

AN ANALYSIS OF STRUCTURE AND PROBLEMS OF INCOME TAXATION IN NEPAL

A Thesis

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**An Analysis of Structure and Problems of
Income Taxation in Nepal**

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DECLARATION

I hereby declare that this thesis entitled “**An Analysis of Structure and Problems of Income Taxation in Nepal**” submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfilment of the requirement for the Master of Business Studies under the supervision of Associate Prof. Mr. Surendra Keshar Amatya of Nepal Commerce campus.

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ABBREVIATIONS

CBS: Central Bureau of Statistics

CEDA: Centre for Economic Development and Administration

CITR: Corporate Income Tax Revenue

CD: Custom Duty

DG: Director General

DT: Direct Tax

EJN: Economic Journal of Nepal

EPD: Export Duties

ED: Excise Duties

F.Y.: Fiscal Year

G.D.P.: Gross Domestic Product

GON: Government of Nepal

GNP: Gross National Product

i.e.: That is

Ltd.: Limited

IDT: Indirect Tax

IRD: Inland Revenue Department

IRO: Inland Revenue Office

IPD: Import Duties

ITA: Income Tax Act

ITA: Income Tax Administration

MOF: Ministry of Finance

NRB: Nepal Rastra Bank

NTR: Non-Tax Revenue

PAN: Permanent Account Number

Pvt.: Private

R&D: Research and Development

NRs: Nepalese Rupees

SAARC: South Asian Association for Regional Cooperation

Sec: Section

SEZ: Special Economic Zone

TDS: Tax Deduction at Source

TIN: Tax Identification Number

TTR: Total Tax Revenue

TU: Tribhuvan University

USA: United state of America

VAT: Value Added Tax

WTO: World Trade Organization

CHAPTER - ONE

Introduction

1.1 General Background

The main objective of the Government of any developing country is to improve living standard of people through the development process. In order to achieve this objective, every government lunches different economic, social, culture and other development activities. The government needs huge amount of financial resource. Nepal is a beautiful landlocked country situated between two large countries India and China. The economic condition of Nepal is relatively poor than neighbour countries. The economic growth of China is in the increasing trend. The economic growth of India is also in the increasing trend. Both countries have been affecting the Nepalese economy directly and indirectly. It has GDP per capita income \$690.21 and growth rate are 3.64% only. (Source: World Development Indicators, 2012). In this situation, the Nepalese economy cannot stay at one side without considering these countries economy. On the other hand, Nepal is rich in natural resources. Nepal has been facing some problems. The main problems are unemployment, poverty, rapid growth of population, political instability, rising inflation (price level) & major problem is load shedding etc.

The first law relating to the income tax of Nepal is Business Profit and Remuneration Tax Act, 1960. Then after three years, income tax acts have been introduced in Nepal. These are Income Tax Act 1962, Income Tax Act, 1974 and Income Tax Act, 2002. However Income Tax Act, 2002 is in practice. Income tax is the third largest source of total tax revenue. It is a tool of achieving minimum social and economic objective as lay down by the Constitution of Nepal. As a developing country, the sources of government revenue are very limited. The domestic sources of the government revenue should be increased to escape from the condition of dependency on foreign aids and loans. Income tax may be the best way to increase the government revenue internally.

Nepal has given first priority to economic development through planned efforts and the government has continued the implementation of several reform programmes initiated in the past. Resources mobilization for economic development of the nation is definitely inevitable and it is being there since 2013 B.S. Everybody knows we have blessed in innate quality of nature but all we need is to give our all the efforts to make it cash. Then we can have our nation in

a sustainable economic condition. Apart from it, we have other resources too on which we have to focus on and to make them visible, we should have keen interest to find out the multiple resources to make our dream true.

The government can mobilize both internal and external finance resources to bridge its expenditure. However, the internal resources are more preferable to external ones for sustainable development. The government revenue can be classified basically into two parts tax revenue and other revenue (non-tax revenue). Tax revenue includes direct tax on income, property, vehicle, gift & etc. While indirect tax is imposed on consumption and expenditure i.e. VAT, Sales Tax, Excise Duty, Service Tax, Entertainment Tax and Customs Duties on import and export etc. Non-tax instruments for revenue collection are government charges, fines, dividend and royalty etc.

Income tax is divided under direct tax on account of its property. It cannot be shifted backward or forward. Taxes on income may be levied on individual as well as business firms. According to Income Tax Act 2002 (2058), income includes all the incomes which are derived from business, investment & employment. Income tax is superior to indirect tax because it is imposed on the basis of ability to pay of the taxpayer. The Great Britain was first country in the world to introduce modern income tax in 1799 in order to finance the war fought with France. In 1862, the USA introduced income tax to generate revenue to finance the civil war. In Nepal, income tax was introduced in 1959. Both individuals and companies were taxed in similar way during the earlier period but later on, companies were levied with a flat rate and individual tax payers with progressive rate.

Those who pay tax are known as taxpayers. Taxpayers may be classified into two categories. They are large taxpayers and small taxpayers, small taxpayers include general taxpayers and presumptive taxpayers. A person or an entity whose annual income is more than either two million or annual profit is more than Rs. 2,00,000.00 is classified under large taxpayer. Large taxpayers are also classified into two groups as per sales income range; a one group range are more than two millions up to forty millions and other range are more than forty millions sales income. Similarly; a person or an entity whose annual income (sales) is less than two million is classified under small taxpayer. It includes sole proprietorship business, partnership, private limited and limited company. Large Taxpayers should fill D-3 income tax self assessment return form whereas small taxpayers should fill D-1 income tax self assessment return form. D-1 form filler taxpayers should pay income tax on fixed basis of Rs. 1,250.00, Rs. 2,500 & Rs.

3,500.00 as per V.D.C., Municipality and Sub-Metropolitan, Metropolitan respectively. It fill the form within three months after expiry of the fiscal year whereas D-3 should be filled within six month after expiry the F.Y. as per additional time of three months approved by tax officer, otherwise penalty should be charged. This study is concerned with awareness of taxpayers towards business taxation. Tax payer's awareness means what types of knowledge they have about the Income Tax Act, 2058. They know all the provisions in Income Tax Act, 2058. They have knowledge about different facilities provided by the government in tax law. There is no doubt if the taxpayers are aware about the tax law both the government and tax payers should be benefited. In Nepal, mostly of the taxpayers want to hide the real income and they are not interest to pay taxes as their duty but in foreign country almost of taxpayers willing to pay taxes as their tax liabilities. Recently in F.Y. 2070/71 budget government gave friendly scheme for non filer small taxpayers to pay tax for the last two fiscal years only without any interest & penalty rest all past tax payable should leaved whereas such big scheme became failure due to lack of tax payers awareness. (Source: Kantipur National Daily News Paper, 27 Poush, 2070)

1.2 Statement of the Problem

Economic development is the prime concern of every nation of the world. Underdeveloped countries are facing serious problems in the process of economic development. Nepal is also not an exception to this condition. The majority of people have not been able to get even basic facilities. The government wants to fulfil the basic needs of the people and accelerate development activities one at a time. Thus, every nation of the world is accomplishing various activities to fulfil these objectives. It needs huge amount of capital. Despite the various measures adopted by government to boost up revenue collection there is still a substantial resource gap between expenditure and revenue. The government is exceeding the rate of growth revenue almost every year. In other words, Nepal has been facing persistent budget deficit from the beginning of her development phase. External deficits, currency depreciation, inflationary pressure, rising interest rate which may cause crowding out effect and reduce in economic growth are the consequences of the budget deficits. The mobilization of revenue has not increased to the level on which the level and speed of our expenditure is rising. Rising the government revenue helps to overcome the serious bottleneck of resource gap in the process of economic

development program. In this context, taxation can be taken as means for resolving this problem by mobilizing additional resources form domestic sources.

Nepal, one of the least developed countries in the world, has growth rate 3.64% of real GDP (fiscal year 2068/69). Nepal's GDP per capita is \$690.21 (fiscal year 2068/69), one of the poorest in the world implying the scarcity of resources for the development process. Thus, the role to taxation has promised to provide the infrastructure for the development process and to provide the social services to the poor people, whose volume is dominant in country's demographic structure.

In Nepal, after the rise of democracy, deliberate planning process began only after 1956 (2013 BS) and the huge amount of revenue was required for the process of economic development, a lot of capital was needed. The first budget was brought in 2008 BS to fulfil the planning expenditure. In this process of generating more revenue, Nepal Government (NG) introduced the tax system in the country. Similarly, to strengthen the existing revenue departments, various rules and regulations were enforced. During that period, income tax was introduced from 2016 BS.

There is high resource gap in our budget. It means our budget is called deficit budget. The expenditure is higher than our revenue and foreign aid. The gap is fulfilled by internal and external loans. It is mailing in every budget. This was & is the main economic problem of Nepal. Tax revenue and non-tax revenue are the major sources of internal revenue where tax revenue is paying more vital role than non-tax revenue. In tax revenue, indirect tax is playing a vital role than direct tax. It means that Nepal's tax structure is mainly based towards indirect taxes.

The experience of developed countries clearly indicates that tax may be one of the major factors for the increment of internal revenue but in Nepal its contribution has not increased significantly during 40 years.

It is mentioned above that there is significant resource gap in Nepalese budget. The gap between income and expenditure is increasing. Therefore, the resource gap has been a serious bottleneck in the process of economic development of developing nations like Nepal. To increase the government revenue, it is very necessary to raise its source of revenue. Although there are various sources of government revenue, the tax revenue is the major important source.

Nepal is facing a problem of scarcity of resources for development activities. Few rich public have captured major economic source and they are under taxed either because of tax evidence or evasion and most of poor people suffer from commodity tax. In the context of the discussion, the problems taken from the above studies, the research questions are as follows:

1. What is the income tax structure of Nepal?
2. Does income tax in Nepal really contribute to the generation of revenue?
3. What are the problems of resource mobilization and resource gap in Nepal?
4. What is the present position of awareness of tax payers towards income taxation?
5. Why they do not have knowledge about concessions, rebates & facilities provided by the government in tax law?
6. Why they do not register their firms?
7. Why they not pay tax according to Tax Act?

1.3 Objectives of the Study

The main objective of study is to analyze the income tax structure and the awareness of taxpayers towards income taxation of Nepal showing its contribution on government revenue of Nepal and point out some problems/difficulties of Income Tax Act 2058. Other specific objectives of the study are listed below:

- (1) To analyze the income tax structure of Nepal.
- (2) To analyze the problem of resource mobilization and resource gap in Nepal.
- (3) To identify the share, trend and effectiveness of corporate income tax on government revenue of Nepal.
- (4) To identify the major problems/difficulties of existing Income Tax Act, 2058.
- (5) To know the views of taxpayers about the income taxation.

- (6) To find out the awareness of taxpayers about concessions, rebates & allowances provided by Income Tax Act.
- (7) To provide necessary suggestions and recommendations for future improvement in income taxation and bring all taxpayers in friendly tax umbrella.

1.4 Focus of the Study

Since we belong to developing countries, we need to collect different types of taxes to make our country a peaceful, prosperous, and economically self dependant country, by doing so we also can promote the feeling of welfare of others and they may contribute in national income through taxes automatically.

In developed country like US taxation contribution is more than 75% to their total revenue in which the share of income tax is prominent but the case of developing country like Nepal is different so collection of tax is must. Taxes are general contribution of wealth levied upon person, natural on corporate to defray expenses incurred in conferring common benefit upon the residents of state. It is compulsory levy imposed by the government without having any direct personal benefits. Nobody gets any benefits from the government those who pay tax so more efforts should be on actual circumstances. Theoretical and practical knowledge required implementing and evaluation tax properly. So this study analyses and evaluation Nepalese tax structure and its practice properly. This study analysis the amount received from tax different years at different heads of income. This study with provide clear idea and knowledge to those the person who are interested to know about tax system. This study also provides the clear idea about the tax system in Nepal. This study focuses the practical difficulties of tax collection system in Nepal and provides the suggestion of different person to make effectiveness technique to collect tax.

To bring all the taxpayers into tax net, the government should take steps to aware the taxpayer's about present tax system. Taxpayers need to know about the different facilities provided by the tax law. The government should make business friendly environment to all taxpayers to come into tax net and reduce tax burden by the tax planning rather than tax evasion and tax avoidance.

1.5 Limitations of the Study

Resources, time & availabilities are main limitation, if data are the main factors of the study. Here the time given by the research department of the T.U. limits the macro level investigations and makes difficult of find out exact truth. Similarly, this research depends on mainly in primary data itself may not be accurate if the respondents bias. Its main limitations of this study are as follows:-

1. This study is based on availability of reliable data and sufficient literature.
2. This study will cover around 6 years' data only.
3. Main focus is given to corporate income tax of Nepal.
4. To measure the degree of awareness exactly.
5. This study covers only Kathmandu Valley.
6. Resources, times & taxpayer's psychological fear factors also limit the study.
7. This study has been conducted to fulfil the requirement of the MBS program of T.U. for the prescribed time, not for generalization purpose.

1.6 Organization of the Study

Systematic organizing the study is key factor for writing thesis. It makes the study easier and meaningful. The format provided by the research department of TU. The entire study has been designed into five main chapters. They are:-

1.6.1 Introduction

1.6.2 Review of literature

1.6.3 Research methodology

1.6.4 Presentation and analysis of Data

(i) Secondary/Primary Source of Data

(ii) Empirical Study

1.6.5 Summary, Conclusion & Recommendations.

1.6.1 Chapter 1: Introduction:

This chapter includes General Background of the Study, Statement of the Problems, Objective of the Study, Research Methodology, Limitations of the Study, Organization of the Study (Chapter Scheme).

1.6.2 Chapter 2: Review of Literature

The second chapter review of literature is done to know what research had been done in the related topic in previous days and what is to be done at present or in future. This chapter has been divided into two main aspects: (1) Conceptual framework and (2) Review of related materials i.e. review of books, review of thesis, review of newspapers, magazines, journals etc.

1.6.3 Chapter 3: Research Methodology

The third chapter Research Methodology present the methodology used in this study. It deals with research design, nature, population, sample and sources of data, data processing and method of data analysis tools.

1.6.4 Chapter 4: Presentation and Analysis of Data

The fourth chapter is most important chapter. This chapter fulfil of objective of this study by presenting the data and analysis then with the help of statistical tools and technique as well as general accounting, taxation principle followed by methodology. Empirical Investigation has been done on the basis of primary data collected from different taxpayers, tax experts, chartered accountants, registered auditors, tax counsellors and tax officers through questionnaire to address the problems/difficulties of current Income Tax Act 2058.

1.6.5 Chapter 5: Summary, Conclusion & Recommendation

The fifth chapter consists of brief summary conclusion and recommendation of the study. Lastly essential Bibliography and Appendices have been presentation at the end of the study.

CHAPTER - TWO

REVIEW OF LITERATURE

Literature review is most important part in each research. The main objective of literature review is to gain familiarity with the subject matter. There are some literatures of taxation. This chapter deals about more or less some basic parameters of pertinent literatures of theoretical implications and study topic concern books reviews by different scholars, and also others related documents included.

2.1 Review of Theoretical Context

A tax imposed on income base is called income tax. The basic objectives of Income tax are twofold-revenue collection & redistribution. Income tax is divided into two parts Individual Income tax and Corporate Income tax. Income tax to be paid by Individual or couple or sole proprietorship firm is individual income tax where as Income tax to be paid by entity's is called corporate Income tax. In some countries, separate laws are made to deal with individual and corporate income taxes.

As regards to Individual Income tax, some say. Income tax was introduced in Batavian Republic of Holland in 1997. Others say, it was first introduced in 1999 in England to finance the war against France. Corporate Income tax was at First introduced in 1909 in America. Individual Income is imposed by progressive technique, i.e. higher the amount of income, higher is the rate of tax. For the purpose of Calculating Income tax, taxable income should be derived at first, which is an amount of Income after deducting the expenses Incurred to earn the concerned income.

In Nepal, Income tax (Combination of both the Individual and corporate) provides around (21) percent of the total tax revenue. The marginal tax rate is 25% for individual and 20% industry, 30% financial institutions and 25% other taxpayers for corporate bodies. There are mainly two types of tax system in the world. They are direct and indirect taxes. Direct tax is that of tax, which is really paid by a person an whom it is legally imposed, while an indirect tax is imposed on one person, but paid partly or wholly by another, owing to consequential

change in the terms of some contract or bargaining between them or which creates the direct burden on individual. In the other words, Individuals are liable to pay tax from their personal income. It is really paid by the same person who is legally imposed. Thus, an indirect tax is conceived as one which can be shifted or passed on; a direct is one which cannot be shifted to others. In the case of the direct tax, the impact or the money burden and the incidence are on the one same person: while that in case of indirect taxes, the impact and the incidence of tax are on different persons. An income tax is generally regarded as a direct tax while customs, excise duties and VAT are indirect taxes. "Those taxes which are based on receipt of income, are termed as direct whereas those levied on expenditure, are termed as indirect. Income tax, profit tax, capital gain taxes are therefore direct tax; customs duties, excise duties, VAT and stamp duties are indirect"- (Prest, 1985) "Taxes while levied on permanent or recurring occasions are direct tax, while charges on occasional or particular events are indirect taxes". Thus, all taxes on income or the ownership of property would be direct taxes and taxes on the purchase or sale of property like stamp duties would be indirect taxes. Indirect tax is generally imposed on consumption. Income tax is the key segment of direct tax. Income tax is also classified into two categories: i) Personal tax, ii) Corporate tax. Personal tax is imposed on the income received by a particular person whereas corporate tax is imposed on the income received by a particular institution or business enterprises.

Taxes are compulsory levied on Individual, Firms, Companies and other units for general government purpose-government with authority assigned in different laws generates with compulsion, some funds from Individuals firms, companies and other units, which generally termed as taxes. According to classical economist Adam Smith "A tax is a contribution from citizens for the support of the state."

According to classical economist Huge Dalton, "A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the taxpayer in return and not imposed a penalty for any legal offence."In classical economics tax was taken as an extra burden to people. But now time has changed and the government has to provide maximum social welfare to the people. Thus, the government has to broaden its revenue.

In Nepal, Income tax is defined as the tax levied on net income derived after deducting all allowable deductions and relieves from the total Income. Income tax is levied on the Income derived from Business, Employment and

Investment. Income tax is always levied on the net income i.e. total Income less the allowable deduction.

Tax has been one of the major sources of government revenue from ancient time; however, reliable records and data about taxation of that time are not available. Tax was then levied on the merchants, travellers and farmers in the form of cash, kind or labour. On some occasions gold and agriculture products were also paid as taxes, but the nature of these taxes was temporary.

Income tax can be classified into two types: Personal/Individual Income tax and Corporate Income tax. Individual Income tax is modern tax, which is measure of ability to pay off any Individual. It is based on the progressive rates. Corporate Income tax is levied on business enterprises having a legal personality, direct from their owners. Tax on corporate ultimately come from the Income or wealth of Individuals. Generally, flat rate is applied to corporate Income tax. Since 1959/60, Income tax was started in Nepal. After its establishment, many Individual and institutions have studied in this subject regarding legal aspect, administrative problem, historical aspect, trend of Income tax and Income tax structure etc. They have made appreciable efforts in the field of Income tax.

It is not an easy task to perform a research study based on Income tax system because it is changing rapidly with the flow of time. In lack of sufficient review of available materials, it is a very complex problem to find detail Information about Income tax in Nepal. There are various studies carried out by different institutions and Individual's Reviews of available materials based on Income tax will certainly helpful regarding to the subject matter in the. For this purpose, various books and dissertations have been received as far as possible.

B.E.V. Sabine (1966), a history of Income tax, Tax structure opens to a country to alter its level and the rate of growth through changes in the individual elements that constitute the tax structure." Economic development depends for more than is commonly recognized. On a carefully throughout and well organized tax structure (Charles Mansfield, "Tax structure in Developing countries: An Introduction." Finance and Development, March 1971, P. 37). In very poor countries, Income tax contributes between one sixth and one fifth of total tax revenue in the United States. In advanced countries Income and other direct taxes account for 60 percent of total tax revenue of the direct taxes, personal Income tax contribute around 27% of total tax revenue and social security tax make 31% on average low and middle Income countries raise roughly 10% of their tax revenue through personal Income taxes. Surprisingly

however the richer Latin American countries raise a smaller share of revenue from personal income taxes do the poor countries of sub-Saharan Africa. In constant, Latin American countries are the dominant users, within developing countries of social security tax. Law and practice of Income tax in India (Bhagwati Prasad) 1971, July 6th edition, states that Income tax is a complicated and yet a fascinating subject both for study and practice. In view of many good work on the subject it would, however, not be out of place to list the specific features claimed for the present one. The book is in a tax book from incorporating the income tax act 1961 and the Income tax rules 1962 with selected leading case wherever necessary.

Harley H. Hinrich (1966) has sketched a pattern of tax structure change from traditional to industrialization society. According to this pattern, non tax source and/or traditional direct taxes namely land revenue, provide most of the revenue in traditional society. As the society being to break away from old ways, taxes on international trade assume importance as the supplier of revenue. As this occurs, traditional direct taxes decline in importance. The growth of internal indirect taxes like excises and sales taxes is related to the development of domestic production, internal trade and mobilization of the economy. Modern direct taxes like personal income tax and corporate profit tax are levied when the economy reaches maturity.

2.2 Conceptual Framework

2.2.1 Income Tax

Generally, income means the inflow of cash to the person or firm. Most of the people do not take the kind as an income. It is a best measure of economic well being of a person as well as of nation. Higher income denotes the high living standard and lower income from rendering various types of services, selling goods and producing crops for their own use. Thus, income may be cash or kind that is received by a person for livelihood.

Economists define the term 'income' in a broad sense. It is an economic gain or receipt to a person during a particular time by way of wages, interest, profit and rent. The money income of the people is generally used for two purposes. Part of income is spent on consumption and part is saved. This definition can be expressed in the formula as follows:

$$Y = C + S$$

Where,

Y = Income

C = Consumption

S = Saving

But for the purpose of taxation, the definition of income is somehow different from the aforesaid definition. According to Income Tax Act 1974 (2031) "Income means the income earned or received in cash or kind from the sources mentioned in sec. 5". In this section five different heads of income were mentioned. They were as follows: [ITA, 1974]

1. Agriculture
2. Industry, Business, Investment, Profession or Vocation
3. Remuneration
4. House and land rent
5. Other sources

The existing Income Tax Act 2002 (2058), which has been enacted since 2058 Chaitra 19, (April 1, 2002), has defined income in section 2/a as "person's income from any employment business as calculated in accordance with this Act (ITA, 2002). It includes all sorts of income received for the provision of labour or capital or both of whatever form or nature in the taxable income.

Tax, in simple terminology, is a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the taxpayers according to law. In the word of Seligman, taxation is the "compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred."

From the definition given above it can be said that firstly, a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. Secondly, taxpayer cannot receive any quid pro quo for the payment of tax. The taxpayer does not receive equivalent benefit from the government. Thirdly, the tax is paid

to the government for running it. Fourthly, in case of tax, the amount is spent for common interest of the people. The tax is collected from haves and basically, spent for the interest of have-nots in the society. Fifthly, a natural or an artificial person pays the tax.

In conclusion, it can be said that tax is a liability to pay an amount to the state. The basis of a minimum amount from certain specified or that they own certain tangible or intangible property or that they carry-on certain activities which have been chosen for taxation.

Income tax refers to the tax levied on the income of a person and profits of corporation for the specific time period, particularly one year. Income tax is levied on the taxable income of a person or a company after deducting allowable expenses. Accounting profits may differ from taxable profits. For the computation of taxable income, generally incomes are added and expenses are subtracted and losses, which are allowed to deduct under the provision of Income Tax Act are also subtracted. Then, tax-free incomes allowances and common expenses are also deducted to get taxable income. After giving the exemption limit as per law, the amount of tax to be levied on this computed income is the income tax.

2.2.2 Evolution of Taxation

In early days, taxes were collected at the time of emergencies, to finance wars and to provide communal services. Taxes were levied on the basis of welfare of the people. At that time tax was not compulsory payment. People voluntarily paid the tax because non-payment of tax was taken as sin in the Hindu tax system. According to Hindus' scripture, the duty of king was to serve and secure his people, maintain peace and harmony and carryout social works. For those purpose king used to levy tax by collecting crops and cattle from farmers, gold and silver and other metallic goods from traders.

Great Britain was the first country in the world to introduce the income tax in 1799. It imposed income tax in order to finance war with France. Similarly, in U.S.A. the first federal income tax was imposed in 1862 with the same objective (to finance civil war). However, in the beginning these countries imposed income tax as temporary until 1862. Thereafter, since 1913 it was accepted as permanent tax. This, income tax was adopted by different countries gradually. Italy started it in 1864 and New Zealand adopted in 1891, Australia and Canada have followed

the income tax in 1915 and 1917 respectively. After the world war, the income tax became an important source of tax revenue in many developed countries. By 1939, it had become the most important source of revenue in most developed countries and had made appearance in a number of developing nations. (Agrawal, 1980)

In our neighbouring country India, the income taxation was started in 1860 by the British government to relief from economic burden created due to first democratic revolution. It was then regularly collected after the publication of Income Tax Act 1886 (Dhakal, 2057).

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

2.2.3 Taxation in Ancient Nepal

Reliable records about taxation in ancient and medieval Nepal are not available. However, tax has been one of the major sources of government's revenue from the ancient time in Nepal. Taxes were then levied on the merchants, travellers and farmers in the form of cash, kind and labour. On some occasions gold and agricultural products were also paid as taxes; but the natures of these taxes were temporary. In the Lichhavi's regime, income taxes from agriculture and business were introduced as a direct tax for the first time in Nepal. Agricultural income tax was called "Bhaga". The 1/6, 1/8, and 1/12 quality of the land that they owned. Income tax, which was levied on business income, was called 'Kara'. There was irrigation and religious tax also in existence during the regime of king of Ansubarma of Nepal.

