

# CHAPTER I

## INTRODUCTION

### 1.1 General Background

Nepal is one of the least developing countries. It is a landlocked and hilly country located in the central part of Asia, Nepal's north distance is 26°, 22° and 30° 27' and east longitude is 80°4' and 80° 12'. Her total area is 147,181 square kilometers. This area is about 0.03% of the world and 0.3% of Asia. Nepal is an economical paradox in the sense that it is a rich country where poor people live. She has the riches of natural and cultural beauties but the economic condition is far behind. Her economy is mainly based on agriculture. Large portions of population who live under the line of poverty are in village area.

Nepal in the basis of per capital has come down nearly at the last position. In Nepal literacy rate is almost 56%, 55.4% of the total population consists of active manpower (age between 16-65 years) and 43% of the active manpower is under employed (Pant, 2004). The global economic growth rate of the world was encouraging in 2005 particularly due to favorable financial market. The world's production increased by 5.3% in 2004 and in 2005 it has been increased by 4.8% due to various effects in global economy. Nepal could not successfully and properly tear a curtain built from massive poverty, hunger, diseases, unemployment, heavy dependence on agriculture, lack of inadequate industries, low income level and social political and geographical constraint over 47 years of planned development. The scale of income poverty is massive with about 38% of the population under absolute poverty line. Yet Nepalese economy is suffering from ineffective and effortless plan. Program and policy of development is also fighting against whatever bottlenecks identified before the starting of planned period.

Following are the main features of Nepalese economy

- A poor country in the world.
- Agro based economy.

- Developing country.
- Landlocked and mountainous country.
- Mixed economy.
- High rate of population growth.
- Dependence on foreign aid.
- Unequal distribution of national income.
- Low rate of capital investment.
- Rich in water resource and natural scenery.

The foremost concentration of every nation of the world is rapid economic growth, which indicates prosperity. Nepal also has, for the rapid economic growth, done much exercise and spent a lot of money but Nepal could not significantly progress in the economic growth. The economic growth for fiscal year 2001/02 was 0.5% and 2.7% for 2005 (Economic Survey 2005: 2-3) and forecast of 3 % for fiscal year 2010-11.

For the development of country, government has spent a lot of money to fulfill its responsibility towards people. The responsibility may be either for security or for health or education or other development activities. In each country, a lot of fund is spent by the public authority for the protection of common people and for the creation of various social-economic infrastructures. Protection expenditure includes the purchase of arms and ammunition, maintenance of army or police and administration of justice and jail. The government for the public interest also incurs commercial expenditure. The third type of public expenditure is development expenditure. This is the expenditure made on providing education, health and utility facilities of the community (Vaish and Agrawal, 1992). The nation will be achieving maximum social welfare if it has sufficient funds.

Government expenditure is increasing because of demand of time, increase in population, increasing challenges in security, increase in price and national income etc. Thus a lot of money has spent to achieve maximum national

objectives either to pay regular expenditure or to do development works. Government collects revenue which can be classified into external and internal. External revenue includes foreign loans, grants, external borrowing, etc., whereas internal revenue includes tax and non-tax revenue. The example of non-tax revenue is fees, fines, royalty, administrative and business income, etc. Administrative income denotes the amount charged by government for providing administrative service. Business income means the return received by government for providing various goods and services to the people. Tax revenue is one of the main sources of government revenue. Customs, excise, Value Added Tax, corporate and personnel income tax are the example of the source of tax revenue. Government collects revenue through taxation with major objectives of economic development and economic stability (Laudeari, 2001: 1). Taxation is the main source of government since it occupies the most important place in the government treasury.

The Income Tax Act 2058 of Nepal comes to enhance the revenue mobilization through effective revenue collection (by terminating the Income Tax Act 2031). The main motto of the Act (IT 2058) is to promote the economic development of the nation. It has amended and integrated all the laws relating the income tax in Nepal. The Income Tax Act 2058 has broadened and clarified the base of tax. There is a provision of installment payment. Income Tax Act 2058 focuses on self-assessment. It has treated every assessment as self-assessment. Even if a person fails to file a return by the due date, the person is treated to have made an assessment on the due date for filing the return, and his assessed tax for the year will be equal to the sum of tax withheld and tax paid in installment. The department may then proceed for an amended assessment.

### **Meaning of Taxation**

Taxation is defined in different ways.

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."

According to Professor Seligman, "A compulsory contribution from a person to government to defray the expenses incurred in the common interest of all without reference to special benefit conferred."

From the definitions given above, it is clear that tax is a compulsory levy and those who pay it do not have any right to receive direct benefit from the tax paid. Amount collected through taxation is spent for common interest of the people and it is collected from natural and artificial person.

In conclusion, it can be said that tax is a liability to pay an amount to the state. The basis for the payment is that the assessments have income of a minimum amount from certain specified sources.

### **Types of Taxes**

There are two types of taxes.

- a. Direct Tax
- b. Indirect Tax

**Direct Tax:** According to Dalton "A direct tax is really paid by the same person on whom it is legally imposed."

**Indirect Tax:** According to Dalton "An indirect tax is imposed on one person but paid partly or wholly by another."

Taxpayer can't collect direct tax from other person. Income tax, interest tax, contract tax, vehicle tax are some example of direct tax. Direct tax is paid according to the income or property earned by a person. Taxpayer can collect indirect tax for other person. So, impact and the incidence of tax are on different person. In Nepalese tax structure; indirect tax includes customs, excise duties and VAT etc.

Being major part of income tax, personal income tax plays the vital role in revenue collection. Resources mobilization through taxation is successfully conducted only when tax administration is efficiently and effectively administered. Tax policies and programmes formulated by the government are implemented to the taxpayers through the tax administration.

Income tax system of Nepal has been blamed as not efficient enough. Being various problems relating to income tax as compared to other developing countries like India, China, Pakistan and Sri-Lanka etc. Nevertheless, if we analyze the data relating to it, we can find out that it is neither bad nor worse; but it is continuously improving. However, Income Tax Act 2058 has specified three types of assessments, viz., self-assessment, jeopardy assessment and amended assessment. Self-assessment is done by the assessee himself, where as jeopardy and amended assessment are the assessments based on judgment of the department.

### **Self-Tax Assessment**

Self-tax assessment is the system in which a taxpayer pays himself his income tax by calculating his tax to pay on the preparation of his income and showing his/her every detail (Joshi, 2044:61). The first amendment 1977 of Income Tax Act 1974 had made the provision of self-tax assessment for the first time. This provision aims to increase awareness in taxpayers about their tax liability and to facilitate the collection of tax, but it was not properly implemented in practice before the enforcement of Income Tax Act 2058. If a person submits an income return for an income year on the due date indicating the amount of total income tax liability and tax still payable for the year, it is treated as an assessment has been made and such assessment is known as self-tax assessment.

The tax official validate self-assessment only when the person submits the income return in format on the due date along with the tax payable in a proper way without any error and motive of fraud.

Since the current Income Tax Act has fully adopted self-tax assessment system, it is supposed to be assessed tax on due date until such time as the income return is to be filed although a person fails to file the return. Tax administration should assess the tax in time otherwise problems may emerge. To overcome the problems so arise, the system self-tax assessment is supposed as the most importance tool and the revenue can be collected in specified time. It is a system that makes feel the taxpayer their responsibility to pay tax. In the meantime, it is also a helpful to the tax administration to assess tax timely. In such assessment the taxpayers also should show:

1. Tax payable by the person.
2. Amount of tax still to be paid by the person for the year being amount shown in the return.

#### **Advantage of self-assessment**

- Minimize undue delay in tax assessment procedure.
- Upgrade the taxpaying habits.
- Proper maintenance of the bookkeeping.

In order to cope with the several problems the government has declared the following objectives of the current revenue policy.

- To improve tax flexibility and effectiveness.
- To facilitate stakeholders.
- To encourage investment and saving by providing friendly environment to taxpayers.

#### **1.2 Statement of problem**

The recent burning problem of income tax system in Nepal is apathy and undue delay in tax assessment procedure. It reduces not only the total revenue but also harasses the taxpayers in the payment of tax. The paying habit is not developed, and there is general lack of tax consciousness in the Nepalese public and voluntary compliance. Tax authorities are inefficient and ineffective

in enforcement. There is no better program for taxpayer's education, assistance, guidance and counseling, etc., and also the question of morality of tax officers and taxpayers.

Although many rule and policy have been taking in to account but tax collection hasn't become cost effective. Tax collections aren't as per target made by management of IRD in 2062/63; income tax was collected only 92.77% of tax target.

It indicates that effective collection of tax is not seen. It hasn't even been successful to collect tax from taxpayers who lie in the taxable boundary. In this condition, it is very difficult to bring them into tax net. The process of payment of taxes is long and taxpayers feel various problems. It gives mental pinch to the taxpayers, as they have to curtail their income to pay the government. Taxpayers feel unconvinced as the government imposes tax progressively. Tendency to evade tax may increase to avoid tax burden. It is expensive for the government to collect tax individually. Due to defective tax administration, taxpayers are ready to provide illegal benefit to the administrators but they aren't ready to pay small amount as tax. Government can increase income tax revenue through efficient tax administrative system. Widespread income tax evasion and complicated & frequent change in tax rate and in policies are appearing major factors for low contribution of income tax revenue to national revenue. This problem is largely related to income tax assessment procedure.

Nepal depends on the external sources more than on the internal sources because the available resources don't meet the estimated budget fulfilling the aspiration of the people and constructing the social welfare state. Nepalese tax system needs to mobilize the internal resource in optimal level, but it appears very poor and inefficient picture.

New tax laws are vague and monotonous, and there are ever changing provisions on the fiscal acts. There are a few competent personnel in the Inland Revenue Office having knowledge of tax assessment procedure while many tax

officers have come from different disciplines, who have no knowledge about assessment of tax. In such situation, it is imperative to make a study of income tax assessment procedure system and suggest ways to improve it.

### **Objectives of the Study**

The main objectives of present study are as follows:

1. To assess the exiting provisions of income tax assessment under Income Tax Act 2058.
2. To explore the need of self-assessment of income tax.
3. To examine the effectiveness of self-assessment of income tax in Nepal.
4. To analyze the views of taxpayers, tax experts and tax officers about self-assessment of income tax.

### **1.3 Research Question**

1. What are the major legal provision governing in tax assessment in Nepal ?
2. Is self assessment important to determine tax able ?
3. Has self assessment been effective for collecting adequate revenue ?
4. What are the views of tax payers, tax experts and tax officers towards self assessment of income tax income.
5. To suggest the measures for better application of self-assessment in income tax assessment.

### **1.4 Scope of the Study**

Present study aims to find out the problem faced by assesses while doing the tax assessment of their income. The major areas covered by this study are as follows:

1. Role of income tax in Nepal.
2. Brief introduction of income tax assessment procedure.
3. Government revenue from direct and indirect tax.

4. Existing position of income tax in Nepal.
5. Provision of income tax assessment under Income tax Act 2058.
6. Tax laws and provisions, income tax rate, exemption limit in income tax etc.

### **Limitation of the Study**

The present study is not free from limitations. The limitations of this study are as follows:

1. This study is confined to Nepalese law, act, rules and regulation.
2. Due to the small sample size, it may not fully represent Nepal as a whole.
3. This study has covered mainly the theoretical aspect of tax assessment.
4. Sample technique has been exercised due to time and financial limitations. This sample is selected only from Kathmandu valley and Nepalgunj.

### **1.5 Organization of Study**

This study has been organized in five chapters. The first chapter is introduction chapter, which includes general background, statement of problem, objectives of study, scope limitation of study.

Second chapter is about the review of literature through different relevant books, journals, unpublished dissertations and also about the legal provision regarding income tax, conceptual framework of incomes from different sources and tax assessment and provisions of self-assessment in Incomes Tax Act 2031 and Income Tax Act 2058.

The third chapter is research methodology, which includes research design, population and samples data collection procedure, data analysis and data processing.

The fourth chapter deals with analysis and presentation of data and empirical investigation which includes tax structure of Nepal, resource gap in Nepal, composition of direct and indirect tax, contribution of the total income tax and personal income tax to total tax revenue, estimation and collection of income tax in Nepal, exemption limit in Nepal, method of income tax assessment and effectiveness of self-assessment of income tax in Nepal.

The Fifth Chapter deals with findings, conclusion and recommendation.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

#### **2.1 Conceptual Framework**

##### **2.1.1 Concept of Tax**

The government of a country requires sufficient revenues to carry out development plans, to handle day to day administration, to maintain peace and security and to launch other public welfare activities. In order to carry out such activities, the government collects revenues from various sources such as tax, revenues from public enterprises, special assessment, fees, fines, grants and assistance etc. Among them, tax is the main source of government revenue. The source of government revenue can be divided into two parts tax and non-tax.

Income tax is a tax levied on the earning of the persons or legal entity. Generally, income tax is imposed on net income. Net income comes after deducting the cost of production from gross income. In practice, the expenses incurred in earning the income and appropriate exemptions and deductions are deducted to find out taxable income. Net income may be real income or money income. Real income is more comprehensive and includes not only money income but also other incidental advantages. Real income should, therefore, be the true index of ability to pay. So, income tax should be charged on real net income of an individual and not on his net money income (Agrawal, 1978:104).

According to Prof. Seligman, “A tax is a compulsory contribution from a person to the government to defray the expenses incurred in the common invests of all without reference to special benefit conferred” (Poudel, 2004:115).

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

From the above definitions, it is clear that tax is a compulsory levy imposed by government. Tax is levied on persons as per the prevailing laws. Tax is paid to the state to perform the function of the government. The taxpayer doesn't have any right to receive direct benefit from the tax paid. The taxpayer doesn't receive the equivalent benefit from the government. Amount of tax is spent for common interest of the people and collected from haves and spent for the interest of have not in the society.

Many economists have classified taxes in to several categories. Basically, tax can be classified in to two broad categories: Direct tax and indirect tax. A direct tax is a tax paid by a person on whom it is legally imposed. In direct tax, the person paying and bearing tax is the same. It is the tax on income and property such as income tax, property tax, vehicle tax, interest tax, gift tax etc. Direct tax is equitable as it is imposed on person as per the property or income. Time, procedure and amount of tax to be paid is known with certainty. Direct tax is elastic. The government can change tax rate with the change in the level of property or income. Taxpayer can easily estimate his tax liability. The government can easily increase tax according to economic situation of the country. It has many demerits. Direct tax is expensive for the government to collect individually. Tendency to evade tax may increase to avoid tax burden. Direct tax gives mental pinch to the taxpayers as they have to curtail their income to pay the government.

Indirect tax is the tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing the tax is different. It is the tax on consumption or expenditures. Examples of indirect taxes are VAT, sales tax, entertainment tax, hotel tax, excise duty, import and export duty etc.

Indirect tax is transferable. People pay tax when they receive or consume goods or services. Therefore, they don't feel burden to pay lump sum. There is mass participation because every person who receives goods and services pay tax.

The government encourages domestic products and discourages foreign goods through higher rates of indirect tax.

### **2.1.2 Concept, Meaning and Definition of Income Tax**

The term income may be defined as the best measure of ability in the sense of economic well being. Income is the primary determinant of level of living which a family enjoys. Income refers to the economic gain to a particular person during a particular period of time. Income consists of total increase in net wealth and consumption. These definitions can be stated as follows:

$$Y = C + W$$

Where,       $Y = \text{Income}$   
                  $C = \text{Value of Consumption}$   
                  $W = \text{Income in Wealth}$

Income is exemplified rather than defined in income tax laws of various countries.

The most widely accepted definition of income was developed by R.N. Haig and Henry Simon who are renowned for defining the term income in most acceptable view that income consists of the total of increase in net wealth and consumption.

$$Y = C + \Delta W$$

Where,       $Y = \text{Income}$   
                  $C = \text{Value of Consumption}$   
                  $\Delta W = \text{Net Increase of Personal Wealth Respectively}$

According to sec. 2 of the Indian Income Tax Act, 1961, profits and gains, dividends, voluntary contributions received by charitable trust, value of any perquisite of profit in lieu of salary, any capital gain and winning from lotteries and cross word puzzles.

According to Income Tax Act 2058, income means a person's income from employment, income from investment or business and the total of that income as calculated in accordance with this act.

Income tax, as the word itself, is a tax on income. In a broad sense, income tax is a levy based upon the production or receipts or gain of the taxpayers within a definite period of time.

Thus, income tax is chargeable on any person who is an assessee and whose total income exceeds the maximum exemption limit at the prescribed rates. From the very beginning, income tax has been always regarded as a tax based on the canon of ability.

The income tax law enforced at present in Nepal is the Income Tax Act 2058, and income tax rules are made under finance act passed every year to translate the economic policy contained in the budget speech into law. It generally possesses the rate and exemption limit for tax purposes, and government may delete, add or modify the provision contained in the Income Tax Act. Decision of Supreme Court in Nepal also acts as procedures for income tax laws. The notification of Nepal Gazette or circular by Inland Revenue department classifies and compliments the legal provisions.

Income tax can easily be modified to give elasticity in raising revenue and it is highly productive in a developing country like Nepal. Income tax is the major contributor towards government treasury among direct taxes.

### **2.1.3 Historical Perspective of Income Tax**

Great Britain is the first country in the world to introduce the modern income tax. It introduced income tax in 1799 to finance the war fought with France. USA introduced income tax in 1862 to generate revenue to finance civil war. In India, while income tax in its modern form was adopted in 1860, several experiments were made from 1860 to 1866 and finally the systematic income tax legislation was enacted in 1866.

Although the taxes were collected in various forms in ancient era, the history of modern income tax is not very old in Nepal. The idea of introducing income tax in Nepal originated in the early 1950s. When multi-party democratic political system was introduced in 1951, the finance minister in his budget speech declared the intention of the government to levy an income tax.

The first elected government in 1959 finally introduced Business Profits and Salaries Tax Act 1960 in Nepal. After about three years experiences of income tax, the government replaced the prevailing tax act by Income Tax Act 1962. The coverage was extended in the act. In 1974, Income Tax Act 1974 was enacted. To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted Income Tax Act 2002. This act has replaced Income Tax Act 1974, which was amended for eight times and existed for a period of 28 years. HMG/Nepal framed Income Tax Rules 2059 in 2059 to help clarify the act.

Kautiyya's "Arthashastra" of the fourth century B.C. has classified the tax receipt into three types (Lokalathan, 1998).

- i. Income earned through taxes on goods produced within the country.
- ii. Income earned through taxes on goods produced in the capital.
- iii. Income earned through taxes on imports and exports.

Land revenue was an important source of taxation in ancient India. Kautilya mentioned, "The tax system should be such as not to prove a great burden on the public (praja). The king should act like the bee which collects honey without inconveniencing the plant" (Gorola: Kautilya's Arthashastra). His economic thought was guided by social welfare concept. He suggested heavy taxation for luxuries and other articles, which weren't in favor of public welfare. Kautilya classified the main items of public expenditure as:

- i. National defense.
- ii. Salaries of ministers and expenditures on government departments.

- iii. Public administration.
- iv. Expenditure incurred on maintenance of armies.

#### **2.1.4 The History of Income Tax Systems in Nepal:**

Nepalese ancient tax system was based on Vedas, Smritis, and Puranas. Directives propounded by Nanu, Yanabaika, Chanakya, etc., guided the taxation system. At that time, the principle of collecting tax from the people was imposition of tax without harming the activities of the people (Kandel, 2003:8).

Although there was tax system in Nepal in ancient time also, the concept of income tax was brought only by the first budget. The budget introduced in 2008 B.S. stated about the introduction of income tax system in Nepal. However, it was actually introduced only in 2017 when the Finance Act, 2016 and Business Profits and Remuneration Tax Act, 2017 were enacted. At the beginning equivalent tax rates with progression and exemption limit were prescribed by the finance acts of 2017 to 2021 to all companies, private firms, individuals and families. The marginal rate of taxation prescribed by these acts was 25 percent slowly. The act was amended in 2029 extensively. However, considering this act incapable of fulfilling the needs of the time it was replaced in 2031 by another act, Income Tax Act 2031. Income Tax Act 2031 having 66 sections classified the sources of income into five.

1. Agriculture
2. Industry, business, profession or vocation
3. Remuneration
4. House and land rent
5. Other sources.

Income Tax Act 1962 (2019 B.S.) couldn't fulfill the needs of time. Therefore, Income Tax Act, 1974 (2031 B.S.) replaced the existing act in October 1974. Its basic framework had been derived from previous act. It had 66 sections.

This act was amended in 1977, 1979, 1985, 1989 and 1993. Some of the silent features of this act were as follows:

1. Act has defined some related basic terminologies such as income tax, taxpayers, non-resident, tax assessment, income year, gross and net income and philanthropic work etc.
2. Carry forward of losses was allowed for subsequent three years.
3. There was a provision of self-assessment of the tax for the first time in Nepal.
4. The methods of computing net income from various sources had been specified.
5. Procedure for assessment, re-assessment, jeopardy assessment, tax deducted at source, payment and refund of tax had been specified.
6. This act had made it obligatory for taxpayers to register their industry, business, profession or vocation in the tax office.

Income Tax Act 2058 has been introduced in Nepal to avoid defects of Income Tax Act 2031.

The new Income Tax Act has 143 sections. Income Tax Rules 2059 are also implemented under the provision of this act. As stated in objectives, the new act has many new provisions in comparison to Income Tax Act, 2031.

### **Main Features of Income Tax Act 2002 (2058 B.S.)**

Tax system is the subsystem of total economy. Tax policy is changed with the change in the economic policy of a country, change in world economic policy, and advancement in information technology. “Income Tax Act 2058” has been enacted to avoid the deficits of Income Tax Act 2031. This act has made a broad classification of income. This act imposes tax on all those activities contributing towards the creation of wealth. This act contains 143 sections. As compared to Income Tax Act 2031, very new concepts are introduced in this act. This act has silent features which are as follows:

1. All income tax related matters are confined within the act.

2. Tax rates are spelled out.
3. Specification of stock valuation methods.
4. Abolition of various tax related concessions, rebates and exemptions.
5. Simplification of depreciation related provision.
6. Taxing capital gains and dividends.
7. Generous losses set-off and carry forward provision.
8. Provision of international taxation.
9. Stringent fine and penalty provision.
10. Incentives are provided to infrastructure constructor, hydropower projects and special industries.
11. This act has classified all incomes into three headings under section 3 as business, employment, and investment.
12. There is special provision for deduction, pollution control, and research and improvement expenses.
13. The income of an approved retirement fund is free from tax but retirement payments in hands of employees are taxable.
14. Resident persons are taxed on their worldwide income while non-resident persons are taxed only in their income sourced in Nepal.
15. If a person submits an income return for and income year on the due date indicating the amount of total tax liability for the year and the amount of tax still payable by a person, it is treated as a self tax assessment.

## **2.2 Review of Related Studies**

Many books, dissertations, articles and reports are published and different individual and institutions concerning income tax conduct researches. Many individuals and institutions have studied on the various aspects relating to administrative problem, legal aspects and trends of income tax system. These studies are useful in the field of income tax. The researcher has made an attempt to confine this study on the exemptions and deductions given under Income Tax Act 2058.

Some of the books, articles and dissertations that are reviewed during this study are as follows:

### **2.2.1 Review of Books**

**Poudyal & Timilsina (1990)** have presented a book named "Income Tax in Nepal". This book is extremely based on the syllabus of B.Com. They described the theoretical as well as practical aspects of income tax in Nepal. Provisions and methods of assessment have been described with numerical examples but the major problems and defects of income tax system of Nepal have not been analyzed.

