

ROLE OF INCOME TAX IN GENERATING GOVERNMENT REVENUE IN NEPAL



A Thesis

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RECOMMENDATION LETTER

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DECLARATION

I hereby declare this thesis entitled **Role Of Income Tax In Generating Government Revenue in Nepal** submitted to the Central Department of Management; Tribhuvan University is my original work as partial fulfillment of the requirements for the masters of Business Studies (M.B.S.), under the guidance of Prof. Gopinath Regmi Central Department of Management, Tribhuvan University.

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This thesis entitled "**Role of Income Tax in Generating Government Revenue in Nepal**" has been prepared in the form as required by the Central Department of Management for the partial fulfillment of master degree in business study. Here, I hope it will be a milestone for the people to understand and acknowledge positive realistic appearance of income tax generating government revenue in Nepal, interested in it.

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TABLE OF CONTENTS

	Page No.
Title	
Recommendation Letter	
Viva-Voice Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviation	

CHAPTER - ONE

1. INTRODUCTION	1-12
1.1 Background of the Study	1
1.2 Statement of the Problem	8
1.3 Significance of the Study	8
1.4 Objectives of the Study	9
1.5 Limitations of the Study	10
1.6 Research Methodology	10
1.7 Organization of the Study	11

CHAPTER - TWO

2. REVIEW OF LITERATURE	13-36
2.1 Conceptual/Theoretical Review	13
2.1.1 Concept of Working Capital	15
2.1.2 Types of Working Capital	18
2.1.3 Determinants of Working Capital	19
2.1.4 Source of Working Capital	20
2.1.5 Working Capital Financing and Investment Policy	21

2.1.6 Need and Importance of Working Capital	24
2.1.7 Working Capital Cycle	27
2.2 Review of Journals/Articles	29
2.3 Review of Related Thesis	32

CHAPTER - THREE

3. RESEARCH METHODOLOGY	37-47
3.1 Introduction	37
3.2 Research Design	37
3.3 Nature and Sources of Data	38
3.4 Population and Sampling	38
3.5 Data Collection Techniques	38
3.6 Methods of Data Analysis	39
3.6.1 Quantitative Method	39
3.6.1.1 Financial Tools	39
3.6.1.2 Statistical Tools	43
3.6.2 Qualitative Method	46
3.7 Definition of Key Terms	46

CHAPTER - FOUR

4. DATA PRESENTATION AND ANALYSIS	48-77
4.1 Introduction	48
4.2 Working Capital Policy	48
4.2.1 Analysis based on Variables of Working Capital	49
4.2.1.1 Level of Current Assets and Current Liabilities	49
4.2.1.2 Cash Conversion Cycle	52
4.2.1.3 Level of Net Working Capital	54
4.2.2 Analysis Based on Liquidity Ratio	56
4.3 Composition of Working Capital	58
4.3.1 Investment in Current Assets	58
4.3.2 Ratio of Current Assets to Total Assets	61
4.4 Analysis of Turnover Position	62
4.4.1 Current Assets Turnover Ratio (CATR)	62
4.4.2 Receivable Turnover Ratio	64
4.4.3 Inventory Turnover Ratio	65
4.4.4 Net Working Capital Turnover Ratio (NWCTR)	66
4.5 Analysis of Profitability Position	67
4.5.1 Net Profit (Loss) Margin Ratio	67
4.5.2 Return on Total Assets (ROA)	68
4.5.3 Return on Net Working Capital	69
4.5.4 Size of Net Profit	71
4.6 Analysis of the Relationship between Working Capital Variables	73

CHAPTER - FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION	78-86
5.1 SUMMARY	78
5.2 MEJOR FINDINDS	78
5.3 CONCLUSION	82
5.4 RECOMMENDATION	83

BIBLIOGRAPHY

APPENDIX

LIST OF TABLES

Table No.	Description	Page No.
4.1	: Level of Total Current Assets	50
4.2	: Level of Total Current Liabilities	50
4.3	: Cash Conversion Cycle of selected manufacturing Industry	53
4.4	: Level of Net Working Capital of Selected Manufacturing Industries	55
4.5	: Current Ratio of Selected Manufacturing Industries	57
4.6	: Company Average Ratio of Cash, Receivable and Inventory to Current Assets of 2064/65	59
4.7	: Ratio of Current Assets to Total Assets	61
4.8	: Current Assets Turnover Ratio	63
4.9	: Receivable Turnover Ratio	64
4.10	: Inventory Turnover Ratio	65
4.11	: Net Working Capital Turnover Ratio	66

4.12	:	Net Profit (Loss) Margin Ratio	67
4.13	:	Net Profit to Total Assets Position	68
4.14	:	Return on Net Working Capital	70
4.15	:	Position of Net Profit of Selected Manufacturing Industries	72
4.16	:	Relationship between CAs and CLs	74
4.17	:	Relationship between Sales and Receivables	74
4.18	:	Relationship between Sales and Net WC	75
4.19	:	Relationship between Sales and Inventory	75
4.20	:	Relationship between Current Assets and Sales	76
4.21	:	Relationship between Net Profit and Net Working Capital	77

LIST OF FIGURES

Fig. No.	Description	Page No.	
2.1	:	Types of Working Capital	18
2.2	:	Aggressive Policy	21
2.3	:	Conservative Policy	22
2.4	:	Moderate Policy	22
2.5	:	Current Assets Investment Policy	24
2.6	:	Working Capital Cycle	27
4.1	:	Graphic Presentation of Level of CAs and CLs	52
4.2	:	Graphic Presentation of Cash Conversion Cycle	54
4.3	:	Graphic Presentation of NWC	56
4.4	:	Graphic Presentation of Current Ratio of selected Industry	58
4.5	:	Graphic Presentation Net Profit to Total Assets	69
4.6	:	Graphic Presentation Return on Net Working Capital	71
4.7	:	Graphic Presentation of Net Profit	73

CHAPTER - I

INTRODUCTION

1.1 Background of the study

Income tax plays in the national economy. It is a tool for achieving social and economic objective laid down in our constitution. Regional economic imbalance is also being reduced by providing incentive, concession and rebate in income tax for starting new inductive in backward areas. Thus, income tax is not only government revenue but also an effective for balanced growth.

Every government need sufficient resource to handle –day to day administration, maintain peace and security, run development programs, and launch other public welfare activities. Constitution has provided right to the government to collect such fund from personal and corporate bodies. Government collect fund from two ways (1) internal and (2) external. Internal resource is limited resource. It can be in term of tax and non-tax revenue. External resources of fund can be in term of foreign aid and foreign loan. It is provided by foreign country and foreign institutions. It is huge resources of developing country like Nepal for operate development activities, reconstruction, foreign exchange, to overcome from economic crisis conditions. External resource is not seemed to be good because it is uncertain and not good for healthy economic environment in the long term for developing country like Nepal. It will be repaid after period of time with principle plus interest. It will reduce the liquidity of the period of time with principle plus interest. It will reduce the liquidity position of the government and increases inflation, deflation, hard to maintain economic stability.

On the other hand internal resource of revenue is tax and non- tax revenue. It is a prime factor; it is a pillar of the fiscal policy. It is the backbone of the welfare state and government imposes taxation to finance various welfare and social services like education health electricity transportation etc. "tax is a compulsory contribution from the person to the government to defray the expenses incurred in the common interest of all without references to special benefit conformed." Seligman,

Tax is a compulsory levy from individual household and firm to central or local government without getting corresponding benefit of goods or services provided by it (government).

Tax is an instrument for promoting economic growth, stability and efficiency. The government controls and expands the economic activities of country by providing various concessions; rebate rate of tax may be useful to check inflationary pressure on prices. Tax policy may be used as a regulatory mechanism to achieve price stability, check business boom and depression.

Taxes are classified into two major categories (a) direct tax & (b) indirect tax. The tax directly paid by person on whom it is legally imposed is known as direct tax, such tax is Income tax, Gift tax, Vehicle tax, property tax, causal tax etc. Indirect tax means tax may be Custom Duty, Value Added Tax, Excise Duty and Sales Tax.

Among various taxes, Income Tax plays an important role in the revenue. Income tax is imposed on those activities contributes towards the creation of wealth by employment, business, investment, income generated by flow of assets, income generated with the help of capital and labor should pay income tax. It is the major source of government revenue. It is recognize good financial tool to narrow inequality of government revenue. It is recognize good financial tool to narrow inequality of income. It helps to reduce regional economic imbalance by tax concession and tax holidays to business or industries which are established in remote, special economic zone and hilly area. In Nepal direct contributes about 23.05 %, indirect tax contributes about 62.78% and non-tax contributes about 14.05% (NRB economic and financial statement 2011/012)

1.2 Statement of problem :

Nepal has about five and half decade long planned development approach experience with the view of socio economic change in the country. During the period the growth rate of Nepalese economy has been very low of barely sufficient to keep pace with population growth rate. Over the period 1961 to 2009 Nepal's average GDP growth rate stood at 3.63%

There are various problems about income tax administration like, no proper record about number of tax payers. Lack of training and education to tax payers and tax officers, undue delay in making assessment, lack of responsibilities of officials on their work. Existence of corruption and lack of motivation to concern authorities etc.

In the total tax revenue indirect tax has greater portion than direct tax. Only 3% of total population pays the income tax. Past experience shows that, there is poor taxpaying habit in Nepal. Most of the personnel tax payers do not reveal the income source even they earn significant amount. They hardly keep account; similarly some companies have been practicing to evade tax liabilities by hiding income by maintaining duplicate books of account, duplication of vat bill. As a result actual collection of income tax is very low and problem has been stable continuously due to corruption too. The laws of tax authorities also cause low revenue collection of government. The discretionary power of the tax personnel and the tax assessment procedure or income tax system in Nepal harass tax payers in the payment of tax and is the cause for reduction in the income tax revenue

Similarly the department cannot find out the actual number of income tax payers. In the context of list developed country like Nepal, tax policy of government is insufficient to raise more revenue widen coverage is better than high income tax rate, should be the tax policy.

The contribution of income tax is much smaller to the total revenue for developing countries in comparison to developed countries. There are some reasons as why

Income tax yield is less in developing countries as compared to developed ones. They have problems in defining income, assessing and measuring it. The choice of rate, allowance deducting and difficulties of tax collection. Income tax is main source of government revenue. It is useful to economic development. Nobody can have doubt that equal distribution of income is also possible through progressive income tax. It is being realized that contribution of income tax to the government must be increased in Nepal.

1.3 Objective of the Study:

The general objective of the study is to analyze the role of income tax in national revenue. However, the following specific objectives have been set for the study.

- To the share of income tax to the government revenue.
- To examine the Nepalese income tax structure.
- To identify they factor to increase taxpaying habit of income tax payers
- To provide necessary recommendation.

1.4 Significance of the Study

For the economic development of the country it is necessary to have huge amount outlay. But resource are limited government should identify the potential tax payers and should give more emphasize to collect more revenue from them. For the economic development of the country contribution of direct tax is more essential rather than indirect play a significant role. It is one of the major resources that can be increased through proper correction on collection procedures and identification of potential tax payers. So it becomes necessary to analysis the different taxpayers under each head and income tax collected from each groups of payers time to time.

Since long period, the government of Nepal has been presenting deficit budget. There is huge resource gap between government revenue and expenditure. So, to fulfill such gap, it is accepting foreign loan and grants which is not good in long term for the country. So it should increase the portion of national revenue. The study is to analyze and examine the contribution of income tax to gross domestic product, total budget expenditure, regular budget expenditure, total government revenue and direct tax. Research and analysis should be done in the field of income tax. But the study and research is lacking in the area of income tax. This study is concerned with appropriate suggestion for the estimation, correction and provides comprehensive information about income tax.

Besides, this analysis may be useful to make new policies for granting various facilities for making more taxable income in the competitive environment and legal correction, vague section of income tax can be also rectified from such analytical study. This study is useful to the tax planners, bankers, tax authorities and like teachers, students, and researcher's concern bodies.

1.5 Limitation of the study :

This study has been strictly confined to the role of income tax in Nepal.

- Basically, primary, and secondary data has been used during the study period.
- The study will cover only the last 10 years situation.
- The unavailability of up to data on various aspects of income tax also limited the study.
- The sample has been taken only from Kathmandu valley.
-

1.6 Organization of the study :

The study has been divided into major five chapters. They are as follows:

Chapter-1: Introduction

The first chapter has covered background of the study, statement of problem, objective of study, significance of the study, limitation of study, and design of study.

Chapter-2: Review of literature:

The second chapter will focus on review of literature. It will be related on the survey of books, journals, and dissertation and articles.

Chapter:-3: research methodology

The third chapter deals with research methodology to be adopted for study consisting introduction, research design, population and sample nature and sources of data, data collection variable and tools and technique employed

Chapter:-4: data presentation and analysis

The fourth chapter is related with presentation and analysis of gathered data with figure and picture and major findings.

Chapter:-5: summary conclusion and recommendation

The fifth chapter deals with summary, conclusion, recommendation and suggestion.

CHAPTER-II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 concept of tax

The government of any country requires sufficient revenues to launch the development program to handle the daily administration to keep peace and security and to launch other public welfare program. The government or public revenue is collected through various sources welfare program. The government or public revenue, revenues from government corporation and public enterprises, fees, special assessment, fines, and penalties and foreign grants among them tax is the main source of collecting the public revenues because it occupies the most important part of government treasury. In Nepal about 77% of total revenue comes from tax revenue are the rest 23% from non-tax revenue

Following are the main sources of government revenue:-

- Tax:- it is a compulsory from people to government
- Price of goods or services provide by the government. It is the amount collected from special sector for specific purpose.
- Receipt from public enterprises: the government. Receipt amount from public enterprises owned by it.
- Fee: - the amount paid for violating government for receiving its services.
- Fines:- it is the amount paid for violating government' s rules act and regulations.
- Grants etc: -The amount received by the government from foreign countries and agencies.

In short, all the above sources of the government revenue can be divided into two parts-taxes and non-tax is the major source covering most part of the government revenue. Tax is the compulsory payment to the government but is not fine. Taxpayers do not get any direct benefit from the state by paying tax. Government collects tax with the permission of legislature to fulfill financial need of the state. Tax is compulsory payment to government for the compensation of public expenditure. Tax fulfills the needs of central or local government to spend for philanthropic work. The main objectives of the tax are to distribute and income the citizens. Tax is classified into two groups. They are direct tax and indirect tax (Adhikari; 2003). Tax is a kind of money of which it is the legal duty of every citizen of a country to pay

honestly. Many economists have the view that tax is a compulsory payment to the government by tax payer without any expectation of some specified return in four of them. The experts have given definition regarding tax and some of them are mentioned here.

According to classical economists Dalton," a tax is a compulsory contribution imposed by public authority irrespective of the exact amount of service rendered to the taxpayer in return and not imposed a penalty for any legal offence. (dhakal 1998)

Likewise, according to the Findlay shirras," Tax is compulsory contribution to public authorities to meet the general expenses of government which have been incurred for the public good and without reference to special benefits." (lekhi;2000)

According to Bastable, "A Tax is compulsory contribution of wealth of a person or body of persons for the service of public power."(Dhakal;1998)

According to Plehn, "Taxes are general contribution of wealth levied upon person natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the status." (Dhakal; 1998: 2)

According to Prof. Saligman, "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." (Lekhi; 2000).

From the above definition, it is clear that a tax is a compulsory levy and those who are taxed has to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax they had paid. In addition, the taxpayer cannot receive equivalent benefit from the government. Amount collected through taxation is for common interest of the citizen and is collect from natural and artificial person.

2.2 Objectives of Tax

Taxation has been a very essential element of a government from the very beginning of the state system. However, the main objective of taxation has been different for different epochs. In ancient times, the major objectives of taxation were strengthening the muscles of the state by proving the resources. Till to the time of Adam smith; the chief motive to an individual and society against violence, invasion and injustice and maintain public institution.

In modern days, the main objective of taxation has been shifted from security perception to the economic development. The modern objective of taxation is not only to maintain peace and security but also to conduct development activities. We can enumerate the objective of modern taxation as follows:-

- To have equitable distribution of income and property.
- To increase the revenue for welfare state.
- To increase the employment, saving and investment.
- To minimize regional disparity.
- To prevent concentration of wealth in few hands.
- To increase the production of particular goods.
- To implement government policy and
- To control the production certain goods (Kandel, 2011)

2.3 Classifications of taxes

In broad sense, taxes are classified into two categories. One is direct tax and other is indirect tax.

a. Direct tax

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 the same. It is the tax on income and property. Examples of direct taxes are; income tax, property tax, vehicle tax, interest tax, expenditure tax, death tax, gift tax, etc.

Merits

- It is equitable as it is imposed on person as per the property or income.
- Time, procedure and amount of tax to be paid are known with certainty.
- It is elastic. The government can change tax rate with the change in the level of property or income.
- It enhances the consciousness of the citizens. Taxpayers feel burden of tax and so they can insist the government to spend their contributions for the welfare of the community.

Demerits

It gives mental pinch to the taxpayers as they have to curtail their income to pay to the government.

- Taxpayers feel inconvenience as the government imposes tax progressively.
- Tendency to evade tax may increase to avoid tax burden.
- It is expensive for the government to collect tax individually.

b. Indirect tax

An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax; the person paying and bearing the tax is different it is the tax on consumption or expenditure. Examples of indirect taxes are; vat, sales tax, hotel tax, excise duty, and export duty, etc.

Merits

- It is convenient as the taxpayer does not have to a lump sum amount for tax.
- There is mass participation. Each and every person getting goods or services has to pay tax.
- There is less chance of tax evasion as the taxpayers pay the tax collected from consumers.
- The government can check on the consumption of harmful goods by imposing high taxes.

Demerits

- It is uncertain. As demand fluctuates, tax will also fluctuate.
- It is regretful as the tax burden to the rich and the poor is same.
- It has bad effect on consumption, production and employment. High taxes will reduce all of them
- Most of the taxes are included in the price of goods or services. As a result taxpayer does not know how much tax they are paying to the government.
-

2.4 Canon of taxation

The government of a country adopts various principles while formulation suitable tax policy. Those principle or canon of taxation areas are as follows:-

- Canon of equity
- Canon of certainty,
- Canon economic,
- Canon of diversity,
- Canon of simplicity,
- Canon of neutrality ,
- Canon of co-ordination ,
- canon of productivity,
- Canon of elasticity.

(Kandel,2011:12)

2.5 Meaning of income tax

The concept of income tax in different countries is found differently because of diverse economic structure, nature of the government and status of people. In United States, income tax is viewed as a matter of practice, recurrent is not relevant to the tax status. In United Kingdom, the original concept of the tax was that of a levy on recurrent income and the tax was applied to five scheduled any item not falling within one of the five schedules not being subjected to tax. In India, the personal income tax is levied in the net income of all individual, joint Hindu families, unregistered and other associations of person. (Chelliah, 1995)

Income tax is a personal tax imposed on the net income of individuals and corporation. In most of the countries especially the United States of America, Canada, and other countries, the income tax is defined in terms of the 'flow of wealth' of receipt in money or good from taxpayer during the period. In flow of wealth method, taxation is imposed on a realization rather than as an accrual basis, and applies only when a transaction occurs between other person and taxpayers. (Due, 1995)

According to tax economists – an income tax is a levy imposed upon the income of individuals after the exemption limit. Income tax is a direct tax based on the total income of the payer from all sources and is graduated on special system of exemption.

Taxes on income is the most important single source of revenue of government of developed and also developing countries either it contribute more or less.

The first problem encountered in establishing an income tax is definition of income. Income, as the economic gain received by the person during the particular period, is most satisfactory defined by Henry Simons as the algebraic sum of two items:

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

Symbolically, $Y=C+\Delta W$

Where, Y, C and W refer income, consumption and change in wealth respectively.

It is very difficult to define income precisely and clearly. So income is exemplified rather than defined in income tax laws of various countries. For example, sec. 2 of the India income tax act, 1991 keeps profits and gains, dividend or profit in lieu of salary, any capital gain, winning from lotteries, crossword puzzles etc. under the head income.

According to income tax act 2002, sec 2 (h), income means a person's income from any employment, business or investment and the total of that as calculated in accordance with this act.

2.6 international history of income tax

For the first time Great Britain introduced the income tax in 1799 in order to finance wars with France. Only after 1998, it was accepted as a permanent tax. In United States, first federal income tax was imposed in 1882 to finance civil war expenditure. However, it became a permanent feature only in 1993 after amendment to U.S. constitution. In neighbor country India, first income tax was introduced in 1860. After introducing 'income tax 1886, it was imposed as a permanent. Italy adopted income tax in 1884, New Zealand in 1891, Australia in 1995 and Canada in 1917. After First World War, the income tax became an important source of revenue in most developed country. By 1993, it has become the most important source of revenue in most developed countries and had made appearance in a number of developing nations (Agrawal, 1990)

From the first world war decade, income tax has shown as an important source of revenue in developed country. In the beginning of introducing time, it was generally levied at flat rate.

Only after 1909, the principle of progression was introduced from the UK and New Zealand income tax was introduced due to the cause of war and national emergencies. Thus, the second name tax is war tax. After the end of the war, the tax was as income tax. Now a day, has been the important against poverty and inequality. (Agrawal, 1979)

2.7 historical aspects of income tax in Nepal

Taxation in ancient age of Nepal

The collection of income tax was the key element of the government from ancient age. Very few economic activities were operated in the country so government cannot collect large amount of money in from of tax. At that time, taxes are levied to the merchant, travelers and farmers in the form of cash, kind of labor. In some occasion gold and agricultural products were also paid as taxes but the nature of these were temporary and taxes were raised for special purpose. (Regmi, 1995)

Although there are no relevant sources of ancient tax, in the inscription of Ansubarma, it is noted that there were three taxes called 'Trikar'. 'Bhaga' is the agricultural tax, animal husbandry was called ' Bhaga' and tax on business was called ' Kara' irrigation tax and religious monuments preservations taxes also existed at the time of Ansubarma. During the period of 1998-1846 A.D. different types of taxes were levied to generate maximum revenue. The major sources of revenue were; Birta and Kipat. Taxes on land, monopolies customs, transit and market duties, mines and mints and local levies. The various taxes levied during that the period were narrow in base and were imposed primarily on occupation and economic activities, not in income or property. There was no taxation of income in the modern sense of income tax but income taxes from agriculture income and incomes from business were introduced as a direct for the first time in Nepal.

