

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Public revenue is the main source of a country to fulfill the economic objectives. “The government of a country requires sufficient revenues to carry out development plans to handle day to day administration to maintain peace and security and lunch other public welfare. In order to carry out such activities the government collects revenues from various sources. Such as tax revenues from public enterprises special assessment fees fines grants and assistance among them tax is the main source of government revenue” (Bhattarai & Koiral 2063, p.1).

Government revenue can be collected from taxes as well as not taxes sources. Tax revenue includes the amounts which are compulsorily contributed by taxpayers to the government. And non tax revenue includes fees, penalties, special assessments, freights and grants. Non tax revenue is that which are levied according to the necessary of government so they are inconvenient and uncertain. But tax revenue is convenient and certain. It contributes not only in national capital formation but also in equal distribution of national income. It helps to reduce the unequal distribution of wealth of nation as well as national income. So taxes are the better sources of public revenue. Tax revenue and non tax revenue have been taken as the best effective tool for raising the public fund by government.

A tax is a financial charge or other levy imposed on an individual or legal entity by a state or a functional equivalent of a state. These could also be imposed by a sub national entity. It is major sources of revenue in the developed world and has been appearing as an important source of revenue in the developing world as well. The main objectives of the tax are to raise more revenue to prevent the

concentration of wealth in a few hands to redistribute wealth for the common good to boost up the economy to reduce the unemployment and to remove the regional disparities. Government uses funds provided by taxation to carry out many functions. Such as expenditure and war the enforcement of law and public order, protection of property, economic infrastructure, public works social engineering and the operation of the government itself. Most modern governments also use taxes to fund welfare and public service. These services can be include education system health care systems, pensions for the elderly, unemployment benefits and public transportation energy water and waste management systems are also common public utilities.

Basically tax can be classified into two categories. i.e. direct tax and indirect tax. A Direct Tax is a tax paid by person on whom it is legally imposed. The examples of Direct Tax are Income Tax, Property Tax, Interest Tax, Vehicle Tax, Expenditure Tax, Death Tax and Gift Tax etc. Similarly, Indirect Tax is a tax imposed on one person but paid partly or wholly paid by another. The paying liability can be shifted to other but Direct Tax can not be shifted. The examples of Indirect Tax are VAT, Sales Tax, Entertainment Tax, Hotel Tax, Excise Duty, Import and Export Duty etc.

An Income Tax is a Direct Tax. Income Tax is a tax levied on the financial income of persons, corporations or other legal entities. Various income tax systems exist, with varying degrees of tax incidence. Income Tax can be progressive, proportional or regressive. When the tax is levied on the income of companies, it is often called Corporate Tax, Corporate Income Tax or profit tax. Individual income taxes often tax the total income of the individual (with some deductions permitted) while corporate income taxes often tax net income (the difference between gross receipts, expenses and additional write offs). Income Tax is one of

the most important sources in collection of government revenue. It play vital role in the economy.

If we go through the history of Income Tax, “A true income tax was first implemented in Britain by William Pitt the younger in his budget of December 1798 to pay for weapons and equipment in preparation for the Napoleonic war.

Pitts new graduated income tax began at a levy of 2d in the pound (0.8333%) on income over £ 60 and increased up to a maximum of 2s (10%) on income of over £200. Pitt hoped that the new income tax would raise £10 million but actual receipts for 1799 totaled just over £ 6 million. In US income tax was first proposed during the war of 1812 but was defeated. In July 1861, the congress passed a 3% tax on all net income above \$600 a year” (Wikimedia, 2007: 12-13).

“In India income tax was adopted in 1860 to 1866 and finally the systematic income tax legislation was enacted in 1886” (Battarai, 2004).

“Now the British income tax system is progressive with a number of bands 10%(Lower Rate) 10%, 20% or 22% basic rate on (respectively) UK dividends, investment income and income from employment / self employment and O in respect of the higher rate band and all income on certain trusts) 32.5% on UK dividends and 40% on other resources. The United Kingdom also imposed a corporation tax Charged on the profits and chargeable gains of companies. The main rate is 30% which is levied on taxable income above BGP 1.5 million but it will be reduced to 28% in April 2008. Income of £ 300,000 or less is taxed at 20%, marginal relief’s exist between the £ 300,000 and £ 1,500,000 bands. In USA the 2007 individual income tax rates are between 10% and 35% depending on income and family status. People with relatively low incomes may pay no income tax or may receive earned income tax credits, in India Business income is taxed at a flat rate of 33% for Indian companies and 40% for foreign companies. Dividends are income tax free to shareholder. Instead companies are charged a 15% dividend distribution tax” (Wikimedia, 2007: 12-13).

The history of modern income tax in Nepal is not very old. The idea of introducing in com tax in Nepal was originated in early 1950’s when a multi party democratic system was introduced. “Income Tax was imposed in Nepal by the first

parliamentary Government in 1959. Income Tax Act 1962 was enacted in 1962 replacing Business Profit and Remuneration Tax Act of 1959. The Income Tax Act, 1962 was replaced by Income Tax Act, 1974 which was amended for eight times and existed for a period of 28 years. The Income Tax Act 1974 and all the income tax related provisions made under other special enactment have been repealed and the existing Income Tax Act, 2058 became effective since Chaitra 19, 2058(01, April 2002). The Act governs all Income Tax matters and is applicable throughout the kingdom of Nepal. It is also applicable to residents residing wherever outside Nepal” (Inland Revenue Department, 2007).

The Income tax Act, 1974 had classified income sources into Agriculture industry, Remuneration, a House and Compound Rents and other Source. But the Income Tax Act 2058 has classified income sources into three heads: Income from Employment, Income from Business and income from Investment further more the Income Tax Rule 2059 has also been enacted for the effective implementation of the objectives of the act. According to the Income Tax Act 2058, individual is levied with two rates 15% and 25% while entity will be taxed at the rate of 25% unless prescribed other wise The taxable income of a bank or financial institution or general insurance business, or and entity industry petroleum work under Petroleum Act 2040 for and income year is taxed at the rate of 30%. In addition n special industry or export business will be taxed at the rate of 20 %.

Income Tax has contributed 16% of public revenue. In FY 2062/63, estimated payment of income tax was Rs.11,800,000(in thousand) and actual payment is only Rs.10896449(in thousand) which is 92.6% payment of estimated.. However, this year payment is increased by 4.25 than FY 2061/62 (IRD Report 2062/63).

The payment of income tax is not so satisfactory. Failure of fiscal system is depends upon the performance of the tax administration and the status of

implementation of Act. Income tax Act 2058 has confined all income tax related matters. This act has been made super in regard to all Income Tax. Various new concepts are introduced in this act as compared to the Income Tax Act 2031. However; this act could not have achieved the objective as it could. Due to administration, legal, organizational and individual level limitations.

1.2 Statement of the Problem

Nepalese economy is suffering from various problems. Economic growth rate is very low compared to population growth. Balance of payments is negative. Trade deficit and foreign loan is increasing trend. Sectoral Output is based on agriculture. Agriculture continues to occupy a major share in the GDP. Its contribution in FY 2006/07 is estimated to be minimal due to a large decline in the production of paddy caused by adverse weather during the current fiscal year. The non-agriculture GDP is also estimated to slide down due to disturbances like the ones in the Terai, management-labor tensions in industries, load-shading, supply irregularities in POL products, and frequent strikes. More than 38% of total population is below the poverty line. And there is no equality in economic distribution. Nepalese economy is mostly supported by foreign loan and remittance. Public expenditure is growing due to the settlement of maoist problem. Fiscal Year 2005/06, revenue surplus contributed to 12.0 percent, foreign grant to 31.5 percent and deficit financing to 56.5 percent in meeting capital expenditures and debt servicing.

To avoid this problem the government should mobilize the revenue. "Revenue mobilization is the main source of government expenditures. A minimal gap between the expenditures and revenue is desirable to maintain a fiscal balance. However, revenue growth is not maintaining a pace with the expenditures growth. Ratio of government expenditure to GDP stood at 17.2 percent in Fiscal Year 2004/05 compared to 17.4 percent in the previous Fiscal Year. Similarly, in Fiscal

Year 2004/05, the ratio of revenue mobilization to GDP was 11.2 percent, a decreased by 0.7 percentage-point, compared to 11.9 percent in the previous Fiscal Year. Despite a decrease in both the government expenditure to GDP as well as the ratio of revenue mobilization to GDP, gaps between total government expenditure and revenue mobilization increased by 0.5 percent point to 6 percent in Fiscal Year 2005/06 compared to 5.5 percent in the previous Fiscal Year. Of the total expenditures of Rs. 102 billion 564.04 million in Fiscal Year 2004/05, 68.4 percent was met by revenue, 14.0 percent by foreign grant, 9.0 percent by foreign loan and 8.7 percent by domestic borrowing as well as internal debt. Expenditures of Fiscal Year 2005/06 totaled Rs. 110 billion 889.2 million. Revenue met 65.2 percent of this expenditure while foreign grant met 12.5 percent, foreign loan met 7.4 percent. Domestic borrowing as well as internal debt shared 10.7 percent and remaining 4.7 percent was met by drawing from cash balance. Domestic borrowing as well as internal debt increased by 32.4 percent in Fiscal Year 2005/06 compared to Fiscal Year 2004/05 leading to a cash deficit of Rs. 4 billion 731.1 million” (Ministry of Finance 2007).

To meet the expenditure revenue mobilization is the only way. Nepal government has not been able to mobilize the adequate resources. Contribution of revenue to GDP is very marginal just 6.76%. Even in the normal circum stances, more than two-third of development expenditures has been financed from foreign loan and grants. If the government does not make any effort to mobilize revenue, our revenue would not be sufficient even for the regular expenditure.

Government can raise fund from internal and external sources. The revenue of the government comes basically from two sources: tax and non tax. Income tax falls under the head of tax revenue. In Nepal, income tax has contributed only 16% of revenue in FY 2062/63 which is lower contribution than VAT. The increment in payment of income tax in FY 062/63 is 4.24% then FY 061/62. However, payment

in FY 062/63 is lower than estimated before which indicates that ineffectiveness in collection of income tax (IRD Annual Report 2063/64).

There is low level of income tax payment even after the implementation of self assessment system, and higher tendency of income tax evasion. This indicates that the revenue administration is not effective in Nepal. Frequent change in tax policies and rules in Nepal indicates the lack of vision in act maker. These kinds of rules and policies can not strengthen the revenue mobilization and economic development.

Contribution of internal revenue to the GDP in FY 0621/63 is 6.75% which is very low. The principle is that taxes should raise sufficient revenue to enable the government to fund its programs according to socially agreed preferences. To sustain government revenue, any proposed reform must maintain or increase the level of government revenue in real terms.

Income Tax amendment by finance Act 2064 has increased the tax-free threshold. According to amendment, the tax exemption limit for natural person has provision Rs. 115000 and Rs. 140,000 to individual and couple. If the tax-free threshold were increased considerably, many deductions and rebates that presently complicate the tax system could be abolished. This could lead to the reduction in the government revenue.

“Finance Act 2064 has made an amendment in section 2(dha). According to the amendment the general rate of interest chargeable shall be 10% per annum instead of 15% per annum as prescribed by the act. Tax will be charged at 5% (10% before this amendment by FA, 2064) of the income remitted during the year to a foreign country by a foreign permanent establishment. This tax is just like a dividend tax.” (Agrawal, 2064,p.18, p.11)Decrease in tax rates may lead to the

decrease to the government revenue. If the government revenue decreases, revenue could not cover the expenditure.

Income tax Act 2031 had many defects. It was narrow tax base, there were no clear provisions regarding taxation of capital gains. The Act was also silent with regard to international taxation, modern taxation system were lacking , self-assessment was more in name then practice, double appealing system. There was weak mechanism to control the tax avoidance scheme of taxpayers. These were the major defects of income tax act 2031. To avoid the defects of the Income Tax Act, 2031, Nepalese government has taken several actions. As a result the government carried out Income Tax Act, 2058. /the act is based on the new concept and objectives. In present situation, political effect, tax evasion and tax avoidance, lack of educated people complicated language, illegal business activities, weakness of knowledge low responsibility of tax payer and tax authorities, administrative deficiency etc are the major problems. For this government should reform at institutional level (i.e. administration and legal reforms), organizational level (i.e. IT support) and individual level (i.e. awareness creation to civil society).

- ❖ What portion is covered by income tax in national revenue, tax revenue, direct tax revenue and its structural composition?

- ❖ How its relationship each above stated parts and what will be remained in coming year?

1.3 Objective of the Study

The core objective of the study is to analyze the Implementation Scenario of Income Tax in perspective of Nepal. As well as others are as follows:

- To analyze the implementation scenario of income tax in Nepal.
- To observe the contribution of income tax in collection of state revenue
- To suggest effective implementation of income tax in coming years.
- To recommend for proper reforms in income tax in future.

1.4 Significance of the Study

Income tax is one of the inevitable tools to raise the public revenue for developing countries like Nepal. It plays vital role in overall tax structure. So the income tax should be implemented effectively in the country and reform properly. Income Tax Act 2058 has eliminated the some limitations of the income tax act 2031. However, it could not have implemented properly and achieved its objective as it could. In Nepal institutional level, organizational and individual levels need to be reform properly.

This study will make a clear about the Implementation Scenario of Income Tax in Perspective of Nepal. As well as explains the implementation problem of income tax, its' reforms and contribution of income tax to the government revenue. Therefore; the study will create necessary awareness to the tax policy maker and reformer. The study will also benefit to the following stake holders:

- Students
- Tax Payers
- Academicians

- Tax Administrators
- Nepal Government
- Income Tax Experts
- Further Income Tax Researchers
- Others

1.5 Scope of the Study

The study is extended to cover the processes of implementation scenario of income tax and their impact on various classes and socio-economic groups of the society. Furthermore, the study draws lessons from past experience of implementation processes for future improvements in the course of implementation and reforms.

In addition to those scopes, other major scopes are as follows:

- This study covers the problems of implementation and reform of income tax.
- Identifies important role of Income Tax to generate public revenue in developing countries like Nepal.
- The study will attempt to suggest for reducing the rate of tax avoidance and evasion.
- This study will make a clear about the right and responsibility of taxpayer.

1.6 Research Hypotheses

The following hypotheses were developed for the study:-

Hypotheses:-1

Null Hypotheses (H_0): There is no significant difference between the opinion of the tax experts, administrators and tax payers regarding with the income tax administration in Nepal.

Alternative Hypotheses (H_1): There is significant difference between the opinion of the tax experts, administrators and tax payers regarding with the income tax administration in Nepal.

Hypotheses:-2

Null Hypotheses (H_0): There is no significant difference between the opinion of the tax experts, administrators and tax payers regarding with the defects of Income Tax Act 2058 of Nepal.

Alternative Hypotheses (H_1): There is significant difference between the opinion of the tax experts, administrators and tax payers regarding with the defects of Income Tax Act 2058 of Nepal.

Hypotheses:-3

Null Hypotheses (H_0): There is no significant difference between the opinion of the tax experts, administrators and tax payers regarding with the vital contribution of Income Tax on government revenue of Nepal.

Alternative Hypotheses (H_1): There is significant difference between the opinion of the tax experts, administrators and tax payers regarding with vital contribution of Income Tax on government revenue of Nepal.

Hypotheses:-4

Null Hypotheses (H_0): There is no significant difference between the opinion of the tax experts, administrators and tax payers regarding with the satisfactory implementation of income tax in Nepal.

Alternative Hypotheses (H_1): There is significant difference between the opinion of the tax experts, administrators and tax payers regarding with the satisfactory implementation of income tax in Nepal.

Hypotheses:-5

Null Hypotheses (H_0): There is no significant difference between the opinion of the tax experts, administrators and tax payers regarding with implementation problem of Income Tax Act 2058 in Nepal.

Alternative Hypotheses (H_1): There is significant difference between the opinion of the tax experts, administrators and tax payers regarding with the implementation problem of Income Tax Act 2058 in Nepal.

Hypotheses:- 6

Null Hypotheses (H_0): There is no significant difference between the opinion of the tax experts, administrators and tax payers regarding existing exemption limit for effective implementation of income tax.

Alternative Hypotheses (H_1): There is significant difference between the opinion of the tax experts, administrators and tax payers regarding existing exemption limit for effective implementation of income tax.

Hypotheses:-7

Null Hypotheses (H_0): There is no significant difference between the opinion of the tax experts, administrators and tax payers regarding with the reforms of Income Tax Act 2058 of Nepal.

Alternative Hypotheses (H_1): There is significant difference between the opinion of the tax experts, administrators and tax payers regarding with the reforms of Income Tax Act 2058 of Nepal.

Hypothesis:- 8

Null Hypotheses (H_0): There is no significant difference between the opinion of the tax experts, administrators and tax payers regarding with the improvement and more effective Implementation of income tax in coming years in Nepal.

Alternative Hypotheses (H_1): There is significant difference between the opinion of the tax experts, administrators and tax payers regarding with the improvement and more effective Implementation of income tax in coming years in Nepal.

1.7 Limitation of the Study

Whether tiny or enormous, doing research is complex job. Both researches need a plenty of time, material and related information for reviewing, searching and writing it. Mostly the researches are not free from limitation. Even this study is also not free from the frame of limitations. The limitations of this study are as follows:

- The study is primarily based on secondary information and documents published by the government. Government information and statistics are often biased towards painting a rosy picture. And it is very difficult to verify those statistics from alternative sources. In many cases, subjective judgment had to be used.
- The study is secondarily based on primary information and documents. Primary data has been only collected from Katmandu valley.
- This study is conducted to fulfill the requirement of Master Degree in Business Studies so the study can't cover all the dimension of the subject matter.

- Similarly, after 1995 the political instability together with violent conflict has had both direct and indirect effect on the income tax reforms and their outcomes. These could not be adequately quantified to differentiate their impact vis-à-vis ongoing reforms.

1.8 Organization of the Study

The study has been organized into six chapters. They are follows:-

Chapter-I: Introduction

This chapter deals with background of the study, Statement of the problems, Objective of the Study, Significance of the Study, Scope of the Study and Limitation of the Study. This will be the formal chapter.

Chapter-II: Conceptual Framework Review of Literature

This chapter deals with the Conceptual Framework, Legal Provision of Income Tax Act 2058 and Review of Related Studies

Chapter- III: Research Methodology

This chapter deals with the Research Design, Types of Research Design Population and Sample, Data Collection Procedure, Data Analysis Procedures and Tools

Chapter-IV: Data Presentation and Analysis

This chapter deals with the Data Presentation and analysis and Major Findings of the study.

Chapter-V: Summary, Conclusion and Recommendations

In this chapter the Summary of the Study, Conclusion of the Study and Recommendation of the Study will be studied.

CHAPTER - II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Introduction

This chapter highlights on the literature that is available in this topics. It includes literatures regarding theories on the topic and review of the empirical evidences of previous studies, done. In this chapter various books, magazines, journals, research papers, unpublished thesis reports etc are reviewed.

The first part of this chapter describes about the theories of income tax, second part is confined to review those literature carried out previously.

2.1.1 Concept and Meaning of Taxation

There are mainly two types of tax in the world. They are direct and indirect tax. Direct tax is that type of tax, which creates the direct burden on individual. In the other words individuals are liable to pay the tax from their personal income. It is really paid by the same person who is legally imposed. Next type of taxation is called indirect tax. This tax doesn't create the direct burden upon an individual. In indirect taxation, an individual does not liable directly to pay tax. The examples of direct taxation are income tax, vehicle tax, gift tax, house and land tax, interest tax, property tax etc. the examples of indirect taxation are customs tariff, excise duty, sales tax, VAT, entertainment tax, hotel tax and passenger tax etc.

There are some different views about making the good tax system. Some economist emphasizes on some factors and the others emphasize others. These issues are termed as cannons of taxation. Adam smith has given four cannons for the good tax system. They are cannon of equity, canons of certainty, canons of

convenience and canons of economy. Another economist, Bastable added two canons for good tax system; they are canons of productivity, canons of elasticity. New economists have given other canons they are canons of simplicity, canon of co-ordination, canons of uniformity, and canons of maximum benefit etc.

Hence, a state should formulate its tax policy addressing these canons of taxation; otherwise excessive taxation led two significant results. Firstly it increases the levels of national consumption. Secondly, it failed to broad based entrepreneurship, generation resources for expansion of industries or improves technological validity of enterprises.

But Income Tax Act 2002 (2058) has revised the definition of income tax. According to this act, “Income of any person derived from employment, business and investment and accumulated income as calculated accordingly is considered as income.”

Income is equal to consumption plus saving. It is the most logical definition in light of the objectives, but it is not the approach used in tax laws. The usual is in term of flow of money to a limited extent of commodity to a person. In the developed countries, the most important feature of the tax policy has been the rise of the personal income tax to a significant proportion in the revenue structure. The income tax was introduced to finance the war in the most of these countries and still continued for the nation’s public expenditure. Primarily the modest tax on higher income and latter became a mass tax during or soon after the Second World War. Since then the personal income has as revenue has a trend of unparallel increase in real and in nominal term.

In Nepal, though there were many types of methods for generating the revenue for public expenditure, it was stated only on late fifties as systematic income tax. The

personal income has been introduced as a trial on the business profit and remuneration income of government employees. In 2015 B.S the first elected government levied the first income tax and no specific act was made to define and to treat the income tax. The first income tax act was made only in 1962 and since then four income tax acts has been implemented.

The term “Income Tax” refers to a tax on income. In a broad sense income tax is a levy based upon the production or receipt or gain of the tax payers within a definite period of time.

From the very beginning, income tax has been always regarded as a tax based on the canon of ability. The tax could be adjusted as to exempt the lowest income groups from the operation of the tax and make the richer groups bear the burden of the tax according to their income. Apart from such considerations as revenue productivity, income tax has been regarded as the ideal tax from the point of equity (Audley, 1964).

Hence, income tax refers to tax levied on the income of a person and profit of the corporation for the specific time period. But in the broad sense income tax is a levy based upon the production or receipt or gain of the tax payers within a definite period of time.

Different countries have different concepts on income tax. In Great Britain the original concept of tax was that of a levy on recurrent income and the tax was applied to five schedules. In USA as a matter of practice, recurrent is not relevant to the tax status. In India, the personal income tax is levied on the net income of all individuals, Hindu undivided family, unregistered firms and other associations of persons (Chhellich, 1919). Income tax is levied on the income derived from

business, agriculture, profession, insurance, investment agencies and other sources derived in cash or kind (Singh, 1985).

Though real income is better for measuring ability, there are a large number of practical difficulties in finding out the real income of an individual. Therefore tax authorities make money income basis of taxation and include in the taxable income, the monetary value of other incidental advantages, which the assessed might have gotten.

Generally income tax is imposed on net income. Net income comes after deducting the cost of production from gross income. In practice the expenses incurred in earning the income and appropriate exemptions are deducted to find out available income. Net income may be real income or money income. Real income is more comprehensive and includes not only money income but also other incidental advantages. Real income should therefore, be the true index of ability to pay. So income tax should be charge on real net income of an individual and not on his net money income (Agrawal, 1967).

Therefore income may be regular or irregular. By regular income it is meant that it is non-recurring or occasional profit and is not the source of livelihood. Windfall gains are generally considered as irregular incomes. These incomes tend to include the ability to pay of individual and in Nepal they are treated at part with regular income for income tax purpose and same rate of income tax are imposed upon it.

Income tax is a personal tax imposed on the net incomes of individuals and corporations by this method of taxation, such burden as is in accord with the tax paying ability of the individual, any be called for by blending various personal deductions with the progressive rates. Although not completely neutral, it possesses a number of economic advantages. It is widely accepted that an income

base represents the most appropriate single measure of taxable capacity. If appropriately constructed, it ensures equal taxation of persons with equal ability and increasing taxation of persons with higher income (Khadka, 1998).

Where special encouragement or discouragement is desired preferential or penalty income tax provisions are convenient and effective. The built-in flexibility of this tax helps reduce cyclical fluctuations in employment and production. It encompasses a large and elastic revenue yield potential. Its progressive feature makes it an effective instrument for reducing distributional inequalities in income and wealth. It conforms most closely to the ability to pay principle of taxation. Moreover, much of the tax base can be reached by taxing those few who are at the top of the income pyramid (Goode, 1964).

Every country has its own peculiar system of taxing personal income. Personal income tax plays a prominent role in the taxation system of developed countries. In the United Kingdom, it amounts to about 70 percent of GNP. In developed countries about 30 percent to 40 percent of population pays income tax. In developing nations, however, it is a real achievement if this figure reaches 5 percent. Income tax therefore has not been able to play a significant role in the tax system of developing nations, including Nepal (Agrawal, 1980).

Hence, tax is a burden to the natural person and artificial person. No one can escape from the tax circumference. Tax is imposed by central government as well as local government. Central government passes bill by finance act. Local government can levy tax on public as local tax.

Tax simply means a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the taxpayers according to law (Bhattarai, 2005: 1).

Various experts have defined taxation in various ways. According to Prof. E.R. A. Seligman taxation is “A Compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all with reference to special benefit conferred”.

"A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of services rendered to the tax payer in return" (Dalton, 1991).

Thus, tax should be paid compulsorily by person. In return, government provides services to person.

“Taxation is a general device used by government to extract money or other valued things from people and organization by the law” (International Encyclopedia of the Social Science).

Tax is paid by the person for services of the government. It is compulsory contribution to the public authorities to cover the public expenditure of the government. Due to this compulsory nature people have expressed different views in satirical ways about the taxation.

According to New Webster’s Dictionary “A charge imposed by government authority upon property individual or transactions to raise money for public purposes.”

From the above definition of experts, it can be concluded:

- A tax is a compulsory contribution imposed by a government to the persons.
- Tax is paid by the taxpayers for services of government.
- Tax is collected from the rich people and spent in the interest of poor one.
- Tax is imposed according to the existing laws of state
- Tax is liability to pay amount to the state.

2.1.2 Classification of Taxation

Tax is a major source of government revenue. It is an important instrument for collecting government revenue. Tax can be classified into various categories according to the nature. Basically, tax is classified into two categories i.e. Direct Tax and Indirect Tax.

2.12.1 Direct Tax

A direct tax is directly paid by the person or whom it is legally imposed. Direct tax can not be shifted to other person. In other words, a tax imposed on income and property is Direct Tax.

According to J.S. Mill “A Direct Tax is one demanded from the very person who is intended or desired should pay it”. In Direct Tax, a person paying and bearing tax is the same. Examples of Direct Taxes are as follows:

- Income Tax
- Property Tax
- Interest Tax
- Vehicles Tax
- Death Tax
- Gift Tax
- Expenditure Tax
- House and Land Tax

2.1.2.2 Indirect Tax

An Indirect Tax is a tax imposed on person but partly or wholly paid by another. In other words, tax burden is transferable. Indirect tax is imposed on consumption or expenditure. Tax charged on occasional or particular events is indirect. The person paying and bearing the tax is different in the price of goods or services in

Indirect Tax. As a result tax payers do not know how much tax they are paying to government. Examples of indirect tax are as follows:

- Value Added Tax (VAT)
- Sales Tax
- Excise Duty
- Entertainment Tax
- Hotel Tax
- Custom Duty (Import and Export Duty)

“Indirect Taxes are those which are demanded from one person in the expectation and intention that he shall identify himself at the expense of another” (Prof. J.S. Mill)

2.1.3 Canons of Taxation

In tax system or tax science, tax principle plays a vital role. Principle of taxation directs the objective of the tax. If the tax system is prepared considering tax principle, tax system will be effective. The principles of taxation are as follows:

- Canon of Equity
- Canon of convenience
- Canon of Productivity
- Canon of Elasticity
- Canon of Economy
- Canon of Diversity
- Canon of Simplicity
- Canon of Neutrality
- Canon of co-ordination
- Canon of Transparency

2.1.4 Objectives of Tax

Certain objectives are engulfed besides imposition of tax by governed.

- To Raise more revenue
- Equal distribution of wealth
- To redistribute wealth for the common goods
- To increase economic growth
- To aside regional disparities
- To diminish unemployment
- To create employment
- T stimulate/encourage saving and investment through tax
- To collect revenue for government
- To discourage social uncommon/ Unnatural and pompous show / nattiness

2.1.5 Concept of Income Tax

There are mainly two types of tax system in the world. They are direct or indirect tax. Direct tax is that type of tax, which crates the direct burden on individual. In the other words individuals are liable to pay the tax from their personal income. It is really paid by the same person who is legally imposed. Next method of taxation is called indirect method of taxation. According to this method tax doesn't created the direct burden upon an individual. In indirect taxation, an individual does not liable directly to pay the tax.

Income tax is a direct tax. An Income Tax is a levy imposed upon the income of individuals after the exemption limit. The income tax is a central levy. But the net proceeds of the tax are distributed between the centre and the states. It is a state share out of the taxable earnings of on assesses. It is charged on the total income of the previous year at the rates applicable during relevant assessment year.

Income Tax plays a very important role in the national economy. It is one of the major sources of revenue to the government. In addition it is also looked upon as a tool for achieving the socially and economic objectives as laid down a good financial level to narrow the disparities in come. Regional economic imbalances are also concession in income tax for starting new industries in backward areas. Thus besides being sources of revenue. Income Tax has become an effective instrument to ensure balanced socio economic growth (Lal, 1984: 1).

For the purpose of taxation, the definition of income is somehow different from aforementioned definition. According to the income tax Act-1974(2031) “Income referred to the income earned or received in cash or kind from the sources mentioned in section.” In this section five different heads of income were mentioned. They are, (I) Agriculture (II) Industry, business, Profession or Vocation (III) Remuneration (IV) House and Land rent (V) the other sources.

