CHAPTER- I
INTRODUCTION

1.1 Background of the Study

Tendency of welfare State, in present day world of twenty-first century is increasing rapidly. The welfare State requires adequate fund not only for development of physical infrastructure but also to pay salary to government's employee, to run administration, to launch regular activities, to maintain peace and security in society and to accomplish overall those tasks which uplift the society and nation. To fulfill this need government collects money from business organization and individual in the form of income tax which make up important part of national revenue.

It is said that Great Britain was the first country to impose the income tax. It imposed income tax to collect revenue to finance war with France. Similarly, in 1862 A.D. USA also imposed tax on income to collect revenue to control the civil war. India enacted Income Tax Legislation in 1886 A.D. after several research and experiments from 1860 A.D.

During the mid-twentieths century, developing country slowly started planned development system and started imposing income tax to collect necessary revenue for development activities. The main objective of income tax was not only to collect revenue but also to control unequal distribution of wealth. So, to make it progressive different rates of tax were experience by different countries. 1960s and 1970s experienced the varieties of tax rate and in late 1980s tax rate were reduce to decrease the burden on people. USA amended the law in 1986, which took a new turn in the field of income tax.

Seligman defines, “Taxation as compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without references to special benefit conferred" (Bhattarai and Koirala).

In context of our country Nepal, from the period of Lichhabi to Shah dynasty/Regime, tax is regarded as the important sources of revenue and is collected under different heading. Government collects funds from two sources: non-tax revenue and tax revenue. Non-tax revenue includes different sources like grants and gifts where as tax revenue includes customs, excise duty, value added tax (VAT), corporate and personal tax etc.

Kandel mentions that Income Tax Act is the degree or legislative instruments passed by parliament for the purpose of income tax revenue. He further states that tax has been very essential elements of a government from the very beginning of the state system. However the main objective of taxation has been different epochs. In ancient times the major objective of taxation was strengthening the muscle of the state but in modern time the main objective has been shifted from security perception to economic development.

According to Income Tax Act government realizes income tax and it refers to all fines, penalties, fees, extra charges and deposit that is paid to the government. A change in political environment brings radical changes in laws and policy of government which finally affect business organization and individual as well. May be due to the frequent changes in political system or to cope with the system of developed countries lots of change and amendments have been done in Income Tax Law. Now, Income Tax Act 2058 is implemented but before this Act, Income Tax Act 2031 was in existence which was amended for 8 times in 2034, 2036, 2037, 2041, 2042, 2043, 2046, and in 2049 B.S. Therefore, it has been very difficult to cope with the changes in Tax Laws in a country like Nepal where the government brings frequent change in Tax Laws.

Either in developed country or under developed country, taxation is regarded as powerful weapon of governments in capital formation. It is very suitable as well as necessary for country like ours where the sources of government revenue are very limited. However, the legal framework of income tax is very confusing and lacks clarity. The used terminology and language in act is also ambiguous which causes problem of tax evasion, tax avoidance, and various offences.

The study has designed to study of the implementation problem of Income Tax Act, 2058 in Nepal. In Nepal after the down of democracy in 1950, these emerged an environment in which the needs and aspirations of the people were given primacy. Income Tax Act, 2058 has been exacted with wide perspective. Various new concepts are introduced in this Act, as comp aired to Income Tax Act, 2031. Many of the concepts put forward in this Act were note prevailing at Nepalese tax culture. To measure the effectiveness of this Act, we should have to wait for few more years although the Act is practiced from April 1st, 2002 but there are different problems in implementation of Income Tax Act 2058 in Nepal.

1.2 Statement of the Problems

Government has to allocate large amount of money to uplift socio-economic status of people. Hence, the government expenditure is growing. To meet this expenditure income tax is the best sources of the revenue. Though Nepal is implementing income tax for more than four decade it has not succeeded to pay a significant role in Nepalese tax structure to promote economic growth and social justice. Nepal operates in mixed economy so it suffers from several factors such as imperfect market structure, unbalance mode of payments, lack of policies beside all these the total revenue generated by government does not meet the national expenses.

There is low level of income tax payment even after the implementation of self assessment system, and higher tendency of income tax evasion. The revenue administration is not effective in Nepal. There is no willingness to pay tax on the part of the tax payers of the country. Frequent change in tax rates and policies would not be favorable to strengthen the revenue mobilization and economic development and this fact is to be taken into consideration by the government of Nepal.

The Nepalese income tax management is facing serious problem. Coverage of income tax is not sufficient. Tax paying habit in Nepalese people is poor. There is lack of skilled tax personnel and integrated taxpayer, lack of education programme, assistance and guidance and lack of other logistic support as well. Tax officers are looked as heaven for corruption, inefficiency, delays, unfair dealing etc. Similarly wide spread tax evasion and tax avoidance is in existence. Income tax system of Nepal has been criticized a lot.

Nepal being one of the least developed among developing countries lacks the implementation of many economic and fiscal policies in rational and efficient way. For all this effectiveness tax policy play a vital role. Knowing the necessity of change and modernization in Income Tax Act according to the prevailing situation of the country, Nepal government released new Income Tax Act 2031 by repealing Income Tax Act 2019. Income Tax Act 2031 was also amended eight times before the implementation of the Income Tax Act 2058.

Income Tax Act 2031 is defined to be narrow base tax system as it considered the income generated inside the country only. Beside there was low penalty to the tax evaders, many legal loopholes in the provision, discretionary power of the tax officers all these encouraged both the taxpayer and tax personnel for the tax evasion and corruption. To overcome all these weakness of the Income Tax Act 2031, Income Tax Act 2058 was implemented which adopted full fledged self-assessment tax system, pool based system of depreciation, formation of integrated Inland Revenue Department, use of information technology etc. Still lots of problem are being seen and though income tax being a popular form of internal revenue our government is not able to generate the adequate fund from it.

Nepal has experienced frequent changes in politics and government. The continuous change in the government has posed serious problem in application of the existing tax policies. Income Tax Act 2031 was reformulated for 8 times and finally dissolved in 2058 by introducing Income Tax Act 2058. So it becomes really difficult to cope with such frequent changing environment and will also be difficult for all to understand the provision of tax law.

It is due to all the above reason the researcher intended to execute a detailed research in the tax system then and now and find out the several provision included and reduced in Income Tax Act 2058 in comparison to Income Tax Act 2031.

1.3 Objectives of the Study

The basic objective of the study is to show the implementation problem of Income Tax Act 2058 in Nepal. However, the following specific objectives have been set for the study.

- To analyze the contribution of income tax on national revenue.
- To find out the implementation problems of Income Tax Act 2058.
- To provide the suggestions for the better implementation of the Act 2058.

1.4 Significance of the Study

Nepal's next door neighbors are china and India. Both these countries have achieved remarkable economic progress over the years. The current pace of their economic growth indicates that they have the potential to compete in the international market. The technological base of these countries has widened considerably providing them the competitive advantage over other countries in the region. Nepal's economy is affected by the economics of India and china. Income tax plays the significant role in the overall economic development in developing countries. Weather in developed or developing countries, income tax occupies a very important role in overall tax structure. In the world, share of income tax in the overall structure is increasing because of its importance for the economic betterment of the country. The income tax management of Nepal suffering from various problems. The main problems are in appropriate tax policies, administrative bottlenecks of direct tax structure and existence of mass poverty. So to identify the problems and to overcome them to improve income taxation, study in the field of income tax is essential for Nepal's economy.

The implementation of Income Tax Act, 2058 has crossed its 7 yrs. Income Tax Act 2058 is quite advance and based on modern concept of economic. In this act lots of new facilities and challenges have been made to made to make income taxation effectives. The study is based on present situation and implementation problems of Income Tax Act 2058 in Nepal. So, this study can be helpful to tax experts, tax administrator and government to control the tax evasion, avoidance and effective tax collection, university students further researcher, teacher and other practitioners such as layers, CA, Auditors etc. policy makers, NGO, INGO, and Others interested in income tax.

1.5 Limitations of the Study

This study has some limitations; which are as follows:

1. This is only concerned in implementation problem of Income Tax Act, 2058 in Nepal.
2. Data used in this study will primary as well as secondary. But primary data will be collected from the Kathmandu Valley only.
3. The result will depend upon the answer given by respondents in primary data and reliability of the secondary data.

1.6 Scope of the Study

The study covers the implementation problem of Income Tax Act, 2058 in Nepal. The main scope of the study is given below;

1. Contribution of income tax on national revenue
2. Role of income tax in Nepal
3. Find out the implementation problem of Income Tax Act 2058 in Nepal
4. Minimization of the tax evasion, avoidance and corruption.
5. The study tries to know the signification changes in service of tax administration after the enforcement of the act, 2058.

1.7 Organization of the Study

This study has been organized into 5 parts. They are follows:

Chapter - I: Introduction

This chapter will contain information like background of the study, statement of the problems, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter –II: Review of Literature

This chapter will contain review of literature and legal provision of the subject matter. This chapter will contain main two parts: conceptual framework and review of books, journals, and previous researches.

Chapter –III: Research Methodology

This chapter will contain the methodology used in this research work. It includes research design, nature and sources of data, data collecting and processing procedure, population and sampling, and tools for data analysis.

Chapter – IV: Data Presentation and Analysis

It is the main part of this research as it will contain all the necessary data and their analysis. This part will be conducted in order to find out various aspects of implementation problem of Income Tax Act 2058 in Nepal from the real life experience. For this, questionnaire will be developed and responses will be collected from respondents. Respondents will classify into two groups; tax expert and tax payers. This chapter provided the major finding.

Chapter –V: Summary, Conclusion and Recommendations

This chapter will provide the summary of the whole research work, summary, conclusion and recommendations.

CHAPTER – II

LITERATURE REVIEW

The review of literature is to read the related books and other materials concerning research's topic. It helps to research to know what has been found about the topic and what new contribution can be made. Review of Literature is important because it provides the foundation for developing a comprehensive theoretical framework from which hypothesis can be developed for testing.

2.1 Conceptual Framework

As the blood and cell are basic unit of living organization. Money runs government bodies and money that activates the unit of organization. Government collects money as revenue from different sources like incomes tax, price of goods and services provided by government revenue can divided into two part i.e. tax and non-tax.

(Tax is major sources covering most part of the government revenue. It is a type of money paid by every citizen of the nation. Almost all the economists agree that tax is a compulsory duty to pay to the government without any expectation of some specified return).

2.1.1 Concept of Tax

Tax is a compulsory contribution to the national revenue from the tax payer according to law different person have definition taxation in different ways in this respect it would be better to take the definition given by Seligman in his words, taxation is the "compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred" (Bhattarai and Korala, 2005).

From the definition given above' it can be said that firstly, a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or gods from the government. The taxpayer does not have any right to received direct benefit from the tax paid due to this compulsory nature; people have expressed different views in satirical ways about the taxation. Findlay's shirras defined tax as" compulsory contribution to public authorities to meets the generous to special benefits (Bhattarai and Korala, 2005).

According to plan "Taxes are general contribution of wealth levied upon persons, natural of corporate to benefits upon the residents of the states" (Bhattarai and Koirala).

2.1.2 Concepts of Income Tax

To meet the growing expenditure of government, to per from the development activities of a country and to do such types of other things a government may have two sources. One is external sources, which includes foreign grants, loans etc. and another source is internal the means own source within the nation. The main sources of such type of government revenue are administrative income, business income, mobilization of natural resources and taxation includes custom duty, excise duty; value added tax, corporate tax , personal income tax etc.

Income tax refers to the tax levied on the income of a person and profits of corporation for the specific period of time particularly one year. Income Tax is leaved on the taxable income of a person or a company after deducting allowable expenses. Accounting profits may differ from taxable profits for the computation of taxable income. Generally incomes are added and expenses are subtracted and losses are also subtracted, then tax free incomes allowance and common expenses are also deducted to get taxable income.

After giving the exemption limit as per law, the amount of tax to be levied on this computed income is the income tax.

According to the Income Tax Act, 2058 of Nepal, income means a person's income from any employment, business or investment and he total of that income calculated in accordance with this act. Similarly, tax means the tax imposed under this act includes the follow payments.

a. As mentioned in clause 104 (8) sub clause (a); the expenses incurred in relation to claims or performing auction of the property of a tax creditor by the department.
b. Amount payable by a withholding agent or withholder under clause 90, or amount payable by an installment payer under clause 94, or the amount payable as per tax assessment under clauses 99, 100, and 101.
c. Amount payable to the department in respect of a tax liability of a third party under clause 107(2), 108(3) or (4), 109 (1) and 110(1);
d. Amount payable by ay of interest and fees under chapter 22; and
e. As per clause 129, amount payable by way of fines as per the order of the department.

Therefore, we can define tax as a compulsory contribution made taxpayers government without having any direct personal benefits. In conclusion, we can that;

i. Tax is a compulsory levy imposed by the government,
ii. Tax is collected from haves and spent from the interest of have-nots in the society; tax amount is spent for common interest of the people.
iii. Tax is levied on person as per the prevailing laws.
iv. Those who pay tax do not get corresponding benefit from the government.
v. Tax is a liability to pay amount to the sate.
vi. The basis for the payment is that assesses have income of minimum amount from certain specifies sources or that they own certain tangible or intangible property or

that they carry on certain economic activities or they consume certain gods and services with have been chosen for taxation.

2.1.3 Classification of Taxes

Tax is the main sources of financing government activates. In every country largest part of government revenue is raised through taxation. Tax may be in posing on a person's consumption, income wealth. Tax may be of different types, rates and natures; it may be direct and indirect tax. Basically, tax can be classified into board categories:

1. Direct Tax

Direct tax is a tax paid by a person on whom it is legally imposed. In direct the person paying and bearing tax is the same. It is the tax on income and property. Direct tax can not be shifted while indirect tax can be shifted. It enhances the consciousness of the citizens. Taxpayer feel burden of tax and so they can insist the government to spend their contribution for the community. Examples of direct taxes are: income tax's property tax, interest tax vehicle tax death tax gift tax expenditure tax etc.

2. Indirect Tax

An indirect tax is a tax imposed on one person but party 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. It is convenient in the price of goods or services. As a result, taxpayers do not know how much tax they are paying the government. Examples of indirect tax are: VAT, sale tax, Hotel tax import and export duty, excise duty, entertainment tax, etc.

2.1.4 Objective of Tax

Taxation has been a very essential element of a government from the very beginning of the state system. However, the main objective of taxation has been different for different epochs. In ancient times, the major objective of taxation was strengthening the muscle of the state by providing the resources. Till to the time of Adam Smith, the chief motive of collecting the revenue was to provide resources to the government for providing security to an individual and society against violence, invasion and injustice and maintaining public institutions.

In modern days, the main objective of taxation has been shifted from security perception to the economic development. The modern objective of taxation is not only to maintain peace and security but also to conduct development activities. We can enumerate the objective of modern taxation as flows:

- To have equitable distribution of income and property.
- To increase the revenue for a welfare state.
- To increase the employment, saving and investment.
- To minimize regional disparity.
- To prevent concentration of wealth in few hands

2.1.5 Evolution of Income Tax in Nepal

Grate Britain is the first country in the world to introduce the modern income tax. It introduces income tax in 1799 to finance the war fought with finance. USA introduced income tax in 1862 to greater revenue t finance civil war. In India, while income tax in its modern from was adopted in 1860, several experiments were made from 1860 to 1866 and finally the systematic income tax legislation was enacted in 1886. In Japan, income tax was introduced in 1887. It was general individual income tax and extended to the corporate income in 1899. Accordingly in Germany in 1871, in Switzerland in 1840, Australia 1849, Italy in 1864, New Zealand in 1891, Canada in 1892, Holland in between

1892-93, Australia in 1895, Denmark in 1903, France in 1909, Sri Lanka in 1932, Venezuela in 1943, and south Korea in 1948.

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 1950 when a 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 ax with Rs. 10000 basic allowance and progressive taxes ranging from 5 to 25 percent was proposed. Due to political instability, it could not be introduced until 1958. The first elected government in 1959 finally introduced business profit and salaries tax act, 1960 in Nepal. At that time, income tax was levied only on business profit and salaries. After about three years experience of income tax, the government replanted the prevailing tax act by Income Tax Act 1074 (2031) was enacted. The act remunerated income sources into five groups: Agriculture; Industry; Trade profession or Occupation; Remuneration; House and Compound Rents and Other Sources.

The importance of income tax has increased day by it has not only remained a source of revenue for emergency, but as regular source of income for government. In such way, the income tax that was started as the war tax becomes on essential source of revenue of a country. To enhance remobilization through effective revenue collection procedure for the economic development of the nation, and to amended for eight times and existed for a replaced Income Tax Act, 2031, (1974). Which was amended for eight times and existed for a period of 28 year? Nepal Government framed income tax a rules, 2059 to help clarifying the Act. Therefore, Income Tax Act, is one of a modern important tax act develops the country.

2.1.6 Income Tax as a System

Income tax as the world itself refers taxation. There need a sound, appropriate and efficient income tax system to maximize the revenue collection from income tax. The present income tax system of Nepal is the result of year's long experiences. The implementation of any task is to achieve the specified goal or objective required for he set of organs in and with the common function. This system is made up three major sub-systems. The major sub-systems are as follows:

a. Income tax policy: in Nepal income tax policy is determined by the government through ministry of finance. Income tax policy can be divided into short-term policy and long-term policy is steps that are taken in more then one year period. Income tax policies should be such that the main objectives of the income tax can be attained. In Nepal, the policy of the government is generally seen in the Finance Act and budget speech of each year.
b. Income tax law: law is the command of a sovereign, containing a common of life for his subject and obliging them to obedience. In order to implement the various income tax policies adopted by the government and to collect income tax from the public there needs the legal support. Legal provisions for income tax are provided by the parliament where necessary acts are discussed and passed. The constitution of country is a body that determines the law and makes provision. Income tax law generally association with the constitution of the country, Income Tax Act; Finance Act; rules of concerned act and legal precedence established by the court. The present law relating to the income tax is made by Income Tax Act, 2085. This ac was introduced in 2058 (2002) replacing the Income Tax Act; 2031 (1974).
c. Income tax administration income tax administration implements the objectives of income tax law and policy into practice. In this connection, income tax administration is most important element in income tax system. Income tax management covers the whole income tax system. It includes tax policy maker

(NG), law maker (parliament) and tax administration (inland Revenue Department) as its lower level of management. Income tax, policies are corrected and reformulated through the feed back in formation from the experience of the administration.

Administration maintains law and order. It is represented by civil, police , military and jails. Nepal's administration is leucocratic in nature. It lacks professionalism and political impartiality. Corruption is widespread. Good governance is lacking. It has appeared as a hindrance to business growth. This adversely affects business operations.

2.1.7 Canons of Taxation

The government of a country adopts various principles while formulation suitable tax policy. Those principle or canons of taxation areas follows:

- Canon of Equity,
- Canon of Certainty,
- Canon of Economic,
- Canon of Diversity,
- Canon of Simplicity,
- Canon of Neutrality,
- Canon of Co-ordination ,
- Canon of Productivity,
- Canon of Elasticity,

2.1.8 Relation of Income ax Act with other Acts and Laws

There are related different type of laws and acts in Nepal. The acts and laws are related each other. The relation of Income Tax Acts and laws are as follows:

a. Income Tax Act and constitutions: Income Tax Act, 2058 is also guided by the constitution of the kingdom of Nepal, 2047. A constitution is a law of laws. It is fundamental law which guides all acts and other laws enacted in the country. This constitution states that no tax will be raised without laws. On the other hand, Income Tax Act is formulated to raise income tax within the provision of the act. It is consistent with the sprit of the constitution.
b. Income Tax Act and income tax Rules: income tax rules are consistent with the Income Tax Act because income tax rules are framed to help clarifying the provisions in the Income Tax Act. If income tax rules are found in consistent within the act, the portion to the extent it is inconsistent will be invalid. So, income tax rules can be said subsiding of Income Tax Act. The has empowered NG/Nepal to frame rules in order to meet the objectives of the Act. Income Tax Act is formulated by the parliament while income tax rules are framed by Nepal Government.
c. Income Tax Act and legal procedures Established by the court: there is interrelation between Income Tax Act and decision of the court. The Supreme Court often interprets the un-clarified matters of the act. Such decision of the court are known as precedents of the court will be enforced as laws:
d. Income Tax Act and Finance Act: Finance act is generally for one year and its provision will remain effective for that year only. Each year, the government enacts Finance Act is generally of permanent nature. For example, Income Tax Act 2031 lasted for about 28years. On the other hand, Finance Act is of example; Income Tax Act is passed by the parliament while the Finance Act is issued by Nepal Government by using the powers given in the Income Tax Act. This shows that Finance Act is a complementary to Income Tax Act.
e. Income Tax Act and provisional tax realization act: Income Tax Act and provisional tax realization act are also interrelated. In case, the government

requires levying tax or increasing the tax rate, and if there is delay in enforcing Finance Act, the government through its budget speech may give the delay in enforcing Finance Act comes into force or after the six. Months of notification of such provisional order will be automatically in-valid. If the amount of tax levied by such order is more then by Finance Act, the excess amount will be refunded and vice versa.

2.1.9 Income Tax in Modern Nepal

The concepts of income tax and its imposing system varies in accordance to countries. It is due to the diversity of economic structure, nature of government and the status of people. In USA, income tax is viewed, as a matter of practice, recurrent is not relevant to the tax was applied to five schedules, any item not falling within one of the five schedules not being subjected tax. In India the personal income tax is levied on the net income of all individuals, joint Hindu families, unregistered firm and other association of person.

Personal income tax is levied on the personal contributions rather than an extraction from the economy. After the dependence of the country in 1951, the role of government has drastically changed. Government was enforced to perform development activities besides regular functions and remuneration.

Legal force in Nepalese environment refers to all the legal surrounding that affect business activities in Nepal. They promote or restrain business activities. They influence business policies and practices. Business should conform to laws. The legal framework that influences and impacts Nepalese business consist of:

a. General Business legislation:

It consists of:

- Private firms Registration Act, 1958
- Partnership Act, 1964
- Company Act, 1997
- Cooperative Act, 1960
- Industrial enterprise Act, 1992
- Contract Act, 2000
- Arbitration Act, 1999

b. Mines and natural Resource legislation:

It consists of:

- Mines and Minerals Act, 1985
- Nepal petroleum Act, 1983

c. Labour Legislation:

It consists of:

- Bonus Act, 1974
- Industrial training act, 1982
- Labour act, 1992
- Foreign Employment act, 1992
- Tread Union Act, 1993
- Labour court Regulation Act, 1995
- Child Labour Act, 2000

d. Finance Investment Legislation:

It consists of:

- Foreign Investment and Technology transfer Act, 1992
- Foreign Exchange Regulation Act, 1961

- Taxation Acts:
- Income Tax Act, 2002
- Value added Tax Act, 1996
- Custom Act, 1963
- Export Import (control)Act, 1983

d. Social and Consumer protection Legislation:

- Patent, Design and Trademark Act, 1965 (amended in 1987)
- Copyright act,2002
- Black Market and some other social crime and punishment act, 1997
- Food Act, 1966
- Nepal Standardization Act, 1980
- Consumer Protection Act, 1999
- Environment Protection Act, 1996

e. Sectoral Legislation

Various sectoral laws which are relevant for business are:

- Commercial Banks act, 1974
- Insurance Act, 1992
- Finance companies act, 1985
- International financial Business act, 1993
- Electricity act, 1992
- Water resource act, 1992
- Civil Aviation authority act, 1993
- Railways act, 1963
- Telecommunication act, 1969

- Motion picture act, 1990
- Post office act, 1962

The income tax at present in force in Nepal is Income Tax Act, 2058 (2002) and income tax 2059 made there under Finance Act is passed every year to translate the economic policy contained in the budget speech into law. It generally prescribes the rates and exemption limit for tax purpose and may delete. Add or modify the provisions contained in the Income Tax Act, decisions of supreme court in Nepal also act as presidents for Income Tax Act law purpose. The notification in Nepal gazette or circular or circular by inland Revenue department classifies and complements the legal provisions.
The legal aspects of income tax, therefore, consist of provisions.

The legal aspects of income tax, therefore, consist of provision in constitution. Income Tax Act, Finance Act, income tax rules and decisions of the Supreme Court. Together, they make up income tax law in Nepal.

Income tax in Nepal was firsts introduced in the fiscal year 1959-60. It was then known as business profit and remuneration tax the imposition of the was governed by the business profit and remuneration tax act, 1960 and rules made there under. This act consisted 22 sections. Tax on remuneration was to be deducted at source but the specified deduction was not provided. The basis for calculating tax liability for remuneration was the income of the current year, and for business profits it was it was the profit of the preceding fiscal year. Salary of any diplomatic representative; foreign citizen; divided of shareholders; profit to be spend on religions or public welfare activity profit of local autonomous organization; allowances granted by NG to ministers, assistant ministers, speaker, deputy speakers, chairman, government chief whip and leaders of opposition;

crop from provident or saving fund were exempted from tax under the business profit and remuneration tax act 1960.

Similarly, the tax officer was empowered to assess tax on best judgment estimation where tax return was not field or as false return was field the taxpayer had a right to appeal against the tax officer's assessment to the local 'bada hakim' or 'magistrate'. If he had not satisfied with the decision, he could appeal to the 'Revenue and tax court 'after depositing fixed amount. Profit from large industries was granted a rebate of 95 percent and profit from small industries were granted at a rebate of 50 percent. In case of defaults, the fines ranged from Rs. 500 to Rs. 5000 and for informants; there was a provision of 20 percent of total tax realized if the information had proved (business profit and Remuneration ac, 1960).

Many loopholes and inadequate provision were the main weakness of business profit and remuneration Act. Those were the basic reasons why this act was replanted by Income Tax Act, 1962. (2019). Income Tax Act, 1962 (2019) was an extension of the business profit and remuneration tax act, 1960 (2017). It had 29 sections. It was amended in 1972. The main features of this amended act were as follows;

- The personal as well as residential status of the tax payer for tax purpose was defined.
- The provisional was made to constitute the net income assessment committee with five members.
- The basis was specified for assessing tax on the best judgment estimate of the tax officer.
- Income was defined as all kinds of income including pation, house and land rent, investment in case or kind, agriculture, insurance business, agency and other source.
- Agriculture income was brought under the scope of income tax for the first time

- Carry forward of losses was allowed for a period of two years.
- Tax payment could be installments as well as advance payment.
- Provision was made for re-assessment of tax as well as rectification of arithmetical errors.
- In agricultural income, only ¼ of the total income was net earning and remaining ¾ of the total income as expenditure while in case of net earning from rent of house and land, from investments and from professions 90 percent. To total income was taken as net earning and 10 percent as expenditures (Income Tax Act, 1962).

The Finance Act, 1966 (2023) was also not for from weakness, in order to keep the law in tune with the changes in the socio-economic environmental milieu of the country. The need was felt for consolidating and amending the existing income tax hence, Income Tax Act 1974 was introduced.

Income Tax Act, 1974 (2031) had been implemented in place of Income Tax Act, 1962 (2019). Its basic framework had been derived from previous act and it had 66 sections with clear cut provision of self assessment, carry forward of losses for three years and precise definitions of related terms like tax, assessment, carry forward of losses for three years and precise definitions of related terms like tax, assessment of tax year of income, income of non residence taxpayers ect. This act was amended in 1977, 1979, 1980, 1984, 1985, 1986, 1989, and 1992 to make it more practical and to eliminate confusing terms. In this act, certain provisions were added and some provisions were amended form to time to time so the Income Tax Act 1974 had become more scientific and better organized with the progress of time. Nepal Government enacted the income tax rules 1982 (2039) in accordance with the authority given under section 65 of Income Tax Act,

2031. Beside this act and the rules, the current Finance Act was also equally applicable for proper administration of income in Nepal.

Although, income tax 1974 (2031) was far ahead than the previous act, yet it had many deficiencies and weakness. It had used many vague or unclear words like ‘reasonable’ appropriateness etc. It has also provided high discretionary powers to the tax officer in the matter of tax assessment.

Income Tax Act, 2058 has been enacted to avoid the following defects of Income Tax Act, 2031:

- Income Tax Act, 2031 had narrow tax base. Global incomes of residents were not brought in to tax net. Only the incomes originated in Nepal were taxed.
- Income tax related matters were governed by various acts. Dispersion of tax related acts had arises confusion in the effective implementation of the act.
- There were no clear provisions regarding taxation of capital gains. The act was also silent with regard to international taxation.
- The terminology and provisions in the act were inadequate. Many import provision required to be in modern taxation system were looking.
- The fine and penalty imposed by the act were very low. As a result, the level of voluntary compliance had decreased substantially.
- There was a weak mechanism to control the tax avoidance scheme of income, etc. The tax office had had no free access to information.

2.1.10 Income Tax Act, 2002 (2058 BS)

Income tax is levied on consideration payment made for the provisions of labor (employment income) or capital (investment income) or combination of both (business income). Income Tax Act, 2058 (2002) has excluded casual receipts such as prizes, lotteries etc. (expect those receive in connection with employment, business of investment) from the definition of income for the purpose of income tax. Income Tax Act, 2058 has been implemented from 19/12/2058 BS. This act has replaced the Income Tax Act, 2031 (1974), and other acts related to income tax. Nepal government enacted income tax rules 2959 BS in accordance with the authority given under section 138 of Income Tax Act, 2058 has dismissed the section 66. There are various additional provisions in this act.

Income Tax Act, 2058 has been enacted with wide perspective. Various new concepts are introduced in this act as compared to Income Tax Act, 2031 many of the concepts put forward in this act were not prevailing at Nepalese tax culture.

The key features of Income Tax Act, 2058 are as follows:

- The act has broadened the base. Unlike previous tax act, rats are spelled out in the act, the tax rates and concessions are harmonized on equity grounds.
- Income Tax Act, 2058 has classified income into three headings (a) business (b) employment and (c) investment.
- All income tax related matters are confined within the act by abolishing all tax related concessions, rebates and exemption from the income tax net.
- The act has introduced a pool system of charging depreciation; a provision has also made for depreciating intangible assets. Assets are broadly classified into five categories. The depreciation rates are 5 percent, 25 percent 15 percent, for pool a, b, c, and d respectively which are based on diminishing balance method of depreciation, for e, the rate is based on starting ht-line method.
- The act has provided liberal loss set-off and carry forward/backward provisions. Inter-head adjustments of losses are clearly specified. Such provisions have been made from international perspective.
- The act has separated administrative and judicial responsibility be distinguishing civil liabilities of the taxpayer from criminal liabilities. This act has introduced the concept of administrative review to correct the administrative mistakes. The Inland Revenue department does not give its decision within the given time limit; the taxpayer may appeal to the revenue tribunal.
- The act has first introduced the taxation of capital gains. Capital gains are taxed explicitly under act after four decades of the introduction of income tax. In case capital gains; only the gains from the causal sales of real property (land and building) and securities are subject to capital gains tax at a flat rate of 10 percent. There is also a clear provision for adjusting net loss during the fiscal year.

