

**APPLICATION AND EFFECTIVENESS OF
EMPLOYMENT TAX WITH REFERENCE
TO INCOME TAX SYSTEM IN NEPAL**

**A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University**

**Submitted by:
DILIP KUMAR THAPA**

**Central Department of Management
T.U. Registration No: 5928-93
Campus Roll No. 190/063**

***In partial fulfilment of the requirement of the degree of
Master of Business Studies (MBS)***

**Kathmandu, Nepal
August 2011**

**APPLICATION AND EFFECTIVENESS OF
EMPLOYMENT TAX WITH REFERENCE
TO INCOME TAX SYSTEM IN NEPAL**

**A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University**

**Submitted by:
DILIP KUMAR THAPA
Central Department of Management
T.U. Registration No: 5928-93
Campus Roll No. 190/063**

*In partial fulfilment of the requirement of the degree of
Master of Business Studies (MBS)*

**Kathmandu, Nepal
August 2011**



TRIBHUVAN UNIVERSITY

CENTRAL DEPARTMENT OF MANAGEMENT

Office of Head of the Department
Kirtipur, Kathmandu, Nepal

RECOMMENDATION

This is to certify that the thesis

Submitted by
Dilip Kumar Thapa

Entitled

APPLICATION AND EFFECTIVENESS OF EMPLOYMENT TAX WITH REFERENCE TO INCOME TAX SYSTEM IN NEPAL

has been prepared as approved by this Department in the prescribed format of
Faculty of Management. This thesis is forwarded for examination.

Prof. Dr. Pushpa Raj Kandel
Thesis Supervisor

Prof. Dr. Bal Krishna Shrestha
Chairperson, Research Committee

Prof. Dr. Dev Raj Adhikari
Head of the Department



TRIBHUVAN UNIVERSITY

CENTRAL DEPARTMENT OF MANAGEMENT

To be used in the Office Only

Office of Head of the Department
Kirtipur, Kathmandu, Nepal

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by :

Dilip Kumar Thapa

Entitled

APPLICATION AND EFFECTIVENESS OF EMPLOYMENT TAX WITH REFERENCE TO INCOME TAX SYSTEM IN NEPAL

Found the thesis to be original work of the student and written according to the prescribe format. We recommend the thesis to be accepted as partial fulfilment of the requirements for the Master's in Business Studies (MBS)

Viva-Voce Committee

Chairman (Research Committee)

Member (Thesis Supervisor)

Member (External Expert)

Head (Central Department of Management)

Date :

DECLARATION

G.P.O. No. 23697, Phone + + 977-1-4330847, 4332977, E-mail : cdmgmt@ntc.net.np

I hereby declare that the work reported in this thesis entitled “**Application and Effectiveness of Employment Tax With Reference to Income Tax System in Nepal**”, submitted to Central department of management, Tribhuvan University, is my original work done in the form of partial fulfilment of the requirement for the Degree of Master of Business Studies (MBS) under the Supervision of Supervisor *Prof. Dr. Pushpa Raj Kandel*, Central Department of Management, T.U., Kirtipur.

Dilip Kumar Thapa

Researcher

Campus Roll No. 190/063

T.U. Registration No: 5928-93

Central Department of Management

T.U., Kirtipur

Date:

ACKNOWLEDGEMENT

“**Application and Effectiveness of Employment Tax with Reference to Income Tax System in Nepal**” is the output of my sincere effort for the partial fulfilment for the requirement of Master of Business Studies (MBS). Through this piece of work, I have strived to present clear pictures about employment tax system in Nepal and hereby would like to assure that the research is perfectly satisfactory and complete despite the some limitations and shortcomings. I am solely responsible for every things - errors, omissions, good works and findings.

My reverences goes to **Prof. Dr. Pushpa Raj Kandel**, Central Department of Management, T.U., Kirtipur for his valuable encouragement, generous comments, continuous guidance to bring the best out of this research work. Thank you respected sir, thank you very much.

In this way, I would like to extend my propound gratitude to **Prof. Dr. Bal Krishna Shrestha**, Head of Research Committee, **Prof. Dr. Jaya Krishna Pathak**, **Prof. Dr. Dev Raj Adhikari**, Head of CDM, T.U., **Prof. Dr. Sanotsh Raj Paudyal**, Reader **Sanjaya Kumar Shrestha** and Lecturer **Achyut Gyawali** and Lecturer **Jagat Timilsina**.

I am very much grateful to my parents Rana Bahadur Thapa, Chandra Maya Thapa, my wife Hem Kumari Thapa, brothers Ashok Thapa, Bimal Thapa, Kamal Thapa and my sisters Sita Basnet, Gita Khadka and other family members without whom I would not have been in this place today.

I sincerely appreciate to the contribution of **Mr. Rishi Raj Dawadi**, **Mr. Mukunda Prasad Rimal** for their effort and support in this research work. I also thankful to my friends Mr. Bhim Prasad Khanal, Mr. Devi Sangroula, Mrs. Anjana Sangroula, Mr. Gunjan Bhattarai and Mr. Krishna Bihari Yadav who co-operated me directly and indirectly in completing this thesis.

Last but not least, I would also love to acknowledge my teachers who taught me in school and college, CDM T.U., Kirtipur, and its family, tax officers of government offices of Kathmandu District and tax experts, employees and intellectuals from whom I have taken number of references. I respect and admire their work and contributions.

August 2011
Kathmandu

.....
Dilip Kumar Thapa
CDM, T.U., Kirtipur

TABLE OF CONTENTS

Recommendation	i
Viva-voce Sheet	ii
Declaration	iii
Acknowledgements	iv
Table of Contents	v
List of Tables	ix
List of Figures	xi
Abbreviation	xii
CHAPTER-I: INTRODCITION	1-10
1.1 Background of the Study	1
1.2 Statement of the Problem	6
1.3 Objective of the study	7
1.4 Rationale of the study	8
1.5 Limitation of the Study	9
1.6 Organization of the Study	10
CHAPTER-II: REVIEW OF LITERATURE	11-55
2.1 Meaning of Tax	11
2.1.1 Meaning of Taxation	13
2.1.2 Canon of Taxation	14
2.1.3 Objectives of Tax and Taxation	16
2.1.4 Classification of Taxes	17
2.1.5 Historical Development of Taxation	17
2.1.6 Income Tax Act2002 (2058 B.S.)	22
2.1.6.1 Objectives of income tax act, 2058	22
2.1.6.2 Features	23
2.1.7 Income Tax Rules, 2059	25

2.1.7.1 Features	25
2.1.8 Tax-Exempt Organizations	26
2.1.9 Heads of Income	26
2.1.9.1 Income from Business	27
2.1.9.2 Income from Employment	27
2.1.9.3 Income from Investment	29
2.1.10 Concept of Employment Tax	29
2.1.10.1 Amount Included in Employment Income	32
2.1.10.2 Amounts Excluded from Employment Income	36
2.1.10.3 Other Considerations	38
2.2 Review of Related Studies	47
2.3 Research Gap	55
CHAPTER-III: RESEARCH METHODOLOGY	56-62
3.1 Research Design	57
3.2 Population and Sample	57
3.3 The Sampling Procedure	58
3.4 The Sample Characteristics	58
3.5 Sources of Data Collection	58
3.5.1 Primary Sources of Data	59
3.5.2 Secondary Sources of Data	59
3.6 Data Analysis Procedures	59
3.6.1 Tools for Hypothesis Testing	60
3.6.1.1 Hypothesis 1	60
3.6.1.2 Hypothesis 2	61
3.6.1.3 Hypothesis 3	62

**CHAPTER-IV: PRESENTATION AND ANALYSIS
OF DATA 63-102**

4.1	Presentation and Analysis of Secondary Data	63
4.1.1	Structure of the Government Revenue of Nepal	64
4.1.2	Structure of Tax Revenue in Nepal	66
4.1.3	Structure of Direct Tax in Nepal	67
4.1.4	Composition of Indirect Tax in Nepal	69
4.1.5	Composition of Income Tax in Nepal	70
4.1.6	Contribution of Income Tax in Total Revenue, Tax Revenue Direct Tax Revenue and Indirect Tax Revenue of Nepal	74
4.1.7	Contribution of Employment Tax in Nepal	76
4.1.8	Exemption Limit Provided for Employment Tax and Contribution on Income Tax Revenue	78
4.1.9	Major Findings from Secondary Data	79
4.2	Presentation and Analysis of Primary Data	83
4.2.1	Income Tax as the Most Important Source of Collecting Government Revenue	84
4.2.2	Opinion Towards Contribution of Employment Tax to Income Tax Revenue of Nepal	85
4.2.3	Opinions Regarding Proper Use of Employment Tax in Nepal	86
4.2.4	Opinion Towards the Current Exemption Limit	88
4.2.5	Suggestion for the Exemption Limit	89
4.2.6	Opinion Regarding Effectiveness of Employment Taxation	91
4.2.7	Opinions Regarding Low Contribution of Employment Tax on Public Revenue	93

4.2.8 Opinions Regarding Deduction of Expensive While Calculating Employment Tax	94
4.2.9 Opinions Regarding Tax Exempt Sector on Employment	96
4.2.10 Opinion Regarding Problems Faced by Tax Payer	97
4.2.11 Suggestions Regarding Employment Tax in Nepal	100
4.2.12 Major Findings from Primary Data	100

CHAPTER-V: SUMMARY, CONCLUSION AND

RECOMMENDATIONS 103-110

5.1 Summary	103
5.2 Conclusion	105
5.2.1 Conclusion from Secondary Data	106
5.2.2 Conclusion from Primary Data	108
5.3 Recommendations	107

BIBLIOGRAPHY

APPENDIX

LIST OF TABLES

Table 2.1 : Income Tax Law and Effective Date	19
Table 4.1 : Structure of government Revenue in Nepal	65
Table 4.2 : Structure of Tax Revenue in Nepal	66
Table 4.3 : Composition of Direct Tax Revenue	68
Table 4.4 : Composition of Indirect Tax in Nepal	69
Table 4.5 : Composition of Income Tax in Nepal	71
Table 4.6 : Composition of Income Tax in Nepal (in %)	72
Table 4.7 : Contribution of Income Tax in Total Revenue, Total Tax Revenue and Direct Tax Revenue of Nepal	75
Table 4.8 : Contribution of Employment Tax in Total Revenue, Total Tax Revenue and Direct Tax Revenue and Income Tax Revenue of Nepal	77
Table 4.9 : Exemption Limit for Employment Tax in Different Years and Its Contribution on Income Tax Revenue	78
Table 4.10 : Groups of Respondents	84
Table 4.11 : Income Tax as Important Sources of Government Revenue	84
Table 4.12 : Significant Contribution of Employment Tax to Income Tax Revenue of Nepal	85
Table 4.13 : Opinions Regarding Proper Use of Employment Tax in Nepal	86
Table 4.14 : Opinions Towards the Current Exemption Limited	88
Table 4.15 : Suggestion for the Exemption Limit	89

Table 4.16 : Suggestion for the Exemption Limit	90
Table 4.17 : Opinion Regarding Effectiveness of Employment Tax	91
Table 4.18 : Opinion Regarding Low Contribution of Employment Tax	93
Table 4.19 : Opinion Regarding Deduction of Expenses While Calculating Tax	95
Table 4.20 : Opinion Regarding Deduction of Expenses While Calculating Tax	96
Table 4.21 : Opinion Regarding Problems Faced by Tax Payers	98

LIST OF FIGURES

Figure 4.1 : Structure of Government Revenue of Nepal	65
Figure 4.2 : Structure of Tax Revenue of Nepal	67
Figure 4.3 : Composition of Income tax in Nepal	71
Figure 4.4 : Composition of Income Tax in Nepal (in%)	72
Figure 4.5 : Contribution Income Tax in Total Revenue, Total Tax Revenue and Direct Tax Revenue of Nepal	75
Figure 4.6 : Contribution of Employment Tax in Total Revenue, Total Tax Revenue and Direct Tax Revenue and Income Tax Revenue of Nepal	77

ABBREVIATION

AO	:	Audit Officer
B.S.	:	Bikram Sambat
CA	:	Charter Accountant
CBS	:	Central Bureau of Statistics
CIT	:	Citizen Investment Trust
DTR	:	Direct Tax Revenue
EPF	:	Employment Provident Fund
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
GON	:	The Government of Nepal
i.e.	:	That is
IRD	:	Inland Revenue Department
ITA	:	Income Tax Act
ITR	:	Income Tax Rules
LRR	:	Land Revenue and Registration Tax
LTD	:	Limited
MBS	:	Master of Business Studies
MOF	:	Ministry of Finance
NRB	:	Nepal Rastra Bank
PEs.	:	Public Enterprises
Pvt.	:	Private
Rs.	:	Rupees
Sec.	:	Sections
TA	:	Tax Administrator
TE	:	Tax Experts
TO	:	Tax Officer
TU	:	Tribhuvan University
VAT	:	Value Added Tax

CHAPTER I

INTRODUCTION

1.1 Background of the Study

If you drive a car, I'll tax the street.

If you try to sit, I'll tax your seat.

If you get too cold, I'll tax the heat.

If you take a walk, I'll tax your feet.

Cause I'm the taxman and you're working for no one but me'-[George Harrison]

Exactly taxes follow people or organizations in every moment in every day. Suppose that if anyone buys a cup of tea, some sort of value added tax is included in the amount paid. Similarly if anybody makes a telephone call, a service tax is imposed in addition to value added tax. Income taxes are imposed on employment, business and investment. Gain tax is taxed on net gain from disposal of assets and liabilities. Karayan and Swenson (2004) write that taxes seem to be everywhere may be that taxes are a price paid for government. Not the total price: to some extent governments support themselves by charging users for specific services provided. For example, some local governments charge a monthly fee to owners of residences which are hooked up to municipal sewer systems. However, throughout the world governments primarily are financed through taxation. Taxes are charges not directly related to good or services provided, which are imposed on people and organization located within a governments legal reach.

Taxation plays a vital role in state economy. Progress of a country depends upon the country's economic growth rate, the level of industrial development, nature of resource, work quality of human resource, the level of human resource

development and geographical conditions. The all above things shows the resource mobilization capacity of the country. The capable management of income, employment and investment and consumption cycle give the good result of economic mobilization. Every government needs huge financial resource to develop and operate the country properly. Not only human being but also other business organizations requires fund for their proper operation. A government is the parent of the nation, so it requires huge amount of fund for day to day operation as well as development purpose.

In such a case where government expenditure dispute it's ever increasing trend has not been able to achieve the economic and development targets. Such a situation has posed various challenges on the one of them to maintaining micro economic stability and on the other striking a balance between the resources contribution and raising demand for resources utilization. A country is chronically facing adverse situation in the supply of goods, price and deposit mobilization and credit disbursement and so on. Thus it is extremely essential to find a situation for the internal conflict; speed up the economic development through the structural reforms and adopt flexible private sector friendly transparent policy to reap up the benefit from high growth rate of global economy especially the sustainable development.

Therefore to fulfill the objective of economic development of the country, One is the most important sources of fund is public revenue. The public revenue of the country came from taxes as well as non taxes sources. A tax is the compulsory contribution to the government by the taxpayer without any expectation to some specified return, in other words a taxpayer doesn't receive a definite and dispute benefit from the government in respect of paying tax further more a tax is not a push or paid by one for which he can claim goods and services.

Pay-Tax-as-you-earn (PAYE) system was originated by Great Britain in 1944 and it was piloted by Sir Kingsley Wood. America was adopted withholding tax on wages in 1943. According to this system, a person must pay tax as she/he earns or receives income during the year. It is also called that tax deduction at source (TDS). PAYE system has twofold; it reduces tax evasion- tax payer can't postpone his payable amount of tax at to some extent and collection of tax during the year- it safeguards the government budget. (K.C.2007: 118).

Kautiyya says, "The launching of all program depends first and foremost on the treasury." (Kandel, 2060: p.1).

From the above statement, every state needs resources. Whether to pay salary to the government employees or to do the developmental works it needs huge amount of money. It is derived from revenue. The revenue comes from different sources like grants, administrative incomes, business incomes, investment incomes, agricultural incomes, and different types of taxation. Administrative incomes, business incomes, investment incomes and agricultural incomes are non-tax revenues. The basic objective of the government is not to collect non-tax revenue but the non tax revenue comes automatically while performing many other works. The examples of such types of revenues are grants of foreign governments or agencies, registration fees, fines and penalties, charges for postage, electricity, water etc.

Another main source of revenue is the tax revenue. Examples of tax revenue are: customs duty, excise duty, value added tax, corporate and personal income tax, land tax etc. the main objective of the government collect these types of taxes. Some examples of direct taxes are: income tax, property tax, expenditure tax. The whole taxes can basically classify in to two types on the basis of collection and burden of it viz. direct and indirect taxes. A direct tax is one where burden can't be transferred to others and indirect tax is that which is shift

able partly & wholly others. gift tax, interest tax, death tax, contract tax, vehicle tax etc. And indirect taxes are : value added tax, sales tax, entertainment tax, passenger tax, hotel tax, export and import tax, excise duties etc

The tradition of tax have been started very late in the context of Nepal. During the 'Lichhavis' and 'Mallas', the main source of government revenue was one and only the land revenue. At that time, the water revenue, the religion - save tax and purification of casts were the minor taxes. These taxes were fulfilled in the form of goods, cash and labors too. Due to vast ability in tax procession, there were many changes occurring time to time. At that time, there were no systems of income tax.

After the unification of Nepal, there were increments in the expenditure for administration, and other developmental wars and even for the Armies. To accept the desired amount of taxes from public was one of the regulations of the present government. Mainly the taxes were carried out from the royal palace, central government. And local administrations, and all in the forms of goods and cashes.

The main source of revenue at that movement was the timber export: land revenue custom duty & excise duty etc, were given in the form of tender. There were no systems of taxation in income.

During the Rana regime, the main source of revenue was land revenue, custom duty, and timber export, which were traditionalized in the form of tender. At that time the job holders have to pay the fixed amount to the government in the form of tax. Besides, other simple taxes were also been carried out. But the places for live, taxes were negligible. The taxes were taken according to the needs. There were no any rules or act formulated system of effective revenue administration was not lunched till then.

Income tax is one of the most important sources of the government revenue. It plays a vital role in the national economy. Income tax levied by the government on the income of individuals, business firms. So it became one of the better sources of public revenue. To regulate the income tax in the country, income tax Act 2058 has been enacted in 2058 and income tax rules 2059 for the effective application and implementation of objective of the acts. In income tax act 2058, the income heads are categorized into three categories viz. business, investment and employment.

In the employment category employment tax is the one of the important taxes. It plays a vital contribution on the overall public revenue. The employment tax was started from Dutch republic at the end of 17th century. In Nepal the employment tax has long history. It was introduced in the fiscal year 2016/17, while business, profit and remuneration tax act 2017 were enacted. Which act had replaced by income tax act 2019. Which act had also replaced by income tax act 2031. Where income divided into five categorizes. The income tax act 2031 had also replaced by ITA 2058. Employment income is income earned by the person in the income year from the employment or services. In other words employment income means amount given for employee instead of providing services. A person getting services is known as employer and the person who is rendering or providing services is known as employee. According to ITA 2058 : employment as a past, present and prospective employment. This definition is so broad that includes all the employment that was done in the past, is being done in the present and to be done in the future. It can be said that employment means income generated by the person while rendering services has to the employer in any income year. Normally the remuneration from employment is known as salary. But the employment should be employee- employer relationship between two person and amount paid should be regular basis.

1.2 Statement of the Problem

Least development countries like Nepal are facing numerous problems in the process of economic development. More than 24% of the total population is below the poverty line in the nation. The majority of people out of reach to get basic needs. Since the government expenditures are growing, the source of government revenue must be increased the government also want be fulfill l the basic needs of people within a certain time period. Therefore, on the one hand the government requires huge amount of capital or fund to satisfy growing public expenditure but on the other hands government expenditure rate is exceeding the growth rate of revenue almost every year from the beginning of the planned development of Nepal.

On the one hand there are very problems in front of government of everywhere and on the other hand it has some kinds of problems in sources collection and allocation. As we know, every country tax is a vital source of government revenue and it is necessary to manage it nicely to solve the country's problems. So it deserves great important in nations. In Nepal also there is contributing the role of employment tax in public revenue from early time. These days its important is also growing. In this context study upon the application and effectiveness of employment tax is high, but there are rare studies on this topic. So seeing high significance of study in this topic, researcher got interest upon the topic and is highly devoted to it.

Thus the study will focus towards finding the answers of the following questions.

-) Is the employment tax, proper use in Nepal?
-) What is the present position of employment tax in Nepal?
-) What are the major facilities and benefit provided by income tax act, 2058 on the employment tax?
-) What are the major problems and weakness in the collection of

employment tax in Nepal?

1.3 Objective of the Study

Any research work must be directed towards finding something new, which does not exist the validity of which expire. In other words, there is an objective behind doing the research or study. The main objectives of the study is to examine the application and effectiveness of employment taxation in Nepal. For this following objective are specified:

- i. To find out the proper use of employment tax in Nepal.
- ii. To identify the major problems and weakness regarding to increase the effectiveness of employment tax in Nepal.
- iii. To check out the major facilities provided by the ITA 2058 on the employment tax in Nepal.
- iv. To find out possible measures required improving application and effectiveness of employment tax.
- v. To analyze the contribution of employment income to government revenue of Nepal.

1.4 Rationale of the study

There are no sufficient studies have been upon the topic. The rare studies are made on the topic and they are. insufficient for present time. Past studies are not systematic and finding are not so attractive. Due to these reasons this research study will be one of the new and important studies regarding the application and effectiveness of employment tax with reference to income tax system in Nepal.

Employment tax play the vital role in the public revenue of the country, but there are many problems associated with the income taxation related with management, administration as well as policies. The study is focused towards the efficiency of employment taxation. Thus the study tries to find out the problems and difficulties associated in remuneration taxation as well as facilities and benefit provided by income tax system(ITA 2058). Hence study is beneficial to all the concerned parties such as researchers, taxpayers, academicians, teachers, students and tax administrators etc. and also an important material for library.

So this study tries to covers the major constitutes of income tax system in Nepal. Furthermore, it aims to find out the exemptions and deduction, provisions of ITA, and problem and weaknesses in income tax system, contributing of income tax to the government revenue. It has also tries to suggest some possible areas for reform.

1.5 Limitation of the Study

All research studies are made to solve the particular research problem. They require various kinds of data, materials and other relevant information, which may not sufficient to researcher. This study also can't escape from that types of frame of limitations. The quantifiable part of the study is mainly based on the

secondary data provided by the Inland Revenue Department, which is not sufficient for the good research.

The following are the some limitations of the study:

-) This study is conducted to fulfill the requirement of Master Degree in Business Studies (MBS) so the study can't cover all the dimensions of subject matter.
-) The present study is based purely on aspect of the income tax act, 2058 and industrial enterprise act, 2049 that grant various income tax incentives to the industrial units.
-) The primary data through opinion towards employment tax is collected as a field survey (opinion survey 2010).
-) The consistency of result is strictly based on the information provided to us.
-) The views of respondents are collected only from Kathmandu valley.

