

# CHAPTER 1

## 1 INTRODUCTION

### 1.1 General Background:

Nepal is a small country situated between two large countries China and India. It has its own problems and prospects. Although being rich in natural heritage and bio-diversity, they are in under utilization. Primitive and orthodox society with conservative norms, values and institution exists there in. The per-capital GDP after adjusting the population growth is estimated to Rs. 27,209 (equivalent to US dollar 383).

Nepal's economy is predominantly based on agriculture. Most of the population is based upon agriculture, which contributes about 38 percent to the total GDP. Agriculture is the major supplier of raw materials to industries. Main obstacle to economic development of Nepal is vicious circle. It explains the economic backwardness. The basic vicious circle stems from the fact that Nepal's total productivity is low due to deficiency of capital, market imperfections, economic backwardness and under development.

In order to reap advantage from the improved trends in the global economy and to sustain economic growth at a higher level, Nepal needs to undertake a flexible and appropriate structural reform measures.

The constitution of Nepal has clearly directed Nepalese government for a self-reliant economic system, encouragement to national enterprises, prevention of economic exploitation as well as upgrading the standard of the people.

For self sustain, government must be able to generate sufficient government revenue, which is most important source of financing. Through the proper administrative strategy, the national objective can be achieved.

“Government revenue has grown by an average of 18 percent during the nineties. As a percent of GDP, government revenue increased from 8.8 percent in 1985 to 11.3 in 1996. Due to low level of revenue surplus, development financing of the government continues to the highly dependent

on foreign aid. The share of foreign aid in development expenditure stood high, at approximately 55 percent in the nineties.

The share of loan in total foreign aid has been growing and external debt of the country has increased from 2 percent of GDP in 1975 to 56 percent in 1996. Apart from the government sector, there are a number of non government organizations injecting financial resources into the economy. The financial investment of the NGOs and INGOs stood as high as Rs.11 billion in 1995, which is more than one-tenth of the total government expenditure in the social sector. Tax revenue accounts for around four-fifths of the total revenue. The most outstanding characteristics of Nepal's tax systems is its heavy dependence on indirect taxes and rigidity is its structure. Indirect taxes contribute more than 80 percent of the total tax revenue" [Pant, 2004: 39].

Since, being major source of fund collection of tax should be more flexible to achieve maximum social and economic objectives. Collection of tax helps in redistribution of economics means by the transformation of wealth from person with higher economic level to lower economic level.

Regional economical imbalances may be reduced by providing incentive and concessions in income tax from promoting industries in backward areas. It has become an effective instrument to ensure balanced socio-economic growth.

Beside these, following points should be considered while collecting tax:

- How much purchasing power of tax payer has been received?
- Whether tax payers are not feeling burdensome?
- Is there any reduction in consumption of goods?

Although the legal provision is made and updated timely, there are many problems exists in income tax practice in Nepal. The leakage in tax, feeling of people about tax as a penalty, payment of additional fees, lack of consciousness of people, inability of tax administration to cover the new tax payer within the tax portfolio, delay in tax assessment and collection, lack of accuracy and uniformity in accounting system, high cost of tax collection are some examples of those problems.

Having all these existing reasons, tax administration in Nepal must be reviewed. Tax administration is wheel of whole tax system. It gives right direction to the government and country.

Income tax is charged for two purpose namely collecting revenue to meet expenses for people welfare activities and to create equalitarian community by minimizing the economic gap between 'Haves and Haves Not'. It is also justifiable the sense that it greatly helps for redistribution of economic means by the transformation of wealth from persons with higher economic level to lower economic level which will result the minimization in gap between Haves and Haves Not. It will be possible to reduce the gap in income by imposing higher rate to those who are having higher income and from that collected amount, providing necessary assistance to the people with very poor economic condition. Hence, it will help to make equitable economic distribution in the society. Balanced regional economic development is also possible through the provision of income tax. The government should charge higher income tax on the income from urban area and less on the income from remote area. Income tax holidays and incentive would help to develop the priority sector of national economy. it has become an effective instrument to ensure balanced social- economic growth.

Income tax plays a very important role in the Nepalese Economy. It is one of the sources of government revenue. Income tax is a tool of achieving maximum social and economic objectives as laid down by the constitution of Nepal. It is also recognized as a good financial level to make narrow the inequality in income. According to modern economist, income tax is essential not only for collecting government revenue but also to control over consumption, to promote saving and to generate more employment. Nobody can doubt that income tax is also useable in the balance economic development. The equal distribution of income is also possible through that the contribution of income tax to the revenue of the government must be increased in Nepal. However, Nepal still has been unable to maximize the collection of income tax.

Nepal is poor and least developing country. Therefore, the sources of government revenue in Nepal are very limited. The domestic sources of revenue of the government should be increased to escape from the condition of depending on foreign aid and debt. Tax should be imposed at high rate to increase the domestic resources. In the mean time, the effect of taxation should be taken into care.

Because of these reasons, the income tax of Nepal must be reviewed and immediate correction should be made. The major elements of income tax systems are income tax law policy and its management. Among the above three elements of income tax system, the income tax management is the most important one because the application and realization part is totally

played by its management. Further more, the necessary correction in its legal provision and policy is possible through the information feed back system provided by its management.

## **1.2 Statement of the Problem:**

After 1980, Nepal has followed a liberal and open market economy. Social and economic development is not sufficiently reached at target point as it has a small economy with limited resources and political instability; all of those unfavorable features help to draw back the country. There is a gap between planning and its execution. Thus, policies and strategies have been largely ineffective. Dependency over foreign aid is dramatically increasing so, the deficit of budget is at a peak level. In recent year, the budget provision of debt servicing has reached around Rs.24 billion which are paid by the taxes money and it is around 25% of annual revenue, it is alarming signal. Pattern of foreign assistance is now changing their slogan from “no business but assistance” to “no assistance but business”. Due to this reason, the increasing foreign aid is harmful from the prospective of national interest. To face with this problem government needs to increase internal source of finance.

It is known that increasing funds from internal source is not an easy task, particularly when business economy in itself going backward. There is another problem i.e. inadequacy internal sources in itself, to increase internal sources of finance. Sufficient resource is needed in the hand of government. There are various ways of rising internal resources like taxation, internal borrowing etc.

If we look at a glance to the budgetary system of Nepal, we can found a significant resource gap. Resource gap is the difference between total expenditure and total revenue. The financial expenditure of the government of Nepal has been increasing at a faster rate due to the slow increase in the rate of revenue to fulfill the expenditure requirement, owing to the inefficiency of tax administration and incomprehensive tax act.

The resource gap is fulfilled by internal and external borrowing. There is dominant role of external resources to fulfill the gap. However, it may push in trap the economy of the country as it creates extra burden to the economy because debt servicing charge increases every year. Thus, the internal resource mobilization should be cared into mind to decrease vast level of external loans and grants.

Out of total internal resources, revenue collection from income tax plays important role. Past trend has proved that the income from taxation has not been effective. As, the income tax administration of Nepal has been blamed that it is not efficient. There are many advantages of income tax collection as revenue.

Some examples are:

- Only capable tax payer is needed to pay the tax
- Income tax is levied on progressive way.

Further, in connection to Nepal, income tax is not able to make vital role for economic development of the country. The main reasons behind it are as follows:

- Nepalese people do not support the tax officials by giving their true information regarding tax evaders.
- Richer Nepalese people have lack of tax paying habit and tax consciousness.
- The tax evasion and avoidance habit is increasing day by day due to low standard of education for tax responsibility to tax payers.
- Tax structure of Nepal is biased towards indirect taxes.
- The tax act and other related acts, rules, regulations and policies create complexity for calculation of tax.
- The successful implementation of income taxation in Nepal is limited by its narrow coverage and base, inefficient administration, corrupt bureaucracy.

In connection to these points, various problems regarding tax administration are:

- Failure to locate new tax payers.
- Failure to record proper accounts and records.
- Assessment delays
- Collection delinquency.
- Poor tax payer compliance.
- Problem of evasion and avoidance.
- Defective personnel management
  - ) Defective selection of personnel.
  - ) Lack of efficiency in tax personnel.
  - ) Poor taxing opportunities.

- ) Lack of motivation in tax personnel.
- ) Defective organizational arrangements.

The specific issues addresses by the study are :-

- How is the income tax management in Nepal?
- How is the assessment process of income tax in Nepal?
- What are the problems of income tax management of Nepal?

### **1.3 Focus of the Study:**

The study is focused to analyze the structure of income tax and its administration aspect. The focuses of the study are on the following aspects of income tax in Nepal.

- 1) Income tax management in Nepal
- 2) Effectiveness of tax revenue collection.
- 3) Structure of government revenue in Nepal.
- 4) Contribution of income tax to total revenue.
- 5) Role of tax administration in tax collection.

### **1.4 Objectives of the Study:**

The main objective of the study is to analyze the system of income tax management in Nepal and give appropriate suggestion to improve the tax system so that the government can collect more revenue and use it in the process of national development. However the following specific objectives have been set for the study.

- To review the income tax management in Nepal.
- To analyze the assessment process of income tax.
- To identify the problem of income tax management of Nepal.
- To provide suitable recommendations for improving existing scenario of income tax management.

### **1.5 Significance of the Study:**

Income tax plays significant role in the overall economic development in developed as well as developing countries. It occupies a very important role in overall tax structure. The role of income tax is gradually increasing in the world because of economic betterment of countries.

Developing country, like Nepal, requires higher magnitude of financial resources for the development program. Domestic resources have more significant role than the external resources for development program. Among the domestic resource, Income tax plays a significant role. Revenue from income tax can be maximizing either by imposing taxes at higher rate, or introducing new taxes or collecting income tax properly within existing portfolio. Increment in income tax rates may be more burdensome to the people. Introduction of new taxes and proper collection of tax depend on good income tax management policy and laws. Unfortunately, Nepal's income tax system is not free from problems. Though, this field is of high importance, sufficient and timely researches are not being made in this field so far. In the context, importance of the research study can be known easily.

Again, as being very much important role of income tax in economic development, to study it thoroughly is needed. Because it gives a plus point for policy maker as the research has supposed to become milestone for them. Though, a bit attention has been seemed towards the subject matter, those are not being sufficient to through the light upon our subject matter. All of these reasons have pushed to select the topic as tax administration in Nepal with making special reference to income tax.

## **1.6 Limitation of the Study:**

There are some limitations regarding this study, which are as follows:

- ❖ The study will be strictly confined to the income tax management in Nepal.
- ❖ Due to lack of time and other difficulties the opinion surveys have been limited in Kathmandu valley.
- ❖ Due to the time constraints, 50 respondents representing different groups were selected for the study.
- ❖ It analyses the income tax management as per Income Tax Act.
- ❖ The study generally covers the period from 1986/87 to 2006/07 but as far as data are available.

## **1.7 Organization of the Study:**

The study has been divided into five chapters. They are:

1. Introduction.

2. Review of literature.
3. Research methodology.
4. Presentation and analysis of data.
5. Summary, conclusion and recommendation.

## **Introduction:**

The first chapter is about the introduction, which includes background, statement of problem, objective of the study, importance of the study, and limitation of the study and organization of the study.

## **Conceptual Framework and Review of Literature:**

The second chapter is about review of literature, which include conceptual review, and review of related studies. Conceptual review includes the revenue system of Nepal, role of income tax in revenue system and income tax laws and policies are described. For review of related studies some books, dissertations, reports and articles have been reviewed.

## **Research Methodology:**

The third chapter is concerned with research methodology. In this chapter research design, population and sample, nature and source of data, data collection procedure, data processing procedure and analysis of data and weight of choice have been described.

## **Data Presentation and Analysis of Data:**

This chapter has three parts. The first one is concerned with analysis of secondary data, the second one is concerned with primary data. Analysis of secondary data contains tax and non-tax revenue in Nepal, structure of government revenue in Nepal, tax/GDP ratio in Nepal and revenue collection of IRD – A comparative study, structural condition of income tax. The second part is about analysis of empirical study. The third part is related with the major findings of the study.

## **Summary, Conclusions and Recommendations:**

This chapter has designed for summary, conclusions and recommendations based as the study.

## **CHAPTER 2**

# **CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE**

### **2.1 Income Tax:**

Every government requires sufficient revenues to carry out development plans, handle day-to-day administration, maintain peace and securities and lunch other public welfare activities. In each country, the public authority for the protection of common people spends a lot of fund and creation of various socio-economic infrastructures protection expenditure includes the purchase of arms and ammunitions, army and police expenses and administration of jails. Commercial expenditures are also incurred by the government for operating of transportation and public enterprises which are undertaken by the government for the public interest. The other type of public expenditure is development expenditure. So, the government expenditure is increasing day to day because of demand of time, increasing price and national income. The government needs more money to run it successfully, to pay salaries to the government employees or to do the development works; it needs huge amount of money called revenue.

The government revenues come from different sources like grants, administrative incomes and taxation. Grant means the amount give by one to others. The administrative income denotes the amount charged by the government for providing administrative services. Business income means the return received by the government for providing various goods and services to the people. All these revenue are non tax revenue, the basic purpose of which is not to collect revenue but otherwise. The revenue comes automatically while performing many other works. One of the sources of government revenue is the taxation. The government collects revenues from various sources such as tax, revenues from public enterprise, special assessment, fees, fines, grants and assistance etc. among them tax is the main source of government revenue. Tax is playing vital role in the economic development of the country.

A tax is a compulsory contribution from the persons to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred. So, a tax is a compulsory levy paid or to be paid by a natural or and artificial

person to the government without getting corresponding benefit of goods or services provided by the government.

According to Dalton:

“A tax is a compulsory contribution imposed by public authority irrespective of the exact amount of service rendered to the tax payers in return and not imposed as a penalty for any legal offence.” [Dalton, 2005:250]

### **2.1.2 Tax and Efficiency:**

A tax except in the form of a lump sum levy reduces the consumer's welfare in two ways: directly through a transfer of resources from him to the government and indirectly through a rise in the consumer prices of taxed commodities relative to those of non-taxed ones. The former produces a (direct) income effect while the latter gives rise to both an (indirect) income effect and a substitution effect in the standard manner following a relative price change.

The efficiency loss of a tax refers to the excess of the reduction in the consumer's welfare above and beyond that which can be accounted for by income loss due to payment of the tax. For this reason, the efficiency loss is usually referred to as the excess burden of the tax.

### **2.1.3 Tax and Equity:**

Equity is one of the main issues in taxation. Equity means distribution of income, wealth and /or other variables of interest equally. A possible way to give concreteness to the meaning of equity is to interpret it only in the context of redistribution. Equity issues in taxation are generally examined under the two complementary rubrics of horizontal equity and vertical equity. The former calls for the equal tax treatment of equal individuals while the latter calls for the unequal tax treatment of unequal individuals.

### **2.1.4 Types of Tax:**

Tax may be of various types. The rate and nature of tax may be different as economists have classified the tax from different angles. They have given a very long list of the types of tax. But on the basis of impact and incidence the tax may be classified into two types:

- Direct Tax
- Indirect Tax

A direct tax is really paid by the person on whom it is legally imposed. Direct taxes are levied on the income and property. The direct taxes have been used to bridge the gap of income and wealth inequality in the society. An indirect tax is imposed on one person but paid partly or wholly by another. Indirect taxes are generally imposed on consumption of goods and service. The taxes on such goods and services are integrated with their price. Selling those goods and services on higher price, the tax payers easily transfer the burden on general consumers. [Kandel, 2003: 6]

### **2.1.5 Income Tax:**

Income tax is a direct tax that is imposed on the earning of individual and corporation. Actually, tax levied on the taxable income is known as the income tax. It is charged by the government on the income of the previous year at the rate prescribed each year by the finance act. From very earlier, income tax has always been regarded as a tax based on the canon of ability. The tax could be adjusted as to exempt the lowest income groups from the operation of the tax and make the richer groups bear the burden of tax according to their income. Tax economists have a view that an income tax is a levy imposed upon the income of an individual after the exemption limit. All incomes above the tax exemption level are subjected to income tax that is based on the income tax act of the concerned country.

### **2.1.6 Management:**

Certain established practices and techniques in society are recognized as constituting the field of management. Those administrative practices and managerial techniques enable the various organizations of a society – its governments and business enterprises, its social clubs and labor unions to fulfill their responsibilities and to execute their programs. The majority of authors agree that management plays an important role in society. But while they agree on the importance of management, they assign to the subject different degrees of significance.

Henry Fayol believes that the management process is universal, that its existence is percentage wise the most element in particularly all vocations and professions. So, there is widespread need for the scientific study of management. While Paul Pigars feels that the

main purpose of administration is to preserve the status quo in society. Brooks Adam regards management as a more important, indeed as the most important human facility because its function is to facilitate social change and to cushion the stock of social revolution. James Burnham contends that the managers of society have appropriated so much power that the decisive revolution has already arrived, neither fascistic nor communistic revolution, but managerial. Charles E. Marrian regards management as the evolution of another human technology leading to man's adaptation to his complex environment. Charles A. Beard believes that management is the key science of contemporary civilization.

### **2.1.7 Tax Management:**

Tax management is regarded as a tool for including some responsibilities for determining the policies and the programs of government related to tax. Especially it is the planning, organizing, directing, coordinating and controlling of government organization related to taxation. The shape of tax system in practice is determined to a great extent by the way it is management.

The main objectives of tax management should be the efficient assessment, collection and enforcement of taxes legally due, without undue cost and harassment to the government or taxpayer in terms of money, time, inconvenience and mental worry. More specifically, the objectives of tax management may be stated as follows:

1. To assess and collect taxes in order to meet the revenue requirements of the country.
2. To facilitate and encourage voluntary compliance by taxpayers.
3. To determine tax evasion and avoidance.
4. To maintain public confidence in the fairness and integrity of the tax system.
5. To administer tax legislation fairly, uniformly, impartially with firmness.
6. To keep high the morale and motivation of tax officials.
7. To work efficiently in order to make the tax system effective.

### **2.1.8 Significance of Tax Management:**

Tax evasion and tax avoidance, whether at the national or international level, violate the principle of fiscal equity and undermine the concept of voluntary tax compliance, that is, the

timely filing and reporting of required tax information, correct self-assessment of taxes due and their timely payment without resource enforcement action.

Tax evasion is normally considered to occur when non compliance is the result of a willful and conscious failure to notify the taxing authorities of taxable assets or income activities giving rise to taxable income, a deliberate failure to pay taxes legally owed or use of fraud to conceal the existence of taxable income and/ or obtain allowances or the repayment of taxes. Tax avoidance on the other hand, a less precise concept, is generally in such a way as to take advantage of weaknesses or ambiguities in the tax law to reduce the tax payable below what it could otherwise be, without actually breaking the law.

Tax avoidance techniques, although legal-that is, in conformity with the letter of the law – nevertheless achieve the reduction or elimination of tax liability in circumstances where it is the underlying intention of the law that tax should be charged. Although tax avoidance may be regarded as immoral, the techniques employed are legal and tax conduct involved is not fraudulent.

It has shown that there are multiple motives for both compliance and non-compliance with the tax laws. With regard to compliance, it gives the meaning of self motivated to pay tax. Tax payers who obey may be motivated by a sense of civic responsibility or social justice or by a fear of sanctions that some cases by fear of the less of social acceptance if their delinquency should ever become public knowledge.

With regard to non-compliance, a number of reasons for failure to abide by the tax laws:

1. High tax rates.
2. Lack of trained staff to examine or audit accounts.
3. Weakness in the tax laws and management.
4. Lack of coordination between tax departments and other government departments.
5. Weakness in the tax laws and management.
6. Absence of international conventions on income tax for exchange of information.

Tax evasion and avoidance—two forms of non-compliance—significantly reduce the amount of collected taxes, that is, the amount of compulsory unrequited payments to government that

enable to perform the tasks constitutionally and legally entrusted to them, and increase their dependence on non tax resources.

Tax evasion and avoidance also increase the desire for tax payer to ignore the tax laws or seek artificial ways around them. In order to offset the revenue losses this occurs, government may have to levy new taxes; increases tax rates and eliminate exemptions, thereby imposing an unfair burden on honest taxpayers. The impact of this is perceived to be high taxes which are not returned with services or other identifiable benefits. They are accompanied by criticism of the size and inefficiency of government.

In the circumstances described above, the ability of tax management to enforce compliance and thus minimize the disparity between taxable capacity and tax effort levels becomes a matter of honest priority.