- The act has made provision for a stringent fine and penalty for the defaults. There have been made provisions the punishment in the up to Rs. 300,000 and imprisonment on conviction up to 3 years.
- Global income of a resident are made taxable. Non resident whose place of abroad is in Nepal and who lives in Nepal at any time or who lives Nepal for 183 days or more within the income year or who is an employee of NG posted abroad during the income year.
- This act has given the option for husband and wife as a separate natural individual until they don't accept as a couple.
- The Inland Revenue department is responsible for the implementation and administration of this act.
- This act focuses on the self-assessment system and every assessment in treated as a self-assessment. The tax officer can determine only the amended tax assessment within 4 years. The Jeopardy assessment is essential when a person becomes bankrupt is about to leave Nepal forever or to close down activity in any department of in Nepal.
- The act has first introduced a provision for administrative review to allow the tax administration to correct mistakes made by the tax administrators internally.
- List of expenses are includes. All expense relating to income have been made admissible.
- The Act has made provision for international taxation. Foreign tax credit had been introduced for the first time.
- This act has introduced the concept of medical tax credit under which resident individuals may claim a medical credit or 15percent of the amount of approved medical cost.
- When Income Tax Act, 1974 (2031) was in practice, there were several exemptions and deductions provided by the act and other related acts. But now,

there is no more exemption and deductions except the ones provided for the by the act.

- Presumptive x is limited to the smell taxpayers whose annual net income is up to Rs. 120,000 or annual turnover is up to Rs. 1200,000 and are subject to flat annual faxes.
- The act has based on global income tax principle and as brought all sources of income into the tax net and has related in an equal manner, this act has abandoned the itemized system of deduction and expenses are taken into account on a global manner not on a line-by-line basis.
- The penalties are divided into two parts. The tax office can levy only fines and interested and the court can levy penalties an imprisonment.
- The income of an approved retirement fund is free form tax. But retirement payments in the hands of employees are taxable.
- Investment insurance premium can be deducted as 7 percent insurance policy amount or Rs, 10,000 whichever is less.
- 7 percent of depreciation based amount of end of the year can be deducted as a repair and maintenance expenses and unreduced amount can be capitalized or excess repair and maintenance expenses can be added to depreciation based amount of coming income year.
- Donation amount can be deducted as a 5 percent of adjusted income or Rs. 100,000 whichever is less.
- A person can deducted pollution control expenses and research and development expenses up to maximum 50 percent of adjusted taxable income of total business run by him.
- A resident person may claim a foreign tax credit for any income year for any foreign income tax paid by the person to the extent to which it is paid with respect to person’s assessable income for that year.

- This act has determined the rate of income tax itself for the first time, which used to be determined by the Finance Acts in the previous year.

2.1.11 Objectives of Income Tax Act, 2058

In very country the government collects its revenues through different sources. Out of which taxes contribute a significant amount in the public revenues. The government mobilizes its revenue through budget in development programs, daily administration, peace and security and public interest. Thus, the good tax policies are considered as tools of social and economic revolution. The mail objectives of Income Tax Act, 2058 are as follows: (Income Tax Act, 2058: of Nepal Government)

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

2.1.12 The Need of Income Tax Act, 2002 (2058 BS)

In development country, capital for formulation stands as the basic need to exploit the available natural resources, which enable the countries to run on the path of economic development. In the context of Nepal, the capital formation has become the vital requirement for its economic development. So the government has to emphasize on sound capital formation policy, income tax has been playing a significant role in the economic development of a country. Apart from foreign trade, to break out the vicious circle of poverty and strengthen the economy there is need of vigorous taxation. Income tax is regarded as a positive instrument of resource mobilization for the development plans of the public sector and principal function of taxation lines in raising the volume of public savings, which used for capital formation.

Income Tax Act, 2031 (1974) had a narrow tax base. Global incomes of residents were not brought into tax net. Only the incomes organized in Nepal were taxed. It was also considered that Income Tax Act, 2031 is in appropriate and adequate in the present context. That act was bases on several traditional contexts. For example, it was bases on the official's assessment system. It specified deductible expenses, it adopted itemized depreciation method, and it followed previous year basis. It did not cover many aspects of a modern income tax system. That law did not make adequate provision regarding the capital gains and loses, transfer pricing this capitalization, retirement fund. Merger and double appeal systems in the Income Tax Act, 2031. The taxpayers were allowed to lodge an objection against assessment with the Revenue Tribunal or the Director General. The director General was empowered to act as a court and there were complaints that he used to make decisions in favor of tax officers. There were no provisions for administrative review. The accounting method was not prescribed in the Act. Despite the provision of self-assessment in the act, it had not been implemented properly. The self-assessment was more in name than in practice.

The government needs revenue to perform development welfare programmes of the nation. The previous Income Tax Act also lacked precision and clarity. Further, several provision were introduced through restricted departmental circulars. Taxpayer did not know about them. Many issues were not clear, which related conflict between taxpayers legislation, including the Finance Act, the industrial Enterprises Act, the petroleum Act.

The employees Provident fund Act, the Citizen Investment Fund Act, Nepal Rastra Bank Act. The structure of the previous Income Tax Act was also defective as well. All relevant procedures relating to a particular aspect were not put together. They were scattered through out the act.

The previous Income Tax Act made provision for tax deduction method while tax treaties follow the tax credit system. Under the former system, foreign tax is deducted from taxable income while under the latter system foreign tax is deducted from the tax liability. Similarly, the act adopted previous basis, itemized deduction and depreciation methods. All these aspects were needed to be changed to streamline the income tax system. Besides, it was necessary to introduce many new provisions to match the Income Tax Act more than the amendment of the act.

Laws are not static. They must always move with the need of society. In order to improve many shortfalls of previous tax laws, the government has felt the need of effective and generic tax system. The new Income Tax Act is introduced to mobilized and reform tax system in Nepal, the purpose of bringing new tax law while replacing old one is to widen tax base in order to raise government revenue and lowering tax rates on one hand and to incorporate new taxation theory and system on other hand thereby making tax system more systematic and modern.

The new Income Tax Act, 2058 B.S. has intended to modernize tax system by adopting new and global concept in it. It has defined the tax net in clear way thereby bringing many types of investment income and fringe benefits with the net of taxable income. It has scientifically classified the assessable tax income in three categories such as income generated through Business activities, employment and Investment. It has incorporated the concept of capital gain as taxable income, which was not being tax under previous tax law.

2.2 Review of Articles, Reports and Books

2.2.1 Review of Articles

Dr. Govinda Bahadur Thapa (2001), wrote an article entitled practical issues to income taxation in Rajaswa. In his article, Thapa has focused that income tax is an important source of revenue collection for the government. This tax is no t only for revenue but also for attaining equity. This article analyses and explains the theoretical basis to settle the income tax practical issues. However, being a direct tax on incomes and profit. These are several practical issues to be settled before it becomes revenue productive as well as equity achiever.

Puspa Raj Kandel (2001), wrote an article entitled "draft of Income Tax Act, 2002 critical Analysis" in Rajaswa. He has criticized the Income Tax Act, 2002 in different aspects, exemption of agriculture income form income tax, expert duties levied income (i.e. tax on interest, dividend and capita gain), withdrawal of the provision of exemption on export goods and services, inequity between different capital gain suddenly and no tax adjustment for inflation are the major issues he raised in his article.

Chandra Mani Adhikari (2001), wrote an article entitled "Issue and reforms in Nepalese income tax administration" in Rajaswa,. He explained the need to tax policy that plays a vital role in the whole fiscal policy. He has presented the issue in Nepalese tax administration. Such issues are tax structure, major sector of income sector of income tax, trend and growth of income tax. He has accepted that Nepalese income tax system is waiting for a comprehensive and integrated taxation plan and a scientific implementation of the same by of reform.

Similarly, Adhikari explained the types of income tax gap, which are investigation and identification gap, return filling gap, assessment and collection gap. He tries to declare the mission, vision and activities of internal revenue department and the also provides the some related suggestions for achieving al the practical purpose, objective and goals.

2.2.2 Review of Reports

Bhawani Dhungana (1976), the research officer of CEDA has analyzed the income tax of Nepal. The report was published by CEDA entitled "The analysis of tax structure in Nepal". The report has declared that contrary to developed economy where tax policy tends to accept the ability of tax system in mobilizing the financial resources. The report has also claimed that the administration of income tax has been improving because there has been an increment of tax by 23.5 percent between 1969/70 to 1975/76 and tremendous progress in assessment has been made. The time period covered by this research was 14 years from FY 1961/62 to 1974/75.

G.R. Agrawal (1978), CEDA published a report "Resource Mobilization for Development: The reform of income tax in Nepal", prepared by a research team headed by G.R. Agrawal. It has mainly dealt with the necessary of resource mobilization in Nepal through of Income Tax.

It showed the growing resource gap since the FY 1951/52 onward and sought the way of filling it up. For this, they calculated elasticity and buoyancy of major Nepalese taxes with base GDP, using the series of different tax revenue from the FY 1967/68 to the FY 1975/76 for measuring their productivities. It deals with some of the theoretical aspects concerning source mobilization through taxation in developing nation legal aspects of income tax in Nepal and suggestive measure for the reform. Similarly, he summarized the findings of empirical investment including the important methods for mobilizing Administrative efficiency, widening tax base and changing tax rate structure. In has study, Agrawal and his tam have pointed out various findings which some are as follows;

Income tax has been a fast growing category of tax revenue in Nepal.

More than 50 percent of the total income tax revenue was contributed by the individual's tax payers.

Needs for additional resource mobilization were growing by 85 times in Nepal and experiencing a serious and growing problem of resource gap.

Income tax administration in Nepal suffered form a number of interacting and inter-related problems, which have badly affected its productivity

The main defects of the income tax administration the proper accounts, delaying assessment, poor taxpayer compliance, evasion and avoidance of tax and defective management.

Buoyancy of income tax with respect to GDP for period 1967/68 to 1975/76 was 2, 18 and elasticity was greater than unity; income tax in Nepal was positively responsive to change in GDP.

2.2.3 Review of Books

Kedar Bahadur Amatya (1965), wrote a book entitled "Nepalma Ayakar Byabastha". The book is simple description of Nepal Income Tax Act, 1962. At present, all things motivated by Amatya in this book are not suitable; it has only become the historical document in the field of income tax. In his book, Amatya has analyzed, basically, the legal aspect of the income tax and he also gave some examples how taxable incomes are derived from different sources of income.

Dr. Govinda Ram Agrawal (1980), wrote a book “Resource Mobilization in Nepal”. His main contribution form this book is concerned to the empirical investigation of facts and measures about the income tax in Nepal. Dr. Agrawal contributed towards the new dimension outside of Nepalese income taxation.

Similarly, Dr. Agrawal, in his book, details explain about resource mobilization through income tax, effective tax system and tax policy, income tax system in Nepal, role of income tax in Nepal role of income tax in Nepalese tax structure, administrative and legal aspect of income ax in Nepal. He also explains about the Nepalese fiscal policy in Nepal in his book.

Santosh Raj Poudel and Prem Prasad Timalsina (1990), wrote a book entitled "Income tax in Nepal". This book has been writing on the Income Tax Act, 2031. This book was mainly written of the course requirement of bachelor's level in management. This book is not relevant today but some description, analysis and historical aspects can be drawn for the stubby in this book. Poudel and Timalsina have give a detailed computation of income from various sources and also described other theoretical income form various sources and also described other theoretical aspects of income taxation.

Similarly, Neagendra Bahadur Pradhananga (1990), has written a book entitled "Income Tax Law and Accounting." In this book, Pradhananga has illustrated the process, provision and methods to assess the income tax from income from various source is the provision under Income Tax Act, 2031. This book is only the legal aspect of income tax but he has not analyzed the defects, problem and role of income tax to the nation economic development. He has only explained the provision relating to income tax of Nepal in this book.

Santosh Raj Poudel (1993), wrote a book entitled "Income Tax Law and Practice". This book has been divided in nine chapters. In his book Poudel has described the meaning of income tax law, direct and indirect tax, brief history of income tax in Nepal, types of taxpayers, industrials, Enterprises, Act, 2049, income from remuneration. The book is based on B.Com. Syllabus. Many practical problems have been solved in accordance with practices followed by tax office. It is only for concept and practical ideas of income tax to the students of Bachelor's level; it does not provided complete information of legal provision of taxation system in Nepal.

Rup Bahadur Khadka (1994), has published a book entitled "Nepalese taxation path of reform". In this book he ahs described the economic policy of Nepal, property taxes as the major source of local revenue, improvement of tax administration, tax reform strategy as well as income tax and composition of tax revenue form the FY 1950/51 to 1991/92. He has covered existing major problem of income tax as follows: weak tax administration, unscientific tax assessment, narrow tax coverage, deviation form basic principle if income taxation, defective system form the perspective of international taxation. His possible direction for reform was extension of tax coverage, improvement in tax assessment, use of presumptive method, extension of withholding tax, inflation adjustment, introduction of current year payment basis, tax treaties with the major trading partner of Nepal. He has identified the major problem as well as suggestive measure for tax administration. His book was very helpful to know about various aspects of income tax in Nepal, although, he has not shown any numerical illustration and has not mentioned the legal provisions relating to income tax.

Narayan Raj Tiwari (1999), wrote a book entitled "Income tax system in Nepal". This book is related with Income Tax Act, 2031 (1974). This book is divided into 26 chapters and it has described the introduction of tax, theoretical concept of income tax, income tax system in Nepal, taxable income, Industrial Enterprises Act, 2049 and income tax, admissible and inadmissible expenses, income tax administration and tax official etc. However, the major problems in Nepalese income tax system, role of the income tax in economic development of Nepal are not shown in this book. The process, provision and methods to assess the income tax have been illustrated with numerical examples. Beside some major problems, others have not been analyzed in this book.

Prof. Dr. Chandra Mani Adhikari (2003), has written a book entitled "Modern Taxation in Nepal; Theory and Practices". He has discussed the provision under Income Tax Act, 2058 B.S. He has described not only the theoretical concept of taxation but also characteristics and sources of income tax. The writer also knows as tax administration has also focused the administrative. He has illustrated the method, process and provision to assess the tax liability from various sources but writer has fully based on campus level syllabus. He has tried to introduce the different aspect of tax planning including need and bases for successful tax planning.

K.P Aryal and Mr. Surya Prasad Poudel (2003), wrote a book entitled "Taxation in Nepal". This book is also designed as per the syllabus of BBS 3rd year have also included theoretical and practical aspects of taxation in their book. This book is base on Income Tax Act, 2002. This book is divided into three parts. The methods of assessment of income tax have boon dealt with numerical illustration. This book does not provide complete information about all aspects of income tax system of Nepal.

Dr. Puspa Raj Kandel (2003), published a book named "Tax Law and Tax Planning in Nepal". This book is related with Income Tax Act, 2058 but it is fully bases on campus level syllabus as prescribed by Tribhuvan University, he has described the of taxation, classification of taxes, historical development of Income Tax Act in Nepal in detail and also presented special provisions for natural person, entity. Banking and insurance business and retirement fund in the new act. 2058. Similarly, he has also described about classification of taxpayer, exemptions admissible and inadmissible expenses, capital income capital expenditure capital loss, sources of income and tax authorities etc. The process, provision and methods to assess the income tax from income various sources have been illustrated with numerical example. Similarly, he wrote a book entitled "Nepal to Bartaman Kar Byabastha" for BBS 3rd year.

Surendra Keshar Amatya, Dr. Bihari Binod Pokharel and Rewanta Kumar Dahal (2003), wrote a book entitled "Taxation in Nepal". Theoretical as well as practical aspects of taxation have been included in the book. This book is a descriptive one, not analytical and also designed to meet the requirement of BBS 3rd year syllabus.

Ishwar Bhattarai and Girija Prasad Koirala (2003), published two books named "Taxation in Nepal" and "Tax Laws and Tax Planning". First book has been designed in conformity with the syllabus of BBS 3rd year and the second one has been designed based on the syllabus of MBS 2nd year. The books are very useful and related with new tax Act, 2058. Relevant theoretical and practical aspects have been discusses in the books. The book named Taxation in Nepal" is divided into three parts and twenty-two chapters. The writers have shown how taxable incomes are computed under employment, business and investment sources under the new Income Tax Act, 2058.

2.2.4 Review of the Thesis

Chudamani Siwakoti (1987), wrote a thesis entitled "An Analytical study of Income Tax in Nepal". As per this study, the major problems of Nepalese income taxation are income tax evasion at high rate, delay in assessment, insignificant role of income tax in total tax structure, lack of public information about tax, complicated act, etc. In the finding of his study he has stated progressive tax, honest and efficient tax administrators and research units in tax administration are the curtail things for revenue maximization through income taxation. According to Siwakoti's study, the gap between revenue and expenditure was increasing at faster rate due to slow increase in the rate of revenue.

Internal source plays vital role to bridge up the widening gap of sources and to fulfill the expenditure requirement.

Shiva Narayan Shahi (1995), wrote a thesis entitled "Contribution of Income Tax in National Revenue of Nepal". This thesis of Shahi was mainly centered with the real situation and share of income tax in national revenue of Nepal. The research design of this study was designed as historical cum descriptive. Shahi, in his study found that only 0.35 percent of total population came gender then categories of taxpayers during his study period. The time period covered by this study was twenty one year form FY 1974/75 to FY 1994/95. He also showed the contribution of income ax in the total tax revenue and total revenue was 9.95 percent and 7.94 percent respectively.

Dharma Raj Shakya (2004), wrote a thesis entitled "A Study on Income Tax Act, 2002 (2058)". The main objectives of the study were: to examine the simplification of income tax assessment procedure; to find out the effectiveness of service delivered by the tax administration to the taxpayers; to analyze the taxpayer's response regarding to their duties and fights; to review the provisions of minimizing the tax evasion and avoidance under the Act; to review the provisions regarding to the minimization of corruption in the tax administration under the Act; and to view the structure of government revenue and position of income tax. This study was fully based on new Income Tax Act, 2058. Shakya, in his study, has found that tax evasion and avoidance are major constraint of resource mobilization through income taxation. Reason for widespread tax evasion and avoidance are inefficient tax administration. Poor tax morality and taxpayer's to maintain account, poor enforcement of fine and penalties, in appropriate Income Tax Act and laws, etc. Similarly, he also found that as per opinion survey significant changes in service delivery of income tax administration have not seen. Nepalese taxpayers are not so sincere to response their duties corporate tax is reduced tax evasion can be reduced more foreign investors can be attracted to invest in Nepal and as well as he trend of Nepalese young generation to fly abroad for job and better life can be reduced. However, Shakya can not fulfill the all his objectives in his research.

Durga Prasad Ghimire (2004), wrote a thesis entitled "Income Tax in Nepal: Its Structure and Contribution form public Enterprises to Government Revenue". He has found that there is poor tax paying habit of Nepalese people basically due to the little knowledge of tax and its importance, wide spread practices of illegal business, defective tax administrative system and complexity of tax laws and policies. Similarly, he has also found that there is corrupt practice existed in Nepalese income tax administration. Weakness of acts, rules and regulation dishonest tax personnel as well as tax payer's lower remuneration to tax personnel, political pressure and the major causes of corrupt practice existed in income tax administration of Nepal. Ghimire has recommended that government should by implementing the acts, rules and regulations effectively. Similarly, Ghimire provided the following suggestions were made to minimize the corruption:

- There should be severe actions to corruptors,
- Check and balance system should be developed,
- Additional incentives to tax personnel should be provided,
- Tax officer's discretionary power should be reduced,
- There should be regular supervision to tax personnel,
- Tax department should be free form political pressure, etc.

The following suggestions were given for minimizing the wide spread evasion of Income Tax:

- Enforce tax laws effectively and plug loopholes,
- Control illegal business activities especially at open borders with India,

- Strict actions should be taken against tax personnel who encourage tax evasion. Honest and efficient tax personnel should be reward, etc.

Suresh Kafle (2004), wrote a thesis entitled “Income Tax Contribution form Nepalese Public Enterprises with Reference to Nepal Electricity Authority”. Kafle has analyzed the share of income tax from NEA in total tax revenue, in direct revenue, on income tax revenue, on corporate income tax etc. Kafle has found that the contribution of income tax revenue from NEA in total tax revenue and government revenue is 0.26 percent and 0.21 percent respectively in the FY 2001/02. The contribution of income tax from NEA to total income tax revenue has also been fluctuating. He has also found that income tax collection and assessment of income tax from PE have some problems. They are: PE’s are not aware in timely auditing, no full transparency, irresponsibility of concerned officer to comply with legal requirement. He has suggested that Income Tax Act, rules, and regulation should be clear and simple for all taxpayers as well as tax administrator.

Deepen Raut Chhetri (2004), wrote a thesis entitle “Income Tax System of Nepal and Its Contribution to Revenue Collection”. The main objectives of this study were: to examine the share of income tax revenue; to analyze the effectiveness of tax administration in income tax collection; to find out the problems relating to revenue collection form income tax; and to suggest some measures to improve the effectiveness of Income Tax Act. Chhetri has found that income tax can be taken as a better source of government revenue to develop the economic condition of Nepal; a major source of weakness in the tax administration of Nepal is the lack of organizational and individual incentives; Nepal’s tax system have significantly improved, both quantitatively and qualitatively, due to changes in policy followed by required adjustments, in tax laws. He has recommended that there should be a policy to develop the efficient, fair and equitable tax administration in order to increase the income tax revenue. Similarly, he also suggested that to make the tax administration capable of facing new challenges, there should be improvement in professionalism as well as development of new professional ethics compatible to the changed context of liberalization.

Bhakti Ram Ghimire (2005), submitted Master thesis entitled to “Income Tax Assessment Procedure in Nepal under New Income Tax Act 2002.” He covered the study with the objective of i) to make review of legal provisions relation to income tax assessment procedure in Nepal ii) To analyze the contribution of income tax to national revenue of Nepal iii) to analyze the view of taxpayer, tax- experts and tax-officers about income tax assessment procedure iv) To examine the reasons for poor tax morality and tax payer’s compliance in Nepalese people v) To recommend possible measure. To fulfill the above objective he has used both primary and secondary sources of data.

He found that income tax is an effective tool to reduce the gap between rich and poor wide spread evasion of tax, small member of tax payer, defective government expenditure programs , poor tax paying capacity, lack of tax consciousness are the main causes o ineffectiveness of income tax in reducing the gap between rich and poor. Income tax assessment procedure also seems ineffective. Due to lack of adequate information about income assessment, taxpayer want to escape paying tax, lack of proper recording system in tax administration and non maintenance of books of account by the taxpayer are considered as the major problems in income tax assessment procedure.

He recommended that a research and intelligence centre should be established in each tax office for proper planning and to collect the information in regard to income tax evades potential new taxpayers and non residents who have conducted business without registration effective public participation is necessary to minimize the income tax evasion.

Ghimire has focused on the assessment procedure of income tax and contribution of income tax to national revenue. But he has failed to explain about the implementation of income tax, implementation problems and areas to reform.

Saroj Regmi (2006), was presented master degree theses entitled “Effectiveness of Remuneration Taxation in Nepal”. This study has covered objectives with (a) To assess the present position and contribution of remuneration tax on public revenue in Nepal (b) to identify the major problems and weaknesses regarding to increase effectiveness of remuneration taxation in Nepal (c) To check out the major facilities provided by the income tax act, 2058 on the remuneration taxation and (c) To recommend possible measures required to improve effectiveness of remuneration taxation. To full the above objectives Regmi has used the primary as well as secondary sources of data. He has taken 90 total sample size from tax administrators 30, tax experts 30 and employees 30.

He found that in Nepalese revenue structure, tax revenue has always been greater than three times of not-tax revenue. In 1994/95, out of total revenue of Rs. 24,605.20 millions, 79.90% i.e. Rs. 19,660.00 millions has been contributed by tax revenue. In 2003/04, 77.29% i.e. Rs. 48,173.00 million so total revenue has been collected as tax revenue on total revenue of Rs. 62,331.00 millions. According to his major findings from primary data, remuneration tax is contributing significantly to the income tax revenue of Nepal. Income tax evasion is being practice with hiding the situation of double employment condition.

He has recommended that mainly tax administrator should be motivated to do something for the nation. They should strictly implement the rule and regulations. They shouldn’t take tax of monitoring is only for formality. Effective implementation of the provision of fines, penalties and punishment should be made for income tax defaulter.

Regmi has only focused on the effectiveness of remuneration taxation in Nepal. He could not have explained about the implementation problem, reform of income tax, reform areas of income tax. But, this study has focused on the implementation of scenario of income tax in Nepal, implementation problem of income tax, reformation, reform areas and contribution of income tax to public revenue has focused. So, this study is different from the previous study.

2.3 Legal Provision of Income Tax Act, 2058

Income Tax Act, 2058 has replaced the previous Act, 2031, which was carried for twenty eight years. The act 20 Act, 2058 has replaced the previous Act, 2031, which was carried for twenty eight years. The act 2058 has 24 chapters and 143 sections plus schedules. In the Act, there are so many types of additional and new provisions have been made which can not found in previous act, 2031.

Change in world economic policy and advancement in information technology has a vast impact on Nepalese economy too. Small economics like Nepal have to adopt the economic policy followed by World Bank, International Money Fund, Asian Development bank and other international agencies. Especially, after 1990s there is re-emergence of the liberalization, globalization and privatization system that focuses on the minimum intervention of the state no private economic matters. The 1950's concept of high tax rate is changed to the concept of low rate, wide net. This trend in tax system is followed by most of the counties of the world. Nepal also is not an exception in this respect and Nepalese administrators and policy makers too have tries to change the tax policy of the country. Income Tax Act, 2058 is the result of the change in all these matters.

2.3.1 Meaning of Basic Terms use din Income Tax Act, 2058

1. **Income:** Income means a person's income form any employment, Business, or investment and the total of that income calculated in accordance with this Act.
2. **Income-Year:** Income year means the period form the 1st of Shrawan of a year to the end of Ashadh of the following year.
3. **Assessment:** Assessment is the process of ascertaining the tax liability. It is the process and art of checking the documents in which the details of calculation of income and tax are recorded. As per the tax law, it includes:
   a. Compulsory assessment that an assessee should made each year under section 99,
   b. Jeopardy assessment under section 100,
   c. Amended assessment under section 101 and
   d. Assessment of interest and fees under section 122.
4. **Assessment Year:** Assessment year denotes the year in which the tax is assessed. According to Nepali calendar, it starts for 1st Shrawan and ends on last Ashadh of nest year. The income of previous year is taxed in this year as per the rate given in the Finance Act of that year.
5. **Business:** The term business includes an industry, a trade, a profession, a vocation, an office, and an isolated transaction with a business character or a past. Present or protective business and the conduct of electronic commerce the law has classified that business des not include employment. It also includes the service industry.
6. **Tax:** Tax means in the tax impose under this Act and includes the following payments:
   a. As mentioned in Clause 104 (8) sub clause (a); the expense incurred in relation to claims or performing auction of the property of a tax creditor by the Department.

b. Amount payable by a withholding agent or withholder under Clause 90, or amount payable by an installment payer under clause 94 or the amount payable as per tax assessment under clause 99, 100 and 101.
c. Amount payable to the Department in respect of a tax liability of a third party under clause 107 (2), 108 (3), or (4), 109 (1) and 110 (1).
d. Amount payable by way of interest and fees under chapter 22 and
e. As per clause 129, amount payable by way of fines as per the order of the department.

7. **Final Withholding Payment:** final withholding payment means a payment of Dividend, Rent, Gains, Interest and Payment made to a non-resident person on which tax deduction ahs to be made as per clause 92.
8. **Retirement Fund:** retirement Fund means any entity established and maintained solely for the purpose of accepting and investing retirement fund contribution sin order to provide retirement fund payments to individuals who are beneficiaries of the entity or development of such and individual.
9. **Company:** company means a company established under the prevailing company law and the following institution shall also be related as company for tax purpose:

a. Corporate body established under the prevailing law, any unincorporated association, committee, institution, society, or registered and non-registered proprietorship firm and other than partnership all individuals groups or trust,
b. A partnership firm (whether or not registered under the prevailing laws) that has 20 or more partners a retirement fund, a co-operative, a unit trust, or a joint venture,
c. Foreign company, and
d. Any foreign institution prescribed by the Director-General.

10. **Tax Assessment:** Tax assessment means an assessment of tax to be make per this Act and it includes an assessment of interest and fees made under clause 122 of this Act.

But the term does not include the regular tax assessment that has been replaced by the amended assessment under clause 101.

11. **Non-resident person:** Not resident person means a person who is not resident.

12. **Non business chargeable asset:** Non-business taxable asset means securities or interest of an entity as well as land and building but excludes the following assets:
    a. Business assets, depreciable assets, or trading stock,
    b. A private residence of an individual that has been
        i. Owned continuously for three years or more and
        ii. Lived in by the individual continuously or intermittently for a total of three years or more.

13. **Tax Exempt organization:** Tax Exempt organization means the following entities:
    a. Following organization that are registered in Inland Revenue Department as tax exempt organizations:
        i. A social religious, educational, or a charitable organization of a public character registered without a profit motive,
        ii. An amateur sporting association formed for the purpose of promotion social or sporting facilities not involving the acquisition of gain,
    b. A political party registered with the Election Commission,
    c. A Village development committee, municipality or district development committee,
    d. Nepal Rastra Bank,
    e. Nepal Government, etc.

14. **Trust:** Trust means provision, under which a trustee holds assets, but this term does not include a partnership, a corporate body, or an entity of the type of referred to in sub clause (3) section (m).

15. **Assets:** An asset is an item of useful or valuable property. The tax law defines assets as a tangible or intangible asset that includes currency, goodwill, know-how property,

and an owner's interest in a foreign branch, a right to income or further income and a part of an asset.

Income Tax Act, 2058 has hade the provisions of four types of assets. Namely: Trading stock, Depreciable assets, Business assets, Non-business chargeable assets and other assets.