**Nagendra Bahadur Prandhanga (1993)** wrote a book entitled "Income Tax Laws and Accounting". Mr. Pradhananga has described the provisions made under income tax laws. This book is divided into 20 chapters. In this book, Mr. Pradhananga has described about the income tax and its development in Nepal. He has also described about fines and penalties, appeal, contribution of income tax for the development of nation, income tax administration and official, collection and return of income tax and admissible and inadmissible expenses etc. He also included some numerical problems in regard to income tax assessment, but this book has not analyzed the importance of income tax, problems and defects in Nepalese income tax act and importance of exemptions and deductions in income tax system of Nepal. This book has been written to fulfill the M. Com and B.Com course of T.U, especially this book is based on the syllabus of B.Com of T.U.

**Khadka (1994)** has described national and local taxes and tax administration in Nepal. The study mainly focuses on the process by which the Nepalese tax system was adopted and developed. He examined the structure & operation of the Nepalese tax system of that period in more detail. He has covered existing major problem of income tax and possible direction for reform. The major problems are as follows: unscientific tax assessment and collection, narrow tax coverage, weak tax administration, imbalance and inadequate organizational

structure, inadequate tax training programme, lack of information on tax system. His possible direction for reform was extension of tax coverage, improvement in tax assessment, extension withholding tax, inflation adjustment etc. He has also identified some possible directions for administration reform. They were reorganization and expansion, research unit on taxation. His book is very useful to know about various aspects of income tax in Nepal, although he has not any numerical illustration and has not mentioned the legal provision relating to income tax.

**Tiwari (1999)** has presented a book about income tax system in Nepal. Basically this book is written for the students of Tribhuvan University and it is equally useful to the taxpayers, tax administrators, and the person who want to get theoretical as well as practical knowledge about income tax. He has described the provisions under Income Tax Act 2031, income tax rules, provision under Finance Act 2055, other provisions, information and acts related income etc. He has not analyzed the major problems of income tax system.

**Adhikari (2003)** has presented a book on modern income tax. He has discussed the provision under Income Tax Act 2058. His book is analytical rather than informative. He has introduced different aspects of tax planning needs and base for successful tax planning. He has also presented historical background, income tax laws and its implements, assessment of tax and tax authorities and duties.

**Bhattarai and Koirala (2004)** wrote a book named “Tax Laws and Tax Planning”. This book has been written to fulfill the master’s course of T.U. This book has been organized in 20 chapters. In this book, the writers have described the process related to the income tax assessment and tax planning. They have also presented an overview of relevant tax laws, Income Tax Act 2058 and Value Added Tax 2052. They have also included numerical problems in regard to income tax assessment. This book is informative and descriptive

rather than analytical. It hasn't analyzed the importance of income tax, problems and defects of income tax system, importance of exemptions and deductions and calculation income tax from various sources.

**Aryal & Poudyal (2004)** have published a book named "Taxation in Nepal." They have described the theoretical and practical aspects of income tax & VAT. This book is extremely based on B.B.S. third year syllabus as prescribed by Tribhuvan University. This is very useful to get knowledge about Income Tax Act 2058, although it is unable to describe the tax structure of Nepal and the problem of income tax system.

**Amatya, Pokhrel and Dahal (2004)** wrote a book entitled "Taxation in Nepal". This book is also designed to meet the requirement of B.B.S. third year syllabus. Theoretical as well as practical aspects of taxation have been included in the book. This book is a descriptive one, not analytical.

**Khadka (2005)** wrote a book entitled "Modern Tax Administration in Nepal". This book is very much useful to anyone who is interested in Nepalese income taxation. This book gives almost complete information about the tax system of Nepal from its ancient time to current situation of income tax system. He has shared his expertise in his book. Basically, author focuses on the administrative aspects of the tax system in Nepal.

### **2.2.2 Review of Dissertations**

**Dhangang (1976)** – Dhungana, Kayastha and Rai have published a report entitled "An Analysis of Tax Structure of Nepal" dealing the tax structure of Nepal. Writers have analyzed the income tax in Nepal and recommended to reform income tax to reduce resource gap and mobilize additional resource. Report wasn't analytical.

**Pandey (1978)** has described a brief review of Nepalese economy resource mobilization, structure of income tax and legal aspect, role and problem of

income tax in Nepal. He has given more emphasis on tax structure on Nepal. He has identified two main things: one is that indirect taxes are more significant than direct taxes because of various problems to impose direct taxes and the other is role of income tax to control the inflationary trend within the country. He has identified that the problems of income tax are lack of recordkeeping, lack of maintaining account by taxpayer, lack of responsibility and honesty of tax officers, lack of co-ordination between various tax departments and revenue departments and leakage in personal income tax collection. He has suggested that capital gain should be included on income tax, income from bank interest should be subjected to income tax, the system of granting income tax holiday to industries should be scrapped, and income tax account assessment and collection method be scientific. Although he had explained various aspect of income tax in Nepal, he had not described it with numerical examples and empirical investigation.

**Regmi (1986)** has prepared a dissertation with the main objective of examining the trend of income tax in Nepal, ascertaining the share of income tax to total tax revenue and its ratio to gross domestic product. He has also stated great problems in income tax in Nepal. To increase the revenue of government, he has recommended that income tax law should be clear and precise, scientific method for accounting assessment and collection of income tax, widening tax coverage, easy and simple procedure of tax payment and public awareness.

### **2.2.3 Review of Reports and Articles**

**Lent (1968)** has presented a report entitled “Survey of Nepalese Tax Structure” under the request of INF Fiscal Affairs Department. He has critically analyzed the scope of income tax in Nepal, tax structure, taxable income, exemption and allowances given at that time. He has suggested reforming both the income law and administration to increase government revenue through income tax.

**Dhungana Kayastha, and Rai (1976)** have published a report entitled “An Analysis of Tax Structure of Nepal” dealing the tax structure of Nepal. Writers have analyzed the income tax in Nepal and recommended to reform income tax to reduce resource gap and mobilize additional resource. Report wasn’t analytical.

**Dr. Agrawal (1978)** has presented a report “Resource Mobilization for Development; The Reforms of Income Tax in Nepal” which was published by CEDA, Kathmandu. In this research work, he has analyzed various aspects of income tax including the administrative aspect of income taxation in Nepal. He has also highlighted various reasons that have created problems in the tax administration. He has concluded that the main reasons of administrative problems were undue delay in tax assessment, failure to maintain proper record by taxpayers and tax offices, failure to locate new taxpayers, unfriendly behavior of tax officials to the taxpayers in Nepal. His main contribution from this book may be taken as empirical investigation of facts and figures about the income tax in Nepal.

**Revenue Consultation Committee (2001)** report has studied the overall taxation situation in depth. It highly emphasized to simplify the tax policy to increase voluntary compliance. This report recommended for written communication between taxpayer and tax administration rather than the informal relation. This report suggested to wide the income tax base by including all kinds of taxpayers and income and to find out the taxpayers of new sector. For this, the report suggested to make the actions more transparent and clear in order to attract foreign and domestic investors. It was further suggested to increase income tax exemption limit considering purchasing power and inflation rate.

**Pant (2004)** has described the problems in tax administration and reform in Nepal. He has identified the following problems on tax administration.

- i. Low amount record in transaction.

- ii. Low amount record in sales.
- iii. Lack of the mobilization of experienced personnel.
- iv. Ineffective reward and punishment system.
- v. Lack of effective co-ordination between Inland Revenue Office and Revenue Research Unit.
- vi. License revenue without tax clearance.

**Toyanath Tripathi (2005)** in his research study entitled “Contribution of Income Tax from Public Enterprise to Government Revenue in Nepal.” The main objective of this study was to analyze the structure of income tax in Nepal, to analyze the contribution of income tax in Nepal and to analyze the contribution of tax from public enterprises to government revenue of Nepal. In this study, he suggests that the income tax rules and regulations should be clear and simple for all taxpayers.

**Binod Rijal (2006)** conducted a research entitled “A Study on Contribution of Corporate Tax in Government Revenue” in 2006. The main objective of this thesis was to analyze the role of income tax in Nepal, to examine the corporate tax structures in Nepal etc. The study analyzed only the period of 10 years. In his study, he made recommendations that private investment should be increased, revenue leakage should be controlled, corruption should be controlled etc. but he didn't make any recommendations about exemptions and deductions.

### **Conclusion**

Various books, dissertations, reports and articles published in journals and newspapers are reviewed while preparing this dissertation. Some of them are concentrated on the legal and administrative aspects of income tax system and structure of tax and some are related to income tax provision and laws, but most of them are related on the syllabus of Master and Bachelor levels. Most of the research studies have identified major problems of Nepalese income tax system as tax evasion, high level of ineffective tax administration and lack of

clear provision of law. There are very few research studies about self-assessment of income tax under present income tax act in Nepal which plays an important role to collect tax revenue.

### **2.3 Research Gap**

All the research studies mentioned above are concerned with study of laws, provisions, administrative aspects, structure of tax and types of tax. Most of them have identified inefficiency of tax administration and widespread tax evasion as major problems. No attention is paid on a particular problem. Many of them have taken various problems as their research objectives and no thorough study on a particular problem is done except few of them.

Income Tax Act 2058 has fully adopted self-tax assessment system. Self-assessment of income tax is a system in which a taxpayer assesses himself his income tax by maintaining proper accounts. Self-assessment of tax from corporate sector plays vital role in Nepalese economy. It is supposed to be assessed tax on due date until such time as the income return is to be filed although a person fails to file the return. Self-assessment of tax is mentioned as efficient all over the world. Therefore, income tax rules and regulations related to self-assessment should be made simple, clear and easy so that taxpayers feel their duty to submit their income statement. Encouragement and incentives should be provided to those taxpayers who submit file return in time. In Nepal, jeopardy and amended assessments have not been effective in income tax assessment. Lack of information, unwillingness, tendency of tax officers towards high corruption and lack of clear provisions in income tax laws are major causes of unsatisfactory jeopardy and amended assessments. So, I have selected this topic “Effectiveness of Self-Assessment of Income Tax in Nepal” to analyze its various aspects intensively and analytically.

## **2.4 Legal Provisions at Income Taxation**

The function of revenue collection has remained one of the key activities of the government from ancient time in Nepal. During that time, few economic activities were operated on the country. Hence, government couldn't collect huge amount of money in the form of tax. At that time, taxes were levied to the merchant, travelers and farmers in the form of cash or labor. In some occasions, gold and agricultural products were also paid as taxes but the nature of these taxes were temporary and taxes were raised for special purposes.

Income Tax Act 2058 is implemented from 19/12/2058 B.S. This act replaces the Income Tax Act 2031 and other acts related to income tax.

## **2.5 Sources of Income**

Income Tax Act 2058 has classified the sources of income for the purpose of assessment under the following heads:

- a. Income from business.
- b. Income from employment.
- c. Income from investment.

### **2.5.1 Income from Business**

Business means use of capital and labor to earn income. It is the mix of capital and labor. It is equivalent to the business profession or vocation defined by Income Tax Act, 2031. Income Tax Act, 2058 defines business as the business transactions related to industry, trade, profession or any other similar types of activities. According to the act, it encompasses above-stated types of activities conducted in past, present or future. The term business doesn't include employment. The following amount derived by the person during the year should be included:

- a. Service charges, disposal of trading stock, net gain from disposal of business assets or liability, gain from disposal of pool of depreciable assets, prizes or gifts in connection with business, amounts received in lieu of accepting any restriction on the capacity to conduct the business

and amounts received from any investment directly related to business.  
(sec 7.2)

- b. Incomes to be included due to exchange in accounting methods. (sec 22.6)
- c. Excess amounts received due to exchange rate variation. (sec 24.4)
- d. Bad debts recovered.
- e. Proportionate amounts received under long term contracts. (sec 26.1)
- f. Under payment of interest according to market rate. (sec 27.1)
- g. Receivable amounts paid to others. (sec 29)
- h. Amounts received for compensation. (sec 31)
- i. Other amounts received under the head of business income.

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

- a. Exemption amount under section 10.
- b. Dividends under section 54 and 69.
- c. Final withholding payment under section 92.

### **2.5.2 Income from Investment**

Investment income means income generated from the use of capital. Investment means use of capital for the purpose of getting income. According to Income Tax Act 2058 sec. 2 investment means an act of holding or investing one or more assets of a similar nature that in an integrated fashion; however, it excludes the following:

- The act of holding assets other than non-business taxable assets for personal use by the person owing the assets or investing amount on such assets, or
- Employment or business.

For the purpose of calculating the profits or gains from the investment, the following are included:

- a. Any dividend, interest, natural resource payment, rent, royalty, gain from insurance, gain from an unapproved retirement fund and 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 incomes over the depreciation 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 of the person and retirement payments in 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 of currency. (sec 28)
- i. Bad debt recovered allowed previously. (sec 25)
- j. Proportionate amount under long-term contract. (sec 28)
- k. Under paid interest amount according to market price and amount received as compensation. (sec 31)
- l. Other amounts being included on tax accounting or quantification, allocation and characterization of amounts or transaction between entity and beneficiary or general insurance business. (sec 9.2)

The following amounts are excluded income from investment for tax purpose:

- a. Exemption amount under section 10.
- b. Taxation of dividends under section 54.
- c. Final withholding payment under section 92.
- d. Amount that is included in calculating the person's income from any employment or business.

Following amounts are not allowed for deduction for deriving taxable income from business/investment.

- a. Cost to the intent to which they are domestic or personal nature.

- b. Income tax, bribe, fine and penalty paid to government or political subdivision of country by breach of any law. (sec 21)
- c. Cost incurred by a person in driving exempt amount as per set 10 or final withholding payment. (sec 21)
- d. Distribution of profit by entity. (sec 21)
- e. Capital nature expenditure and foreign income tax. (sec 21)
- f. Payment of cash exceeding Rs. 50,000 is not allowed for deduction in case where banking service is available and if annual turnover is more than Rs. 2 million.
- g. Any other amount that is denied by other provision of the law. (sec 21)

### **2.5.3 Income from Employment**

An individual's remuneration incomes from an employment, termed as income from employment, are included in employment income. All payments or benefits received in respect of employment, including past or future employment are taxable. The remuneration received by a person from the employment is following payments made by the employer: (sec 8)

- a. Payments of wages, salary, leave pay, overtime pay, fees, commission, prizes, gifts, bonuses and other facilities.
- b. Payments of allowances including any cost of living, rent, entertainment and transportation cost.
- c. Payment for the termination or loss or compulsory retirement.
- d. Payments for the agreement to any conditions of the employment.
- e. Payment of reimbursement of cost incurred by the individual or an associate of the individual.
- f. Retirement contributions including those paid by the employer to the retirement fund in respect of the employee and retirement payments.
- g. Other payments in respects of the employment.
- h. Other amount as given in chapter 6 of the act requisites and gains due to change in tax accounting required to be included.

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

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

The following are excluded in calculating an individual's remuneration from an employment.

- a. Amounts exemption under section 10 and final withholding payments.
- b. Meals or refreshment provided in premises operated by or on behalf of an employer to the employer's employees that are available to all the employees in similar terms.
- c. Payments of prescribed small amounts, which are so small and thus unreasonable or administratively impractical to make accounting for them.
- d. Any discharge or reimbursement of cost incurred by the individual cost that serves the proper business purpose of the employer and that would otherwise be deducted in calculating the individual income from any business or investment.

## **2.6 Meaning and Concept of Tax Assessment**

Assessment means "to determine" or "to compute." Income tax assessment means the determination of the amount of income tax imposed on the taxpayer for a specified period. "The word assessment comes from the Latin words "ad seeders assess ere" meaning 'to sit through, to fix a rate' or impose a tax. In the most common sense, the imposition of a tax on person and property to be taxed and evaluation of the property of each person on the basis of apportionment and levy such acts usually being performed by administrative officers and sometimes by legislature. Thus, income tax liability on a person is determined

on the basis of state act. Assessment of income tax denotes supplementary assessment, provisional assessment, advance assessment, reassessment, self tax assessment, the order issued by tax officer after amending self-assessment and any order made requiring security deposit. This definition has widened the scope of assessment of tax. Assessment of income tax means the computing of total income tax liability and procedures for imposing tax liability as well. The word assessment means computation of total income, determination of the amount of tax payable and whole procedure laid down in the act for imposing liability upon the taxpayer. Assessment has to be understood with reference to the context in which it has been used. The word assessment is used in number of provisions in a comprehensive sense and it can comprehend the whole procedure for ascertaining and imposing the tax liability upon the taxpayer and the machinery for enforcement thereof.

Hence, income tax assessment is the process of determining policy, rules, provisions and procedures to levy the tax and computing the income tax liability in accordance with the rules. The process of assessment consists of various stages such as filing of return, amendment of return before assessment, self-assessment enquiry before assessment, assessment of income escaping, rectification of mistakes, final assessment of income tax and collection or recovery of income tax. These terms will be dealt later in concerned heads.

Income tax is levied on total income calculated in accordance with the provisions under income tax act. Income tax will be levied on income earned in Nepal and foreign country as well from the business conducted in Nepal. Income will be calculated under different heads mentioned in the act. Tax liability is computed on this net income.

In case of a non-resident person income tax shall be charged on his net income acquired or earned in Nepal and other net income may be acquired from Nepal while residing in any other foreign country (Income Tax Act, 2031, section 6). This provision may prove disincentive to a non-resident bringing his taxable

income in Nepal. He may opt to keep such earning in foreign country and escape from the tax liability in Nepal.

Income Tax Act 2058 has defined the term “assessment” as an assessment of tax to be paid under this act and it includes an assessment of interest and penalty made under this act. However, the term doesn’t include an assessment that has been replaced with an amended assessment.

### **2.6.1 Tax Assessment Procedure**

The revenue collection from income tax is also based upon the income tax assessment procedure followed. An efficient and effective assessment procedure reduces the corruption and evasion and increase the morality which assists to generate additional financial resources through income taxes. (Routh: 119)

The income tax assessment procedure generally proceeds through four stages:

- a. Return of income statement.
- b. Assessment of taxable income.
- c. Determination of tax liability.
- d. Collection of net proceeds after deducting his advance tax payment.

### **2.6.2 Return of Income (sec 96)**

According to sec 96 of ITA 2058, every taxpayer should file at the place prescribed by the department a return of income not later than 3 months after the end of each income year. The return of income should be in the following:

- a. The person’s assessable income for the year from each employment, business and investment and the source of income.
- b. The person’s taxable income for the year and the tax payable with respect to that income for the year.
- c. In the case of a foreign permanent establishment of a non-resident person situated in Nepal, the foreign permanent establishment’s repatriated income for the year and the tax payable with respect to that income.

- d. Any other information that the department prescribes.

The return of income should be signed by the person or manager. It should be accompanied by necessary disclosures along with a declaration that the return is complete, true and accurate.

### **2.6.3 Returns of Income not required (sec 97)**

Unless requested by the department by notice in writing or by publishing a public notice, the following person is not required to file a return of income.

- a. A person who has no tax payable for the year under section 3 (a)
- b. A resident individual who has only one employer at a time during the year and all of whom are resident employers and who claims only a medical tax credit with respect to medical costs borne by the employer and reduction for retirement contribution made by the employer but does not claim a reduction for donation.
- c. A person who receives final withholding payment.
- d. If a vehicle owner paying flat taxes is an individual.

### **2.6.4 Extension of Time to File Return of Income (sec 98)**

A person who is required to file a return of income may make a written request to the department by the due date for filling the return. The department may, on such terms and conditions as prescribed by the department and where reasonable cause is shown, may grant multiple extensions not exceeding three months in total by which the return is to be filed. The department will inform the person in writing of its decision on the application.

## **2.7 Types of Assessment of Income Tax in Income Tax Act 2031**

The Income Tax Act 2031 has mentioned eight different types of assessments which are explained as below:

### **2.7.1 Advance Tax Assessment**

If the tax is assessed before the end of the income year, it is advance tax assessment. The act has made provisions of assessment and collection of tax in advance. It states, “if the tax officer is satisfied that any taxpayer being a non-Nepalese citizen or non-resident who is obliged to pay income tax by the Nepal Income Tax Act 1963, this act or any other existing Nepal law is likely to abscond to evade payments of tax, or any person who is obliged to pay tax has changed the name and place of firm or business with the purpose of evading the income tax, he may order that the amount likely to be taxed from him to be deposited, or immediately after the receipt of tax assessment notice, as security or that the amount of tax finally assessed be deposited notwithstanding the fact that this year of income is not over or that time for submission of statement has not expired or that the final assessment has not been made or that time for payment of the assessed tax has not expired.”

In respect of taxpayers other than above where statement of income is not submitted, the tax officer may required, without prejudice to other proceeding or the assessment of tax under this act, to make order for advance payment, within such a period not exceeding 35 days, of a deposit equal to the amount of tax to be chargeable on the net income of the last year for which assessment has already be made or tax due on the last income of the statement so submitted. [Section 35(2)]

Thus, tax officer may order for advance tax in the following conditions:

- a. Before the completion of income year.
- b. Though the period for the submission of statement has not expired.
- c. Before the assessment of tax.
- d. Though the period for payment of tax has not expired.

- e. Immediately after receiving the tax assessment order.
- f. In case the immediate assessment is not possible.

### **2.7.2 Provisional Tax Assessment**

Income tax officer makes provisional tax assessment in some cases; such assessment is not final assessment. Following are grounds for provisional tax assessment.

- a. Where the profit and loss account and balance sheet of any company has not been audited or approved by annual general meeting of such company within three months after the end of the year of income, a provisional statement of such account and balance sheet shall be submitted within such limit [section 27(2)]
- b. If the profit and loss account and balance sheet concerned with statement submitted under sub-section (2) is not approved by the general meeting and submitted in tax office within six months from the submission of provisional statement the tax officer may not act accordingly with section (28) of the act. [section 27 (2)A]
- c. Engaged in any profitable activity for less than a year shall submit provisional statement of his income to the tax officer before cessation of such activity. [section 27(3)]
- d. The company obliged to submit its statement of income pursuant to sub-section(2) of section 27 if submits a provisional statement of his transaction the tax officer shall, without prejudice to the provisions of other sections of this act, make a provisional assessment of tax on the basis of such statement. [section 33(5)]

### **2.7.3 Re-assessment and Supplementary Assessment of Tax**

If government is satisfied that any person filed or caused to file false statement and reduced the tax liability, it may order re-assessment or supplementary assessment of his tax within five years from the date of said assessment. Further, if government is satisfied that the tax liability has been reduced in case

of a taxpayer due to dishonesty, negligence or irregularity, it may order reassessment or supplementary assessment. [section56(3)]

Notwithstanding the fact that an appeal is pending against an assessment order made pursuant to the provisions of Nepal Income Tax Act 1963, this Act or a decision which regard to such appeal has been made, supplementary assessment pursuant to sub-sections (1) or (3) of section 56 may be made in respect of the income falling outside the purview of the earlier assessment order. [Section 56 (b)]

The reassessment or supplementary tax assessment is made by the government on the following conditions:

- a. In case of amendment of income statement. [section 29(1)]
- b. In case of rectification of tax assessment order. [section 55(1)]
- c. Non-fulfillment or irregularity or negligence in tax assessment. [section 34(2)]

The reassessment order of the government will be final. There are no legal remedies through writ (Bhatta, Lava Dev, Collection of Summary of Decisions Made by Supreme Court, 2035: 647) but the act has granted authority to tax officers to issue tax re-assessment order in the case of taxpayers who submit particulars of income for the purpose of self-tax assessment. [Income Tax Act, 2034 section 56(1)]

#### **2.7.4 Self-Tax Assessment**

The first amendment of Income Tax Act 1974 in 1977 had made the provisions of self-tax assessment for the first time. This provision aims to increase awareness in taxpayers about their tax liability and to facilitate the collection of tax. The eighth amendment of income tax act has mentioned many provisions in this regard and has given high priority to self-tax assessment.

