CONTRIBUTION OF INCOME TAX ON GOVERNMENT REVENUE IN NEPAL

BY

RAMESH KUMAR MISHRA

Mahendra Multiple Campus

Exam Roll No.: 550191

T.U. Reg. No.: 8732-87

Batch No. 2062/ 064

Thesis Submitted to

Tribhuvan University

Mahendra Multiple Campus
Faculty of Management

Nepalgunj

In partial fulfillment of the requirement for the degree of

Master's of Business Studies (M.B.S.)

Nepalgunj

September, 2013

RECOMMENDATION

This is to certify that the thesis

Submitted by

Ramesh Kumar Mishra

Entitled

CONTRIBUTION OF INCOME TAX ON GOVERNMENT REVENUE IN NEPAL

Has been prepared as approved by this department in the prescribed format of the faculty of management this thesis is forwarded for examination.

…………………………..	………………………………..	………………………………..
Shreebas Adhikari	Prakash Lamichhane	Dol Bahadur Bhandari
(thesis supervisor)	(Head of Research department)	(Assistant Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva-voce of the thesis presented

By

Ramesh Kumar Mishra

Entitled

CONTRIBUTION OF INCOME TAX ON GOVERNMENT REVENUE IN NEPAL

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

Viva-Voce Committee

Head of Research Department	………………………
Member (Thesis supervisor)	………………………
Member (External Expert)	………………………
Member (External Expert)	………………………

DECLARATION

I hereby declare that the work reported in this thesis entitled " CONTRIBUTION OF INCOME TAX ON GOVERNMENT REVENUE IN NEPAL" Submitted to office of the dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of Shreebash Adhikari of Mahendra Multiple Campus Nepalgunj. Hence, the sole responsibility would be remained on me regarding this thesis for any positive or negative implication if emerged in future.

....

Ramesh Kumar Mishra

T.U. Regd. No. 8732-87

Exam Roll No. 550191

Mahendra multiple campus

Nepalgunj, Banke

ACKNOWLEDGEMENT

This thesis entitled "CONTRIBUTION OF INCOME TAX ON GOVERNMENT REVENUE IN NEPAL" has been prepared in partial fulfillment form the degree of Master of Business Studies (MBS) under the supervision of Shreebash Adhikari, lecturers of Mahendra Multiple Campus Nepalgunj. It is my Privilege of getting helps and co-operation from different persons. It is not possible to enumerate the names of all of them. However, it will be matter of injustice if I forget the names of those personalities whose valuable suggestions and co-operation escorted to complete this thesis report.

I extend my thanks to all who has helped me in the preparation of this thesis report. I am also grateful to my parents as well as my spouse who always encouraged me for higher education and thanks to my family members as well as all my friends for them sincere help.

Ramesh Kumar Mishra

Abstract

Government should fulfill the responsibility of public welfare as well as development. For this fulfillment government fund is a must which can be generated either by loan or by grant or by tax. This study aims to show the contribution of income tax to total revenue which is being significant however it has some limitations. The statistical analysis from FY 2005/06 to 2011/12 displays (i) the annual growth rate of income tax is 668.11 crore per year. (ii) In amount it has raised 1093.94 crore to 5130.30 crore. (iii) Income tax GDP ratio has raised 11.83% to 15.93%.

For the effective contribution, the Government should strictly imposed to PAN system to every taxpayer, should expand the tax bases by lowering the tax rate, and at last should build sound administrative capability by minimizing corruptions.

TABLE OF CONTENTS

CHAPTER-III RESEARCH METHODOLOGY

CHAPTER-IV PRESENTATION AND ANALYSIS OF DATA

CHAPTER-V SUMMARY, CONCLUSION AND RECOMMENDATIONS

LIST OF TABLE

LIST OF FIGURE

ABBREVIATIONS

A. D.	-	Anno Domini
B.S.	-	Bikram Sambat
DT	-	Direct Tax Revenue
G/N	-	Government of Nepal
GDP	-	Gross Domestic Product
IRD	-	Inland Revenue Department
INT	-	Indirect Tax Revenue
MOF	-	Ministry of Finance
NRB	-	Nepal Rastra Bank
NTC	-	Nepal Telecom Ltd.
NTR	-	Non Tax Revenue
PAN	-	Permanent Account Number
SAARC	-	South Asian Association for Regional Co-operation
TU	-	Tribhuvan University
TR	-	Total Revenue
TTR	-	Total Tax revenue
UDCs	-	Under Developed Countries
VAT	-	Value Added Tax
VDC	-	Village Development Committee

CHAPTER ONE

INTRODUCTION

1.1 General Background

The revenue of the government comes basically from two sources non-tax and tax. Non- tax revenue includes different sources like grants and gifts, administrative incomes, business incomes. Grants and Gifts mean the amounts given by the people of the country itself voluntarily or one country to other country. The examples of grants and gifts revenues are grants of foreign governments or agencies. The administrative income denotes the amount charged by the government for providing administrative services. The examples of such revenue are registration fees, fines and penalties. Business income means the return received by the government for providing various goods and services to the people. The examples of business incomes are charges for postage, electricity, water etc. The basic objective of non-tax revenue is not to collect revenue but to provide services to the people. The revenue from non-tax sources comes automatically while performing other works.

Another source of government revenue is tax revenue. Customs, excise duty, value added tax, corporate and personal income tax are the examples of these sources of tax revenue. The main objectives of taxation are to collect revenue. The government passes the act for getting tax revenue and collects the tax as per the act. The tax cannot be imposed without the act of the parliament. Nepal gets around eighty percent of the revenue from these source.

Although, the government collects the revenues from different sources such as tax, remittance from public enterprises, fees, fines, grants and deficit financing. However, across all these sources of collecting the public revenues, taxation is the main sources since it occupies the most important place in the government treasury. Because of the importance of these sources in revenue mobilization of a country, some person likes to say tax is the sinews of the state (Kandel; 2006).

Tax is the compulsory contribution by the people or organization to the government without any direct return. It is the compulsory payment by the people or organization to the government. In other words, tax is a compulsory contribution imposes by a public authority irrespective of the exact amount of services rendered to the taxpayers in return and imposed as a penalty for any legal offence. It is the compulsory contribution from the person to the government to defray the expenses using the means of planning, organizing, staffing, leading and controlling for achieving the goals.

Nepal is one of the least developed countries which depends mainly on agriculture for the generation of income, employment and export. The government has to focus to improve the living standard of people through the development process. It can be achieved through economic growth, economic stabilization and development of the country. For this purpose Nepal has to raise economic growth rate, eradicate absolute poverty and create more employment opportunities in the country. To achieve these goals, the government needs huge amount and sustainable financial resources.

Revenue mobilization is one of the main source of government expenditure and development of the country. The increasing rate of revenue collection is not satisfactory in Nepal. In the past seven fiscal years: 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 the ratio of revenue mobilization to GDP were 8.78%, 9.78%, 10.44%, 11.85%, 13.33%, 12.74% and 15.5% respectively.

The tax is the compulsory contribution to the government made by people without reference to a particular benefit received by tax payer the tax revenue is mainly classified into two streams, i. e. direct tax and indirect tax. The distinction between direct tax and indirect tax is broadly based on the impact and incidence of tax. Income tax, land tax, house and land registration fees, property tax, profit tax and interest tax are the components of direct tax. On the other hand, indirect tax is broadly commodity-based tax. VAT, custom duties, excise duties are the major components of indirect tax. Non-tax revenue is the other key source of government revenue of Nepal. This includes fees, penalty, fines, and forfeitures receipt from sales and rent of government property, principal repayment, donation and miscellaneous income.

Taxation is a major instrument of social and economic policy. It has three goals to transfer resource from the private to the public sector ,to distribute the cost of government fairly by income classes (vertical equity) and among people in approximately the same economic circumstance (horizontal equity) and to promote economic growth , stability and efficiency. These objectives are closely related to the economic development of a country. So, that prime concern of the developing country is the attainment of rapid economic development. The rapid economic development requires massive governmental participation, the method of obtaining revenue to meet with such activity. The role of taxation in this connection has increased very much in modern days.

The relation between taxation and economic development has long been a matter of concern to policy makers and general people. The classical economists devoted substantial efforts in analyzing the effects of taxation on growth and the distribution of factor incomes. With the rise of Keynesian economics, in the War Era, the effects of taxation on stability of the economy became an important issue. The Classical and Keynesian ideas constituted prominent themes in early analysis of taxation in under developed countries. In the following days, the range of concern widened to include the effects of taxation not just on the rate of growth of national income but also on the distribution of income and on employment. In the context of Nepal, the role of taxation has increased since initiation of planning in1956 for the purpose of economic development. However, in the earlier period the drastic change needed in improving tax structure was not felt to the low magnitude of government expenditure. Today government expenditure has increased by greater amount than government revenue. The problem of bridging this gap has become the main issue regarding the fiscal affairs of Nepal.

Thus, there is a greater need of improving tax structure in Nepal. This need becomes more appreciable when we see the higher tax ratio to GDP in developed country. This has generated the strong believe among the economist that the present tax ratio in Nepal which is very low, can be increased substantially, which would be a solution of resource problem. However, how this ratio can be raised and in what magnitude the present tax structure enables in raising revenue is the subject matter of study.

1.2 Statement of the Problem

The main objective of imposing certain taxes on the public is to generate revenues for the government for public expenditure. However, there are other functions of taxes to reduce inequalities through a policy of redistribution of income and wealth so that income gap between the rich and the poor is not as significant. Tax systems are also designed for social purposes, such as discouraging certain activities which are considered undesirable and protecting the environment. For instance, the excise taxes on alcohol and tobacco are exercised to decrease consumption and thus encourage a healthier lifestyle. Taxes are also expected to ensure economic goals through the ability of the taxation system to influence the allocation of resources including transferring resources from the private sector to the government to finance the public investment programme, the direction of private investment into desired channels through such measures as regulation of tax rates and the granting of tax incentives. In addition, import duties could be used to protect local industries from foreign competition. This has the effect of transferring a certain amount of demand from imported goods to domestically produced goods.

Following a long political conflict, Nepal is in a transition period facing several challenges, its landlocked geographic location, limited resources and its susceptibility to natural disasters. The government has reiterated the need to generate more funds through internal sources to fulfill its core functions in providing public services and to promote socio-economic development. Especially in view of future changes, internal revenues will be required to cover increasing demands of a growing population: The estimated annual growth rate of almost two percent will cause the need to bring in more taxpayers under the tax net in order to mobilize distinctively more revenue and distribute the tax burden. Due to the large informal sector and a tendency to avoid taxes, revenues are currently dependent on a small share of registered taxpayers.

Therefore, the expected outcomes of the study would be a comprehensive overview on the Income tax, its situation and its contribution to total revenue and GDP. ;

1) What is the present provision of income tax in Nepal?

2) How the income tax has contributed on total tax revenue in Nepal?

3) What is the trend of revenue contribution of income tax in Nepal?

1.3 Objectives of the Study

The main objective of this study is to analyze the role of income tax on revenue mobilization in Nepal and other specific objectives are as follows:

a. To review the present provision and status of income tax in Nepal.

b. To analyze the contribution of income tax on government revenue in Nepal.

c. To show the trend of revenue contribution of income tax in Nepal.

1.4 Limitations of the Study

The present study has following limitations:

a) The present study is based on mainly secondary data and information.

b) The reliability of secondary data is not examined.

c) The data are used only the period from 2005/06 to 2011/012 A.D.

1.5 Organization of the Study

This study is divided in to five major chapters. Chapter first is the introducing chapter, which shows light on the various aspect of study including the role of taxation in economic development. Chapter second covers review of literature. Chapter third is research Methodology. Chapter four is the main body of research. It gives evaluation, trends, comparison of income tax with other tax. This study based on following format:

1. INTRODUCTION

General Background

Statement of Problem

Research Question

Objective of the Study

Significance of the Study

Limitation of the Study

Organization of the Study

2. REVIEW OF LITERATURE

Conceptual frameworks

Review of related studies

Review of Books

Review of journal & articles

Review of dissertation/thesis

Review of others.

3. METHODOLOGY OF THE STUDY

Research Design

Population and Sample

Nature & Sources of Data

Data collection procedures

Data Analysis procedures

Presentation and Analysis Tools

4. PRESENTATION AND ANALYSIS OF DATA

Analysis of Secondary Data

The Present Provision of income Taxation in Nepal

The History of Taxation in Nepal

History of Income Tax in Nepal

Taxation in the International Perspective

The Contribution of Income Tax on Revenue Mobilization in Nepal

Composition of Total Revenue

Contribution of Tax Revenue in Total Revenue

Contribution of Direct Tax Revenue in Total Tax Revenue

Composition of Income Tax Revenue

Tax-GDP Ratio

Government Expenditure

Major finding of the study

5. SUMMARY, CONCLUSION AND RECOMMENDATION

Summary

Conclusion

Recommendation

Bibliography

Appendixes

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Theoretical Review

2.1.1 Introduction

A tax is a compulsory contribution made to the government without reference to a particular benefit. Tax system varies greatly across countries depending on their stage of development. The relation between taxation and development has long been matter of concern to policy makers and students of public policy alike. Both the tax goals and constrains of developing economies differ from those of developed economies. The classical economists devoted substantial efforts to analyzing the effects of taxation on growth and the related questions of the distribution of factor incomes and witnessed the full title of Principles of political economy and taxation.

With the rise in Keynesian economies in the post war era, the efforts of taxation on the stability of the economy also became an important subject of analysis. These classical and Keynesian concerns constituted prominent themes in early analysis of taxation in UDCs (Higgins). Subsequently the range of concern widened to include the effects of taxation not just on the rate of growth of national income but also on the distribution of that income by income size, class on employment , and on their objectives of policy. For example, lists the objectives of fiscal policy as the promotion of income disparities between `households and regions the promotion of economic stability and economic efficiency and the increase of host country returns from natural resource endowments. The primary purpose of taxation is to divert control of economic resources from tax payers to the state for its own use of transfer to others.

Taxation not only restrains total spending by household and enterprise but influences the allocation of economic resources, recognizes social costs that are not reflected in the market prices and affects the distribution of income and wealth. (Goode)

2.1.2 Meaning and Concept of Tax

Tax is a compulsory payment to the government from a person according to law. It is contributed to the government without expectation of any quid pro quo (direct benefit) to the taxpayer. The government mobilizes these taxes for public interests.

According to Seligman "A tax is 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."

In the words of Taylor "A tax is a compulsory payment to the government without expectation of direct benefit in return to taxpayer."

The government of any country requires sufficient revenues to launch the development programmes, to handle the daily administration, to keep peace and security and to launch other public welfare programmes. The govermment or public revenues are collected through various sources.

