

CHAPTER - I

INTRODUCTION

1.1. General background

Nepal is a land lock Himalayan country situated between Asian's two big countries China and India. Nepal with diminutive per capita income of \$ 320 (Source: www.worldbank.org, World Development Indicators database, World Bank, April 11, 2008) has been designated the least developed country. It's predominantly agriculture economy employees more than 80% of the economically active population only 18% total availed land without using any modern technology. The prime concern of every nation of world is rapid economic development and Nepal is no exception to this ever-continuing process. Nepal aims for self-reliant economic system to upgrade its living standard of people. Thus, huge sum of money has to be spent to achieve maximum national objectives.

Capital plays a significant role in the economic development programs to solve the various socio-economic problems. The interim constitution of Nepal has clearly directed Nepalese government for a self-reliant economic system, encouragement to national enterprises, prevention of economic exploitation as well as upgrading the standard of the people for self-reliant economic system and sound infrastructure for the development so the government should generate sufficient revenue. Similarly, the government of a country requires sufficient revenues to carry out development plans, to handle day-to-day administration, to maintain peace and security and to play active role in providing social services like education, health, nutrition, sanitation and economic services like electricity, road, communication, irrigation and so on.

The income of the government is called revenue. Revenue is main source of earning for government. Government can collect revenue in the form of tax. The government revenue classified broadly into two groups: tax revenue and non-tax revenue. Government receives tax revenues as compulsory payment and non-tax revenue as conditional source. Duty and fees, penalties, fines and forfeitures, receipt from sales and rent of government services, dividends, interest, royalty and sales of government

properties, principal repayment, donation and miscellaneous income etc. are the sourced of non-tax revenue. Income tax, sales tax, value added tax, property tax, capital gain tax, custom duty, hotel tax, entertainment tax, etc. are the source of tax revenue. In Nepal, around eighty percent of the government revenue comes from taxation. Hence, tax is the major sources of the formation of government capital.

Tax simply means a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the taxpayers according to law. Findlays Shiras defined tax as “A compulsory contribution from to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits.” (Bhattarai and Koirala; 2005:1)

In this way, it is clear that a tax is a compulsory payment to government without expectation of direct return of benefit to the tax payer. The taxpayer does not have any right to receive direct deposit from the tax paid.

Taxes are broadly classified into two categories. One of them is direct tax and the next is indirect tax. According to Dalton, “A direct tax is one which is really paid by the person on whom it is legally imposed while an indirect tax is imposed on one person, but paid partly or wholly by another, owing to consequential charge in terms of some contract or bargaining between them.” (Lekhi; 2000: 190). As said by Dr. Dalton, a direct tax is really paid by the person on whom it is legally imposed. In direct tax the person paying and bearing tax is the same. Direct taxes are levied on the income and wealth inequality in the society. Similarly, Dr. Dalton has defined indirect tax is an imposed on one person but paid partly or wholly by another. Under the indirect tax, the payer of the tax shifts the burden on another person. In other words, the person paying and bearing the tax is different. Custom duty, import and export duty, local development charges, special duty, excise duty, sales tax, VAT etc. are the examples of indirect tax. It is the tax on consumption or expenditure. (A study material of Income Tax and VAT, ICAN: 2)

Income tax also helps to increase the consciousness of the people because the people who have paid the income tax are the keen towards public expenditure. It is also helpful for generating the concept of social responsibility towards the nation. In fact income tax system has been originated recently as on internal sources to strengthen

the sources of tax for economic growth of a country and to meet the slogan of economic revolution by searching additional sources of revenue. One of the important characteristics of income tax system is that it is imperial and just as compared to other taxes. The reason is that it is imposed keeping in view the capacity of taxpayers to bear the burden of tax. People, whose income level is under prescribed limit, are exempted from income tax liability. Income tax is basically charged for two purposes, one is for collecting to meet expense for public welfare activities and another is to create equilibrium society by minimizing the economic gap between haves and have not. Income tax is based on the principle of certainty. It also follows the canon of economy. Income tax plays a very important role in Nepalese economy. Income tax is one of the better sources of public revenue. It is a tool of achieving maximum social economic objectives laid down by the constitution of Nepal. (Dhakal: 2002: 13-14).

The objectives of sound financial system and creation of unexploited society cannot be achieved until the mobilization of economic resources effectively through direct tax like income tax. It is therefore given high priority in almost all the countries, developed as well as developing because they have potential for increasing the yield of the tax system and achieving a system of taxation that satisfies the demand for equity and social justice. It more or less affects on production, growth, economic activities of the government, reduction of dependency on external sources, industrialization, redistribution of income, employment generation and justice in society.

To fulfill the planning expenditure and for the process of development, a lot of capital is needed. Government could get capital by two financial sources. One is by external sources and the other is internal sources. The external sources such as foreign aids and borrowing are not enough for the economic development programs. Foreign aids are guided by social-political motives of the donor countries rather than the need projected by the recipient countries. Borrowing also involves a withdrawal made in return for the government promise to repay at a future date and to pay interest in the interim. Among internal sources, taxation seems to be the most effective way of mobilizing internal sources. (Lamsal; 2002:60)

In the context of a developing country sources of government revenue are very limited in Nepal. Revenue structure of Nepal mostly depends on the foreign assistance and loan but it is unfavorable to the country. Domestic resources are reliable sources to keep minimum dependency of foreign aid and loan. Taxation is a major device for mobilization of internal sources. It considered as the most effective and reliable instrument for balanced economic development and maintaining economics, stability. Nepal government has been imposing “Income Tax Act 2058” since 2058 for generating tax revenue.

1.2. Statement of Problem

Every nation wants its economic development. It is top priority for the development of nation. In own aspect and condition of the developing countries in the world, Nepal has been suffering from resources constraint, massive poverty, rapid growth of population, increasing frictional and seasonal unemployment, disease, aggressive dependent on the agriculture, subsistence living standard and poor infrastructure despite over five decades (51 years) planned development efforts.

A government needs development with higher economic growth to overcome from such serious problem for which government should have adequate financial resources. The available resources in the country can be effectively mobilized towards the productive sector to attain stable economic growth. But, currently, Nepal depends upon the foreign sources more than on the domestic sources to meet budget deficit. The available resources do not meet the estimated budget fulfilling the aspiration of the people and constructing the social welfare state. Therefore, there is need of improvement of income tax collection systems to mobilize internal sources, which is also considered as the optimal solutions of resources in optimal level is fundamental need of the country but appears very poor and inefficient picture.

The development of a nation will be possible when the government can mobilize its own internal revenue, which contributes tax and not-tax revenue. Tax revenue constitutes significant portion in government revenue. The contribution of tax revenue to total revenue in the fiscal year 2006/07 is 81.1 percent. That was 79.45 percent in 2005/06. In fiscal year 2006/07, increase in total revenue 21.3 percent and tax revenue

is 23.8 percent whereas in Fiscal year 2005/06 increase in total revenue was 3.1 percent and 6.1 percent. It seems increasing in total revenue but not sufficient to meet increasing expenditure (Economic Survey 2007/08). It clearly denotes to make plan to increase tax revenue to meet the government expenditure to cut off foreign sources for economic development. This shows there is resource gap (Resource Gap = Expenditure – Revenue). Currently, our government has been fulfilling resource gap by foreign loans and domestic borrowing.

For the economic development of the country, contribution of direct tax is more essential rather than indirect tax. Among the direct tax, income tax plays a significant role, but it is not pleasure to quote that the contribution of income tax to the national revenue, research and analysis should be done in the field of income tax. Hence, the following research questions were addressed in the study:

-) Is income tax structure of Nepal is suitable?
-) What is the contribution of income tax to the government revenue of Nepal?
-) What is the volume of indirect tax and direct tax in total tax revenue?
-) What are the problems in the effective implementation of Income Tax Act 2058?
-) What is a strategies government implementing to make aware taxpayers?

1.3. Objective of the study

The main objective of this study is to analyze the contribution of income tax on government revenue from Kathmandu valley. The other objectives, which deals concerned with the present scenario of the income tax in Nepal, are:

1. To examine the effectiveness of income tax structure in Nepal.
2. To analyze the contribution of income tax to the government revenue of Nepal from Kathmandu valley.

3. To provide suggestions to minimize current problems regarding income tax collection system.
4. To know the campaign of government to increase income tax revenue from Kathmandu valley.
5. To find out the views of taxpayer to improve the tax administration for its effectiveness.

1.4. Scope of the Study

Present study aims to find out the effectiveness of income tax collection in Kathmandu Valley. So, this study analyzes the problem and prospects of the income tax administration and legal aspects to bring the taxpayer in its legal boundary. The major areas covered by this study are as follows;

-) Campaign of government to make aware to taxpayer about benefits of tax to economic development of nation.
-) Nepalese tax structure
-) Role of income tax in Nepal
-) Contribution of income from income tax revenue from Kathmandu valley to Government revenue.
-) Existing position of income tax in Nepal

1.5. Significance of Study

In the context of developed and developing country, there are so many crucial aspects or sector help for economic development. In such a way “Income Tax” is one of the fundamental sector, which plays vital role for the overall economic development of country. Contribution of income tax in government revenue collection is relatively more than other taxes. Therefore, the few study have been conducted about structure

of income tax to the government revenue of Nepal has been chosen as a relevant topic for the present study.

Nepal is one of the lowest taxed economies in the world as her Tax/ GDP as well as Tax/ GDP ratio are the lowest among SAARC countries and among the rest of the world as well. This indicates the poor performance of income tax management of Nepal. For the economic development of the country, contribution to direct tax is more necessary rather than indirect tax but the whole tax structure of Nepal is dominated by indirect tax.

Every year there is need of mobilizing adequate resources for meeting the increasing financial requirements for GON development purposes. Thus, income tax seems to be one of the major potential sources for mobilizing a larger amount of financial resources in Nepal. In developing country like Nepal, the importance of income tax cannot be minimize for reducing economic inequality in the society and in instrument to measure the economic standard of people. But income tax of Nepal is suffering from various problems. The major problems are: inappropriate tax policies, administrative bottlenecks of direct tax structure and existence of main poverty. So to identify the problems and to overcome and to improve existing level of income tax, the field of income taxation is essential.

This study will be helpful to the economist planner, tax officers and tax administrators of government, similarly, this study can also be helpful to the students, teachers, researchers and other individuals who are interested in the income tax system of Nepal.

1.6. Limitation of the Study

All research study has been done to solve particular research problem. It needs various kinds of data, materials and other relevant information which may not be sufficient for researcher. Every research study is limited by the time period, area of study undertaken and collection of information and data. This research study confined within the following limitation.

1. This study mostly depended upon secondary data.

2. This study covers ten years period for analysis of overall tax revenue and non tax revenue based on Economic Survey and only five years data for analysis of income tax contribution from Kathmandu Valley to Government of Nepal.
3. This study confines to Nepalese laws, acts, rules and regulations to the income tax.
4. Survey research is limited only in Kathmandu valley upon tax experts, officers, tax inspectors and others.
5. Only those factors which are contributing the government revenue from income tax will be considered.
6. This study has included the Large Scale Tax Payers for its study area.

1.7. Organization of Study

The present study has organized in five different chapters as follows:

Chapter I Introduction

The first introduction chapter includes: general background of the study, statement of problem, objective of study, scope of the study, significance of study, limitation of study, and organization of study.

Chapter II Review of Literature

The second chapter review of literature is done to know what research had been done in the related topic in previous days and what is to be done at present or in future. This chapter has been divided into two main aspects 1. Conceptual framework and 2. Review of related materials i.e. reviews of books review and review of research paper and articles etc.

Chapter III Research Methodology

The third research methodology chapter includes: research design, nature and sources of secondary data, research variables and data processing and analysis procedure.

Chapter IV Data Presentation and Analysis

Data presentation and analysis have been made in the fourth chapter. The data collected from various sources have been tabulated, described and analyzed with simple statistical tools as well as general principal of taxation.'

Chapter V Summary, Conclusion and Recommendations

The fifth chapter consists of brief summary, conclusions and recommendations of the study. Lastly essential appendices and bibliography have been presented at the end of the study.

CHAPTER -II

REVIEW OF LITEATURE

2.1. Background

The government of country requires sufficient revenues' to carryout development plans, to handle day-to-day administration, to maintain peace and security and to launch other public welfare activities. In order to carry out such activities, the government collects revenues from different sources such tax, remittance, income from public enterprise, special assessment, fees, grants, deficit financing and assistance etc. however across all these sources of collection public revenue, taxation is main source since it occupies the most important part of government treasury. Therefore, some people like to say tax is the sinews of the state, for mobilizing various source of revenue.

2.2. Meaning of Taxation

Simply, the tax means a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the taxpayer's law.

Different person has defined taxation in different ways. Prof. Seligman defined tax as "a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred." In the light of this definition, it can be said that a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of service or goods from the government. The taxpayers do not have only right to receive the direct benefits from the tax paid.

As well as, according to Economist Plehn, "Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the resident of the state." (Bhattarai and Koirala: 2005)

Findlays Shirras defined tax as “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 special benefits.” Bhattarai and Koirala (2005)

As mentioned in above definition, it can be concluded that:

- Tax is a compulsory levy imposed by the government.
- Tax is levied on persons as per the prevailing laws.
- Those who pay tax do not get corresponding benefits from the government.
- Tax amount is spent for common of the people.
- Tax is collected from haves and spent for the interest of have-nots in the society.

