

CHAPTER- I

INTRODUCTION

1.1. Background of the Study

Income tax is a tool to achieve economic growth in any country. Income tax is accepted not only as a means of raising the required public revenue, but also as an essential fiscal instrument for managing the economy. An optimal tax rate has to compromise between the state's revenue and its economic development. A high tax rate would deter saving and development, while a lower tax rate would lead to less revenue to the state. A tax directly influences the savings of individuals and companies; it is a double edged sword used to curtail consumption activity and at the same time, allows the taxpayer to save money in different development activities (Swami, 1995).

According to the economic theory taxation (except for the lump sum taxes) creates distortions and in turn impact negatively on economic growth. Considering a simple production function it is obvious that taxation can affect growth through its impact on (1) physical capital, (2) human capital and (3) through its effect on the total factor productivity. According to some researches corporate and personal income taxes are the most detrimental to growth, while consumption, environment and property taxes are less harmful (OECD, 2008).

Tax revenue is the important source of revenue. Simply, tax is the liability imposed upon natural as well as artificial individual to pay an amount as compulsory contribution to public authority. Tax is only levied as per law enacted by authority and this do not provide any special and corresponding benefits to taxpayers for paying tax, but amount thus collected is spent for common interests and public welfare. Tax is classified into direct and indirect tax. Direct tax is directly levied either for generation of income or for handling assets while indirect tax is collected indirectly for consumption or expenditure. The person himself who is legally imposed to pay should pay the direct tax. Income tax, Rent tax, Interest tax, house and land tax are the examples of direct tax. Another individual than the legally imposed person pays indirect tax wholly or partly. Value Added Tax (VAT), Costume duty, entertainment

tax and so on falls under this category. The contribution of tax revenue in national revenue is 81.09% in F.Y. 2006/07 (Economic Survey 2008).

Taxes in income are the most important source of revenue for governments of developed countries. But developing countries at present produce far less revenue than costume duties and taxes on internal transactions. But these taxes are emphasized in all developed as well as developing countries, because they have the potential for increasing the yield of the tax system and achieving a system of taxation that satisfies the demand for equity and social justice (Swami, 1995).

One of the fundamental characteristics of tax is that it can only be levied as per law. Constitution of Nepal 2063, article 89 (1) has declared this statement. Changes and amendments in laws are made as per requirement. Generally change in tax law is needed when economic policy of country is changed. Current world economy is moving along with liberalization, globalization and privatization. To get maximum benefits from these factors for rapid economic growth of nation, Nepal is also trying to improve its existing economic policy. Therefore for timely improvement and change in existing tax law, after long discussion and investigation income tax act 2058 was passed and enacted through legislation replacing existing income tax act 2031. Government has made and enacted Income tax regulation 2059 to facilitate the act.

Among internal resource, taxation is a prime factor. It is the pillar of the fiscal policy. It is the backbone of welfare of the state. Government mostly imposes tax to finance, various welfare and social service. The amount which is legally collected from the people to manage the expenditure of the government from its net income is called income tax. According to the Income Tax Act, 2058 income includes all the income which is received from business, investment and employment.

Tax may be classified into two types; direct and indirect taxes. Direct tax is directly paid by a person on whom it is legally imposed. Some of the direct taxes are income tax, property tax, interest tax, death tax and vehicle tax. Indirect tax is that tax which is imposed on one person but paid partly or fully by another. Some of the indirect taxes are sales, entertainment tax, passenger tax, hotel tax, important export duty, excise duty and Value Add Tax (VAT) etc. Income tax is one of the main components

of direct tax. It is collected from public enterprises, semi-public enterprises, private corporate bodies and individuals. In other words, tax is collected by both direct and indirect ways.

Developing countries like Nepal, having low per capita income highly depend on the indirect tax rather than the direct tax. The share of income tax is much lower in the composition of direct tax revenue. In the initial stage of economic development, indirect tax has its own significant role similarly after a certain stage of economic development direct tax plays a vital role.

To build up sound financial status and achieving social justice, economic sources should be mobilized effectively, through direct tax like income tax. It has given high preference to the developed and developing countries. People who have paid tax are invested on public expenditure, although they cannot get any direct benefit from their income taxes. They can observe the use of collected fund through it has significant role. Nepal still has been unable to maximize the collection of income tax. At present, the contribution of income tax is insignificant. It is only about 17.13% in total revenue in the fiscal year 2065/2066 (2008/09).

1.2. Statement of the Problem

It has been about half of century Nepal is trying on planned developing efforts. But it is already suffering from resource constraints, massive poverty, and rapid growth of population, increasing frictional and seasonal unemployment, diseases, and aggressive dependent on the agriculture, subsistence living standards and poor infrastructure.

A government needs development with higher economic growth to overcome such serious problem for which the government should have adequate financial resource. In Nepal, resource mobilization is still poor that does not cover the requirements. The gap between government expenditure and internal source is known as resource gap. Nepal has been suffering from this problem and is highly dependent on foreign sources. Resource gap has incurred in Nepalese finance because the expenditure of government is increasing at a faster rate than the increase in revenue. The resource gap is widening continuously with the incremental of total expenditure in respect to total revenue collection.

In other hand, it has been very complex in these fiscal years to bring all stakeholders into effective tax system in Nepal due to the miss implementation of tax law and unwillingness of people to pay tax in time. The tax leakage and tax hiding is also another problem in Nepal that directly effects to the national revenue on the country (Sharma 1998). To address various problems related with tax and revenue in Nepal the following questions can be raised:

1. Whether there is the government of Nepal has been able to incorporate income tax payer from the present structure?
2. What is the contribution of income tax on national revenue in different fiscal year in Nepal?
3. Whether the tax system of Nepal is effective?

1.3. Objective of the Study

The objectives of this study is to analyze the contribution of income tax on government revenue of Nepal and give appropriate suggestion and information to improve the tax system so that the government can collect more than more revenue and use it in the way of economic development of the country. General objective of the study is to analyze the contribution of income tax in government revenue of Nepal. Main objectives of this study are as follows:

1. To identify the structure of tax revenue in Nepal.
2. To analyze the contribution of income tax on national revenue in different fiscal years.
3. To evaluate the effectiveness of tax system of Nepal.

1.4. Significance of the Study

Some fact that comes from research in any topics is important in itself. This study is valuable and important for those, who are interested to know about the contribution of income tax on national revenue of Nepal. Basically, tax administrators and tax authorities, taxpayers, potential researcher, students, teachers and other concerned authorities have been benefited from this study. Researcher hopes that this study will

help to government and other institutions to formulate their policies and programs about tax system. This study is important to measure the impact and contribution of income tax in national revenue of Nepal. This study also useful to those stakeholders and researchers who want to gain knowledge and skills to develop new research or reporting related to field. The complete thesis on this topic may be an evidence for the student who get master degree.

Nepal is a least developed country of the world. The government needs huge amount of funds to spend on daily expenses as well as development activities. The resources collected internally are sufficient to maintain day-to-day administration of the country but the revenue surplus is not adequate to undertake development activities. Every year, Nepal has been presenting deficit budget, there is incensement. So the country is heavily dependent on the foreign aids and grants to undertake developmental activities.

In this context, the easy and long lasting way to increase revenue to strength the internal sources is income tax. So, the importance of income tax cannot minimize for reducing economic inequality as well as development activities. Thus," A study on contribution of income tax to national revenue of Nepal" has been chosen as a relevant topic for the study.

The study might be fruitful for all policy makers, planners, tax officer, tax administrators, civil society, stakeholders, students, researchers, and all the interested people who want to know about income tax.

1.5. Limitation of the Study

The study on "income tax and its contribution in the national revenue" is not free from limitations such as:

- 1 . The secondary data has been used in this study;the reliability depends on the sources of data.
- 2 . This study has been covered only recent five years data from FY 2013/14 to 2017/18.
- 3 . The area of income tax is very wide; so income from public enterprises, private corporate bodies, remuneration and tax on interest have been covered in this study.

- 4 . Reliability of the secondary data has not been tested.
- 5 . Tax planning and tax avoidance are not taken in to consideration in this study.
- 6 . Effectiveness has been measured on the basis of the contribution of income tax in GDP.

1.6. Chapter Plan

The study is planned to organize into following five chapters, they are:

Chapter – I: Introduction

The first chapter includes the introduction and background of the study, statement of the problem, objectives of the study, significance of the study and limitations of the study.

Chapter – II: Literature Review

The second chapter includes Conceptual review, Review of Previous Works and Research Gap. In this chapter the researcher has reviewed from books, journals, thesis and independent studies are taken into account.

Chapter – III: Research Methodology

The third chapter research methodology includes the Research design, Population and sampling, Sources of data, Data collection procedure, Data processing procedure and Data analysis tools and techniques.

Chapter- IV: Results

Fourth chapter includes Results and Findings.

Chapter-V: Conclusion

Fifth chapter includes Summary, Conclusion and Implications.

CHAPTER- II

LITERATURE REVIEW

2.1 Conceptual Review

Every government needs fund to run properly. Money is like a blood circulation in the body for every nation. The resources of fund of government revenue can be divided into two parts – tax revenue and non-tax revenue. The government of any country requires sufficient revenues to launch the development programmer to handle the daily administration, to keep peace and security and to launch other public welfare programmer. The government collects revenue from various sources. These sources can be: i) taxes ii) revenue from government corporation and public enterprises iii) fees iv) special assessment v) fine and penalties and vi) foreign grants and loan. Income tax is one of the most important sources of national revenue for every government, whether it is developed or developing countries. In Nepal, nearly by 77 percent of total revenue comes from tax revenues and the rest 23 percent from non-tax revenue.

Great Britain is the first country to introduce income tax in the world. The British government introduced income tax in 1799 in order to generate revenues to finance War against France. The Great Britain imposed the income tax regularly from 1860. Income tax is introduced in Switzerland in 1840, Austria in 1849, India in 1860, USA in 1862, Italy in 1864 and Nepal on 1959.

Implementation of income tax in Nepal is not so long history. Even, before 1951, the government of Nepal did not have any plan and policies for the development of the country. Because of the family and autocratic rule of the Rana, income source and expenditure project of government is not made public. The idea of introducing income tax in Nepal originated along with the first Budget on 21st Magh 2008 B.S. (1952).

