

**BUSINESS INCOME TAX REFORMS AND
IT'S CONTRIBUTION TO NATIONAL REVENUE**

Submitted by

Ram Maya Subedi

Roll No: 187/2065

T.U. Registration No: 7-2-48-2784-2005

Prithvi Narayan Campus

A Thesis Submitted to
Office of Dean
Faculty of Management
Tribhuwan University

In partial fulfillment of the requirements for the degree of
Masters in Business Studies (MBS)

Pokhara

March, 2014

Faculty of Management

RECOMMENDATION

This is to certify that the thesis:

Submitted by:

Ram Maya Subedi

Entitled

**Business Income Tax Reforms and
It's Contribution to National Revenue**

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

Karna Bir poudyal
(Thesis supervisor)

Dr. Puspa Raj Sharma
(Head, Research Department)

Date:.....

Campus Chief

Faculty of Management

VIVA-VOCE SHEET

We have conducted the viva voce examination of the thesis

Submitted by:

Ram Maya Subedi

Entitled

**Business Income Tax Reforms and
It's Contribution to National Revenue**

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment requirements for the degree of **Master's Degree in Business Studies (MBS)**.

Viva-voce Committee

Head, research Department:

Member (Thesis Supervisor):

Member (External Expert):

Date:

ACKNOWLEDGEMENT

This thesis entitled "Business income tax reforms and its contribution to National Revenue" is specially prepared for the partial fulfillment of MBS Degree under Tribhuvan University of Nepal. This thesis is mainly done with a view to ascertain how effectively of the Pokhara valley are performing as well as business income tax reforms. This thesis has been completed not only by me, behind it many supportive hands are there. Many helpful and cooperative people are there behind whose assistance is priceless and praiseworthy.

I would like to acknowledge all of them without whom my thesis would not have been completed. Firstly I would like to thank my thesis supervisor Dr. Karna Bir Poudyal and Puspa Raj Shama, Asst. Campus Chief, Prithvi Narayan Campus, Pokhara for his immense guidance, motivation and valuable supervision on several aspects of the study. I would also like to offer special thanks to Tax Office, Pokhara, who helped me by providing available data, information and help for empirical survey. In this limited space, it is simply impossible to give the names of large number of friends and respondents who provides invaluable cooperations during the primary data collection. I wish to express the sincerest thanks to all of them.

At the same time, I would like to thank my mother, brothers Ramchandra, Dipak, Kamal and to my friends Sunita and Sabita for their valuable cooperation. Finally, I would like to thanks Sugam Computer Sewa for helping in computer setting and printing the thesis.

March, 2014

Ram Maya Subedi

TABLE OF CONTENTS

	Page
Acknowledgement	
Chapter-I: Introduction	1-7
1.1 Background of the Study	1
1.2 Statement of the Problem	3
1.3 Objective of the Study	4
1.4 Significance of the Study	5
1.5 Delimitation of the Study	6
1.6 Organization of the Study	6
Chapter-II: Review of Literature	8-41
2.1 Conceptual Review of the Study	8
2.2 Review of Related Studies	32
2.3 Research Gap	41
Chapter-III: Research Methodology	42-44
3.1 Research Design	42
3.2 Population & Sample	43
3.3 Sources of Data	43
3.4 Data Collection Procedure	44
3.5 Data processing & Analysis procedure	44
Chapter-IV: Presentation and Analysis of Data	45-86
4.1 Analysis of Secondary Data	45
4.3 Empirical Investigation	59
4.4 Major findings of the Study	84
Chapter-V: Summary, Conclusion and Recommendation	87-91
5.1 Summary	87
5.2 Conclusion	88
5.3 Recommendation	90
Bibliography	
Appendices	

LIST OF TABLES

Table	Title	Page
3.1	Groups of Respondents and size of Sample	43
4.1	Composition of Total Revenue in Nepal	46
4.2	Composition of Tax Revenue in Nepal	48
4.3	Composition of Direct Tax Revenue	50
4.4	Composition of Income Tax Revenue	52
4.5	Contribution of Business Income Tax to GDP	55
4.6	Contribution of Business Income Tax to Total Income Tax	56
4.7	Contribution of Business Income Tax to Total Revenue	57
4.8	Contribution of Business Income Tax to Total Tax Revenue	65
4.9	Groups of Respondents and code used	59
4.10	Opinion in Respect to Income Tax System of Nepal is Efficient	60
4.11	Opinion in Respect to Business Income Tax is an Important Source of Government	61
4.12	Opinion in Respect to Government Business Income Tax System in Nepal	61
4.13	Opinion in Respect to Tax Paying Habit of Nepalese People	62
4.14	Opinion in Respect to Government is Success to Collect Sufficient Income Tax through Business Income Tax	66
4.15	Increase taxpaying habit of Nepalese people	70
4.16	Opinion for way to make tax payer more Responsible	73
4.17	Opinion in Respect to Business Income Tax Administration System of Nepal	74
4.18	Attitude towards the reforms is essential in business tax system of Nepal	78
4.19	Contribution of Business tax revenue of Nepal	81
4.20	Additional tax Rate for Non Resident on Business income	82
4.21	Perception towards the present business tax exemptions limit	82
4.22	Change required in Tax Administration	83

LIST OF FIGURES

Figure	Title	Page
4.1	Composition of Total Revenue in Nepal	47
4.2	Composition of Income Tax	54

LIST OF ABBREVIATIONS

A.D.	:	Anno Domini
AETR	:	Average Effective Tax Rate
B.S.	:	Bikram Sambat
BBS	:	Bachelor of Business Studies
BP & RA	:	Business Profit and Remuneration Act
CEDA	:	Community and Economic Development Association
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
GON	:	Government of Nepal
IRD	:	Internal Revenue Department
IT	:	Information Technology
ITA	:	Income Tax Act
MBS	:	Master of Business Studies
METR	:	Marginal Effective Tax Rate
MOF	:	Ministry of Finance
PE	:	Probable Error
R&D	:	Research and Development
T.U.	:	Tribhuvan University
TDS	:	Tax Deduction at Source
USA	:	United State of America
VAT	:	Value Added Tax
WB	:	World Bank

CHAPTER-I INTRODUCTION

1.1 Background of the Study

Government is a very powerful institution. The role and scope of government varies in economic system. The role of a government is exceedingly dominant in a capitalist country. Modern capitalist economy is mixed economy where there are public and private sectors. In socialist countries, most of the productive activities and factors of production are under the control of government. So, government plays main role in business and economic activities. Government has to spend a lot of money to fulfill its responsibilities towards the people. A government requires sufficient resources to carry out development plans, handle day-to-day administration, maintain peace and security and launch other public welfare activities. The governments collect the required resources mainly from two sources: debt & revenues. The debt can collect either from internal or external sources. The internal debt is collected within the country while external debt is collected from outside of the country. The debt financing of the government is known as deficit financing. External sources of fund are foreign grants & loans. This kind of fund is received from foreign countries and international organizations. External sources of fund are very important for undeveloped countries like Nepal. It is used for economic development, reconstruction, foreign exchange, to recover from crisis condition for productive use etc.

However the external sources are uncertain, inconvenient and not good for healthy development of the nation. It is better to mobilize internal sources rather than working with beggars eye to donors. The external sources of financing is depends upon the interest and the condition of funding countries and no discretion to spend the fund available. Continuous use of external sources of fund is not good because it reduces liquidity position of the government, increases inflation and make over-dependence upon other countries (Pant, 1996).

Internal sources of fund is own sources with-in the nation and it includes both tax and non-tax revenues. Internal sources are more important and it is necessary for proper mobilization of internal sources to fulfill government's financing necessities. Internal sources have no obligation towards the third party and are less risky as compared to the external fund. The government is not obliged to pay back the fund and only has to see the need of its economy & the interest of the people while mobilizing internal sources. The revenue on the other hand comes basically from two sources: tax and non tax. Non-tax sources include different

revenues like gifts, grants, revenues from public enterprises, administrative revenues such as registration fees, fines and penalties. Tax sources are the compulsory contribution from the tax payers to the government but non tax sources are uncertain and inconvenient so, taxes are the better sources of public revenues. The use of tax is safer for financing public revenue in developing countries like Nepal.

Tax in simple terminology a liability to pay an amount to the government. It is compulsory contribution to the national revenue from the tax payers according to the nation`s law. A tax payer is not entitled to compel the government, while paying taxes. To give something to him in return of the amount he has paid. Professor 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” (Bhattarai & Koirala, 2060).

Tax is classified into two categories i.e. direct and indirect. The person paying and bearing tax is same in direct tax. It is legally imposed. Direct taxes are levied on the income & property. The direct taxes have been used to bridge the gap of income and wealth inequality in the society. Income tax, land tax, interest tax, gift tax etc are the examples of direct tax. Indirect tax is a tax, which imposed on one person but partly or wholly paid by another. Indirect taxes are generally imposed on goods and services. The taxes on such goods and services are integrated with their price. Selling those goods and services on higher price, the tax payers easily transfer the burden on general consumer. Value added tax, import/export/excise duties, hotel tax, etc are the examples of indirect taxes where the person paying and bearing tax is different.

Income tax is direct tax that is imposed on the earning of individual and corporation. The underlying reason for the imposition of income tax is to generate more revenue to finance development activities and to help in achieving social justice. Income tax is essential not only for collecting government revenue but also to control over consumption, to reduce inequality of income and wealth, to promote saving and business. It is not doubt that income tax is main sources of government revenue. Income tax is collected from various sources of profits and incomes. It is collected from public enterprises, semi public enterprises, private corporate bodies, individuals, remuneration and interest. Nepal has been adopting the income tax system for last four decades and is assessed on yearly basis. Although the legal provision has been made and updated timely, there are many problems about income tax such as leakage in tax feeling of people about tax as penalty, lack of consciousness of people, inability of tax

administration to cover new tax payers, delays in computation & collection, lack of accuracy and unity in accounting system etc.

According to economic survey report of Internal Revenue Department (IRD) 2066 the main causes of low rate coverage of income tax on total tax collection is very weak individual tax collection trend & lack of participation of an individual in income tax on business income. Because of these reasons, the present study has been designed to highlight the provision made in Income Tax Act 2058 for Income from business

1.2 Statement of the Problem

A government specially gets revenues from taxes, fees, price and other sources: grants and gifts. In case of state revenue, a tax is a compulsory charge imposed by government without any reference to service rendered to taxpayers. Fines or penalties imposed by courts resemble taxes since there is compulsion in both. The distinction between them, however, is one of the motives. Taxes are generally imposed to obtain revenue while fines are imposed as a punishment to control mistakes in future. The state sells some of its goods or services and receives price in payment for them. The distinction between taxes and price is that, tax is a compulsory payment to be made by every citizen as levied by the government where as price is to be paid by persons who buy services or goods produced by the government. Thus, tax is an ingredient of state revenue in public finance.

A sound tax system is one of the essential requisites for an economic development. Thus, different taxation policies have been introduced and renewed on a timely basis with a view to mobilize internal resources to contribute to economic growth and reduce dependency on foreign loans. In Nepal, coverage of income tax is very low. There is a poor taxpaying habit of Nepalese people. The tax authorities are also insufficient and ineffective in enforcement. There are no integrated programs for taxpayer's education, assistance, guidance and counseling. The assessment procedure of income tax is not effective, and there is an undue delay in tax assessment not only reduce the total revenue but also brings harassment to the taxpayers (Agrawal, 2006).

Therefore the coverage of income tax is very narrow in Nepal. Contribution of the income tax to the national budget must be increased to achieve the goal of national development and equal economic distribution. If the government of Nepal takes steps for making the effective tax management the goal can be achieved. There has been a big gap between formulation of policies and its implementation. At present most of the taxpayers are hiding their business income so discourage this system the tax evasion monitored effectively. This study analyzes

the existence provision for business income and analyzes the impact to revenue collection, further; this study is able to attempt to solve the following problems:

What is the composition of income tax?

What is the existing position of business income tax in Nepal?

What are the major reforms of business tax in Nepal?

How much contribution made by the tax payers in Nepal through business tax?

1.3 Objectives of the Study

The basic objective of the study is to analyze the present condition of business tax reform in Nepal & its contribution to the national revenue and to give appropriate suggestion to the government for improvement by which government can collect more revenue.

Specific objective of the study are as follows:

To analyze the composition of income tax.

To examine the existing position of business income tax in Nepal.

To find out the major reforms of business tax in Nepal.

To measure the total contribution made by the tax payers in Nepal through business tax.

1.4 Significance of the Study

Every government need huge amount of funds to spends on daily expenses as well as development activities. Every year Nepalese government has been presenting deficit budget, there is increment in resource gap. Most of the development activities depend on bilateral and multilateral grants and loans. The nation is hardly bearing the burden of the loan and the internal source of revenue is not sufficient even to meet the ordinary expenses. In this context the easy and long lasting way to increase income tax collection is one of the major components. Tax revenue is the one of the most important component of national revenue. Income tax is direct tax that is imposed on the earning of individual and corporation. The underlying reason for the imposition of income tax is to generate more revenue to finance development activities and to help in achieving social justice. Income tax is essential not only for collecting government revenue but also to control over consumption, to reduce inequality of income and wealth, to promote saving and business. Business income tax is one of the major components of income tax collection. To achieve the targeted goal of revenue collection Income Tax on business income also must be collected very clearly, wisely & effectively. According to economic survey report of Internal Revenue Department (IRD)

2066 the main causes of low rate coverage of income tax on total tax collection is very weak individual tax collection trend & lack of participation of an individual in income tax on business income. Thus, the topic “Business income tax reform and its contribution to the national revenue.” is chosen as a relevant topic for the study.

The main focus of this study will be on Income tax provisions on business income & its contribution on National revenue. Besides this the study will directly beneficial for the policy makers & other related stakeholders. Policy makers will be able to identify the areas needed for improvement of business tax system. It will provide a clear idea and knowledge to that person who is interested and confused about business tax system.

1.5 Delimitation of the Study

No existence of limitations in research is exceptional case. So the following will be the limitation of the study:

This study is limited to Nepalese laws, rules and regulations under ITA 2058.

The extent of this study is based on the availability of reliable data and sufficient literature.

This study covers the 12 years periodic data.

The view of respondents has been collected only in the Pokhara City.

The reliability of the study is depended on the reliability and validity of the secondary data. While getting some primary views, the taxpayers of Pokhara City has considered only.

1.6 Organization of the Study

This study has been organized in five chapters.

Chapter-I: Introduction

It contents introduction aspect of the study eg. Background of the study, statement of the problems, objectives of the study, significance of the study and delimitation of the study.

Chapter-II: Review of literature

It constitutes review of literature through different relevant books, articles and unpublished dissertation & definition, legal provisions and income tax system. It is focused on defining the related terms such as concept of income, concept of tax, historical background of income tax, meaning of business and business income and developing the concepts on them.

Chapter-III: Research methodology

It includes research design, population and samples, nature and sources of data, data collection procedure and data processing and analysis procedure.

Chapter-IV: Analysis and presentation of data

This is one of the most important chapter and has been included the related to the topics extracted from economic survey and annual reports published by ministry of finance the government of Nepal in their respective way and their analysis has been presented accordingly with suitable methods of presentation. Primary data collected from tax payers, tax practitioner/ tax administrator and analysis in this chapter.

Chapter- V: Summary, conclusion and recommendation

The fifth chapter includes summary, conclusion and recommendation. It is the last but not the least chapter. Suggestions for betterment of income tax system in Nepal have been made within the frame of conclusions of study.

CHAPTER- II

REVIEW OF LITERATURE

This chapter deals with the literature relevant to the study. Review of literature is basically of stock taking of available literature in the field of research. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of the study. It develops practitioners and help to find out contributions done. Literature review also help to know that what is uncovered and it will be clear that how the present study relates with past. Literature review guides not to conduct the study on already conducted area. Thus literature review established starting point for further research which avoids the duplication & reveals the research needed area (Wolff & Pant, 2007).

To deep knowledge & understanding about the subject matter some literatures related with the study were reviewed. It includes the conceptual review and review of some previous studies.

2.1 Conceptual Review of the Study

2.1.1 Concept of Revenue

Revenue is regular income of government from internal resources for execution of different bodies of nation: "Revenue means the amount that is to be paid to government as custom duty, income tax, entertainment tax, hotel tax, sales tax, vehicle tax, rent tax, contract tax, property tax, and the word also indicates other taxes according to existing law."(Revenue leakage investigation& control Act 2052).

Revenue amount is collected through different medium from public people & spent from state from welfare of people .so it is also called public income. Revenues can be divided into tax and non tax revenue.

Government income specified in act & law to be paid by person, firm industry, business, trade, profession or organization for holding of some kinds of asset s is known as tax revenue. Revenue gained by government for distribution of public service or for direct facilities provided or for fees & penalties to state against violation of rules & regulation is known as non tax revenue For example; Income from sales of government goods & services, principle, interest, dividend, royalty, fine, penalty, seizing etc. are non tax revenue.

The government of any country needs adequate budget to undertake development activities, run its administration, keep law & order & perform other works of public good. This budget

is collected by the government through various sources are termed as public revenue or national revenue the major sources of public revenue are as follows;

Sources of Revenue

taxes

fees

Amount for goods & services provided

Fine/penalty

Franchise cost

Gifts & donations

2.1.2 Concept of Tax

In general, tax can be defined as a levy or other type of financial charge or fee imposed by state or central government on legal entities or individuals. It is a compulsory levy from individuals, households and firms to central or local government. It a kind or money of which it is the legal duty of every citizen of the country to pay honestly. It may levy on income, property and even at the time of purchasing a commodity. Tax is computed and paid as prescribed in the law. If a person defies the tax payments, person may be punished in the court of law. Taxation can be considered as a convenient method of raising revenue which in turn is linked with the welfare of the people directly or indirectly. Economist and scholar have expressed their view in tax as follows:

According to professor Seligman, "Tax is a compulsory contribution from a person to the government does defray the expenses incurred in the common interest of all without reference to special benefit conferred" (Bhattraï & Koirala, 2004).

According to Bastable "A tax is compulsory contribution of wealth of a person or body of persons for the service of public powers."

According to Plehn "Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the states" (Dhakal, 1998).

From the above definition it clear that the tax is compulsory levy and the taxpayer does not have any right to receive direct benefits from tax paid and also clears about the expenses of collected tax in common interests of residents of nation.

According to definition, tax has major three characteristics:

It is a compulsory monetary contribution.

Taxpayers should not expect special treatment as a return of tax.

Amount collected from tax should be expended for public of whole nation.

According to ITA 2058, section 2 'dha'

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

Expenses incurred in the process of creating charge and performing auction of the property of tax creditor by the department.

