

CHAPTER 1

INTRODUCTION

1.1 General Background of Study

The main objective of any developing country is to improve living standard of the people through the development process. In order to achieve this objective, every government launches different economics, social, cultural and other development activities. For the government needs huge amount of financial resources.

Nepal is a land locked and hilly country lying between two 'Asian giants' China and India. Both of them are able to enjoy high economic growth in the world. However, Nepal has not been able to reap the benefit of synergic development impact of its neighbours. Nepal's north latitude is 26°22' and 30°27' and east longitude is 80°4' and 88°12'. Total area is 147181 square kilometers. This area is about 0.03% of the world and 0.3% of Asia. The average length is 885 km and average width is 193 km. Rocks, snow, barren mountains and sloppy hills etc cover 77% land of Nepal while only 23% land is of plain type. Politically the kingdom is divided in to 5 regions, 14 Zones and 75 Districts.

Nepal is an economical paradox in the sense that it is a rich country where poor people live. It is rich in natural and cultural beauties but the economic condition is far behind and the economy is predominantly based on agriculture. Large portion of population of population who live

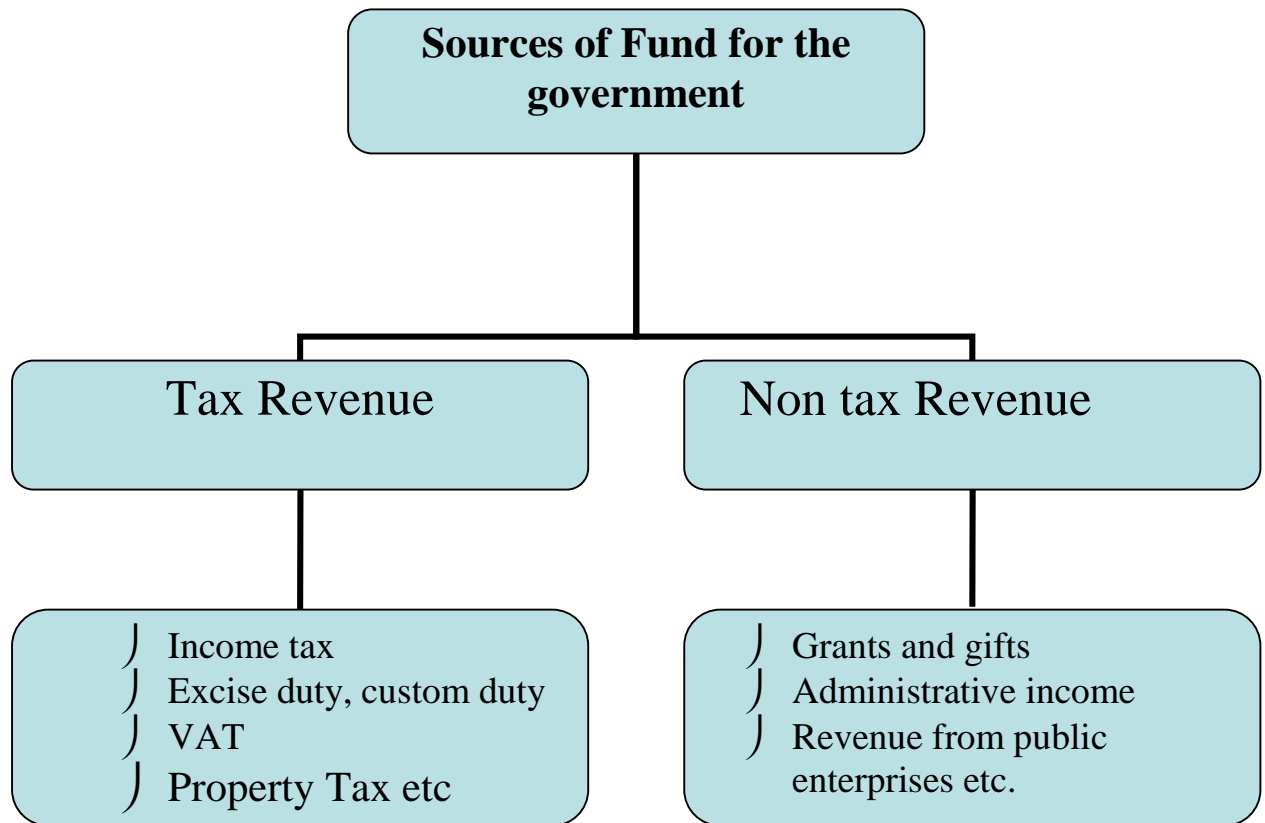
under the line of poverty are in village area. Economic Growth of the country has not improved substantially over the time to overtake population growth. AS the current population growth is 2.24% per annum and per capital income is less than 270 U.S dollar per year.

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

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

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

Figure 1.1 Sources of funds for the government



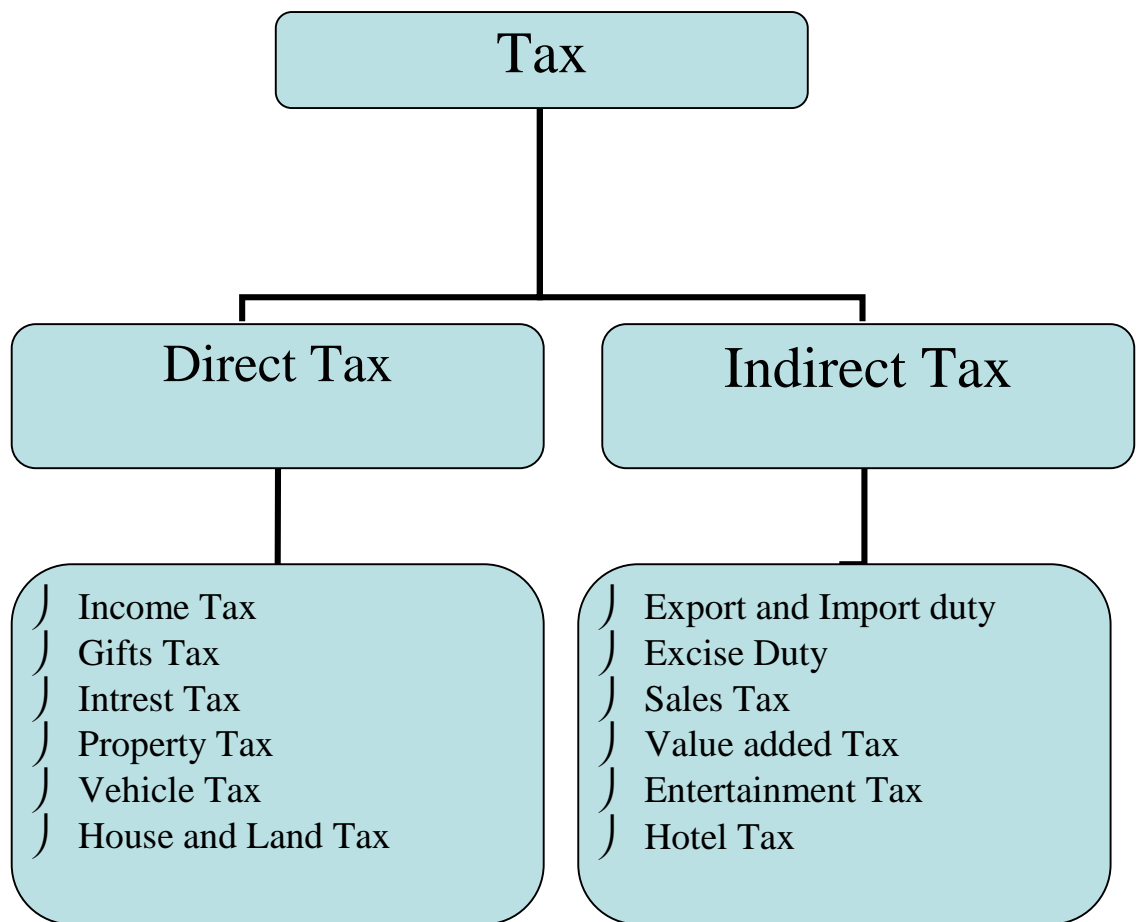
Many economics/tax experts have defined taxation in their own way. According to the Seligman “Taxation is a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred.”

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

It is clear that tax is a compulsory levy and those who are taxed has to pay it without getting corresponding benefit of services or goods from the

government. Taxpayers do not have any right to receive direct benefit from the tax paid. The taxpayer cannot receive equivalent benefit from the government. Government needs funds for its running. Therefore tax is paid to the government. Amount collected through taxation is spent for common interest of the people and it is collected from natural and artificial person. Tax is separated in two types which can be shown as below

Figure 1.2 Types of Tax



According to the above diagram tax revenue comprises two types of taxes, direct and indirect tax. Direct taxes are more familiar and have a dominant role in the developed country as opposed to developing

countries. Direct taxes are the means and tools of generating; saving and promoting capital formation includes income tax, gifts tax, interest tax, vehicle tax, house and land tax etc. Whereas indirect tax has a dominant role in the whole tax structure of developing countries like Nepal. Earlier most of the revenue was raised from indirect tax because it is easier, less expensive and convenient method for implementation for a developing country's economy.

1.2 Statement of the Problem

The income tax is the vital source of government revenue. The government has applied two types of income tax i.e. personal income tax and corporate income tax. The Government of Nepal is being unable to realize the expected income tax from personal as well as corporation but today's Government of Nepal is very much successful in collection of tax from personal as well as corporation.

Some individuals are dishonest and they hide the real income. They are enjoying the weaknesses of the tax law administration. Most of the personal tax payers do not reveal income source even they earn significant amount. They hardly keep the accounts. Therefore, personal income tax has not been effective in Nepal.

On the other hand, corporate tax is based upon the profit of companies. There are some arguments in favor of raising a large amount by way of corporate taxation in developing countries. Corporations are easily identified, keep accounts and can not escape tax liabilities. It is seen that more income tax collection from corporate houses is possible for the economically developed nation only. But Inland Revenue Department

(IRD) could not raise more income tax from corporation because of less development of industries and joint venture companies in Nepal. In addition, some companies have been practicing to evade tax liabilities by hiding income. As a result actual collection of income tax is being very low. It may raise question, why tax rates of corporation can not be pushed too high for collecting more income tax revenue?

But the present government is more successful for collecting tax from personal as well as corporation. The government has made strict rule and regulations in collection of tax and in this year the government collects tax, which is greater, then expectation.

1.3 Objectives of the Study

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

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

1.4 Significance of the Study

The importance of the income tax can not be minimized in the public finance of a nation. Developing country like Nepal can fulfill its financial income tax can be maximized either by imposing taxes at higher rate or

introducing new tax rates or collecting income tax properly within existing portfolio. Increment in income tax rates may be more burdensome to the poor people. Moreover the collection of tax depends on good income tax system (i.e. laws, policy and effective administration). Unfortunately, Nepal's income tax system is not free from the problems. Though this field is of high importance, sufficient and timely researchers are not being made in the field so far.

1.5 Scope of the Study

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

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

1.6 Formulation of Hypothesis

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

Hypothesis 1

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

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

Hypothesis 2

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

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

1.7 Limitation of the Study

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

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

1.8 Organization of the study

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

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

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

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

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

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

CHAPTER 2

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 Theoretical Framework

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

Tax is a kind of money of which it is the legal duty of every citizen of a country to pay honestly. Many economists are of the view that the tax is a

compulsory payment to the government by taxpayer without any expectation of some specified return.

According to Findlay Shirras, “Tax is compulsory contributions to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits.” (Lekhi, 2000: 146)

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

2.1.1 Objectives of Taxation

Taxation has been a very much essential element of a government from the very beginning of the state system. However the main objective of the taxation has been different for different epochs. In ancient times the major objectives of taxation was strengthening the muscle of the state by providing resources. Till the time of Adam Smith the chief motive of collecting the revenue was to provide resources to the government for providing security to an individual and society against violence, invasion and injustice and maintaining public institutions.

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

- a. To increase the revenue for a welfare state

- b. To have equitable distribution of income and property
- c. To increase the production of particular goods
- d. To increase the employment, saving and investment
- e. To minimize regional disparity
- f. To implement government policy and
- g. To control the production of certain goods

From the above, we can conclude that the tax has the objectives of raising revenue to have resource mobilization, equal distribution of wealth and income in the society encouragement in production of certain products encouragement in employment , saving and investment, removal of regional imbalances and enforcement of government policy.

2.1.2 Concept and meaning of income tax:

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

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

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

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

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

2.1.3 Income Tax Management

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

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

The first work of income tax management is to identification of objectives and goals and then policy regarding income tax directs to make

tax Imposition specifying to whom, how, when and where the tax must be imposed.

2.1.3.1 Components of Income Tax Management of Nepal

The following are the components of income tax of Nepal;

1. Parliament

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

2. Inland Revenue Department (IRD)

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

3. Ministry of Finance (MOF)

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

2.1.4 Income tax administration in Nepal

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

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

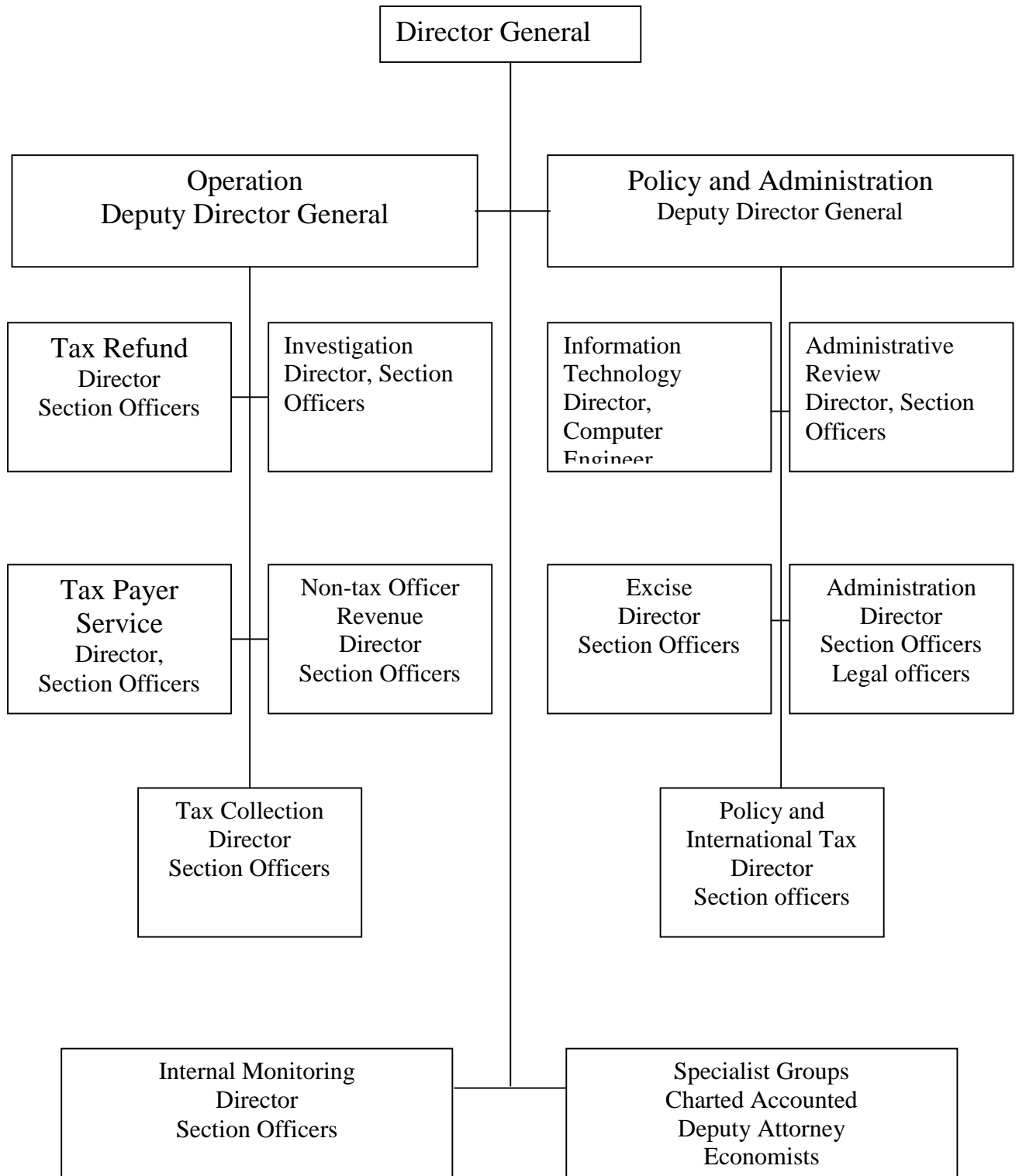
The Inland Revenue Department administers income tax of Nepal. The Ministry of Finance, Customs administration, Revenue investigation administration & the Revenue administration Training center are also involved in the administration of income tax directly or indirectly. The Ministry of Finance is at the apex of the tax administration. It is responsible for overall administration of the government's fiscal & the monetary policy. The Revenue Division of this ministry is responsible for formulation tax policy & setting up appropriate tax administration to implement tax policy. It coordinates the activities of all revenue departments, including the Inland revenue Departments & monitors the positions of revenue collection. It is responsible for the research, planning & analysis of the tax system. The custom administration collects advance income tax on imports. The Revenue Investigation administration investigates cases where revenue leakage was involved, with or without collusion between taxpayers & tax collectors. The Revenue Administration Training Center impacts training, workshops & seminars for tax officials.

