

**A STUDY ON EFFECTIVENESS OF TAX COLLECTION AND
PROBLEM OF TAX ADMINISTRATIONS IN NEPAL**

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Office of the Dean
Faculty of Management
Tribhuvan University**

**In Partial Fulfillment of the requirement for the Degree of
Master of Business Studies (M.B.S.)**

By:

**Bharat Bahadur Chhetri
Tribhuvan Multiple Campus
T.U. Registration No: 7-2-49-738-2004**

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त्रिभुवन विश्वविद्यालय
Tribhuvan University
त्रिभुवन बहुमुखी क्याम्पस
Tribhuvan Multiple Campus

तानसेन, पाल्पा, नेपाल
Tansen, Palpa, Nepal
☎ 075-520030, 520114, 520116
Fax : 075-520114
क्याम्पस प्रमुखको कार्यालय
Office of the Campus Chief

प.सं./Ref No. :-

घ.नं. :-

मिति/Date:-

Recommendation

This is certify that the thesis

Submitted by:
Bharat Bahadur chhetri

Entitled

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format of Faculty of Management. This thesis is forwarded for
examination.*

Supervisor

Name: Poshak Bhat

Signature:.....



त्रिभुवन विश्वविद्यालय
Tribhuvan University
त्रिभुवन बहुमुखी क्याम्पस
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Approval Sheet

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.....
Poshak Bhat

(Thesis Supervisor)

.....
Santosh Lal Shrestha

(Head of Research Committee)

.....
Keshav Raj Sharma

(Campus Chief)



त्रिभुवन विश्वविद्यालय
Tribhuvan University
त्रिभुवन बहुमुखी क्याम्पस
Tribhuvan Multiple Campus

तानसेन, पाल्पा, नेपाल
Tansen, Palpa, Nepal
☎ 075-520030, 520114, 520116
Fax : 075-520114
क्याम्पस प्रमुखको कार्यालय
Office of the Campus Chief

प.सं./Ref No. :-

घ.नं. :-

मिति/Date:-

VIVA- VOCE SHEET

Submitted by:

Bharat Bahadur Chhetri

Entitled

A STUDY ON EFFECTIVENESS OF TAX COLLECTION AND PROBLEM OF TAX ADMINISTRATION IN NEPAL.

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

VIVA- VOCE COMMITTEE

Chair person, Research Committee: Mr Shantosh Lal Shrestha

Members (Thesis Supervisor) : Mr Poshak Bhat

Member (External Expert) :

Date:

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This study is mainly concerned with a view to examine the “**A STUDY ON EFFECTIVENESS OF TAX COLLECTION AND PROBLEM OF TAX ADMINISTRATION IN NEPAL**”. This study is also mainly concerned to highlight effectiveness of tax collection and problems in tax administration in Nepal.

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Bharat Bahadur Chhetri
Tribhuvan Multiple Campus, Palpa

TABLE OF CONTENTS

<i>Recommendation</i>	<i>i</i>
<i>Approval Sheet</i>	<i>ii</i>
<i>Viva-Voice Sheet</i>	<i>iii</i>
<i>Acknowledgements</i>	<i>iv</i>
<i>Table of Contents</i>	<i>v</i>
<i>List of Tables</i>	<i>viii</i>
<i>List of Figures</i>	<i>ix</i>
<i>Abbreviation</i>	<i>x</i>
CHAPTER I : INTRODUCTION	1
1.1 General background of the study	1
1.2 Statement of the problem	4
1.3 Objectives of the study	5
1.4 Significance of the study	5
1.5 Scope of the study	6
1.6 Formulation of Hypothesis	6
1.7 Limitation of the study	7
1.8 Organization of the study	7
CHAPTER II : REVIEW OF LITERATURE	9
2.1 Theoretical framework	9
2.1.1 Objectives of Taxation	10
2.1.2 Concept and meaning of Income Tax	11
2.1.3 Income Tax Management	11
2.1.3.1 Components of Income tax Management of Nepal	12
2.1.4 Income Tax administration in Nepal	13
2.1.4.1 Function of Tax administration	16
2.2 Legal provision of income Taxation in Nepal	16
2.2.1 Income taxation in modern Nepal	17
2.2.2 Income Tax Act 2002	18
2.2.2.1 Objectives of Income Tax Act 2002	19
2.2.2.2 Main features of Income Tax Act 2002	19
2.2.2.3 Tax Rates	21
2.2.3 Sources of Income	21
2.2.3.1 Business Income	22
2.2.3.2 Income from Investment	23
2.2.3.3 Income from Employment	25
2.2.4 Methods of Income tax Assessment	26
2.2.5 Appeal	27

2.2.6 Fines and penalties	28
2.3 Review of related studies	30
2.3.1 Review of Dissertations	30
2.3.2 Review of Books and Articles	32
2.3.3 Research Gap	34
CHAPTER III: RESEARCH METHODOLOGY	35
3.1 Research Design	35
3.2 Population and sample	35
3.3 Data Collection procedure	36
3.4 Nature and source of Data	36
3.4.1 Primary Data	36
3.4.2 Secondary Data	37
3.5 Data Processing and Analyzing procedure	37
CHAPTER IV: PRESENTATION AND ANALYSIS OF DATA	38
4.1 Analysis of secondary Data	38
4.1.1 Resource Gap in Nepal	38
4.1.2 Revenue GDP Ratio	42
4.1.3 Nepalese Government Revenue Structure	43
4.1.4 Composition of Tax Revenue	46
4.1.5 Composition of Indirect Tax Revenue	49
4.1.6 Composition of Direct Tax Revenue	50
4.1.7 Structure of Income Tax in Nepal	53
4.1.8 Contribution of Income Tax	57
4.1.8.1 Contribution of Income tax on Total Government Revenue	57
4.1.8.2 Contribution of Income tax on Total Tax Revenue	59
4.1.8.3 Contribution of Income Tax on Direct Tax Revenue	60
4.1.8.4 Contribution of Income Tax to GDP	61
4.1.9 Income Tax collection performance in Nepal	62
4.1.10 Corporate Tax Rate structure in Nepal	64
4.1.11 Corporate Tax Base in Nepal	66
4.2 Empirical investigation	66
4.2.1 Public Awareness towards Income Tax system in Nepal	67
4.2.2 Attitude towards to Income Tax system of Nepal	69
4.2.3 Income Tax as a suitable means of Rising Government Revenue	71
4.2.4 Contribution of Income Tax Revenue	73
4.2.5 Reasons for Low Revenue collection from Income Tax	75
4.2.6 Appropriateness of Income tax Rates	77
4.2.7 Weakness of Income Tax Act 2058	78

4.2.8 Effectiveness of Income Tax Administration in Nepal	80
4.2.9 Corruption in Income tax Administration of Nepal	82
4.2.10 Attitude towards exemption and deduction	85
4.2.11 Attitude towards problem in paying Income tax	85
4.2.12 Submission of income tax Return	87
4.2.13 Appropriate method of Income tax Assessment	88
4.2.14 Most importance Factor of Effectiveness of Income Tax in Nepal	89
4.2.15 Suggestion for Achieveing Effectiveness of Income Tax in Nepal	89
4.3 Major Findings of the study	90
CHAPTER V: SUMMARY, CONCLUSION & RECOMMENDATION	95
5.1 Summary	95
5.2 Conclusion	98
5.3 Recommendation	100
BIBLIOGRAPHY	

LIST OF TABLES

Table No 3.1	Group of Respondents and size of sample	36
Table No 4.1	Research Gap in Nepal	39
Table No 4.2	Revenue GDP ratio in Nepal	42
Table No 4.3	Composition of table Revenue	43
Table No 4.4	Contribution of Direct and Indirect tax on total Tax Revenue	46
Table No 4.5	Composition of indirect tax Revenue	49
Table No 4.6	Composition of Direct tax Revenue	51
Table No 4.7	Structure of Income tax in Nepal	54
Table No 4.8	Contribution of income tax on total government Revenue, Total Tax Revenue, Direct tax Revenue and GDP	58
Table No 4.9	Income tax collection performance in Nepal	63
Table No 4.10	Corporate tax Rate structure in Nepal	65
Table No 4.11	Groups of Respondents and number for each group	67
Table No 4.12	Information about income tax system in Nepal	67
Table No 4.13	Attitude towards the income tax system of Nepal	70
Table No 4.14	Income tax as a suitable means of Rising Government Revenue	72
Table No 4.15	Contribution of income tax Revenue satisfactory or Not	74
Table No 4.16	Main cause of Low Revenue collection from Income tax in Nepal	76
Table No 4.17	Appropriateness of Income tax Rate	77
Table No 4.18	Suggested Income tax Rate	78
Table No 4.19	Low Income tax collection because of income tax Act 2058	78
Table No 4.20	Major weakness of Income tax Act 2058	79
Table No 4.21	Effectiveness of Income tax Administration in Nepal	80
Table No 4.22	Major cause of Inefficient Income tax administration	81
Table No 4.23	Corruption in Income tax administration of Nepal	82
Table No 4.24	Cause of corruption in Income tax administration	83
Table No 4.25	Factors to minimize the corruption in income tax Administration	84
Table No 4.26	Attitude towards appropriateness of exemption and Deduction	85
Table No 4.27	Problems in tax paying	86
Table No 4.28	Belief on Few submission of ITR the main cause of decreasing	87
Table No 4.29	Measures of be followed to increase the Income tax Returns	87
Table No 4.30	Appropriate method while Assessing income Tax	88
Table No 4.31	Most Important factor for Effectiveness of Income Tax in Nepal	89

LIST OF FIGURES

Figure No 2.1	Organizational structure of IRD	15
Figure No 4.1	Resource gap in Nepal	41
Figure No 4.2	Composition of total Revenue	45
Figure No 4.3	Average contributions of tax and non tax revenue on total revenue	45
Figure No 4.4	Contribution of direct and indirect tax on total tax Revenue	47
Figure No 4.5	Pie chart showing contribution of Direct and indirect tax	48
Figure No 4.6	Composition of indirect tax	50
Figure No 4.7	Composition of direct tax revenue	52
Figure No 4.8	Average amount of direct tax	53
Figure No 4.9	Structure of Income tax revenue	56
Figure No 4.10	Structure of income tax revenue by showing pie chart	57
Figure No 4.11	Contribution of income tax to total revenue	59
Figure No 4.12	Contribution of income tax on total tax revenue	60
Figure No 4.13	Contribution of income tax on direct tax revenue	61
Figure No 4.14	Contribution of income tax on GDP	62
Figure No 4.15	Income tax collection performance	63
Figure No 4.16	Trend line of estimate and collection of income tax	64

ABBREVIATION

VAT	=	value added tax
IRD	=	inland revenue department
MOF	=	ministry of finance
LTO	=	large tax payers office
IRO	=	inland revenue offices
PAN	=	permanent account number
TIN	=	tax payer identification number
GDP	=	Gross Domestic product
FY	=	fiscal year
NRB	=	Nepal Rastra Bank
R&D	=	Research & Development
WTO	=	World Trade Organization
TDS	=	Tax deduction at source

CHAPTER - I

INTRODUCTION

1.1 General Background of the Study

Every Government of a nation is responsible towards general public. Government has to launch various projects. Without economic development it is impossible to think the economic prosperity. So government required huge amount of capital which is collected in form of tax. The main objective of any developing country like Nepal is to improve living standard of the people through the development process.

Nepal is a landlocked and hilly country lying between two 'Asian Giants' India and China. Both of them are able to enjoy high economic growth in the world. However, Nepal has not been able to reap the benefit of synergic development impact of its neighbors. Nepal is an economical paradox in the sense that it is a rich country where poor people live. It is rich in natural and cultural beauties but the economic condition is far behind and the economy is predominantly based on agriculture. Large portion of population of population who live under the line of poverty are in village area. Economic growth of the country has not improved substantially over the time to overtake population growth. As the current population growth is 2.24% per annum and per capita income is less than 561 US Dollar per year.

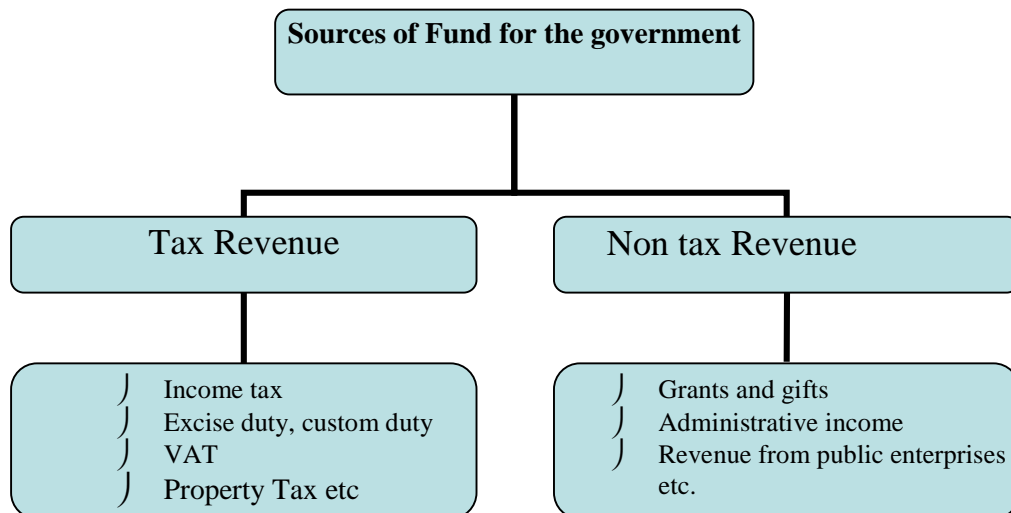
In these days, prime concern of every nation of the world is to eliminate the poverty to reduce gap between rich and poor, to improve the living standard of the people, to obtain rapid economic development etc. Nepal is not exception to this over continuing process. To achieve these objectives, the government has more responsibilities. The responsibilities may be either to maintain peace and security or handle day to day administration, or health, or education, or other development and public welfare activities. To fulfill these activities the government collects funds from two sources: debts and revenues. The debt can be collected either from internal sources or from external sources. The debt collect within the country is known as internal debt while the debt collect from outside the country is called external debt. The debt financing of the government is also known as deficit financing. The revenue of the government comes basically from two sources: tax and non tax. Non tax sources include different revenues

like; gifts, grants, revenue from public enterprises, administrative revenues such as registration fees, fines and penalties. Tax sources include customs, excise duty, VAT, income tax etc. Among them tax is the main source of government revenue.

The Great Britain was the first country that introduced modern income tax in 1799 to collect revenue to finance Napoleonic war with France. In 1862, USA introduced income tax to finance the civil war. In India, modern income tax was adopted in 1860. In Nepal, income tax was introduced in 1959. Both individuals and companies were taxed in similar way during the earlier period but later on companies were levied with flat rate and individuals with progressive rates.

Government collects revenue from two sources-non tax and tax revenue. The main objective of tax revenue is not to collect revenue but to provide goods and services to the people. The forms of non tax revenue are administrative incomes, revenue from public enterprises, grants and gifts etc.

Figure 1.1 Sources of funds for the government



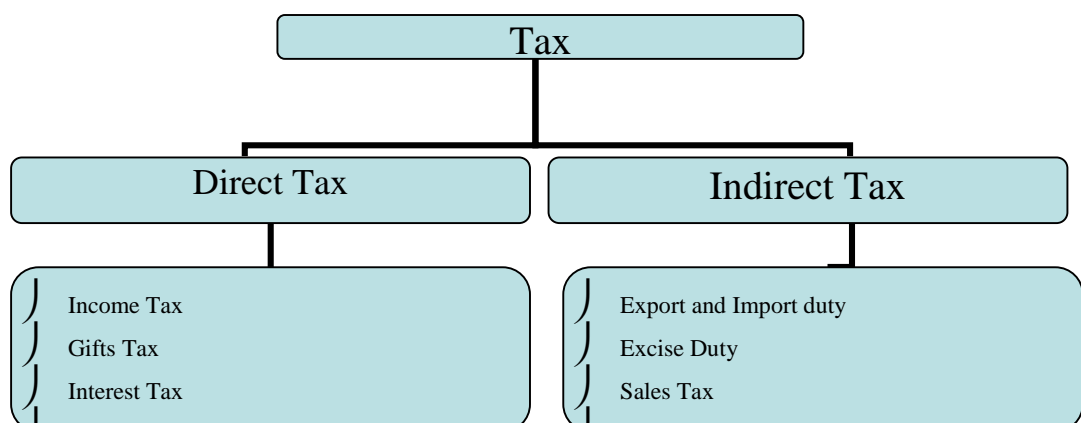
collect revenue from taxable and non taxable sources. Tax is a key source for revenue generation and mobilization. Many economists and tax experts have defined taxation in different ways. In this respect, it would be better to take the definition given by Prof. Seligman. In his words, "Taxation is a compulsory contribution from a person to the government defrays the expenses incurred in the common interest of all without reference to special benefit conferred."

Similarly, Dalton explained tax as "A compulsory contribution imposed by a public authority irrespective of exact amount of services rendered to the taxpayers in return."

It is clear that tax is a compulsory levy and those who are taxed has to pay it without getting corresponding benefit to services or goods from the government. Governments have been able to generate revenue by setting revenue targets for the tax administration while not being very concerned about how these targets are achieved. Tax officials can not be blamed individually; any official joining tax administration will have to follow existing practice and procedures.

Over time, the administration system has become characterized by; a tax administration that works toward fulfilling revenue targets that are set well below the legal tax liabilities of the taxpayers, low salaries for tax officials, and the negotiation of tax payments between taxpayers and the tax administration. This has created a stable system in which government revenue targets are met, most taxpayers pay less than their legal tax liabilities, and tax officials make considerable income as a result of side payments, which arise from their negotiations with taxpayers. A great deal of uncertainty and administrative "congestion" are by-products of such a system. Government Taxpayers do not have any right to receive direct benefit from the tax paid. The taxpayer cannot receive equivalent benefit from the government. Government needs funds for its running. Therefore tax is paid to the government. Amount collect through taxation is spent for common interest of the people and it is collected from natural and artificial person. Tax is separated in two types which can be shown as below;

Figure1.2 Types of Tax



According to the above diagram tax revenue comprises two types of taxes, direct and indirect tax. Direct taxes are more familiar and have a dominant role in the developed country as opposed to developing countries. Direct taxes are the means and tools of generating; saving and promoting capital formation includes income tax, gifts tax, interest tax, vehicle tax, house and land tax etc. Where as indirect tax has a dominant role in the whole tax structure of developing countries like Nepal. Earlier most of the revenue was raised from indirect tax because it is easier less expensive and convenient method for implement for a developing country's economy.

1.2 Statement of the Problem

Nepal is one of the developed countries among the developing countries in the world. It is facing serious financial problem from the beginning of its development process.

The income tax is the vital source of government revenue. It is developing nations has been regarded as an instrument of growth and social justice. The government has applied two types of income tax i.e., personal income tax and corporate income tax. The government of Nepal is being unable to mobilize/realize the expected income tax from personal as well as corporation but today's government of Nepal is going to following the way of successful in collection of tax from personal as well as corporation.

Some individuals are dishonest and they hide the real income. They are enjoying the weakness of the tax law administration. Most of the personal tax payers do not reveal the income sources even they earn significant amount. They hardly keep and show their proper accounts. About the income tax, many research reports have addressed that tax evasion and avoidance has become a serious problem as a result the actual collection of income tax is being very low. Therefore, personal income tax has not been effective in Nepal.

On the other hand, corporate tax is based upon the profit of companies. There are some arguments in favor of raising a large amount by way of corporate taxation in developing countries. Corporations are easily identified, keep accounts and can not escape tax liabilities. It is seem that more income tax collection from corporate house is possible for the economically developed nation only. But Inland Revenue Department (IRD) could not raise more income tax from corporation because of less development of industries and

joint venture companies, in broad sense corporate sector in initial stage of development in Nepal. The performance of corporate sector especially the industry is very poor. Their number, profitability investment in fixed assets share in market transaction is most of them in weak position. In addition, some companies have been practicing to evade tax liabilities by hiding income. As a result collection of income tax is being very low. So the debate is going on as regards to base of tax, method of taxing corporation, simplification of income tax procedures, expanding the scope of income tax, increasing efficiency of the overall tax system through removal of existing distortions. It may raise question; why tax rates of corporation can not be pushed too high for collecting more income tax revenue? The main problems of this study are; what will be measured? What relationship will be examined? It is between taxation system and income tax through the administrative level.

1.3 Objectives of the study

The main objective of this study is to analyze the effectiveness of income tax administration of Nepal. However, the following specific objectives have been set out for the study.

1. To examine the administrative aspects of income tax in Nepal;
2. To measure the effectiveness of tax administration in Nepal;
3. To identify major problems related to tax administration in Nepal;
4. To recommend and suggest some measures to improve the effectiveness of income tax administration.

1.4 Significance of the study

Nepal is least developed country of the world. The importance of the income tax can not be minimized in the public finance of a nation. Developing country like Nepal can fulfill its financial income tax can be maximized either by imposing taxes at higher rate or introducing new tax rate or collecting income tax properly within existing portfolio. Increment in income tax rates may be more burdensome to the poor people. Moreover the collection of tax depends on good income tax system (i.e. laws, policy and effective administration). Unfortunately, Nepal's income tax system is not free from the problems. Like the country is heavily dependent on the foreign aids, grants nowadays remittances to

undertake its developmental activities. Though this field is of high importance, sufficient timely researchers are not being made in the field so far.

1.5 Scope of the Study

This study will attempt to cover the tax administration system in Nepal. It aims to find out the effectiveness of tax administration in Nepal. However the major areas of the study will be as follows;

1. Structure of government revenue in Nepal;
2. Administrative aspects of income tax in Nepal;
3. Role of income tax in Nepal ;
4. Existing position of income tax in Nepal;
5. Factors affecting in the collection of tax.

1.6 Formulation of Hypothesis

Hypothesis is one of the most important aspects of the research. It consists of decision rules required for drawing probabilistic inferences about the population parameters. It often involves deciding at any given points of the time whether a given population parameter is the same as before, as claimed or has changed. For this thesis the following hypothesis are formulated;

Hypothesis 1

Null Hypothesis (Ho): The response of respondents about the effectiveness of tax administration is independent in different samples.

Alternative Hypothesis (H1): The response of respondents about the effectiveness of tax administration is dependent in different sample.

Hypothesis 2

Null Hypothesis (HO): Tax administration in Nepal is effective.

Alternative Hypothesis (H1): Tax administration in Nepal is not effective.

