

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal's economy is predominantly based on agriculture. The major portion of population who lived under the line of poverty is in village area. She is the richest in natural and cultural beauties but economic condition is far behind far behind. Wide spread poverty, rapid population growth, low economic growth, extreme disparity in the distribution of weather and income, heavy dependence on agriculture and foreign aid, lack of enough saving and capital, unemployment, unexploited resource, lack of infra structure, adverse balance etc. are main characteristics of Nepalese economy. Now a day, the prime concern of every nation of the world is rapid economic development and Nepal is not exception to this ever-counting process. For the economic development, government has huge responsibility towards the people. To fulfill the responsibility of government towards the people, government has to spend a lot of money. The responsibility may be in the field of security or health or education or other development activities. Government spends a lot of funds for protection of common people and for the creation of various socio-economic infrastructures. There are three types of expenditure, which incurred by the government i.e. protection, commercial and public expenditure. If the nation has sufficient fund it will be able to achieve maximum social welfare. For the fulfillment of country's need, government expenditure is increasing day to day.

Undoubtedly, government contributions towards providing fertile land for flourishing economic activities are indispensable task for every country at initial phase of economic development. There is two prospective of achieving growth pace of economy .One is through optional utilization of natural resources for example Saudi Arabia and Qatar economic development. And by using human resource for economic development is another model of development, Japan is solid example of getting

success by using that model for technological progress (Dwividi, 2005). For effective implementation of both model requires capital that play role of fuel to lead vehicle of economic development ahead. Out of economic failure of production capital is not important to achieve sector. So emerging stage to take up economic pace in developing countries need to collect resources especially capital is vital issue. For fulfilling that requirement, countries can mobilize resources from internal and external source.

External sources of fund are foreign grants and loans. Such external sources are uncertain, inconvenient, conditional and not even good for healthy development if there is heavy dependent on them. An internal sources has no obligation towards the third party and is less risky compared to the external fund .The government is not obliged to pay back the fund and only has to took the need of its economy and the interest of the resident while mobilizing internal resources .It is the best source to fund the development activities can play vital role in the developing countries ,which are facing difficulties on rising fund from internal sources .It is seen that developing countries have low- per capita income, highly depend on the indirect tax than the direct tax. The share of income tax is much low in the composition of direct tax revenue .It is so, because of the low taxpaying capacity due to low level of income of the resident.

Internal source of fund is own sources of the nation. An internal source of public fund is important not only for financing necessary fund but also for proper mobilization of external sources. Internal source of fund includes both tax and non-tax revenue. External sources consist of foreign aids, grants and loans. Resource mobilization through external source are done by inflowing foreign capital into the country but they are not enough for the economic development programme, because they are guided by socio-political motives of the donor country .The internal sources, the resources might be mobilized either voluntarily or involuntarily or both. Voluntarily, the resources might be mobilized by bringing about curtailment in the existing level

of consumption. Involuntarily, it can be mobilized forcibly, through public borrowing, inflationary saving, increasing the rates of existing taxes and imposing altogether new taxes.

In these days, prime concern of every nation of the world is to eliminate the poverty, to reduce gap between rich and poor, to improve the living standard of the people, to obtain rapid economic development etc. Nepal is not exception to this over continuing process. To achieve this objectives government have huge responsibility. The responsibility may be either for security or health or education or other developmental activities .To fulfill these activities government collects revenue from various sources such as tax, revenue from public enterprises, special assessments, fees, fines , grants and assistants etc. Among them tax is the main sources of government revenue.

Tax is the compulsory contribution imposed by public authority using the right by law. Taxpayer does not expect any return for his taxpaying. It is neither an exact amount nor a penalty for any legal offense.

Tax may be classified into two types. They are direct tax and indirect tax. Direct Tax is that tax which is really paid by a person on whom it is legally imposed. Direct taxes are more familiar and have a dominant role in a developed country as opposed to developing country. Direct taxes are the means and tools of generating, saving and promoting capital formation. It includes income tax, property tax, business profit tax, land revenue tax, interest tax, gift tax, death tax, vehicle tax etc. Indirect taxes has a dominant role in the whole Tax structure of developing country like Nepal .They are sales tax, entertainment tax, passenger tax, hotel tax, export and import duty, excise duties, VAT, etc.

Income tax is a type of direct tax which is chargeable to a person's income .Income includes all the income which is received from business, investment and employment. It is a common belief that the excess income of a person minimum requirement for his/her living should be taxed. Therefore income tax should not be levied up to an income required to meet the general expenditure to maintain the living standard of an

individual on family. This minimum level of income is also called subsistence level of income. This subsistence level of income may differ from family to family and by other relevant socio-economic factors. "Income tax is superior to indirect tax because it is imposed on the basis of paying capacity of the taxpayer. People whose income is under the taxable income are free from the incidence of income tax."(Saxena, 1986)

It will be possible to reduce the gap in income by imposing higher rate to those who are having higher income and from that collected amount provide necessary assistance to the people with very poor economic condition. Hence, it will help to make equitable economic distribution in the society. Balance economic regional development is also possible through the provision of income tax. The government should charge higher income tax on the income from urban area and less on the income from remote area. Income tax holiday and incentives would help to develop the priority sector of a national economy. "Income tax has become an effective instrument to ensure balanced socio-economic growth. (Lal, 1995)

Taxation plays the vital role to raise the national revenue. So, it can be said that, in the modern world, taxation has been taking as the most effective tool for rising national revenue. The government, by mobilizing adequate resources through taxation might invest them in various development programmes. In this way, in the underdeveloped countries, the government might play an important role in promoting capital formation, breaking the vicious circle of poverty and mobilizing adequate resources through taxation. Mobilization of maximum resources through income tax can be done either by increasing present income tax rates or removing income tax evasion. Increasing the present income tax rates will not be the permanent solutions because "The taxable capacity of Nepalese people is very low in such a situation, the government should be too cautious before imposing new tax or rising the rates of existing taxes in the country.

In Nepal, there are various problems to collect tax although the legal provision has been made and update timely. There are various problems in income tax practice in

Nepal such as narrow coverage, unscientific tax assessment, and deviation from the basic principles of income taxation, long time lag, no adjustment for inflation, defectives system from the prospective of international taxation. Some other factors, felling of people about tax a penalty, lack of consciousness of people, leakage on tax, inability of tax administration to cover new taxpayers, delays in computation and collection, lace of accuracy and unity in accounting system etc.

Fine and penalties are relevant subject to review in income tax system. To make up to date knowledge about income tax system, knowledge of fine and penalties is must. Raising more revenue is the main objective of taxation. Fine and penalties play vital role to collect the tax revenue within the time. It also measures the cleverness of taxpayer about tax system.

Because of all these reasons, fine and penalties of income tax system must be reviewed and immediate correction should be made if it necessary.

1.2 Statement of Problem

Today, the major interest of every nation of the world is economic development. Underdeveloped countries like Nepal are facing serious problems in the process of economic development. For the economic development, sufficient resources are need. One of the major sources of the public revenue is income tax. Income tax is a direct tax that is imposed on the earning of individual entities and corporation. With the increasing government expenditure, the sources of government revenue must be increased. But the expenditure of the government of Nepal has been increasing at a faster rate than the increase in revenue. Income tax is the major sources of government revenue. Being developing country, most of the Nepalese people are below the poverty line (about 38% of the total population) and the GDP per capita is \$468 (according to the World Development Report 2007/08). It shows that it needs huge amount of capital for economic development of Nepal. It is possible only when the volume of resource could be match with the requirement. The sources of filling up to the resource gap are internal and external borrowing. The use of external borrowing

has been playing dominant role to fulfill the resources gap. The use of borrowing creates various problems and it is not even better for any countries.

The development of the country will be possible when the government can mobilize its own internal revenue, which constitutes tax and non-tax revenue. Tax revenue constitutes a significant portion in government revenue. In the total tax revenue indirect tax has greater portion than direct tax. It is not a good symptom that the portion of direct tax revenue. Of the total revenue, shares of tax revenue and non-tax revenue in FY 2007/08 stood at 79.1 percent and 20.9 percent respectively. Such shares in FY 2006/07 year were 81.1 percent and 18.9 percent respectively.

In Nepal around 0.6 percent of total population pay the income tax. Past experience shows that there is poor taxpaying habit in Nepalese people. There are various problems about income tax administration like proper record about the number of income taxpayer, defective selection of personnel, lack of training and education to tax payers and tax officer, undue delay in making assessment, lack of responsibilities of officials on their work, experience of corruption, lack of motivation to tax personnel etc because of the inefficiency of the administration and increasing corruption, people have no faith in the work of government and its organization.

By effective implementation of tax law government can increase the portion of indirect tax to the total revenue. For the effective implementation of tax law government should have knowledge about various provisions provided by Income Tax Act. Among them, provision of fine and penalties is that type of provision which plays important role to collect tax revenue. If provision of fine and penalties is not appeared the taxpaying habit of Nepalese people will be poor. In the absence of this provision, delay in payment of tax do not submit account, submit false and misleading statement etc. for that purpose, tax administration of Nepal is not effective to impose fine and penalties as per necessary because of corruption, unnecessary outside pressure, lack of information etc.

There were much more problems of income tax and its provision about fine and penalties; especially this study has been carried out to answer the following question

- What is the income tax structure of Nepal?
- What is the share of income tax to government revenue?
- What should be the provision of fine and penalties in Income Tax Act?
- Is the tax administration of Nepal is effective to impose fine and penalties as per necessary?
- Can fine and penalties play important role to increase taxpaying habit of Nepalese people?
- Is this provision is effective or not to taxpayer?
- Is it right to say taxpaying habit of Nepalese people is poor?

1.3 Objective of the Study

The main objective of the study is to analyze the effectiveness of fine and penalties under Income Tax Act 2058(2002). However the following specific objectives have been set for the study.

- To analyze the tax structure of Nepal.
- To find out the share of income tax to the government revenue.
- To analyze the provision of fine and penalties under Income Tax Act.
- To know the taxpayers knowledge and view of tax officers about fine and penalties in Income Tax Act.
- To provide suggestion about fine and penalties regarding income tax system.

1.4 Significance of the Study

The study has great significance to all parties like student, teachers, researchers policy makers and other individuals who are interested towards the income tax management

and especially about provision of fine and penalties regarding income tax law of Nepal. The question of resource mobilization is a challenging proportion. In this context, income tax revenue may be the major instrument for mobilizing internal resources more effectively. Hence, this study deserves special significance.

For the economic development of the country, contribution of direct tax is essential than indirect tax. But the whole tax structure of Nepal is dominated by indirect tax. Among the direct tax, income tax plays significance role. But it is un-pleasuring to quote that the contribution of income to the national revenue is very low in Nepal. To increase its portion in national revenue research and analysis should be done in the area of income tax.

To get up to date knowledge about income tax system, we should know the various provisions provided by Income Tax Act. Among them, provisions of the fine and penalties plays important role to collect tax revenue with in time. In the field of this provision we couldn't find any research and analysis. For the fulfillment of this weakness this study will be helpful.

1.5 Limitation of the Study

Every research study is bordered by the various reasons .Similarly, this research study also has certain limitations: such as limitation of the time period, areas of study, lack of sufficient relevant data and morality of respondent and so on. Its main limitations are summarized below.

- Only few samples are selected for opinion survey.
- It analyzes the provision of fine and penalties as per Income Tax Act 2058, but not as a whole system of income tax.
- The study has been conducted to fulfill the requirement of the MBS programme of T.U. for the prescribed time, not for generalization purpose.
- This study has covered data only fiscal year 1998/99 to 2007/08

- The sample has been selected only from Kathmandu valley. So, it may not represent the country as a whole

1.6 Organization of Study

The whole study organized into five different chapters as follows:

1.6.1 Introduction

This chapter is about introduction, which includes general background, significance of the study, statement of the problems, objectives of the study, limitation of the study and organization of the study.

1.6.2 Review of Literature

This chapter deals with various journals, books, research study, published and unpublished reports and articles. This chapter also focuses on conceptual framework and provision regarding income tax of Nepal.

1.6.3 Research Methodology

This chapter deals with research methodology. It includes research design, population and sample, nature and sources of data, procedures of data collection, procedure of processing and analysis of data.

1.6.4 Presentation and Analysis of Data

This chapter aims to make the critical analysis of income tax management in Nepal with its contribution along with the view regarding fines and penalties collected within the help of primary sources. For the presentation and analysis of data, diagram, table, chart, various statistical tools is used.

1.6.5 Summary, Conclusions and Recommendations

This chapter deals with summary of study, relevant suggestion regarding problems and weakness of income tax management in Nepal.

CHAPTER-II

REVIEW OF LITERATURE

Review of literature is a stock of available literature in the field of research. Review of literature is an essential part of the study. It is a way to discover what previous researches have done what is still need to be done. It refers to the reviewing of the past studies in the concerned field, such studies could be thesis that were written either books, articles, journals or any sort of publications concerning the subject matter, which we written priory. While conducting the research study, previous study cannot be ignored, as those instructions would help to check up the chances of duplication in present study. Thus one can find what research studies have been conducted and what remain to go with.

2.1 Conceptual Framework

One of the major goals of income tax in Nepal is generate more internal resources for public finance. Among them tax revenue is one of the major internal sources. K.C. (2007) explained that Law never discriminates status of person. It is equally enforceable to known unknown and lower to higher-level persons. In Income Tax Act, it is used similarly except to somebody. The tax authorities imposed the fine and penalties to the taxpayer for late filling of a tax return, for late or non-payment of tax due, failure to make timely return, making a false return statements, aiding or abetting, obstructing or concerning or influencing tax administrators etc. but the Nepalese income tax system was poor on the aspects of tax administration. There is no any research study about interest, fees, fine and penalties, which plays important role to collect tax revenue. Seeing lack of the study in interest, fees, fine and penalties this study mainly concentrates on the role of interest, fees, fine and penalties to collect tax revenue in a more specific way.

2.1.1 Concept, Meanings & Definitions of Tax

In this modern age, the government of a country requires a lot of revenues to carry out development plans to handle day-to-day administration, to maintain peace and security and to launch other public welfare activities. To carry out such activities, the government specially collects revenue from taxes, fees, interest, price and other sources such as grants, gifts, assistance etc. among them tax is the main source of government revenue. In case state revenue, a tax is compulsory charge imposed by government without any reference to the service rendered to the taxpayer. Fine and penalties imposed by courts resemble taxes since there is compulsion in both. The distinction between them however is one of the motives. Taxes are generally imposed to obtain revenue while fines and penalties are imposed as a punishment to control further mistakes in future.

The state sells some its goods or services and receives price in payment for them. The distinction between taxes and price is that tax is a compulsory payment to be made by every citizen as lived government where as price is to be paid by person who buys serves or goods produce by the government. Thus tax is an ingredient of state revenue in public finance.

Tax simply means a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the taxpayers according to aw. Various economists tried to define the concept of tax and some definition of prominent scholars has been acknowledgement below.

In 1982, Bastable (as cited in K.C. 2007) defined, “A tax is a compulsory contribution of wealth of a person or body of person for the service of public power”.

Lekhi (2002) define tax in simple meaning in his word “Tax is a compulsory payment by the people to the nation. If a person defies the payment of tax he is punished by court of law.”

“A Tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the taxpayer in return and not imposed as penalty for legal offence”-Dalton.

“A Tax is a compulsory contribution of wealth of a person for body of person or the service of public powers.”-Bastable.

“Taxes are general contribution of wealth levied up to persons, natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the states”- Plehn(Dhakal,1998:2).

“A Tax is compulsory contribution payment to government without expectation of direct expenses of indirect return in benefit to the taxpayer.”-P.E. Taylor.

The above- mentioned definition conveys that the taxes are not tall age, gable voluntary contribution but are compulsory. Therefore a tax is a compulsory charge by the government on income of an individual, corporation or trust as well as the value of an estate or gift. The government does not provide direct return in benefit of taxpayer but it is incurred for the common interest of people. Thus, the foremost and essential characteristics of a tax are that it is not a voluntary payment or donation but an enforced contribution, exacted pursuant to legislative.

The tax can be classified into direct and indirect tax;

Indirect Tax

Indirect tax is imposed on one person but paid partly or wholly by another. It is transferrable and people pay tax when they receive or consumer goods or services. It is transferable and people don't feel burden of lump sum. There is mass participation because every person pays tax for receipt of goods and services. Indirect tax can be changed at higher rate for harmful goods such as cigarette and alcohol to discourage them. So indirect tax is fixable. Examples of indirect tax are custom, excise; Value Added Tax (VAT), Entertainment tax etc.

There are some limitations of indirect tax. Every person either poor or rich has to pay equal amount of tax for reception of goods or services. So, it is tougher for poor. The higher rate, if imposed, may reduce consumption and its effect on production and employment. There is no certainty about collection of indirect tax.

Direct Tax

Direct tax is paid by same person who is legally imposed. It is paid according to the income or property earned by a person. It is found equal with property. There is certainty about time, design and process of payment. Taxpayers can easily estimate their liability and government can increase or reduce according to needs. Income tax, Contract tax, vehicle tax are examples of direct tax.

Direct tax is levied on direct persons, so they may not be ready to pay voluntarily. And of course they try to pay lowest tax as possible as and also exercise for tax evasion. Direct tax is also expensive for collection. Direct tax discourage private saving and investment and there is lack of mass participation.

2.1.2 Evolution and Development of Taxation

K.C. (2007) stressed that history of taxation started with the human civilization. It is also associated with the history of rise and fall of civilization. Rosen (2004) claimed that in all civilized societies, a central administration used to collect portions of people's productive output to use as a reserve in hard times in order to provide for the needy and to increase the wealth and power of the rulers. Until the modern era, rulers and their administrators would commonly take portions of people's crops with no consideration of farm work. The sources that rulers obtained through taxation allowed them to undertake such activities as building monuments and waging battles. Thus, tax supported all early civilization first in the Middle East and then around the world. (K.C., J.B. 2007p23)

In Hindu religion, a particular part income should be pay to government. It is the theory of Hindu Religion. Not to pay tax, in Hindu religion was taken as a great sin.

According to Hindu Holy Scripture Vedas, the duty of king was to serve and secure people, maintain peace and carryout social works in order to perform all those activities, the king used to collect props and cattle from farmers, gold, silver and copper from traders. These ancients' forms of taxation were expanded from time to time under the influence of various economic, political and ethical forces.

In ancient Egypt, the tax collectors were known as scribes. To collect the adequate revenue from citizens they taxed on cooking oil. Charles Adams a great writer wrote a popular book "Fight, Flight and Fraud", the story of taxation, concludes that the continual tyranny of Egyptian tax collectors created a nationwide decline in incentive because of this worker and farmers lost their desire to work.

