

CHAPTER - 1

INTRODUCTION

1.1 Background

The government of a country requires sufficient revenue to develop plans, to handle day-to-day administration, to maintain peace and securities and to launch other public welfare activities. The source of government revenue can be classified into external and internal two sources. External source of government revenue are foreign loans, grants, external borrowing etc. External source are uncertain, inconvenient and not good for healthy development of nation because they have to pay after a certain time. So, it is better to mobilize internal sources rather than external source.

Another source of government revenue is internal which includes tax and non tax revenue. The examples of non-tax revenue are fees, fines, royalty, administrative and business income etc. The government collects large amount of revenue from tax revenue. Tax is the contribution of public enterprises and individuals towards the nation and which is the main source of government revenue too. In other words, tax is a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the taxpayers according to law. Tax revenue is the important source of government revenue. Taxation is regarded as an effective instrument, it monitors various economic activities in a country. Professor Seligman has defined tax as a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without special benefit conferred. According to Frndley Shirrag, Taxes are compulsory contribution to the public authorities to meet the general expanses of government which have been incurred for the public good and without reference to special benefits. A tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government.

The taxpayer does not have any right to receive direct benefit from the tax they paid. The taxpayer cannot receive equivalent benefit from the government. Governments need funds to

run the various public welfares activities, therefore tax is to be paid to the government. The amount collected through taxation is spent for common interest of the people and it is collected from natural and artificial person. In conclusion, tax is a compulsory levy imposed by the government and the taxpayer cannot get corresponding benefit from the government.

Customs excise, value added tax, corporate and personnel income tax are the examples of the sources of tax revenue. Governments collect revenue through taxation with major objectives of economic development and economic stability (Laudari, 2001:1). Taxation is the main source of government revenue since it occupies the most important place in the government treasury. In Nepal, the contribution of tax revenue to total revenue is 79.45 percent in fiscal year 2005/06 and that was 73.06 percent in fiscal year 1991/92 (Economic Survey, various years).

Taxes are classified into direct and indirect tax. According to Dalton, "A direct tax is one which is really paid by the person on whom it is legally imposed while an indirect tax is imposed on one person, but paid partly or wholly by another, owing to consequential change in terms of some contract or bargaining between them" (Lekhi, 2000). Taxpayer cannot collect direct tax from other persons. Income tax, Interest tax, Contract tax, Vehicle tax are some examples of direct tax. Direct tax is paid according to income or property earned by a person. Taxpayer can collect Indirect Tax from other people. Therefore, impact and the incidence of tax are on different people. In Nepalese tax structure; Indirect Tax includes customs, excise duties, VAT etc. Taxes on income are the most important single source of revenue for governments of developed countries, though they at present produce far less revenue in the most developing countries than customs duties and taxes internal transactions. But these taxes are emphasized in all countries, developed as well as developing because they have the potential for increasing the yield of the tax system and achieving a system of taxation that satisfies the demand for equity and social justice. Income tax may be levied on the individuals as well as business firms. The former is known as personal or individual income tax or simply income tax, while the latter is more popular by the name of corporate income tax or corporation tax.

Income tax is imposed based on paying capacity of taxpayers. So, it will be possible to reduce the gap in income by imposing higher rather to those who are having higher income and from that collected amount, providing necessary assistance to the people with very poor

economic condition. Hence, it will help to make equitable economic distribution in the society. Balanced regional economic development is also possible through the provision of income tax. It will also help to income tax will be interested on public expenditure. They can observe the use of the collected funds. From the collected fund, government can maintain welfare state (Dhakal, 1998).

Income tax is the tax of equity. It is imposed because of paying capacity of taxpayers. Therefore, it will be possible to reduce the gap in income by imposing higher rate to those who are having higher income and from that collected amount, providing necessary assistance to the people with very poor economic condition. In a developing country like Nepal, the objective of income tax could be able to generate revenue in order to help or finance development activities and to establish social justice through income redistribution. Considering these objectives, since the time income tax introduced in Nepal, several changes have been making in law, tax act, tax system, tax policy, tax procedures etc.

Nowadays, prime concern of every nation of world is rapid economic development and Nepal is no exception to this ever-continuing process. Nepal aims for self-reliant economic system to upgrade its living standard of people. Thus, a lot of money has to be spent to achieve maximum national objectives. Income tax plays a very important role in the economic development of Nepal. It is a tool of achieving maximum social and economic objective as laid down by the constitution of Nepal. It is also recognized as a good financial tool to make narrow the inequality in income. It reduces the regional economic unbalance by providing tax concession and holidays to the business or industry, which are established in remote and backward areas. 'Income tax is essential not only for collecting government revenue but also to control over consumption, to reduce in-equality of income and wealth, to promote saving and investment and to accelerate economic development' (Joshi, 1995).

Income tax is collected from various sources of profit and incomes. Income tax is collected from public enterprises, semi-public enterprises, private corporate bodies, individuals, remuneration and interest. Present study is specially designed to study the contribution of income tax from individual taxpayers in Nepal.'

1.2 Statement of Problem

Like other developing countries in the world, Nepal has been suffering from resources constraints, massive poverty, rapid growth of population, increasing frictional and seasonal unemployment, diseases, aggressive dependent on the agriculture, subsistence living standard and poor infrastructure despite over four decades (48 years) planned development efforts.

A government needs development with higher economic growth to overcome from such serious problem for which government should have adequate financial resource. In Nepal, resource mobilization is still poor that does not cover the requirements. Nepal is facing serious problems of resource gap and high dependency on foreign loan. Resource gap has incurred in Nepalese finance because the expenditure of Nepal Government (NG) has been increasing at a faster rate than the increase in revenue. The resource gap is widening continuously with the increment of total expenditure in respect to total revenue collection. The resource gap was 4137.6 million in 1982/83 and in 1992/93 it was Rs. 15749.3 million. It further widened to Rs. 38607.1 million in 2005/06 (budget speech of NG, various years).

To meet the growing national expenditure, government manages its funds from internal and external source. Such external sources are an uncertain, inconvenient and not good for healthy development in case of high dependency. It is better to mobilize internal source rather than expecting with beggars eye to donors. Therefore, to raise government revenue it is necessary to raise its internal sources of revenue. Internal source of revenue constitute tax and non-tax revenue. The contribution of tax revenue in the national revenue is 7.97 percent in fiscal year 2001/02 and that was 79.49 percent in fiscal year 2005/06. Government revenue is totally biased in taxation revenue and it has declined in fiscal year 2000/01, which is not desirable indication (economic survey, 2006/07). Government has adopted various policies to strengthen the revenue structure of Nepal. Government implemented self-tax assessment system to enhance the government revenue although; there is higher tendency of income tax evasion.

In the recent years, the contribution of income tax to total revenue is only about 14.35 percent in Nepal, which is very low contribution compare to developed countries. The contribution of income tax to GDP is only about 2.18 percent. There are many problems in Nepalese income tax system, which may be the factor for low tax revenue. Government can increase its income tax revenue through inefficient tax administrative system, widespread

income tax evasion, complicated & frequent change in tax rate and in policies are appearing a major factor for low contribution income tax revenue to national revenue.

Nepal depends upon the external sources more than on the internal sources. The available resources do not meet the estimated budget fulfilling the aspiration of the people and constructing the social welfare state. Therefore, there is need of improvement of income tax collection system to mobilize internal sources, which is also considered as the optimal solution of resource gap and high dependency on foreign loan. Nepalese tax system, to mobilize the internal resource in optimal level is fundamental need of the country but appears very poor and inefficient picture. Individual are the main source of income tax revenue, but if we look upon the data based we find the percent of contribution from individual to income tax revenue is decreasing. In the year 1991/92, individuals had contributed 76.87 percent but in 2005/06, it was only 57.83 percent. In one hand, number of individual taxpayers is increasing day by day. On other hand, the share of its contribution is decreasing. There are no any researches or study has been taken to find out the contribution of individual to Nepalese tax system and problems & way of solution. We, all the concern stakeholders regarding the tax were not aware on the situation of individual taxpayers.

1.3 Objectives of the Study

The main objective of present study is to find out the present status of individual taxpayers in the national figure of tax. This study also overviews the changing trend of individual taxpayers and the volume of tax they paid. So, the following are the objectives of the study:

- i. To examine of the structure of the government revenue and position of income tax.
- ii. To analyze volume of indirect tax and direct tax in total tax revenue.
- iii. To analyze the contribution of individual taxpayer to income tax revenue as well as total public revenue of Nepal.
- iv. To seek the attitudes/opinions of tax experts and taxpayers towards taxation on individual's income.
- v. To recommend possible measures regarding taxation of individual's income and for increasing the share of individual tax revenue to income tax of Nepal.

1.4 Scope of the Study

This study aims to find out the contribution of individual to income tax collection in Nepal. The major areas covered by this study are as follows:

-) Nepalese tax structure
-) Role of income tax in Nepal
-) Government revenue from direct tax
-) Existing position and sources of income tax in Nepal
-) Contribution on income tax from individual taxpayer in Nepal.

1.5 Scheme of Study

The whole study has organized into five chapters.

The first chapter includes introduction which gives general background, statement of problem, objectives, scope, scheme and limitation of study.

Second chapter is about the review of literature through different relevant books, journals and other published materials. It includes concept of tax, meaning of income tax, income tax in international context, legal provision of income tax in Nepal.

The third chapter includes research methodology of this study. This is about types of research, research design, population and samples, nature and source of data, data collection procedure and data processing and analysis procedure used in this study.

The fourth chapter is the main body of research, which is data presentation and analysis. The content of this chapter are resource gap in Nepal, Tax-GDP ratio, revenue structure of Nepalese government, contribution on income tax from individual taxpayer. Likewise, composition of tax revenue in Nepal, composition of Indirect Tax revenue, composition of Direct tax revenue, composition of income tax, contribution of income tax on direct tax

revenue, total revenue and GDP, income tax collection performance in Nepal, exemption limit and personal and corporate tax rate etc.

The fifth chapter includes summary, conclusion and recommendation. Moreover, it is the theme of the whole study. Appendix and bibliography have been presented in the last part of the study.

1.6 Limitation of the Study

The present study is not free from the limitations. Due o various constraints, this study is focuses to analyze only certain aspects of income tax and contribution of income tax from individual taxpayers in Nepal. Having outlined the objectives, statement of problems and methodology of the study, now brief note of its principal limitation.

The limitations of this study are as follows:

- i. The study has covered data only fiscal year 1992/93 to 2005/06.
- ii. Due to the large sector of individual taxpayer, the study may not represent the whole.
- iii. The assurance of the research is base on the faith of received data from different sectors.
- iv. This study is limited to Nepalese laws, rules and regulations to the income tax.

CHAPTER – II

CONCEPTUAL FRAMEWORK AND LEGAL PROVISIONS OF LITERATURE

2.1 Conceptual Framework and Legal Provisions

2.1.1 Concept of Tax

A government needs fund to run the country. Just like the circulation of blood in a body, money activates the different organs of the country. Without money we cannot do any developmental as well as administrative works. For this reason, government collects revenue from different sources like tax, price of goods or services provided by the government, receipt from public enterprises, fees, fines, grants etc. In short, all the sources of the government revenue can divided into two parts-tax and non-tax.

Following are the main sources of government revenue:

- **Tax:** It is a compulsory contribution from people to government.
- **Price of goods or services provided by the government:** It is the amount collected from special sector for specific purpose.
- **Receipt from public enterprises:** The government's receipts amount from public enterprises owned by it.
- **Fees:** The amount paid for the government for receiving its services.
- **Fines:** It is the amount paid for violating government's rules, acts and regulations.
- **Grants etc:** The amount received by the government from foreign countries and agencies.

In short, all the above sources of the government revenue can be divided into two parts – tax and non-tax. Tax is the major source covering most part of the government revenue. Tax is a compulsory payment to the government but is not a fine. Taxpayers do not get any direct benefit from the state by paying tax. Government collects tax with the permission of

legislature to fulfill financial needs of the state. Tax is a compulsory payment to government for the compensation of public expenditures. Tax fulfills the needs of central or local government to spend for philanthropic work. The main objective of tax is to distribute wealth and income equally among the citizens. Mainly, tax is classified in two groups. They are direct tax and indirect tax (Adhikari, 2003).

Tax is an amount of which it is the legal duty of every citizen of a country to pay honestly. Many economists have the view that tax is a compulsory payment to the government by taxpayer without any expectation of some specified return in favor of them. The experts have given definitions regarding tax and some of them are mentioned here.

According to classical economist Dalton "A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the taxpayer in return and not imposed as a penalty for any legal offence." (Dhakal, 1998)

Likewise, according to Findlay Shirras, "Tax is compulsory contributions to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits." (Lekhi, 2000 :146)

According to Bastable, "A tax is compulsory contribution of wealth of a person or body of persons for the service of public power." (Dhakal, 1998)

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, 1998:2)

According to professor Saligman, "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." (Lekhi, 2000:146)

From the above definitions, it is clear that a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax they had paid. In addition, the taxpayer cannot receive equivalent benefit from the government.

Amount collected through taxation is spent for common interest of the citizen and is collect from natural and artificial person.

2.1.2 Meaning of Income Tax

The concept of income tax in different countries is found differently because of diverse economic structure, nature of the government and status of people. In United States, income tax is viewed, as a matter of practice, recurrent is not relevant to the tax status. In United Kingdom, the original concept of the ax was that of a levy on recurrent income and the tax was applied to five schedules any item not falling within one of the five schedules not being subjected to tax. In India, the personal income tax is levied on the net income of all individuals, joint Hindu Families, unregistered firm and other associations of person (Chelliah, 1959).

Income tax is a personal tax imposed on the net income of individuals and corporation. In most of the countries especially the United States of America, Canada and other countries; the income tax is defined in terms of the 'flow of wealth' of receipt in money or goods from the taxpayer during the period. In flow of wealth method, taxation is imposed on a realization rather than as an accrual basis, and the applies only when a transaction occurs between other persona and taxpayers (Due, 1959)

According to tax economists- An income tax is a levy imposed upon the income of individuals after the exemption limit. Income tax is direct tax based on the total income of the payer from all sources and is graduated on a special system of exemption. Taxes on income ate he most important single source of revenue of government of developed and also developing countries either it contribute more or less.

The first problem encountered in establishing an income tax is the definition of income. Income, as the economic gain received by the person during the particular period, is most satisfactory defined by Henery Simons as the algebraic sum of two items:

- a. The person's consumption during the period, and

b. The net increase in the individual's personal wealth during the period
Symbolically, $Y = C + W$

Where, Y, C and W refers income, consumption and change in wealth respectively. It is very difficult to define income precisely and clearly. So, income is exemplified rather than defined income tax laws of various countries. For example, Sec.2 of the India Income Tax Act, 1961 keeps profits and gains, dividend, voluntary contributions received by charitable trust, value of any perquisite or profit on lieu of salary, any capital gain, winning from lotteries, crossword puzzles etc. under the head income.

According to income tax act 2002, sec. 2(h), income means a person income from any employment, business or investment and the total of that income as calculated in accordance with this act.

2.1.3 Classification of Taxes

In broad sense, taxes are classified into two categories. One is direct tax and other is indirect tax.

A. Direct tax

A direct tax is really paid by the same person on whom it is legally imposed. Taxpayer cannot collect direct tax from other persons. Income tax, Interest tax, Contract tax, Vehicle taxes are some examples of direct tax. Direct tax is paid according to the income or property earned by a person. So it is found equal with and property. There is certainty about the time, design, or process of payment of direct tax. Taxpayer can easily estimate his tax liability. Government can easily increase or reduce according to needs. Taxpayers pay tax from their own property, so they are conscious about their contribution. Taxpayers cannot collect direct tax from other persons and pay from their own property. Therefore, taxpayers feel pinch and they do not ready to pay voluntarily. They try to pay lowest tax as possible and exercise for tax evasion. There is lack of mass participation in case of direct tax. Direct tax discourages

private saving and investment. Income tax is a direct tax. In case of Nepal, income tax is the major source of direct tax revenue.

B. Indirect tax

An indirect tax is imposed on one person but paid partly or wholly by another. The examples of indirect Taxes are customs, excise, contract tax, value added tax etc. Indirect tax is transferable. People pay tax when they receive or consumed goods or services. Therefore, they do not feel burden to pay lump sum. There is mass participation because every person who receipt goods and services, pay tax. Indirect tax is flexible. Indirect tax can charge a higher percent to discourage the harmful goods. There is uncertainty about the collection of indirect tax. Every person either rich or poor pays equal amount of tax on receipt of goods or services. Therefore, it seems as regretful for poor people. If tax imposed on higher rate, consumption reduces and effects badly on production and employment.

2.1.4 International History of Income Tax

For the first time Great Britain introduce the income tax in 1799 in order to finance wars with France. Only after 1860, it was accepted as a permanent tax. In United State of America, first federal income tax was imposed in 1862 to finance civil war expenditure. However, it became a permanent feature only in 1913 after 16th amendment to U.S. constitution. In neighbor country India, at first income tax was introduced in 1860. After introducing 'Income Tax Act 1886' in 1886, it was imposed as a permanent. Italy adopted income tax in 1864, Newzeland in 1891, Australia in 1915 and Canada in 1917. After First World War, the income tax became an important source of ax revenue in many developed countries. By 1939, it has become the most important source of revenue in most developed countries and had made appearance in a number of developing nations (Agrawal, 1980).

From the First World War decade, income tax has shown as an important source of revenue in developed country. In the beginning of introducing time, it was generally levied at flat rate. Only after 1909, the principle of progression was introduced from the UK and Newzeland. Income tax was introduced due to the cause of war and national emergencies.

Thus, the second name of income tax is war tax. After the end of the war, the tax was named as income tax. Now days, it has been the important instrument against poverty and inequality (Agrawal, 1978:6).

