

# **CHAPTER-I**

## **INTRODUCTION**

This introduction chapter is very important chapter for the study because the total research is depend on this chapter. It contains general background of the study, statement of the problem, objective of the study, scope of the study, significance of the study, plan of the study and limitation of the study.

### **1.1 Background of the study**

The government of a country requires sufficient revenue to develop plans, to handle day to day administration, to maintain peace and securities and to launch other public welfare activities. Income tax Play a very important role in the national economy. It is one of the important sources of revenue to the government. In addition it is also looked upon as a tool for achieving the social and economic objectives as laid down in our constitutions. It has been recognized as a good financial level to narrow the disparities in income Regional economic imbalances are also being reduced by providing incentives and concessions in income tax for starting new industries in backward areas. Thus, besides being a source of revenue, income tax has become an effective instrument to ensure balanced socio-economic growth.

Tax is a compulsory contribution made by a person to the government without expecting any special benefits. So tax is the positive powerful and the most efficient instrument in the hand of government to mobilize the internal resources. Tax collected from the resourceful person and high income groups and distributed to the poor and low income groups. The main objectives of taxation are; control and promotion of specific production, generation of employment, equitable distribution of income, minimizing the regional and class disparity. Thus, it is regarded as one of the most efficient and effective tool to overcome poverty in the country. Through the taxation, the government can mobilize the adequate resource and make

investment them in various development programs. In this way, in the developing country, the government might play the role of promoter in capital formation, breaking vicious circle of poverty through the taxation. And through income tax resource can be mobilized either by increasing the tax rate or by eliminating the loopholes of taxation. Increasing the tax rate is not effective because the per capita income of the Nepalese people is very low. That's why, it is better to eliminating the loopholes is effective and efficient.

Being a developing country like Nepal, source of government revenue are very limited. Nepalese revenue structure mostly depends on the foreign assistance and loan but it is unfavorable to the country. Domestic resources are most reliable source to keep minimum dependency of income in government revenue. Government needs heavy fund to maintain peace and law in the country, to carryout development activities and to its people most efficiently, economically and effectively. In a narrow sense the needed fund is available to government by two ways that are tax revenues. Non tax revenues include charges, service fee, fine and penalty, royalty, profit generated by government owned or controlled corporations or by selling assets of these etc. Whereas tax revenues mean all others incomes to the government except non tax revenue and include the different type of taxes which are major sources of government revenues. Tax revenue has been using as a permanent mechanism of raising public fund. The contribution of tax revenue to the total revenue in fiscal year 2002/03 was about 75.73 percent (Economic Survey-2008, List of table no.6). Tax revenue has been considered as the major instrument of social and economic policy and has mainly three goals: to transfer resources from private to the public sector, to distribute the cost of government fairly by income classes and among people in approximately the same economic circumstances and to promote economic growth, stability and efficiency in the country. Income tax has a pivotal share in direct tax and has been contributing in tax revenue since the state begins to raise fund as revenue. It is the tax which has been using a tool to balance social and economic field by using it to get the social and economic objective in pre defined way. Income tax has great contribution informing national capital to balance national income equitably. It is more useful particularly to underdeveloped countries where the countries require enough fund to carry out necessary activities to serve the nation and people. In Nepal, the contribution of income tax in internal tax revenue collected by IRD was about

30 percent including house rent and vehicle tax (Annual Report-2059/60, page 20). Similarly, income tax had contributed to government revenue by 14.17 percent in the fiscal years 2002/03. Similarly, the contribution made by income tax in total tax was about 18.71 percent in the fiscal year 2002/03.

The government of a country requires sufficient revenue to carry out development plans, to handle day to day administration, to maintain peace and security and other public welfare activities. The government collects revenues from various sources such as tax, revenue from public enterprises, special assessment, fees, fines, grants and assistance etc. Among them, tax is the main source of government revenue.

One of the main objectives of the tax system in developing country is the promotion of saving and investment and also the growth in industry including export. Income tax being directly concerned with the taxpayer makes feeling of tax in real sense to the taxpayer. Income tax is the tool that enhance in internal source mobilization by providing the fund enough to support the activities. Tax revenue consist both direct and indirect taxes. Taxation system, whether, it is direct or indirect, is more reliable as the system bears certainty in nature with certain legal aspects provided that the service of goods and service to people in never ending process. Where as non tax item that includes fee, levy and other similar changes might not be regular and are not always basic services of revenue. The country's economy, therefore, cannot be fully dependent on the non tax revenues. The contribution of income tax in direct tax was 78.02 percent in fiscal year 2002/03 (Economic Survey- 2008).

The total expenditure is increasing trend as compared to revenue in the developing nations. This is matter of concern from the long term perspective of government finance. Development expenditure is set in diminishing trend as compare to regular expenditure, enhancing the development expenditure for investment in productive sectors and narrowing the deficit through revenue mobilization for the ultimate goal of the sustainable economic growth and stability.

Income tax should be justifiable to achieve maximum social and economic objective. It helps redistribution of economic means by the transformation of wealth from persons with higher economic level to lower economic level. It should also minimize the gap between haves have-nots. Regional economic imbalances may also be reduced by providing incentives and concessions in income tax for starting new industries in backward areas. It has become an effective instrument to insure balanced economic growth. Income tax also helps to increase the consciousness of the people because the people who have paid the income tax are interested on public expenditure. Though they cannot get any direct personal benefits from their tax paying, they can observe the use of the collected fund from them in the form of income tax. It is also helpful for generating the concept of social responsibility towards the nation and keeps the people vigilant to see the public money may not be misused. Income tax is not essential only for collecting government revenue but also for controlling over consumption, for promoting saving and for generating more employment. Nepal still has been unable to maximize the collection of income tax. In structure of total tax revenue, tax revenue contributes more than 75 percent whereas income tax contributes only 14.28 percent at an average. In total tax revenue, income tax contributes about 18.25 percent average.

To understand about tax system is not as easy as we think. The word tax simply denotes the certain charge that has to be paid to the government in lieu of economic involvement with the legal obligation both in tax payers and tax administrators. It is the obligation of tax payers in the sense that is their duty to pay on profit they make and the obligation of tax on profit they make and the obligation of the administrators lies in the duties and responsibilities to assess and collect the tax according to the spirit of under certain rules and assigned authority.

The main principle of taxation at ancient period was to impose tax without hampering the tax payer. According to the Sastras, the taxes were to be imposed like honey collection of honey bee or getting milk from the udder of the cow. The proverb says that the state should collect tax just like the honeybee collects the honey from the flower. It collects honey without hampering the flower. This model of tax collection can be called honeybee collection model. Nepal's tax system was also based on this model at that ancient time.

In Lichchhavi period, the main source of revenue of the government was tax. There were Tri-karas, Bhaga (tax on agriculture), Bhoga (tax on livestock), Kara (tax on trade), Matsya kara (Imposed on fishing), Goyaddha kara (imposed on wrestling), Palabu kara (Imposed on onion and garlic), Malla kara (Imposed on bull fighting), Sin kara (Imposed on fire wood) etc. were the taxes of that ancient time. Ansubarma, one of the Kings of Lichchhavi periods imposed watertax and religious monument repair tax. At that ancient time, a tax on income of the farmers from agriculture was imposed at the rate  $\frac{1}{6}$ ,  $\frac{1}{8}$  and  $\frac{1}{12}$  shares of crop production depending on the land quality.

In Malla period, there were taxes related to land, trading etc. Jayasthiti Malla imposed taxes on cremation (Daha sanskar) and caste purity. In Shah Period also, there was continuation of the tax system of Malla period, i.e. based on land and trade. After unification, different types of taxes like land tax, transit tax, forest product tax, mining tax, market duties were levied. These were different types of taxes like Walak, Gaddimudarak, Chumawan and Goddhawa. Walak was collected from each family to celebrate the national festival. Gaddhimudarak was for financing coronation ceremony of the new king. Chumawan and Goddhawa were the taxes to be collected in the time of ceremony of conferring office or rank and marriage ceremonies of Royal Prince and Princesses. Godan was used to collect tax for funeral ceremony of reigning king. Prithivinarayan Shah introduced Pota tax in 1772 A.D. This system of tax was based on flat rate system and limited on small birta owners. In the period of Surendra Bikram Shah, excise was introduced in Nepal. In Rana period, the main source of government revenue was land tax, custom duties and excise. The tax system was based on contract and amanat. Jimwal, Mukhiya, Dittha etc. were the persons who used to collect the tax. Sanad and sawals were the laws guiding tax system. Lagati (based on lagat record) and Hasawali (not based on record) were two types of revenue. Jamma Najodnu, Kachha Nachhodnu (not to get total and not to leave even a single paisa) was the principle of revenue collection in Rana period.

The first budget was introduced in 2008 B.S., after the down of democracy. After that so many reforms in tax system are carried out in Nepal. Different type of tax laws were introduced and abolished. The major taxes are: customs, excise, income tax, sales tax/VAT,

local tax and others. Economic development is no doubt the most important concern and target of the government in the development of a country like Nepal. Achievement of the high rate of economic growth, reduction of disparities elimination of poverty and improvement of the living standard of the people are some of the developing strategies towards which most of the governments efforts have been directed in developing countries.

Income tax is collected from various sources of profit and incomes. Income tax is collected from public enterprises, semi public enterprise, private corporate bodies, individuals, remuneration or employment and interest. The present study has been designed to study the contribution of tax from employment to income tax and government revenue of Nepal for last eleven year's period.

## **1.2 Statement of the Problem**

Nepal is developing country having poor economic growth rate in the world. It is facing the serious financial problem in the development process. For this purpose Nepal government has been adopting the different tools to boost the revenue collection. But there is still a substantial resource gap between expenditure and revenue. The government expenditure is continuously rising due to weakness and large investment in selecting development projects and regular expenditure is increasing due to result increasing of debt servicing and salary as well as allowances of government personnel. Thus, there is growing difference between expenditure and resource plus foreign aids. In other words, financial resource gap is the major constraint of the Nepalese economy.

The main problems have been facing of this study are as follows:

- a. Is it necessary to analyze contribution of income tax from employment income to government revenue of Nepal?
- b. What are the major constraints in the collection of income tax from employers?
- c. How to examine and analyze the effectiveness of income tax revenue collection from employment?
- d. Is it necessary to increase income tax for the national budget?
- e. Why does the government have to collect more revenue?

### **1.3 Objective of the study**

The general objective of the present research is to point out the real financial contribution of employment in government revenue. The specific objectives of the study are as follows:

- a. To analyze the contribution of income tax from employment income to government revenue of Nepal.
- b. To examine and analyze the effectiveness of income tax revenue collection from employment income.
- c. To show the contribution of tax from employment income tax to direct tax revenue and indirect tax revenue income tax revenue of Nepal.
- d. To recommend possible measures regarding taxation of employment income and increasing the share of employment income in total income tax revenue and government revenue of Nepal.

### **1.4 Scope of the study**

The study covers the contribution of employment income to income tax revenue of Nepal.

The main scopes of the study are given below;

- a. Role of employment income tax in Nepal.
- b. Role of total income tax in Nepal.
- c. Revenue from income tax from employment in income tax revenue of Nepal.
- d. Role of income tax from employment income in public revenue of Nepal.
- e. Comparative study on role of income tax from employment to total government revenue.

### **1.5 Significance of the study**

Nepal is a developing country. The resource collections internally are sufficient to run day to day administration of the country but the revenue surplus is not adequate to undertake development activities. So, the country is heavily dependent on the foreign aids and grants to undertake its development activities. Advance taxation is the most important, effective, modern, simple, scientific, transparent and convenience instrument to collect the maximum income tax in time. It is growing popular between tax payer and tax payees but there are so

many controversies about it. In Nepal advance taxation is in initial phase. Lack of tax paying habit and tax consciousness in various classes of people the implementation of advance taxation and its effective implementation of advance taxation is difficult. That's why it is needed to study about the advance taxation and its effective implementation. This study will be helpful to economists, planers tax officers and those people who are interested in know about advance taxation of to work similar ground.

## **1.6 Plan of the study**

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

Chapter1: Introduction

Chapter2: Review of Literature

Chapter3: Research Methodology

Chapter4: Presentation study and Analysis of Data

Chapter5: Summary, Conclusion and Recommendations

Chapter1 provides introduction to income tax, statement of the problem, objective of the study, scope of the study, significance of the study and limitation of the study.

Chapter 2 is related to the review of available literatures like published books, dissertations, reports etc

Chapter3 is about research methodology and includes research design, population and sample and so on.

Chapter 4 presents analysis and findings of opinion survey conducted with tax experts and employees.

Chapter5 presents summary and conclusion of the study and recommendations.

## **1.7 Limitation of the study**

The study will not be far from the limitations of time, resource and data constraint.



- a. The study will be based on the remuneration income only.
- b. The study will cover income from employment of the fiscal year from 2002/03 to 2008/09.
- c. Primary data will be collected through opinion, survey of employee and tax experts available in Katmandu only.
- d. The study will be based on laws, rules, ordinances and regulations of Nepalese income tax.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

This chapter contains conceptual framework, the review of the act, review of the books, articles and newspaper and review of dissertations for the purpose of review of literature. The review basically depends upon related with topic as far as possible and income tax related topics in an addition to this study. Some books written in income tax and some other related materials of concerned topic found were also reviewed.

#### **Part A: Conceptual Framework & Review of Income Tax Acts**

##### **2.1 Conceptual Framework**

It can be said that a tax is a liability to pay an amount to the state. The basis for the payment is that the assessed have income of a minimum amount from certain specified sources or that they own certain economic activities or they consume certain goods and services which have been chosen for taxation.

Income means the inflow of cash to the person or firm. Most of the people do not take the kind as an income. It is a best measure of economic well being of a person as well as of nation. Higher income denotes the high living standard of people. People generate income from rendering various types of services, selling goods and producing crops for their own use. Thus, income may be cash or kind that is received by a person for livelihood.

In a broad sense economists define that income is an economic gain or receipt to person during a particular period by way of wages, interest, profit and rent. The money income of the people is generally used for two purposes. Part of income is spent on consumption and part of income is saved. According to Income Tax Act 1974 (2031) "Income means the income earned or received in cash or kind from the source mentioned in sec. 5." In this section five different heads of income were mentioned. They were as follows: (ITA, 1974).

1. Agriculture
2. Industry, Business Profession or Vocation
3. Remuneration
4. House and Land Rent
5. Other Sources

This act was revised eight times. Since 19<sup>th</sup> Chaitra, 2058 Income Tax Act 2058 has been introduced in Nepal. It includes all sorts of income received for the provision of labor or capital or both of whatever form or nature in the taxable income.

According to Professor Seligman, “A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred.” (Quoted from Dhakal Kamal Deep, Income tax & House Land Tax: Law and Accounting, page 1)

As Kautila says, “the launching of all programmes depends first and foremost on the treasury” (From Kandel, Pushpa Raj, Tax Law and Tax Planning in Nepal, 2006 page 1)

From the above definition given it can be said that firstly, a tax is a compulsory levy and those who are taxed have to pay without getting corresponding benefit of services or goods from the government. Secondly, taxpayer cannot receive any quid pro quo for the payment of tax. The tax payer does not receive equivalent benefit from the government. Thirdly, the tax is paid to the government for running it. Fourthly, in case of tax, the amount is spent for common interest of the people. The tax is collected from haves and basically spent for the interest of have-nots in the society. Fifthly, a natural or an artificial person pays the tax. Similarly, another definition given that every state needs resources. Whether to pay salary to the government employees or to do the development works, huge amount of money is needed. The money required to the govt. can be collected from debt and revenue.

In conclusion, it can be said that a tax is a liability to pay an amount to the state. The basis of a minimum amount from certain specified or that they own certain tangible or intangible

property or that they carry-on certain activities which have to be chosen for taxation. Income tax refers to the tax levied on the income of a person and profit of a corporation for the specific time period, particularly one year. Income tax is levied on the taxable income of a person or a company after deducting allowable expenses. Accounting profits may differ from taxable profits. For the computation of taxable income, generally incomes are added and expenses are subtracted and losses, which are allowed to deduct under the provision of income tax act are also subtracted. Then, tax free incomes allowance and common expenses are also deducted to get taxable income. After giving the exemption limit as per law, the amount of tax to be levied on this computed income is the income tax.