But Income Tax Act 2002 (2058) has revised the definition of income tax. According to this act, “Income of any person derived from employment, business and investment and accumulated income as calculated accordingly is considered as income.

Income Tax is a very important source of revenue to the exchequer. Although, the tax is calculated by the central government (Chopra,1970:1).

The income tax act is passed and collected tax by central government of that country. It is one of the major tools to raise the revenue of the government.

Income Tax is to be charged on the income of the previous year of a person at the rates fixed for the assessment year by the annual Finance Act (Mehrotra, 1967: 15).

Thus, the income tax is a central levy. But the net proceeds of the tax (Gross tax collected minus expenses incurred in the recovery of tax) are distributed between the centre and the states. The finance tax is passed by parliament every year. It fixes the rate of income tax for current assessment year and rates for deduction of tax at source as well as advance payment of tax for the said financial year.

From the very beginning, income tax has been always regarded as a tax based on the canon of ability. The tax could be adjusted as to exempt the lowest income groups from the operation of tax and make the richer groups bear the burden of the tax according to their income. Apart from such considerations as revenue productivity, income tax has been regarded as the ideal tax from the point of equity (Audley, 1964: 213).

Hence, income tax refers to tax levied on the income of a person and profit of the corporation for the specific time period. But in the broad sense income tax is a levy based upon the production or receipt or gain of the taxpayers within a definite period of time.

Income tax is a personal tax imposed on the net incomes of individuals and corporations by this method of taxation, such burden as is in accord with the tax paying ability of the individual, may be called for by blending various personal deductions with the progressive rates. Although not completely neutral, it possesses a number of economic advantages. It is widely accepted that an income base represents the most appropriate single measure of taxable capacity. If appropriately constructed, it ensures equal taxation of persons with equal ability and increasing taxation of persons with higher income.

Income tax plays a very important role in the national economy; It is one of the major sources of revenue to the government. In addition, it is also looked upon

as a tool for achieving the social and economic objectives as laid down in our constitution. It has been recognized as a good financial level to narrow the disparities in income. Regional economic imbalances are also being reduced by providing incentives and concession in com tax for starting new industries in backward areas. Thus besides being sources of revenue. Income tax has become and effective instrument to ensure balanced socio economic growth (Lal, 1984: 1).

Therefore, Income tax is a direct tax compulsory levied on person by government to mobilize the public revenue. It is a major tool to generate public revenue.

2.1.6 Historical Development of Income Tax in the World

In early days, taxes were not collected regularly but collected at the time of emergencies to finance specially wars and for communal services. Tax was levied on the basis of welfare of the people and they were eager to pay taxes because non-payment of tax was taken as sin in the Hindu tax system. According to Hindus' scripture, the duty of king was to serve and secure his people and maintain peace and carry out social works. For the performance of these activities, the king used to levy tax by collecting crops and cattle from farmers, gold and silver and other metallic goods from traders.

Plato had stated that where the income tax exist, there uncrooked person pays more tax than crooked person. From this statement it came to know that income tax had been used many years ago. Due to the lack of evidence, Income Tax was first started in 1717 from Batavian Republic of Dutch. But Income Tax was first introduced in Britain systematically in 1699. To finance the war fought with France. Britain discharged income tax after the ends of war. Britain used to raise revenue from custom, excise duty, ticket fees before the commencement of income tax. USA introduced income tax in 1860 to generate revenue to finance civil war. However, it was enacted in 1861. It was discharged after the end of civil

war. Corporate income tax was enacted in 1909. In France income tax introduced in 1909. In Germany tried to introduce 1811 but enacted only in 1891.

Since 1942, income tax in Australia has been collected solely by the Federal Government, to the exclusion of the Australian States. The income tax was first imposed in Canada in 1917 on both individuals and corporations, collected primarily by the Federal Government. The Danish income tax was introduced in 1903 and is now divided into state tax and local tax. The state tax is a progressive tax while the local tax is a flat tax.

In our neighbor country India, the income taxation was started in 1860 by the British government to relieve from economic burden created due to first democratic revolution. It was then regularly collected after the publication of income tax act 1886 (Agrawal, 1980: 113).

In this way, income tax has become the regular source of national receipts for many developed and developing countries of the world. In the beginning income tax was generally levied at a flat rate. The principle of progressive rate of income tax had been adopted by the United Kingdom and New Zealand since 1909. Now days the progressive tax rate is commonly used rather than flat rate in all over the world. Others EU countries are also adopting the progressive rate these days.

2.1.7 Historical Development of Tax in Nepal

2.1.7.1 Taxation in Ancient Nepal

Tax has been one of the major sources of national receipts since the ancient time in Nepal. In those days, tax used to collect in the form of cash, kind and labor from the merchants, travelers and farmers. Income Tax in Nepal is not too long. At the time of Kirant regime, Revenue used to raise in the name of “Kuther”, “Suli”, “Ligwal” and “Mapchok”. “Kuther” used to act as administration.

At that time, there was Tri-Kar System. Trikar used to refer three kinds of taxes i.e. “Bhaga”, “Bhoga” and “Kara”. The Bhaga used to levy on agriculture, Bhoga used to levy on animal and Kara was on business income. At the time of Lichchhavi and Malla, main source of revenue was Land Tax.

Irrigation tax and religious monuments preservation taxes also existed at the time of King Anshubarma in Nepal. The farmers had to pay tax on income from agriculture to the government in 1/6, 1/8, and 1/12 shares of production depending on the quality of the land possessed by them.

2.1.7.2 Taxation in Unified Nepal (1768-1846)

After the unification of the kingdom of Nepal, expenses for administration, military and other operational activities were increases gradually. During that period, the taxation had been taken as main source of revenue and different types of taxes like land tax, transit tax, market duties, forest product tax and mining tax were levied. The main objective of imposing those taxes was to maximize the national revenue. In that period taxes were collected from three levels: Royal palace, Central government and local authorities. They collected cash or goods from taxpayers as taxes. Royal palace had levied taxes like Walak, Gaddimubarak, Chumawan and Goddhawa.

‘Walak’ was collected from each family in period of national celebration or festivals, Similarly, ‘Gaddimudarak’ was collected in the time of coronation ceremony of new kin ‘Chumawan’ and ‘Goddhawa’ were collected in the time of investiture and marriage ceremonies of Royal Princes and Princesses and ‘Gadan’ was levied at the time of death of reigning King to meet funeral expenses. ‘Darshan Bhet’ was collected from civil and military employees at time of their appointment and conformation of jobs. On the other hand, ‘Salami’ was collected by local authorities in the Terrain region. After the unified operiod, land tenure

system was divided into five main forms: Raikar, Birta, Githi, Sera and Kipat. The main sources of revenue from land were Birta and Kipat.

The founder of modern Nepal, King Prithivi Narayan Shah had introduced 'Pota' Tax in 1772, which was regarded as a revolutionary measure in the fiscal system of Nepal; it was based on a flat rate system rather than a progressive rate. It was limited to small Birta owners. Though taxation was started, there was no income taxation in the modern sense (Koirala, 2005: 15).

2.1.7.3. Taxation in Rana Regime (1846-1950)

During the Rana regime, there was no provision of effective revenue administration. The main sources of revenue were land revenue, customs and export of wood, which was collected on a lump sum, contract basis during that period and the Salami was collected from government employees as a revenue income tax. Besides, these were small other taxes were also collected. In those days, taxes were collected at the time of requirement because there were no formal Tax Act and Finance Act.

Taxes were charged according to the will of the Rana prime Minister. Both the incomes as well as expenditure of the government were confidential. In actual practice no difference existed between the private purse of the ruling prime minister and the government treasury. . Therefore, income and expenditure of the state were not transparent because there was no practice of presenting the budget too in that period.

Rana prime ministers levied taxes for meeting specific expenditure of the royal household or extraordinary expenditures necessitated by war or other crisis rather than regular mobilizing revenue in the nation. During Nepal – Tibet war (1855-56), the first Rana Prime Minister Jung Bahadur had imposed a tax on the

income of selected groups. Similarly, Bir Shamsheer imposed a levy of 1% on the official value of Jagir assignment of government employees in 1891 to finance the transportation of water pipe supply in the capital. Another Rana Prime Minister Ranoddip Singh imposed a 50% tax on the income made by fishermen in Deukhuri from the sale of fish in 1882 (Koirala, 2005:16).

2.1.7.4 Income Tax in Modern Nepal (Since 1950)

Democracy was established in 2007 in Nepal. Rana regime collapsed. Planned development was commenced from 2013. To avoid the scarcity of tools and resource, importance of tax law was perceived. Income Tax was entered in Nepal by means of Finance Ordinance in 2016 BS. So the fiscal year 1959/60 was the beginning of income tax act in Nepal. The first law relating to income tax was named “Business Profit and Remuneration Tax” the imposition of the tax was governed by the business profit and remuneration Tax Act, 1960 and made rule under it. Fiscal Act provisioned to levy tax on remuneration and business profit from 5% to 25%. Exemption limit was Rs. 7,000. With the enactment of that act, the salary tax or personal income tax act was levied upon those individuals whose personal income exceeded Rs. 6000 per year. The “Business Profit and Remuneration Tax Act” was too narrow and vague. It was limited to business profit and remuneration. High discretionary power in assessment of income tax was granted to the tax officers. Many loopholes for the income hiders and inadequate provisions in the act forced to replace the act. Tax on remuneration was deducted at source (TDS). Deductions of expenses were not specified for calculating taxable income.

Business profit and remuneration tax ordinance was issued in 2016 B.S. Trade profit and Remuneration Tax Act, 2017 came separately. Act of 2017 dissolved in 2019 B.S. and Nepal Income Tax Act, 2019 issued by the government. Nepal Income Tax Act, 2019 was the extended form of the “Business Profit and

Remuneration Tax Act". It had provisioned of imposition of income tax in agricultural income but this provision was abolished by the Finance Act, 1966 (2023). This act had provisioned for the installment payment of the tax for the first time. In this act, provision was made for reassessment tax as well as rectification of arithmetical errors. It had the provision regarding carry forward of losses for the period of two years. The residential status of the tax payers for the tax purpose was defined. The basis of tax assessment was specified on the best judgment estimate of the tax officers.

In 2020 B.S., Nepal Income Tax Rule, 2020 prepared and enacted. Tax free on agriculture was provisioned. Nepal Income Tax Act, 2019 first amended in 2029. Nepal Income Tax Act, 2029 was dissolved and new Income Tax Act, 2031 was issued. The Income Tax Act, 1974 was refined form of Income Tax Act, 1962. This act had clarified the definitions about income tax, taxpayer, year of income, personal status of taxpayer, not- resident taxpayer and net income etc. Provision was made for self-assessment of tax for the first time in Nepal. Carry forward of losses is allowed within subsequent three years. It was made relating to deduction for life insurance premium and contribution made for philanthropic purpose. Taxpayer was required to keep accounts and records of the income and to be preserved for six years. Five heads of income sources were specified as follows:-

- Income from Agricultural
- Income from Industry, Trade Profession or Occupation
- Income from Remuneration (Employment)
- Income from House and Compound Rent
- Income from other sources

Income Tax Act 2031 existed for 28 years. It was amended 8 times during its existence in 1977, 1979, 1980, 1984, 1985, 1986, 1989 and 1992. Income Tax Act 2031 also dissolved and enacted Income Tax Act 2058. It was implemented form

1st April 2002 (19 Chaitra, 2058). This act has been amended four times in 2059, 2059, 2060, 6061 B.S. This act of Nepal has been made to minimize the weaknesses of previous act and more collection of national receipt (Revenue) for the economic development by improving collection procedure of revenue.

Income Tax Rule was introduced in 2059 with entitled to Income Tax Rule, 2059. This Rule has been amended in 2064 by Finance Act.

2.1.8 Importance of Income Tax

Income Tax plays a very importance role in the national economy. It is one of the major sources of revenue to the government. A country can collect revenue from internal sources and external sources. External sources are more important for the underdeveloped countries like. Nepal. It is use for economic development, reconstruction, foreign exchange, to recover from crisis condition. But external sources are not certain and reliable source. It is inconvenient and not good for healthy development of nation. S, it is better to mobilize internal source rather than looking with beggar eyes to the donors. Income tax is the one of the major sources internal revenue mobilization.

In underdeveloped countries, there is disparities between haves and have not. In poor countries, there is inequality in distribution of income. Income tax imposes burden to the have and invest for the interest of have not. Income tax reduces inequality of income distribution stabilizing the economy and checking inflation. It has been recognized as good financial level to narrow the disparities in income. Regional economic imbalances are also being reduced by providing incentives and concession in income tax for starting new industries. Like developed countries, developing countries should try to mobilize their internal sources for regular and developmental activities in backward areas. Income Tax has become an effective instrument to ensure balanced socio economic growth.

In the African countries in which the inequality in the distribution of income is much less as compared to the countries of Asia & Latin America, a concentration of income tax to a small percentage of income receivers would not make this tax very productive source of revenue. This is way in the countries of tropical Africa and income tax goes along with personal tax, which is a simple graduated tax, applied to all income receivers.

The under development of income tax system in these countries reflects the underdevelopment of their economy,

2.1.9 Relation between Income Tax Laws with Other Acts and Laws

Law is created to establish discipline, peace and prosperity and economic welfare of public. Income Tax Act is created for equal distribution of capital and income.

It relates directly or indirectly with other Acts and Laws. Income Tax Act related directly with constitution of a country, Finance Act, Income Tax Rule, VAT, Foreign exchange Regulatory Act, Land & House Tax Act, Corporation Act, and Environment Protection Act.

2.1.9.1. Income Tax and Constitution

Constitution is main law of country. Every laws and Acts are guided by constitution. Even Income Tax is also not free from its guidance. In the constitution of Kingdom of Nepal, 2047, part-90, Section-73, had provisioned that no body can impose and raise tax except according to law. Income Tax Act 2058 has created and imposed under the principle of “No Taxation without Representation.”

2.1.9.2 Income Tax Act and Finance Act

Income Tax Act is a Fundamental or Substantial Law. Income Tax transforms fundamental principles like appointment f tax officer, Delegation of Right Income

and Tax determination, Exemption, Collection of tax and reimbursement of tax in to law.

Every year Finance Act is created. It remains for one year only. Rate of Tax used to increase or decrease by Finance Act. If the finance Act keeps silent for that year, that means former provision continues for that fiscal year too. But Income Tax Act, 2058, has provision if there needs of change in Acts, it need not to take any help of Finance Act. It can change in main section itself.

2.1.9.3 Income Tax Act and Income Tax Rules

Income Tax Act and Income Tax Rule have intertwined relationship. The objective of Income Tax Rule is to fulfill the objectives of Income Tax Act. It provides rights, liability and theoretical base into law. If income Tax Rules are found inconsistent within the Act, the portion to the extent it is inconsistent will be invalid. Income tax Act is formulated by the parliament while Income Tax Rule is framed by Nepal government. Income Tax Rule, 2059 has clarified about exempt of tax, assessment of income, natural person and government document, imbursement of tax, refund and retirement contribution. Income Tax Rule s has provisioned which the income Tax Act could not the procedure.

2.1.9.4 Income Tax Act and Provisional Tax Realization Act, 2012

Provisional Tax Realization Act, 2012 is vital tools of Nepal Gvt. to make tax provisional. Nepal government Presents finance proposal by budget. If the finance proposal delayed to pass in parliament, tax is imposed or increased by according to Provisional Tax Realization Act 2012. That provision will inactive itself after the enactment of Finance Act.

2.1.9.5. Income Tax At and Legal Procedure Established by Court of Laws

Like others laws, decision made by court or judicial decision is also applicable to tax administration. The supreme court of ten interprets the unclarified matters like, in articulated provision in income tax and income tax rule. Such decisions of court decision or precedent clarify the vague matters. Such precedents must be followed by tax administration and court.

2.1.10 Income Tax Act 2002 (2058)

Income tax is compulsory levy on person by government to mobilize the public revenue. Income Tax Act, 2058 has excluded casual receipt such as lotteries, Prizes, gift and windfall gain. Income Tax Act 2031, had provisioned casual receipt taxed keeping under other source and Fiscal Act 2060/61 has provisioned such casual receipt should be taxed at source at 25%. Income Tax Act 2058 became effective since Chaitra 19, 2058. The act governs all income tax matters and applicable all over the kingdom of Nepal. It is also applicable to residents and non residents wherever outside Nepal. Income Tax Act 2058 has replaced the Income Tax Act 2031. Finance ordinance 2059 and 2060 has amended Income Tax Act, 2058 first time.

2.1.10.1 Features of Income Tax Act, 2002 (2058)

Income Tax Act, 2058 has been enacted with wide perspective. Various new concepts are introduced this Act as compared to Income Tax Act, 2031. Many of the concepts put forward in this act were not prevailing at Nepalese tax culture. This act contains 143 sections (Bhattarai & Koirala, 2005: 9).

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

- This Act has included all the provisions relating to income tax. It is a law of Income Tax code.

- The act has broadened the tax base. Tax rates are spelled out in the act. The tax rates and concessions are harmonized on equity grounds.
- Income Tax Act, 2058 has classified sources of income into three headings for tax purpose i.e. Income from Employment, Income from Business and Income from Investment.
- A Full-fledged self-assessment system is implemented and the presumptive taxation and current year taxation system are strengthened.
All Income tax related matters are confined within the act by abolishing all tax related concessions, rebates and exemption provided by different Acts. This Acts has been made super in regard to all income tax matters.
- The scope of discretionary interpretation of the tax administration is drastically reduced ensuring simplicity, uniformity and the transparency. The act has also defined the power and authority of the tax administration.
- The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.
- The appeal system is further streamlined by making it mandatory for the taxpayers to file an objection with the Inland Revenue Department for administrative review before appealing to the Revenue Tribunal.
- The Act has introduced a pool system of charging depreciation. A provision has also made for depreciating intangible assets. Assets are broadly classified into five categories. The depreciation rates are 5 percent, 25 percent, 15 percent for pool A, B, C, and D respectively y which are based on diminishing balance method of depreciation For E , the rate is based on straight line method.
- The Act has first introduced the taxation of capital gains. Capital gains are taxed explicitly under this act after four decades of the introduction on income tax.

- Global income of a resident are made taxable. Non residents are also taxed on their incomes with source in Nepal. A person has been defined as a resident whose place of abroad is in Nepal and who lives in Nepal at any time or who lives Nepal for 183 days or more within the income year or which is an employee of HMG posted abroad during the income year.
- Carry forward of losses is allowed for the period of four subsequent years. This limit is extended up to five years for banking and insurance business.
- It has clearly included the rights and duties of taxpayers.
- It includes general anti-avoidance rule, control of transfer pricing, control of thin capitalization and control of divining stripping to control tax evasion measure.
- Provisions have made to claim for deduction of pollution control device and research and development expenses.
- It has classified the taxpayers in to natural person and entity. Entity includes company, partnership and trust.
- Provision has made to impose tax to all income sources uniformly.
- The Act has introduced a provision for administrative review allow the tax administration to correct mistakes made by administrators internally.
- List of expenses is inclusive. All expenses relating to income have been made admissible.
- The Act has made provision of international taxation. Foreign tax credit has **been introduced for the first time.**
- **The Act has provided a stringent fine and penalties for the defaulters.**

2.1.10.2 Objectives of Income Tax Act, 2002 (2058)

Due to the defects of Income Tax Act, 2031, It was replaced by Income Tax Act, 2058. The main objectives of the Income Tax Act, 2058 are as follows:

- To bring all taxpayers into tax circumference.

- To uniform tax rates to all taxpayers and sources.
- To increase the tax base.
- To develop the tax system by means of extended scope, clear-cut, transparent and simple procedure.
- To make income tax elastic and revenue productive.
- To integrate Nepalese tax system with the tax system of foreign countries.
- To make taxpayers more responsible by enforcing the self-assessment systems.
- To reduce tax avoidance and tax evasion.
- To reduce the scope discretionary interpretation of the tax authorities.
- To make accountable and improvement tax administration.
- To confine all the income tax related matters within the Act.

2.2. Legal Provision Relating to Income Tax in Nepal

2.2.1 Definition

1) Officer (Section -2, Kha)

Officer means Director General, Deputy Director General, Chief Tax Administrator, Director, Chief Tax Officer, Tax Officer or other Officer of the Department as mentioned in section 72.

2) Final Withholding Payment (Section -2, Ga)

Final withholding payment means a payment of Dividend, Rent, Gains, Interest and payment made to a non-resident person to be made after withholding final tax as mentioned in section 92.

3) Retirement Fund (Section-2, Gha)

Retirement fund means any entity established and maintained solely for the purposes of accepting and investing retirement fund contributions in order to

provide retirement fund payments to individuals who are beneficiaries of the entity or a dependant of such an individual.

4) Retirement Payment (Section- 2,Nga)

Retirement payment means a payment to-

- i. An individual in the event of the individual's retirement; or
- ii. A dependant of an individual in the event of the individual's death.

5) Retirement Contribution Amount (Section -2, Cha)

Retirement contribution means a payment made to a retirement fund for the provision or future provision of retirement payments.

6) Incapacitated Individual (Section -2, Chha)

Incapacitated Individual means an individual who, by reason of mental physical illness, is incapable of managing their affairs.

7) Income (Section – 2, Ja)

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

8) Income Year (Section – 2, Jha)

Income-year means the period from the start of Shrawan of a year to the end of Ashad of the following year.

9) Company (Section -2, Da)

Company means a company established under the company laws for the time being in force and the following institutions shall also be treated as company for tax purpose:

- Corporate body established under the laws for the time being in force;

- Any unincorporated association, committee, institution, society, or group of persons other than a partnership or a proprietorship firm (whether or not registered) or a trust;
- A partnership firm (whether or not registered under the laws for the time being in force) that has 20 or more partners, a retirement fund, a co-operative, a unit trust, or a joint venture;
- Foreign company; and
- Any foreign institution prescribed by the Director-General.

10) Tax (Section-2, Dha)

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

- Expenses incurred in the process of creating charge and performing auction of the property of tax creditor by the department
- Amount payable by a withholding agent Withholding agent or withholdee under section 90, or amount payable by an installment payer under section 94, and on assessment under sections 99, 100, and 101;
- Amount payable to the Department in respect of a tax liability of a third party under section 107(2), 108(3) or (4), 109(1), and 110(1);
- Amount payable by way of interest and penalties under Chapter 22; and
- Amount payable by way of fines in order of the department as per section 129.

11) Withholdee (Section – 2, Na)

Withholdee means a person receiving or entitled to receive a payment for employment, investment return, service fees and contract from which tax is required to be withheld under Chapter 17.

12) Non – Resident Person (Section -2, Jha)

Non-resident person means a person who is not a resident person.

13) No- Business Chargeable Asset (Section – 2, Da)

Non-business chargeable asset means securities or an interest in an entity as well as land and buildings but excludes the following assets-

- Business assets, depreciable assets, or trading stock;
- A private residence of an individual that has been-
 - i. Owned continuously for three years or more; and
 - ii. Lived in by the individual continuously or intermittently for a total of three years or more;
- An interest of a beneficiary in a retirement fund,
- Land and a private residence of an individual that is disposed of for less than Rs. 10,000,000/-; or
- Non-business assets of an individual that is disposed of by way of any type of transfer other than sales and purchase made within three generations.

14) Exempt Organization (Section – 2, Dha)

Exempt organization means the following entities:

- Following entities registered with the Department as an exempt organization:
 - a. A social, religious, educational, or a charitable organization of a public character established without having a profit motive,
 - b. An amateur sporting association formed for the purpose of promoting social or sporting facilities not involving the acquisition of gain,
- A political party registered with the Election Commission,
- A village development committee, municipality or district development committee,
- Nepal Rastra Bank,
- Nepal Government,

Provided that, any entity, giving benefit to any person from the assets of, and amounts derived by the entity except in pursuit of the entity's function as per its objectives or as payment for assets or services rendered to the entity by the person, is not exempt from tax.

15) Trust (Section – 2, Na)

Trust means an arrangement under which a trustee holds assets, but does not include a partnership, a corporate body, or an entity of the type referred to in subparagraph (3) of paragraph (m).

16) Long- Term Contract (Section – 2, Pha)

Long-term contract means such contract, the term of which exceeds 12 months as mentioned in section 26.

17) Relative (Section-2, Ba)

Relative means a spouse, children (including adopted children) parent, grandparent, sibling, aunt, uncle, nephew, niece, grand son, grand daughter, brother in laws, and sister in laws and father in laws and mother in laws of an individual.

18) Entity (Section – 2, Bha)

Entity means the following institutions or organizations-

- A partnership, trust, or company;
- A village development committee, municipality or district development committee;
- His Majesty's Government;
- A foreign government or a political subdivision of the foreign government, or a public international organization established under treaty; and

19) Lease (Section – 2, La)

Lease means a temporary right of one person in respect of an asset of another person, other than money, and includes a license, option, rental agreement, royalty agreement.

20) Individual (Section -2, Wa)

Individual means a natural person and the term denotes, for the purpose of this Act, any proprietorship firm whether registered or unregistered owned by the person, if any, and a couple making an election as single natural person under section 50.

21) Rent (Section- 2, Sha)

Rent means all payments including premium made under a lease of a tangible asset including house rent. Provided that the term does not include a natural resource payment.

22) Natural Resource Repayment (Section-2, Sa)

Natural resource payment means amounts of any of the following payments including house rent:-

- Payment for the right to take water, minerals, or other living or non-living resource from the land; or
- Amount as calculated on basis of the quantity or value of a living or non-living natural resource and minerals taken in whole or part from the land.

23) Employment (Section – 2, Gya)

Employment includes a past, present, or prospective employment.

24) Royalty (Section – 2, Ka Ka)

Royalty means any payment made under a lease of an intangible asset and includes any payment made for the following purpose:-

- The use of, or the right to use, a copyright, patent, design, model, plan, secret formula or process, or trademark;
- The supply of know-how;
- The use of, or right to use, a cinematography film, video tape, sound recording, or any other like medium and the supply of information concerning industrial, commercial, or scientific experience;
- Provided that, the term does not include a natural resource payment.

25) Investment (Section -2, Ka Kha)

Investment means an act of holding or investing one or more assets, but excludes the following:-

- The act of holding assets for personal use by the person owning the asset, or
- Employment or business.
- Provided that, the act of holding non-business chargeable asset is treated as an investment.

26) Resident Person (Section – 2, Ka Nga)

Resident person with respect to an income-year means-

- In the case of an individual, an individual-
 - Whose normal place of abode is in Nepal;
 - Who is present in Nepal for 183 days or more in the 365 consecutive days,
or
 - Who is an employee or an official of Nepal Government posted abroad at any time during the income year;
- Any partnership;

- In the case of a trust, a trust that-
 - is established in Nepal;
 - has a trustee that is a resident person for the income-year; or (C) is controlled directly or through one or more interposed entities by a person or persons one of whom is a resident person for the income-year;
- In the case of a company, a company that-
 - is incorporated or formed under the laws of Nepal; or
 - has its effective management in Nepal during the income year;
- A village development committee, municipality or district development committee;
- In case of a foreign government or a political subdivision of the foreign government, such an entity-
 - If it is established under the laws of Nepal; or
 - Has its effective management in Nepal during the income year; and
- Any institution or entity established under treaty; and
- A foreign permanent establishment of a non-resident person situated in Nepal.

27) Person (Section -2, Ka Cha)

Person means an individual or an entity.

28) Business (Section- 2, Ka, Ja)

Business means an industry, a trade, a profession, or the like isolated transaction with a business character and includes a past, present, or prospective business.

Provided that, the term does not include employment.

29) Interest (Section -2, Ka, Jha)

Interest means the following payments or gains:-

- A payment made or incurred under a debt obligation that is not a repayment of capital;
- Any gain realized by way of a discount, premium, swap payment, or similar payment under a debt obligation; and
- The portion which is treated as interest in the payments made to a person under an annuity or by a person acquiring an asset under an installment sale or the use of an asset under a finance lease.

30) Trading Stock (Section -2, Ka, Ya)

Trading stock means assets owned by a person that are sold or intended to be sold in the ordinary course of a business conducted by the person, work in progress on such assets, and inventories of materials to be incorporated into such assets. Provided that, the term does not include a foreign currency asset.

31) Business Assets (Section – 2, Ka, Ta)

Business asset means an asset to the extent to which it is used in a business. Provided that, the term does not include trading stock or a depreciable asset of a business.

32) Assets

Asset means a tangible or intangible asset and includes currency, goodwill, know-how and property, an owner's interest in a foreign branch, a right to income or future income, and a part of an asset.

33) Adjusted Taxable Income

Adjusted taxable income means an amount of taxable income of a person for an income year as calculated by ignoring reductions referred to in Section 12 and deductions referred to in Section 17 or 18.

34) Partnership (Section – 2, Ka, Pa)

Partnership means a firm (whether or not registered) that has fewer than 20 partners. Provided that, the term does not include a proprietorship firm (whether or not registered) or a joint venture.

35) Approved Retirement Fund

Approved retirement fund means a retirement fund that is approved by the Department under subsection (1) of section 63 of this Act.

36) Depreciable Asset (Section – 2, Ka, Ra)

Depreciable asset means an asset to the extent to which it is used in the production of income from a business or investment and that is likely to lose value because of wear and tear, obsolescence, or the passing of time. Provided that, the term does not include trading.