1.6 Organization of the Study

Out of the study is organized in the following framework.

Chapter-1 - It includes background of the study, statement of the problem, objective of the study, rational of the study, organization of the study and limitation of the study.

Chapter-2 - This chapter is devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies.

Chapter-3 - This chapter explains the research methodology applied for the solution of the research problem. This chapter deals with research design, sources of data, population and sample and data collection process:

Chapter-4 - This chapter deals with presentation and analysis of relevant data and information using various analytical tools which are essential to analyze and interpret the results.

Chapter-5 - This chapter states summary, conclusion and suggestion of the study. This chapter presents the major finding of and compares them with theory and corresponding practice to the extent possible. It also offers several avenues for future research. The exhibits and bibliography are incorporated at the end of the study.

CHAPTER II

REVIEW OF LITERATURE

Review of literature is an essential part of all studies. It is way to discover what other researcher have covered and left in the area. A critical review of the literature helps researcher to develop through a understanding insight into previous research works that relates to the present study. It is also a way to avoid investigation problems that have already been definitely answered. The purpose of reviewing the literature is to develop some expertise in one's area to see what new contribution can be made and to receive some ideas for developing a research design, their relevant finding issues, arguments, logic and suggestions which will give a glimpses guidelines to go further study. Thus this chapter contains review of act, dissertations, books, newspaper, articles etc. The review of act simply is the review of the some features in business source of income under the act. The reviews of dissertations, related with topic of the study and available in the libraries are the main content of thesis review. Some books written in income tax and some other related materials of concerned found during the study were also reviewed.

2.1 Meaning of Tax

Tax is any compulsory levy from individuals, households, and firms to central or local governments. It is simply a liability to pay an amount to the government. It is a compulsory contribution from the taxpayers. Tax is computed and paid as prescribe in the law. The government of any country requires sufficient revenues to launch the development programs to handle the daily administration, to keep peace and security and to launch other public welfare programs. The government or public revenues are collected through various sources. These sources can be: a) taxes (b) revenues from government corporations and public enterprises (C) fees (d) special assessment (e) fines and

penalties and (f) foreign grants. Among them, tax is the main sources of collecting the public revenues because it occupies the most important part of the government treasury. In Nepal, about 70% of total revenue comes from tax revenues and the rest 30% from non-tax revenues.

Different person have defined taxation in different ways. Some of them are presented here.

Prof. Seligman defined tax as “a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred”.

Find Lays Shiras defined tax as “a compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public goods and without reference to special benefits.” From the above definition we can be concluded that

-) Tax is a compulsory levy imposed by the government.
-) It is levied on persons as per the prevailing laws.
-) Those who pay tax do not get corresponding benefit from the government.
-) It is spent for common interest of people
-) It is collected from haves and spent for the interest for haves not in the society.

In conclusion, it can be said that a tax is a liability to pay an amount to the state. The basis for the payment is that the assesses have income of a minimum amount from certain specified sources or that they owned certain tangible or intangible property or that they carry on certain economic activities or they consumed certain goods or services which have been chosen for taxation.

2.1.1 Meaning of Taxation

Taxation is a system of levying taxes. The system is a set of principle. The principal is a scheme of ideas or body of rules by which a theory is organized. Thus the system of levies was developed after the origin of tax.

Many scholars have started concept of taxation and all the scholars agree that taxation is the system whereby taxes are levied on some types of income, earnings, or gain or purchases. In this connection, the Columbia encyclopedia(2006) cities on the most absolute and extensive definition as:- “taxation is a system used by government to obtain money from people and organization”. The government uses collected revenue to support itself and to provide public services. In its nature it is relatively permanent and compulsory and does not guarantee a direct relationship between the amount contributed by a citizen and the extent of government services provided to him.

Therefore, taxation is a device or process of imposing a tax.

Similarly, one of the famous economists delineates, “taxation is the charge levied by the state on the property or labor of the citizens, in order to provide for the public expenses” (De Parieu). However, it is quite different from former definition of the Columbia encyclopedia. It is alike a definition of tax though it shares some qualities, but not identical.

Tax and taxation are not synonymous terms. Tax is a compulsory exaction of money by public authority for public purposes enforceable by law and is not a payment for service rendered while taxation is a device for imposing a tax. Thus, tax is a charge by the government on income or property or expenses of an individual or group of individual and taxation is a device or process of taxing or imposing a tax.

2.1.2 Canon of Taxation

The government of a country adopts various principles while formulating suitable tax policy. These principles are referred to as the canon of taxation. The canons of taxation were first developed by Adam Smith as a set of criteria by which to judge taxes. They are still widely accepted as providing a good basis by which to judge taxes. Smith's four canons as outlined in his book entitled 'wealth of nation' are as follows:

1. Canon of Equality or Equity

High earners should be imposed higher taxes as compared to low earners. Tax policy should not discriminate the persons with same income level.

2. Canon of Certainty

Another quality of a system as laid by Smith is the canon of certainty. Certainty in the word of Smith is related to the time, method, manner and quantity of paying the tax. In his own words-"the tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor and to every other person".

3. Canon of Convenience

Tax system should be simple so that ordinary people can easily understand and follow it. Time, procedure and place of payment of tax should be convenient to the taxpayers. In this respect, Adam Smith says-"every tax ought to be levied at the time or in the manner, in which it is most likely to be convenient for the contributor to pay".

4. Canon of Economy

The collection expenses of the tax should be less than the amount of tax collected so that a surplus to public revenue is generated and the country will be benefited. The amount that goes from taxpayer's pocket should not differ greatly with the amount that actually goes to government's treasury.

Besides the above stated canon of taxation given by Adam Smith there are other too developed by other economists. These canons given by other economists are as follows;

5. Canon of Productivity

The fund raised through taxes should be utilized by the government in productive sector of the economy so that the taxpayer can see the utilization of their hard earned money paid as taxes.

6. Canon of elasticity

The government should easily change the tax rate as per the need of the country. Instead of being rigid, tax rate should be made flexible as per the changes in taxpayer's income, properties and transactions.

7. Canon of Diversity

The tax system should not totally depend on one sources of revenue. It is risky for the governments to depend on a single source. So that government levies various taxes instead of imposing a single tax. This ensures smooth collection of taxes in different years.

8. Canon of Simplicity

A good tax system should be easily understood by general public. There should be no administrative hassles. The tax payment procedure should not be too lengthy.

9. Canon of Neutrality

The tax system should not affect badly to the production and distribution aspect of the nation rather it should facilitate them. The government should impose heavy taxes on harmful products and less tax or no tax on basic goods in such a way that the total tax revenue is not affected.

10. Canon of Coordination

There should be coordination among various taxes raised in the country. Tax payers should not be imposed various similar nature taxes

2.1.3 Objectives of Tax and Taxation

The main objectives of the taxation has being different from different epochs. In the early period the major objectives of taxation was strengthening the muscle of the state of by providing the resources. Taxation has been a very essential element of government from the beginning of the state system. In early periods the objective of collecting revenue was to provide security to people and country but being period passed this was shifted to economic development now a days.

Following are some objectives of taxation:

- Raising revenue.
- Redistribution of wealth for common goods
- Maintenance of welfare state.
- Rapid economic growth

- Enforcing government policy.
- Reduction in unemployment.
- Increasing saving and Investment.

2.1.4 Classification of Taxes

Tax can be classified in many types but on the basis of levying system it can be classified into two types; Direct and Indirect tax.

- **Direct Tax**

"A direct tax is really paid by the person whom it is legally imposed". (Dalton; as cited in Adhikari 2060:4) In direct tax person paying and bearing it is same or it can't be transferred to anybody else, e.g. Income Tax, Property Tax, Interest Tax, vehicle Tax, Death Tax etc

So the words we can simply understand direct tax as a tax the tax which should be compulsory paid by the person upon whom it is levied.

- **Indirect Tax**

"An indirect tax is imposed upon one person but paid partly or wholly by another", (Dalton; as cited in Adhikari 2060:4). From Dalton's words we can say that there are parties in indirect taxation, one is tax-payer and another is tax imposed upon which. VAT, Excise Duty, Custom Duty etc are the example of indirect tax.

2.1.5 Historical Development of Taxation

Great Britain is the first country to introduce income tax in the world. The British government introduced income tax in 1799 in order to generate revenue to finance the war against France. The United Kingdom imposed income tax regularly from 1869. Income tax was introduced in Switzerland in 1840, Austria

in 1849, In India 1860, USA in 1862, Italy in 1962 and Nepal in 1959. (Amatya, Pokherel, Dhakal, 2004:13)

The idea of introducing income tax in Nepal originated along with the first budget on 21st Magha 2008 (1952). Then the finance minister in the first Budget speech said a proposal to levy an income tax on agricultural is under consideration. 'Several attempts were made to introduce income tax in subsequent years. however, it could not be introduced until 2016 due to political instability. For the first time, the finance act 2016(1959) had imposed tax business, profit and remuneration in Nepal. (bhattarai and Koirala, 2004:1.5) the first elected government finally introduce the 'Business Profit and remuneration tax Act 2017' to impose income tax and remuneration and business profit in Nepal. The underlying reasons for the introduction of income tax were to generate more revenues in order to finance development activities and to help establish social justice through redistribution of income. Business profit and remuneration tax act 2017 had so narrow coverage that income tax was imposed only on business profit and remuneration. Since this act could not cover all the sources of income; it was replaced by Nepal income Tax Act 2019. After two years to avoid such drawbacks. The coverage was extended through this act. The wide coverage divided the heads of income into nine parts: Income from Business, Profession/occupation, Remuneration, House and other sources. After a year," Nepal income tax rules 2020" were enacted with the view implementing the objectives of the income tax act. As "Nepal income tax act 2019" was incapable in fulfilling the needs of the time it was replaced by another income tax act 2031.

"Income tax act, 2031" had 66 section and classifieds the sources or heads of income into five heading (categories) namely (1) Agriculture, (2) Industry, Business profession or vocation, (3) remuneration, (4) house and Land rent and (5) other sources. The act had identified the Chargeable incomes and admissible

expenses of each head of income. The other features of this act are provision of registration, provision of carry forward of loss, Provision of common expenses, provision of self assessment, provision of fine, penalty and appeal, provision of tax exemption by different other acts and rules, provision of avoidance of double taxation etc. The government also issued "income tax rules 2039" for effectively implement objective of the income tax. In the sources of development and modernization of income tax system, the New "income tax act, 2058" has been enacted. Similarly, the new "Income tax Rule 2059" has also been enacted for the effective implementation of the objectives of the act. The new act has classified the effective from 2059-02-27 (2002 June 10). This act has classified the heads of income into three categories viz. Employment, Business and Investment.

Table 2.1 Income Tax Law and Effective Date

SN	Income Tax Law	Effective Date
1	Finance Act 2016 (1959)	FY 2016/17-2017/18
2	Business Profit And Remuneration Ordinance, 2016(1959)	2016/4/25- 2017/02/01
3	Business profit and remuneration act 2017(1960)	2017/02/02-2019/04/09
4	Income tax Act 2019 (1962)	2019/04/09-2031/07/04
5	income Tax Act 2031 (1974)	2031/07/05-2058/12/18
6	Income tax Act 2058 (2002)	2058/12/18 - till date

Source: Kandel-Nepalko Bartaman Kar Byabasta.

The first slice of income has always been exempted from income tax. The original level of statutory exemption limit was Rs.7,000.00. This limit has been increased from time to time. The statutory exemption limit has been increased to Rs.160,000 for individual and 200000 for couples/family from fiscal year 2066/67.

From the initial stage, the finance is every year prescribed the progressive tax rate with exemption limited to all companies, Private firms, individual and families. Income tax rule was ranged between 5% and 30%. The highest level of marginal tax rate reached 60% in the fiscal year 2032/33.

Now, individual income tax is levied with rate 15% and 25% while corporate income tax is levied with a single or flat rate of 25%. However, banks and financial institutions are liable to pay income tax @ 30% taxable income. The industries established and operated in backward district are entitled to certain facilities, concession and rebates in the income tax.

Originally corporate income tax was combined with individual income tax. The same rate structure was designed for corporate and other income from many years. A flat tax rate on corporate income was introduced in FY 2043/44 for Public enterprises and Public limited companies listed with security exchange center. The corporate tax was expended to private limited companies in FY 2050/51 and partnership firm in 2052/53.

Agriculture income was kept outside the tax net except for a few years through finance acts. House and land rent and interest were included in the total income and were subject to income tax during the same years. Foreign investment is tax free from FY 2016/17 to FY 2025/26 and was included in the total income from 2026/27. Several other sources of income including income of cooperative, interest earned by foreign investors, allowances provided to the employees, dividend and export income were exempted from the income tax under different laws. These incomes, however, brought into the income tax net (income tax bracket) from FY 2057/58, Income tax act 2058 has brought all incomes, including capital gains, into the income tax net.

The withholding tax system has been adopted from the very beginning. Initially, it was limited to salaries but it was made applicable to interest, dividend,

commission, bonus, interest and purchases. Income Tax act 2058 has limited withholding tax to some income viz. income from employment, royalties, dividends, interest, rent, retirement payment and gains from insurance (life assurance) investment.

From the very beginning presumptive taxation system has also been practiced. Nowadays, presumptive tax is imposed on the small business-persons (taxpayers) who are resident natural persons and who derive income from Nepalese sources only. The threshold for presumptive taxation was Rs.1200,000.00 annual transactions (turnover) or Rs.120,000.00 income for the preceding fiscal year 2061/62. The threshold for presumptive taxation is RS 1,500,000.00 annual turnover or Rs.150,000.00 income in the FY 7063/64 to till date. It is levied at the rate of Rs.2,000.00 in metropolitan or sub-metropolitan cities; Rs.1,500.00 in municipalities and Rs.1,000.00 in other areas.

Until FY 2054/55, income tax was assessed on the income of previous years. The concept of levying income tax on the current year income was introduced in FY 2055/56. Under this system, taxpayers are required to pay income tax three installments on the basis of latest tax returns or the estimated income of current year, whichever is higher.

Initially, income tax was assessed under the official assessment. In FY 2048/49, a self assessment system was introduced for registered public limited companies and firms (Amatya, Pokharel, and Dhakal 2004:1). It was also applied to industry, trade and professional firms which had their accounts audited by recognized auditors. The income Tax act 2058 has made a Provision of a purely self-assessment system and tax official will make only an amended assessment.

2.1.6 Income Tax Act 2002 (2058 B.S.)

Since 19th Chaitra, 2058 income tax act 2058 has been introduced in Nepal. This income tax act is introduced to avoid the defects of income tax act 2031, to widen the taxation area and market Nepalese taxation system in international standard.

In this way on 19th Chaitra, 2058 income tax act 2031 was dismissed and new income tax act 2058 is implemented. For implementing this act effectively. Income Tax Regulation, 2059 was formulated and issued using the power mentioned in section 138. Similarly, this act has been amendment many times by the faineance order.

2.1.6.1 Objectives of Income Tax Act, 2058

Main objectives of income tax act, 2058 are;

-) Promote self assessment and tax compliance voluntary.
-) To bring all income generating activities into tax net.
-) To harmonize tax rates and concessions on equity grounds.
-) To widen the tax base.
-) To confine all the income tax related matters within the act.
-) To make income tax elastic and revenue productive.
-) To develop a taxpayer friendly taxation system by making it clear and transparent.
-) To reduce the scope of discretionary interpretation of the tax authorities.
-) To minimize tax avoidance and tax evasion.
-) To make taxpayers more responsible by enforcing the self assessment system.
-) To integrate Nepalese tax system with the system of foreign countries.
-)

2.1.6.2 Features

The 1950's concept of the high incentive tax rate is changed to the of low rate, wide net. This trend of tax system is followed by most of the countries in the world. After 1990's, there is re-emergence of liberalization; globalization and privatization system adopted by most of developing countries of the world and Nepal also could not stay away from this change. This new system mainly focuses on the minimum intervention of the state on private economic matters. Similarly, country like Nepal which mostly dependent on foreign aid, loan and donation adopted the economic policy guided by World Bank, International agencies (Kandel, 2004:20).

Tax System is changed with the change in economic policy of the country, and world economy. Even Advancement of information technology has vast of Nepalese economy. As a result income tax act 2058 is prepared and issued.

The main features of income tax act, 2058 are as follows:

-) All income tax related matters are confined within the act by abolishing all tax related concessions, rebates and exemption provided by different acts. Thus act has been made super in regard to all income tax matters.
-) The act has broadened the tax base.
-) Unlike previous tax act, tax rates have been spelled out in the act. The tax rate and concession have been harmonized on equity ground.
-) The act has introduced a pool system of charging depreciation. A provision has also been made for depreciating intangible assets.
-) The act has first introduced the taxation of capital gains.
-) The act has provided liberal loss set off and carry forward\ backward provisions. Inter head adjustment of losses have been clearly specified. Such provisions have been made from international prospective.

-) The act has first introduced a provision for administrative review to allow the tax administration to correct mistakes made by the tax administrators internally.
-) The act has made provisions for a stringent fine and penalty for the defaulters. There have been made provision for punishment in the fines up to 300000 and imprisonment on conviction up to 3 years.
-) Global incomes of a resident are made taxable. Non-residents are also taxed on their incomes with source in Nepal.
-) List of expenses are inclusive. All expenses relating to income have been made admissible.
-) The act has made provision for international taxation. Foreign tax credit has been introduced for the first time.
-) The act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.

2.1.7 Income Tax Rules, 2059

Income Tax Rules 2059 is issued on 27th Jetha 2059, using the power mentioned in sec 138 of Income Tax Act 2058. The main purpose of this act is to implement the Income Tax Act 2058.

2.1.7.1 Features

The features of every rule are always associated to the implementation part of mother act. In the same way ITR 2059 is prepared in association with the implementation of the ITA 2058.

Following are the main features of income tax rule 2059;

- i. Provision and definition of permanent account number (PAN)
- ii. Tax deduction procedure.
- iii. Payment of petty expenses.
- iv. Calculation of tax amount and system of accounting.
- v. Provision relating to bad debts and doubtful debt of financial institution.
- vi. Provision of contract.
- vii. Provision in connection with the use of vehicle for private purpose.
- viii. Provision in connection with the use of building for private purpose.
- ix. Provision relating to approved medical expenses and its limitation.
- x. Provision relating with the facility of deduction of losses from previous income year of banking and general insurance company.
- xi. Provision of approved retirement fund.
- xii. Provision related to the method and place of payment of tax.
- xiii. Provision of tax deduction at source.

2.1.8 Tax-Exempt Organizations

The IRD is responsible to decide whether an organization is liable to pay tax or not. For getting tax-exempt facility, the organization should apply to the IRD with necessary document that provide the organization. Here, exempt organization means any entity that should not pay the tax. Social organizations that are not operated for profit earning purpose are provided with such facilities.

ITA 2058 has included the following entities tax exempt organizations;

-) Religious, Educational or Charitable organization of public character.
-) An amateur sporting association formed for the purpose of promoting social or sporting amenities not involving in the acquisition of gain by the association or by its individual members.
-) A political party registered with the election commission.
-) A village development committee, District development committee, metropolitan city, sub-metropolitan city or municipality.
-) Nepal Rastra Bank. " Government of Nepal
-) An entity that has been declared as exempt organization, issuing notice by the government.
-) The assets and amount derived by an entity not providing benefit to any person except as payment for assets or services rendered to the entity in pursuit of the work related to tax exempt.

2.1.9 Heads of Income

For tax assessment, ITA 2058 (Sec. 5) has classified the heads of income into three main groups as;

-) Income from Business
-) Income from Employment and
-) Income from Investment

2.1.9.1 Income from Business

If any natural person or corporate body earns income by running by "business, industry or trade with in a income year such income is included while computing taxable income from business.

As per the Sec. 7, 22, 24, 26, 27, 29, 31, 56, 60 of ITA following are the heads of business income;

-) Services fees
-) Income earned from the disposal of business assets of liabilities.
-) Income earned from the disposal of depreciable assets.
-) Income earned from the disposable of trading stock.
-) Gift received in connection with business.
-) Income received by accepting any restriction of business.
-) Income received from business related investment.
-) Income received from various agents as commission.
-) Income earned due to the change in exchange rate of currency.
-) Recovery of bad debts and doubtful debts.
-) Income received from the completion of long term contract in part.
-) Income earned by the interest expenses paid for a long at lower rate than the actual market rate.
-) Income earned in respect of compensation.
-) Other income to be included in profit or benefit.

2.1.9.2 Income from Employment

Incomes received by an employee in the form of salary, allowance any facilities and benefits etc. are included under this head. Similarly, any expenses born by employer in respect of employee are also included as the source of income from employment. From such accumulated income; life insurance premium, donation

given to the an approved exempt organization, and contribution to recognized provident fund which can be calculate as annual premium paid or Rs.20,000 whichever is lower, 5% of adjusted tax able income or Rs.100000 whichever is lower, and 20% of gross salary or Rs.300000 or one third of assessable income whichever is lower are admissible expenses respectively. From such amount exemption limit is deducted according to the material status of a person to compute taxable income. In this tax rate for individual is charged @ 1% for first 160,000, charged @ 15% for the next Rs.100000 and in rest 25% to compute total tax liability. Similarly a resident couple having taxable income from employment is charged @ 1% for first 200000, charged @15% for the next Rs.100000 and is rest 25% to compute total tax liability.

Following are the source of income from employment as per sec. 8, 24, 25, 27, 29, 30 and 31 of ITA;

- i. Salary and Wages
- ii. paid leave
- iii. income received from overtime work
- iv. Commission and charge earned
- v. Gift and reward received in connection of employment
- vi. Bonus income
- vii. Payment made for facilities enjoyed by employee but paid by employer
- viii. Rent expenses born by employer
- ix. Entertainment and transportation expenses born by employer.
- x. Expenses paid by employer in respect of accepting any contract between employer and employee.
- xi. Any payment made by employer to employee in respect of employment.

2.1.9.3 Income from Investment

Investment income includes income earned by any person or entity in the form of Dividend, Interest, Rent, Royalty and Income from natural Resource, Income

received from registered Retirement Fund, income from insurance investment, Gift, and any other non business taxable Income.

Following heads of Income under investment income, according to Sec. 9, 24, 25, 27, 29, 30, 31, of ITA;

- i. Dividend(Gross)
- ii. Interest(Gross)
- iii. Payment Received in Relation of Natural resources.
- iv. Income from Royalty (Gross)
- v. Benefit received from Insurance Investment
- vi. Rent income (gross)
- vii. Benefit Received from Unrecognized retirement Fund.
- viii. Income Received from Disposal of Non business Assets.
- ix. Gain earned while disposal of depreciable assets of investment
- x. Any gift received in connection with investment
- xi. Amount received by accepting any restriction in connection with investment.
- xii. Amount received from compensation
- xiii. Amount received from joint investment

2.1.10 Concept of Employment Tax

Employment is simply an income earned by any employee from his employer. It is paid by employer in respect of service rendered by employee. According to ITA, 2058 employment income is considered as income received through out the year by employee from employer on the basis of employment.

