

**EFFECTIVENESS OF INCOME TAX
IN REVENUE COLLECTION IN NEPAL**

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RECOMMENDRATION

This is to certify that the thesis

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Entitled:

“Effectiveness of Income Tax in Revenue Collection in Nepal”

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DECLARATION

I hereby, declared that this thesis entitled “**Effectiveness of Income Tax in Revenue Collection in Nepal**” Submitted to the Office of the Dean, Faculty of Management, Tribhuvan University is my original work. This work has been carried out in the form of partial fulfillment of the requirements for the Master' Degree of Business Studies (M.B.S.) under the supervision of Prof. Dr. Kamal Deep Dhakal &.Romakant Bhattarai of Shanker Dev Campus, Tribhuvan University.

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ABBREVIATIONS

CEDA	=	Center for Economic Development and Administration
F/Y	=	Fiscal Year
FNCCI	=	Federation of Nepalese Chamber of Commerce and Industry
GDP	=	Gross Domestic Product
IRD	=	Inland Revenue Department
IRO	=	Inland Revenue Office
NG	=	Nepal Government
NRB	=	Nepal Rastra Bank
PAN	=	Permanent Account Number
TDS	=	Tax Deduction at Source
TU	=	Tribhuvan University
VAT	=	Value Added Tax

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

1.1.1 Economic Background of Nepal

Nepal is the one of the least developed countries surrounded by two fast growing Asian economies, India and Peoples Republic of China .In its modern history the country opened up to the outside world only in 1950s.The first budget came up in 1951,who also coincides with the inflow of foreign aid in Nepal.. The year 1956 heralds a new era in Nepal's drive at economic modernization. It is the year when Nepal started its first five -year national economic development plan. The central bank and the public service commission were also established in the same year.

The economic condition of Nepal is relatively poor than neighbor countries .The economic growth of china is increasing trend on the other side the economic growth of India also in increasing trend. Economic growth rate of both countries affect the Nepalese economy directly and indirectly. In this situation Nepalese economy cannot stay alone without considering these countries economy. On the other hand Nepal had so many Possibilities for financial development. Because Nepal is reach in natural resources. But Nepal has been facing many problems; these are unemployment, poverty, rapid growth of population, Political instability, Lack of development scholar's etc.

The main objective of government of any developing country is to improve Living standard of people through the development process. In order to achieve this objective every government should launch different economic, social, cultural, and other development activities. For this government needs huge amount of financial source. In other words, In developing countries like Nepal, government has to spend a lot of money to fulfill its responsibility towards its

people. The responsibility may be either for security or for health or for education or for other development activities. In each country a lot of fund is spent by the public authority for the protection of common people and for the creation of various social economic infrastructures. Protection expenditure includes the purchase of arms and ammunition, maintenance of army and police force and administration of justice & Jail. For manage this kind of activities any government needs heavy amount of revenues as financial sources. To meet the growing public expenditure the government has to manage its funds from different sources. For the prospect of Nepal these sources may be external and internal. External sources of fund are foreign grants and loans. This kind of fund is received from foreign countries and international organizations. External source of funds are more important for underdeveloped and undeveloped countries like Nepal. It is used for economic development, reconstruction, foreign exchange, to recover from the crisis condition etc .But there are many negative results of external source of funds. Nobody becomes ready to provide grants and loans without conditions. External sources are uncertain, incontinent and not good for healthy development of nations because they have to be paid after certain period of time. so internal source of funds are better source than external source .Continuous uses of external sources of funds to raise necessary public fund is not good because it reduces the liquidity position of the government so internal source of fund are more important not only for financing necessary funds but also for mobilization of internal sources. It is better to mobilize internal source rather than looking with beggar's eyes to the donors. Internal source of fund includes debt and revenues. The internal debt collected within the country. The debt financing of the government also known as deficit financing.

The revenue on other hand come basically from two sources Tax an Non Tax. The government collects non tax revenues from various sources such as revenue from public enterprises, especially assessment fees, fines, grants and assistant etc .The tax is main source of government revenues. It general, Tax

can be defined as a levy or other type of financial charge or fees imposed by state or central government on legal activities to individuals. The person who pay tax do not get corresponding benefits from the government .Tax sources includes custom duty, excise duty, VAT, income tax.

1.1.2 Introduction of Inland Revenue Department.

Income tax is administrated directly by the Inland Revenue Department. It is responsible for the implementation and administration of the act. Inland Revenue Department is formed for in 2001 by merging the department of VAT. Currently there are 22 Inland Revenue offices all over Nepal. Inland Revenue department headed by a director general, gazette first class officers who are assisted by two deputy director general and one liquor specialist, who are also gazette level first class officers, 20 gazette level second class officers including chartered accountants and economist and 43 gazette third class officers.

Government of Nepal is the highest authority of the tax administration. Ministry of finance carries out the functions related to taxation on behalf of the government of Nepal. The revenue department of ministry is responsible for formulating tax related policies and co-coordinating the activities of all revenue departments. Similarly, customs department, revenue investigation department, resource administration training center are also involved in the administration of income tax.

1.1.3 Historical Background of Evolution of Income Tax System In Nepal.

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

Although the tax was collected in various forms in ancient era, the history of modern income tax is not very old in Nepal. The idea of introducing income tax in Nepal originated in the early 1950s when a multi party democratic political system was introduced. In 1951, the then finance minister in his budget speech declared the intention of the government to introduce and income tax. Attempts were then made to introduce income tax in subsequent years. In 1954, an income tax with Rs. 10000 basic allowance and progressive taxes ranging from 5 to 25 Percent was proposed. Due to political instability, it could not be introduced until 1958.

The first elected government in 1959 finally introduced business profits and salaries tax act, 1960 in Nepal. At that time, income tax was levied only on business profits and salaries. After about three years experience of income tax, the government replaced the prevailing tax act by income tax act, 1962. The coverage was then extended in the act. In 1974, Income tax act, 1974(2031) was enacted. The act classified income sources into five groups (a) Agriculture (b) Industry, Trade, Profession or occupation (c) Remuneration (d) House and compound rents (e) Other sources. However, agricultural income was kept outside the tax net except few years through the finance acts.

The parliament of Nepal enacted income tax act, 2002(2058 B.S.) with effective from 1st April 2002 (Chaitra 19, 2058 B.S) to enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation, and to amend and integrate the laws relating to income tax. This act has replaced income tax act, 1974(2031), which was amended for eight times and existed for a period of 28 years. The government of Nepal framed income tax rules, 2059 in 2059 to help clarifying the act. (Bhattarai and Koirala, 2068)

1.2 Focus of the Study

Tax are general contribution of wealth levied upon person, natural on corporate to defray expenses incurred in conferring common benefits upon the residents of states. It is compulsory levy imposed by the government without having any direct personal benefits. Nobody gets any benefits from the government those who paid tax. So theoretical and practical knowledge required to implement and evaluate tax properly.

So this study is closely relates with Nepalese financial status and Nepalese taxation policies .This study analysis and evaluates the Nepalese tax structure and its practice properly. This study also analysis the amount received from tax different years at different heads of income. This study will provide clear idea and knowledge to those persons who are interested to know about Nepalese revenue, tax collection system etc. This study also provides the clear idea about the tax system in Nepal. This study focuses the practical difficulties of tax collection system in Nepal and provides the suggestions of different persons to make effective technique to collect tax .This study also focus to analyze for find out how Nepalese are aware to paid income tax to government from his own income.

1.3 Statement of Problem

Economic development is the prime concern of every nation. To full fill this objective every nation is accomplishing various activities. How ever developing countries are facing serious problems in the process of economic development. Nepal is not exception to this condition. The government can't operate the development project due to lack of funds. Government expenditure is increasing day by day due to increase in price level and other circumstances. The government revenues are less than the government expenditures. Most of the industries are not properly in operations because of lack of fund and political instability. The government is not became success to collect internal revenue properly. On the other hands there many negative results of foreign

loans. Nepal has been suffering from resources constraint, massive poverty, rapid growth of population, increasing unemployment rate and political instability etc.

To solve these problem the government should be create the maximum employment should be operate. The government can't conduct these works properly without sufficient funds. To generate sufficient fund government should collect tax with in country.

Income tax is not collected properly and tax collection expenditure is increasing trend. The problem underlying it is there is not provision of tax education in the secondary level and only a few number of people know about the tax and its importance towards economic development of the nations .Because of the absence of proper knowledge of tax system, Nepalese tax payer's do not make tax planning .Tax evasion and avoidance are increasing tremendously.

The income tax system of Nepal has been criticized in many ways, especially in terms of its policies, laws and management .Nepal is facing very serious problem of income tax management .To fulfill the desired goal, existing short comings in the income tax system must be avoided.

1.4 Objective of the study

The main objectives of the study are as follows:

-) To analyze the contribution of income tax to total tax revenues and national revenues of Nepal.
-) To examine the effectiveness of income tax revenue collection in Nepal.
-) To review the trends of income tax collection and tax revenue as well.
-) To find out the problems of income tax system.

1.5 Significance of the Study

-) The government has to spent huge amount of resources for restriction, rehabilitation and relief to make modern, prosperous and just Nepal and to address the ambitious expectation of the people. For this purpose government need a huge amount of resources. In this regards, income tax can be major source of government revenue.
-) Taxation is the powerful instrument for mobilizing the internal sources of any country whether it is undeveloped, underdeveloped or developed one. So, a study on effectiveness of income tax collection and its role in total tax revenues is must.
-) This study is only concentrated to income tax related issues.
-) This study will be an attempt to explore potential rooms for additional source mobilization through internal sources with special focus on income tax.

1.6 Limitations of the Study.

The present study is not free from the limitations .The limitations of the study are as follows:

-) Basically, secondary data is used in this study.
-) The study has covered data only between fiscal year 2061/062 to 2068/069
-) This study mainly concerted in come tax collection system only.
-) The unavailability of up to date data on various aspects of income tax also has limited the study.

1.7 Organization of the Study

This study is divided into five chapters. The chapters are included following contents:

Chapter-I: Introduction

The first chapter is about introduction regarding economic background of Nepal, history of income tax in Nepal, introduction of Inland Revenue department, focus of the study, statement of the problem, objective of the study, significance of the study, limitations of the study and organization of the study.

Chapter- II: Conceptual Frame Work and Review of Literature

Second chapter is about the conceptual framework and review of literature. Concept of tax, income tax, income tax related existing laws and review of literature through different relevant books, articles, reports and thesis are mainly described in this part.

Chapter- III: Research Methodology

Third chapter is concerned with research methodology of this study which includes research design, types of data used, source of data, data collection technique, data analyzing tools.

Chapter- IV: Data Presentation and Analysis

Forth chapter of this research report is mainly focused on primary as well as secondary data presentation and analysis and describing major findings of this study from Primary and secondary data separately.

Chapter-V: Summary, Conclusion and Recommendation

Fifth chapter deals with summary, conclusion and recommendation.

CHAPTER-II

CONCEPTUAL FRAME WORK AND REVIEW OF LITERATURE

After topic selection, the next step of researcher is to develop concepts and ideas about the selected topic by reviewing all the relevant materials. In fact review of literature begins with a search for a suitable topic and continues throughout the duration of the research work. For achieving the objectives of this research following review are made:

2.1 Conceptual and Theoretical Review

Conceptual and theoretical Review of this thesis part is mainly concerned to describe the content of tax and tax related phenomena .It includes introduction of tax, types of tax, tax laws and policies and other tax related terms.

A government requires sufficient resources to carryout development plans, handle day to day administration, maintain peace and security and launch other public welfare activities. The government collects the required resources mainly from two sources: Debt and Revenues. The debt can be collected either from internal or external sources. The Internal debt is collected within the country while external debt is collected from outside the country. The debt financing of the government is known as deficit financing. The revenues on the other hand, come basically from two sources: tax and non tax. On tax resources includes different revenues like gifts, grants, revenues from public enterprises, administrative revenues such as registration fees, fines and penalties .Total Revenue is a part of GDP .Total revenues is the income that is gained by the governments because of taxation of the people. Tax sources include custom duty, Excise duty, VAT, Income tax.

2.1.1 Meaning of Tax

In general, tax can be defined as a levy or other charge of financial charge fee imposed by state or central government on legal entities or individual's .It is compulsory levy from individuals, households and firms to central or local government. It is a kind of money of which it is the legal duty of every citizen of country to pay honestly. It may be levied on income, Property and even at the time of purchasing a commodity. Tax is computed and paid as prescribed in the law. If a person defies the tax payment he may be punished in the court of law. A tax payer is not entitled to compel the government while paying taxes, to give something to him in return of the amount he has paid. Taxation can be considered as a convenient method of raising revenues which in turn is linked with the welfare of the people directly or indirectly.

According to Adam Smith -"A contribution from citizens for the support of the state." According to Prof. Seligman -" A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred." (Bhattarai and Koirala 2068)

In Conclusion

Tax is not a voluntary contribution by the tax payers but it is compulsory in nature.

-) Those failing to pay taxes are subject to punishment.
-) It is spent for common interest of the people.
-) Who pays tax does not get corresponding benefits from the government.
-) It is collected from haves and spent for the interest of have-nots in the society.

In conclusion, Tax is permanent instrument of collecting revenues for the government in the developed countries and is appearing as an important source of revenue in the developing countries as well. In short word, Tax is a compulsory contribution from a person to the government without any direct benefits.

Classification of Tax:

On the basis of shifting of burden, tax can be classified into two broad categories direct and indirect tax. This is the most common and popular classification of tax.

Direct Tax

A direct tax is a form of tax paid by a person on whom it is legally imposed. Direct tax is collect directly by the government from the person who bears the tax burden. Tax payers need to file tax returns directly to the government .Therefore direct tax cannot be shifted the same person on income and property. In short word, direct tax is a tax really paid by the person on when it is legally imposed.

Indirect Tax

An indirect tax is form of tax imposed on one person but partly or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform functions associated with filing tax returns. Hence, Indirect tax can be shifted. In indirect tax, the impact and incidence of tax are on different persons. In other words, the person paying and bearing the tax is different. It is the tax on consumption or expenditure imposed on one person but paid partly or wholly by another. (Bhattarai and Koirala 2068)

2.1.2 Objectives of Taxation

Tax is a permanent instrument of collecting revenues for the government. It is a major source of revenue in the developed countries and is appearing as important sources of revenue in the developing countries as well. It has become an instrument of social and economic policy for the government. The main objectives of taxation are:

Regulating the Economy

The government not only raises public revenue through taxation but also imposes restrictions on the use of certain goods. The government can impose excise duty on tobacco, liquor etc. to restrict the consumption of harmful goods. The government also raises revenues through import and export duties but their specific objectives are otherwise. Import duties are levied to restrict imports of those goods which may harm the local industries and therefore help the country's international balance of payments and protect industries from overseas competition. Export duties may be levied to restrict the export of those goods which are required within the country. Similarly, taxes can collect for externalities and other forms of market failure (such as monopoly). In this way, the government regulates the economy in accordance with the needs of the country.

Raising More Revenues

The fundamental objectives of taxation are to finance government expenditure. The government collects resources by imposing taxes. So, raising more and more revenues to meet the ever increasing government expenditure has become an important objective of taxation.

Redistributing Wealth for The Common Good

Tax collected by the government is spent for carrying out various welfare activities. In this way, the wealth of the rich is redistributed to the whole community. Tax helps in redistributing wealth in the country.

Preventing concentration of wealth in a few hands

Tax is imposed on persons according to their income level. High earners are imposed high tax through progressive tax system. It prevents wealth from being concentrated in a few hands of the rich and hence narrows down the gap between the rich and the poor.

Boosting Up the Economy

Tax serves as an instrument for promoting economic growth, stability and efficiency. The government controls or expands the economic activities of the country by providing various concessions, rebates and other facilities. Low rate of taxation during a business depression will accelerate more income to the people and help in raising demand and thus revive business activity. On the contrary, high rates of taxes may be useful to check inflationary pressure on prices. Tax policy may be used as a regulatory mechanics to achieve price stability, check business booms and depression.

Reducing Unemployment Problem

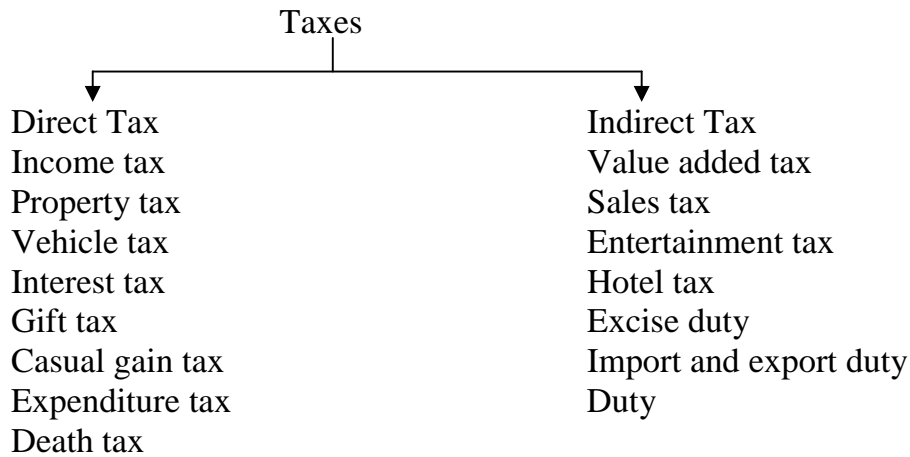
The government can reduce the unemployment problem in the country by promoting various employment generating activities. Industries established in remote parts or industries providing more employment are given more facilities. As a result, the unemployment problem can be reduced to a great extent through liberal tax policy.

Removing Regional Disparities

Regional disparity has become a chronic problem to the developing countries like Nepal. Tax is the one of the ways through which regional disparities can be minimized. The government provides tax exemptions or concessions for industries established or activities carried out in backward areas. This will help increase economic activities in those areas and ultimately regional disparity reduces to minimum. (Bhattarai and Koirala, 2068)

2.1.3 Classification of Tax.

On the basis of shifting of burden, tax can be classified into two broad categories: direct and indirect tax. This is the most common and popular classification of tax.



