

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

The Himalayan nation Nepal is sandwiched between two large countries India and China. Nepal is a sovereign and independent nation located on the southern part of the Asian continent. It covers an area of 1, 47,181square kilometers. Nepal has divided into five development regions to insure successful implementation of balance economic development activities and development purposes. In B.S. 2015, Nepal was divided into administrative units called Village Development committee (VDC) and Municipalities. Presently, there are 58 municipalities and 3912 VDCs in Nepal (CBS,2006). Nepal is lies between two large countries, India and china. So the economic development of the country largely depends upon the attitude and behavior of the neighbor countries. Nepal is located three sides by the territories of India with open boarder so the development strategies of Nepal are always influenced by the attitudes and behavior of India. The primary goal of any nation including Nepal is to embark upon the path of economic development by economic growth rate and developing all sectors of economy.

A nation requires sufficient fund to carryout development plans, to operate day to day administration, to maintain peace and security and lunch other public welfare activities. It has to spend a lot of money to fulfill its responsibility towards its people. The responsibility may be either may be for security or for health or education or the development activities. The funds required by the government are normally collected from two sources: debt and revenues. The debt can be collected within the country is known as internal debt while the debt collected from the outside the country is called external debt. The debt financing of the government is also known as deficit financing.

The revenues of the government basically come from two sources: Tax and Non tax. In Nepal around eighty percent of the government revenues come from taxation. Hence the

tax is the major source of government revenue (Bhattarai and Koirala, 2061). The government has to spend its funds for fulfilling the basic needs of the people. Such as health, education, communication, drinking water and other public utility and facilities etc.. Similarly government also has to spend on development of socio-economic infrastructure which facilitates to promote the private sector. All round prosperity of the nation can be achieved through the equal participation of the private sector in development activities, industry and commerce as well.

In simple word, a tax is a compulsory contribution made by taxpayer to the government without any direct benefit. In other word, it can be said that a tax is a liability to pay amount to the government.” Taxes are general contribution of wealth lived upon person, natural or corporate to defray expenses Incurred in conferring common benefits upon the residents of the states" (Phehn, 1995:245). A tax is a “compulsory contribution from the person to the government to defray express increased in the common interest of all without reference to special benefit conferred” (Saligman, 1998:153). Encyclopedia mentioned “Taxation is a system used by government to obtain money from people and organizations. The government uses collected revenue to support itself and to provide public services. In its nature, it is relatively permanent and compulsory and does not guarantee and direct relationship between the amounts contributed by a citizen and extend of governmental services provided to him” (K.C., 2006).

Tax and taxation are not the synonyms terms. A tax is a compulsory exaction of money by public authority. For public purposes enforceable by law and is not a payment for service rendered. Thus, tax is a charge by the government on income or property or expenses of an individual or group of individuals while taxation is a device or a process of taxing or imposing tax.

The history of the taxation started with the human civilization. It is also associated with

the history of rise and fall of civilization. Rosen (2004) claimed that in all civilized societies, a central government used to collect portions of peoples productive output to use as reserve in hard times in order to provide for the needy and to increase the wealth and power and of rulers. At the beginning Great Britain is the first country to introduce income tax in the world. The United Kingdom imposed the income tax regulatory from 1960. Income tax was introduced in Switzerland in 1840, Italy in 1864 and Nepal in 1959. Historical background of evolution of income tax in Nepal is not long. However, it can be divided into three phase as follows:

a. Ancient Lichchhavi.

-) Lichchhavi (Agriculture and Business, Irrigation and religious tax
-) Unification (Custom and Transit, goods, drugs, herbs, cattle tax etc.)

b. Rana Regime.

-) Land, Custom, Excise, Royalties, Salami (employment tax) etc.

c. Referendum onward.

-) Business profit and Remuneration tax Act, 1960
-) Nepal income tax Act, 1962
-) Income tax Act, 2002 (Adhikari, 2060)

The idea of introducing income tax in Nepal originated along with the first 'budget' on 21st Magh, 2008 B.S. (1952 A.D.) and Business Profit and Remuneration Tax Act, 2017 B.S. (1960 A.D.) were enacted.

Tax revenue is broadly divided into two types, they are:

-) Direct Tax
-) Indirect Tax

Direct taxes are levied on income and property. The direct taxes have been used to bridge the gap of income and wealth inequality in society. The indirect taxes are generally imposed on consumption of goods and services.

Property tax is direct tax that is imposed on individuals or owner's house and land. Right now, property tax has been major source of revenue of most of countries of the world. In Nepalese context, property tax is named as house and land tax. The property tax is the compulsory payment to the public authority, which is based on the capital value of property. Oxford Advanced Learners Dictionary (1996) defines property is “a thing or things that are owned by somebody. In other words any kind of assets such as building, land, vehicle, silver, gold, jewelry, furniture, plant and machinery, equipment etc. owned by someone are property.” In Nepal property tax was performed in fiscal Act 2017 B.S. However the property tax acts revised in 2019 B.S. Since the period the property tax system has been implemented in urban houses and property. In Nepal, Urban house and land tax was introduced in 1962 A.D. for the purpose of collecting revenue from urban house and land property. The person with less than 1 million (10 lakh) in assets are exempt from the wealth tax. The clearances from the tax office are required before properties in urban areas can be registered. Those on the wealth tax list have to get such clearance if they sell their land or house.

In Nepal, there exist two types of Government. The first is central Government and next is the local Government. District Development Committee (DDC), Municipalities and VDCs are local Governments, which have been assigned various responsibilities for the development of local areas. Just after the reinstallation of the democracy in the country, local institutions related acts (VDC act, DDC act and Municipality act 1991) were introduced to replace the decentralization Act 1982 (Chettri, 2005:23).

The municipality is responsible for plans preparation, supervision and execution of urban

development activities. There is an executive secretary and assistant executive officer deputed by Ministry of Local Development.

After the introduction of local self-government act in 1999 property tax is given to local bodies right now. There are two variant of property taxes house and land tax and unified property tax. Local bodies that i.e. VDCs and municipalities have the right to collect property tax where as the right of collecting unified property tax is given to municipalities. Prior to this study, I have not found any research work and detail analytical data of house and land tax of Itahari Municipality. So, to find out the contribution of house and land tax in total revenue, to analyze the structure and trend of house and land tax and to explore the perception over the municipal property tax of Itahari Municipality influenced me to choose this topic.

1.1.1 Brief introduction of Itahari Municipality

Itahari is a town and municipality in Sunsari District in the Koshi Zone of south-eastern Nepal. It is located at the main transportation junction of eastern Nepal. It is the center of the west-east Mahendra Highway and south-north Koshi Highway and thus is a town of emerging importance, near the city of Dharan. At the time of the 1991 Nepal census it had a population of 26,824 people living in 5135 individual households.

History

There are many arguments on the naming of Itahari. Some argue that term Itahari was derived from the itahar meaning bricks because the people had found the ancient Multani coins and the bricks at Itahari. Itahari is also mentioned in the old government Documents of Nepal. The current town of Itahari was the Mauja of old Rana family of Nepal and it once belonged to General Subarna Samser Rana.

The Tharu community is the oldest community of Itahari. There is no specific date but they have been living at Itahari for a long time. They concentrated mainly around near the Tengra river bank, Gaisar and Pacharuki.

Economy

Soon this town will grow enough to reach the borders of Dharan. The vision of the city is Clean, Green and Commercial City. The streets are like a boulevard. The city became municipality in 2053 BS. The city has enormous potential to become a business hub of Nepal because it lies in the middle of big cities. All the nearest suburbs resident depends upon Itahari's business market. New Bus Park which has been built recently boast its outstanding service and reliability. It is one of the biggest bus park in eastern Nepal connecting passengers all over the country. Itahari municipality has nine wards which is very uncommon for municipality in Nepal. The municipality office is in the eastern line in birendra chowk. The building is two tier with resplendent lake beside it. The lake is called mechi kali pokhari(lake). In the middle of the lake there is a shish mahal (Glass House in English) which was inaugurated by CPN-UML president Madhav Kumar Nepal. At the embankment there are wooden statues which reflects the artistic nature of Itahari's resident. At the back of the lake there is a big yellow building which was build with the help of the king of Luxumberg.

The city is fairly small and its area is 8,733.01 hectares According to fiscal year 2056/57 the projected population of the city was 33,874. Now the city has grown rapidly with projected population more than 90,000. There are lots of supermarkets that boost its business. The first department store in eastern Nepal was opened in Itahari that had commodities of more than 50,000 products.

SOS Children's Village Itahari is one of the NGOs working for orphaned and abandoned children. it is well known organization in the field of child care and child rights. Besides several other projects, it is working to building houses for homeless and micro credit for the entrepreneurs.

Itahari municipality is one of the three municipalities of Sunsari district. It is situated in the Terai region in eastern Nepal. The main rivers are Sunsari, Tengra and Budhi. Besides that there are also few man-made and natural wetlands. Itahari is very near from the mixed type of jungle, popularly known as 'Charkoshe Jhadi' on the north, which provides ideal shelter for the birds and many wild animals like elephant, tigers, fox, monkeys, wild pork etc.

Itahari is commercially thriving. Almost all major banks of Nepal has opened branches here. Soon Itahari will grow up to be Nepal's biggest town. Lifestyle in Itahari is being expensive day by day. With the growing cultures many anti socio activities are being performed openly. Importantly sex workers are increasing here. Moreover growing gang activities is leading the town in violent war zone. Drugs among youth are another important factor. Open border in Biratnagar is being a good will for addicts to take drugs. However, the education and by seeing the life of old gangster youth now are more aware of such illegal activities but some hiding themselves under the police oath are still being active.

Now concept of developed city has been already introduced that covers wide ring road, almost new 7 kilometers black top ring road has been finished.

Education and literature

Itahari Janta School and Janta Multiple campus were one of the oldest public schools and colleges. There were very few private schools until early 1990s. Many more private schools and colleges have opened since then offering degrees in science, commerce, arts, nursing and engineering. Itahari also houses a culture centre and library which was built with the help of Luxenberg Government and is currently being managed by Itahari municipality.

Tourism

Itahari has a beautiful place to tour or picnic which is known as Taltalia. This is located in Itahari municipality ward no:3. The many lakes, both artificial and natural, make Taltalia good for fishing. There is one club named Manokamana youth club which will help you to celebrate tour and picnic well. There is one saraswati social forest community will helps you to fire wood.

Table 1.1

Source of Revenue and Expenditure of Itahari Municipality

S.N.	Revenue Source	S.N.	Expenditure Pattern
1	Local Taxes	1	Current Expenditure
2	Fee and Fines	2	Debt Payment
3	Property Rental	3	Social Programs
4	Other Revenue	4	Ordinary Capital
5	Own Resource	5	Capital Investment
6	Miscellaneous		
7	Grants		
8	Loans		
9	Balance forward		

1.2 Statement of the Problem

Nepal has been facing the most serious economic problem from the beginning of her developmental phase to present time. It needs huge amount of capital for economic development of Nepal. Despite the various measures adopted by the government to boost revenue collection there is still a substantial resource gap between expenditure and revenue. The rate of government expenditure is exceeding the rate of growth revenue almost every year. The budget deficit has been growing and this may have negative effect on the Economy. In this context, taxation can be taken as means for resolving this problem by mobilizing additional resource from the domestic sources, small part of total incomes under the purview of house and compound (Property) tax.

For the economic development of the country, contribution of property tax especially house and land tax is more equally important as other taxes. However there are many problems involving in property tax. Among the various problems some are: lack of sound and competent revenue administration, lack of information or computerized system, lack of trained and skillful personnel, poor taxpaying habit of tax payers, inequality or minimum valuation of house and land for different purpose, corruption and unfair duties and other facilities.

Nepal has been facing various problems for the implementation of property taxation. In the under developed country like Nepal, Firstly the Government inefficiency of its dependent on the political pressure is far from expectation. In this condition specific statement of problems are as:

-) What is the contribution of house and land tax for Itahari Municipality?
-) What is the trend and structure of house and land tax of Itahari Municipality?
-) What are the emerging problems relating to house and land revenue?
-) Are personal engaged in this sector efficient?

1.3 Objectives of the Study

The main objectives of this study are to examine and analyze the role of property tax in revenue collection in Itahari Municipality. The other specific objectives are listed.

-) To find out the contribution of house and land tax in total revenue of Itahari Municipality
-) To analyze the structure and trend of house and land tax of Itahari Municipality.
-) To know the problems relating to house and land revenue.
-) To explore the perception over the municipal property tax.

1.4 Significance of the Study

A country needs a lot of resources to implement plans or programs. Taxation is one of the means to mobilize domestic resources for economic development of a country. Taxation is not only the means for raising resources but it may bring about remarkable change in the social and economic structure of the economy as well as change in social attitude of the people. The property tax helps government to raise revenue of local bodies. It also helps government to achieve the goals of growth, equality and stabilization of the economy. Through the instrument of property taxation the country can encourage the growth of certain industries, restricts the conspicuous consumption of certain commodities, increases the rate of saving and regulates the price of commodity. Revenue mobilization is the challenging task of the developing countries like Nepal. The responsibility of the developing countries is higher than the developed countries because more money is needed for economic development of a nation so, it is necessary to inquire different resources of taxes to fulfill such purposes. Property tax may help government to raise revenue of local bodies.

Property tax is one of the important taxes of direct taxes. It helps government to achieve the goals of growth, equality and stabilization of the economy. Through the instrument of property taxation, the country can encourage the growth of certain industries, restricts the conspicuous consumption of certain commodities, increase the rate of saving and regulates the price of commodity.

In the context of our country Nepal, there are two types of government. The first is central government and next is the local government. District Development Committee (DDC), Municipalities and Village Development Committee (VDC) are local government which has been assigned various responsibilities for the development of local areas.

Urban area has been played very important role for the overall development of the nation. The municipality is responsible for plans preparation, supervision and execution of urban

development activities. The important and main source of municipality is property tax. It is very essential source to empower municipality. Where, it is most necessary empower first local body to empower central government.

This study will helpful for the students who are related with taxation and wants more information about property tax. This study will helpful for further researcher in the way of their work. It will give the guidelines for planning and further study of any researcher. This study will helpful for those people who wants to have insight knowledge about the topic. Through this study, those people who are direct related with the Itahari Municipality will be benefited. Such as taxpayers of Itahari Municipality can get the overview about the use of their contribution on property tax and tax collector also can analyze the trend and structure of property tax and can take the corrective actions.

1.5 Limitations on the Study

Any research study is limited by the area of study, information and data. I have tried to study in detail about the topic but the following limitations have been raised on the way of my study.

-) This study has been framed in limited resources, so, it cannot cover to the whole trend period so that it can't be generalized.
-) Mostly secondary data has been used which obviously carter the limitation of secondary data.
-) The study has been covered only seven years data. So, it may not reflect over past and future period.
-) The truth of the research result has been based upon the available data from the Itahari Municipality and others.
-) Though there are 58 municipalities in Nepal but I have chosen Itahari Municipality as my study area. So, the findings of this study may not be applicable to all the municipalities because of the variance in nature.

1.6 Organization of the Study

The study is divided into following framework.

Chapter – I: Introduction

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

Chapter – II: Conceptual Framework and Review of Literature

This chapter consists of conceptual framework and provisional regarding property tax, property tax in Nepal, current provisions of house and land tax in Itahari Municipality and review of earlier studies.

Chapter – III: Research Methodology

It covers research design, population and sample, nature and source of data, data collection procedure and tools and techniques of analysis.

Chapter – IV: Presentation and Analysis of Data

This chapter attempts to presentation and analysis of data evaluate with the help of analytical tools and interpret the result obtained. This also includes structure of total income from tax and other sources of Itahari Municipality, total income from property and other taxes, study about contribution of house and land tax in total revenue of Itahari Municipality, study about the trend of house and land tax. Further more this chapter includes empirical study as well as findings of the study.

Chapter – V: Summary, Conclusion and Recommendations

It mainly concerned with summary, conclusion and recommendation of the study.

Appendix and Bibliography have been presented in the last part of the study.

CHAPTER - II

REVIEW OF LITERATURE

A good research study must be based on past knowledge. The previous study about the related topic can't be ignored because they provide the foundation to the present study. Literature review is basically a stock taking of available literature in one's field of research.