## **2.2 Review of Income Tax Acts**

Actually, the modern income tax act was started in the year 2017 B.S. Although there was tax system in Nepal in an ancient time also, the concept of income tax was brought only by the first budget. More than one decade of post Rana period is not mentionable in its history. There were no special laws, acts, rule and regulation, policies and procedures for the income tax imposition in Nepal. The budget introduced in 2008 B.S. started about the introduction of income tax system in Nepal. However, it was actually introduced only in 2017 B.S. When the Finance Act 2016 and Business Profit and remuneration tax act 2017 B.S. were enacted. At the beginning, the Finance Act of 2017 prescribed equivalent tax rates with progression and exemption limit and afterwards to all companies, private firms and individual and families. The marginal rate of taxation prescribed by the Act was 25 percent. Since the income tax was imposed only on income from business profit and remuneration, the Tax act could not cover all the sources of income and was replaced by the Income Tax Act 2019 B.S. Income Tax Act 2019 with 29 sections divided the heads of income into nine parts covering business, profession and occupation, remuneration, house and land rent, cash or kind investment, agriculture, insurance business, agency business and other sources. The act was amended in 2029 extensively. However, considering this Act incapable of fulfilling the needs of the time it was replaced in 2031 by another act. Although kept under taxable source of income agriculture in Nepal according to Income Tax Act, 2031, was out of tax net except in the financial years 2030 to 2033. As regards the income from industry, business, profession or vocation, Sec. 5 of the Income Tax Act, 2031 had taken following items as income:

- Amount received by way of compensation from insurance or contract.
- The amount that is not spent although separated for some expenditure or loss coverage.
- Recovery of written-off debt.
- Any income received after the cessation of the industry, business, profession or vocation.
- Any benefit or perquisite on the basis of market value.

Any commission, fee, charge or any other similar amount received by any person by exhibiting or imparting his talent, knowledge, expertise or experience or by providing some one with opinion, advice, consultation, inspection, tests, contract or training.

The expenses allowed as per that act were rent as per contract, expenses incurred for repairs, interest on loan, rent land tax, customs duty, fee levy or similar other duties, remuneration of employees bad debts, transport and traveling expenses, discount or commission administrative expenses depreciation etc.

Sec. 8 of the Income Tax Act, 2031 had defined the types of payment made by an employer to the employee that were taken as the remuneration.

Sec.9 of the Income Tax Act, 2031 had defined the income from rent of house and land.

Sec. 10 of the Income Tax Act, 2031 specified that all income except those included in earlier four sources plus amount separated by a person for payment to others either paid or payable but proved as spent are incomes from the sources. They also included the amount of money invested by a person but not proved that the money received is tax free or already tax paid.

Income tax Act, 2058 was brought in Nepal to avoid the following defects of Income Tax Act 2031:

Income Tax Act, 2058(2002)

- TA 2031 had a narrow tax base. Global incomes of residents were not brought into tax net. Only the income originated in Nepal was taxed.
- Income tax related matters were governed by various Acts. Related Acts of dispersion of tax had arisen with confusion in the effective implementation of the Act.

- There was no clear provision regarding taxation of capital gain. The act was also silent with regard to international taxation.
- The terminology and provision in the Act were in adequate. Many important provisions required to be in modern taxation system were lacking.
- The fine and penalty imposed by the Act were very low. As a result, the level of voluntary compliance had decreased substantially.
- There was a weak mechanism to control the tax avoidance scheme of tax payers. The tax payers used to evade tax through transfer pricing splitting of income, etc. The tax office had no true access to information.
- Tax accounting method was not prescribed in the act. Despite provision of self assessment in the act it had not been implemented properly. The self assessment was more in name than in practice.
- The Act had not distinguished civil liabilities of the tax payers from criminal liabilities. The tax authorities were empowered to enjoy the right and power as a court.
- There was double appeal system in the act. The taxpayers were allowed to lodge an objection against assessment with the Revenue Tribunal or the director General. The director general was empowered to act as a court and there were complaints regarding decisions in favor of tax officers. There was no provision for administrative review.

“Income Tax Act 2058” is broad as compared to the previous Act. This Act has been made in accordance with global standard. Income tax rule 2059 was framed by Nepal Government to clarify some provisions of the Act. Finance ordinances have been making slight amendments in the Act every year.

Features of Income Tax Act, 2058 are as follows:

1. All income tax related matters are confined within the act by abolishing all tax related concessions, rebates and exemption provided by different acts.
2. The act has broadened the tax base. Unlike previous tax Act, tax rates are spelled out in the acts.
3. The act has introduced a pool system of charging depreciation. Intangible assets are also depreciated.

4. The act has first introduced taxation on capital gains.
5. The act has provided liberal loss set off and carry forward/backward provisions. Inter-head adjustments of losses are clearly specified.
6. The act has introduced a provision for administrative reviews to allow the tax administration to correct mistake made by tax administrators internally.
7. The act has provided a stringent fine and penalty for the defaulters.
8. Global incomes of a resident are made taxable. Non-residents are also taxed on their incomes with source in Nepal.
9. List of expenses are inclusive. All expenses relating to income have been made admissible.
10. The Act has made provision of international taxation. Foreign tax credit has been introduced for the first time.
11. The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.

### **2.3 Meaning and Nature of Employment Income**

Employment means providing service through labors by one natural person to another as per the latter's direction with conditions of employer-employee relationship and regular payment to employee by employer. All incomes covering salary, wages, leave pay, overtime, pension, gratuity and allowances except certain exemptions are covered by income tax act for tax purpose. Certain incomes like remuneration received by Nepalese citizen from foreign government under bilateral or multilateral treaty; remuneration under employment of public service of foreign government; allowances paid to widows, senior citizen, disabled; gift, bequest, inheritance or scholarship; pension received by retired army/police from foreign government are tax exempt incomes.

The employee is always a natural person. The employee must be present physically at the place of work to perform his or her duties. The employee is awarded on the basis of his/her ability education, experience, honesty, behavior etc. and so a proxy is nowhere allowed to work a behalf of the employee.

## **2.4 Review of Income Tax Act, 1961 of India**

The term 'Salary' has been defined differently for different purposes in the Income Tax Act. The definition as to what constitutes salary is wide. It is an inclusive definition and includes monetary as well as non-monetary items.

'Salary' under section 17(1), includes the following:

1. Wages,
2. Any annuity or pension,
3. Any gratuity,
4. Any fees, commission, perquisite or profit in live of or in addition to any salary or wages,
5. Any advance of salary,
6. Any payment received in respect of any period of leave not availed by him,
7. The portion of the annual accretion in any previous year to the balance at the balance at the credit of an employee participating in a recognized Provident Fund to the extent it is taxable
8. Transferred balance in recognized PF to the extent it is taxable,
9. The contribution made by central government in the previous year, to the account of an employee under a pension scheme referred in sec. 80.

## **2.5 Review of Income Tax from Employment under ITA, 2058**

Employment income means remuneration and fringe benefits derived by an employee or prospective employee on receipt basis in an income year. Employment income includes salary, wage, leave pay, bonus, commission, emolument, specified allowance, additional facility, retirement fund contribution, fringe benefit, gift, prize, perquisite and compensation received by an employer.

Income Tax Act, 2002 is mention about employment income in sec. 8, 27, 29and 31.

Employment income includes the following amounts.

- a. Salary, wage, salary in lieu of leave, overtime pay, fee, commission, prize, gift, bonus, Dashain expense, Tihar expense, telephone charge, transportation fare, water charge and other facility payment.



- b. Dearness allowance, subsistence allowance, house rent allowance, entertainment allowance, conveyance allowance, remote area allowance(subject to reduction of 6000 to 30000 from taxable income), foreign allowance(subject to reduction of 75% of foreign allowance from taxable income) since the income year 2061/2062 and other personal allowances.
- c. Payments for clearance or reimbursement relating to personal, private, domestic, household, or family expenses of the employee.
- d. Payment for accepting any agreement, condition or restriction in respect of employment. For instance, amount received on the terms and conditions or not working in any other office.
- e. Payment for the discharge, redundancy, loss, termination or compulsory retirement of employment. For example, compensation, pension
- f. Employer's contribution amount in recognized/unrecognized retirement fund for the employee or retirement payment by the employer to the employee.
- g. Amount equivalent to market value of an assets which transferred by the employer to the employee in the case of asset transfer.
- h. Fringe benefit for motor vehicle facility provided by the employer for full or partial purpose. (along with driver's salary, fuel expenses and maintenance/repair costs)

## **2.6 Assessment of Income Tax Liability on Employment Income**

A resident employee taxpayer is required to assess the income tax liability after reducing statutory exemption limit, remote area allowance exemption, foreign allowance exemption, pension exemption and life assurance premium from her/ his taxable income in any income year.

A resident natural person is subject to capital gain tax @ 10% on net gain from disposal of non business chargeable assets. A non-resident natural person is subject to income tax liability at a flat rate of 25% of taxable income and surcharge @ 1.5% of taxable income in an income year.

## **Part B: Review of Books, Article& Thesis Reports**

### **Article & Reports:**

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

The main reasons for growing resource gap he had included in his report were increasing cost of maintenance and debt servicing burden, increasing government investment in public sector enterprises and rising rate of inflation. He also added that, poor utilization of natural resource base, small and stagnant industrial sector, partial monetization of the economy, poor performance of public sector enterprises, poor rate of economic growth, inadequate tax effort, deficiencies in tax policies, laws and administration, lack of adequate and reliable data base and unwanted pressures from vested interest group etc. were the major constraint in resource mobilization. He had recommended mobilizing additional domestic resources through taxation, tax structure should be redesigned in order to increase the role of direct tax, and income tax should be reformed in Nepal etc.

**Damber Bahadur Pun**, (2004), was written an article published in Journal of Finance and development. ‘Rajaswa’ April Vol.1 entitled “Problem in Tax Administration and their Remedies”. He had comprehensively explained about the problem and their remedies related with tax revenue. The major types of practical problems and challenges, in tax administration he had mentioned in his article were; showing the real factory cost, commercial fraud, lack of co-operation in tax auditing legal ambiguity and complexity in implementation and lack of coordination between Inland Revenue Department and Revenue Investigation Unit. Meanwhile, he had recommended some valuable suggestion to solve the problems and to overcome the challenges. They were statistical and information system should be made compulsory, coordination between Inland Revenue Office with various entities of HMG,

Revenue Investigation Department and its related units should play the role and auditing of tax should be widened etc.

**Jeffrey Bernstein and Anwar Shah**, (1993) prepared a policy research on the topic “Corporate Tax Structure and Production” which was published in United Nations. In this research they had taken Mexico and Pakistan as a sample. As per their study investment allowances, and accelerated capital consumption allowance were most effective promoting investment than more general tax incentives such as corporate tax rate reduction. From That research, they reached at the summary and conclusion on the elasticity of rental rate of capital which respect tax instrument, on the sensitivity of capital stock and on the benefit-cost ratio.

**Dr. Pushpa Raj Kandel**, (2004) Wrote an article in a journal entitled, “Are Tax Incentives Useful? If so, which one?” In Rajaswa volume 1, he had tried to seek the answer from the survey of various empirical studies earlier done in Nepal, India, Pakistan and other western countries. He found that the tax incentives are still the controversial matter whether they promote the investment or not. But he argued that most of the developing countries need tax incentives.

Among different types of tax incentives, investment allowance or investment tax credit and accelerated depreciation are superior to other types of tax incentives that are the conclusion as per empirical studies done in various countries. Tax holiday is the most inferior type of tax incentive which causes revenue loss without enhancing the investment environment. Meanwhile, most of the researchers have opposed the tax holiday system both within Nepal and outside Nepal. He further added that the survey of the studies indicate that accelerated depreciation system had positive impact on investment. The work of reducing tax rate, especially, followed after 1990s to such lowest rate was not a proper decision. That is why, if Nepal wants to go to tax incentives again, she should adopt investment tax credit, not the full tax holiday in future.

**Mr. George Lent**, (1968) had presented a report to IMF in 1968. He had critically analyzed the income tax rate structure for individual and company. He had suggested that increment in

personal income tax rate at lower taxable income and reduction of rate at intermediate income bracket are desirable. He had not gone through other aspects of income tax.

## **Review of Books**

**Mr. Kedar Bahadur Amatya**, (1965) published a book, “Nepal Ma Aayakar Ko Bebastha.” He had first explained the description and the legal aspects of the income tax system of that period (Amatya-2022B.S.).

**Mr Santosh Raj Poudyal and Prem Prasad Timsina**, (1990) were published a book “Income Tax in Nepal.” This book was based on the Income Tax Act, 2031. They had given a detailed computation of income from various sources. They had also described other theoretical aspects of income taxation. This book was mainly written for the course requirement of Bachelor’s level in management. The book was not relevant today, as the Act has been changed. But some description and historical aspects can be drawn for the study.

**Dr. Rup Bahadur Khadka**, (1994) had written a book entitled, “Nepalese Taxation: A path for Reform”. The book dealt with both national and international taxes. The writer had detail describe the scenario of Nepalese tax system from origin of income tax, adoption of quasi-global or a limited scheduler system, segregation of corporate income tax from individual income tax, increasing dependence on the presumptive basis, basic allowance and progressive rate structure, move from joint taxation to individual taxation and shift from itemized to flat system of standard expenses, experiment with an advance tax on impacts and the existing structure, commodity taxes and poverty taxes. He had evaluated the Nepalese tax system base on conventional, theoretical concepts and suggested various measures for its improvement. The book had not been directly focused on corporate tax only but explains the whole Nepalese taxation system and structure for its reform.

**Mr. Kamal Deep Dhakal**, (2002) presented his revised edition book, “Aayakar Tatha Ghar-jagga Kar sambandhi Karr a Kekha.” This book was based on Income Tax Act, 2031. This book is very much useful in getting knowledge about history of taxation and the practice under the previous Act.

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

**Dr. Rup Bahadur Khadka**, (1994) had written a book entitled, “Nepalese Taxation: A path for Reform”. The book dealt with both national and international taxes. The writer had detail describe the scenario of Nepalese tax system from origin of income tax, adoption of quasi-global or a limited scheduler system, segregation of corporate income tax from individual income tax, increasing dependence on the presumptive basis, basic allowance and progressive rate structure, move from joint taxation to individual taxation and shift from itemized to flat system of standard expenses, experiment with an advance tax on impacts and the existing structure, commodity taxes and poverty taxes. He had evaluated the Nepalese tax system base on conventional, theoretical concepts and suggested various measures for its improvement. The book had not been directly focused on corporate tax only but explains the whole Nepalese taxation system and structure for its reform.

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

**Mr. Ishwor Mani Rai and Mr. Narayan Prasad Baskota**, (2003) published a book entitled, “Taxation in Nepal”. This book has also been designed according to syllabus of BBS 3<sup>rd</sup> year. Computations regarding different sources of incomes have been included in this book.

**Dr. Puspa Raj Kandel**, (2004) wrote two books on taxation-one book entitled, “Tax Laws and Tax Planning” for MBS 2<sup>nd</sup> year and another “Nepal Ko Bartaman Kar Byabastha” for BBS 3<sup>rd</sup> year. These books have tried to update one self as far as possible with the changes in tax provisions. Those books cover all the taxation course of all level of faculty of management. He has presented practical as well as theoretical aspects on taxation in these books.

**K. P. Aryal and S.P.Paudel**, (2004) had written a book entitled, “Taxation in Nepal”. They had explained about the income tax in Nepal along with house and land tax and value added tax. The book has been designed based on the curriculum of BBS. It has been divided into three parts. In the first part of the book introduction and development of income tax, capital and revenue nature expenses and income items, entity and retirement saving, divided tax, computation of income from business, remuneration and investment have been explained with numerical and theoretical examples. House and land tax and value added tax have been explained in the second and third part respectively. The book also included proper bibliography and adequate appendix where various income tax, house and rent and VAT related forms, schedules and format had been described.

