

CHAPTER - ONE

INTRODUCTION

1.1 Background

Nowadays, prime concern of every nation of the world is rapid economic development and Nepal is not exception to this ever-continuing process. Nepal has its own aims for self-reliant economic system to upgrade its living standard of people. Thus, a lot of money has to be spent by the government to achieve maximum national objectives.

Nepal is one of the least developed countries. Nepal can't successfully and properly tear a curtain built from massive poverty, hunger, diseases, unemployment, heavy dependence on agriculture, lack of adequate industries, low income level and social, political and geographical constraints over 47 years of planned development. Still Nepalese economy is suffering from ineffective and effortless plan, program and policy of development and is fighting against whatever bottlenecks identified before the starting of planned period (Dahal, 1991).

In modern days, every government invests its revenue for the social welfare towards its people. From ancient time to modern age, government fulfills its responsibility by spending a lot of amount towards its people. Generally, in the ancient time, government manages its fund by internal sources and spend high amount in the war. However, now the time has changed, government and people all know their responsibilities. On one side, each government is very careful and serious towards its social responsibility and on another side; people are too much concerned towards the nation and closely watching the activities of the government. People contribute some percentage of their income to government as the tax and the government has to spend or invest the collected fund to fulfill the responsibilities of its people. The responsibilities may be either for peace and security or for health, education, and other development activities etc.

Today, to fulfill the high demand of social welfare programme and to meet the growing public expenditure the government must have sufficient fund. The government has two alternatives to raise the required fund. One is external sources and the other is internal sources.

External sources of fund are foreign grants and loans. This kind of fund is received from foreign countries and international organizations. An external source of fund is more important for undeveloped or underdeveloped countries. It is used for economic development, reconstruction, foreign exchange, to recover from crisis condition, to productive use etc (Sharma and Luitel, 2059).

But external sources are uncertain, inconvenient and not good for healthy development of the nation. External sources have negative impact to the economy because nobody wants to invest huge amount without any benefits and it increases the dependability of the nation. Therefore, it is better to mobilize internal sources rather than looking with beggar's eye to the donors.

Internal sources of fund are own sources within the nation. It is the best alternative for the nation to mobilize internal sources that is certain, convenient and reduce the dependability to others. So, internal sources are more important not only for financing necessary funds but also for proper mobilization of external sources. But experience shows that Nepal cannot mobilize its internal sources properly or effectively.

Internal sources of government revenue (public revenue) can be classified into two types. They are: (i) Non-tax sources (ii) Tax sources. Non-tax sources include fees, special assessment, gifts and grants, fine and penalties etc. Government imposed non- tax sources according to the necessity. So, they are uncertain and inconvenient.

In the simple language, tax can be defined as the contribution by people and organization to the government from the income either by service or by business without taking corresponding benefits. Tax is the most important sources of government revenue because it occupies largest part of total revenue.

Tax is a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred.

From the above definition, tax is a compulsory levy imposed by the government to the people and institutions according to the prevailing laws. Those who pay tax do not get direct or corresponding benefits from the government.

Generally, taxes can be classified into two categories. They are; (i) direct tax and (ii) indirect tax. Taxes, which are collected from the person, or organizations to

which they are legally imposed is known as direct tax. These taxes are collected according to the income level of people or organization. The main examples of direct tax are; Income tax, property tax, vehicle tax etc.

Indirect taxes are those taxes, which are collected from the used goods. An indirect tax is a tax imposed on one person or organization but partly or wholly paid by others. The main examples of indirect tax are; VAT, sales tax, entertainment tax, import and export tax and duty, hotel tax etc.

Income tax is the most popular direct tax. Income tax is superior to other taxes because it is imposed based on paying capacity of taxpayer, according to the law of nation. It covers all the fees, additional fees, fines etc. Income includes all the income, which are received from business, investment and employment.

Within the income tax system, exemptions and deductions are more important to know about income tax because they are used continuously and treated differently year to year. To make up-to-date knowledge about income tax system, it should be known. By knowing it, we can compute net income and tax liability. Income tax law of every nation has clearly mentioned about the exemption of income and deduction of expenses.

Income tax reduces concentration of wealth in a few hands by imposing high rate to those persons or organizations have high level of income and low rate to those whose income level is less. It also helps to increase the government revenue, which can use for public welfare, to develop infrastructure, provide general service etc. People who are paying tax to the government give more attention about the public expenditure. So, the government expends the revenue in good manner. Income tax is not only essential for collecting government revenue but also to control over consumption to promote saving and generate more employment.

In the ancient time, tax system was based on Vedas, Smritis and Purans directives propounded by Manu, Chanakya etc. guided the taxation system. At that time, the principle of collecting tax from the people was composition of tax without harming the activities to people.

First of all, income tax system was introduced in England to manage the war. Similarly, to manage the civil war, U.S. introduced corporate income tax in 1862.

In 1909, Federal Corporation income tax was originated. Nowadays, it is expanded all over the world. Every nation is introducing income tax according to their needs.

In Nepal, the first elected government in 1959 introduced "Business Profits and Salaries Tax Act 1960". At that time, income tax was levied only on business profits and salaries. In earlier days, both individual and corporate tax was taxed on progressive rate. The government replaced the prevailing tax act by "Income Tax Act 1962". In 1974, Income Tax Act 2031(1974) was enacted. Now, "Income Tax Act 2058(2002)" is in practice.

It is very important tools to reduce unequal distribution of income. It helps to reduce regional economic imbalance by providing tax concession and holiday to business or industry, which are established in remote area. Today tax is the major instrument for the government to achieve high rate economic development.

There are many problems in income tax practice in Nepal such as narrow coverage, unscientific tax assessment, leakage in tax, lack of consciousness of people, delays in computation and collection, lack of accuracy and unity in accounting system, no adjustment for inflation situation etc. (Khadka, 1994).

There are legal provision about income tax exemption and deduction of expenses. Within the income tax system, exemptions and deductions are relevant to review. To make up-to-date knowledge about income tax system, it should be known. The main objective of taxation is more revenue collection. Exemptions and deductions play important role to collect the tax revenue. Because of all these reasons, exemptions and deductions of income tax system must be reviewed and immediate correction can be made.

1.2 Statement of the Problem

Every government has responsibility towards its people. The responsibility may be for either peace and security and special services or economic development and other development activities. To fulfill these responsibilities a government has to spend a lot of money (fund). Therefore, government's expenditure is increasing in high rate day by day. The government has to manage its fund from internal as well as external sources to meet the increasing expenditure. External sources are uncertain, inconvenient and it is not good for healthy economic development, if there is heavy

dependence on them. Internal sources are convenient, certain and reliable. So, it is better to mobilize internal sources effectively rather than begging with the donors.

Underdeveloped countries are facing various problems in the process of economic development. Nepal is not an exception to this condition. Nepal is facing very serious problems of resources gap and high dependency of foreign loan and grants. Taxes are important sources of public revenue. It is the major instruments to increase the rate of capital formulation to achieve high rate of economic development. Higher resources mobilization is the best option of healthy economic development for the nation.

Government has adopted various policies to strengthen the revenue structure of Nepal. Government implemented self-tax assessment system to enhance the government revenue, although there is high tendency of income tax evasion and avoidance.

Nepal highly depends upon the external sources than internal sources. The available resources do not meet the estimated budget fulfilling the aspiration of the people and constructing the social welfare state. Therefore, there is need of improvement of income tax collection system to mobilize internal sources, which is also considered as the optimal solution of resources gap and high dependency on foreign loan.

At present, the exemption limit is distinct into two categories such as an individual and the family according to the personal status in Nepal. This classification does not recognize the various sizes of the dependent family members. In the Nepalese context, this limit neither shows any specific nor definite relationship with per capita GDP nor with the rate of inflation and poverty norm.

Income Tax Act, 2058 has described about the expenses, which are allowed for deduction and not allowed for deduction while calculating amount of income tax payable. Similarly, Finance Act (budget) provides exemption limit to family or couple and individual unit separately. The study would be carried out with a purpose of examining whether the given exemptions limit and deductions of expenses are sufficient, appropriate and systematic or not. For this purpose, a questionnaire is presented to different people (tax experts, tax administrators and taxpayers) to their opinions and suggestions.

There are various problems of income tax, exemptions limits and deductions facilities. More specifically, this study has been carried out to answer the following research questions.

-) What are the tax exemption limits under Income Tax Act, 2058?
-) What are the deduction facilities under the Income Tax Act, 2058?
-) What are the views of tax experts, tax administrations and taxpayers about the tax exemption limit and deduction facilities as per the ITA, 2058?
-) What kinds of suggestions are needed in tax exemptions and deductions?

1.3 Objectives of the Study

Generally, the main objectives of this study are to gain an insight into the exemptions and deductions of present income tax system. Giving suggestions as much as possible to improve the tax system so that the government can collect more revenue and use it in the process of national development. However, the main objectives of this study are:

-) To evaluate the tax exemption limit under the Income Tax Act, 2058.
-) To examine the deductions facilities provided by Income Tax Act, 2058.
-) To examine the views of the tax experts, tax officers and taxpayers about the exemptions and deductions facilities provided in the present Income Tax Act, 2058.
-) To explore appropriate suggestions based on above study.

1.4 Need of the Study

Each government requires sufficient funds to run its day-to-day activities and other social and development activities or responsibilities. To fulfill the requirement of fund, government collects revenues from different sources. Among them, the income tax is one of the most important internal sources of government revenue. Income tax plays significant role in the economy. But it is a matter of great unpleasures to quote that the contribution of income tax to the national revenue is very low in Nepal. To increase the contribution of income tax to the national revenue, weakness and problems faced by the income tax system should be researched and analyzed objectively and then the corrective actions should be started. Few studies

and research works have been conducting in the area of income tax in Nepal. Within income tax, the intensive study on tax exemptions and deduction has not been done in Nepal. Most of the researchers are based on contribution of income tax or national revenue. They are not giving main emphasis to research on exemption and deductions topic, which is maintained in income tax act. Due to this context, need and significance of this study can be known easily. The major areas covered by this study are as follows:

-) Resource gap in Nepal, revenue structure, tax revenue structure, direct tax revenue, indirect tax revenue of Nepal.
-) Exemption limit under the Income Tax Act, 2058.
-) Deduction facilities provided by Income Tax Act, 2058.
-) Exploring the views of tax experts, tax administrators and taxpayers towards the exemption limit and deduction facilities as provided by ITA, 2058.

1.5 Limitations of the Study

There are various constraints in this study. The focus is given to analyze only certain aspects of income tax and study of exemptions of incomes and deductions of expenses in Nepalese income tax. The research has been conducted according to the objectives, statement of the problems and methodology used in the study. Therefore, some major limitations of the study are mentioned below:

-) In the context of Nepal, related sectors still are unable to provide relevant data properly. There is no systematic database that makes it difficult to carry out on any research in Nepal. Sometime authority person do not want to provide relevant information.
-) It is based on exemption of incomes and deduction of expenses. It is not the complete study of income tax act and system.
-) Due to the small sample size, it may not fully represent Nepal as a whole.
-) The views of respondents are collected only from Pokhara valley.
-) The study has covered the data only from fiscal year 1995/96 to 2009/2010.

1.6 Organization of the Study

The whole study has organized in five (5) chapters. They are as follows:

-) The first chapter is introduction chapter. It includes general background, statement of the problem, objectives of the study, need of the study, limitation of the study and organization of the study.
-) The second chapter is about the review of literature and conceptual framework. Books, unpublished dissertations, reports and articles etc. have been reviewed for the study. Conceptual framework includes legal provisions regarding Income Tax Act, 2058, concept of tax, concept and meaning of income tax, income tax in international context and some legal provisions of income tax in Nepal etc.
-) The third chapter is about the research methodology, which includes types of research, research design, population and samples, nature and sources of data, data collection procedure, data processing and analysis procedure.
-) The fourth chapter is data presentation and analysis chapter that is the main part of the study. This chapter includes resource gap in Nepal, Nepalese government revenue structure, composition of tax revenue in Nepal, exemptions of incomes and deductions of expenses in income tax system etc. and opinion survey have been analyzed. It describes the problems and weakness of tax administration in Nepal. It contains major findings of the study also.
-) Fifth chapter is mainly concerned with summary, conclusion and recommendations.
-) Bibliography and appendix are presented in the last part of the study.

CHAPTER - TWO

REVIEW OF LITERATURE

The purpose of reviewing the literature is to develop something new expertise in the related topic, to see what new contributions can be made and to receive some ideas for developing a research design. This chapter shows the researcher has reviewed many books, dissertations, articles and report for performing this research study. After reviewing the books, the researcher has found that so many books were T.U. syllabus oriented and some of them had described the problems and prospects of income tax system and a path for reforming tax. Similarly, many dissertations, articles and reports had described the income tax law, provisions, and structure of income tax problem and prospects of income tax. There were no detail study made on the topic of exemptions and deductions of different provisions under ITA, 2058. Nevertheless, some books are more important and relevant for these studies, which are as follows:

2.1 Review of Books

In 1965, Amatya published a book entitled “Nepal Ma Aayakar Ko Byawastha”. In this book, he has tried to define income tax and provision pertaining to Income Tax Act 2019. His contribution was the first in this field. He has analyzed the legal aspects of income tax in Nepal at that period.

Marahatta and Khatiwada (1970) had presented the legal provisions and method of computing taxable income under the provision of tax act. They had emphasized the legal provisions rather than analytical study of the act. This book is lacking with the problems of the income tax, system as well as contribution to the national revenue. This book was fully based on the campus level syllabus of that period.

Khadka (1994) have described the economic policy of Nepal, value added tax, income tax from a rough to a refined system property taxes as the main source of local revenue, improving tax administration, tax reform strategy. He had shown the composition of tax revenue from 1950/51 to 1991/92.

About the income tax, he had described the introduction, development, existing structure, main problems and possible direction of reform. His book was based on analytical study of income tax. He had identified the major problems of income tax as narrow coverage, unscientific tax assessment, deviation from basic

principle of income taxation, defective system from the perspective of international taxation. He just had not identified the major problems of income but also had identified the possible direction for reform. They were; extension of coverage, improvement in tax assessment, use of presumptive method, extension withholding tax, inflation adjustment, introduction of current year payment basis, tax treaties with the major trading partners of Nepal.

Similarly, he had identified the major problems of tax administration. They were; weak tax administration, inadequate tax training imbalance and inadequate organizational pattern, predominance of low level non-technical posts, inadequate physical and other facilities, lack of adequate information system, lack of coherent tax policy etc.

He had suggested some suggestions for administrative reforms. They were; strengthening the revenue service, provision of existing tax training, developing an integrated information system, research on taxation etc.

His book is very useful to know the various aspects of income tax. Although he had not shown, any numerical illustrations not mentioned the legal provisions related to income tax. Therefore, his book was analytical rather than descriptive.

Mr. Santosh Raj Paudyal and Mr. Prem Prasad Timisina (2050) published a book describing the provision and laws related to income taxation in Nepal in "Income Tax Law and practice." This book was completely based on the syllabus of B.Com. They have described the theoretical as well as practical aspects of income tax. They analyzed the role of income tax, income tax structure and defects of income tax in Nepal. The book was descriptive rather than analytical.

Tiwari (2050) had published a book named "Income Tax System in Nepal". He had described the legal provisions relating to income tax. He had described the process, provisions and methods to assess the income tax with numerical examples. He was fully based on campus level syllabus. He had not shown the role of income tax in economic development of Nepal. He also had not identified the problems of income tax system. His book was descriptive of legal provisions rather than analytical.

Ojha (2050) had published a book named "Taxation Law". He had described the different acts and law of income tax. He had considered many tax cases to

describe legal terms; his book may be beneficial to understand income tax laws. But he had not analyzed the role of income tax.

Dhakal (2059) had published a book named “Income Tax and House & Compound Tax Law and Practice with VAT”. He had described the legal provisions relating to income tax with numerical examples. This book is very useful to know about the legal provisions of Income Tax Act 2031. Writer was fully based on the syllabus of BBS & MBS prescribed by T.U. This book was informative and descriptive rather than analytical. He had not analyzed the role of income tax and the structure of income tax.

“Income Tax Law: Then and Now” was published by Adhikari (2059). In this book, he has described the legal provisions of new Income Tax Act, 2058. He also had described the decisions made by Supreme Court about the income tax. He had described the legal provisions with critical analysis, this book is very useful to those who take keen interest to know about the Income Tax Act, 2058. Writer had not analyzed the role of income tax and income tax structure. This book is analytical rather than descriptive.

Kandel (2001) had described about introduction of tax, meaning of tax, history of income tax, structure and feature of income tax, meaning of different basic term of tax, exemption and tax rate, sources of income, assessable and taxable income etc. based on Income Tax Act,2058 in his book entitled "Corporate Taxation: Issues in Nepalese Perspective". He had described about Value Added Tax.

Mallik (2003) had published a book named “Nepalese Modern Income Tax System”. He had described about legal provisions related to income tax with numerical examples and has described historical aspect of income tax. This book is very useful to know the general information and legal provisions of Income Tax Act, 2058. The book is informative rather than analytical.

K.P. Aryal and S.P. Paudel (2004) have written a book entitled "Taxation in Nepal". They have explained about the income tax system 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, dividend 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.

Dr. Pushpa Raj Kandel (2005), published a book named "Nepalko Bartaman Kar Byawastha". The book is based on ITA, 2058 for the syllabus of BBS, MBS and MPA. It has twenty three chapters and eleven appendices including ITA,2058, income tax rules 2059, value added tax 2052, value added tax rules 2053 and so on. He has described the three broad classification of income, VAT, concept, tax authority, penalty, administrative review, appeal and so on.

K.C. (2006) had published a book named "Tax Laws and Tax Planning: Theory and Practice". In his book, he had described basic concept of income taxation in Nepal, exempt amounts and other concessions, special provisions, withholding deductions items from Business and investment income, non-deductible items, Business income, Investment income, Selection of tax rate and calculation of tax liabilities, Assessment of tax and return of income, taxable income and selection of taxable base, tax administration, VAT, tax planning etc.under Income Tax Act, 2058.The book is descriptive.