These sources can be: a) taxes (b) revenues from public enterprises (c) fees (d) special (e) fines and penalties and (f) foreign grants. Among them, tax is the main source of collecting the public revenues because it occupies the most important part of the government treasury. In Nepal, about more than 70% percent of total revenue comes form tax revenues and less than 30% percent from non - tax revenues.

2.1.3 Principles of Taxation

Equity, efficiency and administrative feasibility are the three major principles of tax design of any economy. For UDCs, the most important role of taxation is to mobilize the resources for development. As an instrument of resource mobilization, its principle function lies in raising the volume of public saving to be used for capital formation consistent with growth of saving in the economy as a whole. In the principle of equity, it is maintained that the tax must be levied according to the taxpaying capacity of the individuals. The subject of every state ought to contribute towards the support of the government as nearly as possible, in proportion to their respective ability that is in proportion to the revenue which they respectively enjoy under the protection of state. In other words, the principle of benefit states the burden of taxation should be subjected to higher taxation in comparison to the poor. The higher the income the higher the tax rate, the lower the income the lower the tax rate.

Adam Smith further stressed that every individual should contribute according to his abilities so that equality of sacrifice be achieved. Under the benefit principle of taxation, tax is compulsory contribution to pay the burden of taxation should be distributed equally to all the citizens with respective to their income and resources. Furthermore, principle of economic efficiency can be achieved only at this point when all economic resources are allocated to their best uses.

Prof. Samuelson tried to give a solution that amount of social goods which society uses, will be same for A and B consumers. For this purpose he has applied market principle to the pricing of social goods to determine optimum allocation of resources. In the case of a private goods marginal utility and marginal cost are equal for all consumers, since utility schedules of individual are different, such equality and hence, efficient level of output will be attained with different consumers consuming different amounts of outputs at the same price. It refers that the aggregate demand schedule will be the horizontal summation of individual demand schedule. In the case of public goods which are by definition consumed equally by all, different individuals will pay different price for the same quality of output. Here the sum of marginal utilities to consumer will be equal to the marginal cost it means that the individuals demand schedule will be vertically added in this case. Moreover, taxes should be imposed to the consumers in accordance with their ability to pay.

2.1.4 Horizontal vs. Vertical Equality

In simple words, horizontal equity calls for equal treatment of people in equal position. However, as cannon of equity, the concept requires that equals be treated equal. This broad definition is mostly in line with efficiency and avoidance of excess burden. We also interpret the horizontal equity as follow: All citizens of the country should pay equal dose of taxes. The citizens who benefit equally from expenditures should pay equal amount of taxes. All tax payers with equal abilities should bear equal taxes. Among the three points, third one is most relevant to the principle of horizontal equity. Vertical equity means that citizens with large income pay more taxes than citizens with small incomes. It thus considers that as a citizen's ability to pay increases, his taxes should be increased. In fact, nobody can question the equality the equity of the proportion that a rich man should pay more taxes than a person. In case, there is any controversy, it centers on the structure of the controversy, it centers on the structure of the effective rates of taxes. Therefore, the problem of vertical equity is how to implement a given, presumably progressive, distribution of the tax bill with a minimum of excess burden. (Lekhi)

2.1.5 Direct vs. Indirect Taxation

Prof. Dalton made a distinction between direct and indirect taxes as that a direct tax is really paid by a person an whom it is legally imposed, while an indirect tax is imposed on one person, but paid partly or wholly by another, owing to consequential change in the terms of some contract or bargaining between them. Thus an indirect tax is conceived as one which can be shifted or passed on; the direct tax is one which can not be shifted to others. In the case of the direct tax, the impact or the money burden and the incidence are on the one same person: while that in case of indirect taxes, the impact and the incidence of tax are on different persons. An income tax is generally regarded as a direct tax while customs and excise duties are indirect taxes.

Those taxes which are based on receipt of income, are termed as direct whereas those levied on expenditure, are termed as indirect. Income tax, profit tax, capital gain taxes are therefore direct tax; customs duties, excise duties and stamp duties are indirect.

Taxes while levied on permanent or recurring occasions are direct tax, while charges on occasional or particular events are indirect taxes. Thus, all taxes on income or the ownership of property would be direct taxes and taxes on the purchase or sale of property like stamp duties would be indirect taxes. Indirect tax is generally imposed on consumption. Income tax is the key segment of direct tax. Income tax is also classified into two categories: i) Personal tax, ii) Corporate tax. Personal tax is imposed on the income received by a particular person whereas corporate tax is imposed on the income received by a particular institution or business enterprises.

2.1.6 Role of Direct Taxation in the Process of Economic Development

In developing countries like Nepal, taxes are used to mobilize substantial resources to desired fields, discourage unproductive investments, stimulate productive investment, reduce conspicuous consumption and discourage investment in real state. They have also to be used to transfer an increasing proportion of the addition made to the national income for development purposes. Prof. W. A. Lewis holds a view that ‘the central problem in the theory of economic development is to understand the process by which a community which was previously saving or investing 4 or 5 percent of its national income or less converts itself into an economy where voluntary saving is running at about 12 to 15 percent of national income or more. This is the central problem because the central fact of economic development is rapid capital accumulation.

Role of direct taxes in developing economies are discourage speculative investment, control over inflation, inducement to agriculture sector, Restrictions on consumption, reduction in inequalities of income and element of equality. Direct taxes like taxes on land, capital gains tax etc. are imposed to prevent speculative investment. Direct taxes are also to be used to reduce to some extent, inequalities in the distribution of income and wealth. Such tax policy will check unproductive investment and release a greater amount of resources available for productivity investment. Direct taxes especially progressive taxes control inflation. Since the distinction effects of the progressive rates in the non-functional personal incomes are low, they would be more important for checking an inflationary pressure associated with the development expenditure. Besides the personal income taxes can be adopted to have a built-in-flexibility so as during inflationary period that a higher proportion of the additional income will pass on to the government.

2.1.7 Appropriate Tax Policy for UDCs

What is the most important tax system of market oriented developing economy like Nepal? Some economists may want to base their policy advice on sophisticated calculations of optimal tariffs, tax and subsidies. Equity, growth, efficiency, and stability are major objectives of tax policy, which are conflicting each other. A tax system based solely on efficiency grounds is unrealistic, while that designed solely for equity purposes cannot be justified on allocative grounds. The degree of progressiveness will, in practice, continue to be dictated by political and social consensus rather than by the optimizing formula of tax economists. However, it is accepted that high tax rates and narrow and selective tax bases can create distortions, encourage unproductive activities, erode the revenue base and lower the effective tax rates below the intended nominal tax rates. Tax cuts without reforms in the tax base can introduce more distortions of efficiency and equity.

Moreover, the literature on optimum commodity taxation has formalized old views among economists about how to make a compromise between the allocative efficiency of consumption and concern for the distribution of income. While in the interest of economic efficiency, tax rates should be relatively high on goods and services for which the demand and supply elasticities are small. For distributional reasons, the rates should be high on goods and services that play a relatively important part in the consumption pattern of high-income earners. Taxes should, ceteris paribus, also be high on goods and services, which are close complements, for the consumers of untaxed or indeed untaxable goods and services like leisure. Quite complex formulae have in fact been derived to strike a balance between these different often conflicting aspects, using a social welfare function as the criterion for the trade-off.

2.2 An Emprical Overview

At first**, P.R**.**Reejal** (1976) in his research, “Revenue Productivity and Equity of Nepalese Aspects of Nepalese Taxation: A Structural analysis for the period 1964/65 to 1970/71” had found Nepalese tax structure, as a whole fairly elastic having elasticity and buoyancy coefficient for the total tax revenue (1.82) and (2.18) respectively. The study found income tax elasticity as high as (4.39) among the different tax heads. The buoyancy of income tax for the period was (3.13). For this period, the difference between buoyancy and elasticity coefficient of income tax is (-1.26). This result indicates the high elasticity of income tax in Nepal is due to “Exemption effect” and “rate effect”. Direct tax as a whole seems to be more progressive than indirect tax having the elasticity coefficient of (2.24) as compared with the indirect tax elasticity coefficient of (1.52). The tax system as a whole had a buoyancy of (2.17) as compared to an elasticity of about (1.82), which indicates the positive impact of legislative changes on the revenue productivity of the tax system.

Govind Ram Agrawal (1980) made an comprehensive study of Nepalese taxation covering the period of 16 years from 1962/63 to 1977/78. He found the elasticity and buoyancy coefficients of different income tax heads with respect to GDP for the period 1967/68 to 1975/76. Both the elasticity and buoyancy coefficients of income tax are greater than unity, income tax in Nepal is positively responsive to change in GDP. The correlation coefficient of income tax elasticity for the period was (0.94), which indicates the good relationship between GDP and income tax. The difference between buoyancy and elasticity coefficients of income tax is only (0.17). This clearly indicates that more discretionary changes should be made to mobilize additional resources through income tax. The base of buoyancy and elasticity of income tax were (2.25) and (2.08) respectively. This shows highest value among any other major tax heads. The weaknesses that he identified in income tax administration during his research are as follow: failure to locate new taxpayer, collection delinquency, poor tax payer compliance, failure to maintain proper account and records, assessment delay, evasion and avoidance.

Bhawani Dhungana (1980) has studied about “Productivity of Nepalese Tax Structure.” This study has basically covered main component of indirect taxation .He had used double log linear function to measure the relationship between income and tax revenue and net series have been arrived by using proportional adjustment method. He found the elasticity coefficient for total tax revenue are 1.24 buoyancy coefficient is 1.73.This study indicates that the Nepalese tax structure of fairly progressive but is not enough to meet the growing public expenditure.

Dr. Govinda Ram Agrawal (1984) has presented a report to ministry of finance entitled 'Direct Tax Reforms in Nepal'. In his report, he has shown resource gap in Nepal was in its increasing trend. So, the dependency on foreign aid was increasing. He has shown an urgent need to mobilize additional resources from domestic resources. He has shown that the growth rate of direct taxes had been lower than the growth rate of total revenue as well as total taxes. Registration fees have the maximum buoyancy where as income tax has the lowest buoyancy, urban property tax has been found to be most elastic. He has strongly recommended a revenue service, political and other pressure should not be subjected to tax administration. Self-assessment should be encouraged. Assessment of small taxpayers should be on a door-to door basis. Capital gain should be included in income for income tax purpose. Most of the suggestions recommended by him have been adopted in the new act.

Madan Kumar Dahal (1984) has studied various aspects of Nepalese tax structure for the period of 17 years from 1964/65 to 1980/84. His study period was divided into two sub groups, the first period consisting of the time series data of F/Y 1964/65 to 1972/73 and the second period consisting of the F/Y 1972/73 to 1980/81. He found the elasticity coefficient of direct tax very less as compared with indirect taxes. The elasticity of land tax for the whole sample period was (-0.39) which was due to the reason of non-responsiveness of the land tax to income and this was our unfortunate because 65% of the total GDP comes from agricultural sector. He concluded that the elasticity of taxes in the tax structure of Nepal was primarily concentrated on land tax, export duty, import duty, export duty, excise duty and to some extend on income tax. The trouble lies apparently with direct taxes and their premier and lucrative components i.e. land tax and income tax which were distressingly inelastic. Land revenue in Nepal lacked progressiveness in rate because it has a flat rate and its base didn’t increase at a rate which was anywhere near the growth of national income. To increase the land tax, land tax can be expanded either by bringing up uncultivated land under cultivation or by increasing the productivity of major crops. Tax revenue cannot be increased through land revenue unless the land tax rate is increased.

Arun Kumar lal Das (1985) has tried to compare the tax and non-tax Revenue Productivity of Nepal. In his study he found the elasticity coefficient for tax and non –tax revenue for the study period are 0.98 and 1.02 respectively, and buoyancy coefficient are 1.77 and 1.53 respectively indicating that the discretionary changes made over tax revenue is comparatively the more effective than non –tax measure. However, the productivity of both is not satisfactory . He has shown an urgent need to mobilize additional resources from domestic resources.

Mr. Upadhyaya (1987) made a research, on the topic of “Elasticity and Buoyancy of Taxation in Nepal: structural analysis of tax responsiveness”. He concluded that the overall tax structure lags the automatic increase in revenue with the increase in GDP. The net effect of discretionary changes was growing in overall tax revenue, showed a coefficient at (0.35) percent of additional revenue growth. Finally he recommended that tax administration regarding import duty and export duty should be made more developed. As a long term program stress should be much given toward improvements and adoption of modern direct form of taxation like income, property and cooperate income tax. Since agriculture was the dominant sector of the economy and land revenue was the less elastic sources of tax revenue, thus, stress should be much given toward adopting more elastic form of agricultural taxation.

Rup Bahadur Khadka (1988), analyzed the “Responsiveness and productive of Nepalese Tax System”. During the study period he found the elasticity and buoyancy coefficient of total tax to GDP were 0.80 and 1.56 respectively. This implies that 1 percent change in GDP will bring out 0.80 percent change in total tax revenue due to the automatic growth and due to discretionary changes. Where is a long boarder a large segment of the economy is yet to be magnetized, business system is still running in a traditional way, geographical structure is rugged, non adherence of standard norms and codes is wide spread, public consciousness level is very low, existing practice of smuggling and under valuation in the border areas is supporting for the under invoicing the successive stages of production and distribution. Further all the rules and regulations are not seen in real practice. Corruption and bribing is wide spread in the tax administration and all other sector of economy. These are the facts, which encourage businessmen for the tax evading practices and make them less responsible to the system.

Hari Dhoj Pant (1991) has tried to study “Structural Change in Revenue Administration of Nepal after the Restoration of Multiparty Democracy”. He has measured tax elasticity as 0.495 for the period 1974/75 to 1983/84 and on the other hand tax buoyancy has declined to 1.28 in the period 1974/75to 1988/89 from 1.37 in 1974/75to 1984/85.During the period elasticity of customs ,excise, sales, and import have improved but elasticity of income contract and hotel tax has declined indicating that efforts to rise revenue through discretionary measure is unproductive.

K.K.Guru-Gharana (1993). In an article “Weaknesses of the Tax Policy and Tax Structure in Nepal” He found that elasticity of tax revenue with respect to GDP in Nepal was extremely low of total revenue with respect to GDP in both sample periods, which indicated that the government concentrated more on introducing various discretionary changes rather than broadening the tax base. Such tax structure is undesirable to support for development activities. Thus, he suggested that the tax policy should have clear-cut direction and consistency with long-run perspective. Tax structure should be as simple as possible, salaried and professional income should be taxed with full administrative force, preferably at the source, and the employers should be strictly made responsible for tax compliance and liable to heavy penalty for non-compliance. Tax assessment and collection officials should be well- trained, well-remunerated and reasonable reward and severe punishments should be enforced, respectively for honesty and corruption. Government has to win the confidence of the people that it is not carefully utilizing the public revenue for the maximum benefits of the people and for delivering the services and discharging the social responsibilities, it is entrusted with only then can the government have the requisite political will and public support for strong revenue administration and adequate revenue mobilization.

