

**A STUDY ON THE PROVISIONS OF TAX ASSESSMENT,
ADMINISTRATIVE REVIEW AND LEGAL PROCEEDINGS**

UNDER INCOME TAX ACT, 2058

(A Case Study Based on Income Tax Act, 2058)

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*And found the thesis to be the original work of the student and written
According to the prescribed format. We recommend the thesis to be
Accepted as partial fulfillment of the requirement for the degree of*

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DECLARATION

I hereby declare that the work reported in this thesis A Study on the Provisions of Tax Assessment, Administrative Review and Legal Proceedings Under Income Tax Act, 2058 submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for the Master's Degree of Business Studies under the supervision of Joginder Goet, Lecturer of Shanker Dev Campus.

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Biraj Amatya
Researcher

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ABBREVIATIONS

CEDA	:	Center for Economic Development and Administration
CFY	:	Current Fiscal Year
etc	:	Etcetera
FY	:	Fiscal Year
FCGO	:	Financial Comptroller General Office
FNCCI	:	Federation of National Chamber of Commerce and Industries
GDP	:	Gross Domestic Product
GNP	:	Gross National Product
GON	:	Government of Nepal
i.e.	:	That is
ICAN	:	Institute of Chartered Accountants of Nepal
IRD	:	Inland Revenue Department
IRO	:	Inland Revenue Office
MBS	:	Master of Business Studies
MOF	:	Ministry of Finance
No.	:	Number
NPR.	:	Nepalese Rupees
NRB	:	Nepal Rastra Bank
S.N.	:	Serial Number
T.U.	:	Tribhuvan University
VAT	:	Value Added Tax

CHAPTER –I

INTRODUCTION

1.1 Background of the Study

Developing countries often prioritize improving the living standards of their people through various development activities. Such activities can be economic, social, cultural, or other forms of development. However, these activities require a significant amount of financial resources that are usually collected by the government from two sources: debt and revenues. Internal debt refers to debt collected within the country, while external debt is collected from outside the country. Debt financing by the government is considered an efficient method of financing. On the other hand, the government's revenues come primarily from two sources: taxes and non-taxes. In Nepal, for example, around 75% of the government's revenue comes from taxation, making it the most significant source of government revenue. To achieve its main objective of improving the living standards of its people, the government of a developing country must ensure effective debt management and efficient revenue collection. This is essential for funding development activities and achieving sustainable growth.

Governments have a responsibility to their citizens, which often requires a significant financial commitment. This responsibility may encompass security, healthcare, education, and other forms of development. All nations strive to improve their current status through the efficient use of resources. Governments receive funds from taxes, charges, and internal sources, as well as from external sources such as grants and loans. These funds are used to maintain peace and security in the country, which includes purchasing arms and ammunition, maintaining the army and police administration, and other related tasks. Additionally, governments use these funds to meet the basic needs of the people, such as health, education, communication, drinking water, and other public utilities and facilities. Furthermore, governments must spend money on socio-economic infrastructure development that encourages private sector participation. The equal participation of the private sector in development activities, industry, and commerce is crucial for the all-round prosperity of the

nation. Therefore, taxation is one of the main sources of revenue for the government to meet the above expenses for the well-being of the people and the country.

In simple words, tax is a compulsory contribution of wealth levied upon persons, natural or corporate, to defray the expenses incurred in conferring the common benefit upon the residents of the state. "Tax is a compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to specific benefits." (Shirras, 1990)

Tax may be classified as direct tax and indirect tax on the basis of impact and incidence. Direct tax is a tax which is really paid by a person on whom it is legally imposed. Direct tax is levied on income and property. Direct tax consists of income tax, vehicle tax, gift tax, interest tax, death tax etc. Indirect tax is a tax which is imposed on one person but partly or wholly paid by another person. Indirect tax is levied on the computation of goods and services. Entertainment tax, sales tax, customs duty, hotel tax, passenger tax, excise duty, value added tax etc. are some indirect taxes. Direct tax is very essential for the development of the Nepalese economy.

Income tax is a crucial component in the development of a nation's economy. It plays a significant role in balancing regional economic growth by providing a means of income tax. The government can charge higher income tax rates on urban areas' income and lower tax rates on remote areas' income. This approach is necessary as urban areas usually have more sources of income and earn more than rural areas. Income tax incentives and holidays can help to develop the priority sectors of the national economy, making it an effective investment to ensure balanced socio-economic growth of the nation. Implementing tax concessions and holidays to businesses or industries established in remote areas can help reduce regional economic disparities. Progressive income tax is an effective way to promote equal distribution of income, reducing gaps in society between people with higher income groups and those with lower income. A direct tax system is an equitable means of distributing natural resources to all people. It also helps generate the concept of social

responsibility towards the nation and keeps people vigilant towards public money, ensuring that the money is used in the right direction.

In Nepal, the ancient tax system was based on Vedas, Smritis, and Puranas. Directives propounded by Manu, Chanakya, Yagnabalka etc. guided the taxation system. At that time, the principle of collecting tax from the people was imposition of tax without harming the activities of the people of the nation (Aryal and Poudel,2004). Although the concept of income tax was known to the Nepalese people since the inception of the country, the first budget that introduced the income tax system in Nepal was tabled in 2008 B.S. However, it was only in 2017 B.S. that the Finance Act 2017 and Business, Profit and Remuneration Tax Act 2017 were enacted, leading to the implementation of the income tax system in the country. It is worth noting that the tax act only imposed taxes on income from business, profit, and remuneration. As a result, it could not cover all the sources of income, prompting its replacement by the Income Tax Act 2019 in 2019 B.S. Nevertheless, this act was deemed inadequate to meet the dynamic economic needs of the nation and was subsequently replaced in 2031 B.S. by the Income Tax Act 2031. The latter act comprised 66 sections that were classified into five different sources of income. This comprehensive approach aimed to broaden the tax base and increase revenue for the government. The Income Tax Act of 2058 was introduced in Nepal on the 19th of Chaitra, 2058 with the aim of addressing the shortcomings of the previous legislation. Among these were a narrow tax base, the taxation of only domestically generated income, the scattered nature of tax-related provisions, low penalties for tax evasion, incompatibility with self-assessment systems, and inadequacy in relation to modern economic practices. However, the collection of taxes from the populace remains a challenge. Issues such as limited coverage, unscientific tax assessment methodologies, deviations from fundamental principles of income taxation, problematic international taxation systems, a lack of adjustments for inflation, extended processing times, and a lack of tax consciousness among the people continue to plague the income tax system in Nepal. Furthermore, some individuals perceive taxes as a form of punishment, and there are concerns regarding tax leakage, the inability of tax authorities to effectively cover new taxpayers, and the delays in tax computation and collection systems.

The Income Tax Act 2058 comprises a total of 143 sections. Additionally, the Income Tax Regulation 2059 has been implemented under the provisions of this Act. This Act includes several new provisions as compared to the Income Tax Act of 2031. It encompasses provisions for income tax assessment, administrative reviews, and legal proceedings, which are essential for taxpayers to be aware of. This knowledge is critical for the collection of tax revenue in an impartial manner and also serves as a measure of the taxpayers' prudence. Moreover, the Act provides an opportunity for the taxpayer to defend themselves against the decisions made by the Income Tax Office and Inland Revenue Department. The provisions for tax assessment and legal proceedings aid in the proper collection of revenue from taxpayers and help to reduce tax evasion and avoidance activities. It is, therefore, imperative that the provisions for tax assessment, administrative review, and legal proceedings be reviewed periodically, and immediate corrections be made if necessary.

In conclusion, the provisions of the income tax system play a crucial role in ensuring the efficient functioning of the system. It is imperative for taxpayers to understand these provisions to comply with the law and avoid any penalties or legal action.

1.2 Statement of the Problem

Every nation aspires to improve its economic condition, which requires a considerable amount of revenue. Economically developed countries enjoy several revenue sources due to higher industrialization, economic activities, and profits. As high-income earners, they are able to pay more taxes to the government. However, Nepal has limited revenue sources due to social, regional, and geographical differences, resulting in low tax-paying capacity among Nepalese citizens. According to a study on income tax, in 2022, only 17.55% of the total population paid income tax, compared to 0.6% in 2001, indicating a low number of taxpayers. Additionally, the majority of taxpayers belong to the low-income group, who pay less tax. Conversely, low-income earners tend to avoid paying taxes because they have limited savings. As a result, Nepalese citizens exhibit poor tax-paying habits.

Income tax serves as the primary revenue source for many countries, including Nepal. The government utilizes this revenue to address the nation's essential requirements. Nevertheless,

the government has not been able to gather the targeted revenue. There are several causes for the ineffective tax system implementation, including corruption within the government bureaucracy, lack of motivation among taxpayers and tax authorities, and inadequate responsibility among government employees. Furthermore, people's lack of consciousness towards their national responsibility makes the situation worse. Taxpayers usually view taxes as a burden imposed on them by the government and tend to evade or delay payment. Some submit false or misleading income statements, while others make every effort to cheat the government. To address such problems, the Income Tax Act 2058 contains many provisions, with fines and penalties and administrative review being a critical component. However, the tax administration in Nepal is not efficient in enforcing the provisions of tax assessment, administrative review, and legal proceedings, as outlined in the law. This inefficiency is mainly due to corruption, external pressure, and a lack of information.

Therefore, it is necessary to study about the income tax and its provision about administrative review and legal proceedings. In this study, it is tried to find out the answer of the following questions:

1. What are the provisions and processes related to Tax Assessment, Fines and Penalties, Administrative Review, and Legal Proceedings under the Income Tax Act, 2058, and how efficient is their implementation?
2. How well are taxpayers acquainted with and motivated by the provisions of the Income Tax Act, 2058, and have these provisions been successful in revenue collection?

1.3 Objectives of the Study

The main objective of the study is to analyze the provisions of Tax Assessment, Fines and Penalties, Administrative Review and process of legal proceedings in case of disputes as per Income Tax Act, 2058. However, the following specific objectives have been set for the study:

- To analyze the types, procedures, and practical implementation of assessments, Administrative Review, and Legal Proceedings under the Income Tax Act, 2058, including the efficiency of the tax administration.

- To evaluate taxpayer attitudes towards Administrative Review provisions and study the contribution of income tax to national revenue.

1.4 Significance of the Study

This study aims to conduct a comprehensive A study on the provisions of tax assessment, administrative review, and legal proceedings as per the Income Tax Act. The primary objective of this study is to present an in-depth analysis of the different provisions and their practical implementation. This will help respective tax administrators to make their program more effective and efficient. Furthermore, this study will also assist taxpayers in understanding the provisions mentioned in the act. By doing so, taxpayers will be better equipped to comply with the relevant tax laws, thereby reducing the risk of penalties and fines by applying for administrative review timely and go for further legal proceedings if necessary. Additionally, this study will help in the effective implementation of Provision of Income Tax Act 2058 related to Tax Assessment, Administrative Review and legal proceedings, which will result in the better collection of resources. Overall, this study will play a crucial role in ensuring the smooth functioning of the tax system while also benefiting taxpayers and tax administrators alike.

Studies are conducted for some purposes. If the study cannot fulfill the objectives, then it will be worthless of time, money, labor etc. Different parties may gain different benefits as per their requirements. This study also has some significance in the field of taxation of Nepal. Generally, followings are the main significance and need of the study:

- This study will describe the types of assessment and its procedures.
- This study will try to describe the provision of Tax Assessment, Administrative Review and Fines and Penalties in our income tax act.
- This study will describe the process of proceedings in case of legal dispute.
- This study will provide reasonable suggestions and conclusion to make income tax act more effective and practical.
- This study will focus taxpayers' attitudes towards the provision of the act.
- This study helps us to judge the practical implementation of the provision of the act.
- This study will evaluate the efficiency of the tax administrators.

- This study helps us to know the taxpayers' acquaintance with each and every provision of Administrative Review, Legal Proceedings and Fines and Penalties provided in the Income Tax Act 2058.
- This study will describe the provision of review by tax authority under Income Tax Act, 2058.

1.5 Limitations of the Study

It is important to acknowledge that every study has limitations. Therefore, research must be carried out within the confines of these limitations. In this particular study, there are several main limitations that must be taken into account:

- The majority of the information and findings are presented in relative terms, and as such, the conclusions may not be considered 100% accurate.
- There are very few reports available on this subject, so a significant amount of information and data has been gathered from the publications of relevant departments.
- Few information has been gathered from a small sample of the Kathmandu Valley.
- Budget constraints have also limited the scope of this study.

1.6 Organization of the Study

The whole study will be divided into different chapters as follows:

- Chapter 1: Introduction
- Chapter 2: Conceptual Framework and Review of Literature
- Chapter 3: Research Methodology
- Chapter 4: Presentation and Analysis of Data
- Chapter 5: Summary, Conclusion and Recommendations

The rationale behind this kind of organization of the study is to follow a simple research methodology approach. Contents of each chapter has been mentioned briefly as follows:

Chapter-I: Introduction

This first chapter includes the introduction and background of the study, statement of the problem, objectives of the study, significance of the study and limitations of the study.

Chapter-II: Conceptual Framework and Review of Literature

This second chapter includes literature review. In this chapter reviews from books, journals, and thesis and independent studies are considered.

Chapter-III: Research Methodology

This third chapter research methodology includes the research design, sources of data collection, techniques of data collection, tools for analysis of data and methods of presentation and analysis.

Chapter-IV: Presentation and Analysis of Data

This fourth chapter includes presentation and analysis of data. It is the main body of our study. It includes data presentation, interpretation and analysis of collected data. Major findings of the study are also included in this chapter.

Chapter-V: Summary, Conclusion and Recommendations

This fifth chapter includes the summary and conclusion of the research and finally suggestions and recommendations included.

CHAPTER -II

LITERATURE REVIEW

A comprehensive and reliable research study requires a careful review of the relevant literature. This method, sometimes referred to as a literature review, is a crucial step in the research process because it enables the investigator to identify knowledge gaps and design a study plan that effectively addresses them.

A literature review provides the researcher an in-depth overview of the topic, its background, and the condition of the field's study at present. This helps the researcher contextualize their work and pinpoint important research queries that need to be answered in order to increase the knowledge in the topic.