1.7 Limitation of the Study

Every study has its own limitations. So this study will also not far from the limitations. Major limitations regarding to the study will be follows;

1. This study will be completed on the basis of primary data collected with in tax offices of Kathmandu Valley.
2. Due to the small sample size, it may not fully represent the whole population.
3. All respondents may not response positively & finding of the study will depend upon the perception of the respondent.
4. This study will cover the data of last eleven fiscal years.
5. Due to the constraint of time & other resources, which are essential for the deep study, may limit the objective of the study.

1.8 Organization of the study

This thesis has organized in five chapters. The first chapter is about introduction which included General Background of the study, Statement of the Problem, Objective of the study, Significance of the study, Scope of the study, Formulation of hypothesis and Organization of the study.

The second chapter is about Review of literature, is related with review of available literatures in the field of the Study being conducted. This section includes review of the theories of the concerned topic, review of books and review of various empirical studies.

Third Chapter is Research Methodology which includes tool and techniques that will use analysis of the data as well. This chapter includes research design, population and samples, sources of data, methods of data analysis and various financial and statistical tools.

Forth Chapter includes Data presentation and Analysis is devoted to the presentation, analysis and interpretation of the study through definite course of research methodology. This chapter also contained major finding of the study.

Fifth chapter includes conclusion and Recommendation is conclusive and suggestive chapter. It has included Summary of the Study, conclusion of the main finding and recommendation for further improvement.

Besides these, bibliography and appendices are presented at the end of the thesis. Similarly acknowledgement, table of contents, lists of tables, list of diagrams, abbreviations are included in the front of this report.

CHAPTER – II

REVIEW OF LITERATURE

Literature review is an essential part of the studies. This Chapter basically highlights the conceptual frame work of research, existing legal provisions and existing literature and work related to the present research being conducted with the view of finding out what had already been explained by the previous researchers and how the current research adds further benefits to the field of research. While conducting the research study, previous studies can not be ignored, so that information would help to check the chances of duplication in the present study. Thus one can find what research studies have been conducted and what remains to go with. It enables the researchers to know.

What research has been done in the subject?

What others have been done in the study?

What theories have been advanced?

The approach taken by the other researchers.

Area of agreement or disagreement.

Whether there gaps that can fill through the proposed research?

This chapter has been classified in to following subgroups.

2.1 Theoretical Framework

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

Tax is a kind of money of which it is the legal duty of every citizen of a country to pay honestly. Many economists are of the view that the tax is a compulsory payment to the government by taxpayer without any expectation of some specified return.

Tax is compulsory contributions to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits.

According to Plehn “Tax are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefit upon the resident of the state.”(Dhakal 1998; 2)

2.1.1 Objectives of Taxation

Taxation has been a very much essential element of a government from the very beginning of the state system. However the main objective of the taxation has been different for different epochs. In the early stage, the main objective of the taxation was to make the state sound in respect of resources. Till the time of Adam Smith the chief motive of collecting the revenue was to provide resources to the government for providing security to an individual and society against violence, invasion and injustice and maintaining public institutions.

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

- a. To increase the revenue for a welfare state
- b. To have equitable distribution of income and property
- c. To increase the production of particular goods
- d. To increase the employment, saving and investment
- e. To prevent concentration of wealth in a few hands
- f. To minimize regional disparity
- g. To boost up the economy
- h. To implement government policy
- i. To control the production of certain goods

From the above, we can conclude that the tax has the objectives of raising revenue to have resource mobilization, equal distribution of wealth and income in the society

encouragement in production of certain products encouragement in employment , saving and investment, removal of regional imbalances and enforcement of government policy.

2.1.2 Concept and meaning of income tax:

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

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

- a. The person's consumption during the period
- b. The net increase in the individual's personal wealth during the period.

It is very much difficult to define the income clearly. So income is exemplified rather than defined income tax laws of various countries. For example, sec 2 of the India Income tax Act,1961 keeps profits and gains, dividend, voluntary contributions received by charitable trust, value of any perquisite or profit on lieu of salary, any capital gain, winning from lotteries, cross word puzzles etc. under the head income.

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

2.1.3 Income Tax Management

In these days, income taxation has become the most important source of national revenue. It is good instrument for resource mobilization in the country. It must be mobilized properly for the achievement of goal of development. To develop the country it needed huge amount and the amount can be collected through income tax.

Many development activities should be under taken each year to fulfill the minimum requirements of people. To collect the targeted revenue income tax management should be sound. Collection of income tax is a difficult task. Therefore sound income tax management helps for planning, directing and collection of income tax.

The first work of income tax management is to identification of objectives and goals and then policy regarding income tax directs to make tax Imposition specifying to whom, how, when and where the tax must be imposed.

2.1.3.1 Components of Income Tax Management of Nepal

The following are the components of income tax of Nepal;

1. Parliament

Parliament provides different types of acts and supporting laws to impose the income taxation. Legal support is necessary to impose the income tax and to manage the tax administration. Through parliament is not directly associated with day to day operation of income tax management, it is the first and the most important component of income tax management in Nepal.

2. Inland Revenue Department (IRD)

The Inland Revenue Department is the most important component of tax management in Nepal. Its functions to fulfill the objectives and goals set by the Ministry Of Finance. It launches various programs, plans and policies related to the implementation of income tax. It manages personnel and implements various policies relating to income taxes and other taxes as well as non tax revenue. It also organizes the structure of taxation, manages personnel, improves the systems and controls the defective system and personnel as well.

3. Ministry of Finance (MOF)

Ministry of Finance of Nepal Government is the highest organization of total taxation management. It concern with the total revenue and expenditure of the government, manages to borrow internal as well as foreign debts as demanded by the budget. The finance ministry is the apex, which administers the income tax including all other tax but of all the management works regarding income tax cannot be finished by MOF itself.

2.1.4 Income tax administration in Nepal

Administration is the design of implementation of government policies. An efficient and effective administration is essential to achieve the target objective of any system. So it is also taken as the heart of any system. Tax administration is regarded as tool for including some responsibility for determining the policies and the programs of government related to tax. Specifically, it is the planning, organizing, directing, controlling and coordinating of government organizations related to taxation. The shape of tax system is practice is determined to a great extent by the way it is administered. Administrative reform most to go hand in hand with structural tax reform, while stressing the central role of administration in successful tax reform in developing countries, attention was drawn to three aspects of tax technology;

- I. The role of administrative incentives.
- II. Costs of taxation & other quantitative questions &
- III. The link between expenditure.

The Inland Revenue Department administers income tax of Nepal. The Ministry of Finance, Customs administration, Revenue investigation administration & the Revenue administration Training center are also involved in the administration of income tax directly or indirectly. The Ministry of Finance is at the apex of the tax administration. It is responsible for overall administration of the government's fiscal & the monetary policy. The Revenue Division of this ministry is responsible for formulation tax policy & setting up appropriate tax administration to implement tax policy. It coordinates the activities of all revenue departments, including the Inland revenue Departments & monitors the positions of revenue collection. It is responsible for the research, planning & analysis of

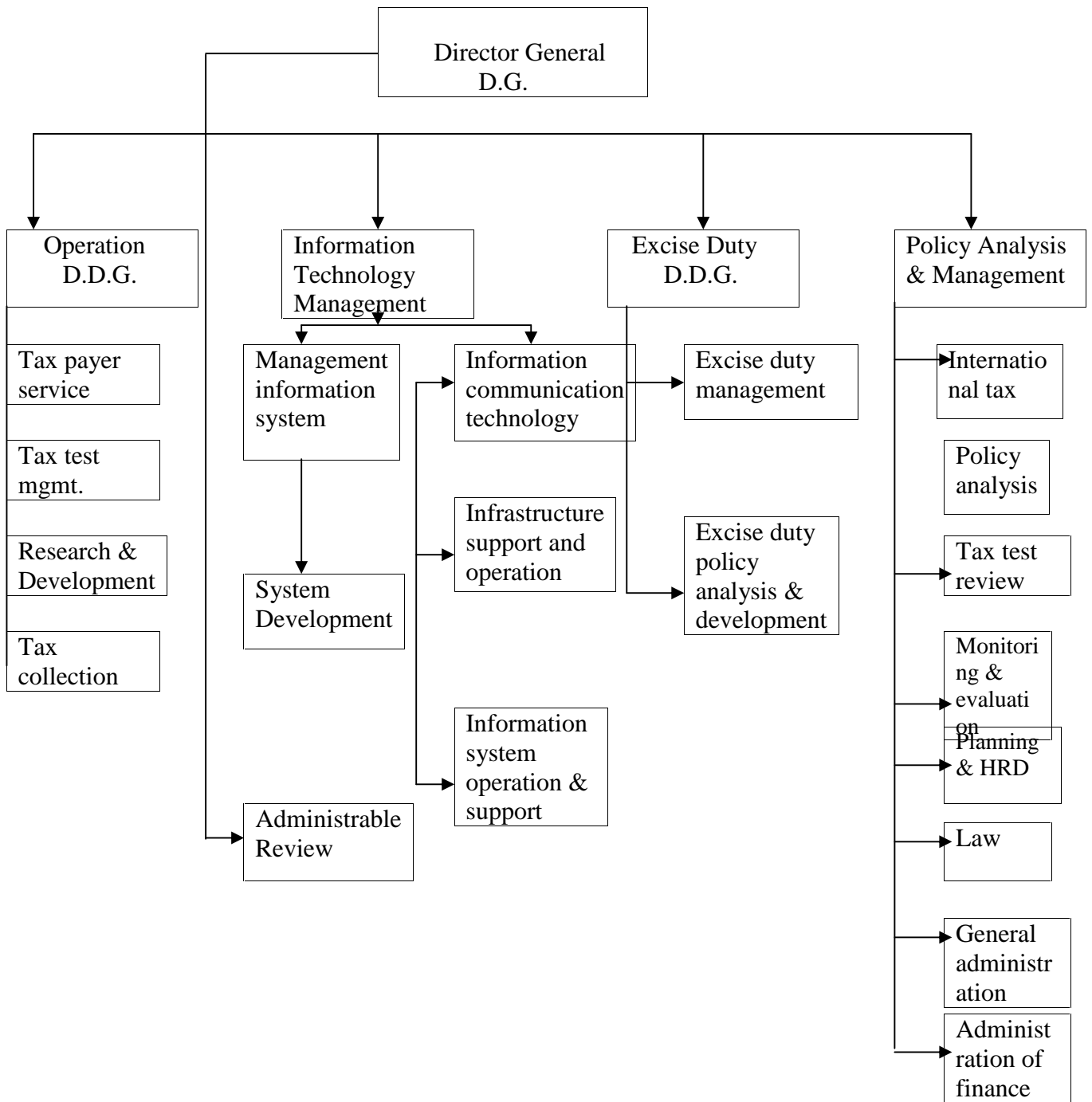
the tax system. The custom administration collects advance income tax on imports. The Revenue Investigation administration investigates cases where revenue leakage was involved, with or without collusion between taxpayers & tax collectors. The Revenue Administration Training Center impacts training, workshops & seminars for tax officials.

Tax administration has become challenging & more complicate with the changing environment of international tax system. Inland Revenue Department has taken the responsibility of administration of income tax. Tax administration was created as the tax Directorate in 1959, the internal revenue department in 1963/64. In 1964, there were tax offices in six places i.e. Kathmandu, Birgunj, Biratnagar, Nepalgunj, Bhairahawa & Janakpur. In Kathmandu there were two offices, eastern & Western. The Tax offices were classified as zonal offices & branch offices over the years. For e.g. there were 12 zonal offices & 12 branch offices & branches offices were converted in to tax offices.

Inland Revenue Department was established in mid April, 2001merging tax department & VAT Department. Forty tax offices under tax department & 17 tax offices under VAT. Department were also merged. Now there are 21 Inland Revenue Offices & one Large Taxpayers' Office (LTO) and 25 taxpayer's service offices in different places under the Inland Revenue Offices (IRO) all over the nation.

The Inland Revenue Department is structure along functional lines, which means there are different sections & subsections according to the major function of the department. The following figure shows the organizational structure of Inland Revenue Department.

Figure 2.1 Organizational Structure of IRD



2.1.4.1. Functions of Tax Administration

The main functions of tax administration are as follows:

1. Registration

The first function of tax administration is the registration of the taxpayer in tax offices. Registration of taxpayer also includes the investigation about taxpayer's activities. After registration a number is given to the taxpayer, which is known as permanent account number (PAN) of taxpayer identification number (TIM).

2. Assessment

The second function of tax administration is assessing the tax. However, tax office is authorized to assess the tax only if the taxpayer doesn't obey the tax law. Tax office assesses the tax only if there is mistake in the assessment made by the taxpayer.

3. Audit

The third function of tax administration is tax audit. Here audit means, auditing the tax assessment form submitted by the taxpayer. Tax audit can be of two types- Prima facie audit and detail audit. In the prima facie audit the tax office examines only the mathematical errors where as detail audit covers site visit audit and the detail examination of the document submitted by the taxpayer.

4. Collection, Refund and Remission

The next function of tax office is the collection of tax amount for this purpose; the tax office can use the banks also. If over collection is made from any taxpayer, the taxpayer should refund the amount. Sometimes, if it is thinks that it is impossible to collect taxes from certain taxpayer, the tax administration can sacrifice the due amount. Such sacrifice is called tax remission.

2.2 Legal Provision of Income Taxation in Nepal

The revenue collection has remained as one of the key activities of the government from ancient time in Nepal. During that time very few economic activities were operated in the country. Hence government could not collect huge amount of money in the form of tax. At that time, taxes were levied to the merchant, travelers and farmers

in the form of cash, kind or labors. In some occasion gold and agricultural products were also paid as taxes but the nature of these taxes were temporary and taxes were raised for special purposes (Regmi 1971; 55)

In the Lichavis regime, income taxes from agriculture income and business were introduced as a direct tax for the first time in Nepal. Tax on agriculture income was called “Bhaga” and tax on business was called “Kara”. Irrigation tax and religious monuments preservation taxes also existed at the time of king Ansubarma of Nepal. During the period of 1768- 1846 A.D, different types of taxes were levied to generate maximum revenue. The major sources of revenue were: Birta and Kipat taxes on land, monopolies customs, transit and market duties, mines and mints and the export of forest products, birds, animals. Taxes were collected at three levels; Royal palace levies, government levies and local levies. The various taxes levied during that period were narrow in base and were imposed primarily on occupations and economic activities, not in income or property. There was no taxation of income in the modern sense of income tax.

During the period of Rana Regime, there was not formal provision for imposition and collection of taxes. Taxes were imposed according to the objectives, needs of the ruling the Prime Minister. There was not provision of separating the personal income of prime minister and state treasury. There was not system of preparing government budget. The surplus of revenue over expenditure was considered the personal income of the Rana prime minister.

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

2.2.1 Income Taxation in modern Nepal

After the independence of the country in 1951 (2007B.S), the role of government has changed. Since the government was enforced to operate development activities,

besides governing the regular function of maintaining law and order and the collection of revenue (Bhatta and Shrestha, 1981:3). A sound and efficient income tax system is necessary to maximize the revenue collection from income tax. Whole income tax system is made of three sub system i.e. income tax policy, income tax laws and income tax administration. The government itself through Ministry of Finance determines income tax policy. Income tax policy should be such that the main objectives of the income tax can be attained.

Parliament makes the laws to implement the various policies. The government Levy and collect the income tax in accordance with law. The constitution of the kingdom of Nepal, 1990 has made the clear provision about it. “No taxes shall be levied and collected except in accordance with law” (Constitution of the kingdom of Nepal, 1990). Present legal provision of income tax is associated with constitution of the kingdom of Nepal, 1990; Income tax Act 2002; Income tax rules 2002; Finance act of concerned financial year etc.

2.2.2 Income Tax Act 2002

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation, and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted Income Tax Act, 2002 (2058) since, 19th chaitra 2058 B.S (first April 2002). This Act was brought in Nepal to avoid the following defects of income tax Act 1974 (Kandel, 2002:11):

- I. Tax was not levied on worldwide income, on capital gain etc. tax base was to narrow.
- II. Income tax related provisions were given in different act such as Employee Provident Fund Act 1962, Citizen Investment Trust Act 1992, Industrial Enterprises Act 1992, and Electricity Act 1992 etc.
- III. There was not provision for controlling transfers pricing, controlling interest expenses, controlling of thin capitalization etc.
- IV. Income tax is the tax of equity. That means persons having same income should impose equal amount of tax and person having lower income should imposed low tax. But under income tax act 1974, tax was levied on the basis of nature of organization, nature of income, nature of person. Natural person’s taxable income

had declared on the basis of organization's memorandum and objectives rather than transaction.

- V. Penalty rate under income tax act 1974 was very low. It was not appropriate to the present time to control the tax evasion.
- VI. After 8th amendment, provision of self-tax assessment was made. But necessary definition, explanation and legal provision related to tax administration was not made. There was not clarity about the accounting system and design and also lack of high penalty who did not maintain account accordingly.
- VII. Act became incapable to fulfill the need of time. So, it became compulsory to replace to it by new Act.

2.2.2.1 Objectives of Income Tax Act 2002:

Following are the main objectives of Income Tax Act 2002

- I. Bringing all income generating activities into tax net.
- II. Harmonizing tax rates and concessions on equity grounds.
- III. Widening the tax base.
- IV. Confining all the income tax related matters within the Act.
- V. Making income tax elastic and revenue productive.
- VI. Developing a tax payer-friendly-taxation system by making it clear and transparent.
- VII. Reducing the scope of discretionary interpretation of the tax authorities.
- VIII. Minimizing the tax avoidance and tax evasion.
- IX. Making tax payer more responsible by enforcing the self-assessment systems.
- X. Integrating Nepalese tax system with the tax system of foreign countries.

2.2.2.2 Main features of Income Tax Act 2002

Following are the main feature of income Tax Act 2002 (Malik, ibid)

- I. All income tax related matters are confined within the act by abolishing all tax related concessions, rebates and exemption provided by different acts.

- II. The act has broadened the tax base. Unlike previous tax act, tax rates are spelled out in the act. The tax rates and concessions are harmonized on equity ground.
- III. The act has introduced a pool system of charging depreciation. Intangible assets are also depreciated.
- IV. The act has firstly introduced taxation on capital gains.
- V. The act has provided liberal set-off and carry forward/backward provisions and inter head adjustments of losses are clearly specified.
- VI. The act has provided a stringent fine and penalty for the defaulters.
- VII. The act has introduced a provision for administrative reviews to allow the tax administration to correct mistakes made by tax administration internally.
- VIII. Global income of a resident are made taxable. Non-residents are also taxed on their income with source in Nepal.
- IX. List of expenses is inclusive. All expenses relating to income have been made admissible.
- X. The act has made provision of international taxation. Foreign tax credit has been introduced for the first time.
- XI. The act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the tax payers from criminal liabilities.
- XII. The scope of discretionary interpretation of the tax administration has been drastically reduced ensuring simplicity, uniformity and the transparency. The Act has also defined the power and authority of the tax administration.
- XIII. The appeal system has been further streamlined by making it mandatory for the tax payers to file an objection with the Inland Revenue Department for administrative review before appealing to the Revenue Tribunal.

2.2.2.3 Tax Rates

The taxable income of a resident individual for an income year 2068/69 taxed at the following rates.

Up to Rs. 160000 ----1%

From Rs. 160000 to Rs. 260000 ---- 15% plus Rs. 1600

Above Rs. 260000 --- 25% plus Rs. 16600

Taxable income of a couple, if they choose to be treated as a couple will be taxed at the following rates.

Up to Rs. 200000 ---- 1%

From Rs. 200000 to Rs. 300000 ---- 15% and plus Rs. 2000

Above Rs. 300000 ----25% plus Rs. 17000

Entity implies the following institution or organizations.

- a. Partnership, trust or company.
- b. Village Development Committee, Municipality or District Development Committee.
- c. Nepal Government.
- d. A foreign or political sub-division of the foreign government or a public international organization established on the basis of a treaty.

Dividend means distribution made by an entity.

Procedure for assessment (sec. 33), collection (sec. 35), payment and refund of tax (sec. 37, 38, 39), have been specified.

Provision for fine and penalty has been made (sec. 37a, 59, 60, and 63). The provision of self tax assessment is made for the first time in Nepal.

2.2.3 Sources of Income

Income Tax Act 2002 has classified the sources of income for the purpose of assessment under the following heads:

- a) Business Income
- b) Employment Income and
- c) Investment Income

2.2.3.1 Business Income

Income Tax Act 2002 has defined the business income for income tax purpose. For the purpose of computing income of business for any year of income, the income of such person shall include as profits or gains made by him from business and should include:

(See Income Tax Act 2002 for Details)

- a. Service charge (sec.7.2)
- b. Sales or disposal of business/trading stock. (sec.7.2)
- c. Net gain from the disposal of person's business assets/liabilities of the business calculated as under chapter 8 (sec.7.2)
- d. Amount received against the disposal of depreciable assets (sec.7.2)
- e. Prize or gift in connection with business. (Sec.7.2)
- f. Amount received instead of acceptance of any restriction regarding business. (Sec.7.2)
- g. Amount included under change of accounting method. (Sec.24)
- h. Excess amount received due to the exchange rate currency. (Sec.28)
- i. Bad debt recovered. (Sec.25)
- j. Proportionate amount under long-term contract. (Sec.26)
- k. Under paid interest amount according to market price. (Sec.29)
- l. Amount received for compensation. (Sec.31)
- m. Other amount received under business income. (Sec.72)

While computing the income tax from business, the following amounts are excluded on profit and income from business for tax purpose:

- a. Exempt amounts under section 10.
- b. Taxation of dividend under section 54.
- c. Final withholding payments under section 92.

2.2.3.2. Income from Investment

- a. Any dividend, interest, natural resource payment, rent, royalty, gain from investment insurance, gain from an unapproved retirement payment or retirement fund from approved retirement fund (sec 9.2)
- b. Net gain from the disposal of the person's non- business chargeable assets of investment. (Sec.9.2)
- c. Excess amount of incoming over the depreciation basis including outings on the disposal of the depreciable assets of the investment of the person. (Sec. 9.2)
- d. Gifts or prizes received in connection with investment. (Sec. 9.2)
- e. Retirement contribution including those paid to a retirement funds in respects of the person and retirement payments on respect of investment (sec. 9.2)
- f. Amount received instead of acceptance of any restriction regarding investment (sec. 9.2).
- g. Amount included under change of accounting method (sec. 24).
- h. Excess amount received due to exchange rate currency (sec. 28).
- i. Bad debt recovered allowed previously (sec. 25)
- j. Proportionate amount under long-term contract (sec. 26).
- k. Under paid interest amount according to market price (sec. 9.2).
- l. Amount received as compensation (sec. 31).
- m. Other amounts required being included on tax accounting or quantification, allocation and characterizations of amounts or transaction between any entity and beneficiary or general insurance business (sec.9.2).