2.1.4 An overview of Income Tax Act, 2058 (As amended by finance act, 2065)

Income tax was imposed in Nepal by the first parliamentary government in 1959. In 1962, Income tax act 1962 was entered which replaced business, profit and remuneration tax act, of 1959. The income tax act 1962 was replaced by the income tax act 1974, which was amended for eight times and existed for a period of 28 years. The income tax act, 1974 and all the income tax related provisions made under other special enactment have been repealed and the existing income tax act, 2058 became effective since Chaitra 19, 2058 (1st April, 2002). The act governs all income tax matters. Likewise, this act is applicable throughout Nepal. It is also applicable to residents residing wherever outside Nepal. (www.ird.gov.np)

2.1.4.1 The Special Features of the Income Tax act 2058.

The act has broadened the tax base. The tax rates are spelled out in the act itself and the tax rates and concessions are harmonized on equity grounds

-) A full-fledged self-assessment system is implemented and the presumptive taxation and current year taxation system are strengthened.
-) The scope of discretionary interpretation of the tax administration is drastically reduced ensuring simplicity, uniformity and the transparency. The act has also defined the power and authority of the tax administration.
-) The act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the tax payers from criminal liabilities.

-) The appeal system is further streamlined by making it mandatory for the taxpayers to file an objection with the Inland Revenue Department for administrative review before appealing to the Revenue Tribunal.
(www.ird.gov.np)

2.1.4.2 Income Heads

The act imposes tax on those activities contributing toward the creation of wealth. Wealth is created with the help of labour, capital and capital-labour mixed activities that generate income from employment, investment and business respectively. The act makes broad classification of income encompassing almost all income –earning activities. They are:

-) Employment (an individual’s remuneration income from an employment for an income year)
-) Investment (Profits and gains of a person from conducting an investment for an income year)
-) Business (profits and gains of a person from conducting a business for an income year)
-) Income and gains are ascertained only after deducting the corresponding expenses. The income from each business and investment needs to be calculated separately.(www.ird.gov.np)

2.1.4.3 Taxing Subject: The tax payers on whom income tax is imposed are persons. A person can be a natural person, who is an individual or a couple but includes also a

Proprietorship or it can be an artificial person, i.e. an entity. An entity means a partnership, trust, company and foreign permanent establishment or government body.

-) The act distinguishes between resident and non-resident persons. A resident person is an individual whose normal place of abode is in Nepal and who is present at any time of the year, or who is present at any time of the year, or

who is present in Nepal for 183 days or more, who is an employee of government of Nepal posted abroad at any time during the year.

) A trust is a resident person if it is established Nepal, or has a resident person as a trustee, or is controlled by a resident person. A company resides in Nepal if it is incorporated under the laws of Nepal or has its effective management in Nepal. Partnerships are always resident persons. Permanent establishments are places where a person carries on a business and are subject to tax if they belong to a non-resident person and are situated in Nepal. (www.ird.gov.np)

2.1.4.4 Definition of Related Terms (Terminology) Sec: 2

1. Income:

Income means a person's income from any employment, business or investment. Income tax act classified under three head:

) Income from Employment

) Income from Business

) Income from Investment

2. Income Year (Sec. 2 Ja):

Income year means the period from the start of Shrawan of year to the end of the following year. It has regarded Nepalese fiscal year as an income year:For academic purpose (for the current Batch)

Income year: 2068/069

Assessment Year: 2069/070

3. Company (Sec. 2 Da):

Company means the following company established under the .Following institutions is also treated as company for tax purpose.

i) Corporate body established under the laws for the time being in force.

- ii) Any unincorporated association, committee, institution society or group of persons other than a partnership or a proprietorship firm (whether or not registered) or a trust.
- iii) A partnership firm (whether or not registered under the company laws for the time being in force) that has 20 or more partners, a retirement fund, a co-operative, a unit trust, or a joint ventures.
- iv) Foreign Company
- v) Any foreign institution prescribed by the Director General.

4. Individual (Sec. 2 Wa)

Individual means a natural person and a proprietorship firm whether register or unregistered owned by person if any and a couple making an election as single natural person under sec. 50.

5. Entity (Sec. 2 Bha)

- i. A partnership, trust or company
- ii. A VDC, Municipality and DDC
- iii. The Government of Nepal
- iv. A foreign government or a political sub-division of the foreign government or a public international organization establishment under treaty.
- v. A permanent establishment or an individual or an entity that is not situated in the country in which individual or entity is resident.

6. Resident Person (Sec. 2 Ka-Nga)

Resident person with respect to an income year meant:

(i) In the case of individual

-) An individual whose normal place of abode is in Nepal
-) Who is present in Nepal for 183 or more days in any period of 365 consecutive days

) Who is an employees or an official of the government of Nepal posted abroad at any time during the income year.

(ii) Any Partnership firm.

(iii) In case of trust, a trust that:

) Trust is established in Nepal.

) Trust has a trustee that is a resident person for the income year.

) Is controlled directly or through one or more interpose entities by a person or person one of whom is resident person for the income year.

(iv) In case of a company, Company that:

) Is formed under the laws of Nepal.

) Has its effective management in Nepal during the income year.

(v) Government of Nepal

(vi) A VDC, Municipality and DDC.

(vii) In Case foreign government or a political sub-division of the foreign government, such an entity:

) If it is established under the laws of Nepal.

) Has its effective management in Nepal during the income year.

viii) Any institution or entity established under treaty

(ix) A foreign placement established of a non-resident person situated in Nepal.

7. Partnership (Sec.-2, Ka.Pa)

Partnership means a firm (whether or not registered) that has fewer than 20 partners. However the term does not include a proprietorship firm (whether or not registered) or a joint venture.

8. Exempt Organization (Sec. -2, Dha)

Exempt organization means the following entities registered with Inland Revenue Department as tax exempt entity:

- i) Social, religious, educational or charitable organization of public character registered without having a profit motive.
- ii) An amateur sporting association formed for the purpose of promoting social or sporting amenities not involving the acquisition of gain.
- iii) A political party registered with the election commission.
- iv) VDC, Municipality and DDC.
- v) Nepal Rasta Bank
- vi) The Government of Nepal.

9. Retirement Fund (Sec-2, Gha)

Retirement fund means any entity established and maintained solely for the purpose of accepting and investing retirement fund contribution in order to provide retirement fund payment to individuals who are beneficiaries of the entity or a dependent of such an individual.

- i) Income of approved retirement fund is exempt from tax.
- ii) Income of unapproved retirement fund is taxed at flat rate of 25 %.

10. Retirement Payment (Sec.-2, Nya)

Retirement payment means a payment to:

- i. An individual in the event of the individual retirement
- ii. A dependent of an individual in the event of individual's death.
- iii. Retirement payment in the hand of beneficiary is considered as income from non business chargeable assets (Income from Investment)

) **Retirement payment by an approved fund:**

50 % of total retirement fund	xxxx
Or lump sum amount	Rs. 5, 00,000.00

(Whichever is higher is exempted from tax)

If it is in the form of piece meal/installment .No deduction is allowed, and taxed at 15 % final TDS.

) **Retirement payment of unapproved fund:**

Tax will be imposed on gain at the rate of 5% (final TDS)

Gain = Total Payment – Total Contribution

11. Retirement Contribution (Sec.-2, Cha)

Retirement contribution means a payment to a retirement funds for the provision or future provision payment: Employee provident fund, gratuity fund, Citizen Investment trust are the common forms of retirement fund. Individual is allowed to reduce from his assessable income: a sum of Rs. 3, 00,000 or 1/3 of assessable income or actual contribution (whichever is less).

Note: Contribution to unapproved retirement fund is not slowed for deduction.

12. Trading Stock (Sec.-2, Ka-ta)

Trading stock means assets owned by a person that are indebted to be sold in the ordinary courses of business conducted by the person, work in person, work in progress on such assets and inventoried materials to be incorporated into such assets. However the term does not include foreign currency assets. Stock of rice of a rice mill is an example of trading stock.

13. Business Assets (Sec.-2, Ka-ta)

Business assets mean an assets to the extent to which it is used in a business. However, it excludes trading stock and depreciable assets of a business. A piece of land used in business is an example of business assets.

14. Depreciable Assets (Sec. -2,Ka .Ra)

Depreciable assets means an assets to the extent to which it is used in the production of income from business or investment and that is likely to lose value because of wear ,tear, obsolescence or passing of time .However ,the term does not include trading stocks.

15. Non Business Chargeable assets (Sec. -2,Da)

Non business chargeable assets mean securities or an interest in an entity as well as land and building .However it excludes the following assets:

-) Business assets, depreciable assets or trading stock.
-) A private residential house of an individual that has been owned by continuously for at least three year and resided for a total period of at least three year either continuously or intermittently.
-) Interest in a retirement fund of a beneficiary.
-) A private residential house and land of an individual that is disposed in less than 30 Lakhs rupees.
-) Non Business assets of an individual that is disposed of by way of any type of transfer other than the sale and purchase made within three generation.

16. Withholding Agent (Sec. 2 Ka)

Withholding agent means a person required to withhold tax at the time of payment for employment, Investment, Return, Service fees or contract.

17. Final Withholding Payment (Sec. 2 Ga)

Final with holding payment means a payment of dividend, rent, gains, interest and payment made to non-resident person to make after withholding final tax.

18. Withholdee (Sec. -2,Na)

Withholdee means a person receiving or entitled to receive a payment for employment, investment, return service fees and contract from which tax is required to be withheld.

19. Adjusted Taxable Income

Adjusted taxable income of a person for an income year is the taxable income without reducing donation (sec.-12) and without deduction of pollution control cost (sec-17) and Research & Develoment cost (sec-18) (Bhattarai and Koirala, 2068)

2.1.4.5 Income heads or Source of Income

The act imposes tax on those activities contributing toward the creation of wealth or income .Wealth is created with the help of labour, capital and labour capital activities. The income created by those activities is known as income from employment, investment and business respectively. The act has made a board classification of income encompassing of all income earning activities (sec. 5) .They are the broad heads or sources of income.

(A) Income from Employment

Employment is contract between two parties one being the employer and the other being the employee. An employer is a person or institution that hires employees or workers to gift mental or physical services against a regular payment of salary, wages and other benefits. The employer has the power or right to control and direct the employee in the material details of how the work is to be performed. An employee, on other hand, is a person in the service of another under any contract. The employee provides services on a regular basis to the employer and in return gets certain amounts or benefits.

Specially, an employee is any person hired by an employer to do a specific job. Among a three income generating activities labour, Capital and mixed of labor

capital, employment is concerned with labour activities. Income tax act, 2058 has not given specific definition of employment .But it has used the term broadly to include past, present or prospective employment.

Income from employment is basically remuneration received or accrued periodically for service rendered as a result of expressed or implied contract. It is the payment or benefits received either in cash or kind from the employer or his associate in exchange of labour service. It is the remuneration from the employment of individuals. It includes all types of remuneration received from employment, such as salary, fees ,wages ,overtime pay ,holiday pay, bonuses, commissions, tips, gratuities or other non-monetary benefits (i.e. vehicle facility, quarter facility).From tax perspective, the employment income can be defined in terms of whatever compensation an employee receives for a service that the government will tax.

Amount included in Remuneration:

All the amounts or benefits received in connection with employment are taxable. As per section 8(2), an employee’s income from employment includes the following payments made during the year:

-) Payments of wages, salary, leave pay, fees, commissions, prizes, gifts, bonuses and other facilities.
-) Payments of any personal allowance including any cost of living subsistence, rent, entertainment and transportation allowance.
-) Payments providing any discharge or reimbursement of costs incurred by the individual or an associate of the individual.
-) Payments for the individual’s agreements to any conditions of the employment.
-) Payment for redundancy or loss or termination of the employment.
-) Retirement contributions (i.e. provident fund, gratuity etc.) including those paid by the employer to a retirement fund in respect of the employee and retirement payments;

-) Other payments made in respect of the employment.
-) Other quantified perquisites:
 -) Availability of motor vehicle wholly or partly for private purpose
 -) 0.5% of salary in case of employees.
 -) 1% of market value of vehicle in case of other (i.e. consultant).

Note: It is important to note that the vehicle includes motor, car, jeep or similar other motor vehicle. This means motor cycle, cycle, joint bus facilities do not fall under the definition of motor vehicle facility. Similarly, the use of vehicle only to come office and back home has been treated as a partial use. When a characterized amount for motor vehicle facility is included in the employee's income, any fuel expenses, driver's salary and repair expenses borne by the employer in respect of the motor vehicle will not be taken into consideration as per a circular issued by IRD on 28 shrawan, 2059.

-) Provision of house to employees
 -) 2 % of salary in case of employees.
 -) 25 % of actual rent (in case of leased building) or prevailing rate (in case of own building) in case of other (i.e. consultant).
-) Payment consisting of the provision of following facilities ,the amount of expenses incurred by the employer in making the provision as reduced by any contribution made by the employer towards the provision.
 -) The services of a house keeper, chauffeur (driver), gardener or other domestic assistant.
 -) Any meal, refreshment or entertainment.
 -) Drinking water, electricity, telephone and the like utilities in respect or the employee's place of residence.
 -) In case where the interest paid by the employee during the year under the loan is lower than the interest to be paid as per the prevailing interest rate, the amount to the extent it is lower.

Amounts excluded from Remuneration

Following income are excluded in calculating the employment income of an employee:

-) Amounts exempt from tax under section 10.
-) Final withholding payments under section 92.
-) Meals and refreshments provided to employees at business premises/work site if provided to all employees under equal terms section 8 (3).
-) Settlement by or reimbursement of an employee of expenses incurred solely for the purpose of business section 8 (3).
-) Payments by the employer for petty expenses relating to tea expenses , stationeries , tips, prizes and emergency medical treatment up to Rs. 500 at a time whose accounting is not practical or administratively difficult section 8 (3).
-) Other amounts: As per a notification issued by IRD on 5 July 2002 and also as per rule 20(6) ,all amounts exempt from tax under ITA, 2031 which accrued prior to the act coming into force will remain exempt from tax even if payment is made after chaitra 18,2058.So following amounts are exempted from tax:
 -) Encashment of unveiled (accumulated) leave accrued before chaitra 19, 2058.
 -) Payment up to Rs. 1, 80,000 as medical expenses at the time of retirement to employees who were in employment when the act came into force.
 -) Provident fund including interest accrued before chaitra 19, 2058.However, the interest earned on the exempt amount after chaitra 18, 2058 will be taxable.
 -) Gratuity accrued before Chaitra 19, 2058.
 -) Amounts deposited with CIT including interest accrued before chaitra 19, 2058.However the interest earned on the exempt amount after chaitra 18, 2058 will be taxable. (www.ird.gov.np)

Allowable Reductions from Employment Income:

Following payments are allowed for reduction from the total assessable income of individuals:

i) Retirement contribution to an approved retirement fund(sec. 63)

Under section 63, Contributions to an approved retirement fund, subject to a capping threshold, set out in the income tax rules, 2059, will be deductible for the income tax purpose. The limit prescribed by rule 21, in an income year is Rs. 3,00,000 or one third of assessable income whichever is less.

ii) Donation Given to Approve Exempt Organization

Donation given to approve exempt organization is deductible up to a maximum of Rs. 1, 00,000 or 5% of adjusted taxable income (after deducting contribution to approved retirement fund). However, the government of Nepal may prescribe, by a notification in the Nepal gazette, as to allow full or partial deduction of the expenses at the time of assessing income incurred for special purpose.

iii) Other Reductions (Schedule 1)

In addition to approved reductions, a resident individual may claim following reductions from his total taxable income:

-) Reduction for the insurance premium paid for his life not exceeding Rs. 20,000 per annum.
-) Reduction for remote area exemption up to Rs.50,000 depending upon the location of remote area worked by individuals (Rs. 50,000, Rs. 40,000, Rs. 30,000, Rs. 20,000, and Rs. 10,000 for remote area A, B, C, D and E respectively).
-) Reduction of 25% of basic exemption by individual having pension income.
-) Reduction of 50% of basic exemption by a disabled individual.
-) Reduction of 75% of foreign allowances by a Nepalese diplomat.
-) (www.ird.gov.np)

Medical Tax Credit:

As per section 51(1), a resident individual may claim a tax credit for the medical expenses incurred for his or her treatment. The maximum tax credit that can be adjusted in a year will be Rs. 750 or 15% of the approved medical expenses, whichever is lower. The medical expenses not covered by tax credit can be carried forward to next income year.

Remuneration income calculation format

Computation of assessable income from remuneration of Ms.....for the assessment year.....

Particular	Amounts
Salary & Wages	XXXX
Leave pay & overtime pay	XXXX
Fees	XXXX
Prize and gift related to employment	XXXX
Bonus	XXXX
Allowance:	XXXX
Dearness allowance	
House rent allowance	
Entertainment allowance	
Transportation allowance	
Living allowance	
Local allowance	
City compensatory allowance	
Warden ship allowance	
Proctors allowance	
Education allowance	
Project allowance	
Special allowance	
Chairmanship allowance	
Medical allowance	
Account allowance	

Audit allowance	
Children allowance	
Clothing allowance	
Family allowance	
In charge ship allowance	
Reimbursement of personal expenses	Xxxx
Payment for accepting any condition regarding employment	Xxxx
Other payment made in respect of employment payment	Xxxx
Amount of vehicle facility	Xxxx
Amount related to service related to drinking water, electricity, telephones and other utilities in respects for the payees.	Xxxx
Any meal ,freshmen or entertainment provided by employer	Xxxx
Under payment of interest by employee to employer for loan taken from employer	Xxxx
Other facilities (Housing facilities, repairs facilities to personal house etc.)	xxxx
Assessable income from Employment	xxxx

B) Income from Business:

Generally, business is a commercial activity undertaken with a profit motive. Income tax act 2058 has defined business as an industry ,a trade, a profession or the like isolated transaction with a business character and includes a past ,present or prospective business . By contrast to employment, business is an earning activity typically consisting of not only the provision of labour but of the combined provision of labour and capital.

A person’s income from a business for an income year is the person’s profits and gains from conducting the business for the year. This type of income includes service fees, amount received from the disposal of trading stock and net gain from disposal of business assets. Income from a business can be accounted for either on a cash basis or an accrual basis. The individual has

option to select cash or accrual basis of accounting to account for business income. A company shall always for tax purpose account on an accrual basis.

Amount included in Business Income

A person should include the following amounts while calculating profits and gains from business:

-) Service fees including commission, meeting management or technical service fees.
-) Amount derived from the disposal of trading stock.
-) Net gains from the disposal of business assets or liabilities of the business.
-) Amounts treated as derived in respect of excess depreciation on the disposal of the person's depreciable assets of the business.
-) Gift received by the person in respect of the business.
-) Amount derived as consideration for accepting restriction on the capacity to conduct the business.
-) Amount derived that are effectively connected with the business and that would otherwise be included in calculating the person's income from an investment. For example, rent from a company that owns several flats and operates a rental business .In this case, income from investment is derived but in the form of a business. The company has then derived income from business and not from investment because the income is effectively connected with a business.
-) Other amounts required to be included such as amounts to be included due to change in accounting method, transfer pricing, recovery of bad debts, compensation received etc.

