

**EFFECTIVENESS OF SELF ASSESSMENT OF INCOME
TAX
SYSTEM UNDER INCOME TAX, 2058**

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CHAPTER - I

INTRODUCTION

1.1 General Background of the Study

Nepal is one of the poorest country which stand between two newly formed economic giant nations, China & India. South Asia is the backward region of the globe where almost 25% of the world's population resides but contributes for only 1.65% of the global GDP (Pant, 2002:278). Among south Asian countries (Bangladesh, Bhutan, India, The Maldives, Nepal, Pakistan and Srilanka), Nepal is the least developed country with almost 27.5 million population and US \$ 390 per capita income (Economic Survey, 2006). The distribution of income is significantly difference between rich and poor as well as between urban and rural areas. "The bottom 20% of household receives only 3.7% of the national income while the top 10% claim a share of nearly 50%" (Pant, 2002:30). The number of middle class family is significantly.

The scale of income poverty is massive, with about 30.85% of the population under the absolute poverty line. The higher geographical attitude, the grater the incidences of poverty, some can be said of the remote areas. Almost 34.62% of the people in remote areas are below the poverty line. The literacy rate is almost 50.6%, 25.7% of the total population consists of unemployed & economically inactive manpower (age between 16-65 years) (Nepal living standard survey 2003/04, Central Bureau Statistics).

In 2006, the global economy expanded by 5.4 percent as against the rise of 4.9 percent in 2005. The growth effects of the rise in the petroleum prices in the early-half of 2006 and the sharp downturn in the US housing market were more than offset by the declines in the petroleum prices since August 2006, improvement in domestic demand in the advanced economies, gradual

improvement in the Japanese economy, remarkably high growth rate in China and India, favorable financial market conditions, and adoption of sound economic policies, leading to the global economic expansion at a higher rate. According to the current projections by the International Monetary Fund (IMF), the world economy is projected to grow by 4.9 percent in both 2007 and 2008, 0.5 percentage point less compared to the growth achieved in 2006.

In case of Nepal, According to the new national data, FY 2000/01 has been taken as the base year and the GDP price deflator in FY 2006/07 is estimated to have risen by 8.3 percent as compared to the growth of 6.7 percent in FY 2005/06. The consumer price index (CPI) for the first nine months of the current fiscal year as per the Nepal Rastra Bank (NRB) estimate increased by an average of 7.0 percent as compared to the rise of 7.7 percent during the same period in FY 2005/06. The wholesale price index (WPI) during the first nine months of the current fiscal year rose by an average of 9.8 percent as compared to the rise of 9.0 percent during the same period in the previous year. The average annual growth rate of CPI during the current year has been estimated at 6.6 percent while such growth estimate for the WPI has been 9.0 percent. Last year, the CPI had increased by 8.0 percent and the WPI by 8.9 percent (Economic Survey, 2007). In order to realize effective achievement towards poverty alleviation, it is however necessary to reach the growth rate to at least 6.0%. But in the preset context where there is a need of fiscal balance and due to various other factors, the growth rate between 4.0% and 4.5% would be realistic. High revenue growth is one of the major achievements in FY 2006/07. In FY 2005/06, revenue grew by 3.1 percent and its proportion to GDP stood at 11.2 percent. This year, it increased by 19.5 percent and its proportion to GDP rose to 12.0 percent. The proportion of tax revenue to GDP increased from 8.9 percent last year to 9.7 percent this year. The budget deficit remains under control, and the proportion of the outstanding public debt (both

domestic and external) to GDP has come down to 46.2 percent this year from 50.1 percent last year.

Nepal is adopting mixed economy and is one of the members of non-alignment movement. But after the restoration of multiparty democracy in 1990, Nepal is slightly entering into the market economy by means of economic liberalization and privatization. Now the Nepalese government and its donor communities are advocating for the public private partnership in development programs. Participatory approaches in the development programs have been introduced to increase the affection of the people on such programs of the sustainable development but it is in its primitive stage and facing hurdles.

Public expenditure may upgrade the people income level and to increase the public activities, there must be good mechanism for revenue collection. To mobilize the limited resource, the state has to be introduce better and effective acts. The stakeholders have to comply with such rules & regulations. It is obvious that the law should be simple and understandable and such acts must have the potentialities of broadening the tax net, which is the main concerning of the fiscal policy of our country. Along with the time, the Income Tax Act 2031 has been terminated.

The main objective of the tax system in a developing country is the promotion of saving and investment and also growth in industry including exports. Nepal has been mobilizing resources for capital formation and plugging back private saving and investments. Taxation in the modern world has been taken as the best device to raising the ration of saving to national income (Pant, 1970 : 31).

Tax policy has two major objectives. One is economic and the other is revenue collection. Tax policy may influence the saving, investment, production and

labour. The revenue objective of tax is to raise more revenue. The vision of Nepalese income taxation is not clear. Sometimes it's looks like an economic tool and sometimes it is presented as a revenue tool. In recent year, it is playing the role of revenue tool more and economic tool less. The other objective is to broaden the income tax base by bringing all income generating economic activities in to it's fold. It is the example of tax policy being used as a revenue tool (Adhikari, 2001 : volume 2).

The Income Tax Act 2058 has replaced the old one to fulfill of aforesaid objective. The objective of introducing the new act is to enhance the revenue mobilization through revenue collection procedures. The main motto of this act is to promote the economic development of the nation. This act has amended and integrated all the laws relating to income tax in Nepal. To broaden the tax net, it has clarified about the base of tax. Incase the new income tax act 2058, yet there is the provision of installment payment basis. Taxpayers are liable to file their returns assessing their taxes according to tax laws. This is completely self-assessment system. It supposed that when they file their returns, it is said to be tax assessment on the part of taxpayers. This is the milestone that would curtail the discretionary power of tax-officers, which was mostly charged in previous period of time.

The provision of self-assessment system will be minimized undue delay in tax assessment procedure. This system may be upgrade the tax paying habit and proper maintains of the book keeping on the part of taxpayers. Similarly, voluntary compliance is also expected because taxpayers are given full power to assess their income, expenditure, filling their return and paying their taxes in the installment basis. Because of this reason, tax administration may not be blamed about undue performance. For this purpose, there must be better programs for taxpayer's education, assistance, guidance & counseling.

In order to cope with the several problems, the government has declared the following objective of the current revenue policy:

- To improve tax flexibility and effectiveness
- To extend tax yields with the curtailment of the tax rate or minimizing them.
- To facilitate to Stakeholders.
- To encourage investment and saving by the treatment of friendly environment with taxpayers.

1.2 Statement of Problem

Nepal is one of the least developed countries among the developing countries of the world. She is facing serious financial problem in her economic development process. Nepal has followed a liberal, open and market oriented economic policy. She has not been able to invest adequately in its social and economic development. Development policies have been largely ineffective, economic growth has declined even after liberalization. Our total expenditure is Rs. 111 billion while we collect just Rs. 72.5 billion. So, the deficit is almost Rs. 38.5 billion for fiscal year 2005/06 (economic survey 2007). Grants are decreasing while loan approval demands uncomfortable conditions. There is inadequate internal resource mobilization, heavy foreign aid dependence, low aid absorptive capacity and miss-utilization of available resource in Nepal. To improve the living standard, economic growth is very essential which needs short and long term heavy investment. This is possible only when there are sufficient resources in the hand of government.

Nepal has facing serious problem of resource gap. Revenue mobilization is the main source of government expenditures. A minimal gap between the expenditures and revenue is desirable to maintain a fiscal balance. However, revenue growth is not maintaining a pace with the expenditures growth. Ratio of government expenditure to GDP stood at 17.2 percent in Fiscal Year 2004/05

compared to 17.4 percent in the previous Fiscal Year. Similarly, in Fiscal Year 2004/05, the ratio of revenue mobilization to GDP was 11.2 percent, a decreased by 0.7 percentage-point, compared to 11.9 percent in the previous Fiscal Year. Despite a decrease in both the government expenditure to GDP as well as the ratio of revenue mobilization to GDP, gaps between total government expenditure and revenue mobilization increased by 0.5 percent point to 6 percent in Fiscal Year 2005/06 compared to 5.5 percent in the previous Fiscal Year. It has incurred in Nepalese finance because the expenditure of Government of Nepal has been increasing at a faster rate than the increase in revenue. The resource gap is widening continuously with the increment of total expenditure in respect to total revenue collection (Economic Survey, 2007). To meet the growing national expenditure, government manages it's funds from internal and external source. Such external sources are an uncertain, inconvenient and not good for healthy development in case of high dependency. It is better to mobilize internal source rather than expecting with beggars eye to donors.

Amongst the sources of financing in meeting capital expenditure as well as debt servicing, revenue surplus is regarded as the sustainable source. In Fiscal Year 2005/06, revenue increase ratio was less than total expenditure increase leading to ratio of capital expenditures and principal repayment to revenue surplus of 12.0 percent which is a reduction of 8.6 percentage point. Foreign grant is one of the major sources of meeting capital expenditure as well as debt servicing also decreased to 31.5 percent - 3.7 percentage points decreased from Fiscal Year 2004/05. Similarly, the ratio of deficit financing in the Fiscal Year 2005/06 increased by 12.3 percentage point and stood at 56.5 percent compared to Fiscal Year 2004/05. There are many problems in Nepalese income tax system. Aphorism and undue delay in tax assessment procedure are the serious problem of income tax system in Nepal. It reduces not only the total revenue but also harassing the taxpayers in the payment of tax and there is question of morality of

tax-officers and taxpayers. Tax authorities are inefficient and ineffective in enforcement. There are no sufficient integrated programs for tax payers education, assistance, guidance and counseling. Income tax desks the citizen charter are not completely implementation from Inland Revenue Department.

There is high tendency of income tax evasion and low level of income tax payment in the country. The tax policy and revenue administration is not effective for the collection of taxes. The tax act and other related acts, rules, regulations and tax rates are not stable. Although the government has granted income tax holidays, incentives, rebates, exemption, there is not significant effect in income tax collection.

Many measures and policies have been taking into account but tax collection hasn't become cost effective. Tax collections are not as per target made by management of IRD. It has not even been successful to collect tax from taxpayers, who lie in the taxable boundary. In this condition, it is very far to bring in to tax net. Due to defective tax administration taxpayers are ready to provide illegal benefit to tax administrator but they are not ready to pay small amount as tax. It means they don't want to lie within the tax net. This is one of the major problems of Nepalese income tax system. This problem is largely related to Self income tax assessment system. In such situation, it comes to be imperative to make a study of self income tax assessment system and suggest ways to improve it.

1.3 Objectives of the Study

The main objectives of present study are as following:

1. To make review of legal provisions relating to Self Assessment of Income Tax System in Nepal.
2. To analyze the contribution of income tax to national revenue of Nepal.

3. To analyze the view of tax-payers, tax-experts and tax-officers about effectiveness of Self income tax assessment.
4. To examine the reasons for poor tax morality and taxpayer's compliance in Nepalese people.
5. To recommend possible measures.

1.4 Scope of the Study

Present study aims to find out the problem faced by assessee while doing the Self tax assessment of their own income. The major areas covered by this study are as follows:

1. Brief introduction of income tax assessment procedure And System.
2. Provision of Self Income tax assessment under income tax act 2002.
3. Existing position of income tax in Nepal.
4. Tax laws and provisions, income tax rate, exemption limit in income tax etc.

1.5 Need of the Study

Developing country like Nepal requires higher magnitude of financial resource for the Developmental programs. Domestic resources have more significant role than the external resource. Among the domestic resource, income tax plays a significant role. It helps to minimize economic inequality in the society and to increase the domestic resource mobilization. It measures the economic standard for the people. The income tax assessment procedure system of Nepal is going through various problems. So to find out the major problems and way to improve it, the study of effectiveness of income tax assessment is essential.

1.6 Limitation of the Study

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

1. This study is confined to Nepalese law, act, rules and regulations to the income tax.
2. Due to the small size, it may not fully represent Nepal as a whole.

3. Due to lack of authoritative secondary data and transparency income tax assessment system, the reason has covered mainly the theoretical aspect of tax assessment.
4. This study has covered data only fiscal year 1987/88 to 2007/08.
5. Sample technique has been exercised due to time and financial limitations.
6. This sample is selected only from Kathmandu valley.

1.7 Organization of the Study

This study has been organized in five chapters. The first chapter is about introduction. It includes General background, Statement of problems, Objectives of the study, Scope, Need and Limitation of the study.

The second chapter is about the Review of Literature through available and published books, reports, articles and dissertation and legal provision of subject matters. It includes Conceptual Framework and Review of previous studies.

The third chapter is on Research Methodology, which includes Types of Research, Research Design, Population and Sample, Nature and Sources of Data, Data collection Procedure, Data Processing and Analysis.

The fourth chapter deals with Analysis and Presentation of Data and Empirical analysis which includes Resource Gap in Nepal, Structure of Government Revenue in Nepal, Tax and Non Tax Revenue in Nepal, Composition of Direct and Indirect Tax Revenue in Nepalese Tax Structure, Contribution of Income Tax to GDP, Total Revenue and Total Tax Revenue, Exemption limit in Nepalese Income Tax, Income Tax payers in Nepal, and method of Income Tax Assessment in Nepal.

In the final or fifth chapter the summary of whole research work, conclusion and recommendations have been made respectively.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Concept of Tax

The government of any country requires sufficient revenue to launch the development programs, to handle the daily administration, to keep peace and security and to launch other public welfare programs. The government collects revenue from different sources like tax, price of goods or services provided by the government, receipts from public enterprises, fees, fines, penalties and foreign grants etc. In short, all the sources of the government revenue can be divided into two parts – tax and non-tax. Tax is major sources covering most part of the government revenue.

Tax is a legal duty imposed on citizen of a country. It is contributed to the government with out expectation of any direct benefit to the taxpayers. According to Prof. 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” (Pokharel, Amatya and Dahal, 2004:3).

According to Plehan, “Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the States” (Dhakal, 2002:2).

According to P.E. Taylor, “A tax is compulsory payment to the government without expectation of direct in return to the tax payers” (Pokharel, Amatya and Dahal, 2004:3).

From the above definition, it is clear that a tax is a compulsory contribution to the State from a person. The tax is paid to State to perform the function of the government. The taxpayer does not have any right to receive direct benefit from the tax paid. The taxpayer does not receive the equivalent benefit from the government. Amount of tax is spent for common benefits and interest of the people and the tax collection from a natural and artificial person.

Many economists have classified taxes into several categories but the major categories of taxes may be direct & indirect taxes. If a person must have to pay directly the tax liability to the government, such tax is known as direct tax. A direct tax is really paid by the person on whom it legally imposed. The taxpayer cannot collect tax from other persons. Income tax, Gift tax, Interest tax, Property tax, Vehicle tax, House & Land tax and contract tax are some examples of direct tax. Direct tax is paid according to the income or property earned by a person. So it is found equal with and property. Direct tax has a quality of certainty; the taxpayers are informed about the amount, time and procedure of payment. Taxpayer can easily estimate his tax liability. The government can easily increase or decrease according to proper economic situation of the country. Taxpayers pay tax from their own property, so they are conscious about their contribution.

Indirect tax is the tax, which is collected from the other person by transferring the tax liability. And direct tax is imposed on one person but paid partly or wholly by another. The examples of direct taxes are Customs, Excise duty, Contract tax, Value added tax, Entertainment tax, Hotel tax, Passenger tax etc. Indirect tax is transferable. People pay tax when they receive or consume goods or services. Therefore they don't feel burden to pay lump sum. There is mass participation because every person who receives goods and services, pay tax. The government encourages domestic products and discourages foreign goods through higher rates of indirect tax.

2.1.2 Concept, Meaning and Definition of Income Tax

The term 'income' may be defined as the best measure of ability in the sense of economic well being, for income is the primary determinant of the level of living which a family enjoys. In a broad sense, income refers to the economic gain to a particular person during a particular period of time. It includes the person's consumption during a particular period of time as well as the net increase in the individual's personal wealth during the same period. This definition can be stated as follow.

$$Y = C + W$$

Where;

Y = Income

C = Value of consumption

W = Increase in wealth.

In fact, this is the most satisfactory definition of income in light of the objective as, but it is not the approach used in tax laws. The usual is in terms of low of money to a limited extent of commodity of a person. This is a concept somewhat easier for the non-economists to understand; it is an agreement with the every day nations of income, and it is a workable approach. To collect income taxes, government has to specify what counts as income and what kinds of income they will tax.

The most widely accepted definitions of income was developed by American Economist's Robert M. Haig and Henry C. Simons in the 1920 and 1939. According to this definition, a person's income during the period in a economic sense consists of the algebraic sum of two items.

The person's consumption during the period and The net increase in the individual's personal wealth during the period.

Symbolically, $Y = C + W$

Where,

Y, C and W refer personal income, consumption and net increase of personal wealth respectively.

According to the Dictionary of Economic Terms, income means, "The wealth measured in money, which is at the disposal of an individual or a community, per year or other unit of time; it may be regarded as a flow of purchasing power which may be expended at once on goods or services or retained for the purposes of capital accumulation (Gilpin, 1977).

It is very difficult to define income precisely and clearly. So, income exemplified rather than defined income tax laws of various countries. According to Indian Income Tax Act 1961 section 2, under the head of income keeps profits and gains, dividends, voluntary contributions received by charitable trust, value of any perquisite or profit on lieu of salary, any capital gain, winning form lotteries, cross world puzzles etc.

According to income tax act 2002 section (h), income means a person's income from any employment, business or investment and the total of that income as calculated in accordance with this act.

The concept of income tax differs in different countries. In United Kingdom, the original concept of tax was applied to five schedules. In United States of America, income tax is viewed, as a matter of practice, recurrent is not relevant to the tax status.

In India, the personal income tax is levied on the net income of all individual, joint Hindu families, unregistered firm and other association of person (Due & Friedlander, 1977:111).

Income tax as the word itself refers a tax on income. In a broad sense, income tax is a levy based upon the production or receipts or gain of the taxpayers within a definite period of time (Encyclopedia of America, vol.14:749).

Thus income tax is chargeable on any person who is an assessee and whose total income exceeds the maximum exemption limit, at the prescribed rates and from the very beginning, income tax has been always regarded as a tax based on the canon of ability. The tax could be adjusted as to exempt the lowest income group from the operation of the tax and make the richer groups bear the burden of the tax according to their income. Apart from such considerations as revenue productivity, income tax has been regarded as the ideal tax from the point of view of equity (Andely, 1964: 213) and tax economists have an idea that an income tax is a levy tax upon the income of an individual after the exemption limit. Only the taxable income is subject to tax, otherwise the objective & principle of taxation will not be fulfilled.

The above discussion cleared that the concept of income tax is different in different countries. The reason for difference may be due to the difference in economical structure, nature of government, status of the individuals etc. However, almost all country follows the principle of ability to pay as the basic principle while determining the tax policy. Income tax cannot be shifted forward or backward and the taxpayer on whom the tax is imposed must bear the burden of tax.

Income tax can easily be modified to give elasticity in raising revenue and is highly productive, in a developing country like Nepal. Income tax is the major contribution towards government treasury among direct taxes.

2.1.3 Development of Income Tax in its Historical Perspective

In the history of modern income tax, the first country to enact a general income tax was Great Britain in 1799 to finance the Napoleonic wars with France. But after 1980s it was accepted as social instrument.

In early days taxes were not collected in monetary but were collected by tribal rulers, community heads etc for communal services and at time of emergencies.

In Hindu tax system, tax was levied on the basis of welfare of the people and people were eager to pay tax because not to pay tax was taken as great sin. The ancient Hind philosopher and writer Kautilya; Manu and Yogyablaka argued “As the ripe fruit is picked form the garden leaving out the unripe to pay. In the earlier period, income tax was levied at a flat rate but the principle of progressive income tax has been applied today. There are very few countries where income tax has is levied as global and progressive tax on ability to pay. According to Hindu’s Holy Scripture, Vedas, the duty of king was to serve and secure people, maintain peace and carryout social works. In order to perform all those activities, the King used to collect crops and cattle form farmers; gold, silver, copper from traders. These ancient forms of taxation were expanded form time to time under the influence of various economic, political and ethical forces.

In the early Roman society, the citizens had to pay tax even for the Polling right. “Ancient Athens used to derive its revenue form taxes like customs, sales and poll tax on aliens and slaves. One who was taxed and failed to pay was guilty of a capital offence” (Grolic, 1975). After the end of Punic war in 146 B.C., they were

relieved from the pool tax. They started to levy tax on the people of the captured areas instead of their citizens. At the time of Julius Caesar, 1% sales tax was imposed to the people and he was the first ruler who started to collect taxes through government institutions.

Kautilya's "Arthashastra" of the fourth century B.C. has classified the tax receipt into three (Lokalathan, 1998).

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

Land revenue was an important source of taxation in ancient India. Kautilya mentioned, "The tax system should be such as not rove a great burden on the public (Prajā), the King should act like the bee which collects honey without inconveniencing the plant" (Garola, Kautilya's Arthashastra). His economic thought was guided by social welfare concept. He suggested heavy taxation for luxuries and other articles, which were not in favor of public welfare. Kautilya classified the main items of public expenditure,

- i. National defense.
- ii. Public administration.
- iii. Salaries of Ministers and expenditures on government departments.
- iv. Expenditure incurred on maintenance of armies.

2.1.4 The History of Income Tax System in Nepal

Nepalese ancient tax system was based on Vedas, Smritis, and Puranas. Directives propounded by Manu, Yagnabalak, Chanakya etc. guided the taxation system. At that time, the principle of collecting tax from the people was important of tax without harming the activities of the people (Kandel, 2003:8).

The function of revenue collection has remained one of the key activities of the government from ancient time in Nepal. During that time, very few economic activities were operated on the country, hence, government could not collect huge amount of money in the form of taxation. At that time, taxes were levied to the merchant, travelers and farmers in the form of cash, kind of labor. In some occasion, gold and agricultural products were also paid as taxes but the nature of these taxes were temporary and taxes were raised for special purpose (Regmi, 1971:55).

In the Lichavis regime, income taxes from agriculture income and business were introduced as a direct tax for the first time in Nepal. Tax on agriculture income was called "Bhaga" and tax on business was called "Kara". Irrigation tax and religious monument preservation taxes also existed at that time of King Anshuman of Nepal. During the period of 1768-1846 A.D., different types of taxes were levied to generate maximum revenue. The major sources of revenue were: Birta and Kipat, taxes on land, monopolies customs transit and market duties, mines and mints and the export of forest products, birds, animals, and various licit and fines. Taxes were collected at three levels: Royal Palace, Government and Local Authorities. These were contract provision for the collection of customs and transit, market and excise duties. The various taxes levied during that period were narrow base and were imposed primarily on occupations and economic activities not in income or property. There was no taxation of income in the modern sense income tax (Agrawal, 1978:117).

During the period of Rana regime, there was no any formal provision for imposed and collection of taxes. Taxes were imposed according to the objectives, needs whims or the ruling Rana Prime Minister. There was not provision of separating personal income of Prime Minister and State treasury. There was not system of preparation government budget. The surplus of revenue over expenditure was considered the personal income of the Rana Prime Minister.

The major source of revenue in Nepal till 1951, were land tax, custom and excise duties in the form of lump sum contracts, royalties on forest, royalties on supply of porters, soldiers and a few other minor taxes. Income were not taxed for raising regular revenue of the State treasury but for meeting specific expenditure of the household of extra ordinary expenditure necessitated by war or other emergencies.

There was no direct tax in the country except land tax collect 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. The Rana rules did not think of development of effective revenue administrative system.

The concept of income tax was brought only by the first budget. The budget introduced in 2008 B.S. Stated about the introduction of income tax system in Nepal. However, it was actually introduced only in 2017 B.S. in the form of “Business Profits and Remuneration Tax”. According to this act only Business profits and Remuneration on income were subjected to tax but the revenue for these taxes should not be collected properly according to original estimates (Dhungana, 1976:66).

Main Features of Income Tax Act, 1960 were as follows:

1. Only business profit and remuneration income were subject to tax. Thus the coverage of income tax was too narrow.
2. Tax remuneration was to be deducted at source.
3. The basis for calculating the tax liability for remuneration was the income of the current year whereas for business profits, it was the profit of the preceding fiscal year.
4. There was a provision of tax exemption on salary of foreign citizen, dividend of Shareholders, profit to be spend in religious or public welfare activity, crop from own land, allowances granted by HMG to Ministers, Assistant

Ministers, Chairman, Speaker, and Deputy Speaker, amount drawn from provident or saving fund.

5. The tax officer was empowered to assess tax on best judgment estimation only in case of false statement or in absence of income tax return.
6. There was a provision of fines ranging from Rs.500 to Rs. 5000 in case of defaults.
7. The first Court of Appeal against the tax officer's assessment was local "Bada Hakim" or Magistrate. Thereafter taxpayer could appeal to the "Revenue or tax Court" but he had to deposit a fixed amount of tax.

Since, the income tax was imposed only on income from business profit and remuneration; the act could not cover all the sources of income and so was replaced by the Income Tax Act 1962, in 1962. Income Tax Act, 1962 with 29 Sections divided the heads of income into nine parts covering business profession and occupation, remuneration, house and land rent, cash or kind investment, agriculture, insurance business, agency business and other sources. The objective of this Income Tax Act was to reduce unequal distribution. The Act was amended only one time in 1972.

The main features of Income Tax Act, 1962 were as follows:

1. Act has defined basic terminology such as taxpayer, tax officer, company, firm, profit, remuneration, tax assessment, non-resident etc.
2. Status of taxpayer was defined on personal as well as residential of the tax purpose.
3. Procedure for income tax assessment and methods of calculating net income were stated.
4. Provision was made to carry forward of losses for a period of two years.
5. The provision was made to constitute the net income assessment committee with five members.

6. The basis was specified for assessing tax on the best judgment estimate of the officers.
7. To burden the tax coverage, agriculture income was brought under the income tax net for the first time. But the financial Act, 1966 exempted this income fully from tax net. Again it was brought into tax net by Financial Act, 1973. However, it was again exempted for 1977.
8. Provision was made for assessment of tax as well as rectification of arithmetic errors.

Considering this act incapable of fulfilling the needs of the time, existing act was replaced by another act "Income Tax Act, 1974". This new act was brought in practice from October 1974 A.D., this act having 66 Sections. This act was also amended in 1977, 1979, 1984, 1986, 1988, 1989, and 1992 A.D. to make it more practical and to eliminate confusing terms of wealth with social justice and establish tax-paying habit. His Majesty's government enacted the Income Tax Rules, 1982 in accordance with the authority given under Section 65 of Income Tax Act, 1974.

Main features of this act as amended are as follows:

1. It had clarified the certain terminology used in Act e.g. income tax, tax payer, non-resident, tax assessment, income year, gross income, net income, agriculture income, remuneration income, loss etc.
2. Income head was classified into five categories: a) Agriculture income, b) Industry, trade, profession or vocation, c) Remuneration, d) House and compound rent and e) Other sources.
3. The methods of computing net income from various sources had been specified.
4. Appointment rights of tax officers had provided of HMG and rights of tax officers had mentioned clearly.

5. The right & duties of taxpayer had mentioned clearly.
6. This act had made the provision of self-assessment of tax for the first time in Nepal.
7. The provision of carry forward of loss for three subsequent years was made.
8. The act had made it obligatory for taxpayers to register their industry, business profession or vocation in the tax office before starting the work.
9. The expenses allowed for deduction while computing net income had clearly specified for all sources of income.
10. Procedure for assessment, reassessment, jeopardy assessment, tax deduct at source, payment and refund of tax had specified.
11. Provision relating to make agreement for Avoidance of double taxation.
12. Provisions relating to maintenance of accounts.
13. Provisions of penalty up to Rs. 5000 in case of failure of maintain or preserve accounts.

A sound and effective income tax system is necessary to maximize the revenue collection from income tax. Whole income tax system is made of three sub systems i.e., income tax policy, income tax laws and income tax administration. The government itself through Ministry of Finance determines income tax policy. Income Tax Policy should be such that the main objectives of the income tax can be attained.

Parliament makes the laws to implement the various policies. The government levy and collect the income tax in accordance with law. The constitution of the kingdom of Nepal, 1990 has made the clear provision about it. "No taxes shall be levied and collected except in accordance with law" (Constitution of Kingdom of Nepal, 1990).

Since, 19th Chaitra, 2058 B.S., 'Income Tax Act 2058' has been introduced in Nepal. This act has been brought in Nepal to avoid the following defects of income tax Act, 2031.