2.2.4 Taxation in Unified Nepal (1768-1846 A.D.)

After unification of kingdom of Nepal, expenses for administration, military and other operational activities were increased significantly. During that period, taxation has been taken as main source of revenue and different types of

taxes like land tax, transit tax, market duties, various levies and fines, forest product tax and mining tax were levied. Local administrations were directed "to take whatever is paid willingly by the people." Taxes were collected from the three levels (Agrawal, 1980).

- a. Royal Palace: To finance occasional and ceremonial needs. The taxes were broad based and progressive.
- b. Government: To finance administrative, military and other purposes assessed on official functionaries, occupational groups and other people.
- c. Local: Prerequisites of local officials, functionaries and mendicants.

The various taxes levied during this period were narrow in base and were imposed primarily on occupations and economic activities, not on income or property. The system of direct taxation was confined to land tax and special levies like "Darshanbhet", "Salami", and "Walal" etc. After the unified period, land revenue system was divided into five main forms: Raikar, Birta, Guthi, Sera and Kipat. The main sources of revenue from land were Birta and Kipat.

King Prithvi Narayan Shah had introduced 'Pota' tax in 1772, which was regarded as a revolutionary measure in the fiscal system of Nepal. It was based on flat rate system and limited on small Birta owners. There was no taxation of income in the sense of modern income tax.

2.2.5 Taxation in Rana Regime (1846-1950 A.D.)

Imposition and collection of taxes during 104 years oligarchic rule of the Rana family in Nepal prior to 1951 was the prerogative of the feudal rulers. Only those taxes, which suited the objectives, needs and whims of the ruling Prime Minister, were imposed. No budget was framed during the Rana regime. Taxes were collected at the time of requirement due to lack of Income Tax Act and Finance Act. The collected taxes were directly deposited into the Prime Minister's Account.

Land tax, custom and excise duties in the form of lump sum contracts, royalties on felling trees, royalty on supply of porters and soldiers, entertainment

taxes were the major source of revenue. There was no direct tax in the country except land tax collected on a contractual basis and "Salami" which the government employees used to pay out of their salaries at a very small percentage.

Rana Prime Minister levied taxes for meeting specific expenditure of the royal household or extraordinary expenditure necessitated by war or other crisis rather than mobilizing revenue in the nation. During Nepal-Tibet war (1855/56), the first Rana Prime Minister Jung Bahadur had imposed a tax on the income of selected groups. Similarly, Bir Shamsheer imposed a levy of 1% in the official value of Jagir assignment of government employees in 1891, to finance the transportation of water pipe supply in the capital. Ranoddip Singh imposed a 50% tax in the income made by fishermen in Deukhuri from the sale of fish in 1882.

2.2.6 Income Tax in Modern Nepal

Actually, the modern Income Tax Act was started in the year 1959 in Nepal. After the political revolution in February 1951 (2007 B.S. Falgun), the role of government has increased to developmental as well as philanthropic works. The government of Nepal had presented its first budget in 1952 (2008, Magh 21). The first five-year plan started in 1956. The planned activities of the government needed huge amount of source and means. So, huge revenue was demanded and Nepalese government started to levy tax on income as permanent source. As a result, it issued first finance ordinance in 1959 (2016) to impose tax on business profit and remuneration. In 1960 (2017) the income tax act named Business Profit and Remuneration Act, 2017 was made with the provisions of finance ordinance 1959. That was the first Income Tax Act, which had 22 sections. But that act was found narrow and vague. So, it was replaced by the Income Tax Act 1962 (2019). That act continued for 12 years and it was also replaced by the Income Tax Act 1974 (2031). That act was amended for eight times. That tax act was replaced by new Income Tax Act, 2002 (2058). This is the fourth income tax act of Nepal.

2.2.7 Developmental of Income Tax Act

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

The finance act 1960, made provisions for the taxation of business profits and remunerations. An ordinance was issued by the king to collect the tax. In 1960, parliament of Nepal, enacted, "Business Profit and Remuneration Tax Act 1960(2017)", which consisted of 22 sections. With the enactment of that act, the salary tax or personnel income tax was levied upon those individuals whose personal income exceeded Rs. 6,000 per year. In the first three years, the exemption was Rs. 7,000. An examination of tax files in the Kathmandu District Office disclosed 577 personal income tax files of individuals who had paid taxes in one or more years. The following were the silent features of the act.

1. Only remuneration and business profit were subject to tax. Deductions were not specified for the purpose of calculating the income.
2. Tax on remuneration was to be deducted at source.
3. The basis for calculating the tax liability for remuneration was the income of the current year and for the business profit, it was the profit of preceding year.
4. In case of default, fines up to Rs. 5,000 were prescribed.
5. The taxpayer was given the right to appeal against the tax assessment to local "Badahakim". Thereafter appeal could be lodged at revenue court. Every appeal could be accompanied by security deposit for the amount of tax payable.
6. The tax officers were empowered to assess tax on the basis of best judgement estimates.
7. Profits from industries were granted a rebate of 25% and profits from small industries were granted a rebate of 50%.

As high discretionary power in assessment of income tax granted to tax officers, various loopholes, narrow and vague tax base were the major shortcomings of that act which cause the Income Tax Act 1962 (2019) came into existence.

2.2.7.2 Income Tax Act, 1962 (2019 B.S.)

The main purpose of the imposition of this act was not only to raise government revenue but also to reduce inequality of income and wealth distribution with social justice and to create regular taxpaying habit of the taxpayer. The Income Tax Act 1962 had 29 sections and it was amended in 1972 (2029 B.S). It had provision of imposition of income tax in agricultural income, but this provision was abolished by the Finance Act, 1966 (2023). The additional features of this act were as follows:

1. Income was defined as kinds of income including income derived from business, remuneration, profession and occupation, house and land rent, investment in cash or kinds, agriculture, insurance business, agency and any other sources.
2. The personal as well as residential status of the taxpayer for the tax purposes was defined.
3. The income tax assessment and collection procedure were specified along with the method of computing net income. Certain deductions were allowed to calculate net income.
4. The basis was specified for assessing tax on the best judgment estimate of the tax officer.
5. Provision was made for the instalment as well as advance payment of the tax for the first time.
6. Carry forward of loses was allowed for two years.
7. Provision was made for the exemption of income tax for the new industries for a period of not exceeding ten years.
8. The act granted power to constitute net income assessment committee.

The changing socio- economic environment of the nation had forced to change the Income Tax Act. As a result Income Tax Act 1974 (2031) came into existence.

2.2.7.3 Income Tax Act, 1974 (2031 B.S.)

The Income Tax Act 1974 can be said to be the refined form of Income Tax Act, 1962 (Dhakal, 2057). It had 66 sections. This act has explained various aspects of taxes, containing many provisions for taxation. This act was amended for eight times i.e. 1977(2034); 1979(2036); 1980(2037); 1984(2041); 1985(2042); 1986(2043); 1989(2046); and 1992(2049) to make it more practical and to eliminate confusing terms. Government enacted the income tax rule 1982(2039), in 1982 (2039-01-27) in accordance with the authority given under sections 65 of income tax rule 1982, the Financial Act is also equally applicable for the proper administration of income tax in Nepal. Some of the features are as follows:

1. This act had clearly defined about income tax, taxpayer, year of income, personal status of taxpayer, non- resident taxpayer and net income and so on.
2. Five heads of income sources were specified viz. a) Agriculture, b) Industry, Business, Profession or Vocation, c) Remuneration, d) House and Land Rent and e) Other sources.
3. Method of computing the taxable income from each head had been specified with deductions allowable.
4. The act had made it obligatory for taxpayer to register their industries, business, profession or vocation in the tax office and any changes should be notified.
5. Carry forward of losses is allowed for within subsequent three years.
6. Provision was made for self-assessment of tax for the first time in Nepal.
7. Provision was made relating to deduction for life insurance premium and contribution made for philanthropic purpose.
8. Taxpayer was required to keep accounts and records of the income and to be preserved for six years.
9. Provision was made to make agreement for avoidance of double taxation with foreign government.
10. Provision was made relating to reassessment or additional assessment of tax.

2.2.7.4 Income Tax Act, 2002 (2058 B.S.)

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted Income Tax act, 2002 (2058), since First April 2002(19th Chaitra, 2058) This act was brought in Nepal to avoid the following defects of Income Tax Act 2031 (Kandel, 2003)

- a. Narrow base of tax.
- b. Taxing only the income originated in Nepal.
- c. Dispersion of tax related acts, i.e. income tax related provisions were given in different acts.
- d. Low penalty rate to tax evader.
- e. Incompatible to self-assessment, and
- f. Unsuitable to modern economy.

Main objectives of ITA, 2058 are presented below:

1. To levy tax on all income sources and income earning transactions.
2. To impose uniform tax to all people and all sources.
3. To make income tax revenue more productive and elastic.
4. To develop the tax system by means of extended scope, clear- cut, transparent and simple procedure.
5. To make accountable and improve tax administration.
6. To reduce economic cost neutralizing income tax.
7. To emphasize statement based on accounting system.
8. To make responsible to income taxpayers emphasizing procedure of self assessment system.

Key features of Income Tax Act, 2058 are:

1. All income tax related matters are confined within the act by abolishing all tax related concessions, rebates and exemption provided by different acts.
2. The act has broadened the tax base. Unlike previous tax act, tax rates are spelled out in the act. The tax rates and concessions are harmonized on equity grounds.
3. The act has introduced a pool system of charging depreciation. Intangible assets are also depreciated, the pool system of deprecation of fixed assets has introduction at first time. All types of assets are classified into five categories, depreciation rate for classes (Block) A, B, C & D is based on diminishing balanced method at rate of 5%, 25%, 20% & 15% respectively but straight-line method for class E. (Section 19)
4. The act has first introduced taxation on capital gains.
5. The act has provided liberal loss set-off and carry forward/backward provisions, inter head adjustments of losses are clearly specified. There is the provision of carry forward of loss from subsequent four year. The act has also provided the facilities to carry backwards of loss for five subsequent years in case of bank insurance and long term contract.
6. The act has provided a stringent fine and penalty for the defaulters.
7. The act has introduced a provision for administrative reviews to allow the tax administration to correct mistakes made by tax administrators internally.
8. Global incomes of a resident are made taxable. Non- residents are also taxed on their incomes with source in Nepal.
9. List of expenses is inclusive. All expenses relating to income have been made admissible.
10. The act has made provision of international taxation. Foreign tax credit has been introduced for the first time.
11. The act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.
12. The act has given the option for husband and wife as a separate natural individual until they do not accept as a couple.

13. There has the special provision for deduction pollution control cost and research & development expenses.
14. The income of an approved retirement fund is free from tax. But retirement payment in hand of employees is taxable.

2.2.8 Income Taxation in Nepal: An Analysis of Provision Related to Income Tax Concessions, Exemptions and Deductions:

Income tax Act, 1974 was replaced by Income tax Act, 2002. Income Tax Act 2002 has classified the income into following four heads.

- (a) Business Income
- (b) Employment Income
- (c) Investment Income and
- (d) Casual Gain

The Act had defined the income heads as follows:

- (a) **Business:** The income earned from the use of capital and labour in combined form is called business income. Business means any industry, a trade, a profession, or the like isolated transaction with a business character and includes a past, present, or prospective business. Such income includes income from trade, business, manufacturing, industry, service industry etc.
- (b) **Employment:** The income earned by using labour is called employment income. Employment includes a past, present and prospective employment. The examples of such incomes are salary, bonus, allowances, gratuity, pension etc.
- (c) **Investment:** The income earned from the use of capital is known as investment income. The examples of such income are interest, rent, royalty, dividend etc. Investment means an act of holding or investing one or more assets of a similar nature that are used in an integrated fashion but excludes:
 - Act of the holding of assets, other than non-business chargeable assets, primarily for personal use by the person owning the assets or investing amount on such assets or

- Employment or business.

(d) **Causal:** Incidental incomes are known as causal income, causal income includes lottery, wining from card game, wining from horse racing etc.

All these origination point of incomes are called sources of income. They are also known as heads of income. For the calculation of net income of these four income heads, The Act has clearly mentioned the incomes or amounts which are taxable and non taxable (concession, exemption) and expenses which are allowed for deduction and not allowed for deduction. For the computation of net income and taxable income, the Act had made the following provisions.

Income from Business

Income Tax Act, 2002, section 7, has clearly mentioned the incomes or amounts which are included while computing the income from business. They are:

- A person's income from a business for an income year is the person's profits and gains from conducting the business for the year.
- The following amounts should be included while calculating a person's profits and gains from conducting a business for an income year: Service fees including commission, meeting management or technical services fees, consultancy fees, advisory fees, legal fees and other services revenue.
- Amount derived from the disposal of trading stock. (sales\sales revenue)
- Net gains from the disposal of the person's business assets or liabilities of the business. (Net Gain = Total of income - Total of outgoing)
- Amount of excess depreciation on the disposal of the person's depreciable assets of the business (i.e. capital gain from pool disposal of depreciable assets).
- Compensation received for loss of stock or profit.
- Gifts & present received by the person in respect of business.

- Amounts derived as consideration for accepting a restriction on the capacity to conduct the business.
- Amounts derived that one effectively connected with the business and that would otherwise be included in calculating the person's income from an investment (i.e. amount derived from subletting vacant rooms of a house rented for official use).
- Amount received after the cessation of a business.
- Deducted expenditure which is not so expended.
- Under payment of interest \interest subsidy.
- Other income to be included in business income, sundry income, miscellanies income, sales of scrap, transfer fees and discount commission.
- Other amounts required to be included on tax accounting or quantification, allocation and characterization of amount of dealings between an entity and a beneficiary of general insurance business. For example, amounts to be included due to change in accounting method, transfer pricing, recovery of bad debts, compensation received etc.

Incomes Excluded from Business Income:

The following amounts are excluded while calculating a person's profits and gains from conducting a business:

- Amounts exempt under section 10.
- Taxation of dividend under section 54.
- Dividend distributed by a controlled foreign entity at the end of the year under section 69 and
- Final withholding payments.

Income from Employment:

Income Tax Act, 2002, section 8, has clearly mentioned the income or amounts, which are included while computing income from employment. 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. For the purpose of computing income from an employment, the following amounts (income) received by him in respect of any employment of services rendered by him in any year of income shall be included:

- Any wage, salary, leave pay, overtime pay, fees, commission, prizes, gifts, bonuses and other facilities.
- Any personal allowances, including any cost of living, dearness, subsistence, rent entertainment, and transportation allowances.
- Any payments for reimbursement of costs incurred by the individual or an associate of the individual.
- Any payments for the individual's agreement to any conditions of the employment.
- Any payments of redundancy or loss of termination of the employment.
- Retirement contributions, including those paid by the employer to a retirement fund in respect of the employee, and retirement payments.
- Other payments made in respect of the employment.
- Other amounts as given in chapter 6 of the Act, i.e. perquisites and any gains due to change in tax accounting require being included.

In the above provisions, there is a provision of loss of employment. But the provision had not clarified the meaning of loss of employment. On the other hand, retirement contributions are nothing else than the product of sacrifice of oldness of employment. These are the bases for living standard of oldness of employees. So it does not give good information to the taxpayers (employees). Dearness allowance is given to meet the living standard of employees. It is not lawful to include in taxable income.

Income Excluded from Employment Income:

The following amounts are not included while computing the income from employment:

- Amount exempt under section, 10 and final withholding payments.
- Meals or refreshments provided in premises operated by or on behalf of an employer to employer's employee that are available to all the employees or similar terms.
- Any discharges or reimbursement costs incurred by the individual:
 - i) That serves the proper business purposes of the employer.
 - ii) That is or would otherwise be deductible in calculating the individual's income from any business or investment.

Payments of prescribed small amounts, which are so small and thus unreasonable or administratively impractical to make accounting for them (only up to Rs.500) at once expenses may be stationary, gift, tea/coffee expenses, emergency medical expenses are pointed by Internal Revenue Department.

Income from Investment:

Section, 9 of ITA, 2002, has defined the income received from an investment for income tax purpose. For the purpose of computing income of any person from an investment for an income year is the person's profits and gains from conducting the investment for the year and there shall included.

- Any dividend, interest, natural resources payment, rent, royalty, gain from investment insurance, gain from an unapproved retirement fund, or retirement payment made by an approved retirement fund derived in respect of the investment.
- Net gains from the disposal of the persons non-business chargeable assets of the investment.
- Excess amount of incomings over the depreciation basis including outgoings on the disposal of depreciable assets of the investment of the person's. (Depreciable basis includes the depreciation amount, expenses made on the depreciable assets).

- Gifts received by the person in respect of investment.
- Retirement contributions, including those paid to a retirement fund in respect of the person, and retirement payments in respect of the investment.
- Amounts derived as consideration for accepting restriction on the capacity to conduct the investment.
- Exchange gain, bad debt recovered.
- Amount recovered for commission regarding investment.
- Under payment of instead than standard.
- Other amounts required to be including on tax accounting, or quantification, allocation and characterizations of amounts of transaction between any entity and beneficiary or general insurance business.

In the above provision, Act has included the amounts derived as consideration for accepting a restriction on the capacity to conduct the investment; it is fruitful to the investment who receives the compensation against restriction. But it will not be possible to implement, if the act does not clarify the nature of restriction, cause of imposing restriction, process of compensation-computing the entity, which gives compensations.

Non-Includable amounts on Investment Income:

The act has mentioned the amounts, which are excluded in computing income from an investment under section 9 (3). They are:

- Exempt amount under section 10.
- Taxation of dividend under section 54.
- Dividend distributed by a controlled foreign entity at the end of the year under section 69 and final withholding payments and
- Amounts that is included in calculating the person's income from any employment or business.

2.2.8.1 Concessions and Exemptions of Income Tax:

Income Tax Act, 2002 has mentioned the concessions and exemptions. They are described in the following section.

A. Exempt Amounts:

The following amounts are exempted from tax under section-10 of Income Tax Act, 2002:

- (i) Amounts derived by a person entitled to privileges under bilateral or a multilateral treaty concluded between Nepal Government (NG) and a foreign country or an international organization.
- (ii) Amounts derived by an individual from employment in the public service of the government of foreign country.

Provided that:

- (a) The individual is a resident person solely by reason of performing the employment or is a non-resident person and
 - (b) The amounts are payable from the public funds of the country.
- (iii) Amounts derived from public fund of the foreign country by an individual who is not a citizen of Nepal as referred to in paragraph (iii) or by a member of the immediate family of the individual.
 - (iv) Amounts derived by an individual who is not a citizen of Nepal but employed by Nepal Government on terms of a tax exemption.
 - (v) Allowances paid by NGO to widows, elder citizens, or disabled individuals.
 - (vi) Amounts derived by way of gift, bequest, inheritance or scholarship except as required to be included in calculating income from business, employment or investment.
 - (vii) Amounts derived by an exempt organization by way of:
 - (a) Gift, donation.
 - (b) Other contributions that directly relate to the exempt organization's function, whether or not the contribution is made in return for

consideration provided by the organization. For example, subscription fee received by a club is exempt from tax.

(c) Pension received by a Nepal Rastra Bank as per its objectives.

(viii) Pension received by a Nepal citizen retirement from the army or police service of a foreign country provided the amounts are payable from the public fund of that country.

In the above section, pension amount received by Nepalese people being retire from the service by army or police of foreign country is exempted from income tax. It restricts the objective of raising more revenue of government because some of them receive more amount than the exemption limit approved by the government.

Exempt Organization:

Exempt organization means the following entities:

- A social, religious, educational or charitable organization of public character registered without having profit motive.
- An amateur sporting association on formed for the purpose of promoting social or sporting amenities not involving the acquisition of gain.
- A political party registered with the election commission.
- A village Development Committee, Municipality or District Development Committee.
- Nepal Rastra Bank.
- Nepal Government.
- The prescribed entity that has been issued with a personal ruling under section 76 stating that it is an exempt organization.

Income Tax Act has mentioned the organizations, which are tax-free (exempt organization). Act has exempted social, religious, educational or charitable organization of a public character registered without having profit motive. In the case of non-transparent private business like boarding schools, NGO's or other

entities, where profits are earned, but for the sake of tax planning, is called retained earnings or something else. So they are tax free. It is not food symptom of tax administration.

B. Business Exemptions and Concessions:

The following business exemptions and concessions are mentioned in Section 11 of Income Tax Act, 2002.

- (i) An agricultural income derived from source in Nepal during an income year by a person, other than the income from an agriculture business derived by a registered firm, or partnership or a corporate body, or through the land about the holding ceiling as prescribed in section 12 of Land Act 1964, is exempt from income tax.
- (ii) Income derived by cooperative societies, registered under Cooperative Act 2048, from business mainly based on agriculture and forest products such as sericulture and silk production, horticulture and fruit processing, animal husbandry, dairy industries, poultry farming, fishery, tea gardening and processing, vegetables seeds processing, bee-keeping, Honey production, rubber farming, floriculture, production and forestry related business such as lease-hold forestry, agro-forestry, cold storage established for the storage of vegetables, and business of agricultural seeds, insecticide, fertilizer and agricultural tools (other than machine operated) and rural community based saving and credit cooperatives are exempt from tax. Dividends distributed by such societies are also exempt from tax.
- (iii) Any person operating special industry during the whole income year is taxed as follows:
 - (a) If the industry is providing direct employment to 300 or more Nepalese citizens throughout the whole year, 90 percent of the applicable tax rate (20 percent) is applied for the year.
 - (b) Industry provided direct employment to the 1200 or more Nepalese citizen during the whole year is taxed at 80% of the rate otherwise applicable. i.e. 80% of 20%.
 - (c) Industry provided direct employment to the 100 or more Nepalese citizen including at least 33% women or downtrodden people (Dalit) is taxed at 80% of the rate.

(d) Industry established in SEZ other than the mentioned above is taxed as under;

First 5 years-Tax free

After 5 years- 50% of the rate

(e) The industry operating in remote, undeveloped and under developed area will have to pay 50 percent, 70 percent, and 75 percent of the applicable tax rate (20 percent) respectively up to ten income years commencing from and including the year in which the operation commences.

(f) If both exemptions are availed to the same special industry for same income, only one exemption is available as per the selection made by the industry.

(g) The income received under business exemptions and concessions should be calculated separately assuming that these incomes are received by separate person. That is, income received under business exemptions and concessions should be separated from other general business and investment incomes.

(h) If the assets used by the special industry were used previously by another person operating the similar type of special industry, the ten year for the latter will be counted from the period of such use by the another person previously.

(iv) An individual working in a remote area is entitled to a rebate up to a maximum of Rs. 50,000 by way of additional basic exemption. The exemption limit specified in Rule 38 of ITA, 2002 is under:

❖ Area A - Rs. 50,000

❖ Area B - Rs. 40,000

❖ Area C - Rs. 30,000

❖ Area D - Rs. 20,000

❖ Area E - Rs. 10,000

Now, basic exemption is:

- (i.) Individual - Rs. 200,000
- (ii.) Couple and family - Rs. 250,000

C. Donation/Gift to Exempt Organization:

Section 12 of ITA, 2002 has mentioned the provisions of donation or gifts given to exempt organization. The provisions are:

- (i) A person may claim to have their taxable income for an income year reduce by donation/gifts made by the person during the year to an exempt organization, that are approved for the purposes of this section by the department.
- (ii) Notwithstanding subsection (i), reductions allowed to a person under subsection (i) for an income year shall not exceed whichever is lower between Rs. 100,000 or 5 percent of the person's taxable income for the year calculated without a deduction for gift referred to in subsection (i) and ignoring the limitations in 17 (2) and 18 (2).
- (iii) Notwithstanding sub-section (i) and (ii), Nepal Government may prescribe, by a notification in the Nepal Gazette, as to allow full or partial deduction at the time of assessing a person's income of the expenses incurred for special purpose or the expenses of gift given by the person.
- (iv) Donation made to the religious, cultural, historical place & activities and infrastructure development of sports activities. Likes as: Pashupati Area Development Trust (PADT) and Lumbini Area Development Trust (LADT), Cricket Association of Nepal (CAN), ANFA is deductible up to 10% of total assessable income or actual donation or maximum limit Rs. One million whichever is less.
- (v) Any profit making entity can claim deduction for donation in the year of parliamentary election paid out of its profit before two months from the date of parliamentary election, to the approval National Political Parties.

From the above provisions (i) and (v), it is clear that the donation given to political parties is allowed for deduction. But it is not able to address the voice of people of '**transparency of donation amount given by businessperson to political parties**'.

Similarly, in the above provision (iii), there is a provision of special purpose. But the act has not defined 'what is the special purpose?'

2.2.8.2 Deduction to compute Taxable Income under Income Tax Act, 2058:

❖ **General Deductions (Section-13)**: Expenses related to business incurred in order to generate income from business are fully admissible.

❖ **Cost of Goods Sold (Section-15)**: The cost of trading stocks is calculated as follows:

$$\text{Cost of goods sold} = \text{Opening Stock} + \text{Purchase during the year} - \text{Closing Stock}$$

❖ **Interest Expenses (Section-14)**: Interest expenses are calculated as follows:

(i.) Interest on loan (not paid to controlling entity fully admissible)

(ii.) Interest on loan (paid to controlling entity) admissible but not to exceeding the limit. If the interest is paid to controlling entity (tax exempt organization). Actual paid interest of 50% of adjusted taxable income (ignoring interest income & interest expenses) + interest income whichever is less.

❖ **Repair & Maintenance Cost (Section-16)**: Repair & Maintenance Cost is calculated as follows:

➤ Allowable limit is actual repair & maintenance cost or 7% of depreciable base, whichever is less.

➤ When actual amount is greater than allowable expense, the excess amount is capitalized under related block.