Amount payable by a withholding agent or withholder or amount payable by a installment payer and on assessment.

Amount payable to the department in respect of a tax liability of third party.

Amount payable by way of fines in order of the department

2.1.2.1 Objectives of Taxation

Tax is a permanent instrument of collecting revenues for the government. It is a major source of revenue in the developed countries and appearing as on important source of revenue in the developing country as well. It has become as instrument of social and economic policy for the government. The main objectives of taxation are as follows:

a) Raising More Revenue

The fundamental objective of taxation is to finance government expenditure. The government requires carrying out various development and welfare activities in the country. For this, it needs a huge amount of resources. The government collects resources by imposing taxes. So, raising more revenues to meet the ever increasing government expenditure has become an important objective of taxation.

b) Regulating the Economy

The government not only raises public revenues through taxation but also impose restrictions on the use of certain goods. The government can impose excise duty on tobacco, liquor etc. to restrict the consumption of harmful goods. The government also raises revenues through import and export duties but their specific objectives are otherwise. Import duties are levied to restrict import of those goods which may harmful the local industries and therefore help the countries international balance of payments and protect industries from overseas

competition. Export duties may be levied to restrict the export of those goods which are required within the country. Similarly, taxes can correct for externalities and other forms of market failure (such as monopoly). In this way, the government regulates the economy in accordance with the needs of the country.

c) Preventing Concentration of Wealth in a Few Hands

Tax is imposed on persons according to their income level. High earners are imposed high tax through progressive tax system. It prevents wealth from being concentrated in a few hands of the rich and hence narrows down the gap between the rich and the poor.

d) Redistributing Wealth for Common Goods to the Whole Community

Tax collected by the government is spent for carrying out various welfare activities. In this way, the wealth of rich is redistributed to the whole community. Tax helps in redistributing wealth in the country.

e) Boosting up the Economy

Tax serves as an instrument for promoting economic growth, stability and efficiency. The government controls or expands the economic activities of the country by providing various concessions, rebates and other facilities. Low rate of taxation during a business depression will accelerate more income to the people and help in raising demand and thus revive business activity. On the contrary, high rates of taxes may be useful to check inflationary pressure on prices. Tax policy may be used as a regulatory mechanism to achieve price stability, check business booms and depression.

f) Reducing Unemployment Problem

The government can reduce the unemployment problem in the country by promoting various employment generating activities. Industries established in remote parts or industries providing more employment are given more facilities. As a result, the unemployment problem can be reduced to a great extent through liberal tax policy.

g) Removing Regional Disparities

Regional disparity has become a chronic problem to the developing countries like Nepal. Tax is one of the ways through which regional disparities can be minimized. The governments provide tax exemptions or concessions for industries established or activities carried out in backward areas. This will help increase economic activities in those areas and ultimately regional disparity reduces to minimum.

2.1.2.2 Classification of Taxes

On the basis of shifting of burden, tax can be classified into two broad categories: direct and indirect tax. This is the most common and popular classification of tax.

a) Direct Tax

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

b) Indirect Tax

An indirect tax is a form of tax imposed on one person but partly or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform functions associated with filling tax returns. Hence, indirect tax can be shifted. In indirect tax, the impact and incident of the tax are on different persons. In other words, the person paying and bearing the tax is different. It is the tax on consumption or expenditures. Examples include VAT, excise duty, import and export duty, etc.

2.1.3 Historical Background of Income Tax

In the early days, taxes were collected at the time of emergencies, to finance means and to provide communal services. Taxes were levied on the basis of welfare of the people. At the time tax was not compulsory payment. People voluntarily paid the tax. According to Hindu scripture, the duty of the king was to serve and secure his people, maintain peace and harmony and carryout social works. For those purpose king used to levy tax by collecting crops and cattle from farmers, gold and silver and other metallic goods from traders (Adhikari, 2010).

Great Britain is the first country in the world to introduce the modern income tax. It introduced income tax in 1799 A.D. to finance the world war fight with France. USA introduced income tax in 1862 A.D. to generate revenue to finance civil war. In India, while income tax in its modern form was adopted in 1860 A.D., several experiments were made from 1860 A.D. to 1866 A.D. and finally the systematic income tax legislation was enacted in 1886 A.D. In the beginning of introducing time, it was generally levied at a flat rate. Only after 1909, the principle of flexibility was introduced from UK and Newzeland (Bhattraï & Koirala, 2004).

2.1.3.1 Taxation in Ancient Era

Taxes have been one of the primary sources of government's revenue from Ancient time in Nepal. During that period taxes were levied on farmers, merchants and travelers in the form of cash or kind. Labour and goods were types of taxes. The fiscal administration during the Lichchhavi and Malla regime is of remarkable importance. In Lichchhavi regime direct taxes were introduced for the first time in Nepal. At that time, direct taxes were imposed on Agriculture and Business income. These direct taxes were imposed copied from 'Kautillya's Arthashastra'. Thus, taxes on Agriculture income called 'Bhaga' (share of production). According to Quality of land owned by farmers, the levy was prescribed as portion of one-sixth, one-eighth and one-twelfth on their total production. It was tax on income, not on profit. They levy on income from Business called 'Kara' was a tax in cash. It was also copied from 'Kautollya's Arthashastra'. King Anshubarma of the lichchhavi dynasty levied Agriculture and Religious taxes in ancient Nepal.

Malla dynasties are also reasonably important for the tax system in ancient Nepal. They introduced a new tax called 'Potaka' that was received for defense contribution. It was levied on water of farmer's irrigation (K.C, 2007).

Shah dynasty ruled over Nepal since 1968 assembling the state governments of Nepal for the centralized government. After assembly (1768 A.D.) and before starting of Rana Regime (1846 A.D.) Nepal exercised and experienced a variety of taxes to generate maximum revenue for the government. During the period of unification, the major sources of revenue in Nepal were Land and Homestead taxes, monopolies customs, transit and market suties, mine and mints and the export of forest product, wood ,birds, animals and various levies and fines, maximization of revenue was the main objective of the tax policies during that period. Local administrators were directed "to take whatever is paid willing by the people". The taxes were usually collected at three levels

Royal palace: to finance occasional and ceremonial needs. The taxes were broad based and progressive.

Government: to finance administrative military and other purposes assessed an official functionary and other people.

Local: perquisites of local officials, functionaries and mendicants.

The various taxes levied during this period were narrow in base and were imposed primarily on occupations and economic activities, not on income or property. The system of direct taxation was confined to land and special levies like “Darhsanbhet”, “Salami”, and “Walak” etc. After the unified period, land tenure system was divided into five main forms: Raikar, Birta, Guthi, Sera and Kipat. The main sources of revenue from land were Birta and Kipat (Agrawal, 1980).

2.1.3.2 Taxation in Rana period

In 1846 A.D. (1903): Jang Bahadur Rana becomes Prime Minister of Nepal through ‘Bhandarkhal Paba’. Then he and his family ruled over Nepal for 104 years. This period (1894-1950 A.D.) is known as Rana Regime. During the Rana Regime, there was no formal provision for imposition and collection of taxes. Taxes were imposed according to the objectives, need and whims of ruling Prime Minister. There was no provision for separating personal income of Prime minister and state treasury. There was no provision of government budget. Surplus of revenue over expenditure was considered as the personal Income of ruling Prime Minister.

Land tax, custom and excise duties in the form of lump sum, contracts, royalties on feeling trees, royalty on supply of porters and soldiers, entertainment taxes were the major sources of revenue. There was no direct tax in the country except land tax collected on a contractual basis and “salami” which the government employees used to pay out of their salaries at a very small percentage.

During Nepal Tibet war (1855/56), the first Rana Prime Minister Junga Bahadur Rana had imposed a tax on the income of selected groups similarly Bir smasher Rana imposed a levy of 1% on the official value of Jagir assignment of government employees in 11891, to finance the transportation of water pipe supply in the capital. Ranodip singh imposed a 50% tax on the income made by fishermen in Deukhuri from the sale of fish in 1882 (KC, 2007).

2.1.3.3 Income Tax in Modern Nepal

Although the taxes were collected in various forms in ancient era, the history of modern income tax is not very old in Nepal. Before 1951 (2007) two dynasties: Shah and Rana ruled over Nepal. In 1950, Nepal introduced in limit referendum when Rana Dynasty fell-down and started multiparty democracy system under Shah Dynasty. The idea of introducing income tax in Nepal originated in the early 1950s when a multi-party democratic political system was introduced. In 1951 A.D., then finance minister in his budget speech declared the intention of

the government to introduce the income tax. Attempts were then made to introduce income tax in subsequent years. In 1954, an income tax with Rs. 10,000 basic allowance and progressive taxes ranging from 5 to 25% was proposed. Due to political instability, it could not be introduced until 1958 A.D.

The first elected government in 1959 A.D. finally introduced Business profits and Salaries Tax Act, 1960 in Nepal. At that time, income tax was levied only on business profits and salaries. After about three years' experience of income tax, the government replaced the prevailing Act by Income Tax Act, 1962. The coverage was then extended in the Act. In 1974 A.D., Income Tax Act, 1974 A.D. (2031 B.S.) was enacted.. The Act classified income sources into five groups are as follows:

Agriculture

Industry, Trade, Profession or occupation

Remuneration

House and compound Rents

Other sources

However, agricultural income was kept outside the tax net except few years through the finance Acts.

The parliament of Nepal enacted Income Tax Act 2002 A.D. (2058) with effective from 1 April 2002 A.D. (Chaitra 19, 2058 B.S) to enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation, and to amend and integrate the laws relating to income tax. This Act has replaced Income tax Act, 1974 A.D. (2031 B.S), which was amended for eight times and existed for a period of 28 years. The government of Nepal framed Income Tax Rules 2059 in 2059 B.S. to help clarity the Act (Bhattraï & koirala, 2004).

2.1.3.1 Income Tax Act, 2002 (2058)

Income tax Act, 2058 has been enacted with wide a perspective. Various new concepts have been introduced in this Act as compared to Income Tax Act, 2031. Many of the concepts introduced in this Act were not prevailed in previous tax laws. The parliament of Nepal exacted Income Tax Act, 2002 (2058) since 1st April 2002 (19th Chaitra, 2058). This act contains 143 sections.

This Act was brought in Nepal to avoid the following defect of Income Tax Act 2031 (kandel, 2004).

Narrow base of tax.

Taxing only the income originated in Nepal.

Dispersion of tax related acts, i.e. income tax related provisions were given in different acts.

Low penalty rate to tax evader.

Incompatible to self-assessment, and

Unsuitable to modern economy.

Income tax Act, 2058 has been amended two times by the finance ordinance of 24th Ashadh and 22nd of 2059 B.S. for the following purpose.

To levy tax on all income sources and income earning transaction.

To impose uniform tax to all people and all sources.

To make income tax revenue more productive and elastic.

To develop the tax system by means of extended scope, clear-cut, transparent and simple procedure.

To make accountable and improve tax administration.

To reduce economic cost neutralizing income tax.

To emphasize statement based on accounting system.

The key 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. This Act has been made super in regard to all income tax matters.

The Act has broadened the tax base. Tax rates have been spelled out in the Act. The tax rates and concessions have been harmonized on equity grounds.

The Act has introduced a block system of charging depreciation. A provision has also been made for depreciating intangible assets. The Act has first introduced the capital gains taxation.

The Act has provided liberal loss set-off and carry forward/backward provisions. Inter head adjustments of losses have been clearly specified. Such provision has been made from international perspective.

The Act has first introduced a provision for administrative review to allow the tax administration to correct mistakes made by administrators internally.

The Act has made provisions for a stringent fine and penalty for the defaulters.

Global income of a resident are made taxable. Non residents are also taxed on their incomes with source in Nepal.

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 taxpayer from criminal liabilities.

The scope of discretionary interpretation of the tax administration has been drastically reduced ensuring simplicity,

uniformity and the transparency. The Act has also defined the power and authority of the tax administration.

The apple system has been further streamlined by the making mandatory for the tax payers to file an objection with the Inland Revenue Department for administrative review before appealing to the Revenue Tribunal.

2.1.4 Meaning of business and business Income

Generally business is a commercial activity undertaken with a profit motive. Income Tax Act, 2058 has defined business as an industry, a trade, a profession, or like isolated transaction with a business character and includes a past present or prospective business. By contrast to employment, business is an earning activity typically consisting of not only the provision of labour but of the combined provision of labour and capital.

A person's income from a business for an income year is the person's profits & gains from conducting the business for the year. This type of income includes service fees, amount derived from the disposal of trading stock & net gain from disposal of business assets. Income from a business can be accounted for either on a cash basis or an accrual basis. The individual has option to select cash or accrual basis of accounting to account for business income. A company shall always for tax purposes account on an accrual basis.

2.1.4.1 Amount Included in Business Income

A person should include the following amounts while calculating profits and gains from business.

Service fees including commission, meeting management or technical service fees.

Amounts derived from the disposal of trading stock.

Net gains from the disposal of business assets or liabilities of the business'

Amounts treated as derived in respect of excess depreciation on the disposal of the person's depreciable assets of the business.

Gifts received by the person in respect of the business.

Amounts derived as consideration for accepting restriction on the capacity to conduct the business.

Amounts derived that are effectively connected with the business and that would otherwise be included in calculating the person's income from an investment. For example, rent from a

company that owns several flats and operates a rental business. In this case, income from business is derived but in the form of a business. The company has then used income from business and not from business because the income is effectively connected with a business other amounts required to be included such as amounts to be included such as amounts to be included due to change in accounting method, transfer pricing, recovery of bad debts, compensation received etc.

2.1.4.2 Allowable deduction:

General Deduction (Section 13)

Basically, all actual costs to the extent incurred during an income year by the person and in the generation of income from business or business is allowed for deduction. It included maintenance expenses, financial expenses, office & administration expenses factory expenses selling & distribution expenses, abnormal losses etc.

b) Interest (Section 14)

All interest expenses incurred during the year, by the person under a debt obligation which is incurred in the generation of income from business is allowed for deduction to extent that the debt is used in that year or the debt is used to purchase an asset used in that year or the debt obligation is created in any other conditions.

An exempt-controlled resident entity paying interest to the controlling person or associated persons is allowed for deduction to the extent of the sum of the following:

All interest incomes that are to be included in the entity's taxable income and

50% of the entity's adjusted taxable income for the year calculated without including any interest income and deducting any interest expenses.

The portion of the interest not deducted during the year because of the above limitation can be carried forward to next income year. For this purpose, the controlling entities are the following entities which own or control the resident entities except government of Nepal to the extent of 25% or more at any time during the income year.

Tax exempt organization or its associated person.

Person or its associated getting business concessions under section 11 of ITA, 2058.

Non-resident person or associated of non-resident persons.

Any combination of above.

c) Cost of Trading Stock (Section 15)

Trading stocks are goods held for resale purpose Trading stocks includes raw material work in progress and finished goods, But it does not include stock in foreign currencies, The cost of trading stock is derived as follows:

Cost of opening stock	xxx
Add; purchased or produced during the year	xxx
Less; cost of closing stock	xxx
Cost of trading stock.	xxx

The closing stock of previous year will be the opening stock for this year; Closing stock is valued at cost price or Market price whichever is lower, The prime cost is derived as follows:

Cost of raw materials consumed	xxx
Direct labor cost	xxx
Variable factory overhead	xxx
Prime cost	xxx

The factory cost is derived as follows:

Cost of raw materials consumed	xxx
Direct labor cost	xxx
Factory overhead [fixed + variable]	xxx
Factory cost	xxx

d) Repair and Improvement Cost (Section 16)

The repair and improvement cost incurred during the year for the depreciable assets owned and used by a person in generating income from business is deductible up to 7% of depreciation basis or actual cost whichever is lower. The unabsorbed repair cost is capitalized at the beginning of the next income year in respective blocks. However; the repair and improved costs incurred by airline business for overhauling of air craft according to the standards prescribed by civil aviation authority of Nepal (CAAN) are allowed for deduction.

e) Pollution Control Cost (Section 17)

Pollution control costs mean cost incurred by a person with respect to a process or an asset that seeks to control pollution or otherwise protect or sustain the environment. Though these costs are of capital nature are allowed for deduction for income tax purpose actual pollution control cost or 50% of adjusted taxable income from all business conducted by the person whichever is lower is allowed for deduction. The portion of pollution control cost not allowed as deduction is capitalized at the beginning of the next income year under Block D.

f) Research and Development Cost (Section 18)

R. & D cost means cost incurred by a person for the purposes of developing the person's business and improving business products or process. However, it does not include cost in respect of natural resource prospecting exploration and development incurred by a Person in the production of the person's income from a business which is treated as an outgoing for an asset used by the person in that production. Although R & D costs are of

capital nature are allowed for deduction for income tax purpose. The actual R&D cost or 50% of adjusted taxable income from all business conducted by the person, whichever is lower is allowed for deduction. the portion of R&D cost not allowed as deduction is capitalized at the beginning of next income year under block D.

g) Depreciation Allowance (Section 19)

Depreciation is the depletion in the value of depreciable assets used in the business by wear and tear, obsolescence, or the passing of time. Depreciation is allowed for deduction on used depreciable assets owned by the person. For depreciable assets owned by the person .for depreciation purpose, the depreciable assets have been classified into five blocks. The block wise details and rate of depreciation are given in the following table:

Block	Details of assets	Depreciation
A	Building, structures & similar works of permanent nature	5%
B	Computers, data processing, equipments furniture's, fixtures & office equipments	25%
C	Automobiles, bus and mini bus	20%
D	Construction & earth moving equipments unabsorbed pollution control cost and R&D cost and any tangible assets not included in above blocks (eg. plants & machinery)	15%
E	Intangible assets (patent, copy rights, trade marks, software etc which are not included in Block 'D' assets	Cost divided by Life rounded down of the nearest half

The block –wise depreciation basis and depreciation are calculated as under;

Opening depreciation basis	xxx
Add: Addition during the year(time-wise)	xxx
Less: Disposal during the year	xxx
Depreciation basis	xxx

Depreciation of a block = Depreciation basis of a block × Depreciation rate applicable to that block.

Assets purchased in between	Absorbed portion	Unabsorbed Portion
-----------------------------	------------------	--------------------

Shrawan first to Poush end	3/3	Nil
Magh fist to Chaitra end	2/3	1/3
Baishak first to Ashad end	1/3	2/3

Note: An unabsorbed portion of depreciate assets will be capitalized & carry forward to next year.

h) Bad Debts (Section 25.2)

Bad Debts can be deducted as an expense under the following conditions:

If the outstanding loan of bank or financial institution has become a bad debts in accordance with the standards prescribed by Nepal Rastra Bank.