The finance minister in the first budget speech said „a proposal to levy an income tax including tax ohm agriculture is under consideration. Several attempts were made to introduce income tax in subsequent years. However, it could not be introduced until 2016 due to political instability. For the first time, the finance act 2016(1959) had

imposed tax on business profit and remuneration in Nepal. In Nepal, after the democracy of 2007 B.S., deliberate planning process began only after 2013 B.S. and huge amount of revenue is required for the process of economic development, a lot of capital is needed.

Tax is a compulsory payment to the government from a person or an entity according to law. It is contributed to the government without expectation of direct benefit to tax payer. The government mobilizes these taxes for public interest. There is no universal definition of tax. For the best concept of it, some definition can be quoted:

A tax is a compulsory contribution from person to the government to defray the expenses incurred in the common interest of all without reference to special benefit (Amatya, et al., 2004:3).

A tax is a compulsory payment to the government without expectation of direct benefit in return to the taxpayer (Amatya, et al., 2004:3).

A tax is a compulsory contribution of wealth of person or body of persons for the service of public powers (Amatya, et al., 2004:3).

“Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefit upon the resident of the states.” (Dhakal, 2001:2)

From the above definitions, it can be said that:

-) A tax is a compulsory contribution to the state from a person or corporate.
-) The tax payers do not receive the equivalent benefit from the government.
-) There is no discrimination among the taxpayers other than specified by the law.
-) Tax is paid to the state to perform the functions of the government.
-) The amount of tax is spent for common benefits and interest for people. etc.

Tax revenue constitutes direct tax and indirect tax revenue. Burgess, (1993) “An indirect tax is imposed on one person but paid partly or wholly by another.” It is levied on one person who does not bear it from his/her own income. The tax liability

is transferred by collecting it from customers by adding it to the price of goods or services. The government indirectly collects such taxes from the general public. The examples of indirect tax are customs tariff, excise duty, sales tax, value added tax, entertainment tax, hotel tax, passenger tax etc. in Nepal; indirect tax contribute about 79% in the tax revenue of the government. Indirect tax is more flexible than other. There is uncertainty about the collection of indirect tax. Every person either rich or poor pays equal amount of tax on the use of goods or services. Convenient, mass participation, elasticity, less chances of tax evasion, control in consumption etc. are the main merits of indirect tax and uncertainty, inequitable, bad effect, lack of awareness, consumer exploitation etc. are the main demerits of indirect tax.

On the other hand, according to Dalton, "Direct tax is really paid by the same person on whom it is legally imposed." Taxpayer cannot collect direct tax from other person. The impact of direct tax is limited within the taxpayer who is liable to pay such tax. Income tax, gift tax, interest tax, property tax, vehicle tax, house and land tax, contract tax, death tax etc. are the example of direct tax. The government collects and realizes such taxes directly from the taxpayers. In Nepal direct taxes contribute about 21% in the tax revenue of the government. Equitable, certainty, elasticity, economy, public awareness etc. are the main merits of direct tax and economic burden, possibility of tax evasion, lack of mass participation, discourage saving and investment, inconvenience etc. are the main demerits of direct tax. Income tax is a direct tax. In Nepal, income tax is the major source of direct tax revenue.

2.1.1 Concept and definition of Income Tax

To know the term „income tax, it is to know the term income and tax separately. According to Henry Simons, "Income as economic gains received by the person during the particular period." It includes the person's consumption during a particular period of time as well as the net increase in the individual's personal wealth during the same period of time.

The term tax refers a compulsory contribution from income holder to the government. Taxation is the compulsory contribution from a person to the government to defray expenses occurred in the common interest of all without reference to special benefit conferred (Dhakal, 2001).

In this way, income tax, as the single word itself refers to a tax levied on income. In a broader sense, income tax is a levy based upon the production or receipts or gain of the taxpayers within a definite period of time. From the 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 view of equity (Dhakal, 2001).

An income tax is imposed upon the incomes of an individual after the exemption limit. Only the taxable income is object to tax, otherwise, the objectives and principles of taxation will not be fulfilled. Income tax is imposed upon excessive income over limit. All income above the tax exemption level is subjected to income tax that is based on the income tax acts of the concern country. Different countries may have different concepts on income tax. For example, sec 2 of the Indian tax act, 1961, keeps profits and gains, dividend, voluntary contributions received by charitable trust, value of any perquisite or profit on lieu of salary, any capital gain, winning from lotteries, cross word puzzles etc. are under the head of income for tax.

In Nepal, according to income tax act 2002, section 2(h), “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 and tax imposed under this act is known as income tax.”

2.1.2 Development of Income Taxation in Nepal:

Tax has been one of the major sources of government revenue from the ancient time in Nepal. But reliable records about taxation in ancient and medieval Nepal are not available. At that time, tax on agriculture income is called „Bhaga and tax on business income is called „kara. At that time the government could not collect huge amount of money in the form of taxation and taxes were levied to the merchant, travelers and farmers of cash, kind or labor. In some occasion, gold and agricultural products were also paid as taxes but the nature of these taxes were temporary and taxes were raised for special purpose.

During the period of 1763-1846 A.D., taxation had a broad sense in Nepal and different types of taxes were levied to generate maximum revenue. During 1864-1950 A.D., the period of Ranas, there was no formal provision for taxation. Under the family rule of Ranas, for all practical purpose, there was no difference between the personal income of the Prime Minister and government fund. The main sources of the revenue in Nepal were land tax, Custom tax and Excise duties in the form of lump sum contracts, royalties on forest, royalty's supply of porters and soldiers, entertainment tax and few other minor taxes.

There was no direct tax in Nepal except Land tax collected on a contractual basis and Salami which the government employees used to pay out of their salary at a very small percentage (Poudel & Timalina, 1990).

After the introduction of Democracy (2007 B.S) in Nepal, the role of government changed. Since then the government was enforced to implement development activities.

A sound and efficient income tax system is necessary to maximize the revenue collection from income tax. Whole income tax system is made of three-sub system: Income tax policy, Income tax laws and income tax administration.

The history of modern income tax in Nepal is not very long. The idea of introducing income tax in Nepal originated along with the first „Budget on 21st Magh 2008 B.S, (1952). Then finance minister in the first budget speech said „A proposal to levy an income tax on agricultural income is under consideration. Several attempts were made to introduce income tax in subsequent years. However, it could not be introduced until 2016 B.S. due to political instability. For the first time, the Finance Act 2016(1959) had imposed tax on business profit and remuneration in Nepal. Finally the first elected government introduced “Business profit and Remuneration Act, 2017 to impose income tax on remuneration and business profit in Nepal. Due to narrow coverage of that act, it was replaced by the “Nepal Income tax act 2019”. The coverage of income tax was extended through this act. This act divided the heads of income into nine parts: income from business, profession\occupation, remuneration, house and land rent, agriculture, investment, insurance business, agency business and

other sources. For the fulfilling the needs of time, it was replaced by another act, Income tax act, 2031.

In the course of development and modernization of income tax system, the new Income Tax Act, 2058 become effective since Chaitra 19, 2058. It is also applicable to residents wherever outside Nepal.

Parliament makes the laws to implement the various policies. The government levies and collects the income tax in accordance with law. The constitution of the kingdom of Nepal, 1990 has made the clear provision about it. No taxes shall be levied and collected except the accordance with law. Present legal provision of income tax is associated with constitution of the Nepal, 1990, income tax act 2002, income tax rules 2002, Finance Act of concerned financial year and other Finance ordinance etc. The development of income tax in Nepal can be presented with the implementation of different income tax acts with the flow of time.

2.1.3 Business Profit and Remuneration Tax Act 1960(2017 B.S.)

The government of Nepal introduced a formal tax act for the first time in Nepal in 1960 (2017 B.S.) in the form of, “Business profit and Remuneration Tax Act 1960”. An ordinance was issued by the king to collect the tax. According to this act, only Business profits and Remuneration on income were subjected to tax but the revenue for these taxes should not be collected properly according to originals estimates. This act consisted of 22 sections.

Following were the main features of Business profit and Remuneration Tax Act 1960:

-) The coverage of income tax was very narrow because, only business profit and remuneration income were subject to tax.
-) There were no deductions specified for the purpose of calculation the taxable income.
-) Tax on remuneration was to be deducted at source.
-) The basis of calculating the tax liability for remuneration was income of the current year, and for business profit, it was the profit at preceding year fiscal year.

-) There was a provision of tax exemption on salary of foreign citizen, dividend of shareholders, profit to be spend in religious of public welfare activity, crop from own land, allowances granted by HMD to prime minister, ministers assistant minister, chairman, speaker, amount drawn from provident and saving fund.
-) In case of default, fines ranged from rs. 500 to rs, 5000 were prescribed.
-) The taxpayer was given the right to appeal against tax officer and assistant to local Magistrate, “BadaHakim”. Appeal could be judged at Revenue Court.

Every appeal was to be accompanied by the security deposit or guarantee for the amount of tax payable.

Because of narrow coverage vague, this act was replaced by new „Income Tax Act 1962 (2019B.S.)

2.1.4 Income Tax Act 1962(2019 B.S.):

This act had implemented form July 1962. The main purpose of implementation of this new act was not only to raise government revenue but also to reduce inequality of income and wealth distribution with social justice and to create tax-paying habit of the taxpayers. The income tax act had 29 sections. It was amended only one time in 1972 (2029 B.S) Following were the main features of Income Tax Act 1960:

-) There were nine sources of income for tax purpose: income from business. Remuneration, profession or occupation, house and land rent, investment in cashor kinds, agriculture, insurance business agency and any other sources.
-) The personal as well as residential status of the taxpayer for tax purpose was defined.
-) The act had defined basic terminology such as taxpayer, tax officer, company,firm, profit, remuneration, tax assessment, resident, and nonresident etc.
-) Provision was made to carry forward of losses for a period of two years.
-) Certain deductions were allowed to calculate net income and taxable income.
-) The provision was made to constitute the net income assessment with five members.

-) Provision was made for payment of tax in installment as well as for advancepayment of tax.
-) Provision was made for reassessment of tax as well as rectification of arithmetic errors.
-) Provision was made for the exemption of income tax for new industries for certain period.
-) Income tax assessment and collection procedure were specified along with the method of computing net income.
-) Agriculture income was brought under the scope of income tax for the first time. But the Finance Act 2023 B.S. exempted this income fully from income tax. The finance act 2030 B.S. again brought agriculture income under the scope of tax. The finance act 2034 again exempted agriculture income from income tax because of heavy political pressure.