**Mr. Surendra Keshar Amatya, Dr. Bihari Binod Pokharel and Rewan Kumar Dahal**, (2003) wrote a book entitled, “Taxation in Nepal.” This book is also designed to meet the requirement of BBS 3<sup>rd</sup> year syllabus. Theoretical as well as practical aspects of taxation have been included in the book. This book is a descriptive not analytical.

**Mr. Jagadish Agrawal**, (2004) wrote a book entitled, “Income Tax Theory and Practice.” The book has been said to come in the market after the author’s maiden effort an authentic

book. The book, in the word of author, has been designed to serve tax practitioners, charter accountants, registered auditors, accountants and other managerial personnel in big organization, CA students and student to law having taxation as one of the subjects. Through the author has not named for management student as a target user reader the book is equally useful all those who need taxation either academically or by professionally. The author has indicated towards the mass user by writing etc. in his target people. However, the book may not be useful to normal people who have general interest on the matter. This book has been written completely on the basis of new income tax Act and seems to design to meet the student requirement at bachelor level. The book has tried to make clear cut theoretical concepts of the provisions of the Act with suitable practical procedures under the new Income Tax Act, 2002.

**Mr. Ishwor Bhattarai and Mr. Girija Prasad Koirala**, (2004) published a book named, “Tax Laws and Tax Planning”, basically designed to meet the requirement of MBS 2<sup>nd</sup> years students under Tribhuvan University. The book includes the theoretical concepts along with the practical exercise to be familiar with subjects matter for the master level student. The book is based entirely on new Act and has tried to enrich tax planning, value added tax and some other procedural matters under new Act.

### **Review of Dissertation**

**Mr. Narendra Lal Kayastha**, (1974) presented a dissertation named “Taxation of Income and Property in Nepal”. He had tried to analysis income tax and property in overall revenue generation of Nepal. He had pointed out various drawbacks of income tax system and suggested measures to remove them. He had mentioned the major problems of income tax system of Nepal are income tax evasion at high level and greter role of indirect tax revenue.

**Mr. Kedar Bilas Pandey**, (1978) presented his dissertation on “An Analysis of Income Tax in Nepal”. He had shown the role of direct tax in total revenue and tax revenue, dominant role of indirect tax in Nepalese tax system and the role of income tax to control the inflationary trend of the country, in his study. Also he had discussed the legal aspect, role and

problems of income tax, structure and economic effect of income tax in Nepal, mode of mobilizing additional resources from income tax.

**Miss Rojalin Singh Suwal**, (1981) presented a dissertation entitled, “Income Tax System in Nepal.” She had studied the problem and the importance of income tax in solving financial Resource gap problem in Nepal. She had shown the trend of income tax and effect of income tax on production in Nepal. Her conclusion was that: income tax is an important source of revenue to mobilize additional resources for planned development moreover from the social point of view. Income tax is regarded as an instrument for equal distribution of income. With a further improvement in tax administration, in future years, an increase of more than 25 percentages is expected to be collected every year. The major problems in income tax collection as identified by her were: the absence of clear and comprehensive definition of income, low tax paying capacity and tax consciousness, high tax rates, corruption etc. She had suggested some factors like increasing tax consciousness to the taxpayer, clear and comprehensive definition of the incomes for improvements to HMG regarding income tax and tax administration for the collection of income tax in Nepal.

Miss Naina Nepal presented her Master’s Level dissertation in 1983, “A Study of Problems and Prospects of Income Tax in Nepal.” She had emphasized on fiscal system of Nepal, origin meaning existing position, role, position, problems and future prospects of income tax in Nepal. She had pointed out some problems of existing Nepalese income tax system as inefficient income tax administration, mass poverty, lack of tax consciousness, low number of taxpayers, narrow coverage, assessment deficiency etc. She had suggested for effective tax administration widening the tax coverage etc. She had suggested for effective tax administration, widening the tax coverage etc. for solving the problems so as to utilize resources efficiency.

**Miss Roshani Shrestha**, (1984) wrote a dissertation entitled “Income Tax in Nepal.” She had described the historical background of income tax in Nepal and the role of income tax in Nepalese taxes structure. She had studied the problems of income tax in Nepal. She had found that revenue from the income tax is small due to tax evasion, which shows that income tax policy is not well operated and the collective revenue is low. To increase the revenue



from taxation, per capita income should first be increased. Growing per capita, real income provides a handed to collect larger tax revenue. To increase income tax revenue, there must be efficient administration. She had suggested that the practice of tax evasion must be checked if the taxes are to contribute to the economic growth of Nepal.

**Mr. Roshan Shrestha**, (1985) presented a Master's level dissertation entitled "Income Taxation in Nepal: A study of its Structure and Productivity." He had attention his dissertation mainly on the analysis of the structure of income tax and its responsiveness and productivity with respect to GDP and its components. He had found that income tax has been contributing significantly in direct taxes. He had shown the constraints of resource gap in Nepalese finance is serious. According to him, Nepal's tax effort ratio was still very low in comparison to other developing countries. Individual taxpayers contributed about two-third of total income tax revenue. He had suggested that an effort should be initiated by the government to control evasion and tax avoidance.

**Mr. Shambhu Nath Regmi**, (1986) wrote a dissertation entitled, "The Role of Income Tax in Nepal." He had discussed the trend and contribution of income tax in the development efforts of Nepalese government. He had suggested checking income tax evasion because it has been a great problem in income tax evasion was checked properly, income tax can contribute significantly to the economic growth of Nepal.

**Mr. Prem Prasad Timsina**, (1987) wrote a dissertation entitled, "Income Tax Evasion in Nepal." The objectives of his were: to analyze the structure of income tax in Nepal, to study the role of income tax in mobilizing resources in Nepal, to examine income tax evasion tendency in Nepal to observe the general opinion about income tax evasion in Nepal, to estimate the volume of income tax evasion in Nepal and to draw suggestions for the elimination of income tax evasion in Nepal. He had shown serious problem of financial resource gap in Nepalese economy. He had started that income tax evasion tendency by remuneration taxpayers are increasing in Nepal. He had pointed out different causes of income tax evasion in Nepal namely-widespread illegal business, high corruption, poor tax paying habit, inefficient tax administration, open border with India and political indiscipline

in Nepal. He had also mentioned different methods of income tax evasion in Nepal viz-non reporting of income from illegal business, non maintenance of accounts, failure to submit income statements, none reporting of family member's incomes under reporting of income from different sources (TDS). He had concluded that income tax evasion is in decreasing trend in Nepal. But due to lack of data, he was unable to prove it statistically.

**Miss Shanti Baral**, (1989) presented a dissertation entitled , “Income Tax in Tax Structure of Nepal.” She had shown the contribution of income tax in tax revenue and total of Nepal. She had shown that the contribution of direct tax has been decreasing and indirect tax has been increasing. Also, she had stated the problems of raising government revenue. Nepalese People's tendency to evade tax had been the main reason of least contribution of direct tax. She had found lack of clear and comprehensive definition of income, lack of punishment to tax evaders, lack of tax consciousness, lack of efficient tax administration, lack of public information and lack of scientific method of tax collection and trained tax collectors as main causes of income tax evasion.

**Mr. Ram Bahadur Thapa**, (1993) presented his dissertation entitled “Income Tax Assessment Procedure in Nepal: An Analytical Study”. In his research, he had analyzed income tax in its historical perspective, examined the contribution of income tax to the national exchequer and reviewed the legal provisions relating to the income tax assessment procedure prevailing in SAARC countries. He had shown the high degree of corruption was in practice of income tax administration of Nepal. Nepalese taxpayers are facing difficulties in paying income tax. Due to lack of professional skill, tax administration was not efficient and there is a widespread income tax evasion in Nepal.

**Mr. Sanjaya Acharya**, (1994) in his dissertation entitled “Income Taxation in Nepal: A Study of its Structure, Productivity and Problems” had assessed the existing problems and future prospects of income taxation in Nepal. He had also analyzed the structure of Nepalese income tax and examined the productivity of income tax revenue in Nepal. He had shown that the contribution of individual in total income tax revenue has the greatest share; central level tax administration seems to be very inefficient. He had recommended for the transfer of

employees of tax offices in every two or three years of interval in order to check the unofficial linkage between them and the taxpayers, social status of income taxpayers should be higher than non-payers etc.

**Mr. Hari Bahadur Bhandari**, (1994) wrote a dissertation entitled “Contribution of Income Tax to Economic Development of Nepal.” In his dissertation, he had examined the collection of income tax and its contribution to the economic development of Nepal. He had started that the actual revenue collection in Nepal was lower than the targets set out. For this, he has pointed out some responsible factors like poor tax paying habit of Nepalese taxpayers, poor tax administrative system, widespread income tax evasion etc. He had also studied the income tax structure, trend of income tax collection and collection and the share of contribution of income tax to the development of Nepalese economy. He had put forward some suggestions overcome those problems such as improving tax administration system, checking income tax evasion etc.

**Krishna Kumar Shakya**, (1995) presented a dissertation entitled, “Income Tax in Tax Structure of Nepal.” In his study, he had endeavored to examine the pattern of existing income tax structure of Nepal with view on its collection, mobilization in development perspective. He had pointed out some factors responsible for limiting Nepal’s taxable capacity. They are low per capita income, extensive subsistence economy, relatively closed economy, political and social factors; weak export position, administrative and enforcement problems of tax etc. He had suggested for honest and efficient administration, and assessment of small taxpayers on door to door basis and encouragement of self-assessment tax system.

**Mr. Balananda Poudel**, (1995) made a study on Nepalese tax structure in his dissertation entitled, “A Study on Nepalese Tax Structure.” He had made a review of revenue structure of HMG/N, Analyzed revenue generation from individual taxes, analyzed the relationship of direct and indirect taxes with total revenue and GDP and assessed various weaknesses and problems of present tax system and put forward suitable recommendation to solve them. He had suggested that the tax system will be successful and effective with the political support, administrative efficiency and people’s confidence. Given these conditions, the measures to be taken and the policy to be adopted should be such that could generate more revenue for our economic development.

**Mr. Shiva Narayan Shahu**, (1995) presented a dissertation entitled, “Contribution of Income Tax in National Revenue of Nepal.” His study had focused on the role and contribution of income tax in the economic development of Nepal. He had found that very insignificant percentage i.e. 0.35 percentage of the population of Nepal fall in income tax bracket. He had shown that income tax occupies the fourth rank in the revenue composition of Nepal. Indirect taxes like customs, excise and sales tax occupied first, second and third rank respectively.

**Mr. Parameshwor Pant**, (1996) presented his Masters level dissertation entitled, “A Study on Income Tax Management in Nepal.” He had identified various problems of income tax management in Nepal and among them lack of managerial efficiency is the main problem. Lack of effective personnel management, poor reward and punishment system, weak income tax assessment procedure, poor tax information system, lack of taxpayer’s education, very narrow coverage of income tax were the other problems of income tax management in Nepal identified by him.

**Mr. Shree Krishna Kharel**, (1996) presented a dissertation entitled, “Self Assessment under Income Tax Act in Nepal.” In his work, he had made a review of tax laws about self-assessment, analyzed the problems faced by the assessor while doing the self assessment of their own income and made relevant recommendation to reform income tax laws as well as administration in future. He had concluded that it would be effective if taken seriously. He had further expressed that the effectiveness of self assessment of tax depended upon its appropriate reformation.

**Karna Beer Poudyal ‘Kshetry’**, (1998) had submitted a Ph. D. dissertation entitled, “Corporate Tax Planning in Nepal.” This dissertation report was aimed to examine the implication of tax in strategic planning, project planning and operational planning in Nepalese companies. He had found that the majority of the companies (sample size of the study) considered tax factors while selecting the line of business. He also found the positive correlation (+0.8) between tax rate and the debt equity ratio because of interest paid on debt is a tax-deductible item. Similarly, the correlation coefficient between average fixed assets

and corporate tax was (+0.75) in small companies and (+0.12) in medium size companies. As again this, in large companies, there was a negative correlation (-0.2), which showed that increase in fixed assets in large companies resulted in decrease in the corporate tax. He addressed that the tax planning should be considered while making corporate planning and so companies should set up separate tax section to get maximum benefit of provisions, provided by tax law. However, tax assessment under the best judgment blocked the application of tax planning in corporate planning. He had recommended that tax incentives should be given to non-industrial companies too, and tax rate should be differentiated for resident and non-resident companies.

**Miss Bibha Pradhan**, (2001) wrote a dissertation entitled, “Contribution of Income Tax from Enterprises to Public Revenue of Nepal with Reference to Nepal Telecommunication Corporation.” She had analyzed the contribution of income tax from public enterprises to public revenue of Nepal, examined the revenue collection from public enterprises to public enterprises, shown the contribution of income tax in total tax and total tax and income tax revenue of Nepal, and analyzed the effectiveness of income tax revenue collection from NTC. She had also recommended possible measures to increase the present status. She had found that the contribution of income tax from Public enterprises in Nepal is not satisfactory due to poor achievement, weakness in government’s economic policy and deficiency in legislation. Existing corporate tax rate was found suitable. Self-assessment of tax was more appropriate. Public enterprises remained in the second place on total tax revenue. Out of PEs, NTC was contributing effectively to total income tax revenue of Nepal. NTCs contribution to total corporate income tax is high. She found that the average share of NTC on corporate tax was 35.76 during ten years period i.e. from fiscal year 1989/90 to 1998/99. She had recommended possible measures to overcome the existing problems. Staff should be taught discipline and be motivated. Management should have the feeling to contribute to the state etc.

**Miss Binita Shreshtha**, (2001) wrote a thesis, “Revenue Collection from Income Tax in Nepal, Problems and Prospects.” She had analyzed the effectiveness of income tax policy, examined the problems of revenue collection from income tax law and management in Nepal. She had found that the level of income tax collection had been rising. Income tax

system of Nepal was suffering from various problems such as narrow tax coverage, mass poverty of Nepalese people, lack of conscious taxpayers, inefficient tax administration, instability in government policy etc.

**Mr. Satyendra Timilsina**, (2001) wrote a thesis entitled “Personal Income Taxation in Nepali: A Study of Exemptions and Deductions.” He had analyzed the existing system of exemption and the deductions and given suggestions to improve the tax system so that the government can collect more revenue and use it in the process of national development. He had measured the extent of exemption limit provided to the individual and the family and examined its appropriateness to its subsistence requirements and analyzed the existing nature of standard deductions. He suggested the following:

1. Standard deduction should be reintroduced.
2. Exemption should be provided to the couple/family considering the dependents.
3. Income tax revenue and personal income tax revenue is increasing every year.
4. A minimum of Rs. 90,000 exemption should be provided in the assumption that the employment income of a section officer in a government institution should not be taxed.
5. Morale of the tax officials should be increased.

He had stated that exemption limit should be provided by considering the general expenses of two dependent children and the dependent parents for the year. The exemption limit must be adjusted with the inflationary condition of the country every year.

**Miss Jayanti Poudel**, (2002) presented a dissertation entitled, “Income Taxation in Nepal: A Study of its Structure and Productivity.” The objectives of her study were: to analyze the structure of income tax in Nepal, to estimate the elasticity and buoyancy of income tax in Nepal, to assess the role of income tax administration in Nepal, to evaluate the success of Voluntary Disclosure of Income Scheme (VDIS) program in brief and to provide the suitable recommendation for improving the scenario of income tax. She found that overall revenue of Nepal showed an annual growth of 16%, indirect taxation has more significant contribution

in total tax revenue; income tax occupied the first rank among the direct taxes, personal income tax slabs has been changed radically from seven slabs in 1975/76 to two slabs in 1999/2000, VDIS could not attract more potential taxpayers into tax net due to lack of good planning and adequate homework of the government, working procedures of the tax administrators are still traditional and cost of administration has not been brought to the satisfactory level.

