

ATTITUDE OF GOVERNMENT EMPLOYEES TOWARDS INCOME TAX ACT 2058

A Thesis

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RECOMMENDATION

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Entitled:

**Attitude of Government Employees Towards
Income Tax Act 2058**

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DECLARATION

I hereby declare that the thesis "**Attitude of Government Employees Towards Income Tax Act-2058**". Submitted to Research Department of Nepal Commerce Campus, Faculty of Management, Tribhuban University is my original work done for the partial fulfillment of requirements for the Master of Business Studies (M.B.S.) under the supervision of **Prof. Dr. Bihari Binod Pokharel** Associate Professor, Nepal Commerce Campus and Mr. Ganesh Bhattarai, Lecturer, of Nepal Commerce Campus.

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ABBREVIATIONS

BBS	:	Bachelor of Business Studies
BS	:	Bikram Sambat
CBS	:	Central Bureau of Statistics
CEDA	:	Central for Economic Development and Administration
DDC	:	District Development Committee
DG	:	Director General
FY	:	Fiscal Year
GDP	:	Gross Domestic Products
GOV/N	:	Government of Nepal
i.e.	:	That is
IRD	:	Inland Revenue Department
IRO	:	Inland Revenue Office
ITA	:	Income Tax Act
MBS	:	Master of Business Studies
MOF	:	Ministry of Finance
NG	:	Nepal Government
NRB	:	Nepal Rastrya Bank
Rs.	:	Rupees
T.U.	:	Tribhuvan University
TDS	:	Tax Deducted at Sources
USA	:	United States of America
VAT	:	Value Added Tax
VDC	:	Village Development Committee
VDIS	:	Voluntary Disclosure of Income Scheme
WTO	:	World Trade Organization

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Every state needs sufficient resources to handle day to day administration, to carryout development works, maintain peace and security, to lunch other public welfare activities and etc. The required resources can be collected from two major sources – debt and revenues. The debt can be taken from within the country as well as outside the country. The debt raised from within the country is called internal debt whereas debt raised from outside the country is known as external debt.

The revenue of the government comes basically from two sources non-tax revenue includes different sources like grants and gifts, administration incomes and business incomes. Grants and gifts mean the amount given by the people of the country itself voluntarily or one country to another country. Example of grants and gifts are grants of foreign government or agencies. Administration income denotes the amount charge by the government while providing administrative service to the people such as registration fees, fine and penalties. Business income means the return received by the government by providing various goods and services to the people such as return from postage, water, electricity and other utilities.

Another source of government revenue is tax revenue. It includes customs exercise; value added tax, corporate and personal incomes. There are two types of tax revenue-direct tax revenue and indirect revenue. Those taxes, which are based receipt of the income, are termed direct tax whereas those levied on expenditure termed indirect tax. Income tax, profit tax, and capital gains taxes are therefore direct. Customs duties, exercise taxes and stamp duties are indirect. A direct tax is assessed of levied directly on the ultimate taxpayer whereas an indirect tax is levied though some third party.

The objective of non –tax revenue is not to collect the revenue but to provide service to the people. The resources from non-tax revenue come automatically while performing the works. One-fifth of the revenue comes from non-tax revenue. The main objective of taxation is to collect revenue. The government passes tax acts for getting tax revenues and collects the taxes as per the act. The tax cannot be imposed without act of the parliament.

The government collects the revenues from different sources such as tax revenues from public enterprise, fees, fine, grants, assistance and etc. Among them taxes is the main source of government revenue. It occupies the most important place in the government treasury because of the importance of these sources in revenue mobilization.

Meaning of Taxation

Different people define taxation in different ways:

KC, (2007), in his book "Taxation in Nepal" defined Tax as a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred.

Adhikari, (2002), in his book "Modern Taxation in Nepal Theory and Practice" defined tax as a compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public goods and without reference to special benefit.

From the above definition, it can be conclude that:

- Tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of goods and services from the government. But all compulsory payments are not taxes. For example fine and fees also compulsory without having direct benefit to tax payer but they are con tax because of their objectives is not to collect revenue but to curb certain type of offences.

- Tax is paid government for running for it.
- Tax amount is spent for the common interest of the people.
- Tax is collected from haves and basically spent for the interest of have-nots in the society.
- A natural or artificial person pays the taxes.
- Tax is levied on persons as per the prevailing laws.

The Income Tax Act 2031 was in practice almost 3decade. Many defaults such as leakage of tax, feeling of people about tax as a penalty, lack of curiousness of people, inability of tax management to cover the new tax payer with in the tax portfolio, delay in the tax computation and collection, lack of accuracy and unity in the accounting system, inefficiency of tax administration, high cost of tax collection and etc. are found. Due to these reason the new Income Tax Act 2058 is announced and put into practice from the year 1st April, 2002.