K.C. (2007) mentioned that the earliest taxes in Rome were customs duties imports and export called Portoria. Augustus instituted 50% tax on inheritance to provide retirement fund for the military. This tax was charged on inheritance except gifts to children and spouse. At that time of Julius Ceaser, 1% sales tax was imposed to the people and the ruler who started to collect taxes through government institution.

King John of England was compelled to sign the Magna Carta or "Great Charter" which guaranteed free trade to merchants within England. Adams in his book explain the situation king and parliament according to him the king could only spend but not tax and the parliament could only tax but not spend. As long as the power to tax and the rights of Englishmen would live forever, especially the right to be free from oppressive taxation of the ancient English practices. (K.C. 2007 p24)

Kautilya's "The Arhtasastra" of the fourth century B.C. has classified the tax receipts into three types.

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

Land revenue was an important source of taxation in ancient India. Kautilya mentioned, “the tax system should be such as not prove a great burden on the public, the king should act like the bee which collects honey without inconveniencing the plant” (The Kautilya’s Arthashastra). His economic thought was guided by social welfare concept. He suggested heavy taxation for luxurious and other articles, which is not in favor of public welfare. Kautilya classified the main items of public expenditure, which are as follows, i) National defense ii) public administration iii) salaries of ministers and expenditure on government department and iv) expenditure on maintenance of armies.

2.1.3 Income Tax in International Context

The first country to enact a general income tax was Great Britain in 1799 to finance the Anglo Napoleonic war (Chamber Encyclopedia, vol. 7, 1974:415). The British Government taxed income of citizens to collect expenditure for revolutionary war with France. The main reason for the introduction of this tax was that it was preferable as a substitute of customs and excise duties in raising revenue. It remained more or less a temporary tax unit 1860 when it was accepted as a permanent tax. (Agrawal, 1978:113)

As income tax was first levied in the United States of America in 1862 to finance civil war expenses. However it became permanent feature only in 1913 after the 16th amendment to the U.S. constitution. Several German states introduced this tax during 1840. In 1891 the income tax was used as an effective fiscal instrument in those states. Until 1920, German income tax was exclusively state tax which became federal tax from 1920 to 1945. After World War II it again became state tax and is now regulated by federal law.

Income tax system was originated in 1864 in Italy. In France, income tax was enacted in 1870. New Zealand, Australia and Canada adopted income tax in 1891, 1915 and 1917 respectively. After world war 1st, income tax became important source of tax revenue in many developed countries. Income tax was introduced in India in 1860 by

Sir James Wilson to meet the financial stringency caused by the muting of 1857. The tax was discontinued in 1865 and was reintroduced in 1869. It was put on permanent footing in 1886.

Today, it is hard to find countries without income tax. Indeed, it is deeply entrenched in the fiscal system of most of the countries in the world. Income tax developed rather slowly, with many ups and downs. The growth in revenue is needed, particularly during the war and national emergencies, and increasing acceptance of the fiscal power of the government gives impetus to the income tax movement. In the earlier period, income tax was levied at a flat rate. But later, the principle of progressive income tax has also been introduced.

“The story of income tax, therefore, is the story of wars, and the story of war taxes being retained even after the end of the war. Today, taxes are looked upon as important policy instruments for waging new form of war, the war against poverty and inequality” (Agrawal, 1978:114). At present there is hardly any country in the world which does not have income tax system though the degree of success in terms of revenue and equity might be different depending upon the level of their economic development political will and administrative competence.

2.1.4 Origin and Development of Income Tax in Nepal

In ancient Nepal, taxes were levied in the form of kind, cash and labours, on merchants, travelers and farmers. Specific portions of agricultural product were payable to the king as Tax. On some occasions compulsory manual work as well as gold were a common way of paying taxes for special purposes, but the nature of these taxes were temporary (Regmi, 1971:55).

Tax has therefore been one of the major sources of government revenue since ancient Nepal. In the Lichhavi rule, income tax from agriculture and business were introduced as direct tax for the first time before unification of Nepal. Although land revenue was the major source of revenue in ancient Nepal, there did exist irrigation tax, religious

monuments preservation tax at the time of king Ansuverma. There was tax for purification of castes as well as cremation of the dead. During Lichhavi rule the tax levied on agriculture was called “Bhagn” and tax levied on business income was called “Kara”. The farmers were supposed to pay agricultural income tax to the government in $\frac{1}{6}$, $\frac{1}{8}$, and $\frac{1}{12}$ share of their total production, depending on the quality of the land that they owned. (Bajracharya, 1979:79)

2.1.5 Taxation in Unified Nepal (1768-1846)

The state expenditure increased after unification of Nepal and different types of tax were imposed the amount of tax depended on the interest of people. The tax was not compulsory; it was voluntary to the government. The government followed a liberal taxation policy. The Royal place, Central Government and local administration were entitled to collect tax in the country. Local administrators were directed “to take whatever is paid willingly by the people.” (Agrawal, 1978:116)

During this period maximization of revenue collection was the main objective of the tax policies. The major source of revenue were land and homestead taxes, transit and market duties, miner and mints, the export of forest product and various levies and fines. Jewelers, textiles, falcons, horses, elephants, homespun cloth, yarn, blankets, borax, copper, iron, paper, herbs, drugs, cotton, salt, Yak’s tail, musk, sheep and goats, were taxed at specific rates in some parts of Terai collections of customs, transit, market and excise duties was given on contract. (Regmi, 1971, 55-74)

“Various taxes levied during the period were narrow in base and were imposed primarily on occupations and economic activities not an income of property. The system of direct taxation was very much confined to land tax and special levies like ‘Darsan Bhet’, ‘Salami’, ‘Walak’, etc. There was no taxation of income in the modern sense of income tax.” (Agrawal, 1978:117)

2.1.6 Taxation in Rana Regime (1846-1950)

During 1846-1950, there was no formal provision for taxation. There was no government budget preparation system. Taxes were charged according to the will of the Rana Prime Minister. Since there were no development activities in the country and the surplus of revenue over expenditure were considered the personal income of Rana Prime Minister, government never worried about the mobilization of financial resources.

There was no direct tax in the country except land tax collected on a contractual basis and “Salami” paid by the employees to the government out of their salaries at a very small percentage. The major source of revenue during the year where land tax, customs and excise duties in the form of lump sum contracts, royalties on felling of trees, royalties on supply of porters and soldiers, entertainment tax and few other minor taxes.

“Taxes were collected under the middleman system until the 1950s. Although several revenue offices viz Mal Adda with regards to land revenue, Bazaar Adda with respect to customs duties and Rakambadobasta Adda in relation to excises, did not exist during the Rana Regime. These offices were involved in collecting revenue through the middleman. Land revenue was collected through Mukhiya and Zimwal in the hilly areas and through Patwari and Jamindar in the Tarai Region. The middleman maintain records of land holdings in their respective areas, collected land revenue, from the landholders every year and deposited it into the treasury unlike the hereditary middleman system of collecting land revenue a licensee for the collection of customs duties and excises in a particular area was generally granted by auction to the highest bidder for a specified period of time. In the case of custom duties, the value of the contract appears to have been based on such factors as the size of the market of a particular area, the expected volume of trade and the number of export and import points. As in the case of land revenue, the contractors were given in addition to the exclusive right to collect customs revenue, positions such as Dittha, Laptan, Subba,

Subedar etc. Consequently, businessman used to be involved in such contract even if the contract did not appear to be profitable.” (Khadka,1994:191-192) The Rana regime was over thrown in 1951. The regime passed without any improvement in the modern sense of income tax system.

2.1.7 Income Tax in Modern Nepal

Income tax is comparatively new in the Nepalese tax system. After the independence of the country from Rana Rule in 1951, the government was bound to operate development activities besides performing the regular functions of maintenance of law and order. In order to raise excess government revenue, for the implementation of development activities, for the implementation of development activities, the idea of introducing income tax in Nepal originated only in the early 1950s. The Finance Minister, in his 1951 budget speech (the first budget speech of Nepal) said “A Proposal to levy an Income tax including tax an agricultural income is under consideration. The tax however will not fetch much revenue in the coming two or three years. Initially, the tax will be used to familiarize people with this tax rather than as revenue earner. As the tax develops, it will be a major source of revenue.” (Budget speech 1951, Khadka, 1994 :105)

Income tax was finally introduction by a first elected government in the fiscal year 1959/60. It was known as Business Profit and Remuneration Tax. Business and Remuneration ordinances 2016 B.S. was issued to expedite the provisions made in the Finance Act. The imposition of the tax was government by Business Profit and Remuneration Tax Act, 1960(2017 B.S.) and the rules were made under it. According to the Act only business profit and remuneration income were subject to tax but the revenue from their taxes could not be collected properly according to original estimate. The tax was introduced on an experimental basis on business and salaries, which are easier to assess than other form of income such as agricultural in come.

2.1.8 Income Tax Act, 1962 (2019 B.S.)

After about three year of experience, ‘Business Profit and Remuneration Tax Act, 1960’ was found to be very narrow and vague so it was replaced by Nepal Income Tax Act, 1962 (2019).The objectives of this Act were to reduce unequal distribution of wealth with social justices and develop taxpaying habit in people. This Act was an extension of the previous Act. It has 29 sections where as the previous Act had 22 sections only. Income Tax Rules were laid down and implemented in 1963(2020 B.S) according to the right provided by Nepal Income Tax Act 1962(2019). Income Tax Act 1962, which was amended in 1972(2029) remained in practice till 1974.

Nepal Income Tax Act, 1962 (2019 B.S) was wider than “Business Profit and Remuneration Tax Act”. This Act has allowed to make agreements with foreign governments to avoid double taxation, but it is replaced by Income Tax Act, 1974(2031 B.S.).

2.1.9 The Income Tax Act, 1974(2031 B.S.)

Income Tax Act 1962 as amended in 1972 was replaced by ‘Income Tax Act, 1974 (2031B.S.)’in order to keep the law in tune with the changes in the socio-economic environment of the country. It was more specified tax law having 66 sections. Its basic framework was derived from Nepal Income Tax Act, 1961. This Act was amended eight times to make it more practical and effective. Classification of income and expenditure; provisions for submissions of income statement, deduction of losses, maintenance of accounts, deduction of tax at source, formation of income tax committee, computation of net income by agreement in special case were the major features of this Act.

In addition, there were other features such as departmental action in case of negligence, rectification of errors, provision to inspect and search premises of taxpayers, deduction of life insurance premium and specification of form, provision of

reward for correct information about the evasion of tax and provision relating to action on the auditor.

The Act was also bound with some limitations, for instance, narrow tax base, dispersion of tax related acts and rules, ambiguity, unscientific presentation, right of best judgment to tax officer, disparity in computation of taxable income from fringe benefits, dual appellate system and inadequate measure for controlling tax evasion were the weakness of the Act.

2.1.10. Income Tax Act 2002 (2058 B.S.)

Tax policy is changed with the change in the economic policy of a country. Change in the world economic policy and advancement in information technology play a vast impact on the Nepalese economy too. Especially after 1990s there is reemergence of the liberalization, globalization and privatization systems that focus on the minimum intervention of the state in private economic matters. The 1950s concept of 'high incentive, high tax rate' is changed to the concept of 'low rate wide net'. This trend in tax system is followed by most countries of the world. Nepal is also not an exception in this respect, and the Nepalese administrators and policymakers too have tried to change the tax policy of the country. Income Tax Act, 2002 is the result of this change. (Kandel,2004:12)

To avoid the defects of Income Tax Act, 1974(2031 B.S.), Since 1st April, 2002 (19th Chaitra 2058), Income Tax Act,2002 has been introduced. It is the existing law related to the taxation of income. It consists of 143 sections divided in various 24 chapters. Income Tax Rules, 2002 (2059 B.S.) also has been framed under the provision of this Act.

Provision of set off and carry forward of losses, classification and pooling of depreciable assets, tax on capital gain, international taxation as well as provisions for medical tax credit, withholding payment and quantification, allocation and characterization of the amounts are the main features of this Act.

Income Tax Act 2002 has integrated all the laws relation to income tax. The tax has been divided all the sources of income into three categories, i.e. Employment, Business and Investment. The Act has guaranteed the rights of taxpayers in respect of secretly respectful behavior receiving tax related information and appointing lawyers and auditors for deference. Special incentives and rebate have been provided to the special industries by the Act.

2.1.11 Provision of Fine and Penalties According to Income Tax Act 2031

Under the income act 2031, a penalty may be imposed upon the taxpayer for one or more and up to a sum indicate in the respective section. ‘Penalty’ is the punishment for breach of law where a state requires any person to do a particular thing and he fails to so, he renders himself liable to penalty. Similarly, when the state requires any person not to do a particular things and he does so, he exposes himself to penalty. The nature and quantum of penalty differs from state and from default. The following provisions are applicable to the imposition of penalties under the Act.

2.1.11.1 Penalties and Appeals

There is no essential difference between tax and penalty. The liability for payment of both is imposed as a part of the machinery of assessment and penalty is merely an additional tax imposed in certain circumstance on account of the tax payer’s conduct under tax act, a penalty may be imposed upon the taxpayer for one or more faults up to a sum indicate d in the respective sections. Penalty is a punishment for breach of law where a state requires any person to do a particular thing and he fails to do so, he renders himself liable to penalty. Similarly, when the state requires any person not to do a particular thing and he does so, he exposes himself to penalty. The nature and quantum of penalty differs from state and from default. The following provisions are to the imposition of penalties under this Act.

(a) Penalty for Non-Payment of Tax

A taxpayer should be for payment of a fee at the rate of 15% of the tax amount due from him if makes default in the payment of tax within 35 days from the date on which tax assessment was relayed or within the times extended by tax officer. Such amount of tax or the fee ad fare in arrears shall be realized by the officer or the office notified by the tax officer in the following manners:-

- By impounding or seize the movable property of the taxpayer.
- By impounding any seize deposit of the taxpayer in any government office or corporation owned by HMG or any amount payable to him by such office or corporation.
- By withholding in transaction of the taxpayer including that of import or export trade.
- By auction off the whole or part of the movable or immovable property of the taxpayer in one or several lots.

(b) Penalty for Failure to Submit Statement of Income

- By taxpayer who fails to submit his statement of income within three months after the expiry of income year shall be liable to a fine up to RS.5000 and such amount of fine shall be kept as security. But such fine shall not exceed 10% of the taxable amount.
- Anybody who fails to submit his statement of income within the time allowed by an order made by tax officer (under section 28) shall be liable to fine equal to an amount of 15% of the tax payable annually by him.
- For any taxpayer who fails to submit statement of income within the allowed the tax officer may take any of the following proceedings or all pending the submission of statement of income.
 - To impound or seize the movable property of the taxpayer.

- To impound any deposit of the taxpayer with any government officer or corporation owned by HMG or any amount payable to him by such officer or corporation.
- To restrain the business of the tax payer including that of import or export trade. In order to take these actions it shall be necessary for the tax officer to obtain previous approval of the Director.
- Any taxpayer who fails to submit the statement within the time prescribe under sec.27 and 28 or whose tax has been assessed by the tax officer using his best judgment under section 33 (2) and has given order by the tax officer of being heard or producing any evidence in support of his statement of income shall be liable to a fine equal to an amount 7% of the tax payable.
- If penalty is imposed under subsection (4) penalty shall not be imposed under submission (2).
- While determining the fines, advance payment of tax shall be deducted from actual amount of tax payable and the fines shall be determined on the balance.
- Notwithstanding anything contained in subsection (2) and (4) the amount of fines shall be determined under the same submission from the expiry of the time of three months after completion of financial year and the fines payable shall not exceed the 25% of outstanding tax payable.

(c) Penalty for submitting False Statement

Any person who submits or cause a false statement shall be required to pay. Such amount of tax which had fallen short due to the submission of such false statement and shall also be fine. Equivalent to the amount of tax payable or to imprisonment exceeding two years or both.

But the penalty of imprisonment shall be imposed only after it has been referred to and confirmed by the Revenue Tribunal.

(d) Penalty for Failure to Maintain or Preserve Account

Any person earning or acquiring income from industry, business profession or vocation or any other source as may be specified by HMG in a notification published in the Nepal Gazette shall maintain proper account of his income and expenses. The method of maintaining such account and the language to be used shall be as specified by HMG in the Nepal Gazette.

In 20 Bhadra, 2034 issue of Nepal Gazette, government notified the methods of maintaining accounts and the language to be used by the taxpayer's incomes from industry, trade profession or occupation.

Every taxpayer shall preserve the accounts and relevant documents of his industry business, profession or vocation for six years from the data on which income has been assessed. Any taxpayer, who fails to maintain proper accounts, or fails to preserve any accounts and supporting documents, shall be liable to a fine not exceeding five thousand rupees.

(e) Penalty for Obstructing Search

Any person who obstructs any search operation to be made under sec.46 should be liable to a fine not exceeding five hundred rupees or to imprisonment not exceeding One month or both by an order of the local zonal commissioner. Any person not satisfied with the order made by a zonal commissioner may appeal such order or zonal court.

(f) Penalty for Failure to Deposit Tax

According to a provision under sec.36 any person paying any remuneration share or print or interest to any person shall at the time of such payment, deduct tax, there from and the tax so deducted shall be deposited for his HMG within fifteen days. If any person fails to do so within the specified period he shall be liable to fine not exceeding five hundred rupees.

Under section 41(C) here any payment is made without making any deduction of tax in advance, which had otherwise to be deducted under the act, the amount for deduction while computing net income of such person.

(g) Punishment for Breach of the Provision of the Act or the Rules

Except for any Act punishable under section 59, 60, 61, 62 and 63 of this Act, any persons, firm, company, bank, or other institutions responsible for any breach of the provision of this Act or the rules made there under shall be punishable by an order of the tax officer with a fine up to one thousand rupees.

(h) Prohibit the issuance of passport

Without prejudice to the liability for punishment under other section of this Act, the tax officer may by an order prohibit the issuance of passport to such taxpayer who is bound to comply with obligations imposed by this act until fulfillment thereof by the taxpayers.

(i) Penalty for carrying Business without Registration

Any person, carrying on any industry, trade, profession or vocation without registration shall be punishable by an order of officer with a fine up to five hundred rupees. The tax officer may withhold carrying out the business of such person until registration or impound any or all or the commodities pertaining to that business. But the tax officer has to obtain approval of the Director to impose such penalty.