This chapter is divided into two parts- one is the conceptual framework and other is the review of earlier studies, which are described as:

2.1 Conceptual Framework and Provision Regarding Property Tax

House and land (property) tax is not a new term in the field of taxation and students who are related to taxation have already got the knowledge about it. Property tax is regarded as the most important tool for mobilizing internal resources whether the contribution of property tax to the government revenue may be high or low, it has got much more important. House and land (property) tax is imposed only on house and land situated at municipality. Nepal is a small and beautiful country by natural resources. Nepalese

economy is passing through the critical phase of low-income level equilibrium trap, high level of poverty and huge resource gap. About 30 percent of people are below the poverty line. These problems cannot be solved only by the investment from the private sector but also by the deliberate action of government in the field of transportation, communication, power, road, other basic infrastructure and directly productive activities. In the present context, property tax occupies one of the most important sources of revenue in our country. Concept of property tax, provision of property tax in Nepal, how it is proposed and implemented in Nepal, which is described in this chapter.

2.1.1 Meaning of Property

In general sense property refers to car, farm, watch or anything else owned by the people. Property also refers to any types of capital goods that are owned. For example: Machinery, raw materials, and finished products are property.

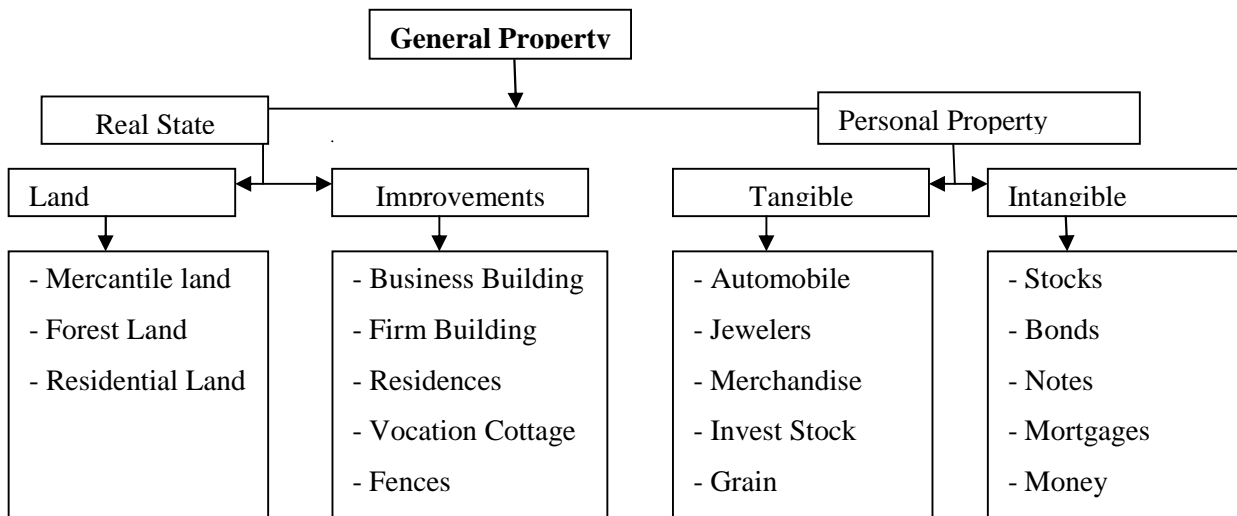
Oxford advanced learners Dictionary (1996) defines property is “a thing or land, vehicle silver, gold, jewelry, furniture, plant and machinery, equipment etc. owned by someone are property.” There are two ways to classify property-real property including land and things permanently attached to it, such as building etc. and personal property including all other kinds of property, such as furniture, stock, and harvested crops. It is much easier to transfer personal property than real property. Real property must be transferred in writing but personal property may be transferred orally, when a man dies he heirs usually in real property. But personal property generally passes in to the hands of the estate administrator who sells it and divides the process among the next of kin, unless one makes other provisions for dispensing it. In brief, real property consists of Immovable and personal property of movables.

2.1.2 General Property Tax

It is a tax on all wealth tangible and intangible, which possesses exchange value. The chart related to general property tax is described as under (Singh, 1991:423).

Figure 2.1

Items of Property Tax for Tax Purpose



2.1.3 Property Tax

The property taxation is the compulsory payment to the public authority, which is based on the capital value of property i.e. building, land, vehicle, silver, gold, jewelry, furniture, plant and machinery, equipment etc. In law the courts defined property tax as the right to possession, enjoyment and disposition of all things subject to ownership. The term property is generally applied to the things themselves, which are the subject of ownership. Property taxation has great potentialities of resource mobilization in the developing countries. In these countries, the process of economic development tends to be accompanied by a boom in real states and investment in housing in urban area. Legally all property can be divided in two classes personal property and real property.

2.1.3.1 Real Property

Real property consists mainly of land and building (or what called improvements on the land). Land and improvements are very important in taxation. Land values and building values are subject to different conditions. Land may increase in value while the building on it is decreasing in value. Different methods are used in evaluating the two kinds of

property, for instance, depreciation must be considered in the case of building but not for valuating land (Adhikari, 2059).

2.1.3.2 Personal Property

Personal property can be classified into tangible and intangible. Tangible personal property includes great variety of goods, merchants and manufactures stock (inventories), business furniture, fixture and machinery, tool and pattern rolling, stock of railway, from machinery harvested crops, logs, household furniture, clothing, jewelry and other personal effects. The second category of personal property is intangible property. This class consists, stock, mortgages, deposits, money and book credit, copyright and patents, goodwill, franchise value. Intangible property can easily escape taxation whether by migration or by hiding. Many estates classify intangible separately and apply a low flat rate tax on them as substitute for the general property tax.

Taxation is the compulsory payment to the government. The philosophy behind taxation is that every individual should contribute towards the expense of the government. The need for and benefit of the state revenue are growing rapidly.

Thus taxation is becoming more and more a crucial issue, Property tax has its origins in early American history. Initially it was assessed in selected items of property such as land and cattle with different rate imposed on various categories. Thus classified property tax was the main source of revenue to the colonies. Right now property tax has been the major source of revenue of the most of the countries of the world. Property tax gained importance because of the population increase growing urbanization in 1992. Property taxation has been the major fiscal resource of American local government since 27th century. In 1960 the selected Asian nations, Indonesia, Republic of Korea, Laos and Thailand made only small use of urban property taxation. Property taxes are more important in India where as Malaysia, Pakistan and Philippines.

Argentina local governments, levy earns in tax, which applies, to urban and rural land and improvements on the official value. A low 0.3 percent tax applied to land in Korea. In Guatemala, a municipal tax on urban property is based on actual or presumed income. There is also a national tax in real property levied on a personal basis on the total official value of the real property of each taxpayer. The rates range from 0.3 percent to 0.6 percent revenue from property tax in selected developing countries (Adhikari, 2060).

Table 2.1
Contribution of Property Tax to Total Tax Revenue

Fiscal Year	Countries	Tax in Property (in %)
2001	Brazil	2.7 I
2002		0.4 II
2001	Korea	0.5 I
2002		3.8 II
2001	Paraguay	5.9 I
2002		5.8 II
2001	Egypt	14.2 I
2002		13.2 II
2001	Philippines	11.8 I
2002		4.4 II
2001	India	16 I
2002		7.8 II
2001	Nepal	0.14 I
2002		0.65 II

Source: Rajesh Ghalliah Trend in Taxation in Developing Countries

From this table, property tax contributions very little to the total tax revenue. But it is in an increasing trend. If proper assessment and proper administration is made, it will contribute larger revenue to the government.

2.2 Historical Background of Property Tax

Property tax has its origins in early American history. Initially it was assessed in selected

items of property such as land and cattle with different rates imposed on various categories. Thus classified property tax was the main source of revenue to the colonies. During the 18th and 19th centuries a greater variety of property emerged making it difficult to maintain such differentiation. Thus the tax developed into a general and uniform tax rate. The uniform tax was applied to property independent of form with total property viewed as a general measure of taxable capacity. This approach gave way under the increasing complexity of property forms. The growing importance of intangible property tax had been supplanted by a much narrower approach. It became a selective tax on real estate and business personality and has remained ever since. Tangible property other than real estate held by persons now largely escapes tax and to attempt to reach intangible property. While the share of the property tax in total tax revenue has declined from over 50% at the beginning of the century to around 10% at present property tax revenue as 1% of privately held wealth or as 1% in G.N.P. has not changed greatly over the last century. It is estimated that the revenue wealth ratio has remained at about 1%. The share was lower however for municipalities 61% which are increasingly, developing additional revenue sources.

Right Now, property tax has been the major source of revenue of most of the cities of the world. Property tax gained importance because of the population increase growing urbanization in 1990. By narrowing the tax base to those property, which could be easily discovered improving assessment providing better staff many countries, adopted, property tax in moderate form. At least in sun-urban area it is a fairly adequate surrogate for a local income tax since a high relationship has been found between property values and income level.

Property taxation has been the major fiscal resource of American local government since 17th century. In 1960 the selected Asian Nations like: Indonesia, Republic of Korea, Laos and Thailand. Made only small use of urban property taxation, property taxes are

most important in India where as in Malaysia, Pakistan and Philippines they yields less than 20% of local revenue.

Argentina local governments, levy earns in tax which applies to Urban and rural land and improvements on the official value. The general rate is 0.1% Buenos airs however applies progressive rate with a maximum of property and local taxes on acquisition. A low 0.3% tax applied to land in Korea.

Brazil has power to impose a tax on rural land to ensure uniformity through the country since local government tax urban land at rates that can vary from 0.5% to 10% Colombia by municipalities. There is a national surcharge of 10% of the municipal tax.

In Guatemala a municipal tax on urban property is based on actual or presumed income. There is also a national tax in real property levied on a personal basis on the total official value of the real property of each taxpayer. The rates range from 0.3% to 0.6% revenue from property tax in selected developing countries.

Poland adopted an agricultural Property Tax in 1985 and real estate tax in 1986. Poland's property taxes are urban, agricultural and forest. Local government facing budget deficits are eager to increase property tax revenues and urban areas seeking more efficient land usage have supported conversion of the tax base to market value.

Estonia's land tax was introduced in 1993 as an integral part of both land and fiscal reforms. The tax on land levied on both public and private lands with few exemptions, was intended to stimulate the efficient use of land. Estonia local governments select a market value tax base. Recently the government has explored the possibility of adding buildings to the property tax base to expand revenues without increasing tax rates.

In the Czech Republic's fiscal reform, property tax revenues are assigned to local governments. Land and buildings are assessed separately and taxed on the basis of land area or building floor space. It has area based system based on information, market pricing for location and types of uses. Its strong real estate market, stable economy and administrative experience give the Czech Republic the foundation for a modern property tax system.

The Slovak Republic's fiscal system reflects taxes on land and on buildings governed by national law, although the revenues and some administrative tasks are assigned to localities. Land and building taxes are set per square meter.

The Russian tax system includes value added, corporate and personnel income taxes. The 1998 enactment retains taxes on land and property. Real state tax is based on market value is used to replace the taxes on land, on property (buildings) owned by individuals, and on property (assets, including equipment, inventory and vehicles, as well as buildings) of enterprises. Property taxes are shared between regional and local governments.

In Armenia Local self-government, real property rights, and taxation were adopted in 1995. A tax on buildings was added to the excising tax on land. To encourage business activity, American officials are now considering methods of expanding local revenues from property based taxes.

Finally, the property tax is the most widely used municipal revenue source in the developing world. In large urban populations, some form of property tax is assigned to the support of local government. To increase expenditures on municipal services, local governments frequently look to the property tax as a promising source of additional revenue (Ahuja and Ravi, 1999).

2.3 Property Tax in Nepal

The history of property tax in Nepal is not so long. Finance Act, 2016 had empowered the government to levy property tax. Property tax Act, 2017 was enacted to collect tax from property. Urban house and land and foreign investment were taxed at the same rates under property tax Act 2017. Under the provision of property tax act, Nepal frame property tax rules 2017. A separate house and land tax rules 2020 was then enacted which repeated the existing property tax act, 2017. Earlier central government used to impose property tax under prevailing Acts and rules. After enactment of local self government Act, 2055, local bodies (i.e. VDC and municipalities) impose property taxes within their boundary. Currently house and land tax Act, 2019, property tax act 2047 and Local Self Government Act, 2055 has been implemented in the collection of property tax. Local bodies are levying property taxes under local self Government Act on rules.

2.3.1 Collection, Realization and Refund of Tax

Since the integrated property tax and vehicle tax are not exclusively practiced in some municipalities, tax collection and realization with respect to the house and land tax and revenue or land tax are discussed hereunder. Local self government act 2055 has made the provision for collection realization and refund of tax separately to the municipalities and VDCs.

2.3.1.1 Collection of Tax

Local self government act 2055 has empowered VDC, municipality and DDC to levy taxes. The VDCs and municipalities in the form of land revenue, house and land tax, integrated property tax and vehicle tax levy the property taxes.

1) In the case of Village Development Committee (VDC)

The VDC may levy the property taxes as follows in its area at the rate approved by the village council, not exceeding the prescribed rate:

) House and land tax: On the basis of size, type, design and structure of the house

with in the area of VDC, it may impose annual house and land tax on each house and compound.

- J Land revenue (Malpot) or land tax: The VDC may levy revenue or land tax on the land within its area. However, 25% or revenue collected from land revenue or land tax has to be handed over to the District Development Committee (MLD, LSG 2055: Section 55).

2) In the case of Municipality

The municipalities levy the following property taxes within its jurisdiction:

- J House and land tax: Based on size, type, design and structure of the house, the municipality may levy annual house and land tax on each house and compound as approved by the municipal council.
- J Land revenue or land tax: The municipality may impose land revenue and land tax as prescribed on the land within the municipality area.
- J Integrated property tax: The municipality may levy an integrated property tax within its jurisdiction at the prescribed rate (MLD, LSG 2055, Section 136-140).

According to rule 140 of local-self government regulation 2056 the maximum and minimum limits of the rate of land revenue and house and land tax that may be levied by a municipality within its area shall be as prescribed in annex-8 of the regulation. As per rule 144, the minimum and maximum rates of the integrated property tax that may be levied by a municipality within its area shall be as prescribed in annex-12 of the regulation.

2.3.1.2 Recovery of Tax

The fine and punishment imposed by the Village development committee or by municipality are recovered by section 260. According to this process, if any person does not pay any tax, duty or charge levied or contracted or any other amount due and payable

to the local body, the district administration office recovers it as government dues (MLD, SLG 2055:Section 71 & 166).

2.3.1.3 The Municipality is not entitled to collect any kinds of Taxes Contrary to the Act or the Rules

If the municipality collects such taxes, Nepal's government may order to stop such collection and to refund the amount of taxes so collected to the connected person (MLD, SLG 2055: Section 147).

2.3.2 Penalties, Actions and Appeals

Penalty is a punishment for breach of law where a statute requires any person to do a particular thing and fails to do so, he renders himself liable to penalty. Action means tax officer has with regard to any taxpayers made dishonest or negligent tax assessment and as a result of which the tax liability of such person has become excessive or reduced, the director shall initiate proceedings for departmental punishment. Similarly when the statute requires any person not to do a particular thing and he does so, he exposes himself to penalty is called appeals.

2.3.2.1 Penalties and Actions

The provision for fine and penalties if anyone does not pay taxes, fees, charges, duties, tariffs and any other amount due and payable under the act, the VDC and municipality penalize the person (MLD,SLG 2055:Section 70 and 165).

1) In the case of VDC

If any person does not pay the taxes imposed by the Village Development Committee, it may punish such person with a fine of up a Rs.500 and may stop the service made available by the village development committee in regard to such person (MLD, SLG 2055: Section 70.2).

In case any person commits any in contravention of the act of the rules, Bye-laws or orders made under the act, such person shall be punished with punishment, if any prescribed elsewhere in the act, and if punishment is not so prescribed the village development committee may punish such person with a fine up to Rs.500 (MLD, SLG 2055: Section 70.3)

If any person, who has already been punished under this section, commits the same offence again, the village development committee may punish such person with two fold punishment for each instance (MLD, SLG 2055: Section 70.4).