B. taxation in Nepal before democracy

From the age of 1776 to 1950 has taken as before democracy period. In this period, tax system becomes more advanced than the ancient age of Nepal. Taxation had a broad sense in this unified Nepal. During this period, revenue maximization was only the main objectives of tax policies. Raiker, Birta, Guthi sera and Kipat were the five main land tenure them Birta and Kipat are the main sources of revenue. Walk was collect from each family on a regular basis and in period of national celebration of festival or ceremonial occasion. Gadimubarak'

was collect finance of coronation ceremony of a new king. Darshanbhaet' was collected from both civil and military employees at the time of their appointment and confirmation 'salami' was collected local revenue collection functionaries in the trial region as an annual payment. Taxes were imposed primarily on occupations and economics activity not on property. Tax base was very narrow. The Bitraowners class had much influential role in political and administration. However in 1772 Prithvi Narayan shah introduced 'potatax '

Was a regarded revolutionary measure in Nepal ' fiscal system? It was not based on progressive tax principal it was limited on small Birta owners and privileged of the members of the nobility person did not play ' Pota' only common people who lived on raider lands paid the homestead taxes and other ' pota ' levies. (regmi, 1995:55)

During the period of Rana regime there was no formal provision for imposition and collection of taxes. Taxes were imposed according to the objectives, needs and whims of the ruling the prime minister. There was not provision of separating the personal income of prime minister and state treasury. There is no system of preparing government budget. The surplus of revenue over expenditure was considered the personal income of the Rana prime minister.

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

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 off their salaries at a very small percentage. The salami was abolished in 1951. The Rana rules did not think of development from effective revenue administration system. After the advent of democracy in the country in 1995, no taxes are levied and collected in Nepal except in accordance with law. (Gautam, 2004)

2.8 Income Tax in modern Nepal

Income tax is a direct tax that is imposed on the earning of individual and corporation. Actually, tax levied on the taxable income is known as the income tax. It is charged by the government on the taxable income of the previous year at the rate prescribed each year by the

finance act. From very earlier, income tax has always been regarded as a tax based on a canon of ability. The tax could be adjusted as to exempt the lowest income groups from operation of the tax and make the richer groups bear the burden of tax according to their income. Tax economists have a view that an income tax is a very imposed upon the income of an individual after the exemption limit. All incomes above the tax exemption level are subjected to income tax that is based on the income tax act of the concerned country.

After the independence for the country in 1951, the role of government has changed. The government was enforced to operate development activates, besides governing the regular function of maintaining law and order and the collection of revenue (Bhatta and Shrestha, 1981:3)

A sound and efficient income tax system is necessary to maximize the revenue collection from income tax. Whole income tax system is made of three sub system i.e. income tax policy, income tax laws and income tax administration. Income tax policy is determined by the government itself through ministry of finance. Income tax policy should be such that the main objectives of the income tax can be attained.

No taxes shall be levied and collected except in accordance with law (Interims Constitution of Nepal, 2063). Parliament makes the laws to implement the various policies. The government levy and collect the income tax in accordance with law. The interim constitution of the Nepal 2063, has made the clear provision about it. In 1960, a formal income tax was enacted in accordance with the provision about in finance act, 1959 for the first time in Nepal in three years experience , the business profit and Remuneration act, 1960 was found very narrow and vague and it was replaced by the Nepal income Tax act,1962. The income tax act, 1962 remained till 1974 and income tax act, 1974 also replaced by income tax act, 2002. Present legal provision of income tax is associated with constitution of Nepal, 1990: income tax act, 2002; income tax rules 2002; finance act of concerned financial years.

A. Business Profit and Remuneration Tax Act 1960

The government of Nepal introduced a formal income tax for the first time in Nepal 1960(2017 B.S.) in the form of Business Profits and Remuneration tax; before the act, finance act was used to make the provision regarding income tax. According to this act only business profits and remuneration on income were subjected to tax but the revenue for these taxes should not be collected properly according to original estimates (Dhungana, 1976). It

had 22 sections. The first section is about short title, areas and commencement. Similarly second section about definition and last section is about authority to make regulation of HMG to regulate the tax act. According to the act, tax payment should be made within 35 days once the office and the tax payment to be made specified. Fine and punishments of Rs. 5000 to Rs.500 to them those who do not pay tax and not submit account is mentioned in the Act. There is appeal system too; if any taxpayers are not satisfied with regarded to the order of tax assessment, such taxpayers can appeal with in the 35 days from the date of an order of tax assessment receipt. The tax officers as per the act are liable to assess the tax liability of taxpayer, submission of written notice to taxpayers, etc. (Business Profit and Remuneration Tax Act, 1960).

B. Income Tax Act 1962

Income tax act 1962 was come on July 1962 by replacing the income tax act 1960 as its limited coverage in incomes. This act was introduced as per the articles 93 of the constitution. This act has all about 29 sections. As per section 6 of this act annual statement of income of more than Rs. 6000. The statement should file within 35 days of completion of the fiscal year. The salaries of diplomatic representative of foreign country, salaries of non-Nepalese citizen working in the services of the NG, dividend paid to the shareholders, Incomes of Nagarpanchayat, Village Panchayat, public organization, educational institutions, Nepal Rastra Bank, allowances granted by Ng to ministers, employees saving fund etc. were considered as tax free income by act. As per act $\frac{1}{4}$ earn such income. The act was experienced for 13 years and was considered inadequate with the changing situation of Nepalese economy. This act was amended only one time in 1972. The main feature of this act can be mentioned as follows. Income was defined as all kinds of income including income from business, salaries, any professions, and rent from house or land, investment in each or binds agriculture, insurance agencies and any other sources. In this act status of taxpayer was defined on personal as well as residential for the tax purpose. Carry forward of losses for a period of two year's provision was made on this act and reassessment of tax as well as rectification of arithmetic errors had provision. In this act, provision was made for the exemption of income tax for new industries for a period not exceeding ten years (Act, 1962)

C. income Tax Act 1974

To meet the changing environment of Nepal as well as the entire world and to keep the in tune with the change in the socio-economic environment the act 1974 was introduced. The act was divided in basis 66 section. This act was practiced for 28 years, almost three decades in Nepal. Throughout this time the act was amended for eight time 1977, 1979, 1980, 1984, 1985, 1986, 1989, and 1993. The act has classified the incomes in five groups as; (a) Agriculture B) Industry, Trade, Profession or Occupation C) Remuneration D) House and compound, and E) other sources, however, the agriculture income was kept outside the tax net except few years; through the finance acts. This act had made provision for self-assessment of tax for the first time in Nepal. According to this act taxpayers were required to keep accounts and records for their sources of income and preserve these records for a period of six years. There was additional provision of exemption from income tax then the former act such as income of Guthi, compensation for life insurance or after the expiry of the life insurance policy. It had clear certain definition specially relating to the tax payer, taxable income, gross income, net income, personal status of the taxpayers and nonresident taxpayers, assessment of tax, philanthropic work, non-resident etc. Beside this method of computing net income from each source including the deductions allowable has been specified (Income Tax Act, 1974).

D. Income Tax Act 2002

Although, income tax act 1974 was much better than previous act, still it had many deficiencies and weakness so the income tax act 2002 changes it. This act is quite advance income tax that has ever introduced in Nepal. The main feature of this act is all the related matters with in one Act. The act is independent to levy income tax. The act has 24 chapters and 143 sections. Amended income tax act 2002 has dismissed the section 66. The act has defined three different sources of incomes: A) Business (B) Employment (C) Investment. Tax rates and depreciation methods for all the five categories are depreciable assets, provisions regarding international taxation, capital gain taxation, panel provision, appeal system etc. All matters of income taxation can find with in this act (Income Tax Act, 2002).

Objectives of Income Tax Act, 2002

- Bring all income generating activities into tax net.
- Harmonizing tax rates and concession on equity grounds.

- Widening the tax base.
- Confining all the income tax related matters in the act.
- Making income tax elastic and revenue productive.
- Developing a tax payer friendly taxation system by making it clear and transparent.
- Reducing the scope of discretionary interpretation of the tax authorities.
- Minimizing tax avoidance and tax evasion.
- Making taxpayers more responsible by enforcing the self-assessment systems.
- Integrating Nepalese tax system with the tax system of foreign countries.

(Bhattarai&Koirala, 2010:111)

Following are the main features of income tax act, 2002

- Income tax related provisions are included within one act.
- Act has clearly specified the amount should be included while calculating a person's gains or profits from conducting business or investment for an income year.
- All the expenses are allowed to deduct provided that the expenses are made by the same taxpayers in the same year in the production of income.
- There is the provision of carry forward of loss from subsequent years. The act has also provided the facility to carry backward of loss for five subsequent years in case of banks. Insurance and long term contract.
- Incentives are provided to infrastructures constructor hydropower projects and special industries.
- Now the economy of the most of the countries in the world is open one. The provision has introduced in the tax law related to international taxation. Transfer pricing, foreign tax credit, double taxation avoidance agreement etc. are the provision of international taxation.
- The act has given the option for husband and wife as a separate natural individual until they do not accept as a couple.
- Capital gain, dividend etc. has brought in has brought in tax net.
- Authorities of taxpayer have specified.
- To control the tax evasion, provision of transfer pricing, thin capitalization. Dividend striping is made.
- Provision of fines and penalties has made more stringent in the new income tax act 2002.

- This act has made a provision of relaxing the submission of income statement by a person who doesn't have taxable income one who has the income from remuneration only.
- There has a special provision for deduction pollution control and research and development expenses.
- The income of an approved retirement fund is free from tax. But retirement payment in hands of employees is taxable.
- Resident persons are taxed only in their worldwide income, while Non-Resident persons are taxed only in their income sourced in Nepal.
- The pool system of depreciation of fixed assets has introduced at the first time. All types of assets are classified into five categories. Depreciation rate for classes A, B, C and D is based on diminishing balance method but straight line method for class "E" (Intellectual Assets).
- The act has provided the facility of Medical Tax Credit under which resident individuals may claims a Medical Tax Credit of 15 percent of the amount of approved medical costs. Unabsorbed medical tax credit amount can carry forward forever. (Malik; 2003)

2.9 Head of Income

The income tax act, 2002 has made the classification on income on three main categories. This act has classified the sources of income for the purpose of assessment under the following heads:

2.9.1 Income from Employment

Employment is defined by the act under section 2(a) as " employment that includes a past, present or prospective employment." In general terms, the act of performing a certain job for the person, who appoints one for job, in consideration of a regular payment is called as employment. That is why; the income from an employment can be generated only when a relation of employer and employee or master and employee derives has been established between a payer and a payee. Whatever the employee derives from the employment in the shape of a regular salary, allowances, overtime payment, bonus, etc. is included in the income from employment.

Generally, an employment is known as a long- term employment but, in legal terms, an employment last for a short period and may also be a part time one. An individual may have more than one employment on a day.

The employer may be any person like an individual (a proprietorship firm), an entity, NG, a local body of NG, an institution, an organization, a foreigner, etc, but the employee is always an individual (a natural person). A husband and wife working in the same entity are treated as creation of two employments, one for husband and another for wife. The employee must be present physically at the place of work to perform his or her duties. The employment is awarded on the basis of his/her ability, education, experience, honesty, behavior, etc. and so a proxy is nowhere allowed to work on behalf of the employee.

A written appointment letter does not always qualify an individual to be an employee but an oral appointment or event or the behavior of the employer is sufficient to treat the individual as an employee (Agrawal, 2004).

According to this section; the remuneration received by a person from the employment is as following payments made by the employer.

- Payment of wages, salary, leave pay, overtime pay, fees, commission, prizesgifts , bonuses and other facilities.
- Payment of any personal allowances including any cost of living, rent, entertainment and transportation.
- Payment provided of reimbursement or discharge of cost incurred by the individual or an associate of the individual.
- Payment for the individual's agreement to any conditions of the employment.
- Payment for the termination or loss or redundancy of the employment.
- Retirement contribution including those paid by the employer to the retirement fund in respect of the employees and retirement payments.
- Other payments in respects of the employment.
- Other amount as given in chapter 6 of the act perquisites and gains due to change in tax assorting required being included. (Income tax, 2002: sec 8).

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

- Prizes and gifts.
- Other payments made in respects of employment.
- The amount of difference of the interest on loan paid by employer lower rate than the market rate.
- Market value of assets in case of the transfer of the assets.
- For the payment other than stated above, the value of benefit of the payment to a third person.

2.9.2 Income from business

Income tax act, 2002 has defined the business income as a source of income for income tax purpose. Services fees, amount derived from the disposal of stocks, net gain from disposal of business assets (liabilities), gifts relating to business and other amounts are considered as a business income. Section 7 of income tax act , 2002 deals with the receipts or receivables to be included in income from business and section 13 and 19 deals the allowable express there from, business includes trade, commerce, production profession, vocation, etc.

- Trade and commerce
- The oxford dictionary defines trade as follows:
- The oxford dictionary of goods or services for money or other goods.
- Buying and selling.
- To buy and sell a particular item, product, etc.

The activity of a trade starts from the moment a good is purchased or otherwise acquired with an intention to sell it for some profit. It is not necessary that the good is sold in due course and profit is acquired there from. It's not only the purchase and sale of good that constitutes a trade but a sale of service is also including in the definition. The transportation of goods and human beings, tourism trade etc. is example of the trade of service. Though commerce is something similar to trade, it is used especially when the trade takes place between two countries.

Production

The dictionary meaning of production is "to make or manufacture something especially in large quantities". The process of production may be manual or based on machinery. The machinery may or may not be run by power. A production is a process whereby the form of a good is changed and the new product acquires a new commercial value.

Profession and vocation

A profession is a paid occupation, which requires advanced education or training. Chartered accountants, lawyers, architects, etc. are some example of profession. A vocation is also paid occupation and requires skill but it does not require advanced education. Carpenters, craftsmen, etc. are the example of vocation.

For the purpose of computing income of business for any years of income, the income of such person shall include as profits or gains by him from business and should include:

- Services charge. (sec. 7.2)
- Sales or disposal of business/ trading stock. (sec.7.2)
- Net gain from the disposal of person's business assets/ liabilities of the business calculated an under chapter 8. (Sec 7.2.)
- Amount received against the disposal of depreciable assets. (sec. 7.2)
- Prize or gift in connection with business. (sec. 7.2)
- Amount received instead of acceptations of any restriction regarding business (sec. 7.2)
- Amount include under change of accounting method. (sec.24)
- Excess amount received due to exchange rate of currency. (sec.28)
- Bad debt recovered.(sec.25)
- Proportionate amount under long term contract. (sec. 26)
- Under paid interest amount according to market price. (sec)
- Amount received for compensation. (sec. 31)
- Other amount received under business income. (sec. 7.2)(income tax act, 2002)

c. Income from investment

Section 2 (a.1) defines investment as the holding of themore properties or the investment in a property subject to the fact that:

- The property should not be used by the owner himself; or
- The property must not be a business or an employment.

The section further says that the holding of a non-business chargeable asset is also known as an investment. Investment in general sense is an act of letting out a property by an owner to somebody else for its exclusive use for the period of letting out. An amount given to another person for his utilization is also said to be an investment. The three points are the basis requirement for an investment is:

- A person has the ownership of a property ;
- The owner transfers the right to use the property to another person; and
- For such a transfer of right the certain consideration from the transferee

Section 9 (income tax act, 2002) deals with the receipts or the receivables to be included in come from investment. Section 13, 14, 15, 16 and 19 deals with the deductions to be made while computing the taxable income. (income tax act, 200)

- Any dividend, interest, nature, resource payment, rent, royalty, gain, from investment insurance, gain from an unapproved retirement payment or retirement fund from approved retirement fund . (sec. 9.2)
- Net gains from the disposal of the person's non business chargeable assets of investment. (sec. 9.2)
- Excess amount of incoming over the depreciation basis including outgoing on the disposal of the depreciable assets of the persons. (sec 9.2)
- Gifts or prizes received in connection with investment. (sec 9.2)
- Retirement contribution including those paid to retirement funds in respect of the person and retirement payment on acceptance of any restriction regarding investment (sec. 9.2)
- Amount include under change of accounting method. (sec. 24)
- Excess amount received under long term contract. (sec. 28)
- Bad debt recovered. (sec. 25)
- Proportionate amount under long term contract. (26)
- Under paid interest amount according to market price (sec.)
- Amount received as compensation. (sec31)

- Other amounts required to be included on tax accounting or quantification, allocation and characterization of amounts or transaction between any entry and beneficiary or general insurance business.(sec. 9.2)(income tax act, 2002

2.10 individual taxpayer

The income tax act classifies tax payment into two: an individual and an entity (sec. 2), the word "person" is used for each taxpayers irrespective of its status. Thus the term "person" includes:

- An individual; or
- A
- N entity
- Individual
- The term "individual" is defined by sec.2 (ac) follows;
- A natural person ;
- A proprietorship firm 100% owned by a single natural person; and
- A couple elected as single natural person under sec 50.

The act has no provision for an individual family to be regarded as a single tax paper. Each of the spouses is treated as separate natural person for tax assessment. However, section 50 of the act has the provision that a couple can choose to be treated as single for a particular income year. In case the couple elects to be a single individual, the incomes of both the spouses shall be taxed in a single hand as that of one individual.

- The option is applicable even if either of the spouses is a non- earning member
- The couple is permitted to be treated as a single individual taxpayer irrespective of whether such an option was taken in any previous year.
- In case the couple has chosen to be treated as a single individual for tax purpose, either of the spouses will be either jointly or separately responsible for the payment of the tax.
- The option is allowed only to a marriedcoupe, if each of the spouses is alive on the date of signing the tax return for the income year. Because the next couple has to sign on the tax return ask token of the acceptance of the election.

- Either of the spouses can be an assessee and the next spouses may give the consent. (Agrawal, 2004)

Provision for individual taxpayer under income tax act, 2002

a. Allowable deduction

1. Retirement contribution to an approved retirement fund:

Amount contributed to an approved retirement fund {provident fund} (PF), citizen investment trust [CIT] and other approved retirement fund is allowed for deduction up to a specified limit.

i. E.- actual contribution (employers + employee)

Or 1/3 of assessable income

Or Rs. 300000

Whichever is less

Retirement contribution to an unapproved retirement is not allowed for deduction.

2. Donation to tax exempt organization

Contribution made for philanthropic purpose to tax-exempt organization redistricted at IRD may be deducted from taxable under the following condition -

i.e – actual donation

or 5% of adjusted taxable income

or RS. 100000

whichever is less

But, Nepal government may notify through official gazette that donation given to such institution will be expected for deduction up to the notified limit. Such donation shall be allowed as per the notification.

- (a) Donation made to Pashupati Area Development Trust [PADT] and Lumbini Area Development Trust (LADT) is allowable up to RS. 50 lakh.

3. Exemption limit is available only for the resident natural person. There are four types of exemption limit available only for the resident person.

(a) Basic exemption : basic exemption is available only for resident natural person as per his family status :

Single / unmarried / individual	RS. 160000	@1%
Couple/ married	RS. 200000	@1%

(b) Additional exemption limit is available for the resident natural person (both for single and couple) working (residing) in remote areas of Nepal.

Remote areas	additional exemption limit
'A,	Rs 50000
'B,	Rs.40000
'C,	Rs.30000
'D,	Rs.20000
'E,	Rs.1000

(C) for pension income. A resident natural person (both for single and couple) having pension income gets 25% additional exemption limit. But should not be more then pension income.

Single / individual	$1,60,000 * 25\% = \text{Rs. } 40,000$
Couple / married	$2,00,000 * 25\% = \text{Rs. } 50,000$

(c) Life insurance premium paid by a resident natural person for own life is allowable for deduction from taxable up to the following limit:

Actual premium paid

Or , 7% of insured sum

Or , Rs. 20000

Whichever is less

3. Medical tax credit

Approved medical expenses incurred for a resident natural person can be claimed for a resident natural person can be claimed for deduction from his/ her tax liability up to a specified limit.

Allowed medical tax credit:

15% of eligible medical expenses.

+ any amount carried forward from the previous year

Whichever is less

Or, Rs. 750

Notes: for non- resident natural person no tax exemption limit of any kind is available and charge 25% flat tax rate. And special additional fee charged on total taxable income of non- resident natural person. but 5% rebate on remaining slab is get if the income is derived by operating special or from export business.

2.11 tax exempt incomes under this income tax act.

A. amount derived by person entitled to privileges under a bilateral or a multilateral treaty conducted between Nepal government and a foreign country or an international organization (like- employment income of foreign diplomats and employment income of UN representative)

Remuneration under the employment of public service of a foreign government.

Remuneration paid by NG to foreign citizen on terms of tax exemption.

Pension received by retired army / police from public fund of foreign government allowance paid by NG to widows, elder citizen, disabled person.

Amount derived by way of gift, bequest, inheritance or scholarship except as required to be included in calculating income under business, investment or employment.

Agricultural income otherwise than from a firm, company, partnership and registered corporate body and by those who do not hold land more than as registered in land act, is nontaxable income.

Income and dividends distributed by co-operation societies registered under co-operatives act, 2048 is non-taxable income.

