

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Governments have to spend a lot of money to fulfill its responsibilities towards the people. The government of a country requires sufficient revenue to handle day-to-day administration, carry out development plans, maintain, peace & security and to launch other public welfare activities. Government collects revenue from various internal and external sources. External source of fund is foreign grants and loans. This kind of fund has received from foreign countries and international organizations. External sources of fund is important for undeveloped and underdevelopment countries. It has used for economic development, reconstruction, foreign exchange, to recover from crisis condition for productive use etc. (Sharma and Luitel, 2059). However, the external sources are uncertain, inconvenient and not good for healthy development of the nation. It is better to mobilize internal sources rather than working with beggars eye to the donors (Pant, 1996). The external sources of financing is depends upon the interest and the condition of funding countries and no discretion to spend the fund available. Continuous use of external source of fund is not good because it reduces liquidity position of the government, increases inflection and make over dependence upon other countries. Therefore, at present income tax increase the sources of internal revenue government of Nepal. Through its internal revenue, officers various kind of tax related program including tax education program are conducted slogan “Let us talk about tax in each and every household and payment of tax for the development of a nation”.

Internal sources of fund is own source within the nation and it includes both tax and non-tax revenues. Internal sources are more important and it is necessary for proper mobilization of internal sources to fulfill government's financing necessities. Internal source has no obligation towards the third party and is less risky as compared to the external fund. The government is not obliged to pay back the fund and only has to see the need of its economy and the interest of the people while mobilizing internal sources.

On the other hand, internal sources of fund can be classified in to two types: i) Tax source ii) Non-tax sources. Tax sources are the compulsory contribution from the taxpayers to the government. Non-tax revenue includes special assessment, fees, grants, gifts, fines etc. Non-tax sources are uncertain and inconvenient so, taxes are the better sources of public revenue. The use of tax is safer for financing public revenue in developing countries.

Tax is, in simple terminology, a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the taxpayers according to the nation's law. Professor Seligman has defined tax as a compulsory contribution from a person to the government to defraud the expenses incurred in the common interest of all without special benefits conferred. In other words, tax is a compulsory levy imposed by the government and the taxpayers cannot get direct corresponding benefits from the government.

Tax is classified into two categories i.e. direct and indirect. The person paying and bearing tax is same in direct tax. It is legally imposed. Income tax, property tax, land tax, interest tax, gift tax etc are the examples of direct tax. Indirect tax is a tax, which imposed on one person but partly or wholly paid by another. Value added tax, import/export/excise/duties, hotel tax etc are the examples of indirect taxes where the person paying and bearing tax is different.

Income tax is essential not only for collecting government revenue but also to control over consumption, to reduce in equality of income & wealth, to promote saving and investment and to accelerate economic development (Joshi, 2055). It is not doubt that income tax is main source of government revenue. Income tax is collected from various sources of profits and incomes. It is collected from public enterprises, semi-public enterprises, private corporate bodies, individuals, remuneration and interest.

Nepal has been adopting the income tax system for last four decades and is assessed on yearly basis. Although the legal provision has been made and updated timely, there are many problems about income tax such as leakage in tax, feeling of people about tax as a penalty, lack of consciousness of people, inability of tax administration to cover new tax payers, delays in computation & collection, lack of accuracy and unity in accounting system etc (Khadka, 2001).

Because of these reasons, the present study has been designed to highlight the provisions made in Income Tax Act 2058 for income from remuneration and its contribution to revenue collection in Nepal. According to income tax, 2058 following are the sources of revenue from income tax.

1. Income from employment.
2. Income from occupation or business.
3. Income from investment.
4. Wind face game, person who engage in their about income earning activities should have take permanent account number (PAN) from the internal revenue office. This PAN No. should be including in the bills.

Development of revenue administration in Nepal

1. Starting from 2007 B.S.
2. Establishment of finance ministry in 2008 B.S. and first budget was prepared.
3. Revenue collection and expenditure system was adopted.
4. Central tariff board was established in 2008 B.S.
5. Ministry of finance custom commissioner was established in 2014 B.S.
6. Custom & excise duty department and excise duty act in 2015 B.S.
7. Economic act of 2016 started levied tax on profit and end remuneration.
8. Establishment of tax office in 2019 B.S. and income tax act was issued.
9. Sales tax act was promoted.
10. Separate office was started for custom and sales tax.
11. Income tax base was expanded.
12. Revenue administration training was establishment.
13. Department of sales tax was established.
14. Revenue group was established in 2049/50.
15. Revenue research department was established in 2050.

16. Value added tax act was started.
17. Sales tax was converted into VAT.
18. Income tax, VAT and Excise duty was administrate by the same office of internal revenue department.
19. Separate office was established who transect more than 15 cores. Now it's threshold in 25 cores.
20. Up to 2072 there are 13 tax service centre in Kathmandu and 13 in other are or total 26 tax offices and 49 field offices are established to raise tax revenue.

1.2 Focus of the Study

The topic itself is very clear about the focus of the study. The study aims to analyze the income tax system of Nepal and its problems and prospects to revenue collection by using descriptive tools under descriptive and analytical research design. More specifically, the study focus on laws and rules regarding remuneration income tax, revenue composition of Nepal and their contribution to revenue collection during the period of past eighteen years starting from the fiscal year 2052/53 to 2071/72.

1.3 Statement of the Problem

Nepal is one of the least developed countries with low per capita income. Its per capita income is 745 US\$. People of Nepal depend on agriculture for their livelihood as well as remittance. There is resource gap problem in Nepalese economy where public expenditures are greater than public receipts. The resource gap has been widening in the recent years. In order to meet the public expenditures, the government has to raise funds through external and internal sources. The internal sources are income tax, property tax, vehicle tax etc.

A sound tax system is one of the essential requisites to increase sustainable revenue. Thus, different taxation policies have been introduced and renewed on timely basis with a view to mobilize internal resources. It contributes to economic growth and reduces dependency on foreign loan. In Nepal, the coverage of income tax is very low. One research found that only about 0.5 percent of the total population pays income tax (Sharma, 2011). There is poor tax paying habit of Nepalese people. The

tax authorities are also insufficient and ineffective in enforcement. There are no integrated programs for taxpayers' education, assistance, guidance & counseling. Tax officers are looked upon as heaven for corruption, harassment and incompetent personnel. The assessment procedure of income tax is not effective, undue delay in tax assessment not only reduces the total revenue but also brings harassment to the taxpayers (Agrawal, 1973).

Therefore, the coverage of income tax is 42.35% in 2071/72. Agricultural incomes are exempted from income tax. Retirement amount received by Nepalese people being retire from the service by army or police of foreign countries are also exempted. Exemption of these sources provided loophole for tax evasion and complicates to the tax administration too. A major feature of individual employment tax is the attempt to tax individuals and families based on their ability to pay. Although, there is not scientific basis for measuring ability to pay, a widely accepted fact is that person with higher level of income, decreases the size of family. In present employment tax system, there is not exist separate allowances for marital person based on number of dependents. The marital person having four and no children is taken in the same tax brackets.

Contribution of the income tax to the national budget must be increased to achieve the goal of national development and equal economic distribution. The goal can be achieve only if the government of Nepal takes steps for making the income tax management. Income tax from employment must be increased by bringing the new taxpayers in to the tax net and implementing the tax laws effectively to discourage the tax evasion practice. Loophole must be traced out and monitored effectively. Large taxpayers who are hiding their employment income should be brought in to tax bracket. Shortcoming existed at present employment income tax system must be avoided.

There has been a big gap between formulation of policies and its implementation. This study will analyze the existence of such gap in taxation policies. Further, this study attempts to solve the following problems:

-) What is the composition of government revenue of Nepal?
-) What is the trend of income tax in Nepal?

-) What is the contribution of employment, occupational & investment income tax in total tax revenue?
-) What are the problems and weaknesses of present taxation policy regarding income tax of Nepal?

1.4 Objectives of the Study

The basic objective of this study is to gain an insight in to the provision made in the present taxation policy regarding income from employment and give appropriate suggestions to improve the system so that the government can collect more revenue. In a developed economy, individual income tax has a dominant share in the total revenue because the people of these countries are under the tax net. However, we are quite unsuccessful to bring most of the prospective taxpayers under the tax net. If we classify the tax exemption limit according to the income of an individual and make it proportional to the size of family, we can encourage more people to pay the tax. Tax paying habit can also be increased by providing appropriate incentives to the taxpayers. In this regard, the specific objectives of the study are as follows:

- i. To analyze the composition of government revenue of Nepal.
- ii. To assess the trend of the income tax revenue collected by the government.
- iii. To explore the contribution of income tax to total tax revenue.
- iv. To identify difficulties & problems and Recommendations appropriate policy to enhance the income tax collection in Nepal.

1.5 Justification of the Study

Nepal is heavily dependent on the foreign aids and grants to undertake development activities. The resources collected internally are sufficient to run day-to-day administration of the country but the revenue surplus is not adequate for development activities. Out of various source of income, income from employment is an importance source. It has been contributing to income tax revenue of the nation being a regular source of income. As this study has analyzed the employment income tax system and its contribution to revenue collection, the findings, conclusion and recommendation of the study will be useful to design and formulate

policies by the concerned authorities. Besides, the study will be helpful to the taxpayers, students and research scholars as reference materials.

1.6 Limitations of the Study

This study is specially based on remuneration aspect and not a complete study of Income Tax Act, 2058. Therefore, the study is not far from some limitations. The limitations of the study are as follows: The study focuses but not the complete sources of direct tax of Nepal.

-) The reliability of the study is depended on the reliability and validity of the secondary data.
-) The study has covered the period of eighteen years only i.e. from fiscal year 2096/97 to fiscal year 2014/15.

1.7 Organization of the Study

This study is organized in five chapters: Introduction, Review of Literature, Research Methodology, Presentation and Analysis of Data and Summary, Conclusion and Recommendations.

Introduction chapter includes the general background, focus of the study, statement of problem, objectives of the study, justification of the study, limitations and organization of the study. Similarly, the second chapter includes the theoretical review, review of dissertations, reports, articles and journals. Research methodology chapter is concerned with the methodology adopted in the research work. Furthermore, presentation and analysis of data is included in chapter four. Finally, the summary of research work, conclusion and recommendation are given in chapter five.

CHAPTER - II

REVIEW OF THE LITERATURE

This chapter deals with the literatures relevant to the study. To deepen knowledge and understanding about the subject matter, some literatures related with the study were reviewed. It includes the conceptual review and review of some previous studies.

2.1. Conceptual Review

This sub chapter presents the theoretical aspects of the study. It includes concepts of income, concept of tax, objectives of taxation, principles of taxation, historical background of income tax special focus on employment income tax and definition of new Act, 2058 for employment income.

2.1.1 Concept of Income

Income consists of any economic gains of the people during a specific period. It is measured in monetary terms and come from property, business and employment etc. Income is the value of goods and services consumed by an individual during a particular period. Generally, income is regarded as the best measure of ability in the sense of economic well being. It is the basic determinant of level of living that a family enjoys.

Professor Haig stressed that income is the economic power between consumption and net capital accumulation. According to the Dictionary of Economic Terms, income mean " The wealth measured in money, which is at the disposal of an individual or a community, per year or other unit of time; it may be regarded as a flow of purchasing power which may be expended at once on goods and services or retained for the purposes of capital accumulation" (Ahsan, 1995).

A person's income for a specific period in an economic sense consists of net increase of personal wealth whether from accumulation of net savings or increase in the value of property held. The sum of personal wealth during the period may be

negative so that income is less than consumption. Income is derived from two sources: the performance of personal services, i.e. undertaking some kind of works and the ownership of factors of production. Income is monetary or equivalent return that comes from property, business and labor etc. It is the value of goods and services consumed by an individual during a particular period.

Income Tax Act 2058, Section 5 of Nepal imposes tax on those activities which contribute towards the generation of wealth. Wealth is generated with the help of labor, capital and capital-labor activities. And the act has made 3 broad classifications of income from all income earning activities. They are:

- Income from Business
- Income from Investment
- Income from Employment

2.1.2 Concept of Tax

Tax is a compulsory monetary contribution to a state by its residents without getting corresponding benefits of service or goods from the government. The government of any country needs adequate budget to run administrative/development activities. The government through various sources collects the revenue. Tax is the major source of government revenue.

Seligman has 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 (Dhakal, 2057).

Plehn stressed that taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the residents of the states (Dhakal, 2057).

"A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the tax payer in return and not imposed as penalty for any legal offence." - Dalton.

"Tax is a compulsory payment to the government without expectation of direct expenses of direct return as benefit to the tax payers". -Taylor

"A tax is a compulsory contribution of wealth of a person or body of persons for the service of public powers". - Bastable

From the above definitions; it is clear that tax is imposed on the person by the government according to the laws of the country. If the person on whom tax is imposed does not pay, law will punish him. The government does not provide any corresponding benefits to the taxpayers for tax paid. In other words, the government does not provide special benefits in return of tax paid. Tax is considered a compulsory monetary contribution to a state by its residents for which the state provides security to them. Citizens are supposed to earmark a certain portion of their income for the state in turn of justice given by the king. In ancient time when coin and paper money were not in use, various corns, metals, cattle and the like commodities were used to be given to the king as a tax. The king in turn, would provide peace, security and justice to the people.

Tax is classified in two categories i.e. Direct and Indirect. "A direct tax is really paid by the person on whom it is legally imposed."- Dr. Dalton.

The person paying and bearing tax is same in direct tax. Income tax, property tax, land tax, interest tax, gift tax etc are the examples of direct tax.

"An Indirect tax is imposed on one person but paid partly or wholly by another." - Dr. Dalton.

Value added tax, import/export/excise duties, hotel tax etc are the examples of indirect taxes where the person paying and bearing tax is different.

2.1.3 Objectives of Taxation

Taxation has been a very essential element of a government from the very inception of the state system. However, the objective of taxation has been different from time to time. In ancient times, the major objectives of taxation were strengthening the muscle of the arms of the state by providing the resources. Until to the time of Adam Smith, the chief motive of collecting revenue was to make available resource to the government for providing security to an individual and society against violence, invasion, and injustice and maintaining public institutions.

In modern days, the main objective of taxation has been sifted from security perception to the economic development. The objective of taxation is not only to maintain peace and security. Some major objectives of taxation are as follows:

Redistribution of raising more 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.

Wealth for the common good

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 state

As government has to spend a lots of money for education, health and creation of employment for common persons. It is the 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 businesses earning foreign currencies.

Increasing savings and Investment

- ❖ Provides tax exemption on savings and also on income from private investments. This objectives in based on the thinking that rather to pay tax invest the money. (Source: Bhattarai, Ishwor and Koirala Girija P.)

2.1.4 Principles of Taxation

The economists of different time have given different views on the requirement of good tax system in the state. According to Adam Smith, Bastable and views of some modern economists, the principles of taxation can be summarized as follows:

- **Principle of Equality**

Tax should be imposed on equal ground to all taxpayers based on ability to pay.

- **Principle of Certainty**

There should be certainty on time, manner, method and quantity of paying tax.

- **Principle of Economy**

The cost of collection tax should be very small. The amount paid by the people and it actually goes to the state should be minimum difference.

- **Principle of Convenience**

The tax system of the state should be convenience so that the ordinary people of the society can easily follow. Time, manner and method of paying tax should be convenient. Most of people of the nation do not have adequate knowledge on tax and they not have capacity of hiring tax experts. The tax system should be simple to understand to general people. Therefore, the principle of convenience is the vital quality of good tax system.

- **Principle of Productivity**

The tax system of the nation should provide adequate revenue. Otherwise, it should withdraw.

- **Principle of Flexibility**

The tax system should be of revenue elasticity i.e. higher the economic activities, higher the tax revenue. On the other hand, the tax system should be of that type which provides revenue as per the necessity of the state. If there is higher need of revenue, the tax system should provide adequate to fulfill the need.

- **Principle of Diversity**

If the tax system is depended on one source of revenue, that would be risky to the government. Therefore, the system of taxation should diversify on various sources as far as possible.

- **Principle of Neutrality**

The economic sector of the country should not be badly affected by the tax system. The tax policy should not only focus on collecting more revenue but also see the effect on economic activities.

2.1.5 Historical Background of Income Tax

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 the United States of America, the first federal income tax was imposed in 1862 to finance civil war expenditure. However, it became a permanent feature only in 1913 after the 16th amendment to the U.S. constitution. In the neighboring country India, the first income tax was introduced in 1860. After introducing 'Income Tax Act 1886', it was imposed as a permanent tax. Italy adopted income tax in 1864, New Zealand in 1891, Australia in 1915 and Canada in 1917. After the 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 its appearance in a number of developing nations (Agrawal; 1978).

In the beginning of introducing it, it was generally levied at a flat rate. Only after 1909, the principle of flexibility was introduced from the UK and New Zealand.

In Nepal, taxes on agriculture and business incomes were introduced as direct tax for the first time in the Rana regime. During that time, land revenue was the main source of public revenue. Tax on business income was called 'Kara' and tax on agriculture income was 'Bhaga'. In the time of King Anubhuma, religious movements and irrigation taxes were also existing. Different types of taxes were levied to generate government revenue during 1768-1846 A.D. The major sources of revenue were 'Birta' & 'Kipat'. Taxes on land, customs, transit & market duties, mints & mines, export of forest products, birds, animals and various fines were the sources of tax revenue. Royal Palace, Government and Local levies were the levels of taxes collected. At that time, the taxes were basically imposed on occupations and economic activities, not on income and property.

There were not any formal provisions for imposing taxes during the period of Rana regime. Taxes were imposed according to the needs, objectives and the ruling

decision of Prime Minister. There were not provisions of separating the personal income of the Prime Minister and the state and the system of preparing government budget. If there is surplus revenue over expenditures, it was taken as the personal income of the Rana Prime Minister. At that time, the employees should have to transfer a certain amount to the government as taxes.

Till 1951, the major sources of revenue of Nepal were land, custom, exercise duties in lump sum contracts, royalties from forest, royalties on the supply of porters & soldiers, entertainments and other minor taxes. The taxes were not imposed for raising regular revenue of the state but for meeting specific expenditures and emergencies. The taxes were collected in the form of cash, kinds and labours. Land tax on a contractual basis and the salary tax were the direct taxes in the country. The salary tax paid by government employee i.e. 'Salami' was bringing to an end in 1951. There was not effective revenue administration in the time of Rana rulers. After the democratic government in 1951, taxes are not collected except in accordance to law.

After the independence in the country in 1951, the role of government has changed. The government was enforced to operate development activities, besides governing the regular function of maintaining law and order.

The government of Nepal enacted "Business Profits and Remuneration Tax" in 1960 (2017 B.S.) for the assessment and collection of taxes. That was the first income tax act of the kingdom of Nepal. There were only 22 sections and it was not broad and detail. The provision of taxation of business incomes and remuneration incomes were only introduced in the act. The tax on remuneration was to be deducted at source and basis of calculation of the tax liability from remunerations was the income of the current year. The act defined remuneration as the salary, allowances, special allowances, fee, house rent allowance, vehicle received in cash or kind. The rates of remuneration tax were differed from 5% to 25% and there were no provisions of deductions from the total income of the employee. The exemption limit was Rs. 7000. The tax officers were empowered to assess tax on best judgment and in case of false statement, there was a provision of fines ranged from Rs. 500 to 5000.

In 1962 A.D. (2019 B.S.), the 'Business Profits and Remuneration Tax Act 1960' was replaced by 'Income Tax Act 1962'. There were 29 sections in the act and for

the effective implementation of the act, the government enforced 'Income Tax Rules, 1963.' Provisions of taxes were made on incomes from any professions, rent from house or land, investment in cash or kind, agriculture, insurance agencies and any other sources of income in addition to business profits and remuneration income. There was provisions of reassessment of tax as well as rectification of arithmetic errors.

The personal income tax was categorized under three different heads for the first time namely individual, couple and family. The finance act defined couple as the married husband and wife. For the purpose of income tax, an individual with a spouse and dependent children was treated as the family. According to the act the exemption for an individual, couple and family were Rs. 3000, Rs. 4500 and Rs. 6000 respectively. The tax rate was varied from 5% to 50% with 12 different categories of income. The act slightly revised in 1972 and defined different terms of income tax in way that is more comprehensive. The taxpayer (married or unmarried) who have spouse, dependent children, sisters brothers and parents and had no income source were treated in the family.

'The Income Tax Act 1962' was replaced by another act i.e. 'Income Tax Act 1974' considering the needs of the time. The act was in practice from October, 1974. It had 66 sections and was amended many times in its implementation. The act had clarified some terminology used in the act i.e. Income Tax, Tax Payer, Income Year, Resident, Non-resident, Tax Assessment, Agriculture Income, Remuneration Income, Gross Income, Net Income, Loss etc. The act was classified income heads in to five categories: a) Industry, trade, profession or occupation, b) Remuneration, c) Agriculture, d) House rent & compound rent and e) Others.