2) In the case of Municipality

If anyone does not pay the taxes imposed by the municipality, it may take the following actions (MLD, SLG 2055: Section 165.2)

-)] If anyone not pays the taxes, which may be collected under the act, the municipality may write to the concern body to stop the transfer of ownership of the movable, immovable property of such person, may real or lockup the trade, profession and withhold the transaction including export and import.
-)] If the amount which the municipality is entitled to collect under the act, could not be covered up even from the stoppage of the house, land, transaction or assets of the concerned person, the municipality may recover it by auctioning the person's house, land or other assets if any.
-)] According to section 165.5 if any one does not pay any taxes under the act, the municipality may stop the service provided by it, in regard to such person.
-)] If anyone commits any action in contravention of the act or the orders made under the act, such person is punished with punishment, if any prescribed elsewhere in the act, and if punishment is not so prescribed the municipality may punish such a person with a fine up to Rs.1000 (Section 165.5).
-)] As per section 165.5 if any, who has already been punished under this section commits the same offence again. The municipality may punish such person with two

fold punishment for each instance.

As per section 70.5, any party who is not satisfied with the punishment imposed by the Village Development Committee may appeal to the concerned District court within 35 days from the date of knowledge of such decision.

Similarly, according to section 165.7 any party who is not satisfied with the punishment imposed by the municipality may appeal to the concerned District court within 35 days of the date of knowledge of such decision.

2.3.3 Property not Included in Valuation for Tax Purpose

Some of the properties, which cannot be used for valuation, are mentioned in valuation for tax purposes:

- a. Growing crops: Grass or standing trees on agricultural land, the growing crops grass or standing trees are excluded from the preview of the term of assets.
- b. Animals: any domestic animals such as buffalos, Cows, Oxen and other but the act does not clear the types of animals.
 -) Any agricultural animals such as bullocks, cows and buffaloes.
 -) Any performing animals in circus such as chimpanzees, bears, lions, tigers.
 -) Any drought or transport: Animals as males or horses.
- c. Amount deposited for life insurance: In Nepalese act, there is no certain information about insurance, according to Indian concept; it should be interested for an assesses in any policy of insurance.
- d. Patent or copyright: The patent or copyright is exempt from property tax. The patent or copyright is acquired by an assesses under the contract from the original author or the inventor or it is acquired by way or inheritance or otherwise no exemption is allowed in such cases.
- e. Books and equipments for study.

- f. Pots and equipments except valuable metals.
- g. Wearing approval provisions and other cloths for personal or household use of the assesses.
- h. Furniture and equipments (except T.V, V.C.D, Deck, refrigerator, washing machines, camera etc.) they are exempted for developed countries like India. In the poor society, it is assumed highly luxury goods.
- i. Tools, machinery and equipments used for professional works.
- j. Simple equipments of decoration of house (except valuable metal and equipments).
- k. Singing and dance equipments for daily used.
- l. Equipments for physical education.
- m. Equipments and tools for first aid which are kept in house.
- n. Transportation equipments as cycle, rickshaws and other simple media.
- o. Weapons and tools used for personal safety.
- p. Equipments related to arts and photographs.

According to local self governance act 055/56, the assets exempt from tax is:

-) Gold 10 totals with jewelries
-) Silver 200 totals with jewelry
-) Stock in trade
-) Industrial mills, machinery tools and equipments building and warehouses of industrial areas.
-) Invested shares and debentures.
-) Loan issued by Nepal government, which is declared exemption from these act.
-) Area for house of assesses 300 sq. ft and Ropanies of land.

Similarly, according to local self governance act 055/56 section 136, following rebates are:

- a. Goods and equipments for social welfare

- b. Land owned by farmers
- c. The exemption limit for land is:
 -) 10 biga for Terai area
 -) 20ropanis for Kathmandu valley
 -) 60ropanis for other area
- d. Land covered by Royal Palace.
- e. The land related to Nepal Government
- f. Land and building for hospital
- g. Educational institutions
- h. Land related to non-profit making organizations.
- i. Foreign agencies organization
- j. Pound, electricity house, airport, Bus Park etc.

2.3.4 Types of Property Tax Exemptions

Property tax exemptions are exempt for social reason such as homesteads, churches, lodges, private school some for development purposes such as new industries, some for fiscal or administrative reasons such as household furniture some to avoid double taxation such as credits. The tax exempted intangibles and certain types of tangible property are as follows:

-) Homestead exemption: homestead includes only dwelling occupied by the owner as a residence the site upon which the dwelling is located, and varying amounts of surrounding land. The exemption may include not only the land and improvements used as a place to live but also considerable property used to make a living. Homestead exemptions depend on a number of variables, such as a degree of home ownership, area and value of homesteads and the ratio of residential property to total property.
-) Exemption of property used for religious and philanthropic purpose: most of the government exempts educational, charitable, benevolent and religious institutions from property taxation. In the case of religious organizations, exemptions are church

and a non-profit making organization etc.

- J Exemption to encourage economic activity: Exemption to encourage economic activities are cash bonuses, loans, donations of site and building or their provision at nominal rentals, guarantees of favorable conditions and soon.
- J Municipal exemption policies: Municipality also provides exemption to individual to attract the economic activity within the municipality.

2.3.5 Rebates from Property Tax

Rebates from property tax are mentioned in self-government act. From the property tax, the following incomes are rebated.

- J Loan and debenture takes from registered institutions.
- J Amount received from life insurance.
- J Price received from social work.
- J Amount received from Nagarik investment.
- J Amount received from provident fund.
- J Amount received from personal annuity.
- J Profit or dividend received from kingdom's commercial institutions.
- J Amount received from foreign government.

2.3.6 Problems from Effective Tax Administration

There exist problem because of the poor taxpayers and lack of tax education. Therefore, the local government would make sure them by teaching tax education. There are other factors like, delay in assessment and collection. Unnecessary outside pressure and lack of proper incentives to tax personnel's. A good tax system must have certain administrative qualities including certain rules, compliance and collection cost enforceability and acceptability. Although there has been significant progress in the area of improving the elasticity and efficiency of tax system, still the major source of revenue collection is land based (Adhikari, 2003).

2.4 Current Provisions of House and Land Tax in Itahari Municipality

Following documents are required to submit house and land tax return in Itahari Municipality:

- a. Tax officer holds right for following action if required:
 -) Necessary eliminations and review of statements by tax payer by issuing notice for filling and taking interview.
 -) Filed inspection.
- b. If any person has various land and houses. In the metropolitan area, statements should be submitted to related ward office of each land and house.
- c. If any couple has separate land and house in their Ownership, statement should be submitted jointly.
- d. If there is more than one owner, statement should be submitted in the name of any one owner.
- e. People having liability to pay house and land property tax should submit the return as per act.
- f. If there is any increased/decrease in house and land property, it should be reported to the ward office.
- g. Calculated tax as per submitted statement should be deposited in bank account of within 32 days.
- h. The necessary documents are:
 -) Copy of land ownership certificate-1
 -) Copy of approval of house map-1
 -) Copy of approval of new flat map if any-1
 -) Field inspection report by technician for house constructed within approval before provision of metropolitan system-1
 -) Copy of tax receipt if any submitted to tax office-1

2.4.1 Process of Tax Assessment

To make the taxpayer easier Itahari Municipality has provided the certain process for tax assessment. Process of tax assessment covers the process as follows:

-) Necessary documents should be registered in house and land tax book.
-) House valuation is done on the basis of house and land valuation.
-) Different types of house should be valuation in different ways.
-) Tax assessment is done on the basis of house and land valuation.
-) After paying house and land tax, tax clearance certificate should issued and keep the records.
-) If owners are multiple persons, tax assessment should be done in the name of multiple owners like flat owners.

2.4.2 Things to be considered in Process of Tax Assessment

In the process of tax assessment, some of the rules and regulations should be considered.

Things to be considered in process of tax assessment areas on follows:

-) Findings out actual valuation by total area of house.
-) Find taxable value on the basis of depreciation, types of house, total valuation, year and rate.
-) If approval is not taken during house construction, he/she should be deposit Rs.10 per sq. ft.
-) Name and type of road should be defined in the map.
-) Finding out the area of land in biga/kattha.
-) Actual valuations are done based on types of road. (Khanal, 2002)

2.4.3 Mistake corrections in the Process of Assessment.

If the some mistake are found in process of assessment taxpayer have right to claim the mistakes corrections. The processes for mistake corrections are as follows:

-) If the taxpayer complains about tax and valuation of house and land within two

years, tax officer can again determine the tax and valuation.

-) The administration should provide chance of revision about house and land tax if necessary.

2.4.4 Rebate for the tax Payers in Itahari Municipality

Taxpayer could get rebates if they pay tax in the certain time and other conditions. Some of such conditions of rebate for taxpayers are as follows:

-) 10 percent discount for paying tax before last of Shrawan.
-) No penalty for paying tax until Ashwin last.

2.4.5 Penalty System of House and Land Tax

If the taxpayers disobey the rules and regulations as mentioned in act and provisions, they are charge by fine and penalties, penalties provisions are as follows:

-) If any person submits false document invoices or wrong documents till Ashwin or every year, the penalty is Rs.5000.
-) If a person does not follow directions of tax officer penalty is Rs.500
-) If any person does not follow rules and regulations regarding paying tax, the penalty is Rs.1000
-) If tax is not deposited within 35 days, 15 percent additional amount per annum shall be charged an assessed tax (Khanal, 2002).

2.4.6 Exemptions of House and Land Tax in Itahari Municipality

-) House and land owned by Nepal government.
-) House and land owned by municipalities and District Development Committee.
-) House and land related to Embassies Diplomatic mission etc.
-) Land related to auditorium, stadium, garden, airport, park etc.

2.4.7 Documents required for Property Valuation of Itahari Municipality

-)] Application form-1
-)] Copy of house and land tax clearance certificate-1
-)] Bill of land tax clearance-1
-)] Field inspection report of ward office-1

2.5 Definition of Wealth Tax

Wealth like income represents the command a person has over economic resources. The difference wealth and income tax is that wealth represents a stock of resource at anyone point in time whereas income is a flow of resource overtime.

In wealth includes how much various assets are worth. Some assets like the government bond mentioned above have unobvious market price.

2.5.1 Types of Wealth Tax

Wealth tax may be imposed in any one of the following forms.

-)] On all property in general or on one or a few types of special property.
-)] As a personal tax in the legal sense.
-)] On a net base.
-)] At a flat rate or net.
-)] On transfer of property or on stock or net.

On the basis of these characteristics we may have a large number of combinations, but only five combinations have been employed 'extensively'.

-)] General Property Tax.
-)] Net worth or net wealth tax.
-)] Capital tax.
-)] Death duties.
-)] Gift tax (Singh, 1991:422).

a. General Property Tax

It is a tax on all wealth tangible and intangible which possesses exchange value. The general property tax has some characteristics:

Gross Property Base

The property tax is a wealth tax as such it is different from an income tax. An income tax is based upon what flows to the taxpayer between two points of time and it is said to be levied on gross wealth because the taxpayer cannot offset debts against the value of the property.

Ad Valorem Measurement

The tax levied according to value of the property.

Uniformity

It means uniform treatment of taxable property within the same jurisdiction.

Universality

The tax includes all wealth. This services the aim of neutrality.

Personality

Taxes levied upon things, business and transactions are generally considered to be impersonal while those levied on individuals are personal.

Pro-portability

The tax aims to apply the same rate of tax to each taxpayer. The general property tax belongs to the first category. It does not take into consideration the individual's economic circumstances such as family size.

b. Net Worth or net Wealth Tax

The tax is used in about seventeen countries including India and various nations of American countries. Net worth is the net value of the individual or firms assets. Assets are thing or claim the individual of firm owns while liabilities are what is owned to others. The different between assets and liabilities equal net worth which may be described as net wealth as well. This method has such suggestions are as under:

- a. Income is not a sufficient supplemental tax on net worth will make the personal taxation more effective.
- b. Income heritage as an indication of ability to pay, death duty is a personal tax property. Though death may not come at an opportune time yet. It is strategic time from the state to assert its claim.
 -) In heritage as an Earned Income
 -) Death Duty and Equality of Opportunity
 -) Death Duty and Wider Distribution of Wealth
 -) Other Arguments

2.5.2 Revenue from Wealth Tax

The revenue from wealth taxes has been small in all countries that have employed these taxes. It should be noted that the primary objective of wealth tax has been to supplement the income tax so that true taxable capacity, becomes the basis of taxation and tax system equitable as well as efficient. Revenue importance of wealth taxes should not consider from the standpoint of direct yield from them.

2.5.3 Net Wealth Taxes

A net wealth tax is a levy imposed upon individuals not corporation on the basis of their net wealth that is the total value of all assets; they own including cash and bank deposit securities and real property less debt or other claims outstanding against them corporate

property reached the securities. Outstanding in the land of the owners and creditor, certain item of course be exempted or as is more consistent with the philosophy or the taxes a minimum exemption could be provided comparable to that of the personal exemption under the income tax.

2.5.3.1 Net Wealth to Include Certain Assets

Tax laws are enacted in law to prevent avoidance or reduction of liabilities. An assessee may like to reduce or avoid his wealth tax liability by transferring his assets to near relatives on or before valuation date. To foil such an attempt certain deeming provisions have been enacted under wealth tax act.

a. Transfer to Spouse

Where an individual transfers an asset directly or indirectly to his/her spouse without adequate consideration such asset is deemed to belong to the transfer individual. Accordingly to the value of such assets as it held by the transfer a spouse on the valuation date is to be included in the net wealth of individual transfer. The transfer is affected without consideration. Transfer can be of any kind payment of cash or gift of crediting. The cash is account of transference or purchase of property of any kind in the name of transferee by the transferor within fund supplied by the transfer.

-) Applicability only to individual. The climbing provision only to individuals consequently any transfer by family.
-) Relationship as spouse to be there on the date of transfer and on the valuate. The deeming provision is applicable if the relationship of husband and wife exists at the time of transfer as well as on the relevant valuation date. Transfer affected by the husband to the disrobed wife does not fall with the ambit of the deeming provision. The word 'spouse' means lawfully weeded husband and wife and not the relationship of concubine.
-) The deeming provision has no application where the transfer is made for adequate

consideration where the transfer is made for inadequate consideration where the transfer is made for inadequate consideration the value of that portion of asset to the extent to which consideration is found inadequate is to be included in the net wealth of transfer.

-) The transfer for inadequate consideration may be direct or indirect. Both falls within the ambit of the deeming provision, indirect transfer's done through benami intermediaries.
-) For the purpose of the application of the deeming provision a property may not be an asset at the time of transfer but it must be an 'asset' on the valuation date.
-) Loan from spouse to another is not transfer of property loan is contractually repayable.

b. Transfer for the benefit of Spouse or Minor Child

Where an individual transfers an asset directly or indirectly without adequate consideration to any person or association of person for the immediate or deferred benefits of the transfer himself his/her spouse or minor child or both.

c. Revocable Transfer

Where an individual transfers assets to any person or association of person and transfer is revocable such asset is deemed to belong to the transfer. Therefore the value of such asset as is held by the transferee on the valuation date is to be included in the net wealth of the transfer. If the transfer is irrevocable the transferred assets are to be assessed in the hand of beneficiary transfer.

d. Transfer to Son's Wife or Son's Minor Child

An individual transfer assets directly to the son's wife or the son's minor children without adequate consideration or after time.

e. Transfer to Association of Person for the benefit of Son's Wife or Son's Minor

Child

An individual transfer an asset directly or indirectly on or after time. Any persons or association of persons without adequate consideration for the immediate or deferred benefit of the son's wife or son's minor child of such individual or both, such asset is deemed to belong to the transferor.

Transferred Assets, Standing in the Changed

Transferred assets, standing in the changed on the provision it is not necessary that the asset transferred must remain in the same form in which it was transferred if the asset transferred is charged into another form on or before the valuation date the value of the converted asset is to be included in the net wealth of the transferor. If the property transferred is exchanged for another property the value of new property is to be included in the net wealth of the transferor.

Transfer Assessable to Gift Tax

Transfer of any property without consideration. Amounts to gift, where any transfer in the aforesaid cases is made during any previous year relevant to the assessment year.

Deduction of Transferees Debt Relating to Property Transferred

Where the value of any transferred asset is included in the net wet of the transferor that is also entitled to deduction in respect of debts owing on the valuation date by the transfer provided such debts are preferable to such assets. Therefore any charger encumbrance created by the transferee on the transfer property is deductible.

Transfer Entitled to the Exemption

It is the transferred assets includible in the wealth of his transfer are exempt from the levy of wealth tax the transferor is also entitled to his exemption.

