

CONTRIBUTION OF REMUNERATION TAX IN NEPAL

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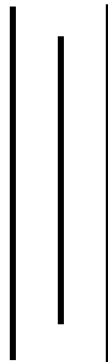
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Janakpur Dham

March 2013

RECOMMENDATION

This is to certify that the Thesis

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**Contribution of Remuneration Tax in Nepal**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master Degree in Business Studies (MBS) under the supervision of **Mr Bijay Kumar Thakur** of R.R.M. Campus, Jankpur.

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ABBREVIATIONS

AO	:	Audit Officer
CA	:	Chartered Accountant
CBS	:	Central Breau of Statistics
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
HMG / N	:	His Majesty's Government of Nepal
IRD	:	Inland Revenue Department
ITA	:	Income Tax Act
ITR	:	Income Tax Rules
LDCs	:	List Developed Countries
LTPO	:	Large Tax Payer Office
MBS	:	Master of Business Studies
MOF	:	Ministry of Finance
NG/N	:	Nepal Government, Nepal
NRB	:	Nepal Rastra Bank
NTC	:	Nepal Telecome
PEs	:	Public Enterprises
PVT.	:	Private
Rs.	:	Rupees
SAARC	:	South Asion Association For Regional
TO	:	Tax Officer
TU	:	Tribhuvan University
USA	:	United States of America
VAT	:	Value Added Tax
VDIS	:	Voluntary Discloser of Income Scheme

CHAPTER I

INTRODUCTION

1.1 General Background

Nepal is a beautiful small landlocked country situated between two large countries India and China. The economic condition of Nepal is relatively poor than neighbor countries. The economic growth of China and India is increasing trend. Both countries affect the Nepalese economy directly and indirectly. In this situation, the Nepalese economy cannot stay alone without considering these countries economy. Nepal has been facing some problems. The main problems are unemployment, poverty, rapid growth of population, political instability etc. Nepal is one of the least developed country in the world. 32 % of the total population are below the poverty line (2003/2004) and 65.70 % depend upon agriculture sector (CBS, 2001). Sound and sustainable development of the nation depends on the Nepalese people themselves. Nepal should develop self-reliance situation in the economic sector without being dependent on foreign grants/aids. So tax is considered to be one of the best sources to develop the nation.

Tax is one of the most important income sources of any country, which directly affects the economic system of the society. With tax, the government not only collects money but also regulates all the business organizations. To reduce the poverty of a country, it is very necessary to grow up the industries. There are various dimensions of tax system. If tax collection system is effective, government can collect much more money and can use that amount in the developmental activities. On the other hand if the tax system is practical, people don't feel this as the financial burden imposed by the government to the public and in result tax evasion and tax avoidance reduces significantly. Country like Nepal, where the biggest part of the human resource are

adopting agriculture based occupation, industrialization is fundamental need to develop the country, for this purpose tax system is also a factor and it should be practical and effective.

The government of Nepal should utilize the natural resources properly to avoid these problems. The government has to spend a lot of money to fulfill their responsibility towards the people. These responsibilities may be development, health, education etc. To meet the expenditure, government has to manage its fund from different sources. The source of government revenue can be classified into external and internal. External sources of government revenue are foreign loans, grants, external borrowings, etc. There are many negative results of external source of fund. Internal sources are better sources than external sources so the government should focus on internal sources of funds.

The government collects revenue from various sources such as tax, revenues from public enterprises, special assessment, fees, fines, grants and assistance etc. Tax is the main sources of revenue to the government. The tax is a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the tax payers according to law (Bhattraï and Koirala 2004). Tax is the compulsory levy imposed by the government. The persons who pay tax do not get corresponding benefits from the government. It is levied on persons as per the prevailing laws. Tax can be classified into two board categories:

Direct tax: The direct tax is a tax paid by a person on whom it is legally imposed, in direct tax the person paying and bearing tax is the same. Income tax, property tax vehicles tax, interest tax expenditure tax death tax and gift tax are examples of direct tax.

Indirect tax: An indirect tax is a tax imposed on one person but partly or wholly paid by an other VAT, sales tax, entertainment tax, hotel tax, excise duty, import and export duty etc are examples of indirect tax.

Income tax is one of the most important sources of government revenue. It plays vital role in the national economy. Income tax is levied by the government on the income of individuals and business firms. So it became one of the better sources of public revenue because it can be levied upon them who earn something. To regulate the income tax at the country, Income Tax Act (ITA), 2058 has been enacted in 2058 B.S. Furthermore the Income Tax Rules, 2059 has also been enacted for the effective implementation of the objectives of the Act; after a year i.e. in 2059B.S. One of the features of this act is that this act has classified the heads of incomes into three categories viz. employment, business, and investment. According to the Act, individual income tax is levied with two rates 15% and 25%; while corporate income tax is levied with a single or flat rate of 25%. In addition, banks and financial institutes are made liable to pay @30% tax on taxable income. Certain facilities, concessions and rebates in the income tax are provided to the industrial enterprises/companies operated in remote i.e. backward.

In employment category, remuneration tax is one of the important taxes. It has vital contribution on overall public revenue. The Remuneration Tax in Nepal has long history. It was introduced in the fiscal year 2016/17, while the Business Profits and Remuneration Tax Act, 2017 was enacted. Remuneration income is the income earned by a person in an income year from the employment or service in others. Remuneration means amount given for employee in sake of rendering services. In the case of remuneration, there use to be one getting services and other providing services. The person getting service is employer and the person rendering service is called employee. According to sec 8, of ITA, 2058 an individual's income from an employment for an income year is the individual's remuneration from the employment for the year. Section

2 of the act has given a definition that employment includes all past, present or prospective employment. It can be said that remuneration means the income generated by the person while rendering services to his employer in any income year.

In the global perspective, remuneration from employment is also known as salary. But following are the compulsory conditions that are required to come any income under remuneration;

1. There should be employer-employee relationship between two persons, and
2. The amount paid should be of regular nature.

We have known that remuneration tax is the most important source among the various sources of income tax. Remuneration taxation plays a vital role in the social and economic development process of the nation. It highly contributes in public revenue as tax revenue. So, as a student of taxation, it is better to understand the condition of remuneration taxation at the nation. The present study has been designed to know about the contribution of remuneration tax in total tax structure of the country.

1. 2. Statement of the Problem

It is the sorrowful fact that least developed countries are facing numerous problems in the process of economic development. Nepal is not exception to this fact. The majority of people is out of reach to get basic needs. Since the government expenditures are growing, the source of government revenue must be increased. In every country, tax is the vital source of government and it is necessary to manage nicely to get rid of national problems. So it deserves great importance in nation. In Nepal also there is contributing role of Remuneration Tax in Public Revenue from early time. Nowadays, its important is also growing. In this context study upon the effectiveness and contribution of Remuneration Tax on public revenue is high. But there are rare studies on this topic. This study will focus towards the finding answers of the following questions;

- 1) How the remuneration tax has contributed to the income tax in Nepal?

-) What is the present position of remuneration tax in Nepal?
-) What are the major facilities and benefits provided by the Income Tax Act, 2058 on the remuneration taxation?
-) What are the major problems and weaknesses in the collection of remuneration tax in Nepal?

1.3. Objectives of the Study

The main objective of the study is to examine the effectiveness of remuneration taxation in Nepal. The following specific objectives are as follows:

-) To find out the contribution of remuneration tax to income tax.
-) To check out the major facilities provided by the Income Tax Act, 2058 on the remuneration taxation.
-) To identify the major problems and weaknesses regarding to increase effectiveness of remuneration tax in Nepal.
-) To recommend possible measures required to improve effectiveness of remuneration taxation.

1.4. Significance of the Study

There are no sufficient studies have been made upon the topic. The rare studies made are on the topic but they are very insufficient for present time. In developing countries like Nepal, the importance of income tax cannot be minimized and under estimated because it contributes effectively and consistently in public revenue. So contribution of remuneration tax is definitely notable for making public revenue strong and huge. Remuneration tax is the one of the most importance source of income tax. So the remuneration tax plays vital role in the public revenue of the country. But there are many problems associated with the income tax related with its management, administration as well as policies.

This study is focused towards the efficiency of remuneration taxation. Thus, the study tries to find out the problem and difficulties associated in the collection of remuneration tax as well as facilities and benefits provided by the Income Tax Act, 2058. This study is basically for academic purpose but it will be beneficial to all the concerned parties such as researchers, taxpayers, government, etc. So it will deserve contributing role in various sectors.

1.5. Focus of the Study

The study will try to cover the major constitutes of income tax system in Nepal. It will aim to find out the exemptions and deductions provided by Income Tax Act, 2058 problems and weaknesses in income tax system, contribution of income tax to the government revenue. It will also try to suggest some possible areas for reform. Especially, income tax exemption and deduction has been discussed in detail. The study will cover the following aspects of income tax system of Nepal.

-) Exemptions and deductions in income tax.
-) Structure of government revenue in Nepal.
-) Contribution of income tax to the government revenues and GDP.
-) Contribution of remuneration tax to the income tax.
-) Administrative aspects of income tax in Nepal.

1.6 Limitations of the Study

All research study has been done to solve a particular research problem. It requires various kinds of data, materials and other relevant information which may not sufficient to the researcher. This study also cannot escape from that type of frame of limitations. The following are the some limitations of the study;

1. This is conducted to fulfill the requirement of Master Degree in Business Studies (MBS). So, the study cannot cover all the dimensions of the subject matter.
2. The consistency of the result is strictly based on the information provided to us.

3. This study is mainly based on secondary data. So the limitation of the secondary data may exist.
4. Time frame and resources (materials and cost) are also constraint for this study.
5. Primary data of this study are mostly based on Janakpur city.

1.7 Organization of the Study

Keeping the above objectives in mind, the present study has been organized in the following five chapters.

Chapter one of these studies is an introductory part and explains the major issue to be dealt with including objectives of the study.

Chapter two explains the theoretical analysis and review briefly the related and pertinent development of literature. It includes conceptual framework along with review of books, journals, research works and previous thesis.

Chapter three is about the methodology adopted in carrying out the present study. It explains the nature and sources of data, population and sample, data collection and processing techniques and methods of analysis.

Chapter four of this study deals with analysis and interpretation of data using the statistical and financial tools described in chapter three. This chapter also reveals the major findings of the study. In which the major findings from the secondary as well as primary data are organized in a systematic way.

Chapter five, the last chapter summarizes the main conclusion that follows from the study and offers suggestion and recommendation for further improvement and conclusion of the study.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Concept of tax

The government of any country requires sufficient revenues to launch the development program to handle the daily administration to keep peace and security and to launch other public welfare program. The government or public revenues are collected through various sources these sources can be tax revenue, revenues from government corporation and public enterprises, fees, special assessment, fines and penalties and foreign grants among them tax is the main source of collecting the public revenues because it occupies the most important part of government treasury. In Nepal about 77% of total revenue comes from tax revenue and the rest 23% from non tax revenues.

Following are the main sources of government revenue:-

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

In short, all the above sources of the government revenue can be divided into two parts- Tax and Non tax. Tax is the major source covering most part of the government revenue. Tax is the compulsory payment to the government but is not fine. Taxpayers do not get any direct benefit from the state by paying tax. Government collects tax with the permission of legislature to fulfill financial need of the state. Tax is a compulsory payment to government for the compensation of public expenditure. Tax fulfills the needs of central or local government to spend for philanthropic work. The main objective of the tax is to distribute wealth and income equally among the citizens. Mainly tax is classified into two groups. They are direct tax and indirect tax (Adhikari; 2003). Tax is a kind of money of which it is the legal duty of every citizen of a country to pay honestly. Many economists have the view that tax is a compulsory payment to the government by taxpayer without any expectation of some specified return in fur of them. The experts have given definition regarding tax and some of them are mentioned here.

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

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

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

According to Plehn, "Taxes are general contribution of wealth levied upon persons natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the status." (Dhakal; 1998:2)

According to Prof. Saligman, "A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all with out reference to special benefit conferred." (Lekhi; 2000).

From the above definition, it is clear that a tax is a compulsory levy and those who are taxed has to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax they had paid. In addition, the taxpayer cannot receive equivalent benefit from the government. Amount collected through taxation is spent for common interest of the citizen and is collect from natural and artificial person.

Tax is a compulsory payment to the government from a person according to law. It is contributed to the government without expectation of any direct benefit to the taxpayer. There are may tax system in the world mainly there are two types of tax which are use in practice in the world they are direct and indirect tax.

2.2 Objectives 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 objectives of taxation were strengthening the muscles of the state by proving the resources. Till to the time of Adam Smith; the chief motive of collecting revenue was to provide resources to the government for providing security to an individual and society against violence, invasion and injustice and maintain public institution.

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 objectives of modern taxation as follows:-

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

2.3 Classification of Taxes

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

a. Direct Tax

A direct tax a tax paid by a person on whom, it is legally imposed. In direct tax, the person paying and bearing tax is the same. It is the tax on income and property. Examples of direct taxes are; Income tax, Property tax, Vehicle tax, Interest tax, Expenditure tax, Death tax, Gift tax, etc.

Merits

-) It is equitable as it is imposed on person as per the property or income.
-) Time, procedure and amount of tax to be paid are known with certainty.
-) It is elastic. The government can be change tax rate with the change in the level of property or income.

-) It enhances the consciousness of the citizens. Taxpayers feel burden of tax and so they can insist the government to spend their contributions for the welfare of the community.

Demerits

-) It gives mental pinch to the taxpayers as they have to curtail their income to pay to the government.
-) Taxpayers feel inconvenience as the government imposes tax progressively.
-) Tendency to evade tax may increase to avoid tax burden.
-) It is expensive for the government to collect tax individually.

b. Indirect Tax

An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing the tax is different. It is the tax on consumption or expenditures. Examples of indirect taxes are; VAT, Sales tax, Entertainment tax, Hotel tax, Excise duty, Import and export duty, etc.

Merits

-) It is convenient as the taxpayer does not have to pay a lump sum amount for tax.
-) There is mass participation. Each and every person getting goods or services has to pay tax.
-) There is less chance of tax evasion as the taxpayers pay the tax collected from consumers.
-) The government can check on the consumption of harmful goods by imposing higher taxes.

Demerits

-) It is uncertain. As demand fluctuates, tax will also fluctuate.
-) It is regretful as the tax burden to the rich and the poor is same.
-) It has bad effect on consumption, production and employment. Higher taxes will reduce all of them.
-) Most of the taxes are included in the price of goods or services. As a result, taxpayers do not know how much tax they are paying to the government.

2.4 Canons of Taxation

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

1. Canon of Equity,
2. Canon of Certainty,
3. Canon of Economic,
4. Canon of Diversity,
5. Canon of Simplicity,
6. Canon of Neutrality,
7. Canon of Co-ordination,
8. Canon of Productivity and
9. Canon of Elasticity.

2.5 Meaning of Income Tax

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

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

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

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

- A. The person's consumption during the period, and
- B. The net increase in the individual's personal wealth during the period

Symbolically, $Y=C+\Delta W$

Where, Y, C and W refer income, consumption and change in wealth respectively.

It is very difficult to define income precisely and clearly. So, income is exemplified rather than defined income tax laws of various countries. For example, sec.2 of the India Income tax Act, 1961 keeps profits and gains, dividend, voluntary contributions received by charitable trust, value of any perquisite or profit on lieu of salary, any capital gain, winning from lotteries, cross word puzzles etc. under the head income.

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

2.6 International History of Income Tax

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

From the First World War decade, Income tax has shown as an important source of revenue in developed country. In the beginning of introducing time, it was generally levied at flat rate. Only after 1909, the principle of progression was introduced from the UK and New Zealand. Income tax was introduced due to the cause of war and national emergencies. Thus, the second name of income tax is war tax. After the end of the war, the tax was named as income tax. Now days, it has been the important instrument against poverty and inequality. (Agrawal, 1978)

2.7 Historical Aspects of Income Tax in Nepal

The idea of introducing income tax in Nepal originated along with the first 'Budget' on 21st Magh, 2008 (1952). The finance minister in the first budget speech said 'a proposal to levy an income tax including tax on agricultural income is under consideration.' Several attempts were made to introduce income tax in subsequent years. However, it could not be introduced until 2016 due to political instability. For the first time, the finance act, 2016 (1959) had imposed tax on business profit and remuneration in Nepal.

The first elected government finally introduced 'Business Profit and Remuneration Tax Act, 2017' to impose income tax on remuneration and business profit in Nepal. The underlying reasons for the introduction of income tax were to generate more revenues in order to finance development activities and help to establish social justice through redistribution of income. 'Business Profit and Remuneration Tax Act, 2017' had so narrow coverage that income tax was imposed only on business profit and remuneration. Since, this act could not cover all the sources of income; it was replaced by the 'Nepal Income Tax Act, 2019' after two years to avoid such drawbacks. The coverage was extended through this act. The wide coverage divided the heads of income into Nine parts: income from business, income from profession/occupation, remuneration, house and land rent, agriculture, investment, insurance business, agency

business, and other sources. After a year, ‘Nepal Income Tax Rules, 2020’ were enacted with the view of implementing the objectives of the income tax act. As ‘Nepal Income Tax Act, 2019’ was incapable in fulfilling the needs of the time, it was replaced by another Income Tax Act, 2031.

‘Income Tax Act, 2031’ had 66 section and classified the sources or heads of income into five heading (categories) viz. (1) Agriculture, (2) Industry, business, profession or vocation, (3) Remuneration, (4) House and land rent and (5) Other sources. The act had identified the chargeable incomes and the admissible expenses of each head of income. The other features of this act are provision of registration, provision of carry forward of losses, provision of common expenses, provision of self assessment of tax, provision of small tax payer’s tax assessment, provision of fine, penalty and appeal, provision of tax deduction at sources, provision of tax refund, provision of tax exemptions by different other acts and rules, provision of avoidance of double taxation etc. The government also issued ‘Income Tax Rules, 2039’ for effectively implementation of objectives of the income tax.

In the sources of development and modernization of income tax system, the new Income Tax Act, 2058 has been enacted. Similarly, the new ‘Income Tax Rules, 2059’ have also been enacted for the effective implementation of the objectives of the Act. The new act has classified the heads of income into three categories viz. Employment, Business/Profession and Investment effective from 2059-02-27 (10th June2002).

The following table exhibits the evolution of income tax in Nepal

S.N.	Income Tax Law	Effective from and to
1.	Finance Act,2016(1959)	FY2016/17to FY2017/18
2.	Business profit and Remuneration Ordinance,2016 (1959)	FY2016-4-25to2017-2-1

3.	Business profit and Remuneration Act, 2017(1960)	FY2017-2-2to2019-4-9
4.	Nepal Income Tax Act, 2019(1962)	FY2019-4-9to2031-7-4
5.	Income Tax Act, 2031(1974)	FY2031-7-5to2058-12-18
6.	Income Tax Act, 2058(2002)	2058-12-19(2002 April 1to date

The first slab of income has always been exempted from income tax. The original level of statutory exemption limit was Rs.7000. This limit has been increased from time to time. The statutory exemption limit has been increased to Rs.65000 for an individual and Rs.85000 the couple or a family in the fiscal year 2059/60 and Rs.80000 for an individual and Rs.100000 for a married couple or a family in the fiscal year 2060/61.

