

**INCOME TAX ON INVESTMENT INCOME IN NEPAL AND IT'S  
IMPACT ON REVENUE COLLECTION**

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**RECOMMENDATION**

This is to certify that the thesis:

Submitted by:

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Entitled

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Has been prepared as approved by this campus in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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**VIVA-VOCE SHEET**

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

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## **LIST OF ABBREVIATIONS**

A.D.	= Anno Domini
AETR	= Average Effective Tax Rate
B.S.	= Bikram Sambat
BBS	= Bachelor of Business Studies
BP & RA	= Business Profit and Remuneration Act
CEDA	= Community and Economic Development Association
FY	= Fiscal Year
GDP	= Gross Domestic Product
GON	= Government of Nepal
IRD	= Internal Revenue Department
IT	= Information Technology
ITA	= Income Tax Act
MBS	= Master of Business Studies
METR	= Marginal Effective Tax Rate
MOF	= Ministry of Finance
R&D	= Research and Development
T.U.	= Tribhuvan University
TDS	= Tax Deduction at Source
USA	= United State of America
VAT	= Value Added Tax
WB	= World Bank

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Government is a very powerful institution. The role and scope of government varies in economic system. The role of a government is exceedingly dominant in a capitalist country. Modern capitalist economy is mixed economy where there are public and private sectors. In socialist countries, most of the productive activities and factors of production are under the control of government. So, government plays main role in business and economic activities. Government has to spend a lot of money to fulfill its responsibilities towards the people. A government requires sufficient resources to carry out development plans, handle day-to-day administration, maintain peace and security and launch other public welfare activities. The governments collect the required resources mainly from two sources: debt & revenues. The debt can collect either from internal or external sources. The internal debt is collected within the country while external debt is collected from outside of the country. The debt financing of the government is known as deficit financing. External sources of fund are foreign grants & loans. This kind of fund is received from foreign countries and international organizations. External sources of fund are very important for undeveloped countries like Nepal. It is used for economic development, reconstruction, foreign exchange, to recover from crisis condition for productive use etc.

However the external sources are uncertain, inconvenient and not good for healthy development of the nation. It is better to mobilize internal sources rather than working with beggars eye to donors. The external sources of financing is depends upon the interest and the condition of funding countries and no discretion to spend the fund available. Continuous use of external sources of fund is not good because it reduces liquidity position of the government, increases inflation and make over-dependence upon other countries (Pant, 1996).

Internal sources of fund is own sources with-in the nation and it includes both tax and non-tax revenues. Internal sources are more important and it is necessary for

proper mobilization of internal sources to fulfill government's financing necessities. Internal sources have no obligation towards the third party and are less risky as compared to the external fund. The government is not obliged to pay back the fund and only has to see the need of its economy & the interest of the people while mobilizing internal sources. The revenue on the other hand comes basically from two sources: tax and non tax. Non-tax sources include different revenues like gifts, grants, revenues from public enterprises, administrative revenues such as registration fees, fines and penalties. Tax sources are the compulsory contribution from the tax payers to the government but non tax sources are uncertain and inconvenient so, taxes are the better sources of public revenues. The use of tax is safer for financing public revenue in developing countries like Nepal.

Tax is in simple terminology a liability to pay an amount to the government. It is compulsory contribution to the national revenue from the tax payers according to the nation's law. A tax payer is not entitled to compel the government, while paying taxes. To give something to him in return of the amount he has paid. Professor Seligman defined tax as "a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred" (Bhattarai & Koirala, 2060).

Tax is classified into two categories i.e. direct and indirect. The person paying and bearing tax is same in direct tax. It is legally imposed. Direct taxes are levied on the income & property. The direct taxes have been used to bridge the gap of income and wealth inequality in the society. Income tax, land tax, interest tax, gift tax etc are the examples of direct tax. Indirect tax is a tax, which imposed on one person but partly or wholly paid by another. Indirect taxes are generally imposed on goods and services. The taxes on such goods and services are integrated with their price. Selling those goods and services on higher price, the tax payers easily transfer the burden on general consumer. Value added tax, import/export/excise duties, hotel tax, etc are the examples of indirect taxes where the person paying and bearing tax is different.

Income tax is direct tax that is imposed on the earning of individual and corporation. The underlying reason for the imposition of income tax is to generate more revenue to finance development activities and to help in achieving social justice. Income tax is essential not only for collecting government revenue but also to control over consumption, to reduce inequality of income and wealth, to promote saving and

investment. It is not doubt that income tax is main sources of government revenue. Income tax is collected from various sources of profits and incomes. It is collected from public enterprises, semi public enterprises, private corporate bodies, individuals, remuneration and interest. Nepal has been adopting the income tax system for last four decades and is assessed on yearly basis. Although the legal provision has been made and updated timely, there are many problems about income tax such as leakage in tax feeling of people about tax as penalty, lack of consciousness of people, inability of tax administration to cover new tax payers, delays in computation & collection, lack of accuracy and unity in accounting system etc.

According to economic survey report of Internal Revenue Department (IRD) 2066 the main causes of low rate coverage of income tax on total tax collection is very week individual tax collection trend & lack of participation of an individual in income tax on investment income. Because of these reasons, the present study has been designed to highlight the provision made in Income Tax Act 2058 for Income from Investment and Income Tax on Investment Income & it`s contribution to revenue collection in Nepal.

## **1.2 Statement of the problem**

A government specially gets revenues from taxes, fees, price and other sources: grants and gifts. In case of state revenue, a tax is a compulsory charge imposed by government without any reference to service rendered to taxpayers. Fines or penalties imposed by courts resemble taxes since there is compulsion in both. The distinction between them, however, is one of the motives. Taxes are generally imposed to obtained revenue while fines are imposed as a punishment to control mistakes in future. The state sells some of it`s goods or services and receives price in payment for them. The distinction between them taxes and price is that, tax is a compulsory payment to be made by every citizen as levied by the government where as price is to be paid by persons who buy services or goods produced by the government. Thus, tax is an ingredient of state revenue in public finance.

A sound tax system is one of the essential requisites for an economic development. Thus, different taxation policies have been introduce and renewed on timely basis with a view to mobilize internal resources to contributes economic growth and reduces dependency on foreign loan. In Nepal coverage of income tax is very low. There is poor taxpaying habit of Nepalese people. The tax authorities are also

insufficient and ineffective in enforcement. There are no integrated programs for tax payer's education, assistance, guidance and counseling. The assessment procedure of income tax is not effective, undue, delay in tax assessment not only reduce the total revenue but also brings harassment to the tax payers (Agrawal, 2006).

Therefore the coverage of income tax is very narrow in Nepal. Contribution of the income tax to the national budget must be increased to achieve the goal of national development and equal economic distribution. If the government of Nepal takes steps for making the effective tax management the goal can be achieved. To achieve the targeted goal of revenue collection Income Tax on Investment income also must be collected very clearly, wisely & effectively. There has been a big gap between formulation of policies and its implementation. At present most of the tax payers are hiding their investment income so discourage this system the tax evasion monitored effectively. This study analyzes the existence provision for investment income and analyzes the impact to revenue collection, further; this study is able to attempt to solve the following problems:

- what are the provisions made for Investment Income taxation in Nepal under ITA 2058?
- what is the composition of government revenue of Nepal?
- what is the present status of Investment Income tax system in Nepal?
- how is the Investment Income Tax administration system in Nepal?
- what is the impact of income tax on Investment Income on government revenue

### **1.3 Objectives of the study**

The basic objective of the study is to analyze the present condition of income tax on Investment income and its Impact on National Revenue and to give appropriate suggestion to the government for improvement by which government can collect more revenue.

Specific objective of the study are as follows:

- ) To examine the current provision of income tax on investment income in Nepal under ITA 2058.
- ) To analyze the composition of government revenue of Nepal.
- ) To analyze the present status of investment income tax system of Nepal.
- ) To examine the administrative aspects of investment tax in Nepal.

) To analyze the impact of income tax on Investment income on government revenue.

#### **1.4 Significance of the study**

In this modern age, a government needs a lot of revenues in order to influence the macroeconomic performance of economy or fiscal policy, to carryout functions of the government: national defense and to redistribute resources among individuals or classes in the population. In this context, tax is a significant and inseparable source of state revenue of the government. According to its nature, it is the most reliable, certain, flexible, and convenient source to obtain the required amount. Therefore, the government of any country upholds main priority in tax revenue.

Every government need huge amount of funds to spends on daily expenses as well as development activities. Every year Nepalese government has been presenting deficit budget, there is increment in resource gap. Most of the development activities depend on bilateral and multilateral grants and loans. The nation is hardly bearing the burden of the loan and the internal source of revenue is not sufficient even to meet the ordinary expenses. In this context the easy and long lasting way to increase income tax collection is one of the major components. Tax revenue is the one of the most important component of national revenue. Income tax is direct tax that is imposed on the earning of individual and corporation. The underlying reason for the imposition of income tax is to generate more revenue to finance development activities and to help in achieving social justice. Income tax is essential not only for collecting government revenue but also to control over consumption, to reduce inequality of income and wealth, to promote saving and investment. Investment income tax is one of the major components of income tax collection. To achieve the targeted goal of revenue collection Income Tax on Investment income also must be collected very clearly, wisely & effectively. According to economic survey report of Internal Revenue Department (IRD) 2066 the main causes of low rate coverage of income tax on total tax collection is very week individual tax collection trend & lack of participation of an individual in income tax on investment income. Thus, the topic “Income Tax on Investment Income and it’s impact to national revenue” is chosen as a relevant topic for the study.

The main focus of this study will be on Income tax provisions on Investment income & it’s Impact on National revenue. Besides this the study will directly

beneficial for the policy makers & other related stakeholders. Policy makers will be able to identify the areas needed for improvement of investment tax system. It will provide a clear idea and knowledge to that person who is interested and confused about Investment tax system.

### **1.5 Delimitation of the study**

No existence of limitations in research is exceptional case. So the following will be the limitation of the study:

- ) This study is limited to Nepalese laws, rules and regulations under ITA 2058.
- ) The extent of this study is based on the availability of reliable data and sufficient literature.
- ) This study covers the 10 years periodic data.
- ) The view of respondents has been collected only in the limited areas.
- ) The reliability of the study is depended on the reliability and validity of the secondary data. While getting some primary views, the taxpayers of Pokhara city has considered only.

### **1.6 Organization of the study**

This study has been organized in five chapters.

#### Chapter-I: Introduction

The first chapter is introduction chapter. It constitutes general concept about the chosen topics under general background and problems appeared related to subject matter under statement of the problems. Objectives and limitation of the study have also been pointed in this chapter.

#### Chapter-II: Review of literature

The second chapter is review of literature. It constitutes review of literature through different relevant books, articles and unpublished dissertation & definition, legal provisions and income tax system. It is focused on defining the related terms such as concept of income, concept of tax, historical background of income tax, meaning of investment and investment income and developing the concepts on them.

#### Chapter-III: Research methodology

The third chapter is research methodology. It includes research design, population and samples, nature and sources of data, data collection procedure and data processing and analysis procedure.

#### Chapter-IV: Analysis and presentation of data

The fourth chapter is analysis and presentation of data. This is one of the most important chapter and has been included the related to the topics extracted from economic survey and annual reports published by ministry of finance the government of Nepal in their respective way and their analysis has been presented accordingly with suitable methods of presentation. Primary data collected from tax payers, tax experts/ tax administrator and analysis in this chapter.

#### Chapter- V: Summary, conclusion and recommendation

The fifth chapter includes summary, conclusion and recommendation. It is the last but not the least chapter. Suggestions for betterment of income tax system in Nepal have been made within the frame of conclusions of study.

## **CHAPTER- II**

### **REVIEW OF LITERATURE**

This chapter deals with the literature relevant to the study. Review of literature is basically of stock taking of available literature in the field of research. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of the study. It develops expertism and help to find out contributions done. Literature review also help to know that what is uncovered and it will be clear that how the present study relates with past. Literature review guides not to conduct the study on already conducted area. Thus literature review established starting point for further research which avoids the duplication & reveals the research needed area (Wolff & Pant, 2007).

To deep knowledge & understanding about the subject matter some literatures related with the study were reviewed. It includes the conceptual review and review of some previous studies.

#### **2.1 Conceptual review of the study**

##### **2.1.1 Concept of Income**

Income consists of any economic gains of the people during a specific period. It is measured in monetary terms and come from property, business and employment etc. income is the value of goods and services consumed by an individual during a particular period. Generally income is regarded as the best measure of ability in the sense of economic well being. It is the basic determinant of level of living that a family enjoys. Income is monetary or equivalent return that comes from property, business and labour etc (Joshi, 2055).

According to ITA 2058 “A person’s income from any employment, business, investment or casual gain and the total income as calculated in accordance with this Act”. It includes all sorts of income received for the provision of labour or capital or both of whatever from or nature in the taxable income.

ITA 2058, section 5 imposed tax on those activities contributing toward the creation of wealth or income. Wealth as created with the help of labour-capital activities. The act has made 3 broad classification of income from all income earning activities, they are:

- ) Income from Employment: An individual's remuneration incomes from an employment, termed as income from employment, are included in employment income.
- ) Income from Business: profits and gains from conducting the business are considered as business income for the purpose of income tax.
- ) Income from Investment: profits and gains from conducting an investment are considered as investment income.

### **2.1.2 Concept of tax**

In general, tax can be defined as a levy or other type of financial charge or fee imposed by state or central government on legal entities or individuals. It is a compulsory levy from individuals, households and firms to central or local government. It is a kind of money of which it is the legal duty of every citizen of the country to pay honestly. It may levy on income, property and even at the time of purchasing a commodity. Tax is computed and paid as prescribed in the law. If a person defies the tax payments, person may be punished in the court of law. Taxation can be considered as a convenient method of raising revenue which in turn is linked with the welfare of the people directly or indirectly. Economists and scholars have expressed their view on tax as follows:

According to professor Seligman "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 conferred" (Bhattra & Koirala, 2004).

According to Bastable "A tax is compulsory contribution of wealth of a person or body of persons for the service of public powers."

According to Plehn "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, 1998).

From the above definition it is clear that the tax is compulsory levy and the taxpayer does not have any right to receive direct benefits from tax paid and also clears about the expenses of collected tax in common interests of residents of nation.

According to definition, tax has major three characteristics:

- a) It is a compulsory monetary contribution.
- b) Taxpayers should not expect special treatment as a return of tax.
- c) Amount collected from tax should be expended for public of whole nation.

According to ITA 2058, section 2 'dha'

Tax means income tax imposed under this act and includes following payments:

- ) Expenses incurred in the process of creating charge and performing auction of the property of tax creditor by the department.
- ) Amount payable by a withholding agent or withholdee or amount payable by a installment payer and on assessment.
- ) Amount payable to the department in respect of a tax liability of third party.
- ) Amount payable by way of fines in order of the department

#### **2.1.2.1 Objectives of taxation**

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

##### a) Raising more revenue

The fundamental objective of taxation is to finance government expenditure. The government requires carrying out various development and welfare activities in the country. For this, it needs a huge amount of resources. The government collects resources by imposing taxes. So, raising more revenues to meet the ever increasing government expenditure has become an important objective of taxation.

##### b) Regulating the economy

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

c) Preventing concentration of wealth in a few hands

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

d) Redistributing wealth for common goods to the whole community

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

e) Boosting up the economy

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

f) Reducing unemployment problem

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

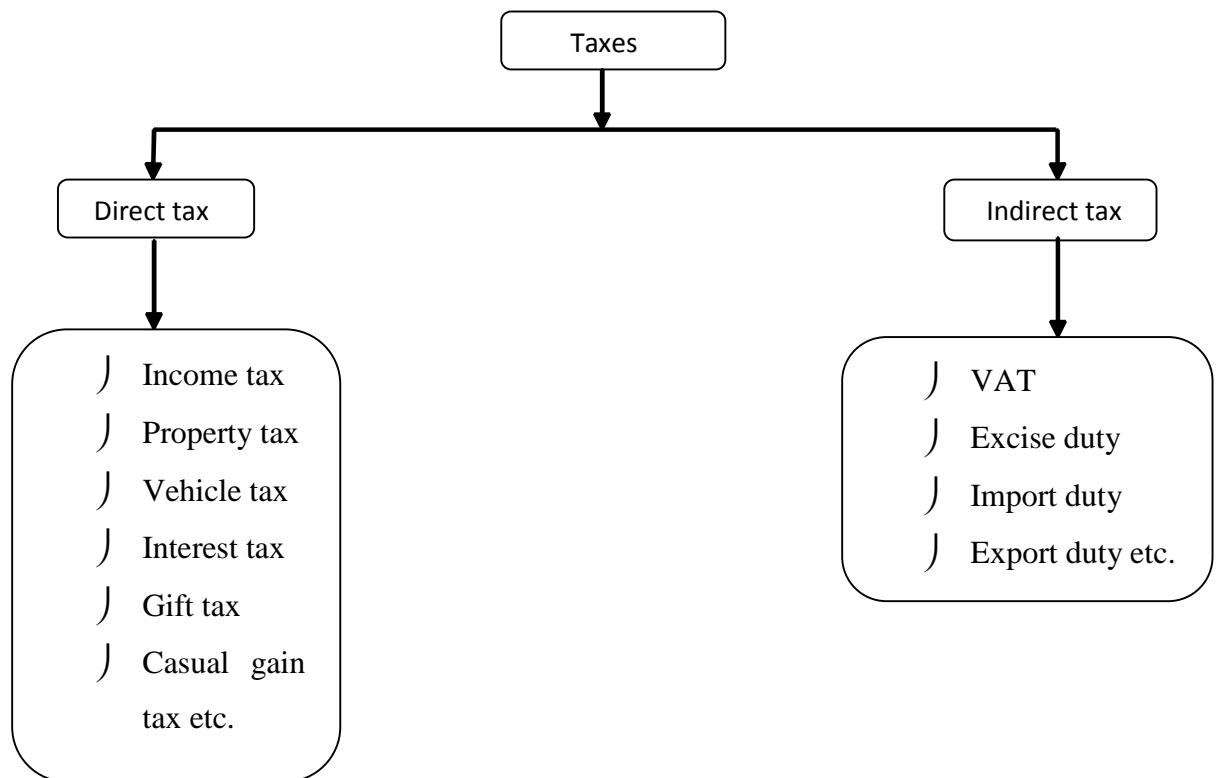
g) Removing regional disparities etc.