(Income Tax Act, 2058)

Amount Excluded from Business Income:

The following amounts are excluded while calculating income from business:

-) Amount exempt from tax under sections 10, Section 54(dividend payment) and section 69 (dividend payment to controlled entities.)

) Final with holding payments under section 92.

Allowable deductions

a) General deduction (sec. 13)

Basically all actual costs to the extent incurred during the income year, by the person and in the generation of income from business or investment are allowed for deduction.

b) Interest (sec. 14)

The interest incurred during the year for the year for the debt obligation that has been created in the generation of income from business or investment is allowed for deduction to the extent that the debt is used in that year or the debt is used to purchase an asset used in that year or the debt obligation is created in any other conditions. An exempt-controlled resident entity paying interest to the controlling person or associated persons is allowed for deduction to the extent of the sum of the following:

All interest incomes that are to be included in the entity's taxable income and 50 % of the entity's adjusted taxable income for the year calculated without including any interest income and deducting any interest expenses.

The portion of the interest not deducted during the year because of the above limitation can be carried forward to next income year. For this purpose, the controlling entities are the following entities which own or control the resident entities except government of Nepal to the extent of 25% or more at any time during the income year.

) Tax exempt organization or its associated person.

) Person or its associate getting business concessions under section 11 of income tax act, 2058.

) Nonresident person or associates of nonresident persons.

) Any combination of above.

c) Cost of Trading Stock (sec. 15)

Trading stock are goods held for resale purpose .Trading stock includes raw materials, work in progress and finished goods. But it does not include stock in foreign currencies. The cost of trading stock is derived as follows:

Cost of opening stock	xxxx
Add: Purchase or produced during the year	xxxx
Less: Cost of closing stock	(xxxx)
Cost of trading stock	xxxx

The closing stock of previous year will be the opening stock for this year. Closing stock is valued at cost price or market price whichever is lower .The person keeping accounts on a cash basis can adopt either the prime cost or factory cost as basis for the valuation of trading stocks while the person keeping accounts on an accrual basis must adopt factory cost basis for the valuation of trading stocks. If actual cost could not be derived for particular trading stock; either FIFO or weight average cost method can be used. Once a method is selected, it cannot be changed without the written approval of Inland Revenue Department. The prime cost is derived as follows:

Cost of raw material consumed	xxxx
Direct labour cost	xxxx
Variable factory expenses	xxxx
Prime Cost	xxx

The factory cost is derived as follows:

Cost of raw material consumed	xxxx
Direct labour cost	xxxx
Factory overhead (Fixed + Variable)	xxxx
Factory Cost	xxxx

However, the variable factory overhead in prime costing and factory overhead in factory costing must exclude the repair and improvement cost and depreciation.

d) Repair and improvement cost (sec. 16)

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

e) Pollution Control Cost (sec. 17)

Pollution control cost means cost incurred by a person with respect to a process or an assets that seeks to control pollution or otherwise protect or sustain the environment .Though these costs are of capital nature are allowed for deduction for income tax purpose. Actual pollution control cost or 50% of adjusted taxable income from all business whichever is lower is allowed for deduction .The portion of pollution control cost not allowed as deduction is capitalized at the beginning of the next income year under block 'D'.

f) Research and Development Cost (sec. 18)

R & D cost means cost incurred by a person for the purpose of developing the person's business and improving business products or process .However ,it does not include cost in respect of natural resources prospecting ,exploration and development incurred by a persons in the production of the person's income from a business ,which is treated as an outgoing for an assets used by the person in that production .Although R&D costs are of capital nature are allowed for deduction for income tax purpose. The actual R&D cost or 50% of adjusted taxable income from all business, whichever is lower is allowed for deduction. The portion of Research and Development cost not allowed as deduction is capitalized at the beginning of next income year under block D.

g) Depreciation Allowance (Sec. 19)

Depreciation is the depletion in the value of depreciable assets used in the business and investment by wear and tear, obsolescence, or the passing of time .Depreciation is allowed for deduction on used depreciable assets have been classified into five blocks. The block wise details and rate of depreciation are given in the following table:

Block	Nature of Assets	Depreciation Rate (%)
A	Building, Structures, and similar works of a permanent nature.	5
B	Computers, data processing equipments, furniture, fixtures and office equipments.	25
C	Automobiles, Bus and mini –Bus	20
D	Construction and earth moving equipments, unabsorbed pollution control cost and R&D cost and any tangible assets not included in above blocks (plant and Machinery etc.)	15
E	Intangible assets (Patent, Copy rights, trade marks, software etc.)	Cost/(life rounded down to the nearest half)

Format for computation of depreciation base for the year

Opening depreciation Base	xxxx
Add: Absorbed addition of assets (purchase)	xxxx
Less: Disposal during the year (CSV)	(xxxx)
Depreciation base for the year (for repair/depreciation	xxxx

Note: Absorbed addition during the year depends on the month of purpose. The details are;

Month of purchase	Absorbed addition	Unabsorbed addition
1 st shrawan to Poush end.	3/3 i.e. 100% fully	Nil
1 st Magh to Chaitra end	2/3	1/3
1 st Baishak to Ashad end.	1/3	2/3

(Income Tax Act, 2058)

During the income year, only the absorbed portion of the addition is considered for calculating depreciation basis. The addition of assets falling under block A, B, C and D is included in respective blocks where as in case of block 'E', each assets is shown in separate block. If the depreciation basis after deducting depreciation during an income year is less than Rs. 2000, the whole amount is allowed as depreciation expenses during the income year. Gain (loss) on disposal of block of depreciable assets is treated as normal gain (loss) of business or investment.

In addition to normal depreciation ,the following entities are allowed one – third additional depreciation of the rate prescribed on the assets falling under blocks A,B,C and D.

- i) Entity engaged in building public infrastructure to transfer to the government of Nepal and any other entity engaged in power generation, transmission or distribution of electricity.
- ii) Entity wholly engaged in operating special industry.
- iii) Entity wholly engaged in operating road, bridge, tunnel, and ropeway or sky bridge construction by the entity.
- iv) Entity wholly engaged in operating trolley bus or trams.
- v) Entity that earned income from export in an income year.

Statement for computation of allowable depreciation and closing depreciation base of the assets for the year.

Depreciation basis for the year	xxx
Less: Depreciation	(xxx)
Balance after depreciation	xxx
Add: Unabsorbed addition of the assets (Including excess repair)	xxx
Closing Depreciation Basis (Opening Dep. Base for next year)	xxx

h) Bad Debts (Sec. 25.2)

Bad debts can be deducted as an expense under the following conditions:

-) If the outstanding loan of bank or financial institution has become a bad debt in accordance with the standards prescribed by Nepal Rasta Bank.
-) In other case, the person receiving payment believes that the amount could not be recovered after taking reasonable steps.

i) Losses from Business (Sec. 20)

A person is allowed to deduct the following losses while calculating income from business for an income year:

-) Any unrecovered loss of the year incurred by the person from any other business and
-) Any unrecovered loss of previous seven income years incurred by the person from any business.

Specimen format for computation of Business Income

Computation of assessable income from Business of M/s.....for the assessment year.....

Particular	Amounts(Rs.)	Total Amount(Rs.)
Service charges	Xxxx	
Sales or disposal of business/Trading stock	Xxxx	
Net gain from the disposal of business assets or liability	Xxxx	
Amount received from the disposal of depreciable assets	Xxxx	
Prizes or gifts received in connection with business	Xxxx	
Amount received in lieu of acceptance of business restriction	Xxxx	

Amount received from any investment directly related to business	Xxxx Xxxx	
Incomes to be adjusted due to change in accounting method	Xxxx Xxxx	
Incomes included under the provision of accounting methods	Xxxx Xxxx	
Excess amount received due to exchange rate variation	Xxxx	
Bad debts recovered		
Proportionate amount received under long term contract		
Under payment of interest due to market rate variation		
Receivable amounts paid to others		
Amount received for compensation		
Other amounts received under the heads business income		
Assessable income from Business(A)		Xxxx
Less: Deductible Expenses		
General deduction	Xxxx	
Interest expenses	Xxxx	
Cost of trading stock	Xxxx	
Repair and maintenance expenses:	Xxxx	
Actual repair expenses	xxxx	
Or 7% of depreciation base for the year	xxxx	
(whichever is lower)		
Depreciation expenses	Xxxx	
Reserve fund for bank and insurance business	Xxxx	
Other expenses as per income tax act ,2058	Xxxx	
Total deductible expenses(B)		Xxxx
Adjusted assessable income from Business(A-B)		Xxxx
Less: Pollution control cost		Xxxx
50% of adjusted assessable income	xxxx	

Or actual paid amount (whichever is lower) Less: Research and development expenses 50 % of adjusted assessable income from business xxxx Or actual R&D cost xxxx (whichever is lower)	xxxx		
Net assessable income from business before carry forward of losses Less: Carry forward of losses Loss from other business in current year Previous year cumulative loss(previous 7 years)			xxxx Xxxx xxxx
Net assessable income from business			xxxx

(C)Income from Investment:

Generally an investment refers to purchase of an assets or item with the hope that it will generate income or appreciate in future. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in future to create wealth. In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at higher prices. Income tax act 2058 has defined investment as an act of holding or investing one or more assets .But, it excludes the act of holding of assets for personal use by the person owning the assets and employment or business. However, the act of holding non-business chargeable asset by the person for personal use is considered as an investment.

Income from investment refers to incomes generated from the capital-related activities .It is, in fact, a residual income, which is computed only after computing business and employment income. A person's income form an investment for an income year is the person's profits and gains from conducting the investment for the year.

Amounts included in Investment in Investment

A person's profit and gains from an investment for an income year include the following amounts derived by the person during the year:

-) Any dividend, interest, natural resource payment, rent, royalty, gain from investment insurance, gain from an unapproved retirement fund, interest and retirement payment made by an approved retirement fund.
-) Net gains from the disposal of non-business chargeable assets of the investments.
-) Amount treated as dividend in respect of excess depreciation on the disposal of the person's depreciable assets of the investment;
-) Gifts received in respect of the investment.
-) Amount derived as consideration for accepting restriction on the capacity to conduct the investment and
-) Other amount required to be included as a result of tax accounting or quantification or as specified by the act.

Amounts Excluded from Investment Income

Following amounts are excluded in calculating income from investment:

-) Amounts exempted from tax under section 10, dividends under section 54 and section 69 and final withholding payments as per section 92 and
-) Amount that are to be included in the person's income from employment or business.

Specimen format for calculation of Income from Investment

Computation of assessable income from investment of M/s.....for the assessment year.

Particular	Amounts(Rs.)	TotalAmount (Rs.)
Interest on private money lending	XXXX	
Rent from Utensils	XXXX	
Dividend from foreign country	XXXX	
Dividend(not related to resident)	XXXX	
Gain from insurance investment(payment made by non-resident)	XXXX XXXX	
Interest on investment	XXXX	
Rent income (except natural person)	XXXX	
Income from royalty	XXXX	
Amount received in respect of unapproved retirement fund paid by non-resident	XXXX XXXX	
Receipts in respect of natural resource	XXXX	
Amount received from the disposal of depreciable assets	XXXX	
Gift received in respect of investment	XXXX	
Amount received as consideration for accepting a restriction on investment	XXXX XXXX	
Income including under investment income due to change in accounting method	XXXX XXXX	
Excess payment received due to evaluation of currency		
Recovery of bad debts(related with investment)	XXXX	
Under paid amount of interest in comparison to market rate		
Receivable amount paid to other	XXXX	
Income received form joint investment (Proportionate amount on the basis of investment ratio)		
Amount received form compensation the amount to be included		

under investment income		
Total assessable income from investment(A)		xxxx
Less : Deductable expenses		
Interest expenses	Xxxx	
Repair and improvement expenses	Xxxx	
Depreciation expenses	Xxxx	
	xxxx	
Expenses related with investment		
Total Deductable expenses(B)		xxxx
Assessable Income before carry forward of loss(A-B)		xxxx
Less: Loss in business(current year)	Xxxx	
Less : loss in investment(current year)	Xxxx	
Less: loss in investment (previous year)	Xxxx	
Less: carry forward of loss previous year(Business)	Xxxx	xxxx
Net assessable income from Investment		xxxx

Income Tax and Tax Liability Calculation Format Statement of Total Taxable Income

Particular	Amount(Rs.)	Total Amount (Rs.)
Net assessable income from Employment	Xxxx	
Net assessable income from Business	Xxxx	
Net assessable income from Profession	Xxxx	
Net assessable income from Investment	xxxx	
Total assessable income		xxxx
Less: Contribution to retirement fund		Xxxx
1/3 of total assessable income	xxxx	
Or actual contribution	xxxx	
Or Maximum Rs. 3,00,000 (whichever is lower)		
Less: Donation		xxxx
5% of adjusted taxable income	xxxx	
Or actual donated amount	xxxx	
Or Maximum Rs. 1,00,000 (whichever is lower)		
Total taxable income		xxxx

Note: Donation given by a company for the work of promoting and protecting religious, cultural and ancient heritage and building of public physical infrastructure for promoting sports activities In the society is allowed: 10% of total assessable income or actual donation paid or maximum Rs. 10,00,000 whichever is less.

1. Tax Rates

2. Total taxable income of a resident individual for an income year 2069/70 will be taxed at following rates:
3. Up to Rs. 2, 00,000(for a Single) - @ 1 %
4. From Rs. 2, 00,000 up to Rs. 3, 00,000 - @ 15% plus Rs. 2,000

5. Above Rs. 3, 00,000- @25% plus Rs. 17,000
6. Taxable income of a couple ,if they choose to be treated as a couple will be taxed at the following rate:
7. Up to Rs.2, 50,000 - 1%
8. From Rs. 2,50,000 up to Rs. 3,50,000 - @15% plus Rs. 2,500
9. Above Rs. 3, 50,000- @25% plus Rs. 17,500
10. The business person who have registered own proprietary firm should not pay above 1% tax.
11. Any individual and couple having pension income can enjoy 25% of the normal exemption limit as an additional basic assumption.
12. Any individual working in prescribed remote area is entitled to deduct prescribed amount as remote area allowance from taxable income.
13. Any individual is entitled to deduct the following amount from taxable amount if he is having investment insurance policy:
 - a. Rs. 20,000 or the actual premium paid (Which ever is less)
14. For the purpose of the act, net gain from the disposal of non-business chargeable assets will be taxed at the rate of 10%.
15. The presumptive tax for individuals conduction small business (who have a turnover of Rs. 2 Million or an income of Rs. 2,00,000) in the metropolitan or sub-metropolitans ,municipalities and where else in Nepal amounts to Rs. 3,500, Rs. 2,000 and Rs. 1,250 respectively.
16. The taxable income of non-resident individual is taxed at the rate of 25 %.
17. The taxable income of an entity will be taxed at the rate of 25% unless pre-scribed otherwise.
18. Taxable income of a bank or financial institution, or general insurance business or an entity conducting petroleum work under petroleum act 2040 for an income year is taxed at the rate of 30%.
19. Gain from lump sum retirement payment made by an approved retirement fund or GON is taxed at the rate of 5% as a final withholding

- payment tax. Gain is calculated by deducting 50% of the payment or Rs. 5, 00,000 which ever is higher from the total lump sum payment.
20. The taxable income derived by an individual from special industry or export business will be taxed at the rate of 20%.
 21. Taxable income derived by an entity engaged in an industrial enterprises or export business or derived from operating any road ,bridge ,tunnel ,rope way or flying bridge ,construction business or any trolley bus or tram manufacturing business is taxed at the rate of 20%.
 22. The taxable income of an entity engaged in power generation, transmission or distribution is taxed at the rate of 20%.
 23. The taxable income of a foreign permanent establishment of a non-resident person situated in Nepal will be taxed at the rate of 10%.
 24. The taxable income of a non-resident person deriving income from providing shipping air transport or Tele-communication services in Nepal will be taxed at the rate of 5%.
 25. The taxable income of an entity wholly engaged in the projects conducted by any entity so as to build public infrastructure ,own operate and transfer it to the NG in power generation transmission or distribution for an income year shall be taxed at the rate of 20%.

(Finance Act 2068)

2.2 Review of Related Studies

While preparing this thesis report, many books, report, article and previous thesis are used as references. So in this chapter I want to describe about tax related books, reports and previous thesis differently.

2.2.1 Review of Books

While reviewing the books, I think that most of the books related to taxation are published for academic purpose i.e. syllabus oriented. But some of them have description of problems, prospects and development of income tax. There are no detailed studies exactly done on the topic “Effectiveness of income tax

collection and its role in total tax revenues of Nepal”. But some books are more important and relevant for this study, which are as follows:

Poudyal and Timilsina (1990) in this book entitled “*Income tax in Nepal*” have described the theoretical as well as practical aspect of income tax .This book is descriptive rather than analytical.

Tiwari (1999) in this book entitled “ *Income Tax System in Nepal*” has describe the legal provision related to income tax .The book has described the process ,provisions and methods to assess the income tax with numerical examples.

Khadka (2001) in this book entitled “*Income Taxation in Nepal Retrospect and Prospects*” has stated that income tax is annually the third largest source of the government revenue producing about 20% of tax revenues. Khadka states that although some attempts have been made in recent time to broaden the average the tax bases it still narrow both legally and administratively covering less than one percent of total population of Nepal.

Kandel (2003) in this book entitled” *Tax Laws and Tax Planning* “has presented various practical and theoretical aspects of taxation with clear and proper logics supported by theoretical explanations and practical problems in the content of changed act, Income tax act, 2058.

Mallik (2003) in this book entitled “*Modern Taxation System in Nepal*” has presented the history of modern income tax periodically from the very beginning to income tax act 2002 with the justification of changes and amendments made in the act and regulation. The author has presented income tax act 2002 in simple and clear crystal manner with suitable examples and explanations where ever necessary.

Aryal and Poudyal (2004) have published a book named “*Taxation in Nepal*”. They have described the theoretical as well as practical aspects of income tax

and VAT. This book is eternally based on B.B.S third year syllabus as prescribed by TU.

Amatya ,Pokhrel and Dahal (2004) wrote a book entitled “ *Taxation in Nepal*” This book is also design to meet the requirement of B.B.B third year syllabus .Theoretical as well as practical aspects of taxation have been included in the book. This book is descriptive only, not analytical.

