

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal's economy is predominantly based on agriculture. Out of total population, 81 percent is based upon agriculture which contributes about 39 percent to the total GDP. Agriculture is the major supplier of raw materials to industries. Main obstacle to economic development of Nepal is vicious circle. It explains the economic backwardness. The basic vicious circle stems from the fact that Nepal's total productivity is low due to deficiency of capital, market imperfections, and economic backwardness and under development. In order to reap advantage from the improved trends in the global economy and to sustain economic growth at a higher level, Nepal needs to undertake a flexible and appropriate structural reform measures.

Government receipts may be in the form of taxes, charges etc as internal sources and borrowings, grants and loans as external sources. Those collected huge amount of fund is spent in maintaining peace and security in the country. The government spends its funds for fulfilling the basic needs of the people, such as health, education, communication, drinking water and other public utility and facilities etc. Similarly, government has to spend on development of socio-economic infrastructure, which facilitates to promote the private sector. All round prosperity of the nation can be achieved through the equal participation of private sector in development activities, industry and commerce as well.

The government needs huge amount of fund, which can be mobilized through two sources, internal sources and external sources. Developing country like Nepal, have limited sources of internal funds so most of the development activities depend on the external sources. The external sources of financing are bilateral and multilateral aids, grants and loans from foreign countries or donor agencies. These sources have been limited, inconvenient and not suitable to boost up our economy due to the vested interest of the donor agencies. The reality is that we have been implementing most of the policies and programs of the donor countries/agencies, paying high interest accepting the inappropriate conditions on taking loan.

On the other hand government tries to collect financial resources through internal sources. It is very important to developing country like Nepal. But it is not able to mobilize the internal resources satisfactorily. The major constraints in domestic resource mobilization are poor utilization of natural resources, small and stagnant industrial sector, partial monetization of the economy, poor performance of public sector enterprises, poor rate of economic growth, inadequate tax efforts, deficiencies in tax policies, laws and administration etc. **(Agrawal, 1978:p.102).**

The taxpayers on whom income tax is imposed are persons. A person can be a natural person who is an individual as a couple but includes also a proprietorship or it can be an artificial; person that is an entity means a partnership trust company and foreign establishment or government body. The role of taxes in Nepal has developed dramatically to enable the government to implement its fiscal policy in order to become more independent. The tax system in Nepal was expanded to achieve not only fiscal objectives but also economic and social objectives.

External sources of funds are foreign grants and loans. This kind of fund is received from foreign countries and international organizations. External sources of fund are more important for underdeveloped and undeveloped countries like Nepal. It is used for economic development, reconstruction, foreign exchange, to recover from crisis condition, etc. External resources are uncertain, inconvenient and not good for healthy development of nation because they have to be paid after a certain period of time. On the other hand, internal sources of fund includes both tax and non-tax revenues. Continuous uses of external sources of fund to raise necessary public fund is not good because it reduces the liquidity position of the government. So, internal sources of fund are more important not only for financing necessary funds but also for mobilization of internal sources. It is better to mobilize internal sources rather than looking with beggar's eyes to the donors. (Sharma, and Luitel; 2003:p.440) Like developed countries, developing countries try to mobilize their internal sources to finance necessary funds for regular and developmental activities. Nepal is not an exception. But Nepal's experience shows that she has mobilized internal resources fewer than expected.

Based on the nature of sources also, public funds are classified. The sources are revenue and borrowings. The sources of public income are taxes, fees, prices, special assessment, fine and penalties, gift, etc. Borrowings may be internal and external. In general, most of the public expenditure is financed through taxation and borrowings.

Continuous use of borrowing to raise the necessary public funds is not good. It reduces the liquidity position of the government and increases the inflation. Government has to impose higher taxes to repay the interest and borrowed sum too. "Generally speaking, as a source of public revenue, taxes are better than borrowing because it is merely transferring of funds and public treasuries." **(Vaish and Agrawal, 1992:p.345)**

Income tax plays a vital role in the economic development of Nepal. It is a tool of achieving maximum social and economic objectives as laid down by the Government of Nepal. It is also recognized as a good financial tool to make narrow the inequality in income. It reduces the regional economic imbalance by providing tax concessions and tax holidays to the business and industries which are established in remote and backward areas as the compulsory contributions from the persons to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred. So, tax is compulsory levy paid by natural and artificial persons to the government without getting corresponding benefits of goods and services provided by the government. The person who pays tax does not get any equivalent benefit from the government. It is compulsory liability of the person who has to pay tax.

Tax may be of various types. The rate and nature of tax may be different as economists have classified the tax from different angles. They have given a very long list of the types of tax. But on the basis of impact and incidence, the tax may be classified into two.

a. Direct Tax:

It is a personal tax. If the impact and incidence of tax is borne by the same person to whom the tax is legally imposed and there is no possibility of shifting then it is called direct tax. Examples include income tax; profit tax, property tax, expenditure tax, gift tax, interest tax, death tax, contract tax, vehicle tax etc.

b. Indirect Tax:

It is a commodity tax. If any tax is legally imposed for one person but the incidence of the tax is borne by another person through backward and forward shifting process, then it is called indirect tax. Value added tax, entertainment tax, passenger tax, hotel tax, export and import duties, excise duty etc are some of the indirect taxes.

The most well-known distinction between direct taxes and indirect taxes is by J.S. Mill. "A direct tax which is demanded from the very persons who it is intended or desired should pay it. Indirect taxes are those which are demanded from one person in the expectation and intention that he should indemnify himself at the expenses of another." (Mill; 1993:p.123). According to Mill, taxes were direct and indirect depending upon the fact whether they were actually paid by the people on whom the burden fell or not. A sale tax or a custom duty would be regarded as indirect taxes since it is said to be shifted by the seller to the purchaser.

Direct taxes are those which are levied on permanent and recurring occasions, and indirect taxes charges on occasional and particular events. In modern times, taxes are classified into direct and indirect taxes on the basis of assessment. Those taxes which are levied on the receipt of income are called direct taxes and those which are imposed on expenditure are regarded as indirect taxes. On this basis, income tax, profit tax and capital gain tax would be examples of direct taxes. Excise duties, custom duties and sales tax are indirect taxes.

Concept of Income Tax:

Income tax may be understood very easily if we first define the term 'income tax'. Income is generally regarded as the best measure of ability in the sense of economic well-being, for income is the primary determine of the level of living, which a family enjoys.

In a broad sense, income refers to the economic gain to a particular person during a particular period of time. It includes the person's consumption during a particular period of time as well as the same period.

Henry Simons defines income tax as the sum of two items, saying “income, as economic gains received by the person during the particular period” of

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

Generally, income tax is imposed on net income. Net income comes after deducting the cost of production from gross income. In practice the expense incurred in earning the income and appropriate exemptions are deducted to find out taxable income. Net income may be real income or money income. Real income is more comprehensive and includes not only money income but also other incidental advantages. Real income should, therefore, be the true index of ability to pay. So income tax should be charged on real net income of an individual and not on his net money income **(Agrawal, 1980:p.104).**

It will be possible to reduce the gap in income by imposing higher rate to those who are having higher income and from that collected amount providing necessary assistance to the people with very poor economic condition. Hence, it will help to make equitable economic distribution in the society. Balanced regional economic development is also possible through the provision of income tax. The government should charge higher income tax on the income from urban area and less on the income from remote area. Income tax holidays and incentives would help to develop the priority sector of a national economy. "Income tax has become an effective instrument to ensure balanced socioeconomic growth." **(Lal, 1997:p.675).**

Income tax will also help to increase the consciousness of people because the people who have paid the income tax will be interested on public expenditure. Though they cannot expect any direct benefit from their taxpaying, they can observe the use of collected fund from them in the form of income tax. It is helpful on generating the concept of social responsibility towards the nation and keeps the people vigilant to see that public money may not be misused. **(Saxena, 1986:p.345).**

The system of income tax was at first originated in England. In 1799, then Prime Minister William had imposed tax to the public to provide necessary funds for French revolutionary war. It was called war tax too. However, it was the first form of income

tax which was regularly imposed after 1842 in England. After 1960, the income tax act started being renewed yearly(Mil; 1993:p. 206).

The contribution of tax to the government revenue of Nepal is very significant. According to the data available of 2061/62 to 2066/67, it contributes more than 75% of the total revenue but the share of income tax is only around 10%.(Kadel;2003: p.65). As a poor country, sources of government revenue in Nepal are very limited. The domestic sources of revenue of the government should be increased to escape from the condition of depending on foreign aid and loan. Tax should be imposed at high rate to increase the domestic resources. In the meantime, the effect of taxation should be taken into care. The effect of taxation may be as follows:

- Reduce the purchasing power of the taxpayer.
- Taxpayers feel burden and other kinds of inconveniences.
- Reduction in consumption.
- May reduce incentive for work in order to earn further income.

It is no doubt that income tax is main source of government revenue. It is also usable in the balanced economic development. Nobody can doubt that the equal distribution of income is also possible through progressive income tax. It is being realized that the contribution of the income tax to the revenue of the government must be increased in Nepal. She has adopted the income tax system for the last decades, but her experiences show that government is unable to maximize the share of income tax to the public funds. Since all the factors influencing the tax system are dynamic, the system and policy of tax should be evaluated timely adopting an appropriate matching policy for it. Tax system should be made further more progressive, effective, productive and scientific than it is existing today.

The income tax system of Nepal must be reviewed and immediately correction should be made. The major elements of income tax system are income tax law, policy and its management. Among the above three elements of income tax system, the income tax management is the most important one because the application and realization part is totally played by its management. Furthermore, the necessary correction in its legal provision and policy is possible through the information feedback system provided by its management.

1.2 Statement of Problem

When faced with numerous alternatives to reach the same desired result, individuals and legal entities most likely will choose the one for which they will incur the least income tax liability. This is known as tax planning. However, tax planning strategies encounter boundaries that are sometimes extremely difficult to draw. For instance, there is a gray area between tax avoidance, which is legal tax saving and tax evasion, which is illegal. Income tax plays a very important role in the national economy. It is looked upon as a tool for achieving the social and economic objectives laid down in our constitution. It has been identified as a good financial mean to narrow the disparities in income. Regional economic imbalance is also being reduced by providing incentives and concessions in income tax for starting new industries in backward areas. Thus, income tax is not only government revenue but also an effective instrument to ensure balanced economic growth. The absence of sound tax system leads to the economic backwardness and economic backwardness to all other forms of backwardness.

Income tax system of Nepal has been facing serious managerial problem. The income tax administration of Nepal has been blamed that it is not so efficient. Since the government expenditure is growing, the sources of government revenue must be increased. Income tax is assumed as the best source of government revenue. The goodness of income tax is that only a capable taxpayer has to pay tax. Furthermore, only those taxpayers will pay tax whose income is above the exemption limits. As an instrument of economic growth and social justice, income tax in Nepal has not succeeded in achieving these goals. To enhance the contribution of income tax to the national exchequer thereby minimizing the increasing resource gap, the problems of income tax system of Nepal needed to be solved in time.

The main objectives of any tax system are to make funds available for economic development to maintain reasonable economic stability in the face of long-term inflationary pressure and short run international price movements, to reduce inequality in distribution of income and wealth and consumer standard which brings productive efficiency and bring about the quality of being light and fair and political instability in underdeveloped countries. But the objectives of tax system are not

fulfilled reasonably. The main problem underlying is weak tax administration and tax management procedure.

The study of Nepalese budgets indicates that there is a significant resource gap. The sources of filling up the resource gap are internal and external borrowing. The external borrowings have been playing dominant role while fulfilling the resource gap. The use of borrowing to fulfill the growing government expenditure brings various problems which are mentioned above. This is because the income tax has not been playing any significant contribution to the government revenue.

In Nepal, the evasion of income tax is more pronounced especially by the people of high income business class. Taxpaying habits and tax consciousness are very low; so many problems frequently arise in tax collection phase **(Agrawal, 1978:p.143)**.

Tax composition of Nepal shows that the Government of Nepal highly depends on direct and indirect tax. People in developing nations tend to have greater propensity to evade taxes. This is because they have lesser knowledge about income tax, and they have to maintain their livelihood from their limited income. The rich people used to avoid taxes by recourse to legal loopholes and taking advantage of an inefficient tax management. The tax management personnel are provided many discretionary powers which encourage them for corruption. Income tax management is not so efficient. It is not free from problems. The income tax management has become unable to widen the income tax coverage. In Nepal, the coverage of income tax is very low. In developed countries, 30% to 40% of total population pays income tax, and it occupies 21% to 40% of government revenue **(Agrawal, 1978:p.144)**.

Government of Nepal may not enlarge their assurance to the stakeholders to pay the tax for nation building. People think that tax collection mechanism is very weak and tax cannot use properly for nation building process. The tax authorities are inefficient and ineffective in enforcement. There are no integrated programs for taxpayers' education, guidance and counseling. Tax officers are looked upon as heaven for corruption, inefficiency, delays, unfair dealings, harassment and incompetent personnel. The assessment procedure of income tax is not effective. Undue delay in tax assessment not only reduces the total revenue but also bring harassment to the taxpayers.

In view of the discussions of problem taken from the above studies, the research questions are as follows:

- What is the income tax structure of Nepal?
- What are the problem of resource mobilization and resource gap in Nepal?
- What is the contribution of corporate income tax to Government revenue? Is it equally supporting to fulfill resource gap?
- What is the trend and share of corporate income tax in government Revenue, tax revenue, direct tax revenue?
- What are the problems/difficulties of Income Tax Act 2058?

Income tax is not collected properly and tax collection expenditure is increasing per year. The problem underlying it is there is not provision of tax education in the secondary level and only a few number of people know about the tax and its importance towards economic development of the nation. Because of the absence of proper knowledge of tax system, Nepalese taxpayers do not make tax planning. Tax evasion and avoidance are increasing tremendously.

The major income of the nation is mainly income tax as well as others taxes. But in part of this context, collection of tax is very hard task to the government. Tax should take as burden by people as well as taxpayers.

1.3 Objectives of the Study

The main objective of the study is to analyze the present system of income tax in Nepal. However, the following specific objectives have been set for the study:

- To study and evaluate the status of income tax as a 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 taxpayer.
- To evaluate the problems of income tax management and provide suggestions to the concerned on the basis of study findings.

1.4 Focus of the Study

In any country of the world, capital has the most important role for their developmental programs. A large amount of capital is needed to finance and to lead any developmental program for the economic betterment of a nation. In most of the countries, the capital is raised through internal and external sources. The external sources are foreign grants and loans. The internal source includes public borrowing, government bonds, surplus from public undertaking and taxation. Among them, taxation is the pivotal one and income tax is one of the most important ingredients of taxation.

The importance of income tax cannot be minimized in the public finance of a nation. Developing countries like Nepal can fulfill its financial needs by increasing its revenue through income tax. Revenue from income tax can be maximized either by imposing taxes at higher rate or introducing new taxes or collecting income tax properly within existing portfolio. Increment in income tax may be more burdensome to the people. Moreover, the poor people cannot bear the incidence of more tax. Introduction of new taxes and proper collection of tax depend on good income tax system. Unfortunately, Nepal's income tax system is not free from problems. Though, this field is of high importance, sufficient and timely researches are not being made in this field so far.

1.5 Scope of the Study

This study is basically concerned with the present contribution of income tax to the nation economy and income tax management in Nepal. It is clear from the objectives that the area of the study is to analyze and examine the contribution of income tax to gross domestic product, total budget expenditure, development budget expenditure, regular budget expenditure, total government revenue and direct tax. Income tax system though adopted for more than three decades in Nepal, major improvements have not been made so far in this field. So, there is a need for deeper and wider study in the income tax system of Nepal. Since many problems associated with the income tax are related with its management. This study based on the approach of management would be useful to the policy makers to get inputs on the ways of making the tax system efficient. In addition, ways will be sought out to make the income tax less burdensome to the taxpayers.

1.6 Limitations of the Study

Income tax management system is that system which promotes the tax behavior to stakeholders and manipulating the constraints related to income tax.

This thesis based on data because normally it is a quantitative study. In this perspective, data have been used which is developed by government and acquired by researchers.

Research activities are enrolled on the basis of rules and regulations which are tied up with data. Tax system is not properly taken up ownership in Nepal. So government makes the strong military application to collect the tax. Although there is no explicit statutory provision in Income Tax law of 2058 B.S. that would permit a taxpayer to do so, it is well established that a taxpayer may decrease the amount of what otherwise would be his taxes or all together avoid them, by means which the law permits. The taxpayer may take advantages of a loophole in the law to minimize his income tax burden. Additionally, the taxpayer may enter into a transaction with the aim at reducing his tax burden. The taxpayer may seem as if he abused the law and violate its purpose.

1.7 Organization of the Study

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

Chapter I: Introduction

This is the introductory chapter, which has covered background of the study, focus of the study, statement of the problem, objectives of the study, significance of the study etc.

Chapter II: Review of Literature

This chapter has included conceptual framework i.e. theoretical analysis and review of related different studies. This chapter has also considered that how this present study is different from previous studies. However, the taxpayer cannot be obliged to pay more taxes as long as his activities are not forbidden by law. In this perspective 10 years data has been used for research.

Chapter III: Research Methodology

This chapter describes the research methodology employed in the study. This chapter has dealt with the research design, population and sample, sources of data, data collection techniques and data analysis tools (financial tools and statistical tools) and methods of analysis and presentations.

Chapter IV: Presentation and Analysis of Data

This chapter includes secondary data and primary data presentation, data analysis, interpretation, testing of hypothesis and major findings.

Chapter V: Summary, Conclusion and Recommendations

The last chapter states the summary, conclusions of the whole study and recommendations. It also offers several avenues for future research. The exhibits and bibliography are incorporated at the end of the study.

CHAPTER II

REVIEW OF LITERATURE

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. This chapter has been classified in to following subgroups.

2.1 Concept of Tax

The government needs money to run its activities such as public welfare, maintaining peace and security, development plans and to handle day-to-day administration, just like the circulation of blood in the body. Money activates the different organs of the organization. When there is no money; no departments or lower level offices of the government which work as the part of the body stop working when there is no blood circulation. The government collects revenue from different sources like tax, price of goods or services provided by the government, receipt from public enterprises, fees, fines, grants, etc. In short, all the sources of the government revenue can be divided into two parts-tax and non tax. Tax is the major source covering most part of the government revenue.

Tax is a kind of money which 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.

According to Seligman, "A tax is a compulsory contribution from a person to the government to defray the expenses incurred in the common interests of all without reference to special benefit conferred."

According to Plehn "Taxes are general contribution of wealth levied upon persons natural or corporate to defray expenses incurred in conferring common interests upon the residents of the states."

From the above definitions, it is clear that a tax is a compulsory levy imposed by government. Tax is levied on persons as per the prevailing laws. Tax is paid to state to perform the function of the government. The taxpayer doesn't have any right to receive direct benefit from the tax paid. The taxpayer doesn't receive the equivalent benefit from the government. Amount of tax is spent for common interest of the people and collected from haves and spent for the interest of haven't in the society.