Partner's Interest in a Firm or Member Interest in an Association

Where the assessed is a partner in a firm or a member of an association of persons the value of this interest in the firm or association is includible in computing his net wealth. The value of such interest is determined in the prescribed manner. Where a minor is admitted to the benefits of partnership in a firm, the value of his interest in the firm is included in the net wealth of that parent whose net wealth before such inclusion is greater (Lal, 1997:739).

2.6 Review of Earlier Studies

Realizing the scarcity of the reports in Nepalese tax system different scholars written and institution was involved in the studies and research of Nepalese tax system and have analyzed it as well as property taxation of Nepal. A brief review of previous studies on taxation in Nepal is summarized below. The purpose of this review is to bring in light in brief the important work done on property taxation in Nepal and findings out the research gap.

2.6.1 Review of Research Report

Dhungana and Pradhan (1973), had surveyed the property taxes for the first time and performed a general account on the revenue potentiality problem etc. and suggestions made for the prospect and future source for the development and were proposed for improvement and implementation procedure of property taxation. The survey report published as the title of "*Evaluation of Urban Property tax in Nepal*". It had deal with housing trend and revenue potentiality of Kathmandu.

In this report they found that in the fiscal year 2027/28 and 2028/29 the total amount of tax raised from the urban property was Rs. 5.87 and 6.00 lakhs out of which Rs. 2.25 and Rs. 2.43 lakhs were raised from Kathmandu alone. Thus the total share of Kathmandu was about 40% of the total property tax. The survey also showed that only about 4% of

houses were paying taxes. They had also reported that with the existing tax rates Government can very well raised up to Rs. 10.67 lakhs of revenue from Kathmandu alone and with necessary change it could be increased to Rs.15.243 lakhs. They suggested of setting up a separate tax administration unit which can fetch quite substantial revenue to the government.

Devkota (1980), has analyzed urban house and land tax in his study entitling “*Nepal ma Sahari Ghar Jagga Kar ra Bisleshan*”. He analyzed the legal aspect of property tax, evaluation procedure of house and land tax, collection of house and land tax, tax base, structure of tax rate, revenue potentiality, historical aspect and property tax is different nations along with international aspect.

In this report he found that the revenue from property tax had not been mobilized that much, it had low revenue productivity and contribution from this tax to total revenue was insignificant. He found assessment ratio is very poor. And at last he forwarded some suggestions for the improvement in the property tax system. He also suggested for the more elastic property tax.

Ghimire (2006), had done research entitling “*Study for the Measures of Tax Compliance, Habits and Leakage Control*”. This report had dwelt upon the existing legal provisions to check tax leakages and its implementation status. A critical appraisal of tax related earlier legal instrument has also been carried out. The importance of tax education, accounting knowledge, motivation for revenue staff and taxpayers are also reviewed.

This report identified some legal, institutional structure of tax administration, revenue policy and monitoring activities. Prevailing tax related laws have made various anti-leakage provisions to minimize the non-compliance and to maximize the tax collection. There were special provisions for anti-leakage activities in corruption control Act. But

these provisions were not properly handled and implemented.

2.6.2 Review of Related Books

Dhankal (2001), has presented extended enlarged and modified edition of his book named “*Income Tax and House and Compound: Law and Practice*”. In this book, he has described the provision made under income tax act the methods of income tax assessment have been described with numerical examples. His book is informative rather than analytical. His book is more helpful to know about general information and provisions made under income tax act 1974.

Mallik (2003), published a book named “*Nepal Ko Aadhunik Aaykar Pranali*”. This book is very much useful to anyone who is interested in the subject of taxation. In this book, Mallik has explained income tax act 2058 with examples wherever necessary. He has presented the complex act in simple manner so that it will be easy to understand the act. He has shared his expertise in his book. His book is descriptive and analytical. All provisions, in the act have been clarified in simple language. In some cases, he has also compared the provisions of the old and new act.

Kandel (2006), wrote two books on taxation one book entitled “*Tax Laws and Planning*” and another “*Nepal ko Bartaman Kar Bywastha*”. For BBS 3rd year, he has presented practical as well as a theoretical aspect on taxation in these books.

K.C. (2006), wrote a book “*Tax Laws and Tax Planning: Theory and Practice*”. This book has shown the historical background of taxation in Nepal and other country.

2.6.3 Review of Related Thesis

Lamsal (2007), in his thesis “*Contribution of House and Land Tax (Property Tax) On Total Revenue of Kathmandu Metropolitan City and Lalitpur Sub-Metropolitan City.*” has mentioned about the role of property tax revenue structure, contribution, trend and

composition of house and land tax of KMC and LSMC.

The major findings of this thesis were stated as under:

Kathmandu is the capital city of Nepal. All over Nepal there are 58 municipality among them Kathmandu is metropolitan city; Kathmandu Metropolitan City has 35 wards. The highest contribution of property tax revenue is 21.77 percent in FY 061/062 and lowest contribution in FY 057/058. The trend is estimated slowly growing.

Composition of house and land tax percentages sharing of collection of property tax is 9.66 and 10.94 in FY 061/062 and FY 062/063 respectively. Similarly the lowest percentage of property tax collection is 0.06 percent in ward no. 27 and 0.05 percent in ward no. 8 in FY 061/062 and 062/063 respectively. Lalitpur sub-Metropolitan City has 22 wards. It's revenue collection from only municipality. The highest contribution of property tax revenue is 15.43 percent in fiscal year 058/059 and lowest contribution is 0.11 percent in fiscal year 055/056.

Shrestha (2007), in her thesis "*A study on House and Land (Property) Tax in Lalitpur Sub-Metropolitan City*". had explained that the property tax was a suitable source for the collection of public revenue and mobilizing internal resources. The specific objective of property tax was to increase the public revenue. Healthy administration, awareness of tax payers and fair investigation etc. were most to control tax evasion. She explained that the inefficient tax administration, lack of consciousness of tax payers, increasing habit of tax evasion etc. were the major problem of the property tax system in Nepal. She also added that the House and Land tax should be applied to reduce the gap between rich and poor people.

The major findings of this thesis were summarized as under:

All over Nepal there are 58 municipalities and among them Lalitpur is a sub-metropolitan

city. Lalitpur sub-metropolitan city has 22 wards. The total population of Lalitpur sub-metropolitan city was 704095. Total tax income was rupees 118827083. This consists 15.43 percent were from property tax and 84.57 percent from other taxes of Lalitpur sub-metropolitan city in fiscal year 2058/059. The highest contribution of property tax revenue was 15.43 percent in fiscal year 2058/059 and lowest contribution in fiscal year 2055/056. The collection efficiency of LMC was not able to mobilize its resources properly for the welfare of local people. From empirical investigation she found that the most of the respondents commented on the lack of regular information, taxpaying habit of people was becoming poor. The effective media could be used to increase the revenue from property tax. The effective fine and penalties system could also help to increase the tax paying habit of people. Different responders had focused on the clear Act, rules and regulations could be most important instrument for effectiveness of property tax in Nepal. About cent percent respondents strongly commented to the poor administration, weak awareness of tax payers, unfair investigations etc. were the main reason behind the tax evasion. They also stated that in the absence of proper record keeping system of tax the Government cannot look and determine about the status of revenue, so it was necessary attention should be focused on proper accounting system (i.e. computerized billing system)

Thapa (2007), in his thesis "*An Analytical Study on House and Land (property) tax in Kathmandu Metropolitan City*". had mentioned about importance of property tax in Nepal. He justified the contribution of enterprise to the municipality. The major problems existing in Nepalese system identified by him are poor revenue collection efficiency, lack of appropriate legal action against defaulters, ineffective collection procedure etc. He suggested some improvements regarding municipal tax for the collection of tax in Nepal. He summarized that an increasingly large share of the population and economic activity of developing countries now occurs in cities. Urban economies now account for the majority of GDP in most developing countries. The continued productivity of urban

economies depended upon the adequate provision of urban infrastructure and social services. Financial reforms of municipal government were therefore high on the agenda not merely as a means of increasing local revenues.

The major findings of this thesis were summarized is as under:

The KMC had been collecting property tax under LSG act 2055 and rules 2056 from fiscal year 2057/058. The highest percentage of property tax revenue of KTM municipality was 21.77 percent in fiscal year 2061/062 and lowest contribution in fiscal year 2057/058. The trend was estimated slowly growing. Composition of house and land tax percentages was 9.66 and 10.94 in fiscal year 2061/062 and lowest percentage of property tax collection was 0.06 percent in ward no.27 and 0.05 percent in ward no.8 in fiscal year 2061/062 and 2062/063 respectively. It collected 70.12 percent of total tax from property tax source and 29.88 percent was from other sources of tax in fiscal year 2061/062. The valuation rate of house was same in irrespective of location of house like commercial, industrial or residential. Most of the taxpayers were not aware of property tax and KMC did not apply any informative program for tax consciousness which resulted in less collection. Budgeted figures of house and land tax projection were unrealistic and forecasted without consulting field officers and proper field visit. From the empirical investigation he found the majority of respondents stated that the house and land (Property) tax contributed significantly to the development of municipalities. Being lacks of regular information of property tax paying habit of people were poor. KMC should give advertisement of paying house and land tax to the taxpayers in appropriate way in media. Most of the respondents stated that KMC should apply motivational factors like discount, prizes, fine and penalties to promote taxpaying. It found out that KMC should approve the appropriate computerized bill system and appropriate network base tax management software. Cent percent respondents accepted that the house and land tax is a suitable means of rising domestic resources.

Dahal (2008), in his thesis *“House and Land Tax of Dharan Municipality (Specific reference to integrated property tax in Dharan Municipality)”* has stated about this topic as, direct tax has strategic importance and best sources of tax revenue, the suitability of house and land tax could not be ignored in the course of raising domestic resources. Notifying the major problem, he added that the problem of tax evasion was inefficient tax administration; there were no certain rules to certify valuation of gold, silver, equipment and goods. He suggested that, house and land tax should be applied to reduce the gap between rich and poor people and for the improvement of tax administration, tax education to tax payers and decentralization of authority and simplification of tax laws and policies were very necessary. He focused that the tax payers are not ready to pay the tax without compulsion but collection group were not being mobilized effectively. He had also described that in Nepal two types of property tax were imagined under LSG Act, 2055.

The first one called house and land (compound) tax where as the second one named as unified (integrated) property tax. He had not particularly summarized about the findings of his study area of Dharan Municipality but focused on the findings of his empirical investigation as stating that most of the respondents had agreed as it was cent percent true that house and land tax was the suitable means for raising domestic resources. The main problems of tax evasion were delay of administration in assessment and collection, wide spread tax evasion and tax avoidance and poor taxpayers’ compliance due to non-tax education. LSG Act, 1999 had made the provision of collecting integrated property tax to municipalities. It was accepted as a good measure for collecting revenue. It encouraged tax payers in the payment of tax by helping them to know their own property and it also reduced additional impact. Most of the respondents had positive attitude about the rate of integrated property tax and accepted the valuation of house and rate of depreciation. They had also focused that, too much delay in making assessment and administrative harassment were the main complications in paying house and land tax. So, the

Government should improve it. Some respondents had suggested for improvement in collecting property tax as: simplification of LSG Act, billing system, adopt public private partnership sector for collection, the tax collecting rate should be fixed, no discretionary, transparency must be essential and build the public awareness, corruption must be avoided, the evaluation must be fair and practical. Analysis of trend value of urban house and land tax revenue shows positive trend.

Rajbanshi (2008), in his thesis “*A Study on House and Land Tax (with reference to Madhyapur Thimi Municipality)*” has mentioned about the Property tax as a suitable source for the collection of public revenue and mobilizing internal resources. He suggested that, by giving the information about property tax by effective media large volume of revenue could be collected. Effective fine and penalties system could help to increase the tax paying habit of people. He highlighted that the House and land tax should be applied to reduce the gap between rich and poor people. He added that Door to door visit programme should be managed to make aware and collect property tax in the municipality. Clear Act, rules and regulation could be the most important for effectiveness of property tax in Nepal.

The major findings of this thesis were stated as under:

The contribution of property tax was very low in comparison to other sources of tax in MTM. However, the presented data showed that the percentage of property tax was increasing in the ending fiscal years of the study period. So, it can be said that the percentage contribution of property tax would be grown up in the future. The collected data showed the contribution of property tax would be grown up in the future. The collected data showed the contribution of property tax increased in fiscal year 2060/061 and 2061/062 but decreased in fiscal year 2062/063 and 2063/064. Most of the people of Madhyapur Thimi was not educated and did not have the understanding about the house and land tax. So, MTM could provide the information to the local people regarding house

and land tax. MTM had not able to motivate taxpayers in the course of tax collection. MTM was also not focused on giving information about the current provision of house and land tax to tax collector and taxpayers. He found that MTM was not able to collect house and land tax arrears because of its inefficient tax collection procedure and management. Local people were not satisfied with the administration of MTM. He found that being lack of regular information, taxpaying habit of people was poor. Tax education is necessary to promote the voluntary compliance by taxpayers and to increase the tax consciousness. He found that healthy administration, awareness of taxpayers and fair investigation etc. were most to control tax evasion. Sometimes effective scheme which were launched by Government had able to encourage the taxpayers for paying tax.

Humagain (2009), in her thesis “*House and Land (property) Tax In Kathmandu and Metropolitan City*” has mentioned about the study has focused the role of property tax revenue structure, contribution, trend and composition of house and land tax of KMC. Kathmandu is the capital city of Nepal. All over Nepal there are 58 municipality among them Kathmandu is metropolitan city; Kathmandu Metropolitan City has 35 wards. The highest contribution of property tax revenue is 21.77 percent in FY 062/63 and lowest contribution in FY 060/61. The trend is estimated slowly growing.

The major findings of this thesis were stated as under:

Kathmandu Metropolitan City collect property tax LSG Act 2055 and rules 2056 from Income Year 057/058. 70.12% of total tax is collected from property tax source and 29.88% is from other taxes of Kathmandu Metropolitan City in fiscal year 064/65. The highest contribution of property tax is 21.77% in fiscal year 062/063 from starting LSG Act to till now. Analysis of trend value of house and land (property) tax show actual house and land tax is maximum in F/Y 064/65 and low in 059/60. The majority of respondent stated that the house and land (property) contributes significantly to the development of municipalities. It is cent percent true that the houses and land (property)

tax is a suitable means of raising domestic resources. Tax education is necessary to make tax payer consciousness about house and land tax which lead them to understand the procedure of tax assessments. Rebate for tax payer KMC should be approved once again to increase the tax pay habits of people. Most of respondents state that KMC should apply motivational factor like discounts, prizes, fine and penalties to promote tax paying. For increasing the taxpaying caliber KMC should and land tax to the taxpayers in appropriate way in media. The method of assessment and valuation of house and land has many loopholes and such loopholes can be cope with making simplification of law, making more investigation and reconciliation of bill and document of tax payers and better information system between tax payers and tax officers.

Byanju (2009), in his thesis “*A Study on House and Land Tax in Bhaktapur Municipality*” has mentioned the main points which were taken out or perceive by the researcher on his/her study. Like this when, this study was conducted, some importance points were also found out which were pointed as under:

The major findings of this thesis were stated as under:

Revenue collection was fluctuated in every fiscal years and in F/Y 2058/059 and 2059/060, the tax administration and local people (taxpayers) weren't conscious and aware about house and land tax to Bhaktapur Municipality. Bhaktapur is the smallest town even though its revenue collection from other sources like business tax, service tax, rental tax, fine and penalties, internal grant, external aid and other tax sources were greater than revenue from house and land tax. Revenue from house and land tax was not satisfactory to develop the municipality and daily administrative work due to low collection in amount and in whole percentage will comparison to other revenue sources. So it is difficult to present in simple bar diagram. Budgeted and Actual collection was not matching so everyone can easily conclude that either tax administration or tax payers were not aware and conscious about house and land tax. This forecast also not help to

develop the city. The trend must be in increasing order due to increase in valuation of house and land in the market or government rate but the secondary data showed likely to be constant. House and Land Tax has been considered as a suitable resources for the collection of public revenue for mobilization of available resources of the municipality. The taxpayers aren't interested to pay house and land tax due to lack of regular sources of information. The effective information source to generate maximum revenue from house and land tax media (TV, Radio, Newspaper). Most of the tax payers insisted for non-paying house and land tax in time due to lack of awareness about it. Tax must educate the people about tax which promotes the voluntary compliance by taxpayers and to increase tax consciousness. Most of the payers have confusion about the venue whether it is municipality administration or Ward Committee Office. The tax administration is not able to satisfy the tax payers so it also another reasons for low collection of house and land tax. Tax payers are not conscious about the house and land tax so when they are crushed or compelled only then they had paid. Hence motivation and encouragement are needed. According to the response or answer given by the taxpayers, they had paid house and land tax to capture the physical assets house and land. Healthy administration, awareness of taxpayers and fair investigation are needed to implement the policy fairly but most of the taxpayers don't know about the necessity of house and land tax to the municipality.