Most of the tax acts have defined tax as tax levied as per the Act and it also include fines, penalty, and interest etc. charge for infringement of provisions of the act and rules and directives framed under the Act. According to finance ordinance, 2062 the following area the revenues that government can collect from persons. Such as, custom duty, foreign employment service duty, movies development duty, vehicles duties, registration fees, service fees, and rokka charges, local development charges, telephone ownership fees, rural education development fees, casual income tax, casino royalty, special duty, telecommunication service fees, road construction, maintained and development charge, forest product fees, income tax, VM and excise duty etc.

Finally, it can be said that a tax is a liability to pay an amount to the state on account of the fact that the assessor have income of a minimum amount from certain specified sources of that they own certain tangible or intangible property or that they carry on certain economic activities which have been chosen for taxation.

2.3. Objectives of Taxation

The fundamental objective of charging tax to raise fund for government to meet the administrative and development expenses of it. But the tax framework is designed to

collect tax from haves to provide direct and indirect benefits to have-nots. The government has adopted the taxation system to achieve social as well as economic harmonization in the country. The other objectives of the charging tax are as follows;

Raising Revenue

- To meet out the administrative and development expenses of the government.
- Prevention of concentration of wealth in a few hands
- As the concentration of wealth in few hands may create economic, political and social disparities.

Redistribution of wealth for the common goal

- As the person earning more in comparison to the person earning less have to contribute more amounts to the public fund so that the government could provide facilities to the downtrodden persons by providing employments and other jobs for earning.

Maintenance of welfare

- As government has to spend lots of money for education, health and creation of employment for common persons. It is duty of the government to insure economic stability in the country.
- To encourage the national needs based industries
- Charges high rates of taxes on the imported goods in comparison to the goods produced in the country and by providing tax incentives to the business earning foreign currencies.

Increasing saving and investment

- Provides tax exemption on saving and also on income from private investments. This objective is based on the thinking that rather to pay tax, invest the money. (Source: Bhattarai and Koirala; 2008)

2.4. Types of taxes in Nepal

Basically, tax can be classified into two broad categories:

- **Direct Tax**

- **Indirect Tax**

A direct tax is a tax paid by person on whom it is legally imposed. In direct tax, the person paying and bearing tax is the same. It is the tax on income and property.

Dr. Dalton defines tax as, “A direct tax is really paid by the person on whom it is legally imposed.” Adhikari (2064 B.S.). The Ultimate burden of tax to bear the expenses is of the legal payee. Here legal payee means the person who is liable to the tax but not the person who actually pays the amount on behalf of others: like manager, agent, representative etc. Income tax, property tax, registration of property tax, casual income tax, etc are some of the examples of direct taxes. Neither the legal payee can claim the tax from any other person nor can it make the tax a component of cost of goods.

An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing the tax is different. It is the tax on consumption or expenditures.

Dr. Dalton says, “An indirect tax is imposed on one person but paid partly or wholly by another.” Adhikari (2064 B.S.). The payee of the tax shifts the burden on another person. VAT is being paid by business persons but the ultimate burden of the tax goes to the consumers. The businesspersons can make the tax as component of cost of the goods or services or can change it as an additional charge on the price of the goods or services. Custom duty, local development charges, special duty, excise duty, VAT, etc. are the examples of indirect taxes.

2.5. Concepts of Income and Meaning of Income Tax

Income is defined in the framework for the preparation and presentation of financial statements as increase in economic benefits during the accounting period in the form of enhancements of assets or decreases of liabilities that result in increase in equity,

other than those relating to contribution from equity participants. Income Tax Act, 2058 is as well recognizes that encompasses both revenue and gains. Revenue is treated as gross receipt from the disposal of goods. Gain is treated as gross receipt of the property less than total outflows to acquire it.

Income tax is charged on the taxable income. Taxable income is derived by deducting the allowed expenditures from the revenues and the gains. So the formal may be framed like this:

$$\text{Revenue} + \text{Gains} - \text{Allowable expenses} = \text{Income.}$$

Income is derived for a certain period. In Nepal the period for twelve months commencing from first of Shrawan to end of Ashad is treated as one income year. Income Tax Act, 2058 has classified the taxable income into three classes: Income from Business, Income from Employment and Income from Investment. The totals of income of a person is said to be an income of the person. Income as shown by financial statements may differ from taxable income. Income tax is payable on the income. Thus, income tax is defined as tax chargeable on income of a person as per the relevant Income Tax Act.

2.6. Income Tax in International Context

Income tax was first introduced in Great Britain in 1799 in order to finance wars with France. Only after 1980, it was accepted as a permanent tax. In USA, first federal income tax was imposed in 1862 to finance civil war expenditure. However, it became a permanent feature only in 1913 after 16th amendment to US constitution. In neighbor country India, at first income tax was introduced in 1860. After introducing 'Income Tax Act 1886' in 1886, it was imposed as permanent. Italy adopted income tax in 1864, New Zealand in 1891, Australia in 1915, and Canada in 1917. After First World War, the income tax became an important source of tax revenue in many developed countries. By 1939, it has become the most important source of revenue in most developed countries and had made appearance in a number of developing nations. (Agrawal, 1978:113)

From the First World War decade, income tax has shown as an important source of revenue in developed country. In the beginning of introducing time, it was generally levied at flat rate. Only after 1909, the principal of progression was introduced from UK and New Zealand.

2.7. History of Income Tax in Nepal

Income tax occupies a major part of direct taxes. The history of income tax in Nepal starts from 2016 B.S. when finance Act 2016 had introduced a provision to charge income tax on an income from employment and business. The first Act on income was passed and enforced in 2019 B.S. Income tax Act, 2031 was the revised version of the Act 2058. It will better to divide the history into three eras regard to the progress of income tax Act in Nepal: before 2019 B.S., from 2019 B.S. and from 2031 B.S. and from 2031 B.S. to 2058 B.S.

2.7.1. Before 2019 B.S.

- During this period there was a complete absence of any formal Income Tax Act to charge income tax on income from any source. But the progress of income tax during the period was as follows:

Finance Act, 2016 B.S.

- Provision was made to charge income tax on income from employment and business, dividing the total taxable income in 10slabs and income tax was charged on each slab at the rate ranging from 5 percent to 25 percent.
- Some relaxation in income tax were given to small scale, middle and big industries

Business Income and Employment Act, 2017 B.S.

This act was enforced on 2nd Jestha, 2017. The following were basic features of this act.

Some basic terms with regard to income business, employment, etc were defined;

- Procedures of tax assessment and collection were provided.
- Some tax-exempted person was defined.
- Provision for tax being debited at source was introduced.
- Filing of tax returns was made compulsory for some of the taxpayers.
- Provision of charging penalties and procedures of appealing against Act assessment were provided and
- Rates for charging income tax were left on the finance act of the relevant year.

2.7.2. From 2019 to 2031 B.S.

Nepal income tax Act 2019 was enforced on 9th Shrawan, 2019. This was the first income tax Act informed to change income tax on incomes from various sources. The following were the main features of the act:

- Sources of income were classified into: business, employment, profession, house and land rent, investment, agriculture, insurance business, agency and other sources.
- Some more terms like- person, couple, family, partnership firms, non-resident person
- Provision was made for appointment of assessment committees in each area
- Methods of calculating of taxable income under different heads were set.
- A provision was made to enter into a agreement with a foreign with regards to income tax.
- A provision was introduced to make a revised return.
- Provision with regard to setting off and carrying forward loss were in corporate.
- Provision to establish an Income Tax Department.

Finance Act 2020 B.S.

- A provision to charge income tax on a resident taxpayer on an income earned and accrued in Nepal and also on an income accrued outside Nepal but received in Nepal were introduced.
- An exemption limit of NRs. 6000 was prescribed for all the taxpayers.
- Provision was made to charge income tax on income earned by a person exceeding the exemption limit, dividing the total taxable income into 10 slabs and income tax was charged on each slab at the rate ranging 4 percent to 30 percent.

Finance Act, 2021 B.S.

- Special rate of income tax @8 percent charged on an amount received by a foreign film distribution from Nepal.

Finance Act, 2022

- The initial exemption limit was withdrawn for corporate taxpayer.
- A tax exemption was allowed on interests from government bonds.
- Different rates of income tax were imposed on house and land rent.

Finance Act, 2024 B.S.

- The initial tax exemption limits were given as follows: for an individual, NRs. 3000; for a couple, NRs. 4500, and for a family NRs. 6000.
- Provision was made to charge income tax on income earned by a person exceeding the exemption limit, dividing the total taxable income into 11 slabs and income tax was charged on each slab at the rates ranging 5 percent to 55 percent.
- A flat rate of income tax at 45 percent was fixed for corporate taxpayers.

Finance Act, 2025 B.S.

- The financial exemption limit was withdrawn for non-resident taxpayers.

- The slabs of taxable income were reduced to 5 and the rates of tax charged ranged from 15 percent to 55 percent.

Finance Act, 2026 B.S.

- A provision was introduced to include the income of a person from a partnership firm, land and house rent, and from foreign investment for the calculation of tax.

Finance Act, 2026 B.S.

- A provision was introduced to include the income of a person from a partnership firm, land and house rent, and from foreign investment for the calculation of tax.

Finance Act, 2027 B.S.

- Industries were compelled to file a tax return.
- Tax exemption available to an industry was limited to income from industrial activities only.

Finance Act, 2029 B.S.

- Foreign investors in Nepal were required to make certain deposits to a tax office for registration.
- Partnership firms were treated as separated person for tax purpose.

Finance Act, 2030 B.S.

- Additional tax exemption was allowed on allowances received by a member of Rastriya Panchayat, the parliament of that time, and also on an agriculture income of a person having not more than 10 bighas of land.

2.7.3. From 2031 B.S. to 2058 B.S.

In the year 2031, income tax act, 2019 was completely replaced by income tax act, 2031 and it became effective from Kartik 5, 2031. The new act was divided into 66

sections. The various amendments in the act along with the notable changes are given hereunder.

Income tax (1st amendment) act, 2034 B.S., effective from 2034-05-22.

- The provision that the expenses incurred with regard to tax-exempted income were not available for deduction was incorporated.
- Conditions were provided for extension of time for filling tax returns.

Income tax (2nd amendment) Act, 2036 B.S., effective from 2036-08-05.

- Methods of tax assessment of small taxpayers was determined.

Income tax (3rd amendment) Act, 2037 B.S., effective from 2037-06-02.

- A post of Director General was introduced.
- The allowable repair expenses were limited to 10% of the rent amount.

Income Tax (4th Amendment) Act, 2042 B.S., effective from 2041-07-27.

- The provisions regarding registration with the income tax office were amendment.
- Income received was defined as either actually received or an entry passed in the book of accounts.
- Limitation was imposed on advertisement and guest entertainment expenses by up to 2% and 1% percent respectively of gross income.
- The method of calculation of taxable profit of petroleum industry and a cooperative society was determined.
- GON was authorized to waive tax amount payable by any taxpayer.

Income tax (5th Amendment) Act, 2042 B.S., effective from 2042-06-23.

- Provision was made for awarding an individual who provides any information of tax evasion to government.

Income tax (6th amendment) Act, 2043 B.S., effective from 2041-06-22.

- Provision was introduced to enter into a written agreement for rent in case the monthly rent amount exceeds Rs. 25000.
- Responsibility of the management of private limited companies to pay tax was imposed.

Income Tax (7th Amendment) Act, 2046 B.S., effective from 2046-06-11.

- Definition of net income was added.
- Restriction was imposed on deductible interest expenses for an amount more than Rs. 20000 in a year to a person in case the interest is payable to other than a corporate body without registration of the loan deed.
- The pre-operation expenses were allowed to be deducted in five equal annual installments.

Income Tax (8th amendment) Act, 2049 B.S., effective from 2049-03-01.

- Definition of agricultural income and gross income were added.
- Income earned in a foreign country with regard to activities conducted in Nepal was made taxable in Nepal.
- Certain allowances were excluded from taxable income from employment.
- The concept of deemed rent for a particular area was introduced.
- Salary of more than Rs. 25000 per month to an individual was allowed to be deducted only in case of permission is taken from GON.
- The provision regarding self tax assessment were introduced.
- Banks and finance companies were allowed to deduct loan loss provision as expenses up to 3% of the total loan outstanding.
- Provision regarding tax audit and registration of tax auditor were introduced.

- Provision to make payment of more than Rs. 20000 at a time through bank only.

2.8. Defects of Previous Tax Acts in Nepal

Some of the basic defects of the previous income tax Acts were as described below:

Limited tax Nets

The previous acts had limited scope with regard to coverage of international income of a resident person, capital gain tax etc. So many exemptions from taxations are not providing by the act but by the finance acts. So many other acts have interrupted the provisions of income tax act by providing different exemption and concessions.

Effects of different Acts of Income Tax Act

So many acts had provisions regarding exemptions or concessions in the rate of income tax and the provisions were suspending the provisions of prevailing income tax acts. Nepal Rastra Bank Act, 2012 B.S., provident fund act, 2049 B.S., electricity act, Pokhara University Act, 2053 B.S., are some of the acts having provisions regarding income tax. To know tax liability, a person, for example, had to know which act may prevail the existing income tax provision.