37) Dividend

Dividend means dividend of an entity as mentioned in section 53.

38) Electronic Means

Electronic means is defined as IRD approved means of transmission including computer, fax, E-mail, Internet, electronic cash machine and fiscal printer.

2.2.2 Basis of Tax

2.2.2.1. Imposition of Tax

Income tax is hereby imposed on and realized from every person as follows for each income-year:-

- a. A person, who has taxable income for the year;
- b. A foreign permanent establishment of a non-resident person situated in Nepal and has repatriated income for the year as mentioned.
- c. A person, who receives a final withholding payment during the year.

2.2.2.2 Taxable Income and Classification of Income Heads

The taxable income of a person for an income-year is equal to the amount as calculated by subtracting reduction, if any, claimed for the year under section 12 or 63 or both from the total of the person's assessable income for the year from each of the following income heads-

- a. Business;
- b. Employment; and
- c. Investment,

2.2.2.3 Assessable Income

Subject to this Act, the following income of a person for an income-year from any employment, business, or investment shall be as the assessable income:-

- Income of a resident person from the employment, business, or investment of the year irrespective of the location of the source of the income; and
- Income of a non-resident person from the employment, business, or investment of the year but only to the extent the income has a source in Nepal,
- Provided that, the assessable income does not include any income exempt

2.2.3 Exempt Amounts and Other Concessions

2.2.3.1 Exempt Amounts

The following amounts are exempt from tax:

- Amounts derived by a person entitled to privileges under a bilateral or a multilateral treaty concluded between His Majesty's Government and a foreign country or an international organization;
- Amounts derived by an individual from employment in the public service of the government of a foreign country. Provided that,-
 - The individual is a resident person solely by reason of performing the employment or is a non-resident person; and

- The amounts are payable from the public funds of the country;
- Amounts derived from public fund of the foreign country by an individual who is not a citizen of Nepal as referred to in paragraph (b) or by a member of the immediate family of the individual.
- Amounts derived by an individual who is not a citizen of Nepal from employment by Nepal Government on terms of a tax exemption;
- Allowances paid by His Majesty's Government to widows, elder citizens, or disabled individuals;
- Amounts derived by way of gift, bequest, inheritance, or scholarship, except as required to be included in calculating income under sections 7, 8, or 9, and
- Amounts derived by an exempt organization by way of-
 - Gift; or
- Pension received by a Nepali citizen retired from the army or police service of a foreign country provided the amounts are payable from the public fund of that country.

2.2.3.2 Business Exemptions and Concessions

- An agricultural income derived from sources in Nepal during an income year by a person, other than the income from an agriculture business derived by a registered firm, or company, or partnership, or a corporate body, or through the land above the holding ceiling as prescribed in the Land Act, 2021, is exempt from income tax.
- Incomes derived by cooperative societies, registered under Cooperative Act, 2048 (1991), from business mainly based on agriculture and forest products such as sericulture and silk production, horticulture and fruit processing, animal husbandry, diary industries, poultry farming, fishery, tea gardening and processing, coffee farming and processing, herbiculture and herb processing, vegetable seeds farming, bee-keeping, honey production, rubber

farming, floriculture and production and forestry related business such as lease-hold forestry, agro-forestry, cold storage established for the storage of vegetables and business of agricultural seeds, insecticide, fertilizer and agricultural tools (other than machine operated) and rural community based saving & credit cooperatives are exempt from tax. Dividends distributed by such societies are also exempt from tax.

- Income derived from sources in Nepal during an income-year by a person from a special industry is taxed as follows:-
 - In case, the industry provides direct employment to six hundred or more Nepali citizens during each day of the year, at 90 percent of the rate otherwise applicable to that income; or
 - In case, the industry is operated in a remote, undeveloped, or underdeveloped area, at 70, 75, or 80 percent, respectively, of the rate otherwise applicable for the period of ten income-years commencing from and including the year in which the operation commences.

2.2.3.3 Taxation of Infrastructure Building and Operation:

In case where an agreement is concluded between a person and Nepal Government for building and operating infrastructures, the person shall be entitled to consume all tax related concessions under this Act prevalent at the time of the agreement, for a period covered by the agreement.

2.2.4 Deduction

2.2.4.1 General Deductions

Subject to this Act, for the purposes of calculating a person's income for an income-year from any business or investment, there shall be deducted all actual costs to the extent incurred-

- a. During the year;
- b. By the person; and
- c. In the production of income from the business or investment.

2.2.4.2 Interest (Section-14)

- For the purposes of calculating the income of a person for an income-year from a business or investment, there shall be deducted all interest incurred during the year by the person under a debt obligation of the person to the extent that-
 - Where the debt obligation was incurred in borrowing money, the money is used during the year or was used to purchase an asset that is used during the year; or
 - In any other case, the debt obligation was incurred.

2.2.4.3 Cost of Trading Stock (Section- 15)

- For the purposes of calculating a person's income for an income-year from any business no deduction is otherwise allowed for the cost of trading stock except the allowance determined in respect of the disposal by the person of trading stock of the business during the year.
- The opening value of trading stock of a business for an income-year is the closing value of trading stock of the business at the end of the previous income-year.
- The closing value of trading stock of a business for an income-year is the lower of the following-
 - The cost of trading stock of the business at the end of the year; or
 - The market value of the trading stock of the business at the end of the year.

Allowable cost of trading stock = Opening stock + purchase – closing stock

Note: Valuation of closing stock → Cost Price or Market Price whichever is less(-)

For Example:-

Calculation of cost of trading stock

Opening trading stock	****
Add: Purchase (net)	****
Carriage inward	****

Less: Closing Stock	****

Cost of trading stock	****

2.2.4.4 Repair and Improvement Costs (Section - 16)

- For the purposes of calculating a person's income for an income-year from any business or investment, there shall be deducted all costs to the extent incurred during the year in respect of the repair or improvement of depreciable assets owned and used by the person during the year in the production of the person's income from the business or investment.
- All depreciable assets in a particular pool of depreciable assets of the person shall not exceed seven percent of the depreciation basis of the pool at the end of the income-year and the deduction shall be allowed with respect to costs in the order in which they are incurred.
- Any excess cost of repair and improvement, or a part thereof, for which a deduction is not allowed as a result of the limitation can be added to the depreciation basis prevailing in the beginning of the subsequent income year, of the pool to which it relates (i.e. Block A, B, C and D).

Allowable limit → Actual repair exp. Or 7% of Depreciation bases for the year whichever is less.

For example:-

Computation of Repair and Improvement Cost

Opening WDV	****
Add: Addition during the year	****
Less: Disposal During the year	****
Depreciation Base for the year	****
7% of Depreciation base	****
Actual	****
Allowable repair and improvement cost	****
(Lower of the above)	

2.2.4.5 Pollution Control Cost (Section – 17)

- For the purposes of calculating a person's income for an income-year from any business, there shall be deducted pollution control costs to the extent incurred by the person during the year in conducting the business.
- The deduction allowed to a person for an income-year shall not exceed 50 percent of the adjusted taxable income from all businesses conducted by the person.
- Any excess cost, or a part thereof, for which a deduction is not allowed as
- a result of the limitation can be capitalized in the beginning of the subsequent income year and may be depreciated under block D.

Allowable limit → Actual P.C.C. or 50% of adjusted taxable income from business whichever is less (-).

For example:

Computation of Pollution control costs:-

50% of adjusted taxable income	*****
Actual P.C.C.	*****
Allowable P.C.C. (Lower of the above)	*****

Note: excess P.C.C. will be capitalized at the beginning of the next income year under block- 'D'.

2.2.4.6 Research and Development Costs

- For the purposes of calculating a person's income for an income-year from any business, there shall be deducted research and development costs to the extent incurred by the person during the year in conducting the business.
- The deduction allowed to a person for an income-year shall not exceed 50 percent of the adjusted taxable income from all businesses conducted by the person.
- Any excess cost, or a part thereof, for which a deduction is not allowed as a result of the limitation in Subsection (2) can be capitalized in the beginning of the subsequent income year and may be depreciated

Allowable limit → Actual R& D cost or 50% of adjusted taxable income from business whichever is less (-).

For example:-

Calculation of R&D cost:

Actual R&D Cost	*****
50% of adjusted taxable income	*****
Allowable R&D	*****
(Less of the above)	

Note: - Excess R&D cost will be capitalized at the beginning of the next income year under block –'D'.

2.2.4.7 Depreciation Allowances (Sec-19)

- For the purposes of calculating a person's income for an income-year from any business or investment, there shall be deducted in respect of depreciation of depreciable assets owned and used by the person during the year in the production of the person's income from the business or investment the allowances granted to the person for the year.
- The following provision shall be applied in respect of the depreciation of the machines, equipment and other machinery installed in the electricity projects that are involving in building power station, generating and transmitting electricity and in the projects conducted by any entity so as to build public infrastructure, own, operate and transfer to the Nepal Government.
- In case where the old machines, equipment and other machinery that are already installed require replacement in any income year as they are out of order due to being too old, the balancing value of the old machines, equipment and other machinery remained after subtracting the depreciation up to the year from their cost shall be allowed as expenses for the year.
- At the time of transfer of other assets to the Nepal Government except of the old assets replaced, the balancing value, if remained, after subtracting the depreciation up to the year of the transfer from their cost shall be allowed as expenses.
- If the block balance after depreciation during an income year comes less than Rs. 2000 the whole amount is allowed as expenses during the income year.

Depreciation Rate on WDV

Block	Assets Included	Depreciation Rate on WDV
A	Buildings, structures and similar works of permanent nature.	@ 5%
B	Computers, data processing equipments, furniture, fixtures and office equipments.	@ 25%
C	Automobiles, Bus and Mini- bus	@20%
D	Construction and earth moving equipments, capitalized P.C.C. , R&D cost and any tangible assets not included in above block A, B & C (e.g. Plant & machinery)	@15%
E	Intangible assets: Such as:- Patent right, software, trade mark etc.	$\frac{\text{Original cost}}{\text{Useful life}} = \%$

Calculation of depreciation base for the year

Opening depreciation base	*****
Add:- Absorbed addition of asset (Purchased)	*****
Less:- Disposal during the year	(*****)
Depreciation base for the year	*****
(for repairs/ depreciation)	

Note: Absorbed addition during the year depends on the month of purchase. The details are:-

Month of Purchase	Absorbed Addition	Unabsorbed Addition
1 st Shrawan – Pouse end	3/3 i.e. 100% (Fully)	Nil
1 st Magh – Chaitra end	2/3 rd	1/3 rd
1 st Baishak – Ashadh end	1/3 rd	2/3 rd

2.2.4.8 Losses from Business (Section 20)

For the purpose of calculation income from business for an income ear, the following losses are allowed for deduction.

- Any unrelieved loss of the year incurred by the person from any other business (loss in foreign sources business is not deductible in the calculation of Nepal source income)
- Any unrelieved loss of the previous four income-years incurred by the person from any business.
- For the purposes of calculating the income of a person for an income-year from an investment, there shall be deducted any unrelieved loss of the year incurred by the person from any other investment.
- A person may deduct an unrelieved loss with a foreign source only in calculating the person's foreign source income and an unrelieved loss incurred in deriving non taxable income only in calculating the person's non-taxable income.

2.2.4.9 Donation to the exempt organization (Section – 12)

- A person may claim to have their taxable income for an income-year reduced by its made by the person during the year to an exempt organization that are approved for the purposes of this section by the Department.
- Tax exempt organizations are:
 - A social, religious, educational or charitable organization of a public character registered without having a profit motive.
 - A amateur sporting association formed for the purpose of promotion of social or sporting amenities not involving the acquisition of gain.
 - A political party registered with the election commission
 - A village development committee, municipality or district development committee.

- Nepal Rastra Bank
- Nepal Government
- Reduction allowed to a person for an income-year shall not exceed Rs 100,000 or 5 percent of the person's adjusted taxable income for the year, whichever is lower.
- Nepal Government may prescribe, by a notification in the Nepal Gazette, as to allow full or partial deduction at the time of assessing a person's income of the expenses incurred for special purpose, or the expenses of gift given by the person.
- Donation to special sector:-
 - Myanglung bazaar fire victim relief fund → 100 percent
 - Lumbini Development trust → up to Rs. 50,00,000
 - Pashupati area development trust → up to Rs. 50,00,000
 - National political party → up to Rs. 50,00,000

2.2.4.10 Exemption for Remote Area (Rule - 38)

Area Loss	A	B	C	D	E
Exemption (Rs.)	30,000	24,000	18,000	12,000	6,000

2.2.4.11 Non Resident (Section – 2)

- Who lives less than 183 days in Nepal in any period of 365 consecutive days.
- Exception
 - Whose normal place of abode (dwelling) is in Nepal.
 - Person posted abroad by Nepal Government at any time during the income year.

Computation of Tax Liabilities (for natural non-resident assesses)

Particulars	Rate	Amounts Rs.
Tax on taxable income at flat rate (No exemption limit and other exemptions)	25%

In case of special industry only (Sole+ Entity)

Condition A:	Tax Rate/ Entity (B)	Rebate on Tax	Net applicable tax rate	Period
a) If providing direct employment to 600 or more Nepalese citizens through out the whole years	@20%	10%	90% of B = 18%	Forever
b) If Operating in a highly undeveloped zone	@ 20%	25%	70% of B = @ 14%	1 st 10 years
c) If operating in an undeveloped zone	@20%	25%	75% of B = @14%	1 st 10 years
d) If operating in an under veveloped zone	@20%	20	80% of B = @16%	1 st 10 years
e)If operating in a special economic zone	@ 20%	100%	Nil	For 1 st 5 years
f) If operating in a remote zone	@ 20%	50%	50% of B = 10%	Forever
g) Information technology intensive industry (established within IT Park)	@20%	25%	75% of B= @15%	Forever

2.3 Head of Income

2.3.1 Income from a Business

2.3.1.1 Taxable Income (Section – 7)

- A person's income from a business for an income-year is the person's profits and gains from conducting the business for the year.
- There shall be included in calculating a person's profits and gains from conducting a business for an income-year the following amounts derived by the person during the year:
 - Service fees;
 - Amounts derived from the disposal of trading stock;
 - Net gains from the disposal of the person's business assets or liabilities of the business as calculated
 - Gifts received by the person in respect of the business;
 - Amounts derived as consideration for accepting a restriction on the capacity to conduct the business;
 - Amounts derived that are effectively connected with the business and that would otherwise be included in calculating the person's income from an investment; and
 - Compensation received by any investment that in directly related to business.
 - Amount received by any investment that in directly related to business.
 - Amount required to be included due to change in accounting system
 - Gain due to change on exchange rate
 - Bad debt received
 - Under payment of interest on loan (Interest subsidy)
 - Compensation received against loss of profit/ stock
 - Any benefit or perquisites.
 - Amount received after the cessation (closing) of a business.

- Amount derived according to the percentage of contract competed during the year under long term contract.
- Deducted expenditure which is not so expended
- Other incomes required to be including eg. Miscellaneous incomes, sundry income, discount and commissions.

2.3.1.2 Non Taxable Income (Section – 10)

- Exempted remuneration (under bilateral or multilateral treaty with foreign government/ international organization, such as: Diplomats)
- Remuneration under the employment of public service of a foreign government
- Remuneration paid by Nepal government to foreign citizen service of a foreign government
- Allowance paid by Nepal government to widows, senior citizens (elder) or disable person.
- Gift, bequest, inheritance or scholarship exempt as required to be included in calculation income under sec: -7,8 and 9.
- Pension received by retired army/ police from public fund of a foreign government
- Income from agriculture(Except: Registered agriculture firm)Section-11(1)

2.3.1.3 Final Withholding payments (TDS) (Section – 92)

- Dividends from resident company
- Rent from land and building furniture and fittings received by and individual other than the business
- Gain from investment insurance received by a resident person
- Interest income of an individual (Natural person) from bank, financial institute, bonds

- Payment made from approved retirement fund
- Accumulated leave pay
- Part time remuneration
- Meeting fees/writing articles
- Gain from unapproved retirement fund
- Examiner's fee
- Windfall gain
- Casual income
- Incomes from investment on insurance policy

2.3.1.4 Non – Final Withholding Payment (Section – 88)

- Royalty
- Interest
- Rent
- Consultation/services fees 15% (But final for non resident) = if net 85%

2.3.1.5 Format

Table 2.1

Statement of Assessable Income from Business for Natural Person

Particular	Amount	Amount
Income from Business:		
Gross profit	(+) <u>xxxxx</u>	
Service fees	(+) <u>xxxxx</u>	
Disposal of trading stock	(+) <u>xxxxx</u>	
Net gain from disposal of business assets or liability	(+) <u>xxxxx</u>	
Gain from disposal of pool of depreciable assets	(+) <u>xxxxx</u>	
Bad debts recovered		
Amounts received from compensation	(+) <u>xxxxx</u>	
Income from an investment	(+) <u>xxxxx</u>	
Amount received after cessation of business	(+) <u>xxxxx</u>	
Excess amounts received due to exchange rate variation	(+) <u>xxxxx</u> (+) <u>xxxxx</u>	
Amount received in lieu of accepting any restrictions regarding business	(+) <u>xxxxx</u>	
Receivable amounts paid to others		
Deducted expenditure which is not so expensed	(+) <u>xxxxx</u>	
Sundry income	(+) <u>xxxxx</u>	
Any benefit/ perquisites	(+) <u>xxxxx</u>	
Amount from change in accounting system	(+) <u>xxxxx</u>	
Other business related incomes	(+) <u>xxxxx</u>	
Gross Income from Business	<u>(+)<u>xxxxx</u></u>	
		(+) <u>xxxxx</u>

Less: Inadmissible Expenses		
Interest expenses		
Cost of trading stock	(+)xxxx	
Repair and improvement cost	(+)xxxx	
Pollution control cost	(+)xxxx	
Research and Development cost	(+)xxxx	
Depreciation allowances	(+)xxxx	
Reserve fund for banks	(+)xxxx	
Office expenses	(+)xxxx	
Renewal of Membership	(+)xxxx	
Renewal of license	(+)xxxx	
Rent paid	(+)xxxx	
Exchange loss	(+)xxxx	
Consultation fee	(+)xxxx	
Hospitality expenses	(+)xxxx	
Legal expenses	(+)xxxx	
Advertising expenses	(+)xxxx	
Printing and stationery expenses	(+)xxxx	
Total Inadmissible expenses	<u>(+)xxxx</u>	<u>(-)xxxx</u>
Net Assessable income from business		<u>xxxxxxx</u>

Table 2.2

Statement of Total Taxable Income for Natural Person

For the assessment year.....

Particulars	Amount	Amount
Net(Assessable) income from Employment	(+)××××	
Net(Assessable) income from Business	(+)××××	
Net(Assessable) income from Investment	(+)××××	
Net (assessable) income from Profession	<u>(+)××××</u>	
Total (Net) assessable Income		××××××
Less: Contribution to Retirement fund 1/3 rd of net (Assessable) total income Or Rs. 3,00,000 Or Rs. Actual whichever is less		<u>(-) ××××</u>
Total Taxable Income before donation		<u>××××××</u>
Less: Donation	(+)××××	
i. General Donations: Actual Donated amount or 5% of adjusted taxable income or Rs. 100000, whichever is less.		
ii. Special donations (If any)	<u>(+)××××</u>	<u>(-) ××××</u>
Total Taxable Income		<u>(+)××××</u>

Table 2.3
Computation of Tax Liability

Particulars	Rate	Amount Rs.
First: Rs. 115000 for an Individual/ Rs. 140000 for a couple [Additional exemption for pension income = 25% of exemption limit but not more than pension amount		Nil
Next: Exemption for handicapped/disabled person (50% of statutory exemption)		Nil
Next: Remote area allowance (6000 to 30000 as the case may be]		Nil
Next: Life Insurance Premium: 7% of policy amount Or actual premium paid Or maximum Rs. 10,000 whichever is less		xxxx
Next: Rs. 75,000	15%	11,250
Rest amount Rs.	25%	<u>xxxx</u>
Total Tax Liability		<u>xxxxxx</u>
Less: Preceding income year's excess tax payment(if any)	xxxx	
Less: Tax paid in advance (current year) including TDS and non-final withholding (if any)	xxxx	
Less: Medical Tax Credit (only for resident assesses, if any) 15% of approved medical cost/health insurance premium or Rs. 750 whichever is less	xxxx	<u>xxxxxx</u>
Net Tax Liability		<u>xxxxxx</u>

2.3.2 Employment Income

2.3.2.1 Income from an Employment

Remuneration means amount given for providing services. In case of remuneration there uses to be one person getting services and other person providing services.

- An individual's income from an employment for an income-year is the individual's remuneration from the employment of the individual for the year.
- There shall be included in calculating an individual's remuneration from an employment of the individual for an income-year the following payments made to the individual by the employer during the year:
 - Payments of wages, salary, leave pay, overtime pay, fees, commissions, prizes, gifts, bonuses, and other facilities;
 - Payments of any personal allowance, including any cost of living, subsistence, rent, entertainment, and transportation allowance;
 - Payments providing any discharge or reimbursement of costs incurred by the individual or an associate of the individual;
- Payments for the individual's agreement to any conditions of the employment;
- Payments for redundancy or loss or termination of the employment;
- Retirement contributions, including those paid by the employer to a retirement fund in respect of the employee, and retirement payments;
- Other payments made in respect of the employment; and
- Other amounts required to be included under Chapters 6 or 7.

2.3.2.2 Income not Included in Employment

However, the following amounts are excluded in calculating an individual's remuneration from an employment

- Amount exempt under Sec. 10 and final withholding payments under Sec. 92.

The following payments are not included while calculating the income from employment as per the Sec. 10 of the act.

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

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

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

- Meals or refreshments provided in premises operated by or behalf of an employer to the employees that are available to all the employees on similar terms. Any discharge or reimbursement of costs incurred by the individual
 - That services the proper business purpose of the employer
 - That are or would otherwise be deductible in calculating the individual's income from any business or investment

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

- According to rule 6 of the Income Tax Rules, 1962 small expenses include expenses related to tea, stationery, gift, reward, emergency medical expenses and other expenses specified by IRD not exceeding Rs. 500 for one time.

2.3.2.3 Format

Computation of Assessable Income from Employment of

For the assessment year.....

Particulars	Amount	Amount
Payments of wages	(+)××××	
Payments of salary	(+)××××	
Leave pay	(+)××××	
Overtime pay	(+)××××	
Fees	(+)××××	
Commissions	(+)××××	
Prizes	(+)××××	
Gifts	(+)××××	
Bonuses and other facilities	(+)××××	
Payments of any personal allowance, including any cost of living, subsistence	(+)××××	
Rent	(+)××××	
Entertainment	(+)××××	
Transportation allowance;	(+)××××	
Payments providing any discharge or reimbursement of costs	(+)××××	
Payments for the individual's agreement to any conditions of the employment	(+)××××	
Payments for redundancy or loss or termination of the employment	(+)××××	
Retirement contributions	(+)××××	
Retirement fund in respect of the employee payments	(+)××××	
Other payments made in respect of the employment		
Other amounts		
Net (Assessable) income from remuneration	(+)××××	
	<u>(+)××××</u>	<u>(+)××××</u>

Statement of Total Taxable Income of

For the assessment year.....

Particulars	Amount	Amount
Assessable (Net) income from remuneration	(+) <u>xxxx</u>	
Assessable (Net) income from business	(+) <u>xxxx</u>	
Assessable (Net) income from investment	<u>(+)<u>xxxx</u></u>	
Total Income		(+) <u>xxxx</u>
Less: Common reductions		
Contribution to retirement fund		(-) <u>xxxx</u>
Less: Donation		
i. General Donation (5% of adjusted taxable income or Rs. 1,00,000 or actual whichever is less)	(-) <u>xxxx</u>	
ii. Special Donation (if any)	<u>(-)<u>xxxx</u></u>	
Total Donation		<u>(-)<u>xxxx</u></u>
Taxable Income		<u>(+)<u>xxxx</u></u>
Less: Exemption Limit		
(Rs. 1,15,000 for individual and Rs. 1,40,000 for couple or family)	(-) <u>xxxx</u>	
25% extra amount if it is pension income	(-) <u>xxxx</u>	
Remote area exemption (as per category of remoteness)	(-) <u>xxxx</u>	
Insurance premium of 7 & of insured amount or Rs. 1,000 or actual amount paid whichever is less)	(-) <u>xxxx</u>	
Total Exemptions		<u>(-)<u>xxxx</u></u>
Total taxable income for tax computation purpose		(+) <u>xxxx</u>

Computation of Tax Liability

Particulars	Amount	Amount
Total Tax Liability		
For first Rs. 75,000 @ 15%	(-)××××	
For more than Rs. 75,000 @ 25%	(-)××××	
Amount Payable		(-)××××
Total tax payable- last year's excess payment (if any)-		
Tax paid in advance – medical tax credit (15% of approved medical expenses or Rs. 750 whichever is less)		

2.3.3 Income from an Investment

2.3.3.1 Investment Income

- A person's income from an investment for an income-year is the person's profits and gains from conducting the investment for the year.
- There shall be included in calculating a person's profits and gains from conducting an investment for an income-year the following amounts derived by the person during the year:
 - any dividend, interest, natural resource payment, rent, royalty, gain from investment insurance, gain from an unapproved retirement fund interest, or retirement payment made by an approved retirement fund referred to in section 63 (1) derived in respect of the investment;
 - Net gains from the disposal of the person's non-business chargeable assets of the investment as calculated under Chapter 8;
 - The excess amount of incomings over the depreciation basis including outgoings on the disposal of depreciable assets of the investment of the person
 - Gifts received by the person in respect of the investment;

- Retirement contributions, including those paid to a retirement fund in respect of the person, and retirement payments in respect of the investment;
- Amounts derived as consideration for accepting a restriction on the capacity to conduct the investment;

2.3.3.2 Admissible expenses

- Interest
- Loss from investment or current loss of investment as well as business
- Depreciation
- Related expenses
- Repair and improvement expenses
- Donation
- Loss of business relating to previous year

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

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

2.3.3.4 Format

Computation of Assessable Income of.....

For the assessment year.....

Particulars	Amounts	Amounts
<u>Income from Investment</u>		
Dividend received(not related to resident)	(+)xxxx	
Gain from investment insurance(payments made by non-resident)	(+)xxxx	
Interest income (related to non-resident and business and having source in foreign countries)	(+)xxxx	
Royalty income		
Amount received in respect of an unapproved retirement fund paid by non-resident	(+)xxxx (+)xxxx	
Natural resource payment		
Rent	(+)xxxx	
Gain from investment insurance	(+)xxxx	
Gain from an unapproved retirement fund	(+)xxxx	
Net gains from the disposal of the non-business chargeable assets of the investment	(+)xxxx (+)xxxx	
Amounts derived as consideration for accepting a restriction on the capacity to conduct the investment	(+)xxxx	
Retirement contributions		
Gift received	(+)xxxx	
Gross Income	<u>(+)xxxx</u>	(+)xxxx
Less: Admissible expenses		
Interest expenses		
Repair and maintenance expenses	(+)xxxx	
Depreciation	(+)xxxx	
Business or investment loss	(+)xxxx	
Other expenses related to investment	(+)xxxx	
Total Admissible expenses	<u>(+)xxxx</u>	<u>(-)xxxx</u>
Net (Assessable from investment)		<u>(+)xxxx</u>

Statement of Total Taxable Income

For the assessment year.....

Particulars	Amount	Amount
Net (Assessable) income from business	(+)××××	
Net (Assessable) income from employment	(+)××××	
Net (Assessable) income from investment	<u>(+)××××</u>	
Total of assessable income		(+)××××
Less: <u>Common expenses</u>:		
Retirement fund (1/3 rd of assessable income or Rs. 3,00,000 or actual amount whichever is less)		
Less: <u>Donation</u>	(+)××××	
i. General Donation (Actual donated amount or 5% of adjusted taxable income or Rs.1,00,000, whichever is less)	(+)××××	
ii. Special donation (if any)	<u>(+)××××</u>	<u>(-)××××</u>
Total Taxable Income		<u>(+)××××</u>

Computation of Tax Liability

Particulars	Amount	Amount
Statutory exemption	Nil	
Exemption for remote area (Rs. 6000 to Rs. 30,000)	Nil	
Life Insurance Premium: (7% of insured sum or actual amount or Rs. 10,000 whichever is less)	Nil	
1 st Rs. 75,000 @ 15%	(+)××××	
Special fee @ 1.5% on 2 nd slab	(+)××××	
Less: Medical Tax credit	(+)××××	
Less: Advance Tax	<u>(+)××××</u>	
Total Tax Liabilities		(+)××××

2.3.4 Carry Forward and Backward of Losses (Section-20)

Carry Forward of Loss

- If a loss from any source of business cannot be set off during the year due to a lack of income from other sources of business or investment, it may be carried forward and set off against the income from business or investment of the subsequent years.
- If a loss from any source of investment cannot be set off during the year due to a lack of income from other sources of investment, it may be carried forward and set off against the income from the same investment or from other investment of the subsequent years (Section 20.2) (Added by Finance Act, 2064)
- Section 20 (1) is very much strict to allow only business losses and the investment losses to be carried forward. But options are given to set off the carried forward loss from the income of the subsequent years from the following sources:
 - Income from any business. It is not necessary that the income be from the same source in which the loss was incurred. It is also not necessary that the business in which the loss was incurred is running during the year. It means the loss will be available for set off in case the business running in a loss is closed during the year.
 - Income from investment.
 - Income from disposal of business assets (Section -36.10)
 - Income from disposal of non-business chargeable assets (Section- 36.2)
- The maximum period which a loss can be carried forward is seven years (four years before the amendment by FA, 2064) subsequent to the year of the loss. After that the loss is not allowed to be deducted.
- In case a loss is incurred by a unit engaged in the construction, operation and final hand over to Nepal Government of a project of a public infrastructure,

and in the construction of a power station, generation and transmission of power, one is allowed to carry forward the losses for the twelve years (seven year before the amendment by FA, 2064) subsequent years.