**Mr. Dan Bahadur Palli Magar**, (2003) wrote a dissertation entitled, “Income Tax in Nepal: A Study of Exemption and Deduction.” He studied the exemption and deductions provided by the Income Tax act, 2058 problems and weaknesses in income tax system, contribution of income tax to government revenue and suggested possible areas of reform. He stated the need for clarity in provisions and language of the Act. He has recommended ten slabs for taxing the income of a taxpayer first rate being 5% and the last one being 55%. He suggested the following expenses for deduction from remuneration income:

- Expenses for the better education of their children.
- Medical expenses made by the tax payer.
- Expenses made for house rent.
- Education expenses for the tax payer himself if he is studying in an educational institution.
- Life insurance premium of the taxpayer.

**Mr. Durga Prasad Ghimire**, (2004) wrote his dissertation, “Income Tax in Nepal, its Structure and Contribution from Public Enterprises to Government Revenue”. In his dissertation he mainly has studied the sources of income to government and their contribution in public fund. He focused that for the suitable mobilization of resources in economic development of the country and has shown that the decreasing trend of income tax contribution to the GDP in recent years. His study also seems to focus the appropriateness of new income tax Act in current situation. He has mentioned that the most appropriate method for income taxation in Nepal is self-assessment of income tax method. Together he had written that tax evasion and avoidance were major constraints of resource mobilization. In

this dissertation, he has pointed out the major problems and difficulties faced by tax administration in collection of tax from PEs are as follows:

- Slow to get audited.
- Unaware of Submission of income statement.
- Tend to delay the payment of tax due to their unfavorable cash flow position.
- No co-operative with tax administration.
- No transparent income.

**Mr. Girija Prasad Koirala**, (2004) prepared a master's Level Dissertation entitled, "Contribution of Income Tax from Employment Income to Public Revenue of Nepal." Mr. Koirala has mentioned about tax and non tax revenue in Nepal, composition of direct tax and indirect tax revenue in Nepalese tax structure, structure of direct tax in Nepal, contribution of income tax in total revenue, tax revenue and direct tax revenue of Nepal, tax/GDP Ratios including SAARC countries and other countries for 1997, structure of income tax in Nepal and contribution of income tax from remuneration in total revenue of Nepal. Accordingly, he has done empirical investigation on the basis of primary data collected by survey method. He has suggested various alternative and provisions that should be done regarding taxation of employment income after the detailed analysis of empirical study.

**Mr. Indra dhoj K.C.**, (2005) made a research entitled, "Taxation under Business Income in Nepal: Past and Presents." During his study he has found that none of the dissertation has been written in the income taxation under two Acts even when the previous income tax Acts were introduced. He claimed this point as the research gap and selects the topic for his study, he has further explained to it. He has taken total 90 population samples for his study 30 each samples were taken from Tax Payers, Tax Administrations and tax experts respectively where as only 85 samples were collected for the final study. Out of them 26 were from tax payers, 29 were from tax administrators and the remaining 30 samples were from tax expert for the study analysis. He has divided into two parts for the presentation and analysis of data, the first part was related with primary data collected for the purpose of empirical study. He has compared the taxation under business income on the basis of Income Tax Act, 2058 with old income tax Act, 2031. He found the deviation in liabilities. They were as follows:

Causes of changes



- Interest expenses.
- Pollution control cost.
- Research and development cost.
- Advertisement and pre-operating expenses.
- Bonus and salary given to employees.
- Flexible donation provision.

**Raghu Ram Karki**, (2006) wrote a dissertation entitled, “Contribution of Income from Employment to Government Revenue.” In that dissertation various concept of taxation had been discussed. Sources of government revenue meaning of tax classification of taxes historical background of income tax heads of income and concept of employment had been discussed. In this study had been discussed about Indian Income Tax Act 1961.

**Miss Pabitra Bastola**, (2007) wrote a thesis entitled, “The Role of Income Tax in National Economy and Income Tax Management in Nepal”. She had shown that the major elements of income tax system are income tax law, policy and its management. Among the above three elements of income tax system, the income tax management is the most important one because the application and correction in its legal provision and policy is possible through the information feedback system provided by its management.

**Mr. Dipendra Raman Neupane**, (2008) wrote a thesis entitled, “A Comparative Study on Contribution of Direct Tax and Indirect Tax to National Revenue”, . In this thesis He had shown in the context of Nepal, it has been adopting the mixed and dual economic in the last many decades. The economy has been liberalized after the restoration of democracy in 1990. Corporate income tax is based on socio economic infrastructure and environment. In the corporate income tax structure the debate is going on use of appropriate type of tax incentives, treatment of inflation, method and rate of depreciation. The present provision of tax incentives for revival of sick industrial unit the statutory corporate tax rate are found frequently changed during the study period.

In this way, various books, dissertation, reports and articles have been reviewed while preparing this dissertation. Books are mainly based on the syllabus requirement of University. Almost dissertations were written on different aspects of income taxation. So, it has been found that no one has studied on remuneration aspect of income tax in detail.

## **CHAPTER- III**

### **RESEARCH METHODOLOGY**

This chapter is devoted to the research methodology applied in the study to achieve the goals. Both primary and secondary sources of data were used in the study. Opinion survey technique was adopted while collecting primary data. Questionnaires were distributed to income tax experts and employees so as to know their opinion towards various aspects of employment income. Economic survey was used as the major source of secondary data. Different statistical tools are used to analyze the data. In this study, correlation, simple average, percentage and chi square test for hypothesis have been used to analyze the collected data.

#### **3.1 Research Design**

Most of the documents of this of this research were concerned with past phenomena of the performance in numerical or theoretical terms. The study was oriented to:

##### **a. Analytical Research**

The researcher used the facts and the information already available and analyses to make a critical evaluation of the materials, in analytical research. Analytical research had been carried out in the terms of the role of total tax revenue, income tax revenue and employment tax in the public revenue of Nepal.

### **b. Descriptive Research**

Descriptive research includes survey and fact-finding enquiry of different kinds. It is concerned with finding of relating to the subject matter, obtaining important data and getting new areas of knowledge by describing them. Descriptive research has been carried out in the study of income tax and employment income.

### **c. Empirical Investigation**

Empirical investigation was conducted in respect of income tax collection, employment income's contribution to income tax revenue and effectiveness of income tax collection from employment income and other practical aspects of employment income.

To achieve the stated objectives of the study, opinions of 50 respondents were collected. Respondents are classified into tax experts and employees. Questionnaires were sent to the respondents. The study was attempted to collect information regarding the share of employment tax to total income tax revenue, suggestion to increase its shares and aspects of employment income.

## **3.2 Population and Sample**

All the tax experts and employees in Nepal were considered as total population. Out of them, the experts and employees in Kathmandu Valley were considered as target sample. The denominations of the respondents have been presented in Table 2.1.

**Table: 2.1, Group of respondents and sample size.**

S.N.	Denomination of the respondents	Sample size
1.	Tax Experts cum administrators	25
2.	Employees	25

	Total	50
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### **3.3 Nature and Sources of Data**

Both primary and secondary data were used in the study. The primary data were the opinions of experts and employees regarding employment tax. Primary data were obtained through questionnaire method followed in most cases face to face interviews/discussions with the selected persons included in the purposive sample.

The secondary sources of data were the statistics relating to tax published by HMG/Nepal. They are obtained from Economic Survey, Bulletins etc.

### **3.4 Selection of the Respondents**

A set of questionnaire was developed and distributed to two respondents groups' viz. tax experts and employees, after careful study of subject matter. Tax experts comprises of chartered accountants, lawyers, professors and policy makers of Ministry of Finance. Employees comprises of employees working in various organizations like banks, government offices, Manufacturing organization and other private organizations were contacted for their opinion regarding various aspects of employment income.

### **3.5 Data Collection Procedure**

In order to get actual and accurate information, a set of questionnaire was developed and distributed to the selected respondents. Distribution work was done personally rather than sending by any other means. Additional information was collected from interviews with the respondents.

### **3.6 Procedure of Processing and Analysis of Data**

The information collected from primary and secondary sources were tabulated into separate format systematically in order to achieve the desired objectives. The data were then tabulated into various tables according to the subject in order. Then simple analysis was done by using statistical tools such as percentages, average, correlation, chi square ( $\chi^2$ ) test for hypothesis etc.

Available data were presented and analyzed in descriptive way. In primary data analysis, some hypothesis was tested to know whether there was significant difference between the opinion of tax experts and employees.

### 3.7 Weighted of the Choice

The questionnaire asked for either to give yes/no response or to give their opinions. Respondents were also given alternatives to rank. In this case, the first preferred choice got the highest point and last preferred choice got lowest point. The total points got by each alternative were converted into percentage of total points available to all alternatives. The alternative with the highest percentage was ranked by as most important and the alternative with the lowest percentage was ranked as the least important. For example, if there were five alternatives, the most important ranked by the respondents got five points and the least important alternative ranked by the respondents got one point. The alternative, which was not ranked, did not get any points.

### 3.8 Profile of Respondents

Questionnaires were distributed to fifty respondents-tax experts and employees. All of them, questionnaires were received from both groups. The following table reveals the different numbers and percentages of the respondents.

**Profile of respondents**

S.N.	Respondents	Total sample		Responses received	
		No.	%	No.	%
1.	Tax experts	25	50	25	50
2.	Employees	25	50	25	50
Total		50	100	50	100

*Source: Primary Data*



## **CHAPTER-IV**

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

#### **A: Analysis of Secondary Data**

The presentation and analysis of data is the main content of fourth chapter. This chapter is one of the major parts of the study. It enhances knowledge of contemporary and past-related matters. In this chapter, data related to the study have been tabulated, presented analyzed and interpreted. The reliability of the analysis under this chapter solely depends on the data available in those sources.

This chapter has been divided into following heads in order to make the study comprehensive.

- 4.1 Structure of income tax in Nepal.
- 4.2 Target and collection of Income Tax (Comparative Study).
- 4.3 Income tax to GDP Ratio
- 4.4 Public revenue in Nepal: Tax Revenue and Non-tax Revenue.
- 4.5 Tax Revenue: Direct Tax and Indirect Tax.
- 4.6 Structure of Direct Tax in Nepal
- 4.7 Contribution of income tax in Nepal.
- 4.8 Fiscal and Resource Gap.
- 4.9 Findings

#### **4.1 Structure of Income Tax in Nepal**

The income tax base of Nepal income tax system constitutes the different tax sectors such as government corporations, public companies, private companies, individuals, property, and house rent etc. Individual taxation may be employment, sole-proprietorship, and partnership. Basically income tax is comprises, private corporate bodies, individuals, remuneration and tax on interest. This is presented in table 4.1.1 (a) below:

## 4.1 Structure of Income Tax in Nepal

Rs in Million

Fiscal Year	Total income Tax Revenue	Public Enter Prices	Semi-Public Enterprises	Individuals	Private Corporate	Remuneration	Tax on Interest
2002/03	9673.8	2926.0	-	3362.2	1924.3	597.3	864.0
2003/04	9245.9	2056.6	-	3533.4	1531.3	1391.2	733.4
2004/05	10159.4	1332.4	-	3926.3	2467.8	1675.9	757.0
2005/06	10373.7	195.7	-	4234.7	3404.3	1764.1	774.9
2006/07	150.34	1019.7	-	5234.4	5717.1	2007.9	1054.9
2007/08	17311.2	204.6	-	6381.2	7186.5	2451.0	1087.9
2008/09	25143.2	959.1	-	9877.5	94251	3195.6	1685.9

Table 4.1.1 a: Structure of income Tax in Nepal

Sources: Economic Survey 2009/10

### 4.1.1 Composition of Income Tax during 7 Fiscal years in percentage.

Here, fully government owned enterprises are public enterprises if the investment of government is 51 percentages or higher individual devote sole trade and partnership. Similarly, remuneration refers to salaries earned by government sector employees. The percentage wise structure of income tax on Nepal on tabulated as follows.

Rs. In Million

Fiscal Year	Total Tax Revenue	Public Enterprises	Private Corporate bodies	Individual	Remuneration	Tax on Interest
2002/03	100	30.2	19.8	34.7	6.2	9.1
2003/04	100	22.2	16.5	38.3	15	9
2004/05	100	13.11	24.29	38.65	16.5	7.45
2005/06	100	1.89	32.81	40.82	17	7.46
2006/07	100	6.78	38.03	34.82	13.36	7.02
2007/08	100	1.18	41.51	36.86	14.16	4.33
2008/09	100	3.82	37.49	39.28	12.71	6.71

Table: 4.1.1(b) Composition of income tax in Nepal during 7 Fiscal year



Source: *I bid*

From the above table 4.1, total income tax revenue seems to have an increasing trend. In F/y 2002/03, Rs. 9673.8 million was raised from income tax revenue. It was more than times increase tax revenue was raised in 2002/03.

#### 4.1.2 Structure of Government Revenue in Nepal

Government revenue of Nepal is comprised of different taxes such as customs, excise sales tax/vat, income tax, land revenue and registration, miscellaneous taxes and non-tax revenue. The structure of government revenue in Nepal has been presented different tables below for the period of 7 periods from 2002/03 to 2008/09.

In the various tax and non-tax revenues, tax revenues, tax on consumption and product of goods and services has the vital contribution toward total revenue of Nepal. In contribution in millions of rupees has been increasing per year. In Nepalese revenue structure, tax revenue has always been greater than three times of non-tax revenue. This means there is heavy contribution of tax revenue in total revenue of Nepal.

**Table 4.1.2. Structure of Government Revenue in Nepal**

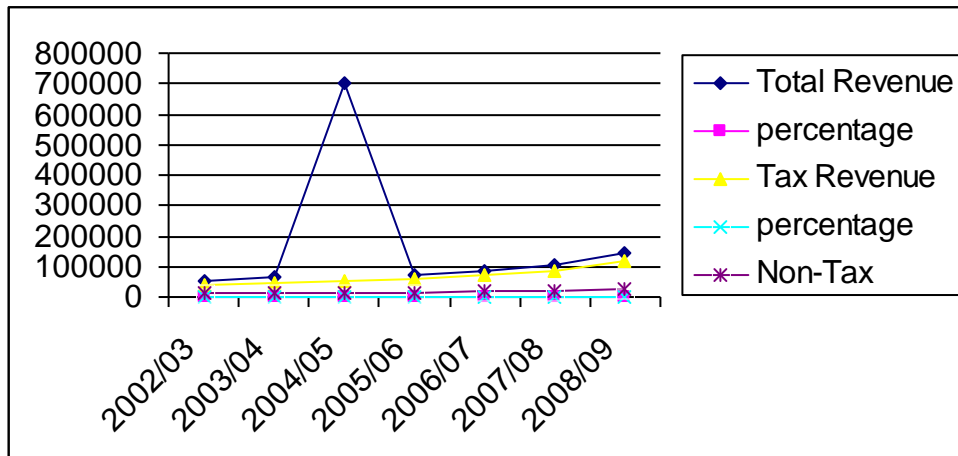
Rs. in million

Fiscal Year	Total Revenue	percentage	Tax Revenue	percentage	Non-Tax	percentage
2002/03	55670.5	100	42027.7	75.49	13642.8	24.52
2003/04	62331	100	48175.7	77.29	14155.3	22.71
2004/05	701228	100	54104.9	77.16	16017.9	22.84
2005/06	72282.1	100	57427.0	79.45	14855.1	20.55
2006/07	87712.1	100	71168.0	81.14	16544.1	18.86
2007/08	107622.7	100	85147.1	79.12	22475.6	20.88
2008/09	143474.4	100	117051.8	81.58	26422.6	18.42

Source: *Economic Quarterly Buletin (2010)*

This table can be presented also in figure as following figure 4.1.2

**Figure 4.1.3 Structure of Government Revenue of Nepal**



### 4.1.3 Contribution of Total Tax Revenue in Nepal

Total tax revenue consists of direct tax revenue and indirect tax revenue. Given below, Table 4.1.3 presents tax revenue structure of Nepal which consists of both tax, direct tax and indirect tax revenue of Nepalese tax revenue from fiscal year 2002/03 to 2008/09.