❖ **Pollution Control Cost (Section-17):** It is calculated as under:

- Allowable limit equal actual pollution control cost (PCC) or 50% of adjusted taxable income from business, whichever is less.
- When actual amount is greater than allowable expenses, excess amount is capitalized under block-D.

Where,

Adjusted Taxable Income = Before deducting pollution control cost + Research & Development cost + Interest paid to controlling entity + donation.

❖ **Table No. 2.1: Depreciation on Fixed Assets (Section-19):** It is calculated as follows:

<u>Block</u>	<u>Dep-n Rate</u>	<u>Dep-n Method</u>	<u>Description</u>	<u>i. e.</u>
"A"	5%	Diminishing Balance Method	Building & Similar Type of Structure	House, Building, Godown, Quarters e.t.c.
"B"	25%	Diminishing Balance Method	Computer, Data Processing Equipment, Furniture, Fixture & Office Equipment	Computer, Printer, Photocopy Machine, Scanner, Telephone Set, Mobile Set, Calculator, Stapler, Punching Machine e.t.c.
"C"	20%	Diminishing Balance Method	All types of Auto Vehicles	Motorcycle, Delivery Vehicle, Car, Jeep, Truck e.t.c.
"D"	15%	Diminishing Balance Method	Plant & Machinery, Construction Equipment, Earth Moving Equipment, Capitalized Part of Research & Development Expenses, Pollution Control Cost & Other all Assets which are not included in other block	
"E"	Cost/Life	Straight Line Method	All types of Intangible Assets	Goodwill, Trade Marks e.t.c.

- **In case of Assets Purchase during the year:** Depreciation is calculated as below:
 - 1.) Purchase in 1st six months of F.Y. (1st Shrawan to end of Poush): Depreciation calculated on Total Assets Purchase Value under related block.
 - 2.) Purchase in next three months of F.Y. (1st Magh to end of Chaitra): Depreciation calculated on 2/3 of Assets Purchase Value under related block.
 - 3.) Purchase in last three months of F.Y. (1st Baishakh to end of Ashadh): Depreciation calculated on 1/3 of Assets Purchase Value under related block.
- In case of special industries, allowable depreciation is increased by 1/3 of normal depreciation. Where all types of manufacturing industries are special industries except alcohol & tobacco related industries.
- When opening written down value for next year is less than Rs. 2000, than total amount of assets is charged as depreciation for this year.

❖ **Research and Development (R&D) Cost:** It can be calculated as follows:

- Allowable limit equal Actual Research & Development Cost (R&D) or 50% of adjusted taxable income from business, whichever is less.
- When actual amount is greater than allowable expenses, excess amount is capitalized under block-D.

❖ **Bad Debt:** Actual bad debt is deducted while computing income tax.

2.2.8.3 Deduction that are not allowed to compute Taxable Income under Income Tax Act, 2058 (Section-21):

The following items are the inadmissible expenses as per sec.-21:

- a.) Any personal or domestic expenses.
- b.) Expenses not related to business.
- c.) Expenses for earning not taxable income / final withholding
- d.) Reserves / provisions / funds (except risk bearing fund up to 5% of outstanding loan of bank / financial institution).
- e.) Dividends
- f.) Cash payment in excess of Rs. 50,000 at a time having annual transaction more than Rs. 20,00,000.00

Exception:

- i.) When business are closed.
- ii.) If there is no banking facilities within 10 KM.
- iii.) If payment is made by Government of Nepal (GON), public enterprises, financial institution, bank, retirement payment.
- g.) Fine & Penalty.
- h.) Income Tax
- i.) Others (Capital expenditure & capital losses)

Clarification - for the purpose of this section

- "Agricultural business" means the business of producing crops from public or private land or deriving rent from a tenant using land.
- "Remote area", "undeveloped area", and "underdeveloped area" have the meaning in Annex-3 of Industrial Enterprise Act (IEA) 1992.
- "Special industry" means a manufacturing industry as categorized in Section II of the IEA, 1992, other than an industry producing cigarette, bidi, chewing tobacco, Khaini, or other goods of similar using tobacco as the basic raw materials, or alcohol, beer, or other goods of a similar nature.

In the above section, there is a provision of exemption of tax from agricultural income other than income from an agricultural business derived by a firm, or company, or partnership, or a corporate body or through the land above the holding ceiling as prescribed in Land Act 1964. But the provision of taxing on agricultural income of agricultural business is not clear on itself. On the other hand, exclusion of agricultural income from tax net alone cuts out about half of the GDP.

There are various provisions about exemption and concessions. Some concessions granted to achieve certain objectives are not effective. Tax concessions encourage the establishment of industries in certain areas but they vanish or change names, ownership or place the business when the tax concession period expires. On the other hand, the concession or incentives provided to special industries are not energetic. For this kind of concession, nobody will be encouraged to open the industry in remote area. For the purpose of industrial development of remote area, a separate incentive should be provided. But the new Act is also unable to do so.

2.2.9 Corporate Tax and It's Development in Nepal

2.2.9.1 Concept of Corporate Tax

A corporate body or company is an artificial person created by law. A company is a legal person just as much as individual. It is separate and distinct from its individual members. A company like a natural person can do everything. It can conduct a lawful business and enter into contacts with others in its own name. A company or corporate body is a legal organization that is voluntarily created, organized or chartered under law. It is 'an artificial person' which can own property, execute contracts, raise debts and generate profits. Corporate tax, therefore, is a tax levied on companies or corporate bodies in contrast to unincorporated enterprise. It is the tax on capital income that occurs in the form of profit and originates in the corporate sector i. e. company. The history of tax was started from 1909 in USA when 1% excise was levied in corporation i. e. companies in the ground of the privilege they enjoy. Since then, corporate tax is contributing a substantial amount of revenue to the state treasury of most of the developed and developing countries. The statutory rate percent, however, was very low in initial period increased vehemently later on after First World War and again started to be turned slow since 1980s (Kandel, 2001)

2.2.9.2 Development of Corporate Tax in Nepal

The history of corporate tax is not so long. This tax was introduced only in 1960 with the Business Profit and Remuneration Tax Act, 1960 at the first time. Initially, corporate income tax was not differentiated from personal income tax. All the taxpayer persons, companies and private firms were imposed at the same rate with progressive and exemption limit prescribed by Finance Act of 1960 to 1964. The tax exemption given to companies as similar to personal taxpayer was withdrawn from the financial year 1965/66. A separate tax system to companies was introduced by the Finance Act, 1976.

Nepal originally combined corporate income tax with individual income tax. The same rate structure was designed for corporate income and other income for many years. In 1986/87, a flat rate corporate tax was introduced for government corporations and public limited corporations listed with security exchange centre. Corporate tax was extended to private limited companies in 1993/94 and partnership firms in 1995/96 (Khadka).

The third Income Tax Act was introduced in 1974 with making new changes and provisions than old one. A separate tax system to companies was introduced by the Finance Act, 1976. Finance Act, 1985 made a provision of giving 5% tax rebate from highest marginal rate of 55% to listed public companies and government enterprises. Fiscal year 1986/87 was the year when the corporate tax was really recognized by imposing a flat rate of 40% tax on taxable income of the listed companies. The same Finance Act imposed tax on dividend also to be deducted at source at the rate of 20% which after the filing of return by shareholders was to be reconciled. But the dividend tax system was changed exempting dividend to a level of 85% in 1987/88. Compulsory self-tax assessment system for public and private limited company was enacted from the financial year 1994/95. This change supported to end the discrimination between private company and public company. Another major change carried out in the fiscal year 1998/99 was the inclusion of dividend of non-industrial companies within the tax net.

After enactment of Income Tax Act 2002, the corporate tax levied upon general industries is 25%, 30% for insurance company and financial institutions. Trading companies are levied tax at the rate of 25%, manufacturing industry at 20% and special Sector Company at 20%. Export profit which was taxed at a level of 8% or 0.5% of sales as per Finance Act 2057 was changed by the Fiscal

Act 2058 has recommended, export profit from industry sector and trading sector are taxed at 20% and 25% respectively.

2.2.9.3 Corporate Tax Base in Nepal

There are controversies as regards to the choosing of corporate tax base since there may be various bases of taxation. For instance, these bases may be income, cash flow, turnover, total assets and added value etc. Among these, base-income and cash flow are mostly considered by the tax expert (Kandel, 2006).

The standard tax base is corporate income, which is the difference between the revenues from the sale of goods and services plus financial income on the one hand, and wages, depreciation, inventory costs plus interest on the other. Such costs are broadly revenue expenses incurred in the ordinary course of conducting day-to-day operation, and amortization of capital costs. Under the income-based tax system, many developing countries provide substantial tax incentives in the form of exemptions and deductions such as accelerated depreciation, investment tax credits or allowances, tax holidays etc.

Tax base may depend on the relation between corporate tax rates and personal tax rates. Different countries of the world have different choice of base for corporate tax. Most of the countries prefer corporate- profits or book profits as the tax base. For, book profit as a tax base is stronger and superior than other types of tax bases. (Khadka, 1994)

If income is taken as the base of taxation, it is called income basis or net profit basis. It means deductions of interest on debt and depreciation of fixed asset from gross profit and adjustment of capital gain, stock appreciation or depreciation etc. Since it is calculating tax base is adding up all the incomes of the company and deducting expenses incurred in earning the income. However, because of its cumbersomeness in finding out taxable income, modern tax experts are in favour of replacing it. The main causes of the cumbersomeness are treatment of revenue and expenses on accrual basis, treatment of depreciation under historical cost, measurement of capital gain and effect of inflation either interest or valuation of stock. The cash flow tax, on the other hand, is the alternative considered by economists and tax experts to replace income based taxation (Kandel, 2001).

Like other countries of the world, Nepal is also following the method of making income as base for corporate taxation. The procedure of finding out taxable income is adding up the all items of revenues that are taxable and deducting all expenses, which are allowable.

2.2.10 Concept of Tax Incentives

An income tax is a disincentive to save or invest and therefore, the incentive if to mitigate the disincentive, Tax incentive may imply a partial or complete exemption from one or a variety of taxes and special allowances for a certain period to motivate the behaviour of saver or investor (Agrawal, 1978). The main aim of tax incentive is to increase savings and encourage and canalize the investment to desired area or sector. It is supposed that they encourage investment in selected manufacturing activities or improvement of product quality or utilization of domestic resource in manufacturing.

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

2.2.10.1 Present Provisions Related to Tax Incentives in Nepal

Previously, tax exemption facilities were provided by different acts, in Nepal. More than 18 acts were responsible to provide such facilities; the Industrial Enterprise Acts was the main. Industrial Enterprises Act of 2018, 2031, 2038 and 2049 provided such facilities. The major facilities of such type were up to 18 years tax holiday to industry; no double taxation on dividend; fixation of tax rate to industry at 20% etc. The other facilities except those were complete exemption of income tax, sales tax and excise to cottage industries, extra depreciation facility of 33.33% of ordinary rate to special industry, deduction

facility of 5% of net income as donation and 5% and 10% of gross income for promotion and development of technology respectively; tax rebate of 10% to industry employing 100% of Nepalese labour and more than 80% of Nepalese raw materials. Besides stated above, the other facilities were investment allowance of 40% of capacity is increased by more than 25%, facility or allowing 50% of the pollution control expenditure facility of capitalizing the manpower development expenditure, facility of deducting the expenses incurred for employee or labour residence, life insurance, health, education, training, partial tax holiday to priority industry, tax rebate to the industries in remote areas, no double taxation on raw materials use by the industries etc. As already stated, tax incentives were not the function of Income Tax Act and Industrial Enterprise Act only at that time. Electricity Act, Petroleum Act, Foreign Investment and Technology Transfer Act also provided different types of tax facilities to concerned industries. Facilities provided by these acts were full exemption of income tax to electricity producer of up to 1000 K.W., tax holiday of up to 15 years to electricity related works: only 18% tax rate applicable to electricity related industry; only 10% tax rate to petroleum industry and so forth.(Kandel, 2006)

The Income Tax Act, 2058 has also provided various types of tax incentives such as tax credit, accelerated depreciation, and loss set off and carry forward of losses. An individual may claim medical tax credit (sec. 51) for tax offset of medical expenses incurred for tax offset of medical expenses incurred for him. Claim to be adjusted in year will be 15% of eligible medical expenses plus any amount carried forward in respect there from the previous year. Maximum amount that can be claimed in an income year will not exceed Rs. 750 as per rule 17. Likewise a resident person may claim a foreign tax credit as per section 71 for an income year for any foreign income tax paid by the person to the extent to which it is paid with respect to the person's assessable foreign income for the year.

Business loss can be carried forward to 4 years as per sec. 20. In the case of Banking and General insurance, sec 59(2) and sec. 60(2), business loss can be carried back to 5 years. In the case of long term contract, loss can be carried forward as per the notice of Internal Revenue Department sec. 20(4). Similarly, loss of BOT/BOOT can be carried forward up to seven years. Depreciation can be charged only on pool of assets as per sec. 19(2). Accelerated rate of depreciation is available only to manufacturing industry as per sec.3 of Industrial Enterprise Act 1992 and other specific sections 19(2).

2.3 Review of Related Materials

2.3.1 Review of Books

Dr. Rup Bahadur Khadka had written a book entitled, "Nepalese Taxation: A Path for Reform", in 1994. The book dealt with both national and international taxes. The writer had detailed describe the scenario of Nepalese tax system from origin of income tax, adoption of quasi-global or a limited scheduler system, segregation of corporate income tax from individual income tax, increasing dependence on the presumptive basis, basic allowance and progressive rate structure, move from joint taxation to individual taxation and shift from itemized to flat system of standard expenses, experiment with an advance tax on impacts and the existing structure, commodity taxes and poverty taxes. He had evaluated the Nepalese tax system base on conventional, theoretical concepts and suggested various measures for its improvement. The book had not been directly focused on corporate tax only but explains the whole Nepalese taxation system and structure for its reform.

Bidhyadhar Mallik had written a book entitled, "Nepalko Adhunik Aayakar Pranali" in 2003. 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, instalment 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. P. Aryal and S. P. Paudel had written a book entitled, "Taxation in Nepal" in 2009. They had 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.A. It had been divided into 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 appendix where various income tax, house and land rent and vat related forms, schedules and format had been described.

Lastly, he had recommended mobilizing additional domestic resources through taxation, tax structure should be redesigned in order to increase the role of direct tax; income tax should be reformed in Nepal etc.

A senior researcher in the field of Nepalese taxation, Dr. Govind Ram Agrawal had conducted a research entitled, "Resource Mobilization for Development: The Reform of Income Tax in Nepal" published by CEDA in July, 1978. The main objective of his study were to examine the problem of growing resource gap in Nepalese finance in the context of the role of income tax, to examine the buoyancy and elasticity of income tax in Nepal including projection if income tax, to examine the ways and means for increasing tax consciousness in Nepalese people etc.

In 1980, Dr. Govind Ram Agrawal had written a book entitled, "Resource Mobilization in Nepal" published by CEDA. The book had been divided into eight chapters; the first chapter deals with special reference to Nepal. The second chapter deals with fiscal policies in developing nation and Nepal and third chapter looks at income tax in Nepal from the historical perspective, the fourth chapter deals with structure of Nepalese taxation. In the fourth chapter related to tax structure, the writer had concluded that taxation trend in Nepal have shown that role of indirect taxes have been predominant in the tax structure. More than 60% of tax revenue was derived from foreign trade alone. However, since 1974/75 the role of income tax had been increasing.

Dr. Agrawal had made an empirical study taking tax policy makers, tax experts, tax administration, tax lawyers and accountants and taxpayers of different parts of Nepal. From that study he had concluded that Nepalese taxpayers were favourably disposed to income tax. However, the major constraints in the effective functioning of tax system seem to be administrative deficiencies, poor taxpaying habits, and lack of taxpayer's education, complex procedures and defective tax information system.

2.3.2 Review of Research Reports and Articles

Damber Bahadur Pant had written an article entitled, "Problems in Tax Administration and their Remedies" published in Journal of finance and development 'Rajaswa' 2004, April vol. 1. He had comprehensively explained about the problems and their remedies related with tax revenue and the major types of practical problems and challenges with tax administration. He had mentioned in his article were showing limited amount of transaction showing low selling price, lack of issuing and taking bills, lack of showing the real factory cost, commercial fraud, lack of co-operation in tax auditing, legal ambiguity and complexity in implementation and lack of coordination between Inland Revenue Department and Revenue Investigation Unit. Meanwhile, he had recommended some valuable suggestions to solve the problems and to overcome the challenges. They were: statistical and information system should be properly managed, fixed norms and standards should be used to assess selling price and factory cost, the billing system should be made compulsory, coordination between Inland Revenue Office with various entities of Government, Revenue Investigation Department and its related units should play the important role, like as at present "Kar Chukta" certificate must be showing at any others government, banking & major works that should be support too much to compulsory encourage taxpayers to pay tax & clear their own tax liabilities to the nation.

Dr. Puspa Raj Kandel had written an article entitled, "Are Tax Incentives Useful? If so, which one?" published in Journal of Finance and Development, 'Rajaswa', Volume1 2004, April. In that article he had tried to seek the answer from the survey of various empirical studies earlier done in Nepal, India, Pakistan and other western countries. He found that the tax incentives are still the controversial matter whether they promote the investments or not. But he argued that most of the developing countries need tax incentives.

As per the empirical studies done in various countries, the conclusion came out that among different types of tax incentives; investment, allowance or investment tax credit and accelerated depreciation are superior to other types of tax incentives. Tax holiday is the most inferior type of tax incentive, which causes revenue loss without enhancing the investment environment. Meanwhile, most of the researchers have opposed the tax holiday system both within Nepal and outside Nepal.

He further added that the survey of the studies indicate that accelerated depreciation system had positive impact on investment. The work of reducing tax

rate, especially, followed after 1990s to such lowest rate was not a proper decision. That is why, if Nepal wants to go to tax incentives again, she should adopt investment allowance or investment tax credit, not the full tax holiday in future.

United Nation published a journal on public finance entitled, "Guidelines for improving tax administration in developing countries" in 1977. The study was divided into four separate parts. Among them reforming the structural organization of the tax administration and explained in two separate sub topics i.e. guidelines for appropriate initiatives and underlying consideration and explanatory commentary. Functions of tax administration are identification and registration of taxpayer's education, information provider and assistance etc. The study had explained these two functions and the study had recommended some valuable suggestions to the developing countries.

2.4 Research Gap

All the research studies mentioned above are concerned with study of laws, provisions, administrative aspects and structure of tax. Most of them have indicated the inefficiency of tax administration, widespread tax evasion. No attention is paid on a particular problem. Many of them have taken various problems as their research objectives and no thoroughly study on a particular subject problems is done except few of the research work.

Nepalese corporate sector is small and stagnant in nature and the performance of public sector, private and government sector is poor. Contribution of income tax from corporate sector plays vital role in Nepalese economy. Regarding the fact that the considerable contribution of corporate sector in the economy of other developing countries, I found no more study done in the contribution of corporate income tax to government revenue of Nepal. So, this study has been undertaken analytically and intensively to analyze the structural composition of income tax, to find about the condition of problem in income tax collection and to analyze corporate income tax contribution to government revenue and fulfilling the resource gap from an internal source.

CHAPTER - THREE

RESEARCH METHODOLOGY

Research word can be divided in to two parts re and search, which means search again and again. Previous researcher found some things and further researcher are not cover all the facts and findings.

We should make different types of research according to subject matter like as descriptive, experimental, exploratory, case study etc. Thus the objective of the study is to find out the awareness of taxpayers towards income taxation so this study follows descriptive as well as analytical research tools.

This chapter is devoted to the research methodology applied in the study for the achievement for desired objective. Both primary as well as secondary sources of data are used to conduct this study. There are five parts is research design, population and sampling, sources of data, procedures of data collection.

3.1 Research Design

The research topic entitled “**An Analysis of Structure and Problems of Income Taxation in Nepal**” is abstracted from the socio- economic environment of Nepal. As the income tax system and structure is based on various rules, regulations and acts, which are always setting on different countries, own socio-economic infrastructure, descriptive research design is more suitable to analyze Nepalese corporate tax structure. For contribution of corporate income tax, the study needs to analyze its past performance in different time period with respective indicators. So, historical as well as descriptive research design is used.

3.2 Sources of Data

According to the nature of study, the study requires secondary as well as primary data.

3.2.1 Secondary Data were collected from economic survey of various years, published by NRB Reports, MOF Reports, IRD's Tax Bulletins, FNCCI's Byabshaik Aacharan, ICAN Bulletins, Books, Published and Unpublished Articles, Newspapers, Annual Reports, International Reports, Internet, Wikipedia, Google Search, Central Bureau of Statistics, various thesis related books and former thesis samples & etc.

3.2.2 Primary Data were collected through a schedule of self- structured questionnaires, informal dialogues, discussions and interviews with concerned persons. Separate sets of questionnaires were used to have options/information from two-sample population. It's sources were conducted from Kathmandu valley only, sectors are I.R.O., T.S.O. offices & taxpayers, Survey on Face Book (Social Networking Site), like; Entrepreneurs: - Manufactures, Importers, Traders, Suppliers, Wholesalers, Retailers inside Kathmandu valley specially focused on Baneshwor area.

3.3 Data and Information Processing and Data analysis Procedure

Various numerical data and information are collected as per the objective of the study and research questions. Firstly, laws, rules, regulations and policies related to income tax and corporate tax are studied to get more information about corporate income tax including book related to public finance. Secondly, different libraries such as Chamber of Commerce, FNCCI, NRB are also consulted. Thirdly, the numerical data are collected from the publication of annual reports of IRD, economic bulletin of NRB, economic survey of MOF, publication of security board, CBS, budget speeches etc. Lastly, various journals, national newspapers are also reviewed. Respective parties are consulted while analyzing the research questions.

The collected data are classified, tabulated and analyzed in descriptive and analytical way as per the subject matter. Likewise, the required accounting principle, mathematical approaches and legal provisions of ITA, 2058 are taken into consideration in data analysis procedure.

3.4 Presentation and Analytical Tools

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

- a. Table:** Various tables are formulated to tabulate the data.
- b. Charts and diagrams:** These tools are used for visually description of the data, trend line, bar diagrams and pie charts are used for this purpose.
- c. Regression analysis:** Coefficient of determination explains how good is the fit of the estimated regression line to the sample observation of variables. So, it is the measurement of dispersion of observation around the regression line. Coefficient of determination here is taken as a measure of goodness of fit, as it shows the percentage of total variation of the dependent variable that can be explained by the independent variable like X.

$$r^2 = \text{Explained variation/Total variation or RSS/TSS}$$

Here, ESS = Residual sum of square

RSS = Explained sum of square

TSS = Total sum of square

$$ESS = TSS - RSS$$

Another criteria as a measure of a goodness of fit is adjusted coefficient of multiple determination \bar{r}^2 (simple regression) or \bar{R}^2 (multiple regression).

It is given by: \bar{r}^2 or $\bar{R}^2 = (ESS/n-k) / (TSS/n-1)$ – (Aryal, Gautam, 2001)

Where,

TSS = Total sum of square

ESS = Unexplained sum of square

n = no. of observation

k = no. of parameters in the model including intercept term.

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

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

Where,

n = No. of observations

X = Variables

Y = Variables

e. Analysis of time series: A series formed from a set of statistical data arranged in accordance with their time of occurrence is said to be a time series. A time series shows the relation between two variables one being the time. The size of the population in every decade, the price level of the different in every month the volume of population in every year indicate the relation between the time changes and the changes in the value of other variable. Time series analysis is mostly used in Business and economics, by which we can predict the value of variable for the future. Mathematically, a time series is defined as the functional relationship $Y = f\{t\}$, where y is the value of the variable consideration in time. The time 'T' may be yearly, quarterly, monthly, weekly etc. There is various method of analyzing time series, least square method is chosen as the best method in showing trend and prediction in our research. A widely and most commonly used method to describe the trend line and prediction is method of least square. Under this method, a trend line is fitted to data satisfying $\sum (Y - Y_1) = 0$, and $\sum (Y - Y_1)^2$ is least from that the line obtained by this method is the line of best fit.

Where, y is the actual value and Y_1 is the computed value of Y .

Trend line, $Y = a + bx$

Where,

Y= Dependent variable

X= Independent variable

A= y intercept or value of Y when X= 0

B = Slope of the trend line of amount (of) change that comes in Y for a unit change in X.

CHAPTER - FOUR

PRESENTATION AND ANALYSIS OF DATA

The presentation of data is the basis organization and classification of the data for analysis. After data collection is completed, the data is in raw form. It is necessary to arrange the data to make some sense to researcher and others. It can later be presented to the reader of the research. Similarly, the purpose of analysing the data is to change it from an unprocessed form to an understanding presentation. The raw data convey little information as such. These must, therefore, be compiled, analysed and interpreted carefully. This process of transforming data is called analysis of data.

This chapter deals with the presentation and analysis of data. The main objective of the study is to find out the awareness towards business taxation so it mainly focuses the primary data. Though the secondary data is only taken from the Kathmandu Metropolitan ward No.10 to find out the exact number of business established in Baneshwor area. The primary data is taken from 80 business persons (taxpayers). Out of them 40 are sole proprietors, 20 are partners and 20 are chief executive officers (CEO) of Ltd. Company. The primary data obtained by making questionnaire about Income Tax, Vat and Custom Duty. 80 sets of questions are distributed and received about different types of taxes to know the awareness of taxpayers towards business taxation.