The literature review serves as the cornerstone around which the research study is constructed, it is essential that you perform one as part of the research process. It helps the researcher to pinpoint knowledge gaps, put their findings in context, and create a good research approach from there. By examining and analyzing the body of existing literature, the literature review also enables the researcher to assess and interpret their findings with better clarity. It also serves as a useful tool for developing conceptual frameworks and hypotheses, as well as a rich source of ideas and insights.

It is worth noting that research is an ongoing and ever-evolving process, and the procedures and findings may change over time. However, the literature review chapter remains a critical component of any research study, as it typically includes a review of books, journals, magazines, and other relevant studies in the researcher's field of study.

Researchers can ensure research continuity by linking their study with past research. By examining previous studies, researchers can identify gaps in knowledge and develop a research question that addresses these gaps. Reviewing the literature also helps researchers to refine their research methodology and design, and identify strengths and limitations of previous studies.

In essence, conducting a literature review is an essential aspect of any research study. It furnishes a robust groundwork for the current study, helps researchers identify any potential knowledge gaps, aids in the generation of new concepts for their research design, and enables them to develop expertise in their field of study.

2.1 Conceptual Framework

In this chapter, meaning of taxation, objective of taxation, principle of taxation, origin of tax system, historical development of taxation, evolution and the development of income tax system in Nepal are described to know the concept of taxation.

2.1.1 Meaning of Taxation

Since the beginning of civilization, taxation has been an essential part of government operations. It is the process by which governments collect taxes from individuals and corporations. Oxford Dictionary defines it as a system whereby a government collects taxes from citizens to fund public services.

Taxation is a method that governments use to collect funds from individuals and organizations. The government then uses these monies to run the government and pay for public services. There is no correlation between a citizen's tax payment and the level of services they receive from the government; taxes are mandatory and essentially unchangeable. Consequently, the act of imposing a tax is known as taxation. Similarly, one of the famous economists delineates, “taxation is the charge levied by the state on the property or labor of the citizens, in order to provide for the public expenses”.

2.1.2 Meaning of Tax

Tax collection in the past was typically done through goods. The barter exchange system allowed for direct exchange of products or services between two suppliers without the use of money as a medium of exchange, thus avoiding issues with currency value instability and valuation. Different scholars have provided different definitions of tax. According to economist Plehn, “Taxes are, in general, compulsory contribution of wealth levied upon persons, natural or corporate, to defray the expenses incurred in conferring a common benefit upon the resident of the states”. In the words of Professor Seligman, “Taxation is

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

As per the above definition, it can be concluded that tax is a compulsory levy, and taxpayers have 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. Due to its compulsory nature, taxation has been satirized by people over time. While some say, “Nothing is certain in this world but death and taxes,” others say, “Death and Taxes are both certain... but death is not annual,” and some even say, “Death means stopping to pay tax”. It is important to note that all compulsory payments are not tax, and fines and fees are also compulsory payments without having direct benefit to the payer. However, it is not considered tax because its objective is not to collect revenue but to curb certain types of offenses. Taxpayers are not entitled to any benefits in exchange for paying their taxes. The government does not provide the taxpayer with a comparable benefit. A tax isn't a cost that an individual pays and may then recovers products and services for.

2.1.3 Objectives of Taxation

Throughout history, the purpose of taxes has been defined. Raising money to pay for the government's development and administrative costs is the main goal of imposing taxes. Taxation was originally intended to provide revenue to the state in order to bolster its authority. Prior to Adam Smith, the purpose of taxes was to fund the government's efforts to protect citizens and the general public from crime, invasion, and bloodshed. It also served to preserve public institutions, which could never serve an individual's best interests. Prior to Adam Smith's time, taxes were imposed with the intention of funding the government's efforts to protect citizens and the general public from crime, invasion, and violence.

Today's tax system, however, is set up to take taxes from the haves in order to give the have-nots either direct or indirect benefits. The tax system was implemented by the government in order to bring about both social and economic harmony within the nation. Raising money for resource mobilization, equitable income and wealth distribution in society, promotion of employment, saving and investing, elimination of regional imbalances, and enforcement of governmental policies are the modern goals of taxation.

2.1.4 Principle of Taxation

As everything is based on certain principles, in the same way taxation also has some specific principle which helps to formulate appropriate tax policies. According to Adam Smith, the father of economics has mentioned the following criteria, maxims or cannons of taxation in his book 'The Wealth of Nations' (Smith, 1776).

Cannon of Equality or Equity

A public's ability to pay taxes should be taken into account while formulating tax policy. More income or properties are subject to a greater tax because of this. To the same income group, this policy imposed equitable obligation. For this reason, the principles of justice dictate that citizens should give back to the government in proportion to the advantages they get.

Cannon of Simplicity

Simply said, simple implies understandable. Tax laws should be simple to understand and practical in day-to-day situations. Unnecessary complexities result from a complex tax structure. Taxpayers are encouraged to pay more taxes under a simple tax framework.

Cannon of Uniformity

In this application, uniformity refers to consistency in the tax rate, stock valuation system, depreciation system, accounting technique, dividend distribution system, accounting system, appeal and penalty system, tax payment method, and tax payment schedule (Kandel, 2003).

2.1.5 Origin of Tax System

The tax system was in use in various models from the time the kingdom, king, and people first appeared. A family guardian bears a great deal of responsibility for both the family member and the home. In a similar vein, the king owed his people and nation. Therefore, in order to ensure the wellbeing of society, the king set several laws and regulations. Individuals used to make contributions in a variety of ways. People used to assist the monarch in accordance with needs and circumstances by giving money, goods, or labor services. People's contribution is the taxation system (Kara) that has existed since the founding of the nation, the kingdom, and the populace.

Therefore, taxes were instituted in every civilized culture. It also has a connection to the emergence and fall of civilizations in history. All civilized societies had a central government that collected a portion of the result of people's labor to utilize as a reserve during hard times to help the less fortunate and to enrich and empower the ruling class. Before the modern age, kings and their administrators would frequently take a share of the crops grown by the populace without taking into account the expenditures associated with farming. Thus, taxes supported all early civilizations first in the Middle East and then all around the world.

In the Hindu system, taxes were gathered for the benefit of the people, who were also willing to pay them. It was considered a grave offense to fail to pay the taxes. The primary responsibilities of a king, according to the sacred Hindu text known as the Vedas, were to protect and serve the people, maintain the peace, and perform charitable deeds. The king would gather goods and services from people, such as cattle and harvests from farmers and gold, silver, and other precious metals from traders and businessmen. These were the nation's earnings. These taxation options were periodically increased in accordance with the demands of the economy and the passage of time.

The ancient great economist, Kautilya had written “the lurching of all programs depends first and foremost on the treasury” (Kandel 2003). All states therefore require resources. It requires enormous income, either to fund personnel salaries or to carry out development projects. Additionally, he had divided the taxes into three categories: 1. Tax on domestically manufactured items. 2. Tax levied on items made in the capital. 3. Tax applied to exports and imports (Kandel, 2003).

Kautilya had also described in his Arthashastra, ‘The tax system should be such as not prove a great burden on the public (praja), the king should act like the bee which collects honey without unconvincing the plant’ (Lokanath, 1998).

2.1.5.1 Historical Background of Taxation

2.1.5.1.1 Taxation in context of Foreign Countries:

On January 9, 1799, Great Britain was the first country to introduce a modern income tax. They did this to get money for fighting against France in the Napoleonic War. The tax

started on April 5, 1799, and ended on April 5, 1802, after the war ended. But then, they brought it back in 1803 when they started fighting with France again. A new law for income tax started on August 1, 1803. It ended on March 18, 1816, after the Napoleonic Wars finished.

Income Tax was brought back in 1842 to help the government make money and avoid going into debt during tariff reforms. It was only supposed to last three years but stuck around because it worked well. By the 1880s, it became a permanent tax. Then in 1944, the Pay-As-You-Earn (PAYE) system started in Britain, changing how taxes were collected. Sir Kingsley Wood led this new way of collecting taxes.

In the USA, Income Tax started in August 1861 during the Civil War to raise money. It became the first personal income tax. Democrats passed the Wilson-Gorman tariff in 1894, which introduced peacetime income tax to compensate for tariff reductions. In 1895, the Supreme Court ruled that certain income taxes were impractical. The 16th Amendment in 1913 fixed this. In Japan, income tax began in 1887, covering individuals and later corporations. The Arthashastra, compiled around 150 A.D., mentions various taxes like customs and transaction taxes in India.

In India, Income Tax as we know it today began in 1860 and took shape through various trials, leading to a structured legislation in 1886. In ancient times, tax collectors in Egypt, known as scribes, levied taxes even on everyday items like cooking oil, causing discontent among workers and farmers, and leading to economic instability, as noted by Charles Adams. Income Tax saw its inception in Switzerland in 1840, followed by Austria in 1849, Italy in 1864, New Zealand in 1891, Sri Lanka in 1932, France in 1909, South Korea in 1948, and Nepal in 1959.

2.1.5.1.2 Taxation in Ancient Nepal

Throughout history, taxes have served as crucial revenue sources for governments, but Nepal adopted this practice later compared to other prosperous nations. Initially, taxes in Nepal were imposed on farmers, traders, and travelers, taking various forms such as goods, money, and labor services. Direct taxation first emerged during the Lichchhavi government, drawing from Kausalya's Arthashastra, with taxes on agricultural profits

known as "BHOGA" and business incomes termed "KARA." Subsequent rulers, like King Anshuverma of the Lichchhavi dynasty and the Malla dynasties, introduced additional taxes related to agriculture and defense, such as "POTAKA" on irrigation water. These taxes lacked formal regulation, evolving as per the government's needs.

As governmental expenses surged due to administration, military, and other activities, commercial taxes were imposed on various sectors, including land, transit, markets, mines, and forests. Revenue was collected at different levels—Royal Palaces, the central government, and local bodies—with specific taxes like "Walak" for family contributions, "Gadimubarak" for coronation ceremonies, and "Darshan-bhet" for civil and military appointments. Maximizing revenue was the key goal of fiscal policy during this time.

Prithivi Narayan Shah introduced the "POTA" tax in 1772, marking a significant shift in Nepal's tax system, albeit not based on progressive taxation. Income taxes were absent, with land categorized into five types. Birta and Kipat served as primary land-based sources of income.

Taxation in Nepal during Rana Regime

During the Rana regime in Nepal, taxes were collected without proper laws, mostly based on the Ranas' wishes. The government didn't care much about developing the country with the tax money; instead, they used it to build palaces. Taxes were collected through goods rather than money, and land tax was the main way the government made money until 1950. Other taxes were imposed on specific groups, like fishermen. The government controlled trade to earn revenue and set up organizations to manage funds and revenue. They even taxed people's job income, but only from government workers. This system ended in 1951, leaving Nepal without an efficient tax administration system.

Taxation in Modern Nepal

In the early 1950s, when Nepal became democratic after the Rana regime, there was talk about introducing an income tax. The Finance Minister mentioned considering an income tax, including taxing agriculture income, in the first Budget Speech of 1951. However, because of political unrest, it didn't happen until 1958, even though there was a proposal in 1954. This proposal suggested exempting Rs.10,000 and having tax rates from 5 to 25 percent. Finally, in 1959, income taxation became official with two income categories:

business and compensation. There were ten tax brackets with rates from 5 to 25 percent, and small businesses got a 50% tax break, while large businesses got 25%.

Income Tax Act 1960 A.D. (2017)

In 1960, Nepal introduced the Business Profit and Remuneration Act to organize tax collection better. It had 22 parts, including rules for fines and penalties. Here are the main points of the Income Tax Act 1960 (2017):

1. Only business profit and remuneration were taxed, but it didn't specify deductions for calculating taxable income.
2. Tax on remuneration was taken directly from the source.
3. Tax for remuneration was based on the current year's income, while for business profit, it was from the previous fiscal year.
4. If someone didn't file taxes or filed a false return, the tax officer could estimate the tax amount.
5. Fines for default ranged from Rs.500 to Rs.5,000, and informants could get 20% of the tax if their information was proven.
6. Appeals went first to local courts, then to revenue courts, with a security deposit for the tax amount.
7. Industries got rebates of 25% for profits, and small industries got 50% rebates. At first, government servants were the main taxpayers.
8. After three years, it was clear that the Business Profit and Remuneration Tax Act was too narrow and unclear. So, it was replaced by the Nepal Income Tax Act 1962 (2019).

Nepal Income Tax Act 1962 A.D. (2019)

The Income Tax Act of 1962 was introduced in 1962 A.D. in response to numerous shortcomings, and it attempted to address every aspect of the 1960s Income Tax Act's shortcomings. This act contained 29 parts that provided explicit definitions of tax words. This act's primary goals were to lessen wealth inequality, create impartiality, provide fairness as a guide, and set tax payment guidelines.

Income Tax Act 1962 was amended in 1972 and continues till 1974; the additional features of this act were as follows:

1. The definition of income covered all types of money people earn, like from jobs, businesses, renting out homes or land, investments, farming, insurance, and other sources. It also explained how a person's personal and living situation affects their taxes.
2. The rules for figuring out and collecting income tax were made clear. They talked about how taxes used to be collected by trading goods instead of money, which helped avoid problems with money value changing. Income tax was described as money people have to pay to the government, regardless of what they get back, and not as a punishment for breaking the law. They also mentioned assessment periods lasting for two years.
3. Income tax was said to be a tax on the money people actually make after taking away expenses.
4. For the first time, money made from farming was included in income tax.

Income Tax Act 1974 A.D. (2031)

The updated version of the Income Tax Act from 1962 was renamed as the Income Tax Act of 1974. This new act had a wider range of income sources compared to the earlier law. It built upon the foundation set by the Income Tax Act of 1962, incorporating some new provisions while retaining or modifying others from the previous version. In total, there were 66 sections and subsections in this statute.