The challenge facing by many developing countries is thus to overhead their tax managers so as to enhance their overall performance. A tax management of high quality can help not only to meet of achieving revenue requirements but can also constitute a means of achieving greater financial self-reliance, since external financial assistance – even when forthcoming – can be no more than an adjunct to domestic financial resources. Moreover, any existing or new foreign borrowing will have to be serviced with in the limits of two degree, the ability of developing countries to attain sustainable management with great integrity, capable of colleting revenue as specified in the tax legislation and, at the same time, of providing tax payers with better service.

A tax management that operates with maximum efficiency and effectiveness helps to mobilize more revenue, thereby enabling governments to achieve greater financial reliance and facilitating the pursuit of growth – oriented structural adjustment programs, the provisions of requisite infrastructure for economic and social development, and the creation of a more hospitable environment for private foreign investment.

In addition to fostering a more attractive environment for foreign investment, a smoothly functioning tax management yields other benefits including the following:

1. It enhances the ability of government to efficiently enforce tax with potentially high revenue yields (such as income tax and excess profit tax) which requires precise and sophisticated applications.
2. It obviates the need to broaden the tax base, i.e. to levy new taxes and/ or raise tax rates and may make it possible to eliminate or reduce burdensome taxes, grant more tax exemptions and enlarge income tax brackets without reducing tax revenue; and
3. It may make it possible to successfully tax the agricultural sector, which in many, countries remains largely untaxed despite its inherent potential as a significant source of revenue.

In a broader context, an efficient and effective tax management will help developing countries to take advantage of economic recovery elsewhere in the world by including their determination to undertake necessary reforms. Thus bolstering their ability to attract a greater share of foreign direct investment, bring back home resources lost to capital flight and come to grips with their external debt servicing burden through negotiations with their creditors. It might even help these countries to qualify for more official development assistance for the financing of needed infrastructure [www.imf.org].

### **2.1.9 Tax Management and Fiscal Policy:**

Tax management interacts with fiscal policy, in various ways: For example:

1. Higher taxes on certain activities or sectors, although an administratively convenient way of increasing revenue or reducing a deficit, may in fact act as a disincentive to production and efficient revenue utilization; these taxes also have a contractive effect on consumption, since they reduce the tax payer's purchasing power.
  1. If it is considered politically unacceptable to increase taxes as a means of reducing budget deficits, the tax management may be called upon to help achieve this goal by operating more efficiently and effectively. If successful, this approach reduces the budget's contribution to growth in the money supply and this help to curb inflation and decrease dependence on non-bank financing.
  2. A budget- balancing determination would make the government more conscious of its spending behavior and give the tax management an additional incentive to combat tax evasion and avoidance and

3. A larger budget deficit resulting from weaknesses in tax management may lead to a larger public debt and higher interest and tax rates as well as to lower capital accumulation and employment growth rate. Financing large deficits through money creation fuels inflation and discourages private investment. Higher tax rates and/ or new taxes may then become the only viable means of generating the domestic savings needed for capital-formulation projects.

### **2.1.10 Tax Management and Tax Policy:**

With regard to tax policy, experience has shown that even in countries where tax policy reforms have been implemented their economic impacts have often been compromised by poor tax management and revenue yields have not been up to the mark. Efficient and effective tax management gives the maker of tax policy a wider range of options and is, in fact, the key to effective tax policy, for no policy can be constructive or even feasible unless properly implemented by the tax management.

### **2.1.11 Tax Management and Tax Structure:**

The effectiveness and efficiency of the tax management also affects the tax structure. The tax structure can be modified, but unless the tax management is capable of enforcing both new and existing taxes, the modifications may have no significant impact on tax collection. The importance of tax management performance in relation to the tax structure has been described by the Director of the Fiscal Affairs Department of the IMF [2002] in the following terms:

“In arriving at the desirable tax structure that they will recommend, fund missions take into account:

1. The government’s priorities.
2. The country’s macro-economic situation.
3. The strength and honesty of the country’s tax management.
4. The existing statutory tax structure.
5. The structure of the economy, and
6. A variety of other factors such as constitutional or legal limitations, prevailing customs and attitudes, the incidence of the existing tax system and so forth.

The factors mentioned above constrain the number of feasible options and, to some extent, influence the final tax structure. The weakness of tax management may rule out all but the

simplest options the maxim that ‘old taxes are good taxes’ would argue against a major overhaul of the tax system. There is only so much change that a tax administration can absorb at any one time.”

### **2.1.12 Essential Functions of the Tax Management:**

The tax laws impose on taxpayers certain obligations with which they are required to comply. They must be registered on the tax rolls, file returns, provide full and accurate information and pay the taxes due on time. A tax management ‘carries out the ordered of tax policy’ its basic mission is to ensure compliance with the tax laws and regulations as they stand or are interpreted by the courts. It must help tax payers to fulfill their tax obligations and when necessary, induce or compel them to do so.

In order to execute its basic mission, a tax management performs certain fundamental functions taxpayer registration and identification, assessment (including valuation), collection and audit. These functions have been classified as ‘essential’ whereas personnel management planning and control, and tax payer information and assistance have been described as ‘auxiliary’ or ‘support’ functions. The ‘essential’ functions have also been labeled ‘operational’, since they involve the actual collection of taxes and entail close relations with tax payers while the ‘auxiliary’ or ‘support’ functions have been designated as ‘normative’ meaning that they involve in interpretation and application the preparation and issuance of guides and standards and the establishment of working methods and procedures.

In the performance of its essential functions, a tax management usually faces serious constraints and difficulties in developing countries, where many tax payers, unlike tax payers in industrialized countries, are not enmeshed in a set of interlocking recorded transactions. In industrialized countries, a major part of the tax base is linked to the activities and assets of large organizations, whereas, in developing countries, the potential base would normally be linked to the activities and assets of self-employed business persons, farmer and professionals, who constitute the ‘hand-to-tax’. Consequently, for reasons of administrative convenience and feasibility, developing countries tend to rely on a handful of easy-to-manager indirect taxes such as export duties, import duties and excise duties, other taxes on imported goods.

In fact, in many developing countries the tax laws can, to a large extent, be enforced fully only in the formal sector, for frequently only corporations have the capacity to maintain proper accounts. First, developing countries often have a large informal sector, consisting of black markets, capital flight and so on, which are virtually beyond the reach of level of illiteracy not only creates ignorance of the tax laws and regulating but provides an excuse for it. The alleged inability of tax payers to furnish the documentation needed for a realistic assessment prevents the income, net worth; gift and land-whose incidence is generally assumed to rest with those who pay them- offer greater incentives and more opportunities for tax dodging. In addition, incomes, imports, sales, real estate and the like may have objective or true values completely different from those on the basis of which the relevant taxes are calculated. This is not necessarily due to a deliberate intent to evade or avoid taxes, but any be the result of poor record-keeping and accounting standards, other things being equal, the lower the compliance cost, the better the tax managements performance. Optimum compliance is the result of improved tax payer registration and identification assessment, collection and audit.

### **2.1.13. Taxpayer Registration and Identification:**

A tax management needs to take all feasible steps to ensure that all natural and legal persons liable to taxation are registered. However, given the limited resources of many tax managements, efforts to register new tax payers has to concentrate on areas which seem likely to yield significant revenue.

Upon registration, each tax payer is immediately be issued an identification number to ensure that documents and records in master files can easily be traced to a specific tax payer. Once, issued the identification number has not be duplicated, reissued or cancelled in the event of the tax payers' death or cessation of operation.

### **2.1.14. Assessment:**

For assessment, it has been followed where feasible and appropriate, what is called the conventional approach to assessment, which emphasis voluntary compliance through self assessment- backed by random but rigorous auditing and stringent penalties and the provision to taxpayers of outreach services, including technical advice on tax assessment obligations. In

that connection, taxpayers have been authorized to file and play in ways that minimize compliance cost.

On the other hand, when prevailing conditions make it necessary to rely primarily on administrative or official-assessment of all tax returns, the tax management has to carry out economic or statistical studies where finding helps tax official to make 'best judgment assessment, when the information supplied by tax payers is deemed to be incomplete or inaccurate. To determine estimated income or value-added in the case of taxpayers who cannot be counted on to maintain comprehensive accounts. "Best judgment' assessment would result from the application of the rule of thumb used by experienced tax officials and the judgmental guidelines formulated by many plausibility of the information supplied by tax payers.

### **2.1.15. Collection:**

In developing countries – as well as in industrialized countries – the tax collection function is guided by the need to maximize revenue. Collection at source and other current payment arrangements for direct taxes (personnel income tax, taxes based on accounts and records) has been strengthened and even extended. To that end, the tax management is to be designed and implemented a monitoring system comparable to the credit control system used in private business.

In developing countries, where must tax payers either do not keep reliable records on manage not to reveal them – the scarcity of managerial resources makes it highly desirable to use withholding as extensively as possible: third parties engaged in transaction with potential and actual tax payers is required to withhold appropriate amounts from payments. The amounts thus withheld by third parties on behalf of the tax management is transmitted to official accounts as promptly as possible and credited against the tax liabilities of the appropriate tax payers.

A person is to be imposed if the tax payer underestimates by more than a given percentage (e.g. 25 or 30 percent) his or her liability, as opposed to the actual assessment made by the tax management or if the tax payer fails to pay a tax installment within specified time period.

### **2.1.16. Audit:**

Auditing is accurately focused and carried out with a high degree of supervision in order to ensure its effectiveness and integrity. Auditing is to be based on appropriate selection criteria: over-extensive auditing is impractical since any additional revenue raised is offset by increased managerial costs. A good information system, using computers where feasible and appropriate is to be facilitated rapid detection of non-filers, stop-filers. Tax payers must be categorized according to type of tax, type of business, geographical location and potential contribution to revenue [IMF Annual Report: 2004].

## **2.2 Tax Management in Nepal**

### **2.2.1 Historical Background:**

Tax management exists in Nepal from the ancient period. At that time taxes have been levied in various forms. The traditional instruments of taxation were land revenue, customs and exercise duties. The collection procedure of tax varied from time to time. Sometimes middle men were to employ to collect tax and sometimes the task was undertaken by middleman and tax officials. It is relatively tough task to search information about tax management which existed prior to 1950s. Although being rough task, the review is made on the basis of information available during the Rana regime. The kind of oldest tax in Nepal is land revenue where land owners had to pay a set percentage of the agricultural yield of their lands to the government as tax. Initially, they had to pay the tax in kind, later on; the equivalent amount had also been paid in cash.

The seed of tax management was taken in to care formally as *Bakauta Tahsil Assa* in 1960. It concerned with the annual land revenue administration. It was renamed as the Land Revenue Office in 1896. Since, those offices were not directly involved in assessing and collecting land revenue. It was due to the difficulties in organizational arrangement with the limited number of tax officials on the payroll. At the movement, there existed an arrangement whereby these offices collected the land revenue with the help of middlemen known as '*Mukhiya*' and '*Zimawal*' in the hilly regions, and '*Zimawal*' and '*patwari*' in the Tarai. The task of these middlemen was maintaining records of land holdings in their respective areas, collecting land revenue from landholders every year and depositing the same at the concerned land revenue offices within a specified time frame [Khadka, 2005: 3].

The system had its own advantage that is due to hereditary characteristics of intermediaries, there was no need to hire a large number of staff to either maintain records or collect revenue. Thus, at minimum administrative cost, the task of collection of tax was performed. Since, the intermediaries were granted positions of power and prestige in addition to monetary rewards, they carried out their functions in an earnest manner, stimulus on by the double incentives of retaining their positions and passing these positions on to their descendents. Such intermediaries had also played a leadership role involving in social and development activities in their respective areas. The intermediaries also got the commission from the amount of tax collected.

Since, the system of collecting land revenue from intermediaries also contained several drawbacks. For example, the authority to collect tax was granted to many middlemen. So, the method of collection varied from one area to another. The system also encouraged ruthlessness in the intermediaries. They forced to pay up land revenue with gifts in the form of '*walak*', '*salami*' or '*Bethbeger*' to '*Zamindir*', '*Mukhiya*', '*Zimwal*' or '*Patwari*'.

In fact, the system in question continued until early 1996 in these districts where the cadastral survey had not yet been conducted, while land revenue offices collected land revenue directly from landowners in other districts where the cadastral survey has been conducted. In January 1996, the task of collecting land revenue was developed to local government bodies. Another landmark in the land revenue collection was the abolition of the '*Birta*' system in the year 1959/60. Under this system, some privileged families had a right to collect and retain land revenue. Moreover, all those who were entitled to collect revenue and keep it were obliged to deposit the same at stipulated office even as the period also saw nationalization of '*Birta Mal Tahashil*'.

On the other hand, custom duties have a long history in Nepal. During Lichhabi period (464-1769 AD), when the trade between India and Tibet was touted via Nepal, custom duties were supposed as important source of revenue. During Rana regime also custom duties were a ready source of income and were imposed on both imports and exports.

Much like custom duties, excise duties were also employed to beef up revenue mobilization. The main sources of revenue from excise duties were liquor, lather, pig-hair, mining, herbs and opium. Excise duties levied on opium, ganja and hashish were known as '*Kirshi*'

(agriculture) *Rakam* while the excise duties levied on liquor, leather, bones and horn were known as *Madabhatti* (alcohol) *Rakam*, *Charsa* (leather) *Rakham* and *Had-Sing* (bone and horn) *Rakam* respectively.

## **2.2.2 The Evolution of Modern Tax Management:**

When the Ministry of Finance came into being in the year 1951, the modernizing tax management had started. The ministry had a revenue section to deal with tax management at a central level. Tax policies and regulation were formulated within this section. To abolish contract system of revenue collection and internal customs offices, enough efforts were undertaken. Offices known as *Bazar Adda* were replaced by custom offices at the border points. At that time, and after the following subsequent year, the development found within tax management has been described as below:

### **2.2.2.1 Custom and Excise Management:**

Nepal was obligated to open custom offices in different parts of the Tarai region, which were set under the Indo-Nepal Treaty of 1950. These offices were classified into different categories based on volume of exports and imports eventual collection of revenue. Custom commissioner was set up in 1957 and was converted into Customs and Excise Department in 1959. Due to expand of scope of custom duties and excises, the department was split into two separate departments, i.e. the Custom Department and the Excise Department. Various custom offices and sub-offices were created under the custom department and sub-offices were created under excise department.

### **2.2.2.2 Land Revenue Management:**

It is the one of the oldest revenue department and was under the jurisdiction of Ministry of Finance until late 1957, and thereafter, it was put under the Jurisdiction of Ministry of Land Reform and Management. The number of land revenue offices has increased over the years, and now there is at least one land revenue offices in each district. It maintains the records of land ownership.

### **2.2.2.3 Tax Management:**

It was created as the Tax Directorate in 1959, the Internal Revenue Department in 1961/62 and the Tax Department in 1963/64. In 1964, there were tax offices in 6 places in Kathmandu, Birgunj, Biratnagar, Nepalgunj, Bhairhwa and Janakpur. In Kathmandu, there were two offices known as the eastern and western offices. After increasing the number of offices, they were classified as zonal offices and branch offices over years. In 1978/79, zonal and branch offices were converted into tax offices. Tax management was Value Added Tax (VAT) management was merged together and the Inland Revenue Administration was created. Originally, the tax department and field of offices under this department were responsible for administering income tax, foreign investment tax and urban house and land tax. Several new taxes including air travel tax, hotel tax, interest tax and loan were introduced over the years, which were kept under the hand of this administration. Moreover, the only tax, which interested the officials, was income tax and other varieties received little attention.

### **2.2.2.4 VAT Management:**

It was structured along functional level, sections and sub sections are created. Taxpayer service, tax audit and investigation, internal monitoring, collection and registration, tax refund, large taxpayer were important sections. There was clear job specialization of each position. Evolution of a corruption free system was considered as a precondition for an efficient and transparent tax management. However, VAT management was not attractive. In fact, even the staffs were keen to be transferred to customs. Similarly, those posted at the ministry of Finance or at the customs and other tax offices did not want to be transferred to the VAT management.

## **2.2.3 Unified Organizational Structure:**

To decrease the administration cost for the collection of tax, amalgamation of different type of tax offices into a single unit is must. Unification is even more necessary in a country like Nepal. Initially it was decided to merge the VAT and Tax management, although there were four revenue departments and one training center under the Ministry of Finance at the time. Due to being opposite feature of customs management with others, government decided to unify only the tax and VAT Department.

## **2.2.4 Existing Structure of Tax Management:**

The Ministry of Finance is the top most body of tax management. The Finance Ministry is the head of the ministry. Finance secretary and other senior level bureaucrats assist the minister with day to day work.

The ministry of Finance is divided into nine divisions:

1. The Revenue Administration Division.
2. The Foreign coordination Division.
3. The Budget and Program Division.
4. The Economic Affair and Policy Analysis Division.
5. The corporation co-ordination and Privatization Division.
6. The Revenue consultation Committee.
7. The management Davidson.
8. The Legal Division. And
9. The Monitoring and Evaluation Division.

Out of them, the Revenue administration Division formulates the tax policies and initiates implementation of tax policy with an appropriate tax management. It monitors the status of both tax and non-tax revenue collection.

Total number of civil servants who belong to the ministry of Finance during 2003/04 can be broken down as follows:



1. The Operation Division. And
2. The Policy and Management Division.

Operation Division handles functions like tax credit, investigation, refund, collection, information technology, and tax payers' service. On the other hand, the Policy and Administration Division covers policy, international tax, advance ruling, appeal, administration and excise and non-tax revenue matters.

#### **2.2.5.1 Internal Monitoring:**

Its function is to review the performance of the Internal Revenue Administration. It also evaluates the performance of other sections IRD as well as functioning of the IROs. It also deals with the Management Information System.

#### **2.2.5.2 Audit and Investigation Section:**

This section deals with the audit plan and its strategy. Different levels of audits and audit plan and audit procedures and large taxpayers are defined here in. It makes a bridge between the Large Taxpayers' Office and Inland Revenue Officers. The investigation unit is deemed more as an operational unit.

#### **2.2.5.3 Refund Section:**

This section deals with refunds to the taxpayers as well as Diplomatic missions and foreign funded projects, which are entitled to tax refunds under international protocols.

#### **2.2.5.4 Collection Section:**

Its task is concerned with the development of enforcement procedure such as preparation of collection visits. It maintains a follow-up record of those who have not yet filed their tax return, those who have dues against their account.

#### **2.2.5.5 Taxpayer' Service Section:**

The function of registration and de-registration of taxpayer. It is also concerned with outlining application procedure. Generally, it performs following functions:

1. It designs forms and manuals used for registration.
2. It issues registration certificates and PANs.
3. It maintains public relations.