2.1.5 Historical Aspects of Income Tax in Nepal

a. Taxation in Ancient Age of Nepal

The collection of income tax was the key element of the Government from ancient age. Very few economic activities were operated in the country so government can not collect large amount of money in form of tax. At the time, taxes were levied to the merchant, travelers and farmers in the form of cash, kind or labor. In some occasion, gold and agricultural products were also paid as taxes but the nature of these taxes were temporary and axes were raised for special purposes. (Regmi, 1995)

Although there is no relevant source of ancient tax, in the inscription of Ansubarma, it is noted that there were three taxes called 'Trikar'. 'Bhaga' is the agriculture tax, animal husbandry was called 'Bhaga' and tax on business was called 'Kara'. Irrigation tax and religious monuments preservation taxes also existed at the time of King Ansubarma of Nepal. During the period of 1761-1846 A.D., different types of taxes were levied to generate maximum revenue. The major sources of revenue were: Birta and Kipat, taxes on land, monopolies customs, transit and market duties, mines and mints and the export of forest products, birds and animals and various levies and fines. Taxes were collected at three levels: Royal palace levies, government levies and local levies. The various taxes levied during that period were narrow in base and were imposed primarily on occupations and economic activities, not in income or property. There was no taxation of income in the modern sense of income tax but income taxes from agriculture income and business were introduced as a direct tax for the first time in Nepal.

b. Taxation in Nepal before Democracy

From the year of 1776 to 1950 has taken as before democracy period. In this period, tax system becomes more advance than the ancient age of Nepal. Taxation had a broad sense in this unified Nepal. During this period, revenue maximization was only the main objective of tax policies. Raikar, Birta, Guthi, Sera and Kipat were the five main land tenure among them Birta and Kipat are the main source of revenue.

Walk was collect from each family on a regular basis and in period of national celebration of festival or ceremonial occasion. 'Gadimubarak' was collected to finance of coronation ceremony of a new king. 'Darshanbhet' was collected from both civil and military employees at the time of their appointment and confirmation. 'Salami' was collected from local revenue collection functionaries in the terai region as an annual payment. Taxes were imposed primarily on occupations and economic activities no on property. Tax base was very narrow. The Birta owner class had much influential role in political and administration. However, in 1772 Prithvi Narayan Shah introduced 'pota tax' was regarded as revolutionary measures in Nepal's fiscal system. It was not based on progressive tax principle I was limited on small Birta owners and privileged of the members of the nobility person did not pay 'poa'. Only common people who lived on raider lands paid the homestead taxes and other 'pota' levies. (Regmi, 1995:55)

During the period of Rana regime, there was not formal provision for imposition and collection of taxes. Taxes were imposed according to the objectives, needs and whims of the ruling the Prime Minister. There was not provision of separating the personal income of Prime Minister and state treasury. There was not system of preparing government budget. The surplus of revenue over expenditure was considered the personal income of the Rana Prime Minister.

The major source of revenue in Nepal till 1951, were land tax, custom and excess duties in the form of lump sum contracts, royalties on forest, royalty on supply of porters and soldiers, entertainment tax and a few other minor taxes. Income were not taxed for raising regular revenues of the state treasury but for meting specific expenditure of the household of extra ordinary expenditure necessitated by other emergencies.

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. The salami was abolished in 1951. The Rana rulers did not think of development of effective revenue administrative system. After the advent of democracy in the country in 1951, no taxes are levied and collected in Nepal except in accordance with law. (Gautam, 2004)

2.1.6 Income Tax in Modern Nepal

Income tax is a direct tax that is imposed on the earning of individual and corporation. Actually, tax levied on the taxable income is known as the income tax. It is charged by the government on the income of the previous year at the rate prescribed each year by the finance act. From very earlier, income tax has always been regarded as a tax based on the canon of ability. The tax could be adjusted as to exempt the lowest income groups from the operation of the tax and make the richer groups bear the burden of tax according to their income. Tax economists have a view that an income tax is a levy imposed upon the income of an individual after the exemption limit. All incomes above the tax exemption level are subjected to income tax that is based on the income tax act of the concerned country.

After the independence of the country in 1951, the role of government has changed. Since, the government was enforced to operate development activities. Besides governing the regular function of maintaining law and order and the collection of revenue (Bhatta and Shrestha, 1981:3). A sound and efficient income tax system is necessary to maximize the revenue collection from income tax. Whole income tax system is made of three sub systems i.e. income tax policy, income tax laws and income tax administration. Income tax policy is determined by the government itself through Ministry of Finance. Income tax policy should be such that the main objectives of the income tax can be attained.

'No taxes shall be levied and collected except in accordance with law' (Constitution of Kingdom of Nepal, 1990). Parliament makes the laws to implement the various policies. The government levy and collect the income tax in accordance with law. The constitution of the kingdom of Nepal, 1990 has made the clear provision about it. In 1960, a formal Income Tax Act was enacted in accordance with the provision in Finance Act, 1959 for the first time in Nepal. In three years experience, the Business profit and Remuneration Act, 1960 was found very narrow and vague and it was replaced by the Nepal Income Tax Act 1962. The Income Tax Act, 1962 remained till 1974 and Income Tax Act, 1974 also replaced by Income Tax Act, 2002. Present legal provision of income tax is associated with constitution of Nepal, 1990; Income Tax Act 2002; Income tax rules 2002; Finance act of concerned financial year.

a. Business Profit and Salaries Tax Act 1960

The government of Nepal introduced a formal income tax for the first time in Nepal in 1960(2017 B.S.) in the form of 'Business Profits and Remuneration Tax'. Before the Act, Finance Act was used to make the provision regarding income tax. According to this Act only Business profits and remuneration on income were subjected to tax but the revenue for these taxes should not be collected properly according to originals estimates. (Dhungana, 1976). It had 22 sections. The first section is about short title, areas and commencement. Similarly, second section about definition and last section is about authority to make regulations of HMG to regulate the tax act. According to the Act, tax payment should be made within 35 days once the office and the tax payment to be made specified. Fine and the punishments of Rs. 5000 to Rs. 500 to them those who do not pay tax and not submit account is mentioned in the Act. There is a appeal system too; if any taxpayer is not satisfied with regard to the order of tax assessment receipt. Such taxpayer can appeal within the 35 days from the date of an order of tax assessment receipt. The tax officers as per the Act are liable to assess the tax liability of taxpayer, submission of written notice to taxpayer, etc. (Act, 1960).

b. Income Tax Act 1962

Income Tax Act 1962 was came on in July 1962 by replacing the Income Tax Act 1960 as its limited coverage in incomes. This Act was introduced as per the Article 93 of the Constitution. This Act has all about 29 sections. As per section 6 of this Act annual statement of income to the concerned tax officer those having annual income of more than Rs. 6000. The statement should file within 35 days of completion of fiscal year. The salaries of diplomatic representatives of foreign country, salaries of foreign of non-Nepalese citizen working in the service of NG, dividend paid to shareholders, income of Nagar Panchayat, Village Panchayat, public organizations, educational institutions, Nepal Rastra Bank, allowances granted by NG to Ministers, employees saving fund etc. were considered as tax free income by the Act. As per the Act, $\frac{1}{4}$ income from agriculture was taxable and remaining $\frac{3}{4}$ were considered as expenditure o earn such income. The Act was experienced for 13 years and was considered inadequate with the changing situation of Nepalese economy. This Act was amended only one time in 1972. The main feature of this Act can be mention as follow. Income was defined as all kinds of income including income from business, salaries, any professions, rent from house or land, investment in cash or bind, agriculture, insurance agencies and any other sources. In this Act status of taxpayer was

defined on personal as well as residential for the tax purpose. Carry forward of losses for a period of two year's provision was made on this Act and reassessment of tax as well as rectification of arithmetic errors had provision. In this Act, provision was made for the exemption of income tax for new industries for a period not exceeding ten years (Act, 1962).

c. Income Tax Act 1974

To meet the changing environment of Nepal as well as the entire world and to keep the in tune with the change in the socio-economic environment the Act 1974 was introduced. The Act was divided in basic 66 sections. This Act was practiced for 28 years, almost three decades in Nepal. Throughout this time the Act was amended for eight times in 1977, 1979, 1980, 1984, 1985, 1986, 1989 and 1993. The Act has classified the incomes in five groups as; (a) Agriculture, (b) Industry, Trade, Profession or occupation, (c) Remuneration, (d) House and compound, and (e) Other sources. However, the agricultural income was kept outside the tax net except few years through the Finance Acts. This Act had made provision for self-assessment of tax for the first time in Nepal. According to this Act taxpayers were required to keep accounts and records for their source of income and preserve these records for a period of six years. There were additional provisions of exemption from income tax then the former Act such as income of guhi, compensation for life insurance or after the expiry of the life insurance policy. It had clear certain definitions specially relating total tax, taxpayer, taxable income, gross income, net income, personal status of the taxpayers and non-resident taxpayers, assessment of tax, philanthropic work, non-resident etc. Beside this method of computing net income from each source including the deductions allowable had been specified (Act, 1974).

d. Income Tax Act 2002

Although, Income Tax Act 1974 was much better than the previous Act, still it had many deficiencies and weaknesses, so the new Tax Act 2002 was introduced. This Act is quite advance income tax that has ever introduced in Nepal. The main feature of this act is all the tax related matters within one Act. The Act is independent to levy income tax. The Act has 24 chapters and 143 sections. Amended Income Tax Act 2002 has dismissed the section 66. The Act has defined there different sources of incomes: (a) Business, (b) Employment, and (c) Investment. Tax rates for different income groups, tax rates as per individuals and entities, depreciation rates and depreciation methods for all the five categories of depreciable assets,

provisions regarding international taxation, capital gain taxation, appeal provision, appeal system etc. all matters of income taxation can find within this Act (Income Tax Act, 2002).

Following are the main features of Income Tax Act 2002:

- i. Income tax related provisions are included within one Act.
- ii. Act has clearly specified the amount should be included while calculating a person's gains or profits from conducting business or investment for an income year.
- iii. All the expenses are allowed to deduct provided that the expenses are made by the same taxpayer in the same year in the production of income.
- iv. There is the provision of carry forward of loss for subsequent four years. The Act has also provided the facilities to carry backward of loss for five subsequent years in case of bank, insurance and long-term contract.
- v. Incentives are provided to infrastructure constructor, hydropower projects and special industries.
- vi. Now the economy of the most of the countries in the world is open one. The provision has introduced in the tax law related to international taxation. Transfer pricing, foreign tax credit, double taxation avoidance agreement etc are the provision of international taxation.
- vii. The act given the option for husband and wife as a separate natural individual until they do not accept as a couple.
- viii. Capital gain, dividend etc. has brought in tax net.
- ix. Authorities of taxpayer have specified.
- x. To control the tax evasion, provision of transfer pricing, thin capitalization, dividend stripping is made.
- xi. Provision of fines and penalties has made more stringent in the new Income Tax Act 2002.
- xii. This Act has made a provision of relaxing the submission of income statement by a person who doesn't have taxable income or who has the income from remuneration only.
- xiii. There has the special provision for deduction pollution control and research and development expenses.
- xiv. The income of an approved retirement fund is free from tax. But retirement payments in hands of employees are taxable.

- xv. Resident persons are taxed on their worldwide income while non resident persons are taxed only in their income sourced in Nepal.
- Xvi. The pool system of depreciation of fixed assets has introduced at the first time. All types of assets are classified into five categories. Depreciation rate for class A, B, C and D is based on diminishing balance method but straight line method for class 'E' (intellectuals assets)
- xvii. The act has provided the facility of medical tax credit under which resident individuals may claims a medical tax credit of 15 percent of the amount of approved medical costs. Unabsorbed medical tax credit amount can carry forward forever. (Mallik:2003).

2.1.7 Heads of Incomes

The income Tax Act 2002 has made the classification on incomes in three main categories. This Act has classified the sources of income for the purpose of assessment under the following heads:

a. Income from Employment

Employment is defined by the Act under section 2(a) as "employment that includes a past, present or prospective employment." In general terms, the act of performing a certain job for the person, who appoints one for the job, in consideration of a regular payment is called an employment. That is why, the income from an employment can be generated only when a relation of employer and employee or master and servant has been established between a payer and a payee. Whatever he employee derives from the employment in the shape of a regular salary, allowance, overtime payment, bonus, etc. is included in the income from employment.

Generally, an employment is known as a long-term employment but, in legal terms, an employment last for a short period and may also be a part time one. An individual may have more than one employment on a day.

The employer may be any person like an individual (a proprietorship firm), an entity, NG, a local body of the NG, an institution, an organization, a foreigner, etc. but the employee is always an individual (a natural person). A husband and a wife working in the same entity are treated as creation of two employments, one for husband and another for wife. The employee must be present physically at the place of work to perform his or her duties. The employment is awarded on the basis of his/her ability, education, experience, honesty, behaviour, etc. and so a proxy is nowhere allowed to work on behalf of the employee.

A written appointment letter does not always qualify an individual to be an employee but an oral appointment or even the behaviour of the employer and employee is sufficient to treat the individual as an employee (Agrawal, 2004).

According to this sec., the remuneration received by a person from the employment is as following payments made by the employer:

- 1 Payments of wages, salary, leave pay, overtime pay, fees, commission prizes gifts, bonuses and other facilities.
- 2 Payments of any personal allowances including any cost of living, rent, entertainment and transportation.
- 3 Payment provide of reimbursement or discharge of cost incurred by the individual or an associate of the individual.
- 4 Payments for the individual's agreement to any conditions of the employment.
- 5 Payments for the termination or loss or redundancy of the employment.
- 6 Retirement contributions including those paid by the employer to the retirement fund in respect of the employees and retirement payments.
- 7 Other payments in respects of the employments.
- 8 Other amount as given in chapter 6 of the Act perquisites and gains due to change in tax accounting required to be included. (Income Tax Act 2002, sec.8)

In addition, too above stated items of remuneration, the following types of prerequisites are included in remuneration of a person:

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

- c. The amount of different of the interest of interest on loan paid by employer lower rate than the market rate.
- d. Market value of assets in case of the transfer of the assets.
- e. For the payment other than stated above, the value of benefit of the payment to a third person.

b. Income from Business

Income Tax Act 2002 has defined the business income as a source of income for income tax purpose. Profit and gains from conducting the business are considered as business income for the income tax purpose. Service fees, amount derived from the disposal of stocks, Net gain from disposal of business assets (liabilities), gifts relating to business and other amounts are consider as a business income. Section 7 of Income Tax Act, 2002 deals with the receipts or receivables to be included in income from business and section 13 and 19 deals the allowable expenses there from. Business includes trade, commerce, production, profession, vocation, etc.

Trade and Commerce

The Oxford Dictionary defines trade as follows:

- a. The exchange of goods or services for money or other goods.
- b. Buying and selling.
- c. To buy and sell a particular item, product, etc.

The activity of a trade starts from the moment a good is purchased or otherwise acquired with an intention to sell it for some profit. It is not necessary that the goods is sold due course and profit is acquired there-from.

It's not only the purchase and sale of goods that constitutes a trade but a sale of services is also included in the definition. The transportation of goods and human beings, tourism trade, etc are examples of the trade of services. Though commerce is something similar to trade, it is used especially when the trade takes place between two countries.

Production

The dictionary meaning of production is "to make or manufacture something especially in large quantities". The process of production may be manual or based on machinery. The machinery may or may not run by power. A production is a process whereby the form of a good is changed and the new product acquires a new commercial value.

Profession and Vocation

A profession is a paid occupation, which requires advanced education or training. Chartered accountants, lawyers, architects, etc. are some examples of profession. A vocation is also a paid occupation and requires practice and skill but it does not require advanced education. Carpenters, craftsmen etc. are the examples of vocations.

For the purpose of computing income of business for any year of income, the income of such person shall include all profits or gains made by him from business and should include:

- a. Service charge (Sec. 7.2)
- b. Sales or disposal of business/trading stock. (Sec. 7.2)
- c. Net gain from the disposal of person's business assets/liabilities of the business calculated as under chapter 8. (Sec. 7.2)
- d. Amount received against the disposal of depreciable assets (Sec. 7.2)
- e. Prize or gift in connection with business. (Sec. 7.2)
- f. Amount received instead of acceptance of any restriction regarding business. (Sec. 7.2)
- g. Amount included under change of accounting method. (Sec. 24)
- h. Excess amount received due to exchange rate currency. (Sec. 28)
- i. Bad debt recovered (Sec. 25)
- j. Proportionate amount under long term contract (Sec. 26)
- k. Under paid interest amount according to market price. (Sec.)
- l. Amount received for compensation (Sec. 31)
- m. Other amount received under business income (Sec. 7.2)

(Income Tax Act, 2002)

c. Income from Investment

Section 2(al) defines investment as the holding of one or more properties or the investment in a property subject to the fact that:

- a. The property should not used by the owner himself or,
- b. The property must not be a business or an employment.

The section further says that the holdings of a non-business chargeable asset are also known as an investment. Investment in general sense is an act of letting out a property by an owner to somebody else for its exclusive use for the period of letting out. An amount given to another person for his utilization is also said to be an investment. The three points are the basic requirements for an investment are:

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

Section '9' of Income Tax Act, 2058 deals with the receipts or the receivables to be included in income from investment. Sections 13, 14, 15, 16 and 19 deals with the deductions to be made while computing the taxable income. (Income Tax Act, 2002)

- a. Any dividend, interest, natural resource payment, rent, royalty, gain, from investment insurance, gain from an unapproved retirement payment or retirement fund from approved retirement fund. (Sec. 9.2)
- b. Net gains from the disposal of the person's non business chargeable assets of investment. (Sec. 9.2)
- c. Excess amount of incomings over the depreciation basis including outings on the disposal of the depreciable assets of the investment of the person, (Sec. 9.2)
- d. Gifts or prizes received in connection with investment. (Sec. 9.2)
- e. Retirement contribution including those paid to a retirement funds in respects of the person and retirement payments on respect of investment. (Sec. 9.2)
- f. Amount received instead of acceptance of any restriction regarding investment. (Sec. 9.2)
- g. Amount included under change of accounting method. (Sec. 24)
- h. Excess amount received due to exchange rate currency. (Sec. 28)

- i. Bad debt recovered (Sec. 25)
- j. Proportionate amount under long term contract (Sec. 26)
- k. Under paid interest amount according to market price (Sec.)
- l. Amount received as compensation (Sec. 31)
- m. Other amounts required to be included on tax according or qualification, allocation and characterizations of amounts or transaction between any entity and beneficiary or general insurance business.(Sec. 9.2)

(Income Tax Act, 2002)

2.1.8 Individual Taxpayer

The Income Tax Act classifies tax payers into two: an individual and an entity (Sec. 2). The word "Person" is used for each taxpayer irrespective of its status. Thus, the term "Person" includes:

- a. An individual or
- b. An entity

a. Individual

The term "Individual" is defined by Se. 2(ac) as follows:

- a. A natural person
- b. A proprietorship firm 100% owned by a single natural person and
- c. A couple elected as single natural person under Section 50.