4.1 Analysis of income tax structure

Presentation and Analysis of data on the basis of secondary sources:

4.1.1 Structure of Total Revenue

Total revenue in Nepal is composed of total tax revenue and total non-tax revenue. When the government of Nepal presented first national budget in 1951/52, the revenue structure was typically that of traditional economy with 73% of government receipts coming from non-tax source and land tax, out of

73%, the share of non-tax revenue was 43%. In 1960' the share of non-tax revenue declined drastically because of the increasing contribution of indirect tax on foreign trade. In 2012/13 the share of non-tax revenue is 12.43% of total revenue as compared with 18.42% in 2008/09. On the other hand, the share of tax revenue of the initial period of the study (FY 2008/09) was 81.58% of the total revenue and gradually increases to 87.57% in fiscal year 2012/13. But slightly decrease in 2010/11 at 86.46% which is presented in the following table and graph.

Table No. 4.1: Structure of Total Revenue

Fiscal Year	Total GDP	Total Revenue	Tax Revenue	Non Tax Revenue	NRs. In million	
					% of Tax Revenue to Total Revenue	% of Non-Tax Revenue to Total Revenue
2008/09	988,272.00	143,474.40	117,051.80	26,422.60	81.58%	18.42%
2009/10	1,192,774.00	179,940.40	156,290.70	23,649.70	86.86%	13.14%
2010/11	1,374,953.00	199,819.60	172,755.30	27,064.30	86.46%	13.54%
2011/12	1,536,000.00	244,369.70	211,718.30	32,651.40	86.64%	13.36%
2012/13	1,701,194.00	295,936.50	259,143.60	36,792.90	87.57%	12.43%

Source: NRB Quarterly Economic Bulletin 2013 Mid-Oct / MOF Economic Survey 2012/13.

From the above table, it can be concluded that the contribution of tax revenue on total revenue is fluctuating from 81.58 percent to 87.57 percent in last five fiscal years. So the tax revenue contributes lump sum major part of the total revenue. This indicates that tax revenue has the significant role in total revenue. The structure and contribution of tax revenue is shown graphically as follows:

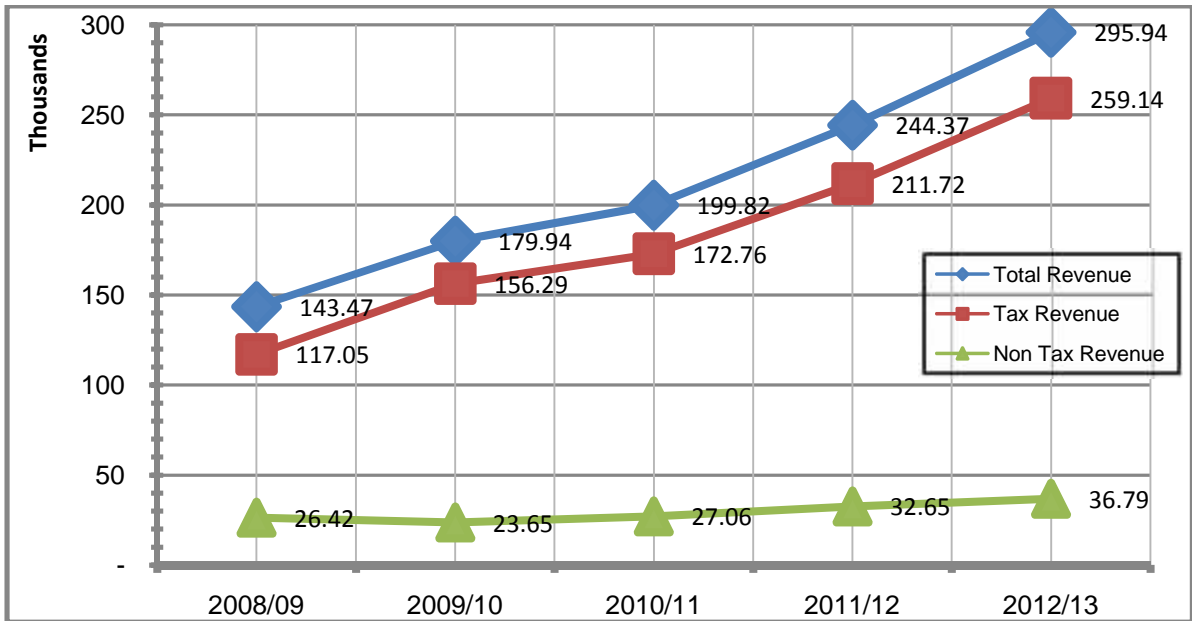


Figure 4.1: Structure of Total Revenue

In the above line charts clearly shows the tax revenue line is very near with total revenue rather than non-tax revenue line is very far from total revenue that's clear shows the tax revenue is the most significant part of total revenue.

4.1.2 Structure of Tax Revenue

Tax revenue is composed of direct and indirect tax. There has been simultaneous increase in direct tax, indirect tax and the total tax revenue in absolute term. In F.Y. 2008/09, the amount was Rs. 34,552.6 million, Rs. 82,499.2 million and Rs. 117,051.8 million respectively and during the period of 5 years; in F.Y. 2012/13 this amount became Rs. 81,937.5 million, Rs. 177,206.1 and Rs. 259,143.6 million respectively. The basic reason for increment was due to the expansion of tax area, system, base and rates e.t.c. Despite the absolute increment of direct tax during the study period, its share in total tax revenue is in fluctuation trend. In 2008/09, its share was 29.52% amounting of Rs. 34,552.6 million, after that it has increased and reached to 31.62% amounting of Rs. 81,937.5 million in F.Y. 2012/13 which is the highest share during the study period. In 2009/10, it was decreased and reached to 26.72% amount Rs. 41,760.5 million and again in 2010/11 it started to increase and reach 28.16%, amounting of Rs. 172,755.3.

Hence, the share of direct tax to total tax revenue is in between 29.52% to 31.62% during the study period. The contribution of indirect tax in 2008/09 was 70.48% amounting of Rs. 82,499.20 and after that it has increased to 73.28% amounting of Rs. 114,530.20 million in the period 2009/10 and then it was continuously decreased and reached to 68.38% amounting of Rs. 177,206.10 million in 2012/13. This implies the significant role in tax revenue. From the following table, we can see that there is the greatest reliance on indirect tax and it needs to shift towards the direct tax. The structure of total tax revenue has shown in the following table no.: 2.

4.1.3 Contribution of Direct and Indirect Tax on Total Tax Revenue:

Direct and Indirect tax is directly affected to the total revenue of the country. The contribution of indirect tax is greater than direct tax that is shown in the table below:

Table No. 4.2: Contribution of Direct and Indirect tax to Total Tax Revenue

NRs. In millions

Fiscal Year	Total GDP	Total Tax Revenue	Total Direct Tax Revenue	Total Indirect Tax Revenue	% of Direct Tax Revenue to Total Tax Revenue	% of Indirect Tax Revenue to Total Tax Revenue
2008/09	988,272.00	117,051.80	34,552.60	82,499.20	29.52%	70.48%
2009/10	1,192,774.00	156,290.70	41,760.50	114,530.20	26.72%	73.28%
2010/11	1,374,953.00	172,755.30	48,641.00	124,114.30	28.16%	71.84%
2011/12	1,536,000.00	211,718.30	66,906.70	144,811.60	31.60%	68.40%
2012/13	1,701,194.00	259,143.60	81,937.50	177,206.10	31.62%	68.38%

Source: NRB Quarterly Economic Bulletin 2013 Mid-Oct / MOF Economic Survey 2012/13.

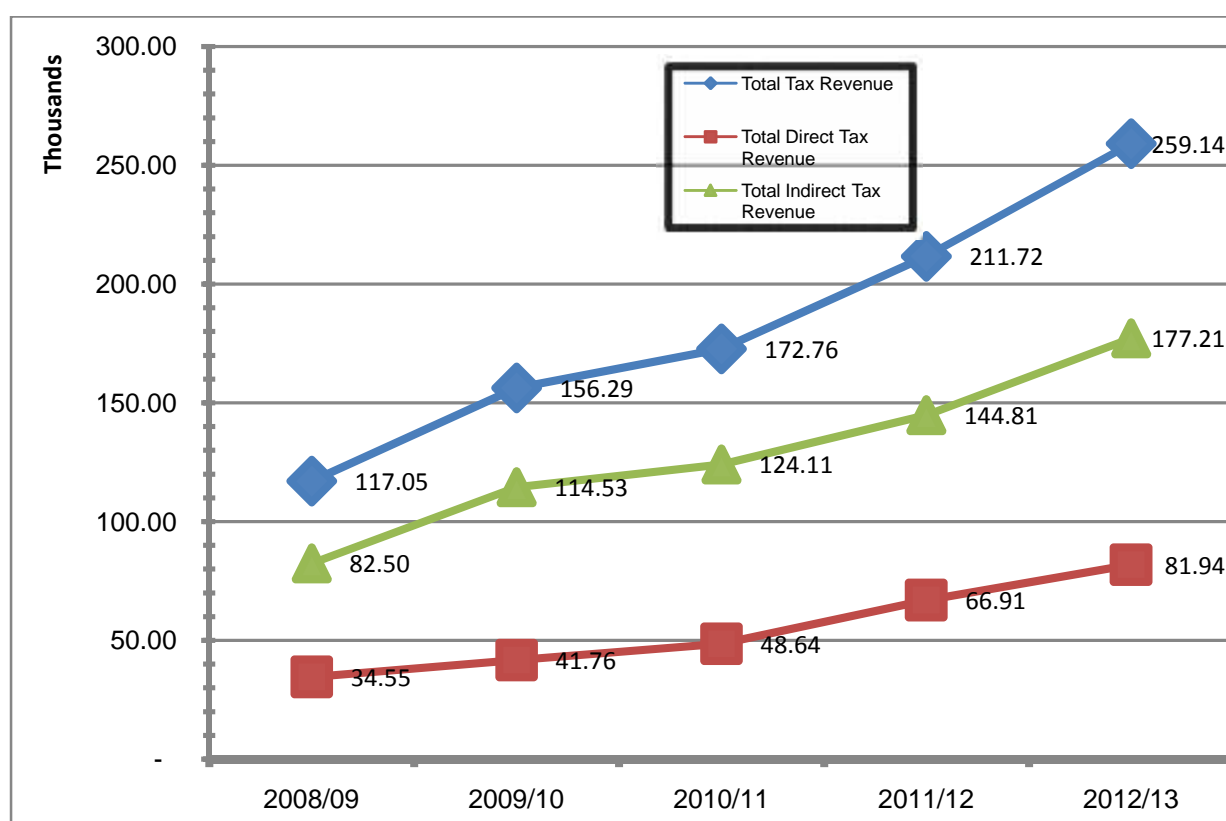


Figure 4.2: Contribution of Direct & Indirect Tax to Total Tax Revenue.

From the above table & graph, we find that there has been simultaneous increase in direct tax, indirect tax and total tax revenue in absolute terms. In 2008\09, these amounts were Rs. 34,552.60 million, Rs. 82,499.20 million and Rs. 117,051.80 million respectively and during the period of five years, In

2012/13 these amounts became Rs. 81,937.50 million, Rs. 177,206.10 million and Rs. 259,143.60 million respectively.

Despite of absolute increment of direct tax, its contribution to total tax revenue in F.Y. 2008/09 was 29.52% amounting of Rs. 34,552.60 million, which was decreased up to 26.72% amounting of Rs. 41,760.50 million in the F.Y. 2009/10. But the direct tax contribution percentage to total tax revenue was increased up to 28.16% amounting of Rs. 48,641 million in F.Y. 2010/11 and it was increased up to 31.60% & slightly increased up to 31.62% amounting of Rs. 66,906.70 million & Rs. 81,937.50 in the F.Y. 2011/12 & 2012/13 respectively.

The contribution of indirect tax in FY 2008/09 was 70.48% amounting of Rs. 82,499.2 million. After then it was increased to 73.28% amounting of Rs. 114,530.20 million in F.Y. 2009/10 and it was decreasing continuously up to 68.38% amounting of Rs. 177,206.10 million in F.Y. 2012/13.

Comparing direct and indirect tax, it reveals that the heavy reliance of economy is on indirect taxation. An indirect tax is considered regressive in nature; the tax structure of Nepal is not justifiable in equity ground and progressiveness. So, to direct the economy in the channel of development, it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax. Therefore the attention should be paid on the sufficient resource mobilization through internal sources.

4.1.4 Composition of Indirect Tax

Many economists believe that indirect tax has an adverse affects on savings, investment, consumption, production and distribution of wealth. However, the fact is that in LDCs like Nepal, indirect taxes are the major sources of tax revenue. That's why indirect tax can be easily collected through the producers and sellers. It is also used in LDCs for curtailing luxury consumption (which are usually in imported) and encouraging savings and capital investment. In the context of Nepal, the government generates indirect tax from custom duties and tax on consumption, production as indirect tax. Composition of indirect tax from FY 2008/09 to 2012/13 has been shown in the below table no. 3:

Table No. 4.3: Composition of Indirect Tax

NRs. In millions

Fiscal Year	Indirect Tax	Customs Duties		Value Added Tax (Tax on Consumption)		Excise Duties (Tax on Production)		Tax on Specific Services	
		Rs.	% on IT	Rs.	% on IT	Rs.	% on IT	Rs.	% on IT
2008/09	82,499.20	26,622.50	32.27	39,604.20	48.01	16,272.50	19.72	-	-
2009/10	114,530.20	35,151.60	30.69	54,896.50	47.93	24,315.10	21.23	167.00	0.15
2010/11	124,114.30	35,708.60	28.77	61,659.10	49.68	26,542.20	21.39	204.40	0.16
2011/12	144,811.60	43,395.40	29.97	70,669.30	48.80	30,256.20	20.89	490.70	0.34
2012/13	177,206.10	56,914.90	32.12	83,391.10	47.06	36,244.00	20.45	656.10	0.37

Source: NRB Quarterly Economic Bulletin 2013 Mid-Oct .

Indirect tax is composed of two major tax headings in Nepal: Customs Duty, Tax on Consumption, Production & Services. Clearly above table shows that the custom takes very important place in the composition of indirect tax, although it is continuously decreasing due to trade liberalization policy in the world. The percentage share of tax on consumption (VAT) is higher than remain all indirect tax and tax on production (Excise Duty) is little lower than custom duty in indirect tax composition, similarly share of tax on services was little bit contribution in total indirect tax structure . The custom duty was 32.27% amount of Rs. 26,622.50 million in F.Y. 2008/09 and up & down fluctuating during studying five year and reached to 32.12% amount of Rs. 56,914.90 million in F.Y. 2012/13.

According to the table in F.Y. 2008/09, total indirect tax revenue was Rs. 82,499.20 million which continuously increased and reached at Rs. 177,206.10 in F.Y. 2012/13 because the number of firms under VAT registration has been increased. Value Added Tax fluctuating during study period from 48.01% to 47.06% which was major part of indirect tax however custom duty decreased at 32.12% during the study period. However, the share of excise duties to total indirect tax has increased from 19.72% to 20.45% during the study period; it shows that the nation's GDP has increased. The major causes in increase in the share of tax on consumption and production is implementation of VAT, trade liberalization and implementation of SAPTA and SAFTA. To increase the share of tax on consumption and production the government has to impose tax at high rate on the consumption & production of the goods which are harmful to society. Continuous reduction in custom duty may harm the infant industries in Nepal. As Nepal has become member of WTO it has to follow its principle which may

destroy native industries. Nepal may become the market of industrialist countries in future. In this situation Nepal should be conscious about the matter.

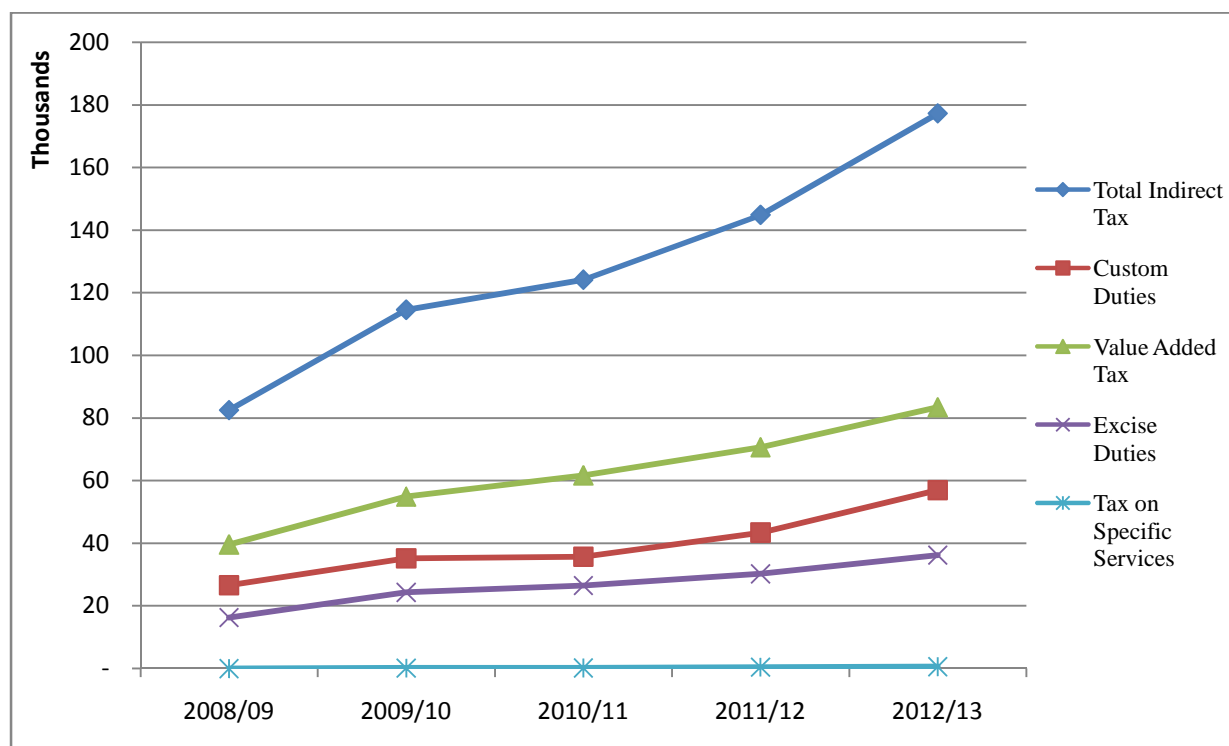


Figure 4.3: Structure of Indirect Tax

In the above line charts clearly shows the VAT line is at approx middle of chart & continuously increasing trend as per total indirect tax revenue rather than others indirect tax revenue lines that's clear shows the value added tax is the most significant part of total indirect tax revenue that fully contributed by end consumers.

4.1.5 Composition of Direct Tax

The components of direct tax: income, profit & capital gain tax, property tax, and vehicle tax are major share of direct tax is given in the following table.

Table No. 4.4:- Composition of Direct Tax

NRs. In millions

Fiscal Year	Total Direct Tax Revenue	Income, Profits & Capital Gain Tax		Payroll & Workforce Tax		Property Tax		Vehicle Tax		Other Tax	
		Rs.	% on DT	Rs.	% on DT	Rs.	% on DT	Rs.	% on DT	Rs.	% on DT
2008/09	34,552.60	27,479.70	79.53	-	-	5,248.40	15.19	1,824.50	5.28	-	-
2009/10	41,760.50	33,832.10	81.01	-	-	5,510.80	13.20	2,417.60	5.79	-	-
2010/11	48,641.00	42,066.40	86.48	-	-	3,552.00	7.30	3,022.60	6.21	-	-
2011/12	66,906.70	51,313.70	76.69	1,566.20	2.34	3,587.50	5.36	9,116.20	13.63	1,323.10	1.98
2012/13	81,937.50	64,178.30	78.33	1,880.90	2.30	5,312.80	6.48	8,959.60	10.93	1,605.90	1.96

Source: NRB Quarterly Economic Bulletin 2013 Mid Oct

The above table shows that the contribution of income tax was higher than other taxes and it occupied the largest share in the direct tax. The percent share of income tax to direct tax in F.Y. 2008/09 was 79.53% amounting of Rs. 27,479.70 million, which gradually increased unto 86.48% amounting of Rs. 42,066.40 million in F.Y. 2010/11. After that in F.Y. 2011/12 which was decreased and its contribution on direct tax was 76.69% amounting of Rs. 66,906.70 million & again increased in F.Y. 2012/13 up to 78.33% amounting of Rs. 64,178.30 million. Property tax has contributed 15.19% amounting of Rs. 5,248.40 million in the F.Y. 2008/09, which was gradually decreased to 5.36 % in F.Y. 2011/12 and again increased up to 6.48% in F.Y. 2012/13. Vehicle Tax share in direct tax revenue was in increasing trend. In 2008/09, its share was 5.28% amounting of Rs. 1,824.50 million, after that continuously increased and reached up to 13.63% amounting of Rs. 9,116.20 million in 2011/12 and in F.Y. 2012/13 vehicle tax was slightly decreased to 10.93% amounting of Rs. 8,959.60 million. The table shows that payroll & workforce Tax and other tax has little bit contribution to total direct tax in only last two F.Y. 2011/12 & 2012/13. Its more cleared by given chart below:

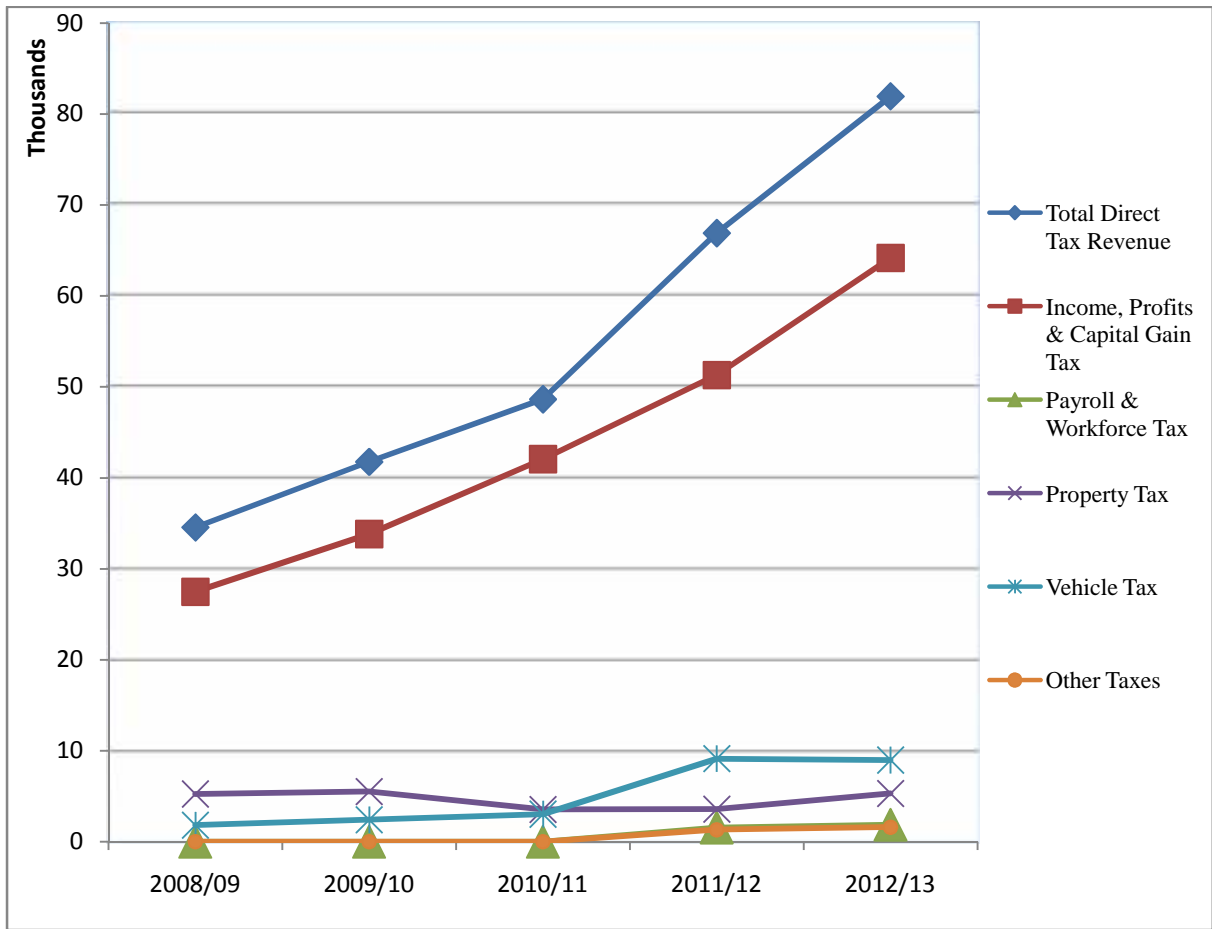


Figure 4.4: Structure of Direct Taxes

In the above lines chart clearly shows the income & profit tax line is very near about of total direct tax line, it's defined that the major part of total direct

tax is income tax where as vehicle tax second contribution of direct tax. It is continuously increasing trend that's defined the vehicles have been using in highly growing trend that increased our various taxes like custom, vat, excise, vehicle but other side our country's balance of payment made deficit due to we have depend upon foreign vehicles manufacturers and its needful consumption petroleum oils also making loss though Nepal Oil Corporation so I reached on conclusion that vehicle using & its tax is growing not favourable for our country.

4.1.6 Contribution of Total Revenue, Tax Revenue, Direct Tax and Indirect Tax as Percent of GDP

The contribution of total revenue on GDP has increased from 14.52% to 17.40% as compared with F.Y. 2008/09 to 2012/13. Thus, the contribution of total revenue on GDP is increasing in slower pace.

The contribution of tax revenue on GDP is also increasing trend. In F.Y. 2008/09, the share of tax revenue was 11.84%, which was increased up to 15.23% in F.Y. 2012/13. In F.Y. 2008/09, the contribution of direct tax and indirect tax was 3.50% and 8.35% respectively which have increased up to 4.82% and 10.42% in F.Y. 2012/13.