In the act, there were several provisions for personal income tax. The treatment of income as earlier in to three categories was revised in to two category: Individual & couple or family. The exemption limit was raised to Rs. 4,500 and Rs. 6,000 for individual and couple or family respectively and the tax rates varied from 7% to 55% in different income levels. The act made exemption of house rent of Rs. 2,000 with the income tax exemption. In 1975, the income tax exemption limit was raised to Rs. 5,500 for an individual, Rs. 6,000 for couple and Rs. 7,500 to family and Rs. 3,000 was taken as house rent exempt in the overall exemption. The tax rates varied from 7% to 60% and income levels subject in 7 different groups.

In 1976, income tax exemption was revised to Rs. 6,500, 7,500 and 8,500 for individual, couple and family respectively. Under six different income levels, the rates of tax were differed from 5% to 51%. In 1977, the interest tax was introduced. The interest from saving accounts, employees provident fund and the deposits of social organizations and religious firms were all tax exempted. It included the provision of deduction amounted to 5% of the remuneration or Rs. 50 per month whichever less as stationary expenses. That provision was made for the first time in the income tax act. In 1978, the exemption limit was revised to Rs. 7,500 for married couple and 10,000 for family. The tax rate was from 5% to 50% under seven income groups.

The third amendment of the income tax act 1974 in 1980, it had included the provision for deduction of tax on the amount contributed by the employee from his/her remuneration to the Provident Fund. The revised act included the provision for deduction of educational expenses for a maximum of two minor children at the rate of 2.5% for each child. The act also provided the provision of deduction of life insurance premium paid. Maximum of 7% of insured amount or actual premium paid whichever is less deductible from taxable remuneration.

In 1981, the exemptions limit for individual and family was increased to 10,000 and 15,000 respectively. Under seven different income brackets, the tax rates was from 5% to 50 % and it was revised in 1982 from 5% to 55% under eight different income levels. Similarly, the exemption limit for an individual and family was raised to Rs. 15,000 to Rs. 20,000 respectively. The income tax on remuneration was from 10% to 55% under eight different levels of income.

Fourth amendment of income tax act had made in 1984. The revised act had a provision of deduction on educational expenses from 2.5% to 5% for each minor child. It was restricted to deduct educational allowances from both parents' income if both are earning parents. But in 1986, the provision of deduction on the stationary and education allowances was withdrawn. There was made the provision of deduction of Rs. 3,000 or 15% of income as standard deduction instead of these item wise deductions. The concept of standard deduction was first time in the act. The exemption limit of the taxpayer was increased to Rs. 20,000 for the individual and Rs. 30,000 for the couple or family and the rate of tax varied from 15% to 50% in six different categories of income.

The standard deduction would also revised to Rs. 5,000 or 15 % of net income whichever less. The finance act had the provision of exempting investment on the Citizen Investment Fund and the gain and interest earned from Citizen Investment Fund was made tax-free. Furthermore, there was the provision of tax exempt for less than Rs. 5,000 earned from fixed deposit account.

The standard deduction had fixed to Rs. 5,000 reducing 15% of the income clause and the exemption limit was made to Rs. 25,000 and 35,000 for the individual and couple or family respectively in 1992. The minimum rate of taxes was 15% and maximum of 40% at that time. The finance act 1992 was made the provision of self-assessment to the taxpayers and provision of audition their accounts from the certified auditor. The Finance Act 1993 revised the interest tax and made levied the tax of 5% on all the interest gained. But the interest earned from Employee Provident Fund and other special cases were still tax-free. According to the act, the earning for the agriculture sector was also tax-free.

In 1994, there was the provision to exempt interest tax on the interest earned from saving deposits accounts. First, it was made exemption limit on interest gained less than Rs. 700 and the finance act 1994 revised the exemption limit on the interest from Rs. 700 to Rs. 1,000. There were 10% to 35% tax rates on remuneration at three different levels. The act had also provision to deduct 5% of remuneration on Citizen Investment Fund while assessing the taxable income. The rate of taxes on remuneration was revised to 10% to 30% in Finance Act 1995 but the exemption limit did not changed. Rs. 7,500 or 15% of income whichever less clause was made for standard deduction in the act. The investment on Citizen Investment Fund was increased to 10% from previous provision and the interest gained from such investment was taken tax-free.

The exemption limit was increased to Rs. 30,000 for individual and for couple or family to Rs. 40,000 in 1997. The income tax was imposed on two categories of remuneration income with the rate of 15% and 25%. Income up to 45,000 above the exemption limit was levied at 15% and the higher rate was applicable to the income above the previous income level. Standard deduction on the income tax was increased to 10,000 or 15% of net income whichever is less and the foreigners were on the surcharge of 20% on the above maintained tax rate.

Furthermore, the remuneration income tax exemption limit was raised to Rs. 40,000 and Rs. 50,000 for an individual and the couple or family respectively in 1998. The rate of taxes was the same but the first earning above the exemption limit made up to Rs. 75,000. In another word, the rate of tax of 15% was applicable on the earning of Rs. 75,000 above the exemption limit.

The exemption limit was raised to Rs. 50,000 for an individual and Rs. 60,000 for the couple or family in 1999. The tax rates, standard deductions and other provisions were made same. The finance act permitted to deduct premium of life insurance, provident fund equivalent to 10% of the remuneration and 10% as citizen Investment Fund of early remuneration not exceed of Rs. 100,000. No exemption limit was made for the temporary residents.

In 2000, the finance act raised the exemption limit of Rs. 55,000 and Rs. 75,000 for an individual and the couple or family. The finance act defined the deductible expenses are: Deduction on the chargeable contributions; deduction on premium of life insurance, provident fund equivalent or 10% of the remuneration, investment on the citizen investment fund equivalent to 10% of the remuneration. The rate of income tax was 15% to the income of Rs. 75,000 above the exemption limit and 25% above the earning of previous category.

In 2002, 'Income Tax Act, 2002 (2058 B.S.)' was enacted by the parliament by replacing existing income tax act 1974. The new act is taken as broad and in accordance with the global standard. Similarly, 'Income Tax Rule, 2003 (2059 B.S.)' was form by the government to clarify some provisions of the act. Finance ordinances have been making slight amendment in the act every year.

2.1.6 Income from Employment

The 'Income Tax Act, 2058' has made a broad classification of incomes from all income earning activities. They are income from Employment, Investment and Business.

An individual's remuneration income from employment is termed as income from employment. Income Tax Act, 2058 has defined 'Employment' as past, present or prospective employment. All payments or benefits received from the employer or his associates in exchange of labour are termed as employment income (or

remuneration). An employer is a person who gets the service from the employee and an employee is a person who provides the services to the employer to get certain amount or benefits. The following two conditions must exist to include the amounts in the employment income:

-) There should exist employer-employee relationship between payer and payee. That is, the employer or an associate of the employer or third person under the arrangement with the employer or an associate of the employer must make all payments.
-) The amount paid should be of regular nature. Section 22 (2) of the Act has specified that employment income be assessed on cash basis.

2.2 Review of Related Studies

During the course of reviewing related studies, some books, articles, reports and dissertations were studied. They are summarized as follows:

2.2.1 Review of Books, Reports and Articles

Agrawal, (1984) has presented a report entitled Direct Tax Reforms in Nepal to Ministry of Finance. The increasing trend of resource gap in Nepal has shown in his report. He has advised the state to mobilize additional resources from domestic resources instead of being depended on foreign aids. The growth rate of direct taxes had been lower than the growth rate of total revenue as well as total taxes. According to his study, urban property tax has found to be most elastic. He has suggested political and other pressures should not be subjected to tax administration. The policy should encourage self-assessment and for small taxpayers it should be on a door-to-door basis. He also suggested including capital gains for income tax purpose. The new act has adopted most of the suggestions that given by him.

Poudel and Timsina (1990) wrote a book of income tax named 'Income Tax in Nepal'. They described the theoretical as well as practical aspect of income tax. The book has found fully based on prescribed syllabus of T.U. The book is descriptive in nature but is not described the problems of income tax system of Nepal.

Kayastha (1993) wrote an article in *Rajaswa* entitled 'Problems and Prospects of

Resource Mobilization through direct Taxation in Nepal'. The article has shown that Nepalese tax structure has extremely depended upon indirect taxes and non-tax revenues. Lack of clear tax policies and procedures, lack of proper information and records, lack of trained and technical staff, lack of proper accounting and auditing system and proper monitoring are pointed as the weak parts of revenue administration of Nepal. He has suggested the revenue administration to make widen the tax base. In order to make revenue administration more effective, there should be formed separate 'Revenue Group'. He also suggested to reform in tax rates, rules and the regulations in the annual budget.

Ghimire (1993) presented an article named 'Principle of Direct Tax and Provision of Direct Tax'. He had described the classification of tax, relation of capital gain and income, bases of income and tax in Nepal, procedure of computing income weakness of traditional accounting system, classification of tax rate index, contribution of income tax to national revenue, errors of past provisions and suggestions regarding improvement of tax administration in the article. He found income tax occupies only 7% of total revenue that is very low as compared with other countries. He has suggested reducing exemption limit on remuneration income and making minimum 40% tax rate for individual Income.

Poudyal (1998) published a book named 'Corporate Tax Planning in Nepal'. The book is depended basically in research information and found very essential to gain conceptual knowledge of tax planning. He discussed relevant theoretical aspects of tax planning in the book. Corporate tax structure of Nepal, Strategic planning, project and operational planning are clearly maintained in descriptive manner. Although the book is not focused on remuneration aspect, it is found vary much useful to anyone who is interested in the subject of taxation.

Dhakal (2002) published revised edition of his book named 'Aayakar Tatha Ghar-jagga Kar Sambandhi Kar ra Lekha'. For understanding Income Tax Act 2031 (1974), the book found so much useful. The history of taxation and practice under various previous acts are clearly maintained theoretical and practical manner in the book.

Adhikari (2003) wrote a book named 'Income Tax Law: Then and Now' and described the comparative provisions of Income Tax Acts 1974 and 2002. He also has described the decisions made by Supreme Court about the income tax. The critical analysis of legal provision had described in the book. The book found very useful to understand new Income Tax Act 2002.

Mallik (2003) published a book 'Nepal Ko Aadhunik Aayakar Parnali'. In the subject of taxation, the book is found very much useful. He has explained Income Tax Act 2058 with enough examples. The book is found descriptive & analytical and simple to understand. He has also compared old and new provision of Income Tax Act where as necessary.

In 2059 B.S, Bishowdeep Adhikari had published a book named “Income tax law: Then and now”. He had described the legal provisions of new Income Tax Act, 2058. He also had described the decisions made by Supreme Court about the Income Tax Act, 2058. He had also described the legal provisions with critical analysis. His book was very useful to know the new Income Tax Act, 2058 but had not analyzed the role of income tax and income tax structure.

K...P Aryal and S.P. Paudel had written a book entitled, "Taxation in Nepal" in 2004. 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, sources 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 usual to known the general information and legal provision of Income Tax Act, 2002. He has analyzed the role of income tax, structure of income in Nepal.

Bhattarai and Koirala (2007) – jointly have presented a book named 'Taxation in Nepal' specially designed for BBS third year as a reference. They have presented some theoretical aspects with numerical problems of taxation in Nepal based on income tax act 2058. But the book is not able to give a direction to deal with problem of tax administration.

The government of Nepal has formed a committee under the chairmanship of Dr.Madan Kumar Dahal(2009), to prescribe for the establishment of revenue board in Nepal. The committee has given many suggestions for the improvement of revenue collection system, which are also related to the collection Tax. If the government has implemented these suggestions, further reform in income tax administration can be achieved easily.

Likewise, the government of Nepal has formed a committee under the chairmanship of Mr. Narayan Dahal(2010), CA member of prescribe the suggestion for the tax reform in Nepal. The committee has also suggested many recommendations for the reform of tax system in Nepalese economy. All the suggestion of the committee are better for the reform of income tax collecting system.

Aryal(2010) – Presented a paper under the heading "Development of income tax system and its achievement in Nepal" and presents the scenario of the reforms in income tax by the government of Nepal in different time. He has pointed out the reforms in income tax by the government of Nepal in different time. He has pointed out the reform programs and policies as simplification of procedure of income tax, administration, enabling the awareness of taxpayers, tax service near the taxpayers and tax investigation far from taxpayers and broadens the tax base.

He has further explained that the tax base or area is very small in Nepal. There is a huge taxable area out of the tax net. He also pointed out some issues of Nepalese tax system as i) Negative tax structure ii) Tax evaluation system iii) Tax evasion and avoidance iv) Reward and Punishment according to performance and v) Lack of modern tax administration.

His paper also goes through describing the bases of income tax principle for the proper income tax system. To modernize the income tax system, he has suggested the following bases of income tax principle as follows:-

-) Distribution of nation income in justice manner
-) Macroeconomic stability of the nation
-) Balancing the financial structure of national income
-) Transparent taxation system
-) Equity, economy, simplicity, certainty, efficiency, and neutrality

The tax rate of Nepal is very low and more rigid. There is a huge discounted rate in different tax area. It is not necessary to disclosure the source of income, if people have invested in certain business or sector. The taxpayer can reduce the depreciation facilities and discounted of loss for counting the taxable income.

However, the Nepalese tax system is investment friendly, helpful for economic development and for increasing the motivation level of taxpayers. Now, the contribution of income tax to total tax is around 20%, to national GDP is less than 3% before the modern taxation system. The major issues of Nepalese income tax administration pointed by him are as follows:-

-) Increasing the tax base or tax rate
-) Investment-friendly income tax system
-) Increasing the volunteer participation of people in tax net
-) Increasing the taxation in internal sources
-) Reforms in tax collecting system with institutional and human resource development
-) Reviewing the rules and regulation in the context of globalization after getting the membership of WTO by Nepal
-) Maintaining the equality and elasticity of income tax system
-) Capacity building of tax administration
-) Simple, easy, competitive, neutral and transparent tax administration
-) Account base tax system or self disclosure tax system
-) Legal base taxation

We can find some challenges, which are presented under the sub topics of "Challenges of tax reform in Nepal". He pointed out the main challenges as follows:-

- i. Tax policy reforms: - State or rigid tax rate, minimizing the tax rate, maximizing the tax base, a lot of taxable area is out of tax net.

- ii. Comparison of Nepalese tax system with world tax system:-Efficiency, simplicity, long process, a tax payer has to go 34 times in tax offices and has to spend 338 hours in tax offices. Nepal is rated as the 123rd country in the world for the efficient tax system.
- iii. Increasing the level of people for volunteer participation in tax net: The government has to launch the awareness program and e-tax program to increase the increase the participation of people in tax system
- iv. Reform in tax administration
- v. Simplify the procedures
- vi. Control in tax evasion an avoidance
- vii. Efficiency, transparency, effective and responsible tax administration
- viii. Performance base pay incentive system

Shrestha (2010) – Presented a paper under the heading "Challenges and Reforms of Nepalese tax system" and described the history of income tax in Nepal. He analyzed that the income tax came in concept in 2008 and the fiscal act 2016 has made a provision to collect income tax from trade profit and remuneration. The Income tax act 2019 has the provisions of collecting tax form the all types of income sources. The income tax act 2031 has classified the source of income tax as agriculture, industry sector, trade, profession, business, remuneration, house, land and other source of income. He has described the reform of income tax in Nepal as follow:-

-) Reform as a part of civil service or bureaucratic reform
-) Reform in government policies and programs
-) Implementation of different recommendations given by different research report and committee
-) Changes in tax rate and bases
-) Reform in working procedures

He has also mentioned some international support for the tax reform in Nepal in his paper. He has described that the Harvard Institute for the International Development (HIID) and USAID has done financial and technical support for the reform of tax system in Nepal. Likewise, the Income Tax Administration Consolidation project

(ITAC) under the support of GTZ has given financial and technical support for income tax reform in Nepal. After the unification of administration of income tax and VAT the DANIDA and GTZ has launching the Revenue Administration Support project (RAS). Now, IMF and World Bank are supporting for the tax administration. He has presented the following points as underline principle of tax reform agenda in Nepal.

-) Equity and fairness
-) Certainty
-) Simplicity
-) Transparency and visibility
-) Convenience of payment
-) Neutrality
-) Minimum tax gap
-) Economy of collection
-) Economic growth and efficiency

He has also described some measures for the effective implementation of these agenda as below:-

-) Functional and professional organization structure
-) Efficient human resources
-) Simple working procedure
-) Using of ICT in tax administration
-) Competitive management approach
-) Performance base incentive/pay system

2.2.2 Review of Dissertations

This sub-chapter is concerned with the previous research works done by different scholars in the field of income taxation.

Suwal (1981) conducted a research work on income tax system in Nepal. She had studied the importance and the problem of income tax in solving financial resource gap problem in Nepal. She has discussed the trend of income tax and effect of income tax on production in Nepal. She has suggested some factors like increasing tax consciousness to the taxpayers, clear and comprehensive definition of the

incomes for improvement to HMG regarding income tax and tax administration for effectively collection of income tax in Nepal.

Subedi (1982) conducted a research work on an analytical study of income tax in Nepal and analyzed the role of income tax on national revenue of Nepal. He has examined the growth of income tax collection, the ratio to GDP, cost of income tax collection and its elasticity. Historical prospective and legal aspects of income tax has included in his study. Inefficient tax administration, dominated role of indirect tax and tax evasion are the problem of Nepalese tax system, he pointed.

Regmi (2043) carried out a study on the role of income tax in Nepal. In the study, he had described the conceptual framework of income tax, structure of income tax, income tax and resource mobilization, problems of income tax. He had more concerned on the study of tax structure of Nepal. In his study, he had found that the share of indirect tax was more than 70 percent of total tax revenue.

Lack of proper record keeping by taxpayers, assessment delay, lack of responsibility and honesty among the tax officers, tax evasion and corruption, lack of coordination between revenue and other non-revenue departments and leakage on personal income tax collection were the problems of income tax in Nepal, he identified in his study. His suggestions were; income tax law should be clear and precise, widening the tax coverage, application of scientific assessment method, simple and easy procedure of tax payment, honest and efficient staffs, coordination between staffs and departments establishment of research unit and tax holidays for new industries.

Siwakoti (1986) conducted a research work on an analytical study of income tax in Nepal. He had described the role of income tax, income tax in tax structure of Nepal, personnel management aspect of tax department, legal aspects of Income Tax Act, 2031 and problems of income tax administration in Nepal. He had identified the role of income tax as economic growth, equitable distribution and stabilization growth. His finding was the share of income tax to total tax revenue was nominal. Regarding the personnel management aspect, he had found that the department had not well trained and expert personnel. There were no any training and development activities to the personnel and workload distribution was uneven.

He had identified the major problems of income tax system as defective personnel management, lack of public information, delay in tax assessment, nominal role of

income tax etc. Some of the problems are still exist at now. He also highlighted the problems of Income Tax Act, 2031.

Baral (1989) carried out a study on income tax in tax structure of Nepal. She had discussed the contribution of income tax in tax revenue and total revenue of Nepal. Decreasing trend of direct tax and increasing trend of indirect tax contribution is shown on her study. She has found lack of clear and comprehensive definition of income, tax consciousness, efficient tax administration, scientific method of tax collection, punishment to the tax evaders are the main causes of income tax evasion in Nepal.

Bhandari (1994) tried to examine historical background, tax structure of Nepal and contribution of income tax to economic development of the nation. He has found that the actual collection of revenue through income tax was lower than its estimated targets because of poor tax paying habits of Nepalese taxpayers, poor tax administration system and wide spread evasion of income tax. He had given suggestion to make effective personnel management, proper tax education and communication, reducing collection costs and minimizing tax evasion practices etc.

Shakya (1995) conducted a research work on income tax in the structure of Nepal. His studies were done with basic objectives of analyzing the causes of heavy reliance of indirect taxes, analyzing the volume of indirect and direct tax revenue in total tax structure, highlighting the revenue assessment procedures from different sources and suggesting improving them. In his study, he had identified that income tax had occupied forth position among the tax revenue of Nepal. Custom duty, sales tax and excise duty has occupied first, second and third position respectively. He had highlighted that the taxable capacity of Nepali people is limited by various factors such as low per-capita income, extensive subsistence economy, relatively closed economy, weak export position etc.

He had found that the ratio of income tax to GDP, total revenue, total tax revenue and direct tax revenue have been increasing trend in Nepal. However, increasing rate is very low in comparison to other countries. Tax evasion is the main reason behind it. Lack of clear and comprehensive definition of income, lack of appropriate punishment to the tax evaders, low tax paying capacity and non-conscious of taxpayers, lack of inefficient tax administration, lack of scientific method of tax

collection and trained tax collectors were the reasons of income tax evasion in Nepal, he identified in his study.

Shahu (1995) conducted a study on contribution of income tax in national revenue of Nepal. The role and contribution of income tax in the economic development of Nepal was focused on the study. He found only 0.35% of the population of Nepal fall in income tax bracket. He found indirect taxes like customs, excise and sales tax occupy first, second and third rank respectively. Income tax occupies the fourth rank in the revenue composition of Nepal.