The Act has no provision for an undivided family to be regarded as a single tax paper. Each of the spouses is treated as a separate natural person for tax assessment. However, section 50 of the Act has the provision that a couple can choose to be treated as single individual for a particular Income Year. In case the couple elects to be a single individual, the incomes of both the spouses shall be taxed in a single hand as that of one individual.

- The option is applicable even if either of the spouses is a non-earning member.
- The couple is permitted to be treated as a single individual taxpayer irrespective of whether such an option was taken in any previous year.
- In case the couple has chosen to be treated as a single individual for tax purpose, either of the spouses will be either jointly or separately responsible for the payment of the tax.

- The option is allowed only to a married couple, if each of the spouse is alive on the date of signing the Tax Return for the Income Year because the next couple has to sign on the Tax Return as a token of the acceptance of the election.
- Either of the spouses can be an assessee and the next spouse may give the consent. (Agrawal, 2004)

Provision for individual taxpayer under Income Tax Act, 2058

Allowable Deduction

1. Retirement contribution to an approved retirement fund

Amount contributed to an approved retirement fund (provident fund P.F), citizen investment trust (CIT), and other approved retirement fund are allowed for deduction up to a specified limit.

i.e.:- Actual contribution (employers + employee) }
 or, of assessable income } Whichever is less
 or, Rs. 3,00,000 }

Retirement contribution to an unapproved retirement fund is not allowed for deduction.

2. Donation to tax exempt organization:

Contribution made for philanthropic purposes to tax-exempt organization registered at IRD may be deducted from taxable income under the following condition-

i.e.:- Actual donation }
 or, 5% of Adjusted taxable income } Whichever is less
 or, Rs. 1,00,000 }

But, HMG may notify through official gazette that donation given to such institution will be expected for deduction up to the notified limit. Such donation shall be allowed as per the notification.

- (a) Donation made to Pashupati Area Development Trust (PADT) and Lumbini Area Development Trust (LADT) is allowable up to Rs. 50 lakhs.

3. Exemption Limit:

Exemption limit is available only for the resident natural person. There are four types of exemption limit available only for the resident natural person.

- (a) **Basic exemption** : Basic exemption is available only for resident natural person as per his family status:

Single/unmarried/individual Rs. 1,00,000

Couple/married Rs. 1,25,000

- (b) Additional exemption limit is available for the resident natural person (both for single and couple) working (residing) in remote areas of Nepal.

Remote areas	Additional Exemption Limit
---------------------	-----------------------------------

'A'	Rs. 30,000
-----	------------

'B'	Rs. 24,000
-----	------------

'C'	Rs. 18,000
-----	------------

'D'	Rs. 12,000
-----	------------

'E'	Rs. 6,000
-----	-----------

- (c) **For pension income:** A resident natural person (both for single and couple) having pension income gets 25% additional exemption limit. But should not be more than pension income:

Single/individual $1,00,000 \times 25\% = \text{Rs. } 25,000$

Couple/married $1,25,000 \times 25\% = \text{Rs. } 31250$

- (d) **Life Insurance Premium (LIP):** Life insurance premium paid by a resident natural person for his own life is allowable for deduction from taxable income up to the following limit:

Actual premium paid

or, 7% of Insured sum *Whichever is less*

or, Rs. 10,000

4. Medical Tax Credit:

Approved medical expenses incurred for a resident natural person can be claimed for a resident natural person can be claimed for deduction from his/her tax liability up to a specified limit.

Allowable medical tax credit:

15% of eligible medical expenses

+ Any amount carried forward from the previous year

or, Rs. 750

Whichever is less

Notes: For non-resident natural person no tax exemption limit of any kind is available and charge 25% flat tax rate. And special additional fee is charged on total taxable income of non-resident natural person. But 5% rebate on remaining slab is get if the income is derived by operating special industry or from export business.

Tax Exempt Incomes under this Income Tax Act.

- A. Amount derived by person entitled to privileges under a bilateral or a multilateral treaty conducted between Nepal Government and a foreign country or an international organization (like- employment income of foreign diplomats and employment income of UN representative).
- B. Remuneration under the employment of public service of a foreign government.
- C. Remuneration paid by NG to foreign citizen on terms of tax exemption.
- D. Pension received by retired army/police from public fund of foreign government.
- E. allowance paid by NG to widows, elder citizen, disabled person.
- F. Amount derived by way of gift, bequest, inheritance or scholarship except as required to be included in calculating income under business, investment, or employment.
- G. Agricultural income otherwise than a firm, company, partnership and registered corporate body and by those who has not holding of land more than as prescribed in land ac, is nontaxable income.
- H. Income and dividend distributed by co-operative societies registered under co-operative Act, 2048 is nontaxable income.
- I. Incomes from writing article, preparation of exam paper, checking of exam paper are also tax-free income.

Specimen for computing Income from individual

(A) Computation of Income from Business

Particulars	Amount
Inclusions (Amounts to be included)	
Service fees (section 7.2.a)	
Amounts derives from the disposal of the person's business assets or liabilities (Section 7.2.c)	
Amounts treated as derived from the disposal of depreciable assets (Section 7.2.d)	
Gift received by the person in respect to the business (Section 7.2.e)	
Amounts derived as consideration for accepting a restriction on the capacity to conduct the business (Section 7.2.f)	
Amounts derived from investments that are effectively connected with he business (Section 7.2.g)	
Amounts to be included by reason of change in the accounting system (Section 22.6)	
Amounts to be included by reason of timing (Section 24.3)	
Recovered amount of bad debts deducted earlier (Section 25.1)	
Amounts to be included as per contract completion basis in the case of a long term contract (Section 26.1)	
Difference of actual interest and interest as per market rate in case of a soft loan (Section 27.1.d)	
Amounts paid to third person instead of actual payee (Section 29)	
Amounts derived as compensation (Section 31)	
Others amounts to be includes in profit and gains	
(A) Total Inclusions	
Deductible expenses:	
General deductions (Section 13)	
Interest (Section 14)	
Cost of trading stock (Section 15)	
Repair and improvement cost (Section 16)	
Pollution control costs (Section 17)	
Research and development costs (Section 18)	
Depreciation (Section 19)	
Deductible reserve (Section 59.1)	

Other than mentioned above	
(B) Total Deductible Expenses	
Deductible Losses:	
Unrelieved losses from other business of this year	
Unrelieved losses from business of previous years	
(C) Total Deductible Losses	
(D) Total Deduction (B + C)	
Income or loss from the business (S – D) (in case there is no loss in this row, this amounts is treated as assessable income from business)	

(B) Computation of Investment Income

Particulars	Amount
Income form Investment (Amounts to be included)	
Dividend (except final withholding) (Sec. 9.2)	
Interest received (except final withholding) (Sec. 9.2)	
Income from natural resources (Sec. 9.2)	
Rent (except final withholding) (Sec. 9.2)	
Royalty (Sec. 9.2)	
Gain from investment insurance (except final withholding)	
Gain from an unapproved retirement fund (except final withholding)	
Gain received in respect of investment (Sec. 9.2)	
Net gain from non business chargeable assets. (Sec. 15)	
Gain on disposal of pool of depreciable assets (Sec. 9.2)	
Retirement contribution paid to retirement fund in respect of person (Sec. 9.2)	
Amount o be included due to change in accounting methods (Sec. 24)	
Exchange gain (Sec. 28)	
Bad debt recovered (Sec. 25)	
Interest saving (under paid interest) in respect of investment	
Compensation received (Sec. 31)	
Income from joint investment	
Excess amount received due to exchange rate currency. (Sec. 28)	
Any other income in respect of investment (if any)	

(A) Gross Income from Investment	
Allowable deduction :	
General deduction	
Interest expenses	
Repair and improvement cost	
Depreciation	
(B) Allowable deduction	
(C) Assessable income before loss adjustment (A-B)	
Less, Adjustment of loss	
(D) Assessable income from investment	

(C) Computation of Income Employment

Particular	Amount
Income from Employment (Amounts to be included)	
Salary and wages (8.2)	
Leave pay (8.2)	
Pay for overtime (8.2)	
Fees (8.2)	
Prizes and gift related to employment (8.2)	
Bonus (8.2)	
Commission and other facilities (8.2)	
Cost of living subsistence (8.2)	
Rent (8.2)	
Entertainment and transportation allowances (8.2)	
Allowances (8.2)	
Reimbursement of personal expenses Allowances (8.2)	
Payment for the individual's agreement to any condition regarding retirement payments and contribution to retirement fund (8.2)	
Other payments made in respect of employment payment (8.2)	
Redundancy or loss related payment (8.2)	
Amount of vehicle facility (27.1)	
Amount of services of housekeeper, gardener, water, electricity, telephones, and the like utilities in respect of the payees (27.1)	
Any meal, refreshment or entertainment provided by employees (27.1)	

Under paid interest by employee to employer for the loan taken by the employees (27.1)	
Other amount to be included assessable income from employment.	
Assessable income from employment	

(D) Statement of Total Taxable Income

Particulars	Amount
Assessable income from Employment	
Assessable income from Business	
Assessable income from Investment	
Total assessable income	
Less : Reductions ;	
a. Retirement contribution (as per tax law) (Sec. 63)	
b. Donation (as per tax law) (Sec. 12)	
Total Taxable income	

(E) Calculation of Income Tax Liability

Particular	Amount
First Rs. 100000 (individual), 125000 (family)	Nil
Next Rs. 75000@ 15%	
Balance Rs. @ 25%	
Total tax liability	
Less : Advance tax paid	
Medical tax credit	
Net tax to be paid	×××

2.2 Review of literature

First, income tax was imposed in Nepal in fiscal year (FY) 1959/60 (2017 B.S.) under the 'Business profit Remuneration Tax Act 1960'. Then after, various studies were made concerning with various aspect of this act such as the structure, role, productivity, legal and administrative framework etc. Now days many books, dissertations, articles and reports have been reviewed for performing this research study. While reviewing these books, it is found

that most of the books were syllabus oriented of different levels of study and some of them have described the problems and prospects of income tax system and a path for reform of income tax. Similarly, many dissertations presented in T.U, articles and reports have described the income tax law, provisions, structure of income tax, problems and prospects of income tax and a path for reform of income tax but very few of them have been found in respect of contribution of individual. However, these studies have not been full enough to carry over the overall impact individual contribution on income tax. Moreover, all the researchers who had made research on individual contribution have been concise on the exemption and deductions and not specifically have focused in the individual income tax. Nevertheless, some books are more important and relevant for this study, which are as follows:

Summary of the relevant studies are given in the following paragraph

Shrestha (1967) presented a dissertation named 'Income Tax in Nepal'. In this study, Shrestha tried to give some general idea of Income Tax Act relating to historical background and some problems observed in income tax system of Nepal (Shrestha, 1967). Lent (1968) has presented a report entitled, 'survey of Nepalese tax Structure' under the request of IMF, Fiscal Affairs Department. He has critically analyzed the scope of income tax in Nepal, tax structure, taxable income exemption and allowance given at that time. He has suggested reforming both the income law and administration to increase government revenue through income tax (Lent, 1968).

Dhangang, Kayastha and Rai (1976) have published a report entitled 'An analysis of tax Structure of Nepal' dealing the tax structure of Nepal. The report was published by CEDA. This study has taken 14 years time from FY 1961/62 to 1974/75. Writers have analyzed the income tax in Nepal and recommended to reform income tax to reduce resource hap and mobilize additional resource but report was not analytical. Dhangang, Kayastha and Rai has tried to analyze the contribution of income and property taxes to overall revenue generation in Nepal. They have studied on legal and administrative aspect of income tax system of Nepal and pointed out some drawback. According to them before 1951, Nepal did not have scientific economic policy that could facilitate the economic development of the country. According to him, the major problems of income tax system of Nepal are income tax evasion at high level and greater role of Indirect Ax in ax revenue. These problems have not solved

effectively. The report has also claimed that the administration of income tax has been improving because there has been an increment of tax by 23.5 percentage between 1969/70 to 1975/76 and tremendous progress in assessment has been made. (Dhungama, Kayastha & Rai, 1976)

Agrawal (1978) has provided detailed information in various aspects of income taxation in his report. His study is the first comprehensive scientific study on this ground. He has organized his study on nine chapters. Resource mobilization through income tax, fiscal policy, effective tax system, role of income tax, legal provision in regard to income tax, legal aspect of income tax, administrative aspects etc. have been discussed. The study is very useful to find out the reality about income tax in Nepal. Various mathematical calculations have been shown. Per capita burden of income tax, buoyancy coefficient of income tax, elasticity coefficient of income tax etc have been calculated. This study has covered periods of nine years (1967-1976). It has identified the major problems in income tax system as inefficiency of tax administration and income tax evasion though other many have been also shown. He observed that tax authorities are insufficient in enforcement of law. There are not integrated programs for taxpayer's education, assistance, guidance and consoling. Tax officers are looked upon as heaven for corruption. Insufficient, delays, unfair dealings, harassment and incompetent personnel are the major problems of tax administration.

This research study was made 26 years before. It is however a comprehensive study and has included various aspects of income tax system of that period, all things mentioned in it are not fully relevant today. This means that it is not useful today. Some of the problems identified by it are still in existence in income tax system of Nepal (Agrawal, 1978).

Pandey (1978) his study had discussed various aspects of income tax such as legal aspects, structure of income tax, role of income tax, problems of income taxation, economic effect of income tax in Nepal. He had highlighted on tax structure of Nepal. According to him, income tax played a significant role in the economic development of Nepal. He found the per capita burden of income tax was Rs. 0.2 in 1962/63 and it had increased to Rs. 7 in 1975/76. He had stated that Indirect Tax had a dominated role in the total tax revenue. Lack of scientific record keeping, lack of maintaining accounts by tax payers, lack of coordination, lack of scientific method of income tax assessment and collection procedure, lack of honest tax officers are the major problems identified by him. His suggestions about income tax were

capital gain should bring in tax net, income tax accounting assessment and collection method must be scientific etc. His study was done with main objectives of examining the economic effects of income tax but he had not described it with numerical examples and empirical investigation (Pandey, 1978).

In 1978, a research team led by Dr. Govinda Ram Agrawal, a senior research officer of CEDA, has conducted a research in the topic 'Resource mobilization for development: The reform of income tax in Nepal.' This research report was published by CEDA, Kathmandu. Agrawal and his team have focused this study to analyse the various aspects of income tax in Nepal. The period covered by this study was twenty-eight years from 1951/52 to 1978/79. Both primary and secondary sources of data were used for the conduct of his study. Some of the important objectives of this study were as follows:

- To examine the problem of growing resource gap in Nepalese finances in the context of the role income tax.
- To examine the buoyancy and elasticity of income tax in Nepal including projection of income tax.
- To examine new proposal for mobilization of additional domestic resources from income tax in Nepal.
- To examine possibilities for making income tax as a policy instrument for reducing inequalities of income and wealth in Nepal.
- To examine the ways and means for increasing tax consciousness in the Nepalese public.

Mr. Agrawal and his team, in this study, have pointed out various findings and recommendations. Some remarkable findings and recommendations of the research were as follows:

- a. Needs for additional resource mobilization were growing by 85 times in Nepal and she was experiencing a serious and growing problem of resource gap.
- b. Income tax administration in Nepal suffered from a number of interacting and inter-related problems, which have badly affected its productivity.
- c. Income tax has been a fast growing category of tax revenue in Nepal.
- d. More than 50 percent of the total income tax revenue was contributed by the individual taxpayers.

- e. Buoyancy of income tax with respect to GDP for period 1967/68 to 1975/76 was 2.18 and elasticity was 2.01. Since both buoyancy and elasticity were greater than unity; income tax in Nepal was positively responsive to changing in GDP.
- f. The main defects of the income tax administration was failure to locate new taxpayers, to maintain the proper accounts, delay in assessment, poor taxpayer compliance, evasion and avoidance of tax and defective management.

Recommendations :

- a. Additional domestic resource should be mobilized through taxation.
- b. Tax structure of Nepal needs to be redesigned in order to increase the role of direct tax.
- c. Income tax should be reformed in Nepal.
- d. The research team also suggested to reform income tax administration by including the affluent taxpayers into tax net, providing the permanent taxpayer number, keeping up to date taxpayers register, (Agrawal, 1978)

Nepal has critically examined the income tax system of Nepal in that time. Her study has been conducted with purpose of examining the role of income tax in overall tax structure, analyzing the problems and prospects of income tax in Nepal and highlights the future prospective of the Nepal income tax (Nepal, 1983).

Agrawal (1984) has presented a report to Ministry of Finance entitled, "Direct Tax Reforms in Nepal". In his report, he has shown the maximum dependency of Nepal in foreign aid and loan. The increasing trend of foreign aid is not good symptom to this country. Growth rate of the direct tax has been slowed than the growth rate of total revenue and total taxes. He has recommended to reduce the dependency upon foreign aid and to emphasize on proper tax administration. Self-assessment is the important measure to increase the tax collection. He has also recommended levying tax on capital gain. (ITA 2958 has levied tax in capital gain.) (Agrawal, 1984)

Baral (1989) has presented a dissertation entitled, "Income tax in tax structure of Nepal". She has reviewed the historical aspect of income tax system, structure of government revenue, contribution of income tax to total tax revenue and total revenue of Nepal, contribution of income tax in Gross Domestic Product, total revenue and total tax revenue.