2.1.5 Income Tax Act 1974 (2031 B.S.):

The basic framework of this act was derived from previous Income Tax Act 1962. It had 66 sections. This act was amended for eight times in 1977, 1979, 1984, 1985, 1986, 1988, 1998 and lastly 1993 to make it more practical and to eliminate confusing terms and conditions. His Majesty's government enacted the Income Tax Rule 1982 (2039-01-27 B.S.) in accordance with the authority given under the section 65 of Income Tax Act 1974.

Following were the other main features of Income Tax Act 1974:

-) This act had certain definitions, especially relating to tax, assessment of tax, income, income year, personal status of taxpayer, resident and non resident taxpayers, firm, company, family, philanthropic work etc.
-) The sources or heads of income into five headings: a) Agriculture, b) Industry, business, profession or vocation, c) Remuneration d) House and Land rent and e) other sources.
-) The methods of computing net income from various sources had been specified.

-) The deduction allowances for computation of net income were specified for all sources of income.
-) Certain types of income were exempted from income tax under sec.42.
-) This act had made provision for self-assessment of tax for the first time in Nepal.
-) Carry forward of losses were allowed for three years.
-) Life insurance premium and donation were allowed for deduction as common expenses with some restrictions.
-) Appointment rights and duties of tax officers and tax payers had provided and mentioned clearly.
-) Rights, duties forms, appeal were specified.
-) Provisions of penalty up to rs.5000 in case of failure of maintain or preserve accounts for the period of six years.
-) Progressive rate of tax were applied.
-) The process of assessment, reassessment, appeal, advance payment of tax, deduction of tax at source and refund of tax were clearly specified.

2.1.6 Income Tax Act 2002 (2058 B.S.):

The income tax act 2002 (2058 B.S.) became effective since 1st April 2002. The act governs all income tax matters and is applicable throughout the country Nepal. This act consists of 143 sections along with 24 chapters. The objectives of introducing the new tax act are to enhance the revenue mobilization through effective revenue collection procedures. To promote the economic development of the nation is the main motto of this act. This new tax act has imposed the tax on income realized from every person; a foreign permanent establishment of a non resident person situated in Nepal and has repatriated income for the year, a person who has received a final withholding payment during the year and who has taxable income for the year. 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.

Objectives of Income Tax Act 2002, (Neupane, 2004).

-) To increase the tax coverage.
-) To make income tax related provisions clear and transparent.
-) To interlink Nepalese tax system with tax system of other countries.
-) To make tax system based on account.
-) To minimize tax avoidance, tax evasion and tax delay payment.
-) To make tax system compatible to modern economy.
-) Separating administrative and judicial responsibilities.
-) Reducing the scope of discretionary interpretation of tax administration thereby ensuring simplicity, uniformity and transparency.
-) Defining the power as well as authority of the tax administration.
-) Distinguishing taxpayers violation of civil duties and criminal offences/
-) Making more effective and responsibility to tax administration.
-) Making more responsible to tax payer by emphasizing on self-tax assessments systems.

2.1.7 The special features of income tax act 2002:

-) The Act has broadened the tax base. Tax rates are spelled out in the Act itself and the tax rates and concessions are harmonized on equity grounds.
-) A full-fledged self-assessment system is implemented and the presumptive taxation and current year taxation system are strengthened.
-) A full-fledged self-assessment system is implemented and the presumptive taxation and current year taxation system are strengthened.
-) 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.

-) This act has classified all income into three headings under section 3: a) Employment b) Investment and c) Business.
-) Pension, gratuity, Dashain allowance, refund of retirement fund etc. also treated as taxable income for the first time in Nepal.
-) All natural persons are given right to claim medical tax credit and extra exemption limit has been provided for the taxpayers of different remote areas.
-) The rate and method of charging depreciation is fixed for all the depreciable assets.
-) As proposed to previous tax acts, Income Tax Act 2002 has specified the tax rate applicable to the taxpayers of different categories. It was practice in the past that the rate of tax used to be given in Finance Act of each year.

2.2 Review of Previous Works

In this chapter I have submitted the review of previous thesis, Articles, Journals and Other relevant published or non-published notes too.

2.2.1 Review of Articles

Taxation is seen as a burden which every citizen must bear to sustain his or her government because the government has certain functions to perform for the benefits of those it governs. A précised definition of taxation by Farayola (1987) is that taxation is one of the sources of income for government, such income as used to finance or run public utilities and perform other social responsibilities. Oji (1994) defines tax as a levy imposed by the government against the income, profit or wealth of the individuals and corporate organizations.

Taxation is the most important source of revenue for modern governments, typically accounting for ninety percent or more of their income(Adams, 2001). Taxation is seen by as a compulsory levy by the government through its agencies on the income, consumption and capital of its subjects. These levies are made on personal income, such as salaries, business profits, interests, dividends, discounts and royalties. It is also levied against company's profits petroleum profits, capital gains and capital transfer. Whereas, Taxation is a concept and the science of imposing tax on citizens. According to him, tax is itself a compulsory levy which is required to be paid by

every citizen (Okon, 1997). It is generally considered as a civic duty. The imposition of taxation is expected to yield income which should be utilized in the provision of amenities, both social and security and creates conditions for the economic well being of the society. Income tax can be regarded as a tool of fiscal policy used by government all over the world to influence positively or negatively particular type of economic activities in order to achieve desired objectives (Okon, 1997). The primary economic goals of developing countries are to increase the rate of economic growth and hence per capita income, which leads to a higher standard of living. Progressive tax rate can be employed to achieve equitable distribution of resources. Government can also increase or decrease the rates of tax, increase or decrease the rate of capital allowances (given in lieu of depreciation) to encourage or discourage certain industries (e.g. in the area of agriculture, manufacturing or construction) or may give tax holidays to pioneer companies. Income tax therefore can be used as an agent of social change if employed as a creative force in economic planning and development.

The theory of taxation could be based on the activities between tax liability and the state, the primary purpose of taxation is to generate revenue for the government to settle its expenditures and for the provision of social amenities and welfare for populace. Bhartia (2013) this reasoning justifies their position of taxes for financing state activities and for the provision of a basis for apportioning the tax burden between members of the society. They see the socio political theory of taxation as a advocates for a tax system which is not designed to serve individuals but one that cures the ills of society as a whole. The society is made up of individuals but is more than the sum total of its individual members; consequently, the tax system should be directed towards the health of the society as a whole, since individuals are integral part of the broader society (Chigbu, 2012). Bhartia (2013) asserts that the expectancy theory of taxation is such that every tax proposal passes the test of practicality and must be the sole consideration before the tax authorities in a bid for tax proposal. It strongly emphasizes that the economic and social objective of the state is considered irrelevant since it is meaningless to have a tax that cannot be levied and effectively collected. The benefits-received theory assume an exchange or contractual relationship between the state and the tax-payers, certain goods and services are provided by the state and the cost of such goods and services are contributed in the proportion of the

received benefits, thus, the benefits received present the basis for distributing the tax burden in specific manner.

This theory overlooks the possible use of the tax policy for bringing about economic growth or stabilization (Chigbu, 2012). They see the cost of service theory as very similar to the benefits-received theory, the theory emphasizes semi commercial relationship between the state and the citizens to a greater extent. The implication according to Chigbu, *et.al*, (op.cit) was that the citizens are not entitled to any benefits from the state and if they do receive any, they must pay the cost thereof. In this theory, costs of services are scrupulously recovered unlike the benefits-received theory where a balanced budget is implied. Another theory of interest is the ability to pay theory, the principle in this taxation holds that taxes imposed on tax-payers should be based on the progressive tax approach which maintains that taxes should be levied according to a tax-payer's ability to pay. This system of taxation requires that higher earning persons pay taxes higher than those with lower income. The basic tenet of this theory is that the burden of taxation should be shared by the members of the society on the principle of equity and justice and that this principle necessitates that tax burden is apportioned according to their relative ability to pay. Adam Smith is the brain behind the principle of equity and justice, he advocates that the amount of tax payable should be equal, this by implication means that tax payable is in proportion to earned income. Equity and justice is assumed only when the tax system is based on the ability of the tax payer to pay the amount levied as tax liability.

Economic growth and development are backed by some theoretical frameworks, one of which is the Harrod-Domar model which was developed independently by Sir. Roy Harrod in 1939 and Evsey in 1946, it is a model that makes obvious the rate of economic growth in an economy, however, emergence of economic growth and development theories can be traced back to Adam Smith's *Wealth of Nations*. Adam Smith opines that the wealth of a nation depends on division of labor and is limited by the limits of division of labour. However, a later postulation by Richardo, Malthus and Mill took definite shapes in correcting Adam Smith's exposition with further analyses which took a decade eventually surpassed the Smithian view.

The concept of taxation has been several viewed by academics differently though pointing toward same direction, Wambai and Hanga(2013) opine that taxation is a compulsory levy by the government through its agent on the profits, income, or consumption on its subjects or citizens. It is a compulsory contribution made by individuals and organization towards defraying the expenditure of government (Dandago and Alabede 2001). It plays a very important role in the economic life of a developing country. Today, Nigeria is indeed in dire need of effective and efficient tax system in order to generate enough revenue that will stimulate economic growth (Oji, 2000). Olhoft(2012), taxation may be seen as a threat to individual's proposed standard of living or even business proposed revenue generation, but to the government and the fiscal need for taxation, it is the pillar and facilitator of development. In national development, taxation is increasing, and the introduction of new technology has stimulated continuous economic growth and development. The real purpose of taxation is to take purchasing power from tax payers so that taxpayers relinquish control over economic resources and make them available to the state. It is a fiscal policy instrument which the government manipulate to achieve macroeconomic objective. This objective could be an expansionary one directed at reducing the rate of national unemployment, government through tax incentives can stimulate investment as the tax liability on investors is reduced and more money becomes available for investment purposes thus, reducing the level of poverty as more unemployed people becomes gainfully employed, this for sure is a signal for economic development. Taxation ensures redistribution of income and wealth, thus, a tool for the achievement of socially desirable goal (Olakunri, 2000).