- a. Income Tax Act 2031 had a narrow tax base, Global income of residents were not brought into tax net. Only the incomes originated in Nepal were taxed.
- b. Income tax related matters were governed by various Acts. Dispersion of tax related Acts had arisen confusion in the effective implementation of the Act, such as Employee Provident Fund Act 1962, Citizen Investment Trust Act 1992, Industrial Enterprise Act 1992, Electricity Act, 1992 etc.
- c. There were no clear provisions regarding taxation of capital gains. The Acts was also silent with regard to international taxation.
- d. The terminology and provisions in the act were inadequate.
- e. The fine and penalty imposed by the Act were very low. As a result, the level of voluntary compliance and decreased substantially.
- f. There was a weak mechanism to control the tax avoidance scheme of taxpayers. The taxpayers used to evade tax through transfer pricing, splitting of income, etc.
- g. Tax accounting method was not prescribed in the Act. Despite the provision of Self-assessment in the Act, it had not been implemented properly. The Self-assessment was more in name than in practice.
- h. The Act had not distinguished civil liabilities of the taxpayers from criminal liabilities. The tax authorities were empowered to act as a Court.
- i. There was a double appeal system in the Act; the taxpayers were allowed to lodge an objection against assessment with the Revenue Tribunal or the Direct General. The Director General was empowered to Acts as a Court and there were complaints that he used to make decisions in favor of tax officers. There were no provisions for administrative review.

- j. Act became incapable to fulfill the need of time. So, it became compulsory to replace to it by new Act.

As given by the policy makers, the objectives of the Act are:

- a. To bring all the income generating activities within tax net,
- b. To increase the base of taxation,
- c. To bring all the income tax related provisions within one act,
- d. To made income tax related provisions clear and transparent,
- e. To interlink Nepalese tax system with tax system of other countries,
- f. To make tax system based on account,
- g. To minimize tax avoidance and tax evasion,
- h. To make tax system compatible to modern economy,
- i. Reducing the scope of discretionary interpretation of the tax administration there by ensuing simplicity, uniformity and transparency,
- j. Separating administrative and judicial responsibilities,
- k. Defining the power as well as authority of the tax administration, distinguishing taxpayers' violation of civil duties and criminal offences,
- l. Further streamlining the appeal system by making it mandatory for the taxpayers to file an objection with the Department of Taxation before appealing to the Revenue Tribunal.

The new Income Tax Act has 143 Sections. Income tax rules, 2059 is also implemented under the provision of this Act. As Stated in objectives, the new act has many new provisions in comparison to Income Tax Act, 2031. Beside this act and the rules, the current Finance ordinance act is also equally applicable of the proper administration of income tax in Nepal.

Features of Income Tax Act, 2002

Tax System is the sub-system of the total economy. Tax policy is changed with the change in the economic policy of a country. Change in world economic policy and advancement in information technology has a vast impact on Nepalese economy too. Small economies like Nepal have to adopt the economic policy followed by World Bank, International Monetary Fund, Asian Development Bank, and other international agencies. Especially, after 1990s, there is re-emergency of the liberalization, globalization and privatization system that focus on the minimum intervention of the State on private economic matters. The 1950's concept of 'high incentive', 'high tax rate' is changed to the concept of 'low rate, wide net'. This trend in tax system is followed by most of the countries of the world. Nepal also is not an exception in this respect and Nepalese administrators and policy makers too have tried to change the tax policy of the country. Income Tax Act, 2002 is the result of the change in all these matters (Kandel, 2004:20).

Following are the main features of Income Tax Act 2002 (Mallik, 2003:26)

- a. Income tax related provisions are included with in one act.
- b. This act has classified all income into three headings under Section 3: I. Business, II. Employment and III. Investment.
- c. Act has clearly specified the amount should be included while calculating a person's gain or profit from conducting business or investment for an income year.
- d. All the expenses are allowed to deduct provided that the same taxpayer makes the expenses in the same year in the production of income.
- e. There is the provision of carry forward of loss for four subsequent years. The act has also provided the facilities to carry backward of loss for five subsequent years incase of bank, insurance and long term contract.
- f. Incentives are provided to infrastructure constructors, hydropower projects and special industries.

- g. Now the economy of the most of the countries in the world is open one. The provision has introduced in the tax law related to International Taxation, Transfer Pricing, Foreign Tax Credit, double Taxation Avoidance Agreement etc are the provision of International Taxation.
- h. The act has given the option for husband and wife as a separate natural individual until they do not accept as a couple.
- i. Capital gain, dividend etc has brought in tax net.
- j. Authorities of tax payer have specified,
- k. To control the tax evasion, provision of transfer pricing, thin capitalization dividend stripping in made,
- l. Provision of fines and penalties has made stringent in the new Income Tax Act 2002.
- m. This act has made a provision of relating the submission of income statement by a person who doesn't have taxable income or who has derived income only as final withholding payment.
- n. There has the special provision for deduction pollution control and research and improvement expenses.
- o. The income of an approved retirement fund is free form tax. But retirement payments in hands of employees are taxable.
- p. Resident persons are taxed on their worldwide income while non-resident persons are taxed only in their income sourced in Nepal.
- q. The pool system of depreciation of depreciable assets has introduced at the first time. All types of depreciable assets are classified into five categories. Depreciation rate for class A, B, C and D is based on diminishing balance method but straight-line method for class E.
- r. The act has provided the facility of medical tax credit under which resident individuals may claims a medical tax credit of 15 percent of the amount of approved medical cost. Unabsorbed medical tax credit amount can carry forward forever.

- s. The act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.
- t. This act has made a provision for income returns; every taxpayer is required to fill up the return of income in the prescribed format and file to the concerned internal revenue office within three month after the expiry of the income year.
- u. Completely on self-tax assessment, if a person submits an income return for an income year on the due date indicating the amount of total tax liability for the year and the amount of tax still payable by the person, it is treated as a self-tax assessment.
- v. The act has prescribed the method and basis of tax accounting. It has clearly indicated the cash basis or accrual basis accounting for different income heads and persons, such as cash basis for employment income and investment income are accrual basis for a company.

2.2 Legal Provisions Relating To Income Tax Act

Income Tax Act 2058 is implemented from 19/12/2058 B.S. This Act replaces the Income Tax Act 2031, and provision of other Acts related to income tax.

2.2.1 Source of Income

Income Tax Act 2058 has classified the sources of income for the purpose of assessment under the following heads:

- a. Income from a Business
- b. Income from an Employment
- c. Income from an Investment

2.2.1.1 Income from a Business

Business is an activity undertaken by a commercial enterprise engaged for the purpose of making profit on a continuous and representative basis. In other words business means, the use of factor of production for the purpose of earning profit.

According to section 2.a.r. of Income Tax Act 2058, business mean an industry, a trade, a profession, or the like isolated transaction with a business charter and includes a past, present, or prospective business. The terms business does not include employment (Mallik, 2003:44). A person's income from a business for an income year is the person's profit and gains from conducting the business for the year. The following amount derived by the person during the year should be included as per section 7 of the Act.

1. Services fees including commission, meeting management or technical service fees;
2. Amount derived from the disposal of trading stock;
3. Net gains from the disposal of business assets or liabilities of the business;
4. Amount treated as derived in respect of excess depreciation on the disposal of the persons depreciable assets of the business;
5. Gifts received by the person in respect of the business;
6. Amounts derived as consideration for accepting restriction on the capacity to conduct the business.
7. Amounts derived that are effectively connected with the business and what would otherwise be included in calculating the persons form and investment.
8. Excess amount received due to exchange rate currency;
9. Bad debt recovered;
10. Proportionate amount under long term control;
11. Under payment interest amount according to market rate;
12. Amount included under change of accounting method;
13. Other amount received under business income; while computing income from business, the following amounts are excluded on profit and income from business for tax purpose.
 - i. Exempt amounts under Section 10.
 - ii. Dividend under Section 54 and 69.

- iii. Final withholding payment under Section 92.

2.2.1.2 Income from an Investment

According to Section 2.a.1, investment means an asset of holding or investing one or more assets of a similar nature that are used in an integrated fashion. It excludes the act of holding assets, other than non-business chargeable assets, primarily for personal use by the person owing the assets or investment amount on such assets. It also excluded employment or business.

For the purpose of computing income of any persons income from an investment for an income year is the person's profit & gain form conducting investment for the year. The following amounts derived by the person during the year should be included.

- a. Any dividend, interest, natural resource payment, rent royalty, gain from investment insurance, gain from an unapproved retirement fund interest, or retirement payment made by and approved retirement fund;
- b. Net gains from the disposal of the person's non-business chargeable assets of the investment;
- c. The excess amount of income over the depreciation basis including outgoing the disposal of depreciable assets of the investment of the person;
- d. Gift received in respect of the investment;
- e. Amounts derived as consideration for accepting restriction on the capacity to conduct the investment.
- f. Retirement contribution including those paid to a retirement funds in respects of the person and retirement payments on respect of investment;
- g. Amount included under change of accounting method;
- h. Excess amount received due to exchange rate currency;
- i. Bad debt recovered;
- j. Proportionate amount under long term contract;

- k. Under paid interest amount according to market rate;
- l. Amount received as compensation
- m. Other amount required to be included on tax accounting or quantification, allocation and characterizations of amounts or transaction between any entity beneficiary or general insurance business.

The following are excluded in calculating a person's profit and gains from conducting on investment.

- i. Exempt amounts under Section 10.
- ii. Dividend under Section 54 and 69.
- iii. Final withholding payment under Section 92.
- iv. Amounts those are included in calculating the person's income from any employment or business.

2.2.1.3 Income from Employment

According to Section 2.a.j., of the act has given a definition that employment includes a past, present or prospective employment. It can be said that remuneration means the income received by any natural in respect of any employment or service render by the person from the employer in any income year.

An individual's income from and employment for an income year is the individual's remuneration from the employment of the individual for the year. The following payments made to the individual by the employer during the year should be included in calculating an individual's remuneration from an employment of the individual for an income-year:

- a. Payments of wage, salary, leave pay, overtime pay, fees, commission, prizes gifts, bonuses and other facilities;

- b. Payments of allowances including any cost of living, rent, entertainment and transportation cost;
- c. Payment of reimbursement of cost incurred by the individual or an associate of the individual;
- d. Payment of the individual's agreement to any conditions of the employment;
- e. Payments for the termination or loss or compulsory retirement;
- f. Retirement contribution including those paid by the employer to the retirement fund in respect of the employee, and retirement payment;
- g. Other payments in respects of the employment;
- h. Other amounts required to be included;

In addition to above stated items of remuneration, the following types of perquisites are included in remuneration of a person.

- a. Prizes and gifts;
- b. The amount of difference of the interest on loan paid by employer lower rate than the market rate;
- c. Market value of assets in case of the transfer of the assets;
- d. For the payment other that stated above, the value of benefit of the payment to a third person;

The following are excluded in calculating an individual's remuneration from an employment:

- i. Amount exempts and final withholding payment;
- ii. Meals or refreshments provided in premises operated by or on behalf of an employer to the employer's employees that are available to all the employees on similar terms;
- iii. Any discharge or reimbursement of costs incurred by the individual that serve the proper business purpose of the employer, or that are or would

- otherwise be deductible in calculating the individual's income from any business or investment;
- iv. Payment of the prescribed small amounts which are so small and thus unreasonable or administratively impracticable to make accounting for them;

2.2.2 Return of Income

A Return of income refers to the statement of income filled up in a prescribed format. According to Section 96 on Income Tax Act 2058, every tax payer should file at the place prescribed by the Department, a return of income not later than 3 months after the end of each financial year. The law has mentioned that the following items should be included in filling income tax return with tax payer's signature.

- a. The person's assessable income for the year from each employment, business and investment and the source of that income;
- b. The person's taxable income for the year and the tax payable with respect to that income for the year;
- c. In the case of a foreign permanent establishment of a non-resident person situated in Nepal, the foreign permanent establishment's repatriated income for the year and tax payable with respect to that income;
- d. Any tax paid by the person for the year withholding, installment or assessment for which a tax credit is available;
- e. Any other information that IRD prescribes;

The following should be attached to the returns of income:-

- a. Any withholding certificated supplied to the person under Section 91 with respect to payment derived by the person during the year for which the return in filed;

- b. Any statement provided to the person where a person refuse to sign a return which, in return for payment, he has prepared or assisted in the preparation of a return of income or attachment to a return of income;
- c. Any other notice or information prescribed by the Department.
- d. When a person files a return of income for an income year, an assessment is treated as made on the due date for filling the return of the tax payable by the person for the year in the amount shown in the return; and the amount of tax still to be paid for the year being the amount shown in the return.

When a person fails to file a return of income for an income-year then, until such time as the return is filed, an assessment is treated as made on the due date for filling the return that the amount of tax payable by the person for the year is equal to the sum of any tax withheld from payments derived by the person during the year any tax paid by the person by installment for the year; and there is no tax payable on the assessment.

In the circumstances like the person becomes bankrupt, is wound-up or goes into liquidation; or the person is about to leave Nepal indefinitely; or the person is to otherwise about to cease activity in Nepal; or the Department otherwise considers it appropriate the Department may, according to the Department's best judgment, make an assessment of the amounts for the income year or part of the year; and the amount of tax, still to be paid for the year or part of the year.

2.2.2.1 Return of Income Not Required

Unless requested by the department by notice in writing or by publishing a public notice, the following persons are not required to file a return of income.

- a. A person who has not tax payable for the year under Section 3(a)
- b. A residential individual:

- Who has only one employer at a time during the year and all of whom are reside employers and
 - Who claims only a medical tax credit with respect to medical costs borne by the employer and reduction for retirement contribution made by the employer but does not claim a reduction for donation.
- c. A person who receives a final withholding payment;
- d. If vehicle owner paying flat taxes as per Section 11 (schedule 1) is an individual.

2.2.2.2 Extension of Time to File Return of Income

A person who is required to file a return of income may make a written request to the Department within the date for filling the return, the Department may, if there is reasonable cause extend the date by which the return is to be filed; by serving the applicant with a written notice of the Department's decision on the application. The Department may grant multiple extension not exceeding three months in total by which the return is to be filed. The Department will inform the person in writing of its decision on the application.

2.2.3 Tax Assessment

Assessment means "to determine" or "to compute". Income tax assessment means the determination of the amount of income tax imposed on the tax payer for a specified period. The word assessment comes from the Latin words "ad Sedereassessere" meaning 'to sit through, to fix a rate' or impose a tax. In the most common sense the imposition of a tax by listing on person and property to be taxed and a valuation of the property if each person as basis of apportionment and levy such acts usually performed by administrative officers and sometimes by legislature (Ballentines Law Dictionary, 1969:99). Thus income tax liability on a person is determined on the basis of State act. Assessment of income tax means the computation of total income tax liability and procedures for imposing income

tax liability as well. “The World assessment means computation laid down in the act for imposing liability upon the taxpayer.” (Prappa,1968:68)

Income Tax Act 2058 has defined the term “assessment” as an assessment of tax to be paid under this Act and it includes an assessment of interest and penalty made under this Act. However, the term does not include an assessment that has been replaced with an amended assessment.

2.2.3.1 Tax Assessment Procedure

The revenue collection from income tax is also based upon the income tax assessment procedure followed. Income Tax Assessment Procedure is a significant aspect of the income tax administration. The quality of income tax assessment procedure is highly dependent upon the quality of income tax personnel, taxpayers and tax laws and polices. If income tax is fairly assessed the amount of collection may increase. An efficient and effective assessment procedure reduces the corruption and evasion and increase the morality which assists to generate additional financial resources through income taxes. (Routh, unpublished dissertation: 119)

The assessment starts with return of income filed by the taxpayer. It is scrutinized, verified, investigated or audited by the tax officer in order to determine, whether the information contained in it, is accurate and complete. The income tax assessment procedure generally proceeds through four stages:

- i. Return of income statement.
- ii. Assessment of taxable income
- iii. Determination of tax liability, and
- iv. Collection of net proceeds after deducting his advance tax payment.

2.2.3.2 Methods of Income Tax Assessment

Income Tax Act 2058 provides for the following major methods of assessing income tax:

A. Self Tax Assessment

Self Tax Assessment is the system in which the tax payer pays himself his income tax by calculating his tax to pay on the preparation of his income and showing his every detail (Joshi, 2044:61).

The first amendment of 1977 of Income Tax Act, 1974 had made the provision of self-tax assessment for the first time. This provision aims to increase awareness in taxpayers about their tax liability and to facilitate the collection of tax. The eight amendments of Income Tax Act had mentioned many provisions in this regard and has given high priority to self-tax assessment. But it was not properly implemented in practice before the enforcement of Income Tax Act 2002.

According to the Act, if a person submits an income return for an income year on the due date indicating the amount of total income, tax liability and tax still payable for the year; it is treated as an assessment has been made. Such assessment is known as self-tax assessment. The tax official validates Self-assessment only when the person submits the income return in prescribed format on the due date along with the tax payable in a proper way without any error and motive of fraud.

Since the current tax laws have fully adopted Self-tax assessment system, it is supposed to be assessed tax on due date until such time as the income return is to be filed although a person fails to file the return. So, incase of failure to submit the income return in the date, the total sum of any tax withheld for payment derived by the persons during the year and any tax paid by the person in installments for the year is treated as paid on the due date. It means only the remaining tax is

treated as tax arrear until such times the return is filed and that tax arrear is recovered along with penalty, interest, and fine through amended assessment (Amatya, Pokharel & Dahal, 2004:261).

For the development of healthy and enriched tax administration, there is a completion of keeping the account of transaction, public consciousness towards the tax administration to pay tax previously, the provision of measuring the previous paid tax while paying and Self-Tax-Assessment are supposed to be the important aspects. Tax administration should assess the tax timely otherwise problem may emerge. To overcome the problem so arised the system of Self-Tax-Assessment can be supposed as the most important tools, by means the revenue could be collected within specific time. It is a system that makes feel the tax payer their responsibility of paying tax. In the mean time, it is also a helpful to the tax administration to assess tax timely.

For the Self-Tax-Assessment, three procedures are to be follows by the tax payer.

- a. Preparation of income & Expenditure as prescribed format.
- b. Declaration of net income of each source of income.
- c. Showing the taxable income.

Income not exempted from tax. Income is not of that type where final withholding is made.

In such assessment the taxpayers also should show:

- i. Tax payable by the person.
- ii. Amount of tax still be paid by the person for the year being amount shown in the return.

B. Jeopardy Assessment

In some doubtful situation the tax officials may make jeopardy assessment. The assessment is initiated prior to the date of filling an income return. The assessment is actually made according to the best judgment basis under the special circumstances as when,

- a. The person becomes bankrupt, is would-up, or goes into liquidation;
- b. The person is about to leave Nepal indefinitely;
- c. The person is otherwise about to cease activity in Nepal;
- d. The department otherwise considers it appropriate.

Jeopardy assessment can be made either of the whole year or for the part of the year. If the assessment is made for the whole year the taxpayer is not required to file the return for the year. But if the assessment is made for the part of the year, then taxpayer is required to file the return of income for the year on due date.

The Department may give the 7 days of time to the taxpayer to produce proof, if any, in won favor with respect of the jeopardy assessment. Moreover, if the tax official make a jeopardy assessment, the tax official is required to provide written notice to the assessment to the tax payer mentioning the total tax liability, tax payable along with the date of payment and manner and reasons of the assessment. The notice should include the time, place and manner of objecting to the assessment.

C. Amended Assessment

The Department may amend an assessment made by the taxpayer to adjust the assessed person's tax liability. It is done according to the intention of the Act. The tax officials may amend both the self-assessment and jeopardy assessment so as to adjust the tax liability. Amended assessment is carried out after filling return or after the expiry of due date for filling income return. The tax officials may amend

an assessment according to the best judgment for a many times as the tax officials think appropriate. The Department may amend an assessment within four years at any time where the assessment is inaccurate by the reason of fraud or any unwillful neglect by or on the behalf of the assessed person.

The tax official may not amend an assessment if the assessment has been amended or reduced assessed tax by the Revenue Tribunal or Court of Competent Jurisdiction except where the order is reopened. This provision should not be a barrier to amend in the case where an order for reinvestigation is issued.

Where the Department makes amended assessment, the Department shall be required to serve a written notice of the assessment to the person stating the following:

- a. Tax payable by the person, tax still to be paid for the income year or the period to which assessment is made;
- b. The manner in which the assessment is calculated;
- c. The reason why the Department has made assessment;
- d. The date on which the assessment is payable; and
- e. Time, place and manner of objecting to the assessment.

The Department may give the 15 days of time to the taxpayer to produce proof, any, in own favor with respect of the assessment.

2.2.4 Payment, Collection and Refund of Tax

Income Tax Act, 2002 has established two major method of collecting tax. One is voluntary payment to tax and another is collection of tax. If a taxpayer voluntarily pays tax within specified time limit, it is known as voluntary payment of tax. If a taxpayer does not pay tax voluntarily within the specified time limit, the tax official collects tax through special effort and it is known as collection of tax.

According to the Act, the tax is to be paid in the form and at the place prescribed by the tax authority. In case a person is required to pay tax at a place as per a notice issued by IRD or IRO, the person has to pay the tax at the same place as mentioned in the notice. In general cases, each person has to submit the tax payable to the Inland Revenue Office or recognized bank. Each person is allowed to make the payment of tax in cash within specified limit. But the person is required to pay the tax with cheque or draft in the case above such limit. Generally in practice, the Inland Revenue Office accepts the amount of tax in cash only up to Rs. 10,000. So, the amount of tax more than 10,000 is to be submitted with cheque or draft to the IRD or through a recognized bank.

2.2.4.1 Voluntary Payment of Tax

The tax laws have explicitly focused on the voluntary payment of tax. It is the main obligation of the taxpayers that they have to pay tax voluntarily.

A. Payment of Tax as withholding

Every person who is subject to withhold tax with regard to withholding payments is required to deduct tax at source while making such payment. Such person is known as a withholding agent. The withholding payments encompass certain remuneration payments, certain payment of investment returns such as interest, a natural resource payment, rent, royalty, retirement payment of certain contract. The payments also include service fee such as legal fee, audit fee and other similar fees.

Every withholding agent has to file a statement in the prescribed manner and from to the concerned IRO within 15 days after the expiry of the month during which the amount of payments was made by the agent to a withholder.

B. Payment of Tax by Installments

An individual or an entity having assessable income during an income year from a business or investment is required to pay tax in three installments:

<i>Date payable</i>	<i>Amount Payable</i>
By the end of Poush	40% of estimated tax
By the end of Chaitra	70% of estimated tax
By the end of Ashad	100% of estimated tax

While paying tax in installment, the taxpayer should pay remaining amount after deducting the amount of tax paid earlier. If the amount of calculated installment is less than Rs 2000, the amount of the installment is not required to be paid.

C. Payment of Tax as per the Assessment

The taxpayers who are under obligation of payment of tax as per self-tax assessment system are required to pay tax along with the submission of income return. In such cases, the limit for submission of income return is specified up to 3 months after the expiry of income year or extended time up to next 3 months. Similarly, in case of income tax payable on assessment with respect to jeopardy assessment and amended assessment, the tax should be paid within the time limit specified in the notice of respective assessment.

2.2.4.2 Collection of Tax

If a taxpayer does not pay tax voluntarily within the due date, the tax official collects the tax arrear through special efforts. According to the present laws, collection of tax refers to the recovery or realization of tax arrears through such special effort made by the tax official.

The Act has started the following measures for the recovery of the due amount:

A. Recovery of Tax from person owing money to tax debtor (Sec. 85, 109)

The tax administration may recover due amount of tax from the following person account of and to the extent of the tax payable by the tax debtor:

- a. Person owing money to the tax debtor;
- b. Person holding money for, or on account of the tax debtor;
- c. Person holding money on account of a third person for payment to the tax debtor; or
- d. Person having Authority from a third person to pay money to the tax debtor.

A person making a payment to the government will be treated as making the payment to the tax debtor. The tax debtor or any other person may not make a claim against the payer with respect to such amount.

B. Departure Prohibition Order (Sec.106)

If a person did not pay tax within payable time, the Department can serve notice to the immigration office to prevent the person from leaving country Nepal or a period of 72 hours from the time of notice served. If the person pays the tax or makes an arrangement for payment, tax administration may be notice in writing served on the office, withdraw the order.

C. Recovery of Tax from Agent of Non-resident (Sec.110)

The Department may by service of a notice in writing require a person who is in possession of on assets owned by the tax debtor to pay the tax on the behalf of the tax debtor up to the market value of the assets. In case of such payment, the person may recover the payment form tax debtor an amount not exceeding the payment. The tax debtor may not make claim against the person with respect to the retention.

D. Recovery of Tax from Receiver (Sec.108)

Receiver refers to:

- A liquidator
- A receiver appointed out of or by Court of an assets or equity
- A mortgage
- An administrator or executor or a direct near of a deceased individual estate.
- Any person conducting the affairs of an incapacitated individual.

E. Charge over Assets (Sec.104)

If the tax payer is not able to pay tax on or before the due date, the government can create charge over the assets of the tax payers by severing notice to him stating:

- Details of the assets auction;
- The extend of charge (tax payable, interest occurred etc.);
- Any cost of charge an auction;

If the charge on land and building is taken, the government files application to register the charge Inland Revenue, who shall suspend the sale or transfer of ownership.

F. Suit for Unpaid Tax/Legal Action against Unpaid Tax (Sec. 111)

The Department can recover the unpaid amount of tax debtor by suing in the competent Court.

2.2.4.3 Remission (Sec.112)

If the Department is satisfied and certified writing that the tax or interest or penalty can not be effectively collected, HMG Nepal may remit in whole or part of such amount payable by the person.

2.2.4.4 Refund and Set Off (Sec. 113)

If the Department is satisfied that a person has paid tax in excess of his tax liability, the Department may apply the excess in reduction of any tax payable but unpaid by the person under the act and refund the remainder, if any, to the person.

2.2.5 Tax Accounting

2.2.5.1 Method of Tax Accounting

On the basis of this Act, the determination of when a person derived on income incurs and expenses is made according to the generally accepted accounting principles, calculating the individual's income from an employment or investment for tax purpose the accounting should be done on cash basis. A company required to maintain its accounts on a accrual basis within the basic framework of generally accepted account dint principle. Other entity operating business or having investment may adopt either cash or accrual basis for maintaining its accounts. Similarly, a natural person operating business may adopt either cash or accrual basis for maintaining the accounts. However, it is noted that a person enjoying a facility of selecting tax accounting may select cash or accrual basis unless the Department prescribes otherwise by written notice.

Table 2.1

Application of Tax Accounting

Person	Heads of Income	Tax Accounting
Natural Person	Employment or Investment	Cash Basis
Natural Person	Business	Cash Or Accrual Basis
Company	Business or Investment	Accrual Basis
Other Entity	Business or Investment	Cash or Accrual Basis

(Source: Income Tax Act 2002)

2.2.5.2 Accounting on Cash Basis

A person who accounts for calculating the income from employment, business investment on cash for tax purpose has to treat an amount as derived and include in income only when payment is received or made available to the person and treat an expense as incurred and deduct in that calculation only when payment is made.

2.2.5.3 Accounting on Accrual Basis

A person who accounts for calculating the income on an accrual basis for tax purpose has to treat an amount as derived and include in income when the person becomes entitled to the payment. For the purpose of deduction in calculating the income, the following expenses are treated as incurred when the person is obliged to make the payment, the value of the obligation can be determined with reasonable accuracy and the other payment has been received.

In the case of accrual basis accounting, an appropriate adjustment should be made at the time the payment is received or made so as to account for the inaccuracy that may happen in both income and expenditure including by reason of a change in currency valuations.

If a particular timing of payment is chosen in order to defer or reduce the total tax payable, the Department may adjust the time at which the payment is recognized for tax purposes to prevent the deferral or reduction.

2.2.6 Appeal

Income Tax Act, 2002 has made provision for two types of appeal system: first to the Inland Revenue Department for an administrative review and, second is to Revenue Tribunal.