In other case the person receiving payment believes that the amount could not be recovered after taking reasonable steps.

i) Losses from Business (Section 20)

A person allowed deducting the following losses while calculating income from business for an income year.

Any unrecovered loss of the year incurred by the person from any other business can be carry forward and set off from business income.

However electricity projects involving in building power station, generating & transmitting electricity: the projects conducted by any entity so as to build public infrastructure own, operate & transfer (BOOT) to the Government of Nepal & an entity conducting petroleum business under Nepal petroleum Act 2040 can deduct previous year from the next income year.

2.1.4.3 Allowable Reduction:

a) Donation to Exempt Organization (Section 12)

Donation given to an organization, approved by IRD, is allowed for reduction from taxable income. Reductions allowed to an individual or an entity will not exceed Rs. 1,00,000 or 5% of adjusted taxable income. However, the government of Nepal may prescribe, by publishing a notice in the Nepal Gazette, as to allow full or partial deduction of the expenses incurred for special purpose at the time of assessing income.

b) Retirement Contributions (Section 63)

An individual who is a beneficiary of an approved retirement fund may claim a reduction for retirement contributions made to the fund. The actual contribution or maximum Rs. 300,000 or one-third of assessable income, whichever is the lowest is allowed for reduction as retirement contribution.

c) Other Reductions

In addition to above reductions, a resident individual may claim following reductions from his total taxable income:

Insurance premium paid for his life not exceeding Rs. 20,000 per annum.

Remote area exemption up to Rs. 30,000 depending upon the location for an individual (Rs. 30,000, Rs. 24,000, Rs. 18,000, Rs. 12,000, Rs. 6,000 for remote area A, B, C, D & E respectively).

Reduction of 25% of basic exemption by individual having pension income.

Reduction of 50% of basic exemption by a disabled individual.

Reduction of 75% of foreign allowance by a Nepalese diplomat.

d) Tax Credit

Medical tax credit (Section 51)

A resident individual may claim for the medical treatment of his or her. The maximum limit of adjusted amount is RS. 750 or 15% of approved medical expenses.

Foreign tax credit (Section 71)

A resident person may claim a foreign tax credit for any foreign income tax paid abroad. The maximum foreign tax credit amount allowed to a person is calculated by applying the following formula:

$$\text{Foreign Tax Credit} = \frac{\text{Assessable income from foreign source} \times \text{Average Rate of Nepal Income Tax}}{\text{Nepal Income Tax}}$$

Where,

$$\text{Average Rate of Nepal Income Tax (\%)} = \frac{\text{Total Tax Payable before any foreign tax credit}}{\text{Total Taxable income}}$$

Instead of claiming foreign tax credit, the tax payer can deduct foreign tax as an expense while calculating assessable income.

Calculation Table of Assessable Income from Business as per ITA2058

Particulars	Rs	Rs
Service charge	×	
Disposal of trading stock	×	
Net gain from disposal of business assets or liability	×	
Gain from disposal of pool of depreciable assets.	×	
Prizes or gifts in connection with business	×	
Amounts received in lieu of accepting any restrictions regarding business		
Amounts received from any business directly related to business.	×	
Incomes to be included due to change in accounting methods.	×	
Excess amounts received due to exchange rate variation	×	
Bad debts recovered	×	
Proportionate amounts received under long term contracts	×	
Under payment of interest according to market rate	×	
Receivable amounts for compensation other amounts received under the head of business income	×	

	×	
Gross income from business		
Less: Allowable Deductions		
Interest expenses	×	
cost of trading stock	×	
repair and improvement cost	×	
pollution control cost	×	xxx
research and development cost	×	
Depreciation allowances	×	
Reserve fund for banks	×	
Foreign tax paid (if not claimed for tax credit)	×	
other expenses	×	
Assessable income from business before loss adjustment		
Less: Adjustment of business Losses		
Unrecovered loss from other business this year.	×	xxx
Unrecovered loss from business of previous 7 years.	×	
Assessable Income from business		xxx

Statement of Taxable income

Assessable income from business	×	
Assessable income from investment	×	
Assessable from employment	×	
Total assessable income		xxx
Less: allowable reductions:		
Retirement contribution	×	
Donation	×	
Total taxable income		xxx
Less: other reductions		xxx
Taxable income (for tax calculation)		xxx

2.1.4.4 Tax Rates

Income Tax Act, 2058 has specified tax rates applicable to different taxpayers in schedule 1. Tax rates differ in structure and in terms of percentage depending on whether the taxpayer is an individual or an entity.

Tax rates for Resident Individual or couple:

For Individual	For couple	Tax Rate
a) If there is income from business and investment only	Up to Rs. 2,00,000	Nil
Up to Rs. 160,000	Next Rs. 1,00,000	15%
Next Rs. 1,00,000	Balance	25%
Balance		
b) If there is income from employment, business and investment income	Up to Rs. 2,00,000	1%
Up to Rs. 160,000	Next Rs. 1,00,000	15%
Next Rs. 1,00,000	Next Rs. 1,00,000	25%
Balance	Balance	

Resident couples are normally taxed as two single individuals until and unless they elect to be treated as a couple for tax purpose. (Section 50)

Gain from disposal of a non business chargeable asset is taxed at 10%.

However, if the ownership of disposed off non-business chargeable asset (land and House and Land) has been more than 5 years, only 5% tax is applicable on such gain. But, if the ownership of the disposed off non-business chargeable assets (Land and House and Land) has been less than 5 years, 10% tax is applicable on such gain.

If an individual or a couple has taxable income from business and business also (in addition to net gain from non-business chargeable asset):

Higher of taxable income (after deducting net capital gain) or basic exemption (Rs. 1,60,000 for individual/ Rs. 2,00,000 for couple) is taxed at the rates applicable to an individual and balance (net capital gain) is taxed at 10%.

A non-resident individual is taxed at 25% on taxable income with source in Nepal. Any withholding payment made to non-resident is treated as final.

2.1.4.5 Tax Exempt Amounts

Income Tax Act, 2058 has exempt following amounts from income tax (section 10):

- a) Amount received by a person entitled to tax exemption privileges under a bilateral or multilateral treaty concluded between the government of Nepal and foreign country or an international organization.
- b) Amounts received from the public fund of a foreign country by an individual who is not citizen of Nepal or by a member of the immediate family of the individual.

- c) Amount received by way of gift, bequest, inheritance, or scholarship except as required to be included in calculating income from business, employment or investment.
- d) Amount received by an exempt organization by way of the following:
 - Donation, gift.
 - Other contribution that directly related to the exempt organization's function, whether or not the contribution is made in return for consideration: or
 - Amount received by Nepal Rastra Bank as per its objectives.
- e) Pension received by a Nepali citizen retire from the army or police service of foreign country. These amounts must be paid from the public fund of that country.

2.1.4.6 Business Exemptions and Concessions

Income Tax Act 2058 has provided following business exemptions and concessions (Section 11):

- a) Income of a special industry and information Technology (IT) industry of a person for an IT industry providing direct employment to 300 or more Nepalese citizens throughout the income year are taxed at 90% of the applicable tax rate on that year's income.

A special industry and an IT industry providing direct employment to 300 or more Nepalese citizens throughout the income year are taxed at 90% of the applicable tax rate on that year's income.

A special industry providing direct employment to 1200 or more Nepalese citizens throughout the year is taxed at 80% of applicable tax rate on that year's income.

A special industry providing direct employment more than 100 Nepalese citizens including at least 33% women, Dalit, or the

Apanga throughout the year is taxed at 80% of applicable tax rate on that year's income.

A special industry operating in remote (highly/most undeveloped), undeveloped and underdeveloped area (as defined in Industrial Enterprises Act, 2049) is taxed at 50%, 70% and 75% of the applicable tax rate on its income respectively up to ten income years including the income year of its operation.

- b) Income of an industry established in special Economic Zone (SEZ) divided distributed by such industry are subject to following exemption.

Income of an industry established in SEZ located at mountainous district and government of Nepal specified hilly districts is exempt from income tax for the first ten years of its operation and then after taxed at 50% of tax rate otherwise applicable.

Income of an industry established in SEZ other than areas specified above is exempt from income tax for the first five years of its operation and then after taxed at 50% of income tax rate otherwise applicable.

Divided distributed by an industry established in SEZ is exempt from tax for the first five years and then taxed at 50% of income tax rate otherwise applicable for the next three years.

Royalty, foreign technology or management service fees earned by a foreign investor of an industry operating in SEZ are taxed at 50% the income tax rate otherwise applicable.

- c) Income of an information technology (IT) oriented industry established in IT park specified by government of Nepal by publishing a notice in Nepal Gazette is subject to an exemption of 25% of applicable tax rate.

2.1.4.7 Deductions Not Allowed

Not all the expenses are deductible while computing income from any business, employment or investment. According to sec. 21, the following deductions are not allowed.

1. Personal or Domestic Expenses:

Expenses of a domestic or personal nature are costs incurred by individuals in respect of themselves, which means that the individuals spend money for their consumption to satisfy their personal needs. These expenses are not deductible from any of the income heads-employment, business or business. Such expenses include:

a) Personal expenses of an individual:

Costs for the provision of shelter as well as meals, refreshment, entertainment or other leisure activities.

Expenses incurred with respect to an individual commuting between the individual's home and a place at which the business or business is conducted. However, commuting in the course of conducting a business or business is allowed for deduction.

Cloth expenses for the individual other than clothing that is not suitable for wearing outside of work. This means costs of the work dresses such as uniform, apron etc. are allowed for deduction.

Expenses for education and training of an individual. If the education is directly relevant to a business or business conducted by the individual and the education and training does not lead to a general degree or diploma but has a link to the business or business conducted the expenses for training or education are deductible.

- b) If the taxpayer has borrowed money to bear expenses as mentioned above and needs to pay interests for that, these interests are related to a non-deductible expenses and therefore also not deductible.
- c) The expenses of a domestic or personal nature also include costs incurred by another person in respect of an individual. However, in the following conditions, such expenses are not treated as personal or domestic nature.

If the payment is included in calculating the income of the individual. For example, salaries and wages paid to employees are allowed for deduction because employees include such payments in their incomes.

If the individual makes a return payment of an equal market value to the person as a consideration of a payment. For example, expenses incurred for selling goods and services to customers are allowed for deduction. However, the expenses incurred on goods withdrawn by the proprietor are not allowed for deduction.

Payments for petty expenses related to tea, stationeries, tips, prizes and emergency medical treatment up to Rs 500 at a time whose accounting is not practical or administratively difficult.

- 2. Tax payable under this act.
- 3. Fines and penalties paid to government or its local bodies for breach of any law or regulations.
- 4. Expenses incurred to derive the tax exempted amounts or final withholding payments. For example, seeds and fertilizer expenses to derive agriculture income are not allowed for deductions.
- 5. Cash payments over Rs 50,000 (except in certain circumstances) by an individual or an entity with an annual turnover of more than Rs 2 million. The whole amount of cash payment (not only the excess amount) is disallowed for deduction if it is more than Rs 50,000. However, the clause of Rs 50,000 is not applicable in the following conditions:

If payment is made to the Government of Nepal, a constitutional body, a corporation owned by the Government of Nepal, or a bank or financial institution.

If payment is made to a farmer or a producer producing primary agriculture products.

If payment is made to a retirement contribution or retirement payment.

If payment is made in an area where banking services are not available. An area having banking services means the area where there are no banking facilities within the surrounding often kilometers.

If payment is a must necessarily be made in cash or on a day when banking services are closed.

If payment is made into a bank account of the payee.

Distribution of profits by an entity such as dividend, reserve etc.

Capital nature expenditure.

Foreign income tax however, foreign tax credit not exceeding the average rate of Nepal income tax can be claimed if the person has paid foreign income tax with respect to the foreign assessable income.

2.2 Review of Related Studies

2.2.1 Review of Books

Mr. Shantosh Raj Poudyal and Mr. Prem Prasad Timsina, (1990) published a book describing the provision and laws related to income taxation in Nepal in the topic of "Income Tax in Nepal". This book was extremely based on the syllabus of B.com. The book described the theoretical as well as practical aspects of Income Tax. They analyzed the role of Income

Tax, income tax structure and defects of income tax in Nepal. The book was descriptive rather than analytical.

Rup Bahadur Khadka (1994) had written a book entitled “Nepalese taxation: A path for Reform), in 1994. The books deal with both national and international taxes. The written had detail describe the scenario of Nepalese tax system from origin of income tax, to adoption of quasi-global or limited scheduler system, segregation of business income tax from individual income tax, increasing dependence on the presumptive basis, basic allowance and progressive rate structure, move from joint taxation to individual taxation and shift from itemized to flat system of standard expenses, experiment with an advance tax on impacts and the existing structure, commodity taxes and poverty taxes, he had evaluate the Nepalese tax system base on conventional, theoretical concepts and suggested various measures for its improvement. The book had been direct focused on Nepalese taxation system and structure for its reform.

Mr. R.K Agrawal (1994) had written a book entitled “corporation taxation” published by Hind law publishers. The book is mainly concerned with the corporate taxation of India. This book shows contribution of Income tax from corporate sector to public revenue includes historical background of income tax to the public revenue. Briefly explain of Indian Tax laws and others rules made by their government (Agrawal,1994).

Mr. K.D. Dhakal (2002) published revised edition of his book named “Aayakar Tatha Ghar jagga Kar sambandhi Kar ra lekha”. For understanding Income tax Act 2031 (1974), the book found so much useful. The history of taxation and practice under various previous acts are clearly maintained theoretical and practical manner in the book.

Mr. Bidhyadhar Mallik (2003) had written a book entitled, “Nepalko aadhunic Aayakar Pranali” in 2003. This book especially deals with the thorough analysis of Income Tax Act, 2058 with examples. Every section of income tax act has been clarified with suitable examples. He has written about the development of existing income tax and need and importance of income tax system in Nepal. The new provision made by Income Tax act, 2058 about tax base, computation of income, tax exempt amount, allowable deduction, accounting method of tax, capital gain, retirement saving and tax, dividend tax and international taxation have been clarified precisely in his book. Similarly, the book has also explained about tax administration, documentation, information collection, payment of tax, installment tax, income statements, tax-assessment, tax collection, review and appeal, fees and interest, fine and penalties, tax rate determination of provision of depreciation etc. the book is very useful to know the general information and legal provisions of new Income Tax Act (Mallik, 2003).

Mr. K.P. Aryal and S.P. Paudel (2004), have written a book entitled, "Taxation in Nepal" in 2004. They have explained about the income tax system in Nepal along with House and Land Tax & Value Added Tax (VAT). The book has been designed based on the curriculum of BBS. It has been divided into three parts. In the first part of the book introduction and development of income tax, capital and revenue nature expenses and income items, entity and retirement saving, dividend tax, computation of income from business, remuneration and Business have been explained with numerical and theoretical examples. House & Land Tax and VAT have been explained in the second and third part respectively.

Puspa Raj Kandel (2005) published a book named "Nepalko Bartaman Kar Byabastha". The book is based on Income Tax Act 2058 for the syllabus of BBS, MBS and MPA. It has twenty three chapters and eleven Appendix including ITA 2058, Income Tax rule 2059, VAT Act 2052, Vat Act 2053 and so on. He has described the three broad classification of income tax. He also described tax authorities, penalty, administrative review and appeal in his books.

Mr. Ishower Bhattarai & G. P. Koirala (2008) have co-authored two books entitled "Taxation in Nepal" & "Taxation in Nepal with tax planning and vat". The first book is designed according to the requirements of Bachelors of Business Studies 3rd year syllabus and next one is based on MBS 2nd year syllabus of Tribhuvan University. Both of these books are useful and relevant for university students as well as other having interest in this discipline.

Karna B. Poudyal (1998) has presented the provision under income tax act in detail and definition of corporate tax structure in Nepal in his book named "corporate tax planning in Nepal." This book is also provides a comprehensive information to managers for tax planning under the framework of income tax act 1974 and industrial enterprise act 1992. It also pin points the areas where tax implication are either ignored or are given less importance in decision making by the managers. The study is thus expected to benefit corporate planners, entrepreneur's managers, tax authorities and the academicians. Moreover, no study on corporate tax planning has so far been conducted in Nepal. This study therefore fills in these important gaps in the areas of corporate taxation.

2.2.2 Review of Journals/ Reports and Articles

A senior researcher in the field of Nepalese taxation, Govinda Ram Agrawal (1978) had conducted a research entitled, "Recourse Mobilization for Development: The Reform of Income Tax in Nepal" published by CEDA in July 1978. The main objective of his study

were to examine the problem of growing resource gap in Nepalese finance in the context of the role of income tax, to examine the buoyancy and elasticity of income tax in Nepal including projection of income tax, to examine the ways and means for increasing tax consciousness in Nepalese people etc.

The main reasons for growing resources gap he had included in his report were increasing cost of maintenance and debt servicing burden, increasing government business in public sector enterprises and rising rate of inflation. He also added that, poor utilization of natural resource base, small and stagnant industrial sector, partial monetization of the economy, poor performance of public sector enterprises, poor rate of economic growth, inadequate tax efforts, deficiencies in tax policies, law and administration, lack of adequate and reliable data base and unwanted pressures from vested interest group etc. were the major constraint in resource mobilization.

From his research he concluded that mobilization of additional resources from domestic sources to finance rising expenditure is the better options to fulfill resource gap. Domestic resource can be mobilized either through tax or through gap. Domestic resource can be mobilized either through tax or through non-tax measures. Tax contribution is more than 80% of total government revenue in Nepal. Buoyancy of income tax with respect to GDP for the period 1967/76 was 2.18 and elasticity was 2.01.

Kayastha (1993) wrote an article in *Rajaswa* entitled, "Problems and Prospectus of resource Mobilization through direct Taxation in Nepal". The article has shown that Nepalese tax structure has extremely depended upon indirect Taxes and non-tax revenues. Lack of clear tax policies and procedures, lack of proper information and records, lack of trained & technical staff, lack of proper accounting system and proper monitoring are pointed as the weak parts of revenue administration of Nepal. He has suggested the revenue administration to make wider tax base. In order to make revenue administration more effective, there should be formed separate 'Revenue Group'. He also suggested to reform in Tax rates, rules and the regulations in the annual budget.

Revenue consultation committee report (2001) has emphasized to simplify the tax policy to increase voluntary compliance. The report has recommended for written communication between taxpayer and tax administration rather than the informal relation and has suggested to widen the income tax base by including all kinds of tax payer and income and to find out tax payer of new sector. It suggested bringing all potential tax payers into tax net to widen the tax coverage including agriculture, electricity and other sectors to increase voluntary

compliance this report highly emphasized to simplify the tax policy. Suggestion has provided to make the act more transparent and clear to attract foreign and domestic investor for this purpose. The report also has suggested increasing income tax exemption limit with considering purchasing power and inflation rate.