Unclear and insufficient

Clear definition of the terms used, detailed description of the provisions, lack of economic terms, etc were also the defects of the previous income tax acts. The definition of resident person was not given clearly. Terms like characterization, transfer pricing, etc were not included in the act.

Unscientific Presentation

The acts were divided amongst different sections without subject wise chapters.

Unlimited power of tax officers

Tax officers were provided with unlimited power for assessment and imposing penalties. Accounts were treated as secondary evidence for tax assessment. Best

judgment assessment, which was based in estimations and assumption, were common methods of assessment.

Unequal treatments

The tax rates were being determined on the basis of nature of the person, organizations, income, etc. but the principle that higher gainer should pay tax by high rates was seldom implemented. Perquisites and fringe benefits were not covered by the taxation.

Double appeal system

A taxpayer had option to apply to Director General or to Revenue tribunal against any assessment made by a tax officer.

2.9. Relation with constitution, tax acts, tax rules and finance acts as regard to income taxation

Constitution of Nepal

The constitution of any country is a supreme law. All the acts, decision of courts, and other directives from government should be within the purview of the constitution. According to the constitution of Nepal, 'no tax shall levied and collected except when permitted by law.' Without framing and enforcing a law of tax, no tax can be levied on any person. An act can be enforced only after getting done the approval of the both the House of parliament of Nepal and also the head of the state. Constitution of Nepal has given some guiding principles like equality; justice to all proper representation, etc. while framing a law these principals shall be applied, otherwise the provision of the law, which is against the principals, shall be treated as null and void. Income tax of Nepal is formulated according to the provision and theme of the constitution of Nepal.

Income Tax Act

With affect from 19-12-2058 the Income Tax Act 2058 is the prevailing act for charging income tax. This act has a clear provision that for income tax no other acts can supersede it. The coverage of the act is wide enough to cover the calculation of

taxable income, rates, of income tax, rights of taxpayer, power of tax officers etc. This act is formulated and passed by parliament and approved by head of the state.

Finance Act and Ordinance

Finance act or Finance ordinances are the acts, which are effective for the period for which these are issued. Finance act is generally issued for one income year. As the life of a finance ordinance is of only six months it can be replaced only with a new finance ordinance, Income Tax Act 2058 has a provision that finance act of finance ordinance can replace any provision of the Income Tax Act for the period. Finance act or finance ordinance can amend any of the provisions of the income tax act but the amended provision is applicable for the period for which the finance acts or ordinance is effective.

Income Tax Rules

Income tax rules are formed by the cabinet. These rules are formed to clarify the provisions of the act. Rules are framed only when the act specifies that the provision shall be applicable as per the rules. Rules cannot contravene the provision of the act. The contravening rules shall be treated as null and void.

2.10. Income Tax Act, 2058 B.S.

The age old having eight amendments and several transitional provisions through Financial Acts have created a thrust for a new and quite revised act for income tax. Globalization of the trade, establishment of new kinds of foreign entities in Nepal, emerging complication in business relationships, establishment of joint venture enterprises in with more than one foreign country are associated in income tax act.

Lecturer Dr. Peter A. Harries, technical advisor to International Monetary Fund, prepared the draft of this act. The international monetary fund has financed the entire project. Harvard Institute for International development, had which is a branch of Harvard University, had fully cooperate with Nepal in reforming tax laws, the VAT act, 2052 is based on the draft given by the institutes. The institute's contribution to reforming income tax also is notable.

GON had worked hard and taken the help of FNCCI to give final shape to the act. It had conducted several rounds of talks with advocates, chartered accountants, foreign tax consultants, business house and all other concerned personalities.

Difficulties were faced mainly due to translation of the drafty Nepali Language. Each and every word was translated in Nepali language; however, the words are difficult to understand even by the tax consultants and chartered accountants. It has created misunderstandings in the businessmen.

Inland Revenue Department came up with several publications of booklets and established special office named by 'Customers Service Center' for easy understanding of Act.

2.10.1. Objectives of the act

The following are the identified objectives of the new act.

- Change tax on income earned from each source and also on each transaction for earning income.
- Similar tax for similar income irrespective of the income earned by any person.
- To make income tax revenue productive and elastic.
- To make income tax taxpayer friendly by adopting detailed, clear, transparent and simple procedures.
- To make tax administration more effective and responsible.
- To make income tax natural and to reduce the financial cost.
- To ensure the tax returns are based on books of accounts.
- To make taxpayers responsible by continuing the system of self-tax assessment.

2.10.2. Features of Income Tax Act, 2058 B.S.

The designing of the chapters of the act reflects the features of Income tax act, 2058

Chapter No.	Sections	Headings	Contents
1	2	Definitions	<p>In total, 65 words are defined. Some of the important words defined are as: retirement fund, company entity, withholding tax, transaction asset, tax-exempted organizations and income trust, long term contracts, disposal, underlying ownership, market price, unit trust, foreign permanent establishment foreign controlled entity, transfer pricing characterization, etc.</p>
2	3-6	Basis of taxation	<p>Income is classified under three headings; income from business, income from employment and income from investment.</p> <p>Taxpayers are classified as follows:</p> <ul style="list-style-type: none">i. Those having taxable income as per the act.ii. those foreign permanent establishments remitting income to their parent organizations;iii. Those having final withholding

			<p>income, and</p> <p>iv. Those having two or more than two sources of income as described above.</p> <p>The method of calculation of taxable income and assessable income are given.</p>
3	7-9	Components of Income	Components of each head of income i.e. income from business, income from employment and income from investment, are section in not taxable under this act.
4	10-12	Tax Concession and Donations	Clear provisions are given about the tax exemption on certain income. Certain tax concessions are also allowed on certain specified income. Conditions and limitations on allowing donation for tax purpose are specified.
5	13-21	Deductions, set off and carry of losses and disallowed expenses	<p>Detailed provisions are given for general and specified expenses incurred to run a business or/and an interval. Certain conditions and limitations are specified for a few of the expenses.</p> <p>Provision for getting off of losses: inter-head adjustment are made</p>

			carrying forward of losses is allowed under given circumstances certain expenses are not allowed for deduction
6	22-26	Tax accounting and timing	<p>Provided to requirement of the act with regard to accounting for tax purpose. Methods of accounting are specified for different sources of income.</p> <p>Provision for bad debts and long term contracts have been made.</p>
7	27-35	Qualifications, allocation and characterization of amounts	<p>Provision for qualification of transfer of assets for assets, transactions in foreign currency, perquisites, other fees of cost facilities provided, interest paid for an amount lower than interest payable under conditions of annuities, installment payment and finance lease are given provisions given against the transactions that create transfer pricing to income splitting and also about general and avoidance rules.</p>
8	36-49	Assets and Liabilities	<p>Detailed provisions are given for a classification of assets, determination of net incomings and net outgoings, calculation of income from the disposal of the assets etc. the conditions of actual</p>

			transfer and deemed transfer and effect of the transfer and effects of the transfer are described.
9	50-62	Provisions relating individuals entities and specific entities	Provisions applicable to individual, couples and for medical tax credit for them have been made. Provision for distribution of profit, tax on the distributions, effects of dealings with beneficiaries, effects of changed in control, etc are included. The specific provisions applicable to banking business, general insurance business and investment insurance business has been described in detail.

2.11. Review of Related Materials

2.11.1 Review of Books

Kedar Bahadur Amatya (1965) published a book “Nepal Ma Aayakar Ko Bebastha”. He has tried to describe about income tax and provision regarding income tax in Nepal at that period.

Nirmala Bhattarai and Ratna Shrestha (1976) had written a book entitled, “Tax Laws in Nepal MA Study”. They have explained about legal aspects of income taxation in Nepal of that period. This book is theoretically based rather than analytical.

Dr. Govinda Ram Agrawal (1980 A.D.) had written a book entitled, “Resource Mobilization in Nepal”. This book was published by CEDA. This book was mainly concerned with resource mobilization in Nepal, especially through the reform of income tax.

Dr. Agrawal had concluded that taxation trend have shown the role of indirect taxes have been predominant in the tax structure. More than 60 percent of tax revenue was derived from foreign trade alone. However, since 1974/75 the role of income tax has been increasing.

Dr. Agrawal had made empirical study taking tax policy makers, tax experts, tax administration, taxpayers and accountants as taxpayers of different parts of Nepal. From that study he had concluded that taxpayers were favorably disposed to income tax. However, the major constraints in the effective functioning of tax system seem to be administrative deficiencies, poor taxpaying habits, lack of taxpayers' education, complex procedures and defective tax information system.

Dr. Santosh Raj Poudyal and Prem P. Timilsina (1990) had written a book entitled, "Income Tax in Nepal". They presented a book based on B.Com syllabus. This book was designed with numerical examples but the major problems and defects of income tax system of Nepal had not been analyzed.

Dr. Rup Bahadur Khadka (1994) had written a book entitled, "Nepalese Taxation; A path of Reform". He had analytically described about development, existing structure, main problems and possible direction of reform of income tax. He had identified the major problem of income tax as narrow coverage, unscientific tax assessment and collection, defective tax system from the perspective of international taxation. Weak tax administration, imbalance and inadequate tax training, pre-dominance of low level non technical post, debatable scope of revenue investigation department and lack of information system were the major problems of tax administration identified by him.

He had suggested some suggestions to overcome from the problems of income tax which were extension of withholding tax, inflation adjustment etc. He had also identified some possible direction for administrative reform. His book was an analytical and very useful to obtain the various aspects of income tax.

Kamal Deep Dhakal (1998) had written a book entitled, "Income Tax and House and Compound Tax Law and Practice". This book was mainly based on the syllabus of BBS third year. The provision made under income tax laws and the methods of income tax assessment have been described with numerical examples. This book is

more helpful to know about general information and provisions made under Income Tax Act 1974. But, he had not analyzed the role of income tax, income tax structure and defects of income tax system of Nepal. His book is informative rather than analytical.

Bishwa Deep Adhikari (2002) had written a book entitled, “Income Tax Law; Now and Then”. Mr. Adhikari has described the legal provision of income tax act 2002. This book has only focused on the legal aspect of income tax. Agreement and protocol relating to avoidance of double taxation and the prevention of fiscal evasions with respect to taxes on income between different countries has also included in his book.

Dr. Chandramani Adhikari (2003) had written a book entitled, “Modern Taxation in Nepal”. Dr. Adhikari has described the provisions and laws related to income tax of Nepal according to new income tax act 2002. This book has been divided into five chapters. Five chapters has described about theoretical concept of taxation. First chapter has described about theoretical concept of taxation. Second chapter has described about theoretical sources of incomes and international taxation. Third chapter has described about the value added tax and its provision. Fourth chapters has described about property tax, house and compound tax etc. Fifth Chapter has described about windfall gain tax and other provision.

Bidhyadhar Mallik (2003) has written a book entitled, “Nepalko Adhunik Aayakar Pranali”. This book specially deals with the thorough analysis of Income Tax Act 2058 (2002) with suitable example wherever necessary. The new provision made by Income Tax Act 2058 about tax base, computation of income tax, exempt amount, allowable deductions, capital gain, retirement saving and tax, dividend tax and informational taxation and tax auditing have been clearly defined in this book. Similarly, this book has also explained about tax administration, documentation, information collection, installment payment, tax assessment, tax collection, review and appeal, fees and interest, fine and penalties and tax rates etc. He has shared his expertise in this book in descriptive and analytical manner.

K.P Aryal and S.P. Paudel (2004) have written a book entitled, “Taxation in Nepal”. They have explained about the income tax system in Nepal along with house and land

tax and value added tax. It has been divided into three parts. In the first part of the book introduction and development of income tax, provisions of Income Tax Act 2058, source of income and methods of calculation of tax under different heads of income have been explained with suitable examples. House and land tax and value added tax have been explained in the second and third chapter respectively.

Jagdish Agrawal had written a book entitled, “Income Tax Theory and Practice” in 2006. This book is based on the curriculum of C.A. Intermediate level. He has described historical aspects of income tax and legal provisions relating to income tax with numerical examples. This book is very useful to know the general information and legal provision of Income Tax Act 2002. He has analyzed the role of income tax, structure of income in Nepal.

Ishwor Bhattarai and Girija Prasad Koirala (2064) had written a book entitled, “Taxation in Nepal with Tax Planning and VAT”. This book has been designed based on the curriculum of MBS second year. Writers have included conceptual foundation about taxation of income in Nepal, exempt amounts, concessions, tax rates and withholding payments deductions, capital gain tax, tax accounting and time, carry forward and set off of losses etc. in part A. In part B, they have described about tax and tax planning. In part C, they are described tax planning for various payments and activities with suitable examples. This book has adequately described the schedules and formats prescribed by Income Tax Act 2058.

2.11.2 Review of Research Reports and Articles

Dr. Govinda Ram Agrawal a senior researcher in the field of Nepalese Taxation has conducted a research entitled, “Resource mobilization for Development: The Reform of Income Tax in Nepal” published by CEDA in July 1978. The main objective of his study were to examine the problem of growing gap in Nepalese finance in the context of the rate of income tax, to examine the buoyancy and elasticity of income tax including projection of income tax to examine the ways and means for increasing tax consciousness in Nepalese people etc.

