

A COMPARATIVE STUDY ON INCOME TAX ACT 2031 AND INCOME TAX ACT 2058

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RECOMMENDATION

This is to certify that the thesis:

Submitted by

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Entitled

A COMPARATIVE STUDY ON INCOME TAX ACT 2031 AND INCOME TAX ACT 2058

has been prepared as appeared by this department in the prescribed format of faculty of Management. This thesis is forwarded for examination

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And found the thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master's Degree in Business Studies (M.B.S.)

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DECLARATION

I hereby, declare that the work reported in this thesis entitled " **A Comparative Study on Income Tax Act 2031 and Income Tax Act 2058**" submitted to the Office of the Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement for the Master's of Business Studies (MBS), under the supervision of Prof Dr Kamal Deep Dhakal and Ramakanta Bhattraï, Faculty of Management, Shankar Dev Campus, Tribhuvan University.

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Researcher

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CHAPTER I

INTRODUCTION

1.1 General Introduction

Generally, tax is defined as a levy or other type of financial charge or fee imposed by government on legal entities or individuals. It is a kind of money of which it is the legal duty of every citizen of the country to pay honestly. Tax is computed and paid as prescribed in the law. A tax payer is not entitled to compel the government, while paying taxes, to give something to him in return of the amount he has paid. Taxation can be considered as a convenient method of raising revenue which in turn is linked with the welfare of the people directly or indirectly.

Income tax is the main source of revenue of the government, which is paid by people (tax payer). In developing countries as well as developed countries, government conducts welfare projects for people by the help of tax collection. So we can say that the income tax is prerequisites for the development of nation and daily operation of government's activities.

Seligman said "A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred" (*Edwin R.A. Seligman, Principle of Taxation, 1978*)

Likewise, Plehn stressed out "Taxes are general contribution of wealth levied upon persons natural or corporate to defray expenses incurred in the common benefits upon the residents of the state" (*Carl Copping Plehn, Taxation of Public Service Corporation 1978*)

According to Income Tax Act, it is the liabilities of employer businessman and investors. According to this definition we can conclude that income tax is the nervous of fiscal systems.

1.2 Historical Development of Income Tax in Nepal

Great Britain is the first country in the world to introduce the modern income tax in 1799 to finance the war fought with France. In 1862, USA introduced income tax in 1862 to generate revenue to finance civil war. In India, income tax in its modern form was adopted in 1860, several experiments were made from 1860 to 1866 and finally the systematic income tax legislation was enacted in 1886.

The history of taxation in Nepal dates back to antiquity. Nevertheless, the modern tax system gained its momentum with the establishment of democracy, and implementation of the first consolidated budget took place in 1951.

Until the late 1950s, the two major sources of revenues were land tax and tariff on foreign trade. After 1959, however, sales, and property taxes, as well as several other minor taxes, were introduced. An import-export tax and various business taxes, such as a sales tax, were the principal sources of revenue. The land tax, which accounted for a considerable portion of revenue prior to 1960, no longer provided an important source of revenue. Income tax on individual incomes accounted for less than 7 percent of revenues. Most of the other taxes were progressive in nature.

Nepal's tax structure is composed of three categories of revenues. These are (a) Direct taxes (b) Indirect taxes and (c) Non-taxes. The tax structure is heavily dominated by indirect taxes that still contribute more than sixty percent of the total revenue and the remaining is covered by direct and non-taxes. The major components of direct taxes comprised of income tax and house and land registration fees. The premium indirect taxes constitute custom duties, value added tax and excise duties.

The governments in the past and present mobilized revenues through a series of tax reforms during the Tenth plan and 3 Year Interim Development Plan. These

reform comprised of: (a) Streamlining and rationalization of tax rates in conformity with provisions envisaged by WTO, SAFTA and BIMSTEC; (b) expanding the base through minimizing a number of tax shelters and introducing new tax imposts; (c) reforming tax laws and regulations; (d) and improving efficiency of tax administrations.

1.3 Statement of Problem

The tax system in Nepal is circumscribed by serious structural constraints with tremendous administrative and procedural complexities envisaged in the existing Income Tax Act that it lacks simplicity and transparency. Tax payers are often unaware about the specific size of tax they are to comply with, because tax is determined arbitrarily between tax payers and the tax officials resulting in enormous corruption.

The major issues and problems of taxation in Nepal include: (a) marginally high tax rate (b) limited tax base (base eroded due to prevalence of a number of tax shelters e.g. no tax on income from agriculture, because this is a subsistence sector, relatively blanket exemptions concessions and deductions provided to industrial sector.) (c) leakages in tax collection (d) rigid and complex Income Tax Act 2058 (e) inefficient, indifferent and corrupt tax administration and (f) no consolidated record of property of land and building with the Internal Revenue Department (g) aphorism and arbitration in tax settlement (h) low elasticity of taxation (i) limited potentialities of direct taxes (j) negative responsiveness of land tax with higher administrative costs.

1.4 Objective of the Study

The main objective of this study is to compare the provisions of Income Tax Act 2031 and 2058 and find out their impacts on society & Nepalese economy.

The other objectives of this study are as follows:

1. To analyze the effectiveness of Income Tax Act 2031 and 2058.
2. To provide recommendation and feedback to reform in Income Tax Act.

1.5 Rationale of the Study

The rationale behind the study is to analyze the Income Tax Acts implemented in Nepal and know the views of Taxpayers, Stakeholders about the Acts.

1.6 Limitation of the Study

All researches have to be conducted in an environment having constants which limit the scope of the study. The study also has some limitations which are listed as below:

-) The study review Income Tax Act of Nepal only.
-) Primary data was collected from the tax experts, taxpayers and administrator only.
-) Time is the main constraint; therefore, few samples were selected for opinion survey.
-) The respondents are from the Katmandu valley only.
-) The study is confined to Nepalese laws, acts, rules, ordinance, regulation and circular to income tax.

1.7 Scope of the Study

Developing countries like Nepal, only making act is not solution to maximize tax collection. It's implementation; monitoring and evaluation to find out peoples' view are also a part of solution for improving tax system. Income tax act is the key factor of governments' revenue generation. So, this study attempts to call government and policy makers to solve and frequent change in income tax act and aware people about income tax and encourage them to pay tax. This study can find out the difficulties of Income Tax Act, its implementation and its impact on revenue collection system as well as its benefit or contribution on national economy.

1.8 Structure of the Study

This study is divided into the five chapters as follows:

Chapter I- This chapter provides Introduction, problem of the study, rationale of the study, limitation of the study, objectives of the study, scope of the study, research methodology, and structure of the study.

Chapter II- This chapter is related to review of literature of different books, articles and dissertation.

Chapter III-This chapter deals with the research methodology used in this study. It includes research design, weight of choice, respondents profile etc and is concerned with overview of Income Tax Act 2031 and 2058.

Chapter IV- This chapter is related with presentation and analysis of data i.e. empirical investigation as well as findings of the study.

Chapter V- This chapter is concerned with the summary, conclusion and recommendations.

Finally, Bibliography and Appendices are presented in prescribed form.

CHAPTER II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Income Tax Act before 2031

In ancient Nepal, Taxes were not properly defined. At that time of king Amsubarma, taxes were taken as cash and labor and kind. Specific portion of agricultural products were also payable as tax.

2.1.1 Taxation during Rana Regime in Nepal (1903-2007 B.S.)

Imposition and collection of taxes during the 104 years oligarchic rule of the Rana family in Nepal prior. But there were no proper tax laws and regulation. People had to pay according to Rana's own decision.

2.1.2 Taxation during 2008-2015 B.S.

After Ranas (2008 B.S.), various proposals were proposed for income tax. For example, in 2011 B.S. income greater than Rs 10,000 was taxable income and tax rate were 5 percent to 25 percent. Though political instability of the nation, income tax law was not formulated.

2.1.3 Taxation during 2016-2018 B.S.

The effort for income tax law was properly formulate at this period. According to ability to pay and equally distribution of income this tax regulation was formulated .In this act trade, profit and remuneration were main source of tax. And income tax regulations were implemented. Profit means income from business and remuneration means income like; special salary, fee, house rent salary, allowances, pension and other allowances, vehicle allowance and other benefits were included as income. (Source: Trade profit and remuneration tax act and regulations, 2017) Among profit or remuneration up to Rs. 7000.00 income was tax-free income and after that 5% to 25% income tax was applicable according to progressive taxation.

After 2017 income tax act 2019 was introduced as special act and income tax regulation 2020 also implemented. In this act the areas of tax were broad than income tax act 2017. According to this act, taxable incomes were defined as Trade, profit, remuneration, business, house and land rent, investment, agriculture, insurance. It was broad than income tax act 2017. But agriculture income became tax-free income in 2022/023 and again it included in 2030/31.

2.2 Income Tax Act 2031

In the field of Income Tax Act, this act (2031) is the milestone for the tax system. This act fixed income year (Shrawan to Asadh). Heading of taxable income were Agriculture, Industry, Trade, Profession, Remuneration and House and Land Rent and other sources. In this act taxable and non-taxable income were defined. It regulated transaction and bookkeeping necessary. First time in Nepal corporate tax was also implemented.

2.2.1 Defects of Income Tax Act 2031

Income Tax Act, 2058 has been enacted to avoid the following weakness of ITA, 2031(*Income Tax Act 2031*).

-) Income Tax Act, 2031 had a narrow tax base. Only the incomes originated in Nepal were taxed whereas global incomes of a resident were not brought into the tax.
-) Income Tax related matters were governed by Various Acts. Dispersion of Tax related Acts had arisen confusion in the effective implementation of the Act.
-) There were no provisions regarding taxation of capital gains. The Act was silent with regard to international taxation.
-) The Terminology and provisions in the Act were inadequate. Many important provisions required to be in modern taxation system were lacking.

-) The fine and Penalty imposed by the act were very low. As a result the level of voluntary compliance had decreased sustainability.
-) There was a weak mechanism to control the tax avoidance scheme of tax payers. The tax payers used to evade tax through transfer pricing splitting of income, e.t.c. The tax office had no free access to information.
-) Tax accounting method was not prescribed in the Act. Despite the provision of self assessment in the Act, it had not been implemented properly. The self assessment was more in name than in practice.
-) The Act had not distinguished civil liabilities of the tax payers from criminal liabilities. The tax authorities were empowered to act as a court.
-) There were double appeal systems in the Act. The taxpayers were allowed to lodge an objection against assessment with the Revenue Tribunal or the Director General. The Director General was empowered to act as a court and there were complaints that he used to make decisions in favor of tax officers. There were no provisions for administrative review.

2.3 Income Tax Act 2058

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation, and to amend and integrated the laws relating to Income Tax, Income Tax Act 2058 has been enacted. The Act has broadened the tax base. It has introduced a block system of charging depreciation. The Act has introduced the capital gain taxation. It has provided liberal loss set off and carry forward/backward provisions. It has made provisions for international taxation. The appeal system has been further streamlined by making it mandatory for the tax payers to file an objection with

the Inland Revenue Department for administrative review before appealing to the Revenue Tribunal.

2.3.1 Features of Income Tax Act 2058

Income Tax Act, 2058 has been enacted with a wide perspective. Various new concepts have been introduced in this Act as compared to Income Tax Act, 2031. Many of the concepts introduced in this Act were not prevailed in previous tax laws. The Act contains 143 sections. The key features of Income Tax Act, 2058 are as follows:

-) All income tax related matters are confined within the Act by abolishing all tax related concessions, rebates and exemption provided by different Acts. This Act has been made super in regard to all income tax matters.
-) The Act has broadened the tax base. Tax rates have been spelled out in the Act. The rates and concessions have been harmonized on equity grounds.
-) The Act has introduced a block system of charging depreciation. A provision has also been made for depreciating intangible assets.
-) The Act has first introduced the capital gains taxation.
-) The Act has provided liberal loss set-off and carry forward/backward provisions. Interhead adjustments of loses have been clearly specified. Such provisions have been made from international perspective.
-) The Act has first introduced a provision for administrative review to allow the tax administration to correct mistakes made by the tax administrators internally.
-) The Act has made provisions for a stringent fine and penalty for the defaulters. There have been made provisions for punishment in the fines up to Rs. 3,00,000 and imprisonment on conviction up to 3 years.

-) Global incomes of a resident are made taxable. Non residents are also taxed on their incomes with sources in Nepal.
-) The Act has made provision for international taxation. Foreign tax credit has been introduced for the first time.
-) The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the tax payers from criminal liabilities.
-) The scope of discretionary interpretation of the tax administration has been drastically reduced ensuring simplicity, uniformity and the transparency. The Act has also defined the power and authority of the tax administration.
-) The appeal system has been further streamlined by making it mandatory for the tax payers to an objection with the Inland Revenue Department for administrative review before appealing to the Revenue Tribunal.

2.3.2 Criticism of Income Tax Act 2058

Besides above-mentioned merit there are some demerits of this act. Mainly self-assessment system is narrow because there are not proper guidelines about filling income statement. And self-assessment system is shown only formality, because tax officer do not believe that statement and they torture people. Behave of bureaucrats taxpayers are harassed about how to relief from this system and they try to give extra money to the tax officer to get tax clearance. If government's main objective is to collect tax from taxpayers, it must provide people conveniences to pay taxes and it must encourage people to pay tax. But in our country, government encourages to register into the income tax but discourage to believe on governments' behave with taxpayers. Other income tax Niamabali is also critical and non behavioral. This Niamabali encourage people to submit income statement having loss because tax payers who have loss in their business are easy to submit tax statement.