Many economists have classified taxes in to several categories. Basically, tax can be classified in to two broad categories: Direct tax and indirect tax. A direct tax is a tax paid by a person on whom it is legally imposed. In direct tax, the person paying and bearing tax is the same. It is the tax on income and property such as income tax, property tax, vehicle tax, interest tax, gift tax etc. are some example of direct tax. Direct tax is equitable as it is imposed on person as per the property or income. Time, procedure and amount of tax to be paid are known with certainty. Direct tax is elastic. The government can tax rate with the change in the level of property or income. Taxpayer can easily estimate his tax liability. The government can easily increase ordered according to proper economic situation of the country. It has many demerits. Direct tax is expensive for the government to collect tax individually. Tendency to evade tax may increase to avoid tax burden. Direct tax gives mental pinch to the taxpayers as they have to curtail their income to pay to the government **(Kandel; 2003, p6)**

Indirect tax is the tax imposed on one person but partly or wholly paid by another. In indirect tax the person paying and bearing the tax is different. It is the tax on consumption or expenditures. Examples of indirect taxes are VAT: sales tax, Entertainment tax, Hotel tax, Excise duty, Import and export duty etc. Indirect tax is transferable. People pay tax when they receive or consume goods or services. Therefore they don't feel burden to pay lump sum. There is mass participation because every person who receipts goods and services, pay tax. The government encourages domestic products and discourages foreign goods through higher rates of indirect tax.

Income tax is a direct tax. In case of Nepal; income tax is the major sources of direct tax revenue.

2.1.1 Concept, Meaning and Definition of Income Tax

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

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

A. The person's consumption during the period, and

B. The net increase in the individual's personal wealth during the period

Symbolically, $Y = C + \Delta W$

Where, $Y =$ Income

$C =$ Value of consumption

$\Delta W =$ Net Increase of Personal Wealth Respectively

It is very difficult to define income precisely. So income is exemplified rather than defined in income tax laws of various countries. For example, Sec.2 of the Indian Income Tax Act, 1961 keeps profits and gains; dividends, voluntary contributions received by charitable trust, value of any perquisite of profit in lieu of salary, any capital gain, winning from lotteries, cross word puzzles.....

According to income Tax Act 2058, Income means a person's income from employment, income from investment or business and the total of that income as calculated in accordance with this act.

Income taxes as the word itself suggest tax on income. In a broad sense income tax is a levy based upon the production or receipts or gain of the taxpayers with in a definite period of time.

Thus, income tax is chargeable on any person who is and assesses and whose total income exceeds the maximum exemption limit, at the prescribed rates and from the very beginning, income tax has been always regarded as a tax that has based on the cannon of ability.

2.1.2 Income tax in the international context:

Income Tax was first introduced in Great Britain in 1799 in order to finance wars with France. Only in 1980, it was accepted as a permanent tax. In United State of America, first federal income tax was imposed in 1862 to finance civil war expenditure. However it became a permanent feature only in 1913 after 16th amendment to U.S. constitution. In neighbor country India, at first income tax was introduced in 1860. After introducing Income Tax Act 1886 in 1886 it was imposed permanently. Italy adopted income tax in 1864, Newzeland in 1891, Australia in 1915 and Canada in 1917. After First World War, the income tax becomes an important source of tax revenue in many developed countries. By 1939, it has become the most important sources of revenue in most developed countries and had made appearance in a number of developing nations (**Agrawal, 1978:p113**).

From the First World War decade, Income tax has shown as an important source of revenue in developed country. In the beginning of introducing time, it was generally levied at flat rate. Only after 1909, the principle of progression was introduced from the UK and New Zealand (**Kandel; 2003, p10**).

2.1.3 Taxation in Ancient Nepal:

In ancient Nepal, taxes were levied in the form of kinds, cash and labour services. Special portions of agricultural produce were payable to the king as tax. There also existed tax payable in gold. Fixed taxes were levied in the villages. Compulsory manual work from all artisans and laborers were also a common way of paying taxes.

In the Lichhavi period the main source of revenue was tax. At that time taxes were known as “Trikar” which means three kinds of taxes. The three kinds of taxes were Bhaga, Bhoga and Kara. The Bhaga tax was levied on agriculture, the Bhoga tax was on animals and the Kara tax on business income. Irrigation tax and religious monuments preservation tax also existed at the time king Ansubarma of Nepal. Fixed

portions of agricultural product were payable to the king as tax. Compulsory labour work from all artisans and laborers were also common way of paying taxes.

2.1.4 Income Tax in Modern Nepal:

After the independence of the country in 1951, 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. A sound and efficient income tax system is necessary to maximize the revenue collection from income tax. Whole income tax system is made of three sub system i.e. income tax policy, income tax laws and income tax administration. Income tax policy is determined by the government itself through Ministry of Finance. Income tax policy should be such that the main objectives of the income tax can be attained.

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" (Interim Constitution of Nepal, 2007) present legal provision of income tax is associated with Interim Constitution of Nepal, 2007; Income Tax Act, 2058; Income Tax Rules, 2059; Finance Act of concerned financial year etc (**Amatya;2003:p185**).

Objectives of Income Tax Act 2058 :(Kandel, 2003:234)

1. To increase the tax coverage
2. To make income tax related provision clear and transparent
3. To make tax system based on account.
4. To minimize tax avoidance and tax evasion.
5. Making more effective and responsibility to tax administration.
6. To make tax system compatible to modern economy.

Main Features of Income Tax Act 2002 (2058 B.S.)

Tax system is the subsystem of total economy. Tax policy is changed with the change in the economic policy of a country, change in world economic policy and

advancement in information technology, "Income Tax Act 2058" has been enacted to avoid the deficit of income tax act 2031. This act has made a broad classification of income. This act imposes tax on all those activities contributing towards the creation of the wealth. This act contains 143 sections. As compared to income tax act 2031, very new concepts are introduced in this act. This act's silent features are as follows(**Kandel; 2003; p235**)

1. All income tax related matters are confined within the act.
2. Tax rates are spelled out.
3. Specification of stock valuation methods.
4. Abolition of various tax related concessions, rebates and exemptions.
5. Simplification of depreciation related provision.
6. Taxing capital gains and dividends.
7. Generous loss set-off and carries forward provision.
8. Provision of international taxation.
9. Stringent fine and penalty provision. Authorities of taxpayers have specified.
10. To control the tax evasion, provision of transfer pricing thin capitalization, dividend stripping is made.
11. Incentives are provided to infrastructure constructor, hydropower projects and special industries.
12. This act has classified all income in to three headings under Section3: business, employment, investment.
13. There has the special provision for deduction of pollution control and research and improvement expenses.
14. The income of an approved retirement fund is free from tax. But retirement payments in hands of employees are taxable.
15. Resident persons are taxed on their world wide income while nonresident persons are taxed only in their income sourced in Nepal.
16. If a person submits an income return for and income year on the due date indicating the amount of total tax liability for the year and the amount of tax still payable by a person. It is treated as a self-tax assessment.

2.2 Income Tax System in Nepal

Nepalese ancient tax system was based on vedas, smritis and puranas. Directives propounded by Nanu, Yanabaika, Chanakya etc, guided the taxation system. At that time, the principle of collecting tax from the people was imposition of tax without harming the activities of the people. Although there was tax system in Nepal in ancient time also, the concept of income tax was brought only by the first budget. The budget introduced in 2008 B.S. stated about the introduction of income tax system in Nepal. However, it was actually introduced only in 2017 when the Finance Act, 2016 and Business Profits and Remuneration Tax Act 2017 were enacted. At the beginning, equivalent tax rates with progression and exemption limit were prescribed by the finance acts of 2017 to 2021 to all companies, private firms, individuals and families. The marginal rate of taxation prescribed by these acts was 25 percent solely. The act was amended in 2029 extensively. However, considering this act incapable of fulfilling the needs of the time it was replaced in 2031 by another act, Income Tax Act 2031. Income Tax Act 2031 having 66 sections classified the sources of income into five (Kandel, 2003:p8)

1. Agriculture
2. Industry, business, profession or vocation
3. Remuneration
4. House and land rent
5. Other sources

Income Tax Act 1962 couldn't fulfill the needs of time. Therefore, Income Tax Act 1974 replaced the existing act in October 1974. Its basic framework had been derived from previous act. It had 66 sections. This act was amended in 1977, 1979, 1985, 1989 and 1993. Income Tax Act, 2058 has been introduced in Nepal to avoid defects of Income Tax Act, 2031 (Amatya;2003:p205).

The income tax system of Nepal is made of its three major sub-systems. They are:

1. Income tax law
2. Income tax policy of the government
3. Income tax management

Legal provision towards tax is provided by the Nepal government. Necessary acts are discussed and passed in parliamentary.

Income tax policy is determined by the government itself. Income tax policy can be divided in two categories:

1. Short-term policy
2. Long-term policy

Short-term policy can be defined as steps that are taken within a period of one year.

Long-term policy can be defined as steps that are taken in more than one year period.

The implementation of income tax law, policy, strategy and program is carried by its management. Income tax management implements the income tax provisions made by income tax law and objectives, policies and program of the government. Furthermore, laws and policies are corrected and reformulated through the feedback information from the experience of income tax management. So, the income tax management is the major element in the income tax system of Nepal (**Kandel;2003;p.221**).

2.2.1 Income Tax Law

Nowadays, legal support is necessary to impose tax on the public. The Interim Constitution of Nepal, 2007 has made clear provision about it. "No taxes shall be levied and collected except in accordance with law." Present provision of income tax is associated with following legal consideration.

- (1) The Interim Constitution of Nepal - 2063 B.S.
- (2) Income Tax Act 2058 B.S.
- (3) Finance Act of current fiscal year
- (4) Rule of government concerned act

The provision of income tax today is made by Income Tax Act 2002 (2058). This act was introduced in 2002 replacing the Income Tax Act 1974. Income Tax Act 2058 has reduced the sources of income from five to three. It defines income in terms of three sources only.

- (1) Income from employment
- (2) Income from business
- (3) Income from Investment

The specific features of the Act

The act has broadened the tax base. Tax rates are spelled out in the act itself and the tax rate concessions are harmonized on equity grounds.

A full-fledged self assessment system is implemented and the presumptive taxation and current year taxation system are strengthened.

The scope of discretionary interpretation of the tax administration is drastically reduced ensuring simplicity, uniformity and the transparency. The act has also defined the power and authority of the tax administration.

The act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers and criminal liabilities.

The appeal system is further streamlined by making it mandatory for the file on objection with the Inland Revenue Department for administrative review before appealing to the revenue tribunal (**Kandel, 2003:p16**)

Tax Rates:

The taxable income of a resident individual for an income year 2066/67 will be 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, 63)

The provision of self-tax assessment is made for the first time in Nepal(www.irdgov.np).

2.2.2 Income Tax Policy

To be a successful income tax system, sound income tax policy is essential. Policy towards income tax is determined by the government, especially finance ministry. Income tax policies are the broad objectives and ways of doing in the matter of income tax policies play the supportive role of income tax law. Nepal also is not an exception in this respect and Nepalese administrators and policy makers too have tried to change the tax policy of the country. Major policies of the government for the fiscal year 2007/08 are as follows (**Kandel;2003:p.320**).

- (1) Widen the coverage of tax.
- (2) Tax administration will be made sound, clear, and simple.
- (3) Local bodies will be involved in revenue collection so that the local resources could be mobilized.

The success of strategy and policy totally depends upon its implementation. Implementation part of income tax policy is played by its management. The success and failure of income tax policy depends upon its management.

2.2.3 Income Tax Management

Income tax management covers the whole income tax system. Income tax management includes tax law maker, policy maker and tax administration as its lower level management; but in this context, within income tax management is tax department and tax offices.

Income tax management implements the objectives of income tax law and policy into practice. Income tax management is most important element in income tax system.

In Nepal, there is tax department and tax offices under the ministry of finance for the income tax management purpose. Tax department looks over not only income tax but also contract tax, property tax, hotel tax, entertainment tax, vehicle tax and so on.

Lastly, there is another word named tax management that is similar to tax planning.

Tax management is the efficient, systematic and timely handling of tax matters to save maximum amount of time, talent, treasure and to avoid worry, tension, stringent penalty and prosecutions **(Kandel, 2003:p51)**

2.2.4 Objectives of Income Tax Management

Imposing tax on a person's income is very difficult task because it is the process of picking money from the person's pocket. The purpose of imposing tax on person's income can be listed as follows.

- a) Collect maximum revenue for development.
- b) Reduce inequality of income and wealth distribution among people.
- c) Promote private sector investment.

The objective of income tax management is to achieve the goal of income tax system.

2.2.5 Functions of Income Tax Management

Every management has to perform some tasks to achieve desired goal. The functions of income tax management are no different from the functions of other management, i.e., organizing, directing, staffing, controlling and planning, etc. The writer has classified the functions of income tax administration as follows **(Tiwari;1981;p.222)**.

- a) To find out taxpayer
- b) To find out the net income of taxpayer
- c) To make timely assessment of income of a taxpayer
- d) To collect taxes in an efficient and secured way
- e) The rules of taxes in simple, clear and effective

Income tax management must determine the objective of income year. The objective provides the guideline to the management. Human resources management is most important in each managerial work. It is also the most important source for every productive activity because it is the only active resource which has its own volition and it enables other resources active. Because of its complex nature, it is very difficult to manage. The management of income tax requires efficient personnel management to achieve the goal which income tax system holds.

The second important function of management is to determine the policy. Policy provides the guideline for achieving the desired goal.

The third important function of management is the determination of manpower requirement and to select the manpower. Necessary training is provided by Revenue Administration Training Centre and Staff College.

After the identification of objective and determination of policy, the program is required. Programming regarding income tax may be about resource plan.

The objectives are achieved through the implementation, which is the most important function of management. The feedback through implementation should be made to evaluate the past work and correct the objectives, policies and program for easy achievement of goal in future. But unfortunately, income tax system in Nepal has not been managed with scientific management system till now.

2.2.6 Components of Income Tax Management

Each work needs efficient management system for the fulfillment of desired goal. Each components of management should perform well. For the purpose of income tax management, the following components are important.

- (1) Parliament
- (2) Government of Nepal/Finance Ministry
- (3) Department of Taxation
- (4) Tax Offices

1. Parliament: Nowadays, the government cannot impose any tax without sufficient legal support. Similarly, legal support is necessary to impose income tax, which is provided by the parliament but parliament is not directly associated with the day-to-day affairs of income tax management.

2. Government of Nepal/Finance Ministry: Most important organization of income tax is the Finance Ministry of the Government of Nepal. It concerns with the revenue and expenditure of the government, internal and foreign debts and grants, planning and formulating various macro economics policies of government. Administration of income tax is one of the various tasks of the Finance Ministry (**Kandel, 2003:p71**)

3. Department of Taxation: Tax Department is the most important component of income tax management. The Tax Department functions under the Ministry of Finance and lunches various program, plans and policy related with the implementation of income tax management. It looks over not only income tax but a dozen of other taxes also. Department of Taxation has to implement the policy and law into practice. The Department of Taxation controls the Tax Offices and the implementation work is done through that tax offices. It constitutes personnel management, system improvement, law and policy, appeal, audit, investigation and review, tax exemption and statistics section.

4. Tax Offices: The actual implementation of income tax policy and program is done by income tax offices. There are many tax offices all over the country. Tax offices are liable for public relation, information, identification of taxpayers, assessment of taxpayers' income, assessment of income tax, income tax realization, and providing

feedback to the policy makers. The tax office is the lowest level of income tax management.

2.2.7 Income Tax Assessment

Assessment of income tax is the most important function of income tax management. The amount of income tax collection depends upon the quality of income tax assessment, and the quality of tax assessment largely depends upon the quality of tax personnel, taxpayers, law and policy. The corruption and evasion can be reduced with an efficient and effective income tax assessment procedure by which more and more financial resources can be generated through income tax. It is believed that more financial resources can be generated with efficient income tax assessment procedure with the present laws and policies. The assessment procedure can be made more efficient with the improvement in management.

The meaning of 'assessment' is to determine something for specific purpose. "The word assessment is used in a number of provisions in a comprehensive sense and it can comprehend the whole procedure for ascertaining and imposing liability upon the taxpayer and the machinery for enforcement thereof (Lal; 1990:p.267). In the Income Tax Act the term 'assessment' is used with different aspects in different places. Sometime it is used as a meaning of 'the computation of income and sometimes the determination of tax liability.

Methods of Income Tax Assessment: For the purpose of income tax assessment, the Income Tax Act 1974 has classified eight different types of assessments which are following:

- a) Advance tax assessment
- b) Provisional tax assessment
- c) Re-assessment and supplementary assessment of tax
- d) Self-tax assessment
- e) Best judgment assessment
- f) Assessment by income assessment committee
- g) Assessment by income tax assessment committee for small taxpayer
- h) Assessment on the basis of agreement

Income Tax Act 2058 provides the following major methods assessing income tax.

a) Self-assessment of Tax: The act has fully applied the self-assessment of tax system. It has made taxpayer more responsible. This system reduces the compliance cost. Taxpayer himself determines his tax liability with fine and penalty, if any. If tax authority doubts the income of taxpayer, tax authority can investigate it; otherwise, that becomes the final.

b) Jeopardy Assessment: Under the sec. 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, goes into liquidation, the person is about to leave Nepal indefinitely, the person is otherwise to cease activity in Nepal, or the department otherwise considers it appropriate. Whereas assessment is made under the jeopardy assessment with respect to full income year, the assessed person will not file 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 the assessment on the person.

c) Amended Assessment: Tax Department may amend an assessment made by the taxpayer. Under sec. 99 and sec. 100, department may **reamend** the amended assessment. The department may not amend assessment if the assessment has been amended or reduced pursuant to an order of the Revenue Tribunal or Court of Competent Jurisdiction except where the order is reopened (**Kandel, 2003:p79**)

2.2.8 Tax Assessment Procedures

The revenue collection from income tax is also based upon the income tax assessment procedure followed. An efficient and effective assessment procedure reduces the corruption and evasion and increase the morality which assists to generate additional financial resources through income taxes.

The income tax assessment procedure generally proceeds through four stages.

- a. Return of income statement.
- b. Assessment of taxable income.
- c. Determination of tax liability.

d. Collection of net proceeds after deducting taxpayers advance tax payment.

2.3 Income Tax and its Role in National Exchequer

More and more financial resources are needed to meet the increasing expenditure for growing development and regular activities. Emphasis has been given to the fulfillment of financial needs from internal resources especially the taxes, but it does not mean that there are not other sources to meet such needs. Because of some reasons, the tax revenue is emphasized. The objective of revenue collection is not only to finance growing expenditure but to achieve other goals like social justice, balanced regional development and distributive motives etc. The direct tax, basically income tax, is assumed as the best weapon. Income tax is also considered the ability to pay. Hence, income tax is pushed up as the effective instrument for development, stability and equality in the developing countries.....