From the initial stage of income has always been exempted from income tax. The original level of statutory was Rs.7000. This limit has been increased from time to time. The statutory exemption limit has been increased to Rs.65000 from an individual and Rs.85000 from married couple of family in the fiscal year 2059/60 and Rs.80000 for an individual and Rs.100000 for a married couple or a family in the fiscal year 2060/61 and Rs.100000 for an individual and Rs.125000 for a married couple or a family in the fiscal year 2062/63, and Rs.115000 for an individual and Rs.140000 for a married couple or a family in the fiscal year 2064/65.

From the initial stage, the Finance Act in every year prescribed the progressive tax rates with exemption limit to all companies, private firms, individuals and families. Income tax rule were ranged between 5 percent and 25 percent. The highest level of marginal tax rate reached 60% in the fiscal year 2032/33.

Now, individual income tax is levied with two rates 15% and 25% while corporate income tax is levied with a single or flat rate of 25%. However, Banks and Financial Institutions are liable to pay income tax @30% of taxable income. The industries

established and operated in backward or remote areas are entitled to certain facilities, concession and rebates in the Income Tax.

Originally, corporate income tax was combined with individual income tax. The same rate structure was designed for corporate and other income for many years. A flat tax rate on corporate income was introduced in FY2042/43 for public enterprises and public limited companies listed with the security (stock) exchange centre. The corporate tax was expanded to private limited companies in FY2050/51 and partnership firm in FY 2052/53.

Agricultural income was kept outside the tax net except for a few years through finance Acts. House and land rent and interest were included in the total income and were subject to the income tax during same year. Foreign investment was tax-free from FY 2016/17 to 2025/26 and was included in the total income from FY2026/27. Several other sources of income including income of corporative, interest earned by foreign investors, allowances provided to the employees, dividends and export income were exempted from the income tax under different laws. These incomes, however, have been brought into the Income Tax net (income tax bracket) from FY2057/58 has brought all the incomes, including capital gains, into the income tax net.

The withholding tax system has been adopted from the very beginning. Initially, it was limited to salaries but it was made applicable to interest, dividend, commission, bonus, imports and purchases. Income Tax Act 2058 has limited withholding tax to some incomes viz. income from employment, royalties, dividends, interest, rent retirement payments and gains from investment (life assurance), insurance.

From the very beginning, presumptive taxation system has also been practiced. Nowadays, presumptive tax is imposed on the small businesspersons (taxpayers) who are resident natural persons and who drive income from Nepalese source only. The

threshold for presumptive taxation was Rs.1000000 annual transactions (turnover) or Rs.100000 income for the fiscal year 2059/60. The threshold for presumptive taxation is Rs.1200000 annual turnover or Rs.120000 income in fiscal year 2060/61. It is levied at a rate of Rs.2000 in metropolitan or sub-metropolitan cities; Rs.1500 in municipalities and Rs.1000 is in other areas.

Until FY2054/55, income tax was assessed on the income of previous year. The concept of levying income tax on the current year income was introduced in FY2055/56. Under this system, taxpayers are required to pay income tax in three installments on the basis of latest tax returns or the estimated income in the current year, whichever is higher.

Initially, income tax was assessed under the official assessment. In FY2048/49, a self-assessment system was introduced for registered public limited companies and firms. It was also applied to industry, trade and professional firms which had their accounts audited by recognized auditors. The Income Tax Act, 2058 has made a provision of a purely self-assessment system and tax official will make only an amended assessment.

2.8 Head of Income

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

A. Income from Employment (Remuneration)

Employment is defined by the Act under Section 2(a) as “employment that includes a past, present or prospective employment”. In general terms, the act of performing a certain job for the person, who appoints one for the job, in consideration of a regular payment is called as employment. That is why; the income from an

employment can be generated only when a relation of employer and employee or master and servant has been established between a payer and a payee. Whatever the employee derives from the employment in the shape of a regular salary, allowances, overtime payment, bonus, etc. is included in the income from employment.

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

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

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

According to this Section; the remuneration received by a person from the employment is as following payments made by the employer.

1. Payments of wages, salary, leave pay, overtime pay, fees, commission prizes gifts, bonuses and other facilities.
2. Payments of any personal allowances including any cost of living, rent, entertainment and transportation.

3. Payment provided of reimbursement or discharge of cost incurred by the individual or an associate of the individual.
4. Payments for the individual's agreement to any conditions of the employment.
5. Payments for the termination or loss or redundancy of the employment.
6. Retirement Contribution including those paid by the employer to the retirement fund in respect of the employees and retirement payments.
7. Other payments in respects of the employment.
8. Other amount as given in chapter 6 of the act perquisites and gains due to change in tax according required to be included. (Income Tax Act, 2002: Sec 8).

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

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

B. Income from Business

Income Tax Act, 2002 has defined the business income as a source of income for income tax purpose. Profit and gains from conducting the business are considered as business income for the income tax purpose. Services fees, amount derived from the

disposal of stocks, net gain from disposal of business assets (Liabilities), gifts relating to business and other amounts are considered as a business income. Section 7 of Income Tax Act, 2002 deals with the receipts or receivables to be included in income from business and Section 13 and 19 deals with the allowable expenses therefrom, Business includes trade, commerce, production, profession, vocation, etc.

C. Income from Investment

Section 2(a.1) defines investment as the holding of one or more properties or the investment in a property subject to the fact that:

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

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

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

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

2.9.1 Concept of Remuneration Taxation

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

The essential features of remuneration from employment will make clear idea in order to understand the meaning of Remuneration. These features are as follows (Amatya, Pokhrel and Dahal, 2004:69):

a) Employer-Employee Relationship

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

b) Mode of Payment

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

c) Remuneration/Professional Income

Remuneration income is derived with the passes of time but not depended on some job being performance or completed. But in case there respective employers employ any of them on the time basis, the amount is taxed as salary. For example a TV singer and an actor are ordinary not employees and therefore, the Remuneration they receive for jobs completed will be taxed under income from business.

d) Income received from Employer

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

e) Income received from an associate of the Employer

Sometimes, an associate of the employer pays remuneration. Such Remuneration derived from the associate of the employer is included in the employee's Remuneration from employment. For example, Remuneration paid to the employee by the managing director of the company.

f) Income received from third party:

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

g) The amount paid should be of regular nature:

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

2.9.2 Some Basic Points for Consideration

There are some basic considerations while computing assessable income from employment. These considerations may be as follows:

- a) Remuneration, salary and wages are not conceptually different. But the remuneration income and profession income are conceptually different.
- b) Salary may be received from more than one employer.
- c) Salary from a former employer, present employer, and prospective employer is included in the income from employer.
- d) Salary income must be real but not fictitious.
- e) Remuneration income is taxed on the receipt basis: Tax accounting of remuneration is cash basis. Hence, it is obvious that advance salary and arrears of salary may be taxed in the year of receipt part from the current year's salary.

2.9.3 Remuneration from Employment (Chargeable Remuneration)

The chargeable income under income from employment is specified in section 8 of ITA, 2058. Following payments made to a natural person from the employer are included in calculating the person's remuneration from employment as per the Act;

- a. Payment of wages, salary, leave pay (including salary in lieu of leave and encashment of accumulated home, sick etc leave), Overtime pay, Fees, Commissions, Prizes, Gifts (as per market valuation case of prize and gift is not in cash), Bonuses, and other facilities i.e. Dashain Expenses, Tihar expenses, Telephone facility, Transportation facility etc.
- b. Payments of any personal allowances including any cost of living, subsistence Allowance, Rent allowance, Entertainment allowance and Transportation allowance.
- c. Payments providing any discharge of reimbursement of cost incurred by the individual or an associate of the individual. For example, reimbursement of medical expenses, payment of Life Insurance Premium, and private trip Expenses etc.
- d. Payment for the agreement to any conditions of the employment. For example; incase an employee receives Rs. 5000.00 per month for not working in other organization as per the agreement made on the request of employer.
- e. Payment for termination or loss of service of compulsory retirement. For example, Amount derived as Golden-Hands-Shake scheme.
- f. Retirement contribution including those paid by the employer to a retirement fund in respect of the employee and retirement payments. For example, Gratuity, Encashment of Medical expenses at the time of Termination, Employer's contribution to Provident Fund.
- g. Other payment made in respect of the Employment.
- h. Amounts required being included in remuneration from employment as per tax accounting.
- i. In addition to above stated items of Remuneration, the following types of perquisites are also included in remuneration from Employment of a person.

1. Transfer of the asset [27(a)]: In case of the transfer of the assets from employer to employee, the market value of such asset is included in the employee's income. For example, if an employer provides 100ltr.of petrol as a fuel facility to an employee and if market value of petrol per liter is Rs. 70.00, its total market value of Rs. 7000.00 should be included in the employee's income from employment.
2. Vehicle of Personal and Official Purpose and Rent free accommodation for Personal Purpose [27(b)]: Payments consisting of the following facilities determined in accordance with rules are included in the income of the employee.
 - a. Vehicle Facility: Availability of vehicle wholly consisting purpose. However, such amount will be limited only to 0.5 percent of annual salary {13}. In case the facility is not provided as fringe benefit but is paid as transportation allowance of paid certain amount as transportation facility, such allowance of amount should be included in the Employee's Income.
 - b. House facility (including rent-free accommodation) for personal purpose: Provision of housing to the employee. However, this amount is limited to only 2 percent of annual salary {13}. But in case the facility is not provided a fringe benefit but is paid as house rent allowance or paid certain amount as residence facility, such amount or allowance is included in the employee's income. In case of maintenance expenses provided to employee's own house, such payment is included in income of the employee.
1. Expenses incurred by employer for the provision of domestic assistant, food house household for the employee [27(c)]: The amount of expenses incurred by the employer for provision of following facilities for the employee (but any contribution of the provision of such facilities don't included in income):
 - a. Service for Housekeeper, Cook, Chauffer (driver), Gardener or Other Domestic Assistants;

- b. Any meal, Refreshment, or Entertainment;
 - c. Drinking water, electricity, telephone and like utilities in respect of employee's place of resident.
2. A reduced amount of interest paid to employer as per concession rate with compared to prevailing rate [27(d)]: In case the amount of interest on loan paid by the employee to the employer with a concession rate, the difference amount of interest that is lower than the interest to be paid as per the standard higher rate is included in the employee's income. For example, if a manager of a bank has received a housing loan of Rs. 2,000,000.00 to construct a house with a concession interest rate of 6 percent interest of the standard rate of 10 percent for housing loan in the same bank and pays interest of Rs. 120,000.00 the difference amount of Rs. 80, 000.00 with compared to the interest of Rs. 200,000.00 as per standard rate is added to income from employment.
 3. Compensation [31(a), 62&92]: In case a person or an associate of a person derives a compensation amount including a payment under insurance that compensates for income from employment, it is included in calculating the income from the employment at the time the compensation amount is derived. The compensation for an income that the person derived or expected to derive from employment or compensation amount to be included in such category. For example, compensation to an employee from insurance company on termination of the job from which the employer has insured for his purpose is included in the employee's income from employment. It is noted that compensation or gain from the investment insurance from resident person is subject to final withholding payment and is not included in the individual's income but the compensation or gain from investment insurance from the non-resident person is included in the individual's income.

4. Amount or bill directly paid by the employer [27(e)]: For the payment other than stated above, the value of benefit of the payment made by the employer to a third person instead of employee is included in the income of the employee. For example, School fee of the children of the employee is directly paid by the employer to the school, life insurance premium paid by the employer, etc.

2.9.4 Non-chargeable Incomes

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

- a) Exempt amount [8.3(a) and 10]: The following payments are not included while calculating the income from employment as per section 10 of the act:
 -) Remuneration exempted under a bilateral or a multilateral agreement (treaty) with a foreign government or an international organization.
 -) Remuneration under the employment of public service of foreign government.
 -) Remuneration derived by foreign national from foreign government.
 -) Remuneration paid by HMG to foreign national on the term and conditions of tax exemption.
 -) Allowance paid by HMG to widows, senior citizen or disabled individuals.
 -) Gift, bequest, inheritance of scholarship except as required to be included in income from employment.
 -) Pension received by retired Nepalese army/police from public fund of foreign government.

- b) Final withholding payments [8.3(a) and 92]: If a person receives the final withholding payments (after tax deduction at source) they are not included to the person's income. The following income received after deduction tax at source as final withholding payments are not included while calculating income;
- J Dividends paid by a resident company
 - J Rent for the lease of land or a building and associate fitting and having a source in Nepal, and that is received by an individual other than in conducting a business.
 - J Payment made by a resident person for gains from investment insurance
 - J Payment made by a resident unrecognized retirement fund to the beneficiary for gains from interest on unrecognized retirement fund.
 - J Interest that is sourced in Nepal and not related to person's business paid by a resident bank or financial institution to the natural person.
 - J Payment made to non-resident person that are subject to tax withholding by employers, withholding from investment returns and service fees, withholding from contract payment under 87,88 and 89 respectively.
 - J Retirement payment made by HMG or recognized retirement fund.
 - J Meeting allowance (Payment for part-time teaching, payment for setting question papers and payment for examining answer books from FY 2060/2061 and onwards.)
- c) Meals and refreshments on similar terms: Meals or refreshments provided in premises operated by or on behalf of an employer to the employer's employees that are available to the employees on similar terms [8.3 (b)].
- d) Discharge or reimbursement of expenses used for employer's business purpose or employer's admissible deductions from business or investment [8.3 (c.1 & c.2)]: Any discharge or reimbursement of costs incurred by the employee that serve the proper business purpose of the employer or that are or would otherwise be deductible in calculating the employer's income from any business or investment. For the detailed analysis of chargeable and non-chargeable income received as reimbursement of

expenses incurred by an employee, it should be identified whether or not the expenses are deductible expenses from business or investment of the employer or is used for proper business of the employer. To make clear idea about it, expenses of domestic or personal nature that are expressly disallowed are clearly identified as mentioned in the clarification of section 21 of the act.

- e) Payments of small amounts [8.3 (d)] {6}: Payments of the prescribed small amounts which (after taking into account and frequency with which the employer makes similar payment) are so small as to make accounting for them unreasonably or administratively impracticable [8.3(d)] . As per the rule 6, and employer may make a payment of an amount not exceeding Rs. 500 at a time as the payment of small amount in this respect for a provision of tea, stationary, gifts, rewards , awards, emergency medical treatment or other similar expenses approved by the Department {6}
- f) Special provision of exemption for retirement and leave pay [20.6 (a) & (b)]:

The following amounts, which are precisely exempted from tax, are also exempted:

-) The amount accrued prior to the commencement of 'Income Tax Act, 2058' (Till 2058/12/18) to any person as principal, interest and bonus in Employees Provident Fund and Citizen Investment (Recognized Retirement Funds) are exempted. However, the interest accrued on the same amount is taxed after that date as final an employee as gratuity and amount of accumulated home and sick leave are also exempted.[20.6(a)]
-) Medical expense up to Rs. 18,0000 payable at the time of discharge of retirement to that employee who was working on job at the commencement of the act. [20.6(b)].

2.9.5 Other Considerations

A) Common Deductions [13 &63] [21]

The amounts that are deductible while computing taxable income are as follows:

- a. Retirement contribution: Retirement contribution to the approved retirement fund within the limit is allowed to deduct to obtain the taxable income of natural person [63]. The limit is Rs.300000 or one third of assessable income of the person whichever is less [21].
- b. Donation: Gift amount to a tax exempt organization equal to 5 percent of taxable income or Rs. 100000 or actual, whichever is less or as prescribed by HMG in notification is allowed to deduct to obtain the taxable income [21].

B) Exemptions [1.1, 1.5 & 1.9 of Schedule 1 of ITA 2058]

- a. Statutory Exemption limit: Statutory exemption limit of Rs. 80000 for individual (single) and Rs.100000 for couple is allowed to deduct while computing taxable income from the income year 2060/061.
- b. Remote area allowance as an additional exemption limit:
Remote area allowance is applicable to all natural person as an exemption in additional to the statutory –exemption limit for income from employment, business or investment (i.e. Rs. 30000, 24000, 18000, 12000 and 6000 for A, B, C, D and E class areas respectively).
- c. Additional exemption for pension income: case pension income, an additional amount of 25% of statutory exemption limit (Rs. 80000 or Rs. 100000)) is allowed to deduct while computing taxable income of an individual or a couple from the income year 2060/061. It means that the total exemption limit would be Rs. 100,000 for an individual (single) and Rs. 125000 for a couple for the income year 2060/061.
- d. Life insurance premium as admissible deduction from the income year 2060/061: Finance ordinance, 2060 had provided the facility of exemption for the premium, @ 7% of insured policy amount or Rs. 10000 or actual amount, whichever is less from the assessable income to the natural person.

C) Medical Tax Credit [51] {17}

The medical tax credit facility is available to the all taxpayer while computing the tax liability of the natural persons. The medical tax credit of 15% of the approved medical costs plus carried forward of medical ax credit (excess amount of medical tax credit over Rs. 750+ the amount of medical tax credit not used by reason of lack of tax payable) from previous income years [51]. However, upper limit of medical tax credit for one year is Rs. 750 per year and the remaining balance of medical tax credit can be recouped in next year [17]. Furthermore, if the medical tax credit up to Rs. 750 is used due to the lack of tax payable in the relevant income year, such unused amount of medical tax credit can also be carried forward to next income years.

D) Foreign Tax Credit [17]

Amount of income tax paid in a foreign country is deductible as tax credit from the tax liability of foreign source income. However, such amount does not exceed the average rate of Nepal Income Tax. For this purpose, the average tax rate is calculated as follows:

$$\text{Average Tax} = \frac{\text{Tax Liability before Deducting Foreign Income Tax}}{\text{Taxable Income of the Person}} \times 100$$

E) Special Fee as Additional Tax

The finance Ordinance, 2059 had prescribed a special fee @ 3% on taxable income of a person. However, this provision is applicable to that slab of taxable income where 25% tax rate is applicable. It means special fee is not levied on that slab of taxable income where income tax rate is 0% and 15% in the case of a resident individual or couple. Similarly, it is also levied on and realized from any taxable income in the case of an entity and a non-resident person. It is noted that special fee is not income tax. However, the Finance ordinance, 2060 has prescribed the special fee @ 1.5% on such taxable income to be applicable for the income year 2060/061 and onwards. It means the rate of special fee has been decreased to 1.5% in the income year 2060/061. (Please refer to section 17.2 of Finance Ordinance 2059 and Section 16.2 of Finance Ordinance 2060).