Table No. 4.5: Contribution Total Revenue, Tax Revenue, Direct Tax and Indirect Tax as Percent of GDP:

NRs. In millions

Fiscal Year	Total GDP	Total Revenue		Tax Revenue		Direct Tax		Indirect Tax	
		Rs.	% on GDP	Rs.	% on GDP	Rs.	% on GDP	Rs.	% on GDP
2008/09	988,272.00	143,474.40	14.52	117,051.80	11.84	34,552.60	3.50	82,499.20	8.35
2009/10	1,192,774.00	179,940.40	15.09	156,290.70	13.10	41,760.50	3.50	114,530.20	9.60
2010/11	1,374,953.00	199,819.60	14.53	172,755.30	12.56	48,641.00	3.54	124,114.30	9.03
2011/12	1,536,000.00	244,369.70	15.91	211,718.30	13.78	66,906.70	4.36	144,811.60	9.43
2012/13	1,701,194.00	295,936.50	17.40	259,143.60	15.23	81,937.50	4.82	177,206.10	10.42

Source: NRB Quarterly Economic Bulletin 2013 Mid-Oct / MOF Economic Survey 2012/13.

4.1.7 Structure of income tax

Until 1993/94, income tax revenue was divided into corporate income tax, individual income tax, and remuneration. After 1993/94, the income tax revenue was divided into four groups i.e. corporate income tax, individual income tax,

house and land rent tax and interest tax. Corporate tax is collected from government corporations, public and limited companies, partnership firms. Individual tax is collected from remuneration, industry and profession or vocation. Interest tax is collected from banks or finance companies that pay interest on all type of deposits and the house rent tax is levied on income obtained on renting house and land in urban areas. Since 2002/03, interest tax and house and land tax are included in investment income tax. And since 2011/12, income, profits & capita gain tax has been classifying in to three groups i.e. individual & sole traders tax, enterprises & corporation tax and investment & other income tax. The structure and trend of income tax revenue is given in the table below:

Table No. 4.6:- Structure of Income Tax:

NRs. In millions

Fiscal Year	2008/09	2009/10	2010/11	2011/12	2012/13
Sources of Income Tax					
1) Corporate Income Tax	19,646.40	24,054.20	28,807.20	42,798.40	52,602.50
* Government Corporation	959.70	1,132.50	1,282.00		
* Public Ltd. Corporation	9,428.20	12,023.50	13,967.20	30,415.70	37,069.60
* Private Ltd. Corporation	4,200.50	6,268.80	7,232.90		
* Individual & Sole Trading Firm	4,481.60	3,842.30	4,895.70	12,382.70	15,532.90
* Income from Other Institutions	576.40	787.10	1,429.40		
2) Remuneration Income Tax	3,398.50	4,420.00	5,863.80		
3) Investment Income Tax	4,169.70	5,087.80	7,108.90	8,515.30	11,575.80
4) Other Income Tax	265.10	270.10	286.50		
Total (1+2+3+4)	27,479.70	33,832.10	42,066.40	51,313.70	64,178.30

Source: NRB Quarterly Economic Bulletin 2013 Mid Oct.

In the above table no. 6, we can see that the aggregate amount of corporate income tax gradually increased in F.Y. 2008/09 to 2012/13. Government Corporation had contributed about half percent up to 2000/01, but then after it had decreased. Now day Public limited company had contribution half percent to total corporate income tax. The corporate income tax plays the vital role in contributing to income tax.

The contribution of individual income tax to the total income tax is in increasing trend. Its share in 2008/09 was Rs. 4,481.60 million which increased up to Rs. 15,532.90 million in 2012/13. Within income tax, the contribution of remuneration income tax is continuously increasing up to the end of F.Y. 2010/11.

The contribution of investment income tax is also continuously increasing trend during study period.

Table No. 4.7:- Components of Income Tax and their Share

Rs. in million

Fiscal Year	Total Income Tax	Individual & Sole Traders Income Tax		Enterprises & Corporation Income Tax		Investment & Other Income Tax	
		Rs.	% on IT	Rs.	% on IT	Rs.	% on IT
2008/09	27,479.70	8,456.50	30.77	14,588.40	53.09	4,434.80	16.14
2009/10	33,832.10	9,049.40	26.75	19,424.80	57.42	5,357.90	15.84
2010/11	42,066.40	12,188.90	28.98	22,482.10	53.44	7,395.40	17.58
2011/12	51,313.70	12,382.70	24.13	30,415.70	59.27	8,515.30	16.59
2012/13	64,178.30	15,532.90	24.20	37,069.60	57.76	11,575.80	18.04

Source: NRB Quarterly Economic Bulletin 2013 Mid Oct.

The share of **Individual & Sole Traders** income tax was 30.77% on total income tax in F.Y. 2008/09 amounting of Rs. 8,456.50 million, which ratio was continuously decreasing where as volume of amount was continuously increasing of total income tax which was to 24.20% in F.Y. 2012/13 amounting of Rs. 15,532.90 million.

Similarly, the contribution of **Enterprises & Corporation** income tax was fluctuated. In F.Y. 2008/09, enterprises & corporation income tax was 53.09% on total income tax amount of Rs. 14,588.40 million, it started to increase and reached to 57.42% in F.Y. 2009/10 and it was decreased to 53.44% in F.Y. 2010/11 and it was again increased up to 59.27% in F.Y. 2011/12. The share of enterprises & corporation income tax on total income tax was 57.76% in F.Y. 2012/13 amount of Rs. 37,069.60 million, which was less than previous year. Hence, the share of enterprises & corporation income tax to total income tax was not consistent but it contributed about half & more of total income tax.

Similarly, the share of **Investment & Other** income tax to total income tax was also fluctuating year to year but its amount was continuously increasing. In F.Y. 2008/09, it had contributed 16.14% on total income tax, which was decreased to 15.84% in F.Y. 2009/10. It was increased and reached to 17.58% in F.Y. 2010/11. Its contribution amount was increasing continuously but share was not increase continuously. Its share in F.Y. 2011/12 was 16.59%, and which was again increased and the share of investment & other income tax on total income tax reached to 18.04% in F.Y. 2012/13. More detail can show by given below lines chart:

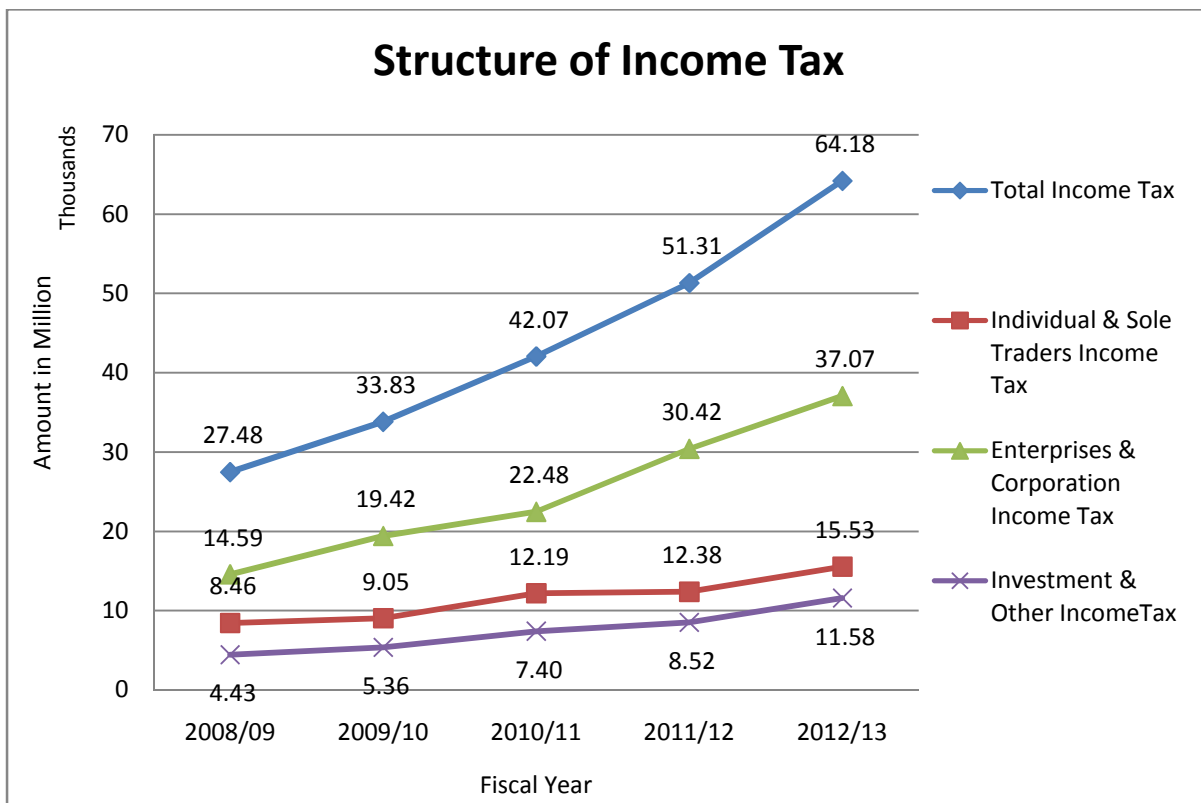


Figure 4.5: Structure of Income Tax

The above line charts shows, total income tax structure. The individual & sole traders income tax and investment & other income tax line's slope are up high going with very lower slope trend line, it means both taxes was increasing but slow tendency where as the total income tax and enterprises & corporation income tax line's slope are up high going with very higher slope trend line which is defining that enterprises & corporation income tax was major contributed more than half of total growing income tax. It also shows that the nation's business & corporation are growing very much with systematic income tax net.

4.1.8 Contribution of Income Tax in Nepal

Nepal has late started in practicing of income tax. First of all, income tax was imposed in 1959/60 A.D. as business profit and remuneration tax. In 1962, the first Income Tax Act was enacted which replaced the business Profit and Remuneration Tax Act, 1959. After the introduction of new Act, the share of income tax is increasing continuously. The role of income tax is the economic development of Nepal will be very clear, if we review the magnitude and share of income tax on GDP, total revenue, total tax revenue, and direct tax revenue. The contribution of income tax on different revenue for the study period is given in the following table no. 9.

Table No. 4.8:- Contribution of Income Tax on Different Revenue Heads

Rs. in million

Fiscal Year	Total Income Tax	% of Income Tax on Total GDP	% of Income Tax on Total Revenue	% of Income Tax on Tax Revenue	% of Income Tax on Direct Tax
2008/09	27,479.70	2.78	19.15	23.48	79.53
2009/10	33,832.10	2.84	18.80	21.65	81.01
2010/11	42,066.40	3.06	21.05	24.35	86.48
2011/12	51,313.70	3.34	21.00	24.24	76.69
2012/13	64,178.30	3.77	21.69	24.77	78.33

Source: NRB Quarterly Economic Bulletin 2013 Mid-Oct.

Total income tax in F.Y. 2008/09 was Rs. 27,479.70 million and continuously increased up to Rs. 64,178.30 million in F.Y. 2012/13. In the study period, income tax was the third largest share of tax revenue in Nepal. The share of income tax to total direct tax was 79.53% in F.Y. 2008/09 which was continuously increased and reached at 86.48% in the period of F.Y. 2010/11 and then after it was decreased and reached at 76.69% in F.Y. 2011/12. After in F.Y. 2012/13, it again started to increase and reached at 78.33%. In overall, it is increasing continuously and it was main source of direct tax.

The share of income tax to total tax revenue was 23.48% in F.Y. 2008/09 which decreased to 21.65% in F.Y. 2009/10. After then it has increased. Its contribution to the total tax revenue was 24.35% in F.Y. 2010/11. After in F.Y. 2011/12, it again slightly little bit decreased and reached to 24.24% and again increased up to 24.77% in F.Y. 2012/13. Its share in total tax revenue was also increasing. Similarly, its share on total revenue was 19.15% in F.Y. 2008/09 which was decreased to 18.80% in F.Y. 2009/10. After then it has increased and reached to the total revenue was 21.05% in F.Y. 2010/11. In next F.Y. 2011/12, it again slightly little bit decreased and reached to 21.00% and again increased up to 21.69% in F.Y. 2012/13. Its share in total revenue was also increasing.

Total income tax was contributing to total GDP was 2.78% and it was continuously increasing up to 3.77% during in the period of F.Y. 2008/09 to 2012/13. In F.Y. 2010/11, its share was 3.06% of total GDP.

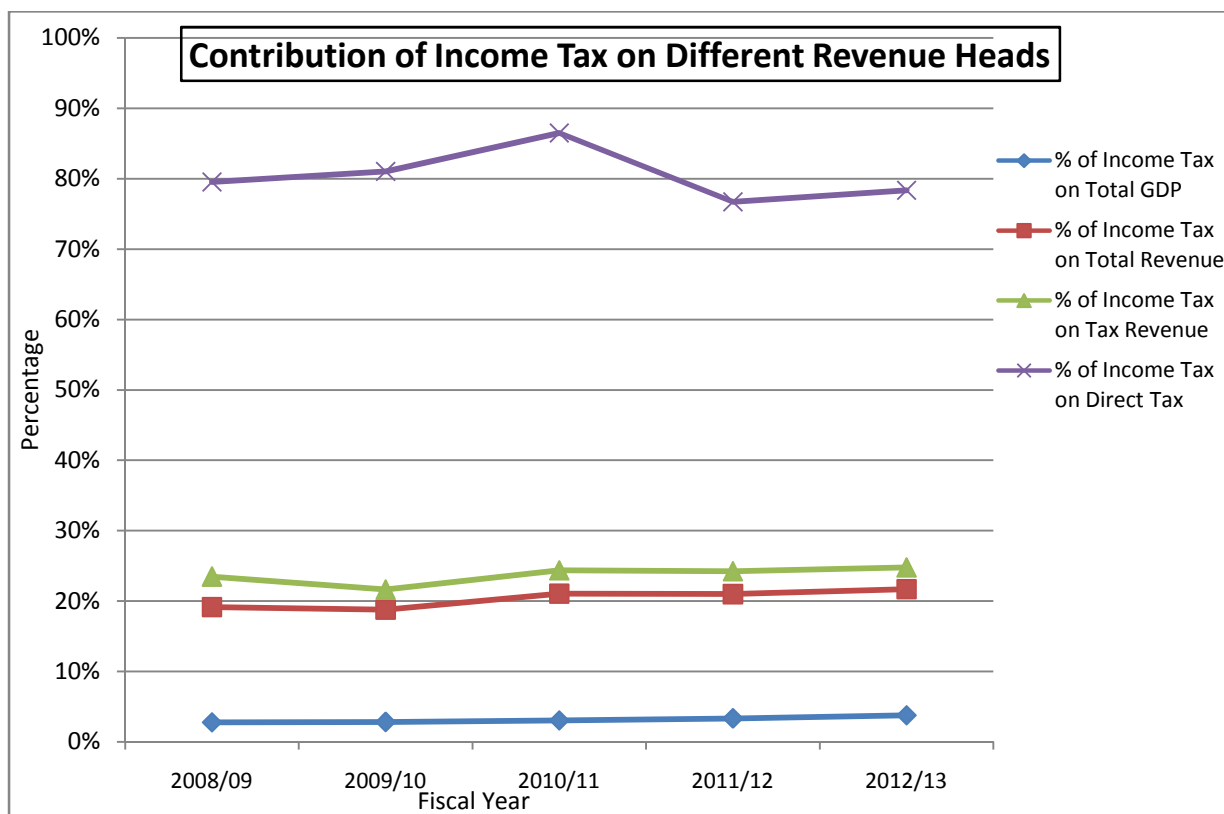


Figure 4.6: Contribution of Income Tax on Different Revenue Heads.

From the above table and lines chart graph we can conclude that the income tax is one of the main sources of direct tax in Nepal where as reference to the total GDP, income tax is very poor contributing on GDP. Its represented that income tax was evasion as per total GDP. But the contribution of income tax to the total tax revenue is still lower than the developed countries. Nevertheless, income tax is most likely to surpass the custom duties in future and will be the second largest source of tax revenue and the first largest source will be VAT.

4.2 Resources mobilization and problems of resources gap

The resource mobilization is the main challenge in the economic development of the country. The internal resource plays vital role in economic development of the country. Government collects the resources from different ways. The tax structure is major source of revenue for the government. Government has imposed two types of tax like direct and indirect tax. In the present tax structure, the government revenue comes more from indirect taxes rather than direct taxes. Tax policy has to be made a part of the instrument of the development goals.

The need of mobilization of financial resources has been seen growing rapidly since planned development efforts began in Nepal. This need has been specially pronounced the urgency for domestic resources mobilization. If we see

the details of financial outlay in various development plans the resources need has increase. Times being the 12 plans outlay of million in comparison to the first plan outlay of 3.30 million. This has indicated a rapidly increasing trend in financial outlays for development.

In developing countries use of foreign aids and loans has produced bitters experiences as well as mixed consequences. The repayments of principles and interest in providing to be a net burden for many of them. It can at most occupy only a marginal and development activities. Mobilization of resources from domestic sources in the only viable stress needs to be placed on financing of development efforts in foreign aid should be taken as complement to domestic efforts not substitute for domestic sources of government financing.

The success of development efforts of any country depends on its ability to mobilize additional internal resources to finances regular and development expenditure. Taxes considered safer and better means for the mobilization of additional financial resources as compared to other internal and foreign resources as compared to other foreign sources of deficit financing. Income tax is one of the major components in total tax revenue. The rate of total tax and income tax for additional financial resources is analyzed on the basis of their relative contribution to the GDP.

Developing countries have been experiencing a serious and growing resource gap problem in development finance because of the growth of government expenditure vis-à-vis revenue from internal sources. Considering the present world economy situation with world wise depression and inflation too much dependency on foreign grant might lead to disastrous economic situation at home due to unreliable source of financing. It is very difficult to state anything about the trend of foreign grant. One can fairly guess that the bilateral grants likely to remain static or even may decline in the years to come.

Earlier the public finance was solely treated from the public revenue point of view. So, taxation received more importance than the public expenditure. However in modern times this approach has been symmetrical in nature with equal emphasis on public revenue and public expenditure. The importance of public revenue, not only in deciding the magnitude of the public sector but also to its overall performance cannot exaggerate in any developing country. Many fiscal economists have examined this problem and have come out with the conclusion

that government should raise at least 20% of GDP as its revenue in order to meet the development needs and also to produce desirable effect in the economy.

In Nepal, the major portion of the development expenditure would govern by foreign aid and foreign loans. To look at the magnitude of the resource gap one has to examine the trends of the public expenditure and the public revenue in Nepal.

Nepal has been experiencing a serious and growing resource gap in development finance because of the growth of government expenditure vis-à-vis revenue from internal sources. The 'Resource Gap A' shows the actual condition of economy without dependency of external sources while 'Resource Gap B' shows that economy which is dependent on public revenue and foreign aid (grants) not on loans (internal and well as external) components. The table 10 shows the trend of resource gap including and without including foreign aid.

Table No. 4.9: Trend of Resource Gap in Nepal

Rs. In Million

Fiscal Year	Total Expenditure	Total Revenue	Resources Gap A	Foreign Aid (Grants)	Resources Gap B	Foreign Aid (Loans)	Resources Gap C
2008/09	206,692.40	143,474.40	63,218.00	24,400.50	38,817.50	3,726.40	35,091.10
2009/10	250,816.70	179,940.40	70,876.30	25,225.90	45,650.40	4,204.00	41,446.40
2010/11	277,615.00	199,819.60	77,795.40	26,207.60	51,587.80	4,934.20	46,653.60
2011/12	319,850.10	244,369.70	75,480.40	46,573.50	28,906.90	5,749.20	23,157.70
2012/13	358,651.60	295,936.50	62,715.10	24,428.50	38,286.60	9,541.80	28,744.80

Source: NRB Quarterly Economic Bulletin 2013 Mid-Oct.

Table 9 reveals if resource gap is considered the difference between total expenditure and total revenue of the country, it is Rs. 63,218.00 and 70,876.30 million in F.Y. 2008/09 and F.Y. 2009/10 respectively, is shown by 'Resource Gap A' in the above table. Resource Gap A is continuously increasing from F.Y. 2008/09 to F.Y. 2010/11. The 'Resource Gap A' shows the actual conditions of domestic economy and it is totally deficit for the nation's economy to meet the financial requirements for the government expenditure on regular as well as development sectors. The 'Resource Gap A' is a clear indication of the poor performance of resource mobilization at the domestic sector on the one hand and a higher growth of the public expenditure on the other. The 'Resource Gap A' is known as fiscal deficit in public economy.

If resource gap is considered the difference between total expenditure and total revenue plus foreign aid (grants), it is Rs. 38,817.50, 45,650.40, 51,587.80, 28,906.90 and 38,286.60 million is shown the 'Resource Gap B' in F.Y. 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. It is smaller than the total revenue. The foreign aid is collected through bilateral and multilateral sector. The 'Resource Gap B' is known as budget deficit in public economy.

Considering the present world economic situation with worldwide recession and inflation too much dependency on foreign grant might lead to disastrous economic situation at home due to unreliable source of foreign grant, one can fairly guess that the bilateral grant is likely to remain static or even may decline in the years to come.

If resource gap is considered the total expenditure minus total revenue minus foreign aid (grants & loans), it is Rs. 35,091.10, 41,446.40, 46,653.60, 23,157.70 and 28,744.80 million in F.Y. 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively is shown by 'Resource Gap C' in the table 9. The foreign aid (loans and grants) is collected through bilateral and multilateral sectors. The 'Resource Gap C' is only cover through internal loan from banking and nonbanking sectors, change in cash balance and so on.

In such situation the government should rely less on foreign aid in the years to come. Therefore, the government of Nepal has no option but to rely mostly on the domestic sources for meeting the increasing public expenditure because of other two options are neither feasible nor desirable politically and economically. Therefore, the only option left the government is to strengthen the efforts of domestic resource mobilization that will avoid the inflationary consequences of deficit financing and would not require the curtailment of public expenditures.

4.3 Corporate Income Tax on Government Revenue

4.3.1 Corporate Tax Rate Structure in Nepal

Tax rate is the base of measurement of tax liability. Tax should not be so high only for minimum revenue realization but should be activator for the private investment. Developing countries like Nepal needs to boost up their economic conditions by developing industries and trade within the country. For this, corporate tax rate also plays a vital role. Imposition of tax on corporate profit was

started with the enactment of Business Profit and Remuneration Tax Act, 1960. The starting corporate tax rate was 25% and it was levied on progressive way. The tax amount was calculated on different slabs before F.Y. 1985/86. The corporate tax rate structure was combined with individual tax rate structure. The reason was the number of companies was limited and family generally managed private companies. In the year 1985/86 the progressive tax rate structure was abolished in case of government enterprises used to split into different units to take advantages of lower rates. The progressive rate of taxing to private companies was abolished in the fiscal year 1995/96. Thus, flat rate system has been continued for all corporate bodies since the F.Y. 1995/96.

The corporate tax rate structure was increased up to 60% the maximum rate in the F.Y. 1995/96 from 25%. During 1960/61 to 1975/76, increment of rates was made three times. After F.Y. 1975/76, the tax rate again decreased up to 51% and 50%. This rate was again increased to 55% and remains continued from F.Y. 1982/83 to till 1987/88. In the year, F.Y. 1987/88, the listed public limited companies were levied 10% less than others. This concession was given to such companies by only 5% in the year 1985/86. After the F.Y. 1987/88, the tax rate was continuously decreasing. Now, it is 20% to industry (except cigarette and alcohol) 25% to general companies and 30% to banks and finance companies. Special fee 3% of taxable incomes was levied to all corporate bodies. The corporate tax rate structure of different years is presented as below:

Table No. 4.10:- Corporate Tax Rate Structure in Nepal

Fiscal Year	Maximum marginal tax rate		Nature of tax rate
	Private Co.	Public Co.	Progressive
1960/61-1962/63	25%	25%	”
1963/64-1964/65	30%	30%	”
1965/66-1966/67	40%	40%	”
1967/68	55%	55%	”
1968/69-1974/75	55%	55%	”
1975/76	60%	60%	”
1976/77-1978/79	51%	51%	”

1979/80	50%	50%	”
1980/81-1981/82	50%	50%	”
1982/83	55%	55%	”
1983/84-1984/85	55%	55%	”
1985/86	55% - P	55% - F	Progressive & Flat
1986/87-1987/88	55% - p	50% - F	”
1988/89-1989/90	50% - P	50% - F	”
1990/91-1991/92	40% - P	40% - F	”
1992/93-1994/95	35% - P	35% - F	”
1995/96	33%	33%	Flat
1996/97	30%	33%	”
1997/98-2000/01	20%,25%&30%	20%,25%&30%	”
2001/02-2012/13	20%,25%&30%	20%,25%&30%	Flat & additional 1.5% for all companies

Source;

1. Kandel, P.R., Corporate Tax System & Investment Behaviour in Nepal
2. Budget Speech for the fiscal years: 2003/04, 2004/05, 2005/06, 2006/07, 2007/2008, 2008/09, 2009/10, 2010/11, 2011/12 & 2012/13.
3. Finance Acts.
4. Various years' economic survey published by ministry of finance

Note: 20% tax rate for special industries,
25% tax rate for general industries &
30% tax rate for non-industries for banking and general insurance
companies, tobaccos and liquor industries & petroleum business

4.3.2 Corporate Tax Base in Nepal

Under the Income Tax Act, 2058 of Nepal corporate tax is levied on the total taxable income of the previous year. It has assumed the global or total as well as scheduler income tax. This act has divided the source of income into three major heads they are: income from business, income from investment and income from employment. The third amendment of Income Tax Act 2058 has further clarified about calculating the adjusted taxable income and net taxable income from business, investment and employment. All the taxable income are added as per law and deduction allowable expenses such as general deduction, cost of trading stock, interest expenses, repair and maintenance expenses, depreciation. Reserve and risk bearing fund and expenses, related with business and investment were deducted as per the law, which occurs adjusted taxable income. Then, in case of business income, pollution control and R&D expenses should be deducted taking the adjusted taxable income as base, after that we get assessable income from business before loss adjustment. Then, loss from business in current year and previous year are deducted to get the net assessable income from business. Likewise, loss in business and investment of current year and business loss of previous year are deducted to get the net assessable income from investment.