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

Inland Revenue Department was established in mid April, 2001merging tax department & VAT Department. Forty tax offices under tax department & 17 tax offices under VAT. Department were also merged. Now there are 21 Inland Revenue offices & one large taxpayers' office (LTO) all over the kingdom.

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

Figure 2.1 Organizational Structure of IRD



2.1.4.1. Functions of Tax Administration

The main functions of tax administration are as follows:

1. Registration

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

2. Assessment

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

3. Audit

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

5. Collection, Refund and Remission

The next work of tax office is the collection of tax amount for this purpose; the tax office can use the banks also. If over collection is made

from any taxpayer, the taxpayer should refund the amount. Sometimes, if it is thinks that it is impossible to collect taxes from certain taxpayer, the tax administration can sacrifice the due amount. Such sacrifice is called tax remission.

2.2 Legal Provision of Income Taxation in Nepal

The function of revenue collection has remained one of the key activities of the government from ancient time in Nepal. During that time very few economic activities were operated in the country. Hence government could not collect huge amount of money in the form of taxation. At that, taxes were levied to the merchant, travelers and farmers in the form of cash, kind or labour. In some occasion gold and agricultural products were also paid as taxes but the nature of these taxes were temporary and taxes were raised for special purposes (Regmi 1971; 55)

In the lichavis regime, income taxes from agriculture income and business were introduced as a direct tax for the first time in Nepal. Tax on agriculture income was called “Bhaga” and tax on business was called “Kara”. Irrigation tax and religious monuments preservation taxes also existed at the time of king Ansubarma of Nepal. During the period of 1768- 1846 A.D, different types of taxes were levied to generate maximum revenue. The major sources of revenue were: Birta and Kipat taxes on land, monopolies customs, transit and market duties, mines and mints and the export of forest products, birds, animals. Taxes were collected at three levels; Royal palace levies, government levies and local levies. The various taxes levied during that period were narrow in base and were imposed primarily on occupations and economic activities, not

in income or property. There was no taxation of income in the modern sense of income tax.

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

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

2.2.1 Income Taxation in modern Nepal

After the independence of the country in 1951 (2007B.S), the role of government has changed. Since the government was enforced to operate development activities, besides governing the regular function of maintaining law and order and the collection of revenue (Bhatta and Shrestha, 1981:3). A sound and efficient income tax system is necessary to maximize the revenue collection from income tax. Whole income tax system is made of three sub system i.e. income tax policy, income tax laws and income tax administration. The government itself through

Ministry of Finance determines income tax policy. Income tax policy should be such that the main objectives of the income tax can be attained.

Parliament makes the laws to implement the various policies. The government Levy and collect the income tax in accordance with law. The constitution of the kingdom of Nepal, 1990 has made the clear provision about it. “No taxes shall be levied and collected except in accordance with law” (Constitution of the kingdom of Nepal, 1990). Present legal provision of income tax is associated with constitution of the kingdom of Nepal, 1990; Income tax Act 200; Income tax rules 2002; Finance act of concerned financial year etc.

2.2.2 Income Tax Act 2002

Since, 19th chaitra 2058 B.S, ‘Income Tax Act 2058’ has been introduced in Nepal. This Act was brought in Nepal to avoid the following defects of income tax Act 1974 (Kandel, 2002:11):

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

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

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

2.2.2.1 Objectives of Income Tax Act 2002:

Following are the main objectives of Income Tax Act 2002 (Malik 2003:26)

- I. To increase the tax coverage.
- II. To make income tax related provisions clear and transparent.
- III. To interlink Nepalese tax system with tax system of other countries.
- IV. To make tax system based on account.
- V. To minimize tax avoidance and tax evasion.
- VI. To make tax system compatible to modern economy.
- VII. Separating administrative and judicial responsibilities.
- VIII. Reducing the scope of discretionary interpretation of the tax administration there by ensuring simplicity, uniformity and the transparency.
- IX. Defining the power as well as authority of the tax administration.

- X. Distinguishing taxpayers' violation of civil duties and criminal offences.
- XI. Making more effective and responsibility to tax administration.
- XII. Making more responsible to taxpayer by emphasizing on self tax assessment system.

2.2.2.2 Main features of Income Tax Act 2002

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

- I. Income tax related provisions are included with in one act.
- II. This act has classified all income into three headings under section3: (a) Business (b) Employment and (c) Investment.
- III. Act has clearly specified the amount should be included while calculating a person's gain or profits from conducting business or investment for an income year.
- IV. All the expenses are allowed to deduct provided that the same taxpayer makes the expenses in the same year in the production of income.
- V. There is the provision of carry forward of loss for subsequent four years. The act has also provided the facilities to carry backward of loss for five subsequent years in case of bank, insurance and long term contract.
- VI. Incentives are provided to infrastructure constructor, hydropower projects and special industries.
- VII. The act has given the option for husband and wife as a separate natural individual until they do not accept as a couple.
- VIII. Capital gain, dividend etc. has brought in tax net.
- IX. Authorities of taxpayer have specified.

- X. To control the tax evasion, provision of transfer pricing, thin capitalization, divided stripping is made.
- XI. Provisions of fines and penalties have made more strength in the new Income Tax Act 2002.
- XII. There has the special provision for deduction pollution control and research and development expenses.
- XIII. The income of an approved retirement fund is free from tax. But retirement payments in hands of employees are taxable.
- XIV. Resident persons are taxed on their worldwide income while non-resident persons are taxed only in their income source in Nepal.
- XV. The pool system of depreciation of fixed assets has introduced at the first time. All type of assets is classified into five categories. Depreciation rate for class A, B, C and D is based on diminishing balance method but straight-line method for class 'E' (intellectuals' assets).
- XVI. The act has provided the facility of medical tax credit, amount can carry forward forever.
- XVII. Now the economy of the most of the countries in the world is open one. The provision has introduced in the tax law related to international taxation. Transfer pricing, foreign tax credit, double taxation avoidance agreement etc. are the provision of international taxation.
- XVIII. This act has made a provision of relaxing the submission of income statement by a person who does not have taxable income or who has the income from remuneration only.

2.2.3 Sources of Income

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

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

2.2.3.1 Business Income

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

(See Income Tax Act 2002 for Details)

- a. Service charge (sec.7.2)
- b. Sales or disposal of business/trading stock. (sec.7.2)
- c. Net gain from the disposal of person's business assets/liabilities of the business calculated as under chapter 8 (sec.7.2)
- d. Amount received against the disposal of depreciable assets (sec.7.2)
- e. Prize or gift in connection with business. (Sec.7.2)
- f. Amount received instead of acceptance of any restriction regarding business. (Sec.7.2)
- g. Amount included under change of accounting method. (Sec.24)
- h. Excess amount received due to the exchange rate currency. (Sec.28)
- i. Bad debt recovered. (Sec.25)

- j. Proportionate amount under long-term contract. (Sec.26)
- k. Under paid interest amount according to market price. (Sec.29)
- l. Amount received for compensation. (Sec.31)
- m. Other amount received under business income. (Sec.72)

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

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

2.2.3.2. Income from Investment

- a. Any dividend, interest, natural resource payment, rent, royalty, gain from investment insurance, gain from an unapproved retirement payment or retirement fund from approved retirement fund (sec 9.2)
- b. Net gain from the disposal of the person's non- business chargeable assets of investment. (Sec.9.2)
- c. Excess amount of incoming over the depreciation basis including outings on the disposal of the depreciable assets of the investment of the person. (Sec. 9.2)
- d. Gifts or prizes received in connection with investment. (Sec. 9.2)
- e. Retirement contribution including those paid to a retirement funds in respects of the person and retirement payments on respect of investment (sec. 9.2)
- f. Amount received instead of acceptance of any restriction regarding investment (sec. 9.2).
- g. Amount included under change of accounting method (sec. 24).

- h. Excess amount received due to exchange rate currency (sec. 28).
- i. Bad debt recovered allowed previously (sec. 25)
- j. Proportionate amount under long-term contract (sec. 26).
- k. Under paid interest amount according to market price (sec. 9.2).
- l. Amount received as compensation (sec. 31).
- m. Other amounts required being included on tax accounting or quantification, allocation and characterizations of amounts or transaction between any entity and beneficiary or general insurance business (sec.9.2).

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

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

Admissible Expenses (Expenses allowed for deduction):

- a. All the expenses are allowed to deduct provided that the expenses are made by the same tax payer in the same year in the production of income (sec. 13)
- b. Interest on loan taken for the business purpose is deductible. However the amount of such interest will not exceed 50% of the tax payer's taxable income for the year calculated without including the interest received or without deducting any interest incurred by the tax payer in case of the person controlled by tax exempt entity (sec.14).

- c. The cost of trading stock is deductible. The allowable for trading stock is calculated by adding opening value of stock plus purchase value minus closing value of trading stock (sec. 15).
- d. The cost of repair and improvement of the depreciable assets used in business or investment are deductible such costs do not exceed 7% of the depreciable basis of the pool at the end of the income year (sec. 16).
- e. The act has allowed deducting pollution control device cost to the extent of 50% of the taxpayer's adjusted taxable income of the concerned year. Non-deductible cost can be capitalized depreciable asset under group 'D' in subsequent year (sec. 17).
- f. Act has allowed deducting research and department costs. If the expenditure is more than 50% of the taxable income of the concerned year. Remaining amounts can be capitalized as depreciable asset under group 'D' in subsequent year (sec.18).
- g. Depreciation of the depreciable assets used in business for the income year computed under the schedule 2 is allowed for deduction (sec.19).
- h. The loss can be set off from the profit of any business or investment in the same year in one hand and of the same business in subsequent four years while calculating the income in the other (sec. 20).

Following are the Expenses not allowed for deduction Sec 21:

1. Any personal/domestic expenses.
2. Income tax/ fine and penalty.
3. Dividends.

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

2.2.3.3 Income from Employment

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

- a. Payments of wages, salary, leavy pay, overtime pay, fees, commission, prizes, gifts, bonuses and other facilities.
- b. Payments of allowances including any cost of living, rent entertainment and transportation cost.
- c. Payments of reimbursement of cost incurred by the individual or an associate of the individual.
- d. Payments for the agreement of any conditions of the employment.
- e. Payments for the termination or loss or compulsory retirement.
- f. Retirement contributions including those paid by the employer to the retirement fund in respect of the employer and retirement payments.
- g. Other payments in respects of the employment.

- h. Other amount as given in chapter six of the perquisites and gains due to the change in tax accounting required to be included.

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

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

Excludable amount in the Employment Income

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

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

2.2.4 Methods of Income Tax Assessment:

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

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

1. Self Assessment:

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

2. Jeopardy Assessment:

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

3. Amended Assessment:

Tax department may amend an assessment made by the taxpayer under section 101. Department may re amend the amended assessment. The

department may not amend as assessment if the assessment has been amended or reduced pursuant to an order the Revenue Tribunal or court of competent jurisdiction except where the order reopened.

2.2.5 Appeal:

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

Appeal to Director General:

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

Appeal to Revenue Tribunal:

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

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

2.2.6 Fines and Penalties:

a. Penalty for Failure to Maintain Documentation or File Statements or Return of Income:

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

b. Intrest for Understating Estimated Tax Payable by Installment:

A person who understates estimated tax payable by installment basis is liable to pay intrest 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 intrest is calculated at the standard interest rate.

c. Intrest 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 intrest for each month and part of a month for which any of the tax is outstanding calculated as the standard intrest rate applied to the amount outstanding.

d. Penalty for making False or Misleading Statement:

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

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

e. Penalty for Aiding and Abetting:

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

2.3 Review of Related Studies

2.3.1 Review of Dissertations

Mr. Lokendra Bhandari in his dissertation named “*Income Taxation in Nepal. Analysis of structure & problems*” (2007) has explained that the contribution of income tax to the total revenue, tax revenue, direct tax & total GDP is in increasing trend. Its contribution was 9.91%, 12.67%, 67.37% & 0.93% respectively in the FY 1989/90 which increased to

15.13%, 19.04%, 78.3% & 1.96% in FY 2005/06. This study further explained that being various problems relating to income tax, revenue collection from income tax is low as compared to other developing countries like India, Srilanka, Pakistan etc. (Bhandari (2007)).

Shakya presented a dissertation named “*Income Tax System in 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 to improve on them. In his 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.

Poudel presented a dissertation entitled, “*Income Taxation in Nepal: A study of its Structure and Productive.*” The objectives of her study were analyze the structure of income tax in Nepal, to estimate the elasticity and buoyancy of income tax in Nepal, to assess the role of income tax administration in Nepal, to evaluate the success of Voluntary Disclosure of Income Scheme (VDIS) program in brief and to provide the suitable recommendation for improving the scenario of income tax. She has found that overall revenue of Nepal showed an annual growth of 16%, indirect taxation has more significant contribution in total tax revenue, income tax occupied the first rank among the direct taxes, personal income tax slabs has been changed radically from seven slabs in 1975/ 1976 to two slabs in

1999/2000, VDIS could not attract more potential taxpayers into tax net due to lack of good planning and adequate homework of the government, working procedures of the tax administrators are still traditional and cost of administration has not been brought to the satisfactory level (Poudel, 2002).