2.4 Income Tax Management in Nepal

Income tax in modern age is recognized as a most important instrument for resource mobilization, internal resources must be mobilized properly to achieve the goal of national development. It is believed that minimum requirement of people can be fulfilled through economic and social development. Every development activity requires capital. Income tax is one of the resources of government revenue, and it can play vital role in internal resource mobilization if it is managed properly. Imposing tax on person's income is very difficult task. Because it is the process of picking money from the persons pocket. The purpose of imposing tax on person's income can be listed as follows.

-) Collect maximum revenue for development
-) Reduce Unequally of income and wealth distribution among People
-) Have a balance regional economic development
-) Promote private sector investment.

The objective of income tax management is to achieve the goal of income tax system. The objective of income tax management, thus, is to impose income tax on people for maximum revenue collection without making it burdensome to the taxpayer, so that the economic imbalance can be reduced and balance regional economic development can be achieved. (G.R. Agrawal, 1978)

2.4.1 Function of Income Tax Management

Every management has to perform some tasks to achieve desired goal. The functions of income tax management are no different from the function of other management i.e. organizing, directing, planning etc. The functions of income tax administration can be classified as follows.

To find out taxpayers.

-) To find out the net income of tax payers
-) To make timely assessment of income of a taxpayers.
-) To collect Taxes in an efficient and secured way.

)To lunch vigorous enforcement programs.

Identification of objective is first job of any management. The objective provides the guideline to the management. Income tax management must determine the objective of income tax .Why the income tax is going to be imposed? To whom income tax is going to be imposed?

Answers of such questions must be pre fixed. The second important function of management is to determine the policy. Policy provides the guideline for achieving the desired goal. Policy regarding income tax gives the answer of following questions: at what rate? To whom? How? When and where? After the identification of objective and determination of policy the programmed is required performing. Regarding income tax may be about resource plan. The program incorporates the objectives and policy in to practice. With the preparation of programs, the implementation phase starts the objectives are achieved through the implementation which is the most important function of management identification of objective and policy formulation is the job of top management and can be done in room. But sitting cannot do the implementation work in a room. The role of a leader is very important while implementing the program. The income tax office may be taken as the leaders. The management must monitor the implementation to know whether or not the program is performing well .If the program is not performing well, the intermediate corrective action should be taken. Finally the feedback through implementation should be made to evaluate the past work and correct the objectives, policies and program for easy achievement of goal in future. But unfortunately, income tax system in Nepal has not been managed with scientific management system till now.

2.5 Administrative Aspects of Income Tax in Nepal:

Tax administrative is an important sub system in the total tax system that can either carefully tend or mercilessly kill the goose that lays golden eggs.

It is the essence of implementing tax policies and laws. Too much preoccupation with what to do in terms of tax policies and laws alone is not good unless attention is given to how to do it in terms of tax administration. It is the tax administration that provides feedback about the effectiveness of tax policies and laws. In the hands of incompetent tax administration, good tax policy and bad tax policy may end up looking remarkably alike. Effective tax administration paves the way for effective tax policies and laws. Improved tax administration widens the choice available to policy makers and law formulators. It is easy to devise a policy but difficult to administer it effectively. The main objective of tax administration should be the objectives of tax administration should be the efficient assessment collection and enforcement of taxes legally due without undue cost and harassment to the government or taxpayer in terms of money, time, and inconvenience and mental worry. More specifically, the objectives of tax administration may be stated as follows.

-) To assess and collect taxes in order to meet the revenue requirements of the country.
-) To facilitate and encourage voluntary compliance by taxpayers.
-) To maintain public confidence in the fairness and integrity of the tax system.
-) To administer tax legislation fairly, uniformly, impartially and with firmness
-) To keep high the morale and motivation of tax officials
-) To work efficiently in order to make the tax system effective
-) To gather information on and conduct investigation into the financial affairs of taxpayers.
-) To achieve cooperation and coordination with governmental and non-
-) Government institution and within the organization structure of tax administration.

-) To educate taxpayers and extend courtesy to them
-) To empower government on public utility and welfare program

Over ambitious tax systems in variably fail at the implementation front. Tax system therefore, should be simple in design and fit in conveniently with the administrative competence available. The administration should not only be fair, efficient and responsible but should also be recognized and accepted as being such (*Agrawal, 1980*)

2.6 Problems of Tax Administration in Nepal

From the very beginning the contribution of income tax to the revenue of the government has been very minimal. This is because the income tax system in Nepal has been facing many problems. The inefficiency of income tax administration is one of the reasons. Income tax management in the developing countries like Nepal has been facing many problems. The contribution of direct tax and income tax to the revenue of the Government is very low and to meet the growing expenditure, Nepalese government has been using deficit financing. As the consequence of this, there is significant resources gap in Nepalese budget. The problem can avoid only when the problems of tax administration are identified and corrective actions should be taken immediately. Tax administration is a complex technical matter. The major problem, which the income tax administration in Nepal has been facing, can be discussed as follows. (*Agrawal, 1978*)

1. Failure to Locate New Taxpayers

The tax administration in Nepal lacks an up to date roll of existing as well as potential tax payers, The major problems in locating new tax payers is in the case of nonresident and non citizen person who remain virtually outside the income tax net. The open border with India has compounded this problem.

Other potential taxpayers who have remained outside the income tax coverage are brokers, speculators, supplier in big hotels, foreign, goods deals; tourist

guides insurance agents and persons representing international companies. The self-employed persons especially professionals and skilled persons, have also remained outside the effective search of income tax.

2. Failure to Maintain Proper Accounts and Records

Accounts are the basic raw materials of effective tax administration. They serve as the main points of reference and cross verification in scrutiny and investigation of tax returns and form the basis of tax assessment.

Most of the taxpayers in Nepal do not maintain accounts for income tax purpose; In fact, they seem reluctant to submit accounts .A large majority of taxpayers in the private sector who maintain accounts keep more than one set of books. The set presented for tax purpose generally does not give the true and fair view of the financial state of affairs of the taxpayer. The main reasons for the non-maintenance of accounts are:

a. Attitude of the Tax Officer: The attitude of tax officers is not conducive to the development of the habit of maintaining accounts of any of the taxpayers generally; they reject the accounts on the area that they are not acceptable. They are relevant to devote the time required for verification of accounts. The lack of competency of tax offices and tax inspectors in accounting matters is also responsible of such attitude.

b. Assessment by Committee and Best Judgment: more than sixty percent of tax assessments of small taxpayers are made by committee method in Nepal. More than twenty percent of tax assessments in Nepal are made under the best judgment basis of assessment. In fact, taxpayers seem to prefer this method. There is no limit as to amount of income, which can be assessed under this method .The tax offices enjoy wide spread discretionary power while making assessment under this method. This method has tended to become a method of convenience of dishonest taxpayers on one hand and corrupt tax officers on the

other hand. Tax assessment by committee of best judgment method has discouraged the maintenance of proper accounts by taxpayers.

) **Ineffective Use of Sanctions:** the inefficient use of sanctions provided in the law against those taxpayers who fail to comply with the accounting and reporting requirements of law of have encouraged non-maintenance of accounts.

) **Lack of Intermediaries:** Professional accountants, tax consultants and tax lawyers are invaluable aids in maintaining the accounts. They provide professional services to tax payers in matter related to income tax and maintenance of proper records and accounts. However such intermediaries have not received adequate encouragement and support from the tax administration.

3. Assessment Delays:

Assessment refers to the calculation of tax liability by application of governing rates to taxable income. The starting point of assessment is the return of income filed by taxpayer. This is scrutinized, verified, investigated or audited by the tax officer in order to determine whether the information contained in it is accurate and complete assessment delays have appeared as a serious disease in tax offices. The major reason for assessment delays can be listed as follows.

-) widespread delays in filing of income tax return
-) Lack of proper recording system in tax offices
-) Lack of meaningful taxpayer information.
-) Frequent changes in the identity of taxpayers
-) Defective Assessment procedures
-) filling of Appeals
-) Procrastination by tax officers.

4. Collection Delinquency:

The main yardstick in measuring the performance of tax administration is the collection of revenue it can make. The income tax act has prescribed stiff fines and penalties for non-payment of tax. Despite stiff provision; the collection situation has been worsening. The collection function of income tax in Nepal has demonstration serious gaps and delinquencies.

The main reasons for collection delinquency appear to be the following:

-) Undue delays in assessment
-) Non compliance by Taxpayers
-) Lack of collection responsibility.
-) Changes in identity of taxpayers.
-) Reluctance to use fines and penalties.
-) Complicated collection procedures.
-) Untimely deposit of tax collected at source.
-) Failure of public sector enterprise to pay the tax.
-) Undue delays in settlement of appeals.
-) Defective accounting system in tax offices.
-) Tax holidays granted to new industries.

5. Poor Taxpayer Compliance:

Nepalese people have a traditional of paying indirect taxes and land taxes. They do not seem to have accepted the payment of income tax as a normal way of life. Many people still lack income tax consciousness. Voluntary compliance, the cornerstone of effective tax administration is poor. The sense of social responsibility in terms of tax payment is lacking.

Through Income tax, the government is trying to extract compulsory payments out of the incomes of taxpayers. In this situation no taxpayer can be expected to pay joyously with an attitude of philanthropy. They need to be persuaded and influenced to meet their tax obligation in a cooperative spirit. This requires integrated programs of taxpayer education. The taxpayer's education has been a

weak line in the tax system of Nepal. Tax administration expects that every taxpayer will automatically fulfill his obligations under the law it does not, however take it seriously as a duty to educate and inform the taxpayers as to their rights and duties under the law after all, compliance is a habit and all habits need to be cultivated

The main reasons for lack of meaningful taxpayer compliance in Nepal can be listed as follows;

-) Lack of taxpayer education
-) Complicated laws and procedures
-) Delays in assessment.
-) Unhelpful attitude of tax personnel
-) Poor enforcement of fine and penalties.
-) Lack of research in tax matters.

6. Problems of Evasion and Avoidance:

Taxes are enforced exactions, not voluntary contribution. The fertile minds of tax payers and their advisers therefore are evasion and avoidance in order to minimize or regent tax. The end result is the same for both evasion and avoidance but they have different legal connections. Both tax evasion and tax avoidance are important determinants in the erosion of tax base and both lead to shifting of taxes. In addition to loss of revenue , the create a sense of injustice and inequality and thereby lead to deterioration in tax morality and compliance the fruitless expenditure and the ablest persons in devising ingenious tax evasion and avoidance scheme is a waste of scarce national resources . The evasion and avoidance practice are the products of skillful and at times. Brilliant taxpayers, where there is collusion between tax officer and taxpayers for reducing tax liability it is bilateral evasion.

6.1Tax Evasion:

Tax evasion refers to the reduction or elimination of tax liability through means contrary to law. It means fraudulent, illegal and deliberate acts of taxpayers

culminating in the violation of the civil or criminal provisions of the tax laws. It implies maneuvers involving an element of concealment, deceit misrepresentation of facts, falsification of accounts, and downright fraud resulting from conscious efforts of the taxpayers to evade payment of tax legally due. Tax evasion is illegal.

Tax evasion may arise from weak enforcement, inadequate tools or resource of administration and law taxpayers integrity of moral (Encyclopedia Americana, USA , vol.26)

The UN has defined "evasion is term which is frequently used to describe deliberate non- compliance with the tax laws by such means as failure to notify the tax administration of taxable assets or income activities giving rise to taxable income etc. or failure to pay tax legally due, or the use of fraud to conceal the existence of taxable income etc. or to obtain allowances. Or repayment of tax"(United Nation 1984)

6.1.1 Method of Tax Evasion

The important methods used in evasion of taxes may be as follows (Agrawal, 1980)

-) Concealment of sources of income.
-) concealment of income within sources of income (Understatement of income)
-) Misrepresentation of facts and information.
-) Falsification of accounts and records. (Rigging in invoice, fictitious payments,
-) Payment of bills twice, etc.
-) Incorrect claim for allowances and deductions.
-) profit shifting, cost shifting or price transfer
-) Artificial contract, (for commission, etc.)
-) Over and under invoicing.

-) Fraudulent transactions
-) Fictitious transaction.
-) Non reporting of income and earned from illegal activities like
-) Smuggling corrupt business practice, etc.
-) Maintenance of multiple sets of books of accounts and
-) Submitting the manipulated set for taxation purpose.
-) Deliberate failure to maintain accounts and records and get the tax assessment done on a “committee or best Judgment Bases”, etc.

The committee on fiscal affairs of the organization for economic co-operation and development (OECD) has observed that "within tax evasion a distinction is sometime made between the less serious offence of commission, e.g. failure to submit complete return of income and more serious offence such a false declaration, fake invoice etc."

The evasion is an illegal work so it has to be penalized by court. Failure to submit income statement at tax office and failure to make payment of taxes because of negligence are also regarded as tax evasion (*UN, New York, 1984*)

6.1.2 **Reasons for tax evasion:**

According to Mr.G.R. Agrawal, the main reasons for widespread evasion of income tax in Nepal can be listed as follows:

-) Corruption by tax officials
-) Widespread illegal business activities
-) Reluctance of taxpayers to maintain accounts.
-) Higher marginal rates of taxes.
-) Inefficient use of fines and penalties
-) Inadequate Auditing and investigation
-) Difficulties in locating taxpayers.

-) Lack of support from public.
-) Poor development of intermediates
-) Unnecessary interference by influential persons.
-) Unlimited convertibility of Indian currency.
-) Prevalence of scheduler taxes on income.
-) No award for fair trade houses.

6.2 Tax Avoidance

Tax avoidance refers to reduction or prevention of tax liability through legal means. It means making good use of legal and loopholes and taking advantages of the means allowed by the law or at least not contrary to law. A taxpayer is entitled to so arrange his financial affairs as to take the maximum advantage of the law and its weaknesses to reduce or prevent his liability. Tax avoidance is legal. It is a careful tax planning.