A taxpayer having obligation of maintaining books of accounts shall determine his net income, submit particulars thereof in the self-tax assessment from and

assesses his tax himself [section 33(A) (1)] but tax assessment made by the taxpayer may not be a final one. The tax officer will check the assessment; and if finds during his investigation that the incidence of tax has been lowered, the tax officer will make the final assessment [section 33(A) (2)] and also prescribe the specimen of the form to be submitted along with particulars of self-tax assessment, the categories of taxpayers who must make self tax assessment on a compulsory basis and the criteria for determining whether self-tax assessment is appropriate or not. [section 33(B)] Such self assessment form must be certified by a recognized auditor. [Section 33 (c)]

### **2.7.5 Best Judgment Assessment**

In the event where assesses do not submit income tax return (ITR) or the submitted income tax return is not reliable or not acceptable to the assessing officer (AO), the income tax assessment is made on the basis of certain prescribed information. This method of assessment though not specifically mentioned in the income tax act as such but is called best judgment assessment.

### **2.7.6 Assessment by Income Assessment Committee:**

Income Tax Act 1974 has provided authority to government to form assessment committee. The act states “notwithstanding anything contained in this act, government if thinks necessary may, from time to time by notification published in the Nepal Gazette, constitute an assessment committee consisting of a chairman and other members not exceeding four for the purpose of computing the net income of any taxpayer or class of taxpayer. [Section 40 (1)]. The government has power to constitute the income tax assessment committee to assess the income of any taxpayers of particular class.

For this purpose, the government has made provision of constituting district assessment committee. This Committee shall assess the income of those taxpayers that are unable to maintain their business account and income is below Rs. 100,000 (Nepal Gazette 2033/6/11).

### **2.7.7 Assessment by Income Tax Assessment Committee for Small Taxpayer**

Income Tax Act, 2031 section 17(A) has made provision for the assessment of small taxpayer. It states “notwithstanding anything contained in other section of this act, the method and procedure of assessing the tax of small taxpayer having income of a prescribed limit shall be prescribed. [Income Tax Act, 1974 Section 17(A)]

The small taxpayers who can't maintain their account and whose income is below Rs. 100,000 shall have assessed their income tax by small taxpayer income tax assessment committee.

The income taxpayer whose income tax has been already assessed by the committee if pay 15 percent additional taxes more than the previous year will be assumed as assessed.

The committee will be constituted as follows: [Income Tax Rules, 2039 No.26 (1)]

- a. Chief of tax office or a person specified by him - chairman.
- b. Custom office, or if not, officer of treasury and account's controller office - member.
- c. Excise duty officer, or if he is absent, land revenue officer – member.
- d. Representative of concerned village development committee or municipality – member.
- e. Representative of local trade and commerce union, or if not, highly recognized businessman specified by chief district officer - member.

### **2.7.8 Assessment on the Basis of Agreement**

In special cases, the act has made provisions to compute net income by agreement. The act states, “if Director General doesn't deem it equitable to compute the net income of any taxpayer in accordance with the provisions of this act in relation to the income acquired or earned in any particular manner

from business conducted at the international level, it may make special arrangements for computing such net income by entering into agreement with such taxpayer. (ITA 2031 sec 18) Thus, the act has widened the provisions for the exceptional cases other than stated in the act.

## **2.8 Types of Assessment in Income Tax Act 2058 B.S.(2002)**

Income Tax Act 2058 provides the following major methods of assessing income tax:

### **2.8.1 Self-Tax Assessment**

Self-tax assessment is the system in which the taxpayer pays himself his income tax by calculating his tax to pay on the preparation of his income and showing his every detail. (Joshi, 2044:61)

The first amendment in 1977 of Income Tax Act 1974 had made the provision of self-tax assessment for the first time. This provision aims to increase awareness in taxpayers about their tax liability and to facilitate the collection of tax. The eighth amendment of income tax act has mentioned many provisions in this regard have given high priority to self-tax assessment, but it was not properly implemented in practice before the enforcement of Income Tax Act 2058.

According to the act, if a person submits an income return for an income year on the due date indicating the amount of total income, tax liability and tax still payable for the year; it is treated as an assessment has been made. Such assessment is known as self-tax assessment. The tax official validates self-assessment only when the person submits the income return in prescribed format on the due date along with the tax payable in a proper way without any error and motive of fraud.

Since the current tax laws have fully adopted self-tax assessment system, it is supposed to be assessed tax on due date until such time as the income return is to be filed although a person fails to file the return. So in case of failure to

submit the income return in the due date, the total sum of any tax withheld for payment derived by the person during the years and any tax paid by the person in installments for the year is treated as paid on the due date. It means only the remaining tax is treated as tax arrear until such time as the return is filed and the tax arrear is recovered along with penalty, interest and fine. (Amatya, Pokharel and Dahal, 2004:261)

For the self-tax assessment, three procedures are to be followed by the taxpayers:

- a. Preparation of income and expenditure as prescribed format.
- b. Declaration of net income of each source of income.
- c. Showing the taxable income.

In such assessment the taxpayer also should show:

- a. Tax payable by the person.
- b. Amount of tax still to be paid by the person for the year being shown in the return.

### **2.8.2 Jeopardy Assessment**

In some doubtful situations, the tax officials may make jeopardy assessment. The assessment is initiated prior to the date of filling an income return. The assessment is actually made according to the best judgment basis under the special circumstances as when: (Sec 100 of ITA, 2058)

- a. The person becomes bankrupt, wound-up, or goes into liquidation.
- b. The person is about to leave Nepal indefinitely.
- c. The person is otherwise about to cease activity in Nepal.
- d. The department otherwise considers it appropriate.

Jeopardy assessment can be made either for the whole year or for the part of the year. If the assessment is made for the whole year the taxpayer is not required to file the return for the year; but if the assessment is made for the part of the year then taxpayer is required to file the return of income for the year on due date.

The department may give seven days of time to the taxpayer to produce profit, if any, in own favor with respect of the jeopardy assessment. Moreover, if the tax official makes a jeopardy assessment, the tax official is required to provide written notice of the assessment to the taxpayer mentioning the total tax liability, tax payable along with the date of payment and the manner and reason of the assessment. The notice should include the time, place and manner of objecting to the assessment.

### **2.8.3 Amended Assessments**

The department may amend an assessment made by the taxpayer to adjust the assessed person's tax liability. It is done according to the intension of the act. The tax officials may amend both the self-assessment and jeopardy assessment so as to adjust the tax liability. Amended assessment is carried out after filling return or after the expiry of due date for filling income return. The tax officials may amend an assessment according to the best judgment for as many times as the tax officials think appropriate. The department may amend an assessment within four years at any time where the assessment is inaccurate by the reason of fraud or any willful neglect by or on the behalf of the assessed person.

The tax official may not amend an assessment if the assessment has been amended or reduced assessed tax by the revenue tribunal or a court of competent jurisdiction except where the order is reopened. This provision should not be a barrier to amend in the case where an order for reinvestigation is issued.

Where the department makes amended assessment, the department shall be required to serve a notice of the assessment to the person stating the following:  
(sec 101)

- a. Tax payable by the person, tax still to be paid for the income year or the period to which assessment is made.
- b. The manner in which the assessment is calculated.
- c. The reason why the department has made assessment.

- d. The date on which the assessment is payable.
- e. Time, place and manner of objecting to the assessment.

The department may give the 15days of time to the taxpayer to produce proof, if any, in own favor with respect of the assessment.

## **2.9 Payment, Collection and Refund of Tax**

Income Tax Act 2058 has established two major methods of collecting tax. One is voluntary payment of tax and another is collection of tax. If a taxpayer voluntarily pays tax within specified time limit, it is known as voluntary payment of tax. If a taxpayer does not pay tax voluntarily within the specified time limit, the tax official collects tax through special effort and it is known as collection of tax.

According to the act, the tax is to be paid in the form and at the place prescribed by the tax authority. In case a person is required to pay tax at a place as per a notice issued by IRD or IRO, the person has to pay the tax at the same place as mentioned in the notice. In general cases, each person has to submit the tax payable to the Inland Revenue Office or recognized bank. Generally in practice, the Inland Revenue Office accepts the amount of tax in cash only up to Rs. 10,000 but the person is required to pay the tax with cheque or draft in the case above such limit.

### **2.9.1 Methods of Tax Payment**

Payment of tax is one of the important functions of tax administration. Income Tax Act 2058 has adopted following three methods collecting tax from the taxpayers. (Sec 94)

- a) **Installment Method:** An individual or an entity having assessable income during an income year from a business or investment is required to pay tax in three installments:

| Date Payable        | Amount Payable       |
|---------------------|----------------------|
| By the end of Poush | 40% of estimated tax |

|                       |                       |
|-----------------------|-----------------------|
| By the end of Chaitra | 70% of estimated tax  |
| By the end of Ashadh  | 100% of estimated tax |

While paying tax in installment, the taxpayer should pay remaining amount after deducting the amount of tax paid earlier.

- b) **Withholding Method:** Withholding tax is the tax deducted from employment income, investment return, service fees, contract or other incomes by the payer of the income and paid to tax authorities wholly on behalf of the recipient (i.e., withholder). Withholding tax is also called as tax deducted at source (TDS). It is imposed on receivers but collected through payers.

Any person who makes disbursement of income subject to withholding tax is required to withhold income tax at the time of disbursement, to remit all taxes thus withheld to the government account within 15 days and to submit particulars thereof to the tax office concerned.

- c) **Collection along with self-assessment:** Each person is required to file a return within three months after the end of each income year. While filing the final return, taxpayers are required to pay outstanding tax, if any.

### 2.9.2 Collection of Tax

If a taxpayer doesn't pay tax voluntarily within the due date, the tax official collects the tax arrear through special efforts. According to the present laws, collection of tax refers to the recovery or realization of tax arrears through such special effort made by the tax official.

The act has stated the following measures for the recovery of the due amounts:

**Recovery of Tax from Person Owing Money to Tax Debtor (sec 109):** Tax administration may recover due amount from the following persons on account of and to the tax payable by the tax debtor:

- a) Person owing money to the tax debtor.

- b) Person holding money on account of a third person for payment to the tax debtor.
- c) Person having authority from a third person to pay money to the tax debtor.

A person making a payment to the government will be treated as making the payment to the tax debtor. The tax debtor or any other person may not make a claim against the persons with respect to such amount.

#### **Departure Prohibition Order (Sec. 106)**

If a person didn't pay tax within payable time, the department can serve notice to the immigration office to prevent the person from leaving country for a period of 72 hours from the time of notice served. If the person pays the tax or makes an arrangement for payment, tax administration may be notified in writing served on the office and withdraw the order.

#### **Recovery of Tax from Agent of Non-Resident (sec. 110)**

The department may by service of a notice in writing require a person who is in possession of assets owned by the tax debtor to pay the tax on the behalf of the tax debtor up to the market value of the assets. In case of such payment, the person may recover the payment from tax debtor an amount not exceeding the payment. The tax debtor may not make claim against the person with respect to the retention.

#### **Recovery of Tax from Receiver (Sec 108)**

Tax administration also can recover amount from a receiver such as a liquidator, a mortgagee in possession, an executor, administrator or direct heir of a deceased individual's estate, or any person conducting the affairs of an incapacitated individual.

#### **Charge Over Assets and Sales of Charged Assets (sec 104)**

If the tax payer is not able to pay tax on or before the due date, the government can create charge over the assets of the taxpayers by severing notice to him stating:

- Detail of the assets auction.

- The extent of charge. (Tax payable, interest occurred etc.)
- Any cost of charge on auction

### **Suit for Unpaid Tax/Legal Action against Unpaid Tax:**

The administration may file a suit against the person who has not paid tax on time with the concerned district court for recovery of the tax. (sec. 111)

### **2.9.3 Remission of Tax**

Government may remit in whole or in part any tax that is payable of a person where the tax cannot be collected. The government also remits in whole or in part any interest of penalty chargeable under the act. (sec. 112)

### **2.9.4 Refund and Set-off (sec 113)**

If a person has paid the tax in excess of the tax liability, the department will first recover the tax payable by the person. After recovering that amount if there is still the tax excess of the liability, the remaining amount will be refunded to the taxpayer.

## **2.10 Appeal**

Income Tax Act, 2058 has made provision for two types of appeal system: First to the Inland Revenue Department for an administrative review and second is to Revenue Tribunal.

### **2.10.1 Administrative Review**

Income Tax Act 2002 has introduced the concept of administrative review that will allow the tax administration to correct mistakes made by the tax administration internally.

For the purpose of Income Tax Act 2058, administrative review may be conducted on the following decisions:

- a) A personal ruling issued by the department.
- b) An estimate by the department or the decision to make an estimate on person's estimated tax payable.

- c) A decision by department on an application by a person to extend the due date by which the person must file a return.
- d) A decision by the department to require a person to file a return of income.
- e) An assessment of income tax payable by a person or determination of the costs of auction of charge assets or interest and penalties payable by a person.
- f) Notification by the department of an amount to be set aside by a person as a receiver.
- g) A decision by the department to require a person to pay monies owing to a tax debtor to the department.
- h) A decision by the department to require a person to pay tax on behalf of a non-resident person.
- i) A decision by the department on as application by a person for a refund of tax.
- j) A decision by the department on an application by a person for an extension of time.

A taxpayer who doesn't agree with review-able decision made by a tax officer may file in writing an objection to the decision with the department. It is noted that in case of application filed for administrative review against on assessment of income tax payable by a person under jeopardy or amended assessment, the person has to deposit 50% of debatable tax and full amount of un-debatable tax.

After consideration of a person's objection filed, the department may allow or disallow the objection in whole or part. The department is required to notify the person in writing of the decision on an objection. If the department fails to notify the person in writing of the decision on an objection within 90 days of an objection being filed the person may treat the department as having made a decision to disallow the objection.

## **2.10.2 Appeal to the Revenue Tribunal**

As per sec. 116, a person who is aggrieved by a decision on an objection may appeal to the Revenue Tribunal in accordance with the Revenue Tribunal Act 2031. The appellant should file a copy of the notice of appeal with the department within 15 days of doing so. However, the operation and enforcement of an objection decision is not stayed or otherwise affected by an appeal. If director general of the department has made the decision relating to administrative review, the appeal to Revenue Tribunal would be effective.

## **2.11 Tax Accounting**

### **2.11.1 Methods of Tax Accounting**

On the basis of this act, the financial transactions of a firm are recorded either on a cash basis or in an accrual basis. Income Tax Act 2058 has specified the method of tax accounting in section 22 when a person derives an income or incurs an expense is made according to the generally accepted accounting principles. In calculating the individual's income from an employment or investment for tax purpose, the accounting should be done on cash basis.

#### **Use of Tax Accounting**

| Person                 | Income Head               | Accounting Method     |
|------------------------|---------------------------|-----------------------|
| Individual             | Employment,<br>Investment | Cash Basis            |
| Sole Trader/Proprietor | Business                  | Cash or Accrual Basis |
| Company                | Business,<br>Investment   | Accrual Basis         |
| Other entity           | Business,<br>Investment   | Cash or Accrual basis |

Source: Income Tax Act, 2058

### **Cash Basis of Accounting**

A person who keeps tax account on a cash basis in calculating the person's income from employment, business or investment should:

- Treat an amount as derived and include in income only when the payment is received or made available to the person.
- Treat an expense as incurred and deduct in that calculation only when the payment is made.

### **Accrual Basis of Accounting**

A person who keeps tax account on an accrual basis in calculating the person's income from business or investment should treat an amount as derived and include in income when the person becomes entitled to the payment for the purpose of deductions, the following expenses is treated as incurred

- When the person is obliged to make the payment
- The value of obligation can be determined with reasonable accuracy
- The other payment has been received.

In case of accrual basis accounting, an appropriate adjustment should be made at the time the payment is received or made so as to account for the inaccuracy that may happen in both income and expenditure including by reason of a change in currency valuations.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

This chapter is dedicated to research methodology applied in the study for the achievement of desired objectives.

#### **3.1 Types of Research**

This study includes three types of research descriptive, analytical as well as empirical.

#### **3.2 Research Design**

The research study has focused on role of income tax, indirect tax and direct tax in total tax revenue and effectiveness of income tax revenue collection in Nepal. To achieve the stated objective of the study, the opinion of various 100 respondents associated directly with denomination, i.e., tax expert, tax administrators and taxpayers were collected through structured questionnaire. The questionnaire inquires about the role of income tax to national revenue, provisions of fines and penalty, soundness and effectiveness of income tax system, the most important factors for the effectiveness of income tax system including necessary suggestions for achieving effectiveness of income tax in Nepal etc. In this way, the research design of this research is descriptive, analytical and empirical.

#### **3.3 Population and Sample Sources of Data**

The population of this study has comprised all the persons belonging to income tax in Nepal. Nearly 100 samples from Kathmandu valley and Nepalgunj were taken to fulfill the objectives of this study. The data used in this study are from fiscal year 2000/01 to 2008/09. Persons included in the sample are carefully selected by consultation with lecturers. The respondents have been divided into three groups. The following table shows the group of respondent's size of the sample.

### 3.3.1 Group of Respondent and Size of the Sample

| S. N  | Group of Respondents      | No. of Questionnaire Distributed | No. of Questionnaire Received | Sample Size |
|-------|---------------------------|----------------------------------|-------------------------------|-------------|
| 1     | Income Tax Administrators | 25                               | 25                            | 25          |
| 2     | Income Tax Experts        | 25                               | 25                            | 25          |
| 3     | Incomes Taxpayers         | 50                               | 50                            | 50          |
| Total |                           | 100                              | 100                           | 100         |

### 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:

#### 3.4.1 Primary Data

Primary data and information have been collected through administering structured questionnaire to sample population. The same questionnaire was distributed to all respondents. Tax administrators are selected from tax department and various sectors of tax offices. Tax experts are the lecturers, auditors, chartered accountants etc. Taxpayers are selected representing various sectors like manufacturing company, trading company, private banks, insurance company, finance company, departmental store etc.

#### 3.4.2 Secondary Data

Secondary data and information was collected from various published report of different organizations. The sources of information have been collected through the following sources:

- a. Book related to income tax and public finance.
- b. Dissertation related to income tax.
- c. Various internet websites.
- d. National and international newspapers, journals, souvenir and magazines.
- e. Reports and records of Department of Taxation and Ministry of Finance, Government of Nepal.

- f. Budget speech and economics survey of various years, Ministry of Finance, Government of Nepal
- g. Other relevant records and data.

### **3.5 Data Collection Procedure**

The data for this study are collected from two sources. Primary data are collected by using questionnaire. Questionnaire was developed, distributed, and collected personally through field visits. Secondary data are collected from published reports of different organizations.

### **3.6 Data Processing and Analysis Procedure**

For the analysis, all collected data and information of various aspects of income tax was arranged in order and processed. Then the descriptive tools and statistical tools such as simple percentage; simple average; graphs, charts and diagrams; correlation and other statistical and financial tools etc. have been applied in the way of analysis so that the findings could be presented and interpreted properly in order and clear.

## **4. Statistical Tools**

Statistical methods are the mathematical technique used to facilitate the analysis and interpretation of numerical data secured from group of individuals or groups of observations from a single individual. The provided detail description and tabulate as well as analyze data are without subjectivity but with objectivity.

- a. Correlation Coefficient
- b. Chi Square Test

## **CHAPTER IV**

### **PRESENTATION AND ANALYSIS OF DATA**

#### **4.1 Tax Structure of Nepal**

Although the taxes were collected in various forms in ancient era, the history of modern income tax in Nepal originated in the early 1950s when the multiparty democratic political system was introduced. In 1951, the finance minister in his budget speech declared the intention of the government to levy an income tax. The first elected government in 1959 finally introduced Business Profit and Salaries Tax Act 1960 in Nepal. After about three years experience of income tax, the government replaced the prevailing tax act by Income Tax Act in 1962. In 1974, Income Tax Act 1974 was enacted and in 2058 the Income Tax Act 2058 was enacted and coverage was extended. Modern economic development of Nepal has started with the initiation of first economic planning in 2013. Since then, taxes have been raised for the achievement of the national economic goals. So taxes plays vital role to the economic development of Nepal. The tax structure of the nation composed of direct as well as indirect taxes. The total tax structure of the Nepal from the fiscal year 2004/05 to 2008/2009 is given below:

#### **4.2 Resource Gap in Nepal**

Every government is responsible to perform numerous functions for the betterment of the people in the country. A government needs huge volume of income to fulfill various types of expenditure for this purpose. Government collects revenue from different sources, thus the income of the government is through all sources like taxes, borrowing, fees, donation etc.

Nepal has been facing a serious resource gap problem in the finance from the beginning of the developmental phase to the present time. A large amount of external aid, loan and internal loan is borrowed to fulfill this growing resource gap. But scarcity of resource seems to be never ending problem for Nepal.

The source of mobilization is still poor and that doesn't cover the total expenditure in Nepal. Fiscal deficit is due to the continuously growing expenditure of the government instead of the low revenue performance in Nepal. By this reason, Nepal is facing increasing burden of foreign loan. Widening trend of the different resource gap is show in the table 5.1.

As in the table, resource gap (x) of Rs. 18649.3 million in 2004/05 reached to Rs. 34297.7 million in the fiscal year 2008/09. It is in continuously increasing trend. Resource gap (x) was only decreased in the fiscal year 2005/06, 2006/07 and 2007/08. In the fiscal year 2008/09, it increased by Rs. 6670.8 million. The foreign grants and foreign loans are increasing which help to minimize the resource gap. Resource gap (y) was Rs. 13824.2 million in the starting year and further widened to Rs. 24188.1 million in fiscal year 2005/06. It was decreased in the fiscal year 2006/07, 2007/08, 2008/09 by the Rs. 1247.4 million, Rs. 6503 million, 93.7 million respectively than previous year, but in the fiscal year 2004/2005 it was increased by Rs. 3563 million.

The government takes internal and external loans to meet deficit finance. Foreign loan was Rs. 9463.9 million in the fiscal year 1999/00 and Rs. 9266.1 million in 2008/09. After foreign loan financing, resource gap (z) was Rs 4360.3 million in the fiscal year 1999/00 and increased to Rs 10640.6 million in the fiscal year 2008/09. The internal loan in the fiscal year 1999/00 was Rs. 2200 million and Rs. 3938.1 million in the fiscal year 2008/09. Even after loan financing, there has existed cash deficit in Nepalese public finance. After internal loan financing, there was Rs. 2160.3 million deficit finance in the fiscal year 1999/00. It increased up to Rs. 7241.9 million in the fiscal year 2005/06 and surplus finance in the fiscal year 2008/09 by Rs 157.7 million. Thus, increasing resource gap indicate that it is necessary to mobilize additional domestic resource. Ultimate and best measure to fill up the resource gap is to increase public revenue through effective tax system.