Total assessable income is calculated by adding the net income from business and investment from where common expenses and donation expenses can be deducted as per the law to get total taxable income. No exemption limit is provided to the companies. Special additional fee of 15% of taxable income is charged to the second slab where 25% tax rate is charged.

In Nepal, taxable income of a company and person is computed in the following manner.

Specimen format for computation of **Business Income** for computation of taxable income (Anusuchi-5) of for the assessment F.Y. 20..../20..... (**Table No. 4.11**):

IN		
1	Services Fees सेवा शुल्क दफा (७.२.क)	XX
2	Amounts derived from the Disposal of Trading Stock व्यापारिक मौज्जातको निसर्गबाट प्राप्त रकम (दफा ७.२.ख)	XX
3	Net Gains from the Disposal of the Person's Business Assets or Liabilities व्यावसायिक सम्पत्ति वा व्यावसायिक दायित्वको निसर्गबाट प्राप्त खूद लाभ (दफा ७.२.ग)	XX

4	Amounts treated as derived from the depreciable Assets हासयोग्य सम्पत्तिको निसर्गबाट प्राप्त गरेको मानिने रकम (दफा ७.२.घ)	XX
5	Gifts received by the Person in Respect to the Business व्यवसायका सम्बन्धमा कुनै व्यक्तिबाट प्राप्त गरेको उपहार (दफा ७.२.ङ)	XX
6	Amounts derived as Consideration for accepting a Restriction on the capacity to conduct the Business व्यवसायको सम्बन्धमा कुनै प्रतिबन्ध स्वीकार गरे बापत प्राप्त गरेको रकम (दफा ७.२.च)	XX
7	Amounts derived from Investments that are effectively connected with the Business व्यवसायसँग प्रत्यक्षरूपमा सम्बन्धित लगानीबाट प्राप्त गरेको रकम (दफा ७.२.छ)	XX
8	Amounts to be included by Reason of Change in the Accounting System लेखांकनको तरिकामा परिवर्तन गदा आय गणनामा समावेश गर्नु पर्ने रकम (दफा २२.६)	XX
9	Amounts to be included by Reason of Timing लेखाको तरिका अनुसार आयमा समावेश गर्नु पर्ने रकम (दफा २४.३)	XX
10	Excess Amount received by Reason of Exchange Rate मुद्राको मूल्यांकनको फरकको कारणले गदा समेत वढा भुक्तानी पाएको रकम दफा (दफा २४.४)	XX
11	Recovered Amount of bad Debts deducted earlier डुबेको ऋण लगायतका रकमहरू मिनाहा भएको मध्ये असुल उपर भएको रकम (दफा २५.१)	XX
12	Amounts to be included as per Contract of Completion Basis in the Case of a long term Contract दीर्घकालीन करारको हकमा सम्पन्न प्रतिशत अनुसार समावेश हुने रकम (दफा २२.१)	XX
13	Difference of actual Interest and Interest as per Market Rate in the Case of a long term Contract प्रचलित व्याज दरभन्दा कम दरमा व्याज तिरेको भए कम भएजति रकम (२७.१)	XX
14	Amounts paid to third Person Instead of actual Payee भुक्तानी पाउनु पर्ने रकम अन्य व्यक्तिले भुक्तानी पाएको भए सो रकम (दफा २९)	XX
15	Amounts derived as Compensation क्षतिपूर्ति बापत प्राप्त गरेको रकम (दफा ३१)	XX
16	Other Amounts to be included in Profit and Gains आयमा समावेश गर्नु पर्ने अन्य रकमहरू विवरण संलग्न गन	XX
17	Total : (1 to 16)	XXX
DE		
18	Interest दफा १४ बमोजिम कटौती हुने व्याज खर्च	XX
19	Cost of Trading Stock दफा १५ बमोजिम कटौती हुने व्यापार मौज्जातको लागतको खर्च	XX
20	Repairs and Improvements दफा १६ बमोजिम कटौती हुने मर्मत तथा सुधार खर्च	XX
21	Pollution Control दफा १७ बमोजिम कटौती हुने प्रदूषण नियन्त्रण खर्च	XX
22	Research and Development दफा १८ बमोजिम कटौती हुने अनुसन्धान र विकास खर्च	XX
23	Depreciation दफा १९ बमोजिम कटौती हुने हास खर्च	XX
24	Deductible Reserve दफा ५९(१) बमोजिम कटौती हुने जगेडा रकम	XX
25	Others than mentioned उपरोक्त वाहेक आयकर ऐन २०५८ बमोजिम कटौती हुने अन्य खर्चहरू विवरण संलग्न गन	XX
26	Foreign Tax Expenses (Section 71.4)	XX

	वदेशमा तरेको कर (दफा ७१.४)	
27	Total : (18 to 26)	XXX
DL		
28	Losses transferred from other Business in this Year यस आ.ब.को अन्य व्यवसायको नोक्सानी (दफा २०.१)	XX
29	Carried forward of unrelieved Losses from previous Years गत आ.ब.वाट जिम्मेवार सरेको व्यवसायको नोक्सानी (दफा २०.१ ख)	XX
30	Total : (28 to 29)	XXX
31	Total Deduction (27+30)	XXX
32	Income Gain Loss (17-31)	XXX
MI		
33	LOSS TRANSFERRED TO OTHER BUSINESSES अन्य व्यवसायको आयमा कटौती गरेको नोक्सानी हरफ ३२ मा नोक्सानी भए मात्र	XX
34	Total :	XXX
Tax Discount		
35	Reason For Discount	XX
36	Assessment Income from Business After Concession	XXX

Source: www.ird.gov.np

Specimen format for computation of **Employment Income** for computation of taxable income (Anusuchi-6) of for the assessment F.Y. 20..../20.....(Table No. 4.12):

IN		
1	Salary and Wages ज्याला, तलव (दफा ड.४.)	XX
2	Leave Pay (. . .)	XX
3	Over Time Payment अतिरिक्त समय काम गरे वापतको (. . .)	XX
4	Fees (. . .)	XX
5	Prizes, Gifts / (. . .)	XX
6	Bonuses (. . .)	XX
7	Payment for other Facilitations (. . .)	XX
8	Commissions (. . .)	XX
9	Dearness Allowances (. . .)	XX
10	Cost of Living Allowances (. . .)	XX
11	Rent Allowances (. . .)	XX

12	Entertainment and Transportation Allowances न (. . .)	XX
13	Other personal Allowances न (. . .)	XX
14	Discharge or Reimbursements of personal Costs व्यक्तिगत खचको फर्षौट वा सोधभना (. . .)	XX
15	Payment to the Agreement to any Conditions of the Employment (Section 8.2.d) रोजगारका कुनै शर्तमा (. . .)	XX
16	Payment for Redundancy or Loss or Termination of the Employment (Section 8.2.e) रोजगारको अन्त्य, नोक्सानी वा अन्याय (. . .)	XX
17	Retirement Contributions and Retirement Payments (Section 8.2.f) अबकाश भुक्तानी र रोजगारदाताले अवकाश कोषमा जम्मा गरि (. . .)	XX
18	Other Payments made in Respect of the Employment (Section 8.2.g) रोजगारको सम्बन्धमा गरिएको अन्य भुक्तानी (. . .)	XX
19	Fringe Benefit for Vehicle Facility (Section 27.1.b.1) सवारी साधन सुविधा वापतको रकम (. . .)	XX
20	Fringe Benefit for House Facility (Section 27.1.b.2) (. . .)	XX
21	Fringe Benefit for Housekeeper, Chauffeur, Gardener, or other domestic Assistant (Section 27.1.c.1) (. . .)	XX
22	Fringe Benefit for any Meal, Refreshment, or Entertainment (Section 27.1.c.2) (. . .)	XX
23	Fringe Benefit for Drinking Water, Electricity, Telephone, and similar Utilities (Section 27.1.c.3) विजुली, टेलिफोन जस्ता सेवा वापत रोजगारदाताले तिरेको रकम (. . .)	XX
24	Difference of actual Interest and Interest as per Market Rate in Case of a Soft Loan (Section 25.1.d) प्रति ब्याज दर भन्दा कम दरमा ब्याज तिरेको भए सो कम भएजति रकम (. . .)	XX
25	Other Amounts to be included in remuneration (as per attached List) पाराम्पिकमा समावेश गर्नु पर्ने अन्य रकमहरू विवरण संलग्न गर्नु	XX
26	Assessment Income from Employment : (1 to 25)	XXX

Source: www.ird.gov.np

Specimen format for computation of **Investment Income** for computation of taxable income (Anusuchi-7) of for the assessment F.Y. 20..../20.....(Table No. 4.13):

IN		
1	Dividends (Section 9.2.a) (न (. . .))	XX
2	Gain from Investment Insurance other than final Withholding (Section 9.2.a) लगानी विमाबाट प्राप्त लाभ अन्तिम (. . .)	XX
3	Interests other than final Withholding (Section 9.2.a) व (अन्तिम रूपमा कर कटौत नभएको मात्र) ()	XX

4	Rent other than final Withholding (Section 9.2.a) (अन्तिम रूपमा कर कटौत नभएको मात्र) ()	XX
5	Payment for natural Resources other than final Withholding (Section 9.2.a) प्राकृतिक स्रोत बापतको भुक्तानी दफा ()	XX
6	Royalties (Section 9.2.a) हो ()	XX
7	Unapproved Retirement Fund other than Withholding (Section 9.2.a) स्वीकृत प्राप्त नगरेको अवकाश कोषको हितबाट प्राप्त लाभ नै र ()	XX
8	Disposal of depreciable Assets (Section 9.2.c) हासयोग्य संपत्तिको निसर्गबाट प्राप्त लाभ दफा ()	XX
9	Gifts received by the Person in Respect of Investment (Section 9.2.d) लगानीका सम्बन्धमा प्राप्त गरेको उपहार दफा ()	XX
10	Retirement Payment along with Payments Retirement Contributions made on behalf (Section 9.2.e) व्यक्तिको लागि अवकाश कोषमा जम्मा गरिएको रकम समेतको अवकाश ()	XX
11	Amounts derived as Consideration for accepting a Restriction of Investment (Section 9.2.f) प्रतिबन्ध स्वीकार गरे बापत प्राप्त गरेको रकम दफा ()	XX
12	Amounts to be included by Reason of Timing (Section 24.3) लेखांकनको तरिकामा परिवर्तन गदा आय गणनामा समावेश गर्नु पर्ने ()	XX
13	Excess Amount received by reason of Exchange Rate (Section 24.4) दरले ()	XX
14	Recovered Amount of bad Debts deducted earlier (Section 25.1) डुबेको ऋण लगायतका रकमहरू मिला भएको मध्ये असुल उपर भएको रकम दफा ()	XX
15	Difference of actual Interest and Interest as per Market Rate in Case of a Soft Loan (Section 25.1.d) प्रति दरमा व्याज तरेको भए कम भएजति रकम (. .)	XX
16	Amounts paid to third Person instead of actual Payee (Section 29) भुक्तानी पाउनु पर्ने रकम अर्को व्यक्तिले भुक्तानी पाएमा	XX
17	Amounts derived from joint Ownership Investment (Section 30) संयुक्त स्वामित्वमा रहेको लगानीबाट प्राप्त गरेको रकम दफा	XX
18	Amounts derived as Compensation (Section 31) क्षतिपूर्ति बापत प्राप्त गरेको रकम दफा	XX
19	Other Amounts to be included in Profit and Gains (details attached) गर्नु पर्ने अन्य रकमहरू	XX
20	DE : (1 to 19)	XXX
DE		
21	Interest (Section 14) दरले	XX
22	Repairs and Improvements (Section 16) बमोजिम कटौत हुने मर्मत तथा सुधार खर्च	XX
23	Depreciation (Section 19) दरले हुने हास खर्च	XX
24	Others than mentioned in Lines 18 to 20 बमोजिम कटौत हुने अन्य खर्चहरू विवरण संलग्न गर्न	XX
25	DL : (21 to 24)	XXX
DL		
26	Losses transferred from other Businesses and/or Investments in this Year को व्यवसाय वा अन्य लगानीको नोक्सानी	XX

27	Carried forward of unrelieved Business Losses from previous Years गत वर्षबाट जिम्मेवारी सरेको व्यवसायको नोक्सानी	XX
28	₹ : (26 to 27)	XXX
29	₹ ₹ (25+28)	XXX
30	₹ ₹ (20-29)	XXX
MI		
31	LOSS TRANSFERRED TO OTHER INVESTMENT INCOMES (only if row 30 is less than 0) अन्य लगानीको आयमा कटौती गरेको नोक्सानी हरफ घण्टा मा नोक्सानी भए मात्र	XX
32	₹ :	XXX

Source: www.ird.gov.np

Specimen format for computation of **Income from Non Business able Assets** for computation of taxable income (Anusuchi-8) of for the assessment F.Y. 20..../20.....(**Table No. 4.14**):

ISA		
1	Total Income from Disposed Shares and Securities of current fiscal year आर्थिक वर्षमा सेयर वा सुरक्षाको निसर्गवाट भएको ₹ ₹	XX
2	Total Purchased Amount of disposed securities निसर्ग भएको सेयर वा सुरक्षाको खरीद मुल्य	XX
3	₹ ₹	XXX
IBA		
4	Total Income from Disposal of Building or Land current fiscal year इ इ रजर्गको निसर्गवाट भएको जर्मा आमदानी	XX
5	Total Purchased Amount of disposed Building or Land निसर्ग भएको घरजर्गको खरीद मुल्य	XX
6	घरजर्गको निसर्गवाट भएको ₹ (-)	XXX
DL		
7	Losses transferred from other Businesses and/or Investments in this Year को अन्य व्यवसाय वा र र लगानीको ₹	XX
8	Carried forward of unrelieved Investments from previous Years गत वर्षबाट जिम्मेवारी सरेको नोक्सानी	XX
9	₹ : (7 8)	XXX
10	/(₹)	XXX

Source: www.ird.gov.np

Specimen format for computation of **Net Tax Liability** (Anusuchi-2) of for the assessment F.Y. 20..../20..... (Table No. 4.15):

आथिक बष : 2069.070		f f		A1-1-2		7000013138						
१	२	३	४	५	६	७	८	९	१०	११	१२	१३
0	Business	A2-1	np	250000.00	250000.00	250000.00	0	0.00	250000.00	25.00	0	25
1				250000.00	250000.00	250000.00	0	0	250000			

250000	
3. PENSION ALLOWANCE	0.00
4. LIFE INSURANCE PREMIUM	0.00
5. REMOTE ALLOWANCE	0.00
	250000.00

200000.00	0.00	0.00
50000.00	15.00	7500.00
250000.00		7500.00

गणनाको अन्तिम मिति	2070.07.01
	7500.00
दिलो बुझाए वापत लाग्ने रकम ()	0.00
रकम ()	0
रकम ()	0.00
रकम तनु पन :	7500.00

Submission Date is already passed due date Click Calculate button to calculate charge and interest

Specimen format for computation of **Total Taxable Income** of
 for the assessment F.Y. 20..../20.....(**Table No. 4.16**):

S.N.	Particulars	Amount (Rs.)	Amounts (Rs.)
1.	Net Assessment Income from Business (Anusuchi-5)	XXX	
2.	Net Assessment Income from Employment (Anusuchi-6)	XXX	
3.	Net Assessment Income from Investment (Anusuchi-7)	XXX	
4.	Net Assessment Income from Non Business able Assets (Anusuchi-8)	XXX	
A.	Total Net Assessment Income: (1to4)		XXXX
	Less: Allowable Reductions :		
1.	Donation (5% of net assessable income or, actual paid or, maximum limit Rs.100,000.00 whichever is less.)	XX	
2.	Contribution to approved retirement fund (1/3 of total assessable income or, actual or, maximum limit Rs.300,000.00 whichever is less.)	XX	
B.	Total Allowable Reduction: (1to2)		(XXX)
	Total Taxable Income: (A-B)		XXXX

Specimen format for computation of **Net Tax Liabilities** of
for the assessment F.Y. 20..../20..... (in case of entity) (**Table No. 4.17**):

Particulars	Rate (%)	Amounts (Rs.)
Total Taxable Income		XXXX
Total tax liabilities for special industries	20%	XX
Total tax liabilities for general industries, trading company	25%	XX
Total tax liabilities for banking & insurance companies, tobaccos & liquor industries and petroleum business	30%	XX
Less: Advance Income Tax	-	(XX)
Less: T.D.S.	-	(XX)
Net Tax Liability	-	XXX

4.3.3 Contribution of Corporate Income Tax on Total Revenue

Corporate income tax plays an important role in Nepalese government revenue. The following table has been drawn to show the contribution portion of CITR in different time periods in percentage and amounts also.

Table No. 4.18:- Contribution of CITR on Total Revenue

Fiscal Year	Total Revenue	Rs. in Million											
		Government Corporation		Public Ltd. Corporation		Private Ltd. Corporation		Individual & Sole Trading Firm		Income from Other Institutions		Total Corporate Tax	
		Rs.	% on TR	Rs.	% on TR	Rs.	% on TR	Rs.	% on TR	Rs.	% on TR	Rs.	% on TR
2008/09	143,474.40	959.70	0.67	9,428.20	6.57	4,200.50	2.93	4,481.60	3.12	576.40	0.40	19,646.40	13.69
2009/10	179,940.40	1,132.50	0.63	12,023.50	6.68	6,268.80	3.48	3,842.30	2.14	787.10	0.44	24,054.20	13.37
2010/11	199,819.60	1,282.00	0.64	13,967.20	6.99	7,232.90	3.62	4,895.70	2.45	1,429.40	0.72	28,807.20	14.42
2011/12	244,369.70		-	30,415.70	12.45		-	12,382.70	5.07		-	42,798.40	17.51
2012/13	295,936.50		-	37,069.60	12.53		-	15,532.90	5.25		-	52,602.50	17.77

Source: Economic Surveys of different years (MOF) Quarterly Economic bulletin of NRB

Above table reflects that the contribution of corporate income tax to total revenue during the study period was fluctuating from 13.69% to 17.77%. The share of corporate income tax revenue was 13.69% amounting Rs. 19,646.40 million in the F.Y. 2008/09 in which 0.67% of total revenue was covered only by government sector, the share of CITR to total revenue decreased up to 13.37% in the F.Y. 2009/10 amounting of Rs. 24,054.20 million. Later than the share of CITR to total revenue was continuous increasing up to 17.77% in F.Y. 2012/13 but that situation did not continue later on. Political imbroglio, unfriendly environment for smooth operation of business was some of the main reason for Nepalese corporate sector unable in improving its competency.

As a result, contribution of CITR to total revenue was sharply decreased. Total revenue / national revenue were also in increasing trend, which was not only the cause of better implementation of fiscal policy and positive macro-economic indicator but also due to expansion of taxation and revenue net. This table also shows that the individual & sole trading firms sector's tax collection was fluctuating between 3.12% to 5.25% during the study period. Its contribution was of 3.12% amounting of Rs. 4,481.60 million in the F.Y. 2008/09 and in the F.Y. 2009/10 its contribution was decreased to 2.14% amounting of Rs. 3,842.30 million. After than which was continue increased and reached to 5.25% amounting of Rs. 15,532.90 million in F.Y. 2012/13.

Tax collection from public enterprises seemed to be fluctuating from 6.57% to 12.53% during the study period. Its contribution was 6.57% in the F.Y. 2008/09 amounting of Rs. 9,428.20 million and in the F.Y. 2012/13 it was continue increased to 12.53% amounting of Rs. 37,069.60 million. Public sector tax play vital role in total corporate tax revenue. In totality, Nepalese corporate sector has been contributing to total revenue from 13.69% to 17.77%, which seems to be very small portion comparing to other developing countries.

4.3.4 Contribution of Corporate Income Tax on Total Tax Revenue

Total tax revenue is composed of direct tax and indirect tax. Total tax revenue is mostly affected by CITR and its enhancement by the country. The following table has been drawn to know the Nepalese CITR's contribution portion to total tax revenue.

Table No. 4.19:- Contribution of CITR on Total Tax Revenue

Rs. in Million

Fiscal Year	Total Tax Revenue	Government Corporation		Public Ltd. Corporation		Private Ltd. Corporation		Individual & Sole Trading Firm		Income from Other Institutions		Total Corporate Tax	
		Rs.	% on TTR	Rs.	% on TTR	Rs.	% on TTR	Rs.	% on TTR	Rs.	% on TTR	Rs.	% on TTR
2008/09	117,051.80	959.70	0.82	9,428.20	8.05	4,200.50	3.59	4,481.60	3.83	576.40	0.49	19,646.40	16.78
2009/10	156,290.70	1,132.50	0.72	12,023.50	7.69	6,268.80	4.01	3,842.30	2.46	787.10	0.50	24,054.20	15.39
2010/11	172,755.30	1,282.00	0.74	13,967.20	8.08	7,232.90	4.19	4,895.70	2.83	1,429.40	0.83	28,807.20	16.68
2011/12	211,718.30	-	-	30,415.70	14.37	-	-	12,382.70	5.85	-	-	42,798.40	20.21
2012/13	259,143.60	-	-	37,069.60	14.30	-	-	15,532.90	5.99	-	-	52,602.50	20.30

Source: Economic Surveys of different years (MOF), Quarterly economic bulletin published by NRB

The above table shows that the CITR contribution to total tax revenue was fluctuated during the study period. It was 16.78% in the FY2008/09, which was decreased and reached to 15.39% of lower contribution in the F.Y. 2009/10 during the study period. But this contribution was increased and reached to 16.68% in the year 2010/11. CITR's contribution was 20.30% in the .F.Y 2012/13. Such kind of lower contribution was due to the lower collection of corporate income tax that might be the result of political instability, unfriendly environment for operating industry, trade and business which clear showed in F.Y. 2009/10 (2066/67 B.S).

4.3.5 Contribution of Corporate Income Tax on Direct Tax Revenue

The contribution of corporate income tax on Direct tax revenue can be shown in the following table.

Table No. 4.20:-Contribution of corporate income tax on direct tax revenue.

Rs. in Million

Fiscal Year	Total Direct Tax Revenue	Government Corporation		Public Ltd. Corporation		Private Ltd. Corporation		Individual & Sole Trading Firm		Income from Other Institutions		Total Corporate Tax	
		Rs.	% on DT	Rs.	% on DT	Rs.	% on DT	Rs.	% on DT	Rs.	% on DT	Rs.	% on DT
2008/09	34,552.60	959.70	2.78	9,428.20	27.29	4,200.50	12.16	4,481.60	12.97	576.40	1.67	19,646.40	56.86
2009/10	41,760.50	1,132.50	2.71	12,023.50	28.79	6,268.80	15.01	3,842.30	9.20	787.10	1.88	24,054.20	57.60
2010/11	48,641.00	1,282.00	2.64	13,967.20	28.71	7,232.90	14.87	4,895.70	10.06	1,429.40	2.94	28,807.20	59.22
2011/12	66,906.70	-	-	30,415.70	45.46	-	-	12,382.70	18.51	-	-	42,798.40	63.97
2012/13	81,937.50	-	-	37,069.60	45.24	-	-	15,532.90	18.96	-	-	52,602.50	64.20

Sources: Economic Surveys of different years (MOF), Quarterly economic bulletin Published by NRB

From the above table, we can see that the contribution of CITR to direct tax revenue was fluctuated from 56.86% to 64.20% during the study period. Its contribution was 56.86% amounting of Rs. 19,646.40 million in the F.Y. 2008/09 which was continuous increasing up to 64.20% amounting of Rs. 52,602.50 million in the F.Y. 2012/13. That was possible due to the business friendly environment and Peace Treaty in the country. This table has also shown the structural composition of corporate tax. Nearly, half portion of CITR was covered by Public sector in the last two fiscal years 2011/12 and 2012/13.

4.4 Presentation and Analysis of Data on the basis of Primary Source i.e. Empirical Investigation

4.4.1 Introduction

When a researcher collects data possession original character himself or through agent for the first time from related field, such data are called as primary data (source). And when such primary data are reused by anybody else they are called secondary data. Once primary data have been used, it loses its originality or primary characteristics and becomes secondary. In this study, this part is entirely related with primary source of data. An empirical investigation has been conducted in order to find out various aspects of problems for the administration of Income Tax Act, 2058 in Nepal from the real life experience. For this purpose, questionnaire was developed and responses were collected from the respondents. A set of 12 questionnaires was distributed to the respondents. Respondents were classified into three groups - tax experts, tax administrator and taxpayers. The responses received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study. (See the format of questionnaire and the list of the respondents in appendix A.) The questionnaire was asked for a yes/no response or asked for ranking of the choices according to the number of alternatives where first choice was the most important and the last choice was the least important. For analysis purpose, choices were assigned weight according to number of alternatives. If the number of alternatives were 8 then the first preferred choice got eight points and the last preferred choice got one point. Any alternative, which was not ranked, didn't get any point. The total points available to each choice were converted into percentage in reference to the total points available for all choices. The choice

with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as last choice. The following table shows the group of respondents.

