

# CHAPTER – I

## INTRODUCTION

### 1.1 Background of the Study

Now days, the prime concern of every nation of the world is rapid economic development and Nepal is not exception to this ever-containing process. For the economic development, government has huge responsibility toward the people. To fulfill the responsibility of government toward the people, government has to spend a lot of money. The responsibilities may be either for security or health or education or other development activities. Government spends a lot of fund for protection of common people and for the creation of various socio-economic infrastructures. There are three type of expenditure, which incurred by the government i.e.: protection, commercial and public expenditure. If the nation has sufficient fund it will be able to achieve maximum social welfare. For the fulfillment of country's need, government expenditure is increasing day by day.

Government expenditure is increasing because of demand of time, increase in population, social progress, increase in price etc. To meet the growing public expenditure, the government has to manage its fund. It is received from different source. They are external and internal sources.

External source of fund is foreign grants and loans. Such external sources are uncertain, inconvenient and not good for healthy development if there is heavy dependent on them. It is used for economic development reconstruction, foreign exchange, to recover from crisis condition, for productive use etc. (Sharma and Luitel, 2002: 526) Because of different weaknesses of external sources the internal sources should be mobilized. Developing countries try to mobilize their internal source to finance necessary fund for regular and

development activities. But past experience shows that Nepal has not mobilized its internal resources, which was expected.

Internal source of fund is own source within the nation. Internal source of public fund is important not only for financing necessary fund but also for proper mobilization of external source. Internal source of fund includes both tax and non-tax. Tax sources include the amount, which are compulsory contributed by taxpayers to the government. Non-taxes sources are uncertain and inconvenient because they are imposed as per need of the government. It shows that taxes are the better source of public revenue and it has been taken as the best effective tool for raising the public fund.

Tax is the main source of financing government activities. In every country the part of government revenue is raised through taxation. Tax may be imposed on a person income. Tax is a compulsory contribution imposed by public authority using the right given by law. Taxpayer does not expect any return for his tax paying. It is neither an exact amount nor a penalty for any legal offence.

Tax may be classified into two types. They are direct and indirect. Direct tax is that tax which is really paid a person on whom it is legally imposed. These are the direct tax: income tax, property tax, interest tax, gift tax, death tax, vehicle tax etc. indirect tax is that tax which is imposed on one person but paid or wholly by another. These are the indirect tax: sales tax, entertainment tax, passenger tax, hotel tax, export and import duty, excise duties, VAT etc.

Income tax is the most popular direct tax. It is charge on person income according to the law of nation. Income includes all the income which is received from business, investment and employment. Income tax is superior indirect tax because it is imposed on the basis of paying capacity of the taxpayer. People whose income is under the taxable income are free from the incidence of income tax. (Saxena, 1986: 23)

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. Hence it will help to make equitable economic distribution in the society. Balance 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 holiday and incentives would help to develop the priority sector of a national economy. “Income tax has become an effective instrument to ensure balanced socio-economic growth.” (Lal, 2001: 97)

Income tax plays a very important role in the Nepalese economy. It is the major source of government revenue. It is recognized as a good financial tool to make narrow the inequality in income. It helps to reduce regional economic imbalance by providing tax concession and holiday to business or generating the concept of social responsibility toward the nation and keeps the people vigilant to see the public money may not be misused.

Income tax is main source of government revenue. To balance economic development it is usable. No body can doubt that the equal distribution of income is also possible thought progressive income tax. It is being realized that contribution of income to the revenue of government must be increased in Nepal. Nepal has adopted the income tax system for last five and half decades. But Nepal’s past experience shows that the government is unable to maximize the share of income tax to the public fund as per expectations.

In Nepal, there are various problems to collect tax although the legal provision has been made and updated timely. There are various problems in income tax practice in Nepal such as: narrow coverage, unscientific tax assessment, deviation from the basic principles of income taxation, long time-lag, no adjustment for inflection, defectives system from the prospective of

international taxation. (Khadka, 1994: 1224) Some other are-feeling of people about tax as a penalty, leakage in tax, lack of consciousness of people, inability of tax administration to cover new taxpayer, delays in computation and collection, lack of accuracy and unity in according system etc.

Within the income tax system, fine and penalties are relevant to review. To make up to data knowledge about income tax system it should be known. Raising more revenue is the main objective of taxation. Fines and penalties play important role to collect the tax revenue with in the time. It also measures the cleverness of taxpayer about tax system.

Because of all these reasons fine and penalties of income tax system must be reviewed and immediate correction should be made if necessary.

## **1.2 Provision of Fines and Penalties Under Income Tax Act 2002 in Nepal**

Since fines and penalties ensures timely collection of income tax and also contributes government revenue through the charges and interests for late payment, it bounds organization and individual to pay their tax amount within the scheduled time. The Internal Revenue Department has made some provisions for fines and penalties in Income Tax Act-2002. Charges are imposed on the taxpayer as explained in the table below. The left column describes the failure that the taxpayer is responsible for. The right column shows the charge that he is obliged to pay as a penalty for this failure.

<b>Failure</b>	<b>Charges</b>
<ul style="list-style-type: none"> <li>) No maintenance of documentation</li> <li>) No filings of statements or returns (<i>s 117</i>)</li> </ul>	0.1% pa of all amounts to be included or 1000rs per year, whichever is the higher.
No filing of a statement as a withholding agent ( <i>s 117 (3)</i> )	1.5% pa on the tax to be withheld
False or misleading statement or omission from a correct statement ( <i>s 120</i> ) <ul style="list-style-type: none"> <li>) Without reasonable excuse</li> <li>) Knowingly or recklessly</li> </ul>	50% of the underpayment 100% of the underpayment
Aiding or abetting (inc. counseling or inducing) an offence ( <i>s 121</i> )	100% of the underpayment

For certain failures the taxpayer is punished with the payment of the interests as illustrated below:

<b>Failure</b>	<b>Charges</b>
Understating estimated tax payable by installments ( <i>s 118</i> )	Standard interest rate (15% p.a.) of the understated tax per annum
No tax paid on the due date ( <i>s 119</i> )	Standard interest rate (15% p.a.) of the outstanding tax per annum

Interests and charges are imposed where and because the taxpayer has violated his civil duties under the income tax act. The imposition of interests serves the purpose to skim off economic advantages resulting from the violation of the duties, whereas the misbehavior itself will be reprimanded through charges.

Interests at the standard interest rate apply if an installment payers estimate of tax payable is less than 80 % of the correct amount (*s 118*) and where a taxpayer fails to pay tax (*s 119*).

Charges for making false or misleading statements are imposed which amount equal to 50 % or 100 % of the underpayment of tax where the statement or omission is made without reasonable excuse or knowingly or recklessly, respectively (*s 120*). In case a taxpayer knowingly or recklessly aids, abets, counsels or induces another person to commit an offence charge applies equal to 100 % of the underpayment of tax, which may have resulted from the offence (*s 121*).

Interests and charges need to be assessed by the IRD which shall serve a written notice on the taxpayer (*s 122*).

**Offences:** Offences are dealt with in the income tax act in a sense of criminal offences of taxpayers as well as tax administrators. They lead to punishment in the form of fines and imprisonment on conviction.

Offence	Punishment		
	Fine	Imprisonment	Both
<i>General Rule:</i>			
Failure to comply with the Income Tax Act ( <i>s128</i> )	Between Rs 5,000 and Rs 30,000		No
<i>Special Provisions re: Tax Compliance</i>			
Failure to pay tax ( <i>s123</i> )	Between Rs 5,000 and Rs 30,000	Up to 3 months	Yes
Making false or misleading statements ( <i>s124</i> )	Between Rs 40,000 and Rs 160,000	Between 6 months and 2 years	Yes
Impeding the tax administration ( <i>s125</i> )	Between Rs 5,000 and Rs 20,000	Between 1 months and 3 months	Yes

The income tax act 2002 covers the following cases as well:

<b>Offence</b>	<b>Punishment</b>		
	<b>Fine</b>	<b>Imprisonment</b>	<b>Both</b>
<u>Special Provisions re: Personal Conduct</u>			
Unauthorized persons collecting or attempting to collect tax ( <i>s126(1)</i> )	Between Rs 80,000 and Rs 240,000	Between 1 year and 3 years	Yes
Breaching the rule of Official Secrecy ( <i>s126(2)</i> )	Up to Rs 80,000	Up to 1 year	Yes
Aiding and abetting	Half the penalty imposed on the main offender		Yes

Where any person, except in cases of offences by authorized or unauthorized persons and breaching the rule of secrecy, admits an offence in writing the IRD may compound the offence and order the person to pay a sum of money as specified by the IRD but not exceeding the fines prescribed for the offence. The order is final and not subject to any appeal (*s 129*). 289. District court is empowered to make decision on fine and imprisonment for the offences.

### **1.3 Statement of the Problems**

In Nepal around 0.6 percent of the total population pay the income tax. Past experience shows that there is poor tax paying habit in Nepalese people and such habit is also not satisfactory in Chitawan. There are various problem about income tax administration like, proper record about the number of income tax payer, defective selection of personnel, lack of training and education to tax payers and tax officer, undue delay in making assessment, lack of responsibilities of officials on their work, experience of corruption, lack of motivation to tax personnel etc. because of the inefficiency of the administration and increasing corruption, people have no faith in the work of government and its organization.

By effective implementation of tax law, government can increase the portion of direct tax to the total revenue. For the effective implementation of tax law government should have knowledge about various provision provided by Income Tax Act. Among them, provision of the fines and penalties is that type of provision, which plays important role to collect tax revenue. If provision of fine and penalties is not appeared the tax paying habit of Nepalese people will be poor. In the absence of this provision, people delay in payment of tax, do not submit account; submit false and misleading statement etc. for that purpose, tax administration of Nepal is not effective to impose fine and penalties as per necessary because of corruption, unnecessary outside pressure, lack of information etc.

There are various problems of income tax and its provision about fine and penalties; especially this study has been carried out to answer the following questions:

- ) Can fine and penalty play important role to increase tax paying habit of Nepalese people?
- ) Is the tax administration of Chitawan is effective to impose fine and penalty as per necessary?
- ) Is it right to think that every taxpayer of Chitawan have knowledge about fines and penalties?
- ) What should be the provision of fines and penalties in law?
- ) What should be the provision of fine and penalties in law?
- ) Is it right to say that the tax paying habit of Chitawan people is satisfactory?

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

The main objective of the study is to analysis the provision of the fines and penalties as per Income Tax Act. However, the following specific objectives have been set for the study.

- ) To analyze the provision of fines and penalties under income tax law.

- ) To find out the role of fines and penalties to increase tax paying habit of Chitawan people.
- ) To know the taxpayers knowledge and tax officers views about fines and penalties under Income Tax Act in Chitawan area.
- ) To analyze the composition of Tax Revenue in Chitawan District.
- ) To provide suggestions about fines and penalties regarding to income tax system.

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

This study will attempt to cover the major constituents of income tax collection system in Chitawan. It aims to find out the provision of fines and penalties as per Income Tax Act.

For the economic development of the country, contribution of direct tax is more essential than indirect tax. But the whole tax structure of Nepal is dominated by indirect tax. Among the direct tax, income tax plays a significant role. But it is unpleasuring to quota that the contribution of income to the national revenue is varying low in Nepal. To increase its portion in national revenue, research and analysis should be done in the area of income tax.

To get up to date knowledge about income tax system, we should know the various provision provided by Income Tax Act. Among them, provision of fines and penalties play important role to collect tax revenue with in time. In the field of this provision we couldn't find any research and analysis. For the fulfillment of this weakness this study will be helpful.

### **1.6 Limitations of the Study**

Every research study is limited by the various reasons. Similarly, this research study also has certain limitations: such as limitation of the time period, area of the study, lack of sufficient relevant data and morality of respondents and also so on.

Its main limitations are summarized below:

- ) The study is confined only to the fines and penalties practices in Chitawan district.
- ) It analyzes the provision of fines and penalties as per Income Tax Act but not as a whole system of income tax.
- ) The sample has been selected only from Chitawan.

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

The entire study has been organized into five main chapters as:

Chapter I	:	Introduction
Chapter II	:	Review of Literature
Chapter III	:	Research Methodology
Chapter IV	:	Data Presentation and Analysis
Chapter V	:	Summary, Conclusion and Recommendations

The first chapter deals with background of the study, a brief review of fines and penalties, statement of problem, objective of the study, significance of the study and limitations of the study.

The second chapter deals with conceptual framework including the fundamental concept income tax and fines and penalties. It also includes the brief review of previous research work.

The third chapter deals with the research methodology which has been followed to achieve the purposes of the study. It consists of research design, the period covered, nature and sources of data, tools to be used, research variable etc.

The fourth chapter deals with presentation and analysis of data. It gives a clear picture of how the collected data has been presented on the study and how it has been analyzed.

And at last, the fifth chapter shows the summary of whole study, conclusion drawn and recommendations given. This ends the study paper.

Besides these chapters, Bibliography and Appendix are included in this research paper.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

Every possible effort has been made to grasp knowledge and information that are available from libraries, document collection centers, magazines and concerned revenue offices. Reviewing and studying process have helped to take adequate feedback to broaden the information base and input to thesis entitled “Provision of Fines and Penalties under Income Tax Act in Nepal; A case study of Chitawan District”.

In the course of writing the thesis relating to provision of fines and penalties under income tax act in Nepal, the researcher reviewed and studied different related literature.

#### **2.1 Historical Perspective**

##### **2.1.1 Origin of Taxation**

The history of taxation dates back to antiquity. In early days taxes were not collected in monetary terms but were collected by tribal rules, community heads etc, for communal service and at time of emergencies.

In Hindu tax system, tax was levied on the basis of welfare of the people and people were eager to pay tax because not to pay tax was taken as a great sin. According to Hindu Holy Scripture; Vedas, the duty of king was to serve and secure people, maintain peace and carry out social works. In order to perform all those activities, the king used to collect crops and cattle from farmers, gold, silver and copper from traders. These ancient form of taxation were expanded from time to time under the influence of various economic, political and ethical forces.

In the early Roman Society, the citizen had to pay taxation even for the polling rights. “Ancient Athens used to derive its revenue from taxes like customs, sales and pole tax on alien and slaves. One who was taxed and fails to pay was guilty of capital offences.” (Encyclopedia, 1975: 05) After the end of public war in 146 B.C, they were revealed from the poll tax. They started to levy tax on the people of the captured areas instead of their citizens. At the time of Julius Cease, one percentage sales tax imposed to the people and he was the ruler who started to collect taxes through government institutions.

Kautilya’s “Arthasastra” of the fourth century B.C. has classified the tax receipt into three types. (Lokanath, 1998: 23)

- ) Income earned through taxes on goods produced within the country.
- ) Income earned through taxes on goods produced in the capital.
- ) Income earned through taxes on imports and exports.

Land revenue was an important source of taxation in ancient India. Kauti8lya mentioned, “the tax system should be such as not prove a great burden on the public (Prajā), the king should act like the bee which collects honey without inconveniencing the plant” (Garola: Kautilya’s Arthasastra). His economic through was guided by social welfare concept. He suggested heavy taxation for luxuries and other articles, which were not in favor of public welfare. Kautilya classified the main items of public expenditure, which are as follows:

- i. National Defense
- ii. Public Administration
- iii. Salaries of ministers and expenditure on government department and
- iv. Expenditure on maintenance of armies.

### **2.1.2 Income Tax in the International Context**

Great Britain was the first country in the world that introduced modern income tax in 1799 in order to collect revenue to finance Napoleonic war with France.

(Khadka, 2001: 42) Great Britain adopted global principle of income tax system when it introduced income tax at first. In USA the first federal income tax was imposed in 1862 to finance for civil war. The federal corporation income tax was introduced in 1990. In India, modern income tax was adopted in 1986. In Nepal income tax was introduced in 1959.

### **2.1.3 Taxation in Ancient Nepal**

In ancient Nepal, tax was collected in the form of kinds, cash and labour service. In the Lichhavi period, the main source of revenue was tax. At that time taxes were known as “Trikar” which means three kinds of taxes. The three taxes were “Bhaga”, “Bhoga”, and “Kara”. The Bhaga tax was levied on agriculture, the Kara tax was on business income and Bhaga was on animals. Irrigation tax and religious monumental preservation taxes also existed at the time of king Ansubarma of Nepal. (Agrawal, 1978: 115) Fixed portion of agricultural product were payable to the king as tax. Compulsory labour work from all artisan and labours were also common way of paying taxes.

### **2.1.4 Taxation in Unified Nepal (1769 – 1846)**

During the following unified period, land tenure system was divided into five main forms: Raikay, Birta, Gouthi, Sera and Kikat. (Regmi, 1971: 33)

The major sources of revenue were; Birta and Kipat taxes on land, royal palace levies like walak, Gadimubarak, Chumawan, Godan, Government levies like Darsan Bheti, Salami, Local levies on forest and water source, commercial taxes like customs, transits and market duties, mines and mints, exports of forest products like wildlife, herbs, drugs, wax, birds, elephants, and judicial fines. Maximization of revenue was the prime objectives of the fiscal policy during the period. Taxes were collected at three levels. Royal’s palace levies, government levies and local levies.

‘Walak’ was collected from each family on a regular basis and period of national celebration or festive or ceremonial occasion. ‘Godimubarak’ was collected to finance for coronation ceremony of a new king. Chuman and Goddhawa were collected to finance and sacred thread investiture and a marriage ceremony of royal princes and princesses. ‘Godan’ was levied to finance funeral expenses when a reigning king died. Darshan Bhet was collected from both civil and military employees at the time of their appointment and confirmation. ‘Salami’ was collected from local revenue collection functionaries in the terai region as an annual payment.