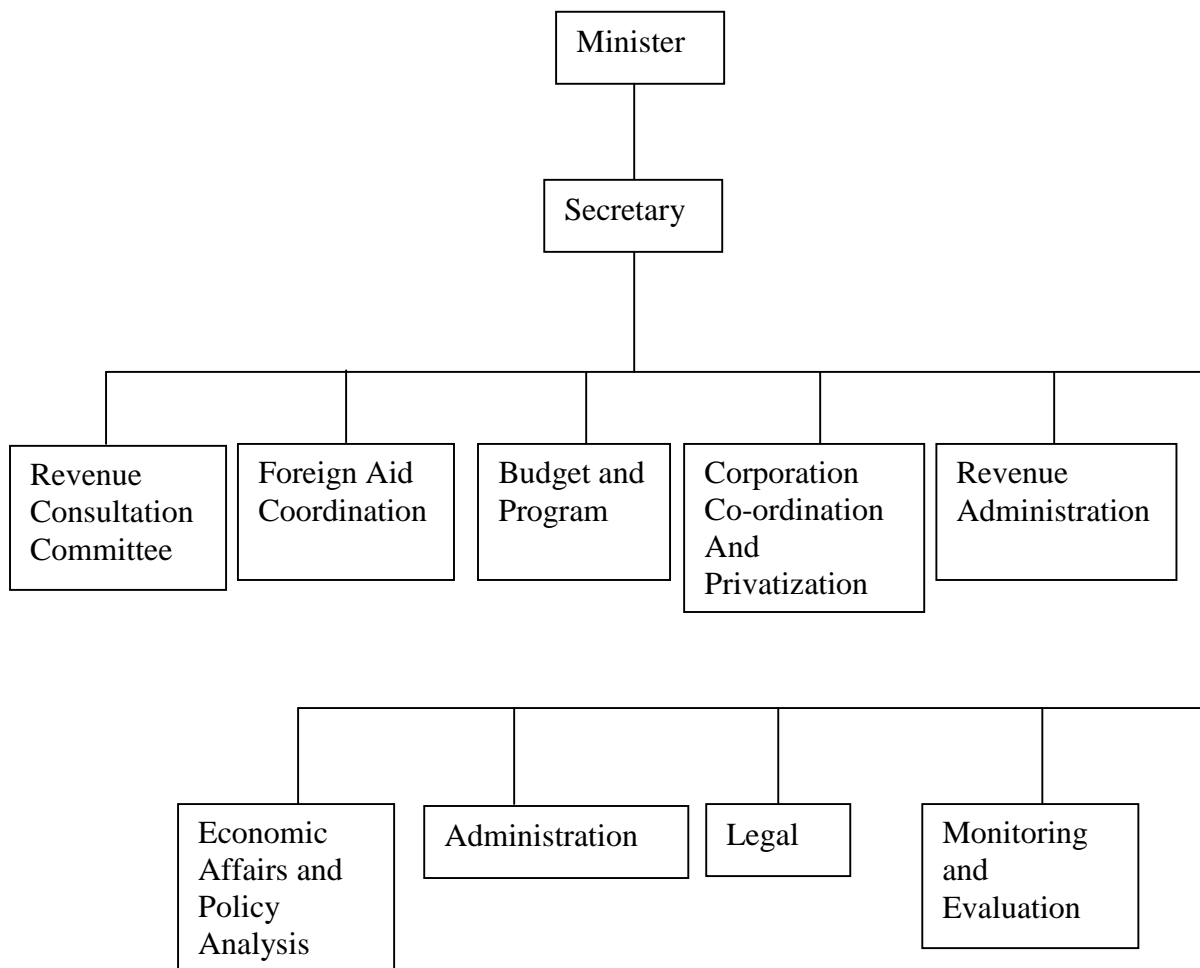
4. Through a help desk and IRD website, it gives education to taxpayer.
5. It gives information to tax payer through brochures, information campaigns, pamphlets, posters, television and radio taxpayers' queries and distributes tax materials to them.

**2.2.5.6 Legal and Review Section:**

This section deals with followings:

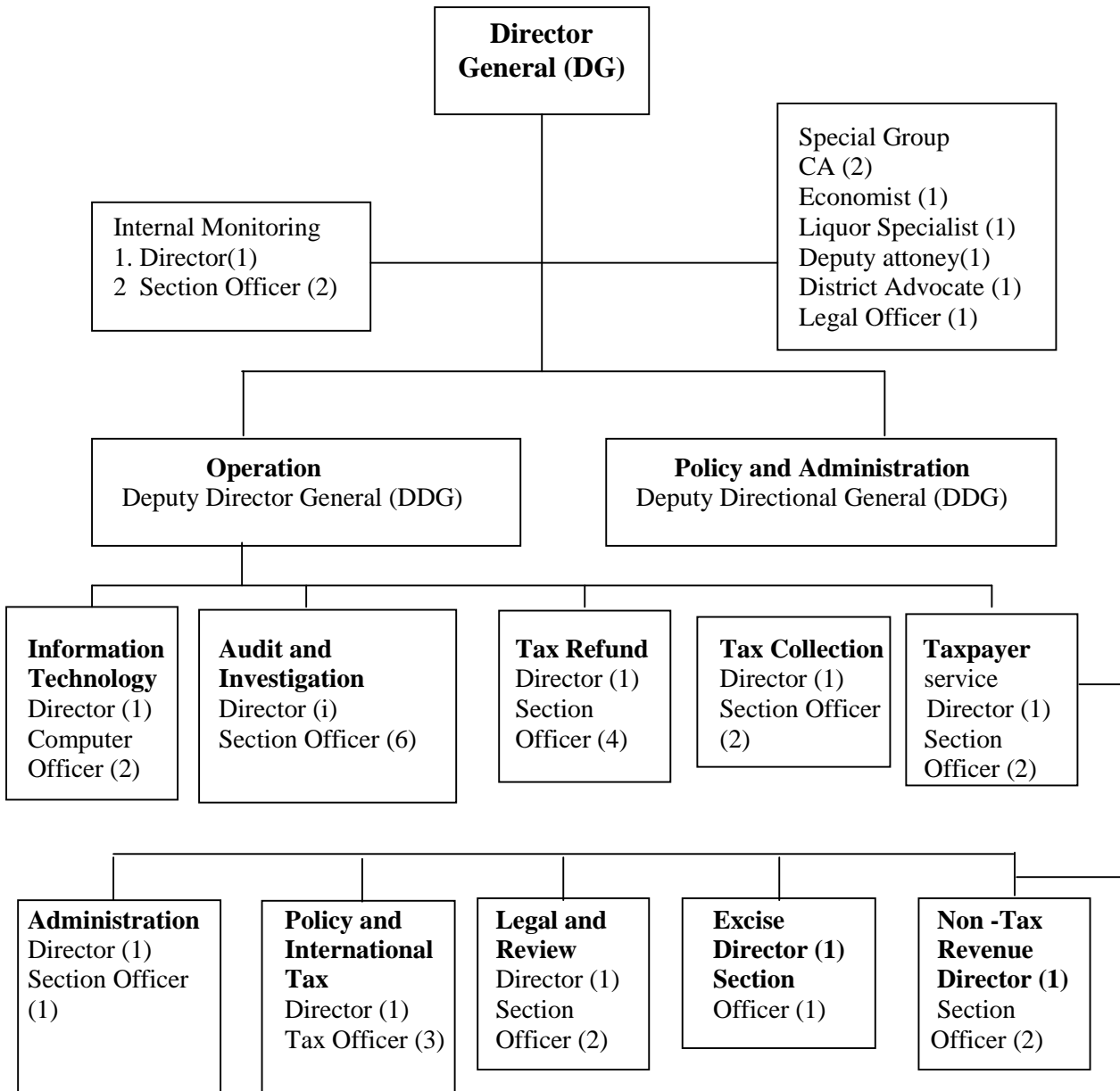
1. Procedures concerning managerial review.
2. Decision on review and forms related to review.
3. Interpretation, procedures on prosecution, forms on prosecution and manuals concerning prosecution.
4. Provides legal advice to the management of the IRD.

**Ministry of Finance Organizational Structure (2003/04)**



**Figure - 1**

## Inland Revenue Department (Organizational Structure)



#### **2.2.5.7 Policy and International Tax:**

This section deals with followings:

1. Tax policy.
2. Tax research and international tax matters.
3. Tax treaties.

#### **2.2.5.8 Excise Section:**

It deals with followings:

1. It develops strategy, procedures, forms and manuals.
2. It provides licenses fro the production, distribution and sale of liquor.
3. It prepares reports on excise duty.

#### **2.2.5.9 Non-Tax Revenue Section:**

The section with following:

1. It involves in the monitoring of non-tax revenue.
2. It develops strategies to rationalize non-tax revenue.

#### **2.2.5.10 Management:**

It is involved in the human resources, its management and development. The function performed by it are Drawing up job description, career planning, drawing up training planning courses, conducting training programs an taxation etc. Not only intrinsic motivational tools, but also extrinsic motivational tools are applied by the management section. These tools are giving to personnel the highly equipped materials such as vehicles, telephone, fax machines, air-conditioners, photocopiers, computers, printers etc.

#### **2.2.5.11 Information Technology:**

This section is responsible for assessing the need for and installing computers, training and maintenance of the entire computer system. It also oversees outsourcing matters and supplies relevant information to the management and other section as and when demanded.

### **2.2.6 Organizational Structure of IRO/LTO:**

There are 21 Inland Revenue Offices and one Large Taxpayers Office. The IROs are located in the major commercial areas and the LTO is located in Kathmandu. These offices are divided into 5 grades. They are categorized as:

**Table - 4.2**

Grade	Grade A	Grade B	Grade C	Grade D	Grade E	Total
Number of Offices	3	3	5	5	5	21

These offices name and there their jurisdictions are described on the Figure No. 0. The IROs and LTO are also structured under the functional basis. The LTO and IROs are divided into three divisions. They are:

1. Taxpayers' Service Registration, Administration and Legal Issues/Review section:
2. Audit, Investigation and Refund Section: and
3. Collection, Information Technology and Excise Section:

**Table - 2.2**  
**Jurisdiction of IROs (2003/04)**

S. No.	IRO/LTO	Jurisdiction
1	Kathmandu Area No. 1	East: North-eastern part of Kathmandu District West: Tripureshwor Statue, Kantipath, east of Keshar Mahal Chowk North: Naxal Bhagawati Bahal north of Dhobikhola
2	Kathmandu Area No. 2	East: Tripureshwor Statue, west of Kesharmahal, West: Bishnumari river, North: Keshar Mahalchok, Tridevi Marg, Pakanajol, Shobhagawai South: Bagmati river and Boarder of Lalitpur District
3	Kathmandu Area No. 3	East: Dhobikhola West: Rest part of Kathmandu District North: Border of Kathmandu District South: Rato pool of Dhobikhola, Sano Cauchar, Naxal, Kathmandu, Tridevi Marg, Thamel, Pakanajol, Sobhabhagawati, Rasuwa, Dhading and Nuwakot Districts.
4	Biratnagar	Morang District
5	Lalitpur	Lalitpur District
6	Simara	Simara and Rautahat District
7	Birgunj	Parsa District
8	Bharatpur	Chitwan District and Nawalpur area of Nawalpur District
9	Pokhara	Gandaki and Dhaulagiri Zones
10	Bhairahawa	Rupandehi, Palpa, Gulmi and Parasi area of Nawalparasi District
11	Nepalgunj	Bheri and Karnali Zones
12	Bhadrapur	Mechi Zone
13	Dharan	Koshi Zone, except Morang District
14	Lahan	Sagarmatha zone
15	Janakpur	Janakpur zone, except Dolakha zone
16	Hetauda	Makawanpur District
17	Bhaktapur	Bhaktapur, Dolakha, Kavrepalanchok and Sindhupalchok District
18	Krishnagar	Kapilbastu and Arghakhanchi Districts
19	Dang	Rapti Zone
20	Dhangadi	Seti Zone
21	Mahendranagar	Mahakali Zone
22	LTO, Kathmnadu	Kingdom of Nepal

Source: Inland Revenue Department

### **2.2.6.1 Taxpayers Service, Registration, Administration and Legal Issues/Revenue**

#### **Section:**

It performs following functions:

1. Registration, de-registration and registration of taxpayers.
2. To issue registration certificates and PANs.
3. To involve in the issuance of tax clearance certificates.
4. To receive tax returns and refund claims.
5. To accept tax payments.
6. To deal with moving tax payers file among Inland Revenue Offices whenever required.
7. To manage 'window offices' etc.
8. Handles the function of personnel management.
9. Receives appeals and complaints.
10. Monitors and conducts follow up action on all functions.

### **2.2.6.2 Audit, Investigation and Refund Section:**

1. This section performs following functions:
2. It conducts audit and investigation into self-assessment.
3. Writes reports on audit and investigation.
4. Involves in crosschecking of forms and management assessment.
5. Reviews computer assessments before notifying taxpayers.
6. Processes for refund claims. etc.

### **2.2.6.3 Collection, Information Technology and Excise Section:**

This section conducts following functions:

1. It follows up n non-filers, late filers, non-payers and late payers.
2. It performs collection visits.
3. Deals with dues, stops import/export.
4. Deals with calculation of interest and penalties.
5. Updates taxpayers' accounts.
6. Undertakes data entry and data transmission.
7. It also involves in excise administration.

### **2.2.7 Staff Position:**

The Director-General is the apex position of Inland Revenue Department. It is positioned by 1st. Class gazette officer. Just below that position, two Deputy Director-Generals and an Alcohol Specialist are there. They are also 1st. Class gazetted officers. There are 14 2<sup>nd</sup> class gazetted officers including chartered accounts and government advocates, and 29 gazetted 3<sup>rd</sup> class officers. There are altogether 44 non-gazetted 1<sup>st</sup> class and 2<sup>nd</sup> class positions and 21 other posts including drivers and office assistants. Total number of personnel in the Revenue Department is 138.

LTO and Grade 'A' IROs are headed by a Chief Tax Officer. They are 1<sup>st</sup> class gazetted officer. The rest of offices are handled by 2<sup>nd</sup> class gazetted officer. The total number of position held by LTO/IROs is 813.

## Organizational Structure of Grade 'A' Inland Revenue

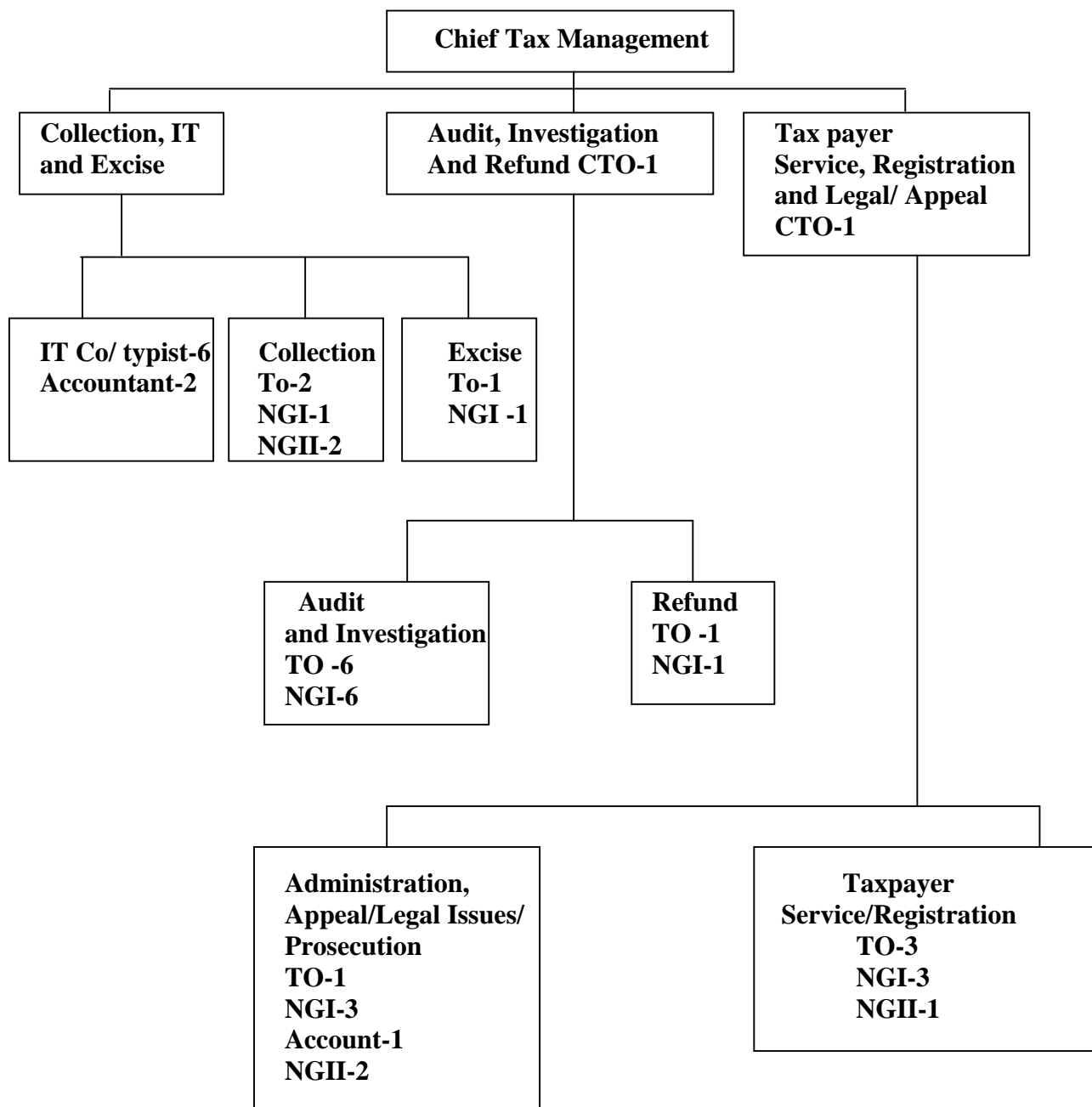


Figure No. 3

**Table 2.3**  
**Staff Position of Inland Revenue Offices/LTO**

<b>Position</b>	<b>Grade A</b>	<b>Grade B</b>	<b>Grade C</b>	<b>Grade D</b>	<b>Grade E</b>	<b>LTO</b>	<b>Total</b>
CTA	3	-	-	--	-	1	4
CTO	9	3	5	5	5	6*	33
TO	42	26	45	28	15	21	181
Nayab Subba	48	24	45	25	25	14	177
Accountant	3	3	5	5	5	2	23
DEO	12	7	10	9	5	3	46
Typist	12	6	10	5	5		38
Kharidar	27	27	43	20	15	2	134
Drivers	6	5	10	5	5	1	32
Office Assistance	30	23	35	33	20	4	145
<b>Total</b>	<b>192</b>	<b>124</b>	<b>208</b>	<b>135</b>	<b>100</b>	<b>54</b>	<b>813</b>

\* 4 Chartered Accountants

Source: Inland Revenue Department, Lazimpat

**Table 2.4**  
**Staff Position of IRD**

<b>S.N.</b>	<b>Position</b>	<b>Grade</b>	<b>Service</b>	<b>Group</b>	<b>No.</b>
1	DG	G I	Administration	General Administration	1
2	DDG	G I	Administration	General Administration	2
3	Liquor Specialist	G II	Miscellaneous		1
4	CA	G II	Contract	General Administration	2
5	Director	G II	Administration	Revenue	10
6	IT Director	G II	Miscellaneous		1
7	Deputy Attorney	G II	Law	Govt. Advocate	1

8	Economist	G III	Miscellaneous		1
9	Section Officer	G III	Administration	Administration	1
10	Section Officer	G III	Administration	Revenue	22
11	Account Officer	G III	Administration	Account	1
12	Ledger Officer	G III	Law	Law	1
13	District Attorney	G III	Law	Law	1
14	Computer Engineer	G III	Miscellaneous		2
15	D.E.S.	NG-I	Miscellaneous		12
16	Accountant	NG-I	Administration	Account	3
17	Nayab Subba	NG-I	Administration	Revenue	16
18	Kharidar	NG-II	Administration	Revenue	11
19	A.D.E.S.	NG-II	Miscellaneous		2
20	Driver				6
21	Office Assistant				15
Total					112

Source: Inland Revenue Department

## 2.2.8 Custom Management

It generally administers customs duties, agricultural reform levies, VAT and excise duty on imports. It also collects the local development fee and special duties. Customs offices are responsible for followings:

1. To assess and collect customs duties.
2. To prevent fraud and smuggling
3. To control carriers, persons and articles entering into and leaving the country etc.

### 2.2.8.1 Organizational Structure:

Unlike the Inland Revenue Department, customs department is not based in the functional basis. But the organizational structure of the department looks like a functional one. It has six sections as:

1. Duty and Classification Section;
2. Valuation and Appeal Section;
3. Textiles and CDK Section;
4. Information Technology Section;
5. supervision, Bonded Warehouse, Duty refundable, statistics and International Relations Sections;
6. Management:

There are different field offices under the customs Department. Currently, there are 29 main customs offices and 143 sub-customs offices under this department. Out of 29 main customs officers, one is situated in the Kathmandu Valley, 9 are in Tibetan border and remaining of them are situated in the border of India. On the other hand, one sub-custom office is situated in Kathmandu valley, six are in Tibetan Border and 136 are in the border of India.

#### **2.2.9 Revenue Investment Department :**

The department investigates cases of fraud and issues inspection orders on suspected business enterprises, taxpayers and sometimes for even tax officials. Its function is to review the suspected tax assessments and to investigate possible cases of collusion between taxpayers and tax official. Under this department, there are four unit offices. They are as follows:

**Table No. 2.5**

<b>Place</b>	<b>Area Covered by them</b>	<b>No of Units</b>
Itahari	Eastern Development Region	1
Pathlaiya	Central Development Region	1
Butwal	Western Development Region	1
Kohalpur	Mid and Far-western Development Region	1
Total		4

#### **2.2.10 Revenue Administration Training Control :**

It is involved in performing training program for revenue and account officials. It has short term and medium term training programs. The short term program has a period

not more than two weeks where as medium term program is of generally five weeks. The center is also responsible for conducting seminars and workshops.