Pant presented his master's level dissertation entitled "***A study on Income Tax Management in Nepal***". He has identified various problems of Income Tax Management in Nepal and among them lack of managerial efficiency is the main problem, lack of effective personnel management, poor reward and punishment system, weak income tax assessment procedure, poor tax information system, lack of taxpayers education, very narrow coverage of income tax are the other problems of income tax management in Nepal identified by him (Pant, 2004).

Mr. Rejendra Dulal in his dissertation named "***Income Taxes in Nepal, study of its Structure and Contribution to Revenue Generation***" (2004) has explained that the contribution of income tax to total Revenue was 7.8% in 1975/ 1976 and in 1999/2000 it was 14.5%. This study explained that the income tax rates and slabs have been changed radically in recent years under new income tax Act, 2002. Individual income tax is levied with low rates of 15% and 25% and corporate income tax is levied with single rate of 25%. For Bank and Financial institutions the rate is 30% of taxable income (Dulal 2004).

In 2006, **Mr. Furtiman Basnet** submitted a dissertation entitled "***A study on Effectiveness of self Tax Assessment in Nepal.***" According to this dissertation self tax assessment system is effective in Nepal but not as expected. According to this thesis, the trend of applying self-tax

assessment system is increasing. It contributes for increment of tax revenue. The numbers of taxpayers are increasing in some extent. They are motivated to collect the tax to self-assessment system. He has recommended that further policies should be determined to bring the potential taxpayers within the tax net and there should be organized consciousness campaign to provide the orientation for basic accounting system and self assessment system.

In 2003, **Mr. Thaman Sherchan** submitted a thesis entitled, “*An analysis of Fines and Penalties Regarding Income Tax System of Nepal*”. He has found that there was dominant share of tax revenue in Nepalese government revenue structure. He has suggested revising the provision of fees and penalties; introducing reward, prize, and incentives provisions, formulating the clear income tax rules and regulation and clear right and duties of tax officers. This study was done with the main objectives of analyzing the provisions of fees and penalties under income tax law and knowing the taxpayers’ knowledge and tax officer’s views about fines and penalties. Therefore his study has focused only on provision of fines and penalties.

In 2008 **Santosh Subedi** submitted a thesis “*Resource Mobilization through Income Tax in Nepal*”. According to main objectives of his study were to examine the role of income tax in resource mobilization in Nepal, to identify the role and status of income tax in total tax structure. In his objectives he has explained to provide suitable recommendations for the improvement of general resource mobilization through income tax in Nepal.

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

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

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

Karna Bahadur Baidwal (2009) submitted a thesis entitled “*Effectiveness of Income Tax System in Nepal*” described the

conceptual framework legal provision, composition of total Revenue in Nepal, problem of resource gap in Nepal. Public awareness towards income tax in Nepal and empirical investigation and effectiveness of tax system in Nepal. He undertook the research work to find out the problems regarding to revenue expenditure. The main objective of his study is to analyze the effectiveness of income tax system in Nepal, to evaluate the contribution of income in national revenue to evaluate present tax administration etc.

2.3.2 Review of Books and Articles

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

Malik (2003) published a book named “*Nepal ko aadhunik Aayakar Parnali*”. This book is very much useful to any one who is interested to know about Income tax. In this book Mr. Malik has explained income tax with examples where necessary. He has presented the complex act in

simple manner so that it would be easy to understand the Act. He has shared his expertise in his book. His book is descriptive as well as analytical. All the provisions in the act have been clarified in simple language. He has also compared the provisions of the old act with the new act.

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

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

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

Surendra Keshar Amatya, Dr. Bihari Binod Pokharel and Rewanta Kumar Dhakal (2004) wrote a book entitled “*Taxation in Nepal.*” Amatya, Pokharel and Dhakal have described the provisions made under income tax laws. This book is divided in thirty-one chapters in their book. They have described about income tax and its development in Nepal, tax accounting qualification, allocation and characterizing of amounts exemptions, concession and tax rates, expenditure expressly disallowed for deduction, capital or revenue incomes and expenditure. Taxpayer have special provision for natural person and entity, investment income need and sources, income from employment and from business, set off and carry forward of losses, net gain, international taxation, right and duties of tax payers, appeal property tax in Nepal. This book has been written to fulfill the course requirement of Tribhuvan University. It is based on BBS 3rd year/Law/CA and it also for MBS.

Bhattarai and Koirala published two books named, “*Taxation in Nepal*” and “*Tax Laws and Tax Panning.*” First book has been designed in conformity with the syllabus of BBS 3rd year and the second one has designed based on the syllabus of MBS 2nd year. Relevant theoretical and practical aspects have been discussed in the books. Both books have shown how taxable income is computed under employment business and investment sources.

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

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

Neelam Timilsina in his article entitled “Tax Elasticity and Buoyancy in Nepal: A Revisit” (2007) has concluded that the automatic response of tax to income is low. Compared to the period (1975-1994) the elasticity coefficients of tax during the review period (1975-2005) did not reveal significant differences. The buoyancy and elasticity of income tax during the study period was 1.37 and 0.41 respectively. This study has further concluded that only the discretionary measures can not generate more revenue free ware. Important in tax administration to control the leakage and to burden the tax basis in practice is important for enhancing the elasticity of tax.

Dr.Chandra mani Adhikari has published an article from Rajaswa Vol.2 in the year 2001. in his article he has explained the need of tax policy that can play significant role in the Nepalese economy. According to him, a little attention on tax administration can minimize the role of tax policy. Nepalese income tax waiting for a comprehensive and integrated taxation plan and scientific implementation of the same of reforms, further he has started Nepalese tax system has three types of gaps. They are,

1. Investigation and identification gap

2. Return filling gap

3. Assessment and collection gap

He suggested that the tax administration should consider as an important components of tax policy to achieve the goal of revenue minimization through income taxation.

Dr. Govinda B. Thapa in his article entitled “Structure of Nepalese Revenue, Status and challenges” published in Rjaswa (2000) has described that the agricultural income which contributed about 40% income of GDP being tax free, about 50% of total population being below the poverty line tax holiday for new industries, lack of political commitment are the major causes of poor resources mobilization in Nepal. (Thapa 2000).

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

2.3.3. Research Gap

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

made more tax laws and policies to collect tax revenue but lack of permanent government is not effective so far.

All the researchers mentioned in review of literature are concerned with the study of laws, provisions and structure of tax revenue. Most of them have indicated the inefficiency of tax administration, widespread tax evasion and weak government law and policies. No attention has been paid on the tax administration and its effectiveness. The role of tax administration is crucial for the effectiveness of tax collection. Therefore the research has been conducted on the topic Income tax administration and its effectiveness in Nepal. But the present government is very much successful in collection in revenue through VDIS program. The government is implement law and policies strictly so that the tax collection is greater than expectation.

Chapter 3

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

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

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

3.2 Population and Sample

In order to fulfill the objectives of the study 60 persons have been considered as total sample. Tax administrators, tax experts and taxpayers are considered as the total population. Out of 60 persons: 20 tax administrator, 20 tax experts, and 20 taxpayers have been considered as the target sample for the study. Persons included in the sample are carefully selected by consultation with lectures and best judgment of the researcher. The respondents have been divided into three groups. The following table shows the groups of respondents and size of samples.

Table 3.1: Group of Respondents and Size of Sample

S. No	Group of Respondents	Sample Size
1	Income Tax Administrators	20
2	Income Tax Experts	20
3	Income Tax Payers	20
Total		60

3.3 Data Collection Procedure

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

3.4 Nature and Sources of Data

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

3.4.1 Primary Data

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

3.4.2 Secondary Data

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

1. Economic survey and budget speeches Ministry of Finance, Government of Nepal.
2. Report and records of Inland Revenue Department.
3. Published documents of Nepal Rastra bank and Planning Commission, Kathmandu.
4. Dissertations, published articles on different journal news magazines.

5. News papers, published articles on different journal news magazines.
6. Different publications of Central Bureau of Statistics.
7. Internet, E-mail.
8. Various books written by tax officers and scholars related to income tax.

3.5 Data Processing and Analyzing Procedure

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

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Analysis of Secondary Data

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

4.1.1 Resource Gap in Nepal

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

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

Table No. 4.1
Resource Gap in Nepal

(Rs. In Million)

Fiscal Year	Total Expenditure	Total Revenue	Resource Gap (A)	Foreign Loans	Resource Gap (B)	Foreign Loans	Resources Gap (C)
	(A)	(B)	(A-B)	(C)	(A-(B+C))	(D)	(A-(B+C+D))
1998/99	59579	37251	22328	4336.60	17991.40	11852.40	6139
1999/00	66272.50	42893.70	23378.80	5711.70	17667.10	11812.20	5854.90
2000/01	79835.10	48893.90	30941.20	6753.40	24187.80	12044	12143.80
2001/02	80072.20	50445.60	29626.60	6686.10	22940.50	7698.70	15241.80

2002/03	84006.10	56229.70	27776.40	11339.10	16437.30	4546.40	11890.90
2003/04	89442.60	62331.00	27111.60	11283.40	15828.20	7629	8199.20
2004/05	102560	70122.70	32437.30	14391.20	18046.50	9266.10	8780.40
2005/06	110889	72282.10	38606.90	13827.50	24779.40	8214.30	16565.10
2006/07	131851	86135.46	45715.54	15946	29769.54	10331	19438.54
2007/08	168995.6	103667.26	65328.34	27460.91	37867.43	17367.43	20500
Average	97350.31	63025.24	34325.07	11773.59	22551.48	10076.15	12475.33

Source: Economic Survey Fiscal Year 2007/08, 2008/09

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

As shown in the table resource gap 'A' was Ra 22328 million in the F/Y 1998/99 and Rs. 65328 million in the FY 2007/08. The average resource gap was Rs. 34325.07 million for last 10 year. The amount of resource gap was increasing trend up to FY 2000/01 and the amount was Rs. 30941.20 million. In the FY 2003/04 resource gap was decrease in Rs. 27111.60 million and then resource gap in increasing 32437.30 million in FY 204/05, the amount was Rs. 65328.34 million in F/Y 2007/08.

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

This resource gap is taken as the different between total expenditure and total revenue plus foreign grants. In the FY 1998/99 the gap was 17991.40 million which was decreased in to 17667.10 million in FY 1999/00 and then increase in 24187.80 in F/Y 2000/01 and then decrease to 15828.20 in F/Y 2003/04 which was due to the high proportionate incriminate in foreign grant strum Rs. 6686.10. Million in the FY 2001/02 to Rs. 11283.40 million in F/Y 203/04. Then after the amount of resources gap was increasing trend up in Rs. 29769.54 million in F/Y 2006/07 and Rs. 37867.43 million in FY 2007/08. The average resources gap was Rs. 22551.48 million for 10 years.

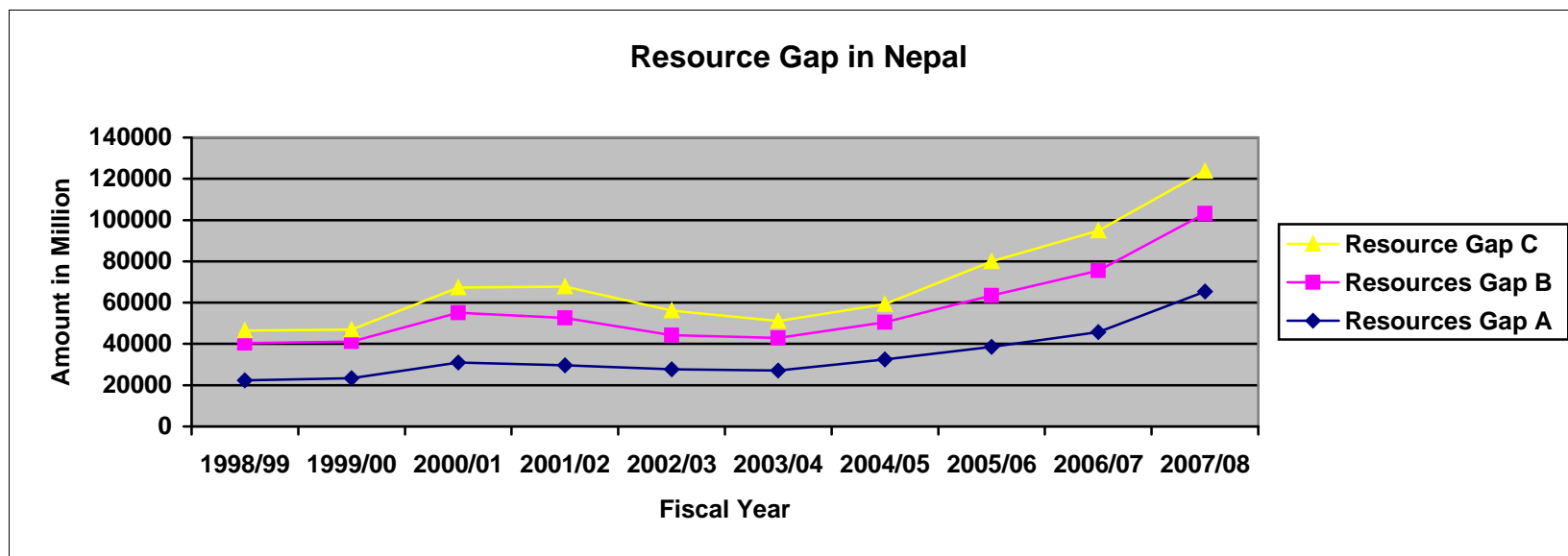
3. Resource GAP (C) = [A- (B+C+D)]

This resources gaping in taken as the different between total expenditure and total resource plus foreign grants plus foreign loan. In the F.Y. 1998/99 the gap was Rs. 6139 million, which was increase to Rs 20500 million in the F.Y. 2007/08. The

resource gap was fluctuating in F.Y. 1999/00 to F.Y. 2007/08. The average resource gap was 12475.33 million for 10 years.

We can show the resource gap in following diagram.

Figure No. 4.1: Resource Gap in Nepal



4.1.2 Revenue GDP Ratio

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

Table No. 4.2
Revenue GDP Ratio in Nepal

(Rs. In Percent)

Fiscal Year	Total Revenue GDP Ratio	Tax Revenue GDP Ratio	Non Tax Revenue GDP Ratio
1998/99	11.29	8.71	2.58
1999/00	11.71	9.05	2.66
2000/01	11.83	9.40	2.43
2001/02	11.72	9.14	2.58
2002/03	12.22	9.25	2.97
2003/04	12.45	9.62	2.83
2004/05	12.78	9.86	2.92
2005/06	11.97	9.51	2.46
2006/07	10.78	8.53	2.25
2007/08	14.10	10.38	3.72
Average	12.083	9.345	2.738

Source: Economic Survey Fiscal Year 2007/08, 2008/09

From the above table the total revenue to GDP ratio was 11.29% in FY 1998/99. It reaches 12.78% in FY 2004/05 similarly 11.97% in F/Y 2005/06, 10.78 in FY 2006/07 and 14.10% in FY 2007/08. The average ratio to revenue-GDP was 12.083%. Similarly tax revenue and non-tax revenue ratio with GDP was 8.71% and 2.58% respectively in FY 1998/99 it reaches to 10.38% and 3.72% in FY 2007/08. The average ratio of tax revenue and non-tax revenue with GDP was 9.345% and 2.738% respectively.