The essential features of income from employment will make clear idea in order to understand the meaning of remuneration. These features are as follows.

) **Employee-employer relationship**

If there is a relationship as employer and employee between the payer and payee then only that income of an individual is regarded as income from employment. If such a relation does not exist, then the income falls outside the scope of the head income from employment. So there is compulsory need of master servant relationship. But if any person is acting as an agent for a principle during the course of not conducting business, there is no relationship between them as master and servant and there exist a relationship of principle agent. So a master and servant relation should be such kind that, master who not only directs what and when a thing to be done but also how it should be done, and a servant should, generally not only a person who receives instructions from the master but is also subject to the master's right to control the manner in which s\he carries out instructions. Therefore any commission or remuneration earned by the agent is chargeable to business income of the agent. Any person or entity that employs other person on work and pays for this is known as employer.

) **Mode of payment**

It should be identified whether the mode of payment accrues with the passage of time or it depends on some job being performed or completed by the assessed. In such a case, there exists employer and employee relationship and the remuneration of the contractor is chargeable under income from employment. As against in a contract for services, the contracted can best specify what is to be done and the contractor independently achieves the detail of work executes the same. In this case income earned by the contractor for this services is chargeable under income from business and not as salary income since there is not existence of any employer and employee relationship. In a contract services, the employer can direct and control as to what is required to be done by the employee and as to how it should be done by the employee.

) **Remuneration\Professional income**

Remuneration income is derived with the passage of time but not depended on some job being performance or completed. But incase their respective employers, employ any of them on the time basis, the amount is taxed as salary.

) **Income received from employer**

Generally any payment made by employer to employee for his\ her services is included in the income from employment of the employee. The payment may be salary, allowance, deferred payments and fringe benefit valued as per laws. However sometime income received from employer is not chargeable under income from employment. For example, loan received from employer is not chargeable under income from employment because it is capital receipt.

) **Income receipt from an associate of the employer**

Sometime, an associate of the employer pays remuneration. Such employee's remuneration from employment. For example, remuneration paid to employee by the managing director of the company.

) **Income received from the third party**

Remuneration derived from the third party on behalf of the employer is also chargeable remuneration income to an employee. In some cases, third party may pay remuneration under an arrangement with the employer.

) **Amount paid should be of regular nature**

If only the employee receives such periodic accrued remuneration, then it becomes chargeable income from employment. Or the remuneration should be received a paid on the basis of passage of time. It is accruing periodically for service rendered by an employee as result of expressed of implied contract.

2.1.10.1 Amount Included in Employment Income

All the amounts or benefits received in connection with employment are taxable as per sec 8 (2), while calculating an employees income from employment for an income year, the following payments made to the employee by the employer during the year will be included.

- a. Payments of wages, salary, leave pay, fees, commissions, prizes and gift (as per market valuation), bonus and other facilities i.e Dashain expenses, Tihar expenses, telephone facilities, transportation facilities etc.
- b. Payments of any personal allowance, including any cost of living, subsistence allowance, rent allowance, entertainment and transportation allowance.
- c. Payments providing any discharge or reimbursement of costs incurred by the individual or an associate of the individual. For example, reimbursement of medical expenses, payment of life insurance and private trip expenses etc.
- d. Payments for the individual's agreement to any condition of the employment.
- e. Payments for redundancy or loss or termination of the employment.
- f. Retirement contribution (i.e. provident fund, gratuity) including those paid by the employer to a retirement fund in respect of the employee an retirement payments.
- g. Other payment made in respect of the employment.
- h. Amount required being included in remuneration from employment as per tax accounting.
- i. In addition of above stated items of employment the following type's perquisites are also included in employment income from employment.

J Transfer of assets 27(a): in case of the transfer of assets from

employer to employee, the market value of such assets is included in the employee's income. For example if any employer provided telephone set as per telephone facilities to employee and the cost of set is Rs 10000 in market it should be included in employees income from employment.

-) Vehicle of personal and official purpose and rent free accommodation for personal purpose (27.1.b): payments consisting of the following facilities determined in accordance with rules are included in the income of employee.
-) Vehicle facility availability of vehicle wholly consisting purpose. However, such amount will be limited only 0.5% of annual salary (13). In case of facility is not provided as fringe benefit but is paid as transportation allowance of paid certain amount as transportation facility. Such allowance of amount should be included in the employee's income.
-) House facility(including rent free accommodation)- for the personal purpose, provision of housing to the employee, however this amount is limited only 2% of annual salary(13). But in case of facility not provided as fringe benefit, is paid as house rent allowance or paid certain amount of as residence facility, such allowance or amount is included in the employee's income. In case of maintenance expenses provided to employees own house, such payment is included in employment income.
-) Expenses incurred by employer for the provision of domestic assistant, food house, household utilities for the employee (27.c). The amount of expenses incurred by the employer for provision of such facility for the employee (but any contribution of the

employee for the provision of such facilities don't included in income).

-) Services for housekeeper cook, driver, gardener or other domestic assistant.
-) Any meal, refreshment or entertainment.
-) Drinking water, electricity, telephone and like utilities in respect of employees palace of resident.
-) Reduced amount of interest paid to employer as per concession rate with the compared with prevailing rate (27.d). incase the amount of interest on loan paid by the employer with a concession rate, the difference amount of interest that is lower than the interest to be paid as per the standard higher rate is included in the employees income.
-) Compensation (31.a,62&92)- incase a person or an associate of a person derives a compensation amount including a payment under insurance that compensates for income from employment at the time the compensation amount is derived. The compensation for an income that the person derived or expected to derived from employment or compensation amount to be included in such category. For example, compensation to an employee from insurance company on termination from the job from which the employer has insured for this purpose in included in the income from employment. It is noted that compensation or gain from the investment insurance from resident person is subject to final withholding payment is not included in the individuals' income but the compensation or gain from investment insurance from

nonresident person is included in the individuals income.

-) Amount or bill directly paid by the employer (27.e.) for the payment other than stated above, the value of benefit of the payment made by the employer to be third person instead of employee is included in the income from employment. For example school fee of the children of employee paid by the employer to the school, life insurance premium etc.

2.1.10.2 Amounts Excluded from Employment Income

There is no need of inclusion of every income of an employee while calculating remuneration. Some incomes are not included while calculating a person's remuneration; even they are derived from the employment. Following amounts are excluded in calculating an individual's remuneration from an employment, which are treated as tax free income.

-) Exempt amount (8.3 a & 10) the following payments are not included while calculating the income from employments per section 10 of the act.
-) Employment income exempted under a bilateral or multilateral agreement with a foreign government or an international organization.
-) Employment income under the employment of public services of foreign governments.
-) Employment income paid by government to foreign national on term and conditions of tax exemptions.
-) Allowance paid by government to widows, senior citizen or disable individuals.
-) Gift, bequest, inheritance of scholarship except as required to be included in income from employment.
-) Pension received by retired Nepalese army\ police from public fund of foreign government.

-) Final withholdings payments (8.3 a & 92) if a person receives the final withholdings payments (i.e. tax deduction at sources) are not included in person's income. Following income received after deduction at sources as final withholdings payments
 -) Dividend paid by resident company
 -) Rent from lease of land or a building and associate fitting and fixtures having a source in Nepal, and that is received by an individual's other than in operating business.
 -) Payment made by a residence person for gains from investment insurance.
 -) Payment made by a residence unrecognized retirement fund to be beneficiary for gains from interest on unrecognized retirement fund.
 -) Interest that is sourced in Nepal and not related to business persons paid by a resident bank or financial institutions to the natural person.
 -) Payment made to nonresident persons that are subject to tax withholdings from investment returns and service fees, withholdings from contract payment under 87, 88 and 89 respectively.
 -) Retire payment made by the government or recognized retirement fund.
 -) Meals and refreshment on similar terms – meals or refreshment provided in premises operated by or on behalf of an employer to the employer's employees that are available to all the employees on similar terms (8.3.b)
 -) Discharge or reimbursement of expenses used for employer's purpose or employer's admissible deduction from business or

investment (8.3.c.1) and c.2) any discharge of reimbursement of cost incurred by the employee that serve the proper business purpose of the employer otherwise be deductible in calculating the employer's income from any business or investment.

- J) Payments of small amounts (8.3.d and 6): payment of the prescribed small amount which (after taking into account and frequency with which the employer makes similar payments) are also small as to make accounting for them unreasonable or administratively impracticable.

Special provision of exemption for retirement payment and leave pay (20.6.a & b) : the following amounts, which are preciously exempted from tax are also exempted.

- J) The amount accrued prior to the commencement of ITA, 2058 to any natural person as principal, interest and bonus in consideration of employees and employer's contribution in employee provident fund and citizen investment fund (recognized retirement fund) are exempted. However, the interest accrued on the same amount is taxed after that date as final as employee as gratuity and amount of accumulated home and sick leave are also exempted (20.6.a)

- J) Medical expenses up to 180000 payable at the time of discharge of retirement to that employee who was working on the job at the commencement of the act would not include in the income from employment (20.6.b)

2.1.10.3 Other Considerations

1. Common Deduction (13 & 63) (21)

The amounts which are deductible while computing taxable income from employment are as follows:

-) Retirement contribution: retirement contribution to be approved retirement fund within the limit is allowed to deduct to obtain the taxable income of natural person (63). The limit is 300000 or one third of assessable income whichever is less (21).
-) Donation: gift amount to a tax exempt organization equal to 5% of taxable income or Rs 100000 or actual, whichever is less or as prescribed by government notification is allowed to deduct for obtain the taxable income (21).

2. Exemptions: (1.1,1.5 & 1.9 of schedule 1 of ITA 2058)

-) Statutory exemption limit: statutory exemption limit of Rs 160000 for individual and 200000 for couple is allowed to deduct while computing taxable income from the income year 2066/67.
-) Remote area allowances as an additional exemption limit : remote area allowances is applicable to all natural person as an exemption in addition to the statutory-exemption limit for income from employment, business or investment. i.e (Rs 30000, 24000, 18000, 12000, 6000 for A, B,C,D and E class respectively)
-) Additional exemption for pension income: in the case of pension income, an additional amount of 25% of statutory exemption limit (Rs 160000 and Rs 200000) is allowed to deduct while computing taxable income of an individual's or a couple from the income year 2066/67. It

means that the total exemption limit would be 200000 for an individual and 250000 for a couple for the income year 2067/68.

-) Life insurance premium as admissible deduction from the income year 2060/61: financial ordinance 060 had provided the facility of exemption for maximum Rs.20,000 or actual amount whichever is less from the assessable income to the natural person.

3. Medical Tax Credit (51), (17):

The medical tax credit facility is available to the all tax payer while computing the tax liability of the natural persons. The medical tax credit is 15% of medical expense or Rs.750.00 per year, whichever is less. The excess amount medical expenses carry forward to next income year.

4. Foreign Tax Credit (17)

Amount of income tax aid in foreign country is deductible as tax credit from the tax liability of foreign source income. However, such amount does not exceed the average rate of Nepali income tax. The average tax rate is calculated as follows. For this purpose

$$\text{Average tax} = \frac{\text{Taxable income of the person}}{\text{Tax liability before deducting foreign income tax}} \times 100$$

5. Special Fee as Additional Tax

The financial ordinance, 2059 has prescribed a special fee @ 3% on taxable income of a person. However this provision is applicable to the slab of taxable income where 25% tax rate is applicable. It means special fee is not levied on that slab or taxable income where income rate is 0% and 15% in the case of resident individual or couple. Similarly, it is also levied on and realized from any taxable income in case of any entity and non-resident person. It is noted that

special fee is not income tax. However, the financial ordinance 2060 has prescribed the special fee @ 1.5% on such taxable income to be applicable for the income year 2060-61 and onward. It means the rate of special fee has been decreased to 1.5% in the income year 2060-61. It is included into income tax from FY 2060-64.

6. Special Provision for Retirement Saving

a) Retirement contribution to approved (recognized) retirement fund (2.d,2.f,2bh,63.2 and 20,21)

The act has defined the term retirement contribution as a payment made to a retirement fund for the provision or future provision of retirement payment (2.f). in the same way, the act has defined the term retirement fund that it means any entity established and maintained solely for the proposed of accepting and investing retirement fund contribution in order to provided retirement fund payment to individuals who are beneficiaries of the entity or a dependent (2.d).

According to section 63.2, a natural person who is the beneficiary of and approved retirement fund may claim to reduces the taxable income by contribution made to the fund by nature person during the year. For this purpose, the upper limit of the deductible amount of retirement contribution is rs 300000 or 1/3 of the assessable income or whichever is less21).

The assessable income includes income from employment, business and investment sourced in Nepal. It is also important that nature person includes couple by electing themselves as a single unit of taxpayer. In such case they can deduct their retirement contributions from their combined assessable income as mentioned above. "Approved retirement fund" included any retirement fund related to a resident person having recognizes approved by the inland revenue department as complying with the requirement prescribed by the rules, as per sec. (2.bh and 63.1).

Recognize (approved) retirement fund means retirement for which the (IRD) approved as to comply the following terms and conditions:

) The amount of which is invested in recognized investment.

-) The fund is managed by independent person other than the employer;
-) The amount spent as retirement fund is deposited within one month in case of Ashad and within 15 days in cash in other month;
-) Repayment of the amount to employee is made only in cash or retirement or completion as of 58 years, death of physical payment handicap or the employee and the retirement or fund audited by the auditor recognized by auditor general office, for this purpose, (20)

Here in our context, recognized investment means investment made to citizen Investment trust or employee provident fund or government securities or recognized bank of instruction co-financed with bank or investment made to the beneficiaries other than the share holders.

(b) Retirement payment (65, 20.6):

Retirement payment included pension, gratuity, refund of provident fund contribution, refund of citizen investment trust contribution, refund of other retirement contributions and other payment on the termination of the job, such as accumulated home and sick leave payment, payment of medical expenses etc, in broad sense. Among of them, pension is a stream of income paid over a period of time on monthly basis while gratuity and other payments are lump sum incomes on one time. As per the act (2.e), “retirement payment” means a payment made either to an individual in the event of retirement or to a dependent or the individual in the event of death.

For the calculating the income of natural person, in case the retirement payments are made from the person’s interest in an approved retirement fund or from government, the following provisions are applied:

-) There is included any retirement payment made by the fund in respect of the beneficiary’s interest.

) Where the payment is in from lump sum, it is treated as a gain from the disposal of a non business chargeable asset of an investment of person.

For the purpose, the gain is determined after deducting rs 500000 or 50% of total retirement payment, whichever is higher from the total retirement payment is taxed as final withholding tax at the rate of 6%. For this, gratuity amount of accumulated home leave and sick leave and medical expenses at the termination of job etc, altogether paid by government and refund of principal with interest and bonus from EPF.

The following provisions are applied for calculating the gain of natural person from an interest in an unapproved retirement fund:

) In the case where a non resident person pays the proceeds, it is included in calculating the income of the individual beneficiary.

) In the case where the proceeds are paid by the resident person, it is taxed in the form of a final withholding tax.

It is notable that the retirement payments, which were subject to exempt from the tax net previously, are also exempted by the current laws to the extent of the payments as follows 20.6 (a) (b):

The amount accrued prior to the commencement of ITA 2058 (till 2058/12/08) to any natural person as principle, interest and bonus in consideration of employee's contribution in EPF and CIT are exempted. However the interest accrued on the same amount is taxed after the date as final withholding payment. Similarly, the amount accrued till the date to an employee as gratuity and amount of accumulated home and sick levels are also exempted from income tax.

Medical expenses up to Rs.180000.00 payable at the time of discharge or retirement to employee who was working at the commencement of the act:

(c) Taxation of Retirement Fund (64):

For the purpose of calculating the income of retirement fund, amount required to be included and deducted are included the deducted under other provisions of the ITA2058 but:

- J Retirement contribution received by the fund is not included in the calculation and is not an incoming of the fund
- J Retirement payment is not deductible in the calculation and is not an outgoing of the fund.
- J Interest of a beneficiary in the retirement fund is not a liability of fund.

The income of an approved retirement fund is exempted from tax. If an approved retirement fund ceases to be an approved retirement fund, it has to pay income tax in an amount equal to company tax rate applied to the amount remained after subtraction the amount of paragraph (b) from the amount of paragraph (a) as follows:

- I. All retirement contributions derived by the fund during the period from its most recent approval as an approved retirement fund to when ceases to be so approved and chargeable during the period while the fund is become unapproved less.
- II. All the retirement made by the fund from its most recent approval as an approved retirement fund to when ceases to be approved.

SPECIMEN

Computation of Assessable Income from Employment as per Income Tax Act, 2058

Particulars	Rs.	Rs.
Salary and wages (8.2)	Xxxx	
Leave pay (8.2)	Xxxx	
Pay for overtime (8.2)	Xxxx	
Fees (8.2)	Xxxx	
Prizes and gifts related to employment (8.2)	Xxxx	
Bonus (8.2)	Xxxx	
Other facilities (8.2)	Xxxx	
Commission (8.2)	Xxxx	
Dearness allowance (8.2)	Xxxx	
Cost of living subsistence (8.2)	Xxxx	
Rent (8.2)	Xxxx	
Entertainment and transportation allowance (8.2)	Xxxx	
Other personal allowances (8.2)	Xxxx	
Reimbursement of personal expenses (8.2)	Xxxx	
Payment for the individual's agreement to any condition regarding (8.2)	Xxxx	
Redundancy or loss related payment (8.2)	Xxxx	
Other payments made a respect of employment payment (8.2)	Xxxx	
Retirement payments and contribution to retirement fund (8.2)	Xxxx	
Amounts of vehicle facility (17.1)	Xxxx	
Amount of services of housekeeper, gardener, or other domestic assistant (17.1)	Xxxx	

Any meal, refreshment on entertainment provided by employer (17.1)	Xxxx	
Amount of services related to drinking water, electricity, telephones and the like utilities in respect of the payees (17.1)	Xxxx	
Underpaid interest by employee to employer for the loan taken y the employees (17.1)	Xxxx	
Other amount to be included assessable income from employment	Xxxx	
Assessable income from employment		<u>Xxxxx</u>
Statement of Total Taxable Income		
Particulars	Rs	Rs
Assessable income from employment	Xxxx	
Assessable income from business/investment (if any)	Xxxx	
Total assessable income		Xxxx
Less: Reductions:		
a. Retirement contribution - Section 63	Xxxx	
b. Donation - Section 12	Xxxx	
c. Life Insurance Premium 12	Xxxx	
Total taxable income		Xxxx
Calculation of income Tax Liability		
First Rs.160000 (individual) @ 1%	Xxxx	
Next Rs.100000 @ 15%	Xxxx	
Balance Rs.....@ 25%	Xxxx	
Total tax liability		Xxxx
Less: Advance tax paid	Xxxx	
Medical tax credit	Xxxx	Xxxx
Tax Payable		Xxxx

7. Tax Exempt Income:

According to section 10 of ITA 2058, the following incomes are tax free income or tax exempted income even though they seem income from business or employment.

- a) Income earned by a person due to the bilateral or multilateral treaty between the government of Nepal and foreign country or international organization.
- b) Income earned by a person working as a foreign government servant on foreign land.
- c) A person hired by the government of Nepal making agreement of nonpayment of tax.
- d) Allowance distributed by the government of Nepal to the widows, handicapped or old person.
- e) Amount received in the form pension by a Nepalese ex-army or police work in foreign land.
- f) Income earned by a person due to the bilateral or multilateral treaty between the government of Nepal and foreign country or international organization.
- g) Donation, gift, and presents etc received by tax free organization is tax exempted income. Similarly income earned by Nepal rastra bank.

2.2 Review of Related Studies

During the course of this study various books, articles, thesis, journals and newspaper and other related materials was reviewed. Some of them are presented below;

Agrawal (1984) presented report to ministry of finance entitled “direct tax reform in Nepal”. He has shown resource gap in Nepal was increasing trend in the one hand, and on the other hand the dependency on foreign aid was

increasing according to his study. He has shown as an urgent need to mobilize additional resources from the domestic resources by identifying the growth rate of direct taxes have been lower than the growth rate of total revenue as well as total taxes. He strongly recommended a revenue services. “Political and other pressures should not be subjected to tax administration”, furthermore he stated, self assessment should be encouraged, assessment of small tax payers should be a door to door basis. Capital gain should be included in income for income tax purpose.

“Income tax in Nepal”, master degree thesis written by Shrestha (1984) was concerned to the Nepalese tax structure. Writer found tax evasion as a vital cause to low contribution to public revenue. To study the problem regarding financial resource gap in nepal, suggested efficient management, activities regarding enhancement of income to increase effectiveness. She recommended launching the measure to control the tax evasion.

Singh (1981) choose the topic of her master’s thesis as, “ income tax system in Nepal”. From that study she found the conclusion that, income tax is vital source of generating public revenue. She recommended further that, tax administration should be made effective to fulfill the resource gap of government.

To assess the contribution of income tax to public revenue, Baral (1989) prepared a thesis entitled “ Income tax in tax structure in Nepal”. She described the condition as lack of proper legal provision , lack of efficient administration, lack of public information and suggested for the government attention towards this.

Kayastha (1993) wrote an article entitled, problems and prospectus of resources mobilization through direct taxation in Nepal on RAJASWA and give his important in requirement of certain tax measures and widening of the tax bases.

In that he was shown that Nepalese tax structure has heavily relied upon indirect tax and non tax revenue. Narendra showed the urgent gap required to widen the tax base. Loopholes and leakage on the tax collection process were pinpointed and recommendations regarding that were information of separate revenue group reforms on tax rates, rules and regulation etc.

Paudel and Shakya (1995) wrote two separate Master Degree thesis related to income tax structure of Nepal. Mr Paudel's topic was "a study on Nepalese taxes structure" and Mr Shakya chooses the topic as "income tax in tax structure of Nepal" both researcher endeavored to examine the pattern of existed income tax structure of the country. They analyzed the pinpointed the problems responsible for limiting nepal's taxable capacity. low per capita income, extensive substance economy, relativity closed economy, political and social factor, weak administration etc, were problems aroused by Mr. Shaky. Furthermore he prescribed the measure to improve the condition as, honest and efficient administration strict punishment provision for tax evaders, scientific taxation practices etc. whereas political is vital requirement, administrative efficiency should be enhanced and confidence on people should increase were the suggestion by Mr. Paudel for solving the problem regarded to tax structure of the nation.

"Self assessment under income tax in Nepal" was the mater thesis presented by Kharel (1996). He reviewed tax law with special reference to self assessment analyzed the problem faced by the taxpayer while self assessment of their own income. He had made some relevant recommendations to reform income tax laws as well asa administration in future. He has concluded that self assessment of tax is a suitable means of raising domestic resources in his research and it would be effective in taken seriously According to him. The effectiveness of self assessment of tax depend upon its appropriate reformation " he has further expressed.