(j) Power to imprison for Default in payment of Tax

In case any taxpayer, with the intention of avoiding payment of tax transfer his property of business to another person after or before the assessment of tax payable by him and does not pay the amount of tax within the time specified in subsection (1) or (2) of section 37. Such taxpayer, notwithstanding anything mention in the said section 37, may be kept in prison by order of HMG, until he makes payment of tax, but HMG may not order the detention of such person more than six months.

(k) Department action in Case of Negligence

If it is found that a tax officer has with regard to any taxpayer made dishonest or negligent tax assessment and as a result of which the tax liability of such person has become excessive or reduce, the director shall initiate proceedings for departmental punishment in accordance with the provision made in the condition of service of such tax officers.

(l) Penalty for not submitting Advance Payment of Tax

If the tax officer is satisfied the any taxpayer with an intention of avoidance of payment of tax changes the name of the firm and location or business activities, any taxpayer being a non Nepali citizen or non-resident is obliged to pay income tax avoid payment of tax, he may order that the amount tax finally assessed be deposit in advance.

2.1.11.2 Legal Provision Relating To Interest, Offences and Penalties in ITA 2058

Khadka(2001) described penal provision were a part of any tax law. It must be remembered that not all taxpayers comply with tax laws voluntarily. Some potential taxpayers may try to remain out of the tax net, some taxpayers may not maintain proper account, some taxpayer may not submit tax return, and some taxpayers may not pay tax and so on. It is necessary to take action against those who do not comply with the tax laws. In this context, there is universal practice around the world to include penal provisions in the tax laws.

Income tax Act 2002 has included detailed penal provision, which is divided into two parts:

- Interest and Penalties
- Offences

2.1.11.2.1 Interest and Penalties

The circumstances in which a tax office imposes interest and penalty are as follows:

(a) Penalty for failure to maintain documentation or file statement or return of income (sec-117)

- A person who fails to do the following shall be liable to pay a penalty for each month and part of a month calculated as the higher amount of 1.5% p.a. of the person's assessable income with a gross of any deductions and all amounts required to be included in calculating the person's income for the year, or Rs.1000 per month:-
 - File a statement for an income year as required by section 95(1)
 - Or
 - File a return for an income year as required by section 96 (1)
- A person who fails to maintain proper documentation for an income year as required by section 81 shall be liable to pay a penalty for the during which the documentation is not maintained calculated as the higher amount of 1.5% p.a. of the person's assessable income with a gross of any deductions and all amount required to be included in calculating the person's income for the year, or Rs1000 per month.
- A withhold agent who fails to a statement as required by section 90(1) is liable to pay a penalty for each month and part of a month during which the failure continues calculated as 1.5% p.a. applied to the amount of tax required to be withheld from payments made by the agent during the month to which the failures relates.

(b) Interest for understanding Estimated Tax Payable by Installment (sec-118)

- Where an installment of tax paid by a person under paragraph (a) is less than the tax payable by the person under paragraph (b), the person shall be liable to pay an interest referred to in subsection(2).
 - An installment payer's estimated or revised estimate of tax payable for an income year under section 95 that is used to calculate and installment of tax for the year payable under section 94.

- 90% of the tax payable by the person for the year under section 3 (a) and (b).
- A person referred to in subsection (1) shall be liable to pay interest as standard interest rate for each month and part of a month (the Period) from date the first installment for the year is payable until the date tax is payable on assessment
- The amount of interest that a person must pay for each period under subsection (2) is calculated as the standard interest rate applied to the excess of :-
 - 90% of the person's estimate of total amount that would have been paid by way installments during the income year for each installment period, or revised estimate equaled the correct amount, over the amount of tax paid installment during the year.

(c) Interest for Failure to Pay Tax (sec-119)

- A person who fails to pay tax on or before the date on which the tax is payable is liable to pay interest for each month and part of month for which any of tax is outstanding calculated as the standard rate applied to the amount outstanding.
- For the purpose of calculating interest payable under sub section (1), any extension granted under section 98 is ignored.
- A withholding agent may not recover from a withholder interest payable by the agent in respect of a failure to comply with 90(4).

(d) Penalty for making false or Misleading Statements (Sec-120)

A person who makes and presents the false or misleading statement or omits any matters from the statement knowingly or recklessly is liable for a penalty as follows:-

- Where the statement is happened to be false or misleading without knowing or recklessly, 50% of the under payment of tax; or
- Where the statement is made false or misleading knowing or recklessly, 100% of the underpayment of tax.

(e) Penalty for Aiding or Abetting (sec-121)

Person who knowingly or recklessly helps or assists another person to commit an offense or counsels or influence another person to commit the tax misleads such a person is liable for a penalty equal to 100% of the underpayment of tax.

2.1.11.2.2 Offences

Simply offence is legal or moral crime. It also includes an official crime or a crime against moral, social, or other accepted standards. Similarly, penalty is a legal punishment for committing crime. It also includes a legal or official punishment such a fine or imprisonment for committing a crime other offence. The ITA 2002 has made some provision of penalty for offences. Which are as follows:-

(a) Penalty for Failure to pay Tax (sec-123)

If any person who without reasonable excuse fails to pay any tax on or before the date on which the tax is payable shall be liable on conviction to a fine of not less than Rs.5000 and not more than three months, or both.

(b) Offence of making false or Misleading Statement (sec-124)

If a person who makes a statement to the IRD that is or misleading in a particular material or omits from a statement made the IRD any matter or thing without which the statement is misleading in particular material has to be liable to a fine between Rs.40, 000 to Rs.1, 60,000 or an imprisonment for a term not less than six month and not more than two years, or both.

(c) Offence for Obstructing or Influencing tax Administration (sec-125)

A person committing the following offences is liable to a fine not less than Rs.5000 and not more than Rs.20000 or an imprisonment for a term not less than one month and not more than three months or both.

- If obstructs an officer of the notice of the IRD on duty under ITA 2058
- If fails to comply with a notice for obtaining information
- If obstructs the enforcement of the ITA 2058 in any other ways

More over any person if attempts to commit the offences as explained above liable to half of the penalty as mention.

(d) Penalties for Authorized and Unauthorized Person (sec-126)

If any authorized person violets official secrecy is liable to a fine of up to Rs.8000 or an imprisonment for a term of up to one year, or both. Similarly, if any person who is not authorized by ITA 2058 collects or attempts to collect tax or any other amounts in the tax is liable to a fine of between Rs.80000 and Rs.24000 or an imprisonment for a term of less than one year and not more than three years or both.

(e) Offence of Aiding or Abetting (sec-127)

If any person who knowingly aids or abets another person to commit an offence under the ITA 2058 or counsels or induces another person to commit such an offence is liable to half of the penalty that is imposed on the main offender. But, government officials if commit such an offence is liable to full penalty that is imposed on the main offender.

(f) Penalty for failure to comply with the Act (sec-128)

If a person who fails to comply with any provision of the ITA 2058 and its rules under this Act Shall be liable to a fine of not less than Rs.1000 and not more than Rs.3000.

(g) Department may order for Payment of Penalty Amount

- Notwithstanding this chapter, where any person accept in writing as having committed one or more offence under this chapter. Other than of a kind referred to in section 126, the department may, at any time prior to the commencement of court proceedings, at any time prior to the commencement of court proceedings, order the person to pay a sum of money specified by the department but not exceeding the amount of the fine that is likely to be imposed for committing one or more offence.

- In issuing the order referred to in subsection (1), the department shall be required to specify the offence committed, the sum of money to be paid and the date for payment in such order.
- An order issued by the department under this section shall be final and shall not be subject to any appeal.

(h) HMG (Now Nepal Government) shall be a Plaintiff

HMG shall be a plaintiff in all lawsuits under this chapter.

(i) Investigations and Filing of Lawsuit

- The prescribe officer should conduct an investigation of the lawsuit in respect of the offence that would be imposed on the penalty under this chapter and lawsuit shall be required to be filed with the concerned district court within 35 days after completion of the investigation.
- The officer conducting investigation under subsection (1) shall acquire an opinion of Government advocate.

2.2 Review of Books, Journals and Previous Research

Several books, research studies, articles, research paper and reports have been reviewed while conducting the study. Many individuals and organizations have made appreciable efforts in the field of income tax many literatures are found in this field. Most of them are syllables oriented and some of them are concentrated to administrative problem legal aspects and policies; income tax system, path for reform of income tax etc, in the descriptive way rather than analytical. Similarly many research studies, articles and reports have described the income tax law provision structure of income tax, problems and prospects of income tax and path for reform of income tax.

2.2.1 Review of Books/Reports

Amatya conducted a study through a book published in 1965. The title of the book was “Nepalma Aayakar Byabastha”. He has analyzed the legal aspect of income Taxation in his whole book. His contribution was first in this field.(Amatya, 1965)

Lent has presented a report entitled “Survey of Nepalese Tax structure”. Under the request of IMF, fiscal Affairs department. He has critically analyzed the scope of income tax in Nepal, tax structure, taxable income, exemption and allowance given at that time. He has suggested reforming both the income law and administration to increase government revenue through income tax. (Lent, 1968)

Dhungana, Kayastha and **Rai** have published a report entitled “An Analysis of Tax structure of Nepal” Dealing the tax structure of Nepal. Writers have analyzed the income tax in Nepal and the recommended to reform income tax to reduce resource gap and mobilize additional resource. Report wasn’t analytical. (Dhungana, et all.1976)

Agrawal , Govinda Ram(1978) has provided details information in various aspects of income taxation in his report entitled “Resource Mobilization for Development; the Reform of Income Tax in Nepal”. His study is the first comprehensive study in taxation of Nepal. The study has covered period of nine years from 1967 to 1976. The nine chaptered research shows picture of resourced gap of Nepal in its first chapter. Fiscal policy, effective tax system, role of income tax, legal and administrative aspects, historical background of income tax etc have been also discussed. He has presented various mathematical calculations such as per capital burden of income tax, buoyancy coefficient and elasticity coefficient of income tax etc. using the double log linear model. He has identified the major problems as inefficiency of tax administration and income Tax evasion. He also identified tax authorities are insufficient in enforcement of law and there are not integrated programmes for taxpayers education assistance, guidance and consul sating. All things states in research are not fully relevant today. (Agrawal, 1978)

Dr. Agrawal(1980) has presented another research report concerning about the income tax administration. He states, tax administration is an important sub-system in the total system that can either carefully tend or mercilessly kill the goose that lays golden eggs. It is the essence of implementing tax policy and tax laws. Too much preoccupation with to do in terms of tax policy and tax alone is not good unless attention is given to how to do it in terms of tax administration. He has found that, there are no integrated programmes for taxpayers' education, assistance, guidance and counseling. About the major problems of tax administration he found are corruption, unfair dealings, harassment and incompetent personal etc.(Agrawal, 1980)

Poudel and **Timilsina**(1990) had described the provision and laws related to income taxation of Nepal in a book named "Income Tax in Nepal" this book is extremely based on the syllabus of B.Com. They were described the theoretical as well as practical aspects of income tax. He has not analyzed the role of income tax, income tax structure and defects of income tax in Nepal. The book was descriptive rather than analytical. (Poudel et all, 1990)

Pradhananga(2049) had an explained the provisions and law related to income taxation of Nepal. His book is informative rather than analytical. He had described method of income tax assessment with numerical examples but had not analyzed the major problems and defects of income tax and the role of income tax. (Pradhannanga, 2049)

Dr. Khadka(1994) published a book "Nepalese Taxation: Ad path for Reform". The book is divided into seven chapters. The general economic conation of Nepal, commodity taxes, income taxes, property taxes, local taxation, tax administration and the strategy for tax reform respectively. He had analytically described about development, existing structure, main problem and possible direction of reform of income tax. He had identified the major problems of income tax as narrow coverage, unscientific tax assessment and collection, defective system from the prospective of international taxation. He has also pointed out weak tax administration, imbalance and

inadequate organizational pattern, inadequate physical and other facilities, inadequate tax training, predominance of 190w level non technical posts, debatable scope of revenue investigation department, lack of information system. He has suggested for extension of tax coverage, scientific method of tax assessment, extension of withholding tax, inflation adjustment etc. He has also suggested to administration for recognize and expansion, integrated information system research unit, strengthening the revenue service etc. this book was analytical and useful to know different aspects of income tax. (Khadka, 1994)

Dhakal(1998) published a modified edition of book named “Income Tax and house and compound Tax law and practice with VAT”. He has described historical aspects and legal provisions related to income tax and presented methods of income tax assessment with numerical examples. This book was fully based on the syllabus of BBS third year and MBS second year and was published before coming new Income Tax Act 2002. This book is very useful to know the general information and legal provision of Income Tax Act 1974. His book is informative rather than analytical. (Dhakal,1998)

Tiwari(1999) conducted a study through book named “Income Tax system in Nepal.” The book is also knowledgeable for theoretical as well as practical knowledge about income Tax act 1974. (Tiwari,1999)

Dr. Khadka, Rup(2001) has published a book named “Income Taxation in Nepal. Retrospect and prospect”. This book has complete information of Nepalese income taxation. From the income tax around world to the draft Income Tax Act 2001(Later it became Income Tax Act 2002), all the information and major provisions regarding the matter are mentioned in the book. Besides these, Income Tax Act 1960, 1962 and 1974 in detail are also presented in the book. He has described what is the practice in the world, what was the practice in Nepal and at present, the all terms relating to the tax. The book is a knowledgeable for all of them those who are concerned about

income tax such as CA, Auditor, Administrator, Policy-Maker, Teachers, Students etc. (Khadka, 2001)

Dr. Adikari(2001) has published an article from Rajaswa vol.2. In his article he has explained the need of tax policy that can play significant role in the Nepalese economy. According to him, a little attention on tax administration can minimize the role of tax policy. Nepalese income tax is waiting for comprehensive and integrated taxation plan and scientific implementation of the same by the way of reform. Further he has stated Nepalese tax system has three types of gaps. They are investigation and identification gap, return filling gap, assessment and collection gap. He has suggested that the tax administration should consider as an important component of tax policy to achieve the goal of revenue maximization through taxation. (Adhikari, 2001)

Dr. Thapa(2002) had described the tax system, features of tax, and causes of reform the tax. He had characterized the tax system as too many and too high rates, multiple objectives of taxes scheduler rather global approach to income taxation, too many income brackets and high progressively, complicated and ambiguous tax law.

He had identified the areas for reform the tax system in Nepal. They were, low rates on broad base, simplicity and neutrality, gradual abolition of exemptions, deduction and tax holidays to broad tax base, few rates or single rate, few taxes with high revenue productivity, emphasis on tax compliance rather than coercive enforcement, incentives to sewing and investment, conversion of sales and service taxes into VAT, excise duty only on cigarettes, tobacco, alcohol, automobiles, petroleum and automobile spare parts, abolition of surcharge and additional duty system to make the tax system simple, making the tax system internationally compatible to attract foreign investment. (Thapa, 2002)

Adhikari (2003) has discussed the legal provision of new Income Tax Act, 2002. His book is analytical rather than informative writer has not included administrative aspect, role and structure of income tax in his book. The book has only focused on the legal aspect of income tax. Agreement and protocol relating to avoidance of double

taxation and the prevention of fiscal evasions with respect to taxes on income between different countries has also incuded in his book. (Adhikari,2003)

Lamsal, R.K.(2003) has published a technical not as per requirement of course of BBS and MBS giving the name“Tax Law and Tax Planning”. The book is consulted within seven chapters. Each chapter of this book contains practical problems and solution regarding the provisions of Act 2002. (Lamsal, 2003)

Kandel, P. R.(2003) has published a book name “Tax Laws and Tax Planning in Nepal.” In the year 2003, the book is about Income Tax Act 2002 and Value Added Tax. This book is also prepared as per syllables of MBS, T.U. for the practical problems and provisions relating to the act, this book could be a useful source. And, the practical problems and provision relating to VAT is also given equally important in the book. (Kandel,2003)

Mallik(2003) had published book name “Nepalese Modern income Tax system”. He had described historical aspects of income tax and legal provisions relating to income tax with numerical examples. This book is very useful to know the general information and legal provision of Income Tax Act 2002. His book was informative rather than analytical. He had not analyzed the role of income tax, structure of income tax in Nepal. (Mallik,2003)

Adhikari(2003) wrote a book entitle “Modern Taxation in Nepal: Theory and Practice”. This book also has been written according to the syllabus requirement of different faculties. Especially for BBS 3rd year of T.U. has been taken into consideration. Income Tax Act 2002 as amended by Finance ordinance, 2003 had also been included theoretical as well as practical aspects have been put in the book. (Adhikari, 2003)

Amatya, S.K.(2004) and other two senior tax expert is published the book aims to fulfill the course requirement of BBS, BBA, LLB, LLM, CA, MPA, BMS and MBA, students. This book has defined all the terms relating to income tax and Value Added

Tax. The examples presented in the book helps to reader to know more about provisions and provisions and procedure of act. Furthermore this book has enough practical examples also. (Amatya et all, 2004)

Bhattarai , Ishwor and Koirala , G. P.(2004) however the concentrated in the syllabus of MBS Second year of T.U, the book is quite informative. The book has much more practical problems and solutions regarding income tax assessment from different groups of income point to remember(PTR)in each and every chapter has made the book more useful to all the user of book. (Bhattarai et all,2004)

Dr. Khadka (2005)wrote a book entitled “Moderning Tax Administration in Nepal”. This book is very much useful to everyone who is interested in Nepalese income Taxation. This book gives almost complete information about the tax system of Nepal. From its ancient time to current situation of income tax system. He has shared his expertise in his book. Basically author focuses on the administrative aspect of tax system of Nepal. (Khadka, 2005)

2.2.2Review of Articles

Revenue consultation committee of MOF has published a report in the FY 2001. The committee has studied the overall taxation situation of Nepal. This report has suggested widening the income tax base by including all kinds of taxpayers and income. This report suggested for finding out the taxpayers of new sector. For this the report has suggested to make the act more transparent and clear in order to attract foreign and domestic investors. The report suggested increasing exemption limit and adjustment of exemption limit according to the purchasing power and inflation. This report has suggested to implement account based VAT more effectively. This report has also suggested that fine and penalties imposed strongly to rule breaker so that income tax collection will be raised.