Tripathi (1995) had written a thesis on income tax system of Nepal and some potential areas for reforms. Government revenue, income tax revenue, income tax administration personal tax administration, efficiency in income tax collection, income evasion, tax assessment and efficiency of income tax system had described in his research. The study was firmly depended on Income Tax Act, 1974 and had emphasized on the income tax administration and tax evasion. He had suggested increasing the exemption limit for remuneration taxpayers. Furthermore, he had suggested the education expenses of children not exceeding Rs. 10,000 per year, house rent allowances up to Rs. 12,000 per year and actual education expenses of the taxpayer him/herself if he/she is studying further education should make deductible while ascertaining remuneration tax. His study found very useful for the study of income from remuneration.

Pant (1996) conducted a study on income tax management in Nepal. He stressed various problems of Nepalese income tax management system. Lack of effective personnel management, week income tax assessment procedures, poor reward and punishment system, lack of taxpayers' education, poor tax information system, narrow coverage of income tax were the problems of income tax management in Nepal, he identified in his study. He pointed that well managerial efficiency was the major problem of income tax management of Nepal.

In 2053 B.S., Paremashwore Panth had presented a dissertation named "A Study on Income tax assessment". He had described the role of income tax in national economy and income tax management in Nepal. He had conducted an empirical investigation of income tax management in Nepal. His findings of the major

problem of income tax in Nepal were lack of managerial efficiency, which is more important aspect at present also. He had highlighted on management aspect. He had suggested revising the exemption limit. He had suggested providing exemption limit of Rs. 40,000 to Rs. 50,000 for a couple and Rs. 60000 for a family. He had suggested to treat the agricultural income and capital gain as a subject of income tax.

In 2054 B.S., Krishna Prasad Timilsina had presented a dissertation named “Tax structure in Bajhang district with reference to national tax structure of Nepal”. He had conducted a comparative study of tax structure of Bajhang district to national tax structure. He had emphasized on tax structure. His finding about the correlation coefficients between Bajhang and nation was positive on tax revenue, non-tax revenue and total revenue.

Timilsina (2001) wrote a thesis on personal income taxation in Nepal: A study of exemptions and deductions. He has analyzed the system of tax exemption and the deductions and suggested to improve tax system so the government can collect more revenue. He has suggested reintroducing standard deductions, different exemptions for couple considering dependents, increasing trend of income tax and personal income tax revenue and increased moral of tax officials. Furthermore, he has suggested adjusting exemption limit based on inflationary condition of the nation.

Shrestha (2001) had conducted a research on revenue collection from income tax in Nepal focusing problems and prospects. She had described the conceptual framework, provisions, structure of income tax and tax administration in Nepal. She had also done an empirical investigation on problem and prospect of income tax in Nepal. Mass poverty of Nepalese people, narrow tax coverage, lack of conscious taxpayers, inefficient tax administration and instability in government policy are the problems of income tax system of Nepal, she pointed in her study. She has recommended measures for improvement of income tax law and management in Nepal.

Poudel (2002) carried out a study on income tax in Nepal: A study of its structure of Income Tax in Nepal. Her study was emphasized structure and productivity of income tax. She has described income tax in its historical prospective, income tax

structure, elasticity and voluntary disclosure of income scheme and the role of income tax administration of Nepal. She has more stressed on income tax structure of Nepal. She found the contribution of indirect tax is about twice then direct tax. Furthermore, direct tax is the largest source of revenue within the income tax. She found the working procedures were traditional and the costs of administration are not satisfactory. She suggested making broad the income tax base, reform of tax administration and establishment of standard accounting system. She also suggested for the successful implementation of VAT. She has not discussed the exemption and deductions provisions in the Income Tax Act.

Palli Magor (2003) conducted a research work on income tax in Nepal. He focused his study on exemptions and deductions aspects of income tax Act. The provision of exemption and deduction under Income Tax Act 2002 were studied. He has explained problems and weakness of income tax system, contribution of income tax to government revenue and suggested possible areas of improvements. Furthermore, he has recommended ten level of taxing the income from 5% to 55%. He has written on remuneration sides also and suggested to make provision of deducting expenses for the better education of the children, actual medical expenses of the taxpayer, house rent expenses, educational expenses of him/herself if he/she is studying and life insurance premium of the taxpayer.

Ghimire (2004) had examined contribution of income tax particularly focusing in public enterprises in this dissertation *Income tax in Nepal: Its Structure and Contribution from Public Enterprises to Government*. He evaluated the performance of administration of Nepal, particularly after implementation of ITA,

Dahal (2006) has submitted a dissertation with heading 'Public Tax Management in Nepal Organization'. He focused on many administrative aspects of income tax. He concluded that the effectiveness of tax system depends on the existing management and leadership. A vigilant and transparent tax administration and capability of tax management strong political commitment is most.

Sutihar (2016) had made a study or trend of the value added tax in Nepal. He had estimated the share of VAT in GDP, Total Tax revenue and indirect tax revenue. He had also estimated the growth rate of VAT during 2000/01 to 2014/15 and share of

VAT to GDP, total tax revenue and indirect tax revenue was from 2.80% to 16.0%, 30.69% to 37.63% and 39.94% to 50.05% respectively. He had showed that annual growth rate of VAT was found to be Rs. 6.63 Million

Sutihar, D.N. (2013), had made a study or condition of value added tax in Nepal during FY 2000/01 to FY 2010/11 and estimated the share of VAT to GDP was 2.80% to 4.50% in GDP and annual growth was found to be Rs. 8893.7967 Million. He had also estimated the share of other services (hotel tax, entertainment tax, aviation tax) was 32% in the VAT collection in FY 2010/11.

2.3 Research Gap

The Present study covers contribution of income tax on government revenue, total tax revenue and GDP. Besides this, it also covers important factors for effectiveness of income tax in Nepal through different tools.

In this way, various reports, books and master level dissertations had reviewed in the course of preparing this thesis. Besides these, some articles about income tax published in Rajaswa, Gorkhapatra, Rising Nepal, Kantipur etc. and publications of Ministry of Finance such as Budget Speech and Economic Surveys had reviewed during the study period. Almost the dissertations were written on the different aspects of tax and income taxation. However, the studies are not sufficient to analyze the employment of income tax system of Nepal. Therefore, the study will be able to prove its own validity on the selected subject matter.

CHAPTER-III

METHODOLOGY

This chapter is devoted to research methodology applied in the study for the achievement of desired objectives. Primary as well as secondary data has been used for the study. Opinion survey technique is adopted to collect the primary about the different groups of income tax. While conducting opinion survey, questionnaires were distributed to different groups who were related to income tax. They were income tax payers, income tax policy makers, income tax administrator, income tax experts, accountants, auditors, lawyers etc.

The collected data were tabulated into separate format and tables. Some statistical tools such as simple average and percentage were used where necessary. The results were expressed in the form of descriptive as well as in analytical form.

3.1 Research Design

This study attempted to analyze the present problems and prospects to revenue collection from income tax in Nepal, structure of income tax system by using primary and secondary data. Secondary data are collected from the publication by Ministry of Finance and Finance Acts. Opinions of sixty respondents associated with the income tax income tax administrators, income tax experts, income tax payers and income tax students studying MBS, MBA and CA-Final courses are collected through questionnaire. The questionnaire covered the problems of income tax system, problems of income tax administration, and assessment of provisions of the income tax act on revenue generation etc. Hence, the research methodology followed in this study can be termed as survey cum descriptive research design.

3.2 Population and Sample

The population for this study comprised all the persons belonging to income tax of Nepal. Sixty samples from Kathmandu and Pokhara Valley have been taken randomly to fulfill the objectives of the study. The respondents had been divided into four groups. The following table shows the groups of respondents and size of sample.

Table 3.1

Group of Respondents and Sample Size

S. N.	Groups of Respondents	Sample Size
1	Income tax Administrators	15
2	Income tax Experts	15
3	Income tax payers	15
4	Income tax Students	15

3.3 Nature and Sources of Data

Collected data from primary and secondary sources were firstly tabulated and then converted into separate format in a systematic manner. The data were tabulated according to the subject in order. Then simple statistical analysis such as percentage and rank were calculated where necessary and they were presented and analyzed in descriptive way. Graphs and charts will also be presented to interpret if necessary.

3.4 Data Collection Techniques

The data for the study were collected from two sources. Primary data were collected using questionnaires method. A set of questionnaire was developed and distributed to the selected respondents in order to get actual and accurate information. A sample of questionnaire has been appended at the end. Some of the information was also collected informally from the respondents. The secondary data were collected from, Inland Revenue department, Economic Survey Reports, etc.

Collected data from primary and secondary sources were firstly tabulated into separate format in systematical manner. The data was tabulated into various tables according to the subject in order. Then simple statistical analysis such as percentage and rank had calculated as per the requirement and they were presented and analyzed in descriptive way. Graphs and charts were also presented to interpret the data as per the requirement.

3.5 Weight of choice

The respondents had requested to answer either to rank or to give Yes/No response or to write their opinion. In the case of ranking, the answer the scale varies from

question to question. The scale was given according to the number of alternatives. For E.g. if the number of alternatives were six, the scale is given 1 to 6 where first preferred choice got six points and the least preferred choice got one point. Any alternative which were not ranked did not get any point. The total points get by each choice were converted into percentage of total points available to all choice. The choice having higher percentage was ranked as most important and the choice having lowest percentage was ranked as least important.

3.6 Data Analysis Tools

In this research work, only descriptive tools are used to get the meaningful result of the collected data and to meet the research objectives. Simple mathematical and statistical (descriptive) tools such as percentage, tables, graphical presentation, average, standard deviation and coefficient of variations are used in this research. The major tools applied in the study are discussed as below:

Average:

A simple arithmetic average is used to summarize the data as a representation of mass data. Specially, the average is applied to compare the composition of income tax of Nepal over the study period. A simple arithmetic average is a value obtained by dividing the sum of the values by their numbers. Thus, the average is expressed as:

$$\text{Average} = \frac{\text{Sum of the Values}}{\text{Number of Values}} = \frac{x_1 \Gamma x_2 \Gamma x_3 \Gamma \dots \Gamma x_t}{N}$$

Where,

N = number of values

x_t = individual value for period t.

Percentage

Opinions given by the each category of respondents are first ranked according to their preference and the responses are calculated in percentage to represent their significance out of total score. Percentage is expressed in the fraction or ratio with 100 as the fixed and understood denominator. It is a way of expressing a number as a fraction of 100.

Thus, percentage is expressed as:

$$\text{Percentage} = \frac{\text{A Value}}{\text{Sum of Values}} \times 100\% = \frac{x_1}{x_1 + x_2 + x_3 + \dots + x_t} \times 100\%$$

Where, x_t = individual value for period t.

Rank correlation

The data summarize the primary data for finding our objectives. Rank correlation is used to find out the relationship between the views of tax administrators and taxpayers with respect to the problems of the Nepalese income tax system. The rank correlation is defined as relationship between different rank and judgment. Positive coefficient shows that there is positive correlation and vice-versa. The rank correlation is expressed as

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

Where, r = rank correlation and

$$d = R_1 - R_2$$

Probable Error

Probable error measures the possibility of scatterness (fluctuation) from our calculation of coefficient of rank correlation of the views of the tax administrators and taxpayers with respect to the problems of Nepalese income tax system in order to judge the relationship between them. Higher probable error (PE) than coefficient of correlation means no significance of correlation. If $R > 6PE$, then r is significant otherwise no conclusion can be made.

Mathematically,

$$P.E = \frac{0.6745 \sqrt{r^2}}{\sqrt{n}}$$

CHAPTER-IV

DATA ANALYSIS

This chapter deals with the presentation and analysis of the income tax structure and views based on problems and prospects regarding revenue collection from income tax in Nepal. In order to complete the task secondary data and information are analyzed vividly.

4.1 Tax Structure of Nepal

Modern economic planning of Nepal had started with the initiation of first economic planning in 1956. Since then, taxes have been used for the achievement of national economic goals. So, taxes play vital role to the economic development of Nepal. Tax structure of any comprises both direct tax and indirect taxes.

4.1.1 Composition of Total Revenue

Total revenue in Nepal is composed both tax revenue and non-tax revenue when the Government of Nepal presented first national budget in the FY 1951/52.

Table 4.1 shows the composition of total revenue of government, which includes tax and non-tax revenue from the FY 1996/97 to 2014/15. It seems that share of tax revenue has always been greater than the share of non-tax revenue. In the FY 2014/15, the share of tax revenue and non-tax revenue was 87.70% and 12.30% respectively as compared with 80.41% and 19.59% in the FY 1996/97. This indicates that the role of tax revenue is very much important expenditure. Tax revenue has been placed as a major source of government revenue in Nepal. The composition of total revenue is given below:

Table 4.1
Composition of Total Revenue

(Rs in Million)

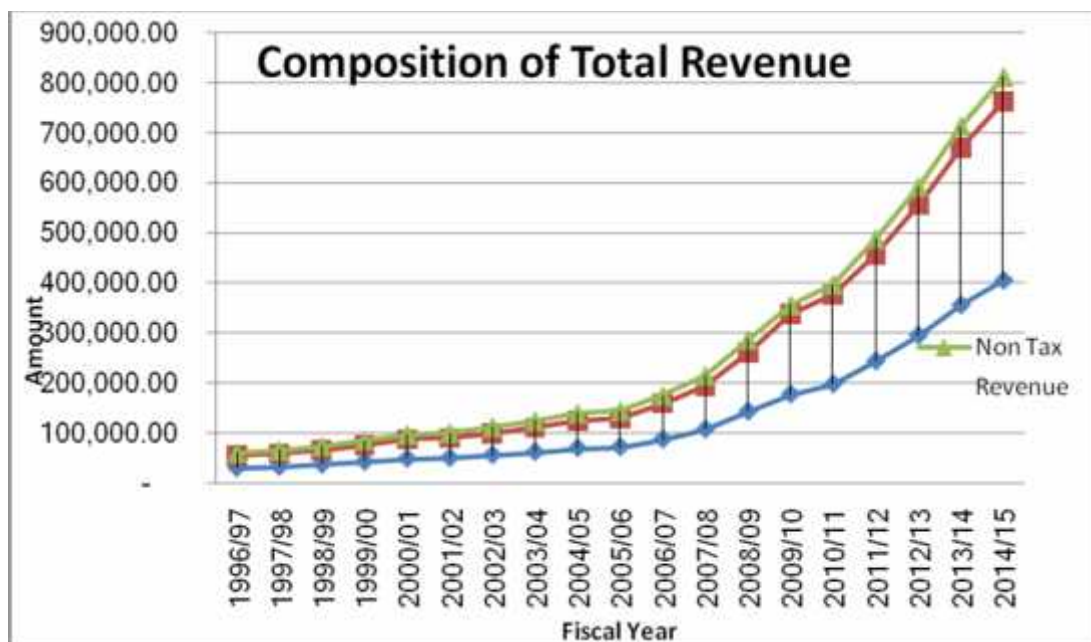
Fiscal Year	Total Revenue	Tax Revenue		Non Tax Revenue	
		Amount	Percentage	Amount	Percentage
1996/97	30,373.50	24,424.30	80.41	5,949.20	19.59
1997/98	32,937.90	25,939.80	78.75	6,998.10	21.25
1998/99	37,251.00	28,752.90	77.19	8,498.10	22.81
1999/00	42,893.70	33,152.10	77.29	9,741.60	22.71
2000/01	48,893.90	38,865.10	79.49	10,028.80	20.51
2001/02	50,445.60	39,330.60	77.97	11,115.00	22.03
2002/03	56,229.70	42,587.00	75.74	13,642.70	24.26
2003/04	62,331.00	48,173.00	77.29	14,158.00	22.71
2004/05	70,122.70	54,104.70	77.16	16,018.00	22.84
2005/06	72,282.10	57,430.40	79.45	14,851.70	20.55
2006/07	87,712.20	71,126.70	81.09	16,585.50	18.91
2007/08	107,622.50	85,155.50	79.12	22,467.00	20.88
2008/09	143,474.50	117,051.90	81.58	26,422.60	18.42
2009/10	177,991.90	159,785.40	89.77	18,206.50	10.29
2010/11	198,376.30	177,227.00	89.34	21,148.00	10.66
2011/12	244,374.10	211,723.00	86.64	32,652.00	13.36
2012/13	296,021.20	259,215.00	87.57	36,808.00	12.43
2013/14	356,623.00	312,443.00	87.61	44,180.00	12.39
2014/15	405,866.40	355,955.70	87.70	49,910.70	12.30

Source: Economic Survey 2015/16

The above table revealed that the total revenue has been gradually increasing in every year since in the FY 1996/97 amounts to Rs. 30373.5 million to Rs. 405,866.40 million in FY 2014/15. Similarly, tax revenue has been found increasing in the study periods i.e. Rs. 24424.3 million in FY 1996/97 to Rs. 355,955.70 million in FY 2014/15. But the percentage contribution of tax revenue was found fluctuating in different years. The contribution of tax revenue to total revenue was maximum 89.77% in FY 2009/10 and minimum 75.74% in FY 2002/03 during the study period. The non-tax revenue collection was also increasing trend in those 19 years i.e. Rs. 5949.20 million in FY 1996/97 to Rs. 49,910.70 million in FY 2014/15. But the non-tax revenue in the year 2005/06 and 2009/10 was decreased to Rs. 14,851.70 and Rs. 18,206.50 million as compared with Rs. 16018 and Rs. 26,422.60 million in FY 2004/05 and FY 2008/09.

Fig. 4.1

Chart showing Composition of Total Revenue



4.1.2 Composition of Tax Revenue

Tax revenue is the combination of direct and indirect tax. A direct tax is a tax paid by a person on whom it is legally imposed. In direct tax, the person paying and bearing the tax will be same. Direct tax includes land revenue and registration, tax on property, profit and income whereas indirect tax includes customs, tax on consumption and product of goods and services. The composition of Nepalese tax revenue is presented in the table 4.2 in terms of direct and indirect tax revenue from FY 1996/97 to 2014/15. The composition of tax revenue has been shown below

Table 4.2
Composition of Total Tax Revenue

(Rs in Million)

Fiscal Year	Total Tax Revenue	Total Direct Tax		Total Indirect Tax	
		Amount	Percentage	Amount	Percentage
1996/97	24,424.30	5,340.00	21.86	19,084.30	78.14
1997/98	25,939.80	6,187.90	23.85	19,751.90	76.15
1998/99	28,752.90	7,516.10	26.14	21,236.80	73.86
1999/00	33,152.10	8,951.50	27.00	24,200.60	73.00
2000/01	38,865.10	10,159.40	26.14	28,705.70	73.86
2001/02	39,330.60	10,597.50	26.94	28,733.10	73.06
2002/03	42,587.00	10,105.80	23.73	32,481.20	76.27
2003/04	48,173.00	11,912.60	24.73	36,260.40	75.27
2004/05	54,104.70	13,071.80	24.16	41,032.90	75.84
2005/06	57,430.40	13,968.10	24.32	43,462.30	75.68
2006/07	71,126.70	18,980.30	26.69	52,146.40	73.31
2007/08	85,155.50	23,087.70	27.11	62,067.80	72.89
2008/09	117,051.90	34,320.70	29.32	82,731.20	70.68
2009/10	159,785.40	39,332.30	24.62	117,459.00	73.51
2010/11	177,227.00	46,720.00	26.36	130,507.00	73.64
2011/12	211,723.00	57,771.00	27.29	153,952.00	72.71
2012/13	259,215.00	73,013.00	28.17	186,202.00	71.83
2013/14	312,443.00	86,744.60	27.76	225,698.40	72.24
2014/15	355,955.70	101,089.30	28.40	254,866.40	71.60

Source: Economic Survey 2015/16

From the above table; it is found that there has been simultaneous increase in direct tax, indirect tax and total tax revenue in absolute terms. In the FY 1996/97, these amounts were Rs. 5340.00 million, Rs. 19084.30 million and 24424.30 million

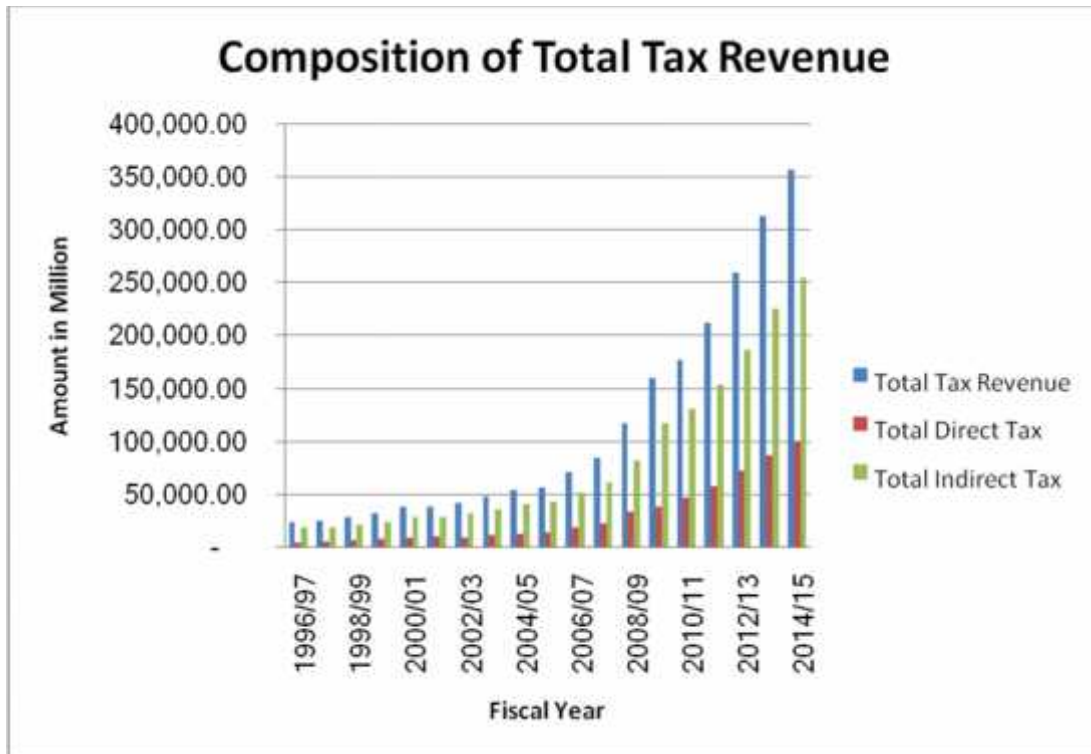
respectively and during the period of nineteen years in FY 2014/15, these amounts become Rs. 101,089.30 million, Rs. 254,866.40 million and Rs. 355,955.70 million respectively.