Taxes were imposed primarily on occupations and economic activities but not on property. Tax base was very narrow. The Birta owner class had much influential role in political and administration. However, “Pota” tax introduced by Prithivi Narayan Shah in 1772 was regarded as revolutionary measure in Nepal’s fiscal system. It was not based on progressive tax principle. It was limited on small Birta owner and privileged of the members of the nobility person who did not pay pota. Only common people who lived on Raikar lands paid the homestead taxes and other pota levies. There was not taxation of income in the modern sense of income.

### **2.1.5 Taxation in Rana Nepal (1846 – 1950)**

During the period of Rana regime, there was on any hard and fast rule relating to taxation. However, the main aim of the rulers was to earn as much as they could by taxing people. Income and expenditure of the state were not transparent. No budget was framed at the time. There was no difference between the income of the state and the income of the prime minister. Taxes were levied according to the will of the rulers.

There were three traditional sources under which the state was able to acquire goods and utilize manpower without using money as a means of exchange.

- ) Mineral resources belonged to the state.
- ) The state paid emolument to its employee and functionaries party or village tax rather than assignment of “Jagir” of taxable land and village tax rather than through payment in cash and
- ) The “Jhara” system entitled the nineteenth century in Nepal state to exact porter age other labour service from its subject without paying wages.

There were four main categories of agencies which collected revenues; Rajya, Birta, Guthi and Kipat. The royal family traditionally acquired income from special levies such as Darshan bhet, Tika Bhet and Fattemubarak. ‘Tika bhet’ was collected on the occasion of the Vijay Dashami festival. ‘Fattemubarak’ was collected at the time of Indrajatra festival, commemorating Prithvi Narayan Shah’s conquest of Chitawan in September 1768. Other three levies known as Chumawan. Godimubarak and Goddwala were collected on a country basis on special royal occasions. Soune and fagu were the most important levies that were collected for meeting festive, ceremonial or extraordinary expenses at the royal palace. Main source of state revenue were:

Taxes: During the Rana regime, income were not taxed for raising regular revenues of the state treasury but for meeting specific expenditure of the royal household or extraordinary expenditure of the royal household or extraordinary expenditure necessitated by war or other emergencies. During 1855-56 Nepal – Tibet war, Jung Bahadur had imposed a tax on the incomes of selected groups. In 1891, Bir Shamsheer imposed a levy of 1% on the official value of Jagir assignment of government employee to finance transportation of water pipes supply in the capital. In 1882, Ranodip Singh imposed 50% tax on the income made by fisherman in Deukhuri in the western inner terai from the sale of fish.

Receipts from the sectors: The government got revenue from the state ownership of natural resources mainly agricultural lands, mines and forests.

State intervention in trade, there were two main forms of state intervention in trade namely monopoly and state trading. The government conducted the activities of buying and selling of specific commodities for raising revenue and supplied the scarce commodities itself.

Kausi Tosakhana had been established after political unification. Its main functions were to receive and disburse revenues, obtain, store and issue supplies required by the government and perform other general function related to fiscal administration. In the Rana regime, Jung Bahadur created new development treasury known as Sadar Mulukikhana to receive and account for government revenue.

There was no direct tax in the country except land tax collected on a contractual basis and 'Salami', which the government employee used to pay out of their salaries at very small percentage. The Salami was abolished in 1951. The Rana rules did not think of developing an effective revenue administration system.

#### **2.1.6 Income Tax in Modern Nepal**

It was the first income tax act in Nepal. It had 22 sections. The main features of act were as follows: (Koirala, 2003: 17)

- ) The source of income for tax purpose was limited only to business profit and remuneration thus, the coverage of income tax was too narrow.
- ) Tax on remuneration was to deduct at source but the specified deduction was not provided.
- ) Salary of any diplomatic representative, foreign citizen, dividend of shareholders; profit to be spent on religious or public welfare activity, profit of local autonomous organization, allowances granted by HMG to ministers, assistant ministers, speakers, deputy speakers, chairman, government chief and leaders of saving fund were exempted from tax.

- ) The basis for calculating the tax liability for remuneration was the income of the current year whereas for business profits, it was the profits of the preceding fiscal year.
- ) There was a provision of official assessment based on best judgment estimation in case of false statement or in absence of income tax return.
- ) In case of defaults the fines ranged Rs. 500 to Rs. 5000 and for information's; there was a provision of 20% of total realized if the information had been proved.
- ) The taxpayer had a right to appeal against the tax officer's assessment with the local 'Bada Hakim' or 'Magistrate'. If he had not satisfied with the decision, he could appeal to the "revenue and tax court" after depositing fixed amount.

Profit from large industries was granted a rebate of 25% and profits from small industries were granted a rebate of 50%. Thus in the beginning, the government servants were the main taxpayer.

### **2.1.7 Income Tax Act 2019**

This act had defined a wider base for income tax than the former income tax act. This act had 29 sections, it was amended in 2029 the additional features of act were as follows:

- Income was defined as all kind of income including from business, salaries, any professions, rent from houses or land, investments in cash or kind. Agriculture, insurance, agencies and any other sources.
- Income tax was defined as the tax on the net earning.
- The state of taxpayer was defined personally as well as residentially.
- The procedure for income tax assessment and methods for calculating net income were identified.
- The basis was specified for assessing tax on the best judgment estimate of the tax officers.

- There was additional provision of exemption to income of nagar panchayat, village panchyat, public organization, income of Nepal Rastra Bank, deposits of employees saving from salaries, any income notified in the Nepal gazette.
- The provision was made to constitute the net income assessment committee with five members.
- There awes special provision for newly opened industry in which the HMG might wholly exempt tax for ten years and 25%examption after ten years.
- Tax payment could be installment as well as advance payment.
- In Agriculture income, only  $\frac{1}{4}$  of the total income was taken as net earning and remaining  $\frac{3}{4}$  of the total income as expenditure. While in case of net earning from rent of house and land, from investments and from professions 90% of total income was taken as net earning and 10% expenditure.

The Finance Act 2023 exempted the agriculture income fully from income tax. The Act restored agriculture income under the scope of income tax. Ten bighas of land were exempted and presumptive value of income based on the classification of land was also specified, the Finance Act 2023 again exempted the agriculture income from income tax.

### **2.1.8 Income Tax Act 2031**

The Income Tax Act 2031 had 66 sections. Its basic framework had been derived from the Income Act 2019. Some of the silent features of act as amended are as follows:

- ) It had clarified certain definitions specially relating to tax. Taxpayer taxable income. Gross income, personal status of the taxpayers and non-residential taxpayer's assessment of tax, philanthropic work, non-resident etc.

- ) Source of income were classified into five categories:
  - i. Agriculture
  - ii. Industry, trade, profession or occupation
  - iii. Remuneration
  - iv. House rent and compound rent and
  - v. Other.
- ) This act had made provision for self-assessment of tax for the first time and if any mistake arises or lower tax was assessed, tax officer might makes final assessment.
- ) There was additional provision of exemption from income tax than the former act as follows: income of Guthi. Income of village development committee, municipalities, compensation for life insurance or after the expiry of life insurance police.
- ) The punishment provisions were specified in different headings i.e. failure to submit particulars of income, false particulars not maintaining the accounts, obstructions and others.
- ) The taxpayer had to register their industry, business profession or vocation in tax office before starting the work.
- ) Carry forward of loss was allowed for subsequent three years.
- ) The process of assessment, reassessment, advance payment of tax deduction tax and at source and refund of tax had been specified.
- ) The HMG/N might form an assessment committee consisting five members by publishing notice in the Nepal Rajpatra.
- ) The punishment limit to persons for violating laws and regulations was up to Rs. 10,000.

### **2.1.9 Income Tax Act 2058**

Income Tax Act 2058 is implemented from 19/12/058 B.S. This act replace the Income Tax Act 2031, and other act related to income tax.

There are various additional provisions in the new tax act.

- J Income Tax Act 2031 had classified income tax into five heading where as this act divides only into three headings.
- J When Income Tax Act 2031 was in practice, there were several exemptions and deductions provided by the act and other related acts. But now, there are not more exemptions and deductions except the once provided for by act.
- J Subject to this new act, income is defined as “a person income from any employment, business and investment in accordance with this act”. It includes all kinds of income received for the provision of labour or capital or both in whatever form or nature in the taxable income.
- J The act has given the option for husband and wife as a separate natural individual until they don't accept as a couple.
- J A resident person may claim a foreign tax credit for any foreign income tax paid by the person to the extent to which it is paid with respect to the person assessable income for that year.
- J There is a provision of functional division of work among tax officers. The division is to be made under the direction of HMG and director general.
- J The penalties are divided into two parts. The tax officers can levy only fines and interest and the court can levy penalties and imprisonment.
- J This act has guaranteed the rights and secrecy of taxpayer through the act and strict punishments for non-maintaining the secrecy are provided.
- J This act has determined the rate of income tax itself for the first time, which used to be determined by the finance acts in the previous years.
- J For the purpose of calculating a person's income or investment, there are provisions of deduction related overhead costs.
- J The government allowance to widows, elder citizens or disabled individuals, gifts, bequest, inheritance, scholarship, income of foreign

officials, government bodies and non – profit organizations have been exempted from the income tax net. amount of a person privileged under bilateral or multilateral treaty, an agricultural income, income of cooperative societies based on agricultural products and dividend of such society etc, also exempted from income tax.

- ) A person has defined as a resident whose place of abode is in Nepal and who presents in Nepal at any time or who presents Nepal for 183 days or more within the income year, or who is an employee of HMG posted aboard during the income year.
- ) According to this act, a company is liable to tax separately from its shareholders. The bonus share, loans and advances to directors and shareholder, distribution made on liquidation etc, are also brought under the tax net in order to plug loopholes for avoidance.
- ) Under this act, resident, individuals and domestic companies are taxed on their worldwide income while non-resident individuals and foreign companies are taxed only in their sourced in Nepal.
- ) The income of unapproved retirement fund is free from tax. But retirement payments in the hands of employees are taxable.
- ) Capital gains are taxed explicitly under this act after four and half decades of the introduction of income tax. In case of business capital gains, gains on the disposition of business property are taxed as an ordinary income and in case of non-business capital gains; only the gains from the casual sales of real property (land & building) and securities are subject to capita; gain tax at a flat rate of 10%. There is also a clear provision for adjusting net loss during the fiscal year.
- ) The act is based on global income tax principal and brought all sources of income into the tax net and trusted in an equal manner. This act has abandoned the itemized system of deduction and expenses are taken into account on a global manner but not on a line-by-line basis.
- ) The act has adopted a pooled system of depreciation in which assets are broadly classified into five categories. The depreciation rates are 5%,

25%, 20% for A, B, C and D respectively which are based on diminishing balance method of depreciation and for class E, the rate is based on straight line method.

- J) The act has introduced the concept of medical tax credit under which resident individuals may claim a medical credit of 15% of the amount of approved medical costs.
- J) This act focuses on the self-assessment system and every assessment is treated as a self-assessment. The tax officers can determine only the amended tax assessment within four years, the Jeopardy assessment is essential when a person become bankrupt is wounded-up, or goes into liquidation, a person is about to leave Nepal forever or to close down activity in any department or in Nepal. There is no time limit in the case of jeopardy assessment.
- J) Presumptive tax is limited to the small taxpayers whose annual net income is up to Rs. 100000 or annual turnover is up to Rs. One million and are subject to flat annual taxes.
- J) This act has introduced the concept of administrative review to correct the administrative mistakes. The Inland Revenue department should give its decision within 90 days of the submission of objection and if the department does not give its decision within the given time limit, the taxpayers can appeal to the revenue tribunal.
- J) According to this act, the Inland Revenue department is responsible for the implementation and administration of this act.

## **2.2 Review of Literature**

For the preparation of this research study, books dissertation articles and reports had been reviewed they are as follows:

### **2.2.1 Review of Books**

First of all Marhatta and Khatiwada (1970) in this book named “Fundamental of Nepalese Income Tax With up to data Financial Directives and Regulation”

has been reviewed. They have described the legal provisions relating to income tax and practical aspects. They have described Income Tax Act 2020. This Act was not so beneficial because of changing in tax law. They fully based on campus level syllabus.

Poudyal and Timilsina (1990) in their book named Income Tax in Nepal described the theoretical and practical aspect of Income Tax. They were based on TU syllabus. They were unable to describe the tax structure of Nepal and the problems of income tax system.

Prdahnanga (1993) had explained the provisions and law related to income taxation in Nepal. His book is informative rather than analytical. He has 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.

Tiwari (1993) had explained legal provision regarding income tax system in Nepal. He had described the process, provisions and methods to assess income tax with numerical examples. His book is based on TU syllabus. He had not shown the role of income tax in economic development and problem of income tax system.

Ojha (1993) had shown the various act and law of income tax in his book to describe the various act and law; he had taken many tax cases. This book may be beneficial to understand income tax laws. But he had not analyzed the problem of income tax and role of income tax.

Khadka (1994) had shown VAT as a long term tax for Nepal, economic policy of Nepal, income tax and composition tax revenue from 1950/50 to 1991/92 in his book named “Nepalese taxation: Path for Reform”.

In this book, he had described the introduction, development, exiting structure, main problems and possible direction of reform. He had identification of major problems were weak tax administration, imbalance and inadequate organizational pattern, lack of adequate information system, lack of coherent tax policy an inadequate physical and other facilities.

Although he had mentioned the legal provision of income tax, his book is very useful in various aspects of income tax.

Dhakal (2001) had presented his enlarged and modified edition of his including VAT. This book was prescribed by TU syllabus of BBS and MBS. He had described the legal provision relating to income tax with numerical examples. His book was informative rather than analytical. He had not analyzed the role of income tax, tax structure and problem weakness of income tax.

Mallik (2003) has described the legal provision relating to income tax. He has also described historical prospects, weakness of Income Tax Act 2031, some practical problem and different section of Income Tax Act 2058. His book is important to get knowledge about Income Tax Act 2058. He has presented various section of Income Tax Act 2058 with example.

Although he has presented the new Income Tax Act 2058 with some numerical examples, he did not mention the role of income tax, tax structure; he has not taken any empirical investigation.

Kandel (2003) in book “Tax Law and Tax Planning in Nepal”, which is based on government regulation and therefore, is a very timely work and extremely helpful for the students of Master of Business Studies.

This second edition has attached unofficial translation of the tax laws both acts and rules related to value added tax and income tax as appendices. But, he had not analyzed the role of income tax, tax structure and problem of income tax.

Bhattarai and Koirala (2004) in their book “Tax Law and Tax Planning” described the theoretical and practical aspect of income tax with related provisions. It was based on TU syllabus. They were unable to describe the tax structure of Nepal and problems of income tax system.

### **2.2.2 Review of Thesis**

Shrestha (1967) had tried to give some general ideas about tax relating to historical background and some problem existing in income tax system of Nepal in his dissertation. He had described the various provision of income tax. But it is not helpful to get knowledge about income tax at present.

Pandey (1978) had described the brief review of Nepalese economy, resource mobilization structure of income tax, role of income tax, problem of income taxation in Nepal. He had given more emphasized on tax structure of Nepal. His finding was that income tax played a significant role in economic development of Nepal. He also described the problem of income tax in Nepal. The problems were lack of record keeping, lack of maintaining account by taxpayer, lack of responsibility and honesty of tax offices, lack of co-ordination between various tax department and revenue department. Among them, some problems are relevant at present also.

Although he had explained various aspects of income tax in Nepal, he had not mentioned the legal provision relating to income tax and empirical investigation.

Tuladhar (1979) had shown the trends of revenue from income tax, per capital burden of income tax, and tax as present of GDP etc. He had shown the

growing resource gap problem in the Nepalese fiscal system. He had also described the role of income tax in the mobilization of domestic resources for the economic development. To show the increasing trend of income tax except the year 1977/78 he had used elasticity and buoyancy test. To calculate elasticity and buoyancy of income tax he had used a formula i.e.  $\log y_t = \log a + ut$ . He had also shown the legal aspect and problem of income tax in his dissertation. But he had not shown other aspect like administration, evasion etc.

Shrestha (1981) had basically, concerned with origin, definition, concept, historical background, role, objective and structure of income tax. She had also described per capital burden of income tax in Nepal and the major problem existing in Nepalese income tax system. 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 found that the tax administration is not efficient.

Although she had given various useful suggestion about the income tax like; scientific method should be applied for the collection of tax, administration should be made efficient, income tax law should be simple and easy, tax base should be broader etc. she had not mentioned the legal provision relating to income tax empirical investigation.

Suwal (1981) has described the concept of income tax, objective of income tax, importance of income tax, role of income tax for the economic development, structure of income tax, problems of income tax etc. His finding, in his dissertation, about the main reason tax evasion were lack of tax consciousness of Nepalese people, open boarder, absence of a clear and comprehensive definition of income, wide spread illegal business activities, high tax rate, corruption etc. His finding about problem of income tax in Nepal was: lack of

accounts and records of taxpayers, lack of responsibility and honesty among the tax officers, delays in tax administration etc.

Although he had explained various aspect of income system of Nepal, he had not mentioned the legal provision relating to income tax and had not conducted any empirical investigation.

Nepal (1983) had emphasized on fiscal system of Nepal, origin, meaning, existing position, role, problem and future prospective of the income tax in Nepal. She identified the various problem in Nepalese income tax system were; inefficient income tax administration, mass poverty, lack of tax consciousness, assessment efficiency, lack of tax education etc.

