

# **EFFECTIVENESS OF SELF-ASSESSMENT OF INCOME TAX IN NEPAL**

**A Thesis Submitted by**  
**Rukesh Raj Shrestha**  
**Hari Khetan Multiple Campus**  
**T.U. Regd. No. 7-2-481-36-2003**  
**Campus Roll No.-50**

**Submitted to**  
**Office of the Dean**  
**Faculty of Management**  
**Tribhuvan University**

**In Partial fulfilment of the requirement for**  
**The degree of Master of Business Studies**  
**Birgunj, Parsa**  
**October 2010**

## **RECOMMENDATION**

This is to certify that the thesis

Submitted by:

**Rukesh Raj Shrestha**

Entitled:

**Effectiveness of Self-Assessment of Income Tax in Nepal**

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

Shambhu Prasad Chaurasiya

.....

(Head, Research Committee)

Krishna Prasad Sa Sonar

.....

(Thesis Supervisor)

Dr. Bhagwan Prasad Yadav

.....

( Campus Chief )

Hari Khetan Multiple Campus

Date

## VIVA – VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by:

**Rukesh Raj Shrestha**

Entitled:

**Effectiveness of Self-Assessment of Income Tax in Nepal**

and found the thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the degree of Master of Business Studies (MBS).

### Viva-Voce Committee

Head (Research Committee)

\_\_\_\_\_

Member (Thesis Supervisor)

\_\_\_\_\_

Member (External Expert)

\_\_\_\_\_

Date:

## **DECLARATION**

I hereby declare that the work reported in this thesis entitled "**Effectiveness of Self-Assessment of Income Tax in Nepal**" submitted to the Central Department of Management, Tribhuvan University, is my original work. It is done in the form of partial fulfillment of the requirements for the Master of Business Studies (MBS) under the supervision and guidance of Krishna Prasad Sa Sonar, Lecturer of Hari Khetan Multiple Campus.

---

**Rukesh Raj Shrestha**

(Researcher)

Hari Khetan Multiple Campus

T.U. Regd. No. 7-2-481-36-2003

Campus Roll No.-50

Date:

## **ACKNOWLEDGEMENTS**

The completion of the present study is a result of help and support of several hands. Therefore, I would like to express my heartfelt gratitude to all those respondents for their support and help.

I would express my sincere gratitude to my respected supervisor Krishna Prasad Sa Sonar, Lecturer of Hari Khetan Multiple Campus for his valuable guidance and insightful ideas. This research would not have been possible without the help of my supervisor and Shambhu Prasad Chaurasiya, Head of Research Committee.

I am also indebted to all library staffs of Central library, Hari Khetan Multiple Campus, Birgunj and my special thanks also goes to Dipak, Ganesh and Keshav, who helped me for writing this thesis.

I am also grateful to Mr. Bharat Pd Adhikari for computer type.

**Rukesh Raj Shrestha**

(Researcher)

Hari Khetan Multiple Campus

T.U. Regd. No. 7-2-481-36-2003

Campus Roll No.-50

# CONTENTS

	<b>Page</b>
<i>Declaration</i>	<i>I</i>
<i>Acknowledgements</i>	<i>II</i>
<i>Abbreviation</i>	<i>III</i>
<i>Contents</i>	<i>IV</i>
<i>List of Tables</i>	<i>VIII</i>
<i>List of Figures</i>	<i>X</i>
<b>1. CHAPTER I : INTRODUCTION</b>	<b>1-10</b>
1.1 General Background	1
1.2 Statement of Problem	6
1.3 Research Question	8
1.4 Scope of the Study	8
1.5 Scheme of Study	9
<b>2. CHAPTER II : REVIEW OF LITERATURE</b>	<b>11-48</b>
2.1 Conceptual Framework	11
2.1.1 Concept of Tax	11
2.1.2 Concept, Meaning and Definition of Income Tax	13
2.1.3 Historical Perspective of Income Tax	14
2.1.4 The History of Income Tax Systems in Nepal	16
2.2 Review of Related Studies	18
2.2.1 Review of Books	19
2.2.2 Review of Dissertations	21
2.2.3 Review of Reports and Articles	22
2.3 Research Gap	25