16. **Relative:** Relative implies a spouse, children (including adopted children parent's grandparents, siblings, aunts, uncles, nephews, nieces, grand children, brother in laws, and sister in laws and mother in laws of an individual.
17. **Lease:** Lease means a temporary right of tone person in relation to the asset of another person. Other that money and this includes license, option, and rental agreement royalty agreement or tenancy rights.
18. **Disposal:** Disposal means disposal of an asset or liability including sale or transfer as per clause 40.
19. **Entity:** Entity implies the following institutions or organizations:
    a. Partnership, trust or company;
    b. Village development committee, municipality or district development committee;
    c. His Majesty's Government;
    d. A foreign or politics subdivision of the foreign government or a public international organization established on the basis of a treaty;
    e. A permanent establishment as per sub clauses (1), (2), (3) and (4) that is now suited in the country in which the individual is resident.
20. **Payment:** Payment means the following transactions:
    a. The transfer by one person of money or an asset to another person or transfer by one person of a liability to another person;
    b. The asset created by one person if on creation is owned by another person or when the liability of one person is borne by another person;
    c. The provision by one person of services to another person; and

d. The use or availability for us of an asset owned by one person to another person to another person.

21. Employment: Employment denotes past, present or prospective employment.

22. Investment: Investment means an act of holding or investing one or more assets excludes the following:

a. The act of holding assets for personal use by the person owing the asset or investing amount on such assets, or

b. Employment or business, but the act of holding non-business taxable asset is taken as investment.

23. Dividend: Dividend means distribution made by an entity;

24. Resident person: Resident person denotes the following persons with respect to an income-year:

a. In the case of an individual,

   i. An individual whose normal place of above is in Nepal;

   ii. Who is present in Nepal for 183 days or more in the 365 consecutive days; or

   iii. An individual who is posted abroad at any time during the income-year by Nepal Government;

b. Any partnership Firm;

c. In the case of the trust, a trust that:

   i. It established in Nepal;

   ii. Has a trust that is a resident person for the income – year or

   iii. Is controlled directly by a resident person for the income – year or through one more interposed entities of a group of persons one of whom is himself/herself.

d. In the case of a company, a company that:

   i. Is incorporated or established under the laws of Nepal; or

ii. Hs has an effective management in Nepal during any income – year;

e. Nepal Government.
f. Village development committee, municipality or district development committee,
g. In the case of a foreign government or a political subdivision of the foreign government, such an entity:
    i. If it is established under the laws of Nepal; or
    ii. Has had an effective management in Nepal during any income year.
h. Any institution or an entity established under any treaty or agreement.
i. A foreign permanent establishment situated in Nepal or a non-resident person

25. **Person:** Person means as individual or an entity

26. **Interest:** Interest is the return for loan or investment. As per the new Income Tax Act, interest means the following, payments or gains:
    i. A payment made under a debt obligation. But the repayment of capital is not interest;
    ii. Any gain by way of a discount, premium, swap payment, or other similar mediums falling under debt liability; and
    iii. The portion which is treated as interest in the payment made to person under an annuity or installment sale finance lease.

27. **Adjusted Taxable Income:** Adjusted taxable income means the taxable income before deduction of permitted amount for donation under Sec. 12, providing for expenses on interest as per Sec. 14 (2), pollution control cost under Sec. 17, and research and development expense under Sec. 18.

28. **Partnership:** Partnership means a firm (whether registered or not) that has less that 20 partners. But the term does not include a proprietorship firm (whether registered or not) or a joint venture.

29. **Retirement Contribution:** Retirement contribution means the payment or for the future provision of retirement payments.

30. **Individual:** Individual means a natural person together with any proprietorship with any fir (whether registered or unregistered) owned by the person, if any, and a couple making an election under section 50 (AC), i.e. opting to file a joint return by the couple where both of them earn income through remuneration.

2.3.2 Classification and Status of Assesses

2.3.2.1 Resident and Non-Resident

Income Tax Act, 2058 has given definition related to residency of individual and includes partnership, trust, company, government local entities and foreign permanent establishment of non-resident. The following points depict the conditions required for being a resident in Nepal as per new act.

1. An individual

- Whose normal place of above is in Nepal
- Who is present in Nepal at any time during the income-year or who is present in Nepal for more than 182 days in any period of 365 consecutive days of which 183 days fall within the income-year.
- An employee or an official of Nepal Government abroad at any time during the income-year.

2. A Partnership Firm
3. A Trust
   - If it is established in Nepal.
   - It has trustee is a resident person of Nepal for the income-year.
   - If it is controlled or through one or more interposed entities by a person or person’s one of whom is a resident person for the income-year.

- A company
- If it is incorporated under Nepal law,
- If its management was effective in Nepal during the year.

4. A village development committee or municipality or district development committee.
5. A foreign government or a political subdivision of the foreign government,
   - If it is established under the laws of Nepal; or
   - If it has had an effective management in Nepal during any income-year; and
6. Any institution or an entity established under any treaty or agreement a
7. A foreign permanent establishment situated in Nepal of non-resident person.

As per the act, all the taxpayers other than resident are non-resident.

2.3.2.2 Entity and Individual

Income Tax Act, 2058 has divided taxpayers or assesses on the basis of entity and individual. However, both of the taxpayers – individual and entity – come within the definition of person. Sec. 2 (AP) of the act says "person means an individual or an entity". Within the definition of person, individual means natural person i.e. human beings. According to Sec. (AC) of the act, individual means a natural person. It also denotes any proprietorship form, whether registered or unregistered, owned by the person, and a couple eligible as a single natural person to file joint return. In contrast, entity means legal or artificial person. As per Sec. 2 (x) of the act, entity implies the following institutions or organizations:

- Partnership, trust, or company;
- Village development committee, municipality or district development committee;
- His Majesty's Government;
- A foreign government of a political subdivision of the foreign government or a public international organization established on the basis of a treaty;

- A permanent established of no-resident company that is not situated in the country in which the individual is resident

Here we should remember that partnership according to Income Tax Act, 2058 is that partnership firm has 19 or less that 19 partners.

Entity includes the company and trust too. Here a company as per the Sec. 2 (M) means a company established under the prevailing company law. It also included following institutions within the category of company:

- Corporate body established under the prevailing law;
- Any unincorporated association, committee, institution, society, or registered and non-registered proprietorships firm and other than partnership all individual' groups or trust;
- A partnership firm (whether or not registered under the prevailing laws) that has 20 r more partners, a retirement fund, a co-operative, a unit trust, or a joint venture;
- Foreign company; and
- Any foreign institution prescribed by the Director-General.

2.3.3 Capital and Revenue Items

For the purpose of computation of tax one should know about the capital items like capital receipts, capital expenditure and capital loss and revenue receipts, revenue expenditure and revenue losses. It is needed because all revenue items come under the area of ordinary rate of taxation where as for some capital item special treatment is needed. The following liens throw some lights in this respect:

2.3.3.1 Capital and Revenue Income

All capital and loans raised by the business, receipts from the sale of depreciable assets if the sale value is less than the tax base of the concerned pool, income received against the source of income, recovery from insurance company against the loss of capital assets are all capital receipt. In contrast, amount received form the sale of circulating capital, recovery from insurance company against the loss of stock, in case of depreciable assets, the excess amount of sale value if it is more than the depreciation basis of the concerned pool and profit form the sale of business assets are all revenue receipts.

2.3.3.2 Capital and Revenue Expenditure

According to Sec. 21 of the Income Tax Act, 2058, expenses of a special nature come under capital expenditure. As per the act, the expenses of special nature are:

- Expenses incurred with regard to feasibility study, exploration, and development of natural resources;
- Expenses included in the acquisition of an asset with a gainful life exceeding 12 months; or
- Expenses incurred on the disposal of a liability.

The expenses more than the specified limit in case of interest paid to tax exempt controlling entity by its sister entity (Sec. 14), repair and maintenance expenditure (Sec. 16), pollution control expenditure (Sec. 17) and research and development expenditure (Sec. 18) are also of capital nature. According to Income Tax Act, 2058, all other expenses made to earn income by the same assesses in the concerned year (Sec. 13) are revenue expenditures.

2.3.3.3 Capital and Revenue Loss

As already stated, Income Tax Act, 2058 has classified into 4 categories stock, business assets, depreciable assets and non-business chargeable assets. Among them, the loss form stock, business assets and depreciable asset (If total disposal value of pool is less than depreciation basis of the concerned pool, in case the pool is dissolved) are revenue items. The loss from non-business chargeable asset is capital item and can be recovered only from the profit or capital item. The loss and profit form the disposal from other assets (other than above stated one) are not related to taxation.

2.3.4 Income Exempted form Payment of Tax

2.3.4.1 Exempt Organization (Sec. 2 S)

Exempt organization means any entity that should not pay tax legally. Organizations that are of not for profit earning are provided such facilities. Income Tax Act, 2059 has included following entities within tax exempt organization:

- A religious, educational, or charitable organization of a public character;
- An amateur sporting association for the purpose of promoting social or sporting amenities not involving in the acquisition of gain by the association or by its individual members
- A political party registered with the Election Commission;
- A village development committee, district development committee, metropolitan city, sub-metropolitan city, or municipality;
- Nepal Rastra Bank;
- Government of Nepal.

The Inland Revenue Department should decide whether an institute is liable to ay tax or not. For getting tax exempt position, the exempt organization should apply to IRD with documents like registration certificate of the institute, constitution of the institute, permanent account number if it has and audit report if is audited (Sec. 3 of the Income Tax Rules, 2059). IRD can also issue advance ruling relation to the nature of entities that should not apply for tax exemption (Sec. 4 of the Income Tax Rules, 2059). As per the law, there is also the provision of submitting audit report by the tax-exempt organization within three months of the end of the financial year (Sec. 5 of the Income Tax Rules, 2059).

2.3.4.2 Ordinary Exemption (Tax Exempt Amounts)

The following amounts are exempt form tax according to Income Tax Act, 2058 (Sec. 10):

1. Amounts derived by a person entitle privileges under a bilateral or multilateral treaty conducted by NG Nepal with any foreign country or international agencies.
2. Amount derived by an individual form employment in the public service of the government t of foreign country provided that:
   - The individual is a resident person solely by reason of performing the employment or is a non-resident person; and
   - The amounts are payable form the public funds of the country;
3. Amounts derived form foreign sources by an individual or member of his family who is not a citizen of Nepal.
4. Amounts derived by an individual who is not citizen of Nepal but employed by NG of Nepal in terms of a tax exemption.
5. Allowances paid by NG to window, elder citizens, or disabled individuals;
6. Amount derived by way of gift, bequest, inheritance, or scholarship other than stated in Sec. 7, 8 and 9.
7. Amount derived by an exempt organization as discussed earlier by way of gift or other contributions weather or not the contribution is made in return for consideration provided by the organization.
8. Amount received by Nepal Rastra Bank as per its objectives.

9. Amount received as pension form foreign government treasury by a Nepalese citizen as retired army and policeman.

   The incomes of recognized retirement funds are also out of tax net.

2.3.4.3 Personal Exemptions

(Reduction form taxable income)

Personal exemption of Rs. 100,000 for an individual and Rs. 125,000 for a couple filing joint return and widow or widower with minor children is such exemption. In addition to above given exemption level, the facility of remote allowance is provided to the resident person residing in remote area. The remote area exemptions are 30,000. Rs. 24,000, Rs. 18,000, Rs. 12,000 and Rs. 6,000 to A, B, C, D and E class remote areas respectively. From this financial year, life insurance premium of unto Rs. 10,000 or actual amount paid or 7% of insured amount whichever is less can be deducted as exemption. If an employee of government of Nepal is working in foreign mission, 75% of his foreign allowance is deducted from taxable income.

2.3.4.4 Business Rebates, Exemptions, Holiday and concession and Facilities (Sec. 11)

The following incomes are exempted from tax of a business firm:

1. Income derived form sources in Nepal during an income year by a person form agriculture other than those by a firm, company, partnership and organized entity of those stated in Sec. 12 (D and E) of Land Related Act, 2021 are exempt form income tax. Here, note that agriculture business means the business of production corps form public or private land as a result of personal labour, or deriving rent fro a tenant using land who produces corps form public or private land as a result of personal labour.

2. Incomes of co-operative registered under Co-operatives bases on rural community. Finance Ordinance for the year 2062/63 declared in Ashadh, 2062 has extended the facility to saving and credit co-operatives bases on municipalities lacking basic infrastructure development also, Facility of 50 percent rebate on income tax to be paid by saving and credit co-operatives of developed are also is provided. The dividend distributed by such organizations are also is provided, the dividends distributed by such organizations are also tax exempt, here, the incomes of co-operative includes only the income earned doing business within the members of the institution.
3. The income of cottage industries is also tax free. Here, cottage industry means production based labour intensive industries based on Nepalese customs, arts, culture using local skill and raw material. Such industries should not be related to dieing, carpet, pasmina and woolen garments. Accordingly, the industry should not use minor of more than 5 kilo watts of power.
4. The incomes of a person under micro credit groups operated by bank and financial institutions based in rural areas doing business of up to Rs. 10,000 annually.

2.3.5 Applicable Tax Rates

Income Tax Act, 2058 has included the tax rates applicable to different taxpayers within the tax law itself and amended in each year Finance Act. As per the law, the rates and exemptions applicable of different types of taxpayers are as follows:

2.3.5.1 Natural Resident Person

1. Exemption Limit:

- Individual Rs. 100,000
- Couple and widow or widower with minor children Rs, 125,000

2. Tax Rates:

Resident Individual	
For first Rs. 75,000 above exemption	15 percent

For more than Rs 75,000	Rs. 11250 + 25 percent on amount more than Rs. 75,000
Resident Couple	
For first Rs. 75,000 above exemption For more than Rs. 75,000	15 percent Rs. 11250 + 25 percent on amount more than Rs. 75,000

2.3.5.2 Entities

There are different rates of taxes applicable to different types of entities. Some provisions are as follows:

- The taxable income of an entity for an income year is taxed at the rate of 25 percent;
- The taxable income of a petroleum industry of bank or other financial institution for an income yea is taxed at the rate of 30 percent.
- Income of industrial enterprise which is engaged in an industrial activity related to a special industry or which is relate to an infrastructure project like road, bridge, tunnel rope way, or flying bridge constructed by the entity or any trolley bus, or train or income form export is taxed at the rate of 20 percent. Note that according to section 3 of the Industrial Enterprises Act, 1992, special industry means an industry of a type other than an industry producing cigarettes, bidi cigar, chewing tobacco, khaini, or other goods of a similar nature using tobacco a the basis raw material; or alcohol, beer, or other good of a similar nature.
- The repatriated income of a foreign permanent establishment of a non-resident person situated in Nepal for an income year is taxed at the rate of 10 percent.
- Taxable incomes of other entities are taxed at the rate of 25 percent.
- Additional tax of 1.5 percent is imposed on the basis of taxable income.

Income derived form the source in Nepal during an income year by a person form a special Industry is taxed as follows:

1. Industry that provides direct employment to six hundred or more Nepalese citizens during each day of the year should be taxed at 90 percent of the ordinary rate.
2. Industry operated in a remote, undeveloped or underdeveloped area should be taxed at 70, 75 or 80 percent respectively of the rate otherwise applicable for the period of ten income years commencing from and including the year in which operation commences. Remote area, undeveloped areas and underdeveloped area have been shown in Annex-…. Of the industrial Enterprises Act, 1992, According to that annex, they are as follows:

- Remote area: Darchula, Bhajang, Bajura, Humla, Jumla, Mugu, Kalikot, Dolpa, Mustang, Manang, Solukhumbu, Sankhuwasabha, Khotang, Bhojpur, Accham, Dailekh, Jajarkot, Rukum, Okhaldhunga, Myagdi, Terathum, and Ramechhap.
- Underdeveloped Area: Taplejung, Rolpa, Baitadi, Rasuwa, Gulmi, Parbat, Dadeldhura, Pyuthan, Doti, Salyan, Panchtar, Baglung and Sindhupalchok.
- Underdeveloped Area: Kailali, Surkhet, Arghakhachi, Palpa, Syanja, Dhading, Lamjung, Tanahu, Gorkha, Sindhuli, Udayapur, Dhankuta, Ilam, Kanchapur, Bardia, Dang, Nuwakot, Kabrepalnchowk, Dolakha.

As per the Finance Act, 2062, the income of a person (both individual and entity) getting income form export would be taxed as follows:

- 50 percent of the ordinary rate to special and infrastructure industries established in special economic zone or export promotion zone specified by Nepal Government through notification in Nepal Gazzette. It means the tax rate would be $20 \times \frac{10}{100} = 10\%$.
- 25 percent of the ordinary to information technology industries established in information technology by Nepal Government through notification in Nepal Gazzette, it means the tax rate would be $20 \times \frac{25}{100} = 5\%$.

- 75 percent of the ordinary rate to special industries other than those established in special economic zone or export promotion zone. It means the tax rate would be $20 \times \frac{75}{100} = 25\ \%$.

Note: that the taxpayer qualifies to claim two or more than two types of concessions; he can elect only one of that purposes.

2.3.6 Tax Accounting and Timing

Chapter of this act has been composed for the existence of similarities in tax accounting and timing of activities among the various taxpayers. The summary of these section are as follows:

2.3.6.1 Method of Tax Accounting (Sec. 22)

1. On the basis of this Act, the determination of when a person derives an income o incurs an expense in made according to the generally accepted accounting principles.
2. In calculating the individual's income from an employment or investment for tax purpose, the accounting should be done a cash basis.
3. A company should account for tax purpose on an accrual basis.
4. Subject to sub clauses (1), (2) and (3) and unless the Department prescribes otherwise by notice in writing, a person may account for income tax purpose on a cash or accrual basis.
5. Subject to subsections (2) and (3), a person may apply in writing for a change in the person's basis of according for tax purpose. The Department, if satisfies that the change is necessary to clearly reflect the person's income, may approve the application by notice in writing.

2.3.6.2 Accounting on Cash Basis (Sec. 23)

Subject to this Act, when a person who account for tax purpose on a cash basis calculates the income from employment, business or investment it should be done as follows:

1. Only payments should be received or made available to the person should be related as an amount is derived and included in the calculation for income;
2. Expenses should be deducted in the calculation only when payment is made.

2.3.6.3 Accounting on Accrual Basis (Sec. 24)

Subject to this Act, a person who accounts for tax purpose on an accrual basis in calculating the person's income from a business or investment should treat an amount as derived and include it the income calculation as soon as the person become entitled to the payment.

2.3.6.4 Reverse of Amounts Including Bad Debts (Sec, 25)

1. When a person has accounted for an amount derived or expenses incurred in calculation the person's income from an employment business or investment, the person should make appropriate adjustments in the following case, at a time of refund, recover disclaimer, write-off or waiver.
   i. If the person later refunds the amount or recovers the expenses as required; or
   ii. If the accounting was of an amount derived on an accrual basis and the person alter disclaims an entitlement to receive the amount or when the debt claim is made the person writes-off the amount as bad debt, or
   iii. If the accounting was of a expense incurred on an accrual basis and the person later disclaims an obligation to incur the expenses or in the case of the expense of debt obligation, when the person to whom the debt is owned waives the debt.

2. A person may disclaim the entitlement to an amount or write-off claim as bad debt claim only in the following conditions:
   i. If a debt claim of bank of financial institution, becomes a bad debt as determined in accordance with the prescribed standards; and
   ii. Apart form condition referred to tin section (a), in all other cases after the person has taken all appropriate steps pursuing payment and believes that the entitlement of debt claim will not be recovered.

2.3.6.5. Average Inclusions and Deductions under Long Term Contracts (Sec. 26)

For the purpose of calculating a person's income for an income year from an employment, business or investment, estimated cumulative inclusions, and deductions, under a long term contract of the person shall be treated as derived or incurred based on the percentage of the contract completed during the year.

2.3.7 Head of Income

An income can be earned by different ways. It may be by using labour or capital or combination of both labour and capita. The income earned by using labour is called remuneration income the examples of such income are salary, bonus, allowance, gratuity, pension, etc. The income earned from the use of capital is known a investment income. The examples of investment incomes are interest, rent, royalty, dividend, etc. According, the combined form is business income. Business income includes income from trade, business, manufacturing, industry, service industry, etc. All these organization point of incomes are called sources of income. They are also known as heads of income. Income Tax Act, 2031 and classified these heads of income into five consisting agricultures; remuneration, business, profession or vocation; house and land rent and other sources. Income Tax Act, 2058 has divided these heads into three divisions: business, employment and investment.

2.3.7.1 Income from Business

Business means use of capital and labour to earn income. It is the mix of capital and labour. It includes trade, manufacturing industry and service industry. It is equivalent to the industry, 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 activities conducted in past, present or future. It covers the business activities done without registering and doing illegally also. Some characteristics of business are that it can not e done with one oneself, there uses to be goods or services, there must be tow parties and the consideration should be given in kind of cash.

a. Inclusions of Business Income (Sec 7)

- Service fees
- Amount derived form disposal of trading stock
- Gain from sale of business assets and liabilities
- Gain form disposal of depreciable assets used in business
- Bad debts recovered
- Amount received after the cessation of business
- Compensation received against loss of stock or profit
- Gift received from parties related to business
- Exchange gain
- Under payment of interest (interest subsidy)
- Income form investment related to business
- Deducted expenditure which is not so expended
- Any benefits/perquisites
- Compensation received in restriction of business

- Amount required to be included due to change in accounting system
- Amount derived according to the percentage of contract completed during the year under long-term contract
- Other incomes: sundry income, miscellaneous income etc.

b. Non Taxable Income/ Tax Free Incomes

Section 11

The following incomes are exempt from income tax:

Income from agriculture (exempt received by organized agriculture firm)

Income form co-operatives societies registered under cooperative Act, 2048 from business based on forest and agricultural product rural community saving and credit cooperative.

Section 10

- Tax exempted remuneration form bilateral/multilateral agreement with foreign government or international organisation
- Remuneration received under public services of a foreign government
- Allowances provided by NG to widow senior citizen and disable person
- Gifts, request, inheritance and scholarship except under Sec 7, 8 and 9
- Pension received by Nepalese army/police form public fund of a foreign government etc.

c. Final withholding payment (Sec. 92)

- The following payments are treated as final withholding payments:-
- Dividend form resident company
- Rent from house, and furniture received by natural person (not related to business)

- Interest received by a natural person form bank or financial institute (not related to business)
- Meeting fees
- Examiner ship remunerations
- Income form writing articles
- Part time teaching remuneration
- Amount received form accumulated house/sick leave
- Amount received form approved retirement fund
- Incomes form investment on insurance policy
- Casual income etc.

Non final withholding Payment (Sec. – 88)

Royalty

Rent form vehicle

Interest

Consultant’s fees etc.

Admissible expenses (deduction form business incomes)

The following costs and expenses allowed for deduction while computing persons Income form business:

Manufacturing expenses

Administrative expenses

Sales and distribution expenses

Interest (Sec. 14)

If interest was paid to non-controlling entity – fully admissible

If interest was paid to controlling entity – not more than prescribed limit

Cost of stock (Sec. – 15)

Opening stock	xxx
Add: Purchases	xxx
Loss: Closing Stock	xxx
Cost of stock	xxx

Stock Valuation:

Cost price

Or Which ever is less

Market price

Repairs and improvement expenses (Sec – 16)

Annual cost

Or Which ever is less

7% of depreciation base

Pollution control cost (Sec. – 17)

Actual Cost

or Which ever is less

50% of adjusted taxable income

Note: Before deduction of pollution control cost, Research and development cost and donation is known as adjusted taxable income.

Expenses for Research and Development (Sec – 18)

Actual cost

Or Which ever is less

50% of adjusted taxable income

- Depreciation (Sec. – 19)
- Loss relating to previous year (Sec. – 20)
- Bad debts
- Tax paid under law except income tax
- Other real expenses:
  - Legal charge (except income tax appeal)
  - Insurance premium
  - Pension, Grants, preliminary expenses and entertainment expense etc.

Common expenses (Deduction form Assessable income)

The followed expenses are allowed to deduct form assessable income:

Common expenses are as follows:

Amount give to tax exempt organization (Sec. 12)

Donation given to social, religious, educational, charitable organisation and sports association (without profit motive)

Donation given to political party registered in election commission

Donation given to village development committee, municipality, district development committee

Donation give to NG

Donation given to Rastra Bank

Up to Rs. 100,000

Or

5% of adjusted taxable income whichever is less

Or

Actual donation

Donation to special sector

Special sector Admissible

Myaglun Bazar Fire Victim Relief Fund – 100 percent

Lumbini Development Trust – Up to Rs, 50,00,000

Pashupati Area Development Trust – Up to Rs. 50,00,000

National Political Party – Up to 50,00,000

Amount deposited to the Retirement fund

Up to Rs. 30,00,000

Or

1/3 of assessable income Whichever is less

Or

Actual claim amount

Inadmissible expenses not allowed for deduction (Sec. 21)

Although Income Tax Act, 2058 has allowed certain expenditures to be deducted while calculating taxable income of business or investment; the following expenditures are onto allowed for deductions:

- Any personal or domestic expenses
- Income tax, fine and penalty
- Distribution of profit or dividend
- Preserve, provision or fund

Emergency fund – not allowed

Provident fund

Retirement fund allowed

- Expense for earning not taxable income as well as final withholding income
- Expenses not related to business/income
- Amount paid to the government's corporation, bank and financial institute
- Where there is no banking facility within surrounding of 10 km.
- At the time of bank holidays
- Amount paid to a farmer for agriculture product
- Retirement payments

Capital expenditure: Capital nature expenditures or foreign income tax, not that capital expenditure include expenditures incurred in respect of natural resource prospecting, exploration and development; expenditures incurred in the acquisition of an assets with a useful life exceeding 12 months; or expenditures incurred on the disposal of a liability.

Income from Investment

Investment income means income generated form the use of capital. Investment means use of capital for the purpose of getting income. According to Income Tax Act, 2058 Sec. 2 (a), investment means an act of holding or investing one ore more assets of similar nature that are used in an integrated fashion. However, it excludes the following:

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

The assets under property include current, fixed or intangibles like patent right, copy right, a lease hold right etc.

For the purpose of being investment, the asset should not be use by other owner. It case of investment, a person has the legal ownership, the owner transfers the right of using and certain consideration is taken against such property. If assets are hold, it should not be used by owner for personal use or business use. It should be for investment use.

Income form Investment (Sec. – 9)

Inclusion form investment income

Section 9 of the act has showed the incomes that are to be included within the head investment. This section defines the investment in come as the profit or gain form conducting the investments for the year. It includes the holding of non-business chargeable assets. For the purpose of calculating the profits or gains form the investment, the following items are included:

- Dividend (from non resident company)
- Rent (except house rent)
- Interest
- Gifts from investment activities
- Income form natural resources
- Income form royalty
- Recovery of bad debts of investment under sec 25 (1)
- Under payment of interest
- Compensation under investment activities
- Income form disposal of fixed assets
- Exchange gain
- Income form restriction of investment

- Amount to be including in income due changing in accounting system
- Amount directly paid to 3rd person on behalf of actual payee (investor)
- Others investment related incomes.

Admissible Expenses

Deductable expenses: the following cost and expenses are allowed for deduction while computing person's income form investment.

- Interest sec. 14
- Loss form investment sec. 20 or current loss of investment as well as business
- Depreciation se. 19
- Related expenses under sec. 13
- Repair and improvement expenses sec. 16
- Donation sec. 12
- Loss of business relating to previous year

Other Provision Relating to Investment Income

While calculating the income from investment, the following amounts are excluded:

- Amounts exempted under section 10 and dividends as per sec. 54 and 69 and final withholding payments; and
- Amounts those are included in calculating the person's income for many employment or business

Income form Employment

Remuneration means amount given for providing services. In case of remuneration, there uses to be one person getting services and other person providing services. Oxford Dictionary defines employment as the act of employing. The person getting service is called employer and the person providing service is employee.

Included income

Income Tax Act, 2058 has specified the income from Employment. As per the act, any type of remuneration from any employment is taxable income. According to sec.8 of the act, the remuneration received by a person form the employment is the following payments made by the employer:

1. Payments of wages, salary, leave pay, overtime pay, fees, commissions, prizes, gifts, bonuses, and other facilities;
2. Payments of any personal allowance including any cost of living, subsistence, rent, entertainment, and transportation allowance.
3. Payments providing any discharge or reimbursement of costs incurred by the individual of an associate of the individual. It includes the payment of the recovery of the expenses, which is to be made by the employer himself. However, if the reimbursed expense is made for employee's purpose such as business tour, the reimbursement amount is not included in the reimbursement of the employee. If employee is daily allowance in the addition to cost of expenses, it is included in the remuneration of the employee.
4. Payments for that agreement to any conditions of the employment. If any other payments are made for extra conditions of the employment, it is also added to the total remuneration.
5. Payments for termination or loss of service or compulsory retirement. It includes amount received for loss of employment or redundancy.
6. Retirement contributions, including those paid by the employer to a recognized retirement fund in respect of the employee, and retirement payments. For this purpose, recognized retirement fund means retirement fund.
7. Other payment made in respect of the employment;

8. In case of foreign allowance given to employees of NG working in foreign embassies, 75 percent is exempted and the remaining amount is added to the income.
9. Other amounts as given in chapter 6 of the act, i.e. perquisites and any gains due to change in tax accounting required to be included.

Income not Included in Employment

However, the following amounts are executed in calculating an individual remuneration from an employment:

1. Amounts exempt under sec. 10 and final withholding payments under sec. 92. The following payments are not included while calculating the income form employment as per the sec. 10 of the act.

- Remuneration exempted under bilateral or multilateral agreement with foreign government,
- Remuneration under the employment of public service of foreign government,
- Remuneration derived by foreign national from foreign government,
- Allowance paid by NG to widows, senior citizens of disabled ones.
- Gift, bequest, inheritance or scholarship excepting that required to be included in the income form employment,
- Pension received by retired army/police form public fund of foreign government, and
- Amount received by exempt organizations, donations received by such organizations and account received by Nepal Rastra Bank.

The following incomes are not included in income. These incomes are not included because they are final TDS amount.

- Dividend paid by a resident company,
- Rent for land and building fitting and furniture received by individual other than the business
- Payment made by resident person for gains from investment insurance,
- Interest paid by financial institutions, and bank to natural person,
- Payments made form approved and unapproved retirement fund, investment insurance etc.
- Meting allowance, amount paid to non-resident,

2. Meals or refreshment provided in premises operated by or behalf of an employer to the employees that are available to all the employees on similar terms.
   - Any discharge reimbursement of costs incurred be the individual
   - The services the proper business purpose of the employer.
   - That are or would otherwise be deductible in calculating the individuals income for any business or investment ;and

3. Payments the amount of which (after taking into account the frequency with which the employer makes similar payments) is as small as to make account for them unreasonable or administratively impracticable.