She had conducted an opinion survey to fulfill her study. Although her finding and suggestion were usable, she had not mentioned the legal provision relating to income tax.

Shrestha (1985) had explained the structure and estimate the responsibilities of income taxation in Nepal. He had suggested for minimum interference of government and for the control of tax evasion and avoidance of taxation an effort should be made. He also emphasized on least taxation. His study is not so believable for the study about income tax he shows the contribution of individual sector is on third position but fact and figure shows that individual sector occupies the first rank in income tax structure.

Regmi (1986) had described the conceptual framework of income tax, structure of income tax, income tax and resource mobilization, problem of income tax etc. He had more concerned on the study of tax structure i.e. share of indirect tax and share of direct tax of total tax revenue. He had noticed the problem of income tax which was assessment delays; tax evasion and lack of maintain the record of taxpayers, lack of responsibility and honesty among the tax officer,

corruption lack of coordination between various revenue and non-revenue department, leakage in personnel income tax collection etc.

His suggestion about income tax were: income tax should be clear, application of scientific assessment method, simple and procedure of tax payment, honest and efficient staff, tax holiday to new industry, co-ordination between staff and department etc. although his suggestion were useful, he had not mentioned, legal provision relating to income tax any numerical example, provision of fine and penalties.

Siwakoti (1987) had shown the role of income tax, tax structure of Nepal, legal aspect of Income Tax Act 2031, problem of income tax administration in Nepal etc. He found that the role of income tax were for economic growth equitable distribution and stabilization growth. He had noticed that the problem of income tax were, defective personnel management, lack of public information, delay in tax assessment, lack of up to date role of existing as well as potential taxpayers, etc.

He had identified that the major problem of ITA 031. they were complicated language ,highly use of best judgment assessment method for the assessment of tax, no compulsion t maintain books of account, ineffective use of fines and penalties ,no compulsion of auditing of account of all types of business, assessment delays, silence about scientific research ,lack of weighed deduction, no provision of any kind of allowance ,no provision about illegal business etc.

He emphasized more on legal provision relating to income tax .he also described fine and penalties. He also suggested that the penalties should be imposed to taxpayer who dose not maintain accounts. He had not used any numerical examples nor had he conducted any empirical investigation.

Baral (1989) had described the contribution of income tax 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 reason of tax evasion which were, lack of clear and comprehensive definition of income, lack of efficient tax administration, lack of punishment to tax paying capacity and the consciousness among the taxpayers was low, lack of scientific method of tax collection etc.

Agrawal (1980) had described the resource mobilization through income tax, fiscal policy, and role of income tax, legal provision relating to income tax, legal aspects of income tax, and administration aspect of income tax etc. he had shown per capita income, buoyancy coefficient of income tax etc by calculation.

He had identified the major problem in income tax system, which is inefficient of tax administration and tax evasion. He found that, there were no integrated programs for taxpayers' education, assistance, guidance and counseling. About the major problem of tax administration, he found corruption, unfair dealing, harassment and incompetent personal etc.

He had taken empirical investigation about various field of income tax. About the fines and penalties, fifty percent think that there should be heavy penalty for non-maintaining accounts amount total respondents. He had suggested heavy penalty should be imposed.

This study is a comprehensive and included various aspects of tax system of that period, but all things mentioned in it are fully relevant today. Some of the problem identified in it is still in existence.

Ghimire (1993) had described the classification of tax, base of income or expenditure tax, base of tax in Nepal, procedure of computing net income,

weakness of tradition accounting system, classification of tax rate, index of income tax in Nepal, contribution of tax income to national revenue, errors of past provision, some steps of administrative improvement etc. he found that the tax covered vary low portion of total revenues because of no taxation in agricultural income, narrow base of income of retail business, high exemption limit on remuneration income etc. He had also noticed some errors of provision relating to income tax. They were, progressive tax had not played an effective role for equal distribution of income, unproductive tax concession holiday and rebate, provision of low additional fee as compare to market interest rate etc. He also suggested some step of administration improvement. They were: provision of income assessment committee, flat rate of tax to small taxpayers, establishment of tax office etc.

Although she had suggested that the tax administration should honest and efficient, tax evaders should be punished, research unit should be established, corruption should be stopped, scientific method should be used in tax collection etc. She had not identified the major problem of income tax system, had not mentioned to legal provision relating to income tax and numerical examples.

Bhandari (1994) concentrated mainly on the contribution of income tax to public revenue. He noticed that the actual collection of revenue through income tax is lower than its estimated targets because of the poor tax paying habit of Nepalese taxpayers, poor tax administrative system, widespreaf evasion of income tax and so no. His study had been conducted with purpose of examining the income at structure, trend of income tax collection and the above problem and to make suggestions to solve this problem. He had not mentioned the legal provision of income tax and problem of income tax system.

Acharya (1994) had described that the structure of income tax, productivity of income tax and problem of income tax. He examined the three main objectives of income tax, which are as follows:

- i. To reduce inequality of income distribution.
- ii. To collect more government revenue.
- iii. To check inflation

He had also presented some numerical and diagrams of structure and productivity of income tax. He had not explained the provisions relating to income tax, his study about income tax was not so detailed.

Shabu (1995) had focused on role and contribution of income tax in the process of economic development. He had found only 0.35 percent of population in Nepal comes under the category of taxpayers. He had also observed that in the composition of government revenue of Nepal, income tax comes in the fourth place from the viewpoint of different items contribution. Custom, excises and sales tax occupied first, second and third place respectively. He had not mentioned the provision relating to income tax.

Pant (1996) had explained the role of income tax in national economy and income tax management in Nepal. He conducted an empirical investigation of income tax management in Nepal. He found the major problem of income tax in Nepal which were, lack of managerial efficiency, lack of effective personnel management, lack of reward and punishment system, poor income tax assessment procedure, poor tax information system, lack of taxpayers education, very narrow coverage of income tax etc. He had not mentioned the legal provisions relating to income tax.

Timilsina (1997) had emphasized on tax structure in his study. His finding about the correlation coefficient between Bhajhang district and nation was positive on tax revenue, non-tax revenue and total revenue. He had not mentioned the legal provision relating to income tax, problem of income tax, as well as provision of fine and penalties.

Bhattarai (1997) had explained the history of income tax and corporate income tax, legal provision relating to income tax, administrative aspect of income tax structure and government mechanism. He conducted an opinion survey. He had found that the government policies, act, rules regulation concerned with the corporate income tax were not effective in increasing tax paying habit in Nepal. He found that the major problem of administration was corruption.

His study was fully based on the corporate income tax. He identified the problem of tax administration as a corruption. He had not described the other income tax and other problem and weaknesses of tax system. This study is very useful to know the corporate income tax.

Shrestha (2001) described the conceptual framework and legal provisions, structure of income tax in Nepal, income tax administration in Nepal: an empirical investigation and problem and prospects of income tax in Nepal. She found that the dominant share of tax revenue in Nepalese government revenue and the contribution of tax revenue showed the decreasing trend.

She found that major problem of Nepalese income tax system were, mass poverty of Nepalese people, lack of consciousness of taxpayers, unscientific tax assessment procedure, widespread evasion and avoidance of income tax, inefficient tax administration, instability in government policy etc.

She had taken sixty people as a sample and conducted empirical investigation about the different aspects of income tax system. She had used the correlation coefficient to prove the hypothesis on the problem of income tax system.

Although she had suggested about the income tax system like, extension of tax coverage, minimizing the problem and weakness of tax administration, tax consciousness to people, she had not taken any investigation about the provision of fine and penalties.

Pradhan (2001) had explained the conceptual framework of public enterprises and the Nepal Telecommunication Corporation, conceptual framework of income tax, contribution of income tax to the public revenue and share of Nepal Telecommunication Corporation to the income tax.

Her suggestion was, about the income tax system, promotion and reward to efficient and honest personnel, motivation to personnel. Tax education to tax payer and officer, strict action to corruption, increase the public participation. Although she had more emphasized on the study of Nepal Telecommunication Corporation she had not mentioned the legal provision relating to income tax and provision of fine and penalties.

Poudel (2002) had explained the historical prospects, tax structure, elasticity and buoyancy of income tax, role of income tax administration, in her study.

She had more emphasized on income tax structure, contribution of income tax. She found working procedures were traditional and the cost of administration had not been satisfactory level. Although her findings and suggestions were usable, she has not mentioned the problem of income tax system and provision of fine and penalties.

Some reports and articles have been reviewed for performing this study. Some of them are as follows:

Thapa (2002) had described the tax system, features of tax and causes of reform the tax. He had characterized the tax system as too many and high rates, multiple objectives of taxes, scheduler rather global approach to income taxation, too many income brackets and high progressively, complicated and ambiguous tax law.

He had identified the areas for the reform of tax system in Nepal. They were, low rates on broad base, simplicity and neutrality, gradual abolition of exemption, deduction 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 brewing and investment, conversion of sales and service taxes into VAT, excise duty only on cigarette, tobacco, alcohol, automobiles, petroleum and automobiles spare parts, abolition of surcharge and additional duty system to make the tax system, making the tax internationally compatible to attract foreign investment.

Gautam (2004) had presented a dissertation entitled, “Contribution of income tax on national revenue of Nepal.” He has studied the contribution of various taxes in the government revenue, tax revenue, GDP. According to him the contribution of tax revenue in the government revenue is 85.2% in the income year 1982/83 and decreased to 78.0% in the income year 2001/02. Nepalese income tax revenue is the composition of income tax from public enterprises, semi public enterprises, private corporate bodies, individuals, remuneration and tax on interest. Income tax of Rs. 8903.7 million was collected in 2001/02. Share of individuals to income tax revenue is the highest. Within income tax, there is dominant role of individuals and it is in decreasing trend which was 69.23 percent of income tax revenue in 1982/83 but decreased to 49.63 percent of income tax revenue in 2001/02.

Chauhan (2005) “Value Added Tax and it’s Revenue Potential in Nepal”, An Unpublished Master’s thesis, Shanker Dev Campus, Faculty of Management, T.U. Chauhan explained in dissertation, after the implementation of VAT system in 1997, contract tax, hotel tax, sales tax and entertainment tax have been replaced by it. Looking at the contribution of these replaced taxes in tax revenue and gross domestic product, the implementation of VAT whereas at present their contribution is gradually decreasing. However, during 1999/2000 the contribution of these replaced tax (mainly VAT) is again being increased.

The conducted field survey shows that there will be improvement in revenue mobilization due to VAT system. The reason behind this claim is that theoretically VAT system is transparent, it broadens the tax base and discourage tax evasion. VAT itself not more revenue generator. It needs more administrative efforts. The implementations of VAT in Nepal have very poor results than expected due to poor planning. Bureaucracy and corruption are widely spreading in political as well as administration. People are less conscious and cannot play decisive role whether to implement VAT or not.

Sapkota (2007) in his thesis entitled, "Income tax in Nepal: Its structure and contribution from public enterprises to government revenue." His findings are that the contribution of income tax from PEs, semi PEs, private corporate bodies, individual's tax, remunerations tax and interest to total income tax are 21.26%, 00.60%, 0.12%, 69.23%, 4.38% and 4.42% of income tax in 2001/02 respectively and each are 19.87%, nil, 15.86%, 49.63%, 9.38% and 5.25% of income tax in 2001/02 respectively.

Timilsina (2008) "Income Tax Evasion in Nepal", explained the core concept of taxation and differentiated tax avoidance with tax evasion. Similarly topic of thesis made road map for thesis writing. Credit for idea on data presentation on basis solely goes to him. As tax avoidance and tax evasion are close and interrelated terms it shows some basic points to differentiate them. It also makes clear on methods of Tax evasion and Methods of Tax Avoidance.

In this way various books, dissertation report and articles published in journal and newspapers are reviewed while preparing this dissertation. Most of them are concentrated on the legal, administrative, assessment procedure, income tax system and structure of tax in Nepal. Some of them are related on the syllabus of Bachelor and Master Level. Most of the research studies have identified the major problem of Nepalese income tax system in tax evasion at high level and ineffective tax administration. If administration aspects of Nepalese income

system can be improved, the problem of tax evasion may be controlled automatically. There is no any research study about fines and penalties, which plays important role to collect tax revenue. Seeing the lack of the study in fines and penalties this study mainly concentrates on the role of fines and penalties to collect tax revenue in a more specific way.

## **CHAPTER – III**

### **RESEARCH METHODOLOGY**

This chapter is devoted to research methodology applied in the study for the achievement-designed objectives.

#### **3.1 Types of Research**

This study includes three types of research as descriptive, analytical as well as empirical.

- ) Descriptive research includes surveys and fact finding inquires of different kind.
- ) Analytical research has to use facts or information already available and analyze these to make a critical evaluation of the material.
- ) Empirical research is data based research coming up with conclusions which are capable of being verified by observation.

#### **3.2 Research Design**

To achieve the started objectives of the study, the opinions of the various sixty respondents associated with distinct denomination i.e. tax administrators, tax experts and taxpayers were collected through structured questionnaire. The questionnaire include role of fines and penalties to collect tax revenue, provision of fines and penalties, effectiveness of Income Tax Act, goal of income tax etc. similarly various information published by organizations about income tax, are used for this study. In this war the research design of this study are descriptive analytical and empirical.

#### **3.3 Population and Sample**

In order to fulfill the objective of the study seventy questionnaire were presented to the concerned person of Chitawan. The respondents have been

divided into three groups. The following table shows the group of respondents and size of samples.

**Table 3.1**  
**Population and Sample**

S.N	Group of Respondents	Sample Size
1	Tax experts	2
2	Wholesaler	20
3	Retailer	25
4.	General Consumer	23
<b>Total</b>		<b>70</b>

Besides primary data, secondary data have also been collected from Inland and Revenue Department of Chitawan District.

### **3.4 Nature and Sources of Data**

The research study is based on primary data as well as secondary data. Primary data are collected from questionnaires. The primary sources of the study are different groups of respondents. Different questionnaires are designed about fines and penalties. The questionnaires asked to the related tax administrators, tax experts and taxpayers. Secondary data are collected from Inland and Revenue Department, Chitawan, economic survey, books related to income tax, national newspapers, journals and reports and records of various department of taxation.

### **3.5 Data Collection Procedure**

The data of the study were collected from primary source as well as secondary source. Primary data were collected by using questionnaires method. A set of questionnaires was developed and distributed to the related respondents in order to get actual and accurate information. Secondary data were collected from published reports.

### **3.6 Data Processing and Analysis Procedure**

The data of the research study are collected from questionnaires, the primary data are collected according to the need of the study and they are adjusted with the corresponding subject matter. And the collected and processed data are analyzed to draw the conclusions using tabulation, simple percentage and central tendency of statistical method. Necessary tabulates are used as required.

## **CHAPTER- IV**

### **DATA PRESENTATION AND ANALYSIS**

This chapter is devoted to the presentation and analysis of the income tax structure and opinions about income tax as well as provision about fines and penalties with reference to income tax system through definite course of research methodology. To achieve the stated objective of the study and also to make easier to understand the finding, qualitative as well as quantitative data and information has been analyzed.

#### **4.1 Secondary Data Analysis**

Taxes play important role to the economic development of Nepal. It has been used for the achievement of national economic goals. To get knowledge about the taxes, tax structure should be known. To structure refers to the level as well as relative importance of various taxes in the composition of total tax revenue of a country. Tax structure is the composition of direct and indirect taxes. Total tax structure of Chitawan from the fiscal year 2003/ 04 to 2007/ 08 are given below.

##### **4.1.1 Composition of total revenue**

Total revenue in Nepal is the composition of tax revenue and non-tax revenue. When the HMG of Nepal presented first national budget in 1951/52, 73 percent of government revenue coming from non-tax sources and land tax, out of 70 percent the share of non tax revenue was 43 percent because of the increasing contribution of indirect tax on foreign trade, the share of non tax revenue was decline in 1960. Since the study focuses only the Chitawan district, the total revenue collected from Chitawan is presented in the below table.

**Table 4.1**  
**Composition of total revenue**

Rs. in '000'

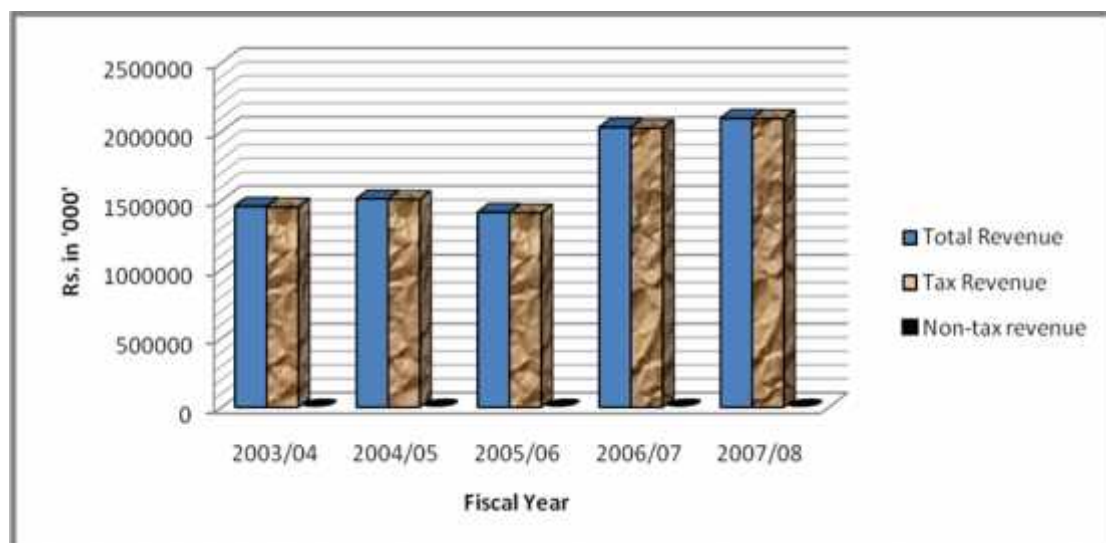
<b>Fiscal year</b>	<b>Total Revenue</b>	<b>Tax Revenue</b>	<b>Percent of tax Revenue</b>	<b>Non-tax revenue</b>	<b>Percent of Non-tax Revenue</b>
2003/04	1457213	1453140	99.72	4073	0.28
2004/05	1511420	1508278	99.79	3142	0.21
2005/06	1413644	1410097	99.75	3547	0.25
2006/07	2030032	2024973	99.75	5059	0.25
2007/08	2096023	2093594	99.88	2429	0.12

*Source: IRD, Chitawan*

The above table shows that the tax revenue contributes almost 99% of the total revenue. Except in the fiscal year 2004/05, the share of tax revenue on total revenue is in increasing trend. However the non-tax revenue contributes less than 0.5% in the total revenue collected from Chitawan district.