Mr. Ishwor Bhattarai and G.P. Koirala (2008), have co-authored two books entitled "Taxation in Nepal" and " Taxation in Nepal with Tax Planning and VAT". The first book was designed according to the requirement of Bachelor of Business Studies 3rd year syllabus and next one is based on MBS 2nd year syllabus of Tribuvan University. Both of the books are useful and relevant for university students as well as other having interest in this discipline.

2.2 Review of Dissertations

Some dissertations were reviewed for this study. They are as follows;

Shrestha (1967) had prepared a master degree thesis entitled "Income Tax in Nepal". In this study, he has tried to give some general idea of income tax act. He has described about historical background, income tax act, rules and administrative aspect of income tax. Not all things mentioned in it are fully relevant at present.

Pandey (1978) had presented the dissertation named "An Analysis of Income Tax in Nepal". He had described brief review of Nepalese economy, resource mobilization, tax system in Nepal, structure of income tax, role of income tax,

problems of income taxation in Nepal. He has more emphasized on tax structure of Nepal. He has described the significant role of income tax to economic development of Nepal. He has described the various aspects of income tax in Nepal. About the exemptions and deductions, he has not mentioned anything.

He had described the problems of income tax in Nepal. They are; lack of up-to-date record of existing as well as potential taxpayers. Lack of record keeping and maintaining accounts by taxpayer, lack of responsibility and honesty among the tax officer, lack of co-ordination between various tax departments and revenue department, leakage in income tax collection etc. Some of these problems are more relevant and considerable at now.

Tuladhar (1979) had presented a dissertation named “Role of Income Tax in the Mobilization of Domestic Resource in Nepal”. He had described the trends of revenue from income tax, structure of income tax, taxes as percent of GDP, per capita burden of income tax, agricultural income, tax elasticity and buoyancy of income tax. He had described the role of income tax in the mobilization of domestic resources for the economic development. According to him, tax efforts in Nepal have seemed insufficient. He further added that consistent efforts should be made to mobilize resources for development through taxes.

He had suggested widening the income tax base, income tax holiday to new industries, simple and easy tax law, reformation of income tax administration, research in income tax. But he had not mentioned the legal provisions relating to income tax. He had not accounted the exemptions and deductions also.

Suwal (1981) had presented a dissertation named “Income Tax System in Nepal”. He has described the concept, importance, objectives, role, structure and problems of income tax.

His main findings about the reasons of tax evasion are lack of tax consciousness of Nepalese people, loopholes of wide, spread illegal business activities, high tax rate, open border, corruption of income etc. Similarly, his findings about the problems of income tax in Nepal are; lack of responsibility and honesty among the tax officers, delays in tax administration, lack of accounts and records of taxpayers, tax evasion etc. which are more relevant at present also.

His suggestions about the income tax of Nepal were; scientific methods of accounting assessment and collection of income tax, widening the coverage of tax, clear and precise law etc. But he had not mentioned the legal provisions, exemptions and deductions.

Nepal (1983) had presented a dissertation named “A study on the Problems and Prospects of Income Tax in Nepal”. She had conducted an opinion survey of the appropriateness of exemption limit. Nine (9) out of ten (10) officers were in positive response. However, out of twenty five (25) taxpayers, sixteen (16) were in negative response. She had also taken another opinion survey about adjustment of exemption limit according to the inflation. Out of ten (10) tax officers and twenty five (25) taxpayers, eight (8) tax officers and twenty three (23) tax payers were agreed to adjust the inflation situation respectively.

She has presented some suggestion about the tax rate and exemption limit. It should be elastic, scientific and progressive. The exemption limit should be separated to the couple and family. Only increasing in exemption limit will not create benefit. If exempted income is spent in luxurious consumption, it will hamper saving and investment. She has not mentioned the legal provision reality to income tax, exempted incomes and deduction of expenses.

Shrestha (1984) had presented a dissertation named “Income tax in Nepal”. She had described the structure of income tax, per capita burden of income tax, problems of income tax in Nepal. She found that the evasion of tax is a serious problem of tax. Reasons for tax evasions were; low tax paying capacity of Nepalese people, absence of clear and comprehensive definition, high tax rate, widespread illegal business activities, corruption, lack of system of heavy punishment etc. that are more relevant and considerable at present also. She also found that the tax administration is not efficient because of lack of trained and skilled personnel, lack of source for separate income tax revenue, lack of proper incentive and low salary of tax officers.

Her suggestion about the income tax were; income tax law should be simple and easy, tax base should be broader, scientific method should be applied for the collection of tax. Its accounting and assessment, income tax administration should be

made efficient, tax evasion and avoidance should be minimized, loopholes should be plugged.

Although she had not mentioned the legal provisions relating to income tax, empirical investigation and not mentioned about the exemptions and deductions.

Regmi (1986) had presented a dissertation named “The Role of Income Tax in Nepal”. In his study, he had described the conceptual framework of income tax, structure of income tax, income tax and resource mobilization, problems of income tax. He had described the objectives of income tax. They were growth objective and stabilization objective. He had more concentrated on the study of tax structure of Nepal.

He had identified the problems of income tax. They were; lack of maintaining the record of taxpayers, assessment delays, lack of responsibility and honesty among the tax officers, tax evasion, corruption, lack of coordination between the various revenue and other non-revenue departments, leakage in personal income tax collection.

His suggestions about the income tax were; income tax law should be clear and precise, widening the tax coverage, application of scientific assessment method, simple easy procedure of tax payment, honest and efficient staffs, coordination between staff and departments, establishment of research unit, tax holidays to new industries. Although he had not mentioned the legal provisions relating to income tax. His topic is about the role of income tax but he had not described any role of income tax. He also had not shown or mentioned the exemptions and deductions facilities.

Siwakoti (1987) had presented a dissertation named “Analytical Study of Income Tax in Nepal”. He had explained the various aspects of income tax. His study had emphasized on drawing a clear sketch of role and structure of income tax, projecting and legal aspects of income tax act and problems of income tax. Major problems existing in Nepalese income tax system, stated by him are narrow covering, unscientific and time-consuming assessment and collection procedure, complicated and defective income tax act.

His suggestion about the income tax administration were; Income Tax Act should be made honest, efficient and effective, research unit should be established, tax departments should keep up-to-date information regarding existing and potential tax

payers, delays in tax assessment should be reduced, scientific equipments should be used in the tax offices, training and counseling should be given to the personnel. He had also suggested about the Income Tax Act. They were; language should be simple and clear, penalties should be established to taxpayers who do not maintain accounts, there should be provisions in act for weighted deductions, provisions for illegal business, assessment time limit should be reduced.

He had more emphasized on the legal provisions relating to income tax. He had not used any numerical examples in his study. He had only analyzed the Income Tax Act, 2031. To analyze the Income Tax Act 2031, he had not conducted any empirical investigation.

Baral (1989) had presented a dissertation named "Income Tax in Tax Structure of Nepal". In her study, she had explained the historical review of tax system, structure of government revenue, contribution of income tax to total tax revenue and total revenue, share of income tax on GDP, total revenue and total tax revenue. She had identified the reasons of tax evasion, which were; lack of clear and comprehensive definition of income, lack of punishment to tax evaders, taxpaying capacity and the consciousness among the taxpayers was low, lack of efficient tax administration, lack of scientific method of tax collection etc.

She has suggested that the tax administration should be honest and efficient, tax evaders should be punished, scientific method should be used in tax collection, administration cost should be minimize, research unit should be stabilized, delays in tax assessment should be reduced, corruption should be eliminated.

She had described the tax structure in comprehensive. But she had not identified the major problems of income tax system. She had not mentioned to legal provisions relating to income tax and numerical examples. She had found reasons of tax evasion but she had not described how can be stopped the tax evasion.

Thapa (1993) had presented a dissertation named "Income tax assessment Procedure in Nepal". This study was concentrated on income tax assessment procedure. His findings about the problems of income tax assessment procedure were undue delay in tax assessment and lack of adequate accounting skills, which are considerable at present. He had suggested adjusting the exemption limit according to the inflation of the country. He also had suggested giving tax holiday to new

industries as investment allowance. He also had suggested taxing the agricultural income.

His topic was about income tax assessment procedure but he had described only about the income tax assessment method and fine, fee and penalties. He had not mentioned the assessment procedures, legal provisions relating to income tax and items of exemptions and deductions.

Acharya (1994) had described in his dissertation named “Income Tax in Nepal: A Study of its Structure, Productivity and problems” about the structure of income tax, productivity of income tax, and problems of income tax system. He had shown some numerical and diagrams of structure and productivity of income tax. His study about income tax was not so detailed because he had not explained the provisions relating to income tax and his study was more concentrated on the problems of income tax system. Although his findings about the problems of exemption limit and allowances were considerable and accountable. He had shown the problems of exemption limit as follows.

-) Exemption limit being equal to remuneration taxpayers and business individuals does not seem reasonable. The exemption limit for remuneration taxpayers should be comparatively high than the business individuals.
-) The exemption limit in the Nepalese context neither had shown any definite relationship with per capital GDP nor with the rate of inflation nor with poverty line so it seems to be unscientific.

His findings about the problems with allowances were as follows.

-) Fifteen percent depreciation allowance for corporate taxpayers seems to be inadequate.
-) Private boarding schools running now a day are inclined with profit. They are excluded from income tax, which is not reasonable.
-) One and two percent deduction of the total income from trade, industry, profession and vocation for advertisement and guest hospitality respectively seem to be low.
-) Allowances for remuneration taxpayers are not scientific in specifying the figure in absolute term also. Only the proportional figure is recommended,

otherwise these should be frequent adjustment in Income Tax Act, which is not so practical.

- J) Additional allowances are lacking for specific industries if they are feasible in the Nepalese economy. Tourism industries, co-operative organizations in rural sectors etc. are in this category and should be encouraged. On the other hand, the special allowance for export income of industries does not seem essential, such as for carpet or garment industries. It is because those small business investors are unable to export their products.

Tripathee (1995) had described in his dissertation named “Income Tax System in Nepal and Some Potential Areas for Reforms” about the government revenue of Nepal, income tax administration, personnel in tax administration, efficiency in Nepalese income tax administration, income tax evasion, tax assessment and application of best judgment assessment, income tax facilities for industries, efficiency of income tax system. He had more emphasized on the income tax administration and tax evasion. He had conducted an opinion survey about the sufficiency of tax incentives and tax holiday to the industries.

His dissertation is very useful to further study about income tax purpose. But he had not included the exempted items of income and business expenses. He had not mentioned about the legal provisions relating to income tax system.

Pant (1996) had presented a dissertation named “A Study on Income Tax Management in Nepal”. He had described the role of income tax in national economy and income tax management in Nepal. He had conducted an empirical investigation of income tax management in Nepal.

His findings of the major problem of income tax in Nepal were lack of managerial efficiency, which is more important aspect at present also. He had highlighted on management aspect. He had suggested revising the exemption limit. He had suggested treating the agricultural income and capital gain as a subject of income tax. He had not explained a little bit about the expenses also.

Bhattarai (1997) had presented a dissertation named “Effectiveness of Corporate Income Tax in Nepal”. He had described the history of income tax and corporate income tax, legal provision relation to income tax, administrative aspects of income tax, tax structure and government mechanism.

He had found that the government policies, acts, rules, regulations concerned with the corporate income tax were not effective in increasing taxpaying habit in Nepal. He has pointed a major problem of tax administration as a corruption due to weakness of acts, rules and regulations in theories as well as in practice of income tax.

According to his survey about the exemption and deduction, the promotional expenses, guest hospitality, donation, prizes and grants should be allowed for deduction as expenses. About the income from foreign exchange rate, grants received, all compensation received should be tax-free.

He has suggested to prepared separate income tax act, rules and regulations considering the elements of the system and maintains stability; design and development electronic information and communication networking among the government and non-government organization; encourage taxpayers through tax education and awareness programme. His study is very useful to know about the corporate income tax rather than other taxes.

In 2001, Shrestha had presented a dissertation entitled “Revenue Collection from Income Tax in Nepal: Problems and Prospects”. She had described about the conceptual framework, legal provisions, structure of income tax, income tax administration in Nepal and empirical investigation.

She had found various problems of income tax system in Nepal. They were; narrow tax coverage, widespread evasion and avoidance of income tax, unscientific tax assessment procedure,, mass poverty of Nepalese people, inefficient tax administration, lack of conscious of taxpayers, complicated tax laws and procedure, instability in govt. policy, high corruption, failure to locate new tax payers, failure to maintain proper accounts and records. However, she had not mentioned facilities about the exemptions and deductions of income tax.

Pradhan (2001) had conducted a dissertation named “Contribution of Income Tax from Public Enterprises to Public Revenue of Nepal (with Reference to NTC)”. Her study was concerned with historical background and contribution of income tax to the public revenue, contribution of Nepal Telecommunication Corporation (NTC) to income tax, effectiveness of income tax collection.

She had suggested following points to improvement income tax administration in Nepal were; active promotion and reward system, tax education to taxpayers, strict

against corruption, efficient and honest tax personnel, reduction of delays in tax assessment etc. Especially her study has focused on the study of Nepal Telecommunication Corporation.

In 2002, Paudel had presented a dissertation named “Income Tax in Nepal: A Study of its Structure and Productivity”. She had described the income tax in its historical perspectives, income tax structure, elasticity and buoyancy of income tax, voluntary disclosure of income scheme, role of income tax administration in Nepal.

She had more emphasized on structure and contribution of income tax. She had mentioned that contribution of tax revenue to GDP is the lowest among the SAARC countries. Within the tax revenue, the contribution of indirect tax is about twice than direct tax.

She had suggested broadening income tax base, reform of tax administration, successful implementation of VAT, and establishment of standardized accounting system. Nevertheless, she had not mentioned the problem of income tax system and exemption and deduction.

Singh (2002) had presented a dissertation named “A Study on Application of Best Judgment on Income Tax Assessment with Reference to Income Tax Act 1974”. He had described the types of assessment, use of best judgment in income tax assessment, types of best judgment assessment, necessary conditions for best judgment assessment, natural justice & best judgment, punishment, legal remedies, role of best judgment assessment in income tax assessment in Nepal. He had also conducted an opinion survey about the best judgment assessment.

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

He had more emphasized on the study of application of best judgment assessment. He had not mentioned legal provisions relating to income tax & tax structure of Nepal. His study is more beneficial to know the application of best judgment assessment not the whole income tax system.

Sherchan (2003) had presented a dissertation entitled “Income Tax in Nepal: A Study of Fine and Penalties”. In his study, he had described about the tax structure,

role and legal provision of income tax. But specially, his study has focused on provision of fine and penalties. He had found that there was dominated share of tax revenue in Nepalese government revenue structure. Income tax had occupied third position in his study period and it was increasing trend. The tax/GDP ratio was not found satisfactory. With the income tax, there was the dominated role of corporate income tax but it was in decreasing trend and contribution of individual income tax was second position and it was in increasing trend.

He had suggested revising the provision of fine and penalties; introducing reward, prize, incentive, clear income tax, rules and regulation, clear right and duties of tax officers. Moreover, his suggestions are timely revision in income tax policy, computerized system for payment of income tax.

The main objective of the study was analyzing the provisions of fine and penalties under income tax law, to know the knowledge of taxpayers and tax officers about fine and penalties. He has not mentioned about exemption and deduction. His study had focused only on provision of fine and penalties.

Pallimagar (2003) had presented a dissertation named “Income Tax in Nepal: A Study of Exemption and Deduction”. He had covered tax structure, role of income tax, exemption and deduction provided in the law. He had found that there was dominated share of tax structure in Nepalese govt. revenue. Income tax had occupied third position in his study period and it was increasing trend. The tax/GDP ratio was not found satisfactory. He found that exclusion of agricultural income from the tax net.

He found various problems in Nepalese income tax system. They are; lack of trained employers, shortage of income tax experts, professionals in tax administration, lack of public participation, faulty organizational structure of tax administration, weakness in govt. policy, clear income tax act, limited tax base, increased corruption, lack of timely adjustment of tax law etc.

His suggestion about exemption are revision the exemption limit, elimination double taxation on dividend, tax rebate for submitting true income statement in time, increase the exemption limit to individuals as well as family, exemption limit must be adjusted with inflation situation, the provision of special fee must be eliminated etc. similarly suggestion about deduction were: clear provision for deduction, fully

allowed in interest expenses, pollution control cost, repair and improvement expenses, research and development expenses, carry forward of losses must be extended up to 5 to 6 years for every business, expenses for appropriate education for children, medical expenses for the person etc.

In 2003, Shakya had presented a thesis named “A Study on Income Tax Collection from Commercial Banks”. He had described about structure of revenue, contribution of revenue, share of direct and indirect tax on total tax revenue and total revenue, structure and role of corporate tax in Nepal. He had focused on corporate tax collection from commercial banks. He had described tax assessment procedure, computation method of taxable income from business and investment.

He had described main problem facing by commercial bank while paying corporate tax.

Kafle (2004) had presented a dissertation entitled “Income Tax Contribution from Nepalese Enterprises with Reference to Nepal Electricity Authority”. He had described shortly about corporate tax structure, tax base, income tax incentive, short-term and long-term tax planning. Similarly, he had described about government revenue in Nepal, direct and indirect tax, role of corporate income tax in government revenue. Mainly, he had described about share of income tax of NEA (Nepal Electricity Authority) on total tax revenue, income tax revenue and corporate tax revenue

He had not described about exemption, deduction and problems of income tax.

Gautam (2004) had presented a dissertation named “Contribution of Income Tax National to Revenue of Nepal”. He had described concept and meaning, international context, legal provision of income tax sources on income, method of income tax assessment appeal, fine and penalties. He had focused on resource gap in Nepal, tax/GDP ratio and revenue/GDP ratio of different years. He had covered revenue structure, composition of revenue, composition of direct and indirect tax revenue, income tax collection performance in Nepal, exemption limit in Nepal, income tax rate etc. Nevertheless, he had not described exemption, deduction and problem of income tax in detail.