4.1.3 Nepalese Government Revenue Structure

Government collects revenue from different sources. Basic sources of the government revenue are classified into tax and non-tax revenue. Nepalese economy is characterized by a low revenue performance in contrast to growing public expenditure, the composition of government revenue since last 10 years in presented in the table no. 4.3.

Table No. 4.3
Composition of Total Revenue

(Rs In Million)

Fiscal Year	Total Revenue	Tax Revenue		Non Tax Revenue	
		Amount	Percentage	Amount	Percentage
1998/99	37251	28752.90	77.19	8498.10	22.81
1999/00	42893.70	33152.10	77.29	9741.60	22.71
2000/01	48893.90	38865.10	79.49	10028.80	20.51
2001/02	50445.60	39330.6	77.97	11115	22.03
2002/03	56229.70	42587	75.74	13642.70	24.26
2003/04	62331.00	48173	77.29	14158	22.71
2004/05	70122.70	54104.7	77.16	16018	22.84
2005/06	72282.10	57430.40	79.45	14851.7	20.55
2006/07	86135.46	70046.19	81.32	16089.28	18.68
2007/08	103667.26	80962.20	78.10	22705.05	21.90
Average	63025.24	49340.42	78.29	13684.85	21.71

Source: Economic Survey Fiscal Year 2007/08, 2008/09

From the above table, the tax revenue was Rs. 28752.90 million in the FY 1998/99 the base year for the research it was 77.19% of total revenue. In the FY 2007/08 Tax revenue was 80962.20 million and 2.82 times higher than of tax revenue in the FY 1998/99. Average tax revenue for 10 years was Rs 49340.42 million that occupies on average 78.29% share of total revenue. It indicates that the tax revenue was gradually increasing in every year since FY 1998/99 to 2007/08 amounting Rs. 28752.90 million to Rs 80962.20 million. But the percentage contribution of tax revenue was found fluctuating in every year. The contribution of tax revenue was highest 81.32% in FY 2006/07 and lowest 75.74% in FY 2002/03.

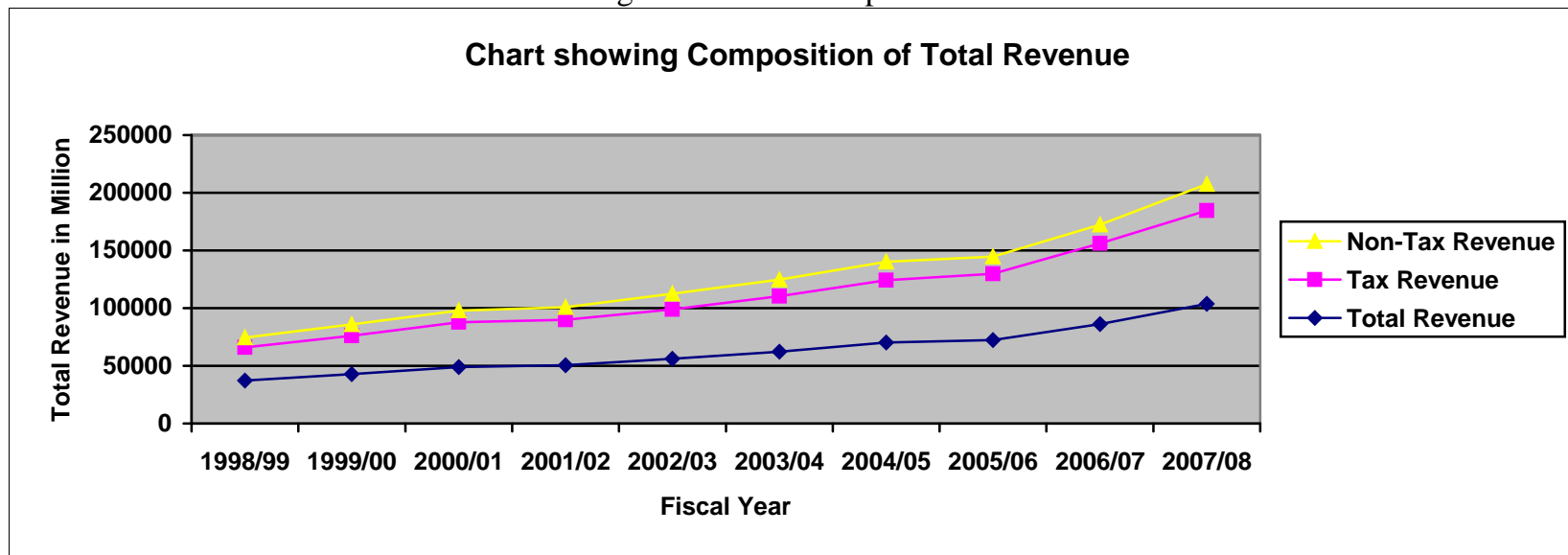
Non-tax revenue was Rs. 8498.10 million in the FY 1998/99, 22.81 % of total revenue it raised to Rs. 9741.60 million representing 22.71% of total revenue in FY 1999/00. In next year non-tax revenue amount of Rs 10028.80 million, 20.51% of total revenue in FY 2000/01. Similarly it decrease to Rs 14851.7 million, 20.55% of total revenue

in FY 2005/06 and then increase to Rs. 22705.05, 21.90% of total revenue in FY 207/08. The average of non-tax revenue was Rs. 13684.85 million, and 21.71%.

Total revenue collection was seen in the gradually increasing trend. It was Rs 37251 million in FY 1998/99 and reached to Rs. 103667.26 million in FY 2007/08. The average total revenue collection in last 10 years was Rs 63025.24 million. Total revenue includes tax revenue and non-tax revenue. The average tax revenue was Rs. 49340.42 million and non-tax revenue was Rs 13684.85.

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

Figure No. 4.2: Composition of Total Revenue



4.1.4 Composition of Total Tax Revenue

Tax revenue is the combination of direct and indirect tax. Direct tax includes revenue from land registration fees, taxes on property, taxes on profit and income where as indirect tax includes, customs on export and import, excise on industrial products, VAT, sales tax, entertainment tax, hotel tax, air flight tax, contract tax etc. The composition of Nepalese tax revenue is presented in the table 4.4 in terms of direct and indirect tax revenue. The composition of tax revenue has been shown below:

Table No. 4.4
Composition of Total Tax Revenue

(Rs in Million)

Fiscal Year	Total Revenue	Tax Revenue		Non Tax Revenue	
		Amount	Percentage	Amount	Percentage
1998/99	28752.90	7516.10	26.14	21236.8	73.86
1999/00	33152.10	8951.50	27	24200.60	73.00
2000/01	38865.10	10159.40	26.14	28705.70	73.86
2001/02	39330.60	10597.50	26.94	28733.10	73.06
2002/03	42584	10105.80	23.73	32481.20	76.27
2003/04	48173	11912.60	24.73	36260.40	75.27
2004/05	54104.7	13071.80	24.16	41032.90	75.84
2005/06	57430.40	13968.10	24.32	43462.30	75.68
2006/07	70046.19	18980.50	27.1	51065.69	72.90
2007/08	80962.20	21297.8	26.31	59664.4	73.69
Average	49340.42	12656.11	25.65	36684.31	74.35

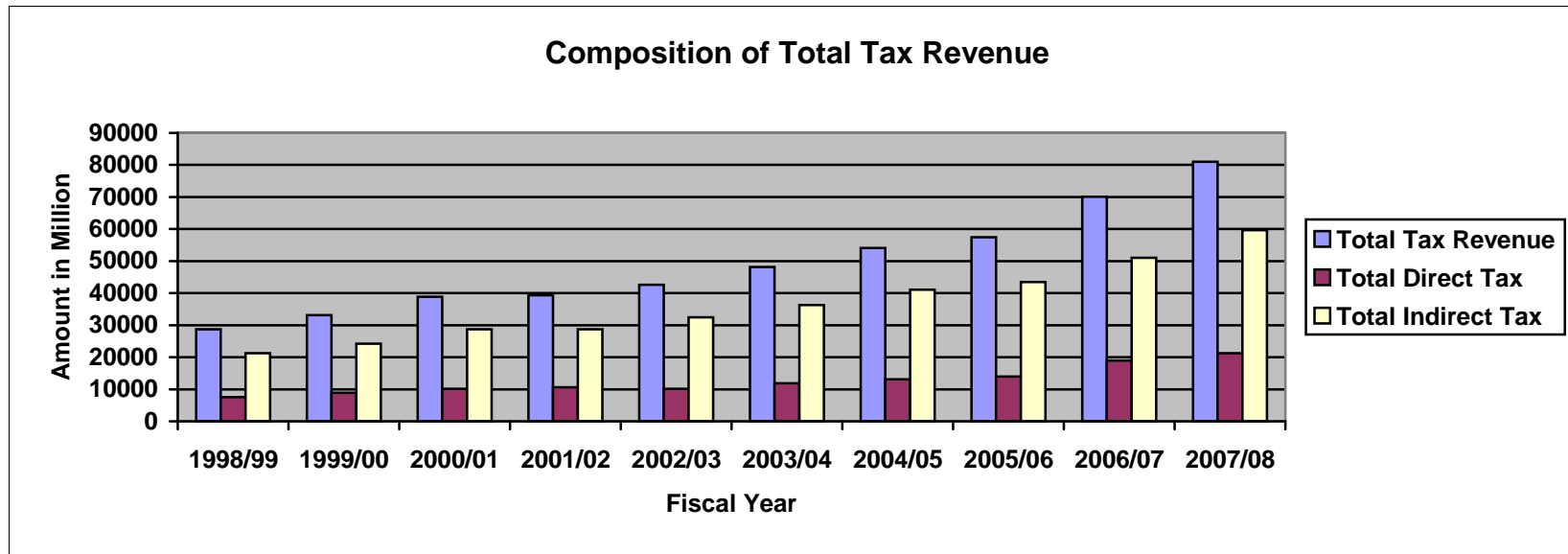
Source: Economic Survey Fiscal Year 2007/08, 2008/09

According to above table it shows that the whole Nepalese tax structure is dominated by indirect tax. The average share of direct tax revenue in total tax revenue for the period of last ten years was 25.65% and the average share of indirect tax revenue was 74.35% according to the above table, total tax revenue, direct tax revenue and indirect tax revenue are in increasing trend. The mean share of direct tax was Rs 1265.11 million and that of indirect tax was Rs. 36684.31 million for the period of last 10 years. The amount of direct tax was Ra. 7516.10 million in fiscal year 1998/99. It increased each year and reached to Rs. 21297.8 million in FY 2007/08 except in FY 2002/03. In FY 2002/03 direct tax was Rs 10105.8 million, which was, came by declining Rs. 491.7 million comparing to previous year. Percentage contribution of direct tax to total tax revenue was fluctuating every year. The contribution of direct tax o total tax revenue was 25.65% in average.

Similarly, the amount of indirect tax was Rs. 21236.8 million in FY 1998/99. It increased each year and reached to Rs 59664.4 million in FY 2007/08. Percentage

contribution of indirect tax to total tax revenue was highest 76.27% in FY 2002/03 and lowest 72.90% in FY 2006/07. The contribution of indirect tax on total tax revenue was 74.35% in average. The contribution of direct tax and indirect tax revenue on total tax revenue is shown in the following trend line.

Figure No. 4.3: Composition of Total Tax Revenue



4.1.5 Composition of Indirect Tax Revenue

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

Table No. 4.5
Composition of Indirect Tax Revenue

Rs in Million

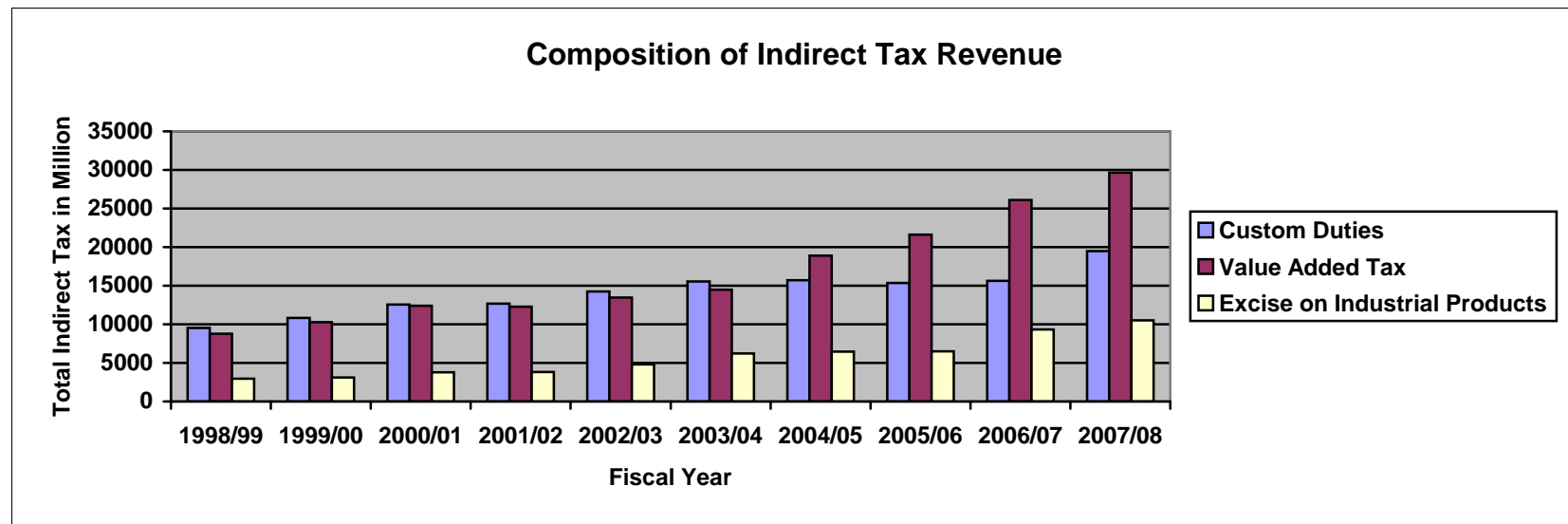
Fiscal Year	Total Indirect Tax	Custom Duties		Tax on Consumption and Product of Goods and Services			
				Value Added Tax		Excise on Industrial Products	
		Amount	%	Amount	%	Amount	%
1998/99	21236.8	9517.70	44.82	8765.90	41.28	2953.20	13.91
1999/00	24200.60	10813.30	44.68	10259.70	42.39	3127.60	12.92
2000/01	28705.70	12552.10	43.73	12382.40	43.14	3771.20	13.14
2001/02	28733.10	12658.80	44.06	12267.30	42.69	3807	13.25
2002/03	32481.20	14236.40	43.83	13459.70	41.44	4785.10	14.73
2003/04	36260.40	15554.80	42.90	14478.90	39.93	6226.70	17.17
2004/05	41032.90	15701.60	38.27	18885.40	46.03	6445.90	15.71
2005/06	43462.30	15344	35.30	21610.70	49.72	6507.60	14.98
2006/07	51065.69	15626.89	30.60	26095.60	51.10	9343.20	18.30
2007/08	59664.4	19489.3	32.66	29651.90	49.70	10523.20	17.64
Average	36684.31	14149.489	40.08	16785.75	44.74	5749.07	15.18

Source: Economic Survey Fiscal Year 2007/08, 2008/09

The above table 4.5 revealed that the custom duty and VAT occupies major portion in indirect tax. In FY 1998/99 the contribution of custom duty was 44.82% which fluctuation between 44.82% to 30.06% in the FY 2006/07. Then after FY 2007/08 in 32.66% and the average percentage contribution of custom duty to indirect tax was 40.08% during the study period.