In F/y 2002/03, out of total tax revenue Rs. 42070.75 millions, Rs. 9546.57 million and Rs. 32481.2 million have been contributed by direct tax revenue and indirect tax revenue respectively. It means about 22.71 and 77.29 revenue respectively contributed by direct tax revenue and indirect tax revenue respectively. In 2008/09 is not actual data it is in estimation by Nepal Government. In the year 2007/08, Rs. 85147.2 is total revenue out of the total Rs. 23070.8 million have been collected as direct revenue and Rs. 62076.3 million have been connected as indirect tax revenue respectively i.e. 270.9 and 72.91 in percent. From the above information we can easily said that, indirect tax take huge role in collecting government revenue.



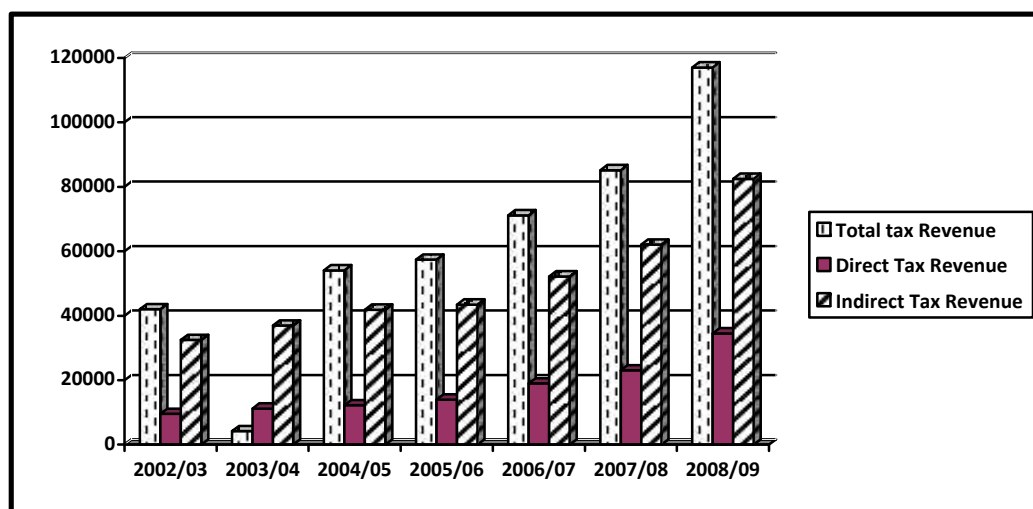
**Table 4.1.3 Contribution of Total Tax Revenue of Nepal (F/Y 2002/03-2008/09)**

Rs in million

Fiscal Year	Total tax Revenue	in %	Direct Tax Revenue	in %	Indirect Tax Revenue	in %
2002/03	42027.7	100	9546.5	22.71	32481.2	77.29
2003/04	4175.7	100	11201	23.25	36974.2	76.75
2004/05	54104.9	100	12252.2	22.65	41851.8	77.35
2005/06	57427.0	100	13961.5	24.31	43465.5	75.69
2006/07	71168.0	100	18979.6	26.67	52188.3	73.33
2007/08	85147.1	100	23070.8	27.52	62076.2	72.91
2008/09	117051.8	100	34552.8	29.52	82499.2	70.48

Source: Quarterly Economic Bulletin, NRB

**Figure: 4.1.3 Contribution of Tax Revenue of Nepal (F/Y 2002/03-2008/09)**



From the above the figure it is observed that the mean contribution of direct tax and indirect tax revenue. We can easily say that there is increasing trend of direct and indirect tax revenue.

#### 4.1.4 Structure of Direct tax in Nepal

Direct tax revenue includes income tax revenue, land revenue and registration and miscellaneous taxes. Income tax occupies the highest rate among various taxes in direct tax

revenue. As compared to the previous year, the share of income tax revenue has been increasing the recent years. In 2002/03 out of total direct tax revenue of Rs. 9546.5 million, Rs. 8132.2 million was contributed by income tax on of income tax revenue in total direct tax revenue. In 2008/09, out of total direct tax revenue Rs. 34552.6 million, Rs. 27479.7 million was contributed by income tax revenue. It was about 79.53 percentage of the total direct tax revenue.

The amount of income tax revenue is increasing land revenue and registration occupies the second place among direct tax revenue 9546.5 million, Rs. 1414.2 million was contributed by land revenue and registration. It was 82.59 percentage total direct tax revenue was Rs. 9546.5 million and land revenue and registration amounted to Rs. 1414.2 million, which was 14.81 percent was Miscellaneous taxes occupy third and last position among various taxes. The trend of miscellaneous taxes has been fluctuating. In 2002/03 Rs. 7.7million was collected as miscellaneous taxes. In F/Y 2008/09, Rs. 265.1 will be estimated as direct tax revenue out of this Rs. 265.1 million of miscellaneous taxes.

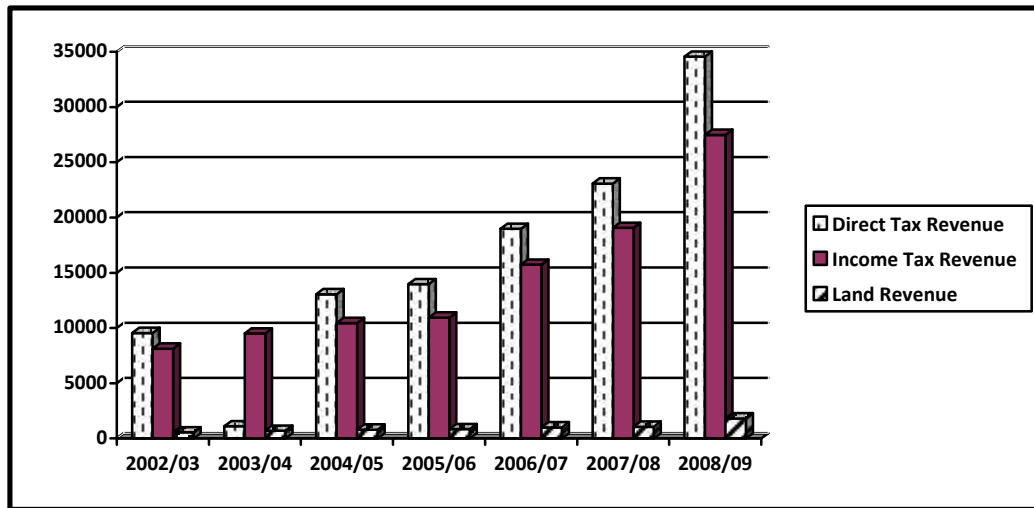
**Table 4.1.4**  
**Structure of Direct Tax in Nepal 2002/03 to 2008/09**

Rs. in million

Fiscal Year	Direct tax Revenue	in %	Income Tax Revenue	in %	Land Revenue & Registration	in %	Land Revenue & Registration	in %
2002/03	9546.5	100	8132.2	82.59	1414.2	14.81	559.5	2.6
2003/04	1101.5	100	9504.0	79.86	1697.5	15.76	700.0	5.87
2004/05	13061.3	100	10456.0	80.05	1799.2	13.75	806.1	6.17
2005/06	13961.5	100	10933.5	78.32	2180.3	15.62	847.1	6.06
2006/07	18979.6	100	15730	82.88	2238.7	11.79	1011	5.33
2007/08	23070.8	100	19067.5	82.65	2933	12.71	1070.2	4.64
2008/09	34552.6	100	27479.7	79.53	5248.4	15.19	1824.5	5.28

**Figure No: 4.1.4**

**Structure of Direct Tax in Nepal during 7 years**



From the above figure we can easily say that there is less contribution of miscellaneous tax revenue in total direct tax revenue. It is in increasing trend. Land revenue & registration has been also in increasing trend.

#### **4.1.5 Contribution Income Tax in Total Revenue Tax Revenue & Direct Tax Revenue of Nepal**

##### **Income Tax in Total Revenue of Nepal**

The contribution of income tax revenue in total revenue, total tax revenue and direct tax is presented and analyzed below. The percentage of Nepal has been presented in 4.1.5. Its contribution on tax revenue has in increasing trend. It was about 14.1 percent of total revenue of Nepal in 2002/03. In 2008/09, total revenue was 27479.7 million. Its average contribution of income tax revenue on total revenue was 19.15 percent over 7 years period from fiscal year 2002/03 to 2008/09.

##### **Income Tax in Total Revenue of Nepal**

The percentage contribution of income tax revenue in total tax revenue of Nepal is also in increasing trend. In 2002/03 out of total tax revenue of Rs. 42027.7 million Rs. 8132.2 millions was contributed by income tax revenue. It was about 19.35 percent contributed by income tax revenue. In FY 2008/09, out of total tax revenue of Rs. 117051.8 million, Rs. 27479.7 million was contributed by income tax revenue. It was about 23.08 percent of total tax revenue. In average 20.71 percent of total tax revenue was contributed by income tax revenue from FY 2002/03 to 2008/09.

### **Income tax in direct tax revenue of Nepal**

The percentage of contribution of income tax revenue in direct tax revenue was in dominant position. However, it was fluctuating 78.31 percent to 85.32 percent over the seven year from FY 2002/03 to 2008/09. In 2002/03 out of direct tax revenue of Rs. 9546.5 millions, Rs 8132.2 million was contributed by income tax revenue. It was 85.15 percent of direct tax revenue. In FY 2008/09 out of total direct tax revenue of Rs. 34552.6 million, Rs. 27479.7 millions was contributed by income tax revenue. It was 79.53 percent of total direct tax revenue. That is 5.79 percent less than of the FY 2004/05 when this contribution was 85.32 percent in direct tax.

**Table 4.1.5**  
**Contribution of Income Tax Revenue in Total Revenue, Total**  
**Revenue and Direct Tax Revenue in Nepal during 7 yrs**

**Rs in million**

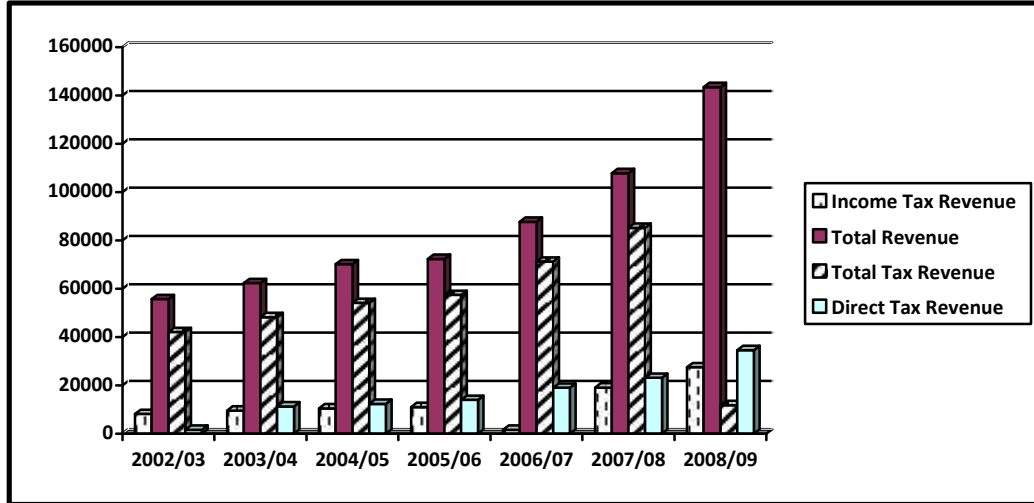
Fiscal Year	Income Tax Revenue	Total Revenue	in %	Total Tax Revenue	in %	Direct Tax Revenue	in %
2002/03	8132.2	55670.5	14.61	42027.7	19.35	1546.5	85.18
2003/04	9504	62331.0	15.25	48175.7	19.73	11201.5	84.85
2004/05	10456	70122.8	14.91	54104.9	79.32	12255.2	85.32
2005/06	10933.5	72282.1	15.13	57427	19.04	13961.5	78.31
2006/07	1530	87712.1	17.93	71168	22.10	18976.6	82.89
2007/08	19067.5	107822.7	17.68	85141.1	22.39	23070.8	83.65

2008/09	27479.7	143474.4	19.15	11751.8	23.08	34552.6	79.53
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Source: Economic Survey 2009/10



**Figure: 4.1.5**  
**Contribution of income Tax in Total Revenue, Total Tax Revenue and Direct Tax**  
**Revenue during 7 years**



From the above figure we can easily analysis the contribution of income tax revenue in total revenue, total tax revenue, direct tax revenue.

**4.1.6 Contribution of Remuneration Tax in Total Tax Revenue, Direct Tax Revenue and Income Tax Revenue of Nepal**

Total Income tax from remuneration has contributed very much insignificantly in total revenue of Nepal. Total Revenue of Rs. 55670.5 million was contributed by only of Rs. 1321.5 million which is just about 2.37 percent in 2002/30. In 2008/09 year total revenue Rs. 143474.5 million out of this remuneration occupied 4169.7 million, which just about 2.91 percent. The contribution has been in increasing in trend.

Total tax revenue is also very insignificantly contributed by income from remuneration tax. In 2002/03, it contributed by only about 3.14 percent. Total tax revenue was Rs. 42027.7 million and income tax from remuneration was only 1321.5 million. It was only in 3.56 percent in 2008/09, in Rs. 117051.8 million was contributed.

Remuneration income was also compared with direct tax revenue. In 2002/03 it was 12.06 in percent. It was Rs. 9546.2 million for this remuneration tax contributed constituted Rs. 1321.5 million. The contribution was in increasing trend. In 2008/09, total direct tax revenue of Rs. 34552.6 million included Rs, 4169.7 million income tax from remuneration. It was 12.06 percentage contributions.

In general income from remuneration tax is assumed as vital source to construct income tax revenue. But the condition is not as assumed here the contribution of remuneration income tax revenue has not been satisfactory. In 2002/03 total income tax revenue Rs. 8132.2 million, for this remuneration tax contribution constituted Rs. 1321.5 million. It was 16.25 percentage of total income tax revenue. The percentage contribution has been increasing In 2008/09 total income tax revenue was 27479.7 million was contributed by income tax from remuneration. In 2006/07 it was about 15.17 percentages.

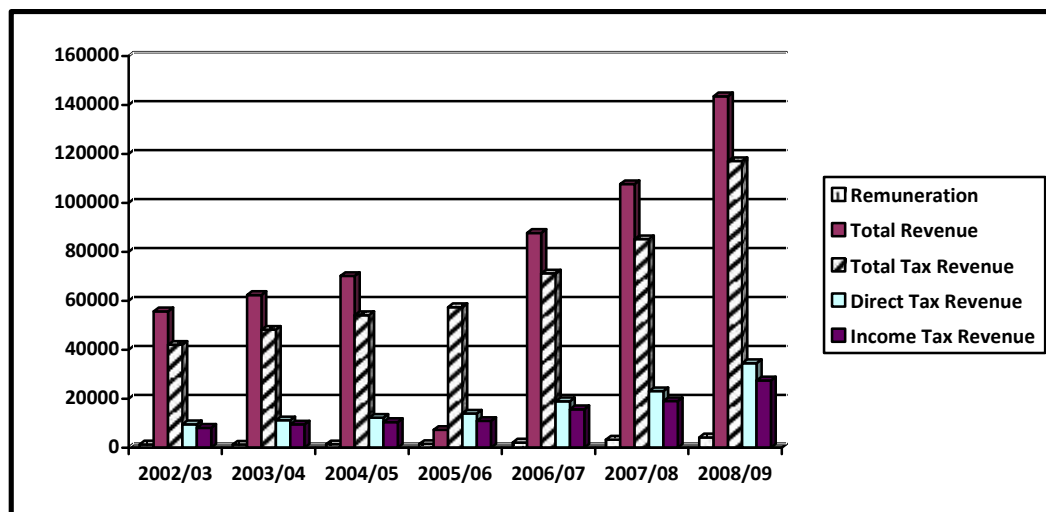
**Table 4.1.6**  
**Contribution of Remuneration Tax in Total Tax Revenue, Direct Tax Revenue and**  
**Income Tax Revenue of Nepal (F/Y 2002/03)**

Rs in million

Fiscal Year	Remuneration	in %	Total Revenue	in %	Total Tax Revenue	in %	Direct Tax Revenue	in %	Income Tax Revenue	in %
2002/03	1249.0	2.24	55670.5	2.97	42027.7	13.08	9546.2		8132.2	15.36
2003/04	1392.9	2.23	62331.0	2.89	48175.7	12.43	11201.5		9504.0	14.65
2004/05	1678.2	2.39	70122.8	3.10	54104.9	13.69	12255.2		10456.0	16.05
2005/06	1771.1	2.45	7282.1	3.08	57427.0	12.69	13961.5		10933.5	16.20
2006/07	2006.8	2.29	87712.1	2.82	71168.0	10.57	18979.6		15730	12.76
2007/08	2452.0	2.27	107622.1	2.88	85147.1	10.63	23070.8		19067.5	12.86
2008/09	3398.5	2.36	143474.5	2.90	117051.8	9.84	34552.6		27479.7	12.37

**Figure 4.1.6**

**Contribution of Remuneration Tax in Total Tax Revenue, Direct Tax Revenue And Income Tax Revenue of Nepal (F/Y 2002/03-2008/09)**



Source: Ministry of Finance

**4.1.7 Exemption Limit provided for Revenue Tax All Tax Payers in Nepal**

Exemption limit directly influence income tax revenue collection. Tax payer having low tax paying 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 4.1.7. In the earlier time, there was equal amount of exemption to all tax payers i.e. individual, couple, family and corporate bodies. Exemption limit is extended according to need of time and income condition, it is clear from the table.