The main reason for growing resource gap; he had included in his report; were increasing cost of maintenance and debt servicing burden, increasing government investment in public sector enterprises and rising rate of inflation. He also added stagnant industrial sector, partial monetization of the economy, poor performance of public sector enterprises, poor rate of economic growth, inadequate tax efforts, deficiencies in tax policies, laws and administration, lack of adequate and reliable data base and unwanted pressures from vested interest group etc. were the major constraint in resource mobilization.

From his research he concluded that mobilization of additional resources from domestic sources of finance rising expenditure is the better options to fulfill resources gap. Domestic resources can be mobilized either through tax or through non-tax measures. Taxation contributes more than 80 percent of total government revenue in Nepal. Buoyancy of income tax with respect of GDP for period 1967/68 to 1975/76 was 2.18 and elasticity was 2.01.

Lastly, he had recommended mobilization additional domestic resources through taxation, tax structure should be redesigned in order to increase the role of direct tax, income tax should be reformed in Nepal etc.

Puspa Raj Kandel (2001) wrote an article, “Draft of Income Tax Act 2001, Critical Analysis” in *Rajaswa*, Volume I. He had criticized the ITA 2002 on several grounds. Exemption of agriculture income from income tax, export duties levied on export, inequality between different capital earned income (i.e. interest dividend and capital gain) and withdrawal of the provision of exemption suddenly and no adjustment of inflation are the major issues he raised in his article. He had also criticized; tax regime creates more tax burden than the former one.

Dambar Bahadur Pant (2004) had written an article entitled, “**Problems in Tax Administration and Their Remedies**” published in *Journal of Finance and Development*, *Rajaswa*. He had comprehensively explained about the problems and their remedies related with tax revenue. The major types of practical problems and challenges, in transaction, showing low selling price, lack of issuing and taking bills, lack of showing the real factory cost, commercial fraud, lack of cooperation in tax audition, legal ambiguity and complexity in implementation and lack of coordination

between Inland Revenue Department and revenue investment unit. Meanwhile he had recommended some valuable suggestions to solve the problems and to overcome the challenges. They were, statistical and information system should be properly managed fixed norms and standards should be used to access selling price and factory cost, the billing system should be made compulsory, coordination between Inland Revenue Office with various entities of GON, revenue investigation department and its related units should play the important role and auditing of tax should be widened etc.

2.11.3. Review of Thesis

Shiva Narayan Shah had conducted a research on topic, “Contribution of Income Tax in National Revenue of Nepal” in the year 1995. In his study, research problems were the increasing resource gap and how income tax can be the means of resources mobilization. The main objective of this research were to show the contribution of income tax in government revenue to show the resources gap in Nepalese finance, to highlight the importance of income tax as a source to avoid financial deficit, to find out the rate and other capital burden of income tax and trend and structure of income tax in Nepal.

His research design was historical cum descriptive. He had used only secondary data of 21 years for 1974/75 to 1994/95. Data collection and analysis procedures were; consulting the required government and non-government offices, and simple arithmetic rule chart and diagrams were applied to analyze data. He had conducted that income tax can be the vital source for internal resources mobilization to fulfill the resources gap. Only 0.35 percent of population came under the categories of taxpayers in Nepal during his research period. He had found that collection of income tax was gradually growing and the contribution of income tax in total tax revenue and total national revenue were 9.94 percent respectively. Similarly, he also concluded that individual tax payer had higher contribution in income tax than salaried taxpayer.

Chhetri (2004) presented thesis entitled as “Income Tax System of Nepal and its Contribution to Revenue Collection.” Mr. Chhetri has explored about all theoretical aspects of income tax. This study tries to focus on the income tax system of Nepal and its contribution to revenue collection but unfortunately major part of the thesis is

covered by the review of literature and conceptual framework. Though the review of literature is taken as the important part of a thesis, this study could not cover the relevant review of literature as per the important part of a thesis, this study could not cover the relevant review of literature as per the selected topic of study. In the same way, conceptual framework has showed that it is out of track as it should be focused up on the income tax system of Nepal. It could not cover the overall system approach of Nepalese income taxation. However, analysis and presentation of data has fruitfully covered the area and requirement of the study on contribution of income tax to revenue collection of Nepal. Mr. Chhetri has presented secondary data in the tables, charts, graphs, and makes the comparison of each part to another. The data presentation is very strong under this study. The empirical investigation part of the study showed the quantitative result of the data collected from the various respondents during the survey. Total 75 sample papers were distributed but only 64 were collected for the study. Out of these 64 respondents 18 were from tax administrators, 25 were tax experts and 21 were from tax payers. In the average about 85.33% respondents are taken for the study. From the study Mr. Chhetri found that about 93.75% respondents feel that present revenue collection of the government is not satisfactory. Similarly, the study shows that income tax plays the significant role in revenue collection of Nepal, about 76.56% respondents showed this response. Rank correlation coefficient is used in one question only and no other statistical tools are used to analyze the primary data. Support of percentage and pie chart has taken for the interpretation of quantitative results comes from opinion survey. Finally Mr. Chhetri concluded that:

-) Income tax can be taken as a better source of government revenue to develop economic condition of Nepal and it is occupying third place in taxed revenue of Nepal from the year 1993/94.
-) Present level of revenue collection of the government is not satisfactory.
-) Complicities in income tax act, delay in procedure and the unnecessary formalities are the major problems in assessment and collection of income tax in Nepal.
-) Revenue structure of Nepal is the composition of tax revenue and non-tax revenue. Revenue structure shows that there is dominant share of tax revenue.

) Total tax revenue of Nepal is the composition of direct tax and indirect tax revenue. There is always dominant role of indirect tax revenue in the total tax revenue.

CHAPTER -III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology

The purpose of every research is either finding a new thing or solves the research problem. Researcher conducts research using research methodology to give concrete findings. Therefore, research methodology is an important aspect of thesis writing. It deals with the research design, population and sampling, nature and types of data, data collection procedures, statistical tools used.

In this section, efforts have been made explaining specific research design to attain the research objectives by using primary data and secondary data. This study has attempted to analyze the income tax revenue from Kathmandu valley to the government of Nepal. Kathmandu valley is the covered area to conduct this research.

3.2 Research Design

Research design is the plan, structure and strategy of investigation so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of researchers. It includes an outline of what the investigator will do from writing hypothesis and operational implications to the final analysis of data. This research is basically focused to find the income tax contribution to Nepal government from Kathmandu valley. The questionnaire is focused on Nepalese economy and income taxation policy of government in changing perspective. Therefore, the research design is followed for this research is descriptive research design, comparative research design and qualitative research design.

3.2.1 Descriptive research design

This research design involves the systematic collection and presentation of data to give clear picture of particular situation. It just describes the situation but not gives any clue about the solution or answer to research problem.

3.3 Population and Sample Size

All the tax experts, officers and employees from the Kathmandu valley are considered as total population of the study. Out of them, some tax experts, officers and employees of the Kathmandu Valley have been chosen as sample. The denomination of the respondents is as follows:

3.4 Nature, Types and Sources of Data

The data collected to describe the study are from two sources i.e. primary and secondary. The major sources of both data are as follows:

Primary Data

To know the views of concerned person related to income tax, an opinion survey was carried out through structured questionnaire to sample population. Same questionnaire was used to all respondents. The respondents involved in this study are from tax administration, tax experts, chartered accountants, auditors and lectures. Selection of tax payers from different sector used to know their views for this study.

Secondary Data

The secondary data is main data used in this study to analyze the income tax revenue from Kathmandu valley. The sources of secondary data are as follows:

Economic survey of various years, Ministry of Finance, GON

Budget Speech of various years, Ministry of Finance, GON

Annual reports of Inland Revenue Department, Kathmandu

Books related to income tax and public finance

Dissertation related to income tax

Different newspaper, journal, souvenir and magazines

Official website of Inland Revenue Department: www.ird.gov.np

Official website of Ministry of Finance: www.mof.gov.np

Other websites from World Bank, Asian Development Bank, International Monetary Fund etc.

Other relevant records and data.

3.5 Research Variables

The research variables of this study are contribution of income tax, collection performance of income tax. The relation of variables is:

Independent Variables	Dependent Variables
Income Tax: investment income Profession Income tax Business Income tax	Government Revenue

3.6 Data Collection procedures

The primary data is collected by developing a set of questionnaire and distributed to the selected respondents in order to get actual and accurate information. Distributions of questionnaires were done personally rather than sending by any other means. Some information was collected through interview with the respondent. Similarly, secondary data were collected by visiting to the concerned offices, through internet, visiting central library of Tribhuvan University, library of Shanker Dev Campus etc.

3.7 Data Processing and Analysis Procedures

For the analysis, all the collected data from different sources are thoroughly reviewed and arranged in order on the basis of their nature and resemblance of their facts. The processed and tabulated data were analyzed through descriptive tolls and statistical tools such as simple percentage, sample average, graphs, charts and diagram etc. for clear and systematic findings.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

The data presentation and analysis is the crucial part of research study. This is main content which helps to find the objectives of research work. Research result basically depends on the qualitative and quantitative analysis and presentation of data. Data collected from the various sources to finalize the research study will heavily determines the strength of the study. Data for this research work are collected from the Economic survey, annual report of Inland Revenue department and other related materials to address the problems and objective of this study. This chapter is presentation and analysis of data collected from Inland Revenue offices of Kathmandu valleys to cover the scope this research work. Primary and secondary data has been used to give the shape to this work.

4.1. Structure of Government Revenue of Nepal

Government collects taxes from different sources. Basic sources of the government revenues are classified into tax and non-tax revenue. It is comprised of different taxes such as customs, excise, sales tax/ value added tax, income tax, land revenue and registration, miscellaneous taxes and non tax revenues. Nepalese economy is characterized by low revenue performance in contrast to growing public expenditure. The structure of government revenue in Nepal has been present in table 4.1.

Table 4.1.
Structure of Government Revenue

In millions

Fiscal Year	Total Revenue	Tax Revenue		Non Tax Revenue	
		Amount	Percentage	Amount	Percentage
1999/00	42893.8	33152.1	77.29	9741.6	22.71
2000/01	48893.8	38865.1	79.49	10028.8	20.51
2001/02	50445.6	39330.6	77.97	11115.0	22.03
2002/03	56229.7	42587.0	75.74	13642.7	24.26
2003/04	62331.0	48173.0	77.29	14158.0	22.71
2004/05	70122.7	54104.7	77.16	16018.0	22.84
2005/06	72282.1	57430.4	79.45	14851.7	20.55
2006/07	87712.2	71126.7	81.09	16585.5	18.91
2007/08	107623.54	85155.54	79.12	22467.0	20.88
2008/09*	128668.41	103010.74	80.06	25657.6	19.94

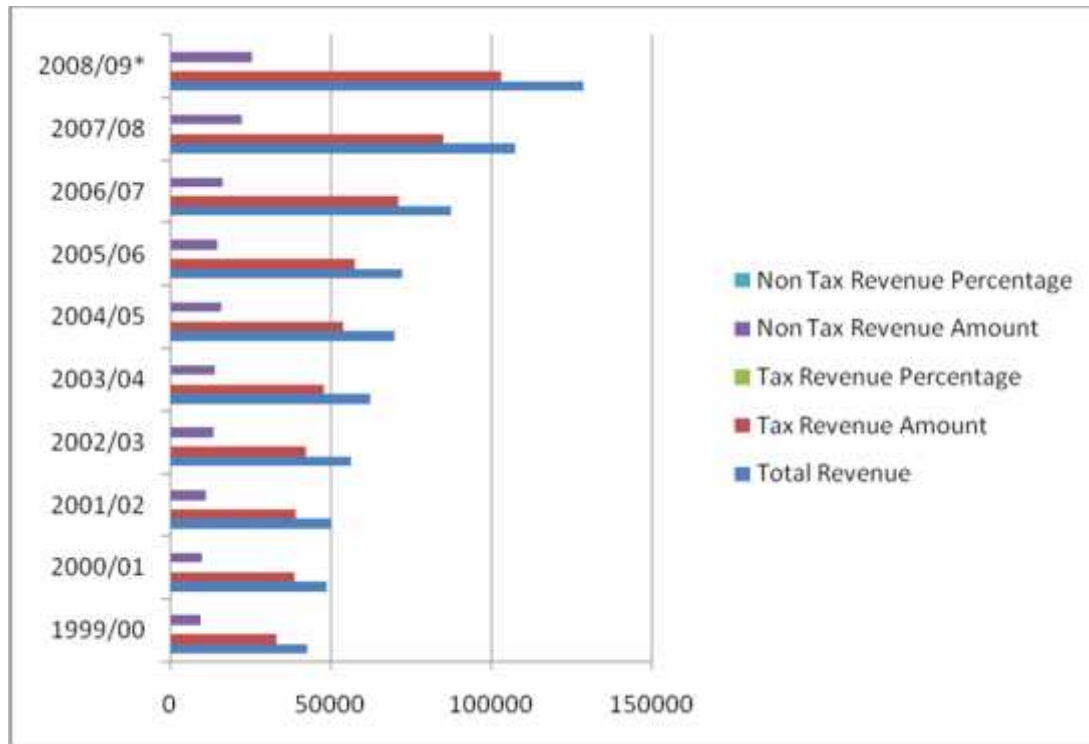
Source: Economic Survey, 2008/09, MOF

*Annual Report of IRD, 2065/66

The table 4.1 reveals that tax revenue has dominating role compare to non tax revenue. The composition of tax revenue and non tax revenue from FY 1999/00 to 2008/09 is presented in table 4.2 as source of total revenue of Government of Nepal. This shows the dominated role of tax revenue as 77.29% of total revenue in FY 1999/00 and 80.06% in FY 2008/09. Share of non tax revenue of the same period seems to be 22.71% and 19.94% percent respectively. The amount of tax revenue and non tax revenue is continuously increasing but their contribution to total revenue is in fluctuating rate. The tax revenue seems to be 81.09% as the highest and 75.74% is the lowest contribution to national revenue in 2002/03 and 2006/07 respectively within the study period.