Despite of absolute increment of direct tax, its contribution to total tax revenue in the FY 1996/97 was 21.86% amount to Rs. 5340 million and it was gradually being up and down in the study Period. Which increased up to 29.32% amount to Rs. 34320.7 million in the FY 2008/09. But the direct tax contribution percentage to total tax revenue was decreased down to 23.73% amount to Rs. 10105.8 million in FY 2002/03 and then it is in the increasing trend during the study period. In FY 1996/97 the indirect tax was 78.14% amount to Rs. 19084.3 million and it was gradually being up and down, decreased down to 70.68% amount to Rs. 82,731.20 million in FY 2008/09.

Comparing direct and indirect tax, it reveals that the heavy reliance of economy on indirect tax to direct the economy in the channel of development, it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax. Therefore, the attention should be paid on the sufficient resource mobilization through internal resources.

Fig. 4.2

Contribution of Direct tax and Indirect Tax on Total Tax Revenue



4.1.3 Composition of Direct Tax:

Part I

The major components of direct tax are land revenue and registration, tax on property, profit and income. The share of major components of direct tax is shown FY 1996/97 to FY 2008/09 in table 4.3(a).

The table 4.3(a) shows that contribution of income tax to direct tax was higher than other tax and it occupied the largest share in the direct tax. The percentage share of income tax to total direct tax in FY 1996/97 was 80.99 % amounting to Rs. 4123.4 million which gradually increased up to 93.97% amounting to Rs. 9114 million in FY 2000/01. The average share of income tax revenue was 86.61 %. It was 84.78 % amounting to Rs. 25142.4 million in FY 2008/09. So, this regular up and down in contribution percentage of income tax to total direct tax is not satisfactory.

Land revenue and house and land registration fees have contributed 19.01 % and amounting to Rs. 1015.4 million in the FY 1996/97, which was decreased gradually

and reduced to 6.03% amount to Rs. 612.9 million in FY 2000/01. Then after it was started to increase gradually and reached to 15.61% amount to Rs. 2181.1 million in FY 2005/06. The average percentage of land revenue and house and land registration fees to direct tax was 13.39%.

The share of property tax to total direct tax was Rs. 201.2 million in the FY 1996/97 and Rs. 1850 million in FY 2008/09. The percentage of property tax to total direct tax is very lower in comparison to income tax and land revenue and registration. The major portion of direct tax covered by income tax that's why to increase the volume of direct tax, it is necessary to focus in income tax.

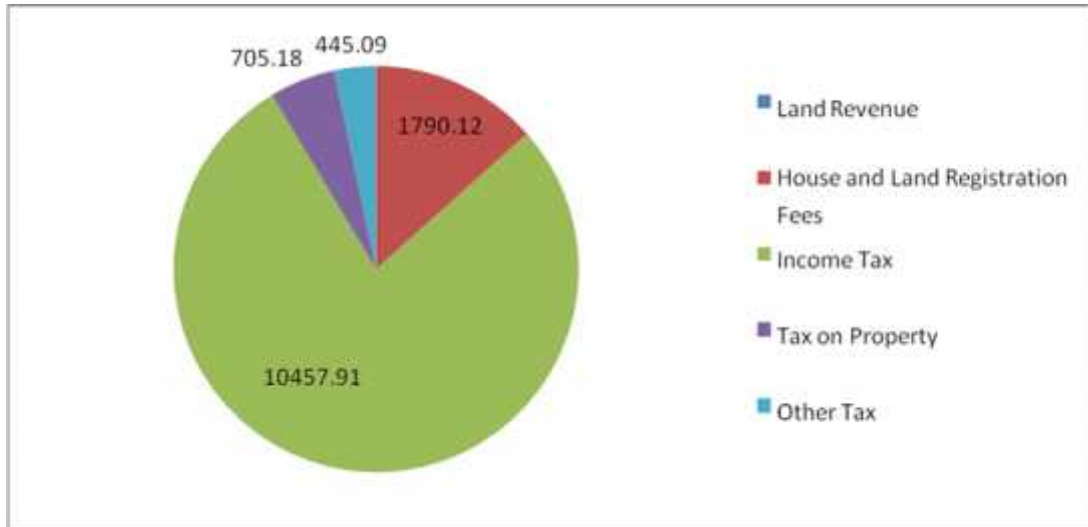
Table 4.3(a)
Composition of Direct Tax Revenue

(Rs in Million)

Fiscal Year	Total Direct Tax	Land Revenue and Registration			Tax on Property, Profit and Income					
		Land Revenue	House and Land Registration Fees	Total	% of Total Direct Tax	Income Tax	Tax on Property	Other Tax	Total	% of Total Direct Tax
1996/97	5340	5.9	1009.5	1015.4	19.01	4123.4	201.2	0	4324.6	80.99
1997/98	6187.9	3.6	1000.6	1004.2	16.23	4898.1	285.6	0	5183.7	83.77
1998/99	7516	1.3	1001.8	1003.1	13.35	6170.2	342.7	0	6512.9	86.65
1999/00	8951.5	4.6	1011.3	1015.9	11.35	7420.6	515	0	7935.6	88.65
2000/01	10159.4	5.1	607.8	612.9	6.03	9114	432.5	0	9546.5	93.97
2001/02	10597.5	0.8	1131	1131.8	10.68	8903.7	562	0	9465.7	89.32
2002/03	10105.8	0	1414.3	1414.3	13.99	7966.2	559.5	165.8	8691.5	86.01
2003/04	11912.6	0	1697.5	1697.5	14.25	9245.9	700.6	268.6	10215.1	85.75
2004/05	13071.8	0	1799.2	1799.2	13.76	10159.4	806.5	306.7	11272.6	86.24
2005/06	13968.1	0	2181.1	2181.1	15.61	10373.7	847.6	565.7	11787	84.39
2006/07	18980.3	0	2253.5	2253.5	11.87	15034	995	697.8	16726.8	88.13
2007/08	23087.7	0	2940.7	2940.7	12.74	17401.2	1069.2	1676.6	20147	87.26
2008/09	34320.7	0	5223.3	5223.3	15.22	25142.4	1850	2105	29097.4	84.78
AVERAGE	13399.95	1.64	1790.12	1791.76	13.39	10457.91	705.18	445.09	11608.18	86.61

Fig. 4.3(a)

Pie Chart showing average amount of Components of Direct Tax (1996/97-2008/09)



Part II

The major components of direct tax are Tax on Income, Profit and Capital Gain, Remuneration tax, Property tax and other tax. The share of major components of direct tax is shown FY 2010/11 to 2014/15 in table 4.3(b)

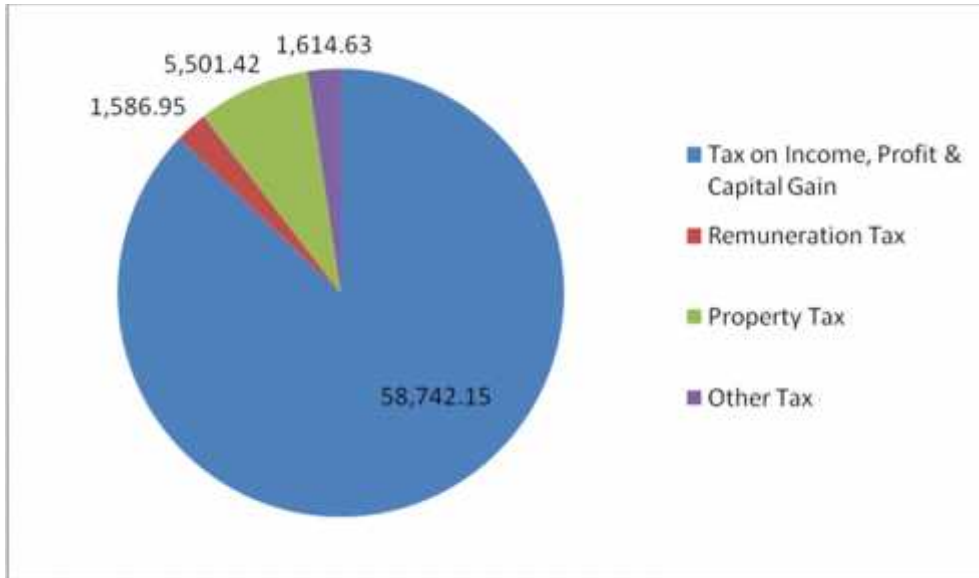
The table 4.3(b) shows that contribution of Tax on Income, Profit and Capital Gain to direct tax was higher than other tax and it occupied the largest share in the direct tax. The percentage share of Tax on Income ,Profit and Capital Gain to total direct tax in FY 2009/10 was 85.99% amounting to Rs. 33821.3 million which gradually increased up to 88.80% amounting to Rs. 51,303.00 million in FY 2011/12. The average share of Tax on Income ,Profit and Capital Gain revenue was 87.10 %. It was 85.24 % amounting to Rs. 86,165.70 million in FY 2014/15. So, this regular decrease in contribution percentage of income tax to total direct tax is not satisfactory.

Table: 4.3(b)
Composition of Direct Tax Revenue

Fiscal Year	Total Direct Tax	Tax on Income, Profit & Capital Gain		Remuneration Tax		Property Tax		Other Tax	
		Amount	%	Amount	%	Amount	%	Amount	%
2009/10	39,333.00	33821.3	85.99	-		4,448.00	11.31	1063.7	2.70
2010/11	46,720.00	41,350.00	88.51	710.00	1.52	3,572.00	7.65	1,088.00	2.33
2011/12	57,771.00	51,303.00	88.80	1,555.00	2.69	3,588.00	6.21	1,325.00	2.29
2012/13	73,013.00	64,187.00	87.91	1,881.00	2.58	5,340.00	7.31	1,605.00	2.20
2013/14	86,744.60	75,625.90	87.18	2,449.90	2.82	6,661.10	7.68	2,007.70	2.31
2014/15	101,089.30	86,165.70	85.24	2,925.80	2.89	9,399.40	9.30	2,598.40	2.57
Average	67,445.15	58,742.15	87.10	1,586.95	2.35	5501.42	8.16	1,614.63	2.39

Fig: 4.3(b)

Pie Chart showing average amount of components of direct Tax
(2009/10-2014/15)



Property Tax has contributed 11.31 % and amounting to Rs. 4,448 million in the FY 2009/10, which was decreased gradually and reduced to 6.21% amount to Rs. 3,588 million in FY 2011/12. Then after it was started to increase gradually and reached to 9.30% amount to Rs. 9,399.40 million in FY 2014/15. The average percentage of Property Tax to direct tax was 7.82% in FY 2009/10 to FY 2014/15.

The share of remuneration and other tax to total direct tax was Rs. 0 and 2.70 million in the FY 2009/10 and Rs. 2,925.80 and Rs. 2,598.40 million in FY 2014/15. The percentage of remuneration and other tax to total direct tax is very lower in comparison to tax on income, profit and capital gain and property tax. The major portion of direct tax covered by tax on income, profit and capital gain that's why to increase the volume of direct tax, it is necessary to focus in income tax.

Composition of Indirect Tax:

The tax structure of Nepal is mainly dependent on indirect taxes, which is constituted 71.60% of total tax revenue in FY 2014/15. Nepalese tax revenue is dependent mainly on international trade and sales/ VAT on goods and service supplemented by taxes on income and property to some extent.

Part I

The major components of indirect tax in Nepalese tax structure constitutes custom duties, Tax on consumption and production of goods and services. Custom duty has been classified mainly into import duty and export duty. Other components of indirect tax like entertainment tax, hotel tax, air flight tax and other tax contribute normal share. Table 4.4(a) shows the composition of indirect tax as follows:

Table 4.4(a)
Composition of Indirect Tax Revenue

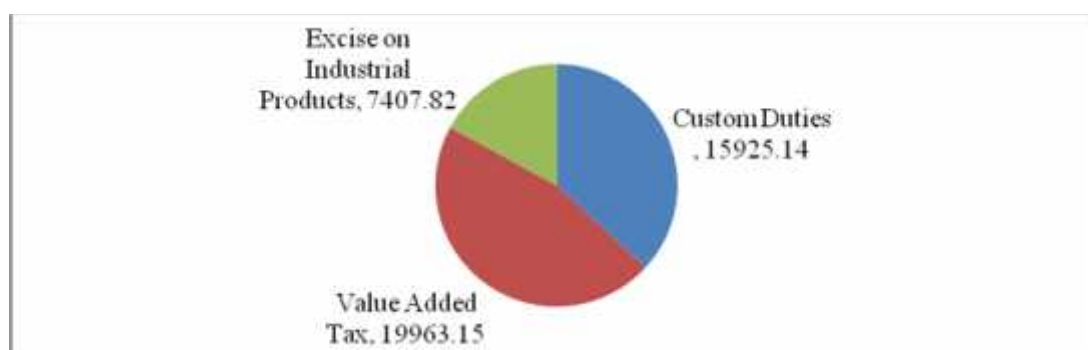
(Rs. in Million)

Fiscal Year	Total Indirect Tax	Custom Duties		Tax On Consumption and Product of Goods and Services			
		Custom Duties		Value Added Tax		Excise on Industrial Products	
		Amount	%	Amount	%	Amount	%
1996/97	19084.3	8309.1	43.54	8477.1	44.42	2298.1	12.04
1997/98	19751.9	8502.2	43.04	8363.9	42.34	2885.8	14.61
1998/99	21236.8	9517.7	44.82	8765.9	41.28	2953.2	13.91
1999/00	24200.6	10813.3	44.68	10259.7	42.39	3127.6	12.92
2000/01	28685.7	12532.1	43.69	12382.4	43.17	3771.2	13.15
2001/02	28733.1	12658.8	44.06	12267.3	42.69	3807	13.25
2002/03	32481.2	14236.4	43.83	13459.7	41.44	4785.1	14.73
2003/04	36260.4	15554.8	42.90	14478.9	39.93	6226.7	17.17
2004/05	41032.9	15701.6	38.27	18885.4	46.03	6445.9	15.71
2005/06	43462.3	15344	35.30	21610.7	49.72	6507.6	14.97
2006/07	52146.4	16707.6	32.04	26095.6	50.04	9343.2	17.92
2007/08	62067.8	21062.5	33.93	29815.7	48.04	11189.6	18.03
2008/09	82714.7	26792.9	32.39	39700.9	48.00	16220.9	19.61
2009/10	114287.4	35218.9	30.82	54920.9	48.06	24147.6	21.13
AVERAGE	43296.11	15925.14	39.52	19963.15	44.82	7407.82	15.65

Source: Economic Survey 2010/11

Fig: 4.4(a)

Pie Chart showing Average Amount of components of Indirect Tax (1996/97-2009/10)



The above table 4.4(a) revealed that the custom duty and VAT occupies major position in indirect tax. In FY 1996/97 the contribution of custom duty was 43.54% which fluctuated from 44.82% to 32.04 % and it was 30.82% amounts to Rs. 35218.9 million in FY 2009/10. The percentage of custom duty to indirect tax has been decreasing from FY 2003/04. The average percentage contribution of custom duty to indirect tax was 39.52% during the study period.

The above table revealed that the custom duty and VAT occupies major position in indirect tax. In FY 1996/97 the contribution of custom duty was 43.54% which fluctuated from 44.82% to 32.04 % and it was 30.82% amounts to Rs. 35218.9 million in FY 2009/10. The percentage of custom duty to indirect tax has been decreasing from FY 2003/04. The average percentage contribution of custom duty to indirect tax was 39.52% during the study period.

The sales tax/ VAT has become an important source of overall tax revenue with an increasing trend since FY 2004/05 but degraded to just 8.27% amounts to Rs. 54920.9 million in FY 2009/10 in comparison to 39.93% in FY 2003/04 which was 44.42% in FY 1996/97.

The share of excise duty was 12.04 % in FY 1996/97 and was gradually increased to 17.17% in the FY 2003/04. Then it has been decreased to 14.97% in FY 2005/06 and then it is increased to 21.13% amounts to Rs. 24147.6 million in FY 2009/10.

Part II

Table 4.4(b)
Composition of Indirect Tax Revenue

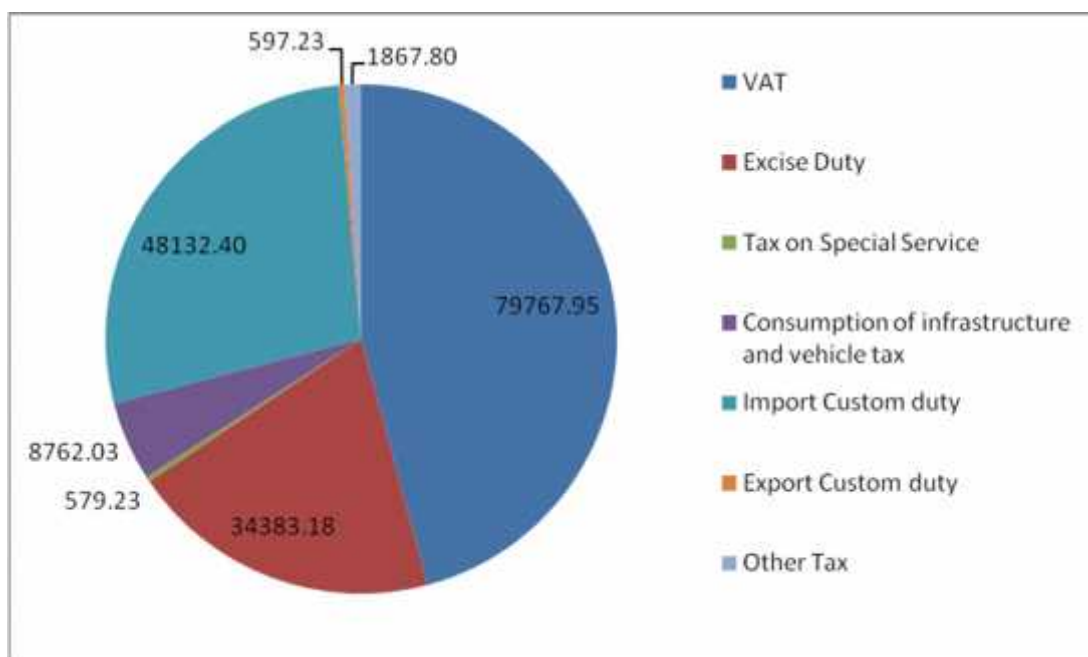
(Rs. in Million)

Year	Total Indirect Tax	Tax on goods & services								Tax on for
		VAT		Excise		Tax on special service		Consumption of infrastructure and vehicle tax		Import Cus
		Amount	%	Amount	%	Amount	%	Amount	%	Amount
11	130506.9	61663.6	47.25	26338.5	20.18	408.9	0.31	6382.4	4.89	34314
12	153951.6	70930.4	46.07	30016.1	19.50	490.2	0.32	9124.3	5.93	40905.9
13	186202.3	83418.4	44.80	36234.7	19.46	655.3	0.35	8962.1	4.81	54327.9
14	225698.4	103059.4	45.66	44943.4	19.91	762.5	0.34	10579.3	4.69	62981.8
RAGE	174089.80	79767.95	45.95	34383.18	19.76	579.23	0.33	8762.03	5.08	48132.40

Sources: Economic Survey 2014/15

Fig:4.4(b)

Pie Chart showing Average Amount of components of Indirect Tax
(2010/11-2013/14)



The major components of indirect tax in Nepalese tax structure Tax on goods & services and Tax on foreign trade. Tax on goods & services has been classified into VAT, Excise and Tax on Special Service. Tax on goods & services has classified into Import and Export Custom Duty. Other components of indirect tax like entertainment tax, hotel tax, air flight tax and other tax contribute normal share. Table 4.4(b) shows the composition of indirect tax as follows:

The above table 4.4(b) revealed that the VAT and Import Custom Duty occupies major position in indirect tax. In FY 2010/11, the contribution of VAT and Import Custom Duty was 47.25% and 26.29%, which fluctuated from 47.25% and 26.29% to 44.80% and 27.91%. It was 45.66% and 27.91% amounts to Rs. 103059.4 and Rs. 62981.8 million in FY 2013/14. The percentage of Import Custom Duty to indirect tax has been increasing in the study Period. The average percentage contribution of VAT and Import Custom Duty to indirect tax was 45.95% and 27.49% during FY 2010/11 to FY 2013/14

The Excise has become an important source of overall tax revenue with an decreasing trend since FY 2010/11 but degraded to just 19.46% amounts to Rs. 36234.7 million in FY 2012/13 in comparison to 19.50% in FY 2011/012 which was reached in 19.91% in FY 2013/14.

