

CHAPTER I

INTRODUCTION

1.1 Background of the Study

In this present world, a government has to spend a lot of money to fulfill its responsibility towards its people. The responsibility may be either for security or for health or education or other development activities in each country. A lot of funds is spent by the public authority for the protection of common people, creation of various socio-economic programs, infrastructure protection etc. Expenditure includes the purchase of arms and ammunition, maintenance of army or police and administration of justice and jail. The government for the public interest also incurs commercial expenditure. This expenditure is made on providing education, health, utility facilities to the community. (Vaish and Agrawal, 1992).

The nation will achieve minimum social welfare if it has sufficient funds. Government expenditure is increasing because of demand for time, increase in population, social progress, war or preparation for war, increase in price and national income etc. As the per capita income and output increase in the industrialized nation, the public sector of the nation necessarily grows as a proportion of total economic activity (Adolph Wagner, Quoted by Vaish and Agrawal, 1992).

In these days, prime concern of every nation of world is to eliminate the poverty to reduce gap between rich and poor, to improve the living standard of the people, to obtain rapid economic development etc. Nepal is not an exception to this over continuing process to achieve these objectives, the government has more responsibilities. The responsibilities may be either for security or health or education or other development activities. To fulfill these activities the government

collects revenues from various sources such as tax, revenue from public enterprises. Special assessment, fees, fines, grants and assistances etc. Among tax is the main sources of government revenue. As the current population growth is 1.40 per annum and per capita income is 742 U.S. dollar per year (Central Bureau of Statistics, 2069).

The contribution of Nepal has directed Nepalese government for a self-reliant economic, encouragement to national enterprise as well as upgrading the standard of the people. For self-reliant economic system and sound infrastructure for the development, the government should generate sufficient government revenue. Government revenue is the most important source of financing government expenditure. To achieve the national objectives, the government is required to implement various policies and planning, act and procedures. Besides these functions revenue mobilization is one of the most important function of the government (Bhattraï, 1976).

The income of the government is called public or government revenue. Government revenue constitutes external and internal sources. External sources of government revenue, are foreign loan, grants donations, external borrowing etc. External sources are uncertain, in convenient and not good for healthy development of nation because they have to be paid after a certain time. Another sources of government revenue is internal which constitutes of tax and non-tax revenue. The main objective of tax revenue is not only to collect revenue but also to provide goods and services to the people. Tax revenue is the most important source of government revenue. Customs excise, value added tax corporate and personnel income tax are the example of the sources of tax revenue. The examples of non-tax revenue are fees, fines, royalty, administrative and business income etc. Administrative income means the returned received of government for providing

various goods and services to the people. So it is better to mobilize internal sources rather than external. Taxation is the main source of government revenue since it occupies the most important place in the government treasury; [many economists/tax experts have defined taxation in their own self. According to Seligman – "Taxation is compulsion from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred."]

Tax can be classified into two categories direct tax and indirect tax. A direct tax is a tax paid by a person or whom it is legally imposed. In direct tax, the person paying and bearing tax the same tax payer cannot collect direct tax from other person. Examples of direct taxes are income tax, property tax vehicle tax, interest tax etc.

An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing the tax is different. Taxpayer can collect indirect tax for other person. Examples of indirect taxes are values added tax, excise duty, import and export duty etc.

Government is imposing income tax to people, who are engaged in profession, investment and employment. Main purpose of tax collection is to conduct daily operation of nation. Keeping peace and security and to generate employment as well as to pay debt and interest of foreign and domestic. Income tax is tax of equity. It is imposed on the basis of paying capacity of tax payer. So, it will be possible to reduce gap in income by imposing higher rate to those who are having higher income and from that collected, amount providing necessary assistance to the people with very poor economic condition.

Income tax is updated time to time but there are many problems existing in income tax practice in Nepal. The leakage in tax, feeling of people about tax as a penalty, lack of consciousness of people, lack of accuracy and infirmity in accounting system, payment of additional fees, inability of tax administration, high cost of tax collection are some examples of those problems. Having all these existing reasons, the administration in Nepal must receive. Tax administration is wheeling of whole tax system it gives right direction to the government and country.

1.2 Statement of Problem

Nepal is one of the least developed countries among the developing countries in the world. It has been facing serious financial problem from the beginning of its development process.

Nepal relies upon the external sources more than on the internal sources. The available resources do not meet the estimated budget to fulfill the aspiration of people and constructing social welfare of the state. Nepal has been suffering from resources constraint's massive poverty, rapid growth of population, increasing frictional and seasonal unemployment, poor infrastructure, substance living standard, diseases and aggressive dependent on the agricultural despite over four decades planned development efforts. Despite, the various measures adopted by the government to boost revenue collection, these is still a substantial sources gap between expenditure and revenue. Resources constraints is appearing as a limiting factor from the beginning of development phase to present time due to increasing sources gap.

Resources gap has incurred in Nepalese finance because the expenditure of Government of Nepal has been increasing at a faster rate than the increase in

revenue. Nepal has been facing serious problem of high dependency on foreign loan.

There is improper internal resource mobilization, heavy foreign aid dependence, low aid absorptive capacity and miss-utilization of available resource in Nepal. There are not adequate internal financial resources to spend and invest on economic development activities of the country. Considering this background, the main problem of Nepal is the lack of creation and mobilization of internal financial resources.

There is low collection of income tax even after the implementation of self-tax assessment system and higher tendency of income tax evasion. The revenue administration is not effective in Nepal. There is willingness to pay tax on the part of the country. Frequent changes in tax rates and in politics is not favourable to strong than the revenue mobilization and economic development and this fact is to be taken into consideration by the government of Nepal.

As the investment and expenditure of the country on economic activities are increasing yearly, the internal resources mobilization is not increasing at the same ratio which is not good sign for national economy and it cause heavy burden of foreign loans and assistance mean while country is suffering from mass poverty.

Some individuals hide their real income and they are exploiting the weakness of the tax administration. Therefore, personal income tax has not been effective in Nepal. On the other hand big companies are practicing evade tax liabilities by hiding income.

The revenue administration of the country is not systematical and the people of the country do not have knowledge of income tax rules and regulations and lack

willingness to pay income tax in the main problem of our country. The major problems are inappropriate tax policies, administrative bottleneck of direct tax structure and existence of mass poverty.

Therefore, for the government of Nepal it is better to depend on its own revenue than foreign assistance. Among the various sources of government revenue, income tax revenue can play a significant role if the problems of Nepalese income tax collection system can be improved.

Inefficient tax administrative system, widespread income tax evasion, complicated and frequent change in tax rate in policies are appearing a major factor for low contribution income tax revenue to national revenue.

Thus, this research concentrates on the following issues.

-) What is the level of success of administration of income tax?
-) What are the major problems faced by the government in the administrative of income tax?
-) How the tax administration can be made effective in Nepalese perspective.

1.3 Objectives of the Study

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

-) To analyze the effectiveness of tax administration in Nepal.
-) To identify the major problem and challenges related to tax administration in Nepal.
-) To assess the views of taxpayers, tax experts and tax officers about various aspect of present income tax.

-) To recommend and suggest some measures to improve the effectiveness of income tax administration in Nepal.

1.4 Methodology

The study is based mainly on secondary source of data. All the secondary sources of data are the information received from books, journals newspapers, reports etc. The major source of secondary data are as follows:

-) Economic survey and budget speeches, ministry of finance, government,
-) Reports and records of Inland Revenue Department
-) Published document of Nepal Rastra Bank and Planning commission Kathmandu.
-) Newspapers, published articles on different journal news magazines.
-) Different publication of central Bureau of statistics.
-) Internet, e-mail.
-) Various books written by tax offices and scholars related to income tax.

Primary data and information have been collected through administrating structured questionnaires to sample of population. The same questionnaire was distributed to all respondents. It consists of research design, population sample, data collection tools to be used, analytical frame work etc.

1.5 Significance of the Study

Income tax plays a significant role in the overall economic development in developed as well as developing countries. In developing countries like Nepal, income tax is very crucial for reducing economic inequalities in the society and domestic resource mobilization. It is useful to measure the economic standard of people.

Nepal is one of the lowest taxed economies in the world as its tax/GDP as well as tax/GNP ratio are lowest among SAARC countries and among the rest of the world as well as.

The importance of the income tax cannot be minimized in the public finance of a nation. Developing countries like Nepal can fulfill its financial income tax can be minimized either by imposing taxes at thither rate or introducing new tax rates of collecting income tax properly. Increment in income tax rate may be more burden of poor people. Moreover the collection of the tax depends on good income tax system (i.e., laws, policy and effective administration). Misfortunately, Nepalese income tax system is not free from problems. Through this field has high importance but sufficiently timely research are not made in field so far.

1.6 Limitation of the Study

Every study has its own limitations. So, this study will also not be free from the limitation. Major limitation regarding to the study were follows:

-) This study will be completed on the basis secondary data from tax offices.
-) Due to the constraint of time and other resources, which are essential for the deep study, may limit the objective of the study.
-) Duet to small sample size, it may not fully represent the whole population.
-) All respondents may not response positively and of the study will depend upon the perception of the respondent.

1.7 Organization of the Study

This thesis has organized in chapter five. The first chapter is about general background statement of the problems, objectives of the study, significance of the study, limitations of the study and organization of the study.

The second chapter is about review of literatures related with review of available literatures in the field of the study being conducted. This chapter contents of tax, concept of meaning of income tax, legal provision of income tax in Nepal. This chapter also includes the review of literature through different relevant books, journals and unpublished dissertations.

The third chapter is on research methodology which included tools and techniques that will use analysis of the data as well. This chapter includes research design, population and samples, sources of data, method of data analysis and various financial and statistical tools.

The fourth chapter is the main body of the research that is data presentation and analysis is devoted to the presentation, analysis and interpretation of the study through definite course of research methodology. The chapter also contained major finding of the study.

The fifth chapter includes summary, conclusion and recommendation is conclusive and suggestive chapter. On the basis of the study, certain measure would be found out and suggested for the further improvement of income taxation in Nepal.

Beside these, bibliography and appendices are presented at the end of the thesis. Similarly acknowledgement, table of context, list of tables, list of diagrams, abbreviation are included in the front of this chapter.

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual Framework

This chapter basically highlights the conceptual framework of research. existing legal provisions and existing literature and work related to the present research being conducted and work related to the view of finding out what had already been explained by the previous researchers and how the current researchers adds future benefits to the field of research. While conducting the research study, previous studies cannot be ignored, so that information would help to check the chance of duplication in the present study, thus one can find what research studies have been conducted and what remains to go with.

This chapter has been classified into the following subgroups.

2.1.1 Concept of Tax

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

Tax is any contribution levy from individual, households, and firms to central or local government. It is simply a liability to pay an amount to government. It is a compulsory contribution from the taxpayers. Tax is computed and paid as prescribed in the law.

Generally income tax is imposed on net income. Net income comes after deducting the cost of production from gross income. In practice, the expenses incurred in earning the income and appropriate exemptions and deductions are deducted to find out taxable income. Net income may be real income or money income. Real income is more comprehensive and includes not only money income but also other incidental advantage. Real income should, therefore, be the true index of ability to an individual and not on his net money income.

According to professor Seligman – "A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred" (Lekhi, 2000).

According to Plenn – "Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the residents of the states" (Dhakal, 1998).

From the above definition, it is clear that tax is compulsory levy and those who are imposed taxes had to pay it without getting corresponding benefits of services or goods from the government. The tax payer does not have any right to receive direct benefit from the tax paid. The taxpayers cannot receive equivalent benefit from the government. Amount collected from natural and artificial people.

Tax is classified into two categories: direct and indirect tax.

A direct tax is paid by a person on whom it is legally imposed. Tax payers cannot collect direct tax from other person. Income tax, property tax, vehicle tax, Interest tax, gift tax are some example of direct tax. Direct tax is paid according to the income or property earned by a person. So it is found equal with and properly. There is currently about the time design or process of direct tax.

It is elastic (the government can change tax rate with the change in the level of property or income). Tax payer can easily estimate his tax liability. The government can easily increase tax according economic situation of the country. Direct tax is expensive for the government to collect individually. Taxpayer pays tax from their own property so they are conscious about their contribution.

An indirect tax is a tax imposed on one person but partly or wholly paid by another. Examples of indirect taxes are VAT, sales tax, entertainment tax, hotel tax, excise duty, import and export duty etc. In indirect tax, the person paying and bearing the tax is different. It is the tax on consumption or expenditure. People pay indirect tax, the person paying and bearing the tax is different. It is the tax on consumption or expenditures. People pay indirect tax when they receive or consumer goods or services. There is uncertainty about the collection of indirect tax. Every person either rich or poor pay equal amount of tax on receipt of goods or services. Therefore it seems as regretful for poor people. It tax imposed on higher rate, consumption reduces and also effect badly on production and employment.

Taxpayers cannot collect direct tax from other person and pay from their own property. Therefore, taxpayers feel pinch and they are not ready to pay voluntarily. They try to pay lowest tax as for as possible and also exercise for tax evasion. It is expensive for collection. There is lack of mass participation in case of direct tax. Direct tax discourages private saving and investment.

Income tax is direct tax in case of Nepal; income tax is the major sources of direct tax revenue.

2.1.2 Objectives of Taxation

Taxation has been a very essential element of a government from the very beginning of the state system. However, the main objective of taxation has been different for different epochs. In ancient time, the major objectives of taxation were strengthening the muscle of the state by providing resources.

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

-) To increase the revenue for a welfare state.
-) To have equitable distribution of incomes and property.
-) To increase the production of particular goods.
-) To implement government policy.
-) To minimize regional disparity.
-) To control the production of certain goods.

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

2.1.3 Concept and Meaning of Income Tax

Actually tax levied on the taxable income is known as the income tax. Income tax is direct tax that is imposed on the earning of individual and corporation. It is charged by the government on the income of the previous year at the rate

prescribed each year by the finance act .From very earlier, income tax has always been regarded, as a tax based on the canon of ability.

Income tax is levied on the taxable income of person or a company after deducting allowable expenses. Accounting profits may differ from taxable profits. For the computation of taxable income, generally incomes are added and expenses are subtracted and losses, which are allowed to deduct under the provision of income tax act are also subtracted. Then, tax free incomes, allowance and common expenses are also subtracted. The, tax free incomes, allowances and common expenses are also deducted to get taxable income. After giving the exemption limit as per law, the amount of tax to be levied on this computed income is the income tax.

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

) The Person's consumption during the period.

) The net increased in the individual's personal wealth during the period.

Symbolically, $Y = C + \zeta W$

Where, $y = \text{Income}$

$C = \text{consumption}$

$\zeta W = \text{Change in wealth}$

2.1.4 Historical Perspective of Income Tax

Great Britain is the first country in the world to introduce modern income tax in 1799 to finance the war fought with France. USA introduced income tax in 1862 to

generate revenue to finance civil war. In India, while income tax in its modern form was adopted in 1860 to 1866 and finally the systematic income tax legislation was enacted in 1866.

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

While the history of income tax tumultuous, the situation is different now. Income tax has been an important element of modern tax system. This tax has been adopted by all sorts of countries as an important instrument to generate revenue required to finance state activities. This tax is also considered as fairest tax since it can be tied with the taxable capacity of the taxpayers.

2.1.5 Income Tax Management

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

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

The first work of income tax management is to identification of objectives and goals and then policy regarding income tax directs to make tax imposition specifying to whom, how, when and where the tax must be imposed.

2.1.5.1 Component of Income Tax Management of Nepal

The following are the components of income tax of Nepal.

1. Parliament

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

2. Inland Revenue Department (IRD)

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

3. Ministry of Finance (MOF)

Ministry of finance of Nepal government is the highest organization of total taxation management. It concerns with the total revenue and expenditure of the

government, managers to borrow internal as well as foreign debts as demand by the budget.

2.1.6 Income Tax Administration

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

-) The role of administration incentive.
-) Cost of taxation and other quantitative and
-) The unit between expenditure.

The Inland Revenue Department administers income tax of Nepal. The Ministry of Finance, custom administration, Revenue investigation administration and the revenue administration traveling center are also involved in administration of income tax directly or indirectly. The ministry of finance is at the apex of the tax administration. It is responsible for overall administration of the government fiscal and the formation policy. The revenue division of this ministry is responsible for formation tax policy and setting up appropriate tax administration to implement tax policy. It coordinates the activities of all revenue department including Inland

Revenue Departments and monitors the position of revenue collection. It is responsible for the research, planning and analysis of the tax system. The custom administration collect is advance income tax on imports. The revenue investigation administration investigates tax on imports. The revenue investigation administration investigates cases where revenue leakage was involved, with or without collusion between taxpayers and tax collections. The revenue administration trading center impacts training workshops and seminars for tax official.