Advocate Sing published an article named “Taxation-legal illegally” in the journal of the ICAN, on Dec. 2005, He has mainly focused on Nepalese taxing system and

government provisions and tax minimization activities. In his words “the taxpayers have been encountered by the tax officials themselves to go to the courts over complain of their wrong doings because the authority is totally convinced that no immediately solution can be expected from the court of tribunal in short span of time as long as they are in position. One of the major suspicions on the independency and role of revenue tribunal is the procedure where by decision of the director general of the Inland revenue Department has to be reviewed through appeal by the tribunal.” He further added “one of the major constraints that has already been dealt above is the lack of proper orientation and expertise in the courts and the effectiveness to the intendment of the representative lawmakers”

In the name of the “Income Tax Act 2058 to minimize loopholes” by Puspa Kandel published an article in which he wrote about different tax minimizing activities. Through the government has tried to minimize the loopholes of the tax system, there are different ways of minimizing the tax liability bay a person or business organizations. They all are categorized on the law and ethics. They are:

- Tax evasion (illegal & unethical)
- Tax planning (legal planning)
- Tax avoidance (legal & unethical)

Kandel concluded that to decrease tax evasion the government should strongly implementation the rules regarding fine and penalties.

2.2.3 Review of Dissertations/Thesis

Shrestha, G.L.(1967) has prepared a master Degree Thesis entitled “Income Tax in Nepal”. He has described about historical background income tax act, rules and administrative aspects but has not shown problems related to income tax. (Shrestha,1967)

Kayastha, N. L.(1974) has tries to analysis the “Contribution of income and Property Taxes to overall revenue collection in Nepal”. He has also studies history, legal and

administrative aspects of income tax system in Nepal and pointed out some drawbacks such as income tax evasion and greater role of indirect tax in national revenue. (Kaystha,1974)

Subedi , Purushottam(1982) has analyzed about the “Role on National Revenue, legal aspects and historical background of income tax in Nepal.” He has examined the growth of income tax collection, its ratio to GDP, cost of income tax collection and elasticity. He has pointed out tax evasion inefficient tax administration and dominating role of indirect tax as major problems and suggested to reform tax administration. (Subedi,1982)

Siwakoti, Chudamani(1987) has specially analyzed the “Income Tax Act 1974”. He has described the role of income tax as economic growth, equitable distribution and stabilized growth. The major problems identified by him are evasion at high level, delay in assessment, and nominal share of income tax, lack of public awareness, complicated act, untrained and inexperienced administrative personnel. There is also high use of best judgment assessment methods, no compulsion to maintain book of account and auditing accounts of all type of business ineffective use of fine and penalties, no provision of tax review commission, no provision of sales promotion out of country and lack of weighted deduction. He has suggested for progressive tax, honest and efficient tax administration, research units in tax offices and penalties for not maintaining accounts. He has recommended for provision of weighted deduction and reduce time limit for assessment. (Siwakoti,1987)

Baral, Shanti(1989) has tried to show the “Contribution of Income Tax on the structure of Government Revenue in Nepal”. She found that total tax revenue and direct tax revenue have an increasing trend in Nepal but in unsatisfactory rate she has found that contribution of direct tax has been decreasing and that of indirect tax act is increasing each year. Exemption in agriculture income is other reason for less collection of revenue. In her study, insufficient tax administration unconsciousness of taxpayers, lack of scientific method of tax assessment and collection have been

identified as the major reasons for tax evasion at high level. She has suggested that the tax administration should be honest and efficient, tax evaders should be punished, there should be scientific method for tax collection, administration cost should be minimized, research unit should be established and delays in assessment procedure should be reduced. (Baral, 1987)

Shakya, K.K.(1995) has mentioned in his study Nepalese Income tax net is limited by various factors such as low per capital income, extensive subsistence economy, relatively closed economy, weak export position, etc. According to his study lack of comprehensively and clearly defined income taxation process, lack of punishment to the tax evader, low tax paying capacity and non-response of Taxpayers, lack of effective tax administration, scientific method of tax collection and collector are the main reason for growing income tax evasion.(Shakya, 1995)

Pant, Pameshwar(1996) Presented his MBA dissertation entitled ‘A study on “Income Tax Management in Nepal”. He has identified various problems of income tax management in Nepal and among them lack of managerial efficiency is the main problem .Lack of effective personnel management, poor reward and punishment system, weak income tax assessment procedure, poor tax information system, lack of taxpayer educations. Very narrow coverage of income tax is the other problem of income tax management in Nepal identified by him. (Pant, 1996)

Timilsina(2001) has concentrated his study on mainly on the analysis of exemption and deduction of “Income Tax Acts of Nepal.”In his study, he showed that contribution of corporate tax is higher compared to individual income tax .He recommended to increase the exemption limit for an individual; to a minimum of Rs.90, 000 and for family exemption based on the no of dependent children and parents .He further recommended levying income tax on agriculture, capital gains and other sources to raise tax based. (Timilsina, 2001)

Paudel(2002) presented a dissertation entitled “Income Taxation in Nepal: A study of its structure and productivity.”The objection of his study were: to analyze the

structure of income tax in Nepal, to estimate the elasticity and buoyancy of income tax in Nepal, to assess the role of income tax administration in Nepal, to evaluate the success of voluntary disclosure of income scheme (VDIS) programme in briefs and to provide the suitable recommendation for improving the scenario of income tax. She has found that overall revenue of Nepal should and annual growth of 16% indirect taxation has more significance contribution in total tax revenue, income Tax occupied the first rank among the direct taxes, personal income tax slab has been change radically from seven slabs in 1975/76 to two slabs in 1999/2000, VDIS could not attract more potential taxpayers into tax net due to lack of good planning and adequate homework of the government, working procedures of the tax administrators are still traditional and cost of administration has not been brought to the satisfactory level. (Pandel, 2002)

Sherchan, T.(2003) presented a thesis on “An Analysis of Fine and Penalties Regarding to Income Tax system of Nepal.” The objective of this study were analyzing tax structure of Nepal, analyzing the provision of fine and penalties under income tax law, know the tax payer’s knowledge and know view of tax officers about fine and penalties. His major findings have shown that the dominating share of tax revenue is in decreasing trend from 81.73% in 1975/76 to 77.97% in 2001/02. The contribution of income tax is in increasing trend and has occupied third position in the study period. It was 7.83% in 1975/76 and become 17.6% in 2001/02. There was dominated role of corporate income tax but was in decreasing trend and contribution from individual income tax is an second position with increasing trend in total income tax. The Tax /GDP ratio was not found satisfactory.

He has found the taxpayer to be unknown about new act and lacking the habit of paying tax .He was considered income tax administration of Nepal as ineffective to impose fine and penalties as per necessary and its due to corruption, lack of competent staff and complicated tax law.

He has suggested revising the provision of fine and penalties introducing reward and prizes, clear income tax rules and regulations, clear right and duties of tax officer's timely revision in income tax policy and computerized system for payment of income tax payment. He has recommended for education to taxpayers and information spreading through different media, meetings and seminars for consciousness about income tax. (Sherchan,2003)

Magar(2003) has concentrated on the "Exemption and deduction provision of income Tax law". He has found that there was dominated share of tax structure in Nepalese government revenue. He found the contribution of direct tax and indirect tax to be 25.56% and 74.44% of total tax revenue in 2001/02. Income tax has occupied third position on the basis of mean contribution among source of revenue and is in increasing trend. The tax GDP ratio was not found satisfactory with income tax corporate income tax is the first position with dominating role and in decreasing trend while income tax from individual is occupying second position and is in increasing trend. He has stated the major cause for inefficient tax administration as lack of trained employees, shortage of income tax experts and professionals in tax administration, lack of public participation, faulty organizational structure of tax administration, weakness in government policy and defective Income Tax Act. (Magar,2003)

Dr. Dhakal(2004) study on "Income Tax administration in Nepal: Areas for Reform" analyzed historical prospective on income tax in Nepal, tax structure in Nepal, administrative aspect of income tax in Nepal, the ways and means for increasing tax consciousness in the public, and he has conducted an empirical investigation regarding the problems on various aspect of income tax administration system of Nepal. His study emphasized on drawing a clear sketch of income tax administration system of Nepal and its problems. He also gave recommendation for the improvement of income tax administration in Nepal. According to him the tax administration in Nepal is facing the problems of failure to locate new taxpayers, poor-record keeping

system of taxpayers' weak tax administration, poor training opportunities and lack of motivation in tax personnel. (Dhakal, 2004)

Rai(2004) presented a dissertation named “An analytical study on income the Act, 2058” in her study to analyze various aspect of Income Tax Act,2058 in reference to income heads. She examined income tax in its historical prospective and reviewed the income tax system of Nepal in context of its contribution to the total revenue and total government revenue. She wanted to find out the ways and means for increasing tax consciousness among the Nepalese people. She has suggested that the laws relating to income tax should be clear, simple and comprehension. It should not contain any loopholes and ambiguity. Therefore it should be reviewed frequently. She wanted to make clear that in Nepal, one of the most important reasons for unsound income tax system is inefficient and unscientific income tax administration. (Rai, 2004)

Gautam(2004) has concentrated his study on “Contribution of Income Tax to National Revenue of Nepal”. In this study, he analyzed the contribution of income tax to national revenue of Nepal and volume of indirect tax and direct tax in total tax revenue. He also examined the effectiveness of income tax revenue collection in Nepal. In his study he found that the contribution of tax revenue shows the decreasing trend as it had contributed of tax revenue shows the decreasing trend as it had contributed by 85.2% in fiscal year 1982/83 on the total but it was decreased to 78.0% in 2001/2002. He also state that there is dominant tax revenue to total revenue is 20.63% and 79.40% over the study period. Lastly he recommended that taxes ratio should be increased gradually on long run basis to meet the deficit in budget for this, the tax base should be widened. The principle of ability to pay should be completely adopted. (Gautam, 2004)

Sharma(2005) has prepared a master degree thesis entitled “An Analysis of fine and penalties regarding income Tax system in Nepal”. He has described about tax structure of Nepal, analyzes the provision of fine and penalties under income tax law, examined the taxpayer's knowledge and tax officers views about fine and penalties,

tries to find out the role of fine and penalties to increase taxpaying habit of Nepalese people and provided suggestions about fines and penalties regarding to income tax system. (Sharma, 2005)

Dhakal(2005) studies with the objectives of analyzing contribution of income tax and volume of indirect and direct tax, examining the effectiveness of income tax revenue collection, knowing the view of taxpayer, tax experts and tax officers about various aspects of income tax and to recommend possible measure. His study has covered introduction, conceptual framework and legal provision, presentation of different data relating to income tax, empirical study and summary, conclusion and recommendation. He has made some recommendations. Tax ratio should be gradually increased to adopt principle of ability. Income tax policy should be timely revised by income tax experts following economic policy of nation, income tax rules and regulation should be clear and simple; rate of fine and penalties should be increased; A research and intelligence center should be established in each tax office, tax personnel and taxpayers should be encourage as well as punished for their works; separate income tax department should be established; income tax net should be broad by bringing house and lent rent, doctor's clinic, consultancy service, tuition, research etc into income tax net are the major recommendations made by him. (Dahal, 2005)

Regmi(2006) has presented a dissertation entitled "Income Tax administration and its effectiveness in Nepal". He has analysis contributions of indirect tax and direct tax in total tax revenue and find out the share of income tax in total tax revenue. He has examined the effectiveness of income tax revenue collection and administrative aspect of income tax in Nepal. He has described that the effectiveness of income tax system depends upon the income tax administration. According to him in Nepal, one of the most important reasons for unsound income tax system is ineffective and unscientific income tax administration he has suggested that delays in assessment should be reduced as possible, computerized information system is necessary to keep up to data records of income tax, proper tax education should be provided to tax officials as well

as taxpayers regularly, cost of income tax collection is one of the determinants of efficiency of administration. Therefore the concerned authority should pay due attention to it should be reduced, unnecessary outside pressure should be avoided and income tax experts/ Professional should be increased in tax administration. He pointed out that two administrations should pay great attention to bring the income from house and land rent; doctor's clinic, consultancy service, tuition, research works into income tax net. In these sectors, income tax has been highly evades. (Regmi, 2006)

Dhungel had presented a dissertation entitled “Special Provision to individual under Income Tax Act 2058”. She had examined and analyzed the effectiveness of special provision provided by ITA 2058 to individual and identified the other provisions to be included in the special category. She also wanted to make aware about special provisions to individual (Taxpayers) and tax experts. She has found special provision to in individual provided by Income Taxes Act 2058 is not sufficient and more provisions should be provided and the retirement contribution should be wholly exempted, the tax concession to individuals working at different area is contradictory. Tax experts are satisfied and tax payers are not satisfied. (Dhungel, 2006)

Shrestha(2006) has prepared a master degree thesis entitled “Contribution of income Tax to government revenue in Nepal”. She described about the contribution of income tax to national revenue of Nepal and analyzed the volume of indirect tax and direct tax in total tax revenue. She also examined the effectiveness of income tax revenue collection in Nepal and tried to found views of the taxpayers, tax experts and tax officers. (Shrestha, 2006)

Oli, S.(2007) in his dissertation named Income Tax Management in Nepal. He has focused on the managerial aspect of taxation in Nepal. His research study is concentrated on corruption practice of tax in various revenue department and tax offices. On the basis of primary survey, he has concluded that the corruption practice is high in tax offices. He has also focused that the imposition of fee, fine and penalty is not effective due to the poor implementation of act and corruption. He had

suggested that to increase income tax, provision of fees, fines and penalties should be implemented properly along with income tax management.

Dotel(2007) present a dissertation named “Income Tax Act 2058; Expectations and Realities” in 2007. The objectives of the study was to measure the effectiveness of Income Tax Act 2058 both in theory and practice, to review the views of taxpayers, tax experts and tax administrators to ITA 2058. He found that Income Tax Act 2058 seems effective because it has the features of provisions of international taxation, taxing capital gains and dividends income, abolition of various tax related concession, rebate and exemption etc. He also found that the most of taxpayers, tax administrators and tax experts are acquaintance to present Income Tax Act. However they suggest that some of the words in the act needed to be further simplified. (Dotel, 2007)

Chalise(2007) has presented a thesis entitled “A study on contribution of income Tax to government revenue”. The objective of the study was to analyze the structure of government revenue, identify the ways and cause of income tax evasion and to make suggestion and recommendation for the elimination of income tax evasion. In his study he found that the average contribution of custom, VAT (Sales Tax), income tax and excise duty were 25.03%, 24.63%, 15.48% and 8.46% of total revenue respectively for the period of 10 years i.e. from fiscal year 1996/97 to 2005/06. Inefficient income tax administration, reluctance of taxpayer to maintain account, poor tax morality and taxpayers’ compliance are the major causes of income tax evasion in Nepal. Controlling illegal business activities, fine and penalties to tax evaders, incentives to regular taxpayers are the major ways of controlling income tax evasion in Nepal. (Chalise, 2007)

Oli(2008) presented a dissertation entitled “Contribution of individual Taxpayers to income Tax revenue of Nepal”. The objective the study was to examine the structure of government revenue, analyze the volume of direct and indirect tax to total revenue, analyze the contribution of individual tax payer to income tax revenue as well as total public revenue of Nepal etc. He has found that the tax revenue is 79.45% of the total

revenue of Nepal in FY2005/06. There is dominant role of indirect tax revenue in Nepalese tax revenue. It was major contribution by indirect tax revenue, which was 75.68% in FY2005/06, but the direct tax was 24.32%. The major contribution in the income Tax was from individual. It was Rs. 5998.80 million in FY 2005/06, But from the public enterprises was only Rs.195.70 million. (Oli,2008)

Sapkota(2008) presented a dissertation entitled “Contribution of income Tax to national revenue; before and after enactment of Income Tax Act 2058.” The main objective of the study was to analyze the contribution of income tax in national revenue before and after enactment of Income Tax Act 2058, to provide suitable suggestion for the betterment of income tax system in Nepal. During his study, he found that performance of income tax before and after new act seems not regular. The new income tax act is introduced on 2001/2002 and total income tax has first time declined by 210.3 million and by-2.3% that year. It further decreased by 937.5 million and -10.5% for FY2002/03. In FY2000/01 growth rate was 22.8% and that was more than 20% for other preceding year but is just 2.1% in the year FY2005.06. He suggested that overall revenue policy as well as tax policy should be revised. Tax offices should be decentralized for broad coverage of geographical region. Different recent technologies such as e-taxation should be introduced and promoted to avoid complexities and delay in income tax administration. (Sapkota, 2008)

CHAPTER-III

RESEARCH METHODOLOGY

This chapter deals with the method of collection and analysis of data. Secondary as well as primary data were used for this study. Opinion survey technique was adopted while collecting the primary data to find out the view of respondents representing different groups related to different aspect to income tax. While conducting opinion survey, questionnaires were distributed to the income taxpayers and tax administrators.

The collected data were tabulated into the separate format and table; some statistical tools such as simple average and percentage were made where necessary.

3.1 Research Design

To achieve the specified objective of the study the opinions of various 40 respondents associated with distinct denomination i.e. Tax Administrators, taxpayers were collected through structured questionnaire. The questionnaire includes provision of fine and penalties, effective of fine and penalties, knowledge and view of tax administrators as well as taxpayers about fine and penalties etc. Similarly various information published by organization about income tax are used for this study. In this way the research design of this study are descriptive, analytical and empirical.

3.2 Types of Research

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

- a. Descriptive research includes surveys and a fact finding inquires of different kind.
- b. Analytical research has to use facts or information already available and analyze these to make a critical evaluation of material.
- c. Empirical research is data based research coming up with conclusions, which are capable of being verified by observation.

3.3 Population and samples

The population for this study comprised all the persons belonging to income tax Nepal. 40 sample sizes were selected from three different groups of respondents. The following table shows the group of respondents and sample size.

Group of Respondent and size of sample

S. NO.	Group of Respondents	Sample size
1	Income Tax administrators	20
2	Income Tax payers	20
	Total	40

3.4 Nature and sources of data

Data which is essential to describe this study are collected from two sources i.e. primary and secondary sources.

Primary data are collected by questionnaire (field visit and information received from the respondents).

Secondary data are collected from;

- a. Economic survey and budget speech of various years, ministry of finance, Nepal government
- b. Book related to income tax
- c. Reports and records of various departments of taxation
- d. National newspapers, journal, souvenir and magazines

3.5 Data Collection Procedures

Data of this study are collected from two sources. Primary data are collected from tax administrators and taxpayers by using questionnaire. First of all questionnaire was developed and distribution was done through personal visit. Secondary data are collected from published report of different organization.