The present study is designed to study the attitude of government employees towards Income Tax Act 2058(2002).The act was amended slightly by the finance ordinance every year. This thesis tries to study the attitude of government tax paying employees about the effectiveness of tax act, possibilities for betterment of the act, requirement for the improvement and etc.

1.2 Statement of the Problem

The government uses various measures to raise the revenue collection but there is substantial resource gap between expenditure and revenue. This is simply because government expenditure is continuously increasing rapidly. Regular expenditure is also growing. The mobilization of resources has not increased to the level and speed of our expenditure. Rising the government revenue helps to overcome from the serious bottleneck of resource gap in the process of economic development programmers by mobilizing additional resources from domestic sources.

Low level of income tax payment, tax evasion and etc. are being serious problem of Nepal due to inefficient tax policy and tax revenue administration. The tax act, other related rules, acts, regulations and tax rate are not stable. Although the government has granted income tax holidays, incentives, rebates, exemption, there is not significant effect in the tax collection. The tax paying government employee's attitude, views, suggestions may help to adopt the effective and improved tax system in Nepal.

All government employees are not aware about tax act. They have not depth knowledge about tax. Income tax act 2058 is vague, unclear and it is very difficult to understand for all government employees. Government employees are the policy maker and implementer of tax act. So, it is essential to analyze government employees attitude towards tax act.

1.3 Need/Significance of the Study

Income tax pays significant role for the economic development of each country whether it may be developing or developed. Income tax is importance for the economic betterment of the country. So its share is increasing in the overall structure of the world. But in the context of Nepal, there are various problems such as lack of appropriate tax policy, administrative bottlenecks of direct tax structure, existence of mass poverty and etc. so identify the problems and to overcome them to improve income taxation, study of the government employees for the improvement of income tax is essential for Nepal's economy. The Income Tax Act has been crossed 5 years. Income tax is based on modern concept and quite advance than the previous income tax 2031. Different facilities and provisions are available to make the act effective. The study is done to identify the major problem existing in the act, implementation problems, possibility of Income Tax Act improvement and attitude of taxpaying government employees towards Income Tax Act 2058. The study will be helpful to;

- Policy makers

- Tax administrators and government to control the tax evasion, avoidance and effective tax collection.
- Tax experts
- Economists
- University students
- Further researcher
- Teacher and other practioners such as layers, CA, Auditors and etc.
- NGO and INGO
- Other interested in income tax.

1.4 Objective of the Study

The main objective of the study is to analyze the attitude of taxpaying government employees towards Income Tax Act 2058 and to provide appropriate suggestions to improve the tax system of Nepal that help to the government to collect the more revenue for the economic development of the country. Other objectives of the study are as follows;

1. To study and analyze the income tax structure of Nepal.
2. To identity whether the income tax system of Nepal is sound or effective or not.
3. To analyze government employees attitude towards tax act.
4. To identify the major existing problems in the current Income Tax Act 2058.
5. To provide necessary suggestions for the improvement of the income tax system of Nepal.

1.6 Limitation of the Study

There are many limitation of the study. The study has been conducted to fulfill the requirement of MBS programme of T.U, not for general purpose. The study is done in Kathmandu valley in a short period. The respondents used for the study are limited. The main limitations are;

- a) The study is only concern with the taxpaying government employees towards Income Tax Act 2058.
- b) Data used in this study are primary and secondary. But primary data are only collected from Kathmandu valley.
- c) The study covers only 15 years data period from fiscal year 1993/94 to 2007/08.
- d) The study is based on primary data. The result depends upon the answer given by respondent in primary data.
- e) The study may not represent the whole country.
- f) The result of the study depends upon the reliability of primary as well as secondary data.

1.7 Organization of the Study

This study has been divided into following five chapters.

Chapter-I. Introduction: The first chapter consists of background of the study, statement of the problem, need and significance of the study, objective of the study, limitation of the study, and organization of the study.

Chapter-II. Review of Literature: This chapter deals the available related researches in the field of the study. This chapter is divided into two parts. First parts deals the review of Income Tax Act development of Income Tax Act application of Income Tax Act different provision of income tax and etc. second part of the review of literature is to review about books, reports, thesis, articles and related publications of the study.

Chapter-III. Research Methodology: This chapter is related to the methodology applied in the research work. It includes research design, nature and source of data, population and sampling, processing and procedure for collection of data and tools used for the analysis of the data.

Chapter-IV. Presentation and Analysis: The data collected from various sources are to be separate into two types-primary and secondary. The collected primary as well as secondary data are to be tabulated separately and in sequential order. The data have described, analyzed and projected with using different statistical tools, general accounting and taxation principle.

Chapter-V. Summary conclusions and Recommendations: This chapter consists of summary, conclusions and recommendations of the study. Possible suggestions regarding solving the problems of the tax act and for improve the tax system of Nepal, are given in this chapter.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Introduction

There are many books magazines and dissertation related to the field of the taxation. This chapter focuses on the review of available literature in the field of taxation that have done by the researcher, tax administrator, learners.