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

### **2.1.2.2 Classification of taxes**

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

## Classification of Taxes



### a. Direct tax

A direct tax is a form of tax paid by a person on whom it is legally imposed. It is collected directly by the government from the person who bears the tax burden. Taxpayers need to file tax returns directly to the government. Therefore, direct tax cannot be shifted. The impact or the money burden and the incidence are on the one and the same person. In other words, the same person pays and bears the tax burden. It is the tax on income and property. Examples include income tax, property tax, vehicle tax, interest tax, expenditure tax, death tax, gift tax, etc.

### b. Indirect tax

An indirect tax is a form of tax imposed on one person but partly or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform functions associated with filling tax returns. Hence, indirect tax can be shifted. In indirect tax, the impact and incident of the tax are on different persons. In other words, the person paying and bearing the tax is different. It is the tax on consumption or expenditures. Examples include VAT, excise duty, import and export duty, etc.

### **2.1.2.3 Canons of taxation**

The government adopts various principles while formulating a good tax policy. These principles are referred to as the canons of taxation. The canons of taxation were first developed by Adam Smith as a set of criteria by which to judge taxes. They are still widely accepted as providing a good basis by which to judge taxes. According to him canon of taxation are as follows:

#### **a) Canon of equality**

These canons states that a good tax is that which is based on the principle of equality. In this principle, it is maintained that the tax must be levied according to taxpaying capacity of the individuals. The principle states that the burden of taxation should be fair and just. Thus, rich people must be charged higher taxes than the poor. The higher the income higher the tax, lower the income lower the tax. Tax policy should not discriminate the persons with same income level.

#### **b) Canon of certainty**

This canon states that the taxpayers should feel certainty regarding the time of payment, amount to be paid, method of payment, the place of payment and the authority to whom the tax is to be paid. Every tax payer must know the time of payment, manner end mode of payment, so that he may adjust his expenditure accordingly. In the words of Adam smith, “the tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the quantity to be paid, all ought to be clear and plain to the contributor and to every other person.” Thus, certainty creates confidence in the contributor of the tax. On the other hand, uncertainty makes the tax system arbitrary and unfair to the taxpayers. If the tax is certain, no one can exploit tax payers in anyway.

#### **c) Canon of convenience**

The tax should be levied and collected in such a manner that it provides maximum convenience to the taxpayers. The public authorities should always keep this point in view that the taxpayer suffers the least inconvenience in payment of tax. For examples, land revenues should be collected at the harvest time. The income tax from the salary class is collected only when they get their salaries from their employers. To quote Adam smith “every tax ought to be levied at the time or in the manner which is most likely to be convenient for the contributor to pay it.” This canon helps to reduce tax evasion to great extent.

d) Canon of economy

This principle states that the collection expenses of the tax should be less than the amount of tax collected so that a surplus to public revenues is generated and the country will be benefited. The amount that goes from the tax payers pocket should not differ greatly with the amount that actually goes to government's treasury. This principle also implies that a tax should interfere as little as possible with the productive activity and general efficiency of the community so that it may not create adverse effect on production and employment.

In addition to Adam Smith's principle of taxation, Bastable has added two other principles which are discussed below:

e) Canon of productivity

This canon connotes that the fund raised through taxes should be utilized by the government in productive sector of the economy so that the taxpayers can see the utilization of their hard earned money paid as taxes. According to this principle, it is better to impose a few productive taxes than to go in for a large number of unproductive taxes. These unproductive taxes create complications both for the taxpayers, and the government. Therefore, tax must be imposed in a systematic way so that it may not discourage the productive capacity of the individuals. Unfavorable taxes, usually, reduce the working efficiency which ultimately reduces the taxpaying capacity of the people.

f) Canon of elasticity

This canon signifies that the taxes should be levied in such a way the amount to be collected can be increased or decreased with the least inconvenience from time to time. In other words, the government can easily change the tax rates as per the need of the country. Instead of being rigid, tax rates should be made flexible to cope up with the changes in tax payer's income, properties and transactions.

Other modern economists have added some other canons of taxation. They are:

g) Canon of diversity

The tax system should not totally depend on one source of revenue. It is risky for the government to depend on a single source. The government should levy various taxes instead of imposing a single tax. The burden of tax should be scattered among different kinds of people. The burden of tax should be scattered among different kinds

of people. The burden of paying should not centralize on one group of people but it should be diversified such a way that it ensures a smooth collection in different years.

#### h) Canon of simplicity

This principle states that every tax should be simple and understand to general public. There should be no administrative hassles. The tax payment procedure should not be too lengthy. If the tax system complex and complicated, the tax payers will have to seek the assistance of tax experts to understand its implications'. This will bring irregularities and corruption.

#### i) Canon of neutrality

The tax system should not affect badly to the production and distribution aspect of the nation rather it should facilitate them. The government should impose heavy taxes on harmful products and less tax or no tax on basic goods in such a way that the total tax revenue is not affected. The tax must not have any inflationary effect on the economy.

#### j) Canon of co-ordination etc.

This canon states that there should be coordination among various taxes raised in the country. Taxpayers should not be imposed taxes of similar nature by various tax authorities.

### **2.1.3 Historical background of income tax**

In the early days, taxes were collected at the time of emergencies, to finance means and to provide communal services. Taxes were levied on the basis of welfare of the people. At the time tax was not compulsory payment. People voluntarily paid the tax. According to Hindus scripture, the duty of the king was to serve and secure his people, maintain peace and harmony and carryout social works. For those purpose king used to levy tax by collecting crops and cattle from farmers, gold and silver and other metallic goods from traders (Adhikari, 2010).

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

it was generally levied at a flat rate. Only after 1909, the principle of flexibility was introduced from UK and Newzeland (Bhattraï &koïrala, 2004).

### **2.1.3.1 Taxation in ancient era**

Taxes have been one of the primary sources of government's revenue from Ancient time in Nepal. During that period taxes were levied on farmers, merchants and travelers in the form of cash or kind. Labour and goods were types of taxes. The fiscal administration during the Lichchhavi and Malla regime is of remarkable importance. In Lichchhavi regime direct taxes were introduced for the first time in Nepal. At that time, direct taxes were imposed on Agriculture and Business income. These direct taxes were imposed copied from 'Kautillya's Arthashastra'. Thus, taxes on Agriculture income called 'Bhaga' (share of production). According to Quality of land owned by farmers, the levy was prescribed as portion of one-sixth, one-eighth and one-twelfth on their total production. It was tax on income, not on profit. They levy on income from Business called 'Kara' was a tax in cash. It was also copied from 'Kautollya's Arthashastra'. King Anshubarma of the lichchhavi dynasty levied Agriculture and Religious taxes in ancient Nepal.

Malla dynasties are also reasonably important for the tax system in ancient Nepal. They introduced a new tax called 'Potaka' that was received for defense contribution. It was levied on water of farmer's irrigation (K.C, 2007).

Shah dynasty ruled over Nepal since 1968 assembling the state governments of Nepal for the centralized government. After assembly (1768 A.D.) and before starting of Rana regime (1846 A.D.) Nepal exercised and experienced a variety of taxes to generate maximum revenue for the government. During the period of unification, the major sources of revenue in Nepal were Land and Homestead taxes, monopolies customs, transit and market suties, mine and mints and the export of forest product, wood ,birds, animals and various levies and fines, maximization of revenue was the main objective of the tax policies during that period. Local administrators were directed "to take whatever is paid willing by the people". The taxes were usually collected at three levels (Agrawal, 1980).

- ) Royal palace: to finance occasional and ceremonial needs. The taxes were broad based and progressive.
- ) Government: to finance administrative military and other purposes assessed an official functionary and other people.

) Local: perquisites of local officials, functionaries and mendicants.

The various taxes levied during this period were narrow in base and were imposed primarily on occupations and economic activities, not on income or property. The system of direct taxation was confined to land and special levies like “Darhsanbhet”, “Salami”, and “Walak” ect. After the unified period, land tenure system was divided into five main forms: Raikar, Birta, Guthi, Sera and Kipat. The main sources of revenue from land were Birta and Kipat.

#### **2.1.3.2 Taxation in Rana period**

In 1846 A.D. (1903): Jang Bahadur Rana becomes Prime Minister of Nepal through ‘Bhandarkhal Paba’. Then he and his family ruled over Nepal for 104 years. This period (18946-1950 A.D.) is known as Rana Regime. During the Rana Regime, there was no formal provision for imposition and collection of taxes. Taxes were imposed according to the objectives, need and whims of ruling Prime Minister. There was not provision for separating personal income of Prime minister and state treasury. There was no provision of government budget. Surplus of revenue over expenditure was considered as the personal Income of ruling Prime Minister.

Land tax, custom and excise duties in the form of lump sum, contracts, royalties on feeling trees, royalty on supply of porters and soldiers, entertainment taxes were the major sources of revenue. There was no direct tax in the country except land tax collected on a contractual basis and “salami” which the government employees used to pay out of their salaries at a very small percentage.

During Nepal Tibet war (1855/56), the first Rana Prime Minister Junga Bahadur Rana had imposed a tax on the income of selected groups similarly Bir smasher Rana imposed a levy of 1% on the official value of Jagir assignment of government employees in 11891, to finance the transportation of water pipe supply in the capital. Ranodip singh imposed a 50% tax on the income made by fishermen in Deukhuri from the sale of fish in 1882 (KC, 2007).

#### **2.1.3.3 Income Tax in Modern Nepal**

Although the taxes were collected in various forms in ancient era, the history of modern income tax is not very old in Nepal. Before 1951 (2007) two dynasties: Shah and Rana ruled over Nepal. In 1950, Nepal introduced in limit referendum when Rana Dynasty fell-down and started multiparty democracy system under Shah Dynasty. The idea of introducing income tax in Nepal originated in the early 1950s when a

multi-party democratic political system was introduced. In 1951 A.D., then finance minister in his budget speech declared the intention of the government to introduce the income tax. Attempts were then made to introduce income tax in subsequent years. In 1954, an income tax with Rs. 10,000 basic allowance and progressive taxes ranging from 5 to 25% was proposed. Due to political instability, it could not be introduced until 1958 A.D.

The first elected government in 1959 A.D. finally introduced Business profits and Salaries Tax Act, 1960 in Nepal. At that time, income tax was levied only on business profits and salaries. After about three years' experience of income tax, the government replaced the prevailing Act by Income Tax Act, 1962. The coverage was then extended in the Act. In 1974 A.D., Income Tax Act, 1974 A.D. (2031 B.S.) was enacted.. The Act classified income sources into five groups are as follows:

- ) Agriculture
- ) Industry, Trade, Profession or occupation
- ) Remuneration
- ) House and compound Rents
- ) Other sources

However, agricultural income was kept outside the tax net except few years through the finance Acts.

The parliament of Nepal enacted Income Tax Act 2002 A.D. (2058) with effective from 1 April 2002 A.D. (Chaitra 19, 2058 B.S) to enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation, and to amend and integrate the laws relating to income tax. This Act has replaced Income tax Act, 1974 A.D. (2031 B.S), which was amended for eight times and existed for a period of 28 years. The government of Nepal framed Income Tax Rules 2059 in 2059 B.S. to help clarity the Act (Bhattraï & koirala, 2004).

#### **2.1.3.1 Income tax act, 2002 (2058)**

Income tax Act, 2058 has been enacted with wide a perspective. Various new concepts have been introduced in this Act as compared to Income Tax Act, 2031. Many of the concepts introduced in this Act were not prevailed in previous tax laws. The parliament of Nepal exacted Income Tax Act, 2002 (2058) since 1<sup>st</sup> April 2002 (19<sup>th</sup> chaitra, 2058). This act contains 143 sections.

This Act was brought in Nepal to avoid the following defect of Income Tax Act 2031 (Kandel, 2004).

- a. Narrow base of tax.
- b. Taxing only the income originated in Nepal.
- c. Dispersion of tax related acts, i.e. income tax related provisions were given in different acts.
- d. Low penalty rate to tax evader.
- e. Incompatible to self-assessment, and
- f. Unsuitable to modern economy.

Income tax Act, 2058 has been amended two times by the finance ordinance of 24<sup>th</sup> Ashadh and 22<sup>nd</sup> of 2059 B.S. for the following purpose.

- i. To levy tax on all income sources and income earning transaction.
- ii. To impose uniform tax to all people and all sources.
- iii. To make income tax revenue more productive and elastic.
- iv. To develop the tax system by means of extended scope, clear-cut, transparent and simple procedure.
- v. To make accountable and improve tax administration.
- vi. To reduce economic cost neutralizing income tax.
- vii. To emphasize statement based on accounting system.

The key features of Income Tax Act, 2058 are as follows:

- ) All income tax related matters are confined within the Act by abolishing all tax related concessions, rebates and exemption provided by different Acts. This Act has been made super in regard to all income tax matters.
- ) The Act has broadened the tax base. Tax rates have been spelled out in the Act. The tax rates and concessions have been harmonized on equity grounds.
- ) The Act has introduced a block system of charging depreciation. A provision has also been made for depreciating intangible assets. The Act has first introduced the capital gains taxation.
- ) The Act has provided liberal loss set-off and carry forward/backward provisions. Inter head adjustments of losses have been clearly specified. Such provision has been made from international perspective.
- ) The Act has first introduced a provision for administrative review to allow the tax administration to correct mistakes made by administrators internally.

- ) The Act has made provisions for a stringent fine and penalty for the defaulters.
- ) Global income of a resident are made taxable. Non residents are also taxed on their incomes with source in Nepal.
- ) The Act has made provision for international taxation. Foreign tax credit has been introduced for the first time.
- ) The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayer from criminal liabilities.
- ) The scope of discretionary interpretation of the tax administration has been drastically reduced ensuring simplicity, uniformity and the transparency. The Act has also defined the power and authority of the tax administration.
- ) The apple system has been further streamlined by the making mandatory for the tax payers to file an objection with the Inland Revenue Department for administrative review before appealing to the Revenue Tribunal.

#### **2.1.4 Meaning of Investment and Investment Income**

Generally an investment refers to purchase of an asset or item with the hope that it will generate income or appreciate in future. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in future to create wealth. In finance, an investment is a monetary assets purchase with the idea that the asset will provide income in the future or appreciated and be sold at higher prices. Income Tax Act, 2058 has defined investment as an act of holding or investing one or more assets. But it excludes the act of holding of assets for personal use by the person owing the asset and employment or business (Bhattraï & koirala, 2004).

According to Oxford Dictionary “Investment is the action of investing, a thing worth buying because it may be profitable or useful in the future.”

Black’s law Dictionary defines: “Investment expenditure to acquire property or other assets in order to produce revenue; the assets so acquired. The placing of capital or laying out of money in a way intended to secure income or profit from it’s employment. To purchase securities of more or less permanent nature, or to place money or property in business venture in business ventures or real estate, or otherwise lay it out, so that it may produce revenue or gain or both in the future.

Income from Investment refers to income generated from the capital related activities. It is, in fact a residual income, which is computed only after computing business and employment income. A person`s income from an investment for an

income year is the person's profits and gains from conducting the investment for the year.

**2.1.4.1 Amount included in Investment Income:**

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

**2.1.4.2 Allowable deduction:**

a. General deduction (section 13)

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

b. Interest (section 14)

All interest expenses incurred during the year, by the person under a debt obligation which is incurred in the generation of income from investment is allowed for deduction to extent that the debt is used in that year or the debt is used to purchase an asset used in that year or the debt obligation is created in any other conditions.

An exempt-controlled resident entity paying interest to the controlling person or associated persons is allowed for deduction to the extent of the sum of the following:

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

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

- ) Tax exempt organization or its associated person.
- ) Person or its associated getting business concessions under section 11 of ITA, 2058.
- ) Non-resident person or associated of non-resident persons.
- ) Any combination of above.

c. Repair and Improvement cost (section 16)

A person is allowed a deduction for repair or improvement costs of depreciable assets owned and used by the person during the year in the generation of the person's income investment not exceeding 7 % of the depreciation basis of respective blocks.

d. Depreciation (section 19)

Depreciation of depreciable assets owned and used by the person during the year in the generation of the person's income from investment is allowed for deduction.

d. Business or Investment Loss (section 20)

Following losses are allowed for deduction form income from investment:

- ) Any unrelieved loss of the year incurred by the person from investment.
- ) Any unrelieved loss of the previous seven income years incurred by the person from any investment.

**2.1.4.3 Allowable reduction:**

- ) Donation to exempt organization (sec.12 )

Donation given to an organization, approved by IRD, is allowed for reduction from taxable income. Reductions allowed to an individual or an entity will not exceed Rs. 1, 00,000 or 5% of adjusted taxable income. However, the government of Nepal may prescribe, by publishing a notice in the Nepal Gazette, as to allow full or partial deduction of the expenses incurred for special purpose at the time of assessing income.

) Retirement contributions(sec.63)

An individual who is a beneficiary of an approved retirement fund may claim a reduction for retirement contributions made to the fund. The actual contribution or maximum Rs. 300,000 or one-third of assessable income, whichever is the lowest is allowed for reduction as retirement contribution.