The share of Tax on special service, Consumption of Infrastructure and vehicle tax, Export Custom Duty and Other Tax are covered small area of Indirect Tax. In the study Period FY 2010/11 to FY 2013/14.

4.1.5 Contribution of Total Revenue, Total Tax Revenue, Direct Tax Revenue and Indirect Tax Revenue on GDP

According to the table 4.5, it is found that the contribution of total revenue on GDP was in increasing trend, which was 11.27% in FY 1996/97 amount to Rs. 30373.5 million, which was gradually increased and reached to 19.14% amount to Rs. 405866.40 million in FY 2014/15. The contribution of total tax revenue on GDP was fluctuating from the FY 1996/97 to FY 200/01 and then it is gradually increased for the entire study period. There is significant role of indirect tax in the tax structure of Nepal, which has contributed about three times more than the direct tax. In the FY 1996/97, the contribution of indirect tax and direct tax on GDP were 7.08% and 1.98% amounting to Rs. 19084.3 million and Rs. 5340 million respectively which has increased to 12.02% and 4.77% amounting to Rs. 254866.8 million and Rs. 101089.3 million respectively in the FY 2014/15.

Table 4.5
Contribution of Total Revenue, Total Tax Revenue, Direct Tax Revenue
and Indirect Tax Revenue on GDP

(Rs. in Million)

Fiscal Year	GDP	Total Revenue		Total Tax Revenue		Direct Tax Revenue		Indirect Tax Revenue	
		Amount	% on GDP	Amount	% on GDP	Amount	% on GDP	Amount	% on GDP
1996/97	269570	30373.5	11.27	24424.3	9.06	5340	1.98	19084.3	7.08
1997/98	289798	32937.9	11.37	25939.8	8.95	6187.9	2.14	19751.9	6.82
1998/99	330018	37251	11.29	28752.9	8.71	7516.1	2.28	21236.8	6.44
1999/00	366251	42893.7	11.71	33152.1	9.05	8951.5	2.44	24200.6	6.61
2000/01	413429	48893.9	11.83	38865.1	9.40	10159.4	2.46	28705.7	6.94
2001/02	430397	50445.6	11.72	39330.6	9.14	10597.5	2.46	28733.1	6.68
2002/03	460325	56229.7	12.22	42587	9.25	10105.8	2.20	32481.2	7.06
2003/04	500699	62331	12.45	48173	9.62	11912.6	2.38	36260.4	7.24
2004/05	548485	70122.7	12.78	54104.7	9.86	13071.8	2.38	41032.9	7.48
2005/06	611118	72282.1	11.83	57430.4	9.40	13968.1	2.29	43462.3	7.11
2006/07	675859	87712.2	12.98	71126.7	10.52	18980.3	2.81	52146.4	7.72
2007/08	755262	107622.5	14.25	85155.5	11.27	23087.7	3.06	62067.8	8.22
2008/09	910160	143474.5	15.76	117051.9	12.86	34320.7	3.77	82731.2	9.09
2009/10	1083415	177991.9	16.43	159785.4	14.75	39332.3	3.63	117459	10.84
2010/11	1366954	198375	14.51	177227	12.97	46720	3.42	130507	9.55
2011/12	1527344	244375	16.00	211723	13.86	57771	3.78	153952	10.08
2012/13	1692643	296023	17.49	259215	15.31	73013	4.31	186202	11.00
2013/14	1941624	356623	18.37	312443	16.09	86744.6	4.47	225698.4	11.62
2014/15	2120470	405866.4	19.14	355955.7	16.79	101089.3	4.77	254866.4	12.02

Sources: Economic Survey 2015/16

4.1.6 Structure of Income Tax in Nepal

Part I

The income tax structure of Nepal is the composition of tax from public enterprises, private corporate bodies, individuals, remunerations and tax on interest. The structure of income tax in Nepal is presented in table 4.6(a)

Table 4.6(a): Structure of Income Tax Revenue

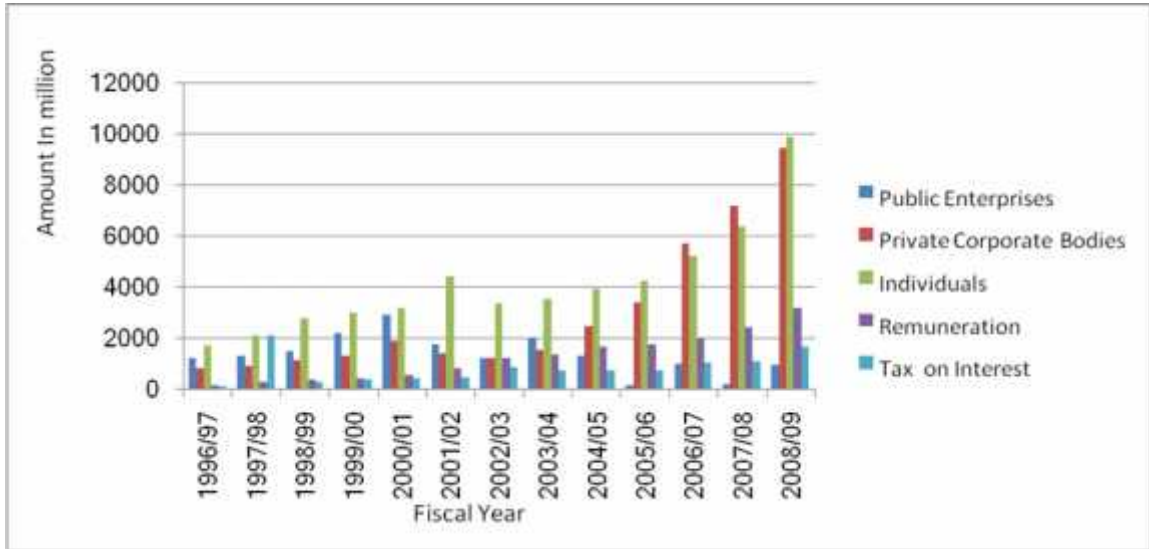
(Rs. in Million)

Fiscal Year	Total Income Tax Revenue	Public Enterprises		Private Corporate Bodies		Individuals		Remuneration		Tax on Interest	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1996/97	4123.4	1231.1	29.86	858.4	20.82	1711.4	41.50	168.1	4.077	154.4	3.74
1997/98	6807.1	1317.8	19.36	925.1	13.59	2120.8	31.16	322.2	4.733	2121.2	31.16
1998/99	6170.2	1526.5	24.74	1155	18.72	2772.7	44.94	396.5	6.426	319.5	5.18
1999/00	7420.6	2198.8	29.63	1339.5	18.05	3016.4	40.65	451.5	6.084	414.4	5.58
2000/01	9114	2928	32.13	1924.3	21.11	3200.5	35.12	597.3	6.554	463.9	5.09
2001/02	8903.7	1769.3	19.87	1412	15.86	4419.1	49.63	835.6	9.385	467.7	5.25
2002/03	7966.25	1251	15.70	1236.3	15.52	3362.3	42.21	1252.65	15.724	864	10.85
2003/04	9245.9	2056.6	22.24	1531.3	16.56	3533.4	38.22	1391.2	15.047	733.4	7.93
2004/05	10159.4	1332.4	13.11	2467.8	24.29	3926.3	38.65	1675.9	16.496	757	7.45
2005/06	10373.7	195.7	1.89	3404.3	32.82	4234.7	40.82	1764.1	17.006	774.9	7.47
2006/07	15034.3	1019.7	6.78	5717.1	38.03	5234.7	34.82	2007.9	13.355	1054.9	7.02
2007/08	17311.2	204.6	1.18	7186.5	41.51	6381.2	36.86	2451	14.158	1087.9	6.28
2008/09	25142.4	959.1	3.81	9425.1	37.49	9877.5	39.29	3195.6	12.710	1685.1	6.70

Source: Economic Survey 2009/10

Fig. 4.5(a)

Structure of Income Tax Revenue



The table presents the structure of income tax in Nepal which shows that total income tax has increased in every fiscal year except FY 2001/02 and FY 2002/03. It has increased from Rs. 4123.4 million in FY 1996/97 to Rs. 25142.4 million in FY 2008/09. It's the fiscal year 2001/02 when the income tax collection was decreased to Rs. 8903.7 million from Rs. 91114 million as in the FY 2000/01 and it was Rs. 7966.2 million in FY 2002/03, and then it was started to increase in each year throughout the study period i.e. 2008/09.

The total tax from private corporate bodies has increased every year except in the FY 2001/02, 2002/03 and 2003/04. It has increased from Rs. 858.4 million in FY 1996/97 to Rs. 9425.1 million in FY 2008/09.

The contribution from individuals in income tax revenue is greatest in every fiscal year. The revenue from individual tax payers increased from Rs. 1711.4 million in FY 1996/97 to Rs. 4419.1 million in FY 2001/02. In the year 2003/04 it was increased to Rs. 3362.3 million. After then it started to increase again and reached to Rs. 9877.5 million in FY 2008/09. The collection of income tax from remuneration has been increasing. It was Rs. 168.1 million in FY 1996/97 to Rs. 3195.6 million in FY 2008/09.

Income tax from interest was fluctuating during the study period. It was Rs. 154.4 million in FY 1996/97, Rs. 2122.2 million in 1997/98, Rs. 733.4 million in FY 2002/03 and Rs. 1685.1 million in FY 2008/09.

Table 4.6 (b)

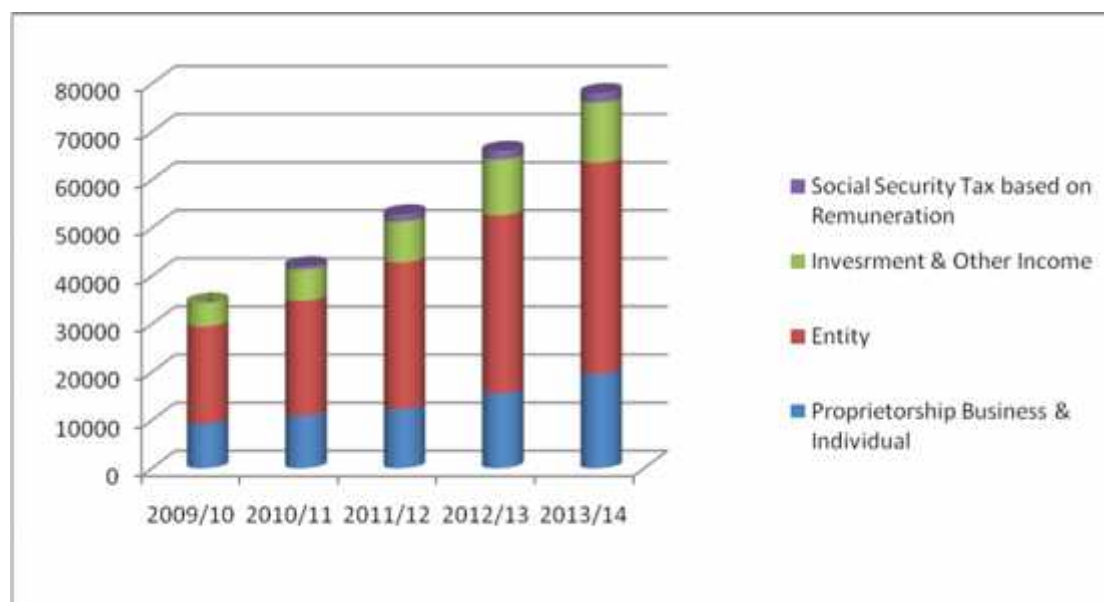
Structure of Income Tax

(Rs in Million)

Fiscal Year	Total Income Tax Revenue	Proprietorship Business & Individual		Entity		Investment & Other Income		Social Security Tax based on Remuneration	
		Amount	%	Amount	%	Amount	%	Amount	%
2009/10	34492.8	9290.9	26.94	20206.1	58.58	4995.8	14.48	-	-
2010/11	42060	10918.9	25.96	23931.1	56.90	6500.2	15.45	709.8	1.688
2011/12	52858	12292.8	23.26	30494.4	57.69	8515.8	16.11	1555	2.942
2012/13	66068	15541.5	23.52	37067.9	56.11	11578	17.52	1880.6	2.846
2013/14	78075.8	19606.6	25.11	43970.9	56.32	12482.8	15.99	2015.5	2.581

Fig: 4.5(b)

Structure of Income Tax



The above table presents the structure of income tax in Nepal which shows that total income tax has increased in every fiscal year from FY 2009/10 to FY 2013/14. It has increased from Rs. 34492.8 million in FY 2009/10 to Rs. 78075.8 million in FY 2013/14. During the period, entity had contributed the most in the total income tax revenue in all the years amounting Rs. 20206.1 million in FY 2009/10 & Rs. 43970.9 million in FY 2013/14 respectively. Entity had contributed 58.58 % & 56.32 % of total income tax revenue in FY 2009/10 & FY 2013/14 respectively. After Entity, Proprietorship business and individual comes in second position contributing 26.94 % & 25.14 % of total income tax revenue in FY 2009/10 & FY 2013/14 respectively. Investment & other income contributed 14.48 % & 15.99 % of total income tax revenue in FY 2009/10 & FY 2013/14 respectively. Remuneration had least contribution in total income tax revenue in all years i.e. 1.69 % in FY 2010/11 & 2.58% in FY 2013/14.

4.1.7 Resource Gap in Nepal

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

The resource mobilization has been a major problem in financing of growing government expenses. Since the beginning of planned of Nepal, there has been tremendous increment in the size of government expenditure. The development works have to be carried out by the government in the initial stage. An increment in government expenditure creates additional demand in the economy through multiplier effects and there by induces arises in aggregate output. The government resources have been concentrated more on expanding economic overhead in the form of the transport, power and communication which will stimulate agriculture, industry and transport in the private sectors.

Many studies have been attempted to examine the problem of resource gap and prospects of internal resource gap. Domestic resource gap is the amount of resource gap excluding net foreign grants and loans. But the overall resource gap includes the

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

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

Table 4.7
Overall Resource Gap in Nepal

(Rs in Million)

Fiscal Year	Total Expenditure	Total Revenue	Resource Gap ¹	Foreign Grants	Resource Gap ²	Foreign Loan	Resource Gap ³
1996/97	50723.7	30373.5	20350.2	5988.3	14361.9	9043.6	5318.3
1997/98	56118.3	32937.9	23180.4	5402.6	17777.8	11054.5	6723.3
1998/99	59579.0	37251	22328	4336.6	17991.4	11852.4	6139
1999/00	66272.5	42893.7	23378.8	5711.7	17667.1	11812.2	5854.9
2000/01	79835.1	48893.9	30941.2	6753.4	24187.8	12044	12143.8
2001/02	80072.2	50445.6	29626.6	6686.1	22940.5	7698.7	15241.8
2002/03	84006.1	56229.7	27776.4	11339.1	16437.3	4546.4	11890.9
2003/04	89442.6	62331	27111.6	11283.4	15828.2	7629	8199.2
2004/05	102560.4	70122.7	32437.7	14391.2	18046.5	9266.1	8780.4
2005/06	110889.2	72282.1	38607.1	13827.5	24779.6	8214.3	16565.3
2006/07	133604.6	87712.1	45892.5	15800.8	30091.7	10053.5	20038.2
2007/08	161349.9	106723	54627.4	20320.7	34306.7	8979.9	25326.8
2008/09	219661.9	143475	76187.4	26382.8	49804.6	9968.9	39835.7
2009/10	259690.0	177991.9	81698.1	40251.95	41446.15	10647.29	30798.86
2010/11	295361.0	198375	96986	45922	51064	12700.52	38363.48
2011/12	339167.0	244375	94792	40810.2	53981.8	11083	42898.8
2012/13	358638.0	296023	62615	35230	27385	11969.4	15415.6
2013/14	465050.0	356623	108427	33960.1	74466.9	21132.3	53334.6
2014/15	531550.0	405866.4	125683.6	36374.2	89309.4	20432.2	68877.2

Source: Economic Survey 2015/16

1. Resource Gap¹

The resource gap was Rs. 20350.2 million in the FY 1996/97 and it was Rs. 125683.6 million in FY 2014/15. The amount of resource gap was in increasing trend up to FY 2000/01 amounting Rs. 30941.2 million, it was then decreased till FY 2003/04 amounting to Rs. 27111.6 million. After then it is again started to increase in every year till FY 2010/11. Then again fluctuated in the study period.

2. Resource Gap²

This resource gap is taken as the difference between total expenditure and total revenue plus foreign grants. In the FY 1996/97, the gap was Rs. 14361.9 million which was increased to Rs. 24187.8 million in FY 2000/01. Then after it was decreased to Rs. 15828.2 million in FY 2003/04 which was due to the high

proportionate increment in foreign grants. After FY 2003/04, it was again increased in every year and reached to Rs. 89309.4 million in FY 2014/15.

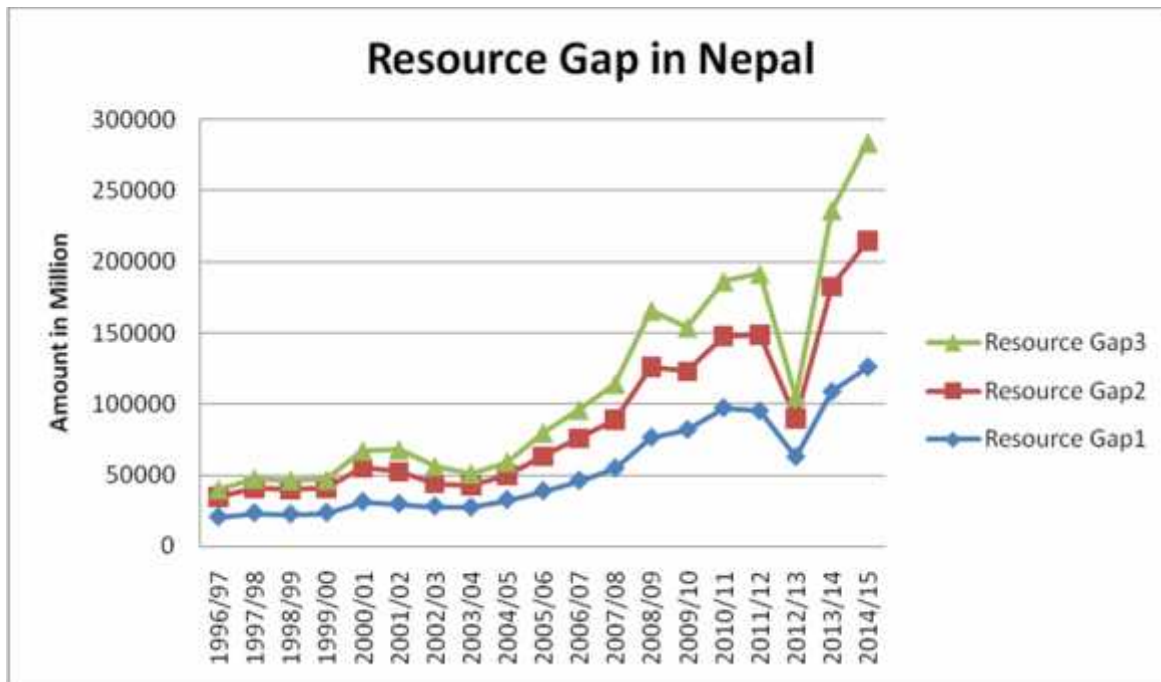
3. Resource Gap³

This resource gap is taken as the difference between total expenditure and total revenue plus foreign grants plus foreign loan. In the FY 1996/97 the gap was Rs. 5318.3 million which was increased to Rs. 68877.2 million in FY 2014/15. This was fluctuating during the study period.

The above analysis shows a clear indication of the serious and growing financial resource problem in Nepal. The increasing magnitude of resource gap clearly indicates that there is an urgent need for mobilizing additional resources. Income tax has appeared as one of the most effective fiscal policy instrument to mobilize additional resources and for achieving the desired developmental objective of Nepal.

Fig. 4.6

Overall Resource Gap in Nepal



4.1.8 Contribution of Income Tax on Total Government Revenue, Total Tax Revenue and GDP

The contribution of income tax from government revenue, total tax revenue and GDP is given in table 4.8. From the above table it is clear that contribution of income tax on total government revenue was 13.58% amounting to Rs. 4123.4 million in the FY 1996/97 which was increased to 18.64% amounting to Rs. 9114 million in FY 2000/01. But after that it was gradually up and down and reached to 21.95% amounting to Rs. 89091.5 million in FY 2014/15. The percentage of income tax on total government revenue has fluctuated between 13.58% and 22.32% during the study period.