Khadka (2005) wrote a book entitled “*Modern Tax Administration in Nepal*”. This book is very much useful to anyone who is interested in Nepalese income taxation .This book gives almost complete information about the tax system of Nepal from its ancient time to current situation of income tax system. He has shared his expertise in his book. Basically author focuses on the administrative aspects of the tax system in Nepal.

Adhikari (2060) in his book entitled “ *Modern Taxation in Nepal, Theory and Practice*” has described the legal provision of new income tax act 2058.He has also described the decisions made by supreme court about the income tax and also described the legal provisions with critical analysis.

Bhattarai and Koirala (2068) in this book entitled “*Taxation in Nepal with Tax Laws and Tax Planning*” as a academic books for MBS/MBA has analyzed the legal aspect of income tax with updating financial directions and regulations have presented the legal provision as well as practical aspects related to income tax and VAT.A simplified version of income tax act 2058 are given in summarized form at the end of part A and part C respectively in this book. While studying this book, I fell that this book wants to provide the readers the knowledge of the major provisions of those acts at a glance.

2.2.2 Review of Reports, Articles and Other Research Report.

Different articles, reports and other related research report are used as reference for conducting this thesis work. The main reports are as follows:

Revenue Consultation Committee (2001) has studied entitled “*Overall Taxation Situation the overall taxation situation*” in depth. It highly emphasized to simplify the tax policy to increase voluntary compliance. This report recommended for written communication between tax payer and tax administration rather than the informal relation. This report suggested to wide the income tax base by including all kinds of tax payer and income and to find out the tax payers of new sector. For this, the report suggested making the actions more transparent and clear in order to attract foreign and domestic investors. It was further suggested to increase income tax exemption limit with considering purchasing power and inflation rate.

Adhikari (2003) has discussed the legal provision of new income tax act; 2002. His report is analytical rather than informative. Writer has not included administrative aspect, role and structure of income tax in his book. The book has only focused on the legal aspect of income tax. Agreement and protocol relating to avoidance of double taxation and the prevention of fiscal evasions with respects to taxes on income between different countries had also included in his book.

Pant (2004) has described the problem arise in tax administration and reform in Nepal. He has identified the following problems on tax administration.

-) Low amount record in Transaction.
-) Low amount record in Sales.
-) Lack of the mobilization of experience personnel and tax exports.
-) Ineffective reward and punishment system.
-) Lack of effective co-ordination between Inland Revenue Offices and Revenue Research Unit.

-) License revenue with out tax clearance.
-) Un helpful in tax auditing by assesses.

Tripathi (2005) in his research study entitled” *Contribution of income tax form Public Enterprises to Government Revenue in Nepal*”. The main objective of this study was to analyze the structure of income tax in Nepal to analyze the contribution of income tax in Nepal and to analyze the contribution of tax from public enterprises to government revenue of Nepal. In this study, he suggests that the income tax rules, regulations should be simple for all tax payers.

- i) Do you have any income, which should be tax free? And
- ii) Expenses which should be allowed for deductions?

The responses about the questions were that the promotional expenses, guest hospitality donation, prizes, grants should be allowed for deductions as an expense. About the income from foreign exchange rate grants received, all compensation received should be tax free.

2.2.3 Reviews of Thesis

For this research conduct, previous thesis conducted by other researcher is very useful for me as a reference guideline of thesis work. The thesis which is used as reference for studying on these topics is as follows:

Magar, Palli (2003) presented on dissertation entitled “Income Taxation in Nepal; A case study of its structure and productivity.” He has described the role & structure of income tax, exemptions & deductions provided in the law. He has identified that there was dominated share of tax structure in Nepalese government revenue. Income tax has occupied third position in his study period and it has increasing trend. The tax GDP/ ratio was not found satisfactory with the income tax , there was the dominated role of corporate income tax , there was the dominated role of corporate income tax but it was in decreasing trend and contribution of individual income tax was second position and it was in increasing trend. He has also found that lack of trained employees , shortage of

income tax experts in tax administration, lack of public participation , weakness in government policy, defective income tax act were the major causes for inefficient tax administration.

Bastola (2007) conducted a research entitled “*Role of income tax in National economy and income tax management in Nepal.*”

The main objectives of her thesis work as follows

-) To find out the share of income tax to government revenues
-) To examine the Nepalese income tax structure.
-) To review the trend of income tax collection and tax revenue as well.
-) To identify the factors to increase taxpaying habit of income taxpayers.
-) To identify the problem of income tax management.

The major findings of her study are as follows:

-) Income tax is suitable source of mobilizing internal resources.
-) The major objectives of income tax are to meet the revenue requirement of the governments, promote distribute justice and promote private sector investment.
-) Income tax system in Nepal is not efficient due to inefficient income tax management, inadequate income tax policy and defective income tax at act.
-) Corporate tax rate in Nepal is suitable.
-) Contribution of direct tax and indirect tax to the total tax revenue is 21.9% and 78.1% respectively.
-) Contribution of income tax to GDP is only 2.11%.
-) Contribution of income tax in total tax revenues is in average 19%.

Sapkota (2010) conducted the research work entitled “*Resource Mobilization through income tax in Nepal*”

The main objectives of his research are as follows:

-) Role of income tax in resources mobilization in Nepal.

-) To compute elasticity of income tax in Nepal during the period 1990/91 to 2007/08.
-) To analysis the legal aspect of income tax in Nepal.

The major findings of his research work are as follows:

-) There is poor performance of domestic resource mobilization.
-) Contribution of tax revenue to GDP was 10.1%
-) Contribution of direct tax and indirect tax revenue where 16.75% and 83.24% respectively in final year 1990/91, which contributed 27.1% and 72% in fiscal year 2007/08.

Subedi (2011) conducted the research entitled “Effectiveness of revenue collection from VAT in Nepal”

The Major objectives of his research are as follows:

-) To examine the current situation of VAT implement.
-) To value yearly revenue collection from VAT.
-) To examine current problem for implementation of VAT.
-) To examine to what extent the goals have been achieved.
-) To provide valuable suggestion for better collection of VAT on future.

The major findings of his study are as follows:

-) VAT has been most essential choice as ingredient of TAX.
-) VAT is a PowerPoint attention of many countries.
-) The contribution of VAT revenue to Total revenue is in increasing trend which is beneficial for sound economic development.

-) The share value added tax in the GDP in Nepal is very low with comparison to other countries.

Pradhan (2012) conduct the research work entitled “*Tax Administration & Income tax system in Nepal*”

The Major objectives of the thesis are as follows:

-) To examine the administrative aspects & system of income tax in Nepal.
-) To examine the tax system in Nepal.
-) To identify major problems related to tax administration in Nepal.
-) To provide appropriate suggestions & Recommendation.

The Major finding/conclusions of his thesis are as follows:

-) As per opinion survey most of the respondents have suggested to increase the facilities to pay tax because it motivate to people to pay tax.
-) The most important reason the tax system is not widely used to Nepal is that tax administration is not cooperative, the next most important reason is people are unaware about income tax then it is lengthy and costly and so on.
-) In the conclusion, income tax is the fundamental elements to maximize the practice of tax administration. It can also be said that tax administration can't be imagined without income tax however tax is main source of the government revenue.

2.3 Research Gap

There are so many research work has been done regarding taxation in Nepal. This research work is mainly focused to the income tax. Primary as well as secondary data is used in this study. Opinion survey method is the main technique of collecting primary data for this study. This is my original research work which will prove from description and analyzing style of this research

work. At least this study will be different from the above in terms of data, description area, data presentation and analysis style, research methodology and interpretation style.

CHAPTER-III

RESEARCH METHODOLOGY

This chapter is devoted to the research methodology applied in the study for the achievement of desired objectives. Research methodology refers to the methods/way that are used in conducting research or performing research operations. In other words, research methods are those methods which are used by the researcher during the course of studying his/her research problems. Research methodology is a way to solve the research problem systematically. Secondary as well as primary data is used in this study. Opinion survey technique was developed while collecting the primary data to find out the opinion of respondents representing different groups related to income tax and problems of income tax collection systems. While conducting the opinion survey, 128 questionnaires were distributed to the income taxpayers, administrators, tax experts, accountants, auditors and lawyers etc.

3.1 Research Design

An architect prepares a blue print before he/she approves a construction; an army prepares a strategy before launching an attack. An artist makes a design before he/she executes his/her ideas. So also the researcher makes a plan of his/her study before undertaking the research work.

The study attempted to analyze the effectiveness of income tax collection and its role in total tax revenues of Nepal. The research methodology followed in the study can be termed as analytical research design. Opinion of 90 respondents associated with the income tax administrators, experts and taxpayers are collected through questionnaire. The research method followed in the study can be termed as survey cum analytical research design.

3.2 Population and Sample

Inland Revenue Department is the main regulatory body from part of Government of Nepal regarding Taxation .IRD always deals with Income Tax, VAT, Excise and Import Duties, House and lands Tax and others many taxing areas. But in this research is considered only income tax related data and other aspect of income tax in Nepal. The population of this study comprised all people belonging to income tax in Nepal. Nearly 90 samples from Katmandu valley were taken to fulfill the objectives of this study. The persons included in the sample are carefully selected by consultation with lectures and best judgment of researcher.

3.3 Respondent List

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

Table 3.1
Groups of Respondents and Size of Samples

S. N	Groups of Respondents	Sample Size	No. of Distributed Questionnaire	Percentage
1.	Income Tax Administrators	18	30	20 %
2.	Income Tax Experts	36	60	40 %
3.	Income Tax Payers	36	38	40 %
Total		90	128	100%

The respondents are selected from the lists received from various knowledgeable sources using judgment sample techniques. The respondents

have been divided into following sub-groups to make easy for the selection of the respondents.

Table 3.2
Lists of Respondents

S. N	Types of Respondents	Sample Size
1.	Income Tax Administrators Tax Officers- 12 Tax Inspectors-6	18
2.	Income Tax Experts Economists- 6 Auditors- 8 Accountants- 8 Teachers- 9 Layers- 5	36
3.	Income Tax Payers Commercial -9 Small Business- 8 Industrial- 4 Professional-6 Remuneration Earner-9	36
Total		90

3.3 Sources of Data

Once the purpose of statistical investigation has been defined, the next step is to collect the data, which are relevant for analysis in a meaningful manner. Thus, the collection of data is considered as an integral part of the research activity. The sources of information are generally classified as primary data and secondary data. Primary data is that data which is collected directly from field on the related phenomena. And secondary data is that type of data which is already collected from field by others. The data used in the study is secondary data as well as primary.

The secondary source of data is the information received from books, articles, newspapers, annual reports and dissertations etc. The major source of secondary data is as follows:

-) Annual report published by IRD every year.
-) Economic surveys and budget speeches of various years, Ministry of finance.
-) Publication of CEDA, T.U.
-) Reports and records of department of taxation ministry of finance.
-) Books related to public finance and income tax.
-) Dissertations related to income tax available at central library T.U.

3.4 Data Collection Technique

The data which is useful for finding of the research work is collected directly through IRD. Annual report published by IRD is the main source of secondary data of this research. The technique is to collect secondary data directly from IRD and tax department of finance ministry etc. Many website is used for collecting data regarding income tax in Nepal. For primary data collection, a set of questionnaire was developed and distributed to the selected respondents in order to get accurate and actual information. Additional information was also collected from interview with the respondents.

3.5 Data Analysis Tools

After collecting the research data, an analysis of data and its interpretation of the result are necessary. Analysis of data comes prior to interpretation. The facts and figures collected are to be processed with a view to reducing them to manageable proportions. Collected Primary and secondary data were firstly tabulated into separate formats systematically. The data were tabulated into various tables according to the subject in order. Then simple statistical analysis such as average and percentage were calculated where necessary and they have

been presented and analyzed in descriptive way. Tables, Graph charts and Pie charts are also presented to interpret visually the findings of the study.

3.6 Limitations of the research methodology

There are so many limitations of the research methodology regarding favorable part of data. But from here I can listed the research methodology has the following limitations:

-) Most of the data, information and findings are based on secondary data only.
-) The views of the respondents are collected only in Katmandu Valley.
-) Only 90 respondents are taken as samples from different task areas.
-) Unavailability of complete information regarding income tax.
-) There will come doubt in actual finding because of secondary data is actual or not.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Tax Payer's Registration Situation

To know about tax payer's registration situation, review has been done on PAN Registration tax payers from IRD Annual report. Following table is presented for purpose of describing PAN registration growth rate:

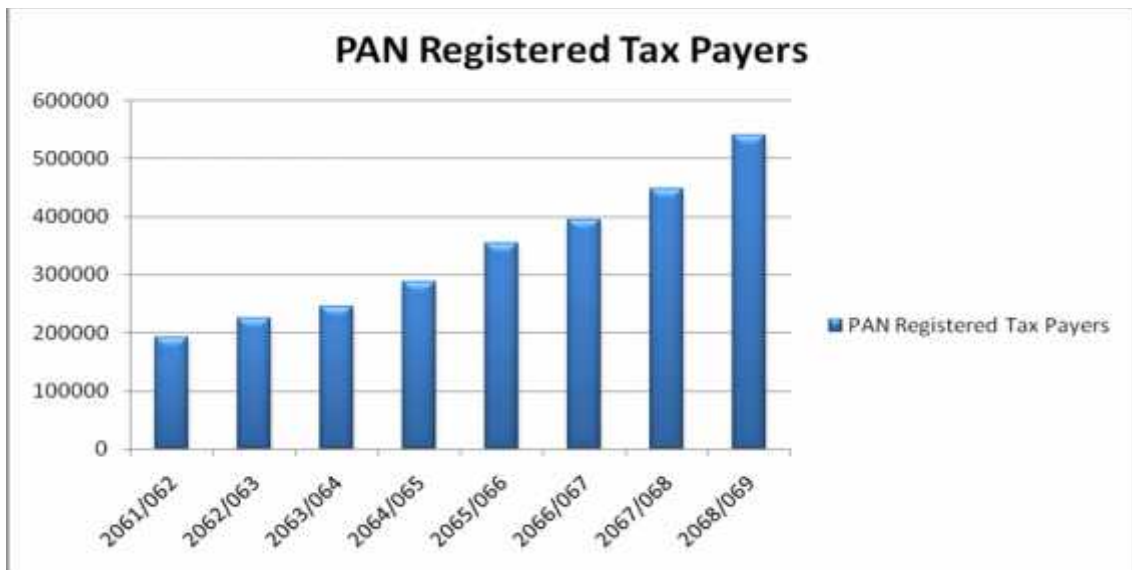
Table 4.1
PAN Registered tax Payers and its growth rate

Income Year	PAN Registered Tax Payers	Growth Rate (%)
2061/062	191156	-
2062/063	225304	18
2063/064	245550	9
2064/065	287233	17
2065/066	353902	23
2066/067	394098	10
2067/068	447669	14
2068/069	541178	21

(IRD Annual Report 2066/67 & 2068/69)

The above table shows that the number of PAN registered tax payers from fiscal year 2061/62 to 2068/69. Higher number of tax payers seems to be the collection of higher amount of tax revenues. According to this table, No of tax payer's in fiscal year 2061/62 is 191156 and it shows that the no of PAN registered tax payers are increasing every year continuously in to 541178 PAN registration in fiscal year 2068/69. Average growth rate of PAN registration is to 16% per year. From this tax payers registration situation analysis through this table it would be said that the tax payers are increasing continuously which is help to collect the higher amount of tax. For simply knowing concern following figure also can presented:

Figure 4.1



4.2 Analysis of Tax Payer's Business Prospect

To know contribution to income tax from different sector, following table can be presented based on IRD annual report 2068/69

Table 4.2

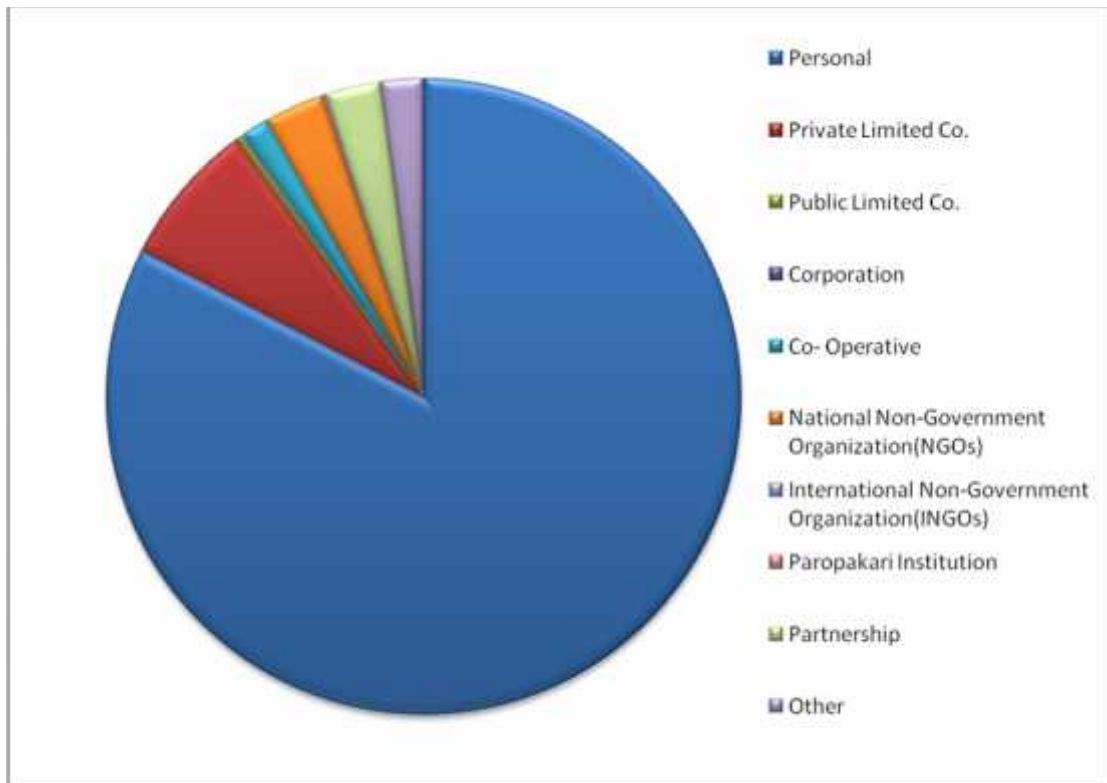
Tax Payer's Business Prospect:

Particular	Total No of Active Tax Payer's	Percentage
Personal	290167	82.58%
Private Limited Co.	26054	7.41%
Public Limited Co.	1046	0.30%
Corporation	227	0.06%
Co- Operative	4946	1.41%
National Non-Government Organization(NGOs)	10796	3.07%
International Non-Government Organization(INGOs)	131	0.04%
Paropakari Institution	428	0.12%
Partnership	9927	2.83%
Other	7648	2.18%
Total	351370	100%

(IRD Annual Report 2068/069)

Figure 4.2

Total No of Active Tax Payer



The above table and figure shows that the combination of taxpayers from different sector. According to data availed from IRD annual report 2068/69 there are total 351370 active tax payers currently in Nepal. Personal individual tax payers are highly activeness shown in this table because of they are in high no. 290167 i.e. 82.58 % out of 100% and also data shows that there are only 131 INGOS are active in tax paying concern 0.04%.