2.7 Research Gap

I found, few research reports related to property tax. Which provided overall scenario of Nepalese property tax? These reports did not include the deep and detail study of property tax for particular area. Most of the research reports were outdated because they just covered the data before of LSG Act 2055. I found that the government is also not able to conduct the research work on property tax as per its increasing necessity and horizon. They are not able to provide the adequate data about this topic in reliable way. I found some of the thesis on this topic done by the students of MBS. Most of them chosen

the valley for their study area. So they are limited by area and not able to cover the concept of people who are staying out of valley. I did not find any thesis on this topic which covers the data of the municipalities situated at Eastern part of Nepal. All researchers expressed the weak points for the low collection of tax from property but not able to highlight the root cause behind that which gives the birth to these weak points.

So, above reasons encourages me to do the research on this topic. Thinking the scarcity of research on property tax at the area of Eastern region, first time, I have tried to write the thesis on this topic for the study area of Itahari Municipality which is situated at Sunsari district of Koshi Zone. For the detail study and observing the effectiveness of LSG act 2055, I have tried to cover time before and after of LSG Act 2055. This covers the period of thirteen years data starting form F/Y 2053/054 to F/Y 2065/066. I think this study would be helpful to generalize the findings of the study.

CHAPTER - III

RESEARCH METHODOLOGY

Tax plays a significant role for the income generation of the nation. The main objectives of this study are to observe the real situation and role played by the property tax in Nepal. To achieve the objectives of this study, a research methodology has been designed. That research methodology has contents research design, population and sample, nature and sources of data, procedures of data collection, processing and analysis.

Primary as well as secondary data have been used to fulfill the objective of the study. Opinion survey technique has been adopted to collect the primary data about the different aspect of urban house and land tax. While conducting opinion survey structured questionnaire were distributed to different groups who were related to house and land tax. Secondary data are collected from the publication of different offices or organization. The collected data are tabulated into the separate format and table. Some statistical tools such as simple average and percentage are made wherever necessary.

3.1 Research Design

This study follows the descriptive and analytical research design. Most of the data and information of the study have been concerned with past phenomena of the performance. So, it can be regarded as historical, descriptive and analytical research design. To achieve the stated objectives of this study, the study of the property tax Act, self governance Act and other related Acts and regulations have been focused for making the study descriptive. For analytical research, an opinion of the various 40 respondents associated with property tax, i.e., tax administrators, tax experts and tax payers have been collected through structured questionnaire with reference to property tax system of Nepal. The questionnaire includes the problems of tax administration, weaknesses associated with the current house and land tax, methods of increasing taxpaying habit of the Nepalese

people, tax exempted property, controlling tax evasion etc. Similarly, various publication of house and land tax of different organizations have been used for this study. Thus, the research methodology has been followed in this study can be termed as analytical as well as descriptive research design.

3.2 Population and Sample

There are 58 municipalities in Nepal. Among them Itahari is the Municipality which is located in Eastern part of Nepal at Sunsari District. All 58 municipalities are the population of the research and among them Itahari Municipality has been taken as sample. Population of this study is presented in table 3.1.

Table 3.1**Detail of Municipalities of Nepal**

S. No.	Development Regions	Zones	Municipalities	Total
01	Eastern	Mechi Koshi Sagarmatha	Illam, Bhadrapur, Itahari, Biratnagar, Mechinagar, Dharan, Inaruwa, Itahari, Dhankuta, Khadbari, Trijuga, Rajbiraj, Lahan, Siraha	14
02	Central	Bagmati Narayani Janakpur	Janakpur, Jaleswor, Malanguwa, Kamalamai, Bhimeswor, Dhulikhel, Panauti, Banepa, Lalitpur, Bhaktapur, MadhyapurThimi, Kathmandu Metropolitan City, Kritipur, Bidur, Hetauda, Gaur, Kalaiya, Birgunj, Bharatpur, Ratnanagar	20
03	Western	Gandaki Dhaulagiri Lumbini	Prithivinarayan, Vyas, Putalibazar, Waling, Pokhara, Lekhnath, Baglung, Tansen, Ramgram, Siddharthanagar, Butwal, Kapilvastu	12
04	Mid-western	Karnali Bheri, Rapti	Tribhuwannagar, Tulsipur, Nepalgunj, Gulariya, Birendranagar, Narayan	6
05	Far-western	Seti Mahakali	Dipayal, Dhangadhi, Tikapur, Mahendranagar, Amargadhi, Dasrathchand	6
			Total	58

Likewise Itahari collects revenue from different sources among them the major source is tax. The total tax phenomena are population of the study among which house and land (property) tax is considered as sample. The source of revenue from tax of Itahari is shown in following table 3.2.

Table 3.2

The Sources of Revenue of Municipality

Resources	Particulars
Tax) House and land tax) Land revenue tax) Integrated property tax) Vehicle tax

3.3 Nature and Sources of Data

To achieve the real and factual result, both primary as well as secondary data have been collected but most of the data and information related to this study was based on secondary sources. Which are collectors from published as well as unpublished reports. Circular and records of property tax.

3.3.1 Primary Sources of Data

The primary data have been collected from the responses of persons relating to property tax representing from the various sector of Itahari Municipality. For this purpose, structured questionnaire have been distributed to tax payers, officials of Itahari Municipality who were working at tax department and tax experts along with the field visit. The questionnaire had included the question relation to specific objectives of property tax in Nepal, major problems of property tax system, remedy to minimize tax evasion existed in Itahari tax administration, causes of ineffectiveness of the tax administration, the most important factor for effectiveness of property tax system including necessary suggestions for achieving effectiveness of property tax in Itahari.

3.3.2 Secondary Sources of Data

The secondary sources of data have been collected from the information received from books, journals, newspapers, reports, dissertations etc. The major sources of secondary

data are as follows:

-) Thesis related to tax, available books.
-) National newspaper, journals, souvenirs and news magazines, municipalities, media, internet etc.
-) Economic survey of various years, Ministry of Finance, The Nepal Government.
-) Reports and records of Inland Revenue Department
-) Research studies by center for Economic Development and Administration (CEDA) concerning the house and land tax.

3.4 Data Collection Procedure

A total 50 sets of questionnaire have been developed and distributed to the selected respondents. Distributions have been done personally through field visit to get accurate and actual information in time. The questionnaires have administered in personal meeting with the respondent and additional information has been collected from interview with the respondent.

Tax experts, tax administrator, taxpayers and other related parties to tax field are the total population of the research. Persons included in the sample are carefully selected by consultation with the tax experts, professors and lecturers of Tribhuvan University and judgment of the researcher. The respondents have been divided into three groups. Table 3.3 shows the group of respondents and size of sample.

Table 3.3

Group of Respondents and size of Samples for each Group

S. No.	Group of Respondents	Sample Size	Response
01	Tax Experts	15	10
02	Tax administrator	15	10
03	Tax payers	20	20
	Total	50	40

15 tax experts are selected in which only 10 responded. There are numerous tax administrators among them 15 tax administrators are selected in which only 10 responded. There are indefinite numbers of tax payers, among them 20 taxpayers are selected and all of them responded.

3.5 Tools and Techniques of Analysis

To make easier, the collected data from primary and secondary sources have first tabled into various tables according to the subject in order. For the purpose of analysis, few statistical tools have been used

- a. Simple percentage
- b. Simple average
- c. Graphs, charts and diagrams
- d. Other statistical tools
 -) Parabolic Trend analysis
 -) Test of Hypothesis

) Parabolic Trend Analysis

One of the main objectives of the analysis of time series is to forecast future with the help of past and present information.

) Test of Hypothesis

Hypothesis is a statement about the relationship between two or more variable, which needs to be investigated for its truth. The thesis paper, hence, is an investigation of a hypothesis. If the relationship between two variable acts as hypothesis predicts, then the hypothesis is supported and new theory has been suggested.

Hypothesis generation and testing require an understanding of the deductive and

inductive reasoning. Deduction is the process of arriving at conclusion by interpreting the meaning of result of the data analysis. In this form of reasoning, one goes from general knowledge to specific knowledge.

Test of Significance for Difference between Two Independent Means

In order to test whether two independent samples have been drawn from two normal populations having the same means, the population variances being equal, t-test for difference of means is used. The steps used in testing the significance of difference between two means for small sample ($n < 30$) are as follows.

Step: 1

Step up the Null Hypothesis and Alternative Hypothesis as follows

H_0 : There is no significant difference between sample mean of house and land (property) tax revenue and population mean of total tax revenue.

H_1 : There is significant difference between the sample statistic mean of house and land (property) tax revenue and population mean of total tax revenue.

Step: 2

Choice of Appropriate Statistical Tools

In statistical testing of hypothesis lots of statistical tests have been developed. However, for rational decision about the hypothesis appropriate test statistics should be used. When different alternative statistical test are available for given hypothesis problem, it is necessary to adopt some rational reason for choosing the best statistical tests. Some important points considerable in the selection of appropriate test statistic are as follows:

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

Data presentation and Analysis of House and Land (property) tax of Itahari Municipality have been done in this chapter. This is the major part of the study. It aims to make clear understanding contribution of property tax in Itahari Municipality which is presented in this chapter. In this chapter different types of data have been presented logically and their explanation and interpretation is made.

4.1 Tax Structure of Nepal

There venue of the government refers to all sources like taxes, fees, fines/penalties; donations etc. are called public revenue. Public revenue may be divided into two main headings: (i) Tax revenue (ii) Non tax revenue

4.1.1 Contribution of Direct Tax of Nepal

In the general sense, a direct tax is one paid directly to the government by the persons (juristic or natural) on whom it is imposed (often accompanied by a tax return filed by the tax payers). Example includes some income taxes, some corporate taxes, such as estate (inheritance) tax and gift tax. In this sense direct tax is contrasted with an indirect tax or “collected” tax (Such as value added tax (VAT); a “collected” is one which is collected by intermediaries who turn over the proceeds to the government and file the related tax return. Some commentators have argued that “ a direct tax is one that cannot be shifted by the taxpayers to someone else, where as an indirect tax can be.”

Contribution of Direct Tax of Nepal is as follows:

Table 4.1
Contribution of Direct Tax of Nepal

(Rs. In Millions)

Fiscal Year	Direct Tax (DT)	DT as % of Total Tax Revenue
1989/90	1425.7	18.70
1990/91	1377.2	16.73
1991/92	1627.4	16.17
1992/93	2101.6	17.41
1993/94	2945.9	18.57
1994/95	3947.5	19.57
1995/96	4564.8	21.48
1996/97	5274.2	21.86
1997/98	6177.7	11.68
1998/99	7545.6	26.39
1999/00	8974.5	27
2000/01	11152.4	26.14
2001/02	10477.5	26.94
2002/03	10105.8	23.72
2003/04	11912.6	24.72
2004/05	13071.8	24.16
2005/06	13968.1	24.32
2006/07	9403.3	13.20
2007/08	10312.4	17.94
2008/09	9831.9	16.32

Source: Appendix I

Table 4.1 shows the Direct tax as well there growing tendency. Direct tax as a percentage of total tax showed a fluctuating trend. The contribution as a percentage of total tax is highest at 27 percent in 1999/2000 and lowest at 11.68 in 1997/1998. The percentage of direct tax on total tax revenue is fluctuating each and every year. The reason for fluctuating the direct tax may be,

-) Tax evasion by the taxpayers
-) Taxpaying record is not submitted
-) Corruption by the tax officers
-) Delay in tax collection
-) Poor tax policy

4.1.2 Contribution of Urban House and Land Tax to Total Revenue of Nepal

Nepal has late started the practice of urban house and land tax and the idea of introducing urban house and land tax in Nepal since fiscal year 2016/17. It has levied separately in 2019 B.S. and revised the Act in 2020 B.S. Nowadays, house and land tax Act 2019, property tax Act 2047 and Local Self Governance Act 2055 are simultaneously enacted in this respect. The contribution of urban house and land tax on different heads are given in the table 4.2.

Table 4.2
Contribution of Urban House and Land Tax to Different Revenue Heads

(in millions)

Fiscal Year	Urban House & Land Tax	Urban House and Land as % of DT	Urban House and Land as % of Total Tax Revenue	Urban House and Land as % of Total Revenue	Urban House and Land as % of GDP
1989/90	19.1	1.33	0.26	0.20	0.019
1990/91	0.2	0.014	0.002	0.00186	0.00017
1991/92	22.3	1.39	0.22	0.162	0.015
1992/93	16.7	0.822	0.14	0.11	0.010
1993/94	8.4	0.284	0.054	0.04	0.0043
1994/95	34.2	0.888	0.17	0.14	0.016
1995/96	87.2	1.87	0.40	0.31	0.036
1996/97	95	1.77	0.9	0.31	0.35
1997/98	110.7	1.78	0.21	0.34	0.038
1998/99	123.3	1.62	0.42	0.33	0.051
1999/2000	118.5	1.32	0.36	0.27	0.032
2000/01	2.9	0.028	0.0075	0.0059	0.00071
2001/02	2.3	0.021	0.0058	0.00045	0.00078
2002/03	0.0	0	0	0	0
2003/04	0.3	0.0025	0.00062	0.00048	0.000063

Source: Appendix I

Urban house and land tax was decreased in 1990/91 as against in 1989/90, but in 1991/92 it was increased to 22.3 million. From 1999/2000 it is in decreasing trend, up to 2008/09. The share of urban house and land tax to total direct tax was 1.33 percent in 1989/90. There has been decreasing trend since 1995. The share of urban house and land tax to total tax revenue was 0.26 percent in 1989/90. This increased to 0.4 in 1995/96 after than it decreased up to 0.39 percent in 1996/97. After then it was in increasing and decreasing order. Similarly, the share of urban house and land tax on total revenue and GDP was also in increasing and decreasing order.

4.1.3 Valuation of House and Land Tax

Property tax Act 2047 is being replaced by urban house and compound tax Act 2052. After the introduction of Local Self Governance Act in 1999 property tax given to local bodies. Right now there are two variant of property taxes house and land tax and unified (integrated) property tax. Local bodies, VDCs and municipalities have the right to collect property tax where as the right collecting unified property tax is given to municipalities.

Table 4.3

A Landlord Can Hold the Maximum Limit of Land as Given Below

Region/Place/Part of the Country	Agriculture	House and Compound
Tarai including inner Tarai	10 Bighas	1 Bigha
In Kathmandu Valley	25 Ropanies	5 Ropanies
All hilly areas other than Kathmandu Valley	70 Ropanies	5 Ropanies

Source: Annual Report of Inland Revenue Department, 2008/09

Table 4.4

Legal Provision Regarding Computation of House and Land Tax

Value of House and Land	Rate (in %)	Amount (in Rs.)
First up toRs. 10 Lakh	Nil	Nil
Next Rs. 10 Lakh	Rs. 300 (Lump sum)	300
Next Rs. 30 Lakh	0.05%	1500
Next Rs. 50 Lakh	0.25%	12500
Next Rs. 1 Crore	0.5%	50000
Remaining	1.5%	

Source: Global Property Guide

In table 4.4, rate of tax in rupees and percentage and amount are shown in right side. Value of house and land is up to 10 lakhs, they should not have to pay tax. If one has value of house and land up to 20 lakhs, they must pay Rs.300. Similarly, one who has value of house and land next up to 1 crore after exemption of Rs.10 lakhs, they should have to pay Rs.50000.

Note: Valuation of Land (Compound)

-) Area of land in Bigha/Ropani/Kattha/Aana.
-) Government makes the valuation of land for the tax purpose, not the market price of the land.

Earlier, in Itahari Municipality, the Land Revenue office used to collect house and land taxes.