F) Special Provision for Retirement Savings

- a. Retirement Contributing to Approved (Recognized) Retirement Fund [2bh,2d,2f,63.1,63.2] and {20}{21}

The act has defined the term 'retirement contribution' as a payment made to a retirement fund for the provision or future provision or future provision of retirement payments [2(f)]. In the same way, the act has defined the term 'retirement fund' that if means any entity established and maintained solely for the purpose of accepting and investing retirement fund contribution in order to provided retirement fund payments to individuals who are beneficiaries of the entity or a dependant of such individual [2 (d)].

According to section 63.2, a natural person who is the beneficiary of an approved retirement fund may claim to reduce the taxable income by retirement contribution made to the fund by the natural person during the year. For this purpose, the upper limit of the deductible amount of retirement contribution is Rs. 300000 or 1/3 of the assessable income; whichever is less {21}.

It is noted that the assessable income includes from employment, business and investment sourced in Nepal .It is also noted that natural person includes a couple (husband and wife with or without minor ----children) by electing themselves as a single unit of taxpayer. In such case, they can deduct their retirement contributions from their combined assessable income as mentioned above.

As per sections 2(bh) and 63.1 'approved retirement fund' means retirement fund for which the Inland Revenue Department approves as to comply the following terms and conditions: a) The amount of which is invested in recognized investment; b) The fund is managed by independent person other than the employer; c) The amount spent as retirement fund is deposited within one month in case of Ashadh and within 15 days in

case other month; d) Repayment of the amount to employee is made only in case of retirement or completion age of 58 years, death or physical payment handicap of the employee and the retirement or fund is audited by the auditor recognized by Auditor General's Office. {20}

Here, recognized investment means investment made to citizen Investment Trust or Employee Provident Fund or HMG securities or recognized bank or instruction co-financed with bank or investment made to the beneficiaries other than the shareholders.

b. Retirement Payment [65] {20.6}

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

For the purpose of calculating the income of a natural person, in case the retirement payments are made from the person's interest in an approved retirement fund or from HMG, the following provisions are applied: (a) There is included any retirement payment made by the fund in respect of the it is treated as a gain from the disposal of a non-business chargeable asset of an investment of the person.

For this purpose, the gain is determined after deducting Rs.500000 of 50% of the total retirement payment, whichever is higher from the total retirement payment and is taxed as final withholding tax at the rate of 6%. For example, gratuity, amount of accumulated home leave and sick leave medical expenses at the termination of job etc.

altogether paid by HMG and refund of principal with interest and bonus from Employees Provident Fund.

For the purpose of calculating the gain of natural person from an interest in an unapproved retirement fund, the following provisions are applied: (a) In the case where the proceeds are paid by a resident person, it is taxed in the hands of the form of a final withholding tax; (b) In the case where a non-resident person pays the proceeds, it is included in calculating the income of the individual beneficiary.

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

- J The amounts accrued prior to the commencement of 'Income Tax Act 2058' (till 2058/12/18) to any natural person as principal, interest and bonus in consideration of employee's and employer's contribution in Employee provident Funds and Citizen Investment Trust (Recognized Retirement Funds) are exempted. However, the interest accrued on the same amount is taxed after the date as final withholding payment. Similarly, the amounts of accumulated home and sick levels are also exempted from income tax.
- J Medical expenses up to Rs. 180000 payable at the time of discharge or retirement to the employee who was working on job at the commencement of the act.

c. Taxation of Retirement Fund [64]

For the purpose of calculating the income of a retirement fund, amounts required to be included are deducted are included the deducted under other provisions of the 'Income Tax Act 2058' but:

1. Retirement contribution received by the fund is not included in the calculation and is not an incoming of the fund
2. Retirement payment is not deductible n the calculation and is not an outgoing of the fund; and

3. The interest of a beneficiary in a retirement fund is not a liability of the fund.

The income of an approved retirement fund is exempted from tax. If an approved retirement fund ceases to be an approved retirement fund, it has to pay income tax in an amount equal to company tax rate applied to the amount remained after subtraction the amount of paragraph (1) From the amount of paragraph (2) as follows:

- a. All retirement contribution derived by the fund during the period from its most recent approval as an approved retirement fund to when it ceases to be so approved and chargeable income during the period while the fund is become unapproved, less;
- b. All retirement payment made by the fund from its most recent approval as an approved retirement fund to when it ceases to be so approved.

G. Tax-free Income/Tax exempted Income

According to income tax act 2058, section 10; the following incomes are tax-free income or tax exempted income even though they seem income from Business or Employment.

- a) Income earned by a person due to the bilateral or multilateral treaty between HMG and foreign country or international organization.
- b) Income earned by a person working as foreign government servant on foreign land is non-taxable income.
- c) A person hired by HMG for the service of HMG government making agreement of nonpayment of tax.
- d) Allowances distributed by HMG to the widow, handicapped or old person are tax free income.
- e) Donation, gift and present etc received by tax free organization is tax- exempted income. Similarly, income earned by Nepal Rastra Bank is also tax-free income.
- f) Amount received in the form pension by a Nepalese Ex-Army or Police worked in foreign land.

H. Tax Incentives

Tax incentives are concessions, facilities and rebates granted to corporate bodies. Those incentives reduce the tax burden of an organization. It may imply a partial or full exemption from one or variety of taxes and special allowances for a certain period to motivate the new as well as existing organization for balanced regional development, encourage for the production of primary goods and to develop the corporate bodies. It increases the habit of saving and encourages the investment by the means of equity shares, purchasing of an organization. Thus tax incentives are a phenomenon developed specially to accelerate the slow rate of investment in most of the developing countries.

The increase in corporate investment is the sign of economic development of the nation. Basically, offering of tax incentives become necessary due to the two reasons, stretching the scope of tax beyond its revenue objectives to achieve certain socio-economic need and to mitigate the adverse impact of high taxation on corporate saving and investment activities.

Developing countries like Nepal must have to encourage investor to invest in factors and industries for economic well-being of nation, creating employment opportunity and to reduce foreign dependency. But the investor are ready to invest only in such a case when the after tax profitability becomes high.

The desire of investor to invest in new project can be partly fulfilled by the tax incentives and finally it helps the government to increase its revenue. Some of the popular ways of providing tax incentives by the government in different countries in the world are tax holiday, tax credit accelerated depreciation, deduction in tax rate, carry forward of losses, etc. Tax holiday is the tax free for a certain period. Any industries getting such types of incentives need not to pay tax for a certain period of time.

Similarly, another technique of tax incentive is tax reduction that means lowering the tax rate. This type of incentive is mostly provided to those industries operating in particular place with particular kind of goods or services. However, sometime such types of tax incentives is equally provided to all types of corporations whether large or small, new or old, capital incentives or labor incentives and located at rural or urban areas. It has min adverse affects to the government as reduces the government's revenue.

Another method of providing tax incentives is to provide tax credit facility. In this system tax incentive is provided capital investment. It is the granted in the first year's investment on assets. Such type of incentive is mostly beneficial to the large scale investors rather than small investors. Similarly, another method of providing incentive to the large scale investor is in accelerated depreciation charging facility. In this system higher depreciation is charged in the beginning year and gradually decreases in later year on the fixed assets of an organization. Due to this, taxable income of the corporation become lower and saves the amount of tax. For the accelerated depreciation, sum of the year digit (SYD) and double declining method of depreciation are commonly used. (Poudyal,2001: 2).

The last method of providing incentive is to carry forward of losses. In this technique the loss of the previous year can be deducted from subsequent year's profit. Mostly of the country in the world allow to deduct losses or carry forward of losses from subsequent year profit. Income tax act, 2058 of Nepal has allowed carry forward of losses of general business for four year and bank and insurance business for five subsequent years.

Among these various types of tax incentives policy of government, investment allowance is widely used by Srilanka, Canada, Brazil, Malasia, Singapore, Taiwan, Belgium, Germany, Japan, United Kingdom, and other industrialized country (Kandel P. R., Op. cit P.16).

Developing country like Philipine and Mexico etc are using tax, Income Tax Act, 2058 Nepal has adopted a combination of at holiday, investment allowance, deduction in tax rate and carry forward of losses etc. in order to provide incentives to the investor.

2.1o.1 Computation of income from Employment

The format prescribed by the IRD for calculation income from employment is given in Appendix-8.

Computation of income from employment for the income year 2060/061

Particular	Amount
Remuneration from employment for this year (Chargeable Income)	XXX
Salary (including grades) and wages [8.2(a)]	XXX
Leave pay (salary in lieu or level) [8.2(a)]	XXX
Pay for overtime [8.2(a)]	XXX
Fees[8.2(a)]	XXX
Prizes and gifts related to employment (in case in kind as per marked value) [8.2(a)]	XXX
Bonus [8.2(a)]	XXX
Other facilities (Dashain bonus or Tihar bonus) [8.2(a)]	XXX
Commission [8.2(a)]	XXX
Dearness allowance [8.2(b)]	XXX
Subsistence (Living Allowance) [8.2(b)]	XXX
House Rent Allowance [8.2(b)]	XXX
Entertainment and transportation allowance [8.2(b)]	XXX
Other Personal allowance (Children education allowance) [8.2(b)]	XXX
Reimbursement for personal expenses [8.2(c)]	XXX
Payment for accepting any condition regarding payment [8.2(d)]	XXX
Payment for discharge, loss or termination of the employment [8.2(e)]	XXX
Other payment made in respect of employment [8.2(f)]	XXX
Retirement payment and retirement contribution [8.2(g)]	XXX
Amount related to vehicle facility (0.5% of salary) [27.1(b.1)]	XXX
Amount related to provision of house or residence facility (2% of salary) [27.1(b.1)]	XXX
Amount related to housekeeper, driver, gardener or domestic assistants [27.1(c.1)]	XXX

Any meal refreshment or entertainment provided by employment [27.1(c.2)]	XXX
Amount related to services related to drinking water, electricity, telephones and other utilities in respect of employee [27.1(c.3)]	XXX
Under payment of interest for the loan taken from employer [27.1(d)]	XXX
Other amounts to be included in remuneration (amount as per tax accounting)	XXX
Total Remuneration from Employment (Assessable income from employer)	XXX

2.10.2 Computation of Taxable income

Assessable income from employer	XXX
Assessable income from Business	XXX
Assessable Income from Investment	XXX
Total Assessable income	XXX
Less: Contribution to recognized retirement funds (Employee Provident Fund and Citizen investment Trust) @ 1/3 assessable income of Rs. 300000 or actual whichever is less.	XXX
Taxable Income before Donation	XXX
Less: Donation (5% of taxable income before donation or actual or Rs. 100000 whichever is less or as prescribed by HMG)	XXX
Total Income	XXX

A. Computation of Income Tax Liability

I. In the case of resident natural person

First Rs. 80,000 for individual of Rs. 100,000 for couple	XXX
Next amount from Rs. 6000 to Rs. 30,000 as per category of remoteness for remote area allowance (irrespective of income head employment, business or investment')	XXX
Next amount equal to 25% of 80,000 for individual (or 100,000 for couples or pension income whichever is less	XXX
Next amount equal to Rs. 10,000 or 7% of insured amounts or actual premium whichever is less	XXX
Next Rs. 75000 @ 15%	XXX
Next any amount @ 25%	XXX
Total tax liability	XXX

II. In the case of non-resident natural person

(a) Taxable income	XXX
(b) Tax rate	XXX
Total Tax Liability (aXb)	XXX

B. Computation of Income tax payable

Total Tax Liability		XXX
Less: Preceding income years excess tax payment (if any)	XXX	
Less: Tax paid in advance including tax deduction at source and non final withholding	XXX	
Less: Medical tax credit [15% of recognized medical expenses of 850 whichever is less (applicable to resident natural person only)]	XXX	XXX
Total payable		XXX

Special Fee: The Finance Ordinance, 2059 has prescribed a special fee @ 3 on taxable income of a person. However, this provision is applicable to the slab of taxable income where 25% tax rate is applicable. It means special fee is not levied on the slab of taxable income where income tax rate 0% and 15% in the case of a resident individual of couple. Similarly, it is also levied on and realized from any taxable income in the case of an entity and a non-resident person. It is noted that special fee is not income tax. However, the Finance Ordinance, 2060 has preserved the special fee @ 105% on such taxable income to be applicable for the income year 2060/61 and onwards. It means the rate of special fee has been decreased to 1.5% in the income year 2060/61. (Please refer to section 17.2 on Finance Ordinance 2059 and Section 16.2 of Finance Ordinance 2060).

2.11 Review of Literature

Income tax was imposed in Nepal by the first Parliamentary Government in 1959. Then after, various studies were made and researches conducted by different individuals and institutions concerning with various aspects of this act such as the structure, role, productivity, legal and administrative framework etc. Some of the books reports and dissertations that are reviewed during this study are as follows:

2.11.1 Review of Books and Reports

At the earliest in 1965, Mr. Kedar Bahadur Amatya, published a book "Nepal Ma Aayakar ko Bebastha" in 1965. He has tried to describe about income tax and provision regarding income tax. His contribution was first in the field. Basically, he analysed legal aspect of income tax in Nepal at that period. (Amatya, 1965)

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

- J To examine the problem of growing resource gap in Nepalese finance in the context of the role income tax.
- J To examine the buoyancy and elasticity of income tax in Nepal including projection of income tax.
- J TO examine new personal for mobilization of additional domestic resources from income tax in Nepal.
- J To examine possibilities for making income tax as policy instrument for reducing inequalities of income and wealth in Nepal.

) TO examine the ways and means for increasing tax consciousness in the Nepalese public.

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

- a. Needs for additional resource mobilization was growing by 85 times in Nepal and she was experiencing a serious and growing problem of resource gap.
- b. Income tax administration in Nepal suffered from a number of interacting and inter-related problems, which have badly affected its productivity.
- c. Income tax has been a fast growing category of tax revenue in Nepal.
- d. More than 50 percent of the total income tax revenue was contributed by the individuals' taxpayers.
- e. Buoyancy of income tax with respect to GDP for period 1967/68 to 1975/76 was 2.18 and elasticity was 2.01 since both buoyancy and elasticity were greater than unity; income tax in Nepal Was positively responsive to change in GDP.
- f. The main defects of the income tax administration was failure to locate new tax payers , to maintain the proper accounts, delay in assessment, poor taxpayers compliance, evasion and avoidance of tax. And defectives management.

Recommendations

- a. Additional domestic resources should be mobilized through taxation.
- b. Tax structure of Nepal need to is redesigned in order to increase the role of direct tax.

- c. Income tax should be reformed in Nepal.
- d. The research team also suggested to reform income tax administration by including the affluent taxpayers into tax net, providing the permanent taxpayers register. (Agrawal, 1978).

Agrawal (2004) has published a book entitled, "Income Tax; theory and practice." This book has focused on the students of chartered accountants and taxation. This book has also focused to be a practitioners' reference and handbook, rather than theoretical compilation on the subject. His book is not only based on description fact but also has interrupted the various provision of the new act. Simple and clear language has been used in this book. Sufficient theoretical concepts with clear interpretation as well as sufficient examples are included in this book. This book has depth theoretical concept and examples. Some sections of ITA 2058 act have compared with the international accounting standard. Gain or loss adjustment of depreciated assets is an example. All terms are clearly defined with sections under which the terms are included (Agrawal; 2004).

Lent (1968), has presented a report entitled, "Survey of Nepalese tax Structure" under the request of IMF, Fiscal Affairs Department. He has critically analysed the scope of income tax in Nepal, tax structure, taxable income exemption and allowances given at that time. He has suggested reforming both the income law and administration to increase government revenue through income tax (Lent, 1968). The book published in 1976 by Nirmal Bhattarai and Ratna Shrestha, gave information about the legal aspects of income taxation in Nepal of that period.

In 2001, Revenue Consultation Committee Report has studied the overall taxation situation in depth. It highly emphasized to simplify the tax policy to increase voluntary compliance. This report recommended for written communication between taxpayer and tax administration rather than the informal relation. This report suggested

widening the income tax bases by including all kinds of taxpayer of new sector. For this, the report suggested to make the act more transparent and clear in order to attract foreign and domestic investors. It was further suggested to increase income tax exemption limit with considering purchasing power and inflation rate. (Revenue Consultation committee, 2001)

Adhikari (2002) has discussed the legal provision of new Income Tax Act, 2002. His book is analytical rather than informative. Writer has not included administrative aspect, role and structure of income tax in his book. The book has only focused on the legal aspect of income tax. Agreement and protocol relating to avoidance of double taxation and the prevention of fiscal evasions with respect to taxes on income between different countries had also included in his book. (Adhikari, 2002).

Kadel (2003) had criticized the income tax act 2002 on several grounds. Exemption of agriculture income from income tax, export duties levied on export, inequality between different capital earned income (i.e. tax on interest, dividend, and capital gain), and withdrawal of the provisions of exemption suddenly and no adjustment for inflation are the major issue he raised in his article. He further criticized the Act for the provision of income tax from export as 0.5 percent of total export because it is not good choice of income tax base. (Kadel, 2003).

Mallik (2003), has published book named "Nepalese Modern Income Tax System". He had described historical aspects of income tax and legal provisions relating to income tax with numerical examples. This book is very useful to know the general information and legal provision of Income Tax Act, 2002. His focus is on Income tax in Nepal, role of income tax, administrative and legal aspect of income tax in Nepal. His study is useful to find out facts and figures about the income tax in Nepal at that time. (Agrawal, 1980)

Poudyal and Timsina (1990) presented a book based on B.Com syllabus. This book is designed to give theoretical as well as practical ideas of income tax in Nepal.

Provisions and methods of assessment have been described with numerical examples but the major problems and defects of income tax system of Nepal have not been analyzed. (Poudyal and Timsina, 1990).

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

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

Dhakal (1998), presented his extended, enlarged and modified edition of his book including value added tax. This book is mainly based on the syllabus of BBS third year. The provisions made under income tax laws and the methods of income tax assessment have been described with numerical examples. This book is more helpful to know about general information and provisions made under Income Tax Act 1974. But he has not analyzed the role of income tax, income tax structure and defects of income tax system of Nepal. His book is informative rather than analytical. (Dhakal, 1998).