Following are the some salient feature of this act, as latest amended;

1. This act made things clearer by defining important tax-related terms such as taxpayer, income tax, income assessment year, tax assessment, tax officer, company, net income, personal status of taxpayers, philanthropic work, and non-resident.
2. Different sources of income were sorted into five groups: (a) agriculture, (b) industry, trade, profession or job, (c) remuneration, (d) rent from houses and compound taxes, and (e) income from other sources.
3. People who earned money from industry, business, profession, or job had to register with the tax office before starting work.

4. It allowed for deducting expenses related to earning taxable income.
5. People could now calculate their own taxes for the first time, but if they made mistakes or paid too little, the tax officer could make final decisions about how much tax to pay.
6. If someone made loss in one year, they could use it to lower their taxes for the next three years.
7. There were clear punishments for things like not providing income details, lying about income, not keeping proper records, or obstructing tax officers.
8. The law had rules for checking income again or adding more taxes if needed.
9. It explained how to pay taxes in advance, take taxes out of pay, and get tax refunds.

The Income Tax Act of 1974 underwent several changes in 1977, 1979, 1980, 1984, 1985, 1986, 1989, and 1992 to make it more effective, practical, and clear. However, this law had some problems, including a narrow range of taxes, lack of coordination, uncertainty and arbitrariness, intentional power of the government and tax officers, unequal treatment of taxpayers, and inability to control tax evasion. As a result, the country adopted a new income tax law in 2002 to boost economic development by improving revenue collection through a more efficient tax system that updated, revised, and consolidated income tax regulations.

Income Tax Act 2002 A.D. (2058)

In 2002, the Income Tax Act of 1974 was replaced by the Income Tax Act of 2002, aimed at offering a more organized and systematic approach to taxation. Currently, Nepal's income tax regulations comprise the Income Tax Act of 2002, the Income Tax Rules of 2002 (with amendments). The Income Tax Act was enforced in April 2002 and is presently in effect across Nepal. The Finance Act, which describes tax rates, withholding provisions, and tax payment methods for each year, is annually approved by parliament. It serves to modify the Act to some extent. Below are some notable features of the Income Tax Act of 2002:

1. The Income Tax Act 2031 classified income tax into five categories, whereas the new act divides it into three.
2. Residents can claim a credit for foreign income taxes paid, which applies to their assessable income for the year.

3. Deductions are allowed for various expenses, and certain sources of income, such as gifts, inheritance, and scholarships, are exempt from taxation.
4. A resident is defined as someone with a home in Nepal or who spends a certain amount of time in the country during the income year.
5. During the time the Income Tax Act 2031 was in effect, various exemptions were scattered throughout different Acts.
6. Penalties are divided between fines and interest imposed by tax officers and penalties and imprisonment determined by the courts.
7. The act ensures taxpayer rights and confidentiality, with severe punishments for violating secrecy provisions.
8. Presumptive tax applies to small taxpayers with limited income or turnover, subject to a flat annual tax.
9. This act sets the income tax rate itself, a departure from previous years when rates were set by finance acts.
10. Administrative review procedures are introduced for correcting mistakes, with provisions for appeals to the revenue tribunal.
11. Self-assessment is emphasized, with time limits for amendments and specific conditions for jeopardy assessments.
12. Residents and domestic companies are taxed on their worldwide income, while non-residents and foreign companies are only taxed on income sourced in Nepal.

2.2 Review of Related Provisions Under Income Tax Act, 2058

For this research project, various resources such as books, dissertations, thesis, articles, and papers were consulted to analyze the Income Tax Act, 2058 thoroughly. The following sources were extensively utilized in crafting this thesis:

2.1.1 Provisions of Tax Assessments According to Income Tax Act, 2058

The Income Tax Act 2058 allows for three types of assessments: Amended Assessment, Jeopardy Assessment, and Self-Assessment. Self-Assessment places the responsibility on the taxpayer to calculate their taxable income and tax owed, submitting returns punctually to the tax office. However, in rare cases where the tax office needs to determine the taxpayer's liability, they can conduct the assessment themselves. These assessments can be adjusted, particularly in urgent situations, as further elaborated below.

Self-Assessment

Section 96(1) of the Income Tax Act, 2058 mandates taxpayers to submit their tax returns within three months after the conclusion of each income year. As per section 2(Jha) of the Act, the income year starts on the first day of Shrawan and ends on the last day of Ashad of the following year, indicating that tax returns must be filed by the end of Ashoj. However, under Section 98, taxpayers can request an extension in writing from the Inland Revenue Department (IRD) until the end of Ashoj, the original deadline. If the IRD approves, the extension can be granted for up to three months from the filing return date. In such cases, the assessment is presumed to be completed by the IRD, unless there are exceptions under Section 100 or Section 101. Therefore, we can conclude that the filing of an annual income tax return is a self-assessment made by the taxpayer unless there is any condition as mentioned in Section 100 or 101 of the Income Tax Act 2058.

As per Section 99 of the Act, even in the case of a person who does not submit the annual return, the income tax for the year is, up to the period of submitting the tax return, deemed as assessed below:

- a. The total tax liability of the tax payer during the year is equal to the amount of the tax withheld by the agents to pay and amount of advance tax paid by it; and
- b. The deemed tax assessment shows that the taxpayer has no more tax payable for the year.

Jeopardy Assessment

The Inland Revenue Department (IRD) conducts a jeopardy assessment when there's a risk to tax collection. According to Section 100(2) of the Income Tax Act, 2058, the IRD has the authority to assess taxes prudently in situations outlined in Section 96(5) of the Act, either for the entire income year or a portion thereof.

Information to be considered for Jeopardy Assessment

Under section 100(2) following information are considered:

- a. Assessable income of the taxpayer from business, employment, or investment. i.e. all sources of income;
- b. Taxable income of the taxpayer during the year and the total amount of tax due; and
- c. In the case of a taxpayer, which is a foreign permanent establishment, the income remitted to the foreign country during the period and tax payable on such remittance.

Conditions for Jeopardy Assessment

Under Section 96(5), jeopardy assessment is made in any of the following conditions:

- a. The person becomes bankrupt, is wound-up, or goes into liquidation;
- b. The person is about to leave Nepal indefinitely [Pay As You Go (PAYG)];
- c. The person is otherwise about to leave the business; or
- d. The IRD otherwise considers it appropriate.

In any of the above condition the IRD may serve a notice to the taxpayer to submit the tax return for the specified period of the year within specified day mentioning details as required under Section 102.

Effect of Jeopardy Assessment, if the conditions for Assessment no more exist

There may be the possibility that the conditions that lead to jeopardy assessment is no more in existence and the person filing return under jeopardy assessment may be doing business/investment/employment in normal way with going concern. Under Section 100(3), where jeopardy assessment is made, following provision shall apply:

- With respect to a full income year, the assessed person is not required to file tax return under section 96(1); or
- With respect to part of an income year, the assessed person is still required to file return for the income year under Section 96(1) and the treatment of tax paid as per jeopardy assessment shall be as an advance payment of tax and can be adjusted against the tax payable as calculated as per the self-assessment for the year.
- Under Section 100(4), tax paid on assessment is allowed to take credit against tax payable on assessment made for the full income year.
- However, as per section 100(5), the IRD shall give opportunity to produce proof, if any, in own favor while making assessment.

Amended Assessment

Power of IRD to amend Tax returns

The Inland Revenue Department has the authority to revise any tax return submitted by a taxpayer if they deem it necessary. This revision must reflect the department's best judgment and align with the Act's original purpose.

Number of Amended Assessment

If the Inland Revenue Department deems it necessary, they can revise assessments multiple times, based on their best judgment, as they see fit.

Time Limit to make amendment in Assessment

IRD has the authority to revise the assessments as often as it thinks fit, but it must do so within four years of:

1. In the case of an assessment under Section 99, the due date for filing the return; or
2. In the case of jeopardy assessment, the date on which the notice of assessment is served to the taxpayer under Section 102

Exception to the Time limit of Four Years

With the exception of the condition that fraudulent work affects the tax assessment, the aforementioned four-year limitation is applicable. The file may be reopened for an updated assessment at any point, even after the four-year term has passed, if it is demonstrated that fraudulent work had an impact on the tax assessment. The Act doesn't provide a precise definition of fraudulent work. In order to prevent needless lawsuits, IRD should promptly provide a clarification outlining the likely circumstances that led to the fraudulent work.

The sole restriction on such an amended assessment is that it must be finished within a year of the IRO receiving the fraud information.

Limitation of IRD if the competent court has settled the assessment

The IRO lacks the power to make an amended assessment to the extent that the tax liability has been decreased by the Revenue Tribunal or any other authorized Court that

has reduced the assessed tax amount. However, the IRO may make an amended assessment if the Court mandates a re-investigation of the case.

Reasonable opportunity to Taxpayer to defend

The IRO must notify the taxpayer of the grounds for disagreement with the figures provided in the filed return or the figures that are available to the IRO before issuing an order for the amended assessment. The taxpayer should be allowed fifteen days to respond to the IRO's claim and provide supporting documentation.

Issuance of Assessment Order

Once the Inland Revenue Department (IRD) receives the taxpayer's letter within a fifteen-day defense period, if the Inland Revenue Officer (IRO) finds the evidence and explanations provided unsatisfactory, they may issue an order containing the following information:

3. The total amount of tax owed by the taxpayer for the assessment year and the amount owed to them;
4. The method used to calculate the tax liability;
5. The rationale behind the amended assessment by the IRO;
6. The timeframe within which the tax owed must be paid; and
7. Information on the process, including where, when, and how to appeal the order if the taxpayer disagrees with the amended assessment.

2.2.2 Provisions of Fines and Penalties According to Income Tax Act, 2058

According to the Income Tax Act 2058, taxpayers may face penalties for one or multiple faults, with the penalty amount specified in the relevant sections. Penalties serve as consequences for violating the law; if an obligation requires someone to perform a specific action and they fail to do so, they may incur a penalty. Likewise, if an obligation prohibits someone from taking a certain action and they do it regardless, they may also face a penalty. The type and amount of penalty vary depending on the statute and the nature of the violation. The Act outlines the following provisions for imposing penalties.

Penalties

The distinction between a tax and a penalty is not significant. Both are due and payable as part of the assessment process, and a penalty is just an extra tax that is applied in certain

situations due to the taxpayer's behavior as defined by the Income Tax Act. The taxpayer may be subject to a penalty for one or more inaccuracies up to the amount specified in the corresponding sections. A penalty is the result of breaking the law; if someone violates a law by not complying with a certain requirement; they will be held accountable and may face consequences. In a similar vein, anyone who violates a statute's requirement to refrain from doing something puts themselves at risk of punishment. The nature and quantum of penalty differs from statute and from default. The following provisions are to the imposition of fine and penalties under this Act:

Fines under Section 117

1) For delay in submission of advance tax under section 95(1)

Under section 117(1)(ka), in case any tax payer delay or do not submit advance tax return as required under section 95(1), fine higher of Rs. 5,000 or or 0.01% of assessable income shall be charged to such taxpayer.

2) Delay in submission of statement to be submitted as prescribed by section 95ka(9)

If any person required to collect advance tax has not submitted the details pursuant to sub-section (9) of Section 95ka, such person shall be imposed 1.5% annually of the amount of advance tax to be collected from the date required to make submission till the date of actual submission for each month and the portion of the month.

3) Delay in submission of annual tax return under section 96(1)

Every person who has obligation to submit annual tax return has to file the same within the time limit prescribed by the act. In case of delay, following fine is charged under section 117(1)(ga):

- a) In case of tax payer paying fix sum of tax under section 4(4)- Rs. 100 per month of delay treating part of month as a month.
- b) In other cases, the fine shall be charged as 0.1% p.a. of turnover treating part of month as a month or Rs. 100 per month of delay, whichever is higher.

4) For Failure to maintain accounts and records under section 81

Person requiring to maintain files and records under the act, and fails to do so as instructed by section 81, a fine of either, 0.1% p.a. of turnover or Rs.1,000 whichever is higher is charged under section 117(2).

5) For delay in submission of monthly return of tax deducted at source under section 90 (1)

If any withholding agent who has deducted tax at source fails to submit a return of it before due date, fine @ 2.5% p.a. of such amount is charged treating part of month as a month.

Interest Under Section 118

6) Interest for Understating Estimated Tax Payable under Section 94

Under section 118 of the Income Tax Act, 2058 interest @ 15% is imposed on the amount calculated as follows:

- 90% of each payable installment calculated on the basis of total tax payable as determined by the tax assessment for the year exceeding each installment paid.
- Interest is calculated as treating part of month as a one month.

Such interest is calculated up to the date of filing return. However, in case of assessment under section 101 interest amount is calculated up to the date of notice served for revised assessment under section 102 for first time.

Interest Under Section 119

7) Interest for failure or delay to pay tax

1. Interest @ 15 % per annum is charged on any tax amount which is due for payment treating part of the month as full month.
2. For this purpose of calculating interest, extension granted under section 98 is ignored.
3. In case withholding agent has delayed in making payment of the amount of deemed withholding tax, it cannot charge the interest to the withholders. In the same tune, a person responsible for the collection of advance tax under section 95ka, fails to deposit the amount within the prescribed time and pays fines as per

section 95ka(8), cannot charge the fine to the person from whom the advance tax is deducted.

4. In failure of paying tax within the period under section 110ka by agent of non-resident, the tax arrears will be recovered along with additional interest at the rate of 5%. other fines and penalties

8) Charges for not following other provisions of the act under section 119Ka

Charge equivalent to penalty amount from Rs.5,000 to 25,000 is charged for not following the other provisions of the act except for those provisions specifically mentioned in the act.

9) Penalty for making false or misleading statements under section 120

Any person who makes statement to the IRD, makes false or misleading or omits matters on the statement is liable to penalty as follows:

- a) Where the statement is happened to be false or misleading without knowledge, 50% of the underpayment of the tax.
- b) Where the statement is made false or misleading with knowledge of such misleading information, 100% of the under-payment of the tax.

10) Charge for aiding and abetting under section 121

A person knowingly or recklessly aids, or abets another person to commit an offence of a type referred to the act, or counsels or induces another person to commit such an offence shall be liable for penalty equal to 100% of the under payment of the tax.