Damber Bahadur Pant (2004) had written an article entitled, “Problems in Tax Administration and their Remedies” published in Journal of Finance and Development. ‘Rajaswa’ 2004, April Vol.1. He had comprehensively explained about the problems and their remedies related with tax revenue. The major types of practical problem and challenges, in tax administration he had mentioned in his article are: showing limited amount of transaction, showing low selling price, lack of issuing and taking bills, lack of showing the real factory cost, commercial fraud, lack of co-operation in testing the tax, legal ambiguity and complexity in implementation and lack of co-ordination between Inland Revenue Department and Revenue Investigation Unit. Meanwhile, he had recommended some valuable suggestions to solve the problems and to overcome the challenges they are statistical and information system should be properly managed, fixed norms and standards should be used to assess selling price and factory cost, the billing system should be made compulsory, co-ordination between Inland Revenue Office with various entities of HMG, Revenue Investigation Department and its related units should play the important role.

Puspa Raj Kandel (2004) had written an article entitled, “Are Tax Incentives Useful? If so, which one?” published in Journal of Finance and Development, ‘Rajaswa’, Vol. 1, 2004 April. In that article he had tried to seek the answer from the survey of various empirical studies earlier done in Nepal, India, Pakistan and other western countries. He found that the tax incentives are still the controversial matter they promote the investments or not. But he argues that the tax incentives which cause revenue loss without enhancing the business environment. Meanwhile, most of the researchers have opposed the tax holiday system both within the country and outside the country.

He further adds that Nepal survey of the studies indicate the accelerated depreciation system has positive impact on investment. The work of reducing tax rate, especially followed after 1990s to such lowest rate was not a proper decision. That is why, if Nepal wants to go to tax incentives again, it should allow or business tax credit, not the full tax holiday in future. The study had recommended some valuable suggestions to the developing countries.

2.2.3 Review of Unpublished Dissertation

Bharat Kumar Lamsal (2001) has also presented a thesis entitled, “A case study on Contribution of Income Tax on Government Revenue”, in 2000. His research had mainly focused on the removing and controlling income tax evasion for better source mobilization. As his main objectives was to analyze the impact of income tax evasion in government revenue of Nepal, he set further objectives to identify the ways and causes of income tax evasion, to estimate the volume and tendency of income tax evasion in small trade sectors and examine the role of income tax in utilizing the resource in Nepal.

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

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

Mr. Khomraj Koirala (2005) has described about “Effectiveness of Advance taxation on income tax generation in Nepal”. The objective of his study were : to evaluate the feasibility and effectiveness of advance taxation on income tax and overall revenue generation in Nepal, to examine the current position of advance taxation is also one of the tax assessing and tax collection procedure as per Income Tax Act 20002. Income Tax act 2002 has absolutely embraced the self assessment system abolishing existing assessment system. Small tax payers are imposed the tax on the presumptive system. This Act has made provision of amended assessment to adjust the assessed person’s liability to tax. Main source of advance tax and the individual sector carries less than 20% of the advance tax on total advance tax collection. The contribution of the advance tax on total revenue was very poor but contribution on income tax is increasing in recent years.

Mr. Rama Kanta Subedi (2007) carried out a study on the topic “Employment income tax system of Nepal & it’s contribution to revenue collection”. The main objectives of the study were to analyze the trend of revenue collection from employment tax, to analyze the contribution of employment income tax on total tax revenue, direct tax revenue and income tax revenue of Nepal, to identify difficulties faced by tax payers in complying with tax procedure. During the study he found that the rule & provision of employment income

taxation are complicated for average tax payer & IRD has not been able to provide adequate knowledge to the taxpayer, contribution of employment tax has not been satisfactory.

Miss Laxmi Devi Basyal (2008) has presented a dissertation entitled “Impact of Income Tax in National Revenue before and after enactment of Income Tax Act 2058”. The objective of the studies are find out the parts of national revenue occupied by income tax and its trend, analysis the consumption of Income tax Revenue from various sources, analysis the contribution of income tax in national revenue before and after enactment of Income Tax Act 2058, To analysis the strength and weaknesses of income tax 2058 and to provide suitable suggestions for the betterment of income tax system in Nepal. Her research shows income tax system income tax system in Nepal is not fully satisfactory. Due to economical liberalization and globalization, very important source of revenue i.e. custom duty is not in condition to bare its current share in coming days. So importance of internal source such as income tax will increase in coming days. But there are many problems in Nepalese income tax system.

Mr. Mahendra Kuwar (2008) carried out the study on the topic “A study on problem & prospects of Remuneration taxation in Nepal”. The objective of the study were to review the income tax structure, Analyze the contribution of Income Tax from Remuneration, to analyze the assessment process of remuneration tax, to identify the existing problem. During the study he found that Nepalese tax revenue consists have direct and indirect tax revenue. Tax revenue has been heavily dominated by indirect tax revenue. Among direct taxes, income tax has the largest share of contribution. The main problem of remuneration taxation is hesitation to pay low income, weak administration, and complexity in income tax policy, rules and regulation, no action for promotion remuneration tax, contribution of remuneration tax has not been found satisfactory.

Mr. Agni Prasad Adhikari (2010) carried out a study on the topic “Income tax on Business Income in Nepal & it`s impact on revenue collection”. The objectives of this study were to determine the types of business income & contribution to National revenue, examine the status of business Income, find out the impact of income tax on national revenue. During the study he has found that the percentage share of Business Income Tax to government revenue is in increasing trend but is not regarded satisfactory in comparison to other developing countries.

Mr. Guru Prasad Subedi (2010) carried out a study on the topic of “Employment Tax reform in Nepal and its contribution to the national revenue”. The objectives of the study were to examine the current provision of income tax act from employment, to measure the total

contribution to access the employment tax administration system of Nepal. During the study he found that the current provision made for income tax from employment in Nepal under ITA are complicated for an average tax payer. IRD has not been able to provide adequate knowledge either to the tax payers or tax administration to the act and the author suggested that for collect the maximum revenue tax administration system must be improved.

Som Nath Adhikari (2009) "Contribution of Value Added Tax to National Revenue Collection." The objectives of Study Provisions made for VAT, Composition of the government revenue, VAT collection by government by the government of Nepal preceding five fiscal year. Position of VAT in experience through empirical investigation of market. During the study he found the VAT Laws and administration in Nepal are to be deeply scrutinized but not properly implemented act itself is not bad. Some provisions are to be mention clearly. Strong commitment, far and informal imposition is to be stored to revitalize man power development planning within the administration is desired for the efficiency of tax personnel side by side. Tax education packages are to be made and tax compliance could be improved.

Kamal Chandra Devkota (2010) "A study on corporate tax contribution on Government Revenue in Nepal." Objectives of the study are status of corporate tax and to explore the tax collection in different corporate sector, explore the problems and challenges in corporate tax procedure, provide the package of suggestion to tax avoid and tax evasion in corporate sector, the conclusion tax avoidance is the reduction of that liability through the manipulation of existing law it is legally permissible but unethical.

Ramesh Banjara (2010). "A study on income tax collection from commercial Banks in Nepal." His research had mainly focused on review the income tax structure of Nepal, contribution of income tax paid by commercial banks in the government revenue total income tax and total tax revenue of the government, income tax related problems faced by commercial banks. During the study he found Nepalese revenue structure is composed of tax and non tax revenue. Tax revenue has the largest share of contribution on total revenue. Tax revenue consists of direct and indirect tax revenues. Tax revenue has heavily dominated by indirect tax revenue, Tax/GDP ratio of Nepal has been satisfactory as compared to other developing countries.

2.3 Research Gap

It is found that from previous study has conducted in different topic with different objective with different result in Income Tax field. This study, the researcher try to evaluate Nepalese Business Tax by identifying existing problems in major market area of Pokhara city by conducting field survey in order to know somehow about the practice experience of business tax. Further, an attempt has been made to analysis revenue pattern of business tax in government revenue and overview of the future prospects as well.

CHAPTER-III

RESEARCH METHODOLOGY

This chapter is concerned with the procedures that are adopted in the research work. It is the road map of every research work whether scientific or applied research. Research methodology is a part of every research work serves as the bridge linking two edges of river. It suggests every researcher to get the easy and efficient destination achievement stated in Research objectives. "Research Methodology refers to the various sequential steps to be adopted by a researcher in studying problem with certain object in view. It would be appropriate to mention that research project are not susceptible to any one complete and flexible sequence of steps and the type of problems to study will determine the particular steps to be taken and their order too" (Kothari, Quantitative Techniques, 1994).

By above definition Research Methodology is a technique of analyzing the obtained data to solve the research problem. It consists of descriptive approach & statistical tools. Researcher has used the following Methodology to complete the research.

3.1 Research Design

Research design means an overall framework or plan for the collection and analysis of data or it is the layout of the procedures to be used in data collection and data analysis used for controlling the variances due to different factors (Singh, 2003). To conduct the research of this study, descriptive & analytical design has been adopted. Descriptive research design is used for conceptualization, problem identification, conclusion and suggestion. Descriptive research also seeks to find out the fact by the help of sufficient data and information. Analytical research design is used for analyzing the data to find out the result. To achieve the objective of this study, the study of Income Tax Act, Income tax Rules & regulations, provision of budget speech in Nepal has been carried out. For empirical research, an opinion survey has been conducted. While conducting opinion survey, questionnaires were distributed to different groups who are related to business tax. These were Tax Practitioner/Administrators, Tax payers. The questionnaire included the existing position of business, composition, major reforms and contribution of business tax.. Thus, the study is descriptive, analytical and empirical.

3.2 Population and Sample

To fulfill the objectives of the study, Tax Practitioner/Administrators, Tax payers, of all Nepal was considered as the total population. Out of them Tax Practitioner /Administrators,

Tax payers of Pokhara city was considered as the targeted sample for the study. 40 sample sizes were selected from different denomination. Persons selected for empirical study were carefully selected by best judgment method the respondents had been divided into 2 groups. The following table shows the groups of respondents and size of samples.

Table 3.1

Groups of Respondents and Size of Samples From Each Group

S.N.	Groups of Respondents	Sample Size
1.	Tax practitioner	20
2.	Tax payer	20
Total		40

3.3 Sources of Data

The data collected to conduct this study were from primary and secondary sources. The major source among them is stated below.

3.3.1 Primary Data:

To know the view of different persons related to business tax, an opinion sample survey was carried out through structured and unstructured questionnaire to tax practitioner, tax payers the questionnaire was same for all the respondents. Some of the information was also collected from interview with the respondents.

3.3.2 Secondary Data:

The secondary data were collected from following sources:

- a) Economic survey of various years, Ministry of finance, IRD, Government of Nepal.
- b) Budget speeches of various years, Ministry of Finance, Government of Nepal.
- c) Annual Reports of Internal Revenue Departments of various years.
- d) Different books related to Income Tax & Public Finance.
- e) Dissertations related to Income Tax.
- f) Different Newspaper, Journals, Magazines.
- g) Web sites of different organizations such as Ministry of Finance, Inland Revenue Department etc.

3.4 Data Collection Procedure

Necessary data for this study were collected from various sources, out of them only related data are taken into

consideration. Primary & secondary data were collected through following method:

3.4.1 Questionnaire Method:

To know the views of different persons related to business tax, Questionnaire method has been used. Open-end questionnaire methods were used to collect the data. Yes/No questions, multiple choice question and descriptive questions.

3.4.1.1 Weight of Choice:

An empirical investigation has been conducted in order to find out various aspects of income tax from the experience of real life situation. For this purpose 40 sets of questionnaire were distributed to tax practitioner/administrators, tax payers. The respondents were requested answer or to gives/tax Yes/No response or to write their opinion. Respondents were asked to tick the answer of their choice the total points available to each choice were converted into percentage in reference to the total points available for all choice.

3.5 Data Processing and Analysis Procedure

The information received from primary and secondary sources is firstly tabulated into separate formats systematically in order to achieve desire objectives. After that these data are tabulated and analyzed. For the purpose of analysis, generally simple statistical tools have been used which are statistical table, simple percentage method, graphs, charts and Correlation coefficient (r), probable error (P.E).

CHAPTER-IV
PRESENTATION AND ANALYSIS OF DATA

Presentation and analysis of primary and secondary data has been presented in the chapter four. This is one of the most important chapter and has been included the related to the topics extracted from economic survey and annual reports published by ministry of finance the government of Nepal in their respective way and their analysis has been presented accordingly with suitable methods of presentation. Primary data collected from tax practitioner and tax payers are analyze in this chapter.

4.1 Analysis of Secondary Data

This part is devoted to the analysis and presentation of secondary data. The secondary data have been obtained from economic survey, economic bulletin, Budget speech and other related news paper. The available data have been tabulated and presented in graph, charts and analyzed to reach the findings.

4.1.1 Nepalese Government Revenue Structure:

Nepal's public economy is suffering from low revenue performance and growing public expenditure. The basic sources of revenue are tax revenue and non-tax revenue. Non-tax sources include different revenue like gifts, grants, revenue from public enterprises, administrative revenue such as registration fees, fines and penalties. Tax sources include Customs duty, Excise duty, VAT and Income Tax. But collection of this revenue is not sufficient to cover expenditure. The composition of tax revenue and non-tax revenue from Fiscal Year 2000/2001 to 20011/2012 is presented in table 4.1.

Table: 4.1

Composition of Total Revenue in Nepal

(Rs. in Millions)

Fiscal Year	Total Revenue	Tax Revenue		Non-tax Revenue	
		Amount	Percentage (%)	Amount	Percentage (%)
2000/01	48893.6	38865.1	79.49	10028.8	20.51
2001/02	50445.5	39330.6	77.97	11115	22.03

2002/03	56229.8	42587	75.74	13642.7	24.26
2003/04	62331	48173	77.29	14158	22.71
2004/05	70122.7	54104.7	77.16	16018	22.84
2005/06	72282.1	57430.4	79.45	14851.7	20.55
2006/07	87712.1	71127	81.09	16585.1	18.9
2007/08	107622.5	85155.5	79.12	22467	20.88
2008/09	143474.5	117051.9	81.58	26422.6	18.42
2009/10	179945.8	156294.9	87	23650.9	13.14
2010/11	203917.2	181254.6	90	22662.6	11.11
2011/12	241774.2	209203.1	86.52	32571.1	13.47

Source: Economic Survey 2013, GON of Finance, 2013

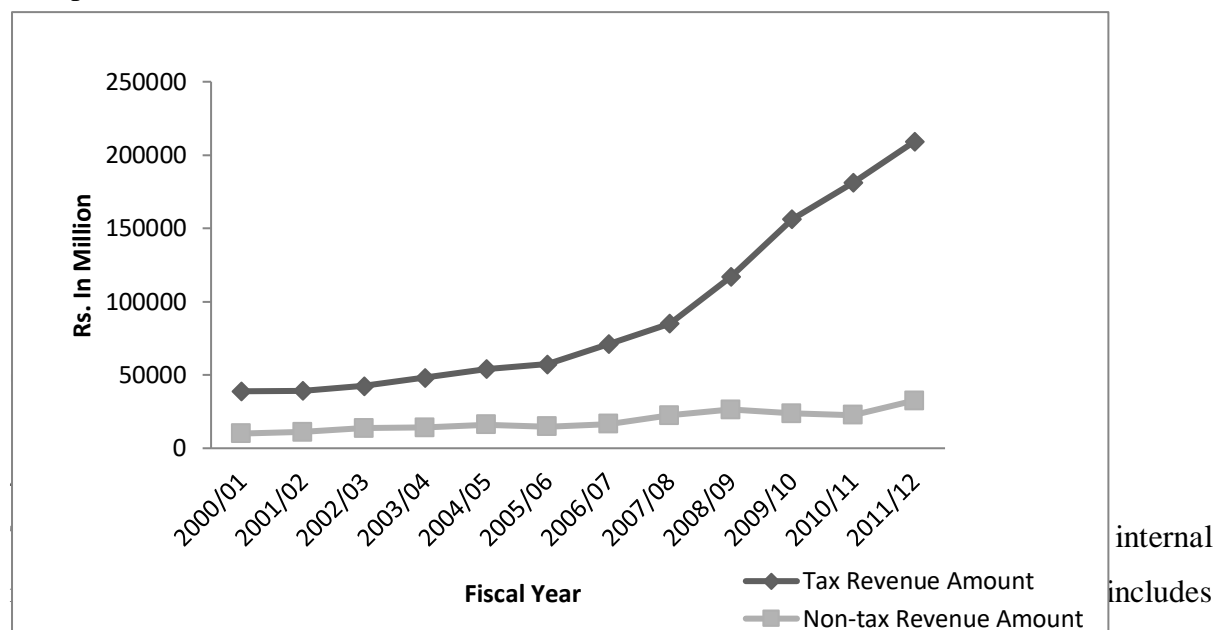
Above table 4.1 shows the dominated role of tax revenue as 79.49 percent of total revenue in 2000/01 and 86.52 percent in Fiscal Year 2011/12. Share of Non-tax revenue for the same period seems to be 20.51 percent and 13.47 percent respectively. The amount of Tax-Revenue is continuously increasing but that of Non-tax revenue is fluctuating, that's why the share of Tax revenue and Non-tax revenue are not uniform. The tax revenue seems to be 90 percent as maximum and 75.74 percent as minimum contribution to national revenue in FY 2010/11 and in FY 2002/03 respectively within the study period.

The Tax revenue contributed amount of 38865.1 million and 209203.1 million in 2000/01 and in FY 2011/12 respectively. Figure 4.1 shows that the Tax revenue increase generally in constant rate or slightly change only. The contribution of Non-tax revenue was 10028.8 Million and 32571.1 Million in subsequent fiscal years. It shows the increasing nature of Non-tax revenue but it has also decreased in fiscal Years 2003/04, 2005/06, 2006/07, 2008/09, 2009/10, 2010/11. Mean contribution of Tax revenue and Non-tax revenue within the study period are found as 81.034% and 19.07% respectively.

Composition of Tax revenue and Non-tax revenue is shown in figure 4.1. The figure shows that both Tax and Non-tax revenue are generally increased in last year's. The trend line shows that the Tax revenue is increase greater than Non-tax revenue. So the Tax revenue is the major part of Total Revenue. In the figure X-axis shows the Fiscal Years and Y-axis shows the Revenue. From Fiscal Year 2000/01 to Fiscal Year 2009/10 all revenue Trend lines are increase. Figures show that the Tax revenue is increasing more than non-tax revenue.