Incomes from writing articles, preparation of exam paper, checking of exam paper are also tax-free income

2.12 specimens for computing income

Computation of income from business

particular	amount
Amount to be included	
service charge (sec 7.2)	XX
disposal of trading stock (sec 7.2)	XX
Net gain from disposal of business assets or liability (sec 7.2)	XXX
Gain from disposal of pool of depreciable assets (sec 7.2)	XXX
Prizes or gifts in connection with business	XXX
Amount received in lieu of accepting any restriction regarding business (sec 7.2)	XXX
amount received from any investment directly related to business (sec 7.2)	XXX
income to be included due to change in accounting methods (sec 22.6)	XXX
Excess amount received due to change in accounting methods (sec. 22.6)	XXX
bad debts recovered (25.1)	XXX
proportionate amounts received under long term contracts (sec. 27.1)	XXX
under payment of interest according to market rate (sec.27.1)	XXX
receivable amounts paid to others (sec. 29)	XXX
amounts received for compensation (sec. 31)	XXX
other amounts received under the head of business income	XXX
gross income from business (a)	XXX

As per income tax ace, 2058

allowable deduction

interest expenses (sec. 14)

cost of trading stock (sec. 15)

repair and improvement cost (sec. 16)

pollution control cost (sec. 17)

research and development cost (sec. 18)

depreciation allowances (sec. 19)

reserve fund for banks (sec. 59)

other expenses

total allowable deduction (B)

assessable income from business before loss adjustment (A-B)

less adjustment of business losses (sec. 20)

a. Unrelieved loss from other business this year (sec. 20)

b. Unrelieved loss from business of pervious years (sec. 20)

total adjustable business loss [(a+b) = C]

assessable income from business (A-B-C)

Computation of income from investment

As per income tax act, 2058

particular	amou nt
amounts to be included	
dividend payment (except final withholding payment (sec. 9.2)	xxx
gain from investment insurance (except final withholding payment (sec 9.2)	xxx
interest received (except final withholding payment (sec 9.2)	xxx
rent received (except final withholding payment (sec 9.2)	xxx
payment received from natural resources (sec 9.2)	xxx
royalty income (sec 9.2)	xxx
gain from unapproved retirement fund (except final withholding payment (sec 9.2)	xxx
gain from disposal of pool of depreciable assets (sec 9.2)	xxx
gift received by the person in respect of the investment (sec 9.2)	xxx
retirement contribution , including those paid to a retirement fund in respect of the person (sec 9.2)	xxx
gain from disposal of pool of depreciable assets (sec 9.2)	xxx
gift received by the person in respect of the investment (sec 9.2)	xxx
retirement contribution , including those paid to a retirement fund in respect of the person (sec 9.2)	xxx
amounts received in lieu of accepting any restrictions regarding investment (sec 9.2)	xxx

incomes to be included due to change in accounting method (sec 22.6)		
excess amount received due to exchange rate variation (sec 24.4)		xxx
bad debt recovered (sec 25.1)		xxx
under payment of interest according to market rate (sec 27.1)		xxx
receivable amounts paid to other (sec 29)		xxx
amounts received for compensation (sec 31)		xxx
income received from joint investment (sec 30)		xxx
other amounts to be included under investment income		xxx
Gross income from investment (A)		xxx
allowable deduction		xxx
interest expenses (sec 14)		xxx
repair and improvement cost (sec 16)		xxx
depreciation allowances (sec 19)		xxx
		xxx
particular	Amo	xxx
amounts to be included		xxx
salary and wages (sec 8.2)		xxx
leave pay (sec 8. 2)		
pay for overtime (sec 8.2)		xxx
fees (sec 8.2)		xxx
other allowable deduction (B)		

prizes and gifts related to employment (sec 8.2)		xxx	
bonus (sec 8.2)		xxx	
commission (sec 8.2)			
dearness allowances (sec 8.2)			
cost of living subsistence (sec 8.2)			
rent (8.2)			
entertainment and transportation allowances (sec 8.2)			
other personal allowances (sec 8.2)			
reimbursement of personal expenses (sec 8.2)			
payment for the individual's agreement to any condition regarding employment (sec 8.2)			
redundancy profit loss related payment (sec 8.2)			
other payment made in respect of employment payment (sec 8.2)			
retirement payment & contribution to retirement fund (sec 8.2)			
amount of vehicles facility (sec 27.1)			
amount of services of house keeper , chauffeur , gardener , or other domestic assistants (sec 27. 1)			
accommodation facilities (sec 27.1)			
any meal , refreshment or entertainment provided by employer (sec 27.1)			
amount of services of the payees (sec 27.1)			
under paid interest by employee to employer for loan taken by the employee (sec 27.1)			
other amounts to be included			

Gross amounts to be include		
particular		amou
<p>assessable income from employment</p> <p>assessable income from business</p> <p>assessable income from investment</p> <p>total assessable income</p> <p>less : allowable reductions</p> <p>a. Donation (as per tax law) (sec 12)</p> <p>b. Retirement contribution (as per tax law) (sec 63)</p> <p>total taxable income</p>		
assessable income from investment before loss adjustment (A-B)		

less adjustment of losses a. Unrelieved loss from business or investment this year (sec 20) b. Unrelieved loss from business off previous years (sec 20) total adjustable loss [(a+ b) = C] assessable income from investment (A-B-C)	
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(E) statement of total tax liability

particular	amount
first Rs. 16000 (individual) , 200000 (couple)	
next Rs. 100000 @ 15%	
balance Rs. Xxx @ 25%	
total ta liability	
less : advanced tax paid	
medical credit	
net tax be paid	

2.13 methods of income tax assessment.

Income tax act, 2058 has specified three of assessment. They are as follows:

Self – assessment (sec 99)

Jeopardy assessment (sec .100)

Amended assessment (sec101)

Self- assessment is done by the assessed him whereas jeopardy and amended assessment are the based on judgment of the department.

installment payment

There is a payment of business of income tax of the current year by three installments that is 40% , 70%, and 100% by the end of Poush, Chaitra and Ashadh respectively.

2.14 appeal

A tax payer may not be satisfied with the assessment made by tax officials. In such case, he may lodge an objection the assessment with director general (DG) of Inland Revenue department or go to revenue tribunal. The act has it mandatory for the taxpayer first to file an objection with Inland Revenue department for an administrative review and then if unsatisfied with the decision of director general, he/ she can go to revenue tribunal.

2.15 offences

Offences are dealt within the act in a sense of criminal offences of taxpayer as well as tax administrators. They lead to punishable in the form of fines and imprisonment on conviction. The offences attracting both a fine and the imprisonment included failures to comply with the act, failures to pay tax. Maintaining documentation or filling income returns and statement of estimated tax, making false or misleading statements, impeding or coercing the tax administration, offences by the authorized and unauthorized person, offences of aiding or abetting, etc. in case if the tax return file is not submitted within the period prescribed by the act, the late fee and interest amount will be charged at the rate of 0.1 % per year of the assessable income.

2.16 The super act

The act is made super in regard to all income tax matters. No other acts except this shall be made capable to make changes, amendment and other tax related provision other than the relating to imposition, assessment, reduction, increment, exemption or remission of tax to be made by amending this act itself by annual finance acts.

2.17 Review of literature

Income tax was imposed in Nepal first parliamentary in 1959. Then after, various studies were made and researches conducted by different individuals and institution concerning with various aspects of this act such as the structure, role, productivity, legal and administrative framework etc. some of the books reports and dissertations that are reviewed during this study are as follows:

2.18 review of books and reports

At the earliest in 1965, Mr. KedarbahadurAmatya published a book " Nepal ma Aayakarkobeabstha" in 1965, he has tried to about income tax and provision regarding income tax. His contribution was first in the field. Basically, he analyzed legal of income tax in Nepal at that period. (Amatya , 1965)

In 1978, a research team led by Dr. GovindaramAgrawal. A senior research officer of CEDA has conducted a research in the topic ' resource mobilization for development: the reform of income tax in Nepal.' This research report was published by CEDA, Kathmandu. Agrawal and his team have focused this study to analyze the various aspects of income tax in Nepal. The period covered by this study was twenty-eight from 1951/52 to 1978/79. Both primary and secondary sources of data were as follows:

- To examine the problem of growing resources gap in Nepalese finance in the context of the role income tax.
- To examine the buoyancy and elasticity of income tax in Nepal including projection of income tax.
- To examine new personal for mobilization of additional domestic resources from income tax in Nepal.
- To examine possibilities for making income tax as policy instrument for reducing inequalities of income and wealth in Nepal.
- To examine the ways and means for increasing tax consciousness in the Nepalese public.

Mr. Agrawal and his team have pointed out various findings and recommendations. Some remarkable findingand recommendations were as follows:

- Needs for additional mobilization was growing by 85 times in Nepal and she was experiencing a serious and growing problem of resource gap.
- Income tax administrations in Nepal suffered from a number of interacting and inter-related problems, which have badly affected its productivity.
- Income tax has been a fast growing category of tax revenue in Nepal.
- More than 50 percent of the total income tax revenue was contributed by the individual's taxpayers.
- Buoyancy of income tax with respect to GDP for period 1967/68 to 1975/76 was 2.18 and elasticity was 2.01 since both buoyancy and elasticity were greater than unity; income tax in Nepal was positively responsive to change in GDP.
- The main defects if the income tax administration was failure to locate new tax payers, to maintain the proper accounts, delay in assessment, poor taxpayers' compliance, evasion and avoidance of tax. And defectives management.

Recommendations

- Additional domestic resources should be mobilized through taxation.
- Tax structure of Nepal need to be redesigned in order to increase the role of direct tax.
- Income tax should be reform in Nepal.
- The research team also suggested to reform income tax administration by including the affluent taxpayers into tax net, providing the permanent taxpayers register. (Agrawal, 1978).

Leat(1968), has prepared a report entitled, "survey of Nepalese tax structure" under the request of IMF, fiscal affairs department. He has critically analyzed the scope of income tax in Nepal, tax structure, taxable income exemption and allowances given at that time. He has suggested reforming both the income law and administration to increase government revenue through income tax (lent1968). The book published in 1976 by NirmalBhattarai and RatnaShrestha, gave information about the legal aspects of income taxation in Nepal of that period.

Poudyal and Timilsena (1990) presented a book based on B. com syllabus. This book is designed to give theoretical as well as practical ideas of income tax in Nepal. Provisions and methods of assessment have been described with numerical examples but the major problems

and defects of income tax system of Nepal have not been analyzed. (Poudyal and Timsina, 1990).

Khadka(1994) , had discussed the economic policy of Nepal, VAT as a long term tax for Nepal, income tax, improving tax administration, tax reform strategy. He had analytically described about development, existing structure, main problems and possible direction of reform of income tax as narrow coverage, unscientific tax assessment and collection, defective system from the perspective of international taxation. Weak tax administration, imbalance and inadequate tax training, predominance of law level non- technical posts, debatable scope of revenue investigation department and lack of information system were the major problems of tax administration identified by him.

He had suggested some suggestion to overcome from the problems of income tax which were extension of tax coverage, scientific method to tax assessment, extension of withholding tax, inflation adjustment etc. he had also identified some possible direction for administration reform. They were reorganization and expansion, applying integrated information system; research unit on taxation strengthening the revenue service .his book was analytical to obtain the several of income tax. (khadka, 1994)

Tiwari(1999) presented a book about " income tax system in Nepal ". This book is published mainly for the student of Tribhuvan University but is equally useful to the tax payers, tax administrators and those desire to get theoretical as well as practical knowledge about income tax. He has described the provisions under income tax act 1974, income tax rules, information and acts related to income tax etc. he has not analyzed the major problems of income tax system. (Tiwari , 1999)

Khadka(2001) published a book on "income taxation of Nepal ". The book contains many interesting articles on various aspects of income tax. Its first traces out the evolution of income tax around the world. It then analyzes importance of income tax in the tax system of some selected countries. It also defines various concepts, which are widely used in the field modern income tax literature. The book also reviews major changes introduced in the field of the Nepalese income tax system since its inception in 1959 AD and examines its existing structure and operationof the structure and modernization of operation of the income tax system. The book also includes incomes tax of 1959, 1962 and 1974A.D. (khadka, 2001)

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

Kadel (2003) has published a book named " tax law & tax planning ". He has criticized the income tax act 2002 on several grounds. Exemption of agriculture income tax, export duties levied on export, inequalities between different capital earned income (i. e. tax on interest, dividend, and capital gain) and withdrawal of the provisions of exemption suddenly and no adjustment for inflation are the major issue he raised in his article. He further criticized the act for the provision of income tax from export as 0.5 percent of total export because it is not good choice of income tax bases. (kadel 2003)

Malik (2003) has published book named " Nepalese modern income tax system ". He had described historical aspects of income tax and legal

Provisions relating to income tax with numerical examples. This is very useful to know the general information and legal provision of income taxact, 2002. His book was informative rather than analytical. He had not the role of income tax, structure of income tax in Nepal. (malik, 2003).

Agrawal(2004) has published a bookentitled, " Income Tax; Theory and Practice." This book has focused on the students of chartered accounted and taxation. This book has also focused to be a practitioners' reference and handbook, rather than theoretical compilation on the subject. His book is not only based on description fact but also has interrupted the various provision of the new act. Simple and clear language has been used in this book. Sufficient theoretical concepts with clear interpretation as well as sufficient examples are included in this book. This book has depth theoretical concept and examples. Some sections of ITA 2058 act have compared with the international accounting standard. Gain or loss adjustment of depreciated assets in an example. All terms are clearly defined with sections under which the terms are included (Agrawal; 2004).

Khadka(2008) presented a book named " modernizing tax administration in Nepal ". It has really most useful book to conduct whole research. It gave through idea about tax

administration in analytical way. The book has a nice chapters starting from development of tax administration to conclusions and recommendations. The writer focused on the human resource development of tax administrators. He also gives new ideas on tax administration to return it such as computerization and autonomous revenue improvement of tax administration in Nepal.

IshworBhattarai&Girija Prasad Koirala(2009) presented a book named " taxation in Nepal." This book has focused on the students of chartered accountants and taxation. This book has also focused to be a practitioners' reference and handbook, rather than theoretical compilation on the subject. In this book writer tried to presented a whole concept about tax, tax administration, tax planning as well analytical way. This book has depth theoretical concept and examples. Some sections of ITA 2058 act have compared with international accounting standard. Gain or loss adjustment of depreciated assets in an example. Capital & revenue, special provision, withholding payment, exempt amount is clearly defined. All terms are clearly defined with sections under which the terms are included. This book has presented on over view of income tax act, 2058 (as amended by finance act, (2065).

BhavaNathDahal, FCA (2009) presented book named " AyakarMulyaAwiwiddikar." This book has focused on the students of chartered accountants and taxation. This book has also focused to be a practitioners' reference and handbook, rather than theoretical compilation on the subject. This book has depth theoretical concept. Some sections of ITA 2058 act have compared with the international accounting standard. Gain or loss adjustment of depreciated assets in an example. It has tried to mention the double meaning of word in income tax. This book has tried to view clear about double taxation, various unclear provision, double meaning of word, positive discrimination. New provision amended by finance act, 2009.

Dr. Kamal Deep Dhakal(2009) presented a hand named book " tax laws & tax planning." in this book writer has presented various theoretical and practical concept about income according to TU syllabus of MBS 2nd year. This hand book has focused on various practical problem rather theoretical aspects.

Kedar Prasad Acharya has presented an article named " NepalmarahaswaParichalan." In Nepal Rastra Bank Samachar 57 editions published on 2011. In his article he has presented present scenario of revenue, its classification and overall collection trend within period of last

five year. He has critically examined about direct tax, indirect tax, non-tax revenue, its contribution on national revenue, relation between revenue and economic growth, revenue and capital expenditure, revenue and debt etc.

2.19 Review of previous related studies

Pallimagar(2003) had covered tax structure, role of income tax and exemption and deduction provided in the law. He had found that there was dominated share of tax structure in Nepalese government revenue. Income tax had occupied third position in his study and it was increasing trend. The tax/ GDP ratio was not found satisfactory.

With the income tax, there was the dominated role of corporate income tax was second position and it was in increasing trend. Lack of trained employees, shortage of income tax experts professional in tax administration, lack of public participation, faulty organizational structure of tax administration, weakness in government policy, defective income tax act were the major cause for inefficient tax administration, observed by him his suggestion about exemption were: revision the exemption limit, elimination double taxation on dividend, tax rebate for submitting true income statement in time, increase income tax rate slab up to 10, increases the exemption limit to individual as well as family etc. besides above, suggestion about deduction were: clear provision for deduction; fully allowed interest expenses ; pollution control expenses; repair and improvement expenses; research and development expenses. He is totally concentrated on the exemption and deduction in his study. He has not study about various aspect of income tax. (Pallimager , 2003)

Besides these reports, books and master level dissertations, some articles about income tax published in Kathmandu post etc. and published of ministry of finance such as budget speech, Economic survey were reviewed in the period.

Gautam (2004) has presented a dissertation entitled, " contribution of income tax to the national revenue of Nepal." He has studied the contribution of various taxes in the government revenue, tax revenue, GDP, according to him the contribution of tax revenue in the government revenue is 85.2% in the income year 1982/83 and decreased to 78% in the income year 2003/04. Nepalese income tax revenue is the composition of income tax from public enterprises, semipublic enterprises, private corporate bodies, individuals, remuneration and tax on interest. Income tax of Rs. 8903.7 million was collection in 2003/04. Share of individual to income tax revenue is the highest. Within income tax revenue in 1982/83 but

decreased to 49.63% of income tax revenue in year 2003/04. The contribution of individual income tax is in first position, income tax exemption limits in Nepal was Rs. 7000 for all taxpayers in 1959/60 but at present income tax exemption limits is 160000 individuals and Rs. 200000 for couples and family in 2019/11. The exemption limit is not provided for partnership firms, corporation and non-residents. It is found that exemption limit has been changed on the need of time and income.

Personal income tax rate was 5 to 50 percent with 7 slabs in 1980/81 but at present (i.e. for 2005/06) it is reduced to 2 slabs. In the same way, corporate tax rate Income Tax was 10 to 55 percent with 1980/81 but at present taxpayers are taxed at flat rate. Income tax is 15 percent and 25 percent for personal income tax over exemption limit, 30 percent for bank, finance companies and 25 percent for other corporate taxpayers.

His suggestion is that the objectives of taxation should be growth, redistribution, and stabilization of economy. So, the income tax policy should be properly formulated on the basis of critical analysis of existing situation (Gautam, 2004)

Shrestha (2006) has tried to show the contribution of income tax on the structure of government revenue in Nepal. She stated that the composition of tax and non-tax revenue is still less satisfactory in Nepal. She found that total revenue, total tax revenue and direct tax revenue have an increasing trend in Nepal but in low rate. She has mentioned that tax administration, unconsciousness of tax payer, lack of scientific method that assessment and collection have identified as the major reasons for tax evasion at high level. (shrestha, Neema 2006)

Bhandari, (2006), Submitted a dissertation names, "Taxation Knowledge of taxpayer in Nepal". He had pointed out the present position of taxation knowledge of taxpayers in Nepal. Tax payers don't know the rapid change government policy, rule and regulation etc. are the main problems of the study. Similarly he recommended to the government by following ways:

- To increase the income tax knowledge of tax payers, for that tax related information should be published regularly.
- Special taxpayer education program is necessary for employees and small taxpayers which help to increase the government revenue of the country.

- The school as well as campus level curriculum should be included tax related education so that tax payer education program can effective.

Pokhrel, S.L. (2007), in his thesis "Contribution of income tax on tax structure of Nepal" has conducted an empirical investigation. According to his investigation, income tax is a suitable means of raising government revenue and tax education is necessary and negatively respectively. He found that inefficient tax administration, the tax evasion and inappropriate objectives of income tax were the main causes of low collection of income tax in Nepal. About 70% of the respondents were in favor of imposing fees, fines and penalties whereas remaining 30% were against it. The recommended measures of the respondents are effective tax management; training and development programs to tax personal; development of check and balance system can bring efficient and effective result in income tax system in Nepal.

Baidwal, K.B. (2009), has submitted a MBS thesis entitled "Effectiveness of income tax system in Nepal". The study had described the conceptual framework, legal provision, composition of total revenue in Nepal, problem of resources gap in Nepal and public awareness toward income tax system in Nepal. He undertook the research work to find out the problem regarding to revenue & expenditure. The main objective of this study was to analyze the effectiveness of income tax system in Nepal. To evaluate the contribution of income in national revenue, to evaluate present income tax administration, etc. he found that income tax can be used as positive collection to develop the economic condition of Nepalese people.

Yadav, (2009), submitted a MBS thesis entitled "A study on income tax contribution to government revenue in Nepal". The thesis had described the structure of revenue collection of income tax in Nepal, evaluation of the ratio of income tax revenue to GDP, total revenue and direct tax revenue, and recommended about exemption limit of income tax in Nepal. In his study he had recommended on the following ways:

- Taxpayers should be highly literate by conducting seminar, workshop and interaction.
- The income tax assessment procedure must be improved by reducing assessment delay.
- Reducing delay on the judgment to taxpayers and
- Creating the confidence between taxpayers and tax officers.

Adhikari (2010) conducted a study entitled " a study on corporation income tax in Nepal. " His main objectives of research were to find out share of income tax to government revenue.

His main objectives:

- Evaluate the statuses of income tax as major source of revenue
- To examine the Nepalese income tax structure
- To identify the factors to increase taxpaying habit of income tax payer
- Evaluate the problems of income tax management and provide suggestions to the concerned on the basis of study findings.

His major findings:

- The share of tax revenue has always been greater than the share of non- tax revenue. Similarly,
- The contribution of indirect tax has been always greater than direct tax revenue during the study period from 2001/02 to 2009/ 010.
- Income tax is an important source of direct tax. Its structure of Nepal is the composition of tax from government sector, public sector, private corporate bodies and remuneration tax.

His Major Recommendation:

- However, there is a fluctuation in non-tax revenue for several years; the contribution of it is less than 25% of total revenue.
- Income tax is not a barrier for people of higher level income.
- Tax administration and its collection were found to be changed in positive way after restoration of democracy.

A joint project of IRD & GTZ (2010) conducted a study entitled " A study on taxpayer's satisfaction level in Nepal. " Main objectives of research were to find out determine the satisfaction level of taxpayer.

The main objectives:

- Determine the level of taxpayer satisfaction with existing policy.
- Determine the level of taxpayer satisfaction with the quality of service provided by revenue/ tax offices.
- Determine the level of taxpayer satisfaction on the collection procedures and administrative mechanism;
- Determine taxpayer's satisfaction level on the availability of informative and the quality of tax document
- Determine the level of taxpayer satisfaction on the refund practices.