The above Table 4.1 can be better understood with the help of following diagram.

**Figure 4.1**  
**Composition of total revenue**



### 4.1.2 Composition of Tax Revenue

Total revenue is composed of tax revenue and non-tax revenue. Tax revenue is composed of direct and indirect tax. The direct tax of Chitawan district showed an increasing trend from the fiscal year 2003/04 to 2006/07 and decreased to Rs 161751 thousands in the fiscal year 2007/08 from Rs 200699 thousands in the fiscal year 2006/07. Similarly, the indirect tax of Chitawan district followed fluctuation trend in the study period. It increased to Rs 1373639 thousands in the fiscal year 2004/05 and decreased to Rs 1254164 thousands in the fiscal year 2005/06 and then followed increasing trend and reached to Rs 1931843 thousands in the fiscal year 2007/08. The direct tax amount and indirect tax amount in each fiscal year is presented in the following table.

**Table 4.2**  
**Composition of tax revenue**

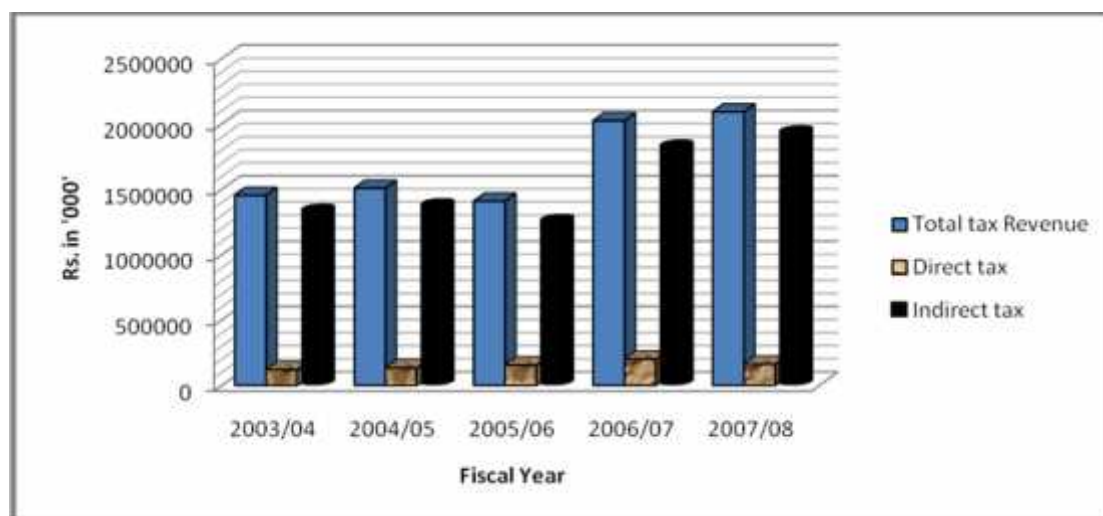
**Rs. in '000'**

<b>Fiscal Year</b>	<b>Total tax Revenue</b>	<b>Direct tax</b>	<b>Percent of direct tax</b>	<b>Indirect tax</b>	<b>Percent of indirect tax</b>
2003/04	1453140	120383	8.28	1332757	91.72
2004/05	1508278	134639	8.93	1373639	91.07
2005/06	1410097	155933	11.06	1254164	88.94
2006/07	2024973	200699	9.91	1824274	90.09
2007/08	2093594	161751	7.73	1931843	92.27

*Source: IRD, Chitawan*

Above table shows that the share of direct tax revenue is fluctuating from 7.73 percent to 11.06 percent. These indicate that there is not significant contribution of direct tax in total tax revenue. However, the share of indirect tax ranges from 88.94% in the fiscal year 2005/06 to 92.27% in the fiscal year 2007/08. It indicates that the major portion of tax revenue of Chitawan district is covered by indirect tax.

**Figure 4.2**  
**Composition of Tax Revenue**



#### 4.1.3 Composition of Indirect tax

The Chitawan tax structure is heavily dependent on indirect taxes. Its contribution is 92.27 percent of total tax revenue in 2007/08. The major component of indirect tax in Chitawan tax structure are VAT and Excise duty. Other tax include in the indirect tax, remission of India excise duties, road bridge, repair tax and other taxes. Compositions of indirect tax are given in the following table.

**Table 4.3**

#### **Major Source of Indirect Tax and Their Percentage of Indirect Tax**

**Rs. in '000'**

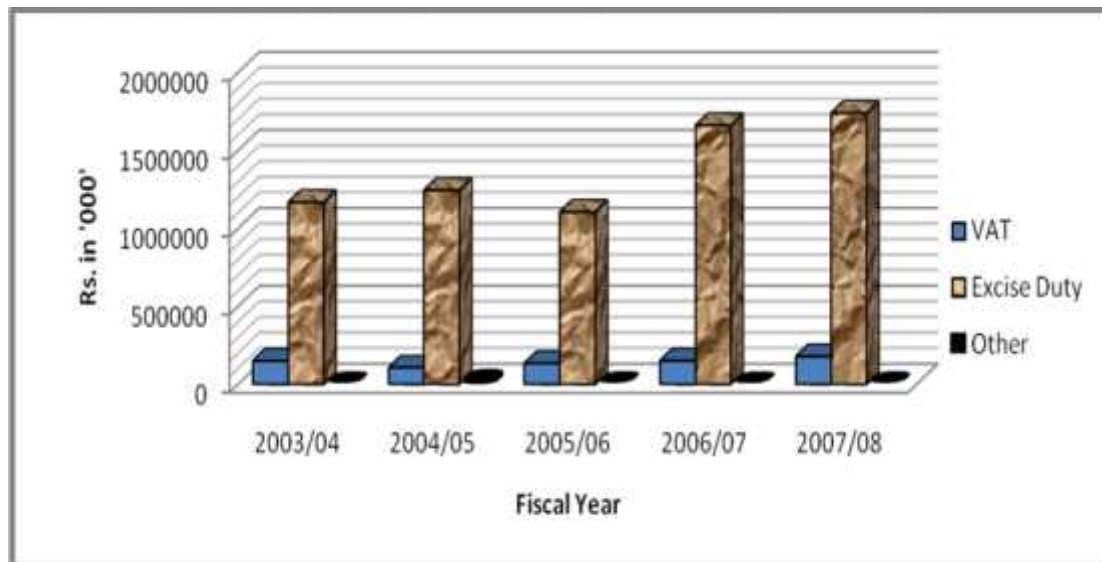
Year	Total Indirect tax	VAT	%	Excise Duty	%	Other	%
2003/04	1332757	150584	11.30	1166966	87.56	15207	1.14
2004/05	1373639	106381	7.74	1244792	90.62	22466	1.64
2005/06	1254164	133063	10.61	1104880	88.10	16221	1.29
2006/07	1824274	151144	8.29	1659783	90.98	13347	0.73
2007/08	1931843	177300	9.18	1739079	90.02	15464	0.80

*Source: IRD, Chitawan*

The above table shows that the major portion of indirect tax of Chitawan district is covered by Excise duty. It ranges from 88.10% in the fiscal year 2005/06 to 90.98% in the fiscal year 2006/07. However, it follows fluctuating trend. Beside Excise duty, VAT covers 7.74% of the indirect tax in the fiscal year 2004/05 to 10.61% in the fiscal year 2005/06. Eventually, the contribution of others in the indirect tax amount of Chitawan is less than 2% and is in fluctuating trend.

The above table can be better understood with the help of following diagram.

**Figure 4.3**  
**Composition of Indirect Tax**



#### 4.1.4 Composition of Direct Tax

The major component of direct taxes are income tax, land tax, house and registration tax in Nepalese tax structure. Vehicle tax was considered as a direct tax until the fiscal years 1993/94 and since 1994/95 budget speech, it has been classified under the indirect tax. Since 1994/95, interest and urban house and land rent tax were included under the income tax. Compositions of direct tax are given in the following tables.

**Table 4.4**  
**Composition of Direct Tax and Their Percentage Share**

Fiscal year	Total Direct tax	Income tax		Property Tax		Interest Tax		Special Fees		Other	
		Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
2003/04	120383	108618	90.23	3482	2.89	8283	6.88				
2004/05	134639	117469	87.25	5971	4.43	11199	8.32				
2005/06	155933	136974	87.84	6648	4.26	10933	7.01	1378	0.88		
2006/07	200699	170535	84.97	10479	5.22	15237	7.59	615	0.31	3833	1.91
2007/08	161751	137866	85.23	9539	5.90	13748	8.50	236	0.15	362	0.22

*Source: IRD, Chitawan*

Above table shows that income tax has largest share in the direct tax. The share of income tax was 90.23 percent in fiscal year 2003/04 and it decreased to 87.25 percent in 2004/05. Then it increased to 87.84 percent in 2005/06, increased to 84.97% in 2006/07 and finally decreased to 85.23% in the fiscal year 2007/08. Beside income tax, the property tax such house and land rent tax plays crucial role in the direct tax amount of Chitawan. Such tax ranged from 2.89% in the fiscal year 2003/04 to 5.90% in the fiscal year 2007/08 and is also in increasing trend. Likewise the interest tax ranged from 6.88% in the fiscal year 2003/04 to 8.50% in the fiscal year 2007/08. However the special fee and other tax covered less than 1% and 2% respectively in each year.

#### **4.1.5 Fines and Penalties Collection**

Since fines and penalties ensures timely collection of income tax and also contributes government revenue through the charges and interests for late payment, it bounds organization and individual to pay their tax amount within the scheduled time. The collected fines and Penalties amount in Chitawan District during the period taken for research are presented in the following table.

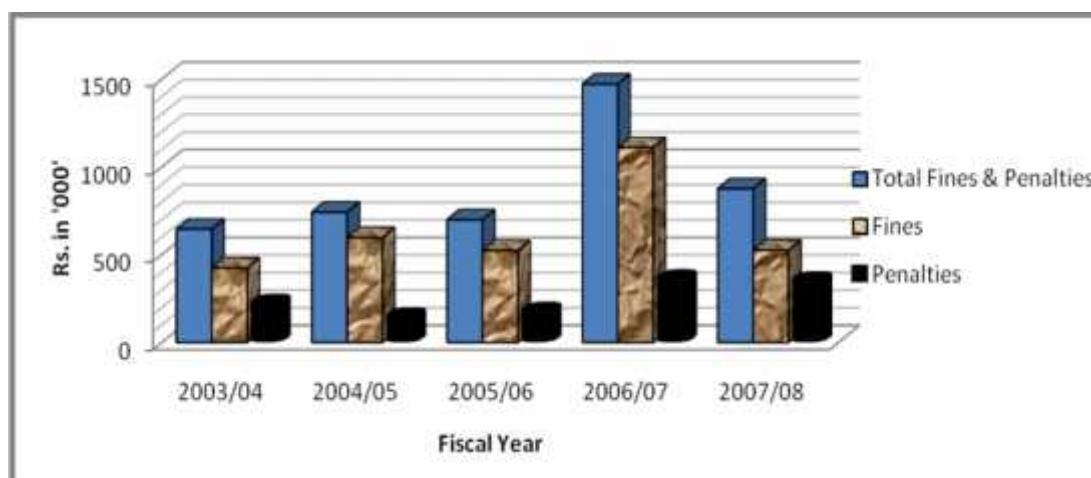
**Table 4.5**  
**Fines and Penalties Collection**

Fiscal Year	Fines		Penalties		Total	
	Amount	%	Amount	%	Amount	%
2003/04	425	65.79	221	34.21	646	100
2004/05	598	80.59	144	19.41	742	100
2005/06	523	74.82	176	25.18	699	100
2006/07	1111	75.48	361	24.52	1472	100
2007/08	526	60.05	350	39.95	876	100

*Source: IRD, Chitawan*

The above table showed that the collected fines and penalties in the fiscal year 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 are Rs. 646 thousand, Rs. 742 thousand, Rs. 699 thousand, Rs. 1472 thousand and Rs. 876 thousand respectively. However, fines occupied 65.79%, 80.59%, 74.82%, 75.48% and 60.05% of the total fines and penalties in the fiscal year 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 respectively. And penalties ranged from 19.41% in the fiscal year 2004/05 to 39.954% in the fiscal year 2007/08. It implies that the majority of the total collection of fines and penalties is covered by fining amount.

**Figure 4.4**  
**Fines and Penalties Collection**



#### 4.1.6 Fines and Penalties to Non Tax Revenue

Fines and Penalties to Non Tax Revenue enlightens the portion of fines & penalties in the collection of non tax revenue. The percentage of such ratio is presented in the below table.

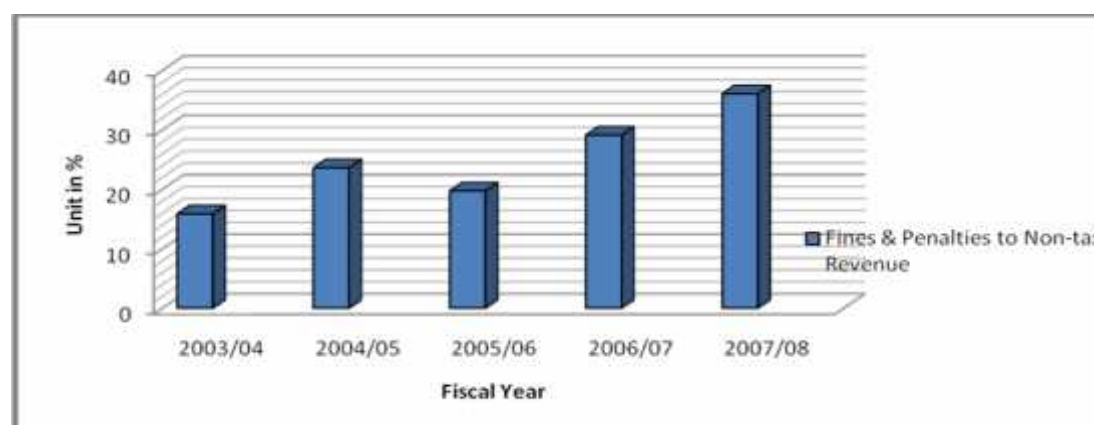
**Table 4.6**  
**Fines and Penalties to Non-tax Revenue**

Fiscal Year	Fines		Penalties		Total		Non-Tax Revenue
	Amount	%	Amount	%	Amount	%	
2003/04	425	10.43	221	5.43	646	15.86	4073
2004/05	598	19.03	144	4.58	742	23.62	3142
2005/06	523	14.74	176	4.96	699	19.71	3547
2006/07	1111	21.96	361	7.14	1472	29.10	5059
2007/08	526	21.66	350	14.41	876	36.06	2429

*Source: IRD, Chitawan*

The above table showed that total fines and penalties ranged from 15.86% in the fiscal year 2003/04 to 36.06% in the fiscal year 2007/08. However the ratio is in increasing trend except in the fiscal year 2005/06 when it decreased to 19.71% from 23.62% in the fiscal year 2004/05. Looking each category, fines ranged from 10.43% in the fiscal year 2003/04 to 21.96% in the fiscal year 2006/07 and penalties ranged from 4.58% to 14.41% during the research period.

**Figure 4.5**  
**Fines and Penalties to Non-tax Revenue**



#### 4.1.7 Fines and Penalties to Total Revenue

To measure the devotion of fines and penalties in the collection of total revenue in Chitawan District, the ratio of fines and penalties to total revenue has been calculated which is shown in the below table.