The tax revenue had contributed amount of Rs. 54104.7 millions and Rs. 103010.74 millions in FY 2004/05 and 2008/09 respectively. Figure 4.1 shows that tax collection and non tax revenue collection in increasing rate. The contribution of non tax revenue was Rs. 16018.0 millions and Rs 25657.66 millions in subsequent fiscal years.

Figure 4.1.
Structure of Government Revenue



4.2. Composition of Tax Revenue

Tax revenue is the major source of government revenue of Nepal. In Nepal, tax revenue is contributing approximately 80%. It is tools to mobilize internal sources effectively. The tax revenue constitutes direct and indirect tax. Direct tax includes income tax, land revenue and registration, urban house and land tax, vehicle tax and indirect tax generally includes customs, VAT and Excise Duty.

VAT has highest contribution of total of indirect tax whereas Custom is second highest contributor of total of indirect tax. In FY 2008/09, VAT has contributed Rs. 31107.72 millions and custom has contributed Rs. 26642.84 millions. VAT and customs are major sources of indirect tax revenue by their share.

Table 4.2.
Composition of Tax Revenue

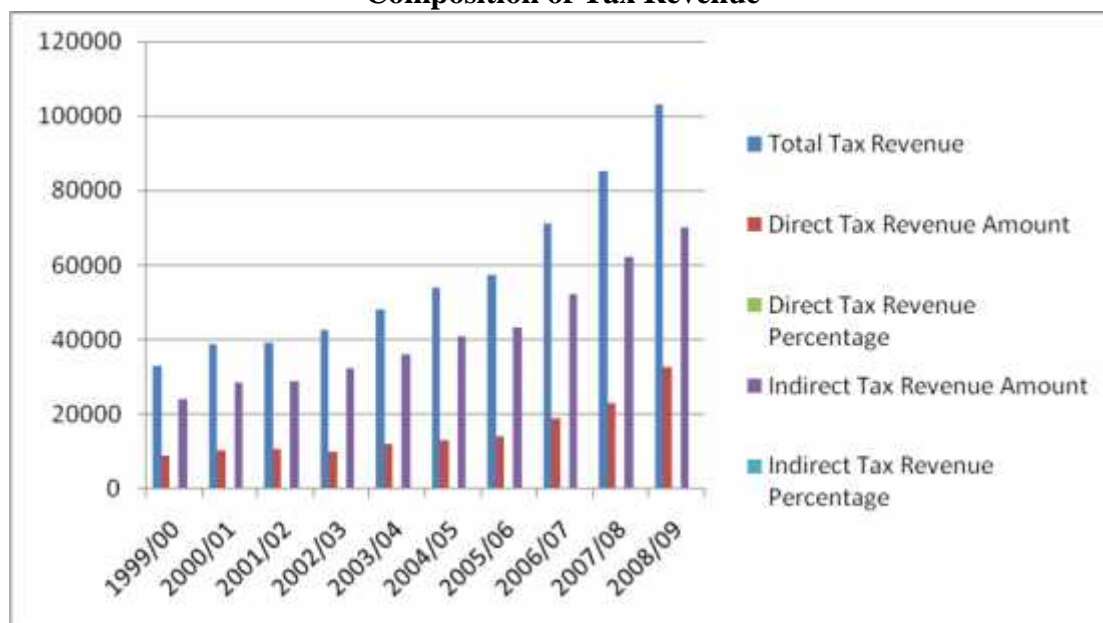
Fiscal Year	Total Tax Revenue	Direct Tax Revenue		Indirect Tax Revenue	
		Amount	Percentage	Amount	Percentage
1999/00	33152.1	8951.5	27.0	24200.6	73.00
2000/01	38865.1	10159.4	26.14	28705.7	73.86
2001/02	39330.6	10597.5	26.94	28733.1	73.06
2002/03	42587.0	10105.8	23.73	32481.2	76.27
2003/04	48173.0	11912.6	24.73	36260.4	75.27
2004/05	54104.7	13071.8	24.16	41032.9	75.84
2005/06	57430.4	13968.1	24.32	43462.3	75.68
2006/07	71126.7	18980.3	26.69	52146.4	73.31
2007/08	85155.5	23087.76	27.11	62067.82	72.89
2008/09*	103010.74	32764.80	31.81	70245.94	68.19

Source: Economic Survey, 2008/09, MOF

*Annual Report of IRD, 2065/66

It is apparent from the table 4.2 that direct and indirect tax amount both are in increasing trend. In FY 1999/00, total tax revenue was Rs. 33152.1 millions and share of direct tax was 8951.5 with 27% contribution and share of indirect tax was Rs.24200.6 millions with 73% contribution to total tax. In the FY 2008/09, it has reached to Rs. 103010.74 millions and share of direct tax is Rs. 32764.80 millions with 31.81% of contribution whereas share of indirect tax is Rs. 70245.94 millions with 68.19% contribution to total tax. It clearly shows that direct tax is in increasing trend of contribution to total tax revenue in amount and percentage but indirect tax is in also increasing trend but in amount only. It is in decreasing trend at percentage.

**Figure 4.2.
Composition of Tax Revenue**



4.3. Composition of Direct Tax Revenue

Direct tax is levied to government for income generation and holding of wealth by natural person as well as business enterprises. It is paid by the imposed person and entity and it follows the progressive principle of tax. In Nepal, direct tax includes land revenue and registration tax, vehicle tax, tax on property, corporate income tax, remuneration income tax, investment income tax, house rent tax, capital gain tax, tax on dividend and other income taxes.

Table 4.3.
Composition of Direct Tax Revenue

In millions

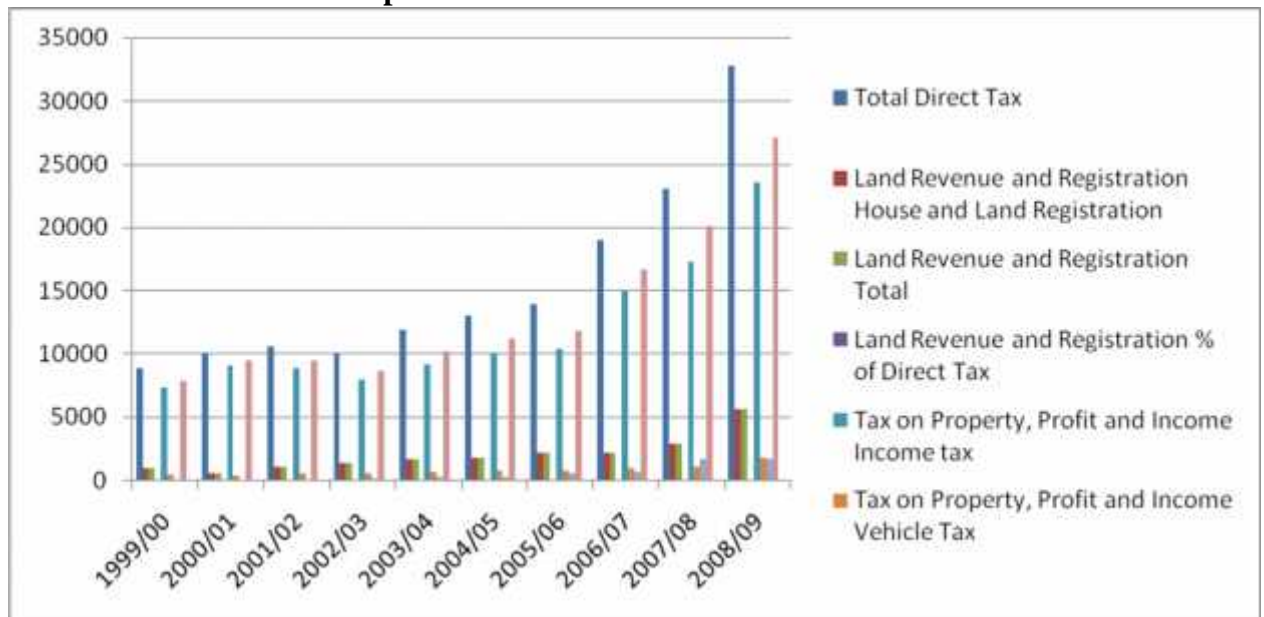
Fiscal Year	Total Direct Tax	Land Revenue and Registration			Tax on Property, Profit and Income				
		House and Land Registration	Total	% of Direct Tax	Income tax	Vehicle Tax	Other Tax	Total	% of direct Tax
1999/00	8951.5	1015.9	1015.9	11.35	7420.6	515.0	0.0	7935.6	88.65
2000/01	10159.4	612.9	612.9	6.03	9114.0	432.5	0.0	9546.5	93.97
2001/02	10597.5	1131.8	1131.8	10.68	8903.7	562.0	0.0	9465.7	89.32
2002/03	10105.8	1414.3	1414.3	13.99	7966.2	559.5	165.8	8691.5	86.01
2003/04	11912.6	1697.5	1697.5	14.25	9245.9	700.6	268.6	10215.6	85.75
2004/05	13071.80	1799.20	1799.20	13.76	10159.40	806.50	306.70	11272.60	86.24
2005/06	13968.10	2181.10	2181.10	15.61	10373.70	847.60	565.70	11787.00	84.39
2006/07	18980.30	2253.50	2253.50	11.87	15034.00	995.00	697.80	16726.80	88.13
2007/08	23087.76	2940.74	2940.74	12.74	17311.22	1069.21	1766.59	20147.02	87.26
2008/09	32764.80	5682.01	5682.01	17.34	23522.63	1836.04	1724.12	27082.79	82.66

Source: Economic Survey, 2008/09, MOF

*Annual Report of IRD, 2065/66

It is clear from the table 4.3. that tax on property, profit and income has major share of contribution to income tax. In every fiscal year contribution of direct tax to government of Nepal is increasing. But contribution rate from tax heading is fluctuating. In FY 2008/09, contribution from land revenue and registration to direct tax is the highest during the study period. It has contributed 17.34% equal to amount Rs. 5682.01 millions. At the same time, tax on property, profit and income has contributed 82.66% which the lowest contributions during this study period. But amount contributed is the highest during this study.

**Figure 4.3.
Composition of Direct Tax Revenue**



4.4. Composition of Income Tax

Income tax is levied on the earnings of a person or corporation. Commonly, it is a progressive tax because the tax rate increases with increasing amount. In this study, it includes employment earnings, interest income, business income, investment income etc. Income tax is the major source of direct tax revenue. It was first introduced as business profit and remuneration tax in 1959/60 in Nepal. Income tax constitutes income tax from public enterprises, semi public enterprises, private corporate bodies, individual, remuneration and tax on interest. The composition of income tax revenue is presented in the following table 4.4.

Table 4.4
Composition of Income Tax

In millions

Fiscal Year	Total Income Tax Revenue	Public Enterprises	Private Corporate Body	Individuals	Remuneration	Tax on Interest
1999/00	7420.60	2198.80	1339.50	3016.40	451.50	414.40
2000/01	9114.00	2928.00	1924.30	3200.50	597.30	463.90
2001/02	8903.70	1769.30	1412.00	4419.10	835.60	467.70
2002/03	7966.20	1251.00	1236.30	3362.30	1252.60	864.00
2003/04	9245.90	2056.60	1531.30	3533.40	1391.20	733.40
2004/05	10159.40	1332.40	2467.80	3926.30	1675.90	757.00
2005/06	10164.50	195.70	3404.30	4234.70	1764.10	565.70
2006/07	15034.00	1019.70	5717.10	5234.40	2007.90	1054.90
2007/08	17311.48	204.80	7186.50	6381.21	2451.04	1087.93
2008/09*	23522.63	960.32	9342.71	8667.10	2962.58	1589.92