Sanjaya Acharya (1994) made a research on the topic of “Income Taxation in Nepal: A Study of its Structure, Productivity, and Problems.” His study period was ranged from 1964/65 to 1989/90. He found that the elasticity and buoyancy of Nepalese income tax revenue with base GDP during the whole period of time were (0.8393) and (1.7969) respectively. Similarly, the base elasticity and base buoyancy of the Nepalese income tax revenue with base GDP from non-agricultural sector were (0.4846) and (1.3507) respectively. In the both cases, the difference was greater than the elasticity. Hence, he observed that the role of discretionary change was greater than the automatic growth in income tax revenue. Therefore, the Nepalese income tax system during that period was buoyant rather than elastic. It can be concluded that the share of income tax amount has been increasing gradually of the direct tax revenue. Thus, income tax is the key component of direct tax. He also concluded that many income tax payers favored progressive tax rate but not the sharp progressively. They suggested fixing the rate at 10%, 15%, and 25% for each difference of RS 50,000 for yearly income of individuals over the exemption limit at current prices. The role of discretionary changes in the Nepalese income tax revenue was gradually increasing. During the period 1964/65 to 1989/90, its value seems to be 53.63% of the total income tax revenue. He recommended that employees in the district level of tax offices should be transferred in every two or three years of interval in order to check the unofficial linkages between them and tax payers. Tax department should be develop effective information network among tax offices, train adequately its employees, and publish tax journal at regular interval of time. To raise the income tax revenue, simplification of the tax structure, legal and administrative aspects, and understanding with the consent of tax payers; were recommended. Faithfulness between tax payers and tax officials should be developed.

Mr. H. B. Bhandari (1994) wrote a dissertation entitled ' Contribution of Income Tax to Economic Development of Nepal'. In his dissertation, he has examined the collection of income tax and its contribution to the economic development of Nepal. He has stated that the actual revenue collection in Nepal is lower than the targets set out. For this, he has pointed out some responsible factors like poor tax paying habit of Nepalese taxpayers, poor tax administrative system, widespread income tax evasion, etc .

G.P. Ghimire (1994) made an empirical study on the topic of "Measuring Responsiveness and Productivity of Tax Yield in Nepal's Tax Structure. He had submitted his empirical findings as a dissertation to Central Department of Economics, Kirtipur, Kathmandu. He studied during the period of 1972/73 to 1991/92. Therefore, Nepalese taxes were not responsive to their income during that period. The elasticity coefficient of indirect taxes was marginally higher than the elasticity coefficient of direct taxes. The reason for negative elasticity of land tax in Nepal was that the rigidity of tax structure and inflexibility of tax base. The elasticity of major direct taxes (land tax, income tax, and registration fee) which contributed about 16.2 percent of the total tax revenue and 1.3% to total GDP was less than unity (0.1430).

Thus it is understood that the share of the direct tax revenue to total tax revenue was very low during that period. According to his analysis, it is found that the values of elasticity coefficients of all tax heads were less than unity, meant that it was inelastic in nature during that period. His study also showed that tax revenue pattern was heavily depended upon indirect tax rather than Direct tax but direct tax system is considered to be the best means of progressiveness type of tax system. He has pointed out some responsible factors like poor tax paying habit of Nepalese taxpayers, poor tax administrative system, widespread income tax evasion, etc .

Mani Nepal (1995) made a research, on the topic of "Structure and Responsiveness of Nepal's Tax System". He studied the elasticity and buoyancy of Nepalese tax system during the period of

1968/69 to 1992/93. The elasticity of selected group of taxes was rather divergent. They were ranging from (0.14) for direct taxes to (1.14) for the non-tax revenue were less than that of total revenue, the system as a whole could not be considered elastic and responsive to national income. The tax-wise analysis became more significant as the elasticity of indirect tax (0.61) was almost four times greater than that of direct tax (0.14). This was the greater challenge for Nepalese fiscal authorities, contrary to the general acceptance as direct tax was seemed to be more progressive than indirect tax, which was really a paramount problem for the government also, who wants to increase the share of direct tax in total tax structure. Elasticity of income tax (0.48) was even less than that of total tax revenue. This may be due to the exemption of agricultural income from tax-net which leads to narrow the tax bas, and due to high evasion caused by loopholes in tax-law. According to his findings, share of direct taxes were declining due to lack of appropriate tax policies, lack of administrative competence to implement the policies, the exclusion of agricultural income from the ambit of direct tax net and the high exemption limits of income to make it taxable. More than 60% of tax revenue was contributed through indirect taxes implying regressive tax policy of the country. In Nepal, tax-GDP ratio was 7.1% which was less than one-half of the average tax-GDP ratios of developing economy indicating that Nepal is one of the low-tax nations. One of the most important recommendations that he made was “real estate investment was flourishing during the past few years which was an unproductive in the economics sense. So, if capital gains were not taxed, there was an incentive to transfer income into untaxed capital gains which helps to locked up capital in the unproductive investment. Hence, the definition of income tax should be extended to include capital gain which helps to correct distortions in the resource allocation.

R.P.Adhikari (1995) empirically measured the elasticity and buoyancy of major Nepalese taxes including total revenue during the period of 1974/75 to 1993/94. This period was further divided into two sub-periods (i) from 1974/75 to 1983/84 (first sample period). He found that buoyancy of overall revenue was much more higher (1.10) in comparison with lower elasticity of overall revenue (0.65) in the whole sample, implying that 1 percent change in national income affects (0.45) (1.10-0.65) percent change in the revenue due to discretion measures. He also found that elasticity of total revenue of first sample period was very low (0.40) in comparison with the elasticity of total revenue of whole sample period (0.68), implying that the built-in-flexibility of the tax system is improving considerably over the first sample period. On the other hand, the difference the elasticity and buoyancy of second sample period acclaimed (0.37) percent, which was smallest in comparison with both whole sample period as well as first sample period. This implied that Nepal had greater scope for increasing revenue with comparatively lesser degree of discretionary measures in future.

Mr. S. K. Kharel (1996) presented a dissertation entitled 'Self Assessment under Income Tax Act in Nepal.' In his work he has made a review of tax laws about self-assessment, analyzed the problems faced by the assessor while doing the self-assessment of their own income and made relevant recommendation to reform income tax laws as well as administration in future. He has concluded that self-assessment of tax is a suitable means of raising domestic resources and it would be effective if taken seriously. He has further expressed that the effectiveness of self-assessment of tax depends upon its appropriate reformation. He has pointed out some responsible factors like poor tax paying habit of Nepalese taxpayers, poor tax administrative system, widespread income tax evasion, etc .

Lal Mani Ghimire (1998) has prepared a dissertation, entitled "Value added Tax: Key Issues in Nepal." According to this study, administrative capacity, organization structure, audit and inspection style, reward and punishment, political intervention, selection of skilled and experienced manpower are needed to improve for effective implementation of VAT among which the first time is not challenging. So more, revenue can be generated only if VAT is extended through retail level, which needs proper and adequate preparation to make the retail stage. The exiting major problem of VAT implementation in Nepal is existence of small trades in large proportion, lack of large amount of unauthorized trade from accounting records, illiteracy and high compliance cost, the existence of broader and India to Nepal poses a great threat to the success of VAT in Nepal. Strong administration, educational program, existence training program, technical data base system, combination of various revenue offices high level VAT implementation terms, co-ordination of VAT department close co-operation between government and private sector etc. are essential pre-requisites for the successful implementation of VAT in Nepal. Focusing on the ever increasing resource gap, inefficiency in sales tax and need of revenue for handling developmental works, VAT should be implemented in Nepal "VAT is applicable in Nepal " and is more useful then sales tax system. This is necessary for making the system broad based, neutral stable, and more, transparent and eliminate growing fiscal deficits as well as to lower dependency on foreign loan.

Rup Bahadur Khadka(2000), in his book " The Nepalese Tax System" reviews the overall Nepalese tax system and tax administration. He also examines the different steps that are taken in the process of developing tax system in Nepal. Further, he recommends so measures to design the tax system that is broad-based, low rated, neutral, simple and transparent, and also some essential measures for the reforms of tax administration are suggested. The current issues of the Nepalese tax system identified are: (i) lack of co-ordinate long-term strategy (ii) narrow coverage (iii) artificial tax base (iv) defective organizational structure (v) weak and traditional tax administration (vi) traditional and complex procedures (vii) un-enforced local taxes. The study concludes that tax officials are mostly responsible for the existing problem of tax system and the hesitation of the policy makers to take hard decision is also being boundary to clean tax system. The following steps are suggested to take in order to rationalize tax system;(i) Adopt a long term co-ordinate approach (ii) Broaden the tax base (iii) Enhance the tax compliance (vi) implement local taxes. Along with these existing issue and suggestions, the study considering the introduction of VAT in Nepal in states that there was no choice other than to introduce VAT in Nepal to generate revenue required for improving its deteriorating macro economic performance. As VAT is based on transition value, need not to fix arbitrary or artificial values for tax purpose, which avoids the existing problems of under valuation, corruption, non-transparent etc. Achievement of this good feature of VAT depends up on its implementation, which is the major issue for its success in Nepalese context.

C.L.Shrestha (2001) made an empirical study on the topic of “Elasticity and Buoyancy of Nepalese Taxes with Special Reference to Custom Duties in Nepal”. He submitted his findings to Patan Multiple Campus. He found that the buoyancy coefficients of the total tax revenue was (3.24), indirect tax (3.25) total custom duties (3.26), import duties (3.19) export tax (2.49) respectively. Buoyancy coefficient of the custom revenue was the highest in value (3.26). This high value of the coefficient of customs buoyancy and its share in total revenue (for the year 1993/94 it was 34.2%) implied that the customs revenue can be a major source of government finance for coming days also. Similarly, the elasticity coefficient of the total tax revenue was (0.55) followed by direct tax (0.68), indirect tax (1.58), custom duty (-0.77), import plus DRP revenue (1.29). import revenue (1.28), export revenue (-2.46). The coefficients of both buoyancy and elasticity were also low except the buoyancy coefficient of custom duty to base (0.802) indicated a poor relationship between base and tax. That is change in base only cannot bring desire change in the tax revenue and some other factor were also responsible which were to be applied to bring the change in the tax revenue structure. The buoyancy coefficient of direct tax was (3.24) which implied 1% increases in GDP would help raise the direct tax revenue by 3.24% taking into consideration of all efforts of discretionary change. He showed that total tax revenue was affected by other taxes.

Mr. K. D. Dhakal (2002) presented his revised edition of his book ' Aayakar tatha Ghar- jagga Kar Sambanbhi Kar ra Lekha'. This book was based on Income Tax Act, 2031. This book is very much useful in getting knowledge about history of taxation and the practice under the previous act.

N. Chapagain (2003) made a research on the topic of "A Study of Tax Structure of Nepal: Elasticity and Buoyancy Measurement." He submitted his findings to Central Department of Economics, kirtipur as a dissertation. He studied the elasticity and buoyancy of Nepalese tax system during the period of 1976/77 to 2000/001. This whole sample period was divided into two sub-divided period (a) from 1976/77 to 1990/91 was the first sample period and (b) from 1991/91 to 2000/01 was second sample period. He found that the direct tax had contributed 19.17% of total tax revenue and indirect tax had contributed had contributed 80.83% of the total tax revenue during his study period. This showed that indirect tax had played a dominant role in Nepalese tax structure. The elasticity of the total revenue for the whole sample period was very low (0.65) in comparison with the buoyancy of the same sample period (1.13). This indicated that the revenue productivity was very low and revenue mobilization for the development activities heavily depended upon the discretionary changes. The elasticity coefficient of direct tax revenue to GDP for the whole sample period from 1976/77 to 2000/01 was (0.57) respectively. Estimated elasticity of income tax revenue to GDP during the same sample period was (0.50), which was also less than unity, indicated less responsiveness to GDP growth. He found the buoyancy coefficients of total revenue to GDP for the whole sample period was (1.13) followed by direct tax (1.19), indirect tax (1.09), and income tax (1.36). Total land registration revenue as a direct revenue contributed (0.74) but land revenue contributed for the same sample period was (-0.90) which was negative due to low rate of tax rate on land. The share of direct tax which was 19.17% of the total tax revenue in the first sample period had increased marginally and become 21.86% of the total tax revenue. But the share of the indirect tax revenue decreased from 80.83% of tax revenue in first sample period to 78.13% in the second sample period. Similarly, the share of the major components of direct tax had increased significantly and become 71.01% of the total direct tax in the second sample period. Income tax, the premier component of direct tax had quite low elasticity of (0.19) in the first sample period of study (1976/77 to 1990/91) but had increased significantly to (1.22) in the second sample period (1991/92 to 2000/001). This implied that the better prospects of Nepalese tax structure can be hoped from this source of revenue. Thus, tax base should be extended to new group of income earners to expand the tax base rather than burdening the existing tax payers. Salaried income, professional-class income and income from private institution, income from doctors, income from private school, collage should be taxed with full administrative efforts.

Dr.Puspa Raj Kandel (2003) in his book “Tax Laws &Tax Planning in Nepal” he writes that the tax revenue mobilization in Nepal is very small. It is insufficient even to meet the ordinary expenses. There is urgent need of increasing the revenue in the country to meet regular expenditure and afford for development activities. For increasing tax revenue or broadening the base of tax, there is need of taxing the service sector too in Nepal. Service sector is the flourishing sector of the Nepalese economy. It contributes a significant part of the GDP in Nepal. Transportation, telecommunication, hotel business, health services etc. are the example of service sectors. He mentioned that one of the reasons of introducing VAT in Nepal was the pressure from international financial agencies like International Monitory Fund, World Bank, Asian Development Bank, European Union etc. All these agencies pressurized to introduce VAT in Nepal. “Countries introduce a VAT because they are dissatisfied with their existing tax structure. This dissatisfaction falls broadly into one, or possible all, of four categories,

1. The existing sales taxes are unsatisfactory.
2. A customs union requires discriminatory border taxes to be abolished,
3. A reduction in other taxation is sought,
4. The evolution of tax system has not kept pace with the development of the economy.”

Mr. Bidhyadhar Mallik(2003) published a book named 'Nepal ko Adhunik Aayakar Parnali'. This book is very much use full to anyone who is interested in the subject of taxation. In his book, he has explained Income Tax Act 2058, with examples where ever necessary. He has presented the complex act in simple manner so that it will be easy to understand the act. He has shared his expertise in his book. His book is descriptive and analytical. All the provisions in the act have been clarified in simple language. He has also clarified why some of the tax-exempted amounts have been brought into tax net by the new act. In some cases, he has also compared the provisions of the old act and the new act.