Table 4.5

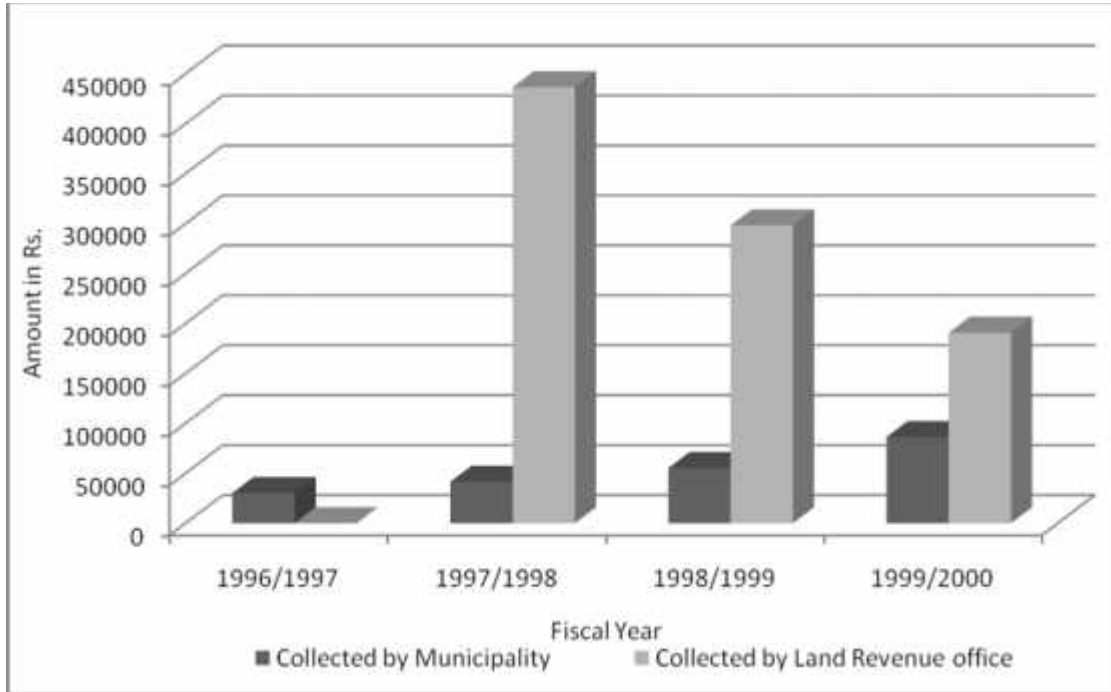
Collection of House and Land Tax of Itahari Municipality

Fiscal Year	Collected by Municipality (Rs.)	Collected by Land Revenue office (Rs.)
1996/97	30153	0
1997/98	41415	436540
1998/99	55217	298142
1999/2000	86139	190580

Source: Itahari Municipality, Revenue Department

Figure 4.1

Collection of House and Land Tax of Itahari Municipality



After the enactment of Local Self-Governance Act 2055, the local bodies are empowered to levy the property taxes. Act has empowered right to Itahari Municipality to collect revenue from integrated property tax. It is observed in table 4.6. The tax collection on house and land by Itahari Municipality has been increasing. On the other hand, the tax collection by Land Revenue Office is decreasing gradually.

Table 4.6

Revenue Collection from Integrated Property in Itahari Municipality

Fiscal Year	No. of Tax Payer	Integrated Property Tax
2000/01	5215	98608
2001/02	5264	147412
2002/03	5296	179111
2003/04	5332	208973
2004/05	5425	235415
2005/06	5528	260813
2006/07	5648	302545
2007/08	5810	394672
2008/09	6021	451465

Source: Itahari Municipality, Revenue Department

Figure 4.2

Revenue Collection from Integrated Property Tax in Itahari Municipality

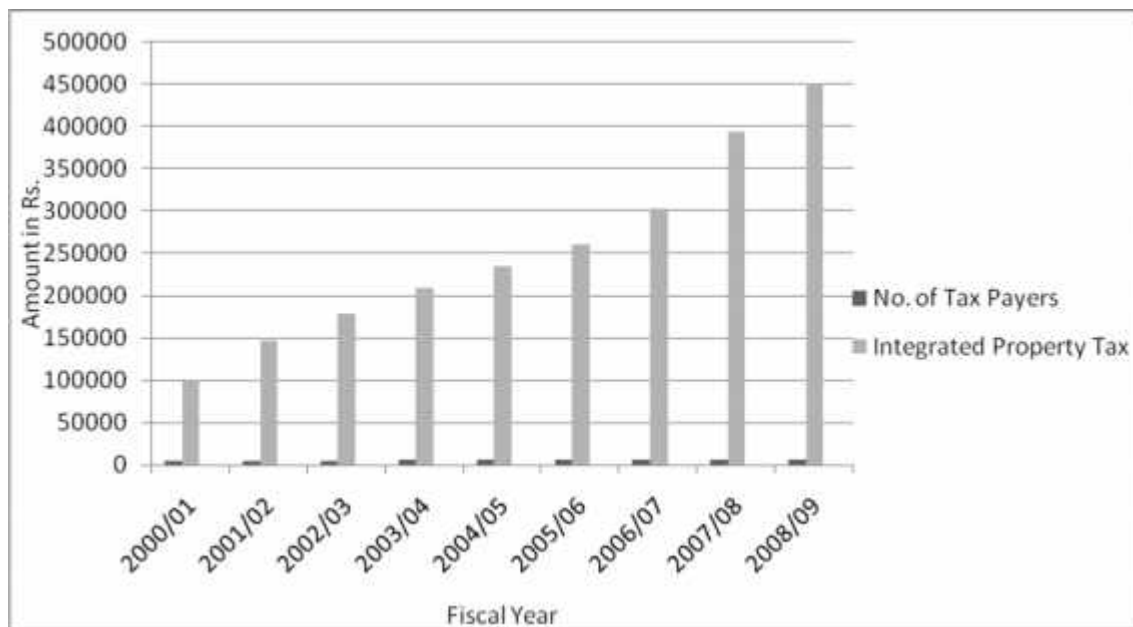


Table 4.6, showed that integrated property tax is more beneficial than house and land tax in Itahari Municipality because the revenue collection from integrated property tax is

more than house and land tax. Integrated property tax Act acted only from 2057 so, the data are only available from 2057 B.S. (2000 A.D).

4.2 Statistical Analysis

Under this topic, there are two tools for the interpretation of data. They are:

4.2.1 Parabolic (Second Degree) Trend Analysis

The Parabolic trend analysis is a reliable source for analyzing the future trend of the available data from which the trend is calculated through the information of past performance. The trend analysis helps to forecast future amount of house and land tax and integrated property tax of Itahari Municipality. Forecasted revenue suggests to the Government for future policy and revenue management practices. Under this study, it is shown that the revenue collection policy of Government is gradually increasing. The curves are upward and the trends analysis is shown by the table and graphs:

Table 4.7

Parabolic Trend Analysis for House and Land Tax of Itahari Municipality

Fiscal Year	House & Land Tax (Y)	X = 2 (Year - 2002)	XY	X ²	X ³	X ⁴	X ² Y
1996	30153	-12	-361836	144	-1728	20736	4342032
1997	41415	-10	-414150	100	-1000	10000	4141500
1998	55217	-8	-441736	64	-512	4096	3533888
1999	86139	-6	-516834	36	-216	1296	3101004
2000	98608	-4	-394432	16	-64	256	1577728
2001	147412	-2	-294824	4	-8	16	589648
2002	179111	0	0	0	0	0	0
2003	208973	2	417946	4	8	16	835892
2004	235415	4	941660	16	64	256	3766640
2005	260813	6	1564878	36	216	1296	9389268
2006	302545	8	2420360	64	512	4096	19362880
2007	394672	10	3946720	100	1000	10000	39467200
2008	451465	12	5417580	144	1728	20736	65399760
	Y =	X = 0	XY =	X ² =	X ³ =	X ⁴ =	X ² Y =

Total	2491938		12285332	728	0	72800	155507440
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Now, fitting the parabolic (second degree) trend,

Which equation is:-

$$Y = a+bx+cx^2 \dots\dots\dots (i)$$

For any given value of independent variable x the estimated value of y denotes by y_c given by above equation;

$$Y_c = a + bx + cx^2 \dots\dots\dots (ii)$$

Now, the value of a, b and c can be find by solving the following normal equations. The equations are constructed by multiplying to the equation (i) by , x, and x^2 for equation (iii), (iv) and (v) respectively

$$y = Na + b \sum x + c \sum x^2 \dots\dots\dots (iii)$$

$$xy = a \sum x + b \sum x^2 + c \sum x^3 \dots\dots\dots (iv)$$

$$x^2 y = a \sum x^2 + b \sum x^3 + c \sum x^4 \dots\dots\dots (v)$$

Where,

$$y = 2491938, \sum x = 0, \sum xy = 12285332, \sum X^2 = 728, \sum X^3 = 0,$$

$$\sum X^4 = 72800, \sum X^2Y = 155507440, N = 13 \text{ year}$$

Now, substituting the values

$$2491938 = 13a + 0 + 728c \dots\dots\dots (vi)$$

$$12285332 = 0 + 728b + 0 \dots\dots\dots (vii)$$

$$155507440 = 728a + 0 + 72800c \dots\dots\dots (viii)$$

Calculating value of a, b, c from the above equation then,

$$a = 163800$$

$$b = 16875$$

$$c = 498$$

Now, Forecasted of Total House and land tax of Itahari Municipality

The equation under parabolic trend analysis is:-

$$y_c = a + bx + cx^2$$

$$y = 163800 + 16875x + 498x^2$$

The above equation is used to forecast the value of total house and land tax of Itahari Municipality for the years 2010, 2011, 2012, 2013, 2014. Here the house and land tax for five years has been estimated below by using parabolic trend analysis. Before making calculation the value of x_2 , x_3 , x_4 , x_5 and x_6 are calculated as follows:

Where,

$$2010(x_2) = 14 \quad 2011(x_3) = 16 \quad 2012(x_4) = 18$$

$$2013(x_5) = 20 \quad 2014(x_6) = 22$$

Now, substituting the value of x on trend line then,

) The forecasted house and land tax for 2010 = Rs. 497658

) The forecasted house and land tax for 2011 = Rs. 561288

) The forecasted house and land tax for 2012 = Rs.628902

) The forecasted house and land tax for 2013 = Rs.700500

) The forecasted house and land tax for 2014 = Rs.776082

The estimated house and land tax for the year 2010, 2011, 2012, 2013, 2014 are Rs. 497658, Rs.561288, Rs. 628902, Rs. 700500, Rs. 776082Respectively. It shows that the total forecasted house and land tax will have been increasing every year on the basis of past data. The past value of house and land tax and future value of house and land tax can be fitted in diagram as presented in table 4.9:

Table 4.8

Past Trend line of House and Land Tax of Itahari Municipality

Year	House and Land Tax (Rs.)
1996	30153
1997	41415
1998	55217
1999	86139
2000	98608
2001	147412
2002	179111
2003	208973
2004	235415
2005	260813
2006	302545
2007	394672
2008	451465

Figure 4.3

Past Trend Line of House and Land Tax

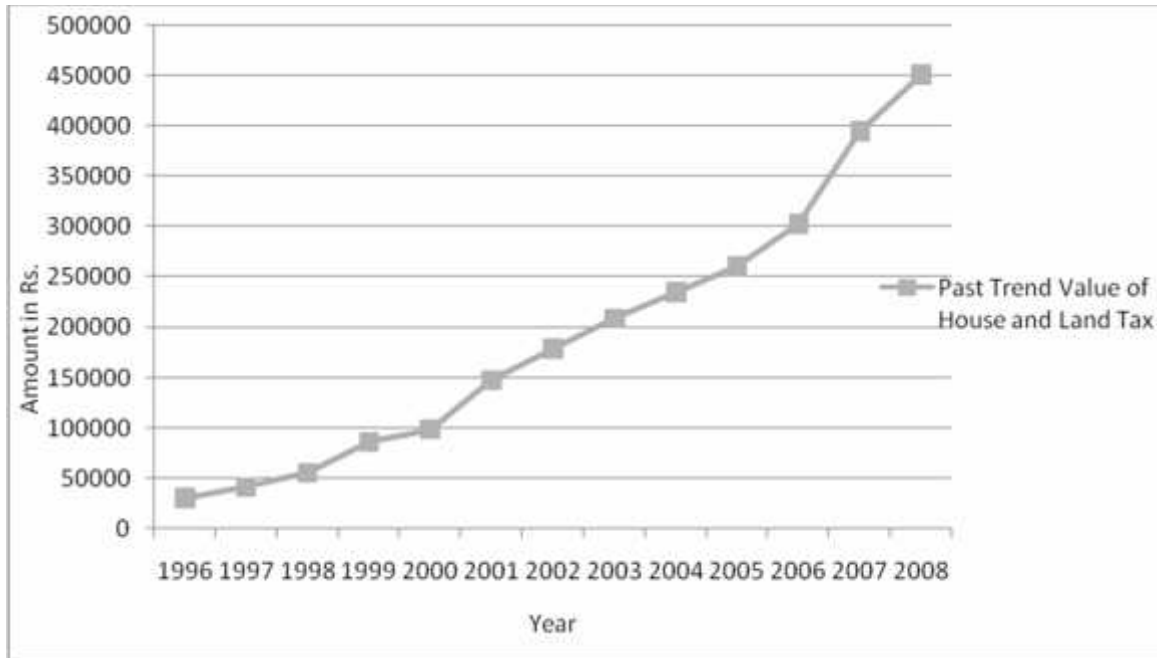


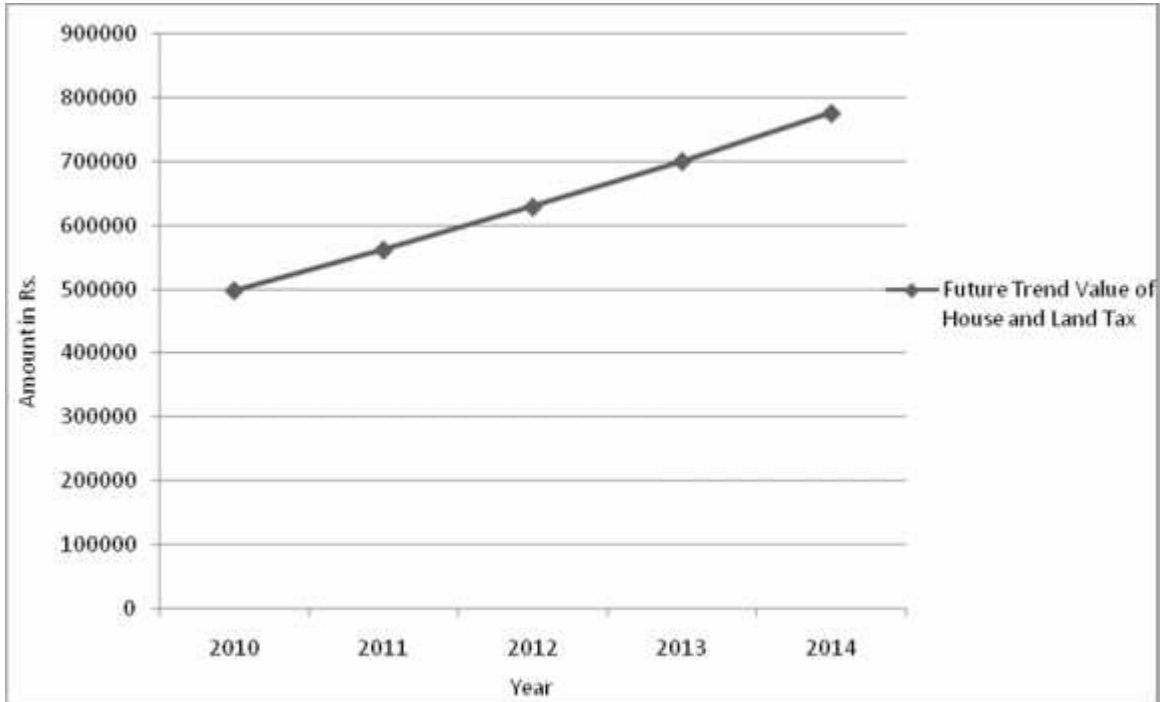
Table 4.9

Future Trend Line of house and Land Tax of Itahari Municipality

Year	House and Land Tax (Rs.)
2010	497658
2011	561288
2012	628902
2013	700500
2014	776082

Figure 4.4

Future Trend Line of House and Land Tax of Itahari Municipality



From the table 4.10, it is clear that urban house and land tax is positive trend, other things remaining the same the urban house and land tax in 2014 will be Rs.776082, which is positive.