Kandel (2001) wrote an article on economic review : occasional; paper published by research department of NRB titled “ corporate tax in Nepal effective burden (1975-2000) and get into conclusion that high statutory tax is not only causes of distortion of the investment environment. He was wrote that tax environment in Nepal in term of burden has been favorable during the period of 1975-2000.

Timilsina (2001) wrote his master degree thesis upon the topic personal taxation in nepal “ A study of exemption and deduction “ . he has studied various aspects of the personal income taxation system existed in the country. He found from the study that there exist numerous problems regarding exemption and deductions so he suggested that standard deduction should be reinforced, exemption limit should be considered to dependents, moral of tax officers should be increased and exemption should be adjusted with the inflationary condition of the country.

Agrawal (1978), studied on “Resource Mobilization for Development; the Reform of Income Tax in Nepal,” has analyzed the various item of income system of Nepal. A report presented into nine chapters’ manly focus on role of income tax, legal aspect of income tax and administrative problem facing by the tax authority, tax evasion, problems etc(Agrawal 1978).

An economic commission established by HMG on 20 jeshtha, 2036 published its preliminary report on “Arthik Aayogko Pratham Charanko Pratibedan” in 1979.This report deals for the development of the tax system in Nepal and suggests reforms for the different taxes in Nepal. However in the present context the report is one event (HMG 2036 BS).

Agrawal (1980), again presented another research report concerning about income tax administration. The report has explained in detail about resource

mobilization through income tax in Nepal, role of income tax administration and legal aspect of income tax in Nepal (Agrawal, 1980).

Paudyal and Timalisina (1990) published a book entitled “Income Tax in Nepal” After a long time. This book is based on then B. Com syllabus and then income tax act 1974. This book contained theoretical as well as practical ideas of the income tax in Nepal (Paudyal. 1990).

Khadka (1994), gave his immortal contribution towards income taxation. It deals with national and local taxes and administration in Nepal. The study was divided into seven chapters discussing the general economic condition in Nepal, commodity taxes, income taxes, property taxes, local taxation, tax administration and the strategy for tax reform respectively. Moreover, it traces out the path of the Nepalese tax system and presents the tax system of the period. The study basically focuses on the process by which the tax system was adopted and developed. It has explored possibilities for the reform after scrutinizing the main problems with the operation of the tax system and tax administration (Khadka, 1994).

Dhakal (1998), published a book based on syllabus of BBS third year. The book contains descriptions of the provisions made under the income tax laws and the method of income tax assessment with numerical examples. Besides, value added tax system is also included in the book. The book is more helpful to have general knowledge about provisions made under income tax act 1974. He has included all the amendment regarding the provisions in his subsequent editions 2000 & 2001(Dhakal 1998).

Tiwari (1999) published a book named “Income Tax System in Nepal”. The book is basically designed for the students of the TU but it is equally useful to others viz the tax payers, tax administrators, and those who desire to get theoretical knowledge about the tax system. Just like others book, which are

published based on university syllabus. It lacks analytical study. In other words, it is informative rather than analytical (Tiwari 1999).

Khadka (2001) published a book on income taxation of Nepal. The book is a combination of several articles published in the national newspaper, particularly in the Rising Nepal and the Katmandu Post. This book focuses on how the ITA, 2000 will be different from the previous and existing (i.e.ITA, 1974) income tax act. It first traces out the evolution of income tax around the world followed by evolution of income tax in Nepal, relative importance of income tax in the tax literature. The book has reviewed major changes introduced in the field of Nepalese income tax system since its inception in 1955 AD. It looks at where the income tax came from in Nepal and explains where it is heading in new Income tax act 2000 and why? Further, the book is written in the best academic style, that is precise in it's academic content but which explains complex concepts in a way that non specialist can understand(Khadka,2001).

Kandel (2003), published a book on income taxation giving name “Tax law and tax plan, in Nepal” on syllabus of MBS, TU. The contents of the books are divided into three parts, part one deal with practical problems & provision relating to the act. Similarly part two deals with tax planning and third part is concerned with value added tax. (Kandel, 2003)

Bhattarai and Koirala (2004), published a book concentrating on the syllabus of MBS second year of TU. The book is informative rather than analytical. The book has given sufficient practical problems and solutions regarding income tax assessment from different sources of income. Highlighted notes to be considered on each and every chapter have augmented the beauty of the book (Bhattarai & Koirala, 2004).

KC (2007) wrote a book named “Tax laws and tax planning: theory and practice”. It includes calculation of tax liability to both individual and entity. It

explicitly explains inclusion and exclusion from business and investment income, deduction allowed in calculation of taxable income, basic thing and accounting issues and characterization of income. This book explains proper tax payer responsible for reporting methods of taxation of income and need of compliance (KC 2007)

By presenting a thesis name : contribution of employment income to income tax revenue of Nepal Koirala Girijaprasad (2004) tried to identify the contribution of income tax from employment income to public revenue of Nepal. He was also concerned to analyze the effectiveness of income tax revenue collection from employment income.

Regmi (2006) wrote a thesis entitled “ effectiveness of remuneration taxation in Nepal” by the study he has suggested that remuneration is effective and it is highly contribution on government revenue.

Lamsal (2005) presented his Master level thesis on “Effectiveness of Employment tax in Nepal “, the objective of his study were: to find out the contribution of Employment tax on income tax, to identity the major problems and weakness of Employment tax in Nepal and to check out the major facilities and benefits provided by income tax act 2058 on the employment tax. He has find out that out of the total tax revenue, the contribution of income tax revenue is very low and suggest increasing the contribution of income tax in the public revenue, the focus should be given in the various tax incentives programs with the help of sound tax planning. He has also suggested that income tax from employment has very much significant contribution in total tax revenue. It should be increase, the collection and tax assessment provision should be made clear and simple so those taxpayers would be encouraged to pay income tax.

Major findings are as follows:

-) Income tax is one of the vital source of collecting government revenue of Nepal.

-) Low pay scale of employees, ineffectiveness in the implementation of the act, tax evasion, etc are cause to leading low contribution of employment income to total income tax revenue of Nepal
-) The contribution of income tax from employment to income tax revenue can be increased by bringing new tax payers into tax net and making TDS effective.
-) In opinion of various respondent tax evasion is not practiced in income tax as it is already deducted at sources while receiving salary.
-) Standard deduction as expenses should be provided from employment income as ITA 2031.
-) Exemption limit should be adjusted by considering factor like inflationary condition, average cost of living, education expenses etc.
-) Imposition of income tax on pension income is not justified. The respondents who respond that pension should be taxed were on the ground that he adequate exemption limit does not bring the pension income in income tax bracket, and those who accepted imposing income tax on pension income; they respondent that additional 25% exemption limit compensates the taxpayers who were not taxed earlier.
-) According to majority of the respondents employees have not faced any problems while paying income tax. But those who respondent that employee have faced problems in paying income tax opined that, poor and week responses from the tax administrators, delay on getting tax clearance, low pay scale of the employees result in low income tax amount, mental pressure to pay income tax etc.

In this way, various books, dissertations, reports, publications, articles and other materials have been reviewed while preparing this thesis. Almost thesis and dissertation were written on different aspects of income taxation and very few were concerned to employment taxation.

2.3 Research Gap

There are various studies accepted on the effectiveness of employment tax and income but the research is none about the application of employment tax and effectiveness. Some relate studies are about the income tax and implementation of different taxes. So it is a different job for researcher. It would have been of a great benefit to this study if the gap created by the previous studies can be filled up. Further this study will not only help the research student to carry further studies but it will also be helpful to the interested group in the selected sector such as employee of different private company, government offices, lecturers, tax experts, tax administrator and tax counselors. So in this regard can be varied from the previous one in terms of objective and data presentation mode which - has been termed as a research gap will the study.

CHAPTER III

RESEARCH METHODOLOGY

For the proper evaluation of the research problem, research methodology is very essential to any researcher. Research methodology generalizes the way of solving the research problem thoroughly and systematically. Therefore research methodology is used for the achievement of the objective of the study.

Research methodology is the systematic way to solve the research problem. In other words, research methodology describes the methods and process applied in the entire aspect of the study. It may be understood as a science of studying how research is done scientifically? It helps to analyze, examine and interpret various aspects of research work. For the achievement of desired objectives primary as well as secondary data are used in this study. Opinion survey is adopted while collecting primary data in this study to find out the opinion of respondents, respectively different groups related to Income Tax. Since the basic objective of this study is to examine the application and effectiveness of employment tax in Nepal. So, suitable research methodology as per requirements of the studies is being followed. To achieve this objective, the basis would be followed by primary as well as secondary data. This data will be evaluated and analyzed with the help of statistical tools. Mainly two aspects: Descriptive and analytical are used on this study. So this chapter examines about the research design, sources of data, data collection procedure, method of analysis of data and tool for analysis.

Both primary and secondary sources of data will be used in this study. Primary data will be collected mainly by opinion survey. For this questionnaires were distributed to tax experts, Tax Administrators and Employees to know their opinion towards various aspects of taxation on employment income. Economic survey was used as the major sources of secondary data. Different statistical

tools were used to analyze the data. In this, average, percentage, chi-square test and T-test for analysis and to test the hypothesis have been used.

3.1 Research Design

Research design is the overall framework for conducting research. It is the configuration and strategy about how to conduct the research. It is a methodological arrangement of all conditions for collection and analysis of data which provides relevancy to the research purpose. The analysis of any study is based on a certain research design keeping the objectives of the study in mind. This research study is mainly focused towards the application and effectiveness of employment tax in Nepal. So the research design of this study is analytical as well as a descriptive method of analysis. For analysis and test of hypothesis both analytical and descriptive methods were used, which were supported by the primary as well as secondary data.

3.2 Population and Sample

In order to fulfill the objective of this study, a sample size of 100 from the Kathmandu valley is taken. The respondents are selected here very carefully from the list received from various knowledgeable persons using judgment. Satisfying random sampling techniques has been conducted. Persons involved in the responding of the questionnaire are from tax experts, tax administrators, and employees of different offices. The respondents have been divided into three groups, the following table shows the group of respondents and the size of the sample.

Groups of Respondent and Sample Size

Tax Experts	25
Tax Administrators	25
Employees	50
Total	100

3.3 The Sampling Procedure

After feeling the research gap upon the topic a careful study on the subject matter was made. From that, it is found that the problem and prospectus regarding employment tax in Nepal is being studied systematically.

Furthermore, being concerned on the topic it was concluded that the respondents for the study for primary data collection should tax administrators, Tax Experts and employees.

3.4 The Sample Characteristics

There are three responding groups specified as the respondent of primary data collection Viz, TA, TE and Employees. On the sample tax administrators are Government official from ministry of finance (MoF) department of tax, Inland Revenue office (kathmandu, Lalitpur, and Bhaktapur), and office of Auditor General etc, Tax Experts Comprises of chartered accountant (CAs), Auditors, layers, teachers, and employee are the people working in various government, non-government, and private organizations. So, the sampling is scientific and it tries to cover the adequate range.

3.5 Sources of Data Collection

To get the reliable and significant result, both primary and secondary sources of data are collected. Mainly the primary sources of data and information have been used in this research. In addition, secondary sources of data will be used while necessary. The major sources of data are expressed as below.

3.5.1 Primary Sources of Data

Primary sources of data has been collected within Kathmandu Valley from those respondents who are representing themselves as tax expert, tax administrators and employees of different sectors. To know the opinion of the respondents, a structured questionnaire had distributed i.e. data has been collected through a

schedule of self structured questionnaire, informal dialogue, discussions and direct interviews.

3.5.2 Secondary Sources of Data

Secondary sources of data are collected from various books, journals, newspapers, reports, and dissertations etc. Among them major sources of secondary data are as follows:

Dissertations relating to employment tax, available at the Library of Central Department of Management, T.U., Kirtipur and Nepal Commerce Campus (NCC), Minbhawan.

Various types of text books related with employment Tax.

Economic survey, Economic review of NRB.

3.6 Data Analysis Procedures

The data and information collected through primary and secondary sources are initially presented from separate table according to the objective and nature of responses as well as respondent. They are systematically formatted a various tables as per requirement. Present table are followed by brief analysis where as data related to objective of the study and hypothesis have been tested are analyzed detail and justified as per requirement. Analytical tools used for analysis are percentage, simple average and correlation etc.

3.6.1 Tools for Hypothesis Testing

The main tools for testing the hypothesis is chi-square test. Chi-square, denoted by Greek letter χ^2 , is one of the simplest and most widely used non parametric tests on the statistical work. This test is applied to such frequency to occurrence as against the expected ones with reference to population parameters, which were being done earlier in test. It is used for significance of an observed sample correlation.

3.6.1.1 Hypothesis 1

The 1st Hypothesis to be tested is, "There is no significant difference in opinion of various responding groups regarding the proper use of employment Tax in Nepal",

This can be systematically stated as,

) Null Hypothesis (H_0): There is no significant difference between in the opinion of tax Administrator, tax expert and employee regarding the proper use of employment Tax in Nepal

) Alternative Hypothesis (H_1): There is significant difference between in the opinion of tax Administrator, tax expert and employee regarding the proper use of employment Tax in Nepal.

) The test Static is;

$$X^2 = \frac{(O_f - E_f)^2}{E_f}$$

Where, O_f = Observed Frequency

E_f = Expected Frequency

$$= \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

The Degree of Freedom is; $(r-a)(c-1) = (3-1)(2-1) = 2$

Level of Significance () = 5% Level of Significance and 2 Degree of freedom is, 5.99, which is to be tested.

3.6.1.2 Hypothesis 2

The 2nd Hypothesis is to be tested is, "There is no significant different in opinion of various responding groups regarding the existing of the problem on employment taxation in Nepal", which can be systematically stated as,

Null Hypothesis (H₀): There is no significant difference between in the opinion of tax Administrator, tax expert and employee regarding the existing of the problem on employment taxation in Nepal.

Alternative Hypothesis (H₁): There is significant difference between in the opinion of tax Administrator, tax expert and employee regarding the existing of the problem on employment taxation in Nepal.

The test Static is;

$$X^2 = \frac{(O_f - E_f)^2}{E_f}$$

Where, O_f = Observed Frequency

E_f = Expected Frequency

$$= \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

The Degree of Freedom is; (r-a)(c-1) = (3-1) (2-1) = 2

Level of Significance () = 5% Level of Significance and 2 Degree of freedom is, 5.99, which is to be tested.

3.6.1.3 Hypothesis 3

The 3rd Hypothesis to be tested is, " Facilities provided by the Income Tax Act and laws are significantly hinting the increasing effectiveness of employment taxation", this hypothesis is to be tested by T test. This can be systematically stated as

) Null Hypothesis (H₀): There is no significant relation on facilities (in terms of exemption limit) and effectiveness (contribution of employment tax on total income tax revenue).

) Alternative Hypothesis (H₁): There is significant relation on facilities (in terms of exemption limit) and effectiveness (contribution of employment tax on total income tax revenue).

The test Static is;

r_{12} = correlation coefficient between facility and contribution

$$r_{12} = \frac{\sum \phi X_1 \cdot X_2 - \frac{\sum \phi X_1 \cdot \sum \phi X_2}{n}}{\sqrt{\sum \phi X_1^2 - \frac{(\sum \phi X_1)^2}{n}} \sqrt{\sum \phi X_2^2 - \frac{(\sum \phi X_2)^2}{n}}}$$

Critical value is that, here if $r = +ve$, then there is positive relation between facilities provided and contribution income tax and vice versa.

In this way testing of hypothesis is made by systematic and scientific. There have tested and analyzed on the presentation and analysis of data chapter.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is focused on the presentation and analysis of primary and secondary data. This empirical study is based as an opinion questionnaire survey which was distributed to the 50 respondents in order to know their opinion regarding employment tax under income Tax act 2058. This chapter is the main body of the study, which answers the research problems for obtaining the specific goals of the research. It helps for summarizing, concluding and finding of the research. Those data have been tabulated and presented into graphs, charts and analyzed to get into findings.

4.1 Presentation and Analysis of Secondary Data

This section is focused on the presentation and analysis of secondary data. The secondary data have been obtained from economic survey, budget speech and other related newspapers. Those data have been tabulated and presented into graph, chart, and analyzed to get into findings.

The data collected from economic and other relevant sources have been analyzed by dividing into main nine sub-headings. They are: structure of national revenue in Nepal, structure of Tax Revenue of Nepal, structure of direct tax revenue, composition of income tax revenue, and to analyze the contribution contributions of tax and national revenue, contribution income tax on tax revenue, contribution income tax on direct tax revenue, and to analyze contribution of employment tax, total revenue, total tax revenue. Direct tax revenue and income tax revenue are taken into basis. The government revenue of Nepal is comprised of different taxes. Such as custom, VAT, excise duty, income tax, land revenue and registration, miscellaneous taxes, non taxes revenues. The structure of government revenue in Nepal has been presented different tables are as below for the period of 10 year period from 1999/90 to 2008/009.

By the various tax and non tax revenues, tax on consumption and product of goods and services has the vital contribution toward total revenue of Nepal. Its contribution in millions of rupees has been increasing per year.

4.1.1 Structure of the Government Revenue of Nepal

The structure of government revenue in Nepal has been presented in table 4.1 in Rupees and in percentage from fiscal year 1999/00 to 2008/009. In Nepal's revenue structure tax revenue has always been greater the three times of non-tax revenue. This means the heavy there is contribution of tax revenue in total revenue in Nepal. Tax revenue is always increasing order. It's percentage contribution has always been fluctuating with in the lower limit of about 75.74% to upper limit 86.42% in percentage contributions, out of total revenue of NRs. 42893.70 millions, 77.29% i.e. Rs.33152.10 has been contributed by revenue in 1999/2000. In 2008/009, 81.58% i.e. Rs.117051.90 millions of total revenue has been collected as tax revenue.

In other hand, contribution of non-tax revenue has the lower of contribution as compared to tax revenue. Its contribution to total revenue has reminded below 25%. In 1999/00, Rs.9741.60 millions has been collected as non tax revenue, which is about 22.71% of total revenue its contribution of over the ten year period has been fluctuating. In 2008/09, out of total revenue of Rs.143474.50 millions. Rs.26422.60 millions has contributed from non tax revenue. It is about 18.42% of total revenue. It has been decreasing order from 2003/2004, in percentage contribution.

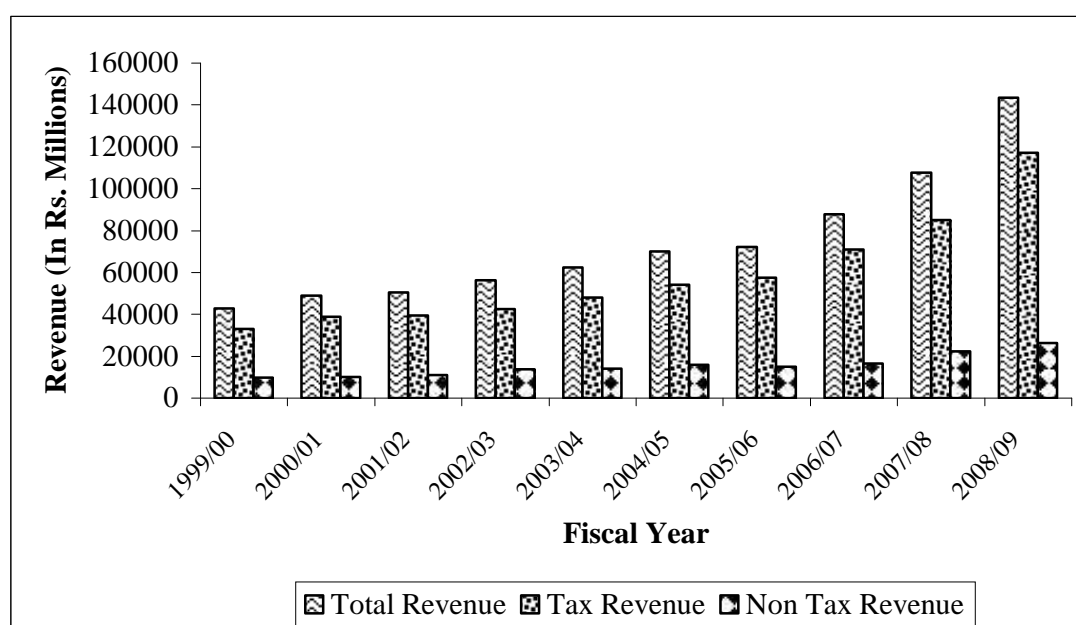
Table 4.1
Structure of Government Revenue in Nepal
(From Fiscal Year 1999/2000 to 2008/009

(in million)

F.Y.	Total Revenue	Percent	Tax Revenue	%	Non Tax Revenue	Percent
1999/00	42893.70	100	33152.10	77.29	9741.60	22.71
2000/01	48893.90	100	38865.10	79.49	10028.80	20.51
2001/02	50445.60	100	39330.60	77.97	11115.00	22.03
2002/03	56229.70	100	42587.00	75.74	13642.70	24.26
2003/04	62311.00	100	48173.00	77.33	14158.00	22.72
2004/05	70122.70	100	54104.70	77.16	16018.00	22.84
2005/06	72282.54	100	57430.74	81.16	14851.60	20.99
2006/07	87712.20	100	71126.70	86.42	16585.50	20.15
2007/08	107622.50	100	85155.50	79.12	22467.00	20.88
2008/09	143474.50	100	117051.90	81.58	26422.60	18.42

Source: GON/MOF, *Economic Survey, FY 2009/10.*

Figure 4.1
Structure of Government Revenue of Nepal



4.1.2 Structure of Tax Revenue in Nepal

Total tax revenue consists of direct tax revenue and indirect tax revenue. Given table 4.1.2, present tax revenue structure of Nepal which consist of both direct tax and indirect tax revenue of Nepalese tax revenue structure from 1999/00 to 2008/09.

In 1999/00, out of total tax revenue of Rs.33152.10 millions, Rs.8951.50 millions and Rs.24200.60 millions have been contributed by direct tax and indirect tax revenue respectively. It means about 27% and 73% of total revenue has been contributed by direct and indirect tax revenue respectively. In year 2008/09 Rs.34320.70 millions and Rs.82731.20 millions out of total tax revenue has been collected as direct tax and indirect tax revenue respectively, i.e. 29.32% and 70.68% of total tax revenue have been collected from direct tax and indirect tax revenue respectively. So it can be simply said that, indirect tax has been significant contribution in the total tax structure of Nepal on comparison to direct tax.