- In case a loss is incurred by an entity dealing in petroleum products as per Nepal Petroleum Act, 2040, the entity is allowed to carry forward the losses for the twelve subsequent years (as amended by Finance Ordinances and Act, 2061 to 2064)

Carry Backward of Losses

Losses of a banking company can be carried forward for four subsequent years but Section 59(2) has given an additional facility to carry back the losses for the preceding five years. The steps of set off or a loss from a banking business as specified by Section 20, 59(2) and Rule 19 are given hereunder:

Step -1: Carry forward the loss for four subsequent years and absorb the loss from the profits during the years.

Step – 2: In case there is an unabsorbed loss that can be settled against an outstanding provision created for bad or doubtful debts, the considered provision must have been created as per the Regulations of Nepal Rastra Bank and that was allowed as admissible expenses for the banking business.

Step – 3: The unabsorbed loss may be settled against the profit of the fifth preceding year from the year of loss. The loss could be settled up to the income during the fifth preceding year. Reassessment for the fifth preceding year is not recommended for the settlement but it is advisable to calculate a tax on the settled loss at the rate applicable against any other tax liability of the person or it is to be re funded under section 113 of the Act

Step – 4: continuous the process of step 3 until the total loss is absorbed against the available income during the fourth, third, second and first preceding years of the year of loss in the same order. The unabsorbed loss after step 4 is lost and not allowed to be deducted any more.

Set off, Carry Forward and Carry Backward of Loss

SN	Income Head	Set-off	Carry Forward	Carry Backward
1.	Employment	No	No	No
2.	Business, Industry, Profession and Vocation	Yes	Up to 7 Years	No
3.	Banking and General Insurance Business	Yes	4 Subsequent years	5 th Preceding year of the year of loss.
4.	Nepal Government of a project of a public infrastructure, and in the construction of a power station, Generation and Transmission of power	Yes	12 Subsequent years	No
5.	An entity dealing in petroleum products as per Nepal Petroleum Act, 2040	Yes	12 Subsequent years	No
6.	Investment	Yes	Yes	No

2.4 Tax Evasion and Avoidance

2.4.1 Tax Evasion

Tax evasion is the way of reducing tax liability by illegal means. “Action by the taxpayer which entails breaking the law and which moreover can be shown to have been taken with the intention of escaping payment of tax is generally regarded as tax evasion.

It is done through different ways:

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

Tax evasion is unethical, illegal and uneconomic activity. It is unethical because the activity of not paying tax is against moral ethics. It is illegal because the law does not permit to evade the tax. In the same way, it is uneconomic because it promotes black money, i.e. underground economy in a country. Such types of activities do not promote healthy economy I n a country. Basically, there are three types of effect o f tax evasion in the economy. They are:

- Loss of revenues to the state
- Redistribution of income which affects the efficiency of resource allocation in the economy, and
- Creating wrong statistics leading to errors in government policies.
- Evasion of income tax is also associated with the evasion of sales tax, excise duty, customs duty and son. Since the government imposes higher tax rate to fulfill the growing need of the revenues, it is the honest taxpayers that really bear the burden of tax. The evasion is a major problem to the government is developing countries.

There are several types of tax evasion:

- Unilateral (tax payer himself)
- Bilateral (with the connivance or assistance of government official)
- Trilateral (from the collusion of tax officers, tax auditors and taxpayers), and
- Multilateral (all parties from government to tax payers)

2.4.2 Tax Avoidance

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

2.5 Tax Administration and Official Document

Department (Section – 72)

- The Department is responsible for the implementation and administration of this Act.
- The following officers and other staff may be deputed in the Department-
 - A Director General;
 - Deputy Director Generals in the numbers as may be required, Chief Tax Administrators, Directors, Chief Tax Officers, Tax Officers and other Officers; and
 - Other staff.

Duties of Tax Officers

- To provide public circulars
- To notify the decision of extension of time to file income return (Sec. 98)
- To provide personal ruling (Se. 76)

- To serve a notice to the receiver of debtor (Section 108)
- To serve notice to agent of non –resident tax debtor (sec. 110)
- To provide permanent account number.

2.6 Offences

Offence of Failure to Pay Tax (Section-123)

Any person who without reasonable excuse fails to pay any tax on or before the date on which the tax is payable shall be liable on conviction to a fine of not less than Rs 5,000 and not more than Rs 30,000, or an imprisonment for a term of not less than one month and not more than three months, or both.

Offence of Making False or Misleading Statements (Section – 124)

A person who makes a statement to the Department that is false or misleading in a material particular, or omits from a statement made to the Department any matter or thing without which the statement is misleading in a material particular, shall be liable to a fine of not less than Rs 40,000 and not more than Rs 1,60,000, or an imprisonment for a term of not less than six months and not more than two years, or both.

Offence of Impeding and Coercing Tax Administration (Section – 125)

- A person who committing the following offences shall be liable to a fine of not less than Rs 5,000 and not more than Rs 20,000, or an imprisonment for a term of not less than one month and not more than three months, or both.
 - Obstructs an officer of the Department acting in the performance of duties under this Act;
 - Fails to comply with a notice under section 83; or
 - Otherwise impedes the enforcement of the Act,
- Any person who attempts to commit the offences referred to in subsection
 - Shall be liable to a half of the penalty mentioned in that subsection.

Investigation and Filing of Lawsuit (Section – 131)

- An Investigation of the lawsuit in respect of the offences that would be imposed on the penalty under this chapter shall be conducted by the prescribed officer and lawsuit shall be required to be filed with the concerned District Court within 35 days after completion of the investigation.
- The officer conducting investigation shall acquire an opinion of Government advocate

2.7 Returns of Income and Assessment

Returns of Income (Section – 96)

- Every person shall file at the place prescribed by the Department not later than three months after the end of each income-year a return of income for the year.
- A return of income shall be as follows:-
 - The person's assessable income for the year from each employment, business, and investment and the source of that income;
 - The person's taxable income for the year and the tax payable with respect to that income for the year;
- In the case of a foreign permanent establishment of a nonresident person situated in Nepal, the foreign permanent establishment's repatriated income for the year and the tax payable with respect to that income; and
- Any other information that the Department prescribes; be signed by the person or the manager and include a declaration that the return is complete, true, and accurate; and have attached to the return of income any statement provided to the person, any election and any other information that the Department prescribes. A person who, in return for a payment, prepares or assists in the preparation of a return of income or attachment to a return of

income of another person (other than as employee of the other person), shall be required to certify the following:-

- The first-mentioned person has examined the relevant documents of the other person maintained and
- The return or information correctly reflects the circumstances to which it relates.
- Where a person refuses to sign a return as required the person shall furnish the other person with a statement in writing of the reasons for the refusal.

Assessments (Section – 99)

- Where a person files a return of income for an income-year, an assessment is treated as made on the due date for filing the return of the tax payable by the person for the year, in the amount shown in the return and the amount of that tax still to be paid for the year being the amount shown in the return.
- Where a person fails to file a return of income for an income-year then, until such time as the return is filed, an assessment is treated as made on the due date for filing the return that the amount of tax payable by the person for the year is equal to the sum of any tax withheld from payments derived by the person during the year and any tax paid by the person by installment for the year and there is no tax payable on the assessment.

Jeopardy Assessments (Section – 100)

- Where a person is required to file a return of income for part of an income-year, shall apply.
- Where an assessment is made the following provisions shall apply:-
 - With respect to a full income-year, the assessed person shall not file a return of income for the year or
 - With respect to part of an income-year, the assessed person is still required to file a return of income for the year.

- Any tax paid on an assessment of the part of an income year shall be credited against the tax payable on an assessment made for the full income-year.
- The Department shall be required to grant an opportunity to produce proof, if any, in own favor while making an assessment under this section.

FA 2064 has amended Subsection (2) of section 100. The amended provision is as under:

In case a tax officer decides to make a jeopardy assessment of the taxpayer, it may don that but he should follow the instructions as stated in section 96 (2) (ka) (1), (2) and (3) and the procedure adopted by him should be justified.

FA, 2064 has made an amendment to section 2 (Dha). According to the amendment the general rate of interest chargeable shall be 10% per annum instead of 15% per annum as prescribed by the act.

In this chapter, wherever the rate of interest prescribed at 15% per annum for delay in payment of tax, for the year 2064- 65, the rate applicable shall be 10% only.

Amended Assessments (Section – 101)

- The Department may amend an assessment made or this section so as to adjust the assessed person's liability to tax in such manner as, according to the Department's best judgment, is consistent with the intention of this Act.
- The Department may amend an assessment according to the Department's best judgment for as many times as it thinks appropriate.
- The Department may amend an assessment at any time where the assessment is inaccurate by reason of fraud. Such amendment shall be required to make within a period of one year after the information of filling out the return and making an assessment by fraud is received.

- The Department may not amend an assessment if the assessment has been amended or reduced pursuant to an order of the Revenue Tribunal or a court of competent jurisdiction except where the order is reopened.
- While amending an assessment under this section, the Department shall be required to grant an opportunity in writing to produce proof, if any, in own favour with respect of the assessment, specifying the basis that led to the amendment and giving a time limit of 15 days.

Notice of Assessment (Section – 102)

Where the Department makes an assessment the Department shall be required to serve a written notice of the assessment on the person stating the following:-

A tax payable by the person and the tax still to be paid on the assessment for the income-year or period to which the assessment relates;

- The manner in which the assessment is calculated;
- The reasons why the Department has made the assessment;
- The date on which the tax still to be paid on the assessment is payable; and
- The time, place, and manner of objecting to the assessment.

2.8 General Limits for an Individual and Couple is Revised as Follows:-

2.8.1 General Limits for an Individual and a Couple

For resident natural person the tax exemption limit is given in the following table

Income Year	Individual	Couple
2058-59	65,000	85,000
2059-60	65,000	85,000
2060-61	80,000	100,000
2061-62	80,000	100,000
2062-63	100,000	125,000
2063-64	100,000	125,000
2064-65	115,000	140,000

2.8.2 Rates of Income Tax for Individual and Couples

Tax chargeable for 2064/65 has been presented bellow:-

Rate	Individual	Couples
Nil	115,000	140,000
15% on Next	85,000	85,000
25% on Next	Any Amount	Any Amount
1.5% of additional tax	On the last slab charging 25%	On the last slab charging 25%

2.9 Review of Articles, Reports and Books

2.9.1 Review of Articles

Kandel (2001) has published an article titled “Draft of income tax Act-2001, critical analysis.” on journal “**Rajoshwo**” Vol-1, 2001. He has criticized the ITA 2001 on several grounds. They are exemption of agricultural income from income tax, exports duties levied on exports, inequality between different capitals earned income (i.e. tax on interest dividend and capital gain), and withdrawal of exemption provision and adjustment for inflation. He further criticized the Act for the provision on income tax from exports as 0.5% of total export because it is not good choice of income tax base.

An article “Draft of Income Tax System and Its Reform in Nepal, as Descriptive Way” was published in journal “**Business Age**”-vol-1, 2001, written by “Govinda Bahadur Thapa”. In his article he has described the tax system, features of tax, and causes of reform of tax and areas of reform. He has criticized the tax system as too many and too high rates. Multiple objectives of taxes scheduler rather global approach to income taxation, too much income brackets and high progressively complicates and ambiguous tax laws. He further added, ‘tax was levied at the manufacturing rather than retail stage which added to the production cost. Too many tax incentives and tax holidays narrowed the tax base and revenue collection

had to be increased from that raising of tax rates. But the high tax rates encouraged tax avoidance and evasion and also gave birth to the unaccounted economy.'

He has identified the areas for reform the tax system in Nepal. They are; low rates on broad base, simplicity and neutrality, gradual abolition of exemptions, deductions and tax holidays to broad tax base few rates or single rate, few taxes with high revenue productivity, emphasis on tax compliance rather than coercive enforcement, incentives to saving and investment, conversion of sales and service taxes into VAT, excise duty only on cigarette, tobacco, alcohol, automobile, petroleum and surcharge and additional duty system to make the tax system simple, making the tax system internationally compatible to attract foreign investment.

Revenue Consultation Committee chaired by Bhoj Raj Ghimire, MOF/NG Nepal, 2001, has published a report on 2001; the committee has studied the overall taxation situation of Nepal. This report has suggested widening the income tax base by including all kinds of tax payers and income. It has also suggested finding out the tax payers of new sector for this. The report suggested making the Act more transparent and clear in order to attract foreign and domestic investors, for income taxation self assessment was fully recommended. The report has suggested that the exemption limit should be according to the purchasing power and inflation. It has also suggested implementing account base VAT more effectively. For small tax payers having up to Rs 2 million, tax collection should be used on their sell and purchase description.

Thapa, G.B (2002), wrote an article in Business Age entitle to "Tax System and It's Reforms in Nepal." In his article, he has explained why tax reform? What tax reforms are? According to him traditional tax system was characterized by too many and too high rates myriad of tax incentives and tax holidays according to

multiple objectives to taxes, scheduler rather than global approach to income taxation, too many income brackets and high progressively, complicated and ambiguous tax laws and by laws. The high tax rate encourages tax avoidance and evasion and also gave birth to the inaccurate economy. Tax system was to be made internationally compatible to attract foreign investment. According to him, before reform programmes was implemented in FY 1986/87, Nepal's tax system was almost administratively unmanageable interns of tax rate incentives, deduction, tax holidays etc. without much revenue being collected form them and revenue mobilization was stagnant to less than 10 percent of GDP. It was just 8.7 percent in FY 1985/86 before the reform program was introduced.

One important feature of the tax reform programme in Nepal has been that highest tax rates have been drastically reduced to minimum possible level without broadening the tax base. The efforts made by the government to broaden the tax base have been mostly quashed by the tax payers because broadening the tax base would entail the withdrawal of the tax incentives and tax holiday which would be disadvantageous to the tax payers. Thus they opposed and resisted the government's base broadening efforts. As a result, revenue mobilization through tax reforms could not be as buoy out as expect.

Thapa has criticized the old Income Tax Act, 2031. He has concluded that revenue collection has not been improved as expected after the reform of Income Tax Act, 2031 due to the lack of political commitment and the inefficiency of the tax administration.

He suggested that reforms of income tax through reduction in income tax bracket and marginal rate. Similarly, reforms of VAT through full-fledged VAT applied up to retail level.

Trephati (2006) has published an article titled “Aadhunik Kar Prasasan Ka Bibidh Pacchhyaharu” on journal “Rajoshwo”-2006,Jan-Feb, Vol-3. he has overviewed and explained the different aspect of income tax administration in his article. He further mentioned that, tax policy, tax law, tax objective or administration, organization, capable manpower, transparency, self assessment of income and its inspection, tax examination and research, up to date records of tax payers and the use of information technology, physical facilities etc are the different aspects of tax administration.

He has analyzed all the above mentioned aspects of modern tax administration detailed and he concludes that the modern tax administration is not functioning well because there is the lack of full implementation of tax law, lack of transparency in both tax payers and administrator, lack of adequate tax officers, frequent change in policy and laws, lack of adequate training to people working at tax offices etc.

He further concludes that, although there exists some defects in modern tax administration, it is improving its way of functioning, and he is hopeful to see the well functioning tax administration in near future.

Rai, (2006), An article titled “ Soyam Kar Nirdharan Ra Aaya Biberan” was published in journal “Rajoshwo”-2006,Feb, Vol-3. In his article he has described about the self assessment procedure of income tax provided by income tax Act-2002 (2058 B.S.). under this law every assessment will be treated as self assessment where person files return of income tax for an income year, an assessment is as made on the due date for filing the return of the tax payable by the person for the year and in the amount shown in the return and the amount of that tax still be paid for the year being the amount shown in the return. He has

mentioned about the types of income tax return, due date of filing income tax return, structure of income tax return, financial auditing and tax auditing.

And finally he concludes that to get the targeted percentage on GDP as assumed by tenth five year plan we should improve the existing income tax system and it is necessary to modernize the tax administration to implement income tax law effectively.

Adhakari (2006) has published an article titled “ Nepal Ko Kar Niti, Prasasan Ra Sanghatan Tatha Tesko Karyanoun Pachheya.” On the journal “**Rajoshwo**”- 2006, Apr-May, Vol-1. In his article he has tried to describe about the tax policy of Nepal, tax administration and implementation of tax policy in Nepal. He has described area of public finance, objective of tax policy in Nepal, results by improving income tax policy, shortcomings and challenges of tax policy etc.

In his article he has clearly mentioned about the policy reform in income tax and implementation of policy and its administrative aspects. And he has concluded that it is necessary to improve tax administration to implement tax policy and law correctly and then the well tax management can be done in the nation.

Bhandari, K.P (2007), wrote an article on Rajaswa entitled “ Rajaswa Prashasanna Sudhar: Sambhawana ra Chunautiharu.” In his article, Mr. Bhandari has explained why reforms are needed in revenue administration? He explained prospective and threats to reforms of revenue administration in detailed.

According to him, mobilization of revenue is very weak in our country. Revenue administration needs to be reform to bring all tax payers into tax circumference. Similarly, Collection of revenue is decreasing due to tax evasion and avoidance. If revenue administration is reformed, tax outstanding will be low. Bhandari has

explained that tax system should be scientific and simple. There should be political commitment and effective implementation of tax law to make administration strong. He suggested to reform in organization structure, Custom Duty, VAT, Income Tax and Excise Duty.

Dhakal, L. (2007), had written an article on “Kar Pranali Siddanta ra Rajaswa Aarjanma Yasko Bhumika” in Rajaswa. Dhakal has described the meaning of Taxation, objectives, principle of taxation system, cannon of taxation in theoretical base.

According to him, taxation helps to collect revenue. It helps in economic growth, investment promotion, opportunity of employment, distribution of equal income and economic stability through economical, social, political, infrastructural and technological development.

2.9.2 Review of Reports

Agrawal. G.R. (1978), presented a report to Ministry of finance entitled “Direct Tax Reforms in Nepal.” He has shown resource gap in Nepal was in increasing trend and dependency on foreign aid. He has shown an urgent need to mobilize addition resources form domestic resources by identifying the growth rate of direct taxes had lower than the growth rate of total revenue as well as total taxes. He strongly recommends a revenue service. Political and other pressure should not be subjected to tax administration. In addition to that he had stated that self assessment should be encourage, assessment of small taxpayer should be on a door- to- door basic., capital gains should be included in income for income tax purpose.

In his report, he has pointed out some problems about Nepalese income tax system which are as follows:-

- Tax officers did not like to make assessment on the basis of accounts where as taxpayers, did not like to prepare account for income tax purpose.
- The coverage of income tax payers should be assessed door-to door basis.
- Transfer for non-gazette officers should be made in every three years similarly he also suggested to self assessment by taxpayers, Effective taxpayer information system to be developed cost of living index, political and undesirable pressure in tax administration should be minimized.

Agrawal, G.R. (1981), CEDA published a research paper prepared by Govinda Ram Agrawal entitled “Domestic Resource Mobilization in Nepal: Paradoxes and Prospects.” This paper has concerned about domestic resource mobilization in Nepal. It has first discussed the various paradoxes that conforms Nepal act the domestic resource mobilization front. Then it has proceeded to suggest measures for improving domestic resource mobilization efforts. This paper has confined itself to public sector only.

According to Dr. Agrawal, the paradoxes that conforms Nepal at the resource mobilization have stated as follows:-

- Poor growth rate under conditions of rising development expenditure
- Excessive reliance on foreign aid under condition of impressive performance at domestic resource mobilization.
- Poor tax effort under condition of rising resource gap
- Increasing reliance on indirect taxes under conditions of growing pockets of affluence
- Poor performance of public sector enterprises under condition of rising investment.

He found that tax effort in Nepal has been low side. This has explained by the fact that agriculture which contributes two – third to GDP has largely remained outside the tax Net. Non-agricultural sectors which contributes the major share to the revenue of Nepal. He said that Nepal has presented a case of serious and growing resource gap in her finance. The gross resource gap (Expenditure- Revenue) has increased from Rs. 31. million in 1970- 71 to Rs. 1795 million in 1979/80 similarly Net resource gap (Gross resource gap- Foreign Aid) increased from Rs 7 million in 1970/70 to Rs. 453 million in 1979/80.

According to him, tax revenue in Nepal is largely derived from indirect taxes. Over the ten years period 1968/69-1977/98 the share of indirect taxes average 75 percent of total tax revenue. Direct taxes in Nepal are growing very slowly from Rs. 178 million in 1974/75 to Rs. 224 million in 1979/80. This indicates a growth rate of 4.8 percent at current prices. At constant price it represents a negative growth rate of 0.5 percent. The revenue from income tax decreased from Rs. 137 million in 1977/78 to Rs. 80 million in 1979/80. The revenue from land tax has been declining with a negative growth rate of 11 percent at constant prices over 1974/75- 1979/80 period. The use of direct tax handles has largely remained ineffective for resource mobilization in Nepal in urban centre pockets of affluence are clearly visible. However, persons with capacity to pay direct taxes have virtually remained out of the tax net.

Agrawal has showed broadly two viable policy options at domestic resource mobilization front:-

- a) Take necessary policy decisions to mobilize additional resources
 - i) Reforms in Direct Taxes through
 - Widening of direct tax net
 - Introduction of capital gain
 - Levy of urban property tax by town Panchayats

- Panchayat development land tax in rural areas
 - Professionalization of tax administration
- ii) Reform in Indirect Taxes through
- Introducing progressively in the rates of indirect taxes, specially the sales tax, high rates should be levied on luxury items and low rates on essential goods and services
 - Minimize anomalies in rates of custom duties for imports
 - Streamline rates of indirect taxes
- iii) Non Tax Revenue
- Proper attention is urgently needed in the areas of non-tax revenue for mobilizing resource.
- iv) Surplus from public enterprises
- Government must not open public enterprises for operative where the private sector is developed and performing well government must not perform the role of competitor to the private sector.
- b) Effective use of available resources through rationalization of her public expenditure programme

He concluded that domestic resource mobilization in Nepal has been confronted a number of paradox any policy designed to mobilize domestic resources must make careful consideration of the prevailing paradoxes.

Ghimire, B.R. (2001), Revenue Consultation Committee chaired by Bhoj Raj Ghimire, MOF/NG Nepal, 2001, has published a report on 2001; the committee has studied the overall taxation situation of Nepal. This report has suggested widening the income tax base by including all kinds of tax payers and income. It has also suggested finding out the tax payers of new sector for this. The report suggested making the Act more transparent and clear in order to attract foreign

and domestic investors, for income taxation self assessment was fully recommended. The report has suggested that the exemption limit should be according to the purchasing power and inflation. It has also suggested implementing account base VAT more effectively. For small tax payers having up to Rs 2 million, tax collection should be used on their sell and purchase description.

Dhakal, M.K. (2002), presented a report to Department of Economics Patan Multiple Campus entitled to “Improving Tax System in Nepal” Agenda for Reforms.” The primary objectives of this paper are to review the existing tax structure in Nepal Specially for the period in 1990/91-1992/2000 identifying sector development efforts with reference to government policies, strategies and priorities assess the extent of government programs and donor assistance, examine critical issues in taxation and recommend agenda for reforms to improve Nepal’s tax system.

According to him the over all revenue/GDP ratio(R/Y) or tax to be 11.7 percent of GDP is perhaps lowest in the world. The tax effort ratio went up marginally form 9.2 percent to 11.7 percent of GDP over a period of one decade between 1990/91 and 1999/00. Subsequently, the magnitude of total revenue increased form Rs. 10.7 billion to Rs. 42.9 billion in the same period. During the period 1990/91-1999/000 the tax to GDP ratio (T/Y) increased steadily form 7. Percent to 9.1 percent while the share of non-tax revenue in GDP has risen insignificantly form 2.2 percent to 2.7 percent of GDP.

He says Nepal’s tax structure is composed of three categories of revenue. The se are a) Direct taxes b) Indirect Taxes and c) No-tax revenue. The tax structure is heavily dominated by indirect taxes that still contribute three fifth of total revenue and three a fourth of tax revenue. The major components of direct taxes comprises

Income Tax house and Land rent tax , Interest tax and house and Land Registration Fees. The contribution of Income tax is highest in the group of direct taxes in the tax structure that is 1.9 percent of GDP 16.3 percent of total revenue, 21.1 percent of tax revenue.

According to Dhakal Nepal's tax system is circumscribed by serious structural constraints. The major constraint existing in the tax system is that it lacks simplicity and Transparency with extremely limited tax base, low tax elasticity, relatively higher tax rates, poor voluntary compliance, ineffective tax administration, growing arbitration in assessment, rigid and incomprehensive tax laws and regulation and numerous tax shelters, taxation in Nepal is yet attribute to negotiation resulting in rampant corruption. Tax avoidance, evasion and delinquency have also increased substantially over the years.

2.9.3 Review of Books

Marahatta, S.P. and Khatiwada, A.P. (1970), has published a book named "Fundamental of Nepalese Income Tax: With up to Date Financial Directives and regulations." In there book, they had presented the legal provisions relating to Income Tax Act 2020. But at present due to changes in laws, this book is not so beneficial to further study. They had emphasized on the legal provisions rather than analytical study they had not describe the problems of income tax system and contribution of income tax to national revenue, They were fully based on campus level syllabus.

Poudel, S.R. and Timilsina, P.P. (1990), has published a book named "Income Tax in Nepal". They had described the theoretical and practical aspect of income tax. They were based on T.U. syllabus. They were unable to describe the tax structure of Nepal and problems of income tax system.

Pradhananga, N.B. (1993), has presented a book of income tax named “Income Tax Law and Accounting”. In his book, he had described the provisions and law related to income taxation of Nepal. His book is formative rather than analytical. He had described method of income tax assessment with numerical examples but had not analyzed the major problems and defects of income tax and the role of income tax.

Khadka, R.B. (1994), has presented a book named “ Nepalese Taxation Path for Reform “. In his book he had described the economic policy of Nepal, VAT as a long term tax for Nepal income tax from a rough to a refined system, property taxes as the main source of local revenue, improving tax administration, tax reform strategy. He had shown the composition of tax revenue from 1950/51 to 1991/92.

In his book he had described the introduction development existing structure, main problems and possible direction of reform. He had identified the major problem of income tax as a narrow coverage, unscientific tax assessment, deviation from basics principle of income taxation, defective system from the perspective of international taxation. He had just only not identified the major problem of income tax but also had identified the possible direction for reform; they were extension of coverage, improvement in tax assessment, use of presumptive method, extension of withholding tax, inflation adjustment, introduction of current year payment basis, tax treaties with major trading partners of Nepal.

Similarly he had identified the major problems of tax administration. They were weak tax administration, imbalance and inadequate organization pattern, debatable scope of revenue investigation department, lack of adequate information system, lack of coherent tax policy, inadequate tax training, inadequate physical and other facilities.

His book is very useful to know the various aspect of income tax. Although, he had not mentioned the legal provisions relating to income tax and had not shown numerical illustrations so his book was analytical rather than descriptive.

Tiwari, N.R. (1994), has published a book named “Income Tax system in Nepal.” He had described the legal provisions relating to income tax. He had described the process, provisions and methods to assess the income tax with numerical examples. He was fully based on campus level syllabus. He had not shown the role of income tax in income tax system. His book was descriptive rather than analytical.

Ojha, P.K. (1994), has published a book named, Taxation Law” In his book, he had explained the difference act and law of income tax. He had taken many tax cases into consideration to describe the legal terms. His book may be beneficial to understand income tax law. But he had not analyzed the role of income tax.

Poudyal, K.B.(1998), has published a book named “Corporate Tax Planning in Nepal.” In his book he is based purely on aspects of income Tax act 1974 and industrial enterprises act 1982 and 1992 which grant various income tax incentives to the industrial units. He was related to the analysis of corporate income tax and its planning only. He had described corporate tax planning in respect of strategic planning, project planning and operations panning from which some Nepalese companies in general have been taking advantages of tax benefits. Some important suggestions which have emerged from the study are tax rebate to non-industrial companies set up in industrially backward areas. Partial exemption of export earnings , different tax rate for resident and non resident companies, provisions of interest on unpaid tax/refund, tax on capital gain, use of best judgment assessment in right prospective, tax incentives for revival of sick units and separate tax section

to be setup by companies. His book was very useful to know the idea about corporate tax planning.

Dhakal, K.D. (1999), has published a book named. “Income Tax and House and Compound Tax Law and Practice with VAT”. He had described the legal provision relating to income tax with numerical example. This book is very useful to know about the legal provisions on income Tax act 2031. He was fully based on the syllabus of BBS and MBS prescribed by TU. His book was informative rather than analytical. He had not analyzed the role of tax and the structure of income tax.

Adhikari, B. (2002), has published a book named. “Income Tax Law: Then and Now.” He had explained the legal provision of new income Tax Act 2058. He had also described the decision made by Supreme Court about the income tax. He had described the legal provision with critical analysis. His book was very useful to know the new Income Tax Act but had not analyzed the role of income tax and income tax structure.