Income tax is a tool to achieve economic growth in any country. Income tax is accepted not only as a means of raising the required public revenue, but also as an essential fiscal instrument for managing the economy (Burgess, 1993). Of all the taxing systems, income tax plays a major role in generation of revenue and distribution of income in any country. If income taxation is poorly designed, it may lead to fiscal imbalance, insufficient tax revenue and distortions in resource allocation that can reduce economic welfare and growth (World Bank, 1991). Hence, an ideal tax system would achieve a balance between resource allocation, income distribution and economic stabilization (Lewis, 1984).

Patterns of income taxation (both in level and in composition) differ from country to country because of economic, cultural and historical factors. Ratios of tax revenue to gross domestic product (GDP) in developing countries are typically in the range of 15 to 20%, compared with 30% in industrialized nations (World Bank, 1991). It is also established that countries have different approaches to tax administration. Maisto (1988) stated that “contradictory approaches towards the subject matter have been shown by the tax authorities of different countries because of their diverging interests”.

An optimal tax rate has to compromise between the state's revenue and its economic development. A high tax rate would deter saving and development, while a lower tax rate would lead to less revenue to the state. A tax directly influences the savings of individuals and companies; it is a double edged sword used to curtail consumption activity and at the same time, allows the taxpayer to save money in different development activities (Swami, 1995). The income tax financing the current social security benefits such as health, security and provision of utilities draws heavily upon income that otherwise would have been saved. Instead of accumulating capital, this income goes to social security transfers which are probably consumed (Boadway, 1982).

Bartik (1994) suggested that a 10% lowering of taxes would raise employment and investment between 1 and 6%. World Bank periodically relates that economic development is directly correlated to the level of taxation, more so in developing nations where the lower marginal tax rates have higher economic growth. In addition, policymakers in these countries have a “keen interest in the elasticity of economic activity with respect to taxes, suggesting that states and regions are interested in manipulating their tax systems in an attempt to attract business or to foster growth” (Wasylenko, 1997). On the other hand, income tax rates are increased due to factors such as enormous reduction in the purchasing power of money, heavy tax erosion, urgent need for yield and dynamic public expenditure (Boadway, 1982). While dealing with the effects of income tax rates (ITR) on economic reforms, Henry and William (1996) suggested that one should evaluate the desirability of reform proposals and the impact of such reforms on individuals and businesses as a whole. They further stated that ITR change would revolve around three factors: the tax

base, allowable deductions and economic development. While dealing with the ITR, it is suggested that one should study the effects created by these rates, especially the impact of ITR on economic growth (Holger, 2003).

Various governments have different approaches and methods of fixing the ITR. The French Government recently introduced preferential tax treatment by reduced ITR for young innovative companies completely based on the economic growth. The scheme was originally proposed to the State by French biotechnology as “a way to rapid and strong economic growth” (European Chemical News, 2004).

Martin and George (2003) analyzed several tax rates and expenditure categories and concluded that the tax system has a direct impact on the growth rate of the economy of a country. Long-term economic growth has a direct link with the country's tax policy (John and Pamela, 2003). Fixation of ITR may be based on different systems of taxation. Akira (2003) demonstrated that a flat rate wage tax stimulated economic growth, while interest income taxation did not foster such growth. Tetsuo (2003) suggested that taxation based on environmental pollution factors results in two contradicting issues such as reduction in production and increase in tax revenue, but in the long run, this system will help the healthy economic growth for future generations. Olhoft (2003) is of the opinion that spending millions of taxpayers' money on tax breaks and tax incentives is most likely a misguided strategy for any State when the State is in budget deficit.

2.2.2 Review of Previous Thesis

Sharma (1998), in his dissertation entitled Value added tax in Nepal: issue and options. Submitted to the central department of economics Analyses of the different aspects of VAT; issues concerning applicability effects, revenue potential, the narrow tax base, inefficiency, distortion character, weak administration are the major defects of the existing sales tax. Adoption of fully fledged VAT would make tax system more productive and elastic by widening the tax base and it would not be more regressive than the present tax system. Tax base in VAT would increase about three fold of the present sales tax base in case of imported goods.

Shrestha (1967), in his thesis entitled “Income Tax in Nepal.” He has discussed about income tax act and rules, historical background and administrative aspects of income

tax. In his research he has pointed out various recommendations, some remarkable recommendations of the researcher were as follows.

-) Income tax should be made more scientific, systematic and the social and economic justifiable.
-) Exemption limit should be determined on the basis of member of the family.
-) Taxed should be charged on agricultural income.

Neupane(2004),in his dissertation entitled,“A study on Role of Income Tax incollection of Nepal”, collected view from income tax administration, income tax exportand income tax payers through field survey in his dissertation. His major findings from his opinion survey are:

-) Income tax is a suitable means of raising fund.
-) Income tax paying habit of Nepalese people is poor.
-) Fine and penalties can help to increase tax- paying habit of Nepalese people to some extent but it should not be used as only one tool for increasing taxpayinghabit of Nepalese people.
-) Tax education is must necessary in Nepal to increase the tax consciousness of taxpayer and voluntary compliance.
-) Most specific objective of income taxation is to increase the public revenue and to promote economic development of the country.
-) The income tax system of Nepal is not efficient, basically due to inefficient income tax administration, lack of consciousness of taxpayer and increasing habitof tax evasion.
-) Inefficient tax administration, reluctance of taxpayers to maintain account, poor tax mentality and taxpayers“ compliance are the major causes to tax evasion in Nepal.
-) Clear act, rules and regulations are the most important factor for the effectiveness of income tax in Nepal.
-) Current income tax act is more effective than previous.

“Income Tax Act 2002” has been implemented from 1st April 2002. This act replaces the old income tax act, “Income Tax Act 1974”. Similarly, the new “Income tax rule

2002” has also been enacted for the purpose of effective implementation of the new act. Newly issued Finance Ordinance has been also enacted. This study has been conducted under these acts and other related rules and regulation.

Besides these, many of the course books for Bachelor and master’s level, related to tax system in Nepal, are published. These books are also helpful to know the history, development, present situation, rules, importance, practice etc. Dr. Chandramani Adhikari, Mr. Kamal Deep Dhakal, Girija Prasad Koirala, Surendra Keshar Amatya, Dr. Bihari Binod Pokharel, Rewanta Kumar Dahal, Bhagwati Prasad, Dr. Puspa Raj Khadka, Dr. Rup Khadka etc. are the main writers related to income tax and tax system in Nepal.

In this way, many books, dissertation, reports, articles published in journals and newspaper like Rajaswa, Gorkhapatra, Kantipur, The Kathmandu post, The Himalayan Times, Annapurna Post etc. publication of ministry of finance such as Budget Speech, Economy Survey, Income and Expenditure report etc and different websites were reviewed in the study.

Agrawal (1978), started the new phase of Nepalese income tax study from the widely explained research work “Resources Mobilization for Development; the reform of income tax in Nepal”, published by center for economic development and administration (CEDA). He presented details about income tax in Nepal. His study analyzing vividly about role of income tax from legal aspect and administrative aspect, role of income tax for resource mobilization and other important facts. He has given his second contribution towards income tax in 1980 through his report „Resource Mobilization in Nepal. He has focused his efforts towards the new dimension in the side of Nepalese income tax. His study is the first comprehensive scientific study on the income taxation in Nepal. His facts and figures are very helpful to find out the condition of taxation in Nepal at that time. He had identified the major problems of income tax system as inefficiency of tax administration and income tax evasion though other many have been also shown. Various mathematical calculations have been shown as per capita burden of income tax, buoyancy coefficient of income tax, elasticity coefficient of income tax etc. His study may be the first comprehensive scientific study on the field of taxation.

In 2001, Revenue Consultation Committee Report has studied the overall taxation in depth. It emphasized to simplify the tax policy to voluntary compliance. This report recommended for written communication between taxpayer and tax administration rather than the informal relation. This report suggested to widen the income tax base by including all kinds of taxpayer and income and to find out the taxpayers of new sector. This report suggested making the acts more transparent and clear in order to attract the foreign and domestic investors.

Many of master's degree research works is conducted related to income tax of Nepal and tax system in Nepal. These research works are helpful for this study. Shakya's (1995) "Income tax in the structure of Nepal", Bhattarai's (1997) "Effectiveness of Corporate income tax in Nepal", Serchan's (2003) "An analysis of fine and penalties regarding to income tax system of Nepal", Neupane's (2004) "A study on role of income tax in revenue collection of Nepal" are the main dissertation which are related for this study.

3.3 Research Gap

This research has been based on recent data of Economic Survey, MOF/GON, Budget speeches, Annual report published by IRD 2013/14 to 2017/18. This research has been based on using current secondary data which was not included in previous studies. There is the gap between the present research and previous research. The previous research only included the data of 2005/6 to 2012/13. Only few research have been conducted this type of research work. This research tried to know about the contribution of income tax on national revenue and its trend from 2013/2014 to 2017/2018.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter refers to the overall method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspect and logical aspect. Research methodology refers to the various sequential steps to adopt by the researcher in studying a problem with certain objectives in view. Therefore, we can conclude that research methodology tries to make clear view of the method and process adopted in the entire aspect of the study. It is also considered as the path from which researcher can systematically solve the research problem. Methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives.

3.1 Research Design

Descriptive research design has been used to conduct the study. Selection of appropriate research design is necessary to meet the objectives of any study.

3.2 Sources of Data

This research study has been used secondary data to find out the contribution of income tax on national revenue, they are as follows:

-) Economic Survey of various years, Ministry of Finance, GOV/Nepal.
-) Budget Speech of various years, Ministry of Finance, GOV/Nepal.
-) Reports of Internal Revenue Departments of various years.
-) Different books related to income tax and public finance.
-) Dissertations related to income tax.
-) Different Newspapers, journals, souvenir, magazines.

-) Web sites of different organizations such as World Bank, IMF, MOF, IRD etc.
-) Other relevant records and data.
-) Previous theses of the researchers have been used.

3.3 Data Collection Procedure

Data has been collected from Secondary sources. The reliability of data depends upon the previous and recent Online Materials, published and no published reports, Internet, Websites of related departments (Economic Survey, MOF/GON, IRD, Budget speeches), Journals, Thesis, Newspapers, and Others.

3.4 Data Processing Procedure

Data collected from various sources cannot directly used in their original form. Further, they needed to be verified and simplified for the purpose of analysis. Data, Information, Figures and Facts related to the study has been checked, rechecked, edited and tabulated for analyzing them. According to the nature of data, they are inserted in meaningful tables, which are shown in the annexes. Homogeneous data have been stored one table and various tables are prepared in understandable manner. Data are analyzed and interpreted using different types of statistical tools as given below:

-) Simple Percentage,
-) Average of percentage,
-) Charts and Diagrams.