Fiscal Year	Individual	Couple	All Tax Payers
1959/60-1962/63	-	-	7,000
1963/64-1964/65	-	-	6,000
1965/66-1966/67	-	-	5,000
1967/68-1973/74	3,000	4,500	-

1974/75	4,500	6,000	-
1975/76	5,500	6,500	-
1976/77-1978/79	6,500	7,500	-
1979/80-1980/81	7,500	10,000	-
1981/82-1982/83	10,000	15,000	-
1983/84-1989/90	15,000	20,000	-
1990/91-1991/92	20,000	30,000	-
1992/93-1996/97	25,000	35,000	-
1997/98	30,000	40,000	-
1998/99	40,000	50,000	-
1999/00	55,000	75,000	-
2000/01	55,000	75,000	-
2001/02-2002/03	65,000	85,000	-
2003/04-2004/05	80,000	1,00,000	-
2005/06-2006/07	1,00,000	1,25,000	-
2008/09	160,000	200,000	

#### 4.1.7(b) Employment Status in Nepal

Due to lack of reliable employment survey and fore cast in Nepal, the estimation of the actual status of employment has been complex. According to the population census 2002, the economically active population was estimated to be 10.482 million. The tenth plan forecasted 1.53 million additional employment creations during the plan period. The fore cast was based on the effects of production increase in the various sectors of the economy, and the intersectional linkages.

**Table 4.1.7 (b)**  
**Employment Status in Nepal**

	Employed %	Unemployed %	Economically inactive	Total
Gender wise				
Male	73.3	3.1	19.6	100
Female	71.7	2.7	25.6	100
Development region wise				
Eastern	74.9	2.9	22.2	100
Central	72.4	3.3	24.2	100

Western	73.2	2.7	24.1	100
Midwestern	77.0	2.8	20.2	100
Far western	80.4	1.4	18.2	100
Geographical/Region wise				
Himal	86.7	1.3	12.0	100
Hills	76.0	2.1	21.9	100
Tarai	71.1	3.8	25.1	100
Total Nepal	74.3	2.9	22.8	100

Source: Nepal Living Standard Survey Economic Survey 2006/07 Ministry of Finance.

According to the Nepal Living Standard Survey 2003/04, among the population of the age of 15 or above 29 percent were unemployed, 74.3 percent were employed and remaining 22.8 percent were economically inactive. Among them 3.1 percent male were unemployed and 73.3 percent were employed. Not only that 2.7 percent of female were unemployed and 71.7 percent female were employed.

#### 4.1.7. (c) Foreign Employment of Nepal (Country wise)

S.N	Country	Total Number up to 2004/05	2005/06	2006/07	Grand Total
1.	Saudi Arabia	1,31,683	19,507	30,608	181798
2.	Qatar	1,48,152	58,233	48,937	255322
3.	UAE	63,585	17,184	19,442	100211
4.	Baharain	4,853	530	955	6338
5.	Kuwait	8,760	738	1,956	11454
6.	Oman	758	77	465	1300
7.	Hong Kong	3,167	176	307	3650
8.	Malaysia	2,20,505	84,162	62,948	367615
9.	South Korea	54,80	196	683	6359
10.	Other Country	4,475	1,389	931	6777
	Total	591400	182192	167232	940824

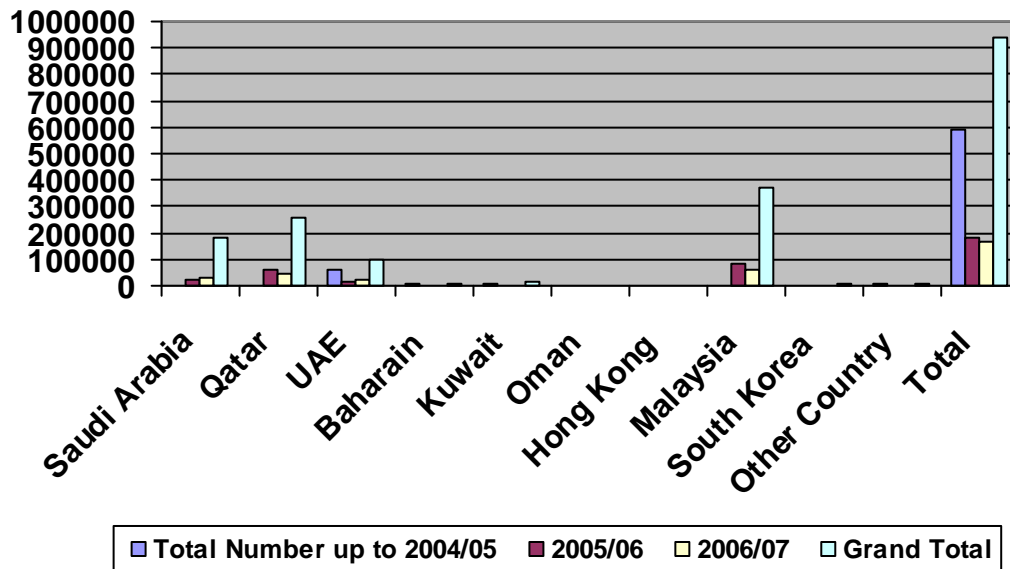
Source: Economic Survey 2006/07 (Page 78)

From the above table we can say that because of the lack of employment opportunity in the couch they, the number of foreign employment seeking Nepalese have been rising every year. Beside Malaysia and Korea, most of the workers are going to the Arabian countries to avail jobs.

The tendency of the Nepalese seeking foreign employment shows that the highest number of Nepalese i.e. 367,615 and Saudi Arabia with 181,798 are the second and third larges destinations of the Nepali foreign employment seekers, respectively. Similarly, the other major destinations of Nepali workers have been UAE 100211, Kuwait, Oman, Hong Kong, South Korea and other Countries.

#### 4.1.7. (c)

**Country wise Employment Graphical Presentation Pie Chart**



Source: Economic survey 2008/09, MOF

Among the total 167,232 workers that are gone for foreign employment until Baisakh of current FY 2063/04, 62,948 have gone to Malaysia 48937, Qatar 30608 to Saudi Arabia and 19442 to UAE. This is clear by above pie chart.

#### **4.1.8 Resource Gap in Nepal**

Nepal has been facing a serious resource gap problem in her finances from the beginning of her development phase to the present time. To fulfill this growing resource gap, a large amount of external aid loan and internal loan was borrowed but the scarcity of resources seems to be never ending problem for Nepal.

The following table 4.1.8 provides a picture of the growing resource and fiscal gap in Nepalese finances. During gap period of 1988/89 to 2006/07, resource gap increased from Rs.10228.30 million to Rs.21591.10 million. Even if foreign grants and foreign loans were included in revenue, the fiscal gap increased from 2,881.30 million and Rs23065.40 million during the same period. The increasing gap between government expenditure and revenue and high fiscal deficit was contributed causing economic distortion such as increase in price, large flow of imported goods and services and low level of domestic saving heavy reliance on external debt. Increase in government expenditure has out placed the growth in revenue collection in Nepal

The above analysis shows a clear indication of the serious and growing financial resource gap problem in Nepal. The increasing magnitude of resource gap clearly indicates that there is an urgent need for mobilizing additional resources. Income tax has appeared as one of the most effective resource and for achieving the desired development objectives of Nepal.

From the above table highest resource gap was observed in FY 20001/01 in which the amount total Rs30941.20 million but it decreased to Rs29,626.70 million in FY 2001/02. The highest fiscal gap was observed in FY 2001/02 in which total amount was RS.15, 241.90 million. Fiscal deficit is continuously increasing due to lack of paper income management to meet the increasing trend of government expenditure. Thus this increasing resource gap indicates that it is necessary to mobilize additional domestic resources. Ultimate and best measures to fill up the resource gap are to increase public revenue through effective tax system.

#### **4.1.9 Finding:**

The major findings of the study are pointed out as follows:

1. The contribution of income tax has the major share in direct taxation. Income tax consists of public enterprises semipublic enterprises, private corporate bodies, individuals, remuneration and tax on interest. Recent trends show that contribution from individual public enterprises, private corporate bodies, remuneration and tax on interest have occupied the first second, third, fourth and fifth position in income tax.
2. The collection of tax revenue from different sources is not found satisfactory. Income tax is a suitable source for collection of government revenue. It may enhance the revenue of the government, promote distribute justice and encourage private sector investment. Total revenue of Nepal consists of tax revenue and non tax revenue. Tax revenue comprises of customs, excise, sales tax, income tax, land revenue and registration and miscellaneous taxes.
3. Total revenue made by direct tax revenue and indirect tax revenue. Indirect tax revenue occupied more part of total tax revenue of Nepal. In the year 2002/03 total tax revenue Rs42027.7 million where as direct tax revenue take only 9546.5 million, 22.71 percent and indirect tax revenue Rs32481.2 million, 77.29 percent direct tax revenue and indirect tax revenue is fluctuating. By the comparison of direct tax and indirect tax revenue, indirect of Nepal, and direct tax revenue is heavily dominated by indirect.
4. Direct tax revenue consists of income tax revenue land revenue and registration and miscellaneous taxes urban house and land tax, vehicle tax and other taxes. Among occupied the largest share. Average contribution of income tax revenue indirect tax revenue was 69.95 percent from fiscal years 2002/03 to 2008/09. In FY 2002/03, it was 77.29 percent but it has increasing trend. In 2008/09, it reached 79.53 percent. However, it has fallen to 80.32% in the fiscal year 2004/05.
5. Income tax revenue has very low contribution on total revenue. In 1988/89, income tax revenue contributed 14.61 percent, 19.35 percent and 85.18 percent of total revenue, total tax revenue and direct tax revenue respectively. In 2008/09, 19.15 percent, 23.48 percent and 79.38 percent of total revenue have been contributed by income tax revenue respectively. In average, it is also on increasing trend up to 2000/01 and after then it has started to decrease slightly. In 2008/09 it direct tax was 79.38 percent.
6. In Total Revenue of Nepal, Income Tax from Remuneration has very much in significant contribution. Total Revenue was Rs55670.5 million and income tax from



remuneration was Rs.1321.5 million only in 2002/03. It was about 2.37 percent contribution. The contribution has been increasing. It was 2.91 percent in 2008/09, of total revenue of Rs143474.5 i.e. Rs4169.7 million.

7. Contribution of Remuneration Tax to Direct Tax is also low. In 2002/03, Income tax from remuneration contributed only about 2.97 percent to direct tax. It was Rs.1321.5 million in out of total direct tax revenue of Rs9546.5 million. It is in increasing trend In 2008/09; total direct tax revenue of Rs34552.6 millions includes Rs.3398.5 million as income tax from remuneration. It was about 9.84 contributions.
8. The Contribution of Remuneration Income Tax to Total Tax Revenue also is not satisfactory. In 2002/03, total income tax revenue Rs.8132.2 millions in which income tax from remuneration constituted Rs1249 million. It is about 15.36 percent. But it is gradually increasing in past years. In 2008/09, total income tax revenue was Rs27479.7 millions. Out of this, Rs3398.5 million was contributed by income tax from remuneration, which is 12.37%.
9. Income tax exemption limit in Nepal was Rs7000 for all tax payers in FY 1959/60 but at present income tax exemption limit is Rs160,000 for individuals and Rs200,000 for couple and family in FY 2008/09. 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.
10. Employment is the main instrument of transforming economic development as an opportunity for poverty reduction. Because of the lack of employment opportunities in the country, the number of foreign employment seeking Nepalese has been raising the workers are going on the Arabian countries to avail the jobs.
11. Nepalese economy is facing serious resource gap problems from early period of growth. Total expenditure has exceeded total revenue in each subsequent year. The gap have reached to Rs.38607.1 million and 14225.4 in the year 2005/06. The resource gap was Rs.10228.30 millions in 1988/89 and Rs38607.1 millions in FY 2005/06. Fiscal gap is also in growing trend. This indicates that the mobilization of revenue has not increased to the level in which the level and speed of its expenditure is increasing. Regular expenditure of the govt. in recent years is increasing. Regular expenditure of the govt.

in recent years is increasing due to the result of increasing burdened of importantly due to the increasing expenditure in non productive sector in recent years.

12. Some data in economic survey 2008/09 and in the annual report published by NRB and other Report are found different. This is perhaps, the source of these publications are different. Since this is the part of further research, secondary data have been presented in the thesis as and when they are published.

## **B. Analysis of Primary Data**

### **4.2. Introduction**

The survey result has been conducted to find out the various aspect of tax from employment Nepal. The structured questionnaire was prepared and distributed for this purpose. Question consisting different aspect of revenue to remuneration tax were compiled and distributed to respondents.

All together 50 respondents were enquired about the questionnaire. The questionnaires include 10 questions related to the study. The questionnaire was asked either for yes/no or for ranking natives where the first choice was the most important and the least choice was the least important.

**Table 4.1**

S.N	Group of Respondents		No.
1.	Tax experts and Administrator s		25
2.	Employees		25
Response/Respondents			Total
		Yes	No
		Total	
		50	

Result of Empirical Investigation:

#### **4.2.1 Need of Public Awareness Program**

To know the respondents' view towards public awareness program the question was put "Do you think that public awareness program is necessary in Nepal for raising government revenue?" Opinion survey result summarized in the table 4.2.

	No.	Percent	No.	Percentage	No.	Percentage
Tax Expert	25	100	-	-	25	100
Employee	25	100	-	-	25	100
Total	50	100	-	-	50	100

**Table  
4.2**

Source: Opinion Survey 2007

All of the samples of tax experts and employee approved that public awareness program are necessary in Nepal for raising government revenue. Thus, it can be concluded that public awareness program is very much necessary for raising Nepalese government revenue.

#### **4.2.2. Implementation of Income Tax rules**

In order to find out government has implemented its Income Tax rule effectively, respondents were requested to select yes or no. The question us "Has the government implemented its Income Tax rules effectively?" The responses are tabulated in the table 4.2.2.

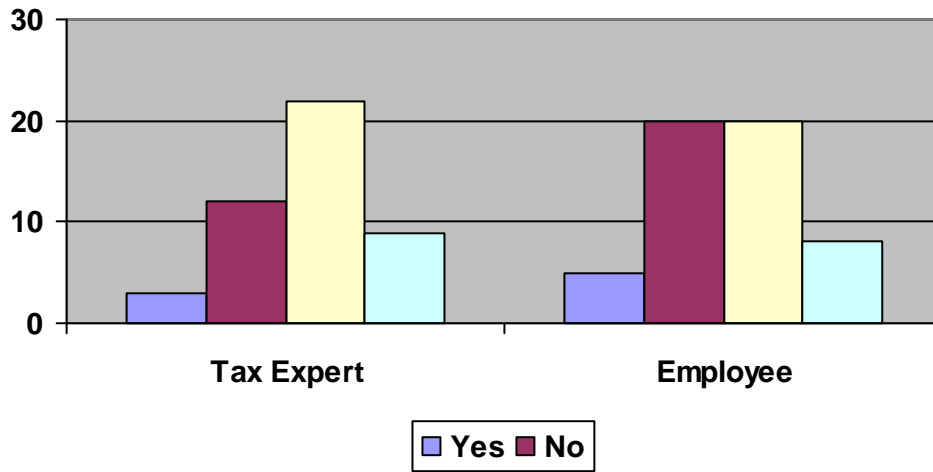
**Table 4.2.2(a)**

#### **Implementation of Income Tax Rule**

S.N.	Response/Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1.	Tax Expert	3	12	22	8.8	25	100
2.	Employee	5	20	20	8.0	25	100
Total		8	32	42	16.8	50	100

From the above table 4.2.2., it is clear that, 84 percent of respondents select, No. So, it can be conclude that government has not implemented its Income Tax rules effectively.