The contribution of income tax on total tax revenue was 16.88% amounting to Rs. 4123.4 million in the FY 1996/97 and 25.03% amounting to Rs. 89091.5 million in FY 2014/15. The contribution of income tax on total tax revenue was maximum 25.49% in FY 2012/13 and minimum 16.88% in FY 1996/97, which was fluctuating during the study period.

The contribution of income tax on GDP was 1.53% amounting to Rs. 4123.4 million in the FY 1996/97 and reached 1.70% amounting to Rs. 10373.3 million by fluctuating during the interval period. After then it was gradually up and down and reached to 4.20% amounting to Rs. 89091.5 million in FY 2014/15.

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

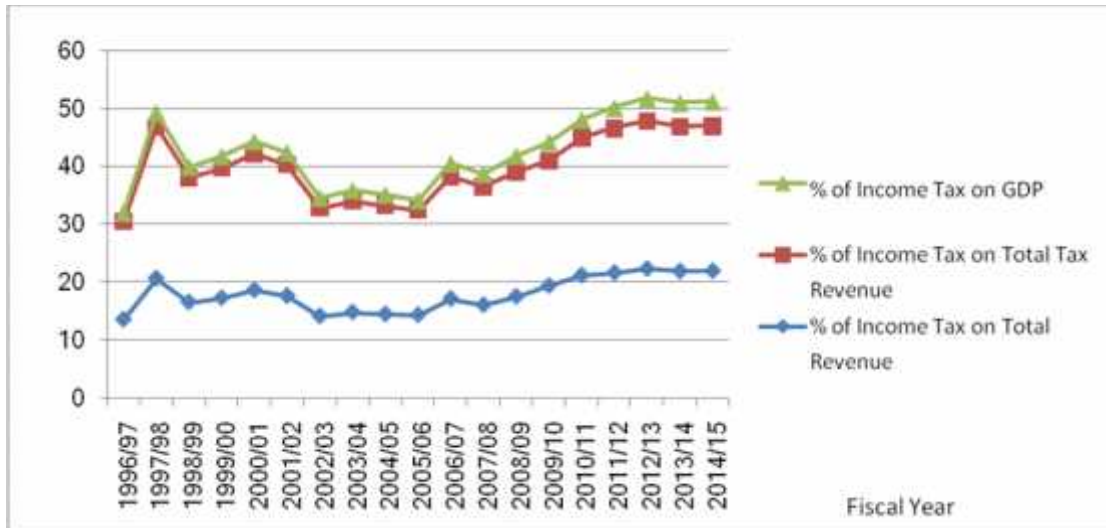
(Rs in Million)

Fiscal Year	Total Revenue	Total Tax Revenue	GDP	Total Income Tax	% of Income Tax on Total Revenue	% of Income Tax on Total Tax Revenue	% of Income Tax on GDP
1996/97	30373.5	24424.3	269570	4123.4	13.58	16.88	1.53
1997/98	32937.9	25939.8	289798	6807.1	20.67	26.24	2.35
1998/99	37251	28752.9	330018	6170.2	16.56	21.46	1.87
1999/00	42893.7	33152.1	366251	7420.6	17.30	22.38	2.03
2000/01	48893.9	38865.1	413429	9114	18.64	23.45	2.20
2001/02	50445.6	39330.6	430397	8903.7	17.65	22.64	2.07
2002/03	56229.7	42587	460325	7966.25	14.17	18.71	1.73
2003/04	62331	48173	500699	9245.9	14.83	19.19	1.85
2004/05	70122.7	54104.7	548485	10159.4	14.49	18.78	1.85
2005/06	72282.1	57430.4	611118	10373.7	14.35	18.06	1.70
2006/07	87712.2	71126.7	675859	15034.3	17.14	21.14	2.22
2007/08	107622.5	85155.5	755262	17311.2	16.09	20.33	2.29
2008/09	143474.5	117051.9	910160	25142.4	17.52	21.48	2.76
2009/10	177991.9	159785.4	1083415	34492.8	19.38	21.59	3.18
2010/11	198375	177227	1366954	42060	21.20	23.73	3.08
2011/12	244375	211723	1527344	52858	21.63	24.97	3.46
2012/13	296023	259215	1692643	66068	22.32	25.49	3.90
2013/14	356623	312443	1941624	78075.8	21.89	24.99	4.02
2014/15	405866.4	355955.7	2120470	89091.5	21.95	25.03	4.20

Source: Economic Survey 2015/16

Figure 4.7

Percentage Contribution of Income Tax on Total Government Revenue,
Total Tax revenue and GDP



4.1.9 Exemption Limit in Nepal

Exemption limit directly affects the income tax revenue. Taxpayers having low tax paying capacity shall be excluded from the tax bracket (net) for the social justice. The exemption limit provided in the various years is presented below in table 4.9. In the earlier years, there was equal amount of exemption to all the taxpayers i.e. individual, couple, family and corporate bodies. From the said table it is clear that the exemption limit is extended according to the need of time and income condition. At present time, individual having the taxable income up to Rs. 350000 is exempted from tax and that for the couple is Rs. 400000 subject to 1% tax on the aforesaid slab on the income from remuneration. One% tax on income from remuneration was introduced from FY 2009/10.

Table 4.9
Exemption Limit in Nepal

(in Rs.)

Fiscal Year	Individual	Couple
1985/86 -1989/90	15000	20000
1990/91 -1991/92	20000	30000
1992/93 -1996/97	25000	35000
1997/98	30000	40000
1998/99	40000	50000
1999/2000	50000	60000
2000/01 -2001/02	55000	75000
2001/02 -2002/03	65000	85000
2003/04 -2004/05	80000	100000
2005/06 -2006/07	100000	125000
2007/08-2008/09	115000	140000
2009/10& 2010/11 (1% SST)	160000	200000
2011/12-2012/13 (1% SST)	200000	250000
2013/14-2015/16 (1% SST)	250000	300000
2016/17 (1% SST)	350000	400000

Note: Social Security Tax (SST) @ 1% is applicable from FY 2016/17.

Sources: Finance Acts of Various Years, Ministry of Finance, Government of Nepal

4.1.10 Income Tax Rate in Nepal for Personal Income

Income tax rate in Nepal for the various years is presented below in table 4.10. At the commencement of the income tax, there was narrow coverage and high tax rate but now, it is taken the principle of low tax rate and high coverage. Tax rate and number slabs were also greater in the previous period, which is gradually decreasing in the later years. In the FY 1984/85, there was eight slabs with the tax rate varied from 10% to 55% which is decreased to two slabs with the tax rate 15% and 25% for the personal income but 25% flat tax rate for the entity(i.e. partnership firm, corporation, company etc) and non-resident at present.

Table 4.10

Rates of income Tax in Nepal for individual (in Rs.)

Fiscal Year	Slabs (Over Exemption Limit)							
	1	2	3	4	5	6	7	8
1980/81	5000 5%	5000 10%	10000 15%	20000 20%	20000 30%	30000 40%	Balance 50%	
1985/86	5000 10%	5000 15%	10000 20%	15000 25%	15000 30%	30000 40%	200000 50%	Balance 55%
1990/91	10000 15%	15000 20%	20000 35%	25000 40%	30000 45%	Balance 50%		
1995/96	25000 10%	40000 25%	Balance 35%					
1996/97	40000 10%	25000 20%	Balance a.30% b.33%					
1998/99	4500 15%	Balance 25%						
1999/00- 2007/08	75000 15%	Balance 26.50%						
2007/08- 2008/09	75000 15%	Balance 25%						
2009/10- 2016/17	100000 15%	2500000 25%	Balance 35%					

a) Remuneration Tax Rate b) Others

Sources: Finance Acts of Various Years, Ministry of Finance, Government of Nepal

Table 4.11
Rates of income Tax in Nepal for Partnership Firms,
Corporation and Non-residence

(in Rs.)

Fiscal Year	Slabs							
	1	2	3	4	5	6	7	8
1984/85-	5000	5000	10000	15000	15000	30000	200000	Balance
1988/89	10%	15%	20%	25%	30%	40%	50%	0.55
1989/90-	5000	5000	10000	15000	15000	30000	Balance	
1990/91	10%	15%	20%	25%	30%	40%	50%	
	10000	15000	20000	25000	30000	Balance		
1991/92	15%	25%	35%	40%	45%	50%		
	10000	20000	20000	20000	Balance			
1992/93	10%	20%	30%	4000%	50%			
	25000	40000	Balance					
1993/94	15%	25%	40%					
1994/95-	35% in							
1995/96	Total							
1996/97-	33% in	Balance						
1997/98	Total	27%						
	a) 30%	Balance						
1998/99-	b)25%	25%						
2016/17	in Total							

a) For bank and financial institution b) Others except special industry

Sources: Finance Acts of Various Years, Ministry of Finance, Government of Nepal

4.1.11 Estimate and Collection of Income Tax in Nepal

Table 4.12 shows the performance of income tax collection in Nepal. Nowadays, the collection of income tax in Nepal seems to be satisfactory. The collection of income tax in Nepal is increasing every year. Income tax was collected Rs. 4123.4 million in FY 1996/97 which was 89.74% of estimation and in the FY 1998/99 it was reached to Rs. 6170.2 million which was 106.75% of estimation. For the study period of 19 years from FY 1996/97 to FY 2015/16, the income tax collection performance was maximum 118.55% in FY 2006/07 and minimum in FY 2001/02 when it was 79.93% of estimation in 2015/16 income tax collection was 107.39% of estimation.

Table 4.12
Estimate and Collection of Income Tax in Nepal

(Rs in Million)

Fiscal Year	Estimate	Collection	Difference	% of collection in Estimate
1996/97	4595	4123.4	471.6	89.74
1997/98	4750	4898.1	-148.1	103.12
1998/99	5780	6170.2	-390.2	106.75
1999/00	7380	7420.6	-40.6	100.55
2000/01	9980	9114	866	91.32
2001/02	11140	8903.7	2236.3	79.93
2002/03	9862.5	7966.25	1896.3	80.77
2003/04	8697.5	9245.9	-548.4	106.31
2004/05	10250	10159.4	90.6	99.12
2005/06	10999.6	10373.7	625.9	94.31
2006/07	12682	15034.3	-2352.3	118.55
2007/08	16869.2	17311.2	-442	102.62
2008/09	27087	25142.4	1944.6	92.82
2009/10	36298	34492.8	2478	95.03
2010/11	40240	42060	1480	104.52
2011/12	50810	52858	1520	104.03
2012/13	63480	66068	3620	104.08
2013/14	68310	78075.8	1080	114.30
2014/15	78630	89091.5	1040	113.30
2015/16	109070	117130	8060	107.39

Sources: Estimates from Various Budget Speeches and Economic Survey 2015/16

4.2 Empirical Investigation

An empirical Investigation conducted in order to find out our various aspects of income tax imposition in Nepal. This chapter analyzes information collected from primary sources i.e. through questionnaire. The questionnaires were distributed to the tax administrators, tax experts, tax payers and tax students. The responses received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study.

-) The respondents were requested to response on by yes or no response.
 -) They were requested to rank the alternatives from 1 to last in order of importance/ preferences on the basis of number of alternatives. Number 1 stands for the most important and last number for the least.
 -) They could response by selecting one or more options.
 -) Respondents had also option to put their views by writing wherever necessary.
- The following table showed the groups of respondents and code used to represent them.

Table 4.13
Group of Respondents and Sample Size

S.No	Groups of Respondents	Sample Size	Code used
1	Income tax Administrators	15	A
2	Income tax Experts	15	B
3	Income tax payers	15	C
4	Income tax Students	15	D

4.2.1 Income tax as an Appropriate Means of Raising Government Revenue

To know the respondents opinion about the role of income tax in raising the government revenue, the first question, “Do you think that income tax as an appropriate means of raising government revenue?” was asked. The responses received from the respondents are tabulated as follows.

Table 4.14

Income tax as an Appropriate Means of Raising Government Revenue

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	15.00	100.00	0.00	0.00	15.00	100.00
B	14.00	93.33	1.00	6.67	15.00	100.00
C	11.00	73.33	4.00	26.67	15.00	100.00
D	15.00	100.00	0.00	0.00	15.00	100.00
Total	55.00	91.67	5.00	8.33	60.00	100.00

Source: Opinion Survey

From the above table, it has been clear that 91.67 percent of the respondents are in favor of income tax as an appropriate means of raising revenue and only the 8.33 percent of respondents do not recognize income tax as an appropriate means of raising government revenue.

4.2.2 Attitude towards Tax Education

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

Table 4.15
People's Knowledge towards Tax System

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	15.00	100.00	0.00	0.00	15.00	100.00
B	15.00	100.00	0.00	0.00	15.00	100.00
C	13.00	86.67	2.00	13.33	15.00	100.00
D	15.00	100.00	0.00	0.00	15.00	100.00
Total	58.00	96.67	2.00	3.33	60.00	100.00

Source: Opinion Survey

From the above table it has been clear that 96.67 percent of the respondents replied that people are not well informed about the tax system in Nepal. Thus, it can be concluded that tax education is most necessary in Nepal to create the tax consciousness of tax payers.

4.2.3 Attitude towards Income Tax in Nepal

Income tax system of Nepal has often been blamed as not effective. To know whether the income tax system of Nepal is sound and efficient or not, a question was asked, "In your opinion is tax system in Nepal is sound and efficient." The responses received from the various respondents are tabulated below.

Table 4.16

Attitude towards income tax system in Nepal

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	5	33.33	10	66.67	15	100
B	0	0	15	100	15	100
C	0	0	15	100	15	100
D	2	13.33	13	86.67	15	100
Total	7	11.67	53	88.33	60	100

Source: Opinion Survey

From the above table it is clear that Nepalese Income tax system is not sound and efficient. Most of the respondents i.e. 88.33 percent of respondents recognize it unsound and inefficient.

In order to know the causes of unsound and inefficient income tax system the next question was asked, “If no, what are the major problems of the income tax system in Nepal?” The respondents were requested to rank their answer from 1 to 12 in order of importance. Table 4.19 gives a breakdown of response.

Table 4.17

Major Problems of the Nepalese Income Tax System

S.N.	Major problems	Group				Total points	Percentage	Rank
		A	B	C	D			
1	Inadequate political stability	113	75	105	83	377	8.05	8
2	Inadequate economic policy	61	40	56	44	202	4.31	10
3	Lack of education in taxpayer	115	84	115	128	441	9.43	5
4	Lack of consciousness of taxpayer	142	137	153	115	548	11.71	2
5	Complexity in Income tax Act, rules and regulation	111	115	135	121	482	10.3	4
6	Inappropriate rate and exemption limit	81	89	121	113	403	8.61	7
7	Inefficient Income tax administration in income tax management	107	178	256	171	710	15.18	1
8	Inefficient income tax policymakers	46	30	49	44	169	3.62	11
9	Illegal business activities	119	79	128	114	440	9.4	6
10	Lack of information to mass people	73	48	78	70	269	5.74	9
11	Mass poverty	39	26	42	38	146	3.11	12
12	Increasing habit of tax evasion	158	99	123	113	493	10.54	3
Total		1163	1001	1362	1154	4680	100	

Source: Opinion Survey

The major problems of the income tax system of Nepal were ranked in order of the preference of the respondents as follows.

-) Inefficient Income tax administration in income tax management.
-) Lack of consciousness of taxpayer.
-) Increasing habit of tax evasion.
-) Complexity in Income tax Act, rules and regulation.
-) Lack of education in taxpayer.
-) Illegal business activities.
-) Inappropriate rate and exemption limit.
-) Inadequate political stability.
-) Lack of information to mass people.
-) Inadequate economic policy.
-) Inefficient income tax policymakers
-) Mass poverty.

The other problem stated by the respondents is that mentality of the tax officials and assessing people seem to be corrupted. They do not have positive attitude towards the taxpayers. It can be concluded from the above results that in the opinion of the respondents, the income tax system in Nepal is not sound and efficient, basically due to insufficient income tax administration, lack of consciousness of taxpayer and increasing habit of tax evasion.

To assist the comparative analysis of the above view of the tax administrators and taxpayers (Keeping the views of tax experts and tax students constants), we can test this by rank correlation coefficient(r) and probable error (Pr).

Hypothesis -I

Here we have a hypothesis that there is no significant relationship between the views of tax administrators and taxpayers with respect to the problems of the Nepalese income tax system.

We have formula, $r = \frac{6 \sum d^2}{n(n^2 - 1)}$

Where r = rank correlation

$d = R_1 - R_2$

$$P.E \times \frac{0.6745 \sqrt{Z r^2 A}}{\sqrt{n}}$$

Here r is greater than P.E by 6 times. The relation is significant because to be significant relationship r should be 6 times greater than P.E.(Appendix B) So there exists significant relationship between the views of tax administrators and taxpayers. Hence, our null hypothesis is rejected. Therefore, we can conclude the problems, whatever facing by the tax administrators, are also same for the taxpayers.

4.2.4 Appropriate Method while Assessing the Income Tax in Nepal

Sound and appropriate assessment procedure is essential for the collection of the large amount in the form of income tax. It is very important in managing the income tax because the amount of income tax is realized through the assessment. To know the respondents' opinion about the appropriate method while assessing the income tax in Nepal, respondents were requested to tick one among the given four alternatives. The question was, "What method is more appropriate in Nepal while assessing income tax?" The responses received are tabulated below.

Table 4.18
Appropriate Method while Assessing the Income Tax in Nepal

S.N	Methods	Group				Total No.	Percentage
		A	B	C	D		
1	Assessment on the basis of accounts submitted by tax payer	1	2	0	0	3	5
2	Self-assessment	13	11	13	15	52	86.67
3	Assessment by the best judgment	1	1	2	0	4	6.67
4	Assessment by the committee	0	1	0	0	1	1.66
Total		15	15	15	15	60	100

Source: Opinion Survey

From the above table it has been clear that 86.67 percent of the respondents approved of the self-assessments appropriate method whole assessing the income tax. Thus, the conclusion can be drawn out that the self-assessment method is appropriate method. So it can be used as a major tool to increase voluntary compliance by the taxpayer that will help to enhance more government revenue.

4.2.5 Suitable Principle of Income Tax Policy in Nepal

In order to know the suitable principle of income tax policy for Nepal, respondents were requested to tick one among the given three alternatives. The question was, “In your thinking which principle of income tax policy is suitable for Nepal?” The responses received are tabulated as below.

Table 4.19

Suitable Principle of Income Tax Policy in Nepal

S.N	Methods	Group				Total No.	Percentage
		A	B	C	D		
1	Progressive	11	13	11	15	50	83.33
2	Proportional	4	2	4	0	10	16.67
3	Regressive	0	0	0	0	0	0
Total		15	15	15	15	60	100

Source: Opinion Survey

Since 83.33 percent of respondents approved of progressive income tax policy is suitable for Nepal. It can be concluded that progressive policy is suitable principle of income tax policy for Nepal to increase income tax revenue.

4.2.6 Corrupt Practice in Nepalese Income Tax administration

In order to find out whether corrupt practice existed in Nepalese income tax administration or not and if it is existed then what are the causes and how can be minimized the corrupt practice, the following questions were asked.

1. Do you think that there is a corrupt practice in income tax administration in Nepal?
2. If yes, what are the major causes of corrupt practice?
3. How can corrupt practice existed in Tax administration can be minimized?

The responses to above questions received from the respondents are presented below.

Table 4.20

Corrupt Practice in Nepalese Income tax administration

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	5.00	33.33	10.00	66.67	15.00	100.00
B	15.00	100.00	0.00	0.00	15.00	100.00
C	13.00	86.67	2.00	13.33	15.00	100.00
D	15.00	100.00	0.00	0.00	15.00	100.00
Total	48.00	80.00	12.00	20.00	60.00	100.00

Source: Opinion Survey

Table 4.21

Major Causes of Corrupt practice in Income Tax Administration

S.N	Major Causes	Group				Total No.	Percentage	Rank
		A	B	C	D			
1	Lower remuneration of tax personnel	40	45	43	38	166	13.87	4
2	Weakness of acts, rules and regulations	45	53	58	47	203	16.96	3
3	Dishonest taxpayers	90	65	40	65	260	21.72	2
4	Dishonest tax personnel	40	55	95	85	275	22.97	1
5	Political reason/ Interference by politics	45	52	42	25	164	13.70	5
6	De motivation of employees	25	30	40	34	129	10.78	6
Total		285	300	318	294	1197	100	

Source: Opinion Survey

Table 4.22
Suggestion to Minimize Corrupt Practices

S.N	Suggestions	Group				Total No.	percentage	Rank
		A	B	C	D			
1	Severe action to Corrupters	82	80	76	80	318	19.43	1
2	Development of check and balance system	67	49	35	55	206	12.58	5
3	Morale education to tax personnel	50	50	62	62	224	13.68	4
4	Reduction of tax officers' discretionary power	47	75	90	92	304	18.57	2
5	Additional incentives to tax personnel	80	70	49	50	249	15.21	3
6	Regular supervision to tax personnel	25	40	53	31	149	9.10	7
7	Development of consciousness to hate corrupters	42	45	47	50	184	11.24	6
Total		393	409	415	420	1637	100	

Source: Opinion Survey

From the table 4.23, it has been clear that most of the respondents i.e. 80% opined that corrupt practice existed in Nepalese Income tax administration. The major causes according to the preference of the respondents were as follows:

1. Dishonest tax personnel
2. Dishonest taxpayers
3. Weakness of acts, rules and regulations
4. Lower remuneration of tax personnel
5. Political reason/ Interference by politics
6. De motivation of employees

Other causes mentioned by some of the respondents were as follows:

- i) There is no legal provision and no practice to penalize the tax officer in case of his dishonesty to the duty.
- ii) The act has given too much discretionary power to the tax officer so that they misuse the power.
- iii) Weak governance and ineffective administration.
- iv) Political interference regarding appointment and transfer in income tax department.