11) Offence of failure to pay tax under 123

Any person who without reasonable excuse fails to pay any tax on or before the date on which the tax is payable shall be liable on conviction to a fine of not less than Rs.5,000 but not more than Rs.30,000 or an imprisonment for term not less than 1 month to 3 months, or both.

12) Offences of making false or misleading information under section 124

Any person who makes statement to the IRD, makes false or misleading or omits matters on the statement is liable to pay fine of not less than Rs.40,000 and not more than Rs.160,000 or imprisonment for term of not less than 6 months to two years, or both.

13) Offence of impeding and coercing tax administration under section 125

If a person commits following offences, fine of not less than Rs.5,000 to Rs.20,000 or imprisonment for term of not less than 1 month to 3 month or both is imposed:

- a. Obstruct an officer of IRD while acting his/her duty under the act.
- b. Fails to comply with the notice under section 83; or
- c. Otherwise impedes the enforcement of the act.

However, any person who attempts to commit the above offence shall be liable to a half of the penalty mentioned above.

14) Offences by authorized and unauthorized person under section 126

Individuals who violate section 84 (maintaining confidentiality) without authorization may be fined up to Rs. 80,000, imprisoned for up to one year, or both. Unauthorized individuals attempting to collect taxes may face a fine ranging from Rs. 80,000 to Rs. 240,000, imprisonment for one to three years, or both.

15) Offence of aiding and abetting under 127

A person who knowingly assists another individual in committing an offense under the act, such as an auditor, someone who certifies a financial statement or tax return, or someone who gives incorrect advice, faces a penalty equal to half of the penalty imposed on the primary offender.

But government officer does such aiding and abetting, he or she is liable to full penalty as main offender.

16) Offence of failure to comply with act under 128

A fine of at least Rs.5,000 and up to Rs.30,000 may be imposed on anyone who violates the Income Tax Act's provisions or guidelines, unless the act specifies otherwise.

Provisions of Administrative Review and Appeal According to Income Tax Act, 2058

The Income Tax Act, 2058 contains a provision allowing the taxpayer to file an application for an administrative review with the DG of IRD in the event that they are dissatisfied with the assessing officer's decision on their tax assessment. Furthermore, the tax regulations provide for the deposit of a specific amount of tax in order to facilitate this kind of administrative scrutiny. Additionally, the taxpayer may appeal to the Revenue Tribunal if they are dissatisfied with the ruling or if the Administrative Review process

yields no results. The following is an explanation of all pertinent Administrative Review and Revenue Tribunal provisions:

Administrative Review

In case a taxpayer is not satisfied with any decision of IRD or respective IRO or the tax officer, it has to file an application, as first step, to IRD for an administrative review. But in case the Director General himself, under his signature, passes an order, an advance ruling or an amended assessment, the taxpayer shall go to the Revenue Court for appeal. According to Section 114, an application against the following decisions shall be filed to IRD for an administrative review:

- a. Objecting to the calculation of withholding tax and associated interest as per Section 90(8);
- b. Challenging the estimated advance payment determined by a tax officer according to Section 95(7);
- c. Contesting a tax officer's decision mandating a taxpayer to submit a tax return under Section 96(5) or 97;
- d. Contesting a tax officer's decision regarding an extension of the deadline for filing returns;
- e. Contesting various assessments and penalties including jeopardy assessment under Section 100, amended assessment under Section 101, expenses assessment related to auction sales under Section 105(5), and penalties imposed under Sections 117 to 121;
- f. Challenging the IRO's notification of a receiver to allocate a specific amount under section 108(2);
- g. Contesting an order by a tax office for a debtor of the taxpayer to remit the due amount to the tax office instead of the taxpayer under Section 109(1);
- h. Challenging an order by a tax officer for a person to pay tax on behalf of a non-resident under Section 110(1);
- i. Contesting the decision of the IRO regarding a taxpayer's application for tax refund under Section 113(5);
- j. Challenging IRD's decision regarding a taxpayer's request for an extension of the objection filing deadline under Section 115(3).

While most objections fall under Section 114, the taxpayer can seek recourse to the Revenue Tribunal for objections not covered therein. Where the tax officer has not served a notice of a decision taken with regard to an application for extension of time under Section 98, an application for a refund of tax under Section 113 (3) or a notice of decision by IRD for extension of time under Section 115 (3), within 30 days of the application filed by the taxpayer, the taxpayer can treat the application as rejected by the IRD or IRO and can apply for an administrative review under Section 115.

Procedure for Administrative Review:

Where to apply:

The application for an Administrative Review should be submitted to IRD.

Time Limit:

The taxpayer has thirty days from the date they receive the notification of decision to submit the application to IRD.

If a taxpayer is unable to submit an application within the allotted time, it may request to IRD within seven days after the deadline expiration for an extension of time, providing justification for the delay. If a valid justification is provided, IRD may extend the deadline by a maximum of 30 days from the original date. In this regard, the taxpayer must get a notice from IRD.

How to file:

The applicant must submit an application outlining the specific grounds for each objection. In the event that these are not taken into consideration when making a judgment, the application may specifically include the Section, Rules, circulars, court decisions, etc.

If the tax officer did not take into account the evidence presented, the decision is in violation of either Nepal's Constitution or natural justice; this information ought to be included in the application. If the tax officer has not followed the accepted method prior to the decision being made, the information is more significant if it is included in the application.

The requirement that before submitting an application to IRD, a taxpayer deposit 100% of the taxes and fees for which there is no disagreement with the assessment order and 1/4 of the remaining amount due in accordance with the assessment order.

Effect of the application:

According to Section 115(4) and (5), the enforcement of a decision taken by a tax officer with regard to the amended or jeopardy assessment, on filing the application, shall not be treated as stayed unless IRD stays the proceeding or otherwise affects the enforcement of a decision of the tax officer until the application is settled.

Due to this provision aggrieved person by the assessment would have double financial stress- first is dharauti which is at least one fourth of disputed amount, for which the person is resisting with DG and the second is to pay whole the tax, fees and interest.

IRD may allow or disallow the objection in whole or in part. IRD in compliance with its legal duty should serve the applicant with a written notice of the decision taken.

Where IRD fails to serve a notice of the decision on the application within 60 days of the submission of application, the applicant may, by a notice in writing filed with IRD, treat the application as disallowed by IRD.

Appeal to Revenue Tribunal:

Filing of Application to Revenue Tribunal

Under the Revenue Tribunal Act, 2031, a taxpayer may file an appeal with a Revenue Tribunal if they are unhappy with an IRD decision regarding an application they filed in accordance with Section 115, or if they believe the application was denied because the 60-day window after filing the review application has passed.

Amount of Deposit

The applicant must deposit funds or provide a bank guarantee equal to the total of the tax officer's assessed penalties, 50% of the disputed tax amount, and 100% of the uncontested tax amount. As directed by the assessing body, the money should be deposited in an office.

Deadline to file Appeal application at Tribunal

Within 35 days of obtaining the assessment order, the IRD judgment, or the handling of the application that the IRD rejected, a taxpayer may file an appeal with a Revenue Tribunal.

Responsibility of Taxpayer to inform IRD

When filing an appeal with the Revenue Tribunal, the taxpayer must submit a copy of the notice of appeal to IRD within 15 days of filing the appeal.

Effect of Appeal Application

Section 116(3) of Income Tax Act, 2058 states that unless the Tribunal stays or otherwise affects the enforcement of a tax officer's decision until the appeal is resolved, the enforcement of the tax officer's decision regarding the amended or jeopardy assessment upon filing the application shall not be regarded as stayed. Due to this clause, an individual who feels unfairly assessed would face two forms of financial hardship: first, they would have to pay the whole amount of tax, fees, and interest, or dharauti, which is equal to one-fourth of the disputed amount and is the subject of a revenue tribunal case.

Other Decisions not covered by Section 114

The taxpayer may submit a case directly with the Revenue Tribunal for matters that are not covered by Section 114, according to the prevailing conditions and Acts.

Option if the taxpayer is not satisfied with the decisions of Revenue Tribunal

The Revenue Tribunal's ruling is definitive. However, under Section 8 of the Revenue Tribunal Act, 2031, a taxpayer may file a writ petition under the extraordinary jurisdiction of the Supreme Court of Nepal if the latter permits it and finds that the tribunal's ruling will be fully or partially overturned due to a direct (clear) legal error on any of the following grounds:

- Question of jurisdiction,
- The issue of not looking at the right evidence or looking at evidence that shouldn't have been considered,
- The problem of not following the correct legal steps,
- The problem of making a big mistake in the law.

2.2.3 Review of Books

Basaula (2071) provided an in-depth understanding of Income Tax and VAT Laws, extracting the essential legal provisions from the Income Tax Act 2058 and its

accompanying rules. This resource serves as a valuable reference for individuals seeking the precise legal text for their work, research, or professional judgments.

Amatya (1965) delved into the legal intricacies of income taxation in his comprehensive book, marking the pioneering effort in this field. His work covers aspects such as income tax assessment, penalties for non-payment or late filing of taxes.

Marhatta and Khatioda (1970) discussed both the legal and practical facets of income tax, focusing on the Income Tax Act of 2020. However, their reliance on campus-level syllabi limited the effectiveness of their analysis due to frequent changes in tax laws.

Agarwal (1978) conducted a detailed study on resource mobilization in Nepal, exploring various fiscal policies, historical trends in income tax, and the structure of Nepalese taxation. His research highlighted the dominance of indirect taxes and the evolving role of income tax since 1974/75.

Agrawal (1984) examined tax policy and administration in Nepal, incorporating insights from tax experts, lawyers, accountants, and taxpayers across different regions. He identified administrative deficiencies, poor taxpayer education, and complex procedures as major obstacles to an effective tax system.

Khadka (1994) provided a comprehensive overview of the Nepalese tax system, tracing its evolution from the inception of income tax to recent reforms. His evaluation, based on conventional theoretical concepts, offered suggestions for enhancing the tax system's efficiency.

Tiwari (1999) elucidated Nepal's income tax structure, drawing from both academic syllabi and practical experiences with the Income Tax Act of 1974. His book addresses tax assessment procedures and related judicial actions in detail.

Kandel (2003) authored two books on taxation, offering insights into tax laws, tax planning, and VAT in Nepal. His practical guidance caters to tax administrators, auditors, consultants, and taxpayers, aiding in effective tax planning strategies.

Mallik (2003) simplified Nepal's current income tax system in his book "Nepal ko Aadhunik Aayakar Pranali," making it accessible to readers interested in taxation. His clear explanations, practical examples, and contrasts between previous and current laws enhance understanding.

Amatya, Pokharel, and Dhakal (2003) provided a comprehensive study of taxation in Nepal, covering theoretical principles and practical applications. Their book, aligned with the BBS third-year syllabus, caters to students, auditors, and tax administrators.

Bhattachari and Koirala (2006) revised their book "Taxation in Nepal," exploring theoretical and practical aspects of tax law, including income tax computation and VAT. Their detailed analysis of the Income Tax Act of 2058 aids readers in understanding tax assessment, penalties, and legal actions.

K.C. (2007) dissected Tax Laws and Tax Planning in his book, offering theoretical foundations alongside practical insights. This resource, divided into four sections, serves as a valuable reference for auditors, tax administrators, students, and researchers alike.

Dhakal (2008) explained the history of income tax laws in Nepal in an article entitled "Historical Perspective an Income tax in Nepal", this article has described previous income tax act and shown main fatigue of income tax 2058 are as follows:

- Provision of set and pooling of depreciable assets.
- Tax on capital gain
- International taxation
- Medical tax credit
- With holding payment and qualification allocation and characterization of the amounts.

The Education Department of the Institute of Chartered Accountants of Nepal (2017) has published a book titled "Advanced Taxation" for its CAP III students. This book, compiled with input from various tax professionals and experts, aims to offer a comprehensive understanding of Income Tax, VAT, Custom Duty, and Excise Duty. It serves as a valuable resource for acquiring both theoretical knowledge and practical

expertise in navigating the complexities of taxation provisions outlined in the Income Tax Act, 2058.

Pandeya (2015) has provided an in-depth exploration of Income Tax and VAT laws, delving into both theoretical concepts and practical applications. His meticulous explanation of each clause within the VAT and Income Tax Act makes the book beneficial for professionals, academics, and researchers alike. Detailed discussions on tax assessment, fines, penalties, and legal proceedings are covered extensively across several chapters, making this resource invaluable for those seeking comprehensive insights into taxation laws and their implications.

2.2.5 Review of Dissertations and Thesis

Dhakal (2004) researched the administrative aspects of income tax in Nepal, the tax system in Nepal, the historical perspective on income tax in Nepal, the methods and means for expanding tax concessions for the general public, and he carried out an empirical investigation regarding the issues with different aspects of Nepal's income tax administration system. His research aimed to present a thorough analysis of the difficulties in Nepal's income tax administration. He also made recommendations for improving Nepal's income tax administration. The following problems, according to him, are being handled by Nepal's tax administration i.e. not being able to locate new taxpayers, keeping poor records about taxpayers, administering taxes improperly, providing insufficient training, and demotivating tax employees.

Bhandari (2006) carried out research to find out what taxpayers thought of the Nepali tax system. He has also endeavored to furnish the taxpayers with notions and recommendations that are helpful for modern taxes. According to him, it is essential to have clear tax laws, active tax administration, stable economic and tax policies, and an improvement in the public's understanding of income taxes. In order to help taxpayers better comprehend taxes, he has also suggested that tax-related data be routinely structured.

Ghimire (2007) studied the Income Tax Act of 2002's specific provision pertaining to employment income. He has concluded that the best strategies to increase the contribution

of income tax from employment income to tax revenue are to improve the tax deduction at source and make changes to income tax policy, rules, and regulations.

Prasai (2007) conducted a study to know the effect of different income sources of government revenue. The dominating individual among the other direct tax collectors was that one. Income tax laws, income tax policies, and income tax administration were regarded as the three factors that are most important to the efficiency of the Nepalese tax system. Furthermore, a comparison of economic and tax policies is necessary to raise tax productivity. Furthermore, he endeavored to illustrate the pressing necessity of implementing administrative upgrades and the significance of providing sufficient resources for the research and development division to optimize the tax structure and capitalize on prospective income streams. The primary immediate goals of Nepal's income tax revenue generation were to increase the value of the value-added tax (VAT) while preserving equity, apply the same tax rate to resident and non-resident businesses, provide incentives to truthful taxpayers, and mandate the use of restricted and trained personnel to guarantee efficient administration.