**Table 4.7**  
**Fines and Penalties to Total Revenue**

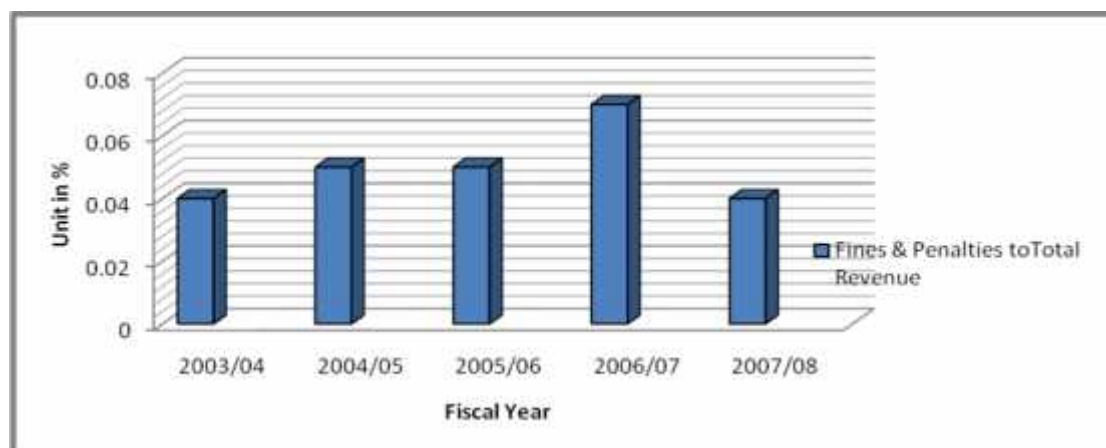
Rs. in '000'

Fiscal Year	Fines		Penalties		Total		Total Revenue
	Amount	%	Amount	%	Amount	%	
2003/04	425	0.03	221	0.01	646	0.04	1457213
2004/05	598	0.04	144	0.01	742	0.05	1511420
2005/06	523	0.04	176	0.01	699	0.05	1413644
2006/07	1111	0.05	361	0.02	1472	0.07	2030032
2007/08	526	0.02	350	0.02	876	0.04	2096023

*Source: IRD, Chitawan*

The above table showed that the ratio of fines and penalties to total revenue is highest, 0.07%, in the fiscal year 2006/07 and lowest in the fiscal year, 0.04%, in the fiscal year 2003/04 and 2007/08. The ratio followed the increasing trend during the research period, except in the fiscal year 2007/08. Similarly, fines contributed 0.02% to 0.05% and penalties contributed 0.01% to 0.02% of the total revenue.

**Figure 4.6**  
**Fines and Penalties to Total Revenue**



#### 4.1.8 Correlation Coefficient between Fines and Penalties

In order to assess the relationship between fines and penalties, Karl Pearson's coefficient of correlation has been applied in the present study.

Karl Pearson's coefficient of correlation ( $r$ ) = +0.5540 (*Appendix-III*)

It means there is positive correlation between fines and penalties collection in internal revenue department of Chitawan District. The positive correlation shows that increase in fines is accompanied by corresponding increase in penalties and vice-versa.

The significance of this correlation is tested by using probable error as follows:

$$\begin{aligned} \text{Probable Error (P.E.)} &= X \frac{0.6745(1 - Zr^2)}{\sqrt{N}} \\ &= \frac{0.6745 \{1 - (0.5540)^2\}}{5} \\ &= 0.2091 \end{aligned}$$

$$6(\text{P.E.}) = 6 * 0.2091 = 1.2544$$

In the above analysis,  $r$  (0.5540) < 6\*P.E. (1.2544). It signifies there is no significant correlation between fines and penalties.

Upper and lower limit within which the correlation coefficient is expected to lie is given by:

$$r + \text{P.E.} = 0.5540 + 0.2091 = +0.7631$$

$$r - \text{P.E.} = 0.5540 - 0.2091 = +0.3449$$

Hence, the correlation coefficient is expected to lie between +0.7631 to +0.3449

The result of the above calculations has been summarized in the following table:

**Table 4.8**  
**Correlation Coefficient between Fines and Penalties**

Correlation (r)	Coefficient of Determination $r^2$	Probable Error (P.E.)	Result
+0.5540	0.3069	0.2091	Insignificant

#### 4.1.9 Trend Analysis of Fines and Penalties

The last five years trend of total fines and penalties showed non uniformity. As a result it is very difficult to estimate the amount that will be collected from fines and penalties in the forthcoming years. An attempt has been done to predict the fines and penalties in the coming years through trend analysis.

Equation of straight line trend when fines and penalties is taken as dependent variable and year is taken as independent variable is given by,

$$Y_c = a + bX$$

or,  $Y_c = 528.92 + 119.36 X$  (Appendix – IV)

**Table 4.9**  
**Calculation of Trend Value of Fines and Penalties**

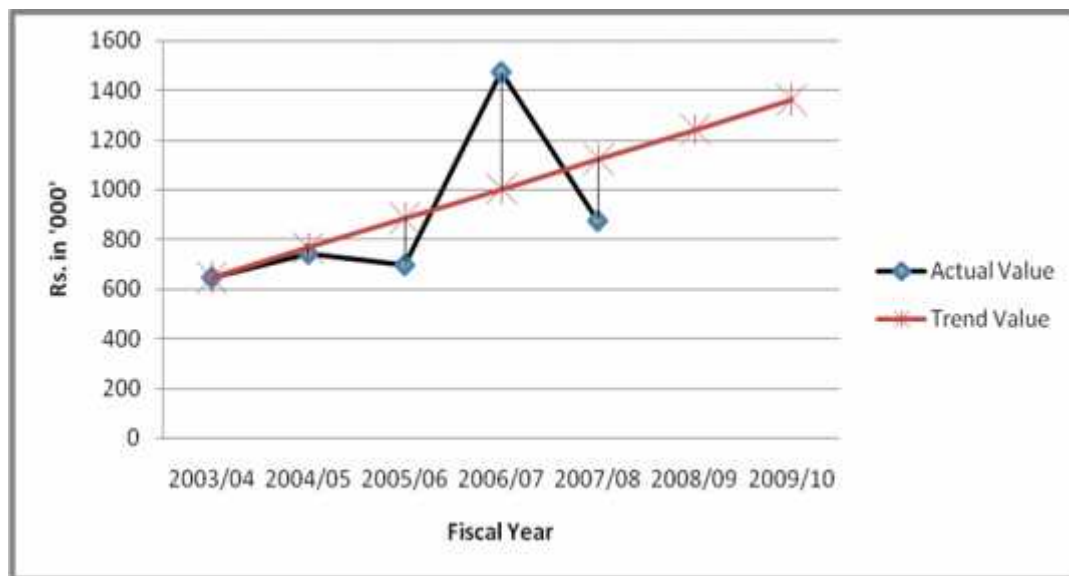
Fiscal Year	Actual	Trend
2003/04	646	648.28
2004/05	742	767.64
2005/06	699	887.00
2006/07	1472	1006.36
2007/08	876	1125.72
2008/09		1245.08
2009/10		1364.44

*(Source: Appendix-IV)*

From above, expected amount of fines and penalties in Chitawan in the fiscal year 2008/09 and FY 2009/10 is Rs.1245.08 thousand and Rs.1364.44 thousand respectively. Although, the actual value is in fluctuating trend, the trend analysis shows increasing trend.

The trend value of fines and penalties is presented in the following diagram.

**Figure 4.7**  
**Trend Value of Fines and Penalties**



#### 4.2 Primary Data Analysis

For the purpose of collecting primary data, a questionnaire having a set of 13 questions were prepared and presented to 75 respondents. However, only 70 respondents responded. The respondents consist of Tax Experts, Wholesalers, Retailers and General Consumer. The questions contained variety in types. The Question No. 1 was given to rank while the Question No. 2 to 13 were objective and requested to tick out which they think best. The summary of the quantitative findings of questionnaire survey has been given in *Appendix II*.

#### 4.2.1 Classification of Respondents

A total of 75 respondents were targeted to survey randomly from Internal Revenue Department of Chitawan, Wholesaler, Retailer and General Consumer of Chitawan District. Among these, 5 respondents were chosen from Tax Experts, 20 from Wholesaler, 25 from Retailer and 25 from General Consumer. However, 3 respondents from Tax Experts and 2 respondents from General Consumer didn't show interest to respond as a result only 70 respondents have to be taken for the questionnaire purpose. Likewise, the respondents are classified in terms of their age and sex as given in Table 4.39.

**Table 4.10**

#### Classification of Respondents

S.N.	Basis of Classification	Male	Female	Number	Percentage
1	<b>Occupation</b>				
	Tax Expert	2	0	2	3
	Wholesaler	18	2	20	28
	Retailer	16	9	25	36
	General Consumer	15	8	23	33
	<b>Total</b>	<b>51</b>	<b>19</b>	<b>70</b>	<b>100</b>
2	<b>Age</b>				
	Below 25	8	1	9	13
	25 to 40	27	12	39	56
	40 above	16	6	22	31
	<b>Total</b>	<b>51</b>	<b>19</b>	<b>70</b>	<b>100</b>
3	<b>Sex</b>				
	Male			51	73
	Female			19	27
	<b>Total</b>			<b>70</b>	<b>100</b>

*Source: Field Survey, 2009*

As given in table, 73% of the respondents were male where as 27% were female. Similarly, 13% of the respondents were from the age group below 25

years, 56% were between 25 to 40 years and 31% were 40 above. Likewise, 3% of the respondents were Tax Experts, 28% of the respondents were Wholesalers, 36% of the respondents were Retailers and 33% of the respondents were General Consumer.

#### 4.2.2 Specific goal of income tax system

Income tax is composed on person's income in order to achieve some specific goal. As regards the specific goal of income taxation in Nepal respondents were requested to rank their response on first most important to fourth list important. The question was "what should be the goal of income tax in Nepal?" table 4.11 gives the breakdown of response.

**Table 4.11**  
**Specific Goal of Income Tax**

Indicators	Basis	Rank				Total	Weight	Mean Wt.	Overall Rank
		1	2	3	4				
Increase Revenue	<b>Total</b>	36	21	13	0	70	117	1.67	1
	Tax Expert	2	0	0	0	2	2	1.00	1
	Wholesaler	13	4	3	0	20	30	1.50	1
	Retailer	14	6	5	0	25	41	1.64	1
	General Consumer	7	11	5	0	23	44	1.91	2
Reduce Poverty Gap	<b>Total</b>	18	23	7	2	50	93	1.86	2
	Tax Expert	0	1	1	0	2	5	2.50	2
	Wholesaler	1	5	8	6	20	59	2.95	3
	Retailer	2	4	2	17	25	84	3.36	4
	General Consumer	12	6	4	1	23	40	1.74	1
Promote Private Sector	<b>Total</b>	0	0	2	4	6	22	3.67	4
	Tax Expert	0	1	1	0	2	5	2.50	2
	Wholesaler	4	10	5	1	20	43	2.15	2
	Retailer	6	14	4	1	25	50	2.00	2
	General Consumer	0	3	3	17	23	83	3.61	4
Reduce Unemployment	<b>Total</b>	0	3	6	6	15	48	3.20	3
	Tax Expert	0	0	0	2	2	8	4.00	3
	Wholesaler	2	2	4	12	20	66	3.30	4
	Retailer	3	0	14	8	25	77	3.08	3
	General Consumer	4	3	11	5	23	63	2.74	3

*Source: Field Survey, 2009*

The above table showed that the majority of the respondents, 2 out of 2 Tax Experts, 13 out of 20 Wholesalers, 14 out of 25 Retailers strongly ranked 1 that the specific goal of income tax should be to increase the government revenue. However, the majority of the General Consumer, 12 out of 23, ranked 1 to the reduction of the poverty should be the specific goal of the income tax in Nepal. Looking overall, to increase government revenue was ranked 1, to reduce poverty gap was ranked 2, to reduce unemployment was ranked 3 and to promote private sector was ranked 4.

Hence, from the above ranked it is clear that increase the revenue of government is most important goal of income taxation in Nepal. It is also an important factor to reduce the gap between poor and rich.

#### 4.2.3 Tax paying habit of Chitawan people

To know the tax paying habit of Chitawan people, a question was asked to the respondents “Do you think that tax paying habit of Chitawan people is poor?” The responses have been tabulated below.

**Table 4.12**  
**Tax Paying Habit of Nepalese People**

Responses	Number of Respondents					%
	Tax Expert	Wholesaler	Retailer	General Consumer	Total	
Yes	2	8	11	8	<b>29</b>	<b>41</b>
No	0	12	14	15	<b>41</b>	<b>59</b>
<b>Total</b>	<b>2</b>	<b>20</b>	<b>25</b>	<b>23</b>	<b>70</b>	<b>100</b>

*Source: Field Survey, 2009*

The above table showed that cent percent of the Tax Expert, 2 out of 2, and the majority of the Wholesalers, 12 out of 20, stated that the tax paying habit of Chitawan people is poor. However, the majority of the other category, 14 out of 25 retailers and 15 out of 23 General Consumer strongly affirmed that the tax

paying habit of Chitawan people is not poor. Look overall, 59% of the respondents said that the tax paying habit is not poor and 41% of the respondents said that the tax paying habit is poor. Gazing the majority, it can be considered that the tax paying habit of Chitawan people is not so poor.

The Table 4.12 is presented in the pie-chart as follows.

**Figure 4.8**  
**Tax Paying Habit of Chitawan People**



The significance of above responses is tested with the help of chi-square method. The calculation of chi-square value regarding the tax pay habit is done in the following table.

**Table 4.13**

**Chi-square value for Tax Paying Habit**

<b>O</b>	<b>E =</b> $\frac{\text{RT} \times \text{CT}}{\text{N}}$	<b>O - E</b>	<b>(O - E)<sup>2</sup></b>	$\frac{(\text{O} - \text{E})^2}{\text{E}}$
2	0.83	1.17	1.37	1.66
8	8.29	-0.29	0.08	0.01
11	10.36	0.64	0.41	0.04
8	9.53	-1.53	2.34	0.25
0	1.17	-1.17	1.37	1.17
12	11.71	0.29	0.08	0.01
14	14.64	-0.64	0.41	0.03
15	13.47	1.53	2.34	0.17
			$\frac{(\text{O} - \text{E})^2}{\text{E}} =$	<b>3.33</b>

Where,

O = Observed value

E = Expected value

RT = Row Total

CT = Column Total

Here, Degree of Frequency, d.f. = (r-1) (c-1) = (4-1) (2-1) = 3

The tabulated value of  $\chi^2$  at 5% level of significance for 3 d.f. is 7.81. Since the calculated value of  $\chi^2$  (3.33) is lower than the tabulated value of  $\chi^2$  (7.81), it can be said that the opinions of all responding groups are similar and there is no significant difference in the opinions that the tax paying habit of Chitawan people is not poor.

#### 4.2.4 Effect of Fines and Penalties to increase tax paying habit of Chitawan People

To know the effect of fines and penalties to increase tax paying habit of Chitawan people a question was asked. “Do you agree that the tax paying habit of Chitawan people can be increased by the effective fines and penalties system?” The responses received from the various respondents are tabulated as follows:

**Table 4.14**  
**Effect of Fines and Penalties to Increase Tax Paying habit**

Responses	Number of Respondents					%
	Tax Expert	Wholesaler	Retailer	General Consumer	Total	
Yes	2	14	19	21	56	80
No	0	6	6	2	14	20
<b>Total</b>	<b>2</b>	<b>20</b>	<b>25</b>	<b>23</b>	<b>70</b>	<b>100</b>

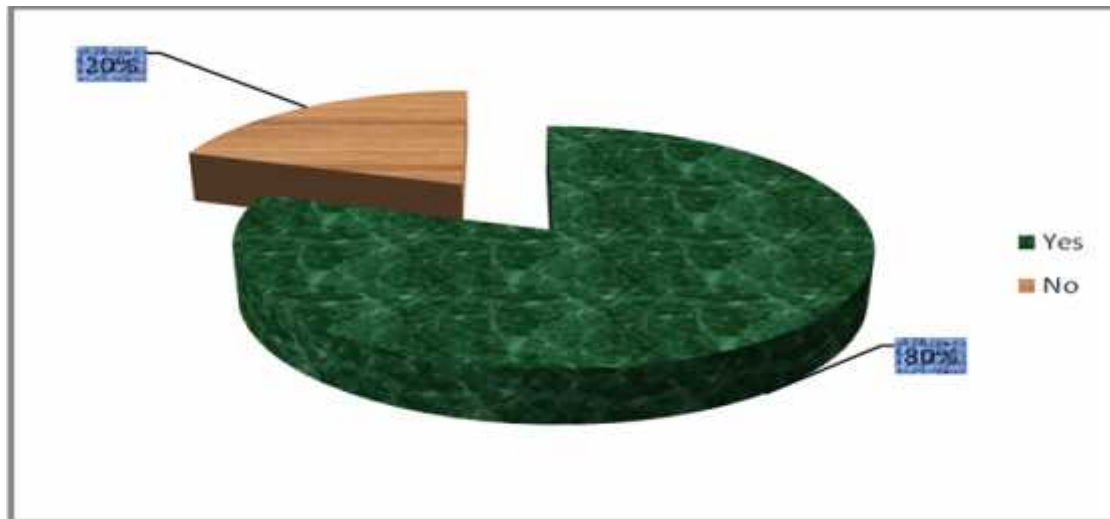
*Source: Field Survey, 2009*

From the above table it has been clear that 80 percent of the respondents approved there is significant effect of fines and penalties to increase tax paying habit of Chitawan people and 20 percent of the respondents approved there is not effect of fines and penalties to increase tax paying habit of Chitawan people. Viewing each category, 2 out of 2 of tax experts, 14 out of 20 wholesalers, 19 out of 25 retailers and 21 out of 23 General Consumer stated that the tax paying habit of Chitawan people can be enhanced by the effective fines and penalties system.

The above table is presented in the pie-chart in the following figure.

**Figure 4.9**

**Effects of Fines and Penalties to Increase Tax Paying Habit**



The significance of the responses regarding the effects of fines and penalties to increase the tax paying habit of Chitawan People is tested through chi-square method.