Figure: 4.1

Composition of Total Revenue



Income Tax, house land Tax and tax from other assets, House and Land Registration tax, Vehicle Tax & others. Indirect tax generally includes VAT, Excise, Health service Tax, Education service Tax, Foreign Employment service Tax, Product Tax on Foreign Trade and services etc.

The share of direct tax and Indirect Tax in total tax revenue is presented in Table 4.2. It shows the increasing trend of both direct and indirect tax. Indirect tax has a leading role in total tax revenue up to 76.27 percent within the study period. Although the amount of indirect tax is increasing, its share to total tax is decreasing. Its share was 73.86 percent in Fiscal Year 2000/01 and reduced to 70.68 % in 2008/09 and again it increase to 75.87% in Fiscal Years 2010/11 and FY 2011/12 decreased by 74.82%. Direct tax reduces by 24.12% and 25.18% in Fiscal Year 2010/11 and 2011/12 respectively.

Table: 4.2

Composition of Tax Revenue in Nepal

(Rs. In Millions)

Fiscal Years	Total Tax Revenue	Direct Tax Revenue		Indirect Tax Revenue	
		Amount	%	Amount	%
2000/01	38865.1	10159.4	26.14	28705.7	73.86
2001/02	39330.6	10597.5	26.94	28733.1	73.06
2002/03	42587	10105.8	23.73	32481.2	76.27
2003/04	48173	11912.6	24.73	36260.4	75.27

2004/05	54104.7	13071.8	24.16	41032.9	75.84
2005/06	57430.4	13968.1	24.32	43462.3	76.68
2006/07	71127	18980.3	26.68	52146.7	73.31
2007/08	85155.5	23087.3	27.11	62067.69	73
2008/09	117051.9	34320.7	29.32	82731.2	70.68
2009/10	156294.9	41750.2	26.71	114544.7	73.29
2010/11	203917.2	49196.57	24.12	154720.63	75.87
2011/12	241774.2	60883.55	25.18	180890.65	74.82

Source: Economic Survey, GON, IRD, 2013

The graph presentation of composition of Direct Tax and Indirect Tax revenue presented in figure 4.2 shows the totally correlation between Indirect and Total Tax Revenue due to dominating role of Indirect Tax Revenue. Figures shows Direct and Indirect tax are gradually increase in last Years. In the figure 4.2 X-axis shows the Fiscal Year and Y-axis shows revenue in Millions. There are three trend lines; Indirect tax Revenue, Direct Tax Revenue and Total Tax Revenue. Total Tax Revenue is the addition of Direct and Indirect tax Revenue. All trend lines are increasing in figures. The share of Total Tax revenue, Indirect Tax revenue is greater than Direct Tax revenue

4.3 Composition of Direct Tax Revenue

Direct tax is levy to government for income generation and holding of wealth by natural person as well as business enterprises. It is paid by the imposed person himself and it follows the progressive principle. In Nepal Direct Tax is the composition of Land Revenue and Registration Tax and Tax on Property, Profit and Income. A Direct Tax is a Tax paid by a person on whom it is legally imposed. In Direct tax, the person paying and bearing tax is same. Share of different components of Direct Tax are shown in Table 4.3.

Fiscal Years	Total Direct Tax	House & Land Registration		Income Tax		Vehicle Tax		Tax on Other Property	
		Amount	%	Amount	%	Amount	%	Amount	%
2000/01	10159.4	607.8	5.98	9114	89.71	432.5	4.25	5.1	0.06
2001/02	10597.5	1131	10.67	8903.7	84.01	562	5.3	0.8	0.02
2002/03	10105.8	1414.3	13.99	7966.2	78.82	559.5	5.53	165.8	1.66
2003/04	11912.6	1697.5	14.25	9245.9	77.61	700.6	5.9	268.6	20.24
2004/05	13071.8	1799.2	13.76	10159.4	77.72	806.5	6.17	306.7	2.35
2005/06	13968.1	2181.1	15.61	10373.7	74.27	847.6	6.07	565.7	4.05
2006/07	18980.3	2253.5	11.87	15034	79.20	995	5.24	697.8	3.69
2007/08	23087.8	2940.7	12.74	18991.3	82.26	1069.2	4.63	86.5	0.37
2008/09	34320.74	5223.4	15.22	26983.3	78.62	1850	5.39	264.1	0.77
2009/10	41750.18	5511	13.2	33811.89	80.99	2417.8	5.79	9.45	0.02
2010/11	49196.57	3572.4	7.26	41725.4	84.8	3652.17	7.42	246.6	0.50
2011/12	60883.55	4198.4	7.78	52333.16	86	4089.59	7.58	262.4	0.46

Table: 4.3

Composition of Direct Tax Revenue

(Rs. In Millions)

Source: Economic Survey of various Years, GON, Ministry of Finance, 2013.

Direct tax is classified into House & Land Registration and Tax on property (vehicle), Income Tax and Tax from other Assets. The role of House & Land Registration is in fluctuating for the study period. It occupies 5.98% share of direct tax in fiscal year 2000/01 & has reached up to occupying 7.78% of Direct Tax Revenue at fiscal year 2011/12. House & Land Tax Registration Tax reached up to maximum 15.22% share of direct tax revenue in FY 2008/09. The Mean contribution of House & Land Registration is 11.86%, which is highest about to the share in latest FY of the study by 4.08%.

Income tax is an essential part of Direct Tax Revenue. The role of Income Tax Revenue is in Gradually Decreasing up to Fiscal Year 2005/06 from 89.71% in FY 2000/01 to 74.27% of direct tax revenue in FY 2005/06. Then it increased for next two years in FY 2006/07 and 2007/08 and again it decreased in FY 2008/09 from 82.26% to 78.62% Contribution in Direct Tax Revenue. FY 2009/10 its share in Direct Tax Revenue reached 80.99% and next two years increased in FY 2011/12 by 86%. The mean contribution of Income Tax is 81.2%, which is lower about to the share in latest FY of the study by 4.8%.

The role of Vehicle tax or property tax is very low & increasing trend for the first 5 years of the study period. The highest contribution is 6.17% of Direct Tax Revenue in Fiscal Year 2004/05. In fiscal Year 2005/06 the percentage share of Direct Tax Revenue was decreased by 0.10% in comparison to the FY 2004/05 and it continuously decreased contribution percentage up to FY 2007/08 and last two FY its share of contribution to Direct Tax Revenue was increased up to 7.58% in FY 2011/12. The Mean contribution of Vehicle Tax is 5.77%, which is lower about to the share in latest FY of the study by 1.8%.

The Role of tax on other property is very nominal in Total Direct tax Revenue in Nepal. Its mean contribution on Total Direct Tax Revenue is 3.32%. But in current years its contribution is decreasing trend with in the study period.

4.1.4 Composition of Income Tax

Income Tax is the major sources of direct tax revenue. It was first introduced as Business profit and remuneration tax in 1559/60 in Nepal. The first elected government in 1959 introduced Business Profits and Salaries Tax Act, 1960 in Nepal. At that time, Income tax was levied only on Business profit and salaries. It contributed only 203 thousands in that fiscal year. It reached 33811.898 Million after 51 years in Fiscal Years 2009/10, which is out of range of compare. The income tax collections in different income years are shown in table 4.4.

Table: 4.4

Composition of Income Tax Revenue

(Rs. In Millions)

Fiscal Years	Total Income tax	Government Enterprises	Private Corporate bodies	Individuals	Remuneration	Tax on Business
2000/01	9114	2928	1924.3	3200.5	597.3	8052.8
2001/02	8903.7	1769.3	1412	4419.1	835.6	7600.4
2002/03	7966.2	1251	1236.3	3362.3	1252.6	5849.6
2003/04	9245.9	2056.6	1531.3	3533.4	1391.2	7121.3
2004/05	10466.23	1332.43	2467.8	1886	1675.9	7726.5
2005/06	10933.52	195.77	3404.3	1959	1764.1	7834.7
2006/07	15731.8	1019.67	5717.1	2307	2007.9	11971.2
2007/08	19077.81	204.59	7186.5	2452.3	2451	14315.7
2008/09	27246.43	959.05	9425.1	4472	3196	19624.5
2009/10	33811.89	1331.89	12234.47	3834.3	4413	24040.5
2010/11	41725.4	1206	14043.9	4665.1	5784.2	28580.4
2011/12	52333.2	1455.8	15223.3	5488.2	74468.3	35904.2

Source: Economic Survey of various years, GON, Ministry of Finance, 2013

In table 4.4 Total Income Tax is increasing each year except in 2001/02 and 2003/04. The amount from income tax was only 9114 million on FY 2000/01 and its increasing trend is optimistic up to 2011/12 & it reached to 52333.2 Million. Its trend is gradually increasing within the study period.

Income Tax constitutes income tax from Public/Government Enterprises, Private Corporate Bodies, Individuals, Remuneration, and Tax on Investments. The share of these different sources is presented above table 4.4.

The Table shows that the role of Income Tax from Public Enterprises is significant. The trend of income tax from Public Enterprises is Fluctuating within the study period. It was 2928 Million in FY 2000/01 and after 2000/01 it's trend is declining and has not meet the record of 2000/01., it's condition in 2005/06 is very low as 195.7 Million and just cover 1.9 % of total Income Tax. It is slightly increased in year 2006/07 and reached 1019.67 Million which has been contributed 6.78% in to the total income tax. In fiscal Year 2011/12 it becomes 1455.8 Million only. Which has been contributed 2.78% of total Income Tax.

The share of income tax from Private Corporate Bodies is continuously increasing within study period. The share of income tax from Private Corporate Bodies is Rs.6317.2 in an average. It was in increasing trend up to 2000/01 and it declined for next two years after 2001/02 and slightly increased in 2003/04 than former year. In fiscal year 2011/12 it became 15223.3 Million which has been contributed 29%.

Same trend appears in case of Income Tax from Individual. It has the major role in income tax and bears dominating role in former period of the study. The amount of income tax from Individual is fluctuating & its share in total Income Tax is also fluctuating trend. The mean contribution of Individual tax is Rs. 3464.93 Million.

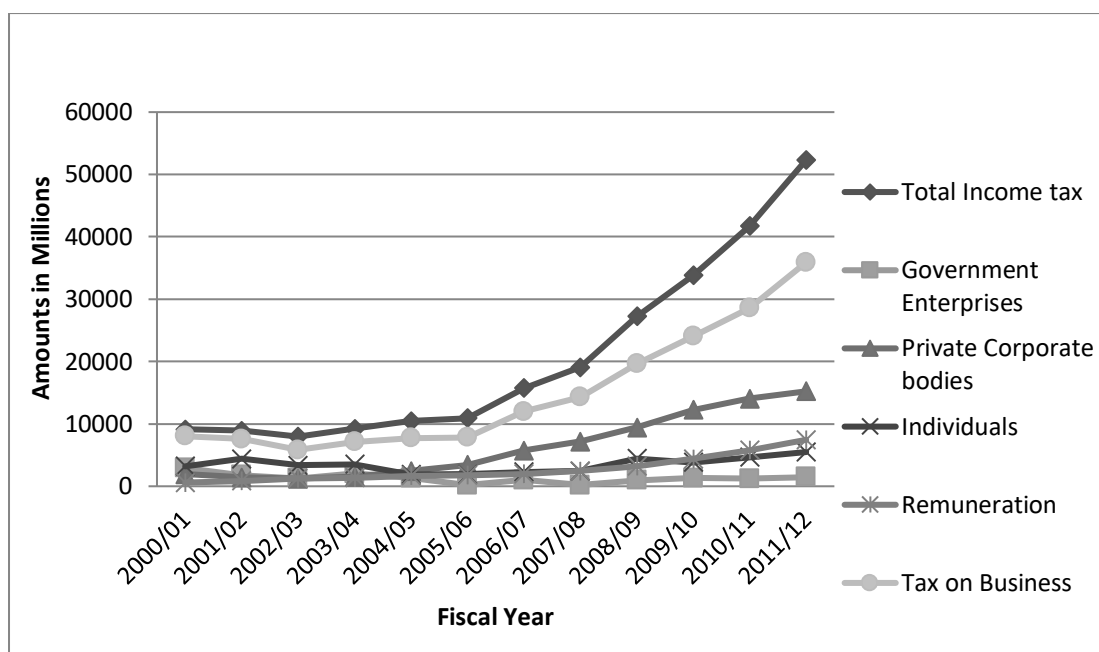
Income Tax from Remuneration is always increasing trend which has never declined. It was 597.3 Million in Fiscal Years 200/01 and reached to Rs. 74468.3 Million in FY 2011/12 with regular growth. Its share in total income tax is also positive.

Tax on Business Income is another source of income tax which had increasing trend without FY 2001/02 and FY 2002/03. It's increasing trend is optimistic up to current FY. Business Tax collection trend is optimistic. It was Rs. 8052.8 Million in FY 2000/01 & it reached Up to Rs. 35904.2 Million in fiscal year 2011/12 within the study period.

Above data of table 4.4 are presented in figure 4.4 which shows that the composition of income tax revenue by trend line. This figure shows Tax on Business and Private Corporate Bodies shares are increasing. The Government / Public Enterprises share are up and down in various years. The share of these different sources of income tax is presented in bellow figure 4.4. In figure X-axis denotes Fiscal Years and Y-axis denotes Revenue in Millions. Above data's are put in the below figures for clarification which shows the trend of income tax revenue.

Figure: 4.4

Composition of Income Tax



Source: Economic Survey of various years, GON, Ministry of Finance, 2013

4.2 Share of Business Income Tax in Different Economical Factors

The contribution of income tax to GDP, Total Revenue, and Total Tax Revenue are described in below.

4.2.1 Contribution to GDP

Gross Domestic Product (GDP) is the total market value of all final goods and services produced in a country in a given year, equal to total consumer, business and government spending, plus the value of exports, minus the value of Imports. For national GDP Business Income Tax also contributes. It's contributes is shown in below tables.

Table: 4.5

Contribution of Business Income Tax to GDP

(Rs. in Millions)

Fiscal Years	Total Income Tax	Business Income Tax	GDP	% of Income Tax to GDP	% of Business Income Tax to GDP
2000/01	9114	8052.8	441519	2.06	1.82
2001/02	8903.7	7600.4	459442	1.94	1.65
2002/03	7966.2	5849.6	492231.3	1.62	1.18
2003/04	9249.9	7121.3	536748.9	1.72	1.33
2004/05	10466.22	7726.5	504101	2.07	1.53

2005/06	10933.52	7834.7	582950	1.88	1.34
2006/07	15731.8	11971.2	670588.1	2.32	1.78
2007/08	19077.81	14315.7	820814	2.32	1.74
2008/09	27247.38	19624.5	992012	2.74	1.97
2009/10	33811.89	24040.5	1182680.1	2.89	2.03
2010/11	41725.4	28580.4	129348.74	3.2	2.21
2011/12	52333.2	35904.2	156097.69	3.35	2.30

Source: Economic Survey of Various Years, IRD, GON, Ministry of Finance, 2013

Table 4.5 shows the contribution of income tax and Business Income Tax to GDP. The contribution of Total Income tax to GDP in Fiscal Year 2000/01 was 2.06 percent. It was continuously declined up to fiscal year 2003/04 to 1.72 percent. Then it increased to 2.07% in fiscal year 2004/05 and again declined to 1.88% in fiscal year 2005/06. Then it started to slightly increase in contribution of Total Income Tax to GDP up to FY 2011/12. The maximum contribution of Income Tax to GDP was in FY 2011/12 between the study periods, which were 3.35%.

The Business Income Tax contribution to GDP was fluctuating up to 2001/02 by 1.13% to 2.56% in FY 2011/12. It was continuously fluctuating up to FY 2007/08 and it hold increasing trend up to FY 2011/12. The maximum contribution of Business Income Tax to GDP was in FY 2011/12 by 2.30%. The Mean contribution of Business Income Tax to GDP is 1.71%, which is lower about to the share in latest FY of the study by 0.85%.

4.2.2 Contribution of Business Income Tax to Total Income Tax

Table: 4.6

Contribution of Business Income to Total Income Tax

(Rs. in Millions)

Fiscal Year	Total Income tax	Business Income Tax	% of Business Income Tax to Total Income Tax
2000/01	9114	8052.8	88.35
2001/02	8903.7	7600.4	85.36
2002/03	7966.2	5849.6	73.43
2003/04	9249.9	7121.3	76.98
2004/05	10466.22	7726.5	73.82
2005/06	10933.52	7834.7	71.66
2006/07	15731.8	11971.2	76.10

2007/08	19077.81	14315.7	75.38
2008/09	27247.38	19624.5	72.02
2009/10	33811.89	24040.5	71.10
2010/11	41725.4	28580.4	68.50
2011/12	52333.2	35904.2	68.61

Source: Economic Survey of Various Years, IRD, GON, Ministry of Finance, 2013

The contribution of Business Income tax to total Income tax revenue is fluctuating trend within the study period. Minimum contribution of Business income tax to total income tax is 68.5% in FY 2010/11 and maximum contribution is 88.35% in FY 2000/01. But share of contribution is not regarded as satisfactory increment. The Mean contribution of Business Income Tax to Total Income Tax is 75.11%. The contribution of Business Income Tax to Total Income Tax is shown in above table 4.5.

4.2.3 Contribution to Total Revenue

The contribution of Business Income Tax to Total Revenue was 16.47% in Fiscal Year 2000/01. It is fluctuating up to FY 2003/04. In an average it has increasing trend within the study period. It's contribution to Total Revenue amount is increasing trend but it's share to Total Revenue is fluctuating. The highest contribution of Business Income Tax to Total Revenue is 14.85% in Fiscal Year 2011/12 and lowest contribution is 10.92% in fiscal year 2004/05. Even though it has been fluctuating trend, it is optimistic in last fiscal year. In FY 2009/10 it was 13.36% of Total Revenue & increased to 14.01% in FY 2010/11 against it increased in last fiscal year. The mean contribution of Business Income Tax to Total Revenue is 13.18%. The contribution of Business Income Tax to Total Revenue is shown in Table 4.7.