) Other reductions

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

- Insurance premium paid for his life not exceeding Rs. 20,000 per annum.
- Remote area exemption up to Rs. 30,000 depending upon the location for an individual(Rs. 30,000, Rs. 24,000, Rs. 18,000, Rs. 12000, Rs. 6000 for remote area A,B,C,D&E respectively).
- Reduction of 25% of basic exemption by individual having pension income.
- Reduction of 50% of basic exemption by a disabled individual.
- Reduction of 75% of foreign allowance by a Nepalese diplomat.

) Tax credit

➤ Medical tax credit (sec.51)

A resident individual may claim for the medical treatment of his or her. The maximum limit of adjusted amount is RS. 750 or 15% of approved medical expenses.

➤ Foreign tax credit(sec.71)

A resident person may claim a foreign tax credit for any foreign income tax paid abroad. The maximum foreign tax credit amount allowed to a person is calculated by applying the following formula:

$$\text{Foreign Tax Credit} = \text{Assessable income from foreign source} \times \text{Average Rate of Nepal Income Tax}$$

Where,

Average Rate of Nepal Income Tax (%) =  $\frac{\text{Total Tax Payable before any foreign tax credit}}{\text{Total Taxable income}}$

Total Taxable income

Instead of claiming foreign tax credit, the tax payer can deduct foreign tax as an expense while calculating assessable income.

### Calculation Table of Assessable Income from Investment as per ITA 2058

Particulars	Rs.	Rs.
Dividend payment	X	
Gain from investment insurance	X	
Interest received	X	
Payment received from natural resources	X	
Royalty income	X	
Gain from unapproved retirement fund	X	
Gain from disposals of block of depreciable assets	X	
Gift received by the person in respect of investment	X	
Retirement contributions in respect of the person	X	
Amount received in lieu of accepting restrictions regarding investment	X	
Income due to changing accounting methods	X	
Excess amounts received due to exchange rate variation	X	
Bad debt recovered	X	
Under payment of interest according to market	X	
Receivable amounts paid to others	X	
Amount received for compensation	X	
Income received from joint investment	X	
Other amount to be included under investment income	X	
<b>Gross income from investment</b>		<b>XXX</b>
Less: allowable deductions		
Interest expenses	X	
Repair and investment	X	
Depreciation	X	
Other expenses related to investment	X	
Tax paid in foreign country(if not claim for tax credit)	X	
<b>Assessable income from Investment before loss adjustment</b>		<b>XXX</b>
Less: adjustment of loss	X	
Loss from business or investment of current & past 7 year		
<b>Assessable income from Investment</b>		<b>XXX</b>

### Statement of Taxable income

Assessable income from Investment	X	
Assessable income from business	X	
Assessable from employment	X	
<b>Total assessable income</b>		XXX
Less: allowable reductions:		
Retirement contribution	X	
Donation	X	
<b>Total taxable income</b>		XXX
Less: other reductions	x	
<b>Taxable income(for tax purpose)</b>		XXX

#### 2.1.4.4 Tax Rates

Income Tax Act, 2058 has specified tax rates applicable to different taxpayers in schedule 1. Tax rates differ in structure and in terms of percentage depending on whether the taxpayer is an individual or an entity.

#### Tax rates for Resident Individual or couple:

For Individual	For couple	Tax Rate
a)If there is income from investment and business only		
Up to Rs. 160,000	Up to Rs. 2,00,000	Nil
Next Rs. 1,00,000	Next Rs. 1,00,000	15%
Balance	Balance	25%
b) If there is income from employment, business and Investment income		
Up to Rs. 160,000 ( 1% tax on taxable income from employment only)	Up to Rs. 2,00,000 (1% on income from employment)	1%
Next Rs. 1,00,000	Next Rs. 1,00,000	15%
Balance	Balance	25%



- Amount received by Nepal Rastra Bank as per its objectives.
- e) Pension received by a Nepali citizen retire from the army or police service of foreign country. These amounts must be paid from the public fund of that country.

## **2.2 Review of related studies**

### **2.2.1 Review of Books**

Mr. Shantosh Raj Poudyal and Mr. Prem Prasad Timsina, (1990) published a book describing the provision and laws related to income taxation in Nepal in the topic of “Income Tax in Nepal”. This book was extremely based on the syllabus of B.com. The book described the theoretical as well as practical aspects of Income Tax. They analyzed the role of Income Tax, income tax structure and defects of income tax in Nepal. The book was descriptive rather than analytical (Timsina, 1990).

Rup Bahadur Khadka (1994) had written a book entitled “Nepalese taxation: A path for Reform), in 1994. The books deal with both national and international taxes. The written had detail describe the scenario of Nepalese tax system from origin of income tax, to adoption of quasi-global or limited scheduler system, segregation of business income tax from individual income tax, increasing dependence on the presumptive basis, basic allowance and progressive rate structure, move from joint taxation to individual taxation and shift from itemized to flat system of standard expenses, experiment with an advance tax on impacts and the existing structure, commodity taxes and poverty taxes, he had evaluate the Nepalese tax system base on conventional, theoretical concepts and suggested various measures for its improvement. The book had been direct focused on Nepalese taxation system and structure for its reform (Kandel, 1994).

Mr. R.K Agrawal (1994) had written a book entitled “corporation taxation” published by Hind law publishers. The book is mainly concerned with the corporate taxation of India. This book shows contribution of Income tax from corporate sector to public revenue includes historical background of income tax to the public revenue. Briefly explain of Indian Tax laws and others rules made by their government (Agrawal,1994).

Mr. K.D. Dhakal (2002) published revised edition of his book named “Aayakar Tatha Ghar jagga Kar sambandhi Kar ra lekha”. For understanding Income tax Act 2031 (1974), the book found so much useful. The history of taxation and practice

under various previous acts are clearly maintained theoretical and practical manner in the book (Dhakal, 2002).

Mr. Bidhyadhar Mallik (2003) had written a book entitled, “Nepalko aadhunik Aayakar Pranali” in 2003. This book especially deals with the thorough analysis of Income Tax Act, 2058 with examples. Every section of income tax act has been clarified with suitable examples. He has written about the development of existing income tax and need and importance of income tax system in Nepal. The new provision made by Income Tax act, 2058 about tax base, computation of income, tax exempt amount, allowable deduction, accounting method of tax, capital gain, retirement saving and tax, dividend tax and international taxation have been clarified precisely in his book. Similarly, the book has also explained about tax administration, documentation, information collection, payment of tax, installment tax, income statements, tax-assessment, tax collection, review and appeal, fees and interest, fine and penalties, tax rate determination of provision of depreciation etc. the book is very useful to know the general information and legal provisions of new Income Tax Act (Mallik, 2003).

Mr. K.P. Aryal and S.P. Paudel (2004), have written a book entitled, “Taxation in Nepal” in 2004. They have explained about the income tax system in Nepal along with House and Land Tax & Value Added Tax (VAT). The book has been designed based on the curriculum of BBS. It has been divided into three parts. In the first part of the book introduction and development of income tax, capital and revenue nature expenses and income items, entity and retirement saving, dividend tax, computation of income from business, remuneration and Investment have been explained with numerical and theoretical examples. House & Land Tax and VAT have been explained in the second and third part respectively (Paudel, 2004).

Puspa Raj Kandel (2005), published a book named “Nepalko Bartaman Kar Byabastha”. The book is based on Income Tax Act 2058 for the syllabus of BBS, MBS and MPA. It has twenty three chapters and eleven Appendix including ITA 2058, Income Tax rule 2059, VAT Act 2052, Vat Act 2053 and so on. He has described the three broad classification of income tax. He also described tax authorities, penalty, administrative review and appeal in his books (Kandel, 2005).

Mr. Ishower Bhattarai & G.P. Koirala (2008) have co-authored two books entitled “Taxation in Nepal” & “Taxation in Nepal with tax planning and vat”. The first book

is designed according to the requirements of Bachelors of Business Studies 3<sup>rd</sup> year syllabus and next one is based on MBS 2<sup>nd</sup> year syllabus of Tribhuvan University. Both of these books are useful and relevant for university students as well as other having interest in this discipline (Koirala, 2008).

### **2.2.2 Review of Journals/ Reports and Articles**

A senior researcher in the field of Nepalese taxation, Govinda Ram Agrawal (1978) had conducted a research entitled, "Recourse Mobilization for Development: The Reform of Income Tax in Nepal" published by CEDA in July 1978. The main objective of his study were to examine the problem of growing resource gap in Nepalese finance in the context of the role of income tax, to examine the buoyancy and elasticity of income tax in Nepal including projection of income tax, to examine the ways and means for increasing tax consciousness in Nepalese people etc.

The main reasons for growing resources gap he had included in his report were increasing cost of maintenance and debt servicing burden, increasing government investment in public sector enterprises and rising rate of inflation. He also added that, poor utilization of natural resource base, small and stagnant industrial sector, partial monetization of the economy, poor performance of public sector enterprises, poor rate of economic growth, inadequate tax efforts, deficiencies in tax policies, law and administration, lack of adequate and reliable data base and unwanted pressures from vested interest group etc. were the major constraint in resource mobilization.

From his research he concluded that mobilization of additional resources from domestic sources to finance rising expenditure is the better options to fulfill resource gap. Domestic resource can be mobilized either through tax or through gap. Domestic resource can be mobilized either through tax or through non-tax measures. Tax contribution is more than 80% of total government revenue in Nepal. Buoyancy of income tax with respect to GDP for the period 1967/76 was 2.18 and elasticity was 2.01.

Kayastha (1993) wrote an article in Rajaswa entitled, "Problems and Prospectus of resource Mobilization through direct Taxation in Nepal". The article has shown that Nepalese tax structure has extremely depended upon indirect Taxes and non-tax revenues. Lack of clear tax policies and procedures, lack of proper information and records, lack of trained & technical staff, lack of proper accounting system and proper monitoring are pointed as the weak parts of revenue administration of Nepal. He has

suggested the revenue administration to make widen tax base. In order to make revenue administration more effective, there should be formed separate 'Revenue Group'. He also suggested to reform in Tax rates, rules and the regulations in the annual budget.

Revenue consultation committee report (2001) has emphasized to simplify the tax policy to increase voluntary compliance. The report has recommended for written communication between taxpayer and tax administration rather than the informal relation and has suggested to widen the income tax base by including all kinds of tax payer and income and to find out tax payer of new sector. It suggested bringing all potential tax payers into tax net to widen the tax coverage including agriculture, electricity and other sectors to increases voluntary compliance this report highly emphasized to simplify the tax policy. Suggestion has provided to make the act more transparent and clear to attract foreign and domestic investor for this purpose. The report also has suggested increasing income tax exemption limit with considering purchasing power and inflation rate.

Damber Bahadur Pant (2004) had written an article entitled, "Problems in Tax Administration and their Remedies" published in Journal of Finance and Development. 'Rajaswa' 2004, April Vol.1. He had comprehensively explained about the problems and their remedies related with tax revenue. The major types of practical problem and challenges, in tax administration he had mentioned in his article are: showing limited amount of transaction, showing low selling price, lack of issuing and taking bills, lack of showing the real factory cost, commercial fraud, lack of co-operation in testing the tax, legal ambiguity and complexity in implementation and lack of co-ordination between Inland Revenue Department and Revenue Investigation Unit. Meanwhile, he had recommended some valuable suggestions to solve the problems and to overcome the challenges they are statistical and information system should be properly managed, fixed norms and standards should be used to asses selling price and factory cost, the billing system should be made compulsory, co-ordination between Inland Revenue Office with various entities of HMG, Revenue Investigation Department and its related units should play the important role.

Puspa Raj Kandel (2004) had written an article entitled, "Are Tax Incentives Useful? If so, which one?" published in Journal of Finance and Development, 'Rajaswa', Vol. 1, 2004 April. In that article he had tried to seek the answer from the

survey of various empirical studies earlier done in Nepal, India, Pakistan and other western countries. He found that the tax incentives are still the controversial matter they promotes the investments or not. But he argues that the tax incentives which causes revenue loss without enhancing the investment environment. Meanwhile, most of the researchers have opposed the tax holiday system both within the country and outside the country.

He further adds that Nepal survey of the studies indicate the accelerated depreciation system has positive impact on investment. The work of reducing tax rate, especially followed after 1990s to such lowest rate was not a proper decision. That is why, it Nepal wants to go to tax incentives again, it should allowance or investment tax credit, not the full tax holiday in future. The study had recommended some valuable suggestions to the developing countries.

### **2.2.3 Review of Unpublished dissertation**

In 1997, Karna Bir Poudyal has submitted a Ph.D. thesis entitled, “Business Tax Planning in Nepal”. This thesis report was aimed to examine the implication of tax factors in strategic planning, project planning and operational planning in Nepalese companies. He has found that the majority (90%) of the companies (sample size of the study) considered tax factors while selecting the line of business. He also found the positive correlation (+0.8) between tax rate and the debt equity ratio because of interest paid on debt is a tax-deductible item. Similarly, the correlation coefficient between average fixed assets and business tax was (0.75) in small companies and (+0.12) in medium size companies. As against this, in large companies, there was a negative correlation (-0.2), which showed that increase in fixed assets in large companies resulted in decrease in the business tax. He addressed that the tax planning should be consider while making business and so companies should setup separate tax section to get maximum benefit of provisions, provided by tax law. However, tax assessment under the best judgment blocked the application of tax planning in business planning. He had recommended that tax incentives should be given to non-industrial companies too, and tax rate should be differentiating for resident and nonresident companies (Paudel, 1997).

Mr. Puspa Raj Kandel (2000) has presented the Ph.D. thesis entitled, “Business Tax System and Investment behavior in Nepal” in 2000. He undertook the research work to find out the problems relating to Business tax, which blocks the development

of private investments. The main objective of his study were to evaluate the business tax system in general, to examine the sensitivity of certain policy like inflation, capital gain tax, dividend tax and interest tax etc. based on their impact on tax burden. He showed the relationship of private investment with average effective tax rate (AETR), marginal effective tax rate (METR) and tax incentives in Nepal. He found that the METRs for debt financed project due almost negative i.e. 17% and positive for equity financed project and debt-equity ratio project by 27% and 19% respectively. He had also found the impact of inflation to the METR. According to him, the statutory tax rate deduction had impact on private investments by 650% to 20%. In his regard, he had showed the adjusted R<sup>2</sup> value 0.87 at 5% level of significance. He had concluded that the tax rate was in moderate level under the financing options: debt: mix and equity is it was not much distortive. The relationship between inflation rate and effective tax burden in Nepal was negative (Kandel, 2000).

Bharat Kumar Lamsal (2001) has also presented a thesis entitled, “A case study on Contribution of Income Tax on Government Revenue”, in 2000. His research had mainly focused on the removing and controlling income tax evasion for better source mobilization. As his main objectives was to analyze the impact of income tax evasion in government revenue of Nepal, he set further objectives to identify the ways and causes of income tax evasion, to estimate the volume and tendency of income tax evasion in small trade sectors and examine the role of income tax in utilizing the resource in Nepal.

Mr. Lamsal has conducted that research following analytical as well as descriptive research design. Most of the data were from secondary sources and some were from primary sources. Primary data were collected through opinion survey, field visit and interviews. Simple statistical analysis such as average and percentage were used as for data analyzing, tools; Graphs, Charts and tables were used to interpret visually the finding of the research.

From that research he has concluded that spread evasion in income tax in Nepal is a suitable means for raising domestic resources. He had recommended for controlling tax evasion by controlling illegal business activities, increasing penalties and fines to tax evades, compulsory maintenance of accounts etc. (Lamsal, 2001).

Mr. Khomraj Koirala (2005) has described about “Effectiveness of Advance taxation on income tax generation in Nepal”. The objective of his study were : to

evaluate the feasibility and effectiveness of advance taxation on income tax and overall revenue generation in Nepal, to examine the current position of advance taxation is also one of the tax assessing and tax collection procedure as per Income Tax Act 2002. Income Tax act 2002 has absolutely embraced the self assessment system abolishing existing assessment system. Small tax payers are imposed the tax on the presumptive system. This Act has made provision of amended assessment to adjust the assessed person's liability to tax. Main source of advance tax and the individual sector carries less than 20% of the advance tax on total advance tax collection. The contribution of the advance tax on total revenue was very poor but contribution on income tax is increasing in recent years (Koirala, 2005).

Mr. Rama Kanta Subedi (2007) carried out a study on the topic "Employment income tax system of Nepal & it's contribution to revenue collection". The main objectives of the study were to analyze the trend of revenue collection from employment tax, to analyze the contribution of employment income tax on total tax revenue, direct tax revenue and income tax revenue of Nepal, to identify difficulties faced by tax payers in complying with tax procedure. During the study he found that the rule & provision of employment income taxation are complicated for average tax payer & IRD has not been able to provide adequate knowledge to the taxpayer, contribution of employment tax has not been satisfactory (Subedi, 2007).

Mis. Laxmi Devi Basyal (2008) has presented a dissertation entitled "Impact of Income Tax in National Revenue before and after enactment of Income Tax Act 2058". The objective of the studies are find out the parts of national revenue occupied by income tax and its trend, analysis the consumption of Income tax Revenue from various sources, analysis the contribution of income tax in national revenue before and after enactment of Income Tax Act 2058, To analysis the strength and weaknesses of income tax 2058 and to provide suitable suggestions for the betterment of income tax system in Nepal. Her research shows income tax system income tax system in Nepal is not fully satisfactory. Due to economical liberalization and globalization, very important source of revenue i.e. custom duty is not in condition to bare its current share in coming days. So importance of internal source such as income tax will increase in coming days. But there are many problems in Nepalese income tax system (Basyal, 2008).

Mr. Mahendra Kuwar (2008) carried out the study on the topic “A study on problem & prospects of Remuneration taxation in Nepal”. The objective of the study were to review the income tax structure, Analyze the contribution of Income Tax from Remuneration, to analyze the assessment process of remuneration tax, to identify the existing problem. During the study he found that Nepalese tax revenue consists have direct and indirect tax revenue. Tax revenue has been heavily dominated by indirect tax revenue. Among direct taxes, income tax has the largest share of contribution. The main problem of remuneration taxation is hesitation to pay low income, weak administration, and complexity in income tax policy, rules and regulation, no action for promotion remuneration tax, contribution of remuneration tax has not been found satisfactory (Kuwar, 2008).