2.2.6.1 Administrative Review (Appeal to Director General) (Sec. 114/115)

Income Tax Act 2002 has introduced a concept of administrative review that will allow the tax administration to correct mistakes, if any, made by the administration internally. The administrative review may be conducted only on reviewable decisions. In other words, the Director General may review the reviewable decision made by the tax officers. A person who is not agreeing with the reviewable divisions may file an objection to the decision with the Department within 30 days after the decision is made. The objection must be in written form that specifies in detail the cause and the grounds upon which it is made. If a person makes an application for extension of time limit as a result of its expiry within a period of 7 days from the expiry, the Department may extend the time limit there any reasonable cause is shown. The period of extension may not exceed 30 days from the date by which an objection must be filed. For purpose of the Act, the administrative review may be conducted on the following decisions:

- a. Advance ruling issued by IRD;
- b. An estimate by IRD or the decision to make an estimate of a person's estimated tax payable;
- c. A decision by IRD on an application by a person to extend the due date by which the person must file a return;
- d. An assessment of income tax payable by a person or determination of the costs of auction of charge assets or interest and penalties payable by a person;
- e. Notification by the IRD of an amount to be set aside by a person as a receiver;
- f. A decision by the IRD to require a person to pay money owing to a tax debtor to IRD;
- g. A decision by IRD to require a person to pay tax on behalf of a non-resident person;

- h. A decision by IRD on an application by a person for a refund of tax; and a decision by IRD on an application by a person for an extension of time within which to file an objection.

The enforcement of a reviewable decision is not affected by the filing of an objection. However, the Department may stay or otherwise affect the enforcement of a reviewable decision until an objection filed by a person is settled. It is noted that in case of application filed for administrative review against an assessment of income tax payable by person under jeopardy or amended assessment or interest and penalties payable by a person or a assessment of expenses incurred in auction of charged assets of a tax debtor, the person has to deposit 50% of debatable tax and full amount of un-debatable tax.

After consideration of a person's objection field, the Department may allow or disallow the objection in whole or part. The Department has to provide a written notice of the decision on an objection to the person's. If the Department fails to provide the notice of the decision on an objection within 90 days of an objection field, the person may treat the objection as disallowed by the Department.

2.2.6.2 Appeal to the Revenue Tribunal (Sec. 116)

Section 116 of the Act has specified that a person who is aggrieved by an objection decision may appeal to the revenue Tribunal in accordance with the Tribunal Act, 2031. If the person has appealed, he/she should file a copy of the notice of appeal with the Department within 15 days. However, the operation and enforcement of an objection decision is not stayed or otherwise affected by an appeal. If Director General of the Department has made the decision relating to administrative review, the appeal to Revenue Tribunal would be effective.

2.2.7 Penalties, Interest, Offence and Prosecution

2.2.7.1 Penalty Provisions for not complying

For making a law effective, there should be provision of penalties against various types of offences. It is found from different studies that there is negative relationship between extent of penalty and the tax offence. That is why every law has provision of penalties against different types of offences. Income Tax Act, 2058 is also not an exception. Under this Act, certain penalties and prosecution have been providing to minimize the tax evasion. Such provisions are necessary to increase the number of voluntary compliance. The penalties as prescribed by Income Tax Act, 2058 are divided into two parts namely, fees and interest, and offence & prosecution.

2.2.7.1.1 Penalty for failure to maintain documentation or file statement or return of Income (Section 117)

A person who fails to maintain proper documentation for an income year or file a return for an income year is liable to pay fees for each month and part of a month during which the failure continues. The rate of fees would be as the higher of 0.10 percent per annum on the basis of a person's income, gross of any deduction or fees as per Rs 100 per month, whichever is higher. Accordingly, any withholding agent who fails to file a statement is liable to pay fees for each month and part of a month during which the failure continues. The rate of fees would be as 1.5 percent per annum applied to the amount of tax required to be withheld from payment made by the agent during the month to which the failure relates.

2.2.7.1.2 Interest for understating estimated Tax Payable (Section 118)

A person who understates estimated tax payable by installment basis is liable to pay interest for each month and part of a month from the date of the first installment is payable until the date of the tax is payable on assessment. The amount of interest is calculated at the standard interest rate.

2.2.7.1.3 Interest for failure to Pay Tax (Section 119)

If a taxpayer fails to pay tax within stipulated time, he is liable to pay interest for each month and part of a month for which any of the tax is outstanding, the rate calculation would be as the standard interest rate, i.e. 15 percent applied to the amount outstanding. For the purpose of calculating the interest payable, any extension granted is ignored. Further more, a withholding agent may not recover from a withholder, the interest payable by the agent in respect of a failure to comply.

2.2.7.1.4 Fees for Making False or Misleading Statement (Section 120)

A person who makes a statement to the Department that is false or misleading or omits from a statement any matter or a thing without which the statement is misleading, is liable for a penalty. The rate of fees would be 50 percent of the under payment of tax where the statement or omission is made unknowingly or recklessly, 100 percent of the underpayment of tax is to be imposed as fees in case of fake Or misleading statement. Here, fake or misleading statement includes statement in writing to the Department covering an application, notification, return, objection, statement or other documents made, prepared, given or filed under this act. Same rate of fees imposed for a misleading or false answer to a question asked to person by the Department or office or another person with the reasonable knowledge that the statement will be conveyed to the Department of officer or another person.

2.2.7.1.5 Aiding or Abetting (Section 121)

A person who knowingly or recklessly aids or abets another person to commit an offence related to failure to comply with this Act, failure to pay tax, makes false misleading statements or impedes tax administration or counsels or includes another person who commit such an offense, is liable for fees. The rate of fees is

equal to 100 percent of the under payment of tax that is the Department's view may have resulted if the offence had been committed and had gone unnoticed.

2.2.7.2 Offence and Prosecutions

2.2.7.2.1 Offence of failure to pay tax (Section 123)

Any person who, without reasonable excuse, fails to pay any tax on or before the date on which tax is payable, should commits an offence and is liable on conviction to a fine. The rate of fine in this respect is not less than Rs. 5,000 and not more than Rs. 30,000, or an imprisonment for a term of not less than one month and not more than three months or both.

2.2.7.2.2 Offence of making false or misleading statement (Section 124)

A person knowingly or recklessly making a statement to the Department that is false or misleading or omits from a statement made to tax office any matter or thing without which the statement is misleading, commits an offence. In such case, he is liable to face fine of not less than Rs. 40,000 and not more than Rs. 160,000 or an imprisonment for a term of not less than six months and not more than two years or both.

2.2.7.2.3 Offence of Impeding and Coercing Tax Administration (Section 125)

A person who without reasonable excuse obstructs or attempts to obstruct an authorized officer of the Revenue Department acting in the performance of duties under this Act, fails to comply with a notice or otherwise, impedes or attempts to impede the administration of the Act, commits an offence. In such case, the person is liable to a fine of not less than Rs. 5,000 and not more than 20,000 or imprisonment for a term of not more than three month or both. If a person has tried to commit such offence but not succeed is liable to face the penalty equivalent to the half of the penalty imposed on the person who has committed such offence.

2.2.7.2.4 Offences by Authorized and Unauthorized Person (Section 126)

If an unauthorized officer of the Revenue Department performing his duty under Income Tax Act, 2058, collects or attempts to collect an amount of tax payable under this Act or an amount that the person describes as such tax commits an offence, he is liable to a fine. The provision of fines in this case are a fine of not less than Rs. 80,000, and not more than Rs. 2,40,000 and imprisonment for a term of not less than one year and not more than three years or both. Accordingly, any person who contravenes the provision of maintaining the secrecy as per this law commits an offence is liable on conviction to a fine not exceeding Rs. 80,000, or an imprisonment for an term not exceeding one year, or both.

2.2.7.2.5 Offence of aiding or abetting (Section 127)

Any person who knowingly or recklessly aids or abets another person to commit an offence under this Act or counsels or induces to commit such an offence is liable to a fine equivalent to the half of the penalty to be imposed on the person who commits the offence. However, if the person inducing to aid or abet is a government employee, he will commit the offence, and is liable to a fine equivalent to the penalty imposed on the person who commits the offence.

2.2.7.2.6 Offence of failure to comply with Act (Section 128)

Any person who fails to comply with any provision of this Act commits an offence and is liable to a fine of not less than Rs. 5,000 and not more than Rs. 30,000.

2.2.7.2.7 Compounding Offences (Section 129)

If any person commits an offence at any time prior to the commencement of Counter proceedings, the Inland Revenue Department may compound the offence and other, the person to pay a sum of money specified by the Department. However, such compounding will not happen in case related to offence of abetting or aiding (sec 126).

2.3 Review of Related Studies

Various Books and Articles are published and different individual and institutions in concerning to income tax conduct researches. Most of them are concentrated on historical backgrounds, administrative problems, legal aspects & trends of income tax. Some of the books, articles and dissertations that are reviewed during this study are as follows.

2.3.1 Review from Books

Pradhanang (1990) has written a book entitled “Income tax law & Accounting”. He has explained the provision and laws related to income taxation of Nepal. He has described the classification, origin & evaluation of income tax in Nepal. The methods of income tax assessment deals with numerical examples. He has also described about the contribution of income tax for Nepal’s development. But he has not analyzed the problem, defects of income tax. His book is informative rather than analytical.

Khadka (1994) has described with national and local taxes and tax administration in Nepal. The study mainly focuses on the process by which the Nepalese tax system was adopted and developed. He examined the structure & operation of the Nepalese tax system of that period in more detail. He has covered existing major problem of income tax possible direction for reform. The major problems are as follows, unscientific tax assessment and collection, narrow tax coverage, weak tax administration, imbalance and inadequate organizational structure, inadequate tax training programmed, lack of information on tax system. His possible direction for reform was extension of tax coverage, improvement in tax assessment, extension withholding tax, inflation adjustment etc. He has also identified some possible direction for administration reform. They were reorganization and expansion, research unit on taxation. His book is very useful to know about various aspect of

income tax in Nepal. Although he has not any numerical illustration & has not mentioned the legal provision relation to income tax.

Tiwari (1999) has presented a book about income tax system in Nepal. Basically this book is written for the students of Tribhuvan University. It is also equally useful to the taxpayers, tax administrators, and the person who want to get theoretical as well as practical knowledge about income tax. He has described the provision under Income Tax Act 2031, income tax rules, provision under finance act 2055, other provisions, information and acts related to income etc. he has not analyzed the major problems of income tax system.

Dhakal (2002) has published a revised education book named “Income tax and House and Compound Tax law and Practice with VAT”. This book was extremely based on the syllabus of B.B.S. third year and M.B.S. second year as prescribed by Tribhuvan University. He has described about historical aspect and the legal provision relating to income tax with numerical examples. This book is more helpful to know about general information and provisions made under Income Tax Act 2031. His book is informative rather than analytical. This book has not analyzed the role of income tax, structure of income tax and defects & problems of income tax system of Nepal.

Adhikari (2002) has presented a book on income tax. He has discussed the legal provision relating to Income Tax Act 2058 with critical analysis. He has also included the decision made by Supreme Court of different case relating to income tax. This book has only focus on the legal of income tax. Agreement and protocol relation to avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income between different countries had also included in this book. His book has informative rather than analytical.

Adhikari (2003) has presented a book on modern income tax. He has discussed the provision under Income Tax Act 2058. His book is analytical rather than informative. He has introduced different aspect of tax planning needs and base of successful tax planning. He has also presented historical background, income tax laws and it's implements, assessment of tax and tax authorities and duties.

Wagle (2003) has published a book which is the compilation of Value Added Tax Act, Value Added Tax Rules, and Income Tax Rules 2059. It is simply the English transaction of the Act & Rules. The book is mainly prepared for non-Nepalese who are interested to study about the tax, law and rules of Nepal. His book is only informative rather than analytical.

Mallik (2003) has published a book named “Nepal Ko Adhunik Ayakar Pranali”. He has described the legal provision relating to Income Tax Act 2058 in detail. He has also described historical prospects, weakness of Income Tax Act 2031, some practical problem and different section of Income Tax Act 2058. His book is very useful to know the general information and legal provision of Income Tax Act 2058. His book has also discussed the need and importance of modern income tax. His book is divided into twenty-six chapters with eight annexes. Although he presents the new Income Tax Act 2058 with some numerical examples, he does not mention the role of income tax and tax structure.

Aryal & Poudyal (2004) has published a book named Taxation in Nepal. They have described the theoretical and practical aspect of income tax & VAT. This book is extremely based on B.B.S. Third year syllabus as prescribed by Tribhuvan University. This is very useful to get knowledge about Income Tax Act 2058, although it is unable to describe the tax structure of Nepal and the problem of income tax system.

Amatya, Pokharel & Dahal (2004) has published a book named “Taxation in Nepal”. They have described about the legal provision relating to Income Tax Act 2058 with numerical examples. Their book is very useful to know the general information of income tax and it is also informative and analytical. This is extremely based on the syllabus of B.B.S. Third year and M.B.S. Second year as prescribed by Tribhuvan University.

Kandel (2004) has written a book named Tax Laws & Tax planning In Nepal. He has described the meaning, objective and historical development of income tax in Nepal, and other provision relating to Income Tax Act 2058 like calculation of income, expenditure amounts, deductions, capital profit, dividend, interest retirement saving and tax etc. He has also focused the tax planning with scope & significance of tax planning under Income Tax Act 2058. The process & provision and methods of the income tax assessment have been illustrated with numerical example.

Dahal (2008) has written a book named Deferred Income Tax. He has described relevance of deferred income tax in Nepal, and other provision relating to deferred Income Tax like tax Bases, temporary difference, opening deferred tax, change in tax scope, and no deferred tax. The process and methods of calculation the deferred income tax has been illustrated with numerical formula and example.

Dahal (2008) has written a book named Income Tax & Value Added Tax. He has mainly described the changes in Income Tax Act & Vat from the beginning to date in Nepal. He has collected 900 import notes, Public Circulars, Advance ruling, information, Direction, Directives and circulars.

2.3.2 Review form Dissertations

Kayastha (1974) has analyzed the contribution of income and property taxes to overall revenue generation in Nepal and has also pointed out the drawbacks of the system at that time along with the policy suggestion to remove them. His study on legal and administrative aspect was also helpful to find out some relative information regarding income tax in Nepal. He has pointed out that the major problems of income tax system of Nepal are income evasion at high level and greater role of indirect tax in tax revenue. These problems are still considered as the major problems in Nepalese income tax system.

Tuladhar (1979) has studied income tax and presented a dissertation “Role of Income Tax in the Mobilization of Domestic Resources in Nepal”. In his study he mentioned growing resource gap problem in Nepalese fiscal system. He emphasized to mobilize additional resource through income tax system to release this resource gap. The legal aspect and problems of income tax are also shown in his study but other aspect like evasion, exemption, income tax assessment etc have not been discussed.

Suwal (1981) has described the concept of income tax, objective of income tax, importance & role of income tax for the economic development. The major problems identified by her were the absence of clear and comprehensive definition of income, low tax paying capacity and tax consciousness, high tax rate, corruption etc. She has found out that the reasons of tax evasion were loopholes, widespread illegal business activities, open boarder, lack of account & records of taxpayers, delays in tax administration, lack of responsibility & honesty among tax officers. She has suggested the application of scientific methods for the purpose of accounting assessment and collection of income tax and widening tax coverage.

Although she has explained various aspect of income tax system of Nepal, has not mentioned the research methodology and legal provisions in her study. She has not conducted any empirical investigation.

Nepal (1983) has critically examined the income tax system of Nepal of that time. Her study has been conducted with purpose of examining the role of income tax in overall tax structure, analyzing the problems and prospects of income tax in Nepal and highlights the future prospective of the Nepalese income tax.

Shrestha (1984) has basically concern with origin, definition, concept, historical background, role, objective and structure of income tax. She ahs also described per capita burden of income tax in Nepal and the major problem existing in Nepalese income tax system. She has found that the evasion of tax is a serious problem of tax. The reasons of tax evasions were low tax paying capacity of Nepalese people, high tax rate, corruption, lack of heavy punishment system, lack of scientific assessment procedure etc. She has also found that the tax administration is not efficient.

Although she has given various useful suggestion about the income tax like, scientific method should be applied for the collection of tax, administration should be made efficient, income tax law should be simple and easy, and tax base should be broaden etc., has not presented the legal provision of income tax law and not conducted the empirical investigation.

Baral (1989) has described the contribution of income tax in the structure of government revenue in Nepal. She found that the composition of tax and not tax revenue is till less satisfactory in Nepal. She also found that total revenue, total tax revenue and direct tax revenue have and increasing trend in Nepal but in low rate. She has mentioned that tax evasion as the major problem of income tax system in

Nepal. In her study, inefficient tax administration, unconsciousness of tax payer, lack of scientific method of tax assessment and collection and identified as the major reasons for tax evasion at high level. She has not mentioned the legal provision relating to income tax & numerical examples.

Thapa (1993) has examined the income tax assessment procedures, the problem of growing fiscal deficit, administrative aspect of income tax, reasons of poor tax morality and tax payer's compliance, legal provision concerning income tax assessment procedure and also reviewed the legal provisions relating to income tax assessment procedure prevailing in SAARC countries. His major findings are adocism in tax assessment, undue delay in tax assessment, lack of adequate accounting skill in the tax personnel, lack of adequate information about tax payers, negligence by tax officers, administrative harassment and complicated procedures due to complex tax laws. He has conducted opinion, survey of income assessment procedure. He has suggested for tax payers assistance, guidance and counseling service should be provided, incentives to regular tax payers, capital gain should be taxed, granting tax holiday to new industries as investment allowances and agriculture income should be taxed. He has not described the other aspect of income tax clearly & analytically, and all things mentioned in it are not also fully relevant today because it was made under Income Tax Act 1974.

Kharel (1996) prepared a dissertation entitled "Self Tax assessment under income tax act in Nepal". His study was done with the basic objectives review of tax laws bout self tax assessment, analyzed the problems faced by the assessee while doing the self tax assessment of their own income. In his study, he has identified that tax administration is not effective due to lack of skill of tax personnel, lack of meaningful taxpayer's information, lack of knowledge about tax assessment procedure to the tax payers. He has suggested for self tax assessment procedure should be simplified, incentives and rewards to regular tax payer, timely

assessment of tax, adoption of scientific accounting system and self tax assessment system should be imposed compulsory to all types of assessee. There have been considerable changes in income tax since his study, and his study is based on Income Tax Act 1974.

Pant (1996) has described the role of income tax in national economy and income tax management in Nepal. He conducted an empirical investigation of income tax management in Nepal. He found the major problem of income tax in Nepal were, lack of managerial efficiency, lack of effective personnel management, lack of reward and punishment system, poor income tax assessment procedure, poor tax information system, lack of taxpayers education, very narrow coverage of income tax etc. He has highlighted on management aspect of income tax. He has recommended to revise exemption limit and to treat agriculture income & capital gain as a subject to income tax. He has not mentioned the legal provision relating to income tax.

Siwakoty (1997) has examined various factors presenting in the income tax. He has described the role of income tax in Nepal, income tax structure, income tax rate, exemption limit etc. he has identified delay in assessment and high level of tax evasion are the major problem of Nepalese income tax system. There is high use of best judgment assessment method, no compulsion to maintain books of accounts and auditing of accounts of all type of business, ineffective use of fines and penalties. He has suggested for honest and efficient administration, research unit in tax office, penalties for tax payers who do not maintain accounts, the time limit of assessment should be reduced.

Bhattari (1997) has prepared a dissertation with objectives to examine the effectiveness of corporate income tax imposition in Nepal and to recommend an optimum model of corporate income tax system for Nepal. In his study, he has

found out that there is lack of balance between rights and duties of tax officer and tax payer. There is also frequent change in Income Tax Act and Finance Act. There is lack of balanced delegation of authority, responsibility and accountability. Poor rewards and punishment system and lack of systematic evaluation and control mechanism are the drawbacks of then tax system. And develop job description and specification of tax personnel on the bases of specialization; encourage taxpayers through tax education and awareness programmed, social reorganization and respect.

Singh (2002) has described the brief on application of best judgment on income tax assessment with reference to Income Tax Act 1974. He has described the types of assessment, use of best judgment in income tax assessment, types of best judgment assessment, necessary conditions for best judgment, assessment, natural justice and best judgment, punishment, legal remedies, role of best judgment assessment in income tax assessment in Nepal. He has also conducted of opinion survey about the best judgment assessment.

He has found that the income tax assessment in Nepal was mainly performed by committee above 70% of the total income tax assessment was occupied by committee assessment. Best judgment assessment had occupied second position i.e. 18.36% in 1997/98. The most appropriate and reliable method of income tax assessment was on the basis of account. But in Nepal, very few income tax assessments were performed on the basis of accounts that were only 3.98% in 1999/00. The assessment procedure is often delayed in Nepal. One of the major reasons behind the application of best judgment is taxpayer's tendency to evade or avoid the incidence to tax. Complexity in tax laws and administrative incompetence are other two major parameters of best judgment assessment.

He has found the major factors which are responsible for making best judgment assessment unsatisfactory. They were; lack of clear provision in income tax, lack of knowledge of tax rules & regulation to tax payers and tax personnel, tendency of corruption, misutilization of power by tax officers and interruption from outsiders.

He has suggested that income tax should be assessed on the basis of accounts, supervisor committee should be established for the review of tax assessment, compulsory provision of submitting income statement within due dates, the time of assessment in general condition should be reduced to 3 month from one year, the provision of auditing of account should be made compulsory, reward and punishment system should be really and strictly implemented in practice, and integrated information should be developed. He had more emphasized on study of application of best judgment assessment, although, he had not mentioned legal provision relation to income tax and tax structure of Nepal.

Palli Magar (2003) has described the role & structure of income tax, exemption and deductions provided in the law. He has identified that there was dominated share of tax structure in Nepalese government revenue. Income tax has occupied third position in his study period and it has increasing trend. The tax / GDP ratio was not found satisfactory. With the income tax, there was the dominated role of corporate income tax, there was the dominated role of corporate income tax but it was in decreasing trend and contribution of individual income tax was second position and it was in increasing trend. He has also found that lack of trained employees, shortage of income tax experts/ professional in tax administration, lack of public participation, weakness in government policy, defective Income Tax Act were the major causes for inefficient tax administration.

He has suggested that exemption limit should be increase, double taxation should be elimination on dividend, and income tax rate slab should be increase. Besides above suggestions, his suggestion about deduction were clear provisions for deduction, fully allowed interest expense, pollution control expense, repair & improvement expenses, research & development expenses.

Kafle (2004) has described the contribution of income tax form public enterprises to public revenue of Nepal, with special reference to Nepal Electricity Corporation. He has mainly focused about conceptual framework, legal provision and structure of income tax, conceptual framework of public enterprises and the Nepal Electricity Corporation, contribution of income tax to the public revenue and contributed portion of income tax of Nepal Electricity Corporation to the total income tax.

He has conducted an empirical investigation about various aspects of public enterprises income tax impositions in Nepal. He has taken 65 persons as a sample. Tax expert, taxpayers, tax administrators and Nepal Electricity Corporation's officers are the sample of his study.

His findings about the tax structure were: composition of government revenue where the tax revenue constituted 77%. In total tax revenue, indirect tax constituted 78%. The share of income tax to direct tax revenue has been fluctuating significantly. The contribution of income tax revenue form Nepal Electricity Corporation in total tax revenue and total government revenue was 0.26% and 0.21% respectively in the fiscal year 2001/02. The average share was 8.5%, the share of income tax form Nepal Electricity authority to income tax revenue was about 2.57% in an average in the fiscal 2001/02. Contribution of income tax form public enterprises in Nepal was not sufficient.

He suggested that income tax system will be succeeded if the system were widening of tax coverage, tax consciousness to people, minimize the evasions and avoidance problem, enhance the self assessment system, and reform in income tax assessment and administration system.

Shakya(2004) has Concentrated on Income Tax Act 2002 . He has mainly focused about conceptual framework & legal provision.

He has conducted an empirical investigation about various aspects of income tax in Nepal. He has taken 60 persons as a sample from Tax expert, taxpayers, tax administrators for his study.

He has found among sources of government revenue custom duty, sales or value added tax and income tax are the main contribution to total tax revenue. Income tax is a composition of six types of taxes, where share of individual income tax is approximately half of total income tax revenue.

He suggested that for the effective implementation of an act, first the entire act should be simplified and educated to more tax payers to increase number of tax payers. Self assessment of income tax is a quite convenient method of income tax assessment for the parties of income tax, tax payers and administrator. But in Nepal trust between them is nil. The government should conduct training program to tax personnel, promotion and motivation programs, and provide physical facilities to enhance the effectiveness of service delivery by the tax administrators.

Gautam (2004) has described about contribution of income tax to national revenue of Nepal. He has mainly focused about conceptual framework, legal provision and structure of income tax. He has conducted an empirical investigation about various aspects of income tax in Nepal. He has taken 60 persons as a sample as tax experts, tax payers, and tax administrators.

He has found out that the contribution of direct and indirect tax revenue were 20.63% and 79.40% respectively in 2002/03. Income tax revenue has occupied third position on the basis of mean contribution other sources of revenue, the contribution of income tax to total revenue was 8.84%. It may enhance the revenue of government, promote to distribute justice and encourage private sector investment. Nepalese government expenditure is increasing at the faster rate than the increase in revenue, the resource gap has existed in Nepalese economy and it is in increasing trend, tax/GDP ration of Nepal is found satisfactory, the exemption limit is not satisfactory. He has made the specific suggestion for a sound and effective income tax system. They were establishment, promotion and reward system to efficient and honest tax personnel, increase public participation to minimize the tax evasion, strict action against corruption, income tax, rules and regulation should be made at higher rate for income tax evaders, more deduction should be provided for export promote and separate income tax department should be established.

Pudasaini (2004) has described a comparative study of Income tax Act 2031 & 2058. He has mainly focused on Conceptual framework, Principles of Income taxation, Issues of Income tax Appeal system, Fees, interest, fines and penalties, Income tax administration, theories of Income Tax. He has conducted an empirical investigation about various aspects of Income tax in Nepal. He has taken 60 persons as a sample as tax experts, tax payers and tax administrators.

He has found positive trend of total tax revenue collection. Income Tax Act 2031 & 2058, both follows the procedure of filling and submission of return of income, net income assessment, assessment of tax and notice of assessment. Income tax Act 2058 has mainly focused on self- assessment procedure, the base has been extended and adopted liberal policy.

Ghimire(2005) has described Income tax assessment procedure in Nepal under Income tax Act 2002. He has mainly focused on Conceptual framework, studies in related Field, Provisions related to income tax Act. He has conducted an empirical investigation about various aspects of Income tax in Nepal. He has taken 60 persons as a sample as tax experts, tax payers and tax administrators.

He has found income tax as suitable means of raising government revenue. Public awareness program is necessary to increase tax consciousness and raising the government revenue. Self tax assessment is a suitable means while assessing the income tax in Nepal. Lack of proper accounting system, lack of knowledge about self assessment procedure, lack of correct auditing system are the weakness of self assessment system.

2.3.3 Review from Reports and Articles

Agrawal (1978) has presented a report 'Resource mobilization for development the reform of income tax in Nepal'. It has mainly dealt with the necessity of resource mobilization in Nepal through of income tax. It showed the growing resource gap since the fiscal year 1951/52 onward and sought the way for filling it up. The main reason for this resource gap has been the lop-sided growth of government expenditure as compared to revenue generation form domestic sources. He has also discussed about the historical background of income tax, legal administrative aspects and role of income tax in Nepal. He has also calculated the elasticity and buoyancy of major Nepalese taxes with base GDP, using the double log linear model. Projection of income tax and resource gap has been made using similar linear model.

He summarized the finding of empirical investigation including the important methods for mobilizing additional resources from income tax are: control of illegal business activities, administrative efficiency, widening tax base and changing tax tare structure.

Agrawal (1984) gave his second contribution towards income taxation. He has explained in detail about resource mobilization through income tax in Nepal, role of income tax, administrative and legal aspect of income tax in Nepal. He has pointed out some problems about Nepalese income tax system are:

- Tax officers did not like to make assessment on the basis of account whereas tax payers did not like to prepare account for income tax purpose.
- Non-gazette officers seem to have working for quite a number of years without being transferred.
- There has been no significant increase in the number of income taxpayers despite substantial increase in business activities.

To solve the above problems in income tax, he has suggested as follows:

- Income tax of small taxpayers should be assessed door to door basis.
- The coverage of income taxpayers should be increased.
- Transfer of non-gazette officers should be made in every three years.

In addition to these, he also suggested for:

- Self assessment by taxpayers
- Effective taxpayer's information system to be developed
- Exemption limit of income tax to be tied up with the cost of living index
- Additional deduction for the education of two children and medical expenses
- Political and undesirable pressure in tax administration should be minimized
- Capital gain should be included income for the purpose of income tax.