**Table 4.1**  
**Resource Gap in Nepal**

Rs.in Million

| FY      | Total Expenditure (x) | Total Revenue (y) | Resource Gap x (x-y) | Foreign Grants (z) | Resource Gap (y) (x-y+z) | Foreign Loan (A) | Resource Gap (z) (x-y+z+A) |
|---------|-----------------------|-------------------|----------------------|--------------------|--------------------------|------------------|----------------------------|
| 1999/00 | 46542.4               | 27893.1           | 18649.3              | 4825.1             | 13824.2                  | 9463.9           | 4360.3                     |
| 2000/01 | 50720.7               | 30373.5           | 20350.2              | 5988.3             | 14361.9                  | 9043.6           | 5318.3                     |
| 2001/02 | 56118.3               | 32973.9           | 23180.4              | 5402.6             | 17777.8                  | 11054.5          | 6723.3                     |
| 2002/03 | 59579.3               | 37251.0           | 22328.0              | 4336.6             | 17991.4                  | 11852.4          | 6139.0                     |
| 2003/04 | 66272.5               | 42893.8           | 23378.7              | 5711.7             | 17667.4                  | 11812.2          | 5854.8                     |
| 2004/05 | 79835.1               | 48893.6           | 30941.5              | 6753.4             | 24188.1                  | 12044.0          | 12144.1                    |
| 2005/06 | 80072.3               | 50445.6           | 29626.8              | 6686.10            | 22940.7                  | 7698.7           | 1524.0                     |
| 2006/07 | 84006.1               | 56229.8           | 27776.3              | 11339.1            | 16437.2                  | 4546.4           | 11890.4                    |
| 2007/08 | 89442.6               | 61815.7           | 27626.9              | 11283.4            | 16343.5                  | 7629.0           | 8714.5                     |
| 2008/09 | 102560.4              | 68262.7           | 34297.7              | 14391.2            | 19906.5                  | 9266.1           | 10640.4                    |

Economic Survey, 2008/09, Ministry of Finance, Kathmandu

### 4.3 Composition of Total Tax and Non-Tax Revenue to Total Revenue

The income of the government through all sources like custom duty, value added tax, income tax, land revenue and registration charge, fines and penalty, royalty etc. is called public revenue. Public revenue may be divided into two categories.

- a) Tax Revenue
- b) Non-Tax Revenue

In Nepal, the total revenue of the government composed of tax revenue and non-tax revenue. Tax revenue includes the amounts which are compulsory contribution by the taxpayers to the government. Non-tax revenue includes fees, special assessment, gifts, grants and penalties etc. Non-tax revenue sources are uncertain and inconvenient because they are imposed according to

necessity of the government. The composition of total tax and non-tax revenue is presented in following table 4.2.

Table 5.2 shows overall view of the total revenue. The total revenue of fiscal years 1999/00 to 2008/09 is presented in the given table. The tax revenue in 1999/00 was 77.7 percent but in 2008/09 77.16 percent. Likewise, the non-tax revenue was 22.3 in 1999/00 percent but in 2008/09 22.84 percent.

**Table 4.2**

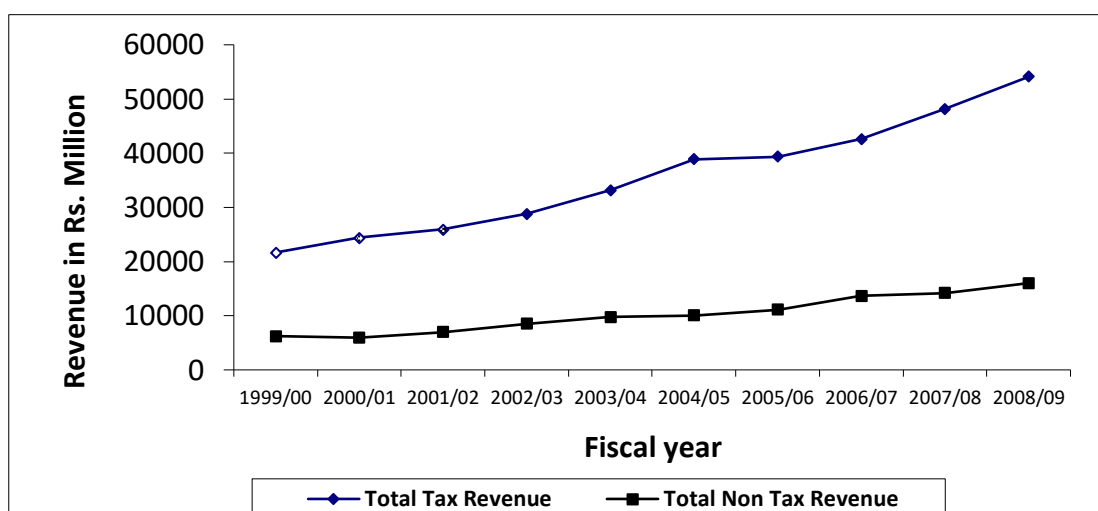
**Composition of Total Tax and Non-Tax Revenue to Total Revenue**

| FY      | Total Revenue | Revenue     |                 | Percentage Total Revenue |                   |
|---------|---------------|-------------|-----------------|--------------------------|-------------------|
|         |               | Tax Revenue | Non-Tax Revenue | % Tax Revenue            | % Non-Tax Revenue |
| 1999/00 | 27893.1       | 21668.0     | 6225.11         | 77.70                    | 22.31             |
| 2000/01 | 30373.5       | 24424.0     | 5949.22         | 80.42                    | 19.62             |
| 2001/02 | 32937.9       | 25939.8     | 6998.10         | 78.83                    | 21.27             |
| 2002/03 | 37251         | 28752.9     | 8498.10         | 77.19                    | 22.81             |
| 2003/04 | 42893.80      | 33152.1     | 9741.60         | 77.29                    | 22.71             |
| 2004/05 | 48893.60      | 38865.1     | 10028.80        | 79.49                    | 20.51             |
| 2005/06 | 50445.50      | 39330.6     | 11115.00        | 77.97                    | 22.03             |
| 2006/07 | 56229.8       | 42587.0     | 13642.70        | 75.74                    | 24.26             |
| 2007/08 | 62331.0       | 48173.0     | 14158.00        | 77.29                    | 22.71             |
| 2008/09 | 70122.70      | 54104.7     | 16018.00        | 77.16                    | 22.84             |

Economic Survey, 2008/09, Ministry of Finance 2006, Kathmandu

**Figure: 4.1**

**Composition of Total Tax and Non-tax Revenue of Total Revenue**



Tax revenue is the most important source of the government revenue since it contributes more than 75 percent share in the total government revenue. The importance of non-tax revenue can't be less prioritized. The trend of non-tax revenue collection was also increased during the period selected by the study (Fiscal Year 1999/00 to 2008/09) as it is increased from Rs. 5931.7 million.

**4.4 Composition of Total Direct and Total Indirect Tax to Total Tax Revenue**

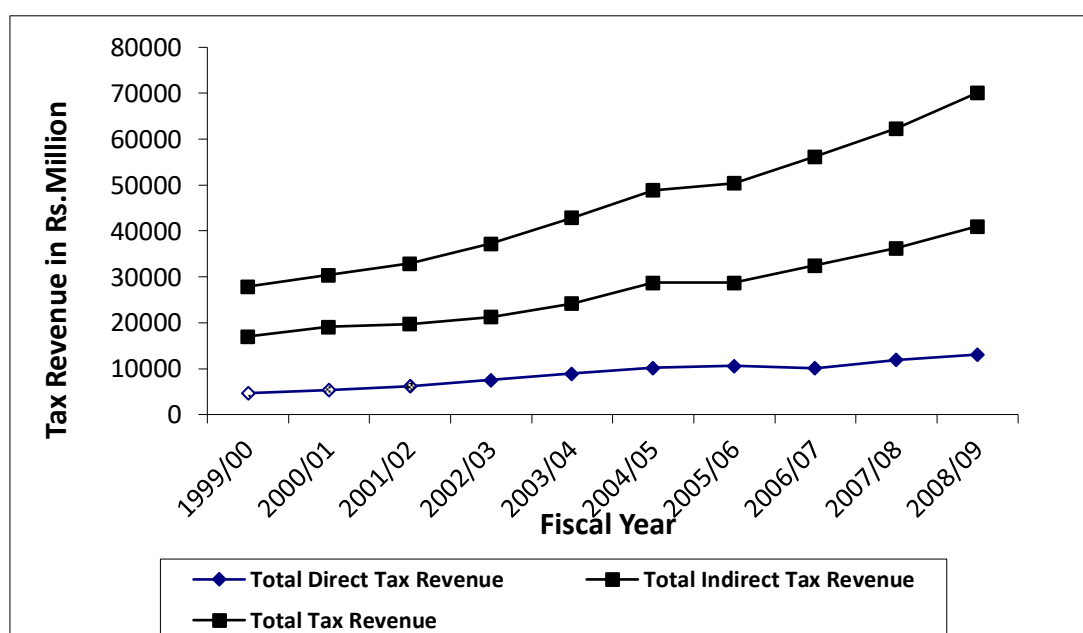
Tax is a compulsory contribution imposed by a public authority. Tax revenue is the principle source of the government revenue; however, its contribution differs significantly in different countries. In the context of Nepalese economy, tax revenue composes of total direct tax revenue and total indirect tax revenue. If someone pays taxes to the government from his/her own income, it is called direct tax. Indirect taxes are that taxes which are imposed on one person but paid partly or wholly by others. Custom duty, VAT, entertainment tax etc. are indirect taxes. There has been simultaneous increase in total tax, total indirect tax and total direct tax revenue in absolute form. The trend and composition on of tax revenue for 1999/00 to 2008/09 is presented in the table as below:

**Table 4.3**  
**Composition of Direct Tax and Indirect Tax Revenue on**  
**Total Tax Revenue**

| FY      | Total Tax Revenue | Tax Revenue |              | Percentage of Tax Revenue |                |
|---------|-------------------|-------------|--------------|---------------------------|----------------|
|         |                   | Direct Tax  | Indirect Tax | % Direct Tax              | % Indirect Tax |
| 1999/00 | 21668.0           | 4655.9      | 17012.1      | 21.5                      | 78.5           |
| 2000/01 | 24424.3           | 5340.0      | 19084.3      | 21.9                      | 78.1           |
| 2001/02 | 25939.8           | 6187.9      | 19751.7      | 23.9                      | 76.1           |
| 2002/03 | 28752.90          | 7516.1      | 21236.8      | 26.1                      | 73.9           |
| 2003/04 | 33152.10          | 8951.5      | 24200.6      | 27.0                      | 73.0           |
| 2004/05 | 38865.10          | 10159.4     | 28705.7      | 26.1                      | 73.9           |
| 2005/06 | 39330.60          | 10597.5     | 28733.1      | 26.9                      | 73.1           |
| 2006/07 | 42587.0           | 10105.8     | 32481.2      | 23.7                      | 76.3           |
| 2007/08 | 48173.0           | 11912.1     | 36260.4      | 24.73                     | 75.27          |
| 2008/09 | 54104.70          | 13071.8     | 41032.9      | 24.16                     | 75.84          |

Source: Budget Speech and Economic Survey of Various Years.

**Figure: 4.2**  
**Composition of Total Direct Tax and Total Indirect Tax**  
**Revenue to Total Revenue**



The trend also in absolute value, total tax revenue, direct tax and indirect tax is increasing.

In Nepalese tax revenue; share of indirect tax is larger than the direct taxes. The average contribution of direct tax in total revenue is 21.5 to 25.81 percent. It hasn't gone down by limit of 21.5 percent (year 1999/00) and not exceed by 25.81 percent (year 2003/04) ever recorded. The basic reason of increasing these taxes is due to expansion of tax bases and tax rates.

In comparison to the other developed country like USA, UK, Japan etc., contribution of direct taxes in Nepal is very low. Being an undeveloped country, most of the Nepalese people live in the level of subsistence and all of their income is spent out on consumption. This could be a reason that direct tax is not producing more revenue than indirect tax.

The amount of indirect tax in the fiscal year 1999/00 was Rs. 17012.1 million and 78.2 percent of total tax revenue; but even after 10 years in the year 2006/07, share of tax is 76.27 percent, Rs. 32481.20 million.

To drive our nation toward economic development, it is not a good symptom because economic development of a nation depends upon its own economy. It means the nation's general public must have strong income by which they will pay tax and the government revenue will increase or enhance. Trend of total tax revenue, direct tax and indirect tax is shown in above table and figure 5.3

#### **4.5 Contribution of Total Income Tax and Personal Income Tax to Total Tax Revenue:**

In the following table, the percentage share of income tax and personal income tax in the total tax revenue is given. The income tax and personal income tax's share are increasing every year. The share of income tax has increased significantly in the last seven years. In the composition of the total tax revenue, the share of income tax revenue and personal income tax revenue was 16.56 and 7.39 percentages in fiscal year 1999/00 and 2004/05. Income tax

percentage is increased in fiscal year 2002/03 and personal income tax is increased; but in the fiscal year 2008/09, income tax and personal income tax is 20.83 and 10.35 percent respectively.

**Table: 4.4**  
**Contribution of the Total Income Tax and Personal Income Tax to Total Tax Revenue**

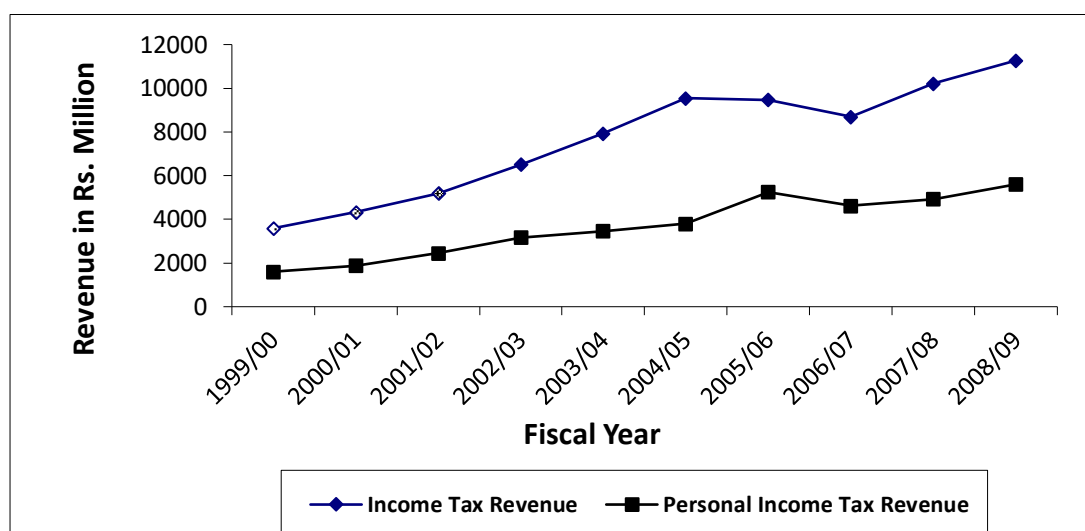
| FY      | Total Tax Revenue | Income Tax Revenue | Personal Income Tax Revenue | Income Tax | Personal Income Tax |
|---------|-------------------|--------------------|-----------------------------|------------|---------------------|
| 1999/00 | 21668.0           | 3589.3             | 1603.2                      | 16.56      | 7.39                |
| 2000/01 | 24424.3           | 4324.6             | 1879.5                      | 17.70      | 7.69                |
| 2001/02 | 25939.8           | 5183.7             | 2443.00                     | 19.98      | 9.41                |
| 2002/03 | 28752.90          | 6513.00            | 3169.20                     | 22.65      | 11.02               |
| 2003/04 | 33152.10          | 7935.60            | 3467.90                     | 23.94      | 10.46               |
| 2004/05 | 38865.10          | 9546.50            | 3797.80                     | 24.56      | 9.77                |
| 2005/06 | 39330.60          | 9465.70            | 5254.70                     | 24.07      | 13.36               |
| 2006/07 | 42587.00          | 8691.50            | 4614.90                     | 20.41      | 10.84               |
| 2007/08 | 48173.00          | 10215.10           | 4924.60                     | 21.21      | 10.22               |
| 2008/09 | 54104.70          | 11272.60           | 5602.20                     | 20.83      | 10.35               |

Source: Economic Survey, Ministry of Finance, Kathmandu

The individual income tax, the income tax from the individuals and income tax from the remuneration included. For the purpose of calculating income tax, the income tax from property, profit and the income is taken. So, income tax includes income tax from public enterprises, income tax from semi-public enterprises, income tax from private corporate bodies, income tax from urban house and land rent tax, tax on interest and other taxes. From the above table, it is clear that in the fiscal year 1999/00 the contribution of the total income tax revenue and personal income tax revenue to the total revenue was 16.56 and 7.39 percentage respectively; but in the fiscal year 2008/09, this ratio went

down and dropped to 20.83 percent and 16.35 percent respectively. From the above table, we can conclude that about 22percent of the total revenue comes from income tax revenue and 50 percent of the total tax revenue collected from personal income tax revenue. The share of personal income tax revenue to total tax revenue is very higher in comparison with other tax revenue.

**Figure: 4.3**  
**Contribution of the Total Income Tax and Personal Income Tax to**  
**Total Tax Revenue**



#### 4.6 Composition of Direct Tax Revenue

Direct tax is actually paid by the person on whom it is imposed legally. Direct tax is levy by the government on the income and wealth received by households and business enterprises in order to raise revenue as an instrument of fiscal policy. It is progressive so far as the amount paid varies significantly according to the income and wealth of the taxpayer. In Nepalese tax structure, the major component of direct taxes are income tax, land tax, property tax, land registration tax. Until the fiscal year 1999/00, interest tax and urban house and land tax were including under income tax. The contribution of direct tax and share of other components are shown in table 4.5.

**Table: 4.5**  
**Composition of Direct Tax Revenue**

| Fiscal Year | Total Direct Tax | Land Revenue and Registration |                         |        |                       | Tax Property Profit and Income |                 |           |         |                       |
|-------------|------------------|-------------------------------|-------------------------|--------|-----------------------|--------------------------------|-----------------|-----------|---------|-----------------------|
|             |                  | Land Tax                      | House Land Registration | Total  | % of Total Direct Tax | Income Tax                     | Tax on Property | Other Tax | Total   | % of Total Direct Tax |
| 1999/00     | 4655.9           | 18.2                          | 1048.4                  | 1066.6 | 22.91                 | 3431.4                         | 157.9           | 0.0       | 3589.0  | 77.09                 |
| 2000/01     | 5340             | 5.9                           | 1009.5                  | 1015.4 | 19.01                 | 4123.4                         | 201.2           | 0.0       | 4325.0  | 80.99                 |
| 2001/02     | 6187.9           | 3.6                           | 1000.6                  | 1004.2 | 16.23                 | 4898.1                         | 285.6           | 0.0       | 5184.0  | 87.77                 |
| 2002/03     | 7516.1           | 1.4                           | 1001.8                  | 1003.2 | 13.35                 | 6170.2                         | 324.7           | 0.0       | 6513.0  | 86.65                 |
| 2003/04     | 8951.5           | 4.6                           | 1011.3                  | 1015.9 | 11.35                 | 7420.6                         | 515.0           | 0.0       | 7936.0  | 88.65                 |
| 2004/05     | 10159.4          | 5.1                           | 607.8                   | 612.9  | 6.03                  | 9114.0                         | 432.5           | 0.0       | 9547.0  | 93.97                 |
| 2005/06     | 10597.5          | 0.8                           | 1131.0                  | 1331.8 | 10.68                 | 8903.7                         | 562.0           | 0.0       | 9464.0  | 89.23                 |
| 2006/07     | 10105.8          | 0.0                           | 1414.3                  | 1414.3 | 14.0                  | 7966.2                         | 559.5           | 165.8     | 8691.5  | 86.0                  |
| 2007/08     | 11912.6          | 0.0                           | 1697.5                  | 1697.5 | 14.25                 | 9205.9                         | 700.6           | 268.6     | 10175.1 | 85.4                  |
| 2008/09     | 13071.8          | 0.0                           | 1799.2                  | 1799.2 | 13.76                 | 10159.4                        | 806.5           | 306.7     | 11272.6 | 86.24                 |

Opinion: Economic Survey, Ministry of Finance, Kathmandu

In the table, direct tax is classified into land revenue and registration and tax on property, profit and income. Land revenue and registration is further classified into land revenue and house and land registration. House and land revenue registration is higher than land revenue each year. The share of land revenue and registration is increasing each year up to fiscal year 1999/00. Then, it has started to decline each year. The mean contribution of land or revenue and registration Rs. 1048.4 million and 22.91 percent of total direct tax fiscal year of 1999/00 and highest amount of house and land registration was in fiscal year 2008/09. Tax of property, profit and income, the tax on property in 1999/00 is Rs 157.9 million and 2008/09 is Rs 806.5. It is increasing year to year. It is main source of direct tax revenue. In fiscal year 1999/00 and 2000/01, it was highest percent and then in 2006/07 it was lowest. It has been increasing each year except 2000/01, 2001/02, 2002/03, 2003/04. In 2008/09, its highest share was Rs. 11272.6 million and lowest Rs. 3589.0 million in the fiscal year 1999/00.

#### **4.7 Composition of Income Tax Revenue**

Income tax is an important source of the direct tax. In the present situation, Nepal is levying three different types of income taxes. They are individual income tax, corporate income tax and tax on interest. Individual income tax covers all natural person and sole traders and partnership etc. having income of taxable capacity. Corporate covers public enterprises and semi-public enterprises and private corporate bodies. Here, public enterprises means 100 percentage government ownership, semi-public consists more than 50 percentage government ownership and private corporate bodies mean public limited companies. Remuneration refers to salaries earned from government or non-government sectors.

The composition of income tax revenue for the recent 10 years is presented in table 4.6.

The amount of income tax is gradually increasing without any disturbance except 2005/06 and 2006/07. In the fiscal year 1999/00, the amount of income tax was Rs 3431.4 million whereas in 2008/09 the amount increased up to Rs 10159.4 million. This amount is the total income tax from public enterprises, semi-public enterprises, private corporate bodies, individuals, remuneration and interest tax. It has declining trend in recent years. It has highly increased by Rs. 953.5 million compared to previous fiscal year in 2008/09.

**Table: 4.6**  
**Composition of Income Tax Revenue**

| FY      | Total Income Tax Revenue | Public Enterprises | Semi-Public Enterprises | Private Corporate Bodies | Individuals | Remuneration | Tax on Interest |
|---------|--------------------------|--------------------|-------------------------|--------------------------|-------------|--------------|-----------------|
| 1999/00 | 3431.4                   | 1144.5             | -                       | 563.9                    | 1474.1      | 133.1        | 119.8           |
| 2000/01 | 4123.4                   | 1231.1             | -                       | 858.4                    | 1711.4      | 168.1        | 154.4           |
| 2001/02 | 4898.1                   | 1317.8             | -                       | 925.1                    | 1220.8      | 322.2        | 212.2           |
| 2002/03 | 6170.2                   | 1526.5             | -                       | 1155.0                   | 2772.7      | 396.5        | 319.5           |
| 2003/04 | 7420.6                   | 2198.8             | -                       | 1339.5                   | 3016.4      | 451.5        | 414.4           |
| 2004/05 | 9114.0                   | 2928.0             | -                       | 1924.3                   | 3200.5      | 597.3        | 463.9           |
| 2005/06 | 8903.7                   | 1769.3             | -                       | 1412.0                   | 4419.1      | 835.6        | 467.7           |
| 2006/07 | 7966.2                   | 1251.0             | -                       | 1236.3                   | 3362.3      | 1252.6       | 864.0           |
| 2007/08 | 9205.9                   | 2056.6             | -                       | 1531.3                   | 3533.4      | 1351.2       | 733.4           |
| 2008/09 | 10159.4                  | 1332.4             | -                       | 2467.8                   | 3926.3      | 1675.9       | 757.0           |

Source: Economic Survey, Ministry of Finance, Kathmandu

From the table 5.7, contribution of income tax to total income tax from public enterprises is 24.76 percent in average. The amount contribution from public enterprises had fluctuated from Rs. 1144.5 million to Rs. 2928.0 million. The amount of contribution is increasing each year from Rs. 1144.5 million in the initial year of study period and reached Rs 1332.4 million in the fiscal year 2004/2005. The contribution ratio of this tax is not satisfactory. Contribution from semi-public enterprises was nil. Private corporate bodies are the third

revenue generating sector for income tax. Since 1999/00 to 2008/09, it is in increasing trend. The contribution ratio was 0.05 percent and increasing up to 10.12 percent between ten years period, 1999/00 to 2008/09. In the year 2005/06 and 2006/07, contribution is not satisfactory.