Mr. Agni Prasad Adhikari (2010) carried out a study on the topic “Income tax on Business Income in Nepal & it’s impact on revenue collection”. The objectives of this study were to determine the types of business income & contribution to National revenue, examine the status of business Income, find out the impact of income tax on national revenue. During the study he has found that the percentage share of Business Income Tax to government revenue is in increasing trend but is not regarded satisfactory in comparison to other developing countries (Adhikari, 2010).

Mr. Guru Prasad Subedi (2010) carried out a study on the topic of “Employment Tax reform in Nepal and its contribution to the national revenue”. The objectives of the study were to examine the current provision of income tax act from employment, to measure the total contribution to access the employment tax administration system of Nepal. During the study he found that the current provision made for income tax from employment in Nepal under ITA are complicated for an average tax payer. IRD has not been able to provide adequate knowledge either to the tax payers or tax administration to the act and the author suggested that for collect the maximum revenue tax administration system must be improved (Subedi, 2010).

Mr. Dipendra Paudel (2011, M.A. economics) carried out a study on the topic of “Issue and Reforms of Income tax administration in Nepal”. The objectives of the study were to find out the Issue and reforms of the income tax collection system in Nepal, to analyze the role and contribution of income tax, to evaluate performance of income tax and it’s share in GDP, find out scenario of income tax administration. During the study he found that after the continuous implementation of many reforms

in income tax administration, there has been a dramatic change in the income tax collecting system. Public revenue is not able to fulfill the need of public expenditure. The public expenditure increase rapidly and exceeded the development expenditure during the last year. In recent year the volume of development expenditure has also decreased in real terms. So, many reforms in tax system are needed (Paudel, 2011).

### **2.3 Research Gap**

It is found that from previous study has conducted in different topic with different objective with different result in Income Tax field. All of these studies are concentrated only on Business Income, Employment Income and issue & reforms of Income tax but nobody is contributed in income from investment field. Income from investment is one of the most important parts of total income so, the researcher feels that it is also the huge part of income tax & it can be a suitable research topic.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

This chapter is concerned with the procedures that are adopted in the research work. It is the road map of every research work whether scientific or applied research. Research methodology is a part of every research work serves as the bridge linking two edges of river. It suggests every researcher to get the easy and efficient destination achievement stated in Research objectives. "Research Methodology refers to the various sequential steps to be adopted by a researcher in studying problem with certain object in view. It would be appropriate to mention that research project are not susceptible to any one complete and flexible sequence of steps and the type of problems to study will determine the particular steps to be taken and their order too" (Kothari, Quantitative Techniques, 1994).

By above definition Research Methodology is a technique of analyzing the obtained data to solve the research problem. It consists of descriptive approach & statistical tools. Researcher has used the following Methodology to complete the research.

#### **3.1 Research Design**

Research design means an overall framework or plan for the collection and analysis of data or it is the layout of the procedures to be used in data collection and data analysis used for controlling the variances due to different factors (Singh, 2003). To conduct the research of this study, descriptive & analytical design has been adopted. Descriptive research design is used for conceptualization, problem identification, conclusion and suggestion. Descriptive research also seeks to find out the fact by the help of sufficient data and information. Analytical research design is used for analyzing the data to find out the result. To achieve the objective of this study, the study of Income Tax Act, Income tax Rules & regulations, provision of budget speech in Nepal has been carried out. For empirical research, an opinion survey has been conducted. While conducting opinion survey, questionnaires were distributed to different groups who are related to Income Tax. These were Income Tax expert/administrators and taxpayers. The questionnaire included the Role of Income

tax, Effectiveness of Income Tax, role of Investment Income Tax, Administrative aspect of Investment Income Tax. Thus, the study is descriptive, analytical and empirical.

### 3.2 Population & Sample

To fulfill the objectives of the study, tax administrators, tax experts and taxpayers of all Nepal was considered as the total population. Out of them tax administrator/experts and tax payers of Pokhara city was consider as the targeted population sample for the study. 40 sample sizes were selected from different denomination. Persons selected for empirical study were carefully selected by best judgment method the respondents had been divided into 2 groups. The following table shows the groups of respondents and size of samples.

**Table: 3.1**

**Groups of Respondents and Size of Samples**

S.N.	Groups of respondents	Sample size
1.	Income tax experts/administrator	20
2.	Income tax payer	20
	Total	40

### 3.3 Sources of Data

The data collected to conduct this study were from primary and secondary sources. The major source among them is stated below.

#### 3.3.1 Primary Data:

To know the view of different persons related to Income Tax, an opinion sample survey was carried out through structured and unstructured questionnaire to tax payers and tax experts/administrators. The questionnaire was same for all the respondents. Some of the information was also collected from interview with the respondents.

#### 3.3.2 Secondary Data:

The secondary data were collected from following sources:

- I. Economic survey of various years, Ministry of finance, IRD, Government of Nepal.
- II. Budget speech of various years, Ministry of Finance, Government of Nepal.
- III. Annual Reports of Internal Revenue Departments of various years.

- IV. Different books related to Income Tax & Public Finance.
- V. Dissertations related to Income Tax.
- VI. Different Newspaper, Journals, Magazines.
- VII. Web sites of different organizations such as WB, MOF, IRD etc.

### **3.4 Data Collection Procedure**

Necessary data for this study were collected from various sources, out of them only related data are taken into consideration. Primary & secondary data were collected through following method:-

#### **3.4.1 Questionnaire Method:**

To know the views of different persons related to Income tax, Questionnaire method has been used. Open-end questionnaire methods were used to collect the data. Yes/No questions, multiple choice question and descriptive questions with ranking were design to get the response.

##### **3.4.1.1 Weight of Choice:**

An empirical investigation has been conducted in order to find out various aspects of income tax from the experience of real life situation. For this purpose 40 sets of questionnaire are distributed to tax expert/tax administrator and tax payers. The respondents are requested either to rank either answer or to gives Yes/No response or to write their opinion. Respondents were asked to tick the answer of their choice or to put the ranking numbers as first choice was the most important and last choice was least important. For analysis purpose, choices were assigned weights according to number of alternatives. If the number of alternatives were 6(six), then the first preferred choice got seven points and last preferred choice got one point. Any alternative, which was not ranked, did not have any point. The total points available to each choice were converted into percentage in reference to the total points available for all choice.

In that's way, there are 40 respondents: 20 tax experts/administrator and 20 tax payers so, the total weights of each question should be  $\sum_{i=1}^7 20 i \times 560$  for each groups of respondents. But total weights depend on number of respondents who is in unfavour to the general trend to clarify the reasons. 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 total points get by each choice were

converted into Percent (%) of total points available to all choice. The choice having higher Percent(%) was ranked as most important and the choice having lowest Percent (%) was ranked on least important.

#### **3.4.2 Interview Method:**

To make the study more reliable, interview of some concerned personals are taken. Interviews were related to Income Tax on Investment Income in Nepal and it's Impact on Revenue Collection, taxpaying habit of Nepalese people and tax awareness and practice etc. formal & informal discussions were holding with respondents.

#### **3.4.3 Historical Data Record Method:**

It is the main sources of the data for this study. Historical data are collected from reliable sources as accurate as possible by researcher and has visit different offices, libraries and book stalls and various Government of Nepal reports related to the topics. Previous data, which has used by other, are also used for this study.

#### **3.5 Data Processing and Analysis Procedure**

Collected data from various sources are thoroughly reviewed and sorted on the basis of their homogeneous nature of the facts. The sorted data are arranged and presented systematically in suitable tables. The processed and tabulated data were analyzed through different statistical tools which are as follows:

##### a) Percentage

Percentage is the proportion of one unit on the whole unit. It measures the proportion of one unit among all units. It is used to find out the resource gap in Nepal, composition of total revenue in Nepal, Composition of tax revenue in Nepal, composition of direct tax revenue in Nepal. Income from Investment Income Tax & it's impact on Revenue Collection in Nepal in this research.

##### b) Co-relation Coefficient (r)

Correlation analysis is the statistical tool that can be used to describe the degree to which one variable is linearly related to another. The coefficient of co-relation measures the direction of relationship between two sets of figures. It is the square root of the coefficient of determination. Correlation can either be Negative or it can be positive. If both variables are changing in the same direction, then correlation is said to be positive but when the variations in the two variables take place in opposite direction the correlation is termed as Negative.

The strength of correlation between the variables can be quantified. This is achieved by calculating the correlation coefficient. The correlation coefficient varied between +1 and -1; with +1 representing perfectly positive correlation and -1 representing perfectly Negative correlation.

Calculation of Rank Correlation by Formula,

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

c) Probable Error (P.E.)

The probable error is to test whether the calculated value of sample correlation coefficient is significant or not.

If,  $r < P.E. (r)$ , then the value of  $r$  is not significant.

If,  $r > 6 \times P.E. (r)$ , then  $r$  is definitely significant.

Calculation of Probable Error (P.E.) of correlation coefficient

$$P.E. (r) = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

d) Coefficient of Determination ( $r^2$ )

The coefficient of determination is a measure of the degree of linear association or correlation between two variables. One of which happens to be independent and other being dependent variables. In other words;  $r^2$  measure the percentage of total variation in dependent variable explained by independent variables. The coefficient of determination has value range from 0 to 1. If  $r^2$  is equal to 0.85 that indicates that the independent variables used in regression model explain 85% of the total variation in the dependent variable. A value of one occur only the unexplained variation is zero which simply means that all the points in the scatter diagram full exactly on the regression line.

e) Statistical Table

Collected data from various sources are setting on the various types of table. Simple & complex statistical table has been used for the study and some of them are formulated according to the requirement of research objectives.

f) Statistical Diagrams

For analyzing the collected data, various statistical diagrams are used according to the requirement of the objectives. Multiple bar diagram and linear graph has been utilized for this study.

## **CHAPTER-IV**

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

Presentation and analysis of primary and secondary data has been presented in the chapter four. This is one of the most important chapter and has been included the related to the topics extracted from economic survey and annual reports published by ministry of finance the government of Nepal in their respective way and their analysis has been presented accordingly with suitable methods of presentation. Primary data collected from tax payers, tax experts/ tax administrator are analyze in this chapter.

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

This part is devoted to the analysis and presentation of secondary data. The secondary data have been obtained from economic survey, economic bulletin, Budget speech and other related news paper. The available data have been tabulated and presented in graph, charts and analyzed to reach the findings.

##### **4.1.1 Nepalese Government Revenue Structure:**

Nepal's public economy is suffering from low revenue performance and growing public expenditure. The basic sources of revenue are tax revenue and non-tax revenue. Non-tax sources include different revenue like gifts, grants, revenue from public enterprises, administrative revenue such as registration fees, fines and penalties. Tax sources include Customs duty, Excise duty, VAT and Income Tax. But collection of this revenue is not sufficient to cover expenditure. The composition of tax revenue and non-tax revenue from Fiscal Year 2000/2001 to 2009/2010 is presented in table 4.1.

**Table: 4.1**  
**Composition of Total Revenue in Nepal Rs. In Millions**

Fiscal Year	Total Revenue	Tax Revenue		Non-tax Revenue	
		Amount	Percentage (%)	Amount	Percentage (%)
2000/01	48893.6	38865.1	79.49	10028.8	20.51
2001/02	50445.5	39330.6	77.97	11115	22.03
2002/03	56229.8	42587	75.74	13642.7	24.26
2003/04	62331	48173	77.29	14158	22.71
2004/05	70122.7	54104.7	77.16	16018	22.84
2005/06	72282.1	57430.4	79.45	14851.7	20.55
2006/07	87712.1	71127	81.09	16585.1	18.9
2007/08	107622.5	85155.5	79.12	22467	20.88
2008/09	143474.5	117051.9	81.58	26422.6	18.42
2009/10	179945.8	156294.9	87	23650.9	13

*Source: Economic Survey 2011, GON of Finance, 2011*

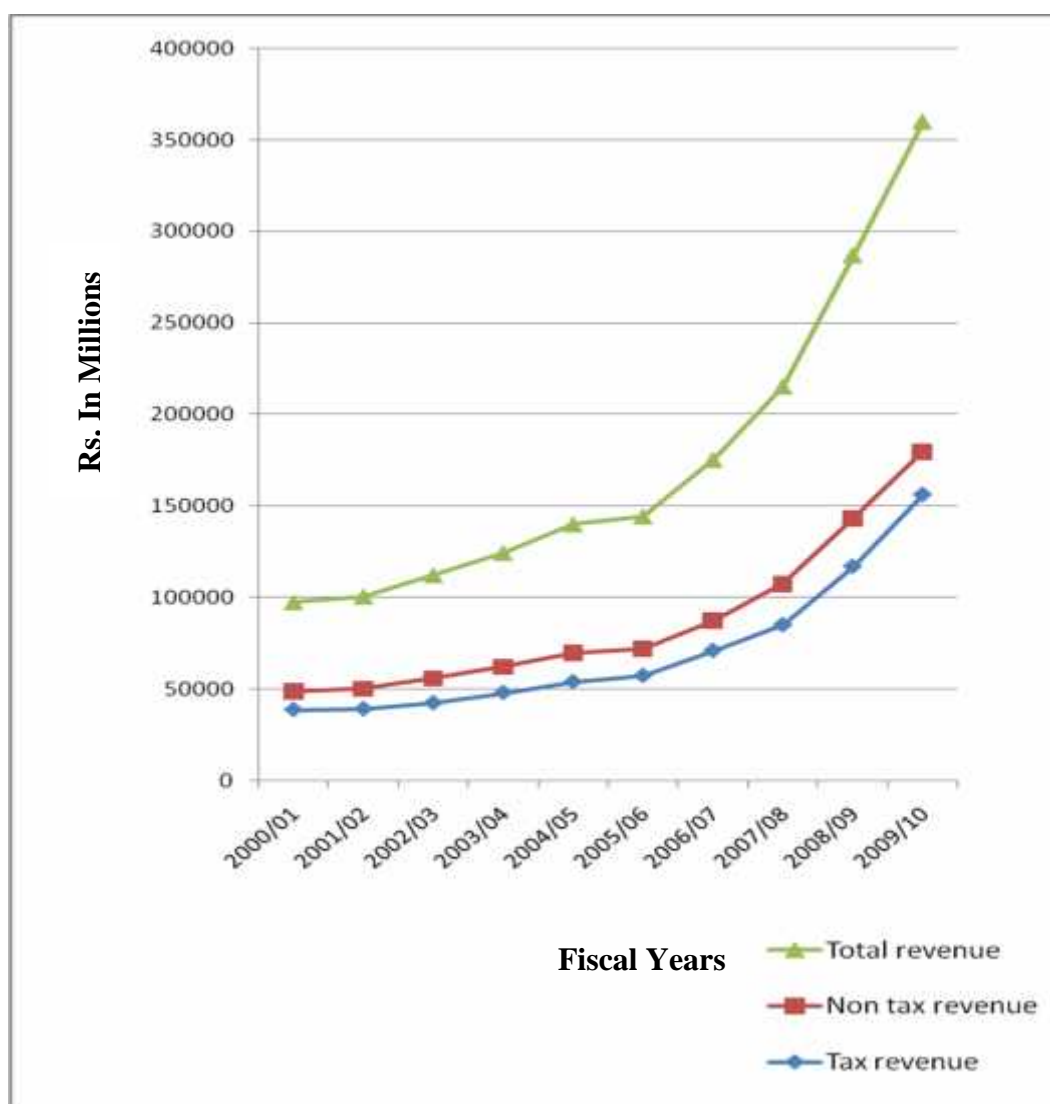
Above table 4.1 shows the dominated role of tax revenue as 79.49 percent of total revenue in 2000/01 and 87 percent in Fiscal Year 2009/10. Share of Non-tax revenue for the same period seems to be 20.51 percent and 13 percent respectively. The amount of Tax-Revenue is continuously increasing but that of Non-tax revenue is fluctuating, that's why the share of Tax revenue and Non-tax revenue are not uniform. The tax revenue seems to be 87 percent as maximum and 75.74 percent as minimum contribution to national revenue in FY 2009/10 and in FY 2002/03 respectively within the study period.

The Tax revenue contributed amount of 48893.6 million and 156294.6 million in 2000/01 and in FY 2009/10 respectively. Figure 4.1 shows that the Tax revenue increase generally in constant rate or slightly change only. The contribution of Non-tax revenue was 10028.8 Million and 23650.9 Million in subsequent fiscal years. It shows the increasing nature of Non-tax revenue but it has also decreased comparing to former year in fiscal Years 2003/04, 2005/06, 2006/07, 2008/09, 2009/10. Mean contribution of Tax revenue and Non-tax revenue within the study period are found as 79.589% and 20.41% respectively.

Composition of Tax revenue and Non-tax revenue is shown in figure 4.1. The figure shows that both Tax and Non-tax revenue are generally increased in last year's. The trend line shows that the Tax revenue is increase greater than Non-tax revenue. So the Tax revenue is the major part of Total Revenue. In the figure X-axis shows the Fiscal Years and Y-axis shows the Revenue. From Fiscal Year 2000/01 to Fiscal Year 2009/10 all revenue Trend lines are increase. Figures show that the Tax revenue is increasing more than non-tax revenue.

**Figure: 4.1**

**Composition of Total Revenue in Nepal**



Source: Economic Survey 2011, GON of Finance, 2011

### 4.1.2 Composition of Tax Revenue in Nepal

Tax revenue is the major source of government revenue. In Nepal contribution of tax revenue is about 81% in fiscal year 2009/10. It is the tools to mobilize the internal resources effectively. The tax revenue constitutes direct and indirect tax. Direct tax includes Income Tax, house land Tax and tax from other assets, House and Land Registration tax, Vehicle Tax & others. Indirect tax generally includes VAT, Excise, Health service Tax, Education service Tax, Foreign Employment service Tax, Product Tax on Foreign Trade and services etc.