Table: 4.7

Contribution of Business Income Tax to Total Revenue

(Rs. in Millions)

Fiscal Year	Total Revenue	Income Tax from Business Income	% of Business Income Tax to Total Revenue
2000/01	48893.6	8052.8	16.47
2001/02	50445.5	7600.4	15.07
2002/03	56229.8	5849.6	10.40
2003/04	62331	7121.3	11.42

2004/05	70122.7	7726.5	11.02
2005/06	71733.13	7834.7	10.92
2006/07	87711.21	11971.2	13.65
2007/08	106722.48	14315.7	13.3
2008/09	143474.49	19624.5	13.68
2009/10	179945.82	24040.5	13.36
2010/11	41725.4	28580.4	14.01
2011/12	52333.2	35904.2	14.85

Source: Economic Survey of Various Years, IRD, GON, Ministry of Finance, 2013

4.2.3 Contribution of Business Income Tax to Total Tax Revenue

The tax structure shows that indirect tax has major role in total tax revenue. So Business Income tax has not so effective share in Total Tax Revenue. It was only 20.72% in FY 2000/01 and decreased to 19.32% in FY 2001/02. It increased in FY 2003/04 and 2004/05 it holds slightly ups and down trend. Maximum contribution to Total Tax Revenue is 20.72% in FY 2000/01 and Minimum contribution is 13.64% in FY 2005/06. Although it has been slightly fluctuating trend it holds optimistic trend. In last 9 Fiscal Years Business Income Tax amount is increasing trend but it's share to Total Tax Revenue is very nominal & fluctuating. The mean contribution of Business Income Tax to Total Tax Revenue is 15.03%. Table 4.8 shows the related data in detail.

Table: 4.8

Contribution of Business Income Tax to Total Tax Revenue

(Rs. in Millions)

Fiscal Years	Total Tax Revenue	Business Income Tax	% of Business Tax on Total Tax Revenue
2000/01	38865	8052.8	20.72
2001/02	39330.6	7600.4	19.32
2002/03	42587	5849.6	13.74
2003/04	48173	7121.3	14.28
2004/05	54104.7	7726.5	14.28
2005/06	57430.4	7834.7	13.64
2006/07	71127	11971.2	16.83
2007/08	85155.45	14315.7	16.81

2008/09	117051.9	19624.5	16.77
2009/10	156294.92	24040.5	15.38
2010/11	41725.4	28580.4	15.77
2011/12	52333.2	35904.2	17.16

Source: Economic Survey of Various Years, IRD, GON, Ministry of Finance, 2013

4.3 Empirical Investigation

4.3.1 Introduction

An empirical investigation has been conducted in order to find out various aspects of income tax from the experience of real life situation. For this purpose the structured questionnaire was prepared and distributed. 40 sets of questionnaire were distributed to the tax practitioner, tax administrator and tax payers. The questionnaire has covered role of income tax, condition of income tax system and administration system of Nepal and suggestion for the betterment of income tax system in Nepal. Respondents were asked to tick the answer of their choice or to put the ranking numbers as first choice was the most important and last choice was least important. For analysis purpose, choices were assigned weights according to number of alternatives. If the number of alternatives were 6(six), then the first preferred choice got seven points and last preferred choice got one point. Any alternative, which was not ranked, did not have any point. The total points available to each choice were converted into percentage in reference to the total points available for all choice. The choice with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as last choice. The following table shows the groups and number of respondents. The responses received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study.

Table: 4.9

Groups of respondents and code used sample size

Groups of Respondents	Sample size	Code
Income Tax practitioner/ administrator	20	A
Income Tax Payer	20	B
Total	40	

4.3.2 Result of Empirical Investigation

There were 15 questions in the questionnaire to collect opinions from respondents. Result of empirical study has been stated individually in coming paragraphs.

4.3.2.1 Opinion in Respect to Income Tax System of Nepal is Efficient

To know respondent's opinion towards the income tax system of Nepal a question was asked, "In your opinion is the Income Tax system of Nepal is efficient?" the responses are summarized below:

Table: 4.10

Opinion in Respect to Income tax system of Nepal is Efficient

Responses Respondents	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Practitioner/administrators	0	0	20	100	20	100
Tax Payers	2	10	18	90	20	100
Total	2	5	38	95	40	100

Source: Opinion Survey, 2013

From the opinion survey, it was found that 100% of tax practitioner and 90% of Tax payers did not agree with the efficient of Income Tax system of Nepal and efficient utilization of collected tax revenue of Nepal. In total 5% of total respondents think that there was efficient income tax system of Nepal while 95% respondents did not agree.

4.3.2.2 Opinion in Respect to Business Income Tax is an Important Source of Government Revenue of Nepal.

To know that respondents opinion about role of income tax; a question was asked, "Do you think that Business Income Tax is an important source of collecting government revenue?" the responses are tabulated as below:

Table: 4.11

Opinion in Respect to Business Income Tax is an Important Source of Government Revenue of Nepal.

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax	18	90	2	10	20	100

Practitioner/administrator						
Tax payers	15	75	5	25	20	100
Total	33	82.5	7	17.5	40	100

Source: Opinion Survey, 2013

From the above table, it is clear that 82.5% of the respondents approved the income tax as a suitable means of raising government revenue and only 17.5% respondents did not recognize income tax as a suitable means of raising government revenue. Thus, the conclusion can be drawn out that the income tax is a suitable means of raising government revenue of Nepal.

4.3.2.3 Opinion in Respect to Government Business Income Tax System in Nepal

To know the respondents view to government business income tax system in Nepal, a question was asked; “How is the government Business Income Tax System in Nepal in your opinion?” the responses have been tabulated below:

Table: 4.12

Opinion in Respect to Government Business Income Tax System in Nepal

Responses	Sound & Effective		Poor		Total	
	No.	%	No.	%	No.	%
Tax Practitioner/administrator	2	10	18	30	20	100
Tax payers	5	25	15	75	20	100
Total	7	17.5	33	82.5	40	100

Source: Opinion Survey, 2013

From the above result, it is clear that 82.5% of respondents have approved that the Government Business Tax system is poor. But 17.5% of respondents think that Business Income Tax system is sound & Effective. However, majority of respondents approved that Government Business Income Tax System is poor in Nepal.

4.3.2.4 Opinion in Respect to Tax Paying Habit of Nepalese People

To know the respondents view about taxpaying habit of Nepalese people, a question was asked; “In Your opinion, is the taxpaying habit of Nepalese people is poor?”the responses have been tabulated below:

Table: 4.13

Opinion in Respect to Tax Paying Habit of Nepalese People

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax	20	100	0	0	20	100

Practitioner/Administrators						
Tax Payers	16	80	4	20	20	100
Total	36	90	4	10	40	100

Source: Opinion Survey, 2013

From the above table, it is clear that 90% of respondents approved that taxpaying habit of Nepalese people is poor. But 10% of respondents think that there is not poor habit of Nepalese people to pay tax. Who said yes it was asked that the causes of poor taxpaying habit of Nepalese people & requested them to rank in order to preference. The response was as follows:

Table: 4.13.1

Response to Main Reasons behind Poor Taxpaying Habit of Nepalese People

S.N.	Reasons for Poor Taxpaying Habit	Total Points Received				
		Tax Practitioner	Taxpayer	Total	Percentage	Rank
1.	Lack of proper tax education.	112	76	193	18.65	I
2.	Poverty of tax payers.	68	34	102	10.11	VI
3.	Wide spread practices of illegal way to earning money.	104	81	185	18.35	II
4.	No provision of incentives for regular tax payers.	88	92	180	17.86	III
5.	Complexity of tax laws and policies.	76	78	154	15.28	IV
6.	Defective tax administrative system.	60	64	124	12.3	V
7.	Others	52	23	75	7.74	VII

Total		560	448	1008	100	
-------	--	-----	-----	------	-----	--

Source: Opinion Survey, 2013

Seven causes were presented and asked respondents to know their opinion about the major reasons of poor taxpaying habit of Nepalese people. The choices of respondents are summarized and tabulated in table 4.13.1

From the opinion survey, the main reasons of poor taxpaying habit of Nepalese people are lack of proper tax education. Serially other causes are as listed below:

Lack of proper tax education.

Wide spread practices of illegal way to earning money.

No provision of incentives for regular tax payers.

Defective tax administrative system.

Complexity of tax laws and policies

Povertyness of tax payers.

Others (corruption, lack of proper communication, etc).

To know the main causes of poor taxpaying habit of Nepalese people, researcher test rank Correlation coefficient.

Hypothesis:

There is no significance relationship between the view of tax practitioner/tax administrators and taxpayers with respect to main causes of poor taxpaying habit of Nepalese people.

Calculation of Correlation by Formula,

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

$$PE = 6.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Let variable X and Y denote views of Tax Practitioner/Tax administrator and Taxpayers respectively.

Table: 4.13.2

Correlation Test in Respect to Main Reasons behind Poor Taxpaying Habit of Nepalese People

S.N.	Causes of poor taxpaying habit	Total points (X)	Rank (R1)	Total points (Y)	Rank (R2)	Difference of Rank (R1-R2)	Square of difference (R1 – R2) ²
1.	Lack of proper tax education.	112	1	76	4	-3	9
2.	Poverty of tax payers.	68	5	34	6	-1	1
3.	Wide spread practices of illegal way to earning money.	104	2	81	2	0	0
4.	No provision of incentives for regular tax payers.	88	3	92	1	2	4
5.	Complexity of tax laws and policies.	76	4	78	3	1	1
6.	Defective tax administrative system.	60	6	64	5	1	1
7.	Others	52	7	23	7	0	0
Total		560		448			$\sum d^2=16$

$$R = 1 - \frac{6(16)}{7(7^2-1)} = 0.71$$

$$PE = 0.6745 \times \frac{1-0.71^2}{\sqrt{7}} = 0.13$$

Here, R is less than PE The relation is not significant because to be significant R should be 6 times less than PE So null hypothesis is rejected. That means the opinions of tax practitioner/administrator and taxpayers regarding main causes of poor taxpaying habit of

Nepalese people are significantly different. But there is some relationship between their views because the value of R is moderate.

4.3.2.5 Opinion in Respect to Government is success to collect sufficient Income Tax through Business Income Tax

To know the view of respondents view to Government is success to collect sufficient Income Tax through Business Income Tax or not, a question was asked “Do You think that the government is success to collect sufficient Income Tax through Business Income Tax?” the response have been tabulated as below:

Table: 4.14

Opinion in Respect to Government is success to collect sufficient Income Tax through Business Income Tax

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Practitioner/Administrators	0	0	20	100	20	100
Tax Payers	3	15	17	85	20	100
Total	3	7.5	37	92.5	40	100

Source: Opinion Survey, 2013

From the above table, it is clear that 7.5% of respondents have approved that the Government success to collect the Income Tax from Business Income Tax. But 92.5% of respondents think that Government is not success to collect sufficient Income Tax through Business Income Tax. Respondents who said No, it was asked that “How to increase the Business Income Tax revenue in Nepal?”, and requested them to rank the possible way in order to preference. The respondent’s response was as follows:

Table: 4.14.1

Response in Respect to Way to Increase the Business Income Tax Revenue in Nepal

S.N.	Way to Increase the Business Income Tax	Total Points Received				
		Tax Practitioner	Tax Payers	Total	%	Rank
1.	By increasing tax rate.	81	60	141	13.61	V
2.	By reducing the exemption limit.	76	81	157	15.15	III
3.	By reducing concession, rebate	74	58	132	12.74	VI

	and withholding payments.					
4.	By making clear act, rule and regulations.	135	96	231	22.29	I
5.	By giving training to tax administrator and taxpayers about tax laws and regulations.	98	76	174	16.79	II
6.	By applying high penalty and fines assesses due to not submitting the statements in time.	68	75	143	13.8	IV
7.	Others	28	30	58	5.62	VII
Total		560	476	1036	100	

Source: Opinion Survey, 2013

Way to increase the Business Income Tax revenue in Nepal, six ways were presented & provides chance to give their opinion also and asked respondents to know their opinion. The choice of respondents are summarized and tabulated in table 4.14.1. From the opinion survey, the major ways to increase the Business Income Tax revenue in Nepal is by making clear Act, rules & regulations. Serially other causes are as listed below:

By making clear act, rule and regulations.

By giving training to tax administrator and taxpayers about tax laws and regulations.

By reducing the exemption limit.

By applying high penalty and fines assesses due to not submitting the statements in time.

By increasing tax rate.

By reducing concession, rebate and withholding payments.

Others, (social welfare scheme, increasing tax payers etc.)

To know the way to increase the Business Tax Revenue in Nepal, Researcher test Rank Correlation Coefficient.

Hypothesis:

There is no significant different between the views of tax practitioner and taxpayers with respect to major ways to increase the Business Tax Revenue in Nepal.

Calculation of Rank Correlation by Formula,

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

$$PE = 6.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Let variable X and Y denote views of Tax Practitioner/Tax administrator and Taxpayers respectively.

Table: 4.14.2

Correlation Test in Respect to Way to Increase the Business Income Tax Revenue in Nepal

S.N.	Way to increase Business Tax Revenue	Total Points (X)	Rank (R1)	Total Points (Y)	Rank (R2)	(R1-R2)	(R1 - R2) ²
1.	By increasing the tax rate.	81	3	60	5	-2	4
2.	By reducing exemption limit.	76	4	81	2	2	4
3.	By reducing concession, rebate and withholding payments.	74	5	58	6	-1	1
4.	By making clear act.	135	1	96	1	0	0
5.	By giving training to tax administrator and tax payer about tax laws and regulations.	98	2	76	3	-1	1
6.	By applying high penalty and fines to assesses fails to submit the statements	68	6	75	4	2	4

7.	Others	28	7	30	7	0	0
Total		560		476			$\sum d^2=14$

$$R=1-\frac{6(14)}{7(7^2-1)}=0.75$$

$$PE = 0.6745 \times \frac{1-(0.75)^2}{\sqrt{7}} = 0.11$$

Here, R is greater than PE The relation is significant because to be significant R should be 6 times greater than PE So null Hypothesis is accepted. That means the opinion of tax practitioner and tax payers regarding the ways of increase Business Tax Revenue in Nepal are not significantly different. But there is some relationship between their views because the value of R is moderate.

4.3.2.6 Opinion in Respect to Increase Taxpaying Habit of Nepalese People

To know respondent's opinion towards the how to increase taxpaying habit of Nepalese people, the respondent's response are as follows:

Table: 4.15

Opinion in Respect to Increase Taxpaying Habit of Nepalese People

S.N.	Ways to increase taxpaying Habit of Nepalese People.	Total Points Received				
		Tax practitioner	Tax Payer	Total	%	Rank
1.	Proper tax education.	130	108	238	21.25	I
2.	Better incentive for regular tax payers.	105	122	227	20.67	II
3.	Sound and effective administration system.	104	92	196	17.5	III
4.	Simplification of tax laws and policy.	81	94	165	15.62	IV
5.	Better communication between tax payers and tax office.	88	114	202	18.03	V
6.	Nothing is required.	0	0	0	0	VII
7.	Others.	52	30	82	7.32	VI
Total		560	560	1120	100	

Source: Opinion Survey, 2013

To increase taxpaying habit of Nepalese people, six causes were presented and asked respondents to know their opinion. The choice of respondents are summarized and tabulated in the table 4.15.

From the opinion survey, best ways to increase taxpaying habit of Nepalese people is by proper tax education. Serially other causes are as listed below:

Proper tax education.

Better incentives for regular tax payers.

Sound and effective administration system.

Simplification of tax laws and policy.

Better communication between tax payers and tax office.

Others (social welfare scheme, making clear act, remove illegal practices of earning money, Remove corruption from the system).

Nothing is required.

Hypothesis:

There is no significant difference between the views of tax Practitioner and taxpayers with respect to major increase in taxpaying habit of Nepalese people.

Calculation of Correlation by formula,

$$R = 1 - \frac{6 \sum d^2}{n(n^2 - 1)}$$
$$PE = 6.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Let variable X and Y denote view of tax Practitioner and tax payers respectively.

Table 4.15.1

Correlation Text Opinion in Respect to Increase Taxpaying Habit of Nepalese People

S.N.	Ways to increase taxpaying Habit of Nepalese People.	Total Points (X)	Rank (R1)	Total Points (Y)	Rank (R2)	(R1-R2)	(R1 - R2) ²
1.	Proper tax education.	130	1	108	3	-2	4
2.	Better incentive for regular tax payers.	105	2	122	1	1	1
3.	Sound and effective administration system.	104	3	92	5	-2	4
4.	Simplification of tax laws and policy.	81	5	94	4	1	1
5.	Better communication between tax payers and tax office.	88	4	114	2	2	4
6.	Nothing is required.	0	7	0	7	0	0
7.	Others.	52	6	30	6	0	0
Total		560		560			$\sum d^2=14$

$$R=1-\frac{6(14)}{7(7^2-1)}=0.75$$

$$PE = 0.6745 \times \frac{1-(0.75)^2}{\sqrt{7}} = 0.11$$

Here, R is greater than PE The relation is significant because to be significant R should be 6 times greater than PE So null Hypothesis is accepted. That means the opinion of tax practitioner and tax payers regarding the ways of increase taxpaying habit of Nepalese people are not significantly different.

4.3.2.7 Opinion for Way to Make tax Payers more Responsible:

Responsible taxpayers are the most important factors of effective and sound tax system. Our tax system cannot be exception. Whether the question is raised about tax system, everybody must look at different factors related to taxpayers. These factors may be degree of awareness, feeling of responsibilities, attitude of taxpayers; economical environment etc. if tax system is seems to be not efficient, we must consider the side of taxpayers. To know how the

respondents think to improve attitude of taxpayers, question was asked, “what is the most appropriate way that makes tax payers amore responsible?” suggestions made by respondents are tabulated below:

Table: 4.16

Opinion for Way to Make tax Payers more Responsible:

Responses Respondents	Awareness through Media		Harder Provisions in Rules		Incentives such as prize and respect		Noting is required	
	No.	%	No	%	No	%	No	%
Tax Practitioner/ Administrators	8	40	5	25	7	35	0	0
Tax Payers	7	35	2	10	11	55	0	0
Total	15	37.5	7	17.5	18	45	0	0

Source: Opinion Survey, 2013

From the opinion Survey, it was found 40% tax Practitioner/administrator and 35% of taxpayers think taxpayers not to be aware. So they recommended for awareness through different Media. 17.5% of respondents have opinion that taxpayers are aware but have intention to evasion so it required harder provisions in rule. Fines, penalties, punishments etc, can bring them in track. Other 45% respondents including 55 % of taxpayers, 35% of tax practitioner identify the tax payers as responsible citizen and argued incentives such as prize and respect will motivate them. According to Survey result, all provisions are to be implemented simultaneously.