**Table 4.15**

**Chi-square value on Effects of Fines & Penalties to Increase Tax Paying Habit**

O	$E = \frac{RT \times CT}{N}$	O - E	$(O - E)^2$	$\frac{(O - E)^2}{E}$
2	1.60	0.40	0.16	0.10
14	16.00	-2.00	4.00	0.25
19	20.00	-1.00	1.00	0.05
21	18.40	2.60	6.76	0.37
0	0.40	-0.40	0.16	0.40
6	4.00	2.00	4.00	1.00
6	5.00	1.00	1.00	0.20
2	4.60	-2.60	6.76	1.47
			$\frac{(O - E)^2}{E} =$	<b>3.84</b>

The tabulated value of  $\chi^2$  at 5% level of significance for 3 d.f. is 7.81. Since the calculated value of  $\chi^2$  (3.84) is lower than the tabulated value of  $\chi^2$  (7.81), it can be said that the opinions of all responding groups are similar and there is no significant difference that the tax paying habit of Chitawan people can be increased by imposing effective fines and penalties systems.

In order to know the effective level of fines and penalties to increase the tax paying habit of Nepalese people the next question was asked. “If yes, to what extent fines and penalties play role to increase the tax paying habit of Chitawan people?” The responses received from the various respondents are tabulated as follows.

**Table 4.16**  
**Role of Fines and Penalties to Increase Tax Paying habit of Chitawan People**

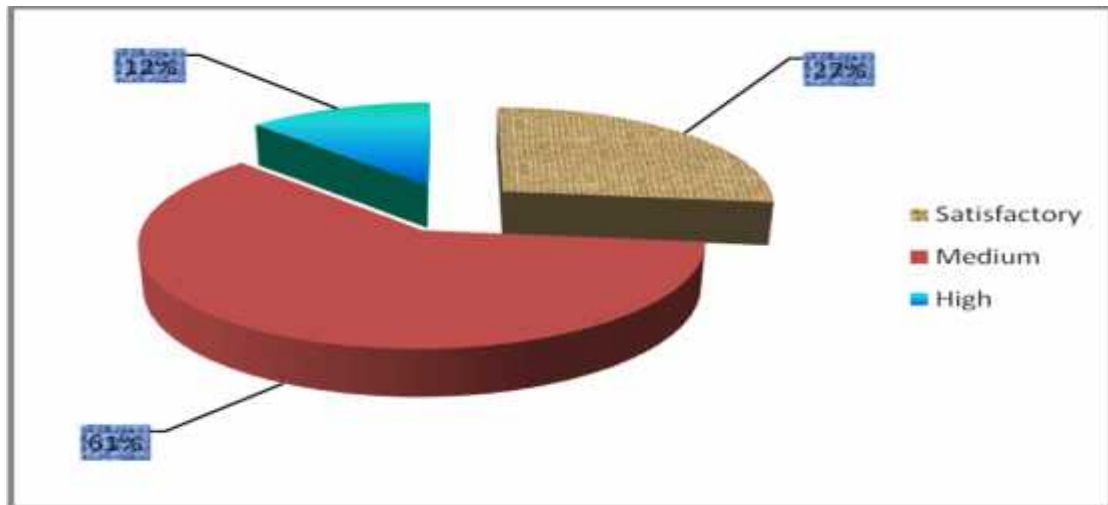
<b>Effect</b>	<b>Satisfactory</b>	<b>Medium</b>	<b>High</b>	<b>Total</b>
<b>Group</b>				
Tax Expert	0	0	2	2
Wholesaler	4	8	2	14
Retailer	6	11	2	19
General Consumer	5	15	1	21
<b>Total</b>	<b>15</b>	<b>34</b>	<b>7</b>	<b>56</b>
<b>%</b>	<b>27</b>	<b>61</b>	<b>13</b>	<b>100</b>

*Source: Field Survey, 2009*

Above table shows that 34 respondents among 56 (61%) approved the effective level of fines and penalties to increase the tax paying habit of Chitawan people is medium, 15 (27%) and 7 (13%) respondents among 56 respondents approved the level of effect is satisfactor and high respectively. Hence it can be concluded that the effective level of fines and penalties to increase tax-paying habit of Chitawan people is medium.

**Figure 4.10**

**Role of Fines and Penalties to increase Tax paying habit**



**4.2.5 Knowledge of the Income Tax Act 2058 and Its Provisions of Fines and Penalties to the Taxpayer**

To know the knowledge of the Income Tax Act 2058 and provision of fines and penalties to the taxpayer a question was asked. “Do you agree that every taxpayer has knowledge of this Income Tax Act 2058 and its provision of fines and penalties that pay minimum income tax Rs 1000?” The responses of above question are tabulated as follows:

**Table 4.17**

**Knowledge about Income Tax Act 2058 and provision of Fines & Penalties**

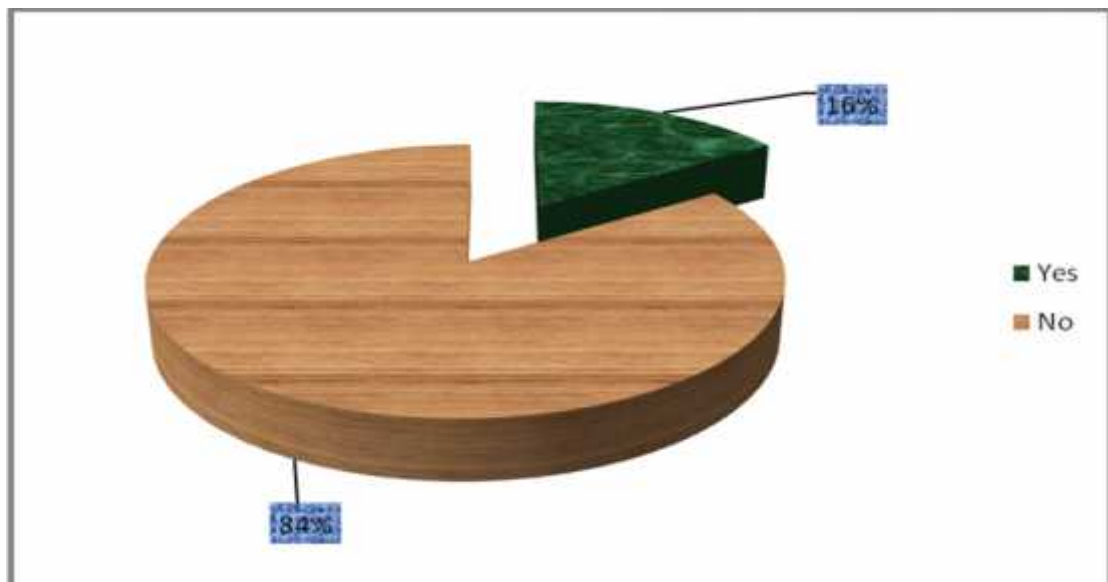
Responses	Number of Respondents					%
	Tax Expert	Wholesaler	Retailer	General Consumer	Total	
Yes	0	4	7	0	11	16
No	2	16	18	23	59	84
<b>Total</b>	<b>2</b>	<b>20</b>	<b>25</b>	<b>23</b>	<b>70</b>	<b>100</b>

*Source: Field Survey, 2009*

The above table showed that the majority of respondents (59%) strongly affirmed that the every taxpayer does not have knowledge about the Income Tax Act 2058 and its provision concerning to fines and penalties. Also in each

category, the majority of the tax experts (100%), the majority of the Wholesaler (16 out of 20), the majority of the Retailer (18 out of 25) and the majority of the General Consumer (100%) stated that the every taxpayer is not aware about the Income tax act 2058 and its provision of fines and penalties. Hence, the concerned bodies of tax department of Chitawan should make effort to aware the tax payers.

**Figure 4.11**  
**Knowledge about Income Tax Act 2058 and provision of fines and penalties**



The significance of the responses regarding the knowledge of Income Tax Act 2058 and its provision of fines and penalties is tested through chi-square method.

**Table 4.18**

**Chi-square value on Knowledge about Income Tax Act 2058 and provision of fines and penalties**

<b>O</b>	<b>E =</b> $\frac{RT \times CT}{N}$	<b>O - E</b>	<b>(O - E)<sup>2</sup></b>	$\frac{(O - E)^2}{E}$
0	0.31	-0.31	0.10	0.31
4	3.14	0.86	0.73	0.23
7	3.93	3.07	9.43	2.40
0	3.61	-3.61	13.06	3.61
2	1.69	0.31	0.10	0.06
16	16.86	-0.86	0.73	0.04
18	21.07	-3.07	9.43	0.45
23	19.39	3.61	13.06	0.67
			$\frac{(O - E)^2}{E} =$	<b>7.79</b>

The tabulated value of  $\chi^2$  at 5% level of significance for 3 d.f. is 7.81. Since the calculated value of  $\chi^2$  (7.79) is lower than the tabulated value of  $\chi^2$  (7.81), it can be said that the opinions of all responding groups are similar and there is no significant difference that the every taxpayer does not have knowledge of Income Tax Act 2058 and its provision of fines and penalties that pay minimum tax Rs.1000.

**4.2.6 Appropriateness to Pay Rs 5000 as Minimum Fine**

To know the appropriateness of payment Rs 5000 as minimum fine a question was asked. “Is it right, to impose Rs 5000 as minimum fine who pay minimum income tax Rs 1000 because of non-payment of tax with in time?” The response is tabulated in the following table.

**Table 4.19**

**Appropriateness to Pay Rs 5000 as Minimum Fine**

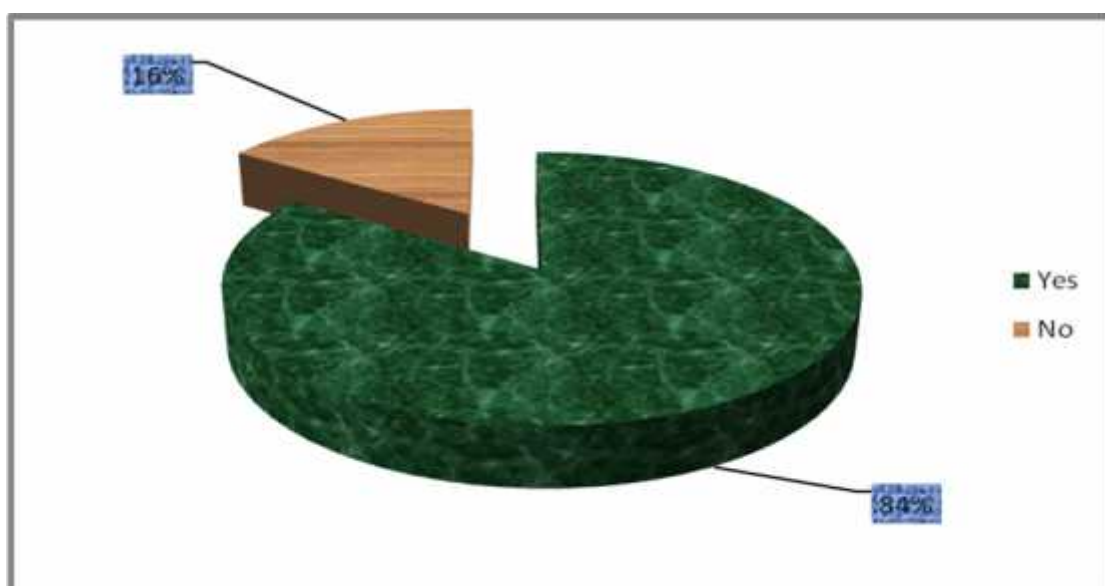
Responses	Number of Respondents					%
	Tax Expert	Wholesaler	Retailer	General Consumer	Total	
Yes	1	17	20	21	59	84
No	1	3	5	2	11	16
<b>Total</b>	<b>2</b>	<b>20</b>	<b>25</b>	<b>23</b>	<b>70</b>	<b>100</b>

*Source: Field Survey, 2009*

From the above table, it was obtained that 84 percent respondents cleared that it was not good to impose Rs 5000 as a minimum fine that pay minimum income tax Rs 1000 because of non-payment of tax with in time frame. Only 16 percent of the respondents agreed with Rs 5000 as a minimum fine. Thus it can be concluded that it was not good to impose Rs 5000 as a minimum fine that paid minimum income tax Rs 1000. Hence it can be considered that the minimum fines are sufficient to create awareness among taxpayers as well as to penalize them, fines should be imposed proportionately to the amount of tax liabilities and it should be justifiable.

**Figure 4.12**

**Appropriateness to Pay Rs 5000 of minimum fine**



The significance of the responses regarding the appropriateness to pay Rs. 5000 of minimum fine is tested through chi-square method.

**Table 4.20**

**Chi-square value on appropriateness to Pay Rs. 5000 of Minimum Fine**

<b>O</b>	<b>E = <math>\frac{RT \times CT}{N}</math></b>	<b>O - E</b>	<b>(O - E)<sup>2</sup></b>	<b><math>\frac{(O - E)^2}{E}</math></b>
1	1.69	-0.69	0.47	0.28
17	16.86	0.14	0.02	0.00
20	21.07	-1.07	1.15	0.05
21	19.39	1.61	2.61	0.13
1	0.31	0.69	0.47	1.50
3	3.14	-0.14	0.02	0.01
5	3.93	1.07	1.15	0.29
2	3.61	-1.61	2.61	0.72
			<b><math>\frac{(O - E)^2}{E} =</math></b>	<b>2.98</b>

Since the calculated value of  $\chi^2$  (2.98) is lower than the tabulated value of  $\chi^2$  (7.81), it can be said that the opinions of all responding groups are similar and there is no significant difference that it is right to impose Rs. 5000 as minimum fine to them who pay minimum income tax Rs. 1000 because of non-payment of tax within time.

#### **4.2.7 Penalty for Aiding and Abating Reduce Offences**

In order to know the effectiveness of penalty for aiding and abating to reduce offences a question was asked, “Do you agree, penalty for aiding and abating reduce offences?” the response received are tabulating below.

**Table 4.21**

**Penalty for Aiding and Abating Reduce Offences**

Responses	Number of Respondents					%
	Tax Expert	Wholesaler	Retailer	General Consumer	Total	
Yes	2	10	15	17	44	63
No	0	10	10	6	26	37
<b>Total</b>	<b>2</b>	<b>20</b>	<b>25</b>	<b>23</b>	<b>70</b>	<b>100</b>

*Source: Field Survey, 2009*

In the above table, it was observed that 63 percent of the respondents agreed to charge penalty for abiding and abetting to reduce offences. Only 37 percent of the respondents thought that offences would not reduce by penalty. Thus, it can be concluded that the penalty helps to reduce aiding and abetting and ultimately offences.

The responses presented in the above table is presented in below pie-chart.

**Figure 4.13**

**Penalty for Aiding and Abating Reduce Offences**



The significance of the responses regarding the penalty for aiding and abating reduces offences is tested through chi-square method.

**Table 4.22**

**Chi-square value on the reduction of Offences by Penalties**

<b>O</b>	<b>E = <math>\frac{RT \times CT}{N}</math></b>	<b>O - E</b>	<b>(O - E)<sup>2</sup></b>	<b><math>\frac{(O - E)^2}{E}</math></b>
2	1.26	0.74	0.55	0.44
10	12.57	-2.57	6.61	0.53
15	15.71	-0.71	0.51	0.03
17	14.46	2.54	6.47	0.45
0	0.74	-0.74	0.55	0.74
10	7.43	2.57	6.61	0.89
10	9.29	0.71	0.51	0.05
6	8.54	-2.54	6.47	0.76
			<b><math>\frac{(O - E)^2}{E} = 3.89</math></b>	

Since the calculated value of  $\chi^2$  (3.89) is lower than the tabulated value of  $\chi^2$  (7.81), it can be said that the opinions of all responding groups are similar and there is no significant difference that penalty for aiding and abating reduces offences.

**4.2.8 Liable To Pay Both Interest As Well As Fine**

To know the respondents opinion about liable to pay both interest as well as fine a question was asked. “Is it right, liable to pay both interest as well as fine for the single mistake by the taxpayer?” The responses of the respondents are as follows.

**Table 4.23**

**Liabe To Pay Both Interest As Well As Fine**

Responses	Number of Respondents					%
	Tax Expert	Wholesaler	Retailer	General Consumer	Total	
Yes	2	9	16	13	<b>40</b>	<b>57</b>
No	0	11	9	10	<b>30</b>	<b>43</b>
<b>Total</b>	<b>2</b>	<b>20</b>	<b>25</b>	<b>23</b>	<b>70</b>	<b>100</b>

*Source: Field Survey, 2009*

The above table showed that 43 percent agreed that liable to pay interest as well as fine for single mistake by taxpayer is not good. However, 57 percent of the respondents agreed that liable to pay interest as well as fine for single mistake by taxpayer is right. Since the majority of the respondents suggested that it is right, it can be considered that the Chitawan people have the perception that by imposing both interest and fine the tax paying habit can be ameliorated.

The responses presented in the above table is depicted in the following pie-chart.

**Figure 4.14**

**Liabe To Pay Both Interest As Well As Fine**



The significance of the responses regarding the liability to pay both interest as well as fine for a single blunder is tested through chi-square method.