The major findings:

- The procedures are not clear and simple.
- The taxpayer's satisfaction level increases automatically as and when the government is capable of delivering the public services appropriately.
- Taxpayer still feels the behavior of tax officials is not friendly and fair.
- Tax payer still feels that it is difficult to get tax refund.
- Many of the taxpayer's did not feel the tax money was utilized properly by the government.
- Government need to put more effort in order to improve tax administration in Nepal.

The major recommendation:

- The primary responsibility of tax officials is to ensure compliance with tax laws/system. All the same time, they should ensure that tax system is simple, transparent and minimize uncertainty. Thus the officials should aim to develop and update the existing tax policy to motivate people to pay taxes, consultations should be held with relevant stakeholders including the business community
- The tax system should fairly balance the need to protect the taxation revenue base with the principal of a good tax system.

- The officials working in the field level should emphasize to ensure tax compliance; tax procedure should be fair, efficient and transparent. The process should be simple, clear and certain. There should be low compliance costs.
- Many of the officials still have to learn and practice how to deal with taxpayers in a fair and professional manner irrespective of taxes the taxpayers pay their social status.
- There is a need to introduce an effective reward and punishment system. Particularly those officials, who do not behave appropriately with the taxpayers and those who seek undue advantages, should be punished.

Ava Pradhan(2013) conducted a study entitled " A study on tax administration and income tax system in Nepal. " His main objectives of research were of find out analyzing the effectiveness of income tax administration and system of Nepal.

His main objectives:

- To examine the administrative aspects and system of income tax in Nepal.
- To examine the income tax system in Nepal.
- To identify the major problem related to tax administration in Nepal.
- To provide appropriate suggestions and recommendations.

His major findings:

- Nepalese total revenue is composed of both tax revenue and non-tax revenue.
- There is a dominant role of indirect tax revenue in Nepalese tax structure. Both taxes is increasing, there is not satisfactory growth in collection of both taxes.
- The corporate tax rates have been revised for several times. Nowadays, special industries, general industries and non-tax industries banking and insurance business are taxed at a flat rate of 20%, 25% and 30% and additional 1.5% respectively in spite of the progressive and flat tax rate in previous year.

His major recommendation:

- Inland Revenue administration is based on functional basis, but it has been implemented strictly. So focus should be given for implementation.
- Appropriate selection process should be adopted for tax officials. Recruitment process must be made faster, so that the tax administration can have required number of tax officials on time.
- It is necessary to create an appropriate working environment that should include higher salaries among other things so that competent professionals can be attracted and retrained in tax administration.

2.20 Research Gaps

Tax is the strong sources of government revenue. It plays important role in revenue collection. To increase the revenue collection from tax the government should either increases the tax rate or makes wide coverage. If tax collection is effective the government revenue will increase well. Tax system depends on it legal provision and its popularity also depends on its transparency for providing a lot of information about tax. Different research has research on the topics o income tax in different ways. Their objectives and analyzing system are in different way. After studying different research paper held on " ROLE OF INCOME TAX IN THE NATIONAL REVENUE. " The researcher found various gap on selected topic to make this research different for other research also analyze theoretical concepts. Analyze the reliable data and analyze the different views of different respondents.

CHAPTER- III

RESEARCH METHODOLOGY

This chapter is developed to the research methodology applied in the study for, the achievement for desired objectives. Both primary as well as secondary sources of data are used to conduct this study. Opinion survey technique was adopted while collecting primary data to find out the views of respondents representing different groups related to income tax. This opinion survey, questionnaires were distributed to the tax experts, tax officers, businessmen and consumers in the sizeable manner in Kathmandu valley.

3.1 Research design

To achieve the stated objectives of the study, the study of income tax act 2058 made or descriptive research whereas analytical research has been carried out in terms of role of vat in generating government revenue in Nepal. For an empirical research, an opinion survey has been conducted. The options of various seventy – five respondents associated with distinct denominations (group) i. e. tax administration, tax experts and tax payers were collected through structured questionnaire with reference to tax system of Nepal, major problem of tax system, remedy to minimize corrupt practice existed in Nepalese tax administration, cause of ineffectiveness of tax administration, the most important factor for effectiveness of tax including necessary suggestion for achieving effectiveness of tax in Nepal. Hence, the research methodology followed in the study can be termed as survey cum analytical and descriptive research design.

3.2 Population and sample

In order to benefit this study 75- sample size from Kathmandu is selected. Persons included in the sample are carefully selected by consultation with tax experts, professor and judgment of the researcher. The respondents have been divided in to four groups. The following table shows the group of respondents and the size or samples:

Table: 3.1

Groups of respondents and size of samples from each group

serial number	groups of respondents	sample size	%
1	tax experts	25	33.33
2	tax administrations	25	33.33
3	business man	25	33.33
	total	75	100

3.3 source of data

Both primary as well as secondary source of data have been collected in order to achieve the real and fact full result from this research. All possible and useful data as far available have been collected. The major sources of data are as follows:

a) Primary data

The major tools used for the collection of primary data are distribution of a questionnaire to a responsive of persons. A set of questionnaire was develop and distributed to the selected respondents in order to get accurate and actual information. The questionnaire was distributed to different tax group i. e. tax experts, tax administrations and tax payers. Tax experts and tax offices are selected from tax department, various sectors of tax offices in Kathmandu and ministry of low and justice, reputed lawyers, auditors, and intellectuals who have knowledge and ideas about tax. Tax payer i.e. business-men and consumers are selected from different manufacturing company trading, department stores, shopping center, finance company etc.

Secondary data

The secondary sources of the data are the information serviced from books journals, newspaper, reports and dissertations etc. the major sources of secondary data are from economic survey and annual reports, ministry of finance, publication, Tribhuwan University , reports and records of department of taxation, ministry of finance , dissertation related to tax available at library of ShankerDev Campus, central library of TU, publication of tax projects, publication of tax department, economic review and documents of Nepal Rastra and national planning commission, books related to tax, national newspaper, journals, souvenir and news magazines, other relevant records and data related to his studies.

3.4 Data collection Procedures

About corporate income tax information are based on corresponding tax laws. So firstly detail analysis conducted to address this study's problem and corresponding objectives then studied tax law, rules, regulations, and polices according to its study's requirement. Secondly, a total 75 sets of questionnaire were distributed to the selected respondents in order to get actual and accurate information distribution work is done personally rather than sending by any means to get accurate and actual information in time.

3.5 Presentation and analytical tools

Various tools are applied while conducting this study which is table, percentage, correlation, time series analysis, and hypothesis.

Table

Table is a tool which presents to given data according to its nature. From where, everybody gets data and information easily and clearly as requirement.

Percentage

If all amount or parts convened into 100 is called percentage which is very important of every human life. If we use it, we will be successful to reach our goals more simply then other. Percentage is computation as follows.

$$\text{Percentage} = \frac{\text{One part of whole}}{\text{Whole Part}} \times 100\%$$

Chart line & trend line

Chart means a drawing figure which also represents data in liner from charts are various like, pie chart, histogram, trend line etc. but these tools are used for purpose.

Testing of hypothesis: chi- square test (λ)²

Null hypothesis (H_0) : there is no significance difference of the view between tax administration, tax experts and taxpayers, regarding the scope of the of tax planning that should provide by ITA

Alternative hypothesis (H_1) : there is significance difference of the view between tax administration, tax experts and taxpayers, regarding the scope of tax planning that should provide by ITA.

Test statistic: under H_0 , the test statistic is

$$\lambda = \frac{\sum (F_0 - F_e)^2}{F_e}$$

Where, f_o = observed frequency

$$F_e = \text{expected frequency} = \frac{\text{Total Row} \times \text{Total Column}}{\text{Grand Total}}$$

CHAPTER –IV

DATA PRESENTATION AND ANALYSIS

4.1 Analysis of secondary data

4.1.1 Revenue collection from tax

The main source of revenue collection from government is tax revenue from tax is in increasing trend. The revenue collection from tax in fiscal year 2003/04 is Rs. 39330.6 million but in FY 2011/ 012 the revenue collection is 172777.7 million. It shows the revenue collection from tax is increasing trend, following table shows the revenue collection from in different year. Tax revenue includes customs, tax on consumption and product of goods and services, land revenue and registration and tax on property profit and income. The total tax collection during the ten year is as follows:-

Table: 4.1

Revenue collection from tax

Rs. In million

Fiscal year	Tax revenue
2003/04	39330.6
2004/05	42587
2005/06	48173
2006/07	54104.7
2007/08	57430.4
2008/09	71126.7
2009/010	85155.46

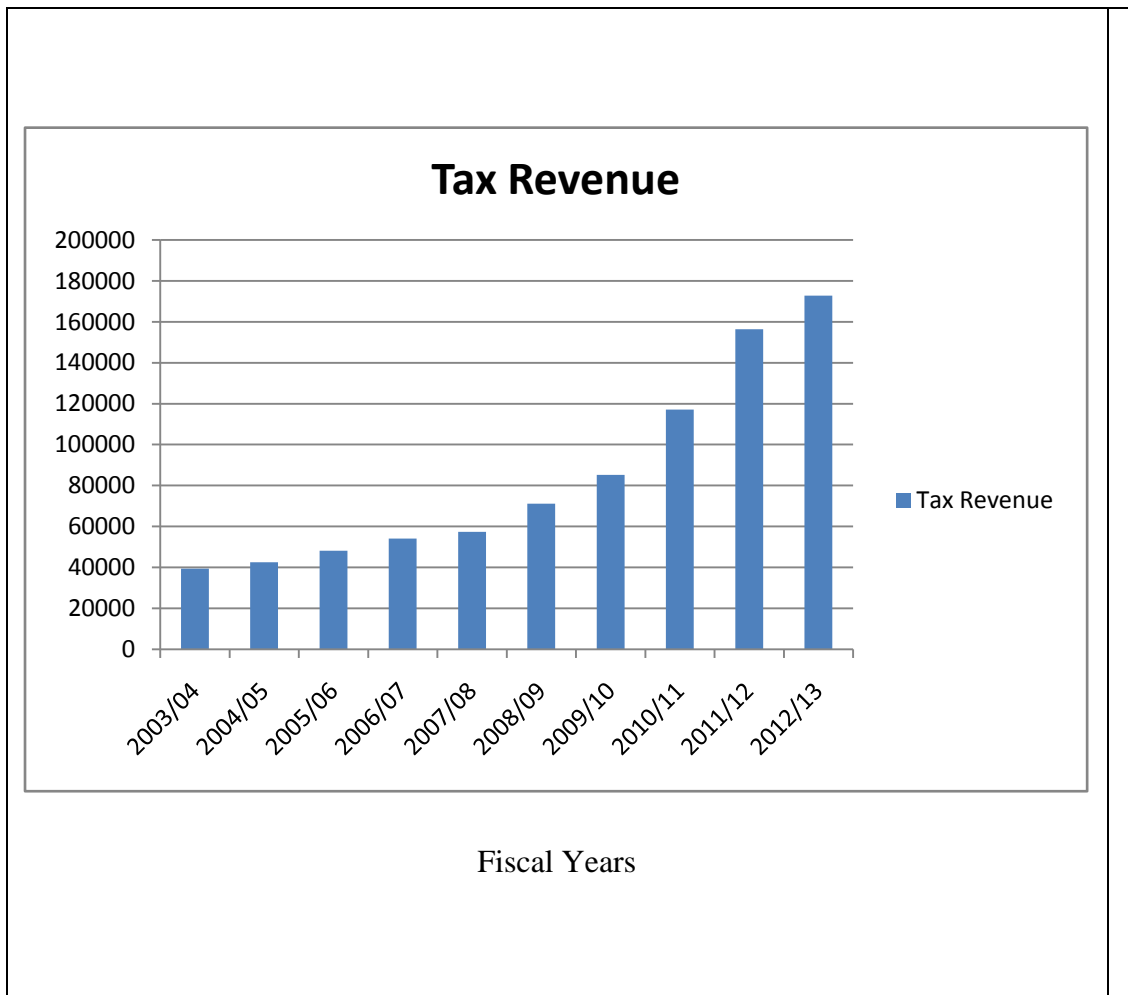
2010/011	117051.91
2011/012	156294.9
2012/013	172777.7

Economic survey: 2012/013

From the above table the revenue collection from tax was increased from FY 2003/04 to 2012/013 the above explanation can be shown in following figure.

Figure: 4.1:Revenue collection from tax

Rs. In million



4.1.2 Composition of tax revenue

Tax revenue includes the tax from customs, tax on consumption and product of goods and services land revenue registration, tax on property profit and income the composition of tax revenue in different year is given in following table.

Table: 4.2

Composition of tax revenue

Fiscal Year	Customs	Tax on consumption and product of goods services	Land revenue registration	Tax on property & income	Total
2003/04	12658.8	16047.3	1131.8	9456.7	39330.6
2004/05	14236.4	18244.8	1414.3	8691.5	42587
2005/06	15554.8	20705.6	1697.5	10215.1	48143
2006/07	15701.6	25331.3	1799.2	11272.6	54104.7
2007/08	15344	28118.3	2181.8	11787	57430.4
2008/09	16707.6	35433.8	2253.5	16726.8	71126.7
2009/010	21062.43	41005.28	2940.74	20147.03	85155.46
2010/011	26792.85	55938.33	5223.28	29097.47	117051.91
2011/012	35150.8	79394.1	5511.1	36238.9	156294.9
2012/013	35711.6	88411	3572.5	45082.6	172777.7

Rs. In million

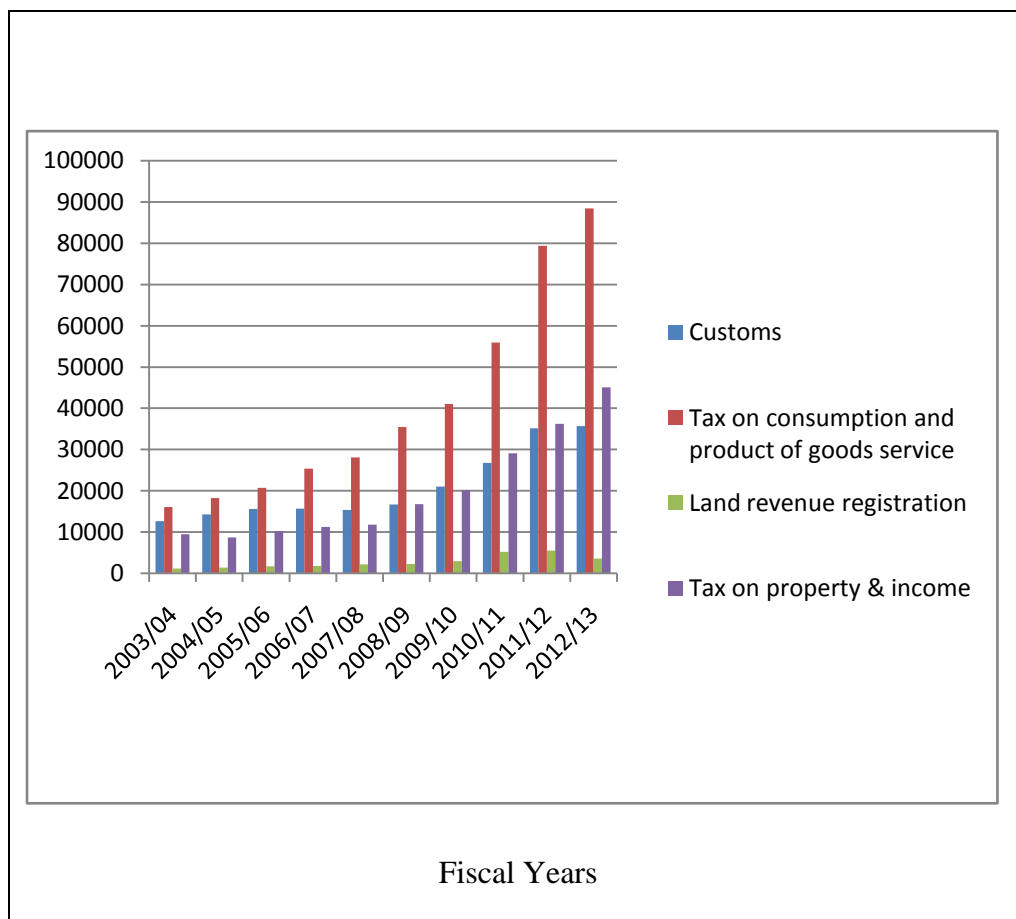
Source: economic survey 2012/013

In Nepal major sources of government revenue is tax revenue. In the tax revenue the major sources of tax is custom tax which includes: imports, exports, Indian excise returned and others. Another major source of tax on consumption product goods and services which includes exercise on industrial products and value added tax. Another source of tax is on income tax from public enterprise income tax semi-public enterprises, income tax from private corporate bodies and income tax from individuals. Tax from remuneration, house and land tax, vehicle tax, tax on interest and others. The tax collection from different year in shown in above table which shows the every sources of tax which shows the every source of tax is in increasing trend. The above data can be shown in following figure.

Figure: 4.2

Composition of tax revenue

Rs. In million



4.1.3 Composition of tax revenue and non tax revenue

Tax revenue includes tax from customs, tax on consumption and product of goods and services land revenue and registration and tax on property, profit and incomes. Non tax revenue includes charges. Fees, Fines and Forfeiture, Receipts from sale of Commodities and Services dividend, Royalty and sales of fixed assets.Principal and interest payment and miscellaneous. The composition of tax revenue and non-tax revenue of government in different years in given on following tables:-

Table: 4.3

Composition of tax revenue and non-tax revenue

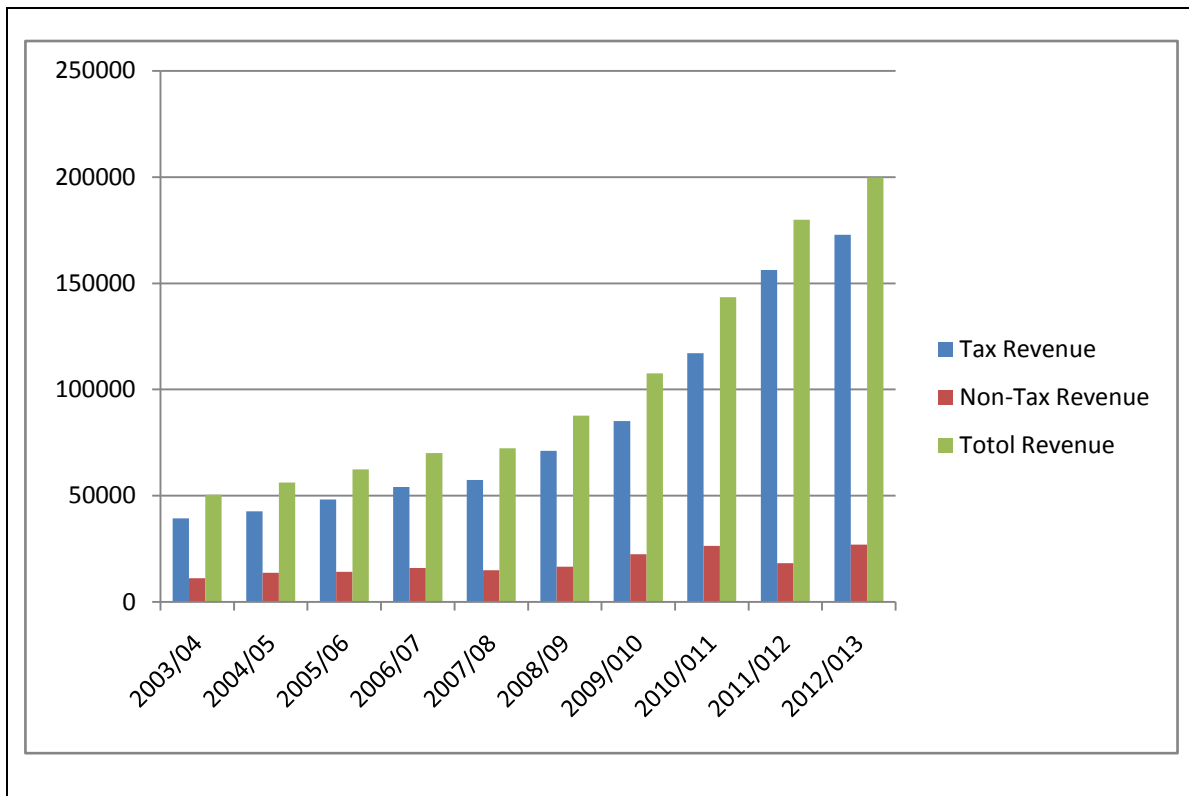
fiscal year	tax revenue	non-tax revenue	total revenue
2003/04	39330.6	11115	50445.5
2004/05	42587	13642.7	56229.8
2005/06	48173	14158	62331
2006/07	54104.7	16018	70122.7
2007/08	57430.4	14851.7	72282.1
2008/09	71126.7	16585.36	87712.1
2009/010	85155.46	22467.03	107622.5
2010/011	117051.91	26422.58	143474.5
2011/012	156294.9	18206.49	179945.8
2012/013	172777.6	27041.4	199819

Source: the above table it is clear that the major of part total revenue is tax revenue. The revenue from tax in year 2003/04 was Fs. 39330.6 million and from non-tax revenue was 11115 million similarly the revenue from tax in fiscal year 2003/04; fiscal year 2004/04; fiscal year 2006/07; fiscal years 2007/08; fiscal year 2009/010; fiscal year 2010/011, fiscal year 2011/012 and fiscal year 2012/013 were Rs., 42587.6, Rs., 48173.0, Rs. 54104.7, Rs. 507430.4, Rs.71126.7 million respectively. similarly the revenue collection from non-tax were in fiscal year 2003/04; fiscal year 2005/06; fiscal year 2006/07; fiscal year 2007/08;fiscal year 2008/09 fiscal year 2009/010, fiscal year 2010/011, fiscal 2011/012, fiscal year 2012/013 were Rs.11115.0 million, Rs. 13642.7 million, Rs. 14158.0 million, Rs. 16018.0 million, Rs. 14851.7 million, Rs. 16585.5 million Rs. 22467.03 million, Rs 26422.58, Rs. 18206.49 and 27041.4 million respectively. The above explanation can shown be in figure:-

Figure: 4-3

Composition of tax revenue and Non-Tax Revenue

Rs. In million



4.1.4 Revenue collection from income tax

Income tax is the main source of revenue for the government. Income tax includes corporate tax, individual tax and interest tax. Corporate tax includes income tax from Public enterprises, income tax from Semi- public Enterprises and income tax from private corporate bodies. Individual tax includes income tax from individual and income tax from remuneration, interest tax includes tax related to interest to interest income.