4.3 Cost of Income Tax Collection

To know about how tax collection is effective as compared to tax collection cost. Following table is prepared is showing tax collection cost per thousand.

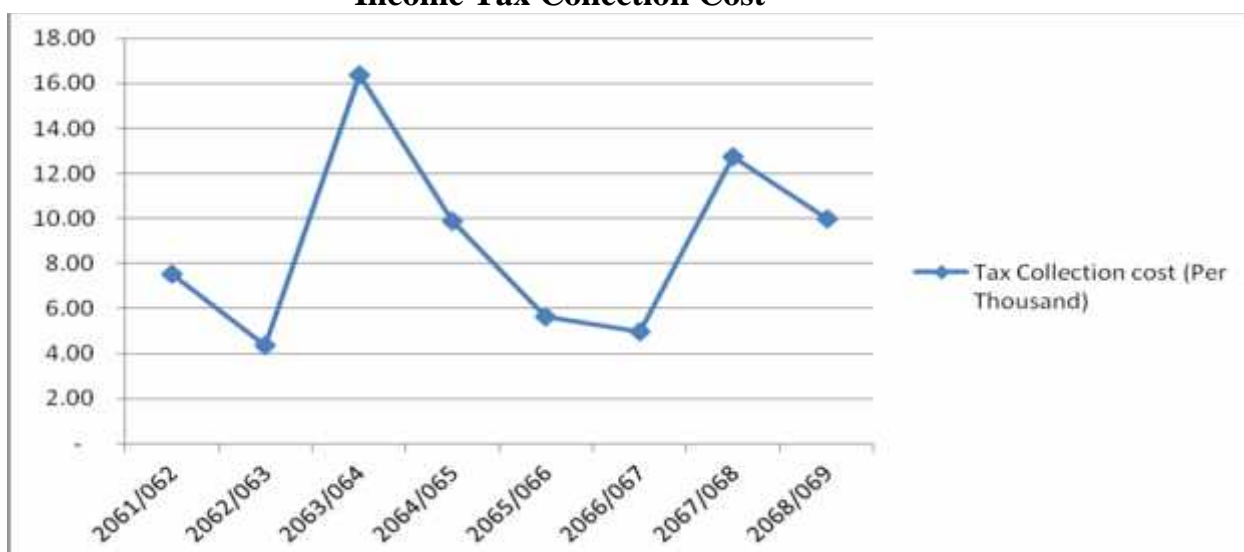
Table 4.3

Year	Income Tax Collection Cost						(RS. In 000)	
	2061/062	2062/063	2063/064	2064/065	2065/066	2066/067	2067/068	2068/069
Total Tax Collection cost	137588	106476	532174	382301	294448	332099	1020360	981173
Tax Collection	18223909	24505345	32488609	38614074	52423097	66609402	80206262	98122883
Tax Collection cost (Per Thousand)	7.55	4.35	16.38	9.90	5.62	4.99	12.72	10.00

(IRD Annual Report 2066/67 & 2068/69)

This above table is presented for describing the relation between total tax collection and tax collection cost .The above table shows the total tax collection, Tax collection total cost and tax collection cost per thousand from fiscal year 2061/62 to 2068/069.According to this data fiscal year 2062/63 is more effective year among these year because tax collection cost of this year is lower then others. From same part fiscal year 2063/64 is not effective compared to others because it has higher tax collection cost per thousand. Higher amount of tax collection seems to be higher contribution of tax revenues in total revenues and lower tax collection cost is Centrum of effective tax collection. For giving more information about tax collection and its collection cost analysis following figure can prepared and presented:

Figure 4.3
Income Tax Collection Cost



4.4 Summary Analysis on role of Tax Revenue in Total Revenue & GDP.

Table 4.4
Contribution of Tax Revenue in Total Revenue and GDP
'Rs. in 000'

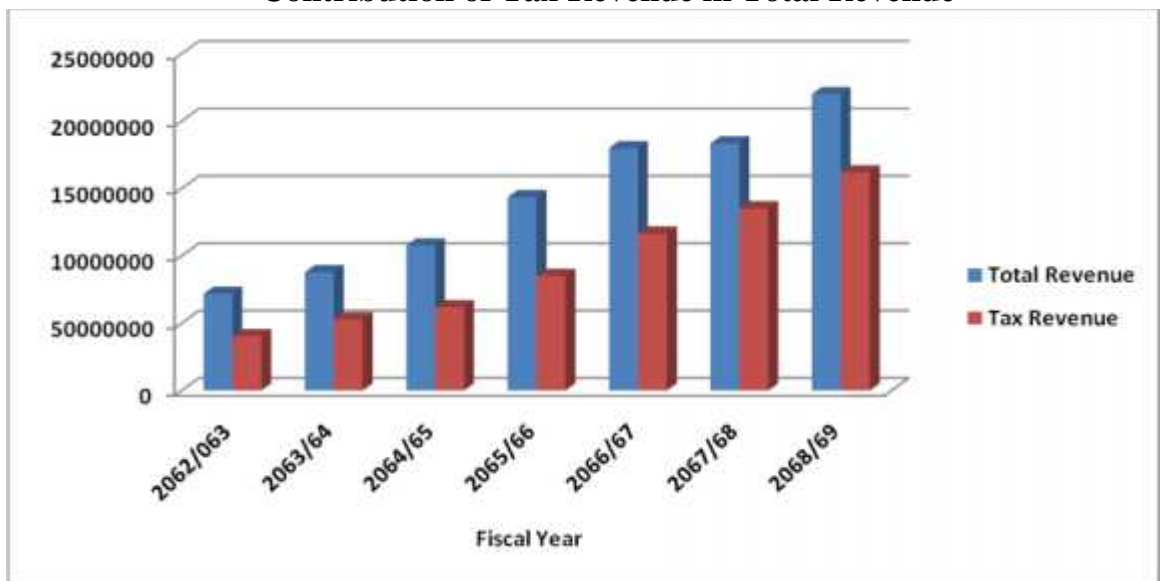
Income Year	2062/063	2063/64	2064/65	2065/66	2066/67	2067/68	2068/69
Gross Domestic Product(GDP)	582950000	670588700	820814000	992012000	1182680100	1231440859	1400995414
Total Revenue	71733127	87711208	107622480	143474489	179945820	183484688	219956280
Non tax Revenue	31376347	34891495	45730343	58329896	63543945	48287627	58120738
Tax Revenue	40356780	52819713	61892137	85144593	116401875	135197061	161835542
Role of Tax Revenue in Total Revenue	56.3%	60.2%	57.5%	59.3%	64.7%	73.7%	73.6%
Role of Tax Revenue in GDP	12.3%	13.1%	13.1%	14.5%	15.2%	14.9%	15.7%

(IRD Annual Report 2066/067 & 2068/069)

The above table is presented for analyzing the role of tax revenues in total revenues and GDP. According to data availed from IRD annual report in an average in Nepal around 64% of the government revenues come from taxation.

Role of tax revenues in GDP is average 14%.The role of tax revenues in total revenue in fiscal year 2062/63,2063/64,2064/65,2065/66,2066/67,2067/68 and 2068/69 is 56.3%,60.2%,57.5%,59.3%,64.7%,73.7% and 73.6% respectively. Same as role of tax revenues in GDP in fiscal year 2062/63, 2063/64, 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 is 12.3%, 13.1%, 13.1%, 14.5%, 15.2%, 14.9%, 15.7% respectively. The following figure can be prepared and presented on behalf of data available in this table:

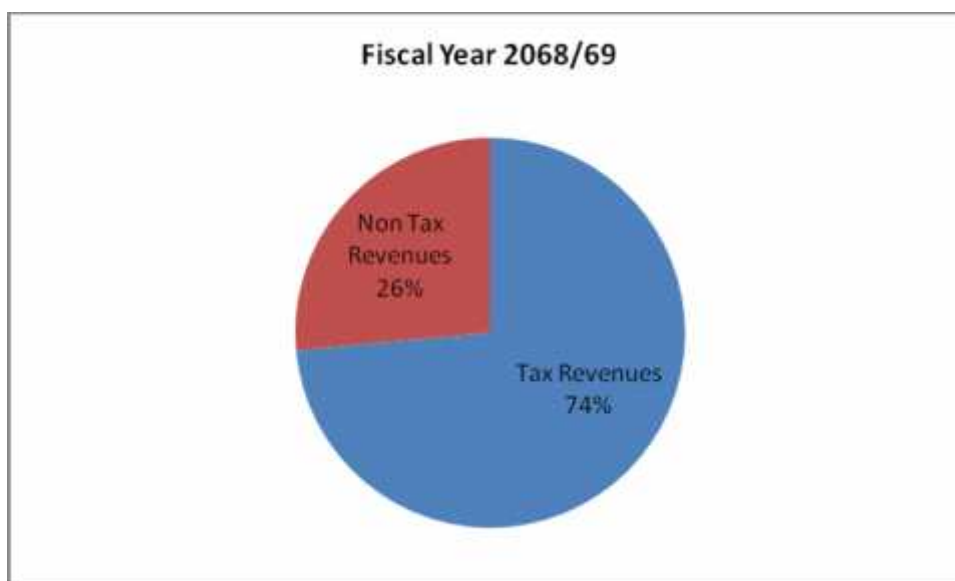
Figure 4.4
Contribution of Tax Revenue in Total Revenue



Contribution of Tax Revenues in Total Revenues in Different Years

To find out the role of tax revenues in total revenues in simple way following pie chart can be presented. This pie-chart is prepared as per data of IRD annual report 2068/69. According to this pie-chart contribution of tax revenues in total revenues is 74% and non tax revenue is 26%. Therefore it means tax is the major source of government revenues.

**Figure 4.5
Role of Tax Revenues in Total Revenues**



4.5 Summary Analysis on Role of Direct Tax in Total Tax Revenues.

To analyze the contribution of direct tax to total tax revenues, following table as presented with showing direct tax, indirect tax and total tax revenues:

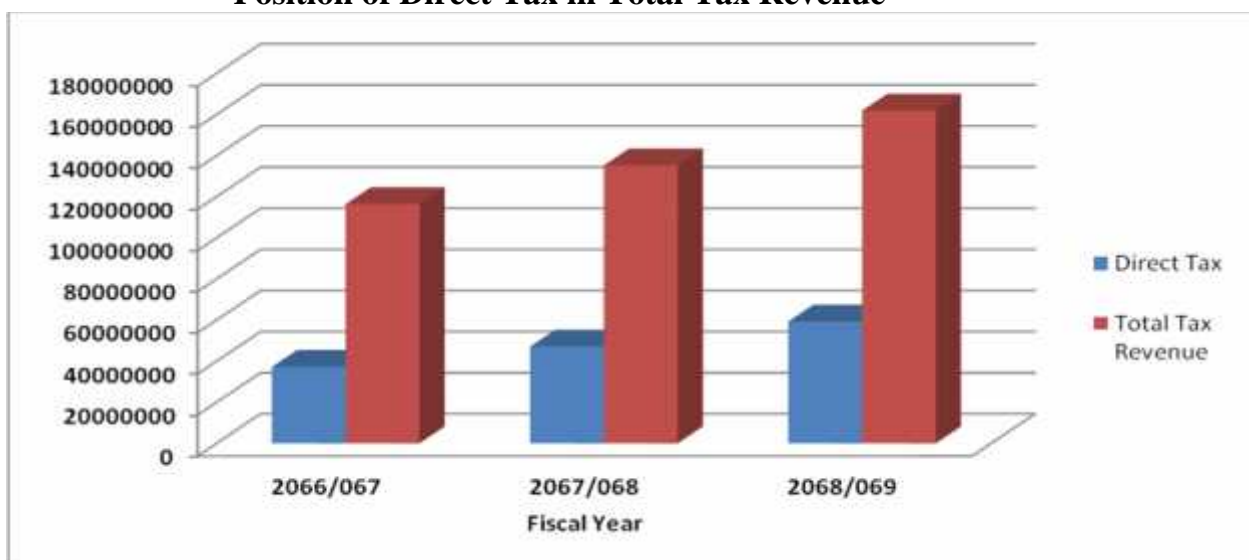
**Table 4.5
Contribution of Direct Tax in Total Tax Revenues
'Rs. in 000'**

Subject\Income Year	2066/067	2067/068	2068/069
Direct Tax	37174912	47045824	59236990
Indirect Tax	79226963	88151237	102598552
Total Tax Revenues	116401875	135197061	161835542
Proportion of Direct Tax	32%	35%	37%
Proportion of Indirect Tax	68%	65%	63%

(IRD Annual Report 2066/67 & 2068/69)

The above table is prepared for analyzing the role of direct tax in total tax revenues. It shows the summary analysis of three fiscal year data. It shows that the tax revenues is continuously growing. The contribution of direct tax is 32%, 35% and 37% in fiscal year 2066/67, 2067/68 and 2068/69 respectively. Forgetting more information through this analysis following figure can be presented:

Figure 4.6
Position of Direct Tax in Total Tax Revenue



4.6 Situation Analysis of Tax Revenue Collection.

To know about the sources of tax revenues and its contribution to total tax revenues, the table is preparing below:

Table 4.6
Tax Revenue Collection In Details

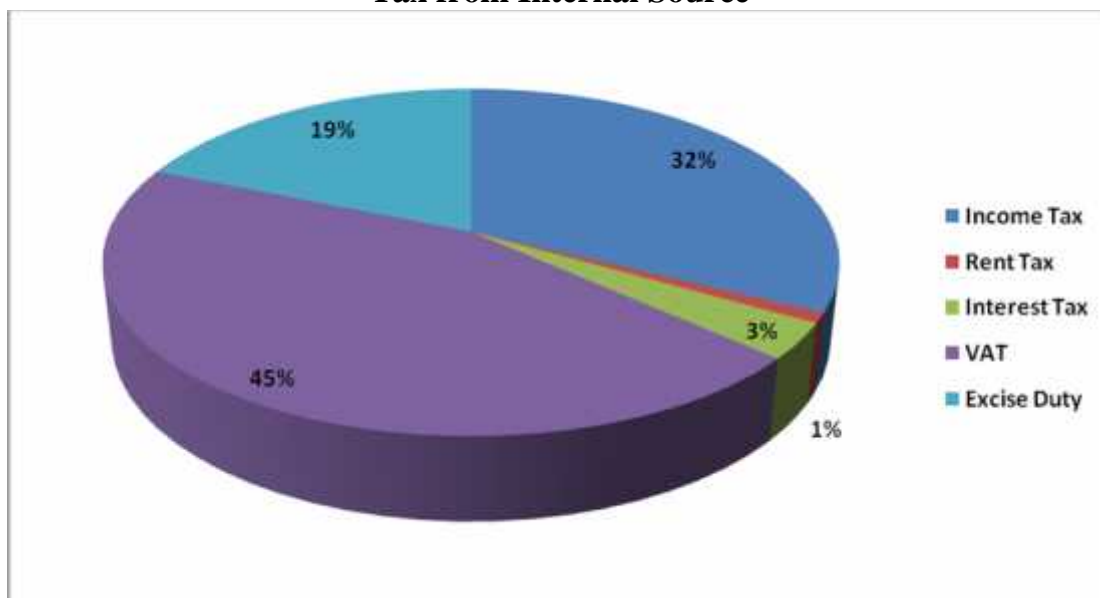
Particular	Tax Collection In Rs. (2068/69)	Proportion of Tax (%)	‘Rs. in 000’	
			Previous year Collection in Rs. (2067/68)	Growth Rate (%)
Income Tax	52333160	32%	41725396	25%
Rent Tax	1527680	1%	1151383	33%
Interest Tax	5376150	3%	4169045	29%
VAT	72188142	45%	61692848	17%
Excise Duty	30410410	19%	26458389	15%
Total	161835542	100.00%	135197061	20%

(IRD annual report 2068/69)

The above table shows that the composition of tax revenues and its growth rate compared to previous year i.e. 2067/68. There is 20% tax revenues were increased rather than previous year. VAT is the main source of tax revenues. In

an average, contribution of VAT in total tax revenues is 45%. With compared to other tax collection position rent tax is very small in figure and its contribution to total tax is also lower i.e 1%. Growth rate of income tax, rent tax, Interest tax, VAT and Excise Duty than previous year is 25%, 33%, 29%, 17% and 15% respectively. Rent tax is highly growing to 33%.