Legal avoidance has become a science and art with its own inventors and practitioners the history of income tax has been a story of war between the tax experts who have devised schemes to enable their clients to reduce the burden of tax and the legislature seeking constantly to frustrate them however, the experts have tended to remain one step ahead. This has made the web of law so tangled that only the experts on either side can untangle it. (Sandford, 1971)

According to UN " The term tax avoidance describes the reduction or elimination of a tax liability by method which are in conformity with the letter of the law but achieve their objectives in circumstance where it is generally felt that the underlying intension of the tax law would be changed to tax" (UN New York, 1984)

A major problem in defining avoidance however is that there is a very wide range of situation in which arrangement may be made to minimize tax. Some may be specifically encouraged by governments or tolerated by them. Other

however, are regarded by governments as acceptable in much the same way as evasion and where practical measures can be devised, governments will usually make such arrangement illegal or take legislative steps to counter their legal effect. All of their methods of minimizing tax might in some sense be regarded as avoidance, but it is not easy to draw a distinction between arrangements the results of which are acceptable to the tax authorities.

6.2.1 Method of Tax Avoidance:

According to Dr. Agrawal the important devices used in avoidance of taxes are as follows.

-) Registered firms that are not genuine composed mainly of family members, to reduce incidence of tax (Benami firms)
-) Diversion of income or assets to different taxable entities so that lower tax rates may apply.
-) Transfer of income to wife or minor child without adequate consideration.
-) Transfer of assets and income to nonresidents.
-) Transferring business to "tax havens "
-) Payment of salaries, Interest and other benefits to family members.
-) Formation of trusts and other philanthropic type institution which are exempt from income tax but where benefit are derived by the members of the family this is the usual device resolve to by rich tax payers (tax in favor of children)
-) Sales cum dividend deals
-) Over stock valuation
-) Over scrap calculation

Tax evasion and avoidance schemes are the product of skillful and at times brilliant taxpayers. When there is collusion between tax officers and taxpayers for reducing tax liability, it is bilateral evasion.

Tax evasion is pronounced in Nepal and seems to have assumed a national character. The main reasons for widespread evasion of income tax in Nepal can be listed as follows. (Agrawal, 1980)

a. Corruption by tax officials: Where taxpayer is better off even after bribing the corrupt officials, tax evasion tends to be pervasive and rampant. This is what has been happening in Nepal, majority of the taxpayers cannot be expected to give absolute honesty when it comes to saving in taxes. Lack of integrity on the part of tax officials has pre equated corruption and tax evasion. In fact, unscrupulous tax officers by their pinpricking checks have even frightened taxpayers into corrupt practices.

b. Wide spread illegal business activities: The exports – import trade bonanza has led to illegal business activities in Nepal, such activities violate tax laws and thus evade taxes. The open border with India has complicated the problems of illegal business activities.

c. Reluctance of taxpayers to maintain accounts: Tax payers in Nepal prefer the "Committee" or "best judgments" basis of assessment tax officer discourage maintenance of accounts by outright rejection of accounts. This has perpetuated tax evasion many taxpayers, who maintain accounts, generally keep two sets of accounts – one representing the true picture of the business and another reflecting all manipulations meant for tax evasion.

d. Higher marginal rates of taxes: Prevalence of high marginal rates of tax may be an important reason for tax evasion. In Nepal, the highest marginal rate

of tax was 60%. At present it is 25% for taxable income above Rs 85,000. Tax rates should induce people to meet their tax liability rather than manipulate it.

e. Ineffective use of fines and penalties: Tax officials in Nepal are generally reluctant to make effective use of fines and penalties. The deterrent effect of penalties therefore is low due to the lack of sufficient prosecutions with attendant publicity.

f. Inadequate Auditing & investigation: Effective auditing & investigation of tax payer's financial affairs are seriously handicapped by gaps in information about tax payers, which has made it difficult for the officers to detect tax evasion. This has encouraged taxpayers to evade because the probability of being caught is very small.

g. Difficulties in locating Taxpayers: On the absence of up to-date records about taxpayers, tax evasion in Nepal has gone undetected. This problem is especially pronounced in the case of self-employed professionals, skilled persons and persons engaged in foreign trade.

h. Poor Development of Corporate Sector: The growth of corporations in the private sector has been very slow in Nepal. Most of the big business houses are family owned and managed. There is no compulsion on such businesses to maintain accounts and get them audited. The probabilities of tax evasion, therefore, are higher because of the absence of a well-developed corporate sector in Nepal.

i. Lack of Support from Public: Nepalese people generally do not report tax evaders in the spirit of their duty as responsible citizens. The society tends to applaud people who evade taxes and make use of the money so saved in conspicuous consumption. Moreover, the system of reward for reporting tax evasion is absent.

j. Poor Development of Intermediaries: The development of professional accounting auditing and legal services to the taxpayers has been very slow owing to the limited number of professional people to do the job. Moreover, their ethics of professional conduct seem to have been superseded by the urge to "Make Money".

k. Unnecessary Interference by Influential Person: The interference by influential person in matter of income tax has also been instrumental in the evasion of taxes. Tax officers have been hesitant & select ant to take actions for tax evasion.

l. Unlimited Convertibility of Indian Currency: Tax evasion has been aided also by the unlimited convertibility of Nepalese currency into Indian Currency. There has been no control on remittance of Indian currency.

m. Prevalence of Scheduler Taxes on Income: Scheduler taxes on various sources of income, e.g. Bank interest tax etc, erode tax base. The exemptions & deductions for schedules taxes provide looped that facilitate evasion and avoidance.

2.7 Review of Previous Studies

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

2.7.1 Review of Books and Articles

Dhakal (2001) has written a book entitled, "*Income Tax and House and Compound Tax Law Practice*". He has described the provision income tax in

Nepal. This book described the provision income tax in Nepal. This book described about income tax in Nepal, house and compound tax and VAT etc.

Aryal & Poudel (2008) wrote a book entitled, “*Taxation in Nepal*”. They explained about the income tax system in Nepal along with house and land tax and value added tax. The book has been designed based on the curriculum of B.B.S. It had been divided in to three parts. In the first part of the book introduction and development of income tax, capital and revenue nature expenses and income items, entity and retirement saving, dividend tax, computation of income from business, remuneration and investment have been explained with numerical and theoretical examples. House and land tax and value added tax have been explained in the second and third part respectively, the book also included proper bibliography and adequate and format had been described.

Mallik (2003) had written a book entitled, “*Nepalko Adhunik Aayakar Pranali*”. This book especially deals with the thorough analysis of income tax act, 2058 with example. Every section of income tax act has been clarified with suitable examples. He had written about the development of existing income tax and need and importance of income tax system in Nepal. The new provision made by income tax, 2058 about tax base, computation of income tax, exempt amount, deduction allowable, accounting of tax, capital gain, retirement saving and tax, dividend tax, capital gain and international taxation tax auditing have been clarified precisely in his book. Similarly, the book had also explained about tax administration, documentation, information collection payment of tax, installment tax, income statements, tax-assessment, tax collection, review and appeal, fees and interest, fine and penalties, tax rates and determination of provision of depreciation etc.

K.C (2009) wrote a book named “*Tax laws and Tax Planning: Theory and Practice*” It includes calculation of tax liability of both individual and entity. It

explicitly explains inclusion and exclusions from business and investment income, deduction allowed in calculation of taxable income, basic timing and accounting issues and characterization of income. This book explains proper tax payer responsible for reporting methods of taxation of income and need of compliance.

2.7.2 Review of Thesis

Shakya (2004), wrote a thesis entitled “*A Study on Income Tax Act, 2002 (2058)*”. The objectives of the study were:

-) To examine the simplification of income tax assessment procedure.
-) To find out the effectiveness of service delivered by the tax administration to the taxpayers.
-) To analyze the taxpayer’s response regarding to their duties and fights.
-) To review the provisions of minimizing the tax evasion and avoidance under the Act
-) To review the provisions regarding to the minimization of corruption in of corruption in the tax administration under the Act;
-) To view the structure of government revenue and position of income tax.
-) This study was fully based on new Income Tax Act, 2058. Shakya, in his study has found the following things.
-) Tax evasion and avoidance are major constraint of resource mobilization through income taxation. Reason for widespread tax evasion and avoidance are inefficient tax administration.
-) Poor tax morality and taxpayer’s to maintain account, poor enforcement of fine and penalties, in appropriate Income Tax Act and laws, etc.
-) Similarly, he also found that as per opinion survey significant changes in service delivery of income tax administration have not seen. Nepalese taxpayers are not so sincere to response their duties corporate tax is reduced. However Shakya cannot fulfill the all his objectives in his research.

Ghimire (2005), submitted Master thesis entitled to “*Income Tax Assessment Procedure in Nepal under New Income Tax Act 2005*”. He covered the study with the objective of

-) To make review of legal provisions relation to income tax assessment procedure in Nepal.
-) To analyze the contribution of income tax to national revenue of Nepal.
-) To analyze the view of taxpayer, tax-experts and tax-officers about income tax assessment procedure.
-) To examine the reasons for poor tax morality and tax payer’s compliance in Nepalese people.
-) To recommend possible measure. To fulfill the above objective he has used both primary and secondary source of data.
-) Similarly in his thesis he has found the following things.
-) He found that income tax is an effective tool to reduce the gap between rich and poor wide spread evasion of tax, small member of tax payer, defective government expenditure programs, poor tax paying capacity, lack of tax consciousness are the main causes ineffectiveness of income tax in reducing the gap between rich and poor.
-) Income tax assessment procedure also seems ineffective. Due to lack of adequate information about income assessment, taxpayer want to escape paying tax, lack of proper recording system in tax administration and non maintenance of books of account by the taxpayer are considered as the major problems in income tax assessment procedure.

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

Subedi (2006) *“An Analytical Study of Income Taxation in Nepal, An Unpublished M.A. Thesis submitted to CEDECAN, T.U. analyzed the importance of income tax in Nepal.*

The main objectives of this study were:

-) To examine the contribution of income tax to total revenue,
-) To examine the growth of income tax collection, its ratio to GDP
-) And to calculate elasticity between income tax and GDP.

-) The major findings are:
 -) The share of income tax to total revenue is increasing but it covers a small portion only.
 -) The role of income tax in Nepalese tax structure is rising constantly in absolute terms. Income tax is very important for economic development though it is unable to fulfill the objective because it plays very minor role in total tax revenue.
 -) Tax administration in Nepal suffers from a number of interacting and interrelated problems which have badly affected its productivity.

Adhikari (2011) conducted a study entitled *“A Study on Corporation Income Tax in Nepal”*. The objectives of his study were;

-) To study and evaluate the status of income tax as major source of revenue,
-) To examine the Nepalese income tax structure,
-) To review and analyze the trend of income tax collection and tax revenue,
-) To identify the factors to increase taxpaying habit of income tax payer,

-) To evaluate the problems of income tax management and provide suggestions to the concerned on the basis of study findings.
-) The share of tax revenue has always been greater than the share of non-tax revenue. Similarly,
-) The contribution of indirect tax has been always greater than direct tax revenue during the study period from 2000/01/ to 2010/11.
-) Income tax is an important source of direct tax
-) Its structure of Nepal is the composition of tax from government sector, public sector, private corporate bodies and remuneration tax.

2.8 Research Gap

Research gap refers to the gap between previous research and this research. Many research studies have been conducted by the different students, experts and researcher about scope of Tax Planning. There is gap between the present research and the previous researchers. The findings of the previous researches were mostly based on secondary data. Most of the previous researches did not disclose what kinds of tax planning strategies should be implemented in Nepalese environment. Thus to fill up those gap the current research is conducted. This research is a survey type of research. It is based on primary data. This research study is based on using current data which was not included in previous studies. So, this will be fruitful to those interested person, parties, scholar, civil, society, general public, businessmen and government for academically as well as policy prospective.

CHAPTER III

RESEARCH METHODOLOGY

This study was undertaken to analyze the Income Tax Acts implemented in Nepal, know the views of tax payers, stakeholders on the acts. The main concentration of the study was to analyze the Tax headings of Income Tax Act 2031 and 2058 and find its impact with the tax payers, tax administrator and to analyze the effectiveness of the tax headings of the income Acts.

To achieve these objectives, a research methodology has been designed in this study. This research methodology contained research design nature sources of data and procedure of data analysis.

3.1 Research Design

Most of the data and information of the study were concerned with past phenomena of the performance either they were numerical or opinions. After the collection of past data and experiences, this study analyzed and described its own procedure. Thus this study also followed a descriptive cum analytical research design. Statistical research design is concerned with taxpayers as well as tax officials and auditors similarly general people's attitude about income tax. The analytical research design is concerned with the data, which is gathered and analyzed systematically. The researcher will also adopt statistical design for the finding of problems and for the suggestion.

3.2 Selection of Study Area

For research Kathmandu valley is selected. Selected people are taken into account to interact to obtain necessary information. Corporate taxpayers, Engineer, Doctor, Journalist and Accountants were selected for collecting the required

3.3 The Universe and Sample Size:

All the persons who are involved in income tax system can't be taken as respondents due to the technical problems as well as physical inaccessibility.

So, for the sample size 8 Government Officers, 2 Doctor, 2 Engineer, 2 Journalist, 5 Lecturer, 4 Banker, 12 employee at different reputed organization and 13 Accountants/Finance officers from different organizations are selected for effective information.

List of Respondent

S.N.	Post	Number
1	Government Officer	10
2	Doctor	2
3	Engineer	2
4	Journalist	2
5	Lecturer	5
6	Banker	4
7	Employee at different Pvt. Office	12
8	Accountants/Finance Officers	13
Grand Total		50

3.4 Nature and Sources of Data:

In order to achieve the real result, out of this research, primary as well as secondary data were collected from different sources. Primary data are collected from the field through different techniques and secondary data are collected from different published and unpublished materials, daily newspaper.