Prof. Dr. Chandra Mani Adhikari (2003) wrote a book entitled ' Modern Taxation in Nepal: Theory and Practice'. This book also has been written according to the syllabus requirement of different faculties. Especially, the BBS 3rd year syllabus of Tribhuvan University has been taken into consideration. Income Tax Act, 2058 as amended by Finance Ordinance, 2060 has also been included. Theoretical as well as practical aspects have been put in the book.

Mr. D. B. Palli Magar (2003) wrote a thesis entitled 'Income Tax in Nepal: A Study of Exemptions and Deductions'. He has studied the exemptions and deduction provided by the Income Tax Act, 2058, problems and weal messes in income tax system, contribution of income tax to government revenue and suggested possible areas of reform. He has stated the need for clarity in provisions and language of the Act. He has recommended ten slabs for taxing the incomes of taxpayer- first rate being 5% and the last one being 55.

Girija Prasad Koirala (2004) presented a dissertation named "Contribution of Remuneration Tax on Income Tax". He tried to identify the contribution of tax from employment income to public revenue of Nepal. He also tried to analyze the effectiveness of income tax revenue collection from employment income.

Mr. Jadgadish Agrawal(2004) published a book named, 'Income Tax Theory & Practice'. This book is use full to anyone who is interested in the subject of taxation. Mr. Agrawal has explained Income Tax Act 2058 in his book. He want to serve all the concerned people like tax practitioners, chattered accountants, registered auditors, accountants, and other managerial personnel in big organization. The book is also sources of information on the subject of income tax. He explains in brief fixed assets and depreciation treatment on income tax purpose and Mr. Agrawal provides a schedule for depreciation.

Alok J. Sakya (2005) made an empirical study on the topic of “Structure and Responsiveness of Nepalese Tax System during the period of 1976/77 to 2002/03. He submitted his findings to Central Department of Economics as a Dissertation. His study was based on two sub-sample periods. The first sample period was 1976/77 to 1990/91 and the second sample period was 1991/92 to 2002/03. Data mentioned above revealed that all buoyancy coefficients are higher as compared with their respective elasticity coefficients of Nepalese tax system during the various periods. This indicates that the automatic response of revenue to GDP is discouraging and if there had not been a series of discretionary measures even the present low revenue mobilization would not have been possible. The Share of the Direct taxes was very low as compared to the share of indirect taxes. He finally recommended that tax bases should be expanded because the elasticity of Nepalese tax system is very low. Nepal should not be highly depended on custom duty only but taxes on profit, property, income tax excise duty, VAT, land revenue and registration etc. must be ensured.

P.R.Reejal (2006) made a research, on the topic of "Income Tax In Nepal, Structure, and Productivity and Problems", during the period of 1988/89 to 2004/05. He submitted his findings to Central Department of Economics, Kirtipur as a dissertation. He studied the elasticity and buoyancy of tax yields by classifying two streams i.e. (a) Elasticity and buoyancy of Nepalese income tax revenue with base GDP and (b) base elasticity and base buoyancy of Nepalese tax revenue with base GDP from Non-agriculture sector. He found that the elasticity and buoyancy income tax with base GDP are (1.00) and (1.74) during the period of 1988/89 to 2004/05 respectively. The difference between buoyancy and elasticity is (0.74), which indicates that one percent change in GDP causes (0.74) percent change in income tax yield due to discretionary changes, which measure the productivity of tax revenue through discretionary change when there was one-percent change in GDP. Similarly, the base elasticity and buoyancy of Nepalese income tax revenue with base GDP from Non-agricultural sector are (0.89) and (1.54) respectively. The difference between base elasticity and base buoyancy was also significant (0.65). In both of the cases, the difference was less than the elasticity coefficients. The role of discretionary change in income tax revenue was less than the automatic growth.

Thus, it can be concluded that Nepalese income tax system in to some extend was elastic rather than buoyant. The base elasticity was (0.89) which was less than unity and it showed that most of the income tax in Nepal during that period came from Non-agricultural sector: according to his research, income tax had contributed 80% of the total direct tax revenue in 2002/03. The contribution of income tax in direct tax was increased significantly and reached about 94% in 2000/01 but thereafter, it began to decrease owing to insurgency as well as implementation of account based income tax act 2002, which had more liberal provisions regarding the deduction of expenses in 2003.

Annual Report of Nepal Telecom (2007) has written that the operating revenue of the company has increased from Rs.720 crores in the fiscal year 2002/03 to Rs 1300 crores in the fiscal year 2006/07. Financial and economic sustainability of the company could be easily judged comfortably" due to the fact that net profit available for appropriation has increased from Rs 300 crores in the fiscal year 2002/03 to about Rs 7 arab 94 crore in the year 2007/08. It has target of reaching Rs10 arab 13 crore in the fiscal year 2008/2009.

ekantipur.com includes the title" **Economy slows but corporate pay more tax (2007)"** This article has concluded that despite the economic jitters brought about by the continuing political turmoil, leading Nepali corporate houses posted a handsome double-digit growth - in paying taxes to the government over the past year.

In fact, of the total income tax of Rs 14.61 billion that the government collected in 2006/07, one-third came from just 10 corporate taxpayers, figures of the Ministry ofFinance show. The government, in the fiscal year 2005/06, had collected Rs 10.93 billion in income tax. "However, rather than being proud that the companies prefer not to disclose their contributions to the revenue and to transforming people's lives. They do so to avoid various extortion groups," said an official. The list of the top ten taxpayers gathered by the Post shows that Nepal Telecom (NT), the state-owned telecommunication service provider, is the largest taxpayer of the country. The company provides many services to about a million mobile users and half a million landline holders and they paid Rs 2.38 billion in income tax and generated an additional Rs 2.42 billion as value added tax (VAT) during the last fiscal year. **www.ird.gov.np** concluded that VAT replaces the old sales Tax, Contract Tax, Hotel tax and Entertainment tax. It has been designed to collect the same revenue and to replace as the four taxes. Since the collection of both customs duties and income tax depends to great extend, upon the effectiveness of VAT, it is expected to help enhance revenue collection. VAT is a broad – based tax as it also covers the value added to each commodity by a firm during all stages of production and distribution. It is a modern tax system to improve the collection of taxes, to increase efficiency and to lessen tax evasion. It is also regarded as the backbone for the revenue generation to government.

Sandesh Magazines of NTC (2008) includes the topic "Revenue **Generation of Nepal Telecom, Trend at Glance** "Nepal Telecom is one of the prominent organizations of Nepal. There is 55.08 percent increase in total income during the fiscal years 2000/01 to 2004/05 where 357.8 percent increase in revenue from the mobile and internet services in the same period. Contribution of each employee has increased by 23.42 percent during the period. Tax payment to the government has increased by 81.21 percent and contribution to the Gross Domestic product (GDP) of nation has increased by 0.07 percent during the period. Nepal Doorsanchar Company i.e. Nepal Telecom is one of the most benefited companies of Nepal. It is dominant company of Nepal in service sector delivering its services in the beginning from the name of the Nepal Telecommunication Corporation and then Nepal Telecom since 2061 Baishakh. Nepal Telecom is completely technological organization. It has techno-earning revenue generating services. It is very tough task continuous upgrading of newly modified technological changes in the country like Nepal. Despite this, Nepal Telecom is looking to change in technical advancement as much as possible. 55.08 percent increase in total revenue of Nepal Telecom during the period of fiscal years 2000/01 to 2004/05. In which, 69.40 in local Telephone, 18.32 percent in Domestic Trunk and 36.83 percent in International Telephone and 351.87 percent increase in Mobile and Internet services. Similarly, there is 97.48 percent decrease in Tele Fax service, 52.96 percent in Domestic telegraph, 67.19 percent in International telex and 62.93 percent in Leases Circuits. Besides these, 54.04 percent revenue has been increased in other revenue generating activities. 55.08 percent increase in revenue in which only 23.42 percent increase in number of employee during the period. The contribution of each employee was Rs. 1279.3 thousands in the fiscal year 2000/01 and Rs.1608.2 thousands in the fiscal year 2004/05. But Total revenue is increased by 55.08 percent. So, 29.43 percent extra is increased income is due to the technological advancement.

Nepal Telecom is one of the best tax payers of the country; it has remarkable contribution in government revenue. Rs. 761018 thousands was paid as tax to the government in fiscal year 2000/01 which is 0.19 percent of GDP of same fiscal year. Rs.1379068 thousands was paid in the fiscal year 2004/05 which is .26 percent of the GDP of same fiscal year. There is 81.21 percent increase in tax to government during the period in which contribution to GDP increased by 0.07 percent.

The Katmandu Post(2008) , includes " Six years of VAT practice sparks hopes" Experts and top government officials today said that existing rate of VAT should be increased and its base widened, if the country is to avoid revenue deficit-a situation when revenue fails to meet the regular expenditure. "Rate of VAT should be adjusted to increase its contribution in total revenue mobilization and it is only way to address the growing problem of resource scarcity," said Dr Shankar Sharma, vice chairman of National Planning Commission (NPC) However, he added that while adjusting the VAT rate, rates of other taxes and other factors like VAT exemption should also be reviewed to negate the adverse impact of VAT rate increment on the national economy. Such statements from the experts and officials have come in the context that total international revenue mobilization failed to finance the regular expenditure in the last fiscal year, let along the development expenditure.

Justifying the argument, Dr Sharma said that the government could not afford to increase domestic borrowings or look to foreign loans, which is already high, in case of problem. He further said that the contribution of the VAT must also be increased to raise revenue- GDP ratio to 14 percent from current 12 percent, as envisaged in the 10th plan document Referring to long-running problems in effective VAT enforcement, he said that the proper market mechanism and incentive system should be developed for aggressive enforcement of billing system. “It should be dealt through awareness campaign at customers‟ level. “He added. Dr Sharma was speaking at an interaction programmed on “sixth years of VAT implementation” organized by the Society of Economic Journalists- Nepal (Sejon). Speaking on the occasion, Banhu Prasad Acharya, Secretary at the ministry of finance said that the government is soon launching a lottery programme to award gifts to the consumer who collects bills on buying goods. The program, which is being designed as per the budgetary announcement for this fiscal year, aims at enforcing billing system. He also stressed on the need to develop and update the customs valuation for controlling under-invoicing, another crucial factor that has rendered VAT implementation ineffective.

Avanindra Kumar Shrestha, Director General of Inland Revenue Department (IRD) said that the department is undertaking taxpayers' survey, starting market inspection programmes to enforce billing and simplifying process to tax refund, among others Highlighting the progress in VAT implementation during last six years, he said that mobilization of revenue through VAT increased to about twofold to Rs 13.58 billion from the year of its introduction. Moreover, it contributed some 32 percent in tax revenue, 24.58 per cent in total revenue mobilization and 3.17 per cent to the country's GDP in the last year. "Through the years, VAT has been established as a major source of national revenue," he added He also noted that the outcome was still nowhere near satisfactory point. While a significant chunk of taxpayers have not yet registered at VAT, under-invoicing and no issuance of bill are still the main challenges that VAT needs to overcome. Lack of proper accounting, excessive credit returns, high accumulation of tax credit and audit problems have also affected the VAT implementation, added Shrestha Shedding light on Vat's growth, Dr Rup Khadka, tax expert, said that the despite lower rate, revenue collection through VAT is already higher than the other taxes. “However, the government cannot afford to remain content on the current growth trend, especially as challenges in fiscal front are mounting," he said. He viewed that the government should stick to existing threshold limit of Rs 2 million and suggested imposition of VAT in agriculture sector. He recommended the government to incorporate ' drastic ' changes in VAT and scrap VAT exemption to ease fiscal scenario.

The Rising Nepal, Editorial Section (2009) includes, "**Revenue Collection Up".** In this articles what has been themed that the economic front has seen a positive trend over the last one year. The economic variables and indicators have shown that the country's economic health is positive and improving. On the revenue collection front, the government has done a remarkable job. In the first ten months of the current fiscal year, revenue mobilization has grown by 40 per cent, to Rs. 110.51 billion, which is almost double that of the previous year. The first ten months of the last fiscal year saw revenue collection of Rs. 79 billion only. The country's economic health is judged by the revenue it collects. Based on this, the performance of the government is satisfactory, and the economic health of the country is heading in a positive direction. One of the visible achievements is the large bulk of revenue collected under the voluntary disclosure of income sources. There are other sectors as well which have seen tremendous reform and improvement. However, there is still not much room for complacency. Nepal is struggling hard to stabilize and accelerate the pace of economic growth. The basic groundwork has been laid to stimulate both growth and development in a sustainable way. But its strict implementation and continuity as well as effective monitoring are highly needed to maintain fiscal discipline, effectively implement projects and monitor the progress and performance.

Sandesh Magazines of NTC (2009) has written that NTC can contribute more than present to the government revenue, if it changes existing structure. From the beginning of establishment, it uses functional type structure. This structure is chosen for the services of PSTN. Now NTC has lot of services. It has mixed structure. Being in such type of structure for a long time is harmful for the competition and opportunity of the organization. Over two years, no. of consultant of NTC has been engaged for the proper selection of the structure. It is very necessary to follow up the concept of SBU (Strategic Business Unit) structure. Organization needs to divide corporate unit and Business unit. Corporate unit should have the objective of defining objectives of the organization, strategic planning & policy making. Business unit should do function like, Marketing, Human Resource Management, Financing etc.

Sandesh Magazines of 2009 Includes the article "Nepal Telecom & challenges after2010" Formally telecom service was provided mainly after the establishment MOHAN AKASHWANI in B.S 2016. It has customer more than 35 lakhs. It covers around 90 percent of total communication markets. Its earning capacity is good. In the fiscal year 2064/65, it earned 9 Arabs. It occupies the topmost position to contribute tax to the government. It has mission to provide nation-wide reliable telecommunication service to serve to impetus to the social, political and economic development of the country. But Now-a days customers are not satisfied with the services. They are facing different kinds of trouble. No. of telecom company has been increasing. NTC has different kinds of strategy. But it has seen that implementation aspect is not so strong. Strategies are limited in the printed form only. Nepal Telecom may face different kinds of challenges & opportunities after 2010. Nepal also enters into the global market. It becomes the member of WTO in 2004, 23rd April. After 2010 NTC will face different kinds of International Telecommunication. Technologies are changing day by day. International Telecom uses technology like 3G/4G, High Speed Data services, On Demand Music Services, Digital TV, IMS Technology, IP Based Services with different Value Added Services. Customer of NTC is facing problem in General services. Because of different problems in infrastructure of the county, Nepal Telecom cannot solve general problem too. This concludes that NTC will face tough competition in coming future. To cope the opportunities and to solve the threats, NTC should choose proper structure and should know the pace of technology.