Table 4.2
Structure of Tax Revenue in Nepal
(From Fiscal Year 1999/2000 to 2008/009

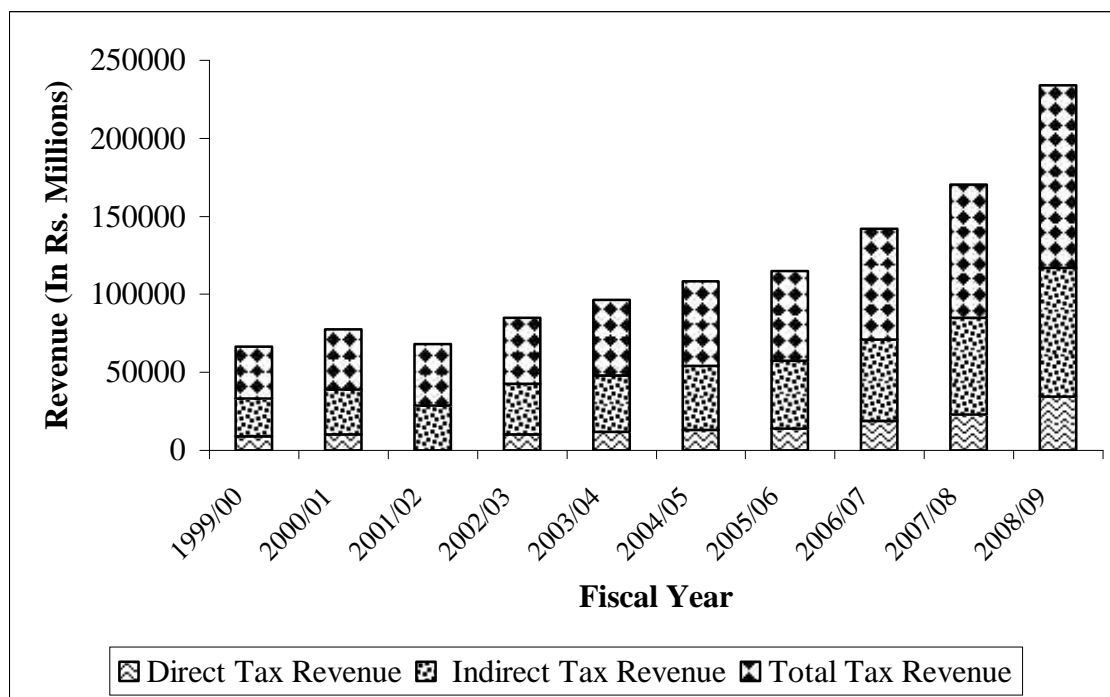
(in million)

F.Y.	Direct Tax Revenue	Percent	Indirect Tax Revenue	%	Total Tax Revenue	Percent
1999/00	8951.50	27.00	24200.60	73.00	33152.10	100
2000/01	10159.40	26.14	28705.70	73.86	38865.10	100
2001/02	105971.50	26.94	28733.10	73.06	39330.64	100
2002/03	10105.80	23.73	32481.20	76.27	42587.00	100
2003/04	11912.60	24.73	36260.40	75.27	48173	100
2004/05	13071.80	24.16	41032.90	75.84	54104.70	100
2005/06	13968.00	24.32	43462.28	75.68	57430.40	100
2006/07	18990.83	26.70	52135.87	73.30	71106.67	100
2007/08	23087.70	27.11	62067.80		85155.50	
2008/09	34320.70	29.32	82731.20	70.68	117051.90	100

Source: GON/MOF, *Economic Survey, FY 2009/10.*

The contribution of direct and indirect tax in total tax revenue of Nepal is presented in the figure 4.2 below.

Figure No. 4.2
Structure of Tax Revenue of Nepal



4.1.3 Structure of Direct Tax in Nepal

The structure of Direct tax revenue is the composition of land revenue and registration, Tax on property profit and income.

Income tax occupies the highest rank among various taxes in direct tax revenue. As compare previous year, the direct tax revenue has been increasing trends up to 2000/01 then it is decreased in 2002/03. But it is also increasing from 2003/04 to 2008/09. In 1999/00, out of total direct tax revenue of Rs.8951.50 million, Rs.7420.60 million has been contributed by income tax revenue. The least percentage contribution of direct tax in year 2003/04, it was 77.61%. This is about 79.16% contribution of income tax revenue in total direct tax revenue. In year 2008/09 out of total direct tax revenue of Rs.34320.70 millions,

25142.40 millions has been contributed by income tax revenue is about 73.26 of the total direct tax revenue.

Land revenue and registration occupies the second place among direct taxes revenue the trend of land revenue and registration is fluctuating. In 1999/00 out of direct tax revenue of Rs.895.50 millions, Rs.1011.90 millions was contributed by land revenue and registration. It is 11.35%. In 2008/09 total DTR was Rs.34370.70 millions LRR amounted to Rs.5623.31 millions, which is 15.22% of DTR. The least contribution in year 2000/01 was Rs.612.90 million, i.e. 6.03%. The contribution has been growing up in the recent years.

Table 4.3
Composition of Direct Tax Revenue
(From Fiscal year 1999/00 to 2008/09)

In million

Fiscal year	Total direct tax	Land revenue and registration				Tax on Property, Profit and Income				
		Land Revenue	House, land and registration fees	Total	% of total direct tax	Income tax	Tax on property	Other tax	Total	% of total Direct Tax
1999/00	8951.5	4.6	1011.9	1015.9	11.35	7420.6	515.0	0	7935.6	88.65
2000/01	10159.4	5.1	607.8	612.9	6.03	9114.0	432.5	0	9546.5	93.97
2001/02	10597.5	0.8	1131.0	1131.8	10.68	8903.7	562.0	0	9465.7	89.32
2002/03	10105.8	0	1414.3	1414.3	13.99	7966.2	559.5	165.8	8691.5	86.01
2003/04	11912.6	0	1697.5	1697.5	14.25	9245.9	700.6	268.6	10215.0	85.75
2004/05	13071.8	0	1799.2	1799.2	13.76	10159.4	806.5	306.7	11273.0	86.24
2005/06	13968.1	0	2181.1	2181.1	15.61	10373.7	847.6	565.7	11787.0	84.39
2006/07	18990.8	0	2253.5	2253.5	11.90	15034.0	995.0	697.8	16727.0	88.10
2007/08	23087.8	0	2940.74	2940.74	12.70	17311.2	1069.2	1766.6	20147.0	87.30
2008/09	34320.70	0	5223.30	5223.30	15.22	25142.40	1850.0	2105.0	29097.4	84.78

Source: GON/MOF, *Economic Survey, FY 2009/10*.

Tax on property and other tax, occupy third and last position among various taxes. The trend of tax and property has been fluctuating. In year 1999/00 Rs.515.00 million has been collected as tax and property as total of direct tax revenue of Rs.8951.50. It is 5.75% of total tax revenue. In year 2008/09 3955.00 millions have been collected of tax and property and other tax out of Rs.34320.70 millions of direct taxes. It was 11.52% of direct taxes. The

highest contribution in year 2008/09 Rs.3955.00 millions, i.e. 11.52% out of Rs.34320.70 millions total revenue.

4.1.4 Composition of Indirect Tax in Nepal

The tax structure of Nepal is mainly dependent on indirect tax, which constituted percentage of total tax revenue in 2008/09. Nepalese tax revenue is depend mainly on international trade and VAT on goods and services supplemented and taxes on income and property to some extent. The major components of indirect tax in Nepalese tax structure constitutes customs duties, tax on consumption and production of goods and services. Custom duty has been classified mainly into important and export duty. Other components of indirect tax like entertainment tax, hotel tax, air flight tax etc. The following table shows the composition of indirect tax.

Table 4.4
Composition of Indirect Tax Revenue
(From Fiscal Year 1999/00 to 2008/09)

Fiscal Year	Total Indirect Tax	Custom Duties		Tax on consumption and product of goods and services			
		Amount	%	Valued Added Tax		Exercise on Industrial Products	
				Amount	%	Amount	%
1999/00	24200.6	108143.3	44.68	10259.7	42.39	3127.6	12.92
2000/01	28705.7	12532.1	43.66	12382.4	43.14	3771.2	13.14
2001/02	28733.1	12658.75	44.06	12267.3	42.69	3807.0	13.25
2002/03	32481.2	14236.43	43.83	13459.7	41.44	4785.1	14.73
2003/04	36260.4	15554.8	42.90	14478.9	39.93	6226.7	17.17
2004/05	41032.9	15701.6	38.27	14885.4	46.03	6445.9	15.71
2005/06	43462.3	15344.0	35.30	21610.7	49.72	6507.6	14.97
2006/07	52135.87	16707.6	32.0	26095.6	50.10	93432	17.90
2007/08	62067.69	21062.5	34.0	29815.7	48.00	11189.6	18.00
2008/09	82731.20	26792.9	32.39	39700.9	47.99	16237.40	19.63

Source: GON/MOF, *Economic Survey, FY 2009/10*.

The above table 4.4 revealed that the custom duties and VAT occupies major portion in indirect tax. In fiscal year 1999/00, the contribution of custom duty was 44.68 percent, which was fluctuated and was 37.39 percent in fiscal year 2008/09. The average % contribution of custom duty to indirect tax was 40.35% during the last 10 years.

The percentage of custom duty to indirect tax has been decreasing. The sales tax has become an important source of overall tax revenue with an increasing trend which contributed 42.39 percent to indirect tax in 1999/00 to 48 percent in 2008/09. The share of excise was also fluctuating. The total tax amount collected from excise on industrial product was increased continuously during the study period, which was Rs.2327.60 million in 1999/00 to 16237.40 million in 2008/09.

4.1.5 Composition of Income Tax in Nepal

Nepal is facing a serious problem and growing fiscal resources gap and her need for mobilizing additional financial resources from domestic source through taxation has been urgent. The base for levying taxes may be consumption, income and capital. Taxes on income and capital are known as direct taxes whereas taxes on consumption are known as indirect taxes. Tax structure of Nepal is composed of both direct and indirect taxes. Income tax has been playing a vital role to generate government revenue for the economic development of the nation. Nepalese income tax structure is formed by combination of income tax from public enterprises, private corporate bodies individual, employment and interest. This has been presented in table 4.4. and 4.5 below. Here, public enterprises consist the of 100% government ownership and private corporate bodies means public, private limited companies, individual sole traders, partnership organization, employment means salary earned by the employee which is government and non government sectors employees.

Table 4.5
Composition of Income Tax in Nepal
(From Fiscal Year 1999/2000 to 2008/009

(in million)

F.Y.	Public Enterprises	Private Corporate Bodies	Employment	Tax on Interest	Income Tax Revenue
1999/00	2,198.80	4,356.00	451.50	414.30	7,420.60
2000/01	2,928.00	5,124.80	597.30	463.90	9,114.00
2001/02	1,769.30	5,831.10	835.60	467.70	8,903.70
2002/03	1,251.00	4,589.60	1,259.60	866.00	7,966.20
2003/04	2,056.00	5,064.70	1,391.80	733.40	9,245.90
2004/05	1332.40	6394.10	1675.90	757.00	10,159.40
2005/06	195.70	7639.10	1,764.13	774.93	10373.70
2006/07	1019.70	10951.50	20007.90	1054.90	15034.00
2007/08	204.60	13567.70	2451.00	1087.90	17311.20
2008/09	959.10	19302.60	3195.60	1685.10	25142.40

Source: GON/MOF, *Economic Survey, FY 2009/10.*

Figure 4.3
Composition of Income tax in Nepal (in Rs.)

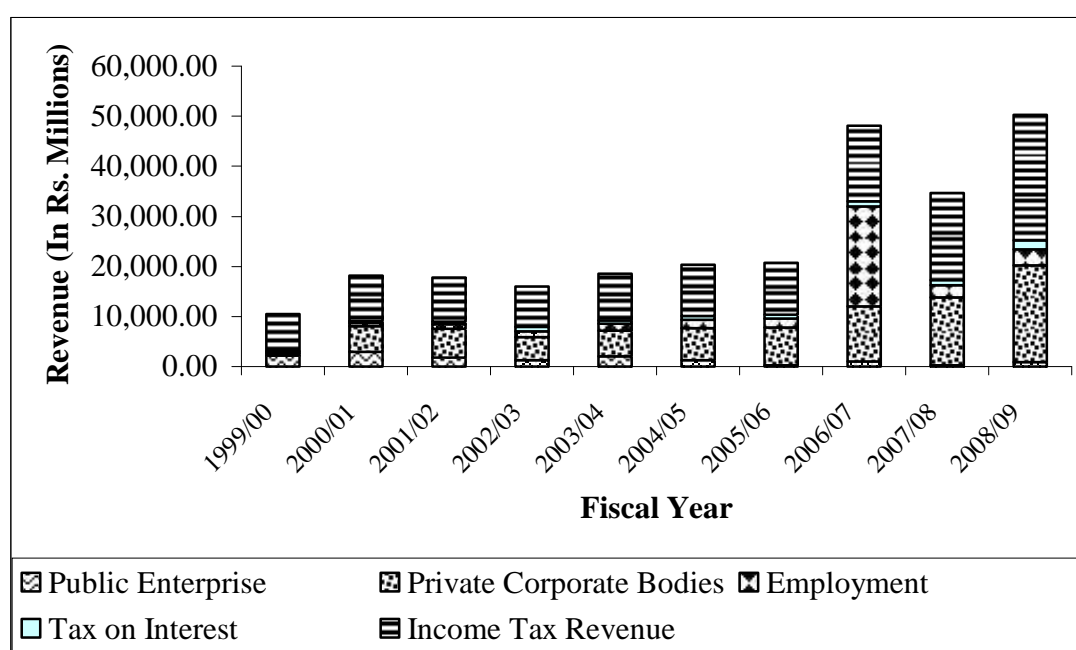


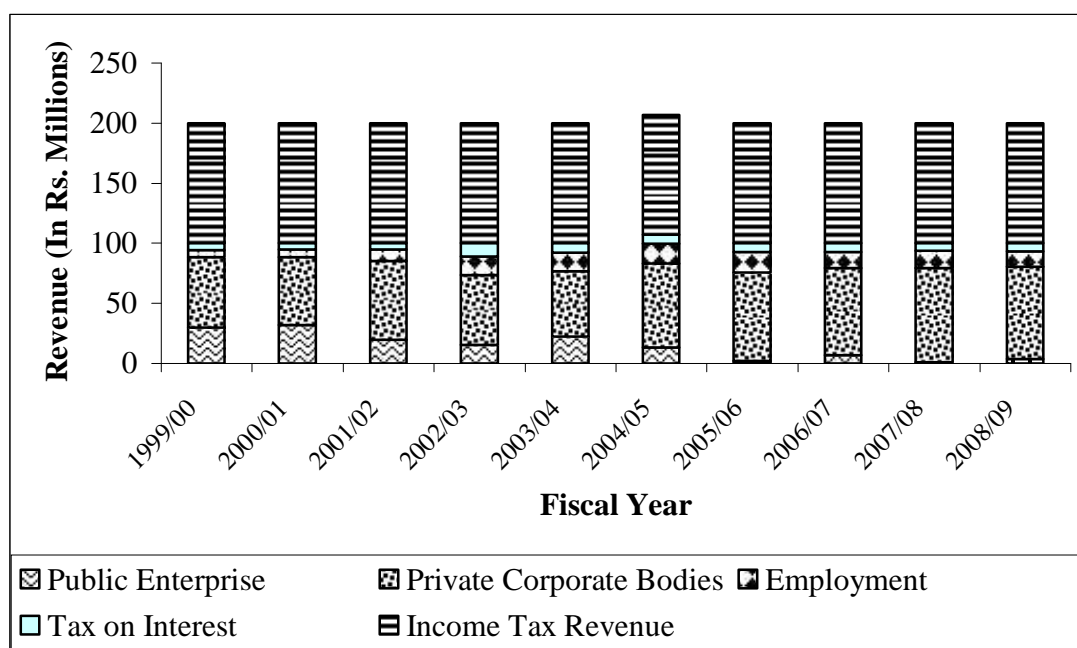
Table 4.6
Composition of Income Tax in Nepal
(From Fiscal Year 1999/2000 to 2008/009

(in percentage)

F.Y.	Public Enterprises	Private Corporate Bodies	Employment	Tax on Interest	Income Tax Revenue
1999/00	29.63	58.70	6.08	5.58	100.00
2000/01	32.13	56.23	6.55	5.09	100.00
2001/02	19.87	65.49	9.38	5.25	100.00
2002/03	15.70	57.61	15.81	10.87	100.00
2003/04	22.24	54.78	15.05	7.93	100.00
2004/05	13.11	69.94	16.50	7.45	100.00
2005/06	1.89	73.64	17.01	7.47	100.00
2006/07	6.78	72.84	13.36	7.02	100.00
2007/08	1.18	78.38	14.16	6.28	100.00
2008/09	3.81	76.77	12.71	6.70	100.00

Source: GON/MOF, *Economic Survey, FY 2009/10.*

Figure 4.4
Composition of Income Tax in Nepal (in%)



On the basis of above table, income tax revenue seemed to have an increasing trend up to 2000/01. Then in 2001/02 and 2002/03, it was decreased i.e. 9114.00 and 8903.70. But in 2003/04 it has been growing up in the recent years.

The income tax contribution of private and corporate bodies has occupied first position in total income tax revenue in Nepal. In 1999/00 Rs.4356.00 million was raised from private and corporate bodies income tax. It has been increasing trend up to 2001/002 then it was decreased in 2000/03 to 2003/004 then after it is increasing. In 1999/00 it is about 58.70% of total income tax revenue. Year 2008/09 it is reached to 19302.60 million which is 72.84% of total income tax revenue is 15034.00 millions.

Public enterprises took the second position regarding its contribution in total income tax revenue. In year 1999/00 out of total income tax revenue Rs.7420.60 millions 2198.80 million has been contributed by public enterprises. It is about 29.63%. Its contribution has been increasing trend up to 2000/01 then next two year it was decreased, and it took recovery from year 2003/04. In 2002/03, out of total income tax revenue of Rs.7966.20 millions Rs.1251.00 millions has been contributed by public enterprises, this is about 15.70%. It became Rs.959.10 million in 2008/09 is 3.81% of total income tax revenue.

The third position in total income tax revenue has been occupied by income tax from employment. In 1999/00 contributed Rs.451.50 millions to get total income tax revenue of Rs.7420.60 millions. In year 2008/09 for total tax revenue of Rs.25142.40 millions it added the value of 3195.60 million which is 12.71%.

Tax on interest has occupied fourth position in total tax revenue 1999/00 414.30 millions was collected as tax on interest. Interest tax has been increasing trend the year 2008/09 it came 1685.10 millions which is 6.70- % of total tax income.

4.1.6 Contribution of Income Tax in Total Revenue, Tax Revenue Direct Tax Revenue and Indirect Tax Revenue of Nepal

The contribution of income tax revenue in total tax revenue, total tax revenue, direct tax revenue, and indirect tax revenue is presented and analyzed below.

Income tax revenue has very low contribution on total revenue. In year 2000/01, it is second highest of 18.64%, in percentage contribution. In year 2002/03 it was decreased. In last year 2008/09 it is 17.52%. But in value it was Rs.10159.40 millions in year 2004/05 and highest in year 2008/09 Rs.25142.40 millions. In total tax revenue also, income tax has low contribution. It was 18.88% in year 1999/00 and it was increased up to 21.48% in last year of 2008/009. It was highest on 2000/01 of 23.45%, but in Rs.2008/09 it is 117051.90 millions.

Contribution of income is vital on direct tax revenue, it is always more the 78%. The highest contribution in 2000/01, it was 89.71%. In year 2006/07 its contribution is 82.43%.

Contribution of income tax on Total revenue. Total tax revenue and direct tax revenue is presented in Table 4.7 and Figure 4.6 below.

Table 4.7

**Contribution of Income Tax in Total Revenue, Total Tax Revenue, Direct Tax Revenue and Indirect Tax Revenue of Nepal
(From Fiscal Year 1999/00 to 2008/009)**

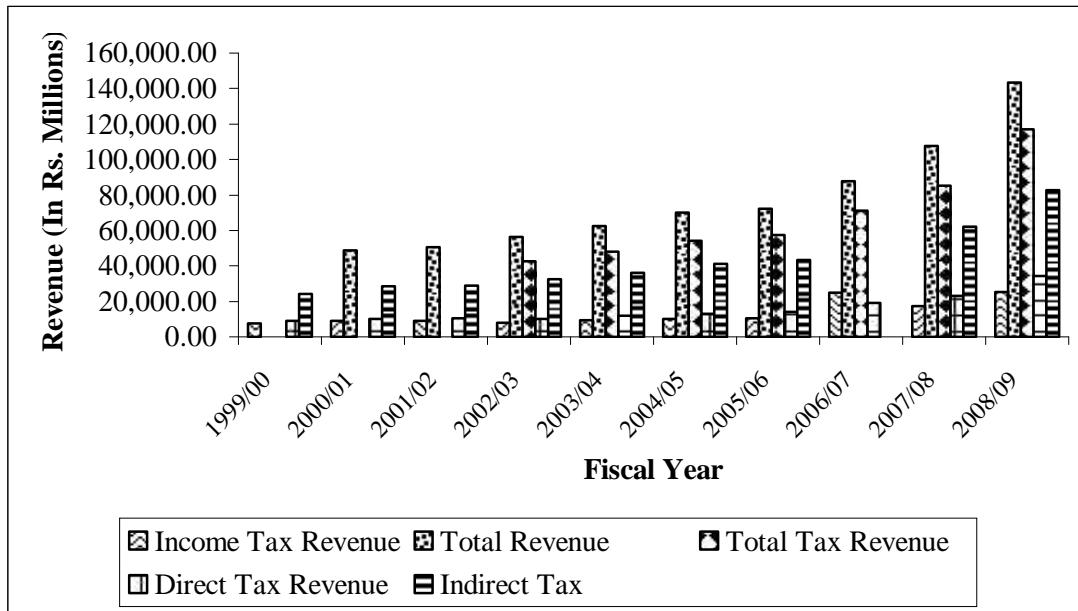
(in million)

F.Y.	Income Tax Revenue	Total Revenue	%	Total Tax Revenue	%	Direct Tax Revenue	%	Indirect Tax	%
1999/00	7,420.60	42,893.70	17.3	33,152.10	22.3	8,951.50	82.9	24,200.60	30.6
0			0		8		0		6
2000/01	9,114.00	48,893.90	18.6	38,865.10	23.4	10,159.4	89.7	28,705.70	31.7
1			4		5	0	1		5
2001/02	8,903.70	50,445.60	17.6	39,330.60	22.6	10,597.5	84.0	28,733.10	30.9
2			5		4	0	2		9
2002/03	7,966.20	56,229.70	14.1	42,487.00	18.7	10,105.8	78.8	32,481.20	24.5
3			7		1	0	3		3
2003/04	9,245.90	62,331.00	14.8	48,173.00	19.1	11,912.6	77.6	36,260.40	25.5
4			4		9	0	1		0
2004/05	10,159.4	70,122.70	16.0	54,104.70	20.8	13,071.8	77.7	41,032.90	24.7
5	0		8		3	0	2		6
2005/06	10,373.7	72,282.34	14.3	57,430.74	18.0	13,968.2	74.2	43,462.30	23.8
6	0		5		6	6	7		7
2006/07	25,034.0	87,712.20	17.0	71,126.70	21.1	18,990.8	79.16	52,135.8	28.8
7	0		4		4	3		7	4
2007/08	17,311.2	107,622.5	16.0	85,155.50	20.3	23,087.7	74.9	62,067.80	27.8
8	0	0	9		3	0	8		9
2008/09	25,142.4	143,474.5	17.5	117,051.9	21.4	34,320.7	73.2	82,731.20	30.3
9	0	0	2	0	8	0	6		9

Source: GON/MOF, *Economic Survey, FY 2009/10*.