Figure 4.7
Tax from Internal Source



4.7 Analysis of Effectiveness of Income Tax Collection.

To find out the deviation between actual and projected income tax collection, the data from F/Y 2061/062 to 2068/069 is presented below:

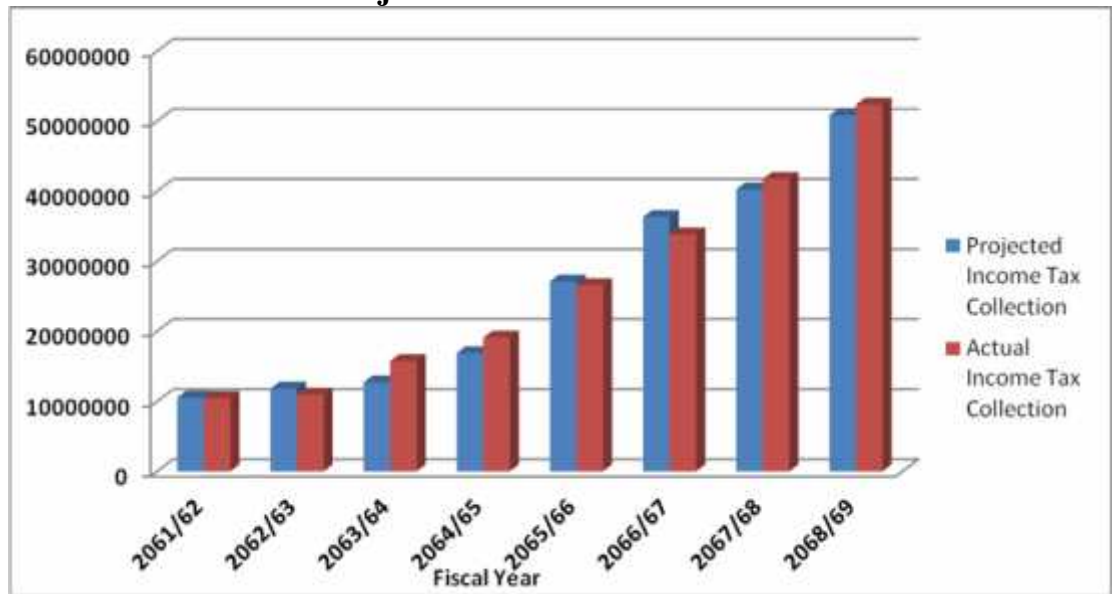
Table 4.7
Projected and Actual Income Tax Collection in Different Year
“000”

Income Year	Projected Income Tax Collection	Actual Income Tax Collection
2061/62	10500000	10452637
2062/63	11800000	10933520
2063/64	12710500	15731804
2064/65	16869200	19077813
2065/66	27087000	26560982
2066/67	36298000	33811480
2067/68	40242332	41725396
2068/69	50813500	52333160

(IRD Annual Report 2067/68 & 2068/69)

In the way of tax collection effectiveness analysis, it can be said that income tax plays the vital role in total tax revenues. The Above table shows that the deviation between projected income tax collection and actual income tax collection. Actual Income tax collection is growing continuously to 5,23,33,160 in fiscal year 2068/69. It seems to income tax collection is considered as effective. The following figure can be presented using this data:

Figure 4.8
Deviation between Projected and Actual Income Tax Collection



4.8 Tax collection From Different Sources

To find out the deviation between projected and actual total tax revenue collection, the table is presented below:

Table 4.8
Sources of Tax Revenues

‘Rs.in 000’

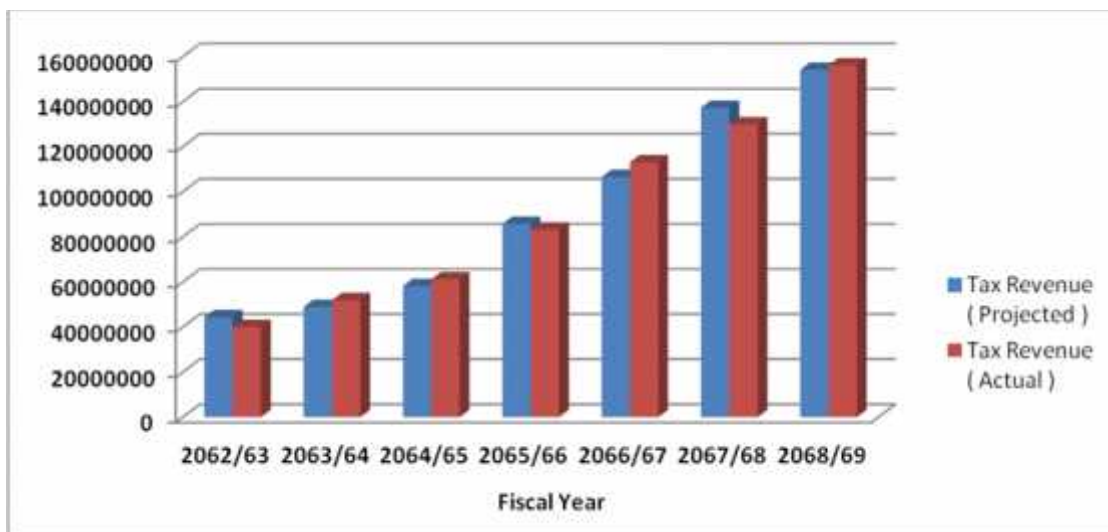
Income Year	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	2068/69
Projected							
Tax Revenue	44300000	48817000	58126800	85660000	106499900	137225337	154060501
VAT	23650000	26463000	29651900	41000000	51560000	67371628	72743000
Income Tax(i.e Direct Tax)	11800000	12710500	16869200	27087000	36298000	40242332	50813500
Excise Duty	7950000	8637500	10523200	14073000	18641900	29611377	30254001
Actual Collection							
Tax Revenue	39901151	51852586	61152297	83185706	113048290	129876968	156097699
VAT	21613043	26095599	29815720	39700921	54920856	61692848	72188142
Income Tax (i.e Direct Tax)	10933520	15731804	19077813	26560982	33811480	41725396	52333160
Excise Duty	6506940	9343187	11189575	16237398	24306107	26458389	30410410
Yearly Growth Rate	12.43%	29.95%	17.93%	36.03%	35.90%	14.89%	20.19%

(IRD Annual Report 2066/67 & 2068/69)

Tax is collected from various sources. In this table it wants to show that deviation between projected collection of total tax revenues and actual tax revenue collection. Tax is mainly collected from VAT, Income tax (Direct Tax), Excise duty, Vehicle Tax etc. According to data received from IRD annual report which is presented in this table yearly growth rate of total tax revenues collection is 12.43%, 29.95%, 17.93%, 36.03%, 35.90%, 14.89% & 20.19% in 2062/63, 2063/64, 2064/65, 2065/66, 2066/67, 2067/68, 2068/69

respectively. On the basis of this figure it can be said that fiscal year 2065/66 is more effective year as part from tax collection growth rate compared to other fiscal year. In fiscal year 2068/69, actual total tax revenue collection amount is higher than projection i.e actual collection is higher than expectation.

Figure 4.9
Deviation between Projected and Actual Total Tax Revenue



4.9 Analysis on Structural Situation of Income Tax Collection.

To know about structural situation of income tax, following table can be presented:

Table 4.9
Structural Situation of Income Tax Collection
‘Rs .in 000’

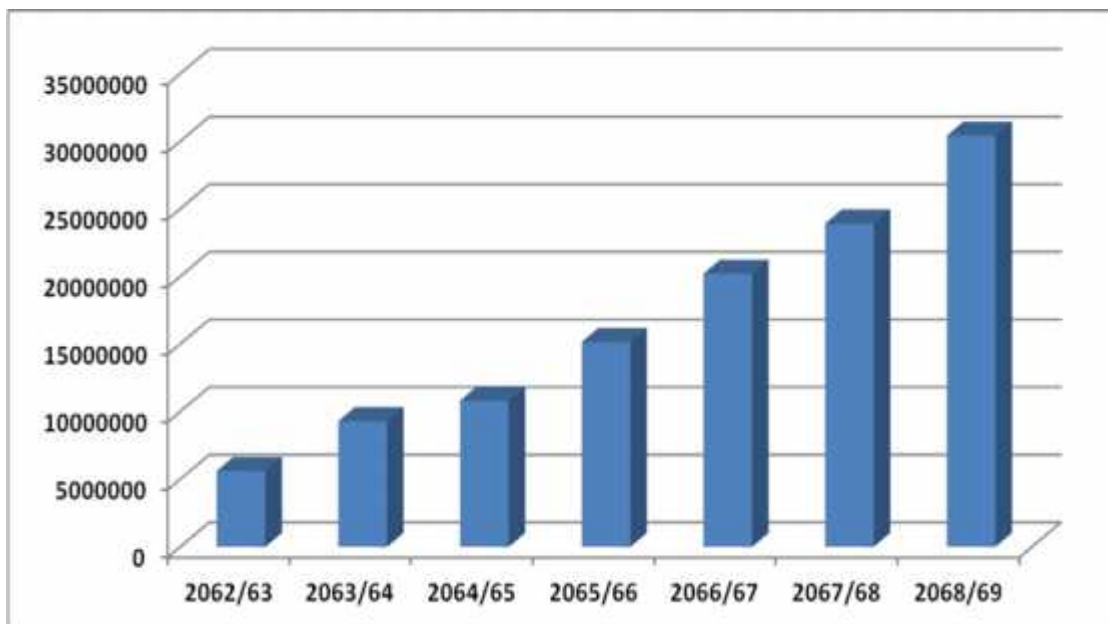
Particular	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	2068/69
Institutional income tax	5617739	9298955	10816411	15152677	20206124	23915282	30416030
Government sector	195774	1019677	204585	959047	1131891	1205957	1455780
Public limited company	3405582	5717056	7186458	9425132	12234469	14043883	15223330
Private Limited Company	1703027	2306976	3140371	4197536	6049882	7254295	11274330
Other Entity	313356	255246	284997	570962	789882	1411147	2462590
Personal Income Tax	3729920	4314575	4903384	7667714	8247497	10449389	12935050
Remuneration	1771129	2007930	2451039	3195623	4413147	5784251	7446830
Udhyog,Business and Profession etc.	1958791	2306645	2452345	4472091	3834350	4665138	5488220
Income tax on Investment	1546555	2080024	3271475	3476513	5087755	7083112	8534160
Rent tax	528457	594181	721102	960198	897042	1151383	1527680
Interest Tax	774820	1054942	1087927	1685094	2466390	4169045	5376150
Capital Gain Tax	657	1127	803492	76167	1043376	881123	567130
Dividend	242585	429502	657694	736546	674504	880105	1060240
Other investment income	36	272	1260	18508	6443	1456	2960
Wind fall gain Tax	8810	11697	19151	17380	20936	15136	35360
Other	30496	26553	67392	246698	249168	262477	412560
Total Income Tax	10933520	15731804	19077813	26560982	33811480	41725396	52333160

(IRD Annual Report 2067/68 & 2068/69)

From this above table it wants to show that the areas of income tax collection as per types of tax payers Or tax payer’s profession. Income tax is collected from various areas like Institutions, Persons, Investment companies, tax from wind fall gain and other sources. Income tax received from institution is higher than other areas there fore institutions are treated as main income tax payers. Institutional income tax is collected from various institutions like Government sector, Public limited company, Private limited company and other entity. Personal income tax is collected from person’s remuneration and other business and professional works conducted by natural individuals. Income tax on investment is collected from as rent tax, interest tax, capital gain tax, dividend tax and other investment related income tax. From seven year’s data evaluation, institutional income tax collection ratio is in increasing in trend, same as income from persons and income from investment is also in increasing

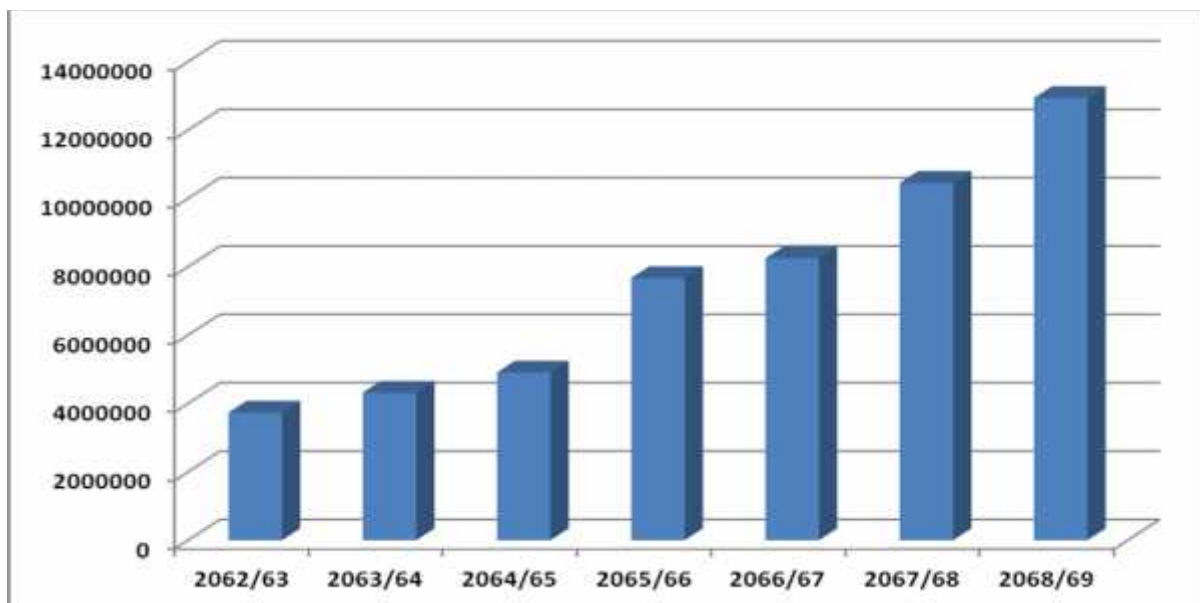
in trend. The role of government sector as part to pay the income tax is very poor compared to other institutions. So in conclusion it can be said that the effectiveness of income tax collection is in way to satisfactory. The causes of limited revenue collection from persons is lack of proper supervision, not change in tax paying habit of the citizens, programme are not launch for expansion of tax paying areas etc.

Figure 4.10
Institutional Income Tax



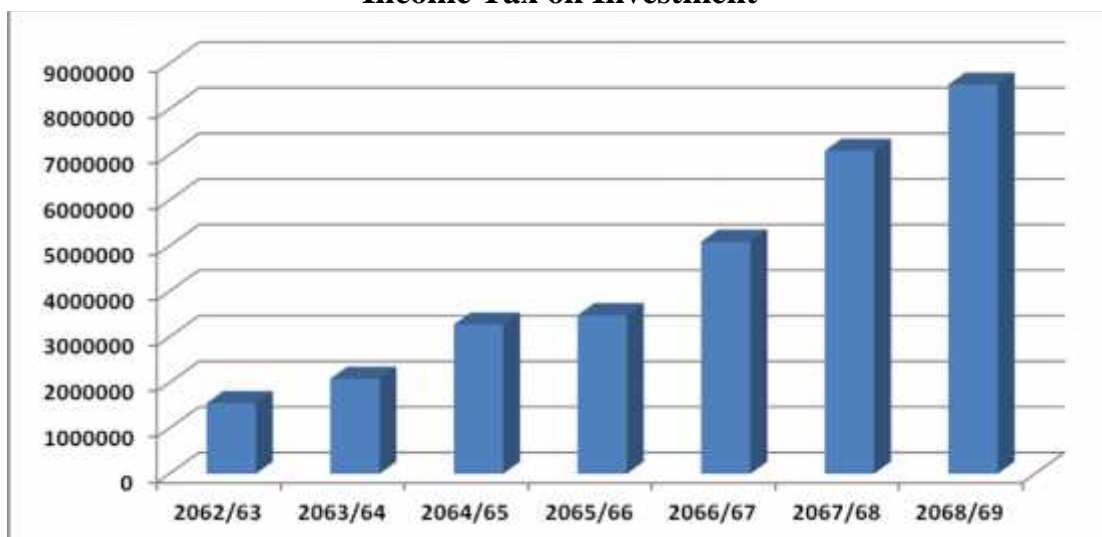
In this above figure, collection status of institutional income tax is showing from F/Y 2062/63 to 2068/69. In F/Y 2068/69, higher amount of institutional income tax is collected then other F/Y.

Figure 4.11
Personal Income Tax



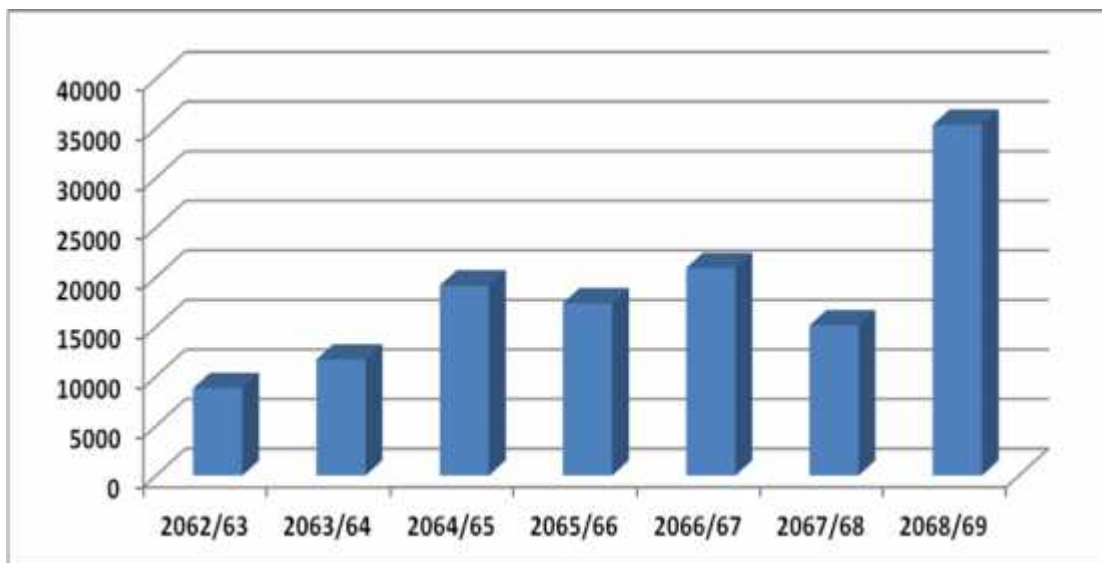
The above figure is prepared for showing collection states of personal income tax in different years. As compared to this F/Y, in F/Y 2068/69 higher amount of personal income tax was collected.

Figure 4.12
Income Tax on Investment



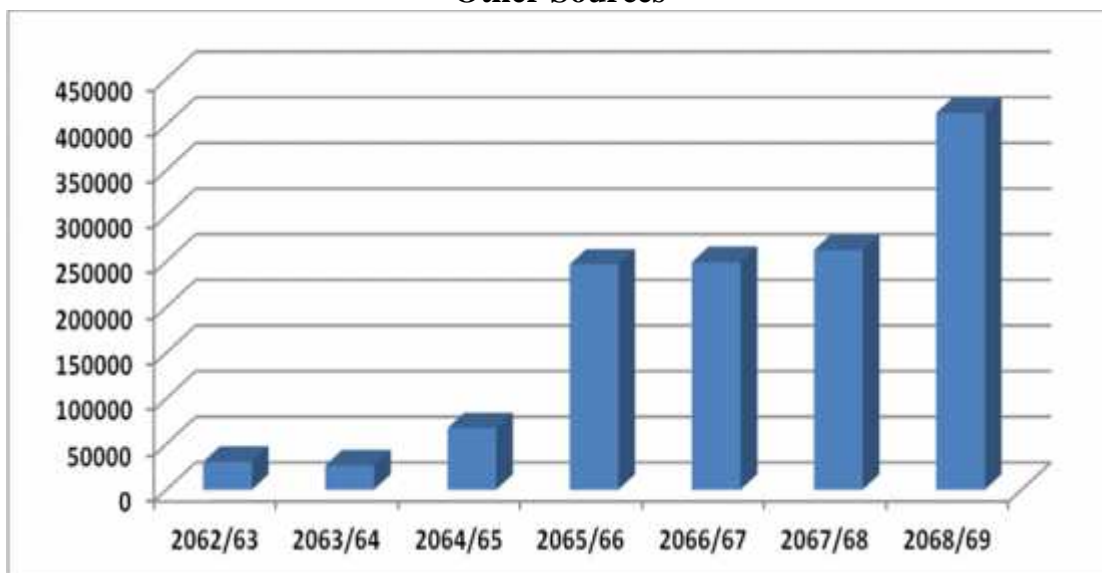
Collection situation of income tax on investment is shown in this figure covering period from F/Y 2062/63 to 2068/69. As compared to these F/Y, in F/Y 2068/69, there is higher amount of income tax collected from investment.