Ghimire (1993) has described the classification of tax, base of income tax or expenditure tax, base of tax in Nepal, procedure of computing net income, classification of tax rate, index of income tax in Nepal, contribution of tax income

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

Revenue Consultation Committee (2001) Report has studied the overall taxation situation in depth. It highly emphasized to simplify the tax policy to increase voluntary compliance. This report recommended for written communication between taxpayers and tax administration rather than the informal relation. This report suggested to widen the income tax base by including all kind of taxpayers and income and to find out the taxpayers of new sector. For this, the report suggested to make the act more transparent and clear in order to attract foreign and domestic investors. It was further suggested to increase income tax exemption limit with considering purchasing power and inflation rate.

Adhikari (2001) described the need of tax policy that plays a vital role the whole fiscal policy. He further said that the little attention on tax administration has minimized the role of tax policy. He has presented the issue in Nepalese tax administration. Such issues are: tax structure, major sector of income tax, trend and growth of income tax. He has accepted that Nepalese income tax system is waiting for a comprehensive and integrated taxation plan and a scientific implementation of the same by way of reform.

In his study, Adhikari explained the types of income tax gap, which are investigation and identification gap, return filling gap, assessment and collection gap. He tried to declare the mission vision and activities of internal revenue department. He suggests, achieving all the practical purpose, objectives and goals, tax administration should be regards as an important component of tax policy.

Kandel (2002) has criticized the Income Tax Act 2002 and several grounds. Exemption of agriculture income from income tax, export duties levied on export, inequality between different capital earned income (i.e. tax on interest, dividend and capital gain), withdrawal of the provision of exemption on export goods and services, suddenly and no adjustment for inflation are the major issues, he rose in his article.

Thapa (2002) has described the tax system, features of tax, and causes of reform the tax. He has characterized the tax system as too many and too high rates, multiple objectives of taxes scheduler rather global approach into income taxation, too many income brackets and high progressively, complicated and ambiguous tax law. He has identified the areas for reform the tax system in Nepal. They were: low rates on broad base, simplicity and neutrality, gradual abolition of exemptions, deduction and tax holidays to broad tax base, few rates or single rate, few taxes with high revenue productivity, emphasis on tax compliance rather than coercive, incentive to sewing and investment, conversion of sales and service taxes into VAT, excise duties, only cigarette, tobacco, alcohol, automobiles, petroleum and automobiles spare parts, abolition of surcharge and additional duty system to make the tax system simple, making the tax system internationally compatible to attract foreign investment.

Khadka (2003) has described about the revenue administration reform in Nepal at present context. He suggested the following points:

- Integration of Value Added Tax and tax
- Functional organization structure should make
- Tax administration should follow the system of MIS
- Transparency should make in work
- Provision made in grievance handling
- Develop the scientific performance evaluation system
- Increase convenience to the tax payers and tax administrators.
- Change in attitude and working style.

In this way various books, dissertation, reports and articles, published in journals and newspapers are reviewed while preparing this dissertation. Most of them are concentrated on the legal, administrative, income tax system and structure of tax in Nepal. Some of them are related with income tax provision and laws and some are related on the syllabus of bachelor and master level. Most of the research studies has identified an major problems of Nepalese income tax system is tax evasion and high level, ineffective tax administration and lack of clear provision of law. If administrative aspect of Nepalese tax system can be improved, many problems may controlled automatically. There is very few research study about income tax assessment procedure under present Income Tax Act in Nepal, which plays role to collect tax revenue. Seeing the lack the study in income tax assessment procedure mainly concentrate on the role of income tax assessment procedure to collect tax revenue in a more specify way.

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

- Low amount record in transaction
- Low amount record in sales

- Unhelpful in tax auditing by assessee
- Lack of clear provision of tax laws and complicated in implementation
- License revenue without tax clearance
- Ineffective reward punishment system
- Lack of the mobilization of experience personnel
- Lack of effective coordination between Inland Revenue Office and
- Revenue Research Unit.

He has suggested the following point to reform above problems

- Data and information system should be managed systematically.
- Coordination should made between different office of HMG and Inland Revenue Department
- Legal provision should make simple and clear.
- Time duration should not be limited in tax auditing.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter is dedicated to research methodology applied in the study of the achievement of desired objectives.

3.1 Types of Research

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

3.2 Research Design

To achieve the stated objectives of the study, the opinions of the various 60 respondents associated with distinct denomination i.e. tax administrators, tax experts and taxpayers were collected through structured questionnaire. The questionnaire include the role of income tax to national revenue, provision of fines & penalty, effectiveness of income tax assessment system, the most important factors for the effectiveness of income tax assessment system including necessary suggestions for achieving effectiveness of income tax in Nepal, income tax administration in Nepal etc. Similarly, various information published by organization about income tax, are used for this study. In this way the research design of this study are descriptive analytical and empirical.

3.3 Population and Sample

In order to fulfill the objectives of the study 60 samples from Kathmandu Valley is selected. Persons included in the sample are carefully selected by consultation with lectures and best judgment of the researcher. The respondents have been divided into three groups. The following table shows the groups of respondents and the size of samples.

Table 3.1

Group of Respondent and size of sample

S. No.	Groups of Respondents	Sample size
1.	Income tax administrators	20
2.	Income tax Experts	20
3.	Income tax payers	20
Total		60

3.4 Nature and Sources of Data

Both primary as well as secondary sources of data have been collected in order to achieve the real and factual result out of this research. The collection is done in accordance to the availability and usefulness of it during this study. The major sources of data are as follows:

A. Primary Source of Data

The primary sources of data are collected in accordance to the responses received from the questionnaire survey. The questionnaire is distributed to three categories of respondents, which are tax administrators, tax experts and taxpayers. Tax administrators are selected from Inland Revenue Department, Various sectors of Inland Revenues office. Tax experts are selected from the lecture of Tribhuvan University, Auditors, Chartered accountants, Accountant of Kathmandu municipality, Trainer of Rajaswa, Revenue Administration Training Center, and intellectuals having well knowledge of income tax. Taxpayers are selected from different manufacturing companies, various industries trading company, banks, finance companies, airlines, departmental stores etc.

B. Secondary Source of Data

The secondary sources of data are collected from various books, dissertations, publications, Journals, reports, newspapers etc. The major sources are as follows:

1. Budget Speech and Economic Survey of various years, Ministry of Finance Nepal Govt.

2. Annual reports of Inland Revenue Department, Ministry of Finance Nepal Govt.
3. Dissertation related to income tax;
4. Books related to income tax and public finance;
5. Rajaswa, Revenue Administration Training Center, Kathmandu;
6. Official Website of Inland Revenue Department; www.ird.gov.np
7. Official Website of Nepal Rastra Bank; www.nrb.org.np
8. Official Website of Central Bureau Of statistics; www.cbs.gov.np
9. Various Magazines, newspapers, Journals and Souvenirs;
10. Other relevant records and data related to this study.

3.5 Data Collection Procedure

The data of this study are collected from two sources. Primary data re collected by using questionnaire. First of all questionnaire was developed and distribution was done through personally field visit. Secondary data re collected from published reports of different organization.

3.6 Data Processing and Analyzing Procedure

The data and information collected through primary as well as secondary sources are first processed for tabulation. Data are tabulated into various tables according to the subject in order. It is then presented and analyzed in descriptive way. They are analyzed using suitable statistical tools. The statistical tools used for the analysis are as follows:

- Simple percentage
- Simple average
- Correlation
- Graphs, Charts & Diagrams
- Other statistical and financial tools etc.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

This chapter mainly deals with presentation and the analysis of the available data and these data are analyzed with the help of various statistical tools.

4.1 Secondary Sources of Data

4.1.1 Nepalese Government Revenue Structure

The income of the government through all sources like Custom Duty, Value Added Tax, Income Tax, Land Revenue and Registration Charges & Fees, Fines and Forfeiture, Royalty etc. is called public revenue. Public revenue may be divided into two main heading:

- i. Tax Revenue
- ii. Non-Tax Revenue

Generally, a tax is compulsory contribution imposed by a public authority. Taxation is the main source of income of the government excluding foreign aid. Tax revenue comprises compulsory, unrequited, non-payable receipts collected by government for public purposes. It includes interest collected on tax revenue is the principle source of the government revenue; however its contribution differs significantly in different countries. In the context of Nepalese economy, tax revenue is major source of government to mobilize internal sources effectively and properly as it has been dominating the government revenue by contributions more than three quarters to total revenue.

Table 4.1 shows the overall views of the total revenue. The total revenue of fiscal year 1987/88 to 2006/07 has been presented in the given table. The tax revenue in 1987/1988 was 78.27 percent but 2006/07 is 81.09 percent. Likewise the non-tax revenue is 21.73 percent in 1987/88 but it is decrease down to 18.91 percent in

2006/07, which shows that the tax revenue contributes about more than three quarters of total revenue.

From the fiscal year 1987/88 to 2006/07, the amount of tax revenue found increasing every year with the amount of Rs. 5752.90 to Rs. 71126.70 million but the figure in percent of tax revenue in the total government revenue has been found fluctuating in different years. In 1988/89 and 2006/07 the percentage contribution of tax revenue to total revenue was the highest of 80.85 and 81.09 Percent respectively. From 1989/90 its contribution was again decreased to 83.4 percent to 73.1 in 1991/92.

The trend and composition of tax revenue and non-tax revenue in the recent year are given in table No. 4.1

Table 4.1
Composition of Total Revenue

Fiscal year	Total Revenue	Revenue		Percentage as Total Revenue	
		Tax Revenue	Non-Tax Revenue	% Tax Revenue	% Non-Tax Revenue
1987/88	7350.5	5752.9	1597.6	78.3	21.7
1988/89	7776.8	6289.2	1489.6	80.8	19.2
1989/90	9287.5	7283.9	2003.6	78.4	21.6
1990/91	10730.9	8177.4	2553.5	76.2	23.8
1991/92	13512.7	9875.6	3637.1	73.1	26.9
1992/93	15148.4	11662.5	3485.9	77.0	23.0
1993/94	19580.9	15371.5	4209.4	78.5	21.5
1994/95	24605.1	19660.0	4945.1	79.9	20.1
1995/96	47893.1	21668.0	6225.1	77.7	22.3
1996/97	30373.5	24424.0	5949.2	80.4	19.6
1997/98	32937.9	25939.8	6998.1	78.8	21.2
1998/99	37251.3	28752.9	8498.4	77.2	22.8
1999/00	42893.7	33152.1	9741.6	77.3	22.7
2000/01	48893.9	38865.1	10028.8	79.5	20.5
2001/02	50445.6	39330.6	1115.0	78.0	22.0
2002/03	56229.7	42587.0	13642.7	75.7	24.3
2003/04	62,331.0	48173.0	14158.0	77.29	22.71
2004/05	70122.7	54104.7	16018.0	77.16	22.84
2005/06	72282.1	57430.4	14851.7	79.45	20.55
2006/07	87712.2	71126.7	16585.5	81.09	18.91

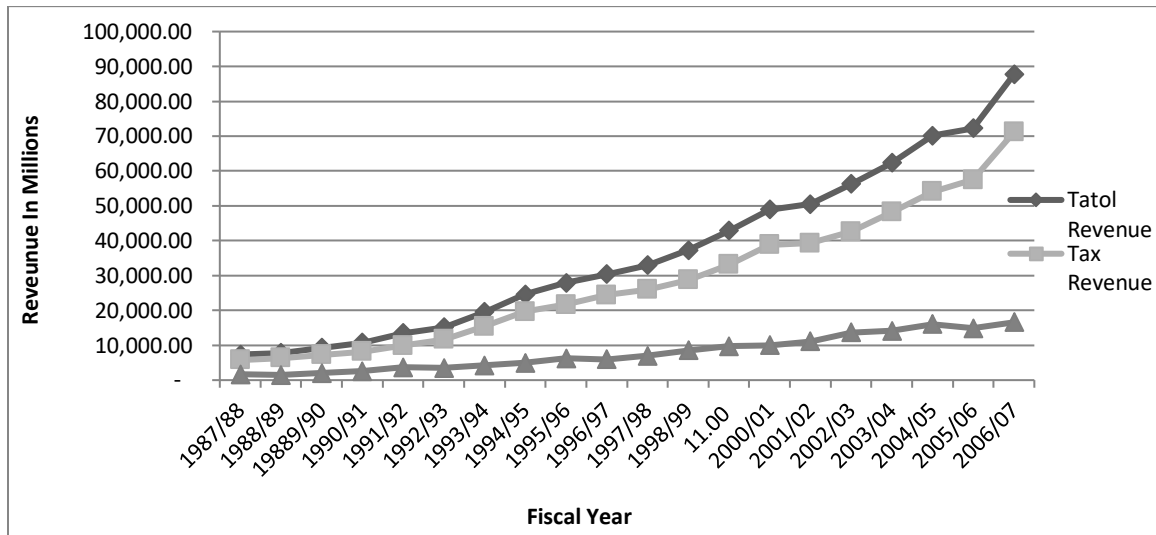
(Source: Economic Survey, 2006/07, Ministry of Finance, 2007, Kathmandu.)

The trend of non-tax revenue collection was also increased during the period selected for the study (Fiscal year 1987/88 to 2006/07) as it increase from Rs.1597.6 million in 1987/88 to Rs.16585.5 million. Non-tax revenue for the fiscal year 1988/89 was 1489.6 million and it had decreased by Rs.108.00 million in compare to previous years. Then after, it is increasing continuously in absolute terms but percentage contribution has been fluctuating. Higher contribution was

26.9 percent in fiscal year 1991/92 with amounting Rs.3637.1 million and lowest contribution was 18.91 percent in fiscal year 2006/07 with amounting of Rs. 16585.5 million. The share of tax revenue has always been greater than the share of non-tax revenue.

Composition of total revenue of Nepal from the fiscal year 1987/88 to 2006/07 is shown in the figure no. 4.1 as below

Figure 4.1
Trend of Tax and Non-Tax Revenue



4.1.2 Resource Gap in Nepal

Every government is responsible to perform numerous functions for the betterment of the people in the country. A government needs huge volume of income to fulfill various types of expenditure. For this purpose, government collects revenue from different sources, thus the income of the government through all sources like taxes, borrowing, fees, donation etc.

Nepal has been facing a serious resource gap problem in the finances from the beginning of the developmental phase to the present time. A large amount of

external aid, loan and internal loan was borrowed to fulfill this growing resource gap. But scarcity of resource seems to be never ending problem for Nepal.

The source mobilization is still poor that does not cover the total expenditure in Nepal. Fiscal deficit is due to the continuously growing expenditure of the government instead of the low revenue performance in Nepal. By this reason, Nepal is facing the increasing burden of foreign loan. Widening trend of the different resource gap is show in the table 4.2.

As shown in the table, resource gap (a) of 6754.6 million in fiscal year 1987/88 reached to Rs.45892.3 million in the fiscal year 2006/07. It is continuously increasing trend. Resource gap (a) was only decreased in fiscal year 2001/02 and 2002/03 by Rs.1314.7 million and 1850.5 million respectively compare to previous year. The foreign grants and foreign loan has increasing which helps to minimize the resource gap. Resource gap (b) was Rs. 4677.8 million in the starting year and further widen up to Rs.30091.5 million in fiscal year 2006/07. It was decreased in the fiscal year 1989/90 by the 141.10 million than the previous year and also decreased in the fiscal year 1993/94 and 1994/95. The government takes internal and external loan to meet deficit finance. Foreign loan had taken Rs.3815.8 million in the fiscal year 1987/88 and Rs.10053.5 million in 2006/07. After foreign loan financing resource gap (c) was Rs. 862.2 million in the fiscal year 1987/88 and increased to Rs.11,890.7 million in the fiscal year 2002/03 and it further increased up to Rs 20038 million in fiscal year 2006/07. The internal loan in the fiscal year 1988/89 has taken Rs.1330.0 million and Rs.8,880 million in 2002/03. Even after loan financing there has existed cash deficit in Nepalese public finance. After internal loan financing there was Rs.1,551.1 million deficit finance in the fiscal year 1988/89, Rs. 3415.10 million in fiscal 1992/93 and increase up to Rs. 7,242 million in 2001/02 and decrease by 4,231.2 in fiscal year 2002/03 compare to previous year. Similarly Deficit financing in the Fiscal Year

2005/06 was to the Rs. 4 billion 731.1 million and deficit of the Fiscal Year 2004/05 was Rs. 157.7 million .Thus, the increasing resource gap indicates that it is necessary to mobilize additional domestic resource ultimate and best measure to fill up the resource gap is to increase public revenue through effective tax system. Adjustment made in the customs duties and excise, positive changes observed in tax paying attitude, increase in non-tax revenue collection, to mention a few, have provided a breathing space due to positive changes in revenue collection compared to the past performances. To maintain this momentum, the task of tracking and plugging leakage in tax revenue lies ahead.

Table 4.2
Resource Gap in Nepal

Rs. in Million

Fiscal Year	Total Expenditure (A)	Total Revenue (B)	Resource Gap^a (A-B)	Foreign Grants (C)	Resource Gap^b {A-(B+C+D)}	Foreign Laon (D)	Resource Gap^c {A-(B+C+D)}
1987/88	14105.0	7350.5	6754.6	2076.8	4677.8	3815.8	862.2
1988/89	18005.0	7776.8	10228.1	1680.6	8547.5	5666.4	2881.1
1989/90	19669.3	9287.5	10381.8	1975.4	8406.4	5959.6	2446.8
1990/91	23549.8	10730.9	12819.9	2164.8	10655.1	6256.7	4398.4
1991/92	26418.2	13512.7	12905.5	1643.8	11261.7	6816.9	444.8
1992/93	30897.7	15148.4	15749.3	3793.3	11956.0	6920.9	5035.1
1993/94	33597.4	19580.9	14016.6	2393.6	11623.0	9163.6	2459.4
1994/95	39060.0	24605.1	14484.8	3937.1	10547.7	7312.3	3235.4
1995/96	46542.4	47893.1	18649.3	4825.1	13824.2	9463.9	4360.3
1996/97	50720.7	30373.5	20350.2	5988.3	14361.9	9043.6	5318.3
1997/98	56118.3	32937.9	23180.4	5402.6	17777.8	11054.5	6723.3
1998/99	59579.0	37251.3	22328.0	4336.6	17991.4	11852.4	6139.0
1999/00	66272.5	42893.7	23378.7	5711.7	17667.4	11812.2	5854.8
2000/01	79835.1	48893.9	30941.5	6753.4	24188.1	12044.0	12144.1
2001/02	80072.3	50445.6	29626.8	6686.1	22940.7	7698.7	1524.0
2002/03	84006.1	56229.7	27776.3	11339.1	16437.2	4546.4	11890.8
2003/04	89601.9	62,331.0	27,270.9	11283.4	15,987.5	7639.0	8,348.5
2004/05	104184.4	70,122.7	34,061.7	14391.2	19,670.5	7629.0	12,041.5
2005/06	110106.2	72,282.1	37,824.1	13887.5	23,936.6	8214.4	15,722.2
2006/07	133604.5	87,712.2	45,892.3	15800.8	30,091.5	10053.5	20,038.0

(Source: Economic Survey, 2007/08, Ministry of Finance, 2008, Kathmandu.)

4.1.3 Composition of Tax Revenue Structure in Nepal

Tax is a compulsory contribution imposed by a public authority. Tax revenue is the principles source of the government revenue, however its contribution differs significantly in different countries. In the context of Nepalese economy, tax revenue is the major measure to mobilize internal resource effectively and

properly as it has been dominating the government revenue by contributing around 80 percent of the tax revenue.

On the basis of form, the classifications of taxation are (i) direct taxes and (ii) indirect taxes. In developing countries like Nepal, indirect tax is considered a principle sources for a complete solution of estimated tax revenue because lower per capita income. So, the contribution of indirect tax is higher than direct tax's contribution. The trend and composition on of tax revenue for twenty years (1987/88 to 2006/07) is presented in the table as below.

Table 4.3
Trend and Composition of Tax Revenue

Rs. In Million

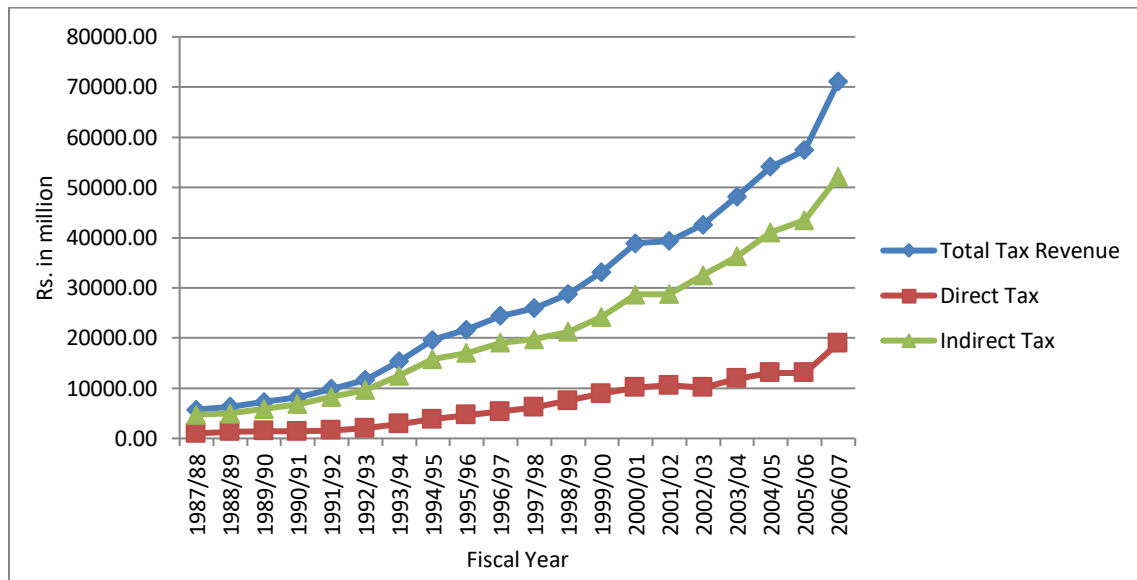
Fiscal Year	Total Tax Revenue	Tax Revenue		Percentage of Tax Revenue	
		Direct Tax	Indirect Tax	Direct Tax	Indirect Tax
1987/88	5752.9	1010.2	4742.6	17.6	82.4
1988/89	6289.2	1331.4	4955.8	21.2	78.8
1989/90	7283.9	1435.1	5848.8	19.7	80.3
1990/91	8177.4	1369.7	6807.7	16.7	83.3
1991/92	9875.6	1595.2	8280.4	16.2	83.3
1992/93	11662.5	2036.2	9626.3	17.5	82.5
1993/94	15371.5	2855.3	12516.0	18.6	81.4
1994/95	19660.0	3849.3	15810.7	19.6	80.4
1995/96	21668.0	4655.9	17012.1	21.5	78.5
1996/97	24424.0	5340.0	19084.3	21.9	78.1
1997/98	25939.8	6187.9	19751.7	23.9	76.1
1998/99	28752.9	7516.1	21236.8	26.1	73.9
1999/00	33152.1	8951.5	24200.6	27.0	73.0
2000/01	38865.1	10159.4	28705.7	26.1	73.9
2001/02	39330.6	10597.5	28733.1	26.9	73.1
2002/03	42587.0	10105.8	32481.2	23.7	76.3
2003/04	48173.0	11912.6	36260.4	24.7	75.3
2004/05	54,104.7	13071.8	41032.9	24.2	75.8
2005/06	57,430.4	13068.1	43462.3	24.3	75.7
2006/07	71,126.7	18980.4	52146.4	26.7	73.3

(Source: Economic Survey, 2007/08, Ministry of Finance, 2008, Kathmandu.)

The trend and also in absolute value, total tax revenue, direct tax and indirect tax is increasing. Direct tax includes Income Tax, Land revenue and Registration, Urban house and land tax, Property tax, Vehicles tax whereas Indirect tax includes Customer Sales tax, Value Added Tax, Entertainment tax, Hotel tax, Air Flight tax, Contract tax, Road and Bridges maintenance tax.

In Nepalese tax revenue share of indirect tax is larger than the direct taxes, the average contribution of direct tax in total tax revenue is 16.2 percent to 27 percent. It has not gone done by limit of 16.2 (year 1991/92) and not exceeded by 27 percent (year 1999/00), 27 percent whichever recoded.

Figure 4.2
Composition of Tax Revenue



In comparison to the other developed country like USA, UK, Japan etc., contribution of direct taxes in Nepal is very low. Being an undeveloped country most of the Nepalese people live in the level of subsistence and all of their income is spent out on consumption. This could be a reason that direct tax is not producing more revenue than indirect tax.

The amount of indirect tax in the year 1987/88 was Rs.4742.6 million, 82.4 percent of total tax revenue, but even after 20 years in the year 2006/07, share of indirect tax is 73.3 percent, in 52146.40 million. However the share of indirect tax in total revenue is decreasing after the year 1989/90 gradually to the maximum of 83.3 percent to 73.1 percent. To drive our nation toward economic development it

is not good symptom, because, for economic development of a nation depends upon its own economy, means; the nation's general public must have strong income by which they will pay tax and the government revenue will increase or enhance. Trend of total tax revenue, direct tax and indirect tax is shown in above figure 4.2.

4.1.4 Composition of Direct Tax Revenue

Direct tax is actually paid by the person won whom it is imposed legally (Dalton, 1954). Direct tax is levy by the government on the income & wealth received by households and business enterprises on order to raise revenue as on instrument of fiscal policy. It is progressive so far as the amount paid varies significantly according to the income and wealth of the taxpayer. In Nepalese tax structure the major component of direct taxes are Income tax, Land tax, Property & Wealth tax, Land registration tax. Until the fiscal year 1993/94 vehicle tax was considered as a Direct tax and since 1994/95 budget speech it has been classified under the Indirect tax. On the other hand interest tax and urban house and land tax were including under income tax since 1994/95. The contribution of direct tax and share of other components are shown in table 4.4.

Table 4.4
Composition of Direct Tax

Fiscal Year	Total Direct Tax	Land Revenue & Registration				Tax of Property, Profit and Income				
		Land Tax	House, Land Registration	Total	% of Total Direct Tax	Income Tax	Tax on Property	Other Tax	Total	% of Total Direct Tax
1987/88	1,010.2	80.70	268.20	366.90	36.32	596.10	45.70	1.50	643.30	63.68
1988/89	1,331.3	80.40	320.60	401.00	30.12	879.60	50.00	0.70	930.3	69.88
1989/90	1,435.1	74.60	377.10	451.70	31.48	932.10	51.00	0.30	983.40	68.52
1990/91	1,369.7	82.10	456.60	540.00	39.42	783.80	24.10	21.90	829.80	60.58
1991/92	1,595.2	64.80	571.30	636.10	39.88	875.00	67.70	16.40	959.70	60.12
1992/93	2,036.2	69.40	685.50	754.90	37.07	1,198.20	80.00	3.10	1,281.00	62.12
1993/94	2,855.3	61.00	772.20	833.20	29.18	1,921.20	49.80	51.10	2,022.00	70.82
1994/95	3,849.3	34.90	902.80	937.70	24.36	2,923.40	88.20	-	2,912.00	75.64
1995/96	4,655.9	18.20	1,048.40	1,006.60	22.91	3,431.40	157.90	-	3,589.00	77.09
1996/97	5,340.0	5.90	1,009.50	1,015.40	19.01	4,123.40	201.20	-	4,325.00	80.99
1997/98	6,187.9	3.60	1,000.60	1,004.20	16.23	4,898.10	285.60	-	5,184.00	87.77
1998/99	7,516.1	1.40	1,001.80	1,003.20	13.35	6,170.20	324.70	-	6,513.00	86.65
1999/00	8,951.5	4.60	1,011.30	1,015.90	11.35	7,420.60	515.00	-	7,936.00	88.65
2000/01	10,159.4	5.10	607.80	612.90	6.03	9,114.00	432.50	-	9,547.00	93.97
2001/02	10,597.5	0.80	1,131.00	1,131.80	10.68	8,903.70	562.00	-	9,464.00	89.23
2002/03	10,105.8	-	1,414.30	1,414.30	14.00	7,966.20	559.50	165.80	8,691.50	86.00
2003/04	11,912.6	-	1,697.50	1,697.50	14.25	9,245.90	700.60	268.60	10,215.10	85.75
2004/05	13,071.8	-	1,799.20	1,799.20	13.76	-	806.50	306.70	11,272.60	86.24
2005/06	13,968.1	-	2,181.10	2,181.10	15.61	-	847.60	565.70	11,787.00	84.39
2006/07	18,980.3	-	2,253.50	2,253.50	11.87	-	995.00	697.80	16,726.80	88.13

(Source: Economic Survey, 2007/08, Ministry of Finance, 2008, Kathmandu)

In the table, direct tax is classified into Land Revenue and registration and tax on property, profit and income land registration. House and land revenue registration is higher than land revenue each year. The share of land revenue and registration is increasing each year up to fiscal year 1995/96. Then, it has started to decline each year. The mean contribution of land revenue and registration is 27.90 percent. The highest percentage contribution was in the fiscal year 1991/92 with amounting Rs.636.1 million and lowest was in the fiscal year 2000/01 with amounting Rs.612.9 million.