Basnet (2008) conducted study on effectiveness of self-tax Assessment in Nepal. This dissertation claims that while Nepal's self-tax assessment system is functional, it is not what was anticipated. This thesis states that the use of the self-assessment system is becoming more common. The amount of tax revenue rises as a result. The number of taxpayers has somewhat increased. Their goal is to collect taxes for the program of self-assessment. He has recommended that new regulations be created to allow prospective taxpayers to participate in the tax system and that a concerted effort be made to provide basic orientation to the self-assessment and accounting systems.

Bhattarai (2009) identified various problems of income tax management in Nepal and among them lack of managerial efficiency is the main problem. He also noted inadequate staff management, a feeble system of incentives and sanctions, a feeble system of income tax assessment, a subpar system of tax information, a dearth of taxpayer education, and a narrow scope of income tax as problems with Nepal's income tax management.

Thapa (2009) mentioned the contribution of income tax in revenue of Nepal. He had also shown how the contribution to direct taxes has decreased while indirect taxes have

increased. Thapa enumerated the problems of raising money for the state. He stated that a lack of clear and comprehensive definitions of income, a lack of knowledge about taxes, the absence of penalties for tax evaders, a lack of public information, an inefficient tax administration system, a lack of scientific tax collection methods, and a shortage of trained tax collectors are the main causes of tax evasion.

2.2.6 Review of Reports/Articles/Journals

Shrestha (1967) conducted research on An Analysis of Tax Structure of Nepal dealing the tax structure of Nepal. After analyzing Nepal's income tax system, writers made reform recommendations to close the resource deficit and raise more money. The report lacked analysis.

Agrawal (1978) had conducted a research entitled, “Are sources mobilization for development: the reform of income tax in Nepal”. This study's primary goals were to investigate the issue of the widening resource gap in Nepalese finance in the context of income tax's function in the country, including income tax projections, and to look into strategies for raising tax awareness among Nepalese citizens.

Agrawal (1980) presented another research report concerning about the income tax administration. According to him, tax administration is a crucial subsystem of the overall system that has the power to either tenderly care for or ruthlessly destroy the goose that lays the golden eggs. It is essential to carrying out tax laws and policies. Too much focus on tax rules and policies alone is bad unless consideration is also given to the best way to implement them in terms of tax administration. He discovered that there are no comprehensive programs offering information, support, guidance, and counseling to taxpayers. Among the main issues with tax administration that he discovered are unskilled staff, unfair business practices, harassment, and corruption.

Agrawal (1984) presented a report to ministry of finance entitled “Direct tax Reform in Nepal”. He talked about how Nepal's resource shortfall is growing. He has demonstrated that the growth rate of overall revenue has outpaced the growth rate of direct tax. In a similar vein, the growth rate of total taxes has lagged behind that of total revenue. He has made the strong recommendation that taxpayer administration not be exposed to political or other forms of pressure when it comes to revenue service. Self-evaluation ought to be

promoted. Small taxpayers should be assessed door to door. For income tax purposes, capital gains should be included in income. The new Income Tax Act of 2058 includes his main recommendation.

Panta (2004) conducted a research entitled, “Problems in Tax Administration and Their Remedies” published in journal of finance and development Rajaswa, 2004, April vol. 1. In this article, he provided a thorough explanation of the issues surrounding tax revenue, their solutions, and the main kinds of real-world issues and difficulties that arise in tax administration. In his article, he had stated that the primary issues with the tax system were the following: a small number of transactions, a low selling price, fewer invoices issued, a failure to disclose the true cost of the factory, commercial fraud, a lack of cooperation during tax audits, legal ambiguity and implementation complexity, and a lack of coordination between the revenue investigation unit and the inland revenue department. In the meantime, he had offered some insightful advice on how to resolve the issues and get past the obstacles. These included the proper management of the statistical and information systems, the use of set norms and standards to evaluate the selling price and factory cost, the requirement of the billing system, the coordination of the Inland Revenue Office with other Nepali government entities, and the crucial roles that revenue investigation and its related unit should play.

IRD has been disseminating a range of publications, including yearly reports, weekly tax bulletins, related updated Acts and Rules and brochures. The IRD has published updated Income Tax Act as per Finance ordinance of 2080 B.S. including all the updated provisions on Income Tax Act, 2058. (IRD, 2023 September 13).

Monthly journal published by Federation of Nepal Chamber of Commerce and Industries (FNCCI) named “BayasaikAacharan”. In the journal, tax expert Mr. Pandey and Bajracharya presented different aspects of Nepalese Tax System (FNCCI, 2005).

The Kantipur Daily reported on Income Tax and VAT, highlighting the lack of clarity in the terminology used in these areas. The relationship between the government and taxpayers was described as not being based on friendly commerce. Additionally, the language in the tax act was noted to be highly intricate and ambiguous. In another article, the Kantipur Daily discussed tax compliance in Europe and Nepal. The report revealed

that while 95% of taxpayers in European countries were willing to pay taxes, taxpayers in Nepal tended to hide their income and avoid fulfilling their tax obligations as per the laws and regulations. (Daily Kathmandu, 2005; Nepal Daily, 2007).

The Himalayan Times discussed the necessity of expanding Nepal's tax base and controlling tax leakage to increase revenue. The article emphasized the need for reforms in tax policies and administration to address the inefficiencies in the current system. Recommendations included broadening the tax base, enhancing taxpayer compliance, and improving tax administration to curb revenue leakages. The focus was on creating a more efficient and transparent tax system to boost national revenue. (The Himalayan Time, 2020).

The article from The Himalayan Times titled "Government advised to form alternative tax settlement body" advises the government to establish an alternative tax settlement body. This body aims to streamline tax dispute resolution processes and enhance taxpayer compliance. The recommendation underscores the importance of improving administrative efficiency and reducing tax-related uncertainties for businesses and individuals (The Himalayan Times, 2015).

My Republica published an article titled "Government introduces a number of waivers and relief measures for taxpayers late on filing returns" discusses the government's introduction of various waivers and relief measures aimed at assisting taxpayers who have been late in filing their tax returns. These measures are intended to alleviate the financial burden on taxpayers and encourage timely compliance with tax regulations (My Republica, 2020).

My Republica also published an article titled "IRD starts 'full audit' of 105 large taxpayer companies on suspicion of manipulating financial report" reports on the Inland Revenue Department's (IRD) initiative to conduct comprehensive audits of 105 large taxpayer companies. This action is based on suspicions that these companies may have manipulated their financial reports. The move aims to ensure transparency and compliance within the financial reporting practices of significant taxpayers (My Republica, 2023).

The article from My Republica titled "SC issues verdict asking tax authorities to show promptness to recover taxes" reports on the Supreme Court's decision urging tax authorities to expedite the process of recovering taxes. The court emphasized the need for efficiency and diligence in addressing tax collection issues, as highlighted by the Office of the Auditor General (OAG) (My Republica, 2024).

The article from My Republica titled "State treasury could get Rs. 300 billion more in revenue if tax systems reformed" highlights the findings of the High-Level Tax System Review Commission. The commission's report suggests that the state treasury could increase its revenue by Rs. 300 billion if the tax systems were reformed. This emphasizes the potential financial benefits of revising and improving the existing tax structures (My Republica, 2024).

The article from My Republica titled "Taxing dissatisfaction: Revenue Tribunal overwhelmed with taxpayers' grievances" discusses the increasing number of grievances filed by taxpayers with the Revenue Tribunal. The article highlights the dissatisfaction among taxpayers regarding tax assessments and the administrative processes, emphasizing the need for a more efficient and transparent system to address these issues (My Republica, 2023).

2.3 Research Gap

The research gap shows the difference in this study from previous studies. Previous studies are built upon the policies that were in effect at the time of the research. The Income Tax Act's provisions may therefore be changed by the Finance Act of each fiscal year. The long-standing gap between previous research and the resources is now closed by this study. The conclusions of most previous investigations came from secondary sources. Most past research did not outline the specific types of fines and penalties or the strategies that ought to be applied in the Nepalese environment. Moreover, this research is survey-based in nature. It is based on both primary and secondary data. This research study uses data from Fiscal Years 2074/75 through 2078/79 that was not used in previous studies. Thus, interested parties, academics, civic society, the general public, businesses, and the government will all benefit from this study from an academic and policy standpoint.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Using this approach, the research problem can be methodically solved. It speaks of the different procedures that a researcher must follow in order to explore the issue with specific goals. This chapter covers the entire research methodology, spanning from theoretical foundations to data collection and analysis. The focus of this study is mainly on quantitative methods, incorporating a descriptive approach that is informed by both technical and logical factors.

“Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view” (Kothari, 1994). As a result, we may draw the conclusion that research methodology attempts to present an understandable picture of the approach and procedures used throughout the entire investigation. It is also thought of as the path via which a researcher can approach the research problem methodically.

3.2 Research Design

The nature of this study is analytical and descriptive. Any study must choose the right research design in order to achieve its goals. “Research design is a plan, structure and strategy of investigation conceived so as to obtain the answer to research questions and to control the variance”- (Kothari, 1994). The guidelines for gathering the necessary data are outlined in a research design. What information is to be gathered, from what sources, and via what methods is specified in the project's general operating pattern. Therefore, a research design is a strategy for gathering and analyzing data. Numerous research design types exist, including historical, descriptive, case study, field, analytical, and real experimental research, among others. Historical research is the primary focus of this work. An analytical and descriptive technique may also be employed, if appropriate.

This study's primary goal is to examine the Administrative Review Process and Legal Proceedings provisions in the context of the Income Tax Act 2058 B.S. That is why it has

tried to achieve the specified objectives of the study, the opinions of the various 246 respondents associated with the distinct denomination i.e. tax experts, tax administrators and tax payers were collected through structured questionnaire.

The questionnaire covers topics such as the importance of income tax to the government, the roles that Administrative Review and Legal Proceedings play in revenue collection, the efficacy of the Income Tax Act, taxpayers' tax-paying habits, the necessity of having Administrative Review in place, the efficiency of tax administrators, and more. Also, this study makes use of a variety of income tax-related publications from diverse organizations. This study's research design is empirical, analytical, and descriptive in this sense.

3.3 Population and Sample

All individuals who are subject to income tax in Nepal make up the study's population. The samples have been taken into consideration using the stratified random sampling method. The following groups and numbers are taken as samples.

Table 3.1

Group of Respondents and Size of Sample

S. No.	Group of Respondents	Sample Size
1.	Income Tax Administrators and Experts	112
2.	Income Tax Payers	134
	Total	246

3.4 Nature and Sources of Data

Primary and secondary sources of the data required for this investigation were gathered. The major sources of these data were as follows:

3.4.1 Primary Data

The distribution of structured questionnaires, personal field visits, contact, and interviews with relevant respondents were the methods used to gather the primary data. Tax administrators are chosen from the Kathmandu Valley's tax departments and other tax

office sectors. Lecturers, auditors, Chartered Accountants (C.A.), Lawyers with concepts and expertise in Income Tax, etc., are examples of tax specialists. Taxpayers are chosen from a variety of industries, including manufacturing, retail, banking, finance, single proprietorships, and employment.

3.4.2 Secondary Data

The sources of secondary data encompass information obtained from published materials such as books, journals, newspapers, reports, dissertations, websites, and unpublished thesis and term papers. The major sources for secondary data include:

- Reports and archives from the Inland Revenue Department, Ministry of Finance, and Central Bureau of Statistics.
- Economic surveys and Budget Speeches from various years issued by the Ministry of Finance.
- National and international newspapers, journals, souvenirs, and magazines.
- Relevant websites.
- Published documents and annual reports.
- Books authored by Tax Officers and scholars focusing on Income Tax.
- Thesis and dissertation reports concerning Income Tax found in the Shanker Dev Campus library and from the official website of Tribhuvan University's library.
- Additional articles related to the subject matter.

3.5 Data Collection Procedures

For this investigation, data were gathered from two sources. Structured questionnaires are used to gather primary data from tax administrators, tax experts, and taxpayers. These sets of questions were first created and given to the two different categories of respondents. To ensure timely delivery of correct and real information, distribution was handled directly through field visits as opposed to sending information via any means. Secondary data were gathered from published reports that various organizations had issued.

3.6 Data Processing and Analysis Procedure

Since data from different sources cannot be used directly, it was necessary to verify and simplify the data in order to use it for analysis. The study's data, facts, figures, and

information have all been checked, rechecked, edited, and tabulated in the preparation for analysis.

Based on the characteristics of the data, it's organized into clear tables, displayed in the annexes. Similar data is grouped together in one table, and multiple tables are presented in a way that's easy to understand. We then use various statistical methods listed below to analyze and explain the data:

- Percentage,
- Simple Average,
- Charts and Diagrams.

3.7 Weight of Choice

Respondents are asked to either rank their answers, provide a yes/no response, or share their opinions. When ranking answers, the scale varies depending on the question, with the scale aligned to the number of possible answers. For instance, if there are 5 potential answers, the scale ranges from 1 to 5, where 1 represents the most important and 5 represents the least important. The total points received for each choice are converted into a percentage of the total points available for all choices. The choice with the highest percentage is considered the most important, while the choice with the lowest percentage is considered the least important.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

The data presentation and analysis phase of a research study is crucial. Its primary goal is to transform raw data into a form that can be understood. It is the process of tabulating the data, arranging it, and then presenting it using a variety of tables and sources. This analysis aims to provide light on the Income Tax Act of 2058's provisions regarding Administrative Review. This study has mostly concentrated on empirical research. An analysis is conducted on some secondary data related to Nepal's revenue structure. Information and data were gathered from many sources. This chapter presents income tax data as well as provisions pertaining to Administrative Review in order to enhance the interpretive value of study findings. This chapter uses a variety of statistical and financial methods to present, evaluate, compare, and verify data collected from several sources. Actually, this chapter establishes the research findings and aids in achieving the goals of the study.