Individual income tax is the largest revenue generating sector of income tax. This was contributing at 49.63 and 42.43 percent in the fiscal year 2005/06 and 2006/07. After it started to increase and then slowly decreased. Again, in the fiscal year 2001/2002 individual income tax revenue increased by Rs. 1218.6 million. In the fiscal year 2006/07, it was Rs. 3362.3 which was decreased. In the fiscal year 2007/08 and 2008/09, individual income tax revenue had increased by Rs. 171.1 million and Rs. 392.9 million respectively.

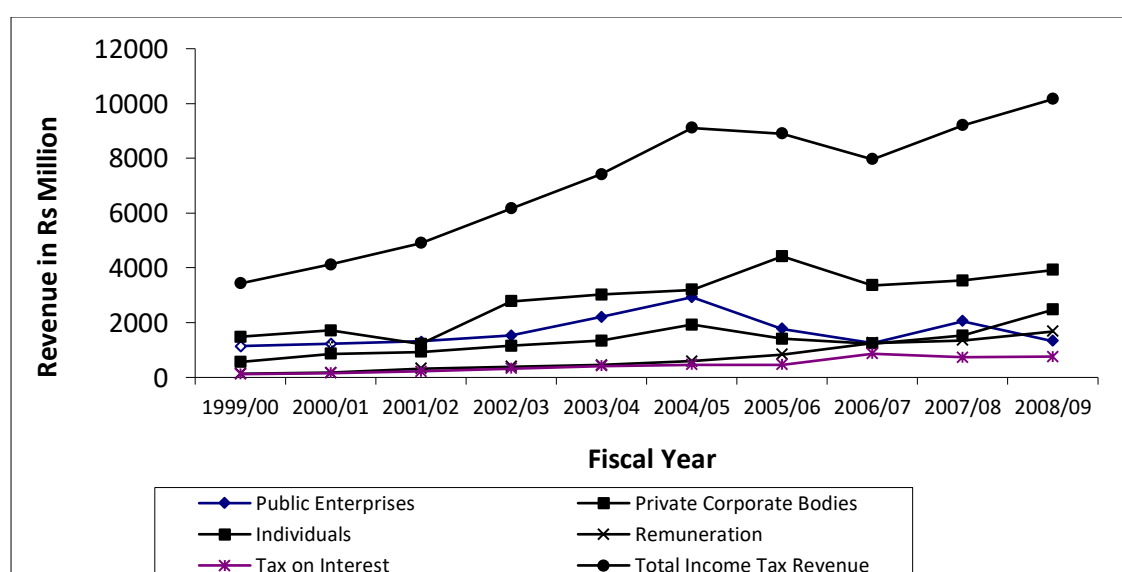
The average contribution from remuneration is 8.986 percent. The tax revenue from remuneration is increasing each year except fiscal year 2002/03 and 2003/04. It was Rs 133.1 million in the fiscal year 1999/00 and reached to Rs. 1675.9 million in fiscal year 2008/09. The increase of remuneration is 6.4 percent in the fiscal year 2006/07. In the fiscal year 2008/09, it reached to 16.49 percent.

The average contribution from interest tax is 5.89 percent. Tax on interest is also increasing and was Rs 757 million in 2008/09. Growth rate of interest tax in 2006/07 and 2007/08 is recorded as highest, i.e. 10.85 and 7.96 percent respectively. The annual growth rate of income tax collection was 9.64, 18.06, 9.9 and 9.16 percentages in the fiscal year 2005/06, 2006/07, 2007/08 and 2008/09 respectively. (Source: Annual Report of IRD)

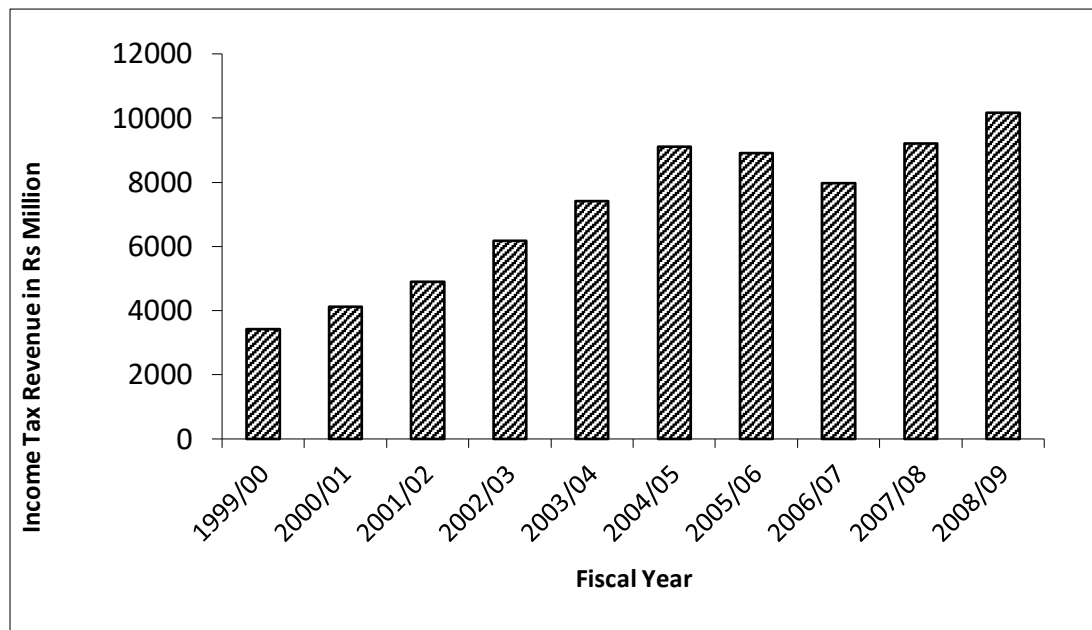
**Table: 4.7****Composition of Income Tax Revenue In percentage**

| FY      | Total Income Tax Revenue | Public Enterprises | Semi-Public Enterprises | Private Corporate Bodies | Individual | Remuneration | Tax on interest |
|---------|--------------------------|--------------------|-------------------------|--------------------------|------------|--------------|-----------------|
| 1999/00 | 100.00                   | 33.35              | 0.00                    | 16.43                    | 42.84      | 3.88         | 3.49            |
| 2000/01 | 100.00                   | 29.86              | 0.00                    | 20.82                    | 41.50      | 4.08         | 3.74            |
| 2001/02 | 100.00                   | 26.90              | 0.00                    | 18.89                    | 43.30      | 6.58         | 4.33            |
| 2002/03 | 100.00                   | 27.74              | 0.00                    | 18.72                    | 44.94      | 6.49         | 5.18            |
| 2003/04 | 100.00                   | 29.63              | 0.00                    | 18.05                    | 40.65      | 6.08         | 5.58            |
| 2004/05 | 100.00                   | 32.13              | 0.00                    | 21.11                    | 35.12      | 6.55         | 5.09            |
| 2005/06 | 100.00                   | 19.87              | 0.00                    | 15.86                    | 49.63      | 9.32         | 5.25            |
| 2006/07 | 100.00                   | 15.70              | 0.00                    | 15.52                    | 42.21      | 15.72        | 10.85           |
| 2007/08 | 100.00                   | 22.34              | 0.00                    | 16.63                    | 38.38      | 14.67        | 7.96            |
| 2008/09 | 100.00                   | 13.11              | 0.00                    | 24.29                    | 38.64      | 16.49        | 7.45            |

Source: Economic Survey, Ministry of Finance, Kathmandu

**Figure: 4.4****Composition of Income Tax Revenue**

**Figure: 4.5**  
**Trend of Income Tax Revenue**



#### **4.8 Contribution of Income Tax**

Nepal is facing a serious resource gap problem, and it has urgency to mobilize additional financial resource through taxation to fulfill the gap. Tax structure of Nepal is composed of direct and indirect tax. Income tax is a pivot of direct tax. It is playing an important role to generate government revenue for the development of national economy. In this section, an attempt to analyze and check the contribution of income tax to GDP, total revenue, total tax revenue and direct tax revenue is made.

#### **Income Tax in the Gross Domestic Product (GDP)**

It is clear that the share of income in the GDP in Nepal is very low and it has not exceeded by 2.30 throughout the period of 10 years. Contribution of income tax in GDP was 1.43 percent in the fiscal year 1999/00. Maximum contribution of income tax revenue as a percentage of GDP was 2.32 in the fiscal year 2000/2001. From the fiscal year 1999/00, it is continuously increasing from 1.43 percent up to 2.32 percent; but again from the year 2005/06, it started decreasing. In the fiscal year 2008/09, it was recorded as 2.00 percent.

### **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. The share of income tax as a percentage of total revenue has fluctuated from 12.30 percent to 18.64 percent. Average contribution is 15.43 percent over the study period. Contribution for the fiscal year 2004/05 was maximum of 18.64 percent. Thereafter again the ratio started to decline in the fiscal year 2005/06, 2006/07, 2007/08 and 2008/09. The ratio was recorded 14.78 percent and 14.49 percent respectively. The figure 5.8 shows income tax as a percent of total revenue.

### **Contribution of Income Tax to the Direct Tax Revenue**

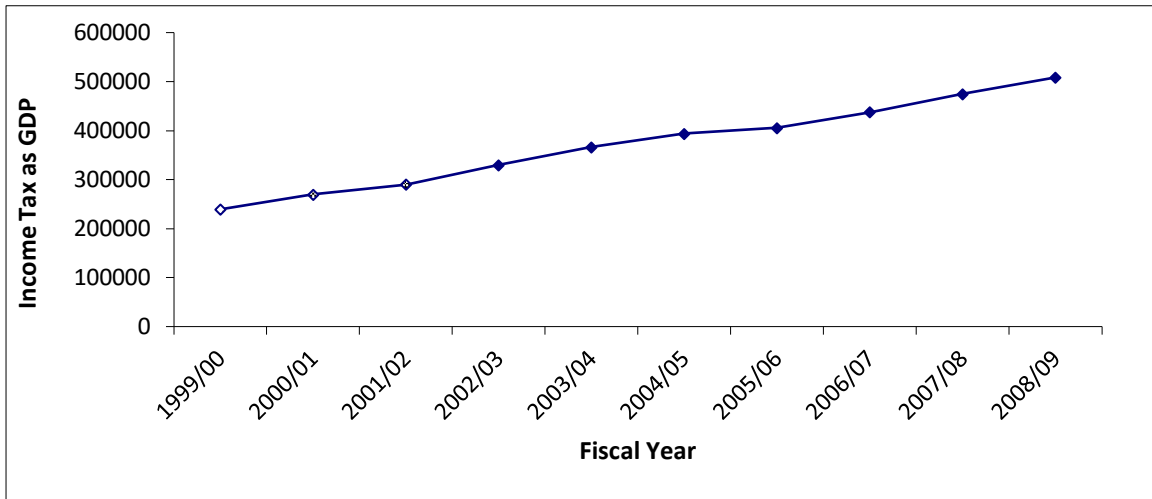
Income tax, land revenue and registration tax, urban house and land tax, property tax and other tax are major direct taxes. From the table, it is clear that there is substantial contribution of income tax in direct tax revenue in Nepal. Average share of income tax to direct tax is 80.25 percent for the period of 10 years i.e., from fiscal year 1999/00 to 2008/09. The contribution of income tax in direct tax revenue has never been less than 73.70 percent. In the beginning of the study, it was 73.70 percent and had reached maximum up to 89.71 percent; however, in the years 2005/06, 2006/07, 2007/08 and 2008/09 for the four years, it has decreased. This could be due to the existing Nepalese situation either political or other affecting that since 2001/2000 the ratio of contribution is decreasing. In the year 2005/06, it was recorded 84.02 percent; and in 2006/07, the record shows contribution of income tax as direct tax revenue is 78.83 percent. The trend of income tax as the percentage of direct tax is presented in the table. From the above analysis, it is clear that there is significant contribution of income tax in Nepal to increase GDP, total revenue tax revenue and direct tax revenue. From the table and trend figure of percentage analysis, we can conclude that the increasing and decreasing trend of income tax revenue and direct revenue, tax revenue and direct revenue. See the table and figure for details.

**Table: 4.8****Contribution of Income Tax to GDP, Total Revenue, Total Tax Revenue and Direct Tax Revenue**

| Fiscal Year | GDP    | Total Revenue | Total Tax Revenue | Direct Tax Revenue | Income Tax Revenue | % of Income Tax on GDP | % of Income Total on Total Revenue | % of Income Tax on Total Tax Revenue | % of Income Tax on Direct Tax Revenue |
|-------------|--------|---------------|-------------------|--------------------|--------------------|------------------------|------------------------------------|--------------------------------------|---------------------------------------|
| 1999/00     | 239388 | 27893.1       | 21668.0           | 4655.9             | 3431.4             | 1.43                   | 12.3                               | 15.84                                | 73.70                                 |
| 2000/01     | 269570 | 30373.5       | 24424.3           | 5340.0             | 4123.4             | 1.53                   | 13.58                              | 16.88                                | 77.22                                 |
| 2001/02     | 289746 | 32937.5       | 25939.8           | 6187.9             | 4898.1             | 1.69                   | 14.87                              | 18.88                                | 79.12                                 |
| 2002/03     | 330018 | 37251.3       | 28752.9           | 5716.1             | 6170.2             | 1.87                   | 16.56                              | 21.46                                | 82.09                                 |
| 2003/04     | 366251 | 42893.7       | 33152.1           | 8950.9             | 7420.6             | 2.03                   | 17.3                               | 22.38                                | 82.9                                  |
| 2004/05     | 393566 | 48893.3       | 38865.1           | 10159.4            | 9114.6             | 2.32                   | 18.64                              | 23.45                                | 89.71                                 |
| 2005/06     | 405632 | 50445.6       | 39330.6           | 10597.5            | 8903.7             | 2.2                    | 17.65                              | 22.64                                | 84.02                                 |
| 2006/07     | 437546 | 56229.8       | 42587.0           | 10105.8            | 7966.2             | 1.96                   | 14.17                              | 18.71                                | 78.83                                 |
| 2007/08     | 474919 | 62331.0       | 48173.0           | 11912.6            | 9205.6             | 1.94                   | 17.78                              | 19.11                                | 77.28                                 |
| 2008/09     | 508651 | 70122.7       | 54104.7           | 13071.8            | 10159.4            | 2.00                   | 14.49                              | 18.78                                | 77.72                                 |

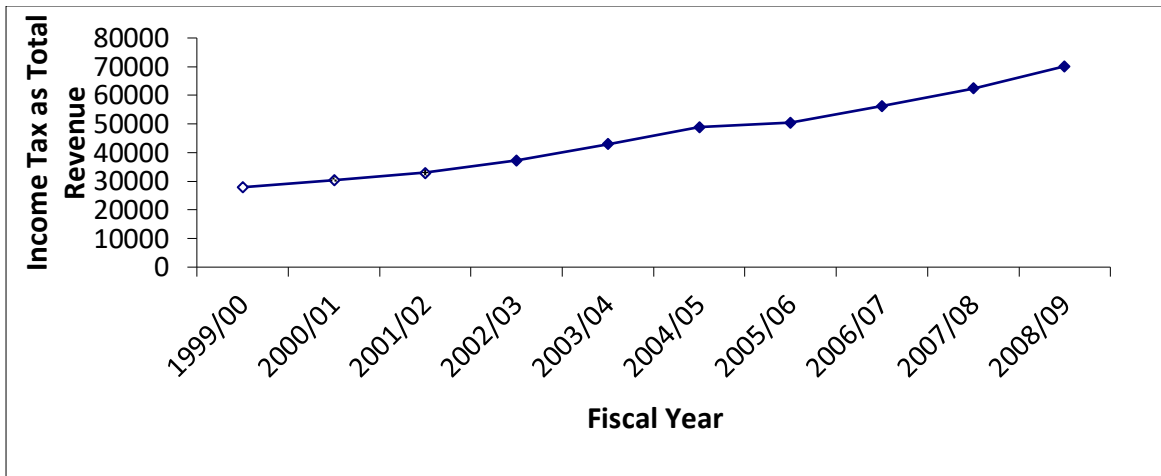
Source: Economic Survey, 2008/09, Ministry of Finance

**Figure: 4.6**  
**Income Tax as GDP**



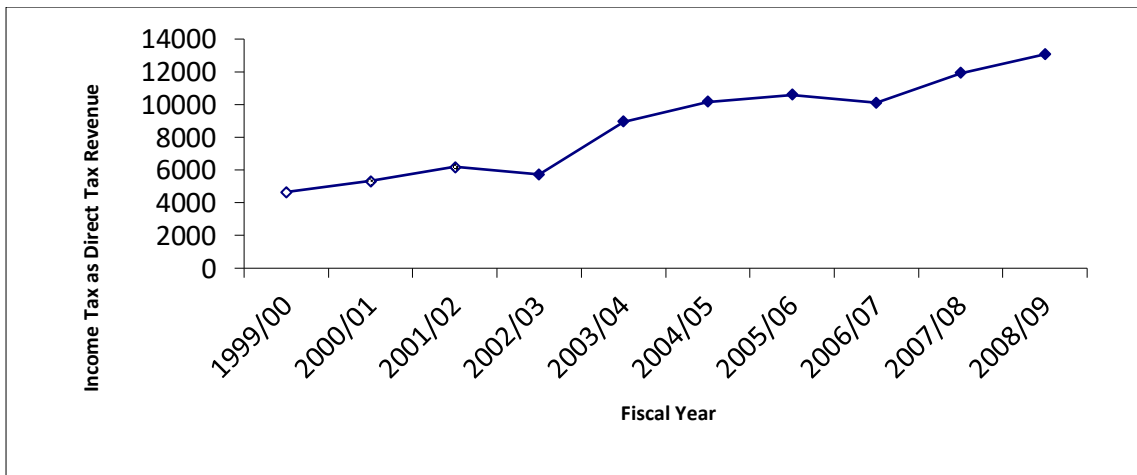
**Figure: 4.7**

**Income Tax as Total Revenue**



**Figure: 4.8**

**Income Tax as Direct Tax Revenue**



#### 4.9 Estimate and Collection of Income Tax in Nepal

Nowadays, the revenue from income tax has increasing trend. The collection was only 85.79 percent of estimate in the fiscal year 1999/00. Tax was collected in excess than the target only in the fiscal year 2001/02, 2002/03, 2003/04 and 2007/08 and highest was in the fiscal year 2007/08 with total collection of 9205.6 million which is 105.84percent of estimate. The lowest percentage of collection was 79.92 percent in the fiscal year 2005/06. For the period of 10 years i.e. from fiscal year 1999/00 to 2008/09, collection was maximum in the year 2000/01 that was 91.32 percent of estimate. Performance of income tax collection was only 96.75 percent in the fiscal year 2008/09

**Table: 4.9**

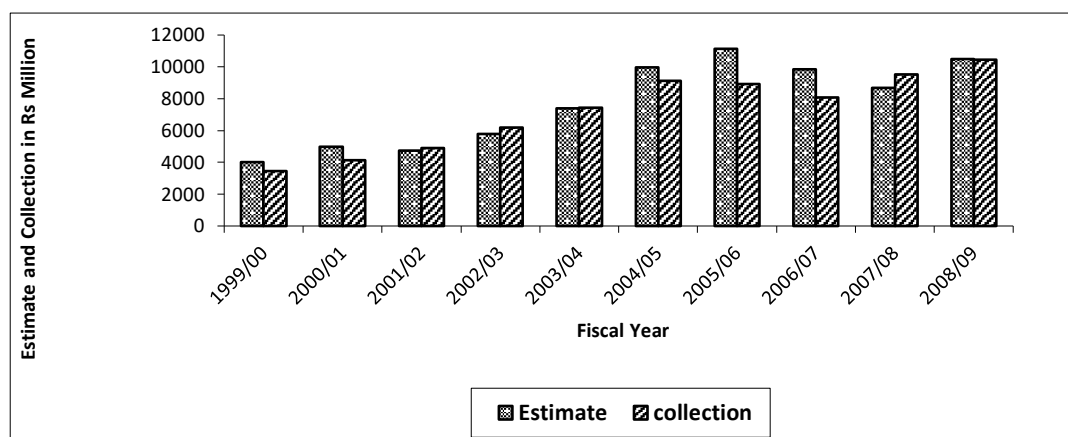
#### **Estimate and Collection of Income Tax in Nepal**

| FY      | Estimates | Collections | Difference | Percentage collection |
|---------|-----------|-------------|------------|-----------------------|
| 1999/00 | 4000.0    | 3431.4      | (568.6)    | 85.79                 |
| 2000/01 | 4995.0    | 4123.4      | (471.6)    | 89.74                 |
| 2001/02 | 4750.0    | 4898.1      | 148.1      | 103.12                |
| 2002/03 | 5780.0    | 6170.1      | 390.2      | 106.75                |
| 2003/04 | 7380.0    | 7420.6      | 40         | 100.55                |
| 2004/05 | 9980.0    | 9114.6      | 865.4      | 91.32                 |
| 2005/06 | 11140.0   | 8903.7      | (2236.3)   | 79.92                 |
| 2006/07 | 9862.5    | 7966.2      | (1896.3)   | 80.77                 |
| 2007/08 | 8697.5    | 9205.6      | 508.10     | 105.84                |
| 2008/09 | 10500.0   | 10159.4     | (340.60)   | 96.75                 |

Source: Various years' budget speech, Annual Report of IRD and Economic Survey, Ministry of Finance.

Note: Figure in bracket indicates negative.

**Figure: 4.9**  
**Estimate and Collection of Income Tax**



#### 4.10 Exemption Limit in Nepal

Exemption limit is an important variable while managing the income tax. Taxpayers having low tax paying capacity should be excluded from the tax net for social justice and economic balance between rich and poor. For every year, finance act prescribes the exemption limit for individual, families, couple and corporations.

In the fiscal years 1999/00 and 2000/01, the individual and couple received same amount of exemption limit. But in the recent year 2008/09, individual having the taxable income up to Rs. 80,000 are exempted from tax and for the couple is Rs. 100,000. Current exemption limit is clear from table 5.10.