**Figure 4.13
Wind Fail Gain Tax**



The above figure shows that the wind fails gain tax collection from F/Y 2062/63 to F/Y 2068/69. As compared to these F/Y, in F/Y 2068/69, there is higher wind fail gain tax was collected.

**Figure 4.14
Other Sources**



4.10 Income Tax from Different Sector

To know about the contribution of institutional income tax, remuneration income tax income tax from investment, windfall gain income tax, to other income tax to total income tax collection. Following table presented:

Table 4.10

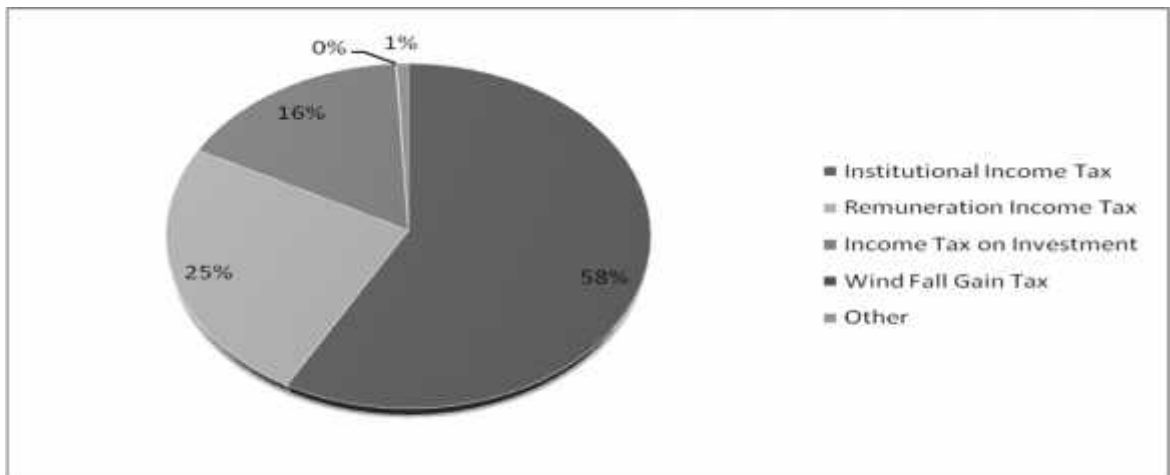
Income Tax from Different Sector in F/Y 2068/69 “Rs. In 000”

Particular	Amounts(Rs.)	Proportion (%)
Institutional Income Tax	30416030	58.12%
Remuneration Income Tax	12935050	24.72%
Income Tax on Investment	8534160	16.31%
Wind Fall Gain Tax	35360	0.07%
Other	412560	0.79%
Total	52333160	100.00%

(IRD Annual Report 2068/69)

Income tax is collected from different sector like institutions, persons, Investors etc. which is shown in this above table. In fiscal year 2068/69 there is 58.12 % income tax is collected from institutions, which is higher than other sources. Income tax collection from wind fall gain is very low i.e. 0.07%. For providing more information about sector of income tax sources following pie- chart is presented:

Figure 4.15
Composition of Income Tax



4.11 Presentation and Analysis of Primary Data

An empirical investigation was conducted to find out the various aspect of income tax including problems of taxing system in Nepal. The major tool used for this study is an opinion survey. 128 questionnaires were distributed and 90 respondents are covered for this study. They were tax administrators, tax

exports and tax payers. To find out mainly problems of taxing system in Nepal, for this purpose the views of the respondent collected from Katmandu valley only. Information collected from the respondents were tabulated into the separate format and expressed in terms of percentage of total number and it has been analyzed into descriptive way.

4.11.1 Familiarity with Income Tax

To know the views of respondent regarding income tax, the question is asked “Are you familiar with income tax?” The responses received from respondents are as follows:

Table 4.11
Familiarity with Income Tax

Respondents Group	Yes		No		Total	
	No.	Percent (%)	No.	Percent (%)	No.	Percent (%)
Income Tax Administrator	18	20	-	-	18	20
Income Tax Exports	36	40	-	-	36	40
Income Tax Payer’s	21	23.33	15	16.67	36	40
Total	75	83.33	15	16.67	90	100

(Opinion Survey 2013)

From the above table, it can be said that as per respondent’s views towards income tax, most of the respondents are aware with income tax. 83.33% of respondents are familiar with income tax and 16.67 % respondents (income tax payers) have not knowledge about income tax. From this opinion survey it can be said that awareness programmers will need for tax payers about what is tax, income tax, why we pay tax and what is the benefits of income tax payment etc. which helps to the higher tax collection.

4.11.2 Tax is the Main Source of Government Revenues

Table 4.12

Tax is the Main Source of Government Revenues

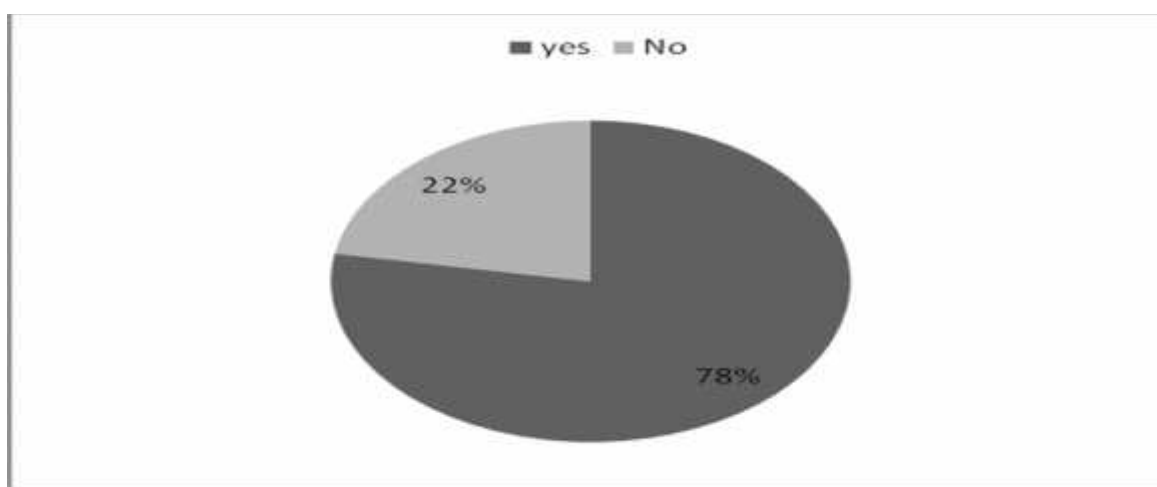
Respondents Group	Yes		No		Total	
	No.	Percent (%)	No.	Percent (%)	No.	Percent (%)
Income Tax Administrator	18	20	-	-	18	20
Income Tax Exports	36	40	-	-	36	40
Income Tax Payer's	16	17.77	20	22.23	36	40
Total	70	77.77	20	22.23	90	100

(Opinion Survey 2013)

The above table shows that the views of respondents regarding tax are the main source of government revenues or not. 77.77 % respondents are give their answer yes and 22.23 % give their answer no, from this we can be said that tax is the main source of government revenues as from real life. From this question all the income tax administrator and income tax exports are said their answer with yes, this means they are agree with question income tax is the main source of government revenues. Same as 20 income tax payers are not agreed with this question therefore they give answers.

Figure 4.16

Tax is the main source of Government Revenue



4.11.3 Contribution of Income Tax to National Revenues of Nepal Satisfactory?

Table 4.13

Satisfactory Contribution of Income Tax to National Revenues of Nepal

Respondents Group	Yes		No		Total	
	No.	Percent (%)	No.	Percent (%)	No.	Percent (%)
Income Tax Administrator	8	8.88	10	11.11	18	20%
Income Tax Exports	20	22.22	16	17.77	36	40%
Income Tax Payer's	12	13.34	24	26.68	36	40%
Total	40	44.44	50	55.56	90	100

(Opinion Survey 2013)

90 respondents are taken as samples in this opinion survey. In total 44.44% respondent give their answer yes and 55.56 % give their answer no. Therefore I can be said that from this simple opinion survey from real life contribution of income tax to National revenues of Nepal is not satisfactory it should be increase in increased.

4.11.4 Reasons for low contribution of income tax to government revenues

Table 4.14

Reasons for Low Contribution of Income Tax to Government revenues

S.N.	Reasons	No. of Respondents accept this reason	Percentage (%)	Rank
1.	Defective income tax act	5	10	4
2.	Increasing habit of tax evasion	10	20	3
3.	Mass poverty and low income level	14	28	2
4.	Inappropriate rate and Exception limit	3	6	5
5.	Inefficient income tax administration	18	36	1
Total		50	100	

(Opinion Survey 2013)

The reasons for contribution of income tax to government revenue are ranked as follows as per respondent's views towards:

-) Inefficient income tax administration
-) Mass poverty and low income level
-) Increasing habit of tax evasion
-) Defective income tax act
-) Inappropriate rate and exemption limit

Thus it can be said that as per respondent's view inefficient income tax administration is the main reason of low income tax collection and low contribution of income tax to government revenues.

4.11.5 Exemption and Deduction Provided by Act is Appropriate or Not.

Table 4.15

Appropriation Exemption and Deduction Provided by Act

Respondents Group	Yes		No		Total	
	No.	Percent (%)	No.	Percent (%)	No.	Percent (%)
Income Tax Administrator	14	15.55	4	4.44	18	20
Income Tax Exports	23	25.56	13	14.44	36	40
Income Tax Payer's	1	1.11	35	38.9	36	40
Total	38	42.22	52	57.78	90	100

(Opinion Survey 2013)

Question had been said to the respondents towards exemptions and deduction provided by act is appropriate?. The answer received yes is 42.22% and higher from tax administrator and tax exports and No is 57.78 and higher from income tax payers. From these respondents views correction should made in act regarding exemption and deduction provision which helps to collect higher amount of income tax.

4.11.6 Significant Role of Income Tax for the Economic Development of Nepal

Table 4.16

Significant Role of Income Tax for the Economic Development of Nepal

Respondents Group	Yes		No		Total	
	No.	Percent (%)	No.	Percent (%)	No.	Percent (%)
Income Tax Administrator	12	13.33	6	6.67	18	20
Income Tax Exports	28	31.11	8	8.88	36	40
Income Tax Payer's	19	21.11	17	18.9	36	40
Total	59	65.55	31	34.45	90	100

(Opinion Survey 2013)

This above table shows that the views of respondents towards role of income tax in economic development of Nepal. From 90 respondent, 59 gave their answer yes and only 31 gave their answer no. This means income tax play the significant role of economic development Nepal.

4.11.7 Efficiency of Income Tax System of Nepal

Income tax system of Nepal has been blamed that it is not efficient enough. To knows the views of respondents about the opinion on efficiency of income tax system of Nepal. A question was asked "*Is the income tax system of Nepal efficient?*" The responses of respondents are as follows:

Table 4.17

Efficiency of Income Tax System of Nepal

Respondents Group	Yes		No		Total	
	No.	Percent (%)	No.	Percent (%)	No.	Percent (%)
Income Tax Administrator	15	16.67	3	3.33	18	20
Income Tax Exports	20	22.22	16	17.78	36	40
Income Tax Payer's	12	13.33	24	26.67	36	40
Total	47	52.22	43	47.78	90	100

(Opinion Survey 2013)

From the above table, it is clear that income tax system is efficient by 52.22% of the total respondents were giving positive attitudes and 47.78 % of the total respondents blamed that is not efficient. To know the views of the respondents about the inefficiency of income tax system, respondent were asked the rank the reasons. The major reasons given were inadequate government policy, defective income tax act, in efficient income tax management, difficult taxpaying procedure. The responses are as follows:

Table 4.18
Causes of effectiveness Income Tax System of Nepal

S . N .	Reasons	Tax Administrator	Tax Exports	Tax Payers	Total	Percentage (%)	Rank
1	Inadequate government policy	3	5	3	11	25.58	2
2	Defective income tax act	-	2	1	3	6.97	4
3	Inefficient income tax management	-	5	3	8	18.60	3
4	Difficult tax paying procedure	-	4	17	21	48.58	1
Total		3	16	24	43	100	

(Opinion Survey 2013)

From the above table, according to respondent's views difficult tax paying procedure is the main cause for inefficient income tax system. The reasons for inefficient income tax system in the opinion of respondents are ranked below:

-) Difficult taxpaying procedure
-) Inadequate government policy
-) Inefficient income tax management
-) Defective income tax act

4.11.8 Major Problems of Income Tax System of Nepal

Income tax system of Nepal has been blamed that it is not so efficient and the difficult tax paying procedure is the major problem of income tax system in Nepal. In order to find out the problems of income tax system of Nepal has been facing, a question are asked, “What *are the major problems of income tax system of Nepal*”. The responses of respondents are as follows:

Table 4.19
Major Problems of Income Tax System of Nepal

S. N .	Reasons	Tax Administrator	Tax Exports	Tax Payers	Total	Percentage (%)	Rank
1.	Less consciousness of tax payer	7	12	5	24	26.67	2
2.	Inappropriate income tax rate	1	7	14	22	24.44	3
3.	Misuse of power by the tax administrator	-	11	8	19	21.11	4
4.	Lack of training facility to the employee	10	6	9	25	27.78	1
Total		18	36	36	90	100	

(Opinion Survey 2013)

From the above table, it can be said that there are so many problems of income tax in Nepal. The major problems of income tax system of Nepal as per respondent’s views are ranked below:

-) Lack of training facility to the employee
-) Less consciousness of tax payer
-) Inappropriate income tax rate
-) Misuse of power by the tax administrator

4.11.9 Income Tax has been Effective for Reducing the Gap between Rich and Poor.

Current Nepalese income tax system is progressive. The main objective of the progressive income tax system is to reduce gap between rich and poor. To know the effectiveness about this a question asked to respondents “*Do you think, income tax has been effective in reducing the gap between rich and poor?*” The responses towards this question are as tabulated as follows:

Table 4.20
Effectiveness of Income Tax for Reducing the Gap between Rich and Poor

S.N.	Reasons	Tax Administrator	Tax Exports	Tax Payers	Total	Percentage (%)
1.	Highly Effective	-	-	11	11	12.22
2.	Fairly Effective	11	23	13	47	52.22
3.	Not Effective	7	13	12	32	35.56
Total		18	36	36	90	100

(Opinion Survey 2013)

From the above table, it is clear that the income tax is fairly effective in reducing the gap between the rich and poor. There fore it can be said that progressive income tax system is the main technique of reducing the gap between rich and poor.

4.11.10 Poor Tax Paying Habit of Nepalese Taxpayers is the Major Problem of Tax Collection in Nepal.

To know the view of the respondents about the tax paying habit of Nepalese people, a question asked “*Do you agree, poor tax paying habit of Nepalese taxpayers is the major problem of tax collection in Nepal?*” The responses received from the respondents are tabulated as follows:

Table 4.21
Poor Tax Paying Habit of Nepalese Taxpayers is the Major Problem of Tax Collection in Nepal.

Respondents Group	Yes		No		Total	
	No.	Percent (%)	No.	Percent (%)	No.	Percent (%)
Income Tax Administrator	15	16.67	3	3.33	18	20
Income Tax Exports	26	28.88	10	11.11	36	40
Income Tax Payer's	18	20	18	20.01	36	40
Total	59	65.55	31	34.45	90	100

(Opinion Survey 2013)

From above table, 65.55 % respondents are agree with question by giving answer is yes. Same as 34.45 % respondents are gave their answer towards this question is no. According to the respondent's views analysis, it can be conclude that poor tax paying habit of Nepalese taxpayers is the major problem of tax collection in Nepal.

4.11.11 Reasons for Poor Tax Paying Habit of Nepalese Tax Payers

There are so many reasons for poor tax paying habit of Nepalese tax payers. For finding the major reason of poor tax paying habit, opinion survey has been conducted and the results of regarding it are tabulated and ranked below:

Table 4.22

Reasons for Poor Tax Paying Habit of Nepalese Tax Payers

S.N	Reasons	Tax Administrator	Tax Exports	Tax Payers	Total	Percentage (%)	Rank
1.	Little knowledge of tax and its importance	11	17	7	35	38.88	1
2.	Poor public relations by the tax officers	2	12	11	25	27.77	2
3.	Complexity of tax laws and policy	3	2	9	14	15.55	4
4.	No provision of incentives for regular tax payers	2	5	9	16	17.80	3
		18	36	36	90	100	

(Opinion Survey 2013)

The reasons for poor tax paying habits of Nepalese taxpayers are ranked as follows:

-) Little knowledge of tax and its importance.
-) Poor public relations by the tax officers.
-) No provision of incentives for regular tax payers
-) Complexity of tax laws and policy

It can thus be arrived at a belief that taxpayers have poor tax paying habit mainly due to the little knowledge of tax and its importance.

4.2 Major Findings of the Study

A research work has been conducted in order to find out the role of income tax in total tax revenues and its collection effectiveness in Nepal and other aspect of income tax. From this research, the following findings have been drawn:

4.2.1 Major Findings of Primary Data

There are so many findings received from primary data analysis. As per the views received from respondents and then analyzing this data, following major finding has made:

-) Tax is the main source of government revenues.
-) Familiarity of income tax to respondent is satisfactory.
-) Contribution of income tax to national revenues is not satisfactory.
-) Inefficient income tax management is the main reason of least contribution of income tax to government revenues.
-) Exemption and deduction provided by income tax act is not appropriate.
-) Income tax plays the significant role for economic development of Nepal.
-) Difficult taxpaying procedure is the main cause of inefficient income tax system.
-) Lack of training facilities to the government employee is the major problem of income taxing in Nepal.
-) The poor taxpaying habit of tax payers. The main reasons of poor taxpaying habit are little knowledge of tax and its importance, poverty of taxpayers and widespread practices of illegal business.
-) Public awareness programmer is necessary to increase tax consciousness and raising the revenues.