Average share of VAT to indirect tax was 44.74%. Amount of VAT in fiscal year 1998/99 was Rs 8765.90 million and had reached to Rs. 29651.9 million in FY 2007/08. Similarly the amount of excise on industrial products was increasing each year but percentage was fluctuating. In average its contribution of excise on industrial products on total indirect tax was Rs. 5749.07 million (i.e. 15.18%) for the period of last 10 years. We can show in following figure.

Figure No. 4.4: Composition of Indirect Tax



4.1.6 Composition of Direct Tax Revenue

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

Table No. 4.6: Composition of Direct Tax Revenue

Fiscal Year	Total Direct Tax	Land Revenue and Registration				Tax on Property, Profit and Income				
		Land Revenue	House and Land Registration Fees	Total	% of Total Direct Tax	Income Tax	Tax on Property	Other Tax	Total	% of Total Direct Tax
1998/99	7516.10	1.30	1001.80	1003.1	13.25	6170.20	342.70	0	6512.90	86.65
1999/00	8951.50	4.60	1011.30	1015.9	11.35	7420.60	515	0	7935.60	88.65
2000/01	10159.40	5.10	607.80	612.9	6.03	9114	432.50	0	9546.50	93.97
2001/02	10597.50	0.80	1131	1131.8	10.68	8903.70	562	0	3465.70	89.32
2002/03	10105.80	0	1414.30	1414.3	13.99	7966.20	559.50	165.80	8691.50	86.01
2003/04	11912.60	0	1697.50	1697.5	14.25	9245.90	700.60	268.60	10215.10	85.75
2004/05	13071.80	0	1799.20	1799.2	13.76	10159.40	806.50	306.70	11272.60	86.24
2005/06	13968.10	0	2181.10	2181.1	15.61	10373.70	847.60	565.70	11787	84.39
2006/07	18980.50	0	2253.50	2253.5	11.88	15034.20	995	697.80	16727	88.12
2007/08	21297.80	0	3346.10	3346.10	15.71	16869.20	1082.5	0	17951.7	84.29
Average	12656.11	1.18	1644.36	1645.54	12.65	10125.71	684.39	200.46	11010.56	87.35

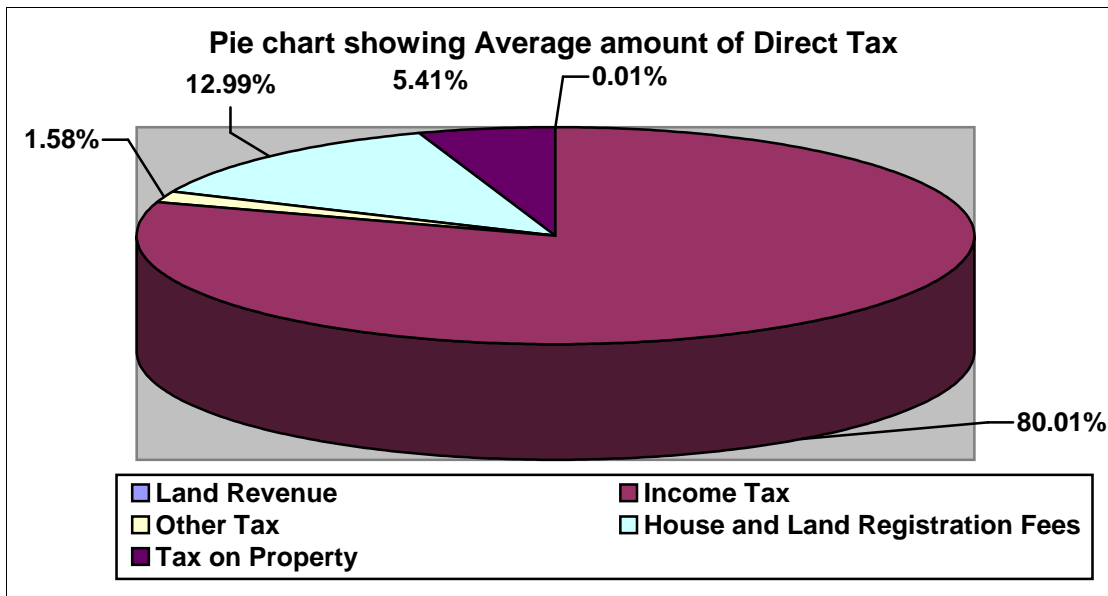
Source: Economic Survey Fiscal Year 2007/08, 2008/09

According to the table direct tax is classified into land revenue and registration and tax on property, profit and income. Land revenue and registration fees. The share of land revenue and registration was Rs. 1003.1 million in FY 1998/99. It was decrease in FY 2000/01 it was in increasing trend. In fiscal year 2007/08 it reached to Rs. 3346.10 million. The average of land revenue and registration was Rs. 1645.54 million n periods of last 10 years. In case of percentage contribution the highest percentage contribution was 15.71% in FY 2007/08 and lowest was 6.03% in fiscal year 2000/01. In average land revenue and registration has covered 12.65% of the total direct tax revenue.

Another source of direct tax revenue is tax on property, profit and income. It can be classified into income tax, tax on property and other tax. Income tax includes income tax from public enterprise, semi-public enterprise, private corporate bodies, individual, remuneration and tax on interest. Similarly, tax on property includes urban house and land tax and vehicle tax. The share of tax on property, profit and income was 6512.90 million in FY 1998/99. It was in increasing trend and reached to Rs. 17951.7 million in FY 2007/08. Average contribution of tax on property, profit and income was Rs. 11010.56 million in the period of last 10 years. In case of percentage contribution the highest percentage contribution was 93.97% in FY 2000/01 and lowest was 84.29% in FY 2007/08 and the average was 87.35%.

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

Figure No. 4.5: Average Amount of Direct Tax



4.1.7 Structure of Income Tax in Nepal

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

Table No. 4.7: Structure of Income Tax in Nepal

Rs. In Million

Fiscal Year	Total Income Tax Revenue	Public Enterprises		Private Corporate Bodies		Individuals		Remuneration		Taxation Interest	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1998/99	6170.20	1526.50	24.74	1155	18.72	2772.70	44.99	396.50	6.43	319.50	5.18
1999/00	7420.60	2198.80	29.69	1339.50	18.05	3016.40	40.65	451.50	6.08	414.40	5.58
2000/01	9114	2928.00	32.13	1924.30	21.11	3200.50	35.12	597.30	6.55	463.90	5.09
2001/02	8903.70	1769.30	19.87	1412	15.86	4419.10	49.63	835.60	9.38	467.70	5.25
2002/03	7966.20	1251.00	15.70	1236.30	15.52	3362.30	42.21	1252.65	15.72	864.00	10.85
2003/04	9245.90	2056.60	22.74	1531.30	16.56	3533.40	38.22	1391.20	15.05	733.40	7.93
2004/05	10159.40	1332.40	13.11	2467.80	24.29	3926.30	38.65	1675.90	16.50	757.00	7.45
2005/06	10373.70	195.70	1.89	3404.30	32.82	4234.70	40.82	1764.10	17.01	774.9	7.47
2006/07	15034.20	1019.70	6.78	5717.10	38.03	5234.40	34.82	2007.90	13.35	1054.90	7.02
2007/08	16869.20	5897.6	34.96	2299.7	13.63	4754.6	28.19	2527.7	14.98	1389.60	8.24
Average	10125.71	2017.56	20.16	2248.73	21.46	3845.44	39.33	1139.24	12.11	618.44	6.94

Source: Economic Survey Fiscal Year 2007/08, 2008/09

The table no. 4.7 presents the structure of income tax in Nepal which shows that the total income tax is increased every fiscal year expected in the FY 2001/02 and 2002/03. It has increased from Rs. 6170.20 million in the 1998/99 to Rs. 15034.20 million in FY 2006/07. In the year 2001/02 it was decreased to Rs. 8903.70 million from Rs. 9114 million on the FY 2000/01 and in FY 2002/03 it was Rs. 7966.20 million then again it started to increased in each year till FY 2006/07 the amount was Rs 15034.20 million then in FY 2007/08 the amount was Rs. 16869.20 million. The contribution of public enterprises increased from Rs. 1526.50 million it was 24.74% to total income tax revenue in the FY 1998/99. After the FY 2000/01 the contribution of public enterprises were decreased to amount Rs. 195.7 million in the FY 2005/06 than after, it was increased to Rs. 5897.60 million in FY 2007/08. The average of public enterprises was Rs. 2017.56 million and 20.16% of total income tax.

The total tax from private corporate bodies has increased every year except in fluctuation condition. In FY 1998/99 the amount was Rs. 1155 million, in FY 2006/07 it was Rs. 5717.1 million and it decreased to Rs. 2299.7 million in FY 2007/08 its contribution was 13.63% in total income tax revenue. The average of private corporate bodies was Rs. 2248.73 million and its average contribution was 21.46%.

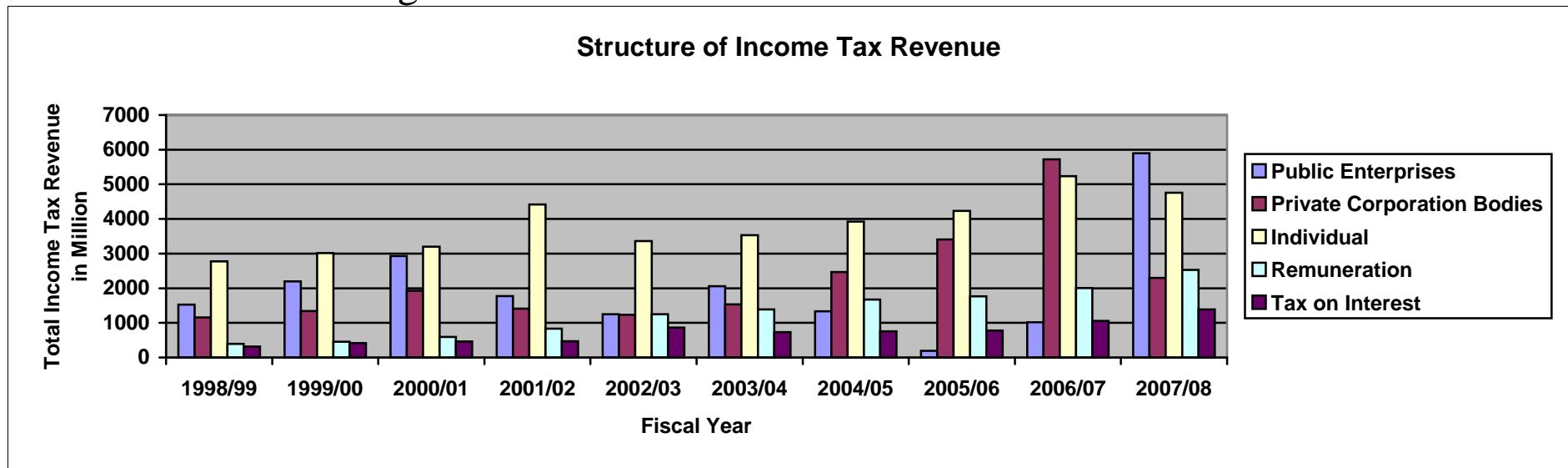
The contribution from individual income tax collection was in gradually increasing trend. It FY 2002/03 it was decreased to Rs. 3362.30 million from Rs. 4419.10 million in FY 2001/02 and then increasing trend. It was Rs. 5234.40 million in FY 2006/07 and it was decreased to 4754.6 million in FY 2007/08. Its contribution was 28.19% in FY 2007/08. The average of individual income tax was Rs. 3845.44 million and average contribution was 39.33%. The collection of income tax from remuneration has been increasing trend. It was Rs. 396.50 million in the FY 1998/99 to Rs. 2527.7 million in the FY 2007/08 it was contributed 14.98% in total income tax

revenue. The average of remuneration was Rs. 1139.24 million and the average contribution was 12.12%.

Income tax from interest was in increasing trend from FY 1998/99 to FY 2002/03 it was decrease to Rs. 733.40 million in FY 2003/04 from Rs. 864 million in FY 2002/03 then it was in increasing trend and Rs. 1389.60 million in FY 2007/08 and it

contribution was 8.24% in FY 2007/08. The average tax on interest was Rs. 618.44 million and average contribution was 6.94%.

Figure No. 4.6: Structure of Income Tax Revenue



4.1.8 Contribution of Income Tax

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

4.1.8.1 Contribution of Income Tax on total Government Revenue

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

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

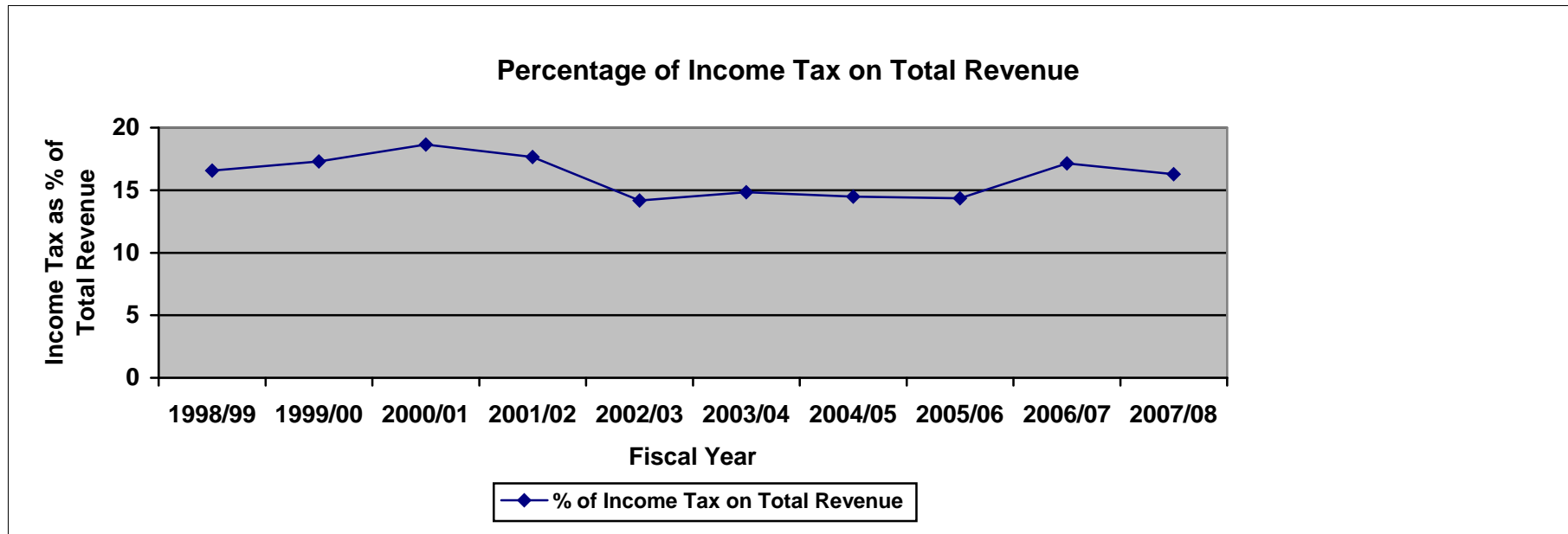
(Rs in Million)