In 1999, Adhikari has published a book which is mainly based on the T.U. syllable of B.B.S. third year. Apart from the theoretical concept on taxation, he has also presented the historical background, income tax laws and its implementations, assessment of tax and tax authorities, rights and duties. He has also described the management of VAT, property Tax and Sales Tax. The book includes precedents of Superme Courts about Income Tax, classification and interpretation of revenue code, tax planning and income tax management in Nepal. The book is based in Income Tax Act, 2031. (Adhikari, 1999)

Tiwari (1999), presented a book about income tax system in Nepal. This book is published mainly for the students of Tribhuvan University but is equally useful to the tax payers, tax administrators and those who desire to get theoretical as well as practical knowledge about income tax. He has described the provisions under Income Tax Act 1974, income tax rules, information and acts related to income tax etc. He has not analyzed the major problems of income tax system. (Tiwari, 1999)

Khadka (2001), published a book on income taxation of Nepal. The book contains many interesting articles on various aspects of income tax. It first traces out the evolution of income tax around the world. It then analyzes relative importance of income tax in the tax system of some selected countries. It also defines various concepts, which are widely used in the modern income tax literature. The book also reviews major changes introduced in the field of the Nepalese income tax system since its inception in 1959 AD and examines its existing structure and operation. It also analyzes the current problems and makes recommendations for the rationalization of the structure and modernization of operation of the income tax system. The book also includes income tax acts of 1959, 1962 and 1974 A.D. (Khadka, 2001)

In 2001, Revenue Consultation Committee Report has studied the overall taxation situation in depth. It highly emphasized to simplify the tax policy to increase

voluntary compliance. This report recommended for written communication between taxpayer and tax administration rather than the informal relation. This report suggested widening the income tax bases by including all kinds of taxpayer of new sector. For this, the report suggested to make the act more transparent and clear in order to attract foreign and domestic investors. It was further suggested to increase income tax exemption limit with considering purchasing power and inflation rate. (Revenue Consultation committee, 2001)

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Mallik (2003), has published book named "Nepalese Modern Income Tax System". He had described historical aspects of income tax and legal provisions relating to income tax with numerical examples. This book is very useful to know the general information and legal provision of Income Tax Act, 2002. His book was informative rather than analytical. He had not analyzed the role of income tax, structure of income tax in Nepal. (Mallik, 2003)

2.11.2 Review of Dissertation

Gautam (2004) has presented a dissertation entitled, "Contribution of income tax to the national revenue of Nepal". He has studied the contribution of various taxes in the government revenue, tax revenue, GDP. According to him the contribution of tax revenue in the government revenue is 85.2% in the income year 1982/83 and decreased to 78.0% in the income year 2001/02. Nepalese income tax revenue is the composition of income tax from public enterprises, semi public enterprises, private corporate bodies, individuals, remuneration and tax on interest. Income tax of Rs. 8903.7 millions was collected in 2001/02. Share of individuals to income tax revenue is the highest. Within income tax, there is dominant role of individuals and it is decreasing trend which was 69.23% of income tax revenue in 1982/83 but decreased to 49.63% of income tax revenue in year 2001/02. The contribution of individual income tax is in first position, Income tax exemption limit in Nepal was Rs. 7000 for all taxpayers in 1959/60 but at present income tax exemption limits is 80000 for individuals and Rs. 100000 for couple and family in 2003/04. The exemption limit is not provided for partnership firms, corporation and non residents. It is found that exemption limit has been changed on the need of time and income.

Personal income tax rate was 5 to 50 percent with 7 slabs in 1980/81 but at present (i.e for 2003/04) it is reduced to 2 slabs. In the same way, corporate tax rate was 10 to 55 percent with 1980/81 but at present taxpayers are taxed at flat rate. Income tax is 15 percent and 25 percent for personal income tax over exemption limit, 30 percent for bank, finance companies and 25 percent for other corporate taxpayers.

His suggestions are that the objectives of taxation should be growth, redistribution, and stabilization of economy. So, the income tax policy should be properly formulated on the basis of critical analysis of existing situation (Gautam, 2004).

Shrestha (1967), has prepared a master degree thesis entitled "Income Tax in Nepal". He has described about historical background, income tax act, rules and administrative aspect of income tax. All things mentioned in it are not fully relevant at present. (Shrestha, 1967)

Kayastha (1974) has tried to analyze the contribution of income tax and property taxes to overall revenue generation in Nepal. He has studied on legal and administrative aspect income tax system of Nepal and pointed out some drawback. According to him before 1951, Nepal didn't have scientific economic policy, which could facilitate the economic development of the country. According to him, the major problems of income tax system of Nepal are income tax evasion at high level and greater role of indirect tax in tax revenue. These problems have not solved yet effectively. (Kayastha, 1974)

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

done with objectives of examining the economic effects of income tax but he had not described it with numerical examples and empirical investigation. (Pandey, 1978)

Subedi (1982) has analyzed about the role of income tax on national revenue of Nepal. He has examined the growth of income tax collection, its ratio to GDP, cost of income tax collection and elasticity. He has also included historical perspective and legal aspect of income tax in his study. He has pointed out that tax evasion, inefficient tax administration and dominated role of indirect tax are the major problems in Nepalese tax system. He has suggested that tax administrative reform is the major necessity in development of income tax system. (Subedi, 1982)

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

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

Siwakoti (1987) has explained the various aspect of income tax. HIS study emphasized on drawing a clear sketch of role of income tax, structure of income tax, projection of income tax, legal aspect of income tax act and problems of income tax. Major problems existing in Nepalese income tax system, stated by him are narrow coverage, unscientific and time consuming assessment and collection procedure, complicated act and defective income tax act. (Siwakoti, 1987)

Baral (1989), has tried to show the contribution of income tax on the structure of government revenue in Nepal. She stated that the composition of tax and non tax revenue is still less satisfactory in Nepal. She found that total revenue, total tax revenue and direct tax revenue have an increasing trend in Nepal but in low rate. She has mentioned that tax evasion as the major problem of income tax system in Nepal. In her study, inefficient tax administration, unconsciousness of tax payer, lack of scientific method of tax assessment and collection have identified as the major reasons for tax evasion at high level. (Baral, 1989)

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

Acharay (1994) has mentioned the main objectives of income tax as to achieve social justice, to check inflation and to collect more government revenue. He has identified the contribution of individuals in total income tax revenue seems to be greatest during his study period followed by public enterprises, enumeration, house rent, and interest taxes, semi public enterprises and private corporate bodies respectively. He has also analyzed the administrative and legal aspects of income tax. He has recommended simplifying the tax structure, legal and administrative aspect, and understanding with the consent of tax payer to raise income tax revenue. (Acharya, 1994)

Shahu (1995) has found that 0.35 percent of total population came under the category of taxpayer during his study period. Main objective of his study was to study Nepalese structure, role and contribution of income tax on national revenue. He has identified that income tax has been gradually increasing and was in the fourth place in the tax structure of Nepal. He has not discussed the major aspects of income tax clearly and analytically so it is incomplete study and all things mentioned in it are not also fully relevant today because it was made 9 yrs ago. (Shahu, 1995)

Shakya (1995) presented a dissertation named "Income Tax System in Tax Structure of Nepal." His study was done with basic objective of analyzing the causes of heavy reliance of indirect taxes, analyzing the volume of indirect tax revenue and direct tax revenue in total tax structure, highlighting the revenue assessment procedure from different sources and suggesting improving on them. In his study, he has identified the income tax has occupied fourth position among tax revenue of Nepal. Custom duty, sales tax and excise duty has occupied first, second and third position respectively in Nepalese tax revenue. He has mentioned Nepalese taxable capacity is limited by various factor such as low per capita income, extensive subsistence economy, relatively "closed" (India) economy, weak export position etc.

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

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

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

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

administration, she has suggested computerization and effective exchange of information, she has suggested computerization and effective exchange of information, tax education to tax payers, tax inspectors and officials, effective personnel management, Her suggestion for minimizing tax evasion were control illegal business activities, enforce proper auditing and investigation, enforce heavy fines and penalties and maintain proper records and accounts. (Shrestha, 2001)

Pradhan (2002), study is basically concerned with historical background, contribution of income tax to the public revenue, contribution of Nepal Telecommunication Corporation (NTC) to income tax, effectiveness of income tax collection. She had found the contribution of income tax from public enterprises in Nepal was not significant due to poor achievement, weakness in government's economic policy and deficiency in legislation. NTC has been contributing effectively to total income tax revenue. Contribution of tax revenue on GDP of Nepal was lower than other SAARC countries except Bangladesh. Average contribution of income tax from NTC to total tax revenue, total income tax revenue and total government revenue was 2.37 percent, 15.60 percent and 1.93 percent in her study period.

Her suggestion about income tax system were clear cut provision, discretionary power of tax officers should curtailed, assessment and collection provision should be made clear and simple, provision of reward, prize, incentive should introduce to encourage the taxpayers to pay voluntarily, compulsorily provision of auditing, etc. For the improvement income tax administration in Nepal, she had suggested promotion and rewards to active, efficient and honest tax personnel, tax education to tax payers, strict actions against corruption, and reduction of delays in tax assessment. Specially, her study had focused on the study on Nepal Telecommunication Corporation. (Pradhan, 2002)

Sherchan (2003), study had covered tax structure, role of income tax and legal provision of income tax. But specially, his study had focused on provision of fines and penalties. He had found that there was dominated share of tax revenue in Nepalese government structure. Income tax had occupied third position in his study period and it as increasing trend. The tax/GDP ratio was not found satisfactory. With the income tax, there was the dominated role of corporate income tax but it was in decreasing trend and contribution of individual income tax was second position and it was in increasing trend.

He had suggested revising the position of fees and penalties, introducing reward, prize, incentives position, clear income tax, rules and regulation, clear right and duties of tax officers. Further, his suggestions were: timely revision in income tax policy, computerized system for payment of income tax. This study was done with main objectives of analyzing tax structure of Nepal, analyzing the position of fines and penalties under income tax law, know the taxpayers knowledge and tax officers view about fines and penalties. His study had focused only on study on provision of fines and penalties. So, this study is incomplete study. (Sherchan, 2003)

Palli Magar (2003), had covered tax structure, role of income tax and exemptions and deduction provided in the law. He had found that there was dominated share of tax structure in Nepalese government revenue. Income tax had occupied third position in his study period and it was increasing trend. The tax/GDP ratio was not found satisfactory. With the income tax, there was the dominated role of corporate income tax but it was in decreasing trend and contribution of individual income tax was second position and it was in increasing trend. Lack of trained employees, shortage of income tax experts professional in tax administration, lack of public participation, faulty organizational structure of tax administration, weakness in government policy, defective income tax act were the major cause for inefficient tax administration, observed by him.

His suggestion about exemption were: revision the exemption limit, elimination double taxation on dividend, tax rebate for submitting true income statement in time, increase income tax rate slab up to 10, increase the exemption limit to individual as well as family etc. Besides above, suggestions about deduction were: clear provisions for deduction; fully allowed interest expense, pollution control expenses, repair and improvement expenses, research and development expenses. He is totally concentrated on the exemption and deduction in his study. He has not study about various aspect of income tax. (Palli Magar, 2003)

Besides these reports, books and master level dissertations, some articles about income tax published in Kathmandu post, Rising Nepal, Ghorkhapatra, The Kantipur, The Kathmandu Post etc. and publication of Ministry of Finance such as Budget Speech, Economic Survey were reviewed in the study period.

Shrestha (2006) has tried to shown the contribution of income tax on the structure of government revenue in Nepal. She stated that the composition of tax and non tax revenue is still less satisfactory in Nepal. She found that total revenue, total tax revenue and direct tax revenue have an increasing trend in Nepal but in low rate. She has mentioned that tax evasion as the major problem of income tax system in Nepal. In her study, inefficient tax administration, unconsciousness of tax payer, lack of scientific method of tax assessment and collection have identified as the major reasons for tax evasion at high level. (Shrestha, Neena 2006)

2.12 Research gap

Tax is the strong sources of government revenue. It plays important role in revenue collection. To increase the revenue collection from tax the government should either increase the tax rate or make wide coverage. If tax collection is effective the

government revenue will increase well. Various books, dissertations, reports and articles have been reviewed while preparing this dissertation. Almost dissertations were written on different aspect on income taxation. So, it has been found that no one has studied on remuneration aspect of income tax in detail. This study is unique and original.

CHAPTER – III

RESEARCH MEHODOLOGY

This chapter is devoted to the research methodology applied in the study for, the achievement for desired objectives. Both primary as well as secondary sources of data are used to conduct this study. Opinion survey technique was adopted while collecting primary data to find out the views of respondents representing different groups related to Income tax. This opinion survey was opted to find out the practical aspect of Income Tax. While conducting the opinion survey, questionnaires were distributed to the tax experts, tax officers, business-men and consumers in the sizeable manner.

3.1 Research Design

Research design simply means definite procedures and techniques which guidelines the profound ways for research. The analysis of any study is based on certain research design keeping as the objectives of the study in mind. This research study mainly focused towards effectiveness of remuneration tax in Nepal, so research design of this study is here analytical as well as descriptive methods of analysis.

3.2 Population and sample

Tax experts and employees paying tax are the population of the study. From them tax experts and employees of capital city as well as of outside the valley were considered as population. Out of them following are the denominated sample presented in table 3.1

Table 3.1
Groups of Respondents and Sample Size
(Questionnaire Distributed and Received)

S.N.	Respondent Group	Sample Size
1.	Tax Experts	30
2.	Employees	30

Total	60
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3.3 The Sampling Procedure

After feeling of research gap upon the topic a careful study on the subject matter was made. From that, it is found that the problem and prospectus regarding remuneration tax in Nepal should be studied systematically. Furthermore, being concerned on the topic it was concluded that the respondents for the study for primary data collection should Tax Experts and Employees.

3.4 The Sample Characteristics

There are two responding groups specified as the respondent of primary data collection viz. Tax Experts and employees. Tax experts are Government officials from Ministry of Finance (MOF), Department of Tax, and office of Auditor General, Teachers, Lawyers, and Auditors etc. And employees are the people working in various organizations Viz. Banks, Government office, Private companies etc. So, the sampling is scientific and it tries to cover the adequate range.

3.5 Source of Data

Both primary as well as secondary source of data have been collected in order to achieve the real and fact full result from this research. All the possible and useful data as far available have been collected. The major sources of data are as follows:

a) *Primary data*

The major tools used for the collection of primary data are distribution of a questionnaire to the respondents. A set of questionnaire was developed and distributed to the selected respondents in order to get accurate and actual information. Questionnaires were distributed personally by the researcher as well as with the help of friends and were collected back by same way. So during the course of these activities some information relevant to study was also collected.

b) *Secondary data*

The secondary sources of data are the information serviced from books journals, newspapers, reports and dissertations etc. The major sources of secondary data are from economic survey and annual reports, Ministry of Finance, Publications, Tribhuvan University, reports and records of department of taxation, Ministry of Finance, dissertation related to tax available at library of R.R.M. campus, central library of TU, publication of tax projects, publication of tax department, economic review and indicators from Nepal Rastra Bank, world development report, published documents of Nepal Rastra Bank and national planning commission, books related to tax, national news paper, journals, souvenir and news magazines, other relevant records and data related to his studies.

3.6 Data Collection Procedures

The study is based on both primary as well as secondary data. Primary data were collected by opinion survey. For this, a set of questionnaire was distributed to the respondent. On the case of secondary data, these were collected mainly from Economic survey, Income Tax Act and Rules, Annual report of IRD, MOF, Government of Nepal and Economic report of NRB. Not only this, some contribution was made from various other material and publication such as, NRB news latter, students, Newsletter of the Institute

of Chartered Accountants of India, and the Chartered Accountant a Journal Published by ICAI for secondary data.

3.7 Data Analysis Procedures

The data and information collected through primary and secondary sources are initially presented on separate table according to the objective and nature of responses as well as respondent. They are systematically formatted a various tables as per requirement. Presented table are followed by the brief analysis. Analytical tools used for analysis are percentage, and simple average etc.

Chapter IV

DATA PRESENTATION AND ANALYSIS

4.1. Presentation and Analysis of Secondary Data

This chapter is focused on the presentation and analysis of secondary data. The secondary data have been obtained from economic survey, economic report of NRB, and Annual report of IRD, NRB, Newsletter and other related newspapers. Those data have been tabulated and presented into graphs and charts.

4.1.1 Structure of Government Revenue in Nepal

Government revenue of Nepal is comprised of different taxes such as custom, excise, sales tax/Vat, income tax, land revenue and Registration, Miscellaneous taxes and non-tax revenues. The structure of government revenue in Nepal has been presented in different tables below for the period of 10years period from 1998/99 to 2007/08.

Table 4.1

Structure of Government Revenue of Nepal (F/Y 1998/99 – 2007/08)

(Rs. in million)

Fiscal Year	Total Revenue	Tax Revenue	in %	Non Tax Revenue	In %
1998/99	37,251.30	28,752.90	77.19	8,498.40	22.81
1999/00	42,892.70	33,152.10	77.29	9,741.60	22.71
2000/01	48,893.90	38,865.10	79.49	10,028.80	20.51
2001/02	50,445.54	39,330.65	77.97	11,114.90	22.03
2002/03	56,229.78	42,587.11	75.74	13,642.86	24.26
2003/04	62,331.00	48,173.00	77.29	14,158.00	22.71
2004/05	70,122.70	54,104.70	77.16	16,018.00	22.84
2005/06	72,282.00	57,430.40	79.45	14,851.60	20.55
2006/07	87,712.20	71,126.70	81.09	16,585.50	18.91
2007/08	107,622.58	85,155.58	79.12	22,467.04	20.88

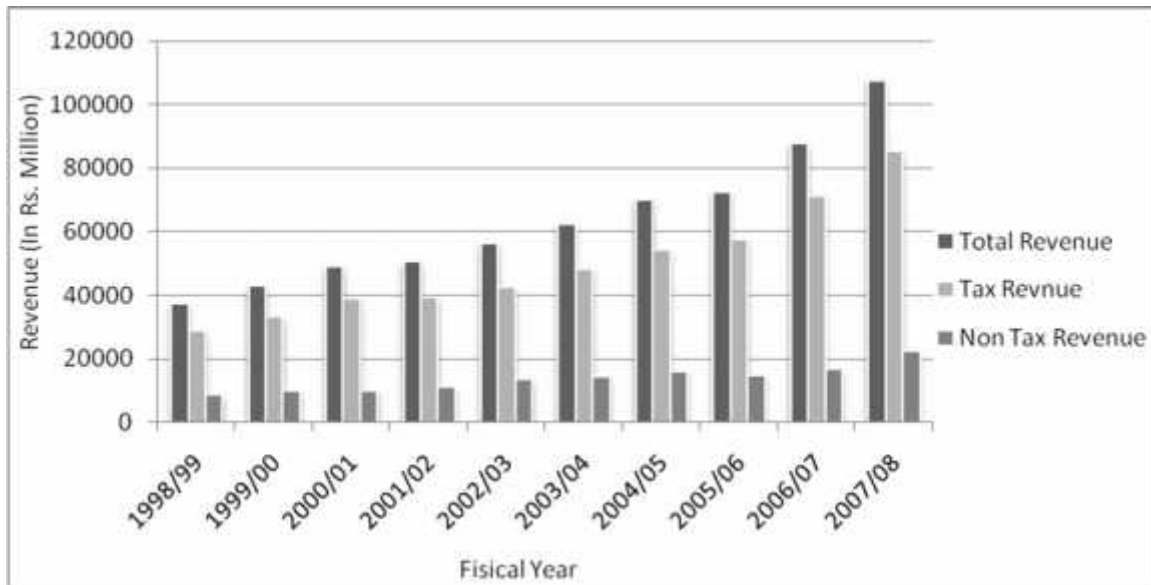
Source: Economic survey , Ministry of Finance

In Nepalese revenue structure, tax revenue has always been greater than three times of non-tax reveenge. There is heavy contribution of tax revenue in total revenue of Nepal. Its Percentage contribution has always been fluctuation within the lower limit of about

77.19% to the upper limit of about 81.09%. Out of total revenue of Rs. 37251.30 millions, 77.19 percent i.e. Rs.28752.90 millions has been contributed by tax revenue in 1998/99. In 2007/08, 79.12% i.e. Rs 85,155.58 million of total revenue has been collected as tax revenue. The structure of Government Revenue of Nepal is presented in the figure 4.1. The above the can be in figure as follows:

Figure 4.1

Tax and Non tax Revenue in Nepal on Total Revenue



4.1.2 Structure of Tax Revenue in Nepal

Total tax revenue consists of direct tax revenue and indirect tax revenue. Given below, Table 4.1.2 presents tax revenue structure of Nepal which consists of both direct tax and indirect tax revenue of Nepalese tax revenue structure from the fiscal year 1998/99 to 2007/08.