**Figure 4.2.2**  
**Implementation of Income Tax rule**



Here, is also hypothesis to be tested regarding implementation of Income Tax rules, which is, "There is no significance difference in opinion of various responding group regarding implementation of Income Tax are effectively which can be systematically stated as,

- Null Hypothesis ( $H_0$ ): There is no significant difference in opinion of employee and Tax Income Tax rule effectively.
- Alternative Hypothesis ( $H_1$ ): There is significant difference in opinion of employee and tax experts regarding the implementation of Income Tax rule effectively.

**Observed Frequency Table 4.2.2 (b)**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Expert	3	12	22	88	25	100
Employee	5	20	20	80	25	11
Total	8	16	42	84	50	100

**Expected Frequency Table 4.2.2 (c)**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Expert	3	20	20	80	25	100
Employee	5	32	17	68	25	100
	8	26	37	74	50	100

Now, Difference Table is as; 4.2.2. (d)

Of	Ef	Of-Ef	(Of-Ef) <sup>2</sup> /Ef
3	5	-2	0.8
5	8	-3	1.125
22	20	2	0.2
20	17	3	0.529
			2.654

Source: Opinion Survey + Use of Statistical Tool.

- Test Static is;

$$X^2 = \sum \frac{(Of - Ef)^2}{Ef}$$

Where, Of = Observed Frequency

Ef = Expected Frequency

$$= \frac{RowTotal \times ColumnTotal}{GrandTotal}$$

- The degree of Freedom is; (r-1)

$$(C-1) = (2 - 1) (2 - 1) = 1$$

- Level of Significance ( $\alpha$ ) = 5% = 0.05

- Critical Value of  $X^2$  at 5% Level of Significance an d1 degree of Freedom is, 3.84, Which is to be tested.

Here, Calculated Value  $X^2$  is 2.654 which is lower than the tabulated value, So Null Hypothesis is satisfied, and it is conclusion that; There is no significance difference in opinion off employees and Tax Experts regarding the implementation of Income Tax rules.

### 4.2.3. Opinion Regarding Current Exemption Limit

Third question was, is the current exemption limit adequate? If No, please, specify the amount, for single ....., for couple family ..... for this 4 tax expert, i.e. 16% and 6 employee, i.e. 24% were in the view that current exemption limit of Rs.100,000 for single and 1,25,000 for couple family adequate. And, who did not accept that respond as below

**Table 4.2.2 (a)**

#### Opinion Regarding Exemption Limit

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Expert	4	16	21	84	25	100
Employees	6	24	19	76	25	100
	10	20	40	80	50	100

If No, Single .....

Couple/Family .....

**Table 4.2.2 (b)**

#### Opinion Regarding Exemption Limit Detail

<b>Tax Expert</b>					
For Single	No.	%	For Couple/Family	No.	%
1,00,001-1,25,000	3	12	1,25,001-1,50,000	4	16
1,25,001-1,50,000	4	16	1,50,001-1,75,000	3	12
1,50,001-1,75,000	6	24	1,75,001-2,00,000	0	0
1,75,001-2,00,000	8	32	2,00,001-2,50,000	14	56
<b>Employees</b>					
For Single	No.	%	For Couple/Family	No.	%
1,00,001-1,25,000	5	20	1,25,001-1,50,000	2	8
1,25,001-1,50,000	4	16	1,50,001-1,75,000	4	16
1,50,001-1,75,000	3	12	1,75,001-2,00,000	1	4
1,75,001-2,00,000	7	28	2,00,001-2,500,000	12	48

Source: Opinion Survey

Out of 21 experts i.e. 84% stated that current exemption limit is in adequate. Among them 32% i.e. 8 person recommended giving Rs.1,75,001-2,00,000 for single, 24% i.e. 6 person and Rs1,50,001-1,75,000 and for family/couple 56% i.e. 14 recommended for Rs.2,00,001-2,50,000 and 4 person i.e. 16% recommended 1,25,001-150,000.

About current exemption 19 employees i.e. 76% stated that exemption limit is in adequate. Among them 28% i.e. 7 person recommended giving Rs.1,75,001-2,00,000 and 5 person i.e. 20% recommended Rs1,00,001-1,25,000. And for family/couple 48% i.e. 12% person recommended that Rs2,00,001-2,50,000 and 16% i.e. 4 person recommended that Rs1,50,001-1,75,000.

#### **4.2.4. Respondents' Opinion regarding to the exemption limit and people's Investment in life Insurance/citizen Investment trust.**

**Table 4.2.4(a)**

Response	Tax Experts		Employees	
	Frequency	%	Frequency	%
Yes	20	80	12	48
No	5	20	13	52
Total	25	100	25	100

From the above table we can see that Respondents were asked whether the exemption limit has inspired people to invest in life insurance / citizen Investment trust. 80% out of 25 respondents from tax experts responded the question positively. But most of the respondents from employees group answered the question negatively (52%).

Here is also hypothesis to be tested regarding problem.

- Null Hypothesis (Ho): there is no significance difference in opinion of tax experts and Employee regarding to the exemption limit and people's Investment in life Insurance / citizen Investment trust.

- Alternative Hypothesis ( $h_1$ ): There is significance difference in opinion of Tax Experts and Employee regarding to the exemption limit and people's Investment in Life Insurance / citizen Investment trust.

**Observed Frequency Table 4.2.4(b)**

Response	Tax Experts		Employees	
	Frequency	%	Frequency	%
Yes	20	80	12	48
No	5	20	13	52
Total	25	100	25	100

**Expected Frequency Table 4.2.4(c)**

Response	Tax Experts		Employees	
	Frequency	%	Frequency	%
Yes	17	68	14	56
No	8	32	11	44
Total	25	100	25	100

**Now, Difference Table is as, 4.2.4.(d)**

Of	Ef	Of-Ef	(Of-Ef) <sup>2</sup> /Ef
20	17	3	0.529
5	8	-3	10125
12	14	-2	0.286
13	11	2	0.364
Total			2.304

Source: Opinion Survey and Use of Statistical Tool.

- Test Statistic is;

$$X^2 = \sum \frac{(Of - Ef)^2}{Ef}$$

Where,

Of = Observed Frequency

Ef = Expected Frequency



$$= \frac{RowTotal \times ColumnTotal}{GrandTotal}$$

- The degree of Freedom is;  $(r-1) (C-1)$   
 $= (2 -1) (2 -1) = 1$
- Level of Significance  $(\alpha) = 5\%$   
 $= 0.05$
- Critical Value of  $X^2$  at 5% Level of Significance and 1 degree of Freedom is, 3.84, which is to be tested.

Here, Calculated Value  $X^2$  is 2.304 which are lower than the tabulated value, So Null Hypothesis is satisfied, and it is conclusion that; there is no significance difference in opinion of tax expert employees regarding the exemption limit and people's investment in life insurance/citizen investment trust.

#### 4.2.5 Exemption limit for medical tax credit

Fifth question was about exemption limit for medical tax credit adequate or not, for this 2 tax expert i.e. 8% and 1 employee i.e. 4% were in th view that exemption limit for medical tax credit is adequate. Remained tax experts and employees were responded as inadequate.

Here is a hypothesis to be tested.

Ho: There is no significant difference between tax experts and employees view regarding to the provision of exemption for medical tax credit.

H1: There is significant difference between tax experts and employees view regarding to the provision of exemption for medical tax credit.

**Observed Frequency Table 4.2.5(a)**

Response	Tax Experts		Employees	
	Frequency	%	Frequency	%
Yes	2	8	1	4
No	23	92	24	96
	25	100	25	100

Source: Opinion Survey

**Expected Frequency Table 4.2.5(b)**

Response	Tax Experts		Employees	
	Frequency	%	Frequency	%
Yes	13	52	12	48
No	12	48	13	52
Total				

Source: Opinion Survey & Use Statistical

**Now, Difference Table is as, 4.2.5(c)**

Of	Ef	Of-Ef	(Of-Ef) <sup>2</sup> /Ef
2	13	-11	9.31
23	12	11	10.08
1	12	-11	10.08
24	13	11	9.31
Total			38.78

Source: Opinion Survey & Use of Statistical Tool.

- Test Statistic is;

$$X^2 = \sum \frac{(Of - Ef)^2}{Ef}$$

Where,

Of = Observed Frequency

Ef = Expected Frequency

$$= \frac{RowTotal \times ColumnTotal}{GrandTotal}$$

- The degree of Freedom is; (r-1) (C-1)  
= (2 -1) (2 -1) = 1
- Level of Significance ( $\alpha$ ) = 5%  
= 0.05
- Critical Value of X<sup>2</sup> at 5% Level of Significance and 1 degree of Freedom is, 3.84, which is to be tested.

Decision:

Here, Calculated Value  $X_2$  is 38.78 which is more than the tabulated value, So alternative hypothesis is satisfied, and it is conclusion that; There is significance difference in opinion of tax expert & employees regarding the exemption limit for medical tax credit.

### 4.2.6 Opinion Regarding Remuneration given by Government

To know the opinion regarding remuneration given by government, the question was asked, "Do you think the remuneration given by the government is sufficient?" The options were given Yes or No.

Here is hypothesis to be tested regarding remuneration given by government is sufficient or not, which is, "There is no significant difference in opinion of tax expert and employees the remuneration given by govt. in Nepal which can be systematically stated as,

- Null Hypothesis ( $H_0$ ): There is no significant difference in opinion of tax experts and employees regarding the remuneration given by government in Nepal.
- Alternative Hypothesis ( $H_1$ ): There is significant difference in opinion of tax experts and employees regarding the remuneration given by government in Nepal.

**Observed Frequency Table 4.2.6(a)**

Response	Tax Experts		Employees	
	Frequency	%	Frequency	%
Yes	10	40	8	32
No	15	60	17	68
	25	100	25	100

Source: Opinion Survey

**Expected Frequency Table 4.2.6(b)**

Response	Tax Experts		Employees	
	Frequency	%	Frequency	%
Yes	12	48	11	44

No	13	52	14	56
Total	25	100	25	100

Source: Opinion Survey & Use Statistical Tools

**Now, Difference Table is as, 4.2.6(c)**

Of	Ef	Of-Ef	(Of-Ef) <sup>2</sup> /Ef
10	12	-2	0.33
15	13	2	0.31
8	11	3	0.82
17	14	-3	0.64
Total			2.1

Source: Opinion Survey & Use of Statistical Tool.

- Test Statistic is,

$$X^2 = \sum \frac{(Of - Ef)^2}{Ef}$$

Where,

Of = Observed Frequency

Ef = Expected Frequency

$$= \frac{RowTotal \times ColumnTotal}{GrandTotal}$$

- The degree of Freedom is; (r-1) (C-1)  

$$= (2 - 1) (2 - 1) = 1$$
- Level of Significance ( $\alpha$ ) = 5%  

$$= 0.05$$
- Critical Value of  $X^2$  at 5% Level of Significance and 1 degree of Freedom is, 3.84, which is to be tested.

**Decision:**

Here, Calculated Value  $X^2$  is 2.1 which is less than the tabulated value, So null hypothesis is satisfied, and it is conclusion that; There is significance difference in opinion of tax expert & employees regarding the remuneration given by government.

**4.2.7 Opinion Regarding to Increase Tax from Employee**

To know whether to increase tax from employee, question was asked "What measure should be adopted to increase tax from employee?" There were three alternative; (a) By increasing

revenue (b) By increasing % of tax on existing tax and (c) By excising rule and regulation. Responses received regarding this is presented below.

**Table 4.2.7 (a)**  
**Opinion Regarding to Increase Tax from Employee**

Tax Expert	No.	%
By increasing revenue	15	60
By Increasing % of tax on existing tax	2	8
By excising rule and regulation	8	32
<b>Employees</b>		
	No.	%
By increasing revenue	20	80
By Increasing % of tax on existing tax	0	0
By excising rule and regulation	5	20

Source: Opinion Survey

Responding the above question 60% i.e. 15 tax experts said that to increase tax from employee it is necessary to increase revenue 8% i.e. 2 per said that increasing % of tax on existing tax to increase tax from employee. And 32% i.e. 8 tax experts said to increase tax from employee govt. excising rule and regulation.

Responding the above question on employees: 80% i.e. 20 employees said that increase tax from employee it is necessary to increase revenue 20% i.e. 5 employees responses that to increase tax from employee it is necessary to excising rule and regulation.

**Here is hypothesis to be tested;**

- Null Hypothesis (H<sub>0</sub>): There is no significant difference in opinion of tax experts and employees regarding the increase in tax from employees in Nepal.
- Alternative Hypothesis (H<sub>1</sub>): There is no significant difference in opinion of tax experts and employees regarding the increase in tax from employees in Nepal.

**Observed Frequency Table 4.2.7(b)**

Response	Tax Experts		Employees	
	Frequency	%	Frequency	%
a	15	60	20	80
b	2	8	0	0
c	8	32	5	20
	25	100	25	100

Source: Opinion Survey

**Expected Frequency Table 4.2.7(c)**

Response	Tax Experts		Employees	
	Frequency	%	Frequency	%
a	9	36	15	60
b	5	20	3	12
c	11	44	7	28
Total	25	100	25	100

Source: Opinion Survey & Statistical Tools

**Difference Table is as, 4.2.7(d)**

Of	Ef	Of-Ef	(Of-Ef) <sup>2</sup> /Ef
15	9	6	4
2	5	-3	1.8
8	11	-3	0.82
20	15	5	1.67
0	3	-3	3
5	7	-2	0.57
			11.86

Source: Opinion Survey & Statistical Tool.

- Test Statistic is,

$$X^2 = \sum \frac{(Of - Ef)^2}{Ef}$$

Where,

Ef = Expected Frequency

a = By increasing revenue

b = By Increasing % of tax on existing tax

c = By excising rules & regulation

$$= \frac{RowTotal \times ColumnTotal}{GrandTotal}$$

- The degree of Freedom is = (r-1) (C-1)  
= (3-1) (2-1)  
= 2
- Level of Significance ( $\alpha$ ) = 5%  
= 0.05
- Critical Value of  $X^2$  at 5% Level of Significance and 2 degree of Freedom is, 5.99, which is to be tested.

**Decision:**

Here, Calculated Value  $X^2$  is 0.6787, which is more than the tabulated value, So Alternative hypothesis is satisfied, and it is conclusion that; there is significance difference in opinion of tax expert & employees regarding the increasing in tax from employee in Nepal.

**4.2.8 Opinion Regarding Effectiveness of Remuneration Taxation:**To know view regarding effectiveness of remuneration taxation, question asked to respondents was; in your opinion, is Remuneration taxation Effective/satisfactory in Nepal? Responses regarding this question are presented in the table below.

**Table 4.2.8 (a)**  
**Opinion Regarding Effectiveness of Remuneration Tax**

Respondents & Responses	Priority & Option	1		2		3	
		No.	%	No.	%	No.	%
Tax Experts		Yes	13	52%	No	12	48%
Yes	Effective Admin	2	8	3	12	8	34
	Clear Provision	7	24	2	4	4	16
	Long time practiced	4	20	8	36	1	4
No	Low Pay Scale	8	32	3	12	1	36
	Tax Evasion	3	12	4	4	5	4



	Less employee having tax liability	1	4	5	32	6	8
Employee		Yes	14	56%	No	11	48%
Yes	Effective Admin	2	8	1	4	11	44
	Clear Provision	6	24	6	24	2	8
	Long time practiced	6	24	7	28	1	4
No	Low Pay Scale	11	44	0	0	0	0
	Tax Evasion	0	0	6	4	5	20
	Less employee	0	0	5	2	6	24

Source: Opinion Survey

Responding this above question 52% i.e. 3 tax experts said that remuneration tax is effective in Nepal and balance were opposed of it 14 Employees i.e. 56% gave positive answer and remaining gave the negative.