4.3.2.8 Opinion in Respect to Business Income Tax Administration System of Nepal

To know about Business Income Tax administration system of Nepal, a question asked to respondent as “In your opinion, how is the Business Income Tax administration system of Nepal?” respondent’s response differently which is presented as bellow:

Table: 4.17

Opinion in Respect to Business Income Tax administration system of Nepal

Response Respondents	Effective		Ineffective		Total	
	No.	%	No.	%	No.	%
Tax Practitioner/Administrators	0	0	20	100	20	100

Tax Payers	0	0	20	100	20	100
Total	0	0	40	100	40	100

Source: Opinion Survey, 2013

Respondents who response Ineffective it was asked that to suggest about the man causes of Ineffectiveness of tax administration system in order to priority. The respondent's responses are as follows:

Table: 4.17.1

Response to Main Causes of Ineffectiveness of Business Tax Administration System

S.N.	Causes of Ineffectiveness	Total Points received				
		Tax Practitioner	Tax payer	Total	%	Rank
1.	Lack of trained and competent tax personnel.	110	96	206	18.39	I
2.	Lack of proper communication.	78	91	169	15.09	IV
3.	Complicated tax laws.	104	93	197	17.59	II
4.	Lack of proper direction.	90	100	190	16.96	III
5.	Lack of co-ordination	66	68	134	11.96	VI
6.	Undue delay on making assessment.	62	92	154	13.75	V
7.	Others	20	20	70	6.26	VII
Total		560	560	1120	100	

Source: Opinion Survey, 2013

For the main causes of Ineffectiveness of Tax administration system in Nepal, six possible causes were presented and provided chance to give their opinion also and asked respondents to their opinion. The choice of respondent's are summarized and presented in table 4.17.1.

From the opinion Survey, the major causes of Ineffective Business Tax administration system in Nepal is lack of trained and competent Tax personnel. Serially other causes area as listed below:

Lack of trained and competent tax personnel.

Complicated tax laws.

Lack of proper direction.

Lack of proper communication.

Undue delay on making assessment.

Lack of co-ordination

Others. (Corruption, wide spread practices of illegal way to earning money, not awareness of people etc.)

To know the major causes of ineffective Business income tax administration system of Nepal, Researcher test rank Correlation coefficient.

Hypothesis:

There is no significant difference between the views of tax Practitioner and taxpayers with respect to major causes of ineffectiveness of Business Income Tax administration system in Nepal.

Calculation of Correlation by formula,

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

$$PE = 6.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Let variable X and Y denote view of tax Practitioner and tax payers respectively.

Table: 4.17.2

Correlation Test in Respect to Main causes of Ineffectiveness of Business Tax Administration System

S.N.	Causes of ineffectiveness	Total points (X)	Rank (R1)	Total points (Y)	Rank (R2)	Difference of rank (R1-R2)	$(R1 - R2)^2$
1.	Lack of trained and competent tax personnel.	110	1	96	2	-1	1
2.	Lack of proper communication.	78	4	91	5	-1	1
3.	Complicated tax laws.	104	2	93	3	-1	1
4.	Lack of proper direction.	90	3	100	1	2	4
5.	Lack of co-ordination	66	5	68	6	-1	1
6.	Undue delay on making assessment.	62	6	92	4	2	4
7.	Others.	50	7	20	7	0	0
Total		560		560			$\sum d^2 = 12$

$$R = 1 - \frac{6(12)}{7(7^2-1)} = 0.79$$

$$PE = 0.6745 \times \frac{1-(0.79)^2}{\sqrt{7}} = 0.10$$

Here R is greater than PE The relation is significant because to be significant R should be 6 times greater than PE So null Hypothesis is accepted. That means the opinions of the practitioner and taxpayer's regarding major causes of ineffectiveness of the Business Income Tax administration of Nepal are not significantly different.

4.3.2.9 Attitude towards the reforms is essential in business tax system of Nepal

It has been accused that the Nepalese business tax system has been suffered from various problems and it needs many reforms. To know what kind of reforms should be done in

Nepalese business tax system a question was asked "What kind of reform is essential in business tax system of Nepal?" The responses received from the respondents are tabulated as follows:

Table 4.18

Attitude towards the reforms is essential in business tax system of Nepal

S.N.	Kinds of reforms is essential in Business Tax	Total Points received				
		Tax Practitioner	Tax Payer	Total	%	Rank
1.	Reform in Tax Policy	135	96	231	22.29	I
2.	Reform in Tax Collection Habit	68	75	143	13.8	IV
3.	Simplification of tax registration system	76	81	157	15.15	III
4.	Human Resource Development and incentives	98	76	174	16.79	II
5.	Reform in tax structure	81	60	141	13.61	V
6.	Reforms in tax audit	74	58	132	12.74	VI
7.	Others	28	30	58	5.62	VII
Total		560	476	1036	100	

Source: Opinion Survey 2013

The major reforms in Nepalese income tax system ranked in order of the preference of the respondents were as follows:

Reform in Tax Policy

Human Resource Development and incentive

Simplification of tax registration system

Reform in tax collecting habit

Reform in tax structure

Reform in tax audit

Others (Uses of ICT in Nepalese Tax System, Political Commitment for reform conducting different tax awareness program)

Hypothesis:

There is no significant difference between the views of tax Practitioner and taxpayers with respect to Attitude towards the reforms is essential in business tax system of Nepal.

Calculation of Correlation by formula,

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

$$PE = 6.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Let variable X and Y denote view of tax Practitioner and tax payers respectively.

Table 4.18.1

Attitude Towards the Reforms is Essential in Business Tax System of Nepal

S.N.	Kinds of reforms is essential in Business Tax	Total points (X)	Rank (R1)	Total points (Y)	Rank (R2)	Difference of rank (R1-R2)	$(R1 - R2)^2$
1.	Reform in Tax Policy	135	1	96	1	0	0
2.	Reform in Tax Collection Habit	68	6	75	4	2	4
3.	Simplification of tax registration system	76	4	81	2	2	4
4.	Human Resource Development and incentives	98	2	76	3	-1	1
5.	Reform in tax structure	81	3	60	5	-2	4
6.	Reforms in tax audit	74	5	58	6	-1	1
7.	Others	28	7	30	7	0	0
Total		560		476			$\sum d^2 = 14$

$$R=1- \frac{6(14)}{7(7^2-1)}=0.75$$

$$PE = 0.6745 \times \frac{1-(0.75)^2}{\sqrt{7}} = 0.11$$

Here, R is greater than PE The relation is significant because to be significant R should be 6 times greater than PE So null Hypothesis is accepted. That means the opinion of tax practitioner and tax payers regarding the ways of attitude towards the reforms is essential in business tax system of Nepal are not significantly different.

4.3.2.10 Contribution of Business tax revenue of Nepal

To know respondents opinion towards current collection of income tax in Nepal a question was asked "What do you think about the contribution of business tax in revenue of Nepal?"

The responses summarized below:

Table 4.19

Contribution of Business tax revenue of Nepal

Responses Respondents	Satisfactory		Moderate		Unsatisfactory		Total	
	No.	%	No.	%	No.	%	No.	%
Tax practitioner	7	35	12	60	1	5	20	100
Tax Payer	6	30	12	60	2	10	20	100
Total	13	32.5	24	60	3	7.5	40	100

Source: Opinion Survey 2013

From the above table, it is clear that 60% of respondents have moderate contribution of business tax revenue of Nepal. 32.5% of respondents have satisfactory. So, it can conclude that the role of business tax revenue of Nepal is neither optimistic nor so hopeless. It is in moderate condition.

4.3.2.11 Additional Tax Rate for Non-Resident on Business Income

To collect the maximum revenue for the government, we raise a question "Is it reasonable to increase additional tax rate for the non-resident on business income" the responses are as follows:

Table 4.20

Additional Tax Rate for Non-Resident on Business Income

Responses	Yes		No		Total	
	No	%	No	%	No	%
Tax practitioner	18	30	2	10	20	100
Tax Payer	15	75	5	25	20	100
Total	33	82.5	7	17.5	40	100

Source: Opinion Survey 2013

As per above table, it is clear that the additional tax rate for the non-resident is reasonable because 82.5% of respondents give their opinion to that view. Out of them above table shows that maximum of tax practitioners give their opinion additional tax rate for non-resident in comparison to tax payers and we can also say that the additional tax rate to non-resident cause to maximize the national revenue.

4.3.2.12 Perception towards the present business tax exemptions limit

To know the view of respondent's perception towards the present business tax exemptions, a question was asked "What is your Perception towards the present business tax exemptions limit?" The response has been tabulated as follows:

Table 4.21

Perception towards the present business tax exemptions limit

Responses	Positive		Negative		Total	
	No	%	No	%	No	%
Tax practitioner	15	75	5	25	20	100
Tax Payer	12	60	8	40	20	100
Total	27	67.5	13	32.5	40	100

Source: Opinion Survey 2013

From the above table, it is clear that 67.5% of respondents have approved that the present business tax exemption. 32.5% of respondents think that negative for the present business tax exemptions limit.

4.3.2.13 Opinion in Respect to Way to Improvement of Tax Administration System:

To know about the way to improvement of Tax Administration System what should be the degree of change was asked to respondents as "what is your suggestion for the improvement of Tax Administration System?" The respondent response differently as shown in the table:

Table: 4.22

Opinion in Respect to Change Required in Tax Administration

Responses Respondents	General improvement such as decentralization on delegation of authority		Make more effective to self assessment procedure		No change	
	No.	%	No.	%	No.	%
Tax practitioner	9	45	11	55	0	0
Tax payers	7	35	13	65	0	0
Total	16	40	24	60	0	0

Source: Opinion Survey, 2013.

To know about way of improvement of Tax Administration System which includes remarkable representation of tax administrators, i.e. 40% of them think general improvement such as decentralization on delegation will solve the problem. But 55% of tax practitioner and 65% of tax payer's feels make more effective to self assessment procedure is lacking for betterment of tax administration system.

4.3.2.14 Any Other Comments and Suggestions about Income Tax on Business Income in Nepal.

It was asked that to all Respondents in last question "If you have any other comments and suggestions about Income Tax on Business Income in Nepal? Please specify", but few respondents' responses that question. The responses are summaries as bellow:

Making clear act, rule and regulation.

Increasing the numbers of Taxpayers.

Making provision to increase incentives such as prizes and respect.

Making hard rules to decrease corruptions.

Reduce the tax rates, etc.

4.4 Major Findings of the Study

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

The study shows that the contribution of tax revenue to total revenue was 86.52% and that of non tax revenue was 13.47 in fiscal year 2011/12. It shows that taxation has been a major source of government revenue. But the contribution of tax revenue was in the decreasing trend. It's contribution was 81.09% in FY 2006/07 on total revenue was in the decreasing trend. It's contribution was 81.09% in FY 2006/07 on total revenue, which is slightly decreased to 79.12% in FY 2007/08 but increase in FY 2008/09 by 81.58 and 87% in FY 2009/10 decreased in FY 2011/12 by 86.52%.

The tax revenue constitutes direct and indirect tax. Indirect tax has a leading role in total tax revenue. It's share was 73.86% in FY 2000/01 and reduced to 73.06% in FY 2001/02 and gradually increased to 75.84% in FY 2004/05 and again reduced to 70.68% in year 2008/09 and increased up to 75.87% in FY 2010/11 and decreased in FY 2011/12 by 74.82%.

Direct tax is levied by government for income generation and holding of wealth. In Nepal, Direct tax is the composition of house and land registration tax, house and land revenue or tax on other property, income tax, and vehicle tax. House and land registration tax occupies 7.78% of direct tax, Income tax occupies 86% other property tax occupies 0.46% vehicle tax occupies 7.58% of direct tax revenue in FY 2011/12.

Income tax is the major sources of direct tax revenue. The amount from income tax was Rs 9114 million in FY 2000/01

and reached up to Rs 52333.16 million in FY 2011/12. Income tax constitutes income tax from public enterprises, semi public enterprises, private corporate bodies, individual, remuneration and tax on business income.

The role of income tax from public enterprises is significant. It holds fluctuating trend within the study period but last year it has been increased and seems positive symptoms. The effect in income tax collection from private corporate bodies is declined for first three years and slowly growing for last fiscal years.

Income tax from individual has the major role in income tax and bears dominating role in period of the study. The mean contribution of individual tax is Rs. 3464.93 million in total income tax and it holds fluctuating trend.

Income tax from remuneration is always increasing trend which has never declined its share in total business income tax is also positive.

Income tax from business income is another source of income tax which has increasing trend except FY 2001/02 and 2002/03. Business income tax collection trend is optimistic.

The total income tax/GDP ratio in FY 200/01 was 2.06% which increased to 3.36% in the FY 2011/12. But which is not satisfactory increment for the developing country like Nepal. The share of total income tax is 2.34% in average with respect to GDP.

From the opinion survey with various respondents i.e. Income Tax Practitioner/administrators and Income taxpayers, the following findings have been drawn:

Most of the respondents did not agree to Income Tax system of Nepal is sufficient.

Business Income tax is an important source of government of Nepal.

Government Business Income tax system is poor in Nepal.

Lack of proper tax education, wide spread practices of illegal way to earning money, no provision of incentives for regular tax payers, complexity of tax laws and policies, defective tax administration system, covertness of taxpayers, corruption are the main reasons for poor taxpaying habit of Nepalese people. And the opinion of tax practitioner/administrator and taxpayer regarding main causes of poor taxpaying habits of Nepalese people are not significantly different.

Most of the respondents did not agree that government is success to collect sufficient income tax through business income tax. To increase the business income tax revenue in Nepal, increasing tax rate, reducing the exemption limit, reducing concession, rebate and withholding payments, making clear act & rules and regulation, applying high penalty and fines assesses fails to submit the statements are the main ways.

To Increase taxpaying habit of Nepalese people, the most suitable ways are proper tax education, better incentives for regular tax payers, sound and effective administration system,

simplification of tax laws & policies, better communication between tax payer and tax office.

To make tax payer more responsible the most suitable way are incentives such as prize and respect, awareness through media and harder provisions in rules.

Most of the respondents did not agree about business income tax administration system of Nepal is effective. Major causes of ineffectiveness of tax administration system are lack of trained and competent tax personnel, complicated tax laws, lack of proper direction, lack of proper communication, undue delay in making assessment, lack of co-ordination, not awareness of people etc. and the opinion of tax practitioner/administrator and tax payer's regarding major causes of ineffectiveness of the business income tax administration of Nepal are significantly different.

To improve the tax administration system of Nepal, most of the respondents are in favour of need to evolutionary change and some of them are in favour of general improvement such as decentralization and delegation of authority.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The role of government is increasing as concept of welfare state is introducing. It requires fund to improve lifestyle of people, lunch public welfare program and maintain law and order. Fund is collected by government through external & internal sources. External sources such as foreign loan, grants, borrowing etc are not certain and not good for sustainable economic development of the country so any government has to emphasis on internal sources such as tax and non-tax revenue to collect necessary fund.

Nepal is one of the least development countries of the world. Besides it is trying on planned development over five decades, already suffering from resource constraints, massive poverty, rapid growth of population, increasing frictional and seasonal unemployment, diseases, aggressive dependent on agriculture, subsistence living standards and poor infrastructure. To overcome such serious problems government requires lots of funds but resource mobilization is still poor condition in Nepal. The resource gap i.e. the gap between government expenditure and internal source is widening continuously. There is no alternative to mobilize internal resources and collect funds internally through revenue for rapid and sustainable economic growth.

Revenue constitutes tax and non-tax revenue. Direct and indirect taxes are branches of tax revenue and income tax is one of the major sources of direct tax. History of income tax starts from eighteenth century in world, initiated from Great Britain. In Nepal, the first parliamentary government imposed income tax in Nepal in 1959. Income Tax Act 1962 was enacted in 1962 replacing Business, Profit and Remuneration Tax Act of 1959. The Income Tax Act, 1962 was replaced by Income Tax Act 1974, which was amended for eight times and existed for a period of 28 years. The Income Tax Act, 1974 and all the income tax related provisions made under other special enactment have been replaced and existing Income Tax Act, 2058 (01, April 2002). The Act governs all income tax matters and is applicable throughout the kingdom of Nepal. It is also applicable to residents residing wherever outside Nepal.

The Act has categorized the income mainly into three broad heads: Employment (an individual's remuneration income from an employment for an income year), Business Income

(profits and gains of a person or entity from conducting a business for an income year) and Business Income (profits and gains of a person conducting an business for an income year).

The definition of business is not limited in the purchasing and selling of goods as is defined in directly, it has how wide area coverage. Business in wide scope covers trade, commerce, production, profession vocation etc. Income from business is the maximum revenue earner with large number of tax payers, tax is the legal practice of collecting fund from different economic involvement as revenue in order to carry out several fund Social, Political Cultural, developmental & other activities for the welfare of nation. In Nepal business is the taxation concept was emerged. Format tax act in Nepal was named as Business profits and Remuneration Tax Act 2017, which was introduced by first elected government of Nepal.

In income tax, business income tax is the main source of it. The role of business income tax is significant. It has contributed 75.10% to total income tax in average. The share of income tax from private corporate bodies is 27.58% in average. The share of income tax from government enterprises is 10.48% and share of income tax from individuals is 23.17% in average with compare to total tax income.

5.2 Conclusion

Nepal is one of the least developed countries. It is suffering from chronic diseases. It is not being able to collect necessary government revenue to cure such disease due to poor performance on internal revenue collection and mobilization. It has still dependant on foreign grants and loans. Unless remedy should be made in due time, the country cannot run in the path of economic development. In developing countries like Nepal, lack of sufficient financial resources is the main constraint for national economic development. There is no alternative to mobilize internal resources and collect funds internally through revenue for rapid and sustainable economic growth.

The revenue structure of Nepal is composed of tax and non-tax revenues. In total revenue structure, tax revenue has the greatest share of contribution.

Nepalese tax revenue consists of direct and indirect tax revenue. Tax has been heavily dominated by indirect tax revenue. Among direct taxes, income tax has the largest share of contribution.

The income tax revenue structure of Nepal is formed by combination of income tax from Public Enterprise, Private Corporate Bodies, Individuals, Remuneration and tax on business. Among them contribution of Private Corporate Bodies has occupied first position, contribution of Individuals, tax on business Remuneration, Government Enterprises has occupied second, third, fourth & fifth position respectively.

Income tax revenue is collected from various sources of income. Income from business Income is one of the important sources of income among them. The contribution of business Income, to income tax revenue has not been so satisfactory. The contribution of income tax from business Income to Total Revenue, Total Tax Revenue, Total Income Tax and contribution to GDP are significant.

According to opinion survey business tax as a suitable means of collecting government revenue, government business income tax system is poor, Nepalese government is failure to collect sufficient income tax through business income tax, taxpaying habit of Nepalese people is poor and business income tax administration system of Nepal is not sufficient.