Table 4.2

Structure of Tax Revenue in Nepal (F/Y 1998/99 – 2007/08)

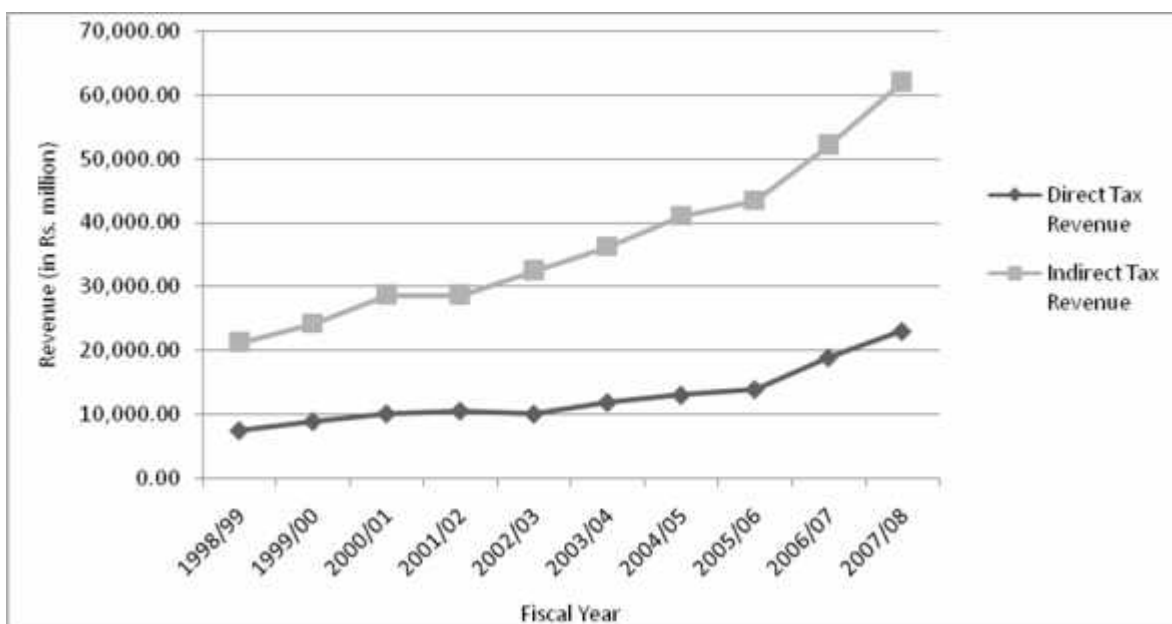
(Rs. in million)

Fiscal Year	Direct Tax Revenue	Percentage (%)	Indirect Tax Revenue	Percentage (%)	Total Tax Revenue
1998/99	7,516.10	26.14	21,236.80	73.86	28,752.90
1999/00	8,951.50	27.00	24,200.60	73.00	33,152.10
2000/01	10,159.40	26.14	28,705.70	73.86	38,865.10
2001/02	10,597.55	26.94	28,733.10	73.06	39,330.65
2002/03	10,105.86	23.73	32,481.25	76.27	42,587.11
2003/04	11,912.60	24.73	36,260.40	75.27	48,173.00
2004/05	13,071.80	24.16	41,032.90	75.84	54,104.70
2005/06	13,968.10	24.32	43,462.30	75.68	57,430.40
2006/07	18,980.30	26.69	52,146.40	73.31	71,126.70
2007/08	23,087.76	27.11	62,067.82	72.89	85,155.58

Source: Economic survey, Ministry of Finance

In 1998/99, out of total tax revenue of Rs.28752.90 millions, Rs.7516.10 millions and Rs.21236.80 millions have been contributed by direct tax revenue and indirect tax revenue respectively. It means about 26.14% and 73.86% of total tax revenue respectively. In 2007/08, Rs.23087.76 millions and Rs. 62,067.82 millions out of total tax revenue have been collected as direct tax and indirect tax revenue respectively. It is 27.11% and 72.89% of total tax revenue have been collected from direct tax and indirect tax revenue respectively. So, it can be simply said that indirect tax has significant contribution in the total tax structure of Nepal on comparison to direct tax. The contribution of direct and indirect Tax in total revenue of Nepal represented in the figure 4.2 below:

Figure 4.2
Structure of Tax Revenue in Nepal



4.1.3. Structure of Direct Tax in Nepal

The structure of direct tax revenue is the imposition of income tax revenue, land revenue and registration and miscellaneous taxes. Income tax occupies the highest rank among various taxes in direct tax revenue.

Table 4.3
Structure of Direct Tax in Nepal (F/Y 1998/99 – 2007/08) (Rs. in million)

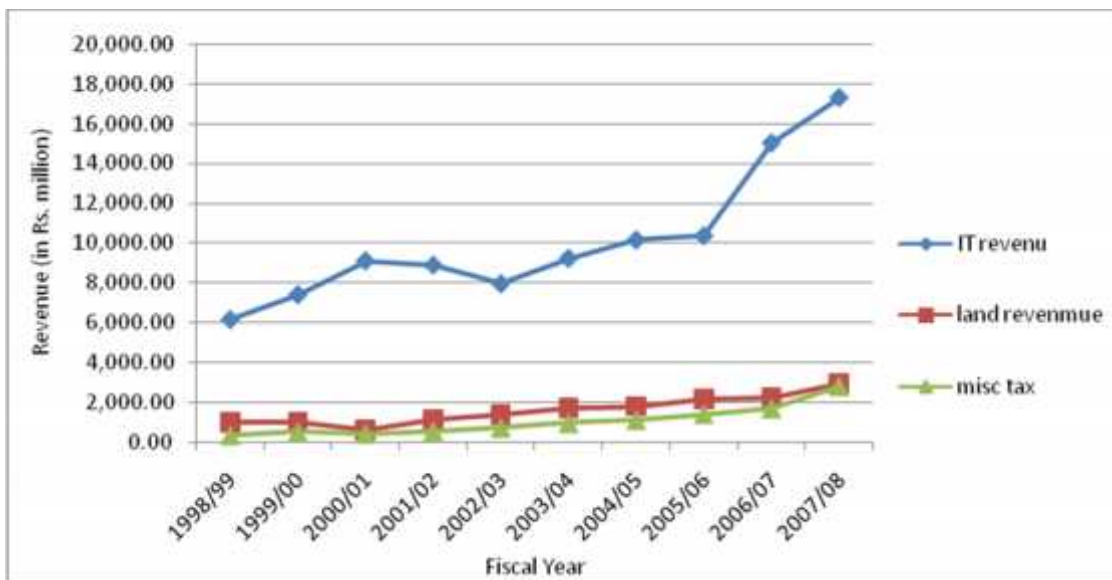
Fiscal Year	DT Revenue	%	IT Revenue	%	Land Revenue	%	Misc Tax	%
1998/99	7,516.10	100.00	6,170.21	82.09	1,003.20	13.35	342.73	4.56
1999/00	8,951.50	100.00	7,420.60	82.90	1,015.90	11.35	514.71	5.75
2000/01	10,159.40	100.00	9,114.01	89.71	612.90	6.03	432.79	4.26
2001/02	10,597.55	100.00	8,903.69	84.02	1,131.82	10.68	561.67	5.30
2002/03	10,105.66	100.00	7,966.29	78.83	1,414.79	14.00	724.58	7.17
2003/04	11,912.60	100.00	9,245.90	77.61	1,697.50	14.25	969.68	8.14
2004/05	13,071.80	100.00	10,159.40	77.72	1,799.20	13.76	1,113.72	8.52
2005/06	13,968.10	100.00	10,373.70	74.27	2,181.10	15.61	1,413.57	10.12
2006/07	18,980.30	100.00	15,034.00	79.21	2,253.50	11.87	1,693.04	8.92
2007/08	23,087.76	100.00	17,311.22	74.98	2,940.74	12.74	2,835.17	12.28

Source: Economic Survey, Ministry of Finance

As compared to the previous years, the share of income tax revenue has been increasing terms up to 2000/01. Then it is in decreasing trend from 2001/02 to 2005/06 and again it is

in increasing order after 2006/07. In 1998/99, out of direct tax revenue of Rs.7615.10 millions, Rs.6170.21 millions has been contributed by income tax revenue. This is about 82.09% contribution of income tax revenue in total direct tax revenue. In 2007/08, out of total direct tax revenue of Rs.23087.76 millions, Rs.17311.22 millions has been contributed by income tax revenue. It is about 74.98% of the total direct tax revenue. In 2007/08, it is increased by Rs.2277.22 millions but in decreasing order of about 2%. The Structure of Direct Tax of Nepal is presented in the figure 4.3 below.

Figure 4.3
Structure of Direct Tax in Nepal



4.1.4 Composition of Income Tax in Nepal

Nepal is facing a serious and growing fiscal resources gap and her need for mobilizing additional financial resources from domestic sources through taxation has been urgent. The base for levying taxes may be consumption, income capital. Taxes on income and capital are known as direct taxes whereas taxes on consumption are known as indirect taxes. Tax structure of Nepal is composed of both direct and indirect taxes. Income tax has been playing a vital role to generate government revenue for the economic development of the nation. Nepalese income tax structure is formed by combination of income tax from public enterprises, semi-public enterprises, private corporate bodies,

individuals, remunerations and tax on interest. This has been presented in table 4.4 (a) and 4.4(b) below.

Table 4.4(a)
Composition of Income Tax in Nepal (F/Y 1998/99 – 2007/08)

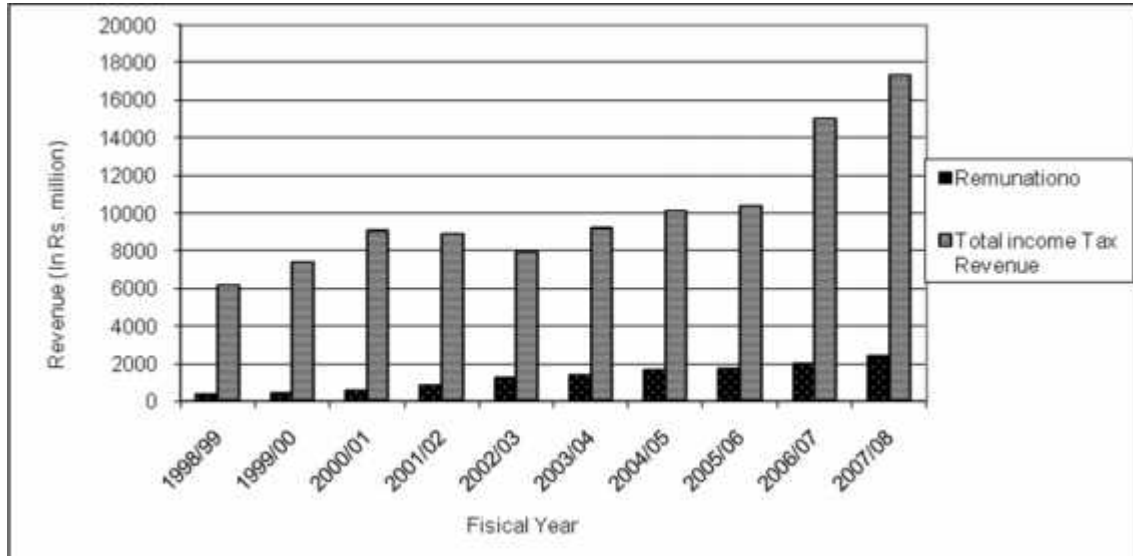
(Rs. in million)

Fiscal Year	Public Enterprise	Semi P.E.	Private Corporate Bodies	Individuals	Remuneration Tax	Tax on Interest	Total Income Tax Revenue
1998/99	1,526.50	0.00	1,155.01	2,772.70	396.50	319.50	6,170.21
1999/00	2,198.80	0.00	1,339.50	3,016.40	451.50	414.40	7,420.60
2000/01	2,928.01	0.00	1,924.30	3,200.50	597.30	463.90	9,114.01
2001/02	1,769.33	0.00	1,412.01	4,419.09	835.56	467.70	8,903.69
2002/03	1,251.02	0.00	1,236.27	3,362.20	1,252.60	864.00	7,966.09
2003/04	2,056.60	0.00	1,531.30	3,533.40	1,391.20	733.40	9,245.90
2004/05	1,332.40	0.00	2,467.80	3,926.30	1,675.90	757.00	10,159.40
2005/06	195.70	0.00	3,404.30	4,234.70	1,764.10	774.90	10,373.70
2006/07	1,019.70	0.00	5,717.10	5,234.40	2,007.90	1,054.90	15,034.00
2007/08	204.58	0.00	7,186.46	6,381.21	2,451.04	1,087.93	17,311.22

Source: Economic Survey, Ministry of Finance

Figure 4.4

Remuneration Tax on Total Income Tax



From the above table income tax revenue seemed to have an increasing trend up to FY2000/01. Then in 2001/02 to 2002/03, it is in decreasing trend but FY 2002/03 to 2007/08 it seemed to have an increasing trend. In 1998/99 Rs.6170.21 millions was raised from income tax revenue. 2007/08 Rs.17311.22 millions was raised as income tax revenue. It is higher than in FY2000/01, i.e. Rs.9114.01 millions. In the FY2001/02, a slight fall was observed in income tax revenue. It has fallen by Rs.210.3 millions i.e. 2.31% as of 2001/01. It also falls in FY2002/03 by Rs.937.50 millions i.e. 10.53% and it seems to be highest in FY2007/08, Rs.17311.22 millions which is Rs.2277.22 millions higher than in FY2006/07.

The income tax contribution of individual has occupied first position in total income tax revenue of Nepal. In 1998/99, Rs.2772.70 millions was raised from individual as income tax. From then, it has been an increasing trend up to 2001/02. Then it is significantly decreased in year 2002/03, Rs.1056.80 millions i.e. by 23.91%. But after the 2003/04 it is significantly increased up to Rs.6381.21 millions in the year 2007/08. In 2007/08, out of total income tax revenue of Rs.17311.22 millions, Rs.6381.21 millions has been raised from individuals. It is about 36.86% contribution by individual in the total income tax revenue it is highest in the year 2007/08 i.e. Rs.6381.21 millions.

Table 4.4(b)
Composition of Income Tax in Nepal (1998/99-2007/08)

(Percentages Contribution)

Fiscal Year	Public Enterprise	Semi P.E.	Private Corporate Bodies	Individual	Remuneration	Tax on Interest	Total Income Tax Revenue
1998/99	24.74	0.00	18.72	44.94	6.43	5.18	100.00
1999/00	29.63	0.00	18.05	40.65	6.08	5.58	100.00
2000/01	32.13	0.00	21.11	35.12	6.55	5.09	100.00
2001/02	19.87	0.00	15.86	49.63	9.38	5.25	100.00
2002/03	15.70	0.00	15.52	42.21	15.72	10.85	100.00
2003/04	22.24	0.00	16.56	38.22	15.05	7.93	100.00
2004/05	13.11	0.00	24.29	38.65	16.50	7.45	100.00
2005/06	1.89	0.00	32.82	40.82	17.01	7.47	100.00
2006/07	6.78	0.00	38.03	34.82	13.36	7.02	100.00
2007/08	1.18	0.00	41.51	36.86	14.16	6.28	100.00

Source: Economic Survey, Ministry of Finance

Income tax from public enterprises has occupied second position regarding its contribution in total income tax revenue of Nepal. In 1998/99, out of total income tax revenue of Rs. 6170.21 millions, Rs. 1526.50 millions has been contributed by public enterprises. It is about 24.74 percentages contribution. Its contribution has been increasing trends up to 2000/01. Then it is in decreasing trends in 2001/02, and 2000/03. But in 2003/04 it is slightly increase to Rs.2056.60 millions and again it has fallen to Rs.195.70 millions in the year 2007/08 it is slightly fall to Rs. 204.58 millions. The highest contribution of public enterprises is Rs.2928.01 million in the year 2000/01 i.e. 32.13% of total income tax revenue.

Private corporate bodies income tax revenue in the third position from 1998/99. In 1998/99, private corporate bodies paid Rs.1155.01 millions out of Rs.6170.21 millions total income tax revenue. This is 18.72% of total income tax revenue. Its contribution has been increasing trends up to 2001/01 and then it is decreased in the year 2001/02 and 2003/03. In 2002/03 it is decreased by Rs.175.70 millions i.e. 12.44% while in 2001/02, it is decreased by Rs.512.3 millions i.e. 26.62%. it has been increasing trends from the

year 2003/04 to 2007/08. In 2007/08 out of total income tax revenue of Rs. 17311.22 million, private corporate bodies have contributed Rs.7186.46 millions. It is about 41.51% contribution in total income tax revenue of Nepal.

Income tax from remuneration has occupied fourth position in total income tax revenue of Nepal. In 1989/99, total income tax revenue was Rs.6170.21 millions and Rs.396.50 millions was contributed by remuneration income tax. Income tax from remuneration has been increasing in all the fiscal years. In 2007/08, for total income tax revenue of Rs. 17311.22 millions, it added the value of Rs. 2451.04 millions. It is increase of Rs.454 millions which deserves 18.52%.