The following amounts are excluded income from investment for tax purpose:

- a. Exempt amounts under section 10.
- b. Taxation of dividends under section 54.
- c. Final withholding payments under section 92.
- d. Amounts that is included in calculating the person's income from any employment or business.

Admissible Expenses (Expenses allowed for deduction):

- a. All the expenses are allowed to deduct provided that the expenses are made by the same tax payer in the same year in the production of income (sec. 13)
- b. Interest on loan taken for the business purpose is deductible. However the amount of such interest will not exceed 50% of the tax payer's taxable income for the year calculated without including the interest received or without deducting any interest incurred by the tax payer in case of the person controlled by tax exempt entity (sec.14).
- c. The cost of trading stock is deductible. The allowable for trading stock is calculated by adding opening value of stock plus purchase value minus closing value of trading stock (sec. 15).
- d. The cost of repair and improvement of the depreciable assets used in business or investment are deductible such costs do not exceed 7% of the depreciable basis of the pool at the end of the income year (sec. 16).
- e. The act has allowed deducting pollution control device cost to the extent of 50% of the taxpayer's adjusted taxable income of the concerned year. Non-deductible cost can be capitalized depreciable asset under group 'D' in subsequent year (sec. 17).
- f. Act has allowed deducting research and department costs. If the expenditure is more than 50% of the taxable income of the concerned year. Remaining amounts can be capitalized as depreciable asset under group 'D' in subsequent year (sec.18).
- g. Depreciation of the depreciable assets used in business for the income year computed under the schedule 2 is allowed for deduction (sec.19).
- h. The loss can be set off from the profit of any business or investment in the same year in one hand and of the same business in subsequent four years while calculating the income in the other (sec. 20).

Following are the Expenses not allowed for deduction Sec 21:

1. Any personal/domestic expenses.
2. Income tax/ fine and penalty.
3. Dividends.
4. Reserve/ provision/funds (except special reserve created by a bank up to 5% of outstanding loan).
5. Expenses for earning non-taxable income of final withholding payments.
6. Expenses not related to business.
7. Cash payments in excess of Rs 50,000 at a time having annual transaction more than Rs 2000000.
8. Others: Capital Expenditure and Capital loss.

2.2.3.3 Income from Employment

Income tax act 2002 has defined the remuneration income for income tax purpose. According to sec.8 of the act, an individual income from employment for an income year is the individual's remuneration from employment of individual for the year. According to this section, the remuneration received by a person from the employment is as following payments made by the employer (sec. 8):

- a. Payments of wages, salary, levy pay, overtime pay, fees, commission, prizes, gifts, bonuses and other facilities.
- b. Payments of allowances including any cost of living, rent entertainment and transportation cost.
- c. Payments of reimbursement of cost incurred by the individual or an associate of the individual.
- d. Payments for the agreement of any conditions of the employment.
- e. Payments for the termination or loss or compulsory retirement.
- f. Retirement contributions including those paid by the employer to the retirement fund in respect of the employer and retirement payments.
- g. Other payments in respects of the employment.
- h. Other amount as given in chapter six of the perquisites and gains due to the change in tax accounting required to be included.

In addition to above stated items of remuneration the following types of perquisites are included in remuneration of a person:

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

Excludable amount in the Employment Income

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

- I. Amounts exempt under section 10 and final withholding payments.
- II. Meals or refreshment provided in premises operated by or behalf of an employer to the employer's employees that are available to all the employees in similar terms.
- III. Payments of prescribed small amounts, which are so small and thus unreasonable or administratively impractical to make accounting for them.

2.2.4 Methods of Income Tax Assessment:

Income tax Act, 2058 has specified 3 types of assessments. They are as follows:

1. Self Assessment (sec.99)
2. Jeopardy Assessment (sec. 100)
3. Amended Assessment (sec.101)

1. Self Assessment:

Act has fully applied the self-assessment of tax system. It has made more responsible to taxpayer. It reduces the compliance cost. Under this system, taxpayer himself determines his tax liability with fine and penalty.

2. Jeopardy Assessment:

Under the section 100 of the act, the provision of jeopardy assessment is made. The department will make jeopardy assessment when the person becomes bankrupt, is wound up, or goes into liquidation, the person is about to leave Nepal indefinitely, the person is otherwise about cease activity in Nepal, or the department otherwise consider it appropriate. Where as assessment is made under the Jeopardy Assessment with respect to full income year, the assessed person will not fill return of income for the year, however with respect to part of an income year, the assessed person is still required to file a return for the income year. Where the department makes a jeopardy assessment, it should serve of the assessment on the person.

3. Amended Assessment:

Tax department may amend an assessment made by the taxpayer under section 101. Department may re amend the amended assessment. The department may not amend as assessment if the assessment has been amended or reduced pursuant to an order the Revenue Tribunal or court of competent jurisdiction except where the order reopened.

2.2.5 Appeal:

A person who is not satisfied with the decision of tax officer concerning income tax has the right of Appeal.

Appeal to Director General:

A person who is aggrieved by a reviewable decisions have the right of appeal against such order to with the department within 30 days after the decision is made while filing the appeal the tax payer is required to deposit half of the amount of the tax payable.

Appeal to Revenue Tribunal:

If any taxpayer who is aggrieved by the decision made in the appeal to director general may appeal to the Revenue Tribunal in accordance with the Revenue Tribunal Act, 1974. If the person has appealed, he should file a copy of the notice of appeal with the department within 15 day. However, the operation and enforcement of an objection decision is not stayed or otherwise affected by an appeal. If Director General of the department has made the decision relating to administrative review, the appeal to Revenue Tribunal would effective.

If any taxpayer who is aggrieved by the decision made in appeal to Revenue Tribunal may appeal to the Appeal court. A taxpayer or the tax officer who is not satisfied with the decision made by Appeal court has the right to appeal in the Supreme Court.

2.2.6 Fines and Penalties:**a. Penalty for Failure to Maintain Documentation or File Statements or Return of Income:**

A person who fails to maintain proper documentation for an income year or file return for an income year is liable to pay fees for each month and part of month during which the failure continue. The rate of fees would be as the highest of 0.1% per annum of the person's assessable income with a gross of any deductions or Rs 1000 per month which ever is higher. Accordingly, a withholding agent who fails to file a statement as required is liable to pay a penalty at 1.5% per annual applied to the amount of withheld for each month and part of a month during which the failure continues.

b. Interest for Understating Estimated Tax Payable by Installment:

A person who understates estimated tax payable by installment basis is liable to pay interest for each month and part of a month from the date the first installment is payable until the date the tax is payable on assessment. The amount of interest is calculated at the standard interest rate.

c. Interest for Failure to pay Tax:

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 a month for which any of the tax is outstanding calculated as the standard interest rate applied to the amount outstanding.

d. Penalty for making False or Misleading Statement:

A person who makes statement to the department that is false or misleading in a material particular or omits from a statement made to the department any matter or thing without which the statement is misleading in a material particular, is liable for penalty as follows:

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

e. Penalty for Aiding and Abetting:

A person who knowingly or recklessly aids or abets another person to commit an offence related to failure to comply with this act, failure to pay tax, makes to false or misleading statements or impends tax administration to counsels or includes another person to commit such an offences, is liable for penalty equal to 100% of the under payments of tax.

2.3 Review of Related Studies

2.3.1 Review of Dissertations

In 2006, **Mr. Furtiman Basnet** submitted a dissertation entitled “*A study on Effectiveness of self Tax Assessment in Nepal.*” According to this dissertation self tax assessment system is effective in Nepal but not as expected. According to this thesis, the trend of applying self-tax assessment system is increasing. It contributes for increment of tax revenue. The numbers of taxpayers are increasing in some extent. They are motivated to collect the tax to self-assessment system. He has recommended that further policies should be determined to bring the potential taxpayers within the tax net and there should be organized consciousness campaign to provide the orientation for basic accounting system and self assessment system.

Mr. Lokendra Bhandari in his dissertation named “*Income Taxation in Nepal. Analysis of structure & problems*” (2007) has explained that the contribution of income tax to the total revenue, tax revenue, direct tax & total GDP is in increasing trend. Its contribution was 9.91%, 12.67%, 67.37% & 0.93% respectively in the FY 1989/90 which increased to 15.13%, 19.04%, 78.3% & 1.96% in FY 2005/06. This study further explained that being various problems relating to income tax, revenue collection from income tax is low as compared to other developing countries like India, Srilanka, Pakistan etc. (Bhandari (2007)).

In 2007 Mr. Pokrarel submitted a thesis; “*Contribution of Income Tax on Tax structure of Nepal*” has conducted an empirical investigation. According to his investigation, income tax is a suitable means of raising government and tax education is necessary in Nepal for which 91.67% and 98.33% respondents have support respectively. He found that inefficient tax administration, tax evasion and in appropriate objectives of income tax was the main cause of low collection of income tax in Nepal. Self-assessment method of assessing income tax is most appropriate in Nepal. 70% of the respondents were favor of fees, fines and penalties were as remaining 30% were against it. The recommended measures of the respondents are effective tax management; training and development programs to tax personnel, development of check and balance system can bring efficiency in income tax system in Nepal.

In 2008 **Mr. Krishna Raj Barakoti** submitted a thesis “*Effectiveness of Income Tax System in Nepal*”. According to his thesis he had analyzed the effectiveness of income tax in Nepal and what is the effectiveness of tax administration in present situation. He also writes about present problems in revenue collection and he has given some suggestion.

The study shows that the contribution of tax revenue to total revenue is 79.45% and non-tax revenue is 20.55% in FY 2006/07. The contribution of direct tax is 26.14% and indirect tax is 73.86% in 1999/2000 which become 24.32% and 75.68% in FY 2006/07. The contribution of customs, excise duty and VAT on indirect tax revenue was 35.30%, 14.97% and 49.72% in FY 2006/07.

Karna Bahadur Baidwal (2009) submitted a thesis entitled “*Effectiveness of Income Tax System in Nepal*” described the conceptual framework legal provision, composition of total Revenue in Nepal, problem of resource gap in Nepal. Public awareness towards income tax in Nepal and empirical investigation and effectiveness of tax system in Nepal. He undertook the research work to find out the problems regarding to revenue expenditure. The main objective of his study is to analyze the effectiveness of income tax system in Nepal, to evaluate the contribution of income in national revenue to evaluate present tax administration etc.

In 2009 Sudeep Ghimire submitted a thesis entitled "**Income Tax Administration and Its Effectiveness in Nepal**" describe the conceptual framework, legal provision composition of total revenue in Nepal, income tax administration and problem of resource gap in Nepal. The main objective of his study is to analyze to measure the effectiveness of tax administration in Nepal, identify problems related to tax administration, to evaluate the contribution of income in national revenue to evaluate and recommended present tax administration.

Ramesh Adhikari (2010) conducted a study entitled “A Study on Corporation Income Tax in Nepal”. The objectives of his study were to study and evaluate the status of income tax as major source of revenue, to examine the Nepalese income tax structure, to review and analyze the trend of income tax collection and tax revenue, to identify the factors to increase taxpaying habit of income tax payer, to evaluate the problems of

income tax management and provide suggestions to the concerned on the basis of study findings. He has found that the share of tax revenue has always been greater than the share of non-tax revenue. Similarly, the contribution of indirect tax has been always greater than direct tax revenue during the study period from 2000/01 to 2008/09. Income tax is an important source of direct tax. Its structure of Nepal is the composition of tax from government sector, public sector, private corporate bodies and remuneration tax.

2.3.2 Review of Books and Articles

Kamal Deep Dhakal (2002) wrote his revised edition of his book, “*Aayakar Tatha Ghar Jajja kar sambandhi Kar ra Lekha.*” This book was based on Income Tax Act 2031. This book is very much useful in getting knowledge about the history of taxation and the practice under previous Act.

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

Surendra Keshar Amatya, Dr. Bihari Binod Pokharel and Rewanta Kumar Dhakal (2004) wrote a book entitled “*Taxation in Nepal.*” Amatya, Pokharel and Dhakal have described the provisions made under income tax laws. This book is divided in thirty-one chapters in their book. They have described about income tax and its development in Nepal, tax accounting qualification, allocation and characterizing of amounts exemptions, concession and tax rates, expenditure expressly disallowed for deduction, capital or revenue incomes and expenditure. Taxpayer have special provision for natural person and entity, investment income need and sources, income from employment and from business, set off and carry forward of losses, net gain, international taxation, right and duties of tax payers, appeal property tax in Nepal. This book has been written to fulfill the course

requirement of Tribhuvan University. It is based on BBS 3rd year/Law/CA and it also for MBS.

Jagadish Agrawal (2004) published a book named “*Income Tax: Theory and Practice.*” This book is useful to any one who is interested in the subject of taxation. In this book Agrawal has explained Income Tax Act 2058. The book is also sources of information of the subject of income tax. He brief explain the new terms and provisions, for examples, foreign Permanent Establishment, controlled Foreign Entities, Transfer pricing, Non Business chargeable Assets, Qualification, Allocation and characterization of Amounts etc.

Rup Khadka (2005) wrote a book entitled “*Modern Tax Administration in Nepal.*” This book is very much useful to any one 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 had shared his expertise in his book. Basically author focuses on the administrative aspects of the tax system in Nepal.

Surendra Keshar Amatya (2006) wrote an article entitled "Taxation of Employment income in Nepal, Concept computation and Contribution" in PRAVAHA A journal of management vol.16 July 2006. He has mentioned about Nepalese income Tax Law income year and assessment year, heads and sources of income concept of employment, computation of income from employment non chargeable incomes under employment, common reductions, income tax exemption, and assessment of income tax liability on employment income, surcharge and contribution of employment income to tax revenue of Nepal. He has also shown about estimation and collection of employment income tax during the past decade. In this study, he has clearly pointed that actual collection of employment tax is satisfactory than estimated target.

Jit Bahadur K.C (2007) wrote his revised entitled “*Tax Laws and Tax Planning: Theory and Practical.*” He has presented the book in simple way, which helps every one to study the book. He has presented practical as well as theoretical aspects on taxation in this book; it includes calculation of income and tax liability of both individual and entity. It explicitly explains inclusions and exclusion from business and investment income,

deduction allowed in calculation of taxable income basis timing and accounting issues and characterization of income.

Mr. Saroj Raj Regmi in his article entitled “*Income tax evasion is a crime in Nepalese Legislation*” (2007) has explained that the current trend of collection of income tax & the contribution of it in the national revenue is far from satisfaction. This study has also suggested tax law with particle solutions & well set up mechanisms. (Regmi; 2007)

2.3.3. Research Gap

To achieve the target goals of taxation only tax policies and acts are not enough. To achieve target goals, tax policies and acts must be implemented in effective manner. In Nepal more tax policies and acts are made but it is not implemented so the target goal is not achieved. Tax administration is an important part of taxation system. It is necessary for successful implementation of tax laws and policies. The government had made more tax laws and policies to collect tax revenue but lack of permanent government is not effective so far.

All the researchers mentioned in review of literature are concerned with the study of laws, provisions and structure of tax revenue. Most of them have indicated the inefficiency of tax administration, widespread tax evasion and weak government law and policies. No attention has been paid on the tax administration and its effectiveness. The role of tax administration is crucial for the effectiveness of tax collection. So, this study has been undertaken analytically and intensively it analyze the structural composition of income tax in Nepal, to find about the condition of problem in income tax collection, efficiency and effectiveness of income tax administration and to analyze income tax contribution to government revenue and fulfilling the resource gap from an internal sources. Therefore the research has been conducted on the topic Income tax administration and its effectiveness in Nepal.

CHAPTER– III

RESEARCH METHODOLOGY

This chapter is devoted to the research methodology applied in the study of achieve the goals and objectives. This is concerned with detail discussion of the methodology used in this study by covering the procedure of getting research problems answer as per the objectives. There are five parts as Research Design, Population and Sampling, Nature and Source of Data, Data collection Procedure and Data processing and analysis Procedures.

3.1 Research Design

Research design is an overall plan or framework for the collection and analysis of data. Research design provides the framework for the study and guidelines for the collection and analysis of data. According to Kerlinger, “Research design is a plan structure and strategy of investigation so as to obtain answer to research questions and to control the variance.”

To achieve the stated objective of the study, primary information is collected through structured questionnaire. The opinions of tax administrations, tax experts and taxpayers are also included in the research as primary information. Therefore, this research is an empirical research. The collected data from primary as well as secondary sources have been described and analyzed using different tools. So, the study follows the described as well as analytical research design. In this way the research design of this research is descriptive, analytical and empirical.

3.2 Population and Sample

In order to fulfill the objectives of the study 120 persons have been considered as total sample. Tax administrators, tax experts and taxpayers are considered as the total population. Out of 120 persons: 40 tax administrator, 40 tax experts, and 40 taxpayers have been considered as the target sample for the study. Persons included in the sample are carefully selected by consultation with lectures and best judgment of the researcher.

The respondents have been divided into three groups. The following table shows the groups of respondents and size of samples.

Table No.3.1: Group of Respondents and Size of Samples

S.N	Group of Respondents	Sample Size	Code Used
1	Income Tax Administrators	40	A
2	Tax Experts	40	B
3	Tax Payers	40	C
	Total	120	

3.3 Data Collection Procedure

Data and information used in this study is collected from primary and secondary sources. To get accurate and actual information in time all questionnaires were distributed and collected personally through field visit. The secondary data are collected by visiting Inland Revenue Office, visiting library, Economic Survey of Ministry of Finance, Budget Speeches, Thesis, Reports, Magazines, Books etc.

3.4 Nature and Sources of Data

Necessary data information to describe this study has been collected from primary as well as secondary sources. The major sources of data are as follows:

3.4.1 Primary Data

Primary data and information have been collected through administering structured questionnaire to sample of population. The same questionnaire was distributed to all respondents. Tax administrators are selected from tax department and various sectors of tax offices. Tax experts are the lecturer, auditor, chartered accountants etc. Tax payers are selected representing various sectors i.e. manufacturing company, trading company, private banks, insurance company, finance company, department store etc.

3.4.2 Secondary Data

Secondary data and information are obtained from various sources specified as below:

1. Economic survey and budget speeches Ministry of Finance, Government of Nepal.
2. Report and records of Inland Revenue Department.
3. Published documents of Nepal Rastra bank and Planning Commission, Kathmandu.
4. Dissertations, published articles on different journal news magazines.
5. News papers, published articles on different journal news magazines.
6. Different publications of Central Bureau of Statistics.
7. Internet, E-mail.
8. Various books written by tax officers and scholars related to income tax.

3.5 Data Processing and Analyzing Procedure

Data collection from various sources can not be directly used in their original form. Further they need to be verified and simplified for the purpose of analysis data. Information figures and tabulated for computation. Data are analyzed and interpreted using different tool like: Tax GDP Ratio, Simple Average, Percentage, graphs, charts, diagrams, test of hypothesis and other tools which are related to the study.

Test Static under Ho the test static is,

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

Where,

O = Observed Frequency

$$E = \text{Expected Frequency} = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

This is the major chapter of the study. In this chapter, the data related to the study have been tabulated, presented, analyzed and interpreted. The reliability of the study depends upon the data available and sources of data.

4.1 Analysis of Secondary Data

Secondary is defined as data collected earlier for a purpose other than the one currently being pursued. Secondary data are often in the form of raw data and published materials. However, the unpublished data such as records or statistics gathered or compiled by others prior to the study are secondary data. In this section data collected from different sources such as IRD, CBS, MOF, NRB etc. has been presented in tabular form/diagram/chart and analyzed.

4.1.1 Resource Gap in Nepal

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

In Nepal the resource mobilization is still poor that does not cover the growing expenditure of the government instead of the low revenue performance in Nepal. That is why the country is facing the increasing burden of foreign loan. Widening trend of the different resource gap is shown in table 4.1

Table No. 4.1
Resource Gap in Nepal

(Rs. In Million)

Fiscal Year	Total Expenditure	Total Revenue	Resource Gap (A)	Foreign Grants	Resource Gap (B)	Foreign Loans	Resources Gap (C)
	(A)	(B)	(A-B)	(C)	(A-(B+C))	(D)	(A-(B+C+D))
2000/01	79835.10	48893.80	30941.30	6753.40	24187.90	12044.00	12143.90
2001/02	80072.20	50446.60	29625.60	6686.10	22939.50	7698.70	15240.80
2002/03	84006.10	54538.90	29467.20	11339.10	18128.10	45460.40	13581.70
2003/04	89442.60	62331.00	27111.60	11283.40	15828.20	7629.00	8199.20
2004/05	102560.40	70112.70	32437.70	14391.20	18046.50	9266.10	8780.40
2005/06	110889.20	72281.90	38607.30	13827.50	24779.80	8214.30	16565.50
2006/07	133604.60	87712.10	45892.50	15800.80	30091.70	10053.50	20038.20
2007/08	161349.90	107622.50	53727.40	20320.70	33406.70	8979.90	24426.80
2008/09	219662.00	143474.50	76187.50	26382.80	49804.70	9968.90	39835.80
2009/10	259689.10	179945.80	79743.30	38545.90	41197.40	1123.40	29974.00
2010/11	295363.43	199818.70	95544.73	45922.27	49622.46	8207.56	41414.92
Average	146952.24	97925.31	49026.13	19204.83	29821.18	11695.56	20927.39

Source: Economic Survey Fiscal Year 2010/11, 2011/12 (page no. 22-27)

1. Resource GAP (A) = (A-B)

As shown in the table resource gap 'A' was Rs 30941.3 million in the F/Y 2000/01 and Rs. 95544.73 million in the FY 2010/11. The average resource gap was Rs. 49026.14 million for last 11 year. The amount of resource gap was increasing trend up to FY 2001/02 and the amount was Rs. 29625.6 million. In the FY 2003/04 resource gap was decrease in Rs. 27111.6 million and then resource gap in increasing 32437.30 million in FY 2004/05, the amount was Rs. 95544.73 million in F/Y 2010/11.