Table No. 4.21:- Groups of Respondents (primary data) and Code Used

Respondent Groups	Sample Size	Code Used
Tax administrators	15	A
Tax experts	15	B
Tax payers	80	C
Total	110	

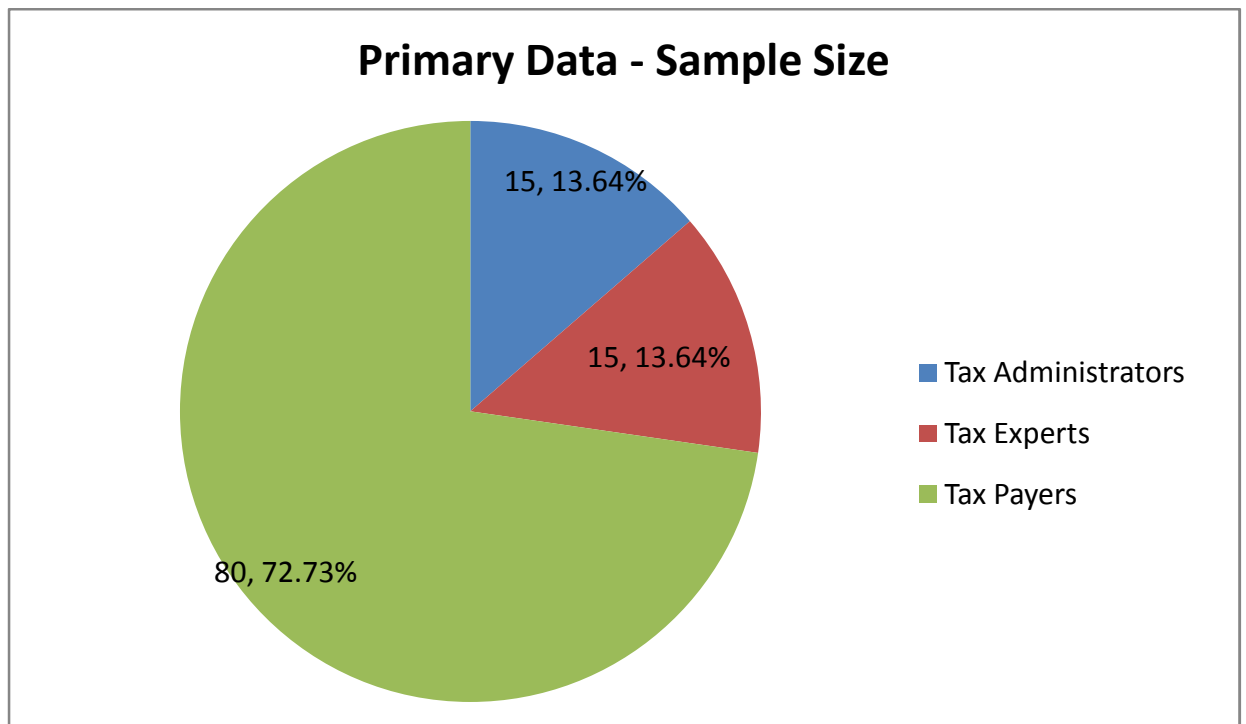


Figure 4.7: Primary Data-Sample

4.4.2 Attitude toward tax education

To know the respondents attitude toward tax education and familiar with income tax, a question was asked “Are you familiar about income tax?” The responses have been tabulated below.

Table No. 4.22:- People’s knowledge toward tax education:

Respondent	Yes		No		Total	
	Respondent No.	%	Respondent No.	%	Respondent No.	%
A	12	80.00	3	20.00	15	100.00
B	15	100.00	0	0.00	15	100.00
C	12	15.00	68	85.00	80	100.00
Total	39	35.45	71	64.55	110	100.00

Sources: - Opinion Survey, 2014

From the above table it has been clear that 64.55% of the respondents were against the question “Are you familiar about income tax?” and 35.45% only respondent it can be concludes that tax education is most necessary in Nepal to increase the tax consciousness of tax payer.

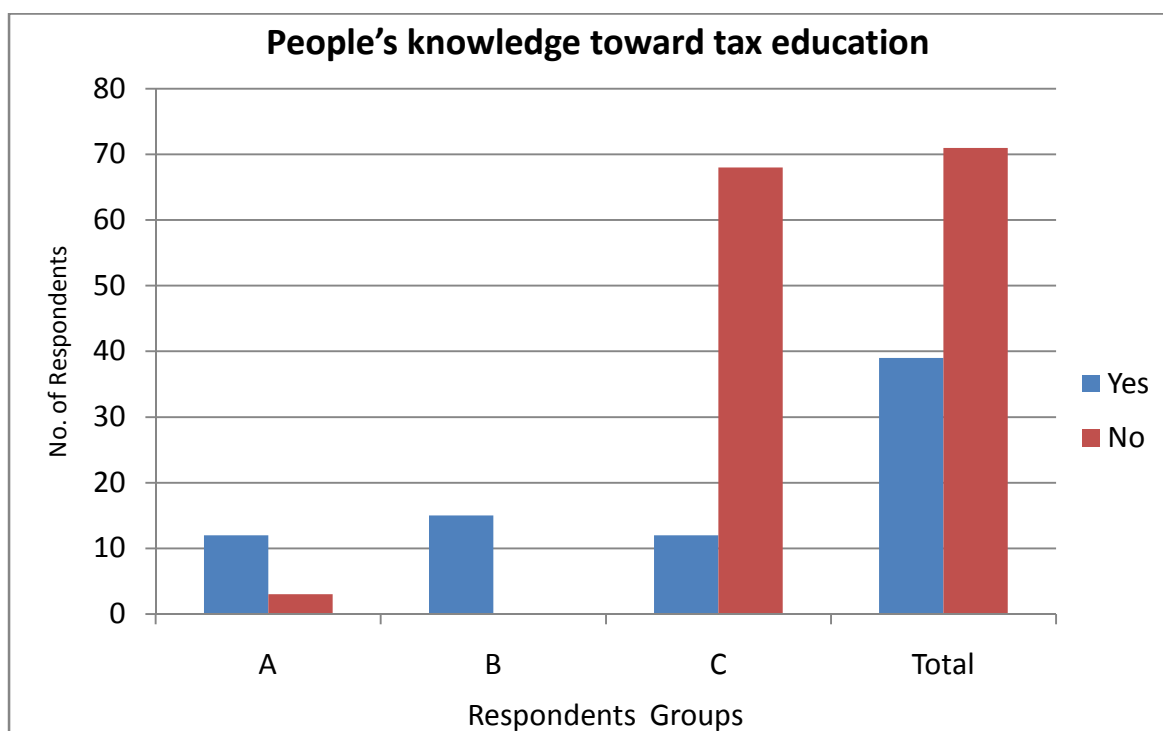


Figure 4.8: People’s knowledge toward tax education

4.4.3 Opinion towards Tax Paying Habit of Nepalese People

To know the respondents opinion about the taxpaying habit of Nepalese people, the first question, "Do you think there is poor taxpaying habit of Nepalese people?" was asked. The responses received from respondents are tabulated as under:

Table No. 4.23:- Opinion towards taxpaying habit of Nepalese people

Responses	Yes		No		Total	
	Respondent No.	%	Respondent No.	%	Respondent No.	%
A	15	100.00	0	0.00	15	100.00
B	11	73.33	4	26.67	15	100.00
C	58	72.50	22	27.50	80	100.00
Total	84	76.36	26	23.64	110	100.00

Sources: - opinion survey 2014

From the above table, 100% Tax administrator, 73.33% of tax experts and 72.50% of tax payers approved there is poor taxpaying habit of Nepalese people. 26.67% of tax experts and 27.50% of tax payers approved there is not poor taxpaying habit of Nepalese people. Out of 110 respondents 84 respondents, i.e. 76.36% voted for poor taxpaying habit of Nepalese people and 26 Respondents i.e 23.64% voted for there is not poor taxpaying habit of Nepalese people. From the above table, it has been clear that there is poor taxpaying habit of Nepalese people.

4.4.4 Reasons behind Poor Tax Paying Habit of Nepalese People

Most of the respondents voted that there is poor taxpaying habit of Nepalese people. To know the causes of poor taxpaying habit of Nepalese people, the question was asked, "If Yes, what are the major causes of poor taxpaying habit of Nepalese people?" The respondents were requested to rank their answer from 1 (most important) to 8 (least important). The responses received from the three groups of respondents by maximum 50 points weight a question are tabulated below:

Table No. 4.24:- Major causes of poor taxpaying habit of Nepalese people

S.N.	Major Causes	Groups			Total Points	Percent	Rank
		A	B	C			
1	Lack of incentives for regular tax payers	35	45	50	130	16.11	2
2	Little knowledge of tax & its importance	30	32	45	107	13.26	5
3	Widespread practice of illegal business	50	42	27	119	14.75	3

4	Poverty of tax payers	50	40	45	135	16.73	1
5	Defective tax administration system	20	25	29	74	9.17	7
6	Complexity of tax laws & policies	30	35	48	113	14.00	4
7	Poor public relation by tax office & authorities	15	25	50	90	11.15	6
8	If other, please specify	12	8	19	39	4.83	8
Total:					807	100	

Source: Field Survey 2014

Major causes of poor taxpaying habit of Nepalese people were ranked in order of the preference of the respondents as follows. (Please refer table 24 for details)

Rank **Major Causes**

1. Poverty of taxpayers
2. Lack of incentives for regular taxpayers
3. Widespread practices of illegal business
4. Complexity of tax laws and policies
5. Little knowledge of tax and its importance
6. Poor public relation by tax office and authorities
7. Defective tax administration system
8. If others, please specify

4.4.5 Specific objective of income tax in Nepal

In order to know the specific objective of income tax in Nepal, respondents were requested to rank their responsible. The question was asked “what should be the specific objective of income tax in Nepal?” Table 25 gives the breakdown of responses.

Table No. 4.25:- Specific objective of income tax in Nepal

S.N.	Objectives of Income Tax	Groups			Total Points	Percent	Rank
		A	B	C			
1.	To enhance the revenue of the government	50	32	45	127	25.10	1
2.	Redistribution of wealth between rich and poor person	42	35	25	102	20.16	4
3.	To meet the government expenditure	32	42	50	124	24.51	2
4.	To achieved the goal of the national development and equal economic distribution	42	35	30	107	21.15	3
5.	If other, please specify	16	22	8	46	9.09	5
	Total:				506	100	

Sources: Field Survey 2014

There was 100% response received from the respondents. Most of the respondents are supporting the objective of the 'to enhance the revenue of the government, 25.10% are in favour of objective. To enhance the 24.51% of them choose the objective to meet the government expenditure, another 21.15% choose the national development and equal economic distribution objective and 20.16% of respondents are choose of them redistribution of wealth between rich and poor person and 9.09% are of them choose other specific objective. Specific objective of income tax are ranked below in order to preference.

<u>Rank</u>	<u>Objectives of Income Tax</u>
1.	To enhance the revenue of the government
2.	To meet the government expenditure
3.	To achieved the goal of the national development and equal economic distribution
4.	Redistribution of wealth between rich and poor person
5.	If other. please specific

4.4.6 Opinion towards Modern and Effectiveness of Income Tax Act 2058

To measure the modern and effectiveness of Income Tax Act, 2058 in comparison to the previous Income Tax Act, 2031. A question, "In your opinion is the Income Tax Act, 2058 a modern and more effective Tax Act than Income Tax Act, 2031?" was asked. The responses received from the respondents are tabulated as below:

Table No. 4.26:- Opinion towards modern and effectiveness of Income Tax Act, 2058

Respondents	Yes		No		Total	
	Respondent No.	%	Respondent No.	%	Respondent No.	%
A	14	93.33	1	6.67	15	100.00
B	13	86.67	2	13.33	15	100.00
C	47	58.75	33	41.25	80	100.00
Total	74	67.27	36	32.73	110	100.00

Sources: - Field survey 2014

From the above table, it is clear that 67.27% of the respondents approved Income Tax Act, 2058 is a modern and more effective than Income Tax Act, 2031 and only 32.73% of the respondents don't recognize Income Tax Act, 2058 as a modern and more effective than Income Tax Act, 2031.

Hence, it can be concluded that Income Tax Act, 2058 is a modern and more effective than Income Tax Act, 2031.

4.4.7 Opinion towards Contribution of Income Tax on National Revenue

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

Table No. 4.27:- Opinion towards contribution of Income Tax on National Revenue

Respondents	Yes		No		Total	
	Respondent No.	%	Respondent No.	%	Respondent No.	%
A	10	66.67	5	33.33	15	100.00
B	12	80.00	3	20.00	15	100.00
C	56	70.00	24	30.00	80	100.00
Total	78	70.91	32	29.09	110	100.00

Sources: - Field survey 2014

From the above table, it is found that 66.67% of tax administrators, 80% of tax experts and 70% of tax payers are favour in income tax as a suitable mean of raising government revenue only 33.33% of tax administrators, 20% of tax experts and 30% of tax payers does not recognize. In aggregate it is clear that the contribution of income tax on national revenue is not satisfactory through Income Tax Act, 2058. 29.09% of the respondents approved contribution of income tax on national revenue not satisfactory and only 70.91% of the respondents recognize that contribution of income tax on national revenue is satisfactory through Income Tax Act, 2058. Hence in my view, it can be concluded that the contribution of income tax on national revenue is not satisfactory through Income Tax Act, 2058.

4.4.8 Appropriateness of exemption and deduction

Adequate exemption and deduction is necessary to promote the business enterprises to success in business world. Many exemptions are provided by Industrial Enterprise Act, 2049 and specially Income Tax Act, 2058. The question “Are exemption and deduction provided by existing Income Tax Act, 2058 are appropriate?” was asked to find out the opinion of the respondent regarding the exemption and deduction. Opinion result is summarized in the table.

Table No. 4.28:- Appropriateness of exemption and deduction

Respondents	Yes		No		Total	
	Respondent No.	%	Respondent No.	%	Respondent No.	%
A	8	53.33	7	46.67	15	100.00
B	7	46.67	8	53.33	15	100.00
C	5	6.25	75	93.75	80	100.00
Total	20	18.18	90	81.82	110	100.00

Sources: - Field survey 2014

Only 18.18% of respondents agree with present exemption and deduction. But large figure 81.82% respondents disagree with the present exemption and deduction.

4.4.9 Appropriate method of income tax assessment

Revenue collection from income tax also depends on the income tax assessment procedures. Therefore assessment procedure should be appropriate and effective, A question “Which tax assessment method is applicable in Nepal?” was asked to know the respondents’ opinion about appropriate method of income tax assessment. The response is presented in the table below.

Table No. 4.29:- Appropriate method of income tax assessment

S.N.	Assessment Methods	Response Respondents			Total	%
		A	B	C		
1	Self Assessment	14	10	72	96	87.27
2	Jeopardy Assessment	0	0	0	0	0.00
3	Amended Assessment	1	5	8	14	12.73
Total		15	15	80	110	100.00

Sources: - Field survey 2014

87.27% respondents approved self tax assessment method is more appropriate to assess income tax, 12.73% respondent is in favour of amended assessment. The most of respondents from taxpayers category are in favour of self assessment. From the above opinion it can be concluded that self tax assessment method is more appropriate while assessing income tax to collect large amount of revenue through income tax.

4.4.10 Suitable tax rate in Nepal

In order to find out the suitable tax rate system in Nepal. Respondents were requested to select any one among the three alternatives. The question was “In your opinion which income tax rate is suitable for Nepal?” the response is tabulated in the tax.

Table No. 4.30:- Suitable tax rate in Nepal

S.N.	Tax Rate Methods	Response Respondents			Total	%
		A	B	C		
1	Progressive Rate	9	13	56	78	70.91
2	Proportional Rate	6	2	24	32	29.09
3	Regressive Rate	0	0	0	0	0.00
Total		15	15	80	110	100.00

Sources: - Field survey 2014

From the above table it is clear that 70.91% of respondents prefer progressive tax rate in Nepal. So it can be concluded that progressive tax rate is most suitable means of tax rate in Nepal.

4.4.11 Effectiveness of income tax administration in Nepal

To know the respondents view regarding effectiveness of income tax administration in Nepal a question “Do you agree that Nepalese income tax administration is effective”? was asked the responses are tabulated in the following table.

Table No. 4.31:- Effectiveness of income tax administration in Nepal

Respondents	Yes		No		Total	
	Respondent No.	%	Respondent No.	%	Respondent No.	%
A	13	86.67	2	13.33	15	100.00
B	6	40.00	9	60.00	15	100.00
C	12	15.00	68	85.00	80	100.00
Total	31	28.18	79	71.82	110	100.00

Sources: - Field survey 2014

From the above table it has been clear that Nepalese income tax administration is not effective. The most of the respondents 71.82% of total respondents responded it ineffective. The high percentage of respondents who are in favour of Nepalese tax administration is the tax administrators themselves.

4.4.12 Income tax evasion in Nepal

In order to find out the income tax evasion in practiced in Nepal or not, the question was asked “In your opinion, it there a major problem of tax evasion in Nepal?” the responses of respondents were tabulated below.

Table No. 4.32:- Income tax evasion in Nepal

Respondents	Yes		No		Total	
	Respondent No.	%	Respondent No.	%	Respondent No.	%
A	14	93.33	1	6.67	15	100.00
B	8	53.33	7	46.67	15	100.00
C	48	60.00	32	40.00	80	100.00
Total	70	63.64	40	36.36	110	100.00

Source: - Opinion Survey 2014

From the above table 63.64% respondents are favour in tax evasion as a major problem of tax collection in Nepal, 36.36 % was against above view, it can be noted that almost all the person with high denominates were in favour of the question.

There may be much response for wide spread tax evasion. In order to know the main reason for tax evasion, the question was asked, "If Yes, what are the major causes of income tax evasion?" The respondents were requested to rank their answer from 1 (most important) to 8 (least important). The responses have received from the three groups of respondents by maximum 50 points weight a question has tabulated below:

Table No. 4.33:- Factor responsible for tax evasion

S.N.	Responses Factors	Response Respondents			Total	%	Rank
		A	B	C			
1	Inefficient income tax policy	37	25	15	77	10.91	5
2	Loopholes in income tax act	28	20	18	66	9.35	8
3	Lack of political commitment	35	12	50	97	13.74	3
4	Corruption in tax authority	4	32	35	71	10.06	6
5	Inappropriate income tax policy	22	35	45	102	14.45	2
6	Lack of unconscious in tax payer	48	30	9	87	12.32	4
7	Defective tax administration	6	26	37	69	9.77	7
8	Lack of reward and punishment	50	42	45	137	19.41	1
Total					706	100.00	

Sources: - Field survey 2014

The major reasons for evasion of income tax from the above table according to respondent's response are as follows:

<u>Rank</u>	<u>Responses Factors</u>
1.	Lack of reward and punishment
2.	Inappropriate income tax policy
3.	Lack of political commitment
4.	Lack of unconscious in tax payer
5.	Inefficient income tax policy
6.	Corruption in tax authority
7.	Defective tax administration
8.	Loopholes in income tax payer

Thus it can be concluded that the main reasons for tax evasion are due to lack of reward and punishment, inappropriate income tax policy, lack of political commitment and other after that.

4.4.13 Most of importance factor for effectiveness of income tax

The respondents were requested to rank their choice from 1 to 5 according to their preference to know the opinion of the respondent's view regarding to importance factors of effectiveness of income tax in Nepal. A question "In your opinion what is the most importance factor for effectiveness of income tax in Nepal?" was asked responses are summarized in table below:

Table No. 4.34:- Most of importance factor for effectiveness of income tax

S.N.	Responses Factors	Response Respondents			Total	%	Rank
		A	B	C			
1	Moral and honest tax officers	48	22	15	85	19.32	4
2	Effective income tax administration	42	38	25	105	23.86	2
3	Moral and honest tax payers	20	18	49	87	19.77	3
4	Clear act, rules and regulations	47	38	35	120	27.27	1
5	Political non interruption	30	8	5	43	9.77	5
Total					440	100.00	

Sources: - Opinion Survey 2014

In the table above, rank 1 is given to the highest percentage and 5 to the lowest percentage. Here highest percentage is obtained by the factor which is regarding highly appropriate by the respondents. In the questionnaire, the respondents were requested to give weight by maximum 50 points to the more appropriate of first to the least appropriate. The importance factor for effectiveness of income tax in Nepal according to the preference of the respondents was as follows.

Rank	Responses Factors
1.	Clear act, rules and regulations
2.	Effective income tax administration
3.	Moral and honest tax payers
4.	Moral and honest tax officers
5.	Political non interruption

4.4.14 Opinion towards Effectiveness of Income Tax Act, 2058 in the Coming Years

In order to know the effectiveness of Income Tax Act, 2058 in the coming years, a question was asked, "Will the Income Tax Act, 2058 be more effective in the coming years?" The responses received from the respondents are tabulated below:

Table No. 4.35:- Opinion towards effectiveness of ITA, 2058 in the coming years

Respon dents	Yes		May Be		No		Total	
	Respon dent No.	%	Respon dent No.	%	Respon dent No.	%	Respondent No.	%
A	13	86.67	2	13.33	0	0.00	15	100.00
B	8	53.33	2	13.33	5	33.33	15	100.00
C	19	38.00	7	14.00	24	48.00	50	100.00
Total	40	50.00	11	13.75	29	36.25	80	124.18

Sources: - Field survey 2014

From the above table, it is clear that Income Tax Act, 2058 will be more effective in the coming years. Out of the 80 respondents 40 respondents i.e. 50% voted for the effectiveness of Income Tax, 2058 in the coming years and 29 respondents i.e. 36.25% voted against the effectiveness Income Tax, 2058 in the

coming years and remain 11 respondents i.e. 13.75% were voted for neutral with answer may be.

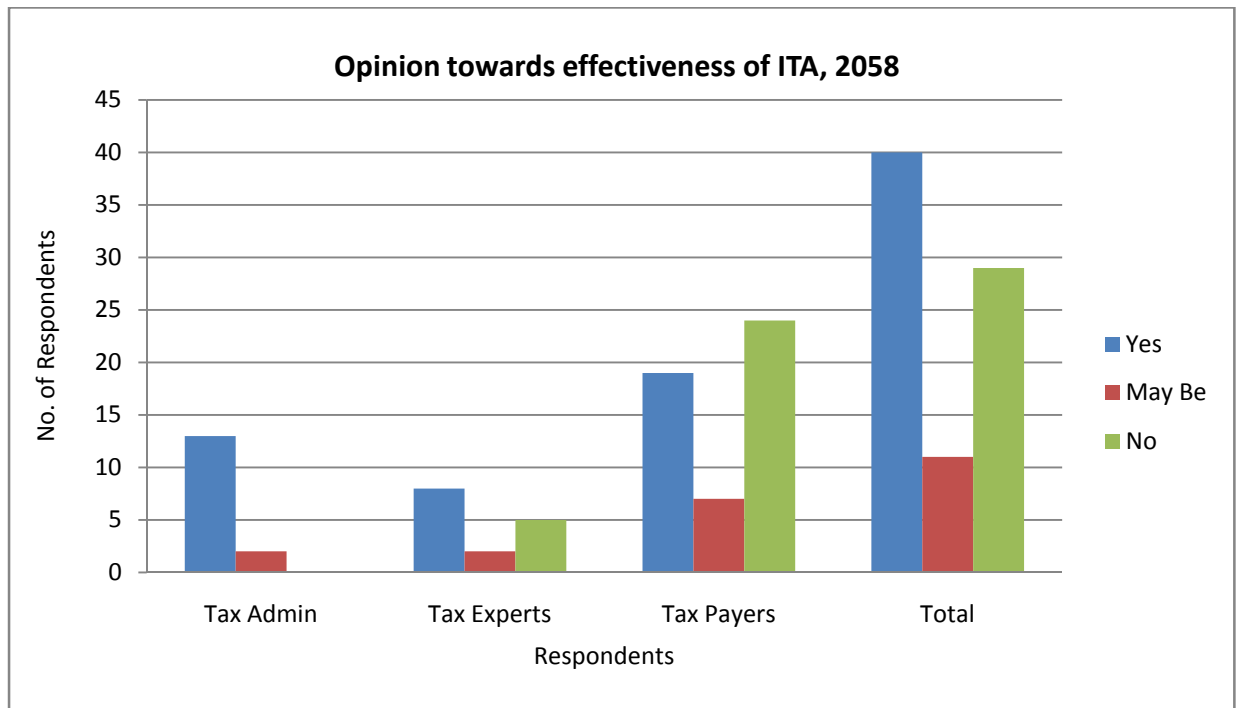


Figure 4.9: Opinion towards effectiveness of ITA, 2058

4.4.15 Comments and Suggestions from the Respondents

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

Comments from the respondents

1. Narrow Coverage i.e. agriculture the largest sector of Nepalese economy is out of tax net.
2. Tax assessment system is not scientific.
3. Inefficient administration.
4. Poor data base and information system.
5. Difficult to charge the tax on dual used commodity.
6. There is no sufficient tax rebates and no encourage for taxpayers.

7. Unmanageable size of taxpayers compared to tax offices especially in valley.
8. Due to the political problems of nation as well as poor implementation of rules and regulations of tax.
9. Lack of clear-cut definition and language accuracy in income tax act, 2058 and difficult to understand language.
10. Tax evasion and reduction exist.
11. Lack of proper utilization of collected tax.
12. Lack of effective training and motivation, taxpayer's education, and morality to both taxpayers and tax personnel.
13. Lack of reward and punishment to both taxpayers and tax personnel.
14. Lack of political stability, so it effect to the proper administration of Income Tax Act, 2058.
15. Income Tax Act, 2058 is based on highly educated taxpayers and developed economy.
16. This act provision cannot reduce the illegal business activities, tax evasion and avoidance.

Suggestion from the respondents

To know the other important factors for effectiveness of income tax a question was asked “Do you have any suggestions for addressing or solving the problem of Income Tax Act, 2058 please specify” the responses are as follows:

1. Government economic policy is the main cause for unsatisfactory of effectiveness of income tax in Nepal, so it should be corrected in pursued of effectiveness of income tax.
2. Building up of public and general awareness.
3. Libel government, control of financial crimes.
4. Control of all kind of corruptions.
5. Effective tax management and training & seminar to the tax personnel.