Her findings are that the contribution of income tax to total revenue of government is in increasing trend. It was 1.54 % in 1962/63 and 7.78% in 1978/79 and the share of tax revenue to total revenue was 80.79 % in 1962/63 and decreased to 78.89% in 1987/88. Individuals have highest contribution in the Nepalese income tax structure. According to her, the major reasons of the tax evasion is lack of clear language of act and comprehensive definition of income, lack of punishment to tax evaders etc. The other reasons are low paying capacity of taxpayers and lack of consciousness in the taxpayers. She has suggested making honest and efficient administration of income tax, punishment to the tax evaders, improving in collection methods, reducing the collection cost, establishment of research unit, avoid the corruption etc. (Baral, 1989).

Bhattarai (1993) had critically analyzed the income tax facilities provided by Industrial Enterprise Act 049 in his draft, "Income tax facilities, provided by Industrial Enterprise Act 049" An analyses". He had described the facilities given to the industries. He also had critically analyzed these facilities as: continuous 7-8 years exemption of income tax will develop the tradition of taking exemption by incorporating legal ways. In the other hand, if an industry passes the allowed time, cannot compete the industry having exemption year. The deductions allowed on modernization of industry, pollution control device, technology & product development, sales promotion expenses etc. will create rude on income tax because it is given to the all industries in the same manner. Some industries make high advertise & entertainment expenses and some industries so not make high expenses. There is a provision of exemption of income tax if an industry which does not get exemption by reinvest on non-exempted industry. This provision exempts the tax to the industry of alcohol, tobacco etc. also, if an industry reinvest on non-exempted industry. Periodic exemption of tax will create bad effects such as changes in signboard, change in name and change in ownership to own family member (Bhattarai, 1993).

Ghimire (1998) had analyzed the principle of direct tax and provision of direct tax. He had described the classification of tax, relation of capital and income, base of income or expenditure tax, base of tax in Nepal, procedure of computing income, weaknesses of traditional accounting system, classification of tax rate index, index of income tax in Nepal contribution of income tax to national revenue, errors of past provisions, reification of tax improvements, some steps of administrative improvement etc. He found that the income tax was only 7% of total revenue that was very low as compare to neighbouring countries. For

this, he had identified the following causes no taxation agricultural income, narrow base of income of retain business, high exemption limit on remuneration income, etc. He had also identified some errors of provisions relating to income tax. They were-progressive tax had not played an effective role for equal distribution of income, unproductive tax concession holidays and rebate, provisos of low additional fee as compare to market interest rate, deduction given to record keeping tax payers & timely paying taxpayers had not played an effective role, etc. He had accounted the improvements made or income tax like: expansion of corporate ax on private limited company by 5% on flat rate, maximum 40% rate of individual income tax, provision of tax collection at source, provision of self assessment of tax, increase in additional fee to remove tax evasion etc. He also accounted the some steps of administrative improvement. There were provisions of income assessment committee, flat rate of tax to small taxpayers, establishment of ax officers etc. (Ghimire, 1998).

Bhandari (1994) has tried to examine historical background, tax structure in Nepal and contribution of income tax to economic development of Nepal. He has stated that actual collection of revenue through income tax was lower than its estimated targets because of the poor tax paying habit of Nepalese tax payer, poor tax administration system, wide spread evasion of income tax. He has suggested to make effective personnel management, increasing habit of tax paying of Nepalese ax payer through proper tax education and better public communication system, minimize tax evasion, reduce tax collection cost.

The dissertation named 'Contribution of income tax to the economic development of Nepal (with reference to Kathmandu and Pokhara Valley)' submitted by him is concentrated mainly on the contribution of income tax to public revenue. He had conducted an opinion survey of different aspect of income tax system. In his study he had found that to increase the contribution of tax to economic development on Nepal, capital gain and agricultural income should be taxed. In his opinion survey, he had taken 20 persons as a sample. About the perception regarding to exemption limit-4 were positive, 12 were negative and 4 were indifference. All the respondents had suggested increasing the exemption limit. In his investigation, he had mentioned to revise and restructure the exemption limit according to the inflation. He also found that the Nepalese taxpayers had positive attitude toward 10% of total house and rent for repair. He had suggested not exempting the agricultural income of high-class farmer. He had suggested not exempting the agricultural income of high-class farmer. He also had suggested differentiating the exemption limit to the family with one kid and two

kids. He had not mentioned the legal provisions relating to income tax and problems of income tax system. (Bhandari, 1994).

Khadka (1994) had discussed the economic policy of Nepal, VAT as a long term tax for Nepal, Income tax, improving tax administration, tax reform strategy. He had analytically described about development, existing structure, main problems and possible direction of reform of income tax. He had identified the major problems of income tax as narrow coverage, unscientific tax assessment and collection, defective system from the perspective of international taxation. Weak tax administration, imbalance and inadequate organizational pattern, inadequate physical and other facilities, inadequate tax training, predominance of low level non-technical posts, debatable scope of revenue investigation department, lack of information system were the major problems of tax administration identified by him.

He had suggested some suggestions to overcome from the problems of income tax which were extension of tax coverage, scientific method of tax assessment, extension of withholding tax, inflation adjustment etc. He had also identified some possible direction for administrative reform. They were reorganization and expansion, applying integrated information system, research unit on taxation, strengthening the revenue service. His book was analytical and very useful to obtain the various aspects of income tax. (Khadka, 1994).

Acharya (1994) in his dissertation entitled 'Income Taxation in Nepal: A study of its structure, productivity and problems', has mentioned the main objectives of income tax as to achieve social justice, to check inflation and to collect more government revenue. He has identified the contribution of individuals in total income tax revenue seems to be grease during his study period followed by public enterprises, remuneration, house rent, and interest taxes, semi public enterprises and private corporate bodies respectively. He has also analyzed the administrative and legal aspect of income tax. He has recommended simplifying the tax structure, legal and administrative aspect, and understanding with the consent of tax payers to raise income tax revenue (Acharya, 1994).

Shakya (1994) presented a dissertation named 'Income Tax System in Tax Structure of Nepal.' His study was done with basic objectives of analyzing the causes of heavy reliance of Indirect Taxes, analyzing the volume of Indirect Tax revenue and direct tax revenue in total tax structure, highlighting the revenue assessment procedure from different sources and suggesting to improve on them. In his study, he has identified that income tax has occupied

fourth position among tax revenue of Nepal. Custom duty, sales tax and excise duty has occupied first, second and third position respectively in Nepalese tax revenue. He has mentioned Nepalese taxable capacity is limited by various factors such as low per capita income, extensive subsistence economy, relatively "closed" (India) economy, weak export position etc.

He found that the ratio of income tax to GDP, total revenue, total tax revenue and direct tax revenue have been on increasing trend in Nepal. But increasing rate is very low in comparison to other countries. Tax evasion is the main reason behind it. Lack of clear and comprehensive definition of income, lack of punishment to the evaders, low tax paying capacity and non conscious of tax payers, lack of inefficient tax administration, lack of scientific method or tax collection and lack of trained tax collectors were the main reasons of income tax evasion identified by him (Shakya, 1995).

Dahal (1995) Tax system review task force submitted a report entitled 'Review of Tax System.' Madan kumar Dahal prepared this report to MOF, HMG/N. This report covered the various aspects of tax system at that time. Narrow tax base, low tax elasticity, higher burden of Indirect Tax to direct tax, lack of voluntary compliance, leakage etc. were the major defects of taxation identified by this report. This study identified the narrow tax base. The exemption of income from agricultural sector, which contributed 43 percent of GDP, was marked as main reason of narrow base. Including agricultural sector, income from domestic industries, social sector, and electricity sector which contributed 52 percent to GDP were exempted from income tax and only large industries, mines, construction, trade, hotel and restaurant which contributed 48 percent income to GDP were under income tax. All these provisions made the tax base very narrow. The tax rates were unnecessarily high. Only 73000 taxpayers' income was demarcated, which was less than 1 percent of the economically active population. Real per capita income growth rate at that time was only 0.3 percent, which showed the low taxable capacity of the people. This report suggested increasing the tax to GDP ratio from 10 percent to 15 percent, to increase the total number of taxpayers and to increase the per capita income.

This study further suggested about 40 percent extra resource mobilization of proposed tax policy and program were in place. This study recommended various practical ideas to widen income tax base like the one to 20 percent exemption from total tax assessment might

be given to make self-tax assessment effective. It suggested raising the exemption limit of income tax for a person to Rs. 35000 and for family to Rs. 50000 and exemption should be based on inflation rate. (Dahal, 1995).

Shrestha's (2001) study had covered the historical background, legal provisions, structure of income tax, income tax administration in Nepal and empirical investigation. In her dissertation titled 'Revenue collection from income tax in Nepal, problems and prospects' the findings about tax is: there was dominant share of tax revenue in Nepalese government revenue and the contribution of tax revenue showed the decreasing trend. The tax/GDP ratio was not found satisfactory with compare to other SAARC countries. It was 6.81 percent for the period of 1984/85 and 9.36 percent in 1998/99. There was serious and growing financial resource gap problem in Nepal seems to be never ending problem for Nepalese economy. There was dominant role of Indirect Tax revenue in Nepalese tax revenue. The contribution of direct and indirect on tax revenue was 17.76 percent and 82.24 percent respectively in 1984/85 which become 26.14 and 73.86 percent in 1998/99. The contribution from individuals to income tax revenue was greatest in every fiscal year and it was in increasing trend. Income tax revenue was playing a significant role in direct tax revenue because the share of income tax in direct tax was increasing rapidly.

She had found various problems of income tax system in Nepal. They were-narrow tax coverage, mass poverty of Nepalese people, lack of conscious of taxpayer, widespread evasion and avoidance of income tax, unscientific tax assessment procedure, inefficient tax administration, complicated tax laws and procedures, instability in government policy. She had also identified the major weak points of income tax administration in Nepal. They were failure to locate new taxpayers, failure to maintain proper accounts and records, defective selection of personnel, under delay in making assessment, lack of motivation in tax personnel, existence of corruption.

She had suggested broadening the Nepalese income tax base by bringing agricultural income and capital gain under income tax net. She had suggested making consciousness to people, reform of income tax assessment, reform the tax administration and minimizing the tax evasion. For the improvement of income

CHAPTER – III

RESEARCH METHODOLOGY

Types of Research

This study includes three types of research: descriptive, empirical and analytical.

3.2 Research Design

The research is focused on contribution of individual taxpayers. Likewise role of income tax, Indirect Tax and direct tax in total tax revenue, effectiveness of income tax revenue collection in Nepal are also examined. To achieve the stated objectives of the study, the opinion of the various 62 respondents associated with distinct denomination i.e. tax experts, tax administrations and taxpayers were collected through structured questionnaire. The questionnaire included the role of income tax to national revenue, soundness and effectiveness of income tax system, problems on existing income tax system, contribution of income tax from individual taxpayer, methods of income tax assessment etc. In this way, the research design of this research is descriptive, analytical and empirical.

3.3 Sample

Sixty-sample size from Kathmandu is selected in order to fulfill the objectives of the study. Persons included in the sample are carefully selected by best judgment of the researcher from the Income Tax Administrators & Experts, income Taxpayers. The respondents have been divided into two groups. The following table shows the groups of respondents and the size of samples.

Table 3.1
Group of Respondents and size of samples

S.N	Groups of Respondents	Sample size
1	Income Tax Administrators & Experts	31
2	Income Tax Payers	31
3	Total samples	62

3.4 Nature and source of Data

Necessary data and information to describe this study has been collected from primary as well as secondary sources. The major sources of data are as follows:

A. Primary Data

Primary data and information have been collected through structured questionnaire to sample of population of tax administrator. The same questionnaire was also to distributed to taxpayers. Tax administrators are selected from department of ax and various sectors of tax offices. Tax experts are he lectures, auditors, chartered accountants etc. Taxpayers are selected representing various sectors i.e. manufacturing company, trading company, private business firm, educational institutions. NGOs/INGOs, and other government bodies.

B. Secondary Data

Necessary data and information for this study has been collected from secondary sources too. The secondary sources of data are the information received from formbooks, journals, newspaper, reports, dissertations etc. The major sources of secondary data are as follows:

- Economic survey and Budget Speeches, MOF, NG.
- Annual Reports of IRD, MOF, NG.
- Published Documents of National planning commission and NRB.
- Dissertations related to tax administration.
- CEDA publications.
- Books related to income tax and tax administration.
- Other relevant records and data including useful websites.

Secondary data from fiscal year 1991/92 to fiscal year 2005/2006 has been used for this study.

3.5 Statistical Tools

The analyses of the data are done through the following statistical tools:

- Simple average
- Percentage tabulation and trend presentation

3.6 Data Processing and Analysis

The collected data from various sources are tabulated into the separately according to their natures and orders. Using the statistical tools, the data were analysis. Simple average, percentage, chart, and graphs were used to analysis the data and to present the findings of the research.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

A PRESENTATION AND ANALYSIS OF SECONDARY DATA

4.1 Introduction

This chapter is the main body of the research that reflect and analysis the secondary data of income tax and individual contributions. In this chapter, various data collected from different sources regarding income-tax are tabulated and presented in graphs & charts to analysis the fact. This chapter has been divided in to seven-sub topic. In this first sub topic, we can show the structure of other remaining sub topic.

First, in this chapter we can study about the government revenue on the sub topic two. There we can analysis the resource gap of government revenue. Like wise structure of government revenue is analyzed in sub chapter three. Sources of tax revenue, structure of direct tax are analysis in sub chapter four and five respective. Finally, in last two sub chapter income tax and GDP ratio, contribution of individual in different aspect is presented and analysis.

4.2 Resource Gap

In Nepal, the condition of source mobilization is still poor. Government revenue does not cover the growing expenditure so resource gap is also in growing trend. This deficit is due to the continuously growing expenditure of the government over the revenue performance. The government takes internal and external loan to meet deficit finance. That is why; country is facing the increasing burden of foreign loan. Widening trend of the different resource gap is show in the table 4.1.

Table No 4.1
Resource Gap in Nepal

Rs. In Million

Fiscal years	Total expenditure (A)	Total Resource (B)	Resource Gaps (A-B)	Foreign Grants (C)	Resource Gaps (A-B+C)	Foreign Loan (D)	Resource Gaps (A-B+C+D)
1991/92	26418.20	1352.70	12905.50	1643.80	11261.70	6816.90	4444.80
1992/93	30897.70	15148.40	15749.30	3793.30	11956.00	6920.90	5035.10
1993/94	33597.40	19580.80	14016.60	2393.60	11623.00	9163.60	2459.40
1994/95	39060.00	24575.20	14484.80	3937.10	10547.70	7312.30	3235.40
1994/96	46542.40	27893.10	18649.30	4825.10	13824.20	9463.90	4360.30
1996/97	50723.70	30373.50	20350.20	5988.30	14361.90	9043.60	5318.30
1997/98	56118.30	32937.90	23180.40	5402.60	17777.80	11054.50	6723.30
1998/99	59579.00	37251.00	22328.00	4336.60	17991.40	11852.40	6139.00
1999/00	66272.50	42893.80	23378.70	5711.70	17667.00	11812.20	5854.80
2000/01	79835.10	48893.60	30941.50	6753.40	24188.10	12044.00	12144.10
2001/02	80072.30	5044.50	29626.80	6686.10	22940.70	7698.70	15242.00
2002/03	84006.10	56229.80	27776.30	11339.10	16437.20	4546.40	11880.80
2003/04	89442.60	62331.00	27111.60	11283.40	15828.20	7629.00	8199.20
2004/05	102560.40	70122.70	32437.7	14391.20	18046.50	9266.10	8780.40
2005/06	110889.20	72282.10	38607.1	13827.050	24779.60	8214.30	16565.30

Source: Economic Survey, 2006/07, Ministry of Finance. 2007, Kathmandu

As shown in the table, resource gap of Rs. 12905.5 millions was in fiscal year 1991/92, which is reached to Rs.38607.1 million in the fiscal year 2005/06 and is the highest in Nepalese economy. Resource gap was continuously increasing up to fiscal year 2000/01 and it was in decreasing trend by the fiscal year 2001/02 up to 2003/04 and again in increasing trend.

After foreign loan financing, resource gap was Rs. 4444.80 millions in the fiscal year 1991/92 and increased to Rs. 16565.30 million in the fiscal year 2005/06. Rs. 6816.90 millions foreign loan was taken in the fiscal year 1991/92. Moreover, Rs.12044.00 millions, highest foreign lone was taken in the year 2001/02 to maintain the resource gap. In addition,

from the year 2002/03, volume of foreign lone is in decreasing trend. The gap has been substituted by the incensement of foreign grant. After the adjustment of internal and external loan financing and grants there was deficit finance of Rs. 4444.00 million in the fiscal year 1991/92, Rs.15242.00 million in 2001/02 and Rs. 16565.30 million in the fiscal year 2005/06. Thus, the statistics shows the increasing resource gap in national economy, which is necessary to control by mobilizing additional domestic resources. Definite and the best mean of full felling the resource gap is to increase public revenue through effective tax system and sound monitoring.

4.3 Revenue structure of Nepal

Government needs huge amount of budget to fulfill different types of expenditure. For which government collects revenue form different sources. The government's income of all sources like taxes, borrowings, fees, donations etc. are called public revenue. In others word, government income sources are classified mainly into two categories: tax revenue and non-tax revenue. Besides these sources, government has other sources such as loans, grants. Which are subject to repayment, however grants are not compulsorily to repaid. These sources are for only to meet the fiscal deficits.