2.3.1 Problems of Income Tax Management in Nepal

The contribution of income tax to the revenue of the government has been very minimum. This is because the income tax system in Nepal has been facing many problems. The insufficiency of the income tax management is one of the reasons.

Income tax management in developing countries likes Nepal has been facing many problems. The contribution of direct tax and income tax to the revenue of the government is very low; and to meet the growing expenditure, Nepalese Government has been using deficit financing. As the consequence of this, there is significant resource gap in Nepalese budget. The problem can be avoided only when the problems of tax management are identified and corrective actions should be taken immediately. The major problems which the income tax management in Nepal has been facing can be listed as below: **(Agrawal, 1978:234)**

1. Failure to locate new taxpayers.
2. Failure to maintain proper accounts and records.
3. Defective assessment procedure.
4. Serious gaps and delinquencies in the collection of income tax.
5. Poor taxpaying habit among the Nepalese taxpayer.

6. Tax evasion and avoidance
7. Lack of appropriate organization structure.
8. Instability in government policy.

2.3.2 Appeal

A person who is not satisfied with the decision of tax officers concerning income tax has the right of appeal. Such appeals can be:

Appeal to Director General: A person who is aggrieved by reviewable decisions has the right of appeal against such order with the department within 30 days after the decisions are made. While filing the appeal the taxpayer 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 days. 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 be effective.

Appeal to appeal and Supreme Court if any taxpayer who is aggrieved by the decision made in the 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.

2.4 Tax Accounting

Tax Accounting methods that focus on taxes rather than the appearance of public financial statements. Tax accounting is governed by the Internal Revenue Code which dictates the specific rules that companies and individuals must follow when preparing their tax returns. Tax principles often differ from Generally Accepted Accounting Principles

2.4.1 Methods of Tax Accounting

On the basis of this act, the financial transactions of a firm are recorded either on a cash basis or in an accrual basis. Income Tax Act 2058 has specified the method of tax accounting in section 22 when a person derives an income or incurs an expense is made according to the generally accepted accounting principles. In calculating the individual's income from an employment or investment for tax purpose, the accounting should be done on cash basis.

Table - 2.1
Use of Tax Accounting

Person	Income Head	Accounting Method
Individual	Employment and Investment	Cash Basis
Sole Trader/Proprietor	Business	Cash or Accrual Basis
Company	Business, Investment	Accrual Basis
Other Entity	Business, Investment	Cash or Accrual Basis

Source: Income Tax Act, 2058

Cash Basis of Accounting

A person who keeps tax account on a cash basis in calculating the person's income from employment, business or investment should:

- Treat an amount as derived and include in income only when the payment is received or made available to the person.
- Treat an expense as incurred and deduct in that calculation only when the payment is made.

Accrual Basis of Accounting

A person who keeps tax account an accrual basis in calculating the person's income from business or investment should treat an amount as derived and include in income when the person becomes entitled to the payment for the purpose of deductions, the following expenses is treated as incurred:

- When the person is obliged to make the payment
- The value of obligation can be determined with reasonable accuracy
- The other payment has been received.

In case of accrual basis accounting, an appropriate adjustment should be made at the time the payment is received or made so as to account for the in accuracy that may happen in both income and expenditure including by reason of a change in currency valuations.

2.4.2 Fees, Fines and Penalties

Income Tax Act 2058 has made provision for fine, fees and penalties in different cases.

1. Penalties 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 higher of 0.1 percent per annum of the person's assessable income with a gross of any deductions or Rs.1000 per month whichever is higher. A withholding agent who fails to file a statement as required is liable to pay a penalty at 1.5 percent per annum applied to the amount of withheld for each month and part of the month during which the failure continues **(ITA, 2058)**

2. 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 **(ITA, 2058)**

3. 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 the standard interest rate applied to the amount outstanding **(ITA, 2058)**

4. 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 false or misleading statements, impedes tax administration to counsels or induces another person to commit such an offence is liable for penalty equal to 100 percent of the underpayment of tax(**ITA, 2058**)

5. Penalty for Making False or Misleading Statements: A person who makes a 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 a penalty as follows.

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

2.4.3 Income Tax Management in Nepal

Income tax in modern age is recognized as most important instrument for resource mobilization. Internal resources must be mobilized properly to achieve the goal of national development. It is believed that minimum requirement of people can be fulfilled through economic and social development. Every development activity requires capital. Income tax is one of the sources of government revenue, and it can play vital role in internal resource mobilization if it is managed properly. Income tax is one of the instruments of fiscal policy of a government to achieve two major objectives of:

- a. Arising revenue for the developmental activities of the government, and
- b. Reducing inequality of income and wealth among her people. (**Tiwari, 1981:223**)
- c. To fulfill these objectives, Nepalese Government introduced income tax 45 year ago in the fiscal year 1959/60. From that period, government has been trying to manage properly income tax system through various activities so that the desired goal could be achieved. Though the amount of income tax is increasing, it is not increasing at desired rate. This may be due to the absence

of any systematic managerial approach. The role of income tax can be essential for management of income tax system. For this purpose, there is a tax department under the Ministry of Finance, Government of Nepal (**Tiwari, 1981:233**)

2.5 Review of Related Studies

Many books, dissertations, articles and reports are published and different individual and institutions concerning to income tax conduct researches. Many individuals and institutions have studied on the various aspects relating to administrative problem legal aspects and trends of income tax system. These studies are useful in the field of income tax.

Some of the books, articles and dissertations that are reviewed during this study are as follows:

2.5.1 Review of Dissertations

Shakya (2005) studied about Income Tax Act, 2002 in his dissertation “*A study on ITA, 2002*”. He concluded that a commitment is must within taxpayers and tax administration to make a fair and safe tax administration. He gave emphasis to provide sufficient incentives and remuneration with is program like promotion and motivation. His suggesting were for the improvement of tax administration after implementing ITA, 2002, were: The tax act must be simple and understandable to taxpayers and tax administrators; The emphasis is given to establish information center where taxpayers can get information regarding tax law; The focus point must be provide sufficient incentive and remuneration to tax administrators to expect the full effort of tax administrators towards their duties and to conduct training programs.

Shakya (2006) presented a dissertation named "Income Tax System and Tax Structure of Nepal". His study was done with basic objectives of analyzing the causes of heavy reliance of indirect taxes, analyzing the volume of indirect tax revenue and direct tax revenue in total tax structure highlighting the revenue assessment procedure from different sources and suggesting improving on them. In this study he has identified that income tax has occupied fourth position among tax revenue of Nepal custom duty, sales tax and excise duty has occupied first, second and third position

respectively in Nepalese taxes revenue. He has mentioned Nepalese taxable capacity is limited by various factors such as low per capita income, extensive subsistence economy, relatively "closed" (India) economy, weak export position etc. We found that the ratio of income tax to GDP, total revenue total tax revenue and direct tax revenue have been on increasing trend in Nepal. But increasing rate is very low in comparison to other countries. Tax evasion is the main reason behind it. Lack of clear and comprehensive definition of income, lack of punishment to the evaders, low taxpaying capacity and non conscious of taxpayers, lack of inefficient tax administration, lack of scientific method of tax collection and lack of trained tax collectors were the main reasons of income tax evasion identified by him.

Tripathi (2008) in his research study entitled "*Contribution of Income Tax from Public Enterprise to Government Revenue in Nepal*". The main objective of this study was to analyze the structure of income tax in Nepal to analyze the contribution of income tax in Nepal to analyze the contribution of tax from public enterprises to government revenue of Nepal. In this study, he suggests that the income tax rules regulations should be simple for all taxpayers.

- i. Do you have any income, which should be tax free? And
- ii. Expenses which should be allowed for deductions?

The responses about the questions was that the promotional expenses; guest hospitality donation, prizes, grants should be allowed for deductions as an expense. About the income, income from foreign exchanges rate grants received, all compensation received should be tax free.

Khadka (2009) presented a book named "*Modernizing Tax Administration in Nepal*". It has really most useful book to conduct whole research. It gave through idea about tax administration in analytical way. The book has a nine chapters starting from development of tax administration to conclusions and recommendations. The writer focused on the human resource development of tax administrators. He also gives new ideas on tax administration to reform it such as computerization and autonomous revenue improvement of tax administration in Nepal.

Pokhrel (2010) has described the contribution of income tax from public enterprises to Public Revenue of Nepal, with special reference to Nepal Electricity Corporation.

He has mainly focused about conceptual framework, legal provision and structure of income tax, conceptual framework of PEs and the Nepal Electricity Corporation, contribution of income tax to the public revenue and contributed portion of income tax of Nepal Electricity Corporation to the total income tax. He has conducted an empirical investigation about various aspects of PEs income tax impositions in Nepal. He has taken 65 persons as a sample. Tax experts, taxpayers, tax administrators and Nepal Electricity Corporation's officers are the sample of his study. His findings about the tax structure were: composition of government revenue where the tax revenue constituted 77%. In total tax revenue, indirect tax constituted 78%. The share of income tax to direct tax revenue has been fluctuating significantly. The contribution of income tax revenue from Nepal Electricity Corporation in total tax revenue and total government revenue was 0.26% and 0.21% respectively in the fiscal year 2003/04. The average share was 8.5%, the share of income tax from NEA to income tax revenue was about 2.57% in an average in the fiscal year 2003/04. Contribution of income tax from PEs in Nepal was not sufficient. He suggested that income tax system will be succeeded if the system were widening of tax coverage, tax consciousness to people, minimize the evasions and avoidance problem, enhance the self assessment system, and reform in income tax assessment and administration system.

Dahal (2010) submitted a dissertation with heading '*Income tax management in Nepal*'. He focused on many administrative aspects of income tax. He concluded that the effectiveness of tax system depends on the existing management and leadership. A vigilant and transparent tax administration and capability of timely reviews in policy back sliding the gains in the revenue front. He suggested that, for the improvement of tax management strong political commitment is most.

In this way, various books, dissertations reports and articles published in journals and newspapers are reviewed while preparing this dissertation. Most of literatures are concentrated on administrative, legal and assessment procedure of income tax. Since, all of them have identified the main problem in this sector as poor performance of tax administration. Although very few studies was concerned on focusing tax administration covering all sources of taxes in separate way. Setting the lack of study

mainly concentrated on covering all aspects of tax and focusing particularly income tax in more specific way.

2.5.2 Review of Reports and Articles

Lent (1968) has presented a report entitled "Survey of Nepalese Tax Structure" under the request of INF fiscal affairs Department. He has critically analyzed the scope of income tax in Nepal, tax structure, taxable income exemption and allowances given at that time. He has suggested reforming both the income law and administration to increase government revenue through income tax.

Agrawal (1978) has provided details information in various aspects of income taxation in his report prepared in 1978. His study is the first comprehensive scientific study on this ground. He has organized his study on nine chapters. Resource mobilization through income tax, fiscal policy, effective tax system role of income tax, legal provision in regard to income tax, legal aspect of income tax, administrative aspect etc. have been discussed. The study is very useful to find out the reality about income tax in Nepal. Various mathematical calculations have been shown per capita burden of income tax, buoyancy co-efficient of income tax, elasticity coefficient of income tax etc. have been calculated. This study has covered periods of nine years (1967-1976). He has identified the major problems in income tax system as inefficiency of tax administration and income tax evasion though other many have been also shown. He observes that tax authorities are insufficient in enforcement of law. There are not integrated programs for taxpayer's education: assistance, guidance and consoling. Tax officers are looked upon us heaven for corruption. Insufficient, delays, unfair dealings, harassment and incompetent personnel are the major problems of tax administration. This research study was made 26 years before it is however a comprehensive study and has included various aspects of income tax system of that period all things mention in it aren't fully relevant today. This means that it is not useful today. Some of the problems identified by it are still inexistence in income tax system of Nepal.

Revenue Consultation Committee (2001) has studied the overall taxation situation in depth. It highly emphasized to simplify the tax policy to increase voluntary compliance. This report recommended for written communication between taxpayer

and tax administration rather than the informal relation. This report suggested to widen the income tax base by including all kinds of taxpayer and income and to find out the taxpayers of new sector for this, the report suggested making the actions more transparent and clear in order to attract foreign and domestic investors. It was further suggested to increase income tax exemption limit with considering purchasing power and inflation rate.

Adhikari (2003) has discussed the legal provision of new income tax act, 2002. His report is analytical rather than informative writer hasn't included administrative aspect, role and structure of income tax in his book. The book has only focused on the legal aspect of income tax. Agreement and protocol relating to avoidance of double taxation and the prevention of fiscal evasions with respects to taxes on income between different countries had also included in his book.

Pant (2004) has described the problem arise in tax administration and reform in Nepal. He has identified the following problems on tax administration.

- i. Low amount record in transaction.
- ii. Low amount record in sales.
- iii. Lack of the mobilization of experience personnel.
- iv. Ineffective reward and punishment system.
- v. Lack of effective co-ordination between Inland Revenue office and Revenue Research Unit.
- vi. License revenue without tax clearance.
- vii. Unhelpful in tax auditing by assesses.

Toyenath Tripathi (2007) in his research study entitled "Contribution of Income Tax from Public Enterprise to Government Revenue in Nepal". The main objective of this study was to analyze the structure of income tax in Nepal to analyze the contribution of income tax in Nepal to analyze the contribution of tax from public enterprises to government revenue of Nepal. In this study, he suggests that the income tax rules regulations should be simple for all taxpayers.

- iii. Do you have any income, which should be tax free? And
- iv. Expenses which should be allowed for deductions?

The responses about the questions was that the promotional expenses; guest hospitality donation, prizes, grants should be allowed for deductions as an expense. About the income, income from foreign exchanges rate grants received, all compensation received should be tax free.

Binod Rijal (2009) conducted a research entitled "A Study on Contribution of Corporate Tax in Government Revenue" in 2009. The main objective of this thesis was to analyze the role of income tax in Nepal, to examine the corporate tax structures in Nepal etc. The study analyzed the period only the 10 years. In his study he made recommendations that private investment should be increased, revenue leakage should be controlled, corruption should be controlled etc. but he didn't make any recommendations about exemptions and deductions.

There is some research works carried out on income tax in Nepal concentrating mostly on the administrative, legal, assessment procedure of income tax in Nepal, historical aspects. Very few studies and publications have included role of income tax in descriptive way and study on the income tax management in separate way. The present study mainly concentrates on the contribution of income tax to the national economy betterment of Nepal and mainly concentrated on analysis of income tax management in Nepal in a more specific way.

2.5.3 Review of Books

Prandhanga (1993) wrote a book entitled "Income Tax Laws and Accounting." Mr. Pradhananga has described the provisions made under income tax laws. This book is divided into 20 chapters. In this book Mr. Pradhananga has described about the income tax and its development in Nepal. Finance act, Industrial Enterprises Act, agricultural income, income from remuneration, income from house and land rent, income from industry and business, profession and vocation. He has also described about fines and penalties, appeal, contribution of income tax for the development of nation, income tax administration and official, collection and return of income tax and admissible and inadmissible expenses etc. he also included some numerical problems in regard to income tax assessment. But, this book has not analyzed the importance of income tax, problems and defects in Nepalese income tax act and importance of exemptions and deductions in income tax system of Nepal. This book has been

written to fulfill the course required to fulfill the M. Com and B.Com course of T.U. Specially, this book is based on the syllabus of B.Com of T.U.

Khadka (1994) has published a book named “Nepalese Taxation; Path for Reform”. In this book, he had described the economic policy of Nepal, VAT as a long term source of revenue in Nepal, property tax as a main source of local revenue, important in tax administration in Nepal, tax reform strategy. He has shown the composition of tax revenue from 1989 to 1994.

Tiwari (1999) has presented a book about income tax system in Nepal. Basically this book is written for the students of Tribhuvan University and it is equally useful to the taxpayers, tax administrators, and the person who want to get theoretical as well as practical knowledge about income tax. He has described the provision under income tax act 2031, income tax rules, provision under finance act 2055, other provisions, information and acts related income etc. He has not analyzed the major problems of income tax system. **(Tiwari, 1999)**

Adhikari (2003) has presented a book on modern income tax. He has discussed the provision under Income Tax Act 2058. His book is analytic rather than informative. He has to introduce different aspect of tax planning needs and base for successful tax planning. He has also presented historical background, income tax laws and its implements, assessment of tax and tax authorities and duties. **(Adhikari, 2003)**

Bhattarai and Koirala (2004) wrote a book named “Tax Laws and Tax Planning”. This book has been written to fulfill the master course of T.U. this book has been organized in 20 chapters. In this book, the writers have described the precious related to the income tax assessment and tax planning they have also presented on Overview of relevant tax laws: income tax act 2058 and value added tax 2052. They have also included numerical problems also in regard of income tax assessment. This book is informative and descriptive rather than analytical.

Amatya, Pokhrel and Dahal (2008) wrote a book entitled “Taxation in Nepal”. This book is also designed to meet the requirement of B.B.S. 3rd year syllabus. Theoretical as well as practical aspects of taxation have been included in the book. This book is a descriptive one, not analytical.

2.6 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 as well as administration must be there. 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. Therefore the research has been conducted on the topic Income tax administration and its effectiveness in Nepal. But the last government was very much successful in collection in revenue through effective programs.

CHAPTER-III

RESEARCH METHODOLOGY

This chapter 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

This study has attempted to analyze the present role of income tax in national economy and income tax management in Nepal. Opinion of 75 respondents associated with first set question and 60 respondents associated with second set question with the income tax administrators, experts and taxpayers are collected through questionnaire. According the research design followed in the study can be termed as survey cum analytical and descriptive research design.

3.2 Population and Sampling

The targeted whole area relating to government revenue or national revenue is set for the research population. Income tax, especially, corporate income tax is taken as the sample for the study.

3.3 Sources of Data

According to the nature of study, the study requires primary as well as secondary data has been used.

3.3.1 Primary Data

Primary data were collected through a schedule of self- structured questionnaires, informal dialogues, discussions and interviews with concerned persons. Separate sets of questionnaires were used to have options/information from two-sample population. The first set of questionnaire was distributed to different related tax experts. The second set of questionnaire was distributed to others which was collected.

3.3.2 Secondary Data

Secondary data were collected the annual report of IRD/N of different years, economic survey of various years, published by MOF, Nepal Rastra Bank's Economic bulletin of various time and from the publications of Central Bureau of Statistics etc.

3.4 Data and Information Collection Procedure

Various numerical data and information are collected as per the objective of the study and research questions. Firstly, laws, rules, regulations and policies related to income tax and corporate tax are studied to get more information about corporate income tax including book related to public finance. Secondly, different libraries such as Chamber of Commerce, FNCCI, and NRB are also consulted. Thirdly, the numerical data are collected from the publication of annual reports of IRD/N, economic bulletin of NRB, economic survey of MOF, publication of security board, CBS, publication of CEDA/TU, budget speeches etc. Lastly, various journals, national newspapers are also reviewed. Respective parties are consulted while analyzing the research questions.