The share of direct tax and Indirect Tax in total tax revenue is presented in Table 4.2. It shows the increasing trend of both direct and indirect tax. Indirect tax has a leading role in total in total tax revenue up to 76.27 percent within the study period. Although the amount of indirect tax is increasing, its share to total tax is decreasing. Its share was 73.86 percent in Fiscal Year 2000/01 and reduced to 70.65 % in 2008/09 and again it increase to 73.86 % in Fiscal Years 2009/10. In the other hand direct tax has an increasing trend. It's share became 26.71 % in 2009/10 from 26.14 % in Fiscal years 2000/01. The share of direct tax revenue in Fiscal Years 2009/10 is 26.14 % and indirect tax revenue is 73.86%.

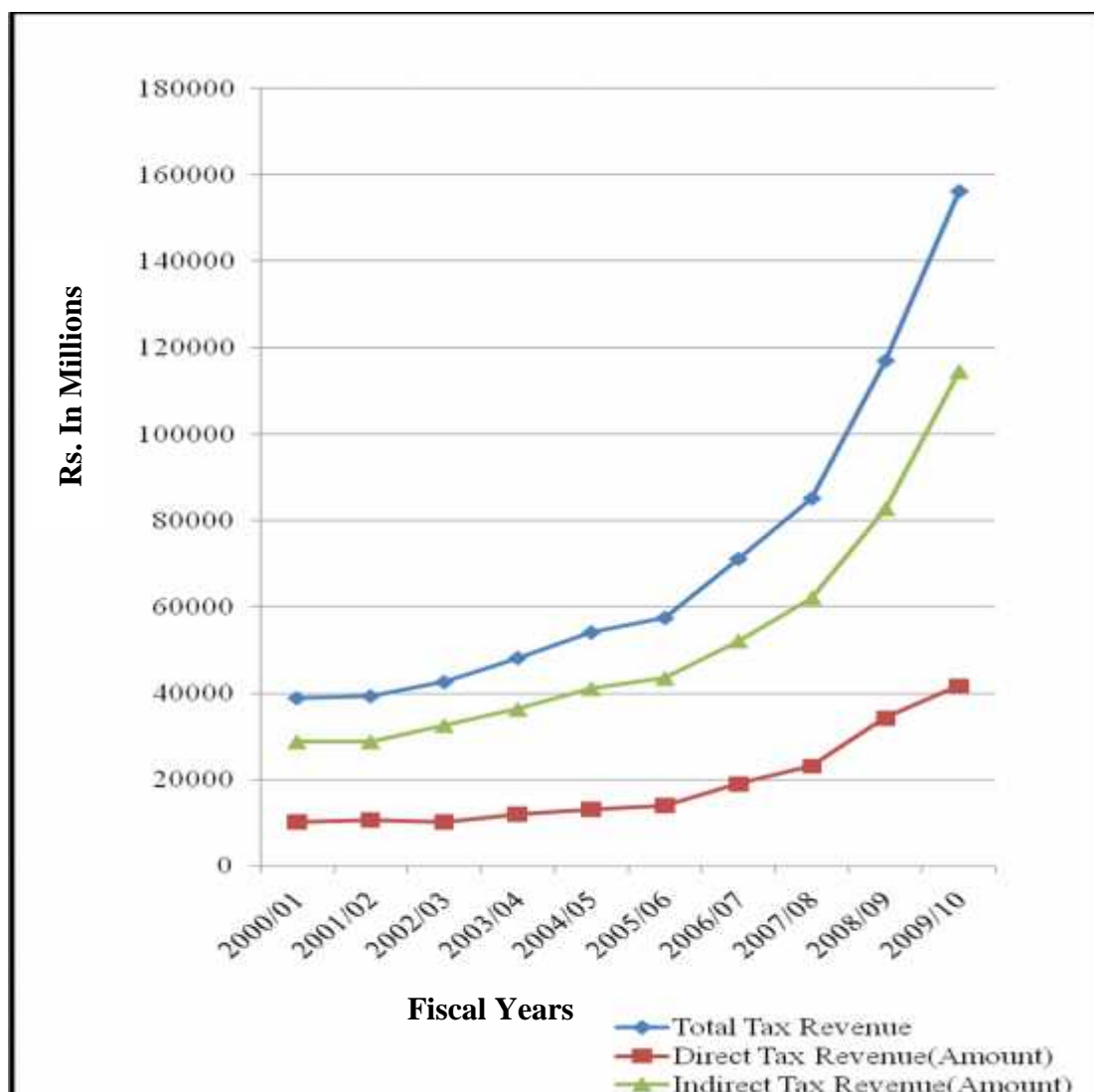
**Table: 4.2**  
**Composition of Tax Revenue in Nepal** Rs. In Millions

Fiscal Years	Total Tax Revenue	Direct Tax Revenue		Indirect Tax Revenue	
		Amount	%	Amount	%
2000/01	38865.1	10159.4	26.14	28705.7	73.86
2001/02	39330.6	10597.5	26.94	28733.1	73.06
2002/03	42587	10105.8	23.73	32481.2	76.27
2003/04	48173	11912.6	24.73	36260.4	75.27
2004/05	54104.7	13071.8	24.16	41032.9	75.84
2005/06	57430.4	13968.1	24.32	43462.3	76.68
2006/07	71127	18980.3	26.68	52146.7	73.31
2007/08	85155.5	23087.3	27.11	62067.69	732.879
2008/09	117051.9	34320.7	29.32	82731.2	70.68
2009/10	156294.9	41750.2	26.71	114544.7	73.29

Source: Economic Survey, GON, IRD, 2011

The graph presentation of composition of Direct Tax and Indirect Tax revenue presented in figure 4.2 shows the totally correlation between Indirect and Total Tax Revenue due to dominating role of Indirect Tax Revenue. Figures shows Direct and Indirect tax are gradually increase in last Years. In the figure 4.2 X-axis shows the Fiscal Year and Y-axis shows revenue in Millions. There are three trend lines; Indirect tax Revenue, Direct Tax Revenue and Total Tax Revenue. Total Tax Revenue is the addition of Direct and Indirect tax Revenue. All trend lines are increasing in figures. The share of Total Tax revenue, Indirect Tax revenue is greater than Direct Tax revenue

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



Source: Economic Survey 2011, GON of Finance, 2011

### 4.3 Composition of Direct Tax Revenue

Direct tax is levy to government for income generation and holding of wealth by natural person as well as business enterprises. It is paid by the imposed person himself and it follows the progressive principle. In Nepal Direct Tax is the composition of Land Revenue and Registration Tax and Tax on Property, Profit and Income. A Direct Tax is a Tax paid by a person on whom it is legally imposed. In Direct tax, the person paying and bearing tax is same. Share of different components of Direct Tax are shown in Table 4.3.

Direct tax is classified into House & Land Registration and Tax on property (vehicle), Income Tax and Tax from other Assets. The role of House & Land Registration is in fluctuating for the study period. It occupy's 5.98% share of direct tax in fiscal year 2000/01& has reached up to occupying 13.2% of Direct Tax Revenue at fiscal year 2009/10. House & Land Tax Registration Tax reached up to maximum 15.22% share of direct tax revenue in FY 2008/09. The Mean contribution of House & Land Registration is 12.72 %, which is lower about to the share in latest FY of the study by 0.48%.

Income tax is an essential part of Direct Tax Revenue. The role of Income Tax Revenue is in Gradually Decreasing up to Fiscal Year 2005/06 from 89.71% in FY 2000/01 to 74.27% of direct tax revenue in FY 2005/06. Then it increased for next two years in FY 2006/07 and 2007/08 and again it decreased in FY 2008/09 from 82.26% to 79.62% Contribution in Direct Tax Revenue. FY 2009/10 it's share in Direct Tax Revenue reached 80.99% .The mean contribution of Income Tax is 80.32%, which is lower about to the share in latest FY of the study by 0.67%.

The role of Vehicle tax or property tax is very low & increasing trend for the first 5 years of the study period. The highest contribution is 6.17% of Direct Tax Revenue in Fiscal Year 2004/05. In fiscal Year 2005/06 the percentage share of Direct Tax Revenue was decreased by 0.10% in comparison to the FY 2004/05 and it continuously decreased contribution percentage up to FY 2007/08 and last two FY it's share of contribution to Direct Tax Revenue was increased up to 5.79% in FY 2009/10. The Mean contribution of Vehicle Tax is 5.42%, which is lower about to the share in latest FY of the study by 0.37%.

The Role of tax on other property is very nominal in Total Direct tax Revenue in Nepal. It's mean contribution on Total Direct Tax Revenue is 3.32%. But in current years it's contribution is decreasing trend with in the study period.

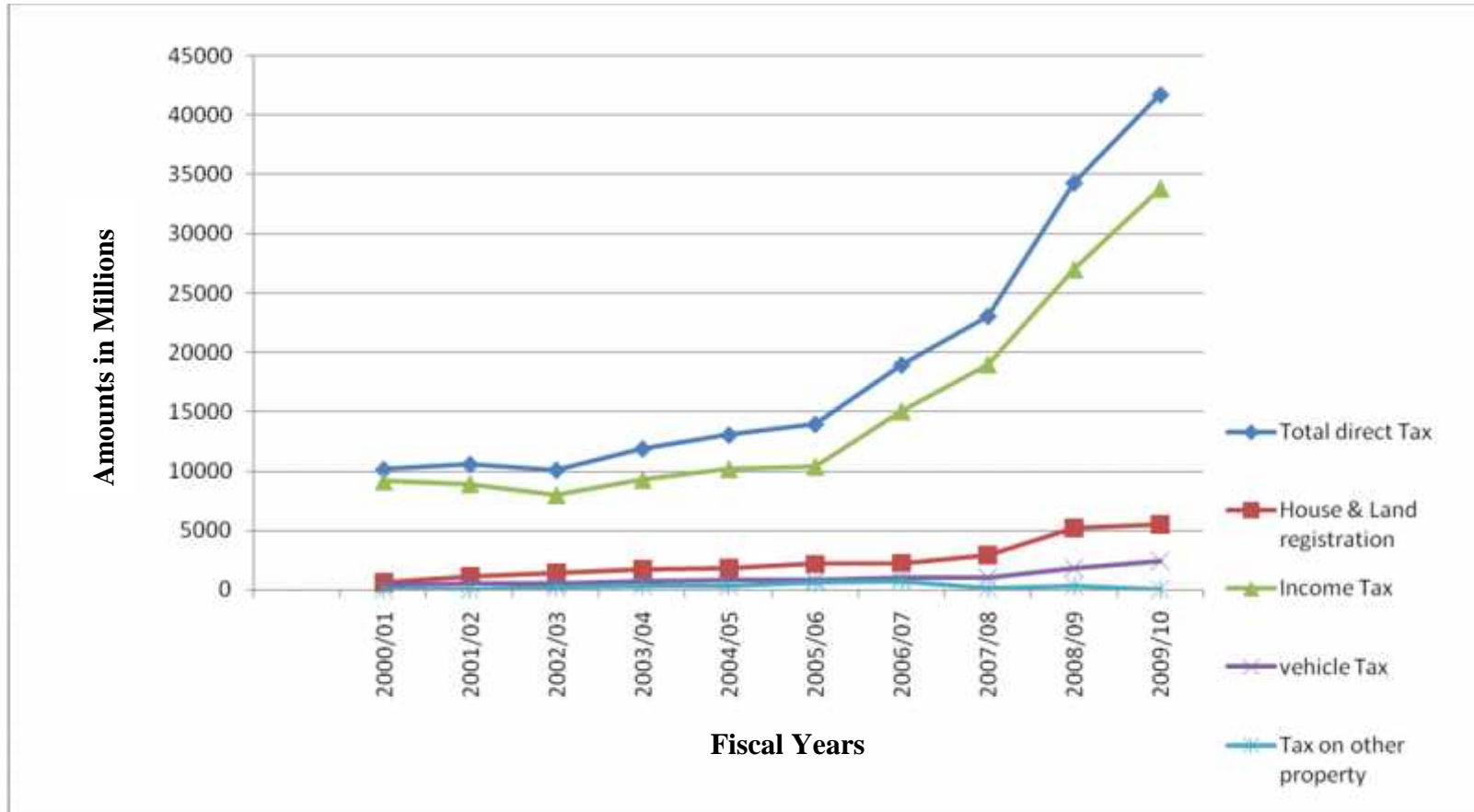
Figure 4.3 shows the trend line of composition of direct tax revenue. In figure X-axis shows Fiscal Years and Y-axis shows revenue in Millions. In figure there are five trend lines which are total Direct Tax, House & Land Registration Tax, Income Tax, Vehicle Tax and Tax on other property. Total Direct Tax is the combination of House and Land Registration, Income Tax, Vehicle Tax, Tax on other Property. In the figure trend line indicates that Total Direct Tax revenue is in increasing trend. House and land registration tax is fluctuating and in an average it is slightly increasing. Income tax trend is in increasing trend. Vehicle tax is about constant growth and tax on other property holds very nominal space of direct tax revenue. The figure is presented below:

**Table: 4.3**  
**Composition of Direct Tax Revenue** (Rs. In Millions)

Fiscal Years	Total Direct Tax	House & Land Registration		Income Tax		Vechicle Tax		Tax on Other Property	
		Amount	%	Amount	%	Amount	%	Amount	%
2000/01	10159.4	607.8	5.98	9114	89.71	432.5	4.25	5.1	0.06
2001/02	10597.5	1131	10.67	8903.7	84.01	562	5.3	0.8	0.02
2002/03	10105.8	1414.3	13.99	7966.2	78.82	559.5	5.53	165.8	1.66
2003/04	11912.6	1697.5	14.25	9245.9	77.61	700.6	5.9	268.6	20.24
2004/05	13071.8	1799.2	13.76	10159.4	77.72	806.5	6.17	306.7	2.35
2005/06	13968.1	2181.1	15.61	10373.7	74.27	847.6	6.07	565.7	4.05
2006/07	18980.3	2253.5	11.87	15034	79.20	995	5.24	697.8	3.69
2007/08	23087.8	2940.7	12.74	18991.3	82.26	1069.2	4.63	86.5	0.37
2008/09	34320.74	5223.4	15.22	26983.3	78.62	1850	5.39	264.1	0.77
2009/10	41750.18	5511	13.2	33811.89	80.99	2417.8	5.79	9.45	0.02

*Source: Economic Survey of various Years, GON, Ministry of Finance, 2011*

**Figure: 4.3**  
**Composition of Direct Tax**



Source: Economic Survey of Various Years, GON, Ministry of Finance, 2011

#### 4.1.4 Composition of Income Tax

Income Tax is the major sources of direct tax revenue. It was first introduced as Business profit and remuneration tax in 1559/60 in Nepal. The first elected government in 1959 introduced Business Profits and Salaries Tax Act, 1960 in Nepal. At that time, Income tax was levied only on Business profit and salaries. It contributed only 203 thousands in that fiscal year. It reached 33811.898 Million after 51 years in Fiscal Years 2009/10, which is out of range of compare. The income tax collections in different income years are shown in table 4.4.

**Table: 4.4**

#### Composition of Income Tax Revenue

**Rs. In millions**

Fiscal Years	Total Income tax	Government Enterprises	Private Corporate bodies	Individuals	Remuneration	Tax on Investment
2000/01	9114	2928	1924.3	3200.5	597.3	725
2001/02	8903.7	1769.3	1412	4419.1	835.6	468
2002/03	7966.2	1251	1236.3	3362.3	1252.6	1322
2003/04	9245.9	2056.6	1531.3	3533.4	1391.2	1292
2004/05	10466.23	1332.43	2467.8	1886	1675.9	1424.7
2005/06	10933.52	195.77	3404.3	1959	1764.1	1546.5
2006/07	15731.8	1019.67	5717.1	2307	2007.9	2080
2007/08	19077.81	204.59	7186.5	2452.3	2451	3271.5
2008/09	27246.43	959.05	9425.1	4472	3196	4161.9
2009/10	33811.89	1331.89	12234.47	3834.3	4413	5088.1

*Source: Economic Survey of various years, GON, Ministry of Finance, 2011*

In table 4.4 Total Income Tax is increasing each year except in 2001/02 and 2003/04. The amount from income tax was only 9114 million on FY 2000/01 and its increasing trend is optimistic up to 2009/10 & it reached to 33811.89 Million. Its trend is gradually increasing within the study period.

Income Tax constitutes income tax from Public/Government Enterprises, Private Corporate Bodies, Individuals, Remuneration, and Tax on Investments. The share of these different sources is presented above table 4.4.

The Table shows that the role of Income Tax from Public Enterprises is significant. The trend of income tax from Public Enterprises is Fluctuating within the study period. It was 2928 Million in FY 2000/01 and after 2000/01 it's trend is declining and has not meet the record of 2000/01., it's condition in 2005/06 is very low as 195.7 Million and just cover 1.9 % of total Income Tax. It is slightly increased in year 2006/07 and reached 1019.67 Million which has been contributed 6.78% in to the total income tax. In fiscal Year 2009/10 it becomes 1331.89 Million only. Which has been contributed 3.93% of total Income Tax.

The share of income tax from Private Corporate Bodies is continuously increasing within study period. The share of income tax from Private Corporate Bodies is Rs.4653.91 in an average. It was in increasing trend up to 2000/01 and it declined for next two years after 2001/02 and slightly increased in 2003/04 than former year. In fiscal year 2009/10 it became 12234.47 Million which has been contributed 36.18%.

Same trend appears in case of Income Tax from Individual. It has the major role in income tax and bears dominating role in former period of the study. The amount of income tax from Individual is fluctuating & its share in total Income Tax is also fluctuating trend. The mean contribution of Individual tax is Rs. 3142.59 Million.