Pudasaini (2004) had presented a dissertation named “Income Tax Assessment Procedure in Nepal”. He had covered trend of income tax revenue, tax revenue

collection, income tax revenue collection, role of income tax, income tax from public entities and composition of income tax revenue. Mainly, he had described about comparative analysis in income tax act 2031 and 2058 in different aspects such as classification of income sources, income headings, withholding of taxes, installment system, tax exemption, deductible expenses or allowable deduction, depreciation provision, tax rate, carry forward of losses, payment of tax etc. However, he had not made detail study on tax exemption, deduction of expenses and problems of income tax act, 2058. His major suggestions are:

2.3 Review of Reports and Articles

Agrawal (1978) has the different concept of income tax. His study was the first comprehensive scientific study on this ground. He has presented his report in different chapters. Resources mobilization through income tax, fiscal policy, effective tax system, role of income tax, legal provisions regarding to income tax, legal aspect of income tax, administrative aspect etc. have been discussed. Various mathematical calculations have been shown, like per capita income, burden of income tax, buoyancy coefficient of income tax, elasticity coefficient of income tax etc.

He had identified the major problems in income tax system as inefficiency of tax administration and tax evasion. He observed that the tax authorities were insufficient in enforcement of law. There were no integrated programmes for taxpayer's education, assistance, guidance and counseling. Tax office was looked upon as heaven for corruption. Inefficiency, delay, unfair dealings, harassment and incompetent personnel were the major problems of tax administration.

About the exemptions and deduction, he had suggested increasing to exemption limit to the range of Rs. 8,000 to Rs. 12,000. He also suggested for providing additional expenses, medical expenses and house rent. He also suggested for progressive tax rates of income tax.

Bhattarai (2050) had critically analyzed the income tax facilities provided by Industrial Enterprise Act 2049 in his draft. He had described the facilities given to the industries. He also had critically analyzed these facilities as; continuous 7-8 years exemption of income tax will develop the tradition of taking exemption by incorporating legal ways. On the other hand, if an industry passes the allowed time, cannot compete the industry having exemption year. The deductions allowed on

modernization of industry, pollution control device, technology & product development, sales promotion expenses etc. would protect only the big industries. It will not effect to the small industries. Provisions made on advertisement & entertainment/hospitality expenses will create rude on income tax because it is given to the all industries in the same manner. Some industries make high advertise & entertainment expenses and some industries do not make high expenses. There is a provision of exemption of income tax if an industry which does not get exemption but reinvest on non-exempted industry. This provision exempts the tax to the industry of alcohol, tobacco etc. also if an industry reinvest on non-exempted industry. Periodic exemption of tax will create bad effects such as changes in signboard, change in name and change in ownership to own family member.

Kandel had published a draft of Income Tax Act 2001 as a critical analysis. He had criticized the ITA 2001 on several grounds. They were; exemption of agricultural income from income tax, export duties levied on export, inequality between different capitals earned income (i.e. tax on interest dividend and capital gain) and withdrawal of exemption provision and on adjustment for inflation. He further criticized the act for the provision of income tax from export as 0.5% of total export because it is not good choice of income tax base.

Thapa (2002) had published a draft of tax system and its reforms in Nepal as a descriptive way. He had described the tax system, features of tax causes of reform the tax and areas or reform. He had characterized the tax system as too many & too high rates, myriad of tax incentives & tax holidays, multiple objectives of taxes scheduler rather global approach to income taxation, too many income brackets & high progressively. Complicated and ambiguous tax laws. He further added, "Taxes were levied at the manufacturing rather than retail stage which added to the production cost. Too many tax incentives & tax holidays narrowed the tax base & revenue collection had to be increased from that raising of tax rates. But the high tax rates encouraged tax avoidance & evasion and also gave birth to the unaccounted economy".

Paudel (1994) had been conducted a research on the topic of corporate tax planning in Nepal. He has mentioned the proportion of corporate tax revenue, direct tax revenue in total tax revenue and the main objectives of the study they are: to examine the corporate structure in Nepal, to examine the implication of tax factor in

selecting the best alternative strategy in different aspects of strategy planning and so on. This research shows that corporate tax was collected from book profit. A book profit means corporate profit that is committed for tax purposes. This study has also expressed that income tax provisions are raised under different acts in different times.

Mainali (2061) had drafted an article named “A Comparative Analysis of Indirect Taxation: The Case of Nepalese VAT and Japanese Consumption Tax”. He has compared Nepalese VAT and Japanese consumption tax. For this purpose, he has described Nepalese and Japanese tax context, consumption tax and VAT, tax law, contribution in government revenue, tax rate, tax exemption, threshold etc.

Panta (2061) had presented an article about “Problem of Tax Administration and Measures of Eradication”. The major problems described by him are: presenting minimum amount of transaction, no compulsion of bill, illegal business, determination of minimum price of goods, no help in tax assessment by the tax payers, ambiguous tax system and complexity in implement, less coordination between Inland Revenue Department (IRD) and Revenue Research Center, Inappropriate mobilization of employee. He has suggested some eradication measures are: effective record and communication system, standard determination of sales and factory price, compulsory on billing system, coordination between IRD and other government departments, specific and clear act, expanding tax auditing system etc.

CHAPTER - THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter is devoted to research methodology applied in the study for the achievement of desired objectives. Primary as well as secondary data are used for this study. Opinion survey technique is adopted to collect the primary data about the different aspects of income tax. While conducting opinion survey, questionnaires were distributed to different groups who were related to income tax. Secondary data were collected from related books, published reports, computer data banks etc.

Research methodology is the way to solve systematically about the research problem. This is the procedure of planned framework for the research study dealing with the research design, nature of the data, data gathering procedure, population and sample, data processing procedures and research tools.

3.2 Research Design

Research design is an overall framework of plan for the collection and analysis of data. The research design serves as a framework for the study, guiding the collection and analysis of the data (Wolff et. al. 2002). This research study attempts to analyze the present exemption and deduction provisions of ITA, 2058. Opinion of 50 respondents associated with the income tax viz. income tax payers, income tax administrators, income tax experts and other experts are collected through questionnaires. The questionnaire included the problems of income tax administration, soundness of income tax administration, exempted incomes, exemption level, deduction of expenses, sufficiency of provisions etc. Similarly, various publications regarding income tax are used for this study. Hence, the research design of this research is descriptive and empirical.

3.3 Population and Sample

To fulfill the objectives of the study, the researcher has taken the opinion of 50 respondents as sample size from Pokhara valley. The population for this study comprises all the persons belonging to income tax of Nepal. In the course of taking opinions of respondents, the researcher has divided the respondents into three

categories. The following table shows the categories of the respondents and size of sample.

Table No. 3.1

Categories of Respondents and Sample Size

S.N.	Categories of Respondents	Sample Size
1.	Income Tax Experts	10
2.	Income Tax Administrators	15
3.	Income Taxpayers	25
	Total	50

3.4 Nature and Sources of Data

The data used for this study are both primary and secondary. The primary data are collected from primary sources. The primary sources of data are the opinion survey through questionnaire, field visit and information received from the respondents.

The secondary data are collected from secondary sources. The secondary sources of data are the information received from books, journals, newspapers etc. The major sources of secondary data are as follows;

- i) Economic survey, Ministry of Finance, GoN.
- ii) Report and records of Department of Taxation.
- iii) Books and dissertations related to income tax.

3.5 Data Collection Procedures

The data required to fulfill the objectives of the study were collected from two sources viz. primary sources and secondary sources. Primary data were collected by using questionnaire method personally through field visit. A lot of questionnaire was developed and distributed to the selected respondents in order to get actual, accurate and reliable information. Some of the information was also collected from interview with the respondents.

On other hand, the required secondary data were obtained from related books, reports, computer data bank etc.

3.6 Data Processing Procedure and Research Tools

Collected data from primary as well as secondary sources are firstly tabulated into separate format in systematic manner. The data are tabulated in various tables as per their subject matter in order. Then simple statistical tools such as percentage, graphs, Charts, diagrams etc. are applied in the way of analysis so that the findings could be presented and interpreted properly and clearly.

CHAPTER - FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

In the previous chapter, the researcher discussed about the research methodology that is being adopted throughout the study. The previous chapter concerned with the research design, population, sample and the statistical tools to be used to analyze the gathered data and information.

This chapter deals mainly with the presentation and analysis of the data and major findings of the study. Since the topic of the study being related to the attitudes /opinions of tax experts, tax administrators and taxpayers regarding the exemptions and deductions of different provisions under ITA, 2058.

This chapter comprises the analysis of data collected from primary as well as secondary sources. For the sake of convenience, this chapter has been divided into two sections. First section contains the presentation and analysis of secondary data and second section carries the presentation and analysis of primary data i.e. opinion survey.

4.2 Presentation and Analysis of Secondary Data

Under this section, the researcher has presented and analyzed the secondary data concerning the topic of research study.

4.2.1 Resource Gap in Nepal

Like other developing countries in the world, Nepal has been suffering from resource constraint, mass poverty, rapid growth of population, aggressive dependence on agriculture, subsistence living standard ,political instability in the country, lack of peace etc. despite over four decades planned development efforts.

In Nepal, the source mobilization is still poor that does not cover the growing expenditure. Fiscal deficit is due to the continuous growing expenditure of the government instead of the low revenue performance in Nepal. That is why; country is facing the increasing burden of foreign loan. Widening trend of the different resource gap is shown in the following table.

Table No. 4.1**Resource Gap in Nepal****(Rs. in millions)**

Fiscal Year	Total Expenditure (A)	Total Revenue (B)	Resource Gap (A-B)	Foreign Grants (C)	Resource Gap (A-B-C)	Foreign Loan (D)	Resource Gap (A-B-C-D)
1995/96	46542.40	27893.10	18649.30	4825.10	13824.20	9463.90	4360.30
1996/97	50723.70	30373.50	20350.20	5988.30	14361.90	9043.60	5318.30
1997/98	56118.30	32937.90	23180.40	5402.60	17777.80	11054.50	6723.30
1998/99	59579.00	37251.30	22327.70	4336.60	17991.10	11852.40	6138.70
1999/00	66272.50	42893.80	23378.70	5711.70	17667.00	11812.20	5854.80
2000/01	79835.10	48893.60	30941.50	6753.40	24188.10	12044.00	12144.10
2001/02	80072.20	50445.50	29626.70	6686.10	22940.60	7698.70	15241.90
2002/03	84006.10	56229.80	27776.30	11339.10	16437.20	4546.40	11890.80
2003/04	89442.60	62331.00	27111.60	11283.40	15828.20	7629.00	8199.20
2004/05	102560.40	70122.70	32437.70	14391.20	18046.50	9266.10	8780.40
2005/06	110889.20	72282.10	38607.10	13827.50	24779.60	8214.30	16565.30
2006/07	133604.60	87712.10	45892.50	15800.80	30091.70	10053.50	20038.20
2007/08	161349.90	107622.50	53727.40	20320.70	33406.70	8979.90	24426.80
2008/09	219662.00	143474.50	76187.50	26382.80	49804.70	9968.90	39835.80
2009/10	259689.10	179945.80	79743.30	38545.90	41197.40	11223.40	29974.00

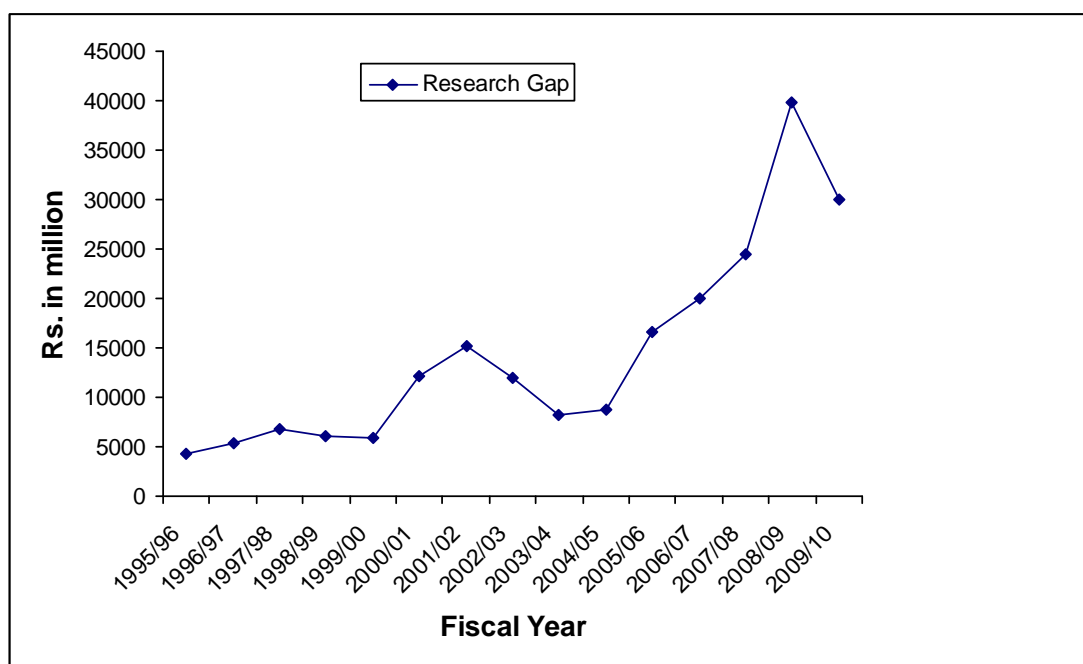
Source: Economic Survey, 2010/11, MoF, GoN.

In the above table, resource gap of Rs. 18,649.30 million in fiscal year 1995/96 reached to Rs. 79,743.30 million in the fiscal year 2009/10. It was continuously in increasing trend. Resource gap slightly decreased in the fiscal year 1998/99 and from fiscal years 2001/02 to 2003/04 in comparison to previous year. In these fiscal years, total revenue increased in greater percentage than expenditure, so resource gap decreased. Resource gap *f*after considering foreign grants *A*was Rs. 13,824.20 in the fiscal year 1995/96 and further widen up to Rs.49,804.70 million in fiscal year 2008/09. It decreased in the fiscal year 1999/00 to 2003/04 in comparison to the previous year. The government takes internal and external loan to meet deficit finance. Foreign loan had been taken Rs. 9,463.90 million in the fiscal year 1995/96 and Rs. 11,223.40 million in 2009/10. After foreign loan financing, resource gap was Rs. 29,974.00 million in the fiscal year 2009/10. In 2000/01, maximum foreign loan was taken in comparison to previous years. But, resource gap did not decrease in this fiscal year. The resource gap *f*after considering foreign loan *A*was in fluctuating trend but in long term it was in increasing trend. The increasing resource gap indicates that

it is necessary to mobilize additional domestic resources. Ultimate and the best measure to fill up the resource gap is to increase public revenue through effective tax system.

Figure No. 4.1

Trend of Resource Gap



4.2.2 Revenue Structure of Nepal

Every government is responsible to perform numerous functions for the betterment of the people in the country. A government needs huge volume of income to fulfill different type of expenditures. For this purpose, government collects revenue from different sources. Thus, the income of the government through all sources like taxes, borrowings, fees, donations etc. are called public revenue. In general, government income sources are classified mainly into two categories namely tax revenue and non-tax revenue. These both sources are subject to non-repayment and their sum constituted the government revenue. Besides these sources, government has other sources, which are subject to repayment such as loans and grants. However, Grants are not compulsorily repaid. These sources are desirable only to meet the fiscal deficits.

The trend and composition of tax revenue and non-tax revenue in different fiscal years are presented below:

Table No. 4.2**Magnitude of Revenue Collection in Nepal****(Rs. in millions)**

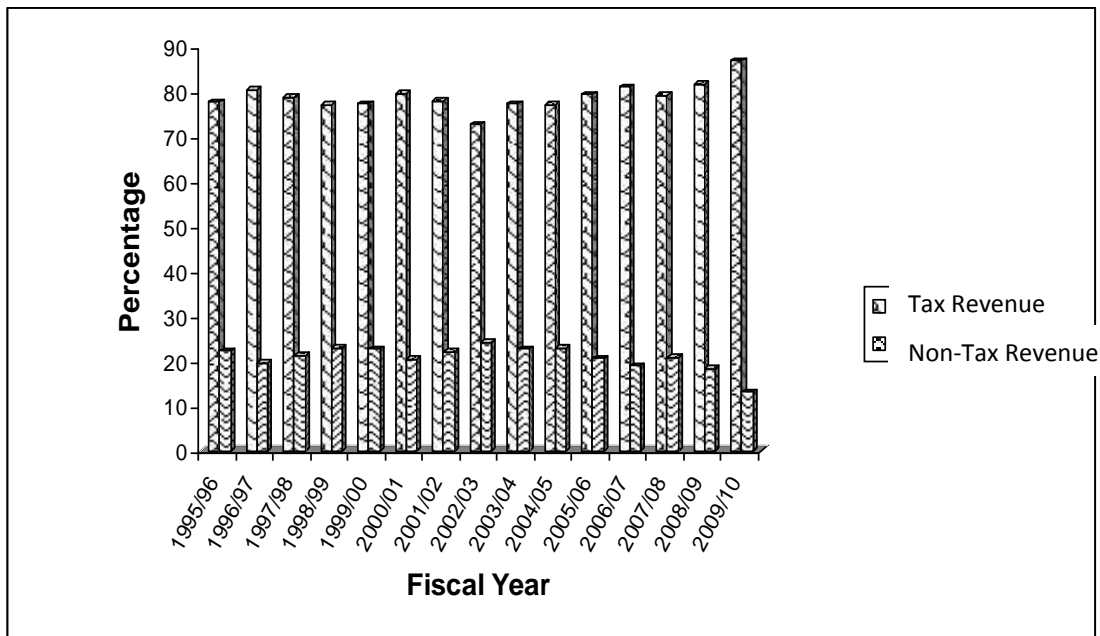
Fiscal year	Total Revenue	Tax Revenue		Non-tax Revenue	
		Amount	% as Total Revenue	Amount	% as Total Revenue
1995/96	27893.10	21668.00	77.68	6225.10	22.32
1996/97	30373.50	24424.30	80.41	5949.20	19.59
1997/98	32937.90	25939.80	78.75	6998.10	21.25
1998/99	37251.00	28752.90	77.19	8498.10	22.81
1999/00	42893.80	33152.10	77.29	9741.60	22.71
2000/01	48893.60	38865.00	79.49	10028.80	20.51
2001/02	50445.50	39330.60	77.97	11116.00	22.04
2002/03	56229.80	40896.00	72.73	13642.90	24.26
2003/04	62331.00	48173.00	77.29	14158.00	22.71
2004/05	70122.70	54104.70	77.16	16018.00	22.84
2005/06	72282.10	57430.40	79.45	14851.50	20.55
2006/07	87712.10	71126.70	81.10	16585.40	18.91
2007/08	107622.50	85155.50	79.12	22467.00	20.86
2008/09	143474.50	117051.90	81.58	26422.60	18.42
2009/10	179945.80	156294.90	86.86	23650.90	13.14

Source: Economic Survey, 2010/11, MoF, GoN.