Source: Economic Survey, 2008/09, MOF

*Annual Report of IRD, 2065/66

Figure 4.4.
Composition of Income Tax

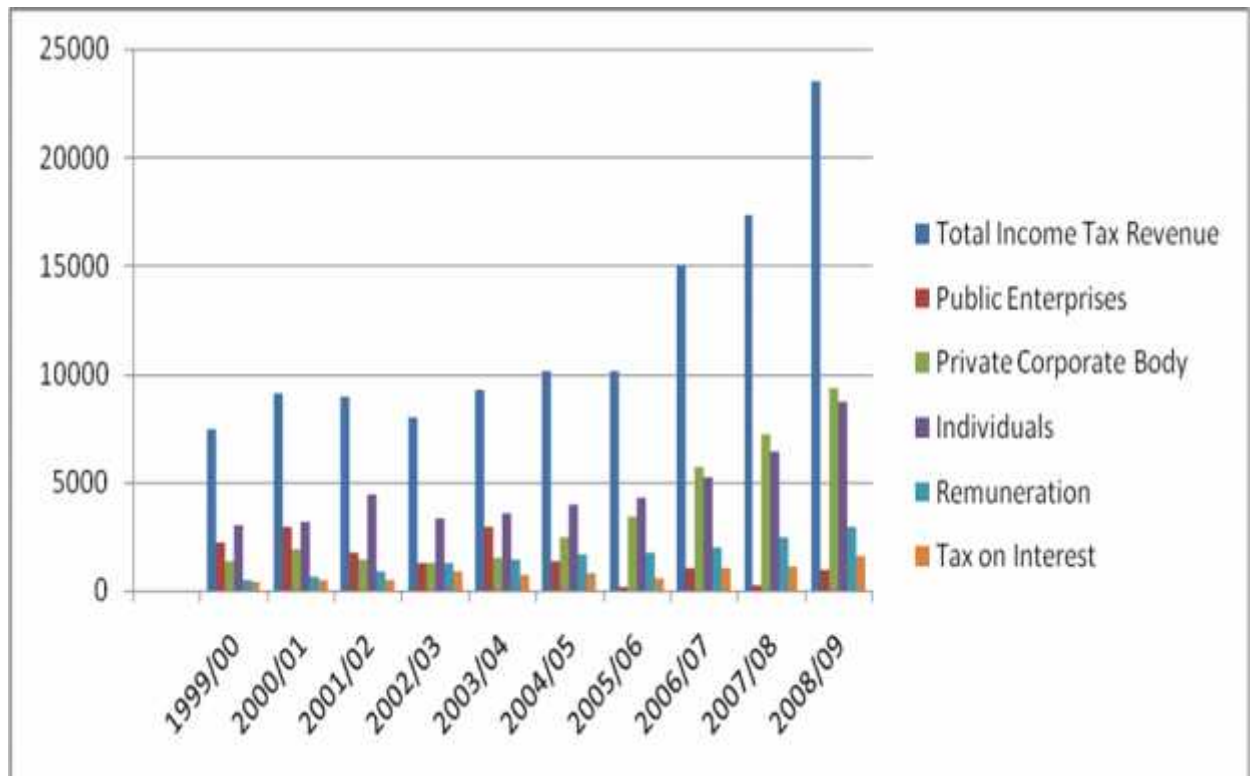
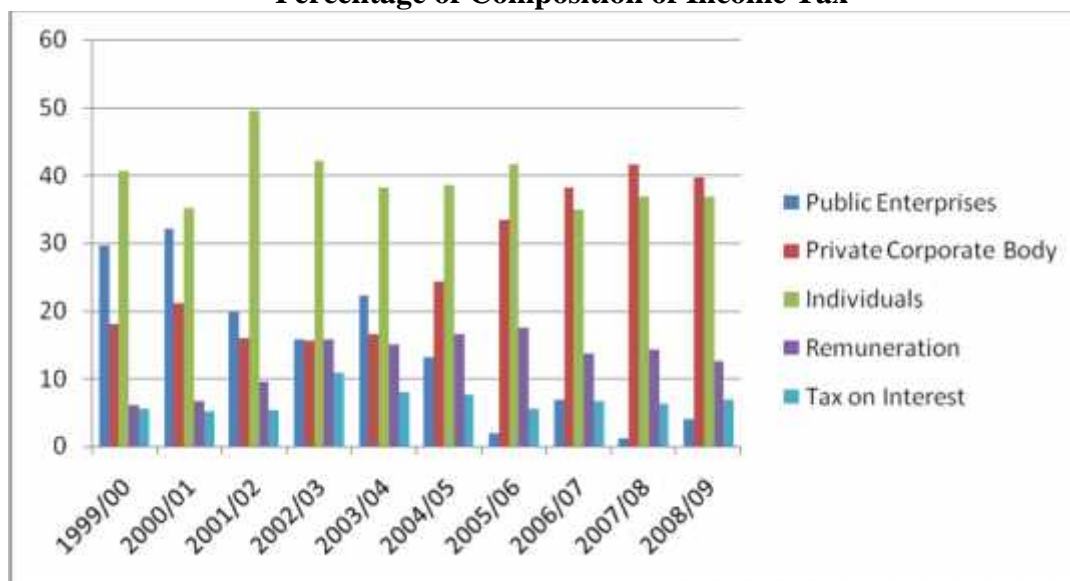


Table 4.5.
Percentage of Composition of Income Tax

Fiscal Year	Total Income Tax Revenue	Public Enterprises	Private Corporate Body	Individuals	Remuneration	Tax on Interest
1999/00	100.00	29.60	18.10	40.60	6.10	5.60
2000/01	100.00	32.10	21.10	35.10	6.60	5.10
2001/02	100.00	19.90	15.90	49.60	9.40	5.30
2002/03	100.00	15.70	15.50	42.20	15.70	10.80
2003/04	100.00	22.20	16.60	38.20	15.00	7.90
2004/05	100.00	13.10	24.30	38.60	16.50	7.50
2005/06	100.00	1.90	33.50	41.60	17.40	5.60
2006/07	100.00	6.80	38.10	34.90	13.60	6.60
2007/08	100.00	1.18	41.50	36.80	14.20	6.30
2008/09	100.00	4.08	39.72	36.85	12.59	6.76
Average	100.00	14.66	26.43	39.45	12.71	6.75

**Figure 4.5.
Percentage of Composition of Income Tax**



It is apparent from the table 4.5. that total income tax revenue is in increasing trend in every fiscal year. Private corporate body and individuals are contributing more income tax from their income in comparison to other tax payers. We can find that income tax revenue collection is increasing each year. Total income tax collection was Rs. 7420.60 millions in FY 1999/00 and reached to Rs. 23522.63 millions in FY 2008/09. In FY 2008/09 the total amount increase in total income tax is higher than other fiscal of this study period. In FY 2008/09, Nepal Government had introduced VDIS system and able to collect more income tax than before. It is positive symptoms to the collection of tax.

The table 4.5. shows that contribution of income tax from public enterprises in average is 14.66 % in average. Total contribution from public enterprises over the years of study is fluctuated. The highest contribution to total income tax from public enterprises is Rs. 2928.00 million in FY 2000/01 whereas the lowest contribution is Rs. 195.7 in FY 2005/06. But, in the current year of study, total collection from public enterprise has reached to Rs. 960.32 million which is satisfactory contribution to total income tax.

The share from private corporate body is 26.43% in average. It is a second major contributor to total income tax in average. But in this FY, it has held second position in contribution of total income tax after individual.

Likewise, contribution of individual tax to total tax is increasing every year. Share of individual was Rs. 3016.4 million in FY 1999/00 i.e. 40.6% of total income tax and increase to Rs. 6381.21 million in FY 2007/08 i.e. 36.8% of total income tax. In the final year of study, it has reached to Rs. 8667.10 millions. In this FY, it has held major position of contribution to total income tax with 37.75% of contribution. It shows the positive symptoms to the government Nepal to collect more taxes from individual.

Moreover, contribution from remuneration and tax on interest is always in increasing trend. Remuneration has contributed its highest amount to total tax Rs.2962.58 millions in FY 2008/09 and its lowest amount to Rs. 451.50 millions in FY 1999/00. Likewise, tax on interest has contributed its lowest in FY 1999/00 with total contribution of Rs. 414.40 millions and its highest in FY 2008/09 with total contribution of Rs.1589.92 millions.

4.5. Contribution of Income tax to National Revenue

Table 4.6.
Contribution of Income tax to National Revenue

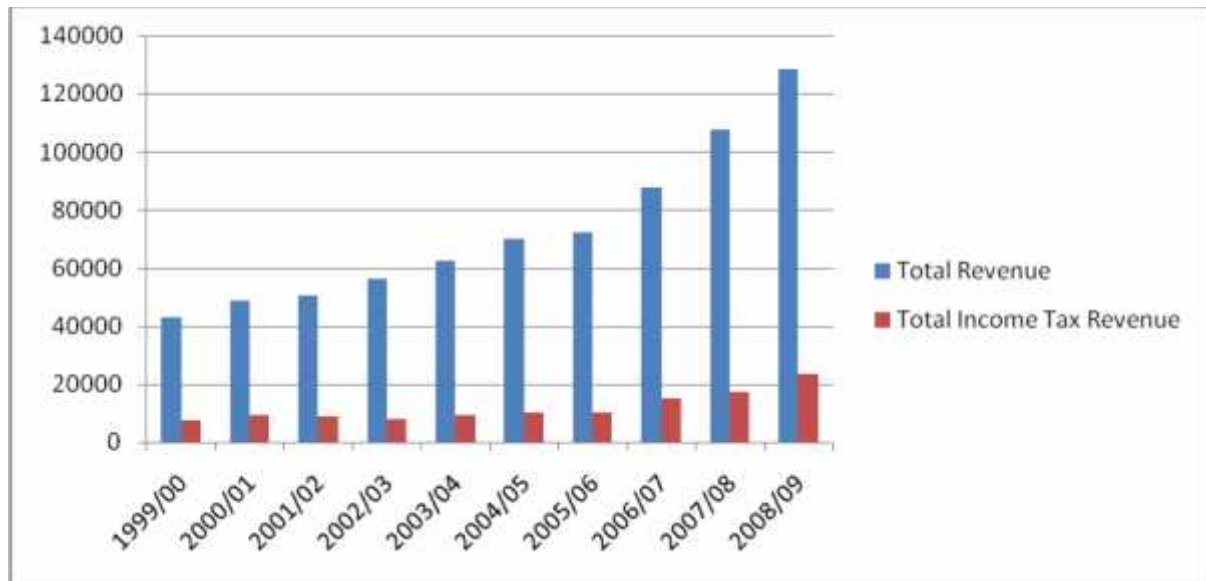
In millions

Fiscal Year	Total Revenue	Total Income Tax Revenue	Percentage of Income tax to total revenue
1999/00	42893.8	7420.60	17.30
2000/01	48893.8	9114.00	18.64
2001/02	50445.6	8903.70	17.65
2002/03	56229.7	7966.20	14.17
2003/04	62331.0	9245.90	14.83
2004/05	70122.70	10159.40	14.49
2005/06	72282.10	10164.50	14.06
2006/07	87712.20	15034.00	17.14
2007/08	107623.54	17311.48	16.09
2008/09*	128668.41	23522.63	18.28
Total	72720.29	11884.24	16.34

Source: Economic Survey, 2009, MOF

*Annual Report of IRD, 2065/66

Figure 4.6.
Contribution of Income tax to National Revenue



The table 4.6. reveals that contribution of total income tax revenue to national revenue is increasing every FY. The contribution of total income tax revenue to national revenue in FY 2008/09 is Rs. 23522.63 millions which is the highest contribution among the study period. The average contribution to national revenue is 16.34% from income tax revenue.

4.6. Contribution of Income Tax from Kathmandu Valley to National Revenue

National revenue consists of Tax revenue and non tax revenue. In the table below, it shows that contribution of income tax from Kathmandu valley to national revenue. The table reveals the contribution of income tax from Kathmandu valley to national revenue to the government of Nepal in figure as well as in percentage.

Table 4.7.
Contribution of Income Tax from Kathmandu Valley to National Revenue
In millions

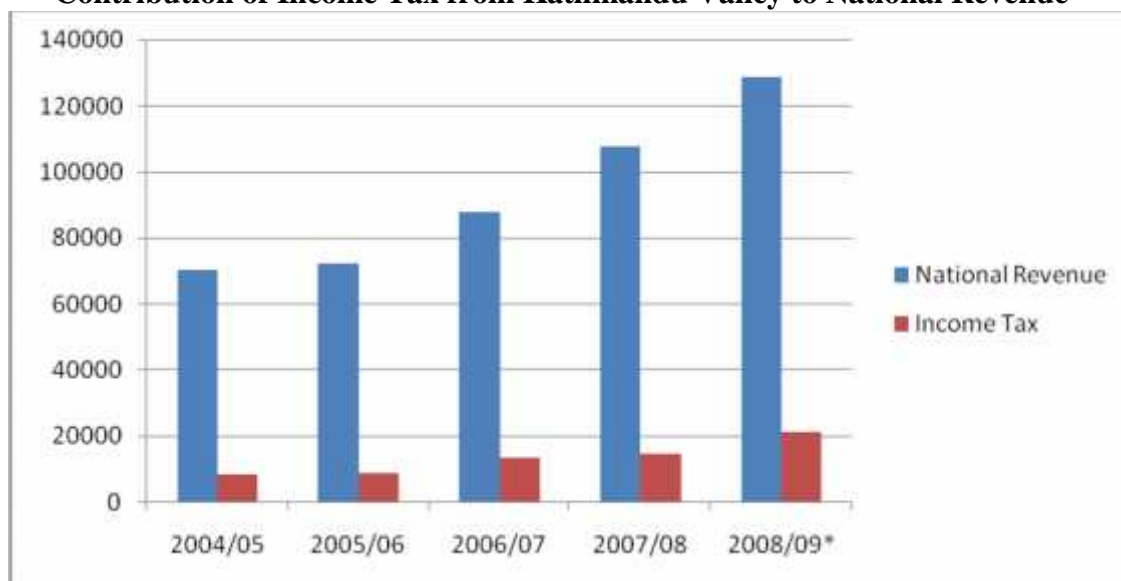
Fiscal Year	National Revenue	Income Tax from Kathmandu Valley	Percentage
2004/05	70122.7	8078.46	11.52
2005/06	72282.1	8560.78	11.84
2006/07	87712.1	13071.97	14.90
2007/08	107622.5	14401.29	13.44
2008/09*	128668.41	21155.20	16.44
Average	93281.56	13053.54	13.99

Source: Economic Survey, 2009, MOF

*Annual Report of IRD, 2065/66

The contribution of income tax to national revenue was 11.52% i.e. Rs. 8078.46 million out of Rs. 70122.70 millions. It gradually increased to 11.84 and 14.90 percentages in the FY 2005/06 and 2006/07 respectively. But in the FY 2007/08, it decrease to 13.44%. From this data, we can say that Kathmandu valley's income tax contribution to national revenue is not satisfactory. But in the FY 2008/09 contribution of income tax to national revenue is increased to Rs. 21155.20 millions holding 16.44% share of national revenue.