The trend and composition of tax revenue and non-tax revenue in different fiscal years are presented below:

Table No 4.2
Magnitude of Revenue Collection in Nepal

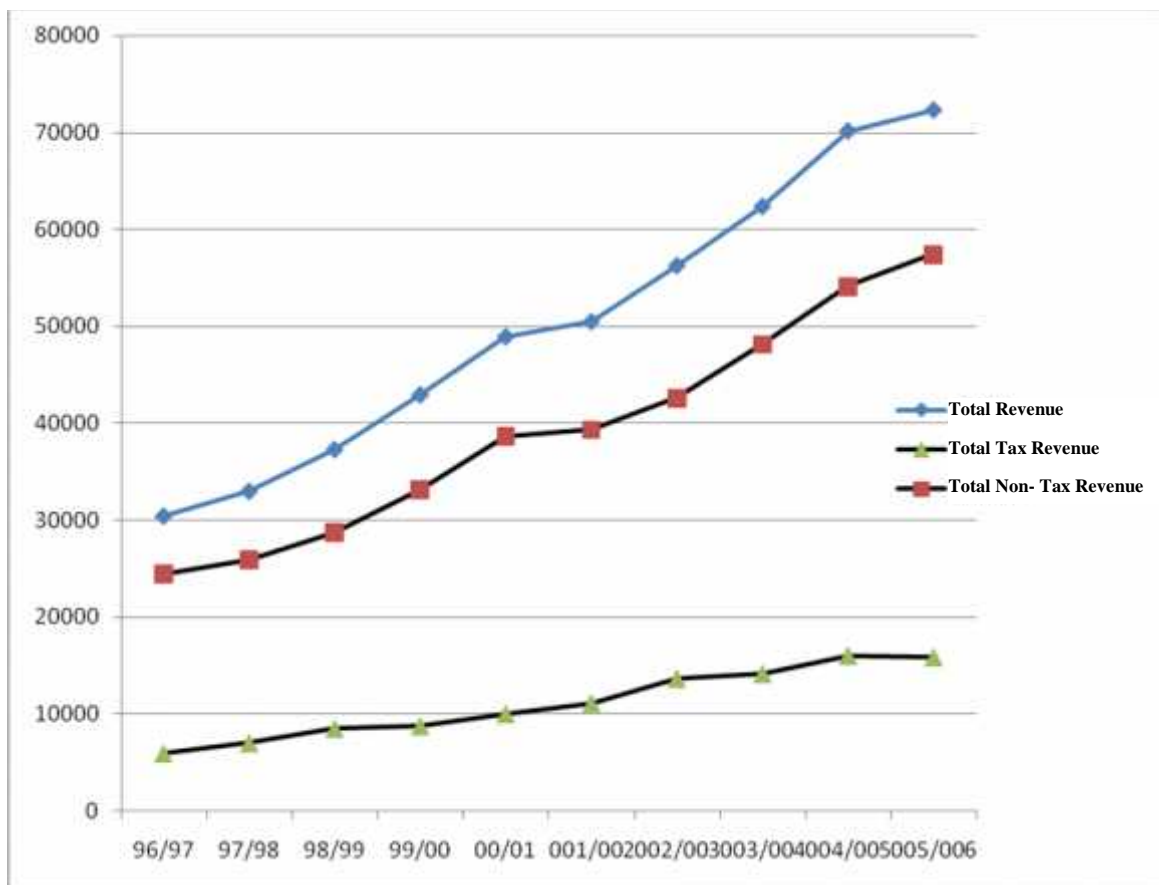
Rs. In Million

Fiscal year	Total Revenue	Tax revenue		No-tax Revenue	
		Amount	% as total revenue	Amount	% as total revenue
1991/92	13552.60	9875.50	73.06	3640.10	26.94
1992/93	15148.30	11662.40	76.99	3485.90	23.01
1993/94	19580.19	15371.50	78.51	4209.40	21.49
1994/95	24605.10	19660.00	80.00	4945.10	20.00

1995/96	27893.10	21668.00	77.68	6225.10	23.32
1996/97	30373.50	24424.30	80.41	5949.20	19.58
1997/98	32937.90	25939.80	78.75	6998.10	21.25
1998/99	37251.00	28752.90	77.19	8498.10	22.81
1999/00	42893.70	33152.10	77.29	8741.60	22.71
2000/01	48892.70	388653.90	79.49	10028.80	20.51
2001/02	50446.30	39331.30	77.97	11115.00	22.03
2002/03	56229.44	42587.00	75.73	13642.44	24.27
2003/04	62330.55	48172.50	77.29	14158.05	22.71
2004/05	70122.70	54104.70	77.15	16018.00	22.85
2005/06	72282.10	57430.40	79.45	15851.60	20.55

Source: Economic survey, 2005/06, Ministry of Finance, 2007

Figure 1
Structure of Revenue



From the above table and the graph, it is clear that, the share of tax revenue is always greater than the share of non-tax revenue. Contribution from tax revenue is 73% to 80% and from non-tax revenue is 19% to 27%. Hence, contribution to income tax from tax revenue is greater by 57% in an average. In the fiscal year 1991/92 the share of total revenue was 73.08 percent and share of non-tax revenue is 26.92 percent. Likewise, in fiscal year 2001/02, the contribution of tax revenue was 77.97 percent whereas non-tax revenue was 22.03 percent. The tax revenue was 77.29 % and non-tax revenue was 22.71% in the fiscal year 2003/04. In the year 2006/07, the contribution of tax revenue has been 79.45 and non-tax has been 20.55 which proves that tax revenue contributes as about three-quarters of total revenue.

From the fiscal year 1991/92 to 1994/95, the percentage contribution of tax revenue was increased up to 80.00 percent from 73.08 percent. In the year 1995/96, its contribution was decreased to 77.68 percent. However, the percentage contribution of tax revenue to total revenue decrease, the volume of contribution increases gradually. The trend of total tax revenue is always in increasing trend during this study period. Likewise, the trend of non-tax revenue collection is also seen increasing during the period of 1992/93 to 2004/05: "It increased from Rs. 3485.97 million to Rs. 16018.00 millions in this period. However, the percentage growth is not significant. Increasing trend of non-tax revenue is decreased by Rs. 1166.40 million in the year 2005/06, whereas tax revenue is in increasing trend.

4.4 Tax Revenue Structure of Nepal

Taxes are not a voluntary contribution by the taxpayer it is compulsory in nature. Generally, a tax is a compulsory contribution imposed to public by authority. Taxation is the main sources of income of the government excluding foreign aid. Tax revenue comprises compulsory, unrequited, non-payable receipts collected by government for public purposes. It includes interest collected on tax arrears and penalties collected on non-payment or late payment of taxes. Tax revenue is the principle source of the government revenue; however, its contribution differs significantly in different countries. In the context of Nepalese economy, tax revenue is major source of government to mobilize internal source effectively and properly as it has been dominating the government revenue by contributing around three quarters of total revenue.

Tax revenue, one of the principle sources of the government revenue, is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the taxpayers in return. It covers theoretically and practically includes following heads such as persons, organizations, business firms and even foreigners who are doing business of consuming goods or using service in Nepal.

In the fiscal trend of Nepal, tax revenue structure is a combination of two tax elite. They are namely direct tax and Indirect Tax. The trend and composition of tax revenue for the fiscal years 1991/92 to 2005/06 are given in the table below.

Table No 4.3
Trend and Composition of Tax Revenue

Rs in Million

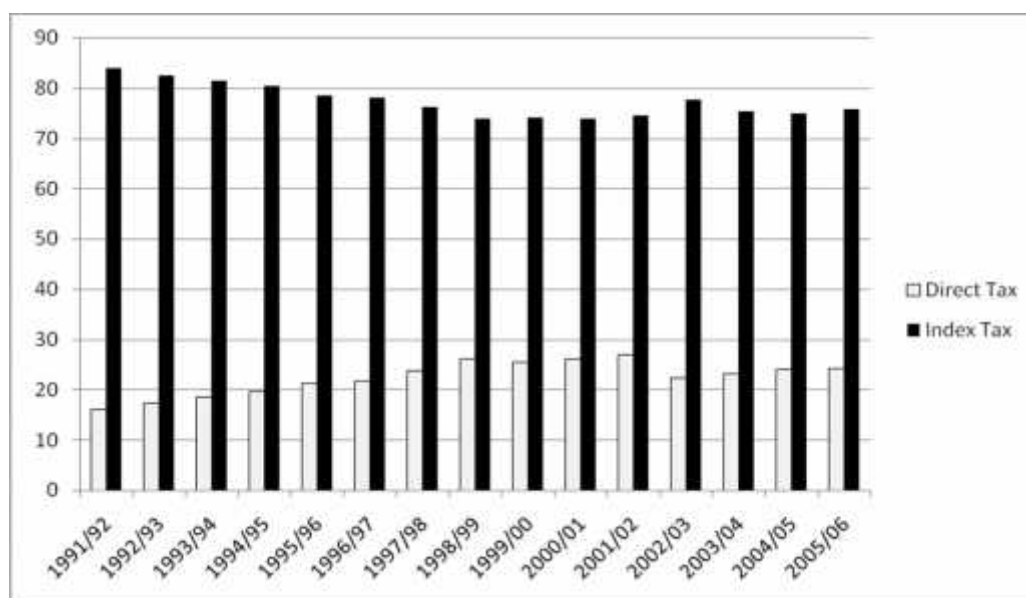
Fiscal year	Total Revenue	Direct Tax		Index Tax	
		Amount	% as total revenue	Amount	% as total revenue
1991/92	9875.50	1595.00	16.15	8280.40	83.85
1992/93	11662.40	2036.20	17.46	9626.30	82.54
1993/94	15371.50	2855.30	18.58	12516.20	81.42
1994/95	19660.00	3849.30	19.58	15810.70	80.42
1995/96	21668.00	4655.90	21.45	17012.10	78.51
1996/97	24424.30	5340.00	21.86	19084.30	78.14
1997/98	25939.80	6187.90	23.85	19751.90	76.15
1998/99	28752.90	7516.10	26.14	21236.80	73.80
1999/00	33152.10	8951.50	25.46	24200.60	74.19
2000/01	38865.10	10159.40	26.14	28704.50	73.86
2001/02	39331.30	10597.50	26.94	28733.80	74.44
2002/03	42587.00	10105.80	22.41	32481.20	77.58
2003/04	48172.50	11912.10	23.27	36260.40	75.27
2004/05	54104.70	13071.80	24.16	41.32.90	74.842
2005/06	57430.40	13968.10	24.32	43462.30	75.68

Source: Economic survey, 2006/07, Ministry of Finance, 2007

From the above table, it is clear that the completely Nepalese tax structure » dominated by indirect tax revenue. However, share of the indirect tax as percentage of the total tax revenue is decreasing continuously. In the similar manner, share of the direct tax to total tax revenue is increasing in subsequent years. The average share of direct tax revenue in total revenue for the period 1991/92 to 2005/06 was 22.52 percent and the average share of indirect tax revenue was 77.45 percent. The volume of direct and indirect tax was Rs. 1595.20 million and Rs. 8280.40 million that is 16.15 percent and 83.85 percent of total revenue respective in the fiscal year 1991/92, the amount of direct tax revenue is increasing, every year as it increased from Rs. 1595.20 million to Rs. 13968.10 million in 1991/92 to 2005/06. The contribution of direct tax revenue to total revenue was minimum 16.15 percent in 1991/92 and maximum 26.94 percent in fiscal year 2001/02. The percentage of direct tax revenue was 24.32 in 2004/05.

The amount of indirect tax revenue is also in increasing trend. It has increased from Rs 8-80.20 million in year 1991/92 to Rs. 43462.30 million in 2005/06. The percentage contribution of indirect tax to total tax revenue was in decreasing trend from the year 1991/92 to 1998/99 but after than it is fluctuating some years. The contribution of indirect tax revenue to total tax revenue was minimum 73.80 percent in 1998/99 and maximum 83.85 percent in year 1991/92. The total indirect tax revenue was 75.68 percent in the year 2005/06.

Figure 2
Trend of composition of direct and indirect tax revenue



In developed economic as U.S.A, UK etc, direct tax plays a leading role for the internal resource mobilization where as in developing countries like Nepal, indirect tax plays pioneering role by dominating direct tax. In general, how much direct tax can mobilize the internal resource shows the magnitude of economic development. But in the context of Nepal, indirect taxation is the principle source to general revenue. Therefore, to divert the economy in the channel of development it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax. For that reason, the attention should be focused on the sufficient resource mobilization through direct taxation.

4.5 Direct Tax Revenue

Direct tax is really paid by the person on whom it is legally imposed. This direct tax is based on his income or property. Direct tax is a charge imposed by government or authority up on the property, income, or transactions of his property. In direct tax the person paying and bearing tax is the same. Direct tax includes income tax, vehicle tax, interest tax, death tax, property tax, gift tax etc. Direct tax is actually paid by the person on whom it is imposed legally. By definition, direct tax is a charge imposed by government authority up to property, individual or transactions to rouse money for public purpose. Direct tax is levy by the government on the income and wealth received by households and business enterprise in order to raise revenue and as an instrument of fiscal policy.

By definition, direct tax is a charge imposed by government authority on property, individual or transactions to raise money for public purpose. Direct tax is levy by the government on the income and wealth received by households and business enterprise in order to raise revenue and as an instrument of fiscal policy. Direct tax is so called because it is normally assumed that the real burden of payment falls directly on the person or business enterprises immediately responsible for paying them, and cannot be passed on to anybody else. Direct tax is progressive as far as the amount paid varies significantly according to the income and wealth of the taxpayer.

With very limited tax base and narrow coverage, direct tax in Nepal seems to be less effective to mobilize the domestic resources. Although, it is an inevitable instrument of the fiscal policy and hence it must be designed and practiced properly. In general, revenue productivity of the direct tax goes on increasing as the economy of the country grows over time. If the economy growth increases, per capita income per annum of that country will automatically raise. In depth, it means that he possesses the ability to pay direct tax. Thus, the magnitude of direct tax goes up and substitutes in the place of Indirect Tax's magnitude. So, higher magnitude of the direct tax indicates a highly developed country. In contrast, lower the share of direct tax indicates to the less developed or developing country and hence country needs to accelerate the growth path to substitute the share of direct tax is less than other developing economies like Pakistan, Bangladesh etc. Thus, it lies as a minor source of tax revenue source of Nepal. Direct tax in Nepalese economy is composed of different taxes namely income tax, land tax and wealth tax, interest tax, tax on registration.

In the current situation, income tax is one of the major sources of direct tax Nepal is levying four different types of income tax. Its categories are individual income tax, corporate income tax, and house rent tax and interest tax. On the other side, properties tax is another major direct tax. It includes land revenue, Bhumikar, and house and land registration and house and land tax.

4.5.1 Composition of Direct Tax Revenue

In Nepalese tax structure; the major components of direct taxes are income tax, land tax and house and land registration tax. Till the fiscal year 1993/94 vehicle tax was considered as a direct tax and since 1994/95's budget speech, it has been classified under the indirect tax. On the other hand, interest tax and urban house and land rent tax were included under the income tax since 1994/95. Thus, the contribution of direct tax has become larger than other direct taxes. The share of the major components of the direct taxes are given below

Table No. 4.4
Composition of Direct tax Revenue

Rs. In Million

Fiscal year	Income Tax	Land tax	House and Land Registration	Tax on Property	Others	Total Direct Tax
1991/92	875.00	64.80	571.20	67.70	16.40	1595.00
1992/93	1198.20	69.30	685.50	80.00	3.10	2036.20
1993/94	1921.20	61.00	772.20	49.80	51.10	2855.30
1994/95	2823.40	34.90	902.80	88.20	0.00	3849.30
1995/96	3434.40	18.20	1048.40	157.90	0.00	4655.90
1996/97	4123.30	5.90	1009.50	201.20	0.00	5340.00
1997/98	4898.10	3.60	1000.60	285.60	0.00	6187.90
1998/99	6170.60	1.40	1001.80	342.70	0.00	7516.10
1999/00	7420.30	4.60	1011.30	515.00	0.00	8951.50
2000/01	9114.00	5.10	607.80	432.50	0.00	10159.40
2001/02	8903.70	0.80	1131.00	562.00	0.00	10597.50
2002/03	7966.20	0.00	1414.30	725.30	0.00	10105.80
2003/04	9245.90	0.00	1697.00	969.20	0.00	11912.10
2004/05	10159.40	0.00	1799.20	111.320	0.00	13071.80
2005/06	10373.70	0.00	2181.10	1413.30	0.00	13968

Source: Economic Survey, 2006/07, Ministry of Finance, 2007

From the above table, the largest share in the direct tax is occupies by income tax, followed by house and land registration tax. The contribution of income tax to direct tax is increasing continuously except in the fiscal year 2001/02, the revenue collection from land tax is declining continuously. In the fiscal year 1991/92, the revenue was Rs. 64.80 million but in the fiscal year 2001/02, it reached just to Rs. .80 million. However, the revenue from house and land registration was in increasing trend up to the fiscal year 1995/96 but in a slow pace. In 2005/06, it was increased up to Rs 2181.10 millions. This shows that total direct tax was increasing continuously since 1991/92 except the year 2002/03.

4.6 Income Tax

In Nepal income tax can be commuted by the combination of income tax from public enterprises, income tax from semi-public enterprises, income tax from private corporate body, income tax from individuals, income tax from remunerations and income tax from interest. Here, public enterprises, semi-public enterprises means hundred-percentage government own, and 51 -percentage government own enterprises. Private corporate bodies consist public limited companies where as individual means sole trading, partnership and private firms. Income of salary from government and non-government employees are denote as remuneration.

Income tax is an important source of the direct tax. In the present situation, Nepal is levying three different types of income tax. They are individual income, corporate income tax and interest tax. Base of the individual income tax covers all individuals having income of taxable capacity. Corporate income tax is levied on the profit of corporation. A corporation is a separate entity from its shareholders in both legal and economic grounds. The interest tax levied on the interest received.