Table:4.4

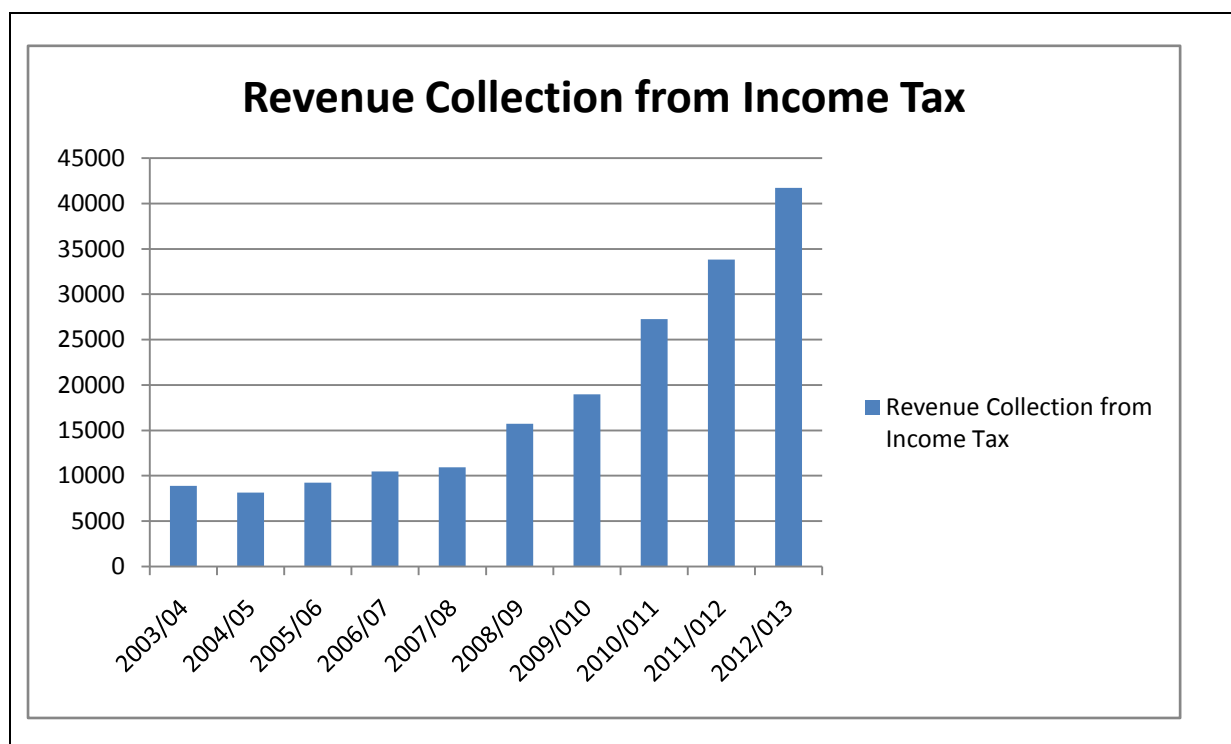
Revenue collection from income tax

Fiscal year	Revenue collection from income tax
2003/04	8903.7
2004/05	8431.9
2005/06	9245.9
2006/07	10466.4
2007/08	10933.5
2008/09	15731.0
2009/010	18978
2010/011	27247.4
2011/012	33811.5
2012/013	41725.4

In the fiscal year 2003/04 revenue collection from income tax was Rs. 89803.7 million and in fiscal year revenue collection from income tax is increased up to Rs. 41725.4 million in fiscal year 2012/013 the following figure shows the revenue collection from income tax in different years.

Figure: 4.4

Revenue collection from income tax in Rs.million



4.1.5 Composition of income tax

Income tax includes corporate tax, individual tax and interest tax. Corporate tax includes income tax from public Enterprises, income tax from Semi – public Enterprises and income tax from Private Corporate bodies. Individual tax includes income tax from individual and income tax from remuneration interest tax includes tax related to interest income.

The composition of income tax in different year is given in following table:-

Table:4.5

Composition of income tax

Source: Economic Survey 2012/013

From the above table shows the composition of income tax revenue in different fiscal year. The above explanation can be shown in figure.

4.1.6 Contribution of income tax to total revenue

The government total revenue includes tax revenue and non tax revenue. Tax revenue includes tax from customs, tax on consumption and products of goods and services, tax from land revenue and registration, tax on property profit & income. Similarly non tax revenue includes charges, fees, fines and forfeiture, received from sales of tax commodities and services, Dividend, royalty and sales of fixed assets, principal and interest payment and Miscellaneous items. Income tax is one part of total revenue. The contribution of income tax on the total revenue in different year is given below:

Table: 4.6

Contribution of income tax to total revenue

fiscal Year	Total Revenue	Income Tax	% of income tax to total revenue
2003/04	50445.5	9803.7	17.65
2004/05	56229.8	8131.9	14.17
2005/06	62331	9245.9	14.83
2006/07	70122.7	10466.4	14.49
2007/08	72282.1	10933.5	14.35

2008/09	87712.1	15731.0	17.94
2009/010	107622.5	18978	17.63
2010/011	133474.5	27247.4	20.41
2011/012	179945.8	33832.8	18.80
2012/013	199819	41725.4	20.88

Rs. In Million

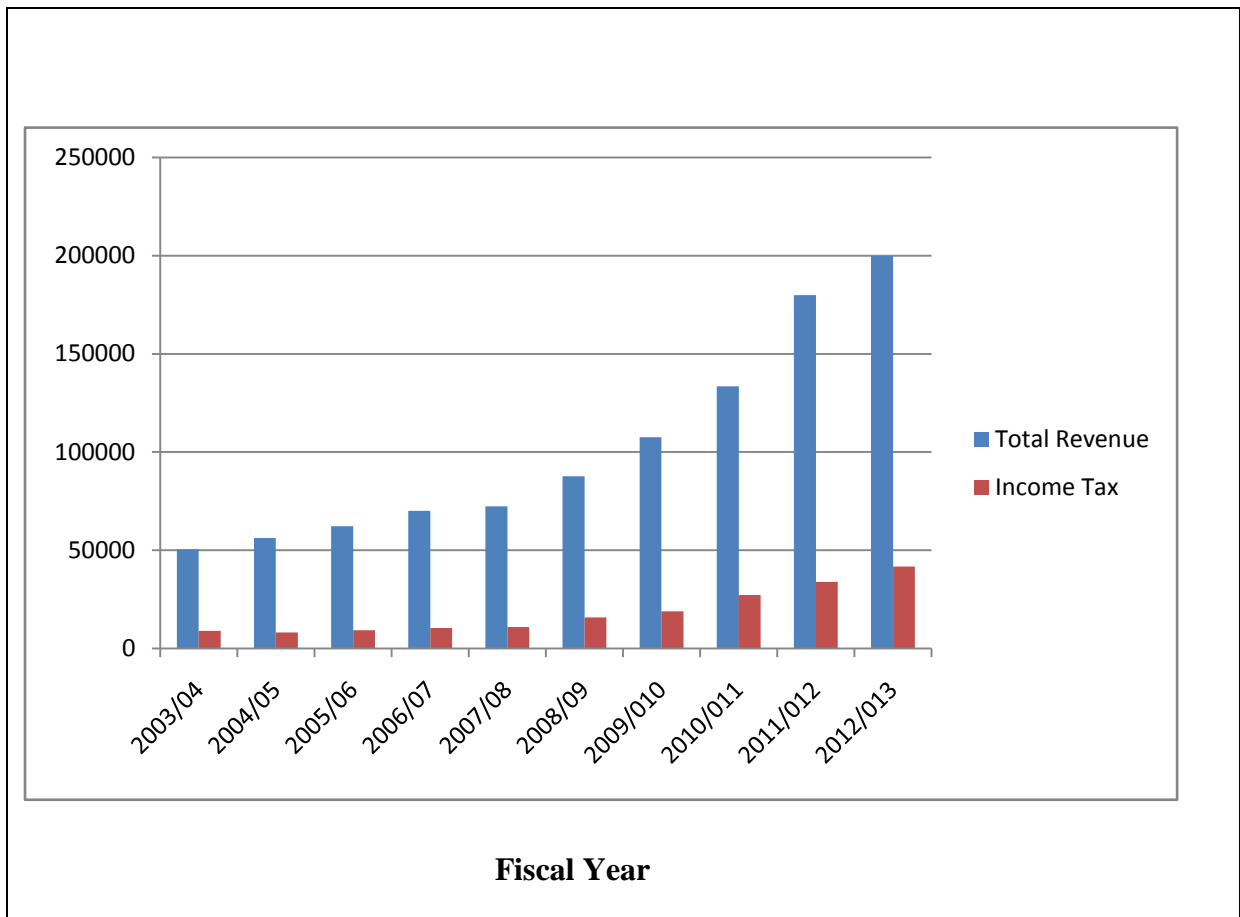
Source: Economic Survey: 2012/013

In fiscal year 2003/03; the contribution of income tax to total revenue was 17.65% similarly in year 2003/04; fiscal year 2005/06; fiscal year 2006/07; fiscal year 2007/08; fiscal year 2008/09 fiscal year 2009/010, fiscal year 2010/011, fiscal year 2011/012 fiscal year 2012/013 were 14.17%, 14.17%,14.83%,14.49%.14.35%, 17.94%, 17.63%,20.41%, 18.80%, 20.88%, respectively. Above table shows in an aggregate the contribution of income tax on total revenue is 17% the explanation can be shown in following figure.

Figure: 4.6

Contribution of income tax to total revenue

Rs. In million



4.1.7 Contribution of income tax to total tax Revenue

Total tax revenue includes tax from customs, tax on consumption and products of goods and Services, tax from land revenue and registration, tax on property profit and income. So, income tax is one of the components of total tax revenue. The contribution of income tax on the total revenue is in average 21% the following table shows the contribution of income tax to total tax revenue in different year.

Table 4.7**Contribution of Income Tax to Total Tax Revenue**

Rs. In million

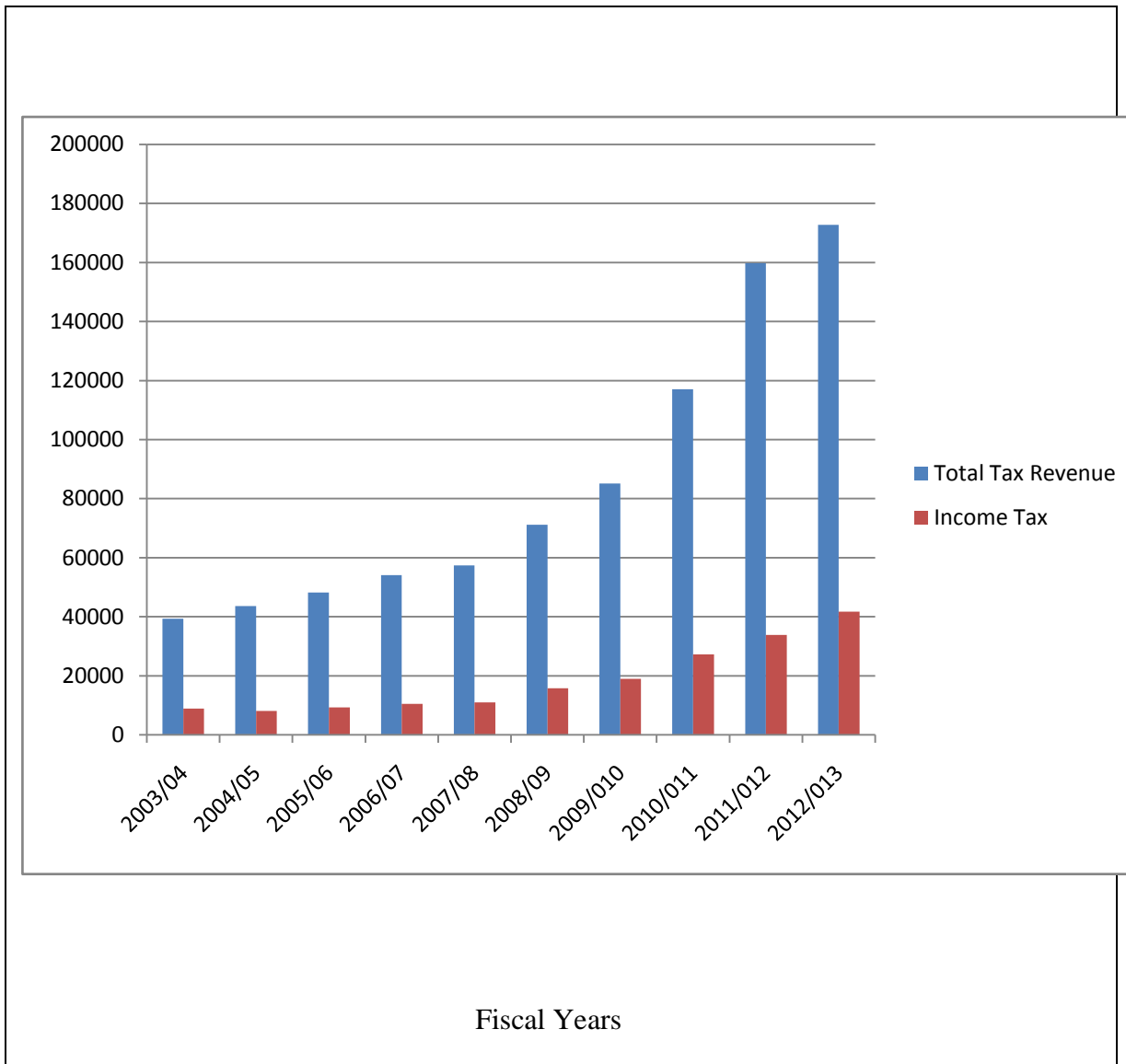
Fiscal Year	Total Tax Revenue	Income tax	% of income tax to total tax revenue
2003/04	39330.6	8903.7	22.64
2004/05	42587	8131.9	18.71
2005/06	48173	9245.9	19.19
2006/07	54104.7	10466.4	18.78
2007/08	57430.4	10933.5	10.06
2008/09	71126.7	15731.0	22.12
2009/010	85155.46	18978	22.29
2010/011	117051.91	27247.4	23.28
2011/012	159785.39	33832.8	21.17
2012/013	172777.6	41725.4	24.15

Economic Survey: 2012/013

In fiscal year 2003/04; the contribution of income tax to total revenue was 22.64%. similarly in year 2004/05; fiscal year 2005/06; fiscal year 2006/07; fiscal year 2007/08; fiscal year 2012/013 were 18.71, 19.19%, 18.78%, 18.06%, 22.12%, 22.29%, 23.28%, 21.2% and 24.15% respectively. Above table shows in an aggregate the contribution of income tax on total revenue is 21%. The explanation can be shown in following figure.

Figure 4.7 Contribution of Income Tax to Total Tax Revenue

Rs.in million



4.1.8 Contribution of income tax to direct tax Revenue

Direct tax revenues tax from land revenue, house and land Registration fees and tax on property, profit & incomes. So, income tax is one of the components of direct tax revenue.

The contribution of income tax on the Direct tax revenue is in average 80.20% the following table shows the contribution of income tax to total tax revenue in different years.

Table: 4.8**Contribution of income tax to Direct tax Revenue**

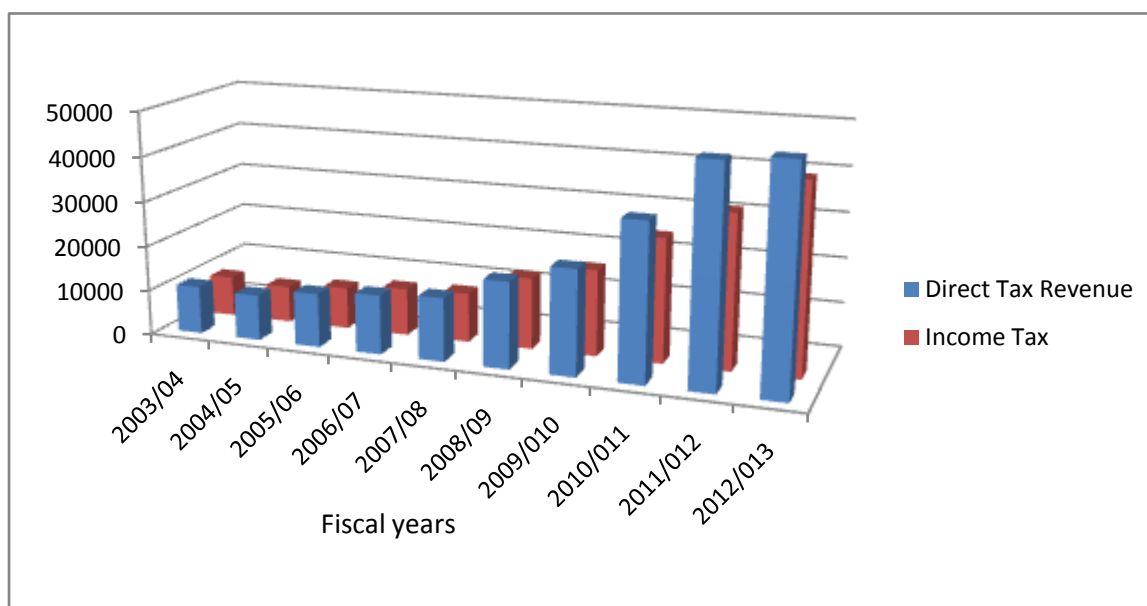
Rs. In million

Fiscal years	Direct tax Revenue	Income tax	% income tax to Direct tax Revenue
2003/04	10597.5	8903.7	84.02
2004/05	10105.8	8131.9	78.83
2005/06	11912.6	9245.9	77.61
2006/07	13071.8	10466.4	77.72
2007/08	13978.1	10933.5	74.27
2008/09	18980.3	15731.0	82.88
2009/010	23087.76	18978	82.20
2010/011	34320.75	27247.4	79.39
2011/012	47541.63	33832.8	71.16
2012/013	48655.1	41725.4	85.76

In fiscal year 2003/03; the contribution of income tax to total revenue was 82.02% similarly in year 2003/04; fiscal year 2005/06; fiscal year 2006/07; fiscal year 2007/08; fiscal year 2012/013 were 84.02%, 78.83%, 77.61%, 77.72%, 74.27.06%, 82.88%, 82.2%, 79.39%, and 85.79% respectively. Above table shows in an aggregate the contribution of income tax on total revenue is 78%. The explanation can be shown in following figure.

Figure: 4.8

Contribution of Income Tax to Direct Tax Revenue



4.1.9 Government Expenditure

Government expenditure includes the recurrent expenditure, capital expenditure and principle payment. In the fiscal year 2003/04 the total government expenditure is Rs. 80072.2 million and principle payment is Rs. 6434.9 million. In fiscal year 2012/013 the government expenditure is Rs. 259363.4 million, which includes current expenditure Rs 170295.4 million, capital expenditure Rs. 107847.5 million and principle payment Rs. 17220.5 million. The following table shows the government expenditure in different in different fiscal

Table : 4.9**Government Expenditure**

Rs.Inmillion

Fiscal year	Government Expenditure			total
	Recurrent expenditure	Capital expenditure	Principle payment	
2003/04	48863.9	24773.4	6434.9	80072.2
2004/05	52090.5	22356.1	9559.5	84006.1
2005/06	55552.1	23095.6	10794.9	89442.6
2006/07	61686.4	27340.7	13533.3	102560.4
2007/08	67.17.8	29606.6	14264.8	110889.2
2008/09	77122.4	39729.9	16752.5	133604.9
2009/010	91446.9	53516.1	1638.9	161349.9
2010/011	127738.9	73089	18834.1	219662
2011/012	151019.1	90237.7	18432.3	259689.1
2012/013	170295.4	107847.5	17220.5	295363.4

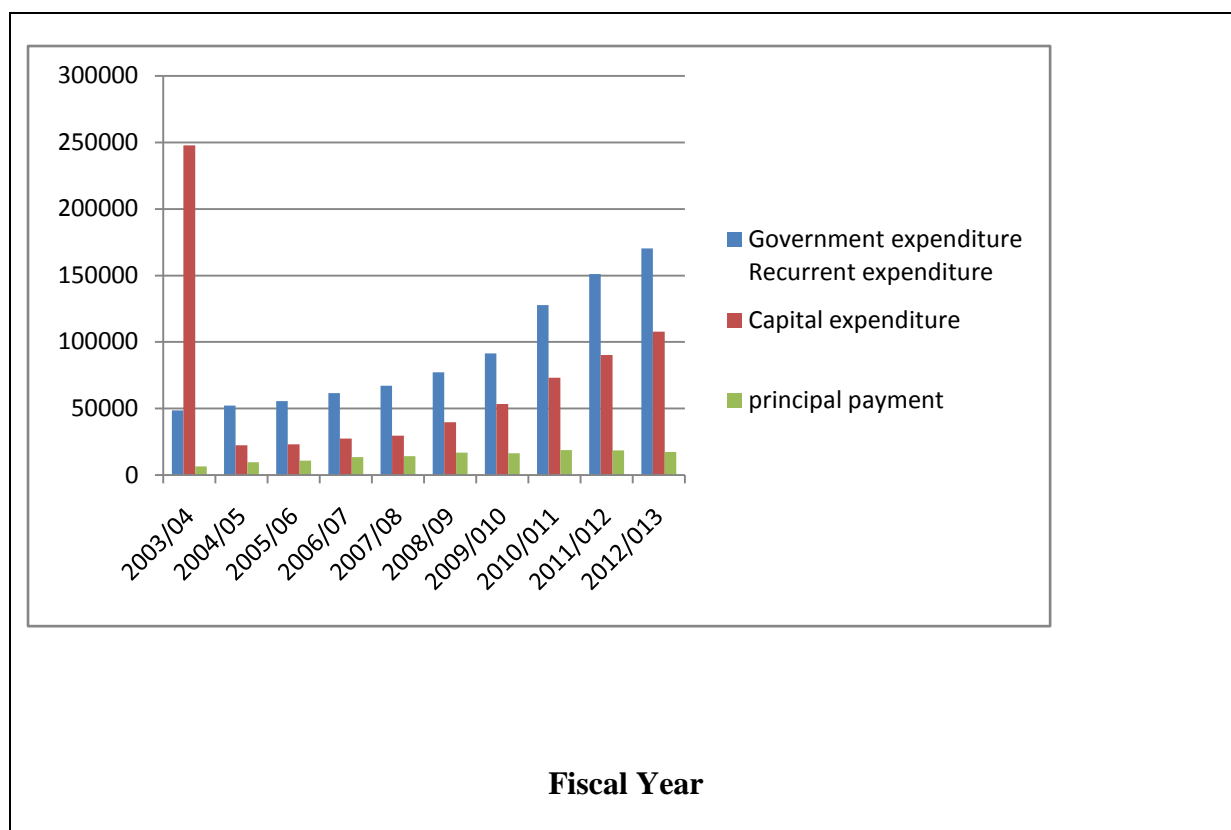
Source: Economic survey 2012/013

The above explanation can be shown in following figure.