3.6 Data Processing and Analysis of Data

The information received from primary and secondary sources were firstly tabulated in two separate suitable formats systematically. The data were tabulated in to various tables according to the subject matter in order. For the purpose of analysis, generally simple statistical tools were used which were as follows: simple percentage, simple average, graphs, charts and diagrams, trend analysis, rank correlation etc.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is devoted to the presentation and analysis of the income tax structure and opinions about income tax as well as provision about interest, fees, fine and penalties with reference to ITA 2058 through definite course of research methodology. To achieve the stated objective of the study and also to make easier to understand the findings, qualitative as well as quantitative data and information has been analyzed.

4.1 Tax Structure of Nepal

Modern economic plan of Nepal had started with the initiation of first economic planning in 1956. Since then taxes have been used for the achievement of national economic goals. So taxes play vital role to the economic development of Nepal. To get knowledge about the taxes, tax structure should be known. The structure refers to the level as well as relative importance of various taxes in the composition total tax revenue of country. Tax structure of Nepal from the fiscal year 2001/02 to 2007/08 is given below.

4.1.1 Composition of Total Revenue

Total revenue in Nepal is the composition of tax revenue and non-tax revenue. When the HMG of Nepal presented first national budget in FY 1951/52, 73% of government revenue coming from non-tax source and land tax out of 73% share of non-tax revenue was 43% (Budget speech FY 1951/52). It seems that the share of tax revenue has always been greater than the share of non-tax revenue. In FY 2007/08 the share of tax revenue and nontax revenue was 79.12% and 20.88% respectively as compared with 77.97% and 22.03% in FY 2001/02. This indicates that the role of tax revenue is very much important for the government. Tax revenue has been placed as a major source of government revenue in Nepal.

Table 4.1.1 Composition of Total Revenue*(Rs. in Million and %)*

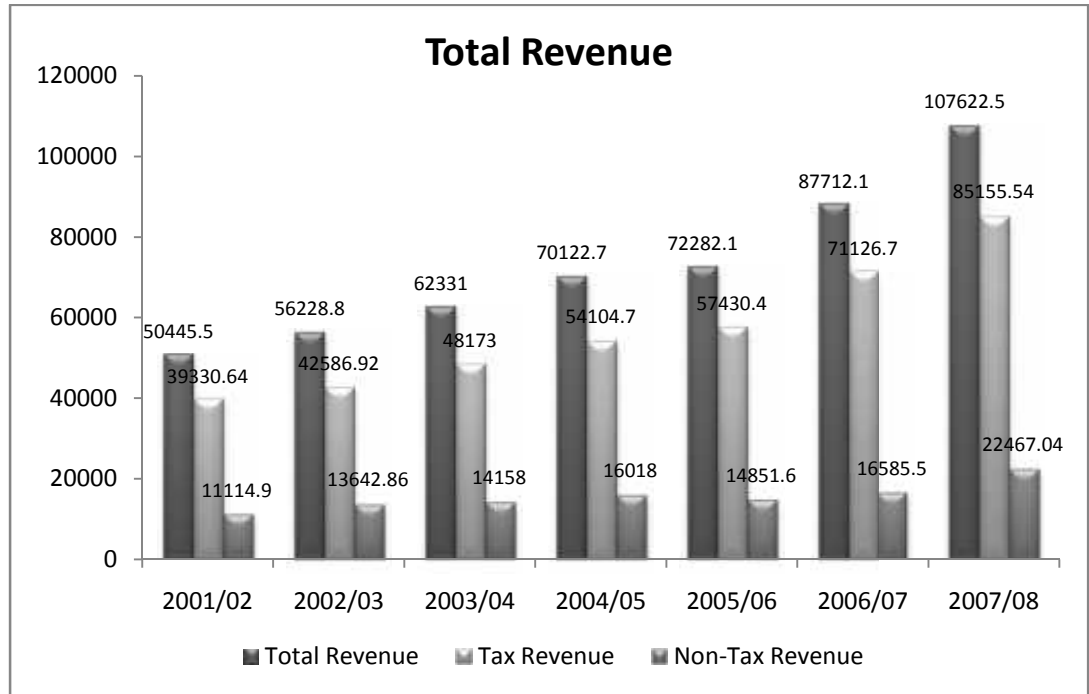
Fiscal Year	Total Revenue	Tax Revenue	% of Tax Revenue	Non-Tax Revenue	% of Non Tax Revenue
2001/02	50445.50	39330.64	77.97	11114.90	22.03
2002/03	56228.80	42586.92	75.74	13642.86	24.26
2003/04	62331.00	48173.00	77.29	14158.00	22.71
2004/05	70122.70	54104.70	77.16	16018.00	22.84
2005/06	72282.10	57430.40	79.45	14851.60	20.55
2006/07	87712.10	71126.70	81.09	16585.50	18.91
2007/08	107622.50	85155.54	79.12	22467.04	20.88
Average	72392.10	56843.99	78.26	15548.27	21.74

(Source: Economic Survey 2008/2009)

The above table reflects that the tax revenue was gradually increasing every year. Since FY 2001/02 amounting Rs. 39330.64 million to Rs 85155.54 million in FY 2007/08. But the percentage contribution of tax revenue was found fluctuating in different year. The contribution of tax revenue to total revenue was maximum 81.09% in FY 2006/07 and minimum 75.74 % in FY 2002/03. But during study period, the average contribution was 78.26% in different year.

The non-tax revenue collection also in the increasing trend from FY 2001/02 to FY 2004/05. But in 2005/06 the non-tax revenue is decreased by Rs.1166.4million. After that it is in increasing trend the percentage contribution non-tax revenue is also fluctuating. During study period average contribution of non tax revenue to total revenue was 21.74%. This can be shown in following graph.

Figure 4.1.1 Composition of Total Revenue



4.1.2 Composition of Total Tax Revenue

The structure of Nepalese tax revenue can be presented in terms of consumption, income and capital based tax. Taxes on consumption are known as indirect tax and taxes on income as well as capital are known as direct tax.

Composition of direct tax and indirect tax is presented in the following table. The table shows that the share of indirect tax is more than share of direct tax. The contribution of direct tax and indirect tax was Rs. 16597.50 million and Rs. 28733.10 million that is 42.20% and 73.06% of total tax revenue respectively in FY2001/02.

Table 4.1.2 Composition of Total Tax Revenue*(Rs. in Million and %)*

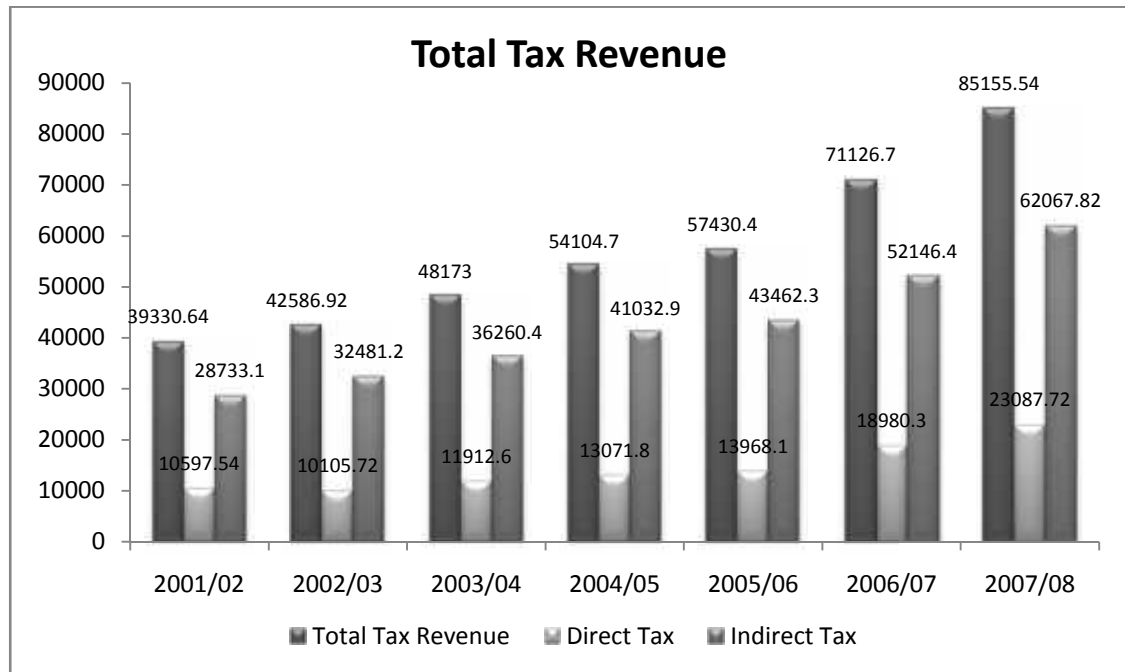
Fiscal Year	Total Tax Revenue	Direct Tax	% of Direct Tax	Indirect Tax	% of Indirect Tax
2001/02	39330.64	10597.54	26.94	28733.10	73.06
2002/03	42586.92	10105.72	23.73	32481.20	76.27
2003/04	48173.00	11912.60	24.73	36260.40	75.27
2004/05	54104.70	13071.80	24.16	41032.90	75.84
2005/06	57430.40	13968.10	24.32	43462.30	75.68
2006/07	71126.70	18980.30	26.69	52146.40	73.31
2007/08	85155.54	23087.72	27.11	62067.82	72.89
Average	56843.99	14531.97	25.38	42312.02	74.62

(Source: Economic Survey 2008/2009)

The table 4.1.2 shows that our economy is heavily depend on indirect tax on comparison with direct tax. Indirect taxation with a dominant role in tax structure could be taken as symptom of developing country to divert the economy in the channel of development, those countries should increase the share of direct tax in Nepal, the share of indirect tax is increasing and it is not good symptom of economic development. The share of direct tax is Rs. 23087.72 million which has 27.11% of total tax revenue in FY2007/08 where as in FY2001/02; the share of direct tax is Rs. 10597.54 million which was 26.94% of total tax revenue. Therefore, the attention should be focused on the sufficient resource mobilization through direct tax.

Figure 4.1.2

Graph showing Composition of Total Tax Revenue



4.1.3 Composition of Indirect Tax

Nepalese tax structure is heavily depending on direct taxes which constitutes of total tax revenue in FY 2007/08. Nepalese tax revenue is dependent mainly on international trade and sales Tax/VAT on goods and services supplemented by taxes on income and property on some extent. The major components of indirect tax in Nepalese tax structure constitutes custom duty, excise duty, value added tax etc. Custom duty has been classified mainly into import duty and export duty value added tax component of sales tax, entertainment tax, hotel tax, air flight tax and contract tax. Composition of indirect tax is given in the following table.

Table 4.1.3 Composition of Indirect Tax*(Rs. in Millions and %)*

Fiscal Year	Indirect Tax Revenue	Total %	Customs	%	Excise	%	VAT	%
2001/02	28733.10	100	12658.75	44.06	3807.05	13.25	12267.30	42.69
2002/03	32481.20	100	14236.43	43.83	4785.12	14.73	13459.70	41.44
2003/04	36260.40	100	15554.80	42.90	6226.70	17.17	14478.90	39.93
2004/05	41032.90	100	15701.60	38.27	6445.90	15.71	18885.40	46.03
2005/06	43462.30	100	15344.00	35.30	6507.60	14.97	21610.70	49.72
2006/07	52146.40	100	16707.60	32.04	9343.20	17.92	26095.60	50.04
2007/08	62067.82	100	21062.50	33.93	11189.58	18.03	29815.70	48.04
Average	42312.02	100.00	15895.10	38.62	6900.74	15.97	19516.19	45.41

(Source: Economic Survey 2008/2009)

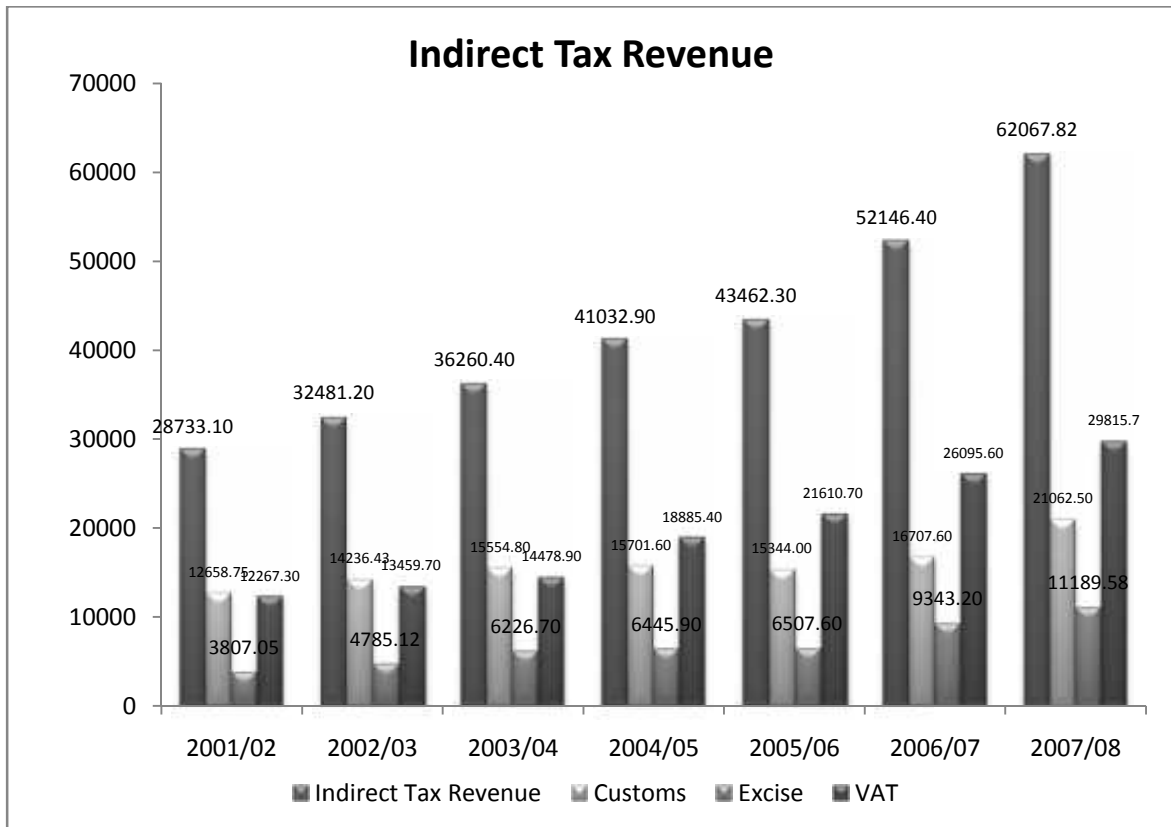
Note:

- 1) Custom includes imports, exports, Indian excise refund and others.
- 2) Excise on industrial product
- 3) Value Added Tax (VAT) includes sales tax, entertainment tax, hotel tax, air flight tax and contract tax.

The table reflects that the custom duty and VAT occupies major position in indirect tax .FY 2001/02 the contribution of custom duty was 44.06% which fluctuate between 32% to 45% and it was 32.04% in FY 2007/08. The average percentage contribution of custom duty to indirect tax was 38.62% during the study period. The VAT has become an important source of overall tax revenue with fluctuating trend which contributed 48.04% indirect tax in FY2007/08 as compared with 42.69% in

FY2001/02 the share of excise duty was 13.25% in FY2001/02 and the average contribution of custom duty, excise duty and VAT was 38.62%, 15.97% and 45.41% during the study period.

Figure 4.1.3 Composition of Indirect Tax



4.1.4 Composition of Direct Tax

The major component of direct taxes are income tax, land tax, house and land registration tax in Nepalese tax structure. Vehicles tax was considered as direct tax until the fiscal year FY 1993/94 and since FY 1994/95 budget speech, it has been classified under the indirect tax. Since FY1994/95 interest and urban house and land rent tax were included under the income tax (Annual Report, 1994/95).

Table 4.1.4 Composition of Direct Tax*(Rs. in Millions and %)*

Fiscal Year	Total Direct Tax	Land Revenue and Registration	%	Income Tax	%	Urban House and Land Tax	%	Vehicle Tax	%	Other Tax	%
2001/02	10597.54	1131.82	10.68	8903.70	84.02	2.29	0.02	559.74	5.28	0.00	0.00
2002/03	10105.72	1414.30	14.00	7966.07	78.83	0.04	0.00	559.48	5.54	165.77	1.64
2003/04	11912.60	1697.50	14.25	9245.90	77.61	0.00	0.00	700.60	5.88	268.60	2.25
2004/05	13071.80	1799.20	13.76	10159.40	77.72	0.00	0.00	806.50	6.17	306.70	2.35
2005/06	13968.10	2181.10	15.61	10373.70	74.27	0.00	0.00	847.60	6.07	565.70	4.05
2006/07	18980.30	2253.50	11.87	15034.00	79.21	0.00	0.00	995.00	5.24	697.80	3.68
2007/08	23087.72	2940.74	12.74	17311.22	74.98	0.00	0.00	1069.21	4.63	1766.59	7.65
Average	14531.97	1916.88	13.27	11284.86	78.09	0.33	0.00	791.16	5.54	538.74	3.09

(Source: Economic Survey 2008/2009)

Note:

- 1) Land revenue and registration constitutes land revenue and house & land registration fees.
- 2) Income tax constitutes the income tax from public enterprises, income tax from semi-public enterprises, Income tax from private corporate Bodies, income tax from individuals, income tax from remuneration and tax on interest.

Table shows that the contribution of income tax to direct tax was higher than other tax and it occupied the largest share in the direct tax. The percentage share of income tax to direct tax in FY 2001/02 was 84.02% amounting Rs. 8903.7 millions which is found fluctuating in different year. But income tax decrease in FY 2002/03 and gradually increased into amounting Rs. 9245.9 millions in FY 2003/04. The average

share of income tax revenue was 78.09%. It was 74.98% amounting Rs. 17311.22 millions in the FY2007/08.