When income tax was introduced in Nepal in first as business profit and remuneration tax in 1959/60, it had contributed Rs. 203 thousand as revenue. The composition of income tax revenue for the recent 20 years is presented in the table 5.8. Income tax is increasing each year except 1990/91 and 2001/02. Total income tax was Rs.251.2 million in the fiscal year 1982/83 and has reached to Rs.8903.7 million in the fiscal year 2001/02. This amount is the total of income tax from public enterprises, semi public enterprises, private corporate bodies, individuals, remuneration and tax on interest. Income tax was Rs. 783.2 million that was declined by Rs. 148.3 million compare to previous year. Total income tax had collected largest amount of Rs. 10373.70 million in the fiscal year 2005/06. Following table and graph gives the more on income tax of Nepal since the year 1991/92 to till date.

Table 4.5
Composition of Income Tax in Nepal

Rs in Million

Fiscal Year	Total Income Tax Revenue	Public Enterprises	Semi-public Enterprises	Private corporate bodies	Individuals	Remunerations	Tax on Interest
1991/92	875.00	171.10	5.30	6.50	617.90	54.70	19.50
1992/93	1198.20	255.30	2.60	9.50	800.70	56.70	73.40
1993/94	1921.20	534.10	2.10	19.70	1184.80	83.80	96.70
1994/95	2823.40	860.20	0.00	440.10	1293.10	118.40	111.60
1995/96	3431.40	1144.50	0.00	563.90	1470.10	133.10	119.80
1996/97	4123.40	1231.10	0.00	858.40	1711.40	168.10	154.40
1997/98	4898.10	1317.80	0.00	925.10	2120.80	322.20	212.20
1998/99	6170.20	1526.50	0.00	1155.00	2772.70	396.50	319.50
1999/00	7420.60	2198.80	0.00	1339.50	3016.40	451.50	414.40
2000/01	9114.00	2928.00	0.00	1924.30	3200.50	597.30	463.90
2001/02	8903.70	1769.30	0.00	1412.00	4419.10	835.60	467.70
2002/03	7966.20	1251.00	0.00	1236.30	3362.30	1252.60	864.00
2003/04	9245.90	2056.60	0.00	1531.30	3533.40	1391.20	733.40
2004/05	10159.40	1332.40	0.00	2467.80	3926.30	1675.90	757.00
2005/06	10373.70	195.70	0.00	3404.30	4234.70	1764.10	774.90

Source: Economic Survey 2006/07, Ministry of finance, 2007

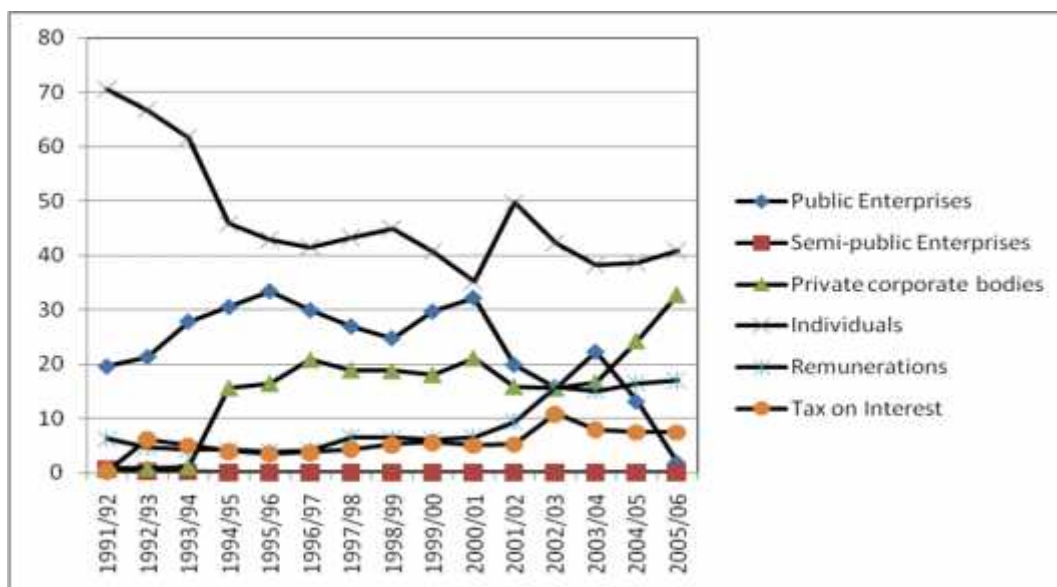
Table 4.6
Structure of income Tax Revenue

In percentage

Fiscal Year	Total Income Tax Revenue	Public Enterprises	Semi-public Enterprises	Private corporate bodies	Individuals	Remunerations	Tax on Interest
1991/92	100.00	19.55	0.61	0.74	70.62	6.25	.23
1992/93	100.00	21.31	0.22	0.79	66.83	4.73	6.13
1993/94	100.00	27.80	0.11	1.03	61.67	4.36	5.03
1994/95	100.00	30.47	0.00	15.59	45.80	4.19	3.95
1995/96	100.00	33.35	0.00	16.43	42.84	3.88	3.49
1996/97	100.00	29.86	0.00	20.82	41.50	4.08	3.74
1997/98	100.00	26.90	0.00	18.89	43.30	6.58	4.33
1998/99	100.00	24.74	0.00	18.72	44.94	6.43	5.18
1999/00	100.00	29.63	0.00	18.05	40.65	6.08	5.58
2000/01	100.00	32.13	0.00	21.11	35.12	6.55	5.05
2001/02	100.00	19.87	0.00	15.86	49.63	9.38	5.25
2002/03	100.00	15.70	0.00	15.52	42.21	15.72	10.85
2003/04	100.00	22.24	0.00	16.56	38.22	15.05	7.93
2004/05	100.00	13.11	0.00	24.29	38.64	16.49	7.46
2005/06	100.00	1.89	0.00	32.82	40.82	17.00	7.47

Source: Economic Survey, 2006/07, Ministry of Finance, 2007

Figure 3
Contribution of Individual Taxpayer



From the table and the graph we could analyzed and interpret contribution of income tax to total income tax from public enterprises is 23.24 percent in average. Total amount contribution from public enterprises has fluctuated from Rs. 53.4 million to Rs. 2928.0 million. Total amount of contribution is increasing each year from Rs.53.40 million in the initial year of study and reached Rs. 2928.00 million in the fiscal year 2000/01. In the fiscal year 2001/02, it was declined by 40 percent than the previous year. Rs. 195.70 millions current years' contribution form public enterprise is the lowest in the 14 years of its history. The contribution of income tax to public revenue from public enterprises is not satisfactory. The main reasons for unsatisfactory contribution of income tax were poor performance of public enterprises, weakness in government's economic policy, defective income tax etc. Contribution from semi public enterprises is lowest than other. It has not contributed one percent to income tax in any year since the year 1994/05. After restructuring the sources of income, share of semi public enterprises are not calculated separately. Average contribution of private corporate bodies is Rs.1077 millions from 1994/95 to 2001/02 but earlier, its average was only Rs. 3.63 millions for the ten year but only in the fiscal year 2005/06 its contribution was Rs. 3404.30. Contribution of individuals to total income tax is the highest in each year. Share of individuals was Rs. 617.90 million in the fiscal year 1991/92 and increased to Rs. 4419.1 million in year 2001/02, the highest contribution with in this study period. In amount it is increasing each year except fiscal year 2002/03 but in percentage, it is decreasing trend. The percentage contribution was highest in the fiscal year 1991/92 was 70.62 percent and lowest in the year 2000/01 contributed by only 35.12 percent.

Average contribution from remuneration and tax on interest is 8.45 and 5.58 percent respectively. Tax revenue from remuneration is increasing each year. It was Rs.54.70 million in the fiscal year 1991/92 and reached to Rs. 1764.10 million in fiscal year 2005/06. Tax on interest is also increasing and has Rs. 774.90 million in last year of study. The annual growth rate of income tax collection was 18.79, 25.97, 20.26 and 22.82 percent in the 1997/98,1998/99, 1999/00, 2000/01 respectively The growth rate was positive but it was negative 2.6 percent in the 2001/02. Grow rate is 2.11 percent only in this current year 2005/06.

4.6.1 Contribution of Income Tax

Contribution of income tax to the GDP, Total Revenue, Total Tax Revenue and Direct Tax Revenue is computers below.

1. Contribution of Income Tax to the Direct Tax Revenue:

The table 4.4 shows the contribution of income tax to the direct tax revenue in Nepal. There is the dominated role of income tax in the direct tax revenue. Average share of income tax to direct tax is 75.44 percent. In the beginning of the study, it was 54.85 percent and had reached maximum up to 89.71 percent. The contribution of income tax is not less than 54 percent in any year. The trend of income tax as the percentage of direct tax is presented in the figure 4.7 as below.

2. Contribution of Income Tax to the Total Tax Revenue:

Total tax revenue constitutes direct and indirect tax revenue. There is dominant role of indirect tax in the Nepal's tax revenue structure. The contribution of income tax to the direct tax revenue is presented in the table 4.3 and 4.7. Contribution was 8.86 percent in the initial period of study. The highest contribution of income tax was 23.45 percent in the fiscal year 2000/01 but average- contribution is 17.48 percent. The share of income tax as a percent of total tax revenue was 8.86 in the fiscal year 1991/92, which was the lowest contribution over the study period. The current contribution is 18.06 in the year 2005/06.

3. Contribution of Income Tax to Total Revenue:

Total revenue constitutes tax and non-tax revenue. In the Nepalese government revenue structure, tax revenue has occupied the most part of public revenue i.e. about two third part in total revenue. Share of income tax as a percentage of total revenue is presented in the table 4.2. The share of income tax as a percentage of total revenue has fluctuated from 6.46 percent to 18.64 percent. Average contribution is 13.63 percent over the 15 years study period. Contribution in the fiscal year 2000/01 was maximum 18.64 percent but it has declined in the fiscal year 2001/02 to 17.65 percent and in 2005/06 it is only 14.35 percent. The figure 4.7 shows income tax as a percent of total revenue

4. Income Tax in the Gross Domestic Product (GDP)

Table 4.7 shows the percentage contribution of income tax on gross domestic product (GDP). Contribution of income tax in GDP was 0.60 percent in the fiscal year 1991/92. Maximum contribution of income tax revenue as a percentage of GDP is 2.32 in the fiscal year 2000/01. From the fiscal year 1991/92, it is continuously increasing from 0.60 percent up to 2.32 but it has not continued in fiscal year 2001/02 and declined to 2.18 percent in the year 2005/06. The average contribution of indirect tax to GDP is 1.67 percent.

Table 4.7
Contribution of Income Tax on Direct Tax Revenue, Tax Revenue,
Total Revenue and GDP in Nepal

Fiscal year	Total Income Tax	Percentage of Income Tax on GDP	Percentage of Income Tax on Total Revenue	Percentage of Income Tax on Total Tax Revenue	Percentage of Income Tax on Direct Tax Revenue
1991/92	875.00	0.60	6.46	8.86	54.858
1992/93	1198.20	0.73	7.91	10.27	58.84
1993/94	1921.20	1.00	9.81	12.50	67.29
1994/95	2823.40	1.34	11.49	14.36	73.35
1995/96	3431.40	1.43	12.30	15.84	73.70
1996/97	4123.40	1.53	13.58	16.88	77.22
1997/98	4898.10	1.69	14.87	18.88	79.16
1998/99	6170.20	1.87	16.56	21.46	82.09
1999/00	7420.60	2.03	17.30	22.38	82.90
2000/01	9114.00	2.32	18.64	23.45	89.71
2001/02	8903.70	2.21	17.65	22.64	84.02
2002/03	7966.20	1.85	14.16	18.71	78.83
2003/04	9245.90	2.06	14.83	19.19	77.62
2004/05	10159.40	2.20	14.48	18.78	77.72
2005/06	10373.70	2.18	14.35	18.06	74.27

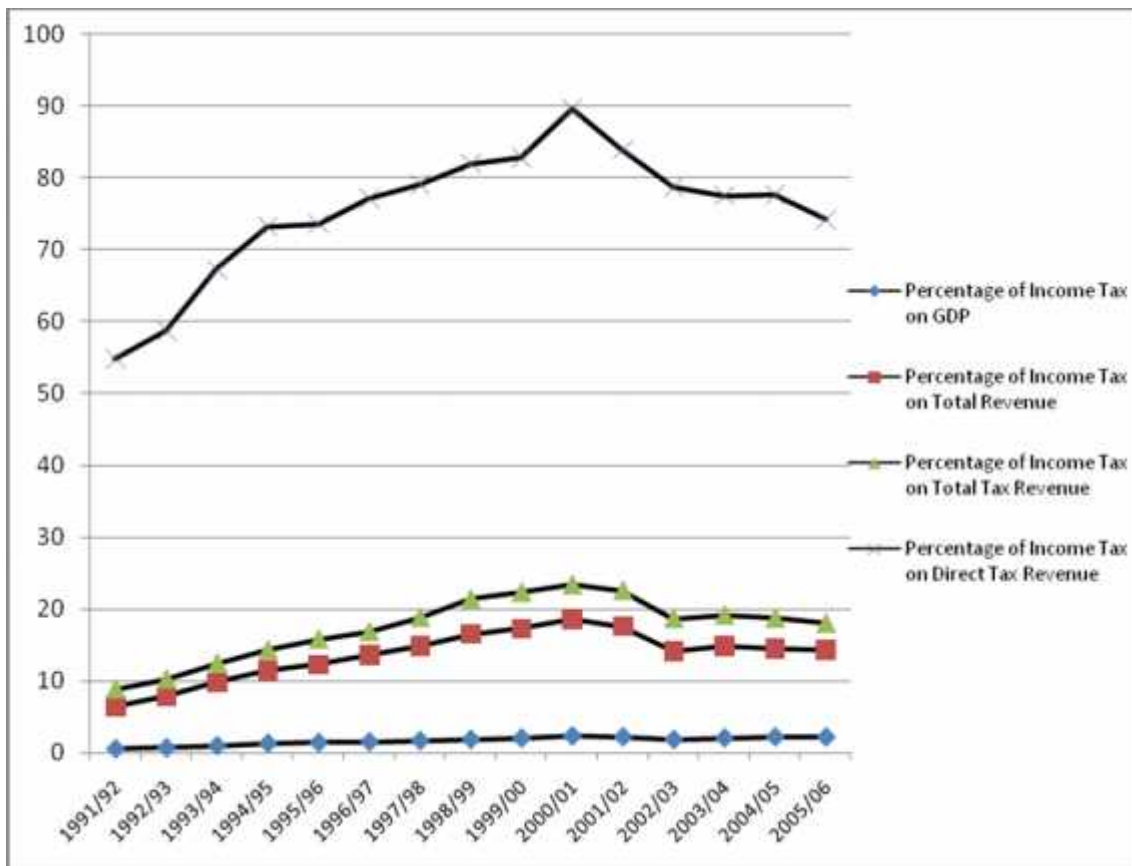
Source: Economic Survey, 2006/07, Ministry of finance, 2007

In other hand, contribution of income tax on total tax revenue was 6.46 percentages in the year 1991/02 and continuously increased up to 18.64 percentages by the year 2000/01. Then after it is almost constant and contributing around 15 percent contribution total revenue. Like on GDP and total revenue, income tax has the significant contribution on total tax revenue and on direct tax revenue.

In the year 2000/01, share of income tax was highest and was 23.45 and 89.71 percentage respectively on total tax revenue and direct tax revenue. Still the contribution of income tax on direct tax revenue is 74.27 percent It means the income tax has been contributing very good share on direct tax as well as total tax and total revenue too.

This graph gives the short snip of the contribution of income tax on GDP, total revenue, total tax revenue, and direct tax revenue.

Figure 4
Contribution of Income Tax



4.7 Contribution of individual taxpayers

Due to a number of limitations, here in individual taxpayer group only in individual taxpayers and employee are included. Although the amount of individual contribution also includes in urban house and land tax, vehicle tax and tax on interest it is difficult to segregate. So individual contribution on urban house and land tax, vehicle tax and tax on interest have been excluded on this study.