2. Resource GAP (B) = [A- (B+C)]

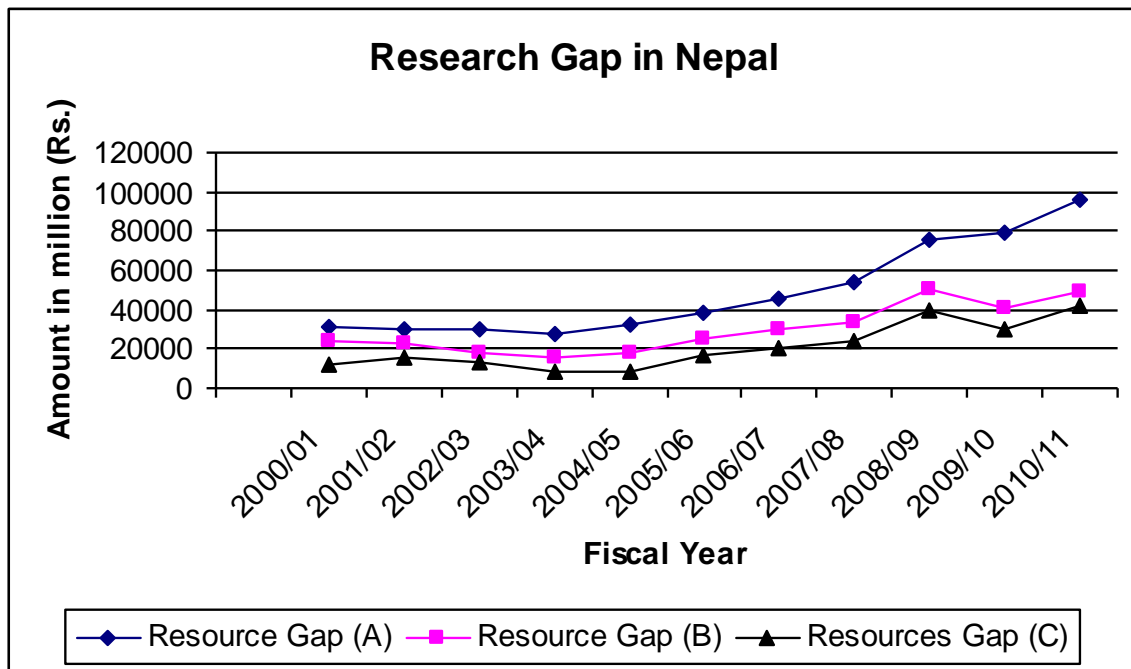
This resource gap is taken as the different between total expenditure and total revenue plus foreign grants. In the FY 2000/01 the gap was Rs. 2418709 million which was decreased in to Rs. 15828.2 million in FY 2003/04 which was due to the high proportionate incriminate in foreign grants strum Rs. 11283.4 million in the fiscal year 2003/04 . And then after the amount of resource gap was increasing trend up to Rs. 41197.4 million in fiscal year 2009/10. But the resource gap is increase in fiscal year 2010/11 i.e. 49622.46 million. The average resource gap was Rs. 29821.18 million for the 11 years.

3. Resource GAP (C) = [A- (B+C+D)]

This resources gap is taken as the different between total expenditure and total resource plus foreign grants plus foreign loan. In the F.Y. 2000/01 the gap was Rs. 12143.9 million, it is increase to Rs. 15204.8 up to in fiscal year 2001/02 and then decreasing to Rs. 13581.7 million in fiscal year 2002/03 and Rs. 8199.2 million in fiscal year 2003/04. and then resource gap is increasing Rs. 8780.4 million in fiscal year 2004/05, the amount was Rs. 39835.8 million in fiscal year 2008/09. And fiscal year 2009/10 the resource gap is decreased in Rs. 29974 million. In fiscal year 2010/11 resource gap is increase by 41414.92 million. It shows that the resource gap was fluctuating in fiscal year 2000/01 to fiscal year 2010/11. The average resource gap was Rs. 20927.39 million for 11 years

We can show the resource gap in following diagram.

Figure 4.1 Resource gap in Nepal



4.1.2 Revenue GDP Ratio

Total revenue to GDP ratios, tax revenue to GDP ratios and non tax revenue to GDP ratios for the period of last 11 years have been presented in the table no. 4.2

Table No. 4.2 Revenue GDP Ratio in Nepal

(Rs. In Percent)

Fiscal Year	Total Revenue GDP Ratio	Tax Revenue GDP Ratio	Non Tax Revenue GDP Ratio
2000/01	11.83	9.40	2.43
2001/02	11.72	9.14	2.58
2002/03	11.50	8.7	2.80
2003/04	11.60	9.00	2.60
2004/05	11.90	9.20	2.70
2005/06	11.10	8.80	2.30
2006/07	12.10	9.80	2.30
2006/08	13.20	10.40	2.80
2008/09	14.50	11.80	2.70
2009/10	15.40	13.30	2.10
2010/11	14.9	12.8	2.1
Average	12.71	10.21	2.49

Source: Economic Survey Fiscal Year 2010/11, 2011/12 (page no. xx, vol. 1)

From the above table the total revenue to GDP ratio was 11.83% in fiscal year 2000/01.. It reaches 11.50% in fiscal year 2002/03. similarly 11.90% in F/Y 2004/05, after fluctuating 11.10%, in fiscal year 2005/06, then after continuously increasing by 12.10%, 13.20%, 14.50% and 15.40% in fiscal year 2006/07, 2007/08, 2008/09 and 2009/10 respectively. But total revenue GDP ratio is slidely decrease in fiscal year 2010/11 i.e. 14.9. The average ratio to revenue-GDP was 12.71%. Similarly tax revenue and non-tax revenue ratio with GDP was 9.40% and 2.43% respectively in fiscal year 2000/01. it reaches to 13.30% and 2.10% in fiscal year 2009/10. And it slidely decrease in fiscal year 2010/11 by 12.8% and 2.1%. The average ratio of tax revenue and non-tax revenue with GDP was 10.21% and 2.49% respectively.

4.1.3 Nepalese Government Revenue Structure

Government collects revenue from different sources. Basic sources of the government revenue are classified into tax and non-tax revenue. Nepalese economy is characterized by a low revenue performance in contrast to growing public expenditure, the composition of government revenue since last 11 years is presented in the table no. 4.3.

Table No. 4.3
Composition of Total Revenue

(Rs In Million)

Fiscal Year	Total Revenue	Tax Revenue		Non Tax Revenue	
		Amount	Percentage	Amount	Percentage
2000/01	48893.80	38865.00	79.49	10028.80	20.51
2001/02	50446.60	39330.60	77.96	11116.00	22.04
2002/03	54538.90	40896.00	74.99	13642.90	25.01
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	72281.90	57430.40	79.45	14851.50	20.55
2006/07	87712.10	71126.70	81.09	16585.40	18.91
2007/08	107622.50	85155.50	79.12	22467.00	20.88
2008/09	143474.50	117051.90	81.58	26422.60	18.42
2009/10	179945.80	156294.90	86.86	23650.90	13.14
2010/11	199818.70	172777.60	86.47	27041.10	13.53
Average	97926.23	56328.31	80.13	17816.56	19.87

Source: Economic Survey Fiscal Year 2010/11 (page no. 24 -27)

From the above table, the tax revenue was Rs. 38865.00 million in the fiscal year 2000/01 the base year for the research it was 79.49% of total revenue. In the fiscal year 2010/11 Tax revenue was Rs. 172777.60 million and 4.45 times higher than of tax revenue in the FY 2000/01. Average tax revenue for 11 years was Rs 56328.31 million that occupies on average 80.13% share of total revenue. It indicates

that the tax revenue was continuously increasing in every year since FY 2000/01 to 2010/11 amounting Rs. 38865.00 million to Rs 172777.60 million. But the percentage contribution of tax revenue was found fluctuating in every year. The contribution of tax revenue was highest 86.86% in FY 2009/10 and lowest 74.99% in FY 2002/03.

Non-tax revenue was Rs. 10028.80 million in the fiscal year 2000/01, 20.51 % of total revenue it increased to Rs. 11116.00 million representing 22.04% of total revenue in FY 2001/02. In next year, non-tax revenue amount of Rs 13642.90 million, 25.01% of total revenue in FY 2002/03. Similarly it decreases to Rs 14851.50 million, 20.55% of total revenue in FY 2005/06 and then increase to Rs. 26422.60 million, 18.42% of total revenue in FY 2008/09. Then after fluctuates Rs.27041.10 million, 13.53% of total revenue in fiscal year 2010/11. The average of non-tax revenue was Rs. 17816.56 million, and 19.87%.

Total revenue collection was seen in the increasing trend. It was Rs 48893.80 million in fiscal year 2000/01 and reached to Rs. 199818.7 million in FY 2010/11. The average total revenue collection in last 11 years was Rs 97926.23 million. Total revenue includes tax revenue and non-tax revenue. The average tax revenue was Rs. 56328.31 million and non-tax revenue was Rs 17816.56 million.

The contribution of tax and non-tax revenue in total tax revenue is shown in the following figure.

Figure 4.2 Composition of total revenue

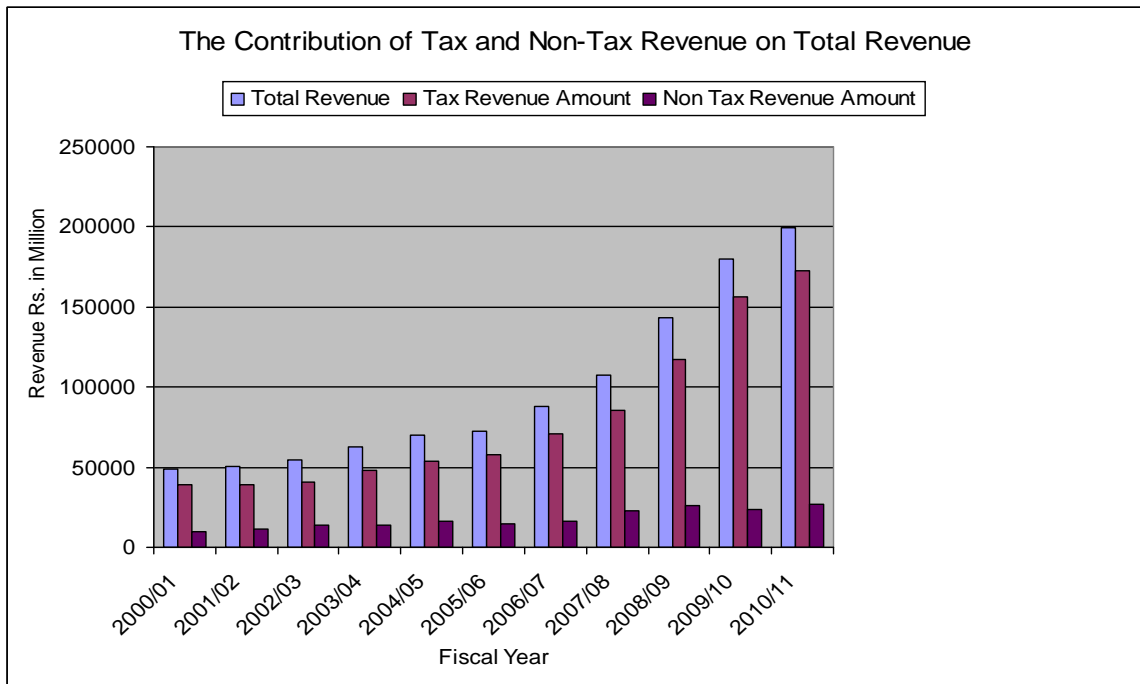
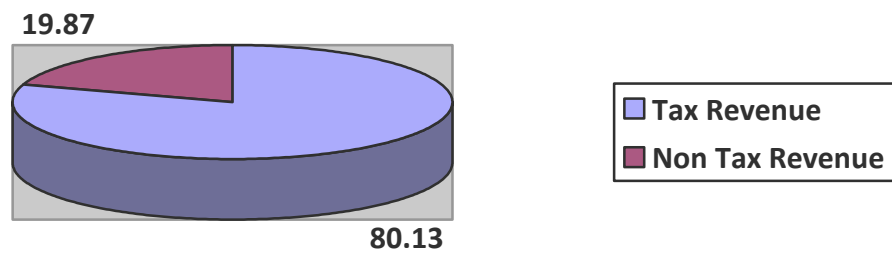


Figure 4.3 Average Contribution of Tax and Non- Tax Revenue on Total Revenue



4.1.4 Composition of Tax Revenue

The revenue is composed of direct tax and indirect tax. Income tax, property tax, tax and interest are included in direct tax. Indirect tax includes customs, excise duty, VAT etc. The composition of Nepalese tax revenue is presented in Table 4.4 in terms of direct and indirect tax revenue from FY 2000/01 to 2010/11.

Table No. 4.4 Contribution of Direct and Indirect Tax on Total Tax Revenue

Fiscal Year	Tax Revenue	Total Direct Tax	% Share of Direct Tax	Total Indirect Tax	% Share of Indirect Tax
2000/01	38865	10159	26.14	28706	73.86
2001/02	39331	10598	26.94	28733	73.06
2002/03	40896	10882	26.61	30014	73.39
2003/04	48173	11913	24.73	36260	75.27
2004/05	54105	13072	24.16	41033	75.84
2005/06	57430	13968	24.32	43462	75.68
2006/07	71227	18980	26.65	52146	73.21
2007/08	85156	23088	27.11	62068	72.89
2008/09	117052	34321	29.32	82731	70.68
2009/10	156295	41750	26.71	114545	73.29
2010/11	172778	52992	30.67	119786	69.33
Average	80119	21974.82	26.67	58134.91	73.33

Source: Economic Survey, 2010/11

The above table shows the increasing trend of total tax revenue thereby increasing its contributing factor i. e. direct and indirect tax. In FY 2000/01 the amount of direct and indirect tax is Rs. 10159 million and 28706 million respectively. The direct tax and indirect tax are in sharp increasing trend.

The % share of direct and indirect tax to total tax revenue is 26.14% and 73.86% respectively in FY 2000/01. But in FY 2003/04 this portion is changed into 24.73% and 75.25% respectively. The contribution of direct tax to total tax revenue is decreased to 24.16% in FY 2004/05 which is lowest among other years. But it increased gradually and covered 29.32% in FY 2008/09. Similarly, the share of

indirect tax also decreased to 70.68% of total tax revenue. The share of indirect tax is maximum i. e. 75.84% in FY 2007/05. This means that the share of direct tax is minimum and share of indirect tax is maximum in the same fiscal year i. e. 2004/05. It may be due to unfavorable economic environment in the country.

The contribution of direct and indirect tax on total tax revenue can be shown in figure no. 4.4 and 4.5.

Figure No. 4.4 Contribution of Direct and Indirect Tax on Total Tax Revenue

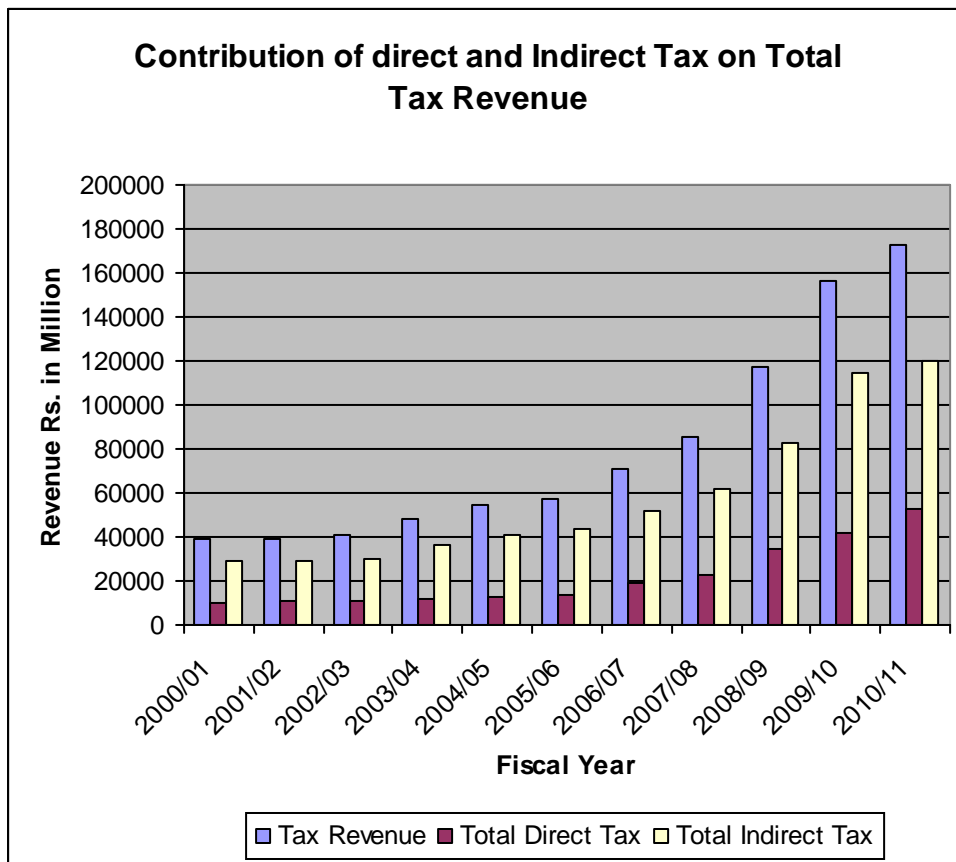
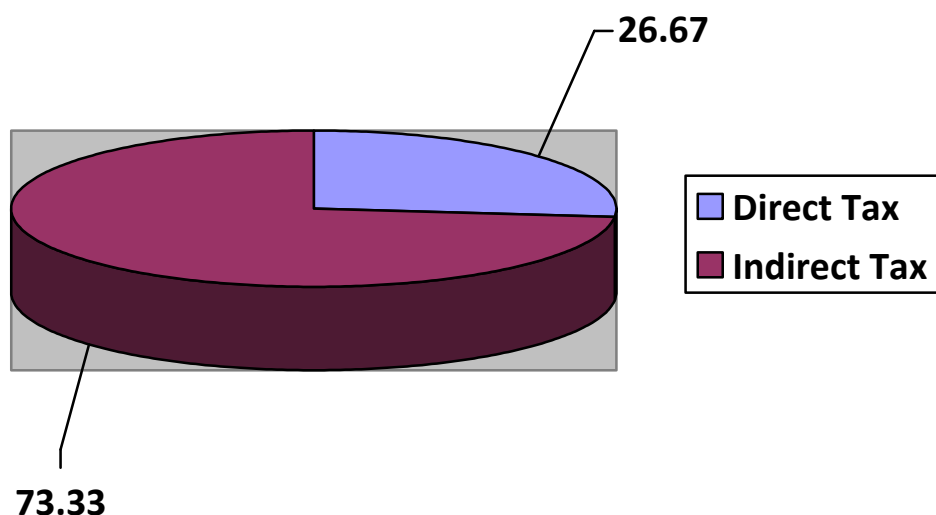


Figure No. 4.5 Pie Chart showing Contribution of Direct and Indirect Tax



Above figures make us clear that major portion of tax revenue is covered by indirect tax. And it is also in increasing trend. The share of indirect tax has increased from 73.86% in FY 2000/01 to 69.33% in FY 2010/11. But direct tax is 26.14% in 2000/01 and decreased to 24.16% of total tax revenue in FY 2004/05. It indicates that the income level of people is in decreasing trend in one hand and promotion of importing goods from other countries on the other. To direct the economy in the channel of development, it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax. Therefore attention should be paid on the sufficient resource mobilization through internal sources.

Also figure 4.5 shows that the average contribution of indirect tax and direct tax to total tax revenue is 73.33% and 26.67% respectively.

4.1.5 Composition of Indirect Tax Revenue

The tax Structure of Nepal is mainly dependent on indirect tax. The major tax components of indirect tax in Nepalese tax structure consists custom duty has been classified mainly into import duty and export duty and other component of indirect tax like entertainment tax, hotel tax, air flight tax, other tax contribution normal share zero. Table shows the consumption of indirect tax given as follows.

Table No. 4.5
Composition of Indirect Tax Revenue

Rs in Million

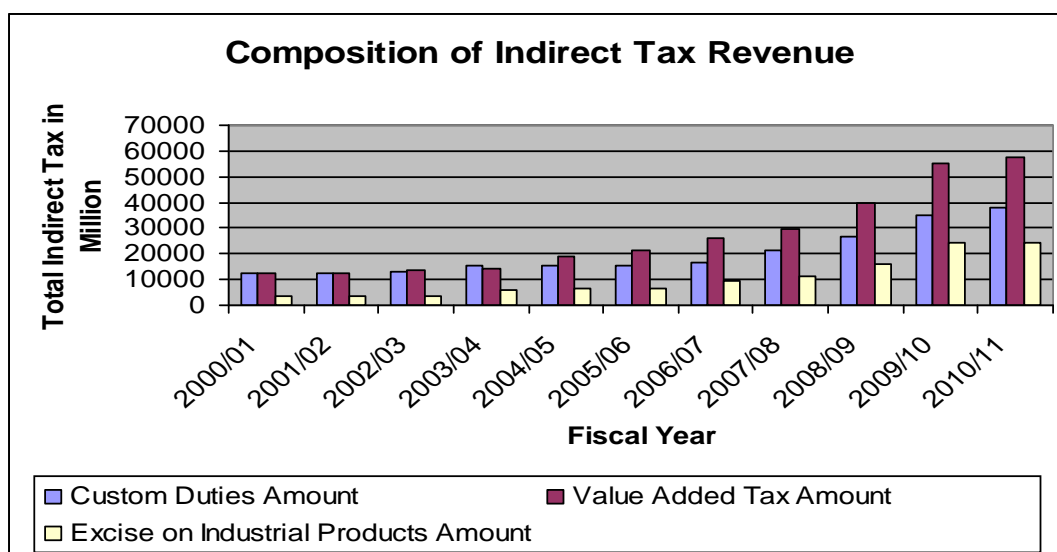
Fiscal Year	Total Indirect Tax	Custom Duties		Tax on Consumption and Product of Goods and Services			
				Value Added Tax		Excise on Industrial Products	
		Amount	%	Amount	%	Amount	%
2000/01	28705.70	12552.10	43.72	12382.40	43.14	3771.20	13.14
2001/02	28724.30	12650.00	44.04	12267.30	42.71	3807.00	13.25
2002/03	30014.10	12783.20	42.59	13459.70	44.84	3771.20	12.56
2003/04	36260.40	15554.80	42.90	14478.90	39.93	6226.70	17.17
2004/05	41032.90	15701.60	38.26	18885.40	46.03	6445.90	15.71
2005/06	43462.30	15344.00	35.30	21610.40	49.72	6507.60	14.98
2006/07	52146.40	16707.60	32.04	26095.60	50.04	9343.20	17.92
2007/08	62067.70	21062.40	33.93	29815.70	48.04	11189.60	18.03
2008/09	82714.70	26792.90	32.39	39700.90	48.00	16220.90	19.61
2009/10	114377.80	35150.80	30.73	54920.90	48.02	24306.10	21.25
2010/11	119786.90	37750.30	31.52	57563.20	48.06	24473.40	20.43
Average	53234.41	20186.34	37.04	27380.06	46.22	10551.16	16.73

Source: Economic Survey Fiscal Year 2010/11

The above table 4.5 revealed that the custom duty and VAT occupies major portion in indirect tax. In fiscal year 2000/01 the contribution of custom duty was 43.72% which is fluctuation between 43.72% to 30.73% in the fiscal year 2010/11. The average percentage contribution of custom duty to indirect tax was 37.04% during the study period.