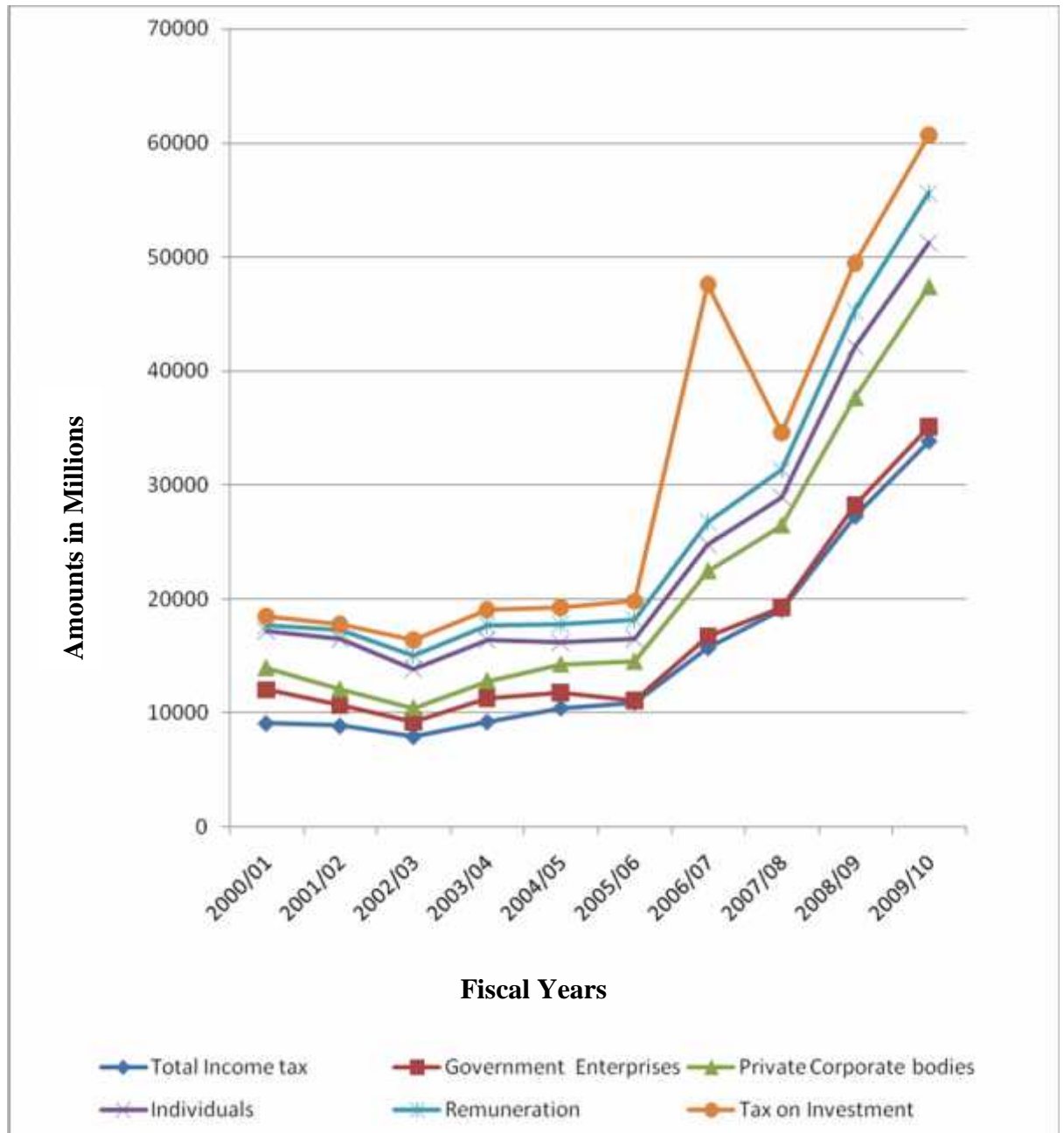
Income Tax from Remuneration is always increasing trend which has never declined. It was 597.3 Million in Fiscal Years 200/01 and reached to Rs. 4413 Million in FY 2009/10 with regular growth. Its share in total income tax is also positive.

Tax on Investment Income is another source of income tax which had increasing trend without FY 2001/02 and FY 2003/04. It's increasing trend is optimistic up to current FY. Investment Tax collection trend is optimistic. It was Rs. 725 Million in FY 2000/01 & it reached Up to Rs. 5088 Million in fiscal year 2009/10 within the study period.

Above data of table 4.4 are presented in figure 4.4 which shows that the composition of income tax revenue by trend line. This figure shows Tax on Investment and Private Corporate Bodies shares are increasing. The Government / Public Enterprises share are up and down in various years. The share of these different sources of income tax is presented in bellow figure 4.4. In figure X-axis

denotes Fiscal Years and Y-axis denotes Revenue in Millions. Above data's are put in the below figures for clarification which shows the trend of income tax revenue.

**Figure: 4.4**  
**Composition of Income Tax**



Source: Economic Survey of various years, GON, Ministry of Finance, 2011

## 4.2 Share of Investment Income Tax in Different Economical Factors

The contribution of income tax to GDP, Total Revenue, and Total Tax Revenue are described in bellow.

### 4.2.1 Contribution to GDP

Gross Domestic Product (GDP) is the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of Imports. For national GDP investment Income Tax also contributes. It's contributes is shown in bellow tables.

**Table: 4.5**

**Contribution of Investment Income Tax to GDP** (Rs. in Millions)

Fiscal Years	Total Income Tax	Investment Income Tax	GDP	% of Income Tax to GDP	% of Investment Income Tax to GDP
2000/01	9114	725	441519	2.06	0.16
2001/02	8903.7	468	459442	1.94	0.10
2002/03	7966.2	1322	492231.3	1.62	0.27
2003/04	9249.9	1292	536748.9	1.72	0.24
2004/05	10466.22	1424.7	504101	2.07	0.28
2005/06	10933.52	1546.5	582950	1.88	0.27
2006/07	15731.8	2080	670588.7	2.32	0.31
2007/08	19077.81	3271.5	820814	2.32	0.40
2008/09	27247.38	4161.9	992012	2.74	0.42
2009/10	33811.89	5088.1	1182680.1	2.89	0.43

*Source: Economic Survey of Various Years, IRD, GON, Ministry of Finance, 2011*

Table 4.5 shows the contribution of income tax and Investment Income Tax to GDP. The contribution of Total Income tax to GDP In fiscal Year 2000/01 was 2.6 percent. It was continuously declined up to fiscal year 2003/04 to 1.72 percent. Then it increased to 2.07% in fiscal year 2004/05 and again declined to 1.88% in fiscal year 2005/06. Then it started to slightly increased in contribution of Total Income ax to GDP up to FY 2009/10. The maximum contribution of Income Tax to GDP was in FY 2009/10 between the study periods, which were 2.89%. The amount of GDP of that

year was 33811.48 Million. Whole the total amount of GDP of that year was 1182680.1 Million.

The Investment Income Tax contribution to GDP was fluctuating up to 2001/02 by 0.10% to 0.43% in FY 2009/10. It was continuously fluctuating up to FY 2005/06 and it hold increasing trend up to FY 2009/10. The maximum contribution of Investment Income Tax to GDP was in FY 2009/10 by 0.43%. The Mean contribution of Investment Income Tax to GDP is 0.29%, which is lower about to the share in latest FY of the study by 0.14%.

#### 4.2.2 Contribution of Investment Income Tax to Total Income Tax

**Table: 4.6**

##### **Contribution of Investment Income to Total Income Tax (Rs. in Millions)**

Fiscal Years	Total Income tax	Investment Income Tax	% of Inv. Income Tax to Total Income Tax
2000/01	9114	725	7.95
2001/02	8903.7	468	5.25
2002/03	7966.2	1322	16.59
2003/04	9249.9	1292	13.97
2004/05	10466.22	1424.7	13.61
2005/06	10933.52	1546.5	14.14
2006/07	15731.8	2080	13.22
2007/08	19077.81	3271.5	17.14
2008/09	27247.38	4161.9	15.27
2009/10	33811.89	5088.1	15.04

*Source: Economic Survey of Various Years, IRD, GON, Ministry of Finance, 2011*

The contribution of Investment Income tax to total Income tax revenue is fluctuating trend within the study period. Minimum contribution of investment income tax to total income tax is 5.25% in FY 2001/02 and maximum contribution is 17.14% in FY 2007/08. But share of contribution is not regarded as satisfactory increment. The Mean contribution of Investment Income Tax to Total Income Tax is 14.09%. The contribution of Investment Income Tax to Total Income Tax is shown in above table 4.5.

### 4.2.3 Contribution to Total Revenue

The contribution of investment Income Tax to Total Revenue was 1.48% in Fiscal Year 2000/01. It is fluctuating up to FY 2003/04. In an average it has increasing trend within the study period. It's contribution to Total Revenue amount is increasing trend but it's share to Total Revenue is fluctuating. The highest contribution of Investment Income Tax to Total Revenue is 3.03% in Fiscal Year 2007/08 and lowest contribution is 0.39% in fiscal year 2001/02. Even though it has been fluctuating trend, it is optimistic in last fiscal year. In FY 2006/07 it was 2.37% of Total Revenue & increased to 3.03% in FY 2007/08 again it decreased in last 2 fiscal year. The mean contribution of Investment Income Tax to Total Revenue is 2.214%. The contribution of Investment Income Tax to Total Revenue is shown in Table 4.7.

**Table: 4.7**

#### **Contribution of Investment Income Tax to Total Revenue** (Rs. in Millions)

Fiscal Years	Total Revenue	Income Tax from Investment Income	% of Investment Income Tax To Total Revenue
2000/01	48893.6	725	1.48
2001/02	50445.5	468	0.93
2002/03	56229.8	1322	2.35
2003/04	62331	1292	2.07
2004/05	70122.7	1424.77	2.03
2005/06	71733.13	1546.55	2.16
2006/07	87711.21	2080	2.37
2007/08	106722.48	3271.48	3.03
2008/09	143474.49	4161.96	2.9
2009/10	179945.82	5088.17	2.82

*Source: Economic Survey of Various Years, IRD, GON, Ministry of Finance, 2011*

### 4.2.3 Contribution of Investment Income Tax to Total Tax Revenue

The tax structure shows that indirect tax has major role in total tax revenue. So Investment Income tax has not so effective share in Total Tax Revenue. It was only 1.87% in FY 2000/01 and decreased to 1.19% in FY 2001/02. It increased in FY 2002/03 to 3.23% and it holds slightly ups and down trend. Maximum contribution to

Total Tax Revenue is 3.84% in FY 2007/08 and Minimum contribution is 1.19% in FY 2001/02. Although it has been slightly fluctuating trend it holds optimistic trend. In last 8 Fiscal Years Investment Income Tax amount is increasing trend but it's share to Total Tax Revenue is very nominal & fluctuating. The mean contribution of Investment Income Tax to Total Tax Revenue is 2.806%. Table 4.8 shows the related data in detail.

**Table: 4.8**

**Contribution of Investment Income Tax to Total Tax Revenue**

Fiscal Years	Total Tax Revenue	Investment Income Tax	% of Investment Tax on Total Tax Revenue
2000/01	38865	725	1.87
2001/02	39330.6	468	1.19
2002/03	40896	1322	3.23
2003/04	48173	1292	2.68
2004/05	54104.7	1424.77	2.63
2005/06	57430.4	1546.55	2.69
2006/07	71127	2080	2.92
2007/08	85155.45	3271.48	3.84
2008/09	111092.37	4161.96	3.75
2009/10	156294.92	5088.17	3.26

*Source: Economic Survey of Various Years, IRD, GON, Ministry of Finance, 2011*

### **4.3 Empirical Investigation:**

#### **4.3.1 Introduction**

An empirical investigation has been conducted in order to find out various aspects of income tax from the experience of real life situation. For this purpose the structured questionnaire was prepared and distributed. 40 sets of questionnaire were distributed to the tax experts, tax administrator and tax payers. The questionnaire has covered role of income tax, condition of income tax system and administration system of Nepal and suggestion for the betterment of income tax system in Nepal. Respondents were asked to tick the answer of their choice or to put the ranking numbers as first choice was the most important and last choice was least important. For analysis purpose, choices were assigned weights according to number of alternatives. If the

number of alternatives were 6(six), then the first preferred choice got seven points and last preferred choice got one point. Any alternative, which was not ranked, did not have any point. The total points available to each choice were converted into percentage in reference to the total points available for all choice. 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 following table shows the groups and number of respondents. The responses received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study.

**Table: 4.9**  
**Groups of respondents and code used sample size**

Groups of Respondents	Sample size	Code
Income Tax experts/ administrator	20	A
Income Tax Payer	20	B
Total	40	

#### 4.3.2 Result of Empirical Investigation:

There were 10 questions in the questionnaire to collect opinions from respondents. Result of empirical study has been stated individually in coming paragraphs.

##### 4.3.2.1 Opinion in Respect to Income Tax System of Nepal is Efficient

To know respondent's opinion towards the income tax system of Nepal a question was asked, "In your opinion is the Income Tax system of Nepal is efficient?" the responses are summarized below:

**Table: 4.10**  
**Opinion in Respect to Income tax system of Nepal is Efficient**

Responses Respondents	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Experts/administrators	0	0	20	100	20	100
Tax Payers	2	10	18	90	20	100
Total	2	5	38	95	40	100

*Source: Opinion Survey, 2012*

From the opinion survey, it was found that 100% of tax experts and 90% of Tax payers did not agree with the efficient of Income Tax system of Nepal and efficient utilization of collected tax revenue of Nepal. In total 5% of total respondents think that there was efficient income tax system of Nepal while 95% respondents did not agree.

#### **4.3.2.2 Opinion in Respect to Investment Income Tax is an Important Source of Government Revenue of Nepal.**

To know that respondents opinion about role of income tax; a question was asked, “Do you think that Investment Income Tax is an important source of collecting government revenue?” the responses are tabulated as below:

**Table: 4.11**  
**Opinion in Respect to Investment Income Tax is an Important Source of Government Revenue of Nepal.**

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts/administrator	18	90	2	10	20	100
Tax payers	15	75	5	25	20	100
Total	33	82.5	7	17.5	40	100

*Source: Opinion Survey, 2012*

From the above table, it is clear that 82.5% of the respondents approved the income tax as a suitable means of raising government revenue and only 17.5% respondents did not recognize income tax as a suitable means of raising government revenue. Thus, the conclusion can be drawn out that the income tax is a suitable means of raising government revenue of Nepal.

#### **4.3.2.3 Opinion in Respect to Government Investment Income Tax System in Nepal**

To know the respondents view to government investment income tax system in Nepal, a question was asked; “How is the government Investment Income Tax System in Nepal in your opinion?” the responses have been tabulated below:

**Table: 4.12****Opinion in Respect to Government Investment Income Tax System in Nepal**

Responses Respondents	Sound & Effective		Poor		Total	
	No.	%	No.	%	No.	%
Tax Experts/administrator	2	10	18	30	20	100
Tax payers	5	25	15	75	20	100
Total	7	17.5	33	82.5	40	100

*Source: Opinion Survey, 2012*

From the above result, it is clear that 82.5% of respondents have approved that the Government Investment Tax system is poor. But 17.5% of respondents think that Investment Income Tax system is sound & Effective. However, majority of respondents approved that Government Investment Income Tax System is poor in Nepal.

**4.3.2.4 Opinion in Respect to Tax Paying Habit of Nepalese People**

To know the respondents view about taxpaying habit of Nepalese people, a question was asked; “In Your opinion, is the taxpaying habit of Nepalese people is poor?” the responses have been tabulated below:

**Table: 4.13****Opinion in Respect to Tax Paying Habit of Nepalese People**

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Expert/Administrators	20	100	0	0	20	100
Tax Payers	16	80	4	20	20	100
Total	36	90	4	10	40	100

*Source: Opinion Survey, 2012*

From the above table, it is clear that 90% of respondents approved that taxpaying habit of Nepalese people is poor. But 10% of respondents think that there is not poor habit of Nepalese people to pay tax. Who said yes it was asked that the causes of poor

taxpaying habit of Nepalese people & requested them to rank in order to preference. The response was as follows:

**Table: 4.13.1**

**Response to Main Reasons behind Poor Taxpaying Habit of Nepalese People**

S.No.	Reasons for Poor Taxpaying Habit	Total Points Received				
		Tax Experts	Taxpayer	Total	Percentage	Rank
1	Lack of proper tax education.	112	76	193	18.65	I
2	Povertyness of tax payers.	68	34	102	10.11	VI
3	Wide spread practices of illegal way to earning money.	104	81	185	18.35	II
4	No provision of incentives for regular tax payers.	88	92	180	17.86	III
5	Complexity of tax laws and policies.	76	78	154	15.28	IV
6	Defective tax administrative system.	60	64	124	12.3	V
7	Others.	52	23	75	7.74	VII
Total		560	448	1008	100	

*Source: Opinion Survey, 2012*

Seven causes were presented and asked respondents to know their opinion about the major reasons of poor taxpaying habit of Nepalese people . The choices of respondents are summarized and tabulated in table 4.13.1

From the opinion survey, the main reasons of poor taxpaying habit of Nepalese people are lack of proper tax education. Serially other causes are as listed below:

1. Lack of proper tax education.
2. Wide spread practices of illegal way to earning money.
3. No provision of incentives for regular tax payers.
4. Defective tax administrative system.

5. Complexity of tax laws and policies
6. Poverty of tax payers.
7. Others (corruption, lack of proper communication, etc).

To know the main causes of poor taxpaying habit of Nepalese people, researcher test rank cor-relation coefficient.

**Hypothesis:**

There is no significance relationship between the view of tax experts/tax administrators and taxpayers with respect to main causes of poor taxpaying habit of Nepalese people.