## **2.3 Review of Related Studies:**

Many books dissertations, articles and reports had been reviewed for performing this research study. While reviewing the books, it was found that most of the books were syllabus oriented and some of them had described the problems and prospects of income tax system and a path for reform of income tax. Similarly many dissertations, articles reports had described the income tax law, provisions, structure of income tax, problems and prospects of income tax and path for reform of income tax.

### **2.3.1 Review of Books:**

Some books are more important and relevant for this studies that are as follows:

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

**Santosh Raj Poudyal and Prem Prasad Timilsina (1990)** had published a book named *“Income Tax in Nepal.”* They had described the theoretical and practical aspects of income tax. They were based on T.U. syllabus. They were unable to describe the tax structure of Nepal and the problems of income tax system.

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

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

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

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

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

**Mr. Pavan Kumar Ojha (1994)** had published a book named, “*Taxation law*”. In his book, he had explained the different act and law of income tax. He had taken many tax cases into consideration to describe the legal terms. His book may be beneficial to understand income tax law. But he had not analyzed the role of income tax.

**Karna Beer Poudyal, (1998)** had published a book named “*Corporate Tax Act 1974 and Industrial Enterprises Act 1982 and 1992*” which grant various income tax incentives to the industrial units. He was related to the analysis of corporate income tax and it’s planning only. He had described corporate tax planning in respect of

strategic planning, project planning and operational planning from which some Nepalese companies in general have been taking advantage of tax benefits. Some important suggestions, which have emerged from the study, are tax rebate to non-industrial companies set up in industrially backward areas. Partial exemption of export earnings, different tax rate for resident and nonresident companies, provisions of interest on unpaid tax/refund, tax on capital gain, use of best judgment assessment in right prospective, tax incentives for revival of sick units and separate tax section to be setup by companies. His book was very useful to know the idea about corporate tax planning.

**Kamal Deep Dhakal (1999)** had published a book named “*Income Tax and House and Compound Tax Law and Practice with Vat*”. He had described the legal provisions relating to income tax with numerical examples. This book is very useful to know about the legal provisions on Income Tax Act 20314. He was fully based on the syllabus of BBS and MBS prescribed by TU. His book was informative rather than analytical. He had not analyzed the role of income tax and the structure of income tax.

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

**Ishwor Bhattarai and Girija Prasad Koirala (2003)** had published a book named “*Tax Laws and Tax Planning*”. They had explained the legal provisions relating to Income Tax Act 2058 and Value Added Tax 2052 with illustrative examples. They have reviewed and emphasized important concept in boxes entitled note to remember and key terms are given at the end of the chapter. This book is very useful to know the idea of Income Tax Act 2058 and Value Added Tax 2052. it gives general ideas about tax planning.

**Bidhyadhar Mallik (2003)** had published a book named “*Modern Income Tax System of Nepal*”. In his book, he had described the legal provision relating to income tax. He had also described historical prospect, weakness of Income Tax Act 2031, some practical problems and different section of Income Tax Act 2058. he has presented various \section of ITA 2058 with Examples. Although he presents the new ITA 2058 with some numerical examples, he doesn’t mention the role of income tax structure; he had not taken any empirical investigation.

**Prof. Chandramani Adhikari (2005)** wrote a book named “*Public Finance in Nepal: Revenue and Tax Policy, Administration and Organization*” in Nepali. In his book, he mainly focused on the administrative part of taxation in Nepal. He described the structure of tax administration from about the administrative aspect regarding tax. Moreover, this book gave overall idea about tax administration in Nepal. However, the book is presented is only descriptive manner, the new idea has generated after studying the book.

**Mr. Rup Khadka (2005)** presented a book named “*Modernizing Tax Administration in Nepal*”. It has really most useful book to conduct whole research. It gave through idea about tax administration in analytical way. The book has a nine chapters starting from development of tax administration to conclusions and recommendations. The writer focused on the human resource development of tax administrators. He also gives new ideas on tax administration to reform it such as computerization and autonomous revenue improvement of tax administration in Nepal.

any empirical investigation.

**Mr. Jit Bdr. KC. (2007)** has published a book in revised edition entitled “*Tax Laws and Tax Planning: Theory and Practice.*” He divided the book in four parts. In his first part, he described the conceptual foundation. In second part, he described basic concept of income taxation of Nepal. In the third part, he described VAT in Nepal and at the last, he described tax planning. This book has presented practical as well as theoretical aspects. The book is useful to the student, tax administrator, auditor and others who interested in tax. This book is useful to research work also.

### **2.3.2 Review of Unpublished Dissertations:-**

Some dissertations were reviewed for this study they are as follows:

**Govinda Lal Shrestha (1967)** had presented a dissertation named “*income Tax in Nepal*” submitted to faculty of management. He had tried to give some general ideas about tax relating to historical background and some problem existing in income tax system of Nepal. He had described the various provision of income tax. But is not helpful to get knowledge about income tax at present.

**Kedar Bilas Pandey (1978)** presented a dissertation named “*An Analysis of Income Tax in Nepal*”. He had described brief review of Nepalese Economy, resource mobilization present tax system in Nepal, structure of income tax, role of income tax, problems of income taxation in Nepal. He had more emphasized on tax structure of Nepal. His finding was that income tax played a significant role in economic development of Nepal. He had also described the problem of income tax in Nepal. They were lack of record keeping, lack of maintaining account by taxpayer, lack of responsibility and honesty of tax officer, lack of co-ordination between various tax department and revenue departments, leakage of personal income tax collection. Among them, some problems are more relevant and considerable now also.

He had described the role of income tax in Nepal. According to him, taxation of income in underdeveloped countries like Nepal is a reliable fiscal tool in the achievement of objective, growth equity and stabilization. He had suggested to the income tax law in various aspects like capital gain should be included on income tax, income from bank interest should be subjected to income tax, the system of granting income tax holiday to industries should be scrapped, and income tax accounting assessment and collection method must be scientific.

He had described the various aspects of income tax in Nepal although he had not mentioned the legal provisions relating to income tax, numerical examples and empirical investigation.

**Gagan Kumar Tuladhar (1979)** presented a dissertation named “*Role of Income Tax in the Mobilization of Domestic Resource in Nepal*”. He had shown the trends of revenue from income tax, structure of income tax, taxes as percent of GDP, per capita burden of income tax, agricultural income tax, and elasticity and buoyancy of income

tax. He had described the role of income tax in the mobilization of domestic resources for the economic development. The growing share of income tax to the total tax revenue had indicated that the tax should be the major source of revenue in future. According to him tax efforts in Nepal had seemed quite insufficient. He further added that consistent efforts should be made to mobilize resources for development through taxes.

He had suggested widening the income tax base, income tax holiday to new industries, simple and easy tax law reformation of income tax administration, research in income tax but he had not mentioned the legal provision relating to income tax.

**Rojalin Singh Suwal (1981)** presented a dissertation named “*Income Tax System in Nepal*”. He had described the concepts of income tax, importance of income tax, objective of income tax, role of income tax in the process of economic development, problems of income tax, structure of income tax. His findings about the main reasons of tax evasion were absence of a clear and comprehensive definition of income lack of consciousness of Nepalese people, open boarder, wide spread illegal business activities. Corruption, high tax rates etc. his findings about the problem of income tax in Nepal were lack of account and record of taxpayers, lack of responsibility and honesty among the tax officer, tax evasion that are more relevant now also.

**Naina Nepal (1983)** had presented a dissertation named “*A study on the Problems and Prospects of Income Tax in Nepal*”. She had described the fiscal system of Nepal, meaning existing position, role, problems and future prospective of the income tax in Nepal. She emphasized on the wide coverage of income tax and reduction of income tax corruption in order to increase the contribution of income tax to national development. She identified the various problems in Nepalese income tax system were; inefficient income tax administration, mass poverty lack of tax consciousness, assessment deficiency, lack of tax education etc. which are considerable now a days.

**Rosani Shrestha (1984)** had presented a dissertation named “*Income Tax in Nepal*”. She had described the structure of income tax, per capita burden of income tax, problems of income tax in Nepal. Her findings about income tax were: the percentage share of income tax was shown in increasing trend. Income tax had contributed 7% in

1982/83 in the overall tax structure. She also found that the evasion of tax is a serious problem of tax. The reasons of tax evasion were: low tax paying capacity of Nepalese people, high tax rate, corruption, lack of system of heavy punishment, widespread illegal business activities etc. she also found that the tax administration is not efficient due to lack of trained and skilled personnel, lack of source for separate income tax revenue, lack of proper incentive and low salary of tax officers. Her suggestions about the income tax were: income tax law should be simple and easy tax base should be broader, scientific method should be applied for the collection of tax, its accounting & assessment, income tax administration should be efficient.

**Shambhu Nath Regmi, (1986)** had presented a dissertation named “*The Role of Income Tax in Nepal*”. He had described the conceptual framework of income tax, structure of income tax, income tax and resource mobilization, problem of income tax etc. he had concerned on the study of tax structure i.e. share of indirect tax and share of direct tax of total tax revenue. He had identified problems of income tax. They were: assessment delays, tax evasion, lack of maintaining the record of taxpayers, lack of responsibility and honesty among the tax officers, corruption, lack of co-ordination between various revenue and non revenue departments, leakage in personal income tax collection etc. his suggestions about the income tax were: income tax law should be clear and precise, widening the tax coverage, application of scientific assessment method, simple and easy procedure of tax payment, honest and efficient staffs co-ordination between staff and department, establishment of research unit and tax holiday to new industry.

**Chudamani Siwakoti, (1987)** had presented a dissertation named “*Analytical Study of Income Tax in Nepal*”. He had described the role of income tax, income tax structure, income tax rate, personal management aspects of tax department legal aspects of Income Tax Act 2031, problems of income tax administration in Nepal. He found that the roles of income tax were for economic growth, equitable distribution and sustainable growth. He had identified that the problem of income tax system were lack of public information, delay in tax assessment, defective personnel management, lack of up to date role of existing as well as potential taxpayers. He had found that the major problems of the ITA 2031. they were: complicated language, highly use of best judgment assessment method for the assessment of tax, no compulsion to maintain

books of account, ineffective use of all types of business, assessment delays, silence about scientific research, lack of weighted deduction, no provisions of any kind of allowance, no provision about illegal business and so on.

**Shanti Baral, (1989)** had presented a dissertation named “*Income Tax in Tax Structure of Nepal*”. In her study, she had explained the contribution of income tax in the structure of government revenue in Nepal. She had found that the share of income tax to total government revenue was increasing. She also had identified the reasons of tax evasion, which were lack of clear and comprehensive definition of income, lack of punishment to tax evaders, tax paying capacity and low consciousness among the tax payers, lack of efficient tax administration and lack of scientific method of tax collection. She had suggested that the tax administration should be honest and efficient, tax evaders should be punished, scientific method should be used in tax collection, administration cost should be minimized, research unit should be stabilized, delay in tax assessment should be reduced, and corruption should be stopped and so on.

**Ram Bahadur Thapa (1993)** had presented a master level dissertation named “*An Analytical Study of Income Tax Assessment in Nepal*”. His study was concentrated on income tax assessment procedure. He had found that the problems of income tax assessment procedure were adhocism in tax assessment undue delay in tax assessment and lack of adequate accounting skills, which are considerable at present. He had suggested adjusting the exemption limit according to the inflation of the country. He also had suggested to give tax holidays to new industries as investment allowance and to tax the agriculture income.

**Hari Bahadur Bhandari (1994)** had presented a dissertation named “*Contribution of Income Tax to the Economic Development of Nepal (with reference to Kathmandu and Pokhara Valley)*”. He had concentrated mainly on the contribution of income tax to public revenue. He had conducted an opinion survey of different aspects of income tax system. In his study, he had found that to increase the contribution of tax to economic development, capital gain and agricultural income should be taxed. He noticed that the actual collection of revenue through income tax is lower than it’s estimated targets because of the poor tax paying habit of Nepalese tax payers, poor

tax administration system, widespread evasion of income tax and so on. His study had been conducted with purpose of examining the income tax structure trend of income tax collection and to make suggestion to solve these problems.

**Krishna Kumar Shakya (1994)** had presented a dissertation named “*Income Tax in Tax Structure of Nepal*”. He had concentrated his study mainly on the contribution of direct tax and indirect tax and on causes of government inefficiency in income tax administration. He found the income tax to GDP total revenue and direct tax revenue was in increasing trend. He suggested for program oriented fiscal policy and recommended that VAT be a major source of indirect tax in Liberalized economy. For small taxpayers, he suggested for door-to-door service.

**Sanjay Acharya, (1994)** had presented a dissertation named, “*Income Taxation in Nepal, A Study of its structure, Productivity and Problem*”. In his dissertation, he had described the structure of income tax, productive of income tax and problems of income tax system. He explained three main objectives of income tax, which are to reduce inequality of income distribution, to collect more government revenue and to check inflation. He had shown some numerical and diagrams of structure and productivity of income tax. His study about income tax was not so detailed because he had not explained the provisions of income tax law and income tax management system.

**Shiva Narayan Shahu, (1995)** had presented a dissertation named, “*Contribution of Income Tax in National Revenue of Nepal*”. He had found that only 0.35% of total population came under the category of taxpayers during his study period. He had also observed that, in the composition of government revenue of Nepal, income tax came in the fourth place in the tax structure from the viewpoint of different items contribution. Custom, excise and sales tax occupied the first, second and third place respectively. The individual taxpayers had higher contribution than the wage earners.

**Daya Raj Tripathi (1995)** had presented a dissertation named “*Income Tax System in Nepal and Some potential Areas for Reforms*”. He had described about the government revenue of Nepal, income tax administration, personnel in tax administration, efficiency in Nepalese income tax administration, income tax evasion,

tax assessment and application of best judgment assessment, income tax facilities for industries, and efficiency of income tax system. He had more emphasized on the income tax administration and tax evasion. He had concluded that the existing income tax law must be reviewed and the administration should be made more effective.

**Mani Kumar Nepal (1995)** had presented a dissertation named “*Structure and Responsiveness of Nepal’s Tax System*”. In his study, he found that the over all elasticity of the total revenue in Nepal’s tax structure for the study period was 0.64 and Nepalese revenue structure as whole was regressive in nature. He also found that elasticity of tax revenue was 0.51, non tax revenue was 1.14, direct tax revenue was 0.14, indirect tax revenue was 0.61 custom duties was 0.44, income tax was 0.48 which shows only non tax revenue had greater than unitary elasticity. Income elasticity of Nepalese tax was rather in elastic and below unitary and implied the administrative incompetence and regressive tax policy. But the buoyancy coefficient for total revenue was 1.21 during the study period. Similarly, buoyancy coefficient of total tax revenue was 1.16. the buoyancy but low elasticity of total tax revenue showed the additional government effort to raise the tax revenue. He found that the buoyancy coefficient of the selected groups of taxes were greater than unitary except that of custom duties.

**Krishna Prasad Timilsina (1997)** had presented a dissertation named “*Tax Structure of Bajhang District With Reference to National Tax Structure of Nepal*” he had conducted a comparative study of tax structure of Bajhang district to national tax structure. He had emphasized on tax structure in his study, His finding about the correlation coefficients between Bajhang district and nation was positive on tax revenue, non-tax revenue and total revenue.

**Raj Kumar Bhattraï, (1997)** had presented a dissertation named “*Effectiveness of Corporate Income Tax in Nepal*”. He had described the history of income tax and corporate income tax, legal provision relating to income tax administration aspect of income tax, tax structure and government mechanism. He had found that the share of tax revenue to the total tax revenue was 78% in average, the share of direct tax to the total tax revenue was 20% in average where as the share of indirect tax to the total tax revenue was 80% in average, the share of income tax to the total direct tax was 67%

in average. As substantial share of income tax in total direct tax revenue. There was strong contribution of corporate income tax in total tax revenue. He had found that the government policy, act rules, regulations concerned with the corporate income tax were not effective in increasing tax paying habit in Nepal. He found that the major problem of administration as a corruption. He had suggested to prepare separate corporate Income Tax Act, rules and regulations considering the elements of the system and maintain stability, design and develop electronic information and communication, networking among the government and nongovernmental organizations, encourage taxpayers through tax education and awareness program control the forwards and backwards shifting of corporate income tax and make tax officers more responsible and honest.

**Binita Shrestha (2001)** had presented a dissertation named “*Revenue Collection from Income Tax in Nepal, Problems and Prospects*”. She had described the conceptual framework and provisions, structure of income tax in Nepal, income tax administration in Nepal and empirical investigation and problem and prospects of income tax in Nepal. She found that the dominant share of taxes revenue in Nepalese government revenue and the contribution of tax revenue showed the decreasing trend. She found that the major problem of Nepalese income tax system, were mass poverty of Nepalese people, lack of consciousness of tax payers, unscientific tax assessment procedure, wide spread evasion and avoidance income tax inefficient tax administration, instability in government policy and soon. She had also found the various weak point of Nepalese tax administrations. Major weak points were failure to locate new tax payers, failure to maintain proper account and records, defective selection of personnel undue delay in making assessment, lack of motivation to tax personnel, existence of corruption which are relevant and considerable at present.

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

**Bidha Pradhan (2001)** had presented a dissertation named “*Contribution of Income Tax Form Public Enterprises to Public Revenue of Nepal (with reference to Telecommunication Corporation)*”. She had described the conceptual framework of

income tax, contribution of income tax to the public revenue and share of Nepal Telecommunication Corporation to the income tax. She had more emphasized on the tax structure of Nepal and share of Nepal Telecommunication Corporation to the tax structure of Nepal.

Her findings about the tax structure were: composition of government revenue, tax revenue constituted 77 percent .in total tax revenue, indirect tax constituted 74%. The contribution of income tax from NTC in total revenue was 2.37 percent. The share of income tax to the direct tax revenue had been fluctuating. The share of income tax from NTC on income tax revenue was about 15.06 percent in average. Her suggestions about the income tax system were as follows: promotion and rewards to efficient and honest personnel, tax education to taxpayers and offers, motivation to personnel, strict action to corruption, increase the public participation, reduction of delays in tax assessment and settlement of the commission.

**Jayanti Poudel (2002)** had presented a dissertation named "*Income Taxation in Nepal. A Study of its Structure and Productivity*". She had described the income tax in its historical perspective, income tax structure, elasticity and buoyancy of income tax, voluntary disclosure of income scheme, role of income tax, administration in Nepal. She had more emphasized on income tax structure contribution of income tax. She found that the working procedures were traditional and the cost of administration had not been brought to the satisfactory level. She had suggested to broadening income tax base, reform of tax administration, successful implementation of VAT, establishment of standardized accounting system.

**Basanta Kumar Singh (2002)** had presented a dissertation named "*A study on Application of Best Judgment on Income Tax Assessment with Reference to Income Tax Act, 1974*". He had described the types of assessment, use of best judgment in income tax assessment, necessary condition for best judgment assessment, natural justice and best judgment, punishment, legal remedies role of best judgment assessment in income tax assessment in Nepal. He had found that the income tax assessment in Nepal was mainly performed by committee above 70% of the total income tax assessment had occupied by committee assessment. Best judgment assessment had occupied second position. The most appropriate and reliable method

of income tax assessment was on the best of account. But in Nepal, very few income tax assessments were performed on the basis of account.

He had recommended that income tax should be assessed on the basis of accounts, supervisory committee should be established for the review of tax assessment, principles of natural justice should be implemented in practice income tax administration should be recruited with efficient honest trained and qualified tax personnel, there should be compulsory provision of submitting income statement within the due date, the time of assessment in general condition should be reduced to 3 months from one year, the provision of auditing of accounts should be made compulsory reward and punishment system should be really and strictly implemented in practice, beside small tax payers Mr. Bharna Raj Shakya (2004) studied about Income Tax Act, 2002 in his dissertation "A study on ITA, 2002". He concluded that a commitment is must within tax payers and tax administration to make a fair and safe tax administration. He gave emphasis to provide sufficient incentives and remuneration with is program like promotion and motivation. His suggesting were for the improvement of tax administration after implementing ITA, 2002, were: The tax act must be simple and understandable to tax payers and tax administrators; The emphasis is given to establish information center where tax payers can get information regarding tax law; The focus point must be provide sufficient incentive and remuneration to tax administrators to expect the full effort of tax administrators towards their duties and to conduct training programs.