According to the rule 6 of the income Tax Rules, 2059, small expenses specified by IRD not exceeding Rs 500 for on time. There are certain other points which should be considered while calculating the taxable income and tax liability of an employee. Such points are;

- The exemption limits as per finance ordinance of 2062 are Rs 100000 and Rs 125000 for individual and couple respectively. There is not the concept of family under Income Tax Act, 2058. If there are minor children and mother and father only. The case of couple is applicable. If it is pension income plus 25 percent is taken as exemption.

- Finance ordinance, 2062 has imposed additional tax of 1.5 percent on taxable income of employees also. However, this provision is applicable to that slab where 25 percent tax rate is used it means the tax rate for second slab is equivalent to 20.5 percent.
- As stated earlier, up to 33.33 percent of assessable remuneration income Rs3 lacks whichever is lower can be contributed to retirement fund. Provisions given in Income Tax Act, 2031 relating to provident fund is expired now. Citizen investment fund and employees provident fund are the only two recognized retirement funds
- The facilities of deducting are premium consisting 7% of insured amount or Rs. 10000 or actual amount paid whichever is less from the assessable income.

e. Admissible Expenses

- Approved retirement fund contribution within the limit (sec 63) as already started, it is Rs. 3 lakhs or 1/3 of the employees assessable income whichever is less (income tax rules 2059) Donation amount equal to 5% of taxable income tax or Rs. 100000 or actual which ever is less.
- Medical tax credit of 15% of the approved medical costs plus carried forward excess amount greater than the limit or the amount of tax credit not used by reason of lakh of tax payable (sec 51). However upper limit of medical tax credit for one year is Rs 750 per year. The remaining balance of not covered medical tax credit can be recouped in next year.
- Amount of tax paid in foreign countries provided that such amount do not exceeds average rate of Nepal income tax (sec 71). Here average rate of tax means the income tax payable income of the person multiplied by 100.

$$\text{Average Tax Rate} = \frac{\text{Tax Payable Before Deducting Foreign Income Tax}}{\text{Taxable Income of the Person}} \times 100$$

2.3.8 Provision for Depreciation

Depreciation is a more component of expenditure of a business organization. Since it has the importance in reducing the tax liability or getting real pricing of the goods and services or preventing the capital assets from being expended, every taxpayer wants to manage this expenditure properly. Tax authorities also use to make special provision relation to depreciation in tax laws. As previous tax acts and rules. Income Tax Act, 2058 has also kept certain provisions in Appendix 2 of the act as regarded as follows:

1. Depreciation is the depletion in the value of assets by wear and tear obsolescence or the passing of time.
2. Depreciation at prescribed rate is allowed on used depreciable assets owned by the person.
3. The blocks wise details and rate of depreciation are given in the following table:

Table 2.1

Provision for Depreciation

block	Particulars of ASSETS	Rate of Depreciation %
A	Building, structure and similar works of a permanent nature	5
B	Computer data processing equipments	25
C	Automobiles, bus and minibus	20
D	Construction and earth moving equipments , portions of population control cost and R&D cost and any tangible assets not including in above blocks (plant and machinery,	15

	etc)	
E	Intangible assets other than not included in block 'D' (patent, Design, software etc)	Rate in prevent calculated as cost divided by the useful life of the assets in the pool at the time the assets is most recently acquired by the person and rounded down to the nearest half

4. Depreciation basis (pool-wise) is calculated as under

Table 2.2

Computation of Depreciation Basis

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

5. Depreciation rate applicable to the block x Depreciation basis.
6. These under noted entities are allowed an additional depreciation of 1/3rd of the rate prescribed on the assets falling under Blocks a, *b, c, d,:*
   a. Entity engaged in building public infrastructure to transfer to Nepal government and any other entity engaged in power generation, transmission or distribution of electricity.
   b. Entity wholly engaged in operating special industry.

c. Entity wholly engaged in operating road, bridge, tunnel, ropeway of flyway of flying bridge constructed by the entity.

d. Entity wholly engaged in operating trolley bus or trams.

e. Entity that earned income form export in an income year.

7. Addition during the year in any block is divided into two parts: absorbed and unabsorbed portion. Such division is based on the later of the time the assets is first owned used or the cost is incurred. The table is given herewith to clarify the position:

Table 2.3

Time and Absorbed and unabsorbed portion of Assets

Time	Absorbed portion	Unabsorbed Portion
Shrawan first to Poush end	3/3	Nil
Magh first to Chaitra end	2/3	1/3
Baisakh first to Ashadh end	1/3	2/3

During the income year, the absorbed portion of the addition is only considered for calculating depreciation.

8. The assets fallings under block A, B, C& D should be in respective blocks whereas in case of Block 'E', the individual assets should be shown in Block 'E'

9. if the block balance after depreciation during an income year comes less than Rs 2000 the whole amount is allowed as expenses during the income year.

10. Gains/losses in disposal of pool of depreciable assets are treated as normal revenue/expenses.

2.3.9 Provision for set off/ carry forwards / carry Back Of Losses:

There may be profit or loss in a business through the objectives certainly, is to earn profit. The risk related to business organization can be divided into three parts capital risk, income risk and interest risk. All these types of risks causes the loss in a business. Business of this reason, the tax law uses to make provisions relating to recovery of losses.

In Nepal, different Income Tax Acts had made different types of the loss recovery provisions. Income Tax Act 2031 had only intra head loss recovery system. The period of recovery was there years. Sec. 20 of the Income Tax Act, 2058 has made the provision of inter- head loss recovery system. It has also allowed recovering the losses from carry forward as well as carries backward system. Carry backward is allowed only for baking and financial institutions and long-term contract. Income Tax Act, 2058 has made the following provisions for recovering the losses.

- Loss from foreign source investment can be recovered from the gain of foreign sources investment of the same country only.
- Loss from foreign source business can be recovered from foreign source gain on investment a business of the country.
- Loss from investment, in Nepal can be recovered from gain on investment in Nepal and foreign country.
- Loss related to non taxable source of income can be recovered from the income source related to non taxable only.
- Loss from special industry and other business enjoying special tax rate can be recovered from the same business only.

Loss recovering providing periods as per the Income Tax Act 2058 is 4 years for ordinary business, 7 years for infrastructure projects and twelve years for petroleum extraction and exploration industries. This act has allowed carry backward also to financial institution as specified by IRD ,budget speech of the financial year 2061/2062 has brought the provision of allowing the petroleum exploration and extraction industry to carry over the loss for thirteen years.

The following tables also clear the provision for set-off , carry forward and carry back:

Table 2.4

Incomes and provisions for set off/ carry forward /carry back of losses

S.N	Income from	Set-off	Carry forward	Carry back
1.	Employment	(No)	(No)	(No)
2	Business			
	a. Normal Business/industry/profession/ vocation	(yes)from business/ investment.	Up to 4 years	(No)
	b. financial company	(Yes)	Up to 4 years	5 years
	c. B O T (built, operation and Transfer)	(Yes)	Up to 7 years	(no)
	d. Long term contract	(Yes)	4 years + IRD	IRD
3	investment	(Yes)	(No)	(No)

Table 2.5

Conditions and provisions for set off/ carry forward /carry back of losses

S no	condition	Domestic sources(DS)		Foreign sources(FS)	
		business	investment	business	investment
1	Loss on business (DS)	**	**	**	**
2	Loss on investment (DS)	+	*	+	*
2	Loss on business(FS)	+	+	**	**
4	Loss on investment(FS)	+	+	+	*

2.3.10 Capital Gain Taxation

Capital gain (loss) is defined as a gain (loss) realized from the disposal of capital assets by a taxpayer. It is the difference between the purchase price (outgoings) and selling price (incoming) of capital assets. Earlier, income tax law had not made any specific provision regarding taxation of capital gains (losses). As a result, items of similar nature were treated differently. Capital gains except from disposal of business assets of and individual were not brought into tac net. In case of other taxpayer, capital gains were included under the heading of other source income. On the other hand, capital losses of similar nature were not allowed for deduction. Such diverse treatments has arisen confusion .Income Tax Act 2058 has avoided these to much confusion. However the act does not provide the definition of capital gains.

The act has treated depreciable asses, business assets and non business chargeable assets as capital assets and gains realized from disposal of such assets as capital gains.

Income Tax Act, 2058 has classified assets into five categories. they are as follows:

1. Trading stock
2. depreciation Assets
3. business assets
4. Non-business chargeable assets
5. other Assets

Basically, there are two types of rated used in difference countries of the world for taxing the capital gain. Some favor taxing capital gain at special tax rate, where as others favor ordinary treatment. Note that ordinary treatment means taxing the capital gain at normal rate.

In Nepal, capital gain tax as such was introduced only from the budget of 0258/59. The rate of tax is ten % as per the act. Chapter 8 of this act has made detailed provisions in relation to the gains from the sale of the assets.

Some points to be considered relating to capital gain taxation of natural person.

1. It is the gain on non-business chargeable assets i.e. non-business land, house and securities. Profit from the sale of stock of goods assets used in business and

depreciable assets do not come under this head because they are taxed at ordinary rate.

2. The tax rate is 10% if the taxpayer id natural person and as usual, if the taxpayer is entity.
3. The loss form non-business chargeable assets can be recouped in any future years from the profit of non business chargeable assets. It can not be recovered from business or other investment incomes. However, the previous and present loss from business can be recovered from this head.
4. In case of natural person, if he/she has both capital gain and other income, first of all the capital gain should be quarantined from the ordinary income. The exemption is allowed under ordinary income and the tax is calculated at ordinary rate for ordinary income and at 10% for capital gain. If ordinary income is not sufficient to cover the exemption limit, capital gain also is used for this purpose.

2.3.11 Tax Evasion and Avoidance

Tax evasion is the way of reducing tax liability by illegal means, "Action by the taxpayers which entails breakings the law and which moreover can be shown to have been taken with the intention of escaping payment of tax", is generally regarded as tax evasion. It is done through different ways:

- Non reporting of income
- Under reporting of income
- Making fraudulent changes in account books
- Maintaining multiple sets of accounts.
- Operating business transactions under different names
- Opening bank account in dummy name
- Transfer pricing etc.

Tax evasion is unethical, illegal and uneconomic activity. It is unethical because the activity of not paying tax is against moral ethics. It is illegal because the law does not permit to evade the tax. In the same way, it is uneconomic because it promotes black money, i.e. underground economy in a country. Basically, there are three types of effects of tax evasion in the economy.

They are:

- Loss of revenues to the state,
- Redistribution of income which affects the efficiency of resource allocation in the economy, and creating wrong statistics leading to errors in government policies.

Tax Avoidance

Tax avoidance is saving taxes without actually breaking the law. It is using the loopholes of the tax law. It is not illegal but unethical. It is transaction entered into with full legal backing. However, such activities are of those kinds that the legislature does not want to encourage. The following are the criteria used by English and Indian court to find out tax avoidance.

- Use of colorable devices.
- Defeating the genuine sprit of law.
- Twisting of facts
- Taking only strict spirit of law and suppressing the legislative intent. We can see following characteristics of a tax evasion:
- Tax avoidance often takes advantage of loopholes in the law or of applying legal provision for purpose for which they were not intend (e.g. provision designed to encourage manufacturing of equipment being used for leasing of motor vehicles)

Difference between Tax Evasion and Tax Avoidance

From the view point of an ordinary person or an economist, tax evasion and tax avoidance are same. It is also because both of these activities reduce the tax liability by unethical means. But from the viewpoint of a lawyer, tax evasion and tax avoidance are different things because tax evasion is totally illegal where as tax avoidance is done with legal backing. They are not independent but a substitute for each other since both are the means of reducing taxes and awareness of one induces a person to follow the other.

In a country where enterprises are relatively of small size, people are relatively poor and tax morale is relatively low, taxpayers use evading practice. In contrast, in a country where business houses are comparatively of large size tax discipline is relatively strict and people are relatively wealthy, tax payers are more included to tax avoidance. In evasion is more common in developing countries whereas tax avoidance is useful in the development world.

2.3.12 Tax Planning

Tax planning is one of the ways of reducing the tax amount by the taxpayer. However in contrast to tax evasion, tax avoidance and tax delinquency, it is legal, ethical and economic. The world tax planning is made from the combination of two words- tax and planning. Tax means compulsory payment to the government and planning means taking decision about the future by choosing the best from different alternatives. Every business organization has to make decision while conducting its business activities. That means every business organization uses to plan as regards to its future activities. Such future activities may be of short term, medium term or long term and operational or strategic. If tax factor is considered while planning the business activities of an organization it is tax planning.

Tax planning is the scientific planning of the companies operations in such a way as to attract minimum liabilities of tax or the postponement of tax liability for the subsequent period by availing of various incentives concessions, and allowances rebated and relieves. It is not only the planning of infrastructure of the business and industries but also the planning of its various projects from time to time and its day to day activities so as to acquire the maximum facility as per the existing law of the country. In short, it is a judicious use of tax incentives provided by the government. It is also defined as the exploitation of tax concessions in accordance with parliament's intension.

The main features of the tax planning can be stated as follows:

- It is the genuine use of the facilities provided by the government.
- It enhances economic environment of the country.
- It reduces tax liability.
- It is universal in nature. It means all the business organizations use tax planning.
- It is use of dignified facilities.
- It is a use of expertise to get consciously given facilities.
- It is related to future activities.

There is one similarity between tax; planning and tax evasion. Both the devices reduce tax liability. However, there are so many differences between them. They are:

- Tax evasion is an illegal activity, whereas tax planning is a legal one.
- Government wants to reduce tax evasion but increase tax planning
- Tax evasion discourages healthy growth of economy. Tax planning encourages it.
- Tax evasion does not need expertise in tax related matters. Tad planning does so.
- Tax evasion is related to past activity, whereas tax planning is future oriented.

There are certain similarities between tax planning and tax avoidance too. The main thing in this respect is the reduction in tax liability. The second similarity between them is the need of expertise in the tax law. Accordingly, both of he activities are legal. However, there are so many differences between them. they are:

- Tax planning is a dignified way of reducing tax liability. It is moral too. In contrast to this, tax avoidance is an undignified, immoral and unethical way of reducing the tax liability.
- Tax planning is done as per the intention of law. In contrast, tax avoidance is against the intention of the legislature.
- Tax planning is a healthy device to device to economy. Tax evasion is just the opposite.
- Tax planning has good intention. Tax avoidance, on the other hand, is directed by ill motive of cheating the government revenue.

2.3.13 Tax Administration

According to Income Tax Act, 2058, the IRD has overall responsibility for the implementation and administration of income tax. However, Nepal government is the highest authority of the tax administration. The Nepal Governments on behalf of NG exercise the management function of tax administration by carrying out the functions such as planning, organizing, directing, coordinating and controlling of the government organizations related to taxation. Furthermore, the divisions, departments, centre and office on the ministry of Finance. Revenue investigation administration and revenue administration training centre are also involved in the administration of income tax policies and programmes of the government. The division coordinates the activities of all revenue authorities. The revenue investigation administration investigates cases of revue leakage. The revenue administration training centre conducts training, workshops and seminars for tax official.

Since the IRD is responsible for the enforcement of tax laws and administration, NC may establish tax offices of the IRD and prescribe their jurisdiction to facilitate the IRD in fulfilling its responsibility and such offices are considered as part of the department. The IRD is centrally located in Kathmandu. Currently there are 21 field offices or IRO throughout the kingdom. The IRD and its district offices are totally running on functional line. Major functions include taxpayer's service, audit and collection.

The officers and other staff designated in the department are: director general deputy director generals, chief tax administrators, directors, chief tax officer's tax officers and other officers and other staff. In tax act 2058, defined of powers, rights duties of Nepal Government, Director General, Tax Officers and taxpayer.

2.3.14 Penal Provision

Penal provisions are made in the form of penal interest and penalties. Interests are charged on delinquent taxes so that taxpayers may not delay tax. Penalties are fixed to correct the misbehavior of the taxpayers. If penalties are not levied on the taxpayers who violate the act there may be a tendency not to follow rules and non compliance will increase. ITA, 2058 has included detailed penal provisions which are divided into two parts:

- Interest and penalties
- Offences

2.3.15 Administrative Review and Appeal

To ensure the justice or impartiality in imposing tax from any taxpayer, it is necessary to established effective and efficient appeal system for this purpose, Nepalese income taxation has two types of appeal systems. Administrative review and appeal to revenue tribunal. If the taxpayer who is not satisfied with the any actions or decisions of tax officer, he may submit an application to the director general for administrative review or may appeal an objection to the review tribunal.

2.4. Research Gap

The present thesis work reflects the following research gap.

This thesis work has covered the period of study till 2005/06 A.D. whereas the previous thesis work covered only up to 2004/05.This thesis work has covered that HBL and EBL are focusing on different schemes to collect deposits from general public whereas the previous thesis work lacks this concept. Because deposit collecting schemes are new concepts to attract consumers in competitive banking sector.

We have lots of research on the topic 'Fund mobilization' of Everest Bank Ltd and Himalayan Bank Ltd. Among those studies - some focused on the deposit collection of the Everest Bank Limited and Himalayan bank limited-some included the study on their fund mobilization and some also emphasized on the consistency of the fund investment.

This study also focuses on all the above issues related to fund mobilization of the bank – with similar kind of analysis tools. The selection of the banks here is made on the basis of their establishment date, i.e. they are categorized on the basis of their establishment time. Besides this study fund mobilization on EBL and HBL has covered data which covers the information from 2002-2006.

CHAPTER- III

RESEARCH METHODOLOGY

Research methodology is a way to solve the research problem systematically with the help of various tools. The success and failure of every research work depends upon the research methodology employed by a researcher as it analyze, examine and interpret various aspect of research work.

During the research, some subjective and objective questions will be used to gather data. The study is undertaken the different provision of Income Tax Act 2058.

3.1 Research Design

It is the plan structure and strategy of investigation. Generally, research design means definite procedure and technique, which guide to study and propounds ways for research viability.

This provides a comprehension on the related topics in regard with various aspects of available information. For the systematic presentation of collected data, explanation research design will be used. Beside this, to meet the objective descriptive, analytical as well as empirical analysis will also be used.

3.2 Types of Research

Keeping in mind the objective, different types of research will be done. They are descriptive research, analytical research, empirical research etc. Beside this some of the data and information are concerned with the past phenomena i.e. the laws and act so past analysis will also be done to collect, evaluate, verify and synthesize them to reach the conclusion.

3.2.1 Descriptive Research

This is fact-finding survey study generally conducted to assess the opinion, behaviors or characteristics of sample population. It generally describes the situation and event occurring at present to accumulate fact.

3.2.2 Analytical Research

In this analysis the available facts and information will be analyzed and evaluated for the effective comparison of both act.

3.2.3 Empirical Research

An empirical investigation will be conducted in order to find out various aspects of income tax provision from the experience of real life situation, the major tool used for those purpose is an opinion and questionnaire, which will be dispatched to certain targeted group.

3.3 Nature and Sources of Data

Data is required for analyzing the subject matter. So to meet the objective of this research several types of data will be collected through several sources. Although research is based on secondary data however related primary data will also be obtained. The sources of data are:-

3.3.1 Primary sources

The primary sources of data are interviews, inquires, informal talks opinion etc. For this some set of questionnaire will be developed and distributed to the targeted group/s.

3.3.2 Secondary Sources

The secondary sources of data are annual report, periodical bulletin and several published documents books, articles, magazines etc . The major sources can be listed as follow:-

- Statistical abstracts
- Economic survey of Ministry of finance

- Reports and records of Inland Revenue Department
- Official website of Inland Revenue Department: www.ird.gov.np
- Official website of Ministry of Finance: www.mof.gov.np
- Books related to income tax

3.4 Data Collection Procedure

Important references relevant to the subject matter will be identified and will be collected accordingly.

Most of the data will be collected from secondary sources and some relevant information will be collected from informal talks and interview. Primary data will be collected by using questionnaire method which will be distributed to different concerned people like tax payer, tax experts, tax officers, academicians, etc in order to get accurate and actual information.

3.5 Data Processing Procedure

At first required information will be collected, all the information will be gathered and grouped at one place and analyzed thoroughly and finally the analysis will be presented in a systematic way.

3.6 Data Analysis Tools

The various collected data from primary sources and secondary sources will be coded and tabulated in required form. Tabulated data will be processed and analyzed in descriptive way by using mathematical tools and statistical tools wherever necessary. Graphs and charts will also be presented to interpret the finding of the study.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

This chapter deals mainly with presentation and the analysis of the available data and these data are analyzed with the help of various statistical tools.

4.1 Secondary Sources of Data

Data which are originally collected but obtained form some published or unpublished sources are secondary data. These types of data are not original in character.

4.1.1 Structure of Government Revenue in Nepal.

The major sources of public financing are revenue mobilization, foreign grants and loan, internal loan and charge in cash balance. Like in any other country, the government of Nepal needs revenue to conduct the functions of an independent state or county. A modern domestic government has to perform various social welfare programme, beside its regular activities. For this purpose government collects revenue from various sources. These are tow categories of sources of government revenue through which the government collects. These are tax revenue and non tax revenue. These both sources are subject to non repayment and their sum constitutes the government or public revenue. Nepalese economy is characterized by a low revenue performance in contrast to the growing public expenditure. The composition of government revenue form fiscal year 1986/87 to 2006/07 is presented in a table form fiscal year 1986/87 to 2006/07 is presented in a table 4.1 Revenue collection increased by 21.4 percent in FY 2006/07 to totaling Rs. 87718.1 million compared to FY 2005/06.

Out of the total revenue collection in FY 2006/07 the share of tax revenue was 81.09 percent where as the share of non tax revenue was 18.91 percent. In FY 2005/06, the share of tax revenue and non tax revenue was 79.5 percent and 20.5 percent respectively. In FY 2005/06 tax revenue increased by 6.1 percent, compared to previous fiscal year. In FY 2004/05 such increased was only 12.31 percent as compared to previous FY. Non tax revenue in FY 2005/06 amounted to Rs. 14851.7 million with an decrease of 7.3 percent, compared to FY 2004/05.Form the FY 1986/87 to 2005/06, the amount to total tax revenue is increasing Rs. 4372.4 million to 57430.4 which is increased by Rs. 53058 million. Form the FY 2086/87 to 2005/06, the amount of total non-tax revenue is increased Rs. 1602.7 to Rs16591.4 million, which is increased by Rs. 14988.7 million.

The highest contribution of tax-revenue to total revenue was 81.09 percent with amount Rs71127.0 million in FY 2006/07 and lowest contribution was 73.1 percent with amounting Rs. 9875.6 million in FY 1991/92. The average contribution of tax revenue to total revenue form FY 1986/87 to 2006/07 is 77.7 percentages. This indicates the rate of tax revenue is very important in revenue mobilization of Nepal to meet the government expenditure. In percentage on the total tax revenue has been fluctuating form 81.09 percent to 73.1 percent.

Similarly, the highest contribution of non-tax revenue to total revenue was 26.9 percent with amount Rs. 3637.1 million in FY 1991/92 and lowest contribution was 18.91 percent with amounting Rs16591.4 million in FY 2006/07 The average contribution of non-tax revenue to total revenue from FY 1986/87 to 2006/07 is 22.3 percent.

Therefore, we can say that the share of tax revenue has always been greater than the share of non-tax revenue. For detail, contribution of tax revenue and non-tax revenue to total revenue are presented following table 4.1.

Table 4.1
Contribution of Tax and Non Tax Revenue in Total Revenue
From the FY 1984/85 to 2006/07

(Rs. In Million)

Fiscal Year	Total Tax Revenue	Tax Revenue		Non-Tax Revenue	
		Amount	% as Total Revenue	Amount	% as Total Revenue
1986/87	5975.1	4372.4	73.2	1602.7	26.8
1987/88	7350.5	5752.9	78.3	1597.6	21.7
1988/89	7776.8	6287.2	80.8	1489.6	19.2
1989/90	9287.5	7283.9	78.4	2003.6	21.6
1990/91	10730.9	8177.4	76.4	2553.5	23.8
1991/92	13512.7	9875.6	73.1	3537.1	26.9
1992/93	15148.4	11662.5	77.0	3485.9	23.0
1993/94	19580.9	15371.5	78.5	4209.4	21.5
1994/95	24605.1	19660.0	79.9	4945.1	20.1
1995/96	27893.1	21668.0	77.7	6225.1	22.3
1996/97	30373.5	24424.3	80.4	5949.2	19.6
1997/98	32937.9	25939.8	78.8	6998.1	21.3
1998/99	37251.3	28752.9	77.2	8498.4	22.8
1999/00	42893.7	33152.1	77.3	9741.6	22.7
2000/01	48893.9	38865.1	79.5	10028.8	20.5
2001/02	50445.6	39330.6	78.0	11115.0	22.0
2002/03	56229.8	42587.0	75.7	13642.8	24.3
2003/04	62331.0	48173.0	77.3	14158.0	22.7
2004/05	70122.7	45104.7	77.2	16018.0	22.8
2005/06	72282.1	54730.4	79.5	14851.7	20.5
2006/07	87712.1	71127.0	81.09	16591.4	18.91

Source: Economic Survey, 2007/08, Ministry of Finance

4.1.2 Structure of Tax Revenue in Nepal

The structure of Nepalese tax revenue is presented in Table 4.2 in terms of direct tax revenue and indirect tax revenue form the fiscal year 1986/87 to 2006/07. From the table 4.2, it is clear that the whole Nepalese tax structure is dominated by indirect tax revenue. The volume of direct and indirect tax was Rs. 768.7 million and Rs. 3603.7 million that is 17.6 percent and 82.4 percent of total tax revenue respectively in fiscal year 1986/87. The tax revenue of 2006/07 is less than the last year and NTR is more than last year.

The amount of direct tax revenue was increasing every year as it increased form Rs 768.7 million in 1986/87 and Rs. 13968.1 million in 2005/06 except in the year 1990/91 and 2002/03. In the year 1990/91 and 2002/03 direct tax revenue were Rs. 1369.7 and Rs 10105.8 million respectively. But the percentage of direct tax revenue to total tax revenue was fluctuating every year. Form the FY 1986/87 to 2006/07, the highest contribution of direct tax revenue to total tax revenue was 27.0 percent in the FY 1999/00 with amount Rs. 8951.5 million and lowest contribution was 16.2 percent with amounting Rs. 1595.2 million, in FY 1991/92. The average share of direct tax revenue in total tax revenue for the period 1986/87 to 2006/07 was 21.74 percent.

The amount of indirect tax revenue was in increasing trend. It increased form Rs 3603.7 million in 1986/87 to Rs. 43462.3 million in 2005/06. From the FY 1986/87 to 2006/07, the highest contribution of indirect tax revenue to total tax revenues was 83.8 percent in the FY 1991/92 with amount Rs. 24200.6 million in FY 1999/00. The average share of indirect tax revenue in total tax revenue for the period 1986/87 to 2006/07 was 78.25 percent.

The trend and also in absolute value, total tax revenue, direct tax and indirect tax is increasing. Direct tax includes income tax, land revenue and registration, urban house and land tax, properly tax; vehicles tax whereas indirect tax includes customs, sales tax (VAT), entertainment tax, air flight tax, hotel tax, road and bridge maintenance tax, contract tax etc. Comparison of direct tax and indirect tax reveals the heavy reliance of economy on direct taxation. To divert the economy in the channel of development, it is necessary to increase the share of direct tax, ultimately, decreasing the share of indirect tax. Therefore, the attention should be focused on the sufficient resource mobilization through direct taxation.

Therefore, we can say that the contribution of indirect tax revenue has always been greater than direct tax revenue for the study period 1986/87 to 2006/07. For detail, please see table 4.2 below.

Table 4.2

Contribution of Direct and Indirect Tax to total Tax Revenue From FY 1986/87 to 2006/07

(Rs. In Million)

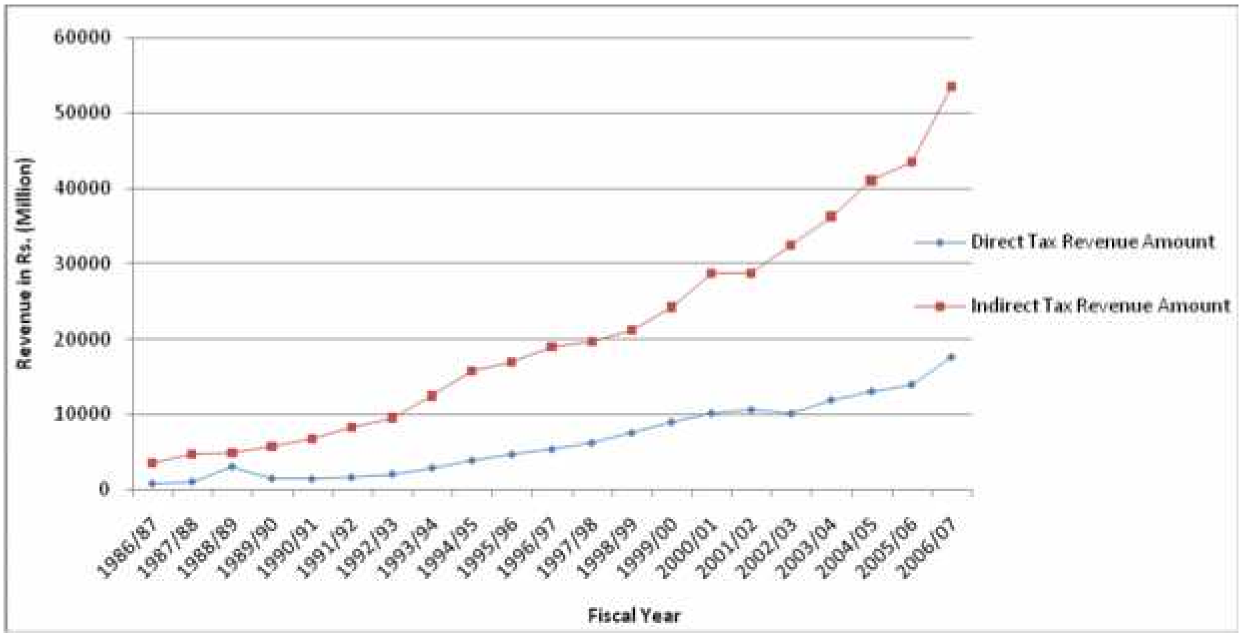
Fiscal Year	Total Tax Revenue	Direct Tax Revenue		Indirect Tax Revenue	
		Amount	% as Total Tax Revenue	Amount	% as Total Tax Revenue
1986/87	4372.4	768.7	17.6	3603.7	82.4
1987/88	5752.9	1010.2	17.6	4742.6	82.4
1988/89	6287.2	3030.4	21.2	4955.8	78.8
1989/90	7283.9	1435.1	19.7	5848.8	80.3
1990/91	8177.4	1369.7	16.7	6807.0	83.3
1991/92	9875.6	1595.2	16.2	8280.4	83.8
1992/93	11662.5	2036.2	17.5	9626.3	82.5
1993/94	15371.5	2855.3	18.6	12516.0	81.4
1994/95	19660.0	3849.3	19.6	15810.7	80.4
1995/96	21668.0	4655.9	21.5	17012.1	78.5
1996/97	24424.3	5340.0	21.9	19084.3	78.1
1997/98	25939.8	6187.9	23.9	19751.7	76.1
1998/99	28752.9	7516.1	26.1	21236.8	73.9
1999/00	33152.1	8951.5	27.0	24200.6	73.0
2000/01	38865.1	10159.4	26.1	28705.7	73.9
2001/02	39330.6	10597.5	26.9	28773.1	73.1
2002/03	42587.0	10105.8	23.7	32481.2	76.3
2003/04	48173.0	11912.6	24.7	36260.4	75.3
2004/05	45104.7	13071.8	24.2	41032.9	75.8
2005/06	54730.4	13968.1	24.3	43462.3	75.7
2006/07	71127.0	17639.5	24.8	53487.5	75.2

Source: Economic Survey, 2007/08, Ministry of Finance

Table 4.1

Contribution of Direct and Indirect Tax to total Tax Revenue

From FY 1986/87 to 2006/07



4.1.3. Composition of Direct Tax Revenue

Direct tax is a levy by the government on the income and wealth received households and business enterprises in order to raise revenue and as an instrument of fiscal policy. Direct tax is so called because it is normally assumed that the burden of payment falls directly of the person or business enterprises immediately responsible for paying them and can not be passes on to any body else. Direct tax is progressive in nature so far as the amount paid varies significantly according the income and wealth of the taxpayer.