Another source of direct tax revenue is tax on property, profit and income. The share of property, profit and income tax to direct tax revenue is not less than 60.12 percent and not more than 93.97 percent over the study period (i.e., 1987/88 to 2006/07). It has increasing each year except fiscal year 1990/91, 2001/02 and 2002/03. Its highest share was Rs.16726.80 million in the fiscal year 2006/07 and lowest Rs.643.3 million in the fiscal year 1987/88.

4.1.5 Composition of Income Tax Revenue

Income tax is an important source of the direct tax. In the present situation, Nepal is levying three different types of income tax. They are Individual income tax, Corporate income tax, and interest tax. Base of individual income tax covers all natural person and Sole trader (Proprietorship), Partnership etc. having income of taxable capacity. Corporate covers Public enterprises and Semi-public enterprises and Private corporate bodies. Here, public enterprises means hundred-percentage government ownership, semi-public consists more than fifty percentage government ownership. Private corporate bodies mean public limited companies and Remuneration refers to salaries earned from government or non government sectors.

The composition of income tax revenue for the recent 20 years is presented in the table 4.5. The amount of income tax is gradually increasing without any

disturbance except in fiscal year 1990/01, 2001/02, and 2002/03 the amount increase up to Rs.15034 million. The total income tax revenue was declined trend at that time. Firstly, the total tax revenue was decrease by Rs. 210.30 million in fiscal Year 2001/02, then after it is highly decrease by 937.5 million compare to previous fiscal year in 2002/03. In the recent year, total Income Tax has increased remarkably from Rs 9245.9 million in fiscal year 2003/04 to Rs, 15034 million the highest ever in fiscal year 2006/07.

Table 4.5
Composition of Income Tax Revenue

In millions

Fiscal Year	Total Income Tax Revenue	Public Enterprises	Semi-Public Enterprise	Private Corporate Bodies	Individuals	Remuneration	Tax on Interest
1987/88	596.1	193.2	1.90	1.9	348.6	33.4	17.1
1988/89	879.6	216.9	2.60	0.4	597.4	43.8	18.5
1989/90	932.1	240.9	2.40	0	625	50.7	13.1
1990/91	783.8	162.2	2.70	0	531.2	49.9	37.8
1991/92	875	171.1	5.30	6.5	617.9	54.7	19.5
1992/93	1162.2	255.3	2.60	9.5	800.7	56.7	37.4
1993/94	1921.2	534.1	2.10	19.7	1184.8	83.8	96.7
1994/95	2923.4	860.2	-	440.1	1293.1	118.4	11.6
1995/96	3431.4	1144.5	-	563.9	1474.1	133.1	119.8
1996/97	4123.4	1231.1	-	858.4	1711.4	168.1	154.4
1997/98	4898.1	1317.8	-	925.1	1220.8	322.2	212.2
1998/99	6170.2	1526.5	-	1155	2772.7	396.5	319.4
1999/00	7420.6	2198.8	-	1339.5	3016.4	451.5	414.4
2000/01	9114	2928	-	1924.3	3200.5	597.3	463.9
2001/02	8903.7	1769.3	-	1412	4419.1	835.6	467.7
2002/03	7966.2	1251	-	1236.3	3362.3	1252.6	864
2003/04	9245.9	2056.6	-	1531.3	3533.4	1391.2	733.4
2004/05	10159.4	1332.4	-	2467.8	3926.3	1675.9	757
2005/06	10373.7	195.7	-	3404.3	4234.7	1764.1	774.9
2006/07	15034	1019.7	-	5717.1	5234.4	2007.9	1054.9

Source: Economic Survey, 2007/08, Ministry of Finance, 2008, Kathmandu

From the table 4.6, contribution of income tax to total income tax from public enterprises is 26.12 percent in average. Total amount contribution from public enterprises has fluctuated from Rs.162.2 million to Rs.2,928 million. Total amount of contribution is increasing each year from Rs.193.2 million in the initial year of study period and reached Rs.1019.7 million in the fiscal year 2006/07. The contribution ratio of this tax is not so satisfactory, when it came up to 2002/03, it fell down to 15.70 percent up to the 2001/02, the contribution of public enterprises in income tax revenue was in the second most of the year but it is in last position in recent two years 2005/06 and 2006/07 if we ignore contribution from semi public enterprise.

Contribution from semi-public enterprises is lowest than other. The contribution of this sector is not exceeded from 0.61 percent. For the period of five years (1994/95 to 1998/99), the contribution of this sector was nil and since 1999/00 however the contribution exists, it is insignificant. Private corporate bodies are the third positioning revenue generating sector for income tax. Since 1987/88 to 2000/01, it is in increasing trend. The contribution ratio was 0.05 percent and increase up to 38.03 percent between the twenty years period, 1987/88 to 2006/07. In the year 2001/02 and 2002/03, contribution is not satisfactory. In 2001/02 the ratio was decreased from 21.11 percent to 15.86 percent, but in the year 2002/03 not only percentage ratio decreased the position that the sector holding. In 2003/04 contribution from private sector increased remarkable and came into first position in fiscal year 2006/07 by contributing Rs 5717.1 million.

Individual income tax is largest revenue generating sector of income tax revenue, which resource was contribution at least sixty two to seventy one percent up to the year 1993/94. But then after it was decreased to 24.92 percent. It is very worst, that the contribution ratio is in decreasing trend since 1992/93. In 2001/02 the contribution ratio was increased by 14.51 percent and in fiscal year 2002/03, the

contribution ratio was recorded as 42.21 percent which is decreased by 7.42 percent comparing to the previous year. Although percentage was in decreasing trend but contribution in amount is the highest in fiscal year 2005/06 and second highest in fiscal year 2006/07 amount to Rs 4234.7 and 5234.4 million respectively.

The average contribution from remuneration is 6.037 percent. Tax revenue from remuneration is increasing each year except fiscal year 1990/91. It was 33.4 million in the fiscal year 1987/88 and reached to Rs.2007.9 million in fiscal year 2006/07. In the fiscal year 2001/02, the contribution ratio increase to 9.38 percent and growth rate was 43.21 percent. In 2002/03 again the ratio increase by 6.34 percent, the growth rate was recorded as 67.59 percent, in this year the actual contribution was 15.72 percent. The increasing trend continued for all rest of the recent fiscal year too. But it decreased by 13.65 percentage in fiscal year 2006/07 compare to previous fiscal year although contribution in amount is remarkably increased.

The average contribution form interest on tax is 4.08 percent. Tax on interest is also increasing and has Rs. 1054.9 million in last year of study. Growth rate of interest of income tax is 1992/93 and 2002/03 is recorded as highest, i.e., 174.44 percent and 106.67 percent respectively. The growth percentage was positive but amount was increased by Rs 280 million in the fiscal year 2006/07.

Table 4.6
Composition of Income Tax Revenue

In Percentage

Fiscal Year	Total Income Tax Revenue	Public Enterprises	Semi-Public Enterprise	Private Corporate Bodies	Individuals	Remuneration	Tax on Interest
1987/88	100.00	32.41	0.32	0.32	58.48	5.60	2.87
1988/89	100.00	24.66	0.30	0.05	67.92	4.98	2.10
1989/90	100.00	25.84	0.26	-	67.05	5.44	1.41
1990/91	100.00	20.69	0.34	-	67.77	6.37	4.82
1991/92	100.00	19.55	0.61	0.74	70.62	6.25	2.23
1992/93	100.00	21.97	0.22	0.82	68.90	4.88	3.22
1993/94	100.00	27.80	0.11	1.03	61.67	4.36	5.03
1994/95	100.00	29.42	-	15.05	44.23	4.05	0.40
1995/96	100.00	33.35	-	16.43	42.96	3.88	3.49
1996/97	100.00	29.86	-	20.82	41.50	4.08	3.74
1997/98	100.00	26.90	-	18.89	24.92	6.58	4.33
1998/99	100.00	24.74	-	18.72	44.94	6.43	5.18
1999/00	100.00	29.63	-	18.05	40.65	6.08	5.58
2000/01	100.00	32.13	-	21.11	35.12	6.55	5.09
2001/02	100.00	19.87	-	15.86	49.63	9.38	5.25
2002/03	100.00	15.70	-	15.52	42.21	15.72	10.85
2003/04	100.00	22.24	-	16.56	38.22	15.05	7.93
2004/05	100.00	13.11	-	24.29	38.65	16.50	7.45
2005/06	100.00	1.89	-	32.82	40.82	17.01	7.47
2006/07	100.00	6.78	-	38.03	34.82	13.36	7.02

Source Table 4.5

Figure 4.3

Composition of Income Tax Revenue

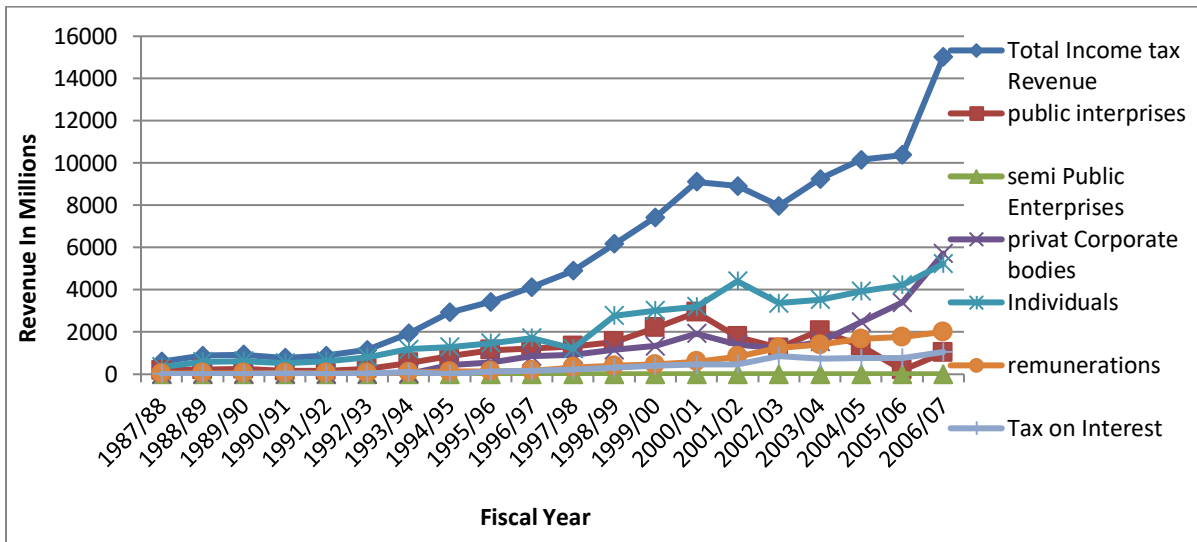
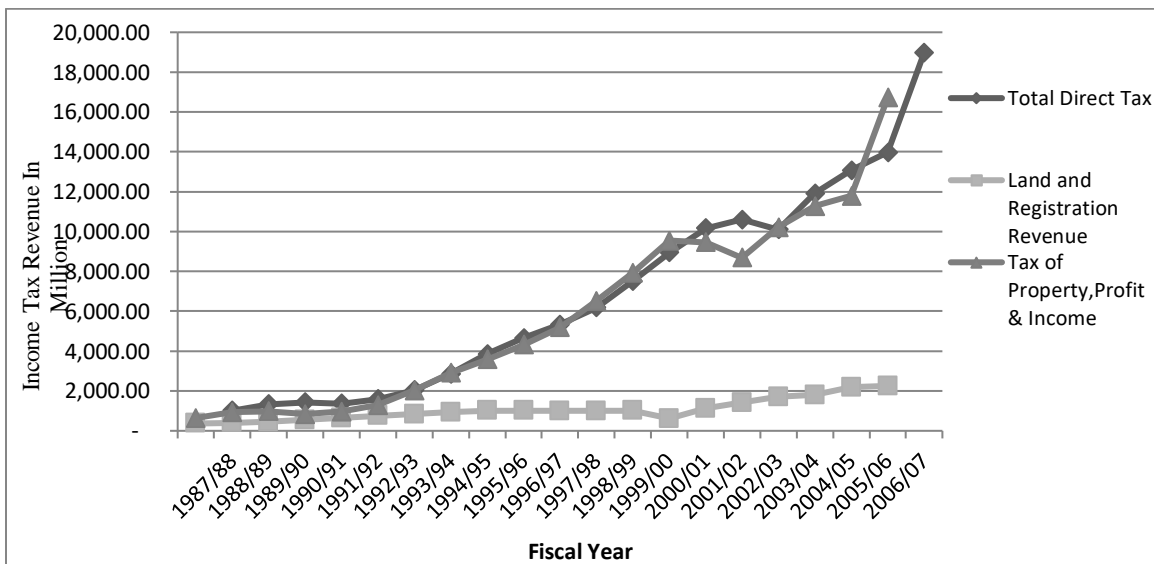


Figure 4.4

Trend of Income Tax Revenue



4.1.6 Contribution of Income Tax

Nepal is facing a serious resource gap problem and it has urgency to mobilize additional financial resource through taxation to fulfill the gap. Tax structure of Nepal is composition of direct and indirect tax. Income tax is a pivot of direct tax.

It is playing an important role to generate government revenue for the development of national economy. In this section an attempt to analyze and check the contribution of income tax to GDP, total revenue, total tax revenue and direct tax revenue is made.

Income Tax in the Gross Domestic Product (GDP)

Table 4.7 shows the percentage contribution of income tax in Gross Domestic Product (GDP). It is clear that the share of income tax in the GDP in Nepal is very low and it has not exceeded by 2.32 percentages throughout the period of 20 years. Contribution of income tax in GDP was 0.81 percent in the fiscal year 1987/88. Maximum contribution of income tax revenue as a percentage of GDP is 2.32 in the fiscal year 2000/01. From the fiscal year 1991/92, it is continuously increasing from 0.60 percent up to 2.32 percent. But again from the year 2001/02 it started decreasing up to fiscal year 2005/06 and in the fiscal year 2006/07 it was recorded as 2.23 percent. See the trend in figure 4.6.

Contribution of Income Tax to Total Revenue

Total revenue constitutes tax and non-tax revenue. In the Nepalese government revenue structure, tax revenue has occupied most part of public revenue, i.e., about two third part in total revenue. Share of income tax as a percentage of total revenue is presented in the table 4.7. The share of income tax as a percentage of total revenue has fluctuated from 6.48 percent to 18.64 percent. Average contribution is 14.69 percent over the study period. Contribution for the fiscal year 2000/01 was maximum 18.64 percent. Thereafter again the ratio started to decline in the fiscal year 2001/02 and 2002/03. The ratio was recorded 17.65 percent and 14.17 percent respectively. Then it increased to 14.83 percentage in fiscal Year 2003/04 and decreased again for another two years . In fiscal year 2006/07 it was recorded 17.14 percentage .The figure 4.7 shows income tax as a percent of total revenue.

Contribution of Income Tax to the Total Tax Revenue

Total tax revenue constitutes direct tax and indirect tax revenue. There is dominant role of indirect tax in the Nepalese tax revenue structure. The contribution of income tax to the direct tax revenue is presented in the table 4.7. The contribution was 10.36 percent in the initial period of study. The highest contribution of income tax was 23.45 percent in the fiscal year 2000/01 but average contribution is 18.76 percent in 20 years period of study. The share of income tax as a percentage of total tax revenue is 8.86 percent in the fiscal year 1991/92 which was the lowest contribution over the study period. From the fiscal year 2001/02 contribution of income tax as a percentage of total Tax Revenue has been decreased from 22.64 percentages to 18.06 percentages in fiscal year 2005/06 .Although it is increased to 21.14 percentages in last year of our study. The trend of income tax is shown in the figure.

Table 4.7
Contribution of Income Tax to GDP, Total Revenue, Total Tax Revenue and Direct Tax Revenue

(Rs In million)

Fiscal Year	GDP	Total Revenue	Total Tax Revenue	Direct Tax Revenue	Income Tax Revenue	% of Income Tax on GDP	% of Income Tax on Total Revenue	% of Income Tax on Total Tax Revenue	% of Income Tax on Direct Tax Revenue
1987/88	73170	7350.5	5752.9	1010.2	596.1	0.81	8.11	10.36	59.01
1988/89	58831	7776.8	6287.2	1331.4	879.6	1.02	11.31	13.99	66.07
1989/90	99702	9287.5	7283.9	1435.1	932.1	0.90	10.04	12.8	64.95
1990/91	116127	10730.9	8177.4	1369.7	783.8	0.68	7.31	9.58	57.22
1991/92	144933	13512.7	9875.6	1595.2	875	0.60	6.48	8.86	54.85
1992/93	165350	15148.4	11662.5	2036.2	1198.2	0.73	7.91	10.27	58.54
1993/94	191596	19580.9	15371.5	2855.3	1921.2	1.00	9.81	12.5	67.29
1994/95	209974	24605.1	19660	3849.3	2823.4	1.35	11.49	14.36	73.35
1995/96	239388	27893.1	21668	4655.9	3431.4	1.43	13.3	15.84	73.7
1996/97	269570	30373.5	24424.3	5340	4123.1	1.53	13.58	16.88	77.22
1997/98	289746	32937.9	25939.8	6187.9	4898.4	1.69	14.87	18.88	79.12
1998/99	330018	37251.3	28752.9	7516.1	6170.2	1.87	16.65	21.46	82.09
1999/00	366251	42893.7	33152.1	8950.9	7420.6	2.03	17.3	22.38	82.9
2000/01	393566	48893.3	38865.1	10159.4	9114.6	2.32	18.64	23.45	89.71
2001/02	405632	50445.6	39330.6	10597.5	8903.7	2.20	17.65	22.64	84.02
2002/03	460325	56229.7	42587	10105.8	7966.2	1.96	14.17	18.71	78.83
2003/04	500699	62,331.00	48,173.00	11,912.60	9245.9	1.85	14.83	19.19	77.61
2004/05	548485	70,122.70	54,104.70	13,071.80	10159.4	1.85	14.49	18.78	77.72
2005/06	611089	72,282.10	57,430.40	13,968.10	10373.7	1.70	14.35	18.06	74.27
2006/07	675484	87,712.20	71,126.70	18,980.30	15034	2.23	17.14	21.14	79.21

Source: Economic Survey, 2007/08, Ministry of Finance, 2008, Kathmandu.)

Figure 4.5

Income Tax as a Percentage of GDP

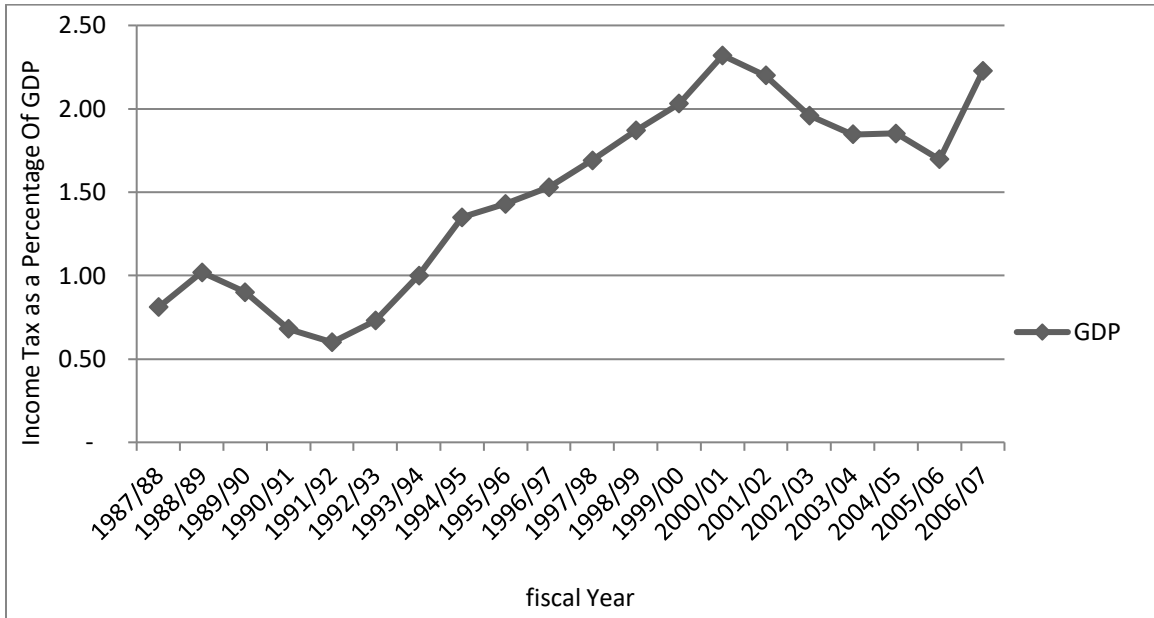


Figure 4.6

% of Income Tax on Total Tax Revenue

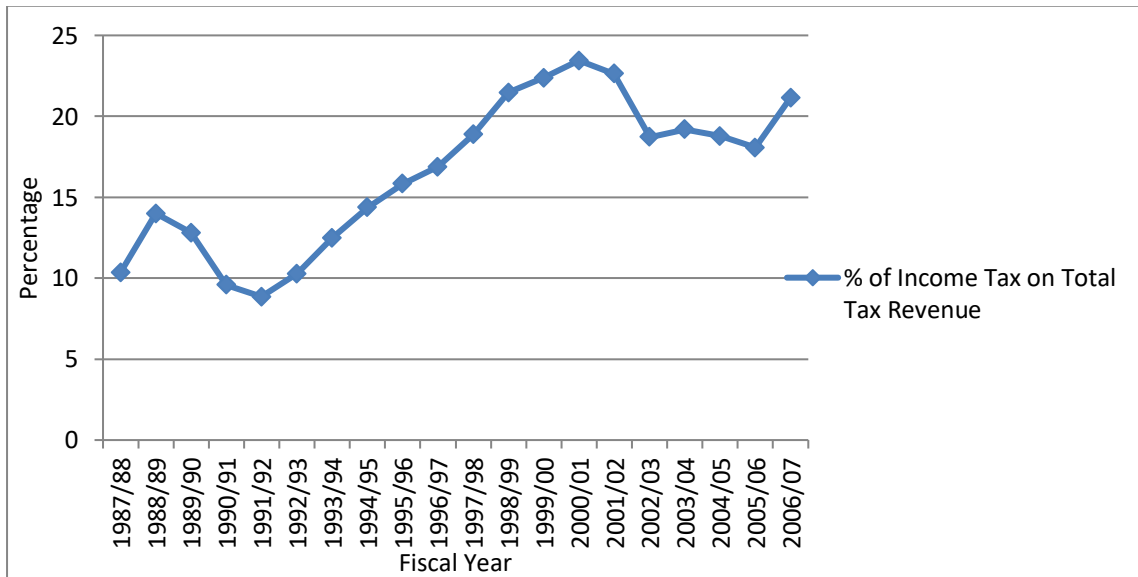
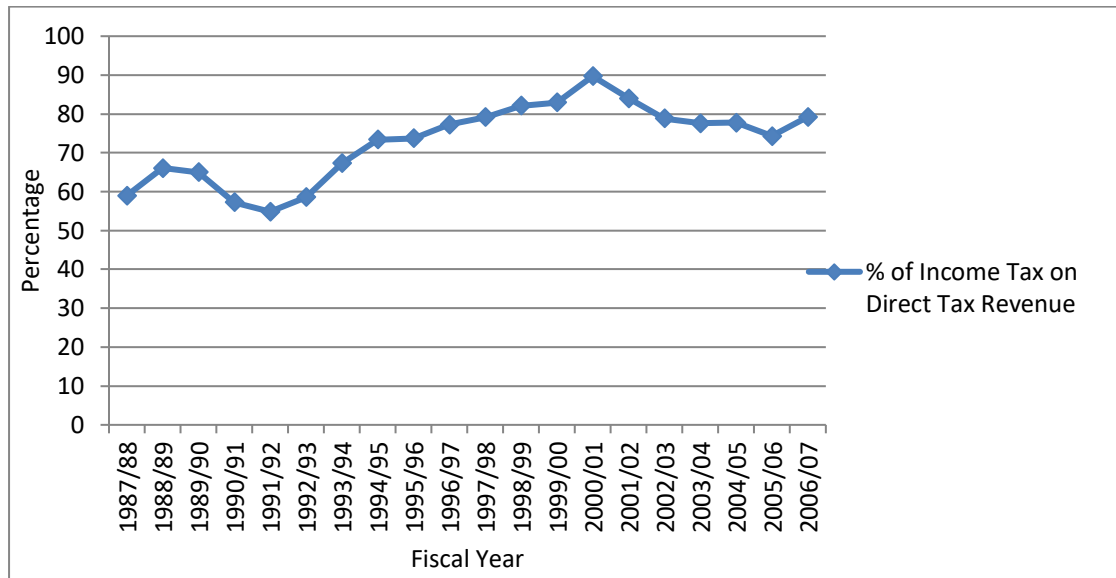


Figure 4.7

% of Income Tax on Direct Tax Revenue



Contribution of Income Tax to the Direct Tax Revenue

Income tax, land revenue and registration tax, urban house and land tax, property tax and other tax are major direct taxes. From the table 4.7, it is clear that there is substantial contribution of income tax in direct tax revenue in Nepal. Average share of income tax to direct tax is 78.03 percent. For the period of 20 years i.e., from fiscal year 1987/88 to 2006/07, the contribution of income tax in direct tax revenue has never been less than 54.85 percent. In the beginning of the study, it was 59.01 percent and had reached maximum up to 89.71 percent; however in the year 1989/90 to 1992/93 for the four years it was decreased. This could be the existing Nepalese situation's either political or other effect that since 2001/02 the ratio of contribution is decreasing, the year 2001/02 it was recorded 84.02 percent and in 2002/03 the record shows contribution of income tax as direct tax revenue is 78.83 percent. Then for the period of another three years, it has been decreased up to fiscal year 2006/07 to 79.21 percentages. The trend of income tax as the percentage of direct tax is presented in the figure 4.8.

From the above analysis it is clear that there is significant contribution of income tax in Nepal to increase GDP, Total revenue, tax revenue and direct tax revenue. From the table and trend figure of percentage analysis we can conclude that the increasing and decreasing trend of income tax affects GDP, Total revenue, Tax revenue and Direct tax revenue. Once the income tax increased we can see all these are increasing and vice versa. See the table 4.7 and figure 4.5, 4.6, 4.7 and 4.8 for detail.

4.1.7 Exemption Limit in Nepal

Exemption limit is an important variable while managing the income tax. Taxpayer having low tax paying capacity should exclude from the tax net for the social justice and economic balance between rich and poor. For every year, Finance Act prescribed the exemption limit for individual, families, couple and corporations. The exemption limit to the corporate tax payer was curtailed from the fiscal year 1965/66, non-resident taxpayer from 1974/75 and partnership form 1975/76. From the table 4.8, it is clear that exemption limit is extended according to need of time and income condition. At present time, individuals having the taxable income up to Rs. 115,000 are exempted from tax and for the couple is Rs. 140,000.

Table 4.8
Exemption Limit in Nepal
From Fiscal Year 1959/60 to 2008/09

In Rs.

Fiscal Year	Individual	Couple	Family	All Taxpayers
1959/60 to 1962/63	-	-	-	7000
1963/64 to 1964/65	-	-	-	6000
1965/66 to 1966/67	-	-	-	5000
1967/68 to 1973/74	3000	4500	6000	-
1974/75	4500	6000	6000	-
1975/75	5500	6500	7500	-
1976/77 to 1978/79	6500	7500	8500	-
1981/80 to 1980/81	7500	10000	10000	-
1981/82 to 1982/83	10000	15000	15000	-
1983/84 to 1990/91	15000	20000	20000	-
1991/92	20000	30000	30000	-
1992/93 to 1996/97	25000	35000	35000	-
1997/98	30000	40000	40000	-
1998/99	40000	50000	50000	-
1999/00	50000	60000	60000	-
2000/01	55000	75000	75000	-
2001/02	55000	75000	75000	-
2002/03	65000	85000	85000	-
2003/04 to 2004/05	80000	100000	100000	-
2005/06 to 2006/07	100000	125000	125000	-
2007/08 to 2008/09	115000	140000	140000	-

Source: Finance Acts Of various Year, Ministry Of finance, Nepal Govt.