Average share of VAT to indirect tax was 46.05%. Amount of VAT in fiscal year 2000/01 was Rs 12382.40 million and had reached to Rs. 57563.20 million in FY 2010/11. Similarly the amount of excise on industrial products was increasing each year without fiscal year 2002/03 but percentage was fluctuating. In average its contribution of excise on industrial products on total indirect tax was Rs. 10551.16 million, 16.73% for the period of last 11 years. We can show in following figure.

Figure 4.6 Composition of Indirect tax



4.1.6 Composition of Direct Tax Revenue

If the person paying and bearing the tax is same, it is called direct tax. A direct tax is really paid by the same person on whom it is legally imposed. The character is tactics of a direct tax are equitable as per the property or income; certainty as per the process of payment, amount to be paid and time of payment; elasticity in nature etc. The major components of direct revenue are income tax, house and land registration fee, land revenue, tax on property etc. The share of major components of direct tax is given in table no. 4.6.

Table No. 4.6: Composition of Direct Tax Revenue

Fiscal Year	Total Direct Tax	Land Revenue and Registration				Tax on Property, Profit and Income				
		Land Revenue	House and Land Registration Fees	Total	% of Total Direct Tax	Income Tax	Tax on Property	Other Tax	Total	% of T D Tax
2000/01	10159.40	5.10	607.80	612.90	6.03	9114.00	432.50	0	9546.50	93.97
2001/02	10597.50	0.80	1131.00	1131.80	10.68	8903.70	562.00	0	9465.70	89.32
2002/03	10881.90	0.00	607.80	607.80	5.58	9675.80	432.50	0165.80	10274.10	94.42
2003/04	11912.60	0.00	1697.50	1697.50	14.25	9425.90	700.60	268.60	10215.10	85.75
2004/05	13071.80	0	1799.20	1799.20	13.76	10159.40	806.50	306.70	11272.60	86.24
2005/06	13968.10	0	2181.10	2181.10	15.61	10373.70	847.60	565.70	11787.00	84.39
2006/07	18980.3	0	2253.50	2253.50	11.87	15034.00	995.00	697.80	16726.80	88.13
2007/08	23087.70	0	2940.70	2940.70	12.74	17311.20	1092.20	1766.60	20147.00	87.26
2008/09	34320.70	0	5223.30	5223.30	15.22	25142.40	1850.00	2105.00	29097.40	84.78
2009/10	41750.00	0	5511.10	5511.10	13.20	31285.60	2417.90	2535.40	36238.90	86.80
2010/11	52992.36	0	3572.50	3572.50	6.74	41720.00	4508.26	3191.60	49419.86	93.26
Average	21974.76	0.54	2502.32	2502.86	11.43	15687.78	1331.37	1030.29	19471.91	88.57

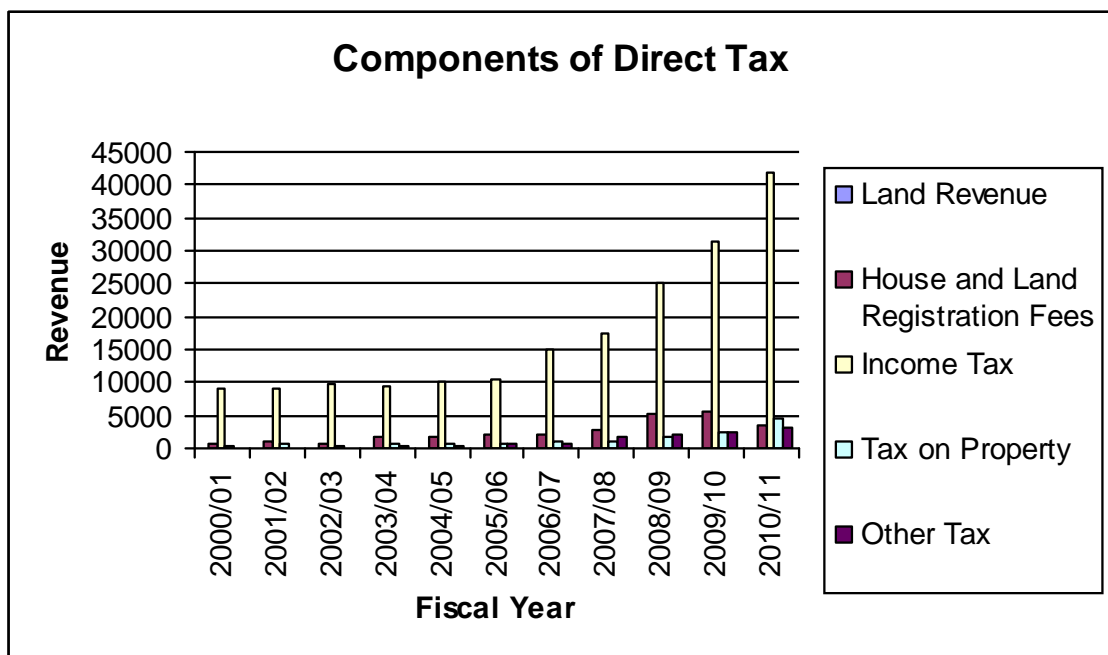
Source: Economic Survey Fiscal Year 2010/11

From the above table (4.6), Direct tax is classified into land revenue, property tax, land revenue and registration fees and other tax. The share of land revenue and registration was Rs. 612.90 million in fiscal year 2000/01 then increase Rs. 1131.80 million in fiscal year 2001/02 and decrease in fiscal year 2002/03. Then it was in increasing trend. Since fiscal year 2009/10 and reached to Rs. 5511.10 million. But it decrease in fiscal year 2010/11 i.e. Rs. 3572.50 The average of land revenue and registration was Rs. 2502.86 million in the period of last 10 years. Percentage contribution the highest percentage contribution was 15.61% in fiscal year 2005/06 and lowest was 6.03% in fiscal year 2000/01. In average land revenue and registration has covered 11.43% of the total direct tax revenue.

From the above table, another source of direct tax revenue is property tax. It can be classified into income tax, tax on property and other tax. Income tax includes income tax from public enterprise, semi-public enterprise, private corporate bodies, individual, remuneration and tax on interest. Similarly, tax on property includes urban

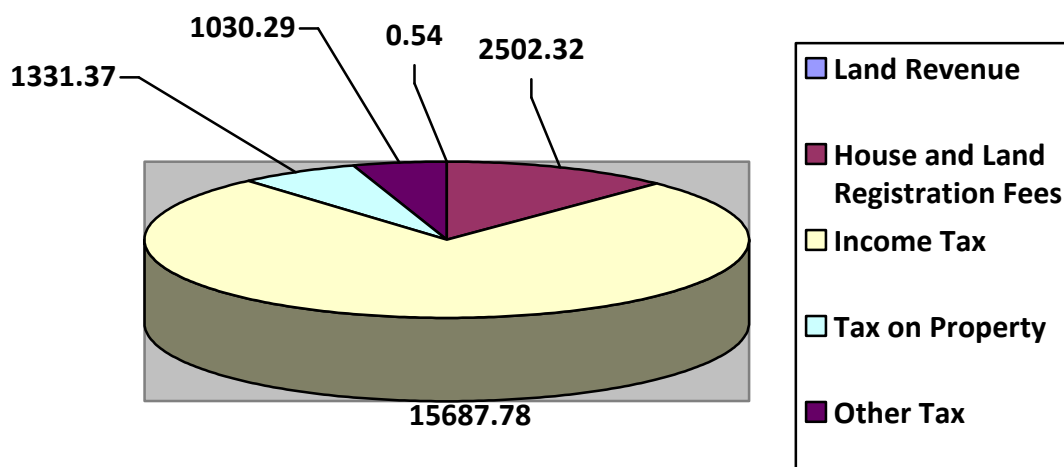
house and land tax and vehicle tax. The share of tax on property, profit and income was Rs. 9546.5 million in fiscal year 2000/01. It was in increasing trend and reached to Rs. 49419.86 million in fiscal year 2010/11, except fiscal year 2001/02. In this year the amount was decrease to Rs. 9465.70 million. Average contribution of tax on property, profit and income was Rs. 19471.91 million in the period of last 11 years. In case of percentage contribution was fluctuating. The highest percentage contribution was 94.42% in fiscal year 2002/03 and lowest contribution was 84.39% in fiscal year 2005/06 and the average was 88.57%.

Figure 4.7 Composition of Direct Tax Revenue



The following pie chart shows the average contribution of income tax, house and land registration fee, land revenue, tax on property and other tax on total direct tax revenue in the study period.

Figure No. 4.8 Average Amount of Direct Tax



4.1.7 Structure of Income Tax in Nepal

The structure of Nepalese income tax is composed up of income tax from public enterprises, Income tax from private bodies, income tax from individuals, income tax from remunerations and income tax from interest

Table No. 4.7: Structure of Income Tax in Nepal

Rs. In Million

Fiscal Year	Total Income Tax Revenue	Public Enterprises		Private Corporate Bodies		Individuals		Remuneration		Taxation Interest	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
2000/01	9114.00	2928.00	32.13	1924.30	21.11	3200.50	35.12	597.30	6.55	463.90	5.09
2001/02	8903.70	1769.30	19.87	1412.00	15.86	4419.10	49.63	835.60	9.38	467.70	5.25
2002/03	9675.80	2928.00	30.26	1924.30	19.89	3362.20	34.75	597.30	6.17	864.00	8.93
2003/04	9245.90	2056.60	22.74	1531.30	16.56	3533.40	38.22	1391.20	15.05	733.40	7.93
2004/05	10159.40	1332.40	13.11	2467.80	24.29	3926.30	38.65	1675.90	16.50	757.00	7.45
2005/06	10373.70	195.70	1.89	3404.30	32.82	4234.70	40.82	1764.10	17.07	774.00	7.47
2006/07	15034.00	1019.70	6.78	5717.10	38.03	5234.40	34.82	2007.90	13.35	1054.90	7.02
2007/08	17311.20	204.60	1.18	7186.50	41.52	6381.20	36.86	2451.00	14.16	1087.90	6.28
2008/09	25142.40	959.10	3.82	9425.10	37.49	9877.50	39.27	3195.60	12.71	1685.10	6.71
2009/10	31285.60	1131.80	3.62	12234.40	39.10	11039.90	35.29	4413.10	14.11	2466.40	7.88
2010/11	41720	1543.88	3.70	16245.30	38.94	14250.14	34.16	5511.63	13.21	4169.05	9.99
Average	17087.79	1460.83	12.61	5770.21	29.60	6314.49	37.96	2221.88	12.56	1320.39	7.27

Source: Economic Survey Fiscal Year 2010/11

This table presents the structure of income tax in Nepal which shows that the total income tax is increased every fiscal year except in the fiscal year 2001/02 and 2003/04. It increased from Rs. 9114.00 million in the year 2000/01 to Rs. 41720 million in fiscal year 2010/11. In the year 2001/02 it was decreased to Rs. 8903.70 million from Rs. 9114 million on the FY 2000/01 and in FY 2002/03 it started to increase but in year 2003/04 it was again decreased. After the fiscal year 2003/04 it started to increase in each year till fiscal year 2010/11 the amount was Rs. 41720 million.

The contribution of public enterprises decreased from Rs. 2928.00 million in fiscal year 2000/01 to Rs. 1769.30 in the year 2001/02 and till 2002/03 it decreased, the amount was Rs. 2928.00 (ie.30.26%). In the year 2003/04 it started to decrease till year 2004/05 the amount was Rs. 1332.40 (i.e. 13.11%). According to this, it continuously fluctuated till the fiscal year 2010/11, the amount was Rs. 1543.88 million and its contribution was 3.70% in total income tax revenue. The average of public enterprises was Rs. 1460.83 million and its contribution 12.61% of total income tax revenue.

The total tax from private corporate bodies has also fluctuated till year 2002/03. In the year 2000/01 the amount was Rs. 1924.30 million, in 2001/02 was Rs. 1412, in the year 2002/03 was Rs. 1924.30 and in the year 2003/04 the amount was Rs. 1531.30 it was the 16.56% contribution in total income tax revenue. After the fiscal year 2004/05 it continuously increased till 2010/11, its contribution reached to 39.10% in total income tax revenue with amount Rs. 16245.30 million. The average of private corporate bodies was Rs. 5770.21 million and its average contribution was 29.60%.

In the starting period, the contribution of individual income tax was also fluctuated. After the fiscal year 2002/03 it increased. It reached to Rs. 3533.40 million in the year 2003/04. In the year 2010/11 its contribution was 34.16% with amount Rs. 14250.14 million. The average of individual income tax was Rs. 6314.49 million and its average contribution was 37.96%.

The collection of income tax from remuneration had also been in fluctuating in starting period. After the fiscal year 2002/03 it was in increasing trend. In 2000/01 it was Rs. 597.30 million and its contribution was 6.55%. In the fiscal year 2010/11 it was contributed 13.21% amounting by Rs. 5511.63 million in total income tax revenue. The average of remuneration was Rs. 2221.88 million and the average contribution was 12.56%.

Income tax from interest was in increasing trend from FY 2000/01 to FY 2002/03 it decreased to Rs. 733.40 million in FY 2003/04 from Rs. 864 million in FY 2002/03 then it increased and Rs. 4169.05 million in FY 2010/11 and its contribution was 9.99%. The average tax on interest was Rs. 1320.39 million and average contribution was 7.27%.

Figure 4.9 Structure of Income Tax Revenue

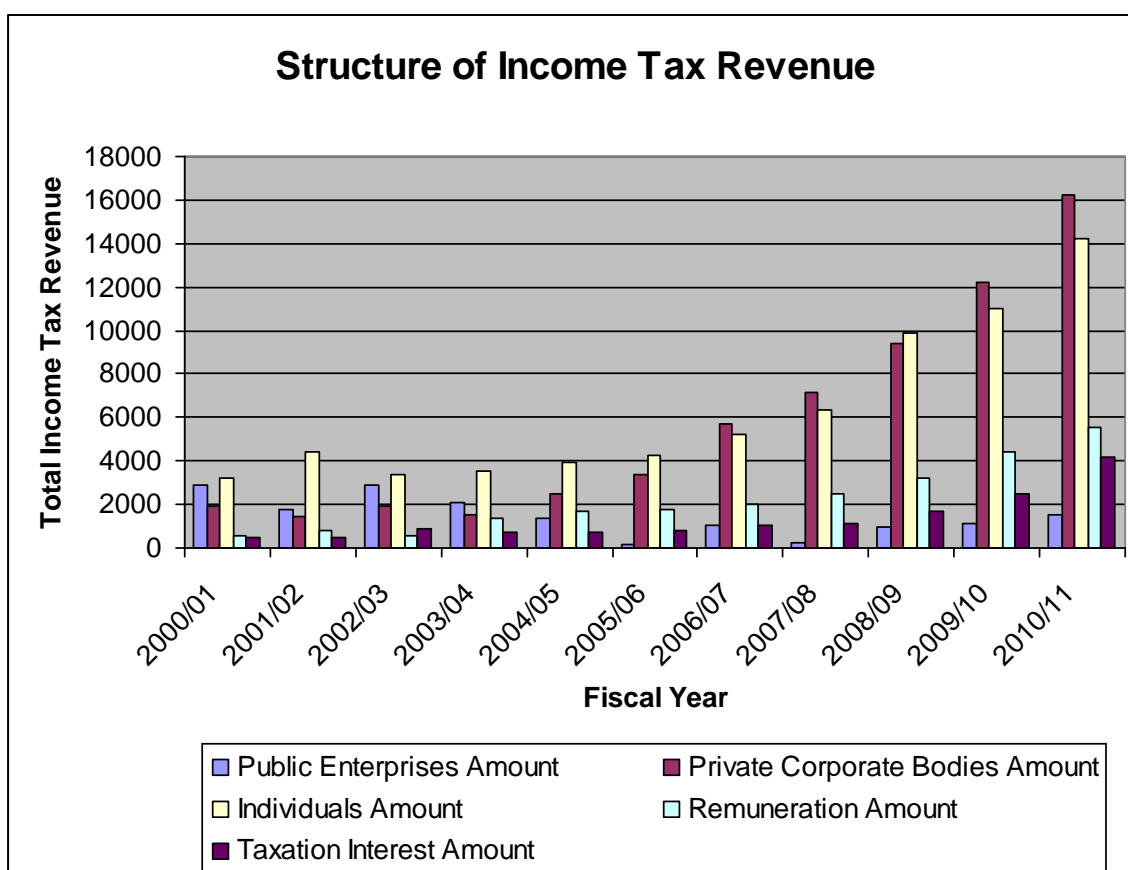
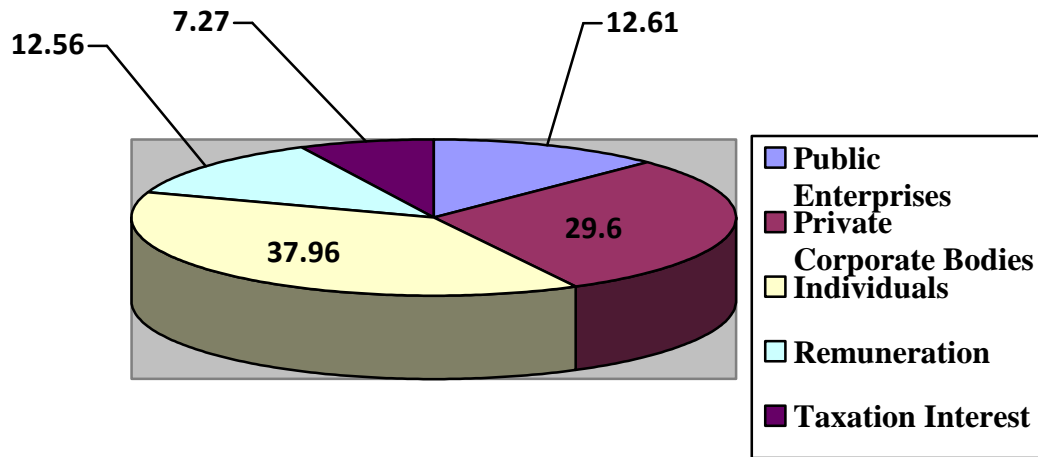


Figure 4.10 Structure of Income Tax Revenue by showing Pie Chart



4.1.8 Contribution of Income Tax

Income tax has played the important role for contribution of total revenue. Contribution of income tax to direct tax revenue, total tax revenue total direct tax and GDP in Nepal is shown in Table No. 4.8.

4.1.8.1 Contribution of Income Tax on total Government Revenue

Total government constitutes tax and non-tax revenue. In Nepalese government revenue, tax revenue has occupied the 2/3 parts in total revenue. We can show contribution of income tax on total government revenue in following table.

Table No. 4.8
Contribution of Income Tax on total Government Revenue, Total Tax Revenue, Direct Tax Revenue and GDP

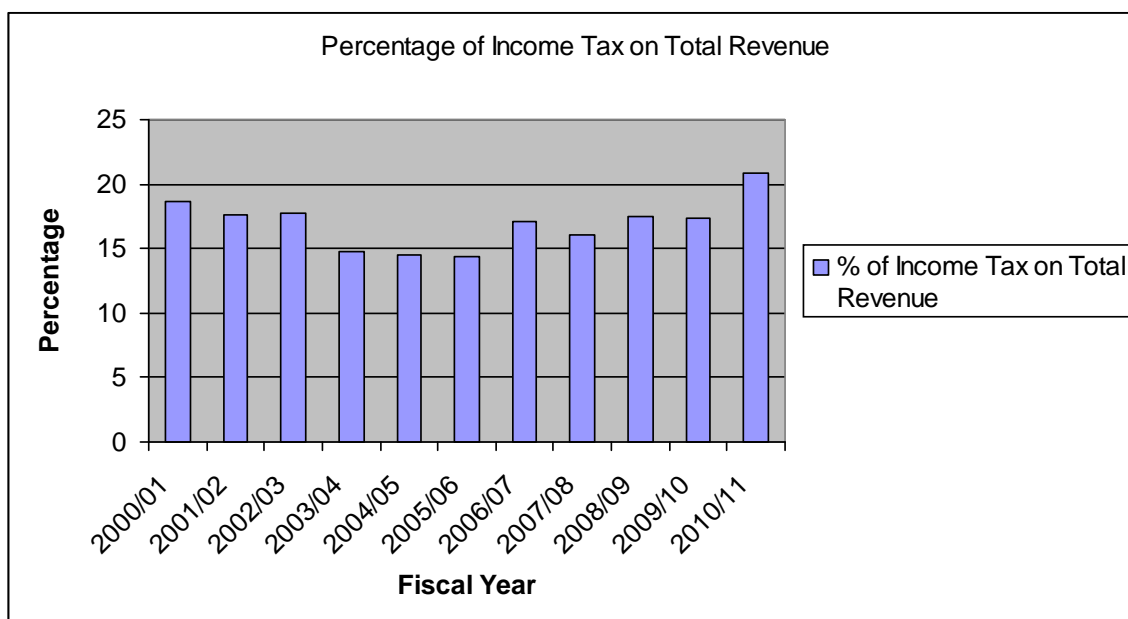
(Rs in Million)

Fiscal Year	Total Income Tax Revenue	Total Govt. Revenue		Total Tax Revenue		Direct Tax Revenue		GDP Current Price	
		Amount	% of Income Tax on Total Revenue	Amount	% of Income Tax on Total Tax Revenue	Amount	% of Income Tax on Total Revenue	Amount	% of Income Tax on Total Revenue
2000/01	9114.00	48893.80	18.64	38865.00	23.45	10159.40	89.71	413428.00	2.20
2001/02	8903.70	50446.60	17.65	39330.60	22.64	10597.50	84.02	430396.00	2.07
2002/03	9675.80	54538.90	17.74	40896.00	23.61	10881.90	88.92	460325.00	2.10
2003/04	9245.90	62331.00	14.83	48173.00	19.19	11912.60	77.61	500699.00	1.85
2004/05	10159.40	70122.70	14.49	54104.70	18.78	13071.80	77.72	548485.00	1.85
2005/06	10373.70	72281.90	14.35	57430.40	18.06	13968.10	74.27	611118.00	1.70
2006/07	15034.00	87712.10	17.14	71126.70	21.14	18980.30	79.21	675859.00	2.22
2007/08	17311.20	107622.50	16.09	85155.50	20.30	23078.70	74.98	755257.00	2.29
2008/09	25142.40	143474.50	17.52	117051.90	21.48	43320.70	58.04	909309.00	2.76
2009/10	31285.60	179945.80	17.39	156294.90	20.02	41750.00	74.94	1060881.00	2.95
2010/11	41720	199818.70	20.88	172778	24.15	52992.36	78.73	1135245	3.67
Average	17087.79	97926.23	16.98	80109.66	21.17	21974.76	78.01	681909.27	2.33

Source: Economic Survey Fiscal Year 2010/11

According to above table the share of income tax as a percentage of total government revenue was 16.98% in average in the study period. In fiscal year 2000/01 it was 18.64%. It was in fluctuating trend and reached to 14.35% in FY 2005/06 and 20.88% in fiscal year 2010/11. The following figure shows the contribution of income tax on total government revenue.