Direct tax in Nepalese economy in composed of different taxes namely: income tax, land tax, property and wealth tax, tax on registration. Table 4.1.3 shows that composition of direct transform FY 1986/87 to FY 2006/07. The contribution of income tax has become larger than the other component of direct tax. Contribution of income to direct tax revenue was 58.18 percent in 1986/87. In increases slowly and reached to 74.27 percent in FY 2005/06. Its percentage contribution was maximum in 2000/01, which was 89.71 percent and lowest contribution was 54.85 percent with amounting Rs 875.0 million in FY 1991/92. The average contribution of Income Tax Revenue in total direct tax revenue for the period 1986/87 to 2006/07 was 71.58 percent.

Contribution of land revenue to direct tax revenue was 9.42 percent in the year 1986/87 where as in the 2005/06 was 0.00 percent. It started to decrease and reached to 0.00 percent in 2005/06. Its contribution was maximum 9.42 percent in 1986/87 and was minimum 0.00 percent in 2002/03, 2003/04, 2004/05 and 2005/06. The contribution of land revenue was zero percent started form the FY 2002/03. This indicated that the contribution of land revenue in direct tax revenue was zero percent in 2005/06.

The contribution of house and land registration to direct tax revenue was 27.52 percent and 15.61 percent in the year 1986/87 and 2005/06 respectively. Contribution of house and land registration tax to direct tax revenue is in fluctuating trend during the period of 20years form f1986/87 to 2005/06. Its contribution was maximum 28.33 percent in 1987/88 and was minimum 5.98 percent in 2000/01. For detail, table 4.3 and figure 4.2 shows the component of direct tax.

Table 4.3

Components of Direct Tax and their Percentage share

From the FY 1986/87 to 2006/07

(Rs. In Million)

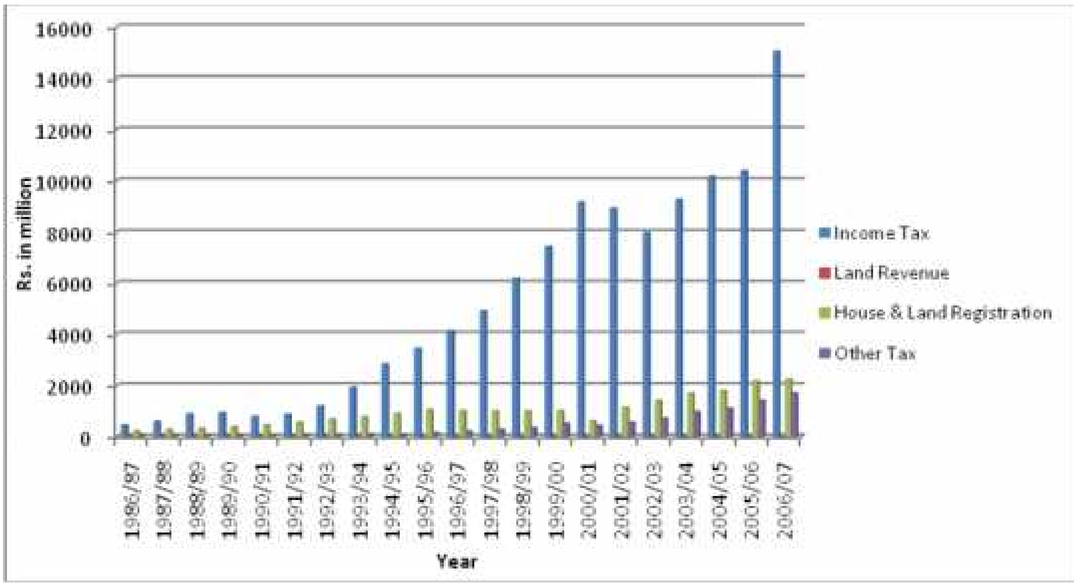
Fiscal Year	Total Direct Tax Revenue	Total %	Income Tax	% as Direct Tax	Land Revenue	% of Direct Tax	House & Land Registration	% Of Direct Tax	Other Tax	% as Total Tax Revenue
1986/87	768.70	100	447.20	58.18	72.40	9.42	211.60	27.52	37.50	4.88
1987/88	1010.20	100	596.10	59.01	80.70	7.99	286.20	28.33	47.20	4.67
1988/89	1331.40	100	879.60	66.07	80.40	6.04	320.60	24.08	50.80	3.81
1989/90	1435.10	100	932.10	64.95	74.60	5.20	377.10	26.28	51.30	3.57
1990/91	1369.70	100	783.80	57.22	82.10	5.99	456.60	33.34	47.20	3.45
1991/92	1595.20	100	875.00	54.85	64.80	4.06	571.30	35.81	84.10	5.28
1992/93	2036.20	100	1198.20	58.84	69.40	3.41	685.50	33.67	83.10	4.08
1993/94	2855.30	100	1921.20	67.29	61.00	2.14	772.20	27.04	100.90	3.53
1994/95	3849.30	100	2823.40	73.35	34.90	0.91	902.80	23.45	88.20	2.29
1995/96	4655.90	100	3431.40	73.70	18.20	0.39	1048.40	22.52	157.90	3.39
1996/97	5340.00	100	4123.40	77.22	5.90	0.11	1009.50	18.90	201.20	3.77
1997/98	6187.90	100	4898.10	79.16	3.60	0.06	1000.60	16.17	285.60	4.61

1998/99	7516.10	100	6170.20	82.09	1.40	0.02	1001.80	13.33	342.70	4.56
1999/00	8951.50	100	7420.60	82.90	4.60	0.05	1011.30	11.30	515.00	5.75
2000/01	10159.40	100	9144.00	89.71	5.10	0.05	607.80	5.98	432.50	4.26
2001/02	10597.50	100	8903.70	84.02	0.80	0.01	1131.00	10.67	562.00	5.30
2002/03	10105.80	100	7966.20	78.83	0.00	0.00	1414.30	13.99	725.30	7.18
2003/04	11912.60	100	9245.90	77.61	0.00	0.00	1697.50	14.25	969.20	8.14
2004/05	13071.8	100	10159.40	77.72	0.00	0.00	1799.20	13.76	1113.2	8.52
2005/06	13968.1	100	10373.70	74.27	0.00	0.00	2181.10	15.61	1413.30	10.22
2006/07	18980.3	100	15034	79.21	0.00	0.00	2253.5	11.87	1692.8	9.01

Source: Economic Survey, 2007/08, Ministry of Finance

Figure 4.2

Composition of Direct Tax Revenue form the FY 1986/87 to 2006/07



4.1.4 Composition of Indirect Tax Revenue

Indirect tax includes three categories viz. Custom duties, excise duties and sales/VAT in Nepal. Thus in direct tax also called on commodity. These taxes are collected form the produces or the sellers in the expectation that they will e passes on/to consumers. It is also said that indirect tax are primarily borne by consumes.

The contributes of costumes duties total indirect tax were 41.78 and 32.04 percent in the FY 1986/87 and 2006/07 with amounting Rs. 1505.70 and Rs. 16708.00 million respectively of the total tax revenue, in FY 2006/07, the share if customs was 23.41 percent. Under the tax revenue, customs tax was decreased by 2.3 percent in FY 2005/06. Table 4.4 shows that share of the customs duties to total indirect tax is more than 35.30 percent in 46.70 percent and low contribution of customs duties to indirect tax was 35.30 percent in FY 2005/06. In the study period, the average contribution of customs duties to indirect tax was 43.02 percent.

Excise duty is levied only on the domestically manufactured goods and the imported goods are kept outside the excise net in the recent year. In FY

2006/07 excise duty increased by 43.58 percent where as in 2005/06 it was increased by only 0.96 percent. In FY 2006/07 the contribution of excise duty to indirect tax was 17.06 percent where as in FY 1986/87 it was 18.83 percent. From the FY 1986/87 to 2006/07, the highest contribution of excise duty to indirect tax was 18.83 percent in the FY 1986/87 with amounting Rs. 678.6 million and lowest contribution was 10.48 percent with amounting Rs. 1657.3 million in FY 1986/87 to 2006/07 was 17.06 percent.

The contribution of VAT on total indirect tax was 49.72 and 50.00 percentage in FY 2005/06 and 2006/07 respectively. The average share of VAT to indirect tax revenue for the period 1986/87 to 2006/07 was 37.02 percent. For detail please see the below table and figure.

Table 4.4

Components of Indirect Tax and their Percentage Share

From the FY 1986/87 to 2006/07

(Rs In Millions)

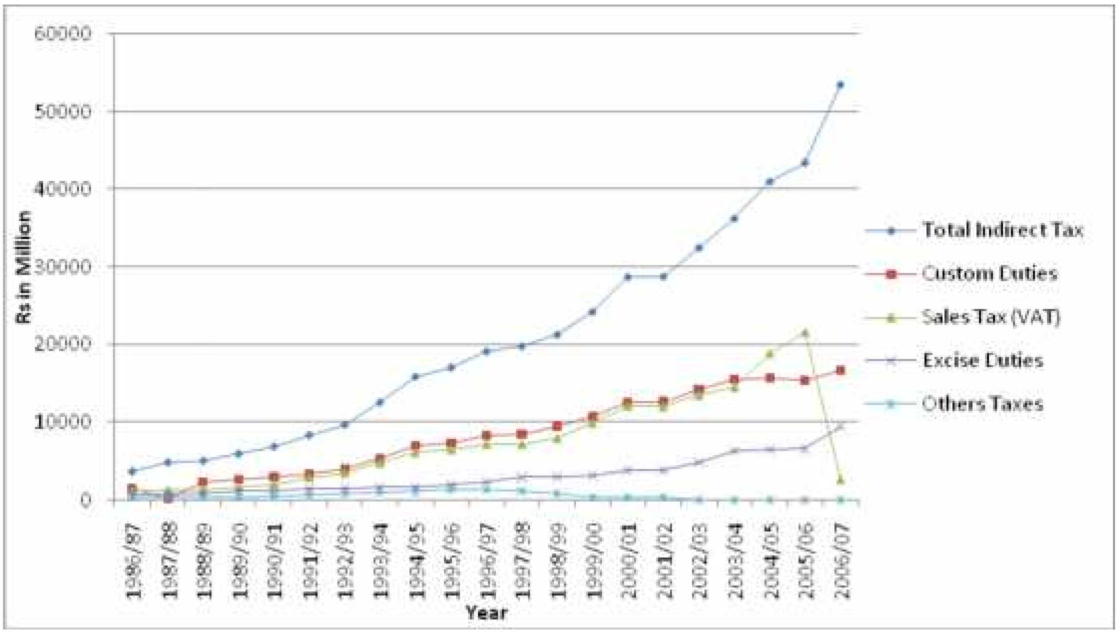
Fiscal Year	Total Indirect Tax	Custom Duties		Sales Tax (VAT)		Excise Duties		Others Taxes	
		Amount	As % of ITA	Amount	As % of ITA	Amount	As % of ITA	Amount	As % of ITA
1986/87	3603.7	1505.702	41.78	1143.80	31.74	678.60	18.83	275.50	7.64
1987/88	4742.6	214.60	46.70	1300.50	37.42	825.30	17.40	402.40	8.48
1988/89	4955.8	2289.90	46.21	1379.70	27.84	877.70	17.71	408.50	8.24
1989/90	5848.8	2684.90	45.91	1650.10	28.21	1097.00	18.76	416.80	7.13
1990/91	6807.0	3044.30	44.72	2026.10	29.76	1200.20	17.63	536.70	7.88
1991/92	8280.4	3358.90	40.56	2840.70	34.31	1414.30	17.08	666.50	8.05
1992/93	9626.3	3945.00	40.98	3438.20	35.72	1452.80	15.09	790.30	8.21
1993/94	12516.0	5255.00	41.99	4693.10	37.50	1592.50	12.72	975.60	7.79
1994/95	15810.7	7018.10	44.39	6031.70	38.15	1657.30	10.48	1103.60	6.98
1995/96	17012.1	7327.40	43.07	6431.30	37.80	1944.30	11.43	1309.10	7.70
1996/97	19084.3	8309.10	43.54	7126.50	37.34	2298.10	12.04	1350.60	7.08
1997/98	19751.7	8502.20	43.05	7122.60	36.06	2885.80	14.61	1241.00	6.28
1998/99	21236.8	9517.70	44.82	7882.20	37.12	2953.20	13.91	883.70	4.16
1999/00	24200.6	10813.30	44.68	9854.90	40.72	3127.60	12.92	404.80	1.67
2000/01	28705.7	12552.10	43.73	12047.80	41.97	3771.20	13.14	334.60	1.17
2001/02	28773.1	12658.80	44.06	11964.00	41.64	3807.00	13.25	303.30	1.06
2002/03	32481.2	14236.80	43.83	13459.70	41.44	4785.10	14.73	0.00	0.00
2003/04	36260.4	15554.80	42.90	14478.90	39.93	6226.70	17.17	0.00	0.00
2004/05	41032.9	15701.60	38.27	18885.40	46.00	6445.90	15.71	0.00	0.00
2005/06	43462.3	15344.00	35.30	21610.70	49.72	6507.60	17.97	0.00	0.00
2006/07	53487.5	16708.00	32.04	2609.56	50.00	9343.2	17.06	0.00	0.00

Source: Economic Survey, 2007/08, Ministry of Finance

Figure 4.3

Composition of Indirect Tax and their percentage share

From the FY 1986/87 to 2006/07



4.1.5 Income Tax Revenue and Its Composition in Nepal

Income tax is an important source of the direct tax. Its structure of Nepal is the composition of tax from public enterprises, semi public enterprises, private corporate bodies, Individual, remuneration and tax in interest. Here public enterprises consist of 100 percent government ownership; semi public enterprises include 51 percent government ownership. Private corporate bodies mean public limited companies. Individuals denote from government and non government sectors. The interest tax levies on the interest received.

When income tax was introduced in Nepal in first as business profit and remuneration tax in 1959/60, it had contributed Rs. 203 thousand as revenue. The composition of income tax revenue for the recent 21 years is presented in the table 4.5 and 4.6. In FY 1986/87 the amount of income tax was Rs 448.5 million where as in FY 2006/07 it was Rs 12308.86 million. Income tax revenue collection increased by 18.65 percent in FY 2006/07 totaling Rs

12308.86 million compared to FY 2005/06. Table 4.5 presents structure of income tax in Nepal, which shows that the total income tax increased in every FY except in the year 1990/91, 1991/92, 2001/02 and 2002/03. In the year 1990/91, it was decreased to Rs 783.8 million from Rs. 932.1 million in 1989/90. In 1991/92, it was Rs 875.0 million then it started to increase in each year till 2000/01. Again, in the year 2001/02 and 2002/03 income tax revenue was decreased to Rs. 8903.7 and 7966.2 million respectively.

Total amount contribution form public enterprises had fluctuated form Rs 120.9 million to Rs2928.00 million. Total amount of contribution is increasing each year from Rs. 93.1 million in the initial year of study and reached Rs. 2056.6 million in the year FY 2003/04 except 1990/01, 2001/02, 2002/03, 2004/05, 2005/06. Public enterprises tax revenue collection decreased by 47.89 percent in FY 2006/07 totaling Rs. 101.97 million compared to FY 2005/06. In the study period of 21 years from 1986/87 to 2006/07, the highest contribution of public enterprises to income tax was 33.35 percent in the Fiscal Year 1995/96 with amounting Rs. 1144.5 million and lowest contribution was 1.89 percent with amounting Rs 101.97 million in Fiscal Year 2006/07. The average share of Public enterprises to income tax revenue for the period 1986/87 to 2006/07 was 23.96 percent.

Contribution from semi-public enterprises is lowest that other. It has not contributed one percent to income tax in any year. It was fluctuating tin each year. The contribution was higher in the year 1991/92 when it was Rs 5.3 million. In the year 1986/87, its contribution was 0.27 percent of total income tax revenue. From the Fiscal Year 1994/95 to 2006/07, there is no contribution of semi-public enterprises to total income tax revenue.

Private corporate body is also one of the components of income revenue. In the fiscal year f19086/87, the contribution of private corporate bodies to income tax revenue was 0.45 percent with amounting Rs. 2 million whereas 32.82

percent with amounting Rs 5717.1 million in the fiscal year 2006/07. Private corporate bodies' revenue collection increased by 67.93 percent in fiscal year 2006/07 totaling Rs. 5717.1 million compared to fiscal year 2006/07. The average share of private corporate bodies to income tax revenue for the study period of 21 years from 1986/87 to 2006/07 was 11.9 percent.

Contribution of individuals to total income tax is the highest in each year. Share of individuals was Rs. 284.3 million in the fiscal year 1986/87 and increased Rs. 5234.4 million in last year of study period 2006/07. Table 4.5 shows the contribution of income tax from individuals increased in every year except in the year 1990/91 and 2002/03. The percent contribution of income tax form individuals to total income tax revenue was fluctuating. It was 63.32 percent in 1986/87 and it reduced to 40.82 percent in the year 2006/07. The average share of individuals to income tax revenue for the study period of 20 years from 1986/87 to 2006/07 was 51.36 percent.

Remuneration revenue collection increased by 13.82 percent in the fiscal year 20065/07 totaling Rs.2007.9 million compared to fiscal year 2005/06.The percentage contribution of income tax from remuneration to total income tax revenue was also fluctuating. It was 6.88 percent in 1986/87 and it reached to 17.0 percent in2005/06. The average share of remuneration to income tax revenue for the study period 1986/87 to 2006/07 was 7.8 percent.

The share of interest was Rs 9.7 million in the fiscal year 1986/87 and Rs. 1054.9 million in the fiscal year 2006/07. The percentage contribution of income tax from interest to total income tax revenue was also fluctuating. In the study period 1986/87 to 2006/07, the highest contribution of interest tax to income tax was 10.85 percent in the fiscal year 2002/03 with amounting Rs. 864.0 million and lowest contribution was 1.41 percent with amounting Rs. 13.1 million in fiscal year 1989/90.The average share of interest tax revenue to income tax revenue for the study period of 20 years from 1986/87 to 2006/07 was 4.86 percent. For detail, please, see table 4.5 and 4.6.

Table 4.5

Structure of Income Tax Revenue

From the FY 1986/87 to 2006/07

(Rs. In Million)

Fiscal Year	Total Income Tax Revenue	Public Enterprises	Semi-Public Enterprises	Private Corporate Bodies	Individuals	Remuneration	Tax on Interest
1986/87	448.50	120.90	1.20	2.00	284.30	30.90	9.70
1987/88	596.10	193.20	1.90	1.90	348.60	33.40	17.10
1988/89	879.60	216.90	2.60	0.40	597.40	43.80	18.50
1989/90	932.10	240.90	2.40	0.00	625.00	50.70	13.10
1990/91	783.10	162.20	2.70	0.00	531.20	49.90	37.80
1991/92	875.00	171.10	5.30	6.50	617.90	54.70	19.50
1992/93	1198.20	255.30	2.60	9.50	800.70	56.70	73.40
1993/94	1921.20	534.10	2.10	19.70	1184.80	83.80	96.70
1994/95	2823.40	860.20	0.00	440.10	1293.10	118.40	111.60
1995/96	3431.40	1144.50	0.00	563.90	1470.10	133.10	119.80
1996/97	4123.40	1231.10	0.00	858.40	1711.40	168.10	154.40
1997/98	4898.10	1317.80	0.00	925.10	2120.80	322.20	212.20
1998/99	6170.20	1526.50	0.00	1155.00	2772.70	396.50	319.50
1999/00	7420.60	2198.80	0.00	1339.50	3016.40	451.50	414.40
2000/01	9114.00	2928.00	0.00	1924.30	3200.50	597.30	463.90
2001/02	8903.70	1769.30	0.00	1412.00	4419.20	835.60	467.70
2002/03	7966.20	1251.00	0.00	1236.30	3362.30	1252.60	864.00
2003/04	9245.90	2056.60	0.00	1531.30	3533.40	1391.20	733.40
2004/05	10159.40	1332.40	0.00	2467.80	3926.30	1675.90	757.00
2005/06	10373.70	195.70	0.00	3408.30	4234.70	1764.10	774.90
2006/07	123.8.86	101.97	0.00	7517.1	5234.40	2007.9	1054.9

Source: Economic Survey, 2007/08, Ministry of Finance NG.

Table 4.6

Structure of Income Tax Revenue

From the FY 1986/87 to 2006/07

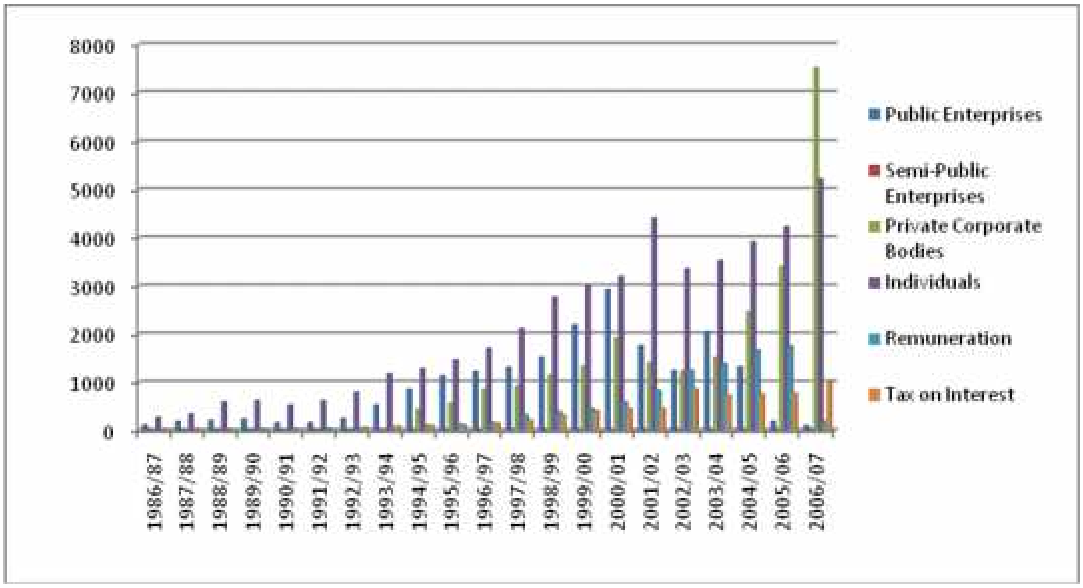
(In Percentage)

Fiscal Year	Total Income Tax Revenue	Public Enterprises	Semi-Public Enterprises	Private Corporate Bodies	Individuals	Remuneration	Tax on Interest
1986/87	100.00	26.93	0.27	0.45	63.32	6.88	2.16
1987/88	100.00	32.41	0.3	0.32	58.48	5.60	2.87
1988/89	100.00	24.66	0.30	0.05	67.92	4.98	2.10
1989/90	100.00	25.84	0.26	0.00	67.05	5.44	1.41
1990/91	100.00	20.69	0.34	0.00	67.77	6.37	4.42
1991/92	100.00	19.55	0.61	0.74	70.62	6.25	2.23
1992/93	100.00	21.31	0.22	0.79	66.83	4.73	6.13
1993/94	100.00	27.80	0.11	1.03	61.67	4.36	5.03
1994/95	100.00	30.47	0.00	15.59	45.80	4.19	3.95
1995/96	100.00	33.35	0.00	16.43	42.84	3.88	3.49
1996/97	100.00	29.86	0.00	20.82	41.50	4.08	3.74
1997/98	100.00	26.90	0.00	18.89	43.30	6.58	4.33
1998/99	100.00	24.74	0.00	18.72	44.94	6.43	5.18
1999/00	100.00	29.63	0.00	18.05	40.65	6.08	5.58
2000/01	100.00	32.13	0.00	21.11	35.12	6.55	5.09
2001/02	100.00	19.87	0.00	15.86	49.63	9.38	5.25
2002/03	100.00	15.70	0.00	15.52	42.21	18.72	10.85
2003/04	100.00	22.24	0.00	16.56	38.22	18.05	7.93
2004/05	100.00	13.11	0.00	24.29	38.65	1650	7.45
2005/06	100.00	1.89	0.00	32.82	40.82	17.00	7.47
2006/07	100.00	0.82	0.00	46.45	42.52	16.20	8.57

Source: Economic Survey, 2007/08, Ministry of Finance NG.

Figure 4.4

Composition of Income Tax Revenue from FY 1986/87 to 2006/07



4.1.6 Contribution of Income Tax to Direct Tax Revenue, Total Tax Revenue, Total Revenue and GDP

1. Contribution of Income Tax to Direct Tax Revenue

Contribution of income tax becomes larger than the other component of direct tax. The major sources of direct tax are income tax revenue. Percentage share of income tax to direct tax revenue is in increasing trend. It was 58.41 percent in 1986/87 and than in started to increase and reached to 66.07 percent in 1988/89. Then it started to decrease and reached to 58.84 percent in 1992/93. Again, it started to increase and reached to 89.71 percent in 2000/01 and than it started to decrease and reached to 74.27 percent in 2005/06. The average contribution of income tax to direct tax revenue for the study period 20 years from 1986/87 to 2005/06 was 71.85 percent. Its percentage contribution was maximum in 2000/01, which was 89.71 percent and lowest contribution was 54.85 percent in fiscal year 1994/92. For detail, please see table 4.7.

2. Contribution of Income Tax to Total Tax Revenue

Total tax revenue constitutes direct and indirect tax revenue. Table 4.7 shows that the contribution on income tax to total tax revenue is in increasing trend except in the some years. Contribution was 10.27 percent in the initial period of the study. The contribution of income tax to total tax revenue was 17.31 percent in fiscal year 2006/07, whereas it was 18.06 percent in 2005/06. The highest contribution was 23.45 percent in fiscal year 2000/01 and lowest contribution was 8.86 percent in FY 1991/92. The average contribution of income tax to total tax revenue for the study period 1986/87 to 2006/07 was 15.96 percent. For detail, please see table 4.7.

3. Contribution of Income Tax to Total Revenue

Table 4.7 shows that the percentage contribution of income tax to total revenue. Total revenue constitutes tax and non tax revenue. The share of income tax as a percentage of total revenue has fluctuated form 6.48 percent to 23.01 percent. Contribution of income to total revenue was 7.54 percent in the year 1986/87. After than, it started to increase and reached to 11.31 percent in 1988/89. Then it started to decrease and reached to 6.48 percent in 1991/92. After than, it started to increase and reached to 18.64 percent in the 2000/01 and than again it started decrease and reached to 14.83 percent in 2003/04 and then again started to decrease and reached to 23.01 percent in FY 2006/07. In the study period of 21 years form 1986/87 to 2006/07 the highest contribution of income tax revenue to total revenue was 23.01 percent in the fiscal year 2006/07 and lowest contribution was 6.48 percent in the fiscal year 1991/92. The average contribution of income tax to total revenue of the study period form 1986/87 to 2006/07 was 12.44 percent. For detail, please see table 4.7.

4. Contribution of Income Tax to GDP

Table 4.7 shows that, the percentage contribution of income tax to GDP. Contribution of income tax to GDP was 0.73 percent in FY 1986/87 and 1.95 percent in FY 2003/04. In the study period of 20 years the highest contribution of income tax to GDP was 2.32 percent in FY 2000/01 and lowest contribution was 0.60 percent in FY 1991/92. The average contribution of income tax to GDP of the study period form 1986/87 to 2003/04 was 1.3 percent. For detail please see table 4.7.

Table 4.7

Contribution of Income Tax to Direct Tax Revenue Total Tax Revenue Total Revenue and GDP from FY 1986/87 to 2005/06

Fiscal Year	Total Income Tax	% of Income Tax on Direct Tax Revenue	% of Income Tax on Total Tax Revenue	% of Income Tax on Total Revenue	% of Income Tax on GDP
1986/87	449.00	58.41	10.27	7.54	0.73
1987/88	596.10	59.01	10.36	8.11	0.81
1988/89	879.60	66.07	13.99	11.31	1.02
1989/90	932.10	64.95	12.80	10.04	0.93
1990/91	783.80	57.22	9.58	7.30	0.67
1991/92	875.00	54.85	8.86	6.48	0.60
1992/93	1198.20	58.84	10.27	7.91	0.73
1993/94	1921.20	67.29	12.50	9.81	1.00
1994/95	2823.40	73.35	14.36	11.49	1.34
1995/96	3431.40	73.70	15.84	12.30	1.43
1996/97	4123.40	77.22	16.88	13.58	1.53
1997/98	4898.10	79.16	18.88	14.87	1.69
1998/99	6170.20	82.09	21.46	16.65	1.87
1999/00	7420.60	82.90	22.38	17.30	2.03
2000/01	9114.00	89.71	23.45	18.64	2.32
2001/02	8903.70	84.02	22.64	17.65	2.20
2002/03	7966.20	78.83	18.71	14.17	1.82
2003/04	9245.90	77.61	19.19	14.83	1.95
2004/05	10159.40	77.72	18.78	14.49	
2005/06	10373.70	74.27	18.06	14.35	

2006/07	12308.86	69.78	17.31	23.01	

Source: Table 4.6

4.2 Empirical Investigation

4.2.1 Introduction

Data collected by the researcher or through agent for the first time form related field and possessing original characters are known as primary source (data). On the other hand, data collected by some one else, used already and are make available to others in the form of published statistics are known a secondary data. Once primary data have been used, it loses its primary characteristics (originality) and becomes secondary. In this study, this part is related with primary sources of data.