Tax administration has become challenging and more complicate with the changing environment of international tax system. The main objectives of tax administration should be the efficient assessment, collection and enforcement of taxes legally due, without undue cost and harassment to the government or taxpayer in the terms of money, time, inconvenience and mental worry. More specifically, the objectives of tax administration may be started as follows:

-) To asses and collection taxes in order to meet the revenue requirement of the country.
-) To maintain public confidence in the fairness and integrity of the tax system.
-) To keep high the morale and motivation of tax officials.
-) To facilitate and encourage voluntary compliance by taxpayers.
-) To determent tax evasion and avoidance.
-) To administer tax legislation fairly, uniformly, impartially with firmness.
-) To work effectively in order to make the tax system effective.

2.1.6.1 Tax Administration and Tax Policy

With regards of tax policy experience has shown that even in countries where tax policies reforms have been implemented their economic imports has often been compromised by poor tax administration and revenue yields have not been up to the mark. Efficient and effective tax administration gives the makes of tax policy a wider range of options and is in fact the key of effective tax policy, for no policy can be constructive or even feasible unless properly implemented by the tax administration.

2.1.6.2 Tax Administration and Tax Structure

The effectiveness and efficiency of the tax administration also affects the tax structure. The tax structure can be modified but unless the tax administration is capable of enforcing both the new and existing taxes and modifications may have no significant impact on tax collection. The importance of tax administration performance in relation to the tax structure has described by the administration performance in relation to the tax structure has described by the Director of Fiscal Affairs Department of the IMF (2002) in the following terms.

"In arriving at the desirable tax structure that they will recommend, find missions take into account.

-) The government priorities.
-) The country's macro-economic situation.
-) The strength and honesty of the country's tax administration.
-) The existing statutory taxes structure.
-) The structure of the economy

) A variety of other factors such as constitution or legal limitations, prevailing customs and altitude.

The factors mentioned above constrain the number of feasible options and to some extent, influence the final tax structure. The weakness of tax administration may rule out all but the simplest options the maximum that old taxes are good taxes would agree against a major overhaul of the tax system. There is only so much change that a tax administration can absorb at any one time."

2.1.6.3 Functions of Tax Administration

The main functions of tax administration are as follows:

1. Registration

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

2. Assessment

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

3. Audit

The third function of tax administration is tax audit. Here audit means auditing the tax assessment from submitted by the taxpayers. Tax audit can be of two types

prima facie audit and detail audit. In the prima facie audit the tax office examines only the mathematical errors where as detail examination of the document submitted by the taxpayers.;

4. Collection, Refund and Remission

The next function of tax office is the collection of tax amount for this purpose; the tax office can use the bank also. If over collection is made from tax any tax payer the tax payers should refund the amount. Sometimes, if it is think that it is impossible to collect taxes from certain tax payers, the tax administration can sacrifice the due amount. Such sacrifice is called tax remission.

2.2 Legal Provision and Income Taxation

The function of revenue collection has remained one of the key activities of the government from ancient time in Nepal. At that time, taxes were levied on the merchant, travelers and farmers in the form of cash or labour. On some occasions, gold and agricultural products were also paid as taxes but the nature of these taxes were temporary, and were raised for special purposes. In the context of Nepal the prevailing act, Income Tax Act, 2058 is under implementation since 1912/2058 B.S. This act replaces Income Tax Act 2031 and other acts related to income tax. Some related provisions of the Act have been discussed in the succeeding sections.

2.2.1 Income Taxation in Modern Nepal

The modern income tax act was started in Nepal in the year 1959. After the policy revolution in February 1951 (2007 B.S., Falgun) the role of government has changed since, the government was enforced to operate development activities, besides governing the regular function to maintaining law and order and the collection of revenue. A sound and efficient income tax is necessary to maximize

the revenue collection from income tax. Whole income tax system is made of three sub-system i.e. income tax policy, income tax laws and income tax administration. The government itself through ministry of Finance determines income tax policy. Income tax policy should be such that the main objectives of the income tax can be attained. Parliament makes the laws to implement the various policies. The government levy and collect the income tax in accordance with law. The constitution of the kingdom of Nepal, 1980 has made the clear provision about it. "No taxes shall be levied and collected except in accordance with law" (Constitution of the Kingdom of Nepal, 1990). Present legal provision of Nepal 1990, Income Tax Act 2002, Income Tax Rules 2002, and Finance Act of Concerned Final Year etc.

2.2.2 Business Profit and Remuneration Tax Act 1960 (2007 B.S)

The government of Nepal introduced a formal tax for the first time in 1960 (2017 B.S.) in the form of "Business Profit and Remuneration Tax" The business profit to this act only business profit and remuneration on income were subjected to tax but the revenue for these taxes should not collected properly according to originals estimates. It has 22 section:

Main features of Income Tax Act 1960 were as follows:

-) Only remuneration and business profit were subject to tax. Deductions were not specified for the purpose of calculating the income.
-) Tax on remuneration was to be deducted at source.
-) The basis for calculating tax liability for remuneration was the income of the current year whereas for business profits; it was the profit on the preceding year.

-) There was a provision of tax exemption on salary of citizen, dividend of shareholders, profit to be spend in religious or public welfare activity, crop from own land, allowance granted by GON to ministers, assistant minister, chairman, chairman, speaker and deputy speaker, amount drawn from provided or saving fund.
-) In case of default up to Rs. 5000 were prescribed.
-) Profits from industries were granted a rebate of 25% and profits from small industries were granted a rebate of 50%.

2.2.3 Income Tax Act, 1962 (2019 B.S)

"Business profit and Remuneration Tax Act 1960" was replaced by "Income Tax Act 1962" It had come in implementation from July, 1962. The main purpose of the imposition of this act was not only to raise government revenue but also to reduce inequality of income in income and wealth distribution with social justice and to create regular taxpaying habit of the taxpayer. The Income Tax Act, 1962 had 29 sections and it was amended in 1972 (2029 B.S). It had provision of imposition of income tax in agriculture income but this provision was abolished by the Finance Act, 1966 (2032 B.S.). The additional features of this act were as follows:

-) Income was defined as all kind of income including income from business, salaries and professions, rent from house or land, investment in cash or kinds, agriculture, insurance agencies and any other resources.
-) Act has defined basic terminology such as taxpayer, tax officer, company, firm, profit remuneration, tax assessment, non residential for tax purpose.
-) The personal as well as residential status of the taxpayers for the tax purpose was defined.

-) Procedure for income tax assessment and methods for calculating net income were stated.
-) The provision was made to constitute the net income assessment committee with five members.
-) The basis was specified for assessing tax on the best judgments estimate of the officers.
-) Provision was made for the installment as well as advance payment of the tax for the first time.
-) Carry-forwards of losses was allowed for two years.
-) Provision was made for the exemption of income tax for the new industries for a period of not exceeding ten years.
-) The act granted power to constitute net income assessment committee.

2.2.4 Income Tax Act, 1974 (2031 B.S.)

Considering this act is capable of fulfilling the needs of the time, existing act was replaced by act 'Income Tax Act. 1976'. This new act was brought in practice from October 1974. It had 66 sections. This act has explained various aspects of taxes, containing many provisions for taxation. This act was amended for eight times i.e. 1977, 1979, 1980, 1984, 1986, 1989 and 1992 to make it more practical and to eliminate confusing terms.

Main features of this act as amended are as follows:

-) Income head was classified into five categories (a) Agriculture (b) Industry (c) Trade profession and occupation (c) Remuneration (d) House and compound rent (e) other sources.

-) The act had made it obligatory for taxpayers to register their industries, business, profession or vocation in the tax office and any changes should be notified.
-) This act had made the provision of self-assessment of tax for the first time in Nepal.
-) It had clarify the certain terminology use in act e.g. income tax, taxpayers, year of income, personal status of tax payers, net income and so on.
-) Method of computing the taxable income from each head had been specified with deduction allowable.
-) Carry forward the losses are too allowed for within subsequence three years.
-) Procedures for assessment, reassessment and tax deduct at source, payment and refund of tax had not specified.
-) Provision of penalty up to Rs. 5,000 in case of failure of maintain are preserve accounts.
-) A rights, duties, forms, appeals were specified.
-) There was additional provision of exemption from income tax than the former act as follows: Income of Guthi, Income of village Development committee, Municipality, Amount received against life insurance.

2.2.5 Income Tax Act, 2002 (2058 B.S.)

To enhance revenue mobilization through effect revenue collection procedure of the economic development of the nations and to amend and ingrate the laws relating to income tax, the parliament of Nepal enacted Income Tax Act, 2002 (2058), since first April 2002 (19th Chaitra, 2058).

The old act having eight amendment and several transitional provisions through financial Acts has created thrust for a new and quite revised Act for income tax.

Globalization of the trade, establishment of new kinds of foreign entities in Nepal emerging complication in business relationship, establishment of joint venture enterprises in which more than one foreign country associated, etc. are the new features, which are felt to be incorporated in Income Tax Act. so old act is unsuitable to modern economy so it become compulsory to replace to it by new act.

2.2.5.1 Main Features of Income Tax Act, 2002 (2058 B.S.)

Tax system is the subsystem of total economy. Tax policy is changed with the changes in the economic policy of a country. Change in world economic policy, and advancement in information technology. "Income Tax Act 2058" has been enacted to avoid the deficits of Income Tax Act 2031. This act had made abroad classification of income. This act imposes tax on all those activities contribution towards the creation of wealth. This act contains 143 sections. As compared to Income Tax Act 2031, very new concepts are introduced this act.

This act has silent features which are as follows:

-) All income tax related matters are confined with the act.
-) Tax rates are spelled out.
-) Specification of stock valuation methods.
-) Abolition of various tax related concessions, rebates and exemptions.
-) Simplification of depreciation related provision.
-) Taxing capital gains and dividends.
-) Generous losses set-off and carry forward provision.
-) Provision of international taxation.
-) Stringent fine and penalty provision.
-) Incentives are provided to infrastructure constructor, hydropower projects and special industries.

-) The act has classified all incomes into three heading under section 3 as business employment and investment.
-) There is special provision for deduction, pollution control and research and improvement expenses.
-) The income of an approved retirement fund is freeform tax but retirement payment in hands of employees are taxable.
-) Resident person are taxed on their world wide income while non-resident persons are taxed only in their income sourced in Nepal.
-) If a person submits an income return for and income year on the due date indicating the amount of total tax liability for the year and the amount of total tax liability for the year and the amount of tax still payable by a person, it is treated as a self tax assessment.

2.2.6 Source of Income

Income Tax Act, 2058 has classified the sources of income for the purpose of arrestment under the following three needs:

1. Income from business
2. Income from employment
3. Income from Investment

2.2.6.1 Income from Business

Income Tax Act, 2058 has defined the business income for income tax purpose. For the purpose of computing income of business for any year of income the income of such person shall include as profits or gains made by him from business should be includes.

-) Service charge, disposal of trading stock, net gain from disposal of business assets or liability, gain from disposal of depreciable assets, gift received irrespective of business, amount received instead of acceptance of any

restriction regarding of business, amount received from any investment directly related to business. (Sec 7.2).

-) Amount included under change of accounting method (Sec.22.6)
-) Excess amount received due to exchange rate currency (sec 24.4)
-) Bad debt recovery (sec. 25).
-) Proportionate amount under long term contract (sec 26).
-) Under paid interest amount according to market price (sec. 29)
-) Among received for compensation (sec 31).
-) Other amount received under business income (sec 72).

While computing the income tax from business, the following amount included of profit and income from business for tax purpose.

-) Exempt amount under (sec 10)
-) Taxation of dividend under(sec 54)
-) Final with holding payments under (sec 92)

2.2.6.2 Income from Investment

Income generated from the use of capitalism called income from investment. Investment means use of capital for the purpose of getting income. According to Income Tax Act, 2058 (Sec 2) investment means an act of holding investing one or more assets of similar nature that in an integrated fashion. Amounts to be included in investment income more as follows:

-) any dividend, interest, natural resource payment, rent, royalty, gain from investment insurance, gain from unapproved retirement fund interest or retirement payment made by an approved retirement fund (sec 9.2).
-) Net gain from the disposal of non business chargeable assets of the investment (sec 9.2).
-) Amount treated as derived in respect of excess depreciation on the disposal of the person's depreciable assets of the business. (sec 9.2)

-) Gifts or prizes received on respect of the investment (sec. 9.2).
-) Amounts derived as consideration for acceptance restriction on the capacity to control the investment (sec 9.2).
-) Retirement contribution included those paid to a retirement funds in respects of the person and retirement payments on respect of investment (sec 9.2).
-) Amount included under change of accounting method (sec 24)
-) Excess amount received due to exchange rate currency (sec 28)
-) Bad debt recovered allowed previously (sec 25).
-) Proportionate amount under long-term contract (sec 28).
-) Under paid interest amount according to market price (sec 9.2).
-) Amount received as compensation (sec 31).
-) Other amounts required to included as a result of tax according or qualification, allocation and characterization of amount or transaction between ay entity and beneficiary or general insurance business (sec 9.2)

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

-) Exempt amounts under (sect 10)
-) Taxation of dividends under(sec 54)
-) Final withholding payments under (sec 92)
-) Amounts that is included in calculating the person's income for any employment or business.

Following admissible expenses are allowed for deduction:

-) All the expenses are allowed to deduct provided that the expenses are made by the same taxpayer in the same year in the production of income (sec 13).

-) Interest on loan taken for the business purpose is deductible. However, the amount of such interest will not exceed 50% of the taxpayer's taxable income for the year calculated without including the interest received or the person controlled by tax exempt (sec 14).
-) The cost of trading stock is deductible. The allowable for trading stock is calculated by adding opening value of stock plus purchase value minus closing value of trading stock (sec 15).
-) The cost of repair and improvement of the depreciable assets used in business or investment are deductible such cost do not exceed 7% of the depreciable basis of the pool at the end of the income year (sec 16)
-) The act has allowed deducting pollution control device cost to the extent of 50% of the taxpayer's adjusted taxable income of the concerned year. Non-deductible cost can be capitalized depreciable assets under group 'D' in subsequent year (sec 17)
-) Act has allowed deducting research and development costs. If the expenditure is more than 50% of the taxable income of the concerned year. Remaining amounts can be capitalized as depreciable assets under group 'D' in subsequent year (sec 18)
-) Depreciation of the depreciable assets used in business for the income year computed under the schedule 2 is allowed for deduction (sec 19).
-) The loss can be set off from the profit of any business or investment in the same year (sec 20).

Following are the expenses not allowed for deduction (sec 21);

-) any personal/domestic expenses
-) Income tax/fine and penalty

-) Dividends
-) Reserve/provision fund (except special reserve created by a bank up to % of outstanding loan).
-) Expenses for earning non-taxable income of final withholding payments.
-) Expenses not related to business.
-) Cash payment in excess of Rs.50,000 is not allowed for deduction in case where banking service is available and if annual turnover is more than Rs. 20,00,000.
-) Other capital expenditure and capital loss.

2.2.6.3 Income from Employment

Income Tax Act, 2058 has defined the remuneration income from an employment, termed as income from employment, are included in employment income. All payments or benefits received in respect of employment, including past future employment are taxable. The remuneration received by a person from the employment is following payments made by the employer (sec 8).

-) Payments of wages, salary, leave pay, fees, commissions, prizes, gifts bonuses and other facilities.
-) Payments for the individual's agreement to any conditions of the employment.
-) Payment for redundancy or loss or termination of the employment.
-) Retirement contribution including those paid by the employer to the retirement fund in respect of the employee and retirement payments.
-) Payments of any personal allowance including any cost of living subsistence, rent, entertainment and transportation allowance.

-) Payment providing any discharge or reimbursement of costs incurred by the individual or an associate of the individual.
-) Other payments made in respect of the employment.

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

-) Prize and gifts
-) other payments made in respect of employment
-) Market value of the assets in case of the transfer of assets.
-) For the payment other than stated above the value of benefit of payment to the person.

Excludable amount in the Employment Income

The following are excluded in calculating an individual's remuneration for an employment.