Statistical Abstracts, 2000, Department Of Taxation, Kathmandu.

4.1.8 Income Tax Rate in Nepal

Rate structure of income tax has been changing continuously since its introduction in 1959/60. In 1959/60, net income was divided into 11 brackets. When income over Rs. 7,000 a year was subject to graduated rates ranging from 5 percent to 25

percent. For the personal income, the slabs have varied from minimum of two to maximum of eight from the fiscal year 1982/83 to 2002/03. From fiscal year 1998/99, the income tax was divided into two slabs. The rates have varied from 5 percent to 55 percent. For partnership firms, corporations and non-resident, the income tax rate was same as the rate for personal income from 1984/85 to 1993/94 but exemption limit is not allowed for them. After fiscal year 1994/95, they were taxed at flat rate. The tax rate was reduced from 35 percent in fiscal year 1995/96 to 30 percent for bank, finance companies and financial firms and 25 percent for other (including partnership firms) in fiscal year 1999/00.

Under new income Tax Act 2002, individual income tax is levied with two rates of 15 percent and 25 percent. For individuals, who have Rs. 120,000 income or Rs.1,200,000 turnover from any kind of business in metropolitan or sub metropolitan cities, municipalities and other area in Nepal are subject to pay Rs.2,000, Rs.1,500 and Rs.1,000 as an annual flat rates, respectively. The same has been Changed in finance ordinance 2008/09 As For individuals, who have Rs. 150,000 income or Rs.1,500,000 turnover from any kind of business in metropolitan or sub metropolitan cities, municipalities and other area in Nepal are subject to pay Rs.5,000, Rs.3000 and Rs.2,000 as an annual flat rates, respectively

Under the Income Tax Act, the corporate income tax is levied with single rate of 25 percent. For bank, financial institutions, Insurance Companies, And Telecommunication Companies the rate is 30 percent of taxable income where as industrial enterprises are subject to the maximum rate of 20 percent.

Table 4.9 and 4.10 shows that the incomes tax rate of Nepal in various years, Table 4.9 is the income tax rate for personal income and table 4.10 is the income taxable for partnership firm, corporations and non-residents.

Table 4.9
Income Tax Rate in Nepal for Personal Income
(Slab Over Exemption Limit)

Fiscal year	Amount	Rate %	Amount	Rate %	Amount	Rate %	Amount	Rate %	Amount	Rate %	Amount	Rate %	Amount	Rate %	Amount	Rate %
1982/83	5000	5	5000	10	10000	15	20000	20	20000	30	30000	40	Balance	50	-	-
1983/84	5000	5	5000	10	10000	15	20000	20	20000	30	30000	40	40000	50	Balance	55
1984/85 to 1988/89	5000	10	5000	15	10000	20	15000	25	15000	30	30000	40	20000	50	Balance	55
1989/90 to 1990/91	5000	10	5000	15	10000	20	15000	25	15000	30	30000	40	Balance	50	-	-
1991/92	10000	15	15000	25	20000	35	25000	40	30000	30	Balance	50	-	-	-	-
1992/93	10000	10	20000	20	20000	30	20000	40	Balance	45	-	-	-	-	-	-
1993/94	25000	15	40000	25	Balance	40	-	-	-	50	-	-	-	-	-	-
1994/95	25000	15	40000	25	Balance	35	-	-	-	-	-	-	-	-	-	-
1995/96	25000	10	40000	25	Balance	35	-	-	-	-	-	-	-	-	-	-
1996/97 to 1997/98	40000	10	25000	20	Balance	-	-	-	-	-	-	-	-	-	-	-
a) Remuneration	-	-	-	-		30	-	-	-	-	-	-	-	-	-	-
b) Others	-	-	-	-		33	-	-	-	-	-	-	-	-	-	-
1998/99	45000	15	Balance	25		-	-	-	-	-	-	-	-	-	-	-
1999/00 to 2006/07	75000	15	Balance	25		-	-	-	-	-	-	-	-	-	-	-
2007/08 to 2008/09	85000	15	Balance	25		-	-	-	-	-	-	-	-	-	-	-

Source: Finance Acts of Various Years, Ministry of Finance G/N.

Statistical Abstracts, 2000, Department of Taxation, Kathmandu

Table 4.10

Income Tax Rate in Nepal for Partnership Firms, Corporation and Non-Residents

Slabs	1		2		3		4		5		6		7		8	
	Amount	Rate %	Amount	Rate %	Amount	Rate %	Amount	Rate %	Amount	Rate %	Amount	Rate %	Amount	Rate %	Amount	Rate %
1984/85 to 1988/89	5000	10	5000	10	10000	20	15000	25	15000	30	30000	40	20000	50	Balance	55
1989/90 to 1990/91	5000	10	5000	10	10000	20	15000	25	15000	30	30000	40	Balance	50	-	-
1991/92	10000	15	15000	15	20000	35	25000	40	30000	45	Balance	50	-	-	-	-
1992/93	10000	10	20000	15	20000	30	20000	40	Balance	50	-	-	-	-	-	-
1993/94	25000	15	40000	25	Balance	40	-	-	-	-	-	-	-	-	-	-
1994/95 to 1995/96	Total	33	-	20	-	-	-	-	-	-	-	-	-	-	-	-
1996/97 to 1997/98	Total	33	-	25	-	-	-	-	-	-	-	-	-	-	-	-
1998/99 to 2003/04																
a) For Bank, Finance, Financial Firms	Total	30	-	25	-	-	-	-	-	-	-	-	-	-	-	-
b) For Special Industry	Total	20	-	20	-	-	-	-	-	-	-	-	-	-	-	-
c) Others (including Partnership firms)	Total	25	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: Finance Acts of Various Years, Ministry of Finance Nepal Govn.

Statistical Abstracts, 2000, Department of Taxation, Kathmandu

4.1.9 Taxpayer and Returns of Income of the Fiscal year 2006/07

The details of registered taxpayers and returns of income for the fiscal year 2006/07 are presented in the table no 4.11. The total no. of registered taxpayers has 258818 by the fiscal year 2006/07 whereas it was 219605 in the fiscal year 2005/06. It shows that the number of taxpayers has increased by 39213 and 32452 new taxpayer are registered in the year 2006/07, there is 2226 number of taxpayers deducted in this year. Among the registered taxpayers 227 are public enterprises, 1894 are public limited company, 28520 are private limited company, 210618 are individual firms, 15373 are other entity, 1909 are remuneration earners and 277 are rent earners.

During the fiscal year 2006/07, the total number of returns of income filed has reached 123929 while it was 185235 in the end of last year. The number of new returns filed in the year 2006/07, is 99506. Among the total number of return filed, 60 are public enterprise, 870 are from public limited company, 11383 are from private limited company, 77801 are from individual firm, 8814 are from other entity, 574 are from remuneration earner and no return files from rent earners.

Table 4.11**Registration of Taxpayers and Returns of Income for the Fiscal Year 2006/07**

Tax Heating	No. of Taxpayers				Registration of Return of Income			Remarks
	No. of Registered up to last year	This year Addition	Deducted number in this year	Total No. of Registered Taxpayer	Brought down form last year	No. of submission in this year	Total	
Income Tax	219605	32452	2226	258818	12371	105850	291068	
Corporate Tax	214227	32060	2226	256632	12337	92920	289691	
Public Enterprises	27085	36	2	227	40	52	225	
Public Ltd. Co.	583	1082	26	1894	302	581	1894	
Private Ltd. Co.	14085	4840	71	28520	2649	15791	27147	
Individual Firm	169581	23953	2106	210618	8463	73136	247141	
Other Entity	2893	2149	21	15373	883	3360	13284	
Remuneration	3250	392	0	1909	34	541	825	
Income Tax in Investment	2128	0	0	277	0	18	552	
Rent	2128	3	0	277	0	18	552	
Interest	0	0	0	0	0	0	0	
Capital Gain	0	0	0	0	0	0	0	
Dividend	0	0	0	0	0	0	0	
Other Investment	0	0	0	0	0	0	0	
Special Fee	0	0	0	0	0	0	0	
Total	219605	32452	2226	258818	12371	105850	291068	

Source: Annual Report 2006/07, Inland Revenue Department, Ministry of Finance, Nepal Gov.

Figure 4.8

Number of Income Taxpayer for the Fiscal Year 2006/07

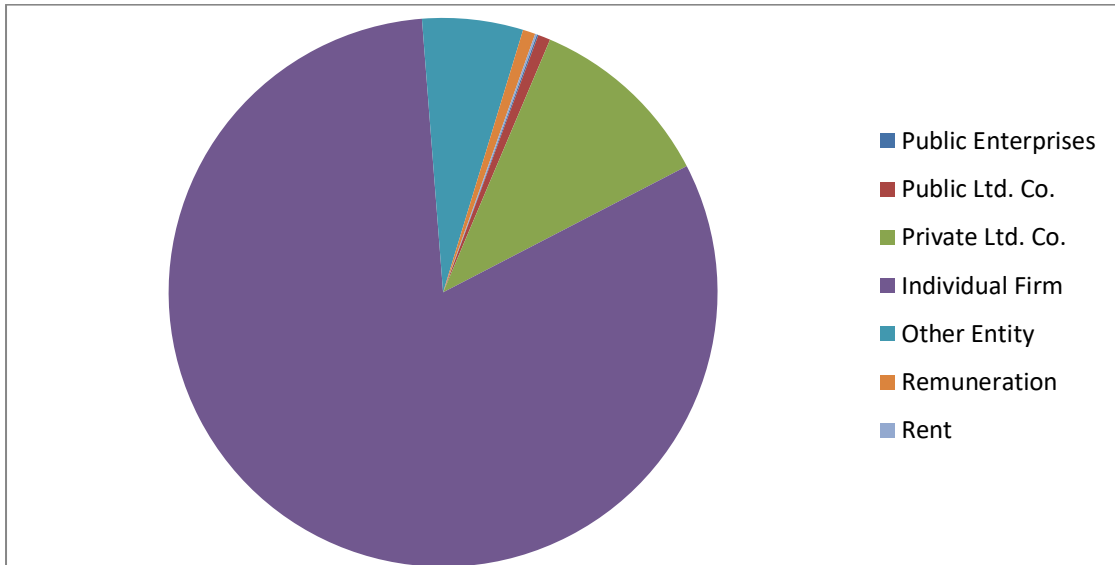
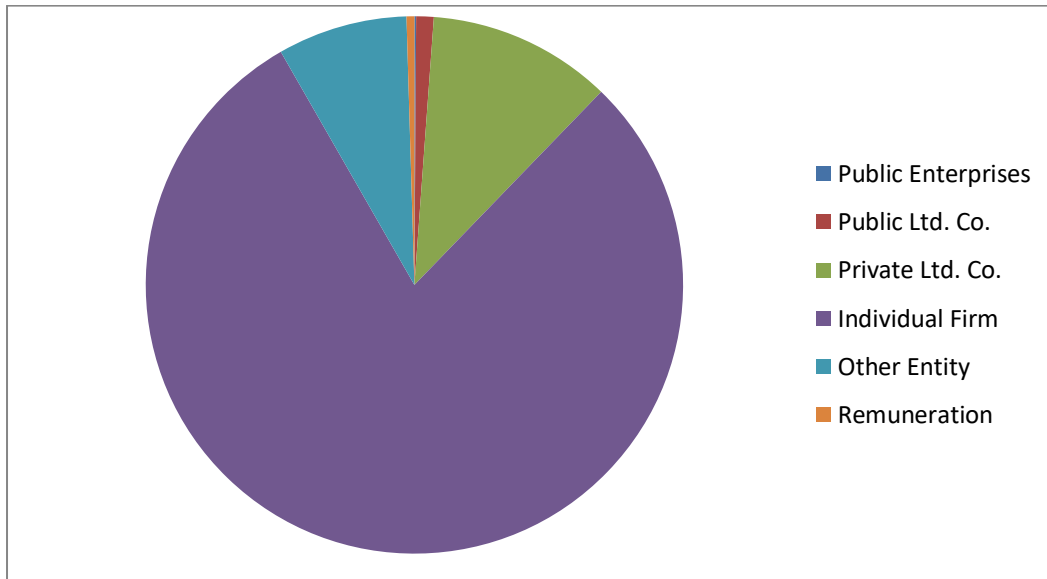


Figure 4.9

Number of Registered Returns of Income for the Fiscal Year 2006/07



4.1.10 Assessment of the Fiscal Year 2006/07

The detail of the assessment of the fiscal year 2006/07 is shown in the table no 4.12. The total assessments of 6048 are done in the fiscal year 2006/07 out of which 3795 is from dues of the previous year and 2253 are from the current fiscal year. The total amount for which the assessment has been done in the fiscal year 2006/07 is Rs.5588492 thousand which consists of its 5328841 thousand from among the dues and Rs.259651 thousand from the current fiscal year. The amount of Returns which are remained for the assessment and carried forward to the next year is 128740.

Table 4.12
Registration of Taxpayers and Returns of Income
For the Fiscal Year 2006/2007

(Rs. In thousand)

Tax Heating	Total Brought down and field this year	Assessment						Carried forward to the next year
		Among the dues		Among the current fiscal year		Total		
		No.	Amount	No.	Amount	No.	Amount	
Income Tax	134788	3795	5328841	2253	259651	6048	5588492	128740
Corporate Tax	134183	3795	5328607	2253	258651	6048	5587258	128138
Public Enterprises	161	44	2354608	2	0	46	2354608	115
Public Ltd. Co.	1422	127	2205967	45	3963	172	2209930	1229
Private Ltd. Co.	26987	1268	657165	720	163265	1988	820430	25685
Individual Firm	100938	2297	95045	1446	75143	3743	170188	89512
Other Entity	4678	59	15822	40	16280	99	32102	4988
Remuneration	584	0	35	0	0	0	35	584
Income Tax in Investment	18	0	199	0	1000	0	1199	0
Investment	18	0	199	0	1000	0	1199	0
Rent	0	0	0	0	0	0	0	0
Interest	0	0	0	0	0	0	0	0
Capital Gain	0	0	0	0	0	0	0	0
Dividend	0	0	0	0	0	0	0	0
Other Investment	0	0	0	0	0	0	0	0
Special Fee	0	0	118741	401	9038	401	127779	76
Total	134788	3795	5447582	2253	268689	6048	5716271	128816

Source: Annual Report 2006/07, Inland Revenue Department, Ministry of Finance, Nepal Gov.

4.2 Empirical Analysis

4.2.1 Introduction

To find out the various aspects of income tax and income tax act, an Empirical study has been conducted. The major tool used for this purpose is an opinion survey through structured questionnaire. A total of eighty set of structured questionnaire (see the format of questionnaire in a appendix B) was distributed to the respondents associated with distinct denominations i.e. tax expert, taxpayer and tax administrator. Only sixty sets of questionnaires having completely responded were received. The respondents were asked either to response Yes / No or for ranking of choices according to number of alternative where first choice was the most important and last choice was least important. If the number of alternative were six, the first preferred choice get six points and the last preferred choice get one point. The total points available to each choice were converted into percentage in reference to the total points available to each choices. The choice with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as last choice.

The responses so far received have arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study with the help of different suitable statistical tools as per the objective.

The group of respondent and number from each group is presented as below:

Table 4.13

Group of Respondents and No. From each Group

S. No.	Group of Respondents	Number (No.)
1.	Tax Experts	20
2.	Tax Payers	20
3.	Tax Administrators	20
	Total	60

Source: Opinion Survey, 2009

4.2.2 Necessity of Public Awareness Program

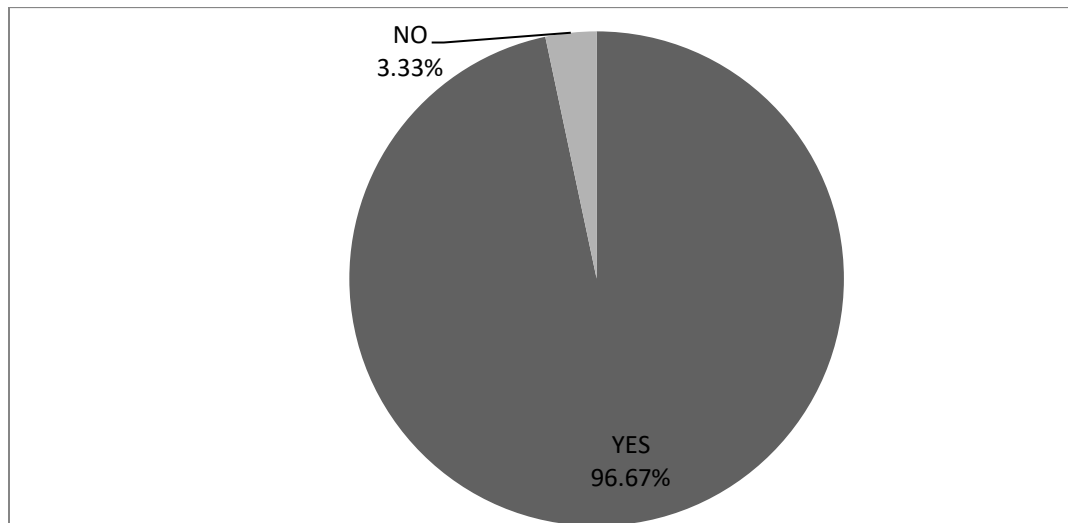
To know the view of respondent, about the need of public program in Nepal for raising government revenue, the question was asked “Do you think that public awareness program is necessary for raising government revenue?”. The responses of the respondents are tabulated as below:

Table 4.14
Necessity of Public Awareness Program

Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Experts	20	100	-	-	20	100
Tax Payers	20	100	-	-	20	100
Tax Administrations	18	90	2	10	20	100
Total	58	96.67	2	3.33	60	100

Source: Opinion Survey, 2009

Figure 4.10
Necessity of Public Awareness Program



Cent percent of tax expert and tax Payers have positive attitude that public awareness program is necessary for raising government revenue. Only 10 percent Administrators does not recognize public awareness program is necessary for

raising government revenue. From the survey, in aggregate 96.67 percent respondent approved on need of public awareness program, thus it can be concluded that public awareness program is necessary for raising Nepalese government revenue.

4.2.3 Contribution of Income Tax to National Revenue

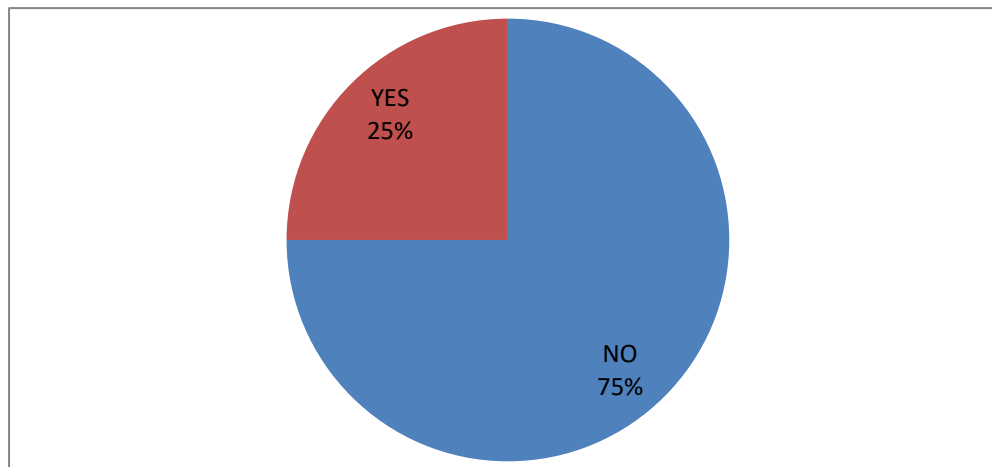
The respondents were asked to response on question, “In your opinion, is contribution of income tax to national revenue of Nepal satisfactory?” to know about the role of income tax revenue. The view of respondent is presented in table 4.15 as below.

Table 4.15
Satisfactory Contribution of Income Tax Revenue

Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Experts	1	1.67	19	98.33	20	100
Tax Payers	11	85	9	15	20	100
Tax Administrations	3	5	17	95	20	100
Total	15	25	45	75	60	100

Source: Opinion Survey, 2009

Figure 4.11
Satisfactory Contribution of Income Tax Revenue



More than ninety eight percent tax experts, fifteen percent tax payers and ninety five percent tax administrators view is same as the contribution of income tax revenue is not satisfactory. In aggregate seventy five percent respondent approved contribution of income tax is unsatisfactory. To know the reason behind unsatisfactory on income tax, the respondent who are in a favor of unsatisfactory contribution were asked, “If no what are the major reason?” The respondents were requested to rank their choice from 1 to 5 according to priority.

Table 4.16

Reason for Unsatisfactory Contribution of Income Tax to National Revenue

S. No.	Reasons	Point Received				Percentage	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Defective Income Tax Act	32	25	32	89	13.19%	5
b.	Mass poverty and low evasion	80	30	66	176	26.07%	2
c.	Increasing habit of tax evasion	92	41	82	215	31.85%	1
d.	Defective income tax administration	34	23	44	101	14.96%	3
e.	Inappropriate rate and exemption limit	47	16	31	94	13.93%	4
	Total				675	100	

Source: Opinion Survey, 2009

From the opinion of respondents, the major reasons for unsatisfactory contribution of income tax to national revenue in order of the priority as follows:

- v. Increasing habit of tax evasion;
- vi. Mass poverty and low-income level;
- vii. Defective income tax administration;

- viii. Inappropriate rate and exemption limit;
- ix. Defective income tax act;

It can be concluded that Increasing habit of tax evasion is most important reason for the unsatisfactory contribution of income tax to national revenue of Nepal.

4.2.4 Effectiveness of Income Tax Assessment Procedure

Effectiveness of income tax assessment procedure enhances to raise the tax revenue. To know whether income tax assessment procedure is effective or not, a question, “Do you know that Income Tax Procedure in Nepal is effective?” was asked. The response received from the respondents are tabulated as below:

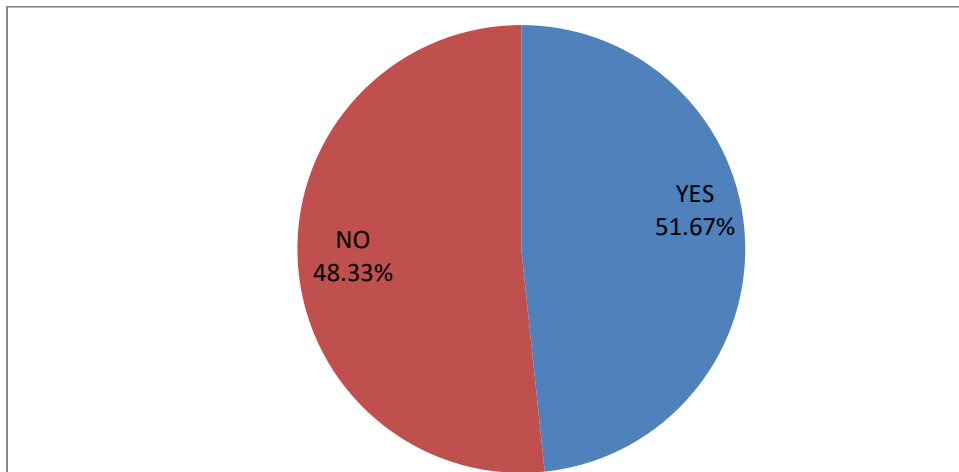
Table 4.17
Effectiveness of Income Tax Assessment Procedure

Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Experts	5	25	15	75	20	100
Tax Payers	15	75	5	25	20	100
Tax Administrations	11	55	9	45	20	100
Total	31	51.67	29	48.33	60	100

Source: Opinion Survey, 2009

Figure 4.12

Effectiveness of Income Tax Assessment Procedure



Majority of tax expert disapproved that income tax assessment procedure is effective. But, Seventy five percent of tax payer and Fifty five of tax administrator's view is for the effectiveness of income tax assessment procedure. To know the reason for ineffectiveness of income tax assessment procedure, the respondents who disapproved income tax assessment procedure is effective, were asked an additional question and requested them to rank reasons in the order of priority. The question was, "If no what may be the problems". The responses of these respondents are tabulated as below.

Table 4.18**Reasons for Ineffectiveness of Income Tax Assessment Procedure**

S. No.	Reasons	Point Received				Percentage	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Maintain adhoc books of account.	17	8	15	40	9.20%	5
b.	Tax payer don't maintain their book of a/c	34	12	26	72	16.55%	4
c.	Lack of adequate information about income assessment	70	22	41	133	30.57%	1
d.	Taxpayer wants to escape for paying tax	43	18	23	84	19.31%	3
e.	Lack of proper recording system in tax administration	61	15	30	106	24.37%	2
	Total				435	100.0	

Source: Opinion Survey, 2009

On the basis of the study, the most important reasons according to priority for ineffectiveness of income tax assessment procedure are shown below:

1. Lack of adequate information about income assessment;
2. Lack of proper recording system in tax administration;
3. Taxpayer wants to escape for paying tax;
4. Taxpayer does not maintain their books of account.
5. Maintain ad hock books of account.

4.2.5 Suitability of Self-Tax Assessment System in Nepal

Current Income Tax Act has fully adopted self-tax assessment system, it is supposed to be assessed tax on due date until such time as the income return is to be filed although a person fails to file the return. To know the view about the

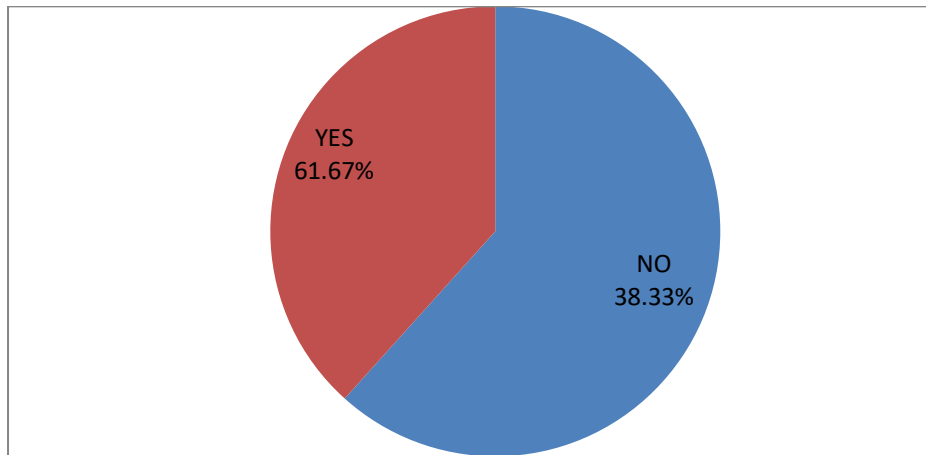
suitability of self-tax assessment system in Nepal, the question, “Do you think self-tax assessment system is suitable in Nepal?” was asked to respondents. The responses are presented as below:

Table 4.19
Suitability of Self-Tax Assessment System

Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Experts	15	75	5	25	20	100
Tax Payers	10	50	10	50	20	100
Tax Administrations	12	60	8	40	20	100
Total	37	61.67	27	38.33	60	100

Source: Opinion Survey, 2009

Figure 4.13
Suitability of Self Tax Assessment System



Seventy five percent of tax expert, fifty percent of taxpayer and sixty percent of tax administrator have accepted that the self-tax assessment system is suitable in Nepal. In aggregate more than sixty one percent respondent approved self-tax assessment system is suitable in Nepal. So, it can be concluded that self-tax assessment is suitable in the context of Nepal.

An additional question was asked to those respondents, who had replied self-tax assessment is not suitable in Nepal, to know the reasons for unsuitability. The question was, “If no, what are the reasons?”. The responses received from the respondents are tabulated as below:

Table 4.20
Reasons of unsuitable of Self-tax Assessment System in Nepal

S. No.	Reasons	Point Received				Percentage	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Lack of proper accounting system	15	33	12	60	26.09%	2
b.	Lack of knowledge about self-tax assessment procedure	20	38	30	88	38.26%	1
c.	Lack of correct auditing	8	21	26	55	23.91%	3
d.	Lack of seminar, meeting and conference about self tax assessment.	7	8	12	27	11.74%	4
Total					230	100	

Source: Opinion Survey, 2009

Reasons for unsuitability of self-assessment according to preference

1. Lack of knowledge about self-tax assessment procedure;
2. Lack of proper accounting system;
3. Lack of correct auditing;
4. Lack of seminar, meeting and conference about self tax assessment.