Fiscal Year	Total Income Tax Revenue	Total Govt. Revenue		Total Tax Revenue		Direct Tax Revenue		GDP Current Price	
		Amount	% of Income Tax on Total Revenue	Amount	% of Income Tax on Total Revenue	Amount	% of Income Tax on Total Revenue	Amount	% of Income Tax on Total Revenue
1998/99	6170.20	37251.00	16.56	28752.90	21.46	7516.10	82.09	330018.00	1.87
1999/00	7420.60	42893.70	17.30	33152.10	22.38	8951.50	82.90	366251.00	2.03
2000/01	9114	48893.90	18.64	38865.10	23.45	10159.40	89.71	413429.00	2.20
2001/02	8903.70	50445.60	18.65	39330.60	22.64	10597.50	84.02	430397.00	2.07
2002/03	7966.20	56229.70	14.17	42587.00	18.71	10105.80	78.83	460325.00	1.73
2003/04	9245.90	62331.00	14.83	48173.00	19.19	11912.60	77.61	500699.00	1.85
2004/05	10159.40	70122.70	14.49	54104.70	18.78	13071.80	77.72	548485.00	1.85
2005/06	10373.70	72282.10	14.35	57430.40	18.06	13968.10	74.27	611088.50	1.85
2006/07	15034.20	86135.46	17.14	70046.19	21.14	18980.50	88.88	6745484.00	1.72
2007/08	16869.20	103667.26	16.27	80962.24	20.84	21297.80	79.21	735228.79	2.23
Average	10125.71	63025.24	16.14	4934.42	20.67	12656.11	81.52	507140.53	2.29

Source: Economic Survey Fiscal Year 2007/08, 2008/09

According to above table the share of income tax as a percentage of total government revenue was 16.14% in average in the study period. In FY 1998/99 it was 16.56. It was in increasing trend up to FY 2000/01 and it reached to 18.64% in FY 2000/01 and then starts to decline and reaches to 16.27% in FY 2007/08. The following figure shows the contribution of income tax on total government revenue.

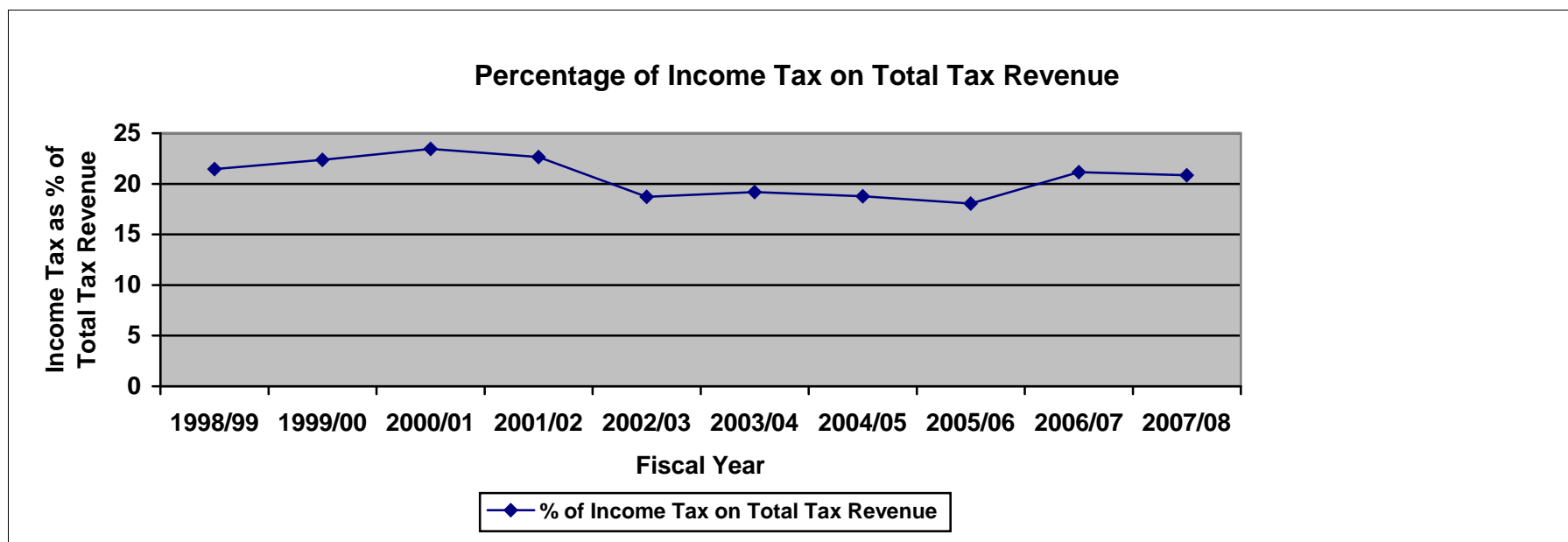
Figure No. 4.7: Contribution of Income Tax to Total Revenue



4.1.8.2 Contribution of Income Tax on Total Tax Revenue

Total tax revenue consists direct tax and indirect tax revenue. There is dominant role of the indirect tax revenue in the Nepalese tax revenue structure. The contribution of income tax to the total tax revenue was presented in table no. 4.8. According to table no. 4.8 the share of income tax as a percentage of total tax revenue was 20.67% in average for the period of last 10 years. In FY 1998/99 it was 21.46%. It was in fluctuation condition. It was highest 23.45% in the FY 2000/01 and in FY 2007/08 it was 20.84%. The following figure shows the contribution of income tax on total tax revenue.

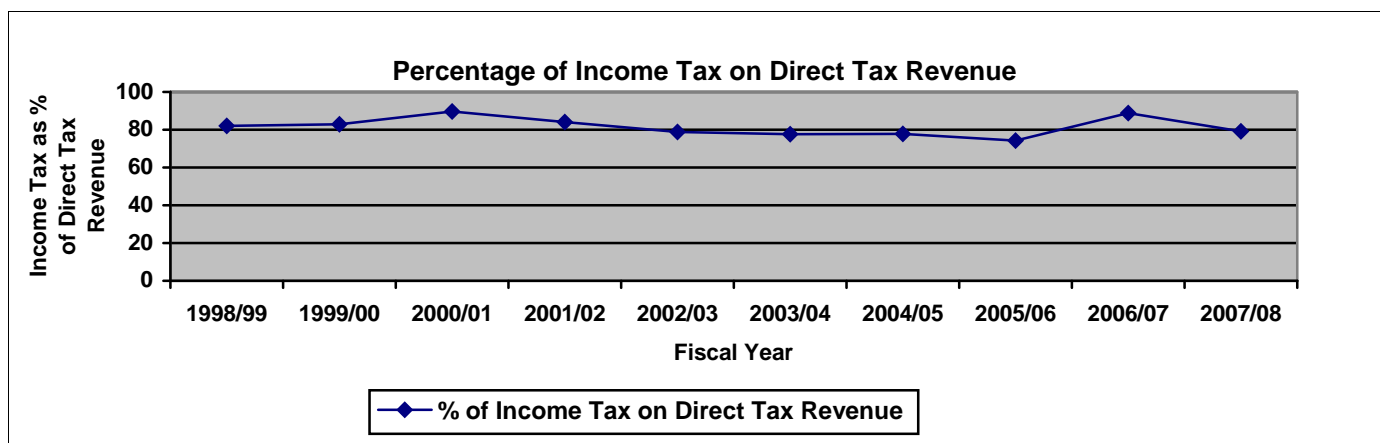
Figure No. 4.8: Contribution of Income Tax on Total Tax Revenue



4.1.8.3 Contribution of Income Tax on Direct Tax Revenue

Income tax is the major part of direct tax revenue. In Nepal income tax has occupied more than 80 percent of the total direct tax revenue. Table no. 4.8 shows that the share of income tax as a percentage of direct tax revenue was 81.52% in average in the study period. In FY 1998/99 it was 82.09%. It was in fluctuation trend and reased to 89.71% in FY 2000/01. It was 79.21% in FY 2007/08. The following figure shows the contribution of income tax on total direct tax revenue.

Figure No. 4.9: Contribution of Income Tax on Direct Tax Revenue

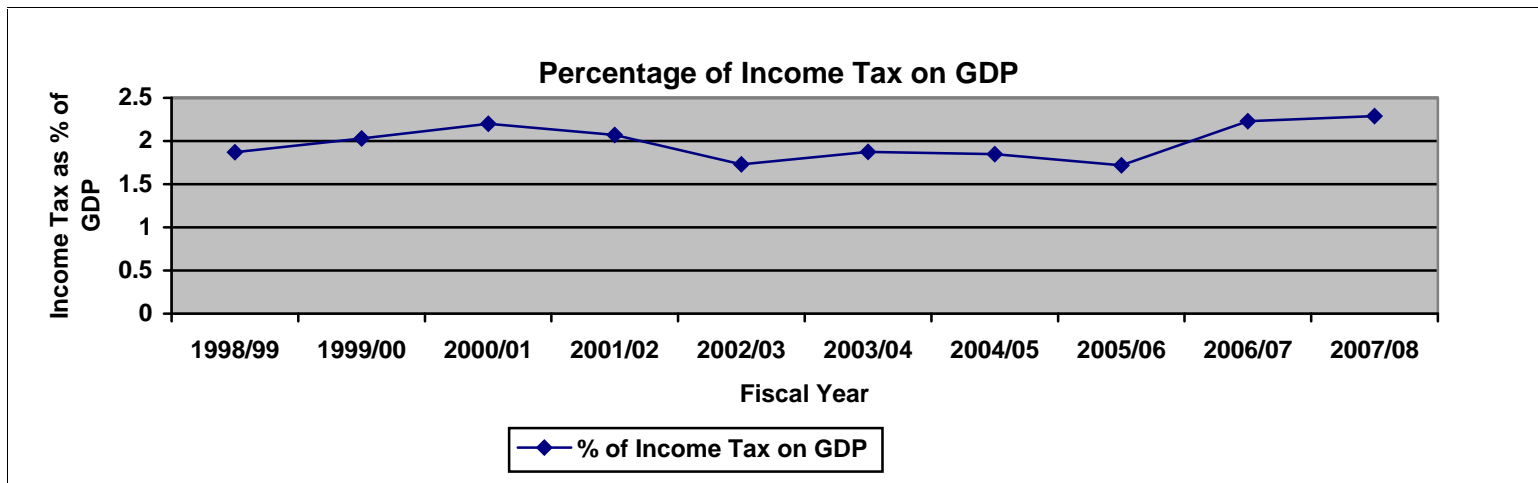


4.1.8.4 Contribution of Income Tax to GDP

According to the table no. 4.8 contribution of income tax to GDP was 1.98% in average for the period of last 10 years. Contribution of income tax in GDP was 1.87% in FY 1998/99. It was in increasing trend up to FY 2000/01 and reached to 2.20%. After FY 2001/02 it start to decline. It

was 1.72% in FY 2005/06. Then start to increase and reached to 2.29% in FY 2007/08 contribution of income tax to GDP is shown in following diagram.

Figure No. 4.10: Contribution of Income Tax on GDP



4.1.9 Income Tax Collection Performance in Nepal

Revenue collection from income tax is in increasing trend but the performance is not satisfactory. Income tax estimates and collections of last 10 years are presented in table no. 4.9. According to table tax was collected excess than estimate in FY 1998/99, and 1999/00. In FY 2000/01, 2001/02, 2002/03, 2004/05 and 2005/06 tax revenue collection was less than estimates. The highest percentage of collection was 106.31% in FY 2003/04 and lowest percentage collection was 79.93% in FY 2001/02. For FY 2007/08 Rs. 168692, million revenue from income tax has been estimated.

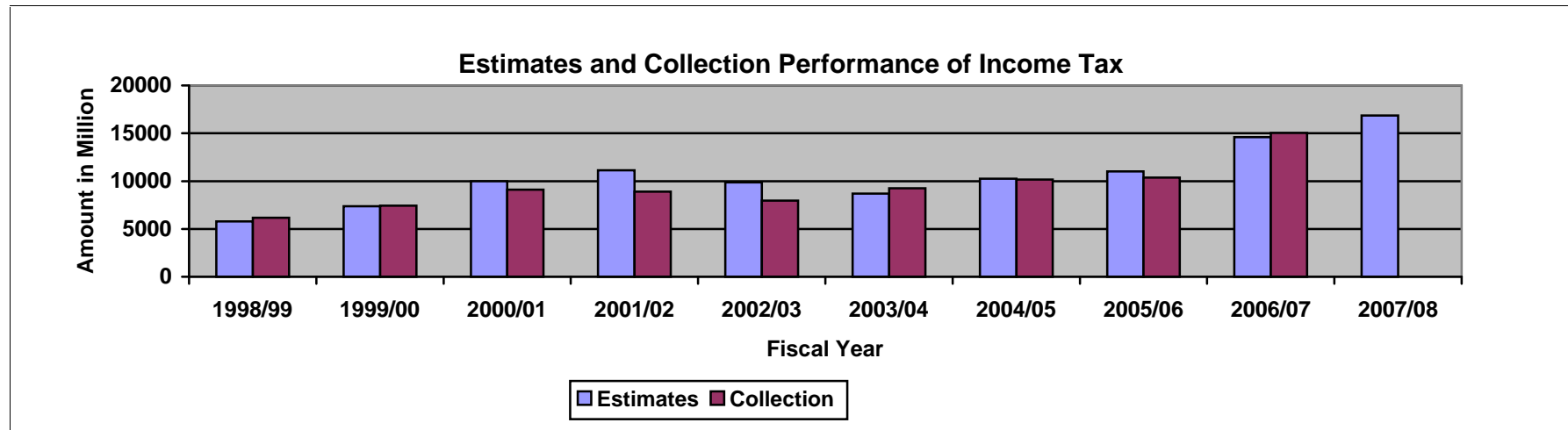
Table No. 4.9: Income Tax Collection Performance in Nepal

(Rs. In Million)

Fiscal Year	Estimate	Collection	Difference	Collection as Per % of Estimates
1998/99	5780	6170.20	390.20	106.75
1999/00	7380	7420.60	40.6	100.55
2000/01	9980	9114.00	(866)	91.32
2001/02	11140	8903.70	(2236.3)	79.93
2002/03	9862.5	7966.20	(1896.3)	80.77
2003/04	8679.5	9245.90	548.4	106.31
2004/05	1025.0	10159.40	(906)	99.12
2005/06	10999.6	10373.70	(625.90)	94.31
2006/07	14607.4	15034.20	426.8	102.92
2007/08	168692	-	-	-

Source: Estimate from various budget speeches and actual collection from Economic Survey Various Years.