From the above table, the share of tax revenue was greater than the share of non-tax revenue in every fiscal year. In the fiscal year 1995/96, the share of tax revenue was 77.68 percent and share of non-tax revenue was 22.32 percent. Likewise, in fiscal year 2009/10, the contribution of tax revenue was 86.86 percent where as non-tax revenue was 13.14 percent only, which proves that tax revenue contributes about three quarter of total revenue. During the study period, the amount of both tax and non-tax revenue in absolute term has increased but contribution of non-tax revenue to total revenue is very low. The dominant role of tax revenue is thus, quite satisfactory as its amount has increased more significantly than the non-tax revenue over the period of 1995/96 to 2009/10.

Figure 4.2

Trend of Tax and Non-Tax Revenue



From the fiscal year 1995/96 to 2009/10, the amount of tax revenue was in increasing trend every year with the amount of Rs. 21,668.00 million to Rs. 156,294.90 million but the figure in percentage of tax revenue in the total government revenue has fluctuated in different years. From the fiscal year 1995/96 to 2006/07, the percentage contribution of tax revenue to total revenue increased up to 81.10 percent from 77.68 percent. In the year 2002/03, its contribution decreased to 72.73 percent. However, the percentage contribution of tax revenue to total revenue increased gradually. The trend line of tax revenue was always in increasing trend during the study period. Likewise, the trend of non-tax revenue collection was also fluctuating during the period of 1995/96 to 2009/10 as it increased from Rs.6,225.10 to Rs. 23,650.90 million respectively. However, in comparison to the total revenue, the percentage contribution was fluctuating in different years.

4.2.3 Tax Revenue Structure of Nepal

Taxes are not a voluntary contribution by the taxpayer but it is compulsory on nature. Generally, tax is a compulsory contribution imposed by the public authority. Tax is the main source of income of the government. Tax revenue comprises compulsory and non-payable receipts collected by government for public purposes. It includes interest collected on tax arrears and penalties collected on non-payment or

late payment of taxes. Tax revenue is the principle source of the government revenue: however, its contribution differs significantly in different countries. In the context of Nepalese economy, tax revenue is major source of government to mobilize internal source effectively and properly.

Tax revenue, one of the principle sources of the government revenue, is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the taxpayers in return. It covers theoretically and practically following heads such as persons, organizations, business firms and even foreigners who are doing business of consuming goods or using service in Nepal.

In the fiscal trend of Nepal, tax revenue structure is a combination of two tax elite. They are namely direct tax and indirect tax. The trend and composition of tax revenue for the fiscal years 1995/96 to 2009/10 are given in the table below:

Table No. 4.3
Composition of Tax Revenue

(Rs. in Millions)

Fiscal Year	Total Tax Revenue	Direct Tax Amount	% as Total Revenue	Indirect Tax Amount	% as Total Revenue
1995/96	21668.00	4655.90	21.49	17012.10	78.51
1996/97	24424.30	5340.00	21.86	19084.30	78.14
1997/98	25939.80	6187.90	23.85	19751.90	76.15
1998/99	28752.90	7515.92	26.14	21236.80	73.86
1999/00	33152.10	8951.50	27.00	24200.60	73.00
2000/01	38865.00	10159.40	26.14	28705.70	73.86
2001/02	39330.60	10597.50	26.94	28724.30	73.03
2002/03	40896.00	11815.40	28.89	30014.10	73.39
2003/04	48173.00	11912.60	24.73	36260.40	75.27
2004/05	54104.70	13071.80	24.16	41032.90	75.84
2005/06	57430.40	13968.10	24.32	43462.30	75.68
2006/07	71126.70	18980.30	26.69	52146.40	73.31
2007/08	85155.50	23087.70	27.11	62067.54	72.89
2008/09	117051.90	34320.70	29.32	82731.20	70.68
2009/10	156294.90	41749.89	26.71	114544.90	73.29

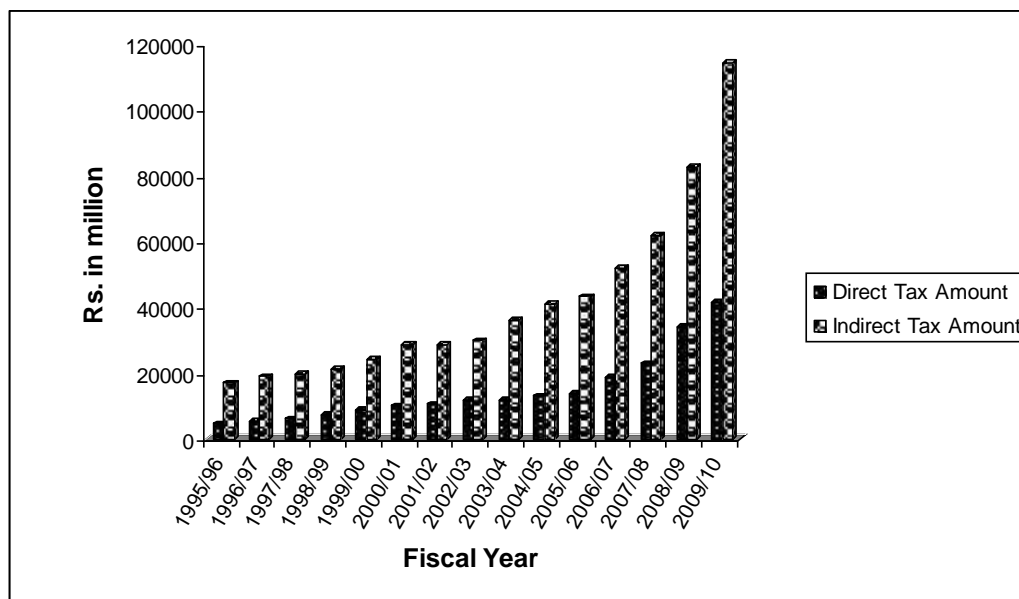
Source: Economic Survey, 2010/2011, MoF, GoN.

From the above table, it is clear that the Nepalese tax structure is completely dominated by indirect tax revenue. However, share of indirect tax as percentage of the total tax revenue is decreasing continuously. In the similar manner, share of the direct tax to total tax revenue is increasing in subsequent years. The average share of direct tax revenue in total revenue for the period 1995/96 to 2009/10 is 25.69 percent and the share of indirect tax revenue was 74.31 percent. The volume of direct tax and indirect tax was Rs. 4,655.90 million and Rs. 17,012.10 million that is 21.49 percent and 78.51 percent of total revenue respectively in the fiscal year 1995/96. The amount of direct tax revenue was increasing gradually from Rs. 4,655.90 million to Rs. 41,749.89 million from the fiscal year 1995/96 to 2009/10. The contribution of direct tax revenue to total revenue was minimum 21.49 percent in 1995/96 and maximum 29.32 percent in fiscal year 2008/09.

The amount of indirect tax revenue is also in increasing trend. It has increased from Rs. 17,012.10 million in year 1995/96 to Rs. 114,544.90 million in 2009/10. The percentage contribution of indirect tax to total tax revenue was decreasing trend from the fiscal year 1995/96 to 1998/99 but after than it was in fluctuating up-to the fiscal year 2009/10. The contribution of indirect tax revenue to total tax revenue was minimum 70.68 percent in 2008/09 and maximum 78.51 percent in the fiscal year 1995/96.

In developed economic like U.S.A., U.K. etc., direct tax plays a leading role for the internal resource mobilization whereas in developing countries like Nepal, indirect tax plays pioneering role by dominating direct tax. In general, how much direct tax can mobilize the internal resource shows the magnitude of economic development. But in the context of Nepal, indirect taxation is the principle source to generate revenue. Therefore, to divert the economy in the channel of development, it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax. Therefore, the attention should be focused on the sufficient resource mobilization through direct taxation.

Figure No. 4.3
Trend of Tax Revenue Structure



4.2.4 Direct Tax Revenue

Direct tax is actually paid by the person on whom it is imposed legally. By definition, direct tax is a charge imposed by government authority up to property, individual or transactions to raise money for public purpose. Direct tax is levied by the government on the income and wealth received by households and business enterprise in order to raise revenue and as an instrument of fiscal policy. Direct tax is so called because it is normally assumed that the real burden of payment which falls directly on the person or business enterprises. They are fully responsible to pay tax and cannot be passed on to anybody else. Direct tax is progressive because the amount, which is paid as tax, varies significantly according to the income and wealth of the taxpayer.

With very limited tax base and narrow coverage, direct tax in Nepal seems to less effective to mobilize the domestic resources. Although it is an inevitable instrument of the fiscal policy and hence it must be designed and practiced properly. In general, revenue productivity of the direct tax goes on increasing as the economy of the country grows over time. If the economy growth increases, per capita income per annum of that country will automatically raise. In depth, it means that it possesses the ability to pay direct tax. Thus, the magnitude of direct tax goes up and substitutes in the place of indirect tax's magnitude. So higher magnitude of the direct tax indicates a highly developed country. In contrast, lower the share of direct tax indicates to the less developed or developing country and hence country needs to accelerate the growth path by substituting the share of indirect tax to direct tax. Thus,

it lies as a minor source of tax revenue source of Nepal. In Nepalese economy, direct tax is the composition of different taxes namely income tax, land tax and wealth tax, interest tax, tax on registration etc.

In the current situation, income tax is one of the major sources of direct tax. Nepal is levying different types of income tax. Its categories are individual income tax, corporate income tax and house rent tax and interest tax. On the other side, property tax is another major direct tax. It includes land revenue, house and land registration and house and land tax.

4.2.5 Composition of Direct Tax Revenue

In Nepalese tax structure, the major components of direct taxes are income tax, land tax and house and land registration tax on property. Until the fiscal year 1993/94 vehicle tax was considered as a direct tax and since 1994/95's budget speech, it has been classified under the indirect tax. On the other hand, interest tax and urban house and land rent tax were included under the income tax since 1994/95. Thus, the contribution of direct tax has become larger. The share of the major components of the direct tax is given below.

Table No. 4.4
Composition of Direct Tax Revenue

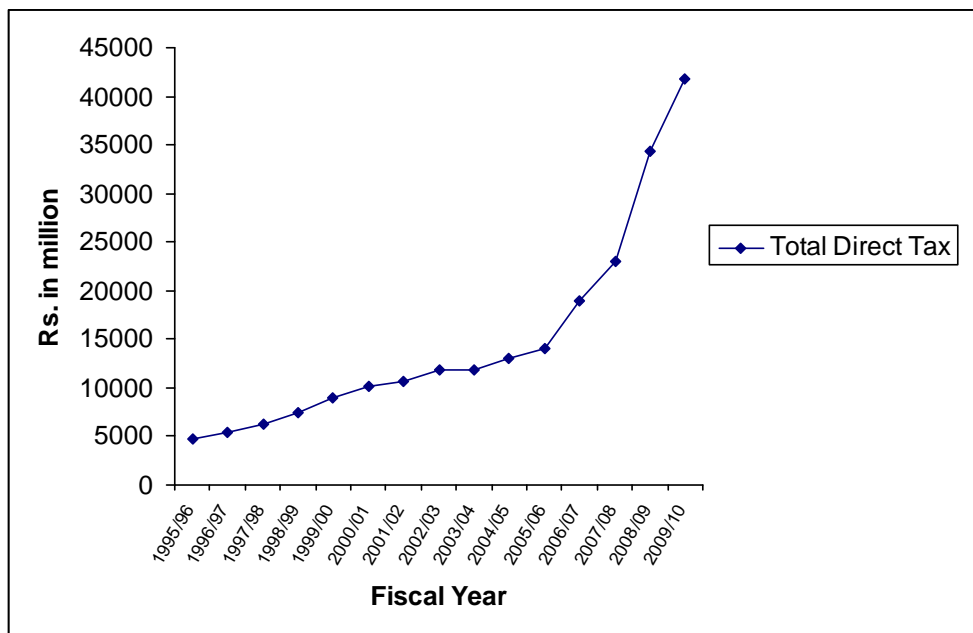
(Rs. in Millions)

Fiscal Year	Income Tax	Land Tax	House and Land Registration Tax	Tax on Property	Others	Total Direct Tax
1995/96	3431.40	18.20	1048.40	157.90	0.00	4655.90
1996/97	4123.40	5.90	1009.50	201.20	0.00	5340.00
1997/98	4898.10	3.60	1000.60	285.60	0.00	6187.90
1998/99	6170.02	1.40	1001.80	342.70	0.00	7515.92
1999/00	7420.60	4.60	1011.30	515.00	0.00	8951.50
2000/01	9114.00	5.10	607.80	432.50	0.00	10159.40
2001/02	8903.70	0.80	1131.00	562.00	0.00	10597.50
2002/03	9675.80	0.00	1414.30	559.50	165.80	11815.40
2003/04	9245.90	0.00	1697.50	700.60	268.60	11912.60
2004/05	10159.40	0.00	1799.20	806.50	306.70	13071.80
2005/06	10373.70	0.00	2181.10	847.60	565.70	13968.10
2006/07	15034.00	0.00	2253.50	995.00	697.80	18980.30
2007/08	17311.20	0.00	2940.70	1069.20	1766.60	23087.70
2008/09	25142.40	0.00	5223.30	1850.00	2105.00	34320.70
2009/10	31285.60	0.00	5511.10	2417.79	2535.40	41749.89

Source: Economy Survey, 2010/11, MoF, GoN.

From the above table, the largest share in the direct tax is occupied by income tax followed by house and land registration tax then tax on property *f* mainly transportation means. The contribution of income tax to direct tax is increasing continuously except in the fiscal year 2001/02 and 2003/04. Due to the conflict situation in the country, different organization was reduced, that is why income tax declined. The revenue collection from land tax is declining continuously. But it increased up to Rs. 4.6 million and Rs. 5.1 million in fiscal year 1999/00 and 2000/01 respectively. The revenue from house and land registration fluctuated in different fiscal years. Tax on property is in increasing trend. However, in total the direct tax is increasing continuously.

Figure No. 4.4
Trend of Direct Tax Revenue



4.2.6 Indirect Tax Revenue

Indirect tax is a popular approach concerning taxation implies in the world, is a very powerful missile of fiscal policy adopted in the especially for the optimum level of resource mobilizing with the principle -“more gain from the taxpayers, no pain to the taxpayers”. Theoretically, it is a tax, which falls firstly and directly on the taxpayers, but the persons must bear it sharing the tax burden. So, the real income is indirectly effects. In short, indirect tax is imposed on one person but it is paid either partly or wholly by another person. So the impact and the incidence of tax are on different persons.

Nepal depends heavily on the indirect tax rather than the direct tax because there is not any-good alternative especially for the optimum level of revenue

mobilization or resources mobilization on hand and on the other hand, wide spread poverty, heavy dependency on agriculture, snail's pace industrialization, low level income and very weak administration. Since 1951, indirect tax had grown rapidly and speedily. As indirect tax is effective and proper, it mobilize the internal resources. So most of the developing countries mobilize it effectively and properly of the domestic resources.

The major components of indirect tax in Nepalese tax structure constitute custom duty, excise duty, VAT, sales tax and contract tax. Custom duties are composed of mainly import duties, export duties. Other components of indirect tax like entertainment tax, hotel tax and contribute very nominal share because they are included in VAT since 1997. Others form of indirect taxes includes remission of Indian excise duties, road bridge tax and other taxes.

4.2.7 Composition of Indirect Tax Revenue

In Nepalese tax structure, the indirect tax refers to three categories of taxes namely customs duties, VAT/ sales tax and excise duties. The total indirect tax revenue realized during the study period, customs duties contributed the highest share followed by sales tax/VAT and excise duty. The share of the major components of the indirect taxes is given below.

Table No.4.5
Composition of Indirect Tax

(Rs. in Millions)

Fiscal Year	Customs Duties*	Sales Tax/VAT	Excise Duties**	Others Taxes***	Total Indirect Tax
1995/96	7327.40	6431.30	1944.30	1309.10	17012.10
1996/97	8309.10	7126.50	2298.10	1350.60	19084.30
1997/98	8502.20	7122.60	2885.80	1241.30	19751.90
1998/99	9517.70	8765.90	2953.20	0.00	21236.80
1999/00	10813.30	10259.70	3127.60	0.00	24200.60
2000/01	12552.10	12382.40	3771.20	0.00	28705.70
2001/02	12650.00	12267.30	3807.00	0.00	28724.30
2002/03	12783.20	13459.70	3771.20	0.00	30014.10
2003/04	15554.80	14478.90	6226.70	0.00	36260.40
2004/05	15701.60	18885.40	6445.90	0.00	41032.90
2005/06	15344.00	21610.70	6507.60	0.00	43462.30
2006/07	16707.60	26095.60	9343.20	0.00	52146.40
2007/08	21062.24	29815.70	11189.60	0.00	62067.54
2008/09	26792.90	39700.90	16220.90	16.50	82731.20
2009/10	3515.80	54920.90	24306.10	167.10	114544.90

Sources: Economic Survey, 2010/11, MoF, GoN.