6. Development of check and balance system.
7. Government should make fixed rules and regulation and apply them effectively to collect tax.
8. It is necessary to build a strong information system and public awareness.
9. Reform Tax Administration (Tax administration should run in electronic system, a separate "Research and Analysis Unit" should be established, friendly tax administration)
- 10.Extension of Coverage (Including the Income from agriculture, Income from other sources, identification of new taxpayers)
- 11.It is necessary to build a strong information system and public awareness.
- 12.Performance base incentive system should be applied.
- 13.Training and logistics should be provided to tax offices sufficiently.
- 14.Strong commitments by political leaders, which must reflect in result, free from political interfere.
- 15.There should be clear definition and not are two-way languages in the act & Sound tax policies should be necessary and simplification of procedures.
- 16.The terms and the procedure under the act should be simplified so that even laymen could understand easily.
- 17.Define various sources and level of taxpayers.
- 18.Develop ethics in auditors & tax counsellors or define source to taxable income.

4.5 Major findings of the study

After analysis the data from primary and secondary sources, we get some importance finding about income tax and difficulties in collection and improved such kind of findings are as follows:

4.5.1 Findings from secondary data

On the basis of data presentation and analysis in above mention sub-chapter some important findings of the study are summarized below:

1. Government revenue is the composition of external and internal revenue. Internal revenue is composition of tax revenue and non tax revenue. There is dominant share of tax revenue in Nepalese government revenue. The contribution of tax revenue shows the fluctuating trend as it had contributed 81.58% in F.Y. 2008/09 on total internal revenue but it had contributed 87.57% in F.Y. 2012/13.
2. Nepalese tax revenue is composed of both direct and indirect tax revenue. There is major role of indirect tax revenue in Nepalese tax revenue. The contribution of direct tax and indirect tax to total tax revenue was 29.52% and 70.48% respectively in F.Y. 2008/09, which became 31.62% and 68.38% respectively in 2012/13. It reveals that tax structure of Nepal is not justifiable on equity ground and progressiveness because indirect tax is considered regressive in nature.
3. Among the various sources of government revenue, custom duties, VAT, income tax and excise duties are the major sources of government revenue. Income tax has occupied third position at present on the basis of its contribution. The contribution of income tax is in increasing trend, which shows the bright future of income tax.
4. Direct tax has consisted of income tax, land and building registration tax, property tax and vehicle tax and other. In the FY. 2008/09, the income tax was Rs 27,479.70 million and the property tax was Rs 5,248.40 million, but in the succeeding fiscal year the amount of land revenue is increase at present. The share of income tax is appeared as dominated sources of direct tax.
5. Income tax is the composition of corporate income tax, remuneration income tax and investment income tax. Corporate income tax is collected from government corporations, public and private limited companies, partnership firms and individual tax are collected from remuneration and industry, business, profession. Investment income tax is collected from divided tax, interest tax, rent tax and royalty tax etc.
6. Within the income tax there is the dominant role of corporate income tax and it is in increasing trend, which was 71.49% of income tax revenue in F.Y. 2008/09 and increased to 81.96% in F.Y. 2012/13. The share of individual and investment income tax in the total income tax is decreasing

trend, which were 30.77% and 16.14%, in F.Y. 2008/09 and 24.20% and 18.04% in F.Y. 2012/13 respectively.

7. The contribution of income tax to the total revenue, total tax revenue, direct tax and total GDP is in increasing trend. Its contribution was 19.15%, 23.48%, 79.53% and 2.78% respectively in the fiscal year 2008/09 which increased to 21.69%, 24.77%, 78.33 and 3.77% in F.Y. 2012/13 respectively.
8. Resource gap is taken to be the difference between government expenditure and revenue. Then resource gap has been Rs. 63,218.00 million in F.Y. 2008/09 to Rs. 77,795.40 million in F.Y. 2010/11 and Rs.62,715.10 million which indicates the poor performance of domestic resources gap.
9. Income tax has been considered as suitable sources for mobilizing internal resources. It can be used as a positive instrument to boost up government revenue collection, to develop the economic condition of Nepalese people and promote distributive justice and to cure resource gap problem.
10. The corporate tax rates have been revised for several times in the history of corporate income tax. Now a day's private and public companies are taxed at a flat rate of 20, 25 and 30 percent which are the lowest rate in the history of more than one decade.
11. Nepal has been practicing book profit or corporate profit as tax base for the corporate taxation. ITA 2058 has clarified about the format for calculating different head of income.
12. Income tax exemption limit in Nepal was Rs. 7000 but at present income tax exemption limit are Rs. 200,000 for individual and Rs. 250,000 for couples and family. The exemption limit is not provided for partnership forms, corporation, company limited and non residential. It is found that exemption limit has been changed on the need of time and income.
13. Increment in the number of taxpayers is very much essential in order to broaden the tax based. Number of registered income taxpayers in Nepal for the fiscal year has increased while it's in the previous year.
14. The contribution of CITR to total revenue was 13.69% in the F.Y. 2008/09 which increased to 17.77% in the F.Y. 2012/13. It shows corporate sector

is not getting better environment to grows its business activities so that large amount of tax cannot be paid.

15. CITR portion in direct tax revenue was 56.86% in the F.Y. 2008/09, which was gradually increased to 59.22% in the F.Y. 2010/11 and it was 64.20% in the F.Y. 2012/13. This shows that CITR occupied major portion in direct tax.

4.5 .2 Major Findings from Empirical Study

On the basis of empirical investigation made with the respondents I have found following remarkable findings regarding Income Tax Structure of Nepal, taxpayer's awareness and its administration.

1. Income tax is a suitable means of raising domestic resources.
2. Taxpaying habit of Nepalese people is poor.
3. Tax education is most necessary in Nepal to increase the tax consciousness of taxpayer.
4. The major objective of the income tax in Nepal is to enhance the revenue of government to achieve the goal of national development and equal economic distribution and best method to redistribution of wealth between poor and rich person or narrow the income gap. Income tax system of Nepal is not sound and efficient. Basically due to inefficient tax evasion and lack of awareness of tax payers.
5. Most of the taxpayers are not satisfied about the provision of concession, rebated and facilities included in Income Tax.
6. Taxpayers' fells high tax rates are implemented.
7. Self assessment method is the appropriate method while assessing the income tax.
8. Income tax evasion is the major problem of Nepal for income tax generation.
9. Taxpayers was agreed that good knowledge of taxation to taxpayers been discouraging illegal business.
10. Major problems that employees faced while paying Income Tax is procedural complication.

11. Contribution of direct tax to total revenue is not effective.
12. Exemption and deduction should be including promoting the special industry and export.
13. Income tax system of Nepal has not reached at the satisfactory level yet.
14. The current income tax administration is not running efficient.
15. Progressive income tax rate is considered as the suitable means of tax in Nepal.
16. Clear act, rules, regulations and effective tax administration are the most importance instruments for effectiveness of income taxation in Nepal.
17. Taxpayer education programme in Nepal are ineffective.
18. The majority of respondents agreed that tax related education is needed.

CHAPTER - FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Nepal is one of the developing countries which per capital income \$690.21 and about 25.16% of total population lays below poverty. So Nepal need huge amount of resources for economic development. In today's world, there are hardly a few areas where tax shows its absence. It has become a matter to be known by everyone. An individual's income is reduced by tax, which affects his future savings. No one is out of the grip of tax. Tax has become an indispensable part of business world.

Great Britain is the first country to introduce the modern income tax. It introduced income tax in 1799 A.D. to finance war fought with France. USA introduced income tax in 1862 A.D. to generate revenue to finance civil war. Although the taxes were collected in various forms in ancient era, the history of modern income tax is not very old in Nepal. The idea of introducing income tax in Nepal originated in the early 1950s when a multiparty democracy political system was introduced.

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

The study has been designed to analyze the income tax structure, awareness of taxpayers and resource gap identify the share and trend of corporate income tax to government revenue and identify the major problems of existing Income Tax Act 2058.

Taxation is the compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred. Tax may be of different types, rates and natures. It may be direct and indirect tax.

Income Tax Act 2058 has replaced the previous Act 2031, which was carried for 28 years. The Act 2058 has 24 chapters and 143 sections plus

schedules. In the Act, there are so many types of additional and new provisions which can't be found in previous Act 2031. Income Tax Act 2058 has divided heads of income into three divisions i.e. business, employment, and investment whereas previous Act 2031 had made it five. ITA 2058 has kept certain provisions for depreciation in Appendix 2 of the Act. Similarly it has also made the provision of inter-head and intra-head loss recovery system. Carry forward and carry backward system also have been introduced in this Act.

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

According to Income Tax Act 2058, the Inland Revenue Department (IRD) has overall responsibility for the implementation and administration of income tax act. However, Nepal government is the highest authority of the tax administration. The Ministry of Finance, on behalf of Nepal government, exercises the management function of tax administration by carrying out the functions such as planning, organizing, direction, co-ordinating and controlling of the government organizations related to taxation.

Income Tax Act 2058 has included detailed penal provisions, which are divided into two parts; interest & penalties and offences. Interests are charged on delinquent taxes so that taxpayers may not delay tax penalties are fixed to correct the misbehaviour of the taxpayers. If penalties are not levied on the taxpayers who violate the Act, there may be a tendency not to follow rules and non-compliance will increase.

Income Tax Act 2058 has introduced a concept of administrative review that will allow the tax administration to correct mistakes, if any, made by the administration internally. The administrative revision may not sufficient to establish effective and efficient appeal system for assurance of the justice and impartiality. It is because there may be existence of human error as personal biasness and official biasness in the administrative review. So, the current tax laws assure in this regard. As per law a person (the appellant) who is not satisfied by a decision on an objection filed against review able decision may appeal to the revenue tribunal.

Out of total revenue collection in the F.Y. 2008/09, the share of tax revenue was 81.58% whereas the share of non-tax revenue was 18.42%. In the F.Y. 2012/13, tax revenue increased to 87.57% as compared to previous fiscal year. The contribution of indirect tax revenue has always been greater than direct tax revenue during the study period. Similarly, the contribution of income tax has been larger than other components of direct tax. Contribution of income tax to direct tax revenue was 79.53% in the F.Y. 2008/09 and its percentage came too decreased at 78.33% in the F.Y. 2012/13. Income tax is an important source of the direct tax. Its structure of Nepal is the composition of tax revenue from government sector corporations, public sector corporations, private sector corporations including private institutions and remuneration tax. In the F.Y. 2008/09 the amount of income tax was Rs. 27,479.70 million whereas in the F.Y. 2012/13 it was Rs. 64,178.30 million.

In the opinion of the respondents, it has been found that there is problem in the administration of Income Tax Act 2058 in Nepal. Most of the respondents thought that there is problem. There is also poor taxpaying habit of Nepalese people. On the opinion of the respondents lack of incentives for regular taxpayers is the most powerful reason behind the poor taxpaying habit. Similarly, little knowledge of tax and its importance, widespread practices of illegal business, defective tax administration system and poor public relation by tax offices and authorities and complexity of tax laws and policies are other reasons. The contribution of income tax on national revenue is not satisfactory. It has also been found that revenue administrative and revenue tribunal are not effective to give correct decision to the taxpayers. Tax administration is not providing effective service to the taxpayers and other related people still after introducing the new Income Tax Act 2058. There is corrupt practice in income tax administration of Nepal. Out of three respondents groups of 80 respondents, i.e. 10.06% voted for corrupt practice in income tax administration of Nepal.

5.2 Conclusions

Developing countries like Nepal are facing serious problems in the process of economic development. Lack of sufficient financial resource is the main constraint for economic development of Nepal. A lot of funds are required to meet the objective of economic development. But Nepal is not being able to collect necessary fund. Due to poor performance on internal revenue collection and mobilization, Nepal has been heavily relying on foreign loans and grants.

The dependence is increasing, which is not desirable for any economy. Thus, it is more essential to mobilize the internal funds to the optimum level.

To increase the government revenue, Nepalese government is trying to extract money from people through taxation. Tax revenue is composed of direct tax and indirect tax. But the contribution of indirect tax is higher than direct tax. Within tax, income tax is the most important source of government revenue. It is considered as a good remedy to cure growing resource gap problem in Nepal.

In Nepal, the history of income tax is not so long. It is started only on late fifties. The income tax was introduced as a trial on business profit and the remuneration income. The first elected government levied the first income tax and no specific act was made to define and to treat income tax. The first Income Tax Act was made only in 1959/60. Since then four Income Tax Acts has been implemented. From the very beginning, the concept of exemptions, concession, deductions and other forms of tax relief in income tax have emerged in Nepal. All incomes of an individual cannot be taxable because the minimum cost required for subsistence cannot be taxed. The exemptions, concession, deductions and other forms of tax relief are essential to encourage an individual to work more. The tax relief works as an incentive to an individual. So, the concept of exemption, deductions and tax reliefs were emerged in Nepal from the very beginning of income tax. Currently, income tax constitutes corporate income tax, individual income tax and investment income tax. Among them, contribution of corporate sector is highest. Exemption limit and the rate of the income tax is determined according to the income level and sector wise but is not adjusted according to the inflationary situation of the country.

Income tax system of Nepal has been blamed as inefficient enough. Being various problems relating to income tax, revenue collection from income tax is low as compared to other Asian developing countries like India, Sri Lanka, and Pakistan etc. Nevertheless, if we analyze the data relating to it, we can find out that it is neither bad nor worse but it is continuously improving. However income tax laws and administration in Nepal are to be deeply scrutinized and properly implemented. The provisions made no Act have to be mentioned clearly and language has to be made clear. Some reforms in tax administration are needed. If the problem relating to income tax system in Nepal can be solved and resources are effectively utilized then only the prospects of revenue collection from income tax will be bright and the economic development of Nepal will be achieved.

The conclusions of this study are pointed as below:

- 1 Provision of rebates concession and facilities included in income tax are not satisfactory.
- 2 Most of the respondents had not proper knowledge about income tax.
- 3 Current tax rate is high. It must be reducing or more classifying in progressive tax rate. Especially focused for very small taxpayers.
- 4 Taxpayers are agreed that good knowledge of tax reducing illegal business.
- 5 Lacks of public awareness, ineffective tax administration are the major problems of Income Tax.
- 6 Without knowledge of taxation very small taxpayers may not be included in the tax system.
- 7 Defective Income Tax Act, rules, ineffective taxpayer education programmes, rapids changing government economic and taxation policy, ineffective tax administration are the major problems of income tax system which affect income tax knowledge to taxpayers in Nepal.
- 8 Lacks of co-operation between taxpayers and tax officers. Corrupted tax administration, rapid changing taxation policy are the major problems of Income Tax.
- 9 Online E-returns filing are implemented but lack of sufficient knowledge regarding internet to the majority of taxpayers, internet unavailability, low speed and costly are extra problems.
- 10 For Online filing E-returns, Load shedding (Electricity) is the biggest problems with taxpayers, tax experts and tax administrators.
- 11 Tax collection systems are developing as developed country but tax collection means are as poor country.
- 12 In market seems major problems are under billing system. Maximum taxpayers are issuing either very low billing or ignoring billing to buyers at the transaction time and seems buyers are too non responsible to takes his/her actual bills which hides huge taxable incomes.

- 13 On regard actual value billing problems are originated from the entrance at custom boarder. It's caused, at custom point goods & services valuation system and methods of government are unscientific or unpractical and high customs duties rate are too.
- 14 In Nepal's major cities seems rent incomes are generating in huge volume but government have not any effective mechanism to cover in tax net of actual rent incomes. Especially in Kathmandu valley huge rent income generate in residential rented areas.
- 15 Some incomes tax rules are very unpractical for very lower taxpayers. Like: Large transaction amounts series NRs. 0.00 (zero) to 20 lakhs per F.Y. are in single one tax bracket, that's should must payable incomes tax who can't show proper account i.e. D-01 form. Whereas who does higher transaction with showing account they gets progressive tax rate & many concessions too i.e. D-03. Is it fare justice with very small taxpayers?
- 16 Transportation service entrepreneurs are generating income too much but why such taxpayers escaped from income tax net? Its income is black income, isn't it?

5.3 Recommendations

On the basis of the findings of the present study, the following suggestions have been recommended for a sound and effective income tax system.

(I) Extension of Coverage

Broadening the tax base has been one of the important features of the recent income tax reform in the international arena. This strategy, however, may not be as easy and effective in the present. Nepalese context as it has been in many other countries. This is because, in Nepal, broadening the coverage would mean the extension of income tax to agriculture income, capital gains, rent gains and dividends, a reduction in tax incentives and the identification of new taxpayer, neither a reduction in deductions nor the removal of exemption in the case of labour income as has been important in many countries would be of significant help in Nepal as the scope of remuneration income is very limited in this country. Let us examine the possibilities for the extension of income tax to

agricultural income, capital gains, rent gains, dividends, transportation entrepreneur income, etc.

(1) Including the Income from agriculture:

In theory, there is a case for an income tax on agricultural income. Agriculture is the largest sector of the Nepalese economy, which accounts for about half of the GDP. A large part of the national budget is spent on the agriculture sector and prices of both land and its products have been increasing. So this sector should contribute more in the form of tax revenue. Further, a tax on agriculture is also expected, as started elsewhere, to discourage large unproductive landholdings, to curb the consumption of high income groups and increase the case need of the farmers which encourages marketing of the agricultural products. Despite such justifications, the agriculture sector has remained almost out of the tax net for both practical and political reasons. An effective land revenue system and a refined income tax structure should be brought to cover the agriculture sector for taxation.

(2) Income from other sources:

By raising the taxation rate in capital gain, dividends to possible level and by tax incentive, the extension of coverage of tax can be enhanced.

(3) Identification of new taxpayers:

A detailed survey of traders, professionals and so on should be conducted so as to identify new taxpayers. Like: transportation entrepreneur.

(II) Reform Tax Administration

More often than not, it is maintained that tax administration in developing countries is tax policy, which means until and unless policy measures are backed by corresponding administrative reforms, they are doomed to failure. This very clearly recognizes the important role of tax administration in developing countries like Nepal. Therefore, the administrative reform is critical to the success of tax policy. In view of the above and the administrative problems stated elsewhere, following measures are suggested.

- 1 As the role of information is central to the success of tax administration, information collection should be consolidated. Intra-departmental as well as inter departmental networking at least among the departments within the MOF should be established at the earliest.

- 2 A separate, "Research and Analysis Unit" should be established in order to find out new avenues of taxation and to find out the lapses in tax policy pursued by the government.
- 3 The terms and the procedure under the act should be simplified so that even laymen could understand easily.
- 4 The tax officials also need to be reoriented to implement the new act smoothly. They should be familiarized with recent innovations into the field of public administration particularly in tax administration whereby taxpayers are treated as clients. And hence, client orientation should be the thrust of the administrative reforms.
- 5 New act has fully specialized for self-assessment and the taxpayers have to maintain adequate accounts of their income and expenses so that the taxable income would be easily calculated.
- 6 Tax policy and administrative reforms should not be guided by the short-term goal of revenue requirements.
- 7 The system of tax administration should not harassed honest tax payers, rather it should convey a message to taxpayers that if they are not to report their profit accurately, there is always probability of being detected and punished.
- 8 Pre-service and post-service training for officers should be carried out at regular intervals.
- 9 The government should be accountable and transparent so that the taxpayers are encouraged to pay tax.
- 10 Present tax related education is not effective. Most of the taxpayer does not aware about changing tax rules and regulations. So, to increase awareness of taxpayers, dynamic tax administration, billing enforcement, clear and effective tax policies are recommended.
- 11 Tax office collects Income Tax in their own office. Tax must be collect from business house door to door.
- 12 There should categories the businessman who paid tax in time and who do not pay tax in time. Those who paid tax in time give more priorities

in government office and others. This system can be seen in our neighbouring country India.

- 13 Most of the countries follow the self assessment system of tax. So, Nepal should also follow it bit there should be established strong mechanism to check the fraud of businessman.
- 14 The provision of concession, rebates and facilities should be implemented effectively for encouragement to businessman.
- 15 Co-ordination between tax policy maker, tax personnel and other department should be established.
- 16 The school as well as campus level curriculum should include tax related education. So, that taxpayer's education programme can be more effective.
- 17 Goods & services are imported and exported from one country to another country. While in this process, the entrepreneurs pay custom duties, Vat etc to the government. They do not have much more knowledge about it. They hire broker to clear the custom. In this process, illegal business is made by the help of broker and custom officer, it caused very big loops occurred in income and custom tax. So, to overcome this problem, co-operation between taxpayers and custom officers and stability of economic and taxation policy are also recommended.
- 18 Brings the harder Act on regard under billing system. And regularly giving tax education to buyers for importance of actual invoice so that buyers must take actual invoice from seller at purchase time. Its effect positive influence on income tax and Vat revenue too.
- 19 Brings scientific, practical and actual valuation method for imported goods and services. Rectify goods and services valuation book on proper practical basis. Another side strictly manage the system of custom administration, corruption and authority abuse.
- 20 Brings the harder act or area wise rent value book that does manage significantly rental tax collection. Such system must be implementing in Kathmandu valley immediately where rent income has been generating in large amount.

- 21 Government should be thinking for very small entrepreneur's welfare for encourage them to developing business and come with in proper tax net.
- 22 By splitting threshold gap for very small taxpayers. Like: a group Nrs.0.00 to 10 lakhs per F.Y. as rules D-01 or whatever favourable for both tax payers and government. May it brings to whole income generators with in tax net and we can obtain actual GDP too which at present very huge loops in GDP. Such GDP data is much essential for make policies in economic development.
- 23 Government should be brings act for transportation entrepreneurs who generates income from such business to overcomes actual data of white income and generates income tax too.
- 24 Government should monitoring effectively on banking entrepreneurs and entrepreneurs who using natural resources to generating income that's why I seems such entrepreneurs have generating more actual income than they showed which dominate black money and generates significant income tax.
- 25 Government should be implementing effectively "Money Laundering Act" which implemented at now. Such Act should dominate black money and generates huge amount of income tax which must need for our economic development.

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QUESTIONNAIRE

“AN ANALYSIS OF STRUCTURE AND PROBLEMS OF INCOME TAXATION IN NEPAL”

(Questionnaire to the tax administrator, tax experts and tax payers)

Name..... Designation.....
Office/Organization..... Occupation.....

Please tick (✓) the answer of your choice and put the alternatives in order of preferences.

1. Are you familiar about Income tax?

(a) Yes (.....) (b) No (.....)

2. Do you think there is poor taxpaying habit of Nepalese people?

(a) Yes (.....) (b) No (.....)

If yes, what are the major causes of poor taxpaying habit of Nepalese people? (Please rank your answer 1 to 7 scales by give weight of maximum points 50 to each answer.)

(a) Poverty ness of tax payer [.....]

(b) Little knowledge of tax and its importance [.....]

(c) Widespread practices of illegal business [.....]

(d) Lack of incentives for regular tax payers [.....]

(e) Defective tax administration system [.....]

(f) Complexity of tax laws and policies [.....]

(g) Poor public relation by tax office and authorities [.....]

(h) If others, please specify.

3. What should be the specific objective of income tax act, 2058 in Nepal?

- (a) To enhance the revenue of the government [.....]
- (b) Best method to redistribution of wealth between poor and rich person or to narrow the income gap [.....]
- (c) To meet the government expenditure [.....]
- (d) To achieve the goals of national development and equal economic distribution [.....]
- (e) Other, please specify.....

4. If no, are the major problems in implementation of Income Tax Act, 2058 in Nepal? (Please, rank your answer in order of priority)

- (a) Inadequate economic policy [.....]
- (b) Inefficient income tax administration [.....]
- (c) Complication income tax act, rules and regulation [.....]
- (d) Lack of equation of tax payer [.....]
- (e) Lack of awareness of tax payer [.....]
- (f) Lack of training and incentive to employee [.....]
- (g) Lack of expert in tax management [.....]
- (h) Lack of illegal business activities [.....]
- (i) Practice of tax evasion [.....]

5. In your opinion is the Income Tax Act, 2058 a modern and more effective Tax Act than Income Tax Act, 2031?

- (a) Yes [.....]
- (b) No [.....]

6. Do you think that contribution of Income Tax on national revenue is satisfactory through Income Tax Act 2058?
- (a) Yes [.....] (b) No [.....]
7. Are exemption and deduction provided by existing income tax act, 2058 are appropriate?
- (a) Yes [.....] (b) No [.....]
8. Which method tax assessment method is applicable in Nepal? (Please tick () anyone)
- (a) Self assessment
- (b) Jeopardy assessment
- (c) Amended assessment
9. In your opinion, which income tax rate is suitable for Nepal?
- (a) Progressive
- (b) Proportional
- (c) Regressive
10. Do you agree that Nepalese income tax administration is effective?
- (a) Yes [.....] (b) No [.....]
11. In your opinion, is there a major Problem of tax evasion in Nepal?
- (a) Yes [.....] (b) No [.....]

If yes what are the factors responsible for income tax evasion (Please, rank your answer in order of priority)

- (a) Inappropriate income tax policy [.....]
- (b) Defective tax administrative [.....]
- (c) Loopholes in income tax act [.....]
- (d) Corruption in tax authority [.....]
- (e) Lack of political commitment [.....]
- (f) Lack of consciousness in taxpayer [.....]
- (g) Inefficiency income tax policy [.....]
- (h) Lack of reward and punishment [.....]

12. In your opinion what is the most important factor for effectiveness of income tax in Nepal (Please, rank your answer in order of priority)

- (a) Clear act, rules and regulation [.....]
- (b) Moral and honest tax officer, tax payer [.....]
- (c) Political non interruption [.....]
- (d) Effective income tax administration [.....]

13. Do you have any comments and suggestions for addressing or solving the problems of Income Tax Act, 2058, please specify.

Comments:

- (a).....
- (b).....
- (c).....

(d).....

(e).....

Suggestions:

(a).....

(b).....

(c).....

(d).....

(e).....

Thank you very much for your kind cooperation.

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