It can be concluded that dishonesty of tax personnel as well as taxpayers and weakness of acts, rules and regulations are the major causes of corrupt practice in income tax administration of Nepal.

In the opinion of the respondents corrupt practices existed in Nepalese Income tax administration can be minimized by following means (according to the order of preference of the respondents).

- 1) Severe action to Corrupters
- 2) Reduction of tax officers' discretionary power
- 3) Additional incentives to tax personnel
- 4) Morale education to tax personnel
- 5) Development of check and balance system
- 6) Development of consciousness to hate corrupters
- 7) Regular supervision to tax personnel

It can be concluded that severe action to corrupters , reduction of tax officers' discretionary power and additional incentives to tax personnel are most essential to minimize corrupt practices existed in Nepalese income tax administration.

4.2.7 Effectiveness of Nepalese Income Tax Administration

In order to evaluate the effectiveness of income tax administration of Nepal, a question was asked, "What do you feel about the current income tax administration of Nepal?" The respondents who do not agree on the effectiveness they have got major causes of inefficient of the income tax administration to give points.

Table 4.23

Effectiveness of Nepalese Income Tax Administration

S.N	Responses	Respondents				Total No	Percentage
		A	B	C	D		
1	Efficient	8	0	0	0	9	13.33
2	Inefficient	3	14	15	15	46	80
3	Satisfactory	4	1	0	0	5	6.67
Total		15	15	15	15	60	100.00

Source: Opinion Survey

From the above table it is clear that most of the respondents i.e. 80% of the respondents opined that income tax administration of Nepal is inefficient. Thus it can be concluded that income tax administration is not efficient to collect tax. The causes of ineffectiveness of Nepalese income tax administration were tabulated as follows:

Table 4.24

Causes of Ineffectiveness of Nepalese Income Tax Administration

S.N	Suggestions	Group				Total No.	percentage	Rank
		A	B	C	D			
1	Lack of trained and competent tax personnel	70	93	114	106	383	18.41	1
2	Complicated tax laws	75	70	88	69	302	14.52	3
3	Lack of proper communication	48	53	70	65	236	11.35	5
4	Unnecessary outside pressure	50	53	25	17	145	6.97	8
5	Undue delay in making assessments	45	65	68	75	253	12.16	4

6	Lack of proper direction	65	52	55	62	234	11.25	6
7	Lack of voluntary compliance by tax payer	105	85	66	80	336	16.15	2
8	Lack of coordination of the tax departments with other departments	52	44	39	56	191	9.18	7
Total		510	515	525	530	2080	100.00	

Source: Opinion Survey

The causes of ineffectiveness of Nepalese income tax administration were ranked in order of preference of the respondents were as follows.

1. Lack of trained and competent tax personnel
2. Lack of voluntary compliance by tax payer
3. Complicated tax laws
4. Undue delay in making assessments
5. Lack of proper communication
6. Lack of proper direction
7. Lack of coordination of the tax departments with other departments
8. Unnecessary outside pressure

Lack of reward and punishment system, inadequate data base system and lack of voluntary compliance by taxpayers and complicated tax laws are the most important causes of ineffectiveness of Nepalese tax administration.

4.2.8 Most Important Factors for Effectiveness of Income tax in Nepal

In order to know the most important factor for effectiveness of income tax in Nepal respondents were requested to rank their responses on given choices. The question was, “What is the most important factor for effectiveness of income tax in Nepal?” Following table shows the breakdown of responses.

Table 4.25

Important Factors for Effectiveness of Income Tax in Nepal

S. N	Factors	Group				Total No.	percentage	Rank
		A	B	C	D			
1	Honest tax officers	28	26	22	35	111	18.47	4
2	Honest taxpayers	48	32	18	26	124	20.65	3
3	Clear act, rules and regulations	39	42	46	38	165	27.56	2
4	Effective income tax administration	35	50	64	51	200	33.32	1
Total		150	150	150	150	600	100	

Source: *Opinion Survey*

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

1. Effective income tax administration
2. Clear act, rules and regulations
3. Honest taxpayers
4. Honest tax officers

It can be concluded that effectiveness income tax administration, clear acts, rules and regulations are the most important factor for the effectiveness of income tax in Nepal.

4.2.9 Attitude towards Income Tax Evasion

To know the respondents opinion about possibility of minimizing the income tax evasion in Nepal, the question was asked, "Is it possible to minimize the income tax evasion in Nepal?" The responses received from the respondents are tabulated as follows.

Table 4.26

Opinion towards Income Tax Evasion

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	15	100	-	-	15	100
B	15	100	-	-	15	100
C	15	100	-	-	15	100
D	15	100	-	-	15	100
Total	60	100	-	-	60	100

Source: *Opinion Survey*

It is clear from the above table that all of the respondents i.e. 100% were in favor of the question. Thus it can be concluded that there is possibility of minimizing income tax evasion in Nepal.

In order to know the suggestions to minimize the income tax evasion, another question was asked, "If yes, how is it possible?" The suggestions given by the respondents are as follows:

1. Increase effective public participation.
2. Developing the consciousness of people that the amount contributed by them is used for overall economic well being of the people.
3. Moral education to the taxpayers and tax officers.
4. Enforce tax laws effectively and plug loopholes.
5. Control illegal business activities.
6. Severe actions against corrupt tax officers and tax payers.
7. Enforce proper auditing and investigation.
8. Enforce heavy fines and penalties.
9. Enforce to maintain proper records and accounts and
10. Development of strong database of income tax department

4.2.10 Major Tools to Increase the Contribution of Income Tax on Government Revenue

In order to know the future prospects to increase the contribution of income tax on government revenue respondents were asked to provide relevant information. The

question was asked, “What should be the major tools to increase the contribution of income tax on government revenue?” The suggestions received from the respondents are given below:

1. Extension of coverage.
2. Tax consciousness of people.
3. Minimizing the problems of tax evasion and avoidance.
4. Reform on income tax administration.
5. Adjustment in rates of direct tax and indirect tax.
6. Encouragement of government –private sector partnership.
7. Adjustment of WTO based custom rate and discouragement of discount on customs.
8. Strong implementation of issuing tax bills to the level of consumers and review of discount in VAT.

4.2.11 Suggestions for Achieving Effectiveness of Income Tax in Nepal

To know the other important factors for effectiveness of income tax a question was asked, “Do you have any other suggestions for achieving effectiveness of income tax in Nepal?” The suggestions provided by the respondents are as follows:

1. Governmental economic policy is the main cause for unsatisfactory of income tax in Nepal. So, it should be corrected in pursuit of effectiveness of income tax.
2. Effective tax management and training and seminar to the tax personnel.
3. Development of check and balance system.
4. Most professional peoples are required in tax department as well as tax offices.
5. Reduction in the discretionary power of tax officers.

4.3 Problems of Income tax in Nepal

Income tax is widely used as the revenue base. From the stand point of equity, this is a desirable tax. But from the discussion in the same chapter we can observe that the contribution of income tax to the government revenue has been very low. This is because the income tax system in Nepal suffers from many problems. It is not successful to generate excess revenue for the betterment of Nepalese people and other

development activities. We also focused our discussion with the respondents on the various problem faced by the income tax system in Nepal. Most of the opinions forwarded by them are common and known. The major problems identified by the respondents have been described below.

1. Inefficient income tax administration

One of great problem of Nepalese income tax system is inefficient tax administration. The following are its weak points identified by the respondents:

) Failure to maintain proper accounts and records

Many respondents viewed that there is difficulty in collecting income tax because most of the taxpayers do not maintain proper accounts for income tax purpose. In Nepal, the income tax assessment is based on accounts and records but the record keeping system is very poor and unscientific.

) Lack of trained and competent personnel

Regular training is essential to the personnel to increase knowledge, skill and technique of administration and improving their skill and morality. But in Nepal there are no scientific training institutions to train personnel. The competence at inspector level has badly suffered due to lack of training. Many tax administrators focused on the training need on the matters relating to income tax law, rules and regulations and amendments made thereto.

) Defective selection of tax personnel

In Nepal, while appointing, posting, transferring and promoting a civil servant, the role of source, force and pressure i.e. nepotism and favoritism are applied so capable and efficient tax personnel are sidelined and cannot perform effectively. Very few tax officers can be found with background in accountancy, commerce and law. In past, there was no specialized revenue group in Nepalese civil service. As a result, their working efficiency is very poor.

) Existence of corruption

Lack of integrity and honesty in tax personnel lead to corruption which is the chronic disease of tax administration in Nepal. Most of the respondents opined that there is a corrupt practice existed in Nepal and it has reduced the revenue and distressed the taxpaying habit of taxpayer. Corruption has been practiced in great extent by the tax inspectors who are low qualified.

) Complicated tax laws and procedure

Tax laws in Nepal are complicated for an average tax payer. Most of the respondents viewed that an average taxpayer in Nepal does not know the tax liabilities and the reference to the tax law. The tax law has provided widespread discretionary power to tax officers which have tended to detrimental to effective taxpayers compliance.

) **Instability in government policy**

During the last 17 years, Nepal is facing a serious problem of political instability. During this time period, the government has been changed frequently. Most of the respondents stressed that income tax administration is being affected by the instable government and as a result of which revenue collection from income tax has hampered. Each government holds different economic policies. Due to this reason, the policy towards the income tax will also be changed with the change in the government. In such instable situation, the income tax management cannot perform efficiently.

2. Lack of consciousness of tax payer

Due to the mass ignorance of Nepalese people there is lack of the sense of social responsibility. Most of the Nepalese people are illiterate and they do not understand development and requirement of government. They think it is unnecessary payment. Voluntary compliance is poor; government is trying to extract income by compulsory payment.

3. Widespread evasion and avoidance of income tax

Many respondents viewed that widespread tax evasion and avoidance is one of the greatest problems of income tax in Nepal. Tax evasion refers to the reduction or elimination of tax liability through the means contrary to law such as reconciliation of income, misrepresentation of facts and information, falsification of accounts, non reporting of income through illegal activities. While tax avoidance refers to the reduction or prevention of tax liabilities by using legal loopholes and taking advantages of the means allowed by the law or at least not contrary to law. Reasons for wide spread evasions of income tax identified by the respondents are as follows:

) Corruption by tax officials

) Fines and penalties which are provided by law are not properly enforced

) Widespread illegal business operation

-) Inadequate auditing and investigation
-) Lack of clear and comprehensive definition of income for the purpose of income tax
-) Lack of taxpaying capacity and tax consciousness of Nepalese people
-) Difficulties in locating taxpayers
-) Poor development of corporate sector
-) Lack of link between public and government
-) Open boarder with India
-) Lack of proper records of taxable individuals and other transaction, the method of accounting, assessment and collection are unscientific and crude.

4. Mass poverty

Taking Rs. 7,696 as the average national poverty line as per the Nepal living Standard Survey (NLSS) 2003/04, 30.85% of the population of Nepal falls below the poverty line. Similarly, on the basis of the survey's benchmark of one dollar a day as per the purchasing power parity terms, 21% of the total population falls below the poverty line (Economic Survey, 2014). Hence, most of the people of Nepal are below poverty line due to this cause the numbers of tax payers are very few in Nepal. As the income level increases taxpayer and revenue from income tax also increases but in the context of this situation no one can expect more revenue from the income tax.

5. Narrow tax coverage

The coverage of income tax is considered narrow in Nepal. As per the opinion of the respondents, income tax collection in Nepal is considerably low due to the narrow income tax coverage and there are so many areas of income generation free from income tax. For example agriculture income is exempted from income tax, several sources of labor income and several allowances provided to employees are excluded from the coverage of income tax.

6. Predominance of agriculture

Nepal is an agricultural country where more than 74% of total populations are engaged in the agriculture. Hence, it has a dominant share in the gross national product. But revenue from the agriculture is exempted by income tax act. In the view

of the few respondents, predominance of agriculture has lowered the number of taxpayers and total revenue being agricultural income exempted from income tax.

7. Tax assessment Procedure

The number of taxpayers is limited in Nepal. Further, the income of these limited taxpayers is not assessed on a regular basis. Self- assessment tax system is not work properly in developing countries like Nepal. This process is only suitable for developed countries. Some respondents opined that dishonest taxpayers and corrupt tax officers enjoyed this method because there is no exact account but only estimation so that a taxpayer can influence the tax officer by bribery or other means to minimize his future tax liability.

There are many problems which are responsible for the low contribution of revenue collection from tax in Nepal. Some of the other problems are lack of research in tax matters, poor development of corporate sector, frequent changes in tax rate and exemption limit, lack of proper direction and communication in tax offices and unnecessary outside pressure etc.

1.4 Findings

On the basis of preceding chapters and data presentation and analysis, some major findings can be drawn. The major findings of thesis research study are summarized below:

1. Revenue of the government of Nepal is the composition of tax and non-tax revenue. There is a dominant share of tax revenue in Nepalese government revenue. The tax revenue in Nepalese government revenue. The revenue collection was seen to be in the gradually increasing trend from FY 1996/97 to 2014/15.
2. Revenue of the Government of Nepal is the composition of direct and indirect tax revenue. There is a dominant role of indirect tax revenue in Nepalese tax revenue. The contribution of direct and indirect tax on total tax revenue were 27.76% and 72.24% in FY 2013/14 which become 28.40% and 71.60% in FY 2014/15. However, the share of indirect tax in Nepalese tax revenue is decreasing but still it is dominating direct tax revenue. Income tax is the major source of direct tax revenue and the widespread evasion of income tax may be the major reason for the low contribution of direct tax.

3. The major components of direct tax are land revenue and registration, tax on property, profit and income. Average amount of land revenue, house and registration fees, income tax, tax on property and other tax during the last 13 years from FY 1996/97 to FY 2008/09 were Rs. 1.64 million, Rs. 1790.12 million, Rs. 10457.91 million, Rs. 705.18 million and Rs. 445.09 million respectively. In the composition of direct tax, income tax was the giant one which contribution seems to be increasing beside the FY 2001/02 and FY 2002/03. Land revenue and house and land registration fees have contributed 19.01% amounting to Rs. 1015.4 million in FY 1996/97 which was decreased gradually and reached to 6.03% amounting to Rs. 612.9 million in FY 2000/01. Then after it started to increase steadily and reached to 15.22% amounting to Rs. 5223.3 million in FY 2008/09.

Since, FY 2009/10 major components of direct tax are tax on income, profit & Capital gain, remuneration tax, property tax and other tax. All the in increasing in amounts till 2014/15. In which tax on income, profit & capital gain covered major portion as 87.22%, property tax as 7.82%, remuneration tax as 2.61% & other tax as 2.36% in average of 5 years from FY 2010/11 to FY 2014/15. The major portion of direct tax covered by income tax that's why to increase the volume of direct tax we must focus in the income tax.

4. The major components of indirect tax in Nepalese tax structure constitutes custom duties and tax on consumption and product of goods and service. The contribution of custom duty, VAT and excise on industrial products on indirect tax were 43.54%, 44.42% and 12.04% respectively in FY 1996/97 and the contribution of each taxes were 30.82%, 48.06% and 21.13% respectively in FY 2009/10. It shows that VAT and excise on industrial products were in increasing trend but custom duties were in decreasing trend.

Since 2010/11, composition of indirect tax revenue are reclassified as VAT, excise duty, tax on special service, consumption of infrastructure & vehicle tax, import custom duty, export custom duty and other tax. The major role played by VAT, import custom duty and excise duty in the composition of indirect tax the 4 years period from FY 2010/11 to FY 2013/14, in which these tax constitutes 45.95%, 27.49% and 19.76% in average. However, Tax on special service, export custom duty, consumption of infrastructure & vehicle tax and other tax played small role as 0.33%, 0.35%, 5.08 % & 1.05% respectively in average during the 4 years period. Composition of VAT, excise are in decreasing trend and all other above taxes are in

increasing trend since FY 2010/11 to FY 2012/13. However in FY 2013/14, all of the above tax are in opposite trend.

5. The contribution of total revenue on GDP was in increasing trend. This was 11.27% in the FY 1996/97 and 19.14% in the FY 2014/15. The contribution of total revenue on GDP nearly remained constant during the 10 years of study period i.e. from FY 1996/97 to FY 2005/06 which was 9.06% in the FY 1996/97 and 9.40% in FY 2005/06 and increased in each year thereafter and reached to 14.75% in FY 2009/10. Again decreased 12.97% in the FY 2010/11 and increased in each year and reached to 16.79% in FY 2014/15. The contribution of direct and indirect tax on GDP were 1.98% and 7.08% in the FY 1996/97 and 4.77% and 12.02% in FY 2014/15 respectively. The contribution of total revenue, direct tax revenue and indirect tax revenue on GDP are not satisfactory.

6. In income tax structure, the contribution from individual to income tax revenue is the greatest in every fiscal year and is in increasing trend. The income tax from private corporate bodies, remuneration and tax on interest are also in increasing trend. Income from public enterprises was fluctuating during the study period resulting decrease in comparison with the previous periods. The share of income tax from individual, remuneration, private corporate bodies, tax on interest and public enterprises were Rs. 1711.4 million and Rs. 168.1 million, Rs. 858.4 million, Rs. 154.4 million and Rs. 1231.1 million in FY 1996/97 and Rs. 9877.5 million and Rs. 3195.6 million, Rs. 9425.1 million, Rs. 1685.1 million and Rs. 959.1 million in FY 2008/09 respectively.

The share of income tax from entity has highest contribution in all the years from FY 2009/10 to FY 2013/14 which is fluctuating 58.58% to 56.32 % respectively. And in the order of highest contribution, proprietorship business & individual, investment income, and social security tax plays falls after the entity in the structure of income tax. All these income are fluctuating in all the years. In FY 2013/14, the share of entity, proprietorship business & individual, investment income & social security tax are Rs. 43970.9 million (56.32%), Rs. 19606.6 million (25.11%), 12482.8 million (15.99%) and Rs. 2015.5 million (2.58%) in the total income tax amounting Rs. 78075.8 million.

7. There was a clear indication of the serious and growing financial resource problem in Nepal. The increasing magnitude of resources gap clearly indicates the internal indebtedness of the country and there is an urgent need for mobilizing

additional resources. Income tax has appeared one of the most effective fiscal policy instrument to mobilize additional resources and for achieving the desired developmental objective of Nepal.

8. Contribution of income tax on total governmental revenue, total tax revenue and GDP were 13.58%, 16.88% and 1.53% in the FY 1996/97 and 21.95%, 25.03% and 4.20% in the FY 2014/15. The government target to increase in income tax cannot be fulfilled in this increment ratio as per the projected data.

9. Income tax exemption limit in Nepal are changed on the basis of time and income level. The present exemption limit is provided Rs. 350000 for individual and Rs. 400000 for couple subject to 1% tax on income from remuneration in the FY 2016/17. The exemption limit is not provided for partnership firms, corporations, companies and non-residents. The exemption limits provided to income tax payers are not sufficient in Nepal according to inflationary situation.

10. There were eight slabs of income tax rate from 10% to 55% in the FY 1985/86 in Nepal but at present there are three slabs of income tax rate of 15%, 25% and 35% for personal income and for corporate tax payers they are taxed at the flat rate of 30% for bank and financial institution, insurance company and industry dealing with petroleum products, 20% for special industry and 25% for other corporate tax payers without any exemption limit.

11. The income tax collection performance with the estimation seems to be satisfactory at present. In FY 1996/97, the income tax collection performance was 89.74% of estimation and in the FY 2006/07 & 2015/16 it was 118.55 % & 107.39% of estimation respectively.

The opinion survey with tax administrations, tax experts and tax payers conducted for the income tax has drawn the following conclusions.

1. Income tax is a suitable means of raising government revenue.
2. Tax education is the most necessary in Nepal to increase the tax consciousness of tax payers
3. Income tax system of Nepal is not sound and efficient, basically due to inefficient income tax administration, lack of consciousness of tax payers, increasing habit of tax evasion, complexity of income tax act, rules and regulations, lack of education in taxpayer, illegal business activities, political instability etc.