Sources of Primary Data:

In order to find the relevance of ITA 2058, opinion survey was conducted. The tools used to obtain primary information are the opinion survey through questionnaire, field visit and information received from the respondents.

Sources of Secondary Data:

The secondary data for this research has been collected from the following different sources:

- a) Publication of Nepal Government, Ministry of Finance, budget speeches and economic survey of various fiscal years.
- b) Published documents of National Planning Commission and Nepal Rastra Bank.
- c) Published reports and seminar paper of CEDA.
- d) Research of various persons, articles and dissertation on the concerned subject.
- e) Publication of Inland Revenue Department. and Ministry of Finance like; Economic Survey, budget speeches of various years
- f) Reports submitted to Government of Nepal and internal experts and agencies.
- g) Different publications of central bureau of statistics.

The collected data through primary and secondary sources were tabulates in different ways according to the requirement of the study. The data were presented in tables, percentage.

3.5 Data Collection Techniques:

The following procedures were used to collect the necessary data for the study: A set of questionnaire was developed and distributed to the selected respondents in order to get accurate and actual information. The questionnaires were administered in personal meeting with the respondents and additional information was also collected from interview with the respondents. Interview is conducted with taxpayers, auditors and tax officers through structured questionnaires in order to get the necessary information from tax officers.

3.6 Techniques of Data Analysis

As mentioned above, the data are collected through various sources using various data collection tools and techniques.

Similarly collected data from primary sources were firstly tabulated into separate format systematically. The data was tabulated into various tables according to the subject in order. The simple statically analyses such as samplings were calculated where necessary and they have been presented and analyzed .The presentation are in descriptive way.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Analysis of Provisions mentioned in Two Acts

Main merit of Income Tax Act 2058 is self- tax assessment. According to this system, every individual or businessman must present income statement for the following year. The time to present income statement is from Shrawan 1st to Asoj 31st. Advance tax is also applicable to pay taxes. Business organization have to pay tax in three installment as advance tax, that money is very useful for government to conduct daily operation of the state-system. According to this Act everyone is concerned about income tax and pay it in time and is aware about fine and penalty. In income tax act 2031, there was no provision of self-tax assessment. Tax officer used their own logic assessed taxable income whether one had not earned profit, he should pay tax on the decision of tax officers. After this act (2058) tax appeal is reduced by sixty five percentages.

Income tax act 2031 consists of ‘best-judgments on assessments’. But there is no practical framework to assessment of tax. In that act tax officer were heroes and they harassed taxpayers by using various types of document to be presented. If taxpayers paid illegal money to them, then they could get tax clearance otherwise they should labor hard to take tax clearance. Because of that type of harassment, tax collection was not effectively than Income Tax Act 2058. Though one presented fair view of business, he must make tax officer happy to take clearance. Income Tax Act 2058 deleted this system. Every taxpayer can take tax clearance easily if they present fair view of income statement. Most important facility is for small taxpayers but big taxpayers have to wait until tax assessment, though they can get clearance within 24 hours.

To reduce administrative difficulties and to change behavior of taxpayers as well as to collect more revenue, Income Tax Act 2031 dismissed but a large amount of rules are derived in this act (2058) from income tax act 2031. But, it

replaced various tax laws for e.g. house and land rent tax. . The main feature of this act (2058) is, divided taxes into three categories, or according to this act people should pay mainly in three categories, and they are business, investment and employment. In other words peoples' liabilities for tax because only a few headings or addable amount headings are three and deductible headings are seven that are interest on loan, research and development expenses, depreciation on fixed assets, cost of stock, simple deduct and last three years loss etc. Another feature of this act is only residence people must pay tax if he earns in other countries and the non-resident has to pay tax if his/her business is in Nepal.

Self-tax Assessment is another important feature of this act (2058). According to this system all the people, who are engaged in business, investment and employment, must registered in tax office or must take PAN (Permanent Account Number) and they must submit their income statement on given format and according to statement they pay tax if their income is taxable if their income is negative or loss they can deduct the loss amount for next income year. Tax officer cannot fix the tax but they can review the assessment and if that income assessment is uncompleted or any doubtful presentation that amount he can add as income. And if a taxpayer is not convinced with the tax officer, he can go for appeal to the Director General and to the Rajashow Nyadhikaran. According to this act, tax rate are not more variety, there are same tax rate on same income.

This act says that every taxpayer must prepares an Income statement, this includes Balance Sheet, P/L Account and other necessary ledgers are most. If someone is engaged in business, investment, he must maintain book keeping and prepare an audit report by an Auditor, they must present their income statement to Internal Revenue office according to law a person is in a profession he must pay income tax on his remuneration. Internal revenue is a

most prominent source for government. To fulfill this income tax as well as other taxes are included.

4.1.1 Employment

4.1.1.1 Assessment of Income from Remuneration under ITA 2031

Regarding the assessment of income from remuneration under ITA 2031, the income of any individual from remuneration shall be assessed by adding together amounts of the following categories earned by him from service or employment during any income year:

(a) Wages, salaries, special salaries, allowances, special allowances, salary in lieu of leave commissions, fees, charges, bonus, and other facilities in cash or kind. Provided that medical expenses, daily or travelling allowances, remote area allowances, pocket expenses, leadership allowances, foreign allowances and contingency allowances of delegations visiting foreign countries, dashain expenses, amounts received as reimbursement, amounts pertaining to telephone facility made available by the employing institution, and pensions, gratuities and amounts in consideration of accumulated home leave and sick leave paid by Government of Nepal, governmental and semi-governmental corporations, institutions working in the public interest and other prescribed institutions, and amounts paid in consideration of decorations, insignias and medals shall not be included in income from remuneration. Further, explanation for the purpose of this clause,

(1) Foreign allowance means the amount that is paid to an employee in a foreign country in addition to what he is entitled within Nepal in case he is deputed by the employing institution within Nepal to work in any of its offices located in foreign countries.

(2) Remote Area Allowance means the amount not exceeding the percentage prescribed by Government of Nepal of the remuneration to be paid to any employee in consideration of his work in any remote area.

(3) Dashain Expenses mean an amount equal to one month's salary received from the employer once a year.

(a) Any expenditure that has not been authenticated incurred from the amount sanctioned to any employee or representative by the Chief Manager and any Officer to whom he has delegated the power for the benefit or development of his industry, trade, profession, or occupation. Provided that in case such expenditure or sanctioned amount is less than 50 percent of the salary of the employee or representative, it shall not be added to the income of such employee or representative, even if the expenditure may not have been authenticated.

(b) Any amount that is normally spent or borne by the individual who obtains remuneration, but is actually spent or borne by the employer.

4.1.1.2 Method of Assessing Net Income from Remuneration under ITA 2031

According to Income Tax Act 2031, the following expenses shall be deducted while assessing net income from remuneration:

(a) Amounts deducted from remuneration and credited to the provident fund, and the amount credited to such fund by the employer. Provided that such expenses shall be deducted only in prescribed circumstances in respect to facilities other than the employee's provident fund

(b) Fifteen percent of the amount left after deducting the amounts mentioned in Clause (a), or Rs. 5,000, whichever is lower, in consideration or other expenses and further explained as: for the purpose of this clause, the term "other expenses" does not include other expenses which may be deducted while assessing the net income under other Sections of this Act.

4.1.1.3 Income From an Employment under ITA 2058

Regarding the assessment of income from remuneration under ITA 2058,

1. 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.

2. 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:

- a. Payments of wages, salary, leave pay, overtime pay, fees, commissions, prizes, gifts, bonuses, and other facilities;
- b. Payments of any personal allowance, including any cost of living, subsistence, rent, entertainment, and transportation allowance;
- c. Payments providing any discharge or reimbursement of costs incurred by the individual or an associate of the individual;
- d. Payments for the individual's agreement to any conditions of the employment;
- e. Payments for redundancy or loss or termination of the employment;
- f. Retirement contributions, including those paid by the employer to a retirement fund in respect of the employee, and retirement payments;
- g. Other payments made in respect of the employment; and
- h. Other amounts required to be included under Chapters 6 or 7 of the Act.

3. Notwithstanding subsection (2), the following are excluded in calculating an individual's remuneration from an employment:

- a. Amounts exempt under section 10 and final withholding payments;
- b. Meals or refreshments provided in premises operated by or on behalf of an employer to the employer's employees that are available to all the employees on similar terms;
- c. Any discharge or reimbursement of costs incurred by the individual-

4. That serve the proper business purposes of the employer; or

5. That are or would otherwise be deductible in calculating the individual's income from any business or investment; and

- a. Payments of the prescribed small amounts which are so small and thus unreasonable or administratively impracticable to make accounting for them.

For the purpose of this section, it is clarified; Payment means the following payments-

- (A) Payments made by the employer;
- (B) Payments made by an associate of the employer; and
- (C) Payments made by a third person under an arrangement with the employer or an associate of the employer.

4.1.2 Tax Rate

Under Income Tax Act 2058, Provision for tax rate is as follows:

4.1.2.1 Individuals

Individual means a single natural person, a sole proprietorship firm, a couple elected as a single natural person and a widow or widower with dependent opted being as single.

(1) Subject to subparagraphs (2) and (4), the taxable income of a resident individual for an income-year is taxed at the following rates:

- (a) Taxable income not exceeding Rs. 2,00,000 – 1 % as Social Security Tax;
- (b) Taxable income in excess of Rs. 2,00,000 but not exceeding Rs 3,00,000 - 15 percent of taxable income in excess of Rs. 2,00,000; and
- (c) Taxable income in excess of Rs 3,00,000 up to 25,00,000, 25 percent of taxable income in excess of 3,00,000

(2) Subject to subparagraph (4), the taxable income of a couple making an election under section 50 for an income-year shall be taxed at the following rates:

- (a) Taxable income not exceeding Rs. 2,50,000 – 1 % as Social Security Tax;
- (b) Taxable income in excess of Rs 2,50,000 but not exceeding Rs 3,50,000 - 15 percent of taxable income in excess of Rs 250,000; and
- (c) Taxable income in excess of Rs 3,50,000 up to 25,00,000, 25 percent of taxable income in excess of 3,50,000

(3) The provisions made under subparagraph (4) of this schedule shall apply in the following cases:-

(a) where, the taxable income of a resident individual for an income year exceeds Rs. 2,00,000, or a resident couple making an election under section 50 for an income-year exceeds Rs 2,50,000; and

(b) Net gains from the disposal of non-business chargeable assets (the gains) are included in calculating the individual or couple's income and thereby that taxable income.

(4) Subject to subparagraph (3) the following individual shall be taxed as follows:-

(a) the greater of the following amounts shall be taxed at the rates specified in subparagraphs (1) or (2) as though it were the only taxable income of the individual or couple, as the case requires; and (1) the total of individual or couple's taxable income less the gains; or (2) Rs. 2,00,000, in the case of an individual, or Rs 250,000, in the case of a couple, at the rate of 1% as Social Security Tax.

(b) Next 1,00,000 at the rate of 15 % and up to 25,00,000 at the rate of 25 % and above 25,00,000 at the rate of 40 % as surcharge.

(5) Tax shall be calculated only on residual taxable income remained after subtracting the amount of prescribed remote area allowance not exceeding Rs. 30,000, of an individual residing in a remote area prescribed by Government of Nepal.

(7) The amount of tax referred to in section 4(4) shall be-

(a) For individuals conducting business in the Metropolitan or Sub-Metropolitan Cities - Rs 5,000;

(b) For individuals conducting business in Municipalities - Rs 1,500; and

(c) For individuals conducting business anywhere else in Nepal – Rs 1,000.

(8) The taxable income of a non-resident individual for an income-year is taxed at the rate of 25 percent.

(9) Notwithstanding this section, if any individual has pension income, the tax amount shall be calculated after deducting 25% amount of exemption limit under subsection 1(a) and 2(a) from taxable income as case requires.

(10) Notwithstanding this Section, the tax payable by a resident individual who pays premium under an investment insurance policy shall be calculated under this Section only on residual amount of taxable income remained after subtracting 7 percent of the insurance amount or Rs. 10,000 per annum whichever is less.

(11) Notwithstanding this Section, an annual tax shall be levied on the owners of vehicles on hire. If the owner of the vehicle is individual, the tax so paid shall be final.

Types of Vehicle	Annual Income Tax per Vehicle
(a) Mini-bus, Mini-truck, Truck and Bus	Rs 1,500.00
(b) Car, Jeep, Van, Micro-bus	Rs 1,200.00
(c) Three-wheeler, Auto-rickshaw, Tempo	Rs. 850.00
(d) Tractor, Power Tiller	Rs. 750.00

(12) Notwithstanding this Section, tax shall be calculated at the rate of 20 percent on the taxable income in the following conditions even if the 25 percent is applicable under this Section:

- (a) If an individual wholly engaged in operating a special industry referred to in Section 11 for an income year,
- (b) If an individual derives income from export for an income year.

4.1.2.2 Entities

Entities are the organizations or institutions such as Company, Partnership Firm, Trust, Village Development Committees, District Development Committees, Municipality, Non Governmental Organizations; Joint Venture e.t.c. Provision of tax rates for entities is as follows:

(1) Subject to subparagraphs (2), (3), (4), (5) and (7), the taxable income of an entity for an income-year is taxed at the rate of 25 percent.

(2) The taxable income of a bank, or financial institution, or general insurance business or of an entity dealing with petroleum business as per Nepal Petroleum Act, 2040 for an income-year is taxed at the rate of 30 percent. It is further clarified as, taxable income of petroleum business means the taxable income calculated as per the procedure mentioned in the petroleum contract and this act and the rules prescribed by this act.

(3) Income having a source in Nepal derived as follows during an income-year by an entity shall be taxed at the rate of 20 percent.