**Calculation of Co-relation by Formula,**

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

$$Pr = 6.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Let variable X and Y denote views of Tax Experts/Tax administrator and Taxpayers respectively.

**Table: 4.13.2**  
**Co-relation Test in Respect to Main Reasons behind Poor Taxpaying Habit of Nepalese People**

S.N.	Causes of poor taxpaying habit	Total points (X)	Rank (R1)	Total points (Y)	Rank (R2)	Difference of Rank (R1-R2)	Square of difference $(R1 - R2)^2$
1.	Lack of proper tax education.	112	1	76	4	-3	9
2.	Poverty of tax payers.	68	5	34	6	-1	1
3.	Wide spread practices of illegal way to earning money.	104	2	81	2	0	0
4.	No provision of incentives for regular tax payers.	88	3	92	1	2	4
5.	Complexity of tax laws and policies.	76	4	78	3	1	1
6.	Defective tax administrative system.	60	6	64	5	1	1
7.	Others.	52	7	23	7	0	0
							$d^2=16$

$$R = 1 - \frac{6(16)}{7(7^2 - 1)} = 0.71$$

$$Pr = 0.6745 \times \frac{1 - 0.71^2}{\sqrt{7}} = 0.13$$

Here,  $r$  is greater than  $P_r$ . The relation is not significant because to be significant  $r$  should be 6 times greater than  $P_r$ . So null hypothesis is rejected. That means the opinions of tax experts/administrator and taxpayers regarding main causes of poor taxpaying habit of Nepalese people are significantly different. But there is some relationship between their views because the value of  $r$  is moderate.

#### **4.3.2.5 Opinion in Respect to Government is success to collect sufficient Income Tax through Investment Income Tax**

To know the view of respondents view to Government is success to collect sufficient Income Tax through Investment Income Tax or not, a question was asked “Do You think that the government is success to collect sufficient Income Tax through Investment Income Tax?” the response have been tabulated as below:

**Table: 4.14**

#### **Opinion in Respect to Government is success to collect sufficient Income Tax through Investment Income Tax**

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Expert/Administrators	0	0	20	100	20	100
Tax Payers	3	15	17	85	20	100
Total	3	7.5	37	92.5	40	100

*Source: Opinion Survey, 2012*

From the above table, it is clear that 7.5% of respondents have approved that the Government success to collect the Income Tax from Investment Income Tax. But 92.5% of respondents think that Government is not success to collect sufficient Income Tax through Investment Income Tax. Respondents who said No, it was asked that “How to increase the Investment Income Tax revenue in Nepal?”, and requested them to rank the possible way in order to preference. The respondent’s response was as follows:

**Table: 4.14.1**  
**Response in Respect to Way to Increase the Investment Income Tax**  
**Revenue in Nepal**

S.N.	Way to Increase the Investment Income Tax	Total Points Received				
		Tax Experts	Tax Payers	Total	%	Rank
1.	By increasing tax rate.	81	60	141	13.61	V
2.	By reducing the exemption limit.	76	81	157	15.15	III
3.	By reducing concession, rebate and withholding payments.	74	58	132	12.74	VI
4.	By making clear act, rule and regulations.	135	96	231	22.29	I
5.	By giving training to tax administrator and taxpayers about tax laws and regulations.	98	76	174	16.79	II
6.	By applying high penalty and fines assesses fails to submit the statements.	68	75	143	13.8	IV
7.	Others	28	30	58	5.62	VII
Total		560	476	1036	100	

*Source: Opinion Survey, 2012*

Way to increase the Investment Income Tax revenue in Nepal, six ways were presented & provides chance to give their opinion also and asked respondents to know their opinion. The choice of respondents are summarized and tabulated in table 4.14.1. From the opinion survey, the major ways to increase the Investment Income Tax revenue in Nepal is by making clear Act, rules & regulations. Serially other causes are as listed below:

1. By making clear act, rule and regulations.
2. By giving training to tax administrator and taxpayers about tax laws and regulations.
3. By reducing the exemption limit.
4. By applying high penalty and fines assesses fails to submit the statements

5. By increasing tax rate.
6. By reducing concession, rebate and withholding payments.
7. Others, (social welfare scheme, increasing tax payers etc.)

To know the way to increase the Investment Tax Revenue in Nepal, Researcher test Rank Co-relation Coefficient.

**Hypothesis:**

There is no significant different between the views of tax experts and taxpayers with respect to major ways to increase the Investment Tax Revenue in Nepal.

**Calculation of Rank Co-relation by Formula,**

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

$$Pr = 6.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Let variable X and Y denote views of Tax Experts/Tax administrator and Taxpayers respectively.

**Table: 4.14.2**  
**Co-relation Test in Respect to Way to Increase the Investment Income Tax**  
**Revenue in Nepal**

S.N.	Way to increase Investment Tax Revenue	Total Points (X)	Rank (R1)	Total Points (Y)	Rank (R2)	(R1-R2)	$(R1 - R2)^2$
1.	By increasing the tax rate.	81	3	60	5	-2	4
2.	By reducing exemption limit.	76	4	81	2	2	4
3.	By reducing concession, rebate and withholding payments.	74	5	58	6	-1	1
4.	By making clear act.	135	1	96	1	0	0
5.	By giving training to tax administrator and tax payer about tax laws and regulations.	98	2	76	3	-1	1
6.	By applying high penalty and fines to assesses fails to submit the statements	68	6	75	4	2	4
7.	Others	28	7	30	7	0	0
							$\sum d^2 = 14$

$$R = 1 - \frac{6(14)}{7(7^2 - 1)} = 0.75$$

$$Pr = 0.6745 \times \frac{1 - (0.75)^2}{\sqrt{7}} = 0.11$$

Here, r is greater than Pr. The relation is significant because to be significant r should be 6 times greater than Pr. So null Hypothesis is accepted. That means the

opinion of tax experts and tax payers regarding the ways of increase Investment Tax Revenue in Nepal are not significantly different.

#### 4.3.2.6 Opinion in Respect to Increase Taxpaying Habit of Nepalese People

To know respondent's opinion towards the how to increase taxpaying habit of Nepalese people, the respondent's response are as follows:

**Table: 4.15**

#### Opinion in Respect to Increase Taxpaying Habit of Nepalese People

S.N.	Ways to increase taxpaying Habit of Nepalese People.	Total Points Received				
		Tax Expert	Tax Payer	Total	%	Rank
1.	Proper tax education.	130	108	238	21.25	I
2.	Better incentive for regular tax payers.	105	122	227	20.67	II
3.	Sound and effective administration system.	104	92	196	17.5	III
4.	Simplification of tax laws and policy.	81	94	165	15.62	IV
5.	Better communication between tax payers and tax office.	88	114	202	18.03	V
6.	Nothing is required.	0	0	0	0	VII
7.	Others.	52	30	82	7.32	VI
Total		560	560	1120	100	

*Source: Opinion Survey, 2012*

To increase taxpaying habit of Nepalese people, six causes were presented and asked respondents to know their opinion. The choice of respondents are summarized and tabulated in the table 4.15.

From the opinion survey, best ways to increase taxpaying habit of Nepalese people is by proper tax education. Serially other causes are as listed below:

1. Proper tax education.
2. Better incentives for regular tax payers.
3. Sound and effective administration system.
4. Simplification of tax laws and policy.

5. Better communication between tax payers and tax office.
6. Others (social welfare scheme, making clear act, remove illegal practices of earning money, Remove corruption from the system).
7. Nothing is required.

#### 4.3.2.7 Opinion for Way to Make tax Payers more Responsible:

Responsible taxpayers are the most important factors of effective and sound tax system. Our tax system cannot be exception. Whether the question is raised about tax system, everybody must look at different factors related to taxpayers. These factors may be degree of awareness, feeling of responsibilities, attitude of taxpayers; economical environment etc. if tax system is seems to be not efficient, we must consider the side of taxpayers. To know how the respondents think to improve attitude of taxpayers, question was asked, “what is the most appropriate way that makes tax payers amore responsible?” suggestions made by respondents are tabulated below:

**Table: 4.16**

#### **Opinion for Way to Make tax Payers more Responsible:**

Responses	Awareness through Media		Harder Provisions in Rules		Incentives such as prize and respect		Noting is required	
	No.	%	No	%	No	%	No	%
Respondents								
Tax Expert/Administrators	8	40	5	25	7	35	0	0
Tax Payers	7	35	2	10	11	55	0	0
Total	15	37.5	7	17.5	18	45	0	0

*Source: Opinion Survey, 2012*

From the opinion Survey, it was found 40% tax expert/administrator and 35% of taxpayers think taxpayers not to be aware. So they recommended for awareness through different Media. 17.5% of respondents have opinion that taxpayers are aware but have intention to evasion so it required harder provisions in rule. Fines, penalties, punishments etc, can bring them in track. Other 45% respondents including 55 % of taxpayers, 35% of tax experts identify the tax payers as responsible citizen and argued

incentives such as prize and respect will motivate them. According to Survey result, all provisions are to be implemented simultaneously.

#### **4.3.2.8 Opinion in Respect to Investment Income Tax Administration System of Nepal**

To know about Investment Income Tax administration system of Nepal, a question asked to respondent as “In your opinion, how is the Investment Income Tax administration system of Nepal?” respondent’s response differently which is presented as bellow:

**Table: 4.17**

#### **Opinion in Respect to Investment Income Tax administration system of Nepal**

Response	Effective		Ineffective		Total	
	No.	%	No.	%	No.	%
Tax Expert/Administrators	0	0	20	100	20	100
Tax Payers	0	0	20	100	20	100
Total	0	0	40	100	40	100

*Source: Opinion Survey, 2012*

Respondents who response Ineffective it was asked that to suggest about the man causes of Ineffectiveness of tax administration system in order to priority. The respondent’s responses are as follows:

**Table: 4.17.1**  
**Response to Main causes of Ineffectiveness of Investment Tax administration system**

S.N.	Causes of Ineffectiveness	Total Points received				
		Tax Experts	Tax payer	Total	%	Rank
1.	Lack of trained and competent tax personnel.	110	96	206	18.39	I
2.	Lack of proper communication.	78	91	169	15.09	IV
3.	Complicated tax laws.	104	93	197	17.59	II
4.	Lack of proper direction.	90	100	190	16.96	III
5.	Lack of co-ordination	66	68	134	11.96	VI
6.	Undue delay on making assessment.	62	92	154	13.75	V
7.	Others.	20	20	70	6.26	VII
Total		560	560	1120	100	

*Source: Opinion Survey, 2012*

For the main causes of Ineffectiveness of Tax administration system in Nepal, six possible causes were presented and provided chance to give their opinion also and asked respondents to their opinion. The choice of respondent's are summarized and presented in table 4.17.1.

From the opinion Survey, the major causes of Ineffective Investment Tax administration system in Nepal is lack of trained and competent Tax personnel. Serially other causes area as listed below:

1. Lack of trained and competent tax personnel.
2. Complicated tax laws.
3. Lack of proper direction.

4. Lack of proper communication.
5. Undue delay on making assessment.
6. Lack of co-ordination
7. Others. (Corruption, wide spread practices of illegal way to earning money, not awareness of people etc.)

To know the major causes of ineffective Investment income tax administration system of Nepal, Researcher test rank Co-relation coefficient.

**Hypothesis:**

There is no significant difference between the views of tax expert and taxpayers with respect to major causes of ineffectiveness of Investment Income Tax administration system in Nepal.

**Calculation of Co-relation by formula,**

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

$$Pr = 6.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Let variable X and Y denote view of tax expert and tax payers respectively.

**Table: 4.17.2**  
**Co-relation Test in Respect to Main causes of Ineffectiveness of Investment Tax administration system**

S.N.	Causes of ineffectiveness	Total points (X)	Rank (R1)	Total points (Y)	Rank (R2)	Difference of rank (R1-R2)	$(R1 - R2)^2$
1.	Lack of trained and competent tax personnel.	110	1	96	2	-1	1
2.	Lack of proper communication.	78	4	91	5	-1	1
3.	Complicated tax laws.	104	2	93	3	-1	1
4.	Lack of proper direction.	90	3	100	1	2	4
5.	Lack of co-ordination	66	5	68	6	-1	1
6.	Undue delay on making assessment.	62	6	92	4	2	4
7.	Others.	50	7	20	7	0	0
Total		560		560			$\Sigma \square^2 = 12$

$$R = 1 - \frac{6(12)}{7(7^2 - 1)} = 0.79$$

$$Pr = 0.6745 \times \frac{1 - (0.79)^2}{\sqrt{7}} = 0.10$$

Here R is greater than Pr. The relation is significant because to be significant R should be 6 times greater than Pr. So null Hypothesis is accepted. That means the opinions of the experts and taxpayer's regarding major causes of ineffectiveness of the Investment Income Tax administration of Nepal are not significantly different.

#### 4.3.2.9 Opinion in Respect to Way to Improvement of Tax Administration System:

To know about the way to improvement of Tax Administration System what should be the degree of change was asked to respondents as “what is your suggestion for the improvement of Tax Administration System?” The respondent response differently as shown in the table:

**Table: 4.18**

#### Opinion in Respect to Change Required in Tax Administration

Responses	General improvement such as decentralization and delegation of authority		Evolutionary change		No change	
	No.	%	No.	%	No.	%
Tax experts	9	45	11	55	0	0
Tax payers	7	35	13	65	0	0
Total	16	40	24	60	0	0

*Source: Opinion Survey, 2012*

To know about way of improvement of Tax Administration System which includes remarkable representation of tax administrators, i.e. 40% of them think general improvement such as decentralization and delegation will solve the problem. But 55% of tax experts and 65% of tax payer’s feels evolutionary change is lacking for betterment of tax administration system.

#### 4.3.10 Any Other Comments and Suggestions about Income Tax on Investment Income in Nepal.

It was asked that to all Respondents in last question “If you have any other comments and suggestions about Income Tax on Investment Income in Nepal? Please specify”, but few respondents’ responses that question. The responses are summaries as bellow:

1. Making clear act, rule and regulation.
2. Increasing the numbers of Taxpayers.
3. Making provision to increase incentives such as prizes and respect.
4. Making hard rules to decrease corruptions.
5. Reduce the tax rates, etc.

#### 4.4 Major Findings of the Study

On the basis of data presentation and analysis in above mentioned sub-chapters some important findings of the study are summarized below:

1. The study shows that the contribution of tax revenue to total revenue was 87% and that of non-tax revenue was 13% in fiscal year 2009/10. It shows that taxation has been a major source of government revenue. But the contribution of tax revenue was in the decreasing trend. It's contribution was 81.09% in FY 2006/07 on total revenue, which was slightly decreased to 79.12% in FY 2007/08 but increase in FY 2008/09 by 81.58% and 87% in FY 2009/10.
2. The tax revenue constitutes direct and indirect tax. Indirect tax has a leading role in total tax revenue. It's share was 73.86% in FY 2000/01 and reduced to 73.06% in FY 2001/02 and gradually increased to 75.84% in FY 2004/05 and again reduced to 70.68% in year 2008/09 and increased up to 73.29% in FY 2009/10. The Mean contributions of Direct tax Revenue & Indirect tax Revenue within the study period are found 25.984% and 74.445% respectively.
3. Direct tax is levied by government for income generation and holding of wealth. In Nepal, Direct Tax is the composition of House & land Registration tax, House and land revenue or Tax on other property, Income Tax, Vehicle Tax. House & Land Registration tax occupies 13.17% of direct tax, Income tax occupies 80%, other property tax occupies 1.26% and Vehicle tax occupies 5.45% of Direct Tax Revenue in FY 2009/10.
4. Income Tax is the major sources of direct tax revenue. The amount from income tax was Rs.9114Million in FY 2000/01 and reached up to Rs.33811.89 Million in FY 2009/10. Income tax constitutes Income tax from public enterprises, semi public enterprises, private corporate bodies, individual, remuneration and tax on Investment Income.
5. The role of Income Tax from public enterprises is significant. It has contributed 8.56% to total income tax in average. The share of income tax from private corporate bodies is 30.51% in average. Income tax from public enterprises has mostly effected. It holds fluctuating trend with-in the study period. But last year it has been increased and seems positive symptoms. The

effect in income tax collection from private corporate bodies is declined for first three years and slowly growing for last 6 fiscal years.

6. Income tax from Individual has the major role in income tax and bears dominating role in period of the study. The mean contribution of Individual tax is Rs. 3142.59 Million (20.60%) in total income tax & it holds fluctuating trend.
7. Income tax from Remuneration is always increasing trend which has never declined. It's share in total Income tax is also positive. The Mean contribution of remuneration tax to income tax is 12.84%.
8. Income tax from Investment Income is another source of Income tax which has Increasing trend except FY 2001/02 & 2002/03. Investment income tax collection trend is optimistic. Mean contribution of Investment income tax to total Income tax is 14.09%.
9. Total Income tax revenue / GDP ratio in FY 2000/01 was 2.06% which increased to 2.89% in FY 2009/10 but which is not satisfactory increment for the developing country like Nepal. The share of total income tax is 0.29% in average with respect to GDP.
10. Investment Income tax revenue/ GDP ratio in FY 2000/01 was 0.16% which increased to 0.43% in the FY 2009/10. But this ratio is not regarded as satisfactory increment.
11. Investment Income Tax portion in total revenue was 3.03% of maximum in FY 2007/08 and lowest in FY 2001/02 and it was 0.93%. The mean contribution of Investment Income Tax revenue to Total revenue is 2.214%.
12. From the opinion survey with various respondents i.e. Income Tax Experts/administrators and Income taxpayers, the following findings have been drawn:
  - I. Most of the respondents did not agree to Income Tax system of Nepal is sufficient.
  - II. Investment Income tax is an important source of government of Nepal.
  - III. Government Investment Income tax system is poor in Nepal.
  - IV. Lack of proper tax education, wide spread practices of illegal way to earning money, no provision of incentives for regular tax payers, complexity of tax laws and policies, defective tax administration

system, povertiness of taxpayers, corruption are the main reasons for poor taxpaying habit of Nepalese people. And the opinion of tax experts/administrator and taxpayer regarding main causes of poor taxpaying habits of Nepalese people are not significantly different.