**Table 4.24**

**Chi-square value on the Liability to Pay both Fines and Interest**

<b>O</b>	<b>E = <math>\frac{RT \times CT}{N}</math></b>	<b>O - E</b>	<b>(O - E)<sup>2</sup></b>	<b><math>\frac{(O - E)^2}{E}</math></b>
2	1.14	0.86	0.73	0.64
9	11.43	-2.43	5.90	0.52
16	14.29	1.71	2.94	0.21
13	13.14	-0.14	0.02	0.00
0	0.86	-0.86	0.73	0.86
11	8.57	2.43	5.90	0.69
9	10.71	-1.71	2.94	0.27
10	9.86	0.14	0.02	0.00
			<b><math>\frac{(O - E)^2}{E} =</math></b>	<b>3.19</b>

Since the calculated value of  $\chi^2$  (3.19) is lower than the tabulated value of  $\chi^2$  (7.81), it can be said that the opinions of all responding groups are similar and there is no significant difference that it is right to pay both interest as well as fine for the single mistake by the tax payer.

#### **4.2.9 Need of Provision of Penalty Who Fail to Register**

To know the opinion on need of provision of penalty who fail to register, a question was asked, “Do you think that there should be provision of penalty who fail to register?” The responses of the respondents are tabulated as follows.

**Table 4.25**

**Need of Provision of Penalty Who Fail to Register**

Responses	Number of Respondents					%
	Tax Expert	Wholesaler	Retailer	General Consumer	Total	
Yes	1	16	18	20	55	79%
No	1	4	7	3	15	21%
<b>Total</b>	<b>2</b>	<b>20</b>	<b>25</b>	<b>23</b>	<b>70</b>	<b>100</b>

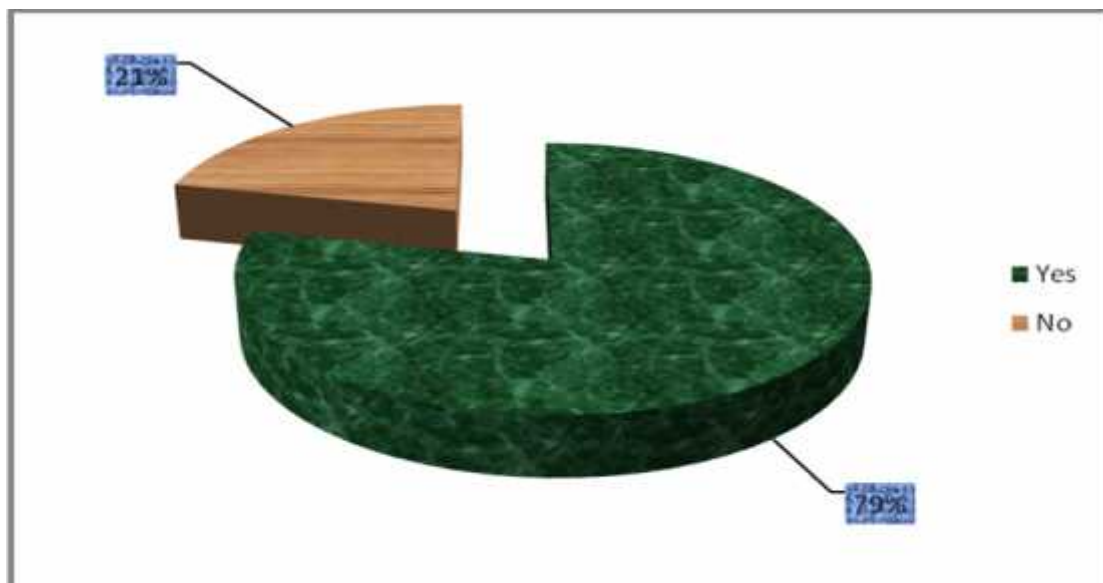
*Source: Field Survey, 2009*

The above table showed that 79% of the respondents, 55 out of 70; 1 out of 2 tax experts, 16 out of 20 wholesalers, 18 out of 25 retailers and 20 out of 23 General Consumer, strongly affirmed that there should be penalty to those who fail to register. However only 21% of the respondents stated that there should not be such provision of penalties. Looking the majority of the each category and overall, it can be considered that there should be strict penalties to those who attempt to cheat tax by not registering.

The responses presented in the Table 4.25 is delineated in the following pie-chart.

**Figure 4.15**

**Need of Provision of Penalty Who Fail to Register**



To test the significance of responses on the provision of penalties to those who fail to register chi-square method has been adopted.

**Table 4.26**

**Chi-square value on Need of Provision of Penalty who Fail to Register**

<b>O</b>	<b>E =</b> $\frac{RT \times CT}{N}$	<b>O - E</b>	<b>(O - E)<sup>2</sup></b>	$\frac{(O - E)^2}{E}$
1	1.57	-0.57	0.33	0.21
16	15.71	0.29	0.08	0.01
18	19.64	-1.64	2.70	0.14
20	18.07	1.93	3.72	0.21
1	0.43	0.57	0.33	0.76
4	4.29	-0.29	0.08	0.02
7	5.36	1.64	2.70	0.50
3	4.93	-1.93	3.72	0.75
			$\frac{(O - E)^2}{E} =$	<b>2.60</b>

The above table showed that the calculated value of  $\chi^2$  (2.60) is lower than the tabulated value of  $\chi^2$  (7.81) at 5% level of significance. Thus, it can be concluded that there is no significant difference in the responses and it is right to impose fines and penalties for not registering.

#### **4.2.10 Appropriate Amount of Penalty for Making False or Misleading Statement Unknowingly or Recklessly**

There is provision of penalty for those who made false or misleading statement knowingly or recklessly, they were charged only fifty percent of the underpayment of tax as a penalty. To know the view about this provision a question was asked, "Is it right to impose penalty equal to 50 percent of the underpayment of tax for making false or misleading statement knowingly or recklessly?" The responses by them were tabulated as follows:

**Table 4.27**

**Appropriate Amount of Penalty for Making False or Misleading Statement Unknowingly or Recklessly**

Responses	Number of Respondents					%
	Tax Expert	Wholesaler	Retailer	General Consumer	Total	
Yes	2	8	13	18	41	59
No	0	12	12	5	29	41
<b>Total</b>	<b>2</b>	<b>20</b>	<b>25</b>	<b>23</b>	<b>70</b>	<b>100</b>

*Source: Field Survey, 2009*

From the above table, it was cleared that 59 percent of the respondents approved that penalty equal to 50 percent of the underpayment of tax for making false or misleading statement unknowingly or recklessly was appropriate. So, it can be concluded that majority of the respondents were positive towards it.

The above table can be better understood with the help of following pie-chart.

**Figure 4.16**

**Appropriate Amount Penalty for Making False or Misleading Statement Unknowingly or Recklessly**



To test the significance of responses on the provision of penalties for making false or misleading statement unknowingly or recklessly chi-square method has been adopted.

**Table 4.28**

**Chi-square value on Appropriate Amount of Penalty For making False Statement**

<b>O</b>	<b>E = <math>\frac{RT \times CT}{N}</math></b>	<b>O - E</b>	<b>(O - E)<sup>2</sup></b>	<b><math>\frac{(O - E)^2}{E}</math></b>
2	1.17	0.83	0.69	0.59
8	11.71	-3.71	13.80	1.18
13	14.64	-1.64	2.70	0.18
18	13.47	4.53	20.51	1.52
0	0.83	-0.83	0.69	0.83
12	8.29	3.71	13.80	1.67
12	10.36	1.64	2.70	0.26
5	9.53	-4.53	20.51	2.15
			<b><math>\frac{(O - E)^2}{E} =</math></b>	<b>8.38</b>

The above table showed that the calculated value of  $\chi^2$  (8.38) is higher than the tabulated value of  $\chi^2$  (7.81) at 5% level of significance. Thus, it can be concluded that there is significant difference in the opinions that it is right to impose penalty equal to 50% of the underpayment of tax for making false or misleading statement without knowledgably or recklessly.

**4.2.11 Effectiveness of Tax Administration to Impose Fine and Penalties**

To find out the view about effectiveness of tax administration to impose fines and penalties in Chitawan, a question was asked, “Do you think that the tax administration of Chitawan is effective to impose fines and penalties as per necessary?” The responses received by the respondents were tabulated below to analyze their opinions:

**Table 4.29**

**Effectiveness of Tax Administration to Impose Fine and Penalties**

Responses	Number of Respondents					%
	Tax Expert	Wholesaler	Retailer	General Consumer	Total	
Yes	2	18	21	20	<b>61</b>	<b>87</b>
No	0	2	4	3	<b>9</b>	<b>13</b>
<b>Total</b>	<b>2</b>	<b>20</b>	<b>25</b>	<b>23</b>	<b>70</b>	<b>100</b>

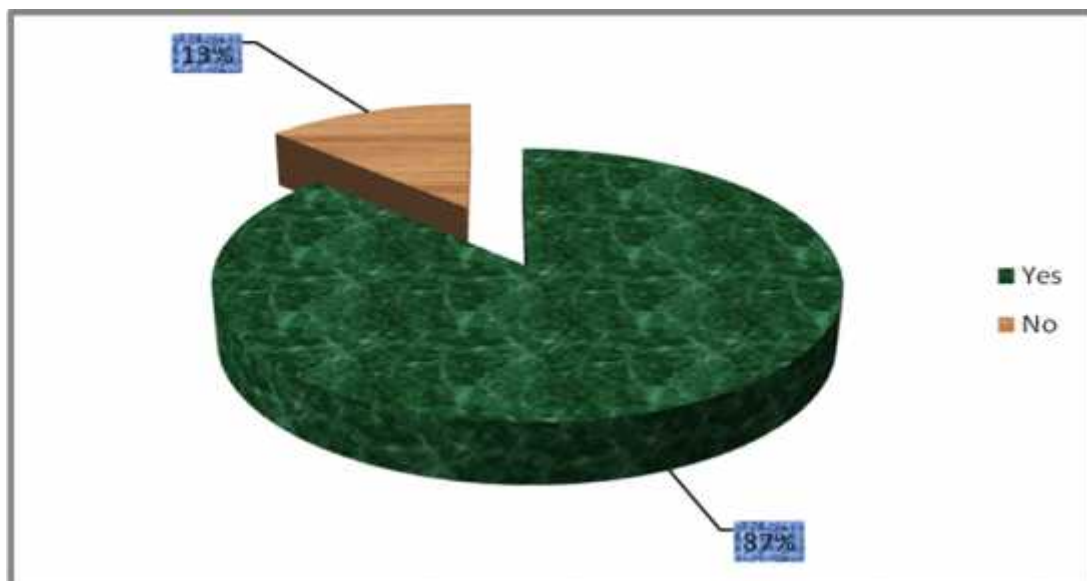
*Source: Field Survey, 2009*

The tabulated opinion of the respondents showed that most of the respondents about 61 percent thought that tax administration was effective in imposing fines and penalties. Only 13 percent respondents were against towards the effectiveness of tax administration on imposing fines and penalties. Most of the tax expert and probably all of the taxpayer were positive toward the effectiveness of tax administration on imposing fines and penalties as per necessary. Thus, it can be concluded that the tax administration of Chitawan was good on imposing fines and penalties effectively.

The above table can be better understood with the help of following pie-chart.

**Figure 4.17**

**Effectiveness of Tax Administration to Impose Fine and Penalties**



To test the significance of responses on the effectiveness of tax administration to impose fines and penalties, chi-square method has been adopted.

**Table 4.30**

**Chi-square value on Effectiveness of Tax Administration**

<b>O</b>	<b>E =</b> $\frac{RT \times CT}{N}$	<b>O - E</b>	<b>(O - E)<sup>2</sup></b>	$\frac{(O - E)^2}{E}$
2	1.74	0.26	0.07	0.04
18	17.43	0.57	0.33	0.02
21	21.79	-0.79	0.62	0.03
20	20.04	-0.04	0.00	0.00
0	0.26	-0.26	0.07	0.26
2	2.57	-0.57	0.33	0.13
4	3.21	0.79	0.62	0.19
3	2.96	0.04	0.00	0.00
			$\frac{(O - E)^2}{E} =$	<b>0.66</b>

The above table showed that the calculated value of  $\chi^2$  (0.66) is lower than the tabulated value of  $\chi^2$  (7.81) at 5% level of significance. Thus, it can be concluded that there is no significant difference in the opinions that the tax administration of Chitawan is effective to impose fines and penalties as per necessary.

The respondents who thought that the administration of Chitawan was not effective to impose fine and penalties, in order to know the causes of inefficient, a question was asked, “If no, what are the reasons?” The respondents were requested to choose the best answer. The responses received by them were tabulated follows:

**Table 4.31**  
**Reasons of ineffectiveness of Tax Administration to Impose Fine and Penalties**

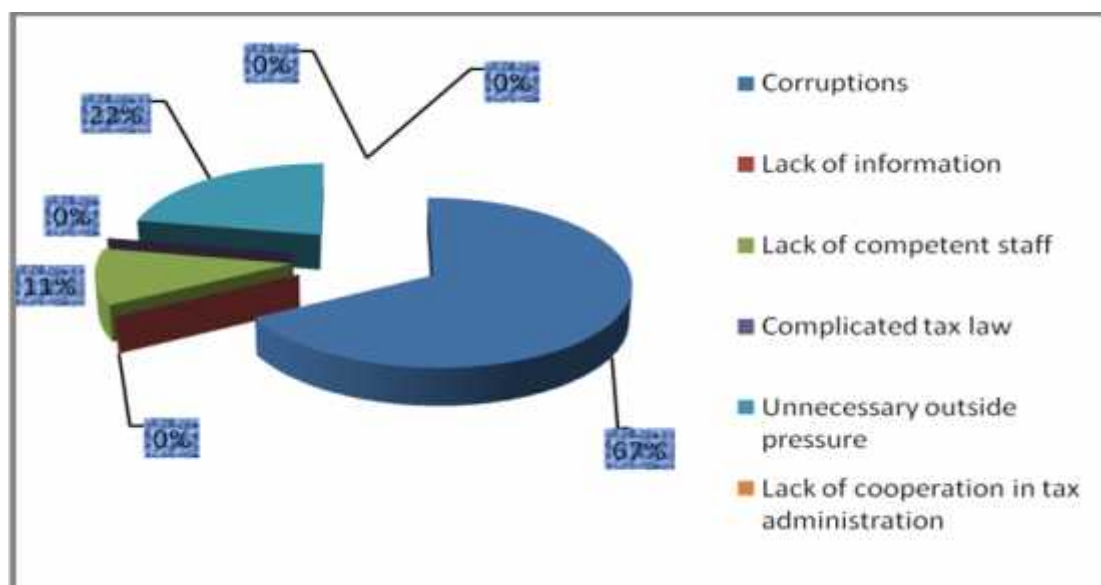
Responses	Number of Respondents				%
	Wholesaler	Retailer	General Consumer	Total	
Corruptions	2	2	2	6	<b>67</b>
Lack of information	0	0	0	0	<b>0</b>
Lack of competent staff	0	1	0	1	<b>11</b>
Complicated tax law	0	0	0	0	<b>0</b>
Unnecessary outside pressure	0	1	1	2	<b>22</b>
Lack of cooperation in tax administration	0	0	0	0	<b>0</b>
Lack of logistic support	0	0	0	0	<b>0</b>
<b>Total</b>	<b>2</b>	<b>4</b>	<b>3</b>	<b>9</b>	<b>100</b>

*Source: Field Survey, 2009*

The above table showed that 67% of the respondents pointed out corruption behind the main reason for ineffectiveness of tax administration in imposing fines and penalties. Similarly, 22% of the respondents and 11% of the respondents pointed out unnecessary outside pressures and lack of competent staff are the main reasons for the ineffectiveness of tax administration in imposing fines and penalties. Hence, it can be concluded that corruptions, outside influence and incompetent staff are the main reasons of ineffectiveness of tax administration.

Figure 4.18

**Reasons of ineffectiveness of Tax Administration**



**4.2.12 Sufficiency of Provision made Under the Nepalese Income Tax Act 2058**

In order to know the sufficiency of provision made under the Nepalese Income Tax Act a question was asked, “In your opinion, are the provisions made under the Nepalese income tax act sufficient in all respect?” The responses received on it were tabulated below.

Table 4.32

**Sufficiency of provision made under the Nepalese Income Tax Act**

Responses	Number of Respondents					%
	Tax Expert	Wholesaler	Retailer	General Consumer	Total	
Yes	2	3	3	1	9	13
No	0	17	22	22	61	87
<b>Total</b>	<b>2</b>	<b>20</b>	<b>25</b>	<b>23</b>	<b>70</b>	<b>100</b>

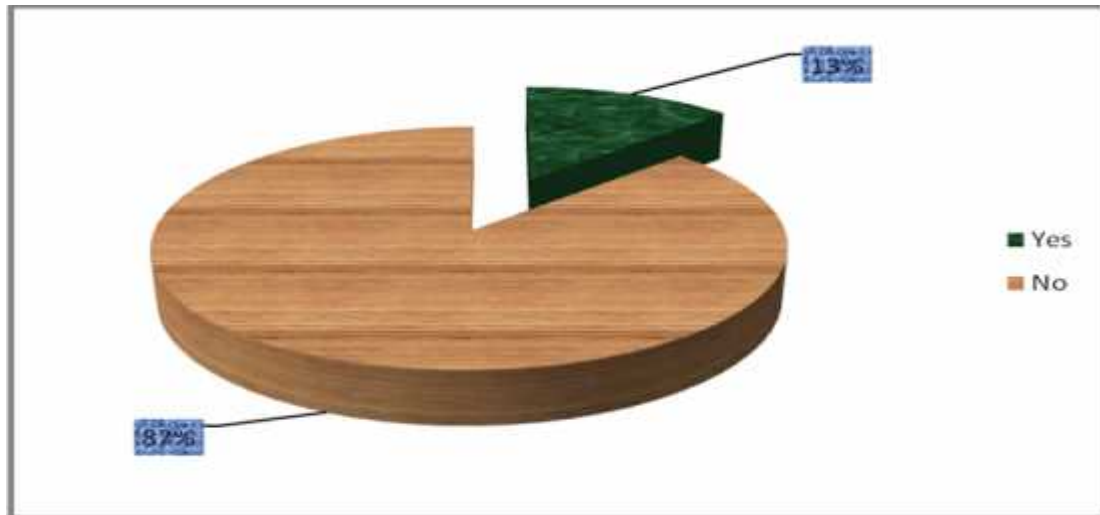
Source: Field Survey, 2009

Since 87 percent of the respondents were disagreed with the sufficiency of provision made under the Nepalese Income Tax Act, but 13 percent of the respondents were agreed that the sufficiency of provision of Nepalese Income

Tax Act. Thus it can be concluded that majority of the respondents were against the sufficiency of the provisions of Income Tax Act.