**Table: 4.10**

**Exemption Limit in Nepal From fiscal year 1999/00 to 2008/09**

| FY      | Individual | Couple | All Taxpayers |
|---------|------------|--------|---------------|
| 1999/00 | 25000      | 35000  | -             |
| 2000/01 | 25000      | 35000  | -             |
| 2001/02 | 30000      | 40000  | -             |
| 2002/03 | 40000      | 50000  | -             |
| 2003/04 | 50000      | 60000  | -             |
| 2004/05 | 55000      | 75000  | -             |
| 2005/06 | 55000      | 75000  | -             |
| 2006/07 | 65000      | 85000  | -             |
| 2007/08 | 80000      | 100000 | -             |
| 2008/09 | 80000      | 100000 | -             |

Source: Finance Acts of various years, Ministry of Finance

#### 4.11 Income Tax Rate in Nepal

Rate structure of income tax has been changing continuously since its introduction in 1959/60. In 1959/60, net income was divided into 11 brackets. When income over Rs. 7,000 a year was subject to graduated rates ranging from 5 percent to 25 percent. In the fiscal year 2020/21, the highest income tax rate was 60 percent which is the highest record of income tax rate in Nepal. Under ITA 2058, individual income tax is levied in two slabs i.e., 15% and 25%. For individual who has Rs 100,000 income or annual turnover up to Rs 10 lakh from any kind of business in metropolitan or sub-metropolitan, cities, municipalities and other area in Nepal, taxes are Rs. 2000, Rs. 1500, and Rs. 1000 respectively in annual flat rate system, but the tax rate was reduced from 35 percent in fiscal year 1999/00 to 30 percent for bank, finance companies and financial firms and 25 percent for others. Under the new income tax act, the corporate income tax is levied with single rate. The rate is 30 percent of taxable income for bank and financial institutions and industrial enterprises are subject to the maximum rate of 20 percent.

Tables 4.11 and table 4.12 show that income tax rate of Nepal in various years. Table 4.11 is the income tax rate for personal income and 4.12 is the income taxable for partnership firm, corporations and non-residents.

**Table: 4.11**

**Income Tax Rate in Nepal for Personal Income  
(Slabs over Exemption Limit)**

| Slabs/FY           | 1      |       | 2       |       | 3       |       |
|--------------------|--------|-------|---------|-------|---------|-------|
|                    | Amount | Rate% | Amount  | Rate% | Amount  | Rate% |
| 1999/00            | 25000  | 10    | 40000   | 25    | Balance | 35    |
| 2000/01 to 2001/02 | 40000  | 10    | 25000   | 20    | Balance | -     |
| Remuneration       | -      | -     | -       | -     | -       | 30    |
| Other              | -      | -     | -       | -     | -       | 33    |
| 2002/03            | 45000  | 15    | Balance | 25    | -       | -     |
| 2003/04 to 2008/09 | 75000  | 15    | Balance | 25    | -       | -     |

Source: Finance Act of various years, Ministry of Finance

Statistical Abstracts 2005, Department of Taxation, Ktm.

**Table: 4.12**  
**Income Tax Rate in Nepal for Partnership Firms,**  
**Corporation and Non-Residents**

| Slabs/FY                             | Amount | Rate % |
|--------------------------------------|--------|--------|
| 1999/00                              | Total  | 33     |
| 2000/01 to 2001/02                   | Total  | 33     |
| 1998/1999 to 2008/09                 |        |        |
| a. Bank, Finance company             | Total  | 30     |
| b. Special Industries                | Total  | 20     |
| c. Other including partnership firms | Total  | 25     |

Source: Finance Acts of various years, Ministry of Finance  
Statistical Abstracts 2008, Department of Taxation, Kathmandu

#### **4.12 Taxpayers and Returns of Income of the Fiscal Year 2008/09**

The details of registered taxpayers and returns of income for the fiscal year 2008/09 are presented in the table no 4.13. The total no. of registered taxpayers was 195,498 by the fiscal year 2008/09 whereas it was 219605 in the fiscal year 2005/06. It shows that the number of taxpayers has increased by 24107. Through 24856 new taxpayer are registered in this year, there are 784 taxpayers deducted this year. Among the registered taxpayers, 96 are public enterprises, 98 public limited companies, 2652 are private limited company, 19574 are individual firm, 2010 are other entity, 426 are numerator earners and nil of rent but no. of registered up to last year for rent was 2128.

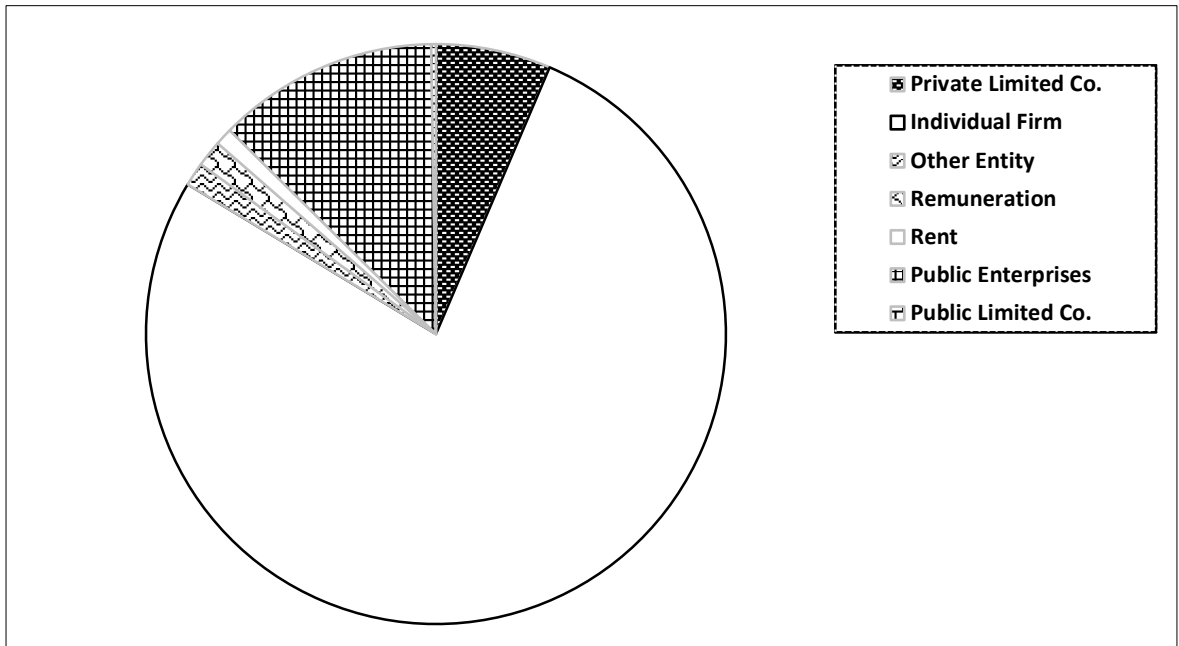
**Table: 4.13**  
**Registration of Taxpayers and Return of Income for the Fiscal Year 2008/09**

| Tax Heating              | No. of Taxpayers                  |                    |                              |                                  | Registration of Return of Income |                                |               |
|--------------------------|-----------------------------------|--------------------|------------------------------|----------------------------------|----------------------------------|--------------------------------|---------------|
|                          | No. of Registered up to last year | This year addition | Deducted number in this year | Total no. of Registered Taxpayer | Brought down from last year      | No. of Submission in this year | Total         |
| Income Tax               | 195498                            | 24856              | 749                          | 219605                           | 121867                           | 67476                          | 189343        |
| Corporate Tax            | 190546                            | 24430              | 749                          | 214227                           | 211116                           | 67476                          | 188583        |
| Public Enterprises       | 26991                             | 96                 | 2                            | 27085                            | 135                              | 24                             | 159           |
| Public Limited Co.       | 50498                             | 98                 | 13                           | 583                              | 708                              | 501                            | 1209          |
| Private Limited Co.      | 11476                             | 2652               | 43                           | 14085                            | 5783                             | 4652                           | 10435         |
| Individual Firm          | 150692                            | 19574              | 685                          | 169581                           | 110435                           | 56997                          | 167432        |
| Other Entity             | 889                               | 2010               | 6                            | 2893                             | 4055                             | 5293                           | 9348          |
| Remuneration             | 2824                              | 426                | 0                            | 3250                             | 234                              | 9                              | 243           |
| Income Tax in Investment | 2128                              | 0                  | 0                            | 2128                             | 517                              | 0                              | 517           |
| Rent                     | 2128                              | 0                  | 0                            | 2128                             | 517                              | 0                              | 517           |
| Interest                 | 0                                 | 0                  | 0                            | 0                                | 0                                | 0                              | 0             |
| Capital gain             | 0                                 | 0                  | 0                            | 0                                | 0                                | 0                              | 0             |
| Dividend                 | 0                                 | 0                  | 0                            | 0                                | 0                                | 0                              | 0             |
| Other Investment         | 0                                 | 0                  | 0                            | 0                                | 0                                | 0                              | 0             |
| Special Fee              | 0                                 | 0                  | 0                            | 0                                | 0                                | 0                              | 0             |
| <b>Total</b>             | <b>195498</b>                     | <b>24856</b>       | <b>749</b>                   | <b>219605</b>                    | <b>121867</b>                    | <b>67476</b>                   | <b>189343</b> |

Source: Annual report 2008/09, Inland Revenue Department, Ministry of Finance

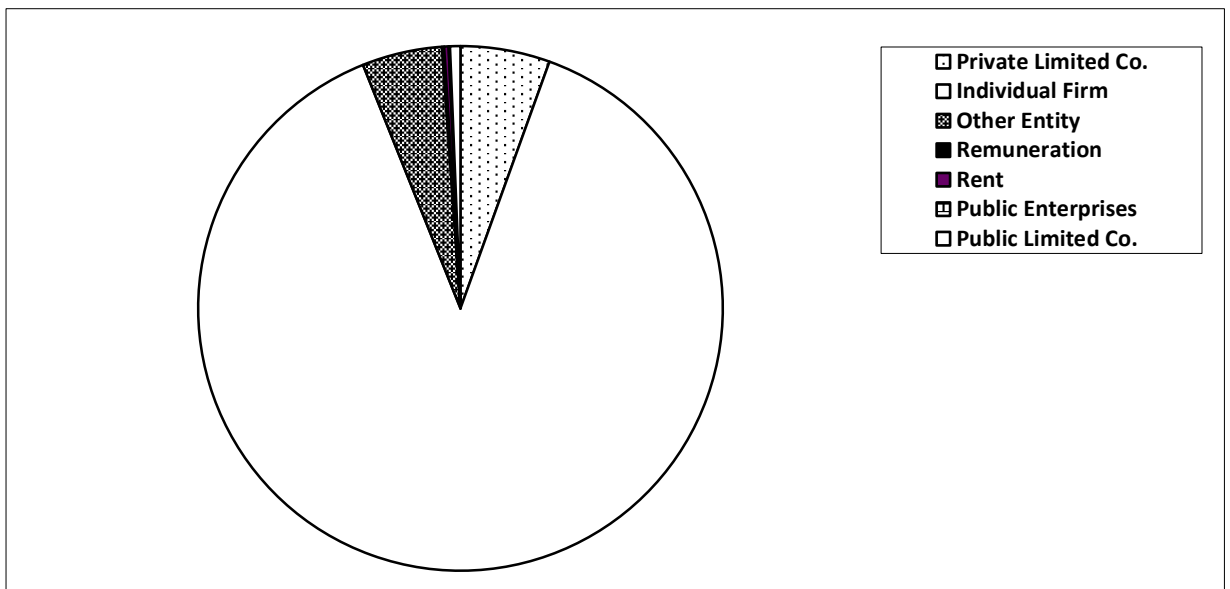
**Figure: 4.10**

**Number of Income Taxpayer for the Fiscal Year 2008/09**



**Figure: 4.11**

**Number of Registered Returns of Income for the Fiscal Year 2008/09**



### 4.13 Empirical Analysis

An empirical investigation was conducted to find out the various aspects of income tax from the experience of the real world. The major tools used for this study is an opinion questionnaires (see the format of questionnaire in appendix B) which was distributed to 100 respondents from taxpayers, tax experts and tax administrators and 100 sets of questionnaires having completely responded were received. The views of the respondents were collected from Nepalgunj and Kathmandu valley. Questions were provided with two or more alternatives or asked for ranking of choice according to the number of alternatives where first choice was the most important and last choice was the least one.

Information collected from the respondents was tabulated into the separate format, and they were expressed in terms of percentage of total number and have been analyzed into descriptive ways.

Out of total samples collected, opinions were mainly taken from the income taxpayers, as they represent all types of taxpayers. The numbers of respondents by different groups are presented as below:

**Table: 4.14**

#### **Reponses by Groups**

| S.N.  | Groups in Respondents     | Sample Size<br>(number) | Percentage |
|-------|---------------------------|-------------------------|------------|
| 1     | Income tax Administration | 25                      | 25         |
| 2     | Income tax payers         | 50                      | 50         |
| 3     | Income Tax Experts        | 25                      | 25         |
| Total |                           | 100                     | 100        |

#### 4.14 Result of Empirical Investigation:

##### Income Tax as Suitable Means of Raising Government Revenue

To know whether income tax is a suitable mean of raising government revenue in Nepal, a question was asked “Do you consider that income tax is the suitable mean of raising government revenue in Nepal?” The respondents were requested to give their answer in the form of ‘Yes’ or ‘No’. The respondents’ responses are tabulated as follows:

**Table: 4.15**

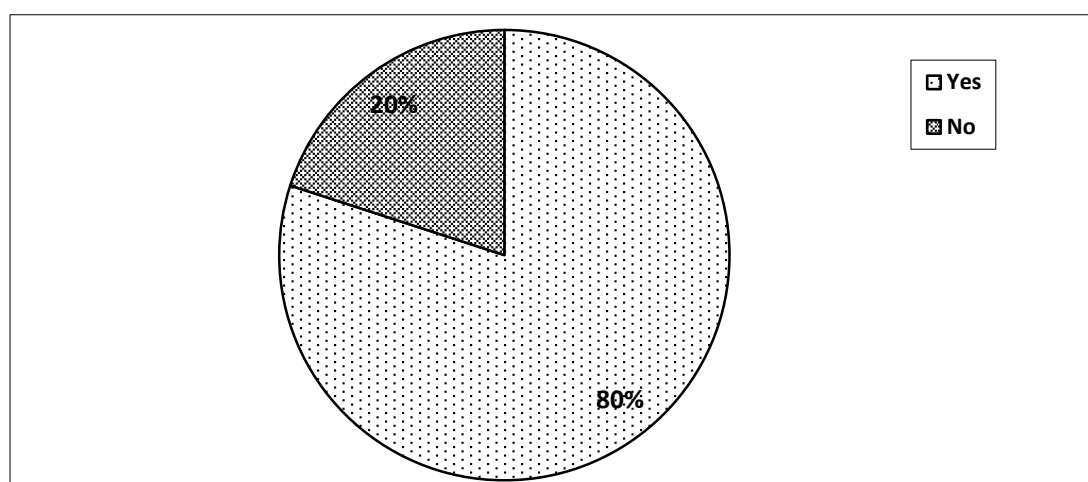
##### Income Tax as a Suitable Mean of Raising Government Revenue

| Respondents               | Yes    |     | No     |    | Total  |     |
|---------------------------|--------|-----|--------|----|--------|-----|
|                           | Number | %   | Number | %  | Number | %   |
| Income Tax Administrators | 25     | 100 | -      | -  | 25     | 100 |
| Income Taxpayers          | 30     | 60  | 20     | 40 | 50     | 100 |
| Income Tax Experts        | 25     | 100 | -      | -  | 25     | 100 |
| Total                     | 80     | 80  | 20     | 20 | 100    | 100 |

Source: Opinion Survey, 2009.

**Figure: 4.12**

##### Income Tax as a Suitable Mean of Raising Government Revenue



From the opinion survey, it is found that cent percent of tax administrators, 60 percent of tax payer and cent percent of tax experts recognize income tax as a suitable mean of raising government revenue. Only 40 percent taxpayers don't

recognize income tax as suitable means of raising government revenue in Nepal. Thus, it is concluded that income tax is a suitable mean of raising government revenue in Nepal. Hence, the Government of Nepal must launch more effective programs to collect more revenue from this revenue.

#### 4.15 Necessity of Public Awareness Program

To know the view of respondents about the need of public awareness program in Nepal for raising government revenue, the question was asked “Do you think that public awareness program is necessary for raising government revenue?”

The responses of the respondents are tabulated as follows:

**Table: 4.16**

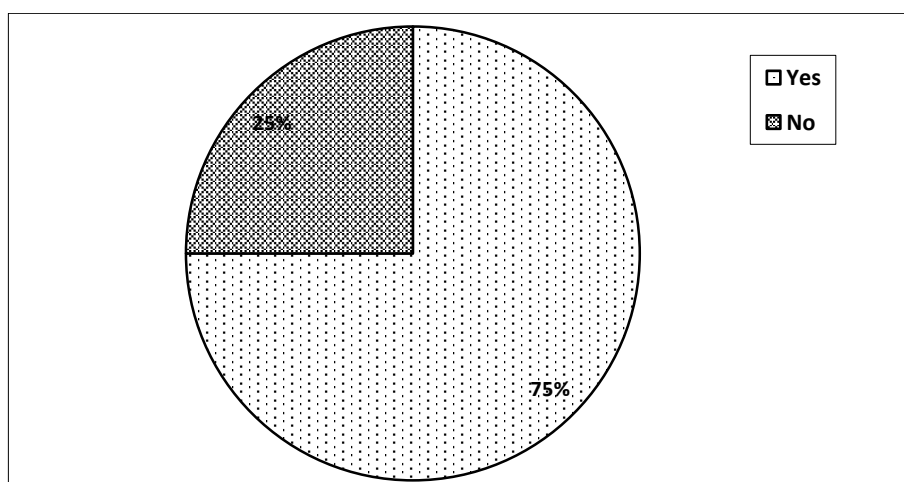
#### Necessity of Public Awareness Program

| Response/<br>Respondents  | Yes    |     | No     |    | Total  |     |
|---------------------------|--------|-----|--------|----|--------|-----|
|                           | Number | %   | Number | %  | Number | %   |
| Income Tax Administrators | 25     | 100 | -      | -  | 25     | 100 |
| Income Taxpayers          | 25     | 50  | 25     | 50 | 50     | 100 |
| Income Tax Experts        | 25     | 100 | -      | -  | 25     | 100 |
| Total                     | 75     | 75  | 25     | 25 | 100    | 100 |

Source: Opinion Survey, 2009

**Figure: 4.13**

#### Necessity of Public Awareness Program



Cent percent of income tax administrators and income tax experts have positive attitude that public awareness program is necessary for raising government revenue. Only 50% percent taxpayers do not recognize public awareness program is necessary for raising government revenue from the survey. In aggregate, 75 percent respondents approved the need of public awareness program. Thus, it can be concluded that public awareness program is necessary for raising Nepalese government revenue.

#### 4.16 Methods of Income Tax Assessment

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

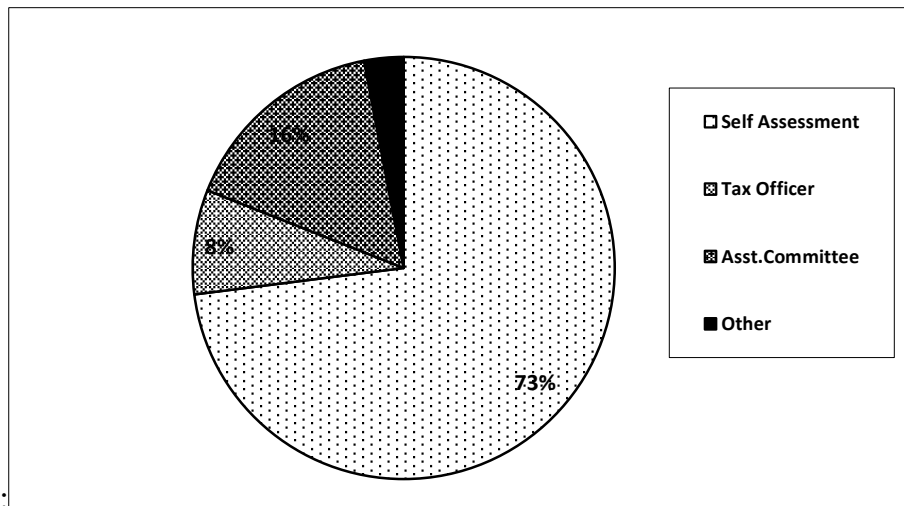
**Table 4.17**  
**Appropriate Method of Income Tax Assessment**

| S.N. | Method             | Income Tax Administrators | Income Tax Payer | Income Tax Expert | Total | %  |
|------|--------------------|---------------------------|------------------|-------------------|-------|----|
| 1    | Self-assessment    | 18                        | 40               | 15                | 73    | 73 |
| 2    | By Tax Officer     | 4                         | -                | 4                 | 8     | 8  |
| 3    | By Asst. Committee | 3                         | 8                | 5                 | 16    | 16 |
| 4    | Other              | -                         | 2                | 1                 | 3     | 3  |

Source: Opinion Survey, 2009.

**Figure 4.14**

**Appropriate Method of Income Tax Assessment**



73 percent respondents approved self-tax assessment method is more appropriate to assess income tax. 8 percent respondents are in favor of tax officer, 16 percent in favor of assessment committee and 3 percent in the favor of other assessment. From the above opinion, it can be concluded that self-assessment of income tax method is more appropriate while assessing income tax to collect large amount of revenue through income tax.

**4.17 Effectiveness of Self-Assessment of Tax in Nepal**

Current income tax act has fully adopted self-tax assessment system. It is supposed to be assessed tax on due date until such time the income return is to be filed although a person fails to file the return. To know the view about the effectiveness of self-assessment of tax in Nepal, the question “Do you think that self-tax assessment system is effective in Nepal?” was asked to the respondents the responses are presented as follows:

**Table. 4.18**

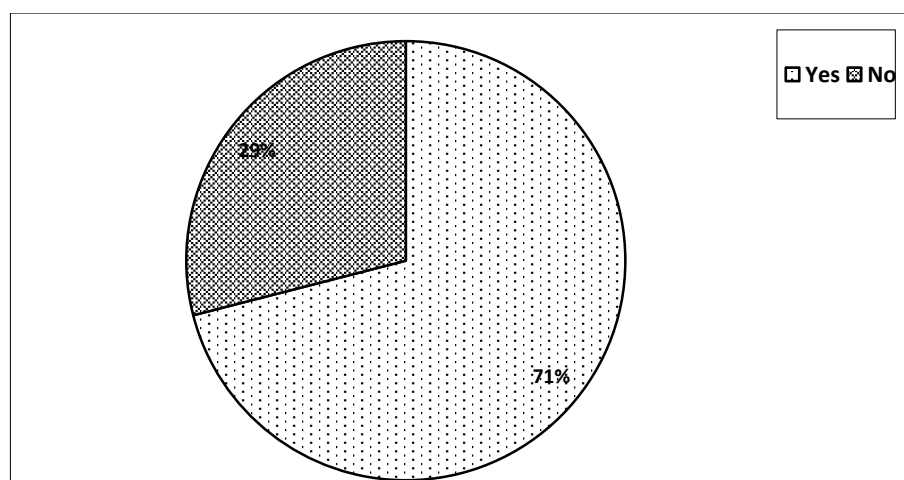
**Effectiveness of Self-Tax Assessment in Nepal**

| Response/<br>Respondents | Yes    |    | No     |    | Total  |     |
|--------------------------|--------|----|--------|----|--------|-----|
|                          | Number | %  | Number | %  | Number | %   |
| Tax Administrators       | 15     | 60 | 10     | 40 | 25     | 100 |
| Taxpayers                | 38     | 76 | 12     | 24 | 50     | 100 |
| Tax Experts              | 18     | 72 | 7      | 28 | 25     | 100 |
| Total                    | 71     | 71 | 29     | 29 | 100    | 100 |

Source: Opinion Survey, 2009.

**Figure: 4.15**

**Effectiveness of Self –Tax Assessment in Nepal**



60 percent of tax administrators, 76 percent of taxpayers and 12 percent of tax experts have accepted that self-assessment of tax is effective in Nepal. In aggregate, 71 percent respondent approved self-tax assessment is effective in Nepal. So, it can be concluded that self-tax assessment is effective in the context of Nepal.