3.5 Data Analysis Procedure

The collected data were classified and tabulated under different tables and format. Some related statistical analysis such as simple average and percentage will be made where necessary. The results were expressed in the form of description and analytical.

3.6 Presentation and Analytical Tools

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

- a. Table: Various tables are formulated to tabulate the data.
- b. Charts and diagrams: These tools are used for visually description of the data, trend line, bar diagrams and pie charts are used for this purpose.
- c. Correlation: correlation may be defined, as the degree of linear relationship between two are more variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. Correlation analysis is defined as the statistical technique, which measures the variables, which lie between ± 1 . If the value of correlation (r) is nearer to $+1$, this relationship is said to be perfectly positively correlated and vice- versa. We can compute the correlation simply by using direct method.

$$\frac{N\sum XY - \sum X \cdot \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where,

n = No. of observation

X= Variables

Y= Variables

- d. Analysis of time series: A series formed from a set of statistical data arranged in accordance with their time of occurrence is said to be a time series. A time series shows the relation between two variables one being the time. The size of the population in every decade, the price level of the different in every month the volume of population in every year indicate the relation between the time changes and the changes in the value of other variable. Time series analysis is mostly used in Business and economics, by which we can predict the value of variable for the future. Mathematically, a time series is defined as the functional relationship $Y = f\{t\}$, where y is the value of the variable consideration in time. The time 'T' may be yearly, quarterly, monthly, weekly etc. Under this method, a trend line is fitted to data satisfying-

$\Sigma(Y-Y_1) = 0$, and $\Sigma(Y-Y_1)^2$ is least from that the line obtained by this method is the line of best fit.

Where, y is the actual value and Y1 is the computed value of Y.

Trend line, $Y = a + bx$

Where,

Y= Dependent variable

X= Independent variable

A= y intercept or value of Y when X= 0

B = slope of the trend line of amount (of) change that comes in Y for a unit change in X

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

To achieve the objectives of the study, Primary and secondary data are used as per the requirement of the objectives. 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 Descriptive Analysis of the Data Based on First Set Questionnaire

An empirical investigation was conducted to find out the various aspects of income tax from the experience of the real world. The major tools used for this study is an opinion survey. The 100 questionnaires were distributed and 75 respondents selected for this study were tax administrators, tax experts, and taxpayers. The study is based on the role of income tax in national economy and income tax management in Nepal. The views of the respondents were collected from Kathmandu Valley only. Information collected from the respondents were tabulated into the separate format and expressed in terms of percentage of total number. It has been analyzed into descriptive ways.

Out of the total samples collected, opinions were mainly taken from the income taxpayers, as it represents all types of taxpayers. The numbers of respondents by different groups are shown in following table.

Table 4.1: Responses by Groups

S.No.	Groups of Respondents	Sample Size	Percentage
1	Income Tax Administrators	15	20
2	Income Taxpayers	30	40
3	Income Tax Experts	30	40
Total		75	100

4.1.1 Income Tax as a Means of Raising Domestic Resources

To know the view of the respondents about the income tax as a means of raising domestic resource, a question was asked "Is income tax a suitable means of raising domestic resource?" The responses received from the respondents are tabulated as follows:

Table 4.2: Income Tax as a Suitable Means of Raising Domestic Resource

Respondents Group	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Income Tax Administrators	10	13.33	20	26.67	30	40
Income Tax Experts	12	16.00	18	24.00	30	40
Income Taxpayers	10	13.33	5	6.67	15	20
Total	32	42.67	43	57.33	75	100

From the above table, it can be said that 42.66 percent of the respondents agreed to income tax as a suitable means of raising domestic resources and 57.34 percent of the respondents has not positive attitude towards income tax as a suitable means of raising domestic resources.

4.1.2 Poor Taxpaying Habit of Nepalese Taxpayers

To know the view of the respondents about the taxpaying habit of Nepalese people, a question was asked "Is there poor taxpaying habit of Nepalese taxpayers?" The responses received from the respondents are tabulated as follows:

Table 4.3: Poor Taxpaying Habit of Nepalese Taxpayers

Respondents Group	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Income Tax Administrators	18	24.00	12	16.00	30	40
Income Tax Experts	20	26.67	10	13.33	30	40
Income Taxpayers	5	6.67	10	13.33	15	20
Total	43	57.33	32	42.67	75	100

From the above table, it is clear that more than 57 percent respondents expressed their agreement upon the poor taxpaying habit of Nepalese people and 42 percent in disagreement to this view. Among those respondents who showed their agreements, 40 percent were tax administrators, 40 percent were tax experts and 20 percent were

taxpayers. So, it is concluded that poor taxpaying habit of Nepalese people must be avoided according to the respondents.

4.2 Presentation and Analysis of Data on the Basis of Secondary Source

4.2.1 Contribution of Direct and Indirect Tax on Total Tax Revenue

Direct and Indirect tax is directly affected to the total revenue of the country. The contribution of indirect tax is greater than direct tax as shown in below.

Table 4.4: Contribution of Direct Tax and Indirect Tax on Total Tax Revenue

(Rs. In Million)

Fiscal Year	Total Tax Revenue	Direct Tax Revenue	% of DTR on TTR	Indirect Tax Revenue	% of Ind.TR on TTR
2001/02	28,752.7	7,296.5	25.38	21,456.20	74.62
2002/03	33,152.3	8,555.1	25.81	24,597.20	74.19
2003/04	38,865.1	9,729.8	25.03	29,135.30	74.97
2004/05	39,330.5	10,037.8	25.52	29,292.70	74.48
2005/06	32,586.9	9,380.4	28.79	23,206.50	71.21
2006/07	48,173.0	10,943.4	22.72	37,229.60	77.28
2007/08	54,104.7	11,958.6	22.10	42,146.10	77.90
2008/09	57,430.4	12,554.8	21.86	44,875.60	78.14
2009/010	71,127.0	17,287.5	24.31	53,839.60	75.70

Sources: *Economic Survey*

From the above table, we find that there has been simultaneous increase in direct tax, indirect tax and total tax revenue in absolute terms. In 2001/02, these amounts were Rs. 7296.5 million, Rs. 21456.2 million and Rs. 28,752.7 million respectively and during the period of nine years these amounts became Rs. 17,287.5 million, Rs. 53,839.6 million and Rs. 71127 million respectively.

Despite of absolute increment of direct tax, its contribution to total tax revenue in FY2001/02 was 25.38% amounting to Rs 7296.50 million, which increased up to 28.79% amounting Rs 9380.4 million in the FY 2005/06. But the direct tax contribution percentage to total tax revenue was decreased down to 21.86%

amounting Rs. 11958.6 million in FY 2007/08 and it slightly increased up to 24.31% amounting Rs. 17,287.5 million in the FY 2009/010. The contribution of indirect tax in FY 2001/02 was 74.62% amounting Rs. 21,456.20 million and decreased down to 71.21% amounting Rs.23206.5 million in FY 2005/06. After then it was increased to 78.14% amounting Rs 44,875.60 million in FY 2008/09 and it was 75.70% amounting to Rs 53,839.60 million in FY 2009/010.

Comparing direct and indirect tax, it reveals that the heavy reliance of economy is on indirect taxation. An indirect tax is considered regressive in nature; the tax structure of Nepal is not justifiable in equity ground and progressiveness. So, 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 the attention should be paid on the sufficient resource mobilization through internal sources.

4.2.2 Composition of Indirect Tax

Nepalese tax structure is heavily dependent on indirect taxes, which constituted 75.70% of total tax revenue in 2009/010. Nepalese tax revenue is dependent mainly on international trade and sales tax/VAT on goods and services supplemented by taxes on income and property to some extent.

The major components of indirect tax in Nepalese tax structure constitutes custom duty, excise duty, sales tax/VAT, vehicle tax and other taxes. The following table shows the composition of indirect tax:

Table 4.5: Composition of Indirect Tax and Their Percentage

(Rs. In Million)

Fiscal Year	Indirect Tax Revenue	% age	Custom duties	% age	Excise duties	% age	Sales Tax/VAT	% age	Vehicle tax	% age	Other Tax	% age
2001/02	21,456.2	100	9517.7	44.36	2953.2	13.76	8765.9	40.85	219.4	1.02	0	-
2002/03	24,597.2	100	10813.3	43.96	3127.7	12.72	10259.7	41.71	396.5	1.61	0	-
2003/04	29,135.3	100	12552.1	43.08	3771.2	12.94	12382.4	42.50	429.6	1.47	0	-
2004/05	29,292.7	100	12658.7	43.21	3807	13.00	12267.3	41.88	559.7	1.91	0	-
2005/06	33,206.5	100	14236.4	42.87	4785.1	14.41	13459.7	40.53	559.5	1.68	165.8	0.50
2006/07	37,229.6	100	15554.8	41.78	6226.7	16.73	14478.9	38.89	700.6	1.88	268.6	0.72
2007/08	42,146.1	100	15701.6	37.26	6445.9	15.29	18885.4	44.81	806.5	1.91	306.7	0.73
2008/09	44,875.6	100	15344.0	34.19	6507.6	14.50	21610.7	48.16	847.6	1.89	565.7	1.26
2009/010	53,839.6	100	16708.0	31.03	9343.2	17.35	26095.6	48.47	995	1.85	697.8	1.30

Source: Economic survey, MOF/GON.

Note:

1. Custom duties includes imports + exports + Indian excise refund + others
2. Excise includes industrial production + Liquor contract
3. Sales tax/VAT includes entertainment tax + hotel tax + air flight tax + contract tax

The above table reflects that the custom duty and VAT occupies major portion in indirect tax. In FY 2001/02 the contribution of custom duty was 44.36%, which fluctuated between 43% to 31%. And it was 31.03% in the FY 2009/010. The sales tax/VAT has become an important source of overall tax revenue which contributed 48.47% to indirect tax in FY 2009/010 as compared with 40.85% in FY 2001/02. The share of excise duty was 13.76% in 2001/02 and fluctuated between 12% 17%. In the FY 2009/010 its contribution on indirect tax was 17.35%.

4.2.3 Composition of Direct Tax

The major components of direct tax are income tax, land, house & land registration tax and urban house and land rent tax. The share of major components of direct tax is given in the following table.

Table 4.6: Composition of Direct Tax and Their Percent on Direct Tax

(Rs. In Million)

Fiscal Year	Direct Tax Revenue	% age	Income Tax	% age	Land, H & land Regd	% age	Urban House & land rent	% age	Interest tax	% age
2001/02	7,296.6	100	5850.7	80.18	1003.1	13.75	123.3	1.69	319.5	4.38
2002/03	8,555.1	100	7006.2	81.90	1015.9	11.87	118.5	1.39	414.5	4.85
2003/04	9,729.8	100	8650.1	88.90	612.9	6.30	2.9	0.03	463.9	4.77
2004/05	10,037.8	100	8436.0	84.04	1131.8	11.28	2.3	0.02	467.7	4.66
2005/06	9,380.4	100	7102.1	75.71	1414.3	15.08	0	-	864	9.21
2006/07	10,943.4	100	8512.5	77.79	1697.5	15.51	0	-	733.4	6.70
2007/08	11,958.6	100	9402.4	78.62	1799.2	15.05	0	-	757	6.33
2008/09	12,554.8	100	9598.8	76.46	2181.1	17.37	0	-	774.9	6.17
2009/010	17,287.5	100	13979.10	80.86	2253.50	13.04	0.00	-	1054.9	6.10

Source: Economic survey, MOF/GON.

The above table shows that the contribution of income tax to direct is higher than other taxes and it occupies the largest share in the direct tax. The percent share of income tax to direct tax in FY 2001/02 was 80.18% amounting Rs. 5850.7 million, which gradually increased unto 84.04 percent amounting Rs. 8436 million in FY 2004/05. And in FY 2009/010 its contribution on direct tax is 80.86% amounting Rs. 13979.10 million. Land; and house and land registration tax has contributed 13.75% amounting Rs. 1003.1 million in the FY 2001/02, which has decreased to 6.30 % in FY 2003/04 and again increased to 17.37% in FY 2008/09. In FY 2009/010, its contribution on direct tax was 13.04%.

4.2.4 Contribution of Direct tax on GDP, Total Revenue and Total tax Revenue

The contribution of direct tax as percent of GDP, total revenue and total tax revenue is shown below:

Table 4.7 Contribution of Direct Tax on GDP, Total Revenue and Total Tax Revenue

(Rs. In Million)

Fiscal Year	GDP	Total Revenue	Total Tax Revenue	Direct Tax Revenue	%DTR on GDP	% DTR on TR	% DTR on TTR
2001/02	349,018.0	37,251.0	28,752.9	7,296.6	2.09	19.59	25.38
2002/03	386,251.0	42,893.8	33,152.2	8,555.1	2.21	19.94	25.81
2003/04	413,428.7	48,893.6	38,865.0	9,729.8	2.35	19.90	25.03
2004/05	430,396.6	50,445.6	39,330.6	10,037.8	2.33	19.90	25.52
2005/06	460,325.3	56,229.8	42,586.9	9,380.4	2.04	16.68	22.03
2006/07	500,699.1	62,331.1	48,173.2	10,943.4	2.19	17.56	22.72
2007/08	548,484.7	70,122.7	54,104.7	11,958.6	2.18	17.05	22.10
2008/09	611,088.5	72,282.3	57,430.4	12,554.8	2.05	17.37	21.86
2009/010	675,484.0	87,717.0	71,127.0	17,287.5	2.56	19.71	24.31

Source: Economic survey, MOF/GON.

From the above table it is seen that the contribution of direct tax on total tax revenue was 25.38% in FY 2001/02, which decreased up to 22.10% in the FY 2007/08. But after that it was increased to 24.31% in the FY 2009/010. The share of direct tax to GDP seems to be very low. It was 2.09% in the FY 2001/02, which grew up to 2.56% in the FY 2009/010. In the other hand, the share of direct tax on total revenue fluctuated between 19 % to 16 % during the study period. Its contribution was 19.59% in FY 2001/02 and in FY 2009/010 it is 19.71%.

4.2.5 Contribution of Income Tax in Nepal

After about three years of experience of income tax, the government replaced the prevailing tax and by Income Tax Act, 1962. In 1974, Income Tax Act 1974 (2031) was enacted. However, this act is replaced by Income Tax Act 2002 (2058). The contribution of income on various revenues is given in the following table.

Table 4.8: Contribution of Income Tax on GDP, Total Revenue, Total Tax Revenue and Direct Tax Revenue

(Rs. In Million)

Fiscal Year	GDP	Total Revenue	Total Tax Revenue	Direct Tax Revenue	Income Tax	% IT on GDP	% IT on TR	% IT on TTR	% IT on DTR
2001/02	349,018.0	37,251.0	28,752.9	7,296.6	5850.7	1.68	15.71	20.35	80.18
2002/03	386,251.0	42,893.8	33,152.2	8,555.1	7006.2	1.81	16.33	21.13	81.90
2003/04	413,428.7	48,893.6	38,865.0	9,729.8	8650.1	2.09	17.69	22.26	88.90
2004/05	430,396.6	50,445.6	39,330.6	10,037.8	8436.0	1.96	16.72	21.45	84.04
2005/06	460,325.3	56,229.8	42,586.9	9,380.4	7102.1	1.54	12.63	16.68	75.71
2006/07	500,699.1	62,331.1	48,173.2	10,943.4	8512.5	1.70	13.66	17.67	77.79
2007/08	548,484.7	70,122.7	54,104.7	11,958.6	9402.4	1.71	13.41	17.38	78.62
2008/09	611,088.5	72,282.3	57,430.4	12,554.8	9598.8	1.57	13.28	16.71	76.46
2009/010	675,484.0	87,717.0	71,127.0	17,287.5	13979.1	2.07	15.94	19.65	80.86

Source: Economic survey, MOF/GON.

Above table reflects the contribution of Income tax on GDP, total tax revenue and direct tax revenue. Total income tax was Rs. 5850.7 million in the FY 2001/02. During the study period its is in increasing order and in FY 2009/010 it came to Rs. 13979.10 which was 2.07% of GDP, 15.94% of total revenue, 19.65% of total tax revenue, and 80.86% of direct tax revenue.

4.2.6 Structure of Income Tax in Nepal

Income tax revenue has been divided into corporate tax and remuneration tax. Corporate tax is collected from government, public and private limited companies, partnership firms and private firms. The structural composition of income tax is presented below.

Table 4.9: Composition of Income Tax

(Rs. In Million)

Fiscal Year	Total Income Tax	% age	Corporate Sector	% age	Remuneration Tax	% age
2001/02	5,850.7	100	5,454.2	93.22	396.5	6.78
2002/03	7,006.2	100	6,554.7	93.56	451.5	6.44
2003/04	8,650.1	100	8,052.8	93.09	597.3	6.91
2004/05	8,436.0	100	7,600.4	90.09	835.6	9.91
2005/06	7,102.1	100	5,849.5	82.36	1252.6	17.64
2006/07	8,512.5	100	7,121.3	83.66	1391.2	16.34
2007/08	9,402.4	100	7,726.5	82.18	1675.9	17.82
2008/09	9,598.8	100	7,834.7	81.62	1764.1	18.38
2009/010	13,979.1	100	11,971.2	85.64	2007.9	14.36

Source: Economic survey, MOF/GON.

The table shows that the share of income tax from corporate sector is very high in comparison of remuneration tax. Remuneration tax is in increasing trend whereas corporate sector income tax is following the trend of total income tax since it is the major part of income tax structure. About 90% portion of income tax is from corporate sector and remaining 10% only from remuneration tax. Corporate sector consists of government sector, public sector and private sector organizations.

4.2.7 Resource Mobilization and Problems of Resource Gap

The resource mobilization is the main challenge in the economic development of the country. The internal resource plays vital role in economic development of the country. Government collects the resources from different ways. The tax structure is major source of revenue for the government. Government has imposed two types of tax like direct and indirect tax. In the present tax structure, the government revenue comes more from indirect taxes rather than direct tax. Tax policy has to be made a part of the instrument of the development goals.

The resource mobilization has been a major problem in financing of growing government expenses. Since the beginning of planned development of Nepal, there

has been tremendous increment in the size of government expenditure. The development works have to be carried out by the government in the initial stage. An increase in government expenditure creates additional demand in the economy through multiplier effects and thereby induces arise in aggregate output. The government resources have been concentrated more on expanding economic overhead in the form of transport, power and communication which will stimulate agriculture, industry and transport in the private sectors.

The government expenditure is the main source of gross national investment and capital formation. Many studies have been attempted to examine the problem of resource gap and prospect of internal resource gap. Domestic resource gap is the amount of net of foreign grants and loans. But the overall resource gap includes the contributions made by foreign grants and loans in financing public expenditure.