* Customs duties include import export, Indian excise refund and others

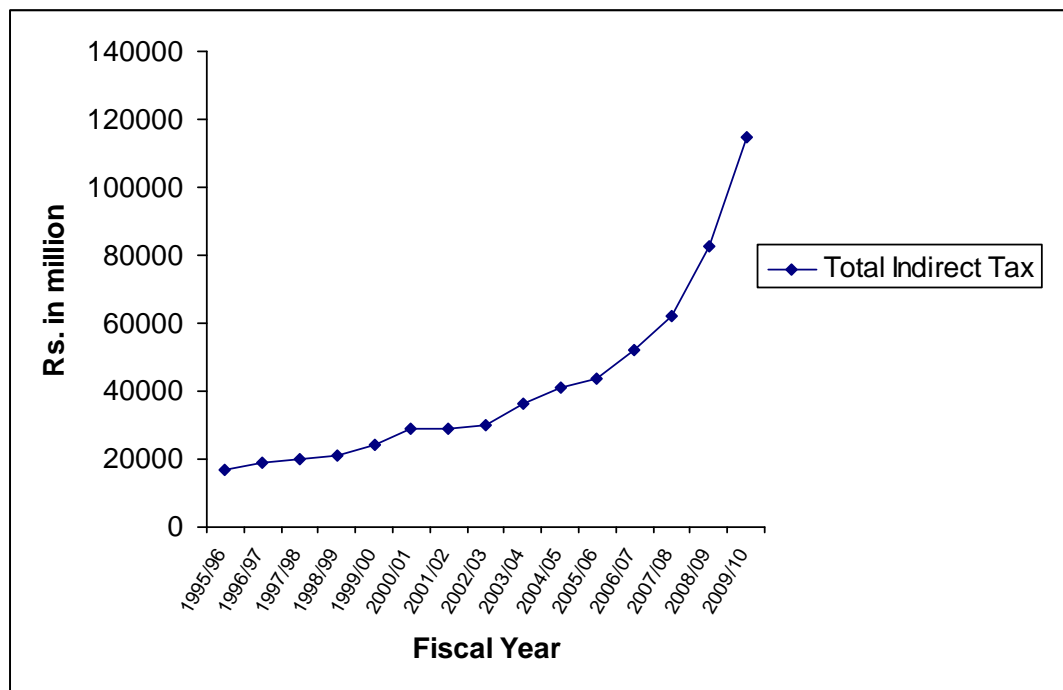
** Excise duties are the sum of taxation of industrial product and liquor contract.

*** Other taxes include entertainment tax, hotel tax, air flight tax, contract tax, road and bridges maintenance tax and others.

Above table shows, the contribution of customs duties to indirect tax is in increasing trend. Its share in the fiscal year 1995/96 was Rs. 7,327.40 million and it reached up to Rs. 35,150.80 million in the fiscal year 2009/10. Likewise, the share of sales tax/VAT to indirect tax is also in increasing trend which contributed Rs. 6,431.30 million in fiscal year 1995/96 and it reached up to Rs.54,920.90 million in the fiscal year 2009/10. Similarly, revenue collection from excise duties is increasing continuously in the subsequent year on the study period. Other tax increased up to 1996/97, there after it decreased. The other tax is nil in the fiscal year 2002/03 to 2007/08.

Figure No.4.5

Trend of Indirect Tax Revenue



4.2.8 Exemption Limit in Nepal

Exemption limits directly influence income tax revenue collection. Taxpayer 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 following table.

Table No. 4.6**Exemption Limit in Nepal (2024/25 to 2067/68)****(Amount in Rs.)**

Fiscal Year	Individual	Couple	Family
2024/25 to 2030/31	3,000	4,500	6,000
2031/32	4,500	6,000	6,000
2032/33	5,500	6,500	7,500
2033/34 to 2035/36	6,500	7,500	8,500
2036/37 to 2037/38	7,500		10,000
2038/39 to 2039/40	10,000		15,000
2040/41 to 2046/47	15,000		20,000
2047/48 to 2048/49	20,000		30,000
2049/50 to 2053/54	25,000		35,000
2054/55	30,000		40,000
2055/56	40,000		50,000
2056/57	50,000		60,000
2057/58	55,000		75,000
2058/59	55,000		75,000
2059/60	65,000		85,000
2060/61	85,000		100,000
2061/62	85,000		100,000
2062/63	100,000		125,000
2063/64	115,000		140,000
2064/65	115,000		140,000
2065/66	115,000		140,000
2066/67	160,000		200,000
2067/68	160,000		200,000

Source: Finance Acts of various years, MoF, GoN.

4.3 Income Tax Act 2058 B.S.

“Income Tax Act, 2058” was introduced from 19th Chaitra, 2058 B.S. This act replaced the income tax act 2031. The act was brought in Nepal to avoid the defects of Income Tax Act 1974 (2031). It consists of 143 sections along with 24 chapters. The main motto of this act is to promote the economic development of the nation. It is

a second income tax Act passed by the elected members of the Parliament in the history of Nepal. The Government of Nepal (at that time called His Majesty's Government of Nepal) enacted Income Tax Rules 2058 B.S. (ITR, 2002) in 2059 B.S. (2002) as the provision laid down in the ITA 2002. The new act has retained and curtailed certain provision of the old tax act and has added certain new provisions.

4.3.1 Objectives of Income Tax Act, 2058 B.S.

According to the policy maker, following are the main objectives of ITA 2058:

-) To increase the tax coverage.
-) To bring all the income generation activities within tax net.
-) To bring all the income tax related provision within one act.
-) To make income tax related provision clear and transparent.
-) To interlink Nepalese tax system with tax system of other countries.
-) To make tax system based on account.
-) To minimize tax avoidance and tax evasion.
-) To make tax system compatible to modern economy.
-) Reducing the scope of discretionary interpretation of the tax administration thereby insuring simplicity, uniformity and the transparency.
-) Separating administrative and judicial responsibilities.
-) Defining the power as well as authority of tax administration.
-) Making more responsible to taxpayer by emphasizing on self tax assessment system.

4.4 Sources of Income

Income tax act 2058 has classified the sources of income for the purpose of assessment under the following headings:

- i) Income from Business
- ii) Income from Investment
- iii) Income from Employment

i) Income from Business

Income Tax Act, 2058 has defined the business income for income purpose. Profits of gains from conducting the business are considered as business income for the purpose of income tax, while calculating a person's profit and gains from the business the following amounts derived by the person during the year will be included and following expenses are deducted.

Incomes are as follows:

-) Service charge (Sec. 7.2).
-) Sale or disposal of business/trading stock (Sec. 7.2).
-) Net gain from disposal of business assets liabilities under chapter 8 (Sec. 7.2).
-) Gain from disposal of pool of depreciable assets (Sec. 7.2).
-) Prizes or gifts in connection with business (Sec. 7.2).
-) Amount received instead of acceptance of any restriction regarding business (Sec. 7.2).
-) Amount received from any investment directly related to business (Sec. 7.2).
-) Incomes to be included due to change in accounting methods (Sec. 22.6).
-) Excess amounts received due to exchange rate variation (Sec. 24.4).
-) Bad debts recovered (Sec. 25.1).
-) Proportionate amounts received under long-term contracts (Sec. 25.1).
-) Under payment of interest according to market rate (Sec. 27.1).
-) Receivable amounts paid by other (Sec. 29).
-) Amount received for compensation (Sec. 31).
-) Other amount received under business income (Sec. 7.2).

Allowable deductions:

-) Interest expenses (Sec.14).
-) Cost of business/trading stock (Sec. 15).
-) Repair and improvement cost (Sec. 16).

-) Pollution control cost (Sec. 17).
-) Research and development cost (Sec.19).
-) Depreciation (Sec. 19)
-) Loss from banking business (Sec. 59).
-) Other expenses.

While calculating income tax from the business, the following amounts are excluded income from business for tax purpose.

-) Exempt amounts under section 10.
-) Taxation of dividends under section 54 (See economic ordinance 2061).
-) Final withholding payments (Sec. 92).

ii) Income from Investment

Profit and gains from conducting and investment are considered as investment income. For calculating a person's profits and gains from an investment for an income year the following amounts derived by the person during the year should be induced. Following list shows the including amount & excluding amount in investment income.(See ITA, 2058 for detail)

Following incomes are included in investment income:

-) Any dividend, interest, natural resources payment, rent, royalty gain from investment insurance, gain from an unapproved retirement payment or retirement fund from approved retirement fund (Sec. 9.2).
-) Net gain from the disposal of the non business chargeable assets of investment (Sec.9.2).
-) Excess amount of income over the depreciation basis including outings on the disposal of the depreciable assets of the investment of the person (Sec.9.2).
-) Gifts & prize received in connection with investment (Sec. 9.2)
-) Retirement contribution, including those paid to a retirement funds in respects of the person and retirement payments in respect of investment (Sec. 9.2).

-) Amount received instead of acceptance of any restriction regarding investment (Sec. 9.2).
-) Amount included under change of accounting method (Sec. 24).
-) Bad debts recovered (Sec. 25).
-) Under payment of interest amount according to market price (Sec. 27.1).
-) Excess amount received in exchange of currency (Sec. 28).
-) Amount received as composition (Sec. 31).
-) Other amounts required to be included on tax accounting or quantification, allocation and characterization so amounts or transition between any entity and beneficiary on general insurance business (Sec. 9.2).

The following are excluded from investment income for tax purpose:

-) Exempt amounts under section 10.
-) Taxation of dividends under section 54.
-) Final withholding payment under section 92.
-) Amounts that are included in calculation the person's income from any employment or business.

Allowable deduction:

-) General deduction (Sec.13).
-) Interest (Sec. 14).
-) Repair and improvement cost (Sec. 16).
-) Depreciation (Sec. 19).
-) Business or investment loss (Sec. 20).
-) Donations to tax exempt organization (Sec.12).
-) Retirement contribution (Sec.63).

iii) Income from Employment

An individual remuneration income from employment is termed as income from employment. All payments or benefits received in respect of employment,

including past or future employment are made taxable income. According to sec. 8, the remuneration received by a person from the employment is as following payments made by the employer. (See ITA, 2058 for detail)

Following employment incomes are included for tax purpose.

-) Payments of wages, salary, leave pay, overtime pay, fees, prize and gifts related to employment, banks and other facilities. (Sec.8.2)
-) Payments of living allowance, rent, entertainment and transportations allowance and any other personal allowances. (Sec. 8.2)
-) Payments of reimbursement of cost incurred by the individual or associate of the individual. (Sec.8.9)
-) Payments for the agreement of any condition of the employments. (Sec. 8.2)
-) Payments for the compulsory terminates, loss or redundancy of the employment.(Sec. 8.2)
-) Retirement contribution amount paid by the employer to the retirement fund in respect of the employee. (Sec. 8.2)
-) Other payment in respect of the employment.
-) Other amounts required to be included as per chapter 6 or 7.
-) In addition to above stated, the following types of perquisites are included in remuneration of a person.
 -) Prize and gifts.
 -) Other payments made in respect of employment.
 -) The amount of difference of the interest on loan paid by employer lower rate than the market rate.
 -) Market value of assets in case of the transfer of the assets.
 -) For the payment other than stated above, the value of benefit of the payment of a third person.

While computing net income from employment of a natural person, the following amounts are excluded on employment income:

-) Amounts exempt under section 10 and final withholding payments.
-) Meals or refreshment provided by premises operated by or behalf of an employer to the employer's employees that are available to all the employees in similar terms.
-) Payments of prescribed small amount, which rare so small and thus unreasonable or administratively impractical to make accounting for them.
-) Any discharge or reimbursement of cost incurred by the individual cost.
-) Costs that serve the proper business purpose for the employer.
-) Costs that are or would be deductively in calculating the individuals income from any business or investment.

Following expenses can be deducted while calculating employment income.

-) Directly related cost for generating employment income.
-) Contribution to retirement fund (Provident fund, citizen investment fund and others).
-) Donation (5% of adjusted taxable income or 10,000 whichever is less).

4.5 Tax Exempt Organization

Exempt organization means any entity that should not pay tax legally. Non profitable organizations are provided such facilities. ITA 2058 has clearly mentioned the tax exempt organizations in sec. 2.

Following are the tax exempt organizations:

-) A religious, educational or charitable organization of a public character.
-) An amateur sporting association formed for the purpose of promoting social or sporting amenities not involving the acquisition of gain.
-) A political party registered with the election commission.
-) A village development committee, municipality or district development committee.
-) Nepal Rastra Bank.
-) Government of Nepal.

However, any benefit acquired by any person out of assets of an amounts derived by the entity except in pursuit of the entity's function or as payment for assets or services rendered to the entity by the person is not exempt from the tax.

ITA 2058 has mentioned the organizations, which are tax-free (exempt organization). Act has exempted a social, religious, educational or charitable organization of a public character registered without having profit motive.

4.5.1 Tax Exempt Amounts or Inadmissible Income

According to the ITA 2058, sec. 10, following are the tax exempt amounts:

-) Amount derived by a person entitled to privilege under bilateral or a multilateral treaty between Government of Nepal and a foreign country or an international organization.
-) Remuneration of an individual from employment in the public service of the government of a foreign country, provided that:
 - a) The individual is a resident person solely by reasons of performing the employment or is a non-resident person and
 - b) The amounts are payable from the public funds of the country.
-) Amount derived from public fund of the foreign country by an individual who is not a citizen of Nepal or by a member of the immediate family of the individual.
-) Remuneration paid by Government of Nepal to foreigner on condition of tax exemption.
-) Allowance paid by government to widows, elder citizens or disabled ones.
-) Amount derived by way of gift, bequest inheritance or scholarships which are included in income from business, employment or investment income are tax exempt.
-) Pension received by a Nepalese as retired army/police of a foreign country, from public fund of foreign government and

Amount derived by an exempt organization by way of:

- a. Gifts (donation)

- b. Other contribution that directly related to the exempt organization's function.
- c. Amount derived by Nepal Rastra Bank as per its objectives.

Non-includable amounts on investment income.

The act has mentioned the amounts, which are excluded in computing income from an investment under section 9.3. They are:

- a. Exempt amount under sec. 10.
- b. Taxation of dividend under section 54.
- c. Dividends distributed by a controlled foreign entity at the end of the year under section 69 and final withholding payments, and
- d. Amounts, which are included in calculating the person's income from any employment or business.

i) Business Exemptions and Concessions (Sec.11)

The following business exemptions and concessions are mentioned in section 11 of ITA 2058.

-) An agricultural income derived from sources in Nepal during an income year by a person, other than the income from an agriculture business derived by a registered firm or partnership or a corporate body.
-) Income derived by co-operative societies registered under co-operative act 2048 from business mainly based on agriculture and forest products and dividend distributed by such societies are exempted from tax.
-) Any person operation special industry during the whole income year will be taxed as under:
 - a. In case, the industry provides direct employment to 600 or more Nepali citizens during the year, 90% of the applicable tax rate is applied.
 - b. In case, the industry operated in a remote undeveloped or underdeveloped area taxed at 70%, 75%, 80% or the applicable tax rate respectively up to

ten income years commencing from and including the year in which the operation commence.

c. If both exemptions (a & b) are available to the same industry for same income year, only one exemption must be chose.

) A person who is entitled to an exemption as per sub-clause(a) (b) or clause 11 he/she should calculate the income as referred to in those sub-classes as though the income was the only income derived by a separate person.

) If the assets used by the special industry were used previously by another person operating the similar type of special industry the ten year for the letter will be counted from the period of such use by the another person previously.

) If any agreement made by govt. and any person constructing and operating infrastructure project to construct and operate an infrastructure project and such agreement provide any tax facility given by this act. In this condition, the person (project) can consume the facility till to the period stated in the agreement.

ii) Donations and Gifts to Tax Exempt Organization (Sec. 12)

Income Tax Act 2058, Sec. 12 has mentioned the provisions of donation and gifts to exempt organization. The provisions are:

a.) A person may claim to have their taxable income for an income year reduced by donation (gifts) made by the person during the year to an exempt organization, that are approved for the purpose of this section by the department.

b.) Notwithstanding subsection (a) reductions allowed to a person under subsection (1) for an income year shall not exceed Rs. 100,000 or 5% of the person's taxable income for the year calculated without a deduction for gifts referred to in subsection (a) and ignoring the limitations in 17 (2) and 18 (2) whichever is lower.

c.) Notwithstanding subsection (a) and (b), Government of Nepal may prescribe by a notification in the Nepal Gazette as to allow full or partial deduction at the time of assessing a person's income of the expenses incurred for special purpose or the expenses of gift given by the person.

- d.) From the above provision (a), it is clear that the donation given to political parties is allowed for deduction. But it is not clearly mentioned that ‘transparency of donation amount given by businessmen to political parties’.
- e.) Similarly, in the provision (c), there is a provision of special purpose. But the act has not defined ‘what is the special purpose?’

4.6 Allowable Deductions

Income Tax Act 2058, chapter 5 has provided the provision relating to expenses, which are allowed for deduction. Sec. 13 to 20 has described the allowable deductions, which are as follows:

i) General Deductions (Sec. 13)

- i) To calculate a person’s income from any business or investment for an income year the interest expenses can be deducted in the following conditions:
 - a. If the borrowed money is used in that year;
 - b. If the money borrowed to purchase assets, the assets must be used in that year.
 - c. In other case, the borrowed money is used to generate income from business or investment.
- ii.) In case of resident entity controlled by a tax exempted institution and that entity has paid interest to the controller institution or related person, the resident entity may deduct the interest paid without exceeding the sum of following;
 - a. Total interest derived by that entity which is included in taxable income, and
 - b. 50% of the entity’s adjusted taxable income for the year calculated without including any interest received and without deducting any interest expenses paid by the entity.
- iii) The portion of the interest, which is not deducted during the current income year because of the limitation. So, remaining portion will be deducted in next income year.

iv.) For this purpose, the controller entity means the institution holding of 25% or more of equity or managerial power at any time during the income year.

v.) Here, tax exempted institution means;

a. Tax exempted entity and related person.

b. Entities getting business concession and facilities under sec. 11.

c. Non-resident person or his related person or

d. Any combination of (a), (b) and (c)

ii) Interest Expenses (Sec. 14)

To calculate a person's income from any business or investment for an income year the following costs incurred in the transaction can be deducted.

a. Incurred during the year.

b. Incurred by the concerned person.

c. The cost, which is incurred to produce income from business or investment.

iii) Cost of Trading Stock (Sec.15)

Cost of trading stock is allowable to deduct while calculating income from business. Following points are important for this purpose:

i.) Raw material, work-in-progress and finished goods are included in trading stock.

ii.) Trading stock can be derived by using following formula.

Cost of trading stock = Opening stock + Purchased during the year - Closing stock.

iii.) To evaluate the closing stock market price or cost price whichever is less is taken.

iv.) The person keeping accounts on a cash basis can adopt either the prime cost or factory cost as basis for the valuation of trading stock. The person keeping accounts on accrual basis must adopt factory cost basis for the valuation of trading stock.