Table 4.8
Contribution of Individual Taxpayers

(Rs.in Million)

Fiscal year	Total Income Tax Revenue	Individual	Employees	Total Individual
1991/92	875.00	617.90	54.70	672.60
1992/93	1198.20	800.70	56.70	857.40
1993/94	1921.20	1184.84	83.80	1268.60
1994/95	2823.40	1293.10	118.40	1411.50
1995/96	3431.40	1470.10	133.10	1603.20
1996/97	4123.40	1711.40	168.10	1879.50
1997/98	4898.10	212080	322.20	2443.00
1998/99	6117.20	2772.70	396.50	3169.20
1999/00	7420.60	3016.40	451.50	3467.90
2000/01	9114.00	3200.50	597.30	3797.80
2001/02	8903.70	4419.10	835.60	5254.70
2002/03	7966.20	3362.30	1252.60	4614.90
2003/04	9245.90	3533.40	1391.20	4924.60
2004/05	10159.40	3926.30	1675.90	5602.20
2005/06	10373.70	4234.70	1774.10	5998.80

Source: Economic Survey, 2006/07, Ministry of Finance, 2007

Figure 5

Contribution of Individual to Income Tax Revenue

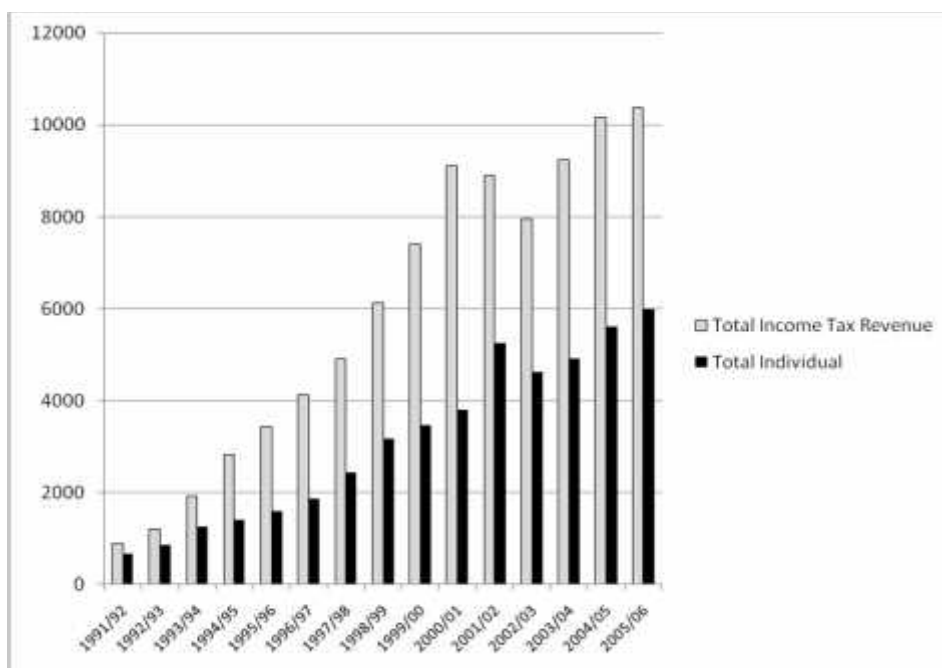


Table 4.9

Contribution of Individual Taxpayers

(In Percentage)

Fiscal year	Total Income Tax Revenue	Tax from Individual	Tax from Employees	Total Tax from Individual
1991/92	100.00	70.62	6.25	76.87
1992/93	100.00	66.82	4.73	71.55
1993/94	100.00	61.67	4.36	66.03
1994/95	100.00	45.80	4.19	49.99
1995/96	100.00	42.84	3.88	46.72
1996/97	100.00	41.50	4.08	45.58
1997/98	100.00	43.30	6.58	49.88
1998/99	100.00	44.94	6.42	51.36
1999/00	100.00	40.65	6.08	46.73
2000/01	100.00	35.12	6.55	41.67
2001/02	100.00	49.63	9.38	59.01
2002/03	100.00	42.21	15.72	57.93
2003/04	100.00	38.22	15.05	53.27
2004/05	100.00	38.65	16.50	55.15

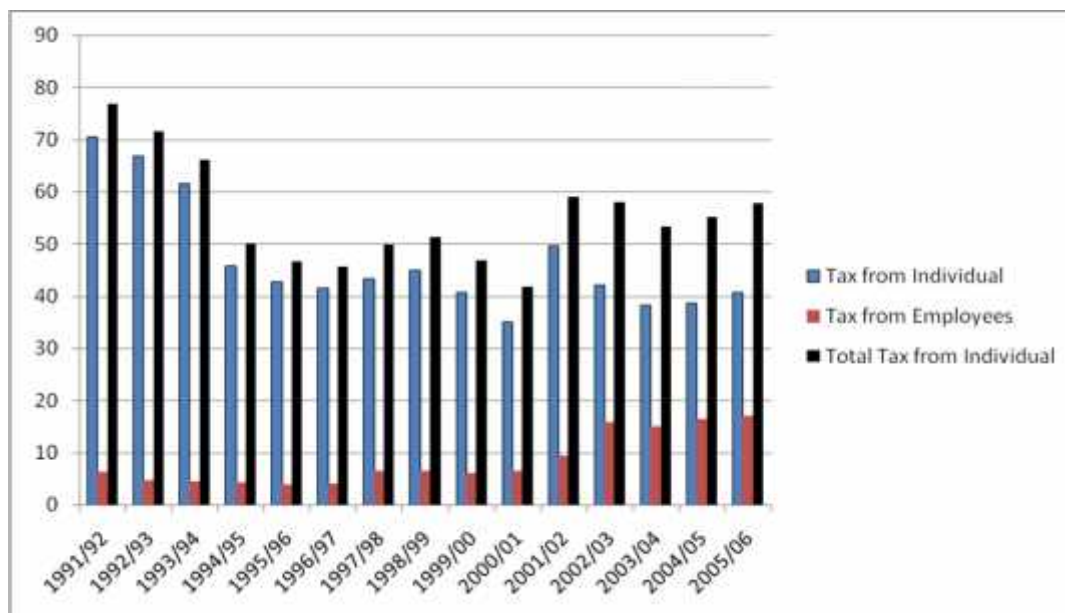
2005/06	100.00	40.82	17.01	57.83
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Source: Economic Survey, 2006/07, Ministry of Finance, 2007

In the year 1991/92, contribution of individual to income tax revenue was 70.62 and employees was only 6.25 but in the year 2005/06 it seemed quite different then that. By this fiscal year, contribution of individual to income tax revenue reduces to 40.82 percent and contribution of employees increased to 17.01 percentages. In one hand, contribution from individual has been decreasing. On the other hand, contribution of employees has been increasing, even though the total contribution (individual and employee) is decreased up to the year 200/01 and then it has been constant in the range of 50 to 60 percent.

Following graph gives the short clips up on it.

Figure 6
Contribution of Individual Taxpayer



From this graph and table, we could conclude that contribution of individual is high but it was decreased form the year 1994/95 to 2001/02. However, after that, contribution on total tax revenue from total individual has been covering majority of share. Due to the incensement of number of employees and their remuneration, contribution of employees is in the trend of rapid increment that helped total individual's contribution to make greater part on income tax revenue.

B. EMPIRICAL STUDY

4.8 Introduction

Beside the secondary data analysis, an empirical study has been conducted in this research for finding present scenario and aspects of contribution of individual taxpayers in Nepal. The help of pre-prepared sheets of questionnaire regarding income tax collected responses of correspondents. After collecting the responses, it is classified, tabulated, and analyzed according to their responses. Responses from income tax administrators & experts and income tax payers where analysis and presented below on the basis of their answer.

Questionnaires were distributed among the 70 persons asking different 10 inquiries. Out of which only 62 responses were received and presented here. The inquiries were asked either in yes/no form or- choice on rank. There were numbers of alternatives for ranking the first choice as most important and the least choice was least important.

4.9 Analysis of Empirical Study

A. Contribution of Income Tax to Total Revenue:

In the national scenario, income tax has contributed about 14 percent to total revenue of Nepal. To know opinion of respondents on contribution of income tax to national revenue, the first question Was 'Do you think income tax is providing good revenue to the government? This question was asked to respondent in yes or no answering form. Opinion result is presented in the table 4.10 as below.

Table 4.10
Significant Contribution of Income Tax to Total Revenue

Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator & Experts	30	96.77	1	3.23	31	100
Tax Payer	29	93.55	2	6.45	31	100

Total	59	95.16	3	4.84	62	100
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Source: Opinion Survey, 2007

About 95.16 percent tax experts & administrators and tax payers are argued that contribution of income tax to national revenue in Nepal is good. However, about five percent of tax experts & administrator and taxpayer argued that income tax contribution to national revenue is not good.

B. Significant Contribution of Individual taxpayers

To know whether contribution of individual taxpayers is significant or not, the second question was made to the respondents. Is the contribution of individual taxpayers is significant to Nepal's income tax revenue? was the question in yes or no format and if no there were seven options to rank in order one to most important and in seventh position for least important (Appendix-B. Questionnaire).

Table 4.11

Significant Contribution of Individual Taxpayers

Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator & Experts	17	54.84	14	45.16	31	100
Tax Payer	19	61.29	12	38.71	31	100
Total	39	58.06	26	41.94	62	100

Source: Opinion Survey, 2007

From the above table, it is clear that about 58 percentages respondents are in for of individual taxpayers contribution is significant. Among the 62 respondents, only 26 respondents replied that contribution of individual taxpayers is not significant in Nepalese tax revenue.

In order to know the major reasons for insignificant of individual taxpayer's contribution on income tax, succeeding asked to arrange the reasons in order that was given in seven

alternatives. The respondents were requested to rank their choice from 1 to 7 according to preference. The sum of their opinion are ranked and presented in the table below here.

Table 4.12
Reasons for Insignificant Contribution of Individual

S.N.	Alternatives	Tax Administrator & Expert	Tax payer	Total points in all	Percentage	Rank
1	Less number of taxpayers	80	43	123	17.45	2
2	Low-income status of individual taxpayers	63	78	141	20	1
3	High exemption on individual taxpayers	56	24	80	11.35	6
4	Tax evasion	41	60	101	14.33	5
5	Inefficient tax administration	46	62	108	15.32	4
6	Lack of tax paying habit	60	59	119	16.87	3
7	Others	27	6	33	4.68	7
	Total	373	332	705	100	

Source: Opinion Survey, 2007

By above opinion survey table, the major reasons for insignificant contribution of individual tax pavers are ranked in order of preference of the respondents are as follows.

- 1) Low-income status of individual taxpayers
- 2) Less number of taxpayers
- 3) Lack of tax paying habit
- 4) Inefficient tax administration
- 5) Tax evasion

- 6) High exemption on individual taxpayers
- 7) Others

Tendency of tax escape and deception of taxpayer and tax administrator are mentioned in the-others category by some respondents.

C. Opinion towards increasing the contribution of individual taxpayers

In order to know the view of respondent whether income tax of individual can increase or not, 'Do you think present contribution of income tax from individual taxpayers can be increase?' was asked. The respondent's responses on behalf of this question are tabulated as follows.

Table 4.13
Increment on Income Tax of Individual

Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator & Experts	18	58.06	14	41.94	31	100
Tax Payer	15	48.39	16	51.61	31	100
Total	33	53.22	29	46.78	62	100

Source: Opinion Survey, 2007

From the above result of survey, it is found that fifty-three percent tax expert & administrator and taxpayers viewed that increment on contribution of individual taxpayers is possible. Out of thirty-three respondents on favor of increment, fifty-eight percent were tax administrator and experts.

There was another query that 'If yes, what are the areas?' and asked to arrange the alternatives given.

Table 4.14**Measures for Increasing Contribution of Individual Taxpayer**

S.N.	Alternatives	Tax Administrator & Expert	Tax payer	Total	Percentage	Rank
1	Increasing tax rate	56	30	86	13.17	2
2	Bringing new taxpayer into tax net	90	75	165	25.27	1
3	Reducing tax exemption	36	44	80	12.25	5
4	Making people aware	81	60	141	21.69	2
5	Deducting tax at source	71	52	123	18.84	3
6	Any other	34	24	58	8.87	6
	Total	368	285	653	100	

Source: Opinion Survey, 2007

By above opinion survey table, the major areas for increasing contribution of individual taxpayers are ranked in the following order according to preference of the respondents.

- 1) Bringing new taxpayer into tax net
- 2) Making people aware
- 3) Deducting tax at source
- 4) Increasing tax rate
- 5) Reducing tax exemption
- 6) Others

In others, the respondents mainly suggested strong monitoring and developing tax honestly.

Problems on Existing Income Tax System

To know the view of respondents towards individual taxpayer are facing any type of problems on the present income tax system a question ' Do you think that individual are facing some sort of problems on existing income tax system?' was asked. Opinion result is summarized in the table 5.6 below.

Table 4.15
Problems on existing income tax system

Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator & Experts	17	54.84	14	45.16	31	100
Tax Payer	26	83.87	5	16.13	31	100
Total	43	69.35	19	30.65	62	100

Source: Opinion Survey, 2007

More than sixty-nine percent of respondents put their opinion on 'There is problems on existing tax system?'. Among 43 respondents 26 are tax payers for this opinion. Only about thirty percent respondents mention that there is no problem in existing income tax system. Thus, it can be concluded that there is problem on existing income tax system. Weight and rank of the existing problems that responded are tabulated on the table no 5.7 following.

Table 4.16
Problems on existing income tax system

S.N.	Alternatives	Tax Administrator & Expert	Tax payer	Total	Percentage	Rank
1	Difficult to know about tax	84	134	218	25.47	1
2	No more technical know how to calculate it	78	86	164	19.16	3
3	Tax paying may create burden for years to come	26	93	119	13.90	5
4	Lack of easy process pay it	68	120	188	21.96	2
5	Tax criteria are not appropriate	47	78	125	14.60	4
6	Any other	29	13	42	4.91	6
	Total	332	524	556	100	

Source: Opinion Survey, 2007

By ranking together the opinions of tax experts & administrator and taxpayers, the correspondent prioritized reasons of existing income tax system are as follows

- 1) Difficult to know about tax
- 2) Lack of easy process to pay it
- 3) No more technical know how to calculate it
- 4) Tax criteria are not appropriate ,
- 5) Tax paying may create burden for years to come
- 6) Any other (others includes- lack of timely information to tax payers, difficult process of tax)

From the above responses, it can be concluded that difficult to know about tax is the number one problem in Nepalese tax system. Lack of easy process to pay it no more technical knows how to calculate it is other most power full problems Likewise, tax criteria are not appropriate and tax paying may create burden for years to come to less important reason.

E. Tax exempted income under ITA.

Income tax has no, made any special provision of deduction for expenses from personal income. A question was asked to the respondent 'What types of incomes (given for rank) you should expect to be tax-exempted incomer?' Following is the rank and points that received from 62 respondents.

Table 4.17
Income should made tax exempt

S.N.	Alternatives	Tax Administrator & Expert	Tax payer	Total	Percentage	Rank
1	Dashain allowances	240	254	494	20.61	1
2	Leaving allowances	98	109	207	8.64	7
3	Dearness allowances	135	95	230	9.76	6
4	Education allowances	131	103	234	9.76	5
5	Medical allowances	222	240	462	19.27	2
6	Remote area allowances	176	179	355	14.81	4
7	Pension income	207	187	394	16.44	3
8	None of them	0	0	0	0	9
9	Any other	21	0	21	.87	8
	Total	1230	1167	2397		

Source: Opinion Survey, 2007

From the above table it has been clear that Dashain allowance is most priority to , the respondents for tax exemption. Most of the respondent's i.e. more then 20, 19, 16 percent are

in favor of tax exempted for Dashain, medical, pension respectively. Following is the arrangement of alternatives according to choice of respondents:

- 1) Dashain allowances
- 2) Medical allowances
- 3) Pension income
- 4) Remote area allowances
- 5) Education allowances
- 6) Dearness allowances
- 7) Leaving allowances
- 8) Any other
- 9) None of them

From the above it is clear that individual taxpayer wants Dashain allowance to be made tax exempted. Medical, pension, remote, education, dearness, leaving are other priority respectively. Nobody put their opinion for they need no tax exemption on none of above. Beside the above category some of the respondents desired for exemption on child allowance, insurance, part time work etc by putting their opinion in others category.

F. Adequacy of the Exemption Limit

To know the current exemption limit is adequate or not, 'Do you think the current exemption limit provided to individual and couple is adequate?' were asked. For the response, yes or no alternative was provided. Responses from the respondents are tabulated as below.

Table 4.18
Problems on existing income tax system

Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator & Experts	29	93.55	2	6.45	31	100
Tax Payer	27	87.10	4	12.90	31	100
Total	56	90.33	6	9.67	62	100

Source: Opinion Survey, 2007

From the above table, we can see that about 90 percent respondent collectively put their opinion that current exemption limit is adequate. Only six respondents replied that it is not satisfactory. From the above, it can conclude that the current exemption limit seems to be adequate. There was another supporting question for the respondents who are not satisfied by the current exemption limit. Giving four alternatives respondents are asked to arrange in order. Following tables shows the summery of respondents.

Table 4.19
Factors to be considered for adjusting exemption limit

S.N.	Alternatives	Tax Administrator & Expert	Tax Payer	Total	Percentage	Rank
1	Based on living cost	7	13	20	41.67	1
2	Based on number of dependents	7	9	16	33.33	2
3	Inflation ratio of the country	4	6	10	20.83	3
4	Any other	2	-	2	20.83	3
	Total	20	28	48	100	

Source: Opinion survey, 2007

While ranking together the opinion of both groups' respondents, following prioritized factor to be considered for adjustment of exemption limit of individuals:

1. Based on living cost
2. Based on number of dependents
3. Inflation ratio of the country
4. Other

From the above rank, it is clear that more then 42 percent of respondents thinks living cost should consider as most important factor. Similarly, numbers of dependents, inflation

ratio are considered as other important factors. Others factors includes education expenses and medical expenses made by individual.

G. Best income tax assessment method

To know the opinion on tax assessment method 'In your opinion, which income tax assessment method is more appropriate in Nepal?' was asked. In the responses of the inquiries following result is obtained and presented based on points.

Table 4.20
Best income tax assessment method

S.N.	Alternatives	Tax Administrator & Expert	Tax payer	Total	Percentage	Rank
1	Self-assessment	87	102	189	35.13	1
2	Assessment on the best judgment	63	89	152	28.25	3
3	Tax settlement commission	12	31	43	8	4
4	Any other	71	83	154	28.62	2
	Total	233	305	538	100	

Source: Opinion Survey, 2007

Fifty-five respondents responded on the tax assessment system. Out of that, about thirty five percent respondents approved self tax assessment method is more appropriate to assess income tax. More then 28 percent respond are in favor of best judgment, about 8 percent in favor of tax settlement and about 29 percent in the favor of assessment by lump sum, self-assessment and best judgment jointly and others. From the above opinion, it can be concluded that self-tax assessment method is more appropriate while assessing income tax to collect large amount of revenue through income tax. The result can be presented as below:

- a. Self- assessment
- b. Any other
- c. Assessment on the best judgment

d. Tax settlement commission.

H. Opinion toward Problems in Paying Income Tax

To know the problems facing by the taxpayers while paying income tax, the respondents were requested to make choice if they are facing any problems or not. If yes, there were six alternatives to rank in order most important started from one in rank. Among 62 respondents, 36 respondents are facing problems.