An empirical investigation has been conducted in order to find out various aspects of implementation problem of Income Tax Act, 2058 in Nepal form the real life experience. For this, questionnaire was developed and responses were collected form the respondents. Respondents were classified into two groups-tax experts and tax payers. The responses received form various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study.

The questionnaire was asked either for a yes/no response or asked for ranking of the choice according to the number of alternatives where the first chicer were assigned weight according to number of alternatives. If the number of alternatives were 90 then the first preferred choice got nine points and the last preferred choice got one point. Any alternative which was not ranked did not get any point. The total points available to each choice were converted into percentage in reference to the total points available for all choices. The choice with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as last choice.

The following table 4.8 shows the group of respondents.

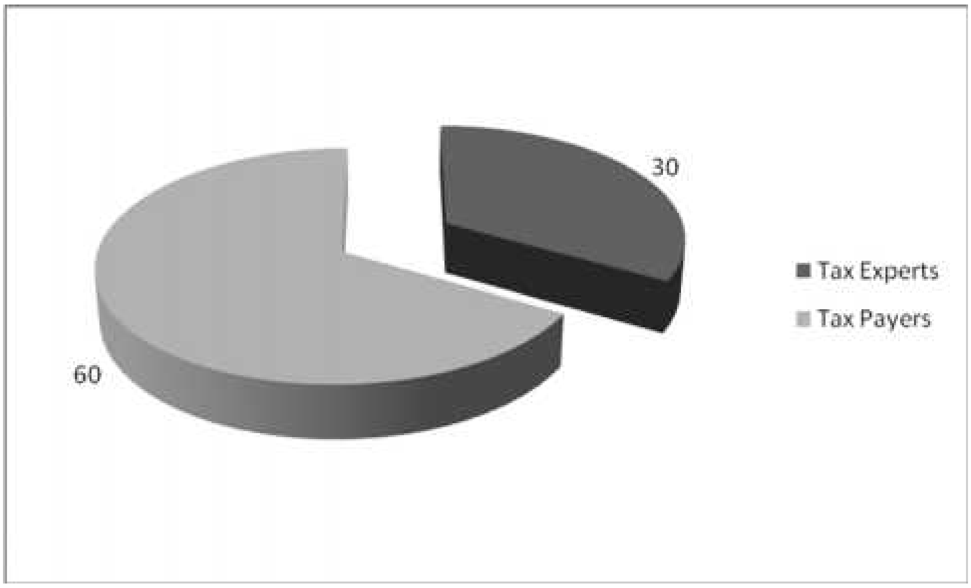
Table 4.8

Group of Respondents and Code Used

S.N.	Group of Respondents	Sample Size	Code used
1	Tax Experts	30%	G
2	Tax Payers	60%	H
3	Total	90%	

Figure 4.5

Group of Respondents and Code Used



4.2.2 Opinion towards problem in Implementation of Income Tax Act, 2058 in Nepal

To know the respondents opinion about the problems in the implementation of Income Tax Act, 2058 in Nepal, the first question "Do you think there is problem in the implementations of Income Tax Act, 2058 in Nepal?" was asked. The responses received from the respondents are tabulated as follows:

Table 4.9

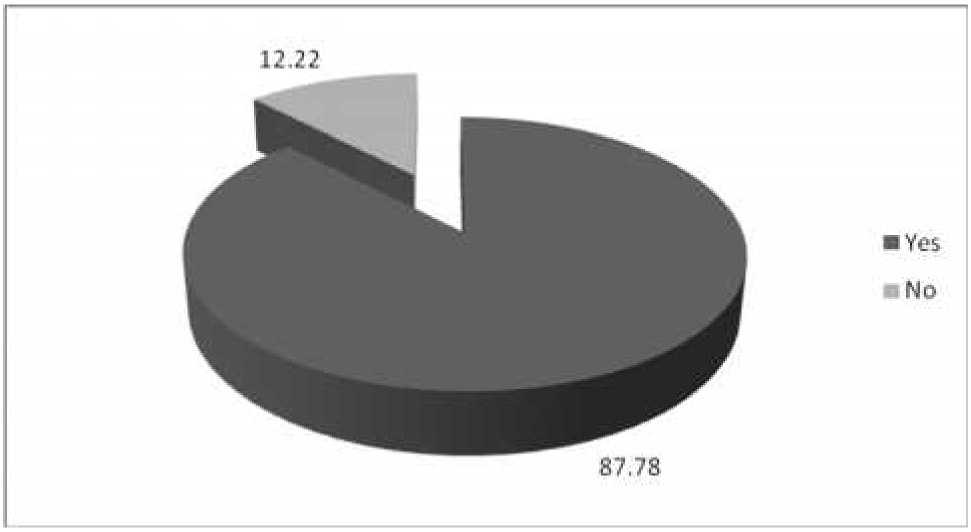
Opinion towards problems in implementation of Income Tax Act, 2058 in Nepal

Respondents Group	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
G (Tax Expert)	27	90	3	10	30	100
H (Tax Payers)	52	86.67	8	13.33	60	100
Total	79	87.78	11	12.22	90	100

Source: Opinion Survey

Figure 4.6

Opinion towards problems in implementation of Income Tax Act, 2058 in Nepal



From the above table, 90 percent of the tax experts and 86.67 percent of the tax payers approved there is problem in the implementation of Income Tax Act, 2058 in Nepal and only 10 percent of tax experts and 13.33 percent of the tax payers approved there is no problems in the implementation of Income Tax Act, 2058 in Nepal.

Out of the 90 respondents, 79 respondents, i.e. 87.88 percent voted for problems in implementation and 11 respondents, i.e. 12.22 percent voted for there is no problem in implementation of Income Tax Act, 2058 in Nepal.

From the above table it has been clear that there is problem in the implementations of Income Tax Act, 2058 in Nepal. Most of the respondents, i.e. 87.78 percent, thought that there is problem in the implementation of Income Tax Act, 2058.

Hence, it can be conducted that there is problem in the implementations of Income Tax Act, 2058 in Nepal.

4.2.2.1 Test of Hypothesis

Hypothesis: 1

We have 2 × 2 contingency table with cell frequency less that 5 as follows:

Respondents Group	**Yes**	**No**	**Total**
G (Tax Expert)	a = 27	b= 3	(a + b) = 30
H (Tax Payers)	c = 52	d=8	(c + d) = 60
Total	(a + c) = 79	(b + d) = 11	N = 90

Null Hypothesis H0: There is no significant relationship between the views of tax experts and tax payers with respect to the problem in the implementations of Income Tax Act, 2058 in Nepal.

Alternative Hypothesis, H_1: There is significant relationship between the views of tax experts and tax payers with respect to the problem in the implantations of Income Tax Act, 2058 in Nepal.

Applying Yates correction,

$$\aleph^2 = \frac{N\left[|ad - bc| - \frac{N}{2}\right]^2}{(a+b)(c+d)(a+c)(b+d)}$$

$$= \frac{90\left[|27 \times 8 - 3 \times 52| - \frac{90}{2}\right]^2}{30 \times 60 \times 79 \times 11}$$

= 0.013

Calculated $\chi^2 = 0.013$

Level of Significance, …. = 5% = 0.05 (let)

Degree of freedom = (r-1) (c-1) = (2-1) x (2-1) = 1 x 1 = 1

From table, tabulated … (0.05,1) = 3.84

Decision: Since, calculated value is less than tabulated value (0.05,1), so we accept null hypothesis (H_o) at 5% level of significance i.e.: There is no significant relationship between the views of tax experts and tax payers with respect to the problem in the implementations of Income Tax Act, 2058 in Nepal.

4.2.2.2. Reasons behind the Major Problems in the Implementation of Income Tax Act, 2058 in Nepal

Most of the respondents responded that there are problems in implementation of Income Tax Act, 2058 in Nepal. In order to know the problems in the implementation of Income Tax Act, 2058, the next question was asked, "If yes, what are the major problems in implementation of Income Tax Act, 2058 in Nepal." The respondents were requested to rank their answer from 1 (most important) to 9 (least important). The responses received form the respondents are tabulated as follows.

Table 4.10

Major Problems in the Implementation of Income Tax Act, 2058 in Nepal

S.N.	Major Problems	Group		Total Points	%	Rank
		g				
1	Lack of educated people	238	196	434	12.04	5

2	Political problem	231	265	496	13.76	1
3	Complicated language	262	174	436	12.10	4
4	Ineffective enforcement of fine & penalty	196	172	368	10.21	6
5	Illegal business activities	267	209	476	13.21	2
6	Tax evasion & avoidance	236	202	438	12.15	3
7	Low responsibility of tax payers & tax authorities	175	189	364	10.10	7
8	Lack of appropriate assessment procedure	144	179	323	8.96	8
9	Administrative deficiency	96	173	269	7.47	9
	Total			3604	100	

Source: Opinion Survey

The major problems in implementation of Income Tax Act, 2058 in Nepal were ranked in order of the preference of the respondents as follows (see table 4.10 for details).

1. Political problems
2. Illegal business activities
3. Tax evasion and avoidance
4. Complicated language
5. Lack of educated people
6. Ineffective enforcement of fine and penalty
7. Low responsibility of tax payer and tax authorities
8. Lack of appropriate assessment procedure
9. Administrative deficiency

It can be concluded form the above results that in the opinion of the respondents, political problem is the most powerful reason behind the problem in implementations of Income Tax Act, 2058 in Nepal. Similarly, in the opinion of the respondents, illegal business activities, tax evasion and avoidance, complicated language, lack of educated people, ineffective enforcement of fine and penalty, low responsibility of tax payers & tax authorities, lack of appropriate assessment procedure and administrative deficiency are the major problem in implementation of Income Tax Act, 2058 in Nepal respectively.

To know whether there is positive or negative correlation between the above views of tax experts and tax payers, it is tested by Spearman's rank correlations coefficient.

Test of Spearman's Rank Correlation:

Rank Correlation: 1

We have,

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

Where,

rs= spearman's rank correlation coefficient,

d= difference of corresponding ranks,

n= number of pairs of observations

The value of rs lines between -1 and 1

Table 4.11

Calculation of Spearman's Rank Correlation Coefficient

S.N.	Major Problems in Implementation	Total Points	Re-Rank	Total Points	RE-Rank	Diff. of the Rank	Square of R_1-R_2
		G	R_1	H	R_2	d= R_1-R_2	D_2
1	Lack of educated people	238	3	196	4	-1	1
2	Political problem	231	5	265	1	4	16
3	Complicated language	262	2	174	7	-5	25
4	Ineffective enforcement of fine & penalty	196	6	172	9	-3	9
5	Illegal business activities	267	1	209	2	-1	1
6	Tax evasion & avoidance	236	4	202	3	1	1
7	Low responsibility of tax payers & tax authorities	175	7	189	5	2	4
8	Lack of appropriate assessment procedure	144	8	179	6	2	4
9	Administrative deficiency	96	9	173	8	1	1
	n= 9						62

Source: Table 4.10

Note: G refers to tax experts and H refers to taxpayers.

The above table gives $\sum d_2 = 62$ & n = 9 to compute rank correlation coefficient as:

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

$$= 1 - \frac{6(62)}{9(81-1)}$$

$$= 0.48$$

Decision: The correlation coefficient i.e. 0.48 indicates that there is position correlation between tax experts and tax payers ranking regarding the reasons behind the major problems in implementation of Income Tax Act, 2058 in Nepal.

4.2.3 Opinion towards Modernness & Effectiveness of Income Tax Act, 2058

To measure the modernness and effectiveness of the new Income Tax Act, 2058 in comparison to the previous Income Tax Act, 2031, a question, “In your opinion, is the Income Tax Act, 2058 a modern & more effective Tax Act that Income Tax Act, 2031?” was asked. The responses received form the respondents are tabulated as below.

Table 4.12

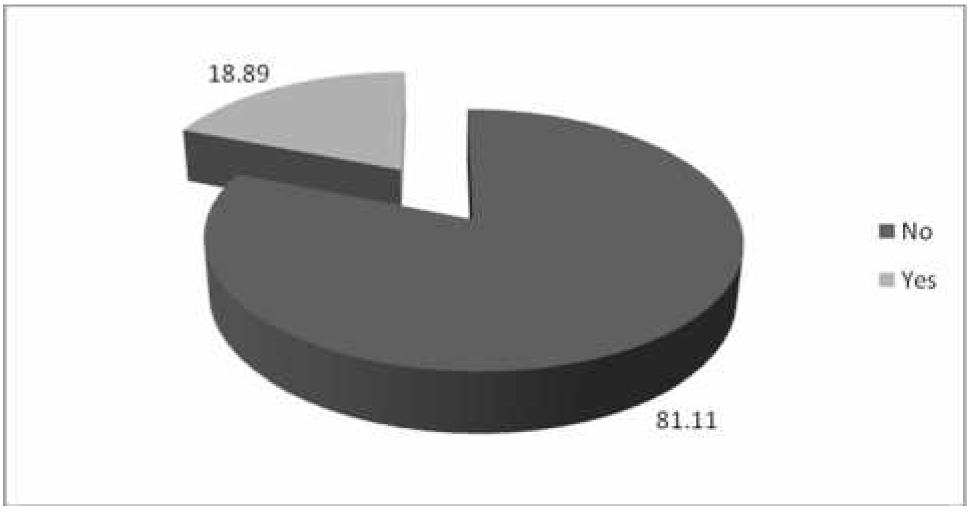
Modernness & Effectiveness of Income Tax Act, 2058

Respondents group	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
G (Tax Expert)	25	83.33	5	16.67	30	100
H (Tax Payer)	42	80.00	12	20.00	60	100
Total	73	81.11	17	18.89	90	100

Source: Opinion survey.

Figure 4.7

Opinion towards Modernness & Effectiveness of Income Tax Act, 2058



From the above table, it is cleared that 81.11 percentage of the respondents approved Income Tax Act, 2058 is modern & more effective Tax Act that Income Tax Act, 2031 and only 18.89 percentage of the respondents does not recognize Income Tax Act, 2058 is a modern & more effective Tax Act that Income Tax Act, 2031. Hence, it can be concluded that Income Tax Act, 2058 is a modern and more effective Tax Act that Income Tax Act, 2031.

4.2.3.1 Test of Hypothesis

Hypothesis: 2

We have 2 × 2 contingency table with cell frequency 5 or more as follows:

Respondents Group	**Yes**	**No**	**Total**
G (Tax Expert)	a = 25	b= 5	(a + b) = 30
H (Tax Payers)	c = 48	d= 12	(c + d) = 60
Total	(a + c) = 73	(b + d) = 17	N = 90

Null Hypothesis H0: There is no significant relationship between the views of tax experts and tax payers with respect to the modernness & effectiveness of Income Tax Act, 2058 than Income Tax Act, 2031.

For 2 x 2 contingency table, the value of can be calculated by using following formula:

$$\aleph^2 = \frac{N(ad - bc)^2}{(a+b)(c+d)(a+c)(b+d)}$$

$$= \frac{90(25 \times 12 - 5 \times 48)^2}{30 \times 60 \times 73 \times 17}$$

=0.15

Calculated $\aleph^2 = 0.15$

Level of Significance, …..= 5% = 0.05 (let)

Degree of freedom = (r-1) (c-1) = (2-1) x (2-1) = 1 x 1 = 1

From table, tabulated …(0.05,1) = 3.84

Decision: Since, calculated x2 is less than tabulated x2(0.05,1), so we accept null hypothesis (H0) at 5% level of significance i.e. there is no significant relationship between the views of tax experts and taxpayers with respect to the modernness & effectiveness of Income Tax Act, 2058 than Income Tax Act, 2031.

4.2.4 Opinion towards Contribution of Income Tax on National Revenue

Income taxes are most essential for the development of a country especially underdeveloped and developing countries. Nepal is underdeveloped country requiring development on various sector to expert the available resources of the country. It is blamed that the contribution of income tax on national revenue is not satisfactory through Income Tax Act, 2058. To know the fact a question was asked, "Do you think that contribution of Income Tax on national revenue is satisfactory through Income Tax Act, 2058?" The responses received from the respondents are tabulated below.

Table 4.13

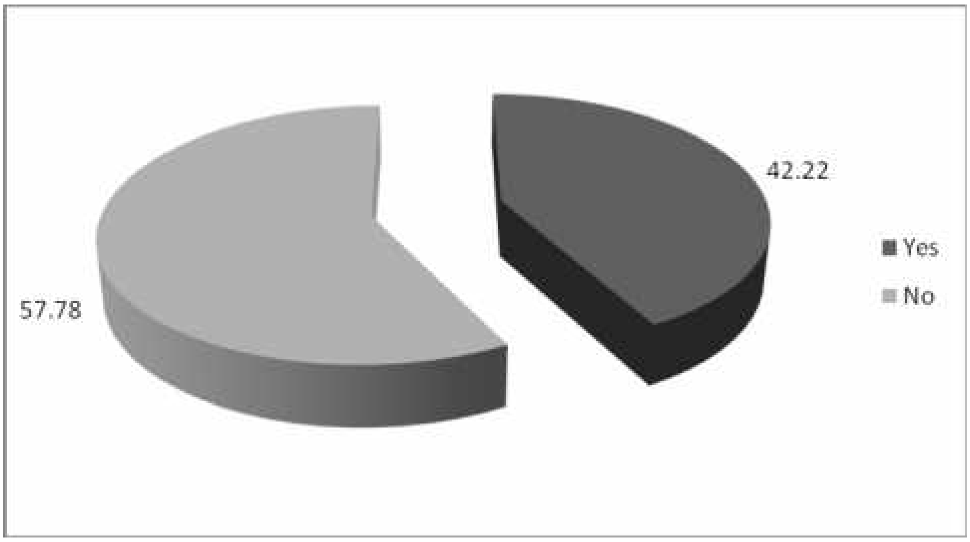
Attitude towards Satisfactory Contribution of Income Tax on National Revenue

Respondents group	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
G (Tax Expert)	9	30	21	70	30	100
H (Tax Payer)	29	48.33	31	51.67	60	100
Total	38	42.22	52	57.78	90	100

Source: Opinion survey

Figure 4.8

Attitude towards Satisfactory contribution of Income Tax on National Revenue



From the above table it has been clear that contribution f Income Tax on national revenue is not satisfactory through Income Tax Act, 2058. 57.78 percent of the respondents approved contribution of Income Tax on national revenue is not satisfactory and only 42.22 percentage of the respondents approved contribution of Income Tax on national revenue is satisfactory through Income Tax Act, 2058.

Hence, it can be concluded that contribution of Income Tax on national revenue is not satisfactory through Income Tax Act, 2058.

4.2.4.1 Test of Hypothesis

Hypothesis: 3

We have 2 × 2 contingency table with cell frequency 5 or more as follows:

Respondents Group	**Yes**	**No**	**Total**
G (Tax Expert)	a = 9	b=21	(a + b) = 30
H (Tax Payers)	c = 29	d= 31	(c + d) = 60
Total	(a + c) = 38	(b + d) = 52	N = 90

Null Hypothesis Ho: There is no significant relationship between the views of tax experts and tax payers with respect to the contribution on Income Tax on national revenue through Income Tax Act, 2058.

Alternative Hypothesis H1: There is significant relationship between the views of tax experts and tax payers with respect to the contribution of Income Tax on national revenue through Income Tax Act, 2058.

For 2 x 2 contingency table, the value of ….can be calculated by using following formula:

$$\aleph^2 = \frac{N(ad - bc)^2}{(a+b)(c+d)(a+c)(b+d)}$$

$$= \frac{90(9 \times 31 - 21 \times 29)^2}{30 \times 60 \times 38 \times 52}$$

=2.76

Calculated $\aleph^2 = 2.76$

Level of Significance, …..= 5% = 0.05 (let)

Degree of freedom = (r-1) (c-1) = (2-1) x (2-1) = 1 x 1 = 1

From table, tabulated …(0.05,1) = 3.84

Decision: Since, calculated $\aleph^2$ is less than tabulated $\aleph^2$ (0.05,1), so we accept null hypothesis (H0) at 5% level of significance i.e. there is no significant relationship between the views of tax experts and taxpayers with respect to the contribution of Income Tax on national revenue through Income Tax Act, 2058.

4.2.5 Opinion towards Rebates & Facilities Provided by ITA, 2058 to Special Industries

Income Tax Act, 2058 has provided different types of rebates & facilities to the special industries. However, the different companies & industries are not satisfied with these facilities provided and it is blamed that the rebates and facilities provided by Income Tax Act, 2058 are not satisfactory. To know the fact, a question was asked, "Is rebates & facilities provided by Income Tax Act, 2058 to special industries are adequate?" They were requested to tick one among give five options. The responses received from the respondents are tabulated as follows.

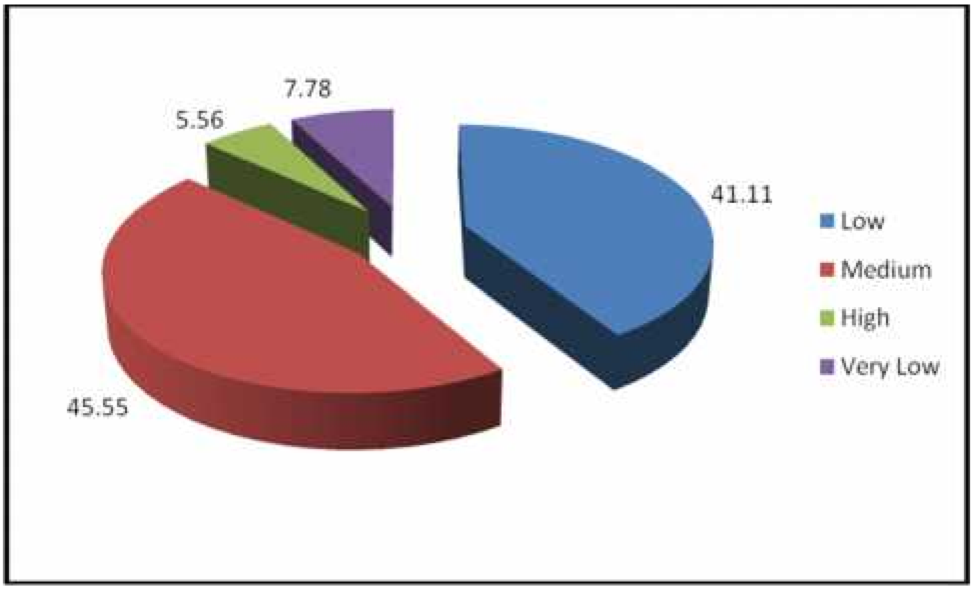
Table 4.14

Opinion towards rebates & facilities provided by ITA, 2058 to Special Industries

Respondents Group	Very Low		Low		Medium		High		Very high			
	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos	%	Nos.	%
G(Tax Experts)	3	10	15	16.67	20	66.67	2	6.67	0	0.00	30	100
H(Tax Payers)	4	6.67	32	53.33	21	35	3	5	0	0.00	60	100
Total	7	7.78	37	41.11	41	45.55	5	5.56	0	0.00	90	110

Figure 4.9

Opinion towards rebates & facilities provided by ITA, 2058 to special industries



from the above table, in the view point of tax experts, rebates & facilities provided by Income Tax Act, 2058 is medium, i.e. 66.67 percentage of tax experts voted for medium which is highest than other option. Similarly, in the view point of tax payers, rebates & facilities provided by Income Tax Act, 2058 is low, i.e. 53.33 percentage of tax payers voted for low which is highest than other option.

From the above table in overall, it has been clear that out of the 90 respondents 41 respondents i.e. 45.55 percentages voted for medium, 37respondents, i.e. 41.11 percentage voted for low, 7 respondents, i.e. 7.78 percentage voted for very low, 5 respondents, i.e. 5.56 percentage voted fro high and zero percentage voted for very high.

Hence, its can be calculated that rebates & facilities provided by Income Tax Act, 2058 to special industries is medium.

4.2.5.1 Test of Hypothesis:

Hypothesis: 4

We have, table other than 2×2

Respondents Group	Very Low	Low	Medium	High	Very High	Total
G (Tax Experts)	320	5	20	2	0	30
H(Tax Payers)	4	32	21	3	0	60
Total	7	37	41	5	0	90

Null Hypothesis H_o: There is no significant relationship between the views of tax experts and tax payers with respect to the rebates & facilities provided by the Income Tax Act, 2058 to special industries.

Alternatives Hypothesis H_1: There is no significant relationship between the views of tax experts and tax payers with respect to the rebates & facilities provided by the Income Tax Act, 2058 to special industries.

Test statistic under Ho is,

$$\aleph^2 = \sum \frac{(O - E)}{E}$$

Where,

O = observed frequency,

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

Calculation of $\aleph^2$

(Row, column)	O	E= $\frac{RT\times CT}{N}$	O-E	(O-E)2	$\frac{(O-E)^2}{E}$
(1,1)	3	$\frac{30\times7}{90}$ =2.33	0.67	0.45	0.1931
(1,2)	5	$\frac{30\times37}{90}$ =12.33	-7.33	53.73	4.3577
(1,3)	20	$\frac{30\times41}{90}$ =13.67	6.33	40.07	2.9312
(1,4)	2	$\frac{30\times5}{90}$ =1.67	0.33	0.11	0.0652
(1,5)	0	$\frac{30\times0}{90}$ =0	0	0	0
(2,1)	4	$\frac{60\times7}{90}$ =4.67	-0.67	0.45	0.0961
(2,2)	32	$\frac{60\times37}{90}$ =24.67	7.33	53.73	2.1779
(2,3)	21	$\frac{60\times41}{90}$ =27.33	-6.33	40.07	1.4661
(2,4)	3	$\frac{60\times5}{90}$ =3.33	-0.33	0.11	0.0327
(2,5)	0	$\frac{60\times0}{90}$ =0	0	0	0
					$\frac{(O-E)^2}{E}$ = 11.32

Calculated

$\aleph^2 = \sum \frac{(O-E)2}{E}$=11.32

Level of Significance, = 5% = 0.05 (let)

Degree of freedom = (r- l) (c-l) = (2- 1) x (5- 1) = 1x4=4

From table, tabulated x (0.05, 4) = 9.49

Decision: Since, calculated $\aleph^2$ is greater than tabulated x2 (0.05, 4), so, we accept alternatives hypothesis (H1) at 5% level of significant i.e. there is no significant relationship between the views of tax experts and tax payers with respect to the rebates & facilities provided by the Income Tax Act, 2058 to special industries.

4.2.6 Opinion towards Effectiveness of Tax Assessment Methods under Income Tax Act, 2058

Income Tax Act, 2058 has specified three types of assessment viz; self-assessment, jeopardy assessment and amended assessment. Self- assessment is done by the assesses himself whereas jeopardy and amended assessment are the assessment based on judgment of the Department. In order to know the effectiveness of tax assessment methods under Income Tax Act, 2058, a question was asked, "Do you think Tax assessment methods under Income Tax Act, 2058 are effective?" The responses received from the respondents are tabulated below

Table 4.15

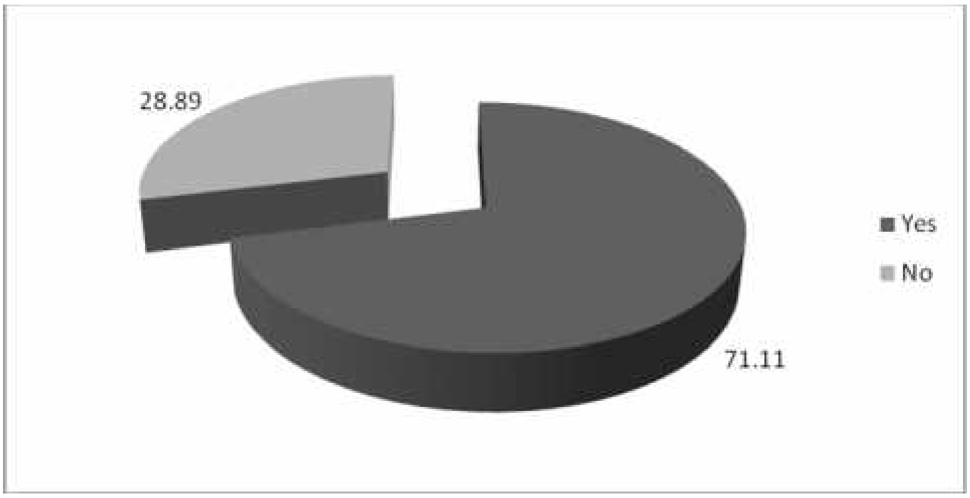
Opinion towards Effectiveness of Tax Assessment Methods under Income Tax Act, 2058

Respondents Group	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
G(Tax Experts)	25	83.33	5	16.67	30	100
H(Tax Payers)	39	65	21	35	60	100
Total	64	71.11	26	28.89	90	100

Source: opinion survey.

Figure 4.10

Opinion towards Effectiveness of Tax Assessment Methods under Income Tax Act, 2058



From the above table, it has been clear that tax assessment methods under Income Tax Act, 2058 are effective. About 71 percentages of the respondents responded that tax assessment method under Income Tax Act, 2058 are effective and only 29 percentage of the respondents accepted that tax assessment methods under Income Tax Act, 2058 are not effective.

In conclusion, it can be said that most of the respondents opinion that tax assessment methods under Income Tax Act, 2058 are effective,

Test of Hypothesis:

Hypothesis: 5

We have 2×2 contingency table with cell frequency 5 or more as follows:

Respondents Group	Yes	No	Total
G(Tax Experts)	a =25	b = 5	(a+b) = 30
H(Tax Payers)	c = 39	d = 21	(c+d) = 60
Total	(a+c) = 64	(b+d) = 26	N = 90

Null Hypothesis Ho: There is no significant relationship between the views of tax experts and tax payers with respect to the effectiveness of tax assessment methods under Income Tax Act, 2058.