3.5 Data Analysis Tools and Techniques

Collected data from various sources has been thoroughly reviewed and sorted on the basis of their homogeneous nature and resemblance of the facts. The sorted data has been arranged and presented systematically in suitable tables. The processed and tabulated data has been analyzed through such as percentage, average of percentage, graphs, tables, etc. for clear and systematic presentation of findings.

CHAPTER – IV

RESULTS

This chapter is presentation and analysis of collected data to achieve the stated objectives of the study and also to make easier to understand the findings, qualitative as well as quantitative data and information have been analyzed. To meet the desired objective, this Results chapter deals with the presentation and analysis of data collected from the secondary sources and source of data are economic survey, IRD, MOF of Nepal Government.

4.1 Results

4.1.1 Government Income Structure

Nepal depends heavily on indirect tax rather than the direct tax because there is not any good alternative especially for the optimum level of revenue mobilization on hand and the other hand, wide spread poverty, heavy dependency on agriculture, snail's pace industrialization, low level income and wealth and very weak administration. Since 1951, indirect tax had grown rapidly and speedily. As indirect tax was effective and proper, it's tax mobilization was quickly boosting. So most of the developing countries mobilizes it effectively and properly of the domestic resources.

Table: 4.1

Government Revenue Structure

(Rs. In Millions)

Year	Total Revenue	Tax Revenue		Non Tax Revenue	
		Amount	Percentage	Amount	Percentage
2013/2014	24437.40	21172.30	86.64	3265.10	13.36
2014/2015	29602.00	25921.50	87.57	3680.60	12.44
2015/2016	35662.30	31244.31	87.61	4417.25	12.39
2016/2017	40586.64	35595.75	87.70	4919.07	12.30
2017/2018	47501.21	42701.10	89.89	4800.11	10.11
Total	177789.84	156634.96	-	21082.13	-
Average	35557.91	31326.99	88.10	4216.43	11.86

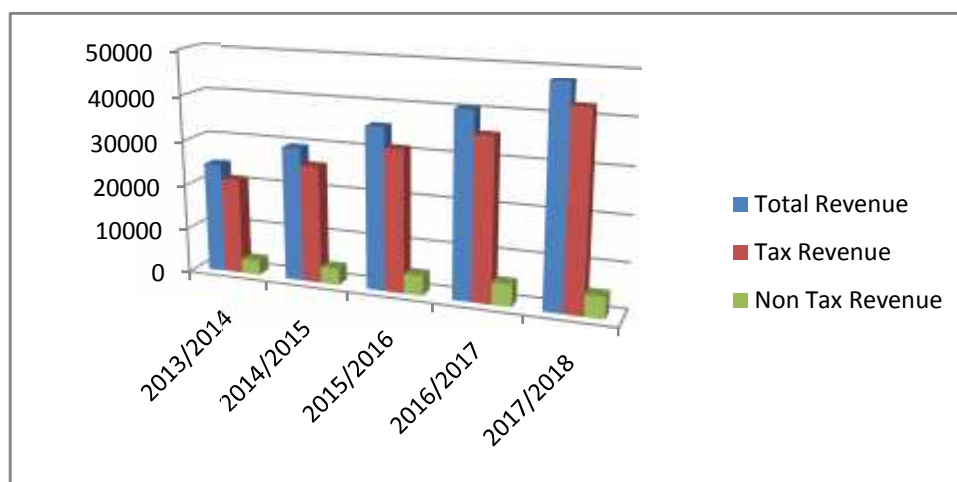
Source: *Economic Survey, 2017/2018*

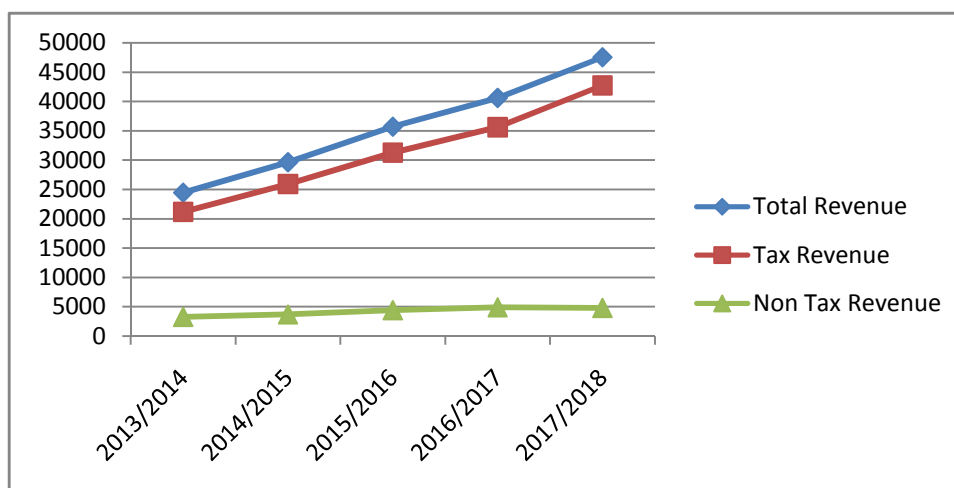
The table 4.1 shows revenue structure with combination of tax revenue and non tax revenue. Total revenue is the sum of tax revenue and non tax revenue. The table shows that tax revenue and non tax revenue in year 2013/2014 is Rs 21,172.30 and 3265.10 Million, the contribution of tax revenue to the total revenue is 86.64% and non tax revenue is 13.36%. In the fiscal year 2017/2018, tax revenue and non tax revenue is Rs 42,701.10 and Rs 4800.11 Million. This is 89.89% and 10.11%. Average tax revenue and non tax revenue for 5 year is Rs 31326.99 million and Rs.4216.43 million, that occupies on average 88.10% and 11.86% share of tax revenue and non tax revenue. The table indicates that the tax revenue percentage is increasing trend i.e. 86.64% in fiscal year 2013/2014 to 89.89% in fiscal year 2017/2018 and non tax revenue is decreasing trend i.e. 13.36% in fiscal year 2011/2 to 10.11% in fiscal year 2017/2018. Amount of non tax revenue is increasing trend fiscal year 2013/2014 to 2016/2017 which is Rs.3265.10 million to 4919.07 million. But decreasing trend from fiscal year 2016/2017 to 201516 i.e. RS. 4919.11 million To Rs.4800.11 million.

Tax revenue is increasing trend but non tax revenue is decreasing trend in amount as well as percentage on total revenue. Government and Inland Revenue department should pay proper attention towards tax revenue and non tax revenue condition. If government IRD can find out the determinants of tax decreasing factors, able to make proper plan and policy formulation as well as proper implementation to increase the tax revenue and non tax revenue to make maximum total revenue.

Figures: 4. 1

Trend of Revenue Structure





4.1.2 Income Tax and Total Revenue

Tax is the source of fund for the government. Tax is a compulsory payment by the citizen to the government without the expectation of any personal benefits, which are redistributed, by the government in the nation in terms of public services, peace and security and development of infrastructure. In every country, the largest part of the government revenue is raised through taxation. It is tool of achieving maximum social and economic objectives as laid down by the Constitution of the nation.

Table: 4.2

Contribution of Income Tax and Total Revenue

(Rs. In Millions)

Year	Total Revenue	Income Tax	% on Revenue
2013/2014	24437.40	5285.80	21.63
2014/2015	29602.00	6606.73	22.32
2015/2016	35662.30	7806.35	21.89
2016/2017	40586.64	8909.15	21.95
2017/2018	47501.21	9291.50	19.56
Total	177789.84	37899.53	-
Average	35557.91	7579.91	21.32