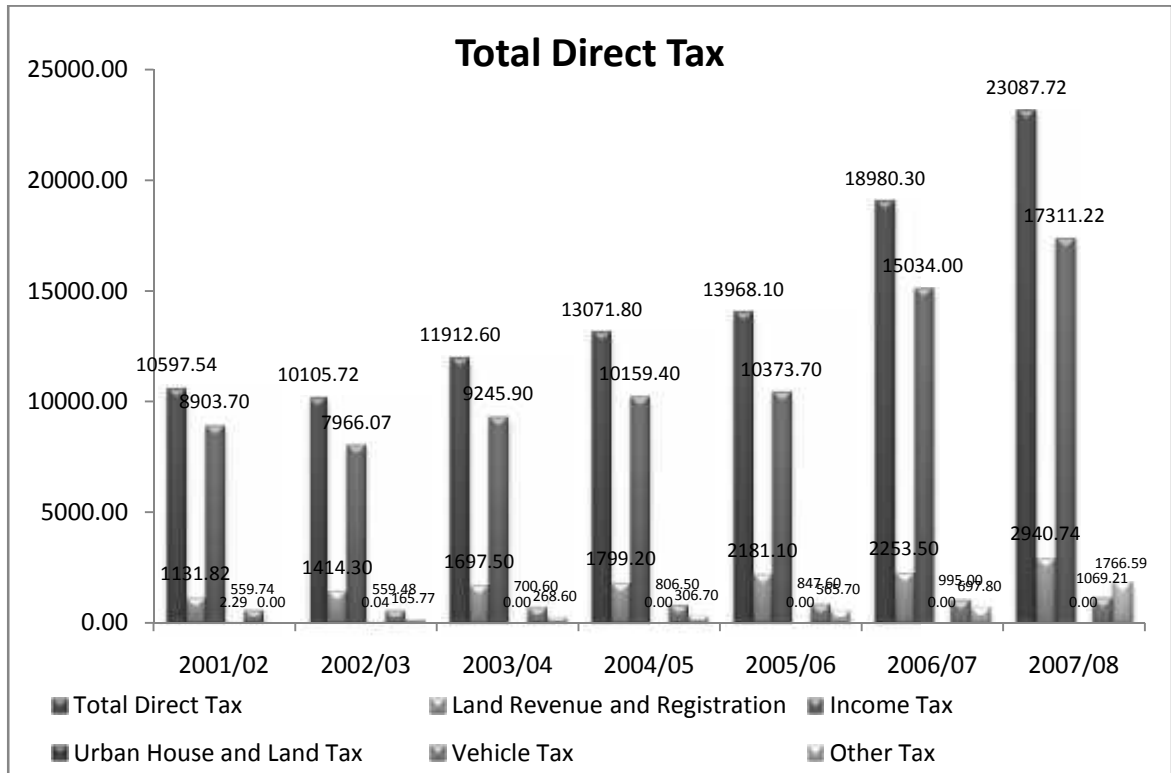
Urban House and Land tax has contributed 0.02% amounting to Rs.2.29 million in FY 2001/02 which has decreased gradually and reaches to zero percentage since 2002/03 thereafter.

The share of house and land registration tax in the FY 2001/02 was 10.68% amounting Rs.1131.82 million which is found fluctuating in different year although amount is gradually increased to amounting Rs 2940.74 million in FY 2007/08.

The share of vehicles tax is 5.28% in FY 2001/02 which was increased till FY 2004/05 up to 6.17% and began to decrease to 4.63% in FY 2007/08.

The share of other tax is 0% in FY 2001/02 which was gradually increased to 7.65% amounting Rs. 1766.59 million in FY 2007/08 except FY 2006/07.

Figure 4.1.4 Composition of Direct Tax



4.1.5 Contribution of Direct & Indirect Tax as percentage to GDP

Table 4.1.5 Contribution of Direct & Indirect Tax as percentage to GDP

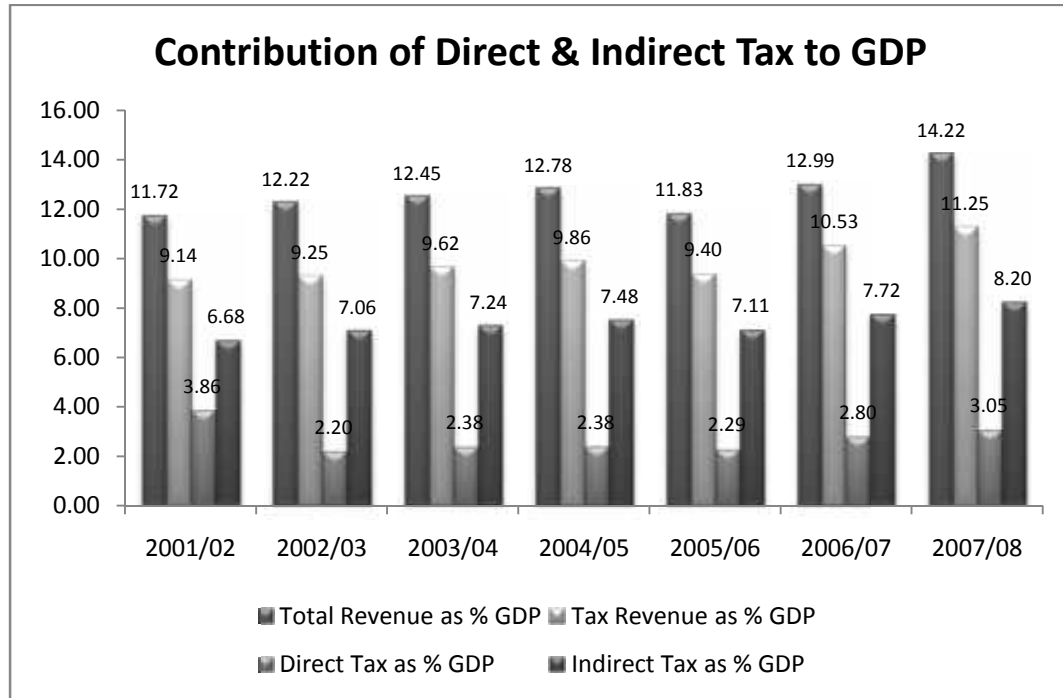
(Rs. in Millions and %)

Fiscal Year	Total GDP	Total Revenue as % GDP	Tax Revenue as % GDP	Direct Tax as % GDP	Indirect Tax as % GDP
2001/02	430397	11.72	9.14	3.86	6.68
2002/03	460325	12.22	9.25	2.20	7.06
2003/04	500699	12.45	9.62	2.38	7.24
2004/05	548485	12.78	9.86	2.38	7.48
2005/06	611089	11.83	9.40	2.29	7.11
2006/07	675484	12.99	10.53	2.80	7.72
2007/08	756756	14.22	11.25	3.05	8.20
Average	569033.57	12.60	9.86	2.71	7.36

(Source: Economic Survey 2008/2009)

From the above table it is clearly shows that the contribution of total revenue on total GDP is 11.72% in FY 2001/02 and reached to 14.22% in FY 2007/08 this is not satisfactory increase due to the economic condition of the country. The contribution of tax revenue on GDP is 9.14% in FY 2007/08 and reached to 11.25% in FY2007/08. The average contribution was 9.86% during the study period. The contribution of direct tax on GDP is very low. It is 3.86% in FY 2007/08. On the other hand the contribution of indirect tax on GDP was 6.68% in FY 2001/02 and it reached to 8.20% in FY 2007/08. The average contribution on GDP was 7.36% during the study period.

Figure 4.1.5 Contribution of Direct & Indirect Tax to GDP



4.1.6 Contribution of Income Tax in Nepal

Nepal has late started prating of income tax the idea of introduction income tax in Nepal was originated along with the first budget on FY1951/52. Finally in 1959, Business Profit and Remuneration Tax Act 1960 was introduced. At that time income tax was levied only on business profits and salaries. After about three years experience of income tax, the government replaced the prevailed tax and by Income Tax Act, 1974(2031) was enacted. However, this act is replaced by Income Tax Act, 2002(2058). The contributions of income tax on various revenues are given below in the following table.

Table 4.1.6 Contributions of Income Tax (IT) to GDP, Total Revenue (TR,) Total Tax Revenue (TTR) and Direct Tax Revenue (DT)

(Rs. in Millions and %)

Fiscal Year	Income Tax Revenue	GDP	Direct Tax Revenue	Total Tax Revenue	Total Revenue	% IT on GDP	% of IT on DT	% of IT on TTR	% of IT on TR
2001/02	8903.70	430397	10597.54	39330.64	50445.50	2.07	84.02	22.64	17.65
2002/03	7966.07	460325	10105.72	42586.92	56228.80	1.73	78.83	18.71	14.17
2003/04	9245.90	500699	11912.60	48173.00	62331.00	1.85	77.61	19.19	14.83
2004/05	10159.40	548485	13071.80	54104.70	70122.70	1.85	77.72	18.78	14.49
2005/06	10373.70	611089	13968.10	57430.40	72282.10	1.70	74.27	18.06	14.35
2006/07	15034.00	675484	18980.30	71126.70	87712.10	2.23	79.21	21.14	17.14
2007/08	17311.22	756756	23087.72	85155.54	107622.50	2.29	74.98	20.33	16.09
Average	11284.86	569033.57	14531.97	56843.99	72392.10	1.96	78.09	19.83	15.53

(Source: Economic Survey 2008/2009)

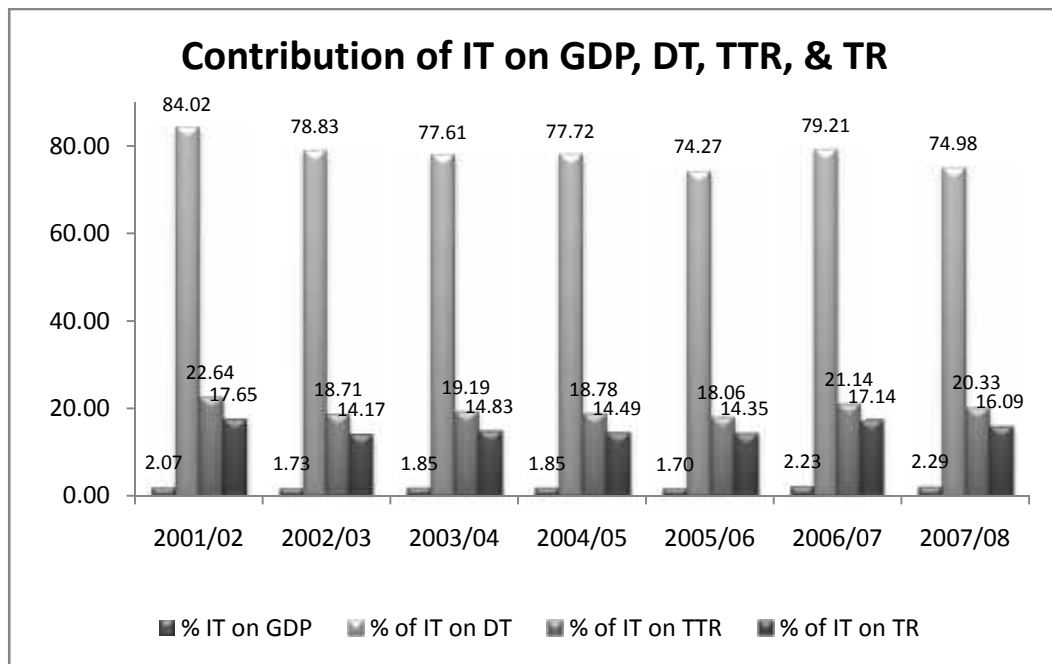
The table reflects that the income tax was increased in FY 2007/08 as compared with FY 2001/02 total income tax was Rs.8903.70 million for the FY 2001/02 and it was increased to Rs 17311.22 million for the FY 2007/08. The share of income tax on GDP of Nepal was very low. It lied between 1.70% to 2.29% during the study period.

The share of income tax to total tax revenue was fluctuated from 18% to 23% during the study period. It was 22.64% in the FY 2001/02 which was decreased to 18.06% in FY 2005/06.

Similarly, contribution of income tax to total revenue was 17.65% in FY2001/02 was fluctuated from 14% to 18% during the study period. It was decreased to 14.17% in FY2002/03 and slightly increased to 16.09% in FY 2007/08. It means also clear that

the contribution of income tax in direct tax was maximum, which occupied average 78.09% during the study period. It was 84.02% in FY 2001/02 which was decrease to 74.98% in FY 2007/08. This decreasing trend of contribution of income tax to direct tax is not fruitful for the tax structure of developing country like Nepal.

Figure 4.1.6 Contributions of Income Tax (IT) to GDP, Total Revenue (TR,) Total Tax Revenue (TTR) and Direct Tax Revenue (DT)



4.1.7 Composition and Trend of Income Tax

Income tax revenue was divided into three type i.e. corporate income tax, individual income tax and Remuneration income tax until 1993/94. After the fiscal year 1993/94 the income tax revenue was divided into four group i.e. Corporate Income Tax, Individual Income tax, House and Land Tax and Interest Tax. Corporate tax is collected from government corporations, public and private limited companies and partnership firms. Individual tax is collected from remuneration and industry, business, profession or vocation. Interest tax is collected from banks or finance companies that pay interest on all types of deposit except current deposits. And the

house and rent tax is levied on income obtained from renting house and land in urban area. The component of income tax is given below.

Table 4.1.7(a) Component of Income Tax

(Rs. in Millions)

Source of Income Tax	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
1. Corporate Income Tax	3181.34	2487.29	3587.90	3800.20	3600.00	6736.80	7391.04
-Public Ltd. Company	1769.33	1251.02	2056.60	1332.40	195.70	1019.70	204.58
-Private Ltd. Company	1412.01	1236.27	1531.30	2467.80	3404.30	5717.10	7186.46
2. Individual Income Tax	5254.65	4614.80	4924.60	5602.20	5998.80	7242.30	8832.25
-Remuneration	835.56	1252.60	1391.20	1675.90	1764.10	2007.90	2451.04
- Industry, business profession & vocation	4419.09	3362.20	3533.40	3926.30	4234.70	5234.40	6381.21
3. Interest Tax	467.70	864.00	733.40	757.00	774.90	1054.90	1087.93
Total(1+2+3)	8903.69	7966.09	9245.90	10159.40	10373.70	15034.00	17311.22

(Source: Economic Survey 2008/2009)

Above table shows in FY 2001/02 Corporate Income tax is Rs. 3181.34 million. Then it is decreased and reached to Rs 2487.29 million in FY 2002/03. Then after it starts to increase and reached to Rs.7391.04 in FY 2007/08. The remuneration tax is increasing every year. The contribution of interest tax is also increasing every year. In FY 2001/02 it was Rs.467.70 million and reached to Rs.1087.93 million in FY 2007/08.

Figure 4.1.7(a) Component of Income Tax

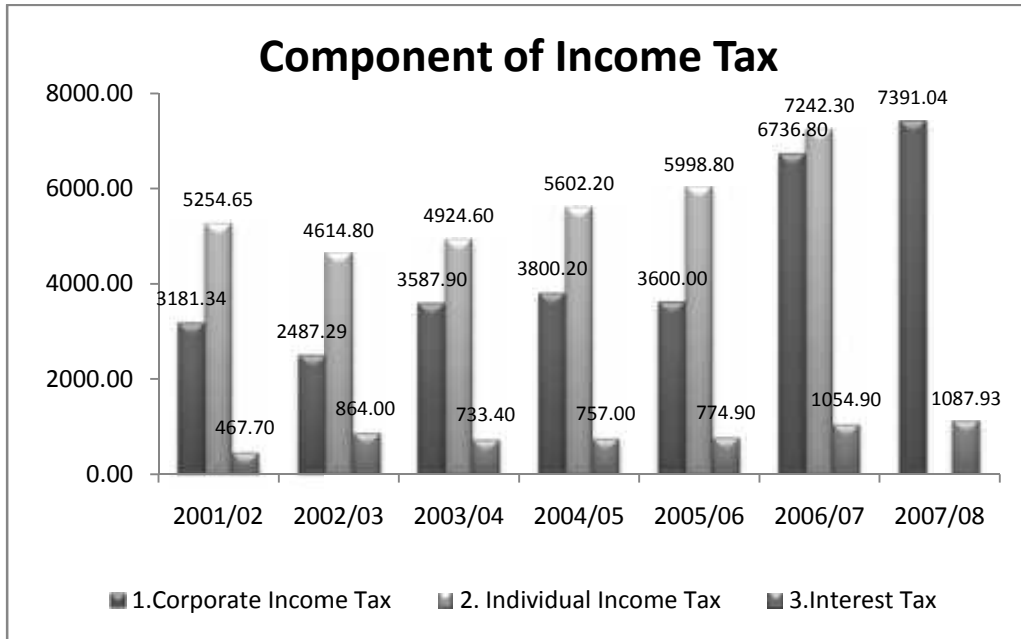


Table 4.1.7(b) Composition of Income Tax

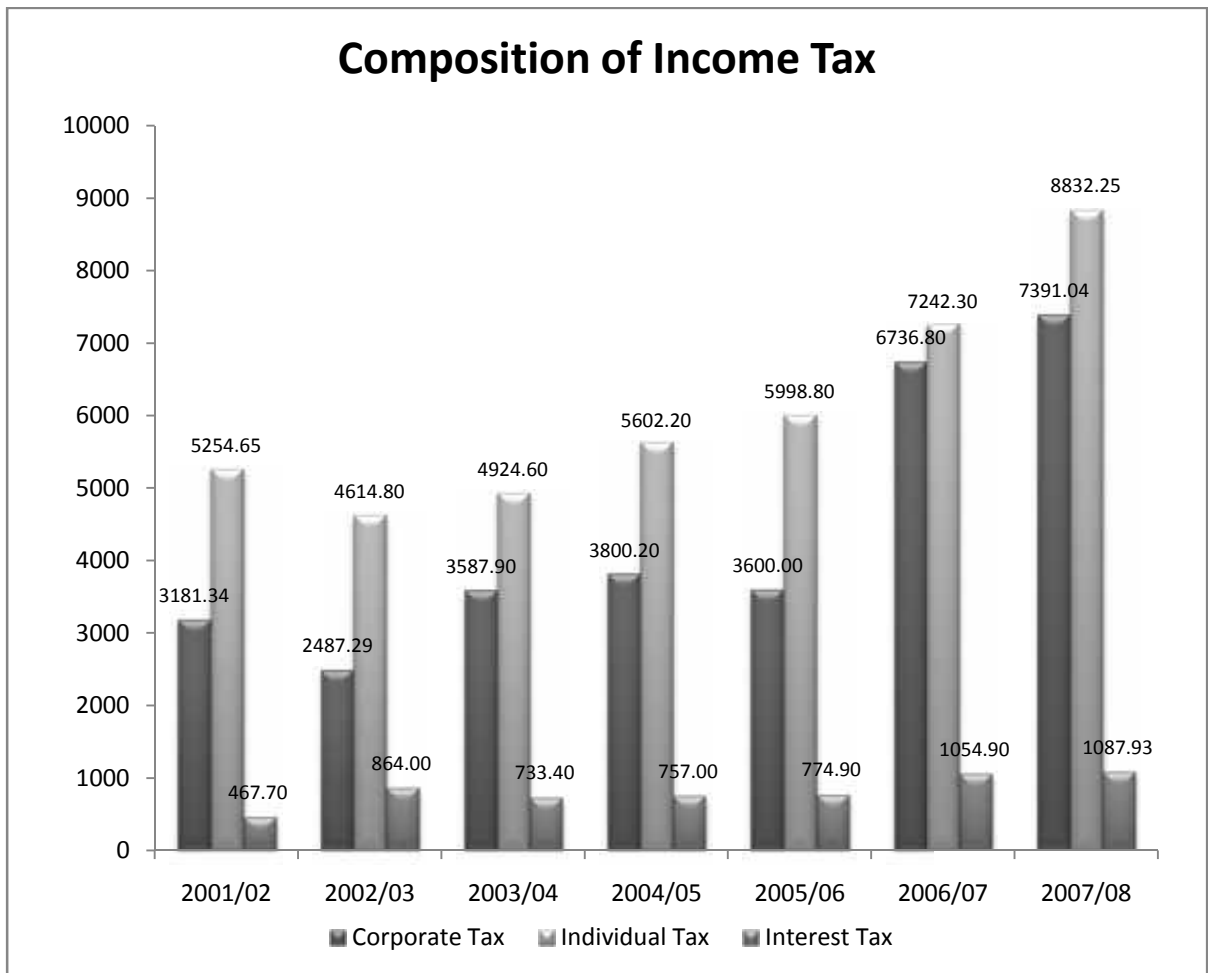
(Rs. in Millions and %)

Year	Total Income Tax	Corporate Tax	%	Individual Tax	%	Interest Tax	%
2001/02	8903.70	3181.34	35.73	5254.65	59.02	467.70	5.25
2002/03	7966.07	2487.29	31.22	4614.80	57.93	864.00	10.85
2003/04	9245.90	3587.90	38.81	4924.60	53.26	733.40	7.93
2004/05	10159.40	3800.20	37.41	5602.20	55.14	757.00	7.45
2005/06	10373.70	3600.00	34.70	5998.80	57.83	774.90	7.47
2006/07	15034.00	6736.80	44.81	7242.30	48.17	1054.90	7.02
2007/08	17311.22	7391.04	42.70	8832.25	51.02	1087.93	6.28
Average	11284.86	4397.80	37.91	6067.09	54.62	819.98	7.46

(Source: Economic Survey 2008/2009)

Above table shows that the share of individual tax is greater than 50% except FY 2000/01 and 2006/07. Corporate income tax had contributed 35.73 % in FY 2001/02 then this is in fluctuating trend. It reached to 42.70 % in FY2007/08. In FY 2001/02 individual tax had contributed 59.02% it is also in fluctuating trend. It reached to 51.02% in FY 2007/08. Interest tax is in decreasing trend except FY 2002/03 and 2005/06 which was 5.25% in FY 2001/02 and reached to 6.28% in FY2007/08.