From the above table, it is observed that the reasons of unsuitability of self-tax assessment in Nepal are lack of knowledge about self-tax assessment procedure, lack of proper accounting system, Lack of seminar, meeting and conference about self tax assessment and lack of correct auditing system.

4.2.6 Self-Tax Assessment Provision in the new Income Tax Act, 2002

In 1977, the method of self-tax assessment provision was introduced at first time in Nepal. At present time, Act has fully adopted self-tax assessment method, various provision for self-tax assessment have been introduced. To know if there is any shortcoming in the provision regarding self-tax assessment method, a question, “Do you think that provision given for self-tax assessment in the new Income Tax Act is sufficient?” was asked. The responses as provide by respondents are tabulated as below:

Table 4.21

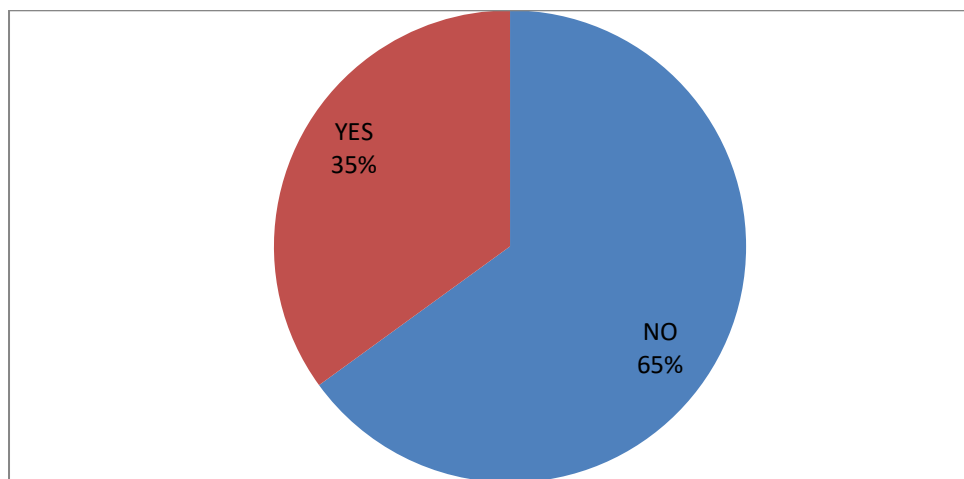
Sufficiency of Self-Tax Assessment Provision in Income Tax Act

Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Experts	4	20	16	80	20	100
Tax Payers	9	45	11	55	20	100
Tax Administrations	8	40	12	60	20	100
Total	21	35	39	65	60	100

Source: Opinion Survey, 2009

Figure 4.14

Sufficiency of Self Tax Assessment Provision in Income Tax Act



Sixty five percent respondents are in favor that the provision for self-tax assessment in the new Income Tax Act is not sufficient.

The respondents who said the provision given for self-tax assessment in act is not sufficient were asked an additional question to know that how it can be made sufficient. The responses as provided by respondents are tabulated as below:

Table 4.22
Improvement Regarding Self-Assessment Provision

S. No.	reasons	Point Received				Percentage	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Income tax rules and regulation related to self-tax assessment should be made simple	35	29	34	98	41.88%	1
b.	Encourage the assessee for self-assessment by provided incentives	42	12	26	80	34.19%	2
c.	Assessment of tax should be made in time	19	25	12	56	23.93%	3
Total					234	100	

Source: Opinion Survey, 2009

For the improvement regarding self-tax assessment provision in Income Tax Act, following points are mentioned according to preference.

1. Income tax rules and regulations related to self-assessment should be made simple
2. Encourage assesses for self-tax assessment by providing incentives
3. Assessment of tax should be made in time.

From the above analysis, it is concluded that the provision for self-tax assessment should be made simple. A clear-cut rule can be communicated to the taxpayer easily and they felt their duty to submit the income statement of their transaction. Further more, incentives should be provided to those taxpayers who submit file return in time.

4.2.7 Application of Jeopardy Assessment

Jeopardy assessment is carried out prior to the date of filling an income return in some doubtful condition. Cent percent respondents knew about the jeopardy assessment. To know whether Jeopardy assessment has been applied satisfactorily in income assessment, a question, “In your opinion has Jeopardy assessment been applied satisfactory in income tax assessment?” was asked. Their responses are tabulated as below:

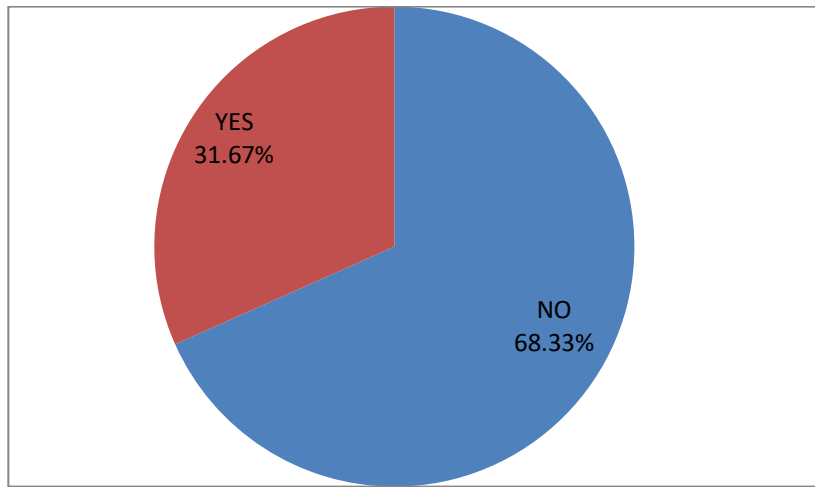
Table 4.23
Knowledge about Jeopardy Assessment

Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Experts	4	20	16	80	20	100
Tax Payers	5	25	15	75	20	100
Tax Administrations	8	40	12	60	20	100
Total	19	31.67	43	68.33	60	100

Source: Opinion Survey, 2009

Figure 4.15

Knowledge about Jeopardy Assessment Method



From the above table, it is clear that Jeopardy assessment has not applied satisfactory in income tax assessment in Nepal.

In order to know the major causes of unsatisfactory, next question was asked as “What are the major causes, which makes Jeopardy assessment unsatisfactory?”.

The responses given by the respondents are tabulated as below:

Table 4.24
Major Causes that make Jeopardy Assessment Unsatisfactory

S. N.	Reasons	Point Received				Percentage	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Lack of information on about tax payer's to tax officers	60	47	44	151	35.12%	1
b.	Lack of clear provision in income tax laws	18	11	38	67	15.58%	4
c.	Unwillingness of tax officers	32	34	25	91	21.16%	3
d.	Tendency of tax officer toward high corruption	50	58	13	121	28.14%	2
Total					430	100	

Source: Opinion Survey, 2009

The major causes that make Jeopardy assessment unsatisfactory according to preference of respondents are as follows:

1. Lack of information about tax payer to tax officer;
2. Tendency of tax officers towards high corruption;
3. Unwillingness of tax officers;
4. Lack of clear provisions in income tax laws;

It can be concluded that lack of information about taxpayers to tax officers and Tendency of tax officers towards high corruption are basic reasons to unsatisfactory of Jeopardy assessment.

4.2.8 Application of Amended Assessment Method

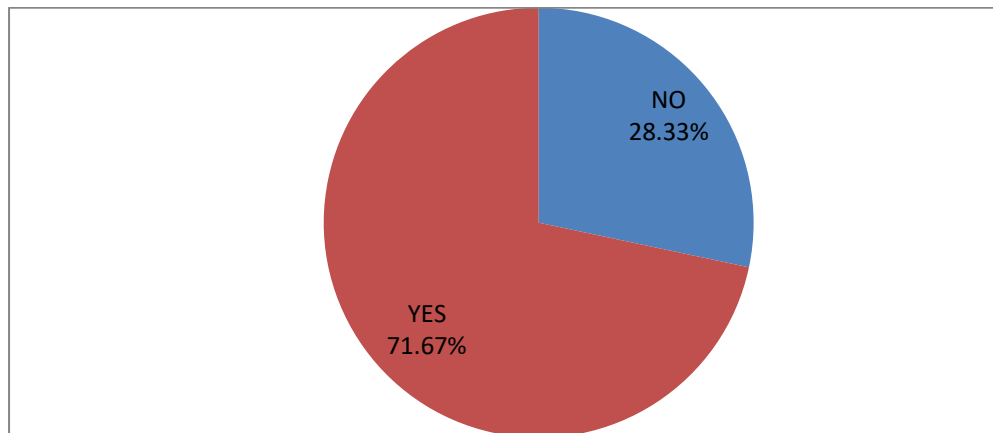
In the earlier, when self-assessment method has not fully adopted, best judgment method was widely used. To know amended assessment is widely used or not after enforcement of new Income Tax Act, question, “Has amended assessment been widely applied in income tax assessment in Nepal?” was asked. The responses provided by the respondents are presented as below:

Table 4.25
Application of Amended Assessment Method

Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Experts	15	75	5	25	20	100
Tax Payers	11	55	9	45	20	100
Tax Administrations	17	85	3	15	20	100
Total	43	71.67	17	28.33	60	100

Source: Opinion Survey, 2009

Figure 4.16
Application Amended Assessment Method



28.33 percent respondents were not in favor that the amended assessment method has been widely applied in income tax assessment in Nepal. 71.67 percent of

respondents were in favor and they have asked to question, in which circumstance it has been frequently applied. The response of respondents is presented in table 4.26.

Table 4.26
Circumstances in which Amended Assessment has been Applied Frequently

S. No.	Reasons	Point Received				Percentage	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Incase where the tax payer do not maintain regular account	38	17	38	93	36.05%	2
b.	Incase where the tax payer submit false particulars	32	28	42	102	39.53%	1
c.	Incase where the maintain account can't be accepted as valid.	20	21	22	63	24.42%	3
Total					258	100	

Source: Opinion Survey, 2009

From the above table no 4.26, it is clear that 39.53 percent respondent approved that amended tax assessment has been applied frequently in case where the taxpayers submit false particulars. 36.05 percent respondent approved that amended assessment has been applied frequently incase where the taxpayer do not maintain regular account.

4.2.9 Problems on Income Tax Assessment Procedure in Nepal

To know the problems existing on income tax assessment procedure in Nepal, the respondents were requested to rank various problems form 1 to 5 according to priority. A question asked, “What are the problems on tax assessment procedures in Nepal?” The responses received from the respondents are tabulated as below:

Table 4.27**Problems on Income Tax Assessment Procedure in Nepal**

S.N.	Reasons	Point Received				%	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Maintenance of adhock book of account	80	34	48	162	18.00	3
b.	Lack of adequate information about the assessment	98	96	93	287	31.89	1
c.	Assesses do not maintain books of account	51	44	71	166	18.44	2
d.	Assesses want to escape form to pay tax	41	42	62	145	16.11	4
e.	Lack of proper recording system in tax offices	30	84	26	140	15.56	5
Total					900	100	

Source: Opinion Survey, 2009

The problem on Income tax assessment procedure in Nepal according to the scale of preference of the respondents are as follows;

1. Lack of adequate information about the assessment
2. Assesses do not maintain books of account
3. Maintenance of adhock book of account
4. Assesses want to escape form to pay tax
5. Lack of proper recording system in tax offices

To know the relationship between the opinions of tax administrator and tax-payer are related, correlation coefficient was used. But the views of tax expert are kept payer in constant.

Hypothesis:

There is no significant relationship between the opinion of taxpayer and tax administrator with respect to the problems of income tax assessment procedure in Nepal.

Calculation correlation by formula,

$$R = 1 - \frac{6 \sum d^2}{n(n^2 - 1)}$$

$$P_r = 0.6745 \frac{1 - r^2}{\sqrt{n}}$$

Let, variable X and Y denotes of tax payers and tax administrator respectively.

S.N	Factors	Total points (X)	Rank R ¹	Total Points (Y)	Rank R ²	Difference (R ¹ - R ²)	Square of Difference (R ¹ - R ²)
a.	Maintenance of adhoc book of a/c	34	5	48	4	1	1
b.	Lack of adequate information about the assessment	96	1	93	1	0	0
c.	Assesses do not maintain books of a/c	44	3	71	2	1	1
d.	Assesses want to escape form to pay tax	42	4	62	3	1	1
e.	Lack of proper recording system in tax offices	84	2	26	5	-3	9
Total							∑d² = 12

Source: Table 4.27

Substituting the value we have,

$$R = 1 - \frac{6(12)}{5(5^2 - 1)}$$

$$= 0.40$$

$$P_r = 0.6745 \frac{1-0.40^2}{\sqrt{5}}$$

$$= 0.253$$

Here, r is greater than P_r , the relation is not significant because to be significant relationship R should be 6 times greater than P_r . However, the value of R is moderate, and there exist some relationship between the view of taxpayers and tax administrator in regarding problem of income tax assessment procedure in Nepal. So, null hypothesis is rejected. It means that the problems of income tax assessment procedure in Nepal are same for the group of respondents.

4.2.10 Attitude towards the Time Limit for the File Return

According to Income Tax Act 2058, every taxpayer should file at the place prescribed by the Department a return of income not late than 3 months after the end of each income year. To know the respondent opinion about the time limit to be given for the file return after passing the income year, question, “In your opinion what should be time limit to be given for the file return after passing the income year?” was asked. The responses are tabulated as below:

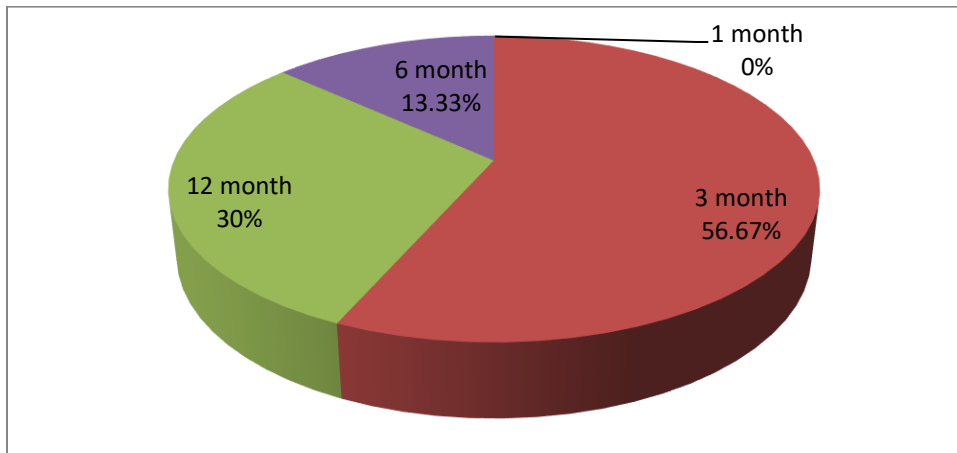
Table 4.28
Time Limit for the File Return

S.N.	Time	Response				Percentage	
		Tax Experts	Tax Payers	Tax Adms.	Total.		
a.	1 Month	-	-	-	-	0	
b.	3 Months	14	5	15	34	56.67	
c.	6 Months	4	10	4	18	30	
d.	1 Year	2	5	1	8	13.33	
		Total				60	100

Source: Opinion Survey, 2009

Figure 4.17

Time Limit for the file return



From the above table, 56.67 percent respondent approved that 3 month time limit should be given for the file return after passing the income year. However Fifty percent of respondents from Tax payer are in favor of extending the file return after passing the income year for six month. From the survey result, it can be concluded that time limit is as per our income tax act.

4.2.11 Attitude towards Problem in Paying Income Tax

To know the problems faced by the taxpayers while paying income tax, the respondents were requested to rank their choice from 1 to 5 according to their preference. For this purpose the question was asked, “In your opinion what types of problems are facing by the taxpayers while paying Income Tax?” The respondents responses are presented below;

Table 4.29
Problem in Paying Income Tax

S. N.	Reasons	Point Received				%	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Consuming unnecessary time	45	94	91	230	25.56	1
b.	Expectation of illegal incentives by tax personnel	33	30	31	94	10.44	5
c.	Vague provision in income tax laws	61	68	78	207	23.00	2
d.	Lengthy process	75	28	67	170	18.89	4
e.	Lack of co-operation by tax administrator	86	80	33	199	22.11	3
Total					900	100	

Source: Opinion Survey, 2009

From the above table the major problems faced by the taxpayer while paying income tax ranked in order of preference of the respondents are as follows.

1. Consuming unnecessary time;
2. Vague provision in income tax laws;
3. Lack of co-operation by tax administrator;
4. Lengthy Process;
5. Expectations of illegal incentives to the personnel;

To know whether the opinion of tax administrator and taxpayer are related or not, t rank correlation coefficient was used. But the views to tax experts are kept in constant.

Hypothesis

There is no significant relationship between the views of tax administrator and taxpayer with respects to problems faced by the taxpayer while paying tax.

Calculating correlation by formula,

$$R = 1 - \frac{6 \sum d^2}{n(n^2 - 1)}$$

$$p_r = 0.6745 \frac{1 - r^2}{\sqrt{n}}$$

Let, variable X and Y denotes view of taxpayers and tax administrator respectively.

Table 4.30
Calculation of Correlation Coefficient

S.N.	Problems	Total points (X)	Rank R ¹	Total Points (Y)	Rank R ²	Difference (R ¹ – R ²)	Square of Difference (R ¹ – R ²)
a.	Consuming unnecessary time	94	1	91	1	0	0
b.	Expectation of illegal incentives	30	4	31	5	-1	1
c.	Vague provisions in income tax laws	68	3	78	2	1	1
d.	Lengthy process	28	5	67	3	2	4
e.	Lack of co-operation by tax administrator	80	2	33	4	-2	4
Total							∑d² = 10

Source: Table 4.29

$$R = 1 - \frac{6(10)}{5(5^2 - 1)}$$

$$= 0.50$$

$$P_r = 0.6745 \frac{1 - 0.50^2}{\sqrt{5}}$$
$$= 0.226$$

Here, r is greater than P_r , relation is not significant because to be significant r should be 6 times greater than P_r . However, the value of r is positive, and there is some relationship between views of taxpayers and tax administrators. So, null hypothesis is rejected. It can be conclude that the opinion of taxpayers and tax administrators regarding the problem faced by taxpayers while paying tax is not significantly difference.

4.2.12 Tax Paying Habits of Taxpayer's Compliance

The respondents were requested to rank suggestions according to Preference for the important of tax paying habit or taxpayer's compliance. For this purpose the question was asked, "What is your suggestion to improve tax paying habit or taxpayer's compliance in Nepalese people?". The respondent's responses are presented below:

Table 4.31**Suggestions to Improve Tax Paying Habit/ Taxpayer's Compliance**

S. N.	Suggestions	Point Received				%	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Simplification of tax assessment procedure	104	112	94	310	24.60	1
b.	Tax education to taxpayer	102	81	104	287	22.78	2
c.	Simplification on tax law and rules	74	86	75	235	18.65	3
d.	Incentives to regular taxpayer	74	65	61	200	15.87	4
e.	Better public relation by tax officers	41	43	38	122	9.68	5
f.	Heavy fine and penalties to defective taxpayer	25	33	48	106	8.41	6
Total					1260	100	

Source: Opinion Survey, 2009

From the above table, it is clear that the suggestions to improve tax paying habit or taxpayer's compliance according to the preferences are as follows:

1. Simplification of tax assessment procedure;
2. Tax education to taxpayer;
3. Simplification on tax law and rules;
4. Incentives to regular taxpayer;
5. Better public relation by tax officers s;
6. Heavy fine and penalties to defective taxpayer;

To know whether the opinion of tax administrator and taxpayer are related to not, we can test rank correlation coefficient. But the views of tax experts are kept in constant.

Hypothesis

There is no significant relationship between the views of tax administrator and taxpayer with respect to suggestions to improve tax paying habit or taxpayer's compliance in Nepalese people.

Calculating correlation by formula,

$$R = 1 - \frac{6 \sum d^2}{n(n^2 - 1)}$$

$$p_r = 0.6745 \frac{1 - r^2}{\sqrt{n}}$$

Lets, variable X and Y denotes view of taxpayers and tax administrator respectively.

Table 4.32
Calculation of Correlation Coefficient

S.N.	Problems	Total points (X)	Rank R ¹	Total Points (Y)	Rank R ²	Difference (R ¹ - R ²)	Square of Difference (R ¹ - R ²)
a.	Simplification of tax assessment procedure	112	1	94	2	-1	1
b.	Tax education to taxpayer	81	3	104	1	2	4
c.	Simplification to tax law and rules	86	2	75	3	-1	1
d.	Incentives to regular taxpayer	65	4	61	4	0	0
e.	Better public relation by tax officer	43	5	38	6	-1	1
f.	Heavy fine and penalties to defective taxpayers	33	6	48	5	1	1
Total							∑d² = 8

Source: Table 4.31

$$R = 1 - \frac{6(8)}{5(5^2 - 1)}$$

$$= 0.60$$

$$P_r = 0.6745 \frac{1 - 0.60^2}{\sqrt{5}}$$

$$= 0.193$$

Here, r is greater than P_r . It is 3.10 times greater. The relation is not significant because to be significant relationship r should be 6 times greater than P_r . However, there exists some relationship between the views of taxpayer and tax administrator. So, null hypothesis is rejected. Therefore, we can conclude that the opinion of taxpayers and tax administrators regarding the suggestion to improve tax paying habit or taxpayer's compliance in Nepalese people are same.

4.2.13 Effectiveness of Tax Administration in Tax Assessment

Tax administration is not considered effective. So to know whether tax administration is effective or not, question, "Do you think that tax administration in Nepal is effective?" was asked to respondents. The respondents' opinions were found negative. The following table represents their responses.

Table 4.33

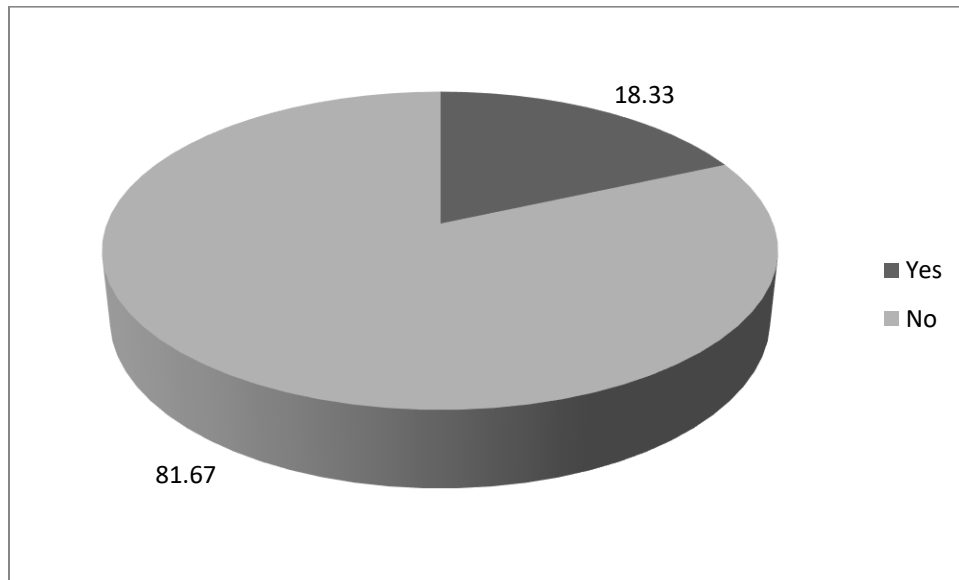
Effectiveness of Tax Administration in Tax Assessment

Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Experts	1	5	19	95	20	100
Tax Payers	3	15	17	85	20	100
Tax Administrations	7	35	13	65	20	100
Total	11	18.33	49	81.67	60	100

Source: Opinion Survey, 2009

Figure 4.18

Effectiveness of Tax Administration in Tax Assessment



From the table 4.33, it is observed that 81.67 percent of the respondents accepted that tax administration in Nepal is ineffective. Only 18.33 percent respondent approve that tax administration is effective. From this opinion result, it is clear that tax administration in Nepal in application of tax assessment is not effective.

The respondents were asked an additional question as, what are the possible causes for ineffectiveness of tax administration. The respondents were required to rank the reason according to the priority.

Table 4.34**Reasons for Ineffective Tax Administration in Tax Assessment**

S. N.	Reasons	Point Received				Percentage	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Lack of knowledge about tax assessment procedure	35	38	22	95	12.93%	5
b.	Lack of meaningful taxpayers information	85	51	49	185	25.17%	2
c.	Lack of proper incentives to tax personnel	85	71	32	188	25.58%	1
d.	Lack of co-ordination within department	55	64	34	153	20.82%	3
e.	Unnecessary outside pressure	25	31	58	114	15.51%	4
	Total				735	100	

Source: Opinion Survey, 2009

The most possible reasons for ineffectiveness of tax administration in case of tax assessment stated by the respondents according to the scale of preference are as follows:

1. Lack of proper incentives to tax personnel;
2. Lack of meaningful taxpayer's information;
3. Lack of co-ordination within department;
4. Unnecessary outside pressure
5. Lack of knowledge about tax assessment procedure;

The main cause indicated by the respondents about ineffective tax administration in case of tax assessment is Lack of proper incentives to tax personnel . The other reasons are Lack of meaningful taxpayer's information, lack of co-ordination

within Department, unnecessary outside pressure and lack of knowledge about tax assessment procedure. Because of the above reason, the tax administration in Nepal is ineffective.

The respondents were also asked an additional question as how can it be improved for effectiveness of tax administration. The respondents were required to rank the reason according to the priority.

Table 4.35

Important Factors for Improvement of Income Tax Administration in case of Tax Assessment Procedure

S. N.	Factors	Point Received				%	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Effective information system	58	23	24	105	16.28	5
b.	Improving assessment procedure	34	54	31	119	18.45	4
c.	Controlling the negligence of taxpayer's	31	44	46	121	18.76	3
d.	Effective reward and punishment	48	51	50	149	23.10	2
e.	Discouraging corruption practices	24	83	44	151	23.41	1
Total					645	100	

Source: Opinion Survey, 2009

The most important factors for improvement of income tax administration in application of tax assessment procedure ranked according to scale of preference by respondent are as follows.

1. Discouraging corruption practices;
2. Effective reward and punishment system;
3. Controlling the negligence of taxpayer's;
4. Improving assessment procedure;
5. Effective information system;

Suggestion for Improving Tax Administration in case of Assessment Procedure

Another open question was asked to get suggestions for improving income tax assessment procedure. The question was, "Do you have any other suggestions form improving income tax assessment procedure under Income Tax Act 2002, if yes please specify,". Some respondents have given some suggestion, which are listed as below.

1. Tax assessment duration should be decreased.
2. Nepal accounting standards should be fully implemented.
3. Low tax rate & high coverage should be applied.
4. Procedure should be made more simple and short.
5. Tax refund procedure should be made simplified.
6. Effective implementation of tax rules and laws.
7. Clarity and wide interpretation are required on disputed expenses head.
8. Discretion power of Tax officer should be reduced.
9. Improve taxpayer's education and control corruption.
10. Effective monitoring & supervision should be done.

It can be concluded that clear act, rules and suggestions, and simple procedure is most important factor for the improvement of tax assessment procedure in Nepal.

4.3 Major Findings

4.3.1 Major Finding from secondary source of data

1. Income tax has been considered as a suitable means of raising government revenue and mobilizing internal resources. It may enhance the revenue of government to meet the development expenditure of the government. To develop the economic condition of Nepalese people, promote distributive justice, minimize regional disparity, and to cure resource gap problems, income tax is a crucial factor. To meet the government expenditure, achieve the goal of national development not only that, to decrease poverty and illiteracy also has equally important role of income tax.
2. Government revenue is the composition of external revenue and internal revenue. There is dominant share of tax revenue in Nepalese government revenue. But the contribution of tax revenue shows the fluctuating trend as it had contributed by 73.1 percent the least ever in fiscal year 1991/92 on the total and 81.09 percent the highest ever in 2006/07.
3. There is serious and growing financial gap which creates problem in Nepal, it seems to be never ending problem in Nepalese economy. The resource gap in the fiscal year 1987/88 was RS. 6754.6 million, which increased to Rs. 45,892.3 million in fiscal year 2006/07. There has been remarkable increased. The main cause of resource gap is lack of mobilization of other domestic resources, government expenditure is increasing at a faster rate than the increase in revenue, raising inflation rate, increases the burden of debt serving, defective government expenditure program and other political in performance, less commitment, and weak management functions.
4. Nepalese tax revenue is the composition of direct and indirect tax. There is dominant role of indirect tax revenue in Nepal. The contribution of direct tax and indirect tax on total revenue is 17.6 percent and 82.4 percent respectively in 1986/87, which becomes 26.7 percent and 73.3 percent in 2006/07. The

trend shows that the share of direct tax is increasing but still the indirect tax has dominant role.