- v.) Repair and improvement expenses and depreciation of plant and machinery should not be added while calculating factory overhead or variable factory overhead.

iv) Repair and Improvement Cost (Sec.16)

- i.) For the purpose of calculating a person's income for an income year from any business or investment, repair and improvement cost of depreciable assets, owned and used by the person should be deducted which is incurred during the year.
- ii.) However, according to the act, such costs do the end of the income year.
- iii) If the actual repair and improvement cost is more than 7% of the assets pool, the balance is capitalized and added to the depreciation basis then written off in next year.
- iv.) 7% of depreciation basis or actual repair and improvement cost whichever less is allowable for deduction.

v) Pollution Control Cost (Sec.17)

-) Pollution control cost means costs incurred by a person in the process that seeks to control pollution or protect and conserve the environment.
-) To calculate a person's income for an income year from any business, the pollution control costs can be deducted that is incurred during the year in conducting the business.
-) However, the lower amount of the below is deducted.
 - a. Actual pollution control cost or
 - b. 50% of adjusted taxable income from all business.
-) The portion of pollution control cost not allowed as deduction will be capitalized at the beginning of the next income year under block 'D' of asset pool.
-) Government has a will of controlling pollution to protect the environment but has not spent a little bit money on it.

vi) Research and Development Cost (Sec. 18)

-) R & D cost means cost incurred by the person for the purpose of developing and improving the business system, process, products etc.
-) R & D cost though the cost of capital nature are allowed for deduction to an extent from taxable income of the person.
-) The lower amount of below is deducted.
 - i) Actual research and development cost, or
 - ii) 50% of adjusted taxable income from all business.
-) The portion of R & D cost not allowed for deduction in the income year is capitalized at the beginning of next income year under block 'D' of assets pool.
-) Here, adjusted taxable income of a person for an income year is the taxable income without reducing donation (Sec. 12) and without deduction of pollution control cost (Sec. 17) and R & D cost (Sec.18).

vii) Depreciation Cost (Sec. 19)

-) Depreciation is the gradually decreasing in the value of assets due to wear and tear, obsolescence or the passing of time.
-) Depreciation at prescribed rate is allowed to deduct on used depreciable assets owned by the person or organization.
-) There are different rate of depreciation for different blocks. 5% for 'A' block, 25% for 'B', 20% for 'C' and 15% for 'D' block.
-) Depreciation cost amount = Depreciation basis | Applicable rate of the block of assets.
-) The following entities are allowed additional depreciation, 1/3rd of the prescribed rate on the assets falling under A, B, C and D blocks.
 - i) Entity engaged in building public infrastructure to transfer to the government and any other entity engaged in power generation, transmission or distribution of electricity.
 - ii) Entity fully engaged in operating special industry.

- iii) Entity fully engaged in operating road, bridge, tunnel, ropeway or flying bridge constructed by the entity.
 - iv) The entity fully engaged in operating trolley bus or train.
 - v) The entity, which earned income from export business in an income year.
- J) An individual cannot get such facilities (1/3rd additional depreciation) even though, he/she is operating similar activities.

4.7 Losses from Business or Investment (Sec.20)

- A. While calculating income from business for an income year following losses are allowed for deduction.
- i) Any unrelieved loss of the year incurred by the person from any other business, and
 - ii) Any unrelieved loss of previous four-income year incurred by the person from any business.
- B. While calculating income from investment following losses are allowed for deduction.
- i) Any unrelieved loss of the year incurred by the person from a business or investment.
 - ii) Any unrelieved loss of the previous four-income year incurred by the person from any business.

4.7.1 Bad Debts (Sec. 25.2)

Under the following condition bad debts can be deducted;

- i) If the outstanding loan of bank or financial institution has become a bad debt in accordance with the standards prescribed by Nepal Rastra Bank.
- ii) Apart from Sec. (i) the person believes that the receivable amount could not be recovered after taking reasonable steps to recover the amount or loans.

4.7.2 Allowable Reduction

i) Donation to Exempt Organization

Donation made to an exempt organization approved by Inland Revenue Department (IRD) is allowed for reduction from taxable income.

- a. If the donation given by the person or entity, Rs. 100,000 or 5% of adjusted taxable income whichever is less is allowable for reduction.
- b. Donation made to Pashupati Area Development Trust (PADT) and Lumbini Area Development Trust (LADT) is deductible up to Rs. 50 lakh.

ii) Retirement Contribution (Sec.63)

An individual who is receiving of a retirement fund may claim a reduction for retirement contributions made to the fund. However, claim made by an individual for an income year will not be the prescribed retirement limit.

iii) Tax Credit

a. Medical Tax Credit (Sec. 51)

An individual may make a claim for tax off-set of medical expenses incurred for him. 15% of the eligible medical expenses or Rs. 750 whichever is less is allowable for deduction. It can be deducted from total tax liability.

b. Foreign Tax Credit (Sec.71)

A resident person may claim a foreign tax credit for an income year for any foreign income tax paid to the person to the extent to which it paid with respects to the person's assessable foreign income for the year.

-) The maximum allowable foreign tax credit to a person is calculated by applying following formula.
-) $\text{Foreign Tax Credit} = \text{Assessable income from foreign sources} \mid \text{Average rate of Income Tax in Nepal.}$
-) $\text{Average rate of Income Tax in Nepal} = \frac{\text{total tax amount (payable) before any foreign tax credit}}{\text{Total Taxable Income}} \mid 100$

4.7.3 Expenses not allowed for Deductions

For calculating the income of a person for an income year from any business, employment or investment; the following expenses are not allowed for deduction under section 21 of Income Tax Act 2058.

- i) Expenses of domestic or personal nature.
- ii) Tax paid under this act.

- iii) Fines and penalties paid to government or its local bodies for breaching of any law or regulations.
- iv) Expenses to the extent to which a person in deriving exempt amounts under section 10 or final withholding payments incurred by them.
- v) Expenses for payment made by a person whose annual turnover for an income year exceeds Rs. 20,00,000 are not allowed a deduction for a cash payment in excess of Rs.50, 000 incurred at once other than in specified conditions.
- vi) Distribution of profit by an entity such as dividend reserves, bonus etc.
- vii) Expenses of capital nature.
- viii) Foreign income tax.
- ix) Any other amount to the extent to which a deduction is not denied by above program i, ii, iii, iv or v except as provided by this chapter or chapters 6, 7, 10, 11, 12 or 13.

4.8 Empirical Study

An empirical investigation was conducted in order to explore the various aspects of income tax from the experience of the real world. In this empirical study, the analysis has been done about income tax based on information collected from the tax experts, tax administrators (tax officers) and taxpayers. The major tool used for this purpose is questionnaire.

In this study, 15 questions were asked to 50 different individuals related to this field i.e. tax experts, tax administrators (tax officers) and taxpayers. The questionnaires have covered various aspects of income tax concerning with the exemptions and deductions (see the format of questionnaire in appendix). The respondents were asked either to response yes/no or selecting one alternative among different alternatives. Information received from the respondents are tabulated and analyzed in the proper way. The following table shows the group and no. of respondents.

Table No. 4.7

Classification of Respondents

S.N.	Group of Respondents	Number
1.	Tax Experts	10
2.	Tax Administrators (Officers)	15
3.	Taxpayers	25
	Total	50

Result of Empirical Investigation

A. Opinion about the current income tax

To know the opinion of the current income tax, a question was asked to the respondents as "What is your opinion about the current income tax rate?" The responses received from the respondents are tabulated as follows:

Table No. 4.8

Opinion about Current Income Tax Rate

Respondents	Tax Experts	Tax Administrators	Taxpayers	Total	
				No.	%
High	2	4	17	23	46
Medium	7	9	8	24	48
Low	1	2	0	3	6
Total	10	15	25	50	100

Source: Opinion Survey

From the above table, it was found that cent percent responses of the questions were received. Out of total responses, 46 percent respondents agreed that the current income tax rate is high, 48 percent respondents agreed that the tax rate is medium whereas only 6 percent respondents agreed that the current income tax rate is low. From the above table it can be concluded that majority of respondents think the current income tax rate is medium.

B. Sufficiency of Exempted Items of Income Tax

To know about the opinion about the current income tax, the researcher asked the question to the respondents as "Do you think that exempted items of income tax are sufficient? The following tables shows the responses obtained from the respondents.

Table No.4.9

Sufficiency of Exempted Items of Income Tax

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	6	60	4	40	10	100
Tax Administrators	12	80	3	20	15	100
Taxpayers	14	56	11	44	25	100
Total	31	62	19	38	50	100

Source: Opinion Survey

From the above table, 62 percent respondents agreed that the exempted items are sufficient. 38 percent respondents were disagreed about the sufficiency of exempted items. Majority of tax administrators feel that they do not want to make bias against government. As who gave the negative responses about the sufficiency of exempted items of income were asked another question as "If no, what kind of income should be exempted from income tax?" they were requested to write in the blank numbers. Most of the respondents did not provide any responses about it. Only two tax experts, five tax administrators and three taxpayers provided suggestions, which are mentioned below;

-) Income from life insurance premium.
-) Remote area allowance.
-) Awards and Rewards.
-) Income from deprived sector, industries that generated employments.
-) Retirement benefits.
-) Income from cottage industries.
-) Income from supply of basic goods.

C. About the Deductible Expenses as Provided by ITA, 2002

To know about the deductible expenses as provided by ITA, 2002 are sufficient or not, a question was asked as "Do you think that the deductible expenses as provided by ITA are sufficient? Responses received from the respondents are shown in the following table.

Table No. 4.10

Sufficiency of Deductible Expenses as Provided by ITA

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	6	60	4	40	10	100
Tax Administrators	8	53	7	47	15	100
Taxpayers	15	60	10	40	25	100
Total	29	58	21	42	50	100

Source: Opinion Survey

From the above table, it was found that out of total respondents 58 percent respondents agreed that the deductible expenses as provided by ITA, 2058 are sufficient whereas only 42 percent respondents were not satisfied with present deductible expenses. 60 percent tax experts and taxpayers agreed and 40 percent disagreed with it. Likewise, 53 percent tax administrators agreed and 47 percent disagreed about the present deductible facilities as provided by ITA, 2058. From the information mentioned in the above table, it can be said that majority of the respondents agreed about the present deductible facility as provided by ITA, 2058. On the other hand, another question was put to the respondents who gave negative responses as "If no, what kind of additional expenses should be allowed for deduction from income? They provided the following suggestions.

-) Educational expenses, expenditure under agricultural development, medical expenses must be deductible.
-) House rent allowance, Tiffin allowance.
-) Unseen loss must be deductible.
-) Tuition fee, children education expenses.

) Medical expenses should be allowed to deduct from the assessable income irrespective of prescribed limit based upon the certified bills by the doctor. And other casual expenses should be deductible separately except exemption limit.

D. Sufficiency/Appropriateness of Income Tax Exemption Limit

To know about the sufficiency and appropriateness of current income tax a question was asked to the respondents as "Do you think that the current income tax exemption limit is appropriate/ sufficient? Responses obtained from respondents have been shown in following table;

Table No.4.11

Sufficiency/Appropriateness of Income Tax Exemption Limit

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	6	60	4	40	10	100
Tax Administrators	12	80	3	20	15	100
Taxpayers	15	60	10	40	25	100
Total	33	66	17	34	50	100

Source: Opinion Survey

From the above table, 80 percent tax administrators, 60 percent tax experts and taxpayers think income tax exemption limits are sufficient or appropriate. In aggregate, 66 percent respondents agreed about the sufficiency/appropriateness of income tax exemption limits.

On the other hand, respondents who were against the sufficiency appropriateness of current exemption limit were asked another question, "If no, how much the exemption limit should be for an individual unit? For this, different options were given to the respondents. The responses of the respondents are tabulated as follows;

Table No. 4.12**Exemption Limit for an Individual Unit**

Options	Respondents			Total	
	Tax Experts	Tax Administrators	Taxpayers	No.	%
Rs.200,000	1	-	7	8	47
Rs.180,000	2	3	3	8	47
Rs.160,000	1	-	-	1	6
Rs.140,000	-	-	-	-	-
Other (if any)	-	-	-	-	-
Total	4	3	10	17	100

Source: Opinion Survey

By observing the table, it was found that 47 percent of the respondents suggested that the exemption limit should be Rs.200,000 and Rs.180,000 respectively. 6 percent respondents think that it should be Rs. 160,000.

From the above table as well as personal discussion with the respondents, it is explored that according to the economic condition and income level of Nepalese people, it is identified that appropriate exemption limit for an individual should be between Rs.180,000 and Rs.200,000.

Similarly, a question was raised on the topic of exemption limit for the respondents for a family as "How much exemption limit should be for a family?" The responses are presented in the following table:

Table No.4.13**Exemption Limit for a Family**

Options	Respondents			Total	
	Tax Experts	Tax Administrators	Taxpayers	No.	%
Rs.250,000	-	-	4	4	24
Rs.230,000	1	-	5	6	35
Rs.210,000	2	2	1	5	29
Rs.190,000	1	1	-	2	12
Rs.170,000	-	-	-	-	-
Other (if any)	-	-	-	-	-
Total	4	3	10	17	100

Source: Opinion Survey

From the above table, it was found that 24 percent suggested for Rs.250,000 as exemption limit for a family or couple,35 Percent respondents suggested for Rs.230,000 whereas 29 percent specified for Rs.210,000 and 12 percent respondents suggested Rs.190,000. No responses were given for Rs.170, 000 and other by the respondents.

E. Exemption Limit on the basis of Number of Dependents

ITA has provided exemption limit to a family or couple. However, it has not mentioned the number of dependents in a family. So, to know the opinion of the respondents, the exemption limit of a family must be provided based on number of dependents. A question was put as "Do you agree that family exemption must be provided according to the number of dependent? The responses of the respondents are tabulated as below:

Table No.4.14

Family Exemption Limit based on Number of Dependents

	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	4	40	6	60	10	100
Tax Administrators	5	33	10	67	15	100
Taxpayers	22	88	3	12	25	100
Total	37	74	13	26	50	100

Source: Opinion Survey

Above table shows that cent percent responses was received. 74 percent respondents agreed that the exemption limit must be provided according to the number of dependents. 26 percent respondents disagreed to provide exemption according to the number of dependents. Majority taxpayers agreed with the question but majority tax experts and tax administrators disagreed with it.

On the personal discussion with the respondents, the researcher found that the respondents were supporting to provide exemption limit to a family according to the number of dependents but it is very difficult to implement in practical field.

F. Exemption Limit based on Inflation Situation of the Country

To know the opinion of the respondents whether the exemption limit should be provided according to the inflation situation of the country. The question was asked as "Do you feel that exemption limit should be adjusted according to the inflation & situation of the country? The responses of the respondents are tabulated as below:

Table No.4.15

Exemption Limit According to the Inflation & Situation of the Country

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	8	70	2	30	10	100
Tax administrators	12	80	3		15	100
Taxpayers	23	92	2	8	25	100
Total	43	86	7	14	50	100

Source: Opinion Survey

From the above table, it is clear that cent percent response was received. According to the table, 86 percent respondents agreed to adjust the exemption limit according to the inflation situation of the country. 14 percent respondents disagreed about it. From the personal discussion with the respondents, the researcher found that the inflation situation could be calculated by the authorized body of the country. So, exemption limit can be provided according to the inflation situation.

G. Opinion on Providing Additional Exemption Limit to the Persons who are Working in Different Remote Areas

To know the view of the respondents about additional exemption which is given to the persons, who are working in different remote area of the country is suitable or not, a question was put as " An individual working in remote area A, B, C, D, and E can get an additional exemption of Rs.30,000; Rs.24,000; Rs18,000; Rs.12,000 and Rs.6,000 respectively, is it suitable? The responses of the respondents are tabulated as follows:

Table No. 4.16

Opinion on Providing Additional Exemption to the Individual Working in Different Remote Areas

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	6	60	4	40	10	100
Tax Administrators	13	87	2	13	15	100
Taxpayers	17	68	8	32	25	100
Total	36	72	14	28	50	100

Source: Opinion Survey

According to the table, 72 percent respondents agreed that the current additional exemption limit to the individual who are working in different remote area was sufficient. 28 percent respondents disagreed with the current additional exemption facility. According to the table, majority respondents were agreed with the current additional exemption limit for an individual who are working in different remote areas is proper or suitable.

On the personal discussion with the respondents, it was found that according to the economic condition and per capita income of the country, current additional tax exemption facilities to the individual working in different area are suitable or proper.

Similarly, a question was asked to know the opinion of the respondents who disagreed in current additional exemption limit to the individual who are working in different remote areas. The question was asked as "If no, how much exemption limit should be?"

Out of 14 respondents who responded as no, six respondents did not mention anything. Five respondents suggested having the amount given in the following table;

Area	A	B	C	D	E
Amount (Rs.)	50,000	40,000	30,000	20,000	10,000

On the other hand, other three respondents suggested the following points:

-) It should be interlinked with local circumstances.
-) It should be adjusted as per the life style of the area.

-) It should be adjusted as per the availability of basic needs.
-) Remote area allowance must be exempted fully.

H. Opinion on Insurance Premium Deducting Facility

ITA 2058 has provided deduction facility of insurance premium. At present, actual premium or Rs. 20,000 whichever is less is allowed to deduct. To know the view of respondents about the deduction facility of insurance premium provided by ITA 2058, is suitable/proper or not, a question was asked as " An individual is facilitated that actual insurance premium or Rs.20,000 whichever is less is allowed for deduction, is it suitable or proper?" The responses of the respondents are presented as below:

Table No. 4.17

Opinion on Insurance Premium Deducting Facility

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	6	60	4	40	10	100
Tax Administrators	11	73	4	27	15	100
Taxpayers	16	64	9	36	25	100
Total	33	66	17	34	50	100

Source: Opinion Survey

The above table shows that out of 50 respondents, 66 percent respondents agreed with current deduction facility on the insurance premium. 34 percent respondents disagreed with the current facility providing by the Income Tax Act, 2058.

From the above table as well as on the personal discussion with the respondents the researcher identified that according to the income level and economic condition of the people of Nepal, the current deduction facility of insurance premium is proper or suitable.