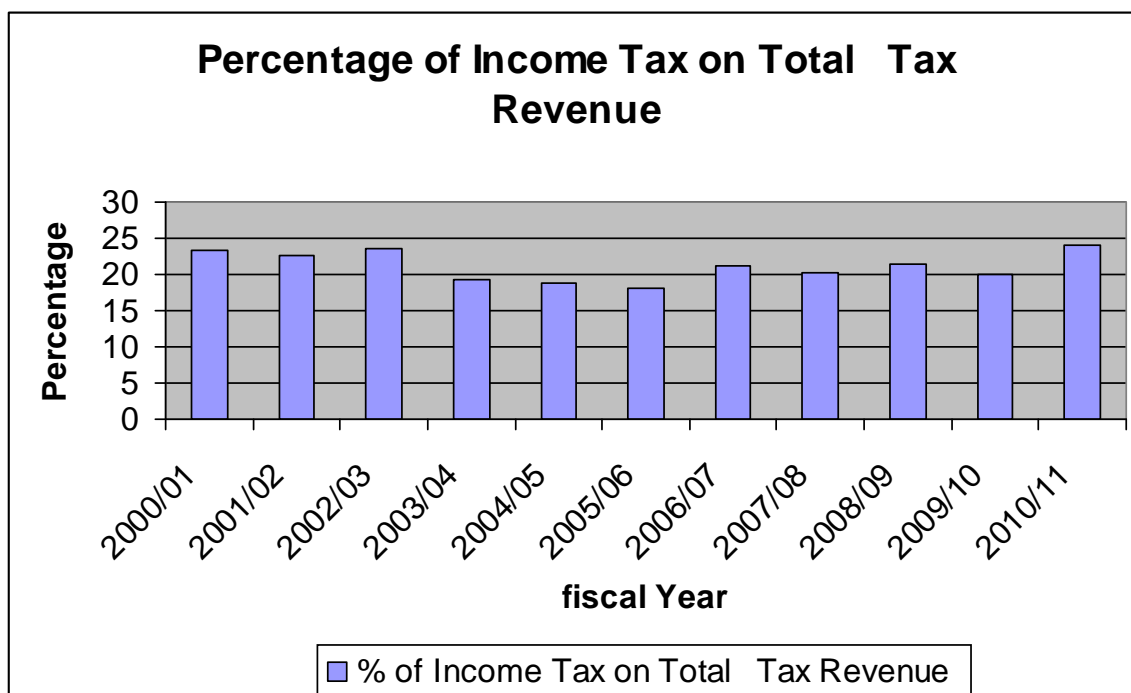
Figure 4.11 Contribution of Income Tax to total Revenue



4.1.8.2 Contribution of Income Tax on Total Tax Revenue

Total tax revenue consist direct tax and indirect tax revenue. There is dominant role of the indirect tax revenue in the Nepalese tax revenue structure. The contribution of income tax to the total tax revenue was presented in table no. 4.8. According to table no. 4.8 the share of income tax as a percentage of total tax revenue was 21.17% in average for the period of last 11 years. In FY 2000/01 it was 23.45%. It was in fluctuation. It increased to 23.45% in the FY 2000/01 and fluctuate to 24.15% in FY 2010/11. The following figure shows the contribution of income tax on total tax revenue.

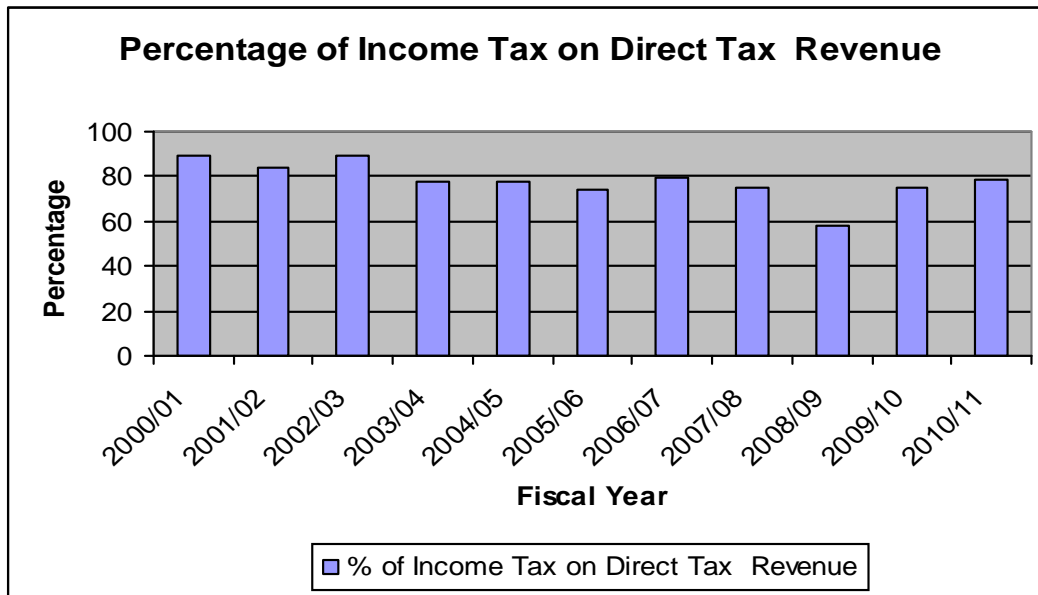
Figure No. 4.12 Contribution of Income Tax on Total Tax Revenue



4.1.8.3 Contribution of Income Tax on Direct Tax Revenue

Income tax is the major part of direct tax revenue. In Nepal income tax has occupied more than 80 percent of the total direct tax revenue. Table no. 4.8 shows that the share of income tax as a percentage of direct tax revenue was 78.01% in average in the study period. In FY 2000/01 it was 89.71%. It was in fluctuation trend. It was 78.73% in FY 2010/11. The following figure shows the contribution of income tax on total direct tax revenue.

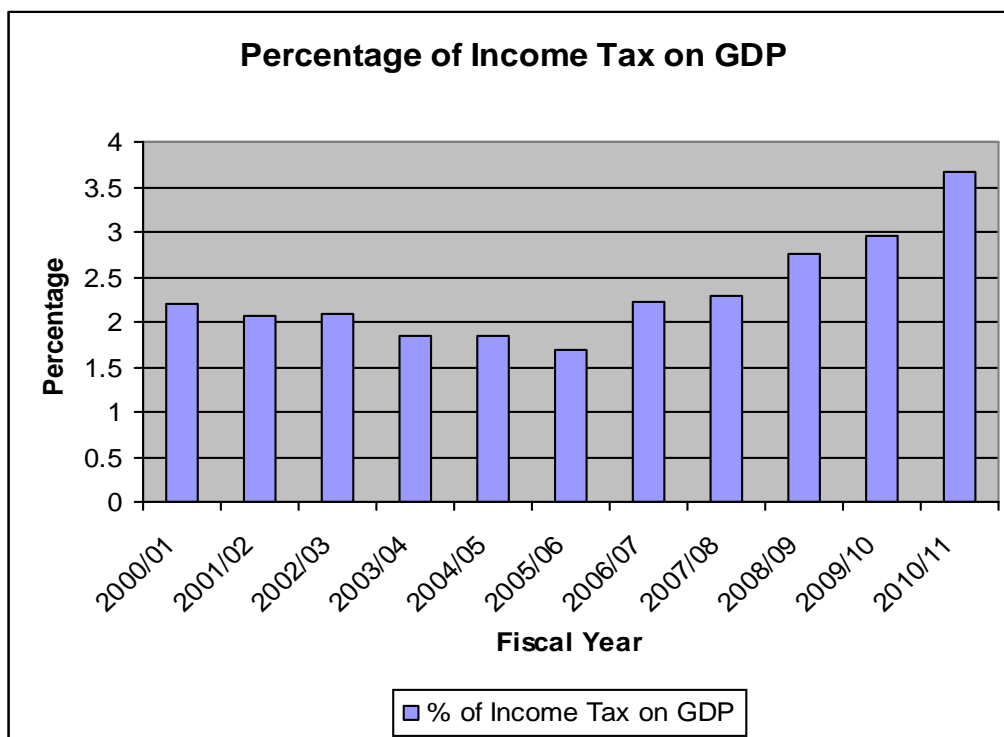
Figure No. 4.13 Contribution of Income Tax on Direct Tax Revenue



4.1.8.4 Contribution of Income Tax to GDP

According to the table no. 4.8 contribution of income tax to GDP was 2.33% in average for the period of last 11 years. Contribution of income tax in GDP was 2.20% in FY 2000/01. It was also fluctuating trend. In FY 2010/11 contribution of income tax to GDP is shown in following diagram.

Figure No. 4.14 Contribution of Income Tax on GDP



4.1.9 Income Tax Collection Performance in Nepal

In table (4.9), Income tax and estimates and collection of last 11 years are presented . According to table, tax was collected excess than estimate in fiscal year 2003/04, 2006/07, 2007/08, 2008/09 and 2010/11. In fiscal year 2000/01, 2001/02, 2002/03, 2004/05, 2005/06, and 2009/10 tax collection is less than estimates. In last 4 years tax revenue collection trend was increasing except year 2009/10. But in last year performance was 101.58%. The highest percentage of income tax collection was 113.09% in the year 2007/08 and lowest in the year 2001/02. After the study we can conclude that revenue collection from income tax in increasing trend but the performance is not satisfactory.

Table No. 4.9: Income Tax Collection Performance in Nepal

(Rs. In Million)

Fiscal Year	Estimate	Collection	Difference	Collection as Per % of Estimates
2000/01	9980	9914.00	- 866.00	91.32
2001/02	11140	8903.7	- 3236.30	79.93
2002/03	9862.5	7966.20	- 1896.30	80.77
2003/04	8679.5	9245.90	566.40	106.53
2004/05	10250	10159.40	- 90.60	99.12
2005/06	10999.6	10373.70	- 625.90	94.31
2006/07	14607.4	15034.20	426.80	102.92
2007/08	168692	190778.10	22086.13	113.09
2008/09	270870	272473.90	1603.87	100.59
2009/10	362980	338213.30	- 24766.70	93.18
2010/11	412421	418945.40	6524.40	101.58

Source: Budget speeches, Economic Survey and Annual reports of IRD

Figure No. 4.15 Income Tax Collection Performance

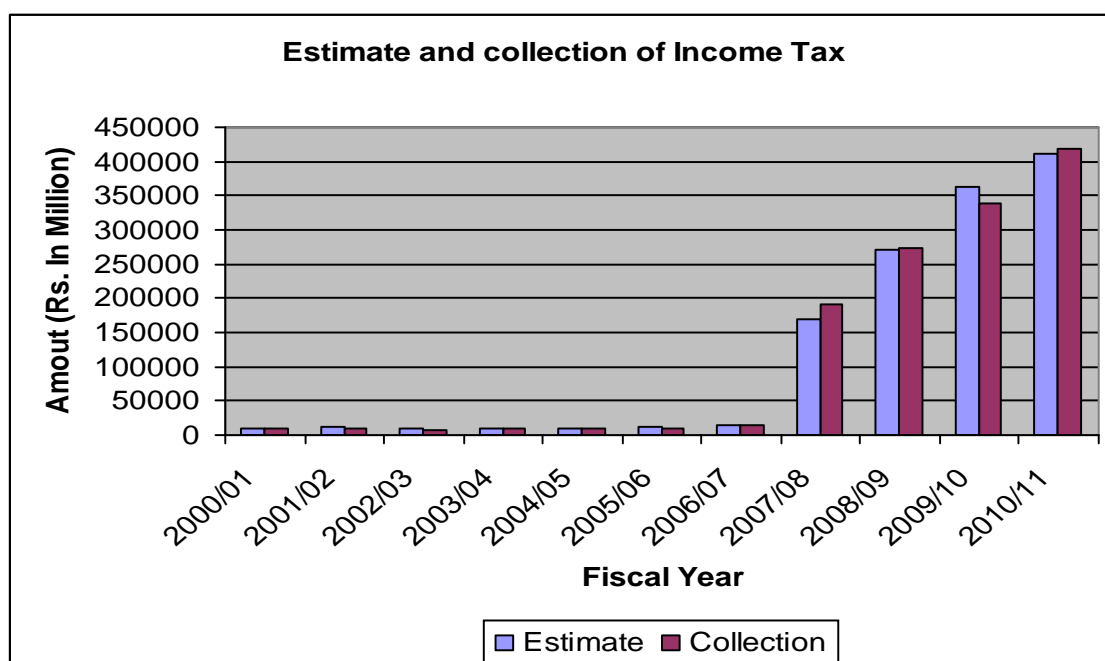
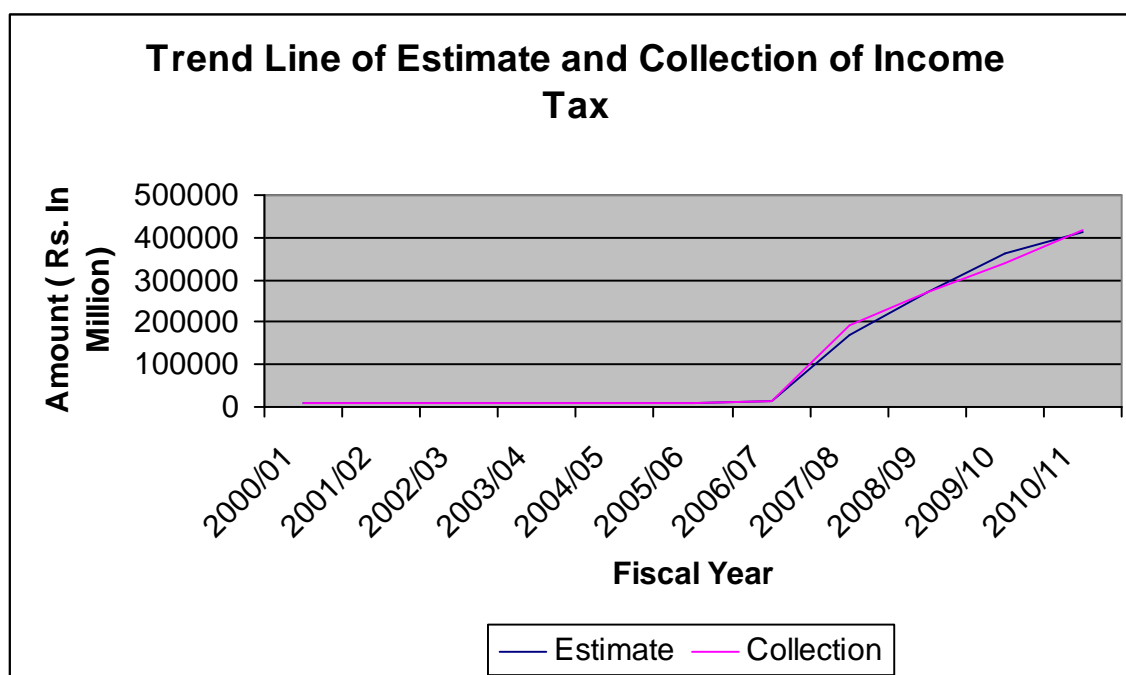


Figure No. 4.16 Trend Line of Estimate and Collection of Income Tax



4.1.10 Corporate Tax Rate Structure in Nepal

Tax rate is the base of measurement of tax liability. Tax should not be so high only for minimum revenue realization but should be activator for the private investment. Developing countries like Nepal needs to boost up their economic conditions by developing industries and trade within the country. For this, corporate tax rate also plays a crucial role. Imposition of tax on corporate profit was started with the enactment of Business Profit and Remuneration Act, 1960. The starting corporate tax rate was 25% and it was levied on progressive way. The tax amount was calculated on different slabs before FY 1985/86. The corporate tax structure was combined with individual tax rate structure. The reason was the numbers of companies were limited and private companies were generally managed by family. In the year 1985/86 the progressive tax rate structure was abolished in the fiscal year 1995/96.

The corporate tax rate structure was increased up to 60% the maximum rate in the FY 1995/96 from 25%. During 1960/61 to 1975/76, the tax again decreased up to 51% and 50%. This rate was again increased to 55% and remains continued from FY 1982/83 till 1987/88. In the year 1987/88, the listed public limited companies were

levied by 10% less than others. This concession was given to such companies by only 5% in the year 1985/86. After the FY 1987/88, the tax rate was continuously decreasing. Now it is 20% to industry (except cigarette and alcohol), 25% to general companies and 30% to banks and finance companies. Special fee of 3% of taxable income was levied to all corporate bodies. The corporate tax rate structure of different years is presented as below:

Table No. 4.10
Corporate Tax Rate Structure in Nepal

Fiscal Year	Maximum Marginal Tax Rate		Nature of Tax
	Private Co.	Public Co.	
1960/61 – 1962/63	25	25	Progressive
1963/64 – 1964/65	30	30	"
1965/66 – 1966/67	40	40	"
1967/68	55	55	"
1968/69 – 1974/75	55	55	"
1975/76	60	60	"
1976/77 – 1978/79	51	51	"
1979/80	50	50	"
1980/81 – 1981/82	50	50	"
1982/83	55	55	"
1983/84 – 1984/85	55	55	"
1985/86	55p	55f	Progressive (P) & Flat (F)
1986/87 – 1987/88	55p	50f	"
1988/89 – 1989/90	50p	50f	"
1990/91 – 1991/92	40p	40f	"
1992/93 – 1994/95	35p	35f	"
1995/96	33	33	Flat
1996/97	30	33	"
1997/98 – 2001/02	20, 25 & 30	20, 25 & 30	"
2002/03 – 2010/11	20, 25 & 30	20, 25 & 30	Flat & additional 1.5% for all Cos

Source: Income Tax Act 2058

Notes:

20% tax rate for special industries.

25% tax rate for general industries producing cigarette, bidi, liquor and industries uses as raw material.

30% tax rate for non industries for banking and insurance business.

4.1.11 Corporate Tax Base in Nepal

Under the income Tax Act, 2058 of Nepal, corporate tax is levied on the total taxable income of the previous year. It has assumed the global or total as well as scheduler income tax. This act has divided the source of income into three major heads they are: income from business, income from investment, and income from employment. The third amendment of Income Tax Act, 2058 has further clarified about calculating the adjusted taxable income and net taxable income from business, investment and employment. All the taxable income are added as per law and deduction allowable expenses such as general deduction, cost of trading stock, interest expenses, repair and maintenance expenses, depreciation, reserve and rise-bearing fund and expenses related with business and investment were deducted as per the law, which occurs adjusted taxable income. Then in case of business income, pollution control and R & D expenses should be deducted taking the adjusted taxable income as base, after that we get assessable income from business before loss adjustment. Then, loss from business in current year and previous year are deducted to get the net assessable income from business. Likewise, loss in business and investment of current year and business loss of previous year are deducted to get the net assessable income from investment.

Total assessable income is calculated by adding the net income from business and investment from where common expenses and donation expenses can be deducted as per law to get total taxable income. No exemption Limit is provided to the companies. Special additional fee of 15% of taxable income is charged to the second slab where 25% tax rate is charged.

4.2 Empirical Investigation

An empirical investigation has been conducted in order to find out various aspects of income tax imposition in Nepal. This chapter analyzes information collected from primary sources i.e. through questionnaire. The questionnaire was distributed to the Tax administrators, Tax experts/auditors, and Tax payers. The response received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study. The respondents were requested to response or questionnaire by four ways.

They were requested to response simply by "Yes" or "No" response.

They could response by selecting one or more options.

They could response by ranking the choices starting from 1 to 10, starting from most important to least.

Respondents had also option to put their views by writing wherever necessary.

Following table shows the no. of groups, no. of respondents in each group and code used to represent them.

Table No. 4.11 Groups of Respondents and Number from Each Group

S. N.	Groups of Respondents	Sample Size	Code Used
1	Income Tax Administrators	40	A
2	Income Experts/ Auditors	40	B
3	Income Tax Payers	40	C
Total		120	

4.2.1 Public Awareness towards Income Tax System in Nepal

In order to know whether the people are well informed about income tax system in Nepal, a question was asked "Do you think people are well informed about the income tax system in Nepal?" The respondent's response was presented in the following table.

Table No. 4.12 Information about Income Tax System in Nepal

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	10	25	30	75	40	100
B	16	40	24	60	40	100
C	12	30	28	70	40	100
Total	38	31.67	82	68.33	120	100

Source: Opinion Survey, 2012

From the opinion survey, it is found that 75% of Tax Administrators believe that people are not well informed about income tax system in Nepal. Only 40% of Tax Experts/ Auditors said that people are well informed about income tax system

whereas 60% claim that people are not properly informed. And 30% Tax Payers believe that people are well informed about income tax system in Nepal. In total, 68.33% of respondents believe that people are not well informed about income tax system in Nepal.

Above survey approved that public awareness program is necessary in Nepal for making people well informed about income tax system. Awareness should be given through local newspaper and mass media in order to make the people conscious.

Test of Hypothesis

S. No.	Respondents	Yes	No	Row Total
1	Income Tax Administrators	10	30	40
2	Income Tax Experts/ Auditors	16	24	40
3	Income Tax Payers	12	28	40
Column Total		38	82	120

Source: *Opinion Survey 2012*

Null Hypothesis Ho: There is no significant different in tax awareness in income tax system in Nepal.

Alternative Hypotheses H1: There is significant different in tax awareness in income tax system in Nepal.

Test statistic under Ho: the test statistic is:

$$x^2 = \sum \frac{(O - E)^2}{E}$$

Where,

O = Observed Frequency

E = Expected Frequency = $\frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$

Calculation of χ^2

O	E	(O-E)	(O-E) ²	(O-E) ² /E
10	12.67	-2.67	7.1289	0.5626
30	27.33	2.67	7.1289	0.2608
16	12.67	3.33	11.0889	0.8752
24	27.33	-3.33	11.0889	0.4057
12	12.67	-0.67	0.4489	0.0354
28	27.33	0.67	0.4489	0.0164
Total				2.1561

Calculated Value of $\chi^2=2.1561$

Level of Significant (α) = 5%

Degree of Freedom = (r-1) (c-1) = (3-1) (2-1)
 = 2 x 1
 = 2

Where, r = Row, c = Column

Tabulated Value of $\chi^2_{0.05(2)}= 5.991$

Decision: Since the calculated value of $\chi^2 <$ tabulated value of χ^2 it is not significant and H_0 is accepted which means that there is no significant difference in the attitude of tax administrators, tax experts and tax payers view regarding the public awareness in income tax system in Nepal.