Figure: 4.9

Government Expenditure

Rs.In Million



4.1.10 Government Receipts

Government receipts include the total tax and non-tax revenue and foreign grants. The main source of government receipts is revenue. Total government receipts in fiscal year 2003/04 was Rs. 57131.6 million which includes Rs. 50445.5 million from revenue and Rs. 686.1 million from Grants & fiscal year 2012/013 in fiscal total receipt were 245741.2 million which includes 199819 million from revenue and 45922.2 million from grants. Similarly total government receipts in different fiscal year and its composition is given in following tables.

Table: 4.10**Government Receipts**

Rs.In Million

fiscal year	revenue Receipts	Foreign Grants	Total receipts
2003/04	50445.5	6686.1	57131.6
2004/05	56229.8	11339.1	67568.9
2005/06	62331	11283.4	73614.4
2006/07	70122.7	14391.2	84513.9
2007/08	72282.1	13827.5	86109.6
2008/09	87712.1	15800.8	103512.9
2009/010	107622.5	20320.7	127943.2
2010/011	143474.5	26382.8	169857.3
2011/012	179945.8	38545.9	218491.7
2012/013	199819	45922.2	245741.2

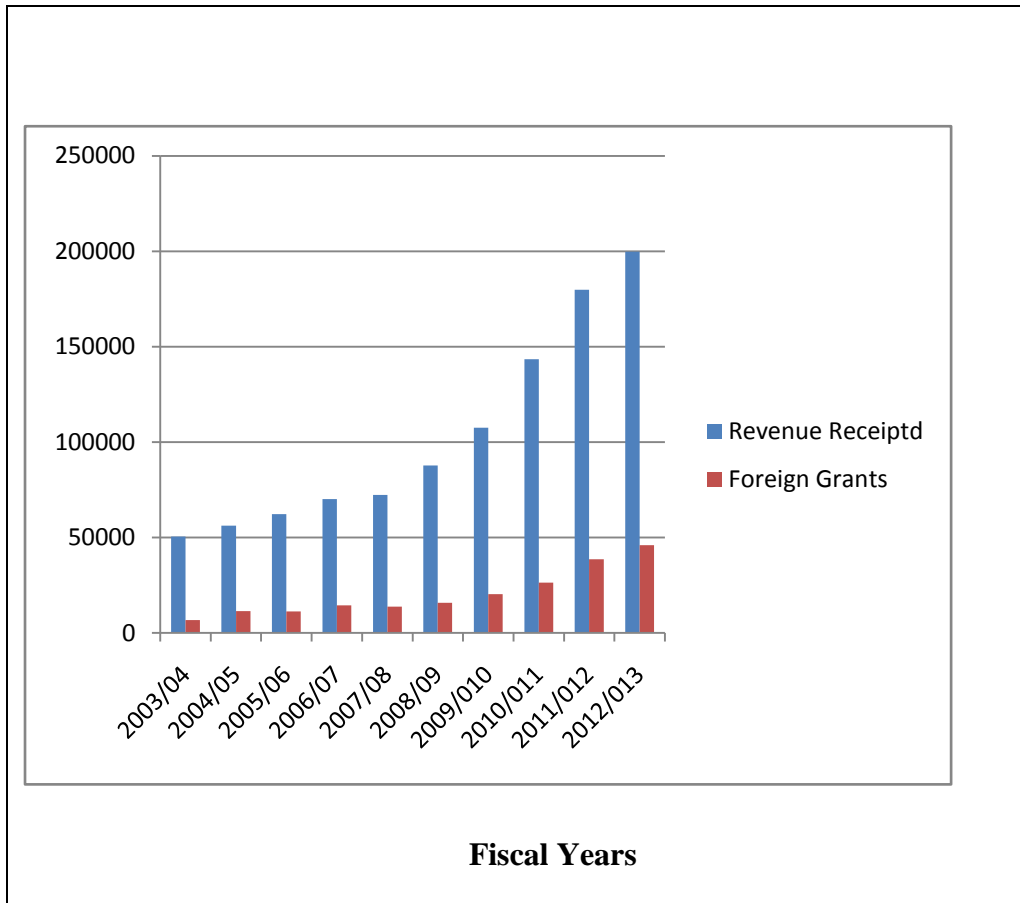
Source: Economic Survey 2012/013

Government receipts from revenue and foreign grants in different year can be shown in figure. Following figure shows the total receipts from revenue and foreign and foreign in different fiscal year.

Figure: 4.10

Government Receipts

RS.In million



4.1.11 Comparative study of government receipts and expenditure

Government collect's revenue from different sources; they are tax revenue, non-tax revenue and foreigngrants. Government expenditure head mainly are recurrent expenditure, capital expenditure and principle repayment. Government collects revenue and grant& expenses in different head. If receipts are more than expenditure there is surplus, if expenses more them revenue there is deficit. Following table shows the government receipts, expenditure and surplus &deficit relation.

Table: 4.11**Comparative study of government Receipts and Expenditure**

Rs.In million

fiscal year	Expenditure	Receipts	Surplus(+)/Deficit(-)
2003/04	80072.2	57131.6	-22940.6
2004/05	74006.1	67568.9	-16437.2
2005/06	19442.6	73614.4	-15828.2
2006/07	102560.4	84513.9	-18046.5
2007/08	110889.2	86109.6	-24779.6
2008/09	133604.6	103512.9	-30091.7
2009/10	161349.9	12794.2	-33406.7
2010/11	219662	169857.3	-49804.7
2011/12	259689.1	218491.7	-41197.4
2012/13	295363.4	245741.2	-49622.2

Source: economic survey 2012/013

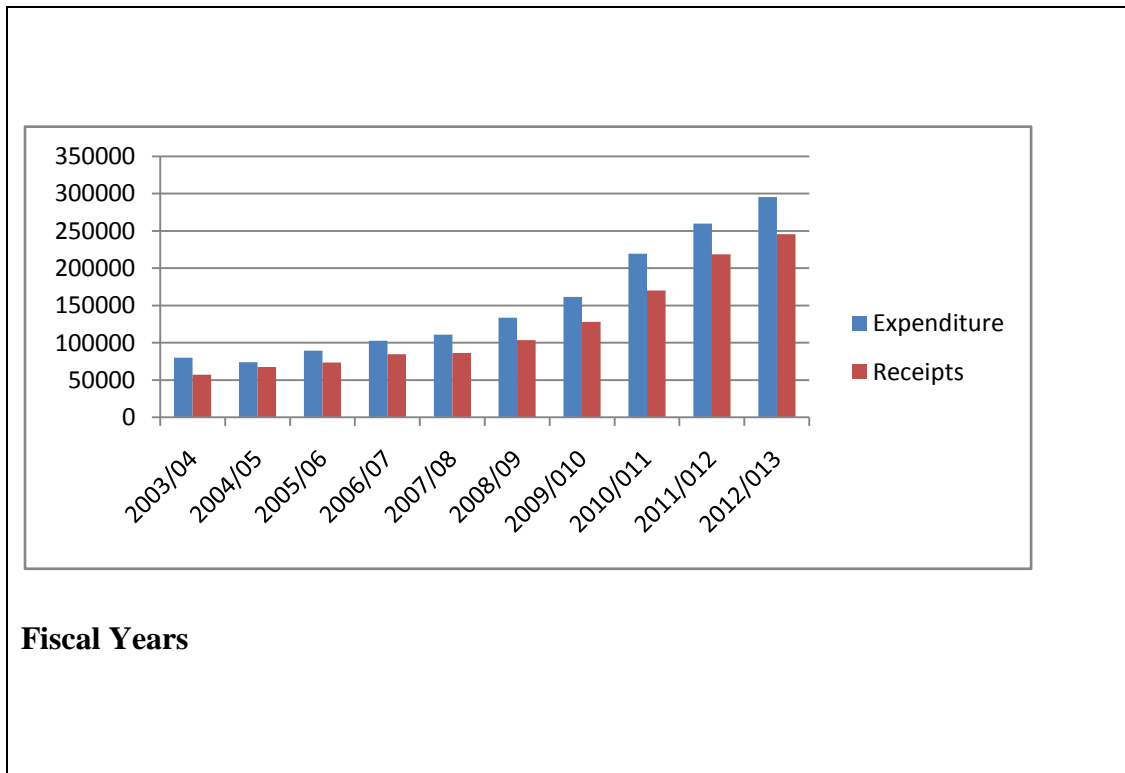
The above table shows the relation between government expenditure and government revenue. The table clearly shows the government expenditure is more than government receipts in and every year. Every year is deficit because expenditure is more than receipts. The deficit in fiscal year 2003/04 was 22940.6 million. Similarly in fiscal year 2004/05; fiscal year 2005/06; fiscal year 2006/07; fiscal year 2007/08, fiscal year 2008/09 fiscal year were Rs 16437.2 million, Rs 15828.2 million, Rs 18046.5 million, Rs 24779.6 million, 30091.7

million and 49622.2 respectively. The above table explanation can be shown in following figure also.

Figure: 4.11

Comparative study of government receipts and expenditure

Rs. In million



4.1.12 exemption limit

Exemption limit directly influence income tax revenue collection. Tax payer having low tax payer capacity should exclude from the tax net for the social justice and economic balance between rich and poor. The exemption limit provided in the various years is presented in the table 4.12 in the earlier time;there was equal amount of exemption to all the taxpayers' i. e. Individual, couple, family and corporate bodies. Exemption limit to all taxpayers was Rs. 7000 in the FY 1959/60to 1962/63. The exemption limit to the corporate taxpayer was curtailed from the FY 1967/68 to FY 1973/74 and FY1975/76 to FY 1978/79. The exemption limit to the family was in the FY 1967/68 to FY 1973/74 whereas it was Rs. 4500 to the couple. The exemption limit to couple and family was Rs. 6500 and 7500 respectively in the FY 1978/75 and it was further extended by Rs 1000/1000 for the fiscal year 1978/79. From

the table, it is clear that exemption limit is extended according to need of need of time and income condition. At present time, individual having the taxable income up to RS. 160000 are exempted from tax and that for couple is Rs. 200000.

Note that if it pension income of a resident person, the exemption limit would the exemption amount plus 25 percent of exemption amount.

Table: 4.12

Exemption limit in Nepal from fiscal year 1959/60- 2010/ 2011

fiscal year	individual	couple
1959/60-1962/63	-	-
1963/64 -1964/65	-	-
1995/66-1996/67	-	-
1967/68-1973/74	3000	4500
1974/75	4500	6000
1976/77-1978/79	6500	7500
1979/80-1980/81	7500	10000
1981/82-1982/83	10000	15000
1983/84-1989/90	15000	20000
1990/91-1991/92	20000	30000
1992/93-1996/97	25000	35000
1997/98	30000	40000

1998/99	40000	50000
1999/00	55000	75000
2001/02	55000	75000
2003/04	65000	85000
2004/05	65000	85000
2005/06	80000	100000
2006/07	80000	100000
2007/08	100000	125000
2008/09	100000	125000
2009/010	115000	140000
2010/011	160000	200000
2011/012	160000	200000
2012/013	160000	200000

Source: finance acts of various year, ministry of finance

4.2 Analysis of primary data

4.2.1 Introduction

The survey result has been conducted to find out the various aspects of income tax in Nepal. The structured questionnaire was prepared and distributed for this purpose. The opinion of the various 75 respondents associated with distinct denominations i. e. tax administration, tax expert and tax payers were collected. The questionnaire has covered role of income tax,

major problem of income tax system, problem facing by tax payer, the most important factors for the effectiveness of income tax system in Nepal (see the format of questionnaire in a appendix 1). The respondents were asked either to

Responses Yes/no or for ranking of choices according to no of alternatives where first choice was the most important and last choice was least important. Number of respondents in each denomination is equal 25. Information received from the respondents are tabulated and analyzed in the proper way.

Table: 4.13

Group of Respondents and number from each group

S.N.	group of respondents	No.
1	group of respondents	25
2	income tax administrators	25
3	business man	25
	total	75

Source: estimated figure

4.2.2 Result of empirical investigation

4.2.2.1 Income tax as suitable of raising government revenue.

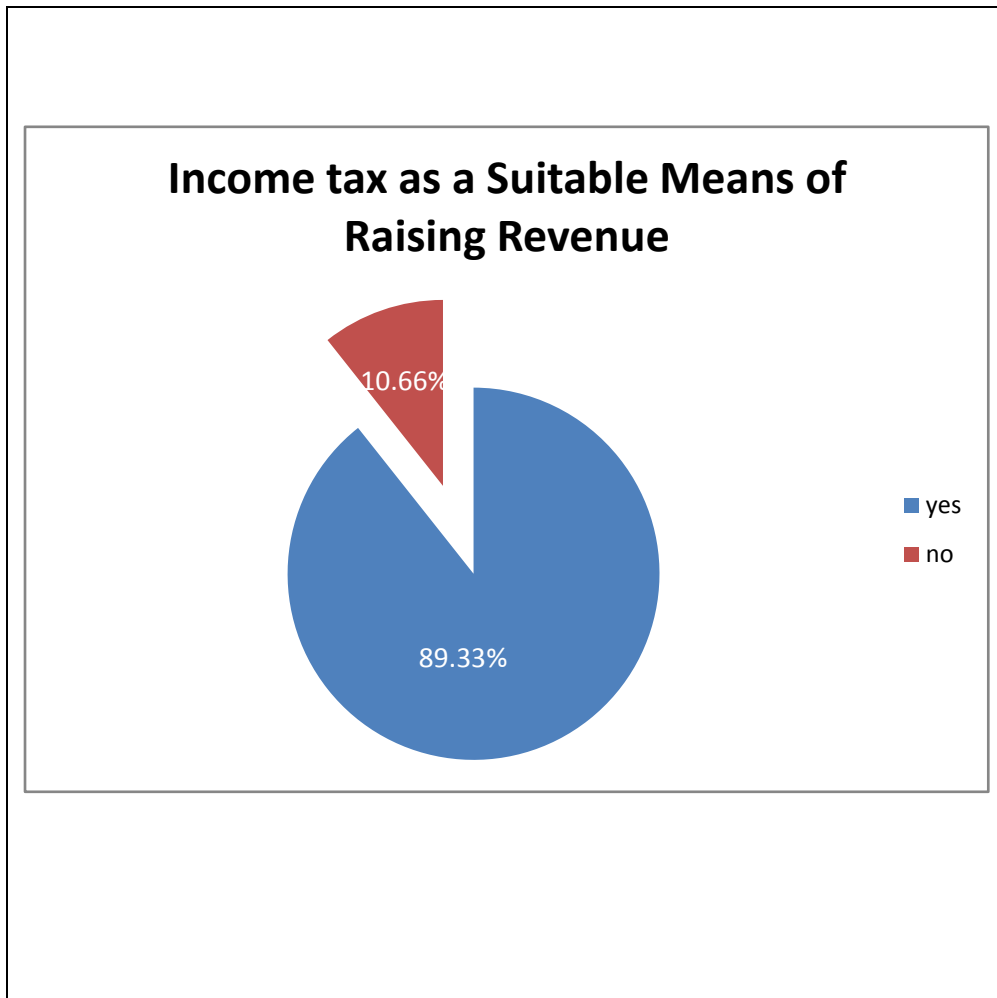
To know whether income tax as a suitable means of raising government revenue in Nepal, a questionnaire was asked " Do you consider that income tax is the suitable means of raising government revenue in Nepal? " The respondent's responses are tabulated in the following table.

Table: 4.14**Income tax as a suitable means of raising revenue**

response	Yes		No		total	
respondent	No.	percentage	No.	percentage	No.	percentage
tax administrator	24	96	1	4	25	100
tax expert	23	92	2	8	25	100
business man	21	84	4	16	25	100
total	67	89.33	8	10.66	75	100

Source: field survey 2013

Figure tax as a suitable means of raising revenue



From the opinion survey, it is found that 96 percent of tax administrators and tax experts and 92 percent of taxpayers recognize income tax as a suitable means of raising government revenue. Only 4 percent tax administrators and 8 percent tax expert and 16 percent tax payer does not recognize. In aggregate 89.33 percent respondent recognized and 10.66 percent does not recognized income tax as a suitable means of raising government revenue in Nepal. Thus, it is concluded that income tax is a suitable means of raising government revenue in Nepal.

- To know the respondents view towards public awareness program the questions was put " do you think that public awareness program is necessary in Nepal for raising the government revenue? " Opinion result summarized in the following table.

Table: 4.15

Need of public awareness program

response	Yes		No		total	
	No.	percentage	No.	percentage	No.	percentage
tax administrator	25	100	-	-	25	100
tax expert	25	100	-	-	25	100
business man	25	100	-	-	25	100
total	75	100			75	100

Source: field survey 2013

4.2.2.3 Contribution of Income Tax Revenue

Income tax has contributed about 20 percent to public revenue in Nepal. It is blamed that contribution of income tax to national revenue is not satisfactory. To know the fact, the question was asked to respondent " in your opinion, is contribution of income tax to national revenue of Nepal satisfactory? " opinion result is presented in the following table.

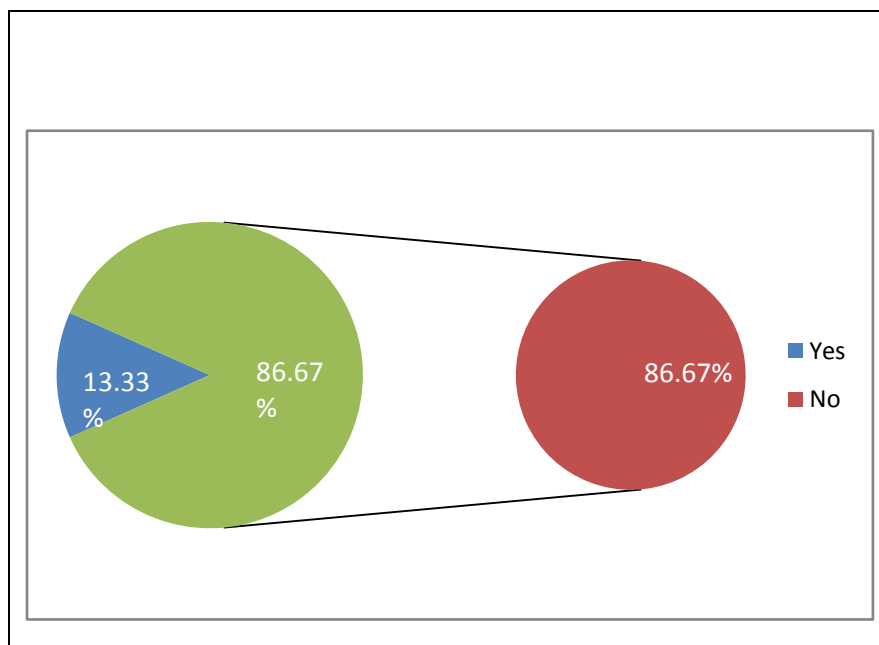
Table: 4.16

Satisfactory contribution of income tax revenue

Responses	Yes		No		total	
	No.	percentage	No.	percentage	No.	percentage
tax administrator	4	16	21	84	25	100
tax expert	4	24	19	76	25	100
business man	-	-	25	100	25	100
total	10	13.33	65	86.67	75	100

Source: field survey 2013

Figure: 4.13: Satisfactory contribution of income tax revenue



Only 16 percent of tax administration and 24 percent of taxpayers approve that income tax contribution to public revenue is satisfactory. But 86.67 percent tax payers argue that contribution of income tax to national revenue in Nepal is unsatisfactory. In aggregate, 13.33 percent respondents argue that Nepalese income tax contribution is satisfactory.

4.2.2.4 Reasons for low contribution of income tax

In order to know the major reasons for level contribution of income tax, next question was asked, " if no, what are the major reasons. " The respondents were requested to rank their choice from 1 to 5 according to preference.

Table: 4.17

Reasons for low contribution of income tax to national revenue

S. N.	Method	Total Points Received				Percentage	Rank
		tax administrator	tax expert	business man	total		
1	defective of income tax act	72	58	61	191	19.1	4
2	mass poverty and low income level	68	80	64	212	21.2	2
3	increasing habit o tax	92	69	79	240	24	1
4	inefficient income tax administrator	82	58	54	191	19.1	3

5	inappropriate rate and exemption limit	37	46	80	163	16.3	5
	total				1000	100	

Filed survey: 2013

In table rank 1 is given to the highest percentage and 5 to the lowest. Here highest percentage is obtained by the method which is regarded highly appropriate by the respondents. In the questionnaire, the respondents were requested to given number 1 to the most appropriate of last of the least appropriate.