2.4	Legal Provisions at Income Taxation	26
2.5	Sources of Income	26
	2.5.1 Income from Business	26
	2.5.2 Income from Investment	27
	2.5.3 Income from Employment	29
2.6	Meaning and Concept of Tax Assessment	30
	2.6.1 Tax Assessment Procedure	32
	2.6.2 Return of Income (sec 96)	32
	2.6.3 Returns of Income not Required (sec 97)	33
	2.6.4 Extension of Time to File Return of Income (sec 98)	33
2.7	Types of Assessment of Income Tax in Income Tax Act 2031	34
	2.7.1 Advance Tax Assessment	34
	2.7.2 Provisional Tax Assessment	35
	2.7.3 Re-assessment and Supplementary Assessment of Tax	35
	2.7.4 Self-Tax Assessment	36
	2.7.5 Best Judgment Assessment	37
	2.7.6 Assessment by Income Assessment Committee	37
	2.7.7 Assessment by Income Tax Assessment Committee for Small Taxpayer	38
	2.7.8 Assessment on the Basis of Agreement	38
2.8	Types of Assessment in Income Tax Act 2058 B.S.(2002)	39
	2.8.1 Self-Tax Assessment	39
	2.8.2 Jeopardy Assessment	40
	2.8.3 Amended Assessments	41
2.9	Payment, Collection and Refund of Tax	42
	2.9.1 Methods of Tax Payment	42
	2.9.2 Collection of Tax	43
	2.9.3 Remission of Tax	45
	2.9.4 Refund and Set-off (sec 113)	45

2.10	Appeal	45
2.10.1	Administrative Review	45
2.10.2	Appeal to the Revenue Tribunal	47
2.11	Tax Accounting	47
2.11.1	Methods of Tax Accounting	47

### **3. CHAPTER III: RESEARCH METHODOLOGY 49-51**

3.1	Types of Research	49
3.2	Research Design	49
3.3	Population and Sample Sources of Data	49
3.3.1	Group of Respondent and Size of the Sample	50
3.4	Nature and Source of Data	50
3.4.1	Primary Data	50
3.4.2	Secondary Data	50
3.5	Data Collection Procedure	51
3.6	Data Processing and Analysis Procedure	51
4.00	Statistical Tools	51

### **4. CHAPTER IV: PRESENTATION AND ANALYSIS OF DATA 52-98**

4.1	Tax Structure of Nepal	52
4.2	Resource Gap in Nepal	52
4.3	Composition of Total Tax and Non-Tax Revenue to Total Revenue	54
4.4	Composition of Total Direct and Total Indirect Tax to Total Tax Revenue	56
4.5	Contribution of Total Income Tax and Personal Income Tax to Total Tax Revenue	58
4.6	Composition of Direct Tax Revenue	60
4.7	Composition of Income Tax Revenue	62
4.8	Contribution of Income Tax	66

4.9	Estimate and Collection of Income Tax in Nepal	70
4.10	Exemption Limit in Nepal	71
4.11	Income Tax Rate in Nepal	72
4.12	Taxpayers and Returns of Income of the Fiscal Year 2005/06	73

4.13	Empirical Analysis	76
4.14	Result of Empirical Investigation	77
4.15	Necessity of Public Awareness Program	78
4.16	Methods of Income Tax Assessment	79
4.17	Effectiveness of Self-Assessment of Tax in Nepal	80
4.18	Self-Tax Assessment a Suitable Mean of Rising Domestic Resources	82
4.19	Self-Tax Assessment Provision in the New Income Tax Act 2058	84
4.20	Adoption of Self-Assessment System By the Taxpayers	87
4.21	Problems in Income Tax Assessment Procedure in Nepal	89
4.22	Effectiveness of Tax Administration in Tax Assessment	91
4.23	Attitude towards Heavy Penalty for False Statement	95
4.24	Attitude towards the Time Limit for the File Return	97