Bhattacharya and Koirala (2005), has published a book named tax laws and tax planning. They had explained the legal provisions relating to Income Tax Act 2058 and Value Added Tax Act 2052 with illustrative examples. They have reviewed and emphasized important concept in boxes entitled note to remember and key terms are given at the end of the chapter. This book is very useful to know the idea of income Tax act 2058 and Value Added Tax 2052. It gives general ideas about tax planning.

Mallik, B. (2005), has published a book named “Modern Income Tax System of Nepal.” in his book he had described the legal provision relating to income tax. He had also described historical prospect, weakness of income Tax Act 2031, some

practical problems and different section of income Tax Act 2058. He has presented various section of ITA 2058 with examples. Although he presents new ITA 2058 with some numerical examples, he doesn't mention the role of income tax structure: he had not taken any empirical investigation.

Kandel, P.R. (2005), had published a book Named “Tax Laws & Tax Planning In Nepal”. This is based on government regulations and therefore, is a very timely work extremely helpful for the students of master and bachelor of business studies specializing in the area of accountancy. In this book historical background of tax with reference to Nepal is included. And legal provision provided by Income tax Act 2002 is clearly mentioned.

2.9.4 Review of Thesis

Pant (1996), has presented a dissertation named “A study on income tax management in Nepal” in 1996. in his research he has analyzed the situation of income tax management in Nepal at that time. He has also studied the administrative aspect of income tax in Nepal. In his research work he got the poor situation of tax administration, misuse of power by tax officers, lack of transparency between tax payers and tax officers etc. and he further concludes that large improvement should be done in income tax administration to develop effective income tax system in Nepal. This research study was based on income tax Act 2031. we can get the former scenario of income tax management before income tax Act 2002.

Khetry (1997), submitted a Ph.D. thesis entitled “Corporate Tax Planning in Nepal.” In 1997, this thesis report was aimed to examine the implications of tax factors in strategic planning, project planning and operational planning in Nepalese companies. He addressed that the tax planning should be considered while making corporate planning and so companies should set up separate tax

section to get maximum benefit of provision provided by tax law. However, tax assessment under best judgment blocked the applications of tax planning in corporate planning; he recommended that tax rate should be differentiated for resident and non resident companies.

Kandel (2000), has presented the Ph.D. thesis entitled “corporate tax system and investment behavior in Nepal.” In March 2000. he undertook the research work to find out the problems relating to corporate tax which blocks the development of private investments. The main objectives of his study were to evaluate the corporate tax system in general, to examine the sensitivity of certain policy like inflation, capital gain, dividend tax and interest tax etc. based on their impact on tax burden.

Shrestha, B. (2001), had presented a thesis, “Revenue Collection form Income Tax in Nepal, Problem and Prospects.” T.U. she had described the conceptual framework and legal provisions, structure of income tax in Nepal , income tax administration in Nepal, and empirical investigation and problems and prospects of income tax in Nepal Her findings about the tax structure were there was the domination share of tax revenue in Nepalese government revenue. But the contribution of tax revenue showed the decreasing trends it had contributed by 80.46 percent in 1984/85 on total revenue whereas the contribution had decreased to 77.46 percent in 1998/99/ The tax and GDP ratio of Nepal had fluctuated cyclically between 6.81 percent to 9.36 percent for the period of 1984/85 to 1998/99. There was the dominant role of indirect tax revenue such as 17.76 percent and 82.24 percent in 1984/85 of direct and indirect tax where as 26.14 percent and 73.86 percent in 1998/99 of direct tax and indirect tax respectively. The contribution of individual income tax was greatest and increasing year to year. The share of income tax from individual income tax was greatest and increasing year to year. The share of income tax from individual was Rs. 196 million in

1984/85 which increased to Rs. 27772.7 million in 1998/99. According to her, the problems of Nepalese income tax system were narrow coverage, mass poverty of Nepalese people, lack of conscious of taxpayers, wide spread evasion and avoidance of income tax, inefficient tax administration. She had also pointed out the various weak pints Nepalese tax administration.

Her suggestions about the income tax system were extension of tax coverage, minimizing the problems and weakness of tax administration, reform in income tax assessment and tax consciousness to people.

Lamsal, B.K. (2002), presented thesis on “A Study on Contribution of Income Tax on Government Revenue.” The main objective of his study was to analyze the impact of income tax evasion an government revenue of Nepal and give appropriate suggestion to improve the tax system. The objective of his study was i) To analyze the existing nature of the taxable income of Nepal ii) To examine the ways and cause of income tax evasion in Nepal iii) To estimate the volume and tendency of income tax evasion in small trade sector. In order to achieve objective of his study, has used both primary and secondary data. He has explained income tax for the economic development of Nepal has been increasing significantly in recent years as compare to past fifteen years but it does not mean that the share is that much satisfactory.

He recommended that there should be honest and efficient tax administration, tax payers should be highly literate. Up-to date record of existing as well as potential taxpayer should be kept at tax office. Programmes should be formulated to find out the new groups of income taxpayers.

Sigdal (2005), has presented a dissertation entitled “A Study on Income Tax Management in Nepal” in 2005. In his research work he has tried to identify the current situation of income tax management in Nepal. He has analyzed the ratio of income tax to total revenue of Nepal. He further mentioned that the ratio of income tax to total revenue is not satisfactory. And he recommends that the administration should try to increase effective public participation to minimize the income tax evasion. According to him Applying the following suggestions income tax evasion can be minimized.

- Increase the administrative efforts.
- Enforce heavy fines and penalties.
- Enforce to maintain proper accounts.
- Minimize illegal business activities.
- Revenue department should also manage properly to carry out the spying activities to find out the income tax evader. It should be coordinated with special police force and revenue investigation center.

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

He found that in Nepalese revenue structure, tax revenue has always been greater than three times of non-tax revenue. In 1994/95, out of total revenue of Rs.

24,605.20 millions, 79.90% i.e. Rs. 19,660.00 millions has been contributed by tax revenue. In 2003/04, 77.29% i.e. Rs. 48,173.00 million so total revenue has been collected as tax revenue on total revenue of Rs. 62,331.00 millions. According to his major findings from primary data, remuneration tax is contributing significantly to the income tax revenue of Nepal. Income tax evasion is being practice with hiding the situation of double employment condition.

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

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

Oli (2008), had been conducted a research in title contribution of income tax in government revenue of Nepal. His thesis was prepared as the requirement of partial fulfillment of master's degree under management faculty of Shanker Dev Campus. From this thesis, he identified what contribution portion was covered by income tax in government revenue as a research problem. To get are research's answers question the impact of income tax evasion an government revenue of Nepal and give appropriate suggestion to prove the tax system so that the government can collect more revenue and use it in the way of economic development of the country. To conduct the study, he a doubted the historical

research design, primary and secondary data used to get those data a questionnaire was developed and necessary tools and chart was applied for that research. From that research ,he reached in conclusion and say what is contribution portion of tax and non tax revenue in Nepal and its importance as well as what is the main factor in evasion of tax which was been lack of consciousness of tax and low tax paying habits etc.

Shrestha (2010), had been conducted a research in title contribution of income tax in government revenue of Nepal. His thesis was prepared as the requirement of partial fulfillment of master's degree under management faculty of management T.U., in his thesis he has analyzed the contribution % of income tax to national revenue and GDP. And got the conclusion that the contribution % of income tax to national revenue and GDP is very low. And recommended that, to increase the contribution tax policy and tax administration should me corrected.

2.10 Research Gap

Although, different individual and institution have studied on the income taxation of Nepal yet they all are concentrated mostly in administrative aspects, historical aspects, tax structure, exemptions deductions concession, problems of income tax in Nepal and legal provision etc. But no one has given detailed information and analysis of Implementation Scenario of Income Tax in Perspective of Nepal and it importance areas to reforms. Many researchers have conducted their research on reforms but that is not suitable for existing environment. Now, economy has globalized. Nepal has got a member of WTO. So the old research may not fulfill the norms and regulation of liberalization and globalization. Mostly the previous researches have been conducted reference with the old income tax act. They have great role in those days for the proper and effective evaluation of the resources. But earlier studies have become old and need to be updated and validated because

of rapid changes taking place in various income tax related act and laws. So, we get the research gap among the research handled based on the various changed act. Therefore, this study will identify the recent implementation scenario of income tax in Nepal and reforms in income tax system. It also gives appropriate suggestion for reformation and effective implementation of income tax in coming years. This study has based on the primary sources of data as well as secondary sources of data. The primary sources of data have been acquired from the questionnaire to the tax payers', tax experts' and tax administrators' opinion. Eventually, the researcher believes that it is virgin and unique field.

CHAPTER – III

RESEARCH METHODOLOGY

This chapter is concern to a detailed discussion of the methodology used in this study by covering the procedure of getting research problems answers as per the objectives. There are six parts as research design, population sampling, sources of data and information, procedure of data collection.

3.1 Research Design

The research topic entitled ‘Implementation of income tax in Nepal’ based on various rules, regulation and acts which are always setting on different country’s own socio-economic infrastructure. So, descriptive research design is more suitable to understand Nepalese corporate income tax system for first part of this study. For contribution part, study need to require it’s past performance in different time period with respective indicators. As historical as well as descriptive research design is used.

3.2 Population and Sampling

All amounts quantity and units or universe or whole things of topic are said to be population. So this concept of population, whole corporate income tax and corporate tax laws, rules, regulation, of Nepal is its population for first part. For contribution parts, recorded data of about corporate taxation are also at population. Corporate income tax is taken as size. The population for primary belonging to income tax of Nepal. 60- Sample size is selected from three different groups of respondents. The following table shows the group of respondents and sample size.

Population and Sample

S.N	Group of Respondents	Sample Size
1.	Tax administrator	20
2.	Tax expert	20
3	Tax payer	20
Total		60

3.3 Sources of Data

According to nature of study, the study requires primary as well as secondary data. Primary data and information have been collected through administrating was distributed to all respondents. Tax administrators are selected from tax department and various sector of tax officers. Tax experts are the chartered Accountant, auditors, high post official etc. tax payers are selected representing various sector i.e. manufacturing company, trading company, industries, private banks, finance company, travel & tours, school, consultancy firm etc.

Secondary data were annual report of IRD/N like Annual report of IRD/N income tax act, 2058, IRD/N's& NRB's timely bulletin etc.

3.4 Data and information Collection Procedure

About corporate income tax information are based on corresponding tax laws. So, firstly detail analysis is conducted to address this study's problem and corresponding objectives then studied tax laws, rules, regulations, and policies according to its study's requirements .secondly ,after not finding or getting and confusing these things ,then, go to consult related fields like, IRD/N,NRB, FOM, security board of Nepal, CBS, library of different places, related persons etc. Lastly, various journals, national newspapers are also reviewed. Respective parties are consulted while analyzing the research questions.

3.5 Presentation and Analytical Tools

Various tools are applied while conducting this study which is table, percentage, correlation, time series analysis.

Table

Table is a tool which presents to given data according to its nature. From where, everybody gets data and information easily and clearly as requirement

Percentage

If all amount or parts convened into 100 is called percentage which is very important of every human life .if we use its , we will be successful to reach our goals more simply then other. Percentage is computation as follows.

$$\text{Percentage} = \frac{\text{One Part of Whole}}{\text{Whole Part}} \times 100\%$$

Chart Line & Trend Line

Chart means a drawing figure which also represents data in linear form. Charts are various like, pie chart, histogram, trend line etc but these tools are used for this purpose.

Correlation

Correlation may be defined as the degree of linear relationship between two are more variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. Correlation analysis is defines as the statistical technique which measure the variables which lie between ± 1 .if the value of correlation (r) is nearer to +1, this relationship is said to be perfectly positively correlated and vice- versa. We can compute the correlation simply by using direct method.

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where , N = no. of observation

X= variable

Y = variable

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Government Revenue Structure in Nepal

Government of any country of the world needs adequate budget for the development activities, operation of administration, maintaining peace and security and other public welfare activities. The required budget is collected from various sources. Generally, the revenue collected by the government from various sources is known as public revenue or public receipt or national revenue or national exchequer.

Nepal has been collecting its revenue from different sources. The structure of the government revenue in Nepal is the composition of tax revenue and non-tax revenue. Tax revenue includes various direct taxes as well as indirect taxes. A direct tax includes income tax, property tax, land revenue and others. An indirect is the composition of customs, excise, sales tax/VAT and others. On the other hand, non-tax revenue is the composition of various receipts from different government entities in the form of fees, fines and penalties etc. The government revenue is therefore, the combination of tax revenue and non-tax revenue consisting various sources.

Mostly, incomes of the government are custom duty, excise duty and sale tax or VAT of indirect tax group. Custom duties consist of export, import, Indian excise refund and miscellaneous. The excise duty is the imposition of tax on liquor production, tobacco production and other industrial production. The other indirect taxes, which are also important in government revenue, are contract tax, hotel tax, entertainment tax and air flight tax. Land revenue is the type of direct tax, which includes development and land tax. The income tax is directly imposed upon the

individuals' and organizations income or profit. Income tax is the composition of income or profit of public enterprises semi-public enterprises, private corporate bodies, individual and remuneration. The house and land registration is also the part of direct tax.

Non-tax revenue of the government includes various registration fees, income from sale of government services and product, Dividend received royalties, principal and interest received and miscellaneous. The registration fees include firm registration, vehicle registration, and license registration and so on. Water charge, electricity charge, telephone charge, post services, income from education, Income from food, agriculture and income from transportation are the major factors of sales of government services and products. Government receives dividends from financial institutions, trading companies, industrial enterprises and service-oriented organizations. Similarly, royalty from mine is also the non-tax revenue of the government.

4.2 Contribution of Tax Revenue and Non Tax Revenue in Total Revenue

National exchequer is the composition of tax revenue and non –tax revenue. Tax revenue has also direct tax and indirect taxes. Customs, excise duty, sales tax/VAT and other miscellaneous are the main revenue items of indirect tax revenue. Direct tax, however, is the composition of income tax, land tax, property tax, interest tax and other direct taxes. Non tax revenue of the government is also important revenue source that includes different types of fees, shares, dividend, royalty and principal with interest from companies and corporations. Sale of fixed assets and mint are also components of non tax revenue. Table 4.1 shows the comparison between tax revenue and non tax revenue collection.

Table 4.1

Contribution of Tax Revenue and Non tax revenue in Total Revenue

(Rs in Million)

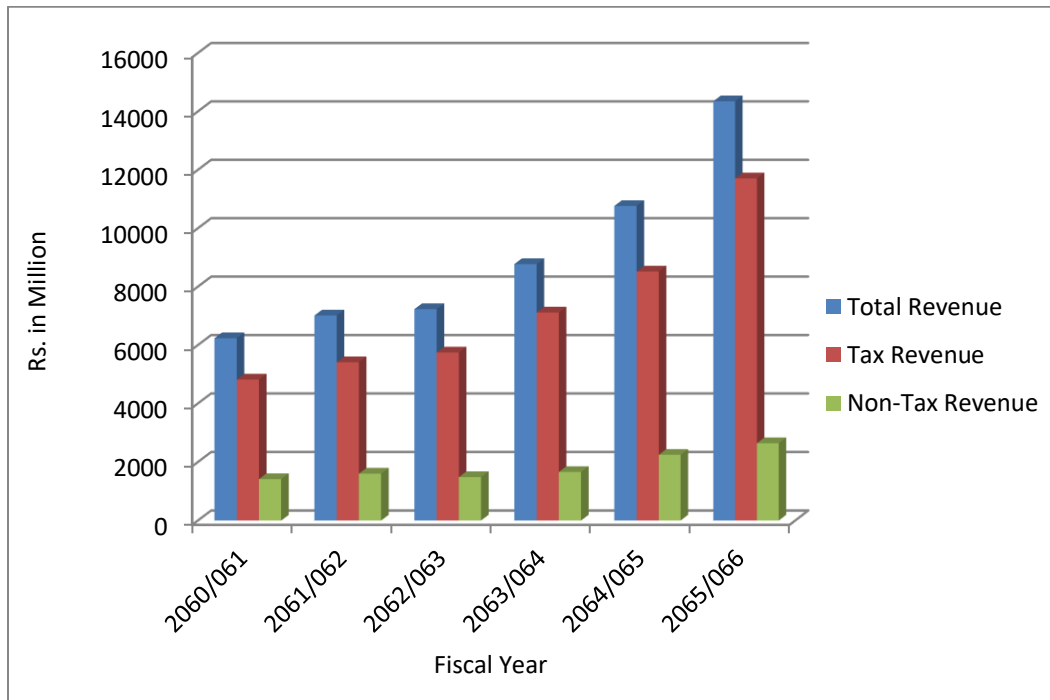
Fiscal Year	Total Revenue	Tax Revenue	%	Non-Tax Revenue	%
2060/061	6233.10	4817.30	77.28	1415.80	22.72
2061/062	7012.27	5410.47	77.15	1601.80	22.85
2062/063	7228.21	5743.04	79.45	1485.16	20.55
2063/064	8771.21	7112.7	81.09	1658.55	18.91
2064/065	10761.81	8515.55	79.12	2246.26	20.87
2065/066	14347.42	11705.16	81.58	2642.26	18.41
Average	-	-	79.27	-	20.71

Source:

1. *Quarterly economic bulletin (2008) No.3, NRB.*
2. *Economic Survey 2064/065 and 2065/066 MOF.*

Figure 4.1

Contribution of Tax Revenue and Non Tax revenue in Total Revenue



As shown in table 4.1 tax revenue contributed more than 75% in the total revenue realization. In the fiscal year 2060/061, It was 77.28%. In the fiscal year 2061/062 it was 77.15%. the ratio of non tax revenue collection in the fiscal year 2063/064 , 2064/065 and 2065/066 were 18.91% , 20.87% and 18.41% respectively which were relatively very low than tax revenue realization.

The analytical comparison thus showed that the tax revenue is contributing more than that of non tax revenue. Tax revenue decreased to 77.15% the lowest in the fiscal year 2061/2062, when the non tax revenue was realized 22.85% highest realization rate in the same fiscal year. This analysis also showed the average revenue collection through tax revenue contribution of tax revenue was 79.27% where as the contribution made by non tax revenue 20.71%. This interpretation is also understood through the given chart No.4.1 which visualizes the same matter.

4.3 Income Tax Structure in Nepal

Income tax is levied on net taxable income. This means that not all incomes accrued from sources brought in to the income tax net are taxable. Individual as well as organization having taxable income pay tax. Both are persons as mentioned by income Tax Act, 2002. The tax levied upon individual is known personal income tax whereas income tax levied to organization is called corporate Tax. The government, therefore, imposes income tax upon the person (individuals, firms and companies) earning taxable incomes without direct benefit to them.

Income tax Act, 2002 has clearly defined the related terms. It has defined the tax head for computation of tax liabilities. According to this law, three income headings including various receipts are mentioned as follows:

1. Income from Business

This head of income includes income and profit from industry, business, profession and from other business transactions, professional fees, service fees, sales proceeds of business stocks, amount received from disposal of business assets and liabilities, proceeds from disposal of depreciable assets, business gifts receipts from business restriction and receipts of amount from directly related to business.

2. Income from Employment

This head of income includes various receipts. They are wages, salaries, allowances, fees, commission, award, gift, bonus and other facilities. The other facilities include additional payments for Dashain, housing facility, vehicle facility and telephone facility and so on. Similarly, dearness allowance, house rent, entertainment, transportation and cost of living expenses are also the remuneration incomes of employee. Besides these, receipts made in agreement of doing job and any receipts in retirement such as retirement contribution and other amount prescribed by income tax act are the subject of tax.

3. Income from Investment

The third head of income is investment income, which includes various income received by investing assets in any business sector. They are dividend, interest, rent receipts, receipts from investment, insurance, gain from unrecognized retirement fund. It also includes proceeds from sale of non-business assets.

Capital gains from disposal of depreciable assets, gifts received in relation with investment, amount received in the acceptance of restriction of investment and others.

Thus taxable income is the composition of above mentioned various income sources. Income tax is divided into two types in broad sense *viz.* personal income tax and corporate income tax. Both have different income sources. Corporate tax is a composition of three tax payers. They are govt. enterprises, public limited company and private limited company. Individual income tax includes income tax from remuneration, industries, trade and profession of individual. Besides these, rent and interest taxes are also included in income tax.

4.4 Role of Income tax in National Economy

Economic development of a country depends upon the structure of taxation. The tax structure of a country is constituted from its levels of taxation and rate of growth through changes in individual elements. Tax structure is very important for those countries whose government outlay increasing faster than tax revenue. The resource gap in Nepal is increasing so the need is urgent to mobilize additional resources from domestic sources. Income tax can take an important role in economic development of Nepal by mobilizing resources through domestic sources. It is looked upon as a powerful tool in the hands of government for raising the revenue. It is reliable tool to achieve the objectives of growth, equity and stabilization. Income taxes bridge the gap of disparity of income. It checks the inequality between high and low income groups imposing higher income tax to rich people and lower tax to the poor.

Income tax solves the problem of inflation, which is one of the great problems in the economic development of Nepal. Because of inflation, development activities cannot be performed according to budgeted revenue. It poses developmental raw material expensive and actual cost becomes higher than the budgeted cost (Jha, 1984).

The objectives of revenue collection is not only the finance growing expenditure, but to achieve other goals, like social justice, balance regional development and distributive motives etc. for this purpose, the direct tax basically income tax is assumed as best weapon. Income tax also considers the 'ability to pay'. Hence income tax is pushed up as the effective instrument for development, stability and equality in the developing countries.

The share of income tax to the GDP is very significant. It contributes only 3.03% to GDP in fiscal year 2001/2002. The no of taxpayers in the total population is also very low with respect to developed country. In U.S.A. 30 to 40 % people are under the portfolio of income tax and in UK 70 % of GDP are contributed by direct tax.

4.5 Role of Income tax in Total Revenue

Table 4.2 shows that income tax contributed around 16.86% to total revenue, In fiscal year 2060/061 the total revenue Rs 6233.10 million and it was raised to Rs 9182.32 million in the fiscal year 2064/065. Total revenue increased 1.47 times during last 6 year's period, from Rs 6233.10 millions in fiscal year 2060/061 to Rs 14347.42 million in fiscal year 2065/066. Similarly income tax increases by 1.64 times in the same period from Rs. 1051.51 million to Rs 2909.74 Million. Average contribution rate of income tax to total revenue is 17.88 % during last 5 years.

Table 4.2
Income Tax / Total Revenue Ratio

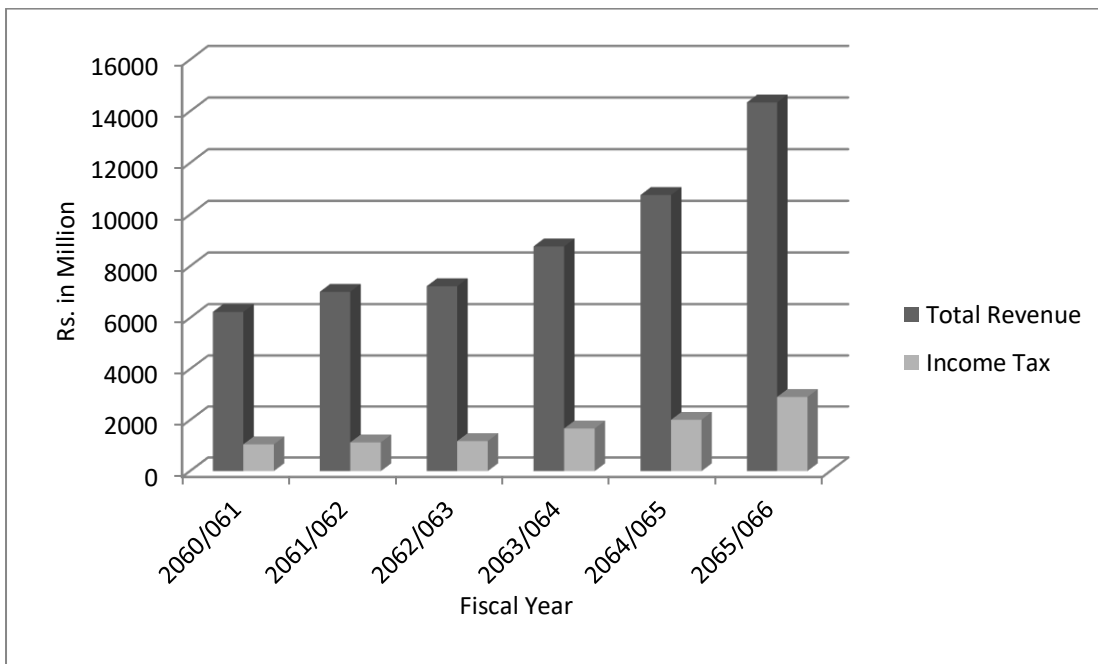
(Rs in Million)

Fiscal Year	Total Revenue	Income Tax	Income tax as% of Total Revenue
2060/061	6233.10	1051.51	16.86
2061/062	7012.27	1127.26	16.07
2062/063	7228.21	1178.70	16.30
2063/064	8771.21	1672.7	19.07
2064/065	10761.81	2014.70	18.72
2065/066	14347.42	2909.74	20.28
Average	-	-	17.88

Source: Economic survey of various year and budget speeches- Ministry of Finance, N G, Nepal, Annual report of various years, Inland Revenue Department, Nepal.

It will be clear from following figure:

Figure 4.2
Income Tax / Total Revenue Ratio



4.6 Role of Income Tax in Total Tax Revenue

Table 4.3 shows the figure of income tax, and total tax during last 5 years. Income tax covers 21.94 % share of total tax revenue in an average. The contribution ratio of income tax to total tax is fluctuating it was 20.83%, 20.52%, 23.51%, 23.03% respectively in fiscal year 2061/062,2062/063, 2063/064, 2064/065, 2065/066.

Table 4.3
Role of Income Tax in Total Tax Revenue

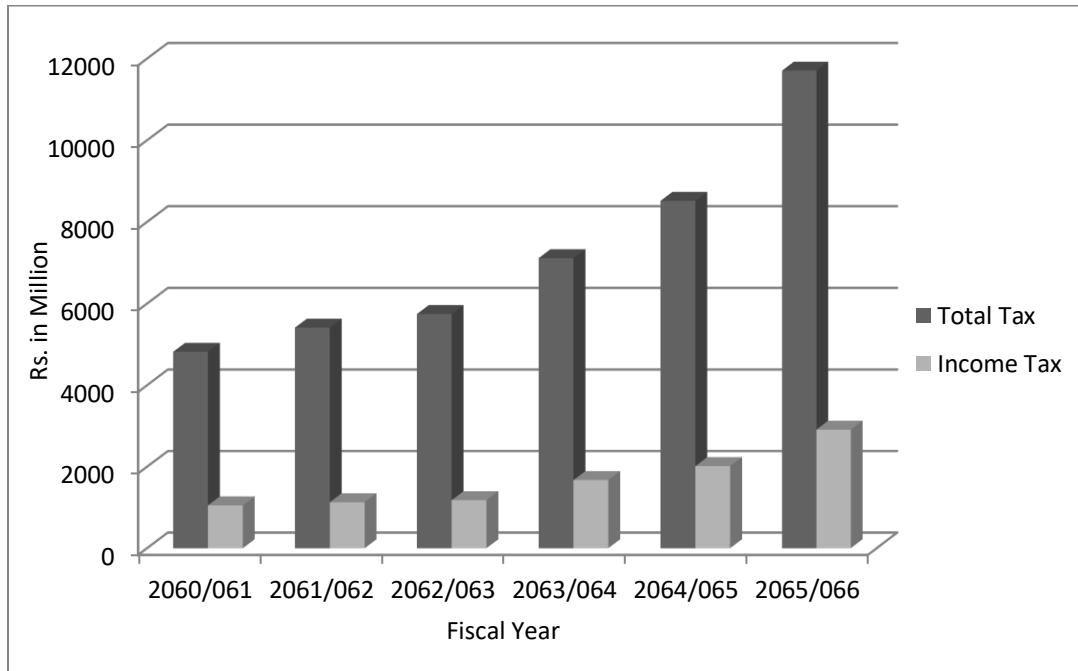
(Rs in million)

Fiscal Year	Total Tax	Income Tax	% of Income Tax
2060/061	4817.30	1051.51	21.81
2061/062	5410.47	1127.26	20.83
2062/063	5743.04	1178.70	20.52
2063/064	7112.7	1672.7	23.51
2064/065	8515.55	2014.70	23.65
2065/066	11705.19	2909.74	24.85
Average			22.52

Source: Economic survey of various year and budget speeches- Ministry of Finance, N G, Nepal, Annual report of various years, Inland Revenue Department Nepal.

Following figure clearly shows the above analysis:

Figure 4.3
Role of Income Tax in Total Tax Revenue



4.7 Contribution of Income Tax and Total Tax to GDP

The contribution of total tax revenue on GDP (gross Domestic product) is increasing and satisfactory. In 2060/061, the share of total tax revenue was only 9.62% of which was increasing to 10.52% in 2063/064 within the tax revenue, there is a significant role of indirect tax that contributes about three folds more than the direct tax was 6.16% and 1.29% respectively which have increased to 9.97% and 14.60% in 2065/0666.

The contribution of income tax on GDP is increasing gradually. It had contributed 2.10% in 2060/061, which was increasing to 3.63% in 2065/066, it was 2.055% in 2061/062. Within direct tax; income tax is in the leading role at now table 4.4 shows that the contribution of income tax and total tax to GDP.