Dipendra Raman Neupane (2008), presented a dissertation named, “A Comparative Study on Contribution of Direct Tax and Indirect Tax to National Revenue of Nepal” His findings was; resource gap in Nepal has been morally increasing the internal revenue is sometime insufficient even to meet regular expenditure and most to the development activities depend on foreign aid where Nepal has been compelled to harmonize the donor. He point out that the major problems of domestic resource mobilization are poor utilization of the natural resource base, small and stagnant industrial sector, poor performance of public sector enterprises, poor economic growth and inadequate tax effort etc. So, in this context, revenue generations from internal sources are very important in which income tax and value added tax are the major sources.

He said that corporate Sector is in initial stage of development in Nepal which is small and stagnant in nature comparing to other developing country. The performance of corporate sector, especially the industry is very poor in number, profitability, investment in fixed assets, share of market transactions are all in weak position Nevertheless, the importance of contribution of corporate income tax and value added tax to government revenue is equally important to Nepal like developing country.

2. 3 Conclusion

Tax reform is one of the most important concerns of any country's fiscal system. In the context of Nepalese tax structure various researchers have contributed various findings. So, these findings collected from various researchers suggest that the government of Nepal has been applying discretionary changes to increase its revenue pattern. Besides this, tax evasions, exemption, weak administrative effort, corruption, lack of modern equipment to keep the data well, lack of well trained tax collection officials are the key negative factors in Nepalese tax environment.

Nepalese tax administration is on the way of its modernization process. Tax reform agenda have been oriented towards enhancing tax compliance of the taxpayers and reducing compliance and collection cost. Moreover, reform initiatives have been focused towards developing equitable, fair, and neutral tax system required for creating an investment friendly climate to ensure economic growth and development.

The Inland Revenue Department (IRD) has realized the burning need for bringing about positive changes in increasing taxpayers' compliance level; motivate tax officials to pay due attention towards educational and promotional activities for helping taxpayers understand and meet their tax responsibilities; and apply tax laws with integrity and fairness to all. Tax laws, job specification, performance indicators, periodic revenue and other functional targets are main sources of job responsibility of the tax officials. These responsibilities will be accomplished with the help of clear and concise annual work plans.

Apart from this, the management seminar has luminously declared some additional reform agenda discussed in subsequent headings hereafter. It is believed that these reform agenda will help to collect expected tax revenue with honoring our motto "**Our tax contribution for our own development and for creation of modern and prosperous Nepal."** In addition to this, internal revenue mobilization will further be consolidated to reduce revenue gap and develop a sound fiscal framework. We believe that the extended Tax Enforcement Campaigning Year will mitigate non-registration risk, non-payment or under payment risk and non-reporting or under reporting risks. We all are hereby committed to promote proper and fair taxation system by enhancing voluntary tax compliance behavior in Nepalese tax system.

It can be concluded through the observation made on the research by various researchers that contribution of direct tax revenue in Nepal is very low as compared with the contribution of indirect tax revenue. The government of Nepal has been heavily dependent on indirect tax revenue. Hence an attempt is made in the present study to address the contribution of direct tax on revenue mobilization in Nepal from 2005/06 to 2011/012 A.D.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology describes the methods and process applied in the entire aspects of the study. The basic objective of this study is to evaluate the structure and contribution on revenue mobilization of direct tax in Nepal. The present study has basically descriptive as well as analytical in nature. For the purpose of present study tax is taken to mean any compulsory payment without any direct benefits. The revenue sources of the government of Nepal are shown under the heading of indirect tax, direct tax and non-tax revenue.

3.2 Research Design

It is not possible for the researcher to conduct a research work without research design. Most of the data and information of the study are concerned with past phenomena. After the collection of past data and information, this study analyzed and described its own procedure. Thus this study is based on descriptive research design.

3.3 Sources of Data

In this study entitled "The role of direct tax on revenue mobilization in Nepal", secondary sources of data are basically used.

The sources from where the required data are obtained are as follows:

i) Budget speeches of various years (MOF,G/N)

ii) Economic Survey on various issues (MOF,G/N)

iii) Statistical abstracts of Ministry of Finance (MOF,G/N)

iv) Other national publications related to income, property and land taxation in Nepal.

v) Various Publication of NRB.

This study is based on time series data for the Nepalese economy from the period of 2005/06 to 2011/012 A.D.

3.4 Variables Under Study

Although this study is mainly focused on the structure of direct tax revenue from the period of 2055/56 to 2069/70BS but to know the actual structure of direct tax revenue is almost impossible without studying the revenue structure of indirect tax parallel to the study of direct tax. Thus, the revenue share of indirect tax will also be measured besides the purposed one.

Total revenue is divided into two streams.

i) Total tax revenue and ii) Non-tax revenue.

Total tax revenue is also divided into two ways:

i) Direct tax ii) Indirect tax

Under the study of direct tax revenue, four major revenue heads are considered:

i) Income tax revenue

ii) Land tax revenue

iii) House and land registration fees

iv) Tax on Property: Vehicle Tax and Urban House and Land Tax

The components of income tax revenue are as follow:

i) Income from employment

ii) Income from business & Profession

iii) Income from Investment

iv) Casual Income

The components of indirect tax revenue are as follow:

i) Custom duties

ii) Import duties

iii) Excise duties

iv) Export duties

v) Sales/VAT

We have included Hotel tax, Entertainment tax, Air flight tax and Contract tax, road and bridge maintenance tax in others. In the case of the different heads of indirect tax, they are not studied separately but indirect tax as a whole.

3.5 Methods of Analysis

This study was based in descriptive as well as analytical methods for the presentation and analysis of data. At the time of presentation and analysis of data, mainly secondary sources of data were edited and processed. Table, graphs, diagrams and time series analysis are used for the purpose of presentation and analysis of data.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

This chapter comprises mainly into two headings i.e. the provision of income tax, in Nepal and the contribution of income tax on revenue mobilization in Nepal.

4.1. The Present Provision of income Taxation in Nepal

4.1.1. The History of Taxation in Nepal.

Although, Reliable records about taxation in ancient and medieval Nepal are not available, however, it takes its earliest form in the actions of petty rulers, scattered in various parts of the country which extracted levies and to us from the travelers and merchants.

4.1.1.1. Taxation During Ancient Period

In the Lichhavi period, taxes were known as “Trikar” which means three kinds of taxes. They were “Bhaga” “Bhog” and “Kara”. Among them Bhaga tax was levied on agriculture, the Kara tax was levied on business income and Bhoga was on animals. Although land tax was the major source of government revenue in ancient Nepal, however, there were existed other form of taxes such as irrigation tax and religious movement preservation tax in the time of king Amsuvarma of Nepal. In ancient Nepal, taxes were levied in the form of kind, cash, and labour. Specific portions of agricultural products were payable to the king as tax. Taxes were also paid in the form of gold during that period. Fixed taxes were levied in village. Compulsory manual work from all artisans and laborers was also common way of paying taxes. The taxation was temporary and taxes were raised for special purposes. (Agrawal)

4.1.1.2 Taxation During Unified Nepal (1768-1816)

Taxation during the period of unification, the key sources of revenue in Nepal were land and homestead taxes, monopolies customs, transit and market duties, mines mints, the export of forest products, birds, animals and various levies and fines. Maximization of revenue was the main objective of the tax policies during that period. Local administrators were directed “to take whatever is paid willingly by people.” The taxes were usually collected at three levels.

Royal Palace: To finance occasional and ceremonial needs. The taxes were broad based and progressive.

Government: To finance the administrative military, and other purpose, assessed on official functionaries, occupational groups and other people.

Local: Perquisites of local officials given on contracts. In some parts of Terai region, taxes were collected at specific rates on jewelers, textiles, falcons, horses, elephants, homespun, cloth, yarn, blankets, borax, wax paper, iron, paper, tobacco, herbs, drugs, cotton, salt, yak's tail, musk, sheep and goats.

The various taxes levied during that period were narrow in base and were imposed primarily on occupations and economic activities, not on income and property. The system of direct taxation was confined to land tax and special levies like "Darshan Bhet", "Salami", "Walak", etc. There was no taxation of income in the modern sense of income tax. Once the transaction is made from a tax on commodities to a personal tax on consumer expenditures, the spending tax may be applied with progressive rates, no less than the income tax.

4.1.1.3 Taxation During Rana Regime in Nepal (1847-1951)

Imposition and collection of taxes during the 104-year oligarchic rule of the Rana family in Nepal prior to 1951 was the prerogative of the feudal rulers. Only those taxes were imposed to suit the objectives, needs and whims of the then ruling prime minister. Income and expenditure of the state were not made public. No budget was over framed during the Rana regime. There was no difference between the income of the state and the income of the then prime minister.

The major sources of revenue in Nepal till 1951 were land tax, custom and excise duties in the form of lump sum contrasts, royalties on felling of trees, royalty on supply of porters and soldiers, entertainment tax, and a few other minor taxes, there was no direct tax in the country except land tax collected on a contractual basis and 'salami' which the government employees used to pay out of their salaries at a very small percentage. The "salami" was abolished in 1951. Since most of the revenue in Rana Regime was collected by award of periodic contracts; the need was not felt for the development of effective revenue administration system. The Rana rule was side lined in 1951. Since then, no taxes are levied and collected in Nepal except in accordance with law.

4.1.2 History of Income Tax in Nepal

Income tax was imposed in Nepal by the first parliamentary Government in 1959. Income tax Act 1962 was enacted in 1962 replacing Business, Profit and remuneration 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 replaced and the existing income tax act, 2058 became effective since Chaitra 19, 2058 (01, April 2002). The act governs all income tax matters and it's applicable throughout the kingdom of Nepal. It is also applicable to residents residing wherever outside Nepal. The taxation of property as a source of development finance has a particular attraction in those underdeveloped and developing countries.

4.1.2.1 The Special Features of Income Tax Act 2058

a) The act has broadened the tax base by including capital gain. Tax rates are spelled out in the act itself and the tax rates and concessions are harmonized on equity grounds.

b) A full-fledged self-assessment system is implemented and the presumptive taxation and current year taxation systems are strengthened.

c) 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.

d) The act has separated administrative and judicial responsibility by distinguishing civil liabilities of the tax payers from criminal liabilities.

e) The appeal system is further strengthened by making it mandatory for the taxpayers to file an objection with Inland Revenue Department for administrative review before appealing to the revenue tribunal.

4.1.2.2 Income Heads

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

1) Employment (an individual's remuneration income for an income year)

2) Investment (profits and gains of a person conducting for an income year)

3) Business (profit from conducting a business for an income year)

4) Casual gain.

4.1.2.3 Taxing Subjects

The taxpayers 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. equity. Equity means a partnership, trust, company, and foreign permanent establishment of 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 in Nepal for 183 days or more, or 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 in Nepal, or has a resident person as a trustee, or is controlled by a resident person. A company residing in Nepal and 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 subjects to tax if they belong to a non-resident person and are situated in Nepal.

4.1.2.4 Income Year

For every person the tax is imposed and calculated for an income year. The individual income year corresponds with Government's fiscal year, i.e. the period from the start of Shrawan of a year to the end of Ashad of the following year (mid-July to mid July).

4.1.2.5 Assessable Income

The assessable income of a person from an income year from any employment, business, or investment is:

i) In the case of a resident person, the person's income from the employment, business, or investment of the year irrespective of the location of the source of the income and

ii) In the case of a non-resident person, the person's income from the employment, business, or investment of the year but only to the extent the income has a source in Nepal.

The assessable income does not include any exempt income under sections 11 or 64 of the act (such as income from non-business agriculture and agriculture business conducted in the land of the type that is mentioned in clauses (d) and (e) of section 12 of the land act, 2021; income of cooperative society from business mainly based on agriculture and forest products and cooperative saving and credit scheme based on rural community; and income of approved retirement fund)

4.1.2.6 Taxable Income

The taxable income of a person for an income year is equal to the amount as calculated by subtracting reduction, if any, claimed for the year under section 12 (gifts to an exempt organizations) or 63 (retirement contribution to an approved retirement fund) from the total of the person's assessable income for the year from each of the following heads; Business, Employment, and Investment.

4.1.2.7 Tax Rates

The applicable tax rate for the taxable income of Residential entity or natural person having income from Employment, Business, and Investment is depends on the budget speech of that year. The tax rate is differing for entity and individual status & Couple status. The provision of tax rate for individual or couple prescribed in income tax act is as follows:

Tax rate applicable for individual or couple having income from employment only:

Individual Status			Couple Status		
Basic Exemption	Rs 160000	@1%	Basic Exemption Rs 200000		@1%
Next	Rs100000	@ 15%	Next	Rs100000	@ 15%
Next	Rs.22,40,000	@25%	Next	Rs.22,00,000	@25%
Rest	Rs. -	@35%	Rest	Rs. -	@35%

Tax rate applicable for individual or couple having income from other source than employment:

Individual Status			Couple Status		
Basic Exemption	Rs 160000	Nil	Basic Exemption Rs 200000		Nil
Next	Rs100000	@ 15%	Next	Rs100000	@ 15%
Next	Rs. 22,40,000	@25%	Next	Rs. 22,00,000	@25%
Rest	Rs. -	@35%	Rest	Rs. -	@35%

Note: A resident individual or couple having annual taxable income more than 25 lacs should pay additional 40% of the tax liability of the income exceeding 25 lacs. Therefore for the simplification on calculation the tax rate for the income above Rs. 25 lacs may be applicable is 35%.

a) A women having employment income only is granted a rebate of 10% from her tax liability.

b) Net gain from disposal of non business chargeable assets of residential individual of couple is taxed at the rate of 10%.

c) A Non residential person is not entitled to any exemption and is taxed at a flat rate of 25%.

d) A resident individual who have done expenses on medicine for his/her treatment may claim for medical tax credit facility on tax liability. The maximum tax credit that can be adjusted with tax liability will be lower of Rs 750 of 15% of approved medical expenses.

e) Any individual or couple having pension income can enjoy 25 percent of the normal exemption limit as an additional basic exemption.

f) Any individual working in prescribed remote area is entitled to deduct prescribed amount as remote area allowance from taxable income. The specified remote area facility is as follows:

Area - A	50,000
Area - B	40,000
Area - C	30,000
Area - D	20,000
Area - E	10,000

g) Any individual is entitled to deduct the Rs. 20,000 or the actual premium paid, whichever is lower amount from taxable amount, if s/he is having investment insurance policy.

h) Providing shipping, air transport or telecommunication services in Nepal will be taxed at the rate of 5%.