-) payments by the employers for petty expenses relating to tea expenses, stationeries, tips, prizes, and emergency medical treatment up to Rs. 500 at a time whose according is not practical or administratively difficult sec 8 (3).
-) Settlement by or reimbursement to an employ of expenses, incurred solely of the purpose of business sec 8 (3).
-) Meals and refreshment provided to employers at business premise or worksite if provided to all employees under equal terms sec 8 (3).
-) Amount exempt from tax under sec 10
-) Final withholding payments under sec. 92.

2.7 Method of Income Tax Assessment

Income tax assessment means the determination of the amount of income tax, imposed on the taxpayers for a specified period. Income tax assessment is the process of determining policy, rules, provision and procedures to levy the tax and computing the income tax liability in accordance with the rules. Income Tax Act, 2058 has specified three types of assessments. They are as follows:

a. Self Assessment of Tax

This act has fully applied the self-assessment of tax system. It has made more responsible to taxpayers. It reduces the compliance cost under this systems, tax payer himself determines his tax liability with the find and penalty. If tax authority doubts the income of taxpayer tax authority can investigating on revenue risk basis otherwise that become the final forth self-tax assessment, three procedures are to be followed by the taxpayers.

-) Preparation of income and expenditure as prescribed format.
-) Declaration of net income of each source of income.
-) Showing the taxable income.

b. Jeopardy Assessment of Tax (sec 100)

In some doubtful situation, this sec. 100 of Income Tax Act, 2058 also makes provision for the Jeopardy assessment. This department will make Jeopardy when:

-) The person become bankrupt would-up or goes in liquidation.
-) The person is about levy indefinitely.
-) The person is otherwise about creating activity in Nepal.
-) The department otherwise considers it appropriate.

Whereas assessment is made under Jeopardy assessment with respect to a full income year, the assessed person will not file a return of income for the year. However, with respect to part of an income year, the assessed person is still required to file a return of income for the year. The department is required to grant an opportunity to produce proof, if any, in own favour while making a Jeopardy assessment.

c. Amended Assessment of Tax (Sec 101)

Tax department may amend an assess made by taxpayers under sec. 101 department many remands the amended assessment. The tax official may not amended an assessment if the assessment \has been amended or reduced assessed tax by the revenue tribunal or a court of competent jurisdiction except when the order is reopened. This provision should not be a barrier to amend in the case where an order for reinvestigation is issued.

Where the department makes amended assessment, the department shall be required to serve a notice of the assessment to the person stating the following:
(Sec. 101)

-) Tax payable by person, tax still to be paid for the income year or the period to which assessment is made.
-) The manners in which the assessment is calculated.
-) Time, place and manner of objecting to the assessment.
-) The data on which the assessment is payable.
-) The reason why the departments has made assessment.

2.2.8 Appeal

Income Tax Act, 2058 had the provision of two alternatives to the taxpayers who thinks the tax assessment of tax offices is unfair. He could either go to the Director General of the Income Tax Department or to Revenue Tribunal. Income Tax Act, 2031 has not such provision. Instead, it had managed taxpayers first go to Director General of Inland Revenue Department for review of decision and then if unsatisfied with the decision of director General he/she can go to Revenue tribunal.

2.2.8.1 Appeal to Director General

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

2.2.8.2 Appeal to the Revenue Tribunal

At the sec. 116 a person who is aggrieved by decision on an objection may appeal to the Revenue Tribunal in accordance with the revenue tribunal act 2031. The appellant should file a copy of the notice of appeal with the 15 days of doing. So however, the operation and enforcement of an objection decision is not stayed or otherwise affected by an appeal. If director general of the department has made the decision relating to administrative review, the appeal to Revenue Tribunal would be effective.

2.2.9 Interest and Fines

The Act has provided rights to tax officers to impose fines and penalties. the circumstances in which a tax officers impose fines and penalties are as follows.

a. Penalty for Failure to maintain documentation or File statement or return of income

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

b. Interest for Estimate Tax Payable by Installment

A person who understate estimate tax payable by installment basis is liable to pay interest for each month and part of a month from the date the first installment is payable until the date the tax is payable on assessment. The amount of interest miscalculated at the standard interest rate.

c. Interest for Failure to Pay Tax

A person who fails to pay tax on or before the date on which tax is payable is liable to pay interest for each month and part of a month for which any of the tax is outstanding calculated as the standard interest rate applied to the amount outstanding.

d. Penalty for Making False Statement

A person who makes statement to the department that is false or misleading in a material particular or things without which the statement is misleading in a material particular is liable for penalty as follows:

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

e. **Penalty for Aiding and Abetting**

A person who knowingly abets another person's to commit an inference related to failure to comply within the this act, failure to pay tax administration to counsels or included another person to commit such on offences is liable for penalty equal to 100% of the under payment of tax.

2.3 Review of Related Study

A number of various books are written, articles are published and reports have been published on the tax system of Nepal. Different individuals and institutions in concerning to income tax conduct researchers. Income was firstly imposed in Nepal under the 'Business Profit Remuneration Tax Act, 1960. then, various studies were made concerning with various aspects of this act such as the structure, role, productivity, summary of some relevant books, articles and dissertations are given as follows:

2.3.1 Review of Articles and Books

Kamal Deep Dhaklal (2002) has written a book "Income Tax and House and Compounded Tax Law and Practice with VAT" he had described legal provision relating to income tax with numerical examples. This book was fully based on the syllabus of B.B.S. third years. This book was published before coming new income tax act 2002. It is a very useful to know the general information rather than

analytical. He had not analyzed the role of income tax, structure of income tax and problems of income tax system in Nepal.

Chandra Majni Adhikari (2002) has published a book named "Nepalese Modern Income Tax System." He had described historical aspects of income tax and legal provision of relating to income tax with numerical example. This book is very useful to anyone who is interest to know about general information and legal provision of Income Tax Act, 2002. His book was informative rather than analytical.

Jagadish Agrawal (2004) has published a book named "Income Tax: theory and Practice." this book is useful to everyone who is interested in subject of taxation. In this book Agrawal has explained Income Tax Act, 2058. The book is also source of Information of the subject of income tax. In the book he explains about controlled foreign entities, transfer pricing, non business chargeable assets, qualification allocation and characterization of amounts etc.

K.P. Aryal and S.P. Poudel (2004) have published a book named "Taxation in Nepal." They have described the theoretical and practical aspects of income tax and VAT. This book is extremely based on B.B.S third year syllabus as prescribed by Tribhuvan University. This is very useful to get knowledge about income Tax act 2058.

Rup Khadka (2005) wrote a book entitled "Modern Tax Administration in Nepal." This book is very useful to interest in Nepalese income taxation. This book gives almost complete information about the tax system of Nepal from its ancient time to current situation of income tax system. He had shared his expertise in his book. Basically another focuses on the administrative aspect of the tax system in Nepal.

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

Sajor Raj Regmi (2007) in his article entitled "Income tax evasion as crime in Nepalese legislation." has explained that the current trend of collection of income tax and the contribution of it in the national revenue is far from satisfaction. The study has also suggested tax law with practical solution and well set up mechanism.

Neelam Timilsina (2007) in his article entitled "Tax Elasticity and Buoyancy in Nepal in Nepal; A revisit" has concluded that the automatic response of tax to income low. Compared the period (1975-1994) the elasticity coefficient of tax during the review period (1975-2005) did not reveal significant differences. The study has further concluded that only the discretionary measures can not generate more revenue free ware. Important in the administration in tax administration of control the leakage and to burden the tax basis in practice is important of enhancing the elasticity of tax.

Ishwar Bhattari and Girija Koiral (2008) wrote a book entitled "Tax Laws and Tax Planning." This book has been written to fulfill the master's course of T.U. This book has been organized in 20 chapter. In this book, writers have described the process related to the income tax assessment and tax planning. They have also presented an overview of relevant tax laws, income tax laws, Income Tax Act,

2058 and Value Added Tax, 2052. They have also included numerical problems in regarded to income tax assessment. This book is informative and descriptive rather than analytical. It has not analyzed the importance of income tax, problem and defect of income tax system, Importance of exemption and deduction and calculation of income tax from various sources.

2.3.2 Review of Thesis and Dissertations

Pant 1996, had presented his master's level dissertation entitled "A study on Income Tax Management in Nepal." He has identified various problems of income tax management in Nepal and among them lack of managerial efficiency is the main problem. Lack of among them lack of managerial efficiency is, poor reward and punishment system, week income tax assessment procedure, poor tax information system. Lack of taxpayers education, very narrow coverage of income tax are the other problems of income tax management in Nepal are the other problems of income tax management in Nepal identified by him.

Shrestha (2001) has presented a dissertation named "Revenue Collection from Income Tax in Nepal" problem and prospects to T.U. in her study, she had described the conceptual frame work, legal provision administrative aspect and structure of income tax in Nepal. She has been conducted and opinion survey in respect of problem and prospectus of income tax in Nepal.

He finding about problem of Nepalese income tax system were mass poverty narrow tax converge and lack of consciousness of tax payer, predominance of agriculture, unscientific tax assessment procedure in efficiently tax administration, complicated tax laws and procedures instability in government policy.

She suggests that income tax system will be succeeded if the system were widening of tax coverage, tax consciousness to people, minimize the evasion and avoidance problem, and enhance the self assessment system reform in income tax assessment and administration system.

Thaman Serchan (2003) submitted a thesis entitled "An analysis of fines and penalties Regarding Income Tax System of Nepal." He has found that there were dominant share of tax revenue in Nepalese government revenue structure. He has suggested revising the provision. Formulating the clear income tax rules and regulation and clear right and duties of tax officers. This study was done with the main objectives of analyzing the provision of fees and tax officer's view about fines and penalties. Therefore his study has focused only on provision of fines and penalties.

Durga Prasad Ghimire (2004) has explained contribution of income tax particularly focusing in public enterprise in his dissertation "Income Tax in Nepal, Its structure and contribution from Public Enterprises to Government." he evaluated the performance of tax ITA 2002. He found that the tax administration Nepal is inefficient due to mainly lack of trained and competent employees and complicated tax laws.

Tank Midhi Dahal (2005) submitted a dissertation with heading "Income Tax Management aspect of income tax system depends on the excising management and leadership. A vigilant and transporting tax and sliding the gains in the revenue front. He suggested that, for the improvement of tax management strong political commitment is most.

Furtiman Basnet (2006) has presented a dissertation named "A study of effectiveness of Self-Tax Assessment in Nepal."According to this dissertation self

tax assessment system is effective in Nepal but not as expected. According to this thesis. The trend of applying self tax assessment system is increasing. It contributes for increment of tax revenue. The numbers of taxpayers are increasing in some extent. They are motivated to collect the tax to self-assessment system. He has recommended that further within the tax net and there should be organized consciousness campaign to provide the orientation for basis accounting system and self-assessment system.

Chalise (2007), has presented a thesis entailed "A study on contribution of Income Tax to Government Revenue." The objective of the study was to analyze the structure of government revenue, identify the ways and cause of income tax evasion and to make suggestion and recommendation of the elimination of income tax evasion. In his study he found that the average contribution of custom, VAT (Sales Tax), income tax and excise duty were 25.03%., 24.63%, 15.48%, and 8.46% of total revenue respectively for the period of 10 years i.e. form fiscal year 1996/1997 to 2005/06. Inefficient income tax administration reluctance of taxpayer to maintain account, poor tax morality and taxpayer's compliance is the major causes of income tax evasion in Nepal. Controlling illegal business activities, fine and penalties to tax evaders, incentive to regular taxpayers are the major ways of controlling income tax evasion in Nepal.

Lokendra Bhandari (2007) present a dissertating named "Income Taxation in Nepal: Analysis of structure and problems" has explained that contributing of income tax to the total revenue, tax revenue, direct tax and total GDP is in increasing trend. Its contribution was 9.91%, 12.67%, 67.37% and 0.93% respectively in the Fiscal Year 2005/06. The study further explained that being various problems relating to other developing countries like India, Srilanka, Pakistan etc.

Santosh Subedi (2008) has submitted a thesis "Resource Mobilization Through Income Tax in Nepal." According to main objective of his study were to examine the role of income tax in resource mobilization in Nepal, to identify the role and status of income tax in total tax structure. In this objectives he has explained to provide suitable remuneration for the improvement of general resource though income tax in Nepal.

Karan Bahadur Baidwal (2009) submitted a thesis entitled, "effectiveness of Income Tax System in Nepal" described the conceptual framework legal provision, composition of total revenue in Nepal, problem of resource gap in Nepal, public awareness towards income tax in Nepal and empirical investigation and effectiveness of tax in Nepal and empirical investigation and effectiveness of tax system in Nepal. He undertook the research work to find out the problems regarding to revenue expenditure of income tax system in Nepal to evaluate the contribution of income in national revenue to evaluate present tax administration etc.

Besides these reports, book and master level dissertations, some articles about income tax published in Rajaswa, Rising Nepal. Gorkhapatra, Kantipur, The Kathmandu Post etc. and Publication of Ministry of Finance Such as Budget speech, Economic Survey were reviewed in the study period.

2.4 Research Gap

Tax is the main source of government revenue. It pays important role in revenue collection. Tax revenue is crucial for the overall development of the country. Since more than 80% of the total revenue is collected from the tax sources. If tax collection is effective then government revenue will increase. Tax system depends on its legal provision and its popularity also defends on its transparency for

providing a lot of information about tax. To achieve the target goals of taxation only tax policies acts are not enough to achieve target goal. Tax administration is an important part of taxation system. It is necessary for successful implementation of tax laws and policies. The government had made moves tax laws policies to collect tax revenue but lack of permanent government is not effective so far.

All the researcher mentioned in review of literature were concerned with the study of laws, provisions and structure of tax revenue. Most of them have indicated the inefficiency of tax administration, widespread tax evasion and weak government law and policies, No attention has been paid on the tax administration and its effectiveness. The role of tax administration is crucial for the effectiveness of tax collection. Therefore the research has been conducted on topic income tax administration and its effectiveness in Nepal.

CHAPTER – III

RESEARCH MEHODOLOGY

3.1 Introduction

This chapter has described the methodology used in the present study. Research methodology which systematically solves the problem. It describes the methods and process applied in the entire aspect of the study. There are five parts in the chapter. They are Research Design, Nature and Source of data, Population and sampling, Data collection Procedure and Data Processing and analysis procedure.

3.2 Research Design

Research design is an overall plan and framework for the collection and analysis of data. Research design guidelines to obtain answers of research questions and control variance. The design for this research is made by collection of information from different source and the data have been tabulated and analyzed by using various financial statistical tools. The collected data from primary as well as secondary sources have been described and analyzed by using ratio percentage and statistical tools. So the study follows the descriptive as well as analytical research design. To achieve the stated objective of the study primary information is collected through structured questionnaire. The opinion of tax administrator, tax expert and tax payers are also included in research as primary information. In this way the research design of this research is descriptive, analytical and empirical.

3.3 Nature and Source of Data

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

3.3.1 Primary sources of Data

Primary data has been collected through administering structured questionnaire to sample population. The same questionnaire was distributed to all respondents, Tax administrations are selected from tax department and various sector of tax officers. Tax experts are selected representing various sectors like manufacturing, trading, banks, insurance, finance, department store etc.

3.3.1.1. Population and Sample

In order to fulfill the objective of the study 90 person have been considered as total sample. Tax administration, tax experts and taxpayers are considered as the total population. Out of 90 persons: 30 tax administrators, 30 tax experts, and 30 tax payers have been considered as the target sample for the study. Persons included in the sample are selected by consultation with lecture and best judgment of the researcher. The following table shows the groups of respondents and size of sample.

Table 3.1
Group of Respondents and size of Sample

S.N	Groups of Respondents	Sample Size
1	Income Tax Administrators	30
2	Income Tax Experts	30
3	Income Tax Payers	30
Total		90

Source: Opinion Survey, 2013

3.3.1.2. Sampling Procedure

A random sampling technique has been used to select the target and sample selection. The view of tax administrators, tax experts and tax payers have been collected on the basis of stratified selection by distributing questionnaire individually.

3.3.2. Secondary Data

The secondary sources of data are the information received from books, journals, newspapers, reports, dissertations etc. The major sources of secondary are as follows:

1. Economic survey and budget speeches Ministry of Finance Government of Nepal
2. Different Publication of Central Bureau of Statistics 2068.
3. Reports and records of Inland Revenue Department.
4. Published documents of Nepal Rastra Bank and National Planning Commission, Kathmandu.
5. Dissertation, published articles on different journal new magazines.
6. E-mail, Internet.
7. Newspapers, Published articles on different journal news magazines.
8. Various books written by tax officers and scholars related to income tax.
9. Financial Comptroller General Office.