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**Mr. Durga Prasad Ghimire (2004)** had examined contribution of income tax particularly focusing in public enterprises in his dissertation “Income Tax in Nepal; Its Structure and Contribution from public enterprises to Government”. He evaluated the performance of tax administration of Nepal, particularly after implementation of tax ITA, 2002. He found that the tax administration of Nepal is inefficient due to mainly lack of trained and competent employee and complicated tax laws.

**Mr. Tanka Nidhi Dahal (2005)** submitted a dissertation with heading “*Income tax management in Nepal*”. He focused on many managerial aspects of income tax. He concluded that the effectiveness of tax system depends on the existing management and leadership. A vigilant and transparent tax administration and capability of timely reviews in policy back sliding the gains in the revenue front. He suggested that, for the improvement of tax management strong political commitment is most.

**Mr. Damsi Ram Bhandari (2006)** submitted a dissertation named “*Taxation Knowledge of Taxpayers in Nepal.*” He had point out the present position of taxation knowledge of taxpayer’s in Nepal. Taxpayers don’t know about the rapid change government policy etc are the main problems of the study. Similarly, he has suggested to the government and other sector to improve taxation knowledge in Nepal. His major suggestions were as follows:

- ❖ To increase the income tax knowledge of taxpayers’ tax related information should be published regularly.
- ❖ Special taxpayer education program is necessary for employees and small taxpayers.
- ❖ Professor, researchers, taxpayers, tax experts should be taken while making tax policy.
- ❖ The school as well as campus level curriculum should be include tax related education so that taxpayers education program can be more effective.
- ❖ Highly co-operation is needed between tax officer and taxpayers.

**Mr. Kul Chandra Bhandari (March 2008)** submitted a master level thesis entitled “*Tax Avoidance and Anti Avoidance Rules in Nepalese Perspective.*” His conclusions for the tax avoidance were as follows:

- ❖ Narrow tax base
- ❖ Not clarification on the assessment procedure
- ❖ Highly corruption
- ❖ Wide spread of illegal business activities

- ❖ Poor development of intermediaries
- ❖ Unlimited convertibility of Indian currency.
- ❖ Unnecessary interference by influential persons.
- ❖ Lack of information
- ❖ The provision of sec 35 is vague and crates uncertainty
- ❖ Harassment to the taxpayers
- ❖ Lack of public awareness towards the taxation.

### **2.3.3 Review of Articles and Reports:**

Some reports and article have been reviewed for performing the study some of them are as follows:

**Govinda Ram Agrawal [Agrawal, 1980:53]** had described the different concept of income tax. He had described the resource mobilization through income tax, fiscal policy, role of income tax, legal provisions relating to income tax legal aspects of income tax, administrative aspect of income tax etc. various mathematical calculation had been shown, per capita income, burden of income tax, buoyancy confident of income tax etc, had been calculated.

He had identified the major problems in income tax system as inefficiency of tax administration and tax evasion. He observed that the tax authorities were insufficient in enforcement of law. There were no integrated programs for taxpayer's education, assistance guidance and counseling. Tax offices were looked upon as heaven for corruption. Inefficiency, delays, unfair dealings, harassment and incompetent personnel were the major problems of tax administration. He further added, "It is increasingly being felt that the potential of income tax in Nepal has much very much under realized and reforms are urgently needed in the tax. In Nepal, income tax efforts have been constrained by hastily formulated policies ambitious laws, poor coverage, poor enforcement as well as compliance and bad image of tax administration. Its potential has remained under utilize. A comprehensive study for reform of income tax in Nepal, therefore, has become necessary".

This study is very useful to find out the reality about the income tax in Nepal. This study is a comprehensive and has included various aspects of tax system of that period; all things mentioned in it are still in existence. He had described business expenses.

Some critics had analyzed the principle of direct tax and provision of direct tax. They had described the classification of tax relation of capital and income, base of income or expenditure tax, base of tax in Nepal, procedure of computing income, weakness of traditional accounting system, classification of tax rate index, index of income tax in Nepal, contribution of income tax to national revenue, errors of past provision, briefication of tax improvements, some steps of administrative improvements etc. They found that the income tax was only 7% of total revenue that was very low as compare to neighboring country. For this, they had identified the following causes no taxation agricultural income, narrow base of income of retail business etc.

They had also identified some errors of provisions relating to income tax. They were: progressive tax had not played an effective role for equal distribution of income, unproductive tax concession holidays and rebate, provisions of low additional fees as compare to market interest rate, deduction given to record keeping tax payers and timely paying taxpayers had not played an effective role etc. They had accounted the improvements made for income tax like: expansion of corporate tax on private limited company by 5% on flat rate, maximum 40% rate of individual income tax, provision of tax collection at source, provision of self assessment of tax, increase in additional fee to remove tax evasion etc. They also accounted the some step of administrative improvement. They were-provision of income assessment committee, flat rate of tax to small taxpayers, establishment of tax offices etc.

**Manidev Bhattarai** [Bhattarai,2002] had critically analyzed the income tax facilities provided by Industrial Enterprises Act 2049. in his draft," Income Tax Facilities Provided by Industrial Enterprises Act 2049". An analysis. He had described the facilities given to the industries. He also had critically analyzed these facilities as continuous 7-8 years exemption of income tax will develop the tradition of taking exemption by incorporating legal ways. On the other hand, if the industry passes the allowed time, cannot compete the industry having exemption year. The deduction allowed on modernization of industry, pollution control device, technology and product development, sales promotion expenses etc, will protect only the big industries. It will not affect to the small industries.

Provisions made on advertisement and entertainment/hospitality expenses will create rule on income taxes because it is given to all industries in the same manner. Some industries make high advertisement and entertainment expenses and some industries do not make high expenses.

Revenue consultation, committee of MOF had published a report 2001. the committee had studied the overall taxation situation of Nepal. This report had suggested widening the income tax base by including all kinds of taxpayers and income. It had also suggested finding out the taxpayers of new sector. For this, the report suggested to make the act more transparent and clear in order to suggest making the act more transparent and clear in order to attract foreign and domestic investors. For income taxation, self-assessment was fully recommended. The report had suggested increased exemption limit and adjustment of exemption limit according to the purchasing power and inflation. This report had suggested to implement account based VAT more effectively. For small taxpayers having up to Rs. 2 million, tax collection should be used on sell and purchase description of their.

**Puspa Kandel** [Kandel,2002] had published a draft of Income Tax Act 2001 as critical analysis. He had criticized the ITA 2001 on several grounds. They were exemption of agricultural income from income tax, export duties, levied on export, inequality between different capitals earned income (i.e. tax on interest dividend and capital gain), withdrawal of exemption provision and adjustment for inflation. He further criticized the act for the provisions on income tax from export as 0.5% of total export because it is not good choice of income tax base.

**Govinda Bahadur Thapa** [Thapa,2002] had published a draft of tax system and its reforms in Nepal as described the tax system features of tax, causes of reform the tax and areas of reform. He had characterized the tax system as too many and too high rates, multiple subjective of taxes scheduler rather global approach to income taxation too many income brackets and high progressively complicated and ambiguous tax laws. He further added,” Taxes were levied at the manufacturing rather than retail stage which added to the production cost. Too many tax incentives and tax holidays narrowed the tax base and revenue collection had to be increased from that raising of tax rates. But the high tax rates encouraged tax avoidance and evasion and also gave birth to the unaccounted economy”.

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

**In 2007, Kantipur Daily** published news about tax paying behaviour in Nepal and European countries. The news presented that 95 % of taxpayer in European countries are willing to pay tax but in Nepal 95 percentage taxpayers want to hide, the income and they do not want to pay tax as per rule and regulations.

In this way, various books, dissertations reports and articles published in journals and newspapers were reviewed while preparing this dissertation. Most of literatures are concentrated on administrative, legal and assessment procedure of income tax. Since, all of them have identified the main problem in this sector as poor performance of tax administration. Although very few studies was concerned on focusing tax administration covering all sources of taxes in separate way. Setting the lack of study mainly concentrated on covering all aspects of tax and focusing particularly income tax in more way that is specific.

## **2.4 Research Gap**

To achieve the ultimate goal of taxation, only tax policies and acts are not enough. For the achievement of targeted goals, plans and policies must be implemented in efficient and effective manner. For this, there should be a good management of taxation. Without efficient management of taxation, government never can achieve the goal.

All the researchers mentioned in review of literature are concerned with the study of laws, provisions and structure of tax revenue. There has been very few attention made on the tax management. Therefore, the research has been conducted on the topic “Income Tax Management in Nepal.”

# **CHAPTER-3**

## **RESEARCH METHODOLOGY**

### **3.1 Research Design:**

Research design is an overall framework of plan for the collection and analysis of data. It serves as a framework for the study, guiding the collection and analysis of the data. The research design then focuses on the data collection methods, the research instruments utilized and the sampling plan to be followed. Specifically speaking, research design describes the general plan for collecting, analyzing and evaluating data after identifying:

- What the researcher wants to know;
- What has to be dealt with in order to obtain the required information?

The research design is an organized approach and not a collection of loose, unrelated parts. It is an integrated system guides the researcher in formulating, implementing and controlling the study. Useful research design can produce the answer to the proposed research questions. The research design is thus an integrated frame that guides the researcher in planning and executing the research works.

Basically, the research design has two purposes. The first purpose is to answer the research question or test research hypothesis. The second purpose of a research design is to control variance. We can separate research design at nine categories as: Historical, Descriptive, Developmental, Co-relational, Case or Field Study, Causal- Comparative, True experimental, Quasi-experimental and Action.

For descriptive research to achieve result of objectives of the study, the study of income tax act, finance ordinance, income tax rules and other acts, rules and regulations have been previewed.

For analytical research, provision of tax administration in income tax act and role of income tax in generating tax revenue in Nepal has been carried out.

For empirical research, an opinion survey has been conducted. The opinions of various 50 respondents associated with distinct category i.e. tax administrators; tax experts and taxpayers have collected through structured questionnaire with reference to tax administration in Nepal. The characteristics of Nepalese tax system, role of income tax in equal distribution of income, efficiency of tax management, power of tax officers in Nepal, instruments to improve tax management in Nepal has included in questionnaire. Again, views of distinct group of people relating to income tax act, 2058 with its difficulties and complexities have also been added there in.

### **3.2 Population of Sample:**

Tax administrators, tax exports and taxpayers are considered as the total, population. Out of them, 18 tax experts, 16 tax administrators and 16 taxpayers are considered as the target population for the study. In order to facilitate this study, 50 sample sizes from Kathmandu valley is selected. The respondents have been divided into three groups. The following table shows the groups of respondents and the size of sample.

**Table - 3.1**  
**Groups of Respondents and Size of Sample from each Group**

<b>S.N.</b>	<b>Group of Respondents</b>	<b>Sample size</b>
1	Income tax administrators	18
2	Income tax experts	16
3	Income tax payers	16
Total		50

Responsiveness of respondents has been received from IRO, area no-1 and area no-2, Babar Mahal, ICAN, Babar Mahal, IRD Lazimpat and other personal sources.

### **3.3 Sampling Procedure:**

The views of tax administrators, tax experts and taxpayers had been collected on the basis of stratified selection by distributing questionnaire individually.

### **3.4. Sources of Data:**

The primary as well as secondary sources of data have been collected in order to achieve the real world factual result. The major sources of data are as follows:

#### **3.4.1 Primary Sources of Data:**

Primary source of data had been collected with in Kathmandu valley from those respondents who are representing from various sectors i.e. tax administrators, tax experts and taxpayers. Tax administrators have been selected from IRO, area no. 1 and 2, Babar Mahal, tax exports have been selected from ICAN Babar Mahal, Lazimpat and taxpayers have been selected from various business houses. Tax experts have been selected auditors, charter accountant from different firm and taxpayers includes different traders who was representing from various places.

### **3.4.2 Secondary Source of Data:**

The secondary sources of data are the information received from books, journals, newspaper reports, dissertations etc. The major sources of secondary data are as follows:

1. Economic Survey and Budget Speeches.
2. Annual Reports of IRD, MOF and Government of Nepal.
3. Published Documents of National Planning Commission and NRB.
4. Dissertations related to tax management.
5. Books related to income tax and tax administration.
6. Other relevant records and data including useful websites.

### **3.5 Procedure of Data Collection:**

For primary data, information has been collected by developing a schedule of questionnaires and distributing to three distinct types of respondents. Distribution has been done through personally field visit to get accurate and actual information in time. For secondary data, information has been collected from published reports of different organizations.

### **3.6 Tools for Analysis:**

The study deals the tax management in Nepal. So the tools can be use for the analysis of data as follows:

- Primary data analysis
- Financial tools: Ratio analysis
- Statistical tools: Diagrams, Graphs, Pie-Charts etc.

## **CHAPTER-4**

### **PRESENTATION AND ANALYSIS OF DATA**

#### **4.1 Analysis of Secondary Data:**

This chapter deals with the presentation and analysis of data and information in connection with the taxation in Nepal. Full attention was given to find out trend and contribution of income tax in government structure of Nepal. At the end, empirical investigation based on opinion survey has been presented with relevant sub topic.

##### **4.1.1 Tax and Non-tax Revenue in Nepal**

The funds required by the government are normally collected from two sources: debt and revenues. The revenues of the government come from two sources: tax and non-tax revenue. Non-tax sources includes different revenues like gifts, grants, revenues from public enterprises, administrative revenues etc. tax sources include customs, excise duty, VAT, income tax etc. Since, around eighty percent of the government revenues of Nepal come from tax; it is a major source of government revenue. The trend of tax and non-tax revenue of Nepal is shown in Table 4.1.1.

**Table 4.1.1****Composition of tax and non-tax revenue in Nepal****(Fiscal year 1987/88 to 2006/2007)****(Rs. In Millions)**

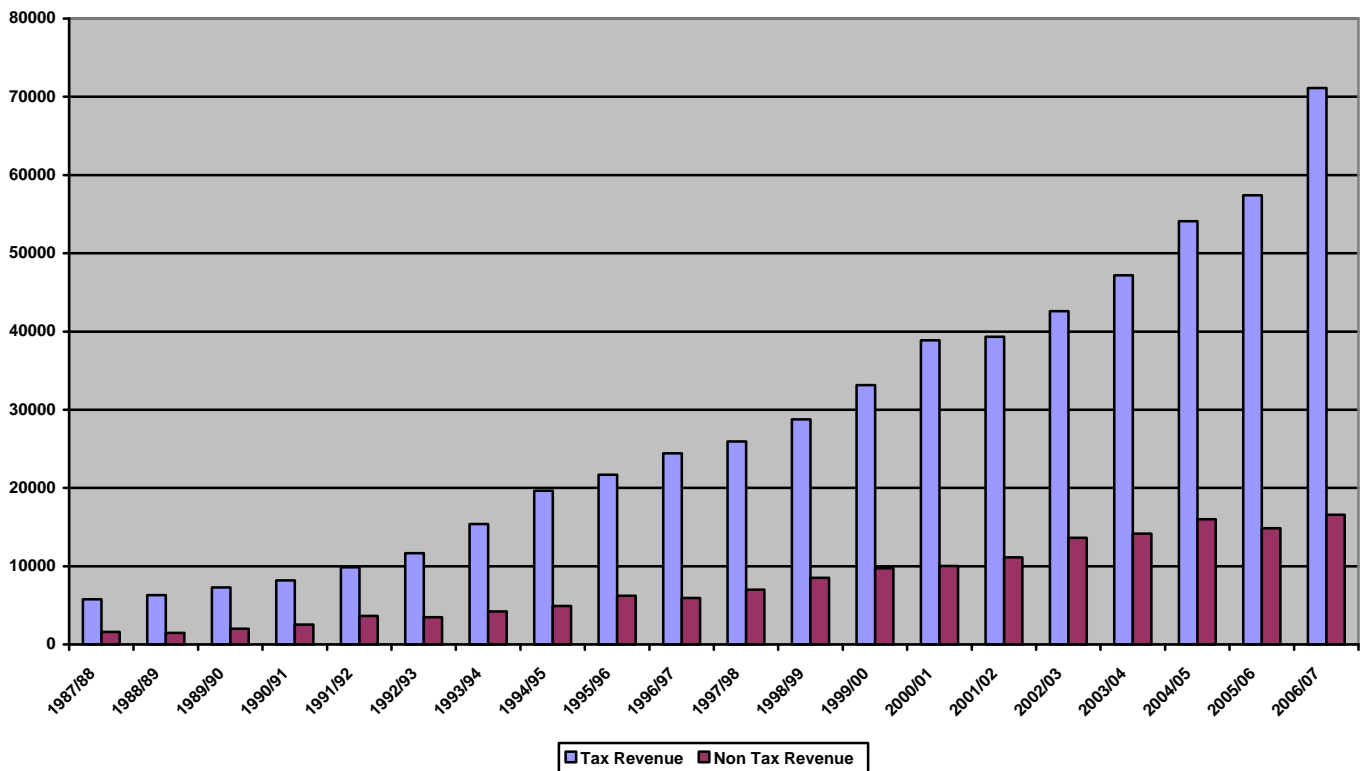
Fiscal Year	Total Revenue (Rs.)	Tax revenue		Non-Tax revenue	
		Rs.	%	Rs.	%
1987/88	7350.4	5752.8	78.26	1597.6	21.74
1988/89	7774.9	6287.2	80.86	1487.7	19.14
1989/90	9287.5	7283.9	78.43	2003.6	21.57
1990/91	10729.9	8176.3	76.20	2553.6	23.80
1991/92	13512.7	9875.6	73.08	3637.1	26.92
1992/93	15148.4	11662.5	76.99	3485.9	23.01
1993/94	19580.8	15371.5	78.50	4209.4	21.50
1994/95	24575.2	19660.1	80.00	4915.2	20.00
1995/96	27893.1	21668	77.68	6225.1	22.32
1996/97	30373.5	24424.9	80.41	5949.2	19.59
1997/98	32937.9	25939.8	78.75	6998.1	21.25
1998/99	37251.0	28752.9	77.19	8498.1	22.81
1999/00	41893.7	33152.1	77.49	9741.6	22.71
2000/01	48839.9	38865.1	79.49	10028.8	20.51
2001/02	50445.6	39330.6	77.88	11115.0	22.12
2002/03	56229.7	42587.0	77.0	13642.7	23.0
2003/04	62331.0	47173.0	77.29	14158.0	22.71
2004/05	70122.7	54104.7	77.16	16018.0	22.84
2005/06	72282.1	57430.4	79.45	14851.7	20.55
2006/07	87712.0	71126.70	81.09	16585.30	18.91

Source: Economic Surveys of MOF

From the year 1987/88 to 2006/07, the amount of tax revenue found to be increasing every year with amount of Rs. 5752.8 million to Rs. 71126.70 million. The maximum contribution of tax revenue to total revenue was 81.09 percent in the fiscal year 2006/07 and least contribution of tax revenue to total revenue was 73.08 percent in the fiscal year 1991/92.

The trend of non-tax revenue collection was also fluctuating during the period from 1987/88 to 2006/07. The contribution of non-tax revenue in the year 1991/92 was highest i.e. 26.92. It was at the minimum level of 18.91 percent in the year 2006/07. However, there is fluctuation in the revenue from time to time; both of the revenue, that is, tax revenue and non-tax revenue are in increasing trend. It has clearly shown in the figure 1 also.

**Figure - 1**  
**Trends of Tax and Non-Tax Revenue**



From the figure 1, it can be clearly shown that the tax revenue of the government with comparison to non-tax revenue is very high in every year.

## **4.1.2 Structure of Tax Revenue in Nepal**

The structure of government revenue in Nepal has shown in table 4.1.2 and 4.1.3 in Rs. and in percentage respectively from the fiscal year 1998/99 to 2006/07. The structure of tax revenue of Nepal is formulated by customs, tax on consumption and product of goods and services, land revenue and registration, tax on property, profit and income.

I have made separated to excise on industrial products and VAT from tax on consumption and product of goods and services. Like wise income tax has been separated from the head of “tax on property, profit and income.” Therefore, there is one more head named miscellaneous. It includes urban house and land tax, vehicle tax and other taxes.

**Table 4.1.2****Structure of Government tax Revenue in Nepal****(Fiscal year 1998/99 to 2005/06)**

(In million Rs.)

