emerged in Nepal.

All income of an individual or a couple cannot be taxable because the minimum cost required for survival.

The tax exemption works as an incentive to taxpayer. So, the concept of exemption, deductions and tax reliefs were emerged in Nepal from the very beginning of income tax. Currently, income tax constitutes corporate income tax, individual income tax and investment income tax. Among them, contribution of corporate sector is highest. Exemption limit and the 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.

5.2 Conclusions

In developing countries like Nepal, lack of sufficient financial fund is the main constraint for national economic development. Income tax system was started only in the FY 1959/60. Income tax constitutes corporate income tax, individual income tax, investment income tax and others income tax. Among them, contribution of corporate income tax is highest.

By expanding on current study analyses the trend, composition, structure and contribution of several tax variables to GDP at basic price. For the empirical analysis of the contribution of income tax on GDP, this study has used macro level time series data extracted from various issues of Quarterly Economic Bulletin published by Nepal Rastra Bank, Economic Survey published by the Ministry of Finance, Government of Nepal and Annual Reports published by Inland Revenue Department. The time series covers 10 years between FY 2008/09 to 2017/8. The non-tax sources cannot be used efficiently as revenue raise because most of these sources are levied not for revenue generating purposes. So, tax revenue plays a vital role for the revenue collection in Nepal.

To increase the government revenue, Nepalese government is trying to attract money from people through taxation. Tax revenue is combination of direct tax and indirect tax but the contribution of indirect tax is higher than direct tax. Within direct tax, income tax is the most important source of government revenue.

The government of Nepal has been adopting mixed and dual economy in the last many decades. The economy has been liberalized after the restoration of democracy in 1990. Contribution of income tax to government revenue is in increasing trend but

Nepalese income tax system has been blamed as inefficient enough. Nevertheless, analyse the data relating to it, we can find out that it is neither bad nor worse but it is continuously improving. At present, the income tax revenue in Nepal is collected according to Income Tax Act, 2002. The act has made provisions of self-tax assessment every year, to increase voluntary compliance by tax payers and to create tax fair, equitable, transparent and acceptable tax system.

5.3 Recommendations

On the basis of this study and analysis, the following suggestions have been recommended for effective and efficient income tax system in Nepal and its contribution to revenue collection.

- i. Total tax revenue consists of direct tax revenue and indirect tax revenue. Nepalese tax revenue is dominated by indirect tax revenue. Because of the direct tax revenue plays more significant role in the economic development of the country than indirect tax. Revenue collection through direct taxation should be focused.
- ii. Out of total tax revenue, the contribution of income tax revenue is comparatively low. So, the contribution of income tax revenue to tax revenue and direct tax revenue should be increased.
- iii. To increase the contribution of income tax to government revenue, self-assessment method is more appropriate while assuming income tax.
- iv. Tax principle should be adopted according to ability to pay.
- v. Nepalese government revenue structure is heavily dominated by indirect tax occupying the share of more than three fourth in total tax revenue, it is necessary to increase the share of direct tax through effective and efficient taxation system.
- vi. The terms and procedure under income tax act should be simplified so that every taxpayer even laymen could understand easily

APPENDIX I
MASTER CHART

(NRs. in million)