From the above table, the major reasons low contribution of income tax to national revenue ranked in order of preference are as follows:

- 1 Increasing habit of tax evasion
- 2 Mass poverty and low income level
- 3 Inefficient income tax act
- 4 Inappropriate rate and exemption limit

4.2.2.5 Scope of Tax Facilities in Nepal

To know the view of the respondents about the scope of tax facilities a question was asked " Do you think tax act should sufficient scope of tax facilities? " The response received from various respondents has been tabulated as follows:

Table: 4.18
View towards sufficient scope of tax facilities

Response	Yes		No		total	
	No.	percentage	No.	percentage	No.	percentage
Tax administrator	18	72	7	28	25	100
Tax expert	19	76	6	24	25	100
Business man	21	84	4	16	25	100
Total	58	77.33	10	22.67	75	100

Source: field survey 2013

From the above table 72 percent of tax administration 76 percent of tax expert and 84 percent of taxpayer recognized ITA should provide sufficient scope of tax facilities. 22.67 percent respondent did not approve that ITA should provide sufficient scope of tax facilities. From this opinion, it can be concluded that the contribution of direct tax to total revenue is not effective.

Test of hypothesis: Chi- Square test (λ)²

Respondents	Year	No	Total Row
Tax administration	18	7	25
Tax experts and Business man	40	10	50
Total	58	17	75

Source: table

Null hypothesis (H_0): There is no significance difference of the view between tax administration, tax experts and taxpayers, regarding the scope of tax planning that should provide by ITA

Alternative hypothesis (H_1): There is significance difference of the view between tax administration, tax experts and taxpayers, regarding the scope of tax planning that should provide by ITA

Test statistic: under H_0 , the test statistic is

$$\chi^2 = \frac{\sum(F_0 - F_e)^2}{F_e}$$

Where, F_0 = observed frequency

$$F_e = \text{expected frequency} = \frac{\text{Total Row} \times \text{Total Column}}{\text{Grand Total}}$$

Test of hypothesis:

Row, Column	F_0	F_e	$F_0 - F_e$	$(F_0 - F_e)^2$	$(F_0 - F_e)^2 / F_e$
(1, 1)	18	$\frac{25 \times 58}{75}$ =19.33	-1.34		0.0931
(1, 2)	7	$\frac{25 \times 17}{75}$ =5.66	1.34		0.318
(2, 1)	40	$\frac{50 \times 58}{75}$ =38.67	1.33		0.0248

(2, 2)	10	$\frac{50 \times 17}{75}$ =11.33	-1.33		0.15
Total					$\sum(F_0-F_e)/F_e$ =0.5859

Calculated $\lambda^2 = \sum(F_0-F_e)/F_e = 0.5859$

Degree of freedom = (r-1) (c-1)

= (2-1) (2-1)

= 1x1=1

Level of significance (a)= 5% = 0.05

Tabulated λ^2 0.005 (1) = 3.841

Since calculated $\lambda^2 <$ tabulated λ^2 therefore, the null hypothesis is accepted. So there is no significant difference between the view of tax administration and taxpayer regarding the scope of tax planning that should provide by income tax act.

4.2.2.6 Appropriateness of exemption and deduction

Adequate exemption and deduction is necessary to promote the business enterprises. Many exemption and deduction are provide by " industrial enterprises act, 2049" and " income tax act, 2058. " The question " are exemption and deduction provide by act appropriate? " Was asked to find out the opinion of the respondents regarding the exemption and deduction. Opinion result is summarized in the table.

Table: 4.19
Appropriate of exemption and deduction

Response	Yes		No		total	
	No.	percentage	No.	percentage	No.	percentage
Tax administrator	8	32	17	84	25	100
Tax expert	6	24	19	76	25	100
Business man	2	8	23	96	25	100
Total	21	21.33	78.67	84	75	100

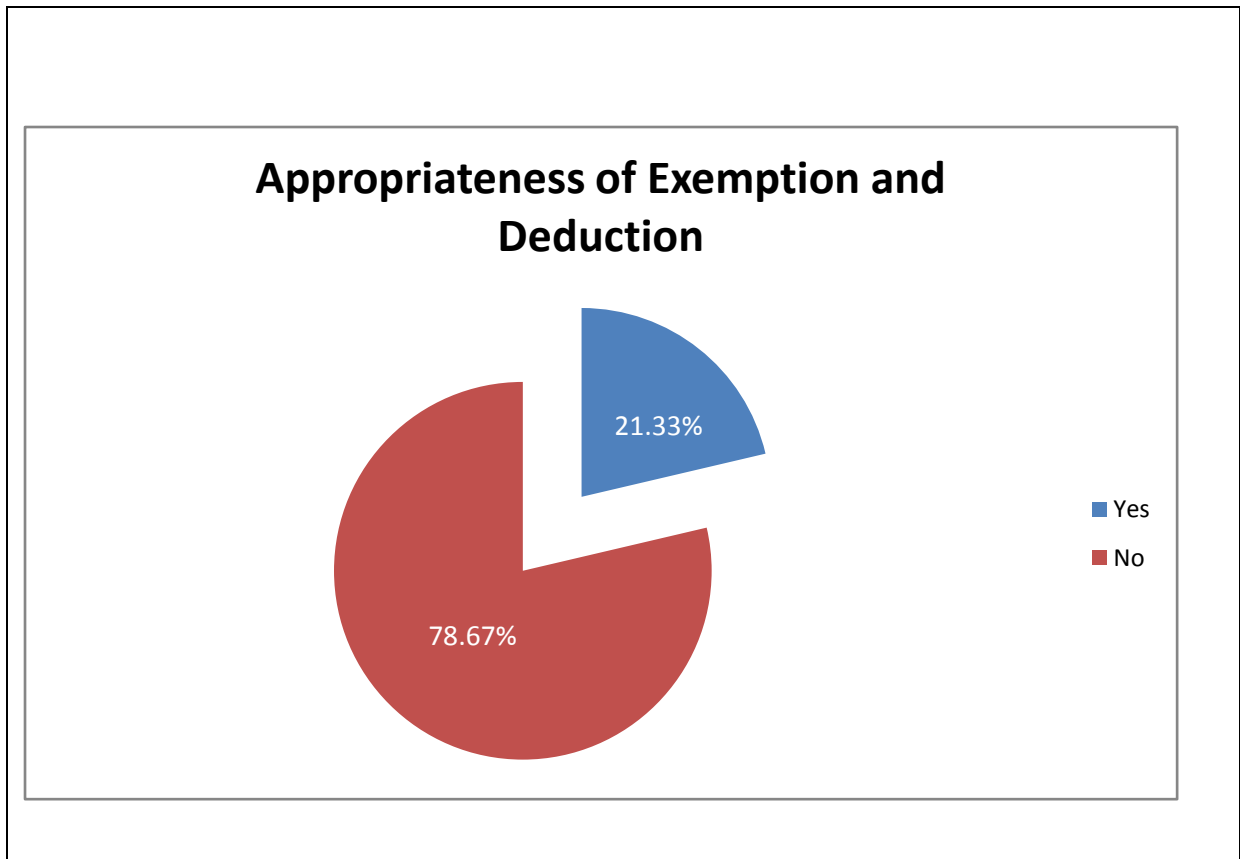
Source: field survey 2013

Only 21 percent of respondents agree with percent exemption and deduction. But large figure i. e. 78.67 percent respondents disagree with the percent with the present exemption and deduction.

The above survey result can be shown in following figure:

Figure: 4.14

Appropriateness of exemption deduction



4.2.2.7 Appropriate method of income tax assessment

Revenue collection from income tax also depends on the income tax assessment procedures. Therefore, assessment procedure should be appropriate and effective. A question, " which income tax assessment method is more appropriate in Nepal? " Was asked to know the respondent's opinion about appropriate method of income tax assessment. The responses are presented in the table below.

Table: 4.20

Appropriate method of income tax assessment

S. N.	Method	Tax administrator	Tax Expert	Business man	Total	Percent
1	Self-assessment	20	23	25	68	90
2	Jeopardy assessment	-	2	-	2	3
3	Amended assessment	5	-	-	5	7
	Total	25	25	25	75	100

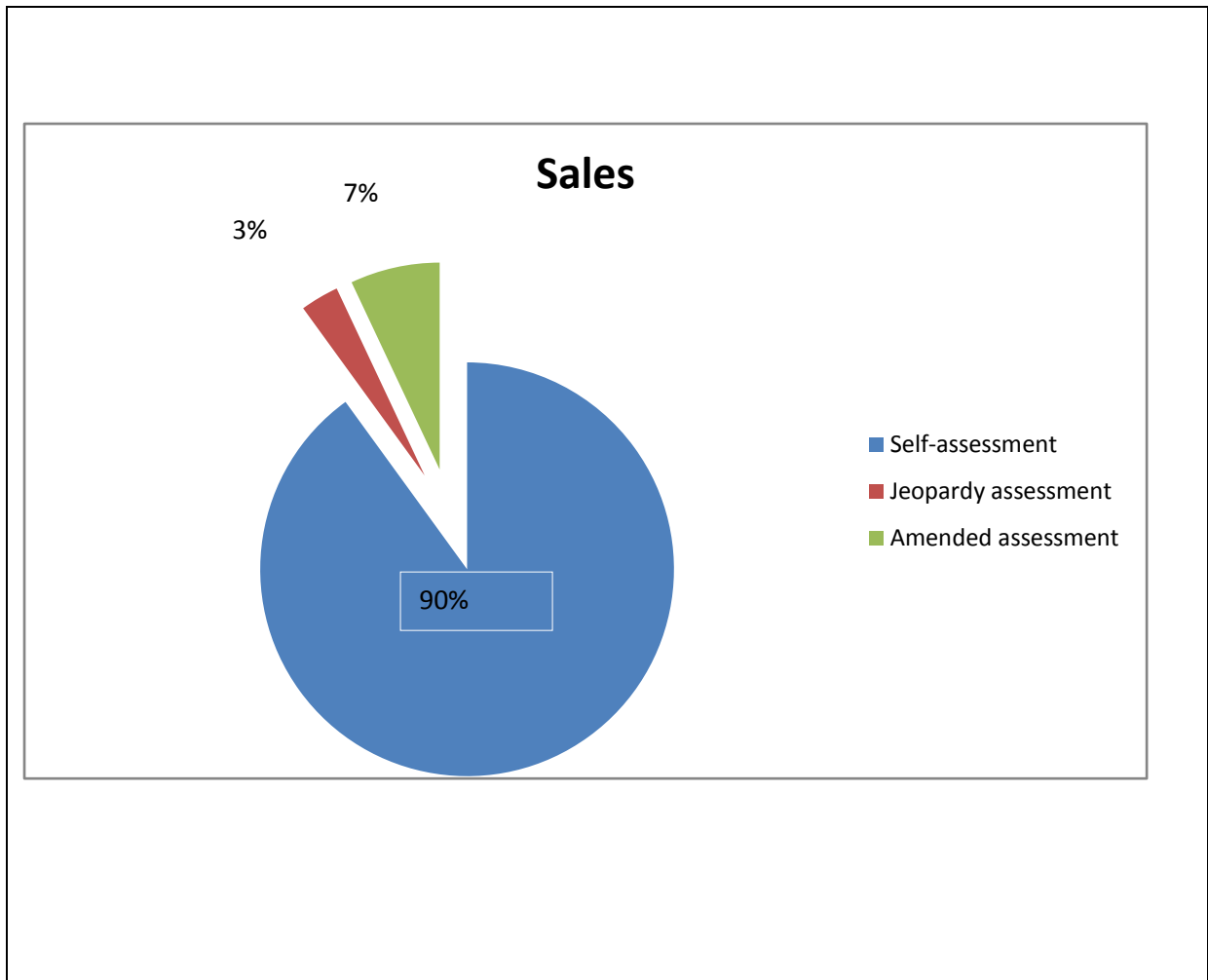
Field survey: 2013

90 percent respondents approved self- tax assessment method is more appropriate to assess income tax. 3 percent are in favor of jeopardy assessment and 7 percent in favor of amended assessment. The respondent's category that is most in favors of self- assessment is taxpayers. From the above opinion, it can be concluded that self-assessment method is more appropriate while assessing income tax to collect large amount of revenue through income tax. But during the survey, the opinion of one of the respondents was that, these are not mutually related. So they all are equally important.

It can be shown in following figure

Figure: 4.15

Appropriate method of income tax assessment



4.2.2.8 Attitude toward problem in paying income tax

To know the problems facing by the taxpayers while paying income tax, the respondents were requested to rank their choice from 1 to 5 according to their preference. The question was, "in your thinking, what types of problems are facing by the payer while paying income tax. " Response received from respondents is tabulated in the table.

Table: 4.21

Problems in tax paying

S. N.	method	total points received				percentage	rank
		tax administrator	tax expert	business man	total		
1	consuming unnecessary time	49	61	72	182	18.2	4
2	expectation of illegal incentives by tax personnel	72	76	63	211	21.1	2
3	vague provision in income tax laws	84	70	90	244	24.2	1
4	lengthy process	58	64	69	191	19.1	3
5	lack of cooperation by tax administrator	52	56	64	172	17.2	5
	total				1000	100	

Field survey: 2013

In table no. 4.16 Rank 1 given to the highest percentage and 5 to the lowest. Here highest percentage is obtained by the problem which is treated as the important problem by the

respondents. In the questionnaire, the respondents were requested to given number 1 to the most appropriate of last to the least appropriate.

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

1. Vague provision in income tax laws
2. Expectations illegal incentive to the personnel
3. Lack of co- operational by tax administration
4. Lengthy process
5. Consuming unnecessary time

4.2.2.9 Reasonableness of existing provision of fines and penalty

Fines and penalty also play significant role to reduce the tax evasion and illegal activities and make morality to the tax payer. To know the views of respondents about the find penalty, the respondents were requested to tick yes/no option. The question was," are the provisions of fines and penalty under the Nepalese tax system reasonable?" the opinion of respondents tabulated in the table.

Table: 4.22

Reasonableness of existing provision of fines and penalty

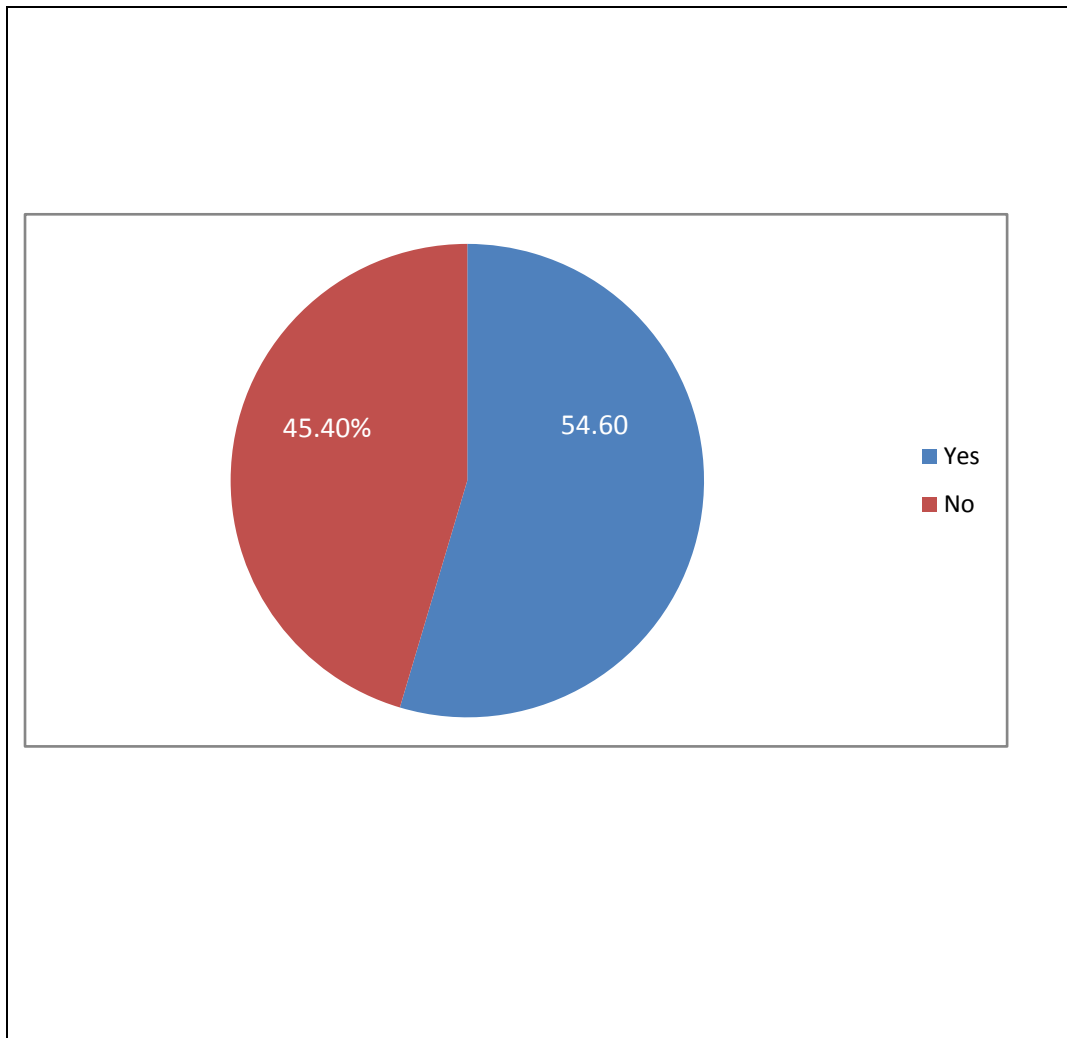
Responses Respondent	yes		no		total	
	no.	Percentage	No.	Percentage	No.	Percentage
tax administrator	19	76	6	24	25	100
tax Expert	18	72	7	28	25	100
Businessmen	4	16	21	84	25	100
Total	41	54.6	65	45.4	25	100

1. Vague provision in income tax laws
2. Expectations illegal incentive to the personnel

54.6 percent respondents are in favor of present provisions of fines and penalty but 45.3 percent respondent is against the percent provisions of fines and penalty. Out of totals taxpayer respondent, the highest 84 percent are against the percent fine and penalty.

FIGURE: 4.16

Reasonableness, if Existing Provision of Fines and Penalty



In order to know reasons of unreasonable fine and penalty provision, the next question was asked, " if no, how should it be made reasonable? " Views of respondents are tabulated in the table.

Table: 4.23

Reasonable fines and penalty rate

respondents	by increasing		by decreasing		total	
tax administrator	6	100	-	-	6	100
tax expert	7	100	-	-	7	100
business man	4	19	17	81	21	100
total	17	73	17	27	34	100

Source: field survey 2013.

73 percent of the respondents, who were against fines and penalty, gave their view for increasing fine and penalty and 27 percent gave view in the favor of decreasing rate. The unsatisfied tax administrator and tax experts are totally in favors of increasing fines and penalty.

4.2.2.10 effectiveness of income tax administration

To know the respondents view regarding effectiveness of income tax administration in Nepal a question, " do you agree that Nepalese income tax administration is effective? " Was asked. The responses are tabulated in the following table.

Table; 4.24

Effectiveness of income tax administration in Nepal

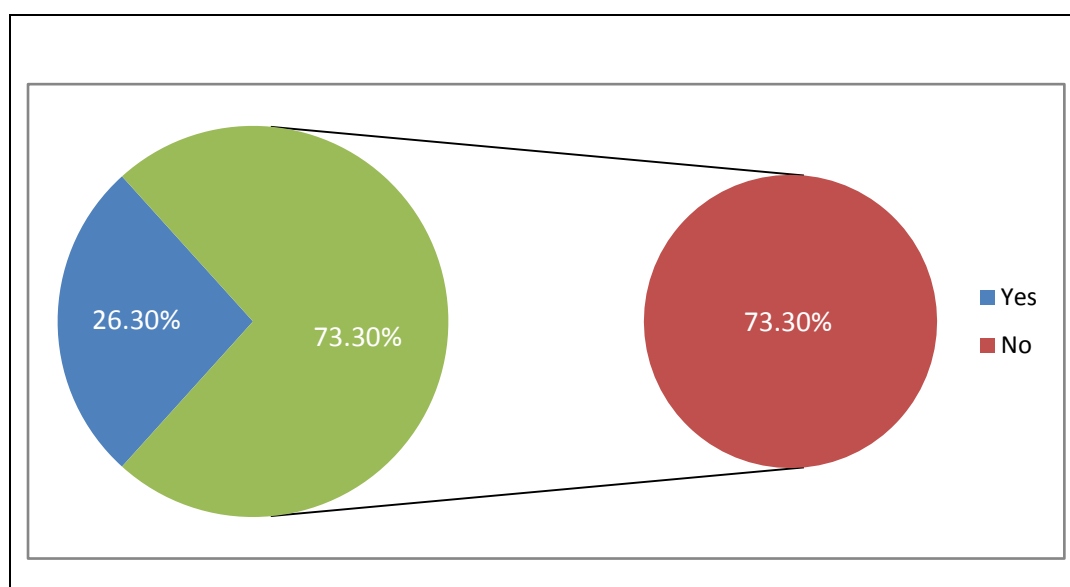
response respondent	Yes		No		total	
	No.	percentage	No.	percentage	No.	percentage
tax administrator	17	68	8	32	25	100
tax expert	3	12	22	88	25	100
business man	-	-	25	100	25	100
total	20	26.6	55	73.3	75	100

Source: field survey 2013

From the table it has been clear that Nepalese income tax administration is not effective. Most of the respondents' i. e. 73.3 percent of respondents recognizes it ineffective. The high percentage of respondent who are in favors of Nepalese tax administration is the tax administrators themselves.

Figure: 4.17

Effectiveness of income tax administration in Nepal



4.2.2.11 Suitable Tax Rate in Nepal

In order to find the suitable income tax rate system in Nepal, respondents were requested to select any one among the three alternatives. The question was "in your opinion, which income tax rate is suitable for Nepal?" The responses are tabulated in the table.