Fiscal year	customs	VAT	Income tax	Excise	Land revenue & registration	Miscellaneous tax	Total
1998/99	9517.70	8765.20	6170.20	2953.20	1003.1	342.70	28752.90
1999/00	10813.30	10259.70	7420.60	3127.60	1015.90	515.0	33152.1
2000/01	12552.10	12382.40	9114.0	3771.20	612.90	432.50	38865.10
2001/02	12658.80	12267.30	8903.70	3807.0	1131.8	561.90	39330.60
2002/03	14236.40	13459.70	7966.20	4785.10	1414.30	725.30	42587.0
2003/04	15554.80	14478.90	9245.90	6226.70	1697.50	969.20	48173.0
2004/05	15701.60	18885.40	10159.40	6445.90	1799.20	1113.20	54104.70
2005/06	15344.0	21610.70	10373.70	6507.60	2181.10	1413.30	57430.40
2006/07	15712.80	26704.20	15621.40	8533.40	3872.90	682.0	71126.70

Source: Economic Survey 2005/06; MOF.

Note:-

- ❖ Customs includes Imports + Exports + Indian excise refund + others.
- ❖ VAT includes sales tax + Entertainment tax + Air flight tax + contract tax.
- ❖ Income tax includes tax from public enterprises + semi-public enterprises + private corporate bodies + individuals + remunerations + interest tax.
- ❖ Miscellaneous tax includes urban house and land tax + vehicle tax + others.

Customs has a position at the top level up to FY 2004/05 and then VAT has exceeded to the customs. The revenue from customs varies from Rs. 9517.70 million to Rs. 15712.80 million from the FY 1998/99 to 2006/07.

The VAT has taken the second position up to FY 2004/05 but it has taken the first position at the last three fiscal years. It has gradually increased from Rs. 8765.90 million to Rs. 26704.20 million from the FY 1998/99 to 2006/07.

Income tax has taken the third position of the tax revenue. It has in increasing trend except FY 2001/02 and FY 2002/03 from the FY 1998/99 to 2006/07 from Rs. 6170.20 million to Rs. 15621.40 million.

Revenue from excise is increasing in each year. It has increased from Rs. 2953.20 million to Rs. 8533.40 million from the FY 1998/99 to 2006/07. Similarly, land revenue and registration tax also is in increasing trend except FY 2000/01. Miscellaneous tax also has in increasing trend except FY 2000/01 and 2006/07.

**Table 4.1.3****Structure of Government tax Revenue in Nepal****(Fiscal year 1998/99 to 2006/07)****(In percentage)**

Fiscal year	Customs	VAT	Income tax	excise	Land revenue & registration	Miscellaneous tax	total
1998/99	33.10	30.49	21.46	10.27	3.49	1.19	100
1999/00	32.62	30.95	22.38	9.43	3.06	1.56	100
2000/01	32.30	31.86	23.45	9.70	1.58	1.11	100
2001/02	32.19	31.19	22.64	9.68	2.88	1.42	100
2002/03	33.43	31.60	18.70	11.23	3.33	1.71	100
2003/04	32.29	30.05	19.19	12.92	3.53	2.02	100
2004/05	29.02	34.90	18.78	11.91	3.33	2.06	100
2005/06	26.72	37.63	18.06	11.33	3.80	2.46	100
2006/07	22.09	37.54	21.96	12.00	5.44	0.97	100

The table shows that the ratio of customs is highest than others up to FY 2002/03 and then its contribution to tax revenue is gradually decreasing trend. So after FY 2003/04 VAT has taken the first position in tax revenue. All the time, income tax is seems in the third position and excise, land revenue & registration and miscellaneous tax have taken fourth, fifth and the last position respectively.

**4.1.3 Tax/ GDP Ratio in Nepal**

GDP is the total value of all final goods and services produced in the economy in one yeuar. It is the current market value of all goods and services produced by the economy during an income period. Since, Nepal is one of the lowest taxed economies in the world, the tax/GDP ratio never exceeds 10% excluding two fiscal years 2003/04 and 2004/05.

The tax/GDP ratios of last 20 years are given as follows:

**Table 4.1.4**  
**Contribution of Tax Revenue in GDP**  
**(Fiscal Year 1987/88 to 2006/07)**

(Rs. in million)

<b>Fiscal year</b>	<b>GDP</b>	<b>Tax revenue</b>	<b>Tax revenue as percentage of GDP</b>
1987/88	73170	5752.8	7.86
1988/89	85831	7283.2	7.32
1989/90	99702	7283.9	7.30
1990/91	116127	8176.3	7.04
1991/92	144933	9875.6	6.81
1992/93	165350	11662.5	7.05
1993/94	191596	15371.5	8.02
1994/95	209974	19660.1	9.36
1995/96	239380	21668	9.05
1996/97	269570	24424.3	9.06
1997/98	289798	25939.8	8.95
1998/99	330018	28752.9	8.71
1999/00	366251	33152.1	9.05
2000/01	394052	38865.1	9.86
2001/02	406138	39330.6	9.68
2002/03	437546	42587	9.73
2003/04	474919	48173	10.14
2004/05	508651	54104.7	10.64
2005/06	646471	57430.40	8.88
2006/07	719477	71126.70	9.88

Source: Economic Surveys

From table 4.1.4, it has cleared that the growth rate of contribution of tax revenue on GDP is in positive direction but in slow somehow in fluctuation. If the share of tax revenue on GDP is considered, it is not finding satisfactory from the fiscal year 1987/88 to 1992/93. The tax GDP ratio was decreased from 7.86 percent to 6.81 percent, again it was started to increase from 1992/93 up to 1994/95. The fluctuation was continued 2001/02, there after the trend is in positive path up to FY 2004/05, and again it has decrease. The average percentage of Tax/GDP ratio of last 20 fiscal years is 8.72%.

#### 4.1.4 Income Tax / GDP Ratio

The contribution of Income Tax on tax revenue of the government is in the third position. Therefore, the contribution of income tax in GDP is very low. It has shown in table 4.1.5.

**Table: 4.1.5**

**Contribution of Income Tax in GDP**  
**(Fiscal year 1999/2000 to 2006/07)**

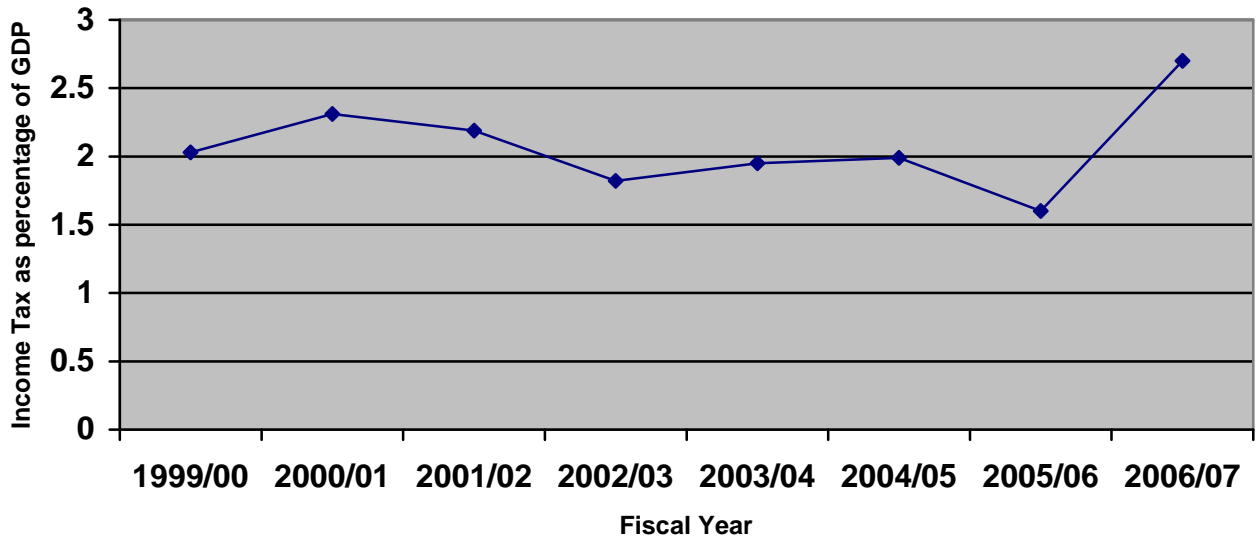
**(Rs. in million)**

<b>Fiscal year</b>	<b>GDP</b>	<b>Income Tax</b>	<b>Income tax as percentage of GDP</b>
1999/2000	366251	7420.6	2.03
2000/01	394052	9114	2.31
2001/02	406138	8903.7	2.19
2002/03	437546	7966.2	1.82
2003/04	474129	9245.9	1.95
2004/05	508651	10159.4	1.99
2005/06	646471	10373.70	1.60
2006/07	719477	15621.40	2.70

Source: Economic survey

While evaluating income tax with connection to Gross Domestic product of eight years, it was found that the income Tax/ GDP ratio was 2.03 percentages in FY 1999/2000 but fiscal year 2000/01, it was 2.31 percent. Thereafter it was decreased in later four years and lastly increased in the fiscal year 2006/07 with the ratio 2.70 percent. It can be show in figure 2 more clearly.

**Figure - 2**  
**Income Tax as percentage of GDP**



The figure clearly shows that in FY 2000/01, the income tax contribution to GDP has increased and gradually decreased. Its contribution to GDP in FY 2006/07 has increased.

#### **4.1.5 Revenue Collection of IRD-A Comparative Study**

Inland Revenue Department is responsible for the management of VAT, income tax, excise duty and other tax. IRD is structure based on its function. The revenue collection of IRD is show as under (Table 4.1.6).

**Table 4.1.6  
Inland Revenue Collection**

**Rs. In '000'**

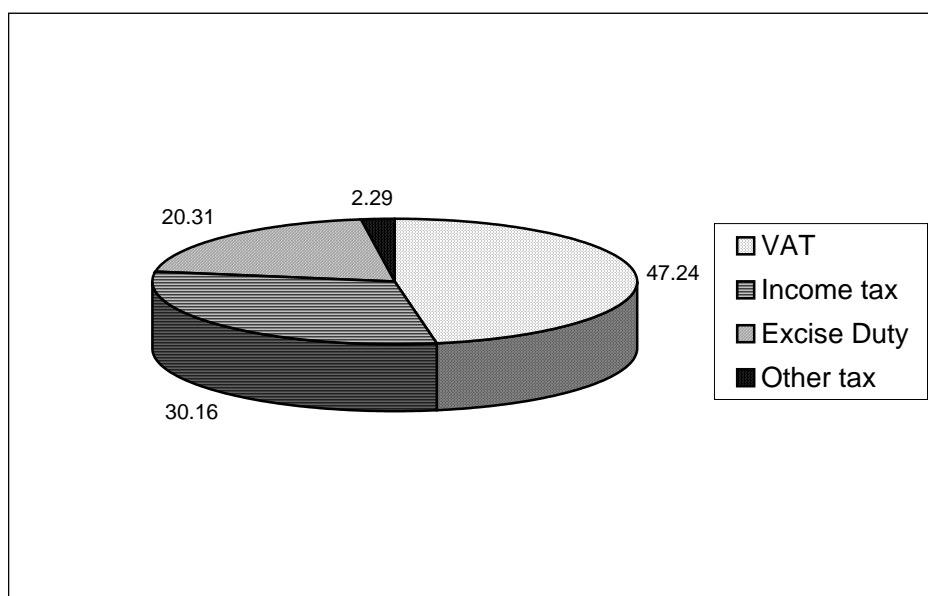
<b>Fiscal Year</b>	<b>1999/00</b>	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/2005</b>	<b>2005/06</b>	<b>2006/07</b>	<b>Net contribution in Fiscal year 2006/07</b>
Tax revenue	20810600	25270500	25540809	26729521	30652389	36552762	40202336	51541450	-
VAT	8960000	12050000	11947955	13449123	14478896	18894627	21946014	26704180	51.81%
Income tax	7420600	9120500	8922799	7935674	9246182	10452637	10896449	15621430	30.31%
Excise Duty	3130000	3770000	3807730	4785244	6226724	6446503	6512225	8533844	16.56%
Other tax	400000	330000	862325	559480	700587	758995	847648	681996	1.32%

Source: Economic Survey and Annual Report of IRD.

In almost year, the collection of VAT was in top position where the income tax has seen in second position. If the net contribution of the fiscal year 2006/07 is evaluated, it was found that the VAT was in the first position with 51.81 percent. The income tax came to second position with 30.16%.

**Figure – 3**

**Net contribution in FY 2006/07**



Comparatively, VAT has taken the first position in every fiscal year than the others. Its contribution is more than half in collection from IRD in FY 2006/07. Similarly, income tax has taken the second position and excise duty and other tax have taken third and fourth position respectively according to above pie chart.

### **4.1.6 Structural Condition of Income Tax**

Income tax is a direct tax and it has divided into nine categories. They are collected from following:

- Corporate income tax.
- Income tax from public enterprise.
- Income tax from public Ltd. Co.
- Income tax from Pvt. Ltd. Co.
- Individual income tax
- Income tax from remuneration
- Income tax from sole corporate, business, profession and others
- House and land rent tax
- Interest

The structural condition of income tax is shown in table 4.1.7

**Table: 4.1.7****Structural Condition of Income Tax****(Rs in '000')**

Particulars	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
<b>Goal</b>								
Corporate income tax	4570000	6540000	7260000	5430000	4000000	5080600	5906900	8964900
Public enterprise	1770000	2520000	3600000	2020000	1250000	1254200	1471900	1582500
Public Ltd. Company	1440000	2270000	2320000	2120000	1550000	2461100	2550000	2739600
Pvt. Ltd. Company	1360000	1750000	1340000	1290000	1200000	1365300	1885000	4642800
Individual Income tax	2250000	273000	3010000	3582500	3447500	4118200	4473100	1534000
Remuneration	430000	550000	675000	1230000	1300000	1538500	1800000	1534000
Sole corporate, business, profession and others	1820000	2180000	2335000	2352500	2147500	2579700	2673100	254923
House and land rent tax	240000	310000	320000	380000	400000	431600	520000	560400
Interest	320000	400000	550000	470000	850000	869600	900000	967770
Total	7380000	9980000	11140000	9862500	8697500	10500000	11800000	12681993

**Achievement**

Corporate income tax	4440000	5990000	4371208	3655556	4838689	5327323	5395701	11515835
Public enterprise	2200000	2930000	1770651	1251615	2056635	1331561	185888	1018318
Public Ltd. Company	1340000	1930000	1429904	1236268	1531274	2467622	3537448	5711298
Pvt. Ltd. Company	900000	1130000	1170652	117673	1250780	1528140	1687048	4786219
Individual Income tax	2320000	2400000	3731653	3177104	3539416	3871676	4234653	2028857
Remuneration	450000	600000	834849	1240291	1391522	1676982	1751505	2028857
Sole corporate, business, profession and others	1870000	1800000	2896803	1936813	2147894	2194694	2483148	481221
House and land rent tax	250000	260000	348524	381715	403282	496306	509062	599369
Interest	410000	460000	468294	845200	733395	757332	757032	996148
Total	7420000	9110000	8919680	8059575	9514782	10452637	10896448	15621430

Source: www.ird.gov.np (Annual report of IRD 2006/07)

**Note:**

- ❖ The figure may be differing with economic survey due to taking round figure in economic survey.
- ❖ Other income tax includes capital gain, dividend, other income from investment, windfall gain tax etc.

Out of the sub categories of income tax, corporate income tax is in the top position in all the years but the achievement of it was not good up to FY 2003/04. Individual income tax was placed the second position up to FY 2005/06 and its achievement was mixed (most of the years below goal) but in 2006/07 it lost its position, although, it had a good achievement. Before FY 2004/05, income tax from public enterprise took the third position with mixed achievement but it also lost its position after FY 2004/05. In the recent fiscal years, income tax from public ltd. Company has in increasing trend with second position to the income tax revenue.

**Table 4.1.8**  
**Target and Achievement of Income Tax**  
**(A Comparative Study)**

**(Rs in '000')**

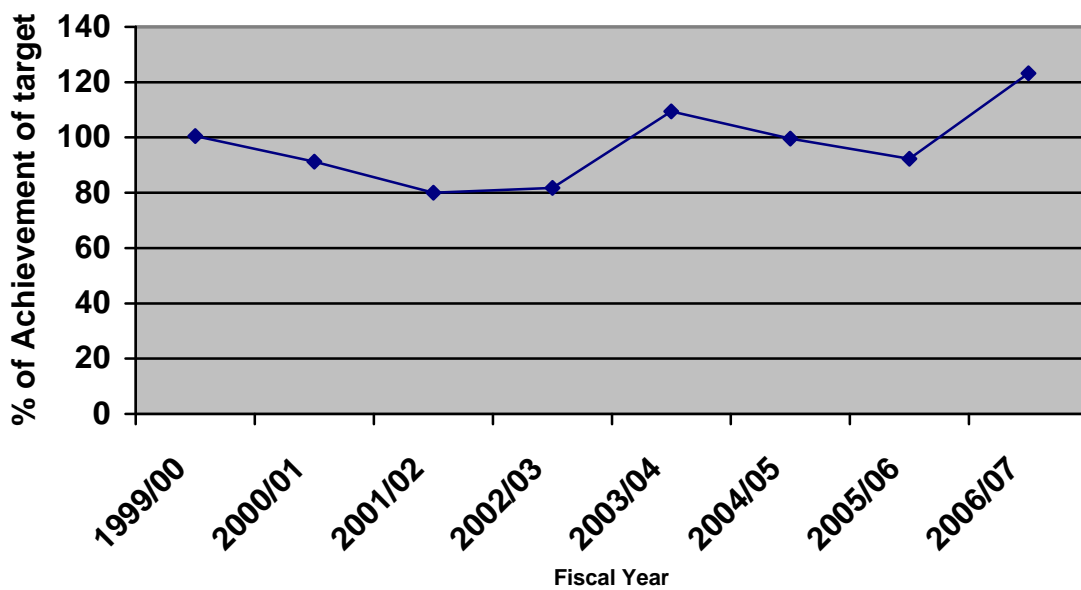
<b>Fiscal year</b>	<b>Target</b>	<b>Achievement</b>	<b>Ratio</b>
1999/00	7380000	7420600	100.55%
2000/01	9980000	9110000	91.28%
2001/02	11140000	8919680	80.01%
2002/03	9862500	8059575	81.72%
2003/04	8697500	9514782	109.40%
2004/05	10500000	10452637	99.55%
2005/06	11800000	10896448	92.34%
2006/07	12681993	15621430	123.18%

Source: Annual Report of IRD, 2006/07

After evaluating the income tax of 8 years (i.e. from 1999/2000 to 2006/07), it is found that the performance of income tax was moreover good in earlier year i.e. in the year

1999/2000, it had 1000.55 percent ratio of achievement over target and it slightly decreased on the year thereafter up to the year 2001/02, after that period the trend has improved. The percentage achievement in FY 2006/07 was very good i.e. 123.18% of the goal. It can be clearly show in the figure 4.

**Figure :4**  
**Ratio of Achievement and Target of Income Tax**



## 4.2 Empirical Investigation:

An empirical investigation has been conducted to examine effectiveness of tax management in Nepal. The major tool used for this purpose is an option questionnaire. While conducting this investigation, 60 sets of questionnaire were distributed to the tax administrators, taxpayers and tax experts but only 50 sets of questionnaire were received. The responses received from various respondents have been arranged tabulated and analyzed.

The questionnaire it arranged in response of Yes/No and ranking of choices according to number of alternatives where first choice was the most important and the last choice as least important. If the number of alternatives where ten, then the preferred choice got 10 point and if the number of alternative were one, then the last choice where converted into percentage in reference to the total points available for all choice. The choice with highest score of percentage was ranked as the most important choice and one with the lowest percentage being

ranked as last choice. Table 4.2.1 shows the groups of respondents and code used to represent them.

**Table 4.2.1**  
**Groups of Respondents and Code Used**

S.N.	Groups of respondents	Sample distributed	Sample Received	Code used
1.	Tax administrators	20	18	A
2.	Tax experts	20	16	B
3.	Tax payers	20	16	C

Source: opinion survey

### 4.2.1. Satisfactory Level of the Revenue Collection of the Government:

In order to know if the people were satisfied by the present level of revenue collection of the Nepalese government, a question was asked, “Do you believe that the present revenue collection of government is satisfactory? The responses received are tabulated as below:

**Table 4.2.3**  
**Satisfactory Level of the Revenue Collection of the Government**

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	6	33.33	12	66.67	18	100
B	2	12.5	14	87.5	16	100
C	3	18.75	13	81.25	16	100
Total	11	21.53	39	78.47	50	100

Source: Opinion survey

From the above table, it is clear that 78.47 percent respondents feel that the present revenue collection of the government is not satisfactory. Only 21.53 percent of the

respondents expressed satisfaction towards the revenue collection of the government should be increased.