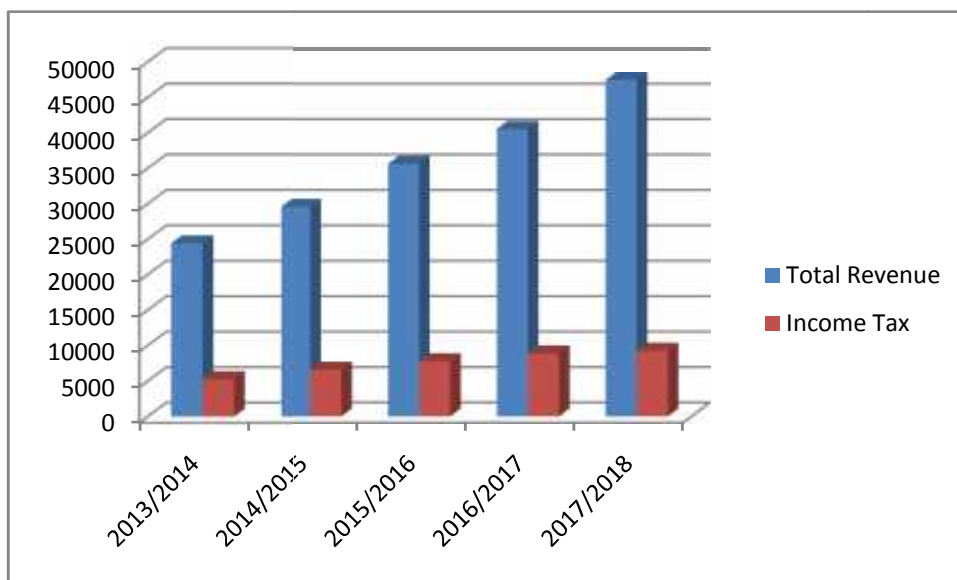
Source: *Economic Survey, 2017/2018*

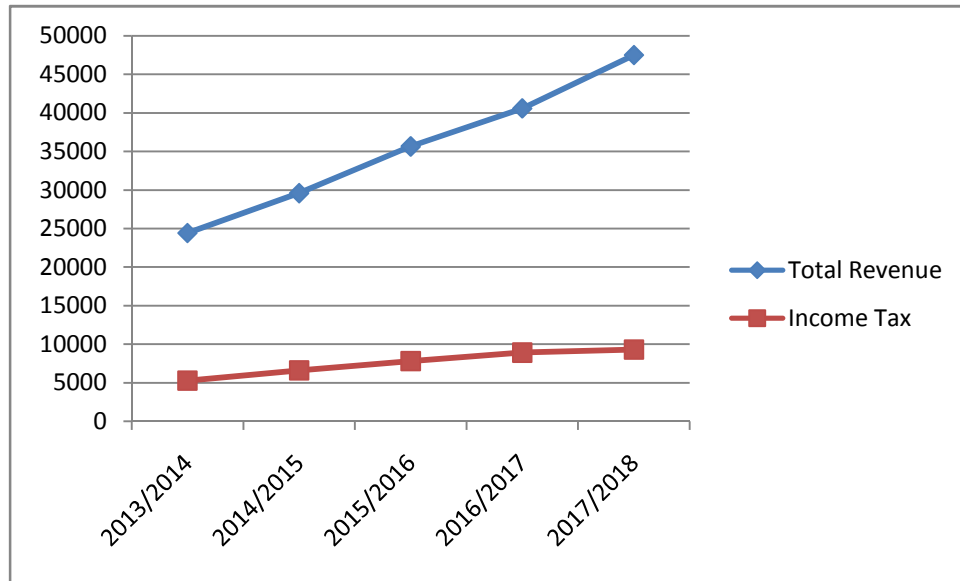
The table 4.2 shows the direct relation between Total Income taxes with Total Revenue. Total revenue and income tax both are fluctuating trend and the percentage of income tax on total revenue is 21.63, 22.32, 21.89, 21.95 and 19.56 percentages. And average percentage is 21.32. Total revenue is in increasing trend which is Rs.24437.40 million million in fiscal year 2013/2014 and it increased to Rs.47501.21 millions. Income tax also increasing trend which is Rs.5285.80 million in fiscal year 2013/2014 and increased to Rs. 9291.50 million. But Percentage of income tax is in fluctuating trend.

IRD should pay attention towards all the factors of influencing income tax percentage to maintain or increase the income tax percentage on total revenue. Amount of total revenue and income tax revenue both are increasing trend but the percentage of income tax on total revenue is fluctuation trend in fiscal year 2013/2014 to 2016/2017 which is 21.63%, 22.32%, 21.89% & 21.95% and decreasing trend in fiscal year 2016/2017 to 2017/2018 which is 19.56%.

Figures: 4.2

Composition of Income Tax with Total Revenue





4.1.3 Income Tax Structure in Nepal

Income tax generally is computed as the product of a tax rate times taxable income. The tax rate may increase as taxable income increases (referred as graduated rates). Tax rate may vary by the types or characteristics of the taxpayer. Capital gains may be taxed at different rates than other income. Credits of various sorts may be allowed that reduce tax. Some jurisdictions impose the higher of an income tax or a tax on an alternative base of measure of income. An income tax is a government levy imposed on individuals or entities that vary with the income or profits (taxable income) of the taxpayer. Details vary widely by jurisdiction refer to income tax on business entities as company's tax or corporation tax. Partnership generally is not taxed; rather, the partners are taxed on their share of partnership items. Tax may be imposed by both a country and subdivisions thereof. Most jurisdictions exempt locally organized charitable organizations from tax.

Table: 4.3**Income Tax Structure****(Rs. in Millions)**

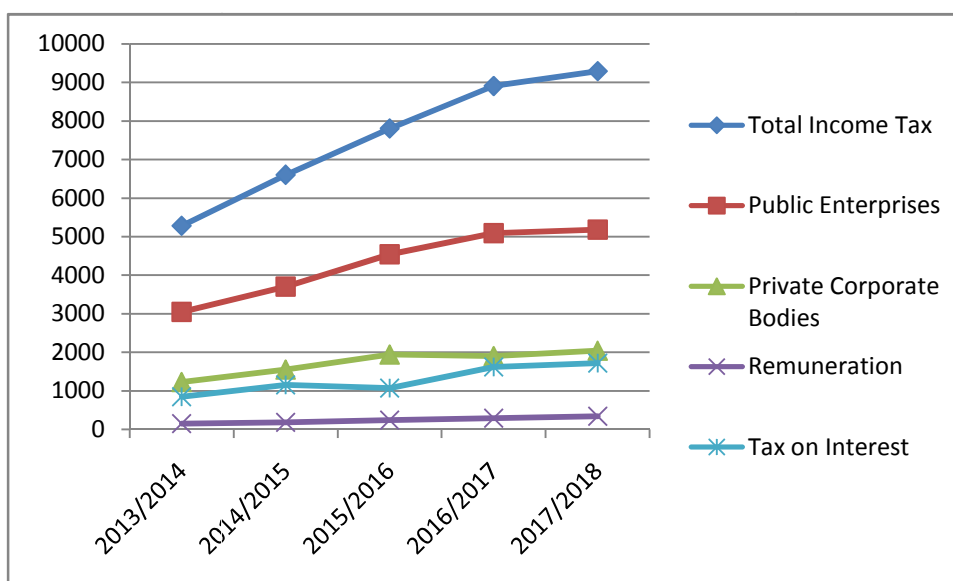
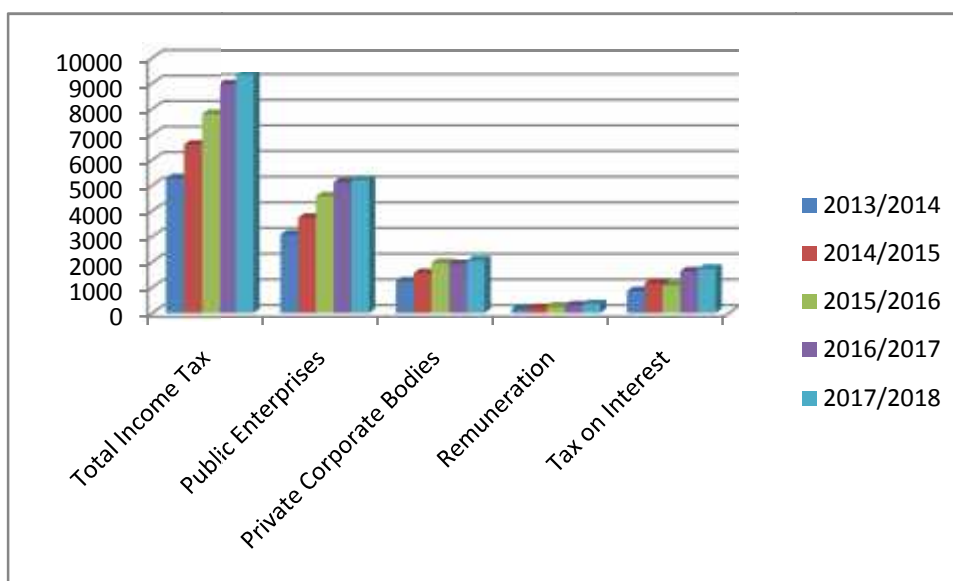
Year	Total IncomeTax	Public Enterprises	Private Corporate Bodies	Remuneration	Tax on Interest
2013/2014	5285.80	3049.44	1229.28	155.50	851.58
2014/2015	6606.73	3706.72	1554.15	188.06	1157.80
2015/2016	7806.35	4542.30	1943.40	244.99	1075.66
2016/2017	8909.15	5090.81	1902.40	292.58	1623.36
2017/2018	9291.50	5180.27	2046.50	342.58	1722.60
Total	37899.53	21569.54	8675.73	1223.71	6431.00
Average	7579.91	4313.91	1735.15	244.74	1286.20

Source: *Economic Survey, 2017/2018*

The table and graph 4.3 presents the structure of income tax in Nepal which shows that the total income tax has increased in every fiscal year. In year 2013/2014 total tax revenue is Rs. 5285.80 million then it is increased to Rs. 9291.50 million in year 2017/2018. The contribution of tax on public enterprises is major sources of income tax it is Rs. 3049.44 million in year 2013/2014 and it is increased to Rs. 5180.27 million in year 2017/2018. Tax from private corporate bodies is the second major sources of the income tax it is Rs. 1229.28 million in year 2013/2014 then it increased to Rs. 2046.50 million in year 2017/2018. Same as tax on interest on investment is next important part of income tax it is also increasing trend which is Rs.851.58 million in fiscal year 2013/2014 and increased to Rs.1722.60 million in fiscal year 2017/2018. And contribution of Remuneration to GDP is also increasing trend which is Rs.155.50 million in fiscal year 2013/2014 and increased to Rs.342.58 million in fiscal year 2017/2018. Total tax from public enterprises, private corporate bodies, tax on interest and tax on remuneration are increasing trend. These all sector of income tax indicates the good condition of total income tax.

Figures: 4.3

Presentation of Income Structure



4.1.4 Contribution of Income Tax on National Economy/GDP

Tax revenue (% of GDP) in Nepal was last measure at 7.65 in 2013/2014, according to the World Bank. Tax revenue refers to compulsory transfers to the central government for public purpose. Certain compulsory transfers such as fines, penalties, and most social security contribution are included. Refunds and corrections of erroneously of collected tax revenue are treated as negative revenue. This page has

latest values, historical data, forecasts, charts, statistics, an economic calendar and news for Tax revenue (12.16 % of GDP) in Nepal.