(a) An entity wholly engaged in operating a special industry as referred to in section 11 for the year; or

(b) The entity has-

(1) Operated any road, bridge, tunnel, rope-way, or flying bridge constructed by the entity; or

(2) Operated any trolley bus, or tram, or

(3) Derived income from export for an income year.

(4) The taxable income of an entity wholly engaged in the projects conducted by any entity so as to build public infrastructure, own, operate and transfer it to the Government of Nepal and in power generation, transmission, or distribution for an income-year shall be taxed at the rate of 20 percent.

(5) The taxable income of an estate of a deceased resident individual or trust of an incapacitated resident individual for an income-year shall be taxed at the rates mentioned in paragraphs 1(1) and (4) as though the estate or trust was a resident individual.

(6) The repatriated income of a foreign permanent establishment of a nonresident person situated in Nepal for an income-year shall be taxed at the rate of 10 percent.

(7) The taxable income of a non-resident person with respect to income referred to in section 70 for an income-year is taxed at the rate of 5 percent.

4.1.3 Repairs and Maintenance

Income Tax Act 2031 has provision for deduction of Repair and Maintenance but it depends on the nature of cost. The cost that are made for the durable life of the assets are to be capitalized, other than that cost the deduction shall be allowed with respect to costs in the order in which they are incurred whereas, Income Tax Act 2058 has following provision:

(1) 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.

(2) Notwithstanding subsection (1), the deduction allowed under subsection (1) with respect to 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.

(3) Any excess cost of repair and improvement, or a part thereof, for which a deduction is not allowed as a result of the limitation in Subsection (2) can be added to the depreciation basis prevailing in the beginning of the subsequent income year, of the pool to which it relates.

The repair and improvement cost incurred during the year for the depreciable assets owned and used by a person in generating income from business or investment is deductible up to 7 % of depreciation basis or whichever is less. The unabsorbed repair cost is capitalized at the beginning of the next income year in respective blocks. However the repair and improved costs incurred by airlines business for overhauling of aircraft according to the standards prescribed by Civil Aviation Authority of Nepal (CAAN) are allowed for deduction.

4.1.4 Pollution Control Cost

Pollution control costs means costs incurred by a person with respect to a process or an asset that seeks to control pollution or otherwise protect or sustain the environment. As these cost are pre-operating cost so as per Income Tax Act 2031 while calculating a person's income for an income-year from any business, there shall be deducted total pollution control costs equally carried to five years to the extent incurred by the person in conducting the business whereas Income Tax Act 2058 has following provision:

- (1) 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.
- (2) Notwithstanding Subsection (1), the limitation of the deduction allowed under the Subsection to a person for an income-year shall not exceed 50 percent of the adjusted taxable income from all businesses conducted by the person.
- (3) 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 in accordance with Schedule-2 of ITA 2058 and is further clarified as:- For the purpose of this section, pollution control costs means costs incurred by a person with respect to a process or an asset that seeks to control pollution or otherwise protect or sustain the environment.

4.1.5 Research and Development

Income Tax Act 2031 has provision of calculating a person's income for an income-year from any business, there shall be deducted total research and development costs equally carried to five years to the extent incurred by the person in conducting the business whereas Income Tax Act 2058 has following provision:

(1) 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.

(2) Notwithstanding Subsection (1), the limitation of the deduction allowed under the Subsection to a person for an income-year shall not exceed 50 percent of the adjusted taxable income from all businesses conducted by the person.

(3) 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 in accordance with Schedule-2 of ITA 2058 and further clarified as:- For the purpose of this section, research and development costs means costs incurred by a person for the purposes of developing the person's business and improving business products or process. Provided that, the term does not include any cost incurred that is an outgoing for any asset including assets referred to in paragraph 1(3) of Schedule-2 of ITA 2058.

4.1.6 Tax Rebate

There are not any special provisions of tax rebate in ITA 2031, but there are provisions for tax rebate in ITA 2058. Tax Rebate has been provided to the resident female who have remuneration income only at the rate of 10 % on total tax liability.

4.1.7 Remote Area Allowance

As per the provisions of Remote Area Allowance in ITA 2031, tax shall be calculated only on residual taxable income remained after subtracting the amount of prescribed remote area allowance , but there are provisions for Remote Area Allowance in ITA 2058. Tax shall be calculated only on residual taxable income remained after subtracting the amount of prescribed remote area allowance not exceeding. 30,000 of an individual residing in a remote area prescribed by the government of Nepal. For remote area (A) the deductible

amount is 30,000, for area (B) it is 24,000, for area (C) it is 18,000, for area (D) it is 12,000 and for area (E) it is 6000.

4.1.8 Medical Tax Credit

Income Tax Act 2031 does not have provision for deduction of Medical Tax Credit whereas Income Tax Act 2058 has following provision:

- (1) A resident individual may claim a medical tax credit for an income-year for any approved medical costs paid by the individual him/herself or through others during the year in respect of the individual.
- (2) The medical tax credit of an individual for an income-year shall be required to be calculated by applying the rate of 15 percent to the amount of approved medical costs referred to in subsection (1) for the year and adding to the result any amount referred to in subsection (4).
- (3) Notwithstanding subsection (1), the medical tax credit claimed by an individual for any income-year shall not exceed the limit prescribed.
- (4) In case of any individual for any income-year, the sum of any excess under paragraphs (a) and (b) may be carried forward and added to the amount referred to in subsection (2) for the next income-year to the following extent:-
 - (a) In case the amount referred to in subsection (2) is greater than the limit referred to in subsection (3); or
 - (b) In case the individual cannot use the medical tax credit by reason of lack of tax payable under section 3(a) for the year. And it is further clarified as: For the purpose of this section, approved medical costs means medical costs approved as prescribed.

4.1.9 Salary/ Proprietor/ Family Member

Income Tax Act 2031 doesn't have any provision for deduction of salary paid to the son of proprietor of proprietorship firm but Income Tax Act 2058 has provided facility to deduct salary paid to the family member.

4.1.10 Interest

As per the provision of Income Tax Act 2031 interest expenses for loan received for business purpose from local money lender up to Rs. 20,000 per annum is allowed to deduct does not have provision for deduction of interest whereas Income Tax Act 2058 has following provision

(1) 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-

(a) 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

(b) In any other case, the debt obligation was incurred. Provided that, such debt obligation is required to be incurred in the production of income from the business or investment.

(2) Notwithstanding Subsection (1), in the case of interest paid by an exempt controlled resident entity to the person or an associate of the persons having control over the entity, the deductible interest amount for an income year under the Subsection shall not exceed the sum of the following:

(a) All interest derived by the entity during the year that is to be included in calculating the entity's taxable income for the year; plus

(b) 50 percent of the entity's taxable income for the year calculated without including any interest derived by the entity or deducting any interest incurred by the entity.

(3) Any interest for which a deduction is denied as a result of subsection (2) may be carried forward and treated as incurred during the next income year. And further clarified as: for the purpose of this section, an entity is an exempt controlled resident entity for any income-year if it is a resident entity for the year and at any time during the year 25 percent or more of the underlying ownership or control of the entity is held by-

(a) Exempt organizations or associates of exempt organizations;

- (b) Persons or associates of persons deriving during the year income for which a concession is available under section 11;
- (c) Non-resident persons or associates of non-resident persons; or
- (d) Any combination of persons referred to in paragraphs (a), (b) and (c) of ITA 2058.

4.1.11 Local Money Lender

Under Income Tax Act 2031, Interest expenses for loan received for business purpose from local money lender up to Rs. 20000 per annum is allowed to deduct but Income Tax Act 2058 has provided facility to deduct full amount as allowable expenses.

4.1.12 Accommodation Facility

According to Income Tax Act 2058, if a provision of a house is made to individual, 2 % of salary in case of employees or 25% of Actual rent in case of leased building or prevailing rate in case of own building and in case of other is included in the income of payee.

4.1.13 Vehicle Facility

According to Income Tax Act 2058, if a motor vehicle is availed wholly or partly for the private purpose, 0.5% of salaries in case of employees or 1 % of market value of vehicle in case of other (i.e. consultants) is included in the income of a payee.

When a characterized amount for motor vehicle facility is included in the employee's income, any fuel expenses, driver's salary and repair expenses borne by the employer in respect of the motor vehicle will not be taken into consideration as per circular issued by IRD on 28 Shrawan, 2059.

4.2 Empirical Analysis of Provisions mentioned in Two Acts:

This empirical study is based on the opinion questionnaire survey which was distributed to 30 respondents in order to know their opinion regarding Income

Tax Acts. This chapter is the main body of the study, which answer the research problem for obtaining the specific goals of the research. It helps for summarizing, concluding and finding the research.

The effectiveness of the thesis is highlighted by the opinion survey. Thus, the main portion of the investigation depends upon the view of respondents rather than secondary data. The investigation has been conducted for the purpose of analyzing Income Tax Acts. For which questionnaire has been developed and responses collected from the respondents. A set of questionnaires has been received from various respondents. The response received from respondents has been rearranged in a particular sequence, tabulated and analyzed in order to facilitate the descriptive analysis of this study.

The questionnaire has been asked either for a yes/no response or choice alternative. In the choice alternatives, the first choice has the most importance or positive view and the last is least important or negative view.

4.2.1 Familiarity with Income Tax Acts

In order to know the familiarity of Income Tax Acts among the respondents, a question was asked to them: Are you familiar with Income Tax Act 2031 & Income Tax Act 2058? The result found was presented in the table given below.

Table-4.1
Familiarity with Income Tax Acts

Option	No. of Respondent	Percentage(%) of Respondent
Very Much	25	50 %
Very	20	40%
Slightly	5	10%
Slightly Not	0	0%
Not	0	0%
Total	50	100%

From above table, it is observed that 50 % of the respondents are very much familiar with the Income Tax Acts, likewise only 40% are very familiar with Income Tax Acts and 10% respondents are familiar with it. All the respondents were familiar with Income Tax Acts.

This shows that the level of awareness about Income Tax Acts among the respondents is higher. They know the rules, regulations, and tax system of Nepal.

4.2.2 Income from Employment

In order to know the provision of taxation on income from employment and the facilities provided by Income Tax Act 2031 and Income Tax Act 2058 a question was asked the respondents, whether they are employee or not. The response given by them is presented on following table:

Table 4.2
Status of Employment

Option	No. of Respondent	Percentage(%) of Respondent
Yes	50	100 %
No	0	0%
Total	50	100%

Likewise respondents were asked which act has given more facilities to them. The response given by them is presented on following table:

Table -4.3
Facilities by Income Tax Acts

Option	No. of Respondent	Percentage(%) of Respondent
Income Tax Act 2031	0	0 %
Income Tax Act 2058	50	100%
Total	50	100%

The respondents who were employee were all aware that Income Tax Act 2058 has given more facilities in terms of tax exemption limit to them. They are also happy with the provisions provided to them.

4.2.3 Provision of Retirement Fund

A question was asked to the respondents who were employees whether they are taking facility of deduction of retirement fund from while calculating their income tax, the result obtained is as follows:

Table 4.4
Status of Deducting Retirement Fund

Option	No. of Respondent	Percentage(%) of Respondent
Yes	40	80%
No	10	20%
Total	50	100%

Among the respondents, 80% of the respondents (i.e. 40 employees) were deducting the retirement fund while calculating their income tax from employment and only 20% of the respondents (i.e. 10 employees) were not deducting it, though they know this provision.

Likewise, question was asked to the respondents who deducts their retirement fund while calculating their Income Tax, which act they will prefer for this provision? Their response is as follows:

Table -4.5
Preference to Income Tax Act in Terms of Retirement Funds

Option	No. of Respondent	Percentage(%) of Respondent
Income Tax Act 2031	0	0 %
Income Tax Act 2058	40	100%
Total	40	100%

The respondents who were deducting the retirement fund while calculating income tax were aware and preferred that Income Tax Act 2058 has given more facilities in terms of deduction to retirement fund to them. They are also happy with the provisions provided to them.

4.2.4 Provision of Life Insurance Premium

The respondents were asked who were employees whether they are taking facility of deduction of Life Insurance Premium while calculating their income tax, the result obtained is as follows:

Table- 4.6
Status of Deducting Life Insurance Premium

Option	No. of Respondent	Percentage(%) of Respondent
Yes	18	36%
No	32	64 %
Not Answered	0	0%
Total	50	100%

Among the respondents, 18 respondents were taking facility of deducting the life insurance premium while calculating their income tax from employment and 32 respondents were not deducting it, though they know this provision.

Likewise, respondents were asked who deducts their life insurance premium while calculating their Income Tax, which act they will prefer for this provision? Their response is as follows:

Table -4.7

Preference to Income Tax Act in Terms of Life Insurance Premium

Option	No. of Respondent	Percentage(%) of Respondent
Income Tax Act 2031	0	0 %
Income Tax Act 2058	18	100%
Total	18	100%

The respondents who were deducting the life insurance premium while calculating income tax were aware and preferred that Income Tax Act 2058 has given more facilities in terms of life insurance premium to them.

4.2.5 Provision of Gender Facility

A question was asked to the respondents regarding the facility of 10% rebate provided to women on taxable income on the basis of gender while calculating their income tax, the result obtained is as follows:

Table- 4.8

Status of liking Gender Facilities

Option	No. of Respondent	Percentage(%) of Respondent
Yes	38	76%
No	12	24%
Total	50	100%

Among the respondents, 76% of the respondents (i.e. 38 employees) like the facilities given by the Income Tax Act for calculating income tax from employment whereas, only 24% of the respondents (i.e. 12 employees) dislike this provision.