#### 4.2.2. Attitude towards Income Tax System:

To know the attitude towards income tax system of Nepal, a question was asked, “Do you think that the income tax system of Nepal is efficient?” The responses received from the various respondents are tabulated as below:

**Table 4.2.4**  
**Attitude towards Efficiency of Income Tax System**

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	6	33.33	12	66.67	18	100
B	5	31.25	11	68.75	16	100
C	4	25	12	75	16	100
Total	15	29.86	35	70.14	50	100

Source: Opinion survey

It is clear from the above table that 70.14 percent respondents are unsatisfied with the percent income tax system of Nepal and only 29.86 percent respondents are satisfied.

To know the cause of income tax system being unsound, another question was attached with this, “If not, what are the major problems in income tax system?” the respondents are requested to rank their answer according to their priority. The break down of the responses is shown below:

**Table 4.2.5**  
**Major Problems of the Income Tax System of Nepal**

S.N.	Major Problems	Group			Total	Percent	Rank
		A	B	C			
1.	Practice of tax evasion	104	68	71	243	12.54	2
2.	Inappropriate tax rate and exemption limit	46	39	62	147	7.58	10
3.	Lack of awareness in tax payers	87	58	65	210	10.84	4
4.	Illegal business activities	96	63	99	258	13.31	1
5.	Lack of education to taxpayers	80	66	83	229	11.82	3
6.	Lack of training and sufficient incentives to employees	62	42	75	179	9.24	6
7.	Complicated tax act, rules and regulations	57	76	57	190	9.80	5
8.	Lack of tax expert in tax administration	41	67	47	155	8.00	9
9.	Inefficient income tax management	46	52	68	166	8.56	7
10	Lack of good economic policy	53	64	44	161	8.31	8
	Total	672	595	671	1938	100	

Source: Opinion survey

From the above table it is clear that the income tax management has several problems the major problems of income tax management are ranked according to preference of the respondents below.

1. Illegal business activities
2. Practice of tax evasion.
3. Lack of education to tax payers.
4. Lack of awareness in tax payers.
5. Complicated tax act, rules and regulations.
6. Lack of training and sufficient incentives to employees.
7. Inefficient income tax management
8. Lack of good economic policy.
9. Lack of experts in tax administrations.
10. Inappropriate tax rate and exemption limit.

From the above result, it can be concluded that the income tax system is not sound and satisfactory because of Illegal business activities, practice of tax evasion and lack of education to tax payers.

### 4.2.3. Income Tax Evasion in Nepal

In order to find out whether the income tax evasion is practiced in Nepal or not and if it is existed, then is this major constrained for resource mobilization through income tax, the following question are asked.

- a. Do you agree that the wide spread tax evasion as the major constraints for the resource mobilization through income tax in Nepal.
- b. If yes what may be the reasons?

The responses received from the respondents are tabulated as follows:

**Table 4.2.6**  
**Income Tax Evasion in Nepal**

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	12	66.67	6	33.33	18	100
B	10	62.5	6	37.5	16	100
C	11	68.75	5	31.25	16	100
Total	33	65.97	17	34.03	50	100

Source: Opinion survey

From the above table, it is clear that the wide spread tax evasion is the major constraint of source mobilization through income tax 65.97 percent of respondents accept it.

There may be reasons for widespread tax evasion. In order to know the main reasons for tax evasion, the respondents were provided six reasons and were requested to rank. The responses received are tabulated as below:

**Table 4.2.7**

**Reasons for Tax Evasion**

S.N.	Major Problems	Group			Total	Percent	Rank
		A	B	C			
1.	Reluctance of tax payers to maintenance accounts	35	27	44	106	15.36	6
2.	Wide spread practice of illegal business	42	33	42	117	16.96	3
3.	In-efficient tax administration	30	46	47	123	17.82	1
4.	In adequate auditing and Investigation	39	38	37	114	16.52	4
5.	Poor Enforcement of fine and penalties	47	31	31	109	15.80	5
6.	Poor tax morality and tax payer's compliance	60	33	28	121	17.54	2
	Total				690	100	

Source: Opinion survey

Major reasons for evasion of income tax from the above table according to the respondents' preference are as follows:

1. Inefficient tax administration
2. Poor tax morality & taxpayer compliance.
3. Wide spread practice of illegal business.
4. Inadequate auditing and investigation.
5. Poor enforcement of fine and penalties.
6. Reluctance o taxpayers to maintain accounts.

From the above result, it can be concluded that the main reason for tax evasion is due to inefficient tax administrations and other factors are in descending forms.

#### **4.2.4. Problems of Income Tax Management in Nepal**

Income tax management has been blamed that it is not so efficient. In order to find out the main problems which income tax management has been facing, a question was asked. "What are the main problems of income tax management in Nepal?" The response received from the respondents is ranked in the table as below:

**Table 4.2.8****Problems of Income Tax Management**

S.N.	Major Problems	Group			Total	Percent	Rank
		A	B	C			
1.	Poor Regulation	133	73	87	293	10.8	3
2.	Less consciousness of tax payers	150	88	90	328	12.09	1
3.	Lack o sufficient power to the tax administrator	88	76	86	250	9.21	9
4.	Lack of training facility to the tax personnel	98	100	108	306	11.28	2
5.	Increasing habit of tax deceit	96	80	85	261	9.62	8
6.	Lengthy process of tax assessment	91	92	81	264	9.73	7
7.	Lack of identical accounting system	101	97	70	268	9.88	6
8.	Lack of appropriate organization structure	77	90	106	273	10.06	5
9.	In adequate expert in tax management	78	116	98	292	10.76	4
10.	Misuse of power by the tax administrator	54	78	46	178	6.57	10
	Total				2713	100	

Source: Opinion Survey

From the above table it is clear that the income tax management has several problems the major problems of income tax management are ranked according to reference of the respondents below:

1. Less consciousness of taxpayer.
2. Lack of training facility to the tax personnel.
3. Poor regulation
4. Inadequate expert in tax management.
5. Lack of appropriate organization structure.
6. Lack of identical accounting system.
7. Lengthy process of tax assessment.
8. Increasing habit of tax deceit
9. Lack of sufficient power to the tax administrator.
10. Misuse of power by the tax administrator.

#### **4.2.5. Measures for more efficient Income Tax Management**

From the table 4.2.8, it is clear that income tax management of Nepal is not efficient and is has been facing many problems. It orders to make it efficient, corrective action should

be taken. In order to know what sorts of corrective action to be taken the respondents were asked another question “How the income tax management in Nepal should be made more efficient in Nepal?” very long list of suggestions have been received from the respondents and their suggestion are given below.

**Table 4.2.9**  
**Measures for More Efficient Income Tax Management**

<b>S.N.</b>	<b>Measures</b>
1.	Simplification of tax laws, Incentives to the regular tax payers.
2.	Tax payer should be aware and educated.
3.	Fees and penalties should be high and business should be transparent
4.	The use of income from tax should be allocated for concerned tax payers.
5.	Political commitment and moral bust up of administrators.
6.	It mgmt should be competent, capable and accountable for its achievement, there is no political interference.
7.	Tax payer’s education should be provided, people should be informed about the tax system.
8.	Simple tax law, training for tax personnel preparation tax manual in different heads.
9.	Create of good environment, awareness of tax payers
10.	By making the tax officials and administration powerful.
11.	Tax payers education should be give. For this in come tax should be curriculum of college.
12.	Fair appealing system
13.	Incentives to the regular tax payers.
14.	By increasing the consciousness of tax payable.
15.	Appropriate tax rate and sufficient exemption limit.
16.	Appropriate tax rate and simplification of law.
17.	By giving the proper awareness about the payment of tax to the tax payers.
18.	By tax administration strong, flexibility of assessment procedure.

19.	Maintain fair accounting system and tax payers consciences.
20.	By effective implementation of rules and regulation.
21.	Increasing tax paying habit and honest of tax payers.
22.	Effectiveness of tax administration and simplification of law.
23.	Clear provision of act and sound tax administration.
24.	Encourage the tax payers about the tax
25.	Simplification of tax law.
26.	Proper utilization of administrative power and simplification of assessment procedure.
27.	Sound accounting system.
28.	Effective implementation of authority
29.	Increasing the tax payer conciseness
30.	First of all employee should be honest the government system should be rectified from top level to low level.
31.	Collected revenue should be use proper way.
32.	Proper utilization of tax revenue collection.
33.	Collection of tax use in equally.

#### **4.2.6. Income Tax Act 2058; Assessment Procedure:**

Income Tax act 2058 assessment procedure is very important in managing the income tax because the amount of income tax because the amount of income tax is realized through the assessment. Sound assessment procedure is necessary for the collection of large amount in the form of income. In order to know the effectiveness of assessment procedure a question was asked, “Is the assessment process of income tax under the Income Tax Act 2058 sound?” The answer received from the respondents in tabulated in the following table.

**Table-4.2.10**  
**Soundness of Income Tax Assessment Process**

<b>Respondents</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>Total</b>	<b>%</b>
<b>Response</b>					
Yes	10	7	4	21	42
No	8	6	7	21	42
Don't know	-	3	5	8	16
Total	18	16	16	50	100

Source: opinion survey

From the above table 42% of total respondents are in favors of sound assessment process of income tax like wise 42% of total respondents said that it is not sound. Therefore, the income tax assessment procedure of income tax in Nepal is not found sound.

As a sequence to the earlier question, it was asked to the respondents to give reasons for unsound income tax assessment procedure if they feel it is unsound. Further more the respondents were requested to rank the reason one to four scales were 1 is the most important and four is the least. The responses have been tabulated below.

**Table 4.2.11**

**Reasons for un-sound Income Tax assessment procedure in Nepal**

<b>S.N</b>		<b>A</b>	<b>B</b>	<b>C</b>	<b>Total points</b>	<b>% of total points</b>	<b>Rank</b>
1.	Lack of knowledge about tax law	19	20	18	57	26.15	3
2.	Due of its complexity	25	19	21	65	29.82	1
3.	Lack of clear provision in income tax law and finance act.	20	19	21	60	27.52	2
4.	Unwillingness of personnel	14	12	10	36	16.51	4
	Total				218	100	

Source: opinion survey

The reasons for unsound assessment procedure according to the respondents preference are ranked as follows:

1. Due to its complexity.
2. Lack of clear provision in income tax law and finance Act
3. Lack of knowledge about tax law.
4. Unwillingness of personnel.

#### 4.2.7. Income Tax Exemption Limit

The exemption limit is very important while assessing income tax. Because, the amount provided as exemptions determine the taxable income and the tax amount. Income tax payers excluding limited company. Private limited company and partnership firm are provided exemptions on their income exemptions limit is high, the amount collected as income tax is low. If it is low, the taxpayer has no to pay more amount as income tax even if his income is low. It should be adjusted timely. In order to know the suitable amount of exemptions limit in present time a question was asked, “what should be the income tax exemption limit?” The responses received by the respondents are tabulated below.

**Table 4.2.12**  
**Exemption Limit of Income Tax**

S.N.	Present limit (Rs.)	Prescribed limit	Group of Respondents			Total	%
			A	B	C		
Individual	125,000	80,000-100,000	1	6	4	11	22
		100,000-150,000	9	6	7	22	44
		150,000-200,000	6	4	4	14	28
		200,000-250,000	2	-	1	3	6
		Total	18	16	16	50	100
Couple/ Family	140,000	100,000-150,000	6	9	7	22	44
		150,000-200,000	6	3	5	14	28
		200,000-250,000	5	4	4	13	26
		250,000-300,000	1	-	-	1	2
		Total	18	16	16	50	100

Source: Opinion survey

On the response about the exemption limit of an individual, it was found that 44% of the respondents in favor of 100,000-150,000. 28% of the respondents suggest that

the exemption limit should be Rs. 150,000-200,000. 22% of the respondents suggested that the exemption limit should be 80,000-100,000 and the 6% of the respondents suggested that the it for 200,000-250,000. From the above table it is clear that the exemption limit for an individual should be in range Rs. 100,000 to 150,000.

Similarly, from the table it is clear that the 44% of the respondent suggested for range 100,000-150,000 as exemption limit for a family 28% of the respondents were suggested for range Rs. 150,000-200,000, Similarly 26% of the respondents suggested for range Rs. 200,000-250,000 and the 2% of the respondents response exemption limit should be Rs. 250,000 to 300,000.

#### **4.2.8. Satisfaction with the Existing Corporate Tax Rate**

Corporate tax rate plays a vital role in income tax management. Development of corporate sector highly depends upon it. On the other hand the volume of resources mobilized through income tax is largely depended upon corporate tax rate. If higher the corporate tax rate, higher the amount collected from income tax but less chance of developing corporate sector in the nation. It is clear that the corporate tax rate should be such, which enable the government to collect more amounts for its revenue and provide incentives to invest in corporate sector present corporate tax rate in Nepal is 25%. In order to know the satisfy with the existing tax rate. A question was asked,” Are you satisfied with the existing corporate tax rate?” The answer received form the respondents are tabulated in the following table.

**Table 4.2.13**  
**Satisfaction with the Existing Corporate Tax Rate**

<b>Respondent</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>Total</b>	<b>%</b>
<b>Response</b>					
Yes	10	7	5	22	44
No	8	9	9	26	52
Don't know	-	-	2	2	4
Total	18	16	16	50	100

Source: Opinion survey

From the above table 52% of total respondents are not satisfied in the existing corporate tax rate, 44% of the respondents response in favor excising corporate tax rate and 4% of the respondent response the don't know about the existing corporate tax rate.

As a sequence to the earlier question it was asked to the respondents. In order to find the appropriate corporate tax rate at present time in Nepal, the respondents were requested to suggest suitable corporate tax rate.

The suggested corporate tax rates by the respondents are tabulated as follows:

**Table 4.2.14**  
**Corporate Tax Rate in Nepal**

Prescribed rate	Group respondents			Total	%
	A	B	C		
20%	3	8	9	20	40
25%	6	6	6	18	36
30%	8	2	1	11	22
35%	1	-	-	1	2
Total	18	16	16	50	100

From the above table it is clear that 40% respondents were in the favors of corporate tax rate is 20% where as 36% of respondents response the existing tax rate 25%, 22% respondents respondent the 30% of corporate tax rate and 2% of the respondents the response the corporate tax rate is 35%.

#### **4.2.9. Tax Paying Habit of Nepalese People**

To know the respondents view about tax paying habit of Nepalese people a question was asked. "Do you think that tax paying habit of Nepalese people is very poor?" The response received from respondents are tabulated as below.

**Table 4.2.15**  
**Poorness of Tax Paying Habit of Nepalese People**

<b>Responses</b> <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
A	14	77.78	4	22.22	18	100
B	10	62.5	6	37.5	16	100
C	9	56.25	7	43.75	16	100
Total	33	65.51	17	34.49	50	100

Source: Opinion survey

From the above table it is clear that 65.51% of respondents have approved that tax-paying habit of Nepalese people is poor. However, 34.49% of respondents think that there is no poor habit of Nepalese people to pay the tax however, majority of respondents approved that tax-paying habit of Nepalese is poor.

In order to know the suggestions from the respondents for the increment of tax paying habit of Nepalese people, a question was asked, “What is your suggestion for the increment of tax paying of Nepalese people?” The responses are received from respondents are ranked as one for most important and five for the least important and five for the list as tabulated below.

**Table 4.2.16**

**Suggestion for the Increment of Tax paying Habit of Nepalese People**

S.N.	Suggestion	Group			Total point	Percent	Rank
		A	B	C			
1	Education to the taxpayers about tax.	64	36	30	130	26.16	1
2	Simplification of tax assessment procedure	38	29	31	98	19.72	3
3	Simplification of tax laws	48	33	31	112	22.54	2
4.	Incentives to the regular tax payers	40	31	22	93	18.71	4
5.	Better public relation by the tax officer	27	21	16	64	12.87	5
	Total				497	100	

Source: Opinion survey

According to the respondents, the tax paying habit can be increased largely by providing education to the taxpayer where it got 26.16 percent. The measures for improving tax-paying habit of taxpayers are ranked as below:

1. Education to the tax payers about tax.
2. Simplification of tax laws.
3. Simplification of tax assessment procedure.
4. Incentives to the regular tax payers.
5. Better public relation by the tax officers.

#### **4.2.10. Attitude towards Income Tax Management in Nepal**

The function of income tax management is vital for the increment of income tax revenue. In order, find out the attitude of people toward the activities of income tax management in Nepal, a question was asked, “What do you feel about the activities of income tax

management in Nepal?” The respondents were provided with three alternatives, the responses received on this question are as follows.

**Table 4.2.17**  
**Attitude towards Income Tax Management in Nepal**

S.N.	Income tax Management	A	B	C	Total No.	Percent
1.	Efficient	6	-	-	6	12
2.	Inefficient	1	4	9	14	28
3.	Satisfactory	11	12	7	30	60
	Total	18	16	16	50	100

Source: Opinion survey

It can be concluded from the above table that 60 percent of respondents felt the current income tax management is first satisfactory. Only 12 percent of them felt that the management is sound and rest of them is in the side of inefficient. This indicate that there should be added some efforts towards increment of efficiency in income tax management.

#### **4.2.11. Attitude towards Provisions of Fees, Fines and Penalties**

In every tax system, there are provisions of fees, fines and penalties so that people may not run away from it and respect the law. Income tax system of Nepal also has the provision of fees, fines and penalties for the regulation of law. To find out the responsibility of these provisions, a question was asked, “Are the provisions of fees, fines and penalties under income tax system is reasonable?” The respondents who do not feel the previsions are reasonable, are requested to provide the measures to make it recoupable. The respondents are given there alternatives of making the provisions reasonable as; by increasing or by decreasing or nothing to say. The responses is tabulated as below.

**Table 4.2.18****Altitude towards Reasonableness of Provision of Fees, fines and Penalties**

Response/ Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	12	66.67	6	33.33	18	100
B	9	56.25	7	43.75	16	100
C	10	62.5	6	37.5	16	100
Total	31	61.81	19	38.19	50	100

Source: Opinion survey

It is clear from the above table that 61.81 percent respondents have expressed the provisions of fees, fines and penalties are reasonable and 38.19 percent respondents have not taken the provision as reasonable.

The respondents who have felt the provisions as unreasonable, have given their opinion toward making the provisions reasonable which are tabulated as below.

**Table 4.2.19****Measures to make the Provisions of Fees, Fines and Penalties**

S.N.	Measures	A	B	C	Total	Percent
1	By increasing	4	1	4	9	47.3
2.	By decreasing	2	6	2	10	52.7
3.	Nothing to say	-	-	-	-	-
	Total				19	100

Source: Opinion survey

It is concluded from the above table that out of the respondents who do not agree the provisions of fees, fines and penalties as reasonable, 47.3 percent have felt that it should be increased and 52.7 percent have felt it should be decreased.

#### 4.2.12. Effectiveness of Income Tax Administration in Nepal

As an important component of income tax management, it plays vital role in the income tax system. In order to know the effectiveness of income tax administration, a question was asked, “Is income tax administration in Nepal is effective to collect tax?” The respondents who do not agree on the effectiveness, they have got alternate to rank the causes of effectiveness of income tax administration. The responses received from respondents are tabulated as below.

**Table 4.2.20**  
**Effectiveness of Income Tax Administration**

Response/ Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	12	66.67	6	33.33	18	100
B	9	56.25	7	43.75	16	100
C	10	62.5	6	37.5	16	100
Total	31	61.81	19	38.19	50	100

Source: Opinion survey

From the above table, it is clear that the income tax administration is so effective to collect tax had higher percentage agreed on this view. Some of respondents did not agree toward the effectiveness of tax administration and they ranked some causes given in the questionnaire are as tabulated below.