Table 4.4

Contribution of Total Tax and Income Tax Revenue to GDP

(Rs. In Million)

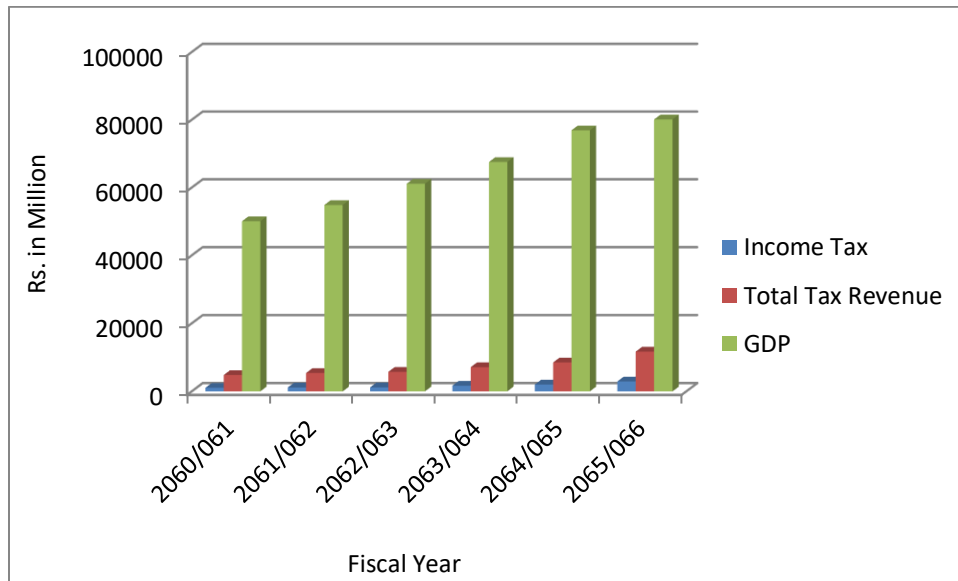
Fiscal Year	Income Tax	Total Tax Revenue	GDP	Income Tax as % of GDP	Total Tax as % of GDP
2060/061	1051.51	4817.30	50069.91	2.10	9.62
2061/062	1127.26	5410.47	54848.47	2.055	9.86
2062/063	1178.70	5743.04	61108.85	1.92	9.39
2063/064	1672.7	7112.7	67548.40	2.47	10.52
2064/065	2014.70	8515.55	76883.18	2.25	9.77
2065/066	2909.74	11705.19	80126.43	3.63	14.60

Source: Economic survey and budget speech of various years, MOF / NG.

Following figure is prepared to clarify the above analysis:

Figure 4.4

Contribution of Total Tax and Income Tax Revenue to GDP



Source: Table 4.4

4.8 Contribution of Individual Taxpayers to Total Tax of Nepal

To analyze the contribution of individual income tax to total tax of Nepal, income tax from individual and income tax from remuneration are taken.

Table 4.5

Contribution of Individual Tax Payers to Total Tax of Nepal

(Rs in million)

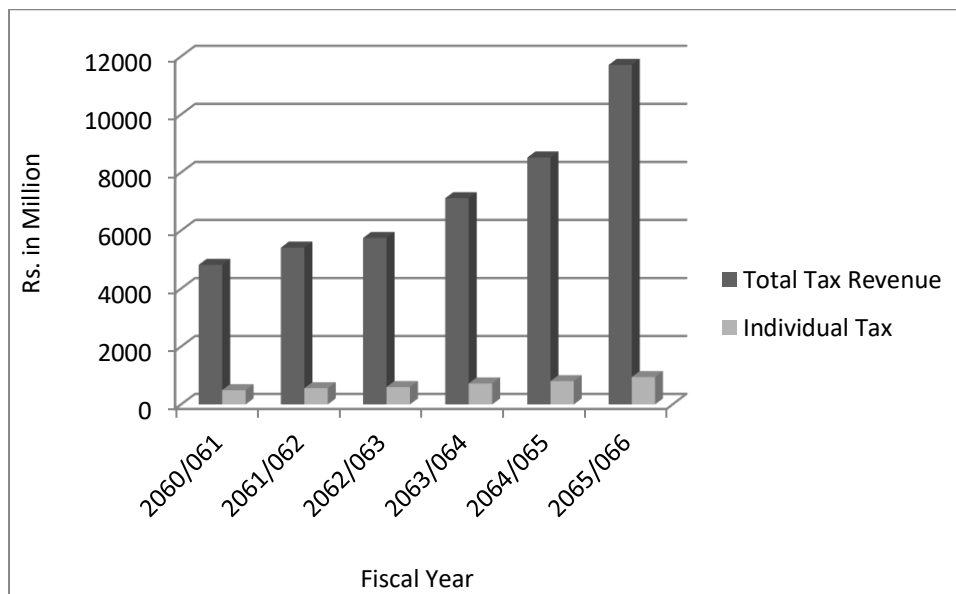
Fiscal Year	Total Tax Revenue	Individual Tax	%of Total Tax
2060/061	4817.30	492.46	10.22
2061/062	5410.47	560.22	10.35
2062/063	5743.04	599.88	10.44
2063/064	7112.7	724.23	10.18
2064/065	8515.55	805.15	9.45
2065/066	11705.19	945.23	8.07
Average	-	-	9.78

Source: Economic Survey.

In the above table contribution of individual income tax to total tax revenue is in increasing trend. It was 10.22% in fiscal year 2060/061, 10.35% in 2061/062, 10.44% in 2062/063, 10.18% in 2063/064, 9.45% in 2064/065 and 9.45% in fiscal year 2065/066. Average contribution of individual income tax to total tax revenue is 9.78%. Following trend line clarifies the increasing trend:

Figure 4.5

Contribution of Individual Tax Payers to Total Tax of Nepal



4.9 Contribution of Individual Tax Payers to Total Income Tax

Income tax from individual and income tax from remuneration is considered as Individual Income Tax. Contribution of individual income tax to total income tax is presented in following table 4.6.

Table 4.6
Contribution of Individual Tax Payers to Total Income Tax

(Rs in million)

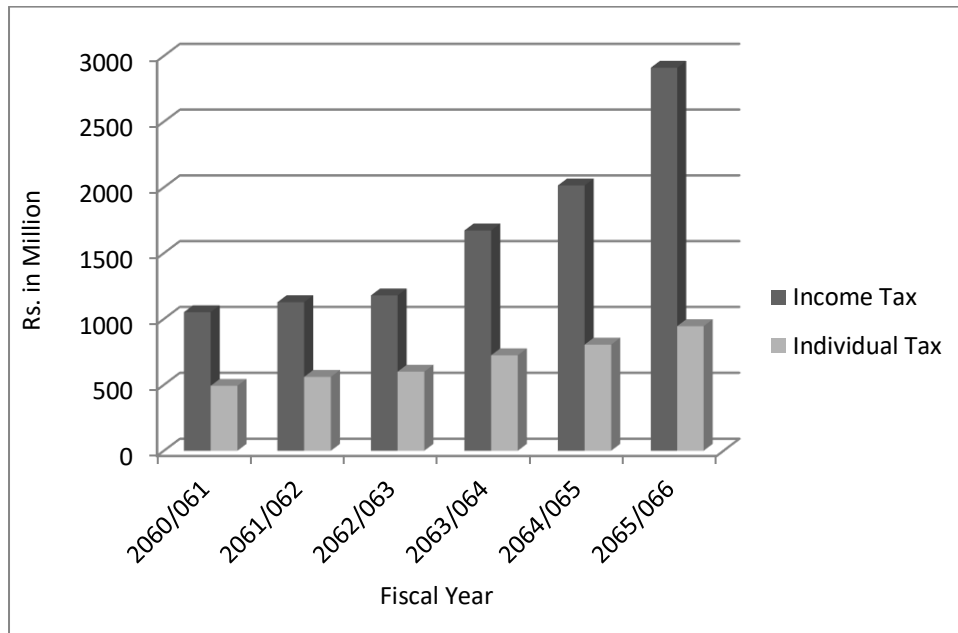
Fiscal Year	Income Tax	Individual Tax	%of Total tax
2060/061	1051.51	492.46	46.85
2061/062	1127.26	560.22	49.69
2062/063	1178.70	599.88	50.89
2063/064	1672.7	724.23	43.29
2064/065	2014.70	805.15	39.96
2065/066	2909.74	945.23	32.48
Average	-		43.86

Source: Economic Survey 2064/065

From the above table it is clear that contribution of individual income tax to total income tax is in fluctuating trend. It was 46.85% in fiscal year 2060/061, 49.69% in fiscal year 2061/062, 50.89%, 43.29%, 32.48% in fiscal year 2062/063, 2063/064, 2064/065 and 32.48% in 2065/066 respectively. And average contribution is 43.86%. Following figure clears the above analysis.

Figure 4.6

Contribution of Individual Tax Payers to Total Income Tax



Source: Table 4.6

4.10 Contribution of Individual tax Payers to Direct tax

Contribution of individual income tax to direct tax is presented in table no 4.7

Table 4.7

Contribution of Individual tax Payers to Direct tax

Fiscal Year	Direct Tax	Individual Tax	%of Total tax
2060/061	1121.27	492.46	43.91
2061/062	1225.18	560.22	45.72
2062/063	1089.64	599.88	55.05
2063/064	1898.02	724.23	38.15
2064/065	2308.77	805.15	34.87
2065/066	2564.34	945.23	36.86
Average		-	42.42

Source: Economic Survey 2064/065

In the above table the contribution of individual tax payers to direct tax revenue is shown where the average contribution % of individual income tax payers to Direct

tax is 42.42%. Contribution of individual income tax payers to direct is in fluctuating trend. It was 43.91% in fiscal year 2060/061, increased to 45.72% in fiscal year 2061/062, 55.05% in fiscal year 2062/063, again decreased to 38.15% in fiscal year 2063/064, and the contribution is 34.87% in fiscal year 2064/065 and 36.86% in fiscal year 2065/066.

4.11 Presentation and Analysis of Primary Data

4.11.1 Implementation of Income Tax in Nepal

The question was developed to know the opinions of respondents regarding Tax Administration for effective implementation. The questionnaire was “**What do you think about Tax Administration for Effective Implementation of Income Tax in Nepal?**” The respondents view has been presented in Table 4.8 as below:

Table 4.8

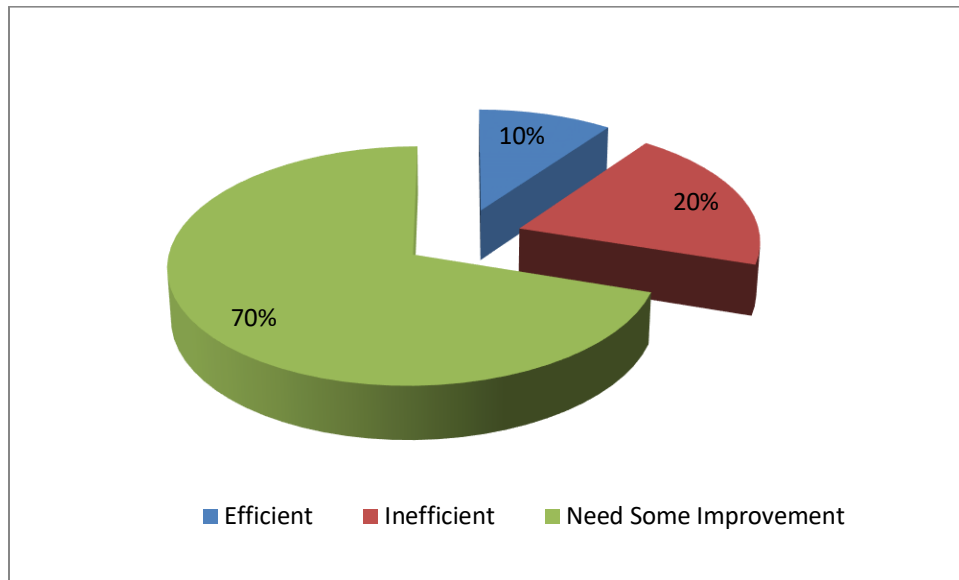
Tax Administration for Implementation of Income Tax in Nepal

Groups of Respondents	Efficient		Inefficient		Need Some Improvement		Total	
	Points	%	Points	%	Points	%	Points	%
Tax Payers	1	3.33	10	33.33	19	63.34	30	100
Tax Administrators	6	20	1	3.33	23	76.67	30	100
Tax Experts	2	6.67	7	23.33	21	70	30	100
Total	9	10	18	20	63	70	90	100

Source: Opinion Survey

Figure 4.7

Opinion of respondents has been presented in Pie – Chart



From the above Table 4.8, 3.33% of the tax payers, 20 percent of the tax administrators and 6.67 percent of the tax experts have viewed that Tax Administration of Nepal is efficient. 33.33 percent of tax payers, 3.33 percent of tax administrators and 23.33 percent of tax experts opined tax administration in Nepal is inefficient. Similarly, 63.34 percent of tax payers and 76.67 percent of tax administrators and 70 percent of tax experts emphasized on need some improvement of income tax administration in Nepal.

Out of the total respondents, 10 percent has viewed tax administration in Nepal is efficient, 20 percent of the respondents viewed inefficient and 70 percent opined that tax administration needs some improvement in Nepal.

Hence, it can be concluded that tax administration in Nepal is inefficient. So it needs some improvement in Tax Administration for effective implementation of Income Tax in Nepal.

Hypothesis Test:-1

Here, hypothesis has to be tested regarding tax administration for implementation of income tax in Nepal. This has been tested as “**There is no significant difference between the responding groups regarding with Tax Administration in Nepal**” which can be systematically stated as follows:-

Null Hypotheses (H₀): There is no significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with the Income Tax Administration in Nepal.

Alternative Hypotheses (H₁): There is significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with the Income Tax Administration in Nepal.

Observed Frequency Table

Groups of Respondents	Efficient		Inefficient		Need Some Improvement		Total	
	Points	%	Points	%	Points	%	Points	%
Tax Payers	1	3.33	10	33.33	19	63.34	30	100
Tax Administrators	6	20	1	3.33	23	76.67	30	100
Tax Experts	2	6.67	7	23.33	21	70	30	100
Total	9	10	18	20	63	70	90	100

Source: Opinion Survey

Expected Frequency Table

Groups of Respondents	Efficient		Inefficient		Need Some Improvement		Total	
	Points	%	Points	%	Points	%	Points	%
Tax Payers	3	10	6	20	21	70	30	100
Tax Administrators	3	10	6	20	21	70	30	100
Tax Experts	3	10	6	20	21	70	30	100
Total	9	10	18	20	63	70	90	100

Difference Table is:

O_f	E_f	(O_f - E_f)	(O_f - E_f)²/E_f
1	3	-2	1.3333
6	3	3	3
2	3	-1	0.3333
10	6	4	2.6667
1	6	-5	4.1667
7	6	1	0.1667
19	21	2	0.1905
23	21	2	0.1904
21	21	0	0
$\chi^2 = \frac{\sum (O_f - E_f)^2}{E_f}$			12.048

Test Static: Under **H₀**, the test statistic is

$$\chi^2 = \frac{\sum (O_f - E_f)^2}{E_f}$$

Where,

E_f = Expected frequency

O_f = Observed frequency

Calculated

$$\begin{aligned} \chi^2 &= \frac{\sum (O_f - E_f)^2}{E_f} \\ &= 12.048 \end{aligned}$$

Degree of Freedom (d.f.) = n - 1 = 9 - 1 = 8

Critical value of χ^2 at 5% Level of Significance and 8 d.f. is 15.507

Conclusion: Since calculated value of χ^2 is 12.048 which is lower than the tabulated value. So, null Hypothesis is satisfied which means there is no significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with the Income Tax Administration in Nepal.

4.11.2 Opinion Regarding Defects of Income Tax Act, 2058 of Nepal

To know the opinion regarding defects of Income Tax Act, 2058 of Nepal, the question was asked to respondent i.e. “**In your Opinion, income Tax act is free from the defects?**”. The acquired opinion of respondents has been presented in the Table 4.9 as below:

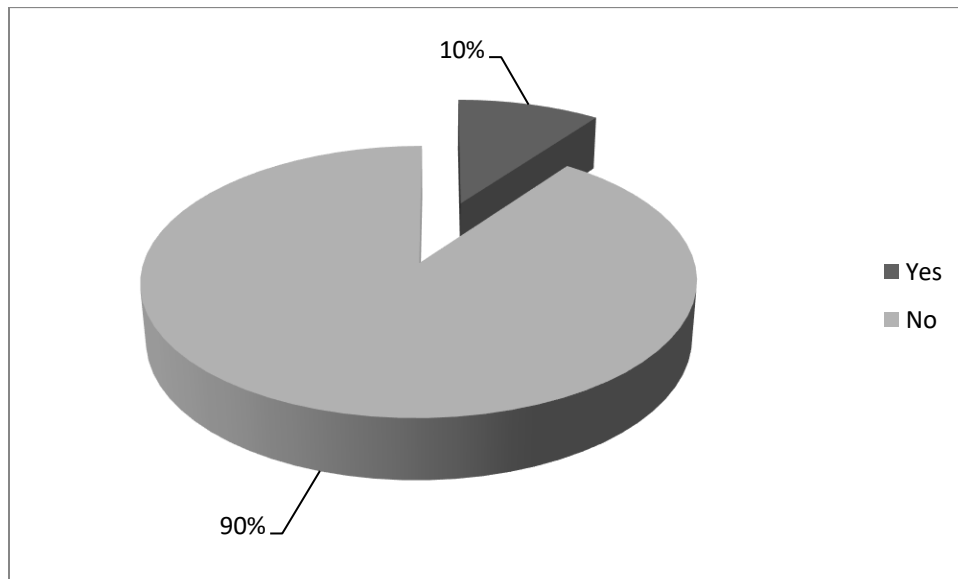
Table 4.9
Defects of Income Tax Act, 2058 of Nepal

Name of the Respondents	Yes		No		Total	
	Points	%	Points	%	Points	%
Tax Payers	3	10	27	90	30	100
Tax Administrations	4	13.33	26	86.67	30	100
Tax Experts	2	6.67	28	93.33	30	100
Total	9	10	81	90	90	100

Source: Opinion Survey

Figures 4.8

Opinion of respondents regarding defects of income Tax Act, 2058 has been presented in Pie Chart



From the above Table 4.9, it is cleared that 10 percent of, 13.33 percent of tax administrators and 6.67 percent of tax experts have viewed Income Tax Act, 2058

is free from the defects. Similarly, 90 percent of the tax payers, 86.67 percent of the tax administrators and 93.33 percent of the tax experts opined that Income Tax Act, 2058 is not free from the defects.

Out of the total respondents, 10 percent viewed free from the defects and 90 of the respondents viewed that Income Tax Act, 2058 is not free from the defects.

Hence, it is concluded that Income Tax Act, 2058 is defective. It is not free from the defects.

Test of Hypothesis:-2

Here, hypothesis has to be tested regarding defects of Income Tax Act, 2058 **“There is no significant difference between the responding groups regarding with defects of Income Tax Act, 2058”** which can be systematically stated as follows:-

Null Hypotheses (H₀): There is no significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with the defects of Income Tax Act 2058 of Nepal.

Alternative Hypotheses (H₁): There is significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with the defects of Income Tax Act 2058 of Nepal.

For this following table has been presented

Observed Frequency Table

Name of the Respondents	Yes		No		Total	
	Points	%	Points	%	Points	%
Tax Payers	3	10	27	90	30	100
Tax Administrations	4	13.33	26	86.67	30	100
Tax Experts	2	6.67	28	93.33	30	100
Total	9	10	81	90	90	100

Expected Frequency Table

Name of the Respondents	Yes		No		Total	
	Points	%	Points	%	Points	%
Tax Payers	3	10	27	90	30	100
Tax Administrations	3	10	27	90	30	100
Tax Experts	3	10	27	90	30	100
Total	9	10	81	90	90	100

Difference Table is follows:

O_f	E_f	$(O_f - E_f)$	$(O_f - E_f)^2/E_f$
3	3	0	0
4	3	1	0.3333
2	3	-1	0.3333
27	27	0	0
26	27	-1	0.0370
28	27	1	0.0370
$X^2 = \{(O_f - E_f)^2/E_f\}$			0.7406

Test Static: Under H_0 , the test statistic is

$$\chi^2 = \frac{\sum(O_f - E_f)^2}{E_f}$$

Where,

E_f = Expected frequency

O_f = Observed frequency

Calculated

$$\chi^2 = \frac{\sum(O_f - E_f)^2}{E_f}$$

$$= 0.7406$$

Degree of Freedom (d.f.) = $(r - 1)(c - 1) = (3 - 1)(3 - 1) = 2 \times 2 = 4$

Critical value of χ^2 at 5% Level of Significance and 4 d.f. is 9.488.

Conclusion: Since calculated value of χ^2 is 0.7406 which is lower than the tabulated value. So, null Hypothesis is satisfied which means there is no significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with the defects of Income Tax Act, 2058 of Nepal.

Causes behind the Defects of Income Tax Act, 2058 of Nepal

Most respondents opined that Income Tax Act, 2058 is not free from the defects. To know the reason regarding defects of Income Tax Act, 2058 the question was asked to the respondents which is “**If No, Please rank the causes according to your priority.**” The respondents were requested to rank their answer from 1 (Most Important) to 5 (Least Important). The opinion acquired from the respondents is presented in table form as below:

Table 4.10
Causes of Defects of Income Tax Act, 2058

S.N.	Particulars	Tax Payers	Tax Administ	Tax Experts	Total		Rank
					Points	%	
a.	It has many loopholes	92	63	80	235	19.34	4
b.	Income Tax Act, 2058 has weak penal provision	80	88	84	252	20.74	3
c.	Act has failed to bring all tax payers into tax circumference	93	84	100	277	22.80	2
d.	Income Tax Act 2058, has complex language	108	121	128	357	29.38	1
e.	Others	32	34	28	94	7.74	5
Total		405	390	420	1215	100	

Source: Opinion Survey

The major defects of income tax act, 2058 were ranked in order of the preference of the respondents as follows (See the Table 4.10)

1. Income Tax Act 2058, has complex language

2. Act has failed to bring all tax payers into tax circumference
3. Income Tax Act, 2058 has weak penal provision
4. It has many loopholes
5. Others

From the above results of respondents, it can be concluded that the first major defects of Income Tax Act, 2058 is Income Tax Act 2058, has complex language. Similarly, respondents have viewed act has failed to bring all tax payers into tax circumference, income Tax Act, 2058 has weak penal provision, it has many loopholes and others.

To know whether there is positive or negative correlation between the above views of tax experts and tax payers, it is tested by using Spearman's rank correlation coefficient. The correlation of co – efficient i.e. 0.70, 0.90 and 0.90 indicates that there is positive correlation between tax payers, tax administrators and tax experts ranking regarding causes behind the defects of Income Tax Act, 2058 of Nepal (Appendix-2)

4.11.3 Opinion Regarding Income Tax as one of the Major Sources of Public Revenue

Opinion of respondents regarding income tax is one of the major sources of public revenue, was acquired by asking question, “**Do you think, income tax is one of the major sources of the public revenue?**” The opinion of the respondents has been tabulated in Table – 4.11 as below.

Table 4.11

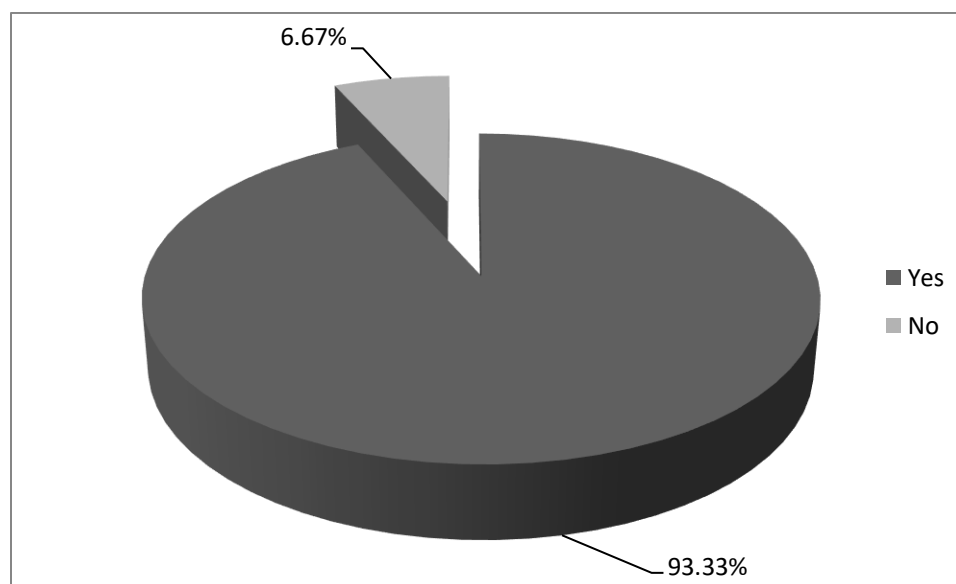
Income Tax as one of the Major Sources of Public Revenue

Group of the Respondents	Yes		No		Total	
	Points	%	Points	%	Points	%
Tax Payers	27	90	3	10	30	100
Tax Administrators	28	93.33	2	6.67	30	100
Tax Experts	29	96.67	1	3.33	30	100
Total	84	93.33	6	6.67	90	100

Source: Opinion Survey

Figure 4.9

Opinion of respondents has been presented in Pie – Chart



From the above Table 4.11, 90 percent of the tax payers, 93.33 percent of the tax administrators and 96.67 percent of the tax experts have opined that the income tax is one of the major sources of the public revenue. Similarly, 10 percent of the tax payers, 6.67 percent of the tax administrators and 6.67 percent of the tax experts have viewed income tax is not one of the major sources of the public revenue.

Out of the total respondents, 93.33 percent opined in favor of income tax is one of the major sources of the public revenue, where as 6.67 percent of the respondents opined in favor of income tax is not one of the major sources of the public revenue.

Finally, it can be concluded that from the opinion of respondents, income tax is one of the major sources of the public revenue.

Test of Hypothesis:-3

Here, hypothesis has to be tested regarding income tax is one of the major sources of the public revenue: **“There is no significant difference between the responding groups regarding with income tax is one of the major sources of the public revenue”** which can be systematically stated as follows:-

Null Hypotheses (H₀): There is no significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with income tax is one of the major sources of the public revenue.

Alternative Hypotheses (H₁): There is significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with income tax is one of the major sources of the public revenue.

For this following table has been presented

Observed Frequency Table

Group of the Respondents	Yes		No		Total	
	Points	%	Points	%	Points	%
Tax Payers	27	90	3	10	30	100
Tax Administrators	28	93.33	2	6.67	30	100
Tax Experts	29	96.67	1	3.33	30	100
Total	84	93.33	6	6.67	90	100

Source: Opinion Survey

Expected Frequency Table

Name of the Respondents	Yes		No		Total	
	Points	%	Points	%	Points	%
Tax Payers	28	93.33	2	6.67	30	100
Tax Administrations	28	93.33	2	6.67	30	100
Tax Experts	28	93.33	2	6.67	30	100
Total	84	93.33	6	6.67	90	100

Difference Table is follows:

O_f	E_f	$(O_f - E_f)$	$(O_f - E_f)^2/E_f$
27	28	-1	0.0357
28	28	0	0
29	28	1	0.0357
3	2	1	0.5
2	2	0	0
1	2	-1	0.5
$\chi^2 = \frac{\sum (O_f - E_f)^2}{E_f}$			1.0714

Test Static: Under H_0 , the test statistic is

$$\chi^2 = \frac{\sum (O_f - E_f)^2}{E_f}$$

Where,

E_f = Expected frequency

O_f = Observed frequency

Calculated

$$\chi^2 = \frac{\sum (O_f - E_f)^2}{E_f}$$

$$= 1.0714$$

Degree of Freedom (d.f.) = $(r - 1)(c - 1) = (3 - 1)(3 - 1) = 2 \times 2 = 4$

Critical value of χ^2 at 5% Level of Significance and 4 d.f. is 9.488.

Conclusion: Since calculated value of χ^2 is 1.0714 which is lower than the tabulated value. So, null Hypothesis is satisfied which means there is no significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with income tax is one of the major sources of the public revenue.

Essential Factors which Contributes to increase the Public Revenue

Most of the respondents responded that Income Tax is one of the major sources of the public revenue. In order to know, another question was asked “**If Yes, How its contribution could be increased to the public revenue?**” Respondents were requested to rank their answer from 1 (Most Important) to 8 (Least Important). The opinion of the respondents has been tabulated as below in Table – 4.12.

Table 4.12

Essential Factors to Increase the Public Revenue through Income Tax

S.N.	Particulars	Tax Payers	Tax Administrators	Tax Experts	Total		Rank
					Points	%	
a.	By decreasing exemption limit	94	106	69	269	8.90	6
b.	By making TDS effective	141	144	131	416	13.76	4
c.	By increasing in tax rate	77	82	83	242	8	7
d.	By reducing tax evasion	165	189	210	564	18.65	1
e.	By bringing all tax payers into tax circumference	172	178	213	563	18.62	2
f.	By making effective income tax policy	117	142	140	399	13.19	5
g.	By making effective administration	169	135	169	473	15.64	3
h.	Others	37	32	29	98	3.24	8
	Total	972	1008	1044	3024		100

The factors essential factors to increase the public revenue through Income Tax were ranked in order of the preference of the respondents as follows (See the Table – 4.12)

1. By reducing tax evasion
2. By bringing all tax payers into tax circumference
3. By making effective administration
4. By making TDS effective
5. By making effective income tax policy
6. By decreasing exemption limit
7. By increasing in tax rate
8. Others

From the above results of respondents, it can be concluded that reducing tax evasion is major factors to increase the public revenue. Similarly, respondents responded, contribution of income tax to public revenue can be increased by bringing all tax payers into tax circumference, making effective administration, making TDS effective, making effective income tax policy, decreasing exemption limit, increasing in tax rate and others.