4.2.2 Test of Hypothesis

Under this analysis the efforts has been made to test the significance level regarding the parameter of the populations on the basis of sample drawn from the population. The following steps have been followed for the test of hypothesis,

-) Formulating Hypothesis (Null Hypothesis and Alternative Hypothesis)
-) Computing the test statistic
-) Fixing the level of significance
-) Making Decision

In the following line some of the main hypotheses are tested empirically.

4.2.2.1 House and Land Tax and Revenue Collection from Integrated Property Tax is effective than Individual Tax Collection

Table 4.10
Calculation of \bar{x} , s_x^2 , \bar{y} , s_y^2 and s^2 Let, $x = x - \bar{X}$ and $y = y - \bar{Y}$

Year	House and Land Tax (in thousands)			Year	Revenue Collection from Integrated Property Tax (in thousands)		
	X	$x_1 = x - \bar{X}$	x_1^2		y	$y_1 = y - \bar{Y}$	y_1^2
1996	30.153	- 23.078	532.594084	2003	208.973	-42.9635	1845.86233225
1997	41.415	- 11.816	139.617856	2004	235.415	-16.5215	272.95996225
1998	55.217	1.986	3.944196	2005	260.813	8.8765	78.79225225
1999	86.139	32.908	1082.936464	2006	302.545	50.6085	2561.22027225
n = 4	$\bar{x} = 212.924$	$\bar{x}_1 = 0$	$\bar{x}_1^2 = 1759.0926$	n = 4	$\bar{y} = 1007.746$	$\bar{y}_1 = 0$	$\bar{y}_1^2 = 4758.834819$

Where,

$$\bar{X} = \frac{\sum x}{n}, = \frac{212.924}{4} = 53.231$$

$$\bar{Y} = \frac{\sum y}{n}, = \frac{1007.746}{4} = 251.9365$$

An unbiased estimate of the population variance

$$\begin{aligned} s^2 &= 1/n_1+n_2-2 [\bar{x}_1^2 - (\bar{x}_1)^2 /n_1 + \bar{y}_1^2 - (\bar{y}_1)^2/n_2] \\ &= 1/4+4-2 [1759.0926 - (0)^2/4 + 4758.834819 - (0)^2/4] \\ &= 1/6 \times 6517.927419 = 1086.3212 \\ S^2 &= 1086.3212 \end{aligned}$$

Again,

Null Hypothesis (H_0): $\mu_{x_1} = \mu_{y_1}$ i.e. there is no significance difference between revenue

collected from house and land tax separately and revenue collected from integrated property tax.

Alternative Hypothesis (H_1): $\mu_{x_1} \neq \mu_{y_1}$, (two tailed test) i.e. there is significant difference between house and land tax and integrated property tax. Under the test statistic is:

$$T = \frac{X - Y}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}} \text{ with } \dots\dots\dots \text{ d.f.} = n_1 + n_2 - 2$$

$$= \frac{53.231 - 251.9365}{\sqrt{1086.3212 \left(\frac{1}{4} + \frac{1}{4} \right)}}$$

$$= -198.7055/23.30, = -8.5260, \text{ i.e. } |t| = 8.5260,$$

58 Tabulated value of 't' at 5 percent level of $(n_1 + n_2 - 2)$ i.e. 6 d.f. is 2.447.

Decision: Since the calculated value of 't' is 8.5260 which is more than tabulated value of 't' i.e. 2.447 H_1 is accepted. In other words, there is significant difference between house and land tax and integrated property tax.

4.3 An Empirical Analysis of Primary Data

Empirical analysis assures or falsifies theories. If theory is assured, it is more reliable; if theory is falsified it should be discarded.

4.3.1 Introduction

An empirical investigation has been conducted in order to find out various aspects of house and land tax from the experience of real life situation. The major tool used for this purpose is structured questionnaire, which was distributed to 50 persons representing tax experts, tax officers and taxpayers. The format of questionnaire and the list of respondents are in appendix II and III.

The questionnaire were asked from ranking of choices according to number of alternatives where first choice most preference and last choice was least preference. For

analysis purpose, choices were assigned weight according to the number of alternatives. There are five alternatives in each question, when the first preferred choice got one point, second got two points and vice versa. The total points available to each questionnaire were converted into mean and have explained on the basis of it.

Table.4.11
Groups of Respondents

S. No.	Groups of Respondents	Sample Size	Response
1	Tax experts	15	10
2	Tax officers	15	10
3	Tax payers	20	20
	Total	50	40

Source: Opinion Survey, 2010

In order to know the respondents opinion on the suitability of House and Land Tax in raising domestic resources, a statement was given as, “House and Land is a suitable Means of Raising Domestic Resources.”

The responses received from the respondents are tabulated in table 4.12.

Table 4.12

House and Land Tax as a Suitable Means for Raising Domestic Resources

Response	No. of Respondent (N)	Weight for Response (W)	Total Weight X = (N×W)
Strongly Agree	27	1	27
Agree	13	2	26
Undecided	1	3	3
Disagree	0	4	0
Strongly Disagree	0	5	0
Total	N = 40		X = 56

$$\text{Mean } (\bar{x}) = \frac{\sum X}{N} = \frac{56}{40} = 1.40$$

Here, mean value is 1.40 which comes between the strongly agree and agree band. So, researcher can conclude that house and land tax is considered as a suitable means for raising domestic resources.

To know the respondents view about the main cause behind low collection of tax, a statement was given as, “Wide spread evasion as the major constraint for the tax collection through house and land tax in Itahari Municipality.” The response were presented in table 4.13.

Table 4.13

Wide spread evasion as the major constraint for the Tax Collection through House and Land Tax in Itahari Municipality

Response	No. of Respondent (N)	Weight for Response (W)	Total Weight X = (N×W)
Strongly Agree	21	1	21
Agree	18	2	36
Undecided	0	3	0
Disagree	1	4	4
Strongly Disagree	0	5	0
Total	N = 40		X = 61

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{61}{40} = 1.525$$

Here, mean value is 1.525 which comes between strongly agree and agree band. So, researcher can conclude that wide spread evasion is main constraint for the tax collection through house and land tax.

In order to know the respondents view about the current exemption limit, a statement was given as, “The present rate of house and land tax and exemption limit is suitable.” The responses were.

Table 4.14
Exemption Limit

Response	No. of Respondent (N)	Weight for Response (W)	Total Weight X = (N×W)
Strongly Agree	6	1	4
Agree	5	2	6
Undecided	2	3	21
Disagree	19	4	80
Strongly Disagree	8	5	30
Total	N = 40		X = 141

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{141}{40} = 3.525$$

Here, the mean value is 3.525 which lies between undecided and disagree band. So, researcher can conclude that the present rate of house and land tax and exemption limit is not suitable and it suggests that concern authority should rethink about the rate and exemption limit.

To know the respondents view about the valuation of land, house and other properties, a statement was given as, “Valuation system of land, house and other properties are best enough.” The responses were presented in the table 4.15.

Table 4.15

Valuation of Land, House and Property are Best Enough

Response	No. of Respondent (N)	Weight for Response (W)	Total Weight X = (N×W)
Strongly Agree	0	1	0
Agree	4	2	8
Undecided	12	3	36
Disagree	15	4	60
Strongly Disagree	9	5	45
Total	N = 40		X = 149

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{149}{40} = 3.72$$

Here, mean value is 3.72 which comes between undecided and disagree band.

So, researcher can conclude that the valuation system of land house and other property are not appropriate and it suggests that the concern authority should rethink about the valuation system.

In order to know the respondents view of present rate of integrated property tax, a statement was given as, “Present rate of integrated property tax is suitable for Nepalese local government.” The responses received from the respondents are tabulated in table 4.16.

Table 4.16
Present Rate of Integrated Property Tax

Response	No. of Respondent (N)	Weight for Response (W)	Total Weight X = (N×W)
Strongly Agree	6	1	6
Agree	20	2	40
Undecided	10	3	30
Disagree	4	4	16
Strongly Disagree	0	5	0
Total	N = 40		X = 92

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{92}{40} = 2.3$$

Here, the mean value is 2.3 which comes agree and undecided band. So, researcher can conclude that the present rate of integrated property tax is suitable.

In order to know the opinion of respondents about the complications in paying house and land tax, a statement was given as, “There is complications in paying house and land tax in Itahari Municipality.” Their responses were as tabulated in table 4.17.

Table 4.17
Complications in paying House and Land Tax in Itahari Municipality

Response	No. of Respondent (N)	Weight for Response (W)	Total Weight X = (N×W)
Strongly Agree	11	1	11
Agree	26	2	52
Undecided	1	3	3
Disagree	2	4	8

Strongly Disagree	0	5	0
Total	N = 40		X = 74

$$\text{Mean } (\bar{x}) = \frac{\sum X}{N} = \frac{74}{40} = 1.85$$

Here, the mean value is 1.85 which comes between strongly agree and agree band. So, researcher can conclude that there is complications in paying house and land tax in Itahari Municipality. It suggests that it is better to simplify the complications imposed by the provision of rules.

To know whether the tax administration in Itahari Municipality is effective, a statement was given as, “Tax administration in Itahari Municipality is efficient.” The respondents response has been presented as in table 4.18.

Table 4.18

Efficiency of Tax Administration in Itahari Municipality

Response	No. of Respondent (N)	Weight for Response (W)	Total Weight X = (N×W)
Strongly Agree	2	1	2
Agree	4	2	8
Undecided	4	3	12
Disagree	21	4	84
Strongly Disagree	9	5	45
Total	N = 40		X = 151

$$\text{Mean } (\bar{x}) = \frac{\sum X}{N} = \frac{151}{40} = 3.775$$

Here, the mean value is 3.775 which comes between undecided and disagree band. So, researcher can conclude that the tax administration in Itahari Municipality is inefficient.

To know the opinion about the respondent for the ability of Itahari Municipality to incorporate new tax payers, a statement was given as, “ Itahari Municipality is failed to incorporate new tax payers.” The responses were presented in table 4.19.

Table 4.19

Itahari Municipality is Failed to Incorporate New Tax Payers

Response	No. of Respondent (N)	Weight for Response (W)	Total Weight X = (N×W)
Strongly Agree	16	1	16
Agree	19	2	38
Undecided	0	3	0
Disagree	5	4	20
Strongly Disagree	0	5	0
Total	N = 40		X = 74

$$\text{Mean } (\bar{x}) = \frac{\sum X}{N} = \frac{74}{40} = 1.85$$

Here, the mean value is 1.85 which comes between strongly agree and agree band. So, researcher can conclude that the Itahari Municipality is not able to incorporate new tax payers.

To know the opinion of Local Self-Governance Act 2055, the statement was given as, “The provision under local self-governance Act 2055 is good for collecting integrated property tax.” The responses were presented as in table 4.20:

Table 4.20

Sufficiency of Local Self-Governance Act

Response	No. of Respondent (N)	Weight for Response (W)	Total Weight X = (N×W)
Strongly Agree	20	1	20
Agree	14	2	28
Undecided	2	3	6
Disagree	2	4	8
Strongly Disagree	2	5	10
Total	N = 40		X = 72

$$\text{Mean } (\bar{x}) = \frac{\sum X}{N} = \frac{72}{40} = 1.8$$

Here, mean value is 1.8 which comes between strongly agree and agree band. So, researcher can conclude that the provision under Local Self-Governance Act, 2055 is good for collecting integrated property tax.

In order to know the awareness of taxpayers of Itahari Municipality the statement was given as, “The people of Itahari Municipality seems aware for paying house and land tax.” The response of the people was presented on table 4.21.

Table 4.21

Awareness of Taxpayers of Itahari Municipality

Response	No. of Respondent (N)	Weight for Response (W)	Total Weight X = (N×W)
Strongly Agree	2	1	2
Agree	4	2	8
Undecided	0	3	0
Disagree	23	4	92
Strongly Disagree	11	5	55
Total	N = 40		X = 157

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{157}{40} = 3.925$$

Here, the mean value is 3.925 which come between disagree and strongly disagree. So, researcher can conclude that the people of Itahari Municipality did not seem aware of paying house and land tax.

As we know the house and land (Property tax) should be able to reduce the gap between rich and poor people. To know the view about the people on this point, a statement was given as, “House and land tax is a tool to reduce the gap between rich and poor society.” The given table shows the response of the people on this statement.

Table 4.22
House and land tax is a tool to reduce the gap between
Rich and Poor People

Response	No. of Respondent (N)	Weight for Response (W)	Total Weight X = (N×W)
Strongly Agree	16	1	16
Agree	20	2	40
Undecided	1	3	3
Disagree	1	4	4
Strongly Disagree	2	5	10
Total	N = 40		X = 73

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{73}{40} = 1.825$$

Here, the mean value is 1.825 which comes between the strongly agree and agree band. So, researcher can conclude that the house and land tax is a tool to reduce the gap between rich and poor people.

To know the opinion about the assessment procedure of house and land tax, a statement

was given as, “To much delay in making assessment is the irritating part for the tax payers.” The opinion of the respondent’s was as presented in table 4.23.

Table 4.23

Delay in making assessment is the Irritating Part for Tax Payers

Response	No. of Respondent (N)	Weight for Response (W)	Total Weight X = (N×W)
Strongly Agree	12	1	12
Agree	25	2	50
Undecided	1	3	3
Disagree	2	4	8
Strongly Disagree	0	5	0
Total	N = 40		X = 73

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{73}{40} = 1.825$$

Here, the mean value is 1.825 which comes between strongly agree and agree band. So, researcher can conclude that delay in making assessment is the irritating part for tax payers.

To know the opinion of the respondent for the weakness of the law behind the low collection of tax, a statement was given as, “Defective provision of tax laws are the main causes behind the low tax collection.” The response for this statement were tabulated in table 4.24.

Table 4.24

**Defective provision of Tax Laws are the main cause behind the
Low Tax Collection**

Response	No. of Respondent (N)	Weight for Response (W)	Total Weight X = (N×W)
Strongly Agree	21	1	21
Agree	15	2	30
Undecided	2	3	6
Disagree	1	4	4
Strongly Disagree	1	5	5
Total	N = 40		X = 66

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{66}{40} = 1.65$$

Here, the mean value is 1.65 which comes between strongly agree and agree band. So, researcher can conclude that the defective laws are the main cause behind the low tax collection.

4.4 Major Finding of the Study

4.4.1 Findings of Secondary Data

-) Itahari Municipality collects property tax under LSG Act 2055 and rules 2056 from Income Year 2055/056 and Income year 2057/058.
-) Collection of house and land tax by Land Revenue is in decreasing trend in Itahari Municipality from fiscal year 1997/1998 to 1999/2000 as Rs 436540 to Rs 190580.
-) Collection of house and Land tax by Municipality is in increasing trend in Itahari Municipality from fiscal year 1996/1997 to 1999/2000 as Rs 30153 to Rs 86139
-) Increasing trend of house and land tax shows the effectiveness of launching of Local Self-Governance Act, 2055.
-) Collection of tax from integrated property tax is in increasing trend in Itahari

Municipality from fiscal year 2001/2002 to 2008/09 as Rs.98608 to Rs.451465.

- J The highest collection of integrated property tax of Itahari Municipality is in fiscal year 2008/09 with Rs.451465.
- J The lowest collection of integrated property tax of Itahari Municipality is in fiscal year 2001/02 with Rs.98608
- J The increasing ratio of integrated property tax of Itahari Municipality seems good but not the best.
- J It is observed that integrated property tax is more beneficial than house and land tax in Itahari Municipality because the revenue collection from integrated property tax is more than house and land tax.
- J The trend analysis of house and land tax of Itahari Municipality shows that the total forecasted house and land tax will have been increasing every year on the basis of past data.