The problem of resource gap has increased from one year to another which has been recovered through massive inflow of external capital. Regular expenditure is fulfilled by internal resources whereas development expenditure is mostly depending in external resources. The dependence on foreign aid and deficit finance has not shown any declining trend. If the resource gap is minimized through the over dependence of foreign loans, it can further create the resource problem in the near future.

The problem of resource mobilization and resource gap is related to the saving and investment. The level of income and the rate of interest influence the saving structure. The low rate of saving is prevailing in the country as a result of low level of income of the people. The low level of income creates the problem of resource mobilization for undertaking investment programmers in a large scale by both government and private sector.

Table 4.10: Domestic Resource Gap Pattern of Nepal

(Rs. In Million)

Fiscal Year	Total govt Expenditure	Total govt. Revenue	Resource Gap1	% of Resource Gap to total expenditure
	A	B	A-B	
2001/02	59,579.0	37,251.0	22,328.00	37.5
2002/03	66,272.5	42,893.8	23,378.70	35.3
2003/04	79,835.1	48,893.6	30,941.50	38.8
2004/05	80,072.2	50,445.5	29,626.70	37.0
2005/06	84,006.1	56,229.8	27,776.30	33.1
2006/07	89,442.6	62,331.0	27,111.60	30.3
2007/08	102,560.4	70,122.7	32,437.70	31.6
2008/09	110,889.2	72,282.0	38,607.20	34.8
2009/010	133,604.6	87,717.0	45,887.60	34.3

Source: Economic survey, MOF/GON.

From the table, it is found that during the last nine years period there was 30% to 38% resource gap in Nepal. The amount of resource gap was fluctuating during the study period. In FY 2001/02, the resource gap was 37.5% amounting Rs. 22328 million, which decreased to 30.3% amounting Rs. 27111.60 million in FY 2006/07. In FY 2009/010, the resource gap is 34.3% amounting Rs. 45887.60 million.

4.2.8 Revenue Expenditure

Revenue expenditure gap is known as resource gap. In this context, three types of gaps are measured and used in the analysis of resource gap.

Table 4.11: Overall Resource Gap Pattern of Nepal

(Rs. In Million)

Fiscal Year	Total govt. Expenditure	Total govt. Revenue	Resource Gap ¹	Foreign Grants	Resource Gap ²	Foreign Loan	Resource Gap ³
	A	B	A-B	C	A - (B+C)	D	A - (B+C+D)
2001/02	59,579.0	37,251.0	22,328.00	4,336.6	17,991.40	11,852.4	6,139.00
2002/03	66,272.5	42,893.8	23,378.70	5,711.7	17,667.00	11,812.2	5,854.80
2003/04	79,835.1	48,893.6	30,941.50	6,753.4	24,188.10	12,044.0	12,144.10
2004/05	80,072.2	50,445.5	29,626.70	6,686.1	22,940.60	7,698.7	15,241.90
2005/06	84,006.1	56,229.8	27,776.30	11,393.1	16,383.20	4,546.4	11,836.80
2006/07	89,442.6	62,331.0	27,111.60	11,283.4	15,828.20	7,629.0	8,199.20
2007/08	102,560.4	70,122.7	32,437.70	14,391.2	18,046.50	9,266.1	8,780.40
2008/09	110,889.2	72,282.0	38,607.20	13,827.5	24,779.70	8,214.3	16,565.40
2009/010	133,604.6	87,717.0	45,887.60	15,800.8	30,086.80	10,053.5	20,033.30

Source: Economic survey, MOF/GON.

Resource Gap¹ (A-B)

The above table shows that the resource gap between revenue and expenditure rose from Rs. 22328 million in FY 2001/02 to Rs. 45887.60 million in FY 2009/010, which was about two times more than the FY 2001/02. This figure shows the poor performance of domestic resource mobilization.

Resource Gap² A-(B+C)

This type of resource gap was Rs. 17991.4 million in the FY 2001/02, which was gradually increased to Rs. 30086.80 million in the FY 2009/010. But in the FY 2006/07, this gap was Rs. 15828.20 million. This shows that foreign grants should be encouraged to increase for minimizing the gap.

Resource Gap³ A-(B+C+D)

This resource gap is taken as the difference between total expenditure and total revenue plus foreign grants plus foreign loan. In FY 2001/02 the gap was Rs. 6139 million which was increased to Rs. 15241.6 in the FY 2004/05 and it was started to

decrease gradually. It reached to Rs. 8199.20 million in the FY 2006/07. Again this gap started to increase rapidly and in the FY 2009/010, it reached to Rs. 20033.3 million. It measures the internal indebtedness of the government. If any government has a resource gap, it has to resort a deficit budget. There was a large portion of foreign grants to meet the budget deficit in the early year's budgets in Nepal. But in recent years, the percentage of foreign loans and foreign grants are rising. It is not a desirable direction for our country in self-reliance. Foreign loan creates extra burden to the economy because debt-servicing charge increases every year. The foreign loan should be taken as a complementary resource to mobilize internal resource properly.

4.2.9 Problems in Public Expenditure

Government expenditure is increasing along with its expanding activities in development and social activities. The increasing trend of government expenditure can be fulfilled either by internal resources or through inflow of foreign aid. The increasing rate of growth in government expenditure creates many problems in public expenditure management. As a result, deficit financing takes place in the economy.

On the one hand, the resource gap problem is increasing and on the other hand it has grown the inflation and price instability in the economy. There are two way relationships between resource mobilization and expansion in budgetary size in developing country. Government policy should be reformed for maximum resource mobilization in accordance with the expansion in economy that has taken place through the investment of public sector in development activities.

Development expenditure is mostly prepared in accordance with commitment of the donor agencies. But the disbursement of foreign aid has not been as per the commitment. The lack of funding compels to delay the completion of the projects. In the same way, the donor agencies are too much involved in the decision making which creates many problems in implementation and for the completed project by the funding agencies the problem stands to the government on the operation and maintenance of the project.

Table 4.12: Share of Govt Revenue, Foreign aid, and CITR in Public Expenditure

(Rs. In Million)

Fiscal Year	Total govt Expenditure	Total govt Revenue	% age	Foreign Aid	% age	Total CITR	% age
2001/02	59,579.0	37,251.0	62.52	16,189.0	27.17	5,454.2	9.15
2002/03	66,272.5	42,893.8	64.72	17,523.9	26.44	6,554.7	9.89
2003/04	79,835.1	48,893.6	61.24	18,797.4	23.55	8,052.8	10.09
2004/05	80,072.2	50,445.5	63.00	14,384.8	17.96	7,600.4	9.49
2005/06	84,006.1	56,229.8	66.94	15,885.5	18.91	5,849.5	6.96
2006/07	89,442.6	62,331.0	69.69	18,912.4	21.14	7,121.3	7.96
2007/08	102,560.4	70,122.7	68.37	23,657.3	23.07	7,726.5	7.53
2008/09	110,889.2	72,282.0	65.18	22,041.7	19.88	7,834.7	7.07
2009/010	133,604.6	87,717.0	65.65	28,584.3	21.39	11,971.2	8.96

Source: Economic survey, MOF/GON.

Above Table indicates the contribution of the government revenue in financing public expenditure. Government revenue share was 62.52% in the FY 2001/02 and reached to 69.69% amounting Rs. 56229.8 million, which is the maximum level. Its share in the FY 2009/010 was 65.65% amounting Rs. 87717 million.

It is also clear from the table that, contribution made by CITR to government expenditure fluctuated between 6 to 9 percent. It was 9.15% in the FY 2001/02, which grew up and reached to 10.09% of maximum in the FY 2003/04. Then after its share started to decrease and in the FY 2009/010 it was 8.96% amounting Rs. 11971.2 million.

Conclusion from the above analysis is that government revenue is increasing in very slowly every year whereas government's expenditure is increasing very quickly. The growth rate of domestic saving has not increased substantially even the external capital inflow has been increasing with higher rate. As a consequence of which the resource gap is highly increasing instead of minimizing.

4.2.10 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 vital role. Imposition of tax on corporate profit was started with the enactment of Business Profit and Remuneration Tax 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 rate structure was combined with individual tax rate structure. The reason was the number of companies was limited and family generally managed private companies. In the year 1985/86 the progressive tax rate structure was abolished in case of government enterprises used to split into different units to take advantages of lower rates. The progressive rate of taxing to private companies was abolished in the fiscal year 1995/96. Thus, flat rate system has been continued for all corporate bodies since the FY 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, increment of rates was made three times. After FY 1975/76, the tax rate again decreased up to 51% and 50%. This rate was again increased to 55% and remains continued from FY 1982/83 to till 1987/88. In the year, 1987/88, the listed public limited companies were levied 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 3% of taxable incomes was levied to all corporate bodies. The corporate tax rate structure of different years is presented as below:

Table 4.13: Corporate Tax Rate Structure in Nepal

Fiscal Year	Maximum marginal tax rate		Nature of tax rate
	Private Co.	Public Co.	Progressive
1960/61-1962/63	25	25	”
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 & Flat
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	”
2001/02-2003/04	20,25&30	20,25&30	”
2003/04-2009/010	20,25&30	20,25&30	Flat and additional 1.5% for all companies

Source;

1. Kandel, P.R. (2006), *Corporate Tax System & Investment Behavior in Nepal*
2. *Budget Speech*, 2006/07/, 2007/08, 2008/09, 2009/010
3. *Finance Acts*

Note: 20% tax rate for special industries
 25% tax rate for general industries producing cigarette, bidi, liquor
 and for industries uses these items as raw materials
 30% tax rate for non-industries for banking and insurance business.

4.2.11 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 remuneration. 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 remuneration. 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 risk-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 the 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.

4.2.12 Contribution of Corporate Income Tax

Contribution of corporate income tax on total revenue, tax revenue, direct tax revenue, income tax revenue, its composition and its trend line for 9 years has been drawn in this sub-chapter. The relationship of CITR with other taxes and total revenue and its coverage portion has been examined.

4.2.13 Contribution of Corporate Income Tax on Total Revenue

Corporate income tax plays an important role in Nepalese government revenue. The following table has been drawn to show the contribution portion of CITR in different time periods in percentage and amounts also.

Table 4.14: Contribution of CITR on Total Revenue

(Rs. In Million)

Fiscal Year	Total Revenue	% age	Govt. Sector	% age	Public Sector	% age	Private Sector	% age	Total CITR	% age
2001/02	37,251.0	100	1526.5	4.10	1155	3.10	2772.7	7.44	5454.2	14.64
2002/03	42,893.8	100	2198.8	5.13	1339.5	3.12	3016.4	7.03	6554.7	15.28
2003/04	48,893.6	100	2928	5.99	1924.3	3.94	3200.5	6.55	8052.8	16.47
2004/05	50,445.5	100	1769.3	3.51	1412	2.80	4419.1	8.76	7600.4	15.07
2005/06	56,229.8	100	1251	2.22	1236.3	2.20	3362.2	5.98	5849.5	10.40
2006/07	62,331.0	100	2056.6	3.30	1531.3	2.46	3533.4	5.67	7121.3	11.42
2007/08	70,122.7	100	1332.4	1.90	2467.8	3.52	3926.3	5.60	7726.5	11.02
2008/09	72,282.0	100	195.7	0.27	3404.3	4.71	4234.7	5.86	7834.7	10.84
2009/010	87,717.0	100	1019.70	1.16	5717.10	6.52	5234.40	5.97	11971.2	13.65

Source: Economic Surveys, MOF/GON

Above table reflects that the contribution of corporate income tax to total revenue during the study period was fluctuating from 10% to 16%. The share of corporate income tax revenue was 14.64% amounting Rs. 5454.2 million in the FY 2001/02 in which 4.10% of total revenue was covered only by government sector. Later on, the share of CITR to total revenue has slowly increased up to 16.47% of maximum in the FY 2003/04 amounting Rs. 8052.8 million where intra-structural composition of corporate sector was also dominated by government sector contributing 5.99% of maximum percentage of amounting Rs. 2928 million during the study period. But that situation did not continue later on. Political imbroglio, unfriendly environment for smooth operation of business was some of the main reason for Nepalese corporate sector unable in improving its competency. As a result, contribution of CITR to total revenue was sharply decreased from 10.84% amounting Rs. 7834.7 million in the FY 2008/09 amounting Rs. 7834.7 million which was 13.65% as maximum amounting Rs. 11971.2 million in 2009/010.

Total revenue/national revenue was also in increasing trend, which was not only the cause of better implementation of fiscal policy and positive macro-economic indicator

but also due to expansion of taxation and revenue net. This table also shows that the private sector's tax collection was fluctuating between 5% to 8% during the study period. Its contribution was of 8.76% amounting Rs. 4419.1 million in the FY 2004/05 and in the FY 2009/010 its contribution was 5.97% amounting Rs. 5234.40 million. Tax collection from public enterprises seemed to be fluctuating from 2.20% to 6.52% during the study period. Its contribution was 2.2% in the FY 2005/06 amounting Rs. 1236.3 million and in the FY 2009/010, it was 6.52% amounting Rs. 5717.10 million.

In totality, Nepalese corporate sector has been contributing to total revenue from 10% to 16%, which seems to be very small portion comparing to other developing countries. The contribution pattern of corporate income tax to total revenue has been shown in the following bar diagram and trend line.

In this bar diagram, total revenue is shown in y-axis and fiscal year in x-axis. Comparing with total revenue, corporate income tax revenue seems to be very low. The intra-structural composition of corporate tax seems to be slightly changed. It is also known that the contribution private and public sector has increased comparing to beginning year of the study period.

4.2.14 Contribution of Corporate Income Tax on Total Tax Revenue

Total tax revenue is composed of direct tax and indirect tax. Total tax revenue is mostly affected by CITR and its enhancement by the country. The following table has been drawn to know the Nepalese CITR's contribution portion to total tax revenue.

Table 4.15: Contribution of CITR on Total Tax Revenue

(Rs. In Million)

Fiscal Year	Total Tax Revenue	% age	Govt. Sector	% age	Public Sector	% age	Private Sector	% age	Total CITR	% age
2001/02	28,752.9	100	1526.5	5.31	1155.0	4.02	2772.7	9.64	5454.2	18.97
2002/03	33,152.2	100	2198.8	6.63	1339.5	4.04	3016.4	9.10	6554.7	19.77
2003/04	38,865.0	100	2928	7.53	1924.3	4.95	3200.5	8.23	8052.8	20.72
2004/05	39,330.6	100	1769.3	4.50	1412	3.59	4419.1	11.24	7600.4	19.32
2005/06	42,586.9	100	1251	2.94	1236.3	2.90	3362.2	7.89	5849.5	13.74
2006/07	48,173.0	100	2056.6	4.27	1531.3	3.18	3533.4	7.33	7121.3	14.78
2007/08	54,104.7	100	1332.4	2.46	2467.8	4.56	3926.3	7.26	7726.5	14.28
2008/09	57,430.4	100	195.7	0.34	3404.3	5.93	4234.7	7.37	7834.7	13.64
2009/010	71,127.0	100	1019.70	1.43	5717.10	8.04	5234.40	7.36	11971.2	16.83

Source: Economic survey, MOF/GON.

The above table shows that the CITR^{'s} contribution to total tax revenue was fluctuated during the study period. It was 18.97% in the FY 2001/02, which was gradually increased and reached to 20.72% of maximum contribution in the FY 2003/04. But this contribution was decreased gradually and reached to 13.74% in the year 2005/06. CITR's contribution was 16.83% in the FY 2009/010. Such kind of lower contribution was due to the lower collection of corporate income tax that might be the result of political instability, unfriendly environment for operating industry, trade and business.

The contribution of CITR to total tax revenue has been shown in bar diagram and trend line as below:

The above trend line shows the increasing trend of tax revenue and CITR. The total tax revenue seems to be increasing every year during the study period. But CITR seems fluctuation. It was Rs. 5454.2 million in the FY 2001/02 and increased to Rs. 8052.8 million in the FY 2003/04 and again decreased to Rs. 5849.5 million only in the FY 2005/06. Then it started to increase again and reached to Rs. 11971.2 million in the FY 2009/010.

4.2.15 Contribution of Corporate Income Tax on Direct Tax Revenue

Direct tax comprises of income tax; land, house and land registration tax; urban house and land rent tax; and interest tax which has already been shown in Table 3. The contribution of corporate income tax on Direct tax revenue can be shown in the following table.

Table 4.16: Contribution of CITR on Direct Tax Revenue

(Rs. In Million)

Fiscal Year	Direct Tax Revenue	% age	Govt. Sector	% age	Public Sector	% age	Private Sector	% age	Total CITR	% age
2001/02	7,296.6	100	1526.5	20.92	1155	15.83	2772.7	38.00	5454.2	74.75
2002/03	8,555.1	100	2198.8	25.70	1339.5	15.66	3016.4	35.26	6554.7	76.62
2003/04	9,729.8	100	2928	30.09	1924.3	19.78	3200.5	32.89	8052.8	82.76
2004/05	10,037.8	100	1769.3	17.63	1412	14.07	4419.1	44.02	7600.4	75.72
2005/06	9,380.4	100	1251	13.34	1236.3	13.18	3362.2	35.84	5849.5	62.36
2006/07	10,943.4	100	2056.6	18.79	1531.3	13.99	3533.4	32.29	7121.3	65.07
2007/08	11,958.6	100	1332.4	11.14	2467.8	20.64	3926.3	32.83	7726.5	64.61
2008/09	12,554.8	100	195.7	1.56	3404.3	27.12	4234.7	33.73	7834.7	62.40
2009/010	17,287.5	100	1019.70	5.90	5717.10	33.07	5234.40	30.28	11971.2	69.25

Sources: Economic Surveys

From the above table, we can see that the contribution of CITR to direct tax revenue was fluctuated from 62% to 82% during the study period. Its contribution was 74.75% amounting Rs. 5454.2 million in the FY 2001/02, which increased to 82.76% amounting Rs.8052.8 million in the FY 2003/04 but later on it was decreased to 62.40% amounting Rs. 7837.7 million in the FY 2008/09. Then after its contribution grew up to 69.25% amounting Rs. 11971.2 million in 2009/010. That was possible due to the business friendly environment and Peace Treaty in the country.

This table has also shown the structural composition of corporate tax. Nearly, half portion of CITR was covered by government sector in the first two fiscal years 2003/04 and 2004/05. But it was decreasing the next years and only about 10% portion only covered in the FY 2009/010.

4.2.16 Contribution of Corporate Income Tax Revenue on Income Tax Revenue

Income tax revenue comprises of income tax revenue from different types of corporate bodies i.e. government sector, public sector and private sector including individual income tax and as well as interest tax. The size of income tax revenue largely depends up on the size of corporate sector. Higher the size of corporate sector, higher will be the CITR and Total income tax revenue and vice versa. So, CITR in Nepal has played a vital role in income tax revenue, which has been presented in the following table projecting for three subsequent years.