4.1 Analysis of Secondary Data

Secondary data refers to information gathered for a different reason than the one being convinced at the moment. Raw data and published materials are common formats for secondary data. Yet, unpublished data—such as documents or statistics—that were compiled or obtained by others earlier in the research process are also considered secondary data. This part contains tabular form, diagrammatic, charts, and analysis of data that was gathered from various official publications by various government entities and agencies, including the Ministry of Finance, FCGO, IRD, and others. The data was presented based on our needs.

4.1.1 Revenue Structure of Nepal Government

One of the main sources of funding for the government is revenue. Tax revenue and non-tax revenue are the two basic categories into which revenue collection can be divided. Taxation is the taxpayer's required payment to the government. Tax revenue is comprised of taxes on property, payroll, capital gains, income, profits, and trade and transaction fees, among other things. The government of Nepal receives non-tax revenue in the form of

property income, proceeds from the sale of products and services, fines and penalties, voluntary transfers to the government, and other miscellaneous revenue. The trends for both tax and non-tax revenue have been rising, as the table below demonstrates.

Table 4.1

Revenue Structure of Government of Nepal

Fiscal Year	Tax Revenue		Non-Tax Revenue		Total
	Amount	Percentage	Amount	Percentage	Amount
2075/76	643,376.29	87.73	89,993.76	12.27	733,370.07
2076/77	613,390.49	86.94	92,107.75	13.06	705,498.24
2077/78	761,056.63	92.26	63,889.77	7.74	824,946.40
2078/79	984,332.06	92.40	80,928.67	7.60	1,065,260.73
2079/80	919,548.01	87.04	136,939.90	12.96	1,056,487.91
Average	784,340.70	89.42	92,771.97	10.58	877,112.67

(Source: Consolidated Financial Statement of GON, FY 2022/23, Consolidated Annual Statement of Receipt and Payment; and Consolidated Financial Statement of GON, FY 2021/22, Table 3: Statement of Revenue Collection: Federal Government, GON)

Table 4.1 illustrates the revenue breakdown of the Government of Nepal over the past five fiscal years from 2075/76 to 2079/80. In 2075/76, Nepal's tax revenue amounted to 643,376.29 million, further decreasing to 613,390.49 million, then experiencing an increase to 761,056.63 million, and next year increasing to 984,332.06 million in FY 2078/79 and finally reaching to 919,548.01 million in FY 2079/80. Tax revenue constituted the majority of the government's income, comprising 87.73% in 2075/76, 86.94% in 2076/77, 92.26% in 2077/78, 92.40% in 2078/79 and 87.04% in 2079/80. On average, tax revenue contributed 89.42% to the government's total revenue during the last five fiscal years.

Similarly, non-tax revenue for Nepal was 89,993.76 million, then rose to 92,107.75 million, followed by a decrease to 63,889.77 million, then slight increase to 80,928.67 million and finally increased to 136,939.90 million in the succeeding fiscal years from 2075/76 to 2079/80. Compared to tax revenue, non-tax revenue's contribution to total revenue was significantly lower, accounting for 12.27% in 2075/76, 13.06% in 2076/77,

7.74% in 2077/78, and 7.60% in 2078/79 and 12.96% in 2079/80. On average, non-tax revenue contributed 10.58% to the government's total revenue during the last five fiscal years.

It seems that tax revenue collection has generally been rising over the past five fiscal years, although there was a minor decline attributed to the impact of COVID-19 within that timeframe. Conversely, non-tax revenue generation has been comparatively lower throughout the same period. There's a need for the government to prioritize efforts towards enhancing non-tax revenue streams although some positive changes was seen in FY 2079/80.

4.1.2 Tax Revenue Structure of Government of Nepal

Taxes are mandatory payments made by taxpayers to the government. Taxation stands as the primary financial pillar of the government, excluding foreign aid. In Nepal's fiscal landscape, tax revenue is a blend of two main categories: direct and indirect taxes. Essentially, the tax structure of the Nepalese government encompasses levies on income, profits, capital, payrolls, property, goods, services, international trade, transactions, and other miscellaneous taxes. These categories can be broadly divided into income tax revenue and non-income tax revenue. The table provided below illustrates the upward trajectory in tax revenue collected by the Government of Nepal.

Table 4. 2*Head wise Income Tax Collection by Government of Nepal*

Tax Heading	2075/76 Amount	2076/77 Amount	2077/78 Amount	2078/79 Amount	2079/80 Amount
Income Tax From Government Corporation	764	1,102	490	646	888
Income Tax From Public Limited Companies	4,789	4,720	5,357	5,592	5,444
Income Tax From Private Limited Companies	3,739	3,204	3,803	4,753	3,981
Income Tax From Other Companies	1,032	888	872	1,075	1,444
Total Corporate Tax	10,324	9,914	10,522	12,066	11,757
Personal Income Tax and Proprietorship Remuneration Tax	2,129	2,220	2,530	2,779	2,866
Social Security Tax	2,194	2,501	2,698	3,368	3,377
Capital Gain Tax Individual	605	646	682	764	857
Total Personal Tax	1,013	924	2,850	2,874	1,547
Rent and Lease	5,941	6,291	8,760	9,785	8,647
Interest	335	265	286	307	304
Capital Gain Tax Corporate	1,882	2,201	2,232	2,472	3,293
Dividend	141	2,369	82	194	111
Other Income of Investment	497	594	553	633	619
Windfall Gain Tax	4	7	9	54	12
Other Income Tax	24	26	18	23	36
Total Other Tax	118	123	137	172	185
Total Income Tax	3,001	5,585	3,317	3,855	4,560
% increase in Total Income Tax compared to previous years	19,266	21,790	22,599	25,706	24,964
	-	13	4	14	-3

(Source: IRD Annual Report FY 2079/80, Table 24: Head wise Income Tax Collection)

Income Tax From Government Corporation: This tax category shows fluctuations with 764 crores in 2075/76, peaking at 1,102 crores in 2076/77, then decreasing to 490 crores in 2077/78, and recovering to 888 crores by 2079/80.

Income Tax From Public Limited Companies: The revenue remains relatively stable, starting at 4,789 crores in 2075/76, with minor changes across the years, reaching 5,444 crores in 2079/80.

Income Tax From Private Limited Companies: The revenue fluctuates, starting at 3,739 crores in 2075/76, peaking at 4,753 crores in 2078/79, and ending at 3,981 crores in 2079/80.

Income Tax From Other Companies: This category shows varying figures, starting at 1,032 crores, dropping to 872 crores in 2077/78, and rising to 1,444 crores in 2079/80.

Total Corporate Tax: The overall trend shows an increase from 10,324 crores in 2075/76 to 11,757 crores in 2079/80, with some fluctuations in between.

Personal Income Tax and Proprietorship: This category sees a steady increase from 2,129 crores to 2,866 crores over the five years.

Remuneration Tax: Revenue from this category increases from 2,194 crores in 2075/76 to 3,377 crores in 2079/80.

Social Security Tax: There is a consistent increase, starting at 605 crores and reaching 857 crores by 2079/80.

Capital Gain Tax Individual: This category shows significant fluctuations, peaking at 2,874 crores in 2078/79, and then decreasing to 1,547 crores in 2079/80.

Total Personal Tax: The revenue shows an increasing trend, starting at 5,941 crores and peaking at 9,785 crores in 2078/79, before slightly declining to 8,647 crores in 2079/80.

Other Tax Categories (Rent and Lease, Interest, Capital Gain Tax Corporate, Dividend, Other Income of Investment, Windfall Gain Tax, Other Income Tax): These categories show various trends, with interest income showing a notable increase from 1,882 crores to 3,293 crores over the period.

Total Other Tax: The revenue varies, with a significant peak at 5,585 crores in 2076/77 and ending at 4,560 crores in 2079/80.

Total Income Tax: The overall income tax revenue shows an increasing trend from 19,266 crores in 2075/76 to a peak of 25,706 crores in 2078/79, then a slight decrease to 24,964 crores in 2079/80.

The table also includes the percentage increase in total income tax revenue compared to the previous years, with notable increases of 13% in 2076/77, 4% in 2077/78, and 14% in 2078/79. There is a decrease of 3% in 2079/80. This table provides a comprehensive view of income tax revenue sources and their trends over the specified fiscal years.

These improvements have been made possible by the launch of numerous new services, the establishment of new TSOs, the growth of the tax base, the adoption of electronic filing, electronic registration, and electronic payment, as well as significant improvements in tax administration and execution.

4.1.3 Contribution of Income Tax to GDP

Although income tax revenue collection is trending upward, the performance is not up to par because, although it is not a perfect method in developing nations, income tax performance can be measured by its GDP contribution. But it's a broadly applicable strategy because of the lack of trustworthy data. Examining the table reveals that the income tax to GDP ratio is trending downward, indicating that performance is clearly falling short of expectations. However, there is still grounds for optimism because income tax revenue is in rising trend. The table below illustrates how income tax contributes to GDP:

Table 4.3*Contribution of Income Tax to GDP*

<i>(in Arab)</i>						
Fiscal Year	75/76	76/77	77/78	78/79	79/80	Average
GDP	3,858.93	3,888.70	4,352.55	4,933.70	5,381.34	4,483.04
Income Tax Collection	738.60	700.05	870.11	984.16	865.62	831.71
Ratio of Income Tax to GDP (%)	19.14	18.00	19.99	19.95	16.09	18.55

(Source: Annual report IRD 2079/80; Table no: 1)

The table above displays the proportion of income tax relative to GDP over the past five fiscal years, spanning from FY 2075/76 to 2079/80. In FY 2075/76, the income tax-to-GDP ratio stood at 19.14%, which experienced a slight decrease to 18.00% in FY 2076/77, followed by an increase to 19.99% in FY 2077/78, and then a slight decrease to 19.95% in FY 2078/79 and finally to 16.09% in FY 2079/80. On average, the contribution of income tax to GDP over this period amounted to 18.55%.

4.2 Analysis of Primary Data

An empirical investigation was done to learn about different parts of Nepal's Income Tax System by looking at real-life experiences. The major tool used for this purpose is an opinion survey through a set of structured questionnaires. We gave out the same set of 246 questionnaires to two groups: tax experts/administrators and taxpayers. Then, we carefully organized, tabulated, and analyzed the responses received from these respondents in order to facilitate the descriptive analysis of this study.

The questionnaire asked people to answer yes or no, or rate options from most to least important. For example, if there were six choices, the top choice got six points, and the last choice got one point. Any choices not ranked didn't get points. Then, the points for each choice were turned into percentages compared to the total possible points. The choice with the highest percentage was seen as the most important, while the one with the lowest percentage was seen as the least important. The table below shows the different groups of people who answered and the codes used to represent them.

Table 4.4*Groups of Respondents and Code Used*

S. No.	Groups of Respondents	Sample Size	Codes Used
1	Tax Experts/ Tax Administrators	112	A
2	Income Tax Payers	134	B
	Total	246	

4.2.1 Essential of Income Tax Collection for Government

As we have stated, Income Tax is essential to Nepal's economic growth. It is a tool for reaching the greatest number of social and economic goals. It lessens the economic disparity in the area. As regards to the above statement, respondents have been questioned on the significance of income tax to the government. The question was “**Do you think the collection of Income Tax essential for the government?**” Table 4.5 gives the breakdown of response.

Table 4.5*Essentials of Income Tax Collection*

Responses of Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	112	45.53	-	-	112	45.53
B	102	41.46	32	13.01	134	54.47
Total	214	86.99	32	13.01	246	100

*Source: Opinion Survey***4.2.2 Opinion about Income Tax Act 2058**

The responses collected from various participants were compiled regarding their opinions on the effectiveness of the Income Tax Act 2058, based on two key questions: “How is our Income Tax Act 2058?” And if not good then why”? The responses received from the various respondents are tabulated below:

Table 4.6*Opinion about Income Tax Act, 2058*

Responses of Respondents	Good		Moderate		Not Good		Total	
	No.	%	No.	%	No.	%	No.	%
A	90	80.4	22	19.6	-	-	112	46
B	31	23.1	36	26.9	67	50	134	54
Total	121	49.19	58	23.58	67	27.24	246	100

Source: Opinion Survey

Out of the 246 respondents, 67 were from group B, meaning that they were taxpayers who thought the Income Tax Act of 2058 was bad. Therefore, from total 67 respondents, 18 gave reason that it is not scientific i.e. 26.87%. 22 respondents said that it favors big taxpayers and 22 said that it is not in favor of good taxpayers. 5 respondent has given his own views says that it is poor and also it is not simple but is vague.

Thus, based on the foregoing, it can be said that the current Income Tax Act of Nepal is satisfactory and not bad; yet, some respondents believe that the existing Income Tax Act of 2058 is inadequate and requires modification.

4.2.3 Tax paying Habit of Nepalese Taxpayers

The tax payment behavior of Nepalese citizens was investigated through the question, “Nepalese Tax Payers neglect paying Tax.” Do you agree with this statement? The findings are summarized in the table below:

Table 4.7*Tax Paying Habit of Nepalese Taxpayers is Negligent*

Responses of Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	90	80.36	22	19.64	112	45.53
B	89	66.42	45	33.58	134	54.47
Total	179	72.76	67	27.23	246	100

Source: Opinion Survey

Of the 246 responders in all, 179 of them agreed that tax payers in Nepal are negligent in paying tax. 89 of them are taxpayers, and the remaining 90 are experts and tax administrators. So, we can say that majority of tax payer neglects in paying tax.

While asking reasons for such negligence, 99 respondents i.e. 55.31% say inefficient tax administration is the reason, 40 i.e. 22.35% say lack of tax awareness is the main reason, 20 i.e. 11.17% respondents believe tax evasion culture is the main reason and remaining 20 i.e. 11.17% says inadequate fine and penalty is the reason for the negligent tax paying habit of Nepalese tax payers. Thus, based on the foregoing, it can be concluded that the primary causes of Nepalese taxpayers' careless tax-paying habits are a lack of tax awareness, inefficient tax administration and a culture of tax evasion.