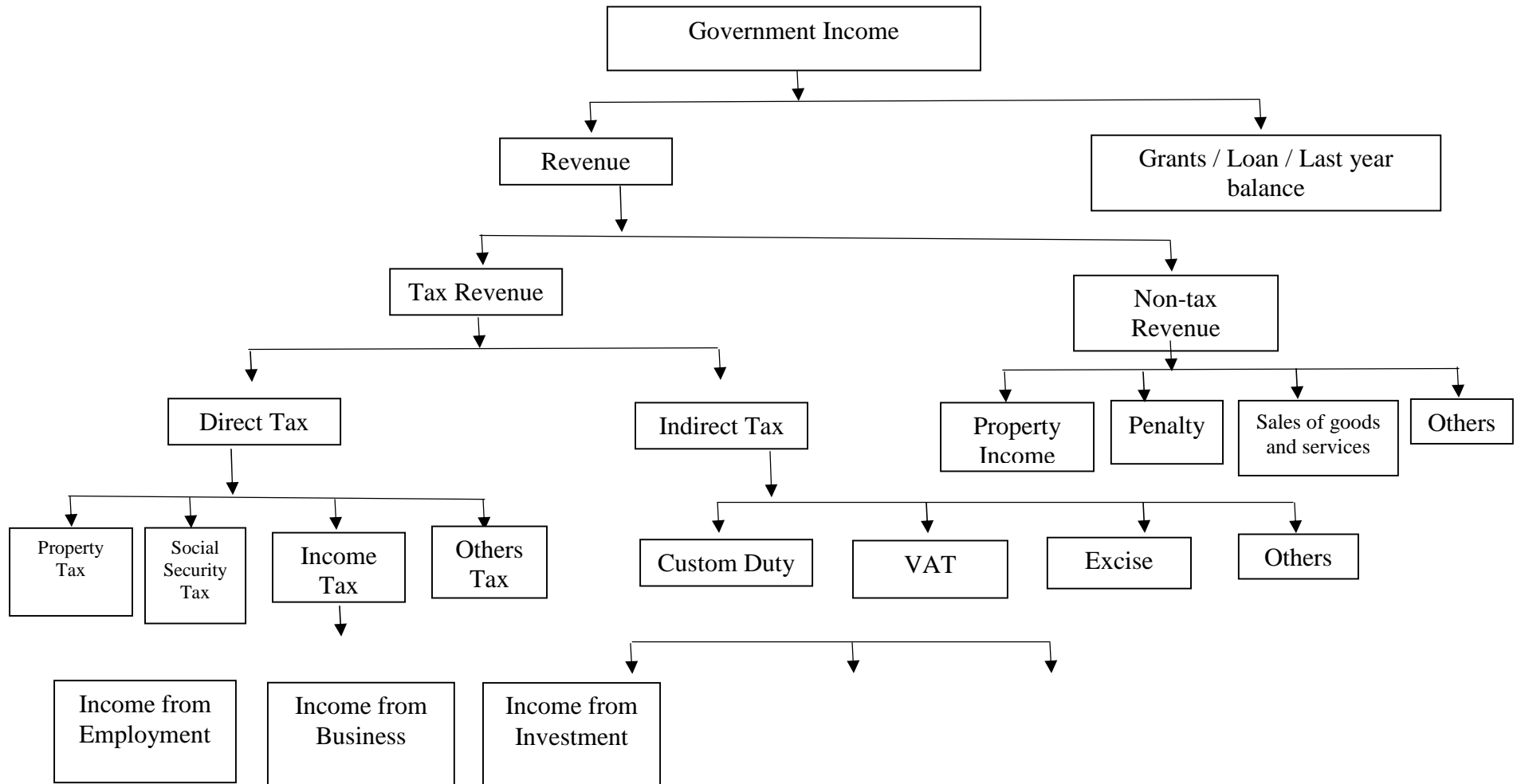
Fiscal Year	Total GDP at Basic Price	Total Revenue	Non-Tax Revenue	Tax Revenue										Income Tax			
				Total Tax Revenue	Direct Tax Revenue					Indirect Tax Revenue					Corporate Income Tax	Individual Income Tax	Investment Income Tax
					Income Tax	Social Security Tax	Property Tax	Others Taxes*	Total Direct Tax Revenue	Custom Duty	VAT	Excise Duty	Total Indirect Tax Revenue				
2008/09	909528	143474.4	26422.6	117051.8	27479.7	-	1850.0	5222.9	34552.6	26622.5	39604.2	16272.5	82449.2	19646.4	3398.5	4169.7	
2009/10	1083415	179940.4	23649.7	156290.7	33832.1	-	5551.0	2377.4	41760.5	35151.6	54896.5	24315.1	114530.2	24054.3	4420.0	5087.8	
2010/11	1248482	199819.6	27064.3	172755.2	42066.3	709.8	3572.5	2292.4	48641.0	35708.6	61659.1	26542.2	124114.3	28807.2	5863.8	7108.9	
2011/12	1387482	244369.7	32651.4	211718.3	51313.7	1566.2	3587.5	10439.3	66906.7	43395.4	70669.3	30256.2	144811.6	30415.8	12382.7	8515.3	
2012/13	1525221	295936.5	36792.9	259143.6	64178.3	1880.9	5312.8	10565.5	81937.5	56914.9	83391.1	36244.0	177206.1	37069.6	15532.9	11575.8	
2013/14	1758738	356620.6	44179.5	312441.0	75609.2	2449.2	6671.2	12335.8	97065.4	67980.6	101110.6	45411.0	215375.6	45429.8	19433.2	10746.3	
2014/15	1899089	405846.4	49903.5	355942.9	86168.0	2927.9	9353.3	15541.9	113991.1	74844.5	112518.2	53540.3	241951.8	51900.3	22718.1	11549.7	
2015/16	1993560	481978.1	60919.4	421058.8	114174.7	3271.7	13147.0	18909.6	149503.0	82184.0	122318.6	65768.1	271555.8	71004.6	29974.4	13195.7	
2016/17	2307586	609114.4	55430.6	553683.8	144978.5	4144.8	18287.0	36026.9	203437.2	103039.6	161032.1	84548.2	350246.6	92644.4	34992.4	17341.7	
2017/18	2600939	726715.7	67233.3	659482.4	154790.7	5098.6	19332.9	41953.9	221176.1	126867.0	206795.4	102531.2	438306.4	87604.7	41402.9	25783.2	

Source: NRB Quarterly Economic Bulletin, 2019.

* = Other Taxes (including land and building registration)

Appendix II

Tree Chart of Government Revenue



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