4.1.2.8 Business Exemption, Exempt Amounts and Other Concessions

a) Amounts derived by a person entitled to privileges under a bilateral or a multilateral treaty concluded between government and foreign country or an international organization.

b) Amounts derived by an individual from employment in the public service of the government of a foreign country, provided that, the individual is a resident person solely by reason of performing the employment or is a non-resident person, and the amounts are payable from the public funds of the country.

c) Amounts derived from public funds of the foreign country by an individual who is not the citizen of Nepal or by a member of the immediate family of the individual.

d) Amounts derived by an individual who is not the citizen of Nepal from employment by Government on terms of tax exemption.

e) Amounts derived by way of gift, bequest, inheritance, or scholarship, except as required to be in calculating income under this act.

f) Amounts derived by an exempt organization by way of gift; or other contributions that directly relate to the organization's function, whether or not the contribution is made in return for consideration provided by the organization.

g) Pension received by a Nepalese citizen retired from the army or police service of a foreign country provided that the amounts are payable from the public fund of that country.

h) An agricultural income derived from sources in Nepal during an income year by a person, other than the income from an agricultural business derived by a registered firm, or a company, or partnership, or a corporate body, or through the land above the land holding ceiling as prescribed in the land act, 2021, is exempt from income tax.

i) Income derived by cooperative societies, registered under Cooperative act, 2048 (1991), from business mainly based on agriculture and forest products such as sericulture and silk production, horticulture and fruit processing, animal husbandry, dairy industries, poultry farming, fishery, tea gardening and processing, coffee farming and processing, horticulture and herb processing, vegetable seeds farming, bee keeping, honey production, rubber farming, floriculture and production and forestry related business such as lease-hold forestry, agro-forestry, cold storage established for the storage of vegetables and business of agricultural seeds, insecticide, fertilizer and agricultural tools (other than machine operated) and rural community based saving & credit cooperatives are exempt from tax. Dividends distributed by such societies are also exempt from tax.

4.1.2.9 Deductions

a) Depreciation allowances are granted as deductions, which are categorized in 5 classes as follows:

Block	Assets	Depreciation
A	Building, Structures and similar works of 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 and other tangible assets not falling on Pool A, B and C.	15%
E	Intangible assets	$Cost/_{Life}$

b) Allowable limit for repair and improvement cost of owned and used depreciable asset is raised to 7% of depreciation bases.

c) No deductions are granted for the expenses that are of a domestic personal nature, income tax, government penalties costs in deriving exempt amounts or final withholding payment, dividends distributed by an equity, cost of a capital nature and cash payment above Rs.50,000.

d) Bad debts are allowed to be written off if a debt claim of a bank has become bad debt as determined with the prescribed standards which is 5% of debtors.

e) Inclusions and deductions under a long-term contract are calculated according to the percentage of the contract completed during the year.

f) For the purposes of that act, net gains from the disposal of non-business chargeable assets will be taxed at the rate of 10%.

g) The presumptive tax for individuals conducting small business (who have a strong turnover of Rs.2 million or an income of Rs.2,00,000) in the Metropolitan or Sub-metropolitans , municipalities and anywhere else in Nepal amounts to Rs.5,000 Rs.2,500 and Rs.1,500 respectively.

h) The taxable income of a non-residents individual is taxed at the rate of 25%.

i) The taxable income of the bank, or financial institution, or general insurance business, or en equity conducting petroleum work under petroleum act, 2040 for an income year is taxed at the rate of 30%.

Gain from Lump sum retirement payment made by an approved retirement fund is taxed at the rate of 6% as a final withholding tax. Gain is calculated by deducting 50% of the payment or Rs.500, 000 whichever is higher from the total.

4.1.3 Taxation in the International Perspective

Income tax is the key components of Direct tax in the context of Nepalese direct tax revenue contribution. It contributes more than 70% in the total direct tax revenue of Nepal. Existence of the income tax smiles with the story of war, confrontation, and resistance. Great Britain was the first nation in the globe to introduce successful income tax in 1799 Wars with France had led England to adopt income tax measure to meet the financial needs of the government. Several German states introduced income tax during 1840. Until 1920, German income taxes were exclusively state taxes, which became federal taxes in 1945. At the end of the war II, they again became state taxes and now have been regulated by federal law. The United States of America had followed income tax in 1862. This time also income tax was taken as a measure to collect adequate revenue for financing civil wars expenditures. Similarly, Italy adopted income tax in 1844 as one of the first product of its unification. It was not until 1925 that a national wide tax on total family income was imposed with graduated rates. France efforts began to enact income tax in 1870; the income tax bill was enacted as an emergency measures two week prior when it began in 1914. But it was another three years before a permanent income tax system was adopted. Similarly, Norway introduced the income tax in 1892 and made its rates progressive in 1896.Sweden accepted modern income tax on the permanent basis in 1910. New Zealand adopted income tax in 1891. Both Canada and Australia adopted it in 1917 and 1915 respectively. (Rijal, 2006)

After World War I the income tax became a key source of tax revenue even in many developing nations. By 1939, it had made an appearance in many developing nations also. India had introduced income tax in 1860, which was discontinued until few years. But it was reintroduced in 1886 on the permanent basis.

4.2 The Contribution of Income Tax on Government Revenu in Nepal.

4.2.1 Composition of Total Revenue

The following table gives the clear picture about the composition of total revenue.

Table-4.2.1 : Composition of Total Revenue

(Rs. in Crore)

F.Y	TR Amount	TTR Amount	% on TR	NTR Amount	% on TR
2005/06	7227.34	5743.04	79.46	1484.3	20.54
2006/07	8772.12	7112.67	81.08	1659.45	18.92
2007/08	10762.27	8515.55	79.12	2246.72	20.88
2008/09	14346.66	11705.19	81.59	2641.47	18.41
2009/10	17870.07	16049.51	89.81	1820.56	10.19
2010/11	19922.11	17807.24	89.38	2114.87	10.62
2011/12	24460.38	21195.26	86.65	3265.12	13.35

Source: Economic Survey on Various Issues 2005/06 to 2011/12, MOF, G/N.

TR = Total Revenue, TTR = Total Tax Revenue, NTR= Non-Tax Revenue

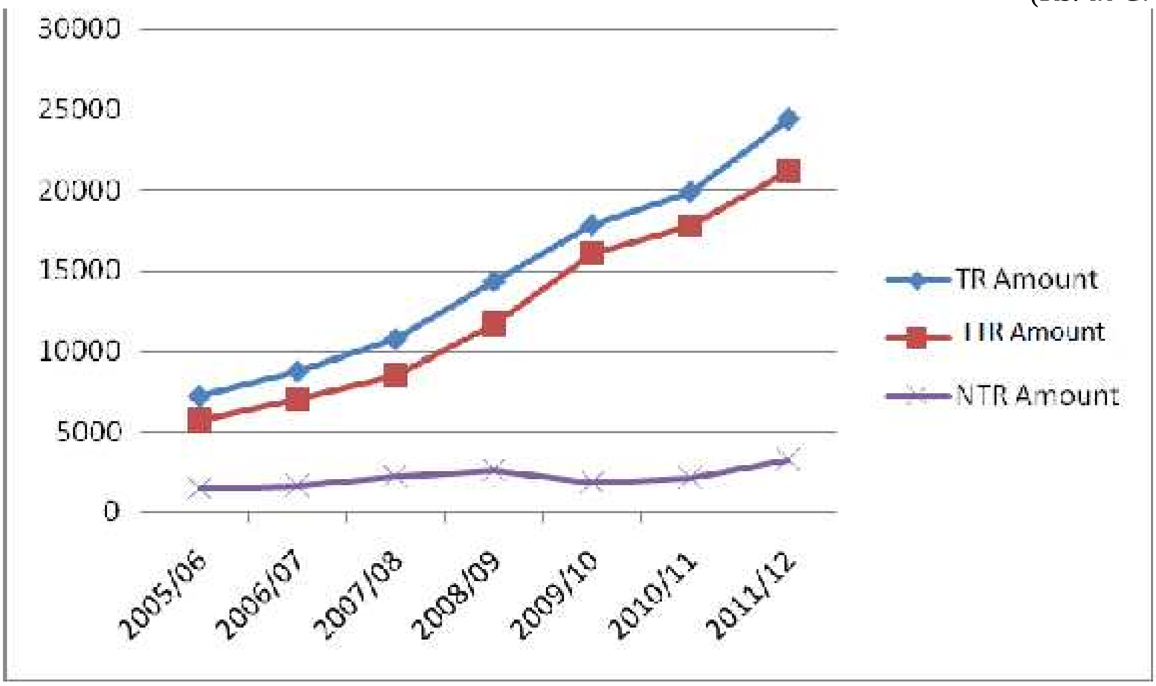
Total revenue is divided into two streams i.e tax revenue and non- tax revenue.

Table 4.2.1 shows the percentage contribution of tax revenue and non-tax revenue to compose the total revenue. Tax and non-tax revenue are the two basic streams to sum up the total revenue of Nepal. During the period of 2005/06 to 2011/12, tax revenue had played a greater role for the contribution of total revenue. Over that period, the maximum contribution from tax revenue was 89.81% in the fiscal year of 2009/10 whereas the lowest contribution was 79.12% in the fiscal year of 2007/08. Thus the contribution of tax revenue to total revenue seems to be more satisfactory than that of non-tax revenue. Similarly, the maximum percentage contribution from non-tax revenue was reported to be 20.88% in the fiscal year of 2007/08 where as 10.19% was reported be the lowest one in the fiscal year of 2009/10.

The composition of total revenue is also shown graphically in figure 4.2.1 which clearly indicates the increasing contribution of tax revenue to total revenue in Nepal.

Figure – 4.2.1: Composition of Total Revenue

(Rs. in Crore)



4.2.2 Contribution of Tax Revenue in Total Revenue

The following table shows about the contribution of direct tax revenue to total revenue.

Table-4.2.2 : Contribution of Tax revenue to Total Revenue

(Rs. in Crore)

F.Y	TR Amount	DT Revenue Amount	% on TR	INT Revenue Amount	% on TR
2005/06	7227.34	1396.81	19.32	4346.23	60.13
2006/07	8772.12	1898.03	21.64	5214.64	59.45
2007/08	10762.27	2308.77	21.45	6206.78	57.67
2008/09	14346.66	3432.07	23.92	8273.12	57.66
2009/10	17,870.07	4004.21	22.41	12,045.30	67.40
2010/11	19,922.11	4647.78	23.0	13,159.46	66.3
2011/12	24,460.38	5667.72	23.1	15,527.54	63.5

Source: Economic Survey on Various Issues 2005/06 to 2011/12, MOF, G/N.

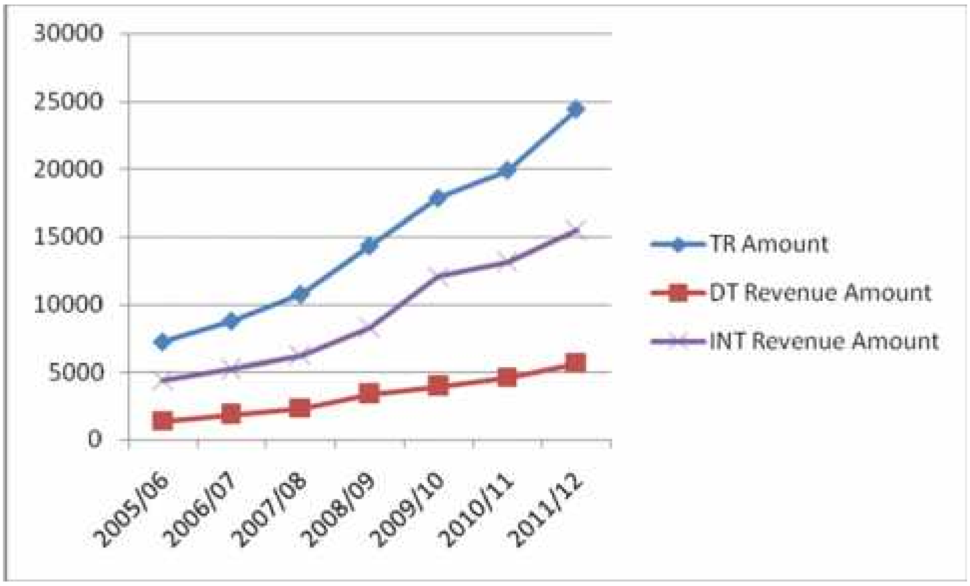
TR = Total Revenue, DT = Direct Tax Revenue, INT = Indirect Tax Revenue

Contribution of direct tax revenue as percent of total revenue is not so high as compared with the contribution from indirect tax revenue. Table 4.2.2 clearly shows that the highest percentage contribution made by the direct tax to total revenue was reported to be 23.92% during the fiscal year 2008/09 whereas the lowest was 19.32% during the year 2005/06. Even during the period of 2008/09, the contribution of direct tax to total revenue is 23.92% which is not good percentage from the ground of equity. The contribution of indirect tax to total revenue has dominated the contribution of direct tax revenue throughout the study period. In general, the percentage contribution from indirect tax to TR does not fluctuate much throughout the study period. This percentage clearly indicates that the government of Nepal has been heavily dependent on indirect tax revenue.

The proper share between direct tax revenue and indirect tax revenue to total revenue is presented on graph below:

Figure– 4.2.2 : Contribution of Tax Revenue to Total Revenue

(Rs in Crore)



4.2.3 Contribution of Direct Tax Revenue in Total Tax Revenue

Total tax revenue is divided into two parts i.e. direct tax and indirect tax revenue. The composition of total tax revenue can be illustrated by the following table.

Table-4.2.3 : Composition of Total Tax Revenue

(Rs. in Crore)

F.Y	TTR Amount	DT Amount	% on TTR	INT Amount	% on TTR
2005/06	5743.04	1396.81	24.32	4346.23	75.68
2006/07	7112.67	1898.03	26.69	5214.64	73.31
2007/08	8515.55	2308.77	27.11	6206.78	72.89
2008/09	11705.19	3432.07	29.32	8273.12	70.68
2009/10	16,049.51	4004.21	24.95	12,045.30	75.05
2010/11	17,807.24	4647.78	26.10	13,159.46	73.90
2011/12	21,195.26	5667.72	26.74	15,527.54	73.26

Source: Economic Survey on Various Issues 2005/06 to 2011/12, MOF, G/N.