Table: 4.25

Suitable tax rate in Nepal

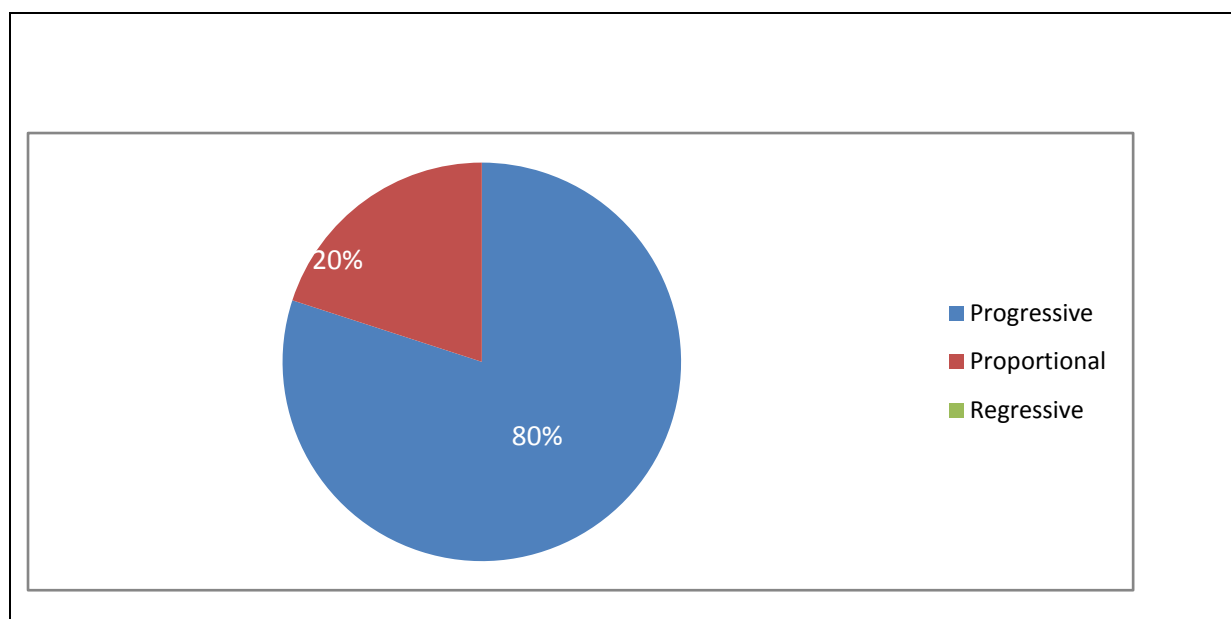
S. N.	methods	tax administrator	tax expert	business man	total	percent
1	progressive	20	25	15	60	80s
2	proportional	5	-	10	15	20
3	regressive	-	-			-
		25	25		75	

Source: field survey 2013.

From the table it is clear that, 80 percent of respondents prefer progressive income tax rate in Nepal. So, it can be concluded that progressive tax rate is most suitable means of tax rate in Nepal.

Figure: 4.18

Suitable tax rate in Nepal



4.2.2.12 Soundness of Income Tax System in Nepal

To know the respondents view regarding soundness and efficient of income tax system in Nepal, a question, " in your opinion is income tax system of Nepal sound and efficient? " Was asked the responses are tabulated in the table.

Table: 4.26

Soundness of income tax system in Nepal

response	Yes		No		total	
	No.	percentage	No.	percentage	No.	percentage
tax administrator	11	44	14	56	25	100
tax expert	3	12	22	88	25	100
business man	-	-	25	100	25	100
total	14	18.6	61	81.3	75	100

Source: field survey 2013

81.3 percent respondents approve that the income tax system of Nepal is not sound and efficient. Only 18.6 percent respondents approve soundness and efficient tax system Nepal.

4.2.2.13 most important factors for effectiveness of income tax

The respondents were requested to rank their choice from 1 to 5 according to their preference to know the opinion of the respondent's view regarding to important factors for effectiveness of income tax in Nepal. a question, " in your opinion, what is the most important factors for effectiveness of income tax in Nepal to raise government revenue? " Was asked. Responses are summarized in table.

Table: 4.27

Most important factors for effectiveness of income tax

S. N.	factor	total points received				percentage	rank
		tax administrator	tax expert	business man	total		
1	clear act, rules and regulation	69	59	68	196	19.6	4
2	conscious and honest tax payer	68	82	71	211	21.1	1
3	morel and honest tax officers	68	71	62	201	21.01	2
4	effective tax administration	74	61	64	199	19.9	3
5	political non interruption	60	59	64	183	18.3	5
	total				1000	100	

Field survey: 2013

In table rank 1 is given to the highest percentage and 5 to the lowest. Here highest percentage is obtained by the factor which is regarded highly appropriate by the respondents. In the questionnaire, the respondents were requested to give number 1 to the most appropriate of last to the least appropriate.

The important factors for effectiveness of income tax in Nepal according to the preference of the respondents were as follows:

1. conscious and honest tax payers
2. moral and honest tax officers
3. effectiveness tax administration
4. clear act, rules and regulation
5. political non interruption

4.3 major findings of the study

After analyzing the data from primary and secondary sources we get some important findings about income tax and its difficulties in collection and improved such kind of findings are as follows:

4.3.1 findings from the secondary Data

- Government expenditure is in increasing trend. In fiscal year 2003/04 expenditure of government was Rs. 80072.2 million, in FY 2004/05 total expenditure Rs. 84006.1 million similarly in fiscal year 2011/012 the total government expenditure Rs. 2 9689.1 million, and in 2012/013 it was 295363.4 million. It shows the government expenditure is increasing each and every year.
- Government expenditure includes recurrent expenditure I, capital expenditure and principle payment, and government receipts include revenue and foreign grants. If government expenditure is equal to government received that is balance budget. If receipts is more than expenditure that is surplus budget. And if receipts is less than expenditure that is deficit budget. In Nepal, each and every year's expenditure is more than revenue. That is deficit budget.
- Government receipts include revenue and foreign grants. The main source of receipts is revenue which is more than 80% in total receipts.
- Total receipts in fiscal year 2003/04 was 57131.6 million similarly in fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/010, 2010/011, 2009.010 and 2011/012 was Rs. 67568.9 million, Rs. 73614.4 million, Rs. 84513.9 million, Rs. 86109.6 million, Rs. 103512.9 million, Rs.127952.6 million, 169857.3, Rs. 218491.7 million and 245741.2 million respectively.

- Nepal the government expenditure is more than government revenue so there is deficit budget the deficit amount of different fiscal 2003/04 was Rs. 22940.6 million, in fiscal 2004/05 was Rs. 16437.2 million in fiscal year 2005/06 was Rs. 15828.2 million similarly in fiscal year 2005.06 FY 2007/08, FY 2008/09, FY 2009/010, FY 2010/011, 2011/012 and FY 2012/013 was Rs. 18046.5 million, Rs. 24779.6 million, Rs. 30091.7 million, Rs. 33406.7 million, 49804.7 million, Rs. 41197.4 million, and 49622.2 million respectively.
- The deficit budget does not play I important role in the economy so the government should increase the receipts. To increase the total receipts the government should collect more revenue from tax because foreign grants is not food way to raise the revenue.
- Nepalese government revenue is the composition of direct tax revenue and indirect tax revenue the direct tax revenue is in decreasing trend the indirect tax revenue play the dominant role in the economy.
- The main sources of tax revenue is tax from customs, tax on consumption and product of goods and services, land revenue and registration and tax on property, profit and income.
- Total tax collection in FY2003/04 Rs. 3933306.6 million in FY 2004/05 Rs. 42587.8 million, in FY 2005/06 Rs. 48173.0 million, similarly in FY 2006/07, FY 2007/08 FY 2007.08, FY 2009/010, FY2010/011, 2011/012 and 2011/012 was Rs. 54104.7 million, Rs. 57430.4 million, 71126.7 million, Rs. 85155.46 million, Rs. 117051.91 million, Rs. 156294.9 million and 172777.7 million respectively.
- Tax collection in from customs includes tax from imports, exports, Indian excise duty and others. Tax collection from customs in fiscal year 2003/04 FY 2004/05 FY 2005/06 FY2006/07, FY 2007/08 FY 2007.08, FY 2009/010, FY2010/011, 2011/012 and FY 2012/013 million, Rs. Were Rs. 12658.8 million, Rs. 14236.4 million, Rs.

12062.43 million, Rs. 26792.85 million, Rs. 35150.8 million, and 35711.6 million respectively.

- Tax collection from consumption product of goods and services in FY 2003/04 to FY2012/013 were Rs. 16153.6 million, Rs. 16074.3 million, Rs. 18244.8, Rs. 20705.5, Rs. 255331.8 million, Rs. 288118.3 million, Rs. 35438.8 million, Rs. 41005.28 million, Rs. 55938.33 million, Rs. 79394.1 million and 88411 million respectively. This shows the revenue collection from consumption product is higher than other tax sources.
- Income tax collection from property, profit and income in FY 2003/04 was Rs. 9546.7 million in FY 2004/05, Rs. 8691.5 million, similarly in FY 2005/06 FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/010, FY 2011/012, FY 2011/012 were Rs. 10215.1 million, Rs. 11272.6 million, Rs. 16726.8 million, Rs. 20147.03 million, Rs. 29097.47 million, Rs. 38597.76 million and 45082.6 million respectively.
- Income tax exemption limit in Nepal was Rs. 7000 for all taxpayer in FY 1959/60 but at present income tax exemption limit is Rs. 160000 for individuals and Rs. 200000 for couples and family @ 1% in FY 2012/013. The exemption limit is not exemption limit has been changed on the need of time income.
- Increment in the number of taxpayers is very much essential in order to broaden the tax base. Number of registered income taxpayers in Nepal for the FY has reached while it's in the previous year.

4.3.2 Findings from the study of primary data

An opinion survey has been conducted in order to find out the role of income tax in Nepal and some other aspects of aspects of income tax. From the opinion survey with tax administrators, tax experts and taxpayers, the following findings have been drawn.

- 89.33% respondent believes that income tax is the suitable means of raising government revenue.

- Public awareness program is necessary to increase tax consciousness and raising the government revenue.
- Mass poverty and low income level, increasing habit of tax evasion, inefficient income tax administrations etc are the major reasons for the low contribution of income tax to national revenue.
- 86.67% respondent believes that contribution of income tax to total revenue is not effective.
- 77.33% respondent and by analyzing chi-square test it is concluded that ITA should provide sufficient scope of tax facility.
- 78.67% respondent agreed that exemption and deduction should be increased to promote the special industry and expert.
- To increase the voluntary compliance by taxpayer, self- assessment method is the appropriate method while assessing the income tax.
- Lengthy process, vague provision in income tax laws, consuming unnecessary time etc are the major problems facing by the taxpayer while paying the tax.
- The fines and penalty under the Nepalese tax system are not reasonable and it should be increase to discourage tax evader and illegal activities.
- 81.3% respondent believes that income tax system of Nepal has not reached at the satisfactory level yet.
- 73.3% respondents believe current income tax administration is not running satisfactory and is not efficient.
- 80% respondents believe in progressive income tax rate is considered as the suitable means of tax in Nepal.
- Clear act, rules and regulation, effective tax administration are the most important instruments for effectiveness of income taxation in Nepal.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The government of any country requires revenue to launch the development programs to handle other public welfare programs. The government collects revenue from various sources such as tax, fees, special assessment, fine and penalties, foreign grants etc. Among them tax is the main source of collecting the public revenue because it occupies the most important part of the government treasury.

Tax is the compulsory payment to the government from a person according to law. Tax is contributed to the government without expectation of a direct benefit in return. There are two types of taxes: direct and indirect tax. Income tax, gift tax, interest tax, property tax, vehicle tax, house and land tax, contract tax etc. are examples of direct tax. Export/ import duty, excise duty, sales tax, value added tax, entertainment tax, hotel tax, passenger tax are examples of indirect tax.

The idea of introducing income tax in Nepal originated along with the first budget on 2 Magh 2008 (1952). Then the first elected government introduced "Business Profit and Remuneration Act 2017" to impose income tax on remuneration and business profit in Nepal. Business Profit and Remuneration Tax Act 2017 had so narrow coverage that income tax was imposed only on business profit and remuneration. It was replaced by the Nepal Income Tax Act 2019 after two years. After that Income Tax Rule 2020 were enacted with the view of implementing the objective of the Income Tax Act. "Nepal Income Tax Act 2019" was incapable of fulfilling the needs of the time; it was replaced by another Income Tax Act 2031. In the course of development and modernization of the income tax system the new Income Tax Act 2058 has been enacted for the effective implementation of the objective of the act. Income Tax Act 2058 has classified the heads of income into three categories viz. employment, and investment.

Now, individual income tax is levied with two rates 15% and 25% while corporate income tax is levied with a single or flat rate of 20% however banks and financial institutions are liable to pay income tax @ 30% of taxable income. The industrial enterprises are liable to pay income tax only 30% of taxable income. The industrial enterprises are liable to pay income tax only at

the rate of 20% of taxable income. The industry established in backward and operated in remote area are entitled some facilities concessions and rebates.

For the tax purpose the determination of when a person derives as amount or incurs expenses in made according to generally accepted accounting principle (GAAP) considering the provisions made by the act. As per the law natural person is required to maintain its accounts. Similarly a natural person operating business may adopt either cash or accrual basis unless the department prescribes otherwise by written notice. Income tax act 2058 intends to bring all the incomes in to the tax net. However certain incomes of some individuals or entities are especially exempt from income tax by the law. Furthermore the act had provided the facilities of relaxing with the concession tax rate for specified individuals or entities.

Income tax is taxable income that is obtained by subtracting deductible expense from chargeable incomes. But sometimes a taxpayer may face the situation of loss to occurrence of deductible expenses in excess of chargeable incomes. In respect of business or investment a taxpayer is entitled to set off or carry backward on forward such unrelieved loss as per tax law. The unrelieved loss of an income year incurred by a person from any business or investment is calculated as the excess of deductible expenses over chargeable income ignoring the treatment of unrelieved losses.

Income tax assessment refers to the procedure of ascertaining the taxable income and tax liability of a person and tax payable by a person. Income Tax is assessed adopting different methods the methods of tax assessment practiced in Nepal are self-assessment, jeopardy assessment and amended assessment.

To fulfill the general objective of this study different source of data are used to find out the accurate and actual conclusion. Mainly the secondary data are collected from economic survey, published by ministry of finance Nepal government annual report from field survey in different area of Kathmandu valley.

By analyzing the secondary data it is found that government expenditure is in increasing trends each and every year on the other hand government receipts also increase. But the expenditure is more them the receipts in each and every year. So there is deficit budget in every year the sources of government receipts are mainly two sources government revenue and foreign grants. Foreign grants is not better sources of government collects revenue from tax and from n0n- tax revenue tax revenue includes tax from customs tax on consumption and

product of goods & services, land revenue and registration, tax on property profit and income. Among them the main source of receipt of government revenue is customs and tax on consumption and product and sources.

Total tax revenue collects in fiscal year 2011/012 was Rs. 172777.6 million and non-tax revenue Rs. 27041.4 million. According to the field survey, most of the respondents are conscious about the payment of tax. But they have not proper knowledge about it the government should conduct the awareness programs about it.

5.2 Conclusion

The government need huge amount to achieve the maximum objection of nation. In developing countries like Nepal, lack of sufficient financial resource is the main constraint for the national economic development. Nepal has facing serious problem of resource gap and high dependency on foreign loan. Resource gap is widening continuously with the increment of total expenditure in respect to total revenue collection. To solve such serious problem of deficit fiscal, income tax should play important role. But resource mobilization in Nepal is still poor.

Developing countries such as Nepal utilize external borrowing as a technique to address the gap between the government revenue and investment as to meet the export-import gap. This kind of borrowing adds to the total resources available to the government over a given period and enables the government to incur higher expenditure then would be otherwise possible. These resources to poverty alleviation and economic growth if properly employed.

The government of Nepal introduced a formal tax for the first time in Nepal in 1959 (2017 B.S.) in the form of " Business profits and remuneration Tax" . According to this Act, income only from Business profits and remuneration were subjected to tax. At present, in income tax Act, 2002 which became effective since April 1st 2002, source of Nepalese income are classified into business income, investment income tax to government revenue is not satisfactory in comparison to other developing countries like India, Pakistan, Bangladesh and Sri Lanka etc. there are three major. Three are major income tax assessment methods in Nepal.

Currently, income tax revenue in Nepal is collected through four sectors i.e. corporate income tax, individual income tax, house and land rent tax and interest tax. Among them, share of the individual's income tax is the highest. Exemption limit and tax rate of the income tax is determined according to the income level and sector wise but is not adjusted according to the inflationary situation of the country and number of dependents. Exemption limit is not provided to the corporate bodies.

The success of income tax system entirely depends upon implementation of provision, which is the major responsibility of income tax administration. Income tax system of Nepal has been blamed as not efficient enough. Various problems existed in the income tax such as increasing habit of tax evasion, inefficient income tax administration, defective income tax law are the reasons of lower contribution of income tax. But if we analyze the data relating to it then we can find out that revenue collection from income tax is increasing continuously. Provisions in act and language have to be made clear. Some reforms in income tax administration are needed to raise the income tax revenue. Due to reform, the corruption in income tax administration can be decreased, the efficiency and transparency can be improved and the tax administrations will treat the taxpayer, as responsible citizen to a considerable extent. The cost of collection to taxpayer, government and economy as a whole can be reduced to some extent.

The role of revenue is crucial for the overall development of the country. In this context, the Nepalese government needs to develop a sustainable broad source of revenue. Since more than 80% of total revenue is collected from the tax source, efficient tax system has to be developed and strengthened. In recent years, the government has taken several measures to reduce tax-induced distortions, strengthening tax administration, simplifying tax laws and procedures to make them more transparent. With an aim to broaden the tax base the government enacted new income tax in 2002. This tax act brought all sources of income tax- from employment, business and investment- under the tax net and helped maintain neutrality of taxation in various income generating activities the customs act was amended to make the Nepalese system compatible with the WTO valuation system, broaden the tax base and mobilize additional revenue by curtailing wide range of exemptions. In 1997, the government introduced VAT aiming to develop it as the backbone of Nepalese revenue.

5.3 Recommendation

On the basis of this study, the following recommendations are in order to increase the contribution of income tax on government revenue of Nepal.

- Income tax policy should be formulated according to the economic policy of the country. Income tax policy should be revised timely.
- Tax rate should be progressive gradually on long run basis to meet the deficit in budget. For this, the tax base should be widened.
- The members involved in formulating income tax policies must have depth knowledge about income tax.
- Government should invest in capital generation activities so that it helps reduce poverty, increase productivity, reduce unemployment and ultimately increase government revenue.
- The provisions rewards, prize, incentives should be introduced in the act to encourage the taxpayers to pay tax voluntarily rather through coercive measures.
- Income tax payers are source of information rather than tax official, so that self-assessment method is appropriate for income tax assessment.
- Tax personnel should be encouraged, punished and transferred on the basis of their work and experience. Regular and effective training system; reward, prize and punishment system should be established for the effective personnel management.
- The provisions of fines, penalties and punishments should be made at higher rate for discouraging income tax evaders.
- Income tax, rules and regulation should be clear and simple for all the taxpayer as well as for tax administrators.
- The definition made in income tax Act should be further clarified and well defined in simple language.
- Clear provision should be made in case of deduction. All the item of deductions should be clearly defined in the act.
- To promote export, sufficient scope of tax facility should be provided.

- A research and intelligence center should be established in each tax office for proper planning and to collect the information in regard to income tax evaders, potential new taxpayers and non-residents who have conducted business without registration.
- Separate income tax department should be established so that specialization could be achieved in matter of income tax.
- Effectiveness of income tax system depends upon the income tax administration. In Nepal, one of the most important reasons for unsound income tax system is inefficient and unscientific income tax administration.
- Recurrent expenditure should be decrease and capital expenditure should be increased as much as possible.
- Income tax audit, tax investigation should be made in time, delay should be reduced as possible.
- There is unnecessary outside participation is necessary to minimize the income tax evasion. Tax authority should do continuous effort in order to develop the taxpayer's positive attitude towards taxation.

There has been the problem of collection income tax revenue form a long time in Nepal. The problem can be minimized and income tax will follow a substantial increment in revenue structure of Nepal if above- mentioned recommendations are managed in revenue structure of Nepal if the above- mentioned recommendations are managed timely a

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APPENDIX- A

Questionnaire

Role of Income Tax in the National Revenue?

Name designation

Office / organization occupation

1. Do you consider, that the income tax as a suitable means of raising government revenue?
Yes () No ()
2. Do you think that public awareness program is necessary in Nepal for raising the government revenue ? Yes () No ()
3. In your opinion, is contribution of income tax to national revenue of Nepal satisfactory?
Yes () No ()
4. If no, what are the major reasons ? (please rank according to the priorities)
 - a) Defective of income tax act ()
 - b) Mass poverty and low income level ()
 - c) Increasing habit of tax evasion ()
 - d) Inefficient income tax administration ()
 - e) Inappropriate rate and exemption limit ()
5. Do you think income tax act should provide sufficient scope of tax facilities? Yes ()
No ()
6. Which income tax assessment method is appropriate? ()
 - a) Self – assessment ()
 - b) Jeopardy assessment ()
 - c) Amended assessment ()
7. What type of problem is facing by the taxpayer while paying income tax?
Please rank your answer:
 - a) Consuming unnecessary time ()
 - b) Expectation illegal incentive to the personnel ()
 - c) Vague provision in income tax laws ()
 - d) Lengthy process ()

- e) Lack of co-operation by tax administration ()
8. Are the provision of fines and penalty under Nepalese tax system reasonable? Yes ()
)
 No ()
 If no, how should it be made reasonable?
- a. By increasing
 - b. By lowering
9. Do you agree that Nepalese income tax administration is effective? Yes () No ()
10. In your opinion, which income tax rate is suitable for Nepal?
- a) Progressive ()
 - b) Proportional ()
 - c) Regressive ()
11. In your opinion, is income tax system of Nepal sound and efficient? Yes () No ()
12. If no, please submit your answer for effectiveness of income t ax in Nepal to raise government revenue?
- a) Clear act, rule arid regulation ()
 - b) Conscious and honest tax payers ()
 - c) Moral and honest tax officers ()
 - d) Effective tax administration ()
 - e) Political non interruption ()
 - f) Other, please
 Specify
13. Do you have any other suggestions for achieving effectiveness of income tax in Nepal ?
 ?
 If yes, please
 Specify
-
-
-

Thank You!