3.4. Data Collection Procedure

Data and study are collected from primary and secondary sources. To gets accurate and actual information in time all questionnaires were distributed and collected personally through field visit. The secondary data are collected by visiting Inland

Revenue Office visiting library, Economic Survey of Ministry of Finance, Budget speeches, Thesis, Reports, Magazines, books etc.

3.5. Data Processing and Analyzing Procedure

Data collection from various cannot be directly used in their original form. All collected data and information of various aspects of income tax was arranged in order and processed. Information figures and tabulated for computation. Data are analyzed and interpreted using different tools like; Tax GDP Ratio, Simple Percentage, Average, Graphs, Charts, Diagrams and Test of Hypothesis and other tools which are related to the study. The finding are presented and interpreted properly in order and clearly.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Analysis of Secondary Data

This chapter focuses on the presentation and analysis of data. Secondary data is defined as data collected earlier for a purpose other than the one currently being purpose other than the one currently being perused. Secondary are often in the form of raw data and published materials. However, the unpublished data such as records or statistics gathered or complied by others prior to the studies are secondary data. The secondary data have been obtain from economy survey, budget speech, other related newspaper, IRD, CBS, MOF, NRB, FCGO etc. The available data related to the study have been tabulated, presented and analyzed and interpreted to research at some findings.

Primary data are collected by using questionnaire. Questionnaire was developed, distributed and collected through field visits. Same questionnaire was distributed to all respondents. For all purpose of the study 90 sets of questions were collected out of 90 person: 30 tax administrators, 30 expert and 30 tax payers have been considered as the target sample for study. The collected data from primary sources have been described and analyzed using different tools.

4.1.1 Structure of Government Revenue of Nepal

Government collects revenue from different sources. Basic sources of the government revenue are classified into tax and non-tax revenue. Nepalese economy is characterized by low revenue performance in contrast to growing

public expenditure the composition of government revenue since last ten years is presented in the table 4.1

Table 4.1
Composition of Total Revenue

(Rs. In Millions)

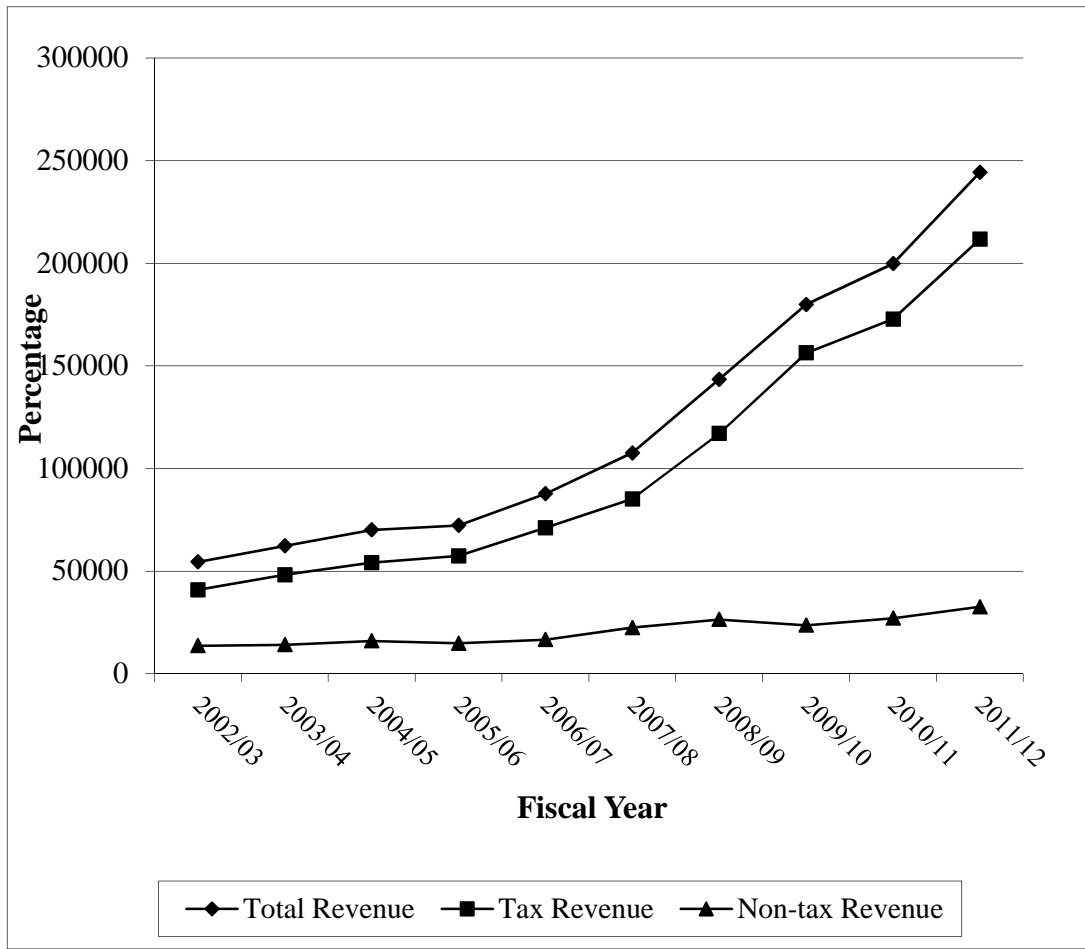
Fiscal Year	Total Revenue		Tax Revenue		Non-Tax Revenue	
2002/03	54538.9	100	40896	74.98	13642.9	25.01
2003/04	62331	100	48173	77.29	14158.0	22.71
2004/05	70122.7	100	54104.7	77.16	16018.0	22.84
2005/06	72281.9	100	57430.4	79.45	14851.5	20.55
2006/07	87712.1	100	71126.7	81.09	16585.4	18.91
2007/08	107622.5	100	85155.5	79.12	22467.0	20.88
2008/09	143474.5	100	117051.9	81.58	26422.6	18.42
2009/10	179945.8	100	156294.9	86.86	23650.9	13.14
2010/11	199818.7	100	172777.6	84.47	27041.1	13.53
2011/12	244336.4	100	211722.6	86.65	32613.8	13.35
Total	1222184.5	100	1014733.3	83.03	198451.2	16.97
Average	122218.45	100	10473.33	83.03	19845.12	16.97

Source: Financial Comptroller General Office, Fiscal year 2011/12 Economic Survey Fiscal Year, 2010/11, MOF, GOV.

Total revenue of Nepal consists of tax revenue and non tax revenue. Tax revenue comprises of customs, excise, sales tax, VAT, income tax, vehicle tax, land and house registration, non-tax revenue includes duties, fees, sales of government

properties commodities and services, dividends on share, interest on loans, donation, gifts, grants penalties fines and for fetuses administrative fees, rent and royalty. In Nepalese revenues structure from fiscal year 2002/2003 to 2003/04 tax revenue has always been greater than three or four times of non-tax revenue. This means heavy contribution of tax revenue always been increasing per year.

Figure 4.1
Composition of Total Revenue



From the above table 4.1 and figure 4.1 it addressed that percent of tax revenue contribution has always been fluctuating within the lower limit about 74.98% to the upper limit of about 86.86%. In 2002/03, out of total revenue of Rs. 54538.9

million, 74.98% i.e., 40896 million was contributing by tax revenue. In 2006/07, 81.09% that is 71126.70 million has collected as tax revenue. Similarly, in 2011/12, 86.65% i.e., Rs. 211722.6 million was collected as tax revenue. Non-tax revenue has the lowest contribution as compared to tax revenue. Its contribution to total revenue has below 26%. In 2002/03, Rs. 13642.9 million was collected as non-tax revenue, which was about 25.01% of total revenue. Its contribution over the tenth year's period has been fluctuating within 13.14% to 25.01%. In 2005/06 out of total revenue of Rs. 7228.19 million, Rs. 14851.5 million was contributed from non tax revenue. It was about 20.55% of total revenue. Similarly in 2011/12 out of total revenue of Rs. 244336.4 million, Rs. 32613.8 was contributed from non-tax revenue. It was about 13.35% of total tax revenue, It was increased by rupees but decreased in percentage in compared to last year revenue.

From the above table 4.1 and figure 4.1 clearly shows that tax revenue has been significantly contributed in total revenue and non-tax revenue has been poor contributed. In conclusion, we can say that tax is the most important source of government revenue. It is suitable source of collecting revenue internally.

4.1.2 Tax/GDP Ratio

Here, this analysis has been made to know about analysis of the share of taxation in total Gross Domestic Product (GDP) of Nepal. It is to be noted here that the tenth plan has targeted to increase the share of tax revenue in GDP.

Nepal is one of the least developed nations in the world. Nepalese economic activity is very slow and does not show any drastic positive change.

Table 4.2
Contribution of Tax Revenue, Non-tax Revenue and Income Tax Revenue in
GDP of Nepal

(Rs. in Millions)

Fiscal Year	GDP	Tax Revenue	Tax Revenue as % of GDP	Non Tax Revenue	Non-tax Revenue as % of GDP	Income Tax Revenue	Income Tax Revenue as % of GDP
2002/03	460325	40896	8.88	13642.9	2.96	7966.2	1.73
2003/04	500699	48173	9.62	14158.0	2.83	9245.9	1.85
2004/05	548485	54104.7	9.86	16018.0	2.92	10159.4	1.85
2005/06	611118	57430.4	9.40	14851.5	2.43	10373.7	1.70
2006/07	675859	71126.7	10.52	16585.4	2.45	15034	2.22
2007/08	755257	85155.5	11.28	22467.0	2.97	17311.2	2.29
2008/09	909528	117051.9	11.77	26422.6	2.91	25142.4	2.76
2009/10	1083415	156294.9	14.42	23650.9	2.18	33285.6	3.07
2010/11	1246423	172777.6	13.86	27041.1	2.17	38868.5	3.12
2011/12	1418216	211722.6	14.93	32613.8	2.30	48785.8	3.44
Total	8209325	1014733.30	12.36	19845.12	2.42	216172.7	2.63
Average	820932.5	101473.33	12.36	19845.12	2.42	21617.27	2.63

Source: Economic Survey, 2011/12 MOF, GOV.

From the above table 4.2 it is clear addressed that TAX/GDP ratio is not satisfactory. It is fluctuate time to time. In 2002/03, it is 8.88% then after it is above 8.88%. A maximum of 14.93% Tax/GDP ratio was achieved in 2011/12. The average Tax/ GDP ratio for ten years has been computed to be 12.36%. Non tax revenue is also fluctuating time to time. A maximum of 2.97% non tax revenue ratio of GDP was achieved in 2007/08. The mean non-tax revenue ratio of GDP for the ten years has been computed to be 2.24%. Income tax revenue is also fluctuating time to time. Its contribution is high in the fiscal year 2011/12 i.e. 3.44%. It is not satisfactory. The mean income tax revenue of GDP for the ten year has been computed to be 2.63%.

4.1.3 Composition of Total Tax Revenue

Tax revenue is the combination of direct and indirect tax. Direct tax includes revenue from land and registration fees, taxes on property, taxes on profit and income where as indirect tax includes customs on export and import, exercise on industrial products, VAT, sales tax, entertainment tax, hotel tax, air flight tax, contract tax etc. The composition of Nepalese tax revenue is presented in the table 4.3 in terms of direct tax and indirect tax revenue. The composition of tax revenue has been shown below.

Table 4.3
Composition of Total Tax Revenue

(Rs. in Millions)

Fiscal Year	Total Tax Revenue	Direct Tax Revenue		Indirect Tax Revenue	
		Amount	Percentage	Amount	Percentage
2002/03	40896.0	10881.90	26.61	30014.1	73.39
2003/04	48173.0	11912.60	24.73	36260.40	75.27
2004/05	54104.7	13071.80	24.16	41032.80	75.84
2005/06	57430.4	13968.10	24.32	43462.80	75.68
2006/07	71126.7	18980.30	26.69	51146.40	73.31
2007/08	85155.5	23087.70	27.11	62067.80	72.89
2008/09	117051.9	34320.70	29.32	82731.20	70.68
2009/10	156294.9	41350.00	26.46	114944.90	73.54
2010/11	172777.6	48655.10	28.16	124122.50	71.84
2011/12	211722.6	66895.00	31.60	144827.60	68.40
Total	1014733.3	283123.2 0	27.90	730610.00	72.10
Average	101473.33	28312.32	27.90	73061.00	72.10

Source: Economic Survey, 2011/12 MOF, GON.

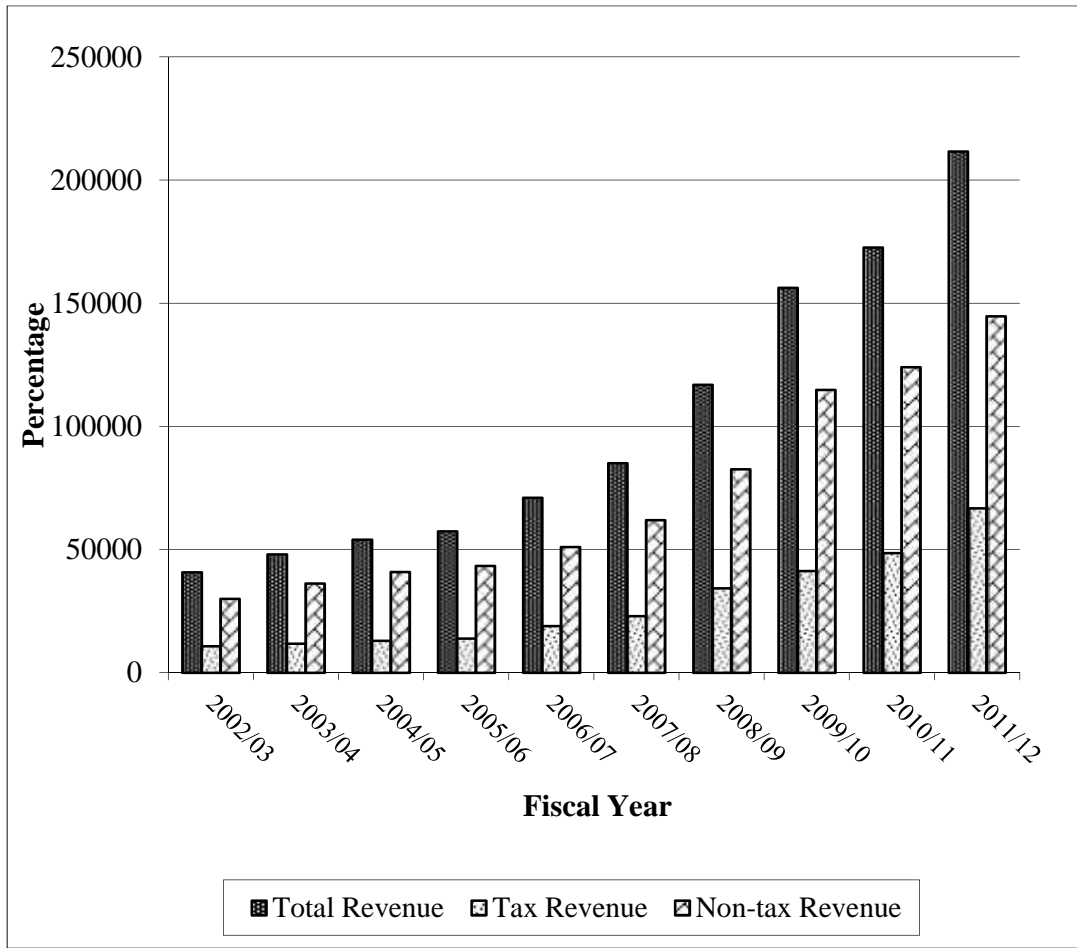
According to above table, it shows that the whole Nepalese tax structure is dominated by indirect tax. The average share of direct tax revenue in total tax revenue for the period of last ten years was 27.90% and the average share of indirect tax revenue was 72.10%.

According to above table 4.3 total tax revenue, direct tax revenue and indirect tax revenue are in increasing trend. The mean share of direct tax was Rs. 28312.32 million and that of indirect tax was Rs. 73061 million for the period of last ten years. The amount of direct tax was 10881.90 million in fiscal year 2002/03. It increased every year and reached to Rs. 68895.0 million in fiscal year 2011/12. Percentage contribution of direct tax to total tax revenue was fluctuating every year. The contribution of direct tax to total tax revenue was 27.90 in average for the period of last ten years.

Similarly, the amount of indirect tax was Rs. 30014.10 million in the fiscal year. 2002/03. It increased each year and reached to Rs. 144827.60 million in the fiscal year 2011/12. Percent contribution of indirect tax to total tax revenue was highest 75.80% in fiscal year 2011/12. The contribution of indirect tax on total tax revenue was 72.10 in average. The contribution of direct and indirect tax revenue on total tax revenue is shown in the following trend line.

Figure 4.3

Composition of Total Tax Revenue



4.1.4 Composition of Indirect Tax Revenue

The tax structure of Nepal is mainly dependent on indirect tax. The major tax components of indirect tax in Nepalese tax structure consists custom duty has been classified mainly into import duty and export duty and other component of indirect tax like entertainment tax, hotel tax, air flight tax other tax Table 4.4 shows the consumption of indirect tax given as follows:

Table 4.4**Composition of Indirect Tax Revenue****(Rs. in Millions)**

Fiscal Year	Total Indirect Tax	Custom Duties		Tax on Consumption and Product of Goods and Services Indirect Tax Revenue			
				Value Added Tax		Excise on Industrial Products	
		Amount	%	Amount	%	Amount	%
202/03	30014.10	12783.2	42.59	13459.7	44.84	3771.2	12.57
2003/04	36260.40	15554.8	42.90	14478.9	39.93	6226.7	17.17
2004/05	41032.80	15701.6	38.27	18885.4	46.03	6445.9	15.70
2005/06	43462.30	15344.0	35.30	21610.7	49.72	6507.6	14.98
2006/07	51146.40	16707.6	32.67	26095.6	51.02	9343.2	16.31
2007/08	62067.80	21062.4	33.93	29815.7	48.04	11189.6	18.03
2008/09	82731.20	26792.9	32.39	39700.9	47.99	16237.4	19.62
2009/10	114944.90	35150.8	30.58	54920.9	47.78	24473.2	21.64
2010/11	124122.50	35711.6	28.77	61663.6	49.98	26747.4	21.55
2011/12	144827.60	43930.8	30.33	70930.4	48.68	30506.4	20.69
Total	730610.00	238739.7	32.68	351561.8	48.12	141448.6	19.20
Average	73061.00	23873.97	32.68	35156.18	48.12	14144.86	19.20

Source: Financial Comptroller General Office.

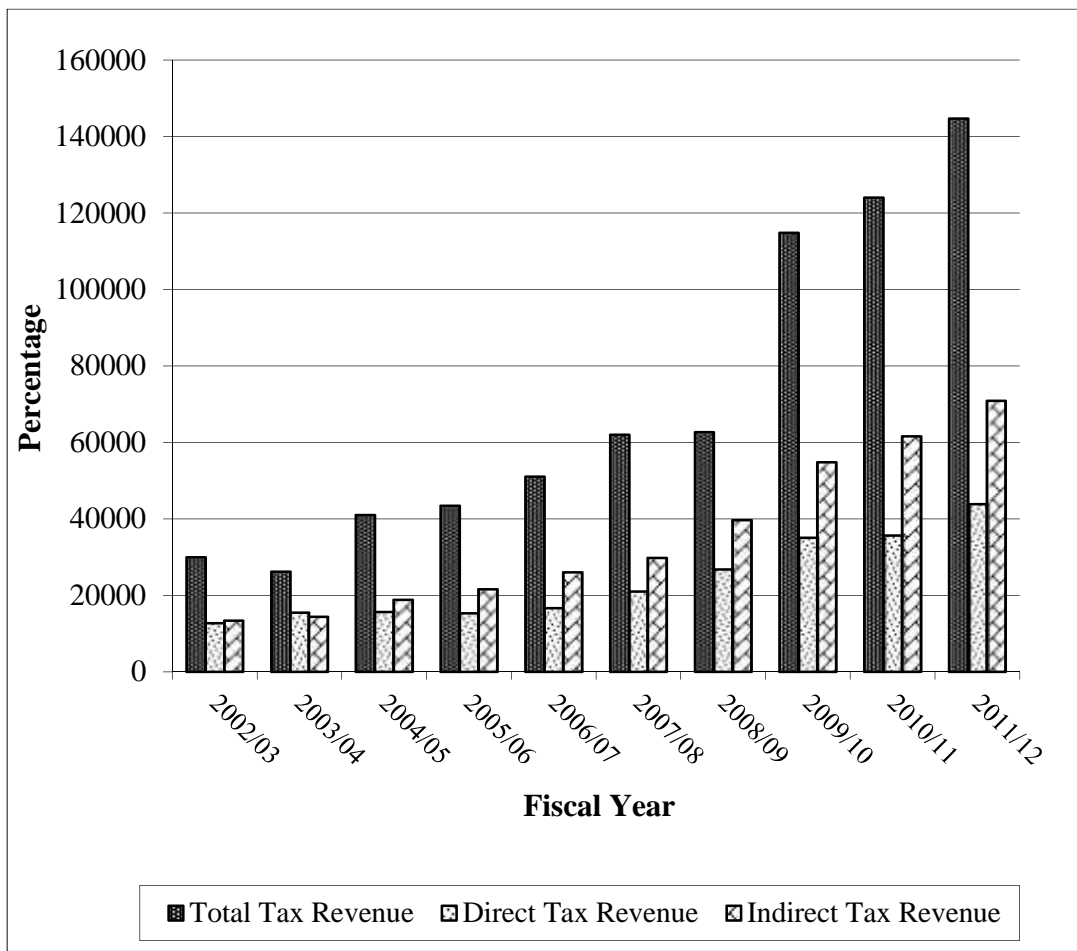
The above table 4.4 revealed that the custom duty and VAT occupies major portion in indirect tax. The contribution of custom duty was fluctuating between 42.90% to

28.77% in fiscal year 2003/04 to 2010/11. After fiscal year 11/12 in 32.68% during the study period.

Average share of VAT to indirect tax was 48.12% amount of VAT in the fiscal year 2002/03 was Rs. 13459.70 million and reached to Rs. 70930.40 million in the fiscal year 2011/12. Similarly, the amount of excise on industrial products was increasing each year but percentage was fluctuating. In average its contribution of excise on industrial products on total indirect tax was Rs. 14144.86 million (i.e. 19.20%) for the period of last ten years. It is shown in the following figures;

Figure No. 4.3

Composition of Indirect Tax



4.1.5 Composition of Direct Tax Revenue

The structure of direct tax is the composition of income tax, land revenue and registration, vehicle tax, interest tax and other tax. Direct tax has been divided into three sub-heads for the analysis i.e. income tax, land and house registration and miscellaneous tax, among various direct tax revenue income tax has occupied the supreme position. It has been presented in table 4.5.

Table 4.5
Contribution of Various Taxes in Direct Tax Revenue in Nepal

(Rs in Millions)

Fiscal Year	Direct Tax Revenue		Income Tax Revenue		Land Revenue		Miscellaneous Taxes	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%
2002/03	10881.90	100	7966.20	73.21	1414.30	13.00	1501.40	13.80
2003/04	11912.60	100	9245.90	77.61	1697.50	14.25	969.20	8.14
2004/05	13071.80	100	10159.40	77.72	1799.20	13.76	1113.20	8.52
2005/06	13968.10	100	10373.70	74.27	2181.10	15.61	1413.30	10.12
2006/07	18980.30	100	15034.00	79.21	2253.50	11.87	1692.80	8.91
2007/08	23087.70	100	17311.20	74.98	2940.70	12.74	2835.80	12.28
2008/09	34320.70	100	25142.40	73.20	5223.30	15.22	3955.00	11.52
2009/10	41350.00	100	33285.60	80.50	5511.10	13.33	2553.30	6.17
2010/11	48655.10	100	38868.50	79.89	3572.50	7.34	6214.10	12.77
2011/12	66895.00	100	48785.80	72.93	3559.00	5.32	14550.20	21.75
Total	823123.20	100	216172.70	76.35	30152.20	10.65	36798.30	13.00
Average	28312.32	100	21617.27	76.35	3015.22	10.65	3679.83	13.00

Source: Economic Survey, 2011/12, MOF, GON.

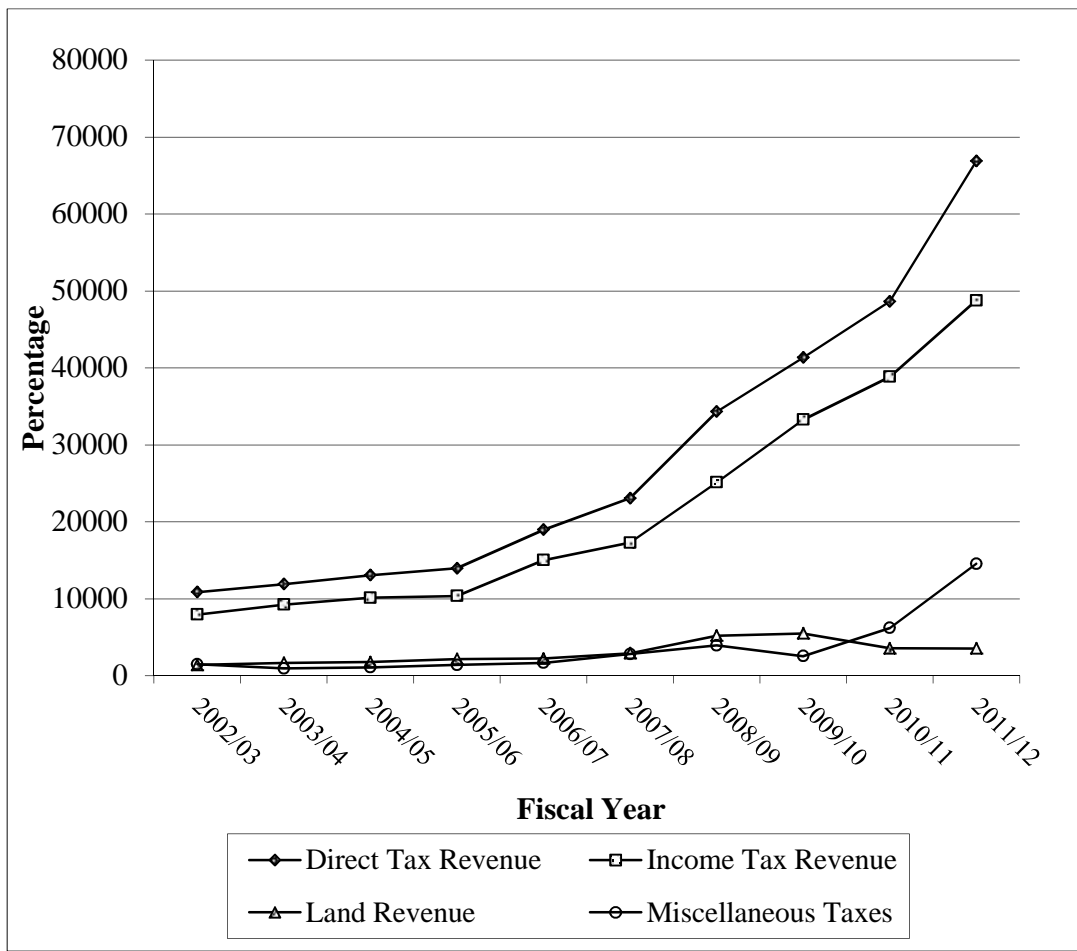
Note 1: Income tax includes tax from public enterprises, semi-public enterprises, private corporate bodies, individuals, remuneration and interests.

Note 2: Land revenue includes land revenue household and land registration

Note 3: Miscellaneous taxes include urban house and land tax, vehicle tax and other tax

Figure No. 4.4

Contribution of Various Direct Tax Revenue in Nepal



The above table 4.5 and figure 4.4 shows that income tax occupied that first place among various direct tax revenues. The amount of income tax has been showing increasing trend. Out of total direct tax revenue Rs. 7966.20 million has been contributed by income tax in 2002/03. This is about 73.21% of the total direct tax revenue. In the fiscal year 2011/12, out of total direct tax revenue Rs. 48785.80 million has been contributed by income tax revenue. It is about 72.93% of total direct tax revenue which was maximum about during the ten years period and 80.50% was the highest percentage income tax in 2009/10.

Land and house registration income occupied third position in average percentage contribution among various direct taxes. The amount of land and registration income tax has been showing an increasing trend about fiscal years 2009/10 and then it was declining stage. Trend of that was fluctuating over the period. The contribution of land and house registration has so much decrease in the fiscal year 2011/12. It was only 5.32% of the total direct tax revenue. In this year its percentage is in decreasing trend.

Miscellaneous taxes amount has been showing increasing trend. The trend of miscellaneous taxes revenue has been also fluctuating. In the fiscal year 2003/04 its contribution on the total direct tax was Rs. 969.20 million i.e. 8.14%. In the fiscal year 2011/12 its contribution out of total direct tax of Rs. 14550.20 million, i.e. 21.75% on direct tax revenue.

It is conclude that in the position of direct tax, income tax plays vital role from the beginning. It's contribution around 72.93% to 80.50% in various years.

4.1.6 Structure of Income Tax in Nepal

The structure of Nepalese Income Tax is composed up of income tax from public enterprises, income tax from private bodies, income tax from individuals, income from remuneration and income tax from interest, here from remuneration and income tax from interest Here public enterprises consists of 100% government ownership and semi-public enterprise includes 51% of government ownership. Private corporate bodies means individuals denote role traders, partnership and private limited companies, Remuneration employment refers to salaries earned from the services provides to the government and non government sectors

Table 4 6 (a)**Composition of Income Tax in Nepal****(Rs. in Millions)**

Fiscal Year	Public Enterprises	Semi Public Enterprises	Private Corporate Bodies	Individual	Remuneration	Tax on Interest	Total Income Tax
2002/03	2928.0	-	1924.3	3362.2	597.3	864.0	7966.20
2003/04	2056.6	-	1531.3	3533.4	1391.2	733.4	9245.90
2004/05	1332.4	-	2467.8	3926.3	1675.9	757.0	10159.40
2005/06	195.7	-	3404.3	4234.7	1764.1	774.9	10373.70
2006/07	1019.7	-	5717.1	5234.4	2007.9	1054.9	15034.0
2007/08	204.6	-	7186.5	6381.2	2451.0	1087.9	17311.20
2008/09	959.1	-	9425.1	9877.5	3195.6	1685.1	25142.40
2009/10	1131.8	-	12234.4	11039.9	4413.1	2466.4	33285.60
2010/11	1281.8	-	13965.5	13627.4	5863.3	4130.5	38868.50
2011/12	1457.7	-	15265.1	17352.6	6174.6	8515.8	48785.80
Total	12567.40	-	73121.40	78569.6	29534.0	22044.9	216172.7
Average	1256.74	-	7312.14	7856.96	2953.40	2204.19	21617.27

Source: Economic Survey, 2011/12.

Table 4 6 (b)
Composition of Income Tax in Nepal

(In Percentage)

Fiscal Year	Public Enterprises	Semi Public Enterprises	Private Corporate Bodies	Individual	Remuneration	Tax on Interest	Total Income Tax
2002/2003	36.76	-	24.16	42.21	7.50	10.63	100
2003/2004	22.24	-	16.56	38.22	15.05	7.93	100
2004/2005	13.11	-	24.29	38.65	16.50	7.45	100
2005/2006	1.89	-	32.82	40.82	17.01	7.47	100
2006/2007	6.78	-	38.03	34.82	13.36	7.02	100
2007/2008	1.18	-	41.51	36.86	14.16	6.28	100
2008/2009	3.82	-	37.49	39.29	12.71	6.70	100
2009/2010	3.40	-	36.76	33.17	13.26	7.41	100
2010/2011	3.30	-	35.93	35.06	15.08	10.63	100
2011/2012	2.99	-	31.29	35.57	12.66	17.46	100
Total	5.81		33.83	36.35	13.66	10.26	100
Average	5.82		33.83	36.35	13.67	10.26	100

Source: Economic Survey, 20011/12.

Figure No. 4.5

Composition of Income Tax in Nepal

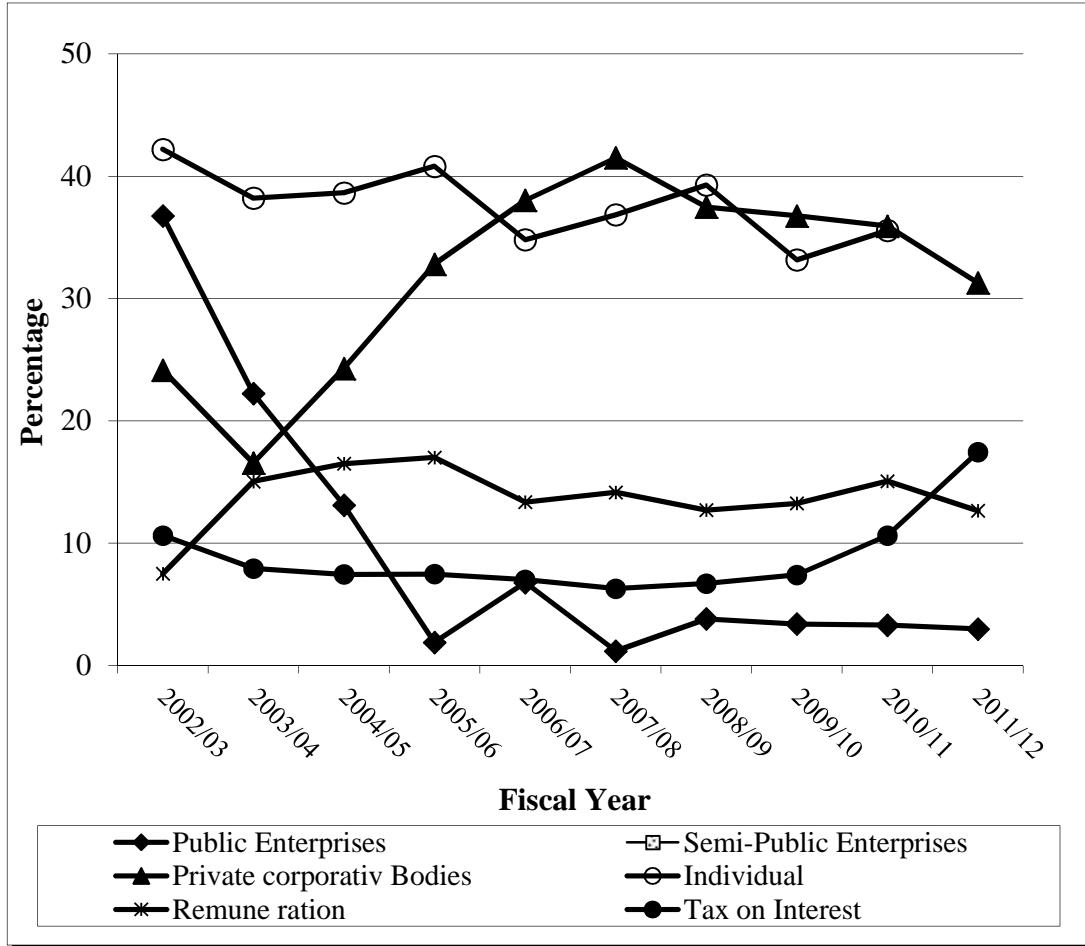


Table 4.6 present the structure of income tax in Nepal which shows the income tax has increased in very fiscal year. It has increased from Rs. 7966.20 million to Rs. 48785.80 million in the fiscal year 2002/03 to 2011/12.

The income tax contribution of individuals has occupied first position in total income tax revenue of Nepal. In fiscal year 2002/03 Rs. 3362.20 million, then it has been increasing trend up to Rs. 17352.60 million in fiscal year 2011/12. But it is significantly decreasing in percentage. In 2002/03 out of total income tax revenue of Rs. 7966.20 million, Rs. 3362.30 million has been raised from

individuals. It is about 42.21% contribution by individuals. Similarly 2011/12. Contribution from individuals in total revenue has increased to Rs. 17352.6 million this is 35.57% of total tax revenue. Its contribution was highest rupees in fiscal year 2011/12 and highest percentage in fiscal year 2002/03.

Private corporate bodies occupied second position out of total income tax revenue of Nepal. In 2002/03, private corporate bodies paid Rs. 1924.30 million out of 7966.20 million i.e. private corporate bodies contributed 24.16% of total income tax revenue. This was significant contribution. Its contribution has been fluctuating in percentage. In 2003/04 it was decreased by Rs. 393 million i.e. 20.42% of previous years. Then it were increasing trend. In 2011/12, it was 15265.10 million, which was 31.29% of total tax revenue. It is highest contribution among the other sources.

Income tax from remuneration has occupied third position in total income tax revenue of Nepal. In fiscal year 2003/04 out of total income tax revenue of Rs. 9245.90 million, Rs. 1391.2 million has been contributed by employment income tax i.e. 15.05% of total income tax revenue. Income tax i.e., 15.05% of total income tax revenue. Income tax from remuneration has been increasing in all the years. In 2005/06, total income tax revenue was Rs. 10373.70 million includes Rs. 1764.1 million as income tax from remuneration. Similarly, in 2011/12 out of total tax revenue of Rs. 48785.80 million, , 6174.6 million was contributed by remuneration. It was about 12.66% of total tax revenue. It shows that the remuneration tax has been contributed significantly in total tax revenue from this analysis we can conclude that remuneration tax is suitable means of collecting income tax revenue.

Tax on interest has occupied fourth position in total income tax revenue. In fiscal year 2002/03., Rs. 864 million was collected as tax on interest out of Rs. 7966.20 million of total income tax revenue. Interest tax was in increasing trend in all the fiscal year except 2003/04 in fiscal year 2011/12 out of total income tax revenue of Rs. 48785.80, Rs. 8518 million has been collected as interest tax. It was 17.46 % of total revenue.

Income tax from public enterprise has occupied fifth position regarding its contribution in total income tax revenue of Nepal. In fiscal year 2002/03 out of total income tax revenue of Rs. 7966.20 million, Rs. 2928 million has been contributed by public enterprises. Its contribution has been decreasing trends upto 2007/08 then it is in increasing trend in 2008/09, 2009/10, 2010/11, 2011/12. In fiscal year 2011/12 out of total income tax revenue of Rs., 48785.80 million, Rs. 1457.70 million has been contributed by public enterprises.

The share of semi-public enterprises was nil in each year because the source of revenue was restricted and share of semi-public enterprises was not calculated separately also.

It can be calculated that public enterprise, private corporate bodies, individuals; remuneration are in fluctuating trend.

4.1.7 Contribution of Income Tax in Total Revenue, Tax Revenue and Direct Tax Revenue

Nepal is facing serious and growing fiscal resources gap and her need for mobilization additional financial resources from domestic resources through taxation have been urgent. The base for living taxes may be consumption, income and capital. Taxes on incomes, capital are known as indirect taxes. Tax structure of

Nepal is composed of both direct and indirect taxes. Income tax has been an important element of direct tax and it is paying vital role to generate government revenue for the development of national economy.

Table 4.7

Contribution of Income Tax in Total Revenue, Total Tax Revenue and Direct Tax Revenue of Nepal

Fiscal Year	Income Tax Revenue	Total Revenue	% of Income Tax in Total Revenue	Total Tax Revenue	% of Income Tax in Total Tax Revenue	Direct Tax Revenue	% of Income Tax in Direct Tax Revenue
2002/03	7966.20	54538.90	14.61	10896.0	19.48	10881.90	73.21
2003/04	9245.90	62331.00	14.83	48173.0	19.19	11912.60	77.61
2004/05	10159.40	70192.7	14.47	54104.7	18.78	13071.80	77.72
2005/06	10373.70	72281.9	14.35	57430.4	18.06	13968.10	74.27
2006/07	15034.00	87712.10	17.14	71126.7	21.14	18980.30	79.21
2007/08	17311.20	107622.50	16.09	85155.5	20.33	23087.70	74.98
2008/09	25142.40	143474.50	17.52	117051.9	21.48	34320.7	73.26
2009/10	33285.60	179945.80	18.50	156294.9	21.30	41350.0	80.50
2010/11	38868.50	199818.70	19.45	172777.6	22.50	48655.10	79.89
2011/12	48785.80	244336.4	19.97	211722.6	23.04	66895.10	72.93
Total	216172.70	1222254.5	17.69	1014733.3	21.30	283123.20	76.35
Average	21617.27	122225.45	17.69	10473.33	21.30	28312.32	76.35

Source: Economic Survey, 2011/12.

Table 4.7 shows the percentage contribution of income tax to total revenue. It was increased 14.61% to 14.83% from fiscal year 2002/03 to 2003/04. Then it was

decreased in fiscal year 2004/05 and 2005/06. Then after in 2006/07 it was increased 14.35% to 17.14% and in 2007/08, it was 16.09% it was in decreasing then it was increasing trend.

In fiscal year 2011/12 percentage contribution of income tax to total revenue was 19.97%.

Above table 4.7 shows that the contribution of income tax in total tax revenue for ten years from 2002/03 to 2011/12. Its contribution has been fluctuating in percentage. In fiscal year 2002/03 percentage of income tax revenue in total tax revenue was 19.48%. In fiscal year 2011/12 it was 23.04%.

Similarly above table 4.7 shows that there is substantial contribution of income tax in the composition of direct tax revenue in Nepal for ten years period i.e. 2002/03 to 2011/12. The contribution of income tax has never been less than 72% and it was in fluctuating trend. It was 73.21% in 2002/03 but in 2009/10 it increased and reached 80.50% in 2011/12 and decreased and reached 72.93%.

So it is clear that there is significant contribution of income tax in Nepal to increase total revenue, total tax revenue and direct tax revenue. There seems to be highly positive correlation of income tax revenue with total revenue, tax revenue and direct tax revenue. It means if the income tax revenue is increased total revenue, tax revenue and direct tax revenue also increase.

4.1.8 Resource Gap in Nepal

A resources gap is the serious problem in Nepal for the economic development just like other developing countries in the world Nepal has been suffering from resource constraint, mass poverty, rapid growth of people, aggressive dependence on agriculture income, subsistence living standard etc.

Source mobilization of Nepal is still poor and that doesn't cover the growing expenditure. Fiscal deficit is due to continuously growing expenditure of the government instead of the low revenue performance in Nepal. So, the country is facing the increasing burden of foreign loan.

Table 4.8

Resource Gap in Nepal (Rs. in millions)

Fiscal Year	Total Expenditure	Total Revenue	Resources Gap (A)	Foreign Grants	Resource Gap (B)	Foreign Loans (D)	Resource Gap (C)
	(A)	(B)	(A-B)	(C)	[A - (B + C)]	(D)	[A - (B + C + D)]
2002/03	84006.1	56229.8	27776.30	11339.10	16437.20	4546.40	11890.80
2003/04	89442.6	62331.0	27111.60	11283.40	15828.20	7629.00	8199.80
2004/05	102560.4	7012.27	32437.30	14391.20	18046.50	9266.10	8780.40
2005/06	110889.2	7228.21	38606.90	13827.50	24779.40	8214.30	16565.10
2006/07	133604.6	87712.1	45892.50	15800.80	29769.54	10053.5	19716.04
2007/08	161349.9	107622.5	53727.40	20320.70	37867.43	8979.90	28887.53
2008/09	219662.0	143474.5	76187.50	26382.80	49804.60	9968.90	39835.70
2009/10	25989.1	179945.8	79743.30	38545.90	41179.40	1123.40	29956.00
2010/11	29563.4	199819.0	95544.40	45922.2	49622.20	12075.60	37546.60
2011/12	339167.4	224336.4	114831.0	407810.3	74020.70	11083.10	62937.60
Total	1795674.70	1138821.50	656853.2	238623.9	418229.3	9304.20	325189.1
Average	179567.47	113882.15	65685.32	23862.39	41822.93	9304.02	32518.91

Source: Financial Comptroller General Officer.

1. Resource Gap (A) = (A – B)

As shown in the table 4.8 resources gap "A" was Rs. 27776.30 million in the fiscal year 2002/03 and Rs. 114831.0 million in the fiscal year 1011/12. The average resource gap was increasing trend up to fiscal year 2011/12 except fiscal year 2003/04. In the fiscal year 2003/04 resource gap was decrease in Rs. 2711.60 million and then resource gap in increasing 32437.30 million in fiscal year 2004/05.

2. Resource Gap (B) [A – (B + C)]

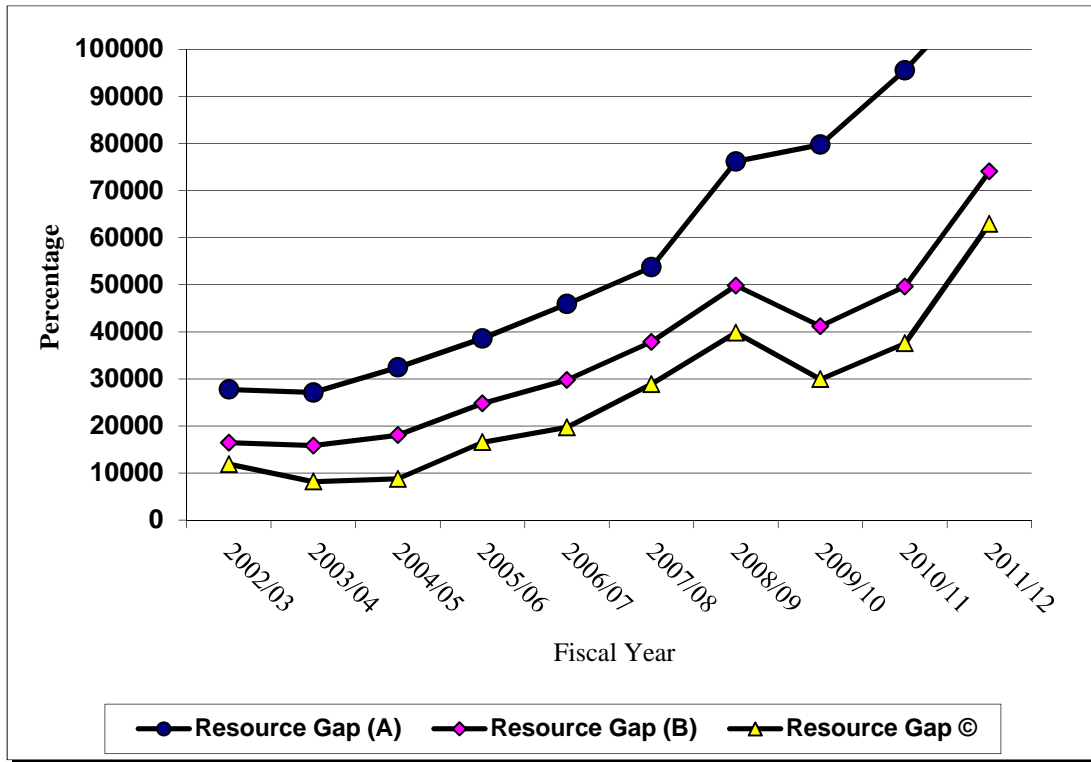
This resource gap is taken as the difference between total expenditure and total revenue plus foreign grants. In the fiscal year 2002/03 time gap was 16437.20 million which decreased in Rs. 15828.20 million in fiscal year 2003/04. Then after the amount of resource gap was in increasing trend. In fiscal year 2010/11, the amount of resource gap was Rs. 41822.93 million in fiscal year 2011/12. The average resource gap was Rs. 41822.93 million for ten years.

3. Resource Gap (C) = [A – (B + C + D)]

This resource gapping is taken as the different between total expenditure and total resource plus foreign grants plus foreign loan. In the fiscal year 2002/03 the gap was Rs. 11890.80, which was increased to Rs. 62937.60 million in fiscal year 2011/12. The average resource gap was Rs. 32518.91 million for ten years.

Figure 4.6

Resource Gap in Nepal



4.2 Empirical Investigation

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

The questionnaire has covered the role of income tax, major problem facing by the taxpayers, income tax evasion practice in Nepal, income tax administration of Nepal and its effectiveness etc. (See Questionnaire in Appendix.) The respondents were requested to response the question by following four ways

-) They were required to response simply by 'Yes', 'No.' question.
-) They could choose the best alternative from various options.
-) Respondents had option to put their views by writing wherever necessary.
-) They could response by ranking the choices starting from 1 for the least importance and last no. (on the basis of number of alternatives) for the most importance.
-) Following table 4.9 shows the number of groups, number of respondents in each group and code used to represent them.

Table 4.9

Group 'of Respondents and Size of Sample

S.N.	Group of Respondents	Sample Size	Code Used
1	Income Tax Administrators	30	A
2	Tax Experts	30	B
3	Tax Payers	30	C
	Total	90	

Source: Opinion Survey, 2013.

4.2.1 Attitude towards Tax Awareness

To know the attitude of respondents towards the tax education. "Do you think that people are well informed about the tax system of Nepal?" was asked, the responses have been tabulated in the following table 4.10.

Table No. 4.10**People's Knowledge towards Tax System**

S.N.	Group of Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	Income Tax Administrators	7	23.33	23	76.67	30	100
2	Tax Experts	16	53.33	14	46.67	30	100
3	Tax Payers	17	56.67	13	43.43	30	100
	Total	40	44.44	50	56.56	90	100

Source: Opinion Survey, 2013.

According to above table 4.10, it has been clear that 55.56% respondents think people are not well informed about the tax system of Nepal but 44.44% of respondents approved the question. Therefore it can be concluded that there is a need for tax education in Nepal. People are not well informed about the tax system of Nepal. Tax education is the most necessary to increase the tax consciousness in Nepal.

Table 4.11**Test of Hypothesis**

S.N.	Group of Respondents	Yes	No	Row Total
1	Income Tax Administrators	7	23	30
2	Tax Experts	16	14	30
3	Tax Payers	17	13	30
	Total	40	50	90

Source: Table 4.10.

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

Alternative Hypothesis H_1 = There is significant different in tax awareness income tax system in Nepal

Test statistic under H_0 : The test statistic is:

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

Where,

O = Observed Frequency

$$E = \text{Expected Frequency} = \frac{\text{Row Total} \times \text{Column Total}}{\text{Total Number of Observations}}$$

Table No. 4.12

Calculation of χ^2

O	E	(O-E)	(O-E)²	(O-E)²/E
7	13.33	-6.33	40.07	3.0360
23	16.67	6.33	40.07	2.4037
16	13.33	2.67	7.13	0.5349
14	16.67	-2.67	7.13	0.4277
17	13.33	3.67	13.47	1.0105
13	16.67	-3.67	13.47	0.8080
Total				8.2208

Source: Table 4.11.

Calculated Value of $\chi^2 = 8.2208$

Level of Significant (α) = 5%

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

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

Decision: Since the calculated value of $\chi^2 >$ tabulated so null hypothesis is rejected. Hence we conclude that there is significant difference in tax awareness income tax system in Nepal.

4.2.2 Attitude towards the Income Tax System of Nepal

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

Table 4.13
Attitude towards the Income Tax System of Nepal

S.N.	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	Income Tax Administrators	14	46.67	16	53.33	30	100
2	Tax Experts	8	26.67	22	73.33	30	100
3	Tax Payers	11	36.67	19	63.33	30	100
	Total	33	36.67	57	63.33	63.33	100

Source: Opinion Survey, 2013.

The above table 4.13 showed that 36.67% of the respondents approved that the income tax system is sound and efficient and 63.33% of the respondents showed their dissatisfaction regarding the income tax system is sound and efficient. In conclusion, it can be said that most of the respondents opened that the income tax system of Nepal is not sound and efficient.

Table 4.14

Test of Hypothesis

S.N.	Respondents	Yes	No	Row Total
1	Tax Administrators	14	16	30
2	Tax Experts	8	22	30
3	Tax Payers	11	19	30
	Total	33	57	90

Source: Table 4.13

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

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

Test statistic under H_0 : The test statistic is:

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

Where,

O = Observed Frequency

$$E = \text{Expected Frequency} = \frac{\text{Row Total} \times \text{Column Total}}{\text{Total Number of Observations}}$$

Table 4.15

Calculation of t^2

O	E	(O-E)	(O-E)²	(O-E)²/E
14	11	3	9	0.8182
16	19	-3	9	0.4738
8	11	-3	9	0.8182
22	19	3	9	0.4738
11	11	0	0	0.0000
19	19	0	0	0.0000
Total				2.5840

Source: Table 4.14

Calculated Value of $\chi^2 = 2.5840$

Level of Significant = 5%

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

= 2×1

= 2

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

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

Table 4.16

4.2.3 Income tax a Suitable Means of Raising Government

S.N.	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	Income Tax Administrators	18	60	12	40	30	100
2	Tax Experts	16	53.33	14	46.67	30	100
3	Tax Payers	21	70	9	30	30	100
	Total	55	61.11	35	38.89	90	100

Source: Opinion Survey, 2013

According to above table 4.16, it is found that 60% tax administrators, 53.33% tax experts and 70% taxpayer recognize income tax revenue. In average 61.11% of respondents are in favor of income tax as a suitable means of raising government revenue. Only 38.89% of respondents don't recognize it.

Table 4.17

Test of Hypothesis

S.N.	Respondents	Yes	No	Row Total
1	Tax Administrators	18	12	30
2	Tax Experts	16	14	30
3	Tax Payers	21	9	30
	Total	55	35	90

Source: Table 4.16

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

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

Test statistic under H_0 = the test statistic is:

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

Where,

O = Observed Frequency

$$E = \text{Expected Frequency} = \frac{\text{Row Total} \times \text{Column Total}}{\text{Total Number of Observations}}$$

Table 4.18

Calculated of χ^2

O	E	(O-E)	(O-E)²	(O-E)²/E
18	18.33	-0.33	0.11	0.0061
12	11.67	0.33	0.11	0.0094
16	18.33	- 2.33	5.41	0.2951
14	11.67	2.33	5.41	0.4636
21	18.33	2.67	7.13	0.3890
9	11.67	-2. 67	7.13	0.6110
Total				1.7742

Source: Table 4.14

Calculated of $\chi^2 = 1.7742$

Level of Significant (α) = 5%

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

$$= 2 \times 1$$

$$= 2$$

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

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

4.2.4 Effectiveness of Income Tax Administration in Nepal

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

Table 4.19

Effectiveness of Income Tax Administration in Nepal

S.N.	Respondents	Respondents			Total	Percentage
		A	B	C		
1	Efficient	20	3	5	28	31.11
2	inefficient	4	17	18	39	43.33
3	Satisfactory	6	10	7	23	25.56
Total		30	30	30	90	100

Source: Opinion Survey, 2013.

According to above table 4.19, income tax administration in Nepal is not efficient. Only 31.11% respondents believe that income tax administration is efficient 43.33% respondents agree that income tax administration is inefficient and 25.56% respondent believe that income tax administration is satisfactory. Therefore, it is clear that income tax administration of Nepal is inefficient.

Among 90 respondents, 4 tax administrator, 17 tax experts and 18 tax payers were in favour of inefficient tax administration. A question, "In your opinion, what are the main causes of inefficient of income tax administration?" was asked to them who had said that income tax and administration is inefficient. They gave point to the options that are presented as below.

Table 4.20

Caused for in efficiently of Income Tax Administration

S.N.	Causes	Point Received			Total Points	Percentage	Rank
		A	B	C			
1	Complicated Tax Laws	109	171	153	433	17.18	1
2	Lack of Trained and Competent Tax	103	144	169	416	16.51	2
3	Lack of Proper Communication	121	78	51	250	9.92	7
4	Lack of Tax Awareness to Tax payers	130	105	96	331	13.33	6
5	Unnecessary Outside Pressure	139	112	119	370	14.68	3
6	Lack of Coordination of the Tax Department	132	104	116	352	13.97	5
7	Lack of Direction	106	115	136	357	14.17	4
	Total	840	840	840	2520	100	

Source: Opinion Survey, 2013.

According to above table 4.20, the cause of ineffectiveness of Nepalese income tax administration is ranked in order to preference of the respondents as follows:

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

It can be concluded that the complicated tax laws, lack of trained and tax personnel, unnecessary outside pressure, lack of direction, lack of coordination of the tax department with other department are the most important causes of ineffectiveness of Nepalese tax administration.

4.2.5 Corruption in Income Tax Administration of Nepal

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

Table No. 4.21

Corruption in Income Tax Administration of Nepal

S.N.	Respondents	Yes		No		Total	
		No.	%	No	%	No	%
1	Tax Administrator	3	10	27	90	30	100
2	Tax Experts	25	33.33	5	16.67	30	100
3	Tax Prayers	26	86.67	4	13.33	30	100
	Total	54	60.00	36	40.00	90	100

Source: Opinion Survey, 2013.

From the above table 4.21, it is clear that there is corruption in income tax administration on Nepal. 60.00% of respondents agree that Nepalese income tax administration is corrupt, 40.00% of respondents disagree that. Out of them most other respondents were tax administrator.

The respondents were asked a question related to the main cause of corruption. They were requested to give points to the options given in the questions. The result has been given in the following table 4.22:

Table 4.22

Causes of Corruption in Income Tax Administration

S.N.	Causes	Point Received			Total Points	Percentage	Rank
		A	B	C			
1	Low remuneration of tax personal	119	65	63	247	18.30	4
2	Weakness of act rules and regulation	91	131	119	341	25.26	1
3	Dishonest tax payers	71	46	44	161	11.93	5
4	Dishonest tax personnel	41	149	116	282	20.89	3
5	Inefficient income tax administrator	122	89	108	319	23.63	2
	Total	450	450	450	1350	100	

Source: Opinion Survey, 2013.

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

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

It can be concluded that weakens of acts, rules and regulation, inefficient income tax administrator, dishonest tax personnel, low remuneration of tax personnel, dishonest tax payers are the most important causes of corruption in income tax administration of Nepal.

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

Table 4.23

Factors to Minimize the Corruption Existed in Income Tax Administration of Nepal

S.N.	Causes	Point Received			Total Points	Percentage	Rank
		A	B	C			
1	Moral Education to tax Personnel	135	78	109	322	17.04	3
2	Reduction of tax officers discretionary power	47	72	104	223	11.80	6
3	Additional incentive to tax personnel	156	131	82	369	19.52	2
4	Development of check and balance system	102	107	101	310	16.40	5
5	Taking actions to corruptors	126	129	143	398	21.06	1
6	Regular supervision To tax personnel	64	113	91	233	12.33	4
	Total	630	630	630	1890	100	

Source: Opinion Survey, 2013.

According to the above table 4.23, the options to minimize the corruption in tax administration of Nepal are given in order to the performance given by the respondent as follows:

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

It can be concluded that the most important factors to minimize corruption are taking actions to the corrupters, additional incentive to the tax personnel, moral education to the tax personnel etc.

4.2.6 Attitude towards Exemption and Deduction

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

Table 4.24**Attitude towards Appropriateness of Exemption and Deduction**

S.N.	Respondents	Yes		No		Total	
		No.	%	No	%	No	%
1	Tax Administrator	19	63.33	11	36.67	30	100
2	Tax Experts	23	76.67	7	23.33	30	100
3	Tax Prayers	14	46.67	16	53.33	30	100
	Total	56	62.22	34	37.78	90	100

Source: Opinion Survey, 2013.

Most of respondents i.e. 62.22% agree with present exemption and deduction. Only 37.78% respondents disagree with the present exemption and deduction. Majority of the respondents, who disagree with present provision of exemption and deduction, was view of increase the deduction and exemption unit to promote special industry.

4.2.7 Attitude towards Problems is Paying Income Tax

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

Table 4.25

Problem in Tax Paying

S.N.	Causes	Point Received			Total Points	Percentage	Rank
		A	B	C			
1	Consuming Unnecessary Time	124	92	86	302	22.37	3
2	Expectation of Illegal incentives by Tax Personnel	51	67	70	188	13.93	4
3	Vague Provision in Income Tax Laws	135	111	104	350	25.93	1
4	Lengthy process	95	124	108	327	24.22	2
5	Lack co-operation by Tax Administration	45	56	82	183.	13.56	5
	Total	450	450	450	1350	100	

Source: Opinion Survey, 2013.

From the above table 4.25, major problems facing by the taxpayers while paying income tax are ranked in order of the respondents the respondents are as follows:

1. Vague Provision in Income Tax Laws
2. Lengthy Process
3. Consuming Unnecessary Time
4. Expectation of Illegal incentives by Tax Personal
5. Lack of co-operation, by Tax Administrator

It can be concluded that vague provision in income tax laws, lengthy process etc are the main problems facing by the taxpayers while paying income tax.

4.2.8 Most Important Factors for Effectiveness of Income Tax in Nepal

In order to know the view regarding to the important factors for effectiveness of income tax in Nepal, the respondents were requested to give point according to their preference. The question was, "What is the most important factor for effectiveness of income tax in Nepal?" The measures prescribed and their ranking in presented in table 4.26.

Table 4.26

Most Important Factors for Effectiveness of Income Tax in Nepal

S.N.	Causes	Point Received			Total Points	Percentage	Rank
		A	B	C			
1	Honest Tax Payers	126	78	73	277	20.52	3
2	Honest Tax Officers	93	76	101	270	20.00	4
3	Clear Tax act, Rules and Regulations	87	127	114	328	24.30	1
4	Effective Income Tax Administration	83	120	108	311	23.04	2
5	Political Non-Interruption	61	49	54	164	12.15	5
	Total	450	450	450	1350	100	

Source: Opinion Survey, 2013

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

1. Clear Tax Act, Rules and Regulations
2. Effective Income Tax Administration
3. Honest Tax payers
4. Hones Tax officers
5. Political Interruption

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

4.2.9 Appropriate Method While Assessing the Income Tax in Nepal

Sound and appropriate assessment procedure is essential for the collection of the large amount in the form of income tax. It is very important in managing the income tax because the amount of income tax realized through the assessment. To know the respondents opinion about the appropriate method while assessing the income tax in Nepal respondents were requested to tick one among the given rot' alternative the question was," What method is more appropriate in Nepal assessing income tax?" The responses received from respondents are in following table 4.27.

Table 4.27

Appropriate Method While Assessing the Income Tax in Nepal

S.N.	Causes	Point Received			Total Points	Percentage	Rank
		A	B	C			
1	Assessment on the basis accounts submitted by tax payers	75	89	94	258	28.67	2
2	Self assessment	100	103	82	285	31.67	1
3	Assessment by the best judgment	80	59	67	206	22.89	3
4	Assessment by the committee	45	49	57	151	16.78	4
	Total	300	300	300	900	100	

Source: Opinion Survey, 2013.

From the above table 4.27, it has been clear that 31.67% of the respondents approved of self-assessment are appropriate method while assessing the income tax. Thus the conclusion can be drawn out that the self-assessment method is appropriate method, so it can be concluded that self-assessment system should be encourage strongly and used as a major tool to increase voluntary compliance more government revenue.

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

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

4.2.10 Suggestion for Achieving Effective Income Tax Administration in Nepal

To know the other important factor for effectiveness of income tax administration in Nepal respondent were asked question, "Do you have any suggestions for achieving effective income tax administration in Nepal. Various mixed responses were found from the respondents. Out of them the most important responses are as follows:

1. Effectiveness tax management and training and seminar to tile tax personal.
2. Development of checks and balance system.
3. All private sectors coverage and tax payment.
4. Effective government to economic policy.
5. Political non interruption
6. Effective income tax act and efficient income tax administration.

4.3 Major Findings of the Study

Major findings of the study are summarized below:

4.3.1 Finding from the Study of Secondary Data

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

-) Revenue of the government of Nepal is the composition of tax and non-tax revenue. There is dominant share of tax revenue on Nepalese government revenue. The tax revenue has occupied 83.03% in an average of total revenue and non-tax revenue has occupied 16.97% in average of total revenue consumption of Nepalese revenue structure.
-) Income tax revenue, tax revenue and non-tax revenue as percent of GDP ratio were 2.63%, 12.36% and 2.24% respectively in average of the last ten years. These ratios are very low comparing to other countries. Low ratios of tax revenue to GDP may reflect the weak administration and large side of tax avoidance.
-) Revenue of the government of Nepal is the composition of direct tax and indirect tax revenue. There is dominant role of indirect tax revenue in Nepalese tax revenue. Average contribution of direct and indirect tax revenue to total tax revenue is 27.90% and 72.10% respectively during the last ten years period.
-) The major components of indirect tax in Nepalese tax structure includes custom duties, tax on consumption and product of goods and services. The contribution of custom duties, VAT and excise on industrial production.

Average share of custom duties, VAT and excise on industrial products was 32.68%, 48.12% and 19.20 respectively over the study period.

- J) The structure of direct tax revenue is the composition of income tax revenue, land and registration and miscellaneous taxes. Among direct tax revenue income tax revenue has occupied the largest share. The mean contribution of income tax during ten years period was 76.35% of direct tax revenue of Nepal. Average contribution of miscellaneous is second position of direct tax revenue i.e. 13.00%. Average contribution of land and registration is third position i.e. 10.65% of direct tax revenue during last ten years.
- J) Nepalese income tax revenue in the composition of income tax from public enterprises, private corporate bodies, individuals, remuneration and tax on interest. Income tax of Rs. 48785.80 million was collected in the fiscal year 2011/12. In average income tax contribution was Rs. 21617.27 million over the study period. Contribution of individuals has occupied first position in total income tax revenue. The mean contribution of income tax revenue from FY 2002/03 to FY 2011/12 has been computed to be 36.35% private corporate bodies, remuneration, tax on interest, public enterprise has occupied second, third, fourth and fifth position with 33.83%, 13.67%, 10.26% and 5.82% respectively in the total tax revenue of Nepal and it is in fluctuating trend.
- J) Income tax collection is increasing trend each year but the performance is not satisfactory. Rs. 33285.60 million, Rs. 38868.50 million and 48785.80 income tax revenue collected in the FY 2009/10, 2010/11 and 2011/12 respectively. The mean contribution of income tax during the ten years period was 76.35%, 178.69%, 21.30% in direct tax revenue, total revenue

and total tax revenue respectively. From this it is clear that the income tax revenue is one of the important sources of government revenue.

-) Income tax has been considered as suitable sources for mobilizing internal resources. It can be used a positive instrument to boost up government revenue collection. Contribution of income tax on total government revenue, total tax revenue, direct tax revenue and GDP was 19.97%, 23.04%, 72.93% and 2.42% respectively in fiscal year 2012/13.
-) There was clear indication of the time serious and growing financial resource problem in Nepal. The increasing magnitude of resource gap clearly indicates that there is an urgent need of mobilizing additional resource. Income tax has appeared one of the most effective fiscal policy instruments to mobilize additional resource and achieving the desired development objectives of Nepal. The major reason of growing resource gap is increase in regular expenditure and development expenditure.

4.3.2 Major Findings from the Study of Primary Data

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

-) People are not well informed about the current tax system of Nepal. Conclusion, since the calculated value of $\mathfrak{R}^2 >$ tabulated value of \mathfrak{R}^2 , it is significant and H_1 is accepted which means that there is significant difference in tax administrator, tax experts and tax payers view regarding the tax awareness in income tax system in Nepal.
-) Income system of Nepal is not sound and efficient, basically due to increasing habit of tax evasion, in efficient income tax administration,

complexity of income tax act, the table no. 4.13 is being cleared that about 63.30% of the respondent approved that the income tax system of Nepal is not sound and efficient. Conclusion since the calculated value of $\chi^2 <$ tabulated value of χ^2 . It is not significant and H_0 is accepted which means that there is no significant different in tax administrator, tax experts and tax payers view regarding the income tax system of Nepal is sound and efficient.

-) Income tax is a suitable means of raising government revenue. From table 4.16, it is cleared that 61.11% or respondents approved that tax is a suitable means of raising government revenue. Conclusion, since the calculated value of $\chi^2 <$ tabulated value of χ^2 , it is not significant and H_0 is accepted which means that there is no significant difference in tax administrator, tax experts and taxpayers view regarding the income tax as suitable means of raising government revenue.
-) Income tax administration of Nepal is inefficient. The cause according to table 4.20 are ranked as, complicated tax laws, lack of trained and competent tax, unnecessary outside pressure, lack of direction, lack of coordination of the department with other department, lack of awareness to tax payers, lack of proper communication.
-) Corruption is the major problem of income tax administration of Nepal. Weakness of act rule and regulation, inefficient income tax administrator dishonest tax personnel, low remuneration, dishonest taxpayers etc. are the main causes of inefficient income tax administration in Nepal.
-) Corruption in income tax administration can be minimized through taking action to the corruptors, addition incentives to tax personnel, moral

education to tax personnel, regular supervision to tax personnel, development of check and balance system, reduction of tax officers discretionary power.

-) Exemption and deduction should be increased to promote the special industry and export.
-) Vague provision in income tax law, lengthy process, consuming unnecessary time, expectations in illegal incentive to the personnel, lack of co-operation by tax administration are the major problems facing by the taxpayers while paying income tax.
-) Clear tax act, rules and regulation, effective income tax administration, honest taxpayers, honest tax officers, policies non-interruption etc. are most important factors for effectiveness of income tax in Nepal.
-) Self-assessment method is the appropriate method while assessing the income tax. Concept of self-tax assessment system should be encouraged. Power, right and duties of tax authorities should be clarified.
-) Public awareness program is necessary to increase tax consciousness and raise the government revenue.
-) Income tax is a suitable means of raising government revenue.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Nepal is one of the least developed countries among of the world. Nepal is facing serious financial problems in its economic development process. Lack of sufficient financial resources is the main constraint for national economic development of Nepal. A lot of fund is required to meet the additional financial requirement for the developmental activities of the country. Nepal has been suffering from shortage of funds to accelerate the economic growth. There is large resource gap to fulfill the shortage. Government is depending on the foreign grants and loans. To fulfill the resource gap income tax, direct tax is most important sources of internal revenue. External sources are uncertain and guided by socio-political motives of the donor country, thus, it is not good for the country. Internal sources of fund is own sources derived with in the country. Internal sources fund includes both tax and non-tax revenue.

Among internal source taxation is a prime factor. It is the pillar of the fiscal policy. Regarding the fact that the present study entitled to "Income Tax Administration and it's Effectives in Nepal" had been done. In this study contribution of income tax to national revenue has been analyzed, and examined to figure out the contribution of income tax to direct tax and tax/GDP ratio. Composition of direct tax etc. has been analyzed. Various books, articles, dissertations and other relevant materials are studied during the course of study. Almost all dissertations were written on various aspects of income tax. Books were mainly based on the syllabus

of universities, so they are descriptive rather than analytical. Various concepts of taxation have been discussed in the conceptual framework of study, sources of government revenue, meaning of tax, classification of tax, historical background of income tax, heads of income has been taken in the consideration.

The researcher has been discussed about various aspects of research methodology such as research design, data collection procedure, size of population and samples, nature and source of data, procedure of selecting respondent and analysis of data etc. in third chapter.

Secondary data as well as primary data have been used in this study "Economic Survey" has been used at the major sources of the secondary data. An opinion survey technique has been used in this study to collect the reliable primary data for the study. The research has found that the mean contribution of tax and non-tax revenue was 83.03% and 16.97% respectively in total revenue structure of Nepal during period of last ten years. In this regards tax revenue has been funded as a major instrument for additional internal financial resource mobilization.

Nepalese tax revenue is the composition of direct and indirect tax revenue. Nepalese tax structure is dominated by indirect tax revenue. Indirect tax revenue contributes 2 and half times more than the direct tax revenue./ During the study period, the average of direct tax and indirect tax revenue were 27.90% and 72.10% respectively.

Indirect tax includes custom duties, VAT and excise on industrial product in direct tax revenue. These were 32.68%, 48.12% 19.20% in average of custom duties, VAT and excise on industrial products respectively. Similarly direct tax includes income tax, land revenue and miscellaneous tax. Contribution of land revenue was

Rs. 3015.22 million, income tax revenue was Rs. 21617.27 million and miscellaneous taxes were Rs. 3679.83 million in average during the study period.

Nepal is levying three types of income tax they are corporate income tax, individual income tax and tax on interest. There was dominant role of individual income tax in total tax revenue and its contribution was 36.35% in average. The contribution of income tax on total government revenue, total tax revenue, direct tax revenue was 17.69%, 21.30% and 76.35% in average in the study period of last ten years.

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

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

According to the investigation, income tax is a suitable means of raising government revenue but people are not well informed about the income tax system of Nepal. It is found that income tax administration of Nepal is not efficient. Lack of trained and competent tax personnel, complicated tax laws, lack of tax awareness to taxpayers etc. are the main causes of income tax administration being inefficient. 60% respondents believed that there is corruption in income tax administration of Nepal. To minimize the corruption action needs to be taken to be

the corruptors, additional incentives to tax personnel, moral education to tax personnel should be developed.

For attitude toward exemption most respondent i.e. 62.22% agree with present exemption and deduction. According to investigation vague provision of income tax laws, lengthy process, consuming unnecessary time etc. are the main problems faced by the taxpayers while paying income tax.

Some respondents made advice like this, effective income tax management and training and seminar to the tax personnel, effective government policy, political non-interruption and effective Income Tax Act can lead to the Revenue and its administration effectively.

Appropriate method while assessing the income tax in Nepal from the investigation it is clear that 31.67% of respondents approved that self assessment method is appropriate method while assessing the income tax.

Some recommendations are also given in the end of the study to increase the contribution of income tax to national revenue of Nepal. In this way, this study has been completed with the achievement of stated objectives.

5.2 Conclusion

Nepal is one of the least developed countries among of the world, Nepal is facing serious financial problem in its economic development process. Nepal could not successfully and properly tear a curtain built from massive poverty, hunger, diseases, unemployment, heavy dependence on agriculture, lack of adequate industries, low income level and social political and geographical constraint over 54 year planned development. Nepalese economy is suffering from ineffective and effortless plan, program and policy of development and it is also fighting against whatever bottlenecks identified before the starting of planned period.

The government need huge amount to achieve the maximum objectives of the nation. To fulfill such objectives government collects revenue from various sources. The role of revenue is crucial for the overall development of the country. In developing countries it is the main constraint for the national economic development.

Resource gap has been increasing every year. The internal revenue is sometimes insufficient even to meet regular expenditure and most to the development activities dependent on foreign aid where Nepal has been compelled to harmonize the door. The major problems of domestic resource mobilization are poor utilization of the nature resource small and stagnant industrial sector, poor economic growth and inadequate tax effort etc. So, in this context, revenue generation from internal resources is very important in which income tax is one of the major sources.

Income tax revenue has played the key role to fulfill the objectives of the nation. Income tax collection in Nepal is satisfactory. It was increasing trend in the study period but developing income tax revenue and tax awareness among the tax payers, reducing the tax rate as well as imposition of new taxes.

Currently income tax revenue in Nepal is collected through three sector i.e. corporate income tax, individual income tax and tax on interest. Among them share of individual tax is highest. Exemption limit and tax rate of the income tax is determined according to the income level and sector wise. There is no exemption limit for corporate bodies.

The success and effectiveness of income tax system depends upon the implementation of provisions made by the income tax act, which is the major responsibility of income tax administration. Income tax system of Nepal has blamed as not being efficient enough. Various problems existed in the income tax

such as increasing habits of tax evasion, inefficient income tax administration; defective income tax laws tax. But if we analyzed the data relating to it then we can find out that revenue collection from income tax is increasing continuously. Provision in act and language of the act has to be made to raise the income tax revenue. Due to the reforms, the corruption that existed in income tax administration can be decreased, the efficiency and transparency can be improved and the tax administration will treat the taxpayers as are responsible citizens to a considerable extent. The cost of tax collection to tax payers, government and economy as a whole can be reduced to some extent.

5.3 Recommendations

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

-) Efficiency of Nepalese income tax system mainly depends on income tax and policies. Income tax laws and policy should be made such as that main objectives of imposing income tax can be achieved.
-) Income tax policy should be formulated according to the economic policy of the country. Income tax policy should be revised timely.
-) The term objectives of incomes of income taxation should be growth, redistribution and stabilization. The income tax policy should be properly formulated on the basis of critical analysis of existing situation.
-) Income tax, rules and regulation should be clear and simple for all the taxpayers as well as for the administrations. Following recommendation are made in income tax law.

-) The language of act should be simple and clear.
-) The assessment and tax collection provision should be encouraged while paying income tax.
-) Discretionary power of the tax officials should be curtailed in the act.
-) The assessment of time limit after the submission of the income assessment should be reduced.
-) The government of Nepal must launch more effective programmes to collect more revenue from income tax.
-) Public awareness program should be conducted to raiser government revenue.
-) The following recommendations are made for satisfactory contribution of income tax from public enterprises sectors.
 - Weakness of government economic policy should be avoided.
 - The internal conflict and political pressure should be solved for better performance of public enterprises sector.
-) Tax personnel should be encouraged, punished and transferred on the basis of their work and experience. Regular and effective training system, reward, prize and punishment system should be established for the effective personnel management.
-) Out of total tax revenue, the contribution of income tax revenue is very low, so checking income tax evasion should be increased. The contribution of income tax revenue and direct tax revenue bring new tax payers into tax brackets. Tax incentive programmed with the help of sound taxpaying.

-) The tax system should be practical and effective. It should match the national economic condition. It should be equally beneficial to all tax payers.
-) Income tax administration implements the tax laws. Therefore, the effectiveness of income tax system depends upon the income tax administration. In Nepal, one of the most important reasons for unsound income tax system is inefficient and unscientific income administration. Following recommendations are made for improvement of income tax administration.
- Delay in assessment should be reduced as much as possible.
 - Computerized information system is necessary to keep up to data, records of income tax.
 - Proper tax education should be provided to tax officials as well as taxpayers regularly.
 - Unnecessary outside pressure should be avoided.
 - Income tax experts/professional should be increased in tax administration.
-) Strong policies commitment is necessary for the effective implementation of income tax act and its provisions.
-) There are insufficient numbers of tax offices within and outside Kathmandu. Therefore the number must be increased to provide to service conveniently.
-) Business sectors habit of not keeping the complete account of the transaction or not submitting the real account for the tax assessment should bring to an end.

) The administration should play great attention to bring the income tax from house and land rent, doctor's clinic, consultant's service, tuition institutions and research work in to income tax net. In these sectors income tax has been highly evaded.

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APPENDIX-I
QUESTIONNAIRES

Dear Sir,

I am student of Central Department of Management, Tribhuvan University, Master in Business Studies (MBS) Final year. I am going to prepare a dissertation entitled 'Income Tax Administration and Its effectiveness in Nepal.' to fulfill partial requirement of Master Degree of Business of Tribhuvan University.

I request you to fill up the questionnaire as per the instruction given on the top of the questionnaire. Your opinions and suggestions concerning income tax system in Nepal, which will be very useful and guide me for completing my research work. Your response will be a great important to my study.

I am assured that your response will be kept confidential.

I am looking forward to your kind cooperation and support in this study.

Thank you.

Yours Sincerely

Rudra Prasad Joshi

Central Department of Management

Tribhuvan University, Kirtipur

T.U. Regd. No: 7-2-327-277-2004

Questionnaire to the Tax Administrators/ Tax Experts/Tax Payers.

Questionnaires

Date:

Name of the respondent (optional)

Office/Orgation:

Occupation:

Designation:

Please put tick mark (✓) the answer of your choice or from the following questions or wherever appropriate please give points them in order to preference from 1 to last on the basis of number of alternatives. Number 1 stands for least important and last number for the most.

Questionnaire to Tax Administrators/ Tax Experts/ Tax Payers

1. Do you think that people are well informed about the tax system of Nepal?
I. Yes () II. No ()

6. Do you think that there is corruption in income tax administration of Nepal?

I. Yes ()

II. No ()

7. If yes, what are the major causes? (Please give ranks 5 to 1)

I. Lower remuneration of tax personnel ()

II. Weakness of acts, rules and regulation ()

III. Dishonest taxpayers ()

IV. Dishonest tax personnel ()

V. Inefficient income tax administration ()

8. How can corruption existed in income tax administration can be minimized? (Please give ranks from 6 to 1)

I. Moral education to tax personnel ()

II. Reduction of tax officers' discretionary power ()

III. Additional incentives to tax personnel ()

IV. Development of check and balance system ()

V. Taking actions to corruptors ()

VI. Regular supervision to tax personnel ()

9. Are exemptions and deductions provided by Act,2058 appropriate?

I. Yes ()

II. No ()

10. In your opinion, what types of problems are facing by the taxpayers while paying income tax? (Please give ranks from 5 to 1)
- I.. Consuming unnecessary time ()
 - II. Expectation of illegal incentives by tax personnel ()
 - III. Vague provisions in income tax laws ()
 - IV. Lengthy process ()
 - V. Lack of co-operation by tax administrator ()
11. What is the most important factor for effectiveness of income tax in Nepal? (Please give ranks from 5 to 1)
- I. Honest taxpayers ()
 - II. Honest tax officers ()
 - III. Clear Tax Act, rules and regulations ()
 - IV. Effective income tax administration ()
 - V. Political non-interruption ()
12. What method is more appropriate in Nepal while assessing income tax? (Please give ranks from 4 to 1)
- I. Assessment on the basis of accounts submitted by taxpayers ()
 - II. Self assessment ()

III. Assessment by the best judgment ()

IV. Assessment by the committee ()

13. Do you have any suggestion for achieving effective income tax administration in Nepal? Please specify

.....

Thanks for co-operation