Figure 4.5

Contribution Income Tax in Total Revenue, Total Tax Revenue, Direct Tax Revenue and Indirect Tax Revenue of Nepal



4.1.7 Contribution of Employment Tax in Nepal

Income tax from employment has contribution very much insignificantly in total revenue of Nepal. In 1999/00, total revenue of Rs.42893.70 millions was contributed by only of Rs.451.50 millions which is just about 1.05%. The contribution has been increasing in the trend. In 2008/09 Rs.3195.60 millions was contributed from employment tax to construct the total revenue of Rs.143474.50 millions. That was about 2.23% contribution.

Total tax revenue is also very insignificantly contributed by income from employment tax. In 1999/00, it contributed only about 1.36%. Total tax revenue was Rs.33152.10 millions and income tax from employment was only Rs.451.50 millions for that year. In 2008/009, total tax revenue was Rs.117051.90 millions; to contribute by about 2.73% income tax from employment was Rs.3195.60 millions.

In 1999/00, income tax from employment contributed only about 5.04% direct tax. It was Rs.451.50 millions in out of total direct tax revenue of Rs.8951.50 millions. The contribution has been increasing the trend. In 2008/009 total direct tax revenue of Rs.34320.70 millions included Rs.3195.60 millions as income tax from employment it was about 9.31%.

In general income from employment tax is assumed as a vital source to construct income tax revenue. But the condition is not as assumed here. The contribution of employment tax to income tax revenue has been so satisfactory. In 1999/00, total income tax revenue Rs.7420.60 millions, for this employment tax contributed constituted Rs.451.50 millions. It was about 6.08% of total income tax revenue. In 2008/009 total income tax revenue was Rs.25142.50 millions. Out of this Rs.3195.60 millions was contributed by income tax from employment. This was 12.71%.

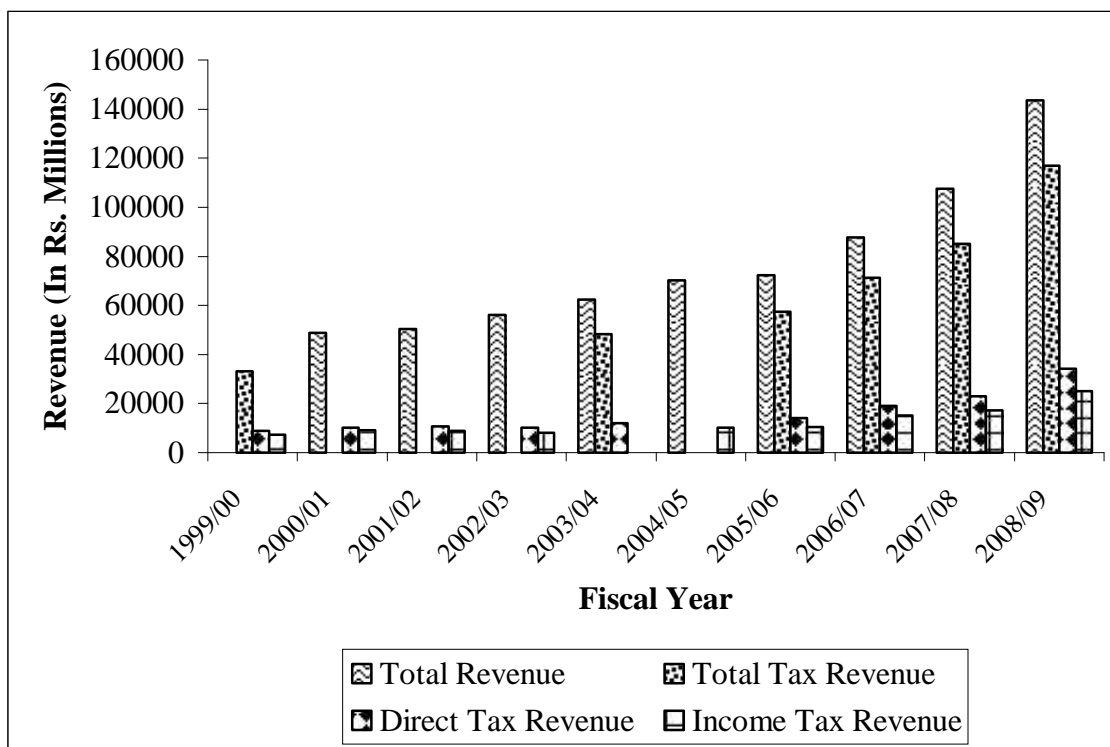
Table 4.8
Contribution of Employment Tax in Total Revenue, Total Tax Revenue
and Direct Tax Revenue and Income Tax Revenue of Nepal
(From Fiscal Year 1999/00 to 2008/009

(in million)

F.Y.	Employment	Total Revenue	%	Total Tax Revenue	%	Direct Tax Revenue	%	Income Tax Revenue	%
1999/00	451.50	42,893.70	1.05	33,152.10	1.36	8,951.50	5.04	7,420.60	6.08
2000/01	597.30	48,893.90	1.22	38,865.10	1.54	10,159.40	5.88	9,114.00	6.55
2001/02	835.60	50,445.60	1.66	39,330.60	2.12	10,597.50	7.88	8,903.70	9.38
2002/03	1,252.60	56,229.70	2.23	42,587.00	2.94	10,105.80	12.39	7,966.20	15.72
2003/04	1,391.20	62,331.00	2.23	48,173.00	2.89	11,912.60	11.68	9,245.90	15.05
2004/05	1,675.90	70,122.70	2.39	54,104.70	3.10	13,071.80	12.82	10,159.40	16.50
2005/06	1,764.13	72,282.34	2.44	57,430.74	3.07	13,968.26	12.63	10,373.70	14.01
2006/07	2,007.90	87,711.70	2.29	71,126.70	2.82	18,990.23	10.57	15,034.0	13.36
2007/08	2,451.00	107,622.50	2.28	85,155.50	2.88	23,087.76	10.62	17,311.20	14.16
2008/09	3,195.60	143,474.50	2.23	117,051.90	2.73	34,320.70	9.31	25,142.40	12.71

Source: GON/MOF, *Economic Survey, FY 2009/10*.

Figure 4.6
Contribution of Employment Tax in Total Revenue, Total Tax Revenue
and Direct Tax Revenue and Income Tax Revenue of Nepal



4.1.8 Exemption Limit Provided for Employment Tax and Contribution on Income Tax Revenue

There is provision of exemption limit while calculating employment tax. Here we can test the relationship between exemption limit with collection of employment tax. For this the question is "Facilities provided by income tax act and laws are significantly hinting to increasing effectiveness of employment taxation", This can be systematically stated as:

Table 4.9

Exemption Limit Provided for Employment Tax in Different Years and Its Contribution on Income Tax Revenue
(From Fiscal Year 1999/2000 to 2008/009)

F.Y.	Individual	Couple/ Family	Employment	Income Tax Revenue	Contribution of Employment Tax on Income Tax (%)

1999/00	40,000.00	50,000.00	451.50	7,420.60	6.08
2000/01	50,000.00	60,000.00	597.30	9,114.00	6.55
2001/02	65,000.00	75,000.00	835.60	8,903.70	9.38
2002/03	65,000.00	75,000.00	1,252.60	7,966.20	15.72
2003/04	80,000.00	85,000.00	1,391.20	9,245.90	15.05
2004/05	80,000.00	100,000.00	1,675.90	10,159.40	16.50
2005/06	100,000.00	125,00.00	1,764.13	10,373.70	17.01
2006/07	100,000.00	125,000.00	2,007.90	15,034.00	13.36
2007/08	115,000.00	140,000.00	2,451.00	17311.20	14.16
2008/09	160,000.00	200,000.00	3,195.60	25142.40	12.71

Source: 1. Dept. of Tax Kathmandu, *Statistical Abstract, 2008*.
2. MoF, *Budget Speech*.

Since the calculate value of r is positive of 0.4832 for single and 0.4543 for family/couple, (Appendix-II) so there is significant relation between facilities (in terms of exempt limit) and effectiveness (contribution of employment tax on total income tax revenue). It means increase in exemption limit increases the contribution of employment tax on income tax and vice-versa.

In this case there may vital effect of other thing then that of exemption limit. In common sense it looks odd to here that exemption limit and contribution have positive and significant relation, but in reality it may that, exemption limit is increased after when the income increased highly, so then this kind of relation become possible.

4.1.9 Major Findings from Secondary Data

The major findings of the study are pointed out as follows:

1. Total revenue of Nepal consists of tax revenue and non tax revenue. Tax revenue comprises of customs, excise, sales, tax, income tax, land revenue and registration and miscellaneous taxes. In Nepalese revenue

structure, tax revenues have always been greater than three times of non tax revenue. In 1999/00, out of total revenue of Rs.42893.70 Millions 77.29% i.e. Rs.33152.10 millions has been contributed by tax revenue. In 2008/09 81.58% i.e. Rs.117051.50 millions of the total revenue has been collected as tax revenue on total revenue of Rs.143474.50 millions.

2. Total tax revenue made of direct tax revenue and indirect tax revenue. In 1999/00 out of total tax revenue of Rs.33152.10 millions. Direct tax contributed Rs.8951.50 millions and Rs.24200.60 millions has been contributed by indirect tax revenue respectively. There was 27.00% share of direct tax and 73% indirect tax revenues. The contribution of total tax revenue from direct tax revenue was in increasing till 2001/002. It contributed 26.94% to construct total revenue of Rs.28,733.10 millions. After then it is slowly decreased and reached to 23.73% by contributing Rs.10,105.80 millions to built total tax revenue of Rs.42,587.00. And it has started to increase from year 2003/04 Rs.18990.80 millions and Rs.52135.87 millions are the contributions to total tax revenue from direct tax and indirect tax revenue respectively. Those deserve 26.70% and 73.30% of total tax revenue to direct tax and indirect tax revenue, indirect tax has vital contribution in the total tax structure of Nepal. And direct tax revenue is heavily dominated by indirect.
3. Income tax occupies the highest rank among various taxes in direct tax revenue in 1999/00, out of total direct tax revenue of Rs.8951.50 millions, Rs.7420.60 millions has been contributed by income tax revenue. In 2008/09 out of direct tax revenue of Rs.34320.70 millions, land revenue and registration occupies second place among direct tax revenues. In 1999/00, out of total direct tax revenue of Rs.8951.50 millions, Rs.2015.90 millions was contributed by land revenue and registration. In year 2008/09 total direct tax revenue was Rs.34320.70

millions and land revenue and registration amounted to Rs.5223.30 millions deserve 15.22%

4. Total income tax revenue seems to have an increasing trend up to FY 2000/01. Then in 2001/02 and 2002/03, it is in decreasing trend. In FY 1999/00 Rs.7420.60 million was raised from income tax revenue. In 2008/09 Rs.25142.40 million was raised as income tax revenue. It is highest in last year, i.e. Rs.25142.40 million in FY 2008/09. In 2001/02, a slight fall was observed in income tax revenue. It has fallen by Rs.210.3 millions i.e. 2.31% as of 2000/01. It also in FY 2002/03 by Rs.937.50 millions i.e. 10.53%
5. Total income tax revenue of Nepal is composed public enterprise, private corporate bodies, employment tax and Tax on interest. Among those private corporate bodies has contributing high in all the years and second position of public enterprises. In 1999/00 58.70% and 29.63% were contributed from those sectors respectively. Contribution of both sectors in income tax is fluctuating. In 2008/09 private corporate bodies provided 76.77% and public enterprises provided 3.81%. And contribution of employment tax was 6.08%. In FY 1999/00. It has been increased to 17.01% in 2005/06. Tax on interest contributed 5.58% in 1999/00. Employment tax and tax on interest contributions were 12.71% and 6.70% respectively in 2008/09.
6. Income tax revenue has very low contribution on total revenue. In 2008/09, it is highest of 17.52% and is lowest in 2003/04 by 14.17%. Its contribution on total revenue was in increasing trend up to 2000/01 and has started to decrease after then but it is growing by FY 2003/04. It has contribution of 22.38 in 1999/00, on total tax revenue. In total tax revenue also, contribution of income tax is vital on direct tax revenue; it

is always more than 77%. After then it is also on increasing trend up to 2000/01 and after then it has started to decrease slightly. In year 2003/04 its contribution to direct tax was 77.61%. After then it was fluctuating in different year. In 2008/09 it is 73.26%.

7. In total revenue of Nepal, income tax from employment has very much insignificant contribution. Total revenue was Rs.42893.70 million and income tax from employment was Rs.451.50 millions in 1999/00. It was about 1.05% contribution. The contribution has been increasing. It was 2.23% of total revenue of Rs.143474.50 in 2008/09 i.e. Rs.3195.60 millions.
8. Contribution of Employment tax in total tax revenue is also very insignificant. In 1999/00, total tax revenue was Rs.33152.10 million and income tax from employment was only Rs.451.50 millions. It contributed only about 1.36%. But this contribution is in increasing path. In 2008/09 total tax revenue was Rs.117051.90 million and income tax from employment was Rs.3295.60 millions. It was about 2.73% contribution.
9. Contribution of employment tax to direct tax is also low. In 1999/00, income tax from employment contributed only about 5.04% to direct tax. It was Rs 451.50 millions in out of total direct tax revenue of Rs.8951.50 millions. The contribution has been increasing trend. In 2008/09 total direct tax revenue of Rs.34320.70 millions included Rs.3195.60 millions as income tax from employment. It was about 9.31%
10. The contribution of employment tax on total income tax revenue also is not so satisfactory. In 1999/00, total income tax revenue Rs.7420.60 millions in which income tax from employment constituted Rs.453.50. It is about 6.08% In 2008/09, total income tax revenue was Rs.25142.40 millions. Out of this Rs.3195.60 millions was contributed but income tax

from employment, which is 12.71%. And in 2005/06 it has highest contribution 17.01%. For this, income tax from employment contributed Rs.1,764.13 million to construct total income tax revenue of Rs.10373.70.

11. There seem significant relation between facilities in terms of exemption limit and effectiveness (contribution of employment tax on total income tax revenue because exemption limits are used to be increased after sufficient increase income. Here it is clear that excess increase on income of employee have led to increase the exemption limits that's why there were existed that kind of positive relation on exemption limit and contribution of employment tax on total income tax.

4.2 Presentation and Analysis of Primary Data

Primary data were collected from opinion survey. Questions are consisting different aspect of revenue to employment tax were compiled and distributed to respondents and take some interview for same. For this questionnaire was developed and responses were collected from respondents. Respondents were classified into three groups, i.e. tax experts, tax administrators and employees. The responses received from various respondents have been arranged tabulated and analyzed in order to facilitate the descriptive analysis of the study.

The questionnaire was asked either for a yes/no response or asked for ranking of the choices according to the number of alternatives where the first priority was the most important and the least priority was the least important. The total points available to each choice were converted into percentage with references to the total point available for all choices. The choice with the highest percentage score was ranked as the most important choice and the one with the lowest percentage score was ranked as the last choice.

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

Table 4.10
Groups of Respondents

S.N.	Groups of respondents	Sample Size
1	Tax experts	25
2	Tax administrators	25
3	Employees	50
	Total	100

4.2.1 Income Tax as the Most Important Source of Collecting Government Revenue

I know the respondents opinion about the role of income tax in raising government revenue. The first question 'Do you think income tax is an important source of collecting government revenue ? was asked'. The responses received from the respondents are tabulated as follows:-

Table 4.11
Income Tax as Important Sources of Government Revenue

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax experts	24	96	1	4	25	100
Tax administrators	24	96	1	4	25	100
Employees	50	100	-	-	50	100
Total	98	98	2	2	100	100

Source: *Opinion Survey, 2011.*

From the above table, it is clear that 98 percent of the respondent approved income tax as an important source of collecting government. revenue and only 2 percent of the respondents does not recognize income tax as an important source of collecting government received. Thus, the conclusion can be drawn out that income tax is important source of collecting government revenue.

4.2.2 Opinion Towards Contribution of Employment Tax to Income Tax Revenue of Nepal

A second question asked to the respondent was 'In your opinion, is employment tax contributing significantly to the income tax revenue of Nepal ? The question was intended to know the respondents 'opinion' towards the role of employment tax in the income tax revenue. The responses have been tabulated below.

Table 4.12
Significant Contribution of Employment Tax to Income Tax Revenue of Nepal

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax experts	10	40	15	60	25	100
Tax administrators	10	40	15	60	25	100
Employees	15	30	35	70	50	100
Total	35	35	65	65	100	100

Source: *Opinion Survey, 2011.*

From the above table, it is the clear that about 65 percent of the respondent showed their dissatisfaction regarding the contribution of employment tax to income tax revenue of Nepal and about 35 percent of the respondent replied that employment tax's contribution in the income tax revenue was significant.

Hence, it can be concluded that the contribution of employment tax to the income tax revenue is not significant.

4.2.3 Opinions Regarding Proper Use of Employment Tax in Nepal

To know the opinion of respondent regarding proper use of employment tax, the question asked to the entire respondent was "Do you think that employment tax

is properly used in Nepal ?" The following table is presented to show their response regarding the question.

Table 4.13

Opinions Regarding Proper Use of Employment Tax in Nepal

Respondents and Response	Priority and Options	1		2		3		4	
		Nos.	%	Nos.	%	Nos.	%	%	%
Tax experts		Yes		7	28	No		18	12
No	Ineffective law and policies	3	15	4	20	12	60	2	10
	Lack of knowledge (Tax payer)	5	25	11	55	2	10	1	5
	Weak tax administration	10	50	3	15	4	20	1	5
	Others	0	0	0	0	0	0	14	70
Tax Administrators		Yes		15	60	No		10	40
No	Ineffective law and policies	7	58.33	3	25	0	-	0	0
	Lack of knowledge (Tax payer)	3	25	6	50	3	25	0	0
	Weak tax administration	0	-	1	8.33	4	33.33	0	0
	Others	0	-		-	3	25	0	0
Employees		Yes		16	32	No		34	68
No	Ineffective law and policies	3	7.14	24	57.14	6	14.29	1	2.38
	Lack of knowledge (Tax payer)	6	14.29	5	11.90	20	47.62	3	7.14
	Weak tax administration	25	59.52	4	9.52	4	9.52	4	9.52
	Others	0	-	0	-	4	9.52	26	61.90

Source: *Opinion Survey, 2011.*

While responding to above question, 28 percent of the tax expert stated employment tax was properly used 7 persons were to state that. And 18 persons didn't accept employment tax is properly used. They are 72 percent. Same as 15 persons of tax administration and 16 persons of employee agree. They are 60 percent and 32 percent respectively. 10 and 34 persons of tax administration and

employee did not agree the statement. They are 40 percent and 68 percent respectively.

For the query of the above question who did not agree the argument are 72 percent of 18 persons of tax experts. Tax experts had given the first priority to weak administration, same as second position was lack of knowledge and third position was ineffective law and policies.

Same as the tax administration who did not accept the argument are 40 percent or 10 persons of tax administrators. The tax administrator had given the first priority to ineffective law and policies, second position was lack of knowledge to taxpayer and third position was weak administration. The employee who did not agree the argument is 68 percent or 34 persons of employees. Employees had given the first priority to weak administration same as second position was ineffective law and policies and third position was lack of knowledge.

Here is also a hypothesis to be tested regarding the problem employments tax has not properly used in Nepal. In conclusion, "There is no significant difference in opinion of various responding groups regarding the proper use of employment tax in Nepal."

This can be systematically started as,

Null Hypothesis (H_0): There is no significant difference between in the opinion of tax Administrator, tax expert and employee regarding the proper use of employment Tax in Nepal.

Alternative Hypothesis (H_1): There is significant difference between in the opinion of tax administrator, tax expert and employee regarding the proper use of employment tax in Nepal.

The calculated value of χ^2 is 7. (Appendix-III) which is greater than the tabulated value, so alternative hypothesis is satisfied, and it is conclusion that;

there is significant difference in the opinion of tax administrator, tax expert and employees regarding the proper use of employment tax in Nepal.

4.2.4 Opinion Towards the Current Exemption Limit

To know whether the current exemption limit is adequate or not, the question asked was "Do you think that is the current exemption limit is adequate ? The responses received from the respondents are tabulated as below:

Table 4.14
Opinions Towards the Current Exemption Limit

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax experts	10	72	15	28	25	100
Tax administrators	9	36	16	64	25	100
Employees	23	46	27	54	50	100
Total	42	42	58	58	100	100

Source: *Opinion Survey, 2011.*

From the above table, it has been clear that about 58 percent of the respondents responded that the current, exemption limits provided to individuals and couples was unsatisfactory. About 42 percent of the respondents replied that current exemption limit was satisfactory. From the above responses. It can be concluded that the current exemption limit seems to be unsatisfactory.

4.2.5 Suggestion for the Exemption Limit

A supplementary question was asked. If not how much amount would you suggest for the exemption limit ? The opinion about the individual and couples are shown below separately. The opinion of respondents about individuals are presented in the following table.

Table 4.15
Suggestion for the Exemption Limit

Respondents	Range of Exemption Limit								
	Total	160000-200000		200000 - 240000		240000 - 280000		More than 280000	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
Tax experts	15	3	20	6	40	4	26.67	2	13.33
Tax administrators	20	5	25	7	35	5	25	3	15
Employees	40	8	20	12	30	15	37.50	5	12.50
Total	75	16	21.33	25	33.33	24	32.00	10	13.33

Source: *Opinion Survey, 2011.*

From the above table, about 20 percent of the tax experts suggested that exemption limit should be in the range between Rs.160000-200000, 40% suggested between, Rs.20000-240000, 26.67 percent suggested between 240000-280000 and 13.33 percent suggested more than 280000. Similarly, 25 percent tax administrator suggested that exemption limit should be in the range between Rs.160000 - 200000, 35 percent suggested between Rs.200000 - 240000, 25 percent suggested between 240000 - 280000, 20 percent of employees suggested that exemption limit should be in the range between Rs.160000 - 200000, 20 percent suggested between Rs.200000-240000, 37.50 percent suggested between Rs.240000-230000 and 12.50 of employees suggested more than 280,000.

In total 33.33 percent suggested that exemption limit should be in the range between 200000-240000. So that current exemption limit of individual should be in the range between 200000-240000.