According to opinion survey the main causes of above problems are lack of proper tax education, communication gap between tax office and taxpayers, no provisions of incentives for regular tax payer, complexity of tax laws policies, undue delay in

making assessment, wide spread practices of illegal way to earning money etc.

Increasing tax rate, reducing tax exemption limit, reducing concession, rebate and withholding payments, making clear act, applying high penalty and fines assesses due to not submitting the statement in time are possible ways to increase the business income tax revenue according to opinion survey.

Major causes of ineffectiveness of tax administration system are lack of trained and competent tax personnel, complicated tax laws, lack of proper direction, lack of proper communication, undue delay in making assessment, lack of co-ordination, not aware people etc.

Business income tax is based on socio-economic infrastructure and environment in the business income tax structure the debate is going on use of appropriate type of tax incentives, treatment of inflation, method and rate of depreciation. The present provision of tax incentives are found in sufficient in the changing global economic scenario especially for revival of sick industrial unit the statutory business tax rates are found frequently changed during the study period.

Mainly unclear vision of government to business sector, frequent changes of rule & regulations & unstable political economic environment of Nepal has sharply damaged the business sector.

5.3 Recommendation

On the basis of finding mentioned above the major areas of recommendation are mentioned as follows:

Total tax consists of direct tax revenue and indirect tax revenue. Nepalese tax revenue is having dominated by indirect tax revenue so it is necessary to direct the economy in the path of direct tax revenue. Because the direct tax revenue plays more significant role in the economic development of the country than indirect tax. Resource mobilization through direct taxation should be focused.

Out of total tax revenue, the contribution of income tax revenue is very low. So the contribution of income tax revenue to tax revenue and direct tax revenue should be increased by checking income tax evasion, bringing new tax payers into tax brackets, tax incentives programs with the help of sound tax planning.

Nepalese income tax /GDP ratio is 2.28% and business income tax /GDP ratio is 2.34% only in average. So the government should use appropriate methods to collect the tax.

Government should reduce resource gap by increasing internal revenue and subsidies. Likewise government should only take the foreign loan for productive sector or purpose which has high revenue generating possibility.

Business Tax Revenue can be increase by making clear act, rules and regulation, by giving training to tax administrator and tax payers about tax laws and regulation, by reducing the exemption limit, by applying high penalty and fines assesses

fails to submit the statement, by increasing tax rate, by reducing concession, rebate and withholding payments are the possible ways according to opinion survey.

Proper tax education, better incentives for regular tax payers, sound and effective administration system, simplification of tax laws and policy, better communication between tax payers and tax office, others (social welfare scheme, making clear act, remove illegal practices of earning money, remove corruption from the system) are the way of increase taxpaying habit of Nepalese people.

Most appropriate way that makes taxpayer more responsible are incentives such as prize and respect, awareness through media, harder provisions in rules etc.

Causes of ineffectiveness of business tax administration system in Nepal are lack of trained and competent tax personnel, Complicated tax laws, lack of proper direction, lack of proper communication, undue delay on making assessment, lack of coordination, corruption, wide spread practices of illegal way to earning money, not awareness of people etc. so, the government should control this causes to proper tax administration.

Structural composition of business tax was found to be dominated by public private sector. In spite of decrease in tax collection government enterprises sector. It's contribution percentage to Business income tax revenue was fluctuated. But the performance of private sector is not also satisfactory in

overall. Government should do proper homework before privatizing the enterprises and company & a research should be undertaken. Why the performance of private sector is poor even then government giving more emphasis to it.

Proper tax incentives should be given for revival of sick industrial unit. Provisions should be made under the Income Tax Act for carry forward and set off accumulated losses and unabsorbed depreciation of sick units if it is amalgamated with another company.

BIBLIOGRAPHY

BOOKS

- Agrawal, Jagadish. (2006). *Income tax, theory & practice*. Kathmandu: Buddha Academic Enterprises.
- Agrawal, R.K. (1994). *Corporate taxation*. Delhi: Hind Law Publisher.
- Aryal, K.P & Paudel, S.P. (2004). *Taxation in Nepal*. Kathmandu: Bandipur Prakashan.
- Bhattra, Ishower & Koirala, G.P. (2004). *Tax laws & tax planning*. Kathmandu: Asmita Books Publication.
- Bhattra, Ishower & Koirala, G.P. (2008). *Taxation in Nepal with tax laws & tax planning*. Kathmandu: Asmita Books Publication.
- Cooper, D.R. & Schindler P.S. (2004). *Business research methods*. New Delhi: Tata Mc Graw- Hill Publishing Company Limited.
- Dhakal, K.D. (2002). *Aayakar tatha ghar jagga kar sambandhi kar ra lekha*. Kathmandu: Kamal Prakashan.
- Dhakal, N.K. & Luitel, C.P. (2002). *Micro economics, money, banking, public finance and international trade*. Kathmandu: Pairawi Prakashan.
- Joshi, Shyam. (2055). *Economics for humanities*. Kathmandu: Taleju Prakashan.
- Kadel, Puspa Raj. (2008). *Tax laws and tax planning in Nepal*. Kathmandu: Buddha Academic Enterprises.
- K.C., Jit Bahadur. (2007). *Tax laws & tax planning*. Kathmandu: Khanal Books Prakashan.
- Khadka, R.B.(2001). *Income tax in Nepal: Retrospect and prospect*. Kathmandu: Ratna Pustak Bhandar.
- Kothari, C.R. (1994). *Quantitative Techniques*. New Delhi: Vikash Publishing House Pvt.Ltd.
- Malik, Bidhyadhar. (2003). *Nepalese modern income tax system*. Kathmandu: Mrs Anita Malik.
- Nepal, S.K., Dahal, G.N. & Uprety, Kumar. (2009). *Business Economics*. Kathmandu: Asmita Books Publication.
- Paudel, S.R. & Timilsina, P.P. (1990). *Income tax in Nepal*. Kathmandu: Astharai Enterprises.
- Poudyal, Karna Bir (1998), *Tax Planning in Nepal*. Sita Poudyal Pokhara, Simalchaour.

Sharma, P.K. & Chaudhary, A.K. (2066). *Statistical methods*. Kahmandu: Khanal Publicaion Pvt. Ltd.

Sthapit, Ajaya B. , Gautam, H., Joshi, P.R. and Dongol, P.M. (2003). *Statistical Methods*. Kathmandu: Buddha Academic Publisher and Distributors Pvt. Ltd.

Wolf, H.K. & pant, P.R. (2007). *Social science research & thesis writing*. Kathmandu: Buddha Academic Publication and Distributors Pvt. Ltd.

JOURNALS/ARTICLES AND REPORTS

Agrawal, G.R. (1984). Direct tax reforms in Nepal. *A report submitted to ministry of finance*. Kathmandu: Nepal.

Agrawal, G.R. (1988). *Resource mobilization in Nepal*. Kathmandu: CEDA

Kandel, P. R. (2004). Journal of Finance and Development. *Are tax incentives useful? If so which one?* Lalitpur: CEDA, Vol.I.

Kayastha, N. L. (1993). Problem & Prospectus of Resource Mobilization through Direct Taxation in Nepal. *An Article in Rajsewa*. Vol.I.

(2011). *Annual Report of MOF*. Kahmandu: Nepal Government, Ministry of Finance.

(2067). *Annual Report of Inland Revenue Department*. Kathmandu: Nepal G ent, Ministry of Finance.

(2068). *Annual Report of NRB*. Kathmandu: Nepal Government, Ministry of Finance.

Panta, D.B. (2004). Journal of Finance and Development. *Problem in tax administration and there remedies*. Lalitpur: CEDA, Vol.I.

UNPUBLISHED DISSERTATION

Adhikari, Agni Prasad. (2010). *Income Tax on Business Income in Nepal & it's Impact on Revenue Collection*. Unpublished Master Diss., Department of Management, P.N.C.

Basyal, Laxmi Devi. (2008). *Impact of Income Tax in National Revenue before and after Enactment of Income Tax*. Unpublished Master Diss., Submitted to Central Department of management, T.U., Kathmandu.

Kandel, P.R. (2000). *Business Tax System and Business Behavior in Nepal*. Unpublished P.h.D. thesis submitted to Central Department of Management, T.U., Kathmandu.

Koirala, Khomraj. (2005). *Effectiveness of Advance Taxation on Income Tax Generation in Nepal*. Unpublished Master Diss., Submitted to Central Department of management, T.U., Kathmandu.

- Kuwar, Mahendra. (2008). *A study on Problem & Prospectus of Remuneration Taxation in Nepal*. Unpublished Master Diss., Department of Management, P.N.C.
- Lamsal, Bharat Kumar. (2001). *A Study on Contribution of Income Tax on Government Revenue*. Unpublished Master Diss., Submitted to Central Department of management, T.U., Kathmandu.
- Paudel, Dipendra. (2011). *Issue and Reforms of Income Tax Administration in Nepal*. Unpublished Master Diss., Department of Economics, P.N.C.
- Subedi, Rama Kanta. (2007). *Employment Income Tax System of Nepal & it's Contribution to Revenue Collection*. Unpublished Master Diss., Department of Management, P.N.C.
- Subedi, Guru Prasad. (2010). *Employment Tax Reform in Nepal & it's Contribution to the National Revenue*. Unpublished Master Diss., Department of Economics, P.N.C.

WEBSITES/ GOVERNMENT PUBLICATIONS

- Annual Report of IRD, MOF, Government of Nepal. (2004/05,2005/06).
- Nepal Government, Ministry of Finance. (2009). *Economic Survey: Fiscal Year 2011/2013*. Kathmandu: Ministry of Finance. July, 2011. <www.mof.gov.np>
- Nepal Government, Ministry of Finance. (2008). *Economic Survey: Fiscal Year 2007/08*. Kathmandu: Inland Revenue Department 2008.
- <www.ird.gov.np>
- www.mld.gov.np
- www.nrb.gov.np

Appendix-I

QUESTIONNAIRE

Dear Sir / Madam,

I would like to introduce myself as the student of Prithvi Narayan Campus, MBS final year engaged in research work. In order to fulfill the partial requirement of master degree in business studies of T.U. of Nepal, I am going to prepare a dissertation on the topic of **“Business Income Tax Reforms and It's Contribution to National Revenue”**

I humbly request for your valuable comments, view, suggestions and information on this issue which would be very useful for my study. That's why I request you to fill up the following questionnaire. I would be very much appreciated if you could provide your time for filling this questionnaire. I hope for your kind co-operation and support with many thanks as soon as possible.

Ram Maya Subedi

P.N Campus, Pokhara

Red No: 7-2-48-2784-2005

Roll No: 187/065

Questionnaire

Name of Respondents:

Phone No:

Designation : Tax Practitioner/Administrator/Tax Payers

Mobile No:

Office/Department:

1. In your opinion, is the business income tax system of Nepal is efficient?
(a) Yes (.....) (b) No (.....)
2. Do you think that business income tax is an importance source of collecting government revenue?
(a) Yes (.....) (b) No (.....)
3. How is the government business income tax system in Nepal?
(a) Sound and effective (.....) (b) Poor (.....)
4. In your opinion, is the taxpaying habit of Nepalese people is poor?
(a) Yes (.....) (b) No (.....)

If it is poor, what should be the main reason behind it? (Please rank)

- (.....) Lack of proper tax education.
 - (.....) povertyness of tax payer.
 - (.....) Wide spread practices of illegal way to earning money.
 - (.....) No provision of incentives for regular tax payers.
 - (.....) Complexity of tax laws & polices.
 - (.....) Defective tax administrative system.
 - (.....) If other
5. Do you think that the government is success to collect sufficient income tax through business income tax?
a) Yes [.....] (b) No [.....]
If no, how to increase the business income tax revenue in Nepal?
 - (.....) By increasing the tax rate.
 - (.....) By reducing the exemption limit.
 - (.....) By reducing concession, rebate and with holding payments.
 - (.....) By making clear act, rules and regulation.
 - (.....) By giving training to tax administrator and tax payers about tax laws and regulation.
 - (.....) By applying high penalty and fines assesses due to not submitting the statements in time.
 - (.....) If other

6. In your opinion, how to increase taxpaying habit of Nepalese people?
(Order of Priority)
- (.....) Proper tax education.
 - (.....) Better incentives for regular tax payers.
 - (.....) Simplification of tax laws and policy.
 - (.....) Sound and Effective administration system.
 - (.....) Better communication between tax payers and tax office.
 - (.....) Nothing is required.
7. Did you feel any problems in paying business income tax?
a) Yes [.....] (b) No [.....]
- If yes, what kind of problems on paying Business income tax?
- (.....) Lack of sufficient tax information.
 - (.....) Negligence by tax personnel.
 - (.....) In-effective tax administration
 - (.....) Bad behavior of tax officials
 - (.....) Expectation of under payment of tax due to tax avoidance practices.
 - (.....) If other
8. What is the most appropriate way of making tax payers to be more responsible?
- (.....) Awareness through media.
 - (.....) Harder provisions in rules.
 - (.....) Incentives such as prize and respects.
 - (.....) Friendly environment on tax system.
 - (.....) Nothing is required.
9. What kind of reforms is essential in Business tax system of Nepal?
- (.....) Reforms in tax policy.
 - (.....) Reforms in tax collecting habit.
 - (.....) Simplification of tax registration system.
 - (.....) Human resource development and incentives.
 - (.....) Reforms in tax structure as a whole
 - (.....) Reforms in tax audit.
10. What do you think about the contribution of tax in revenue of Nepal?
a) Satisfactory b) Moderate c) Unsatisfactory
11. Is it reasonable to increase additional tax rate for the non-resident on business income?
a) Yes (.....) b) No (.....)

12. What is your perception towards the present business tax exemption limit?
 a) Positive (.....) b) Negative (.....)
13. What is your suggestion for the improvement of tax administration system?
 (.....) General improvement such as decentralization on delegation of authority.
 (.....) Make more effective to self assessment procedure.
 (.....) No change
 (.....) If other
14. In your opinion, how is the business income tax administration system of Nepal?
 a) effective (.....) b) ineffective (.....)
- If it is ineffective, please suggest on the main causes of ineffectiveness of tax administration system in order of priority.
 (.....) Lack of trained and competent tax personnel
 (.....) Lack of proper communication
 (.....) Complicated tax laws
 (.....) Lack of proper direction
 (.....) Lack of coordination
 (.....) Undue delay in making assessments
 (.....) If other (please specify)
15. What do you think that income tax is playing an effective role in reducing the gap between rich and poor?
 a) Highly effective b) Fairly effective c) Not effective
- If it is not effective, what may be the probable reasons to reduce gap between rich and poor. (Order of Priority)
- (.....) Small number of tax payers
 (.....) Poor taxpaying capacity
 (.....) Lack of tax consciousness
 (.....) Defective tax rate
 (.....) Poor administration
 (.....) Decreasing purchasing power of people
16. If you have any other comments and suggestions about Business tax reforms in Nepal?
 (Please mention here)

Thank You

Fiscal Year	Total Revenue	Tax Revenue		Non-tax Revenue	
		Amount	Percentage (%)	Amount	Percentage (%)
2000/01	48893.6	38865.1	79.49	10028.8	20.51
2001/02	50445.5	39330.6	77.97	11115	22.03
2002/03	56229.8	42587	75.74	13642.7	24.26
2003/04	62331	48173	77.29	14158	22.71
2004/05	70122.7	54104.7	77.16	16018	22.84
2005/06	72282.1	57430.4	79.45	14851.7	20.55
2006/07	87712.1	71127	81.09	16585.1	18.9
2007/08	107622.5	85155.5	79.12	22467	20.88
2008/09	143474.5	117051.9	81.58	26422.6	18.42
2009/10	179945.8	156294.9	87	23650.9	13.14
2010/11	203917.2	181254.6	90	22662.6	11.11
2011/12	241774.2	209203.1	86.52	32571.1	13.47

Fiscal Year	Total Revenue	Tax Revenue		Non-tax Revenue	
		Amount		Amount	
2000/01	48893.6	38865.1		10028.8	
2001/02	50445.5	39330.6		11115	
2002/03	56229.8	42587		13642.7	
2003/04	62331	48173		14158	
2004/05	70122.7	54104.7		16018	
2005/06	72282.1	57430.4		14851.7	
2006/07	87712.1	71127		16585.1	
2007/08	107622.5	85155.5		22467	
2008/09	143474.5	117051.9		26422.6	
2009/10	179945.8	156294.9		23650.9	
2010/11	203917.2	181254.6		22662.6	
2011/12	241774.2	209203.1		32571.1	

Fiscal Year	Total Revenue	Tax Revenue		Non-tax Revenue	
		Amount		Amount	
2000/01	48893.6	38865.1		10028.8	
2001/02	50445.5	39330.6		11115	
2002/03	56229.8	42587		13642.7	
2003/04	62331	48173		14158	
2004/05	70122.7	54104.7		16018	
2005/06	72282.1	57430.4		14851.7	
2006/07	87712.1	71127		16585.1	
2007/08	107622.5	85155.5		22467	
2008/09	143474.5	117051.9		26422.6	
2009/10	179945.8	156294.9		23650.9	
2010/11	203917.2	181254.6		22662.6	
2011/12	241774.2	209203.1		32571.1	

	Tax Revenue Amount	Non-tax Revenue Amount
2000/01	38865.1	10028.8
2001/02	39330.6	11115
2002/03	42587	13642.7
2003/04	48173	14158
2004/05	54104.7	16018
2005/06	57430.4	14851.7
2006/07	71127	16585.1
2007/08	85155.5	22467
2008/09	117051.9	26422.6
2009/10	156294.9	23650.9
2010/11	181254.6	22662.6
2011/12	209203.1	32571.1

	Total Income tax	Government Enterprises	Private Corporate bodies	Individuals	Remuneration	Tax on Business
2000/01	9114	2928	1924.3	3200.5	597.3	8052.8
2001/02	8903.7	1769.3	1412	4419.1	835.6	7600.4
2002/03	7966.2	1251	1236.3	3362.3	1252.6	5849.6

2003/04	9245.9	2056.6	1531.3	3533.4	1391.2	7121.3
2004/05	10466.23	1332.43	2467.8	1886	1675.9	7726.5
2005/06	10933.52	195.77	3404.3	1959	1764.1	7834.7
2006/07	15731.8	1019.67	5717.1	2307	2007.9	11971.2
2007/08	19077.81	204.59	7186.5	2452.3	2451	14315.7
2008/09	27246.43	959.05	9425.1	4472	3196	19624.5
2009/10	33811.89	1331.89	12234.47	3834.3	4413	24040.5
2010/11	41725.4	1206	14043.9	4665.1	5784.2	28580.4
2011/12	52333.2	1455.8	15223.3	5488.2	7446.83	35904.2