Similarly, another question was put to the respondents who responded as 'No' on above question. To know the opinion of the respondents, a question was asked, "If no, how much it should be facilitated?" Responses are tabulated as follows:

Table No. 4.18

Opinion on How much Insurance Premium should be Facilitated

Respondents	Tax Experts	Tax Administrators	Taxpayers	Total	
				No	%
5% of insured sum or Rs. 10,000	-	-	-	-	-
7% of insured sum or Rs. 15,000	2	3	3	8	47
10% of insured sum or Rs.20,000	2	1	6	9	53
Other(if any, specify)	-	-	-	-	-
Total	4	4	9	17	100

Source: Opinion Survey

The above table shows that 47 percent respondents agreed that 7 percent of insured sum or Rs.15,000 whichever is less must be deductible as insurance premium and 53percent respondents agreed to 10 percent insured sum or Rs.20,000 whichever is less is must be deductible as insurance premium.

From the above table, it can be concluded that, 10 percent of insured sum or Rs. 20,000 whichever is less can be suitable for deduction.

I. Additional Tax Exempt Facility to the Special Industries Established in Different Areas

Income Tax Act, 2058 has provided additional exemption facility for 10-income year to the special industries established in different areas. To know the view of the respondents about such facility, the following question was asked as "Special industries established in undeveloped and underdeveloped areas should pay tax 75% and 80% respectively of the tax rate, and it is applicable for 10 income years, is it suitable or proper? The responses are tabulated as follows;

Table No.4.19

Additional Tax Exempt Facility to the Special Industries Established in Different Areas

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	8	80	2	20	10	100
Tax Administrators	10	67	5	33	15	100
Taxpayers	18	72	7	28	25	100
Total	36	72	14	28	50	100

Source: Opinion Survey

By observing the above table, it can be said that 72 percent respondents agreed with the current additional exemption facility (25 percent for undeveloped areas and 20 percent for underdeveloped areas) to the special industries established in different area, which is applicable for 10-income year. 28 percent or 14 respondents disagreed with the present additional tax exemption facility to the special industries established in different areas. Majority of tax experts, tax administrators and taxpayers agreed with present exemption facility. Therefore, it can be concluded that the current facility is suitable.

Similarly, another question was asked to the respondents who disagreed with the present additional tax-exempt facility provided by ITA, 2058 to the special industries established in different areas. To know the opinion of the respondents, a question was put to them as "If no, how much it should be? Please write your opinion in percent or other." The responses given by the respondents are as follows;

Out of 14 respondents (see above table)

-) 5 respondents suggested the facility should be given for long period to attract the industry in such areas.
-) 3 respondents suggested that the special industry established in undeveloped and underdeveloped area should pay tax only 60% and 70% of the tax rate respectively for 10-income year.
-) 2 respondents suggested that any tax should not be charged for some specified period in undeveloped area to attract the industries and businesspersons.
-) 4 respondents did not provide any response.

J. Opinion on Medical Tax Credit Facility

According to ITA, 2058 medical tax credit facility is given to an individual Rs. 750 or 15% of eligible medical expenses whichever is less is allowed to deduct as medical tax credit facility. To know the opinion of the respondents about appropriateness of such medical tax credit facility to an individual, a question was asked as " Do you think that medical tax credit is given to an individual up to Rs. 750 or 15% of eligible medical expenses are suitable? The responses received from the respondents are tabulated as below;

Table No. 4.20
Opinion on Appropriateness of Medical Tax Credit Facility

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	3	30	7	70	10	100
Tax Administrators	4	27	11	73	15	100
Taxpayers	-	-	25	100	25	100
Total	7	14	43	86	50	100

Source: Opinion Survey

From the above table, it was explored that 100 percent response was received. 86 percent respondents disagreed with the present medical tax credit facility provided by the ITA, 2058. All taxpayers, majority of tax experts and tax administrators were against with present medical tax credit facility. Only 14 percent respondents were agreed.

From the table as well as personal discussion with the respondents, the researcher found that the present medical tax credit facility is less. So the present medical tax credit facility is not proper/suitable.

Similarly, another question was asked as " If no, how much will be proper?" The responses are given in the following table.

Table No. 4.21

Proper Amount of Medical Tax Credit

Alternatives	Respondents			Total	
	Tax Experts	Tax Administrators	Taxpayers	No	%
A fixed amount of Rs.2,000	1	1	2	4	9
20% of eligible medical expenses	2	2	3	7	17
Actual medical expenses	4	7	17	28	66
Other (if any)	-	1	3	4	9
Total	7	11	25	43	100

Source: Opinion Survey

From the above table, it was found that 66 percent respondents suggested actual medical expenses should be deductible. 9 percent respondents selected first alternatives and 17 percent respondents selected alternative second. Four respondents (see fourth alternative) who provided the following opinion;

-) 2 respondents suggested that 50 percent of eligible medical expenses should be deductible.
-) 2 respondents suggested 25 percent of eligible medical expenses should be deductible.

They also suggested that the medical tax credit facility should be based on income level or per capita income of people of the country and the number of the dependents.

From the table as well as personal discussion with the respondents, the researcher explored that most of the respondents agreed that the actual medical expenditure must be provided for deduction, but it should be approved by the authorized medical officer or by the authorized doctors.

K. Opinion on Providing Exemption on Agricultural Income

From the commencement of Income Tax Act, agricultural income has been treated as taxable income for some time and tax exempted income for some time. The new Income Tax Act 2058 has defined agricultural income is tax exempted income.

To know the view of the respondents about it, a question was asked as "Do you agree on providing exemption on agricultural income?" The responses of the respondents are presented as follows;

Table No. 4.22

Exemption Facility for Agricultural Income

Responses	Respondents			Total	
	Tax Experts	Tax Administrators	Taxpayers	No	%
Yes	6	10	20	36	72
No	2	4	4	10	20
Other (if any, specify)	2	1	1	4	8
Total	10	15	25	50	100

Source: Opinion Survey

The above table shows that cent percent response was received. 72 percent respondents agreed that agricultural income should be tax exempted income whereas 20 percent respondents were against the exemption on agricultural income. Similarly, 8 percent respondents who specified other if any, following opinions were received;

-) Commercial agricultural income should be taxed as other income.
-) A separate agricultural Income Tax Act should be presented.
-) But those landlords who own a large area of land should come under the scope of tax and gradually to make a wide range of tax-income, agro-income must be the subject to tax.
-) It should be added on other income.
-) Defining the sources of agriculture sector & categorizing the limitation.

On the personal discussion with the respondents as well as the above table, the researcher found that the agricultural income should be tax-exempted income because 80% to 90% people are based on agricultural income. In our country, farming system is based on traditional system. Traditional farming system does not provide sufficient income to the family for living. So, it should be exempted.

L. Opinion on Deduction Facility of Repairs and Improvement Cost

According to Income Tax Act 2058, the repair and improvement cost is allowable to deduct but such facility is provided to deduct only 7 percent of depreciation basis of assets pool. To know the opinion of respondents about such facility, a question was asked, as "Repair and Improvement cost is allowed to deduct up to 7% of depreciation basis of assets pool, is it proper?" The responses of the respondents are tabulated as follows;

Table No. 4.23

Opinion on Deduction Facility of Repair and Improvement Cost

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	8	80	2	20	10	100
Tax Administrators	11	73	4	27	15	100
Taxpayers	16	64	9	36	25	100
Total	35	70	15	30	50	100

Source: Opinion Survey

By observing the table, it can be said that 70 percent respondents agreed with the present repair and improvement cost deduction facility. Majority of tax experts, tax administrators and taxpayers agreed with present facility. 30 percent respondents were found against the present deduction facility of repair and improvement cost.

By analyzing the above table, it is explored that the present deduction facility of repair and improvement cost is proper.

Similarly, another question was asked to the respondents who were disagreed with the present repair and improvement cost deduction facility. To know their opinion, the question was asked as "If no, how much it should be?" The responses are tabulated as follows:

Table No. 4.24

Opinion on Different Alternatives of Repair & Improvement Cost-Deduction Facility

Alternatives	Respondents			Total	
	Tax Experts	Tax Administrators	Taxpayers	No	%
10 % of depreciation basis	1	2	2	5	33
10 % of actual expenses	1	1	1	3	20
Actual expenses only	-	1	6	7	47
Other (if any, specify)	-	-	-	-	-
Total	2	4	9	15	100

Source: Opinion Survey

Above table shows that 47 percent respondents suggested that actual repair and improvement cost must be facilitated for deduction. 33 percent respondents selected first alternatives. Likewise, 20 percent respondents suggested 10 percent of actual expenses should be deductible. No response was received for the last alternative. So, from the above table, the researcher explored that most of the taxpayers think actual repair and improvement cost must be deductible.

On the personal discussion with the respondents, the researcher found that actual repair and improvement cost must be facilitated for deduction. However, in practical field, it is very difficult to determine actual repair and improvement cost which must be accepted by the tax authorities because there is high chance of fraud.

M. Knowledge about the Present Depreciation System

Income Tax Act, 2058 has classified the assets into five (5) class and different rates are determined for each class for depreciation purpose. The legal provisions relation to depreciation is given in section 19 in ITA, 2058. To know the opinion about the depreciation system, a question was raised as "Do you know about the present depreciation system of income tax?" The responses about it are as follows;

Table No. 4.25

Knowledge about the Present Depreciation System

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	10	100	-	-	10	100
Tax Administrators	15	100	-	-	15	100
Taxpayers	13	52	12	48	25	100
Total	38	76	12	24	50	100

Source: Opinion Survey

From the above table, out of the total respondents, 76 percent respondents were explored to be familiar with present depreciation system of income tax whereas only 24 percent to the total respondents were not explored to be familiar with the present depreciation.

From the table, it can be concluded that majority of the respondents are familiar with present depreciation system because all tax experts, tax administrators and 52 percent taxpayers are familiar with the present depreciation system whereas 48 percent taxpayers do not familiar with this system.

N. Opinion on Sell of a Private Residential House and Land

A private residential house and land which is disposed (sold) on less than 10 million is out of tax net. To know the opinion of respondents whether the given facility is suitable or not, a question was raised as "A private residential house and land which is sold for less than ten million is out of tax, is it suitable?" The responses about the question are tabulated as follows;

Table No. 4.26

Opinion on Sell of a Private Residential House and Land

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	3	30	7	70	10	100
Tax Administrators	7	47	8	53	15	100
Taxpayers	11	44	14	56	25	100
Total	21	42	29	58	50	100

Source: Opinion Survey

By observing the above table, it is explored that 58 percent respondents disagreed with the provision that private house and land which is disposed in less than 10 million is out of tax net whereas 42 percent respondents agree with this provision. 44 percent taxpayers, 47 percent tax administrators and 30 percent tax experts were in favor of present provision. However, majority of tax experts, tax administrators and taxpayers were against the present provision.

The average property holding capacity of general Nepalese people is very low. But such exemption limit is very high. Therefore, present exemption limit should be reduced.

Similarly, another question was asked to the respondents who were against the present provision of a private residential house and land, which is disposed in less than 10 million, is out of tax net. To know the opinion of the respondents, a question was asked as "If no, how much exemption limit is suitable?" The responses of the respondents are tabulated as below;

Table No. 4.27

Opinion on Exemption Limit of Private Residential House and Land

Alternatives	Respondents			Total	
	Tax Experts	Tax Administrators	Taxpayers	No	%
	Rs.50,00,00	5	6	9	20
Rs.40,00,00	2	1	3	6	21
Rs.30,00,00	-	1	2	3	10
Total	7	8	14	29	100

Source: Opinion Survey

By observing the above table, 69 percent respondents thought Rs.50,00,000 should be out of tax net. Similarly, 21 percent respondents supported Rs. 40,00,000 and 10 percent respondents supported Rs.30,00,000 should be out of tax net. On the personal discussion with the respondents, the researcher explored that the present tax-exempt limit about disposing a private residential house and land was high according to the economic condition and average property holding capacity of average people of the country. So, at present, Rs. 50,00,000 may be proper.

O. Sufficiency of Provisions Made under the Income Tax Act, 2058

To know the opinion of the respondents about the sufficiency of provisions made under the Nepalese Income Tax Act, 2058, they were requested to select one between two alternatives. The question was, "In your opinion, are the provisions made under the Nepalese income tax act sufficient in all respect?" The responses of the respondents are tabulated as below;

Table No. 4.28

Sufficiency of Provisions of Income Tax Act, 2058

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	4	40	6	60	10	100
Tax Administrators	5	33	10	67	15	100
Taxpayers	9	36	16	64	25	100
Total	18	36	32	64	50	100

Source: Opinion Survey

By observing the table, it was explored that 64 percent respondents disagreed with sufficiency of provisions made under the Nepalese income tax system whereas 36 percent respondents explored to be agreed the sufficiency of provisions made in Income Tax Act. From the above table, it can be concluded that provisions made under the Nepalese Income Tax Act, 2058 are insufficient.

The respondents who were against the sufficiency of provision made in Income Tax Act were requested to write their opinion in the blank area in which aspect it should be improved. The question was "If any, in which aspect the improvement are needed?"

Out of 32 respondents, whose responses were negative, only 11 respondents provided their opinions. The opinion or suggestions provided by the respondents for the improvement of different aspect of Nepalese Income Tax Act are listed below;

Tax experts:

-) Tax base should be expanded
-) Suitable implementation system.

-) Exemption limit should be adjusted in accordance with the prevailing inflation rate & no. of family.
-) Small & medium entrepreneurs need to be encouraged by applying different tax rates, especially underdeveloped regions & who mobilize the local sources & raw materials.
-) Income tax payment system
-) It should be in simple words, no dual meaning, need to expand the tax area than tax rate.
-) Establishment of monitoring unit.
-) Proper accounting system.

Tax Administrators:

-) Complicated language and confusing terminologies should be improved
-) Timely feedback system.
-) Removing complicated provisions.
-) Recruitment of trained and capable personnel.
-) Simplify the language and strict income tax law should be implemented, make public aware about the investment which help in making tax free scheme (charitable, donation, investment in life insurance, national saving certificate etc.).

Taxpayers:

-) Tax payment system should be simple and tax rate should be so suitable which does not pinch the consumer in paying.
-) Language should be simple.
-) Capable tax administration.
-) Strict law to avoid corruption.

From the above list, most of the respondents suggested to improve or make clear the language of present income tax act. They also focused to improve the administration aspect.

4.9 Major Findings

On the basis of preceding chapters, some important findings have been drawn. The major findings of this research are summarized below.

- i. There is high resource gap in Nepal. Some part of gap is fulfilled by foreign loan and grants. Fiscal deficit is due to the continuous growing expenditure of the government instead of the low revenue performance. The resource gap in the fiscal year 1995/96 was Rs. 18,649.30 million which reached up Rs. 79743.30 million in the fiscal year 2009/10.
- ii. Government revenue is the composition of external revenue and internal revenue. Internal revenue includes both tax and non-tax revenue. There is dominant share of total tax revenue in Nepalese government revenue. The share of tax revenue to the total revenue was 86.86 percent whereas contribution of non-tax revenue was 13.14 percent in the fiscal year 2009/10.
- iii. Nepalese total tax revenue is the composition of total direct and indirect tax revenue. There is dominant role of total indirect tax revenue in Nepalese total tax revenue. The contribution of total direct tax and total indirect tax revenue were 21.49 percent and 78.51 percent in the fiscal year 1995/96 which became 26.71 percent and 73.29 percent in the fiscal year 2009/10 respectively.
- iv. Direct tax is the composition of income tax, house and land registration, tax on property and others. The contribution of income tax to direct tax is increasing continuously except in the fiscal year 2001/02 and 2003/04. However, in total, the direct tax is increasing continuously. Total direct tax was Rs. 4,655.90 million in the fiscal year 1995/96 which reached Rs. 41,749.89 million in the fiscal year 2009/10. Likewise, indirect tax is the composition of custom duties, sales tax (VAT), excise duties and others. Total indirect tax was Rs. 17,012.10 million in the fiscal year 1995/96 which reached up to Rs. 114,544.90 in the fiscal year 2009/10. Nepal depends heavily on the indirect tax rather than the direct tax.
- v. Income tax rates of Nepal are considered as medium. Most of the tax experts and tax administrators were agreed that the income tax rates are medium whereas most of the taxpayers were agreed on high income tax rate.

- vi. Exempted items of income in Nepal are sufficient.
- vii. Current exemption limit is not appropriate according to the income, most of the respondents suggested to provide amount between Rs.180,000 and Rs.200,000 for an individual and Rs.230,000 for a family as exemption limit.
- viii. Family exemption limit must be provided according to the number of dependents.
- ix. Agricultural income should be exempted from income tax.
- x. Exemption limit should be adjusted according to the inflationary situation of the country.
- xi. Average respondents suggested for itemized deduction and average respondents agreed that there is sufficiency of itemized deduction.
- xii. All expenses which are related to earning income, must be prioritized for deduction
- xiii. Most of the respondents were familiar with the present depreciation system.
- xiv. Provisions made under the Nepalese income tax act are not sufficient in all respects. Improvements are needed in language, law, tax administration, exemption limit, depreciation etc.

CHAPTER - FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Income tax is a suitable means of raising government revenue and mobilization of the domestic resources. To achieve the goal of a national development and for economic growth of the country some specific objectives of income tax has to be set up. For this purpose specified programmes should be implemented.

Nepal is one of the least developed countries. Nepal can not successfully and properly tear a curtain built from massive poverty, hunger, diseases, unemployment, heavy dependence on agriculture, lack of adequate industries. Yet, Nepalese economy is suffering from ineffective and effortless plan, program and policy of development.

Now a days, prime concern of every nation of the world is rapid economic development and Nepal is not exception to this ever-continuing process. Nepal has its own aims for self-reliant economic system to upgrade its living standard of people. Thus, a lot of money has to be spent by the government to achieve maximum national objectives. Government collects revenue to pay regular expenditure, to do development works and to provide social welfare activities towards its people.

Government collects revenue from different sources. The sources of government revenue can be classified into two sectors i.e. external sources and internal sources. External sources of government revenue are foreign loan, foreign borrowing, grants, donations etc. External sources are uncertain, inconvenient and not good for healthy economic development of the nation because it should be repaid after certain time with interest and it increases the dependability of the country. So, it is better to mobilize internal sources rather than external sources.

Internal sources of fund are own sources within the nation. Internal sources of revenue can be classified into two types. They are non-tax sources and tax sources. Fines and penalties, gifts and grants, royalty etc. are the example of non-tax revenue.