Similarly, the opinions of respondents about "couples" are presented in the following table

Table No. 4.16
Suggestion for the Exemption Limit

Respondents	Range of Exemption Limit								
	Total	160000-200000		200000 - 240000		240000 - 280000		More than 280000	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
Tax experts	15	2	13.33	4	26.67	4	26.67	5	33.33
Tax administrators	20	3	15	4	20	6	30	7	35
Employees	40	5	12.50	9	22.50	12	30	14	35
Total	75	10	13.33	17	22.67	22	29.33	26	34.67

Source: *Opinion Survey, 2011.*

From the above table 13.3 percent of tax experts suggested that exemption limit should be in the range between Rs.200000-220000, 26.67 percent suggested between Rs.220000 - 240000, also 26.67 percent suggested between Rs.240000-260000, and 33.33 percent suggested were than Rs.260000. Similarly 15% of tax administrators suggested that exemption limit should be in the range of between Rs.200000-220000, 20 percent suggested between Rs.220000-240000, 30 percent suggested between Rs.24000-26000 and 35 percent suggested more than Rs.260000 and 12.5 percent of employees are suggested that exemption limit should be in the range between Rs.200000-220000, 22.50 percent suggested between Rs.220000-240000, 30 percent suggested between Rs.240000-260000 and 35 percent suggested more than Rs.260000. In total 34.67 percent suggested that the exemption limit should be more than Rs.260000. So we can be conclude that current exemption limit of couple should be more than Rs.260000.

4.2.6 Opinion Regarding Effectiveness of Employment Taxation

To know the view regarding employment taxation, question asked to the respondent was; in your opinion, is employment taxation effectiveness in Nepal ? Responses regarding this question are presented in the tabulated below:

Table 4.17
Opinion Regarding Effectiveness of Employment Tax

Respondents and Response	Priority and Options	1		2		3		4	
		Nos.	%	Nos.	%	Nos.	%	%	%
Tax experts		Yes		14	56	No		11	44
Yes	Effective Administration	4	28.57	3	21.43	6	42.86	1	7.14
	Clear Provision	7	50.00	2	14.29	5	35.71	0	-
	Long time practiced	3	21.43	8	57.14	1	7.14	2	14.29
	Others	0	-	1	7.14	2	14.29	1	7.14
No	Low Pay Scale	2	18.18	3	27.27	2	18.18	-	-
	Tax evasion/Ineffective administration	3	27.27	1	9.09	5	45.45	1	9.09
	Less no. of employee having tax liability	5	45.45	7	63.64	3	27.27	2	18.18
	Others	1	9.09	0	0	1	9.09	0	-
Tax Administrators		Yes		13	52	No		12	48
Yes	Effective Administration	4	30.77	5	38.46	3	23.08	1	7.69
	Clear Provision	5	38.46	4	30.77	2	15.38	0	-
	Long time practiced	3	23.08	4	30.77	6	46.15	0	-
	Others	1	7.69	0	-	2	15.38	2	15.38
No	Low Pay Scale	7	58.33	0	-	5	41.67	0	0
	Tax evasion/Ineffective administration	1	8.33	3	25.00	7	58.33	1	8.33
	Less no. of employee having tax liability	4	33.33	6	50.00	0	-	0	0
	Others	0	-	2	16.67	0	-	0	0
Employees		Yes		16	32	No		34	68
Yes	Effective Administration	5	31.25	4	25.00	6	37.50	1	6.25
	Clear Provision	3	18.75	7	43.75	3	18.75	-	-
	Long time practiced	6	37.50	5	31.25	7	43.75	1	6.25
	Others	2	12.50	1	6.25	-	-	-	-
No	Low Pay Scale	19	55.88	7	20.59	6	17.65	2	5.88
	Tax evasion/Ineffective administration	7	20.59	18	52.94	8	23.53	1	2.94
	Less no. of employee having tax liability	6	17.65	7	20.59	20	58.82	1	2.94
	Others	2	5.88	2	5.88	-	-	-	-

Source: *Opinion Survey, 2011.*

Responding to the above question 56 percent i.e. 14 tax experts said that employment tax is effective in Nepal and balances were opposed to it whereas 44 percent i.e. 11 persons. 13 tax administrators i.e. 52 percent gave positive answer and remaining persons gave the negative answer, i.e. 12 tax administrators said who were did not agree.

For responding to the above query tax experts who accept the employment tax as effective in Nepal. Effective administration was ranked as third priority, long time practiced was ranked as and clear provision was ranked as first priority by majority of 56 percent. And they, who didn't choose the option that employment tax is effective in Nepal, gave the first and second priority by 5 and 7 persons i.e. 50 percent as less no. of employee having tax liability. Third priority was given to ineffective administration by 5 persons i.e. 45.45 percent.

Tax administrators who choose it as satisfactory, gave third priority by 6 persons i.e. 46.15 percent as long time practiced gave the first priority to the option of clear provision and gave the second priority to the option of effective administration by 5 person i.e. 40 percent. Tax administrators, who didn't choose the option that employment tax is effective in Nepal, gave first priority by seven person i.e. 58 percent as low pay scale and 6 persons i.e. 50 percent choose less no. of employee having tax liability as second priority and gave the third priority to the option of tax evasion.

For responding to the above query employees who accept employment tax as effective in Nepal, clear provision was ranked second by 7 persons i.e. 43 percent. Long time practiced was ranked first rank by 6 person i.e. 38 percent and gave the third ranked to the option of long time practiced. And they, who didn't choose the option that employment tax is effective in Nepal, first priority was given by all the 19 person i.e. 55 percent as low pay scale, 18 persons i.e.

52 percent choose tax evasion as second ranked and less number of employees having tax liability respectively for third priority i.e. 20 persons and 58 percent.

4.2.7 Opinions Regarding Low Contribution of Employment Tax on Public Revenue

To know the reasons regarding low contribution of employment tax in Nepal, the question asked was, "There is low contribution of employment tax on public revenue in Nepal." Are you agreed ? If Yes, Please rank the measures to increase contribution/effectiveness from 1 to 4.

Table 4.18

Opinion Regarding Low Contribution of Employment Tax

Respondents and Response	Priority and Options	1		2		3		4	
		Nos.	%	Nos.	%	Nos.	%	%	%
Tax experts		Yes		13	52	No		12	48
Making TDS Effective		9	69.23	1	7.69	2	15.38	1	7.69
Increasing Tax net		3	23.08	6	46.15	1	7.69	1	7.69
Reduction in Exemption Limit		1	7.69	4	30.77	6	46.15	2	15.38
Reform Tax Law i.e. increase Rate		0	-	2	15.38	2	15.38	7	53.85
Others		0	-	1	9.09	2	18.18	2	18.18
Tax Administration		Yes		13	52	No		12	48
Making TDS Effective		7	53.85	0	-	4	30.77	1	7.69
Increasing Tax net		2	15.38	10	76.92	1	7.69	1	7.69
Reduction in Exemption Limit		2	15.38	2	15.38	6	46.15	1	7.69
Reform Tax Law i.e. increase Rate		2	15.38	1	7.69	2	15.38	8	61.54
Others		0	-	0	-	1	8.33	2	16.67
Employees		Yes		27	54	No		23	46
Making TDS Effective		19	70.37	1	3.70	2	7.80	1	4.35
Increasing Tax net		6	22.22	22	81.48	2	8.70	3	13.04
Reduction in Exemption Limit		1	3.70	3	11.11	15	65.22	4	17.639
Reform Tax Law i.e. increase Rate		0	-	1	3.70	6	26.09	18	78.26
Others		0	-	7	25.93	2	8.70	1	4.35

Source: *Opinion Survey, 2011.*

On the above question 13/13 tax expert and administrator and 27 employees were agreed out of 25/25 and 50. They are 52 percent and 54 percent respectively.

Out of 13 tax expert to agree on above statement, first priority to making TDS effective i.e. 69 percent and second priority to bringing new taxpayer to increasing tax net given by 6 i.e. 46 percent. Reduction in exemption limit ranked as third priority.

7 tax administrators i.e. 55 percent choose making TDS effective on first rank, 10 persons i.e. 77 percent gave the second priority to the option that state bringing new tax payer into tax net and reduction of exemption limit option was selected for third rank by 6 persons i.e. 46 percent.

Agreeing the above statement, 19 employees i.e. 70 percent ranked first to making TDS effective option on the first priority, 22 persons i.e. 82 percent choose bringing new taxpayer into tax net option on the second priority and third ranked was given by 15 persons i.e. 56 percent to the option tax law reform.

4.2.8 Opinions Regarding Deduction of Expenses While Calculating Employment Tax

Now a day there is no provision of deduction of expenses while calculating employment tax, from the question, ITA 2058 has not made any provision for deduction of expenses while computing employment income tax. Is it suitable ? If no, please, rank what kinds of deduction should be provide; it was tried to know the response toward current provision and what kind of expenses should be deducted while calculating employment income tax. Response on the same is as presented as below.

Table 4.19**Opinion Regarding Deduction of Expenses While Calculating Tax**

Respondents and Response	Priority and Options	1		2		3		4	
		Nos.	%	Nos.	%	Nos.	%	%	%
Tax experts		Yes		10	40	No		15	60
Medical Expenses of Employee		8	53.33	2	13.33	1	6.67	1	6.67
Education Expenses		5	33.33	10	66.67	2	13.33	2	13.33
House Rent		2	13.33	2	13.33	9	60.00	2	13.33
Transportation Expenses		1	6.67	2	13.33	2	13.33	6	40.00
Others		0	-	1	6.67	1	6.67	4	26.67
Tax Administration		Yes		15	60	No		10	40
Medical Expenses of Employee		6	60.00	1	10.00	0	-	1	10.00
Education Expenses		2	20.00	7	70.00	1	10.00	0	-
House Rent		1	10.00	1	10.00	6	60.00	1	10.00
Transportation Expenses		1	10.00	1	10.00	2	20.00	6	60.00
Others		0	-	0	-	1	10.00	2	20.00
Employees		Yes		20	40	No		30	60
Medical Expenses of Employee		19	63.33	4	13.33	3	10.00	4	13.33
Education Expenses		5	16.67	20	66.67	4	13.33	1	3.33
House Rent		3	10.00	3	10.00	18	60.00	6	20.00
Transportation Expenses		2	6.67	2	6.67	3	10.00	15	50.00
Others		1	3.33	1	3.33	2	6.67	4	13.33

Source: *Opinion Survey, 2011.*

The responses of 10 tax experts; i.e. 40 percent, 15 tax administrator .e. 60 percent and 20 employee i.e. 40 percent have chosen the existing provision as suitable and remaining person were in contrast of current condition and have ranked the opinion is provided.

8 tax experts i.e. 32 percent ranked the first priority to the option medical expenses of employee should be deducted, 10 persons i.e. 40 percent ranked the second priority the option education expenses and 9 persons i.e. 60 percent ranked on third palace the option house rent expenses. 6 persons i.e. 40 percent choose transportation expenses on fourth priority.

60 percent tax administrators i.e. 15 persons choose the existing provision as suitable out of 15 person. 6 persons i.e. 60 percent gave the first rank to medical expenses of employees, 7 person i.e. 70 percent has given for ranking education expenses for second priority. For other also 6/6 persons i.e. 60 percent ranked as the 3rd and 4th priority.

Among the employees not agree the existing provision, 19 persons i.e. 64 percent ranked the medical expenses of employee for first priority, 20 person ranked the education expenses for 2nd priority. 18 persons i.e. 60 percent ranked the house rent for third priority and same has ranked transportation expenses for 4th position and 6 person i.e. 20 percent gave first priority to other option.

4.2.9 Opinions Regarding Tax Exempt Sector on Employment

There is a provision of counting the various incomes while calculating employment tax. For such a provision, it was try to know the view that what such income should be made tax exempt while calculating employment tax. Asked question for this was, in your opinion what types of income heads included in employment tax should be made tax exempt ? Please rank the option below. Response on this question is as follows:

Table 4.20
Opinion Regarding Tax Exempt Sector on Employment

Respondents and Response	Priority and Options	1		2		3		4	
		Nos.	%	Nos.	%	Nos.	%	%	%
Tax experts		Yes		25	100	No		0	
Medical Expenses Provided to the Employee		14	56.00	3	12	5	20	3	12
Pension Income		5	20.00	16	64	4	16	0	-
Dashain Allowance		3	12.00	4	16	12	48	6	24
Remote Area Allowance		2	8.00	1	4	3	12	14	56
Others		1	4.00	1	4	1	4	2	8
Tax Administration		Yes		25	100	No			
Medical Expenses Provided to the Employee		16	64	3	12	3	12		12
Pension Income		3	12	18	72	4	16	0	-
Dashain Allowance		3	12	2	8	14	56	6	24
Remote Area Allowance		2	8	1	4	3	12	15	60
Others		1	4	1	4	1	4	1	4
Employees		Yes		50	100	No			
Medical Expenses Provided to the Employee		27	54	10	20	6	12	7	14
Pension Income		9	18	24	48	8	16	8	16
Dashain Allowance		7	14	8	16	32	64	3	6
Remote Area Allowance		5	10	5	10	3	6	27	54
Others		2	4	3	6	1	2	5	10

Source: *Opinion Survey, 2011.*

For this 14 tax experts i.e. 56 percent gave the first priority to medical expenses provided by employee. Pension income was ranked for second priority by 16

persons i.e. 64 percent Dashain allowance for third and remote area allowance for the fourth priority respectively.

16 tax administrator choose medical expenses provided to employee which is 64 percent, 9 person i.e. 36 percent choose the pension income for fifth priority, 10 persons i.e. 40 percent has chosen for both second and third rank of Dashain allowance and remote area allowance for second priority, 8 person i.e. 32 percent choose leave pay for fifth rank.

For response of 30 employee i.e. 60 percent give the first priority to medical expenses provided to employees, pension income was ranked for third priority by 25 persons i.e. 50 percent, 27 persons i.e. 54 percent gave fourth priority to the option Dashain allowance, remote area allowance has chosen. For leave pay 15 employee i.e. 30 percent the forth priority.

4.2.10 Opinion Regarding Problems Faced by Tax Payer

To know whether employees are facing problems in payment employment tax, it question asked: "Do you think there are problem being faced by employee regarding payment of employment tax ?" If yes, please rank the courses, if no please rank the measures to improve the condition. Responses received regarding this is as presented below.

Table 4.21
Opinion Regarding Problems Faced by Tax Payers

Respondents and Response	Priority and Options	1		2		3		4	
		Nos.	%	Nos.	%	Nos.	%	%	%
Tax experts		Yes		16	64	No		9	36
Yes	Hesitation to Pay because of low income	8	50.00	3	18.75	4	25.00	1	6.25
	Administration Problems	5	31.25	7	43.75	4	25.00	0	-
	Lack of knowledge	2	12.50	5	31.25	8	50.00	2	12.50
	Others	1	6.25	1	6.25	0	-	13	81.25
No	Awareness Tax-Payer	4	44.44	1	11.11	2	22.22	1	11.11
	Penalties/Fines	3	33.33	5	55.56	2	22.22	1	11.11
	Incentives	2	22.22	2	22.22	4	44.44	1	11.11
	Others	0	-	1	11.11	1	11.11	6	66.67
Tax Administrators		Yes		13	52	No		12	48
Yes	Hesitation to Pay because of low income	7	53.85	3	23.08	3	23.08	1	7.69
	Administration Problems	3	23.08	5	38.46	2	15.38	3	23.08
	Lack of knowledge	2	15.38	4	30.77	6	46.15	1	7.69
	Others	1	7.69	1	7.69	2	15.38	7	53.85
No	Awareness Tax-Payer	7	58.33	2	16.67	3	25.00	1	8.33
	Penalties/Fines	4	33.33	6	50.00	2	16.67	1	8.33
	Incentives	1	8.33	3	25.00	5	41.67	3	25
	Others	0	-	1	8.33	2	16.67	7	58.33
Employees		Yes		24	48	No		26	52
Yes	Hesitation to Pay because of low income	12	50.00	4	16.67	3	12.50	1	4.17
	Administration Problems	8	33.33	14	58.33	2	8.33	2	8.33
	Lack of knowledge	3	12.50	5	20.83	15	62.50	1	4.17
	Others	1	4.17	1	4.17	4	16.67	16	66.67
No	Awareness Tax-Payer	19	73.08	4	15.38	3	11.54	2	7.69
	Penalties/Fines	4	15.38	13	50.00	5	19.23	1	3.85
	Incentives	3	11.54	5	19.23	15	57.69	1	3.85
	Others	0	-	2	7.69	1	3.85	18	69.23

Source: *Opinion Survey, 2011.*

The above table 16 tax experts i.e. 64 percent, 13 tax administrators i.e. 52 percent, and 24 employees i.e. 48 percent through that there are problem regarding payment of employment tax and rest are did not.

Tax experts choosing Yes, gave first priority to the opinion of hesitation to pay because of low income by 8 persons i.e. 50 percent, 7 persons, i.e. 44 percent gave second rank to the administrative problem option. Among them, 4 persons i.e. 44 percent has chosen awareness tax payer option to improve the condition for both second and third priority. Penalties, fines option is ranked second by 5 persons i.e. 55 percent, and incentive option is given first priority by 11 persons which are 95 percent.

7 tax administrators i.e. 54 percent choose hesitation to pay because of low income option was ranked first. 6 persons i.e. 46 percent choose administrative problems for third rank, 6 persons i.e. 52 percent choose lack of knowledge option for second priority. Among them, awareness tax payer was third ranked and penalties/fines option second by 12 persons i.e. 76 percent and incentives option for first rank by 11 persons i.e. 70 percent.

Here is also a hypothesis to be tested regarding the problem faced by employee while paying employment tax which is; "There is no significant difference in opinion of various responding groups regarding the existence of problems on employment taxation in Nepal." This can be systematically stated as,

- J Null Hypothesis (H_0): There is no significant difference in opinion of tax administrator, tax expert and employee regarding the existence of problems on employment taxation in Nepal..
- J Alternative Hypothesis (H_1): There is significant difference in opinion of Tax administrator, tax expert and employee regarding the existence of problems on employment taxation in Nepal. The calculated value of χ^2 is 1.7628 (Appendix-IV), which is lower than the tabulated value, so null hypothesis is satisfied, and it is conclusion that; there is no significant difference in opinion of tax administrator, tax expert and employee regarding the existence of problems on employment taxation in Nepal.

4.2.11 Suggestions Regarding Employment Tax in Nepal

There was an option in questionnaire that; have you any suggestion regarding to increase effectiveness of employment taxation ? Please specify if any. Only few respondent respond from all groups regarding this question.

Tax experts suggested; inspect double employment to bring new tax payer in to tax net, awareness employees, providing facilities by government to tax payers, reduce the rate, encourage to pay tax.

Increase penalties for tax defaulters, effective monitoring, simplified administration and making more progressive are the suggestions provided by administrator to improve the effectiveness of employment tax in Nepal.

4.2.12 Major Findings from Primary Data

1. Employment tax is not proper used in Nepal. It is discrimination in different sector. The majority of employee said that employment tax did not used proper they added that the TDS system is one of the most source that support the tax collection. In Nepal most of private sectors are tax evasion they mostly don't show the actual salary of employee by increasing the extra name as employee which is not engaged in the organization. Other the sector where staff pay more as different heads such as daily allowance, commission, reimbursement of expenses, traveling allowance are not included in his salary the company are adjusted it in his expenses. The main reason of tax evasion is lack of knowledge on tax payer same as the weak policies, tax administration, and corruption is the reason of not proper use of employment tax in Nepal.

2. Employment tax is a suitable means of collecting government revenue. Because; as compared to other taxes, there is less chance of tax evasion, it is transparent and it is based on progressive tax.
3. Current exemption limit is not sufficient and it must be increased. Family should be provided higher exemption limit in comparison to individuals.
4. Question no. 3 and 4 of opinion survey looks like a little bit conflicting, but these are not conflicting at all. The questions tend to know application and effectiveness of employment in Nepal and later question tends to know the answer that is spite of being satisfactory, why its contribution is low ? Making TDS effective, Bringing new taxpayer into tax net and reform in law were the measure to increase the contribution of employment chosen by the most respondents.
5. It is clear that the main factor that should be initiated to increase the contribution of employment tax in Nepal is making tax deduction at source (TDS) effective. The other factors to be initiated to increased the contribution of employment tax in Nepal are; bringing new tax payer into tax net, reform in income tax policy, rules and regulation and provide various facilities to tax payer, employees and increasing pay scale of employees.
6. The provision for deduction of expenses is required while calculating employment tax.
7. Income tax evasion is being practiced with hiding the situation of double employment condition
8. Medical expenses paid by the employer, pension income, remote area allowance and Dashain allowance etc should be made tax exempt income.

9. There is no significant difference in opinion of tax expert, tax administrators and employees regarding the vital contribution of employment tax in Nepal.
10. There is no significant difference in opinion of Tax Expert, Tax Administrator and Employee regarding the existence of problems on employment taxation in Nepal.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary and conclusion regarding this study have been presented in this chapter. Some useful recommendation have been given in this last chapter, which are very much useful to the tax policy makers, industrials, and general public too.

Nepal is one of least developed countries in the world lying as sandwiched between the to big countries; China and India. Poverty is widespread. It has per capita income around \$ 400 and has always suffering from the socio-political and economic problems. It is hard time raising sufficient revenue and as consistently incurred budgetary deficit. Because of poor performance of internal resource collection and mobilization, the dependency in foreign loans and grants is always there. The economic condition of nation is very poor followed by estimated growth in fiscal year 2008/09. The economy is not investment friendly and the process and activities regarding the creation of this are almost failed, because of the various problems associated with this private sector is not being able to show confident to cope with the existing economic and political environment.

5.1 Summary

This study entitled "Application and Effectiveness of Employment Tax in Nepal with Reference to Income Tax System" is concerned to study, and analysis of various aspects of Employment Tax in Nepal. In this study, contribution of Employment tax to many kinds of government revenues has been analyzed. To analyze the application and effectiveness of different components of public revenues are compared with employment tax income. In this study, application

and effectiveness of employment tax studied and analyzed with role of income tax's component.

This study is mainly divided into 5 chapters. In first chapter, it consists of brief introduction of the study. It is like general summary, it shows the plans of study up to some extent. In short first chapter is to prove the need of this study to conduct the study and for preparing this research report, various books articles, dissertations and publications have been studied; thesis are consulted; magazines; news papers are other reference sources of information's.

In second chapter of this study; conceptual framework and literature review in combination of all that kinds of information. In this chapter various concepts of taxation have been discussed in this study. Sources of public revenue, meaning of tax, classification of taxes, objectives of taxation, various basic terms of taxation, historical background of income tax, heads of incomes and concepts of employment tax, method of computing employment tax, have been discussed in conceptual framework of this study.

In chapter three entitled research methodology has discussed about various aspects of research methodology as research design used for this study, data collection procedure, population and sample nature and sources of data selection of the respondents procedure of analysis of data etc. are included in this study.

In chapter four has presented as well as secondary data are used. Economic survey has basically served as the major secondary data. The secondary data analysis has been done by presenting the relevant data into table. Comparative analysis for 10 years has been done in this data analysis and presentation. On the other hand, opinion survey has been used to collect primary data have been collected viz. tax experts, tax administrators and employees. Tax experts are selected from lecturers of T.U., auditors, chartered accountants, executive from Nepal Rastra Bank, Lawyer and intellectual having well knowledge of income

tax. Tax administrators are selected from tax department, various IRD offices within Kathmandu valley. Employees are selected from different manufacturing company. Trading companies, various industries, banks, finance companies, government offices and other private organizations various opinions of tax experts, tax administrators and employees obtained from opinion survey have been tabulated and analyzed to achieve desire and result. The major findings of the primary and secondary data analysis are stated in the end of related sub-chapters.