Table 4.17: Contribution of CITR on Income Tax Revenue

(Rs. In Million)

Fiscal Year	Income Tax Revenue	% age	Govt. Sector	% age	Public Sector	% age	Private Sector	% age	Total CITR	% age
2001/02	5850.8	100	1526.5	26.09	1155	19.74	2772.7	47.39	5454.2	93.22
2002/03	7006.1	100	2198.8	31.38	1339.5	19.12	3016.4	43.05	6554.7	93.56
2003/04	8650.1	100	2928	33.85	1924.3	22.25	3200.5	37.00	8052.8	93.09
2004/05	8436	100	1769.3	20.97	1412	16.74	4419.1	52.38	7600.4	90.09
2005/06	7102.1	100	1251	17.61	1236.3	17.41	3362.2	47.34	5849.5	82.36
2006/07	8512.5	100	2056.6	24.16	1531.3	17.99	3533.4	41.51	7121.3	83.66
2007/08	9402.4	100	1332.4	14.17	2467.8	26.25	3926.3	41.76	7726.5	82.18
2008/09	9598.8	100	195.7	2.04	3404.3	35.47	4234.7	44.12	7834.7	81.62
2009/010	9607.5	100	404.76	4.21	4889.3	50.89	3937.68	40.99	9231.7	96.09

Sources: Economic Surveys

Above table reflects that the contribution of CITR to income tax revenue is fluctuating in different years. In the FY 2001/02, it was 93.22% amounting Rs. 5454.2 million. In the FY 2008/09 it was minimum i.e. 81.62% amounting Rs. 7834.7 million. Again in the FY 2009/010 its contribution became maximum and arrived to 86.09% amounting Rs. 9231.77 million.

4.2.17 Structural Composition of Corporate Income Tax

The corporate income tax structure comprises of government sector, public and private sector. Corporation taxable income is calculated adding all the taxable incomes and deducting all the allowable expenses. The corporate tax base is explained and presented in the preceding sub chapter. After the enactment of Income Tax Act, 2058, the books of account of corporate sector have been kept a little bit differently. From the FY 2005/06, the total corporate sector income tax is computed by adding government, public and private income tax including individual and sole trading form and income from other institutions too. The following table has been drawn to show the structural composition of corporate income tax from the FY 2001/02 to 2009/010.

Table 4.18: Structural Composition of Corporate Income Tax

(Rs. In Million)

Fiscal Year	Total CITR	% age	Govt. Sector	% age	Public Sector	% age	Private Sector	% age
2001/02	5454.2	100	1526.5	27.99	1155	21.18	2772.7	50.84
2002/03	6554.7	100	2198.8	33.55	1339.5	20.44	3016.4	46.02
2003/04	8052.8	100	2928	36.36	1924.3	23.90	3200.5	39.74
2004/05	7600.4	100	1769.3	23.28	1412	18.58	4419.1	58.14
2005/06	5849.5	100	1251	21.39	1236.3	21.14	3362.2	57.48
2006/07	7121.3	100	2056.6	28.88	1531.3	21.50	3533.4	49.62
2007/08	7726.5	100	1332.4	17.24	2467.8	31.94	3926.3	50.82
2008/09	7834.7	100	195.7	2.50	3404.3	43.45	4234.7	54.05
2009/010	9231.77	100	404.76	4.38	4889.33	52.96	3937.68	42.65

Sources: Economic Surveys

The above structural composition of corporate tax shows that in the years 90s i.e. 2001/02 to 2009/010, major portion was covered by government sector. The share of government sector was started to decrease from the FY 2003/04 and reached to 8.52% only in the FY 2009/010. The contribution of public sector was ultimately seems to be increasing during the study period from 21.18% in the FY 2001/02 to 47.76% in the FY 2009/010 with some fluctuations. The private sector's contribution was fluctuated

from 18% to 41% during the period. But during recent four years it's contribution is in increasing order and came to 43.72% in the FY 2009/010. It seems public and private sectors are paying more tax and government sector is paying less tax as the passes of time. Public and private sectors are growing their business and government sector is not so.

4.3 Presentation and Analysis of Data on the basis of Primary Source i.e. Empirical Investigation

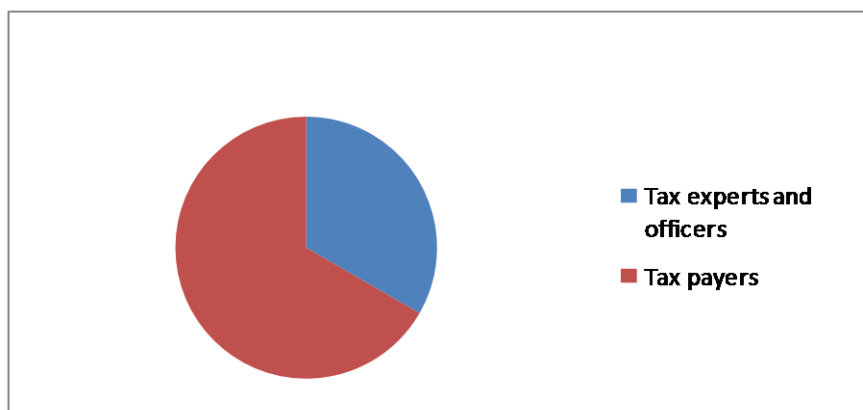
Based on second set of questionnaire

An empirical investigation has been conducted in order to find out various aspects of problems for the administration of Income Tax Act, 2058 in Nepal from the real life experience. For this purpose, questionnaire was developed and responses were collected from the respondents. A set of 60 questionnaires was received out of 100 questionnaires distributed to the respondents. Respondents were classified into two groups - tax experts and taxpayers. The responses received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study. (See the format of questionnaire and the list of the respondents in appendix A and B respectively.

The questionnaire was asked for a yes/no response or asked for ranking of the choices according to the number of alternatives where first choice was the most important and the last choice was the least important. For analysis purpose, choices were assigned weight according to number of alternatives. If the number of alternatives were 8 then the first preferred choice got eight points and the last preferred choice got one point. Any alternative, which was not ranked, didn't get any point. The total points available to each choice were converted into percentage in reference to the total points available for all choices. The choice with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as last choice.

Table 4.19: Groups of Respondents and Code Used

Respondent Groups	Sample Size	Codes Used
Tax experts and officers	20	Y
Taxpayers	40	Z
Total	60	

Figure 4.1: Group of Respondents

4.3.1 Opinion towards TaxpayingHabit of Nepalese People

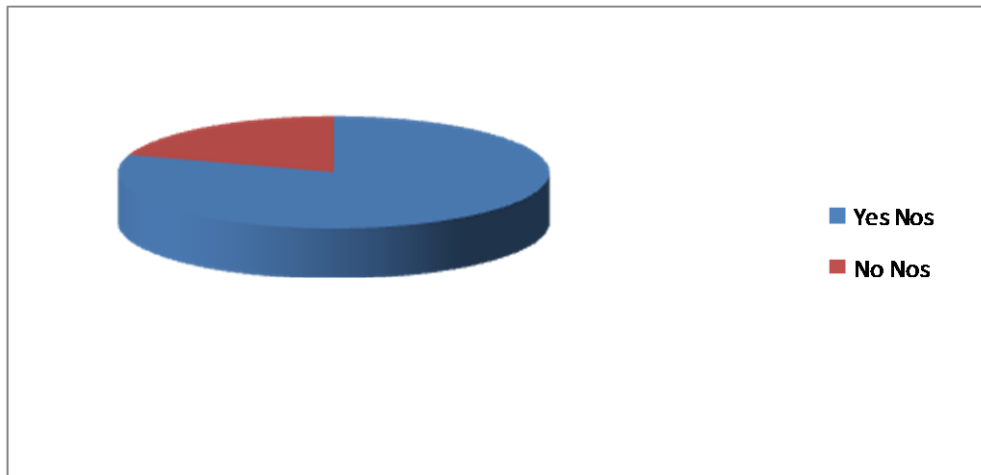
To know the respondents opinion about the taxpayinghabit of Nepalese people, the first question, "Do you think there is poor taxpayinghabit of Nepalese people?" was asked. The responses received from respondents are tabulated as under:

Table 4.20: Opinion Towards TaxpayingHabit of Nepalese People

Respondent Groups	Yes		No		Total	
	Nos	% age	Nos	% age	Nos	% age
Y (Tax experts and officers)	16	80	4	20	20	100
Z (Taxpayers)	34	85	6	15	40	100
Total	50	83.33	10	16.67	60	100

Source: Opinion Survey

Figure 4.2: Taxpaying Habit of Nepalese People



From the above table, 80% of tax experts and 85% of taxpayers approved there is poor taxpaying habit of Nepalese people and 20% of tax experts and 15% of taxpayers approved there is not poor taxpaying habit of Nepalese people. Out of 60 respondents, 50 respondents, i.e. 83.33% voted for poor taxpaying habit of Nepalese people and 10 respondents i.e. 16.67% voted for there is not poor taxpaying habit of Nepalese people.

From the above table, it has been clear that there is poor taxpaying habit of Nepalese people.

Test of Hypothesis

Hypothesis: 1

We have 2x2 contingency table with cell frequency less than 5 as follows:

Respondent Groups	Yes	No	Total
Y (Tax experts and officers)	a = 16	b = 4	(a+b) = 20
Z (Taxpayers)	c = 34	d = 6	(c+d) = 40
Total	50	10	N = 60

Null Hypothesis H_0 : There is no significant relationship between the views of tax experts and taxpayers with respect to there is poor taxpaying habit of Nepalese people.

Alternative Hypothesis H_1 : There is significant relationship between the views of tax experts and taxpayers with respect to there is poor taxpaying habit of Nepalese people.

Applying Yates Correlation

$$\begin{aligned}\chi^2 &= \frac{N[(ad-bc)-N/2]^2}{(a+b)(c+d)(a+c)(b+d)} \\ &= \frac{60[(16 \times 6 - 4 \times 34) - 60/2]^2}{20 \times 40 \times 50 \times 10} \\ &= 0.01\end{aligned}$$

$\therefore$ Calculated value of $\chi^2 = 0.01$

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

Degree of freedom = $(r-1)(c-1) = (2-1) \times (2-1) = 1 \times 1 = 1$.

From the table, tabulated $\chi^2_{(0.05, 1)} = 3.84$

Decision: Since, calculated χ^2 is less than tabulated $\chi^2_{(0.05, 1)}$ i.e. $1.03 < 3.84$, we accept null hypothesis (H_0) at 5% level of significance. It means there is no significant relationship between the views of tax experts and taxpayers with respect to there is poor taxpaying habit of Nepalese people i.e. both tax experts and taxpayers have approved there is poor taxpaying habit of Nepalese people.

Reasons behind Poor Taxpaying Habit of Nepalese People

Most of the respondents voted that there is poor taxpaying habit of Nepalese people.

To know the causes of poor taxpaying habit of Nepalese people, the question was

Asked, "If yes, what are the major causes of poor taxpaying habit of Nepalese people?" The respondents were requested to rank their answer from 1 (most important) to 7 (least important). The responses received from the respondents are tabulated below:

Table 4.21: Major causes of poor taxpaying habit of Nepalese people

SN	Major causes	Group		Total Points	% age	Rank
		Y	Z			
1	Povertyness of taxpayer	40	88	128	6.00	7
2	Little knowledge of tax and its importance	120	231	351	16.45	2
3	Widespread practices of illegal business	110	228	338	15.84	3
4	Lack of incentives for regular taxpayers	136	260	396	18.56	1
5	Defective tax administration system	112	219	331	15.51	4
6	Complexity of tax laws and policies	85	198	283	13.26	6
7	Poor public relation by tax office and authorities	98	209	307	14.39	5
	Total			2134	100.00	

Source: Opinion Survey

The major causes of poor taxpaying habit of Nepalese people were ranked in order of the preference of the respondents as follows. (Please refer table 4.2.3 for details)

1. Lack of incentives for regular taxpayers
2. Little knowledge of tax and its importance
3. Widespread practices of illegal business
4. Defective tax administration system
5. Poor public relation by tax office and authorities
6. Complexity of tax laws and policies
7. Povertyness of taxpayers

To know whether there is positive or negative correlation between the above views of tax experts and taxpayers, it is tested by Spearman's rank correlation coefficient.

Test of Spearman's Rank Correlation:

Rank correlation: 1

We have;

$$r_s = 1 - \frac{6\sum d^2}{n(n^2-1)}$$

Where;

r_s = Spearman's rank correlation coefficient

d = difference of the corresponding ranks

n = number of pairs of observations

The value lies between -1 and +1.

Table 4.22: Calculation of Spearman's Rank Correlation Coefficient

SN	Major causes	Total Points	Re-rank	Total Points	Re-rank	Diff. Of Rank	% age
		Y	R1	Z	R2	d=R1-R2	d ²
1	Poverty of taxpayer	40	7	88	7	0	0.00
2	Little knowledge of tax and its importance	120	2	231	2	0	0.00
3	Widespread practices of illegal business	110	4	228	3	1	1.00
4	Lack of incentives for regular taxpayers	136	1	260	1	0	0.00
5	Defective tax administration system	112	3	219	4	-1	1.00
6	Complexity of tax laws and policies	85	6	198	6	0	0.00
7	Poor public relation by tax office and authorities	98	5	209	5	0	0.00
	Total						2.00

Source: Opinion Survey

Note: Y refers to tax experts and Z refers to taxpayers.

The above table gives $\sum d^2 = 2$ and $n = 7$ to compute rank correlation coefficient as:

$$\begin{aligned}
 r_s &= 1 - \frac{6\sum d^2}{n(n^2-1)} \\
 &= 1 - \frac{6(2)}{7(49-1)} \\
 &= 1 - \frac{12}{336} = +0.96
 \end{aligned}$$

Decision: The correlation coefficient i.e. +0.96 indicates that there is highly positive correlation between the tax experts and taxpayers ranking regarding the major causes of poor taxpaying habit of Nepalese people.

Opinion towards Effectiveness of Income Tax to Reduce the Gap between Rich and Poor People in Nepal

Income tax is levied on the income of the person or organization after allowing deductions of genuine expenses incurred to generate such income. And collected income tax is spent in public expenditures for everyone's benefit. The person or organization, which doesn't generate income, doesn't pay tax. So, income tax is supposed to be an effective tool to reduce the gap between rich and poor people. In this context, the respondents were asked the question, "Do you think income tax is an effective tool to reduce the gap between rich and poor people in Nepal?" and the responses received from them are tabulated below:

Table 4.23: Opinion towards effectiveness of Income Tax to reduce the gap between rich and poor people

Respondent Group	Yes		No		Total	
	Nos	% age	Nos	% age	Nos	% age
Y (Tax experts)	14	70	6	30	20	100.00
Z (Taxpayers)	32	80	8	20	40	100.00
	46	76.67	14	23.33	60	100.00

Source: Opinion Survey

From the above table, it is clear that income tax is an effective tool to reduce the gap between rich and poor people. About 76.67% of the respondents responded that income tax is an effective tool to reduce the gap between rich and poor people and only 23.33% of respondents accepted that income tax is not effective tool to reduce the gap between rich and poor people in Nepal.

In conclusion, it can be said that most of the respondents opined that income tax is an effective tool to reduce the gap between rich and poor people.

Test of Hypothesis

Hypothesis: 2

We have 2x2 contingency table with cell frequency less than 5 as follows:

Respondent Groups	Yes	No	Total
Y (Tax experts and officers)	a = 14	b = 6	(a+b) = 20
Z (Taxpayers)	c = 32	d = 8	(c+d) = 40
Total	46	14	N = 60

Null Hypothesis H_0 : There is no significant relationship between the views of tax experts and taxpayers with respect to income tax are effective tool to reduce the gap between rich and poor people.

Alternative Hypothesis H_1 : There is significant relationship between the views of tax experts and taxpayers with respect to income tax is effective tool to reduce the gap between rich and poor people.

For 2x2 contingency table, the value of χ^2 can be calculated by using following formula;

$$\begin{aligned}\chi^2 &= \frac{N(ad-bc)^2}{(a+b)(c+d)(a+c)(b+d)} \\ &= \frac{60(14 \times 8 - 6 \times 32)^2}{20 \times 40 \times 46 \times 14} \\ &= 0.74\end{aligned}$$

$\therefore$ Calculated value of $\chi^2 = 0.74$

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

Degree of freedom = $(r-1)(c-1) = (2-1) \times (2-1) = 1 \times 1 = 1$.

From the table, tabulated $\chi^2_{(0.05, 1)} = 3.84$

Decision: Since, calculated χ^2 is less than tabulated $\chi^2_{(0.05, 1)}$ i.e. $0.74 < 3.84$, we accept null hypothesis (H_0) at 5% level of significance. It means there is no significant relationship between the views of tax experts and taxpayers with respect to income tax is effective tool to reduce the gap between rich and poor people in Nepal.

Opinion towards Modern-ness and Effectiveness of Income Tax Act 2058

To measure the modern-ness and effectiveness of Income Tax Act, 2058 in comparison to the previous Income Tax Act 2031, a question, "In your opinion is the Income Tax Act 2058 a modern and more effective Tax Act than Income Tax Act 2031?" was asked. The responses received from the respondents are tabulated as below:

Table 4.24: Opinion Towards Modern ness and Effectiveness of Income Tax Act 2058

Respondent Group	Yes		No		Total	
	Nos	% age	Nos	% age	Nos	% age
Y (Tax experts)	19	95	1	5	20	100.00
Z (Taxpayers)	37	92.5	3	7.5	40	100.00
	56	93.33	4	6.67	60	100.00

Source: Opinion Survey

From the above table, it is clear that 93.33% of the respondents approved Income Tax Act 258 is a modern and more effective that Income Tax Act 2031 and only 6.67% of the respondents don't recognize Income Tax Act 2058 as a modern and more effective that Income Tax Act 2031.

Hence, it can be concluded that Income Tax Act 258 is a modern and more effective than Income Tax Act 2031.

Test of Hypothesis

Hypothesis: 3

We have 2x2 contingency table with cell frequency less than 5 as follows:

Respondent Groups	Yes	No	Total
Y (Tax experts and officers)	a = 19	b = 1	(a+b) = 20
Z (Taxpayers)	c = 37	d = 3	(c+d) = 40
Total	56	4	N = 60

Null Hypothesis H_0 : There is no significant relationship between the views of tax experts and taxpayers with respect to Income Tax Act 2058 is modern and more effective than Income Tax Act 2031.

Alternative Hypothesis H_1 : There is significant relationship between the views of tax experts and taxpayers with respect to Income Tax Act 2058 is modern and more effective than Income Tax Act 2031.