4.2.2 Attitude towards the Income Tax System of Nepal

To know the respondents opinion about the income tax system of Nepal, a question was asked, "In your opinion is the income tax system of Nepal is sound and efficient?" The responses received from the respondents are tabulated as follows:

Table No. 4.13 Attitude towards the Income Tax System of Nepal

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	12	30	28	70	40	100
B	16	40	24	60	40	100
C	18	45	22	55	40	100
Total	46	38.33	74	61.67	120	100

Source: Opinion Survey, 2012

The table No. 4.13 showed that 38.33% of the respondents approved that the income tax system is sound and efficient and 61.67% of respondents showed their dissatisfaction regarding the income tax system is not sound and efficient. In conclusion it can be said that most of the respondents opinioned that the income tax system of Nepal is not sound and efficient. But it is going to be progressive trend not completely bad.

Test of Hypothesis

S. No.	Respondents	Yes	No	Row Total
1	Income Tax Administrators	12	28	40
2	Income Tax Experts/ Auditors	16	24	40
3	Income Tax Payers	18	22	40
Column Total		46	74	120

Source: Opinion Survey, 2012

Null Hypothesis Ho: There is no significant different in the attitude of tax administrators, tax experts and tax payers view regarding the income tax system in Nepal.

Alternative Hypotheses H1: there is significant difference in the attitude of tax administrators, tax experts and tax payers view regarding the income tax system in Nepal.

Test statistic under Ho: The test statistic is:

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

Where,

O = Observed Frequency

$$E = \text{Expected Frequency} = \frac{\text{Row Total} \mid \text{Column Total}}{\text{Grand Total}}$$

Calculation of χ^2

O	E	(O-E)	(O-E) ²	(O-E) ² /E
12	15.33	-3.33	11.0889	0.7233
28	24.67	3.33	11.0889	0.4494
16	15.33	0.67	0.4489	0.0292
24	24.67	-0.67	0.4489	0.0181
18	15.33	2.67	7.1289	0.4650
22	24.67	-2.67	7.1289	0.2889
Total				1.9739

Calculated Value of $\chi^2 = 1.9739$

Level of Significant (α) = 5%

Degree of Freedom = $(r-1)(c-1) = (3-1)(2-1)$
 $= 2 \times 1$
 $= 2$

Tabulated Value of $\chi^2_{0.05(2)} = 5.991$

Decision: Since the calculated value of $\chi^2 <$ tabulated value of χ^2 it is not significant and H_0 is accepted which means that there is no significant difference in the attitude of tax administrators, tax experts and tax payers view regarding the income tax system in Nepal is sound and efficient.

4.2.3 Income Tax as a Suitable Means of Rising Government Revenue

In order to know whether income tax as a suitable means of raising government revenue or not a question, "Do you consider that income tax as a suitable means of raising government revenue?" was asked. The responses of respondents are summarized in the following table.

Table No. 4.14: Income Tax as a Suitable Means of Raising Government Revenue

S.N	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	Tax Administrator	28	70	12	30	40	100
2	Tax Experts	32	80	8	20	40	100
3	Tax Payers	30	75	10	25	40	100
	Total	90	75	30	25	120	100

Source: Opinion Survey, 2012

According to above table, it is found that 70% tax administrators, 80% tax experts and 75% taxpayers recognize income tax as a suitable means of raising government revenue. In average 75% of respondents are in favors of income tax as a suitable means of raising government revenue. Only 25% of respondents don't recognize it.

Test of Hypothesis

S. No	Respondents	Yes	No	Row Total
1	Tax Administrators	28	12	40
2	Tax Experts	32	8	40
3	Tax Payers	30	10	40
Column Total		90	30	120

Null Hypothesis H_0 : There is no significant different in tax administrators, tax experts and tax payers view regarding the income tax suitable means of raising government revenue.

Alternative Hypothesis H_1 : There is significant different in tax administrators, tax experts and tax payers view regarding the income tax suitable means of raising government revenue.

Test statistic under H_0 : The test statistic is:

$$x^2 = \sum \frac{(O - E)^2}{E}$$

Where,

O = Observed Frequency

E = Expected Frequency = $\frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$

Calculation of χ^2

O	E	(O-E)	(O-E) ²	(O-E) ² /E
28	30	-2	4	0.1333
12	10	2	4	0.4000
32	30	2	4	0.1333
8	10	-2	4	0.4000
30	30	0	0	0
10	10	0	0	0
Total				1.0666

Calculated Value of $\chi^2=1.0666$

Level of Significant (α) = 5%

Degree of Freedom = (r-1) (c-1) = (3-1) (2-1)
 = 2 x 1
 = 2

Tabulated Value of $\chi^2_{0.05(2)} = 5.991$

Decision: Since the calculated value of $\chi^2 <$ tabulated value of χ^2 it is not significant and H_0 is accepted which means that there is no significant difference in tax administrators, tax experts and tax payers view regarding the income tax suitable means of raising government revenue.

4.2.4 Contribution of Income Tax Revenue

To know whether the contribution of income tax revenue is satisfactory or not, a question was asked to respondents "In your opinion is contribution of income tax to national revenue is satisfactory?" The result is presented in following table.

Table No. 4.15 Contribution of Income Tax Revenue Satisfactory or Not

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	8	20	32	80	40	100
B	12	30	28	70	40	100
C	14	35	26	65	40	100
Total	34	28.33	86	71.67	120	100

Source: *Opinion Survey, 2012*

Only 20% tax administrators, 30% tax experts/ auditors and 35% tax payers believe that contribution of income tax to national revenue is satisfactory. And rest 80% tax administrator, 70% tax experts and 65% tax payers reacts adversely. In total, 71.67% of total respondents believe that contribution of income tax to national revenue is not satisfactory.

Test of Hypothesis

S. No.	Respondents	Yes	No	Row Total
1	Income Tax Administrators	8	32	40
2	Income Tax Experts/ Auditors	12	28	40
3	Income Tax Payers	14	26	40
Column Total		34	86	120

Source: *Opinion Survey, 2012*

Null Hypothesis Ho: The contribution of income tax to national revenue is not satisfactory.

Alternative Hypotheses H1: The contribution of income tax to national revenue is satisfactory.

Test statistic under Ho: The test statistic is:

$$x^2 = \sum \frac{(O - E)^2}{E}$$

Where,

O = Observed Frequency

$$E = \text{Expected Frequency} = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

Calculation of χ^2

O	E	(O-E)	(O-E) ²	(O-E) ² /E
8	11.33	-3.33	11.0889	0.9787
32	28.67	3.33	11.0889	0.3867
12	11.33	0.67	0.4489	0.0396
28	28.67	-0.67	0.4489	0.0156
14	11.33	2.67	7.1289	0.6292
26	28.67	-2.67	7.1289	0.2486
Total				2.2984

Calculated Value of $\chi^2 = 2.2984$

Level of Significant (α) = 5%

Degree of Freedom = $(r-1)(c-1) = (3-1)(2-1)$
 $= 2 \times 1$
 $= 2$

Tabulated Value of $\chi^2_{0.05}(2) = 5.991$

Decision: Since the calculated value of $\chi^2 <$ tabulated value of χ^2 it is not significant and H_0 is accepted which means that there is no significant difference in tax administrators, tax experts and tax payers view regarding the income tax contribution of income tax to national revenue is not satisfactory.

4.2.5 Reasons for Low Revenue Collection from Income Tax

71.67% of the total respondents believe that contribution of income tax on national revenue is not satisfactory. So in order to find out the major causes of low collection from income tax, the respondents are asked to rank among ten options as per their priority. The ranking result is as follows:

Table No. 4.16 Main causes of low Revenue Collection from Income Tax in Nepal

S. No.	Major Causes	Total Points Received			Total	Percentage %	Ranks
		A	B	C			
i	Inconsistent tax acts, rules and regulations	81	92	81	254	8.12	2
ii	Loopholes in income tax act	122	68	77	267	8.53	3
iii	Inefficient tax administration	127	103	103	333	10.64	6
iv	Existence of smuggling	114	132	129	375	11.98	9
v	Improper billing system	84	63	133	280	8.59	4
vi	Lack of tax education	105	55	44	204	6.52	1
vii	Income tax returns not filing on time	140	70	150	360	11.5	7
viii	Instable political condition	108	89	110	307	9.81	5
ix	Increasing tendency of tax evasion	105	136	130	371	11.86	8
x	Mass poverty and low income level	114	119	145	378	12.1	10
Total					3129		

Source: *Opinion Survey, 2012*

In table no. 4.16 rank 1 is given to the lowest percentage and 10 to the highest. Here, lowest percentage is obtained by the cause, which is treated as the most important cause by the respondents.

From the above table, the major causes of low collection of income tax in Nepal are ranked in order of the preference of the respondents are as follows:

1. Lack of tax education
2. Inconsistent tax acts, rules regulations.
3. Loopholes in income tax act.

4. Improper billing system.
5. Instable political condition.
6. Inefficient tax administration.
7. Income tax returns not filing on time.
8. Increasing tendency of tax evasion.
9. Existence of smuggling.
10. Mass poverty and low income level.

From the above table, it can be concluded that, in the opinion of the respondents, the major causes of tax payer wise low calculation of income tax is lack of tax education. Inconsistent tax acts, rules and regulations, loopholes in income tax act etc. so major emphasis should be given on creating public awareness and modifying the difficulties of present income tax act.

4.2.6 Appropriateness of Income Tax Rates

To know the respondents view towards income tax rates, the question was put "Is present income tax rates in Nepal High?" Opinion result is summarized in the table below.

Table No. 4.17 Appropriateness of Income Tax Rates

S. No.	Respondents	Yes		No		Total.	
		No.	%	No.	%	No.	%
1	A	10	25	30	75	40	100
2	B	16	40	24	60	40	100
3	C	28	70	12	30	40	100
Total		54	45	66	55	120	100

Source: Opinion Survey, 2012

From the above survey, 75% of tax administrators and 60% of tax experts/ auditors believed that income tax rate is not high in Nepal. They are in favor of present income tax rate. But 70% of the tax payers claimed that present income tax rate is high. It means they are against the present income tax rates. And their recommendation is as follows:

Table No. 4.18 Suggested Income Tax Rates

S. No.	Tax Rate	Respondents						Total	%
		Answer							
		A	%	B	%	C	%		
1	20%	4	100	5	29.41	15	26.32	24	30.77
2	18%	-	-	-	-	-	-	-	-
3	15%	-	-	12	70.59	22	38.59	34	43.59
4	10%	-	-	-	-	20	35.09	20	25.64
Total		4	100	17	100	57	100	78	100

Source: *Opinion Survey, 2012*

From the above survey, cent percent tax administrators prefer income tax rate 20%, 29.41% tax experts and 26.32% tax payers prefer tax rate 20%. Whereas 70.59% tax experts and 38.59% tax payers prefer tax rate at 15% and 35.09% tax payers prefer income tax rate at 10%. So it can be concluded that major portion of tax payers found present tax rate high and they recommend the income tax rate at comparatively lower rate.

4.2.7 Weaknesses of Income Tax Act 2058

In order to know the weakness of income tax act 2058 for the low collection from income tax a question was asked to respondents "Do you believe that the contribution of income tax is not satisfactory because of income tax act, 2058?" Opinion result as follows.

Table 4.19 Low Income Tax Collection because of Income Tax Act, 2058

S. No.	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	A	16	40	24	60	40	100
2	B	26	65	14	35	40	100
3	C	20	50	20	50	40	100
Total		62	51.67	58	48.33	120	100

Source: *Opinion Survey, 2012*

As 51.67% of total respondents believed that contribution of income tax is not satisfactory because of income tax act 2058, the major weakness of the act is assumed as follows:

Table No. 4.20 Major Weakness of Income Tax Act, 2058

S. No.	Major Weakness	Respondents						Total	%
		A	%	B	%	C	%		
1	Fully based on self-Assessment	8	44.45	6	23.08	0	0	14	22.58
2	Amended assessment is not in practice	4	22.22	4	15.38	0	0	8	12.90
3	Assessment of income tax is not based on best judgments	2	11.11	10	38.46	8	44.45	20	32.26
4	Complication due to the merging of tax and VAT administration	4	22.22	6	23.08	6	33.33	16	25.81
5	No harmony between VAT and income tax act	0	0	0	0	4	22.22	4	6.45
Total		18	100	26	100	18	100	62	100

Source: Opinion Survey, 2012

From the above table, 44.45% of tax administrators believed that the major weakness of income tax act, 2058 is that it is fully based on self assessment. And 22.22% said that complication had arisen due to the merging of tax and VAT offices. 38.46% of tax experts said that income tax assessment is not based on best judgment. And 23.08% of tax experts agreed with the opinion of tax administrators i.e. complication due to the merging of tax and VAT administration. 44.45% of tax payers agreed that income tax assessment is not based on best judgment. 33.33% agreed with the opinion of tax administrators and tax experts whereas 22.22% said that problem arises due to the disharmony between VAT and income tax act. It means

the common view of all the respondents is that complication raised due to the merging of tax and VAT administration.

4.2.8 Effectiveness of Income Tax Administration in Nepal

To know the situation of present income tax administration, the respondents are asked "What do you feel about present income tax administration of Nepal?" Whether it is efficient, inefficient or satisfactory their responses is tabulated as below.

Table No. 4.21 Effectiveness of Income Tax Administration in Nepal

S. No.	Responses	Respondents						Total	%
		A	%	B	%	C	%		
1	Efficient	26	65	10	37.5	6	25	42	35
2	Inefficient	6	15	15	12.5	24	50	45	37.5
3	Satisfactory	8	20	15	50	10	25	33	27.5
Total		40	100	40	100	40	100	120	100

Source: Opinion Survey, 2012

According to the above table, income tax administration in Nepal is not efficient. Only 35% of respondents believe that income tax administration is efficient. 37.5% respondents agree that income tax administration is inefficient and 27.5% of respondents believe that income tax administration is satisfactory. Therefore, it is clear that income tax administration of Nepal is inefficient. But the result of is not very bad because of the gap between efficient and inefficient is small i.e. 2.5% which is achievable.

Among 120 respondents, 6 tax administrators, 15 experts and 24 tax payers were in favor of inefficient tax administration. A question, "In your opinion what are the main causes of inefficient of income tax administration?" was asked to them who had said that income tax and administration is inefficient. They gave points to the options that are presented as below.

Table No. 4.22 Major Causes of Inefficient Income Tax Administration

S. No.	Major Causes	Respondents			Total Score	%	Rank
		A	B	C			
1	Complicated tax laws	10	75	190	275	18.62	2
2	Lack of trained and competent tax officials	16	70	195	281	19.03	1
3	Lack of effective communication	8	45	101	154	10.43	6
4	Lack of tax awareness to tax payers	7	35	125	167	11.30	5
5	Unnecessary outside pressure	6	24	112	142	9.61	7
6	Lack of co-ordination of the tax departments with other departments	5	65	140	210	14.22	4
7	Lack of proper direction	3	85	160	248	16.79	3
Total		55	399	1023	1477	100	

Source: Opinion Survey, 2012

According to above table, the causes of ineffectiveness of Nepalese income tax administration are ranked in order to preference of the respondents as follows.

1. Lack of trained and competent tax officials.
2. Complicated tax laws.

3. Lack of direction
4. Lack of co-ordination of the tax department with other departments among tax related departments.
5. Lack of tax awareness to tax payers.
6. Lack of effectiveness communication.
7. Unnecessary outside pressure.

It can be concluded that the lack of trained and competent tax personnel, complicated tax laws, lack of direction, lack of co-ordination of the tax department with other department are the most important causes of ineffectiveness of Nepalese tax administration.

4.2.9 Corruption in Income Tax Administration of Nepal

In order to know the corruption existed in income tax administration in Nepal, a question, "Do you think that there is corruption in income tax administration of Nepal?" was asked. The responses received from various respondents are as follows:

Table No. 4.23 Corruption in Income Tax Administration of Nepal

S.N	Respondents	Yes		No		<i>Total</i>	
		No.	%	No.	%	No.	%
1	Tax Administrator	7	15	33	85	40	100
2	Tax Experts	30	80	10	20	40	100
3	Tax Payers	32	75	8	5	40	100
	Total	69	57.5	51	42.5	120	100

Source: Opinion Survey, 2012

From the above table it is clear that there is corruption in income tax administration on Nepal. 57.5% of respondents agree that Nepalese income tax administration is corrupt 42.5% respondents were disagreeing with this. Out of them most of the respondents were tax administrators.

The respondents, who agree that the Nepalese tax administration is corrupt, were asked a question related to the main causes of corruption. They were requested to give

points to the options given in the questionnaire. The result has been given in the following table.

Table No. 4. 24 Causes of Corruption in Income Tax Administration

S. N	Major Causes	Point Received			Total Points	%	Rank
		A	B	C			
1	Low remuneration of tax personnel	18	49	85	152	15.11	5
2	Weakness of act rules and regulation	10	67	92	169	16.80	4
3	Dishonest tax payers	6	25	95	126	12.53	6
4	Dishonest tax personnel	7	71	105	183	18.19	2
5	Inefficient income tax administrator	9	65	120	194	19.28	1
6	Political instability	15	55	112	182	18.09	3
	Total	55	221	1005	1006	100	

Source: Opening Survey, 2012

The causes of corruption in income tax administration of Nepal are ranked in order to the preference of respondents as follows:

1. Inefficient income tax administrator
2. Dishonest personnel
3. Political instability
4. Weakness of act, rules and regulation
5. Low remuneration of tax personnel
6. Dishonest tax payers

From the above study it can be concluded that inefficient of tax administrator, dishonest personnel, and political instability are the most important causes of corruption in income tax administration of Nepal.

After this respondents were asked a question, "How can corruption existed in Nepalese income tax administration be minimized?" for this 6 options were presented and respondents were requested to give points on the options were presented and respondents were requested to give points on the options. The points received from the respondents are given as below:

Table No.: 4.25 Factors to minimize the Corruption in Income Tax Administration

S. No.	Major Causes	Respondents			Total Score	%	Rank
		A	B	C			
1	Moral education to tax personnel	5	62	110	177	15.67	4
2	Reduction of tax officers discretionary power	3	45	125	173	15.31	5
3	Additional incentives to tax personnel	7	52	90	149	13.18	6
4	Regular supervision to tax personnel	6	60	134	200	17.70	3
5	Reward and punishment under performance and taking action to corruptors	10	72	135	217	19.20	1
6	Leadership commitment	9	75	130	214	18.94	2
Total		40	366	724	1130	100	

Source: Opening Survey, 2012

According to the above table, the options to minimize the corruption in tax administration of Nepal are given in order to the preference given by the respondents as follows:

1. Reward and punishment under performance and taking action to corruptors
2. Leadership commitment
3. Regular supervision to the tax personnel
4. Moral education to tax personnel
5. Reduction of tax officers discretionary power
6. Additional incentives

From the above study it can be concluded that the most important factors to minimize corruption are reward and punishment under performance and taking actions to the

corrupters, leadership commitment, regular supervision to the tax personnel and moral education to the tax personnel etc.

4.2.10 Attitude towards Exemption and Deduction

Adequate exemption and deduction is necessary to promote the business enterprises. Many exemption and deduction provided by 'Industrial Enterprises Act 2049' and Income Tax act 2031' has curtailed by new 'Income Tax Act 2058'. The question "Are exemption and deduction provided by act appropriate?" was asked to find out the opinion of the respondent regarding the exemption and deduction. Opinion result is summarized in the table as below.

Table No. 4.26: Attitude towards Appropriateness of Exemption and Deduction

S.N	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	Tax Administrator	22	65	18	35	40	100
2	Tax Experts	30	80	10	20	40	100
3	Tax Payers	18	45	22	55	20	100
	Total	70	58.33	50	41.67	120	100

Source: *Opinion Survey, 2012*

Most of respondent i.e. 58.33% agree with present exemption and deduction. And 41.67% respondents disagree with the present exemption and deduction. Majority of the respondent, who disagree with present provision of exemption and deduction, was view of increase the deduction and exemption unit to promote special industry.

4.2.11 Attitude toward Problem in Paying Income Tax

To know the problem facing by the taxpayers while paying income tax, the respondents were requested to rank their choice from 1 to 5 according to their preference. The question was, "In your thinking, what types of problems are facing by the tax payer while paying income tax?" Responses received from respondents are tabulated as below:

Table No. 4.27: Problems in Tax Paying

S. No.	Causes	Point Received			Total Points	%	Rank
		A	B	C			
1	Consuming unnecessary time and lengthy process	28	33	35	96	23.76	1
2	Friendliness and behavior of tax personnel are poor and expectation of illegal incentives by tax personnel	11	25	30	66	16.34	5
3	Vague and complicated provision in income tax laws	22	29	37	88	21.78	2
4	Poor education level of tax payers related to business transactions	30	25	20	75	18.56	4
5	Lack of co-operation and co-ordination by tax administrator	24	25	30	79	19.56	3
	Total	115	137	152	404	100	

Source: Opening Survey, 2012

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

- 1 Consuming unnecessary time and lengthy process
- 2 Vague and complicated provision in income tax laws
- 3 Lack of co-operation and co-ordination by tax administrator
- 4 Poor education level of tax payers related to business transactions
- 5 Friendliness and behavior of tax personnel are poor and expectation of illegal incentives by tax personnel

According to the above study it can be concluded that consuming unnecessary time and lengthy process, vague and complicated provision in income tax laws, etc are the main problems facing by the tax payers while paying income tax.

4.2.12 Submission of Income Tax Returns

It is found that each year only about 60% of the total tax payers submits income tax return to the revenue office. We had asked the respondent that is it the main cause of low collection from income tax. Their opinion is as below:

Table No. 4.28 Belief on Few Submission of ITR, the main Cause of Decreasing Income Tax

S. No.	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	A	22	55	18	45	40	100
2	B	34	85	6	15	40	100
3	C	30	75	10	25	40	100
Total		86	71.67	34	28.33	120	100

Source: Opinion Survey, 2012

Since 71.67% of the total respondents believed that few submission of income tax return is the main cause of low collection from income tax, we further asked them for the measures to increase the submission of income tax returns. Their recommended measures among the four options are as below:

Table No. 4.29 Measures of be Followed to Increase the Income Tax Returns

S. N.	Recommended Measures	Respondents						Total	%
		A	%	B	%	C	%		
1	Heavy fines and penalties should be levied	8	36.36	4	11.76	4	13.33	16	18.61
2	Awareness should be given through news paper and mass media	6	27.28	24	70.59	18	60	48	55.81
3	Certain exemption for timely submission of income tax returns	8	36.36	4	11.76	6	20	18	20.93
4	Provision of reward	0	0	2	5.89	2	6.67	4	4.65
Total		22	100	34	100	30	100	86	100

Source: Opinion Survey, 2012

From the above analysis, 55.81% of the total respondents believed that public awareness should be created through newspaper and mass media in order to increase the timely submission of income tax returns. Presently, we have the problem of information dissemination. When people are timely informed, they will submit their returns which ultimately will help to increase the income tax collection. Respondents were also in favor of giving certain exemption to those who submits the returns on time.

