

**A STUDY ON CONTRIBUTION AND EFFECTIVENESS OF
REMUNERATION TAX IN NEPAL**

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RECOMMENDATION

This is to certify that the thesis

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Entitled

A STUDY ON CONTRIBUTION AND EFFECTIVENESS OF REMUNERATION TAX IN NEPAL

has been prepared as approved by this Department in the prescribed format of Faculty
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VIVA-VOCE SHEET

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and found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment for

Master's Degree in Business Studies (M.B.S.)

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DECLARATION

I hereby, declare that the work reported in this thesis entitled "**A STUDY ON CONTRIBUTION AND EFFECTIVENESS OF REMUNERATION TAX IN NEPAL**" submitted to Central Department of Management, University Campus, T.U., Kirtipur is my original piece of work done in the form of partial fulfillment of the requirement for the Master's Degree in Business studies under the supervision and guidance of Prof. Dr. Pushpa Sharma, Central Department of Management.

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TABLE OF CONTENTS

	Page No.
Recommendation	i
Viva-Voce Sheet	ii
Declaration	iii
Acknowledgements	iv
Table of Contents	v
List of Tables	vii
Abbreviations	viii
CHAPTER I: INTRODUCTION	1
1.1 Background of the Study	10
1.2 Statement of the Problems	12
1.3 Purposes of the Study	13
1.4 Significance of the Study	13
1.5 Limitations of the Study	14
1.5 Chapter Plan	14
CHAPTER II: LITERATURE REVIEW	7
2.1 Conceptual Review	16
2.1.1 Tax	17
2.1.2 Income Tax Act 2002(2058)	20
2.1.3 Tax incentives	23
2.1.4 Essential features of remuneration	24
2.1.5 Remuneration from Employment (Chargeable Remuneration)	27
2.1.6 Non-chargeable incomes	30
2.2 Review of Previous Works	32
2.2.1 Review of Journal/Articles	33
2.2.2 Review of Previous Thesis	36
2.3 Research Gap	39
CHAPTER III: RESEARCH METHODOLOGY	31
3.1 Research Design	40
3.2 Population and Sample Size	40
3.3 Sources of Data	41
3.4 Data Collection Procedure	41
3.5 Data Processing Procedure	41
3.6 Data Analysis Tools and Techniques	42
CHAPTER IV: DATA PRESENTATION AND ANALYSIS	34
4.1 Tax Structure of Nepal	43
4.1.1 Trend and composition of total revenue	43
4.1.2 Trends and composition of tax revenue	45
4.1.3 Trend and composition of direct tax	46

4.1.4	Composition of income tax revenue	48
4.1.5	Contribution of income tax & personal income tax on GDP	49
4.1.6	Contribution of the total income tax and personal income tax to total tax revenue	51
4.1.7	Components and composition of total income tax	52
4.1.8	Direct and indirect tax revenue as percentage of GDP	54
4.2	Empirical Investigation	55
4.2.1	Contribution of remuneration tax to income tax revenue of Nepal	56
4.2.2	Remuneration tax as a suitable means of collecting government revenue	57
4.2.3	Reasons behind suitable means of collecting public revenue	57
4.2.4	Opinion about the current exemption limit	58
4.2.5	Suggestion for the exemption limit	58
4.2.6	Opinion about exemption limit for senior and disabled citizens	59
4.2.7	Soundness and effectiveness of remuneration tax system in Nepal	60
4.2.8	Major problem of soundness and effectiveness of remuneration tax system in Nepal	61
4.2.10	Reasons behind low contribution of remuneration tax to Income tax revenue of Nepal	62
4.2.11	Factors to be initiated to increase the contribution of remuneration tax in Nepal	62
4.2.12	Contribution of income tax from remuneration tax to the public revenue	63
4.2.13	Provision for deduction of expenses from employment income	64
4.2.14	Opinion towards the provisions for deduction of expenses required from remuneration income	65
4.2.15	Opinions towards the income tax evasion in Nepal	66
4.2.16	Opinions towards the reasons to increases the tax paying habit of Nepalese people	66
4.2.17	Opinions towards some taxable incomes to be made tax-exempted	67
4.2.18	Opinions towards the tax on pension income	68
4.2.19	Problem faced by employees while paying remuneration tax	68
4.3	Major Findings	69
4.4	Discussion	71
	CHAPTER V: SUMMARY, CONCLUSION AND RECOMMENDATIONS	63
5.1	Discussion	73
5.2	Conclusions	76
5.3	Implications	78
	BIBLIOGRAPHY	80
	APPENDIX	

LIST OF TABLES

	Page No.
Table 4.1: Revenue Structure of Nepal	44
Table 4.2: Tax Revenue Structure of Nepal	45
Table 4.3: Composition of direct tax revenue	47
Table 4.4: Composition of income tax revenue	48
Table 4.5: Contribution of income tax and personal income tax on GDP	50
Table 4.6: Contribution of the total income tax and personal income tax to total tax revenue	51
Table 4.7: Composition of income tax	53
Table 4.8: Direct and indirect tax revenue as percentage of GDP	55
Table 4.9: Groups of the respondents	56
Table 4.10: Significant contribution of employment income to income tax revenue of Nepal	56
Table 4.11: Remuneration tax is a suitable means of collecting government revenue	57
Table 4.13: Opinions about the current exemption limit	58
Table 4.14: Suggestion for the exemption limit	59
Table 4.15: Suggestion for the exemption limit	59
Table 4.16: Opinions about exemption limit for senior and disabled citizens	60
Table 4.17: Soundness and effectiveness of remuneration tax system in Nepal	60
Table 4.18: Major problems of soundness and effectiveness of remuneration tax system in Nepal	61
Table 4.19: Reasons behind low contribution of remuneration tax to income tax revenue of Nepal	62
Table 4.20: Factors to be initiated to increase the contribution of remuneration tax in Nepal	63
Table 4.21: Contribution of income tax from remuneration tax to the public revenue	64
Table 4.22: Providing standard deduction for expenses from employment income	65
Table 4.23: Opinion towards the provisions for deduction of expenses required from remuneration income	65
Table 4.24: Opinions towards the Income tax evasion in Nepal	66
Table 4.25: Opinions towards the reasons to increase the tax paying habit of Nepalese people	67
Table 4.26: Opinion towards some taxable incomes to be made tax-exempted	67
Table 4.27: Opinions towards the tax on pension income	68
Table 4.28: Opinions towards some taxable incomes to be made tax-exempted	69

ABBREVIATIONS

CBS	Central Bureau of Statistics
CDM	Central Department of Management
CT	Corporate Tax
FNCCI	Federation of Nepal Chamber of Commerce
GDP	Gross Domestic Product
GoN	Government of Nepal
IRD	Inland Revenue Department
IT	Income Tax
ITA	Income Tax Act
ITR	Income Tax Revenue
MOF	Ministry of Finance
NRB	Nepal Rastra Bank
PITR	Personal Income Tax Revenue
TTR	Total Tax Revenue
TU	Tribhuvan University
VAT	Value Added Tax

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is a landlocked and least developed country in the world. It has per capita income of around us \$1034. The economic condition of Nepal is very poor. The Nepalese economy has not become successful in creating an investment friendly environment. The private sector does not seem to be confident with the current economic and political environment. In such a situation, there remain less possibilities to materialize the slogan of public-private partnership. Nepalese economy is experiencing increasing internal challenges. In this situation of ongoing socio-political anomaly, the economic development of the country is not happened easily. The government needs huge resources to develop the country properly. To fulfill the objective of economics development of the country, one of the most important sources is public revenue. The public revenues of the country come from taxes as well as non-taxes sources of revenue (CBS, 2019).

Tax revenue includes the amounts which are compulsorily contributed by taxpayers to the government whereas non-tax revenue includes fee, penalty special assessment, gift and grants. Non-tax revenue is inconvenient and uncertain because they are levied according to the necessary of government. But tax revenue not only contributes in national capital formation but also in equal distribution of national income of the country. It helps to reduce the unequal distribution of wealth and national income. So taxes are the better sources of public revenue and it has been taken as the best effective tool for raising the public fund.

Income tax plays a very important role in the national economy. It is one of the important sources of revenue to the government. Income tax is levied by the government on the income of individuals and business firms. It is one at the better sources of public revenue. To regulate the income tax at the country, income tax Act, 2058 has been enacted in 2058 B.S. after a year, the income Tax Rules, 2059 has also been enacted for the effective implementation at the objectives of the Act. This Act has classified the heads at incomes into three categories viz. employment, business and investment. Now, individual income tax is levied with two rates 15% and 25%

while corporate income tax is levied with a single or flat rate of 25%. However, banks, and financial institutes are liable to pay income tax @ 30% of taxable income.

The remuneration taxation in Nepal is introduced in the fiscal year 2016/17, when the Business Profits and Remuneration tax Act, 2017 was enacted. Remuneration income is the income earned by a person in an income year from the employment or service. Remuneration means amount given for providing services. In case of remuneration, there used to be one getting services and other providing services. The person getting service is called employer and the person providing service is employee. According to section 8, an individual's income from an employment for an income year is the individual's remuneration from the employment for the year. Section 2 (aj) of the act has given a definition that employment includes a past, present or prospective employment. It can be said that remuneration means the income or service rendered by the person from the employer in any income year.

Tax is a compulsory charge by government on income of an individual, corporation or trust as well as the value of gift. The government does not provide direct return in benefit of tax payer but it is included for the common interest of people.

“A tax is a compulsory contribution of wealth of a person for the service of public power” (Adhikari, 2005). On the basis of form economists have divided taxes into two categories direct and indirect. Especially these taxes are based on place of payment. Direct tax is actually paid by a person on whom it is imposed formally; while an indirect tax is imposed on one person but paid by another person partly or wholly. Some of direct taxes are income tax, interest tax, property tax, death tax, vehicle tax, gift tax etc. and some of the indirect taxes are sales tax, excise duties, value added tax (VAT), entertainment tax, hotel tax, custom duties etc.

Developing countries like Nepal having low per capital income highly depend on the indirect tax than the direct tax. The share of income tax is much low in the composition of direct tax revenue. In the initial stage of economic development indirect tax has a significant role but after a certain stage of economic development is reached, direct tax has a significant role.

Generally an employment is known as a long – term employment but, in legal terms, an employment last for a short period and may also be a part time one an individual. might have more than one employment on a day. The employee must be present

physically at the work to perform his or her duties. The employment is awarded on the basis of his /her ability, education, experience, honesty, behaviors etc. and so a proxy is now where allowed to work on a behalf of the employee.

A written appointment letter does not always qualify on individual to be an employee but oral appointments or even the behaviors of the employer and employee is sufficient to treat the individual as an employee.

Income Tax Act 2058 has included the flowing incomes for Remuneration (employment) purpose: Salary, Wages, Allowance for specific works, Other allowances, Reimbursement of expenses, fees, Commission, Overtime payments, Awards, Prizes, Gifts, Bonus or incentives, Amount Received In Compensation, Payment for termination of employment, Employer's contribution to the retirement Fund and Retirement payments, Retirement Payment from government, Any other payment by the employer, Interest less then Market rate, Payments made by an employer for medical allowance.

1.2 Statement of the Problems

Least developed countries are facing numerous problems in the process of economic development. Nepal is an exception to this condition. About 26.5 percent of total population is below the poverty lies. The majority at people have out at reach to get basic needs. Since the government expenditure is growing, the source at government revenue must be increased and the government also wants to fulfill the basic demands of the people within a certain time period. Therefore the government needs huge amount of capital for growing public expenditure. Government expenditure rate is exceeding over the growth rate of revenue almost every year from the beginning of the planned development of Nepal.

The income tax is a vital source of the government resource. There is no obligation to the third parties by mobilizing resources through taxation. Therefore, it is most important and justifiable to increase tax revenue especially income tax. Two types of income taxation are applied viz. personnel income tax and corporate income tax. Creating tax liabilities tothe individuals who make taxable income raise is known personal income tax. However, individuals become dishonest and hide the real income. They enjoy the weaknesses of tax law and escape from the tax administration. Similarly, the Inland Revenue Department cannot find out the actual number of income tax payers.

On the other hand, corporate tax is levied upon the profit of companies. There are some obvious arguments in favor of raising a large amount way of corporations because corporations are easily identifiable, keep accounts and can not escape tax liabilities. A further point is that tax collected in this way often appears painless. Therefore, it seems that more income tax collection from corporation is possible for the economic development of the nation.

In the total tax revenue of Nepal indirect tax has greater portion than direct tax. It is not a good symptom that the portion of direct tax revenue is very low and government is largely depending upon indirect tax. Such problem is of serious nature because developed countries generate more direct tax and less indirect tax but developing countries generate more indirect tax and less direct tax.

Thus the study has focused towards the finding answers of the following questions:

-) How the remuneration tax has contributed in the income tax in Nepal?
-) What is the present position of remuneration tax in Nepal?
-) What are the major facilities and benefits provided by the income tax act, 2058 on the remuneration tax?

1.3 Purposes of the Study

The main objective of the study is to examine the effectiveness of remuneration tax in the income tax in Nepal. The following specific objectives are as follows:

-) To find out the contribution of remuneration tax on Income tax.
-) To identify the major problems and weakness of remuneration tax in Nepal.
-) To identify the major facilities & benefits provided by Income Tax Act 2058 on the remuneration tax.

1.4 Significance of the Study

This research study is the original and there is few study about the effectiveness of remuneration tax in the income tax in Nepal. In developing countries like Nepal the importance of income tax can not be minimized, because it covered huge amount of public revenue. Remuneration tax is the one of most importance sources of income tax. So the remuneration tax plays vital role in the public revenue of the country. But there are many problem associated with the income tax related with its management, administration as well as policies.

This study focus towards the efficiency of remuneration tax is the collection of income tax in Nepal, Thus the study try to find out the problem and difficulties associated in the collection of remuneration tax as well as facilities and benefits provided by Income Tax Act, 2058. So the study is beneficial to all the concerned parties such as researches, tax payers, and also the important material for library.

1.5 Limitations of the Study

All research study is done to solve a particular research problem. It requires various kinds of data, materials and other relevant information, which may not sufficient to the researcher. This study also cannot escape from the frame of limitations. This study is mainly based on secondary data, particularly financial data, provided by the Inland Revenue Department, which is not sufficient for the good research study. The following are the some limitations of the study:

-) This study is mainly based on secondary data. So the limitations of secondary data may exist.
-) Limitations of time frame and resources are also constraint for this study.
-) The study concern only a period of 10 years i.e. 2008/09 to 2018/19 and conclusions has been drawn based on the data of stated period only.
-) Major data used in this study is based on secondary data, primary information has been gathered from employees and tax experts
-) The views of respondents have been collected from Kathmandu valley only, so it can not cover to the responses of entire employees and experts.

1.5 Chapter Plan

The thesis outlook is divided into the following five chapters:

Chapter I: “Introduction Chapter” which includes why the researcher choose this topic. This chapter includes general background of the study, focus of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter II: This chapter is concerned with literature review. The reading materials of this chapter are conceptual review and review of related literatures.

Chapter III: This chapter consists of research methodology, express the way and use technique while studying, applied in research process; this includes research design,

sources of data, data collection techniques, and data analysis tools.

Chapter IV: This chapter has covered the “Presentation and analysis of data”, with presenting charts, figures and other statistical and financial tools. This chapter also presents the analysis and findings of opinion survey conducted with tax-experts and employees.

Chapter V: This chapter is concerned with output of thesis as summary, conclusion and recommendation for improvement.

CHAPTER II

LITERATURE REVIEW

2.1 Conceptual Review

The idea of introducing income tax in Nepal originated along with the first 'Budget' on 21st Magh 2008 (1952). The then finance minister in the first budget speech said 'a proposal to levy an income tax including tax on agricultural income is under consideration.' Several attempts were made to introduce income tax in subsequent years. However, it could not be introduced until 2061 due to political instability. For the first time, the finance act 2016 (1959) had imposed tax on business profit and remuneration in Nepal (Adhikari, 2005).

The first elected government finally introduced 'Business Profit and Remuneration Tax Act 2017' to impose income tax on remuneration and business profit in Nepal. The underlying reasons for the introduction of income tax were to generate more revenues in order to finance development activities and to help establish social justice through redistribution of income. 'Business Profit and Remuneration Tax Act 2017' had so narrow coverage that income tax was imposed only on business profit and Remuneration. Since, this act could not cover all the sources of income, it was replaced by the 'Nepal Income Tax Act 2019' after 2 years to avoid such drawbacks. The coverage was extended through this act. The wide coverage divided the heads of income into nine parts: income from business, profession/occupation, Remuneration, house and land rent, agriculture, investment, insurance business, agency business and other sources. After a year, 'Nepal income tax rules 2020' were enacted with the view of implementing the objectives of the income tax act. As 'Nepal Income Tax Act 2019' was incapable in fulfilling the needs of the time, it was replaced by another Income Tax Act 2031 (Amatya, 2012).

'Income Tax Act, 2031' had 66 sections and classified the sources or heads of income into 5 headings (categories) namely (1) Agriculture, (2) Industry, business profession or vocation, (3) Remuneration, (4) House and land rent and (5) Other sources. The act had identified the chargeable incomes and admissible expenses of each head of income. The other features of this act are provision of registration, provision of carry forward of loss, provision of common expenses, provision of self assessment of tax,

provision of small taxpayer's tax assessment, provision of fine, penalty and appeal, provision of tax deduction at source, provision of tax refund, provision of tax exemptions by different other acts and rules, provision of avoidance of double taxation etc. The government also issued 'Income Tax Rules 2039' for effectively implement objectives of the Income Tax.

In the sources of development and modernization of income tax system, the new, 'Income Tax Act, 2058 has been enacted. Similarly, the new 'Income Tax Rule 2059' have also been enacted for the effective implementation of the objectives of the Act. The new has classified the effective from 2059-02-27(2002 June 10). This act has classified the heads of income into here categories viz. employment, business and investment (Amatya, 2012).

Every government requires sufficient revenues to launch development programs to handle the daily administration to keep peace and security and to launch other public welfare programs. The government or public revenues are collected through various sources. These sources can be tax revenue, non-tax revenue (fees, charges, fines and penalties, dividend, royalty etc.) and other sources of financing are foreign grants, foreign loan and domestic loan. Among them, tax is the main sources of collecting the public revenues because it occupies the most important part of the government treasure. In Nepal, about 79% of total revenue comes from tax revenue and the rest 21% from non-tax revenues. Broadly, all sources of government revenues can be divided into two parts i.e. Tax and Non-tax (Dhakal, 2007).

2.1.1 Tax

Tax is a major source covering most part of the government revenue. It is a type of money paid by every citizen of the nation. Almost all the economists agree that tax is a compulsory duty to pay to the government without any expectation of some specific return.

2.1.1.1 Meaning of tax

Tax is a compulsory contribution from people to government to undertake work of public good. Many tax experts have given the definition of tax in their views.

According to Prof. Seligman, "Tax is compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without

reference to special benefit conferred" (Dhakal, 2058).

According to Plehn, "Taxes are general contributions of wealth levied upon benefit upon persons, natural or corporate, to defray expenses incurred in conferring common benefit upon the resident of the states" (Dhakal, 2058).

According to Taylor, "A tax is a compulsory payment to the government without expectation of direct benefit in return to the payer" (Amatya, 2012).

Similarly, Bastable defines- "A tax is compulsory contribution of wealth of a person or body of persons for the service of public power" (Dhakal, 2007).

From the above definitions, it is clear that tax is imposed on the person by the government according to the law of the country. The person on whom tax is imposed must pay taxes. Otherwise the law punishes him. The government does not provide any corresponding benefit to the tax pays for the amount of tax he pays. It is used for the common goods of the country. This means the government provides no special benefit to tax payers.

The government of any country requires sufficient revenues to launch the development programmes, to handle the daily administration, to keep peace and security and to launch other public welfare programmes. The government or public revenues are collected through various sources. These sources can be: (a) taxes (b) revenues from government corporations and public enterprises (c) fees (d) special assessment (e) fines and penalties and (f) foreign grants. Among them, tax is the main source of collecting the public revenues because it occupies the most important part of the government treasury. In Nepal, about 77% of total revenue comes form tax revenues and the rest 23% from non- tax revenues.

Tax is a compulsory payment to the government from a person according to law. It is contributed to the government without expectation of any quid pro quo (direct benefit) to the taxpayer. The government mobilizes these taxes for public interests.

According to Prof. Seligman "A tax is a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit" (Dhakal, 2007).

In the words of Taylor "A tax is a compulsory payment to the government without

expectation of direct benefit in return to taxpayer."

Similarly, Bastable has opined, "A tax is a compulsory contribution wealth of a person or body of persons for the service of public powers" (Dhakal, 2007).

From the above definitions, it can be said that:

-) A tax is a compulsory contribution to the state from a person,
-) The natural person and artificial person (entity or corporate body) having tax liabilities pay the taxes to the government,
-) The taxpayer does not received the equivalent benefit form the government,
-) There is no discrimination among the taxpayers other than specified by the law,
-) Tax is paid to the state to perform the functions of the government, and
-) The amount of tax is spent for common benefits and interest of the people

2.1.1.2 Classification of taxes

Taxes are constituents of human life and are paid from birth to death. Now-a-days, a human activity cannot separate from taxes. It means there are many taxes and these are paid knowingly or unknowingly and directly or indirectly. Moreover, these are impossible to signify individually. Thus, economists have classified a long list of different types of taxes into five classes. These may be grouped on the basis of their form, structure, nature, essence and volume. On the basis of form, economists have divided taxes into two categories: direct and indirect. Specially, these taxes are based on place of payment.

2.1.2.1 Direct tax

The direct tax on whom it is legally imposed cannot be transferred to others i.e. the person paying and bearing tax is same. According to Dalton "A direct tax is really paid by the person on whom it is legally imposed (Amatya, 2012). According to Mill (in 1903) "A direct tax is one, which is demanded from the very persons who, it is intended or desired, should pay it. Indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another" (K.C., 2007: 13). Some of the examples of direct taxes are as follows: a) Income Tax, b) Property Tax, c) Interest Tax, d) Gift Tax, e) Vehicle Tax and f) Death Tax.

2.1.1.2.2 Indirect tax

The indirect tax on which it is legally imposed can be transferred to other, which means in direct tax the person paying and bearing tax is same.

According to Dalton "An indirect tax is imposed on one person but paid partly or wholly by another" (Amatya, 2012).

Some of the examples of indirect taxes are: a) Sales Tax, b) Value Added Tax (VAT), c) Entertainment Tax, d) Excise duty, e) Hotel Tax and f) Export and Import Tax.

2.1.2 Income Tax Act 2002(2058)

Since 19th Chaitra, 2058 Income Tax Act 2058 has been introduced in Nepal. This income tax act is introduced to avoid the defects of income tax act 2031, to widen the taxation area and market Nepalese taxation system in international standard.

In this way on 19th Chaitra, 2058 income tax act 2031 was dismissed and new income tax act 2058 is implemented. For implementing this act effectively Income Tax Regulation, 2059 was formulated and issued using the power mentioned in section 138. Similarly, this act has been amendment two times by the finance order on 24th Ashad and 22nd Poush 2059 (Amatya and Dhakal, 2004).

2.1.2.1 Features of Income Tax Act, 2058

The 1950's concept of the high incentive high tax rate is changed to the concept of low rate, wide net. This trend of tax system is followed by most of the countries of the world. After 1990's, there is re-emergence of the liberalization; globalization and privatization system adopted by most of developing countries of the world and Nepal also could not stay away from this change. This new system mainly focuses on the minimum intervention of the state on private economic matters. Similarly, country like Nepal which mostly dependent on foreign aid, loan and donation adopted the economic policy guided by World Bank, International Monetary Fund, Asian Development Bank and Other International agencies (Kandel, 2006).

Tax system is changed with the change in economic policy of the country, world economy. Even Advancement of information technology has vast impact of Nepalese economy. As a result income tax act 2058 is prepared and issued. The main features of income tax act 2058 are as follows:

a. All the tax related matter with in one act

Income tax act 2058 has abolished all tax related provision given in other acts and confined all income tax related matter with in one act. Before the introduced of income tax act 2058, there were nearly one and half dozen acts related to income tax which used to create confusion even to the tax experts.

b. Abolition of various tax related tax concession, rebates and exemptions.

One of the main reasons of being the Nepalese tax system in effective was due to the concession, rebates and exemptions provided by various taxes in the past. These tax related concession; taxpayer for the purpose of tax avoidance and tax evasion used rebates and exemptions. But income taxes act 2058 has abolished most of the confusion tax facilities and introduce a fair tax system.

c. Specification of Stock Valuation Methods

Income tax act 2058 has made the clear provision of stock valuation method. Under this act only one method of stock valuation is allowed to adopt. It should not be changed without the approval of concerned authority of tax office of the taxation purpose.

d. Specification of tax rates

Income tax act 2058 has clearly specified the tax rate applicable to the various forms of business and taxpayers. Such tax rates are given in Appendix 1 of the act

e. Simplification of depreciation related provisions

Income tax act 2031 had categorized the assets into around three dozens and different rate of depreciation were allocated for different types of assets. As a result there was confusion relating to the depreciation. But income tax act 2058 has specified the diminishing balance method of depreciation system based on pool system with five categories of assets. In this tax system is far clearer in respect of depreciation.

f. Taxing capital gain and dividend

Income tax act 2031 had no provision of taxing capital gain and dividend. But income tax act 2058 has made clear provision about the tax rate charged to the income earned from capital gain and dividend.

g. Generous loss set off and carry forward provision

Income tax Act, 2058 has made the provision of carry forward of losses of a business for four subsequent years. Similarly for financial sector the provision is more liberal providing the facility of recovering the losses from previous five years and carry forward up to five subsequent years.

h. Provision of international taxation

Modern economy is advanced and complicated. Most of the country's economy is open. Business transactions are operating worldwide. So, this income tax has made provision of internal taxation such and transfer pricing, foreign trade credit, double taxation avoidance agreement etc.

i. No submission of income statement by a person who does not have taxable income

This act has made provision of not necessary of submission of income statement by a person who does not have taxable income or income from remuneration.

j. Provision has been made for the deduction of all the expenses relating to income earned.

k. Provision of tax incentives for infrastructure development project, employment generating business, electricity project and for special industry.

l. Provision made to claim for deduction of pollution control device and research and development expenses.

m. It has accepted self-assessment taxation system absolutely, provision has been made to accept the statement submitted by taxpayer as payment made by taxpayer is taken as assessed tax amount.

n. It has clearly defined eight and duties of taxpayer and power of tax office.

2.1.2.2 Head and sources of income

Income Tax Act, 2058 has classified the heads of income into the three main groups for the purpose of tax assessment. According to the Income Tax Act 2058 the head of income are:

a. Income from business

- b. Income from employment
- c. Income from investment

2.1.3 Tax incentives

Tax incentives are concessions, facilities and rebates granted to corporate bodies. Those incentives reduce the tax burden of an organization. It may imply a partial or full exemption from one or variety of taxes and special allowances for a certain period to motivate the new as well as existing organization for balanced regional development, encourage for the production of primary goods and to develop the corporate bodies. It increases the habit of saving and encourages the investment by the means of equity shares, purchasing of an organization. Thus tax incentives are a phenomenon developed specially to accelerate the slow rate of investment in most of the developing countries.

The increase in corporate investment is the sign of economic development of the nation. Basically, offering of tax incentives become necessary due to the two reasons, stretching the scope of tax beyond its revenue objectives to achieve certain socio-economic need and to mitigate the adverse impact of high taxation on corporate saving and investment activities.

Developing country like Nepal must have to encourage investor to invest on factors and industries for economic well-being of nation, creating employment opportunity and to reduce foreign dependency. But the investor are ready to invest only in such a case when the after tax profitability becomes high.

The desires of investor to invest in new project can be partly fulfilled by the tax incentives and finally it helps the government to increase its revenue. Some of the popular ways of providing tax incentives by the government in different countries in the world are tax holiday, tax credit accelerated depreciation, deduction in tax rate, carry forward of losses etc. Tax holiday is the tax-free for a certain period. Any industries getting such type of incentive need not to pay tax for a certain period of time.

Similarly, another technique of tax incentive is tax reduction that means lowering the tax rate. This type of incentives is mostly provided to those industries operating in particular place with particular kind of goods or service. However sometime such

types of tax incentive is equally provided to all types of corporations whether large or small, new or old, capital incentives or labor incentives and located at rural or urban areas. It has more adverse effects to the government as it reduces the government's revenue.

Another method of providing tax incentive is to provide tax credit facility. In this system tax incentive is provided capital investment. It is granted in the first year's investment on assets. Such type of incentive is mostly beneficial to the large-scale investors rather than small investor. Similarly another method of providing incentives to the large-scale investor is accelerated depreciation charging facility. In this system higher depreciation is charged in the beginning year and gradually decreases in later year on the fixed assets of an organization. Due to this, taxable income of the corporation becomes lower and saves the amount of tax. For the accelerated depreciation, sum of the year's digit (SYD) and double declining method of depreciation are commonly used (Poudyal, 2008).

The last method of providing incentive is to carry forward of losses. In this technique the losses of the previous year can be deducted from the subsequent year's profit. Mostly of the countries in the world allow to deduct losses or carry forward of losses from subsequent year profit. Income tax act 2058 of Nepal has allowed carry forward of losses of general business for 4 years and bank and insurance business for 5 subsequent years.

Among these various types of tax incentives policy of government, investment allowance is widely used by Sri Lanka, Canada, Australia, Belgium, Germany, Japan, United Kingdom, Brazil, Malaysia, Singapore, Taiwan and other industrialized countries (Kandel, 2004).

Developing countries like Philippines and Mexico etc are using tax Act 2058, Nepal has adopted a combination of tax holiday, investment allowance, deduction in tax rate and carry forward of losses etc. in order to provide incentives to the investor.

2.1.4 Essential features of remuneration

The essential features of Remuneration from employment may make clear idea in order to understand the meaning of Remuneration. These features are as follows (Amatya, 2012:69):

a. Relationship of employer and employee

Any Remuneration of an individual is regarded as Remuneration from employment, if there exists a relationship as employer and employee between the payer and payee. It means there must be the master and servant relationship. If such a relationship does not exist, then the income falls outside the scope of the head 'income from employment'. A master is one who not only directs what and when a thing is to be done but also how it should be done. A servant, generally, is not only a person who receives instructions from the master but is also subject to the master's right to control the manner in which he/she carries out instructions. If a person is acting as a agent for a principle during the course of carrying no business, there is no relationship between them as master and servant and there exists a relationship of principal and agent. Therefore, any commission or Remuneration earned by the agent is chargeable to business income of the agent. Any person of entity that employs others for work and pays them is known as an employer.

b) Mode of payment

It should identify whether the mode of payment accrues with the passage of time or it depends on some job being performed or completed by the assessed. In a contract services, the employer can direct and control as to what is required to be done by the employee and as to how it should be done by the employee. In such a case, there exists employer and employee relationship and the Remuneration of he contractor (employee) is chargeable under income from employment. As against this, in a contract for service, the contractor (employer) can best specify what is to be done and the contractor independently achieves the details of work and executes the same. In this case income earned by the contractor for his service is chargeable under income form business and not as salary income since there does not exist any employer and employee relationship.

c) Remuneration income and professional income

Remuneration income is derived with the passage of time but not depended on some job being performance or completed. A radio singer and an actor are ordinary not employees and therefore, the Remuneration they receive for jobs performed of jobs completed will be taxed under income form business. But in case there respective employers employ any of them on the time basis, the amount is taxed as salary.

d) Income received from the employer

As already mentioned that it is essential to be the Remuneration form employment, the Remuneration should be received from employer. So any payment made by employer to employee for services is included in the income from employment of the employee. The payment may be salary. Allowances, differed payments and fringe benefit valued as per laws. However, sometimes income received from employer is not chargeable under income form employment. For example, loan received from the employer is not chargeable under income from employment because it is a capital receipt.

e) Income received from an associate of the employer

Sometimes, an associate of the employer pays remuneration. Such Remuneration derived from the associate of the employer is included in the employee's Remuneration from employment. For example, Remuneration paid to the employee by the managing director of a company.

f) Income received from third party

Sometimes, a third party pays remuneration under an arrangement with an employer. Remuneration derived from the third party on behalf of the employer is also chargeable remuneration income to an employee.

g) The amount paid should be of regular nature

As discussed earlier, the remuneration received on the basis of passage of time is chargeable under income form employment. It is accruing periodically for service rendered by an employee as result of expressed of implied (indirect) contract. And if the employee receives such periodic accrued remuneration, then it becomes chargeable income from employment.

There are some basic considerations while computing assessable income from employment. These considerations may be as follows (Amatya and Dhakal, 2004):

- a. Remuneration, salary & wages are not conceptually different. But the remuneration income and profession income are conceptually different.
- b. Salary may be received form more then one employer.

- c. Salary from a former employer, present employer & prospective employer in included in the income from employer.
- d. Salary income must be real but not fictitious.
- e. Remuneration income is taxed on the receipt basis: Tax accounting of remuneration is cash basis. Hence, it is obvious that advance salary and arrears of salary may be taxed in the year of receipt part from the current year's salary.

2.1.5 Remuneration from Employment (Chargeable Remuneration)

The chargeable income under income from employment is specified in section 8 of income tax Act. As per the act, the following payments made to a natural person from the employer are included in calculating the person's remuneration from employment (Amatya, 2012):

- a. Payment of wages, salary, leave pay (including salary in lieu of leave and encashment of accumulated home, sick etc level), overtime pay, fees, commissions, prizes, gifts (as per market valuation case of prize and gift is not in cash), bonuses, and other facilities i.e. Dasain Expenses. Taihar Expenses, telephone facility, transportation facility etc;
- b. Payments of any personal allowances including any cost of living, subsistence allowance, rent allowance, entertainment allowance and transportation allowance.
- c. Payments providing any discharge of reimbursement of costs incurred by the individual or an associate of the individual. For example, reimbursement of medical expenses, payment of life insurance premium and private trip expenses etc.
- d. Payment for the agreement to any conditions of the employment. For example: in case an employee receives Rs. 5000 per month for not working in other organization as per the agreement made on the request of the employer.
- e. Payment for termination or loss of service of compulsory retirement (redundancy). For example, amount derived as golden hands shake scheme.
- f. Retirement contribution including those paid by the employer to a retirement fund in respect of the employee and retirement payments. For example, gratuity, encashment of medical expenses at the time of termination, employer's contribution to provident fund.

- g. Other payment made in respect of the employment; and
 - h. Amounts required to be included in remuneration from employment as per tax accounting.
 - i. In addition to above stated items of Remuneration, the following types of perquisites are also included in Remuneration from employment of a person.
1. **Transfer of the asset [27 (a)]:** In case of the transfer of the asset from employer to employee, the market value of such asset is included in the employee's income. For example; if an employer provides 100 liters of petrol as a fuel facility to an employee and market value of petrol per liter is Rs. 54, its total market value of Rs. 5400 should be included in the employee's income from employment.
 2. **Vehicle of personal and official purpose and Rent-free accommodation for personal purpose [27 (b)]:** Payments consisting of the following facilities determined in accordance with the rules are included in the income of the employee:
 - I) **Vehicle Facility:** Availability of vehicle wholly consisting purpose. However, such amount will be limited only to 0.5 percent of annual salary{13}. In case the facility is not provided as fringe benefit but is paid as transportation allowance of paid certain amount as transportation facility, such allowance of amount should be included in the employee's income.

It is not that partly personal purpose also refers to the facility of vehicle provided to go to office and to return to home from office. It is common phenomenon that any vehicle will not run without driver and fuel. Therefore, if once the above perquisite is charged in the income of employee, the payment or facility of driver and fuel should not included in the employee's income.

If the driver and fuel facilities are provided for employee's own vehicle used for his personal purpose, the amount of driver's salary and amount of fuel are included in the employee's income.
 - II) **House facility (including rent-free accommodation) for personal purpose:** Provision of housing to the employee. However, this amount is limited to only 2 percent of annual salary {13}. But in case the facility is not provided

as fringe benefit but is paid as house rent allowance or paid certain amount as fringe benefit but is paid as house rent allowance or paid certain amount as residence facility, such allowance or amount is included in the employee's income.

In case a maintenance expense is provided to employee's own house the amount of such payment is included in income of the employee's.

3. **Expenses incurred by employer for the provision of domestic assistants, food house household utilities for the employee [20(c)]:** The amount of expenses incurred by the employer for provision of following facilities for the employee (but any contribution of the employee for provision of such facilities is not included in income):
 - i. Services for housekeeper, cook, chauffeur (driver), gardener or other domestic assistants;
 - ii. Any meal, refreshment or entertainment;
 - iii. Drinking water, electricity, telephones and like utilities in respect of employee's place of resident.

4. **A reduced amount of interest paid to employer as per concession rate with compared to prevailing rate [27(d)]:** In case the amount of interest on loan paid by the employee to the employer with a concession rate, the difference amount of interest that is lower than the interest to be paid as per the standard higher rate is included in the employee's income. For example, if a manager of a bank has received a housing loan of Rs. 1000000 to construct a house with a concession interest rate of 6% interest of the standard interest rate of 10% for housing loan in the same bank and pays interest of Rs. 60000, the difference amount of Rs. 40000 with compared to the interest of Rs. 100000 as per standard rate is added to income from employment.

5. **Compensation [31(a), 62 & 92]:** in case a person or an associate of a person derives a compensation amount including a payment under insurance that compensates for income from employment, it is included in calculating the income from the employment at the time the compensation amount is derived. The compensation for an income that the person derived or expected to derive from employment or compensation form an amount to be included in calculating

the income from employment is included in such category. For example, compensation to an employee from insurance company on termination from the job from which the employer has insured for his purpose is included in the employee's income from employment. It is noted that compensation or gain from the investment insurance from resident person is subject to final withholding payment and is not included in the individual's income but the compensation or gain from investment insurance from the non-resident person is included in the individual's income.

- 6. Amount for bill directly paid by the employer [17(e)]:** For the payment other than stated above, the value of benefit of the payment made by the employer to a third person instead of employee is included in the income of the employee. For example: School fee of the children of the employee is directly paid by the employer to the school, life insurance premium paid by the employer, etc.

2.1.6 Non-chargeable incomes

Some incomes are not included in calculating a person's remuneration from employment even if they are derived from the employment. These incomes are treated as tax-free income. The following amounts are excluded in calculating an individual's remuneration from an employment: The following incomes are exempted from income (Amatya, 2012).

- a) Exempt amount [8.3(a) and 10]:** The following payments are not included while calculating the income from employment as per section 10 of the act:
- i Remuneration exempted under a bilateral or a multilateral agreement (treaty) with a foreign government or an international organization.
 - ii Remuneration under the employment of public service of foreign government.
 - iii Remuneration derived by foreign national from foreign government.
 - iv Remuneration paid by Government to foreign national on the terms and conditions of tax exemption.
 - v Allowance paid by Government to widows, senior citizens or disabled individuals.
 - vi Gift, bequest, inheritance of scholarship except as required to be included in income from employment.

- vii Pension received by retired Nepali army/police from public fund of foreign government.
- b) Final withholding payments [8.3 (a) and 92]:** If a person receives the final withholding payments after tax deduction at source, they are not included in the person's income. The following income received after deduction tax at source as final withholding payments are not included while calculating income:
- i Dividends paid by a resident company.
 - ii Rent for the lease of land or a building and associate fitting and fixtures having a source in Nepal, and that is received by an individual other than in conduction a business.
 - iii Payment made by a resident person for gains from investment insurance.
 - iv Payment made by a resident unrecognized retirement fund to the beneficiary for gains from interest on unrecognized retirement fund.
 - v Interest that is sourced in Nepal and not related to person's business paid by a resident bank or financial institution to the natural person.
 - vi Payment made to non-resident persons that are subject to tax withholding by employers, withholding from investment returns and service fees, withholding form contract payment under 87, 88 and 89 respectively.
 - vii Retirement payment made by Government or recognized retirement fund
 - viii Meeting allowance (Payment for part-time teaching, payment for setting question papers and payment for examining answer books from FY 2060/2061 and onwards.)
- c) Meals and refreshments on similar terms:** Meals or refreshments provided in premises operated by or on behalf of an employer to the employer's employees that are available to all the employees on similar terms. [8.3 (b)]
- d) Discharge or reimbursement of expenses used for employer's business purpose or employer's admissible deductions from business or investment [8.3 (c.1 & c.2):** Any discharge of reimbursement of costs incurred by the employee that serve the proper business purpose of the employer or that are or would otherwise be deductible in calculating the employer's income from any business or investment. For the detailed analysis of chargeable and non-chargeable income received as reimbursement of expenses incurred by an

employee, it should be identified whether or not the expenses in deductible expenses from business or investment of the employer or is used for proper business of the employer. To make clear idea about it, expenses of domestic or personal nature that are expressly disallowed for deduction are clearly identified as mentioned in the clarification of section 21 of the act.

- e) **Payments of small amounts [8.3 (d)] {6}**: Payments of the prescribed small amounts which (after taking into account and frequency with which the employer makes similar payments) are so small as to make accounting for them unreasonable or administratively impracticable. [8.3 (d)]. As per the rule 6, an employer may make a payment of an amount not exceeding Rs. 500 at a time as the payment of small amount in this respect for a provision of tea, stationary, gifts, reward, awards, emergency medical treatment or other similar expenses approved by the Department{6}.
- f) **Special provision of exemption for retirement payment and leave pay [20.6 (a) & (b)]**: The following amounts, which are preciously exempted from tax, are also exempted:
- i The amount accrued prior to the commencement of 'Income Tax Act, 2058' (till 2058/12/18) to any natural person as principal, interest and bonus in consideration of employee's and employer's contribution in Employees Provident Fund and Citizen Investment Trust (Recognized Retirement Funds) are exempted. However, the interest accrued on the same amount is taxed after that date as final an employee as gratuity and amount of accumulated home and sick leave are also exempted. [20.6 (a)]
 - ii Medical expenses up to Rs. 180000 payable at the time of discharge of retirement to that employee who was working on job at the commencement of the act. [20.6(b)]

2.2 Review of Previous Works

In the course of the study various books articles, dissertations and other reference materials were reviewed. Some useful ones are mentioned below.

2.2.1 Review of Journal/Articles

Amatya (2012) wrote an article entitled "*Taxation of Employment income in Nepal, concept, computation and contribution.*" Writer had mentioned about Nepalese income Tax law, income year and assessment year, sources of income, concept and sources of income, concept of employment, computation of income from employment non chargeable incomes under employment common reductions income tax exemption assessment of income tax liability on employment income, surcharge and contribution of employment income to Tax revenue of Nepal. Writer has also shown about estimation and collection of employment income tax during the past decade. In this study he has clearly pointed that actual collection of employment tax is satisfactory.

Dahal (2015) wrote an article entitled "*Taxation in Developing Economies: Theoretical Underpinnings and Dimensions.*" Writer had mentioned that the subject of taxation has undergone an extensive metamorphosis since last many years. With the advent of supply side economics the role of taxation has become even more crucial. Taxation is not only an effective instrument for resource mobilization - a 'boot-strap' operation for financing economic development - but also a 'tool-kit' for revenue collection to sustain growth and maintain equity and stability in the economy. If blood circulation is desirable to keep the human body alive so is taxation to keep the economy alive. The laws of blood circulation and of taxes are tantamount to each other. In developing economies resource gap is critical and widening resulting to huge fiscal and budgetary deficits. The growing resource gap is frequently off-set by mobilizing internal and external borrowings and consequently shifting the burden of debt to posterity. Therefore, revenue mobilization is challenging proposition in developing economies where a majority of the people live in abject poverty and the people engaged in economic activities have extremely limited taxable capacity. In addition, legal base of taxation is compressed with unlimited tax shelters and tax administration lacks innovative mechanism to identify new taxpayers and bring them into tax-net. In developing economies unsanctioned economic activities have greatly increased over the years resulting to poor voluntary compliance due to indifferent attitude of the taxpayers towards government spending. Thus, interface between diminishing efficiency of tax administration and delinquency on the part of taxpayers is becoming critical.

The writer mentioned that the role of indirect taxes became prominent after the dissolution of traditional society. Nevertheless, the debate on direct vs. indirect taxes is sterile, for both taxes have intrinsic values with tremendous potential to mobilize revenue in developing economies. This is tantamount to walking on two legs – a balancing factor. When a country passes through a level of comparative economic backwardness to one of self sustained growth and economic maturity, the tax system will have to rely, in spite of severe political and administrative limitations, largely on elasticity or built-in flexibility of taxation.

Jenkins and Khadka (2017) wrote an article entitled “*Reform of Domestic Indirect Tax Systems in Low-Income Countries: the Case of Nepal*”, in CAER II Discussion Paper. Writers had mentioned that the reform process in Nepal that converted the domestic indirect tax system from a nineteenth century style system of excise taxes into a modern VAT and excise tax system has been fundamental in nature. Both the tax policies and the tax administration have had to be reengineered. The design of the new tax structure and administration took into consideration, the nature of the economy and the country’s present stage of development. Many of the issues faced in the design of the indirect tax system and its administration are common to most poor developing countries that are modernizing their tax systems. Only time will decide whether this reformed tax system will take root and become the foundation for future improvements, or slide back to the excise tax approach that has historically characterized taxation in Nepal.

JBR (2018) wrote an article entitled “*Nepal tax system Issues, problems and options*”, in The Himalayan Times. Writer had mentioned that the process of Nepalese tax system started in the mid-1980s as a major component of the structural adjustment program (SAP). This process accelerated in the 1990s after the restoration of democracy. However, some adjustments had been made in the tax systems (in terms of rates and number of taxes) before the reform process started. The Nepalese reform policy before the restoration of democracy in 1990 focused more on more restrictive, regulative and protective policies to meet the basic need of the people and to achieve various goals viz resource generation, maintaining equity, growth and stabilization of the economy. As a result, it encouraged tax evasion, corruption, difficulty in tax administration creating considerable distortion in the economic incentive during 1980s. Further, the tax base remained narrow due to large exemptions and incentives

under various taxes. However, these policies have been replaced by a more liberal, open and market oriented policies based on the distinctive features of globalization, liberalization and privatization after the restoration of democracy in 1990. For economic dynamism, an elastic system is highly advantageous for public expenditure activities which help to balance growth, equity and efficiency. However, the performance of the Nepalese tax system in terms of responsiveness, productivity, efficiency and equity was very low. After the tax reform, there has been a desperate attempt to improve resource mobilization, reduce fiscal deficit through broadening tax base, rationalizing tax structure and strengthening revenue administration from the late 1980s and 1990s.

JBR (2018) wrote an article entitled "*Elasticity, buoyancy of taxes in Nepal: A perusal*", in The Himalayan Times. Writer had mentioned that in developing economies, resource gap is grave and broadening leading to massive fiscal and budgetary deficits. The growing resource gap is compensated by mobilizing internal and external borrowings. Therefore, revenue mobilization has a crucial role in fiscal policy implementation especially in a developing economy like Nepal, where the necessity of public resources for public disbursement is highly sought-after. It is a better source of revenue mobilization than the alternative sources such as loan, grant, foreign aid and deficit financing. In addition, legal base of taxation is compressed with unlimited tax shelters and tax administration at the same time lacking innovative mechanism to categorize new taxpayers and bring them into tax net.

The study showed that the interface between diminishing efficiency of tax administration and delinquency on the part of taxpayers is becoming serious. As tax revenue is one of the vital sources of domestic revenue in Nepal, the calculation of tax elasticity and buoyancy would be significant in the context of structural reforms along with administrative reforms. To evaluate the tax performance of a developing country, one should go beyond the static index and introduce more dynamic concepts such as tax elasticity and buoyancy.

The tax elasticity indicates the income elasticity of a tax. The performance of tax in economy is viewed on the basis of elasticity and buoyancy. The estimates of these are dynamic tools for measuring the tax performance. This knowledge of degree of responsiveness of tax revenue would facilitate the government to make more precise

forecast of revenue in order to recover fiscal management. Elasticity would indicate what size or magnitude of a tax would have been over a period of time when there would have been no change in tax rates and legal bases. It provides the basis for natural growth of revenue to GDP.

Pant (2019) had written an article entitled "*Problems in tax administration and their remedies*" published in journal of finance and development 'Rajaswa', April. The study had comprehensively explained about the problems and their remedies related with tax revenue and major types of practical problems and challenges in tax administration. Writer had mentioned in article showed limited amount of transaction showing low selling price, lack of issuing and taxing bills, lack of showing the factory cost, commercial trend, lack of co-operation in tax auditing, legal ambiguity and complexity in implementation and lack of coordination between inland Revenue Department and Revenue investigation unit. Meanwhile, he had recommended some valuable suggestions to solve the problem and to overcome the challenges. They were: statistical and information system should be properly managed; fixed norms and standards should be used to assess selling price and factory cost; the billing system should be made compulsory; coordination between inland revenue office with various entities of government revenue investigation department and its related unit should play the important role.

2.2.2 Review of Previous Thesis

Prasai (2015) presented a thesis "*Revenue collection from income tax in Nepal: problems and prospects*" included focusing effect of different income sources of government revenue. The main objectives of the study were:

-) To study the structure and trend of income tax in Nepal.
-) To analyze the contribution of income tax to national income of Nepal. iii To provide suggestions for improvement of income tax system of Nepal.

Major findings of the study were:

-) The study includes historical perspective and legal aspect of income tax in his study.
-) Tax evasion; inefficient tax administration and dominated role of indirect tax are the major necessity in development of income tax system.

-) Tax on consumption and product of goods and service has occupied first place regarding its contribution to total revenue of Nepal. The average contribution of tax on consumption and product of goods and services aver the ten years period is 34.66%of the total revenue of Nepal.
-) Land and revenue registration has the lowest average contribution percent in total revenue of Nepal. Total revenue of Nepal consisted of tax revenue and non-tax revenue.
-) Nepalese income tax structure is formed by contribution of income tax from public enterprises, semi-public enterprises, private corporate bodies, individuals, tax on employment, tax on interest and other taxes. Contribution of individuals has occupied first position in total income tax revenue.

Dhakwa (2016) presented a thesis entitled "*Contribution of income tax to government revenue of Nepal*". The study was done with basic objectives of analyzing the income tax structure of Nepal, identifying and predicting the share and trend of corporate income tax on government revenue of Nepal. The main objectives of the study were:

-) To explore the contribution of income tax in government revenue.
-) To analyze tax administration system in Nepal and.
-) To analyze the problems of tax in Nepal.

Major findings of the study were:

-) The major problems existing in Nepalese tax system, recognized by her, are the inefficient income tax administration, mass poverty, lack of tax consciousness, low numbers of tax payers, lack of co-operation between tax payers and department, narrow coverage, assessment deficiency etc.
-) Problems can be solved and resources are efficiently utilized, the future of income tax would be bright.
-) The exemption limit should be separated to couple and family and tax rate and exemption limit should be elastic, scientific and progressive.

Lamsal (2017) presented a thesis entitled "*A study on contribution of income tax on government revenue*". The study had mainly focused on the removing and controlling income tax evasion for better resource mobilization. The main objectives of the study were:

-) To analyze the assessment process of income tax.

-) To identify the problem of income tax management.
-) To provide suitable recommendations for improving existing scenario of income tax management.

Major findings of the study were:

-) The role of income tax as economic growth, equitable distribution and stabilization growth.
-) Tax evasion, delay in assessment, normal role of income tax, lack of public information, complicated act and other defects in income tax act.
-) Progressive tax, honest, efficient administration, research units in tax offices and penalties of taxpayers who do not maintain accounts.
-) From that it was found that there was widespread evasion of income tax in Nepal and income tax is a suitable means for raising domestic resources. The study had recommended for controlling tax evasion by controlling illegal business activities, increasing penalties and fines to tax evaders, compulsory maintenance of accounts etc.

Shrestha (2018) presented a thesis entitled, "*Revenue collection from income tax in Nepal*". In this study, researcher had conducted an opinion survey in respect of problem and prospects of income tax in Nepal. The main objectives of the study were:

-) To examine historical background.
-) To examine tax structure in Nepal.
-) To find the contribution of income tax to economic development of Nepal.

Major findings of the study were:

-) Actual collection of revenue through income tax was lower than its estimated targets because of the poor taxpaying habit of Nepalese taxpayer, poor tax administration system wide spread evasion of income tax.
-) To make effective personnel management, increasing habit of taxpaying of Nepalese taxpayer through proper tax education and better public communication system.
-) To minimize tax evasion, and reduction tax collection cost.

Kafle (2019) presented a thesis entitled "*Income tax contribution from Nepalese public enterprises with reference to Nepal electricity authority*". The main objectives of the study were:

-) To analyze the causes of heavy reliance on direct tax,
-) To analyze the volume of indirect tax revenue and direct tax revenue in total tax structure.

Major findings of the study were:

-) The contribution of direct tax and indirect tax in the national revenue.
-) Cause of government inefficiency in income tax administration.
-) The income tax to GDP, total revenue and direct tax revenue was in increasing trend. To bring program oriented fiscal policy and recommended that VAT be a major source of indirect tax in liberalized economy.
-) For small taxpayers he suggests for door-to-door services.
-) The study found that lack of clear, transparent and progressive economic policy is the main reason for unsatisfactory with sound effectiveness of income tax system of Nepal. Existing corporate tax rate has been found unsuitable and single rate for all types of corporation is preferred.

2.3 Research Gap

There is gap between this research and the previous research most of the previous have focused the contribution of various income in the government revenue, structure of the government revenue and the income tax from various sources, tax structure etc. They have found that the contribution of income tax in government revenue is significant and it should be mobilized to economic development of Nepal. Almost all of them have indicated that the tax administration is inefficient and there is high level of tax evasion. Most of the researchers have suggested improving the tax administration increasing the contribution of income tax in resource mobilization and widening the tax coverage. But they had not studied the remuneration tax. It also gives appropriate suggestion for correcting and improving these problems and weakness based on the primary data collected through an opinion survey with the selected people from the related area such as employees and tax experts.

CHAPTER III

RESEARCH METHODOLOGY

The basic objective of this study is to evaluate the effectiveness of remuneration tax in Nepal. So suitable research methodology as demanded by the study has been followed. This study has mainly two aspects. They are descriptive and analytical. This chapter explains about the research design, sources of data, data collection procedure, methods of analysis of data and tools for analysis of data. Both primary and secondary sources of data were used in the study. Opinion survey technique was adopted while collecting primary data. Questionnaires were distributed to income tax experts and employees so as to know their opinion towards various aspects of employment income.

3.1 Research Design

As the remuneration tax system and structure is based on various rules, regulations and acts which are always setting an different countries own socio-economic restructures, descriptive research design is more suitable to analyze Nepalese remuneration tax structure for contribution of income tax, the study needs to analyze its past performance indifferent time period with respective indirect. So, historical as well as descriptive research design is used. Descriptive research includes surveys and fact-finding enquiry of different kinds. It is concerned with finding of facts relating to the subject matter, obtaining important data and getting new areas of knowledge by describing them. Descriptive research has been carried out in the study of income tax and employment income. Empirical investigation has been conducted in respect of income tax collection, employment income's contribution to income tax revenue, and effectiveness of income tax collection from employment income and other practical aspects of employment income.

3.2 Population and Sample Size

The targeted whole area relating to government revenue or national revenue is set for the research population. Income tax is taken as size. The population for primary data belonging to tax experts and employees of Nepal. 50 sample size has been selected from the different groups of respondents. The following table shows the group of respondents and sample size.

All the tax experts and employees in Nepal are considered as total population. Out of them, the experts and employees in the Kathmandu valley are considered as target population. The sample size of the respondents is presented in Table 3.1.

Table 3.1
Group of Respondents and Sample Size

S. N.	Respondents	Sample Size
1.	Tax Experts	25
2.	Employees	25
	Total	50

3.3 Sources of Data

Both primary and secondary data have been used in the study. The primary data needed were the opinions of experts and employees regarding employment tax. Needed primary data were obtained through questionnaire method followed in most cases face-to-face interviews/discussions with the selected persons included in the purposive sample.

The secondary sources of data were the statistics relating to tax published by Government of Nepal. They were obtained from Economic Surveys, bulletins etc. According to the nature of the study, the study requires primary as well as secondary data.

3.4 Data Collection Procedure

Various numerical data and information are collected as per the objective of the study and research questions. Firstly, laws, rules, regulation and policies related to income tax and corporate tax are studied to get more information about corporate income tax including book related to public finance. Secondly, different libraries such as chamber of commerce, FNCCI, and NRB are also consulted. Thirdly, the numerical data are collected from the publication of annual reports of IRD/N, economic bulletin of NRB and Economic Survey of MOF.

3.5 Data Processing Procedure

The collected data are classified tabulated and analyzed in descriptive and analytical way as per subject matter likewise, the required accounting principle, mathematical approaches and legal provision of ITA, 2058 are taken into consideration in data

analysis procedure.

3.6 Data Analysis Tools and Techniques

Various tools are applied while conduction of this study which are table, percentage, correlation and time series analysis.

Table: Various tables are formulated to tabulate the data. A matter table is also presented in the appendix.

Chart and diagram: These tools are used for visually description of the data, trend line, bar diagrams are used for the purpose.

The information received from primary and secondary sources were first tabulated into separate format systematically in order to achieve the desired objectives. The data were then tabulated into various tables according to the subject in order. Available data were presented and analyzed in descriptive way.

Weight of the choice:

The questionnaire asked for either to give yes/no response or to give their opinions. Respondents were also given alternatives to rank. In this case, the first preferred choice got the highest point and the last preferred choice got the lowest point. The total points got by each alternative were converted into percentage of total points available to the all alternatives. The alternative with the highest percentage has been ranked as most important and the alternative with the lowest percentage has been ranked as the least important. For example, if there are four alternatives, the most important ranked by the respondents gets four points and the least important alternative ranked by the respondents gets one point. The alternative, which is not ranked, does not get any points.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

This chapter is devoted to the presentation and analysis of the income tax structure and impacts of “Special Provision to manufacturing industries under ITA 2058”. To achieve the stated objectives of the study and also to make easier to understand the findings, qualitative as well as quantitative data and information have been analyzed. To meet the desired objective, this data presentation and analysis chapter deals with the presentation and analysis of data collected from the primary as well as secondary sources. Primary data collection has been conducted by the means of scheduled questionnaires and economic survey has been the main sources of secondary data. The response found from the respondents has been tabulated first and analysed according to objectives. Test of hypothesis, simple average and simple percentage method have been used as statistical tools to analyze the data.

4.1 Tax Structure of Nepal

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

4.1.1 Trend and composition of total revenue

The total revenue consists of tax revenue and non-tax revenue. The tax revenue can also be divided into two types as direct tax and indirect tax. First of all the revenue structure of Nepal on the basis of taken sample years is presented below with the help of Table 4.1.

Table 4.1
Revenue Structure of Nepal

(Rs. in millions)

Fiscal Year	Total Revenue	Tax Revenue		Non-Tax Revenue	
		Rs.	Percentage	Rs.	Percentage
2008/09	107546.1	85024.9	79.06	22521.2	20.94
2009/10	143474.5	117051.9	81.58	26422.6	18.42
2010/11	179946.0	154667.7	85.90	24278.3	14.10
2011/12	199818.8	171822.5	86.00	27995.9	14.00
2012/13	244372.9	211721.8	86.64	32651.1	13.36
2013/14	296021.1	259214.9	87.57	36806.2	12.43
2014/15	356620.8	312441.3	87.61	44179.5	12.39
2015/16	405866.4	355955.7	87.70	49910.7	12.30
2016/17	481961.6	421096.6	87.37	60865.0	12.63
2017/18	609179.9	553866.5	90.92	55313.4	9.08
2018/19	726717.5	659491.5	90.75	67226.0	9.25

Source: *Economic Survey, 2018/19, MoF*

Table 4.1 depicts that in every year the tax revenue has covered at least 79 percent of total revenue. The total revenue of the government in the 2008/09, the shares of tax revenue and non-tax revenue on total revenue are Rs. 85024.9 million and 22521.2 million respectively. Similarly, the contribution of tax revenue and non-tax revenue for the 2018/19 are Rs. 659491.5 million and Rs. 67226 million respectively. In percentage term, the contribution of tax revenue and non-tax revenue on total revenue for the 2018/19 are 90.75 percent and 9.25 percent respectively.

It shows that the contribution tax and non-tax revenue had increased to 87.57 percent and 12.43 percent respectively in the 2013/14. For 2015/16, their contributions were 87.70 percent and 12.30 percent respectively. The dominant role of tax revenue is thus, quite satisfactory as its amount had increased more significantly than the non-tax revenue over the period 2008/09 to 2018/19. The total revenue of 2017/18 was Rs. 609179.9 million, tax revenue is Rs. 553866.5 and non-tax revenue was Rs. 55313.4 million respectively. It shows the tax revenue played a vital role in total revenue structure of Nepal which is in increasing trend during ten years study period.

From the above analysis and the presentation of the data, it is clear that the revenue collection through both tax and non-tax sources are in the increasing trend. It is also clear that tax revenue has played major role for revenue collection in the context of Nepal.

4.1.2 Trends and composition of tax revenue

As it is the fact that the tax revenue is the major source of revenue collection of the government. The composition and the trend of tax revenue for the fiscal years 2008/09 to 2018/19 are presented in the Table 4.2.

Table 4.2
Tax Revenue Structure of Nepal

(Rs. in millions)

Fiscal Year	Total Tax Revenue	Direct Tax		Indirect Tax	
		Rs.	Percentage	Rs.	Percentage
2008/09	85024.9	22957.2	27.00	62067.7	73.0
2009/10	117051.9	34320.7	29.32	82731.2	70.68
2010/11	154667.7	40122.8	25.94	114544.9	74.06
2011/12	171822.5	47699.9	27.76	124122.6	72.24
2012/13	211721.8	56446.4	26.66	155275.4	73.34
2013/14	259214.9	71407.5	27.55	187807.4	72.45
2014/15	312441.3	84734.6	27.12	227706.7	72.88
2015/16	355955.7	98490.8	27.67	257464.9	72.33
2016/17	427011.0	121118.7	28.36	305892.3	71.64
2017/18	553866.5	172238.8	31.10	381627.7	68.90
2018/19	659491.5	184576.7	27.99	474914.8	72.01

Source: *Economic Survey, 2018/19, MoF*

Table 4.2 depicts that the percentage of indirect tax is greater than direct tax. In a good tax system both types of taxes must be complementary and not competitive. Direct tax is considered as superior from welfare aspect and however it is considered as a crucial instrument to remove inequalities of income and wealth. Though direct tax is more reliable, indirect taxes also enable every body to contribute to the public revenue. It needs proper balance between two in order to reduce disparity of income and wealth and for proper distribution of tax burden.

These amounts increased to Rs. 154667.7 million, Rs. 40122.8 million and Rs. 114544.9 million respectively in the 2010/11. In 2017/18, these amounts were Rs. 553866.5 million, Rs. 172238.8 million and Rs. 381627.7 million respectively. In 2018/19 the total tax revenue was Rs. 659491.5 million, in which direct tax revenue was 27.99 percent of total tax revenue and indirect tax revenue increased to 72.01 percent of total tax revenue.

In the Nepalese perspective, while the direct tax seems to be justified, the indirect tax is unavoidable. The direct tax is justified because it helps to mobilize revenue for the national exchequer and also assists to narrow the gap in the distribution of income and wealth between the richer and the poorer sections of the society, which is essential for development. However, under the existing circumstances, the direct tax cannot generate sufficient revenue to the national exchequer. It is only through the indirect tax that adequate revenue can be mobilized and the consumption of harmful commodities or the investment in the unproductive sectors of the economy can effectively be discouraged. Thus, though there is the need for Nepal government to rely upon the direct tax, which would have a more dominating role in the Nepalese economy, at least for mobilizing adequate resources for development.

Thus, as we got the fact that total revenue collection is mainly contributed by the tax revenue in the comparison of non-tax revenue and, the same manner and situation has been occurred in case of tax revenue structure in Nepal on the behalf of the contribution of indirect tax to direct tax.

4.1.3 Trend and composition of direct tax

In Nepal's tax structure, the main components of direct tax are income tax and land registration taxes. Table 4.3 depicted that in 2008/09, their contributions in total direct tax revenue were Rs. 25407.7 million and Rs. 2940.7 million respectively as shown in Table 4.3. The remaining part of the direct tax is covered by other direct taxes. During the 2008/09 period, the contributions in percentage term are 82.89 percent, 12.71 percent and 4.40 percent respectively.

Table 4.3
Composition of direct tax revenue

Rs. in million

Fiscal Year	Total Direct Tax	Income Tax		Land and Reg. Tax		Others Taxes	
		Amount	Percent	Amount	Percent	Amount	Percent
2008/09	22957.2	25407.7	82.89	2940.7	12.71	1007.2	4.40
2009/10	34320.7	25142.4	80.06	5223.3	15.29	1590.7	4.65
2010/11	40122.8	31285.6	83.86	5511.1	13.70	972.8	2.44
2011/12	47699.9	56428.0	87.37	3572.5	6.70	2819.9	5.93
2012/13	56446.4	51303.0	90.89	3588.4	6.36	1555.0	2.75
2013/14	71407.5	64186.7	89.98	5340.2	7.48	1880.6	2.63
2014/15	84734.6	75613.6	89.24	6671.1	7.87	2449.9	2.89
2015/16	98490.8	86165.6	87.49	9399.4	9.54	2925.8	2.97
2016/17	121118.7	105648.8	87.23	12044.1	9.94	3425.8	2.83
2017/18	172238.8	148983.0	86.50	18294.0	10.62	4961.8	2.88
2018/19	184576.7	159887.8	86.62	19332.3	10.47	5356.6	2.90

Source: *Economic Survey, Ministry of Finance, GoN, 2018/19*

The share of income tax was 82.89 percent in 2008/09 and decreased to 80.06 percent in 2009/10. But, this contribution decreased to 80.06 percent in 2009/10 and again increased to 89.98 percent in 2013/14.

The share of land and registration tax in direct tax in 2008/09 (12.71 percent) but decreased to 6.70 percent in 2011/12, and increased to 7.48 percent in 2013/14. The other tax includes tax on property, profit and income. It can be concluded that direct tax was increasing trend up to 2018/19. The composition of direct tax revenue in the 2016/17 is Rs. 121118.7 million, in 2017/18 was Rs. 172238.8 million and in 2018/19 was Rs. 184576.7 million. Among them in 2018/19 income tax was Rs. 159887.8 million, land & registration tax was Rs. 19332.3 and other taxes were Rs. 5356.6 million respectively. In the given structure of direct tax revenue, income tax is found major source of direct tax revenue which is mainly collected from revenue tax. Similarly, land and registration tax and other taxes have significant contribution on direct tax revenue.

4.1.4 Composition of income tax revenue

Income tax is an important source of direct tax. In the present situation, Nepal is levying three different types of income tax. They are corporate income, individual income and interest tax. Base of the individual income tax covers all individuals having income of taxable capacity.

Table 4.4
Composition of income tax revenue

Rs. in million

F/Y	Total Income Tax Revenue	Public Enterprises	Private Corporate Bodies	Individuals	Remuneration	Interest Tax
2007/08	15034.0	1019.7	5717.1	5234.4	2007.9	1054.9
2008/09	25407.7	204.6	7186.5	6381.2	2451.0	1087.9
2009/10	25142.4	959.1	9425.1	9877.5	3195.6	1685.1
2010/11	31285.6	1131.8	12234.4	11039.9	4413.1	2466.4
2011/12	56428.0	1281.8	13965.5	13627.4	5863.3	4130.5
2012/13	51303.0	30494.4	8515.8	12292.8	1555.0	1750.2
2013/14	64186.7	37067.2	11578.0	15541.5	1880.6	527.9
2014/15	75613.6	45423.0	10756.6	19434.0	2449.9	1655.5
2015/16	86165.6	52033.7	11574.1	22557.8	2925.8	1930
2016/17	105648.8	70969.0	14784.7	26899.1	3425.8	1176.8
2017/18	148983.0	92648.4	17343.1	34854.5	4136.9	1080.5
2018/19	159887.8	87596.8	25786.3	41406.9	5097.8	1250.4

Source: *Economic Survey, Ministry of Finance, GoN, 2018/19*

Table 4.4 examined that income tax introduced in Nepal as business profit and remuneration tax in 1959/60, it contributed Rs. 203 thousand as revenue. From Table 4.4, it is revealed that income tax revenue was increasing each year except 2009/10 and 2012/13.

Total income tax was Rs. 15034 million in 2008/09 and increased to Rs. 51303.0 million in 2012/13 again increased to Rs. 148983.0 million in 2017/18 and reached 159887.8 million in 2018/19. This was the total of income tax from public enterprises,

semi- Public enterprises, private corporate bodies, individual remuneration and tax or interest. Total amount contribution from public enterprises fluctuated from Rs. 1019.7 million to Rs. 87596.8 million in 2018/19. In 2009/10, contribution from public enterprises is the minimum i.e. Rs. 959.1 million. In 2011/12 it was increased by 1281.8 million than the previous year. But in 2016/17, it was drastically increased by 70969 million. It shows that contribution for unsatisfactory contribution of income tax are poor performance of public enterprises, weakness in government's economic policy, defective income tax etc.

Similarly, contribution from private corporate bodies was Rs. 5717.1 million in 2008/09 to Rs. 11578.0 million in 2013/14. It found that contribution from private corporate bodies was increasing each year except in 2012/13 and 2014/15. In 2014/15 its contribution to total income tax was Rs. 10756.6 million and increased to Rs. 14784.7 million in 2016/17. Likewise, contribution of individual tax to total income tax was highest in each year. Share of individual is 5234.4 million in the 2008/09 and increased to Rs. 41406.9 million in the last year of the study period 2018/19. In amount it is increasing each year. Tax revenue from remuneration is increasing each year. It was Rs. 2007.9 million in 2008/09 and reached to Rs. 2449.9 million in the 2014/15. Tax on interest was also in increasing trend but in 2009/10 it increased by 1685.1 million to Rs.1750.2 million in 2012/13. In 2018/19 total income tax revenue is Rs. 159887.8 million among them income from public enterprises was Rs. 87596.8 million, income from private corporate bodies was Rs. 25786.3, from individual Rs. 41406.9, from remuneration Rs. 5097.8 and from interest tax was Rs. 1250.4 million respectively. From the structure of income tax revenue, private corporate bodies and individuals are the major sources of income tax revenue in Nepal. Similarly, remuneration, public enterprises and interest tax have also significant contribution on income tax structure.

4.1.5 Contribution of income tax & personal income tax on GDP

The gross domestic product of the nation depends upon the income tax of the nation. If the governments can collect income tax revenue more the gross domestic product of the country will be high and vice-versa. The contribution of income tax and personal income tax on gross domestic product of the nation can be presented in the table 4.5:

Table 4.5
Contribution of income tax and personal income tax on GDP

(Rs. In Million)

Fiscal Year	Nominal GDP	Total Income Tax Revenue	Total Personal Income tax Revenue	Total IT Revenue as% of GDP	Total Personal IT Revenue as% of GDP
2008/09	755257	25407.7	6381.2	2.30	1.06
2009/10	909528	25142.4	9877.5	2.19	0.78
2010/11	1083420	31285.6	11039.9	2.23	0.76
2011/12	1248480	56428.0	13627.4	2.04	0.78
2012/13	1387480	51303.0	12292.8	2.05	0.77
2013/14	1525220	64186.7	15541.5	1.92	0.85
2014/15	1758740	75613.6	19434.0	2.47	0.94
2015/16	1889410	86165.6	22557.8	2.66	1.30
2016/17	2007280	105648.8	26899.1	3.19	0.59
2017/18	2339483	148983.0	34854.5	6.37	1.49
2018/19	2612102	159887.8	41406.9	6.12	1.59

Source: Budget Speech & Economic Survey of various years

Table 4.5 clearly shows that the total income tax revenue is increasing every year since the fiscal year 2008/09. In FY 2008/09 the total income tax revenue was collected Rs. 25407.7 millions and in FY 2018/19 this figure reached to Rs 159887.8 millions. The contribution of total income tax revenue on GDP has decreased up to 2013/14. However the share of income tax revenue has not changed much and always remained between 2.04 to 3.19 percent of GDP. There is significant role of income tax revenue to the GDP in 2017/18.

The share of personal income tax revenue on GDP in fiscal year 2008/09 was Rs. 6381.2 million which reached to Rs. 9877.5 million in the fiscal year 2009/10. The share of personal income tax revenue on GDP is between 0.76 percent and 1.59 percent. The contribution of personal income tax revenue to the GDP is fluctuating trend.

Thus, income tax is one of the main and prime sources of direct tax in Nepal. However its contribution to the total tax revenue is still lower than the developed countries. Hence there is a need to prove into it.

4.1.6 Contribution of the total income tax and personal income tax to total tax revenue

In the following table the percentage share of income tax and personal income tax in the total tax revenue is given. The share of income tax and personal income tax are increasing every year. The share of income tax has increased significantly in the eight years. In the composition of the total tax revenue the share of income tax revenue and personal income tax revenue was 23.93 and 9.65 percentages in fiscal year 2008/2009 and in fiscal year 2009/2010 this figure increased to 24.56 and 11.37 percent respectively. In the fiscal year 2008/2009 the share of income tax was 25407.7 million and the share of personal income tax was 6381.2 million. The following table clearly shows that about 50 percent of income tax is collected from personal incomes. The importance of the personal income tax is vital for collecting income tax revenue.

Table 4.6

Contribution of the total income tax and personal income tax to total tax revenue

(Rs. In Million)

Fiscal Year	Total Tax Revenue (TTR)	Income Tax Revenue (ITR)	Personal Income Tax Revenue (PITR)	Total ITR as% of TTR	Total PITR as % of TTR
2008/09	85024.9	25407.7	6381.2	23.93	9.65
2009/10	117051.9	25142.4	9877.5	24.56	11.37
2010/11	154667.7	31285.6	11039.9	24.07	8.55
2011/12	171822.5	56428.0	13627.4	25.12	8.63
2012/13	211721.8	51303.0	12292.8	21.20	8.15
2013/14	259214.9	64186.7	15541.5	20.83	7.82
2014/15	312441.3	75613.6	19434.0	20.52	9.11
2015/16	355955.7	86165.6	22557.8	23.51	8.97
2016/17	421096.6	105648.8	26899.1	23.65	11.59
2017/18	553866.5	148983.0	34854.5	26.90	6.29
2018/19	659491.5	159887.8	41406.9	24.24	6.28

Source: *Budget Speech & Economic Survey of various years*

In the individual income tax, the income tax from the individuals and income tax from the remuneration included. For the purpose of calculating income tax, the income tax from property, profit and the income is taken. So, income tax includes income tax from public enterprises, income tax from semi-public enterprises, income tax from private corporate bodies, income tax from remuneration, urban house and land rent tax, tax on interest and others taxes. From the table 4.6 it is clear that in the fiscal year 2017/2018 the contribution of the total income tax revenue and personal income tax revenue to the total revenue was 26.90 percent and 6.29 percent respectively. But in the fiscal year 2018/19 this ratio dropped to 24.24 percent and 6.28 percent respectively. It is concluded that about 24.24 percent of the total revenue comes from income tax revenue and about 6.28 percent of the total tax revenue collected from personal income tax revenue. The share of personal income tax revenue to total tax revenue is very higher in comparison with other tax revenues.

4.1.7 Components and composition of total income tax

Until 2050/51, income tax was classified under three heads; income tax, individual income tax and remuneration tax. After 2050/51, interest tax and house and land rent tax was added to the tax base. Corporate income tax is collected from government corporation, public/private limited companies and partnership firms. Personal income tax is collected from remuneration, business, profession and vocations. Interest tax is collected from bank or financial institutions and house and land rent tax is levied on income obtained from letting house and land. The component of income tax from fiscal year 2008/2009 to 2018/2019 is given below in the following table:

Table 4.7
Composition of income tax

(Rs. In Million)

Fiscal Year	Total Income Tax (TIT)	Corporate Tax (CT)	CT as % of TIT	Personal Income Tax (PIT)	PIT % as of TIT	House Land Rent & Interest Tax	HLRI as % of TIT	Income Tax from Remunerations (PIT)	ITRs of TIT
2008/09	25407.7	7186.5	55.7	6381.2	40.3	2940.7	5.9	2451.0	10.5
2009/10	25142.4	9425.1	50.8	9877.5	46.3	5223.3	4.9	3195.6	6.2
2010/11	31285.6	12234.4	33.6	11039.9	35.5	5511.1	4.9	4413.1	14.7
2011/12	56428.0	13965.5	24.2	13627.4	34.4	3572.5	8.4	5863.3	16.3
2012/13	51303.0	8515.8	35.1	12292.8	38.4	3588.4	7.2	1555.0	17.2
2013/14	64186.7	11578.0	33.7	15541.5	37.5	5340.2	6.7	1880.6	17.8
2014/15	75613.6	10756.6	30.5	19434.0	44.4	6671.1	6.6	2449.9	20.8
2015/16	86165.6	11574.1	40.3	22557.8	38.1	9399.4	6.3	2925.8	19.1
2016/17	105648.8	14784.7	36.7	26899.1	49.0	12044.1	5.4	3425.8	21.9
2017/18	148983.0	17343.1	11.64	34854.5	23.39	18294.0	12.28	4136.9	2.78
2018/19	159887.8	25786.3	16.13	41406.9	25.90	19332.3	12.09	5097.8	3.19

Source: *Budget Speech & Economic Survey of various years*

The contribution of personal income tax to the total income tax is in increasing trend. Its share on total income tax in fiscal year 2008/2009 was 6381.2 million, which increased to 9877.5 million in fiscal year 2009/2010. From the above table it is clear that about 40% of income tax is collected from personal income tax. Contribution of income tax from individual is more than the income tax from remuneration.

The house and land rent tax and interest tax is also contributing to the total income tax. The contribution of house and land tax and interest in fiscal year 2008/2009 was 2940.7 million and it increased to 19332.3 million in fiscal year 2018/2019. Likewise the remunerations tax is also contributing to the total income tax. The contribution of remunerations tax in fiscal year 2008/2009 was 2451 million and it increased to 5097.8 million in fiscal year 2018/2019. From above table we can conclude that the share of remunerations, house and land rent tax is in increasing trend.

From the table 4.7, it is clear that the share of corporate income tax on total income tax was 55.7 percent in fiscal year 2008/09 and this figure decreased to 50.8 percent in fiscal year 2009/10. Until fiscal year 2011/2012 the share of corporate income tax to total tax revenue was decreasing. The ratio in fiscal year 2012/2013 was reached to 35.1 percent and then the share of corporate income tax to total tax started to decrease up to 2014/15. From the above table we can conclude that the share of corporate tax to total income tax is decreasing.

Similarly the share of personal income tax on total income tax was 40.3 percent in fiscal year 2008/09 and this figure increased to 46.3 percent in fiscal year 2009/10. In the fiscal year 2016/2017 this figure reached to 49.0 percent and then it started to decrease gradually and finally it reached to 25.90 percent in fiscal year 2018/19. From the above table we can conclude that about thirty percent of income tax revenue is collected through personal income tax.

Similarly the contribution of the house and land rent and interest tax to total tax revenue is ranging between “four percent to nine” percent. The share of house and land rent tax and interest tax in fiscal year 2009/10 was 4.9 percent and this ratio reached to 12.28 percent in fiscal year 2017/18. Likewise contribution of the remunerations tax to total tax revenue is ranging between 21.9 percent in 2016/17 to 2.78 percent in 2017/18. From the above table we can conclude that the share of house and land rent and interest tax and remunerations tax to total tax revenue is very limited.

4.1.8 Direct and indirect tax revenue as percentage of GDP

The share of direct and indirect tax revenue as percentage of gross domestic product is presented in Table 4.8. In terms of GDP, the share of direct tax revenue increased from 2.81 percent in 2008/09 to 4.82 percent in 2015/16 whereas the share of indirect tax revenue increased from 7.72 percent in 2008/09 to 13.63 percent 2016/17. And the share of direct and indirect tax revenue in GDP were 7.07 percent and 18.18 percent respectively in 2018/19. However, this increment was not continuous. It was thus, the indirect tax through which larger percentage of revenue was transferred to Nepal government.

Table 4.8
Direct and indirect tax revenue as percentage of GDP

Rs. in million

Fiscal Year	GDP	Direct Tax	Indirect Tax	Percentage of GDP	
				Direct Tax	Indirect tax
2008/09	755257	22957.2	62067.7	2.81	7.72
2009/10	909528	34320.7	82731.2	3.04	8.22
2010/11	1083420	40122.8	114544.9	3.77	9.10
2011/12	1248480	47699.9	124122.6	3.70	10.57
2012/13	1387480	56446.4	155275.4	3.82	9.94
2013/14	1525220	71407.5	187807.4	4.07	11.19
2014/15	1758740	84734.6	227706.7	4.68	12.31
2015/16	1889410	98490.8	257464.9	4.82	12.95
2016/17	2007280	121118.7	305892.3	5.21	13.63
2017/18	2339483	172238.8	381627.7	7.36	16.31
2018/19	2612102	184576.7	474914.8	7.07	18.18

Source: *Economic Survey, Ministry of Finance, GoN, 2018/19*

The value of direct tax to GDP ratio and indirect tax to GDP ratio were 7.36 percent and 16.31 percent in 2017/18 respectively. From the data, it can be concluded that the indirect tax has higher contribution on GDP than direct tax and the contribution of both direct and indirect tax on GDP is found in increasing trend.

4.2 Empirical Investigation

An empirical investigation has been conducted from the experience of the real world in order to find out various aspects of employment income. The major tool used for this purpose is an opinion questionnaire, which was dispatched to 60 persons and responses were collected from 50 persons only. Among them, 25 were tax experts and 25 were employees.

The questionnaire was asked either for a yes/no response or asked for ranking of the choices according to the number of alternatives where the first choice was the most important and the last choice was the least important. Information received from all of responded was tabulated in to the separate table format and they were presented in percentage of total numbers or points and then analyzed in to a descriptive way. If the

number of alternatives was four, the first preferred choice would get highest (four) points and the last preferred choice would get lowest (one) point. Any alternative, which was not ranked, did not get any point. The choice with the highest percentage score was ranked as the most important choice and the one with the lowest percentage score was ranked as the last choice. The following table 4.9 shows the number of respondents of different types.

Table 4.9
Groups of the respondents

S.N.	Types of Respondents	Sample size
1.	Tax experts	25
2.	Employees	25
	Total	50

Source: *Opinion Survey, 2021*

4.2.1 Contribution of remuneration tax to income tax revenue of Nepal

In order to know whether remuneration tax is contributing the income tax revenue or not, a question was asked, "In your opinion, is remuneration tax contributing significantly to the income tax revenue of Nepal?" The question was intended to know the respondents' opinions towards the contribution of remuneration tax in the income tax revenue. The responses received from respondents are tabulated 4.10.

Table 4.10
Significant contribution of employment income to income tax revenue of Nepal

Response	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	25	50	0	0	25	50
Employees	25	50	0	0	25	50
Total	50	100			50	100

Source: *Opinion Survey, 2021*

The question was received from all respondents. 100% of total respondents accepted the contribution of remuneration tax significantly to the income tax revenue of Nepal. Thus the conclusion can be drawn that the remuneration tax is contributing significantly to the income tax revenue of Nepal.

4.2.2 Remuneration tax as a suitable means of collecting government revenue

To know the respondents' opinions about the remuneration tax as a suitable means of collecting government revenue, the question "In your opinion, is the remuneration tax is a suitable means of collecting public revenue?" was asked. The responses received from the respondents are tabulated as follows.

Table 4.11
Remuneration tax is a suitable means of collecting government revenue

Response	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax exports	20	40	5	10	25	50
Employees	15	30	10	20	25	50
Total	35	70	15	30	50	100

Source: *Opinion Survey, 2021*

From the table 4.11, it is clear that 70 percentage of the respondents approved remuneration tax as an important source of collecting government revenue and only 30 percentage of the respondents did not recognize remuneration tax as a suitable means of collecting government revenue.

Thus, the conclusion can be drawn out that remuneration tax is a suitable means of collecting government revenue.

4.2.3 Reasons behind suitable means of collecting public revenue

A supplementary question was asked, "If yes, why it is a suitable means of collecting public revenue?" The opinions of respondents are presented in the following table.

Table 4.12
Reasons behind suitable means of collecting public revenue

S.N.	Alternatives	Percentage	Rank
1.	It is transparent	27	2
2.	As compared to other taxes, there is less chance of tax evasion	30	1
3.	It is based on progressive tax	21	4
4.	Others	22	3
	Total	100	

Source: *Opinion Survey, 2021*

From the table 4.12 it is clear that most of the respondents responded that the main reason is "As compared to other taxes, there is less chance of tax evasion". Thus, we conclude that the reasons behind suitable means of collecting public revenue are ranked below in order of preference; As compared to other taxes, there is less chance of tax evasion, It is transparent, It is based on progressive Tax and Others.

4.2.4 Opinion about the current exemption limit

To know whether the current exemption limit is suitable or not, the question asked was "Is the current exemption limit is suitable?" The responses received from the respondents are tabulated as below.

Table 4.13

Opinions about the current exemption limit

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	5	10	20	40	25	50
Employees	8	16	17	34	25	50
Total	13	26	37	74	50	100

Source: *Opinion Survey, 2021*

From the table 4.13, 26% of the total respondents were satisfied in the current exemption limit. While 74% of total respondents were dissatisfied the current exemption limit. Thus, from the above result, we can conclude that current exemption limit is not suitable and it must be increased.

4.2.5 Suggestion for the exemption limit

A supplementary question was asked, "If not, how much amount would you suggest for the exemption limit? The opinions about for individuals and couples are shown below separately. The opinions of respondents about individuals are presented in the following table.

Table 4.14
Suggestion for the exemption limit

Respondents	Range of exemption limit					
	300000 to 350000		350000 to 400000		400000 to 500000	
	No	%	No.	%	No.	%
Tax experts	5	20	10	40	10	40
Employees	2	8	8	32	15	60

Source: *Opinion Survey, 2021*

From the table 4.14, 20% of the tax experts suggested that the exemption limit should be in the range between Rs. 300000 to 350000, 40% suggested between Rs. 350000 to Rs. 400000 and 40% suggested between Rs. 400000 to Rs. 500000. On the other hand, 8% of the employees suggested that the exemption limit should be in the range between Rs. 300000 to Rs. 350000, 32% suggested between Rs.350000 to Rs. 400000, 60% suggested between Rs. 400000 to Rs. 500000. Similarly, the opinions of respondents about couples are presented in the table 4.15.

Table 4.15
Suggestion for the exemption limit

Respondents	Range of exemption limit					
	300000 to 350000		350000 to 400000		400000 to 500000	
	No.	%	No.	%	No.	%
Tax experts	8	32	12	48	5	20
Employees	5	20	10	40	10	40

Source: *Opinion Survey, 2021*

From the table 4.15, 32% of the tax experts suggested that the exemption limit should be in the range between Rs. 300000 to Rs. 350000, 48% suggested between Rs.350000 to Rs. 400000, 20% suggested between Rs. 400000 to Rs. 500000. On the other hand, 20% of the employees suggested that the exemption limit should be in the range between Rs. 300000 to Rs. 350000, 40% suggested between Rs.350000 to Rs.400000, 40 % suggested between Rs.400000 to Rs.500000.

4.2.6 Opinion about exemption limit for senior and disabled citizens

To know whether the current exemption limit for senior and disabled citizens should be more than that of other citizens or not, the question asked was "Do you think that

the exemption limit for senior and disabled citizens should be more than that of other citizens?" The responses received from the respondents are tabulated as below.

Table 4.16

Opinions about exemption limit for senior and disabled citizens

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	10	20	15	30	25	50
Employees	13	26	12	24	25	50
Total	23	46	27	54	50	100

Source: *Opinion Survey, 2021*

From the table 4.16, 54% of the total respondents suggested that the exemption limit for senior and disabled citizens should not be necessarily more than that of other citizens. While 46% of total respondents suggested that the current exemption limit for senior and disabled citizens should be more than that of other citizens. Thus, from above result, we conclude that current exemption limit for the senior and disabled citizens should not necessarily be more than that of other citizen.

4.2.7 Soundness and effectiveness of remuneration tax system in Nepal

To know whether the remuneration tax system of Nepal is sound and efficient or not, the question asked was "Do you think that the remuneration tax system of Nepal is sound and efficient?"The responses received from the respondents are tabulated as below.

Table 4.17

Soundness and effectiveness of remuneration tax system in Nepal

Response	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	2	4	23	46	25	50
Employees	5	10	20	40	25	50
Total	7	14	43	86	50	100

Source: *Opinion Survey, 2021*

From the table 4.17, 86% of the total respondents said that the remuneration tax system of Nepal is not sound and efficient. While 14% of the total respondents agreed that the remuneration tax system of Nepal is sound and efficient. Thus, from the

above result, we can conclude that the remuneration tax system of Nepal is not sound and efficient. The remuneration tax system needs to be improved.

4.2.8 Major problem of soundness and effectiveness of remuneration tax system in Nepal

A supplementary question was asked, "If not, what are the major problems of remuneration tax system?" The opinions of respondents are presented in the following table.

Table 4.18

Major problems of soundness and effectiveness of remuneration tax system in Nepal

S.N.	Problems	Percentage	Rank
1.	Defective tax rate	17	5
2.	High burden for low income.	18	4
3.	Unfair & weak administration.	22	1
4.	No provision of deducting any expenditure.	19	3
5.	Complexity in income tax policy	21	2
6.	Other reasons	3	6
	Total	100	

Source: *Opinion Survey, 2021*

From the table 4.18, it is clear that the main problem of the remuneration tax system of Nepal is unfair & weak administration. The reasons behind the problems of soundness and effectiveness of remuneration tax system are ranked first as unfair and weak administration. Unfair tax system shows the tax system is not taxpayer friendly because of over burden of tax rate. Similarly, the tax system is also vague because of vague provisions in income tax laws. Tax payers don't know about the rapid change government policy, rule and regulation etc. are the main problem of the study. Similarly, complexity in income tax policy rules & regulation, no provision of deducting any expenditure, high burden of tax on low-level income holders, defective tax rate and other reasons are ranked simultaneously of major problems of tax. The respondents said that inappropriate exemption limit and unawareness of the public as other reasons.

4.2.10 Reasons behind low contribution of remuneration tax to Income tax revenue of Nepal

To know the reasons behind the low contribution of remuneration tax to income tax revenue of Nepal, the question asked was "In your opinion, what are the reasons behind low contribution of remuneration tax to income tax revenue of Nepal?" The responses received from the respondents are tabulated as below.

Table 4.19
Reasons behind low contribution of remuneration tax to income tax revenue of Nepal

S.N.	Alternatives	Percentage	Rank
1.	Low pay scale of the employees.	26	1
2.	Tax evasion.	21	3
3.	Less number of employees having tax liability.	14	5
4.	Ineffectiveness in the implementation of the act.	23	2
5.	Others.	16	4
	Total	100	

Source: *Opinion Survey, 2021*

From the table 4.19, it is clear that the main reason behind the low contribution of remuneration tax to Income tax revenue of Nepal is low pay scale of the employees. The other reasons of the low contribution of remuneration tax are ranked below in order of preference; Low pay scale of the employees, Ineffectiveness in the implementation of the act, Tax evasion, Others, and Less number of employees having tax liability.

In other reasons, most of the respondents said that the lack of proper reward and punishment system for the taxpayer, lack of rebate, concession, facilities to the taxpayers, incapability of the tax administration to find real taxpayers and increase in unemployment rate.

4.2.11 Factors to be initiated to increase the contribution of remuneration tax in Nepal

To know the factors that increase the contribution of remuneration tax to the income tax revenue of Nepal, the question was asked, "What factors should be initiated to increase the contribution of remuneration tax in Nepal?" The following table shows the rank wise responses received from the respondents.

Table 4.20
Factors to be initiated to increase the contribution of remuneration tax in Nepal

S.N.	Alternatives	Percentage	Rank
1.	Making tax deduction at source (TDS) effective.	22	1
2.	Bringing new taxpayers into tax net.	21	3
3.	Reduction in exemption limit.	16	4
4.	Increasing tax rates.	14	5
5.	Reform in the income tax policy, Rules and Regulation	21	2
6.	Other	6	6
	Total	100	

Source: *Opinion Survey, 2021*

From the table 4.20, it is clear that the main factor that should be initiated to increase the contribution of remuneration tax in Nepal is making tax deduction at source (TDS) effective. The other factors to be initiated to increase the contribution of remuneration tax in Nepal are ranked below in order of preference; Making tax deduction at source (TDS) effective, Bringing new taxpayers into tax net, Reduction in exemption limit, Increasing tax rates, Reform in the income tax policy, Rules and Regulation and Others.

In other factors the respondents said making self-assessment of tax easier and reliable, provide various facilities to the taxpayers employees and increasing pay scale of the employees.

4.2.12 Contribution of income tax from remuneration tax to the public revenue

In order to know whether the contribution of income tax from remuneration tax to the public revenue is effective & satisfactory or not, a question was asked, "Do you think that contribution of income tax from remuneration tax to the public revenue is effective & satisfactory?" The responses received from the respondents are tabulated below.

Table 4.21
Contribution of income tax from remuneration tax to the public revenue

Respondents	No		Yes		Total	
	No.	%	No.	%	No.	%
Tax Experts	22	44	3	6	25	50
Employees	20	40	5	10	25	50
Total	42	84	8	16	50	100

Source: *Opinion Survey, 2021*

From the table 4.21, it is clear that about 84% of the respondents responded that contribution of income tax from remuneration tax to the public revenue is not effective & satisfactory and only 16 % of the total respondents accepted that the contribution of income tax from remuneration tax to the public revenue is effective & satisfactory.

4.2.13 Provision for deduction of expenses from employment income

To know the views of respondents about the provision for deduction of expenses from employment income is suitable or not, a question was asked "Income Tax Act, 2058 has not made a provision of deduction for expenses while computing remuneration income. Is this provision suitable?" The responses received from the respondents are tabulated below. From the table 4.22, it is clear that about 62 % of the respondents responded that provision for deduction of expenses should be required and 38% the respondents responded that no any expenses should be required to deduction from remuneration income.

Table 4.22**Providing standard deduction for expenses from employment income**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	15	30	10	20	25	50
Employees	16	32	9	18	25	50
Total	31	62	19	38	50	100

Source: *Opinion Survey, 2021*

Thus, we can conclude that the provision for deduction of expenses is required while calculating remuneration income.

4.2.14 Opinion towards the provisions for deduction of expenses required from remuneration income

A supplementary question was asked to the respondents to find out their opinions towards the provisions for deduction of expenses required from remuneration income. The question was asked "If not, what types of deductions would you expect to be provided?" The responses received from the respondents are listed below.

Table 4.23

Opinion towards the provisions for deduction of expenses required from remuneration income

S.N.	Alternatives	Percentage	Rank
1.	Medical expenses incurred for the treatment of the employee.	19	1
2.	Education expenses and books and reading materials purchased for the job.	15	3
3.	Transportation expenses to go to office and back.	17	2
4.	House rent paid.	12	6
5.	Leave salary.	13	4
6.	Amount received from life insurance.	13	5
7	Other expenses as of previous Act.	11	7
	Total	100	

Source: *Opinion Survey, 2021*

From the table 4.23, it is clear that the main item for deduction is medical expenses incurred for the treatment of the employee. The different items of deductions suggested by respondents are ranked below in order of preference; Medical expenses incurred for the treatment of the employee, Transportation expenses to go to office and back., Education expenses and books and reading materials purchased for the job, Leave salary., Amount received from life insurance, House rent paid and Other expenses as of previous Act.

4.2.15 Opinions towards the income tax evasion in Nepal

To know the views of respondents about the opinions towards the income tax evasion in Nepal, a question was asked "Do you believe that income tax evasion is being practised in Nepal?" The responses received from the respondents are tabulated below.

Table 4.24

Opinions towards the Income tax evasion in Nepal

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	19	38	6	12	25	50
Employees	11	22	14	28	25	50
Total	30	60	20	40	50	100

Source: *Opinion Survey, 2021*

From the above table 4.24, it is clear that about 60 % of the respondent accepted the income tax evasion in Nepal. 40% the respondents responded that there was no practice of income tax evasion in Nepal. Thus, we can conclude that the income tax evasion is being practiced in Nepal.

4.2.16 Opinions towards the reasons to increases the tax paying habit of Nepalese people

In order to know the opinions towards the reasons to increases the tax paying habit of Nepalese people, the question was asked to the respondents, "How can we increase the tax paying habit of Nepalese people?"The responses received from the respondents are listed below.

Table 4.25
Opinions towards the reasons to increases the tax paying habit of
Nepalese people

S.N	Alternatives	Percentage	Rank
1.	Educating taxpayers	20	3
2.	Simplifying tax laws	25	1
3.	Fines and penalties	15	5
4.	Timely assessment of tax	17	4
5.	Incentives to regular taxpayers	23	2
	Total	100	

Source: *Opinion Survey, 2021*

From the table 4.25, it is clear that the main reason to increase the tax paying habit of Nepalese people is simplifying tax laws. The different reasons suggested by respondents are ranked below in order of preference. 25 percent respondents told simplifying tax laws. So it has rank 1, 23 percent respondents told incentives to regular taxpayers. So it has rank 2. Similarly 20 percent respondents told educating taxpayers. So it has rank 3. Likewise 17 percent and 15 percent respondents told timely assessment of tax & fines and penalties. So these are treated as rank 4 and rank 5 respectively

4.2.17 Opinions towards some taxable incomes to be made tax-exempted

To know the respondents' opinions towards tax exemption for admissible income, the question asked was "What types of income heads included in remuneration tax would you expect to be made tax-exempted?" The responses received from the respondents are tabulated below.

Table 4.26

Opinion towards some taxable incomes to be made tax-exempted

S.N.	Incomes	Percentage	Rank
1.	Remote area allowance.	21	3
2.	Dashain allowances.	19	4
3.	Pension income.	23	2
4.	Medical expenses paid by the employer.	24	1
5.	Others.	13	5
	Total	100	

Source: *Opinion Survey, 2021*

From the table 4.26, we find that the most important head of income to be made tax exempted is medical expenses paid by the employer. While ranking together the opinions of both the groups, the corresponding prioritized reasons for making some taxable incomes tax-exempted are as follows: Medical expenses paid by the employer, Pension income, Remote area allowance, Dashain allowances and others.

4.2.18 Opinions towards the tax on pension income

To know the view of respondents' opinions towards the tax on pension income received by retired employees, a question was asked, "Do you think that the tax on pension income should be levied?" The responses received from the respondents are tabulated below.

Table 4.27

Opinions towards the tax on pension income

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	15	30	10	20	25	50
Employees	0	0	25	50	25	50
Total	15	30	35	70	50	100

Source: *Opinion Survey, 2021*

From the table 4.27, it is clear that about 30 % of the respondents responded that the tax on pension income should be levied. 70% the respondents disagreed towards the imposition of tax on pension income. Out of which, 100% employees disagreed towards the imposition of tax on pension income. Thus, we can conclude that the tax on pension income should not be levied.

4.2.19 Problem faced by employees while paying remuneration tax

To know the respondents' opinions regarding the problems faced by employees while paying income tax, a question was asked to them. The question was "what types of problem that the employees faced while paying remuneration tax?" The responses received from the respondents are tabulated below.

Table 4.28**Opinions towards some taxable incomes to be made tax-exempted**

S.N.	Problems	Percentage	Rank
1.	Hesitation to pay income tax due to low income.	15	5
2.	Weak and immature treatment by tax administration.	15	4
3.	Procedural complications.	20	1
4.	Tax personnel discourage giving tax clearance certificate.	19	2
5.	Due to lack of taxation knowledge, employees do not know how to file returns.	18	3
6.	Others	13	6
	Total	100	

Source: *Opinion Survey, 2021*

From the table 4.28, we find that the most important problem faced by employees while paying remuneration tax is procedural complications. While ranking together the opinions of both the groups, the corresponding prioritized problems are as follows: Procedural complications, Tax personnel discourage giving tax clearance certificate, Due to lack of taxation knowledge, employees do not know how to file returns, Weak and immature treatment by tax administration, Hesitation to pay income tax due to low income and Others.

4.3 Major Findings

The major findings of this study are summarized as follows:

-) Income tax is one of the most important resources of the government revenue and it is considered as a good remedy to cure growing and serious resources gap problems of Nepal. Contribution of income tax for the economic development of Nepal is significantly increases in recent years as compared to past two decades but does not meant that it has the share in satisfactory level.
-) To remove such serious problems, government of Nepal has done through implementing ITA, 2058, in which, the Nepalese tax administration has been attempting to modify itself to meet the pressing challenges brought out by change in technology and economic policies. However, still its working

procedures are traditional and the cost of administration hasn't been brought to the satisfactory level.

- J Income Tax Act 2058 is blamed that the law is complicated and vague. Their needs the effort for simplification of the law that can be used in practical easily. If the tax law fails to be par with the international tax norms also, it will not be able to attract the foreign investment. The tax law should be coherence with the economic situation of the country.
- J The effectiveness of tax system depends on the existing management and leadership. A vigilant and transparent tax administration and capability of timely reviews in policy backsliding would be a pre-requisite for sustaining the gains in the revenue front. The realization of sincere and active support of officials involved and taxpayers affected should remain always in high priority in the tax administration.
- J Income tax system of Nepal does not play their role of reducing gap between the rich and poor. Opinion finds that there is not scientific tax system between low earning people and high earning people. 25.71 percent of respondents opinion that tax rate is high so, most of the earning has to be paid as tax. 71.43 percent of respondent's opinion that tax rate is medium but people purchasing power is very low so they cannot save money more in investment.
- J From the opinion, most of the people are not agreed with the efficiency of tax administration. It is found that there are various reasons for inefficiency of tax administration, like: lack of trained and competent staff, lack of prompt information system, unnecessary outside pressures through staff recruitment to tax assessments, lack of tax coordination within the tax personnel. Besides these causes some other causes also find where there is somehow lack of morality in the part of tax officials, corruption, political instability and visionless situation.
- J Some (11.43 percent) respondent replies that there are wide spread boundless power with tax officer. Lack of the tax education we find such types of replies from the respondent.
- J Difficulties and complexities of the Income Tax Act 2058, the 52.86 percent

respondent opinioned that they have difficult to understand the Act and they have many confusion regarding the new provision and procedure.

-) By insuring different improvements and changes, according to the most of respondents especially according to tax administrators the future prospects of tax administration in Nepal is medium and it will be sound and the effect of the tax in the nation's economic growth will have positive impact.

4.4 Discussion

In every year the tax revenue has covered at least 79 percent of total revenue. Similarly, the contribution of tax revenue and non-tax revenue for the 2018/19 are Rs. 659491.5 million and Rs. 67226 million respectively. In percentage term, the contribution of tax revenue and non-tax revenue on total revenue for the 2018/19 are 90.75 percent and 9.25 percent respectively. The dominant role of tax revenue is thus, quite satisfactory as its amount had increased more significantly than the non-tax revenue. Direct tax is considered as superior from welfare aspect and however it is considered as a crucial instrument to remove inequalities of income and wealth. In 2018/19 the total tax revenue was Rs. 659491.5 million, in which direct tax revenue was 27.99 percent of total tax revenue and indirect tax revenue increased to 72.01 percent of total tax revenue. Total income tax revenue was collected Rs. 25407.7 millions and in FY 2018/19 this figure reached to Rs 159887.8 millions. The share of income tax revenue has not changed much and always remained between 2.04 to 3.19 percent of GDP. In the fiscal year 2017/2018 the contribution of the total income tax revenue and personal income tax revenue to the total revenue was 26.90 percent and 6.29 percent respectively. But in the fiscal year 2018/19 this ratio dropped to 24.24 percent and 6.28 percent respectively. It is concluded that about 24.24 percent of the total revenue comes from income tax revenue and about 6.28 percent of the total tax revenue collected from personal income tax revenue.

The remuneration tax has 2% to 20% contribution on total income tax during ten fiscal years. Highest 22% opined unfair and weak administration is found as major problem of remuneration tax. Major facilities and benefits are: highest 24% preferred medical expenses, 23% preferred pension income then remote area allowance. Major facilities and benefits are: highest 24% preferred medical expenses, 23% preferred

pension income then remote area allowance. So, medical expenses paid by employer, dashain allowance, etc. should be tax exempted.

Most of the previous researchers have suggested improving the tax administration increasing the contribution of income tax in resource mobilization and widening the tax coverage. But they had not studied the remuneration tax. Hence, it is recommended to increase the contribution of remuneration tax in the public revenue, the focus should be given in the various tax incentive programs with the help of sound tax planning. The provision for deduction of expenses should be provided from employment income as of previous Income Tax Act, 2031.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Discussion

The Nepalese income tax system was introduced in 1959(2016) and recent amended in 2001 (2058). The elected government levied the first income tax and so specific act was made to define and to treat income tax. Since then four Income Tax Acts have been implemented. The present study entitled 'A Study on Effectiveness and Contribution of Remuneration Tax in Nepal' is related to the remuneration aspect of income taxation. In this study, contribution of remuneration income to public revenue has been analyzed and analysis of effectiveness of income tax revenue has been done and contribution of remuneration income to total tax revenue and income tax revenue of Nepal has been shown. This study has covered the role of income tax in Nepal, role of income tax from Remuneration income in public revenue of Nepal, comparative study on the role of income tax from remuneration income to total tax revenue and income tax revenue of Nepal.

A set of questionnaire was developed and 60 questionnaires were distributed to the respondents. Out of them, 50 responses were received- 25 each from both groups. Secondary analysis was done by presenting the relevant data into tables and figures consisting eleven-year period. The comparative analysis for different years was done in the analysis part of the study. Major findings of the secondary data analysis have been put at the end of the chapter. Data obtained from opinion survey with the respondents were tabulated and analyzed to achieve desired end result. Major findings of the primary data analysis have been put in the end of the chapter.

The study concluded that the revenue collection through both tax and non-tax sources are in the increasing trend. It is also clear that tax revenue has played major role for revenue collection in the context of Nepal. In the Nepalese perspective, while the direct tax seems to be justified, the indirect tax is unavoidable. The direct tax is justified because it helps to mobilize revenue for the national exchequer and also assists to narrow the gap in the distribution of income and wealth between the richer and the poorer sections of the society, which is essential for development. However, under the existing circumstances, the direct tax cannot generate sufficient revenue to

the national exchequer. It is only through the indirect tax that adequate revenue can be mobilized and the consumption of harmful commodities or the investment in the unproductive sectors of the economy can effectively be discouraged. Thus, though there is the need for Nepal government to rely upon the direct tax, which would have a more dominating role in the Nepalese economy, at least for mobilizing adequate resources for development.

The share of land and registration tax in direct tax in 2008/09 (12.71 percent) but decreased to 6.70 percent in 2011/12, and increased to 7.48 percent in 2013/14. The other tax includes tax on property, profit and income. It can be concluded that direct tax was increasing trend up to 2018/19. The composition of direct tax revenue in the 2016/17 is Rs. 121118.7 million, in 2017/18 was Rs. 172238.8 million and in 2018/19 was Rs. 184576.7 million. Among them in 2018/19 income tax was Rs. 159887.8 million, land & registration tax was Rs. 19332.3 and other taxes were Rs. 5356.6 million respectively.

Total income tax was Rs. 15034 million in 2008/09 and increased to Rs. 51303.0 million in 2012/13 again increased to Rs. 148983.0 million in 2017/18 and reached 159887.8 million in 2018/19. This was the total of income tax from public enterprises, semi- Public enterprises, private corporate bodies, individual remuneration and tax or interest. Total amount contribution from public enterprises fluctuated from Rs. 1019.7 million to Rs. 87596.8 million in 2018/19. In 2009/10, contribution from public enterprises is the minimum i.e. Rs. 959.1 million. In 2011/12 it was increased by 1281.8 million than the previous year. But in 2016/17, it was drastically increased by 70969 million. It shows that contribution for unsatisfactory contribution of income tax are poor performance of public enterprises, weakness in government's economic policy, defective income tax etc.

The share of personal income tax revenue on GDP in fiscal year 2008/09 was Rs. 6381.2 million which reached to Rs. 9877.5 million in the fiscal year 2009/10. The share of personal income tax revenue on GDP is between 0.76 percent and 1.59 percent. The contribution of personal income tax revenue to the GDP is fluctuating trend. Thus, income tax is one of the main and prime sources of direct tax in Nepal. However its contribution to the total tax revenue is still lower than the developed countries. Hence there is a need to prove into it. The study concluded that in the fiscal

year 2017/2018 the contribution of the total income tax revenue and personal income tax revenue to the total revenue was 26.90 percent and 6.29 percent respectively. But in the fiscal year 2018/19 this ratio dropped to 24.24 percent and 6.28 percent respectively. It is concluded that about 24.24 percent of the total revenue comes from income tax revenue and about 6.28 percent of the total tax revenue collected from personal income tax revenue. The share of personal income tax revenue to total tax revenue is very higher in comparison with other tax revenues.

Similarly the share of personal income tax on total income tax was 40.3 percent in fiscal year 2008/09 and this figure increased to 46.3 percent in fiscal year 2009/10. In the fiscal year 2016/2017 this figure reached to 49.0 percent and then it started to decrease gradually and finally it reached to 25.90 percent in fiscal year 2018/19. The study concluded that about thirty percent of income tax revenue is collected through personal income tax.

Taxation and economic development are two closely interrelated concepts since taxation has an important role in country for economic development. It is also an effective instrument to bridge up the gap between required revenue and expenditure. It enables to reduce the external dependence. However, the finding of the study reveals that level of taxation is very low in Nepal. Further, increasing fiscal deficit, insufficient revenue generation, substantial distortion in the economic incentive, inequality, and weak tax administration is the major problems of Nepalese tax system which are the result of poorly designed or improperly functioning of tax system.

The review of Nepalese tax reform and policy reveals that Nepal government focused on more restrictive and protective policies to meet the basic needs of the people including other various goals viz. revenue generation, maintaining equity, growth and stabilization of the economy before the restoration of democracy in 1990. However these policies have been replaced by a more liberal, open and market oriented policies based on the distinct feature of globalization, liberalization and privatization after the restoration of democracy in 1990. Now, the emphasis is given on broadening the tax base, rationalizing the rate structure, and improving the tax administration.

5.2 Conclusions

The study concluded that the contribution tax and non-tax revenue had increased to 87.57 percent and 12.43 percent respectively in the 2013/14. For 2015/16, their contributions were 87.70 percent and 12.30 percent respectively. The dominant role of tax revenue is thus, quite satisfactory as its amount had increased more significantly than the non-tax revenue over the period 2008/09 to 2018/19. The total revenue of 2017/18 was Rs. 609179.9 million, tax revenue is Rs. 553866.5 and non-tax revenue was Rs. 55313.4 million respectively.

Total income tax was Rs. 15034 million in 2008/09 and increased to Rs. 51303.0 million in 2012/13 again increased to Rs. 148983.0 million in 2017/18 and reached 159887.8 million in 2018/19. This was the total of income tax from public enterprises, semi- Public enterprises, private corporate bodies, individual remuneration and tax or interest. Total amount contribution from public enterprises fluctuated from Rs. 1019.7 million to Rs. 87596.8 million in 2018/19. In 2009/10, contribution from public enterprises is the minimum i.e. Rs. 959.1 million. In 2011/12 it was increased by 1281.8 million than the previous year. But in 2016/17, it was drastically increased by 70969 million. It shows that contribution for unsatisfactory contribution of income tax are poor performance of public enterprises, weakness in government's economic policy, defective income tax etc.

The share of personal income tax revenue on GDP in fiscal year 2008/09 was Rs. 6381.2 million which reached to Rs. 9877.5 million in the fiscal year 2009/10. The share of personal income tax revenue on GDP is between 0.76 percent and 1.59 percent. The contribution of personal income tax revenue to the GDP is fluctuating trend.

Thus, income tax is one of the main and prime sources of direct tax in Nepal. However its contribution to the total tax revenue is still lower than the developed countries. Hence there is a need to prove into it.

Similarly the contribution of the house and land rent and interest tax to total tax revenue is ranging between "four percent to nine" percent. The share of house and land rent tax and interest tax in fiscal year 2009/10 was 4.9 percent and this ratio reached to 12.28 percent in fiscal year 2017/18. Likewise contribution of the

remunerations tax to total tax revenue is ranging between 21.9 percent in 2016/17 to 2.78 percent in 2017/18. The study concluded that the share of house and land rent and interest tax and remunerations tax to total tax revenue is very limited.

From the opinion survey conducted towards the tax expert and employees, the conclusion can be drawn out that remuneration tax as a suitable means of collecting government revenue. The contribution of remuneration tax in total income tax revenue of Nepal has not been found satisfactory due to unfair & weak administration, complexity in income tax policy rules & regulation, no provision of educating any expenditure, it is high burden of tax on low level income earners.

The main factor that should be initiated to increase the contribution of remuneration tax in Nepal is making tax deduction at source (TDS) effective. The other factors should be initiated to increase the contribution of remuneration tax in Nepal are, reform in the income tax policy, rules and regulation, reduction in exemption limit and increase in tax rates. Medical expenses paid by employer, dashain allowance, etc. should be tax exempted. Current exemption limit should be increased and couple should get significantly higher tax exemption limit than individuals. From the study, 54% of the total respondents are suggested that the exemption limit for senior and disabled citizen should not be necessarily more than that of other citizen. While 46 % of total respondents suggested that the current exemption limit for senior and disabled citizen should be more than that of other citizen. Thus, from above result, we conclude that current exemption limit for the senior and disabled citizen should not be necessarily more than that of other citizen.

The expenditure of Nepalese government is increasing year by year due to expansion of routine as well as development activities and programs. Because of poor performance of internal resource collection and mobilization, the dependency in foreign loans and grants is always there. The dependency is increasing, which is not desirable for any economy.

Income tax is one of the most important resources of the government revenue and it is considered as a good remedy to cure growing and serious resources gap problems of Nepal. Contribution of income tax for the economic development of Nepal is significantly increases in recent years as compared to past nineteen years but does not meant that it has the share in satisfactory level. A large part of revenue is spent on

regular expenditure though there has been very little revenue surplus, i.e. revenues minus regular expenditure. Revenue surplus provides a small part of total development expenditure. The situation has become even more critical in recent years. Non-tax revenue cannot be used as an effective tool of revenue mobilization; attempts must be made to mobilize more tax revenue through the reform of the tax system.

To remove such serious problems, government of Nepal has done through implementing ITA, 2058, in which, the Nepalese tax administration has been attempting to modify itself to meet the pressing challenges brought out by change in technology and economic policies. Frequent changes in fiscal policies and programs show a never ending phenomenon of transitional period. It is difficult but not impossible to think over very seriously by concerned high authority and general people to bring tax administration system in the right direction and right shape in order to enhance the economic development of Nepal. The reform the policy needs a far sight clear cut and long term vision. If the problems relating to tax administration system in Nepal can be solved and resources are effectively utilized then only the prospects of tax administration will be bright and the economic development of Nepal will be achieved.

5.3 Implications

On the basis of above analysis, the following implications are offered regarding taxation of remuneration income.

-) Total tax revenue consists of direct tax revenue and indirect tax revenue. But there is high portion of indirect tax revenue as compared to direct tax revenue. So, to direct the economy in the path of development, it is necessary to increase the share of direct tax revenue. Because of the direct tax plays more significant role in the economic development of the country than indirect tax. Resource mobilization through direct taxation should be focused.
-) Out of total tax revenue, the contribution of income tax revenue is very low. So, to increase the contribution of income tax in the public revenue, the focus should be given in the various tax incentive programs with the help of sound tax planning.
-) Income tax from remuneration has very much insignificant contribution in total revenue of Nepal. So it should be increased. The contribution of

remuneration tax in income tax revenue has been increasing in the recent years as compared to previous years. The slabs should be adjusted in such a way that high earners should be made to pay higher income taxes.

-) The income Tax Act 2002 (2058) has no provision of deduction of any expenses while calculating remuneration income. So, the provision for deduction of expenses should be provided from employment income as of previous Income Tax Act, 2031. Medical expenses, expenses incurred to newspapers & magazines, transportation expenses to go to office and back, house rent paid by the employees, education expenses, etc. should be allowed for deduction at a fixed amount.
-) There are various types of problems that the employees faced while paying remuneration tax. So, the problems faced by employees should be minimized. Tax administrators should be made more responsible, Procedural simplification should be made, tax clearance certificate to be provided, taxation knowledge in the employees should be provided, refund of tax should be made with only delay, unclear and cumbersome provisions of the tax act and rules should be simplified and made understandable, and employees should be made such that they do not feel mentally pinched by paying income tax by giving them a sense of contributing to the nation.
-) Pension income should be taxed by giving enough exemption limits to the pensionholders because in the old age, pensionholders lack other sources of incomes. Additional 50% of the prevailing exemption limit should be provided to them so that the high-income pensioners should only be taxed.
-) The collection and tax assessment provision should be made clear and simple so those taxpayers would be encouraged to pay income tax.

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Appendix

Questionnaire

Dear sir/madam

First of all I would like to introduce myself as a student of Central Department of Management, is going to conduct a research on Contribution and Effectiveness of Remuneration Tax in Nepal. So I would like to request you to fill up this questionnaire. I also want to assure you that the information will be used only in academic purpose.

Krishna Adhikari

CDM, Kirtipur

Name: Sex: Male/Female Age:

Profession: Job:

Qualification:

Following statements are given for you, please tick the best option.

1. Significant contribution of employment income to income tax revenue.

Yes No

2. Remuneration tax is a suitable means of collecting government revenue.

Yes No

3. Reasons behind suitable means of collecting public revenue.

It is transparent

As compared to other

less chance of tax evasion

It is based on progressive tax

Others, specify.....

4. Satisfaction on current exemption limit:

Yes No

5. Suggestions for range of exemption limit:

300000 to 350000 350000 to 400000 400000 to 500000

6. Exemption limit for senior and disabled citizens should be less than for others.

Yes No

7. Soundness and effectiveness of remuneration tax system in Nepal.

Yes No

8. Major Problems of soundness and effectiveness of remuneration tax system in Nepal.

Defective Tax rate

It is high burden of tax on low-level income earners.

Unfair & weak administration.

No provision of deducting any expenditure.

Complexity in income tax policy rules & regulation.

Other reasons

9. Reasons behind low contribution of remuneration tax to income tax revenue of Nepal.

Low pay scale of the employees.

Tax evasion.

Less number of employees having tax liability.

Ineffectiveness in the implementation of the act.

Others.

10. Factors to be initiated to increase the contribution of remuneration tax in Nepal.

Making tax deduction at source (TDS) effective.

Bringing new taxpayers into tax net.

Reduction in exemption limit.

Increasing tax rates.

Reform in the income tax policy, Rules and Regulation

Other

11. Contribution of income tax from remuneration tax to the public revenue.

Yes

No

12. Provision for deduction of expenses from employment income. Is this provision suitable?

Yes

No

13. Opinion towards the provisions for deduction of expenses required from remuneration income.

Medical expenses incurred for the treatment of the employee.

Education expenses and books and reading materials purchased for the job.

Transportation expenses to go to office and back.

House rent paid.

Leave salary.

Amount received from life insurance

Other expenses as of previous Act.

14. Do you believe that income tax evasion is being practiced in Nepal?

Yes No

15. How can we increase the tax paying habit of Nepalese people?

Educating taxpayers

Simplifying tax laws

Fines and penalties

Timely assessment of tax

Incentives to regular taxpayers

16. What types of income heads included in remuneration tax would you expect to be made tax-exempted?

Remote area allowance.

Dashain allowances.

Pension income.

Medical expenses paid by the employer.

Others.

17. Do you think that the tax on pension income should be levied?

Yes No

18. What types of problem that the employees faced while paying remuneration tax?

Hesitation to pay income tax due to low income.

Weak and immature treatment by tax administration.

Procedural complications.

Tax personnel discourage giving tax clearance certificate.

Due to lack of taxation knowledge, employees do not know how to file returns.

Others

Thank you !