To know whether there is positive or negative correlation between the above views of tax payers, tax administrators and tax experts, it is tested by Spearman's Rank Correlation Co efficient. The correlation of co – efficient i.e. 0.79, 0.86 and 0.98 indicates that there is positive correlation between tax payers, tax administrators and tax experts ranking regarding essential factors that contributes to increase public revenue (Appendix-3).

4.11.4 Opinion Regarding Satisfactory Implementation of Income Tax in Nepal

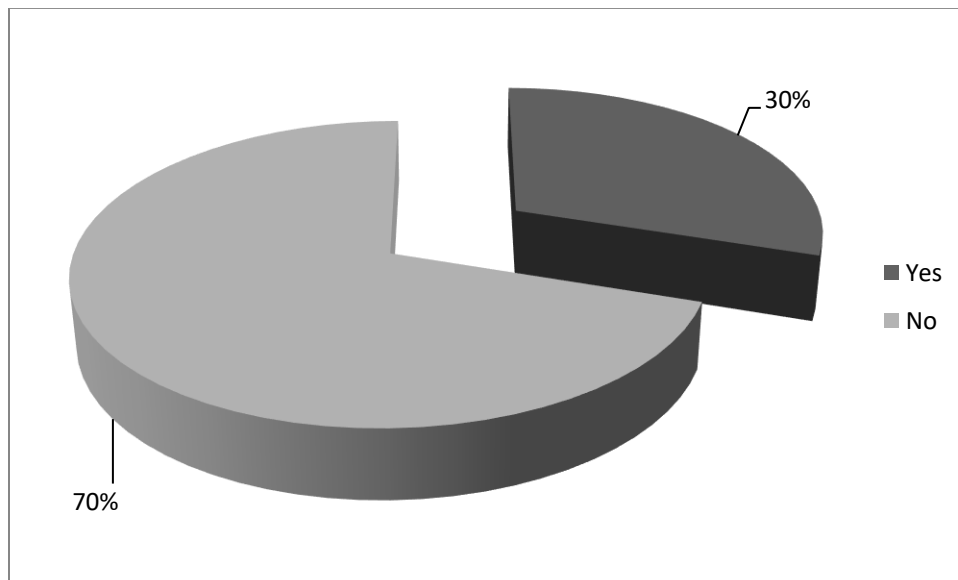
To know the opinion of the respondents regarding satisfactory implementation of income tax in Nepal, the question was asked as “Do you think, implementation of income tax in Nepal is satisfactory?” The respondent’s opinion has been presented in the tabulated form as below:

Table 4.13
Opinion of Respondents Regarding Satisfactory Implementation of Income Tax in Nepal

Groups of the Respondents	Yes		No		Total	
	Points	%	Points	%	Points	%
Tax Payers	4	13.33	26	86.67	30	100
Tax Administrators	21	70	9	30	30	100
Tax Experts	2	6.67	28	93.33	30	100
Total	27	30	63	70	90	100

Figure 4.10

Opinion of respondents has been presented in Pie Chart



From the above Table 4.13, 13.33 percent of tax payers, 70 percent of tax administrators and 6.67 percent of tax experts opined that implementation of income tax in Nepal is satisfactory. Similarly, 86.67 percent of the tax payers, 30 percent of the tax administrator and 93.33 percent of the tax experts viewed that implementation of income tax in Nepal is not satisfactory.

Out of the total respondents, 30 percent of the respondents viewed in favor of the implementation of income tax in Nepal and 70 percent of the respondents viewed that implementation of income tax in Nepal is not satisfactory.

Hence, it can be concluded that implementation of income tax in Nepal is not effective.

Test of Hypothesis:-4

Here, hypothesis has to be tested regarding effective implementation of income tax in Nepal: **“There is no significant difference between the responding groups regarding effective implementation of income tax in Nepal.”** which can be systematically stated as follows:-

Null Hypotheses (H_0): There is no significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with effective implementation of income tax in Nepal.

Alternative Hypotheses (H_1): There is significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with effective implementation of income tax in Nepal.

For this following table has been presented

Observed Frequency Table

Groups of the Respondents	Yes		No		Total	
	Points	%	Points	%	Points	%
Tax Payers	4	13.33	26	86.67	30	100
Tax Administrators	21	70	9	30	30	100
Tax Experts	2	6.67	28	93.33	30	100
Total	27	30	63	70	90	100

Source: Opinion Survey

Expected Frequency Table

Name of the Respondents	Yes		No		Total	
	Points	%	Points	%	Points	%
Tax Payers	9	30	21	70	30	100
Tax Administrations	9	30	21	70	30	100
Tax Experts	9	30	21	70	30	100
Total	7	30	63	70	90	100

Difference Table is follows:

O_f	E_f	(O_f - E_f)	(O_f - E_f)²/E_f
4	9	-5	2.7777
21	9	12	16
2	9	-7	5.4444
26	21	5	1.1905
9	21	-12	6.8571
28	21	7	4.0833
$\chi^2 = \frac{\sum (O_f - E_f)^2}{E_f}$			36.353

Test Static: Under **H₀**, the test statistic is

$$\chi^2 = \frac{\sum (O_f - E_f)^2}{E_f}$$

Where,

E_f = Expected frequency

O_f = Observed frequency

Calculated

$$\chi^2 = \frac{\sum (O_f - E_f)^2}{E_f}$$
$$= 36.353$$

Degree of Freedom (d.f.) = $(r - 1)(c - 1) = (3 - 1)(3 - 1) = 2 \times 2 = 4$

Critical value of χ^2 at 5% Level of Significance and 4 d.f. is 9.488.

Conclusion: Since calculated value of χ^2 is 1.0714 which is higher than the tabulated value. So, Alternative Hypothesis is satisfied which means there is significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with income tax is one of the major sources of the public revenue.

Causes of effective implementation of income tax have been presented in Table 4.14 as below:

Table 4.14
Causes of Effective Implementation of Income Tax

S.N.	Causes of Effectiveness	Tax Payers	Tax Administrators	Tax Experts	Total		Ranking
					Points	%	
a.	Transparency in income tax	22	151	15	188	19.34	1
b.	Effective Administration	21	107	11	139	14.30	3
c.	Awareness of Income tax in public	18	102	7	127	13.07	4
d.	Due to reformation of Income Tax Act 2058	25	131	15	171	17.59	2
e.	Long time practiced	11	74	11	96	9.88	6
f.	Tax payers are very responsible	19	72	5	96	9.88	6
g.	Effective enforcement of law	24	96	6	126	12.96	5
h.	Others	4	23	2	29	2.98	7
	Total	144	756	72	972	100	

Source: Opinion Survey

The major causes of effective implementation of income tax were ranked in order of the preference of the respondents as follows (See the Table 4.14)

1. Transparency in income tax
2. Due to reformation of Income Tax Act 2058
3. Effective Administration
4. Awareness of Income tax in public
5. Effective enforcement of law
6. Long time practiced
7. Tax payers are very responsible
8. Others

From the above results of respondents, it can be concluded that there is effective implementation of income tax in Nepal due to transparency in income tax.

Similarly, the respondents responded due to reformation of Income Tax Act 2058, effective Administration, awareness of Income tax in public, effective enforcement of law, long time practiced, tax payers are very responsible and others.

4.11.5 Opinion Regarding Implementation Problem of Income Tax Act, 2058

To know the opinion of respondents regarding implementation problem of income tax act, 2058, question was asked “**In No, what are the implementation problem of Income Tax in Nepal?**” The respondents view has been presented in Table 4.15. The respondents were requested to rank their answer from 1 (Most Important) and 9 (Least Important). The responses received from the respondents are tabulated as follows.

Table 4.15
Opinion Regarding Implementation Problem of Income Tax Act, 2058

S.N.	Causes of Ineffectiveness	Tax Payers	Tax Administrators	Tax Experts	Total		Ranking
					Points	%	
a.	Political problem	139	44	63	246	8.75	7
b.	Deficiency in administration	211	35	228	474	16.72	1
c.	Legal problem	130	37	139	306	10.72	6
d.	Quick amendment of income tax act	82	32	100	214	7.55	8
e.	Ineffective enforcement of law	151	73	176	400	14.14	2
f.	Tax payers having no responsible	152	69	164	385	13.58	4
g.	Lack of appropriate assessment procedure	141	46	126	312	10.97	5
h.	Tax evasion and avoidance	138	53	226	417	14.74	3
i.	Others	26	16	38	80	2.83	9
	Total	1170	405	1260	2835	100	

Source: Opinion Survey

The factors to be considered for implementation problems of income tax act, 2058 were ranked in order of the preference of the respondents as follows (See the Table – 4.15)

1. Deficiency in administration
2. Ineffective enforcement of law
3. Tax evasion and avoidance
4. Tax payers having no responsible
5. Lack of appropriate assessment procedure
6. Legal problem
7. Political problem
8. Quick amendment of income tax act
9. Others

From the above results of respondents, it can be concluded that first implementation problem of income tax is deficiency in administration. And others are ineffective enforcement of law, tax evasion and avoidance, tax payers having no responsible, lack of appropriate assessment procedure, legal problem, political problem, quick amendment of income tax act and others.

To know whether there is positive or negative correlation between the above views of tax payers, tax administrators and tax experts, it is tested by Spearman's rank correlation coefficient, the correlation of co – efficient i.e. 0.58, 0.50 and 0.75 indicates that there is positive correlation between tax payers, tax administrators and tax experts ranking regarding the implementation problem of Income Tax in Nepal (Appendix - 4).

4.11.6 Opinion Regarding Existing Exemption Limit for Effective Implementation of Income Tax

To know the opinion of respondents regarding existing exemption limit question was asked to the respondents as “What do you think about present exemption limit for effective implantation of Income Tax?” the opinion of respondents has been presented in Table 4.16 as below:

Table 4.16

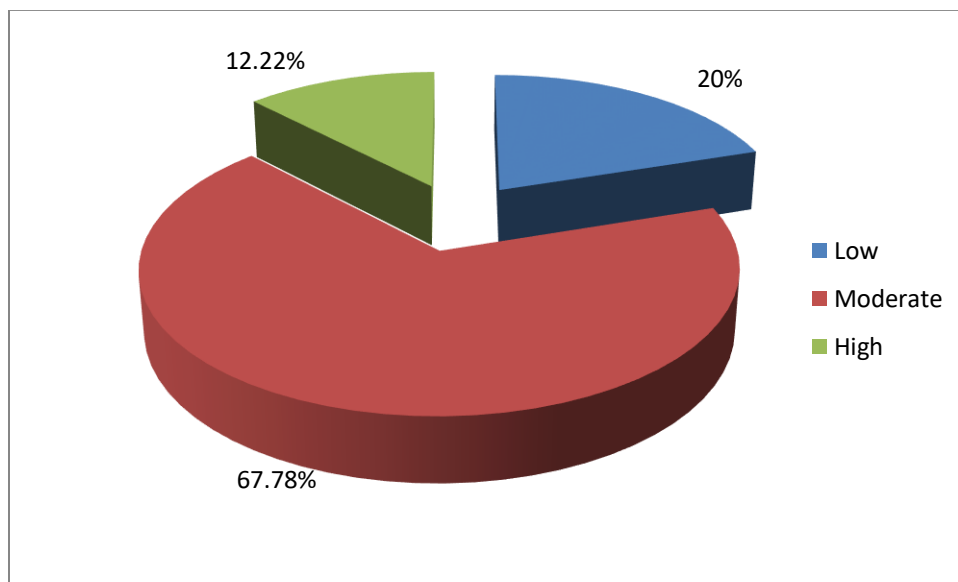
Opinion of Respondents Regarding Existing Exemption Limit for Effective Implementation of Income Tax

Groups of the Respondents	Low		Moderate		High		Total	
	Points	%	Points	%	Points	%	Points	%
Tax Payers	9	30	17	56.67	4	13.33	30	100
Tax Administrators	5	16.67	21	70	4	13.33	30	100
Tax Experts	4	13.33	23	76.67	3	10	30	100
Total	18	20	61	67.78	11	12.22	90	100

Source: Opinion Survey

Figure 4.11

Opinion of respondents has been presented in pie chart



From the Table 4.16, 30 percent of the tax payers, 16.67 percent of the tax administrators and 13.33 percent of the tax experts have opined that existing exemption limit is low. 56.67 percent of tax payers, 70 percent of the tax administrators and 76.67 percent of the tax experts viewed that present exemption limit is moderate and 13.33 percent of the tax payers, 13.33 percent of the tax administrators and 10 percent of the tax experts have explained that exemption limit is high.

Out of the total respondents, 20 percent opined that the exemption limit is low, 66.78 percent of the respondents viewed present exemption limit is moderate and 12.22 percent of the respondents viewed existing exemption limit is high.

Hence, it is concluded that existing exemption limit is neither high nor low; it is moderate for implementation of income tax.

Test of Hypothesis - 6

To test the hypothesis following null hypothesis and the alternative hypothesis have been set up:

Null Hypotheses (H_0): There is no significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with existing exemption limit for effective implementation of income tax.

Alternative Hypotheses (H_1): There is significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with existing exemption limit for effective implementation of income tax.

Test Static: Under H_0 , the test statistic is

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

Where,

E = Expected frequency

O = Observed frequency

$$E = \frac{RT \times CT}{N}$$

Where,

RT = Row Total

CT = Column Total

N = Grand Total

We have 3×3 contingency table with cell frequency 5 or more as follows:

Groups of Respondents	Low	Moderate	High	RT
Tax Payers	a = 9	b = 17	c = 4	30
Tax Administrators	d = 5	e = 21	f = 4	30
Tax Experts	g = 4	h = 23	i = 3	30
CT	(a + d + g) = 18	(b + e + h) = 61	(c + f + i) = 11	90

Calculation of expected frequencies and χ^2

(Row, Column)	O	$E = \frac{RT \times CT}{N}$	O - E	(O - E) ²	$\frac{(O - E)^2}{E}$
(1, 1)	9	$\frac{18 \times 30}{90} = 6$	3	9	0.6667
(1, 2)	17	$\frac{61 \times 30}{90} = 20$	-3	9	0.45
(1, 3)	4	$\frac{11 \times 30}{90} = 4$	0	0	0
(2, 1)	5	$\frac{18 \times 30}{90} = 6$	-1	1	0.1667
(2, 2)	21	$\frac{61 \times 30}{90} = 20$	1	1	0.05
(2, 3)	4	$\frac{11 \times 30}{90} = 4$	0	0	0
(3, 1)	4	$\frac{18 \times 30}{90} = 6$	-2	4	0.6667
(3, 2)	23	$\frac{61 \times 30}{90} = 20$	3	9	0.45
(3, 3)	3	$\frac{11 \times 30}{90} = 4$	-1	1	0.25
Total					2.7001

Calculated

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

$$= 2.7001$$

Degree of Freedom (d.f.) = (r - 1)(c - 1) = (3 - 1)(3 - 1) = 2 × 2 = 4

Critical value of χ^2 at 5% Level of Significance and 4 d.f. is 9.488.

Conclusion: Since calculated value of χ^2 is 2.7001 which is lower than the tabulated value at 5 % Level of Significant and 4 d.f.. So, Null Hypothesis is

satisfied which means there is significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with existing exemption limit for the effective implementation of income tax.

4.11.7 Opinion Regarding Necessary to Reforms of Income Tax Act, 2058.

To acquire the opinion of respondents regarding reforms of income tax act, 2058, the question was asked “ **Do you think, is it necessary to reform Income Tax Act, 2058?**” the respondents opinion is tabulated in Table – 4.17 as below:

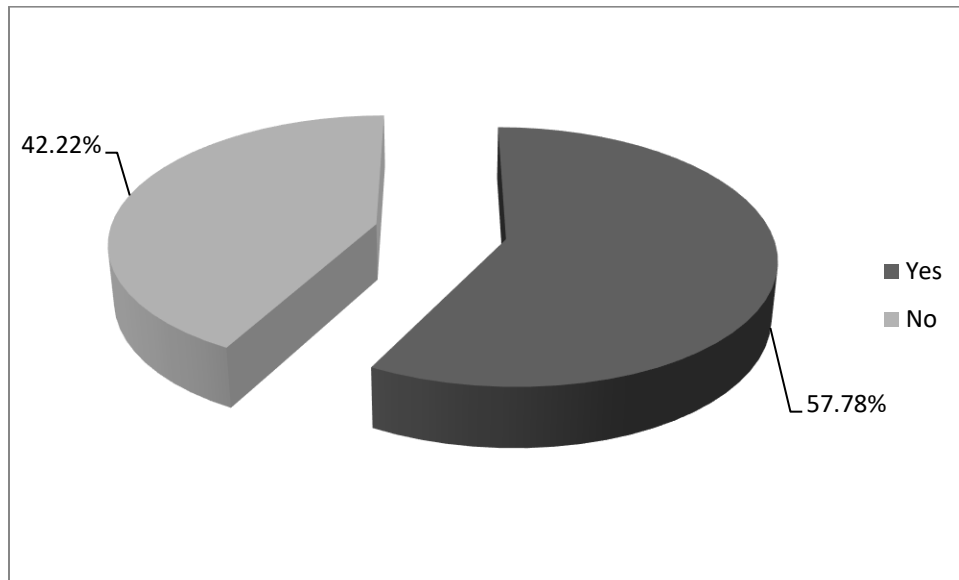
Table 4.17
Opinion of Respondents Regarding Necessary Reforms of
Income Tax Act, 2058

Name of the Respondent	Yes		No		Total	
	Points	%	Points	%	Points	%
Tax Payers	17	56.67	13	43.33	30	100
Tax Administrators	14	45.67	16	53.33	30	100
Tax Experts	21	70	9	30	30	100
Total	52	57.78	38	42.22	90	100

Source: Opinion Survey

Figure 4.12

Opinion of the respondents has been presented in Pie Chart



From the above table, 56.67 percent of the tax payers, 45.67 percent of the administrators, 70 of the total tax experts opined that it is necessary to reform the Income Tax Act, 2058. Similarly, 43.33 percent of the tax payers, 53.33 percent of the tax administrators and 30 percent of the tax experts have opined that it is not necessary to reform Income Tax Act, 2058.

Out of the total respondents, 57.78 percent of the respondents opined it is necessary and 42.22 percent of respondents opined not necessary to reform Income Tax Act, 2058.

Hence, it is concluded that Income Tax Act, 2058 of Nepal should be reform.

Test of Hypothesis:-6

To test the hypothesis following null hypothesis and the alternative hypothesis have been set up:-

Null Hypotheses (H₀): There is no significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with necessary to reform Income Tax Act, 2058.

Alternative Hypotheses (H₁): There is significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with necessary to reform Income Tax Act, 2058.

For this following table has been presented

Observed Frequency Table

Groups of the Respondents	Yes		No		Total	
	Points	%	Points	%	Points	%
Tax Payers	17	56.67	13	43.33	30	100
Tax Administrators	14	45.67	16	53.33	30	100
Tax Experts	21	70	9	30	30	100
Total	52	57.78	38	42.22	90	100

Source: Opinion Survey

Expected Frequency Table

Name of the Respondents	Yes		No		Total	
	Points	%	Points	%	Points	%
Tax Payers	17	57	13	43	30	100
Tax Administrations	17	57	13	43	30	100
Tax Experts	17	57	13	43	30	100
Total	51	57	39	43	90	100

Difference Table is follows:

O_f	E_f	(O_f - E_f)	(O_f - E_f)²/E_f
17	17	0	0
14	17	-3	0.5294
21	17	4	0.9412
13	13	0	0
16	13	3	0.6923
9	13	-4	1.2308
$\chi^2 = \frac{\sum (O_f - E_f)^2}{E_f}$			3.3937

Test Static: Under **H₀**, the test statistic is

$$\chi^2 = \frac{\sum (O_f - E_f)^2}{E_f}$$

Where,

E_f = Expected frequency

O_f = Observed frequency

Calculated

$$\begin{aligned} \chi^2 &= \frac{\sum (O_f - E_f)^2}{E_f} \\ &= 3.3937 \end{aligned}$$

Degree of Freedom (d.f.) = (r - 1)(c - 1) = (3 - 1)(2 - 1) = 2 × 1 = 2

Critical value of χ^2 at 5% Level of Significance and 2 d.f. is 5.991

Conclusion: Since calculated value of χ^2 is 3.3937 which is lower than the tabulated value. So, null Hypothesis is satisfied which means there is significant difference between the opinion of the Tax Experts, Tax Administrators and Tax Payers regarding with its necessary to reform income tax act , 2058.

Major Causes behind the reform of Income Tax Act, 2058

To know the major causes to reform of income tax act, 2058, the question was asked to the respondents “If Yes, Please rank the causes from a to f according to priority?”. The respondents were requested to rank their answer from 1 to 6 scales. The respondent’s opinion is presented in Table as below:

Table 4.18
Major Causes to Reform of Income Tax Act, 2058

S.N	Major Causes	Tax Payers	Tax Administrators	Tax Experts	Total		Ranking
					Points	%	
a.	Globalization in economy	89	76	83	248	22.71	1
b.	Nepal is a member of WTO	86	59	71	216	19.78	3
c.	Current income tax could not raise public revenue as it could	75	57	92	224	20.42	2
d.	Income Tax Act 2058, could not meet tax policy	50	40	74	164	15.11	5
e.	Income Tax Act 2058 is over ambitious	39	41	10 0	180	16.48	4
f.	Others	18	21	21	60	5.50	6
Total		357	294	421	1092	100	

Source: Opinion Survey

The major causes behind reform of income tax act, 2058 were ranked in order of the preference of the respondents as follows (See the Table – 4.18)

1. Globalization in economy
2. Current income tax could not raise public revenue as it could

3. Nepal is a member of WTO
4. Income Tax Act 2058 is over ambitious
5. Income Tax Act 2058, could not meet tax policy
6. Others

From the above results of respondents, it can be concluded that the first major cause behind the reform of Income Tax Act, 2058 is Globalization in the economy. Similarly, respondents have viewed current income tax could not raise public revenue as it could, Nepal is a member of WTO, Income Tax Act 2058 is over ambitious, Income Tax Act 2058, could not meet tax policy and others.

To find whether there is positive or negative correlation between the above views of tax payers, tax administrators and tax experts, it is tested by Spearman's Rank Correlation Co-efficient. The correlation of co-efficient i.e. 0.94, 0.51 and 0.14 indicates that there is positive correlation between tax payers, tax administrators and tax experts ranking regarding major causes to reform of Income Tax Act, 2058 (Appendix-5).

4.11.8 Opinion Regarding Major Areas to Reform for Effective Implementation of Income Tax Act

To know the opinion of respondents regarding major areas to reform for effective implementation of income tax act, the question was asked, **“In your opinion, what are the major areas to reform for effective implementation of income tax?”** The respondents were requested to rank the major areas from 1 (the Most important) to 6 (Least Important). The view of respondents has been presented in **Table 4.19** as below.

Table 4.19
Opinion regarding major Areas to reform for Effective
Implementation of Income Tax Act

S.N.	Major Areas	Tax Payers	Tax Administrators	Tax Experts	Total		Ranking
					Points	%	
a.	Institutional Level (Administration and Legal)	105	116	133	354	26.22	2
b.	Organizational Level (IT Support)	90	115	63	268	19.85	4
c.	Individual Level (Awareness Creation to Civil Society)	145	104	108	357	26.45	1
d.	Decision Level (Tax Policy Makers)	80	84	116	280	20.74	3
e.	Others	30	31	30	91	6.74	5
Total		450	450	450	1350	100	

Source: Opinion Survey

From the above Table, out of the total respondents 26.45 percent opined there should be created individual awareness to civil society. 26.22 percent opined administration and legal should be reform for effective implementation of income tax. 20.74 percent and 6.74 percent of the respondents emphasized on reformation of decision level (Tax Policy Maker) and others respectively.

Hence, it can be concluded that individual level should be reform for effective implementation of income tax. For this, awareness should be created to civil society.

Major Areas to reform for Effective Implementation of Income Tax

The major areas were ranked in order of the preference of the respondents as follows (See the Table – 4.19 for detail)

1. Individual Level (Awareness Creation to Civil Society)
2. Institutional Level (Administration and Legal)
3. Decision Level (Tax Policy Makers)
4. Organizational Level (IT Support)
5. Others

From the above results of respondents, it can be concluded that Individual Level is to reform first i.e. awareness creation to the civil society. Similarly, respondents have responded that Institutional Level i.e. Administration and legal, Decision Level i.e. Tax Policy Makers, Organizational Level (IT Support) and others should be reform gradually.

4.11.9 Opinion Regarding Factors to be considered for Improvement and Effective Implementation of Income Tax in coming years in Nepal

To know the opinion of the respondents regarding factors that to be considered for improvement and effective implementation of income tax in coming years in Nepal. For this question was asked, **“What should be done for the improvement and more effective implementation of income tax in coming years in Nepal?”** t The respondents were requested to rank their answer from 1 (Most Important) and 9 (Least Important) . The respondent’s response has been presented in the Table – 4.20 as below:

Table 4.20
Factors to be considered for improving and Effective
Implementation of Income Tax in Nepal

S.N.	Factors	Tax Payers	Tax Administrators	Tax Experts	Total		Ranking
					Points	%	
a.	Develop IT	209	212	119	540	10.91	4
b.	Develop skilled manpower	217	195	162	574	11.60	3
c.	Improve in administration	239	183	267	689	13.92	1
d.	Political commitment	165	200	132	497	10.04	5
e.	Individual awareness	235	207	214	656	13.25	2
f.	Improve in reward and punishment	152	106	176	434	8.77	7
g.	Need of training programme	108	137	112	357	7.21	9
h.	Effective legal treatment	134	150	198	482	9.74	6
i.	Improve in organization structure	80	159	128	367	7.41	8
j.	Improve in auditing	111	101	142	354	7.15	10
	Total	1650	1650	1650	4950	100	

Source: Opinion Survey

The factors to be considered for improving and effective implementation of income tax in Nepal were ranked in order of the preference of the respondents as follows (See the Table – 4.20)

1. Improve in administration
2. Individual awareness
3. Develop skilled manpower
4. Develop information technology

5. Political commitment
6. Effective legal treatment
7. Improve in reward and punishment
8. Improve in organization structure
9. Need of training programme
10. Improve in auditing

From the above results of respondents, it can be concluded that the major factor to be considered is to improve in administration for effective implementation of income tax in Nepal. Similarly, in opinion of the respondents, individual awareness, develop skilled manpower, develop information technology, political commitment, and effective legal treatment, improve in reward and punishment, improve in organization structure, need of training programme and improve in auditing.

To find whether there is positive or negative correlation between the above views of tax experts, tax administrators and tax payers, it is tested by Spearman's Rank Correlation Co-efficient, the correlation of co-efficient i.e. 0.64, 0.02 and 0.62 indicates that there is positive correlation between tax payers, tax administrators and tax experts ranking regarding factors to be considered for improvement and effective implementation of income tax in coming years in Nepal.(Appendix-6)

4.11.10 Opinion regarding comments and suggestion from the Respondents

To know the comments and suggestion of the respondents an open question was asked for the implementation scenario of income tax. Questionnaire was **“Do you have any comments and suggestion on implementation scenario of income tax, please specify?”** All respondents did not respond, only few respondents responded to this question. The responses acquired from the respondents are presented follows:-

Comments:

- Tax evasion is high.
- Equity is not maintained by this act.
- Act section and subsections are not clear due to interlink
- Weak punishment in evasion of tax
- Less awareness in tax payer to pay tax
- Revenue is increasing but not sufficient
- Tax Administration is better than other department but not sufficient
- Monitoring action of tax administration is not effective
- Lack of efficient tax personnel in accordance with computerized or automation
- Tax avoidance attitude has not be changed by tax payers
- To develop manpower's
- To increase exemption slap
- To develop tax payer education
- Tax evasion motive
- All the tax payers are could not be drawn in to the net
- Political instability
- Low economic activities
- Lack of education health and employment
- Low productivity
- Interlink age section and subsection
- Lack of tax payers identification
- Lack of voluntary compliance and registration
- Corruption is in administration
- The policies and the acts relating to tax should be effectively implemented by the government.
- Lack of awareness and practice

- Lack of efficiency in administrators in work
- Administration must be tackled with higher undue political pressure
- No systematic transfer and promotion
- No performance indicator attached with prize and punishment
- Subjective evaluation system.
- No apply legal provision strictly
- Not to good advertise
- Not to good government policy
- Tax administration is not friendly with taxpayers
- The procedure to clear tax liability is very lengthy and bothersome
- Bad information system
- Complex law and rule
- Traditional manpower
- Lack of networking
- Lack of effective administration
- Weak penal provision
- Miss use of law by users
- Illegal trade
- No efficiency in work

Suggestions:

- Efficient and energetic tax officer should be selected
- Tax payers should be fully responsible for billing
- Atomization should be run smoothly
- To strengthen the tax base investigation and monitoring section of IRD should be dynamic in accordance with the interest of good tax payers attitude.
- There should be stability in political system

- There should enhance the culture of people
- There should be transparency in every field of life
- Should enhance technology.
- Simplify language
- Reform structure on policy maker
- Tax payers and tax laws implementations should feel their responsibilities and act properly
- Tax payers education should be conducted broadly
- Tax administration should be strengthened
- Peoples should be informed about the revenue and expenditure clarity
- Let politician to decide tax (policy making)
- Let the managers to manage (Autonomous tax administration)
- Let the tax payers to protect their rights and duties
- Income tax act should be simple
- First of all, all individual and organization should be given a defector identification number (i.e. PAN) and all the financial transaction done by them should be recorded at the spot on electric database. That allows preparing tax return file by data base itself. Then there is no chance of tax avoidance or evasion. Computerized system should be there.
- Social security programme on the based of tax paid should be provisioned
- There should be good governance
- Corrupt people should be penalized
- People should aware about tax policies
- Government should updated their record files in effective date base system
- Creating awareness of tax revenue contribution to development works
- Compliance of taxpayers in income tax net
- Reforming the income tax law etc.
- House rent tax should be make properly and implement it effectively

- Taxpayers education is major prerequisite to effective implementation of income tax
- Voluntary compliance
- Efficient tax administration
- Apply tightly legal provision also some article amendment of income tax act 2059
- Apply good governance policy
- Tax administration should be friendly to broaden the tax net
- For better implementation, the institution should be decentralized.
- Low Tax rate
- Training to the manpower should be given
- Well do the organization structure

4.13 Major Findings of Study

On the basis of preceding chapters, data presentation and analysis some important findings can be drawn. The major findings of this research study are summarized as below:

1. Income tax has been considered as a suitable source for the collection of government revenue and mobilizing internal resources. It can be used as a positive instrument to boost government revenue collection, to develop the economic conditions of Nepalese people and promote distributive justice and to cure resource gap problem.
2. Income tax is one of tax source that is potential and justifiable to increase. Education of taxation and morality in tax paying habit of taxpayers also help in maximizing realization of income tax. Corporate bodies also play important role in revenue collection to the government. Proper income tax management is the most to increase the tax revenue.