Tax on interest has occupied fifth position in total income tax revenue 1998/99, Rs.319.50 millions was collected as tax on interest. Interest income tax has been increasing tend in all the years except in 2003/04. Its maximum contribution is made on the year 2002/03, Rs.864 millions i.e.10.85% of total income tax. Then it again going to increase its contribution in total income tax, in the year 2007/08 it was contributed Rs.1087.93 millions i.e. 6.28% of total income tax revenue of Nepal.

Semi-public enterprises have not made contribution in income tax revenue. Its contribution to income tax revenue has been nil.

4.1.5 Contribution of Income Tax to Total Revenue, Total Tax Revenue and Direct Tax Revenue of Nepal

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

Table 4.5

Contribution of Income Tax to Total Revenue, Total Tax Revenue and Direct Tax Revenue of Nepal (F/Y 1998/99 – 2007/08)

(Rs. in million)

Fiscal Year	IT Revenue	Total Revenue	%	Total Tax Revenue	%	Direct tax Revenue	%
1998/99	6,170.21	37,251.30	16.56	28,752.90	21.46	7,516.10	82.09
1999/00	7,420.60	42,892.70	17.30	33,152.10	22.38	8,951.50	82.90
2000/01	9,114.01	48,893.90	18.64	38,865.10	23.45	10,159.40	89.71
2001/02	8,903.69	50,445.54	17.65	39,330.65	22.64	10,597.55	84.02
2002/03	7,966.09	56,229.78	14.17	42,587.11	18.71	10,105.86	78.83
2003/04	9,245.90	62,331.00	14.83	48,173.00	19.19	11,912.60	77.61
2004/05	10,159.40	70,122.70	14.49	54,104.70	18.78	13,071.80	77.72
2005/06	10,373.70	72,282.00	14.35	57,430.40	18.06	13,968.10	74.27
2006/07	15,034.00	87,712.20	17.14	71,126.70	21.13	18,980.30	79.21
2007/08	17,311.22	107,622.58	16.85	85,155.58	20.33	23,087.76	74.98

Source: Economic Survey 2008/09, Ministry of Finance, GN/N Table 2.2

Income tax revenue has very low contribution on total revenue. In 2002/01, it is highest of 18.64% and is lowest in 2002/03 i.e. 14.17%. its contribution on total revenue was in increasing trend up to 2000/01 and has started to decrease after then, in 2006/07 it has contributed to total revenue Rs.15034.00 millions i.e. 17.14% which is about 3% more than four previously years.

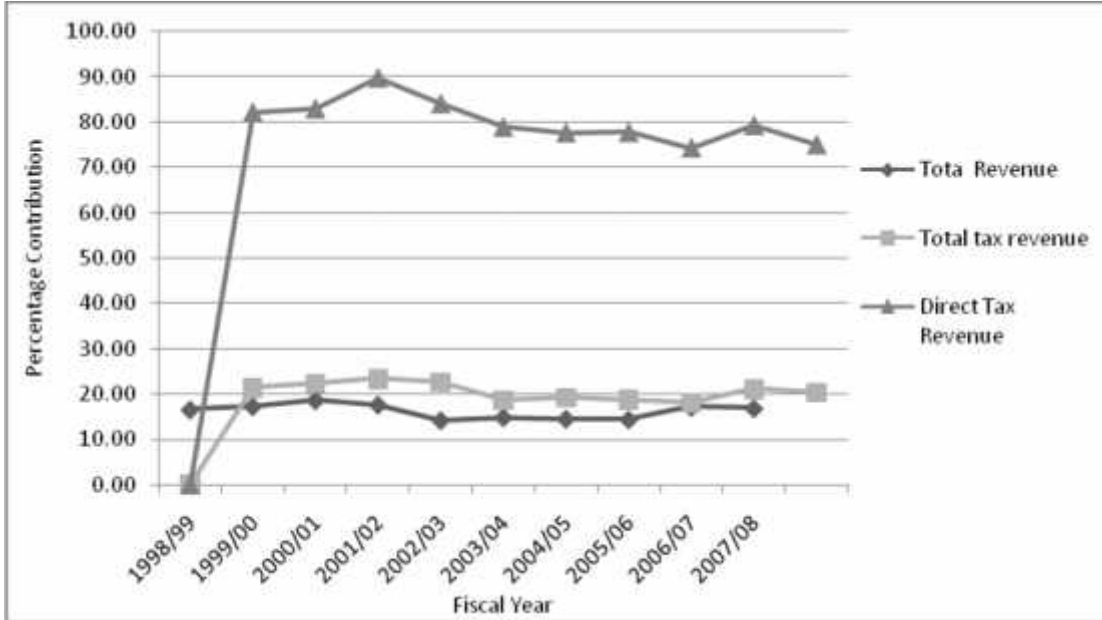
In total tax revenue also, income tax has low contribution. It was 18.06% in 2005/06 and 20.33% on 2007/08. It was highest on 2000/01 of 24.45% up to then it was in increasing trend, it decreased for five years and in last two years it has increased slightly.

Contribution of Income tax is vital on Direct tax revenue; it is always more than 75% other the year 2005/06 i.e.74.27% and the year 2007/08 i.e. 74.98%. it has been in increasing trend up to the year 2000/01. And after then it has started to decrease slightly. In 2006/07 its contribution to direct tax was 79.21% contribution of income tax on total revenue, total tax revenue, and direct tax revenue is presented in Figure 4.5.

Figure 4.5

Contribution of Income Tax to Total Revenue, Total Tax Revenue and

Direct Tax Revenue of Nepal



4.1.6. Contribution of Remuneration Tax in Nepal

Income tax from remuneration has contributed very much insignificantly in total revenue of Nepal. Out of total revenue of Rs.37251.30 millions, only Rs.396.50 millions was contributed by remuneration tax which is about 1.06% in 1998/99. The contribution has been increasing in the trend. In 2007/08, Rs.2451.04 millions was contribution from remuneration tax to construct the total revenue of Rs.107622.58 millions. That was about 2.27% contribution.

Income tax from remuneration has also very insignificant contribution in total tax revenue was Rs.28752.90 millions and income tax from remuneration was only Rs.396.50 millions. It was about 1.38% of total tax revenue in 1998/99. In 2007/08, total revenue was Rs.85155.58 millions and contribution of income tax from remuneration was Rs.2451.04 millions. It was about 2.87% contribution from remuneration income to total tax revenue.

Income tax from remuneration was Rs.396.50 millions in 1998/99 out of total direct tax revenue of Rs.7516.10 millions. It was about 5.27% of direct tax revenue. The

contribution has been increasing the trend. In 2007/08, the total direct tax revenue of Rs.23087.76 millions included Rs.2451.04 millions as income tax from remuneration. It was about 1.61% contribution.

Table 4.6
Contribution of Remuneration Tax to Total Revenue, Total Tax Revenue, and
Income Tax Revenue of Nepal (F/Y 1998/99 – 2007/08)

(Rs. in million)

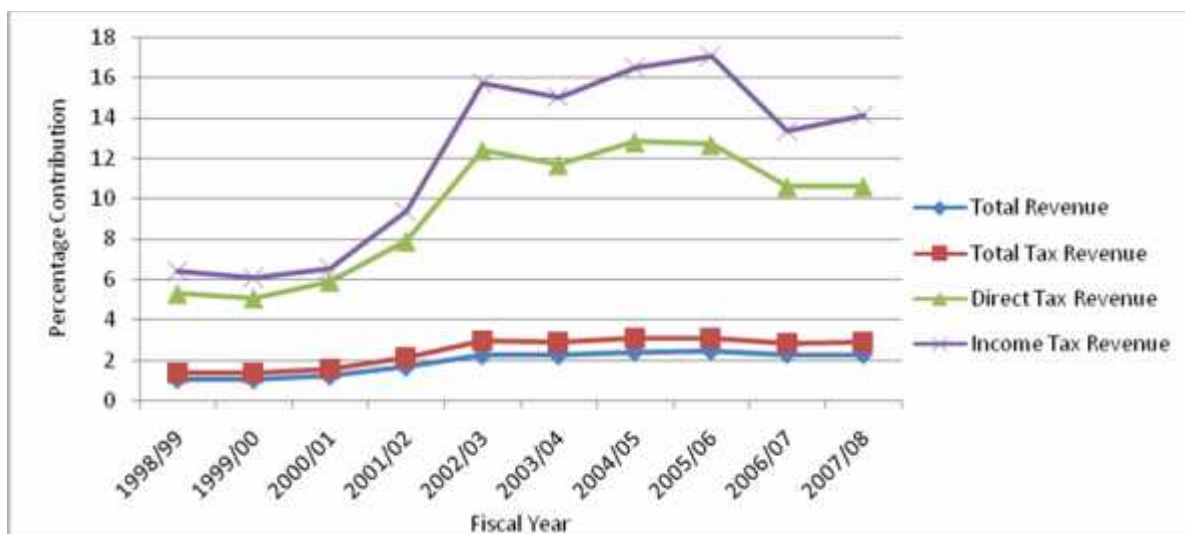
FY	Remuneration Tax	Total Revenue	%	Total Tax Revenue	%	Direct Tax Revenue	%	Income Tax revenue	%
1998/99	396.50	37251.30	1.06	28752.90	1.38	7516.10	5.27	6170.21	6.42
1999/00	451.50	42892.70	1.05	33152.10	1.36	895.50	5.04	7420.60	6.08
2000/01	597.30	48893.9	1.22	38865.10	1.54	10159.40	5.88	9114.01	6.55
2001/02	835.56	50445.54	1.66	39330.65	2.12	10597.55	7.88	8903.69	9.38
2002/03	1252.60	56229.78	2.23	42587.11	2.94	10105.86	12.39	7966.09	15.72
2003/04	1391.20	62331.00	2.23	48173.00	2.89	11912.60	11.68	9245.90	15.05
2004/05	1675.90	70122.70	2.39	54104.70	3.09	13071.80	12.82	10159.40	16.49
2005/06	1771.10	72282.00	2.45	57430.40	3.08	13968.10	12.68	10373.70	17.07
2006/07	2007.90	87712.20	2.29	71126.70	2.82	18980.30	10.58	15034.00	13.35
2007/08	2451.04	107622.58	2.27	85155.58	2.87	23087.76	10.61	17311.22	14.16

Source: NRB Economic Report Table – 24, and Economic Survey,

In general income from remuneration tax is assumed as vital source to construct income tax revenue. But the condition is not as assumed here. Income tax from remuneration is a source of income among them. The contribution of remuneration income to income tax revenue has not been so satisfactory. In 1998/99 total income tax revenue is Rs.6170.21 millions, for this remuneration tax contribution constituted Rs.396.50 millions. It was about 6.42% of total income tax revenue. The percentage contribution has been increasing. In 2007/08, the total income tax revenue was Rs.17311.22millions. Out of this Rs.2451.04 millions was contributed by income tax from remuneration. This was about 14.16%. The contribution of Income Tax to Total Revenue Total Tax Revenue and Direct Tax Revenue of Nepal is presented in the figure 4.1.6 below.

Figure 4.6

Contribution of Remuneration Tax to Total Revenue, Total Tax Revenue, and Income Tax Revenue of Nepal



4.1.7 Exemption Limit Provided for Remuneration Tax

There is a provision of exemption limit for single or couple/family while calculating remuneration tax. Exemption limit for remuneration tax in different years from fiscal year 1998/99 to 2007/08 is presented below.

Table 4.7 (a)
Exemption Limit Provided for Remuneration Tax

Fiscal Year	Individual	Couple/Family
1998/99	40,000	50,000
1999/00	50,000	60,000
2000/01	65,000	75,000
2001/02	65,000	85,000
2002/03	80,000	100,000
2003/04	80,000	100,000
2004/05	80,000	100,000
2005/06	80,000	100,000
2006/07	100,000	125,000
2007/08	115,000	140,000
2008/09	160,000	200,000

(Source: Finance Acts of various year, Ministry of Finance, NG/N.)

From the above table we have seen that the exemption limit for the individuals is Rs.40,000 whereas that is Rs.50,000 for couple/Family for the same period. The difference exemption limit between individual and couple/Family got Rs.10,000 more exemption limit than that of individual. In the FY 2007/08 the exemption limit for individual is Rs.115,000 and for couple/ Family is Rs.140,000.

Tax Policy Provisions: With regard to income tax, the exemption limit for personal income taxation of Rs. 100,000 for individual and Rs.125,000 for family in 2006/07 increased to Rs. 115,000 and Rs.140,000 respectively in 2007/08.

Tax Rates: Personal income tax and corporate income tax rates were not changed in the review year. However, the existing provisions of Rs.75000 above the tax exemption limit subject to income taxation of 15% percent were expanded to Rs.85,000 in 2007/08. Thereafter, the rate is 25 percent that is the highest marginal rate of 25 percent plus 1.5 percent that was applied in 2006/07 and has remained constant also in 2007/08 (NRB Economic Report, 2008/09).

According to finance ordinance announced by the ministry of Finance, Government of Nepal on 29th Ashadh, 2066 there is not minimum exemption limit at all but there is provision of taxation on income earned by individual Rs.160,000 and family Rs.200,000 at 1 percent. However, the existing provision of Rs.85,000 above the tax brackets of 1 percent subject to income taxation of 15 percent was expanded to Rs.100,000 in 2008/09. Thereafter, the rate is 25 percent, that is, the highest marginal rate is 25 percent, plus 1.5 percent that was applied in 2007/08 and has remained constant also in 2008/09. (Table 4.7 (b))

Table 4.7 (b)
Tax Rates

	Description	2006/07	2007/08	2008/09
1.	Vat (Percent)	13	13	13
2.	Income Tax			

a)	Limit of Exemption			
	i) Individual	100,000	115,000	160,000@1%
	ii) Family	125,000	140,000	200,000@1%
b)	Rate of Tax(Percent)			
	i) First Rs.75000 after exemption	15Percent (Rs.75,000)	15Percent (Rs.85000)	15Percent (Rs.100,000)
	ii) After Tax	25+1.5Percent	25+1.5Percent	25+1.5Percent
a)	Corporate tax Flat Rate at Corporate Net Income			
	i)Bank and Financial Institutions	30Percent	30Percent	30Percent
	ii) Others	25Percent	25Percent	25Percent
b)	Partnership firm	25Percent	25Percent	25Percent

Source: NRB Economic Report 2007/08: Table 5.1

4.2 Presentation and Analysis of Primary Data

4.2.1 Introduction

Primary data were collected from opinion survey. Question consisting different aspects of revenue to remuneration tax were compiled and distributed to respondents. The major tools are used for this purpose is an opinion questionnaire, which was dispatched to fifty persons. Among them, 25 were employees.

The questionnaire was asked either for a yes/no response or asked for ranking of the choices according to the number of alternatives where the first choice was the most important and the last choice was the least important. Information received from all of responded was tabulated into the separate table format and they were presented in percentage of total numbers or points and then analyzed into a descriptive way. If the number of alternatives was four, the first preferred choice would get highest (4, 5, 6 or 7) point and the last preferred choice would get lowest (one) point. Any alternative, which

was not ranked, did not get any point. The choice with the highest percentage score was ranked or the most important choice and the one with the lowest percentage score were ranked as the last choice.

The following table shows the number of respondents of different types.

Table 4.8
Collected Respondents

S.N.	Types of Respondents	Sample Size
1.	Tax Experts	25
2.	Employees	25
Total		50

Source : Opinion Survey

4.2.2 Contribution of Remuneration Tax to Income Tax Revenue of Nepal:

In order to know whether remuneration tax is contributing the income tax revenue or not, a questions was asked, “In your opinion, is remuneration tax contributing significantly to the income tax revenue of Nepal?” the question was intended to know the respondents’ opinions towards the contribution of remuneration tax in the income tax revenue. The responses received from respondents are tabulated below.

Table 4.9
**Significant Contribution of Employment Income to
Income Tax Revenue of Nepal**

Response Respondents	Yes		No		Total	
	No.	%	No	%	No	%
Tax Experts	18	36	7	14	25	50
Employees	19	38	6	12	25	50
Total	37	74	13	26	50	100%

Source: Opinion Survey

The question was received from all respondents. 74% of total respondents accepted the contribution of remuneration tax significantly to the income tax revenue of Nepal. 26% of total respondents did not accept the significant contribution of remuneration tax to the income tax revenue of Nepal. The ranked first to the low pay scale of the employees and less number of employees having tax liabilities and tax evasion. Thus, the conclusion can be drawn that the remuneration tax is contributing significantly to the income tax revenue of Nepal.

4.2.3. Remuneration tax as a suitable means of Collecting Public Revenue

To know the respondents opinions about the remuneration tax as a suitable means of collecting government revenue, the question is asked, “In your opinion, is the remuneration tax is a suitable means of collecting public revenue?” The responses received from the respondents are tabulated as follows.

Table 4.10 (a)

Remuneration Tax is a Suitable Means of Collecting Public Revenue

Response Respondents	Yes		No		Total	
	No.	%	No	%	No	%
Tax Experts	20	40	5	10	25	50
Employees	15	30	10	20	25	50
Total	35	70	15	30	50	100%

Source: Opinion Survey

From the above table, it is clear that 70 percentage of the respondents approved remuneration tax as an important source of collecting government revenue and only 30 percentages of the respondents did not recognize remuneration tax as a suitable means of collecting government revenue. Thus, the conclusion can be drawn out that remuneration tax is a suitable means of collecting government revenue.

) **Reasons Behind Suitable Means of Collecting Public Revenue**

A supplementary question was asked, “If yes, why it is a suitable means of collecting public revenue?” The opinions of respondents are presented in the following table.

Table 4.10 (b)

Reasons Behind Suitable Means of Collecting Public Revenue:

S.No.	Alternatives	Total Points	Percentage	Rank
1.	It is transparent	135	30	1
2.	As compared to other taxes there is less chance of tax evasion	120	27	2
3.	It is based on progressive	95	21	4
4.	Others	100	22	3
Total		450	100	

Source : Opinion Survey

From the above table it is clear that most of the respondents responded that the main reason is “As compared to other taxes, there is less change of tax evasion.” Thus, we conclude that the reasons behind suitable means of collecting public revenue are ranked below in order of preference.

1. It is transparent

2. As compared to other taxes, there is less change of tax evasion.
3. Other, it is convenient to collect and to pay.
4. It is based on progressive tax.

4.2.4 Opinion about the current Exemption Limit

To know whether the current exemption limit is suitable or not, the question asked was, “Is the current exemption limit is suitable? The responses received from the respondents are tabulated as below.