Table: 4.4

Contribution of Income Tax on GDP

(Rs. in Millions)

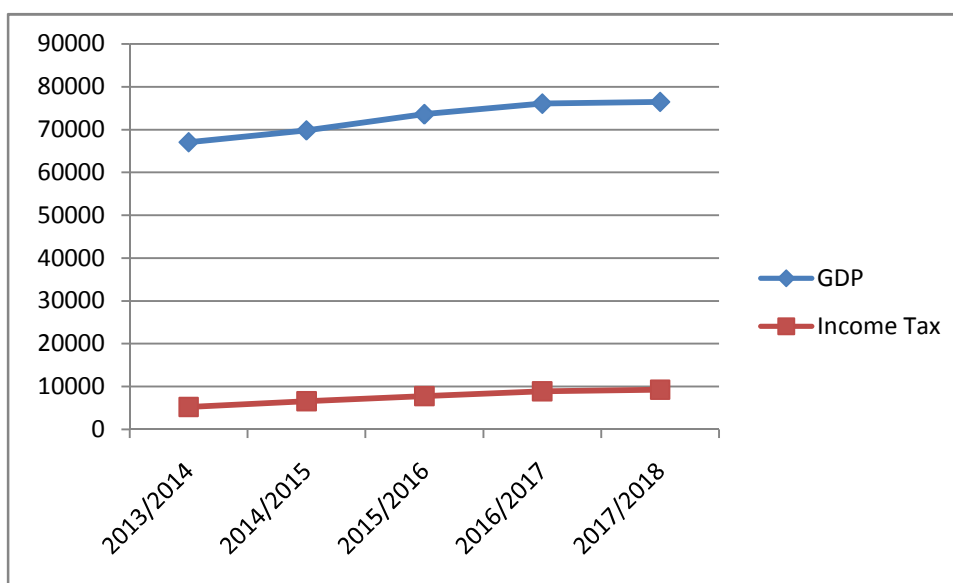
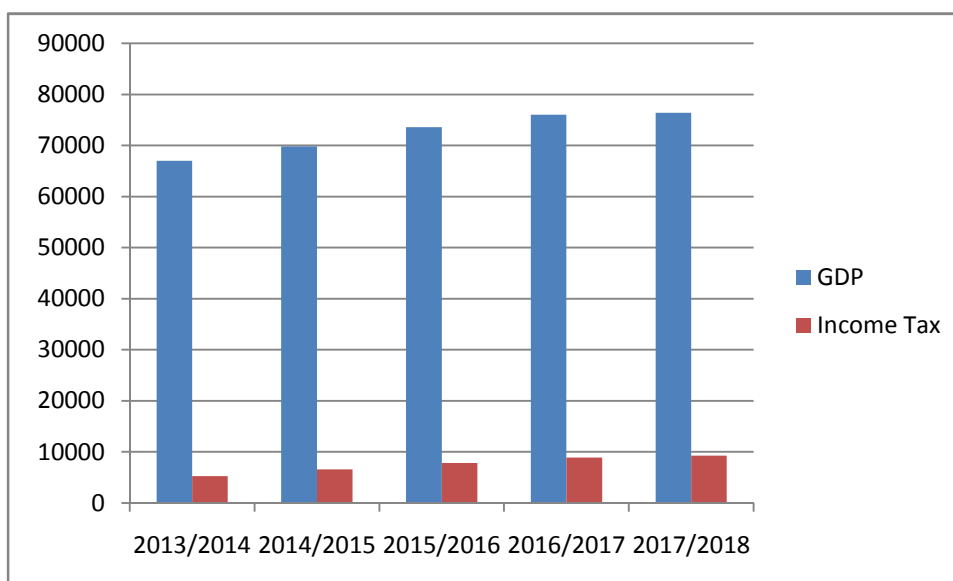
Year	GDP	Income Tax	% on GDP
2013/2014	67027.90	5285.80	7.89
2014/2015	69795.40	6606.73	9.45
2015/2016	73550.80	7806.35	10.61
2016/2017	76024.30	8909.15	11.72
2017/2018	76420.00	9291.50	12.16
Total	362818.40	37899.53	-
Average	72563.68	7579.91	10.45

Source: *Economic Survey, 2017/2018*

The table and figure 4.4 shows the contribution of income tax in GDP is very few that is 10.45% on an average. The percentage of income tax on GDP is in increasing trend which is 7.89%, 9.45%, 10.61%, 11.72% and 12.16% in year 2013/2014 to 2017/2018 respectively. GDP in year 2013/2014 is Rs. 67027.90 million then it is increased Rs. 76420.00 million in year 2017/2018. Income Tax in year 2013/2014 is Rs. 5285.80 million then it is increased Rs. 9291.50 million in year 2017/2018. It is in also increasing trend.

Figures: 4.4

Composition of Income Tax with GDP



4.1.5 Total Revenue, Tax Revenue and Non Tax Revenue on GDP

Revenue collection from income tax is in increasing trend but the performance is not satisfactory level because we can measure the performance of income tax according to its contribution in GDP even though it is not absolute technique in developing countries. But due to lack of reliable data it is widely applicable technique. If we go through the table it shows that Income Tax GDP ratio is in decreasing trend it clear

that the performance is not satisfactory level as desired. But the sign of hope is still left because revenue from tax is in increasing way.

Table: 4.5

Total Revenue, Total Tax Revenue and Non Tax Revenue on GDP

(Rs. In Millions)

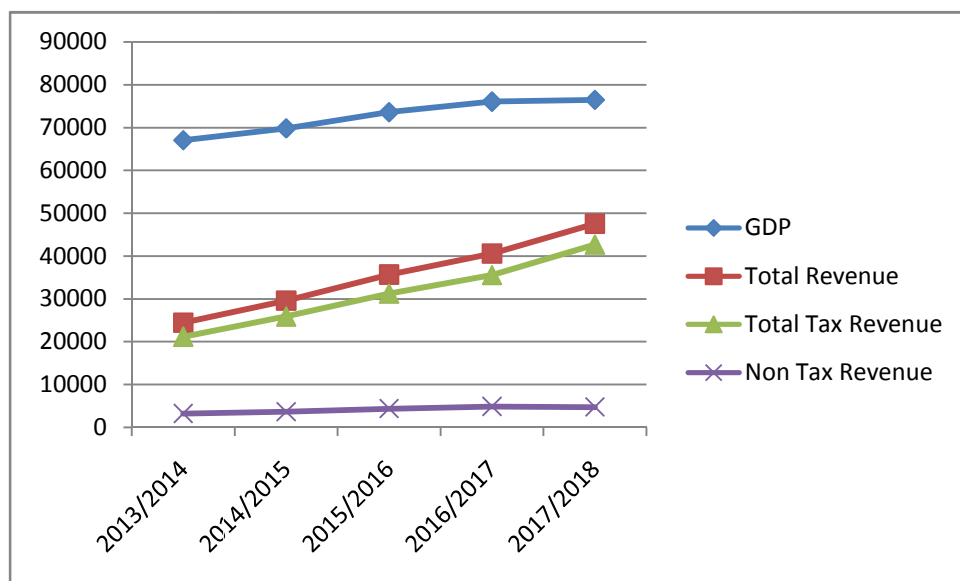
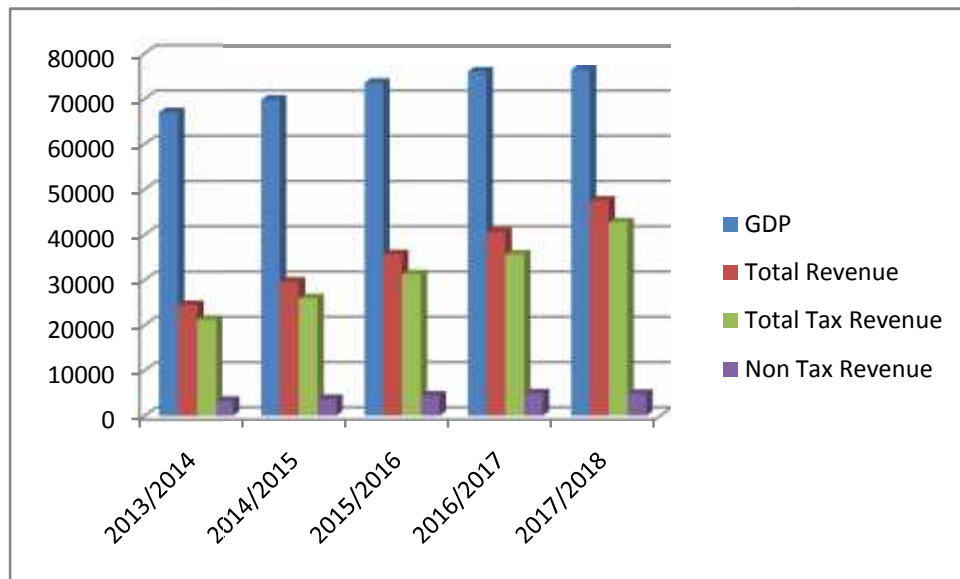
Fiscal Year	GDP	Total Revenue		Total Tax Revenue		NonTax Revenue	
		Amount	% on GDP	Amount	% on GDP	Amount	% on GDP
2013/2014	67027.90	24437.40	36.46	21172.30	31.59	3265.10	4.87
2014/2015	69795.40	29602.10	42.41	25921.50	37.14	3680.60	5.27
2015/2016	73550.80	35661.56	48.49	31244.30	42.48	4417.25	6.01
2016/2017	76024.30	40586.64	53.39	35595.60	46.82	4919.07	6.47
2017/2018	76420.00	47501.21	62.16	42701.10	55.88	4800.11	6.81

Source: *Economic Survey, Fiscal year 2017/2018*

The table shows that the contribution of total revenue on GDP is in increasing trend which is 36.46 % in the fiscal year 2013/2014 amounting Rs. 67027.90 million, which is gradually increased and reached to 62.16% in fiscal year 2017/2018 amounting Rs. 76420.00 million. The contribution of total tax revenue on GDP is in increasing trend. Contribution of total tax revenue on GDP is in increasing trend which is 31.59% in the fiscal year 2013/2014 amounting Rs. 21172.30 million which gradually increased and reached to 55.88% in fiscal year 2017/2018 amounting Rs. 42701.10 million. Contribution of non tax revenue on GDP is increasing trend which is 4.7% in the fiscal year 2013/2014 amounting Rs. 3265.10 million which is gradually increased to 6.47% in fiscal year 2016/2017 amounting Rs.4919.07 million. But decreasing trend which is 6.28% in fiscal 2017/2018 amounting Rs.4800.11.

Figures: 4.5

Trend Line of Tax and Non Tax Revenue



4.2 Findings

On the basis of above analysis and data presentation, many important findings can be drawn. Major findings of this study are as followings:

1. Revenue structure with combination of tax revenue and non tax revenue, in the fiscal year 2017/2018, tax revenue is Rs. 42701.10 billion which is 89.89%. And non-tax revenue is 10.11%. Average tax revenue for 5 year is Rs. 31326.99 million that occupies on average 88.10% share of total revenue and

11.86% share of non-tax revenue. Total revenue is the sum of tax revenue and non-tax revenue. The table shows that tax revenue and non-tax revenue in year 2013/2014 is Rs. 21172.30 and 3265.10 million the contribution of tax revenue to the total revenue is 86.64% and non-tax revenue is 13.36%. The table indicates that the tax revenue and non-tax revenue both are increasing trend over the five research period.