For 2x2 contingency table, the value of χ^2 can be calculated by using following formula;

$$\begin{aligned}\chi^2 &= \frac{N(ad-bc)^2}{(a+b)(c+d)(a+c)(b+d)} \\ &= \frac{60(19 \times 3 - 1 \times 37)^2}{20 \times 40 \times 56 \times 4} \\ &= 0.13\end{aligned}$$

$\therefore$ Calculated value of $\chi^2 = 0.13$

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

Degree of freedom = $(r-1)(c-1) = (2-1) \times (2-1) = 1 \times 1 = 1$.

From the table, tabulated $\chi^2_{(0.05, 1)} = 3.84$

Decision: Since, calculated χ^2 is less than tabulated $\chi^2_{(0.05, 1)}$ i.e. $0.13 < 3.84$, we accept null hypothesis H_0 at 5% level of significance. It means there is no significant relationship between the views of tax experts and taxpayers with respect to income tax is effective tool to reduce the gap between rich and poor people in Nepal.

Opinion towards Contribution of Income Tax on National Revenue

Income taxes are most essential for the development of a country especially underdeveloped and developing countries. Nepal is underdeveloped country requiring development on various sectors to export the resources of the country. It is blamed that the contribution of income tax on national revenue is not satisfactory through Income Tax Act 2058. To know the fact a question was asked, "Do you think that contribution of income tax on national revenue is not satisfactory through Income Tax Act 2058?" The responses received from the respondents are tabulated below:

Table 4.25: Opinion towards contribution of Income Tax on National Revenue

Respondent Group	Yes		No		Total	
	Nos	% age	Nos	% age	Nos	% age
Y (Tax experts)	7	35	13	65	20	100.00
Z (Taxpayers)	10	25	30	75	40	100.00
	17	28.33	43	71.67	60	100.00

Source: Opinion Survey

From the above table, it is clear that the contribution of income tax on national revenue is not satisfactory through Income Tax Act 2058. 71.67% of the respondents approved contribution of income tax on national revenue not satisfactory and only 28.33% of the respondents recognize that contribution of income tax on national revenue is satisfactory through Income Tax Act 2058.

Hence, it can be concluded that the contribution of income tax on national revenue is not satisfactory through Income Tax Act 258.

Test of Hypothesis

Hypothesis: 4

We have 2x2 contingency table with cell frequency less than 5 as follows:

Respondent Groups	Yes	No	Total
Y (Tax experts and officers)	a = 7	b = 13	(a+b) = 20
Z (Taxpayers)	c = 10	d = 30	(c+d) = 40
Total	13	43	N = 60

Null Hypothesis H_0 : There is no significant relationship between the views of tax experts and taxpayers with respect to the contribution of income tax is not satisfactory through Income Tax Act 2058.

Alternative Hypothesis H_1 : There is significant relationship between the views of tax experts and taxpayers with respect to the contribution of income tax is not satisfactory through Income Tax Act 2058.

For 2x2 contingency table, the value of χ^2 can be calculated by using following formula;

$$\begin{aligned}\chi^2 &= \frac{N(ad-bc)^2}{(a+b)(c+d)(a+c)(b+d)} \\ &= \frac{60(7 \times 30 - 13 \times 10)^2}{20 \times 40 \times 17 \times 43} \\ &= 0.66\end{aligned}$$

$\therefore$ Calculated value of $\chi^2 = 0.66$

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

Degree of freedom = $(r-1)(c-1) = (2-1) \times (2-1) = 1 \times 1 = 1$.

From the table, tabulated $\chi^2_{(0.05, 1)} = 3.84$

Decision: Since, calculated χ^2 is less than tabulated $\chi^2_{(0.05, 1)}$ i.e. $0.66 < 3.84$, we accept null hypothesis H_0 at 5% level of significance. It means there is no significant relationship between the views of tax experts and taxpayers with respect to the contribution of income tax is not satisfactory through Income Tax Act 2058.

Opinion towards Effectiveness of Revenue Administrative and Revenue Tribunal

A taxpayer may not be satisfied with the decision made by tax officials. In such case, he may lodge an objection against the assessment with the Director General (DG) or revenue tribunal. In order to ensure justice or impartiality, it is necessary to establish a sound appeal system. Income Tax Act, 2058 has made provision for two types of appeal system: first to the Inland Revenue Department (IRD) for administrative review and second to review tribunal. The Act has made it mandatory for the taxpayers to file an objection with IRD for an administrative review before appealing the revenue tribunal.

In order to know the effectiveness of the revenue administrative and revenue tribunal to give the correct decision to the taxpayer, a question was asked, "Are the revenue administrative and revenue tribunal offices effective to give the correct decision to the taxpayer?" The responses received from the respondents are tabulated below:

Table 4.26: Opinion towards Effectiveness of Revenue Administrative and Revenue Tribunal Offices

Respondent Group	Yes		No		Total	
	Nos	% age	Nos	% age	Nos	% age
Y (Tax experts)	9	45	11	55	20	100.00
Z (Taxpayers)	10	25	30	75	40	100.00
	19	31.67	41	68.33	60	100.00

Source: Opinion Survey

From the above table, it is clear that the revenue administrative and revenue tribunal offices are not effective to give the correct decision to the taxpayers. Out of the 60 respondents 41 respondents i.e. 68.33% voted against the effectiveness of revenue administrative and revenue tribunal office and 19 respondents i.e. 31.67% voted for the effectiveness of revenue administrative and revenue tribunal offices.

In conclusion, on the basis of the above survey, it can be said that the revenue administrative and revenue tribunal offices are not effective to satisfy the taxpayers in their cases.

Test of Hypothesis:

Hypothesis: 5

We have 2x2 contingency table with cell frequency less than 5 as follows:

Respondent Groups	Yes	No	Total
Y (Tax experts and officers)	a = 9	b = 11	(a+b) = 20
Z (Taxpayers)	c = 10	d = 30	(c+d) = 40
Total	19	41	N = 60

Null Hypothesis H_0 : There is no significant relationship between the views of tax experts and taxpayers with respect to the effectiveness of revenue administrative and revenue tribunal offices to give the correct decision to the taxpayers.

Alternative Hypothesis H_1 : There is significant relationship between the views of tax experts and taxpayers with respect to the to the effectiveness of revenue

administrative and revenue tribunal offices to give the correct decision to the taxpayers

For 2x2 contingency table, the value of χ^2 can be calculated by using following formula;

$$\begin{aligned}\chi^2 &= \frac{N(ad-bc)^2}{(a+b)(c+d)(a+c)(b+d)} \\ &= \frac{60(9 \times 30 - 11 \times 10)^2}{20 \times 40 \times 19 \times 41} \\ &= 2.52\end{aligned}$$

$\therefore$ Calculated value of $\chi^2 = 2.52$

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

Degree of freedom = $(r-1)(c-1) = (2-1) \times (2-1) = 1 \times 1 = 1$.

From the table, tabulated $\chi^2_{(0.05, 1)} = 3.84$

Decision: Since, calculated χ^2 is less than tabulated $\chi^2_{(0.05, 1)}$ i.e. $2.52 < 3.84$, we accept null hypothesis (H_0) at 5% level of significance. It means there is no significant relationship between the views of tax experts and taxpayers with respect to the to the effectiveness of revenue administrative and revenue tribunal offices to give the correct decision to the taxpayers.

Opinion towards Effectiveness of Income Tax Act 2058 in the Coming Years

In order to know the effectiveness of Income Tax Act 2058 in the coming years, a question was asked, "Will the Income Tax Art 2058 be more effective in the coming years?" The responses received from the respondents are tabulated below:

Table 4.27: Opinion towards Effectiveness of ITA 2058 in the coming years

Respondent Group	Yes		No		Total	
	Nos	% age	Nos	% age	Nos	% age
Y (Tax experts)	15	75	5	25	20	100.00
Z (Taxpayers)	28	70	12	30	40	100.00
	43	71.67	17	28.33	60	100.00

Source: Opinion Survey

From the above table, it is clear that Income Tax Act 2058 will be more effective in the coming years. Out of the 60 respondents 43 respondents i.e. 71.67% voted for the

effectiveness of Income Tax 2058 in the coming years and 17 respondents i.e. 28.33% voted against the effectiveness Income Tax 2058 in the coming years.

Test of Hypothesis

Hypothesis: 6

We have 2x2 contingency table with cell frequency less than 5 as follows:

Respondent Groups	Yes	No	Total
Y (Tax experts and officers)	a = 15	b = 5	(a+b) = 20
Z (Taxpayers)	c = 28	d = 12	(c+d) = 40
Total	43	17	N = 60

Null Hypothesis H_0 : There is no significant relationship between the views of tax experts and taxpayers with respect to the effectiveness of Income Tax 2058 in the coming years.

Alternative Hypothesis H_1 : There is significant relationship between the views of tax experts and taxpayers with respect to the to the effectiveness of Income Tax 2058 in the coming years.

For 2x2 contingency table, the value of χ^2 can be calculated by using following formula;

$$\begin{aligned}
 \chi^2 &= \frac{N(ad-bc)^2}{(a+b)(c+d)(a+c)(b+d)} \\
 &= \frac{60(15 \times 12 - 5 \times 28)^2}{20 \times 40 \times 43 \times 17} \\
 &= 0.16
 \end{aligned}$$

$\therefore$ Calculated value of $\chi^2 = 0.16$

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

Degree of freedom = $(r-1)(c-1) = (2-1) \times (2-1) = 1 \times 1 = 1$.

From the table, tabulated $\chi^2_{(0.05, 1)} = 3.84$

Decision: Since, calculated χ^2 is less than tabulated $\chi^2_{(0.05, 1)}$ i.e. $0.16 < 3.84$, we accept null hypothesis (H_0) at 5% level of significance. It means there is no significant

relationship between the views of tax experts and taxpayers with respect to Income Tax 2058 will be more effective in the coming years.

Opinion towards Existence of Corrupt Practices in Income Tax Administration

Administration is the design of implementation of government policies. Tax administration is regarded as having the responsibility for determining the policies & programs of government related to tax. Specially, it is the planning, organizing, directing, coordinating and controlling of government organizations related to taxation. Income Tax Act 2058 has made a provision regarding the design of tax administration also. However, Income Tax Administration of Nepal has got blame as a corruption center and administrator as the member of the center. In order to find out whether the corruption is existed in Nepalese income tax administration or not, a question, "Do you think corrupt practice exists in Income Tax Administration of Nepal?" was asked. The responses received from the respondents are tabulated below:

Table 4.28: Opinion Towards Existence of Corrupt Practices in Income Tax Administration

Respondent Group	Yes		No		Total	
	Nos	% age	Nos	% age	Nos	% age
Y (Tax experts)	10	50	10	50	20	100.00
Z (Taxpayers)	40	100	0	0	40	100.00
	50	83.33	10	16.67	60	100.00

Source: Opinion Survey

From the above table, it is clear in the view of taxpayers there is corrupt practice in the income tax administration i.e. 100% of the taxpayers accepted that there is corrupt practice. However, according to the opinion of tax experts/officers, they have opined differently. 50% of the respondents have voted for there is corrupt practice and 50% have voted against the corrupt practice i.e. out of 20 respondents of tax officers/experts only 10 respondents opined that there is corrupt practice in the income tax administration of Nepal. In aggregate, 50 respondents out of 60 i.e. 83.33% voted that there is corrupt practice in the income tax administration of Nepal. We can also believe the same.

Test of Hypothesis

Hypothesis: 7

We have 2x2 contingency table with cell frequency less than 5 as follows:

Respondent Groups	Yes	No	Total
Y (Tax experts and officers)	a = 10	b = 10	(a+b) = 20
Z (Taxpayers)	c = 40	d = 0	(c+d) = 40
Total	50	10	N = 60

Null Hypothesis H_0 : There is no significant relationship between the views of tax experts and taxpayers with respect to there is corrupt practice in the income tax administration of Nepal.

Alternative Hypothesis H_1 : There is significant relationship between the views of tax experts and taxpayers with respect to there is corrupt practice in the income tax administration of Nepal.

For 2x2 contingency table, the value of χ^2 can be calculated by using following formula;

$$\begin{aligned}\chi^2 &= \frac{N(ad-bc)^2}{(a+b)(c+d)(a+c)(b+d)} \\ &= \frac{60(10 \times 0 - 10 \times 40)^2}{20 \times 40 \times 50 \times 10} \\ &= 24\end{aligned}$$

$$\therefore \text{Calculated value of } \chi^2 = 24$$

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

Degree of freedom = $(r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$.

From the table, tabulated $\chi^2_{(0.05, 1)} = 3.84$

Decision: Since, calculated χ^2 is greater than tabulated $\chi^2_{(0.05, 1)}$ i.e. $24 > 3.84$, we accept alternative hypothesis (H_1) at 5% level of significance. It means there is significant relationship between the views of tax experts and taxpayers with respect to there is corrupt practice in the income tax administration of Nepal.

Causes behind the Existence of Corrupt Practices in the Income Tax Administration of Nepal.

In order to know the causes of corrupt practices existed in the income tax administration of Nepal the next question was asked, "If yes, what are the major causes of corruption in the income tax administration of Nepal?" The respondents were requested to rank their answers from 1 to 5 scales. Table 5.2.16 gives a breakdown of the responses.

Table 4.29: Major causes of corrupt practices in income tax administration of Nepal

SN	Major causes	Group		Total Points	% age	Rank
		Y	Z			
1	Dishonest taxpayers	40	23	63	8.95	5
2	Dishonest tax personnel	8	186	194	27.56	1
3	Political uncertainty	35	148	183	25.99	2
4	Lower remuneration of tax personnel	28	118	146	20.74	3
5	Weaknesses of acts, rules and regulations	15	103	118	16.76	4
	Total			704	100	

Source: Opinion Survey

Note: Y: Tax experts/Officers

Z: Taxpayers

The major causes of corrupt practice existed in income tax administration of Nepal were ranked in order of preference of the respondents as follows. (See Table 5.2.16 for detail)

1. Dishonest tax personnel
2. Political uncertainty
3. Lower remuneration of tax personnel
4. Weaknesses of acts, rules and regulations
5. Dishonest taxpayers

To know whether there is positive or negative correlation between views of tax experts and taxpayers, it is tested by Spearman's rank correlation coefficient.

Test of Spearman's Rank Correlation

Rank correlation: 2

We have;

$$r_s = 1 - \frac{6\sum d^2}{n(n^2-1)}$$

Where;

r_s = Spearman's rank correlation coefficient

d = difference of the corresponding ranks

n = number of pairs of observations

The value lies between -1 and +1.

Table 4.30: Calculation of Spearman's Rank Correlation Coefficient

S.N	Major causes	Total Points	Re-rank	Total Points	Re-rank	Diff. Of Rank	
		Y	R1	Z	R2	$d=R1-R2$	d^2
1	Dishonest taxpayers	40	1	23	5	-4	16.00
2	Dishonest tax personnel	8	5	186	1	4	16.00
3	Political uncertainty	35	2	148	2	0	0.00
4	Lower remuneration of tax personnel	28	3	118	3	0	0.00
5	Weaknesses of acts, rules and regulations	15	4	103	4	0	0.00
	Total						32.00

Source: Opinion Survey

Note: Y refers to tax experts and Z refers to taxpayers.

The above table gives $\sum d^2 = 32$ and $n = 5$ to compute rank correlation coefficient as:

$$\begin{aligned}
 r_s &= 1 - \frac{6\sum d^2}{n(n^2-1)} \\
 &= 1 - \frac{6(32)}{5(25-1)} \\
 &= 1 - \frac{192}{120} = -0.6
 \end{aligned}$$

Decision: The correlation coefficient i.e. -0.6 indicates that there is moderate negative correlation between the tax experts and taxpayers ranking regarding the major causes of corrupt practice existed in the income tax administration of Nepal.

4.4 Comments and Suggestions from the Respondents

An open question was asked to the respondents to know their comments and suggestions regarding effective administration of Income Tax Act 2058. The responses received from them are presented below:

4.4.1 Comments from the Respondents:

1. Do correct practices by all.
2. Taxpaying culture should be expanded.
3. Taxpayers can check the undesirable practices by tax officials.
4. There are very few tax brackets. Tax brackets should be more.
5. Lack of clear-cut definition and language accuracy in ITA 2058.
6. Difficult to understand language.
7. There is no sufficient tax rebates and no encourage for taxpayers.
8. Administration is poor and the practice of income tax is not effective.
9. Inconsistent policies due to unusual situation of the country.
10. Unmanageable size of taxpayers compared to tax offices specially in valley.
11. Don't give priorities to the relatives, friends, and commission players.
12. Due to the political problems of nation as well as poor implementation of rules and regulations of tax, assessment methods are not being effective.
13. Tax evasion and reduction exist.
14. Personal expenses booked as business expenses are to be discouraged.
15. Most taxpayers oriented no address on human resource post, structural problem and power centralization.
16. Lack of effective training and motivation, taxpayer's education, and morality to both taxpayers and tax personnel.
17. Lack of proper utilization of collected tax.
18. Lack of reward and punishment to both taxpayers and tax personnel.
19. Lack of political stability, so it effect to the proper administration of Income Tax Act 2058.

20. Income Tax Act 2058 is based on highly educated taxpayers and developed economy i.e. inappropriate to our income situation.
21. There is no clarity in law, tax officer is not having well knowledge about tax law and being boss not service oriented.
22. This acts provision cannot reduce the illegal business activities, tax evasion and avoidance.
23. There is ineffective enforcement of fine and penalty so corrupt practice exists in Income Tax Administration of Nepal.

4.4.2 Suggestions from the Respondents:

1. It is necessary to build a strong information system and public awareness.
2. Income Tax Act should be compatible with international practices.
3. Performance based incentive system should be applied.
4. Revenue authority board should be set up.
5. Fully functional system should be adopted.
6. Tax administration should run in electronic system.
7. Free from political interfere.
8. Strong commitment by political leaders, which must reflect in result.
9. More information to be given to the tax offices and authorities in time and again.
10. Training and logistics should be provided to tax offices sufficiently.
11. Hard penalties needed for tax related fraud.
12. Tax administration should be supported by adequate information about business.
13. Taxpayer's education is to be strengthened.
14. Private organizations and civil societies are to be supportive to better tax compliance.
15. The system is not scientific. So make it scientific and progressive.
16. Widening the tax base or expanding the tax network.
17. Controlling the mal practices and tax evasion.
18. Severe penalties to the concerned tax corruptors.
19. There should be clear definition, and not have double meaning languages in the act.
20. Sound tax policies should be necessary and simplification of procedures.

21. Behavioral change in tax personnel.
22. Define various sources and level of taxpayers.
23. Concerned department and group should be identified.
24. Develop ethnicity in auditor or define source to taxable income.
25. Effective implementation of code of conduct.
26. Develop proper check and balance system through electronic media to control tax related malpractices.