4. Self assessment method is more appropriate for Nepal while assessing income tax.
5. There is corrupt practice existed in Nepalese income tax administration. The major causes according to the preference of the respondents were dishonest tax personnel, dishonest taxpayers, weakness of acts, rules and regulations, lower remuneration of tax personnel and interference by politics. It can be minimized by taking severe action to corrupters, reduction of tax officers' discretionary power, additional incentives to tax personnel, morale education to tax personnel, development of check and balance system and development of consciousness to hate corrupters etc.
6. Income tax administration is not efficient to collect tax. Lack of trained and competent tax personnel, lack of voluntary compliance by tax payers, complicated tax laws, undue delay in making tax assessments, lack of proper communication, lack of proper direction, lack of coordination of the tax departments with other departments, unnecessary outside pressure and lack of awareness to tax payers are the most important causes of ineffectiveness of Nepalese tax administration.
7. Effective income tax administration, clear acts, rules and regulations, honest taxpayers and honest tax officers are the most important factors for the effectiveness of income tax in Nepal.
8. Extension of coverage, minimizing the problems of tax evasion and avoidance, tax consciousness of people, reform in income tax administration, reform in income tax assessment, and voluntary compliance by the taxpayers are the major tools to enhance the contribution of income tax on government revenue.

CHAPTER-V

SUMMARY AND CONCLUSIONS

5.1 Summary

In developing countries like Nepal, lack of sufficient financial resources is the main constraint for national economic development, a lot of funds is required to meet the additional financial requirements for the development activities of the country. Nepal has been suffering from capital shortage to accelerate the economic growth. The expenditure of Nepalese government is increasing year by year. To meet the additional capital requirements, Nepalese government has been using external and internal resources. Internal resources are preferable for sustainable economic development. Nepal has been unable for mobilization of internal resources. Thus, fiscal deficit and resources gap of Nepal has been increasing every year.

In Nepalese income tax system was introduced in 1959(2016). The elected government levied the first income tax and so specific act was made to define and to treat income tax. Since than four income tax acts have been implemented. The present study entitled “Structure of Tax Revenue tax in Nepal” is related to the Composition of Tax Revenue and problems of income tax collection with recommendation to enhance the income tax collection in Nepal. This study has covered the structure of income tax in Nepal, structure of direct tax in Nepal, tax and non tax revenue in Nepal, comparison of direct tax and indirect tax revenue in Nepalese tax structure, contribution of government revenue on GDP, income tax revenue on GDP, total tax revenue on GDP, resource gap in Nepal and problems of income tax collection in Nepal.

In first chapter is concerned with back ground of the study, focus of the study ,statement of the problem, objectives of the study, justification, limitations and organization of the study.

In second chapter, the literature review has made through the study of various books, articles, Desertations and other reference materials. Various concepts of taxation have been discussed in this study. Meaning of tax, classification of tax, heads in incomes, features of income tax act 2058(2002) have been discussed in conceptual framework of this study.

In chapter three, the researcher has discussed about various aspects of research methodology such as research design used for this study, data collection procedure, population and sample, nature and source of data, selection of the respondents, procedure of processing and analysis of data.

In chapter four, the researcher has presented the primary as well as secondary data has analyzed them to get the meaningful result. Economic survey, Budget speech, Annual Report of IRD etc. were the major sources of secondary data. To collect primary data on problems and prospects on revenue collection from income tax in Nepal, opinion survey techniques was conducted in this study. Primary data were collected from four respondent groups: tax administrators, tax experts, tax payers and income tax students. A set of questionnaire was developed and distributed to the respondents. Secondary data analysis was done by presenting the relevant data into tables and figures of 19 years period from FY 1996/97 to FY 2014/15. The comparative analysis for different years was done in the analysis parts of the study. Data collection from opinion survey with the respondents were tabulated and analyzed. Major findings of secondary and primary data analysis and problems and prospects of income tax collection in Nepal have been presented at the end of this chapter.

Conclusions of the study are given in the last chapter and some recommendations are also given at the end of the study to increase the income tax revenue in Nepal. In this way, the study is complied with the achievement of the study objectives.

5.2 Conclusions

In the context of Nepal, mixed and dual economy has been adopted in the last many decades. The economy has been liberalized after the restoration of democracy in 1990. Numbers of public enterprises have been privatized in this period and some of them have been liquidated or merged. Likewise in Nepal has entered in WTO mainstream of trade in 23rd April 2004, which has given the potentiality to increase foreign direct investment and access of Nepal to international market. But in reality, it has strongly challenged the Nepalese small entrepreneurs and the corporate house too in the side of quality and price and it has also increased the possibility of Nepal being as a dumping side of giant multinational companies. So, main reasons are significant

expansion of regular government activities, increasing cost of maintenance and increasing debt servicing charges etc.

Resource gap in Nepal has been increasing every year. The internal revenue is sometimes insufficient even to meet regular expenditure and most of the development activities depend on foreign aids where Nepal has been compelled to harmonize the donor. The major problems of domestic resource mobilization are poor utilization of the poor natural resource base, small and stagnant industrial sector, poor economic growth and inadequate tax effort etc. So, in this context, revenue generation from internal sources is very important in which income tax is one of the major sources and it is considered as a good remedy to cure growing resource gap problem in Nepal. Income tax was introduced in the FY 1959/60 and the percentage of income tax to the government revenue is in increasing trend at present but it is not regarded as satisfactory in comparison to other developing countries.

Revenue from income tax in Nepal is collected through five different sectors. Amongst them contribution of individual sector is the highest. Exemption limit and tax rate structure is determined according to the level and sector wise but it is not adjusted according to the inflationary situation of the country.

Due to the various problems related to income tax, revenue collection from income tax is low in Nepal. It is thought that Nepalese income tax is not appropriate enough and the administration is worse.

However, income tax laws and administration in Nepal are to be deeply scrutinized and properly implemented. Act itself is not bad; some provisions would have to be mentioned clearly. Strong commitment, fair and uniform imposition are to be stored and revitalized. Manpower development planning within the administration is desired for the efficiency of tax personnel side by side, tax education packages are to be made and initiated, hence tax administration and tax compliance could be improved.

If the problems relating to income tax system in Nepal can be solved and resources are effectively utilized then only the prospects of revenue collection from income tax will be bright.

5.3 Recommendations

On the basis of findings of the study for to enhance the revenue collection from income tax in Nepal, following recommendations are made:

-) Efficiency of Nepalese income tax system mainly depends upon its three major subsystems i.e. income tax policies, income tax laws and income tax administration. So for the success of Nepalese income tax system, emphasis should be given highly to these three subsystems.
-) The income tax policy should be made such that the main objectives of imposing income tax can be achieved. For this, it should be formulated according to the economic policy of the country.
-) Timely revision should be made in the matter of income tax policy. The system of charging income tax policy with the change of government should be avoided. Government policy to introduce voluntary declaration of income source (VDIS) frequently should be avoided.
-) Income tax laws should be simplified for the purpose of facilitating compliance and enforcement. The prevailing income tax act and rules should be amended as for the present necessity in comparison to the globalize open market, for industrial products and exposure of Nepalese goods the tax should be levied.
-) Government should reduce resource gap by increasing internal revenue and subsidies. Likewise, government should only take the foreign loan for productive sector on the purposes which has high revenue generating possibility.
-) As per the income tax act, 2058, same flat rate i.e. 20 to 30 % is levied both to resident and non-resident companies in Nepal. In many countries like, India, Belgium, Germany, Indonesia and New Zealand, foreign companies are taxed at the higher rate than domestic companies. In Nepal also, tax rate for the foreign companies should be higher say 40% in comparison to the rate applicable to the domestic companies.
-) The members involved in formulating income tax policies must have deep knowledge about the income tax system applicable in the context of Nepalese scenario. The income tax policy maker have to gain knowledge about the income tax policies of other developing countries as well as other related developed countries for the improvement of policies.

-) Income tax act, rules and regulations should be clear and simple for all the tax payers as well as for tax officers and tax inspectors. It should be made more effective. Following recommendations are made in income tax law.
- The language of act should be simple and clear.
 - The assessment and tax collection provisions would be making clear and simple so that tax payers would be encouraged to pay income tax.
 - Discretionary power of the tax officers should be curtailed in the act.
 - The assessment of the time limit after the submission of income assessment should be reduced.
 - Present fines and penalties should be raised.
 - Civil and criminal liability of auditors and advisors/consultants should be introduced to make them responsible.
 - The definition made in income tax act should be further classified and well defined.
 - A compilation of applicable circulars and advance rulings with explanation and examples by giving references of the income tax act and rules should be issued by IRD because many conflicting advance rulings were issued from time to time.
-) The rate of fines and penalties should be increased in such a way that higher rate will be applicable to the tax evaders.
-) A research and intelligence center should be established in each tax office for proper planning and to collect the information in regard to income tax evaders, potential tax payers and non-residents conducting business without registration.
-) Efficiency of revenue collection from income tax depends upon the income tax administration. Administration depends upon the quality and efficiency of the tax personnel. To reform the income tax administration, personnel management system must be improved firstly.
-) Following suggestions are made for the improvement of income tax administration:
- Delays in assessment should be reduced as possible.
 - Personnel management system should be made more effective.
 - Computerized information system is necessary to keep up to date records of income tax.

- Proper tax education should be provided to tax officials as well as taxpayers regularly.

- Unnecessary outside pressure should be avoided.

- Provisions of simplified forms and format to be used by taxpayers.

) “Incentives for paying tax” type of taxation should be encouraged.

) Strong political commitment is necessary for the modernization of effective implementation of the income tax system.

) Income tax evasions should be minimized by applying the following suggestions:

- Increase effective public participation.

- Enforce tax laws effectively and plug loopholes.

- Control illegal business activities.

- Severe actions should be taken against corrupt tax officers and tax payers.

- Enforce proper auditing and investigation.

- Enforce heavy fines and penalties and

- Enforce to maintain proper records and accounts.

) Tax personnel should be encouraged, punished and transferred on the basis of their work performance and experience. Regular and effective training system, reward, prize and punishment system be established for the effective personnel management.

) Clear provision should be made in case of deduction. All the items of deduction should be clearly defined in the act. Income tax assessment procedure must be improved to increase the income tax revenue. The following suggestions are made for the improvement of income tax assessment procedure:

- Simplify assessment procedure

- Reduce assessment delay

- Create good relation between tax authorities and taxpayers and

- Provide sufficient information to tax payers about self assessment system.

) Separate income tax department should be established so that the specialization could be achieved in the matter of income tax.

) Clear provisions should be made in case of deduction. All the items of deduction should be clearly defined in the act.

) The provisions of tax deduction at source and advance payment of tax should be extended to different sources of income as far as possible.

) Continuous effort should be done by tax authority in order to develop the tax payers' positive attitude towards taxation.

) Detailed research should be conducted by the government to find out and solve the problems existing in the present tax system.

BIBLIOGRAPHY

Books

- Adhikari, C. M.(2059), *Income Tax Law*. Kathmandu: Ratna Pustak Bhandar,
- Agrawal,G.R.(1978), *Resource Mobilization for Development: The Reform of Income Tax in Nepal*, Kathmandu: CEDA,
- Aryal, K.P.and S.P. Paudel (2004). *Taxation in Nepal*. Kathmandu: Bandipur Prakashan
- Bhatttrai, I. and G.P. Koirala, (2004). *Tax Laws and Tax Planning*. Kathmandu: Asmita Books Publication.
- (2007). *Taxation in Nepal*. Kathmandu: Asmita Books Publication
- Dhakal, K.D. (2057). *Income Tax and House and Compound Tax: Law and Practice*. Kathmandu: Kamal Prakashan.
- (2002). *Aayakar Tatha Ghar Jagga Kar Sambandhi Kar ra Lekha*. Kathmandu: Kamal Prakashan.
- Joshi, P.R. (2055). *Research Methodoly*. Kathmandu:Buddha Academic Publishers and Distributors Pvt. Ltd.
- Khadka, R. (2001). *Income Tax in Nepal: Retrospect and Prospect*. Kathmandu:Ratna Pustak Bhandar.
- Poudel, S.R and P.P. Timilsina, (1990). *Income Tax in Nepal*. Kathmandu: Atharai Enterprises.
- Poudel, K.B. (1998). *Corporate Tax Planning in Nepal*. Pokhara: Mrs. Sita Poudel

Journals/Articles and Reports

- Agrawal,G.R. (1984). **Direct Tax Reforms in Nepal**. A Report submitted to Ministry of Finance. Kathmandu: Government of Nepal.
- Ghimire, B. (1993). **Principle of Direct Tax and Provision of Direct Tax**. Rajaswa Year 13, Vol-2.
- Kayastha, N.L.(1993). "**Problem and Prospectus of Resource Mobilization Through Direct Taxation in Nepal**". 'Rajaswa' year 2013,Vol.I.
- Malik,B.(2050). **Nepal Ko Adhunik Ayakar Pranali**, Kathmandu: Mrs. Anita Malik, Ministry of Finance (2015). *Annual Report of Ministry of Finance, Inland Department*, Kathmandu: Ministry of Finance, Government of Nepal.
- (2060). *Finance Act 2060 B.S.*, Kathmandu: Ministry of Finance, Government of Nepal.
- (2061). *Finance Act 2061 B.S.* Ministry of Finance, Government of Nepal.
- (2062). *Finance Act 2062 B.S.*, Ministry of Finance, Government of Nepal.
- (2010). *Economic Survey Fiscal Year 2009/10*, Kathmandu: Government of Nepal.
- (2016). *Economic Survey Fiscal Year 200915/16*, ----- Governme
- Ministry of Law and Justice (2013). *Income Tax Act 2013*, Kathmandu: Ministry of Law and Justice, Government of Nepal.
- (2059). *Income Tax Act 2059*,Kathmandu: Ministry of Law and Justice, Government of Nepal.
- Sutihar, D.N.(2013) ; Tread analysis of the value added tax in Nepal". *The Journal of Nepalese Business Studies*, Vol.VIII(1);53-59.
- (2016): "Trend analysis of the value added tax in Nepal". *Economic Literature*, Vol.XII; 1-6.

Websites

www.ird.gov.np

www.rd.gov.np

www.mof.gov.np

Thesis

- Subedi, R.M. (2014). *Business Income Reforms and its Contribution to National Revenue*. An Unpublished Master Thesis submitted to Department of Economics, P.N.Campus, T.U. Pokhara.
- Khanal, G.P. (2012). *Analysis of the Trend and Structure of Income tax in Nepal*. An Unpublished Master Thesis submitted to P.N.Campus, Department of Economics, T.U. Pokhara.
- Poudel J. (2002). *Income Tax in Nepal. A Study of its Structure and Productivity*. An Unpublished Master Thesis Submitted to Central Department of Economics, T.U.
- Panta, P. (1996). *A study on Income Tax Management in Nepal*. An Unpublished Master Thesis Submitted to Central Department of Economics, T.U.
- Bhandari, H.B. (1994). *Contribution of Income tax to Economic Development of Nepal*. Unpublished Master's Thesis Submitted to Central Department of Economics, T.U.
- Suwal, R.S. (1981). *Income Tax System in Nepal*. An Unpublished Master Thesis, Submitted to Central Department of Economics, T.U.
- Timilsina, K.P. (2054). *Tax Structure in Bajhang District with Reference to National tax Structure of Nepal*. Unpublished Master Thesis, Submitted to Central Department of Management, T.U.
- Timilsina, S. (2001). *Personnel Income Taxation in Nepal: A Study of Exemptions and Deductions*, An Unpublished Master Thesis, Submitted to Central Department of Economics, T.U.
- Panta, P. (2053). *A study on Income Tax Assessment*. Unpublished Master Thesis, Submitted to Central Department of Management, T.U.
- Regmi, S.N. (1986). *The Role of Income Taxation in Nepal*. Unpublished Master Thesis, Submitted to Central Department of Management, T.U.
- Shakya, K.K. (1995). *Income Tax in the Structure of Nepal*. Unpublished Master Thesis, Submitted to Central Department of Management, T.U.
- Shahu, S.N. (1995). *Contribution of Income Tax in Nation Revenue of Nepal*. Unpublished Master Thesis, Submitted to Central Department of Management, T.U.
- Shrestha, B. (2001). *Revenue Collection from Income Tax in Nepal: Problem and Prospects*. Unpublished Master Thesis, Submitted to Central Department of Management, T.U.

Appendix A

Questionnaire to Tax Administrator/Tax Expert/Tax payer/ Income Tax Students

Name:

Organization:

Occupation:

Designation:

You are request to tick () the answer with your own choice or rank the alternatives from 1 to last in order of importance on the basis of numbers of alternatives, wherever appropriate. Number I stands for the most important and the last number for the least.

Your opinion is only used for preparation of thesis for partial requirement of MA level.

1) Do you think that the income tax as an appropriate means of raising government revenue? (Please tick one)

Yes ()

No ()

2) Do you think that people are well informed about the tax system in Nepal ? (Please tick one)

Yes ()

No ()

3) In your opinion is tax system in Nepal is sound and efficient? (Please tick one)

Yes ()

No ()

If no, what are the major problems of the income tax system in Nepal? (Please rank)

- i) i)Inadequate political stability ()
- ii) Inadequate economic policy ()
- iii) Lack of education in taxpayer ()
- iv) Lack of consciousness of taxpayer ()
- v) Complexity in Income tax Act, rules and regulation ()
- vi) Inappropriate rate and exemption limit ()
- vii) Inefficient Income tax administration in income tax management ()
- viii) Inefficient income tax policymakers ()
- ix) Illegal business activities ()
- x) Lack of information to mass people ()
- xi) Mass poverty ()
- xii)Increasing habit of tax evasion ()

4) What method is more appropriate in Nepal while assessing income tax? (Please tick one)

- i) Assessment on the basis of accounts submitted by tax payer ()
- ii) Self-assessment ()
- iii) Assessment by the best judgement ()
- iv) Assessment by the committee ()

5) Do you think that there is a corrupt practice in income tax administration in Nepal? (Please tick one)

Yes ()

No ()

If yes, what are the major causes of corrupt practice? (Please rank)

- i) Lower remuneration of tax personnel ()

- ii) Weakness of acts, rules and regulations ()
- iii) Dishonest tax personnel ()
- iv) Dishonest taxpayers ()
- v) Political reason/ Interference by politics ()
- vi) De motivation of employees ()

6) How can corrupt practice existed in Tax administration can be minimized? (Please rank)

- i) Severe action to Corrupters ()
- ii) Development of check and balance system ()
- iii) Morale education to tax personnel ()
- iv) Reduction of tax officers' discretionary power ()
- v) Additional incentives to tax personnel ()
- vi) Regular supervision to tax personnel ()
- vii) Development of consciousness to hate corrupters ()

7) In your thinking which principle of income tax policy is suitable for Nepal ? (Please tick one)

- i) Progressive ()
- ii) Proportional ()
- iii) Regressive ()

8) What do you feel about the current income tax administration of Nepal ? (Please tick one)

- i) Efficient ()
- ii) Inefficient ()
- iii) Satisfactory ()

If inefficient, what are the major causes of inefficient of the income tax administration of Nepal? (Please rank)

- i) Lack of trained and competent tax personnel ()
- ii) Lack of voluntary compliance by tax payer ()
- iii) Complicated tax laws ()
- iv) Undue delay in making assessments ()
- v) Lack of proper communication ()
- vi) Lack of proper direction ()
- vii) Lack of coordination of the tax departments with other departments

()

viii) Unnecessary outside pressure ()

9) What is the most important factor for effectiveness of income tax in Nepal ? (Please rank)

- i) Honest tax officers ()
- ii) Honest taxpayers ()
- iii) Clear act, rules and regulations ()
- iv) Effective income tax administration ()

10) Is it possible to minimize the income tax evasion in Nepal? (Please tick one)

Yes () No ()

If yes, how is it Possible ? Give specific suggestion.

.....

11) What should be the future prospects to increase the contribution of income tax on government revenue? Please specify

.....

12) Do you have any other suggestions for achieving effectiveness of income tax in Nepal? If yes, please specify

Appendix: B
Calculation of the Correlation Coefficient

S. N.	Major problems	Total points	Rerank	Total points	Rerank	Difference of the rank	Square of R1-R2
		X	R1	Y	R2	d=R1-R2	d ²
1	Inadequate political stability	113	5	105	8	-3	9
2	Inadequate economic policy	61	10	56	10	0	0
3	Lack of education in taxpayer	115	4	115	7	-3	9
4	Lack of consciousness of taxpayer	142	2	153	2	0	0
5	Complexity in Income tax Act, rules and regulation	111	6	135	3	3	9
6	Inappropriate rate and exemption limit	81	8	121	6	2	4
7	Inefficient Income tax administration in income tax management	107	7	256	1	6	36
8	Inefficient of income tax policymakers	46	11	49	11	0	0
9	Illegal business activities	119	3	128	4	-1	1
10	Lack of information to mass people	73	9	78	9	0	0
11	Mass poverty	39	12	42	12	0	0
12	Increasing habit of tax evasion	158	1	123	5	-4	16
n=12						d ²	84

Calculation of the Correlation Coefficient

We have formula, $R = \frac{\sum d^2}{n \sum X^2 - (\sum X)^2}$ $\rightarrow 0.294$

$$P.E = \frac{0.6745 \sqrt{0.294^2 \times 12}}{12} = 1.78$$