## **5. CHAPTER V: MAJOR FINDINGS, CONCLUSION AND**

### **RECOMMENDATIONS 99-106**

5.1	Major Findings	99
5.2	Conclusion	102
5.3	Recommendations	104

### **BIBLIOGRAPHY 107-109**

## **APPENDIX**

## LIST OF TABLES

	<b>Page</b>
Table 4.1: Resource Gap in Nepal	54
Table 4.2: Composition of Total Tax and Non-Tax Revenue to Total Revenue	55
Table 4.3: Composition of Direct Tax and Indirect Tax Revenue on Total Tax Revenue	57
Table: 4.4: Contribution of the Total Income Tax and Personal Income Tax to Total Tax Revenue	59
Table: 4.5: Composition of Direct Tax Revenue	61
Table: 4.6: Composition of Income Tax Revenue	63
Table: 4.7: Composition of Income Tax Revenue In percentage	65
Table: 4.8: Contribution of Income Tax to GDP, Total Revenue, Total Tax Revenue and Direct Tax Revenue	68
Table: 4.9: Estimate and Collection of Income Tax in Nepal	70
Table: 4.10: Exemption Limit in Nepal From fiscal year 1999/00 to 2005/06	71
Table: 4.11: Income Tax Rate in Nepal for Personal Income (Slabs over Exemption Limit)	72
Table: 4.12: Income Tax Rate in Nepal for Partnership Firms, Corporation and Non-Residents	73
Table: 4.13: Registration of Taxpayers and Return of Income for the Fiscal Year 2005/06	74
Table: 4.14: Reponses by Groups	76
Table: 4.15: Income Tax as a Suitable Mean of Raising Government Revenue	77
Table: 4.16: Necessity of Public Awareness Program	78
Table 4.17: Appropriate Method of Income Tax Assessment	79
Table. 4.18: Effectiveness of Self-Tax Assessment in Nepal	81

Table: 4.19: Reasons for Ineffectiveness of Self-Assessment of Tax in Nepal	82
Table 4.20: Self-Tax Assessment a Suitable Mean of Rising Domestic Resources	82
Table 4.21: Reasons for Suitable Measure of Rising Domestic Resources	83
Table: 4.22: Sufficiency of Self-Tax Assessment Provision in Income Tax Act	85
Table: 4.23: Needed Improvement Regarding Self-Tax Assessment Provision	86
Table 4.24: Adoption of Self-Assessment System by the Taxpayers	87
Table: 4.25: Problems in Income Tax Assessment Procedure in Nepal	89
Table: 4.26: Calculation of Correlation Coefficient	90
Table: 4.27: Effectiveness of Tax Administration in Tax Assessment	92
Table: 4.28: Reasons for Ineffective Tax Administration in Tax Assessment	94
Table: 4.29: Important Factors for Improvement of Income Tax Administration in Case of Tax Assessment Procedure	96
Table: 4.30: Attitude Towards Heavy Penalty for False Statement	96
Table: 4.31: Time Limit for the File Return	97

## LIST OF FIGURES

	<b>Page</b>
Figure: 4.1: Composition of Total Tax and Non-tax Revenue of Total Revenue	56
Figure: 4.2: Composition of Total Direct Tax and Total Indirect Tax Revenue to Total Revenue	57
Figure: 4.3: Contribution of the Total Income Tax and Personal Income Tax to Total Tax Revenue	60
Figure: 4.4: Composition of Income Tax Revenue	65
Figure: 4.5: Trend of Income Tax Revenue	66
Figure: 4.6: Income Tax as GDP	69
Figure: 4.7: Income Tax as Total Revenue	69
Figure: 4.8: Income Tax as Direct Tax Revenue	69
Figure: 4.9: Estimate and Collection of Income Tax	71
Figure: 4.10: Number of Income Taxpayer for the Fiscal Year 2005/06	75
Figure: 4.11: Number of Registered Returns of Income for the Fiscal Year 2005/06	75
Figure: 4.12: Income Tax as a Suitable Mean of Raising Government Revenue	77
Figure: 4.13: Necessity of Public Awareness Program	78
Figure 4.14: Appropriate Method of Income Tax Assessment	80
Figure: 4.15: Effectiveness of Self –Tax Assessment in Nepal	81
Figure: 4.16: Self-Tax Assessment a Suitable Mean of Rising Domestic Resources	83
Figure 4.17: Sufficiency of Self-Tax Assessment Provision in Income Tax Act	85
Figure: 4.18: Effectiveness of Tax Administration in Tax Assessment	92
Figure: 4.19: Attitude towards Heavy Penalty for False Statement	96
Figure 4.20: Time Limit for the File Return	97

## ABBREVIATIONS

A.D.	=	Anon Dominic
B.S.	=	Bikram Sambat
CEDA	=	Center for Economic Development and Administration
GDP	=	Gross Domestic Product
IRD	=	Inland Revenue Department
IRO	=	Inland Revenue Office
PAN	=	Permanent Account Number
TDS	=	Tax Deduct at Source
VAT	=	Value Added Tax
T.U.	=	Tribhuvan University