4.5 Major Findings from the Secondary Data

On the basis of data presentation and analysis as above some important findings of the study are summarized below:

- (1.) There are two categories of sources of government revenues i.e. tax-revenue and non tax-revenue.
- (2.) Revenue collection increased by Rs.15435 million in the FY 2009/010 totaling Rs. 87717 million as compared to FY 2008/09.
- (3.) The study shows that the contribution of total tax revenue to total revenue was 81.08% and that of non-tax was 18.92% in FY 2009/010. It shows that taxation has been a major source of government revenue.
- (4.) Nepalese tax revenue is composed of both direct and indirect tax revenue. There is major role of indirect tax revenue in Nepalese tax revenue. The contribution of direct tax and indirect tax to total tax revenue was 25.38% and 74.12% respectively in FY 2001/02, which became 24.3% and 75.3% respectively in 2009/010. It reveals that tax structure of Nepal is not justifiable on equity ground and progressiveness because indirect tax is considered as regressive in nature.
- (5.) The contribution of custom duty, excise duty, sales tax/vat, vehicle tax and other tax on indirect tax were 44.36%, 13.76%, 40.85%, 1.02% and 0% respectively in FY 2001/02 and the contribution of each taxes reached to 31.03%, 17.35%, 48.47%, 1.85%, and 1.30% respectively in FY 2009/010. It shows that excise duty, sales tax/vat, vehicle tax and other taxes are in increasing trend and custom duty is in decreasing trend.

- (6.) The contribution of income tax; land, house and land registration tax; urban house and land rent tax; and interest tax to direct tax revenue in FY 2001/02 were 80.18%, 13.75%, 1.69% and 4.38% respectively which reached to 80.86%, 13.04%, 0% and 6.10% respectively in FY 2009/010. In the composition of direct tax, income tax is the giant one whose contribution seems to be increasing every year. The percentage contributions of other taxes are nominal and fluctuating during the study period.
- (7.) Income tax has been considered as suitable sources 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 and promote distributive justice and to cure resource gap problem.
- (8.) The total tax revenue/GDP ratio in FY 2001/02 was 8.24%, which increased to 10.53% in the FY 2009/010. But this ratio is not regarded as satisfactory increment.
- (9.) The direct tax/GDP ratio, contribution of direct tax to total tax revenue and total revenue in FY 2001/02 were 2.09%, 25.37% and 19.58% respectively which reached to 2.56%, 24.3% and 19.71% respectively for the FY 2009/010, which is not satisfactory increment for the developing country like Nepal.
- (10.) The income tax/GDP, income tax/total revenue, income tax/total tax revenue and income tax/direct tax revenue ratio were 1.68%, 15.71%, 20.35% and 80.10% respectively in FY 2001/02 which, reached to 2.07%, 15.94%, 19.65% and 80.86% respectively for the FY 2009/010. It is not a satisfactory increment.
- (11.) The domestic resource gap has been fluctuating from 38% to 30% of total expenditure during the study period which is not favorable; such gap should decrease every year.
- (12.) The overall resource gap has increased from FY 2000/001 to 2004/05, which decreased in FY 2006/07, and 2007/08. Again this gap increased continuously and reached to Rs. 20033.30 million in the FY 2009/010. It is not good because it shows our dependency on others.

- (13.) The contribution of the government revenue in financing public expenditure was 62.5% in the FY 2001/02, which reached to 65.65% in the FY 2009/010. It is not satisfactory increment that also depicts the internal indebtedness of the country.
- (14.) The contribution made by CITR to total expenditure was 9.15% in the FY 2001/02 which reached to 10.09% as maximum in the FY 2003/04 and with some fluctuations, it reached to 8.96% in the FY 2009/010. It seems very low contribution of CITR on total government expenditure.
- (15.) The corporate tax rates have been revised for several times in the history of corporate. Now a day's private and public companies are taxed at a flat rate of 20, 25 and 30 percent respectively which are the lowest rate in the history of more than one decade.
- (16.) Nepal has been practicing book profit or corporate profit as tax base for the corporate taxation. ITA 2058 has clarified about the format for calculating different head of income.
- (17.) The contribution of CITR to total revenue was 14.64% in the FY 2001/02 which decreased to 13.64% in the FY 2009/010. It shows corporate sector is not getting better environment to grows its business activities so that large amount of tax can be paid.
- (18.) CITR portion in income tax revenue was 93.32% in the FY 2001/02, which gradually decreased to 81.62% in the FY 2008/09 and it was 85.64% in the FY 2009/010. This shows that CITR occupied major portion in income tax.

4.6 Major Findings from the Primary Data

On the basis of empirical investigation made with the respondents we have found following remarkable findings regarding Income Tax Structure of Nepal and its administration.

1. Major portion of income tax is covered by corporate sector. People in individual normally do not pay tax though they earn very handsome amount of money because of their negligence and poor administration/implementation of income tax rules and regulations.

2. It is easy for the individuals to evade tax because they are not found in organized form.
3. There is poor administration/implementation of income tax laws, rules and regulations. Government officials and government officers themselves are neglecting for the effective implementation of ITA rules and regulations. Besides, officials do not motivate taxpayers to pay tax but they directly or indirectly cooperate to avoid and evade tax.
4. The performance of tax administration office and revenue tribunal is doubtful. Both taxpayers and tax experts/officers have proved their inability as per the report of the respondents (taxpayers and tax experts/officers)
5. There is corrupt practice in income tax administration for which tax officials are more responsible than the taxpayers as per the report from the respondents.
6. Effective check and balance; and monitoring system is to be implemented for better administration of income tax laws, rules, and regulations.
7. Modern innovations and technologies help tax offices to monitor effectively in the tax related activities. So, tax offices should have such facilities.
8. Tax officials are to be trained time and again. Severe penalties are to be offered to the concerned officials in tax related frauds made knowingly and for the frauds made unknowingly last written warnings are to be charged, so that if they do same mistake, they can be dismissed from the job.
9. Honest and loyal taxpayers are to be rewarded time and again and they are to be advertised by the means of advertisement like television, newspapers, radios etc. to motivate other taxpayers to pay their income tax in time.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

In today's world, there are hardly a few areas where tax shows its absence. It has become a matter to be known by everyone. An individual's income is reduced by tax, which affects his future savings. No one is out of the grip of tax. Tax has become an indispensable part of business world.

Great Britain is the first country to introduce the modern income tax. It introduced income tax in 1799 to finance war fought with France. USA introduced income tax in 1862 to generate revenue to finance civil war. Although the taxes were collected in various forms in ancient era, the history of modern income tax is not very old in Nepal. The idea of introducing income tax in Nepal originated in the early 1950s when a multiparty democracy political system was introduced.

Income tax should be justifiable to achieve maximum social and economic objective. It helps in redistribution of economic means by the transformation of wealth from persons with higher economic level to lower economic level. Income Tax Act 2058 has been enacted with wide perspective. Various new concepts are introduced in this Act, as compared to Income Tax Act 2031.

The study has been designed to analyze the income tax structure and resource gap; identify the share and trend of corporate income tax to government revenue; and identify the major problems of existing Income Tax Act 2058.

Taxation is the compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred. Tax may be of different types, rates and natures; it may be direct and indirect tax.

Income Tax Act 2058 has replaced the previous Act 2031, which was carried for 27 years. The Act 2058 has 24 chapters and 143 sections plus schedules. In the Act, there

are so many types of additional and new provisions which can't be found in previous Act 2031. Income Tax Act 2058 has divided heads of income into three divisions i.e. business, employment, and investment whereas previous Act 2031 had made it five. ITA 2058 has kept certain provisions for depreciation in Appendix 2 of the Act. Similarly it has also made the provision of inter-head and intra-head loss recovery system. Carry forward and carry backward system also have been introduced in this Act.

Tax evasion and tax avoidance reduce tax liability of the government by unethical means - one is done legally whereas another is illegal. Basically, there are three types of effects of tax evasion in the economy. They are: loss of revenue to the state, redistribution of income which affects the efficiency of resource allocation in the economy and creating wrong statistics leading to errors in government policies.

According to Income Tax Act 2058, the Inland Revenue Department (IRD) has overall responsibility for the implementation and administration of income tax. However, Nepal government is the highest authority of the tax administration. The Ministry of Finance, on behalf of Nepal government, exercises the management function of tax administration by carrying out the functions such as planning, organizing, direction, coordinating, and controlling of the government organizations related to taxation.

Income Tax Act 2058 has included detailed penal provisions, which are divided into two parts; interest & penalties and offences. Interests are charged on delinquent taxes so that taxpayers may not delay. Tax Penalties are fixed to correct the misbehavior of the taxpayers. If penalties are not levied on the taxpayers who violate the Act, there may be a tendency not to follow rules and non-compliance will increase.

Income Tax Act 2058 has introduced a concept of administrative review that will allow the tax administration to correct mistakes, if any, made by the administration internally. The administrative revision may not be sufficient to establish effective and efficient appeal system for assurance of the justice and impartiality. It is because there may be existence of human error as personal biasness and official biasness in the administrative review. So, the current tax laws assure in this regard. As per law a

person (the appellant) who is not satisfied by a decision on an objection filed against review able decision may appeal to the revenue tribunal.

Out of total revenue collection in the FY 2009/010, the share of tax revenue was 81.08% whereas the share of non-tax revenue was 18.92%. In the FY 2009/010, tax revenue increased by 23.84% as compared to previous fiscal year. The contribution of indirect tax revenue has always been greater than direct tax revenue during the study period. Similarly, the contribution of income tax has been larger than other components of direct tax. Contribution of income tax to direct tax revenue was 80.18% in the FY 2001/02 and its percentage came to 80.86% in the FY 2009/010. Income tax is an important source of the direct tax. Its structure of Nepal is the composition of tax revenue from government sector corporations, public sector corporations, private sector corporations including private institutions and remuneration tax. In the FY 2001/02 the amount of income tax was 5850.7 million whereas in the FY 2009/010 it was Rs. 13979.1 million. Income tax revenue collection increased by 45.63% in the FY 2009/010 totaling Rs. 13979.1 million as compared to last FY 2008/09.

In the opinion of the respondents, it has been found that there is problem in the administration of Income Tax Act 2058 in Nepal. Most of the respondents thought that there is problem. There is also poor taxpaying habit of Nepalese people. On the opinion of the respondents lack of incentives for regular taxpayers is the most powerful reason behind the poor taxpaying habit. Similarly, little knowledge of tax and its importance, widespread practices of illegal business, defective tax administration system and poor public relation by tax offices and authorities, and complexity of tax laws and policies are other reasons. The contribution of income tax on national revenue is not satisfactory. It has also been found that revenue administrative and revenue tribunal are not effective to give correct decision to the taxpayers. Tax administration is not providing effective service to the taxpayers and other related people still after introducing the new Income Tax Act 2058. There is corrupt practice in income tax administration of Nepal. Out of 60 respondents, 50 respondents i.e. 83.33% voted for corrupt practice and 10 respondents i.e. 16.67% voted against the corrupt practice in income tax administration of Nepal.

5.2 Conclusion

The contribution of income tax to the national budget must be increased to achieve the goal of national development and equal economic distribution. The goal can be achieved only if the government of Nepal takes steps for making the income tax management/administration efficient. Income tax system i.e. income tax administration and management has been criticized.

To fulfill desired goal, shortcomings in income tax system must be avoided. Government has adopted various policies to strengthen the revenue structure of Nepal. To broaden the tax base it is necessary to enhance the government revenue and for this purpose income tax revenue is reliable one among the different sources of revenue.

If the government has been effective in its revenue collection by Income Tax and other internal reasons the amount of foreign loan would have been increased less rapidly. So, to create the huge internal resources, the revenue administration of the country must be systematic and the people of the country must have knowledge of income tax rules and regulations and willingness to pay income tax then only the prospect of revenue collection from income tax will be higher for internal resource mobilization.

Income Tax Act 2058 is quite advanced and is in accordance with international standards; however some analysts are saying the Act is photocopy of the Act of United Kingdom. For financial years gone by the Act 2058 in the revenue collection from income tax not seems satisfactory. Taxpayers and tax administrator have not got proper orientation and trainings before the application of the Act.

Income Tax Act 2058 could be an effective means to generate more revenue from income taxation if the Act is effectively implemented since the act has so many features. As taxpayers must respond positively toward their duties and rights, the tax administrations must be liable to fulfill the responsibility provided by the law to them. Otherwise they will be pronounced as corrupt.

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

In the opinion survey, it has been found that there is poor taxpaying habit of Nepalese people for which lack of incentives for regular taxpayers is the main reason. There is problem in income tax administration. However, ITA 2058 is modern and effective that the previous 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 dishonest tax personnel and political uncertainty.

At last, in conclusion, it can be said that so many problems should be managed timely and the laws be implemented properly, the problems can be solved in some extent and income tax will lead to substantial increase in the revenue. The Nepalese tax administration has been attempting to modify itself to meet the pressing challenges brought by change in technology and economic policies. It is only then that we can solve the problem in administration of Income Tax Act 2058 in Nepal.

5.3 Recommendations

To achieve the result according to our expectations from income tax, it is essential to change our attitude and behaviors towards income tax. In accordance with the findings of the study, I personally, forward the following recommendations:

- Considering our culture and economic situation, we should adopt the international taxation system and technology.
- We are facing political uncertainties. Policies are well designed but very poorly implemented in Nepal. So, to promote industries, political problem should be solved at first i.e. one stable government is required at least for coming 20 years so that they won't change the policies time and again and implement them very minutely.
- The contribution of income tax on national revenue should be increased by the following ways:

- Corruption should be minimized
- New sources of revenue should be found out
- Every person having taxable income should be brought under the income tax net.
- Effective tax collection tribunals should be established
- No political placement and pressure in revenue department.
- Over staffing is to be controlled.
- To solve the administration problem in income tax, following ways are to be adopted:
 - Illegal business activities must be controlled.
 - There must be political stable environment for the business activities.
 - Tax evasion and avoidance must be eradicated by effective implementation of fine and penalties and charging severe actions to such people and organizations.
 - Provide effective training to tax personnel time and again.
 - Ensure public awareness by conducting various programs.
- Tax assessment under ITA 2058 are effective however there are lots of trouble during tax assessment and no clear language (dual meaningful) in this Act. The following recommendations are made to make more effectiveness of assessment methods:
 - Self-assessment should be carried by auditors.
 - Tax assessment methods under ITA 2058 are an average so further treatment needed.
 - Assessment must be made timely and without using discretionary power.
 - Every tax return should be compulsory assessed.
 - Management assessment procedure should be clearly defined.
- Whether the assesses files his/her income tax return to the revenue office, the office should assess his/her tax without any hassles and harassment.
- The revenue administrative and revenue tribunal offices should be easily accessible to the taxpayers, wherever they go with their problems; such problems are to be solved very quickly. These offices should give appropriate working environment to the taxpayers. No procedural delay or filing works are to be added to the taxpayers.

- Following recommendations may be useful to improve the effectiveness of income tax administration:
 - Training and career development should be provided to the tax personnel time to time.
 - There should be reward and punishment system to the tax officers.
 - There should be sufficient field offices. Especially in the valley there should be more offices.
 - Tax personnel should be given necessary physical facilities to minimize the corruption.
 - Tax administration should be free from political pressure.
 - Weakness of Income Tax Act, rules and regulations should be amended by the government time to time.
 - In the opinion of the respondents' corruption is the major problem on income tax administration in Nepal. Corruption is unethical or wrongdoing. A closer look in human behavior in economic life reflects corruption, poverty. More than that of normal it reflects a lack of ethics. The following recommendations are put forward to minimize the corruption:
 - Check and balance system should be developed in tax offices.
 - There should be adequate salary and the facilities to the tax personnel.
 - Dishonest tax personnel and taxpayers should be punished severely.
 - The political scenario of the country should be clear and stable.
 - Nepalese government should bring thousands of activities to uplift the living standard of the people.
 - Consciousness should be developed to hate corruptors.
 - Every citizen of the nation should be aware that major income of the nation is tax and should be ready to pay from his/her own part honestly.

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APPENDIX – I

QUESTIONNAIRE

“A Study on Income Tax Management in Nepal”

Name..... Designation.....

Office organization..... Occupation.....

Please Tick (✓) the answer of your choice or where ever appropriate, put in order of preference from one to last number of alternative. Number one is the most important and the last number for the least.

1. “Income tax is a suitable means of raising domestic resources” Do you agree?

Yes [] No [] I don't know []

2. Is there poor taxpaying habit of Nepalese taxpayers?

Yes [] No [] I don't know []

3. If yes, what are the reasons? (Rank your answer)

i. Little knowledge about tax and its importance. []

ii. Complexity of tax laws ad policy. []

iii. Poor public relations of tax officers []

iv. Poverty of tax payers []

v. Defective tax administrative system []

vi. No provision of incentives for regular taxpayer []

4. To increase taxpaying habit of Nepalese people, what are your suggestions? (Rank your answer)

- i. Proper tax education. []
- ii. Incentives for regular tax payer. []
- iii. Heavy Penalties and fines to the irregular taxpayer. []
- iv. Simplifying tax laws and policies. []
- v. Timely assessment of tax. []

5. Does income tax play significant role for the economic development of Nepal, do you agree?

Yes [] No [] I don't Know []

6. Is the income tax system of Nepal efficient?

Yes [] No [] I don't Know []

7. If no, what are the reasons? (Rank your answer)

- i. Defective income tax act. []
- ii. Inadequate government policy. []
- iii. In efficient income tax management. []

8. What are the major problems of income tax management in Nepal? (Rank your answer)

- i. Misuse of power by the tax administrator. []
- ii. Lack of training facility to the employee. []
- iii. Lack of sufficient incentive to the employee. []
- iv. Lack of sufficient power to the tax administrator. []
- v. Less consciousness of taxpayer. []

9. How the income tax management in Nepal should be made more efficient? (Please write your opinion)

10. Do you think income tax has been effective in reducing the gap between rich and poor?

i. Highly effective []

ii. Fairly effective []

iii. Less effective []

11. What should be the corporate tax rate?

Present rate in percent

prescribed rate in percent

25%

12. There is a widespread public opinion that "high degree of corruption is being existed in the tax administration in Nepal". Do you agree with this statement?

Yes [] No [] I don't know []

13. Is the current income tax rate in Nepal is appropriate?

.....

14. Do you think income tax act should provide sufficient scope of tax facilities?

.....

.....

15. If yes, how can minimize corruption?

- | | |
|---|----------|
| i. Development of check and balance system. | [] |
| ii. Moral education to tax personnel. | [] |
| iii. Reduction of tax officer's discretionary powers. | [] |
| iv. Regular supervision to tax personnel. | [] |
| v. Additional incentives to tax personnel. | [] |
| vi. Development of consciousness to hate corrupters. | [] |
| vii. Sever action to corrupters. | [] |

16. Are the provision of fines and penalty under the Nepalese tax system reasonable?

.....
.....

17. Which income tax assessment method is appropriate in Nepal?

- | | |
|--------------------------------|----------|
| i. Self assessment. | [] |
| ii. Best judgments | [] |
| iii. Tax settlement commission | [] |
| iv. Lump sum (15%) | [] |