**Figure 4.19**

**Sufficiency of provision made under the Nepalese Income Tax Act**



To test the significance of responses on the sufficiency of provisions made under Nepalese Income Tax Act 2058, chi-square method has been adopted.

**Table 4.33**

**Chi-square value on Sufficiency of Provisions**

O	E = $\frac{RT \times CT}{N}$	O - E	$(O - E)^2$	$\frac{(O - E)^2}{E}$
2	0.26	1.74	3.04	11.81
3	2.57	0.43	0.18	0.07
3	3.21	-0.21	0.05	0.01
1	2.96	-1.96	3.83	1.30
0	1.74	-1.74	3.04	1.74
17	17.43	-0.43	0.18	0.01
22	21.79	0.21	0.05	0.00
22	20.04	1.96	3.83	0.19
			$\frac{(O - E)^2}{E} =$	<b>15.14</b>

The above table showed that the calculated value of  $\chi^2$  (15.14) is higher than the tabulated value of  $\chi^2$  (7.81) at 5% level of significance. Thus, it can be considered that there is significant difference in the opinions that the provisions made under the Nepalese income tax act is sufficient in all respect.

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

On the basis of secondary data presentation and analysis some important findings were as follows:

- ) Tax revenue was the composition of direct and indirect tax in the Nepalese tax revenue. The contribution of indirect tax in the periods taken for study was almost 90% and contribution of direct tax was less than 12% during the period taken for research. It seems that indirect tax plays dominant role on in Nepalese revenue.
- ) Direct Tax revenue was the composition of income tax, property tax; house and land rent tax and other tax. There was dominant share of income tax revenue in direct tax revenue. The contribution of income tax was above 85% during the period taken for research, while property tax contributed less than 5%.
- ) Indirect tax revenue was the composition of VAT, Excise Duty and other. The contribution of excise duty was above 87% in the research period while VAT contributed less than 12% and other are minimal.
- ) In fines and penalties collection, the Inland and Revenue of Department of Chitawan collected more amount in Fines compared to penalties in each year. The Department collected maximum amount of fines and penalties in the fiscal year 2006/07.
- ) The contribution of fines and penalties to non-tax revenue was highest in the fiscal year 2007/08 (36.06%) and lowest in the fiscal year 2003/04 (15.86%). Similarly fines and penalties to total revenue was highest in the fiscal year 2006/07 (0.07%) and lowest in the fiscal year 2003/04 and 2007/08 (0.04%).

- ) There is positive correlation coefficient (+0.5540) between fines and penalties. However the probability error showed that there is no significant relationship between fines and penalties.
- ) The trend analysis showed that the fines and penalties in the fiscal year 2008/09 and 2009/10 will be Rs. 1245.08 and Rs. 1364.44 thousand respectively.
- ) The primary data analysis showed that to increase the revenue of government should be the specific goal of income tax of Nepal. Also 59% of the respondents showed that the tax paying habit of Chitawan people is not poor.
- ) The fines and penalties can be crucial to increase the tax paying habit of Chitawan people. About 80% of the respondents strongly supported on this matter. Likewise the role of fines and penalties is medium to increase tax revenue.
- ) The primary data showed that many tax payer are not aware about the Income Tax Act 2058 and its provision of fines and penalties. About 59% of the respondents pointed out this fact.
- ) About 84% of the respondents stated that it is appropriate to impose Rs. 5000 of minimum fines and 63% of the respondents agreed that penalties can be crucial to reduce offences. Also, 57% of the respondents stated that it is right to pay both interest and fines for the single mistake by the taxpayer.
- ) About 79% of the respondents affirmed that there should be clear provision of penalties for those who fail to register and 59% stated that there should be penalty for those who makes false or misleading statement unknowingly or recklessly.
- ) 87% of the respondents states that the tax administration of Chitawan is effective to impose fines and penalties and 67% of the respondents who said that the tax administration is ineffective said that corruption is the major barricade behind such ineffectiveness.

## **CHAPTER-V**

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

#### **5.1 Summary**

The government requires sufficient revenues for the economic development as well as to handle day-to-day administration to perform activities like maintaining peace and security, launching other public welfare and developing activities. To perform such activities, the government collects revenues from various sources such as tax revenue from public enterprises, special assessment, fees, fines, grants and assistances etc. Among them, revenue collected from tax plays a vital role in state economy.

Government revenue is the composition of external and internal revenue. Internal revenue includes both tax and non-tax revenue. Nepalese tax revenue is the composition of direct and indirect tax revenue. There is dominant role of indirect tax revenue in Nepalese tax revenue structure. Indirect tax revenue contributes three times more than the direct tax. Direct tax revenue is the composition of income tax, land tax, house and land registration tax and other tax. There is dominant role of income tax in total direct tax. It is in increasing trend. Income tax revenue is the composition of income tax from corporate bodies, income tax revenue from individual, income tax revenue from remuneration, income tax from rent and income from interest. There is dominant role of income from corporate bodies in total income revenue.

In development countries like Nepal, lack of sufficient financial resource is the main constraint for the national economic development. A lot of funds are needed to meet the additional financial requirement for the development activities of the country. Nepal has been suffering form capital shortage to accelerate the economic growth. Nepal has been heavily relying on foreign loans and grants. Internal resources are preferable for sustainable economic

development. But Nepal has been unable for proper mobilization of internal resources. Thus, fiscal deficit of Nepal has been increasing.

To increase the government revenue, Nepalese government is trying to extract money or valuable contributions from people through taxation. Within tax, income tax is one of the most important resources of government revenue and it is considered as a good remedy to cure growing and serious resources gap problems of Nepal. It is essential in getting macroeconomics policies because the alternatives ways of financing government expenditures like money creating, mandating larger required reserves, domestic borrowing and foreign loans, can have very harmful effect on the economy.

Lack of knowledge about law and rules, managerial inefficiency, lack of effective personnel management, lack of reward and punishment system, poor income tax assessment procedure, poor tax information system, corruption practiced in administration, very narrow coverage of income tax are the major problems of income tax management in Nepal. Being various problems relating to income tax, revenue collection from income tax is low as compared to other developing countries like Srilanka, India, Pakistan and Bangladesh etc. Nevertheless contribution of income tax for the economic development of Nepal has been increasing significantly in recent years as compared to passed thirty years. But it doesn't mean that the share is that much satisfactory. So, much more effort should be made to increase it. Presently, income tax management is done through the Income Tax Act 2058 and income tax rules 2059, in which the Nepalese tax administration has been attempting to modify itself to meet the pressing challenge brought out by change in technology and economic policies. However, still its working procedure is traditional and the cost of administration hasn't been brought to the satisfactory level. Income Tax Act 2058 is blamed that law is complicated and vague. There needs, the effort for simplification of law. The tax should be coherent with the economic situation of the country.

For the success of income tax system or to fulfill the objectives of income tax as well as for the economic development of the countries many constraints play the vital role. Among them effective implementation of provision regarding fine and penalties system is one of the most important constraints. From the very beginning the concepts of punishment have been emerged in the income tax system of Nepal for the taxpayers who do not comply the law. It is imposed according to the provisions provided by Income Tax Act. It plays important role to collect tax in right amount in proper time or at the time of earning. There are no doubt fines and penalties must be imposed to the defective taxpayers. But this is not only the method of reducing tax evasion.

Revenue collection from income tax is low in Nepal due to various problems related to income tax. For the economic development of Nepal, the problem relating to income tax system and effective implementation of interests, offence and penalties in Nepal should be solved and resources should be effectively utilized.

## **5.2 Conclusion**

From the data analysis and the major findings it can be concluded that the indirect tax plays the dominant role in the income revenue of Chitawan District. Similarly, income tax occupied the major portion of the direct tax revenue, while excise duty played the dominant role in indirect tax revenue in Chitawan. Likewise, the Internal Revenue Department of Chitawan collected more amount in Fines compared to penalties in each year and the department collected maximum amount in the fiscal year 2006/07 as fines and penalties.

On the basis of statistical analysis, it can be concluded that there is positive relationship between fines and penalties, while the probable error indicated that the relationship between them is statistically insignificant. Similarly, it can be considered that the fines and penalties in the coming two years is going to increase.

On the basis of primary data, it can be concluded that the main goal of income tax is to increase the government revenue. Also the tax paying habit of Chitawan people is satisfactory, and such tax paying habit can be increased by implementation of effective fines and penalties. Similarly, it can be considered that every tax payer is not aware about the Income Tax Act 2058 and its provisions of fines and penalties that pay minimum income tax of Rs. 1000. Also, it is right to impose Rs. 5000 as minimum fine who pay minimum income tax Rs. 1000 because of non-payment of tax within time. Chitawan Tax Administrator can control the aiding and abating offences by effective implementation of penalties.

Likewise, the provision of imposing both interest and fines for the single mistake by the taxpayer is acceptable and the provision of penalty who fail to register is crucial. It can be also concluded that the provision of imposing penalty equal to fifty percent of the underpayment of tax for making false or misleading statement knowingly or recklessly is right. Eventually, the tax administration of Chitawan district is effective to impose fines and penalties and the corruptions should be reduced to accelerate the effectiveness.

### **5.3 Recommendations**

On the basis of conclusion and findings of the study, the following recommendations are made regarding fines and penalties and its administrative efficiency:

- ) Most of the taxpayers and some of the tax administrations are unknown about this newly introduced Income Tax Act 2058, and its provision about fines and penalties. To fulfill this gap information system should be provided by different media as well as meeting and seminar should be held.
- ) Effective information system should be established so that nobody can avoid or minimize the fine and penalties as well as tax liability by telling that he was not know the acts, rules and laws. Penalty equal to fifty

percent of the underpayment of tax for making false or misleading statement unknowingly or recklessly should be changed and fine should be made hundred percent. It made the people to know Rules, Laws and Acts.

- ) Aiding and abetting is one of the most important roots of offences. So, there should be provision of heavy penalty and longtime imprison for aiding and abetting. To reduce offences, not only this, the man who enforces or coerced others to reduce tax liability by illegal process he/she should also charged the same amount of penalty and imprison as the defaulter/evader taxpayers.
- ) If the provision of penalty that fail to register is not appear, illegal business will increase. So, the clear provision of penalty should be made for failure to register.
- ) Tax administration should be made free from corruption in all aspects specially to impose fines and penalties effectively. Discretionary power of the tax officers must be curtailed and their right and duties should be clarified in Income Tax Act.
- ) 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 the changed context of liberalization.
- ) The IRD made provision of reward to those informants who supplies information about tax evasion, abiding and abetting etc.
- ) Tax personnel should be encouraged, punished and transferred on the basis of their work and experience not on the basis of outside pressure.
- ) If there is enough reasons to believe that the taxpayers has earned from illegal business and corruption. So, the income earned should be made liable to tax at high rate without exemption limit and maximum penalty.
- ) To improve the tax collection procedure, the maximum penalties should be imposed for non-compliance of income tax with in the due date.

- ) Success of income tax system is highly dependent upon the quality of income tax laws. Tax laws should be clear, comprehensive and simple. It should not contain any loopholes and ambiguity. Therefore it should be reviewed frequently and reformed.
- ) Strong political commitment is necessary for the effective implementation and Income Tax Act and its provisions regarding to fines and penalties.
- ) People should be encouraged to pay tax voluntarily. A system should be introduced that a tax-paying citizen is entitled to receive more benefits and incentives than non-taxpaying citizen.

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## APPENDIX - I

### Questionnaire

**Dear Sir/Madam,**

This is to bring your kind information that this is an attempt to identify the attitude of people of Chitawan District regarding to the "*Provisions of Fines and Penalties Under Income Tax Act in Nepal; A Case Study of Chitawan District*" for the partial fulfillment of Thesis required for MBS degree, TU. You are kindly requested to fill up the following questionnaire with the best answer in your view. I would be grateful to you for the contribution of your valuable time and effort.

Name : \_\_\_\_\_ Sex : M [ ] F [ ] Age : \_\_\_\_\_

**Questions:**

*Please Tick the best alternative, if the question is provided with two or three alternatives then put in order of preference from one to last number.*

1. What should be the goal of income tax in Nepal? (Rank)
  - a) Increase the revenue of the government.
  - b) Reduce the gap between poor and rich.
  - c) Promote private sector investment.
  - d) Reduce in unemployment.
2. Do you think that tax paying habit of Chitawan people is poor?
  - a) Yes
  - b) No
3. Do you agree that the tax paying habit of Chitawan people can be increased by the effective fine and penalty system?
  - a) Yes
  - b) No
4. If yes, to what extent fines and penalties play role to increase the tax paying habit of Chitawan people?
  - a) Satisfactory
  - b) Medium
  - c) High
5. Do you agree that every tax payer has knowledge of this existing income tax act 2058 and its provision of fines and penalties that pay minimum income tax Rs.1000?
  - a) Yes
  - b) No
6. Is it right to impose Rs.5000 as minimum fine who pay minimum income tax Rs.1000 because of non-payment of tax within time? (Sec-123)
  - a) Yes
  - b) No
7. Do you agree, penalty for aiding and abating reduces offences? (Sec-127)
  - a) Yes
  - b) No
8. Is it right, liable to pay both interest as well as fine for the single mistake by the tax payer?
  - a) Yes
  - b) No
9. Do you think that there should be provision of penalty who fail to register?
  - a) Yes
  - b) No
10. Is it right to impose penalty equal to 50% of the underpayment of tax for making false or misleading statement without knowledgably or recklessly?
  - a) Yes
  - b) No

11. Do you think the tax administration of Nepal is effective to impose fines and penalties as per necessary?

a) Yes

b) No

12. If no, what are the reasons?

a) Corruption

b) Lack of information

c) Lack of competent staff

d) Complicated tax law

e) Unnecessary outside pressures

f) Lack of cooperation in tax administration

g) Lack of Logistic support

13. In your opinion, are the provisions made under the Nepalese Income Tax Act sufficient in all respect?

a) Yes

b) No

**HEMANTA RAJ GAUTAM**

Master's in Business Studies

**Shanker Dev Campus**

**Roll No. 1439/060**

## APPENDIX - I

### Questionnaire

**Dear Sir/Madam,**

This is to bring your kind information that this is an attempt to identify the attitude of people of Chitawan District regarding to the "*Provisions of Fines and Penalties Under Income Tax Act in Nepal; A Case Study of Chitawan District*" for the partial fulfillment of Thesis required for MBS degree, TU. You are kindly requested to fill up the following questionnaire with the best answer in your view. I would be grateful to you for the contribution of your valuable time and effort.

Name : \_\_\_\_\_ Sex : M [ ] F [ ] Age : \_\_\_\_\_

**Questions:**

*Please Tick the best alternative, if the question is provided with two or three alternatives then put in order of preference from one to last number.*

14. What should be the goal of income tax in Nepal? (Rank)
- a) Increase the revenue of the government.
  - b) Reduce the gap between poor and rich.
  - c) Promote private sector investment.
  - d) Reduce in unemployment.
15. Do you think that tax paying habit of Chitawan people is poor?
- a) Yes
  - b) No
16. Do you agree that the tax paying habit of Chitawan people can be increased by the effective fine and penalty system?
- a) Yes
  - b) No
17. If yes, to what extent fines and penalties play role to increase the tax paying habit of Chitawan people?
- a) Satisfactory
  - b) Medium
  - c) High
18. Do you agree that every tax payer has knowledge of this existing income tax act 2058 and its provision of fines and penalties that pay minimum income tax Rs.1000?
- a) Yes
  - b) No
19. Is it right to impose Rs.5000 as minimum fine who pay minimum income tax Rs.1000 because of non-payment of tax within time? (Sec-123)
- a) Yes
  - b) No
20. Do you agree, penalty for aiding and abating reduces offences? (Sec-127)
- a) Yes
  - b) No
21. Is it right, liable to pay both interest as well as fine for the single mistake by the tax payer?
- a) Yes
  - b) No
22. Do you think that there should be provision of penalty who fail to register?
- a) Yes
  - b) No
23. Is it right to impose penalty equal to 50% of the underpayment of tax for making false or misleading statement without knowledgably or recklessly?
- a) Yes
  - b) No

24. Do you think the tax administration of Nepal is effective to impose fines and penalties as per necessary?

a) Yes

b) No

25. If no, what are the reasons?

h) Corruption

i) Lack of information

j) Lack of competent staff

k) Complicated tax law

l) Unnecessary outside pressures

m) Lack of cooperation in tax administration

n) Lack of Logistic support

26. In your opinion, are the provisions made under the Nepalese Income Tax Act sufficient in all respect?

a) Yes

b) No

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