Likewise, questions were asked to the respondents regarding the rebate of 10 % facility on tax liability according to Gender while calculating their Income Tax, which act do they like for this provision? Their response is as follows:

Table -4.9

Preference to Income Tax Act in Terms of Gender Facilities

Option	No. of Respondent	Percentage(%) of Respondent
Income Tax Act 2031	0	0 %
Income Tax Act 2058	50	100%
Total	50	100%

The respondents who like the provision in terms of Gender regarding the deduction while calculating income tax were aware and liked Income Tax Act 2058.

4.2.6 Provision of Repair and Maintenance Cost

Respondents were asked whether they know the provision of deduction of Repair and Maintenance cost in both acts. The result obtained from the research is tabulated below:

Table -4.10

Status of Deducting Repair and Maintenance

Option	No. of Respondent	Percentage(%) of Respondent
Income Tax Act 2031	11	22 %
Income Tax Act 2058	29	58%
Don't Know	10	20%
Total	50	100%

Among the respondents, 29 out of 50 have known that the Income Tax Act 2058 has given the provision for deduction of Repair and Maintenance cost. 10 i.e. 20% respondents do not have known the Income Tax Act regarding Repair and Maintenance.

Likewise, further question was asked to them for, are they satisfied with the provision or not? Their response was tabulated below

Table -4.11

Status of Satisfaction level on Provision for Repair and Maintenance

Option	No. of Respondent	Percentage(%) of Respondent
Yes	18	45 %
No	13	32%
Little bit	9	23%
Total	40	100%

Among the respondents, 45% of the respondents (i.e. 18 respondents) are satisfied with the facilities given by the Income Tax Act 2058 for Repair and Maintenance. Similarly 32% of the respondents (i.e. 13 respondents) were not satisfied but 23% of the respondents (i.e. 9 respondents) were little bit satisfied with the provision for deducting repair and maintenance cost while calculating income tax.

4.2.7 Provision of Research and Development

A question was asked to the respondents regarding the provision of deduction of Research and Development Cost. The result obtained from the research is tabulated below:

Table -4.12

Status of Deducting Research and Development

Option	No. of Respondent	Percentage(%) of Respondent
Income Tax Act 2031	7	14 %
Income Tax Act 2058	35	70%
Don't Know	8	16%
Total	50	100%

Among the respondents, 35 out of 50 have known that the Income Tax Act 2058 has given the provision for deduction of Repair and Maintenance cost. 8

respondents do not have known the Income Tax Act regarding Repair and Maintenance cost.

Likewise, question was asked to them for, are they satisfied with the provision or not? Their response was tabulated below:

Table -4.13

Status of Satisfaction Level on Provision for Research and Development

Option	No. of Respondent	Percentage(%) of Respondent
Yes	25	60 %
No	9	21%
Little bit	8	19%
Total	42	100%

Among the respondents, 60% of the respondents (i.e. 25 respondents) are satisfied with the facilities given by the Income Tax Act 2058 for Research and Development. Similarly 21% of the respondents (i.e. 9 respondents) were not satisfied but 19% of the respondents (i.e. 8 respondents) were little bit satisfied with the provision for deducting research and Development cost while calculating income tax.

4.2.8 Provision of Remote Area Allowance

A question was asked to the respondents regarding the provision of deduction of Remote Area Allowance provided by the both act. The result obtained from the research is tabulated below:

Table -4.14

Preference to Income Tax Act Referring Remote Area Allowance

Option	No. of Respondent	Percentage(%) of Respondent
Income Tax Act 2031	0	0 %
Income Tax Act 2058	42	84%
None of Them	8	16%
Total	50	100%

Among the respondents, 42 out of 50 have given preference to Income Tax Act 2058 referring the provision of Remote Area Allowance. Likewise 8 respondents do not have preference on this provision provided by both Income Tax Acts.

4.2.9 Provision of Donation

Respondents were asked regarding the provision of deduction of Donation provided by both Income Tax Acts. The result obtained from the research is tabulated below:

Table -4.15
Preference to Income Tax Act Referring Donation

Option	No. of Respondent	Percentage(%) of Respondent
Income Tax Act 2031	0	0 %
Income Tax Act 2058	36	72%
None of Them	14	28%
Total	50	100%

Among the respondents, 36 out of 50 have given preference to Income Tax Act 2058 referring the provision of Donation. Likewise 14 respondents do not have preference on this provision provided by both Income Tax Acts.

4.2.10 Provision of Carry Forward of Loss

A question was asked to the respondents regarding the provision of carry forward of loss while calculating income tax, the result obtained is as follows:

Table- 4.16
Status of Liking Carry Forward of Loss

Option	No. of Respondent	Percentage(%) of Respondent
Yes	40	80%
No	10	20%
Total	50	100%

Among the respondents, 80% of the respondents (i.e. 40 respondents) like the facilities regarding Carry Forward of losses given by the Income Tax Act for calculating income tax whereas, 20% of the respondents (i.e. 10 respondents) dislike this provision.

Likewise, respondents were asked regarding the provision of carry forward of loss while calculating their Income Tax, which act is good for this provision? Their response is as follows:

Table -4.17

Preference to Income Tax Act Referring Carry Forward of Loss

Option	No. of Respondent	Percentage(%) of Respondent
Income Tax Act 2031	7	14 %
Income Tax Act 2058	29	58%
None of Them	14	28%
Total	50	100%

Regarding the provision of Carry Forward of Loss 29 respondent (i.e. 58%) thinks that the provision given by Income Tax 2058 is good. 7 respondent (i.e. 14%) says that the provision given by Income Tax Act 2031 is good . but, 14 respondents (28%) thinks that both Tax Acts provision is not good.

4.2.11 Provision of Depreciation Allowance

A question was asked to the respondents regarding the provision of Depreciation Allowance. The result obtained from the research is tabulated below:

Table -4.18

Status of Satisfaction Level on Provision for Depreciation Allowance

Option	No. of Respondent	Percentage(%) of Respondent
Yes	37	74%
No	13	26%
Total	50	100%

Among the respondents, 74% of the respondents (i.e. 37 out of 50 respondents) are satisfied with the provision given by the Income Tax Act 2058 for Depreciation Allowance. Similarly 26% of the respondents (i.e. 13 out of 50 respondents) were not satisfied with the provision for deducting Depreciation Allowance while calculating income tax.

Likewise, respondents were asked regarding the provision of Depreciation Allowance while calculating their Income Tax, which act is good for this provision? Their response is as follows:

Table -4.19

Preference to Income Tax Act Referring Depreciation Allowance

Option	No. of Respondent	Percentage(%) of Respondent
Income Tax Act 2031	0	0 %
Income Tax Act 2058	32	64%
None of Them	18	36%
Total	50	100%

Regarding the provision of Depreciation Allowance 32 respondent (i.e. 64%) thinks that the provision given by Income Tax 2058 is good. None of the respondent says that the provision given by Income Tax Act 2031 is good but, 18 respondents (36%) thinks that both Tax Acts provision is not good.

4.2.12 Paying Tax to Government

A question was asked to the respondents whether they are paying tax to the government regularly or not, their response is presented in the following table:

Table- 4.20

Status of Paying Tax to Government

Option	No. of Respondent	Percentage(%) of Respondent
Very Regular	15	30%
Quite Regular	10	20%
Moderately Regular	12	24%
Not regular	5	10%
Moderately irregular	3	6%
Very Irregular	5	10%
Total	50	100%

30 % of the respondents are found to be paying tax very regularly to the government while 10% of the respondents are very irregular in regard of paying tax. 20% of the respondents (i.e.10 respondent) each are quite regular and moderately regular in regard to paying tax to the government whereas 10% of the respondents are not regular to pay tax to the government.

4.2.13 Perception Regarding Clarity and Simplicity of Procedures and Mechanism of Tax System

The respondents were asked for their perception regarding the clarity and simplicity of procedures and mechanism of tax system as they were a tax payer; the result found is as follows:

Table- 4.21
Perception Regarding Clarity & Simplicity of Procedures & Mechanism of
Tax System

Option	No. of Respondent	Percentage(%) of Respondent
Very Much Important	42	84%
Very Important	5	10%
Important	3	6%
Just Okay	0	0%
Not So Important	0	0%
Not Important	0	0%
Not Important at all	0	0%
Total	50	100%

About 84 % of the respondents said that clarity and simplicity of procedures and mechanism of the tax system is very much important to the taxpayers. 10 % of the respondents are for the option Very Important where as 6 % of the respondents for important option regarding clarity and simplicity of procedures and mechanisms of tax system.

4.2.14 Perception about Tax Rates

The respondents were asked whether they perceived the prevailing tax rates in the country to be high or low. The result found is as follows:

Table- 4.22
Perception of Tax Rates

Option	No. of Respondent	Percentage(%) of Respondent
Extremely High	6	12%
Very High	10	20%
High	10	20%
Okay	20	40%
Low	4	8%
Very Low	0	0%
Extremely Low	0	0%
Total	50	100%

The table above shows that 12% of the respondents seem the rates was extremely high, 20% of them reported that the rates were very high, 20% mentioned that the rates were high and 40% says the rates are okay and 8% of the respondents felt that the tax rates were low.

4.2.15 Perception Regarding Knowledge and Information of Tax System

The respondents were asked for their perception regarding the importance of the knowledge and information of tax system as they were a tax payer; the result found is as follows:

Table- 4.23

Perception Regarding Knowledge and Information of Tax System

Option	No. of Respondent	Percentage(%) of Respondent
Very Much Important	25	50%
Very Important	20	40%
Important	5	10%
Just Okay	0	0%
Not So Important	0	0%
Not Important	0	0%
Not Important at all	0	0%
Total	50	100%

About 50 % of the respondents said that knowledge and information of the tax system was very much important to the taxpayers. 40 % of the respondents were for the option Very Important where as 10 % of the respondents for important option regarding the importance of knowledge and information of tax system.

4.2.16 Changes in the Situation of Knowledge and Information on Tax System in the Past Five Years

The respondents were asked question to know their view regarding the changes in situation of knowledge and information on the tax system in the past three years. The result found is as follows:

Table- 4.24

**Changes in the Situation of the Knowledge & Information on Tax System
in Past Five Years**

Option	No. of Respondent	Percentage(%) of Respondent
Very Much Improved	12	24%
Very Improved	24	48%
Slightly Improved	8	16%
Not Improved	6	12%
Slightly deteriorated	0	0%
Very deteriorated	0	0%
Very Much	0	0%
Total	50	100%

About 48 % of the respondents said that knowledge and information of the tax system was very improved in the past five years where as 24 % of the respondents view was the situation is very much improved. Only 12 % of the respondents were for the option not improved regarding the changes in the situation of knowledge and information on of tax system in the past five years.

4.2.17 Importance of Tax Policy and Tax System

The respondents were asked question to know their view regarding the importance of tax policy and tax system. The result found is as follows:

Table- 4.25

Importance of Tax Policy and Tax System

Option	No. of Respondent	Percentage(%) of Respondent
Very Much Important	40	80%
Very Important	8	16%
Important	2	4%
Just Okay	0	0%
Not So Important	0	0%
Not Important	0	0%
Not Important at all	0	0%
Total	50	100%

About 80 % of the respondents seems that the tax policy and tax system is very much important as taxpayer while 16% of the respondents mentioned that tax system and tax policy was very important for them. The degree of importance probably varied based upon the size and type of business and respondents' professions. Likely, 4% respondent is for important option regarding importance of tax policy and tax system.

4.2.18 Improvement in Tax Policy and Tax System

The respondents were asked question to know their view regarding the improvement on tax policy and tax system in the past five years. The result found is as follows

Table- 4.26

Improvement in the Tax Policy and Tax System

Option	No. of Respondent	Percentage(%) of Respondent
Very Much Improved	5	10%
Very Improved	7	14%
Slightly Improved	27	54%
Not Improved	8	16%
Slightly deteriorated	3	6%
Very deteriorated	0	0%
Very Much deteriorated	0	0%
Total	50	100%

About 10 % of the respondents said that the tax policy and tax system was very much improved in the past five years where as 14 % of the respondents view was, the situation is very improved. 54% of the respondents felt that there was Slight improvement in the situation of tax policy and tax system in the country during the past five years. 16 % respondents said that the system and policy was not improved while 6% of the respondent was saying that the policy and system was slightly deteriorated in the last five years.

4.2.19 Satisfaction as Tax payer

Although various cross questions were included in the questionnaire to assess their satisfaction level as taxpayers as compare to the facilities provided by the government in general. The respondents were further requested to comment on how satisfied they were. The findings on the responses have been presented below:

Table- 4.27
Satisfaction as Tax Payer

Option	No. of Respondent	Percentage(%) of Respondent
Very Satisfied	0	0%
Quite Satisfied	5	10%
Moderately Satisfied	7	14%
Somewhat Satisfied	21	42%
Somewhat Unsatisfied	4	8%
Quite Unsatisfied	10	20%
Very Unsatisfied	3	6%
Total	50	100%

It can be seen from the table that only about 10% of the respondents were quite satisfied and about 14 % of the respondents were moderately satisfied. About 42% are somewhat satisfied. Likewise, 8 % of the respondents were somewhat unsatisfied and also it can be seen that only about 20% of the respondents were quite unsatisfied and about 6 % of the respondents were very unsatisfied.

4.3 Major Finding

There is a direct relationship between political and legal environment which brings lots of changes and problems in the law governing business firm. Different kinds of social pressure and problems are done to pass the laws related to income tax. The main sources of revenue is the income tax, along with this different tax such as wealth tax, gift tax is used by government as an instrument for bringing about equality of income and wealth in the society. Income tax act 2058 has been enacted with wide perspective. New concepts with broad vision are introduced in this act as compared to Income tax act 2031. This act has a good as well as bad vision, although we should have to wait for more few years to measure its effectiveness. However the incentives and facilities are provided by ITA are seems to be sufficient, some intensive

programs should be brought to aware and sensitize the tax payers. Tax incentives are tools of reducing financial burden, tax avoidance and tax evasion. There is basis for one to conclude that the tax administration in Nepal is on an improving trend over the past seven years. Although this is an encouraging result, the pace for improvement, however, seems slow. The taxpayers' satisfaction level increases automatically when the government is capable of delivering basic public services to the public. It is very encouraging to note that overwhelming majority of the respondents have felt that paying taxes to the government is one's duty. Revenue generation through tax is important for the government.