Figure 4.1.7(b) Composition of Income Tax



4.2 Analysis of Primary data

4.2.1 Introduction

An empirical investigation has been conducted in order to find out various aspect of income tax from the experience of real life situation. The major tools used for this purpose is an opinion questionnaire. A total of 60 questionnaires were distributed to the tax administrations and taxpayers. The response received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study.

The questionnaire either asked for a yes/no response or asked for ranking of choice according to number of alternatives where first choice was most important and last choice was least impotent. For analysis purpose choice were assigned weights according to number of alternatives. If the number of alternatives were six then first preferred choice got six points and the last preferred choice got one point. Any alternative which were not ranked didn't get any point. The total points available to each choice were converted into percentage in reference to the total points available for all choice. The choice with the higher score of percentage was ranked as the lowest percentage being ranked as last choice.

The following table shows the groups of respondents and code used to represent them.

Table 4.2.1 Group of Respondent and Code Used

S. No.	Group of respondent	Sample size	Code used
1	Tax Administrators	20	A
2	Taxpayers	20	B
Total		40	

(See the format of questionnaire)

4.2.2 Knowledge of Fine and Penalties under Income Tax Act 2058

To know the taxpayer's awareness about fine and penalties a question was asked " Do you have the knowledge of fine and penalties under income tax act 2058?" The responses of above question are tabulated as follows.

Table 4.2.2(a) Knowledge about fine and penalties under income tax act 2058

Response	Yes		No		Total	
	No.	%	No.	%	No.	%
Respondents						
A	20	100	-	-	20	100
B	16	80	4	20	20	100
Total	36	90	4	10	40	100

(Source: Opinion Survey)

From the above table it is obstruct that 90% of respondents have the knowledge about fine and penalties under Income Tax Act 2058. But the above table shows that the respondent from group i.e. taxpayer has not sufficient knowledge about fine and penalties under Income Tax Act 2058. Thus it can be conclude that the taxpayer has not sufficient knowledge about fine and penalties.

In order to know the view about fine and penalties next question was asked as "If yes in which case fine is higher?" The respondents were requested to rank their answer from 1 to 4. Table 4.3.1.1. B gives the breakdown of response.

Table 4.2.2 (b) Cases in Which Aspect the Fine is higher

S. NO.	Cases	Group		Total points	Percent	Rank
		A	B			
1.	failure to maintain documentation	5	3	8	7.84	4
2.	interest for understanding estimated tax payable by installment	11	20	31	30.39	2
3.	interest for failure to pay tax	12	16	28	27.45	3
4.	penalty for making false statement	18	17	35	34.31	1
Total				102	100	

(Source: Opinion Survey)

There was 100% response received from the respondents. Most of the respondents i.e. 34.31% says fine is higher in penalty for making false or misleading statement similarly 30.39% respondents says fine is higher in interest for understanding estimated tax payable by installment. Rest 27.45% respondent says interest to failure to pay tax is higher and 7.84% of respondent says fine is higher on failure to maintain documentation. Cases in which aspect the fine is higher are ranked below (See table 4.2.1.2 b for detail)

1. Penalty for making false statement
2. Interest for understanding estimated tax by installment
3. Interest for failure to pay tax
4. Failure to maintain documentation

From the fine is ranking it is clear that the fine is higher in making false statement or misleading statement.

4.2.3 Effectiveness of Fine and Penalties

In order to know the effectiveness of fine and penalties question was asked "Are the provision of fine and penalties in Nepalese income tax is Effective?" The responses received on it are tabulated below.

Table 4.2.3 Effectiveness of Fine and Penalties

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
A	13	65	7	35	20	100
B	5	25	15	75	20	100
Total	18	45	22	55	40	100

(Source: Opinion Survey)

According to the above table the provision of fine and penalties under income tax act 2058 is ineffective since only 45 % of the respondents agree with that the provision of fine and penalties are effective. Remaining 55% of the respondent are not agree with the effectiveness of fine and penalties.

4.2.4 Fine & Penalties increase the Government Revenue

To know the view of respondent about increase in government revenue a question was asked as "Do you think fine and penalties increase the government revenue. The response has been tabulated below.

Table 4.2.4 Fine and Penalty Increase the Government Revenue

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Respondents						
A	16	80	4	20	20	100
B	11	55	9	45	20	100
Total	27	67.5	13	32.5	40	100

(Source: Opinion Survey)

From the above table it has been clear that 67.5% of the respondent are agree with the statement fine and penalties increases the government revenue. But rests 32.5% of the respondent is not agree with the statement. They say fine and penalty cannot increase the government revenue.

4.2.5 Poorness of Taxpaying Habit of Nepalese People

To know poorness of the taxpaying habit of Nepalese people, a question was asked to the respondents “Do you think that taxpaying habit of Nepalese people is poor?” The response have tabulated below.

Table 4.2.5 Poorness of Tax Paying Habit of Nepalese People

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Respondents						
A	16	80	4	20	20	100
B	15	75	5	25	20	100
Total	31	77.5	9	22.5	40	100

(Source: Opinion Survey)

Since 77.5 % of the respondents approved taxpaying habit of Nepalese people is poor & 22.5 % of the respondent think taxpaying habit of Nepalese people is not poor but they have no capacity to pay tax. They say capacity is the main cause.

4.2.6 Effect of Fine and Penalties to Increase Taxpaying Habit of Nepalese People

To know the effect of fine and penalties to increase taxpaying habit of Nepalese people a question was asked "Do you think that taxpaying habit of Nepalese people can be increased by effective fine and penalty system?". The responses received from the various respondents are giving below.

Table 4.2.6(a) Effect of fine and penalties to increase Taxpaying habit of Nepalese People

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	14	70	6	30	20	100
B	10	50	10	50	20	100
Total	24	60	16	40	40	100

(Source: Opinion Survey)

From the above table it has been clear that 60 % of the respondents approved there is significant effect of fine and penalties to increase taxpaying habit of Nepalese people and 40 % of the respondents approved there is not effect of fine and penalties to increase taxpaying habit of Nepalese people. In order to know the effective level of fine and penalties to increase the tax paying habit of Nepalese people the next question was asked “If yes, to what extent fine and penalties play role to increase the tax paying habit of Nepalese people?”. The responses received from the various respondents are tabulated as follows.

Table 4.2.6(b) Effective level of fine and penalties to increase taxpaying habit of Nepalese people

Effect Group	Satisfactory	Medium	High	Total
A	7	10	3	20
B	6	11	3	20
Total	13	21	6	40

(Source: Opinion Survey)

Above table shows that 21 respondents among 40 approved the effective level of fine and penalties to increase the taxpaying habit of Nepalese people is medium and 13 and 6 respondents among 40 respondents approved the level of effect is satisfactory and high respectively . Hence it can be concluded that the effective level of fine and penalties to increase taxpaying habit of Nepalese people is medium.

4.2.7 Appropriateness to Pay Rs. 5000/- Minimum Fine

To know the appropriateness of payment of Rs. 5000\/- as minimum fine a question was asked " It is right to impose Rs.5000 as minimum fine who pay minimum income tax of Rs 1000 because of nonpayment of tax within time ?" The response is tabulated in the following table.

Table 4.2.7 Appropriateness of payment Rs.5000 as minimum fine

Responses	Yes		No		Total	
	No.	%	No.	%	No	%
A	6	30	14	70	20	100
B	4	20	16	80	20	100
Total	10	25	30	75	40	100

(Source: Opinion Survey)

There was 100 percent response received from the respondents. 75 percent respondents clear that it is not good to impose Rs.5000 as a minimum fine who pay minimum income tax Rs.1000 because of non-payment of tax within time. Only 25 percent of the respondents clear that it is right. Thus, the conclusion can be drawn out that it is not good to impose Rs. 5000 as a minimum fine who pay minimum income tax Rs. 1000.

4.2.8 Interest for under Estimation Tax Payable by Installment

To know the respondent view about payment of interest charge for under estimated of tax payable by installment a question was asked " Do you think , Estimation always comes accurate'. If no, it is right to liable to pay interest for understanding estimated tax payable by installment?" The responses are tabulated in the following table.

Table 4.2.8 Appropriateness of Charging of Interest for under Estimation Tax Payable by Installment

Responses	Yes		No		Total	
	No.	%	No.	%	No.	Total
A	13	65	7	35	20	100
B	3	15	17	85	20	100
Total	16	40	24	60	40	100

(Source: Opinion Survey)

100 percent response was received from the respondents. In the table it is observed that majority of the respondent (60 %) were against of charging interest for under estimation tax payable by installment. Taxpayers are not ready to pay interest under this provision. However most of the tax administrators (40%) claimed it is right to charted interest for under estimation of tax payable by installment. Thus it may be concluded that majority of the respondents were against the imposition of interest for under estimation tax payable by installment.

The reasons to charge interest for under estimations tax payable by installment was asked to the respondents with answer "yes" for the above questions. The reasons as ranked by them under their priorities were

1. Encourages maintaining record properly
2. Increase the reliability in estimation

The reasons not to charge interest for under estimation tax payable by installment a question was asked to their respondents with answer 'No'.

The reasons as given by them with priorities were:

1. Estimation may not be accurate sometimes
2. The provision of estimation should be abolished

4.2.9 Liable to Pay Both Interest as Well as Fine

To know the opinion of respondent whether both interest as well as fine should be imposed for a single mistake by tax payer, a question was asked "Is it right to impose both interest as well as fine for a single mistake made by taxpayers ?" The respondent's response was as follows.

Table 4.2.9 Right to pay both Interest as well as Fine

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
A	15	75	5	25	20	100
B	-	-	20	100	20	100
Total	15	37.5	25	62.5	40	100

(Source: Opinion Survey)

100 percent response was received from the respondents. Out of 40, 25 respondents, which represents about 62.5 % of total sample should their disagreement for charging both interest as well as fine for a single mistake made by taxpayer. Because majority of taxpayers feel that they are not in favors of paying both interest as well as fine for a single mistake.

The reason to pay both interests as well fine for a single mistake a question was asked with the respondents having answer "Yes" .The reasons as ranked by them under their priorities were:

1. Induces the taxpayers not to commit mistake
2. Increase the consciousness among taxpayers

Similarly, the reasons of the respondents who were against of imposing of both interest as well as fine for a single mistake is ranked according to their priorities were:

1. Dual burden should not be imposed for a single mistake
2. It may discourage the taxpayers

4.2.10 Provision of Penalty who Fail to Register

To know the opinion of respondents about provision of penalty in case the firms / assesses failed to register their firm, a question was asked, "Do you think a provision of penalty should be incorporated in case of falling to register?" .The responses were:

Table 4.2.10 Necessity of Provision of penalty who fails to register

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Respondents						
A	20	100	-	-	20	100
B	20	100	-	-	20	100
Total	40	100	-	-	40	100

(Source: Opinion Survey)

Above question was asked to the respondents because there is no any clear provision for those who fails to register to control illegal business. Since cent percent of respondent approved there should be clear provision of penalty that fail to register. Hence it can be concluded that there should be provision of penalty that fail to register to reduce unauthorized business.

4.2.11 Effectiveness of Tax Administration to Impose Fine and Penalties

In order to know the effectiveness of tax administration to impose fine and penalties in Nepal, a question was asked "Do you think the tax administration of Nepal is effective to impose fine and penalties as per necessary?" The below table gives a breakdown of responses.

Table 4.2.11(a) Effectiveness of Tax Administration to Impose Fine and Penalties

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Respondents						
A	8	40	12	60	20	100
B	-	-	20	100	20	100
Total	8	20	32	80	40	100

(Source: Opinion Survey)

From the above table it has been clear that most of the respondent (80%) thought that tax administration is not effective to impose fine and penalties in Nepal. Only 20% respondents thought that tax administration is effective to impose fine and penalties in Nepal. Most of the tax administrators are in favors with effectiveness of tax administration to impose fine and penalties because they don't want to show their weakness. Thus, it can be concluded that the tax administration of Nepal is not effective to impose fine and penalties.

In order to know the cause of ineffective tax administration the next question was asked " If no, what are the reasons?' the respondents were requested to rank their answer from 1 to 6. The below table gives the breakdown of responses.

Table 4.2.11(b) Reasons of Ineffective Tax Administration to Impose Fine and Penalties.

S. NO.	Causes of ineffectiveness	Group		Total points	Percent	Rank
		A	B			
1	Corruption	40	62	102	34.81	1
2	Complicated tax law	10	6	16	5.46	5
3	Lack of information	45	35	80	27.3	2
4	Unnecessary outside pressure	22	15	37	12.63	4
5	Lack of cooperation in tax administration	5	5	10	3.41	6
6	Lack of competent staff	12	36	48	16.38	3
	Total			293	100	

(Source: Opinion Survey)

The causes of ineffectiveness of Nepalese income tax administration to impose fine and penalties as per necessary were ranked in order of the preference of the respondent were as follows.

1. Corruption
2. Lack of information
3. Lack of competent staff
4. Unnecessary outside pressure
5. Complicated tax law
6. Lack of cooperation is tax administration

It can be concluded that the corruption, lack of information, lack of competent staff and unnecessary outside pressure are the most important causes of ineffectiveness of Nepalese tax administration to impose fine and penalties as per necessary.

4.2.12 Sufficiency of Provision made under the Nepalese Income Tax Act 2058

In order to know the sufficiency of provision made under the Nepalese income tax Act 2058 a question was asked "In your opinion, are the provision made under the Nepalese income tax Act 2058 sufficient in all aspects?" The responses received on it are tabulated below.

Table 4.2.12 Sufficiency of Provision of Income Tax

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Respondents						
A	9	45	11	55	20	100
B	7	35	13	65	20	100
Total	16	40	24	60	40	100

(Source: Opinion Survey)

Since 40 percent of the respondents were agreed the sufficiency of provision made under the Nepalese Income Tax Act, but 60% of the respondents were against the sufficiency of provisions of income tax act. Thus it can be concluded that majority of the respondents were against the sufficiency of provisions of income tax.

The respondents who gave negative responses about the sufficiency of provisions of income tax were requested to write their opinion on the blank area. A question was asked "If not, in which aspect the improvement is needed?" The opinions for the improvement of different aspects of Nepalese income tax are given below.

Group -A

- In Register – tax payers who fails to register should be punished and registration process should be simple
- Administrative review and appeal – administrative procedures should reviewed and revised timely
- Penalty – in Nepal penalty for tax avoidance and evasion are minimum which should be higher and penalized who are liable
- Tax low – in some cases tax rate are low in Nepalese context which should me high
- Simplify the language – simple and clear language understandable by general people should be made in tax rules and regulations
- Compulsory billing system – billing system should be made compulsory for those who falls under tax net and who fails should be fined
- Income tax structure – the structure of income tax should be made simple
- Periodic review for improvement – reviews in tax laws and rules should be done periodically

Group B

- Tax law – tax laws and rules should be made effective
- Language – languages should be made simpler in tax rules and regulations
- Tax system should be flexible – tax system should be made as per the tax payers interest
- Incentives to industries who competes – for the safeguarding of Nepalese industries, tax rebates and concessions should be given to industries who are registered and pay tax in time
- Trained staff – staffs of tax offices should be trained and their behavior should be polite
- Remuneration income – all people getting salary should be brought into tax net

- District wise tax office – tax offices should be made in all districts
- Tax administration – tax administration should be made efficient
- Fine and penalties system – fine and penalties in some cases are higher which should be made lower
- Clarity without dual meaning – tax laws and rules with dual meaning should be omitted and it should be clear and easy to understand
- Obligation towards tax payers – tax payers who are loyal should be awarded
- Tax Rate – tax rate should be as per the time
- Necessary to revise – necessary revision should be made from time to time
- Education to tax payer about tax – many tax payers are unknown about the taxation laws and rules so there should be various programs from the government side to educate them.