5. Direct tax revenue is the composition of Land tax, House & land registration, Income tax, Tax on property and other taxes. The contribution of Income tax, Property tax and other taxes on direct tax is 63.68 percent in 1986/87 and that for 2006/07 in 88.13 percent.
6. Nepalese income tax revenue is the composition of Business tax (from Public enterprise, Semi-public enterprises, Private corporate bodies, and individual), remuneration, and tax on interest. Income tax of Rs 15034 million was collected in 2006/07. The share of individual income tax is approximately half of total income tax revenue before the fiscal year 1994/95. However, there is cyclic fluctuation in the period of 1988/89 to 1993/94; the share of individual income tax has remained 67.92 percent to 61.67 percent, since the year 1994/95 the ratio decreases down to range forty. In 2006/07, the ratio is 34.81 percent.
7. The contributions of income tax on GDP, Total revenue, Total tax revenue, and Direct tax revenue in the year 1987/88 are 0.81 percent, 8.11 percent, 10.36 percent, and 59.01 percent respectively, which has increased to 2.23 percent, 17.14 percent, 21.14 percent, and 79.21 percent respectively in the year 2006/07.
8. Income tax is an effective tool to reduce the gap between rich and poor. Wide spread evasion of tax, small number of tax payer, defective government expenditure programs, poor tax paying capacity, lack of tax consciousness are the main causes of ineffectiveness of income tax in reducing the gap between rich and poor.
9. Income tax exemption limit in Nepal has been changed on the basis of time and income condition. The current exemption limit is Rs.125,000 for individuals and Rs.140,000 for married couple and family. The exemption limit is not provided to partnership firms, corporation and non-residents.

10. Personal income tax rate is 5 to 50 percent with 7 slabs in 1980/81, but at present it is reduced to 2 slabs. In the same way, corporate tax rate is 10 to 55 percent with 8 slabs in 1980/81, but at presents corporate taxpayers are taxed at flat rate. Income tax rate is 15 percent and 25 percent for personal income over exemption limit, 30 percent for bank and finance companies, 25 percent of other corporate taxpayers, and 20 percent for special industry.
11. The number of income taxpayer is very few in Nepal but it is slowly and gradually increasing. Numbers of registered income taxpayers in Nepal at the fiscal year 2006/07 were 258818.
12. If we consider the registration of returns on income for the fiscal year 2006/07, it is in total 105850, out of which 12371 is brought down form the previous year and total number of submission in this year is 93479.
13. Assessment of the return on income is one of the important parts of income administration. Out of which 134788 returns filed, 6048 is made for assessment in the fiscal year 2006/07 and 128740 is carried forward to the next year.

4.3.2 Major finding from Empirical Analysis

An opinion survey has been conducted in order to find out the effectiveness of self assessment of income tax and provision and some other aspects of income tax. From the opinion survey of various respondent i.e., Tax expert, Taxpayer and Tax administrator the following finding have been drawn.

1. Public awareness program is necessary to increase tax consciousness and raising the government revenue.
2. The present level of Tax revenue collection of the government is not satisfactory. Increasing habit of tax evasion, mass poverty and low-income level, defective income tax administration, inappropriate rate and

- exemption limit, and defective income tax Act are the major reasons for the low contribution of income tax to national revenue.
3. The income tax assessment procedure also seems ineffective. Lack of adequate information about income assessment, lack of proper recording system in tax administration, taxpayer want to escape paying tax , non maintenance of books of account by the taxpayer are considered as the major problems in income tax assessment procedure.
 4. Self-tax assessment is a suitable method while assessing the income tax in Nepal. Lack of knowledge about self-assessment procedure, Lack of proper accounting system, and lack of correct auditing system are the weakness of self-tax assessment system. Income tax Act 2002, all the return files is treated as self-assessment. But in previous Act 1974, the best judgment, committee assessment were most popular, however the Act 1974 had made provision for the self-assessment since the early 1990s. The provisions were limited in name than in practice because of lack of proper preparation. The system of self-tax assessment may also reduce the workload of the tax personnel and helps taxpayer to understand their duties.
 5. The provision given for self-assessment in Income tax act is complex. The provision of income tax act, rules with regards to self-assessment should be made simple, encourage the taxpayer for self-tax assessment by providing incentives.
 6. Application of Jeopardy Assessment is not satisfactory. The major causes which made jeopardy assessment unsatisfactory are lack of information about taxpayer to tax officer, tendency of tax officers towards high corruption, unwillingness of tax officers, and lack of clear provision in income tax laws.
 7. Application of Amend Assessment has been applied satisfactory.

8. Lack of adequate information about the assessment, Assesses do not maintain books of account,
9. Vague provision in Income Tax Act, lengthy process, consuming unnecessary time, expectations of illegal incentives by the tax personnel and lack of co-ordination by tax administrator are the major problems facing by the taxpayer while paying tax.
10. Tax paying habit and taxpayers compliance in Nepalese people is poor basically due to lack of simplification of tax law and rules, lengthy process of tax assessment, lack of tax education to taxpayers, lack of incentives to regular taxpayers and due to lack of heavy fine & penalties to defective taxpayer.
11. Income tax administration in Nepal is ineffective for tax assessment. Main cause of ineffective tax administration in application of tax assessment are lack of meaningful tax payer's information, lack of proper incentives to tax personnel, lack of knowledge about tax assessment procedure, lack of co-ordination with in department and unnecessary outside pressure.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The government requires sufficient funds to meet the development expenditure of the government, to develop the economic condition, promote distributive justice, minimize regional disparity, and to cure resource gap problems. Income tax is a crucial factor to meet the government expenditure, achieve the goal of national development not only that, to decrease poverty and illiteracy also has equally important role of income tax.

Government revenue is the composition of external revenue and internal revenue. There is dominant share of tax revenue in Nepalese government revenue. There is also serious and growing financial gap which creates problem in Nepal, it seems to be never ending problem in Nepalese economy. The resource gap in the fiscal year 1987/88 was RS.6754.6 million, which increased to Rs. 45,892.3 million in fiscal year 2006/07. There has been remarkable increased. The main cause of resource gap is lack of mobilization of other domestic resources, government expenditure is increasing at a faster rate than the increase in revenue, raising inflation rate, increases the burden of debt serving, defective government expenditure program and other political in performance, less commitment, and weak management functions.

Nepalese income tax revenue is the composition of Business tax (from Public enterprise, Semi-public enterprises, Private corporate bodies, and individual), remuneration, and tax on interest. Income tax of Rs 15034 million was collected in 2006/07. The contributions of income tax on GDP, Total revenue, Total tax revenue, and Direct tax revenue in the year 1987/88 are 0.81 percent, 8.11 percent,

10.36 percent, and 59.01 percent respectively, which has increased to 2.23 percent, 17.14 percent, 21.14 percent, and 79.21 percent respectively in the year 2006/07. Income tax is an effective tool to reduce the gap between rich and poor. Wide spread evasion of tax, small number of tax payer, defective government expenditure programs, poor tax paying capacity, lack of tax consciousness are the main causes of ineffectiveness of income tax in reducing the gap between rich and poor.

The study has been designed to study the effectiveness of self assessment of income tax under income tax 2002. To fulfill this, the main objective of this study are; to make review of legal provision relating self assessment of income tax, to analyze the contribution of income tax to national revenue, to analyze the view of tax payers, tax experts and tax officers about the effectiveness self assessment of income tax, to examine the reason for the poor tax morality and tax payers compliance, and recommend possible measures.

Income tax act 2002 has classified the sources of income for the purpose of assessment under the three heads i.e. income from business, income from employment and income from investment. According to section 96 of income tax act 2002, every tax payers should file at the place prescribed by the department, a return of income tax not later than 3 months after the end of each financial year. Income tax assessment means the determination of the amount of income tax imposed on the tax payers for a specified period. Self assessment of income tax is one of the procedure of income tax assessments which is highly applied in all countries nowadays. Public awareness program is necessary to increase tax consciousness and raising the government revenue. The present level of Tax revenue collection of the government is not satisfactory. Increasing habit of tax evasion, mass poverty and low-income level, defective income tax administration, inappropriate rate and exemption limit, and defective income tax Act are the major

reasons for the low contribution of income tax to national revenue. The income tax assessment procedure also seems ineffective. Lack of adequate information about income assessment, lack of proper recording system in tax administration, taxpayer want to escape paying tax , non maintenance of books of account by the taxpayer are considered as the major problems in income tax assessment procedure.

Self-tax assessment is a suitable method while assessing the income tax in Nepal. Lack of knowledge about self-assessment procedure, Lack of proper accounting system, and lack of correct auditing system are the weakness of self-tax assessment system. Income tax Act 2002, all the return files is treated as self-assessment. But in previous Act 1974, the best judgment, committee assessment were most popular, however the Act 1974 had made provision for the self-assessment since the early 1990s. The provisions were limited in name than in practice because of lack of proper preparation. The system of self-tax assessment may also reduce the workload of the tax personnel and helps taxpayer to understand their duties.

The provision given for self-assessment in Income tax act is complex. The provision of income tax act, rules with regards to self-assessment should be made simple, encourage the taxpayer for self-tax assessment by providing incentives. Application of Jeopardy Assessment is not satisfactory. The major causes which made jeopardy assessment unsatisfactory are lack of information about taxpayer to tax officer, tendency of tax officers towards high corruption, unwillingness of tax officers, and lack of clear provision in income tax laws. Application of Amend Assessment has been applied satisfactory. Lack of adequate information about the assessment, Assesses do not maintain books of account, Vague provision in Income Tax Act, lengthy process, consuming unnecessary time, expectations of

illegal incentives by the tax personnel and lack of co-ordination by tax administrator are the major problems facing by the taxpayer while paying tax.

Income tax administration in Nepal is ineffective for tax assessment. Main cause of ineffective tax administration in application of tax assessment are lack of meaningful tax payer's information, lack of proper incentives to tax personnel, lack of knowledge about tax assessment procedure, lack of co-ordination with in department and unnecessary outside pressure.

5.2 Conclusion

Nepal is one of the least developed countries among the developing countries of the world. She has facing serious financial problem in her economic development process. Nepal cannot successfully and properly tear a curtain built from massive poverty, hunger, diseases, unemployment and heavy dependence on agriculture, lack of adequate industries, low-income level, and social-political and geographical constraints. Yet Nepalese economy is suffering from ineffective and effortless plan, program and policy of development and is also fighting against whatever bottlenecks identified before the starting of planned period.

A lot of funds are required to meet the additional financial requirements for the development activities of the country. Nepal has been suffering from capital shortage to accelerate the economic growth. Nepal has been heavily relying on foreign loans and grants. Internal resources are preferable for sustainable economic development. But Nepal has been unable for proper mobilization of internal resources. The fiscal deficit of Nepal has been increasing.

Taxes are the lifeblood of every government but it cannot be over emphasized that the blood is taken form the arteries of the taxpayers and therefore the transfusion has to be accomplished in accordance with the justice and fair play. Tax revenue has played a significant role in mobilization of internal resources.

Income tax plays the major role in collection of government revenue. Income tax is not levied only with the purpose of reducing the gap between rich and poor. It is thus levied with the purpose of equal distribution of income. In this sense it will help to create the people welfare, nation and egalitarian society. Simple and clear tax law, sound, fair and effective tax administration, tax consciousness on general public, appropriate income tax policies, adoption of proper reasonable methods for assessment are fundamental requirements of effective income tax system.

Income tax assessment plays a vital role in the collection of income tax. Proper, fair and reasonable system and method of income tax assessment do not help only to increase the revenue but certainly helps to minimize the economic gap between different levels of people in the society.

In Nepal, income tax appeared only in 1959/60 in the form of business profit and remuneration tax. The Income Tax Act introduced a comprehensive income tax, 1962, which was replaced by the Income Tax Act 1974. Income Tax Act 2002, also replaced this Act. The Income Tax Act 2002 and Income Tax Rules 2002 are the existing laws relating to income tax administration.

The effectiveness of income tax assessment entirely depends upon implementation of provision, which is the major responsibility of income tax administration. Income tax assessment procedure is not effective and various problems existed in the income tax assessment such as: lack of adequate information about the assessment, maintain adhoc books of account, assesses do not maintain books of account, lack of proper recording system in tax offices and assesses want to escape from to pay tax.

Presently, income tax assessment is performed by self-tax assessment; jeopardy assessment & amended assessment. The self-tax assessment system is widely

applied in income tax assessment. It is blamed that the law is complicated and vague. There is need of efforts for simplification of the law. If the tax law fails to be par with the international tax norms, it will not be able to attract the foreign investment. The tax law should be in coherence with the economic situation of the country. Simplification can be introduced through policy changes, legal changes, structural changes, procedural changes and changes in the mentality.

The strategy to increase income tax revenue should base on widening of tax base and fair and equitable tax administration. The prospects of widening of tax are to bring in mote and mire people under the tax net and bring in more and more unreported and under reported income to the preview of taxation. The number can be increased with the effective tax policy. The identification of unreported and under reported personal income is a complicated process. Through this problem cannot be solve completely but can minimize through effective tax administration.

The revenue collection from income tax is also base upon the income tax assessment procedure followed. Income tax assessment procedure is a significant aspect of the income tax administration. The quality of income tax assessment procedure is highly dependent upon the quality of income tax personnel, taxpayers and tax law and policies. If income tax is fairly assessed the amount of collection may increase and effective, and efficient assessment procedure reduces the corruption and evasion and increase the morality, which assists to generate additional financial resources through income taxes. Provisions in act and language have to be made clear and some reforms in income tax administration are needed to effective income tax assessment.

5.3 Recommendations

On the basis of the above study, the following recommendations are made to improve various aspect of Income Tax.

- Mass Population is out of Tax bracket. Taxation should be increased gradually on long run basis to meet the deficit in budget. For this, the tax base should be widened. The principle of ability to pay should be completely adopted.
- Income tax policy should be formulated according to the economic policy of the country. Income tax policy should be revised timely.
- Income tax act, rules and regulation should be clear and simple for all the taxpayer as well as tax expert and administrators. Following recommendation are made in income tax law.
 - The language of Act should be simple and clear.
 - The income tax assessment procedure and tax collection provision should be
 - The assessment of time limit after the submission of income tax assessment should be reduced.
 - The rate of fine and penalties should be increased for those taxpayers who submit false income statement and who do not submit income statement for tax purpose.
- Tax refund process should be made simple.
- Payment should be made through A/C payee cheque or demand draft. The bearer cheque system should be removed to avoid tax evasion.
- Discretion power of Tax officer should be decreased. Fine & penalty imposed by the judgment of the tax officer as per the rights mentions in sections of Income Tax should be removed. Fine & penalty should be fixed.
- Administration Review should be made separate entity not within IRD. Director General may take the decision based on biasness against the

- appeal by assessee to Inland Revenue Department against the assessment order issued by tax office.
- Best judgment approach largely adopted in amend assessment should be discouraged.
 - The following recommendations are made to increase tax paying habit and increase taxpayer's compliance.
 - Simplification of tax and rules;
 - Simplification of tax assessment procedure;
 - Harassment to tax payers by the means of bribe & other personnel gain should be root out completely.
 - Tax education to all taxpayer including potential taxpayers;
 - Privilege & Prestigious behavior to tax payers;
 - Incentives to regular taxpayer;
 - Heavy fine and penalties to defaulter taxpayer;
 - Tax personnel should be encouraged, punished and transferred on the basis of their work and experience. Regular and effective training system, reward, prize and punishment system should be established for effective personnel management
 - Provision regarding deduction should be simplified. All items of deduction should be clearly defined in the Act.
 - The provision of tax deduction at source and advance payment of tax should be extended to different source of income as far as possible, and expenditure paid without tax deduction at source not be granted for deduction while computing assessable income.
 - A research and intelligence centre should be established in each tax office for proper planning and to collect the information in regard to income tax evaders, potential new taxpayers and non residents who conducted business without registration.

- The administration should pay great attention to bring the income from house land rent, doctors' clinic, consultancy service, tuition, research works into income tax net. In these sectors, income tax has been highly evaded.
- The following suggestions are recommended to increase tax coverage.
 - Maintains up to date of taxpayer's registration. A control register should be kept at the tax department.
 - Fix target to tax office in terms of increasing the number of meaningful taxpayers.
 - Co-ordination should be strengthened with Chamber of Commerce, Public Sector Enterprise, Local Bodies, etc. for location of new taxpayers.
- Capital gain should be calculated after adjusting time value of money (inflationary situation) for the tax purpose.
- The exemption limit must be adjusted in accordance to inflationary situation of the country on the year basis.
- Effective public participation is necessary to minimize the income tax evasion. The continuous effort should be done by tax authority to build the taxpayer's positive attitude towards taxation.
- The following recommendations are made for the improvement of income tax administration in case of income tax assessment.
 - Improving tax assessment procedure;
 - Computerized information system is necessary to keep up to date record of income tax;
 - Controlling taxpayer's negligence while preparing & submitting income statement;
 - Proper tax education should be provided to tax officials as well as tax inspector, and taxpayers regularly.

- Computerized assessment system should be introduced to get fair and transparency;
- Proper co-ordination within tax department;
- Avoidance of unnecessary out side pressure;
- Permanent account number (PAN) for taxpayer;
- A proper and effective audit system is most necessary in order to make self-assessment system successful. The performance of audit is poor in Nepal, in both quantitatively and qualitatively. The taxpayers consider that they are being harassed by tax audits where as the government does not get much revenue as a result of audit. Audit has always being controversial in Nepal. Scientific systems of selection of taxpayers for audit such as on the base of computer generated intelligence may be relevant for Nepal.

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Appendix – A

Cover Letter

Dear Sir,

First of all, I would like to introduce myself as a student of Shanker Dev College, Master in Business Studies (MBS) final year. I am going to prepare a dissertation entitled “Effectiveness Of Self Income Tax Assessment in Nepal under Income Tax Act 2002” to fulfill partial requirement of Master’s Degree in Business Studies of Tribhuvan University of Nepal.

I have sent this questionnaire to spare of your valuable time to provide your valuable suggestion and opinion concerning with income tax system in Nepal (special Income Tax Procedure) which will be very useful and guide me for completing my research work. I would be very much appreciated if you could provide your important time for filling this questionnaire.

I assure that the information you provide me will be kept strictly confidential.

Looking forward to your co-operation and support with many thanks as soon as possible.

Yours Sincerely

Bikram Malla

Appendix – B
Questionnaire

Name:-

Designation:-

Office\ Organisation:-

Occupation:-

Please tick () the Answer of your choice or whenever appropriate put in order of preference from 1 to last number of alternatives. Number 1 for the most important and the last number for the least.

1. Do you think that public awareness program is necessary in Nepal for raising government Revenue?

i. Yes []

No []

2. In your opinion, is contribution of income to national revenue of Nepal satisfactory?

i. Yes []

No []

3. If no what are the major reasons? (Please rank according to the priority (1-

i. Defective of Income Tax Act. []

ii. Mass poverty and low income level. []

iii. Increasing habit of tax evasion. []

iv. Ineffective income tax administration. []

v. Inappropriate rate & exemption limit. []

vi. Any other, please specify..... []

4. Do you think that Income tax assessment procedure in Nepal is effective?

Yes []

No []

If no, what may be the problems?

- i. Maintain adhoc books of account. []
- ii. Taxpayer's do not maintain their books of account. []
- iii. Lack of adequate information about Income Assessment. []
- iv. Taxpayer's want to escape for paying tax. []
- v. Lack of proper recording system in tax. []
- vi. Any other, please specify..... []

5. Do you think that Self Tax Assessment System is suitable in Nepal?

- i. Yes [] No []

If no what are the reason? (Please rank according to the priority 1-5)

- i. Lack of proper accounting system. []
- ii. Lack of knowledge about Self-Tax Assessment Procedure. []
- iii. Lack of correct auditing system. []
- iv. Lack of seminar, meeting and conference about Self-Tax Assessment. []
- v. Any other, please specify.....

6. Do you think that provision given for self-tax assessment in the Income Tax Act is sufficient?

- i. Yes [] No []

If no, how it can be improved?

- i. Income tax rule regards self-assessment should be made simple. []
- ii. Encourage the taxpayers for self-assessment by providing incentives. []
- iii. Assessment of tax should be made in time. []
- iv. Any other, please specify []

7. Do you know about Jeopardy Assessment?

Yes []

No []

8. If yes, jeopardy assessment has been applied satisfactory in income tax assessment?

Yes []

No []

9. If no, what are the major causes, which make it unsatisfactory? (Please rank according to the priority).

- i. Lack of information about tax payer to tax officers. []
- ii. Lack of clear provisions in income tax laws. []
- iii. Unwillingness of tax officers. []
- iv. Tendency of tax officers towards high corruption. []
- v. If any, please specify.....

10. Has amended assessment been widely applied in income tax assessment in Nepal?

Yes []

No []

If yes, in which circumstance has it been frequently applied?

- i. In case where the taxpayers submit false particulars. []
- ii. In case where the taxpayers don't maintain regular account. []
- iii. In case where the maintain account can't be accepted as valid. []
- iv. If any, please specify.....

11. What are the problems an income tax assessment procedure in Nepal?

- i. Maintain adhoc books of account. []
- ii. Lack of adequate information about the tax assessment. []
- iii. Assessors do not maintain books of account. []

- iv. Lack of proper recording system in tax officers. []
- v. If any, please specify..... []

12. In your opinion what should be the time limit to be given for the file return after passing the income year?

- i. 1 month. []
- ii. 3 month. []
- iii. 6 month. []
- iv. 1 year. []
- v. If any, please specify []

13. In your opinion what types of problems are facing by the taxpayers while paying income tax?

- i. Consuming unnecessary time. []
- ii. Expectation illegal incentives by tax personnel. []
- iii. Vague provisions in income tax laws. []
- iv. Lengthy process. []
- v. Lack of co-operation by tax administrator. []
- vi. If any, please specify..... []

14. What is your suggestion to improve tax paying habit or tax payer's compliance in Nepalese people? (Please rank according to priority)

- i. Simplification of tax assessment procedure. []
- ii. Tax education to tax payers\ assesses. []
- iii. Simplification of tax law & rules. []
- iv. Incentives to regular tax payers. []
- v. Better public relation by tax officers. []
- vi. Heavy fines & penalties to defective tax payers. []
- vii. Any other, please specify..... []

15. Do you think tax administration in Nepal is effective?

Yes []

No []

16. If not, what are the possible reasons?

- i. Lack of knowledge about tax assessment procedure. []
- ii. Lack of meaningful taxpayer's information. []
- iii. Lack of proper incentives to tax personnel. []
- iv. Lack of co-ordination with in department. []
- v. Unnecessary outside pressure. []
- vi. If any, please specify..... []

B) And how can it be improved?

- i. Effective information system. []
- ii. Improving assessment system. []
- iii. Controlling the negligence of taxpayers. []
- iv. Effective reward and punishment system. []
- v. Discouraging corruption practices. []
- vi. Any other, please specify..... []

17. Do you have any other suggestion for improving income tax assessment procedure under New Income Tax Act 2002?

If yes, please specify

Appendix - C
List of Respondents

Income Tax Administrators

S. N.	Name	Position	Office
1	J. Upadyaya	Tax Officer	IRO, Babarmahal
2	Rudra Sing Tamang	Tax Officer	IRO, Babarmahal
3	Arjun Bhattraï	Tax Officer	IRO, Babarmahal
4	R.S. Kunwar	Tax Officer	IRO, Babarmahal
5	B.R. Shakya	Tax Officer	IRO, Babarmahal
6	Devananda Kafle	Tax Officer	IRO, Babarmahal
7	Udduav Neupane	Tax Officer	IRO, Babarmahal
8	B.R. Gautam	Tax Officer	IRO, Babarmahal
9	Arjun Dhakal	Tax Officer	IRO, Babarmahal
10	Ram Prasad Ghimire	Tax Officer	IRO, Babarmahal
11	Indra B. Devkota	Tax Officer	IRO, Babarmahal
12	Rupesh Gaire	Tax Officer	LTO, Patan
13	Gopal Thapa	Tax Officer	IRO, Babarmahal
14	B.R. Acharya	Tax Officer	IRO, Lazimpat
15	Nabin Nepal	Tax Officer	IRO, Lazimpat
16	KK Dhakal	Tax Officer	IRO, Lazimpat
17	Surya Adhikari	Tax Officer	RO, Babarmahal
18	TD Joshi	Tax Officer	IRO, Lazimpat
19	Janardan Tripathi	Tax Officer	LTO, Patan
20	Alok Nepal	Tax Officer	LTO, Patan

Tax Experts

S. N.	Name	Position	Office
1	Ghanshyam Paudyal	Chartered Accountant	G. Paydya & Associates
2	Silky Kedia	Chartered Accountant	Subhash & Co
3	Yagya Shrestha	Chartered Accountant	Y Shrestha & Associates
4	Bed Shrestha	ACCA Final	Subhash & Co
5	Ram Chandra Shrestha	Registered Auditor	RC Shrestha & Ass.
6	Gopal Agrawal	Chartered Accountant	Gopal Agrawal & Co
7	Suraj Prajapati	Chartered Accountant	Subhash & Co
8	Santosh Jha	Chartered Accountant	Hama Steel Ind. P .Ltd
9	Binay Karna	Internal Auditor	Sourabh Oil Ind.
10	Shankar Jha	Chartered Accountant	Continental Motors p. ltd
11	Brajesh Bhandari	CA Final	G.P Raj Bahak & Co
12	Anil Bohra	CA Final	G.P Raj Bahak & Co
13	Nilraj Poudel	CA Final	G.P Raj Bahak & Co
14	Lok Nath Poudel	Registered Auditor	Poudel & Associates
15	Nava Raj Burlakoti	Chartered Accountant	Prime Chartered Academy
16	Bandana Khetan	CA. Internal Auditor	Everest Bank Ltd.
17	Bikram Khadka	Chartered Accountant	Subhash & Co
18	Gopal Pokhral	Chartered Accountant	Prime Chartered Academy
19	Bikash Karna	ACCA Final	G.P Raj Bahak & Co
20	Niraj Subedi	Chartered Accountant	Liquior Mart Pvt. Ltd

Tax Payers

S.N	Name	Position	Office
1	Basant Kumar Gupta	Chief Accountant	Jagdamba Steel Ind P. ltd
2	Dinesh Kumar Bhagat	Chief Accountant	Jagdamba Enterprise P. ltd
3	Birendra Chaurasiya	Chief Accountant	Jagdamba Spinning P. ltd
4	Umesh Chaurashiya	Chief Accountant	Ambe Cement P Ltd
5	Gajendraa bajracharya	Account Manager	Saakha Steel Ind P Ltd
6	Ashutosh Yadav	Finance manager	Surya Nepal Ind P Ltd
7	Pushpa Man Shrestha	M. D	Nepal Pashmina Ind
8	Bishal Dahal	Incharge, Account	Sanima Bikash Bank
9	Sanjay Thakur	Finance manager	Barun Developers p. ltd
10	Shankar Jha	Chief Accountant	Kedia International P Ltd
11	Bishnu Lamsal	Chief Accountant	SBI bank Nepal Ltd
12	Hari Saran Shrestha	Chief Accountant	Nepal Paints P ltd.
13	Narayan Thapa	Proprietor	Thapa Suppliers
14	Depandra Tandukar	Director	Future Fortune P Ltd
15	Mukti Agrawal	Director	Mukti Group
16	Jyoti Saakha	Director	Saakha Group
17	Hari Neupane	Director	Ambe Steel Ind P Ltd
18	Bishnu Neupane	Director	Jagdamba Cement Ind P Ltd
19	Ramesh Agrawal	Director	Ambe Cements Ind P Ltd
20	Nirmal Gupta	Director	Ambe Cements Ind P Ltd