Thus, the realization of the people of the need to pay taxes is a positive message to the government. In spite of many positive findings, it is disappointing to note that many of the taxpayers still feel that the behavior of tax officials is not friendly and fair.

4.4 Major Finding from the Empirical Investigation

An empirical investigation has been conducted to find out the relevance of ITA 2058, analyze the tax headings of Income Tax Act 2031 & 2058 and analyze the effectiveness of tax headings of Income Tax Act 2031 and 2058. For this questionnaire was developed and responses were collected from the respondents.

1. It was found that that the level of awareness about Income Tax Acts among the respondents is high. They know the rules, regulations, and tax system of Nepal, though all people are not aware of it.
2. None of the respondent are satisfied with the facilities provided by of income tax act 2031, however all of them are somehow satisfied with the income tax act 2058.
3. Majority of the total respondent are aware of the provision of the retirement fund. 80% of the respondents (i.e. 40 employees) were deducting the retirement fund while calculating their income tax from employment and only 10% of the respondents (i.e. 20 employees) were

not deducting it, though they know this provision. The respondents who were deducting the retirement fund while calculating income tax were aware and has given more facilities in terms of deduction to retirement fund to them.

4. The level of awareness about taking the facility of deduction of life insurance premium while calculating their income tax is less than 50%. The result shows that 36% of the respondents are taking the facility of deduction of life insurance premium while calculating their income tax whereas 64% were not taking the facility. Among them they preferred that Income Tax Act 2058 for the facility.
5. Most of the respondents are known about calculating income tax from employment as per the act and majority of them like the act although the result shows that most of the respondents dislike this provision, though all of them prefer income tax act 2058 than income tax act 2031.
6. It has found that the facilities provided by income tax regarding provision for deduction of Repair and Maintenance cost are medium. 29 out of 50 have known that the Income Tax Act 2058 has given the provision for deduction of Repair and Maintenance cost. 10 i.e. 20% respondents do not know the Income Tax Act regarding Repair and Maintenance.
7. It has been clear that most of the respondent are satisfied with the facilities given by the Income Tax Act 2058 for Research and Development, though only 19% of the respondents (i.e. 1 respondents) were little bit satisfied with the provision for deducting research and Development cost while calculating income tax.
8. It has found that 84% have given preference to Income Tax Act 2058 referring the provision of Remote Area Allowance and 16% respondents does not have preference on both provision provided by both Income Tax Acts. The respondent suggests that the act referring remote allowance is opposite.

9. It has found that major priority is given to income tax act 2058 as compare to income tax act 2031. 36 out of 50 have given preference to Income Tax Act 2058 referring the provision of Donation. Likewise 14 respondents do not have preference on this provision provided by both Income Tax Acts.
10. Most of the respondent opinion in favor of carry forward of loss is higher. 80% of the respondents (i.e. 30 respondents) like the facilities regarding Carry Forward of losses given by the Income Tax Act for calculating income tax.
11. The study shows that 74% of the respondents (i.e. 37 out of 50 respondents) are satisfied with the provision given by the Income Tax Act 2058 for Depreciation Allowance. Similarly 26% of the respondents (i.e. 13 out of 50 respondents) were not satisfied with the provision for deducting Depreciation Allowance while calculating income tax.
12. The nature of paying tax regular to the government is higher among the respondent. Among the respondent 30 % of the respondents are found to be paying tax very regularly to the government. Only 10% of the respondents are not regular to pay tax to the government. This shows that the regularity to pay tax to the government is high.
13. It has found been that clarity and simplicity of procedures and mechanism of the tax system is very much important to the taxpayers although improvement is necessary for that to make convenient.
14. The result shows that the present tax rate system is high beyond the income. 12% of the respondents seem the rates was extremely high, 20 % of them reported that the rates were very high, 20% mentioned that the rates were high and 40% says the rates are okay. 8% of the respondents felt that the tax rates were low.
15. As per the study 64 % of the respondents said that knowledge and information of the tax system was very much important to the taxpayers. 23 % of the respondents were for the option Very Important where as 10 % of the respondents for important option. 3% respondents say it's just

okay regarding the importance of knowledge and information of tax system.

16. Majority of the respondents said that knowledge and information of the tax system was slightly improved in the past three years, although various fields are to be improved.
17. It has found that most of the respondent are most aware and they know and gives priority about the importance of tax policy and tax system as a tax payer.
18. The result shows that 24 % of the respondents said that the tax policy and tax system was very much improved in the past five years where as 48 % of the respondents view was, the situation is very improved. 16% of the respondents felt that there was Slight improvement in the situation of tax policy and tax system in the country during the past three years. 12 % respondents said that the system and policy was not improved in the last five years. It means most of the respondent is somewhat satisfied with the improvement made on the tax policy and tax system.
19. 10% of the respondents were quite satisfied with the current tax policy of Nepal and about 14 % of the respondents were moderately satisfied. About 42% are somewhat satisfied. Likewise, 8 % of the respondents were somewhat unsatisfied and also it can be seen that only about 20% of the respondents were quite unsatisfied and about 6 % of the respondents were very unsatisfied. This shows that majority of the tax payer are not satisfied with the current tax policy of Nepal.

CHAPTER V

SUMMARY, CONCLUSIONS & RECOMMENDATION

5.1 Summary of the Study

A tax is a compulsory contribution by a person to the government without having any direct benefit for the payment. Especially, the direct tax is a burden to the taxpayer because it is not shift able. Since it is painful, everyone wants to reduce the tax liabilities as far as possible. Planning is the way of making systematic and easy of any task previously. So, tax incentives are the main factors to encourage or promote tax planning and ultimately to promote the business and the industries of any country.

Revenue is the lifeblood of any state and tax is one of the most important income sources of any country, which directly affects the economic system of the society. With tax, the government not only collects money but also regulates all the business organizations. To reduce the poverty of country, it is very compulsory to grow up the industries. Up to now, Nepal is following traditional agriculture based industry and other disciplines have very low contribution to GDP. Industrialization is fundamental need to develop the country, for this purpose tax system should be practical and effective. Tax system should be initiative to establish new industry and facilitative to continue the business for long term. Tax shouldn't be as a financial burden to the people imposed by the state. It should feel as a moral responsibility and prestigious task.

In the developing country, such as Nepal if the government doesn't play vital role to establish the new industry it seems to be impossible because of high risk and low chance to grow up. Nepal has very few of big industries and little more of cottage and small industries. Due to lack of encouraging law and act of government new industries are not establishing and old also are not running well.

Nepal is one of the least developed Countries. It is suffering from economic disaster. To increase the government revenue Nepalese government is trying to extract money or valuable contribution from people through taxation.

In the context of Globalization the developing countries are seen to suffer because of the less efficient tax administration. With the increase on personal morality and development of information technology and with the freedom to invest saving abroad the total income of many individuals consist a large component of foreign earned income. These individuals are likely to underreport incomes earned abroad and the tax administration of their country of residence will be unable to ascertain or discover these foreign earned incomes. These individuals are likely to underreport incomes earned abroad and the tax administration of their country of residence will be unable to ascertain or discover this foreign earned, income. Due to this the high earners can escape from tax and & the low earners. A formal Income tax in Nepal was first introduced in the fiscal year 2016/17. It was then known as "Bus mess profits & Remuneration tax (2016) "The Bus mess profits and remuneration Tax act 2017 later governed the imposition of the tax and the rules made these under. This act was replaced by the Nepal Income Tax Act 2019 which was amended in 2029 and was replaced by "Income Tax Act 2031". This income tax act is the existing law relating to income tax in Nepal. It has been amended in 2043, 2038, 2042 and 2043 according to the changing economic environment of Nepal. Likewise income Tax Act 2058 is in the use; it is the demand of time and is helping Nation on the field of National revenue. So as Income Tax Act 2058 replaced this act (2031). This Income Tax Act is the existing law relation to income tax in Nepal. This Tax law simplifies the tax – heading & tax rates and most important feature is self-tax assessment.

Income Tax Act 2058 is helping the nation by collecting taxes but there are several problems to implement it and to fulfill target outcomes. First of all people of our country are not aware about tax and on the other hand, the government is not convincing people about tax. Other main reason for

implementation of this act is peoples' concept about misuse of tax. Government's main aim is to collect maximum taxes from people for the fulfillment of their needs and national interests but there are difficulties to meet the target adequately.

In Nepal government never become success to convince people about collected tax and its utilization. A huge number of corruption and misbehavior of policy makers and bureaucrats, the collected tax is not properly utilized on welfare of people and information to the people is not sufficient and fact.

Nepal is developing country. People are poor. According to Central Bureau of Statistic; per capita income of Nepalese is \$730 per annum. Because of poverty people are not willing to pay tax. Bureaucratic system of Nepal and the other factors are influencing problems in the Income Tax act 2058.

In most of the developing countries people are hostile to pay tax, for the simple reason that it takes people's money with no specific rewards in return. In our country there is no possibility of getting specific rewards, instead the taxpayer cannot know where the tax is being properly used. The government does not feel its responsibility to explain its utilization how and where the revenue is being utilized. In these countries the public dislike taxation as a first principle for obvious reasons. The public's first wish for the tax system becomes "reduce my tax liability & raise others ". No residents want to pay tax until government assure the proper utilization of the government revenue it can be say that if government is able to show people about collected tax and its was properly, then people will be excited to pay tax. And government cannot be able to show the usage of tax then people wish goes to pay less tax.

At present the income tax revenue is increasing every year. This is a positive indication for further mobilization of internal resources. The number of taxpayer is also increasing each year that has widened the taxpayer's circle.

More and more individuals are coming under the tax net. In the incomes on the revenue structure, a bracket rates may not be higher because we have only two bracket of tax rate. In spite of security problem, the income tax collection is helping Motion greater than estimated revenue. Other reason is that people of Nepal are becoming conscious about tax.

In the modern world, taxation has been taken as the most effective tool for being national revenue. The government by mobilizing adequate resources through taxation might invest them in various development programmes. In this way, in the underdeveloped countries the government might play an important role in promoting capital formation, breaking the vicious circle of poverty and by mobilizing adequate resources through taxation. In other word, we can say that for develop the country, government should generate internal resources to generate tax and by the tax revenue should increase and country can be self depended.

Income tax plays an important role for the economic development of a country. Because of Income tax evasion practice in Nepal. The share of direct of indirect tax has been increased. This is why the contribution of income taxes is very low in Nepal. Because of its low contribution it could not play an important role in reducing the in equalities of income & wealth at before.

But implementation of income tax Act 2058 contribution of income tax is helping the country by progressive tax system. According to this high profit holder pays high income tax & low profit holder pay low tax.

Richer Nepalese people have lack of taxpaying habit and tax habits are increasing day by day due to the low standard of education of tax evasion should be controlled very quickly in Nepal because it has resinous effects to the economy. Income tax evasion effects negatively to the economize position as well as the social status of a country. If income tax evasion is not controlled,

Nepal can never solve its problems of resource gap either it increases its tax rates or applies new source of tax. For tax evasion, mainly taxpayer takes assistance from tax officer & political leaders. Tax officers & politicians themselves are main heroes for tax evasion; they take illegal benefits from business man for self benefit and help them for not to pay tax or to pay fewer taxes. This trend is being practice in our country. The relation between taxpayers (business men) of tax officers as well as political leaders is the main cause of income tax evasion in Nepal. According to income tax act 2058, Small business men are the main taxpayers. But big business men they show less income to excess expenditures as loan & interest etc.

Mostly this study is based on primary data and very few of secondary data has been used in this study. Minimum use of secondary data is due to the unavailability of related material in secondary sources. The primary data is based on opinion survey of various two groups' viz. tax experts and taxpayers. Tax experts consist of Chartered Accountants, Lawyers, Policy makers at Ministry of Finance and Professors and Readers of university. Taxpayers include finance officers, accountant, managers and tax officers of various industries. A set of questionnaire has been developed and 30 questionnaires have been distributed to various respondents.

Summary and conclusions regarding this study have been presented in this chapter. Some useful recommendations have been given in the last chapter, which are very much useful to the tax policy makers, industrialists and general public, too.

Finally, this study has been completed with the achievement of the various objectives stated.

5.2 Conclusion

Nepal is one of the lowest taxed economies in the world. It has been suffering from social and economic problems. The government of Nepal is not being able to collect necessary government revenue to cure such problems. Due to

poor performance on internal revenue collection and mobilization, the Government of Nepal has still depended on foreign grants and loans. The dependence is increasing which is not desirable for any economy. Thus remedy should be made in due time by the country to run in the path of economic development.

Income tax for the economic development of Nepal has been increasing significantly in years but it does not mean that the share is that much satisfactory. So many efforts should be made to increase it.

For the first time in Nepal the income tax rate was introduced in 2016/17 in the exemption limit was designed to all types of taxpayers. Later on the exempted amount differed on the basis of different types of taxpayers such as individuals, couple, and family. The present rate of exemption limits for an individual is Rs 200,000 and for a couple and family it is Rs. 250,000.

Importance of Income Tax:

-) Income tax can take an important role in the economic development by mobilizing resources through domestic resources.
-) It is a reliable tool in the hands of government for saving the revenue.
-) It is a reliable tool to achieve the objectives of growth, equity and stabilization.
-) Income tax bridges the gap of disparity of income.
-) It checks the inequality between high and low income groups imposing higher income tax to rich people and low tax to the poor.
-) Income tax solves the problem of inflation.
-) Income tax motivates people to work more. If the wealthier people do not work heavy tax on them will force them to work.