The last but not least chapter named Summary, Conclusions and Recommendations have three different sub-headings and presented under respective heads. Conclusions of the study are given in the last chapter. Summary is as brief of study, conclusion consists of gist of study and recommendations have offered for to increase application and effectiveness of Employment Tax in Nepal.

As the end, this study has tried to present clear picture of employment tax with respective analysis and assessment. I hope that the study has been completed with the successful achievement of the stated objectives.

5.2 Conclusion

From the analysis of objectives, the final conclusions of the study are as follows:

From the analysis of the first objective, tax expert as well as employees are against to proper use of employment tax but the tax administrator are favor of proper use of employment tax. In Nepal, most of private sector are tax evasion, the main reason of tax evasion is lack of knowledge on tax payers, same as the weak policies, tax administration and corruption is the reason of not proper use of employment tax in Nepal.

Similarly, in second objective, there are many problems and weakness i.e. the reason of weak administration, complexity is income tax policy, rules and regulation, no action for promotion of need of tax it is contributing, hesitation to pay because of low income, lack of knowledge etc. So, it is high burden of tax on low level of income earners.

Making Tax Deduction at Source (TDS) effective is the main factor that should be initiated to increase the effectiveness of employment tax in Nepal. The other factor i.e. reforms in the income tax policy, rules and regulation, inspect double employment and mechanism for effects the monitoring to increase the effectiveness of employment tax in Nepal.

On the basis of third objective, the major facilities provided by ITA 2058 are insufficient. There are no provision of deduction of expenses while calculating employment tax. The main item for deduction to be provided while calculating the employment tax is medical expenses incurred for the health treatment of the employee. The other item of deduction suggested by respondents are transportation expenses, educational expenses, leave pay etc. Likewise current exemption limit should be increased and medical expenses provided by employer, pension income, Dashain allowance, remote area allowance etc. should be tax exempted.

The analysis and presentation of other objectives of this study, income tax from employment has very much insignificant contribution in total revenue of Nepal. In year 2008/09, income tax from employment is Rs.3195.60 it is about 2.23% of total revenue. So the contribution of employment tax has not been found effective and satisfactory due to low pay scale of the employees, ineffectiveness in the implementation of the act etc.

For the improvement of application and effectiveness of employment tax, some possible measures have been found on the basis of this study which can be

given as, effective administration, clear provision, long time practiced, reforms of rules and regulation of income tax, taxation knowledge to the tax payers, behavior of tax administrators should be improved and they should have the feeling of contribution towards the state.

At last, all the respondents i.e. tax expert, tax administrators and employees have recognized income tax as an important source of collecting government revenue.

5.3 Recommendations

On the basis of above analysis, the following recommendations are offered regarding taxation of employment income.

1. Income tax laws must be strictly used.
2. Total tax revenue consists of direct tax revenue and indirect tax revenue. But there is high portion of indirect tax revenue as compared to direct tax revenue. So to direct the economy in the path of development, it is necessary to increase the share of direct tax revenue. Because of direct tax plays more significant role in the economic development of the country than indirect tax. Resource mobilization through direct taxation should be focused.
3. Mainly tax administrators should be motivated to do some things for the nation. They should strictly implement the rule and regulations. They shouldn't take of monitoring is only for formality.
4. Out of total tax revenue, the contribution of income tax revenue is very low. So, to increase the contribution of income tax in public revenue, the focus should be given in the various tax incentives programs with the help of tax planning.

5. To generate more contribution from income tax from employment the slabs, should be adjusted in such a way that high earners should be made to pay higher income tax i.e. it should be made more progressive what is now. Because income tax from employment has very much insignificant contribution in total revenue of Nepal. So, it should be increased. The contribution of employment tax is income tax revenue has been increasing in the recent years as compared to previous years.
6. To increase the proper use of employment tax, empower the tax administration, effective application of law and policies and awareness the employees about the tax.
7. Income tax act should be made effective in the implementation aspect. It should be made specific for all the specific provisions. ITA 2058 is very vague in nature in various aspects of provision of income tax. Act should be made furthermore clear, so that it may be easy to implement. Knowledge of taxation should be made widespread, awareness should increase.
8. There is no provision for deduction of income while calculating income tax from employment in tax act 2002 (2058). These kinds of provision should change and it is necessary to allow deduction certain expenses while calculating income tax from employment as previous ITA 2031. Some of expenses to be allowed for deduction are; Medical expenses, expenses incurred to newspaper and magazines, transportation expenses, house rent paid by the employees, education expenses etc .
9. Certain incomes should be made tax exempt. For this medical expenses paid by employer, Dashain allowance, contribution to provident fund by the employer, remote area allowance, life insurance premium paid by employer, leave encasement, etc. should be freed from tax, it will be a relief for employees from heavy income tax burden.

10. The collection and tax assessment provision should be made clear and simple so those tax payers would be encouraged to pay income tax.
11. Problem that the employees faced while paying employment tax. So, the problems faced by employees should be minimized. Tax administrators should be made more responsible, procedural simplification should be made, tax clearance certificate to be provided, taxation knowledge in the employee should be provided, refund of tax should be made with only delay, unclear and cumbersome provisions of the tax act and rules should be simplified and made understandable and employee should be made such that they do not feel mentally pinched by paying income tax by giving them a sense of contributing to the nation.
12. Effective implementation of the provisions of fines, penalties and punishment should be made for income tax defaulter.
13. Policy should make with the cooperation with implementing body by policy maker, and then only effective implementation is possible. There are lack of such coordination between related agencies in Nepalese tax administration.
14. The most important thing to make every thing growing and developed, economic development of economy of country should be repaid. It implies in employment taxation also, so it is necessary to enhance economic activities that ultimately increase contribution in government revenue as tax.

BIBLIOGRAPHY

BOOKS

- Adhikari, Chandra Mani (2003). *Nepalko Aadhunik Kar Parnali*. Kathmandu: Pairavi Prakashan.
- Agrawal, G.R. (1978). *Resources Mobilization for Development: The Reform of Income Tax in Nepal*. Kathmandu: CEDA.
- Agrawal, Jagadish (2004). *Income Tax Theory and Practice*. Kathmandu: Shangrila Printing Services.
- Amatya, Surendra Keshar, Pokharel, Bihari Binod, Dahal Dewanta Kumar (2004). *Taxation in Nepal*. Kathmandu: M.K. Publisher and Distributors.
- Bhattarai, Ishwor and Koirala, G.P. (2004). *Tax Law and Tax Planning*. Kathmandu: Dhaulagiri Books and Stationaries.
- Dhakal, Kamal Deep (2002). *Aayakar Tatha Ghar-Jagga Sambandhi Kar ra Lekha*. Kathmandu: Kamal Prakashan.
- K.C, Jit Bahadur (2007). *Tax Law and Tax Planning: Theory and Practice*. Kathmandu: Khanal Books Prakaxshan.
- Kothari, C.R (1984). *Quantitative Techniques*. New Delhi: Vikash Publishing House.
- Kandel, Puspa Raj (2004a). *Nepal ko Bartaman Kar Byabastha*. Kathmandu: Buddha Academic Enterprises.
- _____ (2004b). *Tax Law and Tax Planning*. Kathmandu: Buddha Academic Enterprises.

Khadka, Rup Bahadur (1994). *Income Tax in Nepal: Restrospect and Prospects*.
Kathmandu: Ratna Pustak Bhandar.

Lal B.B. (1997a). *Direct Taxes*. New Delhi: Konark Publishers Pvt. Ltd.

_____ (1997b). *Income Tax, Law and Practice*. New Delhi: Konark
Publishers Pvt. Ltd.

Mallik, Vidhya Dhar (2003). *Nepal Ko Aadhunik Kar Pranali*. Kathmandu:
Anita Millak.

Ojha, Pawan Kumar (2050). *Taxation Law*. Kathmandu: Pairavi Prakashan.

Poudyal, Santosh Raj (2050). *Income Tax Law and Practice*. Kathmanmdu:
Aathari Enterprises.

Wolf, Howard K. and Pant P.R. (2000). *A Handbook for Social Science
Research and Thesis Writing*. Kathmandu: Buddha Academic Publishes
and Distributors.

World Bank (2007). *Human Development Report*. Kathmandu.

ACTS, RULES AND ORDINANCE

Ministry of Finance, *Budget Speech*. 2066/67.

Ministry of Finance, *Financial Ordinance*. 2066/067.

Ministry of Finance (2008/09). *Economic Survey*.

Inland Revenue Department (2066). *Income Tax Act 2058 with Amendment
2066*.

Inland Revenue Department (2066). *Income Tax Rules 2059 with Amendment
2066*.

Ministry of Finance Law, Justice and Parliamentary Affairs. (2031). *Income Tax Act 2031*.

Ministry of Finance Law, Justice and Parliamentary Affairs. (2039). *Income Tax Act 2039*.

Ministry of Finance Law, Justice and Parliamentary Affairs. (2017). *Business Profit and Remuneration Act 2017*.

DISSERTATIONS

Acharya, Shrijana(1994). *Income Tax in Nepal: A Study of Its Structure and Contribution Problems*. Masters Thesis, Central Department of Management, Tribhuwan University

Baral, Shanti (1989). *Contribution of Income Tax to Public Revenue in Nepal*. Masters Thesis, Central department of Management, Tribhuwan University

Bhandari, Hari Bahadur(1994). *Contribution of Income Tax to Economic Development of Nepal*. Masters Thesis, Central department of Management, Tribhuwan University

Bhattarai, Raj Kumar (1997). *Effectiveness of Corporate Income Tax in Nepal*, Masters Thesis, Central Department of Management, Tribhuwan University.

Kayastha, Narendra Lal(1974). *Taxation of Property in Nepal*. Masters Thesis, Central department of Management, Tribhuwan University

Kharel, Shrikrishna (1996). *Self Assessment under Income Tax in Nepal*, Masters Thesis, Central department of Management, Tribhuwan University

- Koirala, G.P.(2004). *Contribution of Employment Income to Income Tax Revenue of Nepal*, Masters Thesis, Central department of Management, Tribhuwan University
- Lamsal, Bharat Kumar (2002). *A Study on Contribution of Employment Tax on Government Revenue*. Masters Thesis, Central Department of Management, Tribhuwan University.
- Lamsal, Jhalak Mani (2005). *Effectiveness of Employment Tax in Nepal*. Masters Thesis, Central Department of Management, Tribhuwan University.
- Pandey, Youb Raj (2005). *Corporate Tax Planning in Nepal*, Masters Thesis, Central Department of Management, Tribhuwan University.
- Palli, Mager, Dhan Bahadur (2003). *Income Tax in Nepal: A Study of Exemption And Deduction*, Masters Thesis, Central department of Management, Tribhuwan University.
- Panta, Parameshwor.(199G). *A Study on Income Tax Management In Nepal*, Masters Thesis, Central department of Management, Tribhuwan university.
- Paudel, Balananda.(1995). *A Study on Nepalese Tax Structure*. Masters Thesis, Central department of Management, Tribhuwan University.
- Regmi, Shambhunath. (1986). *A Role of income Tax in Nepal*, Masters Thesis, Central department of Management, Tribliuwan University.
- Regmi Saroj. (2006). *Effectiveness on Remuneration Tax in Nepal*, Masters Thesis, Central department of Management, Tribhuwan University.

Shakya, Krishna Kumar (1995). *Income Tax in Tax Structure of Nepal*, Masters Thesis, Central department of Management, Tribhuwan University.

Shrestha Binita. (2001). *Revenue Collection from Income Tax in Nepal*, Masters Thesis, Central department of Management, Tribhuwan University.

Shrestha, Padam Bahadur (2009). *Tax Planning Scope Under Income Tax Act 2058*. Master Thesis, Central Department of Management, T.U.

Shrestha Roshan. (1985). *Income Tax in Nepal: A Study of its Structure and Productivity*. Masters Thesis, Central department of Management, Tribhuwan University.

Singh, Rojini. (1981). *Income Tax System in Nepal* Masters Thesis, Central department of Management, Tribhuwan University.

Timilshina, Satyananda (2001). *Personal Income Taxation in Nepal: A Study of Exemption and Deduction*, Masters Thesis, Central department of Management, TribhuNvaa University.

RELATED ARTICLES

Duwadi, Ram Mani (2005). "Income Tax System in Nepal And Its Implication." *Rajashaw*. Vol.2 No. 22, Kathmandu: Revenue Administration Training Center.

Kandel, Puspa Raj (2001). "Occasional paper. Corporate Tax in Nepal, Effective Burden." *Economic Review* (1975-2000). Vol.4, No. 42, Kathmandu: Research Department, NRB.

_____ (2003). "Tax Incentive System in Nepal." *Rajashaw*. Vol. 1, No. 52, Kathmandu: Revenue Administration Training Center.

Kayastha, Narendra Lal (1993). "Problem And Prospectus of Resources Mobilization Through Direct Tax in Nepal." *Rajashaw*; Vol.3 No. 33, Kathmandu: Revenue Administration Training Center, Kathmandu

HYPertext DOCUMENT S AND WORLD WIDE

Arthik Ain, <http://www.mof.gov.np/publication/adhyadesh>.

Financial Statements,, <http://www.fcgo.gov.np/document/pdf>

Income Tax Act and Rules, http://www.ird.gov.np/income_tax_act_2058 updates 2066.

Lekha Parikshna, http://www.oag.gov.np/publication_journal_2005.

Nepal Accounting Standards, <http://www.standards.org.np/nass>

Appendix - I

QUESTIONNAIRE

Dear Sir/Madam

I'm a student of University Campus, T.U., studying in the final year of Master of Business Studies (MBS). As you have known that the student of this level have to write a thesis on the Subject of their specialization. Being a student of Accountancy stream, I have decided to present my thesis on Taxation. **"APPLICATION AND EFFECTIVENESS OF EMPLOYMENT TAX WITH REFERENCE TO INCOME TAX SYSTEM IN NEPAL"** is my topic approved by the University.

I request you to fill up the enclosed questionnaire which is a great importance to my study. I will be indebted if you kindly respond me back in spite of your busy and valuable time schedule. I assure you Sir/Madam that your response will be kept confidential and it is only for the thesis purpose. I am waiting forward to your kind help, coordination and support for the study.

Thanking You,

Sincerely Yours,

.....

Dilip Kumar Thapa
University Campus T.U.
Kirtipur, Kathmandu

<input type="checkbox"/> Effective administration ()	<input type="checkbox"/> Lower pay scale ()
<input type="checkbox"/> Clear provision ()	<input type="checkbox"/> Tax Evasion ()
<input type="checkbox"/> Long time practiced ()	<input type="checkbox"/> Less employee having tax liability ()
<input type="checkbox"/> Other : please specify, if any ()	<input type="checkbox"/> Others: please specify, if any..... ()

6. "There is low contribution of employment tax on public revenue in Nepal". Are you agreeing ?

Yes () No ()

If yes, please rank the measures to increase contribution effectiveness from 1 to 4

If yes, please rank the causes from 1 to 4

- Making tax deduction at sources (TDS) effective ()
- Bringing new tax payer into tax net i.e. reduction in exemption limit ()
- Reform law i.e. increase tax rates ()
- Others, if any.....

7. Income Tax Act 2058 has not made any provision for deduction and expenses while computing employment tax, is suitable ?

Yes () No ()

If no, please rank the causes from 1 to 4

- Medical expenses of employee ()
- Educational expenses and leave pay ()
- House rent expenses ()
- Transportation expenses ()

8. In your opinion, what types of income heads included in employment tax should made a tax exempt ? Please rank the opinion below from 1 to 4.

- J Medical expenses provided to the employee ()
- J Pension income ()
- J Dashain allowance ()
- J Remote area allowance ()
- J Others ()

9. Do you think, there are problem being faced by employee regarding payment of employment tax.

Yes () No ()

If yes, please rank the causes from 1 to 4	If no, please rank the measures to improve the condition, from 1 to 4
J Hesitation to pay because of low income. ()	J Awareness tax payer ()
J Administrative problem ()	J Penalties / fines ()
J Lack of knowledge ()	J Incentives ()
J Others: Please specify, if any.....	J Others: Please specify, if any.....

10. Do you have any suggestions regarding to improve effectiveness of employment taxation in Nepal ? Please specify, if any.

.....

.....

.....

.....

Appendix - II

Calculation of Correlation between Exemption Limit and Weight

Here exemption limits are assumed as X_1 and contribution as X_2 now required figures are calculated as:

First of all for individual,

FY	X_1	X_2	X_1X_2	X_1^2	X_2^2
1999/00	40000	6.08	243200	1600000000	36.97
2000/01	50000	6.55	327500	2500000000	42.90
2001/02	65000	9.38	609700	4225000000	87.98
2002/03	65000	15.72	1021800	4225000000	247.12
2003/04	80000	15.05	1204000	6400000000	226.50
2004/05	80000	16.50	1320000	6400000000	272.25
2005/06	100000	17.01	1701000	10000000000	289.34
2006/07	100000	13.36	1336000	10000000000	178.49
2007/08	115000	14.16	1628400	13225000000	200.51
2008/09	160000	12.71	2033600	25600000000	161.54
	$\phi X_1 =$ 855000	$\phi X_2 =$ 126.52	$\phi X_1X_2 =$ 11425200	$\phi X_1^2 =$ 84175000000	$\phi X_2^2 =$ 1743.60

The correlation between facility and contribution is, $r_{12} =$

Here, $n = 10$,

Then $r_{12} =$ Correlation coefficient between facility and contribution.

Now applying formula of correlation coefficient (r_{12})

$$= \frac{N\phi X_1X_2 - Z\phi X_1\phi X_2}{\sqrt{n\phi X_1^2 - Z(\phi X_1)^2} \sqrt{n\phi X_2^2 - Z(\phi X_2)^2}}$$

$$X \frac{10 \mid 11425200 \ Z 855000 \mid 126.52}{\sqrt{10 \mid 84175000000 \ Z (855000)^2 \mid 1743.60 \ Z (126.52)^2}}$$

$$X \frac{114252000 \ Z 108174600}{\sqrt{84175000000 \ Z 731025000000 \mid 17436 \ Z 16007.31}}$$

$$X \frac{6077400}{\sqrt{110725000000 \mid 1428.69}}$$

$$X \frac{6077400}{332753.66 \mid 37.798}$$

$$X \frac{6077400}{12577428.11}$$

$$X 0.4832$$

Now for couple / family,

FY	X ₁	X ₂	X ₁ X ₂	X ₁ ²	X ₂ ²
1999/00	50000	6.08	304000	2500000000	36.97
2000/01	60000	6.55	393000	3600000000	42.90
2001/02	75000	9.38	703500	5625000000	87.98
2002/03	75000	15.72	1179000	5625000000	247.12
2003/04	85000	15.05	1279250	7225000000	226.50
2004/05	100000	16.50	1650000	10000000000	272.25
2005/06	125000	17.01	2126250	15625000000	289.34
2006/07	125000	13.36	1670000	15625000000	178.49
2007/08	140000	14.16	1982400	19600000000	200.51
2008/09	200000	12.71	2542000	40000000000	161.54
	∑X ₁ = 1035000	∑X ₂ = 126.52	∑X ₁ X ₂ = 13829400	∑X ₁ ² = 125425000000	∑X ₂ ² = 1743.60

The correlation between facility and contribution is, r₁₂ =

Here, n = 10,

Then r_{12} = Correlation coefficient between facility and contribution.

Now applying formula of correlation coefficient (r_{12})

$$= \frac{N\phi X_1 X_2 \sum \phi X_1 \phi X_2}{\sqrt{n\phi X_1^2 \sum (\phi X_1)^2} \sqrt{n\phi X_2^2 \sum (\phi X_2)^2}}$$

$$= \frac{10 \mid 13829400 \sum 1035000 \mid 126.52}{\sqrt{10 \mid 125425000000 \sum (1035000)^2} \sqrt{10 \mid 1743.60 \sum (126.52)^2}}$$

$$= \frac{138294000 \sum 130948200}{\sqrt{125425000000 \sum 1071225000000} \sqrt{17436 \sum 16007.31}}$$

$$= \frac{7345800}{\sqrt{183025000000} \mid \sqrt{1428.69}}$$

$$= \frac{7345800}{427814.21 \mid 37.798}$$

$$= \frac{7345800}{16170528.28}$$

$$= 0.4543$$

Appendix - III
Calculation of Proper Use of Employment Tax

For this following table are presented;

Observed Frequency Table:

Respondents & Response	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	7	28	18	72	25	100
Tax administrators	15	60	10	40	25	100
Employees	16	32	34	68	50	100
Total	38	38	62	62	100	100

Source: Opinion Survey.

Expected Frequency Table:

Respondents & Response	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	10	40	15	60	25	100
Tax administrators	10	40	15	60	25	100
Employees	20	40	30	60	50	100
Total	40	40	60	60	100	100

Source: Opinion Survey & Use of Statistical Tool.

Now, different table is as;

O_f	E_f	$O_f - E_f$	$(O_f - E_f)^2 / E_f$
7	10	-3	0.9000
15	10	5	2.5000
16	20	-4	0.8000
18	15	3	0.6000
10	15	-5	1.6667
34	30	4	0.5333
Total			7.0000

Source: Opinion Survey & Use of Statistical Tool.

) The test Static is;

$$\chi^2 = \sum \frac{(O_f - E_f)^2}{E_f}$$

Where,

O_f = Observed Frequency

E_f = Expected Frequency

$$= \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

) The Degree of Freedom is; $(r-1)(c-1) = (3-1)(2-1) = 2$

) Level of Significance (α) = 5% Level of Significance and 2 Degree of freedom is, 5.99, which is to be tested.

Appendix - IV

Calculation of Regarding Problems Faced by Tax Payers

For this following table are presented;

Observed Frequency Table:

Respondents & Response	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	16	64	9	36	25	100
Tax administrators	13	52	12	48	25	100
Employees	24	48	26	52	50	100
Total	53	53	47	47	100	100

Source: Opinion Survey.

Expected Frequency Table:

Respondents & Response	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	13	60	12	40	25	100
Tax administrators	13	60	12	40	25	100
Employees	25	60	24	40	50	100
Total	52	60	48	40	100	100

Source: Opinion Survey & Use of Statistical Tool.

Now, different table is as;

O_f	E_f	$O_f - E_f$	$(O_f - E_f)^2 / E_f$
16	13	3	0.6923
13	13	0	0.0000
24	26	-2	0.1538
9	12	-3	0.7500
12	12	0	0.0000
26	24	2	0.1667
Total			1.7628

Source: Opinion Survey & Use of Statistical Tool.

) The test Static is;

$$\chi^2 = \sum \frac{(O_f - E_f)^2}{E_f}$$

Where,

O_f = Observed Frequency

E_f = Expected Frequency

$$= \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

) The Degree of Freedom is; $(r-1)(c-1) = (3-1)(2-1) = 2$

) Level of Significance (α) = 5% Level of Significance and 2 Degree of freedom is, 5.99, which is to be tested.