4.2.13 Appropriate Method of Income Tax Assessment

Method of income Tax assessment is very important in the assessment of income tax. Sound and appropriate assessment procedure is essential for the collection of the large amount in the form of income tax. It is very important in managing the income tax because the amount of income tax is realized through the assessment. To find out an appropriate method of income tax assessment a question was forwarded to the respondents "What method is more appropriate in Nepal for assessing income tax?" The response received is tabulated below.

Table No. 4.30 Appropriate Method While Assessing Income Tax

S. No.	Methods	Respondents						Total	%
		A	%	B	%	C	%		
1	Assessment on the basis of accounts submitted by the tax payers	10	25	8	20	20	50	38	31.67
2	Self assessment	12	30	30	75	18	45	60	50
3	Assessment on the vest judgment	18	45	8	5	2	5	22	18.33
4	Assessment by the committee	0	0	0	0	0	0	0	0
Total		40	100	40	100	40	100	120	100

Source: Opinion Survey, 2012

From the opinion survey, it has been clear that self assessment method is most appropriate for Nepal while assessing income tax 50% of the respondents are in favor

of self assessment while 31.67% of respondents prefer assessment as the basis of account submitted by taxpayers.

4.2.14 Most Important Factor for Effectiveness of Income Tax in Nepal

In order to know the most important factor for effectiveness of income tax in Nepal respondents were requested to rank their responses on given choices. The question was. "What is the most important factor for effectiveness of income tax in Nepal?" Under the table gives a breakdown of responses:

Table No. 4.31 Most Important Factor for Effectiveness of Income Tax in Nepal

S. No.	Factor	Respondents			Total Score	%	Rank
		A	B	C			
1	Honest tax officers	21	34	32	87	24.30	2
2	Honest tax payers	24	32	30	86	24.02	3
3	Clear act, rules and regulation	31	35	36	102	28.49	1
4	Effective income tax administration	27	26	30	83	23.19	4
Total		103	127	128	358	100	

Source: Opinion Survey, 2012

The most important factors for effectiveness of income tax were ranked in order of the preference of the respondents were as follows:

- 1 Clear acts, rules and regulation
- 2 Honest tax officers
- 3 Honest tax payers
- 4 Effective income tax administration

It can be concluded that clear act, rules and regulation is needed for the effectiveness of income tax in Nepal.

4.2.15 Suggestions for Achieving Effectiveness of Income Tax in Nepal

To know the other important factors for effectiveness of income tax, a question was asked "Do you have any others suggestions for achieving effectiveness of income tax in Nepal?"

The responses are as follows:

1. Tax system should be simple, transparent and clearly understandable to the general public.
2. Training programs should be organized to the tax personnel in order to make them up-date and to develop effective tax management system.
3. Public awareness is necessary for successful application of income tax. So, tax education should be given from the school level, it should be included in school curriculum.
4. There should be proper co-ordination among tax related departments such as Department of Revenue Investigation, Custom Department, and Inland Revenue Department. And networking of information system should be developed accordingly.
5. Tax Payers friendly' environment should be created in tax offices.
6. Government should have ability to convince the tax payers about the proper utilization of money, which they have paid as tax.

4.3 Major Findings of the Study

On the basis of data presentation and analysis in above mention sub-chapter some important findings of the study are summarized below.

1. The resource gap 'A' is flexible every year. It was Rs. 30941.30 million in FY 2000/01 and increased to Rs. 95544.73 million in FY 2010/11. It shows the poor performance of domestic resource mobilization.

Resource gap 'B' is Rs. 24187.90 million in FY 2000/01, which is gradually decreased to Rs.15828.20 million in FY 2003/04. And gradually increased to Rs. 49804.70 million in FY 2008/09. In further decreased to Rs.49622.46 million in FY 2010/11.

Resource gap 'C' is taken as the difference between total expenditure and total revenue plus foreign grants plus foreign loan. In FY 2000/01 the gap was Rs. 12143.90 million which was increased to Rs. 15240.80 million in 2001/02, decreased to Rs. 8199.20 million in FY 2003/04. And it was started to increase gradually. It was Rs.39835.80 million in FY 2008/09 and decreased to Rs. 41414.92 million in 2010/11.

It shows that, there was clear indication of the time serious and growing financial resource problem in Nepal. The increasing magnitude of resource

gap clearly indicates that there is an urgent need of mobilizing additional resources. Income tax has appeared one of the most effective fiscal policy instruments to mobilize additional resources and achieving the desired development objective of Nepal. The major reason of growing resources gap is increase in regular expenditure and development expenditure.

- 2 Low tax revenue GDP ratio indicates the weak administration and large scale of tax avoidance and tax evasion. In this situation, total revenue GDP ratio , tax revenue GDP ratio, and non tax revenue GDP ratio were 11.83%, 9.40%, and 2.43% in FY 2000/01 respectively and it is increased to 14.90%, 12.80%, and 2.10% in FY 2010/11, in average it were 12.71%, 10.21% and 2.49% respectively of the last eleven years. It shows that these ratios are not suitable for the countries; it means it is low comparing to the other countries.
- 3 The study shows that the average contribution of tax revenue is 79.499% and non tax revenue is 20.501%. The contribution of tax revenue to total revenue is 86.47% and non tax revenue to total revenue is 13.53% in FY 2010/11. The share of tax revenue is in increasing trend.
- 4 Nepalese tax revenue is composed of both direct and indirect tax revenue. There is a dominant role of indirect tax revenue in Nepalese tax structure. The contribution of direct tax and indirect tax to total tax revenue was 26.14% and 73.86% in FY 2000/01 which become 30.67% and 69.33 in FY 2010/11. Whereas the average contribution of direct and indirect tax is 26.67% and 73.33%. Although the total amount of both taxes is increasing, there is not satisfactory growth in collection of both taxes.
- 5 The contribution of custom duties, VAT and excise duty on indirect tax revenue were 43.72%, 43.14% and 13.14% respectively in FY 2000/01 and contribution of each taxes were reached to 31.52%, 48.06% and 20.43% respectively in FY 2010/11. It shows that custom duty is in decreasing whereas VAT and excise duty is in increasing trend. The average contribution of custom duties. VAT and excise duty on indirect tax revenue were 37.04%, 46.22% and 16.73% respectively.
- 6 The average contribution of land revenue and registration (land revenue plus house and land registration fees) and tax on property, profit and income (income tax, tax on property and the other tax) on direct tax revenue were

11.43% and 88.57% respectively. Among them, their contributions were 6.03% and 93.97% in FY 2000/01. The contribution from other taxes under the heading of tax on property, profit and income was nil (zero) during that period in FY 2000/01 and 2001/02, this was reached to 6.74% and 96.26% in FY 2010/11. The contribution of other taxes was increasing that land revenue under the heading of land revenue and registration was nil (zero) after the FY 2004/05. In the composition of direct tax, income tax was the giant one which contribution seems to be fluctuating every year.

- 7 Total income tax is the composition of public enterprises, private corporate bodies, individuals, remuneration and taxation interest. The major component of income tax is corporate tax public enterprises and private corporate bodies is decreasing trend. The contribution of individuals, remuneration and taxation interest are fluctuating and increasing trend and the remuneration tax was doubled in last 11 years. It has reached to 13.21% in FY 2010/11 which was 6.55% in 2000/01.
- 8 Income tax has been considered as suitable source for mobilizing internal resources. It can be used as a positive instrument to boost up government revenue collection, to develop the economic condition of Nepalese people, to promote distributive justice and to eliminate the resource gap problem. The income tax on total revenue, total tax revenue, direct tax revenue and GDP ratio were 18.64%, 23.45%, 89.71% and 2.20% respectively in FY 2000/01 which had been changed to 20.88% 24.15%, 78.73% and 3.67% respectively in FY 2010/11. And the average contribution of income tax on total government revenue, total tax revenue, direct tax revenue and GDP was 16.98%, 21.17%, 78.01% and 2.33% respectively. It shows that there is decreased in every ratio except GDP current price for the last 11 years.
- 9 Revenue collection from income tax is in increasing trend each year but the performance is not satisfactory. Income tax estimates and collections of last 11 years shows that in FY 2000/01, 2001/02, 2002/03, 2004/05 and 2005/06 tax collection was less than estimate but in FY 2003/04, 2006/07, 2007/08 and 2008/09 & 2010/11 the tax collection were excess than estimates.
- 10 The corporate tax rates have been revised for several times. Nowadays, special industries, general industries and non tax industries banking and insurance business are taxed at a flat rate of 20%, 25% and 30% and additional 1.5%

respectively in spite of the progressive, progressive and flat tax rate in previous years.

On the basis of empirical analytical analysis some major findings can be drawn which are summarized as given below:

- 1 68.33% of total respondents believe that people are not well informed about income tax system in Nepal. 68.33% of the total respondents are favor of income tax as a suitable means of raising government revenue. Only 31.67% of respondents don't recognize it.
- 2 61.67% of the total respondents showed their dissatisfaction regarding the income tax system is not sound and efficient.
- 3 78.33% of the total respondents believe that contribution of income tax to national revenue is not satisfactory. The major causes of tax payer wise low calculation of income tax is lack of tax education , inconsistent tax acts, rules and regulations, loopholes in income tax act etc.
- 4 45% of total respondents believe that present income tax rate is appropriate in Nepal. However, 55% of the respondents' think that present income tax rate is high. Out of which 30.77% if the total respondents prefer tax rate 20%/ whereas 43.59% prefer tax rate at 15% and 25.64T prefer income tax rate at 10%.
- 5 As 51.67% of total respondents believed that contribution of income tax is not satisfactory because of income tax act 2058, the major weakness of the act is that the assessment of income tax is not based on best judgment.
- 6 35% respondents believe that income tax administration is efficient. 37.5% respondents agree that income tax administration is inefficient and 27.5% respondents believe that income tax administration is satisfactory. The lack of trained and competent tax personnel, complicated tax laws, lack of direction, lack of co-ordination of the tax department with other departments among tax related departments , lack of tax awareness to tax payers, lack of effectiveness communication are the most important causes of ineffectiveness of Nepalese tax administration.
- 7 Corruption is the major problem of income tax administration of Nepal, Inefficient income tax administrator, dishonest personnel, political instability, weakness of act, rules and regulation , low remuneration of tax

personnel, dishonest tax payers are the major causes of inefficient income tax administration of Nepal. There are 57.50% of respondents agree that Nepalese income tax administration is corrupt, 42.50% respondents were disagreeing with this.

The most important factors to minimize corruption are reward and punishment under performance taking action to corrupters, leadership commitment, regular supervision to the tax personnel, moral education to tax personnel, reduction to tax officers discretionary power, additional incentives etc.

- 8 Most of the respondents i.e. 58.33% agree with present exemption on deduction and 41.67% respondents disagree with the present exemption and deduction. Majority of the respondents who disagree with present provision of exemption and deduction was view of increase the deduction and exemption unit to promote special industries.
- 9 Consuming unnecessary time and lengthy process, vague and complicated provision in income tax laws, lack of co-operation and co-ordination by tax administrator, poor education level of tax payers related to business transactions, friendliness and behavior of tax personnel are poor and expectation of illegal incentives by the tax personnel are the major problems facing by the tax payers while paying income tax
- 10 Self assessment method is the most appropriate method for Nepal while assessing income tax 50% of the respondents are in favor of self assessment while 31.67% of respondents prefer assessments as the basis of account submitted by tax payers.
- 11 Clear tax acts, rules and regulations, honest tax officers, honest tax payers, effective income tax administration are the most important factors for effectiveness of income tax in Nepal.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Tax means compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred. A tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. An administration who govern and operate the system smoothly. It is depend upon the whole part of the society; like as economic condition, social environment, political situation etc. This study mainly focuses on income tax administration and its effectiveness in Nepal. In our country, there is lack of the financial resources and a lot funds are required to do the development activities. Nepal has been suffering from the shortage of capital to accelerate the economic growth. There is so much resource gap so in order to fulfill the shortage, government is depending on the foreign grants and loans. So to fulfill the resource gap income tax, a direct tax is most important sources of internal revenue. Due to the low economic activities and lesser development of the corporate sector, the contribution of income tax to the total revenue is very low.

The study shows that the percentage of tax revenue and non tax revenue to total revenue was 86.47% and 13.53% respectively in FY 2010/11 and average contribution was 80.13% and 19.87 respectively in total revenue structure of Nepal during the period of last 11 years. In this regards tax revenue has been found as a major instruments for additional internal financial resources mobilization.

In the economy, the percentage of direct tax to total tax revenue is 30.67% and indirect tax to total tax revenue is 69.33% in the FY 2010/11 and average direct and indirect revenue contribution is 26.67% and 73.33% respectively. It shows

that the direct tax revenue portion to tax revenue is low which may be due to the low income level and loss improvements of the private sectors as well as public enterprises.

During the study period, the resource gap has been increasing every year. It was Rs. 49622.15 million in the FY 2010/11. This shows the poor performance of the domestic resource mobilization.

In order to find out the problems in the income tax administration, a set of questionnaires were distributed among tax administrators, tax experts and tax payers. On the opinion survey empirical investigation has found the weaknesses but also point out some suggestion to make effective income tax administration in Nepal.

According to survey 68.33% of the total respondents believe that people are not well informed about income tax system in Nepal. So awareness program and tax education were to be given to the tax payers. Large portion of the respondents showed their dissatisfaction regarding the income tax system is not sound and efficient. 68.33% of the total respondents are in favor of income tax as a suitable means of raising government revenue. Only 31.67% of respondents don't recognize it. 78.33% of the total respondents believe that contribution of income tax to national revenue is not satisfactory. The major causes of tax payer wise low calculation of income tax is lack of tax education, inconsistent tax acts, rules and regulations, loopholes in income tax act etc.

45% of total respondents believe that present income tax rate is appropriate in Nepal. However, 55% of the respondents' think that present income tax rate is high. Out of which 30.77% if the total respondents prefer tax rate 20%/ whereas 43.59% prefer tax rate at 15% and 25.64 prefer income tax rate at 10%. As 51.67% of total respondents believed that contribution of income tax is not satisfactory because of income tax act 2058, the major weakness of the act is that the assessment of income tax is not based on best judgment.

35% respondents believe that income tax administration is efficient. 37.5% respondents agree that income tax administration is inefficient and 27.5% respondents believe that income tax administration is satisfactory. The lack of trained and competent tax personnel, complicated tax laws, lack of direction, lack of co-ordination of the tax department with other departments among tax related departments , lack of tax awareness to tax payers, lack of effectiveness communication are the most important causes of ineffectiveness of Nepalese tax administration.

There are 57.50% of respondents agree that Nepalese income tax administration is corrupt, 42.50% respondents were disagreeing according to the opinion survey. Corruption is the major problem of income tax administration of Nepal, Inefficient income tax administrator, dishonest personnel, political instability, weakness of act, rules and regulation , low remuneration of tax personnel, dishonest tax payers are the major causes of inefficient income tax administration of Nepal. And majority of the respondents who disagree with present provision of exemption and deduction was view of increase the deduction and exemption unit to promote special industries.

There are some problems facing by the tax payers while paying income tax mainly it was consuming unnecessary time and lengthy process, vague and complicated provision in income tax laws, lack of co-operation and co-ordination by tax administrator, poor education level of tax payers related to business transactions, friendliness and behavior of tax personnel are poor and expectation of illegal incentives by the tax personnel. The appropriate method of assessment system was found to be the self assessment method for Nepal while assessing income tax 50% of the respondents are in favor of self assessment while 31.67% of respondents prefer assessment as the bases of account submitted by tax payers. Most of the respondents believed that clear act, rules and regulation are needed for the effectiveness of income tax in Nepal.

5.2 Conclusion

Nepal is least development country in the world and it is economically poor but rich on natural resources. As Nepal is adopting the mixed economy for last five decades and have been liberalized from 1990's. By constitution, Nepal has encouraged the foreign investments. Various corporate friendly, laws rules has been formulated. Many public enterprises has been privatized and liquidated, some are in the process of privatization. Nepal has entered to WTO from 23rd April 2004 and has given emphases to foreign trade and foreign direct investments. Also the rate of custom duties has been lowered and relief in other trade barriers. Due to liberalized economy number of multinational companies has been established, though there is establishment of multinational companies, they are facing various challenges. The challenges are open boarder, improper billing, tax evasion, political instability, strike, insecurity and unhealthy relation between labor union and the management. The resource gap has been increasing every year. The internal source of revenue cannot meet the regular expenditure so for the development activities depend on the foreign grants and loan. There is always trade loss in foreign trade. The trade deficits have been increasing every year.

Income tax is very important source of tax for the generation revenue from internal sources. We can see the status of a country with the contribution of income tax to national revenue. If the ratio of contribution is high then the status of development is more. So in developed countries the contribution from income tax to national revenue is very high.

In order to increase the contribution from income tax, Nepal has adopted the new income tax act 2058 from 19th chaitra 2058 B S. this act has been formulated so as to encourage the foreign investors. This act has the feature of self assessment system with broad tax base.

The corporate sectors are in the initial stage of development. The role of industrials sector is very poor. We have to depend on the foreign countries for raw materials as well as technologies. Due to land locked nature the carriage cost of the industrial raw materials is very high. Also our economy is more or less

depended on the Indian economy. So most of the profits are diverted to foreign countries these days after the restoration of democracy in 2063 B. S. due to the peaceful nature and feeling of security there is chances for good business environment. The hotel and tourism sector are progressing these days and is the future for Nepalese economy.

The income tax act 2058 has encouraged developing the corporate culture in the country. It has transformed the ad-hoc based accounts to account based self assessment. The strength of the act is broad base. Appropriate rate of tax, appropriate method of calculation of depreciation provision for loss carry forward for consecutive year, provision of installment and use of the information technology.

In the opinion survey, it has been found that there is poor tax paying habit of Nepalese people for which lack of incentives for regular tax payers is the main reason. There is problem in income tax administration. However, income tax act 2058 is modern and effective that the pervious act. But, contribution of income tax on national revenue is not satisfactory. There is corrupt practice in the income tax administration. On the opinion of the respondents the most powerful reason for corrupt practice is low remuneration of tax personnel, weakness of act rules and regulation, dishonest tax personnel and political uncertainty.

Due to the reforms, the corruption existed in income tax administration can be decreased, the efficiency and transparency can be improved and the tax administration will treat the tax payers as a responsible citizens to a considerable extent. The cost of tax collection to tax payers, government and economy as a whole can be reduced to some extent.

Though the act have good aspects, in the implementation there are following challenges, the acts, rules and regulation are not consistent, the tax education part is very poor, there is problem of under invoicing, improper billing and after registration to VAT, taxpayers use to evade the tax by showing less transaction . Also there is smuggling of goods due to he open boarder and inefficiency of the administration. Though the tax department is applying income tax, it is not well

educated to tax payers as well as the tax personnel. The tax personnel don't get appropriate training. The manpower development planning is desired for the efficiency of tax personnel so as to improve the tax administration and tax compliance. Hence tax compliance can be improved with the remedy of the above challenges.

5.3 Recommendations

On the basis of the study, it is necessary to give various recommendations to the concerned departments. The following recommendations are recommended in order to increase the contribution of income tax in revenue collection as was as for the income tax administration and its effectiveness in Nepal.

- 1 Income tax policy should be formulated according to the economic policy of the country. Income tax policy should be revised timely. The tax system should be practical and effective. It should be equally beneficially to the tax payers.
- 2 The member involved in formulating income tax policy must have deep knowledge about income tax.
- 3 Income tax rules and regulation should be clear and simple for the entire tax payer as well as for the administrators. Following recommendation are made in income tax law:
 - a. The language of act should be simple and clear.
 - b. The assessment and tax collection provision should be encouraged while paying income tax.
 - c. Discretionary power of the tax officials should be curtailed in the act.
 - d. The assessment of time limit after the submission of the income assessment should be reduced.
 - e. The definitions made in income tax act should be further clarified and well defined.
- 4 The term of objectives of income tax should be growth, redistribution and stabilization. The income tax policy should be properly formulated on the basis of critical analysis of the existing situation.
- 5 Income tax administration implements the tax laws. Therefore, the effective of income tax system depends upon the income tax administration. In Nepal, one

of the most important reasons for unsound income tax system is inefficient and unscientific income tax administration. Following recommendations are made for improvement of income tax administration.

- a. Delay in assessment should be reduced as possible.
 - b. Computerized information system is necessary to keep up to date, records of the income tax.
 - c. Proper tax education should be provided to tax officials as well as tax payers regularly.
 - d. Unnecessary outside pressure should be avoided.
 - e. Income tax experts/ profession should be increased in tax administration.
- 6 Strong political commitment is necessary for the effective implementation of income tax act and its provisions.
 - 7 A research and intelligence center should be established in each tax office for proper planning and to collect the information in regard to income tax evaders, potential new tax payers and non – resident who have conducted business without registration.
 - 8 The VAT is regarded as good source of indirect tax. The government should encourage the entrepreneurs to join VAT, take PAN and systematize the custom. Customer awareness program is good method for proper billing in VAT. So this type of awareness program should be launched.
 - 9 The grants and loans should be invested on the projects with high return ratio.
 - 10 Priority should be given for the establishment of sufficient numbers of tax offices outside Kathmandu valley. Therefore, it is more convenience to provide the service.
 - 11 Encourage Entrepreneur to invest in productive sector. Highest tax paying person should be motivated by giving different facilities and by honoring him and should be strictly levied so as to harass the tax evaders. Although monitoring process should be continued.
 - 12 Tax deduction at source should be simplified by use of income tax. The new program e-PAN, e- TDS should be encouraged to tax payers.
 - 13 To solve the administrative problem in income tax, following is to be referred.
 - a. Illegal business activities must be controlled.

- b. Provision of reward, prize and incentives should be introduced to encourage the tax payers to pay tax voluntarily rather than through coercive measures.
 - c. Provide effective training to tax personnel time and again
 - d. The services given by revenue offices should be simplified and all the tasks should not be paper based but income tax based.
 - e. Ensure public awareness by conducting various programs.
- 14 the contribution of income tax on national revenue should be increased by the following ways:
- a. New sources of revenue should be found out.
 - b. Every person having taxable income should be brought under the income tax net.
 - c. Effective tax collection tribunals should be established.
 - d. No political placement and pressure in revenue department.
 - e. Over staffing is to be controlled.
- 15 Strict mobilization of administrative body.

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