2. The relationship between total income tax with total revenue. Total revenue and income tax both are fluctuating trend and the percentage of income tax on total revenue is 21.63, 22.32, 21.89, 21.95 and 19.56 percentages. And average percentage is 21.32.
3. The structure of income tax in Nepal which shows that the total income tax has increased in every fiscal year. In year 2013/2014 total income tax is Rs. 5285.80 million then it is increased to Rs. 9291.50 million in years 2017/2018. The contribution of tax on public enterprises is major sources of income tax it is Rs. 3049.80 million in year 2013/2014 and it is increased to Rs. 5180.27 million in year 2017/2018. Tax from private corporate bodies is the second major sources of the income tax it is Rs. 1229.28 million in year 2013/2014 then it is increased to Rs. 2046.50 million in year 2017/2018. Same as tax on interest on investment is next important part of income tax it is also increasing trend. Total tax from public enterprises, private corporate bodies, tax on interest and tax on remuneration are in increasing trend.
4. The contribution of income tax in GDP is very few that is 10.45% on average. The percentage of income tax on GDP is 7.89, 9.45, 10.61, 11.72 and 12.16 percentages in year 2013/2014 to 1015/16 respectively. GDP in year 2013/2014 is Rs. 67027.90 million then it is increased to Rs. 76420.00 million in year 2017/2018.
5. The contribution of total revenue on GDP is in increasing trend which is 36.46% in year 2013/2014 amounting Rs. 67027.90 million. This is gradually increased and reached to 62.10% amount Rs. 76420.00 million in the year 2017/2018. The contribution of total tax on GDP was increasing trend. And same can be concluded that as there is positive trend of every increase in the GDP by revenue increment the structure of tax seems satisfactory and effective as a result of which economic growth will be added in the compiled economy.

CHAPTER – V

CONCLUSIONS

This chapter consists of mainly three parts: Discussion, conclusion and Implication. In Discussion part, revision or summary of all four chapters is made. In Conclusion part, the result from the research is summed up and in Implication part, suggestion and recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as for further research.

5.1 Summary

The government of any country requires sufficient revenues to lunch the development programs to handle the daily administration to keep peace and security and the lunch other public wale fare programs. The government collects revenue from various sources such as, taxes, fees, special assessment, fine and penalties, foreign grants etc. Among them tax is the main source of collecting the public revenues because it occupies the most important part of the government treasure. Developing country Nepal has lack of sufficient finances resources. It is the main constraints for national economic development sufficient und are needed to meet the additional financial requirements for the development activities of the country. Tax is the compulsory payment to the government from a person according to law. Tax is the contributed to the government without expectation of the direct benefit in the board sense there are two types of taxes direct and indirect tax income tax, gift tax, interest tax, property tax, vehicle tax, house & land tax, contract tax etc are the example of direct tax export/import duty, excise duty, sales tax, value added tax, entertainment tax, hotel tax, passenger tax are example of indirect tax.

The government needs lots of revenue to maintain fiscal policy, to carry out function of the government such as national defenses and to redistribute resources among the individuals or classes. For this purpose, government collects revenue from various sources like tax revenue from public enterprises, special assessment, fees, fines, grants and assistance etc. Among them, income tax is a significant and inseparable source of revenue to the government for the economic development of the state. Taxation has been a very essential element of the government from the very

beginning of the state system. In ancient time, the objective of taxation was strengthening the muscle of the state by providing the revenue. But it is totally different in modern period.

Modern objectives of taxation are to raise revenue for resource mobilization, equal distribution of wealth and income in the society, employment, saving and investment, removal of regional imbalances and enforcement of government policy. Taxation is a device for imposing tax. It is liability to pay an amount to the state. Tax system was origin with the development of the human civilization. Great Britain was the first country in the world to introduce income tax in 1799 A.D. Although there was tax system in Nepal in ancient time also, the concept of income tax was brought only by the first budget. The first budget pioneered the introduction of Income Tax System in Nepal in 1950. However, formal Income Tax Act naming business profit and Remuneration Act, 1960 was introduced in Nepal for the first time in fiscal year 1959/60. There was no specific act made to define and treat income tax. Only business income and remuneration were subject to tax under this act. Due to narrow and vague of income tax act, it was replaced by Nepal Income Tax Act, 1962. In 1974, Income Tax Act 1974 was introduced which was changed form of Income Tax Act, 1962. Income Tax Act, 1974 was amended for eight times to make effective, practical and avoid confusion. But this act had some shortcomings. Therefore, the new income tax act i.e. Income Tax Act, 2002 had been enforced in the country.

Income tax is the major sources of direct tax revenue and widespread evasion of income tax may be the major reason for the low contribution of direct tax. So the purpose of this study is to analyze the provisions of fines and penalties as per Income Tax Act, 2058. To fulfill the research objectives the study is divided into five chapters. In the first chapter, brief introduction, background of the study, statement of the problem, purpose of the study, significance of the study and chapter plan have been included. In the second chapter, conceptual review, review of previous work, review of articles, review of previous thesis and research gap have been included. Different theories, policies, rules and regulations, act about income tax are reviewed. The idea of income tax system in Nepal was started latter than other developed countries. In lichchhavi Regime, direct tax was introduced for the first time in Nepal in the name of Bhaga, Bhoga and Kara. Malla dynasties also introduced a new tax

called Potaka. During Rana Regime, taxes were not levied according to the income but they were collected in some special forms such as DharshanBhet and Fattemubarak. During that period, Rana government established a government organization named KAUSHI TOSAKHANA for the collection and distribution of revenue obtain stores and issues supplies to the government. Prime Minister Jung BahadurRana also established new development office known as SudarMulukikhana for the maintaining the government account relating revenue. But the history of income tax was not so long in Nepal. Research design, population and sample and analysis tools are included in the third chapter. The data are collected from Primary as well as secondary source for the study. The secondary data are collected from different sources.

An attempt has been made to fulfill the objectives of the research work in chapter four. After collecting the data from different source, it is analyzed by using financial and statistical tools and techniques. In this chapter all the secondary data are compiled, processed and tabulated as per the necessity and figures, diagrams are also used to present it clearly. During the study different books, journals, previous studies, websites, reports are viewed. In the chapter five, the summary, conclusion and recommendations are included. The summary of the study, conclusion drawn from the study are presented and necessary suggestions are given to the concern authorities.

5.2 Conclusions

The concept of punishment has been also emerged in income tax system of Nepal. It has been emerged for taxpayers who do not comply the tax law. For the economic development of Nepal the problems relating to income tax system of Nepal should be solved and resources should be effectively utilized. The government needs huge amount of fund for the development of national economy.

To fulfill such objectives government collects revenue from various sources. Government revenue structure of Nepal is composing of internal revenue and external revenue. Internal revenue includes tax revenue and non- tax revenue, where tax revenue has dominant share in Nepalese government. It is imposed according to the provisions provided by the Income Tax Act. It plays an important role to collect tax.

There are no doubt fines and penalties must be imposed to the defective tax payers but also to control tax evasion.

The success and effectiveness of income tax system entirely depends up on the implementation of provision made by the Income Tax Act, which is the major responsibility of income tax administration. Income tax system of Nepal has blamed as not efficient enough due to various problems existed in income tax. Therefore income tax was introduced in the fiscal year 1959/60. Income tax collection in Nepal is satisfactory and the percentage of income tax to government revenue is in increasing trend.

Internal revenue is preferable for sustainable economic development. But Nepal has been unable for proper mobilization of internal resources, it also heavily relying on foreign loans and grants. The dependence is increasing which is dangerous for any economy. Fiscal deficit of Nepal has been increasing. Income tax is one of the important measures to collect internal revenue to increase government revenue.

5.3 Implications / Recommendation

The following Implications have been made regarding income tax system, its administration and effective implementation of income tax.

- a) Tax rate should be increased gradually on long run basis to get maximum tax revenue. For this, the tax base should be widened.
- b) Income tax policy should be formulated according to the economic policy of the country. Income tax policy should be revised timely.
- c) The members involved in formulating income tax policies must have depth knowledge about income tax.
- d) The provisions rewards, prize, incentives should be introduced in the act to encourage the taxpayers to pay tax voluntarily rather through corrective measures.
- e) Tax personnel should be encouraged, punished and transferred on the basis of their work and experience. Regular and effective training system; reward, prize and punishment system should be established for the effective personnel

management.

- f) The provisions of fines, penalties and punishments should be made at higher rate for income tax evaders
- g) Income tax, rules and regulation should be clear and simple for all the taxpayers as well as for tax administrators.
- h) The definition made in Income Tax Act should be further clarified and well defined in simple language.
- i) Clear provisions should be made in case of deduction. All the items of deductions should be clearly defined in the act.
- j) To promote export, more deductions should be provided
- k) A research and intelligence center should be established in each tax office for proper planning and to collect the information in regard to income tax evaders, potential new taxpayers and non-residents who have conducted business without registration.
- l) Separate income tax Department should be established so that the specialization could be achieved in matter of income tax.
- m) Effectiveness of income tax system depends upon the income tax administration. In Nepal, one of the most important reasons for unsound income tax system is inefficient and unscientific income tax administration.
- n) It can be useful for the students of management for their thesis writing process.
- o) Related departments and parties can take support from the thesis.
- p) Income tax payers can get the knowledge from this thesis.
- q) This research will be equally beneficial to the policy maker, planners, tax administration researcher, students and the person interested in income tax of Nepal.

APPENDIX – I

Master Table

Details of Various Sources of Revenue

(Rs.in Millions)

Fiscal Year	Total GDP (Producer Price)	Total Revenue	Non Tax Revenue	Tax Revenue	Income Tax	Public Tax	Private Tax	Remuneration Tax	Interest Tax
1	2	3=4+5	4	5	6=7+8+9+10	7	8	9	10
2013/14	67027.9	24437.4	3265.4	21172.3	5285.8	3049.44	1229.28	155.5	851.58
2014/15	69795.4	29602.1	3680.6	25921.5	6606.73	3706.72	1554.15	188.06	1157.80
2015/16	73550.8	35661.56	4417.25	31244.3	7806.35	4542.3	1943.4	244.99	1075.66
2016/17	76024.3	40586.64	4919.07	35595.6	8909.15	5090.81	1902.4	292.58	1623.36
2017/18	76420.0	47501.21	4800.0	42701.1	9291..5	5180.27	2046.5	342.58	1722.60
Total	362818.4	177789.84	21082.13	156634.96	37899.53	21569.54	8675.73	1223.71	6431.00

Source: Economic Survey, MOF/NGO

Budget Speeches of
Various Years

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