3. Tax revenue contributed more than 75% in the total revenue realization. In the fiscal year 2060/061, It was 77.28%. In the fiscal year 2061/062 it was 77.15%. the ratio of non tax revenue collection in the fiscal year 2063/064 and 2064/065 were 18.91% and 18.18% respectively which were relatively very low than tax revenue realization.
4. Contribution of income tax to total revenue is in increasing trend. Average contribution rate of income tax to total revenue is 17.434 % during last 5 years.
5. The contribution ratio of income tax to total tax is fluctuating. Income tax covers 21.94 % share of total tax revenue in an average.
6. The contribution of income tax on GDP is increasing gradually. It had contributed 2.10% in 2060/061, which was increasing to 2.47% in 2063/064; it was 2.055% in 2061/062.
7. Contribution of individual income tax to total tax revenue is in increasing trend. It was 10.22% in fiscal year 2060/061, and 10.71% in 2064/065. Average contribution of individual income tax to total tax revenue is 10.38%.
8. Contribution of individual income tax to total income tax is in fluctuating trend. It was 46.85% in fiscal year 2060/061, 49.69% in fiscal year 2061/062, 50.89%, 43.29%,46.44% in fiscal year 2062/063,2063/064and 2064/065 respectively. And average contribution is 47.432%.
9. Contribution of individual income tax payers to direct is in fluctuating trend. It was 43.91% in fiscal year 2060/061, increased to 45.72% in fiscal year 2061/062, 55.05% in fiscal year 2062/063, again decreased to 38.15% in fiscal year 2063/064, and the contribution is 34.17% in fiscal year 2064/065.

An empirical investigation has been conducted in order to find out various aspects of implementation scenario of income tax in perspective of Nepal from the real life experience's For this questionnaire was developed and responses were collected from the respondents. Respondents were classified into two groups: Tax

experts and tax payers. Finding from the opinion survey, through questionnaire and information interviews with tax experts and tax payers have been presented below:-

- Out of the total respondents, 10 percent has viewed tax administration in Nepal is efficient, 20 percent of the respondents viewed inefficient and 70 percent opined that tax administration needs some improvement in Nepal.
- It is cleared that tax administration in Nepal is inefficient. So it needs some improvement in Tax Administration for effective implementation of Income Tax in Nepal.
- It is concluded that Income Tax Act, 2058 is defective. It is not free from the defects. Out of the total respondents, 10 percent of respondents viewed income tax act is free from the defects and 90 of the respondents viewed that Income Tax Act, 2058 is not free from the defects.
- It can be concluded that the first major defects of Income Tax Act, 2058 is Income Tax Act 2058, has complex language. Similarly, respondents have viewed act has failed to bring all tax payers into tax circumference, income Tax Act, 2058 has weak penal provision, it has many loopholes and others.
- According to the respondent's opinion, income tax is one of the major sources of the public revenue. Out of the total respondents, 93.33 percent opined in favor of income tax is one of the major sources of the public revenue, where as 6.67 percent of the respondents opined in favor of income tax is not one of the major sources of the public revenue.
- It can be concluded that reducing tax evasion is essential factors to increase the public revenue. Similarly, respondents responded, other essential factors are bringing all tax payers into tax circumference, making effective administration, making TDS effective, making effective income tax policy, decreasing exemption limit, increasing in tax rate and others.

- It is found that implementation of income tax in Nepal is not effective. Out of the total respondents, 30 percent of the respondents viewed in favor of the implementation of income tax in Nepal and 70 percent of the respondents viewed that implementation of income tax in Nepal is not satisfactory.
- There is effective implementation of income tax in Nepal due to transparency in income tax. Similarly, the respondents responded due to reformation of Income Tax Act 2058 ,effective Administration, awareness of Income tax in public, effective enforcement of law, long time practiced, tax payers are very responsible and others.
- According to the Respondents opinion, Income Tax Act, 2058 of Nepal should reform due to the globalization in the economy , current income tax could not raise public revenue as it could , Nepal is a member of WTO, Income Tax Act, 2058 is over ambitious, income Tax Act 2058, could not meet tax policy and others
- Implementation problem of income tax is deficiency in administration. And others are ineffective enforcement of law, tax evasion and avoidance, tax payers having no responsible, lack of appropriate assessment procedure, legal problem, political problem, quick amendment of income tax act and others.
- Out of the total respondents, 20 percent opined that the exemption limit is low, 66.78 percent of the respondents viewed present exemption limit is moderate and 12.22 percent of the respondents viewed existing exemption limit is high. Hence, it is concluded that existing exemption limit is neither high nor low; it is moderate for implementation of income tax.
- It is cleared that the first major causes behind the reform of Income Tax Act, 2058 is globalization in the economy. Similarly, respondents have viewed current income tax could not raise public revenue as it could, Nepal is a member of WTO, Income Tax Act 2058 is over ambitious, Income Tax Act 2058, could not meet tax policy and others.

- It has been concluded that existing exemption limit is neither high nor low; it is moderate for implementation of income tax. Out of the total respondents, 20 percent opined that the exemption limit is low, 66.78 percent of the respondents viewed present exemption limit is moderate and 12.22 percent of the respondents viewed existing exemption limit is high.
- It has been found that reducing tax evasion is essential factors to increase the public revenue. Similarly, respondents responded, other essential factors are bringing all tax payers into tax circumference, making effective administration, making TDS effective, making effective income tax policy, decreasing exemption limit, increasing in tax rate and others.
- In opinion of the respondent's that individual level should be reform for effective implementation of income tax. For this, awareness should be created to civil society.
- Out of the total respondents 26.45 percent opined there should be created individual awareness to civil society. 26.22 percent opined administration and legal should be reform for effective implementation of income tax. 20.74 percent and 6.74 percent of the respondents emphasized on reformation of decision level (Tax Policy Maker) and others respectively.
- Most of the respondents stood in favor of the amendment of the Income Tax Rule, 2059. So, it is necessary to amend Income Tax Rule, 2059.
- From the above results of respondents, it can be concluded that administration is considered as the major factors for the effective implementation of income tax in Nepal. Similarly, in the opinion of the respondents, others major causes are individual awareness, develop skilled manpower, develop information technology, political commitment effective legal treatment, improve in reward and punishment, improve in organization structure, need of training program and improve in auditing.

CHAPTER - V

SUMMERY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Revenue has been collected from various sources of nation in different fields of it by approving tax laws and regulations. The collected national revenue is spent by government in different aspects of national prosperity to achieve goal of welfare states concept. The policy of revenue collection is different on the basis of respective national socio-economical infrastructure and environment. National expenditure is increased according to demand of social structure and time. Considering above these thing, nation have been collecting the revenue in different field of nation i.e. external and internal sources of national revenue. These external and internal sources are important to mobilize or handle to national resources. From where, nation takes better steps for social well beings. Among the internal and external sources of nation, taxation is one. In various types of tax, categories, corporate income tax is most important and crucial role play to achieve higher economic growth rate. Corporation earns its income from doing its business transaction. These corporate incomes are calculated by the help of general accounting principle and respective nation's are calculated by the help of general accounting principle and respective nations tax laws and regulations for tax purpose. This study attempts to analyze the importance and contribution of corporate sector to the Nepalese government revenue.

Descriptive cum historical research design has been used to search its objectives, whole area relating to government revenue is set for the research population and corporate income tax is taken as sample size. Difference interactions method and strategy have been used to collect secondary data as well as primary data were also collected by using survey method. Analytical tools such as table, percent, bar,

graph, trend lines, average and correlation are used for research methodology. Projections have been made for the next three subsequent years taking the FY 1999/00 as basic years.

As the corporate income tax has been separated from individual income tax since 1993/94. Corporate income tax collection has been increasing continuously few years. In the government revenue, tax revenue has contributed more than 75%. But all the developing countries like Nepal have equal importance of direct tax which is 84.86% on average. This figure shows the importance and contribution of corporate sector to government revenue in Nepal like developing countries.

The intra-structural compositions of corporate income tax seem to be dominated by government sector. The average contribution of government, public and private sector were found 44.75, 31.29 and 23.96% respectively during the study period. All the relationship between CITR and total tax revenue, CITR and income tax revenue, CITR and total revenue were found to be positively correlated. As per the projection le data, tax collection from various tax heads will increase. But the contribution % of corporate income tax to different head will slightly decrease.

In order to know the problems of existing corporate income tax act and to give necessary suggestions on it, a set of questionnaire were distributed among Tax administrators,, Tax experts and Tax payers. On the basis of opinion survey empirical investigation has found some weakness of the existing in come tax act. If not only found weakness but also point our some satisfactory aspects of the existing income tax act.

According to the investigation corporate income tax is a suitable means of raising government revenue as well as the tax education is necessary in Nepal for which 91.67% and 98.33% respondents have supported respectively. It is found that

inefficient tax administration, tax evasion and inappropriate objectives of income tax were the main causes in proper collection of income tax in Nepal. Self-assessment method of assessing income tax is more appropriate in Nepal. 70% of them were in support and remaining 30% were in against about reasonability of fees, fines and penalties. Some of respondents made advice like this, government economic policy; effective tax management, training and seminar to the tax personnel and development of checks and balance system can lead income tax towards its efficiency.

5.2 Conclusion

The sound economy of a nation largely depends on the well developed corporate sector. Development of corporate sector is possible through corporation friendly rule, law and regulation on one hand and the process of industrialization on the other hand. It is also important to develop the corporate culture in Nepalese corporate sector.

In the context of Nepal, she has been liberalized after the restoration of democracy in 1990. Number of public government enterprises have been privatized in this period and some of them have been either liquidated or merged. Like wise, Nepal has entered in WTO mains stream of trade in 23rd April 2004, which has given the potentiality to increase foreign direct investment and access of Nepal to international market. But in reality y, it has strongly challenged the Nepalese small entrepreneurs and corporate house too in the side of quality and price and it has also increased the possibility of Nepal being as a dumping side of giant multinational companies. So, Nepalese corporate sector has been facing serious challenges. The main reasons are significant expansion of regular government activities, increasing cost of maintenance, increasing debt servicing charges etc.

Corporate sector is in initial stage of development in Nepal which is small and stagnant in nature comparing to other developing country. The performance of corporate sector, especially the industry is very poor. Their number, profitability, investment in fixed assets, share of market transaction is all in weak position. Nevertheless, the importance of contribution of corporate income tax to government revenue is equally important to like Nepal developing country.

Corporate income tax is based on socio- economic infrastructure and environment. In the corporate income tax structure the debate is going on use of appropriate type of tax incentives, treatment of inflation, method and rate of depreciation. The present provision of tax incentives are found insufficient in the changing global economic scenario especially for revival of sick industrial unit. The statutory corporate tax rates are found frequently changed during the study period. Unclear vision of government to corporate sector, frequent change of rule and regulation and unstable political – economic environment of Nepal has sharply damaged the corporate sector.

However, income tax laws administration in Nepal are to be deeply scrutinized and properly implemented. Act itself is not bad, some provisions would have to be mentioned clearly. Strong commitment, fair and uniform imposition is to be stored and revitalized. Manpower development planning within the administration is desired for the efficiency of tax personnel side by side, tax education packages are to be made and imitated hence, tax administration and tax compliance could be improved.

5.3 Recommendations

On the basis of the study, the following recommendations are made in order to increase the contribution of corporate income tax in revenue collection of Nepal.

1. Corporations sectoral tax laws, regulation and rules should be improved accordance with general accounting principle because a corporation, which is core elements of nation, can only live and survive in sound its sectoral laws and regulation. Most of the provision of present income taxes law creates confusion to assessment, filling tax imposed and other benefits etc.
2. Structural composition of corporate income tax was found to be dominated by government sector in spite of increases in tax collection from private sector, its contribution percent to CITR was fluctuated. So, the performance of private sector is not satisfactory in overall. Government should do proper homework before privatizing the enterprises and company and a research should be undertaken, why the performance of private sector is poor even then government is giving more emphasis to it.
3. Government should make a clear cut distinction between the role of public and private sector. It should take an endeavor to motive, facilitate and regulate to accelerate the private sector.
4. Recent decreasing trend of CITR indicate that it is necessary to protect corporate sector from different external security threaten. So, priority should be given to maintain its existence.
5. Corporate sector should have to increase its competency on one hand on the other hand private sector should have given reasonable protection and encourage by the government in future.

APPENDICES

Appendix – 1

Questionnaire

Dear Sir/Madam,

I would like to introduce you that I am final year student of Master Degree with management faculty of Shanker Dev Campus. In order to fulfill the requirement of master degree, I am writing a thesis entitled to *“Implementation Scenario of Income Tax in Perspective of Nepal”*. To fulfill the objectives of the study, I have developed some questionnaire. So I request you to fill up the questionnaire which will be of great importance to my study.

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

Thank You!

Yours Sincerely

.....

Shaker Dev Campus

**Implementation Scenario of Income Tax
In Perspective of Nepal**

1. Do you think, Implementation of Income Tax in Nepal is satisfactory?

- a) Yes b) No

If Yes, Please rank the causes from a to h according to priority.

- a) Transparency in Income Tax Act. []
- b) Effective Administration []
- c) Awareness of Income Tax in public []
- d) Due to Reformation of Income Tax Act 2031 []
- e) Long time practiced []
- f) Tax payers are very responsible []
- g) Effective enforcement of law []
- h) Others []

2. If no, what are the implementation problems of Income Tax in Nepal?

Please rank the causes from a to i according to priority.

- a) Political problem []
- b) Deficiency in administration []
- c) Legal problem []
- d) Quick amendment of Income Tax Act []
- e) Ineffective enforcement of law []
- f) Tax payers having no responsible []

- g) Lack of appropriate assessment Procedure []
- h) Tax evasion and avoidance []
- i) Others []

3. What do you think about Income Tax Administration in Nepal? (Please Specify)

- a) Efficient b) Inefficient c) Needs some improvement

4. What do you think about present Exemption Limit for effective implementation of Income Tax? (Please Specify)

- a) Low b) Moderate C) High

5. Do you think, it is necessary to reform Income Tax Act 2058?

- a) Yes b) No

If Yes, Please rank the causes from a to f according to priority.

- a) Globalization in Economy []
- b) Nepal is a member of WTO []
- c) Current Income Tax could not raise public revenue as it could. []
- d) Income Tax Act 2058 could not meet Tax Policy []
- e) Income Tax Act 2058 is over ambitious []
- f) Others []

6. In your opinion, what are the major areas to reform for effective implementation of income tax? (Please rank a to e according to priority)

- a) Institutional Level (Administration and Legal) []
- b) Organizational Level (IT Support) []
- c) Individual Level (Awareness creation to civil society) []
- d) Decision Level (Tax Policy Maker) []
- e) Others []

7. Do you think, Income Tax is one of the major sources of the public revenue?

- a) Yes
- b) No

If yes, how could its contribution be increased to the public revenue?

Please, rank the measures from a to h according to the priority.

- a) By decreasing exemption limit []
- b) By making Tax Deduction at Source (TDS) effective []
- c) By increasing in tax rate. []
- d) By reducing tax evasion. []
- e) By bringing all tax payers into tax circumference []
- f) By making effective income tax policy []
- g) By making effective administration []
- h) Others. []

8. In your opinion, income tax act 2058 is free from the defects?

- a) Yes
- b) No

If No, please rank the defects of income tax act 2058 according to priority.

- a) It has many loopholes []
- b) Income tax act 2058 has weak penal provision []
- c) Act has failed to bring all tax payers into tax circumference []

- d) Income tax act 2058 has complex language []
- e) Others []

9. In your opinion, how is the Implementation Scenario of Income Tax in Nepal?
(Please Specify)

- a) Effective b) Ineffective c) Needs some improvement

10. Are you satisfied with the amendment of Income Tax Rule 2059?

- a) Yes b) No

11. What should be done for the improvement and more effective Implementation of income tax in coming years in Nepal? (Please rank from a to j according to priority)

- a) Develop information technology []
- b) Develop skilled manpower []
- c) Improve in administration []
- d) Political commitment []
- e) Individual awareness []
- f) Improve in reward and punishment []
- g) Need of training programme []
- h) Effective legal treatment []
- i) Improve in organization structure []
- j) Improve in auditing []

12. Do you have any comments and suggestion on implementation scenario of income tax, please specify:

Comments:

a)

b)

c)

d)

Suggestions:

a)

b)

c)

d)

Appendix - 2

Test of Spearman's Rank Correlation

Rank Correlation – 1

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

Where,

r_s = Spearman's Rank Correlation

d = difference of corresponding ranks

The value of r lies between – 1 and + 1

Calculation of Spearman's Rank Correlation Coefficient

S.N.	Particulars	Tax Payers		Tax Administrators		Tax Experts	
		P	R1	P	R2	P	R3
a.	It has many loopholes	92	3	63	4	80	4

b.	Income Tax Act, 2058 has weak penal provision	80	4	88	2	84	3
c.	Act has failed to bring all tax payers into tax circumference	93	2	84	3	100	2
d.	Income Tax Act 2058, has complex language	108	1	121	1	128	1
e.	Others	32	5	34	5	28	5
Total		405		390		420	

Where, P = Points and $R_1, R_2, R_3 = \text{Re - Rank}$

S.N.	Particulars	R_1	R_2	R_3	$d_{12}^2 = (R_1 - R_2)$	$d_{23}^2 = (R_2 - R_3)$	$d_{13}^2 = (R_1 - R_3)$
a.	It has many loopholes	3	4	4	1	0	1
b.	Income Tax Act, 2058 has weak penal provision	4	2	3	4	1	1
c.	Act has failed to bring all tax payers into tax circumference	2	3	2	1	1	0
d.	Income Tax Act 2058, has complex language	1	1	1	0	0	0
e.	Others	5	5	5	0	0	0

Total	$\sum d_{12}^2 = 6$	$\sum d_{23}^2 = 2$	$\sum d_{13}^2 = 2$
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n= 5

$$R_{12} = 1 - \frac{6 \sum d_{12}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 6}{5(5^2 - 1)} = 1 - 0.30 = 0.70$$

$$R_{23} = 1 - \frac{6 \sum d_{23}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 2}{5(5^2 - 1)} = 1 - 0.10 = 0.90$$

$$R_{13} = 1 - \frac{6 \sum d_{13}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 2}{5(5^2 - 1)} = 1 - 0.10 = 0.90$$

Appendix - 3

Test of Spearman's Rank Correlation

Rank Correlation – 2

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

Where,

r_s = Spearman's Rank Correlation

d = difference of corresponding ranks

n = Numbers of pairs observations

The value of r lies between -1 and $+1$

Calculation of Spearman's Rank Correlation Coefficient

S.N.	Particulars	Tax Payers		Tax Administrators		Tax Experts	
		P	R ₁	P	R ₂	P	R ₃
a.	By decreasing exemption limit	94	6	106	6	69	7
b.	By making TDS effective	141	5	144	3	131	5
c.	By increasing in tax rate	77	7	82	7	83	6
d.	By reducing tax evasion	165	3	189	1	210	2
e.	By bringing all tax payers into tax circumference	172	1	178	2	213	1
f.	By making effective income tax policy	117	4	142	4	140	4
g.	By making effective administration	169	2	135	5	169	3
h.	Others	37	8	32	8	29	8

Where, P = Points and R₁, R₂, R₃ = Re – Rank

S.N.	Essential Factors	R ₁	R ₂	R ₃	$d_{12}^2 = (R_1 - R_2)$	$d_{23}^2 = (R_2 - R_3)$	$d_{13}^2 = (R_1 - R_3)$
a.	By decreasing exemption limit	6	6	7	0	1	1

b.	By making TDS effective	5	3	5	4	4	0
c.	By increasing in tax rate	7	7	6	0	1	1
d.	By reducing tax evasion	3	1	2	4	1	1
e.	By bringing all tax payers into tax circumference	1	2	1	1	1	0
f.	By making effective income tax policy	4	4	4	0	0	0
g.	By making effective administration	2	5	3	9	4	1
h.	Others	8	8	8	0	0	0
Total					$\{d_{12}^2 = 18$	$\{d_{23}^2 = 12$	$\{d_{13}^2 = 4$

n = 8

$$R_{12} = 1 - \frac{6 \sum d_{12}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 18}{8(8^2 - 1)} = 1 - 0.21 = 0.79$$

$$R_{23} = 1 - \frac{6 \sum d_{23}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 12}{8(8^2 - 1)} = 1 - 0.14 = 0.86$$

$$R_{13} = 1 - \frac{6 \sum d_{13}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 12}{8(8^2 - 1)} = 1 - 0.02 = 0.98$$

Appendix - 4

Test of Spearman's Rank Correlation

Rank Correlation – 3

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

Where,

r_s = Spearman's Rank Correlation

d = difference of corresponding ranks

n = Numbers of pairs observations

The value of r lies between – 1 and + 1

Calculation of Spearman's Rank Correlation Coefficient

S.N.	Particulars	Tax Payers		Tax Administrators		Tax Experts	
		P	R1	P	R2	P	R3
a.	Political problem	139	5	44	5	63	8
b.	Deficiency in administration	211	1	35	7	228	1

c.	Legal problem	130	7	37	6	139	5
d.	Quick amendment of income tax act	82	8	32	8	100	7
e.	Ineffective enforcement of law	151	3	73	1	176	3
f.	Tax payers having no responsible	152	2	69	2	164	4
g.	Lack of appropriate assessment procedure	141	4	46	4	126	6
h.	Tax evasion and avoidance	138	6	53	3	226	2
i.	Others	26	9	16	9	38	9

Where, P = Points and $R_1, R_2, R_3 = \text{Re} - \text{Rank}$

S.N.	Essential Factors	R_1	R_2	R_3	$d_{12}^2 = (R_1 - R_2)$	$d_{23}^2 = (R_2 - R_3)$	$d_{13}^2 = (R_1 - R_3)$
a.	Political problem	5	5	8	0	9	9
b.	Deficiency in administration	1	7	1	36	36	0
c.	Legal problem	7	6	5	1	1	4
d.	Quick amendment of income tax act	8	8	7	0	1	0
e.	Ineffective enforcement of law	3	1	3	4	4	0
f.	Tax payers having no responsible	2	2	4	0	4	4
g.	Lack of appropriate assessment procedure	4	4	6	0	4	4

h.	Tax evasion and avoidance	6	3	2	9	1	9
i.	Others	9	9	9	0	0	0
Total					$\{d_{12}^2 = 50$	$\{d_{23}^2 = 60$	$\{d_{13}^2 = 30$

n = 9

$$R_{12} = 1 - \frac{6 \sum d_{12}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 50}{9(9^2 - 1)} = 1 - 0.42 = 0.58$$

$$R_{23} = 1 - \frac{6 \sum d_{23}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 60}{9(9^2 - 1)} = 1 - 0.50 = 0.50$$

$$R_{13} = 1 - \frac{6 \sum d_{13}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 30}{9(9^2 - 1)} = 1 - 0.25 = 0.75$$

Appendix - 5

Test of Spearman's Rank Correlation

Rank Correlation – 4

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

Where,

r_s = Spearman's Rank Correlation

d = difference of corresponding ranks

n = Numbers of pairs observations

The value of r lies between – 1 and + 1

Calculation of Spearman's Rank Correlation Coefficient

S.N.	Major Causes	Tax Payers		Tax Administrators		Tax Experts	
		P	R1	P	R2	P	R3
a.	Globalization in economy	89	1	76	1	83	3
b.	Nepal is a member of WTO	86	2	59	2	71	5
c.	Current income tax could not raise public revenue as it could	75	3	57	3	92	2

d.	Income Tax Act 2058, could not meet tax policy	50	4	40	5	74	4
e.	Income Tax Act 2058 is over ambitious	39	5	41	4	100	1
f.	Others	18	6	21	6	21	6

Where, P = Points and $R_1, R_2, R_3 = \text{Re} - \text{Rank}$

Calculation of Rank Co-relation of Coefficient

S.N.	Major Causes	R_1	R_2	R_3	$d_{12}^2 = (R_1 - R_2)$	$d_{23}^2 = (R_2 - R_3)$	$d_{13}^2 = (R_1 - R_3)$
a.	Globalization in economy	1	1	3	0	4	4
b.	Nepal is a member of WTO	2	2	5	0	9	9
c.	Current income tax could not raise public revenue as it could	3	3	2	0	1	1
d.	Income Tax Act 2058, could not meet tax policy	4	5	4	1	1	0
e.	Income Tax Act 2058 is over ambitious	5	4	1	1	1	16
f.	Others	6	6	6	0	0	0
Total					$\{d_{12}^2 = 2$	$\{d_{23}^2 = 17$	$\{d_{13}^2 = 30$

$$R_{12} = 1 - \frac{6 \sum d_{12}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 2}{6(6^2 - 1)} = 1 - 0.06 = 0.94$$

$$R_{23} = 1 - \frac{6 \sum d_{23}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 17}{6(6^2 - 1)} = 1 - 0.49 = 0.51$$

$$R_{13} = 1 - \frac{6 \sum d_{13}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 30}{6(6^2 - 1)} = 1 - 0.86 = 0.14$$

APPENDIX-6

Test of Spearman's Rank Correlation:

Rank Correlation – 5

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

Where,

r_s = Spearman's Rank Correlation

d = difference of corresponding ranks

n = Numbers of pairs observations

The value of r lies between – 1 and + 1

Calculation of Spearman's Rank Correlation Coefficient

S.N.	Particulars	Tax Payers		Tax Administrators		Tax Experts	
		P	R1	P	R2	P	R3
a.	Develop IT	209	4	212	1	119	9
b.	Develop skilled manpower	217	3	195	4	162	5
c.	Improve in administration	239	1	183	5	267	1
d.	Political commitment	165	5	200	3	132	7
e.	Individual awareness	235	2	207	2	214	2
f.	Improve in reward and punishment	152	6	106	9	176	4
g.	Need of training programme	108	9	137	8	112	10
h.	Effective legal treatment	134	7	150	7	198	3
i.	Improve in organization structure	80	10	159	6	128	8
j.	Improve in auditing	111	8	101	10	142	6

Where, P = Points and $R_1, R_2, R_3 = \text{Re} - \text{Rank}$

Computation of Rank Correlation coefficient

S.N.	Essential Factors	R_1	R_2	R_3	$d_{12}^2 = (R_1 - R_2)$	$d_{23}^2 = (R_2 - R_3)$	$d_{13}^2 = (R_1 - R_3)$
a.	Develop IT	4	1	9	9	64	25
b.	Develop skilled manpower	3	4	5	1	1	4
c.	Improve in administration	1	5	1	16	16	0
d.	Political commitment	5	3	7	4	16	4
e.	Individual awareness	2	2	2	0	0	0
f.	Improve in reward and punishment	6	9	4	9	25	4
g.	Need of training programme	9	8	10	1	4	1
h.	Effective legal treatment	7	7	3	0	16	16
i.	Improve in organization structure	10	6	8	16	4	4
j.	Improve in auditing	8	10	6	4	16	4
Total					$\{d_{12}^2 = 60$	$\{d_{23}^2 = 162$	$\{d_{13}^2 = 62$

n = 10

$$R_{12} = 1 - \frac{6 \sum d_{12}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 60}{10(10^2 - 1)} = 1 - 0.36 = 0.64$$

$$R_{23} = 1 - \frac{6 \sum d_{23}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 162}{10(10^2 - 1)} = 1 - 0.98 = 0.02$$

$$R_{13} = 1 - \frac{6 \sum d_{13}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 62}{10(10^2 - 1)} = 1 - 0.38 = 0.62$$

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