- V. Most of the respondents did not agree that government is success to collect sufficient income tax through investment income tax. To increase the investment income tax revenue in Nepal, increasing tax rate, reducing the exemption limit, reducing concession, rebate and withholding payments, making clear act & rules and regulation, applying high penalty and fines assesses fails to submit the statements are the main ways.
- VI. To Increase taxpaying habit of Nepalese people, the most suitable ways are proper tax education, better incentives for regular tax payers, sound and effective administration system, simplification of tax laws & policies, better communication between tax payer and tax office.
- VII. To make tax payer more responsible the most suitable way are incentives such as prize and respect, awareness through media and harder provisions in rules.
- VIII. Most of the respondents did not agree about investment income tax administration system of Nepal is effective. Major causes of ineffectiveness of tax administration system are lack of trained and competent tax personnel, complicated tax laws, lack of proper direction, lack of proper communication, undue delay in making assessment, lack of co-ordination, not awareness of people etc. and the opinion of tax experts/administrator and tax payer's regarding major causes of ineffectiveness of the investment income tax administration of Nepal are significantly different.
- IX. To improve the tax administration system of Nepal, most of the respondents are in favour of need to evolutionary change and some of them are in favour of general improvement such as decentralization and delegation of authority.

## **CHAPTER-V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary**

The role of government is increasing as concept of welfare state is introducing. It requires fund to improve lifestyle of people, lunch public welfare program and maintain law and order. Fund is collected by government through external & internal sources. External sources such as foreign loan, grants, borrowing etc are not certain and not good for sustainable economic development of the country so any government has to emphasis on internal sources such as tax and non-tax revenue to collect necessary fund.

Nepal is one of the least development countries of the world. Besides it is trying on planned development over five decades, already suffering from resource constraints, massive poverty, rapid growth of population, increasing frictional and seasonal unemployment, diseases, aggressive dependent on agriculture, subsistence living standards and poor infrastructure. To overcome such serious problems government requires lots of funds but resource mobilization is still poor condition in Nepal. The resource gap i.e. the gap between government expenditure and internal source is widening continuously. There is no alternative to mobilize internal resources and collect funds internally through revenue for rapid and sustainable economic growth.

Revenue constitutes tax and non-tax revenue. Direct and indirect taxes are branches of tax revenue and income tax is one of the major sources of direct tax. History of income tax starts from eighteenth century in world, initiated from Great Britain. In Nepal, the first parliamentary government imposed income tax in Nepal in 1959. Income Tax Act 1962 was enacted in 1962 replacing Business, Profit and Remuneration Tax Act of 1959. The Income Tax Act, 1962 was replaced by Income Tax Act 1974, which was amended for eight times and existed for a period of 28 years. The Income Tax Act, 1974 and all the income tax related provisions made under other special enactment have been replaced and existing Income Tax Act, 2058 (01, April 2002). The Act governs all income tax matters and is applicable throughout

the kingdom of Nepal. It is also applicable to residents residing wherever outside Nepal.

The Act has categorized the income mainly into three broad heads: Employment (an individual's remuneration income from an employment for an income year), Business Income (profits and gains of a person or entity from conducting a business for an income year) and Investment Income (profits and gains of a person conducting an investment for an income year).

Generally an investment refers to purchase of an assets or items with the hope that will generate income or appreciate in future. ITA, 2058 has defined investment as an act of holding or investing one or more assets. But it excludes the act of holding of assets for personal use by the person owing the assets and employment or business. Income from investment refers to income generated from the capital related activities. It is, in fact a residual income, which is computed only after computing business and employment income. A person's income from an investment for an income year is the person's profits and gain from conducting the investment for the year.

In income tax, Investment income tax is the main source of it. The role of Investment income tax is significant. It has contributed 14.09% to total income tax in average. The share of income tax from Government Enterprises is 8.56%, share of income tax from Private Corporate Bodies 30.51%, from Individual 20.60% and from Remuneration 12.84% in average with compare to total Income tax. The share of income tax to GDP is 2.28% in an average and the share of investment income tax to GDP 0.29% in average. Contribution of Investment Income tax to Total Revenue is 2.21% in average and the Mean contribution of investment Income Tax to Total Tax Revenue is 2.8%. But this ratio is not regarded as satisfactory increment within the study period of last decades.

## **5.2 Conclusion**

Nepal is one of the least developed countries. It is suffering from chronic diseases. It is not being able to collect necessary government revenue to cure such disease due to poor performance on internal revenue collection and mobilization. It has still dependant on foreign grants and loans. Unless remedy should be made in due time, the country cannot run in the path of economic development. In developing countries like Nepal, lack of sufficient financial resources is the main constraint for national

economic development. There is no alternative to mobilize internal resources and collect funds internally through revenue for rapid and sustainable economic growth.

1. The revenue structure of Nepal is composed of tax and non-tax revenues. In total revenue structure, tax revenue has the greatest share of contribution.
2. Nepalese tax revenue consists of direct and indirect tax revenue. Tax has been heavily dominated by indirect tax revenue. Among direct taxes, income tax has the largest share of contribution.
3. The income tax revenue structure of Nepal is formed by combination of income tax from Public Enterprise, Private Corporate Bodies, Individuals, Remuneration and tax on Investment. Among them contribution of Private Corporate Bodies has occupied first position, contribution of Individuals, tax on Investment, Remuneration, Government Enterprises has occupied second, third, fourth & fifth position respectively.
4. Income tax revenue is collected from various sources of income. Income from Investment Income is one of the important sources of income among them. The contribution of Investment Income, to income tax revenue has not been so satisfactory. The contribution of income tax from Investment Income to Total Revenue, Total Tax Revenue, Total Income Tax and contribution to GDP are significant (Appendix-III).
5. According to opinion survey Investment tax as a suitable means of collecting government revenue, government investment income tax system is poor, Nepalese government is failure to collect sufficient income tax through investment income tax, taxpaying habit of Nepalese people is poor and investment income tax administration system of Nepal is not sufficient.
6. According to opinion survey the main causes of above problems are lack of proper tax education, communication gap between tax office and taxpayers, no provisions of incentives for regular tax payer, complexity of tax laws policies, undue delay in making assessment, wide spread practices of illegal way to earning money etc.
7. Increasing tax rate, reducing tax exemption limit, reducing concession, rebate and withholding payments, making clear act, applying high penalty and fines assesses fails to submit the statement are possible ways to increase the investment income tax revenue according to opinion survey.

8. Major causes of ineffectiveness of tax administration system are lack of trained and competent tax personnel, complicated tax laws, lack of proper direction, lack of proper communication, undue delay in making assessment, lack of co-ordination, not aware people etc.

### **5.3 Recommendation**

On the basis of finding mentioned above the major areas of recommendation are mentioned as follows:

1. Total tax consists of direct tax revenue and indirect tax revenue. Nepalese tax revenue is having dominated by indirect tax revenue so it is necessary to direct the economy in the path of direct tax revenue. Because the direct tax revenue plays more significant role in the economic development of the country than indirect tax. Resource mobilization through direct taxation should be focused.
2. Out of total tax revenue, the contribution of income tax revenue is very low. So the contribution of income tax revenue to tax revenue and direct tax revenue should be increased by checking income tax evasion, bringing new tax payers into tax brackets, tax incentives programs with the help of sound tax planning.
3. Nepalese income tax /GDP ratio is 2.28% and investment income tax /GDP ratio is 0.29% only in average. So the government should use appropriate methods to collect the tax.
4. Government should reduce resource gap by increasing internal revenue and subsidies. Likewise government should only take the foreign loan for productive sector or purpose which has high revenue generating possibility.
5. Investment Tax Revenue can be increase by making clear act, rules and regulation, by giving training to tax administrator and tax payers about tax laws and regulation, by reducing the exemption limit, by applying high penalty and fines assesses fails to submit the statement, by increasing tax rate, by reducing concession, rebate and withholding payments are the possible ways according to opinion survey.
6. Proper tax education, better incentives for regular tax payers, sound and effective administration system, simplification of tax laws and policy, better communication between tax payers and tax office, others (social welfare scheme, making clear act, remove illegal practices of earning money, remove

corruption from the system) are the way of increase taxpaying habit of Nepalese people.

7. Most appropriate way that makes taxpayer more responsible are incentives such as prize and respect, awareness through media, harder provisions in rules etc.
8. Causes of ineffectiveness of investment tax administration system in Nepal are lack of trained and competent tax personnel, Complicated tax laws, lack of proper direction, lack of proper communication, undue delay on making assessment, lack of co-ordination, corruption, wide spread practices of illegal way to earning money, not awareness of people etc. so, the government should control this causes to proper tax administration.
9. Different recent technologies such as e-taxation should be introduced and promoted to avoid complexities and delay in income tax administrations.

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## **Appendix-I**

### **QUESTIONNAIRE**

Dear Sir / Madam,

I would like to introduce myself as the student of Prithvi Narayan Campus, MBS final year engaged in research work. In order to fulfill the partial requirement of master degree in business studies of T.U. of Nepal, I am going to prepare a dissertation on the topic of “**Income Tax on Investment Income in Nepal and it’s Impact on Revenue Collection.**”

I humbly request for your valuable comments, view, suggestions and information on this issue which would be very useful for my study. That’s why I request you to fill up the following questionnaire. I would be very much appreciated if you could provide your time for filling this questionnaire. I hope for your kind cooperation and support with many thanks as soon as possible.

**Researcher**

Sunita Karki

P.N Campus, Pokhara

Red No: 7-2-48-2639-2005

Roll No: 262/065

## Questionnaire for Income Tax

Name of respondents: ..... phone no: .....  
Designation : Tax practitioner/Tax expert/Tax payer Mobile no: .....  
Office/Department:

Please tick your answer ( ) in the following box of your choice and where ranking of alternatives are provided, please rank from 1 most important alternative to last number in order of preference.

1) In your opinion is the income tax system of Nepal is efficient?

(a) Yes [.....] (b) No [.....]

2) Do you think that investment income tax is an importance source of collecting government revenue?

(a) Yes [.....] (b) No [.....]

3) How is the government investment income tax system in Nepal in your opinion?

(a) Sound and effective [.....] (b) Poor [.....]

4) In your opinion, is the taxpaying habit of Nepalese people is poor?

(a) Yes [.....] (b) No [.....]

If poor what should be the main reason behind it? (Please rank)

(.....) Lack of proper tax education.

(.....) povertyness of tax payer.

(.....) Wide spread practices of illegal way to earning money.

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

(.....) Complexity of tax laws & polices.

(.....) Defective tax administrative system.

(.....) If other (please specify)... ..

5) Do you think that the government is success to collect sufficient income tax through investment income tax?

(a)Yes [.....] (b) No [.....]

If no, how to increase the investment tax revenue in Nepal? (Please rank)

(.....) By increasing the tax rate.

(.....) By reducing the exemption limit.

- (.....) By reducing concession, rebate and with holding payments.
- (.....) By making clear act, rules and regulation.
- (.....) By giving training to tax administrator and tax payers about tax laws and regulation.
- (.....) By applying high penalty and fines assesses fails to submit the statement.
- (.....) If others (please justify) ... ..

6) In your opinion how to increase taxpaying habit of Nepalese people?(please rank)

- (.....) Proper tax education.
- (.....) Better incentives for regular tax payers.
- (.....) Sound and Effective administration system.
- (.....) Simplification of tax laws and policy.
- (.....) Better communication between tax payers and tax office.
- (.....) Nothing is required.
- (.....) If other (please specify) ... ..

7) What is the most appropriate way that makes tax payers more responsible?

- (.....) Awareness through media.
- (.....) Harder provisions in rules.
- (.....) Incentives such as prize and respect.
- (.....) Nothing is required.

8) In your opinion, how is the investment income tax administration system of Nepal?

- (a) Effective [.....]
- (b) Ineffective [.....]

If ineffective, please suggest about the main causes of ineffectiveness of tax administration system in order of priority.

- (.....) Lack of trained and competent tax personnel.
- (.....) Lack of proper communication.
- (.....) Complicated tax laws.
- (.....) Lack of proper direction.
- (.....) Lack of co- ordination.
- (.....) Undue delay in making assessment.
- (.....) If other (please Specify) .....

9) What is your suggestion for the improvement of tax administration system?

(.....) General improvement such as decentralization delegation of authority.

(.....) Evolutionary change.

(.....) No change.

(.....) If other (please specify) .....

.....

10) If you have any other comments and suggestions about income tax on investment income in Nepal?

Please specify.....

.....

.....

.....

.....

.....

.....

.....

.....

**Thank You**

**Appendix-II**  
**List of Sample Respondents (Tax Experts/Administrator)**

S. No.	Name of the Respondents	Post	Organization and Address
1.	Mr. Krishna Bahadur Basnet	Chief Tax Officer	IRD, Pokhara
2.	Mr. Tanka Nath Pandaya	Tax Officer	IRD, Pokhara
3.	Mr. Bishow Bandhu Paudel	Tax Officer	IRD, Pokhara
4.	Mr. Shambhu Prasad Bhattraï	Tax Officer	IRD, Pokhara
5.	Mr. Prakash Sharma Dhakal	Tax Officer	IRD, Pokhara
6.	Mrs. Minu Bashanti Kapali	Tax Officer	IRD, Pokhara
7.	Mr. Him Bahadur Basnet	Tax Officer	IRD, Pokhara
8.	Mr. Ram Prasad Subedi	Tax Officer	IRD, Pokhara
9.	Mr. Buddhi Raj Basel	Tax Officer	IRD, Pokhara
10.	Mrs. Sita Adhikari	Non-Gazetted First(Nasu)	IRD, Pokhara
11.	Mrs. Nirmala Adhikari	Non-Gazetted First(Nasu)	IRD, Pokhara
12.	Mr. Hemraj Sharma	Non-Gazetted First(Nasu)	IRD, Pokhara
13.	Mr. Buddhiman Shris	Non-Gazetted First(Nasu)	IRD, Pokhara
14.	Mr. Jagat Gurung	Non-Gazetted First(Nasu)	IRD, Pokhara
15.	Mr. Hari Chandra Sharma	Non-Gazetted First(Nasu)	IRD, Pokhara
16.	Mr. Krishna Prasad Bhandari	Non-Gazetted First(Nasu)	IRD, Pokhara
17.	Mr. Krishna Prasad Gautam	Non-Gazetted First(Nasu)	IRD, Pokhara
18.	Mr. Taranath Achayara	Manager	Kopila Saving & Co-operative ltd.
19.	Mr. Khagendra Paudel	Teacher	Sidhyartha Campus, Syanja
20.	Mrs. Laxmi Thapa	Manager	NIEC, Pokhara

**List of Sample Respondents (Taxpayers)**

S.No.	Name of the Respondents	Organization and Address
1.	Mr. Kamal Gurung	IME, Prithiwi chowk, Pokhara
2.	Mr. Deepak Subedi	IME, Prithiwi chowk, Pokhara
3.	Miss Sabita Dhakal	IME, Prithiwi chowk, Pokhara
4.	Mr. Bharat Basnet	Nepal Bank Limited, Dumre
5.	Mr. Surya K.C.	Metlife ALICO, Pokhara
6.	Mr. Dambar Bahadur Karki	Shanti Higher Secondary School, Pokhara
7.	Mr. Ganesh Bahadur Thapa	Patan Hospital, Lalitpur
8.	Mr. Prem Bahadur G.C	G.C. Electronics, Pokhara
9.	Mrs. Kopila Karki	Pokhara F.M., Pokhara
10.	Mr. Bhuban Paudel	NIEC, Pokhara
11.	Mrs. Ganga Karki(K.C.)	Barsha Tea & Masala Udyog, Pokhara
12.	Mr. Taranath Acharya	Shree Shanti Higher Secondary School, Pokhara
13.	Mr. Nani Babu Dhakal	Namrata Medical Hall, Pokhara
14.	Mr. Krishna Dhungana	Jana-swasthya, Pokhara
15.	Mr. Mohan Bahadur Karki	CTEVT, Kathmandu
16.	Mr. Rohit Acharya	Rohit Mobile Service, Pokhara
17.	Mr. Hom Bahadur Karki	Aaush Furniture, Pokhara
18.	Mr. Anil Adhikari	Anish Medical Hall, Pokhara
19.	Mrs. Parvati Shrestha	Aarogya Swasthya Sadan, Lalitpur
20.	Mr. Nirmal Bhattarai	Bishow Bikas Bank, Tanahun

**Appendix-III**  
**Calculation of Mean Contribution of Income Tax Revenue**

Fiscal Years	Total Income tax	Government Enterprises	Private Corporate bodies	Individuals	Remuneration	Tax on Investment
2000/01	9114	2928	1924.3	3200.5	597.3	725
2001/02	8903.7	1769.3	1412	4419.1	835.6	468
2002/03	7966.2	1251	1236.3	3362.3	1252.6	1322
2003/04	9245.9	2056.6	1531.3	3533.4	1391.2	1292
2004/05	10466.23	1332.43	2467.8	1886	1675.9	1424.7
2005/06	10933.52	195.77	3404.3	1959	1764.1	1546.5
2006/07	15731.8	1019.67	5717.1	2307	2007.9	2080
2007/08	19077.81	204.59	7186.5	2452.3	2451	3271.5
2008/09	27246.43	959.05	9425.1	4472	3196	4161.9
2009/10	33811.89	1331.89	12234.47	3834.3	4413	5088.1
Total	152497.48	13048.3	46539.17	31425.9	19584.6	21379.7
Average	15249.74	1304.83	4653.91	3142.59	1958.46	2137.97

*Source: Economic Survey of various years, GON, Ministry of Finance, 2011*