4.4.2 Finding of Empirical Test

- J It is sent percent true that the House and Land tax is suitable means for raising domestic resources. As direct tax have strategic important and best source of tax revenue, the suitability of house and land tax cannot be ignored in course of raising domestic resources.
- J The root cause behind the low tax collection is the wide spread evasion of tax as mean value is 1.525
- J The present rate of house and land tax is not appropriate as mean value is 3.525.
- J Valuation system of land, house and other properties are not best enough as mean value is 3.72
- J Present rate of integrated property tax is suitable as mean value is 2.3
- J There are complications in paying house and land tax in Itahari Municipality as mean value is 1.85.
- J Tax administration in Itahari Municipality is not efficient because of delay in

assessment and collection as mean value is 3.775.

-) Itahari Municipality is failed to incorporate new tax payers as mean value is 1.85.
-) Local self-governance Act, 2055 has made the provision of collecting integrated property tax to municipalities. It is accepted as a good measure for collecting revenue. It encourages taxpayers in the payment of tax by helping them know their own property and also it reduces additional impact as mean value is 1.8.
-) The people of Itahari Municipality are not aware to pay tax as mean value is 3.925.
-) House and land tax should be applied to reduce the gap between rich and poor people as mean value is 1.825.
-) Too much delay in making tax assessment is the worst part of the tax administration as mean value is 1.825.
-) Defective provisions of tax laws are the main cause for the low collection of tax as mean value is 1.65.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The chapter presents the overall summary of the study and conclusions drawn from the analysis of the study. This also includes the recommendation to correct certain aspects, which will help to improve the collection of the House and Land (property) tax and the position of property tax in Itahari Municipality.

5.1 Summary

Nepal is one of the least developed countries. It is suffering from economic problems. To increase the Government revenue, Nepalese Government is trying to extract money or valuable contribution from people through taxation. Urban house and Land (property) tax is the important resource of Government revenue.

An increasingly large share of the population and economic activity of developing countries now occurs in cities. Urban economies now account for the majority of GDP in most developing countries. The continued productivity of urban economies depends upon the adequate provision of urban infrastructure and social services. Financial reforms of municipal government are therefore high on the agenda-not merely as a means of increasing local revenues. In principle, there are many alternative means of increasing the revenues of municipal government. But the broader economic and institutional objectives or reform narrow the options and provide more precise guidelines for the assignment of revenue sources to municipal government.

In Nepal property tax was introduced by finance Act, 1959 A.D. It was implemented under property tax Act in 1960 A.D. Due to ineffectiveness in collecting revenue. It was replaced by Urban House and Land tax was introduced in 1962 A.D. for the purpose of collecting revenue from urban house and land property. Initially, this tax was introduced

in Kathmandu, Lalitpur, Bhaktapur, Biratnagar, Birgunj, Nepalgunj, Rajbiraj, Janakpur and Butwal. Letter in 1963/64 it was introduced to Bhadrapur and Dharan in 1964/65 and Bhairawa, Pokhara, Palpa and Hetauda in 1973/74 A.D. The interim government of 2047 B.S. again introduced property tax act 1990. After introduction of Local self government act in 1999, tax is given to local bodies (Kandel, 2003:3).

The study has focused the role of property tax revenue structure, contribution, trend and composition of house and land tax of Itahari Municipality which is situated in Sunsari district of Eastern Nepal. All together there are 58 municipality among them Itahari Municipality is one which has 9 wards. The trend of property tax in the municipality is estimated slowly growing. It is indicating that little bit focus on quality service can lead the municipality for the huge collection in the coming days.

5.2 Conclusion

Nepal is one of the lowest taxed economies in the world. It has been suffering from social political and economic problems. The government of Nepal is not being able to collect necessary government revenue to cure such problems. Due to poor performance on internal revenue collection and mobilization, the Government of Nepal has still depended on foreign grants and loans. The dependence is increasing which is not desirable for any economy. Thus remedy should be made in due time by the country to run in the path or economic development. Its contribution to government revenue is not regarded satisfactory comparison to other taxes of Nepal government. Its contribution to the revenue structure of the country is negligible due to various reasons as mention below. Most of the Nepalese people are not aware of property tax. Due to lack of tax education property holder are deprived from right of paying tax. If they are informed effectively about the property tax can expect the increase in tax volume as well as paying house and land tax timely. In the administrative aspect there are a lot of weakness for efficient administration, and collection of this tax. There must be high degree of honesty and

morality. This available resources in the country, which are collected through the foreign and domestic sources and large profit margins in the urban areas is diverted and invested towards real state and luxury housing in Nepal. As stated above the investment in such sector creates a boom in the economy. Consumption of luxury goods may increase because of which the economy is pushed into high inflation. Therefore, in this respect proportional tax on property (house and land tax) in an equitable and justifiable manner will help, discourage the investment in real estate and reduce the consumption of luxury goods as well. Such reduction of investment an unproductive sector of the available resources will tend to diversify into productive sector of an economy. The revenue administration in Nepal is weak because of lack of the tax policies with a clear direction and consistency in a long run perspective lack of information and records, lack of trained staff and heavy dependence on non-technical staff, lack of proper accounting and auditing system in general for business firms. However, house and land tax laws and administration in Nepal are to be deeply scrutinized but not properly implemented. Manpower development planning within the administration is desired for the efficiency of tax personnel side by side. Tax educations packages are to be made and initiated hence tax administration and tax compliance could be improved. Due to various problems related to property tax, revenue collection from property tax is relatively low in Itahari Municipality. For economic development of Nepal, the problems relating to property tax system in Nepal can be solved and resources are effectively utilized then only the prospects of revenue collection from House and Land tax will be brought.

5.3 Recommendations

Property tax has been accepted as an important source of government revenue of Nepal. The growing need of resources for the development of Nepalese economy can be met through effective large volume of property tax. Though there are number of problems, the contribution of property tax is likely to be significant in the future. In the light of finding of the present study, the following specific suggestions have been recommended for the

sound and effective property tax system.

-)] Itahari Municipality should provide informative knowledge to the local people regarding house and land tax because most of them are not educated and don't have the understanding about the house and land tax.
-)] Municipality should mobilize its resources properly and made tax policy as per modern thought as "low rate with broadness of tax base"
-)] Through policy, broadness of tax laws can be done by changing rebate range. It should be increased up to 50 lakhs whereas existing house and land tax has a provision of only 10 lakhs. The rate of tax also should not be more than 1 percent of taxable property. It will make the policy of shifting a greater share on to those with greater capacity to pay.
-)] The rate of house and land tax should be progressivity. This means rate are higher for higher-valued property or in the form of exemptions for low value property. High tax rate should be imposed on commercial and industrial property than residential property. And owner-occupied residential property is taxed at a lower rate than renter-occupied.
-)] All the potential tax payers are not put into the tax net effectively so far, so Itahari Municipality should link the property database with the house numbering system.
-)] After the linking the property database with the house numbering system than annually or in intervals of time bill should be sent (just like water and electricity bills are given duly to the each and every house) by Itahari Municipality to pay the house and land tax.
-)] Itahari Municipality need to conduct resource potential study and review the strategic framework.
-)] The performance responsibilities authorities and duties should be clearly defined.
-)] Itahari Municipality should follow the elements of good governance as accountability, transparency, participation, public-private partnership, management innovation and strategic vision.

-) The greater problem of the House and Land tax in Nepal is the under valuation and in many cases complete evasion of the taxes. So, it is important that improvement should be made House & Land tax procedure record keeping system, legal procedures administration and co-ordination both inter departmental and departmental.
-) The important pre-requisite for the effective implementation of House and Land tax is the urgency of scientific method of assessment and valuation and this can be improved with the following measures:
 -) Tax consciousness is a must for a sound House and Land tax system. It can be done through various media such as radio, TV and newspaper by informing taxpayers about the tax policies. Similarly timely clarity over issues in the act by the department is an effective measure in increasing tax consciousness among the taxpayers.
 -) In Nepal, one of the most important reasons for unsound urban H&L tax system is inefficiency and unscientific urban house and land tax administration. The Nepalese taxpayers are not getting proper return of their taxes because of inefficient administration, wasteful expenditure, wasteful expenditure program and corruption.
 -) Laws relating to house & land tax should be clear, simple and comprehensive. It should not contain any loopholes. Therefore it should be reviewed frequently.
 -) The present level of exemption limit of house and land tax is not appropriate. It should be reviewed.
 -) The valuation of average cost per sq. ft. of house is high. So it should be made low's

The present rate of integrated property tax should be more scientific.

Most of the respondent are suggested the following points for the increment of the taxpaying habit of local people.

-) Tax law should be simplified.
-) Government should work on the realization of indirect benefit of tax to taxpayers.

-) Billing system should be effective.
-) Adopt public, private and partnership sector for collection.
-) Awareness program should be effectively implemented.
-) Heavy fine and penalty system should be applied for the defective tax payers.
-) Tax administration should be effective.
-) Some improvements is needed on the LSG Act 2055.
-) Rebate and discounts should be provided to regular taxpayers.
-) Government should provide e-returns system to taxpayers.

Nepal is facing a lot of problems in collecting House and Land tax revenue, if the above recommendation are managed timely and effectively, the problem can be minimized and house and land tax will lead to a substantial increases in revenue.

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APPENDICES

APPENDIX – I

Master Table: Total GDP, Total Revenue, Revenue from Direct and Indirect Tax

(Rs. In million)

Fiscal Year	Total GDP	Total Revenue	Tax Revenue	Non-tax revenue	Direct Tax						Indirect Tax					
					Income Tax	Urban H & L	Land Tax	H & L Reg.	Others *	Total	Import duties	Export duties	Excise duties	VAT	Other **	Total
1989/90	99702	9287.5	7283.9	2003.6	932.1	19.1	74.6	377.1	32.2	1435.1	2646	23.6	1097	2041.5	13.7	5821.8
1990/91	116127	10729.3	8175.8	2553.5	783.2	0.2	82.1	456.6	45.8	1367.9	2752.6	78.5	1200.2	2528	248.2	6807.5
1991/92	144933	13512.7	9875.6	3637.1	875	22.3	64.8	571.3	61.8	1597.2	2795.2	114.7	1414.3	3461.5	494.7	8280.4
1992/93	165350	15148.4	11662.5	3485.9	1198.2	16.7	69.4	680.5	66.4	2031.2	1378.9	140.7	1452.8	4213.4	641.7	7827.5
1993/94	191596	19580	15371.5	4209.1	1921.2	8.4	61	772.2	92.5	2855.3	3456	427	1592.5	5623.6	489.1	11588.2
1994/95	209976	24605.1	19660	4949.1	2823.4	34.2	34.9	902.8	54	3849.3	5840.1	332.5	1657.3	7135.3	485.1	15450.7
1995/96	239388	27893.1	21668	6225.1	3431.4	87.2	18.2	1048.4	70.58	4655.9	6246.5	149.5	1944.3	7290.4	931	16561.7
1996/97	269570	30373.5	24424.3	5949.2	4123.4	95	5.9	1009.5	106.2	5340	7093.2	167.8	2298.1	8477.1	1048.1	19084.3
1997/98	389798	32397.9	52939.8	6998.1	4898.1	110.7	3.6	1000.6	174.9	6187.9	7019.4	217.1	2885.8	8363.9	1265.7	19751.9
1998/99	239960	37251.3	28752.9	8498.4	6170.2	123.3	1.4	1001.8	291.4	7588.1	7689.3	378	2953.2	8765.9	1996.8	21783.2
1999/20	365470	42893.7	33152.1	9741.6	7420.6	118.5	4.6	1011.3	396.5	8951.5	8959.9	432.5	3127.6	10259.7	1921.3	24701
2000/01	409250	48893.9	38865.1	10028.8	9114	2.9	5.1	607.8	429.6	10159.4	10391.9	492.6	3771.2	12382.4	2217.8	29255.9
2001/02	293595	50445.6	39330	11115	8903.7	2.3	0.8	1131	559.7	10597.5	9678.4	914.4	3807	12267.3	2630.6	29297.7
2002/03	438920	56229.7	42587	13642.7	7966.2	0	0	1414.3	725.3	10105.8	10567.7	855.6	4785.1	13459.7	3770.6	33438.1
2003/04	472424	62331	48173.19	14157.8	9245.9	0.3	0	1697.48	969.2	11912.88	10666.9	527.1	6226.7	14478.9	5225.8	37125.4
2004/05	533438	70122.7	54104.8	14770.3	10159.4	0	0	1799.2	1113.2	13071.8	12299.1	697.9	6445.9	18885.4	3595.3	41923.6
2005/06	582948	72282.1	57427	13341.5	10373.7	0	0	2181.1	1413.3	13968.1	11744.6	625.6	6507.6	21610.7	6702.5	47191
2006/07	-	87717	71127	16590	7087.9	0	0	1111.3	1204.1	9403.3	8107.2	502.6	5213.6	15728.6	2358.4	31910.4

Note,

1. Source: Economic survey of various years, ministry of finance, Nepal government
2. Income tax includes income Tax from public enterprises, income tax from semi-public enterprises, income tax from private corporate bodies, income tax from individuals, income tax from Remunerations. Tax on interest.
3. Value added tax include sales tax, entertainment tax, hotel tax, air flight tax and contract tax.
4. *other includes vehicle tax and other taxes.
5. **included Indian excise refund, others, transport and other income tax included as on interest.

Appendix - II

Questionnaire on an Analytical Study on House and Land (Property) Tax

- 1. Name of the Respondents (Optional):
- 2. Position
- 3. Office/Department:.....
- 4. Tenure of Services:
- 5. Sex: Male Female

(Please tick the answer which ever in your view is most appropriate where i. to v. represents as under):

- a. Strongly agree
- b. Agree
- a. Undecided
- b. Disagree
- c. Strongly disagree.

1. House and land tax is a suitable means of raising domestic resources in Itahari Municipality.

- i. ii. iii. iv. v.

2. Wide spread evasion as the major constriction for the tax collection through house and tax in Itahari Municipality.

- i. ii. iii. iv. v.

3. The present rate of house and land tax and exemption limit is suitable.

- i. ii. iii. iv. v.

4. Valuation system of land, house and other properties are best enough.

i. ii. iii. iv. v.

5. Present rate of integrated property tax is suitable for Nepalese local government.

i. ii. iii. iv. v.

6. There is complications in paying House and land tax in Itahari Municipality.

i. ii. iii. iv. v.

7. Tax administration in Itahari Municipality is efficient.

i. ii. iii. iv. v.

8. Itahari Municipality is failed to incorporate new tax payers.

i. ii. iii. iv. v.

9. The provision under “Local Self Governance Act 2055” is good for collecting integrated property tax.

i. ii. iii. iv. v.

10. The People of Itahari Municipality seems aware for paying house and land tax.

i. ii. iii. iv. v.

11. Valuation method of property according to base of value fixed by municipality committee is appropriate.

i. ii. iii. iv. v.

12. House and land tax is a measure to reduce the gap between rich and poor society.

i. ii. iii. iv. v.

13. To much delay in making assessment is the irritating part for tax payers.

- i. ii. iii. iv. v.

14. Defective tax laws are the main causes behind the low tax collection.

- i. ii. iii. iv. v.

15. Please specify the suggestions for the increment of taxpaying habit of the Nepalese people.

1.
2.
3.
4.
5.

**** Thank you for your kind co-operation ****

Appendix-III
Type and Name of the Respondents

S.No.	Type and Name of the Respondents
Tax Experts	
1	Hari aryal
2	Neha Gurung
3	Loken Bhandari
4	Rajesh Ghatani
5	Rahul Nepal
6	Prakash Chandra Thapa
7	Phudi Raj Khadaka
8	Rajan Shrestha
9	Sailendra Basnet
10	Yogendra Bhandari
Tax Administrators	
1	Khagendra Khadka
2	Devi Aryal
3	Uttam Upreaty
4	Khem Lal Baral
5	Kasi Nath Nepal
6	Dil Bahadur Gurung
7	Prem Adhikari
8	Bhumi Bhattra
9	Lata Kharel
10	Umesh Nepal
Tax Payers	
1	Neta Nepal
2	Bunu Dahal
3	Ajaya Khatiwada
4	Dinesh Siruwal
5	Gopal Thapa
6	Jayan Shrestha
7	Khagendra Khadka
8	Lokendra Thapa
9	Nabin Bogati
10	Pashupati Thapa Magar
11	Prem Rai

12	Ramesh Pomu
13	Rajiv Prasai
14	Suresh Bhandari
15	Santosh Thapa
16	Santosh Acharya
17	Sanzin Dahal
18	Trilok Thapa
19	Umesh Shrestha
20	Upendra K.C.