Direct tax includes Land revenue and Registration and tax on property, profit and income

Indirect tax includes custom duties and tax on consumption and production

TTR = Total Tax Revenue, DT = Direct Tax Revenue, INT = Indirect Tax Revenue

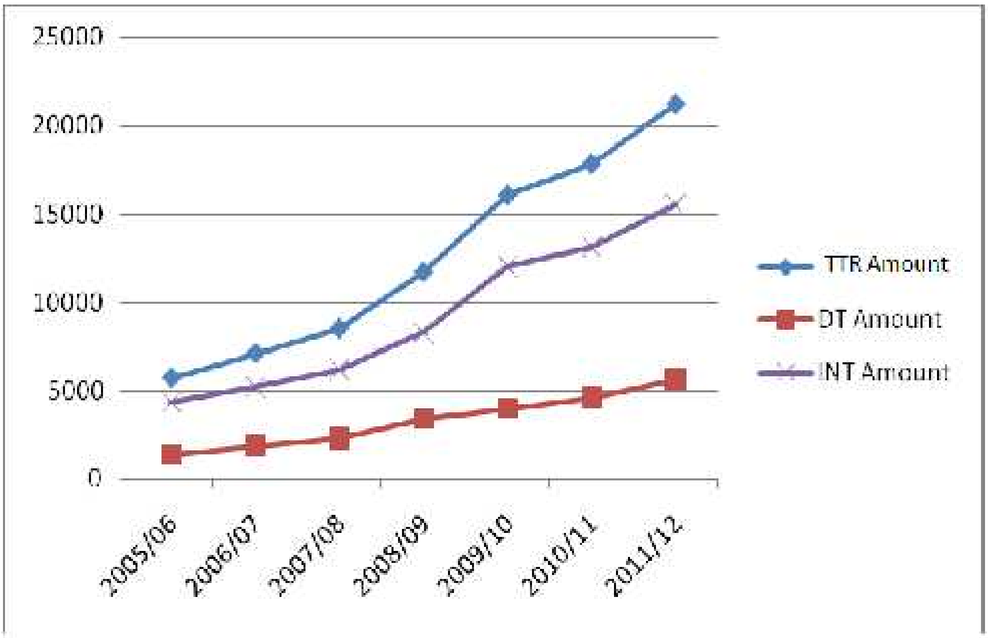
The table 4.2.3 shows the contribution of both direct tax and indirect tax revenue to sum up the total tax revenue. During the study period of 2005/06 to 2011/12, the percentage contribution from direct tax seems to be far lesser than that of indirect tax. The volume of collected amounts through both of the taxes seems to be increasing simultaneously from the period of 2005/06 to 2011/12. In 2005/06, the amount collected through direct tax was Rs. 1396.81 corer while the amount collected through indirect taxation during the same year was Rs. 4346.23 corer. But the amount was increased simultaneously to reach Rs. 5667.72 and Rs. 15,527.54 corer respectively in the fiscal year of 2011/12. This increment was due to the expansion of tax base and rate to both deep and wide and increment in the general economic activities in the country.

Although direct tax system has been considered as the aspect of ability to pay principle in nature however, due to unequal distribution of income in Nepal, the government has not been able to collect adequate amount of money through this source.

The proper share between direct tax revenue and indirect tax revenue to total tax revenue is presented on graph below:

Figure- 4.2.3 : Composition of Total Tax Revenue

(Rs. in Crore)



4.2.4 Composition of Income Tax Revenue

The composition of income tax revenue is presented in the table given below:

Table-4.2.4 : Composition of Income Tax Revenue

(Rs in Crore)

FY	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Corporate and Business Income tax	783.47	1197.12	1377.23	2026.17	2508.39	2906.57	3534.04
Income Tax from Remunerations	176.41	200.79	245.1	319.56	441.31	578.43	744.68
Income Tax from Investments and others	134.06	175.27	285.45	379.01	432.43	650.03	851.58
Total	1093.94	1573.18	1907.78	2724.74	3382.13	4135.03	5130.3

Source: Economic Survey on Various Issues 2005/06 to 2011/12, MOF, G/N.

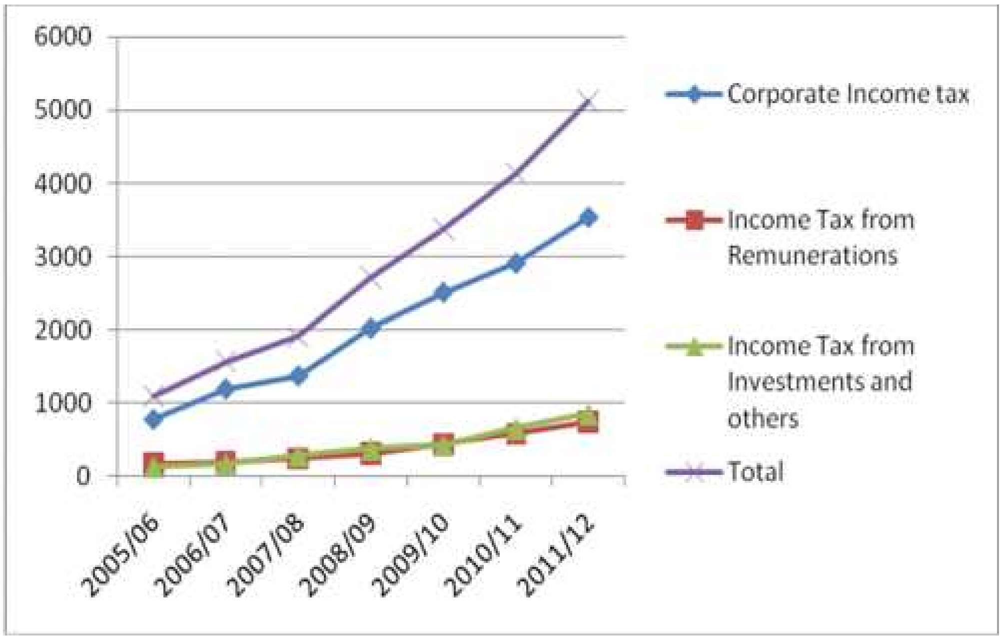
Table-4.2.5 : Percentage of different components of Income Tax Revenue

FY	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Corporate and Business Income tax	71.62	76.10	72.19	74.36	74.17	70.29	68.89
Income Tax from Remunerations	16.13	12.76	12.85	11.73	13.05	13.99	14.52
Income Tax from Investments and others	12.25	11.14	14.96	13.91	12.79	15.72	16.60
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

The table 4.2.4 shows the composition of income tax revenue in Nepal. Income tax has been the key contributor of direct tax revenue thus it will be always meaningful to review about the composition of income tax revenue separately. The corporate income tax, income tax from remuneration and income tax from investment are the major components of income tax revenue sum up to be the total income tax revenue. The above table clearly shows that the contribution from individual income tax has approximately dominated the contribution of corporate income tax and tax on interest to total income tax throughout the study periods. The amounts of income tax revenue in absolute term has increased from Rs. 1093.94 corer in 2005/06 to Rs. 5130.3 corer in 2011/12. This amount clearly indicates that the government of Nepal can mobilize adequate resources through income tax. Similarly, income tax revenue is heavily dependent on corporate and business income tax revenue. This is also shown graphically below:

Figure – 4.2.4 : Composition of Income Tax Revenue

(Rs. in Crore)



Growth rate pattern of Income Tax (Rs. in crore)

Table-4.2.6 : Growth rate pattern of Income Tax (Rs. in crore)

FY	Year (X)	Amount (Y)	X^2	XY
2005/06	0	1093.94	0	0
2006/07	1	1573.18	1	1573.18
2007/08	2	1907.78	4	3815.56
2008/09	3	2724.74	9	8174.22
2009/10	4	3382.13	16	13528.5
2010/11	5	4135.03	25	20675.2
2011/12	6	5130.3	36	30781.8
Total	21	19947.1	91	78548.4

The growth rate pattern of income tax can be estimated by developing a linear regression equation;

$Y = a + bX$ ……………………………………. (i)

Where:

Y :- Annual Income tax (the dependent variable)

X:- Year (the independent variable)

a & b :- Parameters

To calculate the value of a and b the above equation is changed as follows:

$\sum Y = na + b\sum X$…………………………………….. (ii)

$\sum XY = a\sum X + b\sum x^2$…………………………….. (iii)

Substituting the values of summations from the table in above equations. Then we get;

19947.1 = 7a + 21b …………………………………….. (iv)

78548.4 = 21X + 91b …………………………………… (v)

Solving the above equation; we get the value of the growth rate pattern of income tax (b) has found 668.11 which is the better indication of contribution of income tax for the generation of government revenue.

4.2.5 Tax-GDP Ratio

The total tax-GDP ratio, direct tax -GDP ratio, Income tax-GDP ratio and indirect tax-GDP ratio can be illustrated with the help the following table.

Table – 4.2.7 : Tax GDP-Ratio

(Rs. in Crore)

F. Y.	GDP Amount	TTR Amount	TTR/GDP Ratio (%)	DT Amount	DT/GDP Ratio(%)	INT Amount	INT/GDP Ratio(%)	IT Amount	IT/GDP Ratio(%)
2005/06	61111.8	7227.34	11.83	1396.81	2.29	4346.23	7.11	1093.94	1.79
2006/07	67585.9	8772.12	12.98	1898.03	2.81	5214.64	7.72	1573.18	2.33
2007/08	75526.2	10762.27	14.25	2308.77	3.06	6206.78	8.22	1907.78	2.53
2008/09	98827.2	14346.66	14.52	3432.07	3.47	8273.12	8.37	2724.74	2.76
2009/10	119277.4	17870.07	14.98	4004.21	3.36	12045.30	10.10	3382.13	2.84
2010/11	137495.3	19922.11	14.49	4647.78	3.38	13159.46	9.57	4135.03	3.01
2011/12	153600	24460.38	15.93	5667.72	3.69	15527.54	10.11	5130.30	3.34

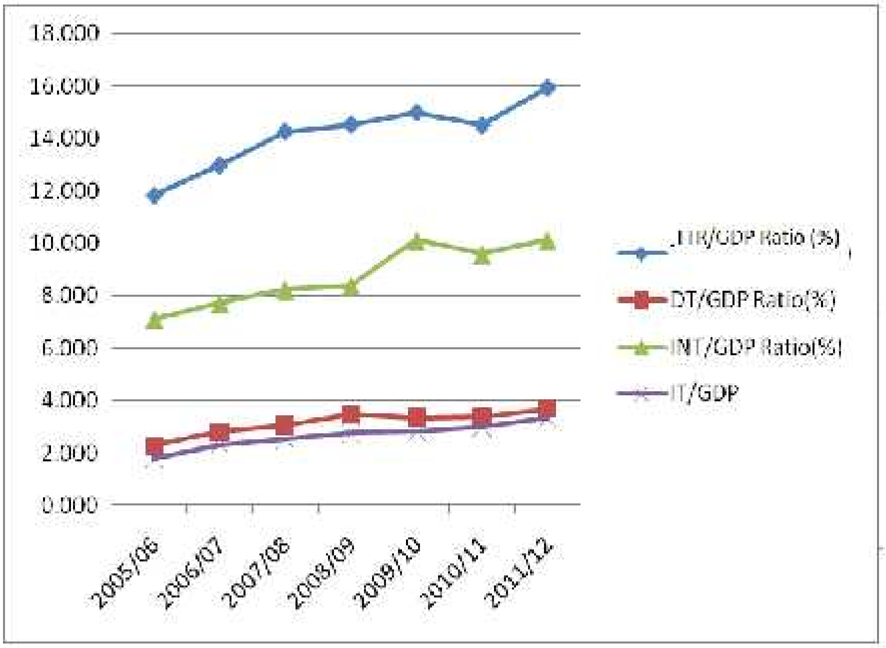
Source: Economic Survey on Various Issues 2005/06 to 2011/12, MOF, G/N.

GDP= Gross Domestic Product, TTR = Total Tax Revenue, DT = Direct Tax Revenue, INT = Indirect Tax Revenue,

Note:- GDP is presented in current price.

The table 4.2.5 shows the ratios of total tax, direct tax and indirect tax with respect to GDP. Tax-GDP ratio remained between 11.83% to 15.93% from the period of 2005/06 to 2011/12. The highest tax-GDP ratio was reported to be 15.93% in the period of 2011/12. Similarly, direct tax-GDP ratio ranged the value between 2.29% to 3.69% percent in the period of 2005/06 to 2011/12. This mark suggests that the percentage share of direct tax revenue in GDP growth has been increasing slightly but not smoothly. Indirect tax-GDP ratio seems to be higher than that of direct tax. Indirect tax-GDP ratio was ranged the value between 7.11% to 10.11% in the period 2005/06 to 2011/12. This ratio dispersion between direct tax and indirect tax revenue suggests that the government of Nepal has relied heavily on indirect tax revenue rather than direct tax. Thus, on the ground of equity, government effort should be focused on increasing the direct tax-GDP ratio. The tax GDP ratio has been presented in the chart below.

Figure – 4.2.5 : Tax GDP-Ratio



4.2.6 Government Expenditure

The following table shows about the revenue expenditure pattern.

Table-4.2.8 : Revenue Expenditure Pattern

(Rs. in Crore)

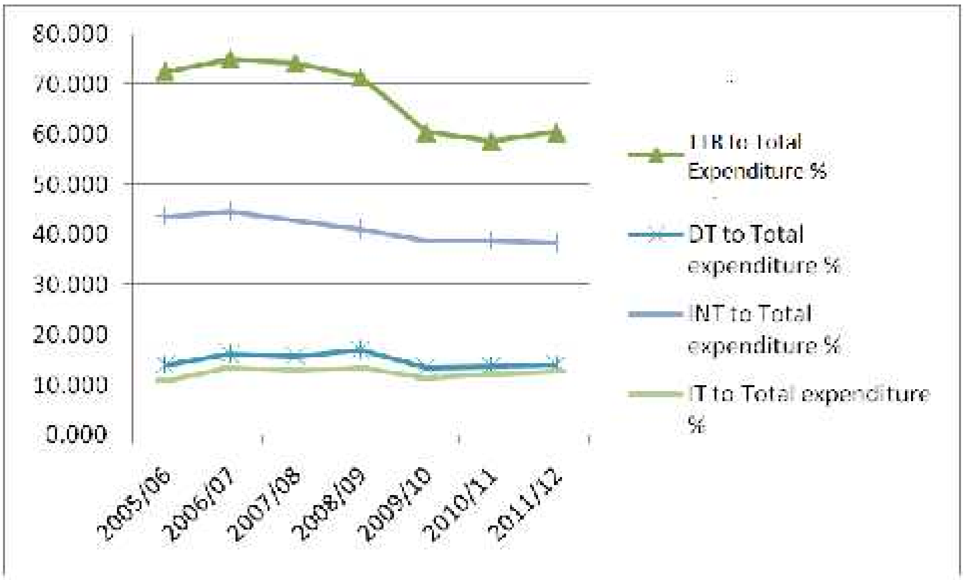
F.Y.	Total Exp. Amount	TTR Amount	TTR to Total Expenditure %	DT Amount	DT to Total expenditure %	INT Amount	INT to Total expenditure %	IT Amount	IT to Total expenditure %
2005/06	9961.07	7227.34	72.556	1396.81	14.02	4346.23	43.63	1093.94	10.98
2006/07	11685.22	8772.12	75.070	1898.03	16.24	5214.64	44.63	1573.18	13.46
2007/08	14496.32	10762.27	74.241	2308.77	15.93	6206.78	42.82	1907.78	13.16
2008/09	20082.79	14346.66	71.438	3432.07	17.09	8273.12	41.20	2724.74	13.57
2009/10	29536.3	17,870.07	60.502	4004.21	13.56	11454.47	38.78	3382.13	11.45
2010/11	33916.8	19,922.11	58.738	4647.78	13.70	13159.5	38.80	4135.03	12.19
2011/12	40482.5	24,460.38	60.422	5667.72	14.00	15527.6	38.36	5130.3	12.67

Source: Economic Survey on Various Issues 2005/06 to 2011/12, MOF, G/N.