Alternative Hypothesis H_1: There is significant relationship between the views of tax experts and tax payers with respect to the effectiveness of tax assessment methods under Income Tax Act, 2058.

For 2x2 contingency table, the value of $\aleph^2$ can be calculated by using following formula;

$$\aleph^2 = \frac{N(ad - bc)^2}{(a+b)(c+d)(a+c)(b+d)}$$

$$= \frac{90(25 \times 21 - 5 \times 39)^2}{30 \times 60 \times 64 \times 26}$$

=3.27

Calculated $\aleph^2 = 3.27$

Level of significance,   = 5% = 0.05(let)

Degree of freedom = (r-l) (c-l) = (2-l) x (2-l) = 1x1 = 1

From table, tabulated x2 (0.05, 1) = 3.84

Decision: Since, calculated χ^2 is less than tabulated x2 0.05,1, so we accept null hypothesis (Ho) at 5% level of significance i.e. there is no significant relationship between the views of tax experts and tax payers with respect to the effectiveness of tax assessment methods under Income Tax Act, 2058.

In order to know the reasons of ineffectiveness tax assessment methods under Income Tax Act, 2058 another question was asked, "If no, what is your suggestion?" The responses received from the respondents listed below.

1. Assessment must be made timely and without using discretionary power.
2. Whenever the assesses files his/her income tax return to the revenue office, the office should assess his/her tax without any hassles and harassment.
3. There are lots of troubles during tax assessment and no clear language (dual mean full), high tax rate.
4. Because self tax assessment is carried by auditors and help to evasion.
5. Illegal act and the corruption so that the political scenario of the country should be effective.
6. Due to misunderstanding about the provisions of the Income Tax Act, 2058 the tax officers are not able to assess the tax effectively.
7. Laws, rules should be clear and every people or organization in equal treatment.
8. It is an average, further treatment needed.
9. Because of un-efficient authorities & corrupt political system.
10. Every tax return should be compulsory assessed.
11. Transparent selection criteria timing assessment of prescribed returns.
12. Management assessment procedure should be clearly defined.

4.2.7 Opinion towards Effectiveness of Revenue Administrative and Revenue Tribunal

A tax payer may not be satisfied with the assessment made by tax officials, in such case; the tax payer may lodge an objection against the assessment with the Director General (DG) or revenue tribunal. In order to ensure justice or impartiality, it is necessary to establish a sound appeal system. Income Tax Act, 2058 has made provision for two types of appeal system: first to the Inland Revenue Department (RD) for an administrative review and second is to review tribunal. The act has made it mandatory for the tax payers to file an objection with the IRD for an administration view before appealing to the revenue tribunal.

In order to know the effectiveness of the revenue administrative and revenue tribunal to give the correct decision to the tax payer, a question was asked, "Are the revenue administrative and revenue tribunal are effective to give the correct decision to the tax payer?" The responses received from the respondents are tabulated below.

Table 4.16

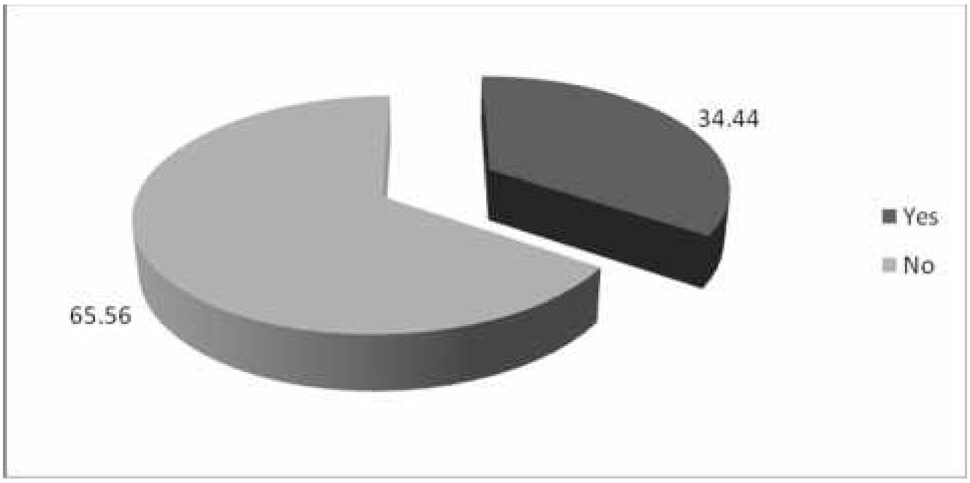
Opinion towards Effectiveness of Revenue Administrative and Revenue Tribunal

Respondents Group	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
G (Tax Experts)	13	43.33	17	56.67	30	100
H(Tax Payers)	18	30	42	70	60	100
Total	31	34.44	59	65.56	90	100

Source: Opinion Survey

Figure 4.11

Opinion towards Effectiveness of Revenue Administration and Revenue Tribunal



From the above table it has been clear that the revenue administrative & revenue tribunal are not effective to give the correct decision to the tax payers. Out of the 90 respondents, 59 respondents, ie.65.56 percent voted against the effectiveness of revenue administrative & revenue tribunal and 31 respondents, i.e.34.44 percent voted for the effectiveness of revenue administrative and revenue tribunal.

In conclusion, it can be said that most of the respondents opinioned that the revenue administrative and revenue tribunal are not effective to give the correct decision to the tax payers.

4.2.7.1 Test of Hypothesis

Hypothesis: 6

We have 2 x 2 contingently table with cell frequency 5 or more as follows.

Respondents Group	Yes	No	Total
G (Tax Experts)	a =13	b = 17	(a+b) = 30
H(Tax Payers)	c = 18	d = 42	(c+d) = 60
Total	(a+c) = 31	(b+d) = 59	N = 90

Null Hypothesis Ho: There is no significant relationship between the views of tax experts and tax payers with respect to the effectiveness of revenue administrative & revenue tribunal to give the correct decision to the tax payers.

Alternative Hypothesis H1: There is significant relationship between the views of tax experts and tax payers with respect to the effectiveness of revenue administrative & revenue tribunal to give the correct decision to the tax payers.

For 2×2 contingently table, the value of x2 can be calculated by using following formula;

$$\aleph^2 = \frac{N(ad - bc)^2}{(a+b)(c+d)(a+c)(b+d)}$$

$$= \frac{90(13 \times 42 - 17 \times 18)^2}{30 \times 60 \times 31 \times 59}$$

= 1.57

Calculated $\aleph^2 = 1.57$

Level of Significance, = 5% = 0.05(let)

Degree of freedom = (r-l) (c-l) = (2-l) x (2-l) = 1x1 = 1

From table, tabulated x2 (0.05, 1) = 3.84

Decision: Since, calculated x2 is less than tabulated x2 0.05,1, so we accept null hypothesis (H1) at 5% level of significance i.e. there is no significant relationship between the views of tax experts and tax payers with respect to the effectiveness of revenue administrative & revenue tribunal to give the correct decision to the tax payers.

4.2.8 Opinion towards Effectiveness Service of Tax Administration after Introducing New Act, 2058

The body which implements the policy, rules and regulations of the government relating to taxation is tax administration. The function of tax administration can be broadly divided into two parts basic functions and subsidiary function. Major functions include the work of investigation and registration of tax payers, assessment of tax, collection of tax and auditing. The subsidiary function on the other hand covers internal management of the tax offices & the tax payer education. However, income tax administration of Nepal has been blamed that it is not efficient enough. To know whether the income tax administration of Nepal is providing effective service to the tax payer or not, a question was asked, "Is the tax office (administration) providing effective service to the tax payer and other related people after introducing the new Act, 2058?" The responses received from the respondents are tabulated as follows.

Table 4.17

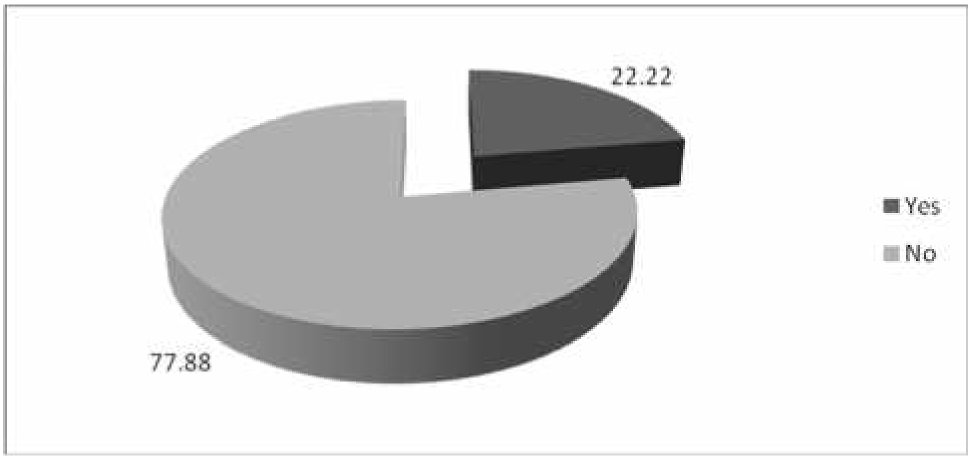
Opinion towards Effectiveness Service of Tax Administration after Introducing New Act, 2058

Respondents Group	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
G (Tax Experts)	17	56.67	13	43.33	30	100
H(Tax Payers)	3	5	57	95	60	100
Total	20	22.22	70	77.88	90	100

Source: Opinion Survey

Figure 4.12

Opinion towards Effectiveness Service of Tax Administration after Introducing New Act, 2058



From the above table, out of 30 tax expert respondents, 17 respondents, i.e.56.67 percent voted for the effectiveness service of tax administration and 13 respondents, i.e.43.33 percent voted against the effectiveness service of tax administration. On the other hand, out of 60 tax payer respondents, 3 respondents, i.e. 5 percent voted for the effectiveness service of tax administration and 57 respondents, i.e. 95 percent voted against the effectiveness service of tax administration.

In total, out of 90 respondents 20 respondents, i.e. 22.22 percent voted for the effectiveness service and 70 respondents, i.e. 77.78 percent voted against the effectiveness service of tax administration to the tax payers and other related people after introducing the new Income Tax Act, 2058.

Hence, it can be concluded that the tax office (administration) is not providing effective service to the tax payers and other related people after introducing the new Income Tax Act, 2058.

4.2.8.1 Test of Hypothesis

Hypothesis: 7

We have 2x2 contingently table with cell frequency less than 5 as follows.

Respondents Group	Yes	No	Total
G(Tax Experts)	a =17	b = 13	(a+b) = 30
H(Tax Payers)	c = 3	d = 57	(c+d) = 60
Total	(a+c) = 20	(b+d) = 70	N = 90

Null Hypothesis Ho: There is no significant relationship between the views of tax experts and tax payers with respect to the effectiveness service of tax administrative to the tax payers and other related people after introducing the new Act, 2058.

Alternative Hypothesis Ho: There is significant relationship between the views of tax experts and tax payers with respect to the effectiveness service of tax administrative to the tax payers and other related people after introducing the new Act, 2058.

Applying Yates correction:

$$\aleph^2 = \frac{N[|ad - bc| - N/2]2}{(a+b)(c+d)(a+c)(b+d)}$$

$$= \frac{90[|17\times57-13\times3|-90/2]2}{30\times60\times20\times70}$$

=27.97

Calculated χ^2=27.97

Level of Significance, = 5% = 0.05(let)

Degree of freedom = (r-l) (c-l) = (2-l) x (2-l) = 1x1 = 1

From table, tabulated x2 (0.05, 1) = 3.84

Decision: Since, calculated χ^2 is greater than tabulated χ^2(0.05,1), so, we accept alternative hypothesis (H_1) at 5% level of significant i.e. There is significant relationship between the views of tax experts and tax payers with respect to the effectiveness service of tax administrative to the tax payers and other related people after introducing the new Act, 2058.

4.2.8.2 Reasons behind the ineffectiveness service of Tax Administration

In order to know the causes of ineffectiveness service tax administration after introducing new Income Tax Act, 2058, the next question was asked, "if no, what may be the reason?" The respondents were requested to rank their answer from 1 to 7 scales. The responses received from the respondents are tabulated as follows:

Table 4.18

Reasons of Ineffectiveness Service of Tax Administration

S.N	Major Reasons	Group		Total Points	%	Rank
		G	H			
1.	Lack of training & carrier development	116	205	332	18.82	2
2.	Lack of motivation	100	179	305	17.29	3
3.	Lack of reward & penalties	86	243	265	15.02	4
4.	Political effect	98	97	341	19.33	1
5.	Lack of physical facilities	51	124	148	8.39	7
6.	Lack of sufficient budget	44	140	168	9.52	6

7.	Lack of sufficient field offices	65		205	11.63	5
	Total			1764	100	

Source: Opinion Survey

The major reasons of ineffectiveness service of tax administration to the tax payers & other related people after introducing the new Income Tax Act, 2058 in Nepal were ranked in order of the preference of the respondents as follows (see table 4.18 for detail)

1. Political effect
2. Lack of training & carrier development
3. Lack of motivation
4. Lack of reward & penalties
5. Lack of sufficient field offices
6. Lack of sufficient budget
7. Lack of physical facilities

It can be concluded from the above result that in the opinion of the respondents, political effect is the most powerful reason behind the ineffectiveness service of tax administration to the tax payers & other related people after introducing the new Income Tax Act, 2058 in Nepal.

Similarly, in the opinion of the respondents, lack of training & carrier development, lack of motivation, lack of reward & penalties, lack of sufficient field offices, lack of sufficient budget and lack of sufficient field offices lack of sufficient budget and lack of physical facilities are the major reasons of ineffectiveness service of tax administration to the tax payers & other related people after introducing the new Act, 2058 in Nepal respectively.

To know whether there is positive or negative correlation between the above views of tax experts and tax payers, it is tested by Spearman rank correlation coefficient.

Test of spearman's Rank Correlation

Rank Correlation: 2

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

Where, rs = Spearman's rank correlation coefficient

d= difference of corresponding ranks

n= number of pairs of observations

Table 4.19

Calculation of Spearman's Rank Correlation Coefficient

S.N	Major Reasons	Total points	Re-rank	Total Points	Re-rank	Difference of the Rank	Square of R_1- R_2
		G	R_1	H	R_2	$d = R_1-R_2$	D_2
1.	Lack of training & carrier development	116	1	216	2	-1	1
2.	Lack of motivation	100	2	205	3	-1	1
3.	Lack of reward & penalties	86	4	179	4	0	0
4.	Political effect	98	3	243	1	2	4
5.	Lack of physical facilities	51	6	97	7	-1	1
6.	Lack of sufficient budget	44	7	124	6	1	1
7.	Lack of sufficient field offices	65	5	140	5	0	0
	N = 7						$\sum d^2 = 8$

Source: Opinion Survey

Note: G refers to tax experts & H refers to tax payers

The above table gives d2=8 and n=7 to compute rank correlation coefficient as:

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

$$= 1 - \frac{6(8)}{9(72-1)}$$

=0.86

Decision: The correlation coefficient i.e. 0.86 indicates that there is high degree of positive correlation between tax experts and tax payers ranking regarding the reasons behind the ineffectiveness service of tax administration.

4.2.9 Opinion towards Effectiveness Service of Income Tax Act, 2058 in the following years

In order to know the effectiveness of Income Tax Act, 2058 more effective in the following, a question was asked, "Will the Income Tax Act, 058 more effective in the following year?" The respondents are tabulated as follows.

Table 4.20

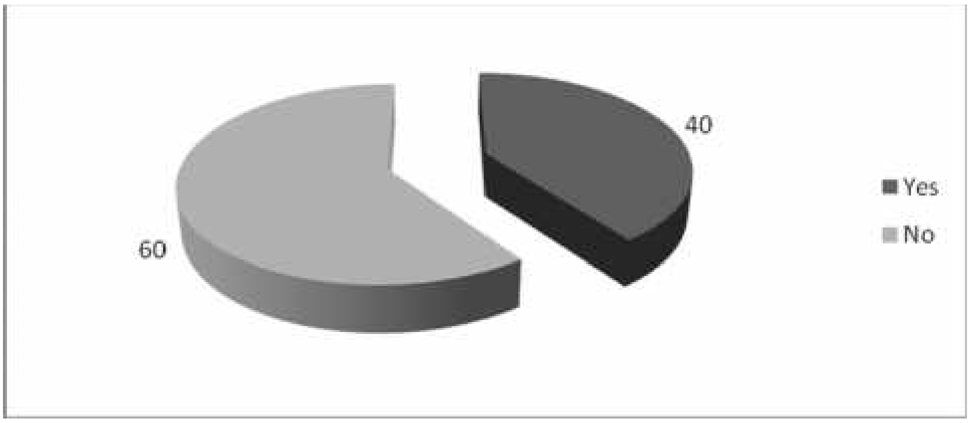
Opinion towards Effectiveness Service of Tax Administration after Introducing New Act, 2058 in the following year

Respondents Group	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
G (Tax Experts)	20	66.67	10	33.33	30	100
H(Tax Payers)	16	26.67	44	73.33	60	100
Total	36	40	54	60	90	100

Source: Opinion Survey

Figure 4.13

Opinion towards Effectiveness of Income Tax Act, 2058 in the following years



From the above table, in the view point of tax experts, Income Tax Act, 2058 will be more effective in the following years and in the view point of tax payers, Income Tax Act, 2058 will now be more effective in the following years. Out of 90 respondents, 36 respondents, i.e. 40 percent voted for the effectiveness of Income Tax Act, 2058 in the following years & 54 respondents, i.e. 60 percent voted against the effectiveness of Income Tax Act, 2058 in the following years.

Hence, it can be concluded that Income Tax Act, 2058 will not be more effective in the following years. Most of the respondents (i.e. 60 percent) thought that it will not be more effective in the following years.

4.2.9.1 Test of Hypothesis

Hypothesis: 8

We have 2×2 contingently table with cell frequency 5 or more as follows.

Respondents Group	Yes	No	Total
G (Tax Experts)	a =20	b = 10	(a+b) = 30
H(Tax Payers)	c = 16	d = 44	(c+d) = 60
	(a+c) = 36	(b+d) = 54	N = 90

Null Hypothesis H_O: There is no significant relationship between the views of tax experts and tax payers with respect to the effectiveness of Income Tax Act, 2058 in the following years.

Alternative Hypothesis H1: There is significant relationship between the views of tax experts and tax payers with respect to the effectiveness of Income Tax Act, 2058 in the following years.

For 2×2 contingently table, the value of $\aleph^2$ can be calculated by using, following formula:

$$\aleph^2 = \frac{N(ad-bc)^2}{(a+b)(c+d)(a+c)(b+d)}$$

$$= \frac{90(20\times44-10\times16)^2}{30\times60\times36\times54}$$

$$= 13.33$$

Calculated $\aleph^2$= 13.33

Level of Significance, = 5% = 0.05(let)

Degree of freedom = (r-l) (c-l) = (2-l) x (2-l) = 1x1 = 1

From table, tabulated x2 (0.05, 1) = 3.84

Decision : Since, calculated $\aleph^2$ is greater than tabulated $\aleph^2$ (0.05,1), so, we accept alternative hypothesis (H_1) at 5% level of significance i.e. There is significant relationship between the views of tax experts and tax payers with respect to the effectiveness of Income Tax Act, 2058 in the following years.

4.2.9.2 Reasons behind the ineffectiveness of Income Tax Act, 2058 in the following years

Most of the respondents responded that the Income Tax Act, 2058 will not be more effective in the following years. In order to know the reason, the next question was asked, "If no, what are the reasons?" The respondents were requested to rank their answer from 1(most important) to 4 (least important). The responses received from the various respondents are tabulated as follows.

Table 4.21

Reasons behind the ineffectiveness of ITA, 2058 in the following years

S.N	Major Reasons	Group		Total Points	%	Rank
		G	H			
1	The Act itself is not effective	31	59	90	18.75	4
2	Lack of consciousness as people	35	77	112	23.33	3
3	Political uncertainties have increased day by day	46	111	157	32.71	1
4	Increasing tax evasion & avoidance	38	83	121	25.21	2
	Total			480		

Source: Opinion Survey

The major reasons of the ineffectiveness of Income Tax Act, 2058 in the following years were ranked in order of the preference of the respondents as follows (See Table 4.21)

1. Political uncertainties have increased day by day.
2. Increasing tax evasion & avoidance.
3. Lack of tax consciousness as people
4. The ACT itself is not effective.

It can be concluded from the above results that in the opinion of the respondents, political uncertainties have increased day by day is the most powerful reason behind the ineffectiveness of the Income Tax Act, 2058 in the following years. Similarly, in the opinion of the respondents, increasing tax evasion & avoidance, lack of tax consciousness as people and the Act itself is not effective are the major reason behind the ineffectiveness of the Income Tax Act, 2058 in the following years respectively.

To know whether there is positive or negative correlation between the above views of tax experts & tax payers, it is tested by spearman's rank correlation coefficient.

Test of Spearman's Rank Correlation

Rank correlation: 3

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

Where, r_s = Spearman's rank correlation coefficient

d = difference of corresponding ranks

n= number of pairs of observations

Table 4.22

Calculation of Spearman's Rank Correlation Coefficient

S. N	Major Reasons	Total Points	Re-rank	Total Points	Re - rank	Difference of the Rank	Square of R_1- R_2
		G	R_1	H	R_2	d = R_1-R_2	D_2
1	The Act itself is not effective	31	4	59	4	0	0
2	Lack of tax consciousness as people	35	3	77	3	0	0
3	Political uncertainties have increased day by day	46	1	111	1	0	0
4	Increasing tax evasion & avoidance	38	2	83	2	0	0
	n = 4						

Source: Opinion Survey

Note: G refers to tax expert & H refers to tax payers

The above table gives d2 =0 & n=4 to compute rank correlation coefficient as:

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

$$= 1 - \frac{6(0)}{4(42-1)}$$

=1

Decision: The correlation coefficient i.e. 1 indicates that there is perfect positive correlation between tax experts & tax payers ranking regarding the reasons behind the ineffectiveness of Income Tax Act, 2058 in the following years.

4.2.10 Opinion towards Existence of Corrupt Practices in Income Tax Administration

Administration is the design of implementation of government policies. Tax administration is regarded as having the responsibility for determining the policies & program's of governments related to tax. Specifically, it is the planning, organizing, directing, coordinating, and controlling of government organizations related to taxation. Income Tax Act, 2058 has made a provision regarding the design of tax administration also. However, Income Tax Administration of Nepal uses to blame as corruption center & administrator as the member of the center. In order to find out whether the corruption is existed in Nepalese income tax administration or not, a question, "Do you think corrupt practice exists in Income Tax Administration of Nepal?" Was asked. The responses received from respondents are tabulated as follows.

Table 4.23

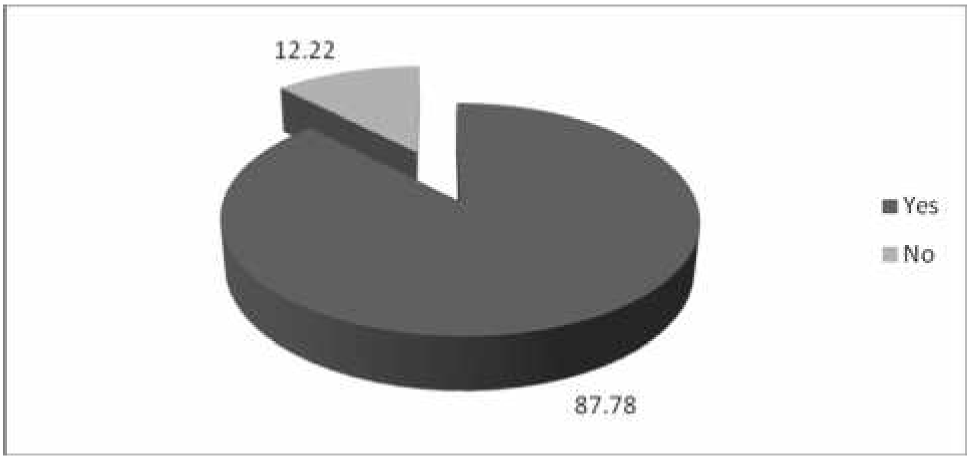
Opinion towards Existence of Corrupt Practices in Income Tax Administration

Respondents Group	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
G(Tax Expert)	19	63.33	11	36.67	30	100
H(Tax Payers)	60	100	0	0.00	60	100
Total	79	87.78	11	12.22	90	100

Source: opinion survey.

Figure 4.14

Opinion towards Existence of Corrupt Practices in Income Tax Administration



From the above table, in the view point of tax experts, there is corrupt practice exists in income tax administration of Nepal, i.e. 63.33 percent voted for the corrupt practice and 36.67 percent voted against the corrupt practice exists in income tax administration of Nepal. On the other hand, in the view point of tax payers, all 60 respondents i.e. 100 percent voted for the corrupt practice. Similarly, out of total 90 respondents, 79 respondents, i.e. 87.78 percent voted for corrupt practice and 11 respondents, i.e. 12.22 percent voted against the corrupt practice exist in income tax administration.

Hence, it can be concluded that there is corrupt practice exists in income tax administration of Nepal.

4.2.10.1 Test of Hypothesis

Hypothesis: 9

We have 2×2 contingently table with cell frequency less than 5 as follows.

Respondents Group	Yes	No	Total
G(Tax Experts)	a=19	b=11	(a+b) =30
H(Tax Payers)	c=60	d=0	(c+d) =60
Total	(a+c) = 79	(b+d) = 11	N=90

Null Hypothesis H_o: There is no significant relationship between the views of tax experts and tax payers with respect to the corrupt practice exists in income tax administration of Nepal.

Alternative Hypothesis H1: There is significant relationship between the views of tax experts and tax payers with respect to the corrupt practice exists in income tax administration of Nepal.

Applying Yates Correction,

$$\aleph^2 = \frac{N\left[|ad - bc| - \frac{N}{2}\right]^2}{(a+b)(c+d)(a+c)(b+d)}$$

$$= \frac{90\left[|19\times0-11\times60|-\frac{90}{2}\right]^2}{30\times60\times79\times11}$$

$= 21.76$

Calculated $\aleph^2$ =21.76

Level of Significance, = 5% = 0.05(let)

Degree of freedom = (r-l) (c-l) = (2-l) x (2-l) = 1x1 = 1

From table, tabulated x2 (0.05, 1) = 3.84

Decision: Since, calculated $\aleph^2$ is greater than tabulated $\aleph^2$ (0.05, 1), so we accept alternative hypothesis (H_1) at 5% level of significance i.e. There is significant relationship between the views of tax experts and tax payers with respect to the corrupt practice exists in income tax administration of Nepal.

4.2.10.2 Causes behind the existence of Corrupt Practice exist in Income Tax Administration of Nepal

In order to know the causes of corrupt practice exists in income tax administration of Nepal the next question was asked, "If yes, what are the major causes of corruption in Income Tax Administration on Nepal?" The respondents were requested to rank their answer from 1 to 4 scales. Table 4.24 gives a breakdown of responses.

Table 4.24

Causes of corrupt practice exist in income tax administration of Nepal.

S.N	Major causes	Group		Total points	%	Rank
		G	H			
1	Dishonest Tax Payers	70	106	176	24.11	3
2	Dishonest Tax Personnel	76	137	213	29.18	1
3	Political uncertainty	83	128	211	28.90	2
4	Lower remuneration of tax personnel	51	79	130	17.81	4
	Total			730	100	

Source: Opinion Survey

The major causes of corrupt practice exists in income tax administration of Nepal were ranked in order of the preference of the respondents as follows (See Table 4.24 for detail).

1. Dishonest tax payers
2. Dishonest tax personnel
3. Political uncertainty
4. Lower remuneration of tax personnel

It can be concluded from the above result that in the opinion of the respondents, dishonest tax personnel is the most powerful reason behind the corrupt practice exists in income tax administration in Nepal. Similarly, in the opinion of the respondents, political uncertainty, dishonest tax payers and lower remuneration of tax personnel are also the major reasons behind the corrupt practice exists in income tax administration of Nepal respectively.

To know whether there is positive or negative correlation between the above views of tax experts and tax payers, it is tested by Spearman's rand correlation coefficient.

Test of Spearman's Rank Correlation:

Rank Correlation: 4

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

Where, rs = Spearman's rank correlation coefficient

d= difference of corresponding ranks

n= number of pairs of observations

Table 4.25

Calculation of Spearman's Rank Correlation Coefficient

S.N	Major Reasons	Total Points	Re-ranked	Total Points	Re-rank	Difference of the Rank	Square of R_1-R_2
		G	R1	H	R2	d=R1-R2	D2
1	Dishonest tax payers	70	3	106	3	0	0
2	Dishonest tax personnel	76	2	137	1	1	1
3	Political uncertainty	83	1	128	2	-1	1
4	Lower remuneration of tax personnel	51	4	79	4	0	0
	n=4						d_2=2

Source: Opinion Survey

Note: G refers to tax experts & H refers to tax payers

The above table gives d^2 =2 & n=4 to compute rank correlation coefficient as:

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

$$= 1 - \frac{6(2)}{4(42-1)}$$

$$= 0.80$$

Decision: The correlation coefficient i.e. 0.80 indicates that there is high degree of positive correlation between tax experts & tax payers ranking regarding the reasons behind corrupt practice exists in income tax administration of Nepal.

4.2.11 Comments and Suggestion from the respondents

An open question was asked to the respondents to know their comments and suggestions regarding effective implementations of Income Tax Act, 2058. The responses received from the respondents are presented below:

Comments

1. Lack of clear-cut definition and language accuracy in ITA, 2058.
2. Difficult to understand procedures.
3. There is no sufficient tax rebate and no encourage paying tax payers.
4. Administration is poor and the practice of income tax is not effective.
5. Inconsistent policies due to unusual situation of the country.
6. Unmanageable size of tax payers compared to tax offices especially in valley.
7. Don't give priorities to the relatives, friend's ad commission players.
8. Assessment system is okay but persons involved are not honest.
9. Tax evasion & reduction exists.
10. Personnel expenses are booked as business expenses to be discouraged.
11. Most tax payers oriented no address on human resource post, structural problem and power centralization.
12. Complicated language.
13. Lack of effective training and motivation, tax payers education and morality to both tax payers & tax personnel.
14. Lack of proper utilization of collected tax.
15. Lack of reward & punishment both tax payers and tax personnel.
16. Lack of political stability, so it effect to the proper implementation of Income Tax Act, 2058.
17. Income Tax Act, 2058 is based on highly educated tax payers & developed economy i.e. inappropriateness according to our income situation.
18. There is not clear law, tax officer is not well knowledge about tax law and being boss not service oriented.