Tax is a compulsory levy imposed by the government to the people and industries according to the prevailing laws. Those who pay tax do not get any direct and corresponding benefits from the government. Tax revenue is important sources of government revenue. Taxation is regarded as an effective instrument, it monitors

various economic activities in the country. Income tax, VAT, property tax, import and export duty, hotel tax etc. are the example of tax revenue.

Tax can be classified into two categories i.e. direct and indirect tax. The tax which is collected from the persons or organizations to which it is legally imposed is known as direct tax. Income tax, vehicle tax etc. are the example of direct tax. Indirect tax is a tax imposed on one person or organization but partly or wholly paid by others. VAT, hotel tax, import and export duty etc. are the example of indirect tax.

Income tax is the most popular direct tax. It is superior to other taxes because it is imposed on the basis of paying capacity of the taxpayers according to the law of nation. Income tax reduce concentration of wealth in a few hands by imposing high rate to those person or organizations who have high level of income and low rate to those whose income level is less.

In the ancient time, tax system was based on Vedas, Smrities and Purans. First of all, income tax system was introduced in England to manage the war. Then, USA introduces 'Corporate Income Tax' in 1862. Now a day, it is expanded all over the world. In Nepal, the first elected government in 1959 introduced "Business Profits and Remuneration Act 1960". In 1974, "Income Tax Act 2031" was enacted. Now, "Income Tax Act 2058" is in implementation.

Income tax is main source of government revenue. It is used to balance economic development of the country. It is a tool for achieving maximum social economic objectives. But, government of Nepal is unable to maximize the share of income tax to the public fund as per expectation. Now a day, in Nepal income tax is collected through four sector i.e. corporate income tax, individual income tax, house and land rent tax and interest tax. Among them, share of the individuals' income tax is the highest. There is high resource gap or budgetary deficit in the country. The main cause of resources gap in Nepal is inadequate and ineffective resource mobilization.

There are different legal provisions about income tax exemption and deduction of expenses in ' Income Tax Act, 2058. It is necessary to know about the exemption and deduction of expenses to make up-to-date knowledge about the income tax system. The act has specified about the exemption limit to individual unit and family or couple. It has described about the expenses, which are allowed for deduction and not allowed for deduction while calculating taxable income and tax liability. At

present, exemption limit and tax rate of the income tax is determined according to the income level and sector-wise but it is not adjusted according to the inflationary situation of the country and number of dependents. Exemption limit is not provided to the corporate bodies. The study carried out the given exemption limits and deductions of expenses are sufficient, appropriate or not.

50 respondents have been selected to fulfill the objectives of this study. Total respondents have been divided into three (3) groups i.e. tax experts, tax administrators and taxpayers. Data has been collected from primary and secondary sources to conduct the study. Different charts, diagrams, percentage etc. are used to analyze the data.

5.2 Conclusion

An opinion survey has been conducted in order to find out the various aspects of income tax, exemptions and deductions of different provisions under ITA, 2058. From the opinion survey of various respondents i.e. tax experts, tax administrators and taxpayers, it is concluded that present income tax system is moderate. It is neither totally unsound nor totally sound. According to the economic level, income level of the family and inflation situation of the country present exemption limit is inappropriate for both individual and family or couple. It must be increased and should be adjusted with inflation situation of the country. Similarly, additional exemption limit, who are working in different remote area are sufficient, present insurance premium deducting facility is sufficient, additional tax exemption facility to the special industries established in different remote area are proper. But, present medical tax credit facility is insufficient. Similarly, a private residential house which is sold (disposed) up to 10 million is out of tax net, according to the average property holding capacity of Nepalese people and income level, it is maximum amount. So, it must be reduced. If the problems relating to income tax system in Nepal can be solved and resources are effectively utilized then only the prospects of revenue collection from income tax will be bright and the economic development of Nepal will be achieved.

5.3 Recommendations

Nepal has already taken the membership of WTO. In this global environment, Nepalese income tax system should fit with the global environment. Tax authorities

should think in global perspective. For better utilization or mobilization of limited resources and to achieve the goal of taxation, following recommendations can be drawn based on the findings of the research study.

Following recommendations are made on tax exemption and deduction:

-) Present tax base must be widened by including the house and land rent income given for different purpose.
-) Present exemption limit for individual and family is not sufficient. It must be raised to Rs.190,000 for individual and Rs.230,000 for family. Some additional exemption can be provided for maximum of two dependent children and two dependent parents.
-) The exemption limit must be adjusted according to the inflationary situation of the country. It can be calculated by the authorized body of the government.
-) Some additional exemptions and concessions are given for some period to encourage establishing industries in different remote area but it is not effective because businesspersons change names, ownership or place of the business when the concession facility expires. So, separate special package should be introduced for this purpose like establishment of medium industrial areas.
-) Income Tax Act, 2058 has mentioned some organization as tax exempt organization. Social, religious, educational etc. that are established and registered without having any profit motive so these are tax-exempt organizations. At present, in the case of non-transparent private business like boarding school, higher secondary school, NGOs, other educational institutions where maximum profit is earned but it is out of tax net. So, it should be brought into tax net by making separate law and rules.
-) Dearness allowance is given to meet the living standard of employees, it is not lawful to include in taxable income. So, it should be fully exempted from income tax.
-) Dividend received from private residential company is final withholding payment. It can be included in income from investment, after deduction all the expenses regarding with the dividend.

-) Clear provisions should be made in the case of deductions in the act. All the items of deductions should be clearly defined in the act. The relation between clause-to-clause and sub-clause to sub-clause or other creates double meaning which creates loopholes. So, it should be reduced.
-) Donation up to Rs. 50 lakh given before six month until election to the political parties registered with the election commission is allowed for deduction. There is no transparency of donation amount given by businesspersons to political parties. This facility highly supports to make the corruption. So, such facility should be eliminated from the tax act. Amount can be provided to the political parties by the government according to their receiving vote from previous election.
-) Deductions allowed from an employment income are not sufficient. So, the following deductions should be provided to the taxpayers whose sources of income are only the remuneration.
- Standard limit of expenses for better education of their two children.
 - Actual medical expenses made by taxpayers for own self.
 - Standard limit of expenses made for house rent.
 - If the taxpayer is still studying in an educational institution, some limit of educational expenses of taxpayers should be deductible.
-) Deduction allowed from business or investment incomes are not sufficient. So, the following deductions should be provided to the tax payers whose sources of income are business or investment.
- In case of tax-exempt organization controlled resident entity, full deduction of interest expenses is not allowed. It is not lawful step to the businesspersons who operate the business with loan or dept amount. So, it should be fully allowed for deduction within an income year.

Following recommendations are made in income tax law.

-) The language of act should be simple and clear. The definition made in Income Tax Act should be further clarified and well defined.

-) The assessment and tax collection provisions should be made clear and simple so that taxpayers would be encourage to pay income tax.
-) Discretionary power of the tax officials should be curtailed in the act.
-) The provision of rewards, prize and incentive should be introduced in the act to encourage the taxpayers to pay tax voluntarily rather than coercive measures.
-) Special provisions should be made in the act for research and development.

Following suggestions are made for the improvement of income tax administration in Nepal.

-) The members who involved in formulating income tax plans and policies must have deep knowledge about income tax.
-) All the tax personnel should be given training on various aspects of taxation on regular basis. For this purpose, a separate training department should be established.
-) Authorities, duties and responsibilities should be clearly defined for each personnel.
-) Effective reward and punishment system should be established for personnel.
-) Income tax experts/professionals should be increased in tax administration.
-) Detail record of taxpayers and amount of tax must be kept and after some specific period of time or at the oldest period of taxpayers, some percentage of tax paid by taxpayers previously can be refund to the taxpayers and reduce the tax evasion.
-) Working environment of the tax offices should be improved. Necessary machine, instruments and modern equipment should be provided.
-) Due to lack of trust between tax payers and tax officer, their relationship is not good. The behavior of personnel towards taxpayers should be improved. Tax officer and personnel must be helpful; they should provide good suggestions to the taxpayers.
-) Effective monitoring system and information system should be established to prepare the list of potential taxpayers and gather information of various aspects and to improve tax administration. A separate monitoring department can be established.
-) Tax education should be provided to taxpayers on regular basis.
-) Clear and scientific provision of promotion and career development opportunity to the personnel should be introduced. Financial benefits and extra incentives should be provided to the personnel.

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APPENDIX – 3

"Questionnaire"

**A STUDY ON EXEMPTIONS AND DEDUCTIONS OF DIFFERENT PROVISIONS UNDER INCOME
TAX ACT, 2058**

Name of the Respondent:

Position:

Department:

(Please tick your answers in the following box if there are 2 alternatives and put in order of preference from 1 to last number if there are 4 or more alternatives).

1. What is your opinion about the current income tax rate?

The income tax rate is:

- a. High b. Medium c. Low

2. Do you think that exempted items of income tax are sufficient?

- a. Yes b. No

If no, what kind of income should be exempted from income tax? Please write in order,

i)

ii)

iii)

3. Do you think that the deductible expenses as provided by ITA are sufficient?

- a. Yes b. No

If no, what kind of additional expenses should be allowed for deduction from income? Please write in order,

i).....

ii).....

iii.).....

4. Do you think that the current income tax exemption limit is appropriate /sufficient?

a. Yes b. No

If no, what much the exemption limit should be for an individual unit?

i) Rs. 200,000 ii) Rs. 180,000 iii) Rs. 160,000 iv) Rs.140,000

v) Other (if any specify).....

Similarly, how much exemption limit should be for a family?

i) Rs. 250,000 ii) Rs. 230,000 iii) Rs. 210,000 iv) Rs. 190,000

v) Rs. 170,000 vi) Rs. Other (if any specify)

5. Do you agree that family exemption must be provided according to the number of dependent?

a. Yes b. No

6. Do you feel that exemption limit should be adjusted according to the inflation & situation of the country?

a. Yes b. No

7. An individual working in remote area A, B, C, D and E can get an additional exemption of Rs. 30,000; Rs. 24,000; Rs. 18,000; Rs. 12,000 and Rs. 6,000 respectively, is it suitable?

a. Yes b. No

If no, how much exemption limit should be?

Area	A	B	C	D	E
Amount	–	–	–	–	–

8. An individual is facilitated that actual insurance premium or Rs. 20,000 whichever is less is allowed for deduction, is it suitable or proper?

- a. Yes
- b. No

If no, how much it should be facilitated?

- i) 5% of insured sum or Rs. 10,000
- ii) 7% of insured sum or Rs. 15,000
- iii) 10% of insured sum or Rs. 20,000
- iv) Other (if any specify)

9. Special industries established in undeveloped and underdeveloped areas should pay tax 75% and 80% respectively of the tax rate, and it is applicable for 10 income years, is it suitable or proper?

- a. Yes
- b. No

If no, how much it should be? Please write your opinion in percent or other.

- i) Area: undeveloped underdeveloped
- Percent

ii) Other (if any specify).....

10. Do you think that medical tax credit is given to an individual up to Rs. 750 or 15% of eligible medical expenses are suitable?

- a. Yes
- b. No

If no, how much will be proper? Please write your opinion.

- i) A fixed amount of Rs.....
- ii)% of eligible medical expenses.
- iii) Actual medical expenditure.
- iv) Other (if any specify).....

11. Do you agree on providing exemption on agricultural income?

- a. Yes
- b. No
- c. Other (if any specify).....

12. Repair and Improvement cost is allowed to deduct up to 7% of depreciation basis of assets pool, is it proper?

- a. Yes b. No

If no, how much it should be?

- i) % of depreciation basis.
 ii) % of actual expenses.
 iii) Actual expenses only
 iv) Other (if any specify).....

13. Do you know about the present depreciation system of income tax?

- a. Yes b. No

14. A private residential house and land which is sold for less than ten million is out of tax, is it suitable?

- a. Yes b. No

If no, how much exemption limit is suitable? (Please Specify)

- i) Up to Rs...

15. In your opinion, are the provisions made under the Nepalese income tax act sufficient in all respect?

- a. Yes b. No

If any, in which aspect the improvements are needed? Please specify in the following numbers.

- i)
 ii)
 iii)

APPENDIX-2

Basic Tax Exemption Limit – Income Tax Act 2002

S.N	Particulars	2062/63	2063/64	2064/65	2065/66	2066/67
1.	Tax Exemption limit to	Rs.	Rs.	Rs. 115,000	Rs.	Rs.

	individual for other than 2066/67. 1% Tax for 2066/67	100,000	100,000		115,000	160,000
2.	Tax Exemption limit to couple for other than 2066/67. 1% Tax for 2066/67	Rs. 125,000	Rs.100,000	Rs. 140,000	Rs. 140,000	Rs. 200,000
3.	Tax Exemption limit to handicapped individuals for other than 2066/67. 1% Tax for 2066/67	No Provision	Rs. 150,000	Rs. 172,500	Rs. 172,500	Rs. 240,000
4.	Tax Exemption limit to handicapped couples for other than 2066/67. 1% Tax for 2066/67	No Provision	Rs. 187,000	Rs. 210,000	Rs. 210,000	Rs. 300,000
5.	Tax rebate has been provided to the women who have remuneration income only.	-	-	-	10%	10%
6.	Foreign allowance for Nepalese staff working in Different Embassy.			75% deduction allowed	75% deduction allowed	75% deduction allowed
7.	Life Insurance Premium			7% of the sum or the insured amount or Rs. 10,000 whichever is less	Paid Premium amount or Rs. 20,000 whichever is less	Paid Premium amount or Rs. 20,000 whichever is less
	Tax Rates					
	First Exemption Limit	-	-	-	-	1%
	Next Rs.75,000	15%	15%	-	-	-
	Next Rs. 85,000	-	-	15%	15%	-

	Next Rs. 100,000	-	-	-	-	15%
	Balance Amount	25%	25%	25%	25%	25%

APPENDIX-4

Name of the Respondents

Tax Experts

S.N.	Name	Position	Department/ Office
1.	Shiva Nath Pandey	Chief Manager	Nepal Rastra Bank, Pokhara
2.	P.K. Thapa	Manager	Nepal Rastra Bank, Pokhara
3.	L.K. Sharma	Auditor	L.K. Sharma & Company, Pokhara
4.	Shiva Raj Baral	Auditor	Pokhara
5.	Mahesh Rimal	Chartered Accountant	Pokhara
6.	Tilak Acharya	Lawyer	Chhorepatan, Pokhara
7.	Agni Prasad Subedi	Advocate	Pokhara
8.	Narayan Prasad Sapkota	Chief Senior Officer	IRO, Pokhara
9.	S.B. Khadka	Chief Tax Officer	IRO, Pokhara
10.	Rishi Ram Baral	Assistant Manager	Nepal Rastra Bank, Pokhara

Tax Administrators

S.N	Name	Position	Department/Office
1.	Lok Raj Pant	Tax Officer	IRO, Pokhara
2.	Kishore Bartaula	Tax Officer	IRO, Pokhara
3.	Jiwan Ghimire	Tax Officer	IRO, Pokhara
4.	Shiva Hari Sharma	Tax Officer	Pokhara Sub-Metropolitan
5.	Bishnu bandu Paudel	Tax Officer	IRO, Pokhara

6.	Ananda Kafle	Tax Officer	IRO, Pokhara
7.	Prakash Sharma	Tax Officer	IRO, Pokhara
8.	Sita Bartaula (Koirala)	Tax Officer	IRO, Pokhara
9.	Bishnu Khanal	Tax Officer	IRO, Pokhara
10.	Ashok Bhakal	Tax Officer	IRO, Pokhara
11.	Surya Prasad Regmi	Tax Officer	IRO, Pokhara
12.	Basanta Tiwari	Tax Officer	IRO, Pokhara
13.	Dan Bahadur K.C.	Tax Officer	IRO, Pokhara
14.	Narayan Prasad Bhandari	Tax Officer	IRO, Pokhara
15.	Shambu Bahadur Khadka	Tax Officer	IRO, Pokhara

Taxpayers

S.N.	Name	Position	Department/Office
1.	Sanju Gurung	Assistant	Credit Department, GDBL, Pokhara
2.	Ritu Nath Lamsal	Assistant Manager	Nepal Rastra Bank, Pokhara
3.	Tara Nath Lamsal	Branch Manager	Kaski Finance Ltd., Pokhara
4.	Krishna Baral	Account Officer	Om Finance Ltd., Pokhara
5.	Krishna Prasad Paudel	Branch Manager	Nepal Bank Ltd., Pokhara
6.	Sangeet Kumar Thapa	Operation Head	Garima Bikas Bank, Pokhara
7.	Buddhi Laxmi Gurung	Operation Head	Pokhara Finance Ltd., Pokhara
8.	Sabitri Giri	Staff Nurse	Manipal Teaching Hospital, Pokhara

9.	Dipak Prasad Tiwari	Accountant	Aarati Paints, Pokhara
10.	Subash Paudel	Incharge Accountant	General Administration, Nabil Bank Ltd.
11.	Surya Tiwari	Lecturer	National Higher Secondary School, Pokhara
12.	Kamala Devi Gurung	Chief Metron	Manipal Teaching Hospital, Pokhara
13.	Santosh Lamsal	Audit Officer	Pokhara Finance Ltd., Pokhara
14.	Pabitra Thapa	Staff Nurse	Manipal Teaching Hospital, Pokhara
15.	Shankar Tiwari	Lecturer	National Higher Secondary School, Pokhara
16.	Shankar Paudel	Medical Officer	Manipal Teaching Hospital, Pokhara
17.	Ganesh B.K.	Medical Officer	Manipal Teaching Hospital, Pokhara
18.	Rudra Kuwar	Manager	A/C Department, Pokhara Noodles Pvt. Ltd., Pokhara
19.	Madhav Tiwari	Accountant	Sujal Foods Pvt. Ltd., Pokhara
20.	Jyotinder Poudel	Assistant	Credit Department, Sidhartha Bank Ltd., Pokhara
21.	Shankar Prasad Adhikari	Manager	Gandaki Hume Pipe Pvt. Ltd., Pokhara
22.	Chandani Singh	Staff Nurse	Manipal Teaching Hospital, Pokhara
23.	Hemanta Sharma Paudel	NASU	IRO, Pokhara
24.	P.N. Joshi	NASU	IRO, Pokhara
25.	Thakur Prasad Subedi	Non-Gett-II	IRO, Pokhara