Table 4.11
Appropriateness of the current Exemption Limit

Response	Yes		No		Total	
	No.	%	No	%	No	%
Respondents						
Tax Experts	5	10	20	40	25	50
Employees	8	16	17	34	25	50
Total	13	26	37	74	50	100%

Source : Opinion Survey

From the above table, 26% of the total respondents were satisfied in the current provision of the exemption limit. While 74% of total respondents were dissatisfied with the current provision of exemption limit. Thus, from the above result, we can conclude that current exemption limit is not suitable and it must be increased. Due to increase in Price Index of daily consumable goods and services, majority of the tax experts and employees are suggested that the exemption limit should be in the range between Rs.200, 000 to Rs.250, 000 for single and Rs.300, 000 to Rs.350, 000 for couple/family.

4.2.5 Opinion about Exemption Limit for Senior and Disabled Citizens

To know whether the current exemption limit for senior and disabled citizens should be more than that of other citizens or not, the question asked was, “Do you think that the exemption limit for senior and disabled citizen should be more than that of other citizen?” the responses received from the respondents are ambulated as below.

Table 4.12

Need to Increase the Exemption Limit for Senior and Disable Citizens

Response	Yes		No		Total	
	No.	%	No	%	No	%
Tax Experts	10	20	15	30	25	50
Employees	13	26	12	24	25	50
Total	23	46	27	54	50	100%

From the above table 54% of the total respondents suggested that the exemption limit for senior and disabled citizens should not be necessarily more than that of other citizens. While 46% of total respondents suggested that the current exemption limit for senior and disabled citizens should be more than that of other citizens. Thus, from the above result, we conclude that current exemption limit for the senior and disabled citizens should not necessarily be more than that of other citizen.

4.2.6 Soundness and Effectiveness of Remuneration Tax System in Nepal

To know whether the remuneration tax system of Nepal is sound and efficient or not, the question asked was, “Do you think that the remuneration tax system of Nepal is sound and efficient?” The responses received from the respondents are tabulated as below.

Table 4.13

Soundness and Effectiveness of Remuneration Tax System in Nepal

Response	Yes		No		Total	
	No.	%	No	%	No	%
Tax Experts	13	26	12	24	25	50
Employees	9	18	16	32	25	50
Total	22	44	28	56	50	100%

Source: Opinion Survey

From the above table, 56 percent of the total respondents said that the remuneration tax system of Nepal is not sound and efficient. While 44 percent of the total respondents agreed that the remuneration tax system of Nepal is sound and efficient. Majority of the tax exports are agreed that the tax system of Nepal is sound and efficient. Thus from the above result, we can conclude that the remuneration tax system of Nepal is not sound and efficient for some extent. The remuneration tax system needs to be improved.

4.2.7 Major problems of soundness and effectiveness of Remuneration Tax System in Nepal

A supplementary question was asked, “If not, what are the major problems of the remuneration tax system?” The opinions of respondents are presented in the following table. From the above table, it is clear that the main problem of the remuneration tax system of Nepal is unfair and weak administration. The reasons behind the problems of soundness of remuneration tax system are ranked below in order of preference.

Table 4.14
Major problems for soundness and effectiveness of Remuneration Tax System in Nepal

S. No.	Problems	Total Points	Percentage	Rank
1.	Defective tax rate	130	17	5
2.	It is high burden of tax on low-level income earners	135	18	4
3.	Unfair and weak administration	165	22	1
4.	No provision of deducting any expenditure	145	19	3

5.	Complexity of income tax policy rules and regulation	150	21	2
6.	Other reasons	25	3	6
Total		750	100	

Source: Opinion Survey

1. Unfair and weak Administration
2. Complexity of income tax policy rules and regulations.
3. No provision of deducting any expenditure.
4. It is high burden of tax on low-level income earners.
5. Defective tax rate
6. Other reasons.

The respondents said that inappropriate tax on minimum earning trading deficit and unawareness of the public as other reasons.

4.2.8 Factors to be initiated to increase the contribution of Remuneration Tax in Nepal

To know the factors that increase the contribution of remuneration tax to the income tax revenue of Nepal, the question was asked, “What factors should be initiated to increase the contribution of remuneration tax in Nepal?” The following table shows the rank wise response received from the respondents.

Table 4.15
Factors to be Initiated to Increase the Contribution of Remuneration Tax in Nepal

S.N.	Alternatives	Total Points	Percentage	Rank
1.	Making tax deduction at sources (TDS) effective	190	21	2
2.	Bringing new tax payers into tax net.	200	22	1
3.	Reduction in exemption limit	185	21	3
4.	Increasing tax rates	145	16	4
5.	Reforms the tax policy, rules and	125	14	5

	regulations			
6.	Others	50	6	6
Total		895	100	

Source : Opinion Survey

From the above table, it is clear that the main factor that should be initiated to increase the contribution of remuneration tax in Nepal is bringing new tax payers into tax net and making tax deduction at source (TDS) effective. The other factors to be initiated to increase the contribution of remuneration tax in Nepal are ranked below in order of preference.

1. Bringing new tax payers into tax net.
2. Making tax deduction of source (TDS) effective.
3. Reduction in exemption limit.
4. Increasing tax rates.
5. Reforms the tax policy, rules and regulations.
6. Others.

In other factors the respondents said personal PAN distribute system must be launched to make it effective and to make self-assessment of tax easier and reliable, provide various facilities to the tax payers employees and increasing pay scale of the employees.

4.2.9 Provision for deduction of expenses from Employment Income

To know the views of respondents about the provision for deduction of expenses from employment income is suitable or not, a question was asked, “Income Tax Act, 2058 has not made a provision of deduction for expenses while computing remuneration income. Is this provision suitable?” the responses received from the respondents are tabulated below.

Table 4.16 (a)

Need to Provide Standard Deduction for Expenses from Employment Income

Response Respondents	Yes		No		Total	
	No.	%	No	%	No	%

Tax Experts	15	30	10	20	25	50
Employees	16	32	9	18	25	50
Total	31	62	19	38	50	100%

Source: Opinion Survey

From the above table, it is clear that about 62% of the respondents responded that provision for deduction of expenses should be required and 38% of the respondents responded that no any expenses should be required to deduction from remuneration income. Thus, we can conclude that the provision for deduction of expenses is required while computing remuneration income.

A supplementary question was asked to the respondents to find out their opinions towards the provisions for deduction of expenses required from remuneration income. The question was asked, “If not, what types of deductions would you expects to be provided?” The responses received from the respondents are listed below.

Table 4.16 (b)
Opinion Towards the Provision for Deducting of Expenses Required from Remuneration Income

S.N.	Alternatives	Total Points	Percentage	Rank
1.	Medical expenses incurred for the treatment of the employee.	255	19	1
2.	Education expenses and books and reading Materials purchased for the job.	205	15	3
3.	Transportation expenses to go to the office and back.	230	17	2
4.	House rent paid.	155	12	6
5.	Leave salary	180	14	4
6.	Amount received from life insurance	175	13	5

7.	Other expenses as of previous act.	140	10	7
Total		1340	100	

Source: *Opinion Survey*

From the above table, it is clear that the main item for deduction is medical expenses incurred for the treatment of the employee. The different items of deductions suggested by respondents are ranked below in order of preference.

1. Medical expenses incurred for the treatment of the employee.
2. Transportation expenses to go to the office and back.
3. Education expenses, books and reading materials purchased for the job.
4. Leave salary.
5. Amount received from life insurance.
6. House rent paid.
7. Other expenses as of previous Act.

4.2.10 Opinions towards the Income Tax Evasion in Nepal

To know the views of respondents about the opinions towards the income tax evasion in Nepal, a question was asked, “Do you believe that income tax evasion is being practiced in Nepal?” the responses received from the respondents are tabulated below.

Table: 4.17

Opinion Towards the Existence of Income Tax Evasion

Response	Yes		No		Total	
	No.	%	No	%	No	%
Tax Experts	16	32	9	18	25	50
Employees	14	28	11	22	25	50
Total	30	60	20	40	50	100%

Source: *Opinion Survey*

From the above table, it is clear that about 60% of the respondent accepted the income tax evasion in Nepal. 40% of the respondent responded that there was no practice of

income tax evasion in Nepal. Here is also a hypothesis to be tested regarding the income tax evasion in Nepal, which is; “There is no significant difference in opinion of various responding groups regarding the income tax evasion in Nepal. “Which can be systematically stated as?”

) Null Hypothesis (H₀): There is no significant difference in opinion of Tax Experts and Employees regarding the income tax evasion in Nepal.

) Alternative Hypothesis (H₁) M There is significant difference in opinion of Tax Experts and employees regarding the income tax evasion in Nepal.

For this following table are presented

Observed Frequency Table

Response Respondents	Yes	No	Total
Tax Experts	16	9	25
Employees	14	11	25
Total	30	20	50

Source: Opinion Survey

Computation of Expected Frequency

Expected Frequency = Row Total x Column Total/ Grand Total

Expected Frequency Table

Respondents	Yes	No	Total
Tax Experts	15	10	20
Employees	15	11	26
Total	30	21	46

Source: Opinion Survey +use of Statistical Tool

Test Statistic is:

$$\chi^2 = \sum_{i=1}^n \frac{(O_i - E_i)^2}{E_i}$$

Computational Table

O _i	E _i	(O _i -E _i)	(O _i -E _i) ² /E _i
16	15	1	0.67
9	10	-1	0.10
14	15	-1	0.67
11	10	1	0.10
Total			1.54

Source: opinion survey +use of statistical tool

The test of statistic is

$$\chi^2 = \sum_{i=1}^n \frac{(O_i - E_i)^2}{E_i} = 1.54$$

Where, O_i = Observed Frequency

E_i = Expected Frequency

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

) Level of Significance (α) = 5% = 0.05

) Tabulated Value of χ^2 at 5% level of significance and 1 Degree o Freedom is, 3
which is to be tested.

Conclusion

Hence χ^2_{cal} (1.54) < χ^2_{tab} (3) Therefore Null Hypothesis is accepted. There is not significant difference in opinion of Tax Experts and employees regarding the income tax evasion in Nepal. Thus, we can conclude that the income tax evasion is being practiced in Nepal.

4.2.11 Opinions towards the reasons to Increase the Tax Paying Habit of Nepalese People

The question was asked to the respondents, “How can you increase the tax paying habit of Nepalese people?” The response received from the respondents are listed below.

Table 4.18

Opinion to Increase the Tax Paying Habit of Nepalese People

S.N.	Alternatives	Total Points	Percentage	Rank
------	--------------	--------------	------------	------

a.	Educating tax payers	175	25	1
b.	Simplifying tax laws	160	23	2
c.	Increasing fine and penalties	105	15	5
d.	Timely Assessment of tax	115	17	4
e.	Incentives to Regular tax payer	140	20	3
Total		695	100	

Source: Opinion Survey

From the above table, it is clear that the main reason to increase the tax paying habit of Nepalese people is educating tax payers. The different reasons suggested by respondents are ranked below in order of preference.

1. Educating tax payers.
2. Simplifying tax laws.
3. Incentives to Regular tax payer.
4. Timely Assessment of tax.
5. Increasing fine and penalties

4.2.12 Opinions towards some taxable income to be made Tax-Exempted

To know the respondents opinions towards tax exemption for admissible income, the question asked was, “What types of income heads included in remuneration tax would you expect to be made tax exempted?” The responses received from the respondents are tabulated below.

Table 4.19

Opinions towards some Taxable Income to be made Tax-Exempted

S.N.	Incomes	Total Points	Percentage	Rank
a.	Remote area allowance	170	24	1
b.	Dashain allowance	155	21	3
c.	Pension Income	140	19	4
d.	Medical Expenses Paid by the employer	165	23	2
e.	Others	95	13	5
Total		725	100	

Source : Opinion Survey

From the above table, we find that the most important head of income to be mad tax exempted is remote are allowance. While ranking together the opinions of both the

groups, the corresponding prioritized reasons for making some taxable incomes tax-exempted are as follows.

1. Remote area allowance
2. Medical expenses paid by the employer
3. Dashain allowance
4. Pension Income
5. Others

4.2.13 Opinions towards the Tax on Pension Income

To know the respondents' opinions towards the tax on pension income received by retired employees, a question was asked, "Do you think that the income tax on pension income should be levied?" the responses received from the respondents are tabulated below.

Table 4.20
Opinions towards the Tax on Pension Income

Response	Yes		No		Total	
	No.	%	No	%	No	%
Tax Experts	15	30	10	20	25	50
Employees	0	0	25	50	25	50
Total	15	30	35	70	50	100%

Source: Opinion Survey

From the above table, it is clear that about 30% of the respondents responded the tax on pension income should be levied while 70% of the respondents disagreed towards imposition of tax on pension income. Out of which, 100% employees disagreed towards the imposition of tax on pension income. Thus, we can conclude that the tax on pension income should not be levied.

4.2.14 Problem faced by employees while Paying Remuneration Tax

To know whether employees are facing problems in payment of remuneration tax, question was asked to them; "The question was," What types of problems that the employees faced while paying remuneration tax?" The responses received from the respondents are tabulated below.

Table 4.21

Problem faced by employees while Paying Remuneration Tax

S.N.	Problems	Total Points	Percentage	Rank
a.	Hesitation to pay income tax due to low income.	195	19	2
b.	Weak and immature treatment by tax administration.	160	15	4
c.	Procedural Complication	186	18	3
d.	Tax personnel discourage	155	15	5
e.	Due to lack of taxation knowledge, employees do not know how to file returns.	208	20	1
F	Others.	136	13	6
Total		1040	100	

Source: Opinion Survey

From the above table, we find that the most important problem faced by employees while paying remuneration tax is due to lack of taxation knowledge, employees do not know how to file returns. Where some employees has given first priority to option, hesitation to pay income tax due to low income. Some tax experts also give the first priority to option procedural complication. While ranking together the options of both the groups, the corresponding prioritized problems are as follows.

1. Due to lack of taxation knowledge, employees do not know how to file returns.
2. Hesitation to pay income tax due to low income
3. Procedural complications.
4. Weak and immature treatment by tax administration
5. Tax personnel discourage getting tax clearance certificate.
6. Other.

4.2.15 Suggestions Regarding Remuneration Taxation in Nepal

There was an open question in questionnaire that; "Have you any suggestion regarding to increase the tax revenue from remuneration tax? Please specify, if any." Only few respondents respond from both groups regarding the question.

Tax experts suggested; from this fiscal year, Government has initiated to provide personal PAN number, this system should be broadened. Inspect double employment to bring new tax payer in Tax Net. Awarding Employees reduce the rate, encourage paying tax. The education is to be focused on school and college compulsory.

-) Effective monitoring from tax administration
-) TDS on payment of any remuneration amount
-) Tax payer education
-) Remuneration tax from private sector has not satisfactory. So closely monitoring to this sector is essential for effective remuneration tax.
-) Training to accounting staffs.

Increase penalties for tax Defaulters, simplified administration, and making more progressive are the suggestions provided by administration experts to improve the effectiveness of remuneration tax in Nepal.

4.3 Major Findings from Secondary Data

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

1. Total revenue of Nepal consists of tax-revenue and no-tax revenue. Tax revenue comprises of customs, excise, sales tax, income tax, land revenue and registrations fees and miscellaneous taxes. Nepalese revenue structure, tax revenue has always been greater than three times of non-tax revenue mobilization (excluding the principal refund) registered a growth of 21 percent to Rs. 104.9 billion in 2007/08 compared to a growth of 22.5 percent in the previous year. Reforms in tax administration, evolution of corporate culture in banking and financial institution, increase in remittance inflows contributed to such a revenue growth in the review year. Of the total revenue the share of tax revenue and non-tax revenue stood at 81.1 percent and 18.9 percent respectively in 2007/08. Such ratios were 82.1 percent and 17.9 percent respectively in 2006/07.
2. Total tax revenue made of direct tax revenue and indirect tax revenue. In 1998/99, out of total tax revenue of Rs.28752.90 millions, direct tax contributed

Rs.7516.10 millions and Rs.21236.80millions have been contributed by indirect tax revenue respectively. There was 26.14 percent share of direct tax and 73.86percent indirect tax revenue. Of the total tax revenue, value added tax (VAT) occupied the highest share followed by income tax, in the review yhear, the share of direct tax and indirect tax in total tax revenue stood at 27.10 percent and 72,90 percent respectively. Such ratios were 26.7 percent and 73.3 percent respectively. By the comparison of direct tax and indirect tax revenue, indirect tax has vital contribution in the total tax structure of Nepal.

3. The major components of direct tax are corporate income tax, house and land registration tax, investment and other tax, and remuneration tax. Income tax occupies the highest rank among various taxes in direct tax revenue. In 1998/99, out of total direct tax revenue of Rs.7516.1millions, Rs6170.21 millions has been contributed by income tax revenue. In 2007/08, out of total direct tax revenue of Rs.23, 087.76 millions, Rs.17311.22 millions has been contributed by income tax revenue. Land revenue and registration occupies the second place among direct tax revenues. Income tax revenue increased by 45.4 percent, to Rs.21.2 billion, in the first eleven months of 2008/09. A remarkable receipt under voluntary discloser of income scheme (VDIS) program due to government's strong administrative and political commitment contributed to such an increase in income tax collection. Last year such revenue had risen by 30.0 percent last year total income tax is increased by 10.92 percent in comparison to the previous year. In 2064/65 B.S. the total income tax, Rs.17327.915millions was collected. In total income tax, the weighted of corporate income tax, personal income tax house and land tax and interest income tax is 56.37percent, 34.46 percent, 3.62 percent and 5.55 percent respectively.
4. Tax revenue showed a growth of 19.5 percent in FY 2007/08 compared to a growth of 23.9 percent in the previous year. The revised estimate of tax revenue was 5 percent higher than the budget estimate. The ratio of tax revenue of GDP remained at 10.4 percent in2007/08 compared to that of 9.8 percent in the

preceding year. Of the total tax revenue, value added tax (VAT) occupied the highest share followed by income tax.

5. Government revenue of Nepal is comprised of different taxes such as customs, excise duty, sales tax/ VAT, income tax, land revenue and registration, miscellaneous taxes and non-tax revenues. By the various tax and not-tax revenues, tax on consumption and product of goods and services has the highest percentage of contribution towards total tax revenue of Nepal. The customs occupies the second place among the tax revenue. The tax on property, profit and income occupies the third place among the tax revenue. The land revenue and registration occupies the last5 place among the tax revenue. Tax revenue comprises of direct and indirect tax. The major components of direct6 tax are corporate income tax, house and land registration tax, investment and other tax and remuneration tax, whereas VAT, customs duties and excise duties are the major components of indirect tax revenue.
6. Income tax revenue has very low contribution on total revenue. In 2000/01, it is highest of 18.64percent and is lowest in2002/03 by 14.17 percent of total revenue. Its contribution on total revenue was in increasing trend up to 2000/01 and has started to decrease after then in 2006/07 it has contribution of 17.14 percent which is slight increase in comparison to previous fiscal year. In total tax revenue also, income tax has low contribution. Contribution of income tax is vital on direct tax revenue; it is always about 75percent and more.
7. In total revenue of Nepal, income tax from remuneration has very much insignificant contribution. Total revenue was Rs.37251.30 millions ad income tax from remuneration was Rs.396.50 millions in 1998/99. It was about 1.06% contribution. The contribution has been increasing. It was 2.29% of total revenue of Rs.87, 712.20 in 2006/07, i.e. Rs.2007.90 millions. In 2007/08, total revenue was Rs.107622.58 millions, and income tax from remuneration was Rs.2451.04 millions. It is about 2.27% of total revenue.