For responding the above query tax experts who accept remuneration tax as effective in Nepal, Effective Administration was ranked second by majority of 28% for both option 7 persons. Stated that out of 13 person and they, who did not choose the option that remuneration tax is effective in Nepal, gave first and second priority by 8 person i.e.32% as low pay scale, and tax evasion and less Number of Employee having tax liability respectively.

For responding the above query Employee who accept remuneration tax as effective in Nepal, Effective Administration was ranked third by 11 person i.e.44% longtime practiced was conked second and clear provision chosen by 7 person i.e.28%. And they, who did not choose the option that remuneration tax is effective in Nepal, first priority was given by all 13 i.e.52% as low pay scale 6 person i.e.24% choose tax Evasion and as second ran lee less No. of employee having Tax liability respectively.

Here is a hypothesis is to be tested regarding problem faced by employee while paying remuneration tax,

- Alternative Hypothesis ( $H_1$ ): There is significant difference in opinion of tax Experts and Employees regarding the vital contribution of Remuneration Tax on public revenue in Nepal.

**Observed Frequency Table 4.2.8.(b)**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	13	52	12	48	25	100
Employee	14	56	11	44	25	100
Total	27	108	23	92	50	100

Source: Opinion Survey

**Expected Frequency Table 4.2.8. (c)**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	13	52	12	48	25	100
Employee	13	52	12	48	25	100
Total	26	104	24	96	100	100

Source: Opinion Survey & Use of Statistical Tools

**Now, Different Table is as; 4.2.8(d):**

Of	Ef	Of-Ef	$(Of-Ef)^2/Ef$
13	13	0	0
12	13	-1	0.0769
14	12	2	0.33
11	12	-1	0.0833
			0.49

Source: Opinion Survey & Statistical Tool use.

- Test Statistic is;

$$X^2 = \sum \frac{(Of - Ef)^2}{Ef}$$

Where,

Of = Observed Frequency

Ef = Expected Frequency

- The degree of Freedom is = (r-1) (C-1)  
= (2-1) (2-1)  
= 1
- Level of Significance ( $\alpha$ ) = 5%  
= 0.05
- Critical Value of  $X^2$  at 5% Level of Significance and 1 degree of Freedom is, 3.84, which is to be tested.

**Decision:**

Here, Calculated Value  $X^2$  is 0.49, which is more than the tabulated value, So Null Hypothesis is satisfied, and it is conclusion that; there is significance difference in opinion of tax expert & employees regarding vital contribution remuneration tax in Nepal.

**4.2.9 Opinion Regarding Problem Face by Tax Payers:**

To know whether employee are facing problems in payment of Remuneration Tax, it was question asked, Do you think, there are problem being faced by employee regarding payment of Remuneration Tax? If yes, please, rank the causes. If no, please, rank the measures improve the condition. Responses received regarding this is as presented below.

**Table 4.2.9 (a)**

**Opinion Regarding Problem Faced by Tax Payers**

Respondents & Responses	Priority & Option	1		2		3	
		No.	%	No.	%	No.	%
<b>Tax Experts</b>		Yes	16	64%	No	9	36%
Yes	Hesitation Pay because of low income	9	36	2	8	4	16
	Administration Problems	2	8	3	12	11	44

	Lack of Knowledge	5	24	11	44	1	4
No	Incentives	1	4	7	28	7	28
	Penalties/Fines	0	0	9	36	7	28
	Awarding Tax Payer	15	60	0	0	2	8
<b>Employee</b>		Yes	11	44%	No	14	56%
Yes	Hesitation Pay because of low income	4	16	5	20	2	8
	Administration Problems	7	28	4	16	0	0
	Lack of Knowledge	0	0	2	0	9	36
No	Incentives	0	0	5	20	6	24
	Penalties/Fines	2	8	6	24	3	12
	Awarding Tax Payer	9	36	0	0	2	8

Source: Opinion Survey

From above table 26 tax experts i.e.64%, 11 employee i.e.44% though that there are problem regarding payment of remuneration tax and rest didn't. Tax experts choosing yes, gave first priority to option. Hesitation to pay because of low income by 9 person i.e.36%, 11 person i.e.44% gave 3<sup>rd</sup> rank to Administrative problem option. 11 person i.e.44% gave second priority of lack of knowledge option. Among them, 7/7 person i.e.28% has choose. Awarding Tax payer option to improve the condition for both second and third priority penalties/fines option is ranked second by 10 person i.e.40% and Incentives option is given first priority by 15 people which are 60%, and so on.

Here is a hypothesis to be tested regarding problem faced by employee while paying remuneration tax, which can be systematically stated as,

- Null Hypothesis (H<sub>0</sub>): There is no significant difference in opinion of tax experts, and Employee regarding the existence of problem on Remuneration Tax in Nepal.
- Alternative hypothesis (H<sub>1</sub>): There is no significant difference in opinion of tax experts, and Employee regarding the existence of problem on Remuneration Tax in Nepal.

**Table 4.2.9 (b)**  
**Observed Frequency Table**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%

Tax Experts	11	64	9	36	25	100
Employee	16	44	14	56	25	100
Total	27	108	23	92	50	100

Source: Opinion Survey

**Expected Frequency Table 4.2.9.(c)**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	13	52	12	48	25	100
Employee	13	52	12	48	25	100
Total	26	104	24	96	50	100

Source: Opinion Survey & Use of Statistical Tools

**Different Table 4.2.9 (d)**

Of	Ef	Of-Ef	(Of-Ef) <sup>2</sup> /Ef
16	13	3	0.69
9	12	-3	0.75
11	13	-2	0.31
14	12	2	0.33
			2.083

Source: Opinion Survey & Statistical Tool used.

- The Test Statistic is;

$$X^2 = \sum \frac{(Of - Ef)^2}{Ef}$$

Where,

Of = Observed Frequency

Ef = Expected Frequency

- The degree of Freedom is = (r-1) (C-1)  
 $= (2-1) (2-1)$   
 $= 1$
- Level of Significance ( $\alpha$ ) = 5%  
 $= 0.05$

- Critical Value of  $X^2$  at 5% Level of Significance and 1 degree of Freedom is, 3.84, which is to be tested.

**Decision:**

Here, Calculated Value  $X^2$  is 2.083, which is more than the tabulated value, So Null Hypothesis is satisfied, and it is conclusion that there is no significance difference in opinion of tax expert & employees regarding the existence of problem on Remuneration Taxation in Nepal.

**4.2.10 Suggestion Regarding Remuneration Taxation in Nepal**

There was an open questionnaire that; Have you any suggestion regarding to increase effectiveness of remuneration taxation? Please specify, if any. Only few respondents are regarding this question.

Suggestions are Inspect Double Employment to bring New Tax payer in to Tax Net, Awarding Employees, Providing facilities by Government to Tax payers, Encourage to pay Tax, Increase penalties for Tax Defaulters, Effective Monitoring to improve the Effectiveness of Remuneration Tax in Nepal.

**4.2.11 Findings From Primary Data**

An opinion survey has been conducted in order to find out the contribution of Income from Employment to Government Revenue. From the opinion survey with tax expert (tax expert include Administrator and Auditor) and Employee, the following findings have been drawn.

1. Public awareness program is necessary to increase tax consciousness and raising the government revenue.
2. 88 percent out of 25 respondents of tax expert group think that governments have not implemented its income tax rule effectively & 80 percent out of 25 respondent employees also think same thing.
3. 84 percent out of 25 respondents from tax experts and 76 percent of employee responded that the current exemption limit is not sufficient.

4. 80 percent of 25 respondents from tax expert group responded that the exemption limit has inspired people to invest in life insurance/citizen investment fund. But most of the respondent (52%) from employees' group responds the question negatively.
5. 96 percent of respondents from employees' group and 92 percent of respondents from tax experts group of the view that the exemption for medical tax credit facilities is not adequate.
6. 68 percent of respondents from employees' group and 60 percent of respondents from tax experts group are of the view that the remuneration given by government is not sufficient.
7. 60 percent tax expert & 80 percent of employee select by increasing from the three option of measurement to be adopted to increase tax from employee.
8. There is no significant difference in opinion of tax experts Employee regarding the vital contribution of remuneration tax in Nepal.
9. There is no significant difference in opinion of tax expert and employee regarding the existence of problem on Remuneration taxation in Nepal.

## **CHAPTER-V**

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

#### **5.1 Summary**

This study entitled, “Contribution of Income from Employment to Government Revenue” is concerned to study and analysis of various aspect of Remuneration Taxation in Nepal. In this study, Contribution of Remuneration Tax Income to many kinds of government revenues have been analyzed, examination and analysis of effectiveness of income tax revenues of income tax revenue has been done and contribution of employment income to total tax revenue and income tax revenue of Nepal has been shown. This study has been based on the opinion about tax rules and laws in the view of employee and tax experts. This study has also covered the role of income tax in Nepal. Income from employment income in government revenue comparatively study on the role of income tax from employment income to total tax revenue and the government revenue of Nepal.

To conduct the study and for preparing this Research Report various books have been studied, dissertation are consulted, magazines, Reports and other reference sources of information. Almost dissertations have been found written on various aspect of income taxation. Books are found based mainly descriptive than analytical.

Various concept of taxation have been discussed in this study. Source of government revenue meaning of tax classification of taxes historical background of income tax heads of incomes and concept of employment have been discussed. In this study Indian Income Tax Act 1961 also has been discussed.

As study use primary as well as secondary data of this study present analyzes them in the title of Presentation and Analysis of Data. For primary data opinion survey, I divided 50 respondents into two categories named Tax Experts (include tax administrator, CA and Auditor) and Employees 25 person in each group to find out employees vision about tax. Economic Surveys were the major source of secondary data. Tax administrator consists of mainly tax officer from IRD and from the office of Auditor General. And Employees consisted employees working in bank, manufacturing enterprises, government office and other private organization. Hypothesis have been set out and tested in order to see the similarity or dissimilarity in the opinion of tax experts and employees on various aspects of employment taxation. Major findings of the primary and secondary data are put in the end of the each analysis. Summary and conclusion of the study are given in the last chapter. Some recommendations are also given on the end of the study to increase the contribution of employment income to income tax revenue. In this way this study has been completed with the achievement of the stated objectives.

### **Conclusion**

Total revenue of Nepal consists of tax revenue and non tax revenue. Tax revenue comprises of custom, excises, sales tax, income tax, land revenue and registration and miscellaneous taxes. In Nepalese revenue structure, tax revenue has always been greater than three times of non tax revenue. This means the heavy contribution of revenue is tax revenue in total revenue



of Nepal. Tax revenue in amount has always been increasing per year than in the previous year.

The conclusions of this study are mentioned below:

1. Government revenue of Nepal is comprised of different taxes such as customs, sales tax/vat, income tax, land revenue, and registration, miscellaneous taxes and non tax revenue. On the basis of first objective I found 75.49 percent tax revenue to total revenue in the year 2002/03. And it is increasing in trend in 2008/09 81.58 percent. From the above analysis we can easily say that tax revenue takes huge part in total revenue of our country.
2. Income tax from employment has very much insignificant contribution in the total revenue of Nepal. In 2002/03, total revenue was Rs. 55670.5 million and income tax from employment was Rs. 1321.52 million. It was just about 2.37% contribution. The contribution has an increasing trend. In 2008/09, employment revenue was just 2.9 percent of the total revenue. From the above analysis we can easily say that the effectiveness of employment income tax to total revenue was too much low.
3. Total tax revenue consists of direct tax revenue and indirect tax revenue. 22.72% and 77.28% of total tax revenue have been contributed by direct tax and indirect tax revenue respectively, in 2002/03. In 2008/09, 29.52% and 70.48% of total tax revenue have been collected from direct tax revenue and indirect tax revenue respectively. Direct tax includes income tax revenue, land and registration revenue and miscellaneous income. Income from employments takes huge part of direct tax i.e. 82.59% in 2002/03 and 79.53 % in 2008/09. And 2005/06 it is only 78.32% from this result we can easily say that it is fluctuating in trend.
4. From the primary data collection I came to know that remote areas allowance has not encouraged to employees work at remote area. Medical tax credit is not sufficient for employees' medical treatment. Tax expert, employees have recognized income tax as an important source of collecting government revenue. The contribution of income tax from remuneration tax to the public revenue is not effective & satisfactory. Current exemption limit should be increased and couple/family should get significantly higher tax exemption limit than individuals. Medical expenses paid by employer more than medical tax credit, so it should be increased. Nepalese economy

is suffering from serious resource gap and fiscal gap problem. The gap has been widening in the recent years as compared to the past years.

### **5.3 Recommendation**

On the basis of above analysis, the following recommendations are offered regarding taxation of remuneration income. While studying remuneration of Nepalese employees at government offices and private organizations, I came to know that they are mostly low paid. Even high ranking officers have to cut off their loaf to pay for income tax. It is their compulsion to pay tax but not as their interest. Both government and private organization should increase employees' remuneration. When I went to the offices to collect data about income tax most of the high ranking tax pay officers refused to fill up the form. Why do employees have tax phobia? Awareness program of tax should be given to the employees. The government has to create good environment to feel proud of being an income tax payer employee.

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## Questionnaire

Name: .....

Occupation: .....

Office/Organization: .....

Designation: .....

Please you are requested to tick (✓) the suitable answers of your choice from the following questions or wherever appropriate please rank them in order of preference from 1 to last numbers.

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

Yes ( )                      No ( )

**2. Has the government implemented its Income Tax rules effectively?**

Yes ( )                      No ( )

**3. Is the current exemption limit sufficient for employee?**

Yes ( )                      No ( )

If No, please specify the amount,

For Single Rs.....

For Couple/Family Rs.....

**4. Has the exemption limit inspired people to invest in life insurance/citizen investment trust?**

Yes ( )                      No ( )

**5. Is the exemption limit for medical tax credit adequate?**

Yes ( )                      No ( )

**6. Dou you think the remuneration given by the government is sufficient?**

Yes ( )

No ( )

**7. What measures should be adopted to increase tax from employee?**

- a. By increasing revenue ( )
- b. By increasing % of tax on existing tax ( )
- c. By excising rules and regulation ( )

**8. In your opinion, remuneration taxation is effective/ satisfactory in Nepal?**

Yes ( ) No ( )

If yes, please, rank the causes

If No, please, rank the cause

Effective administration ( )

Low pay scale ( )

Clear Provision ( )

Less employee having Tax liability ( )

Long time practiced ( )

Tax evasion ( )

**9. Do you think, there are problems being faced by employee regarding payment of remuneration tax?**

Yes ( )

No ( )

If yes, please, rank the cause

If No, please, rank the measures to  
Improve the condition

Hesitation to pay because of low income ( )

Incentives ( )

Administrative Problems ( )

Penalties/Fines ( )

Lack of knowledge ( )

Awareing Tax Payer ( )

**10. Do you have any suggestions regarding to improve effectiveness of remuneration taxation in Nepal? Please specify, if any.**

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Cover letter

Dear Sir/Madam,

I would like to introduce myself as a student of Master of Business Studies (M.B.S.) final year in Centre Department of Management, T.U. Kirtipur. I am going to prepare a dissertation entitled “**Contribution of Income from Employment to Government Revenue**” to fulfill the partial requirement of Master degree of Business Studies of Tribhuwan University of Nepal.

This questionnaire has been developed and presented before you to spare some of your valuable time to provide your valuable suggestion and opinions concerning with Income Tax System of Nepal, which will be very useful and guide me for completing my research work. I assure you Sir/Madam that your despondence will be kept confidential and it is only for the thesis purpose.

Thank You.

Sincerely Yours,

.....

Shanti Baral

Centre Depart of Management

Tribhuwan University, Kirtipur