Figure 4.7.
Contribution of Income Tax from Kathmandu Valley to National Revenue



4.7. Contribution of Income Tax from Kathmandu Valley to Total Direct Tax of Nepal

Income tax is the major sources of direct tax. It has 64.13% percent contribution to direct tax within study period of five years in average. Its share was 61.80 percentages in FY 2004/05. It was in increasing trend every fiscal year but in FY 2007/08 it decrease to 62.64 percentages from 68.87 percentages in the fiscal year 2006/07. The data of contribution of income tax from Kathmandu valley to total direct tax is presented in table 4.8.

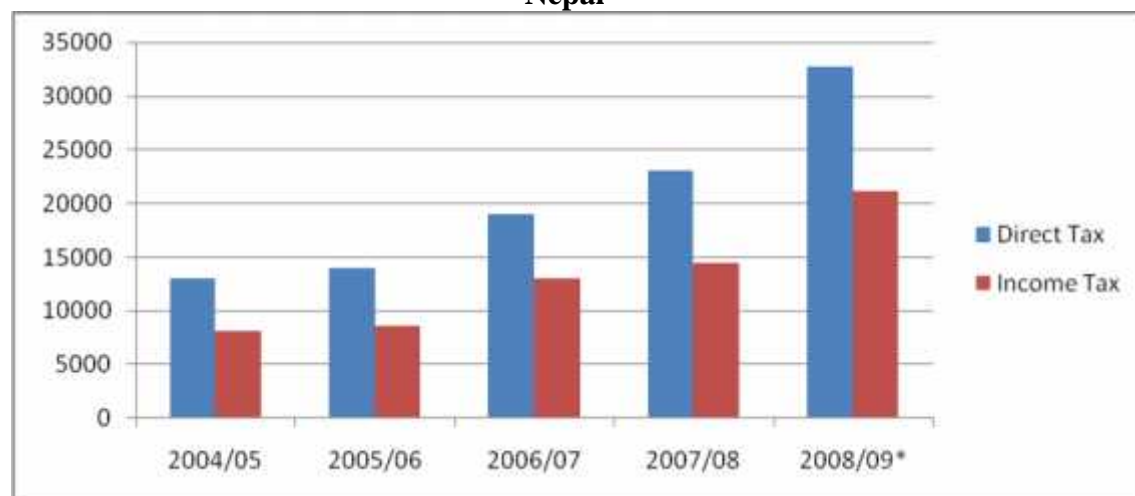
Table 4.8.
Contribution of Income Tax from Kathmandu Valley to Total Direct Tax of Nepal

In millions			
Fiscal year	Direct Tax	Income Tax from Kathmandu Valley	Percentage
2004/05	13071.8	8078.46	61.80
2005/06	13968.1	8560.78	61.29
2006/07	18980.3	13071.97	68.87
2007/08	23087.76	14461.73	62.64
2008/09*	32764.80	21155.20	64.57
Average	20374.55	13065.63	64.13

Source: Economic Survey, 2009, MOF
*Annual Report of IRD, 2065/66

From the table 4.8, it is clear that contribution of income tax from Kathmandu valley to total direct tax of Nepal is in satisfactory level. It holds the major share of direct tax.

Figure 4.8.
Contribution of Income Tax from Kathmandu Valley to Total Direct Tax of Nepal



4.8. Contribution of Income Tax from Kathmandu Valley to Total Income Tax of Nepal

In Nepal, income tax from Kathmandu valley is the major source of total income tax revenue.

Table 4.9.
Contribution of Income Tax from Kathmandu Valley to Total Income Tax of Nepal

In millions

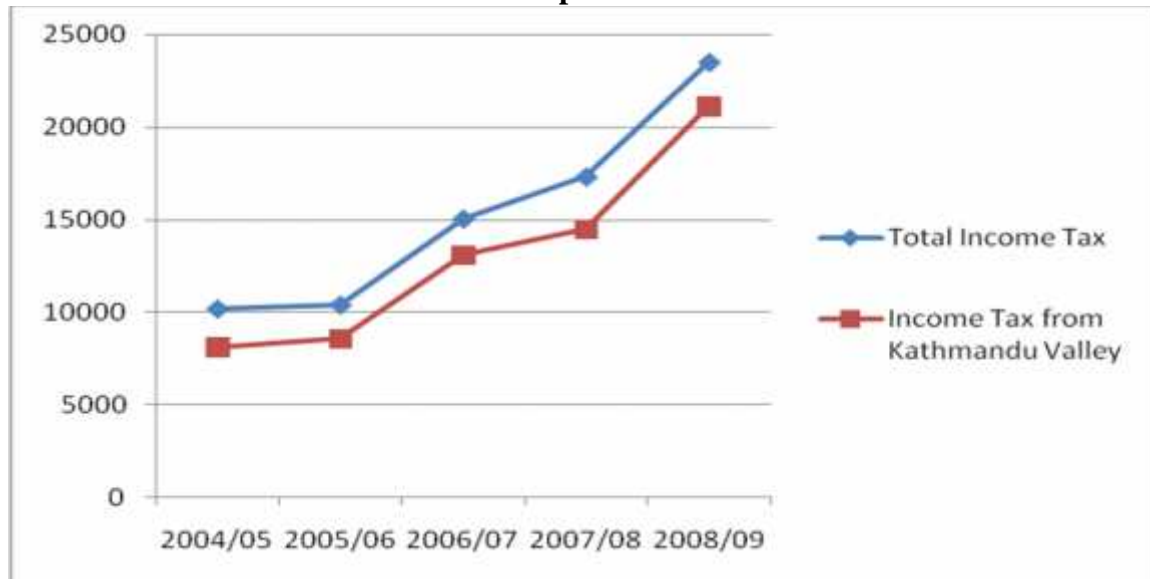
Fiscal year	Total Income Tax	Income Tax from Kathmandu Valley	Percentage
2004/05	10159.4	8078.46	79.52
2005/06	10373.7	8560.78	82.52
2006/07	15034.0	13071.97	86.95
2007/08	17311.2	14461.73	83.54
2008/09*	23522.63	21155.20	89.94
Average	15280.19	13065.63	85.51

Source: Economic Survey, 2009, MOF

*Annual Report of IRD, 2065/66

Above table clearly shows that tax collection from Kathmandu valley under income tax heading is the highest contributor to total income tax collection of government of Nepal. From the above table, Inland Revenue Offices of Kathmandu Valley is holding major share to contribute to total income tax. In FY 2004/05, total collection of income tax was Rs.10159.4 millions. Out of total collection Kathmandu Valley had contributed Rs. 8078.46 millions to total income tax which is equal to 79.52% of total income tax. During the five years of study period from FY 2004/05 to FY 2008/09, it reveals that contribution of income tax from Kathmandu valley to Government of Nepal is in increasing trend and it has contributed Rs. 21155.20 millions which is equivalent to 89.94% of total income tax.

Figure 4.9.
Contribution of Income Tax from Kathmandu Valley to Total Income Tax of Nepal



4.9. Empirical Study

Introduction

The main objectives of an empirical study were to know the different aspects of income tax in Nepal. The structured questionnaire was prepared and distributed for this purpose to collect opinions of respondents. The questionnaire was prepared to cover the role of income tax, effectiveness of tax structure of Nepal, suggestion for the betterment of income tax system of Nepal. The respondents were personalities from different fields categorized as tax administrator, tax expert and tax payer from the Kathmandu valley. The number in each category was equal to ten. The respondents were asked to tick the answer of their choice or to put the ranking numbers as first choice was the most important and last choice was least important. The responses collected thus were tabulated and analyzed in proper way. The following table shows the groups and number of respondents.

Table 4.10.
Group of Respondents and number from each category

S.N.	Group of Respondents	No.
1.	Income Tax Administrators	10
2.	Income Tax Experts	10
3.	Income Tax Payers	10
Total		30

Source: Field Survey

Result of Empirical Study

There were 10 questions in the questionnaire to collect opinions from respondents. Result of survey study has been stated individually in coming paragraphs:

1. Role of Tax Revenue in government's total revenue

To know what the role of tax revenue should be in government's revenue, a question was asked "What do you consider the role of tax revenue in government's revenue?" the responses are tabulated below.

Table 4.11.
Role of tax revenue in Government Revenue

Respondents	Satisfactory		Moderate		Unsatisfactory		Total	
	No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	7	70	3	30			10	100
Tax Experts	6	60	4	40			10	100
Tax Payers	5	50	3	30	2	20	10	100
Total	18	60	10	33.33	2	6.67	30	100

Source: Field Survey

70%, 60%, and 50% of tax administrator, tax experts and taxpayers think the contribution of tax revenue in total revenue of government is satisfactory respectively whereas 30%, 40%, and 30% of tax administrator, tax experts and taxpayers think current contribution of tax revenue to total revenue of Nepal is moderate. But only 20% of taxpayers think role of tax revenue to government is unsatisfactory. Majority of the respondents think current role of tax revenue to total revenue is satisfactory. So, from the responses of respondents, we can conclude that role of tax revenue in total revenue of Nepal is in optimum level.

2. Income tax as the most important source of collection of government revenue

To know the respondents opinion about the role of income tax revenue in rising government revenue, a question “Is income tax an important source of national revenue collection?” was asked. The responses collected from the respondents are tabulated below:

Table 4.12.
Income tax as the most important source of collection of government revenue

Respondents	Yes		No		Nothing to say		Total	
	No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	5	50	5	50	-	-	10	100
Tax Experts	4	40	5	50	1	10	10	100
Tax Payers	3	30	4	40	3	30	10	100
Total	12	40	14	46.67	4	13.33	30	100

Source: Field Survey

From responses collected from 30 respondents from different field, we came to know that 46.67% respondents answer was No. They don't considered Income tax as the most important source of collection of government revenue. 40% agreed, it is important source of collection of national revenue and remaining 13.33% did not say

anything in regard to this matter. Thus, conclusion can be dragged as the income tax as the one of contributing factors to government revenue and it has good role for the collection of revenue of government.

3. Income tax System of Nepal

A question was asked to respondents about “What do you consider about the income tax system of Nepal?” to know the opinion about the respondents. The responses have been tabulated below.

Table 4.13.
Income tax system of Nepal

Respondents	Efficient		Satisfactory		Poor		Total	
	No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	6	60	4	40	-	-	10	100
Tax Experts	4	40	4	40	2	20	10	100
Tax Payers	2	30	5	50	3	30	10	100
Total	14	46.67		46.67		16.66	30	100

Source: Field Survey

From the table, we can drag the conclusion that Nepalese income tax system is in satisfactory level. There are 46.67% respondents showed their consent over satisfaction level likewise 46.67% thinks it is in efficient level whereas only 16.66 respondents thinks it is in poor level.

4. Efficiency of Income Tax Administration in Nepal to implement tax law and policies

A question was asked about “How is the income tax administration in Nepal to implement tax law and policies effectively to increase income tax?” to know the views of respondents. The responses have been tabulated below.

Table 4.14.
Efficiency of Income Tax Administration in Nepal to implement tax law and policies

Respondents	Effective		Satisfactory		Poor		Total	
	No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	2	20	4	40	4	40	10	100
Tax Experts	3	30	3	30	4	40	10	100
Tax Payers	2	20	3	30	5	50	10	100
Total	7	23.33	10	33.33	13	43.34	30	100

Source: Field Survey

From the above table, the opinions of different respondents collected shows that 43.34% of respondents opinion was about poor tax administration is prevailing in Nepal. So, we can conclude that there is no sound income tax administration in Nepal.

5. Effectiveness of Tax Administration

To know the opinion of respondents, a question asked to respondents “How can be improved the effectiveness of tax administration?” The views are presented in the tabular form below:

Table 4.15.
Effectiveness of Tax Administration

Respondents	No Change		Evolutionary Change		General Improvement such as decentralization and Delegation		Total	
	No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	2	20	2	20	6	60	10	100
Tax Experts	0	-	4	40	6	60	10	100
Tax Payers	0	-	3	30	7	70	10	100
Total	2	6.67	9	30	19	63.33	30	100

Source: Field Survey

It is already identified that administrative system is not as effective as it requires. 63.33% of total sample size thinks general improvement such as decentralization and delegation is necessary to make effective administration. 30% of total sample size thinks evolutionary change is required to make effective administration whereas only 6.67% feels, no change is required. We can conclude that we can make tax administration effective by general improvement such as decentralization and delegation.