19. This act provision can not reduce the illegal business activities, tax evasion and tax avoidance.
20. This is ineffective enforcement of fine & penalty so corrupt practice exists in Income Tax Administration of Nepal.

Suggestions

1. There should be cleared definition and not be two way languages in this Act, 2058.
2. It should be addressed to tax payers, increase in publicity & easy to pay tax.
3. It should decrease unnecessary tension in tax administration.
4. Develop the efficient manpower.
5. Sound tax policies should be necessary and simplification of procedures.
6. Behavioral change of tax personnel.
7. Institutional development.
8. Tax payer education program must be efficient and training should be provided to tax personnel.
9. Tax policies must be consistent.
10. Valley tax offices should be spited more than 10.
11. Concern department and group should be identifying.
12. Define various source & level of tax payers.
13. Develop ethnicity in auditor or defined source of taxable income.
14. Establishment of supervisory separate entity in necessary.
15. Strict punishment to those who evase and avoid tax.
16. Action on anti- tax corruption must be effective and restructure in tax administration is necessary.
17. Effective implementation of code of conduct.
18. It should be peaceful environment to implement the new Act, 2058.
19. To provide adequate tax payer education about Income Tax Act, 2058.
20. There should be slabs of benefits to tax payers on government facilities.

4.3 Major Findings

Political and legal environments are closely interlinked and difficult to separate in reality. Laws are often passed as a result of social pressures and problems. A change in the political environment may bring about radical changes in the laws governing business firms.

In modern times, Income Tax is a major source of revenue and along with other different taxes, such as wealth tax, gift tax it is used by the governments as an instrument for bringing about equality of income and wealth in the society. Nepalese Business environment has undergone significant changes. Income Tax Act, 2058 has been enacted with wide perspective. Various new concepts are introduced in this Act as compared to Income Tax Act, 2031. This Act has been made supper in regard to all Income Tax Act matter. The Act has made provisions for stringent fine & penalty for defaulters, to measure the effectiveness of this Act we should have to wait for few more years although the Act is practiced from 1st April 2002 (2058) but there are so many problems in the implementation. Findings from the secondary sources of data & opinion survey have been presented below.

4.3.1 Major Findings from Secondary Source of Data

The major findings from secondary sources of data are summarized as follows:

1. There are two categories of source of government revenue through which the government collects. These are tax- revenue and non- tax revenue.
2. Revenue collection increased by 3.08 percent in FY 2006/07 totaling Rs. 87718.1 million compared to FY 2005/06
3. It has found that out of the total revenue collection, in FY 2006/07, the share of tax revenue was 81.09 percent where as the share of non- tax revenue was 18.91 percent.
4. The highest contribution of tax revenue to total revenue was 80.80 percent with amount Rs71127.0 million in FY 1988/89 and lowest contribution was 587 percent with amounting Rs. 50898.7 million in FY

2006/07. The average contribution of tax revenue to total revenue from FY 1986/87 to 2006/07 is 77.7 percent.

5. It has found that the role of tax revenue is very important in revenue mobilization of Nepal to meet the government expenditure.
6. It has found that the whole Nepalese tax structure is dominated by indirect tax revenue. The percentage of direct tax revenue to total tax revenue was fluctuating every year in the study period 1986/87 to 2006/07. The average share of direct tax revenue in total tax revenue for the study period 1986/87 to 2006/07 was 21.74 percent.
7. The amount of indirect tax revenue was in increasing trend in the study period. From the FY 1986/87 to 2006/07, the highest contribution of indirect tax revenue to total tax revenue was 83.8 percent in the FY 1991/92 with the amounting Rs. 8280.4 million & lowest contribution was 73.0 percent with amounting Rs. 24200.6 million in FY 1999/2000. It is found that the average share of indirect tax revenue in total tax revenue in total tax revenue for the study period 1986/87 to 2006/07 was 78.25 percent.
8. It has found that direct tax in Nepalese economy is composed of different taxes namely: income tax, land tax, property and wealth tax, tax on registration. The contribution of income tax has become larger than the other component of direct tax in the study period. The average contribution of income tax revenue in total direct tax revenue for the period 1986/87 to 2006/07 was 71.85 percent.
9. It has also found that indirect tax includes three categories viz; custom duties, excise duties and sales/VAT in Nepal. In the study period, the average contribution of customs duties to indirect tax was 43.02 percent.
10. Income tax is an important source of the direct tax. Its structure of Nepal is the composition of tax from public enterprises, semi public enterprises, private corporate bodies, individuals, remuneration and tax on interest.

11. Income tax revenue collection increased by 18.65 percent FY 2006/07 totaling Rs.12308.8 million compared to FY 2005/06. The average share of public enterprises, private corporate bodies, individuals, remuneration & interest tax to income tax revenue for the study period 1986/87 to 2006/07 were 23.96, 11.9, 51.36, 7.8 and 4.86 percent respectively.
12. The average contribution of income tax to total tax revenue for the study period 1986/87 to 2006/07 was 15.96 percent. Similarly, the average contribution of income tax to total revenue for the study period form 1986/87 to 2006/07 was 12.44 percent.
13. In the study period of 21 years, the highest contribution of income tax to GDP was 2.32 percent in FY 2000/01 and lowest contribution was 0.60 percent in FY 1991/92. The average contribution of income tax to GDP for the study period from 1984/85 to 2003/04 was 1.3 percent.

4.3.2 Major Findings from Empirical Investigation

An empirical investigation has been conducted in order to find out various aspects of implementation problem of Income Tax Act, 2058 in Nepal from the real life experience. For this, questionnaire was developed and responses were collected from the respondents. Respondents were classified into two groups: tax experts and tax payers. Finding from the opinion survey, through questionnaire and informal interviews with tax experts and tax payers have been presented below:

1. It has found that there is problem in the implementations of Income Tax Act, 2058 in Nepal. Most of the respondents, i.e. 87.78 percentage thought that there is problem in the implementation of Income Tax Act, 2058 in Nepal.
2. In the opinion of the respondents, it is found that political problem is the most powerful reason behind the problem in implementation of Income Tax Act, 2058 in Nepal. Similarly, illegal business activities, tax evasion & avoidance, complicated language, lack of educated people, ineffective enforcement of fine & penalty, low responsibility of tax payers & tax

authorities, lack of appropriate assessment procedure, administrative deficiency etc are also the major problems in implementation of Income Tax Act, 2058 in Nepal respectively.

3. Income Tax Act, 2058 is a modern and more effective Tax Act than Income Tax Act, 2031. In the opinion survey, out of 90 respondents, 81.11 percent of the respondents approved that Income Tax Act, 2058 is a modern & more effective Tax Act and only 18.89 percent of the respondents do not recognize that Income Tax Act, 2058 is a modern & more effective Tax Act than Income Tax Act, 2031.
4. The contribution on Income Tax on national revenue is not satisfactory through Income Tax Act, 2058.57.78 percent of the respondents approved that contribution of Income Tax on national revenue is not satisfactory and only 42.22 percent of the respondents approved that contribution of Income Tax on national revenue is satisfactory through Income Tax Act, 2058.
5. It has found that rebates & facilities provided by Income Tax Act, is medium. Out of the 90 respondents, 41 respondents, i.e. 45.55 percent voted for medium; 37 respondents, i.e. 41.11 percent voted for low; 7 respondents, i.e.7.78 percent voted for very low; 5 respondents, i.e. 5.56 percent voted for high and zero percent voted for very high.
6. It has been clear that tax assessment methods under Income Tax Act, 2058 are effective. Out of 90 respondents, about 71 percent of the respondents responded that tax assessment method are effective and only 29 percent of the respondents accepted that tax assessment methods under Income Tax Act, 2058 are not effective.
7. It has also found that revenue administrative & revenue tribunals are not effective to give the correct decision to the payers. Out of the 90 respondents, 59 respondents, i.e.65.56 percentage voted against the effectiveness and 31 respondent's i.e.34.44 percentage voted for the effectiveness of revenue administrative & revenue tribunal.

8. It has become clear that the tax office (administration) is not providing effective service to the tax payers & other related people after introducing the new Income Tax Act, 2058. Out of 90 respondents, 20 respondents i.e.22.22 percentages voted for the effectiveness service & 70 respondents i.e. 77.78 percentages voted against the effectiveness service of the tax administration to the tax payers and other related people after introducing the new Income Tax Act, 2058.
9. In the opinion of the respondents, political effect is the most powerful reason behind the ineffectiveness service of tax administration to the tax payers & other related people after introducing the new Income Tax Act, 2058 in Nepal. Similarly, it is also found that lack of training & carrier development, lack of motivation, lack of reward & penalties, lack of sufficient field offices, lack of sufficient budget and lack of physical facilities etc are the major reasons of ineffectiveness service of tax administration to the tax payers & other related people after introducing the new Act, 2058 in Nepal respectively.
10. It has found that Income Tax Act, 2058 will not be more effective in the following years. Most of the respondents (i.e.60 percentage) thought that it will not be more effective in the following years.
11. It has been clear that political uncertainties have increased day by day is the most powerful reason behind the ineffectiveness of the Income Tax Act, 2058 in the following years. Similarly, increasing tax evasion & avoidance, lack of tax consciousness as people and the Act itself is not effective etc are also the major reason behind the ineffectiveness of the Income Tax Act, 2058 in the following years respectively.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

In today's world there are hardly a few areas were tax shows no presence. It has become a matter be known by every one. An individual income is reduced by tax which affects his future savings. No one is out of the grip of tax. Tax has become an indispensable part of business world.

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. 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 democracy political system was introduced.

Income tax should be justifiable to achieve maximum social and economic objective. It helps in redistribution of economics means by the transformation of wealth from persons with higher economic level to lower economics level. Income tax Act 2058 has been enacted with wide perspective. Various new concepts are introduce in this act as compared to Income Tax Act 2031.

The study has been designed to study of the problems in implementation of Income Tax Act 2058 in Nepal. To fulfill this, the main objectives of this study are ; to analyze the contribution of income tax on national revenue; to find the implementation problem of Income Tax Act 2058 and to provide related suggestions.

Taxation is the compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred. Tax may be of different types rates and nature it may be direct and indirect tax. Income Tax Act 2058 has 24 chapters and 143 sections plus schedules. In the act there are so many types of additional and new provision have been made which can not found in previous act 2031.

Income Tax Act 2031 had classified heads of income into five consisting agriculture; remuneration; business; profession or vocation; house and land rent and other sources. But Income Tax Act 2058 has divide these heads into three divisions business employment and investment.

Depreciation is a major component of expenditure of a business organization. Since, it has the importance in reducing the tax liability or getting real pricing of the goods and service or prevailing the capital assets from being expended every taxpayer wants to manage this expenditure properly.

Income Tax Act, 2058 has made the provision of inter head and intra head loss recovery system. It has also allowed recovering the losses from carry forward as well as carries backward system. Carry backward is allowed only for backing and financial institution and long from contract. Income Tax Act 2058 has related depreciable assets, business assets and non business chargeable assets as capital assets and gains realized from disposal such assets as capital gains. The Act 2058 has classified assets into five categories trading stuck depreciable assets business assets non business chargeable assets and non taxable assets.

The tax evasion and tax avoidance reduce tax liability of the government by unethical means one is done legally whereas another is illegal. Basically, there are three types of effects of tax evasion in the economy. They are loss of revenue to the state; redistribution of income which affects the efficiency of resource allocation in the economy and creating wrong statistics leading to errors in government policies.

International tax is a new area of taxation in Nepalese tax low. Income Tax Act 2031 had not the provision of international taxation. However, Income Tax Act 2058 has made some provisions in this regards. Within the area of international taxation this act has defined incomes, losses gains and payments.

According to Income Tax Act 2058 the inland Revenue Department has overall responsibility for the implementation and administration of income tax. However, Nepal Government is the highest authority of the tax administration. The ministry of finance, on be half of Nepal government, exercises the management function of tax administration by caring out of the functions such as planning, organizing, directing, coordinating and controlling of the government organization related to taxation.

Income Tax Act 2058 has introduced a concept of administrative review that is allowing the tax administrative to correct mistakes, if any, made by the administration internally. System for assurance of the justice and impartiality. It is because there may be existence of human error as personal biasness and official biasness in the administrative review. So the current tax laws assures in this regards. As per the low a person (The appellant) who is not satisfied by a decision on an objection field against review able decision may appeal to the revenue Tribunal.

Out of the total revenue collection in FY 2005-06, the share of tax revenue was 79.5 percent where as the share on non tax revenue was 20.5 present. In FY 2005-06 tax contribution of tax revenue to total revenue was 80.80 percentage with amount Rs. 6287.20 million in FY 1988-89 & lowest contribution was 73.1 percentage with Amounting Rs. 9875.6 million in FY 1991-92. The average contribution of tax revenue to total revenue from FY 1986-87 to 2005-06 is 77.7 percentages.

The average share of direct tax revenue in total tax revenue for the period 1986-87 to 2005-06 was 21.74 percent. Similarly, the average share of indirect tax revenue in total tax revenue for the period 1986-87 to 2005-06 was 78.25 percent. The contribution of indirect tax revenue has always been greater then direct tax revenue for the study period 1986-87 to 2005-06.

The contribution of income tax has been become larger then the other component of direct tax. Contribution of income tax to direct tax revenue was 58.18 percentage in 1986-87. It increased slowly & reached to 74.27 percentage in FY 2005-06 the average contribution of income tax revenue in total direct tax revenue for the study period 1986-87 to 2005-06 was 71.85 percentage.

Income tax is an important source of the direct tax. It's structure of Nepal is the composition of tax from public enterprise, semi-public enterprise, private corporate bodies, individuals remuneration and tax on interest.

In FY 1986-87 the amount of income tax was Rs 448.5 million where as in FY 2005-06 it was Rs 10373.7 million. Income tax revenue collection increased by 2.11 percentage in FY 2005-06 totaling Rs 10373.7 million compared to FY 2004-05. The average contribution of income tax to total revenue for the study period from 1986-87 to 2005-06 was 12.44 percentage.

In the opinion of the respondent, it has found that there is problem in the implementations of Income Tax Act, 2058 in Nepal. Must of the respondents, i.e. 87.78 percentage though that there is problem in the implementation of Income Tax Act, 2058 in Nepal. Political problem is the must powerful reason behind the problem in implementation. Similarly, the contribution of income Tax on nation revenue is not satisfactory through this new Act. It has also found that rebates & facilities provided by this Act, 2058 is medium. It has been clear that Tax assessment methods under this Act, 2058 are effective.

Similarly it has also found that the revenue administrative & revenue tribunal are not effected to give the correct decision to the tax payers. The tax administration is not providing effective service to the tax payers & others related people after introducing the powerful reason behind the ineffectiveness service of tax administration.

It has also found that there is corrupt practice exists in income tax administration of Nepal. Out of the 90 respondents, 79 respondents ,i.e. 87.78 percentage voted for corrupt practice and 11 respondent i.e. 12.22 percentage voted against the corrupt practice exist in income tax Administration of Nepal.

5.2 Conclusion

The contribution of income tax to the nation budget must be increased to achieve the goal of national development of Nepal takes steps for making the income tax management efficient. Income tax system of Nepal has been criticized.

To fulfill desire goal short comings in income tax system must be analyzed. Government has adopted various policies to strength the revenue structure of Nepal. To broaden the tax base is necessary to enhance the government revenue and for this purpose income tax revenue is reliable one among the different source of revenue.

If the government has been effective in it's revenue collection by income tax and other internal reasons the amount of foreign loan would have been increased less rapidly. So to create the huge internal resources, the revenue administration of the country must be systematic and the people of the country must have knowledge of income tax rule and regulations and willingness to pay income tax then only the prospect of revenue collection from income tax will be higher for internal resource mobilization.

Income Tax Act, 2058 is quite advanced and is in accordance with international standard; however some analysts are saying the Act is photocopy of the Act of United kingdom. For financial years gone by the Act, 2058 in the revenue collection from income tax not seems satisfactory. Taxpayers and tax administrator have not got proper orientation and training before that application of the Act.

Income Tax Act 2058 could be an effective means to generate more revenue from income taxation if the Act is effectively implemented since the Act has so many features. As taxpayers must response positively toward there duties and rights, the tax administrations must liable to fulfill the responsibility provided by the law to them. Otherwise they will pronounce as corrupt.

The share of tax revenue has always been greater then the share of non tax revenue similarly, the contribution of direct tax revenue has always been greater then direct tax revenue for the study period 1986-87 to 2005-06. The average contribution of income tax revenue in total direct tax revenue for the study period 1986-87 to 2005-06 was 71.85 percent.

Income tax is an important source of the direct tax. It's structure of Nepal is the composition of tax from public enterprises, private corporate bodies, individuals, remuneration and tax of interest. Contribution from semi public enterprises is lowest than other.

In the opinion survey, it has found that there is problem in the implementation of Income Tax Act 2058in Nepal. Political problem is the most powerful reason behind the problem in implementations of Income Tax Act 2058 in Nepal. Illegal business activities tax evasions and avoidance, complicated language, lack of educated people, lack of appropriate assessment procedure pre also the major reasons behind the problem in implementation.

Income Tax Act 2058 is a modern and more effective tax act than previous tax act, 2031. However, the contribution of income tax on national revenue is not satisfactory through the new act 2058. Rebates and facilities provided by the Income Tax Act 2958 is medium. However the revenue administrative and revenue tribunal are not effective to give the correct decision to the tax payers. The tax administration is also not providing effective service to the tax payers and others related people after introducing the new act 2058. There is corrupts practice exists in income tax administration of Nepal. Dishonest tax personnel is the main reason behind the corrupt practice exists in income tax administration.

At last, in conclusion, it can be said that so many problems should be managed timely and implemented properly, the problems can be solved in some extent and the income tax will lead to substantial increase revenue and the Nepalese tax administration has been attempting to modify itself to meet the pressing challenges brought about by change in technology and economy policies and than we can solve the problem in implementation of Income Tax Act, 2058 in Nepal.

5.3 Recommendations

To achieve result according to our expectations from income tax, it is essential to change our attitudes and behaviors towards income tax. In accordance with the findings of the study, for the effective implementation of Income Tax Act, 2058, following recommendations are made.

1. to solve the problems in implementation of Income Tax Act, 2058 following recommendations are made.
    - Political problem is the most powerful reason behind the problem in implementations of Income Tax Act, 2058 so that there should be stable in political environment.
    - It is necessary to control illegal business activities

- The tax evasion and tax avoidance reduce tax liability of the government by unethical so tax evasion and tax avoidance and should be minimized by

By effective implementation of fine and penalties provision of the act, 2058.

- Income Tax Act, rules and regulations should be clear and simple for all the related people. It should not be two way languages.
- Education to increase tax awareness in people and tax payer education programmed must be effective.
- It should strict punishment to those who evade and avoid tax,
- It is necessary to effective enforcement of fine and penalties,
- Responsibility of tax payers and tax authorities should be higher.
- Assessment procedure should be appropriate and assessment must be mode timely without using discretionary.
- It is necessary to provide effective training to personnel about new tax system.
- It should decrease unnecessary tension in tax administration and restructure in tax administration is necessary.
- Act should be amended without any leakage

2. Considering our culture and economic situation the act should be followed the international taxation system and technology.
3. The following recommendations are made to make satisfactory contribution of income tax on national revenue.
   - The corruption should be minimized
   - It is necessary to establish effective tax collection tribunals.
   - It should be find out the new sources of revenue
   - There should not be political pressure in revenue department.
   - It should be followed the right man in right place.
   - Over staffing should be reduced.

4. The consistent government policies and their ineffective implementation is the biggest problem of Nepal's industrial sector. The country is facing contributed political policy uncertainties, policies are well designed but poorly implemented. Therefore to promote industries, it should be solved the political problem in timely & should be provided effective rebates & facilities to special industries by new Income Tax Act, 2058.
5. Tax assessment methods under Income Tax Act, 2058 are effective however there are lost of trouble during tax assessment and no clear language (dual meaningful) in this Act. The flowing recommendations are made to make more effectiveness of assessment methods;
   - Self assessment should be carried by auditors.
   - Tax assessment methods under ITA, 2058 are an average so further treatment needed.
   - Assessment must be made timely and without using discretionary power.
   - Every tax return should be compulsory assessed.
   - Management assessment procedure should be clearly defined.
   - Weather the assessed files income tax return to the revenue office, the office should assess tax without any hassles and harassment.
6. Under Income Tax Act, 2058 there are two types of appeal provisions first requesting for administrative review to director general of IRD and second, appealing to revenue tribunal. But for going to revenue tribunal, one must administrative and revenue tribunal are not effective to give the correct decision to the tax payers. Therefore, the revenue administrative and revenue tribunal should be free from practical and these should be appropriate working environment system.
7. It has found that the tax administration is not providing effective service to the tax payers and other related people after introducing the new act, 2058. The following recommendations are made for the improvement of income tax administration.
   - Political problem should be solved as soon as possible.

- Training and carrier development should be provided to the tax personnel time to time.
- Tax officer should be motivated by the reward if tax payers worked positively.
- Tax personnel should be punished if tax payers worked negatively.
- There should be provided sufficient field offices.
- There should be provided sufficient budget where it need.
- Tax personnel should be given necessary physical facilities to minimize the corruption.
- Tax administration should be free from political pressure.
- Human resource management should be made more effective.
- Weakness of Income Tax Act rules and regulations should be amended by the government time to time.
- There are unmanageable sizes of tax payers compared to tax offices especially in valley so offices should be splitted more than 10.

8. The following recommendations are made for the effective of Income Tax Act, 2058 in the following years;

    - The act should be implemented properly.
    - The political uncertainties should be solved.
    - Tax payer's education programmed should be provided.
    - Tax payer's education programme should be provided.
    - There should be stopped the increasing tax evasion and avoidance
    - Developed manpower should be produced.
    - More feasible provision should be kept and rewrite of act in simple and cleat language

9. Corruption is the major problem of Nepalese income tax system. Corruption is an unethical or wrongdoing. A closer look at human

behavior in economic life corruption reflects. Poverty more than that if reflects a lack of ethics. Then only that after having weak rule of law significantly adds to the level corruption. The following suggestions are made to minimize the corruption.

- The political scenario of the country should be effective,
- The Nepalese government should try to remove poverty
- Dishonest tax personnel and tax payers should be punished
- There should be provided effective salary to the tax personnel
- Check and balance system should be developed in tax offices
- Consciousness should be developed to hate the corrupters
- Every citizen of the nation should be aware that measure income of the nation in tax and should be ready to pay own part honestly.

The Income Tax Act, 2058 is facing different types of problems in it's implementation. If the above recommendations are managed timely and implemented properly, the problems can be solved in some extent and we can collect more income tax revenue from the nation.

BIBLIOGRAPHY

Adhikari, Biswadeep (2059). *Income Tax Laws: Then and Now*. Kathmandu: Bhrikuti Academic Publications.

Baral, Shanti (1989). *Income Tax in Tax Structure of Nepal*. An Unpublished Master Degree Thesis. Kathmandu: Central Department of Economics, T.U., Kirtipur Campus.

Bhattarai, Vishnu Prasad (2005). *Contribution of Income Tax on Total Revenue Collection of Nepal*. An Unpublished Master Degree Thesis. Kathmandu: Shanker Dev Campus.

Bhattrai, Ishwor and Koirala Giraja Prasad (2005). *Taxation in Nepal*. Kathmandu: Asmita Books.

Dahal Ranjita (2008). *Comparision of Income Tax Act 2031 and 2058.*

Dahal, Tank Nidhi (2005). *Income Tax Management*. An Unpublished Master Degree Thesis. Kathmandu: Shanker Dev Campus, T.U.

Dhakal, Kamal Deep *Income Tax And Compound Tax Land and Practice, Economic Survey 2064/65 of Finance of Ministry*. Kathmandu.

Gautam, Keshab Raj (2004). *Contribution of Income Tax to National Revenue of Nepal*. An Unpublished Master Degree Thesis. Kathmandu: Shanker Dev Campus, T.U.

Ghimare, Durga Prasad (2004). *Income Tax In Nepal: Its Structure and Contribution from Public Entrerprises to Government Revenue*. An Unpublished Master Degree Thesis. Kathmandu: T.U., Kirtipur.

Ghimire, Bhakti Ram (2005). *Income Tax Assessment Procedure in Nepal Under New Income Tax Act 2002*. An Unpublished Master Degree Thesis. Kathmandu: Shanker Dev Campus, T.U.

Income Tax Act 2031 and 2058, Nepal Government

K.C., Jit Bahadur (2007). *Tax Laws and Tax Planning: Theory and Practice*. Kathmandu: Khanal Books Publishers.

Kandel, Puspa Raj (2006). *Tax Laws and Planning in Nepal*. Kathmandu: Buiddha Academic Publishers and Distributors.

Kayastha, Narendra Lal (1974). *Taxation of Income and Property in Nepal*. An Unpublished Master Degree Thesis. Kathmandu: Central Department of Management, T.U., Kirtipur Campus.

Khatiwada, Amrit Kumar (1994). *Structure of Income Tax System in Nepal*. An Unpublished Master Degree Thesis. Kathmandu: Central Department of Management, T.U., Kirtipur.

Koirala, Girija Prasad (2004). *Contribution of Employment Income to Income Tax Revenue of Nepal*. An Unpublished Master Degree Thesis. Shanker Dev Campus, T.U.

Lamsal, Bharat Kumar (2002). *A Study on Contribution of Income Tax on Government Revenue*. An Unpublished Master Degree Thesis. Kathmandu: Nepal Commerce Campus, T.U.

Pandey, Kedar Bilas Pandey (1978). An Analysis of Income Tax. An Unpublished Master Degree Thesis. Kathmandu: Central Department of Economics, T.U., Kirtipur.

Panta P.R. (2005). *Business Environment in Nepal*. Kathmandu: Buddha Academic Enterprises.

Saroj Regmi (2006). Effectiveness of Remuneration Taxation in Nepal. An Unpublished Master Degree Thesis. Kathmandu: Shanker Dev Campus, T.U.

Shakya, D.R. (2004). *A Study on Income Tax Act 2002*. An Unpublished Master Degree Thesis. Kathmandu: Shanker Dev Campus.

Shakya, Krishna Kumar (1995). Income Tax Structure of Nepal. An Unpublished Master Degree Thesis. Kathmandu: Central Department of Management, T.U., Kirtipur.

Shrestha, Govinda Lal (1967). Income Tax In Nepal. Kathmandu: Central Department of Economics, T.U., Kirtipur.

Shrestha, Gyaendra Bahadur (2063). *Custom Acts*. Kathmandu: Pairabi Prakashan.

Shrestha, Rosani (1989). Income Tax in Nepal. An Unpublished Master Degree Thesis. Kathmandu: Central Department of Economics, T.U., Kirtipur.

Subedi, Purusottam (1982). An Analytical Study of the Income Taxation in Nepal. An Unpublished Master Degree Thesis. Kathmandu: Central Department of Economics, T.U., Kirtipur.

Suwal, Rojalin Singh (1981). Income Tax System in Nepal. An Unpublished Master Degree Thesis. Kathmandu: Central Department of Economics, T.U., Kirtipur.

Thapa, Ram Bahadur (1993). Income Tax Assessment Procedure in Nepal. An Unpublished Master Degree Thesis. Kathmandu: Central Department of Management, T.U., Kirtipur.

Thuladhar, Gyan Kumar (1979). Role of Income Tax in Mobilization of Domestic Resources in Nepal. An Unpublished Master Degree Thesis. Kathmandu: Central Department of Economics, T.U., Kirtipur.

Timsina, Prem Prasad (1984). Income Tax Evasion in Nepal. An Unpublished Master Degree Thesis. Kathmandu: Shanker Dev Campus, T.U.

Website

www.fego.gove.np

www.google.com

www.mof.gov.np

APPENDIX

Questionnaire

Dear Sir/Madam,

I would like to introduce you that I am final year student of Master Degree with management faculty of Shanker Dev Campus. In order to fulfill the requirement of Master Degree, I am preparing a thesis entitled to **"Implementation Problem of Income Tax Act 2058".**

To fulfill the objectives of the study, I have developed some questionnaires. So I am requesting you to fill up the questionnaire which will be of great importance to my study.

I look forward to your co-operation and support for this study.

Thank You!

Yours Sincerely

Mahesh Kumar Dahal

Shaker Dev Campus

Questionnaire

1. Do you think in problem in the implementations of Income Tax Act 2058 in Nepal ?

   Yes ( ) No ( )

2. If, yes, what are the major problem in implementation of Income Tax 2058 in Nepal ?
   - Lack of educated people.
   - Political problem.
   - Complicuted language.
   - Ineffective Enforcement of fine & penalty.
   - Illegal business activities.
   - Tax evasion and avodiance.
   - Low reoponcibitity of Tax payers and Tax authorities.
   - Lack of appropriate assesment procedure Administrative deficienty.

3. In your apinion in the Income Tax Act 2058, a modern and more affective Tax Act that Income Tax Act 2031?

   Yes ( ) No ( )

4. Do you think that contribution of income Tax on national revenue is statistactory through Income Tax Act 2058?

   Yes ( ) No ( )

5. Is rebates and facilities provided by income Tax Act 2058 to special Industries are adequate?
   - Very high
   - High
   - Low
   - Very Low.

6. Di you think tax assessment methods under Income Tax Act 2058 are effective?

Yes ( ) No ( )

7. If no what is your suggestion?

1. 2.

3. 4……………

8. Are the revenue administrative and revenue tribunal are effective to give the correct decision to the tax payer?

Yes ( ) No ( )

9. Is the tax office (administrative) providing effective service to the tax payer and other related people after introducing the new act 2058?

Yes ( ) No ( )

10. If no, what may be the reison?

1.Lack of training and carrer development

2.Lack of motivation

3.Lack of reward and penalities

4.Political effect

5.Lack of physical facilities

6.Lack of sufficient budget

7.Lack of sufficient field offces

11. Will the Income Tax Act 2058 more effective in the following year?

Yes ( ) No ( )

12. If no, what are the reasons?
    - The act itself is not effective
    - Lack of consciousness as people
    - Political uncertainties have increased day to day
    - Increasing tax evasion and avoidance

13. Do you think corrupt practice exists in Income Tax Administration of Nepal?

    Yes (   )   No (   )

14. If yes, what are the major causes of corruption in Income Tax Administration on Nepal?
    - Dishonest tax payers
    - Dishonest tax personnel
    - Political uncertainty
    - Lower remuneration of tax personnel.

Concents

`Contents of Table

Table of figures