8. Contribution of remuneration tax in Total Tax Revenue is also very insignificant. In 1998/99, total tax revenue was Rs.37251.30 millions and income tax from remuneration was only Rs.396.50 million. It contributed only about 1.06%. but this contribution is in increasing path. In 2007/08 total tax revenue was Rs.85155.58 millions and income tax from remuneration was Rs.2451.04 millions. It was about 2.87% contribution.
9. The contribution of remuneration income to income tax revenue has not been so satisfactory. In 1998/99, total income tax revenue Rs.6170.21 millions in which income tax from remuneration constituted Rs.396.50 millions. It is about 6.42%. but it is gradually increasing in past years. In 2005/06, total income tax revenue was Rs.10373.70 millions. Out of this, Rs.1771.10 millions was contributed by income tax from remuneration which is 17.07% and in 2007/08 it has slowly decreased to 14.16% for this, income tax from remuneration contributed Rs.2451.04 millions to construct total income tax revenue of Rs.17311.22millions.
10. The most important thing to make every thing growing and developed. Economic development of country should be rapid. It implies in remuneration also, so it is necessary to enhance economic activities that ultimately increase contribution in government revenue as tax.

4.4 Major Findings from Primary Data

1. Remuneration tax is contributing significantly to the income tax revenue of Nepal.
2. Remuneration tax is a suitable means of collecting government revenue. Because; as compared to other taxes, there is less chance of tax evasion, it is transparent, and it is based on progressive tax.
3. Current exemption limit is not sufficient and it must be increased.
4. Making TDS effective, bringing new tax payer into tax new, and reform in law were the measures to increase contribution of remuneration chosen by most respondents.

5. It is clear that the main factor that should be initiated to increase the contribution of remuneration tax in Nepal is making tax deduction at source (TDS) effective. The other factors to be initiated to increase the contribution of remuneration tax in Nepal are Bringing new taxpayers into tax net, reform in the income tax policy, rules and regulations, and provide various facilities to the tax payer. Employees and increasing pay scale of the employees.
6. The provision for deduction of expenses is required while calculating remuneration income.
7. Income tax evasion is being practiced with hiding the situation of double employment condition.
8. Medical expenses paid by the employer, Pension, Income, Remote area allowance, Dashain allowances etc. should made tax exempt income.
9. There is no significant difference in tax experts and employees regarding the vital contribution of remuneration tax in Nepal.
10. There is no significant difference in opinion of tax expert and employee regarding the existence of problems on remuneration taxation in Nepal.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal is one of the least developed countries in the world lying as sandwiched between the two big countries; China and India. Poverty is widespread. It has per capita income of around \$270. The economic condition of nation is very poor followed by estimated growth in FY 2007/08 of 5.6 percent as against 3.0 percent (at factor cost) of FY 2006/07. Basic necessities are lacking these days also. The Nepalese economy has not become successful in creating an investment friendly environment. The private sector does not seem to be confident with the current economic and political environment. In

such a situation, there remain fewer possibilities to materialize the slogan of public-private partnership.

The Nepalese income tax system was introduced in 1959(2016). The elected government levied the first income tax and so specific act was made to define and to treat income tax. Since then four Income Tax Acts have been implemented. The present study entitled "Effectiveness of Remuneration Tax in Nepal" is concerned to study and analysis of various aspects of Remuneration Tax in Nepal. In this study contributions of remuneration tax income to many kinds of government revenues have been analyzed. To analyze the effectiveness of different components of public revenues are compared with remuneration tax income. In this study, effectiveness of remuneration tax studied and analyzed with role of income tax's remuneration tax studied and analyzed with role of income tax's components. This study mainly divided into 5 chapters. First is, introduction, it consists of brief introduction of the study. It is like general summary, it shows the plans of study in some extent. In short first chapter is to prove the need of this study.

To conduct the study and for preparing this research report various books have been studied; thesis are consulted; magazine, news papers are other reference sources of information. Second chapter of this study; conceptual framework and literature review is combination of all that kinds of information. In that chapter various concepts of taxation have been discussed in this study. Sources of public revenue meaning of tax, classification of taxes, objectives of taxation, historical background of income tax, heads of incomes and concept of remuneration tax, method of computing remuneration tax, have been discussed in conceptual framework of this study.

Research design used, data collection procedure, population and sample, nature and sources of data, selection of the respondents, procedure and analysis of data etc. are included in chapter three, entitled Research Methodology.

As study uses primary as well as secondary data, chapter four of this study presents analyzes them, in the title of Presentation and Analysis of Data. For primary data opinion

survey of 60 respondents groups divided into two categories named tax experts and employees, 30 persons in each group. Economic surveys and NRB economic report were the major sources secondary data. Tax Experts Consists of Lawyers, Chartered Accountants, Tax Administrators and Professors. Employee Consisted of employees working in banks, Manufacturing intensives government offices and other private organizations.

As set of questionnaire was developed and 60 questionnaire were distributed to the respondents. Out of them, 50 responses were received 25 each from both groups.

Secondary analysis was done by presenting the relevant data into tables and figures consisting ten year period i.e. from fiscal year 1998/99 to 2007/08. The comparative analysis for different years was done in the analysis part of the study. Major findings of the secondary data analysis have been put at the end of the chapter. Data obtained from opinion survey with the respondents were tabulated and analyzed to achieve desired end result. Major findings of the primary data analysis have been put at the end of the chapter.

Conclusions of the study are given in the last chapter. Some recommendations are also given at the end of the study to increase the contribution on remuneration income to income tax revenue. The lost not least chapter named summary, Conclusions and Recommendations have three different Sub-headings study are given in the last chapter. Summary is as brief of study, conclusion consists of gist of study and recommendation have offered for to increase effectiveness of remuneration tax in Nepal.

5.2 Conclusion

Total revenue of Nepal consists of tax-revenue and non-tax revenue. Tax revenue comprises of customs, sales tax, income tax, land revenue and registration and miscellaneous taxes. In Nepalese revenue structure, tax revenue has always been greater those three times of non-tax revenue. This means the heavy contribution of tax revenue in total revenue of Nepal. Tax revenue in amount has always been increasing per year that the previous years. Non-tax revenue has the lowest contribution as compared to tax-revenue. Its contribution to total revenue has remained below 25 percentages.

Total tax revenue consists of direct tax revenue and indirect tax revenue. 26.14% and 73.86% of total tax revenue have been contributed by direct tax and indirect tax revenues respectively, in 1998/99. Which consisted of Rs.7516.10 millions and Rs.21236.80 million out of total tax revenue of Rs.28752.90 in FY 1998/99. In 2007/08, Rs.23,087.76 millions and Rs.62067.82 millions out of total tax revenues of Rs.85155.58 millions have been collected as direct tax and indirect tax revenue respectively. That is, 27.11% and 72.89% of total tax revenue have been collected from direct tax and indirect tax revenue respectively.

The structure of direct tax revenue is the composition of income tax Revenue, Land Revenue and Registration and Miscellaneous taxes income tax has occupies the highest rank among various taxes in direct tax revenue. In 1998/99, out of total direct tax revenue of Rs.7516.10 millions, Rs.6170.21 millions has been contributed by income tax revenue. In 2007/08 out of total direct tax revenue of Rs.23087.76 millions, Rs.17311.22 millions have been contributed by income tax revenue. Land revenue and registration occupied the second place among direct tax revenues. Miscellaneous taxes occupied third and last position among various direct taxes. The trend of miscellaneous taxes have been fluctuating. In 2007/08, it has been contributed Rs.2835.17 million i.e.12.28% to the total direct tax revenue of Rs.23,087.76 millions.

Total income tax revenue seemed to have an increasing trend up to F/Y 2000/01. Then, it was slightly decrease and again it has increasing trend up to F/Y 2007/08. In 1998/99, Rs. 6170.21 million was raised from income tax revenue. In 2007/08, Rs. 17311.22 million was raised as income tax revenue. The income tax contribution of individuals has occupied first position in total income tax revenue of Nepal. Second Position is occupied by income tax from public enterprises private corporate bodies contributed income tax revenue in the third position out of total income tax revenue. Fourth position in total income tax revenue of Nepal is from remuneration tax. Tax on interest has occupied fifth position in total income tax revenue of Nepal.

Out of total tax revenue of Rs.28752.90million, Rs.6170.21 million, i.e.21.46% has been contributed by income tax revenue in the year 1998/99. In 2007/08 out of total tax revenue of Rs.85155.58million, Rs.17311.22 million i.e. 20.33% has been contributed by income tax revenue.

Income tax from remuneration has very much insignificant contribution in total revenue of Nepal. In 1998/99, total revenue was Rs.37251.30 million and income tax from remuneration was Rs.396.50 million. It was about 1.06% contribution. The contribution has in increasing trend. In 2007/08, total revenue was Rs.107622.58 million and income tax from remuneration was 2451.04 million. It was about 2.28 percentage of total revenue.

Income tax from remuneration was Rs.396.50 million in 1998/99 out of total direct tax revenue of Rs.7516.10 million. It was about 5.27% of direct tax revenue. The contribution has increasing trend. In 2007/08, total direct tax revenue of Rs.23087.76 million included Rs. 2451.04 million as income tax from remuneration. It was about 10.62% contribution.

Income tax revenue is collected from various sources of incomes. Income tax from remuneration is a source of income among them. The contribution of remuneration income tax revenue has not been so satisfactory. In 1998/99, total income tax revenue Rs.6170.21 million constituted Rs.396.50 million a income tax from remuneration. It was about 6.43% of total income tax revenue. The percentage contribution has been in the increase trend. In 2007/08, total income tax revenue was Rs.17311.22 million. Out of this, Rs.2451.04 million was contributed by income tax from remuneration. This was about 14.16% of total income tax revenue of Nepal.

Tax experts as well as employees have recognized income tax as an important source of collecting government revenue. Remuneration tax as a suitable means of collecting government revenue according to opinion survey conducted. Because of weak administration, complexity in income tax policy, rules and regulation, no actions for promotion of need of tax it is not contributing so, it is high burden of tax on low level

income earners. The contribution of remuneration tax in total income tax revenue of Nepal has not been found so satisfactory. Making tax deduction at sources (TDS) effective is the main factor that should be initiated to increase the contribution of remuneration tax in Nepal. The other factors should be initiated to increase the contribution of remuneration tax in Nepal are, reform in the income tax policy, rules and regulation, inspect double employment and mechanism for effective monitoring.

The contribution of income tax from remuneration tax to the public revenue is not effective and satisfactory. The main item for deduction to be provided while calculating the remuneration income is medical expenses incurred for the health treatment of the employee. The other items of deductions suggested by respondents are: transportation expenses, education expenses and books and reading materials purchased for the job, leave salary, amount received from life insurance etc. Current exemption limit should be increased slightly and couple/family should get significantly higher tax exemption limit than individuals. Medical expenses paid by employer, Dashain allowance, etc. should be tax exempted. Rules and regulation of the income tax have been found complicated. They need to be simplified. Tax payers should be provided with taxation knowledge. Behavior of tax administrators should be improved and they should have the feelings of contribution toward the state. From the above study, majority of the respondents are suggested that the exemption limit for senior and disabled citizen should not be necessarily more than that of other citizen.

5.3 Recommendations

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

1. Total tax revenue consists of direct tax revenue and indirect tax revenue. But there is high portion of indirect tax revenue as compared to direct tax revenue. So, to direct the economy in the path of development, it is necessary to increase the share of direct tax revenue. Because, the direct tax plays more significant role in the economic development of the country than indirect tax. Resource mobilization through direct taxation should be focused.

2. Mainly tax administration should be motivated to do something for the nation. They should strictly implement the rule and regulations. They shouldn't take the tax of monitoring is only for formality.
3. Out of total tax revenue, the contribution of income tax revenue is very low. So, to increase the contribution of income tax in the public revenue, the focus should be given in the various tax incentive programs with the help of sound tax planning.
4. To generate more contribution from income tax from remuneration the slabs should be adjusted in such a way that high earners should be made to pay higher income taxes i.e. it should be made more progressive what is not. Because, income tax from remuneration has very much insignificant contribution in total revenue of Nepal. So it should be increased. Though, the contribution of remuneration tax in income tax revenue has been increasing in the recent years as compared to previous years.
5. Income tax act should be made effective in the implementation aspect. It should make specific for all the specific provisions. Income tax Act, 2058 is very vague in nature in various aspects of provision of income tax. Act should be made further more clearly, so that it might be easy to implement. Knowledge of taxation should be made widespread, awareness.
6. There is no provision for deduction of expenses while calculating income tax from remuneration in income tax Act, 2002 (2058). These kinds of provision should change and it is necessary to allow deduction certain expenses while calculating income tax from remuneration as previous income tax Act, 2031. Some of the expenses to be allowed for deduction are; Medical expenses, expenses incurred as newspapers & Magazines, Transportation expenses, education expenses etc.
7. Certain incomes should make tax exempt. For this medical expenses paid by employer, Dashain allowance, contribution to provided fund by the employer, remote area allowances, life insurance premium paid by employer, leave

encashment, etc should be freed from tax, it will be a relief for employees from heavy income tax burden.

8. The collection and tax assessment provision should be made clear and simple so that those tax payers would be encouraged to pay income tax.
9. There are various types of problems that employees face while paying remuneration tax. So, the problems faced by employees should be minimized. Tax administrators should be made more responsible, procedural simplification should be made, tax clearance certificate to be provided, taxation knowledge to employees should be provided, refund of tax should be made without delay, unclear and cumbersome provision of the tax act and rules should be simplified and made understandable, and employees should be made such that they do not feel mentally pinched by paying income tax by giving them a sense of contributing to the nation.
10. Pension income should be taxed by giving enough exemption limit to the pension holders because in old age, pension holders have other sources of incomes. Additional 50% of the prevailing exemption limit should be provided to them so that high income pensioners should only be taxed.
11. The provision of fines, penalties and punishment should be implemented effectively for income tax evaders. There is a lack of such co-ordination between related agencies in Nepalese tax administration.
12. Bringing new taxpayers into net is the most important factor to increase the share of employment income in income tax revenue of Nepal.
13. The most important thing is to make every thing growing and developed, economic development of the nation should be rapid. It implies in remuneration taxation also. So, it is necessary to enhance economic activities that ultimately increase contribution in government revenue as tax.

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PARAG: (*Public Administration, Revenue Administration & Governance*), National Personnel Association of Nepal.

RAJASWA: (*Nepalese Journal of Public finance & development*): government of Nepal ministry of finance, revenue administration training centre Kathmandu.

The Chartered Accountant: *Institute of chartered Accountants of India*

Websites:

www. mhlw.go.jp

www. nrb.org.np

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ANNEX- A

QUESTIONNAIRE

Dear Sir/Madam

I am a student of TU R.R.M Campus, studying in the final year of Master of Business Studies (MBS). As you have known that the students of this level have to write a Thesis on the subject of their specialization. Being a student of accountancy stream, I have decided to present my Thesis on Taxation. The topic approved for me by Tribhuvan University is “**Contribution of Remuneration Tax in Nepal**”.

I have the enclosed a questionnaire with this cover letter. I request you to fill up the questionnaire as per the instruction given on the top of the questionnaire. It would be a matter of great pleasure for me, if you kindly respond me back in spite of your busy and valuable time schedule. Your response will be of great importance to my study.

I assure you that your responses will be kept confidential.

I am looking forward to your kind cooperation and support in this study.

Thank You,

Sincerely yours,

.....

Rubi Sah

R.R.M. Campus

Janakpur

4. If yes, why it is suitable means of collecting public revenue?

- (a) It is transparent
- (b) As compared to other taxes, there is less chances of tax evasion.
- (c) It is based on progressive tax.
- (f) Others, please specify

.....

5. Is the current exemption limit is suitable?

- (a) Yes
- (b) No

6. If not, how much amount would you suggested for the exemption limit?

- (a) For single Rs... ..
- (b) For couple/family Rs.....

7. Do you think that the exemption limit for senior and disabled citizen should be more than that of other citizen?

- (a) Yes
- (b) No

8. Do you think that the remuneration tax system of Nepal is sound and efficient?

- (a) Yes
- (b) No

9. If not, what are the major problems of the remuneration tax system?

- (a) Defective Tax Rate
- (b) It is high burden of tax on low level income earners.
- (c) Unfair and weak administration.
- (d) No provision of deducting any expenditure.
- (e) Complexity of Income tax policy rules and regulation.

10. What factors should be initiated to increase the contribution of remuneration tax in Nepal?

- (a) Making tax deduction at source (TDS) effective.
- (b) Bringing new tax payers into tax net.
- (c) Reduction in exemption limit.
- (d) Increasing tax rates.
- (e) Reforms the tax policy, rules and regulations
- (g) Others, please specify

.....

11. Income Tax Act, 2058 has not made a provision of deduction for expenses while computing remuneration income. Is this provision suitable?

- (a) Yes
- (b) No

12. If not, what types of deductions would you expect to be provided?

- (a) Medical expenses incurred for the treatment of the employee.
- (b) Education expenses and books and reading materials purchased for the job.
- (c) Transportation expenses to go to the office and back.
- (d) House rent paid.
- (e) Leave salary.
- (f) Amount received from life insurance.
- (g) Other expenses as of previous Act.

13. Do you believe that income tax evasion is being practiced in Nepal?

- (a) Yes
- (b) No

14. How can you increase the tax paying habit of Nepalese people?

- (a) Educating tax payers.
- (b) Simplifying tax laws.

- (c) Increasing fines and Penalties.
- (d) Timely assessment of tax.
- (e) Incentives to regular tax payers

15. What types of income heads included in remuneration tax would you expect to be made tax exempted?

- (a) Remote area allowance.
- (b) Dashain allowance.
- (c) Pension income.
- (d) Medical expenses paid by the employer.
- (h) Others, please specify

.....

16. Do you think that the income tax on pension income should be levied?

- (a) Yes
- (b) No

17. What types of problems that the employees faced while paying remuneration tax?

- (a) Hesitation to pay income tax due to low income.
- (b) Weak and immature treatment by tax administration.
- (c) Procedural complication.
- (d) Tax personnel discourage getting tax clearance certificate.
- (e) Due to lack of taxation knowledge, employees do not know how to file returns.
- (i) Others, please specify

.....

18. Do you have any suggestions to increase the tax revenue from remuneration tax? Please specify.

.....
.....