From the above listing most of respondents suggested to simplify the language training to staff, tax education to taxpayer, improve tax law etc. May also focused to improve the administration and computerized system.

4.3 Major Findings

On the basis of secondary data presentation and analysis some important findings were as follows.

- The Nepalese government revenue is the composition of external revenue. Internal revenue includes both tax and non tax revenue. Among tax and non tax revenue, there is dominant share of tax revenue in Nepalese government revenue .Tax revenue contributed 77.97% in FY 2001/02 on total revenue and 79.12% in FY 2007/08.It shows that the contribution of tax revenue to total revenue is increasing trend .On the other hand contribution of non tax revenue to total revenue is 22.03%in FY 2001/02 and 20.88% in FY 2007/08. It shows that contribution of non tax revenue is in decreasing trend.
- Tax revenue was the composition of direct and indirect tax in the Nepalese tax revenue. The contribution of direct tax to total tax revenue is 26.94% in FY

2001/02 and 27.11% in FY 2007/08 where as contribution of indirect tax revenue to total tax revenue is 73.06% in FY 2001/02 and 72.89% in FY 2007/08. It shows that contribution of direct tax is increasing trend and vice versa .But it seems that there is dominant role of indirect tax to total tax revenue.

- Direct tax revenue was the composition of the income tax, land revenue and registration, urban house and land tax, vehicle and other tax .there are dominant share of income tax revenue in direct tax revenue. The contribution of income tax revenue in total direct tax revenue is 84.02% in FY 2001/02 and 78.09% in FY 2007/08. Through it has dominant share in direct tax it is in decreasing trend in percentage but increasing trend in amount.
- Indirect tax revenue was the composition of import duty and export duty, value added tax, excise duty, entertainment tax, hotel tax, contract tax, air tax and other tax. The contribution of customs, excise and VAT were 44.06%, 13.25% and 42.69% in FY 2001/02 and 33.93%, 18.03% and 48.04% respectively in FY 2007/08. It shows VAT has the dominant share of indirect tax revenue and which is in increasing trend. VAT includes sales tax, entertainment tax, hotel tax, air flight tax and contract tax.
- Total revenue to GDP ratio of Nepal was found not satisfactory .In FY 2001/02 it was 11.72% and in FY 2007/08 it is only 14.22%.
- Total tax revenue to GDP ratio of Nepal was found satisfactory and it is in increasing trend .It was 9.14% in FY 2001/02 and 11.25% in FY 2007/08.
- Direct tax revenue to GDP ratio of Nepal was 3.86% in FY 2001/02 and it reached to 3.05% in FY 2007/08 .This is also not satisfactory increase.
- Indirect tax to GDP ratio was 6.68% in FY 2001/02 and reached to 8.20% in FY 2007/08.

- Contribution of income tax on GDP was 2.07% in FY 2001/02 and 2.29% in FY 2007/08. Though, it seems increasing but this is not satisfactory.
- Contribution of income tax on total tax revenue is in decreasing trend. It was 22.64% in FY 2001/02 and decreased to 20.33% in FY 2007/08.
- Contribution of income tax on direct tax revenue is also in decreasing trend .It was 84.02% in FY 2001/02 and decreased to 74.98% in FY 2007/08.
- Contribution of income tax on total revenue is also decrease trend. This is not good sign for the country. It was 17.65% in FY 2001/02 and decrease to 16.09% in FY 2007/08
- The income tax constitutes corporate income tax, individual income tax and interest tax. There are dominant role of income tax. The contribution of individual tax during the study period was 54.62%. The contribution of corporate tax is in fluctuating trend and it contributed 37.91% during the study period. Likewise interest tax contributed 7.46% during the study period .The study period was between 2001/02 to FY 2007/08.
- On the basis of empirical investigation, data was collected and presented and analyzed, some important findings can drawn from the investigation, which were as follows
- Most of the tax administrators have the knowledge of the fine and penalties but taxpayers have not sufficient knowledge about fine and penalties. 10% respondents have no knowledge of fine and penalties.
- According to the opinion of the respondent fine is charging higher on making false statement or misleading statement.
- Majority of the respondent (55%) says fine and penalty system of Nepal is not effective.

- 67.5% of the respondents agree with fine and penalties increase the government revenue.
- Taxpaying habit of Nepalese people is poor. Since 77.5% of the respondent approved it.
- There is significant effect of fine and penalties to increase taxpaying habit of Nepalese people. It is approved by 60% of the respondents.
- The effective level of fine and penalties to increase taxpaying habit of Nepalese people is medium.
- It is not good to impose Rs 5000 as minimum income tax Rs 1000 of nonpayment of Tax with in time, which was approved by 75% of the respondents.
- The majority of respondents were against the interest for understanding estimated Tax payable by installment.
- Provision of penalties should be made who fail to register.
- To impose interest as well fine for a single mistake by tax payer is not suitable means of punishment.
- Income tax administration of Nepal is considered as ineffective to impose fine and penalties as per necessary. Main cause of ineffective income tax administration to impose fine and penalties are corruption, lack of information and lack of competent staff.
- A provision made under the Nepalese Income Tax Act is not sufficient in all aspects. Improvements are needed in language, competent staff, tax law, tax administration, computerized system for payment of tax etc.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The government requires sufficient revenue for the economic development as well as to handle day to day administration to perform activities like maintaining peace and security, lunching other public welfare and developing activities. To perform such activities, the government collects revenue from various sources such as tax revenue from public enterprises, special assessment, fees, fines, grants and assistance etc. Among them, revenue collected from tax plays a vital role in state economy. Regmi (1984) mentioned that Baptiste and Adam Smith have spoken very persuasively on the significance of taxation. The main philosophy behind taxation is that every individual contribute towards the expenses of the government.

K.C. (2007) described that history of taxation begun with the development of human civilization and the history of income tax begun from United Kingdom in 1799 A.D. The histories of taxation were begun in Nepal from the ancient period in the name of Bhaga, Bhoga and Kara in Lichhevi regime. But the history of income tax was not so long in Nepal. The first income tax act was introduced as a trail in the fiscal year FY1959/60 entitled Business Profit and Remuneration Tax Act 2016 by the first elected government. There was no specific Act made to define and treat income tax. The Business Profit and Remuneration Tax Act (BPRTA) defined income tax levied on only business income and remuneration. First comprehensive income tax introduction in 1962 replaced by Income Tax Act 1974 was amended eight times and finally replaced by Income tax Act 2058.

Government revenue was the composition of external and internal revenue. Internal revenue includes both tax and non-tax revenue. Nepalese tax revenue was the composition of direct and indirect tax revenue. There was dominant role of indirect

tax revenue in Nepalese tax revenue structure. Indirect tax revenue contributed three times more than the direct tax. Direct tax revenue was the composition of income tax, land tax, house and land registration tax and other tax. There was dominant role of income tax in total direct tax. It was in increasing trend. Income tax revenue is the composition of income tax from corporate bodies, income tax revenue from individual, income tax revenue from remuneration and income tax from interest. There was dominant role of income from individual in total income tax revenue.

The contribution of income tax on GDP, total revenue, total tax revenue, direct tax revenue in FY 2001/02 was 2.07%, 17.65%, 22.64%, 84.02% respectively and FY 2007/08 was 2.29%, 16.09%, 20.33%, and 74.98% respectively. The average contribution was 1.96%, 15.53%, 19.83% and 78.09% to GDP, total revenue, total tax revenue and direct tax revenue during the study period of 7 years from FY 2001/02 to FY 2007/08.

Most of the tax administrators have the knowledge of the fine and penalties but taxpayers have not sufficient knowledge about fine and penalties. Fine is charging higher on making false or misleading statement. Taxpaying habit of Nepalese people is poor only 0.17 million people out of 25 million people pay income tax. The reason for poor taxpaying habit were: unwillingness of personnel, lack of knowledge about tax, due to complexity in Act, rules and Laws etc. they have respect to taxpayer and right behaviors from tax administration, low tax rates/ concessions/ rebates, effective and efficient administration and educated people. They thought that Income Tax Act 2058 and its provision regarding fine and penalties were not effective. They were for and against arguments about the provision made under Income Tax Act 2058 i.e. minimum fine of Rs. 5000, interest for under estimation of tax payable by installment, penalties for misleading or false statement.

Effective and efficient administrations as well as taxpayer's awareness were the basic requirements for Nepalese income tax system. Income tax administration lacks trained

administrative personnel. There was no separate income tax department. A revenue office has to perform on direct taxes which may create burden to the tax personnel. Tax administration was not fully computerized or comprehensive information system. Records maintained by revenue office regarding potentials taxpayers and their economic activities were not adequate. The provisions regarding fine and penalties were not implemented effectively and efficiently. The amount received from fine and penalties ultimately included in income tax. So, extra amount received from fine and penalties were not found. It is often said that tax personnel have practical the corruptions in great extent but they were rarely punished.

The provision made under the Income Tax Act 2058 was also insufficient to some aspects. There should be improvement in language with dual and vague meaning, on provision of fine and penalties, timely improvement on the provisions as well as tax law and rules, utilization of modern information technology on tax administration, trained and efficient staff in tax administration.

5.2 Conclusion

Developing countries like Nepal, Bangladesh are facing serious problems in the process of economic development. Lack of sufficient financial resources is the main constraints for the national economic development. A lot of funds are needed to meet the additional financial requirements for the development activities of the country. Nepal has been suffering from capital shortage to accelerate the economic growth. Because of poor performance of internal resource collection and mobilization, the dependency in foreign loans and grant has been increased. Those loans and grants were conditional and cannot utilize with the need of the country but according to their conditions. So these are not appropriate means for the economic development of the country.

To increase the government revenue, Nepalese government is trying to extract money or valuable contributions from people through taxation. Within tax revenue, income

tax is one of the most important resources of government revenue and it is considered as a good remedy to cure growing and resource gap problems of Nepal. It is essential in getting macroeconomics policies because the alternatives ways of financing government expenditures like money creating mandating larger required reserves, domestic borrowing and foreign loans, can have very harmful effects on the economy.

Lack of knowledge about law and rules, managerial inefficiency, lack of effective personnel management, lack of reward and punishment system, poor income tax assessment procedure, poor tax information system, corruption practiced in administration, very narrow coverage of income tax are the major problems of income tax management in Nepal. Being various problems relating to income tax, revenue collection from income tax is low as compared to other developing countries like Sri Lanka, India, Pakistan and Bangladesh etc. Never the less contribution of income tax for the economic development of Nepal has been increasing significantly in recent years as compared to passed thirty years. But it doesn't mean that the share is that much satisfactory. So, much more effort should be made to increase it presently, income tax management is done through the Income Tax Act 2058 and Income Tax Rules 2059, in which the Nepalese tax administration has been attempt ion to modify itself to meet the pressing challenge brought out by change in technology and economic policies. However still its working procedure is traditional and the cost of administration hasn't been brought to the satisfactory level. Income Tax Act 2058 is blamed that law is complicated and vague. Their needs the efforts for simplification of law. The tax should be coherent with the economic situation of the country.

For the success of income tax system or to fulfill the objectives of income tax as well as for the economic development of the countries many constraints play the vital role. Among them effective implementation of provision regarding fine and penalties system is one of the most important constraints. From the very beginning the concepts of punishment have been emerged in income tax system of Nepal for the taxpayers who do not comply the law. It is imposed according to the provision provided by

income tax Act. It plays important role to collect tax in right amount in proper time or at the time of earning. There is no doubt fine and penalties must be imposed to the defective taxpayers. But this is not only the method of reducing tax evasion.

Revenue collection from income tax is in low in Nepal due to various problems related to income tax. For the economic development of Nepal, the problem relating to income tax system and effective implementation of interests, offences and penalties in Nepal should be solved and resources should be effectively utilized.

5.3 Recommendation

On the basis of finding of the study, the following recommendations are made regarding interest, fees, fine and penalties and its administrative efficiency.

- a) Income tax Act, rule and regulation should be made cleared and simple for all tax payers as well as related persons. It should be more effective.
- b) Income tax policy should be made such that goals of imposing tax can be achieved.
- c) Most of the taxpayers have the knowledge of fine and penalties but tax payers have no sufficient knowledge about this. To fulfill these gaps information system should be provided by different media as well as meeting and seminar should be held.
- d) To get objectives made by Income Tax Act 2058 on provision regarding fine and penalties than Income Tax Act 2031, the provision of fine and penalties should effectively equally implemented to the tax evader or defaulter whether they are rich or poor.

- e) It is not good to impose Rs. 5000 as minimum fine. It should be revised and class interval should be made for the different class of taxpayers to pay fine or fines should be imposed proportionately to the amount of tax liabilities.
- f) Interest charged to those taxpayers who pay on the group of under estimation tax payable by installment should be made effective because it made taxpayers to pay tax on earning time and encouraged them to maintain record properly.
- g) The language used in tax law and policy should be simple and clear. In spite of using the vague meaning full words clear cut provision should be made
- h) Aiding and abetting is one of the most important roots of offence so there should be provisions of heavy penalty and long time imprison for aiding and abetting. To reduce offences, not only this the man who enforces or coerced others to reduce tax liability by illegal process he/she should also charged the same amount of penalty and imprison as the defaulter/evader taxpayers.
- i) To increase taxpaying habit of Nepalese people provision of fine and penalties should be made effective but it is not only the method but respect to taxpayers, right behaviors towards taxpayers from tax administration, concession/ rebate/ low tax rate, effective and efficient administration and educated people are also the factors to increase taxpaying habit,
- j) Effective information system should be established so that nobody can avoid or minimize the fine and penalties as well as tax liability by telling that he was not know the Acts, rules and laws. Penalty equal to fifty percent of the under payment of tax for making false or misleading statement unknowing or recklessly should be changed and fine should be made hundred percent. It made the people to know rules, Laws, and Acts.
- k) If the provision of penalty that fail to register is not appear, illegal business will increase. So, the clear provision of penalty should be made for failure to register.

- l) Tax administration should be made free from corruption in all aspects specially to impose fine and penalties effectively. Discretionary power of the tax officers must be curtailed and their right and duties should be clarified in Income Tax Act.

The following suggestions are made for the improvement of income tax administrations;

- To make the administration capable of facing new challenges, there should be improvement in professionalism as well as development of new professional ethic compatible to the changed contest of liberalization.
 - The financial benefits should be increased. The salaries and incentives should be increased in accordance with the inflation not only this, the government should be target to them and gave those extra benefits accordance to their performance.
 - IRD should be kept free from outside pressures.
 - The tax authorities should do continuous efforts in order to develop taxpayer's positive attitude towards taxation.
 - Co-ordination and cooperation between staff and department must be established.
 - For IRD separate research and control unit should be established in order to find out lapses in tax policies issued by the government.
 - The IRD made provision of reward to that information's who supplies information about tax evasion, a biding and abetting etc.
 - Computerized and effective exchange of information should be maintained.
 - Tax personnel should be encouraged punished and transferred on the basis of their work and experience not on the basis of outside pressure.
- m) Timely revision should be made in the matter of income tax policy. The system of changing income tax policy with the change of government should better be avoided.

- n) Income tax Act should be liberal with broad base.
- o) To promote exports, more deduction should be provided
- p) To develop the region, regional concession should be introduced.
- q) Income tax policy should be made attractive also for foreign business group.
- r) If there is enough reasons to believe that the taxpayers has earned from illegal business and corruption. So, the income earned should be made liable to tax at high rate without exemption limit and maximum penalty.
- s) To improve the tax collection procedure, the maximum penalties should be imposed for non-compliance of income tax within the due date.
- t) Strong political commitment is necessary for the effective implementation and income tax Act and its provisions regarding to fine and penalties.
- u) People should be encouraged to pay tax voluntarily. A system should be introduced that a tax paying citizen is entitled to receive more benefits and incentives than non-taxpaying citizen.
- v) Success of income tax system is highly dependent upon the quality of income tax law. It should not contain any loopholes and ambiguity. Therefore it should be reviewed frequently and reformed.

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Appendix-I

Dear Sir/Madam,

At first, I would like to introduce myself as a student of Tribhuwan University, Shanker Dev Campus Putalisadak, MBS Final Year. In order to fulfill the partial requirement of Master's degree in Business Study of Tribhuwan University of Nepal, I conducting a research work entitled "A Study on Interest, Fees, Fine and Penalties under Income Tax Act 2058"

The subject matters are related to you so your kind co-operation and valuable suggestions are essential for the completion of my thesis. I would be very much appreciated if you could provide your time for filling this questionnaire.

I assure that the information you provide me will solely be utilize in research work. I hope for your kind co-operation and support.

Yours Sincerely

Bishnu Lal Joshi

Appendix-II
**“A Study on Interest, Fees, Fine and Penalties under Income Tax Act
2058”**

Questionnaire

Name of the Respondent:

Position:

Department:

(Please tick your answer in the following box, if the question is provided with two alternative and put in order of preference from one to last number if there are more than two alternative)

1. Do you have knowledge of fine and penalties under income Tax Act 2058?

Yes [] No []

If yes, in which case fine is higher?

i) Failure to maintain documentation []

ii) Interest for understanding estimates []

iii) Interest for failure to pay tax []

iv) Penalty for making false statement []

2. Are the provision of fine and penalties in Nepalese income tax is effective?

Yes [] No []

3. Do you think fine and penalties increase the revenue of government?

Yes [] No []

4. Do you think that taxpaying habit of Nepalese people is poor?

Yes [] No []

5. Do you think that taxpaying habit of Nepalese people can be increased by effective fine and penalty system?

Yes [] No []

If, yes to what extent fine and penalties play role to increase the tax paying habit f Nepalese people?

Satisfactory [] Medium [] High []

6. Is it right to impose Rs. 5000 as minimum fine who pay minimum income tax of Rs. 1000 because of nonpayment of tax with in time?

Yes [] No []

7. Do you think “Estimation always comes accurate?” If no, is it right to liable to pay interest for under estimated tax payable by installment.

Yes [] No []

8. Is it right to impose both interest as well as fine for a single mistake made by the taxpayers?

Yes [] No []

9. Do you think a provision of penalty should be incorporated in case of failing to register?

Yes [] No []

10. Do you think the tax administration of Nepal is effective to impose fine and penalties as per necessary?

Yes [] No []

If no, give reason (Please Rank)

Corruption []

Complicated tax law []

Lack of Information []

Unnecessary outside pressure []

Lack of Co-operation in Tax administration []

Lack of Competent staff []

11. In your opinion, are the provision made under the Nepalese income tax Act 2058 sufficient in all aspects?

Yes [] No []

If not, in which aspect the improvement is needed? (Please, Specify)

.....
.....
.....
.....