6. Effectiveness of campaign taken by IRD to make people aware

A question was asked to respondents about “Are you satisfied with the campaign taken by Inland Revenue Department to make people aware about benefits of tax payment?” The responses have been presented in the table below:

Table 4.16.
Effectiveness of campaign taken by IRD to make people aware

Respondents	Yes		No		Nothing to say		Total	
	No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	6	60	4	40	-	-	10	100
Tax Experts	5	50	4	40	1	10	10	100
Tax Payers	3	30	5	50	2	20	10	100
Total	14	46.67	13	43.33	3	10	30	100

Source: Field Survey

From the table, we can conclude that 46.67% respondents showed their satisfaction of campaigning, 43.33% showed their dissatisfaction and 10% had nothing to say. We can say that campaigning is not meeting the target of IRD.

7. Effectiveness of measures taken by IRD

A question asked to respondents that “Do you think measures taken by Inland Revenue Department are effective to control tax evasion?” Respondents’ answers are presented in the table below:

Table 4.17.
Effectiveness of measures taken by IRD

Respondents	Effective		Moderate		Nothing at all		Total	
	No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	7	70	3	30			10	100
Tax Experts	3	30	6	60	1	10	10	100
Tax Payers	2	20	5	50	3	30	10	100
Total	12	40		46.67		13.33	30	100

Source: Field Survey

From the above table, it can be seen that measures taken by IRD to control tax evasion is not effective. It shows its measures are at moderate level. Only 40% of respondents showed their opinion as effectiveness of IRD to control tax evasion but 46.67% of respondents have showed IRD has moderate level of measures to control tax evasion.

8. Factors to be considered to increase the contribution of income tax from Kathmandu valley

To know the opinion of respondents, a question was asked “What factors should be considered to increase the contribution of income tax from Kathmandu valley?” the views of respondents have been presented in the table below:

Table 4.18.
Factors to be considered to increase the contribution of income tax from Kathmandu valley

Respondents	Making Tax Deduction at source effective		Bringing net taxpayers into tax net		Increasing tax rate		Total	
	No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	7	70	3	30	-	-	10	100
Tax Experts	4	40	5	50	1	10	10	100
Tax Payers	2	20	6	60	2	20	10	100
Total	13	43.33	14	46.67	3	10	30	100

Source: Field Survey

From table, we can conclude that bringing net taxpayers into tax net is considered to increase the contribution of income tax. About 46.67% percentage of respondents showed their consent for that.

9. Income tax evasion in Kathmandu Valley

Question prepared to know the respondents' perspective on "Do you believe that income tax evasion in Kathmandu valley is high?" and their respective responses are presented below:

Table 4.19.
Income tax evasion in Kathmandu Valley

Respondents	Yes		No		No Idea		Total	
	No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	2	20	7	70	1	10	10	100
Tax Experts	2	20	6	60	2	20	10	100
Tax Payers	8	80	1	10	1	10	10	100
Total	12	40	14	46.67	4	13.33	30	100

Source: Field Survey

The above table from the respondents reveals that tax evasion in Kathmandu valley is 40%, whereas 46.67% showed that their dissatisfaction for the question asked to them. Only 13.33% have no idea for that whether Kathmandu has higher tax evasion or not.

10. Suitable way to make taxpayers more responsible

To know the views of respondents question was asked "What is the most suitable way to make taxpayers more responsible?" the responses are presented in the table below:

Table 4.20.
Suitable way to make taxpayers more responsible

Respondents	Awareness through media		Harder provision in rules		Incentives such as prize and respect		Total	
	No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	2	20	5	50	3	30	10	100
Tax Experts	3	30	5	50	2	20	10	100
Tax Payers	6	60	2	20	2	20	10	100
Total	11	36.67	12	40	7	23.33	30	100

Source: Field Survey

This table shows that 36.67% percentage have shown their consent for increasing tax through awareness in media, 40% showed their opinion in increment in tax through harder provision in rules and 23.33% showed their opinion for increment in tax through incentives such as prize and respect.

4.10. Major Findings

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

1. Nepalese tax structure is composition of tax and non-tax revenue. Tax revenue is holding
2. Total income tax revenue collection is in increasing trend. It is significant to total collection but variation in collection heading of income tax is not significant. All the income tax heading are contributing to total income tax is in increasing trend but percentage of contribution is fluctuating every year of this study period.

3. The total amount of income tax in FY 2008/09 has reached to Rs. 23522.63 millions from Rs 17311.48 millions. It is higher increment compare to other FY of study period. The reason behind this increment can be the introduction of VDIS system by Nepal Government.
4. Land revenue and registration has highest percent and amount of contribution in FY 2008/09 compare to other FY of this study period. The reason for increment is political stability and internal migration for security in the country.
5. Income tax is the highest contributor to direct tax revenue of Nepal. In FY 2008/09, tax on property, profit and income has contributed 82.66% to direct tax which is the lowest contribution in ratio during the study period. In FY 2006/07, it was contributed its highest ratio equal to 88.13%.
6. Nepalese income tax is the composition of income tax from public enterprises, private corporate bodies, individual and sole trading firms, remuneration and tax on interest. The main contributor of income tax is private corporate body, individual and sole trading firms and remuneration i.e. 35.42%, 37.75% and 14.86% in average respectively in FY 2008/09.
7. Income tax revenue collection from Kathmandu Valley is satisfactory. It is always in increasing trend. The contribution to income tax to Government of Nepal from Kathmandu valley is 85.08% in average. It has contributed 89.94% as its highest equal to Rs. 21155.02 millions out of total collection of income tax Rs. 23522.73 millions in FY 2008/09.
8. Income tax from Kathmandu valley is contributing higher ration and amount to total direct tax of Nepal. Its contribution to total direct tax is 64.13% in average. In FY 2004/05 its contribution was 61.80% which is lower ratio during this study period whereas in FY 2006/07, it has contributed 68.87% to total direct tax. In FY 2008/09 its contribution seemed 64.57%.
9. Survey study has conducted to know the opinions of respondents from different walks of life. They are tax administrators, tax experts and tax payers.

30 persons had been taken as sample study, 10 from each group. Major finding identified from survey study are as follows:

10. Role of tax revenue in total revenue of Nepal is in optimum level.
11. Income tax can be regarded as good source of good source of collection of government revenue.
12. Income tax system of Nepal is in satisfactory level.
13. Income tax administration is in poor level to implement tax laws and policies effectively.
14. Opinions of sample size taken are in favor of general improvement such as decentralization and delegation of authority is required for effectiveness of tax administration.
15. Awareness campaign taken by IRD is somehow satisfactory about benefits of tax payment. Awareness program has somehow change the behavior of tax payers.
16. Measure taken by IRD to control tax evasion is in moderate level. It is because of poor tax administration.
17. Bringing net taxpayers into tax net is considered to increase the contribution of income tax.
18. Large tax payers are living in valley and there is a possibility of tax evasion is high in Kathmandu valley.
19. Nepal government should introduce the harder provision in rules to make the entire tax payer responsible to increase tax.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter presents the state of the whole research process, its prospects as consequence. The study is carried out to analyze the income tax revenue to find out its prospect to increase total revenue. The study is mainly focus on the contribution of income tax revenue from the Kathmandu valley to the government of Nepal. These Chapters summarizes the study and presents summary, conclusion and the main recommendation based on the whole study process and analysis of the data.

5.1 Summary

Nepal is a land lock Himalayan country situated between Asian's two big countries China and India. Nepal with diminutive per capita income of \$ 320 has been designated the least developed country. It's predominantly agriculture economy employees more than 80% of the economically active population only 18% total availed land without using any modern technology. The prime concern of every nation of world is rapid economic development and Nepal is no exception to this ever-continuing process. Nepal aims for self-reliant economic system to upgrade its living standard of people. Thus, huge sum of money has to be spent to achieve maximum national objectives.

It is important to study various books, articles, dissertation and other reference materials during the course of research. There are lots of dissertations have been found written on various aspects of income tax of Nepal. Books are found based on the syllabus of universities, so they are descriptive than analytical. But, it is found that no one has studied about income tax revenue contribution from Kathmandu valley to the government of Nepal. So, this study is unique and original.

Secondary and primary data are used in this study. Economic survey and annual report of Inland Revenue Department have been used as the major secondary data. Survey study has been used in this study to collect primary data on income tax revenue aspect of Kathmandu valley.

Revenue constitutes tax and non-tax revenue. Direct tax and indirect tax are branches of tax revenue and income tax is one of the major sources of direct tax. Income tax is imposed on net income of natural as well as legal person. It is called personal income tax if levied from natural person and corporate income tax if levied from any corporate body.

Currently, income tax revenue in Nepal is collected through four sectors i.e. corporate income tax, individual income tax, house and land rent tax and interest tax. Among them, corporate income tax is the highest share. Contribution of individual's income tax is in decreasing trend although it occupies second position in income tax collection. Exemption limit and tax rate of the income tax is determined according to the income level and sector wise but is not adjusted according to the country and number of dependents. Exemption limit is not provided to the corporate bodies.

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

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

The role of revenue is crucial for the overall development of the country. In this context, the Nepalese Government needs to develop a sustainable broad based source of revenue. Since more than 70 percent of the total revenue is collected from tax source, efficient tax system has to be developed and strengthened. In recent years, the government has taken several measures to reduce tax-induced distortions, strengthening tax administration, simplifying tax laws and procedures to make them

more transparent. With an aim to broaden the tax base; the government enacted new income tax act 2002. This tax act brought all sources of income from employment, business and investment under the tax net and helped maintain neutrality of taxation in various income generating activities.

Unclear vision of government to the production sector, frequent changes of rules and regulations and unstable political economic environment of Nepal has sharply damage the revenue collection. However, income tax laws administration in Nepal are to be deeply scrutinized and properly implemented. Act itself is not bad; some provisions would have to be mentioned clearly. Manpower development planning within the administration is desired for the efficiency of tax personnel side by side, tax evasion packages are to be made and imitated hence, tax administration and tax compliance could be improved.

5.2. Conclusion

The conclusions of this study are mentioned below:

Revenue Structure

Nepalese revenue structure is composed of tax and non-tax revenue, tax revenue has the largest share of contribution on total revenue i.e. average 79.38 percent of total revenue has been found to be contributed by tax revenue in total revenue from fiscal year 2004/05 to 2008/09. Among the various tax revenue VAT has occupied first position regarding its contribution in total revenue.

Structure of Tax Revenue

Tax revenue consists of direct and indirect tax revenues. Tax revenue has been dominated by indirect tax revenue. From the fiscal year 2004/05 to 2008/09 average percentage contribution of income indirect tax revenue has been found that 73.18 percent whereas direct tax revenue has contributed 26.82 percent in tax revenue. Among direct tax, income tax has the highest contribution.

Income tax contribution

Total income tax has the average contribution of 16.34% in total revenue whereas income tax contribution from Kathmandu valley to national revenue is 13.99%. From this we can say that Kathmandu valley is major income tax contributor to national revenue. Contribution of individual sectors in income tax revenue has been seen the highest in this study. For total direct tax, income tax contribution from Kathmandu valley is 64.13%.

5.3. Recommendations

The following recommendations are made for the betterment of income tax system of Nepal through the analysis of income tax contribution of Kathmandu valley to the government of Nepal:

1. Overall revenue policy as well as tax policy should be revised through detail and critical analysis of situation.
2. Income tax policy should be formulated according to the economy policy of the country. Income tax policy should be revised timely.
3. Tax ration should be increase gradually on the long run basis to meet the deficit in budget. For this, the tax base should be widened.
4. The members involved in formulating income tax policies must have depth knowledge about income tax. The personnel rewards, prize, incentives should be introduced in the act to encourage the taxpayers to pay tax voluntarily rather through coercive measures.
5. Income tax, rules and regulation should be clear and simple for all the taxpayers as well as tax administration.
6. The definition made in Income Tax Act should be further clarified and well defined in simple language.
7. Clear provisions should be made in case of deduction. All the items of deductions should be clearly defined in the Act.

8. Effectiveness of income tax system depends upon the income tax administration. In Nepal, one of the most important reason for unsound tax system is inefficient and unscientific income tax administration.
9. Government should coordinate with FNCCI to check the tax evasion and to make taxpayers aware of the taxation.
10. Government should focus on tax collection of Kathmandu valley. Most of the people from throughout the country lives here and government should introduce different program to change behavior of population and benefits of tax payment.
11. Most of the populations living in urban areas are aware of tax, but government should coordinate with private sector as well as people through media to avoid unethical practices in tax administration. Government should create the environment to feel the benefit of tax payment by providing direct benefits to taxpayers. It encourages taxpayers and they would be motivated to tax payment.

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Appendix-I

Questionnaire

Name of Respondents:

Designation:

Category: Tax Administrator/ Tax Experts/ Taxpayers

You are requested to tick the answer of your choice

1. What do you consider the role of tax revenue in government's revenue?
a) Satisfactory b) Moderate c) Unsatisfactory

2. Is income tax an important source of national revenue collection?
a) Yes b) No c) Nothing to say

3. What do you consider about the income tax system of Nepal?
a) Efficient b) Satisfactory c) Poor

4. How is the income tax administration in Nepal to implement tax law and policies effectively to increase income tax?
a) Effective b) Satisfactory c) Poor

5. How can be improved the effectiveness of tax administration?
a) No Change b) Evolutionary Change