4.2.4 Familiar with Provision of Administrative Review

To know the respondents' familiarity with the provisions concerning the Administrative Review Process of the Income Tax Act 2058, they were asked the question: "Are you familiar with the provisions regarding Administrative Review in the Income Tax Act 2058?" The responses provided by the respondents are presented in the table below:

Table 4.8

Familiarity with the Provisions of Administrative Review in Income Tax Act 2058

Responses Respondent	Familiar		Moderate Knowledge		Not Familiar		Total	
	No.	%	No.	%	No.	%	No.	%
A	76	67.86	36	32.14	-		112	45.53
B	18	13.43	22	16.42	94	70.15	134	54.47
Total	94	38.21	58	23.58	94	38.21	246	100

Source: Opinion survey

According to the above table the majority of respondents from group A are aware of the above mentioned provisions. Regarding the availability the above mentioned provisions, 67.86% of respondents are familiar, 32.14% have a moderate level of understanding, and none of the respondents express ignorance. Yet the majority of taxpayers who responded from group B indicated that they were unaware of the clauses related to Administrative Review in Income Tax Act 2058. Merely 13.43% of respondents claim to be familiar with the clause, compared to 70.15% who claim to be unaware of it, 16.42% who claim to have some awareness of it. The provision of above mentioned topic, is something that 38.21% of respondents are aware with, 23.58% are somewhat knowledgeable about, and 38.21% are knowledgeable about.

As a result, it can be concluded from the aforementioned study that taxpayers are generally unaware of the provisions of the Income Tax Act pertaining to administrative review.

4.2.5 Have you ever applied for administrative review?

In order to determine whether the respondents have ever sought administrative review, they were asked the question: "Have you ever applied for administrative review?" The responses provided by the various respondents are presented in the table below:

Table 4.9

Taxpayers on applying for administrative review

Responses	Yes		No		Total	
Respondents	No.	%	No.	%	No.	%
A	18	16.07	94	83.93	112	45.53
B	36	26.87	98	73.13	134	54.47
Total	54	21.95	192	78.05	246	100

Source: Opinion Survey

According to the above table and data, 78.05% of respondents denied having ever applied for administrative review, while 21.95% of respondents admitted to have done so. Of these, 16.07% of group A have applied for administrative review, while 83.93% have not. Of the taxpayer group, 73.13% did not apply for administrative review, while 26.87% did.

And in order to know the reason why they have applied for Administrative Review, a question was asked with these 21.95% respondents, “If yes, why? Please state your cause of application.” The answers received from them are presented following:

Reasons for application for administrative review:

Following choices are given to respondents to know the reasons for applying for administrative review:

- Against the advance ruling issued by the Department pursuant to Section 76,
- Against the estimate made by the Department on, or decision made by it to estimate, the estimated tax payable by any person, pursuant to Sub-section (7) of Section 95,
- Against the decision made by the Department to order any person to submit the income return pursuant to Subsection (5) of Section 96 or Section 97,
- Against the decision made by the Department on any application made by any person for the extension of the time-limit for submission of the income tax return pursuant to Section 98,
- Against any assessment of tax payable by any person for any income year pursuant to Section 100 or 101 or assessment of the fees and interest payable by any person pursuant to Section 122,
- Against the notice given by the Department requiring to set aside the amounts as receivable by any person as a recipient, pursuant to Sub-section (2) of Section 108,
- Against the decision made by the Department to order any person who holds moneys payable to the person in arrear of tax to pay the same to the Department pursuant to Sub-section (1) of Section 109,
- Against the decision made by the Department to order any person to pay tax of any person due and payable on behalf of a non-resident person pursuant to Subsection (1) of Section 110,
- Against the decision made by the Department on any application made by any person for the refund of tax pursuant to Sub-section (5) of Section 113, and
- Against the decision made by the Department on any application made by any person for the extension of the time-limit for filing a complaint pursuant to Sub-section (3) of Section 115.
- If any other, please specify,

54 respondents, 18 tax administrators and specialists and 36 taxpayers, out of the 54 who had applied for administrative review, all 54 said that they had applied for administrative review against assessment of tax payable pursuant to Section 100 or 101 or assessment of the fees and interest payable by any person pursuant to Section 122. Thus, in general, it is possible to draw the conclusion that people have generally applied for administrative review against the decision by tax authorities on tax payer's assessment on tax payable amount and interest amount.

4.2.6 Satisfactory to the Provisions of Administrative Review Under Income Tax Act 2058

To gather opinions from various respondents regarding their satisfaction with the provision of Administrative Review in the current Income Tax Act 2058, the question posed was: "Do you think that the administrative review provision of the Income Tax Act 2058 is satisfactory?" The responses from the participants are displayed in the table provided below:

Table 4.10

Satisfaction to the Provision of Administrative Review

Responses	Satisfactory		Moderate		Not Satisfactory		Total	
	No.	%	No.	%	No.	%	No.	%
A	36	32.14	58	51.79	18	16.07	112	45.53
B	27	20.15	22	16.42	85	63.43	134	54.47
Total	63	25.61	80	32.52	103	41.87	246	100

Sources: Opinion survey

Given that 25.61% of respondents thought the Income Tax Act's provisions on Administrative Review were adequate. While 41.87% of respondents are dissatisfied with the income tax act's provision of administrative review, 32.52% of respondents feel, it is reasonable. Therefore, it can be said that the majority of respondents are not as happy or satisfied with the Income Tax Act's provisions of administrative review.

The 41.87% i.e. 103 respondents who gave negative responses about the satisfaction of provision of administrative review made in Income Tax Act were asked a question that,

“If not, then which area needs consideration?” and possible reasons requested to choose their reason for their view. Following choices are given for response:

- Simplify the administrative review process.
- Implementation of provisions.
- Enhance public awareness.
- If any other, please specify,

Of the 103 respondents who expressed dissatisfaction, 13, who are all tax specialists and administrators, suggested that IRD should streamline the process for administrative review, while 5 said that the implementation aspect should be enhanced. All 85 taxpayers, however, agree that there should be a greater public knowledge of administrative review.

4.2.7 Effectiveness of Tax Administration to Implement Administrative Review Process

For understanding the effectiveness of tax administration to implement administrative review in Nepal, a question was asked, “Do you agree that the tax administration of Nepal is effective to implement administrative review process as per Income Tax Act?” Table below gives a breakdown of responses.

Table 4.11

Effectiveness of Tax Administration to implement Administrative Review Process

Responses	Yes		No		Total	
Respondents	No.	%	No.	%	No.	%
A	36	40.00	76	48.72	112	45.45
B	54	60.00	80	51.28	134	54.55
Total	90	36.59	156	63.41	246	100

Source: Opinion Survey

Based on the information provided in the table and chart, it is evident that the majority of respondents, constituting 63.41%, believe that the tax administration in Nepal is not proficient in implementing the administrative review process. Conversely, only 36.59% of respondents perceive the tax administration as effective in this regard.

To delve into the reasons behind the perceived inefficiency of tax administration, the subsequent question posed was, “If not, then why? If more than one cause please mark your opinion by ranking.” The respondents were requested to rank their answer from 1 to 6. The respondents were asked to prioritize their answers accordingly. The breakdown of responses is outlined in Table 4.12 below.

Table 4.12

Reasons of Ineffectiveness of the Tax Administration to Implement Administrative Review Process

S. No.	Reasons	Group		Total		Ranks
		A	B	Points	Percentage	
1	Corruption	365	445	810	28.85	1
2	Lack of Competency	279	289	568	20.23	4
3	Complicated Tax Provisions	355	299	654	23.29	3
4	Undue influence/pressure	369	407	776	27.63	2
Total		1,368	1,440	2,808	100.00	-

Source: Opinion Survey

The reasons for the lack of effectiveness in implementing the administrative review process by the Nepalese income tax administration, as outlined in the Income Tax Act, were prioritized according to the preferences of the respondents, as follows:

1. Corruption.
2. Undue influence/pressure.
3. Complicated tax provisions.
4. Lack of competency.
5. No logistic support.
6. If any other, please specify.....

We can deduce that corruption stands out as the predominant factor hindering the Nepalese tax administration's ability to execute the administrative review process as mandated by the Income Tax Act. Other significant contributing factors include undue

influence or pressure, the complexity of tax laws, incompetence, and inadequate information.

4.2.8 Knowledge about Administrative Review Process to challenge decisions made by tax authorities

To assess the extent of respondents' awareness regarding their ability to contest decisions made by tax authorities, they were asked the question: **“Do you think taxpayers know they can challenge decisions made by tax authorities?”** The responses from various participants are presented in the table below:

Table 4.13

Knowledge about Administrative Review Process to challenge decisions made by tax authorities

S. No.	Answers	Groups		Total	Percentage
		A	B		
1	Do not know	15	45	60	24.39
2	All know	45	22	67	27.24
3	A few know	10	31	41	16.67
4	Most of them Know	42	36	78	31.71
Total		112	134	246	100.00

Source: Opinion Survey

Based on the data presented in the table above, it is noted that 24.39% of respondents perceive that taxpayers lack awareness regarding the provision within the Income Tax Act 2058 concerning challenging decisions made by tax authorities. Additionally, 16.67% suggest that only a small proportion of taxpayers are cognizant of this provision, while 27.24% opine that all taxpayers are aware, and 31.71% believe that the majority of taxpayers possess this awareness. Consequently, it can be inferred that although a significant portion of taxpayers are knowledgeable about their rights as stipulated in the Income Tax Act 2058 to contest decisions made by tax authorities.

To understand why taxpayers lack awareness about the provisions concerning administrative review, respondents were asked the question: “If you do not think all tax payer know, what may be the reason, please specify?” The responses collected from the participants are provided in tabular format below:

Table 4.14

Reasons for not knowing the provision of Administrative Review

S. No.	Reasons	Groups		Total	Percentage
		A	B		
1	Lacking in public awareness	37	122	159	29.44
2	Complexity of taxation provisions	53	133	186	34.44
3	Inability of Inland Revenue Department to broader access to general public.	45	150	195	36.11
4	Others	-	-	-	-
Total		135	405	540	100

Source: Opinion survey

The table and diagram above indicate that 29.44% of respondents believe that taxpayers are unaware of the consequences of non-compliance with income tax regulations due to insufficient public awareness. Additionally, 34.44% of respondents attribute the lack of understanding to the complexity of taxation provisions, while 36.11% point to the tax administration's failure to engage with the general public effectively for broader access.

4.2.9 Does the Provisions of Administrative Review Motivates and Inspires Taxpayers?

To gauge whether taxpayers are encouraged to pay taxes promptly and honestly due to the presence of the Administrative Review provision in the Income Tax Act 2058, all respondents were asked the following question: “Do you think provision of Administrative Review motivates and inspires taxpayers to pay tax in time and they do not conceal their real income?” The responses from the diverse group of respondents are depicted in tabular format below:

Table 4.15*Provision of Administrative Review Motivates and inspires Taxpayers*

Responses Respondents	Yes		Yes, to some extent		No		Total	
	No.	%	No.	%	No.	%	No.	%
A	90	80.36	22	19.64	-	-	112	45.53
B	58	43.28	31	23.13	45	33.58	134	54.47
Total	148	60.16	53	21.54	45	18.29	246	100.00

Source: Opinion survey

The above table and bar chart demonstrate that 60.16% of respondents agree with the assertion that the provision of Administrative Review encourages and motivates taxpayers, while 18.29% of respondents disagree. Additionally, 21.54% believe that the possibility of Administrative Review encourages taxpayers to pay taxes. Thus, the income tax act's useful provisions undoubtedly encourage and motivate taxpayers. A separate question was posed to the respondents asking them to explain why they disagreed with the statement that the implementation of Provision on Administrative Review motivates and inspires taxpayers. The outcome of their response is displayed below.

Table 4.16*Reasons of disagreement*

S. No.	Answers	A	Groups B	Total	Percentage
1	Provision of Administrative Review are not strong	-	5	5	11.11
2	Poor implementation	-	11	11	24.44
3	Corruption	-	15	15	33.33
4	Tax administration can be influenced.	-	14	14	31.12
	Total	-	45	45	100.00

Source: Opinion Survey

The above table demonstrate that 11.11%% of respondents disagree with the statement that the presence of Provisions on Administrative Review encourages taxpayers to pay taxes. These respondents believe that the provision of Administrative Review is weak. 24.44% disagreed, citing inadequate IRD execution of the clause. Another 33.33%% believe that corruption is the primary cause. With the justification that tax administration is subject to influence, another 31.12%% disagreed.

4.3 Major Findings of the Study

Below are the results of the empirical analysis:

- Some significant conclusions can be made based on the data presentation and analysis from the previous chapter. The following is a summary of the research study's main conclusions:
 - Over the past five fiscal years, tax revenue made up an average of 89.42% of the government's total revenue, while non-tax revenue accounted for 10.58%. Tax revenue collection has shown a consistent upward trend and has been satisfactory. However, there's a need for the government to prioritize the generation of non-tax revenue, which has been considerably lower in the same period. Although non-tax revenue is also increasing, its volume remains significantly less than that of tax revenue.
 - In FY 2075/76, the ratio of income tax to GDP was 19.14%, which slightly decreased to 18.00% in FY 2076/77, rose to 19.99% in FY 2077/78, and then slightly decreased to 19.95% in FY 2078/79 and again decreased and reached to 16.09% in FY 2079/80.
 - On average, income tax has contributed 18.55% to the GDP of the country.
- The government's collection of income tax revenue is essential.
- The current Income Tax Act of Nepal, 2058, is considered good.
- A majority of Nepalese taxpayers exhibit negligence in fulfilling their tax obligations.
- This negligence stems from ineffective tax administration and a lack of tax awareness among taxpayers.
- Enhancing tax administration effectiveness and boosting public tax awareness could mitigate negligent tax practices.