4.2.2 Major Findings from Secondary Data

-) Income tax is a suitable source of mobilizing internal resources. The major objectives of income tax are to meet the revenue requirement of the government, Promote distributive justice and promote private sector investment.
-) Income tax system of Nepal is not efficient due to inefficient tax management, inadequate government policies, defective income tax act, difficult tax paying procedure and lacking of trainings to the tax officers.

-) Tax is the main source of government revenues, In Nepal in an average 74% of the government revenue comes from taxation.
-) In an average, role of income tax in total tax revenues is 32%.
-) VAT is the main source of tax in Nepal. In an average role of VAT in total tax revenues is 63%.
-) Role of tax revenues in GDP is around 14%.
-) Income tax collection growth rate is very slow there fore effectiveness of income tax collection is not significant.
-) There is poor tax paying habit of tax payers. The main reasons of poor taxpaying habit are little knowledge of tax and its importance, poverty of taxpayers and widespread practices of illegal business.
-) Public awareness programme is necessary to increase tax consciousness and raising the tax revenues.
-) Corporate tax rate in Nepal is significant.
-) Nepal has adopted and has been adopting progressive income tax rate. The main objective of the progressive income tax rate is to reduce gap between rich and poor.
-) Current Exemption limit in income tax is not sufficient.
-) Clear act, rules and regulation, effective tax administration are the most important instrument for effectiveness of income taxation in Nepal.
-) Income tax plays the significant role for the economic development of Nepal.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The government of any country requires sufficient revenues to lunch the development programs to handle the day to day administration to keep peace and security and lunch other public welfare programs. The government collects revenues from various sources such as fees, taxes, special assessment, fine and penalties, foreign grants etc. Among them tax is the main source of collecting the public revenues because it occupies the most important part of the government treasure.

Lack of sufficient financial sources is the major constraints of economic development in development countries like Nepal. A government has to spend a lot of money to fulfill its responsibility towards its people. The responsibility may be either for security or for health or for education or other development activities .To meet the capital requirements government can use internal and external sources of funds. Internal sources of funds include both tax and non-tax revenues and external source of funds are foreign grants and loans. These kinds of funds are received from foreign countries and international organization.

Based on the nature of source also, Public funds are classified .The source are revenue and borrowings. The sources of public income are taxes, fees, prices. Special assessment, fine and penalties, gifts etc .Income tax plays a vital role in economic development on Nepal. It is a tool of achieving maximum social and economic objectives as laid down by the constitution of Nepal.

Tax is a compulsory burden to the people who have taxable income. It is the major source of government revenues. In other words tax is any compulsory levy from individuals, householders and firm to central or local government.

The person or entity that has taxable income is liable to pay tax without expecting any direct benefit from the government. Tax may be the various type. It may be direct or indirect. Income tax, gifts tax, Interest tax, property tax, vehicle tax, house and land tax, contract tax etc are the examples of direct tax. And export duty, import duty, excise duty ,sales tax, VAT, entertainment tax, hotel tax, passenger tax are the examples of indirect tax.

Great Britain is the first country in the world to introduce the modern income tax. It introduced income tax in 1799 to finance the war fought with France. But the history of modern income tax is not very old in Nepal. The idea of introducing income tax in Nepal originated in the early 1950s when multi party democratic political system was introduced. In 1951, the finance minister in his budget speech declared the intention of the government to introduce income tax.

The parliament of Nepal government enacted income tax act 2058 with effective from Chaitra 19,2058 to enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation and to amend and integrated the laws relating to income tax. The government of Nepal framed income tax rules 2059 in 2059 to help classifying the act.

The contribution of tax is to the government revenues of Nepal is very significant. As a poor country, sources of government revenues in Nepal are very limited. The domestic source of the revenues of government should be increased to escape from the condition of depending on foreign aid and loans. Tax should be imposed at high rate to increase the domestic sources. In the meantime, the effect of taxation should be taken into care.

From this study, I think current tax system of Nepal is dynamic and policy of tax should be evaluating timely adopting an appropriate matching policy for it.

Tax system should be made further more progressive, effective, productive and scientific than it is existing today.

There are many problems about income tax practice in Nepal such as leakage in tax, feeling of people about tax as a penalty, lack of consciousness of people, lack of accuracy and unity in accounting system etc .In other words, raising more revenues in the main objective of taxation but it also affects the pattern of consumption, production and distribution in the economy.

Income tax system of Nepal must be reviewed and immediate correction should be made. The major elements of income tax system are income tax law, policy and its management. Among the above three elements of income tax system, the income tax management is the most important one because the application and realization part is totally played by its Management. Furthermore the necessary correction in its legal provision and policy is possible through the information feedback system provided by its management. According to this research, In conclusion it can be said that most of the respondents are conscious about the payment of tax but they have not proper knowledge about it, so the government should conduct the awareness programme about tax and its rules and regulations.

5.2 Conclusion

The government need heavy amount of fund to achieve the objectives of nations regarding security, health and other necessary phenomena. In developing countries like Nepal, lack of financial sources is the main problem of economic development of the nation. Currently Nepal has facing serious problem of resource gap and high dependency on foreign loan. Resource gap has been increasing at faster rate than the increase in revenues. The resource gap is widening continuously with the increment of total expenditure in respect to total revenue collection. To solve such serious problem of deficit, income tax should play important role from under internal sources of revenues. To meet

the additional capital requirements government can use internal and external sources of funds. Internal sources means revenue collection from within the country i.e. Tax ,fees, penalties ,excise duty, export duty etc. and external sources of funds means amount to be received from outside the country i.e. foreign loans and aids. From this analysis it can be said that as conclusion internal sources of funds should be high preferable and sustainable for economic development there fore the Nepal government should concern for collect the more tax in coming year. The main objective of tax is to increase the government revenue which is necessary to meet the expenses of public interest.

Tax is a major source of government revenue. It is an important instrument for collecting government revenues. The sound tax policy ensures the economic growth and social development in the country. The main objective of tax are to be raise more revenues, prevent concentration of wealth in few hand, re-distribution of wealth for the common good, rapid economic growth, remove regional disparities and reduce unemployment. Tax helps to prevent concentration of wealth in few hands by applying progressive tax system. High earners are imposed high tax and low earners are imposed low tax. So narrowing the gap between the rich and the poor is another objective of tax. The government collects large amount of tax from rich people applying progressive tax system and expended that amount for common good in the country. It helps handover the wealth of rich people to poor people in the society .So, tax helps in re-distribution of wealth in the country. Tax is the important instrument for to achieve rapid economic growth in the country. The government controls or expands the economic activities of the country by providing various concessions, rebates and other facilities. The tax system encourages for establishing industry in the backward areas and to promote export by providing special facilities .Ultimately it helps in economic growth in the country. A regional disparity is a major problem of the all most country in the world. Liberal tax policy helps to remove regional disparities in the country. Tax provides special facilities, concessions and rebates to the industry

established in remote and backward area which helps to increase employment and earning of the people in the remote area. Thus removing regional disparities is a major objective of tax. Tax is also helpful in reducing the unemployment problem of the nations. The government can reduce the unemployment in the country by promoting various employment generating activities. Industries established providing more employment is given more facilities .As a result unemployment problem can be reduced to a great extent through liberal policy.

From this tax collection effectiveness analysis in fiscal year 2068/69 PAN registered tax payers are 541178 which is 191156 in fiscal year 2060/62. With in this around eight years period PAN registered tax payers are increased by 183%.on this subject matter tax payers business prospect analysis it can be found that personal individual is higher i.e. 82.58% active in tax paying concern . From tax collection cost analysis, tax collection cost per thousand is decreasing in trend it ensures the effectiveness of tax collection will be going to satisfactory. In Nepal around 74% of the government revenues come from taxation. Hence tax is a major source of government revenue. In an average from this research it is found that role of taxation in GDP is around 14%, role of income tax in total tax revenues from internal source is approx. 32%, and role of VAT in total tax revenues is approx. 45% therefore it can be said that VAT is the main sources of total tax revenues. Income tax collected from institutional income tax payer is higher than other tax payer and Role of institutional income tax in total income tax is 58% in an average. Total tax revenues collection amount is increasing in trend, in fiscal year 2068/69 income tax collection is growing 20% than fiscal year 2067/68. It shows that income tax collection strategy can be considered as effective but it should increase higher than 20%.

In conclusion, it can be said that tax is the major source of government revenues to fulfilling the objectives of the nation regarding peace and security

of the country, handling day to day administration work, carry out development activities and launch other public welfare activities. Higher amount of tax collection seems to be economic development of the nations. So Nepal government should highly concerted for collecting higher amount of tax from taking strategy facility to tax payers there must be easy and simple procedure of tax payment.

5.3 Recommendation

On the basis of tax related this research, following recommendations are made for helpfulling the higher amount of tax collection and in order to increase the contribution of income tax on government revenues of Nepal.

-) Income tax law should be clear and Practical.
-) There must be easy and simple procedure of tax payment.
-) Income tax policy should be formulated according to the economic policy of the country.
-) Income tax policy should be revised timely.
-) Tax ratio should be increased gradually on long run basis to meet the deficit in budget. For this tax base should be widened.
-) Tax experts and specialists which have depth knowledge about income tax must be involved in formulating income tax policy.
-) There must be maintained record of income tax assesses in income tax office.
-) The salaries and incentives of government personnel who worked in IRD should be increased in accordance with their contribution on tax collection and with inflation which is help to motivate the personnel towards their works.
-) Tax personal must be promoted and demoted to their job performance.
-) There must be the provision of high penalty and fines to the corrupted personnel.

-) Tax education activities and awareness programme should be conducted in all over the country through available communication media, i.e. Radio, Television ,Newspaper, Internet sites etc.
-) There must be better communication system between taxpayer and tax personnel. And there should not exist wide gap of communication between taxpayers and related tax office.
-) The provisions of rewards, prize, incentives should be introduced in the act to encourage the taxpayers to pay tax voluntarily rather through coercive measure.
-) Tax assessment procedure should be simplified and there must be the provision of better incentives for regular tax payers and heavy penalties and fines to irregular tax payers.
-) Effective control and penalties to the corrupted personnel and Control the illegal business activities especially at open borders with India.
-) For taxable income calculation purpose, clear provision is made in case of deduction .that means all the terms of deductions should clearly defined in the act.
-) For promoting exports, more deduction should be provided.
-) A research and intelligence centre should be established in each tax office for proper planning and to collect the information in regards to income tax evaders, potential new tax payers and non-residents who have conducted business without registration.
-) Separate income tax department should be established so that specialization could be achieved in matter of income tax.
-) Computerized information system in necessary to keep up to date records of income tax.
-) There must be co-ordination between the departments of tax.
-) The habit in business sector of not keeping the complete accounts of the transactions of not submitting the real account for tax assessment must be abolished.

- J Effective public participation is necessary to minimize the income tax evasion. Tax authority should do continuous effort in order to develop the taxpayer's positive attitude towards taxation.
- J There must be partnership between the government and the private sector leadership like FNCCI, CNI etc. in respect of making the taxpayers aware of the taxation.
- J There is insufficient number of tax offices within and outside the Katmandu valley. Therefore the numbers must be increased to provide the services conveniently.
- J The government of Nepal must launch more effective programs to collect more revenue from income tax.
- J Exemption limit of the income tax should be increased.

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APPENDIX-I

List of Withholding Payments and Applicable Withholding Rates

Withholding Payments	Withholding Rate	Advance or Final
Remuneration Payments	Normal	Advance
Natural Resources payments, Royalties, Service fee, Commission, Sales Bonus	15%	Advance
Dividend paid by a resident Company	5%	Final
Interest (In General)	10%	Advance
Interest paid to an individual with source in Nepal and which is not related to business by a resident bank or Financial Institution	5% and 15%	Final
Rent (In General)	10%	Advance
Rent Received by an individual with source in Nepal and not related to business	10%	Final
Meeting Allowance	15%	Final
Retirement payment by government of Nepal or approved retirement fund	5%	Final
Gain from unapproved retirement fund	5%	Final
Payment of commission by a resident employment company to a non-resident person.	5%	Advance
Payment of Service fee to service providing natural persons registered at VAT	1.5%	Advance
Lease payment for aircraft	10%	Advance
Gain from investment insurance	5%	Final
Payment of contract amount exceeding Rs. 50,000	1.5%	Advance
Teaching on an occasional basis	15%	Final

APPENDIX-II

List of Final Withholding Payments (Sec-92)

J	Dividends from resident company.
J	Rent from land and building, furniture and fitting received by an individual other than the business.
J	Gain from investment insurance received by a resident person.
J	Interest income of an individual (natural person) from bank, financial institute, bonds.
J	Payment made from an approved retirement fund.
J	Accumulated leave pay.
J	Part time remuneration.
J	Meeting fees/writing articles.
J	Gain from unapproved retirement fund.

APPENDIX-III

Tax Rate and Rebates in the case of special Industry

Conditions (A)	Tax Rate (B)	Rebate on Tax	Net Applicable Tax Rate	Period
A) If providing direct employment to 500 of more Nepalese citizens through- out the whole years.	@20%	@10%	90% of B= @ 18%	Foreve
B) If Operation in a highly undeveloped zone	@20%	@30%	70% of B= @ 14%	1 st 10 Ye
C) If operation in and undeveloped zone	@20%	@25%	75% of B= @ 15%	1 st 10 Ye
D) If operating in an undeveloped zone	@20%	@20%	80% of B= @ 16%	1 st 10 Ye
E) Operating in a special economic zone other than mentioned in point F	@20%	@100%	Nill	1 st 5 Ye
		@50%	Nill	Foreve
F) The Industry established under mountainous district and under the special economic zone specified by NG located under hilly district.	@20%	@100%	80% of B= @ 16%	1 st 10 Ye
		@50%	50% of 20 = @ 10%	Foreve
G) If operating in a remote zone	@20%	@100%	Nill	1 st 10 Ye

H) Information technology intensive industry (established within IT Park)	@20%	@25%	75% of 20 = @ 15%	Foreve
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APPENDIX-IV

Exemption limit (Basic Exemptions) in Income Tax in Nepal

From fiscal year 1996/97 to 2012/13

Fiscal Year	Individual	Couple
1996/97	25000	35000
1997/98	30000	40000
1998/99	40000	50000
1999/00	50000	60000
2000/01	55000	75000
2001/02	55000	75000
2002/03	65000	85000
2003/04	80000	100000
2004/05	80000	100000
2005/06	100000	125000
2006/07	115000	140000
2007/08	115000	140000
2008/09	115000	140000
2009/10	160000	200000
2010/11	160000	200000
2011/12	160000	200000

2012/13	200000	250000
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APPENDIX-V

Queries and Information about PAN

A. What is PAN (Permanent Account Number)?

PAN is a unique identification number, issued to all the taxpayers throughout country wide. PAN is allotted only once in the lifetime of a taxpayer. it never changes ,PAN gives the information about tax payers regarding tax payment.

B) Following persons must obtain PAN

1. Natural person who engaged in the business (commercial transaction) must register under VAT or PAN.
2. Partnership firm, company and organization engaged in commercial transaction.
3. All organization deducting tax at source.

C) What is the procedure of getting PAN?

Collect the application form from concerned IRO. You can also download the different application forms differ according to the taxpayer type. The individual who wants to register a proprietorship firm or any partnership company/corporation should visit the IRO in order to process the application. Company, corporation and others; you may send a representative. You must give attorney form. The power of attorney must be produced to the tax officer and representative must produce his citizenship card. Then submit the application form and all necessary documents to the IRO and follow it.

D) Which document must submit when obtaining PAN?

Documents required for new registration

1. Application form.
2. Copy of citizenship certificate of the individual or of the partners or who signs the application form for limited companies/ Corporations.
3. Copy of company / firm registration certificate.
4. Two passport size photo of the individual or of the partner or who signs the application form for limited companies / Corporations.
5. Hand drawn sketch of the business location of the applicant.
6. Power of attorney in case a representative is sent to the IRO for registration.

Documents required for re-registration

1. Application form.
2. Copy of citizenship certificate.
3. Copy of the firm/company registration certificate.
4. Recommendation letter from local FNCCI or concerned association.
5. Two (Preferably black and white) passport size photo of the individual or the person who signs the application form for limited companies/corporations.
6. Hand drawn sketch of the business location of the applicant.
7. Power of attorney in case a representative is sent.

APPENDIX-VI

Questionnaires for Opinion Survey

“Study of Income Tax Collection, Exemptions & Reductions In Nepal”

Name:

Address:.....

Occupation:.....

Organization:.....

Please Tick () the answer of your choice or where ever appropriate put in order of preference from one to last number of alternative. Number one is the most important and the last number for the least.

1. Are you familiar with Income Tax?

Yes () No ()

2. Do you agree, Tax is the main source of government revenues?

Yes () No ()

3. In your opinion, is contribution of income tax to National revenues of Nepal Satisfactory?

Yes () No ()

4. If no, what are the major reasons? (Please rank according to the priorities)

- a. Defective income tax act ()
- b. Increasing habit of tax evasion ()
- c. Mass poverty and low income level ()
- d. Inappropriate rate and exemption limit ()
- e. Inefficient income tax administration ()

5. Are exemption and deduction provided by act are appropriate?

Yes () No ()

6. Does the income tax play significant role for the economic development of Nepal, do

You agree?

Yes () No ()

7. Is the income tax system of Nepal efficient?

Yes () No ()

8. If no, what are the main reasons in your views?

- a. Inadequate government policy ()
- b. Defective income tax act ()
- c. Inefficient income tax management. ()
- d. Difficult taxpaying procedure. ()

9. What are the major problems of income tax system in Nepal? (Rank Your Answer)

- a. Less consciousness of tax payer. ()
- b. Inappropriate income tax rate ()
- c. Misuse of power by the tax administrator ()
- d. Lack of training facility to the employee ()

10. Do you think, income tax has been effective in reducing the gap between rich and

poor?

- a. Highly effective ()
- b. Fairly effective ()
- c. Not effective ()

11. Do you agree, poor tax paying habit of Nepalese taxpayers is the major problem of

tax collection in Nepal?

Yes ()

No ()

12. If yes, what are the reasons? (Rank your answer)

a. Little knowledge of tax and its importance ()

b. Poor public relations by the tax officers ()

c. Complexity of tax laws and policy ()

d. No provision of incentives for regular tax payers ()