Table 4.21
Problems in tax paying

Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator & Experts	13	43.33	17	56.67	30	100
Tax Payer	23	76.67	7	23.33	30	100
Total	36	60	24	40	60	100

Source: Opinion Survey, 2007

In the responses of the question, 'What types of problems are facing by the tax payer while paying income tax?', responses received from respondents are tabulated as below.

Table 4.22
Problems in Tax Paying

S.N.	Alternatives	Tax Administrator & Expert	Tax payer	Total	Percentage	Rank
1	Consuming unnecessary time	58	65	123	17.18	4
2	Illegal incentives by tax personnel	27	97	124	17.32	3
3	Vague provision in income tax laws	53	94	147	20.53	2
4	Lengthy and unnecessary process	72	103	175	24.44	1

5	Lack of co-operation by tax administrator	19	67	86	12.01	5
6	Other	34	27	61	8.52	6
	Total	263	453	716	100	

Source: Opinion Survey, 2007

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

1. Lengthy and unnecessary process
2. Vague provision in income tax laws .
3. Illegal incentives to the personnel
4. Consuming unnecessary time
5. Lack of co-operation by tax administrator
6. Others

In the above table, lengthy and unnecessary process got highest marks from both respondents side so it is placed as a major problems facing by taxpayers and expert, Similarly, vague provision, illegal incentive, consuming long tune, lack of co-operation and others (over crowd lack of facilitation) seems accordingly.

J. Opinion towards Factors for Effective Income Tax

To know the factors for effective income tax, respondents were requested to make rank according their choice. Six alternatives among all, the sixty-two respondents were given to rank in order most important started from one in rank. Following is the result of the responses.

Table 4.23
Factor for effective income tax

S.N.	Alternatives	Tax Administrator & Expert	Tax payer	Total	Percentage	Rank
1	Clear act, rules and regulation	121	102	223	23.08	1
2	Conscious and honest tax payers	112	89	201	20.80	3
3	Honest tax officers	96	121	217	22.46	2

4	Effective tax officers	61	76	137	14.18	4
5	Political non interruption	72	49	121	12.53	5
6	Other	39	28	67	6.95	6
	Total	501	465	966	100	

Source: Opinion Survey, 2007

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

- a. Clear act, rules and regulation
- b. Honest tax officers
- c. Conscious and honest tax payers -
- d. Effective fax administration
- e. Political non interruption
- f. Others (timely information, awareness.)

From the above table and rank, we could conclude that clear act, rules and regulation are the prime factor for the effective tax. Honesty of the tax officer is another key factor for the effective tax system. Conscious taxpayers, effective tax administration, political non-interruption, timely information and awareness are equally important for the effective tax system.

C. MAJOR FINDINGS

4.10 Major Findings

Major findings of this study are summarized as below:

1. Income tax is a suitable source for collection of government revenue. It may enhance the revenue of the government, promote distribute justice and encourage private sector investment.
2. Government revenue is the composition of external revenue and internal revenue. Tax and non-tax revenue are the sources of the internal revenue. There is

dominant share of tax revenue in Nepalese government revenue. The tax revenue is 79.45% of total revenue of Nepal in 2005\06.

3. Nepalese tax revenue is the composition of direct and indirect tax. There is dominant role of indirect tax revenue in Nepalese tax revenue. It was major contribution by indirect tax revenue, which was 75.68% in 2005\06, but the indirect tax was 24.32%.
4. The major contribution in the income tax was from individual. It was Rs 5998.80 million in 2005\06. But from the public enterprises was only Rs 195.70 Million.
5. The tax-GDP ratio of Nepal is not found satisfactory compare to other developing countries. Total income tax-GDP ratio in 2005\06 was only 2.18 percent, the percentage of income tax on total revenue was 14.35, and percentage of income tax on total tax revenue was 18.06% and percentage income tax on direct tax revenue was 74.27 percent.
6. The major contribution on individual *from* individual of Rs. 4234.70 millions and from employees Rs. 1764.10 millions in the year 2005/6.
7. An opinion survey has been conducted in order to find out the role of income tax in Nepal and some other aspects of income tax. From the opinion survey with tax administrator, tax experts and taxpayers, the following findings have been drawn.
 - i. Income tax is the suitable means of raising government revenue.
 - ii. Individual taxpayers play a significant role in the Nepalese income tax.
 - iii. The present contribution of income tax from individual taxpayer can be increasing trend,
 - iv. Individuals are facing some sort of problems in existing income tax system.
 - v. Tax exemption should be on Dashain - allowance, education allowance, dearness allowance, remote allowance, educational allowance, leaving allowances and insurance, pension, part time work etc.
 - vi. There is no adequate exemption limit provided by income tax act Following factors should be considered before fixing the exemption limit such as living cost, family size, inflation ratio etc.

- vii. The appropriate tax assessment method is self assessment of tax.
- viii. There are problems on paying income tax. They are lengthy and unnecessary process, vague provision in income tax laws, illegal incentives to the personnel, consuming unnecessary time, lack of co-operation by tax administrator etc.
- ix. The important factor for effectiveness of income tax to raise government revenue was clear act, rules and regulation, honest at officers, conscious and honest taxpayers, effective tax administration, political non-interruption etc.
- x. Public awareness program is necessary to increase tax consciousness and raising the government revenue.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Every government needs development with higher economic growth to overcome from such serious problem for which government should have adequate financial resource. In Nepal, resource mobilization is still poor that does not cover the requirements. Nepal has facing serious problem of resource gap and high dependent on foreign loan. Resource gap has incurred in Nepalese finance because the expenditure of Nepal Government (NG) has been increasing at a faster rate than the increase in revenue. The resource gap is widening continuously with the increment of total expenditure in respect to total revenue collection. The resource gap was Rs. 4137.6 million in 1982/83 and in 1992/93 it was Rs.15749.3 million. It farther widened to Rs. 38607.1 million in 2005/06.

In developed economic as U.S.A, UK etc, direct tax plays a leading role for the internal resource mobilization where as in developing countries like Nepal, indirect tax plays pioneering role by dominating direct tax. In general, how much direct tax can mobilize the internal resource shows the magnitude of economic development. But in the context of Nepal, indirect taxation is the principle source to the general revenue. Therefore, to divert the economy in the channel of the development, it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax. For that reason, the attention should be focused on the sufficient resource mobilization through direct taxation.

To meet the growing national expenditure/government manages its funds from, internal and external source. Such external sources are an uncertain, inconvenient and not good for healthy development in case of high dependency. It is better to mobilize internal source rather than expecting with beggars eye to donors. Therefore, to raise government revenue it is necessary to raise its internal sources of revenue. Internal source of revenue constitute tax and non-tax revenue. The contribution of tax revenue in the national revenue is 77.97 percent in fiscal year 2001/02 and that was 79.49 percent in fiscal year 2005/06. Government revenue is totally biased in taxation revenue and it has declined in fiscal year

2000/01, which is not desirable indication. Government has adopted various-policies to strengthen the revenue structure of Nepal. Government implemented self-tax assessment system to enhance the government revenue although; there is higher tendency of income tax evasion.

In the recent years, the contribution of income tax to total revenue is only about 14.35 percent in Nepal, which is very low contribution compare to developed countries. The contribution of income tax to GDP is only about 2.18 percent. There may many problems in Nepalese income tax system, which are may be the factor for low tax revenue. Government can increase it income tax revenue through inefficient tax administrative system, widespread income tax evasion, complicated & frequent change in tax rate and in policies are appearing a major factor for low contribution income tax revenue to national revenue.

There is need of improvement of income tax collection system to mobilize internal sources, which is also considered as the optimal solution of resource gap and high dependency on foreign loan. Nepalese tax system, to mobilize the internal resource in optimal level is fundamental need of the country but appears very poor and inefficient picture. Individual are the main source of income tax revenue, but if we look upon the data based we find that percent of contribution from individual to income tax revenue is decreasing. In the year 1991/92, individuals had contributed 76.87 percent but in 2005/06, it was only 57.83 percent. In one hand, number of individual taxpayers increasing day by day but the share of its contribution is decreasing.

In the year 1991/92, contribution of individual to income tax revenue was 70.62 and employees was only 6.25 but in the year 2005/06 it seemed quite different then that. By this fiscal year, contribution of individual to income tax revenue reduces to 40.82 percent and contribution of employees increased to 17.01 percentages. In one hand, contribution from individual has been decreasing but other contribution of employees has been increasing, even though the total contribution (individual and employee) is decreased up to the year 2000/01 and then it has been constant in the range of 50 to 60 percent.

All the previous researcher missing the individual taxpayers on their studies and nobody know the exact situation of individual on national figure of tax. That is way this research has been conducted to fulfill this research gape on this sector and to find out the

contribution of individual taxpayers to income tax revenue. This study aims to find out the present status of individual taxpayers in the national figure of tax. Not only that, this study also overviews the changing trend of individual taxpayers and the volume of tax they paid.

Due to various constraints, this study focuses to analyze only certain aspects of income tax and contribution of income tax from individual taxpayers in Nepal. The study has covered data only fiscal year 1992/93 to 2005/06 and due to the large sector of individual taxpayer, the study may not represent the whole are the limitations of this study. Here in this study in individual taxpayer group only 'individual taxpayers and employee' are included. Although the amount of individual contribution also includes in urban house and land tax, vehicle tax and tax on interest it is difficult to segregate. So, individual contribution on urban house and land tax, vehicle tax and tax on interest have been excluded on this study.

5.2 Conclusion

The government needs huge amount to achieve the maximum objectives of nation. In developing countries like Nepal, lack of sufficient financial resource is the main constraint for the national economic development. Nepal is facing serious problem by resource gap and high dependency on foreign loan. Resource gap has been increasing at a faster rate than the increase in revenue. The resource gap is widening continuously with the increment of total expenditure in respect to total revenue collection. To solve such serious problem of deficit fiscal, income-tax should play important role. But resource mobilization in Nepal is still poor.

The government of Nepal introduced a formal tax for the first time in Nepal in 1960 (2017 B.S.) in the form of "Business Profits and Remuneration Tax." It was governed by the "Business Profits and Remuneration Act 1960." According to this Act only business profits and remuneration on income were subjected to tax but the revenue for these taxes should not be collected properly according to original estimates. At present, 'Income Tax Act-2002' is effective which was introduced in 2002. In the new 'Income Tax Act 2002', sources of Nepalese income are classified into business income, investment-income and employment income for the tax purpose. The percentage share of income tax to government is not

satisfactory in comparison to other developing country like India, Pakistan, Bangladesh, Sri Lanka etc.

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

The success or effectiveness of income tax system entirely depends upon implementation provision that is the major responsibility of income tax administration. Income tax system of Nepal has blamed as not efficient enough. Various problems existed in the income tax such as increasing habit of tax evasion, inefficient income tax administration, defective income tax law are the reasons of lower contribution of income tax. Although, if we analyze the data relating to it then we can find out that revenue collection from income tax is increasing continuously. Some reforms in income tax administration are needed to raising the income tax revenue and to increase effective contribution from individuals.

5.3 Recommendations

Following recommendation are made for the improvement of income tax collection.

1. Tax area should be increased gradually on long run basis to meet the deficit in budget. For this, the tax range should be made wider.
2. Income tax policy should be formulated according to the economic policy of the country and it should be revised along the economic policy.
3. The members involved in formulating income tax policies must be in coordination and representation from of all concern stakeholders rather than only government official.
4. The principle of ability to pay should be completely adopted.
5. The objectives of income taxation should be link with the objectives of taxpayers.

6. The income tax policy should be properly formulated based on critical analysis of existing situation national economy.
7. Income tax, rules and regulation should be clear and simple for all the taxpayers as well as for tax administrators. Following recommendations are made in income tax law:
 - The language of act should be simple and clear.
 - The assessment and tax collection provisions should be made clear and simple so that taxpayers would be encourage paying income tax.
 - Discretionary power of the tax officials should be curtailed in the act.
 - The assessment of time limit after the submission of income assessment should be reduced.
 - The definition made in income tax act should be further clarified and well defined.
8. The provisions of rewards, prize, incentives should be introduced in the act to encourage the taxpayers to pay tax voluntarily rather through crucial measures.
9. The rate of fine and penalties should be increased. The provisions of fines, penalties and punishments should be made at higher rate for income tax evaders.
10. A research and intelligence centre should be established in each tax office for proper planning and to collect the information in regard to income tax evaders, potential new tax pavers and non residents who have conducted business without registration.
11. Tax personnel should be encouraged, punished and transferred on the basis of their work and performance. Regular and effective training, reward, prize and punishment system should be established for the effective tax administration.
12. Effective public participation is necessary to minimize the income tax evasion. Tax authority should have do continuous awareness in order to develop the taxpayers' positive attitude towards taxation.
13. Clear provisions should be made in case of deduction. All the items of deductions should be clearly defined hi the act.
14. To promote export, more deduction should be provided.
15. The provision of tax deduction at source and advance payment of tax should be extended to different source of income as far possible.

16. Separate income tax authority should be established so that the specialization could be achieved in matter of income tax.
17. Income tax administration implements the tax laws. Therefore, effectiveness of income tax system depends upon the income tax administration. In Nepal, one of the most important reasons for unsound income tax system is inefficient and unscientific income tax administration. Following recommendations are made for improvement of income tax administration.
 - Delays in assessment should reduce as possible.
 - Computerized information system is necessary to keep up to date records of income tax.
 - Proper tax education should provide to tax officials as well as tax taxpayers regularly.
 - Cost of income tax collection is one of the determinants of efficiency of administration. Therefore, the concerned authority should pay due attention to it should be reduced.
 - Unnecessary outside pressure should avoid.
 - Income tax experts/profession should be increased in tax administration.
18. The administration should pay great attention to bring new taxpayer in income area.
19. Tax exemption on the most essential like education expenses, medical expenses should exempted in order to increase taxpayer moral support on tax system.
20. Pre information and facilitation should provide to individual taxpayers so that they cannot take tax as a additional work.
21. If possible mobile tax collection unit should formed and bring in action to collect tax from the taxpayers work place. From this, the individual who have not time to go to pay tax should encourage to pay tax.
22. Introduce individual tax ID for those who have not PAN. Employee tax ID should be the best way to bring new taxpayer in the tax information that should be provided at the time of appointment by the concern authority.
23. Tax paying should link with the receiving of public facilities/services.

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APPENDIX -A

Cover Letter

Dear Sirs,

First of all, I would like to introduce myself as a student of Shanker Dev Campus, Master in Business Studies (M.B.S.) final year. I am going to prepare a dissertation entitled "*Contribution of Individual Taxpayer to Income Tax Revenue of Nepal*" to fulfill partial requirement of Master's Degree in Business Studies of Tribhuvan University, Nepal.

I have sent the following questionnaire to spare some of your valuable time to provide your valuable suggestions and opinions concerning with income tax system in Nepal which will be very useful and guide me for completing my research work. I would be very much appreciated if you could provide your important time for filling this questionnaire.

I assure to keep secret the even' detail you provide me confidential.

I am looking forward to your cooperation and support with many thanks as soon as possible.

Yours Sincerely,
Mahesh Kumar Pandey

Questionnaires for Opinion Survey

Name (Optional):

Designation:

Department:

Office/Organization:

Please make a tick mark (✓) on your answer if the question has choice alternatives and put in order of preference from one to most important alternative to last number if there are rank alternatives.

1. Do you think income tax is providing good revenue to the government?

Yes [] No []

2. Is the contribution of individual taxpayers is significant to Nepal's income tax revenue?

Yes [] No []

If no, arrange the following reasons in order (in rank).

1) Less number of taxpayers. []

2) Low-income status of individual taxpayers. []

3) High exemptions on individual taxpayers. []

4) Tax evasion. []

5) Inefficient tax administration. []

6) Lack of tax paying habit. []

7) Others, please specify. []

.....

.....

3. Do you think the present contribution of income tax from individual taxpayer can be increase?

Yes [] No []

If yes, what are the areas? (Please rank in order)

- 1) Increasing tax rate []
- 2) Bringing new taxpayer into tax net []
- 3) Reducing tax exemption []
- 4) Making people aware []
- 5) Deducting tax at source []
- 6) Any other, please specify []
- []
- []

4. Do you think that individuals are facing some sort of problems on existing income tax system?

Yes [] No []

If yes, what should be? (Please specify in order)

- 1) Difficult to know about tax []
- 2) No more technical know how to calculate it. []
- 3) Tax paying may create burden for years to come []
- 4) Lack of easy process to pay it []
- 5) Tax criteria are not appropriate []
- 6) Any other, please specify []
- []
- []

5. What incomes under this ITA should made tax exempted income? Please rank in order.

- 1) Dashain allowances []
- 2) Leaving allowances []
- 3) Dearness allowances []
- 4) Education allowances []
- 5) Medical allowances []
- 6) Remote area allowances []
- 7) Pension incomes []
- 8) None of them []

If others, please specify.

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

6. Do you think the current exemption limit provided to individual and couple is adequate?

Yes [] No []

If no, what factors or facts should it be consider for betterment? (Please specify in order)

- 1) Based on living cost. []
- 2) Based on number of dependents. []
- 3) Inflation ratio of the country. []
- 4) If other, please specify
..... []
..... []

7. In your opinion, which income tax assessment method is more appropriate in Nepal? Please specify in order.

- 1) Self-assessment []
- 2) Assessment on the best judgment []
- 3) Tax Settlement Comission []
- 4) If other, please specify
..... []
..... []

8. Have you ever face any trouble while paying income tax?

Yes [] No []

If yes, what types of problems are facing by the tax payers while paying income tax? Please rank in order

- 1) Consuming unnecessary time []
- 2) Illegal incentives by tax personnel []
- 3) Vague provisions in income tax laws []
- 4) Lengthy and unnecessary process []
- 5) Lack of cooperation by tax administrator []

6) Others, please specify []

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

1) Clear act, rules and regulation []

2) Conscious and honest tax payers []

3) Honest tax officers []

4) Effective tax administration []

5) Political non interruption []

6) If others, please specify
.....

10. What are your suggestions and recommendations regarding income tax in Nepal?

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