The table 4.2.7 shows that the total government expenditure and contribution of different tax revenues on it. Up to 75% of total government expenditure has been covered from tax revenue in 2006/07 but it was only 60% in the year 2011/12, which shows that the revenue mobilization is not growing as the growth of government expenditure. The chart below shows the line of tax revenue to total expenditure ratio.

Figure 4.2.6 : Tax revenue to Government expenditure

(Rs. in Corer)



CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Study

Nepal, being in the process of economic development needs higher government expenditure to meet the purposed development programs. Thus to open the way for smooth development, government has to finance large amount of money in preparing infrastructure like, road, canal, schools, hospitals, pure drinking water and education etc. This ultimately creates the resource gap. On the other hand, foreign aid, loan and grant as well as domestic borrowing are not considered as the permanent solution to fulfilling the resource gap between expenditure and revenue. In this connection, the share of non-tax revenue is very low and to raise the revenue from these sources, one needs higher capital accumulation in comparison to its return and government equally thinks about the welfare view. These facts justify that the ultimate and permanent solution to bridge up this gap only by taxation. The raise on tax rate is not only its solution. Therefore, the improvement in tax structure is required.

Taxation is not only the instrument of getting higher revenue but also the medium to eliminate undesirable effect in the economy and introducer to desirable effect. In the sense, taxation is considered as having two weapons in one hand. Although this study has mainly focused on the status of direct tax revenue in Nepal from the period of 2005/06 to 2011/12, however, it is impossible to judge the exact status of direct tax revenue without knowing the share of indirect tax revenue. Thus the revenue share of indirect tax is also measured besides the proposed one.

According to the study, the major components of direct tax are income tax, house and land registration fees, land tax and property tax. Income tax, the key component of direct tax, also carries various sub-components to sum up total the income tax such as income tax from public enterprises, income tax from semi-public enterprises and income tax from private corporate bodies, tax on remuneration, individual income tax and tax on interest. Similarly, property tax includes urban house and land tax and tax on vehicles.

This study shows that the contribution of tax revenue in total revenue is significant. This statistics shows that government of Nepal has been heavily dependent on tax revenue as compared with non-tax revenue. Similarly, the contribution of income tax has increased significantly. Income tax stands as a key contributor in direct tax revenue. Indirect tax revenue has covered the significant share in total tax revenue throughout the study periods. This figure clearly shows that the government of Nepal has been heavily dependent on indirect tax revenue. Thus, the tax structure in Nepal is not justifiable on the grounds of equity and progressiveness. Similarly, the share of direct tax revenue in total revenue is also significantly low as compared with the share of indirect tax revenue.

The overall trends of revenue from taxation in Nepal shows the contribution of tax revenue in GDP has been increasing. However, the contribution of direct tax revenue in GDP was so low as compared with the contribution from indirect tax revenue. Direct tax-GDP ratio was 3.77% while indirect tax-GDP ratio was 9.09% in 2065/66 respectively. However, direct tax-GDP ratio has been increasing; its contribution is very low as compared with the contribution from indirect tax revenue.

5.2 Conclusions

Taxation is not only to collect the revenue but also to reduce inequality in wealth and income and proper allocation of available resources. The status of direct tax revenue seems to be nominal as compared with the status of indirect tax revenue in Nepal. Although, indirect tax system is considered to be a regressive tax system by its nature, however, government of Nepal has been heavily dependent upon it for the last many years. But from the side of equity, and progressiveness, direct tax can be the best source of government revenue.

If progressive types of income and property tax are followed effectively with the best effort then, authority can have received the large amount of money and majority of people will not feel tax burden indirectly. But this mean is not to say that indirect tax should not be introduced in Nepal. But most of the developing countries like Nepal are heavily dependent on indirect tax because in such countries records of the income cannot be found accurately and the most of the people in such countries are so ignorant that they have no idea about keeping the income account accurately. Majority of people in Nepal are still low income recipients. But, agricultural income in Nepal is still tax free thus; income from agricultural sector should be taxed in a progressive rate. These are the problems of effective income tax implementation of Nepal. Beside this, the major findings of the study are:

1. In Nepal, tax –GDP ratio in Nepal is is very low, which indicates that Nepal is a low-

taxed country.

2. Direct tax GDP ratio is quite low as expected it to be necessary. Thus, the share of direct tax to GDP has been increasing in a slow pace while the share of indirect tax to GDP has been increasing nature.

3. Share of direct tax revenue is declining due to lack of appropriate tax policies, lack of administrative competence to implement the policies and the high exemption limits of the income to make it taxable.

4. Nepalese tax system is regressive in nature as more than 70% of the total tax revenue is contributed by indirect taxes.

5. Main problems and weakness of Nepalese tax administration are lack of trained employees, lack of cooperation in tax administration, lack of transparency and accountability, corruption and lack of motivation by administration.

6. The composition of income tax is made up of corporate and business, employment, investment and others income tax, where the share of corporate and business income tax to direct tax has been increased significantly

5.3 **Recommendations**

According to the findings of this study, the following suggestions can be recommended for a sound, efficient and effective tax administration in the country.

I) Sound administrative capacity is one of the major bottlenecks that are to be overcome for increasing the built-in-flexibility of Nepalese tax system. Therefore, personnel tax assessment and collection should be well- prepared, well-trained and well-remunerated. Reward should be given for honesty and severe punishments for corruption without discriminating politically and without giving unnecessary political protection. At the same time, tax evaders should be punished accordingly.

II) Income tax base should be increased. For this holding PAN should be made compulsory for every income generating transaction whatever the scale and size of the business, investment and employment and the different program for it should be launched as a campaign i. e. PAN week and others. Many potential tax payers are still outside the tax net such as social and educational institution thus, a separate research and analysis section in the IRD should be established and it should be well equipped with skilled and professional human, financial and other resources.

III) There is high probability of increasing the revenue through more extensive taxation of rapidly growing potential bases such as salaried income from institutions, professional-class, Income from private educational institutions and income from privately run medical clinic income of the doctors, income of brokers should be taxed with full administrative efforts so that the revenue deficiency through direct tax will be eliminated.

IV) Tax policy should have a clear-cut direction and consistent with a long run perspective of the policy. The tax policy should be concentrated on optimum revenue mobilization for reducing tax revenue expenditure gap.

V) To understand in detail, how the present system really works, much publicity should be given about tax laws, tax structure and implication of the tax revenue to the general people.

VI) The present Nepalese tax structure depends heavily on indirect taxes. More than 50 percent share of indirect tax to total revenue over the study period have mentioned in the result .The inelastic nature of tax revenue is due to the slanginess of direct taxes as there are ample scope for tax evasion and avoidance. So the effective way for more revenue generation from direct taxes is to make them progressive supported by competent tax administration.

VII) The absence of progressive tax structure creates disparity in the distribution of income and wealth is widening .Therefore progressive direct taxes like income tax, property tax are to be considered as an effective measure to reduce the inequality in the distribution of income and wealth. So prudent wealth tax should be imposed on unproductive accumulation of wealth giving tax free for productive investment.

VIII) The general direction of tax reforming should be broadening tax base and lowering tax rates in the long -run.

Based on the suggested recommendations, the relationship between an appropriate tax policy and economic development of any country closely related. Government's expenditure and revenue mobilization strategy is the pivot, which the whole system revolves around and each element is equally responsible to make the tax structure elastic. Thus the tax system should be well fitted on the social and economic circumstances of the country.

BIBLIOGRAPHY

Books/Reports

Adhikari, Dr. Chandra Mani **(**2003**), Nepalko Aadhunik Kar Pranali,** Kathmandu; Pairavi Prakashan.

Agrawal, G. R. (1980), **Resource Mobilization for Development and the Reform of Income Tax in Nepal**, Kathmandu, CEDA.

Aryal, Jitendra P. and Gautam, Arun (2001), **Quantitative Techniques**. Second Revised Edition, Kathmandu.New Hira Books Enterprise

Aryal, K. P. and Paudel, Surya Prasad (2060), **Taxation in Nepal,** Kathmandu, Bhudi Puran Praksan

Bhatarai, Ishwor and Koirala, G.P. (2002), **Tax Law and Tax Planning,** Kathmandu, Dhaulagari Books and Stationeries.

Cutt James, (1969), **Taxation And Economic Development in India,** Frederick A. Prager, NewYork,

Dahal ,Madan Kumar (2004), **Nepalese Economy: Toward Building a Strong Economic Nation**,CEDECON,TU and New Hira Book Enterprises.

Due, J. F. and Friedlander, A. F (2002), **Government Finance,** A.I.T.B.S. Publisher and Distributor, New Delhi, India.

Goode, R. (1986**), Government Finance In Developing Countries**.Tata McGraw Hill, New Delhi, India.

Higgins, B. (1990), **Economic Development**, **Principles, Problems, and Policies**, Universal Book Stall, New Delhi, India.

Kandel,Nav Raj (2003) **Guideling to Format Thesis and Dissertations: A Quick Reference**,Kathmandu,New Hira Books Enterprises.

Khadka, Rup Bahadur (1997), **Nepalese Taxation: A Path for Reform**, Marburg: Marburg Consult for Self- Help Promotion.

Khadka, Dr. Rup Bahadur**.** (1994)**. Income Tax in Nepal: Retrospect and Prospects,** Kathmandu, Ratna Pustak Bhandar.

Lal, B.B**., (1997) Direct Taxes**, New Delhi, Konark Publishers Pvt. Ltd.

Lekhi,R. K. (2002). **Public Finance**. Tenth Edition. New Delhi, Kalyani Publication.

Mallik, Vidhyadhar**.** (2003). **Nepalko Aadhunik Aayakar Pranali**, Kathmandu, Anita Mallik.

Meier G.M. and Rauch J.E.(2000), **Leading Issues in Economic Development,** Seventh edition, Oxford University press, India.

Ojha, Pavan Kumar (2050). **Taxation Law**. Kathmandu: Pairavi Prakashan.

Singh.S.K **(**2004) **Public Finance in Theory and Practices**. Sixth Revised and Enlarge Edition, New Delhi. S . Chand and Company Ltd.

Tiwari, Narayan Raj (2052). **Income Tax System in Nepal**. Kathmandu: Pairavi Prakashan.

Wolff, Howard K.and Prem R Pant (2003) .**A Handbook For Social Science Research and Thesis Writing** . Third Edition. Kathmndu, Buddha Academy Publisher and Distributors Pvt. Ltd.

Dissertation and Articles

Acharya, Sanjay (1994). **Income Taxation in Nepal: A Study of its Structure, Productivity and Problem**. An Unpublished M.A. Dissertation (Economics) T.U.

Adhikari, R.P**.** (1995): **Tax Elasticity and Buoyancy in Nepal**, Economic Review,an Occasional Paper, NRB No. 8

Agrawal G,R, (1979), **Role of Income Tax in Nepal's Tax Structure,** The Economic Journal of Nepal,Institute Humanities and Social Science TU.

Baral, Shanti (1998). **Income Tax in Tax Structure of Nepal,** M.A. An Unpublished Dissertation (Economics), TU.

Bhandari, Hari Bahadur, (1994), **Contribution of Income Tax to Economic Development of Nepal,** Master's Thesis, Central Department of Management, Tribhubvan University.

Dahal, Madan Kumar(1984), **Built-in- Flexibility and Sensitivity of Tax Yield in Nepla's Tax System**: A Case Study of Negative Elasticity of Land Tax. The Economic Journal of Nepal. Vol. 7, Central Department of Economics, T.U. Kathmandu. Nepal.

Dahal, Madan Kumar (1991), **Tax Structure and Policy Framework in Developing Countries**. The Economic Journal of Nepal. Kathmandu: CEDA, Vol. 14.

Dahal,Madan Kumar(1999), **Developmnet Challenges For Nepal,** Kathmandu,Nepal Foundation For Advanced Study.

Ghimire G. P. (1994), **Measuring Responsiveness and Productivity of Tax Yields in Nepal's Tax Structure.** An Unpublished M.A. Thesis, Submitted to CEDECON, T.U. Kirtipur, Kathmandu.

Ghimire, Lalmani (1998), **Administration Capacity of VAT**. An Unpublished Master Degree MBA Dissertation, Kathmandu: Tribhuvan University.

Gurugharana, K. K. (1993), **Weakness of the Tax Policy and Tax Structure in Nepal**. Rajaswa Year 12 vol. 2.

Kayastha, N.L**.** (1974), **Taxation of Income and Property in Nepal.** An Unpublished M.A. Thesis, Submitted to CEDECON, TU, Kirtipur, Kathmandu .

Koirala, Girija Prasad (2004), **Contribution of Remuneration tax on Income tax**, Master's Thesis, Central Departmentt of Management, Tribhubvan University**.**

Mong G.S. (1984), **Sensitivity of Tax Yield and Their Forecasting,** The Economic Journal of Nepal. Vol. 7.

Nepal M. (1995), **Structure And Responsiveness of Nepal's Tax System**. An Unpublished M.A. Thesis Submitted to CEDECON, T.U. Kirtipur, Kathmandu.

Palli Magar, Dan Bahadur (2003), **Income Tax in Nepal: A study of Exemption Deduction,** Master'sThesis, Central Department of Management, Tribhubvan University.

Reejal P.R. (1976), **Revenue Productivity and Equity Aspect of Nepalese Taxation**; A Structural Analysis for the Period of 1968/65 to 1970/71. CEDA, T.U. Kathmandu.

Sakya A. J**.** (2005), **Structure and Responsiveness of Nepalese Tax System**. An Unpublished M.A. Thesis Submitted to CEDECON, T.U. Kirtipur, Kathmandu.

Shrestha C.L. (2001), **Elasticity and Buoyancy of Nepalese Taxes with Special Referance to Custom Duties in Nepal**., An Economic Journal Of Development Issues, Deparment of Economics, Patan Multiple Campus.

Governments Publications

Annual Reports, Inland Revenue Department. Lajimpat. Kathmandu.

Budget Speeches, Ministry of Finance, Nepal Government. Kathmandu.

Economic Survey of Various Fiscal Years, Ministry of Finance GON.

Nepal Act Collection (1994), Ministry of Law and Justice GON.

Website

www.ird.gov.np

www.mof.gov.np