-) If government on social overhead spends the proceeds of the income tax the imposition of income tax might lead to an increase in the rate of investment in the community. It concentrates people to invest their savings more effectively.

Income Tax Act 2058 simplifies the tax headings & tax rates. 7 headings for deductible heading are fixed in this system and tax officer's monopoly in tax liabilities fixing has collapsed. Before this act (2058) tax officers misused their power and they used to collect illegal money from the taxpayers. Taxpayers were very much torture from tax officers.

Tax collection also increased more revenue than income tax act 2031. The main cause, we can say that simple in income statement of taxable income heading are clearly defined in this act. Likewise, difficulties in tax administration are being practices in tax evasion and tax avoidance, tax personnel's' behavior as well as legal provision and lax laws are other difficulties on tax administration.

5.3. Recommendation

On the basis of opinion survey, personal interview at the time of opinion survey and other studies, some measures regarding the Income Tax Act 2031 and 2058 have been recommended, which are as follows:

-) Government should recognize the tax planning scheme lunched by the assesses. They are to be encouraged to maintain financial books of account. Different tax rate should be applied considering the nature, life of business, so that businessman can choose the business which he prefers.
-) Government should provide more facilities to the tax payer as compare to the tax paid by the taxpayer.

-) Tax policy and system should be made convenient so that each and every tax payer finds its easy.
-) The current tax rates should be revised so as to collect more tax income along with providing facilities to the taxpayer.
-) Various program should be launched to encourage more and more taxpayer for paying tax to the government.
-) Like in individual income, there should allow two slabs in tax rate to business organization also.
-) To maximize the scope of tax incentives, tax personnel and tax payers should be honest; government should encourage the tax incentives scheme, because these are the facilities extended by the law to the assesses.
-) Tax evasion and tax avoidance is not functioning as desired, so effective guideline, orientations, and co-operation should be provided by the authorities.
-) The terms that are used in ITA are very complex and confusing. So, the terms should direct clear vision, clear-cut language should be used in the act i.e. common people can understand the tax incentives and facilities provided by the ITA.
-) Tax administration should be more liberal and co-operative that reduces tax avoidance and tax evasion.
-) Tourism and its related industries, communication network business, hydropower sector, software development business, agro based industries, professional and technical educational service industries and alcohol and beer industries (exports the product abroad) should be included in the special industries.
-) 10 years tax rebate i.e. tax holidays to industries established in various region of the country, tax rebate and rate of depreciation should be increased.
-) In one way, tax planning is a way of maximum utilizing the tax incentives and tax facilities provided by the ITA and reducing tax

burden. By other way it is an element to empower industrial practice. So, tax incentives should be recommended to increase and also recommended to raise the tax incentives practice.

Suggestions for the successful use of Income Taxation are.

1. The taxpayers should be highly literate.
2. Accounting records should be maintained honestly and they should be reliable.
3. There should be honest and efficient tax administration.

To collect more revenue from Income Tax, the following suggestions should be followed:

-) Tax administration should be honest and efficient.
-) Tax evaders should be punished heavily.
-) The tax payment time and tax rates should be clear among taxpayers.
-) Scientific method should be used in tax collection.
-) Assessment of small taxpayers should be on a door – to door basis.
-) Self –assessment of tax should be encouraged to those where tax assessment by tax department is difficult to reach.
-) Inland Revenue Department should be made from any illegal pressure.
-) Tax paying system should not be lengthy.
-) Tax clearance should be provided in time.

The other suggestions are as follows.

1. A nationwide campaign should be launched to inform and explain tax laws, Tax program and tax benefits with a view of stimulating with exhaustive participation of the public to pay taxes through the media of radio, television, news papers and speech programmed in the educational institutions.
2. There must be adequate trained officer in the tax administration and accounting for the task of assessment of collection.
3. In urban areas the income from house land rent should be taxed effectively more efforts should be given to collect the house / land rent tax.

4. The present level of income tax exemption limit is not appropriate. It must be raised for individual and for couple and family.
5. Efficient governance can solve the problem of tax evasion the government has to be transparent on letting the people know how the revenue is being used. There must be the program to increase the tax paying habit of residents. The provision of incentives to the regular taxpayers will also increase the taxpaying habit.
6. Separate department for income tax should be established, so that the specialization could be achieved in the matter of income tax.
7. Up-to date records of existing as well as potential taxpayers should be kept at tax office. Program should be formulated to find out the new groups of income taxpayers. Co- ordination with other departments and organizations should be developed in order to find the list of income earning groups.
8. The taxpayers full information and records should be kept on software and tax assessment should be kept on that software.
9. Tax personnel should be rewarded for finding the new taxpayers.
10. The income tax assessment procedure must be improved by reducing assessment delays, reducing the best jury men as far as possible, providing sufficient information to taxpayers, and creating the confidence between taxpayers and tax officers.
11. To ensure tax compliance, tax procedures should be fair, efficient and transparent. The process should be simple, clear and certain. There should be low compliance costs.
12. Many of the tax officials still have to learn and practice how to deal with taxpayers in a fair and professional manner irrespective of the amount of taxes the taxpayers pay and their social status.
13. The tax officials should be provided with effective orientation on the basic principles of good tax administration. Such orientation should be provided to both old and new staff members on a regular basis.

14. There is a need to introduce an effective reward and punishment system. Particularly those officials, who do not behave appropriately with the taxpayers and those who seek undue advantages, should be punished.
15. community with prestige. This needs to be communicated to the officials.

16. Policy level:

-) The primary responsibility of tax officials is to ensure compliance with tax laws/system. At the same time, they should ensure that the tax system is simple, transparent and minimize uncertainty. Thus, the officials should aim to develop and update the existing tax policy to motivate people to pay taxes. While designing the policy, consultations should be held with relevant stakeholders including the business community.
-) The tax system should fairly balance the need to protect the taxation revenue base with the principles of a good tax system.
-) It is useful to identify the status of our country with regards to taxpayers' satisfaction level in relation to those of the developed as well the developing countries and the neighbors. Such a comparison was intended by the team. However, in absence of reliable data, it was not feasible for the study team to do so. Thus, the team recommends to the Inland Revenue Department to identify where the country stands in this respect so that the scope for further improvement can be assessed.
-) Policy makers should interact with the taxpayers in various forum to know that what actually situation is.
-) Only increasing tax rate is not a way to revenue for government. So many beneficial Act also to be made.
-) Politicians must leave unhealthy ration between bus mess men.
-) Political parties should not take donation from businessman.
-) Act should be in favor of small taxpayers rather than big businessman.

-) Policy makers themselves monitor the made tax act, rules and they must take feedback from taxpayers by organizing public hearing.
-) They must inform people about the future (going to be made Act before deader the Act and take taxpayer's opinion whether it swilled be sight or not.
-) Policy makers should make hard law for corrupt personnel instead of in favor to them.

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Appendix 1: The Questionnaire

1. Are you familiar with the Income Tax Act 2031 and Income Tax Act 2058?
 1. Very much
 2. Very
 3. Slightly
 4. Not
 5. Slightly
2. Are you an employee?
 1. Yes
 2. No
3. If yes, Which Income Tax has given you more facility in Income tax exempt limit?
 1. Income Tax Act 2031
 2. Income Tax Act 2058
4. Are you deducting retirement fund while calculating your income tax?
 1. Yes
 2. No
5. If Yes, Which Income Tax Act will you prefer?
 1. Income Tax Act 2031
 2. Income Tax Act 2058
6. Are you deducting the life insurance premium while calculating your income tax?
 1. Yes
 2. No
 3. Don't Know
7. If Yes, Which Income Tax Act will you prefer?
 1. Income Tax Act 2031
 2. Income Tax Act 2058
8. Do you like the facilities given by the income tax act in terms of Gender?
 1. Yes
 2. No
9. If yes which Act do you like?
 1. Income Tax Act 2031
 2. Income Tax Act 2058
10. Do you know which Act provides deduction on Repair and Maintenance?
 1. Income Tax Act 2031
 2. Income Tax Act 2058
11. Are you satisfied with this Provision?
 1. Yes
 2. No
 3. Little bit
12. Do you know which Act provides deduction on Research and Development?
 1. Income Tax Act 2031
 2. Income Tax Act 2058
13. Are you satisfied with this Provision?
 1. Yes
 2. No
 3. Little bit

14. Which acts provision referring to Remote Area Allowance you would like to prefer?
1. Income Tax Act 2031 2. Income Tax Act 2058
15. Referring to deduction on Donation, which Act is Preferable?
1. Income Tax Act 2031 2. Income Tax Act 2058
3. None of them
16. Do you like the provision of carry forward of loss?
1. Yes 2. No
17. If yes, which Act's provision is good?
1. Income Tax Act 2031 2. Income Tax Act 2058
3. None of them
18. Are you satisfied with the provision for Depreciation Allowance provided by the Acts?
1. Yes 2. No
19. If yes, which Act's provision is good?
1. Income Tax Act 2031 2. Income Tax Act 2058
20. How regular have you been in paying your taxes to the Government?
1. Very regular 2. Quite 3. Moderately 4. Not regular
5. Moderately 6. Very irregular
21. How important is the clarity and simplicity of procedures and mechanism of tax system to you as a taxpayer?
1. Very much important 2. Very important 3. Important
4. Just Okay 5. .Not so important
6. Not important 7. Not important at all
22. How high/ low are the tax rates in general in Nepal?
1. Extremely high 2. Very high 3. High 4. Okay
5. Low 6. Very low 7. Extremely low

23. How important is the knowledge and information on tax system to you as a taxpayer?
1. Very much important 2. Very important 3. Moderately important
4. Important 5. Not so important 6. Not important
7. Not important at all
24. Do you think that the situation of knowledge and information on the Tax system has improved or deteriorated over the last three years?
1. Very much 2. Very improved 3. Slightly improved
4. Not improved 5. Slightly deteriorated
6. Very deteriorated 7. Very much improved deteriorated
25. How important is the Tax policy and Tax system to you as a taxpayer?
1. Very much important 2. Very important 3. Important
4. Just okay 5. Not so important
6. Not important 7. Not important at all
26. You think that the Revenue/ Tax policies and Revenue/ Tax system has improved or deteriorated in last three years?
1. Very much improved 2. Very improved 3. Slightly improved
4. Not improved 5. Slightly deteriorated
6. Very deteriorated 7. Very much deteriorated
27. How satisfied are you as a taxpayer?
1. Very satisfied 2. Quite Satisfied 3. Moderately satisfied
4. Somewhat satisfied 5. Somewhat unsatisfied 6. Quite unsatisfied
7. Very unsatisfied

Appendix 2 List of Respondent

1. Amrit Bashnet	Doctor, IOM
2. Amrita Sharma	Data Analysist, Medicament Pvt.
3. Anit Poudel	Accountant, Admart Pvt.
4. Bal K Bashnet	Accountant, Naba Narayan
5. Binita Pradhan	Asst. Officer, Himalayan Bank
6. Binod Gurung	Accountant, Bhagwati Housing
7. Binod Malakar	Director, Everest Consultancy
8. Binod Pradhan	Lecturer, DHSC
9. Binu Pokhrel	Jornalist, Himal
10. Bishal Baral	Lecturer, VS Nikatan
11. Bishow Gautam	Lecturer, Morgan College
12. Bishow Gautam	Accountant, DND
13. Chandan Aryal	Jr. Officer, Supreme Court
14. Chitra Ranavat	Assistant, Kumari Bank
15. Damodhar Poudel	Accountant, Bhudipuram Prakashan
16. Dhurba Poudel	Sr. Admin Officer, UCMS
17. Dikshant Aryal	Assistant, Mega Bank
18. Dilli S. Pandey	Inspector, Nepal Police
19. Gaurav Manandar	Engineer, Inficare Pvt.
20. Jagat Shrestha	Finance Officer, CJC
21. Krishna Bhattra	Officer, Office of Auditor General
22. Krishna Dhat	Sr. Assistant, Kumari Bank
23. Laxman Aryal	Officer, NTC
24. Lok H Khanal	Insecptor, Nepal Police
25. Mitra Sharma	Major, Nepal Army
26. Pawana Poudel	Sales Executive, Spice Jet
27. Pratap Aryal	Accountant, Serpa Flys

28.Prem R Pokhrel	Officer, RBB
29.Promod Poudel	Accountant, Lama Construction
30.Rabin Poudel	Marketing Officer, Pratibamba
31.Rajendra Kutu	Jr Officer (HR), Sipradi Trading
32.Raju Thapa Magar	Doctor, Kist Medical
33.Ramu Poudel	Engineer, Buddha Air
34.Randhir K Duttha	Accountant, Karnali Distillery
35.Rojan R Bhandari	Doctor, Samaj Dental
36.Santosh K.C	Journalist, Kathmandu Post
37.Santosh Maharjhan	Accountant, Prime Academy
38.Sekhar K.C.	Lecturer, St. Xaviers
39.Shankar Poudel	Accountant, Sharma & Co
40.Shantu Poudel	Accountant, Sharma & Co.
41.Shilpa Pokhrel	Reporting & Planning Ass. Ncell
42.Sudhir K Duttha	Audit Senior, Aryal & Aryal
43.Suman Khatri	Account Officer, CJJC
44.Sunil Sapkota	Director, Admart Pvt
45.Suraj Regmi	Engineer, NEA
46.Suresh P Poudel	Sales Executive, Ncell
47.Suresh Poudel	Lecturer (Economic), Chelsea Int.
48.Surya Regmi	Tax Officer
49.Tara Pandey	Sr. Officer, Office of Auditor
50.Upendra Acharya	Account Officer, BNJ Associates