Figure No. 4.11: Performance and Collection of Income Tax



4.1.10 Tax Rate in Nepal

Income tax rates in Nepal for the personal income and partnership firms; corporations and non-residence firms of various years are presented in table no. 4.10 and 4.11. At the initial stage of income tax, there was narrow coverage and high tax rate but at present it is taken as the principle of wide coverage and low rate. The highest tax rate for the personal income was 60% in fiscal year 1975/76. In fiscal year 1980/81 tax rate for personal income was 5% to 50% with 7 slabs. Similarly in fiscal year 1985/86 tax rate increases to 10% to 55% with 8 slabs. But after fiscal year 1990/91 tax rate with no. Of slabs started to decline. From 1999/00 to 2007/08 there in only 15% and 25% tax rate for personal. Income tax rate in Nepal for personal income is given below:

Table No. 4.10: Income Tax Rate in Nepal for Personal Income

(Rs. In Million)

Slabs FY	1	2	3	4	5	6	7	8
1980/81	5,000 5%	5,000 10%	10,000 15%	20,000 20%	20,000 30%	30,000 40%	Bal 50%	-
1985/86	5,000 10%	5,000 15%	10,000 20%	15,000 25%	15,000 30%	30,000 40%	2,00,000 50%	Bal 55%
1990/91	10,000 15%	15,000 20%	20,000 35%	25,000 40%	30,000 45%	Bal 50%	-	-
1995/96	25,000 10%	40,000 25%	Bal 35%	-	-	-	-	-
1996/97	40,000 10%	25,000 20%	Bal a. 30% b. 33%	-	-	-	-	-
1998/99	45,000 15%	Bal 25%	-	-	-	-	-	-
1999/00- 2007/08	75,000 15%	Bal 25%	-	-	-	-	-	-

Where

- a. Remuneration Tax Rate
- b. Others

Income tax rate for partnership firms, corporation and non-residence firms are given in the following table.

Table No. 4.11: Income Tax Rate in Nepal for Partnership firms,
Corporation and Non Residence Firm

Slabs FY	1	2	3	4	5	6	7	8
1984/85 to 1988/89	5,000 10%	5,000 15%	10,000 20%	15,000 25%	15,000 30%	30,000 40%	2,00,000 50%	Bal 55%
19889/90 to 1990/91	5,000 10%	5,000 15%	10,000 20%	15,000 25%	15,000 30%	30,000 40%	Bal 50%	
1991/92	10,000 15%	15,000 25%	20,000 35%	25,000 40%	30,000 45%	Bal 50%	-	-
1992/93	10,000 10%	20,000 20%	20,000 30%	20,000 40%	Bal 50%	-	-	-
1993/94	25,000 15%	40,000 25%	Bal 40%	-	-	-	-	-
1994/95 to 1995/96	35% in Total							
1996/97 to 1997/98	33% in Total							
1998/99 to 2007/08	a. 30% b. 25% in total							

Source: Financial Acts of Various Years

Where,

- a. For bank and financial institutions
- b. Other except special industry

According to the table in fiscal year 1983/84 to 1988/89 income tax rate was 10% to 55% with different 8 slabs. In fiscal year 1989/90 it is decreased to 10% to 50% with 7 slabs. Income tax rate was in decreasing trend. From fiscal year 1994/95 tax is levied at flat rate. The provision of tax slabs has been removed. At that time the rate of tax was 35% in total. FY 1998/99 to 2007/08 two different tax rates has been charged at 30% for bank and financial institutions and 25% for other corporation.

4.2 Empirical Investigation

An empirical investigation has been conducted in order to find out the various aspects of income taxation and its administration. For this, the structured questionnaire was prepared and distributed to tax administrators tax experts and tax payers. The opinion received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study.

The questionnaire has covered the role of income tax, major problem facing by the taxpayers, income tax evasion practice in Nepal income tax administration of Nepal and its effectiveness etc. (See Questionnaire in Appendix B).

The respondents were requested to response the question by following four ways:

-) They were required to response simply by 'Yes' 'No' question.
-) They could choose the best alternative from various options.
-) Respondents had option to put their views by writing wherever necessary.
-) They could response by ranking the choices starting from 1 for the least importance and last no. (on the basis of number of alternatives) for the most importance).

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

Table No. 4.12: Group of Respondents and Size of Samples

S.N	Group of Respondents	Sample Size	Code Used
1	Income Tax Administrators	20	A
2	Tax Experts	20	B
3	Tax Payers	20	C
	Total	60	

4.2.1 Attitude towards Tax Awareness

To know the attitude of respondents towards the tax education, a question, "Do you think that people are well informed about the tax system of Nepal?" was asked. The responses have been tabulated in the following table.

Table No. 4.13: People's Knowledge Towards Tax System

S.N	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	Tax Administrator	5	25	15	75	20	100
2	Tax Experts	8	40	12	60	20	100
3	Tax Payers	8	40	12	60	20	100
	Total	21	35	39	65	60	100

According to above table, it has been clear that 65% respondents think people are not well informed about the tax system of Nepal but 35% of respondents approved the question. Therefore it can be concluded that there is lack of tax education in Nepal. People are not well informed about the tax system of Nepal. Tax education is the most necessary to increase the tax consciousness of in Nepal.

Test of Hypothesis

S.No	Respondents	Yes	No	Row Total
1	Tax Administrators	5	15	20
2	Tax Experts	8	12	20
3	Tax Payers	8	12	20
Column Total		21	39	60

Null Hypothesis H_0 : There is no significant different in tax awareness in income tax system in Nepal.

Alternative Hypothesis H_1 : there is significant different in tax awareness in income tax system in Nepal.

Test statistic under H_0 : The test statistic is:

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

Where,

O = Observed Frequency

E = Expected Frequency

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

Calculation of x^2

O	E	(O-E)	(O-E) ²	(O-E) ² /E
5	4.5	0.5	0.25	0.0556
15	15.5	-0.5	0.25	0.0161
8	8.5	-0.5	0.25	0.0294
12	11.5	0.5	0.25	0.0217
8	7.5	0.5	0.25	0.0333
12	12.5	-0.5	0.25	0.02
	Total			0.1761

Calculated Value of $\chi^2=0.1761$

Level of Significant (α) = 5%

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

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

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

4.2.2 Attitude Towards the Income Tax System of Nepal

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

Table No. 4.14: Attitude Towards the Income Tax System of Nepal

S.N	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	Tax Administrator	4	20	16	80	20	100
2	Tax Experts	6	30	14	70	20	100
3	Tax Payers	5	25	15	75	20	100
	Total	15	25	45	75	60	100

Source: Opinion Survey, 2009

The above table 4.14 showed that 25% of the respondents approved that the income tax system is sound and efficient and 75% of the respondents showed their dissatisfaction regarding the income tax system is sound and efficient. In conclusion it can be said that most of the respondents opened that the income tax system of Nepal is not sound and efficient.

Test of Hypothesis

S.No	Respondents	Yes	No	Row Total
1	Tax Administrators	4	16	20
2	Tax Experts	6	14	20
3	Tax Payers	5	15	20
Column Total		15	45	60

Null Hypothesis H_0 : There is no significant different in tax administrators, tax experts and taxpayers view regarding the income tax system of Nepal.

Alternative Hypothesis H_1 : There is significant different in tax administrators, tax experts and taxpayers view regarding the income tax system of Nepal.

Test statistic under H_0 : The test statistic is:

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

Where,

O = Observed Frequency

E = Expected Frequency

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

Calculation of x^2

O	E	(O-E)	(O-E) ²	(O-E) ² /E
4	5	-1	1	0.2
16	15	1	1	0.0667
6	5	1	1	0.2
14	13	1	1	0.0769
5	6	-1	1	0.1667
15	16	-1	1	0.0667
Total				0.7770

Calculated Value of $x^2 = 0.7770$

Level of Significant (α) = 5%

$$\begin{aligned}\text{Degree of Freedom} &= (r-1) (c-1) = (3-1) (2-1) \\ &= 2 \times 1 \\ &= 2\end{aligned}$$

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

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

4.2.3 Income Tax as a Suitable Means of Raising Government Revenue

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

Table No. 4.15: Income Tax as a Suitable Means of Raising Government Revenue

S.N	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	Tax Administrator	12	60	8	40	20	100
2	Tax Experts	14	70	6	30	20	100
3	Tax Payers	15	75	5	25	20	100
	Total	41	68.33	19	31.67	60	100

Source: Opinion Survey, 2009

According to above table, it is found that 60% tax administrators, 70% tax experts and 75% taxpayers recognize income tax as a suitable means of raising government revenue. In average 68.33% of respondents are in favour of income tax as a suitable means of raising government revenue. Only 31.67% of respondents don't recognize it.

Test of Hypothesis

S.No	Respondents	Yes	No	Row Total
1	Tax Administrators	12	8	20
2	Tax Experts	14	6	20
3	Tax Payers	15	5	20
Column Total		41	19	60

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

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

Test statistic under H_0 : The test statistic is:

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

Where,

O = Observed Frequency

E = Expected Frequency

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

Calculation of x^2

O	E	(O-E)	(O-E) ²	(O-E) ² /E
12	10.5	1.5	2.25	0.2143
8	0.5	-1.5	2.25	0.2368
14	12.5	1.5	2.25	0.18
6	7.5	-1.5	2.25	0.3
15	13.5	1.5	2.25	0.1667
5	6.5	-1.5	2.25	0.3462
Total				1.444

Calculated Value of $x^2=1.444$

Level of Significant (α) = 5%

$$\begin{aligned} \text{Degree of Freedom} &= (r-1) (c-1) = (3-1) (2-1) \\ &= 2 \times 1 \\ &= 2 \end{aligned}$$

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

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

4.2.4 Effectiveness of Income Tax Administration in Nepal

In order to find out the effectiveness of income tax administration in Nepal, a question, "What do you feel about the current income tax administration of Nepal?" was asked. The respondents who agree/don't agree on the effectiveness of income tax administration had 3 alternatives to choose about the position of income tax administration. The responses received from various respondents are tabulated as follows.

Table No. 4.16: Effectiveness of Income Tax Administration in Nepal

S.N	Respondents	Respondents			Total	Percentage
		A	B	C		
1	Efficient	13	2	3	18	30
2	Inefficient	3	11	10	24	40
3	Satisfactory	4	7	7	18	30
	Total	20	20	20	60	100

Source: *Opinion Survey, 2009*

According to above table, income tax administration in Nepal is not efficient. Only 30% of respondents believe that income tax administration is efficient. 40% respondents agree that income tax administration is inefficient and 30% respondents believe that income tax administration is satisfactory. Therefore it is clear that income tax administration of Nepal is inefficient.

Among 60 respondents, 3 tax administrator, 11 tax experts and 10 tax payers were in favour of inefficient tax administration. A question, "In your opinion what are the main causes of inefficient of income tax administration?" was asked to them who had said that income tax and administration is inefficient. They gave points to the options that are presented as below.

Table No. 4.17: Causes for Inefficiency of Income Tax Administration

S.N	Causes	Point Received			Total Points	%	Rank
		A	B	C			
1	Complicated Tax Laws	10	75	240	325	18.29	2
2	Lack of Trained and Competent Tax	16	60	255	331	18.63	1
3	Lack of Proper Communication	8	45	101	154	8.67	7
4	Lack of Tax Awareness to Tax Payers	7	35	175	217	12.21	5
5	Unnecessary Outside Pressure	6	24	162	192	10.80	6
6	Lack of Coordination of the Tax Department with Other Departments	5	65	190	260	14.63	4
7	Lack of Direction	3	85	210	298	16.77	3
	Total	55	389	1333	1777	100	

Source: Opening Survey, 2009

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

1. Lack of trained and competent tax personnel.
2. Complicated tax was
3. Lack of Direction
4. Lack of co-ordination of the tax department with other departments
5. Lack of tax awareness to tax payers
6. Unnecessary outside pressure
7. Lack of proper communication

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

4.2.5 Corruption in Income Tax Administration of Nepal

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

Table No. 4.18: Corruption in Income Tax Administration of Nepal

S.N	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	Tax Administrator	3	15	17	85	20	100
2	Tax Experts	16	80	4	20	20	100
3	Tax Payers	15	75	5	5	20	100
	Total	34	56.67	26	43.33	60	100

Source: Opinion Survey, 2009

From the above table it is clear that there is corruption in income tax administration on Nepal. 56.67% of respondents agree that Nepalese income tax administration is corrupt 43.33% respondents were disagreeing with this. Out of them most of the respondents were tax administrators.

The respondents, who agree that the Nepalese tax administration is corrupt, were asked a question related to the main causes of corruption. They were requested to give points to the options given in the questionnaire. The result has been given in the following table.

Table No. 4.19: Causes of Corruption in Income Tax Administration

S.N	Causes	Point Received			Total Points	%	Rank
		A	B	C			
1	Low remuneration of tax personnel	5	65	290	360	28.78	1
2	Weakness of act rules and regulation	7	42	245	294	23.5	3
3	Dishonest tax payers	3	17	95	115	9.19	5
4	Dishonest tax personnel	2	48	255	305	24.38	2
5	Inefficient income tax administrator	8	49	120	177	14.15	4
	Total	25	221	1005	1251	100	

Source: Opening Survey, 2009

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

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

From the above study it can be concluded that low remuneration of tax personnel, dishonest tax personnel and weakness of acts, rules and regulation are the most important causes of corruption in income tax administration of Nepal.

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

Table No. 4.20: Factors to Minimize the Corruption Existed in Income Tax Administration of Nepal

S.N	Causes	Point Received			Total Points	%	Rank
		A	B	C			
1	Moral education to tax personnel	6	70	235	311	17.46	3
2	Reduction of tax officers discretionary power	3	45	180	228	12.80	5
3	Additional incentives to tax personnel	9	78	266	353	19.82	2
4	Development of check and balance system	4	35	167	206	11.57	6
5	Taking actions to corruptors	8	66	375	449	25.21	1
6	Regular supervision to tax personnel	5	57	172	234	13.14	4
	Total	36	351	1395	1781	100	

Source: Opening Survey, 2009

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

1. Taking actions to corruptors
2. Additional incentives to tax personnel
3. Moral education to tax personnel
4. Regular supervision to tax personnel
5. Reduction of tax officers discretionary power
6. Development of check and balance system

From the above study it can be concluded that the most important factors to minimize corruption are taking actions to the corrupters, additional incentives to the tax personnel, moral education to the tax personnel etc.

4.2.6 Attitude Towards Exemption and Deduction

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

Table No. 4.21: Attitude Towards Appropriateness of Exemption and Deduction

S.N	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	Tax Administrator	13	65	7	35	20	100
2	Tax Experts	16	80	4	20	20	100
3	Tax Payers	9	45	12	55	20	100
	Total	38	63	22	37	60	100

Source: Opinion Survey, 2009

Most of respondent i.e. 63% agree with present exemption and deduction. Only 37% respondents disagree with the present exemption and deduction. Majority of the

respondent, who disagree with present provision of exemption and deduction, was view of increase the deduction and exemption unit to promote special industry.