**Table 4.2.21****Causes of Ineffectiveness of Nepalese Income Tax Administration**

S.N.	Causes	Group			Total point	Percent	Rank
		A	B	C			
1.	Complicated tax law	32	32	24	88	16.63	1
2.	Lack of trained and competent tax personnel	25	27	27	79	14.94	3
3.	Lack of proper communication	29	28	28	85	16.07	2
4.	Lack of proper direction	18	24	24	66	12.48	6
5.	Delay in making assessment	27	30	21	78	14.74	4
6.	Unnecessary outside pressure	14	23	20	57	10.77	7
7.	Lack of co-ordination	20	31	25	76	14.37	5
	Total				529	100	

Source: Opinion survey

The cause of ineffectiveness of Nepalese income tax administration ranked in order to preference of respondents is follows:

1. Complecated tax law.
2. Lack of proper communication
3. Lack of trained and competent tax personnel.
4. Delay in making assessment
5. Lack of co-ordination.
6. Lack of proper direction.
7. Un necessary out side pressure

It can be fined that the completed tax law, lack of proper communication and lack of trained and competent tax personnel are the most important causes of ineffectiveness of Nepalese tax administration.

#### **4.2.13. Most Important Factors for Effectiveness of Income Tax**

Researcher know the most important factor for effectiveness of income tax in Nepal, respondents were requested to rank their responses on given choice. Question was, “what

are the most important factors for effectiveness of income tax in Nepal?" The responses received from respondents are ranked as below in the table.

**Table 4.2.22**  
**Important Factors for Effectiveness of Income Tax in Nepal**

S.N.	Factors	Group			Total point	Percent	Rank
		A	B	C			
1.	Honest tax officer	30	31	29	90	30.10	3
2.	Clear act, rules and regulation	39	31	36	106	35.45	1
3.	Effective tax Administration	39	34	30	103	34.45	2
	Total				229	100	

Source:Opinionsurvey

From the above table the main factors of effectiveness if income tax in Nepal is ranked in order of the respondents, are as follows:

1. Clear act, rules and regulation.
2. Effective tax administration
3. Honest tax officer.

Other important factors for the effectiveness of income tax specified by some of respondents are as follows:

- i) Honest tax payers.
- ii) Huge publicity to aware about tax.
- iii) Tax payers education.
- iv) Proper communication
- v) Incentive to regular tax payers.
- vi) Huge punishment to corrupt personnel and tax evaders.

It can be concluded clear act, rules and regulations is the most important factor for the effectiveness of income tax in Nepal.

#### **4.2.14. Manpower Availability in Tax Office**

The manpower availability in tax office. Its plays a vital role of to run the organization. In order to know the what types of manpower availability, a question was asked, “do you have enough manpower in your organization to run the organization smoothly?” Researcher asked this question only to tax officers. The responses received from respondents are tabulated as below:

**Table 4.2.23**  
**Manpower Availability in Tax Office**

Respondents Response	Tax officers	%
Yes	12	66.67
No	6	33.33
Total	18	100

Source: Opinion survey

From the above table, it is clear that, there is no shortage of work force in the tax office. Majority of the respondents (66.67) percent of respondents expressed such view. It can be concluded that there is no work force problems in tax office

#### **4.2.15. Condition of Training and Development Program**

The function of income tax management is vital for the increment of income tax revenue in order to develop the attitude or behavior of personnel of the tax office. A question was asked, “What is the condition of training and development programmed in your organization?” This question was also asked only to tax officers. The respondents were provided with three alternatives, the responses received on this question are as follows.

**Table 4.2.24**  
**Condition of Training and Development Programme**

S.N.	Training and Development	Tax officers	%
1.	Fair	5	50
2.	Satisfactory	9	27.78
3.	Poor	4	22.22
	Total	18	100

Source: Opinion survey

The above table shows training and developing programme to the tax officers, 50 percent of the tax officers response the training and development programme of organization is fair, 27.78 percent response satisfactory and 22.22 percent of respondents' response the very poor of training and development programme in the organization of tax office.

All tax officers had an opportunity to get training facilities to enhance their performance.

### **4.3 Major Findings of the Study:**

On the basis of previous chapter data presentation and analysis, some important and major findings can be drawn. The major findings of this dissertation are summarized as follows:

#### **Findings from Secondary Data**

- In the structure of government revenue of Nepal, customs, VAT (sales tax), income tax and excise duty are the major sources. The average contribution of custom, VAT (sales tax), income tax and excise duty were 22.09%, 37.54%, 21.96% and 12% respectively for the fiscal year 2006/07. If we evaluate individually, contribution of custom is in decreasing rate but vat is increasing for several years. Overall tax revenue has more than 75 percent contribution in total revenue within the country.

- However, there is a fluctuation in non-tax revenue for several years; the contribution of it is less than 25 percent of total revenue.
- The tax/GDP ratio of Nepal is not found in satisfactory level. But the trend of contribution of tax revenue on GDP is gradually increasing from 7.86 percent in fiscal year 1987/88 to 10.64 percent in fiscal year 2004/05. Since, the contribution of income tax on GDP is fluctuated in recent years; however, it is in positive trend.
- While evaluating income tax with connection to Gross Domestic Product of six years, it was found that the income tax/GDP ratio was fluctuating in various fiscal years and it was 1.99 percent in the fiscal year 2004/05.
- In the fiscal year 2003/04, the net contribution of income tax was however, at satisfactory level i.e. 30.16 percent out of total tax revenue of Inland Revenue Department and the connection was improved in the fiscal year 2003/04.
- Income tax exemption limit of Nepal has been changed on the basis of time and income condition. The exemption limit is provided for natural person of resident status only. The exemption limit provided to income tax payer is not sufficient in Nepal according to inflationary situation.
- There were eight slabs of income tax rates in fiscal year 1987/88 but presently, there are two slabs on income tax rates for natural & resident person and flat rate of tax applied to entity. At present, income tax rate is 15 and 25 percent for natural person for the income over exemption limit, flat rate of 30 percent for bank and finance company and 25 percent for other entity such as partnership firm, company without exemption limit.
- Regarding to the estimation and collection of income tax in Nepal, achievement of collection in comparison to estimation seems to be satisfactory. Amount of collection is in increasing trend. However, in comparison to 2001/02, it is decreased by Rs.860 million in the fiscal year 2002/03. The percentage contribution of income tax collection on estimation is 81.72%. For the year 2002/03, this percentage contribution is not satisfactory.

- The components of income tax management are administration, laws and policy makers.
- The efficiency of income tax management depends on administration in which quality and quantity of tax personnel play significant role. Inland Revenue department is the central body that administers income tax along with VAT and excise duty. IRD was established under the ministry of finance in the year 2001 by amalgamating the then two department i.e. department of taxation and department of value added tax. There are 23 field offices named Inland Revenue office under this department. Total strength of personnel under Inland Revenue Department along with field office is 939 where 143 personnel are settled in IRD and 796 personnel for its field offices.

### **Findings from Empirical Investigation**

- From the opinion survey (empirical investigation) with various respondents i.e. tax administrators, tax experts and taxpayers, the following findings have been drawn:
  - Taxpaying habit of Nepalese people is poor
  - The present level of revenue collection of the government is not satisfactory. There should be attempt to increase it.
  - Income tax system of Nepal has not reached at the satisfactory level yet. Illegal business activities, practice of tax evasion, lack of education to taxpayers, lack of awareness in taxpayers, complicated tax act, rules and regulation are considered as the major problem in income tax system of Nepal.
  - Income tax evasion in Nepal is being a major constraint for resource mobilization. Inefficient tax administration, poor tax morality of taxpayer, wide spread practice of illegal business, inadequate auditing & investigation are the major reasons for tax evasion.
  - Less consciousness of taxpayers, lack of training facility to the tax personnel, inadequate expert in tax management, lack of appropriate organization structure is the major problems of income tax management.

- The current income tax management is not sounding just satisfactory. It indicates that there should be added some efforts toward increment of efficiency in income tax management.
- Effective fees, fines and penalties system can help to decrease the taxpaying habit of Nepalese people.
- Complicated tax law, lack of proper communication, complicated tax law, lack of trained and competent tax personnel, are the major causes of ineffectiveness of Nepalese income tax administration.
- Clear act, rules and regulation, effective tax administration, honest tax officer are the important factor for effectiveness of income tax in Nepal.
- The training and development program to tax officers is good condition for collect the revenue.

## **CHAPTER-5**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary:**

Tax is too complicated and vague subject because tax is a system of system. There is enough ground in such a subject to study. However, it is too hard to get through knowledge, interlined it, find out the problems and recommend idea to solve the problem to concerned authorities and parties. Even though, I have tried on it. Every subject must be studied and researched. Escaping away from complication and hardship of any subject always remain as it is. Therefore, it is a brick of several bricks of the studies in the field.

To this study, the first chapter explains the purpose and needs of study. Second is related to the review of literature, which deals introduction of various, terms related to tax and review of previous researches and studies to give the base for the field of study. Through the prescribed methodology, we find various data compare and analyze it to make an idea to arrive in conclusion. For this purpose, tax revenue collection trend in GDP, target and achievement of income tax, income tax sharing in total revenue, composition of tax and non tax revenue, structure of government tax revenue, inland revenue collection trend are mentioned in chapter fourth, more than this, to get accurate and true result, primary data also collected from opinion survey and analyzed in this chapter. In one sentence, the study was concerned with the income tax management in Nepal using the prescribed methodology.

#### **5.2 Conclusion:**

After restoration of democracy, particularly from point of conflict there has been a dramatic change in the composition of public expenditure. The public expenditure pattern has show in early 1990s regular expenditure accounts for about one third of expenditure and the development expenditure was about two thirds of the total public expenditure. But the regular expenditure increased rapidly and exceeded the development expenditure

during 1998/99. In recent years, the volume of development expenditure has also decreased in real terms.

On the other hand, the development expenditure is increasing at a slow rate, which is not desirable condition for country like Nepal. Because only development expenditure is responsible to create the infrastructure required for economic development and the execution of many projects to improve social conditions such as health and education.

Public revenue, main source to fulfill the need of public expenditure has not been able to pace with public expenditure. The public revenue are two types i.e. tax revenue and non-tax revenue. Tax revenue contributes about 75 percent of the total revenue while the non-tax revenue represents about 25 percent of the total revenue. To increase the revenue through non-tax revenue is very tough job due to its rigidity characteristics. Therefore, it is necessary to make every effort to generate more revenue through taxes, which are levied on commodities, incomes and properties.

Income tax is one of the most important resources of the government revenue, it is considered as a good remedy to cure growing, and serious resources gap problems of Nepal. Contribution of income tax for the economic development of Nepal has been increasing significantly in recent years as compared to past eighteen years but does not meant that it has the share in satisfactory level

Nepal attracts foreign assistance in the form of grants and loans from different bilateral and multi-lateral donors. Till the 1980s, grants were used to be major component of foreign assistance, but after 1980s, loans have been increased at significant level. Since, public revenue and foreign grants lay behind in relation to public expenditure; there is a large deficit in the fiscal system. Furthermore, heavy reliance on external loans indicates a danger of debt trap since Nepal will have to pay a higher amount of principal and interest. Just like external loans, internal loans also cause inflationary pressure.

Since, a large part of revenue is spent on regular expenditure, there has been very little revenue surplus, i.e. revenue minus regular expenditure. Revenue surplus provides a small part of total development expenditure. The situation has become even more critical in recent years.

Since, non-tax revenue cannot be used as an effective instrument of revenue mobilization; attempts must be made to mobilize more tax revenue through the reform of the tax system.

The major steps attempted to reform the tax systems are found as:

### **Introduction of VAT:**

As a part of tax reform, it has been implemented. It replaced the sales tax, hotel tax, contract tax and entertainment tax.

### **Implementation of new Income Tax Act:**

The Income Tax Act of 2058 was introduced in place of Income Tax Act, 2031. It is comprehensive and follows modern concepts. It adopted full-flagged self-assessment system and reduced the discretionary power of tax official. Although, it has many difficulties and confusions at execution level.

### **Administrative Reform:**

A functional organization was established in mid July 1996 for the administration of VAT. It was computerized in order to establish a strong database and an information based tax system.

Income tax and VAT has been merged in order to avoid duplication and overlapping of functions. It is now being beneficial for parties, government and taxpayers.

The new unified administration is structured along functional lines, which is expected to reduce the scope for collusion and corruption. A large taxpayer office is also opened mid-January 2004.

## **5.3 Recommendations:**

Without efficient tax management, tax policy does not work. Therefore, time-to-time measurement of tax administration and its reform is must. To increase the efficiency of

tax administration reform of tax administration is needed on all fronts such as the organizational structure, the personnel system, the incentive package, tax procedures, automation and the appeal system

On the basis of findings of this dissertation, the following recommendations are made regarding income tax management and its administrative efficiency of income tax.

- There should be a policy to develop the efficient, fair and equitable tax administration in order to increase the income tax revenue.
- People should be encouraged to pay tax voluntarily. A system should be introduced that a tax paying citizen is entitled to receive more incentives than non-taxpaying citizen.
- The terms and procedure under the Income Tax Act should be simplified so that even layman could understand easily.
- Timely revision should be made in the matter of income tax policy.
- The system of changing income tax policy with the change of government should better be avoided and the income tax management should be kept aloof from politics.
- Income tax laws must be strictly used.
- Several actions should be taken against corrupted tax personnel and taxpayers who denied paying tax.
- Illegal business activities must be controlled which are influencing to be corrupted personnel.
- Intensive effort should be made to bring evaders into income tax net.
- Person who supplies information about tax evasion should be rewarded.
- The tax evaders must be punished heavily and such events should be publicized properly so that it may have sufficient restriction defects among probable defaulters.
- Strong political commitment is necessary for the effective implementation and modernization of the income tax system.

- Any member of the staffs defect any un-reporting or under reporting of taxable income, the defector should be rewarded with a reasonable share of the amount in order to make everyone tax conscious.
- The existing exemption limit should be adjusted according to inflationary situation of the country.
- A regular information program should be launched to explain tax laws, tax program & tax benefit with the view of stimulation enthusiastic participations of the public to pay taxes through the media i.e. radio, television, newspaper and the speech program in the educational institution.
- Income tax should be liberal with broad base.
- Tax on agricultural income should be charged after proving certain exemption limit.
- The students at school level should be given the knowledge of tax. The school curriculum should include tax education and social obligation of paying tax.
- Income tax administration of Nepal is suffering from number of interacting and interrelated problems, which have badly affected its productivity and image. So it should be made efficient, honest and trained. The following suggestions are made for the improvement of income tax administration:-
  - ❖ Computerization and effective exchange of information is necessary to keep up-to-date records of income tax.
  - ❖ Provision of simplified forms and formats should be made for concerned taxpayers
  - ❖ For IRD, separate research and control unit should be established in order to find out new avenues of taxation and to find out lapses in tax policy preserved by the government.
  - ❖ Regular and effective training should be given to the tax personnel.
  - ❖ To make the administration capable of facing new challenges, there should be improvement in professionalism as well as development of new professional ethics compatible to be changed context of liberalization
  - ❖ Effective reward and punishment system should be established

- ❖ IRD should be kept free from undue influence from outsiders
- ❖ Tax authority should do continuous effort in order to develop tax payers the positive attitude toward taxation
- ❖ New investments denote new companies having employment opportunities. Thus, it reduces significantly unemployment in the economy along with new scale of production. Further, more, new companies, new employment, new goods and services mean new taxpayer. Thus, the budget deficit and recession can be reduced.

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## **Appendix - 1**

### **Cover Letter**

**Dear Sir,**

First, I would like to introduce myself as the student of Shankar Dev Campus MBS, final Year. It is my pleasure to inform you that I am going to prepare a dissertation entitled "Income Tax Management in Nepal" for partial fulfillment of Master Degree in Business Studies (MBS) of Tribhuvan University (T.U.), Nepal.

I would be appreciated if you could spend some of your valuable and busy time for filling the questionnaire, which are enclosed here. Your information will be strictly used for study.

I assure to keep every detail you provide me confidently.

I am looking forward to your valuable co-operation and support with many thanks and obligation.

Yours Sincerely

Raju Silwal

**Appendix - 2**  
**Income Tax Management in Nepal**  
**Questionnaire**

**Designation :**

**Office:**

Please tick ( ) the suitable answer of your choice from the following questions and wherever appropriate please rank them based on number of alternatives and importance.

1. In your opinion, is the income tax a suitable means of raising domestic resource?
  - a. Yes
  - b. No
  - c. Don't know
2. Do you believe that present revenue collection of government is satisfactory?
  - a. Yes
  - b. No.
3. Do you think that the income tax system of Nepal is efficient?
  - a. Yes
  - b. No.
4. If not what are the major problems in income tax system? (Please rank 1-10, according to the priority)
  - a. Practice of tax evasion
  - b. Inappropriate tax rate & exemption limit
  - c. Lack of awareness in tax payers
  - d. Illegal business activities
  - e. Lack of education of tax payers
  - f. Lack of training and sufficient incentives to employees
  - g. Complicated tax act, rules and regulations
  - h. Lack of experts in tax administration
  - i. Inefficient income tax management

- j. Lack of good economic policy
  - k. Other, (Please specify).....
5. Do you agree that the wide spread tax evasion as the major constraints of the resource mobilization through income tax in Nepal?
- a. Yes
  - b. No
6. If yes, what may be the reason? Please rank your answer 1-7
- a. Reluctance of tax payers to maintain accounts
  - b. Wide spread practice of illegal business
  - c. Inefficient tax administration
  - d. Inadequate auditing and investigation
  - e. Poor enforcement of fine and penalties
  - f. Poor tax morality and tax payer's compliance
  - g. Other (Please specify).....
7. What are the main problems of income tax management in Nepal? (Please rank your answer 1-10, according to priority)
- a. Legal
  - b. Less consciousness of tax payer
  - c. Lack of sufficient power to the tax administrator
  - d. Lack of training facility to the tax personnel
  - e. Increasing habit of tax deceit
  - f. Lengthy process of tax assessment
  - g. Lack of identical account system
  - h. Lack of appropriate organization structure
  - i. Inadequate expert in tax management
  - j. Misuse of power by the tax administrator
  - k. Other (Please specify).....
8. How the income tax management in Nepal should be made efficient in Nepal?  
(Please write your opinion)
- .....
- .....

- .....  
 .....
9. Is no, what are the reason? (Please rank your answer 1 to 5 according to priority)
- Lack of Knowledge about tax law?
  - Due to its complexity
  - Lack of clear provision in income tax law and finance act.
  - Unwillingness of personnel.
  - If any other (Please write)
11. What should be the income tax exemption limit?
- |                  | Present limit in Rs. | Your opinion in Rs. |
|------------------|----------------------|---------------------|
| a. Individual    | 100,000              | .....               |
| b. Couple/Family | 125,000              | .....               |
12. What should be the corporate tax rate?
- | Present rate in % | Your opinion in % |
|-------------------|-------------------|
| 25%               | .....             |
13. Are you satisfied with the existing corporate tax rate?
- Yes
  - No
  - Don't know
14. In your opinion what should be the corporate tax rate?
- |        |        |        |        |
|--------|--------|--------|--------|
| a. 20% | b. 25% | c. 25% | d. 25% |
|--------|--------|--------|--------|
15. Do you think that tax paying habit of Nepalese people is very poor?
- Yes
  - No
16. If yes, what are your suggestions for the increment of the tax paying habit of Nepalese people (Please rank in order to priority)
- Education to the tax payers about tax.
  - Simplification of tax assessment procedure.
  - Simplification of tax laws.
  - Incentives to the regular taxpayer.
  - Better public relation by the tax officers.
  - Other (Please specify)

17. What do you feel about the activities of income tax management in Nepal?  
(Please tick ( ) to choose one of them)
- Efficient
  - Inefficient
  - Satisfactory
18. Are the provision of fees, fines and penalties under income tax system are reasonable?
- Yes
  - No
19. If no, how can it be made reasonable? (Please tick ( ) one of them)
- By increasing
  - By decreasing
  - Nothing to say
20. Is income tax administration in Nepal is effective to collect tax?
- Yes
  - No
21. If not, what are the major causes of ineffectiveness of the income tax administration in Nepal? (Please rank according to priority)
- Complicated tax law
  - Lack of trained and competent tax personnel
  - Lack of proper communication
  - Lack of proper direction
  - Delay in making assessment
  - Unnecessary outside pressure
  - Lack of co-ordination
  - Others, (Please Specify)
22. What are the most important factors for effectiveness of income tax in Nepal?  
(Please rank according to priority)
- Honest tax officer
  - Clear act, rules and regulation
  - Effective tax administration
  - Other, (Please specify).....

23. Do you have enough manpower in your organization to run the organization smoothly? (Specially to tax administrator)
- a. Yes
  - b. No
24. What is the condition of training and development programmed in your organization?
- a. Fair
  - b. Satisfactory
  - c. Poor

**-- THANK YOU --**