An additional question was asked to those respondents, who had replied self-tax assessment is not effective in Nepal, to know the reasons for ineffectiveness. The question was “If no, what are the reasons.” The response received from the respondents is tabulated as below:

**Table: 4.19**

**Reasons for Ineffectiveness of Self-Assessment of Tax in Nepal**

| S.N.  | Reasons   | Point Received |    |    |     | Percentage |
|-------|---|----------------|----|----|-----|------------|
| 1     | Lack of Proper Accounting System                      | 40             | 20 | 45 | 105 | 40.85      |
| 2     | Lack of Knowledge about Self-Tax Assessment Procedure | 28             | 12 | 18 | 58  | 22.56      |
| 3     | Lack of Correct Auditing                              | 26             | 5  | 22 | 53  | 20.62      |
| 4     | Lack of Belief Upon Government                        | 16             | 10 | 15 | 41  | 15.95      |
| Total |   |                |    |    | 257 | 100        |

Source: Opinion Survey, 2009

Reasons for ineffectiveness of self-assessment of tax in Nepal according to preference are found as:

1. Lack of proper accounting system.
2. Lack of knowledge about self-tax assessment procedure.
3. Lack of correct auditing system.
4. Lack of belief upon government.

**4.18 Self-Tax Assessment a Suitable Mean of Rising Domestic Resources**

The respondents were asked to respond on question “In your opinion, is the self-tax assessment a suitable mean of rising domestic resources?” The responses received from the respondents are tabulated as follows:

**Table 4.20**

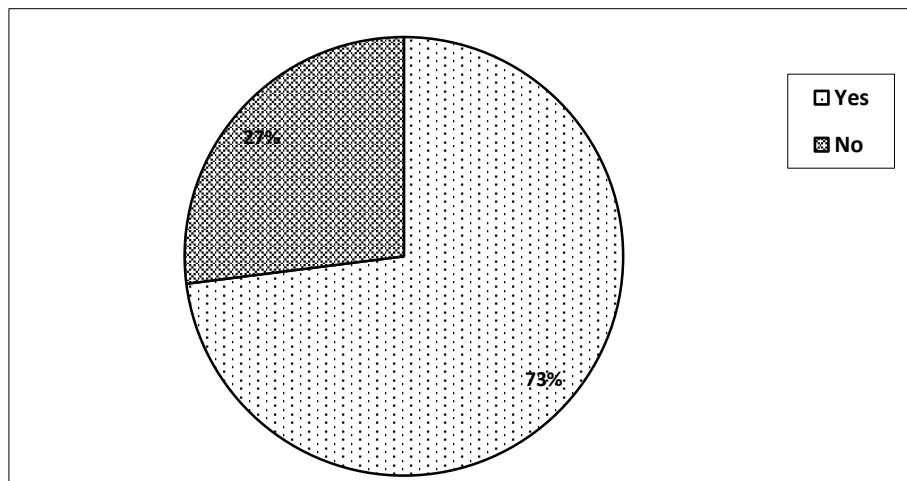
**Self-Tax Assessment a Suitable Mean of Rising Domestic Resources**

| Response/<br>Respondent      | Yes    |     | No     |    | Total  |     |
|------------------------------|--------|-----|--------|----|--------|-----|
|                              | Number | %   | Number | %  | Number | %   |
| Income Tax<br>Administrators | 20     | 80  | 5      | 20 | 25     | 100 |
| Income<br>Taxpayers          | 28     | 56  | 22     | 44 | 50     | 100 |
| Income Tax<br>Experts        | 25     | 100 | -      | -  | 25     | 100 |
| Total                        | 73     | 73  | 27     | 27 | 100    | 100 |

Source: Opinion Survey, 2009.

**Figure: 4.16**

**Self-Tax Assessment a Suitable Mean of Rising Domestic Resources**



80% of tax administrators, 56 percent of taxpayers and cent percent of tax experts have accepted that self-assessment is a suitable mean of rising domestic resources. It is observed that out of total 100 sample collected 73% of the respondents felt that self-tax assessment a suitable mean of rising domestic resources appropriate whereas 27% of the respondents felt that self-tax assessment as a suitable means rising domestic resources is not appropriate.

Among the respondents who were satisfied with the self-tax assessment a suitable mean a rising domestic resources were asked another question “If yes, why it is suitable measure of rising domestic resource?” The responses received from the respondents have been tabulated as follows:

**Table 4.21**  
**Reasons for Suitable Measure of Rising Domestic Resources**

| Reasons  | Point Received     |           |             |       |       |      |
|--|--------------------|-----------|-------------|-------|-------|------|
|  | Tax Administrators | Taxpayers | Tax Experts | Total | %     | Rank |
| Encourage taxpayer's motive about payment of tax | 50                 | 30        | 90          | 170   | 33    | 1    |
| Helps to know their own liability of taxpayers   | 80                 | 25        | 40          | 145   | 28.15 | 2    |
| Helps to maintain their books of account         | 40                 | 20        | 60          | 120   | 23.30 | 3    |
| Simple and short procedure of assessment         | 30                 | 15        | 35          | 80    | 15.53 | 4    |
| Total  | 200                | 90        | 225         | 515   | 100   |      |

Source: Opinion Survey, 2009.

#### **4.19 Self-Tax Assessment Provision in the New Income Tax Act 2058**

In 1977, the method of self-tax assessment provision was introduced first time in Nepal. At present time, act has fully adopted self-tax assessment method; various provisions for self-tax assessment have been introduced. To know about sufficiency of provisions regarding self-tax assessment method a question, “Do you think that provisions given for self-tax assessment in the new Income Tax Act 2058 are sufficient?” was asked. The responses as provided by respondents are as follows:



**Table: 4.22**

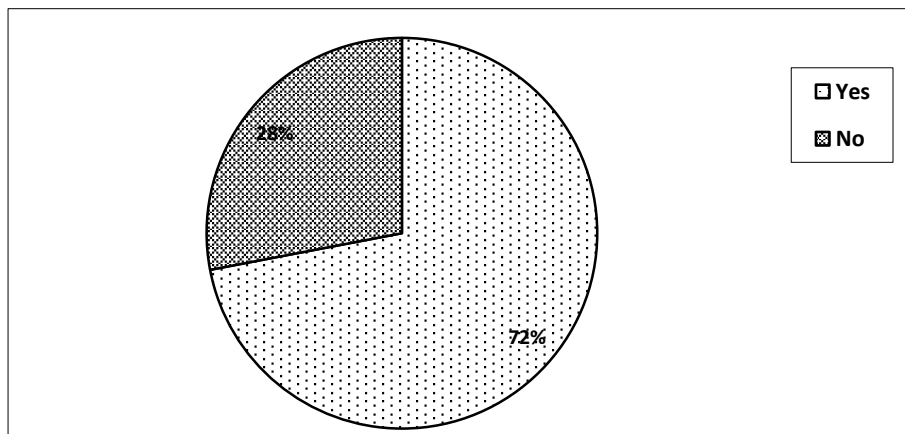
**Sufficiency of Self-Tax Assessment Provision in Income Tax Act**

| Response/<br>Respondent      | Yes    |    | No     |    | Total  |     |
|------------------------------|--------|----|--------|----|--------|-----|
|                              | Number | %  | Number | %  | Number | %   |
| Income Tax<br>Administrators | 20     | 80 | 5      | 20 | 25     | 100 |
| Income<br>Taxpayers          | 30     | 60 | 20     | 40 | 50     | 100 |
| Income Tax<br>Experts        | 22     | 88 | 3      | 12 | 25     | 100 |
| Total                        | 72     | 72 | 28     | 28 | 100    | 100 |

Source: Opinion Survey, 2009.

**Figure 4.17**

**Sufficiency of Self-Tax Assessment Provision in Income Tax Act**



72% respondents are in favor that the provision for self-tax assessment in the new income tax act is sufficient and 28% are against. The respondents who said the provisions given for self-tax assessment in the act are not sufficient were asked an additional question to know the how it can be made sufficient. The responses as provided by respondents are tabulated as follows:

**Table: 4.23****Needed Improvement Regarding Self-Tax Assessment Provision**

| Reasons  | Point Received     |           |             |       |       |      |
|--|--------------------|-----------|-------------|-------|-------|------|
|  | Tax Administrators | Taxpayers | Tax Experts | Total | %     | Rank |
| Provision of law regarding self-assessment should be made simple   | 10                 | 15        | 18          | 43    | 63.23 | 1    |
| Encourage the assesses for self-assessment by providing incentives | 6                  | 9         | 4           | 19    | 27.94 | 2    |
| Assessment of tax should be made in time                           | 3                  | 1         | 2           | 6     | 8.82  | 3    |
| Total  | 19                 | 25        | 24          | 68    | 100   |      |

Source: Opinion Survey, 2009.

For the needed improvement regarding self-tax assessment provisions in income tax act, following points are mentioned according to preference:

1. Provision of law regarding self-assessment should be made simple.
2. Encourage the assesses for self-assessment by providing incentives.
3. Assessment of tax should be made in time.

From the above analysis, it is concluded that the provision for self-tax assessment should be made simple. Clear-cut rules can be communicated to the taxpayers easily, and they feel their duty to submit the income statement of their transaction. Furthermore, incentives should be provided to those taxpayers who submit return in time.

#### **4.20 Adoption of Self-Assessment System By the Taxpayers**

Self -assessment of tax in Nepal is very important and plays a vital role. The eighth amendment of Income Tax Act 2031 had mentioned many provisions in this regard and had given priority to self-tax assessment, but it was not properly implemented in practice before the enforcement of Income Tax Act 2058. Now most of the persons follow the self-assessment. To know if all the taxpayers adopt the self-assessment a question “Do you think that all taxpayers follow the self-assessment?” was asked. The responses as provided by respondents are as follows:

**Table 4.24**

**Adoption of Self-Assessment System by the Taxpayers**

| Response/Respondent                   | Yes    |    | No     |    | Total  |     |
|---------------------------------------|--------|----|--------|----|--------|-----|
|                                       | Number | %  | Number | %  | Number | %   |
| Income Tax Administrators and Experts | 25     | 50 | 25     | 50 | 50     | 100 |
| Income Taxpayers                      | 45     | 90 | 5      | 10 | 50     | 100 |
| Total                                 | 70     | 70 | 30     | 30 | 100    | 100 |

Source: Opinion Survey, 2009.

From the above table, it is quite clear that 70 percent taxpayers follow the self-tax assessment and 30 percent of taxpayers follow others.

**Test of Hypothesis: Chi-Square ( $\chi^2$ ) Test**

| Respondents                    | Yes | No | Row Total |
|--------------------------------|-----|----|-----------|
| Tax Administrators and Experts | 35  | 15 | 50        |
| Taxpayers                      | 43  | 7  | 50        |
| Total                          | 78  | 22 | 100       |

Source: Table 4.24

Null Hypothesis ( $H_0$ ): There is no significant difference of the view between tax experts and taxpayers regarding adoption of self- tax assessment provision by the taxpayers.

Alternative Hypothesis, (H<sub>1</sub>): There is significant difference of the view between tax experts and taxpayers regarding adoption of self-tax assessment provision by the taxpayers.

$$X^2 = \sum \frac{(F_o - f_e)^2}{f_e}$$

Where

F<sub>o</sub> = Observe Frequency

F<sub>e</sub> = Expected Frequency

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

Test of Hypothesis:

Calculation of x<sup>2</sup>

| Row, Column | F <sub>o</sub> | F <sub>e</sub>               | F <sub>o</sub> -F <sub>e</sub> | (F <sub>o</sub> -F <sub>e</sub> ) <sup>2</sup> | $\frac{(F_o - F_e)^2}{F_e}$            |
|-------------|----------------|------------------------------|--------------------------------|--|--|
| (1,1)       | 35             | $\frac{50 \times 78}{100} =$ | -4                             | 16   | 0.410                                  |
| (1,2)       | 15             | $\frac{50 \times 22}{100} =$ | 4                              | 16   | 1.45                                   |
| (2,1)       | 43             | $\frac{50 \times 78}{100} =$ | 4                              | 16   | 0.410                                  |
| (2,2)       | 7              | $\frac{50 \times 22}{100} =$ | 4                              | 16   | 1.45                                   |
|             |                |                              |                                |  | $\frac{\sum(f_o - f_e)^2}{f_e} = 3.72$ |

$$\text{Calculated } x^2 = X^2 = \sum \frac{(F_o - f_e)^2}{f_e} = 3.72$$

Degree of Freedom: (r-1) (c-1) = (2-1) (2-1) = 1×1=1

Level of Significance L = 5% =0.05

Tabulated x<sup>2</sup> (0.05(1))=3.841

Since Calculated x<sup>2</sup> < tabulated x<sup>2</sup> therefore the null hypothesis is accepted so there is not significant difference between the view of tax experts and the taxpayers regarding the adoption of self tax assessment system.

#### 4.21 Problems in Income Tax Assessment Procedure in Nepal

To know the existing problem in self-assessment of income tax procedure in Nepal, the respondents were requested to rank various problems from 1 to 4 according to priority. A question asked, “What are the major problems of income tax on self-assessment procedure in Nepal?” The responses received from the respondents are tabulated as follows:

**Table: 4.25**

**Problems in Income Tax Assessment Procedure in Nepal**

| S.N.  | Reasons  | Point Received |           |                    |       |       |      |
|-------|--|----------------|-----------|--------------------|-------|-------|------|
|       |  | Tax Experts    | Taxpayers | Tax Administrators | Total | %     | Rank |
| 1     | Assesses do not maintain books of account      | 84             | 62        | 93                 | 239   | 33.94 | 1    |
| 2     | Lack of proper recording system in tax offices | 42             | 56        | 72                 | 170   | 24.14 | 2    |
| 3     | Lack of relevant tax information               | 32             | 51        | 64                 | 147   | 20.88 | 4    |
| 4     | Assesses want to escape from tax               | 96             | 21        | 31                 | 148   | 21.02 | 3    |
| Total |  |                |           |                    | 704   | 100   |      |

Source: Opinion Survey, 2009.

The problems in income tax assessment procedure in Nepal according to the scale of preference of the respondents are as follows:

1. Assesses do not maintain books of account.
2. Lack of proper recording system in tax offices.
3. Lack of relevant tax information.
4. Assesses want to escape from tax.

To know the relationship between the opinions of tax experts and taxpayers, related correlation coefficient was used but the views of tax administrators are kept constant.

**Hypothesis:**

There is no significant relationship between the view of taxpayer and tax experts with respect to the major problems of income tax assessment procedure in Nepal.

Calculating Correlation by Formula

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

$$Pr = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Let, Variable x and y denotes of taxpayers and tax experts respectively.

**Table: 4.26**  
**Calculation of Correlation Coefficient**

| Factors                                       | Total Points (x) | Rank (R <sub>1</sub> ) | Total Point (Y) | Rank (R <sub>2</sub> ) | Difference (R <sub>1</sub> -R <sub>2</sub> ) | Square of different (R <sub>1</sub> -R <sub>2</sub> ) |
|---|------------------|------------------------|-----------------|------------------------|--|---|
| Complicated procedure due to complex tax laws | 50               | 2                      | 64              | 1                      | 1  | 1   |
| Administrative harassment                     | 75               | 1                      | 52              | 2                      | -1   | 1   |
| Lack of relevant tax information              | 23               | 3                      | 41              | 3                      | 0  | 0   |
| Other if any                                  | 15               | 4                      | 12              | 4                      | 0  | 0   |

Source: Table 4.26

Substituting the value we have,

$$R = 1 - \frac{6(2)}{4(4^2 - 1)}$$

$$= 1 - \frac{12}{4(16 - 1)}$$

$$= 1 - \frac{12}{60}$$

$$= 0.8$$

$$Pr = 0.6745 \times \frac{1 - (0.8)^2}{\sqrt{5}}$$

$$= \frac{0.24282}{\sqrt{5}}$$

$$= 0.1085$$

Here,  $r$  is greater than  $p_r$ . The relation is not significant because to be significant  $r$  should be 6 times greater than  $P_r$ ; however, the value of  $r$  is moderate. So, null hypothesis is rejected. Then, we can conclude that the opinion of taxpayers and tax administrators regarding the major problems of income tax assessment procedure in Nepal faced by taxpayers while paying tax is not significantly different.

### **5.22 Effectiveness of Tax Administration in Tax Assessment**

To know the respondents' view regarding effectiveness of income tax administration in Nepal, a question, "Do you think that tax administration in Nepal is effective?" was asked. The responses are tabulated as below:

**Table: 5.27**

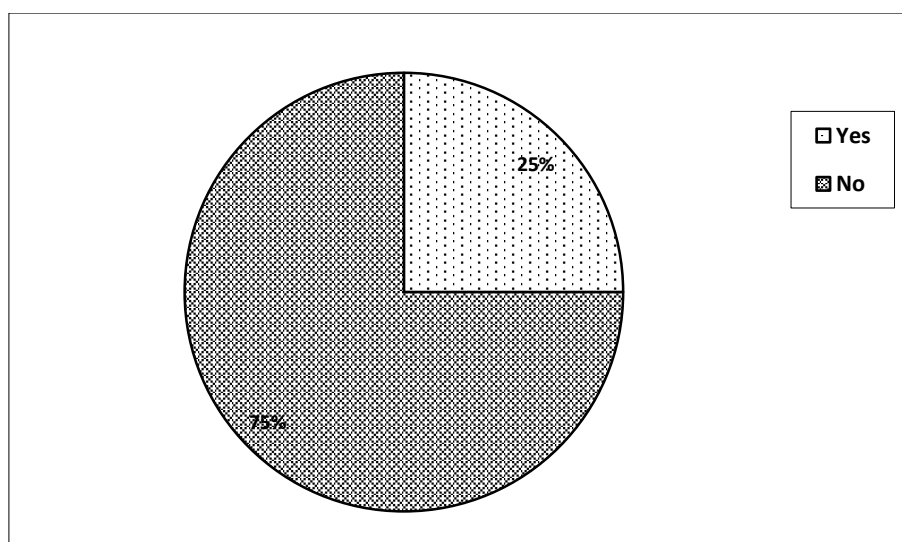
**Effectiveness of Tax Administration in Tax Assessment**

| Response/<br>Respondent | Yes    |    | No     |    | Total  |     |
|-------------------------|--------|----|--------|----|--------|-----|
|                         | Number | %  | Number | %  | Number | %   |
| Tax Administrators      | 10     | 40 | 15     | 60 | 25     | 100 |
| Taxpayers               | 8      | 16 | 42     | 84 | 50     | 100 |
| Tax Experts             | 7      | 28 | 18     | 72 | 25     | 100 |
| Total                   | 25     | 25 | 75     | 75 | 100    | 100 |

Source Opinion Survey, 2009.

**Figure: 4.18**

**Effectiveness of Tax Administration in Tax Assessment**



From the above table, it has been clear that Nepalese income tax administration is not effective. Most of the respondents i.e., 75% of respondents recognize it as ineffective. The respondents were requested to rank their choice from 1 to 5 according to their preference to know the opinion of the respondents regarding the important factors for ineffectiveness of income tax in Nepal. A question, “If no, what are the reasons” was asked. Responses are summarized in the table 4.28 as below:

**Table: 4.28****Reasons for Ineffective Tax Administration in Tax Assessment**

| Reasons  | Points Received    |           |             |       |       |      |
|--|--------------------|-----------|-------------|-------|-------|------|
|  | Tax Administrators | Taxpayers | Tax Experts | Total | %     | Rank |
| Lack of knowledge about tax assessment procedure | 83                 | 67        | 50          | 200   | 22.62 | 1    |
| Lack of meaningful taxpayers' information        | 52                 | 60        | 45          | 157   | 17.76 | 4    |
| Lack of proper incentives to tax personnel       | 40                 | 80        | 72          | 192   | 21.71 | 3    |
| Lack of co-ordination within department          | 32                 | 45        | 62          | 137   | 15.49 | 5    |
| Unnecessary outside pressure                     | 75                 | 92        | 31          | 198   | 22.39 | 2    |

Source: Opinion Survey, 2009.

The most possible reasons for ineffectiveness of tax administration in case of tax assessment stated by the respondents according to preference are:

1. Lack of knowledge about tax assessment procedure.
2. Lack of meaningful taxpayers' information.
3. Lack of proper incentives to tax personnel.
4. Lack of co-ordination within department.
5. Unnecessary outside pressure.

The main cause indicated by the respondents about ineffective tax administrators in case of tax assessment is lack of knowledge about tax

assessment procedure, and other reasons are lack of meaningful taxpayers' information, lack of proper incentives to tax personnel, lack of co-ordination within department and unnecessary outside pressure. Because of the above reasons, the tax administration in Nepal is ineffective.

**Table: 4.29**

**Important Factors for Improvement of Income Tax Administration in  
Case of Tax Assessment Procedure**

| Reasons   | Points Received    |           |             |       |       |      |
|---|--------------------|-----------|-------------|-------|-------|------|
|   | Tax Administrators | Taxpayers | Tax Experts | Total | %     | Rank |
| Providing more salary and incentives  | 82                 | 55        | 43          | 180   | 16.79 | 5    |
| Timely information and check by government                                  | 93                 | 65        | 48          | 206   | 19.21 | 4    |
| Conducting seminars, training and conference                                | 62                 | 102       | 58          | 222   | 20.70 | 3    |
| Establishment and implementation of effective rewards and punishment system | 70                 | 91        | 64          | 225   | 20.98 | 1    |
| Controlling the negligence of taxpayers                                     | 98                 | 63        | 78          | 239   | 22.29 | 1    |

Source: Opinion Survey, 2009.

The respondents were requested to rank their choice from 1 to 5 according to their preference to know the opinion of the respondents regarding important factors for effectiveness of income tax in Nepal. A question "How can it be improved?" was asked. Responses are summarized in the table 4.29 as above.

The most important factors for effectiveness of tax administrators in Nepal according to preference by respondents are as follows:

1. Providing more salary and incentives.
2. Timely information and check by government.
3. Conducting seminars, training and conference.
4. Establishment and implementation of effective rewards and punishment system.
5. Controlling the negligence of taxpayers.

#### Suggestion for Improving Tax Administration in Case of Assessment Procedure

Another open question was asked to get suggestions for improving income tax assessment procedure. The question was, “Do you have any other suggestions for improving income tax assessment procedure under Income Tax Act 2058. If yes, please specify .....” Some respondents have given some suggestions, which are listed as below:

1. Tax officers should be well trained.
2. Clarity and wide interpretation are required on disputed expenses head.
3. Effective implementation of tax rules and laws.
4. Format should be simplified, and monitoring and supervision are needed.
5. Procedure should be made more simple and short.

It can be concluded that clear act, rules and regulation and simple procedure is most important factor for the improvement of tax assessment procedure in Nepal.

#### **4.23 Attitude towards Heavy Penalty for False Statement**

Submission of false income statement is an offence. It is blamed that taxpayers do not keep record and statements in proper and correct way. To know the respondents’ opinion to impose penalty to those taxpayers who submit false statement for self-tax assessment purpose, a question “Do you suggest heavy penalty on those taxpayers who submit false statement of self-tax assessment?” was asked. The respondents’ responses are presented as below.