4.2.7 Attitude Toward Problems in Paying Income Tax

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

Table No. 4.22: Problems in Tax Paying

S.N	Causes	Point Received			Total Points	%	Rank
		A	B	C			
1	Consuming Unnecessary Time	57	58	41	156	19.26	3
2	Expectation of Illegal incentives by Tax Personnel	39	46	64	149	18.40	4
3	Vague Provision in Income Tax Laws	74	69	59	202	24.94	1
4	Lengthy Process	68	61	69	198	24.44	2
5	Lack of Co-operation by Tax Administrator	35	38	32	105	12.96	5
	Total	273	272	265	810	100	

Source: Opening Survey, 2009

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

- a. Vague Provision in Income Tax Laws
- b. Lengthy Process
- c. Consuming Unnecessary Time
- d. Expectation of Illegal incentives by Tax Personnel
- e. Lack of Co-operation by Tax Administrator

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

4.2.8 Most Important Factors for Effectiveness of Income Tax in Nepal

In order to know the view regarding to the important factors for effectiveness of income tax in Nepal, the respondents were requested to give point according to their preference. The question was, "What is the most important factor for effectiveness of income tax in Nepal?" The measures prescribed and their ranking in presented in table no. 4.23.

Table No. 4.23: Most Important Factors for Effectiveness of Income Tax in Nepal

S.N	Causes	Point Received			Total Points	%	Rank
		A	B	C			
1	Honest Tax Payers	81	59	50	190	21.52	3
2	Honest Tax Officers	57	53	65	175	19.82	4
3	Clear Tax Act, Rules and Regulations	70	78	75	223	25.25	1
4	Effective Income Tax Administration	60	81	74	215	24.35	2
5	Political non Interruption	32	20	28	80	9.06	5
	Total	300	291	292	883	100	

Source: Opening Survey, 2009

The important factor for effectiveness of income tax was ranked in order of the preference of respondents was as follows:

1. Clear Tax Act, Rules and Regulations
2. Effective Income Tax Administration
3. Honest Tax Payers
4. Honest Tax Officers
5. Political non Interruption

It can be concluded that clear tax act, rules and regulation, effective income tax administration, honest tax payers are the most important factor for the effectiveness of income tax in Nepal.

4.2.9 Appropriate Method While Assessing the Income Tax in Nepal

Sound and appropriate assessment procedure us essential for the collection of the large amount in the form of income tax. It is very important in managing the income

tax because the amount of income tax realized through the assessment. To know the respondents opinion about the appropriate method while assessing the income tax in Nepal respondents were requested to tick one among the given four alternatives the question was, "What method is more appropriate in Nepal while assessing income tax?" the responses received from respondents are in following table.

Table No. 4.24: Appropriate Method While Assessing the Income Tax in Nepal

S.N	Methods	Respondents			Total Points	%	Rank
		A	B	C			
1	Assessment on the basis accounts submitted by tax payers	15	35	40	90	24.32	2
2	Self assessment	100	75	55	230	62.16	1
3	Assessment by the best judgment	10	10	20	40	10.81	3
4	Assessment by the committee		5	5	10	2.71	4
	Total	125	125	120	370	100	

Source: Opening Survey, 2009

From the above table 4.24 it has been clear that 62.16% of the respondents approved of self-assessment is appropriate method while assessing the income tax. Thus the conclusion can be drawn out that the self assessment method is appropriate method, so it can be concluded that self assessment system should be encourage strongly and used as a major tool to increase voluntary compliance more government revenue.

The specific appropriate method while assign the income tax in Nepal was tick in order to the preference of the respondents was as follows:

1. Self assessment
2. Assessment on the basis accounts submitted by tax payers
3. Assessment by the best judgment
4. Assessment by the committee

4.2.10 Suggestion for Achieving Effective Income Tax Administration in Nepal

To know the other important factor for effectiveness of income tax administration in Nepal, a question, "Do you have any suggestions for achieving effective income tax

administration in Nepal" Please specify is nay" was asked? Various mixed responses are found from the respondents. Out of them the most important responses are as follows:

1. Effectiveness tax management and training and seminar to the tax personnel.
2. Development of checks and balance system.
3. All private sectors should be coverage and tax payment.
4. Should be scientific
5. Effective government to economic policy
6. Political non interruption
7. Effective income tax act and efficient income tax administrator.

4.3 Major Findings of the Study

Major findings of this study are summarized below:

4.3.1 Finding from the Study of Secondary Data

Major findings from the study of secondary data are as follows:

1. There was clear indication of the time serious and growing financial resource problem in Nepal. The increasing magnitude of resource GAP clearly indicates that there is an urgent need of mobilizing additional resources. Income tax has appeared one of the most effective fiscal policy instruments to mobilize additional resources and achieving the desired development objective of Nepal. The major reason of growing resources GAP is increase in regular expenditure and development expenditure.
2. Total revenue GDP ratio, tax revenue GDP ratios and non tax revenue ratio were 12.083%, 9.345% and 2.738% respectively in average of the last 10 years. These ratios are very low comparing to other countries. Low ratios of tax revenue to GDP may reflect the weak administration and large scale of tax avoidance or tax evasion.
3. Revenue of the government of Nepal is the composition of tax and non tax revenue. There is dominant share of tax revenue on Nepalese government revenue. The tax revenue has occupied 78.29% in an average of total revenue and non-tax revenue has occupied 21.71% in average of total revenue composition of Nepalese revenue structure.

4. Revenue of the government of Nepal is the composition of direct tax and indirect tax revenue. There is dominant role of indirect tax revenue in Nepalese tax revenue. The contribution of indirect tax revenue 74.35% in average has contributed 25.65% in average of total tax revenue.
5. The major components of indirect tax in Nepalese tax structure includes custom duties, Tax on consumption and product of good and services. The contribution of custom duties, VAT and excise on industrial production. Average share of custom duties, VAT and excise on industrial products was 40.08%, 44.74% and 15.18% respectively over the study period.
6. The major components of direct tax are; and revenue and registration, Tax on property profit and income. Average percentage of land revenue, house and land registration fees, income tax, tax on property and other tax are 0.01%, 12.99%, 80.01%, 5.41% and 1.58% respectively in study period. Income tax is major source of direct tax.
7. Nepalese income tax revenue in the composition of income tax from public enterprises, private corporate bodies, Individuals, remuneration and tax on interest. Income tax of Rs. 1689.20 million was collected in fiscal year 2007/08. In average income tax contribution was Rs. 10125.7 million over the study period.
8. 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. Contribution of income tax on total government revenue, total tax revenue, direct tax revenue and GDP was 16.27%, 20.84%, 79.21% and 2.29% respectively in fiscal year 2007/08.
9. Income tax collection is in increasing trend each year but the performance is not satisfactory. In the study periods Rs. 14607.4 million was estimated and 15034.20 million was collected in FY 2006/07 and estimate of 2007/08 was 168692 million.
10. Personal income tax rate was 5% to 50% with 7 slabs in fiscal year 1980/81 but at present it is reduced to 25 slabs and rate is 15% for first 75000 and 25% for remaining.
11. Corporate tax rate was 10% to 55% with 8 slabs in FY 1984/85 but at present income tax rate is 30% for bank and financial institutions and 25% for other corporate sectors without any slabs.

4.3.2 Major Findings from the Study of Primary Data

Major findings from the study of primary data are as follows:

1. People are not well informed about the current tax system of Nepal. Conclusion, since the calculated value of $\chi^2 < \text{tabulated value of } \chi^2$, it is not significant and H_0 is accepted which means that there is no significant difference in tax administrator tax experts and tax payers view regarding the tax awareness in income tax system in Nepal.
2. Income tax system of Nepal is not sound and efficient, basically due to increasing habit of tax evasion, in efficient income tax administration, complexity of income tax act, the table no. 4.14 is being cleared that about 75% of the respondent approved that the income tax system of Nepal is not sound and efficient. Conclusion since the calculated value of $\chi^2 < \text{tabulated value } \chi^2$, it is not significant and H_0 is accepted which means that there is no significant difference in tax administrator, tax experts and tax payers view regarding the income tax system of Nepal is sound and efficient.
3. Income tax is a suitable means of raising government revenue. From table no 4.15 it is cleared that 68.33% of respondents approved that income tax is a suitable means of raising government revenue. Conclusion, since the calculated value of $\chi^2 < \text{tabulated value } \chi^2$, it is not significant and H_0 is accepted which means that there is no significant difference in tax administrator, tax experts and tax payers view regarding the income tax suitable means of raising government revenue.
4. Income tax administration of Nepal is inefficient. The cause according to table no 4.17 are ranked as, lack of trained and competent tax personnel, complicated tax law, lack of direction, lack of co-ordination of the tax department, with other departments, lack of tax awareness to tax payers, unnecessary outside pressure, lack of proper communication.
5. Corruption is the major problem of income tax administration of Nepal. Low remuneration of tax personnel, Dishonest tax personnel, weakness of act, rules and regulation, inefficient income tax administration, Dishonest taxpayers are the main causes of inefficient income tax administration of Nepal.
6. Corruption in income tax administration can be minimized through taking action to the corruptors, additional incentives to tax personnel, moral education to tax personnel, etc.

7. Exemption and deduction should be increased to promote the special industry and export.
8. Vague provision in income tax law, lengthy process, consuming unnecessary time, expectations in illegal incentives to the personnel, lack of co-operation by tax administration are the major problems facing by the taxpayers while paying income tax.
9. Clear tax act, rules and regulation, effective income tax administration, honest taxpayers, honest tax officers, political non-interruption are most important factors for effectiveness of income tax in Nepal.
10. Self-assessment method is the appropriate method while assessing the income tax. Concept of self-tax assessment system should be encouraged. Power, rights and duties of tax authorities should be clarified.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary:

Like other developing countries, lack of sufficient financial resources is the main constraint for national economic development of Nepal. A lot of fund is required to meet the additional financial requirement for the development activities of the country. Nepal has been suffering from shortage of funds to accelerate the economic growth. There is so much resource gap. So in order to fulfill the shortage, government is depending on the foreign grants and loans. So to fulfill the resource gap income tax, direct tax is most important sources of internal revenue. The research has found that the contribution of tax and non-tax revenue was 78.29% and 21.71% respectively in total revenue structure of Nepal during the period of last ten years. In this regards tax revenue has been found as a major instrument for additional internal financial resource mobilization.

Nepalese tax revenue is the composition of direct and indirect tax revenue. Nepalese tax structure is dominated by indirect tax revenue. Indirect tax revenue contributes three times more than the direct tax revenue. During the study period, the average of direct and indirect tax revenue were 25.65% and 74.35% respectively. Indirect tax includes custom duties, VAT, and excise on industrial products. There was a dominant role of custom duties and VAT in indirect tax revenue. There was 40.08%, 44.74% and 15.18% in average of custom duties, VAT and excise on industrial products respectively. Similarly direct tax includes land revenue, house and land registration fees, income tax, tax on property and other tax. Contribution of land revenue was 1.18 million, house and land registration fees was 1644.36 million, income tax was 10125.71 million, tax on property was 684.39 million and other tax was 200.46 million in average during the study period.

Nepal is levying three types of income tax they are, corporate income tax, individual income tax and tax on interest. There was dominant role of individual income tax in total tax revenue its contribution was 39.33% in average. The contribution of income tax on total government revenue, total tax revenue, direct tax revenue and GDP was 16.14%, 20.67%, 81.52% and 1.98% in average in the study period of last ten years.

During the study period revenue collection from income tax was in increasing trend but the performance was not satisfactory. Income tax estimates and collection performance showed the dissatisfactory performance of income tax in Nepal.

In order to find out the problem in the income tax administration, a set of questionnaires were distributed among tax administrators, tax experts and taxpayers. On the opinion survey empirical investigation has found weakness of the income tax act as well as the income tax administration. It not only found weakness but also point out some suggestion to make effective income tax administration in Nepal.

According to the investigation, income tax is a suitable means of raising government revenue but people are not well informed about the income tax system of Nepal. It is found that income tax administration of Nepal is not efficient. Lack of trained and competent tax personnel, complicated tax laws, lack of tax awareness to tax payers etc. are the main causes of income tax administration being inefficient. 56.67%

respondents believed that there is corruption in income tax administration of Nepal. To minimize the corruption action to be taken to the corruptors, additional incentives to tax personnel, moral education to tax personnel should be developed.

For attitude towards exemption and deduction most respondent i.e. 63% agree with present exemption and deduction. According to investigation vague provision in income tax laws, lengthy process, consuming unnecessary time etc are the main problems facing by the taxpayers while paying income tax.

Some respondents made advices like this, effective income tax management and training and seminar to the tax personnel, effective government economic policy, political non-interruption, effective income tax act and efficient income tax administration can lead the income and its administration effectively.

Lastly appropriate method while assessing the income tax in Nepal. From the investigation it is clear that 62.16% of respondents approved that self assessment method is appropriate method while assessing the income tax.

5.2 Conclusion

Nepal being one of the least developed nations in the world has always suffering from the social and economic problems. Nepal can not successfully and properly tear a curtain built from massive poverty, hunger, diseases, unemployment, heavy dependence on agriculture, lack of adequate industries, low income level and social political and geographical constraints over 50 years of planned development. Yet, Nepalese economy is suffering from ineffective and effortless plan, program and policy of development and is also fighting against whatever bottlenecks identified before the starting of planned period.

The government need huge amount to achieve the maximum objectives of nation. To fulfill such objectives government collects revenue from various sources. The role of revenue is crucial for the overall development of the country. In developing countries like Nepal, lack of sufficient financial resource is the main constraint for the national economic development. Nepal has facing serious problem of resource gap and high

dependency on foreign loans. Resource gap has been increasing at a faster rate than the increase in revenue. The resource gap is widening continuously with the increment of total expenditure in respect to total revenue collection. To solve such serious problem of deficit fiscal, income tax should play important role. But resource mobilization in Nepal is still poor.

Income tax revenue has played the key role to fulfill the objectives of the nation. Income tax collection in Nepal is satisfactory. It was in increasing trend in the study period. But developing the tax consciousness can collect additional income tax revenue and tax awareness among the taxpayers, reducing the tax rate and increasing the tax base, expanding the coverage of tax, increasing tax rate as well as imposition of new taxes. In recent years, the government has taken several measures to reduce tax-induced distortion, strengthening tax administration, simplifying tax laws and procedures to make them more transparent.

Currently income tax revenue in Nepal is collected through three sectors i.e. corporate income tax, individual income tax and tax on interest. Among them share of individual income tax is the highest. Exemption limit and tax rate of the income tax is determined according to the income level and sector wise. But it is not adjusted according to the inflationary situation of the country and number of respondents. There is no exemption limit for corporate bodies.

The success and effectiveness of income tax system entirely depends upon the implementation of provisions made by the income tax act, which is the major responsibility of income tax administration. Income tax system of Nepal has blamed as not efficient enough. Various problems existed in the income tax such as increasing habits of tax evasion; inefficient income tax administration, defective income tax laws etc. are the main reasons for lower contribution of income tax. But if we analyze the data relating to it then we can find out that revenue collection from income tax is increasing continuously. Provision in act and language of the act have to be made clear. Some reforms in income administration are needed to raise the income tax revenue.

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

53 Recommendations

on the basis of above analysis, it is necessary to give various recommendations to the concerned department. It may be essential to improvement different aspects of income taxation the following recommendations for income tax administration and its effectiveness in Nepal.

1. Income tax policy should be formulated according to the economic policy of the country. Income tax policy should be revised timely.
2. The member involved in formulating income tax policy must have deep knowledge about income tax.
3. The term objectives of income taxation should be growth, redistribution and stabilization. The income tax policy should be properly formulated on the basis of critical analysis of existing situation.
4. Income tax, rules and regulation should be clear and simple for all the taxpayers as well as for the administrators. Following recommendation are made in income tax law: