

**REVENUE COLLECTION FROM INCOME TAX AND ITS PRACTICAL
DIFFICULTIES IN NEPAL**

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RECOMMENDATION

This is to certify that the thesis

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DECLARATION

I hereby declare that this thesis entitled “Revenue Collection from Income Tax and Its Practical Difficulties in Nepal ” Submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work as partial fulfillment of the requirement of Master of Business Studies (MBS) prepared under the guidance and supervision of Prof. Dr. Kamal Deep Dhakal, ShankerDev Campus, Putalisadak, Kathmandu, Nepal.

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This thesis is prepared as dissertation for the partial fulfillment of the requirement for the master degree course in management. It has been tried cover empirical findings concerning tax in the context of Nepal. This study deals with the revenue collection from tax in different years, problems in tax collection system in Nepal and knowledge about the tax of different persons in Nepal.

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ABBREVIATION

BBA	: Bachelor of Business Administration
BBS	: Bachelor of Business Study
BS	: BikramSambat
CA	: Chartered Accountants
GDP	: Gross Domestic Product
D.T.	: Direct Tax
Etc	: and the other
F/Y	: Fiscal Year
IRD	: Inland Revenue Department
IT	: Income Tax
ITA	: Income Tax Act
Ktm	: Kathmandu
Ltd	: Limited
LLB	: Bachelor of Law
LLM	: Master of Law
MBA	: Master in Business Studies
MBS	: Master in Business Studies
MPA	: Master in Public Administration
MOF	: Ministry of Finance
No	: Number
Pvt	: Private
Sec.	: Section
S.n.	: Serial Number

TR : **Total Revenue**
TTR : **Total Tax Revenue**
T.U. : **Tribhuvan University**
VAT : **Value Added Tax**
VDIS : **Voluntary Discloser of Income Scheme**
Vol : **Volume**

CHAPTER I

INTRODUCTION

1.1. Background of the Study

Tax is a means by which governments finance their expenditure by imposing charge on citizens and corporate entities. Governments use taxation to encourage or discourage certain economic decisions. For example, reduction in taxable personal (or household) income by the amount paid as interest on home mortgage loans results in greater construction activity, and generates more jobs. Tax simply means a liability to pay an amount to government. According to the law, it is the compulsory contribution to the national revenue from tax payers. The American economist Robert M. Haig and Henry C. Simons were developed most widely accepted definition of income in 1920s and 1930s. According to the Robert M. Haig and Henry C. Simons, "income is the money value of the net (overall) increase over a period of time in a person's potential to consume."

According to Groode, "A tax is a compulsory contribution to government made without reference to a particular benefit received by the tax payer. It is a personal obligation to pay tax and there is no direct relationship among tax, benefits and taxpayers" (Groode R. 1984).

Taxation refers to the act of a taxing authority actually levying tax. Taxation as a term applies to all types of taxes, from income to gift to estate taxes. It is usually referred to as an act; any revenue collected is usually called "taxes." Taxation is one of the primary powers of government over the people. (www.investopedia.com)

Nepal is agriculture dominated country. Most of the Nepalese are dependent upon agriculture. The economic conditions of our neighbor countries are very strong, but Nepal is growing slowly in the economic direction. There are several problems facing by the government in different ways. They are wide spread poverty, extreme discrepancy in the distribution of wealth and income, dependency of agriculture and foreign aid, lack of savings, unemployment, idle resources, lack of infra structure, unfavorable balance etc.

A nation's tax system is often a reflection of its communal values or/and the values of those in power. To create a system of taxation a nation must make choices regarding the distribution of tax burden- who will pay taxes and how much they will pay-and how the tax collection will be spent. Government of the nation must spend a lot of money, to fulfill the responsibility of the government towards the nation. The government must responsible in the field of education, security of health of the people, establishment of constitution, development activities etc.

Government needs lots of funds to intact these responsibilities. It must spend lots of fund for the protection of the people and to create the different economic infrastructure. The expenditure which incurred by the government are protection, commercial and public expenditure. To accomplish the maximum social welfare, government needs sufficient funds. The government's expenditure is increasing day by day to fulfill the daily needs. Undoubtedly, government contributions towards providing fertile land for flourishing economic activities are indispensable task for every country at initial phase of economic development. There are two prospective of achieving the growth pace of an economy; one is through optional utilization of natural resources. For example: Saudi Arabia and Qatar's economic development. Using human resource for economic development is another model of development. Japan is solid example of getting success by using that model for technological progress. If the effective implementation can be made, these models could play vital role in the economic growth.

To fulfill the requirement of the nation the government must mobilize its internal and external sources of funds.

The external sources of fund may be foreign loan, grants, and donation etc. External sources have several merits and demerits. These sources may not be suitable for the healthy economic growth. The heavily dependent upon these sources may be dangerous for the nation. Internal resources are less risky comparing to external resources.

Internal source of fund is own source of the nation. An internal source of public fund is important not only for financing necessary fund but also for proper mobilization of external sources. Internal source of fund includes both tax and non-tax revenue. External sources consist of foreign aids, grants and loans. Resource mobilization through external source is done by inflowing foreign capital into the country but they are not enough for the economic development program, because they are guided by socio-political motives of the donor country .The internal sources, might be mobilized either voluntarily or involuntarily or both. Voluntarily, the resources

might be mobilized by restricting in the existing level of consumption. Involuntarily, it can be mobilized compulsorily, through public borrowing, increasing the rates of existing taxes and imposing altogether new taxes.

Tax is the compulsory levy imposed by the government according to the tax law. Tax payer paid the tax without having any personal benefits. It is neither an exact amount nor a penalty for any legal offense.

Generally taxes are classified in to two types.

1. Direct tax

2. Indirect tax

1. Direct tax:

The term direct tax generally means a tax paid directly to the government by the person on whom it is legally imposed. Direct taxes have played dominant role in the developed country rather than developing country. Direct taxes are the main sources of the revenue of the government in developed country. They are tools of generating funds which is very necessary for the government. Generally direct taxes are; income tax, business profit tax, property tax, land revenue tax, gift tax, interest tax, death tax, capital gain tax, corporate tax etc.

Merits

- ✓ It is elastic. The government can change the tax rate with the change in the level of property.
- ✓ It is equitable as it can impose on person as per the property or income.
- ✓ Time and procedure and amount of tax to be paid are known with certainty
- ✓ It improves the consciousness of the citizens. Tax payers feel burden of tax and so they can insist the government to spend their contributions for the welfare of the community.

Demerits

- ✓ It is expensive for the government to collect tax individually.
- ✓ Taxpayers feel inconvenience as government imposes tax progressively.
- ✓ It gives mental pinch to the taxpayers as they have to curtail income to pay to the government.

- ✓ Tendency to evade tax may increase to avoid tax burden.

2. Indirect tax:

Indirect taxes are levied on transactions irrespective of the circumstances of buyer or seller. Indirect taxes are imposed on events, rights, privileges, and activities. Thus, a tax on the sale of property would be considered an indirect tax, whereas the tax on simply owning the property itself would be a direct tax. Indirect taxes are; value added taxes, sales taxes, entertainment taxes, import and export taxes, excise duties, hotel taxes and passenger taxes etc.

Merits

- ✓ There is mass participation. Each and every person getting goods or services has to pay tax.
- ✓ There is less chance of tax evasion as the taxpayers pay the tax collected from consumers.
- ✓ It is convenient as the taxpayer does not have to pay a lump sum amount for tax.
- ✓ The government can check on the consumption of harmful goods by imposing higher taxes.

Demerits

- ✓ It is regretful as burden to the rich and the poor is same.
- ✓ Most of the taxes are included in the price of goods or services. As a result, taxpayers do not know how much tax they are paying to the government.
- ✓ It is uncertain. As demand fluctuates, tax will also fluctuate.
- ✓ It has bad effect on consumption, production and employment. Higher taxes will reduce.

Income tax is a tax levied on the income of individuals or businesses (corporation or legal entities). Income tax can be progressive, proportional or regressive. Income tax is a direct tax which is chargeable to a person's income received from business, investment and employment. "Income tax is superior to indirect tax because it is imposed on the basis of paying capacity of the taxpayer. People whose income is under the taxable income are free from the incidence of income tax." (Saxena, 1986)

Government can reduce the gap between the person's having higher income and having poor economic condition by using the different tax rate. It will help to make equitable economic distribution in the society. "Income tax has become an effective instrument to ensure balance economic growth

Taxation is the most effective tools for the government from which it can raise national revenue. Income tax plays very important role to increase national revenue in the developing country. The fund collected through taxation, the government should promote the very necessary development program and capital formation program. Mobilization of maximum fund collected from income can be done successfully if the current income tax rate increased or tax evasion is removed. Increase in current income tax might not be suitable in the Nepalese context because the taxable capacity of Nepalese people is very low. In this situation the government must be very careful before increasing income tax rates or charging tax in any new headings.

There are various problems to tax collection in Nepal. It is necessary to make legal provision and it must be updated timely. There are various problems in income tax practice in Nepal such as unscientific tax assessment, narrow coverage, time lag, no adjustment of the inflation etc. There are some other factors which affects negatively in income tax collection; such as lack of consciousness of people, leakage of tax, unavailability strict implementation of fine and penalties, inability of tax administrators to find new tax payers, lack of accuracy in accounting system etc.

Raising more revenue is the main objectives of the taxation. Strict implementation of fine and penalties plays important role in collection of tax revenue within the time. Provision of punishment is also plays vital role in the tax collection. So that immediate correction is necessary in fine and penalty provision.

1.2 Statement of the Problems

Nepal has been facing the problems by different ways. The government can't operate the development project due to lack of funds. Government expenditures are increasing day by day due to increase in price levels and other circumstances. The government revenue is less than the government expenditures. Most of the industries are not properly in operations because of lack of the fund .The government is not became success to collect internal revenue properly. There are many negative results of foreign loans. Nepal has been suffering from resources constraint,

massive poverty, rapid growth of population, increasing unemployment rate, political instability etc. To solve these problems the government must create the maximum employment and should be operated. The government can't conduct these works properly without sufficient fund. To generate sufficient fund government should collect the tax.

The growth rate or global output has decreased in 2011 compared to 2010. Especially, the European debt crisis; natural disaster in Japan; recession in European real estate business; the slowed down economic growth rates in countries like China and India; decreased economic growth in large countries like Brazil and Mexico can be attributed for decline in the world economic growth. Likewise, rise in unemployment rate in USA and Europe also helped in the slowing down the world economic growth. Nepal is also facing such problems mentioned above. The poverty appears to be one of the country's major problems of Nepal. One fourth of its total population of Nepal still lives below the national poverty line. In this context, there lies a big challenge of reducing the poverty through poverty alleviation oriented programs to make the people economically and socially prosperous. To solve these problems, proper utilization of tax collection should be made. Fund fuels the development activities of the government. To operate these program government collects taxes from various sources, gets subsidies, donation, borrow the loans. Government need sufficient fund to create new program for development activities and daily administrative procedure.

There were several problems of income tax and its provision about fine and penalties; especially this study has been carried out to answer the following questions:

-) What is the income tax structure of Nepal?
-) What is the share of income tax to government revenue?
-) What should be the provision of fine and penalties in Income Tax Act?
-) Is this provision is effective or not to taxpayer?
-) Can fines and penalties play important role to increase taxpaying habit of Nepalese people?
-) Is the public awareness program is necessary to raise government revenue?

1.3 Objectives of the Study

The main objectives of this study are to find out the contribution of Income Tax to the Government Revenue and the difficulties in income tax collection to the governments. However the following specific objectives are sets for the study.

-) To analyze the income tax collection system.
-) To find out the contribution of taxes as well as income tax to national revenue.
-) To find out problems in income tax collection.
-) To provide suggestions for effective tax collection.

1.4 Significance of Study

The study has great significance to all parties like student, teachers, researcher's, policy makers and other individuals who are interested towards the income tax management and especially about provision of fine and penalties regarding income tax law of Nepal. Very difficult, tough and challenging work is resource mobilization. In this context, we can use major instrument as a income tax revenue for mobilizing internal resources more effectively. Hence, this study deserves a special significance.

Contribution of direct tax is most important than indirect tax for the economic development of the country. But the whole tax structure of Nepal is dominated by indirect tax. Among the direct tax, income tax plays important role. But the contribution of income to the national revenue is very low in Nepal. To increase its portion in national revenue research and analysis should be done in the area of income tax.

To get up to date knowledge about income tax system, we should know the various provisions provided by Income Tax Act. Among them, provisions of the fines and penalties and its implementation play the important role to collect income tax revenue within time. In the field of this provision we couldn't find any research and analysis. This study will be helpful for the fulfillment of the analysis in the provision of fine and penalties by income tax law.

1.5 Limitations of the Study

Every research study is surrounded by the various reasons .Similarly; this research study also have certain limitations such as limitation of areas of study, lack of sufficient relevant data,

inadequacy of the time period, and morality of respondents and so on. The main limitations are as follows.

-) The study has been conducted to fulfill the requirement the MBS program of T.U. for the prescribed time, not for generalization purpose.
-) It has analyzed the provision of fine and penalties as per Income Tax Act 2058, but not as a whole system of income tax.
-) This study has covered data only fiscal year 2002/03 to 2010/2011.
-) Only few samples are selected for primary data collection (opinion survey).
-) Butwal and Bhairahawa have been selected as a sample for primary data. So it cannot represent the country as a whole.

1.6 Organization of the Study

The whole study has been organized into five different chapters as follows:

1.6.1 Introduction

First chapter is about introduction which includes general background, significance of the study, statement of the problems, objectives of the study, limitations of the study and organization of the study.

1.6.2 Review of Literature

Second chapter has dealt with various books, journals, published and unpublished reports, articles and research studies. This chapter has also focused on provision regarding income tax of Nepal and conceptual framework.

1.6.3 Research Methodology

Third chapter has explained with research methodology. It has included research design, nature and sources of data, population and sample, procedures of data collection, procedure of processing and analysis of data.

1.6.4 Presentation and Analysis of Data

Fourth chapter helps to make the critical analysis of income tax system in Nepal. This chapter aims to view the contribution of income tax in the national revenue of Nepal. For the presentation and analysis of data, diagram, table, chart and other various statistical tools were used. The economic survey published by government used for the secondary data.

1.6.5 Summary, Conclusions and Recommendations

Fifth chapter deals with summary of study, relevant suggestion regarding problems and weaknesses of income tax management in Nepal.

CHAPTER II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

Review of literature is a stock of available literature in the field of research. Review of literature is an essential part of the study. It is away to discover what previous researches have done what is still need to be done. It refers to the reviewing of the past studies in the concerned field, such studies could be thesis that were written either books, articles, journals or any sort of publications concerning the subject matter, which we written priory. While conducting the research study, previous study cannot be ignored, as those instructions would help to check up the chances of duplication in present study. Thus one can find what research studies have been conducted and what remain to go with.

2.1 Conceptual Framework

One of the major goals of income tax in Nepal is to generate more internal resources for public finance. Among them tax revenue is one of the major internal sources. Law never discriminates status of person. It is equally enforceable to known to unknown and lower to higher-level persons. The tax authorities imposed the fine and penalties to the taxpayer for late or non-payment of tax due, making a false return statements, late filling of a tax return, failure to make timely return, aiding or abetting, obstructing or concerning or influencing tax administrators etc. but the Nepalese income tax system was poor on the aspects of tax administration. There is no any research study about interest, fees, fine and penalties, which plays important role to collect tax revenue. Bearing in mind, lack of the study in interest, fees, fine and penalties this study mainly concentrates on the role of interest, fees, fines and penalties to collect tax revenue in a more specific way.

2.1.1 Concept Meaning and Definition of Tax

In this modern age, the government of a country requires a lot of revenues to carry out development plans to handle day-to-day administration, to maintain peace and security and to launch other public welfare activities. To carry out such activities, the government specially collects revenue from taxes, fees, interest, price and other sources such as grants, gifts, assistance

etc. among them tax is the main source of government revenue. In case state revenue, a tax is compulsory charge imposed by government without any reference to the service rendered to the taxpayer. Fines and penalties imposed by courts resemble taxes since there is compulsion in both. The distinction between them, however, is one of the motives. Taxes are generally imposed to obtain revenue while fines and penalties are imposed as a punishment to control further mistakes in future.

The state sells some its goods or services and receives price in payment for them. The distinction between taxes and price is that tax is a compulsory payment to be made by every citizen as lived government where as price is to be paid by person who buys serves or goods produce by the government. Thus tax is an ingredient of state revenue in public finance.

Tax is compulsory burden to the taxpayer and major sources of the government revenue. It is levied upon person: natural or corporate according to prevailing act or law. Tax simply means a liability to pay an amount to government. According to the law, it is the compulsory contribution to the national revenue from tax payers. Tax payers don't get corresponding benefits by paying tax. It is collected from the public and spent for the interest of public. In the other word, it is collected from the haves and spent for the interest of have not's in the society. Various economists tried to define the concept of tax and some definition of scholars or experts are as follows.

The American economist Robert M. Haig and Henry C. Simons were developed most widely accepted definition of income in 1920s and 1930s.

According to the Robert M. Haig and Henry C. Simons, "income is the money value of the net (overall) increase over a period of time in a person's potential to consume."

Prof. Seligman defined tax as, "a compulsory contribution from persons to the government to defray expenses incurred in the common interest without reference to special benefits conferred."

"Taxes are general contribution of wealth levied up to persons, natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the states"- Plehn (Dhakal,1998:2).

“A Tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the taxpayer in return and not imposed as penalty for legal offence.”-Dalton.

“A Tax is compulsory contribution payment to government without expectation of direct benefit in return to the taxpayer.”-P.E. Taylor.

According to Prof. Siligman, “A compulsory contribution from a person to the government to defray the expenses incurred on the common interest of all without reference to especial benefit conferred” (lekhi, 2000)

Lekhi (2000) define tax in simple meaning in his word “Tax is a compulsory payment by the people to the nation. If a person defies the payment of tax, he is punished by court of law.”

The above-mentioned definition conveys that the taxes are compulsory levy imposed by the government. Therefore, a tax is a compulsory charge by the government on income of a corporation, an individual or trust as well as the value of an estate or gift. The government does not provide direct benefit to the taxpayer but it is spent for the common interest of people. Thus, the foremost and essential characteristic of tax is that it is not a voluntary payment but an enforced contribution, exacted pursuant to legislative.

From these definitions it can be concluded that:

-) It is compulsory levy imposed by government.
-) It is levied upon person according to prevailing act.
-) Taxpayers don't get corresponding benefits by paying tax.
-) It is collected from the public and spent for the interest of public.

Tax can be classified in to two types. They are indirect tax and direct tax.

Indirect Tax

Indirect tax is a tax which is imposed on one person and partly or wholly paid by another person. In this tax the person paying and bearing the tax is different. It is the tax on consumption and expenditure. It is transferable and people pay tax when they receive or consumer goods or services. People do not feel the burden of lump sum. There is mass participation and convenient to the tax payer. There are a less chances of evasion because every person pays tax for receipt of goods and services. Indirect tax can be changed at higher rate for harmful goods such as cigarette

and alcohol to discourage them. So indirect tax is fixable. Examples of indirect tax are customs, excise; Value Added Tax (VAT), entertainment tax etc.

There are some limitations of indirect tax. Every person either poor or rich has to pay equal amount of tax for reception of goods or services. So, it is tougher for poor. The higher rate, if imposed; may reduce consumption and it may have bad effect on production and employment as well as economy. There is no certainty about collection of indirect tax.

Direct Tax

Direct tax is a tax which is paid by the person on whom it is legally imposed. It is paid according to the income or property earned by a person. It is found equal with property. There is certainty about time, design and process of payment. Taxpayers can easily estimate their liability and government can increase or reduce according to needs. Income tax, contract tax, vehicle tax property tax, interest tax, gift tax, death tax are the examples of direct tax.

Direct tax is levied on direct persons, so they may not be ready to pay voluntarily. Of course, they try to pay lowest tax as possible as and also exercise for tax evasion. It gives mental pinch to the taxpayer. Direct tax is also expensive to collect or to know that someone who has taxable income is paying tax or not. Direct tax discourages private saving and investment and there is lack of mass participation.

2.1.2 Evolution and Development of Taxation

History of taxation started with the human civilization. It is also associated with the history of rise and fall of civilization. It was claimed that in all civilized societies, a central administration used to collect portions of people's productive output to use as a reserve in hard times in order to provide for the needy and to increase the wealth and power of the rulers. Until the modern era, rulers and their administrators would commonly take portions of people's crops with no consideration of farm work. The sources that rulers obtained through taxation allowed them to undertake such activities as building monuments and waging battles. Thus, tax supported all early civilization first in the Middle East and the around the world.

In Hindu religious conviction, particular part revenue should be compensating to government. It is the theory of Hindu faith. Not to pay tax, in Hindu religion was taken as a great sin. According

to Hindus Holy Scripture Vedas, the duty of king was to serve and secure people, maintain peace and carryout social works in order to perform all those activities, the king used to collect crops and cattle from farmers, gold, silver and copper from traders. These ancients' forms of taxation were expanded from time to time under the influence of various economic, political and ethical forces.

In ancient Egypt, the tax collectors were known as scribes. To collect the adequate revenue from citizens they taxed on cooking oil. Charles Adams, a great writer, wrote a popular book "Fight, Flight and Fraud", the story of taxation, concludes that the continual tyranny of Egyptian tax collectors created a nationwide decline in incentive because of this worker and farmers lost their desire to work.

The earliest taxes in Rome were customs duties imports and export called Portoria. Augustus instituted 50% tax on inheritance to provide retirement fund for the military. This tax was charged on inheritance except gifts to children and spouse. At that time of Julius Ceaser, 1% sales tax was imposed to the people and the ruler who started to collect taxes through government institution.

King John of England was compelled to sign the Magna Carta or "Great Charter" which guaranteed free trade to merchants within England. Adams in his book explain the situation king and parliament according to him the king could only spend but not tax and the parliament could only tax but not spend. As long as the power to tax and the rights of Englishmen would live forever, especially the right to be free from oppressive taxation of the ancient English practices.

Kautilya's "The Arthasastra" of the fourth century B.C. has classified the tax receipts into three types.

-) Income earned through taxes on goods produced within the country.
-) Income earned through taxes on goods produced in capital.
-) Income earned through taxes on imports and exports.

Land revenue was an important source of taxation in ancient India. Kautilya mentioned, "The tax system should be such as not prove, a great burden on the public, the king should act like the bee which collects honey without in inconveniencing the plant" (The Kautilya'sArthasastra). His economic thought was guided by social welfare concept. He suggested heavy taxation for

luxurious and other articles, which is not in favor of public welfare. Kautilya classified the main items of public expenditure, which are as follows, i) National defense ii) public administration iii) salaries of ministers and expenditure on government department and iv) expenditure on maintenance of armies.

2.1.3 Income Tax in International Context

The first country to enact a general income tax was Great Britain in 1799 to finance the Anglo-Napoleonic war (Chamber Encyclopedia, vol. 7, 1974:415). The British Government taxed income of citizens to collect expenditure for revolutionary war with France. The main reason for the introduction of this tax was that it was preferable as a substitute of customs and excise duties in raising revenue. It remained more or less a temporary tax unit 1860 when it was accepted as a permanent tax. (Agrawal, 1978:113)

As income tax, it was first levied in the United States of America in 1862 to finance civil war expenses. However it became permanent feature only in 1913 after the 16th amendment to the U.S. constitution. Several German states introduced this tax during 1840. In 1891 the income tax was used as an effective fiscal instrument in those states. Until 1920, German income tax was exclusively state tax which became federal tax from 1920 to 1945. After World War II it again became state tax and is now regulated by federal law.

Income tax system was originated in 1864 in Italy. In France, income tax was enacted in 1870. New Zealand, Australia and Canada adopted income tax in 1891, 1915 and 1917 respectively. After world war 1st, income tax became important source of tax revenue in many developed countries. Income tax was introduced in India in 1860 by Sir James Wilson to meet the financial stringency caused by the mutiny of 1857. The tax was discontinued in 1865 and was reintroduced in 1869. It was put on permanent footing in 1886.

Today, it is hard to find countries without income tax. Indeed, it is deeply entrenched in the fiscal system of most of the countries in the world. Income tax developed rather slowly, with many ups and downs. The growth in revenue is needed, particularly during the war and national emergencies, and increasing acceptance of the fiscal power of the government gives impetus to

the income tax movement. In the earlier period, income tax was levied at a flat rate. But later, the principle of progressive income tax has also been introduced.

“The story of income tax, therefore, is the story of wars and the story of war taxes being retained even after the end of the war. Today, taxes are looked upon as important policy instruments for waging new form of war, the war against poverty and inequality” (Agrawal, 1978:114). At present there is hardly any country in the world which does not have income tax system though the degree of success in terms of revenue and equity might be different depending upon the level of their economic development political will and administrative competence.

2.1.4 Origin and Development of Income Tax in Nepal

In ancient Nepal, taxes were levied in the form of kind, cash and labors, on merchants, travelers and farmers. Specific portions of agricultural product were payable to the king as Tax. On some occasions compulsory manual work as well as gold were a common way of paying taxes for special purposes, but the nature of these taxes were temporary (Regmi, 1971:55).

Tax has therefore been one of the major sources of government revenue since ancient Nepal. In the Lichchhavi rule, income tax from agriculture and business were introduced as direct tax for the first time before unification of Nepal. Although land revenue was the major source of revenue in ancient Nepal, there existed irrigation tax, religious monuments preservation tax at the time of king Ansuverma. There was tax for purification of castes as well as cremation of the dead. During Lichchhavi rule the tax levied on agriculture was called “Bhagn” and tax levied on business income was called “Kara”. The farmers were supposed to pay agricultural income tax to the government in 1/6, 1/8 and 1/12 share of their total production, depending on the quality of the land they owned.

2.1.5 Taxation in Unified Nepal (1768-1846)

The state expenditure increased after unification of Nepal and different types of tax were imposed the amount of tax depended on the interest of people. The tax was not compulsory; it was voluntary to the government. The government followed a liberal Taxation policy. The Royal place, Central Government and local administration were entitled to collect tax in the country. Local administrators were directed “to take whatever is paid willingly by the people.” (Agrawal, 1978:116)

During this period maximization of revenue collection was the main objective of the tax policies. The major source of revenue were land and homestead taxes, transit and market duties, miner and mints, the export of forest product and various levies and fines. Jewelers, textiles, falcons, horses, elephants, homespun cloth, yarn, blankets, borax, copper, iron, paper, herbs, drugs, cotton, salt, Yak's tail, musk, sheep and goats, were taxed at specific rates in some parts of Terai collections of customs, transit, market and excise duties was given on contract. (Regmi, 1971, 55-74)

“Various taxes levied during the period were narrow in base and were imposed primarily on occupations and economic activities not an income of property. The system of direct taxation was very much confined to land tax and special levies like ‘DarsanBhet’, ‘Salami’, ‘Walak’ etc. There was no taxation of income in the modern sense of income tax.” (Agrawal, 1978:117)

2.1.6 Taxation in Rana Regime (1846-1950)

During 1846-1950, there was no formal provision for taxation. There was no government budget preparation system. Taxes were charged according to the will of the Rana Prime Minister. Since there were no development activities in the country and the surplus of revenue over expenditure were considered the personal income of Rana Prime Minister, government never worried about the mobilization of financial resources.

There was no direct tax in the country except land tax collected on a contractual basis and “Salami” paid by the employees to the government out of their salaries at a very small percentage. The major source of revenue during the year where land tax, customs and excise duties in the form of lump sum contracts, royalties on felling of trees, royalties on supply of porters and soldiers, entertainment tax and few other minor taxes.

“Taxes were collected under the middleman system until the 1950s. Although several revenue offices viz Mal Adda with regards to land revenue, Bazaar Adda with respect to customs duties and RakambandobastaAdda in relation to excises, did not exist during the Rana Regime. These offices were involved in collecting revenue through the middleman. Land revenue was collected through Mukhiya and Zimwal in the hilly areas and through Patwari and Jamindar in the Tarai Region. The middleman maintain records of land holdings in their respective areas, collected

land revenue, from the landholders every year and deposited it into the treasury unlike the hereditary middleman system of collecting land revenue a licensee for the collection of customs duties and excises in a particular area was generally granted by auction to the highest bidder for a specified period of time. In the case of custom duties, the value of the contract appears to have been based on such factors as the size of the market of a particular area, the expected volume of trade and the number of export and import points. As in the case of land revenue, the contractors were given in addition to the exclusive right to collect customs revenue, positions such as Ditha, Laptan, Subba, Subedar etc. Consequently, businessman used to be involved in such contract even if the contract did not appear to be profitable.” (Khadka, 1994:191-192) The Rana regime was over thrown in 1951. The regime passed without any improvement in the modern sense of income tax system.

2.1.7 Income Tax in Modern Nepal

Income tax is comparatively new in the Nepalese tax system. After the independence of the country from Rana Rule in 1951, the government was bound to operate development activities besides performing the regular functions of maintenance of law and order. In order to raise excess government revenue, for the implementation of development activities, for the implementation of development activities, the idea of introducing income tax in Nepal originated only in the early 1950s. The Finance Minister, in his 1952 budget speech (the first budget speech of Nepal) said “A Proposal to levy an Income tax including tax an agricultural income is under consideration. The tax however will not fetch much revenue in the coming two or three years. Initially, the tax will be used to familiarize people with this tax rather than as revenue earner. As the tax develops, it will be a major source of revenue.” (Budget Speech 1952, Khadka, 1994:105)

Income tax was finally introduction by a first elected government in the fiscal year 1959/60. It was known as Business Profit and Remuneration Tax. Business and Remuneration ordinances 2016 B.S. were issued to expedite the provisions made in the Finance Act. The imposition of the tax was government by Business Profit and Remuneration Tax Act, 1960(2017 B.S.) and the rules were made under it. According to the Act only business profit and remuneration income were subject to tax but the revenue from their taxes could not be collected properly according to original estimate. The tax was introduced on an experimental basis on business and salaries, which are easier to assess than other form of income such as agricultural in come.

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

After about three year of experience, „Business Profit and Remuneration Tax Act, 1960.was found to be very narrow and vague so it was replaced by Nepal Income Tax Act, 1962 (2019).The objectives of this Act were to reduce unequal distribution of wealth with social justices and develop taxpaying habit in people. This Act was an extension of the previous Act. It has 29 sections where as the previous Act had 22 sections only. Income Tax Rules were laid down and implement in 1963(2020 B.S) according to the right provided by Nepal Income Tax Act 1962(2019). Income Tax Act 1962, which was amended in 1972(2029) remained in practice till 1974.

Nepal Income Tax Act, 1962 (2019 B.S) was wider than “Business Profit and Remuneration Tax Act”. This Act has allowed to make agreements with foreign governments to avoid double taxation, but it is replaced by Income Tax Act, 1974 (2031B.S.).

2.1.9 The Income Tax Act, 1974(2031 B.S.)

Income Tax Act 1962 as amended in 1972 was replaced by “Income Tax Act, 1974 (2031B.S.)”, in order to keep the law in tune with the changes in the socio-economic environment of the country. It was more specified tax law having 66 sections. Its basic framework was derived from Nepal Income Tax Act, 1961. This Act was amended eight times to make it more practical and effective. Classification of income and expenditure; provisions for submissions of income statement, deduction of losses, maintenance of accounts, deduction of tax at source, formation of income tax committee, computation of net income by agreement in special case were the major features of this Act.

In addition, there were other features such as departmental action in case of negligence, rectification of errors, provision to inspect and search premises of taxpayers, deduction of life insurance premium and specification of form, provision of reward for correct information about the evasion of tax and provision relating to action on the auditor.

The Act was also bound with some limitations, for instance, narrow tax base, dispersion of tax related acts and rules, ambiguity, unscientific presentation, right of best judgment to tax officer, disparity in computation of taxable income from fringe benefits, dual appellate system and inadequate measure for controlling tax evasion were the weakness of the Act.

2.1.10. Income Tax Act 2002 (2058 B.S.)

Tax policy is changed with the change in the economic policy of a country. Change in the world economic policy and advancement in information technology play a vast impact on the Nepalese economy too. Especially after 1990s there is reemergence of the liberalization, globalization and privatization systems that focus on the minimum intervention of the state in private economic matters. The 1950s concept of 'high incentive, high tax rate' is changed to the concept of 'low rate wide net'. This trend in tax system is followed by most countries of the world. Nepal is also not an exception in this respect, and the Nepalese administrators and policymakers too have tried to change the tax policy of the country. Income Tax Act, 2002 is the result of this change. (Kandel, 2004:12)

To avoid the defects of Income Tax Act, 1974(2031 B.S.), since 1 April, 2002 (19th Chaitra2058), Income Tax Act, 2002 has been introduced. It is the existing law related to the taxation of income. It consists of 143 sections divided in various 24 chapters. Income Tax Rules, 2002 (2058 B.S.) also has been framed under the provision of this Act.

Provision of set off and carry forward of losses, classification and pooling of depreciable assets, tax on capital gain, international taxation as well as provisions for medical tax credit, withholding payment and quantification, allocation and characterization of the amounts are the main features of this Act.

Income Tax Act 2002 has integrated all the laws relation to income tax. The tax has been divided all the sources of income into three categories, i.e. Employment, Business and Investment. The Act has guaranteed the rights of taxpayers in respect of secretly respectful behavior receiving tax related information and appointing lawyers and auditors for deference. Special incentives and rebate have been provided to the special industries by the Act.

2.1.11 Provision of Fines and Penalties According to Income Tax Act 2031

Under the income tax act 2031, a penalty may be imposed upon the taxpayer for one or more and up to a sum indicate in the respective section. ‘Penalty’ is the punishment for breach of law where a state requires any person to do a particular thing and he fails to so, he renders himself liable to penalty. Similarly, when the state requires any person not to do a particular things and he does so, he exposes himself to penalty. The nature and quantum of penalty differs from state and from default. The following provisions are applicable to the imposition of penalties under the Act.

2.1.11.1 Penalties and Appeals

There is no signification difference between tax and penalty. The liability for payment of both is imposed as a part of the machinery of assessment and penalty is merely an additional tax imposed in certain circumstance on account of the tax payer’s conduct under tax act, a penalty may be imposed upon the taxpayer for one or more faults up to a sum indicated in the respective sections. Penalty is a punishment for breach of law where a state requires any person to do a particular thing and he fails to do so, he renders himself liable to penalty. Similarly, when the state requires any person not to do a particular thing and he does so, he exposes himself to penalty. The nature and quantum of penalty differs from state and from default. The following provisions are to the imposition of penalties under the Income Tax Act 2031.

(a) Penalty for Non-payment of Tax

A taxpayer should be for payment of a fee at the rate of 15% of the tax amount due from him if makes default in the payment of tax within 35 days from the date on which tax assessment was relayed or within the times extended by tax officer. Such amount of tax or the fee and fare in arrears shall be realized by the officer or the office notified by the tax officer in the following manners:

-) By impounding or seize the movable property of the taxpayer.
-) By impounding any seize deposit of the taxpayer in any government office or corporation owned by GOV or any amount payable to him by such office or corporation.

-)] By withholding in transaction of the taxpayer including that of import or export trade.
-)] By auction off the whole or part of the movable or immovable property of the taxpayer in one or several lots.

(b) Penalty for Failure to Submit Statement of Income

-)] A taxpayer who fails to submit his statement of income within three months after the expiry of income year shall be liable to a fine up to Rs.5000 and such amount of fine shall be kept as security. But such fine shall not exceed 10% of the taxable amount.
-)] Anybody who fails to submit his statement of income within the time allowed by an order made by tax officer (under section 28) shall be liable to fine equal to an amount of 15% of the tax payable annually by him.
-)] For any taxpayer who fails to submit statement of income within the allowed the tax officer may take any of the following proceedings or all pending the submission of statement of income.
 - To impound or seize the movable property of the taxpayer.
 - To impound any deposit of the taxpayer with any government officer or corporation owned by GOV or any amount payable to him by such officer or corporation.
 - To restrain the business of the tax payer including that of import or export trade. In order to take these actions it shall be necessary for the tax officer to obtain previous approval of the Director.
-)] Any taxpayer who fails to submit the statement within the time prescribed under sec.27 and 28 or whose tax has been assessed by the tax officer using his best judgment under section 33 (2) and has given order by the tax officer of being heard or producing any evidence in support of his statement of income shall be liable to a fine equal to an amount 7% of the tax payable.
-)] If penalty is imposed under subsection (4) penalty shall not be imposed under submission (2).
-)] While determining the fines, advance payment of tax shall be deducted from actual amount of tax payable and the fines shall be determined on the balance.

J) Notwithstanding anything contained in subsection (2) and (4) the amount of fines shall be determined under the same submission from the expiry of the time of three months after completion of financial year and the fines payable shall not exceed the 25% of outstanding tax payable.

(c) Penalty for Submitting False Statement

Any person who submits or cause a false statement shall be required to pay. Such amount of tax which had fallen short due to the submission of such false statement and shall also be fined equivalent to the amount of tax payable or to imprisonment exceeding two years or both. But the penalty of imprisonment shall be imposed only after it has been referred to and confirmed by the Revenue Tribunal.

(d) Penalty for Failure to Maintain or Preserve Account

Any person earning or acquiring income from industry, business profession or vocation or any other source as may be specified by GOV in a notification published in the Nepal Gazette shall maintain proper account of his income and expenses. The method of maintaining such account and the language to be used shall be as specified by HMG in the Nepal Gazette.

In 20 Bhadra, 2034 issue of Nepal Gazette, government notified the methods of maintaining accounts and the language to be used by the taxpayer's incomes from industry, trade profession or occupation.

Every taxpayer shall preserve the accounts and relevant documents of his industry business, profession or vocation for six years from the data on which income has been assessed. Any taxpayer, who fails to maintain proper accounts, or fails to preserve any accounts and supporting documents, shall be liable to a fine not exceeding five thousand rupees.

(e) Penalty for Obstructing Search

Any person who obstructs any search operation to be made under sec.46 should be liable to a fine not exceeding five hundred rupees or to imprisonment not exceeding one month or both by

an order of the local zonal commissioner. Any person not satisfied with the order made by a zonal commissioner may appeal such order or zonal court.

(f) Penalty for Failure to Deposit Tax

According to a provision under sec.36 any person paying any remuneration share or print or interest to any person shall at the time of such payment, deduct tax, there from and the tax so deducted shall be deposited for his GOV within fifteen days. If any person fails to do so within the specified period he shall be liable to fine not exceeding five hundred rupees.

Under section 41(C) here any payment is made without making any deduction of tax in advance, which had otherwise to be deducted under the act, the amount for deduction while computing net income of such person.

(g) Punishment for Breach of the Provision of the Act or the Rules

Except for any Act punishable under section 59, 60, 61, 62 and 63 of this Act, any persons, firm, company, bank, or other institutions responsible for any breach of the provision of this Act or the rules made there under shall be punishable by an order of the tax officer with a fine up to one thousand rupees.

(h) Prohibit the Issuance of Passport

Without prejudice to the liability for punishment under other section of this Act, the tax officer may by an order prohibits the issuance of passport to such taxpayer who is bound to comply with obligations imposed by this act until fulfillment there by the taxpayers.

(i) Penalty for Carrying Business without Registration

Any person, carrying on any industry, trade, profession or vocation without registration shall be punishable by an order of officer with a fine up to five hundred rupees. The tax officer may withhold carrying out the business of such person until registration or impound any or all or the commodities pertaining to that business. But the tax officer has to obtain approval of the Director to impose such penalty.

(j) Power to Imprison for Default in Payment of Tax

In case any taxpayer, with the intention of avoiding payment of tax transfer his property of business to another person after or before the assessment of tax payable by him and does not pay the amount of tax within the time specified in subsection (1) or (2) of section 37. Such taxpayer, not with-standing anything mention in the said section 37, may be kept in prison by order of GOV, until he makes payment of tax, but HMG may not order the detention of such person more than six months.

(k) Department Action in Case of Negligence

If it is found that a tax officer has with regard to any taxpayer made dishonest or negligent tax assessment and as a result of which the tax liability of such person has become excessive or reduce, the director shall initiate proceedings for departmental punishment in accordance with the provision made in the condition of service of such tax officers.

(l) Penalty for not Submitting Advance Payment of Tax

If the tax officer is satisfied the any taxpayer with an intention of avoidance of payment of tax changes the name of the firm and location or business activities, any taxpayer being a non Nepali citizen or non-resident is obliged to pay income tax avoid payment of tax, he may order that the amount tax finally assessed be deposit in advance.

2.1.11.2 Legal Provision Relating to Interest, Offences and Penalties in ITA 2058

Khadka (2001) described penal provision were a part of any tax law. It must be remembered that not all taxpayers comply with tax laws voluntarily. Some potential taxpayers may try to remain out of the tax net, some taxpayers may not maintain proper account, some taxpayer may not submit tax return, and some taxpayers may not pay tax and so on. It is necessary to take action against those who do not comply with the tax laws. In this context, there is universal practice around the world to include penal provisions in the tax laws.

Income tax Act 2002 has included detailed penal provision, which is divided into two parts:

-) Interest and Penalties
-) Offences

2.1.11.2.1 Interest and Penalties

The circumstances in which a tax office imposes interest and penalty are as follows:

(a) Penalty for Failure to Maintain Documentation or File Statement or Return of Income (sec-117)

) A person who fails to do the following shall be liable to pay a penalty for each month and part of a month calculated as the higher amount of 1.5% p.a. of the person's assessable income with a gross of any deductions and all amounts required to be included in calculating the person's income for the year, or Rs.1000 per month:

➤ File a statement for an income year as required by section 95(1)

Or

➤ File a return for an income year as required by section 96 (1)

) A person who fails to maintain proper documentation for an income year as required by section 81 shall be liable to pay a penalty for the during which the documentation is not maintained calculated as the higher amount of 1.5% p.a. of the person's assessable income with a gross of any deductions and all amount required to be included in calculating the person's income for the year, or Rs1000 per month.

) A withhold agent who fails to a statement as required by section 90(1) is liable to pay a penalty for each month and part of a month during which the failure continues calculated as 1.5% p.a. applied to the amount of tax required to be withheld from payments made by the agent during the month to which the failures relates.

(b) Interest for Understanding Estimated Tax Payable by Installment (sec-118)

) Where an installment of tax paid by a person under paragraph (a) is less than the tax payable by the person under paragraph (b), the person shall be liable to pay an interest referred to in subsection(2).

➤ An installment payer's estimated or revised estimate of tax payable for an income year under section 95 that is used to calculate and installment of tax for the year payable under section 94.

➤ 90% of the tax payable by the person for the year under section 3 (a) and (b).

) A person referred to in subsection (1) shall be liable to pay interest as standard interest rate for each month and part of a month (the Period) from date the first installment for the year is payable until the date tax is payable on assessment.

-) The amount of interest that a person must pay for each period under subsection(2) is calculated as the standard interest rate applied to the excess of :-
- 90% of the person's estimate of total amount that would have been paid by way installments during the income year for each installment period, or revised estimate equaled the correct amount, over the amount of tax paid installment during the year.

(c) Interest for Failure to Pay Tax (sec-119)

-) A person who fails to pay tax on or before the date on which the tax is payable is liable to pay interest for each month and part of month for which any of tax is outstanding calculated as the standard rate applied to the amount outstanding.
-) For the purpose of calculating interest payable under sub section (1), any extension granted under section 98 is ignored.
-) A withholding agent may not recover from a withholder interest payable by the agent in respect of a failure to comply with 90(4).

(d) Penalty for Making False or Misleading Statements (Sec-120)

A person who makes and presents the false or misleading statement or omits any matters from the statement knowingly or recklessly is liable for a penalty as follows:-

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

(e) Penalty for Aiding or Abetting (sec-121)

Person who knowingly or recklessly helps or assists another person to commit an offense or counsels or influence another person to commit the tax misleads such a person is liable for a penalty equal to 100% of the underpayment of tax.

2.1.11.2.2 Offences

Simply offence is legal or moral crime. It also includes an official crime or a crime against moral, social, or other accepted standards. Similarly, penalty is a legal punishment for committing crime. It also includes a legal or official punishment such a fine or imprisonment for committing a crime other offence. The ITA 2002 has made some provision of penalty for offences. Which are as follows:-

(a) Penalty for Failure to pay Tax (sec-123)

If any person who without reasonable excuse fails to pay any tax on or before the date on which the tax is payable shall be liable on conviction to a fine of not less than Rs.5000 and not more than three months, or both.

(b) Offence of Making False or Misleading Statement (sec-124)

If a person who makes a statement to the IRD that is or misleading in a particular material or omits from a statement made the IRD any matter or thing without which the statement is misleading in particular material has to be liable to a fine between Rs.40, 000 to Rs.1, 60,000 or an imprisonment for a term not less than six month and not more than two years, or both.

(c) Offence for Obstructing or Influencing Tax Administration (sec-125)

A person committing the following offences is liable to a fine not less than Rs.5000 and not more than Rs.20000 or an imprisonment for a term not less than one month and not more than three months or both.

) If obstructs an officer of the notice of the IRD on duty under ITA 2058

) If fails to comply with a notice for obtaining information

) If obstructs the enforcement of the ITA 2058 in any other ways.

More over any person if attempts to commit the offences as explained above liable to half of the penalty as mention.

(d) Penalties for Authorized and Unauthorized Person (sec-126)

If any authorized person violets official secrecy is liable to a fine of up to Rs.8000 or an imprisonment for a term of up to one year, or both. Similarly, if any person who is not authorized by ITA 2058 collects or attempts to collect tax or any other amounts in the tax is liable to a fine

of between Rs.80000 and Rs.24000 or an imprisonment for a term of less than one year and not more than three years or both.

(e) Offence of Aiding or Abetting (sec-127)

If any person who knowingly aids or abets another person to commit an offence under the ITA 2058 or counsels or induces another person to commit such an offence is liable to half of the penalty that is imposed on the main offender. But, government officials if commit such an offence is liable to full penalty that is imposed on the main offender.

(f) Penalty for Failure to Comply with the Act (sec-128)

If a person who fails to comply with any provision of the ITA 2058 and its rules under this Act Shall are liable to a fine of not less than Rs.1000 and not more than Rs.3000.

(g) Department may Order for Payment of Penalty Amount

-)] Notwithstanding this chapter, where any person accept in writing as having committed one or more offence under this chapter. Other than of a kind referred to in section 126, the department may, at any time prior to the commencement of court proceedings, at any time prior to the commencement of court proceedings, order the person to pay a sum of money specified by the department but not exceeding the amount of the fine that is likely to be imposed for committing one or more offence.
-)] In issuing the order referred to in subsection (1), the department shall be required to specify the offence committed, the sum of money to be paid and the date for payment in such order.
-)] An order issued by the department under this section shall be final and shall not be subject to any appeal.

(h) Nepal Government shall be a Plaintiff

Nepal Government shall be a plaintiff in all lawsuits under this chapter.

(i) Investigations and Filing of Lawsuit

- J The prescribe officer should conduct an investigation of the lawsuit in respect of the offence that would be imposed on the penalty under this chapter and lawsuit shall be required to be filed with the concerned district court within 35 days after completion of the investigation.
- J The officer conducting investigation under subsection (1) shall acquire an opinion of Government advocate.

AMEDED BY FINANCIAL ACT 2068(2011)

(72) of Section 117:

(a) The following Sub-section (1) shall be Substituted for Sub-Section (1):

"(1) If any person does not do the followings, such a person shall be imposed fees as follows:-

- a) In case income details of any income year are not submitted pursuant to Sub-section (1) of Section 95, at the rate of Two Thousand Rupees for each detail.
- b) If any person withholding tax does not submit the return referred to in Sub-section (5) of Section 95A, a fee in a sum to be set by one and a half percent per year of the amount of tax to be withheld for each month and portion of the month from the due date for submission of the return until the date on which such return is submitted shall be imposed on such a person.
- c) In case income details of any income year are not submitted pursuant to Sub-section (1) of Section 96, at the rate of One Hundred Rupees per month, to a person as referred to in Sub-section (4) of Section 4 of the Act and an amount which is higher out of an amount, calculated in a case of other person at the rate of 0.1 percent per annual on the computable amount without deducting any amount where one may deduct such an amount in computing the income in that income year and including such an amount which is to be included on it or at the rate of One Hundred Rupees per month, higher in those items."

(b) The following Sub-section (2) shall be Substituted for Sub-Section (2) :

(2) If any person does not maintain the documents required to be maintained in any income year pursuant to Section 81, a fee in a sum to be set by one and a half percent per year of the assessable income drawn out without deducting any amount, if any, that can be deducted and by

including any amount, if any, that has to be included in computing the income of any income year for each month and portion of the month or a sum set by one Thousand Rupees per month, whichever is higher, shall be imposed on such a person.

(73) The following Section 118 shall be substituted for Section 118:

"118. Interest to be charged where the person making payment in installments makes lesser payment of estimated tax:

- 1) In cases where, in the case of the amount of installment to be paid by any person under Section 94 in any income year, the amount mentioned in Clause (b) is more than the amount mentioned in Clause (a), interest shall be charged on such excess amount pursuant to Sub-section (2): (a) Amount of each installment paid by that person in any income year, (b) Eighty percent of the estimated or revised estimated amount of total amount payable by installments for each installment period in that income year if such estimate or revised estimate is correct and, if such estimated or revised estimated amount is not correct, that of such amount, of the total amount of tax to be paid by any person referred to in Clauses (a) and (b) of Section 3, as is to be paid in installment for each installment period in any income year.
- 2) An interest to be set by the normal rate of interest, for each month and portion of the month, from the due date for payment of the installment in that year to the following period shall be imposed on the person referred to in Sub-section (1):
 - a. In the case of a person in respect of whom tax is to be assessed under Sub-section (1) of Section 99, until the date for Submission of the income return,
 - b. In the case of a person in respect of whom the Department has made revised tax assessment for the first time under Section 101 because of failure to make tax assessment under Sub-section (1) of Section 99, until the date on which a notice of that revised tax assessment is delivered pursuant to Section 102.

Explanation: For the purposes of this Section, "amount payable by installment" means the amount of installments calculated pursuant to Sub-section (1) of Section 94 in the case of a taxpayer who fails to Submit a revised estimate once an estimate has been Submitted and in respect of whom the Department has made estimate pursuant to Sub-section (7) of Section 95 because of his failure to Submit an estimate and calculated pursuant to Sub-section (5) of Section

95 in the case of a taxpayer Submits a revised estimate and in respect of whom the Department has made estimate pursuant to Sub-section (7) of Section 95 because of being unsatisfied with the Submitted estimate or revised estimated."

(74) The following Sub-section (3) shall be substituted for Sub-section (3) Section 119:

(3) The person withholding tax pursuant to Sub-section (8) of Section 95A or the person shall not be allowed to recover the interest payable by him/her from the person withholding advance tax pursuant to Sub-section (4) of Section 90.

(75) The following Section 119A. shall be inserted after Section 119.:

"119A. Fees to be charged: Except as otherwise provided in this Act, a person who fails to observe any provision of this Act or the Rules framed hereunder shall be liable to pay fees equivalent to the fine specified pursuant to Section 128."

2.2 Review of Books, Journals and Previous Research

Several books, research studies, articles, research paper and reports have been reviewed while conducting the study. Many individuals and organizations have made appreciable efforts in the field of income tax many literatures are found in this field. Most of them are syllables oriented and some of them are concentrated to administrative problem legal aspects and policies; income tax system, path for reform of income tax etc, in the descriptive way rather than analytical. Similarly many research studies, articles and reports have described the income tax law provision structure of income tax, problems and prospects of income tax and path for reform of income tax.

2.2.1 Review of Books / Reports

Amatya(1965) the title of the book was "NepalmaAayakarByabastha". He has analyzed the legal aspect of income Taxation in his whole book. His contribution was first in this field.

Lent (1968) has presented a report entitled "Survey of Nepalese Tax structure" Under the request of International Monitory Fund, fiscal Affairs department. He has critically analyzed the scope of income tax in Nepal, tax structure, taxable income, exemption and allowance given at

that time. He has suggested reforming both the income law and administration to increase government revenue through income tax.

Agrawal (1978) has provided details information in various aspects of income taxation in his report entitled “Resource Mobilization for Development; the Reform of Income Tax in Nepal”. His study is the first comprehensive study in taxation of Nepal. The study has covered period of nine years from 1967 to 1976. The nine chaptered research shows picture of resourced gap of Nepal in its first chapter. Fiscal policy, effective tax system, role of income tax, legal and administrative aspects, historical background of income tax etc have been also discussed. He has presented various mathematical calculations such as per capital burden of income tax, buoyancy coefficient and elasticity coefficient of income tax etc. using the double log linear model. He has identified the major problems as inefficiency of tax administration and income Tax evasion. He also identified tax authorities are insufficient in enforcement of law and there are not integrated programmed for taxpayer’s education assistance, guidance and consul sating. All things states in research are not fully relevant today.

Dr. Agrawal (1980) has presented another research report concerning about the income tax administration. He states, tax administration is an important sub-system in the total system that can either carefully trend or mercilessly kill the goose that lays golden eggs. It is the essence of implementing tax policy and tax laws. Too much preoccupation with to do in terms of tax policy and tax alone is not good unless attention is given to how to do it in terms of tax administration. He has found that, there are no integrated programs for taxpayers’ education, assistance, guidance and counseling. About the major problems of tax administration he found are corruption, unfair dealings, harassment and incompetent personal etc.

Poudel and Timilsena (1990) had described the provision and a law related to income taxation of Nepal in a book named “Income Tax in Nepal” this book is extremely based on the syllabus of B.Com. They were described the theoretical as well as practical aspects of income tax. He has not analyzed the role of income tax, income tax structure and defects of income tax in Nepal. The book was descriptive rather than analytical.

Pradhananga (2049) had an explained the provisions and law related to income taxation of Nepal. His book is informative rather than analytical. He had described method of income tax assessment with numerical examples but had not analyzed the major problems and defects of income tax and the role of income tax.

Khadka (1994) published a book “Nepalese Taxation: And path for Reform”. The book is divided into seven chapters. The general economic conation of Nepal, commodity taxes, income taxes, property taxes, local taxation, tax administration and the strategy for tax reform respectively. He had analytically described about development, existing structure, main problem and possible direction of reform of income tax. He had identified the major problems of income tax as narrow coverage, unscientific tax assessment and collection, defective system from the prospective of international taxation. He has also pointed out weak tax administration, imbalance and inadequate organizational pattern, inadequate physical and other facilities, inadequate tax training, predominance of 190w level non-technical posts, debatable scope of revenue investigation department, lack of information system. He has suggested for extension of tax coverage, scientific method of tax assessment, extension of withholding tax, inflation adjustment etc. He has also suggested to administration for recognize and expansion, integrated information system research unit, strengthening the revenue service etc. this book was analytical and useful to know different aspects of income tax.

Dhakal(1998) published a modified edition of book named “Income Tax and house and compound Tax law and practice with VAT”. He has described historical aspects and legal provision related to income tax and presented methods of income tax assessment with numerical examples. This book was fully based on the syllabus of BBS third year and MBS second year and was published before coming new Income Tax Act 2002. This book is very useful to know the general information and legal provision of Income Tax Act1974. His book is informative rather than analytical.

Tiwari(1999) conducted a study through book named “Income Tax system in Nepal.” The book is also knowledgeable for theoretical as well as practical knowledge about income Tax act 1974.

Khadka (2001) has published a book named “Income Taxation in Nepal. Retrospect and prospect”. This book has complete information of Nepalese income taxation. From the income tax around world to the draft Income Tax Act 2001(Later it became Income Tax Act 2002), all the information and major provisions regarding the matter are mentioned in the book. Besides these, Income Tax Act 1960, 1962 and 1974 in detail are also presented in the book. He has described what is the practice in the world, what was the practice in Nepal and at present, the all terms relating to the tax. The book is a knowledgeable for all of them those who are concerned about income tax such as CA, Auditor, Administrator, Policy-Maker, Teachers, Students etc.

Dr. Adhikari (2001) has published an article from Rajaswa vol.2. In his article he has explained to need of tax policy that can play significant role in the Nepalese economy. According to him, a little attention on tax administration can minimize the role of tax policy. Nepalese income tax is waiting for comprehensive and integrated taxation plan and scientific implementation of the same by the way of reform. Further he has stated Nepalese tax system has three types of gapes. They are investigation and identification gap, return filling gap assessment and collection gap. He has suggested that the tax administration should consider as a important component of tax policy to achieve the goal of revenue maximization through taxation.

Dr. Thapa (2002) had described the tax system, features of tax, and causes of reform the tax. He had characterized the tax system as too many and too high rates, multiple objectives of taxes scheduler rather global approach to income taxation, too many income brackets and high progressively, complicated and ambiguous tax law.

He had identified the areas for reform the tax system in Nepal. They were, low rates on broad base, simplicity and neutrality, gradual abolition of exemptions, deduction and tax holidays to broad tax base, few rates or single rate, few taxes with high revenue productivity, emphasis on tax compliance rather than coercive enforcement, incentives to sewing and investment, conversion of sales and service taxes into VAT, excise duty only on cigarettes, tobacco, alcohol, automobiles, petroleum and automobile spare parts, abolition of surcharge and additional duty system to make the tax system simple, making the tax system internationally compatible to attract foreign investment. (Thapa, 2002)

Adhikari (2003) has discussed the legal provision of new Income Tax Act, 2002. His book is analytical rather than informative writer has not included administrative aspect, role and structure of income tax in his book. The book has only focused on the legal aspect of income tax. Agreement and protocol relating to avoidance of double taxation and the prevention of fiscal evasions with respect to taxes on income between different countries has also included in his book.

Adhikari (2003) has published a new “Tax Law: Past and Present” by Bhrikuti Academic Publication. He has comparatively analyzed that the present income tax act 2058 and the past income tax.

Kandel (2003) has published a book name “Tax Laws and Tax Planning in Nepal.” In the year 2003, the book is about Income Tax Act 2002 and Value Added Tax. This book is also prepared as per syllables of MBS, T.U. for the practical problems and provisions relating to the act, this book could be a useful source. And, the practical problems and provision relating to VAT is also given equally important in the book.

Mallik (2003) had published book name “Nepalese Modern income Tax system”. He had described historical aspects of income tax and legal provisions relating to income tax with numerical examples. This book is very useful to know the general information and legal provision of Income Tax Act 2002. His book was informative rather than analytical. He had not analyzed the role of income tax, structure of income tax in Nepal.

Adhikari (2003) wrote a book entitle “Modern Taxation in Nepal: Theory and Practice”. This book also has been written according to the syllabus requirement of different faculties. Especially for BBS 3rd year of T.U. has been taken into consideration. Income Tax Act 2002 as amended by Finance ordinance, 2003 had also been included theoretical as well as practical aspects have been put in the book.

Amatya (2004) and other two senior tax teachers have published the book aiming to fulfill the course requirement of CA, BBS, BBA, LLB, LLM, MPA, MBS and MBA, students. This book has defined all the terms relating to income tax and Value Added Tax. The examples presented in the book helps to reader to know more about provisions and provisions and procedure of act. Furthermore, this book has enough practical examples also.

Bhattarai, Ishwor&Koirala (2004) however the concentrated in the syllabus of MBS Second year of T.U, the book is quite informative. The book has much more practical problems and solutions regarding income tax assessment from different groups of income point to remember (PTR) in each and every chapter has made the book more useful to all the user of book.

Dr. Khadka (2005) wrote a book entitled “Modernizing Tax Administration in Nepal”. This book is very much useful to everyone who is interested 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 has shared his expertise in his book. Basically author focuses on the administrative aspect of tax system of Nepal.

BhattraIshwor and Koirala G.P. (2012) published a book named “Taxation in Nepal” in the year 2012; the book is about Income Tax Act 2002. This book is also prepared as per syllables of MBS, T.U. for the practical problems and provisions relating to the act, this book could be a useful source. And, the practical problems and provision relating to VAT is also given equally important in the book.

2.2.2 Review of Articles

Revenue consultation committee of MOF has published a report in the FY 2001. The committee has studied the overall taxation situation of Nepal. This report has suggested widening the income tax base by including all kinds of taxpayers and income. This report suggested for finding out the taxpayers of new sector. For this the report has suggested to make the act more transparent and clear in order to attract foreign and domestic investors. The report suggested increasing exemption limit and adjustment of exemption limit according to the purchasing power and inflation. This report has suggested to implement account based VAT more effectively. This report has also suggested that fine and penalties imposed strongly to rule breaker so that income tax collection will be raised.

Advocate Sing published an article named “Taxation-Legal Illegally” in the journal of the ICAN, on Dec, 2005. He has mainly focused on Nepalese taxing system and government provisions and tax minimization activities. In his words “the taxpayers have been encountered by the tax

officials themselves to go to the courts over complain of their wrong doings because the authority is totally convinced that no immediately solution can be expected from the court of tribunal in short span of time as long as they are in position. One of the major suspicions on the independency and role of revenue tribunal is the procedure where by decision of the director general of the Inland revenue Department has to be reviewed through appeal by the tribunal.” He further added “one of the major constraints that have already been dealt above is the lack of proper orientation and expertise in the courts and the effectiveness to the intendment of the representative lawmakers.”

Dhakal (2008), had written an article entitle “Historical Perspective on Income Tax in Nepal” this article has describe previous income tax act and shown main weakness of income tax act 2058 are presented as follows.

- ✓ Provision of set and carry forward of losses.
- ✓ Classification and pooling of depreciable assets.
- ✓ Medical tax credit, tax on capital gain.
- ✓ Tax on capital gain, withholding payment
- ✓ Quantification, allocation and Characterization of the amount.

2.2.3 Review of Dissertations/Thesis

Baral (1989) has tried to show the “Contribution of Income Tax on the Structure of Government Revenue in Nepal”. She found that total tax revenue and direct tax revenue have an increasing trend in Nepal but in unsatisfactory rate she has found that contribution of direct tax has been decreasing and that of indirect tax act is increasing each year. Exemption in agriculture income is other reason for less collection of revenue. In her study, insufficient tax administration unconsciousness of taxpayers, lack of scientific method of tax assessment and collection have been identified as the major reasons for tax evasion at high level. She has suggested that the tax administration should be honest and efficient, tax evaders should be punished, there should be scientific method for tax collection, administration cost should be minimized, research unit should be established and delays in assessment procedure should be reduced.

Pant (1996) presented his MBA 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 effective personnel

management, poor reward and punishment system, weak income tax assessment procedure, poor tax information system, lack of taxpayer educations. Very narrow coverage of income tax is the other problem of income tax management in Nepal identified by him.

Paudel(2002) presented a dissertation entitled “Income Taxation in Nepal: A study of its structure and productivity. “The objection of his study were: to analyze the structure of income tax in Nepal, to estimate the elasticity and buoyancy of income tax in Nepal, to assess the role of income tax administration in Nepal, to evaluate the success of voluntary disclosure of income scheme (VDIS) program in briefs and to provide the suitable recommendation for improving the scenario of income tax. She has found that overall revenue of Nepal should and annual growth of 16% indirect taxation has more significance contribution in total tax revenue, income Tax occupied the first rank among the direct taxes, personal income tax slab has been change radically from seven slabs in 1975/76 to two slabs in 1999/2000, VDIS could not attract more potential taxpayers into tax net due to lack of good planning and adequate homework of the government, working procedures of the tax administrators are still traditional and cost of administration has not been brought to the satisfactory level.

Magar (2003) has concentrated on the “Exemption and deduction provision of income Tax law”. He has found that there was dominated share of tax structure in Nepalese government revenue. He found the contribution of direct tax and indirect tax to be 25.56% and 74.44% of total tax revenue in 2001/02. Income tax has occupied third position on the basis of mean contribution among source of revenue and is in increasing trend. The tax GDP ratio was not found satisfactory with income tax corporate income tax is the first position with dominating role and in decreasing trend while income tax from individual is occupying second position and is in increasing trend. He has stated the major cause for inefficient tax administration as lack of trained employees, shortage of income tax experts and professionals in tax administration, lack of public participation, faulty organizational structure of tax administration, weakness in government policy and defective Income Tax Act

Sherchan (2003) presented a thesis on “An Analysis of Fine and Penalties Regarding to Income Tax system of Nepal.” The objective of this study were analyzing tax structure of Nepal, analyzing the provision of fine and penalties under income tax law, know the tax payer’s knowledge and know view of tax officers about fine and penalties. His major findings have

shown that the dominating share of tax revenue is in decreasing trend from 81.73% in 1975/76 to 77.97% in 2001/02. The contribution of income tax is in increasing trend and has occupied third position in the study period. It was 7.83% in 1975/76 and became 17.6% in 2001/02. There was a dominated role of corporate income tax but was in decreasing trend and contribution from individual income tax is in a second position with increasing trend in total income tax. The Tax/GDP ratio was not found satisfactory. He has found the taxpayer to be unknown about new acts and lacking the habit of paying tax. He has suggested revising the provision of fine and penalties, introducing reward and prizes, clear income tax rules and regulations, clear rights and duties of tax officer's timely revision in income tax policy and computerized system for payment of income tax. He has recommended education for taxpayers and information spreading through different media, meetings and seminars for consciousness about income tax. (Sherchan, 2003)

Gautam (2004) has concentrated his study on "Contribution of Income Tax to National Revenue of Nepal". In this study, he analyzed the contribution of income tax to national revenue of Nepal and volume of indirect tax and direct tax in total tax revenue. He also examined the effectiveness of income tax revenue collection in Nepal. In his study he found that the contribution of tax revenue shows the decreasing trend as it had contributed 85.2% of tax revenue in fiscal year 1982/83 on the total but it was decreased to 78.0% in 2001/2002. He also states that the dominant tax revenue to total revenue is 20.63% and 79.40% over the study period. Lastly he recommended that the tax ratio should be increased gradually on a long run basis to meet the deficit in budget for this, the tax base should be widened. The principle of ability to pay should be completely adopted.

Rai, (2004) presented a dissertation named "An Analytical Study on Income Tax Act 2058" in her study to analyze various aspects of Income Tax Act, 2058 in reference to income heads. She examined income tax in its historical perspective and reviewed the income tax system of Nepal in context of its contribution to the total revenue and total government revenue. She wanted to find out the ways and means for increasing tax consciousness among the Nepalese people. She has suggested that the laws relating to income tax should be clear, simple and comprehensive. It should not contain any loopholes and ambiguity. Therefore it should be reviewed frequently. She

wanted to make clear that in Nepal, one of the most important reasons for unsound income tax system is inefficient and unscientific income tax administration.

Dhakal, (2005) studies with the objectives of analyzing contribution of income tax and volume of indirect and direct tax, examining the effectiveness of income tax revenue collection, knowing the view of taxpayer, tax experts and tax officers about various aspects of income tax and to recommend possible measure. His study has covered introduction, conceptual framework and legal provision, presentation of different data relating to income tax, empirical study and summary, conclusion and recommendation. He has made some recommendations. Tax ratio should be gradually increased to adopt principle of ability. Income tax policy should be timely revised by income tax experts following economic policy of nation, income tax rules and regulation should be clear and simple; rate of fine and penalties should be increased; A research and intelligence center should be established in each tax office, tax personnel and taxpayers should be encourage as well as punished for their works; separate income tax department should be established; income tax net should be broad by bringing house and lent rent, doctor's clinic, consultancy service, tuition, research etc into income tax net are the major recommendations made by him.

Sharma (2005) has prepared a master degree thesis entitled "An Analysis of Fine and Penalties Regarding Income Tax System in Nepal". He has described about tax structure of Nepal, analyzes the provision of fine and penalties under income tax law, examined the taxpayer's knowledge and tax officer's views about fine and penalties, tries to find out the role of fine and penalties to increase taxpaying habit of Nepalese people and provided suggestions about fines and penalties regarding to income tax system.

Dhungel (2006) had presented a dissertation entitled "Special Provision to Individual under Income Tax Act 2058". She had examined and analyzed the effectiveness of special provision provided by ITA 2058 to individual and identified the other provisions to be included in the special category. She also wanted to make aware about special provisions to individual (Taxpayers) and tax experts. She has found special provision to in individual provided by Income Taxes Act 2058 is not sufficient and more provisions should be provided and the retirement contribution should be wholly exempted, the tax concession to individuals working at different area is contradictory. Tax experts are satisfied and tax payers are not satisfied.

Regmi (2006) has presented a dissertation entitled “Income Tax Administration and its Effectiveness in Nepal”. He has analysis contributions of indirect tax and direct tax in total tax revenue and find out the share of income tax in total tax revenue. He has examined the effectiveness of income tax revenue collection and administrative aspect of income tax in Nepal. He has described that the effectiveness of income tax system depends upon the income tax administration. According to him in Nepal, one of the most important reasons for unsound income tax system is ineffective and unscientific income tax administration he has suggested that delays in assessment should be reduced 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, cost of income tax collection is one of the determinants of efficiency of administration. Therefore the concerned authority should pay due attention to it should be reduced, unnecessary outside pressure should be avoided and income tax experts/ Professional should be increased in tax administration. He pointed out that two administrations should pay great attention to bring the income from house and land rent; doctor’s clinic, consultancy service, tuition, research works into income tax net. In these sectors, income tax has been highly evades.

Shrestha (2006) has prepared a master degree thesis entitled “Contribution of Income Tax to Government Revenue in Nepal”. She described about the contribution of income tax to national revenue of Nepal and analyzed the volume of indirect tax and direct tax in total tax revenue. She also examined the effectiveness of income tax revenue collection in Nepal and tried to found views of the taxpayers, tax experts and tax officers.

Chalise, (2007) has presented a thesis entitled “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 for 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. from fiscal year 1996/97 to 2005/06. Inefficient income tax administration, reluctance of taxpayer to maintain account, poor tax morality and taxpayers’ compliance is the major causes of income tax evasion

in Nepal. Controlling illegal business activities, fine and penalties to tax evaders, incentives to regular taxpayers are the major ways of controlling income tax evasion in Nepal.

Dotel(2007) present a dissertation named “Income Tax Act 2058; Expectations and Realities” in 2007. The objectives of the study was to measure the effectiveness of Income Tax Act 2058 both in theory and practice, to review the views of tax payers, tax experts and tax administrators to ITA 2058. He found that Income Tax Act 2058 seems effective because it has the features of provisions of international taxation, taxing capital gains and dividends income, abolition of various tax related concession, rebate and exemption etc. He also found that the most of taxpayers, tax administrators and tax experts are acquaintance to present Income Tax Act. However they suggest that some of the words in the act needed to be further simplified.

Oli (2007) in his dissertation named “Income Tax Management in Nepal”. He has focused on the managerial aspect of taxation in Nepal. His research study is concentrated on corruption practice of tax in various revenue department and tax offices. On the basis of primary survey, he has concluded that the corruption practice is high in tax offices. He has also focused that the imposition of fee, fine and penalty is not effective due to the poor implementation of act and corruption. He had suggested that to increase income tax, provision of fees, fines and penalties should be implemented properly along with income management.

Oli (2008) presented a dissertation entitled “Contribution of Individual Taxpayers to Income Tax Revenue of Nepal”. The objective the study was to examine the structure of government revenue, analyze the volume of direct and indirect tax to total revenue, analyze the contribution of individual tax payer to income tax revenue as well as total public revenue of Nepal etc. He has found that the tax revenue is 79.45% of the total revenue of Nepal in FY2005/06. There is dominant role of indirect tax revenue in Nepalese tax revenue. It was major contribution by indirect tax revenue, which was 75.68% in FY2005/06, but the direct tax was 24.32%. The major contribution in the income Tax was from individual. It was Rs. 5998.80 million in FY 2005/06, But from the public enterprises was only Rs.195.70 million.

Sapkota, (2008) presented a dissertation entitled “Contribution of Income Tax to National Revenue; before and after enactment of Income Tax Act 2058.” The main objective of the study was to analyze the contribution of income tax in national revenue before and after enactment of

Income Tax Act 2058, to provide suitable suggestion for the betterment of income tax system in Nepal. During his study, he found that performance of income tax before and after new act seems not regular. The new income tax act is introduced on 2001/2002 and total income tax has first time declined by 210.3 million and by-2.3% that year. It further decreased by 937.5 million and -10.5% for FY2002/03. In FY2000/01 growth rate was 22.8% and that was more than 20% for other preceding year but is just 2.1% in the year FY2005.06. He suggested that overall revenue policy as well as tax policy should be revised. Tax offices should be decentralized for broad coverage of geographical region. Different recent technologies such as e-taxation should be introduced and promoted to avoid complexities and delay in income tax administration.

Bhattra (2010) presented a thesis entitled Income Tax Act 2058: Problems and Difficulties. He has tried to find out the problems and difficulties in the income tax act and rules, necessary reforms of income tax system, contribution of income tax to our national revenue. In this study, the variation of the respondent was found. Income tax act 2058 is effective to create sound income tax system in comparison to previous act 1974. As income tax act has features of provision of international taxation, taxing capital gain and dividend income. Corruption is the major problems in the income tax administration but income tax administrator deny that there is no corruption in administration. Taxpayer plays vital role in the field of taxation so the conclusion are made that the taxpayer should be educated. Introducing the school level curriculum, provide incentive to tax payer, opening more branches of tax office in different places must be the major issue of current situation.

Ghimire (2010) presented a dissertation entitled "Revenue Collection from Income Tax and its Practical Difficulties in Nepal." The main objective of the study was to analyze the contribution of income tax in national revenue in various years, to provide suitable suggestion for the betterment of income tax system in Nepal. During his study, he found that overall revenue policy as well as tax policy should be revised. Tax offices should be decentralized for broad coverage of geographical region. Different recent technologies such as e-taxation should be introduced and promoted to avoid complexities and delay in income tax administration.

CHAPTER-III

RESEARCH METHODOLOGY

This chapter deals with the method of collection and analysis of data. Secondary as well as primary data were used for this study. Opinion survey technique was adopted while collecting the primary data to find out the view of respondents representing different groups related to different aspect to income tax. While conducting opinion survey, questionnaires were distributed to the income taxpayers and tax administrators.

The collected data were tabulated into the separate format and table; some statistical tools such as simple average and percentage were made where necessary.

3.1 Research Design

To achieve the specified objective of the study the opinions of various 60 respondents associated with distinct denomination i.e. Tax Administrators, taxpayers were collected through structured questionnaire. The questionnaire includes provision of fine and penalties, effective of fine and penalties, knowledge and view of tax administrators as well as taxpayers about fine and penalties etc. Similarly information published by organization about income tax is used for this study. In this way the research design of this study are descriptive, analytical and empirical.

3.2 Types of Research

This study has included three types of research as descriptive, analytical as well as empirical.

-) Descriptive research includes surveys and a fact finding inquires of different kind.
-) Analytical research has to use facts or information already available and analyze these o make a critical evaluation of material.
-) Empirical research is data based research coming up with conclusions, which are capable of being verified by observation.

3.3 Population and Samples

The population for this study comprised all the persons belonging to income tax Nepal. 60 sample sizes were selected from two different groups of respondents. The following table shows the group of respondents and sample size.

Group of Respondent and Size of Sample

S. NO.	Group of Respondents	Sample size
1	Income tax administrators	30
2	Income tax payers	30
	Total	60

3.4 Nature and Sources of data

Data which were essential to describe this study were collected from two sources i.e. primary and secondary sources.

Primary data were collected by questionnaire (field visit and information received from the respondents). Secondary data are collected from;

- a. Economic survey and budget speech of various years, ministry of finance, Nepal government
- b. Book related to income tax.
- c. Reports and records of various departments of taxation
- d. National newspapers, journal, souvenir and magazines

3.5 Data Collection Procedures

Data of this study were collected from two sources. Primary data were collected from tax administrators and taxpayers by using questionnaire. First of all questionnaire was developed and distribution was done through personal visit. Secondary data were collected from published report of different organization.

3.6 Data Processing and Analysis of Data

The information received from primary and secondary sources were firstly tabulated in two separate suitable formats systematically. The data were tabulated in to various tables according to the subject matter in order. For the purpose of analysis, generally simple statistical tools were used which were as follows: simple percentage, simple average, graphs, charts and diagrams, etc.

CHAPTER IV PRESENTATION AND ANALYSIS OF DATA

This chapter is devoted to the presentation and analysis of the income tax structure and opinions about income tax as well as provision about interest, fees, fine and penalties with reference to ITA 2058 through definite course of research methodology. To achieve the stated objective of the study and also to make easier to understand the findings, qualitative as well as quantitative data and information has been analyzed.

4.1 Tax Structure of Nepal

Modern economic plan of Nepal had started with the initiation of first economic planning in 1956. Since then taxes have been used for the achievement of national economic goals. So taxes

Fiscal Year	Total Revenue	Tax Revenue	% of Tax Revenue	Non-Tax Revenue	% of Non-Tax Revenue
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play vital role to the economic

development of Nepal. To get knowledge about the taxes, tax structure should be known. The structure refers to the level as well as relative importance of various taxes in the composition total tax revenue of country. Tax structure of Nepal from the fiscal year 2001/02 to 2007/08 is given below.

4.1.1 Composition of Total Revenue

Total revenue in Nepal is the composition of tax revenue and non-tax revenue. When the Government of Nepal presented first national budget in FY 1951/52, 73% of government revenue coming from non-tax source and land tax out of 73% share of non-tax revenue was 43% (Budget speech FY 1951/52). It seems that the share of tax revenue has always been greater than the share of non-tax revenue. In FY 2008/09 the share of tax revenue and non tax revenue was 81.58% and 18.42% respectively as compared to 77.97% and 22.03% in FY 2001/02. This indicates that the role of tax revenue is very much important for the government. Tax revenue has been placed as a major source of government revenue in Nepal.

Table 4.1.1 Composition of total Revenue

(Rs. In Million and %)

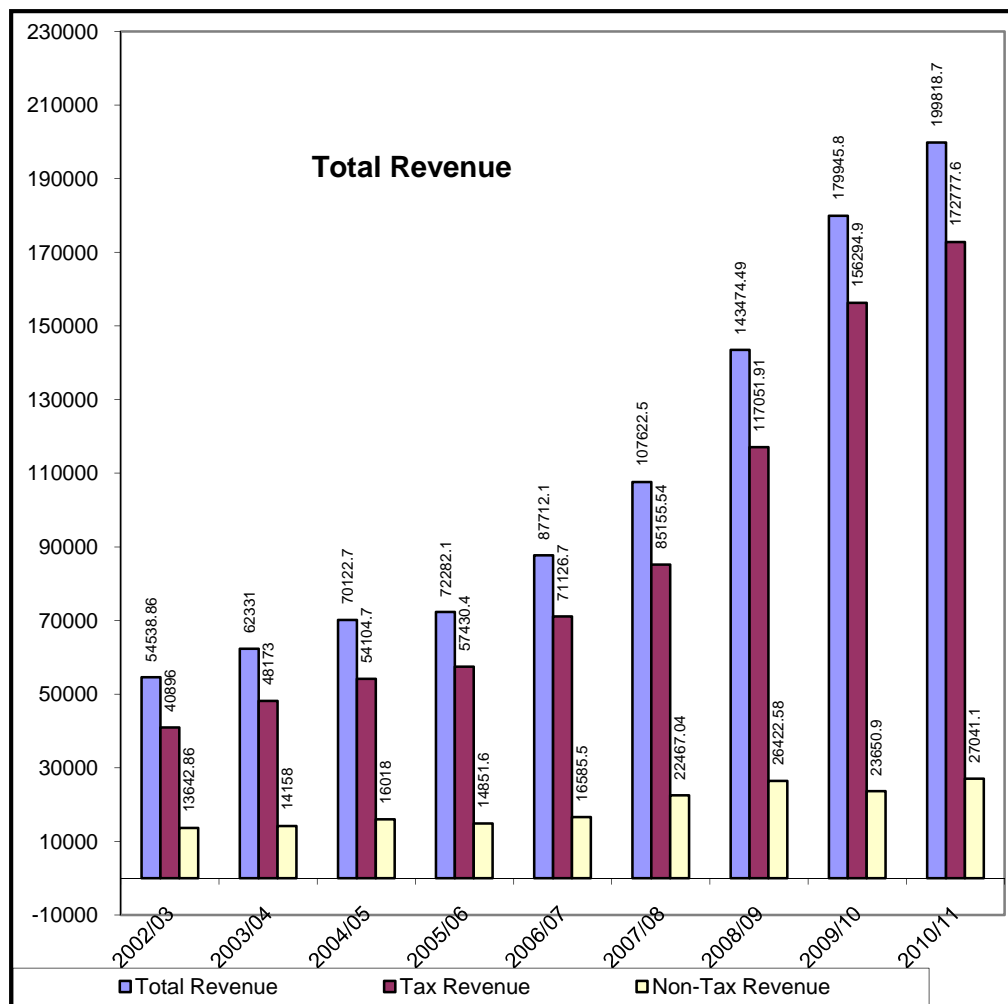
2002/03	54538.86	40896.00	74.99	13642.86	25.01
2003/04	62331.00	48173.00	77.29	14158.00	22.71
2004/05	70122.70	54104.70	77.16	16018.00	22.84
2005/06	72282.10	57430.40	79.45	14851.60	20.55
2006/07	87712.10	71126.70	81.09	16585.50	18.91
2007/08	107622.50	85155.54	79.12	22467.04	20.88
2008/09	143474.49	117051.91	81.58	26422.58	18.42
2009/10	179945.8	156294.9	86.86	23650.9	13.14
2010/11	199818.7	172777.6	86.47	27041.1	13.53
Average	81277.40	64369.97	82.12	16907.56	17.88

(Source: Economic Survey 2011/2012)

The above table reflects that the tax revenue was gradually increasing every year. Since FY 2002/03 amounting Rs. 40896.00 million to Rs. 172777.6 million in FY 2010/11. But the percentage contribution of tax revenue was found fluctuating in different year. The contribution of tax revenue to total revenue was maximum 86.86% in FY 2009/10 and minimum 74.98 % in FY 2002/03. But during study period, the average contribution was 82.12% in different year.

The non-tax revenue collection was in the increasing trend from FY 2002/03 to FY 2004/05. But in 2005/06 the non-tax revenue was decreased by Rs.1166.4million. After that it was in increasing trend. The percentage contribution non-tax revenue is also fluctuating. During study period, the average contribution of non-tax revenue to total revenue was 17.88%. This can be shown in following graph.

Figure 4.1.1 Composition of Total Revenue



4.1.2 Composition of Total Tax Revenue

The structure of Nepalese tax revenue can be presented in terms of consumption, income and capital based tax. Taxes on consumption are known as indirect tax and taxes on income as well as capital are known as direct tax.

Composition of direct tax and indirect tax is presented in the following table. The table shows that the share of indirect tax is more than the share of direct tax. The contribution of direct tax and indirect tax was Rs. 10881.9 million and Rs. 30014.10 million that is 26.61% and 73.39% of total tax revenue respectively in FY2002/03.

Table No. 4.1.2
Composition of Total Tax Revenue

(Rs. in Millions and %)

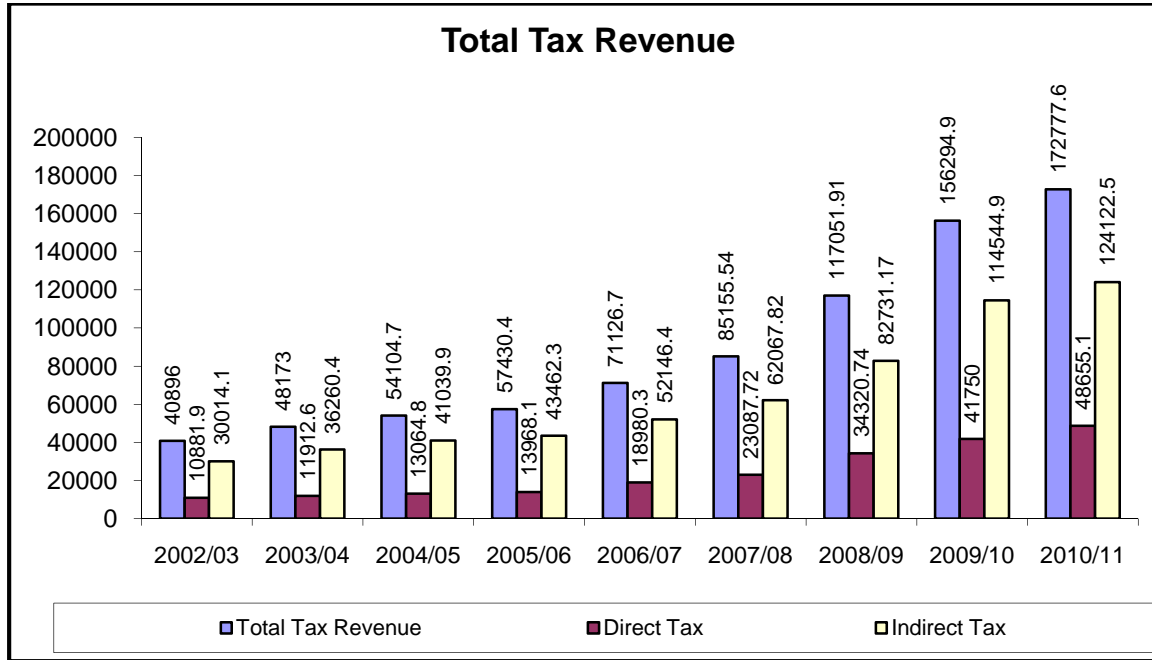
Fiscal Year	Total Tax Revenue	Direct Tax	% of Direct Tax	Indirect Tax	% of Indirect Tax
2002/03	40896.00	10882.9	26.61	30014.10	73.39
2003/04	48173.00	11912.60	24.73	36260.40	75.27
2004/05	54104.70	13064.80	24.15	41039.90	75.85
2005/06	57430.40	13968.10	24.32	43462.30	75.68
2006/07	71126.70	18980.30	26.69	52146.40	73.31
2007/08	85155.54	23087.72	27.11	62067.82	72.89
2008/09	117051.91	34320.74	29.32	82731.17	70.68
2009/10	156294.90	41750.0	26.71	114544.90	73.29
2010/11	172777.60	48655.1	28.16	124122.50	71.84
Average	89223.42	24069.02	26.98	65154.39	73.02

(Source: Economic Survey 2011/2012)

The table 4.1.2 shows that our economy is heavily depend on indirect tax on comparison with direct tax. Indirect taxation with a dominant role in tax structure could be taken as symptom of developing country to divert the economy in the channel of development, those countries should increase the share of direct tax in Nepal, the share of indirect tax is increasing and it is not good symptom of economic development. The share of direct tax was Rs. 4865.51 million which was 28.16% of total tax revenue in FY2010/11 where as in FY2002/03; the share of direct tax was Rs. 10882.9 million which was 26.61% of total tax revenue. Therefore, the attention should be focused on the sufficient resource mobilization through direct tax.

Figure No. 4.1.2

Graph showing Composition of Total Tax Revenue



4.1.3 Composition of Indirect Tax

Nepalese tax structure is heavily depending on indirect taxes which constitutes 70.68% of total tax revenue in FY 2008/09. Nepalese tax revenue is dependent mainly on sales Tax/VAT on goods and services supplemented by taxes on income and property on some extent. The major components of indirect tax in Nepalese tax structure constitute custom duty, excise duty, value added tax etc. Custom duty has been classified mainly into import duty and export duty value added tax component of sales tax, entertainment tax, hotel tax, air flight tax and contract tax. Composition of indirect tax is given in the following table.

Note:

- a. Custom includes imports, exports, Indian excise refund and others.
- b. Excise on industrial product
- c. Value Added Tax (VAT) includes sales tax, entertainment tax, hotel tax, air flight tax and contract tax.

Table No. 4.1.3
Composition of Indirect Tax

(Rs. in Millions and %)

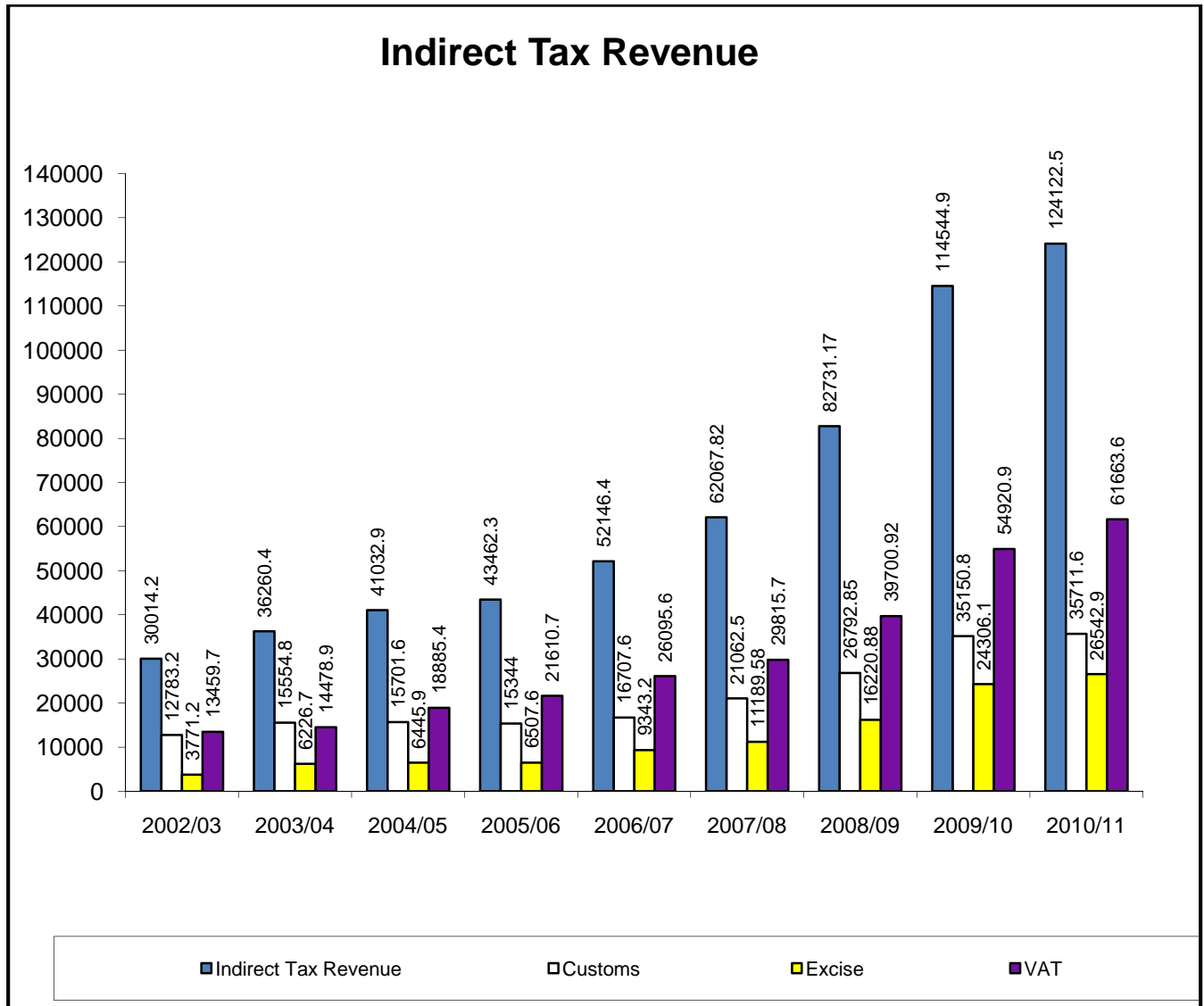
Fiscal Year	Indirect tax Revenue	Total %	Customs	%	Excise	%	VAT	%
2002/03	30014.20	100	12783.20	42.59	3771.20	12.56	13459.70	44.87
2003/04	36260.40	100	15554.80	42.90	6226.70	17.17	14478.90	39.93
2004/05	41032.90	100	15701.60	38.27	6445.90	15.71	18885.40	46.03
2005/06	43462.30	100	15344.00	35.30	6507.60	14.97	21610.70	49.72
2006/07	52146.40	100	16707.60	32.04	9343.20	17.92	26095.60	50.04
2007/08	62067.82	100	21062.40	33.93	11189.58	18.03	29815.70	48.04
2008/09	82731.17	100	26792.90	32.39	16220.88	19.63	39700.92	47.98
2009/10	114544.9	100	35150.80	30.69	24306.10	21.22	54920.90	47.95
2010/11	124122.50	100	35711.60	28.77	26542.9	21.38	61663.60	49.68
Average	65153.61	100	21645.43	33.22	12283.78	18.85	31181.27	47.86

(Sou

rc: *Economic Survey 2011/2012)*

The table reflects that the custom duty and VAT occupy the major position in indirect tax. FY 2002/03 the contribution of custom duty was 39.36% and it was 28.77% in FY 2010/11. The VAT has become an important source of overall tax revenue with fluctuating trend which contributed 49.68% indirect tax in FY2010/11 as compared with 41.44% in FY2002/03. The share of excise duty was 11.61% in FY2002/03 and the average contribution of custom duty, excise duty and VAT was 33.22%, 18.85% and 47.86% during the study period.

Figure No. 4.1.3
Composition of Indirect Tax



4.1.4 Composition of Direct Tax

The major component of direct taxes are income tax, land tax, house and land registration tax in Nepalese tax structure. Vehicles tax was considered as indirect tax until the fiscal year FY 1993/94 and since FY 1994/95 budget speech, it has been classified under the direct tax. Since FY 1994/95 interest and urban house and land rent tax were included under the income tax.

Table No 4.1.4
Composition of Direct Tax

(Rs. in Millions and %)

Fiscal Year	Total Direct Tax	Land House And registration	%	Income Tax	%	Urban House And Land Tax	%	Vehicle Tax	%
2002/03	10882.90	607.80	5.59	9842.62	90.44	2.9	0.02	429.60	3.95
2003/04	11912.60	1697.50	14.25	9514.50	79.86	0.00	0.00	700.60	5.88
2004/05	13071.80	1799.20	13.76	10466.10	80.07	0.00	0.00	806.50	6.17
2005/06	13968.10	2181.10	15.61	10939.40	78.32	0.00	0.00	847.60	6.07
2006/07	18980.30	2253.50	11.87	15731.80	82.89	0.00	0.00	995.00	5.24
2007/08	23087.72	2940.74	12.74	19077.81	82.63	0.00	0.00	1069.21	4.63
2008/09	34320.74	5223.39	15.22	27247.38	79.39	0.00	0.00	1849.96	5.39
2009/10	41750.0	5511.10	13.20	33821.00	81.01	0.00	0.00	2417.90	5.79
2010/11	48655.1	3572.50	7.34	42060.00	86.45	0.00	0.00	3022.60	6.21
Average	24069.81	2865.20	11.9	19855.83	82.49	2.90	0.02	1348.78	5.60

(Source: Economic Survey 2011/2012)

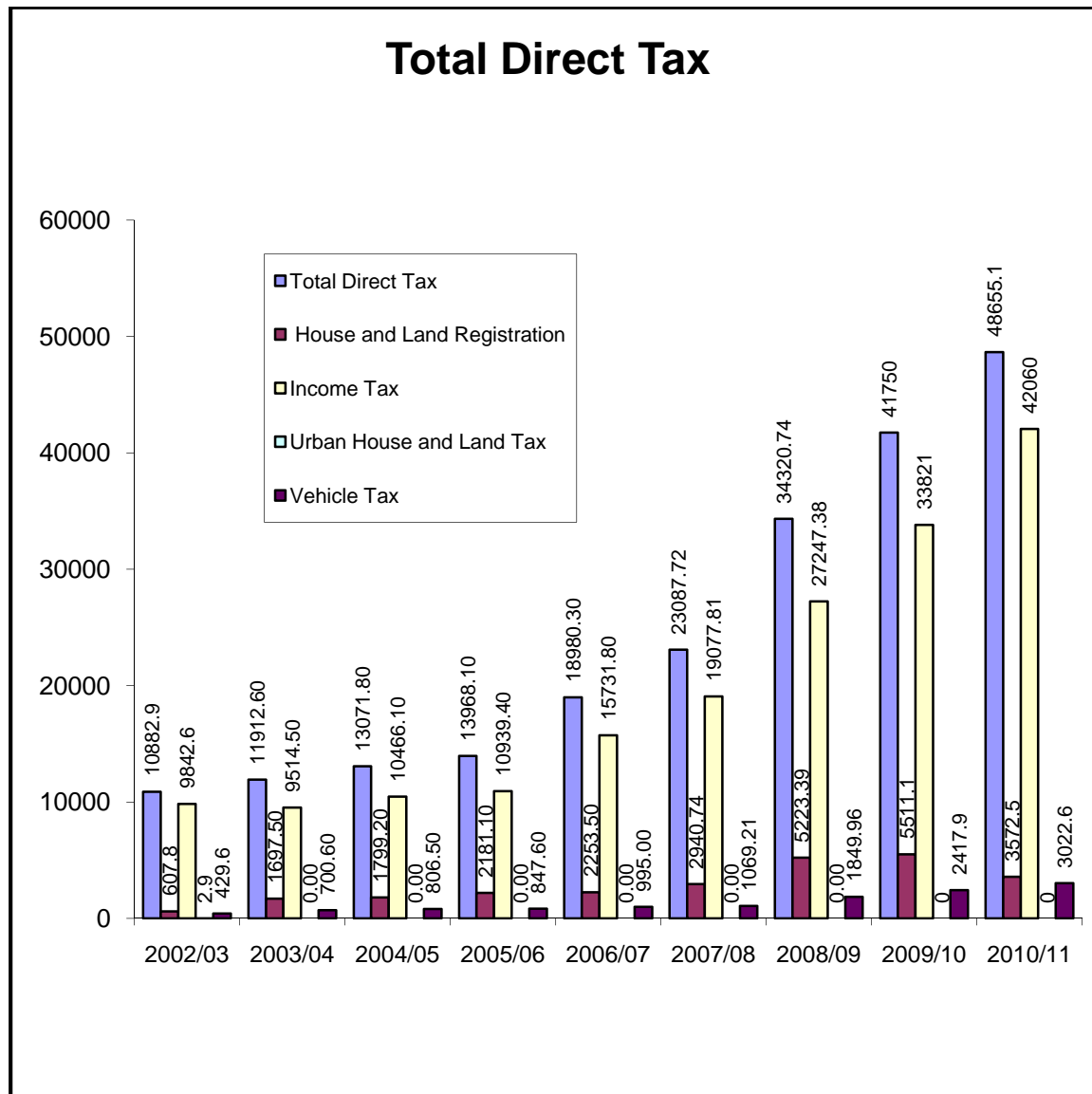
Table shows that the contribution of income tax to direct tax was higher than other tax and it occupied the largest share in the direct tax. The percentage share of income tax to direct tax in FY 2002/03 was 90.47% amounting Rs. 9842.62 million which was found fluctuating in different year. It was increased in FY 2003/04 and gradually increased into amounting Rs. 10466.10 millions in FY 2004/05. The average share of income tax revenue was 82.49%. It was 86.45% amounting Rs. 42060 millions in the FY2010/11.

Urban House and Land tax has contributed 0.012% amounting to Rs.2.9 million in FY 2002/03 which was decreased gradually and reached to zero percentage since 2002/03 thereafter.

The share of house and land registration tax in the FY 2002/03 was 5.59% amounting Rs.607.8 million which is found fluctuating in different year. The amount is increased to amounting Rs3572.50 million in FY 2010/11.

The share of vehicles tax is 3.95% in FY 2002/03 which was increased till FY 2004/05 up to 6.17% and slightly increased up to 6.21% in 2010/11.

Figure No. 4.1.4
Composition of Direct Tax



4.1.5 Contribution of Direct & Indirect Tax as percentage to GDP

Table No. 4.1.5

Contribution of Direct & Indirect Tax as percentage to GDP

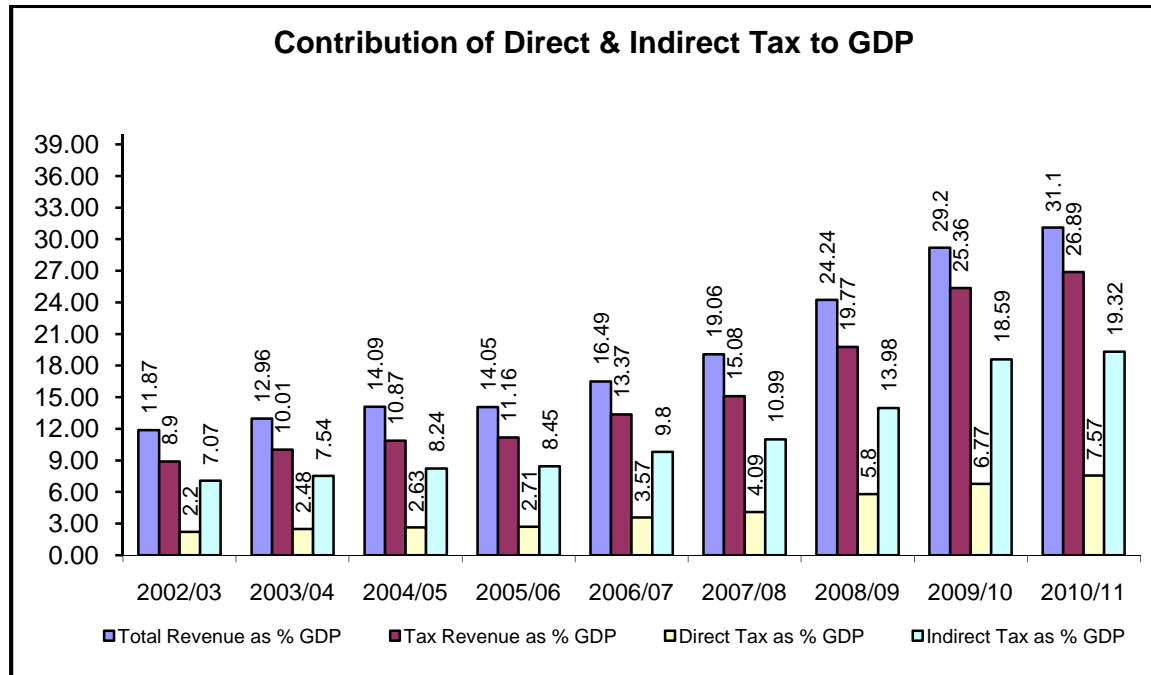
(Rs. in Millions and %)

Fiscal Year	Total GDP	Total Revenue as % GDP	Tax Revenue as % GDP	Direct Tax as % GDP	Indirect Tax as % GDP
2002/03	459488.40	11.87	8.90	2.37	6.53
2003/04	481003.50	12.96	10.01	2.48	7.54
2004/05	497739.00	14.09	10.87	2.62	8.25
2005/06	514485.60	14.05	11.16	2.71	8.45
2006/07	532038.20	16.49	13.37	3.57	9.80
2007/08	564516.50	19.06	15.08	4.09	10.99
2008/09	589419.20	24.34	19.86	5.82	14.04
2009/10	616257.13	29.20	25.36	6.77	18.59
2010/11	642553.01	31.10	26.89	7.57	19.32
Average	544166.73	19.97	16.39	4.42	11.97

(Source: Economic Survey 2011/2012)

From the above table it is clearly shows that the contribution of total revenue on total GDP has 11.87% in FY 2002/03 and reached to 31.10% in FY 2010/11. The contribution of tax revenue on GDP has 8.90% in FY 2002/03 and reached to 26.89% in FY2010/11. The average contribution of direct tax on GDP was 16.39% during the study period. The contribution of direct tax on GDP is very low. It was 4.42% in FY 2001/02. On the other hand the contribution of indirect tax on GDP was 6.53% in FY 2002/03 and it reached to 19.32% in FY 2010/11. The average contribution indirect tax on GDP was 11.97% during the study period.

Figure No. 4.1.5
Contribution of Direct & Indirect Tax to GDP



4.1.6 Contribution of Income Tax in Nepal

The income tax in Nepal was originated along with the first budget on FY1951/52. Finally in 1959, Business Profit and Remuneration Tax Act 1960 were introduced. At that time income tax was levied only on business profits and salaries. After three years' experience of income tax, the government replaced the prevailed tax. Thereafter Income Tax Act, 1974(2031) was enacted. This act is also replaced by Income Tax Act, 2002(2058). The contributions of income tax on various revenues are given below in the following table.

Table No. 4.1.6
Contributions of Income Tax (IT) to GDP, Total Revenue (TR,) Total
Tax Revenue (TTR) and Direct Tax Revenue (DT)

(Rs. in Millions and %)

Fiscal Year	Income Tax Revenue	GDP	Direct tax Revenue	Total Tax Revenue	Total Revenue	% on DP	% of IT on DT	% of IT on TTR	% of IT on TR
02/03	9842.62	459488.40	10882.90	40896.00	54538.86	2.13	89.27	23.75	17.81
03/04	9514.50	481003.50	11912.60	48173.00	62331.00	1.98	79.87	19.75	15.26
04/05	10466.10	497739.00	13071.80	54104.70	70122.70	2.10	80.07	19.34	14.93
05/06	10939.40	514485.60	13968.10	57430.40	72282.10	2.13	78.32	19.05	15.13
06/07	15731.80	532038.20	18980.30	71126.70	87712.10	2.96	82.88	22.12	17.94
07/08	19077.81	564516.50	23087.72	85155.54	107622.50	3.38	82.63	22.40	17.73
08/09	27247.38	589419.20	34320.74	117051.91	143474.49	4.62	79.39	23.28	18.99
09/10	33821.00	616257.13	41750.0	156294.90	179945.8	5.49	81.01	21.64	18.79
10/11	42060.00	642553.01	48655.1	172777.60	199818.7	6.55	86.45	24.34	21.05
Average	19841.40	544166.73	24069.81	89223.42	108649.8	3.65	82.43	22.24	18.26

(Source: Economic Survey 2011/2012)

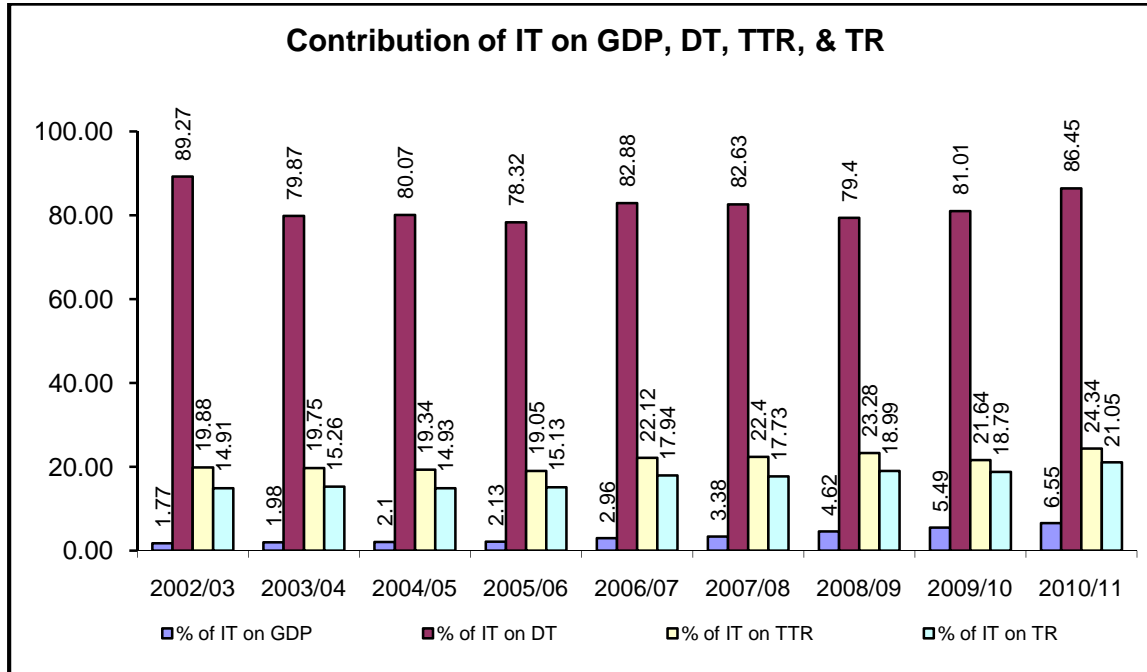
The above table reflects that the income tax was increased in FY 2010/11 as compared with FY 2002/03 total income tax was Rs. 9842.620million for the FY 2002/03 and it was increased to Rs. 42060.00 million for the FY 2010/11. The share of income tax on GDP of Nepal was very low. It lied between 2.11% and 6.55 % during the study period.

The share of income tax to total tax revenue was fluctuated from 19% to 24% during the study period. It was 23.75% in the FY 2002/03 which was decreased to 19.05% in FY 2005/06.

Similarly, contribution of income tax to total revenue was 17.81% in FY2002/03 was fluctuated from 14% to 21% during the study period. It was decreased to 14.93% in FY2004/05 and slightly increased to 21.05% in FY 2010/11. Above table also clear that the contribution of income tax in direct tax was maximum, which occupied average 82.43% during the study period. It was 89.27% in FY 2002/03 which was decrease to 86.45% in FY 2010/11. This decreasing trend of contribution of income tax to direct tax is not fruitful for the tax structure of developing country like Nepal.

Figure No. 4.1.6

Contributions of Income Tax (IT) to GDP, Total Revenue (TR), Total Tax Revenue (TTR) and Direct Tax Revenue (DT)



4.1.7 Composition and Trend of Income Tax

Income tax revenue was divided into three type i.e. corporate income tax, individual income tax and Remuneration income tax until 1993/94. After the fiscal year 1993/94 the income tax revenue was divided into four group i.e. Corporate Income Tax, Individual Income tax, House and Land Tax, other tax and Interest Tax. Corporate tax is collected from government corporations, public and private limited companies and partnership firms. Individual tax is collected from remuneration and industry, business, profession or vocation. Interest tax is collected from banks or finance companies that pay interest on all types of deposit except current deposits. And the house and rent tax is levied on income obtained from renting house and land in urban area. The component of income tax is given below.

Table No. 4.1.7**(a) Component of Income Tax***(Rs. in Millions)*

Source of Income Tax	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
1. Corporate Income Tax	4852.40	3587.90	3800.20	3600.00	6736.80	7391.01	10384.20	13366.00	15247.30
-Public Ltd. Company	2928.10	2056.60	1332.40	195.70	1019.70	204.58	959.10	1131.80	1281.80
-Private Ltd. Company	1924.30	1531.30	2467.80	3404.30	5717.10	7186.50	9425.10	12234.40	13965.50
2. Individual Income Tax	3959.50	4924.60	5602.20	5998.80	7242.30	8832.25	13073.10	15453.01	19490.73
-Remuneration	597.32	1391.20	1675.90	1764.10	2007.90	2451.04	3195.60	4413.10	5863.31
- Industry, business Profession & vocation	3362.20	3533.40	3926.30	4234.70	5234.40	6381.21	9877.50	11039.91	13627.42
3. Interest Tax	864.00	733.40	757.00	774.90	1054.90	1087.93	1685.10	2466.40	4130.50
4. other tax	165.8	268.6	306.7	565.7	697.8	1766.60	2105.0	2535.40	3191.60
Total (1+2+3+4)	9842.62	9514.50	10446.10	10939.40	15731.80	19077.82	27247.40	33820.81	42060.13

(Source: Economic Survey 2011/2012)

Above table shows in FY 2002/03 Corporate Income tax is Rs. 4852.40 million. It is in increasing trend up to FY 2004/05. But in FY 2005/06 it was decreased to Rs. 3600.00. Thereafter it was in increasing trend which reached to Rs. 15247.30 million. The remuneration tax is increasing every year. The contribution of interest tax is also increasing every year. In FY 2002/03 it was Rs. 864.00 million and reached to Rs.4130.50 million in FY 2010/11. The other tax was also in increasing trend. In FY 2002/03 it was Rs. 165.80 million and reached to 3191.60 million in FY 2010/11.

Figure No. 4.1.7

(a) Component of Income Tax

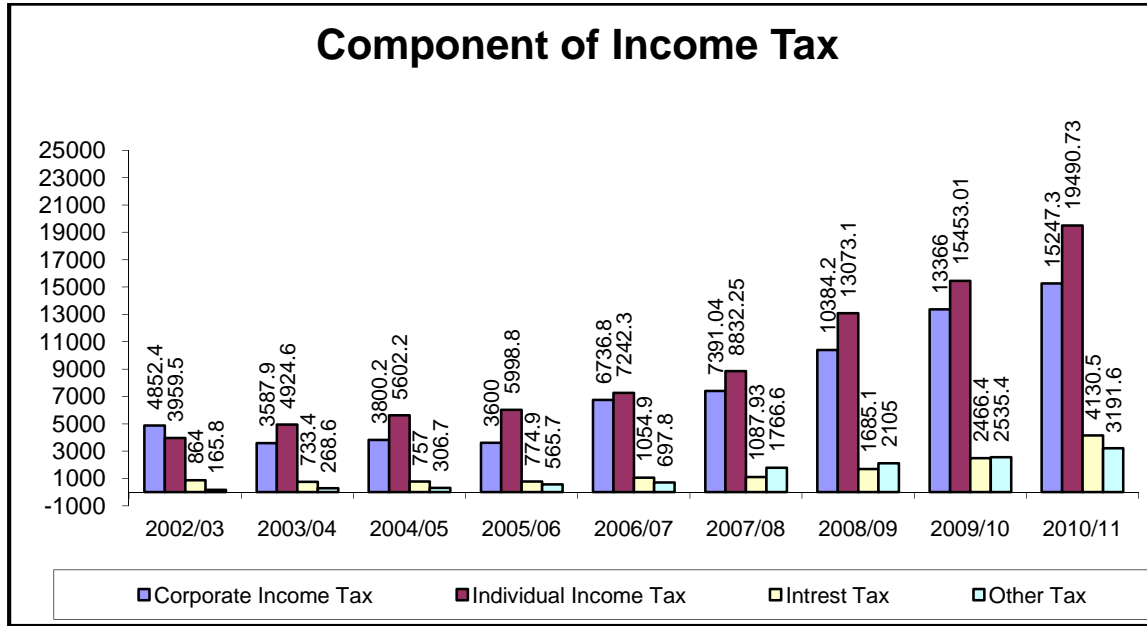


Table No. 4.1.7

(b) Composition of Income Tax

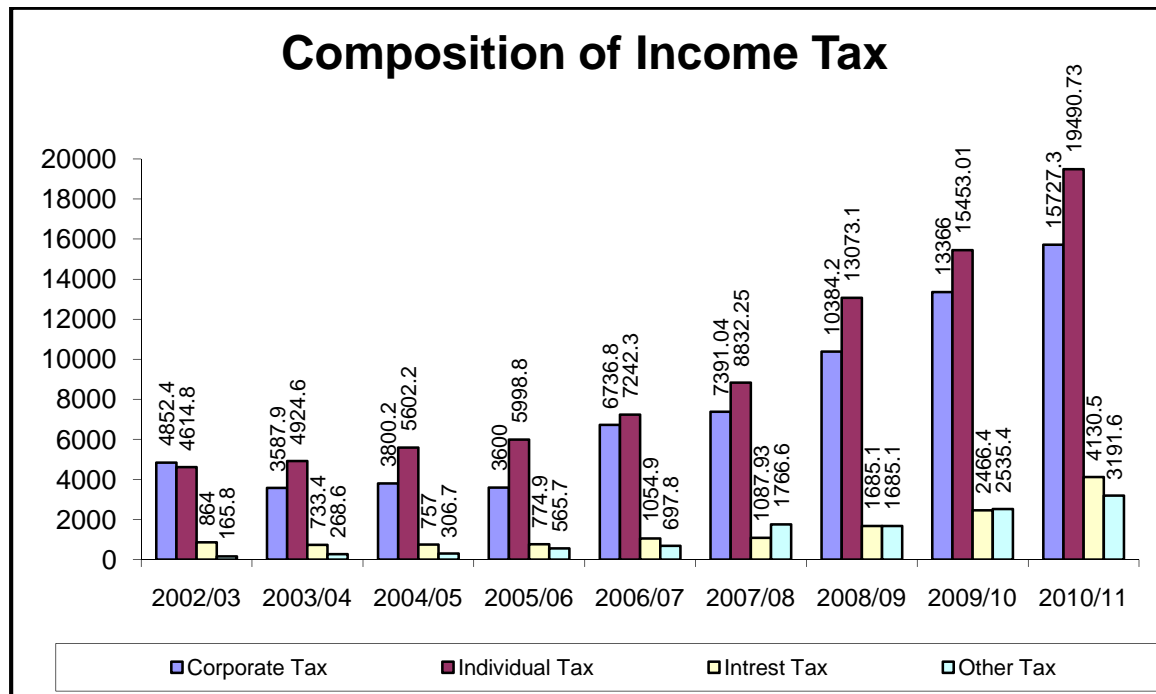
Year	Total Income Tax	Corporate Tax	%	Individual Tax	%	Interest Tax	%	Other Tax	%
2002/03	9842.62	4852.40	49.30	4614.80	46.89	864.00	8.78	165.8	1.68
2003/04	9514.50	3587.90	37.71	4924.60	51.76	733.40	7.71	268.6	2.82
2004/05	10466.10	3800.20	36.31	5602.20	53.53	757.00	7.23	306.7	2.93
2005/06	10939.40	3600.00	32.91	5998.80	54.84	774.90	7.08	565.7	5.17
2006/07	15731.80	6736.80	42.82	7242.30	46.04	1054.90	6.71	697.8	4.44
2007/08	19077.82	7391.04	38.74	8832.25	46.29	1087.93	5.70	1766.6	9.26
2008/09	27247.40	10384.20	38.11	13073.10	47.98	1685.10	6.18	2105.00	7.73
2009/10	33820.81	13366.00	39.52	15453.01	45.69	2466.40	7.29	2535.40	7.50
2010/11	42060.13	15247.30	36.25	19490.73	46.34	4130.50	9.82	3191.60	7.59
Average	19855.62	68965.84	38.45	85231.79	47.52	13554.53	7.56	11603.2	6.67

(Source: Economic Survey 2011/2012)

From the above table, we know the share of Individual tax is in fluctuating trend. It was 43.96% in FY 2002/03. It slightly increased up to FY 2005/06. Then it was also in fluctuating trend. Corporate income tax had contributed 46.23 % in FY 2002/03 then this was in fluctuating trend. It reached to 36.11 % in FY2010/11. In FY 2002/03 Interest tax had contributed 8.23% it is also in fluctuating trend. It reached to 9.82% in FY 2010/11. The other tax was Rs. 1.58 million in FY 2002/03. It reached to 7.59% in FY 2010/11.

Figure No. 4.1.7

(b) Composition of Income Tax



4.2 Analysis of Primary data

4.2. (A) Introduction

An experimental inquiry has been conducted in order to find out various aspect of income tax from the experience of real life situation. The major tools used for this purpose is an opinion questionnaire. A total of 60 questionnaires were distributed to the tax administrations and taxpayers. The response received from various respondents have been arranged, tabulated and analyzed to facilitate the descriptive analysis of the study. The questionnaires were asked for a yes/no response.

The following table shows the groups of respondents and code used to represent them.

Table No. 4.2
Group of Respondent and Code Used

S. No.	Group of respondent	Sample size	Code used
1	Tax Administrators	30	A
2	Tax payers	30	B
Total		60	

(Please see the format of questionnaire)

4.2.1 Taxpayers Awareness about Tax and its Provision

To know the taxpayer's awareness about tax and its provision, a question was asked " Are you familiar about Income tax? The responses of above question are tabulated as follows.

Table No. 4.2.1 Familiarity about Income Tax

Response Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	24	80	6	20	30	100
B	21	70	9	30	30	100
Total	45	75	15	25	60	100

(Source: Opinion Survey 2012)

From the above table it is clear that 75% of respondents have familiar about income tax. But the above table shows that the respondent from group B i.e. taxpayer are also familiar. Thus it can be conclude that the taxpayer as well as Tax officers have well known about income tax.

4.2.2 Income Tax as a Suitable Means of Raising Government Revenue

In order to know the view from the respondent suitable means of raising government revenue a question asked , Do you consider, that the income tax as a suitable means of raising government revenue? The response of this question is tabulated as follows.

Table No. 4.2.2

Income Tax as a Suitable Means of Raising Government Revenue

Response Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	30	100	-	-	30	100
B	20	67.67	10	33.33	30	100
Total	50	83.33	10	16.33	60	100

(Source: Opinion Survey2012)

There was 100% response received from the respondents of group A and the 67.67% response received from group B. The attitude of the respondent for rising government from the income tax is in positive way.

4.2.3 Contribution of Income Tax to National Revenue of Nepal Satisfactory or not

In order to know the contribution of income tax to national revenue, question was asked "In your opinion, is contribution of income tax to national revenue of Nepal satisfactory?" The responses received on it are tabulated below.

Table No. 4.2.3

Contribution of Income Tax to National Revenue

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	15	50	15	50	30	100
B	12	60	18	40	30	100
Total	27	45	33	55	60	100

(Source: Opinion Survey2012)

According to the above table, the result of opinion survey gives us only 45% satisfactory contribution of income tax to the national revenue from the respondents.

4.2.4 Major Reasons of Non-satisfactory Contribution of Income Tax to National Revenue.

In order to know the contribution of income tax to national revenue the next question was asked “If No, what are the major reasons?”. The responses received from the various respondents are tabulated as follows.

Table No. 4.2.4
Fine and Penalty Increase the Government Revenue

S. No.	Cases	Group		Percent
		A	B	
1.	Defective of income tax act	1	3	12.13
2.	Mass poverty and low income level	5	8	39.39
3.	Increasing habit of tax evasion	6	4	30.30
4.	Inefficient income tax administration	1	2	9.09
5.	Inappropriate rate and exemption limit	2	1	9.09
Total		15	18	100

(Source: Opinion Survey 2012)

From the above table it has been clear that 39.39% of the respondent are agree with the mass poverty and low income level. So, the contribution of income tax to the national revenue of Nepal not satisfactory. 30.30% of the respondent are agree with the statement of increasing habit of tax evasion. They say, due to the increasing habit of tax evasion, the contribution of income tax to national revenue of Nepal is not satisfactory.

4.2.5 Effective Contribution of Direct Tax to Total Revenue

To know the contribution of direct tax to total revenue, a question was asked to the respondents “Do you think that contribution of direct tax to total revenue is effective?” The response have tabulated below.

Table No. 4.2.5
Effective Contribution of Direct Tax to Total Revenue

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	13	43.33	17	56.67	30	100
B	21	70	9	30	30	100
Total	34	56.67	26	43.33	60	100

(Source: Opinion Survey2012)

Since 56.67 % of the respondents approved contribution of direct tax to total revenue is effective & 43.33 % of the respondents think taxpaying contribution of direct tax to total revenue.

4.2.6 Exemption and deduction provided by act are appropriate or not

To know the Exemption and deduction provided by act are appropriate or not, a question was asked "Are exemption and deduction provided by act are appropriate." The responses received from the various respondents are giving below.

Table No. 4.2.6
Exemption and Deduction Provided by Act are Appropriate or not

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	25	83.33	5	16.67	30	100
B	20	66.67	10	33.33	30	100
Total	45	75	15	25	60	100

(Source: Opinion Survey2012)

From the above table it has been clear that 75 % of the respondents approved the exemption and deduction provided by act is appropriate and 25 % of the respondents approved there is not effective exemption and deduction provided by income act.

4.2.7 Application of Income Tax Assessment Method

To know the view of respondent about the Assessment Method, a question asked, "Which Income Tax Assessment Method is applicable in Nepal? The responses received from the various respondents are giving below.

Table No. 4.2.7 Application of Income Tax Assessment Method

Method Group	Self Assessment	Jeopardy assessment	Amended method	Total
A	30	-	-	30
B	25	2	3	30
Total	55	2	3	60

(Source: Opinion Survey 2012)

Above table shows that 55 respondents among 60 approved the self assessment method is applicable in Nepal. Only 2 and 3 respondent of group B agreed with Jeopardy and Amended Method respectively.

4.2.8 Problems Faced by the Tax Payers While Paying Income Tax

To know the problems facing by the tax payer while paying tax, a question was asked "In your thinking, what types of problems are facing by the tax payer while paying tax?"(Please Tick Anyone).The response is tabulated in the following table.

Table No. 4.2.8

Problems Faced the Tax Payers While Paying Income Tax

S. No.	Cases	Group		Percent
		A	B	
1.	Consuming unnecessary time	4	6	16.67
2.	Expectation illegal incentive by tax personnel.	5	8	21.67
3.	Vague Provisions in income tax laws	6	2	13.33
4.	Lengthy Process	6	3	15
5.	Lack of co-operation by tax administrator.	5	9	23.33
6.	No Response	4	2	10
Total		30	30	100

(Source: Opinion Survey 2012)

100 percent response does not receive from the respondents. Maximum 23.33% respondents agree with the statement Lack of co-operation by tax administrator. 21.67% of the respondent accept that the expectation of illegal incentive by tax personnel. 16.67% Respondent believe that the consuming unnecessary time. The statement of lengthy process can able to get 15% response from the respondent. 13.33% response received on vague provision in income tax laws. 10% respondents do not give any answer for this question.

4.2.9 The Provisions Fines Penalty under Nepalese Tax system

To know the respondent's view about the provisions, fines penalty under Nepalese tax system a question was asked "Are the provisions fines and penalties under Nepalese tax system reasonable?" The responses are tabulated in the following table.

Table No. 4.2.9
Appropriateness of Fines Penalty under Nepalese Tax System

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
A	27	90	3	10	30	100
B	18	60	12	40	30	100
Total	45	75	15	25	60	100

(Source: Opinion Survey 2012)

100 percent response was received from the respondents. In the above table it is observed that majority of the respondent (75 %) were not against of provisions fines and penalties under Nepalese Tax systems. However most of the tax administrators (90%) claimed that the provisions fines and penalties under income tax are reasonable. Thus it may be concluded that majority of the respondents were in favor of the provisions fines and penalties under Nepalese Tax system.

Another question is asked to those who are against the provisions fines and penalties under income tax act. How should it be made reasonable? The response received from the respondent are tabulated as follows.

Table No. 4.2.9

(a) Rate of Fines and Penalties

SN.	Cases	Group A	Group B	Percent
1	By increasing	3	2	33.33
2	By Lowering	0	10	66.67

(Source: Opinion Survey2012)

The above tables, 33.33% of the response are received in favor of the statement "By Increasing". And the 66.67% of the responses are in favor of the statement of "By lowering" out of 15 respondents.

4.2.10 Efficiency of the income tax system of Nepal

To know the efficiency of the income tax system of Nepal, a question was asked to the respondents, in your opinion, is income tax system of Nepal sound and efficient? The received responses are tabulated as follows.

Table No. 4.2.10

Efficiency of the income tax system of Nepal

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
A	27	90	3	10	30	100
B	24	80	6	20	30	100
Total	45	85	15	15	60	100

(Source: Opinion Survey2012)

4.2.11 Suitability of Income Tax System

To know the opinion of respondents about income tax system, a question was asked, "Which income tax system is suitable for Nepal?" .The responses were:

Table No. 4.2.11
Suitability of Income Tax System

Response Respondent	Progressive	Proportional	Regressive
A	30	-	-
B	22	5	3
Total	52	5	3

(Source: Opinion Survey 2012)

To know the opinion of the respondent about the Tax System used in Nepal is suitable or not. Received data showed that the progressive tax system is suitable for Nepal which is applicable in Nepal.

4.2.12 Most Important Factor for Effectiveness of Income Tax in Nepal to Raise Government Revenue

In order to know the respondent's view about the most important factor for effectiveness of income tax in Nepal to raise government revenue, a question is asked, "In your opinion, what is most important factor for effectiveness of income tax in Nepal to raise government revenue?"

Table No. 4.2.12
Most Important Factor for Effectiveness of Income Tax in Nepal to Raise Government Revenue

S. No.	Cases	Group		Percent
		A	B	
1.	Clear act, rules & regulation	4	9	21.67
2.	Conscious and honest tax payers	15	8	38.33
3.	Moral and honest tax officers	-	2	3.33
4.	Effective tax administration	4	3	11.67
5.	Political non interruption	7	6	21.66
6.	Other please specify	-	-	-

Total	30	30	100
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(Source: Opinion Survey 2012)

The above table shows that 38.33% of the respondent's opinion is the conscious and honest taxpayer must be effective to raise the government revenue. 21.66% of the respondent agreed political party's interruption is the cause to decrease the government revenue. The statement Clear act, rules and regulation gets 21.67% response.

4.2.13 Any Other Suggestions for Achieving Effectiveness of Income Tax

To get suggestion from the respondent a question is asked, "Do you have any suggestions for achieving effectiveness of income tax in Nepal? If yes, Please specify....."

The respondents were requested to write their opinion on the blank area. The opinions for the improvement of different aspects of Nepalese income tax are given below.

Group -A

-) In Register – tax payers who fail to register should be punished and registration process should be simple.
-) Penalty – in Nepal penalty for tax avoidance and evasion are minimum which should be higher and penalized who are liable.
-) Administrative review and appeal – administrative procedures should review and revised timely.
-) Tax low – in some cases tax rate are low in Nepalese context which should be high.
-) Compulsory billing system – billing system should be made compulsory for those who falls under tax act and who fails should be fined.

-) Simplify the language – simple and clear language understandable by general people should be made in tax rules and regulations.
-) Periodic review for improvement – reviews in tax laws and rules should be done periodically.
-) Income tax structure – the structure of income tax should be made simple.

Group B

-) Language – languages should be made simpler in tax rules and regulations.
-) Tax laws – tax laws and rules should be made effective.
-) Incentives to industries who competes – for the safeguarding of Nepalese industries, tax rebates and concessions should be given to industries that are registered and pay tax in time.
-) Tax system should be flexible – tax system should be made as per the tax payer's interest.
-) Trained staff – staffs of tax offices should be trained and their behavior should be polite.
-) District wise tax office – tax offices should be made in all districts.
-) Remuneration income – all people getting salary should be brought into tax net.
-) Fine and penalties system – fine and penalties in some cases are higher which should be made lower.
-) Tax administration –tax administration should be made efficient.
-) Obligation towards tax payers – tax payers who are loyal should be awarded.
-) Clarity without dual meaning – tax laws and rules with dual meaning should be omitted and it should be clear and easy to understand.
-) Tax Rate – tax rate should be as per the time. Education to tax payer about tax – many tax payers are unknown about the taxation laws and rules so there should be various programs from the government side to educate them.
-) Necessary to revise – necessary revision should be made from time to time.

From the above listing most of respondents suggested to simplify the language training to staff, tax education to taxpayer, improve tax law etc. May also focused to improve the administration and computerized system.

4.2.14 Public Awareness Program to Raise Government Revenue

To get suggestion from the respondent a question is asked; do you think that public awareness program is necessary in Nepal for raising government revenue? Most of the respondents are agreed that public awareness program is necessary to raise Government revenue. The response received from the respondent are as follows.

Table No. 4.2.14
Necessary of Public Awareness Program to Raise Government Revenue

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	24	80	6	20	30	100
B	21	70	9	30	30	100
Total	45	75	18	30	60	100

(Source: Opinion Survey 2012)

From the above table it has been clear that most of the respondent (75%) thought that tax administration is not effective to impose fines and penalties in Nepal so that the public awareness program is necessary. Only 25% respondents thought that the public awareness program is not necessary.

4.3 Major Findings

On the basis of secondary data presentation and analysis some important findings were as follows.

1. The Nepalese government revenue is the composition of external revenue. Internal revenue includes both tax and non tax revenue. Among tax and non tax revenue, there is

main share of tax revenue in Nepalese government revenue. Tax revenue contributed 74.99% in FY 2002/03 on total revenue and 86.47% in FY 2010/11. It shows that the contribution of tax revenue to total revenue is increasing trend. On the other hand contribution of non tax revenue to total revenue is 25.01% in FY 2002/03 and 13.53% in FY 2010/11. It shows that contribution of non tax revenue is in decreasing trend.

2. The Nepalese tax revenue is the composition of direct and indirect tax revenue. The contribution of direct tax to total tax revenue is 26.61% in FY 2002/03 and 28.16% in FY 2010/11 where as contribution of indirect tax revenue to total tax revenue is 73.39% in FY 2002/03 and 71.84% in FY 2010/11. It shows that contribution of direct tax is increasing trend and vice versa. There is dominant role of indirect tax to total tax revenue.
3. Indirect tax revenue was the composition of import duty and export duty, value added tax, excise duty, entertainment tax, hotel tax, contract tax, air tax and other tax. The contribution of customs, excise and VAT were 42.59%, 12.56% and 44.85% in FY 2002/03 and 28.77%, 21.38% and 49.68% respectively in FY 2010/11. It shows VAT has the dominant share of indirect tax revenue and which is in increasing trend. VAT includes sales tax, entertainment tax, hotel tax, air flight tax and contract tax.
4. Direct tax revenue was the composition of the income tax, land revenue and registration, urban house and land tax and vehicle tax are 5.59%, 90.44%, 0.02% 3.95% in the FY 2002/03 and 7.34%, 86.45%, 0.00% & 6.21% in FY 2010/11 respectively. There were dominant share of income tax revenue in direct tax revenue. The contribution of income tax revenue in total direct tax revenue is 90.47% in FY 2002/03 and 86.45% in FY 2010/11. Through it has dominant share in direct tax it is in decreasing trend in percentage but increasing trend in amount.
5. Total revenue to GDP ratio of Nepal was found not satisfactory. In FY 2002/03 was 11.87% and in FY 2010/11 it was only 31.10%.
6. Total tax revenue to GDP ratio of Nepal was found satisfactory and it is in increasing trend. It was 8.90% in FY 2002/03 and 26.89% in FY 2010/11.
7. Direct tax revenue to GDP ratio of Nepal was 2.37% in FY 2002/03 and it reached to 7.57% in FY 2010/11. This is also not satisfactory increase.

8. Indirect tax to GDP ratio was 6.53% in FY 2002/03 and reached to 19.32% in FY 2010/11.
9. Contribution of income tax on total tax revenue was 25.67% in FY 2002/03 and 24.34% in FY 2010/11.
10. Contribution of income tax on direct tax revenue is also in decreasing trend .It was 90.47% in FY 2002/03 and decreased to 86.45% in FY 2010/11.
11. Contribution of income tax on total revenue is also decrease trend. This is not good sign for the country. It was 19.25% in FY 2002/03 and decrease to 21.05% in FY 2010/11.
12. The income tax constitutes corporate income tax, individual income tax and interest tax. There are dominant role of income tax. The contribution of individual tax during the study period was 47.52%. The contribution of corporate tax is in fluctuating trend and it contributed 38.45% during the study period. Similarly, interest tax contributed 7.56% during the study period. The study was made during FY 2002/03 to FY 2010/11.
13. On the basis of empirical investigation, data was collected and presented and analyzed, some important findings can drawn from the investigation, which were as follows.
14. According to the opinion of the respondent 75% of the respondent are familiar about the income tax.
15. Majority of the respondent (83.33%) says contribution of Income Tax to national revenue is satisfactory.
16. Out of disagreed respondent, 39.39% respondent thought that mass poverty and low income level is the major reason.
17. 56.67% of the respondent thought that the contribution of the direct tax to total revenue is effective.
18. Conscious and honest taxpayer, clear act, rules and regulation and political non interruption must play the important role to raise government revenue.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The government requires sufficient revenue for the economic development as well as to handle day to day administration to perform activities like maintaining peace and security, lunching other public welfare and developing activities. To perform 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, revenue collected from tax plays a vital role in state economy. Regmi (1984) mentioned that Baptiste and Adam Smith have spoken very persuasively on the significance of taxation. The main philosophy behind taxation is that every individual contribute towards the expenses of the government.

K. C. (2007) explained that history of taxation begun with the development of human civilization and the history of income tax begun from United Kingdom in 1799 A.D. In Nepal, the histories of taxation were begun from the ancient period in the name of Bhaga, Bhoga and Kara in Lichhevi regime. But the history of income tax was not so long in Nepal. Income tax was finally introduction by a first elected government in the fiscal year 1959/60. It was known as Business Profit and Remuneration Tax. There was no specific Act made to define and treat income tax.

The Business Profit and Remuneration Tax Act (BPRTA) defined income tax levied on only business income and remuneration. First comprehensive income tax introduction in 1962 replaced by Income Tax Act 1974 was amended eight times and finally replaced by Income tax Act 2058.

The composition of external and internal revenue was government revenue. Both tax and non-tax revenue includes internal revenue. Nepalese tax revenue was the composition of direct and indirect tax revenue. The indirect tax revenue plays dominant role in Nepalese tax revenue structure. Direct tax revenue was the composition of income tax, land tax, house, land registration tax and interest tax. There was dominant role of income tax in total direct tax. It was in increasing trend. Income tax revenue is the composition of income tax from corporate bodies, income tax revenue from individual, income tax revenue from remuneration and income tax from interest. There was dominant role of income from individual in total income tax revenue. The contribution of income tax on GDP, total revenue, total tax revenue, direct tax revenue in FY 2002/03 was 2.11%, 89.27%, 23.75%, 90.47% respectively and FY 2010/11 was 6.55%, 86.45%, 24.34%, and 86.45% respectively. The average contribution was 2.62%, 16.57%, 21.06% and 80.96% to GDP, total revenue, total tax revenue and direct tax revenue during the study period of 9 years from FY 2002/03 to FY 2010/11.

Effective and efficient administrations as well as taxpayer's awareness were the basic requirements for Nepalese income tax system. Income tax administration lacks trained administrative personnel. There was no separate income tax department. A revenue office has to perform on direct taxes which may create burden to the tax personnel. Tax administration was not fully computerized or comprehensive information system. Records maintained by revenue office regarding potentials taxpayers and their economic activities were not adequate. The provisions regarding fine and penalties were not implemented effectively and efficiently. The amount received from fine and penalties ultimately included in income tax. So, extra amount received from fine and penalties were not found. It is often said that tax personnel have practical the corruptions in great extent but they were rarely punished.

The provision made under the Income Tax Act 2058 was also insufficient to some aspects. There should be improvement in language with dual and vague meaning, on provision of fine and penalties, timely improvement on the provisions as well as tax law and rules, utilization of

modern information technology on tax administration, trained and efficient staff in tax administration.

5.2 Conclusion

Developing countries like Nepal, Bangladesh are facing serious problems in the process of economic development. Lack of sufficient financial resources is the main constraints for the national economic development. A lot of funds are needed to meet the additional financial requirements for the development activities of the country. Nepal has been suffering from capital shortage to accelerate the economic growth. Because of poor performance of internal resource collection and mobilization, the dependency in foreign loans and grant has been increased. Those loans and grants were conditional and cannot utilize with the need of the country but according to their conditions. So these are not appropriate means for the economic development of the country.

To increase the government revenue, Nepalese government is trying to extract money or valuable contributions from people through taxation. Within tax revenue, income tax is one of the most important resources of government revenue and it is considered as a good remedy to cure growing and resource gap problems of Nepal. It is essential in getting macroeconomics policies because the alternatives ways of financing government expenditures like money creating mandating larger required reserves, domestic borrowing and foreign loans, can have very harmful effects on the economy.

Lack of knowledge about law and rules, managerial inefficiency, lack of effective personnel management, lack of reward and punishment system, poor income tax assessment procedure, poor tax information system, corruption practiced in administration, very narrow coverage of income tax are the major problems of income tax management in Nepal. Being various problems relating to income tax, revenue collection from income tax is low as compared to other developing countries like Sri Lanka, India, Pakistan and Bangladesh etc. Never the less contribution of income tax for the economic development of Nepal has been increasing significantly in recent years as compared to passed thirty years. But it doesn't mean that the share is that much satisfactory. So, much more effort should be made to increase it presently, income tax management is done through the Income Tax Act 2058 and Income Tax Rules 2059, in which the Nepalese tax administration has been attempt ion to modify itself to meet the

pressing challenge brought out by change in technology and economic policies. However still its working procedure is traditional and the cost of administration hasn't been brought to the satisfactory level. Income Tax Act 2058 is blamed that law is complicated and vague. Their need the efforts for simplification of law. The tax should be coherent with the economic situation of the country.

For the success of income tax system or to fulfill the objectives of income tax as well as for the economic development of the countries many constraints play the vital role. Among them effective implementation of provision regarding fine and penalties system is one of the most important constraints. From the very beginning the concepts of punishment have been emerged in income tax system of Nepal for the taxpayers who do not comply the law. It is imposed according to the provision provided by income tax Act. It plays important role to collect tax in right amount in proper time or at the time of earning. There is no doubt fine and penalties must be imposed to the defective taxpayers. But this is not only the method of reducing tax evasion. Revenue collection from income tax is in low in Nepal due to various problems related to income tax. For the economic development of Nepal, the problem relating to income tax system and effective implementation of interests, offences and penalties in Nepal should be solved and resources should be effectively utilized.

5.3 Recommendation

On the basis of finding of the study, the following recommendations are made regarding interest, fees, fines and penalties and its administrative efficiency.

1. Income tax Act, rule and regulation should be made cleared and simple for all tax payers as well as related persons. It should be more effective.
2. Interest charged to those taxpayers who pay on the group of under estimation tax payable by installment should be made effective because it made taxpayers to pay tax on earning time and encouraged them to maintain record properly.
3. Most of the tax officers have the knowledge of fine and penalties but tax payers have no sufficient knowledge about this. To fulfill these gaps information system should be provided by different media as well as meeting and seminar should be held.
4. Income tax policy should be made such that goals of imposing tax can be achieved.

5. The language used in tax law and policy should be simple and clear. In spite of using the vague meaning full words clear cut provision should be made.
6. To increase taxpaying habit of Nepalese people provision of fine and penalties should be made effective but it is not only the method but respect to taxpayers, right behaviors towards taxpayers from tax administration, concession/ rebate/ low tax rate, effective and efficient administration and educated people are also the factors to increase taxpaying habit.
7. Aiding and abetting is one of the most important roots of offence so there should be provisions of heavy penalty and longtime imprisonment for aiding and abetting. To reduce offences, not only this the man who enforces or coerced others to reduce tax liability by illegal process he/she should also charge the same amount of penalty and imprisonment as the defaulter/evader taxpayers.
8. Tax administration should be made free from corruption in all aspects specially to impose fine and penalties effectively. Discretionary power of the tax officers must be curtailed and their right and duties should be clarified in Income Tax Act.
9. Effective information system should be established so that nobody can avoid or minimize the fine and penalties as well as tax liability by telling that he was not know the Acts, rules and laws. Penalty equal to fifty percent of the under payment of tax for making false or misleading statement unknowing or recklessly should be changed and fine should be made hundred percent. It made the people to know rules, Laws, and Acts.
10. If the provision of penalty that fail to register is not appear, illegal business will increase. So, the clear provision of penalty should be made for failure to register.
11. Timely revision should be made in the matter of income tax policy. The system of changing income tax policy with the change of government should better be avoided.
12. Income tax Act should be liberal with broad base.
13. To promote experts, more deduction should be provided
14. To develop the region, regional concession should be introduced.
15. Income tax policy should be made attractive also for foreign business group.

16. If there is enough reasons to believe that the taxpayers has earned from illegal business and corruption. So, the income earned should be made liable to tax at high rate without exemption limit and maximum penalty.
17. To improve the tax collection procedure, the maximum penalties should be imposed for non-compliance of income tax within the due date.
18. Strong political commitment is necessary for the effective implementation and income tax Act and its provisions regarding to fine and penalties.
19. People should be encouraged to pay tax voluntarily. A system should be introduced that a tax paying citizen is entitled to receive more benefits and incentives than non-taxpaying citizen.

Success of income tax system is highly dependent upon the quality of income tax law. It should not contain any loopholes and ambiguity. Therefore it should be reviewed frequently and reformed.

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Dear Sir,

I am a student of Shankar Dev Campus, T.U. studying in the final year of M.B.S.As you know, the students of this level have to write a dissertation on the subject of their specialization. Being a student of accountancy stream, I have determined to present a dissertation on taxation. The topic approved for me by TribhuvanUniversity is '**Revenue Collection from Income Tax and Its Practical Difficulties in Nepal**'.

I have enclosed a questionnaire with this cover letter. I request you to fill up the questionnaire as per the instruction given on the top of the questionnaire. It would be a matter of great pleasure for me if you kindly respond me back in spite of your busy and valuable time schedule. Your responses will be of great important to my study.

I assure you that your responses will be kept confidential.

Thank you for your time and attention, I look forward to your kind cooperation and support in this study.

Thank You.

Yours Sincerely,

SharmilaChapagain

Shankar Dev Campus

TribhuvanUniversity

Questionnaires

e. Lack of co-operation by tax administrator. ()

9. Are the provisions fines and penalty under Nepalese tax system reasonable?

Yes () No ()

If no, how should it be made reasonable?

a. By increasing b. By lowering

10. In your opinion, is income tax system of Nepal sound and efficient?

Yes () No ()

11. In your opinion, which income tax rate is suitable for Nepal?

- a. Progressive
- b. Proportional
- c. Regressive

12. In your opinion, what is the most important factor for effectiveness of income tax in Nepal to raise government revenue? (Please Tick Anyone)

- a. Clear act, rules and regulation ()
- b. Conscious and honest tax payers ()
- c. Moral and honest tax officers ()
- d. Effective tax administration ()
- e. Political non interruption ()
- f. Others please specify.....

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

14. Do you think that public awareness program is necessary in Nepal for raising government revenue? Yes () No ()

Thanks for Co-operation