**Table: 4.30**

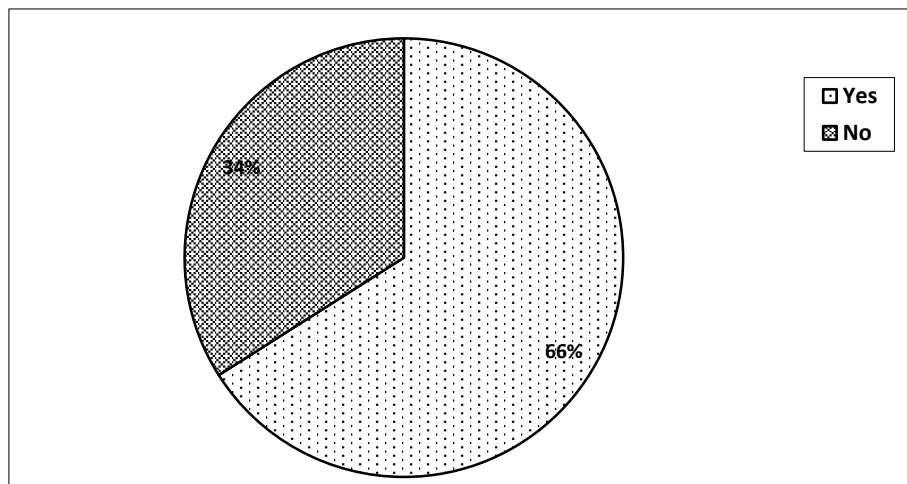
**Attitude Towards Heavy Penalty for False Statement**

| Response/<br>Respondent      | Yes    |    | No     |    | Total  |     |
|------------------------------|--------|----|--------|----|--------|-----|
|                              | Number | %  | Number | %  | Number | %   |
| Income Tax<br>Administrators | 22     | 88 | 3      | 12 | 25     | 100 |
| Income<br>Taxpayers          | 20     | 40 | 30     | 60 | 50     | 100 |
| Income Tax<br>Experts        | 24     | 96 | 1      | 4  | 25     | 100 |
| Total                        | 66     | 66 | 34     | 34 | 100    | 100 |

Source: Opinion Survey, 2009.

**Figure: 4.19**

**Attitude towards Heavy Penalty for False Statement**



From the above table 4.30, it is observed that 88 percent tax administrators, 40 percent taxpayers and 96 percent tax experts are in favor of imposing heavy penalty on those taxpayers who submit false statement of self-tax assessment. In total sample of 100, 66 percent respondents were in favor of heavy penalty on those taxpayers who submit false statement of self-tax assessment. Only 34 percent respondents were not in the favor. It can be concluded that heavy penalty should be charged on those taxpayers who submit false statement.

#### 4.24 Attitude Towards the Time Limit for the File Return

According to new Income Tax Act 2058, every taxpayer should file at the place prescribed by the department a return of income not later than 3 months after the end of each income year. To know the respondents' opinion about the time limit to be given for the file return after passing the income year, a question, "In your opinion what should be the time limit be given for the assessment of tax after passing the income year?" was asked. The responses are follows:

**Table: 4.31**

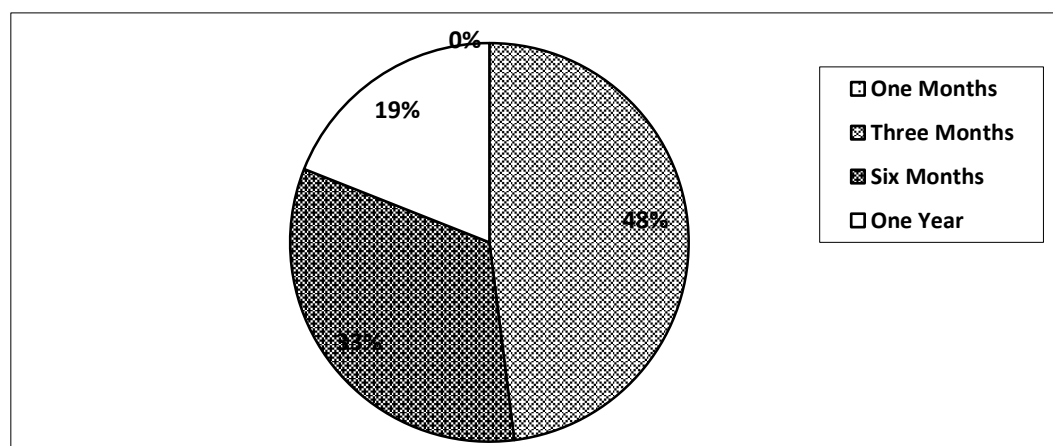
**Time Limit for the File Return**

| Time         | Points Received    |           |             |       |     |
|--------------|--------------------|-----------|-------------|-------|-----|
|              | Tax Administrators | Taxpayers | Tax Experts | Total | %   |
| One month    | -                  | -         | -           | -     | -   |
| Three months | 15                 | 15        | 18          | 48    | 48  |
| Six months   | 8                  | 20        | 5           | 33    | 33  |
| One year     | 2                  | 15        | 2           | 19    | 19  |
| Total        | 25                 | 50        | 25          | 100   | 100 |

Source: Opinion Survey, 2009.

**Figure 4.20**

**Time Limit for the File Return**



From the above table 4.31, 48 percent respondents approved that 3 month time limit be given for file return after passing the income year. 33 percent

respondent approved that 6 month time limit and 19 percent respondents approved that one year time limit should be given for the file return after passing the income year. From this survey result, it can conclude that the time limit should be extended to 3 months.

## CHAPTER V

### MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Major Findings

The major findings of this study are summarized as below:

Income tax has been considered as a suitable mean of raising government revenue and mobilizing internal resources. It may enhance the revenue of government to meet the development expenditure of the government. To develop the economic condition of Nepalese people, promote distributive justice, minimize regional disparity and to cure resource gap problem; income tax is a crucial factor. To meet the government expenditure, achieve the goal of national development, not only that to decrease poverty and illiteracy, there is equally important role of income tax.

Government revenue is the composition of external revenue and internal revenue. There is dominant share of tax revenue in Nepalese government revenue, but the contribution of tax revenue shows the decreasing trend as it had contributed 77.70 percent in fiscal year 1999/00 on the total and was decreased to 77.16 percent in 2008/09.

There is serious growing financial gap which creates problem in Nepal. It seems to be never ending problem in Nepalese economy. The resource gap in fiscal year 2008/09 was Rs. 10640.4 million, and it extended from 4360.3 million in fiscal year 1999/00. Though in recent years, the resource gap has decreased to Rs. 27626.9 million in 2007/08 and Rs. 34297.7 million in fiscal year 2008/09 while it was Rs. 30941.8 million in the year 2006/07. It is still a huge amount. The main cause of resource gap is lack of mobilization of other domestic resources. Government expenditure is increasing at a faster rate than the increase in revenue, raising inflation rate, increase in the burden of debt serving defective government expenditure program and other political ill performance, less commitment, and weak management function.

Nepalese tax revenue is the composition of direct tax. There is dominant role of indirect tax revenue in Nepal. The contribution of direct tax and indirect tax on total tax revenue were 21.5 percent and 78.5 percent respectively in 1999/00 which became 24.16 percent and 75.84 percent in 2008/09. The trend shows that the share of direct tax is increasing but still the indirect tax has dominant role.

Direct tax revenue is the composition of land tax, house and land registration, income tax, tax on property and other taxes. The contribution of income tax, property tax and other taxes on direct tax was 77.09 percent in 1999/00 and that for 2008/09 was 86.24 percent.

Income tax is an effective tool to reduce the gap between rich and poor. Widespread evasion of tax, small number of taxpayers, defective government expenditure programs, poor tax paying capacity and lack of tax consciousness are the main causes of ineffectiveness of income tax in reducing the gap between rich and poor.

Nepalese income tax revenue is the composition of business tax (from public enterprises, semi-public enterprises, and private corporate bodies' individuals), remuneration and tax on interest. Income tax of Rs. 10159.4 million was collected in 2008/09. The share of individual tax was approximately half of total income tax revenue before fiscal year 2007/08. Share of individual income tax was more than 38.38 percent in the beginning of the study period, and it has gone up to 42.84 percent; however, there is cyclic fluctuation in the period of 1999/00 to 2008/09, some time increasing and some time decreasing.

Income tax exemption limit in Nepal has been changed on the basis of time and income condition. The current exemption limit is Rs. 100,000 for individuals and the current exemption limit is Rs. 125,000 for married couple and family. The exemption limit is not provided to partnership firms, corporations and non-residents.

The target and collection of income tax is taken into account. The collection is 96.75 percent of the targeted in 2008/09 whereas it was 105.84 percent of target in 2007/08. It shows that collection performance is decreased, so that income tax in Nepal is not satisfactory.

Assessment of the return on income is one of the important parts of tax administration. Out of 189,343 returns filed, 5387 is made for assessment in the fiscal year 2005/06 and 185235 is carried forward to the next year.

An opinion survey has been conducted in order to find out the role of income tax assessment system and provision and some other aspects of income tax. Tax experts, tax administrators, and taxpayers have given their opinions.

Following can be summarized from the opinion survey:

- Income tax system of Nepal has been blamed as not efficient enough.
- Income tax is a suitable means of raising government revenue.
- Tax revenue collection of the government is not satisfactory. Mass poverty and low income level, increasing habit of tax evasion, defective income tax administration and inappropriate rate and exemption limit are the major reasons for the low contribution of income tax to national revenue.
- The provision of fee, fine and penalties under income tax act of Nepal are considered as reasonable.
- Self-tax assessment is suitable method while assessing the income tax in Nepal. Lack of proper accounting system, lack of knowledge about self-tax assessment procedure and lack of correct auditing system are the weakness of self-tax assessment system. So, it doesn't seem possible to apply it in full extent. According to Income Tax Act 2058, all the returns filed are treated as self-assessment. The system of self- assessment may also reduce the workload of the tax personnel and help taxpayers to understand their duties.

- The provisions given for self-tax assessment in new tax act are complex. The provision of income tax act and rules with regards to self-assessment should be made simple that encourages the taxpayers for self-tax assessment by providing incentives.
- Tax paying habit and taxpayers' compliance in Nepalese people is poor basically due to lack of simplification of tax rules, lengthy process of tax assessment, lack of incentives to regular taxpayers and due to lack of heavy fine and penalties to defective taxpayers. Some of the respondents advised that sound government economic policy, effective tax management, training and seminar to the tax personnel and development of check and balance systems can lead income tax towards its efficiency.
- Public awareness program is necessary to increase tax consciousness and raise the government revenue.
- The income tax assessment procedure also seems ineffective. Lack of adequate information about income assessment, trend of evading tax by the taxpayers, lack of proper recording system in tax administration and non-maintenance of books of account by the taxpayers are considered as the major problems in income tax assessment procedure.
- During the study period, the resource gap has been increasing every year except the past few years, and the projection also shows it will increase in the future too. In the fiscal year 1999/00, the overall resource gap was Rs. 4360.3 million which increased to Rs. 10640.4 million the in fiscal year 2008/09.

## **5.2 Conclusion**

Nepal is one of the least developed countries among of the world. Nepal is facing serious financial problem in its economic development process. Nepal could not successfully and properly tear a curtain built from massive poverty, hunger, diseases, unemployment, heavy dependence on agriculture, lack of adequate industries, low income level and social political and geographical constraint over 47 years of planned development. Nepalese economy is

suffering from ineffective and effortless plan, program and policy of development. The foremost concentration of every nation of the world is rapid economic growth which indicates prosperity. A lot of funds are required to meet the additional financial requirement for the development activities of the country. Government revenues are collected through foreign loans, grants and internal sources i.e. excise duty, value added tax, penalty tax, interest tax, direct and indirect tax internal resources are preferable for sustainable economic development.

Income tax assessment plays a vital role in the collection of income tax. Proper, fair and reasonable system and method of income tax assessment do not help only to increase the revenue but certainly help to minimize the economic gap between different levels of people in the society. The new Income Tax Act 2058 has given the format for method of taxing system and focuses on self-tax assessment.

Presently income tax revenue is collected in accordance to the Income Tax Act 2058. Due to various problems related to income tax, revenue collection from income tax is low in Nepal from different sectors. It is blamed that Nepalese income tax law is inappropriate and the administration is not efficient; but if we analyze the data relating to, then we can find out that it is not so bad. However, income tax laws and administration in Nepal are to be deeply scrutinized and properly implemented. Some provisions should be mentioned clearly.

According to the investigation, income tax is a suitable mean of raising government revenue as well as the tax education is necessary in Nepal which 80% respondents have supported. It is found that inefficient tax administration, tax evasion and inappropriate objectives of income tax were the main causes of improper collection of income tax in Nepal. Self- assessment methods of assessing income tax is more appropriate in Nepal. 71% of them were in

support and remaining 29% were in against about reasonability of fees, fines and penalties. Some of respondents advised sound economic policy, effective tax management, training and seminar to the tax personnel and development of check and balance system can lead income tax towards its efficiency.

Resource gap in Nepal has been increasing every year. The internal revenue is sometimes insufficient even to meet regular expenditure, and most to the development activities depends on foreign aid where Nepal has been compelled to harmonize the door. The major problems of domestic resource mobilization are poor utilization of the nature resources, small and stagnant industrial sector, poor economic growth and inadequate tax effort etc. So, in this context, revenue generation from internal source is very important in which income tax is one of the major sources.

### **5.3 Recommendations**

On the basis of the findings mentioned above the major areas of recommendations are as follows:

- (1) Efficiency of Nepalese income tax system mainly depends on income tax and policies. Income tax laws and policy should be made such that main objectives of imposing income tax can be achieved.
- (2) Income tax policy should be formulated according to the economic policy of the country. Income tax policy should be revised timely.
- (3) The exemption limit must be adjusted according to inflationary situation of the country on the year basis.
- (4) To solve the problems existing in Nepalese income tax system, following recommendations are made:
  - (a) Income tax act, rules and regulation should be clear and simple for all taxpayers, tax officers and tax inspectors.
  - (b) Training and sufficient incentive should be given to the employee, and there should be provision of better incentives for regular taxpayers and heavy penalties and fine to those who evade tax.

- (c) The assessment and collection provision should be made clear and simple.
- (d) There should be compulsory provision of auditing.
- (5) The Government of Nepal must launch more effective programs to collect more revenue from income tax.
- (6) Tax assessment system should be scientific. The tax is largely assessed under the assumption, and the income of many taxpayers is not associated on a regular basis. Tax officers make tax assessments on the presumptive income, and the result is that income tax system is less revenue productive, inefficient and has become less effective. Thus, it should be replaced by current year's basis, and self-assessment system should be developed gradually in place of the official assessment system.
- (7) The following recommendations are made to increase tax paying habit and increase taxpayers' compliance:
  - a) Simplification of tax law and rules.
  - b) Simplification of tax assessment procedure.
  - c) Tax education to taxpayers.
  - d) Incentive to regular taxpayers.
  - e) Better public relation by tax officers.
  - f) Heavy fine and penalties to defaulter.
- (8) The following recommendations are made to make satisfactory contribution of income tax from PES:
  - a) Weakness of government economic policy should be avoided.
  - b) The internal conflict and political pressure on PES should be solved for better performance of PES.
- (9) The following recommendations are made for the improvement of income tax administration in case of income tax assessment:
  - a. Improving tax assessment procedure

- b. Computerized information system is necessary to keep up-to -date record of income tax.
  - c. Controlling taxpayers' negligence while preparing and submitting income statement.
  - d. Proper tax education should be provided to tax officials as well as tax inspector, and taxpayers regularly.
  - e. Proper co-ordination within the tax department.
  - f. Avoidance of unnecessary outside pressure.
- (10) The efficient and competent tax administration is the basic requirement of self-assessment of tax. Therefore, income tax administration should be recruited with efficient honest, trained and qualified tax personnel.
- (11) There should be compulsory provision of submitting income statement within the due date. If someone fails to submit income statement without reasonable notification, he should be punished with 100% penalty. The tax officers, who fail to assess the tax within that period without appropriate reason, should be punished.
- (12) Public awareness program should be conducted to raise government revenue.
- (13) A Proper and effective audit system is necessary in order to make self-assessment system successful. The performance of audit is poor in Nepal, both quantitatively and qualitatively. The taxpayers consider that they are being harassed by tax audits whereas the government does not get much revenue as a result of audits. Audit has always been controversial in Nepal. Scientific systems of audit such as on the basis of computer generated intelligence may be relevant in Nepal.

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**APPENDIX – A**  
**QUESTIONNAIRE**

**"Effectiveness of self-assessment of Tax in Nepal"**

Name..... Designation.....

Office organization..... Occupation.....

) the answer of your choice or where ever  Please Tick ( appropriate put in order of preference from one to last number of alternative. Number one is the most important and the last number for the least.

1. Do you consider that the income tax is suitable means of raising government revenue?  
Yes [        ]      No [        ]      I don't know [        ]
2. Do you think that public awareness programmer is necessary in Nepal for raising government revenue?  
Yes [        ]      No [        ]      I don't know [        ]
3. To generate more additional resource from income tax what factor do you approve to mobilize? (Please rank according to the priority)
  - i) Widening tax base and tax coverage. [    ]
  - ii) Granting investment allowance instead of tax incentive to new industries. [    ]
  - iii) Increasing Tax paying habit of tax payers [    ]
  - iv) Increment of administration efficiency. [    ]
  - v) Discouraging corruption practice. [    ]
  - vi) Other if any (please specify).....
4. To assess income tax, which method do you prefer?

I Self..... II Tax officer..... III Asst. committee..... IV  
Other.....

5. Do you think that self Tax Assessment system is effective in Nepal?  
Yes [        ]      No [        ]      I don't Know [        ]
6. If No, what are the reasons? (Please rank according to priority 1 to 4.)
- i) Lack of proper accounting system.  
[        ]
- ii) Lack of knowledge about self-Tax assessment procedure.  
[        ]
- iii) Lack of correct auditing system. [        ]
- iv) Lack of believe upon government. [        ]
- v) Other if any (please specify).....
7. In your opinion, is the Self-Tax Assessment a suitable means of rising Domestic resource?  
Yes [        ]      No [        ]      I don't know [        ]
8. If Yes, Why is it suitable measure of rising domestic resource?
- i) Encourage Tax Payer to motive about payments of Tax. [        ]
- ii) Helps to know their own liability of the tax payers. [        ]
- iii) Helps to maintain their books of accountant. [        ]
- iv) Simple and short procedure of assessment. [        ]
- v) Other if any (please specify).....
9. Do you think that provisions given for self tax assessment in the new Income Tax Act 2058 are sufficient?  
Yes [        ]      No [        ]      I don't know [        ]
10. If No, how it can be improved?
- i) Provisions of law regarding to self assessment should be made simple. [        ]
- ii) Encourage the assesses for self assessment by providing incentives. [        ]
- iii) Assessment of tax should be made in time. [        ]

- iv) Other if any (please specify).....
11. Do you think that all tax payers follow the self assessment?  
 Yes [        ]      No [        ]      I don't know [        ]
12. Do you suggest have penalty on those tax payers who submit false statement of self tax assessment?  
 Yes [        ]      No [        ]      I don't know [        ]
13. Do you feel any problem in paying income tax?  
 Yes [        ]      No [        ]      I don't know [        ]
14. If yes, what are the major problems?  
 i) Complicated procedure due to complex tax laws.      [        ]  
 ii) Administrative harassment.      [        ]  
 iii) Lack of relevant tax information.      [        ]  
 iv) Other if any (please specify).....
15. In your opinion what should be the time limit be given for the assessment of tax after passing the income year?  
 i) One months.      [        ]  
 ii) Three months.      [        ]  
 iii) Six months.      [        ]  
 iv) One year.      [        ]  
 v) Other if any (please specify).....
16. Do think that, Tax administration in Nepal is effective?  
 Yes [        ]      No [        ]      I don't know [        ]
17. If No, what are the reasons? (Please rank according to the priority)  
 i) Lack of knowledge about tax assessment procedure.      [        ]  
 ii) Lack of meaningful taxpayers information.      [        ]  
 iii) Lack of proper incentives to tax personnel.      [        ]  
 iv) Lack of co-ordination with in department.      [        ]  
 v) Unnecessary outside pressure.      [        ]  
 vi) Other if any (please specify).....
18. How can it be improved? (Please rank according to the priority)

- i) Providing more salary and incentives. [     ]
  - ii) Timely information and check by government. [     ]
  - iii) Conducting seminars training & conference. [     ]
  - iv) Establishment and implementation of effective rewards & punishment system. [     ]
  - v) Controlling the negligence of taxpayers. [     ]
  - v) Other if any (please specify).....
19. There is a widespread public opinion that "High degree of corruption is being existed in tax administration in Nepal." What is your opinion in this effect?  
 Positive [     ]     Negative [     ]     I don't know [     ]
20. If positive, how can it be minimized? (Please rank according to the priority)
- i) Serve action to corrupters. [     ]
  - ii) Development of checks and balance systems. [     ]
  - iii) Moral education to tax personnel's [     ]
  - iv) Regular supervision to tax personnel. [     ]
  - v) Additional incentives & facilities provided to tax personnel. [     ]
  - vi) Other if any (please specify).....

**Thanks for your co-operation.**

**APPENDIX – B**  
**LIST OF RESPONDENTS**

**Income Tax Administrators**

- |                            |   |
|----------------------------|---|
| 1. Govinda Bhadur Baniya   | Senior Tax Officer, Inland Revenue Office, Babarmahal     |
| 2. Subarna Kumar Shrestha  | Tax Officer, Inland Revenue Office, Babarmahal            |
| 3. Lekh Nath Niraula       | Tax Officer, Inland Revenue Office, Babarmahal            |
| 4. Govinda Prasad Adhikari | Tax Officer, Inland Revenue Office, Lazimpat              |
| 5. Hem Raj Subedi          | Tax Officer, Inland Revenue Office, Babarmahal            |
| 6. Bhim Kumar Nepal        | Tax Officer, Inland Revenue Office, Babarmahal            |
| 7. Bandhu Prasad Bastola   | Tax Officer, Inland Revenue Department                    |
| 8. Shanta Bahadur Shrestha | Head Tax Administrator, Inland Revenue Office, Nepalgunj. |
| 9. Pawan Khanal            | Tax Officer, Inland Revenue Office, Lazimpat.             |
| 10. Tek Prasad Aryal       | Tax Officer, Inland Revenue Office, Nepalgunj.            |
| 11. Ghana Shyam Upadhya    | Tax Officer, Inland Revenue Office, Nepalgunj.            |
| 12. Lekh Nath Sharma       | Tax Officer, Inland Revenue Office, Lazimpat.             |
| 13. Gopal Thapa            | Junior Tax Officer, Inland Revenue Office, Babarmahal     |

|                           |  |
|---------------------------|--|
| 14. Nara Nath Giri        | Tax Officer, Inland Revenue Office, Lazimpat         |
| 15. Hari Gyawali          | Junior Tax Officer, Inland Revenue Office, Nepalgunj |
| 16. Ananda Ram Regmi      | Tax Officer, Inland Revenue Office, Lazimpat         |
| 17. Lal Bahadur Khatri    | Tax Officer, Inland Revenue Office, Babarmahal       |
| 18. Tara Dev Joshi        | Tax Officer, Inland Revenue Office, Lazimpat         |
| 19. P. Lamichhane         | Tax Officer, Inland Revenue Office, Babarmahal       |
| 20. Chudamani Devkota     | Chief Tax Officer, Inland Revenue Department         |
| 21. Kumar Singh           | Tax Officer, Inland Revenue Department               |
| 22. Santosh Sharma        | Tax Officer, Inland Revenue Office, Nepalgunj        |
| 23. Deepak Adhikari       | Tax Officer, Inland Revenue Office, Lazimpat         |
| 24. Chandra Kishor Mallik | Tax Officer, Inland Revenue Office, Babarmahal       |
| 25. B.R. Pant             | Chief Tax Officer, Inland Revenue Department         |