- Taxpayers generally lack familiarity with the Administrative Review provisions outlined in the Income Tax Act of 2058.
- Only a small fraction of respondents have applied for Administrative Review compared to expected number of applicants.
- Insufficient understanding of Administrative Review provisions is the primary reason for taxpayers not being able to defend themselves against action by tax officers/IRD.
- The provisions regarding Administrative Review within the Income Tax Act are deemed unsatisfactory and in need of improvement across various areas.
- The Inland Revenue Department (IRD) should streamline the return submission process and promote public awareness to enhance Administrative Review provisions.
- Nepal's tax administration struggles to effectively enforce Administrative Review Process due to undue influence on tax officers and complex tax provisions and lack of awareness to tax payers about it.
- Many respondents believe that Administrative Review provisions motivate taxpayers to comply with tax regulations and declare their real income.
- Taxpayers also perceive the susceptibility of tax administration to influence.
- Overall, improvements are needed in the language, competence of staff, tax laws, tax administration, and computerized systems under the Nepalese Income Tax Act to address various shortcomings.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter stands out as crucial because it brings together all the important information from the previous chapters of the research. It talks about what the results mean, what could be learned from the research, and also mentions any limitations in the study. The chapter is structured into three main parts: a summary, a conclusion, and a recommendation. In the summary, it condenses or recaps what was discussed in the earlier four chapters. The conclusion section wraps up the main findings of the research. Lastly, in the recommendation part, suggestions are made based on what the study found and the experiences gained from conducting the research. These recommendations could include ideas for further research as well as practical steps for improving the current situation.

5.1 Summary

For the government to maintain its fiscal policies, fund national defense, and distribute resources among its citizens or various groups, it requires a substantial amount of funding. This funding is sourced from various channels, such as taxes imposed on businesses and individuals, special levies, fees, fines, grants, and aid programs. Among these, taxes stand out as a crucial and irreplaceable means of financing both the state's economy and its governance.

Taxation has been a foundational element of government since the inception of state systems. However, the objectives of taxation have evolved over different historical periods. Historically, taxes were primarily aimed at providing revenue to strengthen state authority. However, in contemporary times, the focus has shifted significantly. Nowadays, taxes serve various purposes, including mobilizing resources, promoting fair income and wealth distribution, incentivizing work, savings, and investment, addressing regional inequalities, and enforcing government policies.

Taxation, fundamentally, is a means of generating revenue, constituting an obligation to the state. Its origins trace back to the dawn of human civilization. In 1799 A.D., Great

Britain became the first nation to levy income taxes. In contrast, Nepal implemented its income tax system relatively late compared to other developed countries. Direct taxes were initially imposed during the Lichchhavi regime under designations such as Bhaga, Bhoga, and Kara. The Malla dynasty introduced Potaka as a new tax system. Under the Rana regime, taxes were collected through various means such as DharshanBhet, TikaBhet, and Fattemubarak, rather than being based on income assessments. To manage revenue-related affairs, the Rana administration established KAUSHI TOSAKHANA, tasked with collecting and disbursing funds and procuring supplies for the government. Additionally, Prime Minister Jung Bahadur Rana founded SADAR MULUKIKHANA, a developmental office dedicated to overseeing government revenue accounts. Despite these historical developments, Nepal's experience with income taxes is relatively recent.

Although Nepal had a taxation system in place previously, the concept of income taxation was first introduced with the inaugural budget. The introduction of Nepal's income tax system dates back to 1950, coinciding with the presentation of the inaugural budget. However, it wasn't until the fiscal year 1959–60 that Nepal's Business Profit and Remuneration Act 1960, representing a genuine Income Tax Act, was implemented. Initially, there was no specific legislation to define and manage income tax; only business profits and salaries were subject to taxation under this act. The enactment of the Nepal Income Tax Act of 1962 replaced the previously restricted and vague Income Tax Act. This legislation underwent modifications and was rebranded as the Income Tax Act of 1974. Over time, the Income Tax Act of 1974 underwent eight amendments aimed at enhancing its practicality, efficiency, and clarifying ambiguities. However, due to inherent flaws, Nepal eventually adopted the revised Income Tax Act of 2002.

The revenue structure of the Nepalese government comprises both tax and non-tax revenue sources. Tax revenue constitutes a significant portion of the government's revenue structure. Research conducted over the past five years indicates that, on average, tax revenue accounts for approximately 89.42% of the total revenue structure, while non-tax revenue constitutes around 10.58%. Tax income has been recognized as a crucial mechanism for enhancing internal financial resource mobilization.

Among the various tax categories, taxes on goods and services contribute the largest share to the overall tax collection of the government of Nepal, followed by income tax, taxes on

international trade and transactions, and other taxes such as property taxes, which contribute the least.

The contribution of income taxes to GDP remains important, contributing from 19.14% to 16.09% over the previous five years. On average, income tax revenue constituted around 18.55% of GDP during the last five years of the study period.

To gain insights into the role of Income Tax in revenue collection, structured questionnaires were distributed to various stakeholders, including tax experts, administrators, and taxpayers. The empirical research based on opinion surveys revealed diverse perspectives. Respondents provided valuable recommendations to enhance the effectiveness of Administrative Review Process in revenue generation while highlighting shortcomings in the income tax system.

The majority of respondents acknowledged the necessity of income taxes for revenue collection. However, some criticized the current income tax system, arguing that it favors wealthy taxpayers and lacks a scientific basis. Tax evasion is prevalent among Nepalese taxpayers due to both ineffective tax administration and a lack of tax literacy.

Although the Income Tax Act includes provisions for Administrative Review Process to encourage tax compliance, many taxpayers are unaware of these provisions and consequently do not know how to defend themselves against order of tax officer/IRD. Respondents expressed dissatisfaction with the adequacy of existing Administrative Review Process and emphasized the need for improvement.

Tax administration plays a crucial role in enforcing tax laws and administering Administrative Review Process. However, respondents criticized the inefficiency of tax administration, citing undue influence, complex tax laws, and corruption as primary obstacles.

Improvements such as simplifying tax filing procedures, enhancing taxpayer education, leveraging modern technology for tax administration, and employing trained personnel are recommended to enhance tax compliance and revenue collection. Additionally, there is a consensus among respondents that the current Administrative Review Processes are

inadequate and require revision to effectively help tax payer. Also, it needs to be simplified so as to be understood by general tax payers too in effective way.

5.2 Conclusion

Nepal, categorized as one of the least developed nations globally, has struggled with persistent social and economic challenges. Despite concerted efforts, Nepal has been unable to address the multifaceted barriers stemming from extreme poverty, hunger, disease, unemployment, over reliance on agriculture, low income levels, and various social, political, and geographical constraints. The overarching factor contributing to these challenges is inadequate funding.

In order to propel the nation's economy forward, the government requires substantial financial resources. To achieve this objective, the government raises funds from various sources. Nepal's government secures funding from both domestic and foreign sources. Domestic revenue comprises both tax and non-tax revenue, with tax revenue representing the predominant portion of the government's income in Nepal. Sustainable economic development is most effectively facilitated through internal revenue generation. However, Nepal has encountered challenges in effectively harnessing its own resources and heavily relies on grants and loans from external sources. This increasing dependency poses a significant risk to the economy, contributing to Nepal's escalating budget deficit.

The Nepalese income tax system has incorporated provisions for penalties to deter non-compliance with tax regulations. These penalties are enforced in accordance with the guidelines outlined in the Income Tax Act. Effective tax collection processes are paramount, with stringent measures necessary to combat tax evasion and ensure compliance through the imposition of Administrative Review Process by motivating tax payers to pay the taxes on time and apply for review when needed to defend themselves from tax officer/IRD.

One significant method of generating domestic funds to support government expenditure is through income taxation. Consequently, income taxation was first introduced in the fiscal year 1959–1960. In Nepal, the proportion of income tax revenue relative to

government revenue is on an upward trajectory, indicating sufficient income tax collection.

The successful application of the provisions outlined in the Income Tax Act, which falls under the purview of income tax administration, is pivotal in determining the efficacy of the income tax system. Criticisms have been leveled against Nepal's income tax system, citing various inefficiencies. Addressing these issues is imperative for Nepal's economic growth, necessitating the efficient utilization of resources and the enhancement of the income tax system's effectiveness.

5.3 Recommendations

The aforementioned analysis has yielded the following recommendations for enhancing the management of the income tax system and ensuring its efficient application:

- Income tax policies should be formulated to align with the primary objectives of tax imposition. Regular updates to income tax laws are necessary to simplify comprehension and accessibility for all taxpayers and tax administrators.
- Addressing the prevalent issue of poor tax payment habits among Nepalese taxpayers requires the implementation of fines and penalty laws to incentivize compliance. Additionally, offering tax rate discounts or rebates and organizing tax awareness campaigns can contribute to fostering better tax-paying behavior.
- Lack of awareness among taxpayers regarding the provisions of the Income Tax Act, particularly Administrative Review Process, underscores the need for widespread dissemination of information. This can be achieved through various media channels, seminars, and orientation sessions.
- Effective enforcement of the Administrative Review Process necessitates corruption-free tax administration, motivation of tax staff through a system of rewards and punishments, disregard for external pressures, and fostering collaboration among tax personnel and departments.
- Recognizing the contributions and efforts of tax officers through rewards, sanctions, and transfers is essential for efficient staff management. Implementing regular and effective training programs, seminars, awards, disciplinary measures, and establishing an automated information system for income tax payments and record maintenance are recommended.

- Establishing and maintaining a streamlined, two-way information system connecting taxpayers and tax authorities is imperative. Tax administration should have access to diverse information sources to facilitate effective tax management.
- Launching the public awareness campaigns to educate taxpayers about their rights and obligations under the Income Tax Act and the administrative review process. Encouraging voluntary compliance and foster a culture of tax transparency and accountability.
- Simplifying the administrative procedures wherever possible to minimize bureaucratic hurdles and streamline the review process. Providing clear, user-friendly forms and guidance materials can help taxpayers navigate the process more easily.
- Implementing a robust online platform for filing tax returns, tracking the status of applications, and facilitating communication between taxpayers and tax authorities. Making automation of routine processes can significantly reduce paperwork, processing time, and human errors.
- Introducing alternative dispute resolution mechanisms, such as mediation and arbitration, to resolve tax disputes efficiently and amicably outside of formal legal proceedings. This can help reduce the burden on the judicial system and expedite the resolution of disputes.

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- Against the decision made by the Department to order any person to submit the income return pursuant to Subsection (5) of Section 96 or Section 97
- Against the decision made by the Department on any application made by any person for the extension of the time-limit for submission of the income tax return pursuant to Section 98,
- Against any assessment of tax payable by any person for any income year pursuant to Section 100 or 101 or assessment of the fees and interest payable by any person pursuant to Section 122,
- Against the notice given by the Department requiring to set aside the amounts as receivable by any person as a recipient, pursuant to Sub-section (2) of Section 108,
- Against the decision made by the Department to order any person who holds moneys payable to the person in arrear of tax to pay the same to the Department pursuant to Sub-section (1) of Section 109,
- Against the decision made by the Department to order any person to pay tax of any person due and payable on behalf of a non-resident person pursuant to Subsection (1) of Section 110,
- Against the decision made by the Department on any application made by any person for the refund of tax pursuant to Sub-section (5) of Section 113, and
- Against the decision made by the Department on any application made by any person for the extension of the time-limit for filing a complaint pursuant to Sub-section (3) of Section 115.
- If any other, please specify,

.....

9) Do you think, the administrative review provision of Income Tax Act 2058 is Satisfactory?

- (a) Satisfactory (b) Moderate (b) Not Satisfactory

10) If not, please specify which area need special consideration for improvement:

- Simplify the administrative review process.

Implementation of provisions.

Enhance public awareness.

If any other, please specify,

.....

11) Do you agree that the tax administration of Nepal is effective to implement administrative review process as per Income Tax Act?

(a) Yes

(b) No

12) If no, please choose your view by ranking as (i), (ii) and so on.:

Corruption.

Lack of competency.

Undue influence/pressure.

Complicated tax provisions.

No logistic support

If any other, please specify

.....

13) Do you think taxpayers know they can challenge decisions made by tax authorities?

Choose from following options:

i. Do not know

ii. All Know

iii. A few Know

iv. Most of them know

14) If you do not think all tax payer know (i.e point ii), what may be the reason, please specify?:

- i. Lacking in public awareness
- ii. Complexity of taxation provisions
- iii. Inability of Inland Revenue Department to broader access to general public.
- iv. If any other, please specify,

.....

15) Do you think provision of Administrative Review motivates and inspires taxpayers to pay tax in time and they do not conceal their real income?

- (a) Yes (b) Yes, to some extent (c) No

16) If you disagree, please choose your reason :

- i. Provision of Administrative Review are not strong
- ii. Poor implementation
- iii. Corruption
- iv. Tax administration can be influenced.

A STUDY ON THE PROVISIONS OF TAX ASSESSMENT, AD...

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CHAPTER – I INTRODUCTION 1.1 Background of the Study Developing countries often prioritize improving the living standards of their people through various development activities. Such activities can be economic, social, cultural, or other forms of development. However, these activities require a significant amount of financial resources that are usually collected by the government from two sources: debt and revenues. Internal debt refers to debt collected within the country, while external debt is collected from outside the country. Debt financing by the government is considered an efficient method of financing. On the other hand, the government's revenues come primarily from two sources: taxes and non-taxes. In Nepal, for example, around 75% of the government's revenue comes from taxation, making it the most significant source of government revenue. To achieve its main objective of improving the living standards of its people, the government of a developing country must ensure effective debt management and efficient revenue collection. This is essential for funding development activities and achieving sustainable growth. Governments have a responsibility to their citizens, which often requires a significant financial commitment. This responsibility may encompass security, healthcare, education, and other forms of development. All nations strive to improve their current status through the efficient use of resources. Governments receive funds from taxes, charges, and internal sources, as well as from external sources such as grants and loans. These funds are used to maintain peace and security in the country, which includes purchasing arms and ammunition, maintaining the army and police administration, and other related tasks. Additionally, governments use these funds to meet the basic needs of the people, such as health, education, communication, drinking water, and other public utilities and facilities. Furthermore, governments must spend money on socio-economic infrastructure development that encourages private sector participation. The equal participation of the private sector in development activities, industry, and commerce is crucial for the all-round prosperity of the