2.2 Review of Income Tax Act 2058

The introduction of income tax system was brought only in the first budget in 2008 B.S. However, it was actually introduce only in 2017 BS when the Finance Act, 2016 and business profit and Remuneration Act, 2017 were enacted. At the beginning, equivalent tax rate with progressing and exemption limit were prescribed by the Finance Act of 2017 and after wards to all companies, private firms, individuals and families. The marginal rate of taxation prescribed by these act 25 percent. Since the income tax was imposed only on business profit and remuneration; the tax act could not cover all the sources of income and so was replaced by the Income Tax Act 2019. Income Tax Act 2019 with 29 sections divided the heads of income to 9 parts covering business, profession and occupation, remuneration, house and land rent, cash or kind investment, agriculture, insurance, business, agency business and other sources. The act was amended in 2029 extensively. However, considering this incapable of fulfilling the need of the time, it was replaced in 2031 by another act. The act having 66 section, classified the source of income into 5, namely-(1)

Agriculture, (2) Industry, business, profession or vocation (3) Remuneration (4) House and land rent and (5) other sources. Income Tax Act 2031 was revised for 8 times in 1977, 1979, 1980, 1984, 1985, 1986, 1989 and 1992. Since 19th Chaitra, 2058, INCOME TAX ACT 2058 has been introduced in Nepal. The act was brought in Nepal to avoid the following defects of Income Tax Act 2031:

- a) Narrow base of tax.
- b) Taxing only the income organized in Nepal.
- c) Dispersion of tax related acts; i.e. income tax related provisions were given in different acts.
- d) Low penalty rate of tax evader.
- e) Incompatible to self- assessment system and
- f) Unsuitable to modern economy.

The new Income Tax Act has 143 sections. Income tax rules, 2059 is also implemented under the provision of this act. The new act has many new provisions in comparisons to income tax 2031. Income tax rules 2059 was formed by government of Nepal to clarify some provisions of the act. Finance ordinances have been making slight amendments in the act every year.

2.2.1 Provisions under Income Tax Act 2058

2.2.1.1 Definition of related terms under Income Tax Act 2056

1. Income (section 2 Ja)

Income means a “person’s income from any employment, business or investment and the total of that income as calculated in accordance with this act “. It includes all shorts of income received for the provision of labour or capital or both of whether from or nature in the taxable income.

2. Income year (section 2 Jha)

Income year means period from the start of Shrawan of a year to the end of Ashad of the following year. Income Tax Act 2058 has regarded Nepalese fiscal year as an income year.

3. Company (section 2 Da)

Company means a company established under the company laws for the time being in force. Besides, the following institutions are also treated as company for tax purpose.

- a. Corporate body established under the laws for the time being in force.
- b. Any unincorporated association, committee, institution, society or group of persons other than a partnership or a proprietorship firm (whether or not registered) or a trust.
- c. A partnership firm (whether or not registered under the laws for the time being in force) that has 20 or more partners, a retirement fund, a co-operative, a unit trust, or a joint venture.
- d. Foreign company; and
- e. Any foreign institution prescribed by the director-general.

4. Individual (section 2 wa)

Individual means a natural person and a proprietorship firm whether registered or unregistered owned by the person under section 50.

5. Entity (section 2 Bha)

Entity means the following institutions or organizations:

- a. A partnership, trust, or company.
- b. A V.D.C, municipality or D.D.C
- c. Nepal government
- d. A foreign government or a political sub- division of the foreign government or a public international organization established under treaty; and
- e. A permanent establishment of an individual or an entity that is not situated in the country in which the individual of entity is resident.

6. Resident person (section 2 Ka Nga)

Resident person with respect to an income year means –

- a. In the case of an individual, an individual-
 - Whose normal place of abode is in Nepal?
 - Who is present in Nepal for 183 days or more in any period of 365 consecutive days; or
 - Who is an employee or an official of Nepal government posted abroad at any time during the income year.
- b. Any partnership
- c. In the case of trust, a trust that:
 - Is established in Nepal
 - Has trustee that is a resident person for the income year; or
 - Is controlled directly or through one or more interpose entities by a person for the income year.
- d. In case of a company, a company that:
 - Is incorporated or formed under the law of Nepal: or
 - Has its effective management in Nepal during the income year.
- e. A V.D.C, municipality or D.D.C
- f. In case of a foreign government or a political sub division of the foreign government, such an entity:
 - If it is established under the laws of Nepal; or
 - Has its effective management in Nepal during the income year.
- g. Any institution or entity established under treaty; and
- h. A foreign permanent establishment of a non- resident person situated in Nepal. A person who is not a resident person is considered as a non- resident.

7. Partnership (section 2 Ka pa)

Partnership means a firm (whether or not registered) that has fewer than 20 partners.

However, the term does not include a proprietorship firm (whether or not registered) or a joint venture.

8. Exempt organization (section 2 Dha)

Exempt organization means the following entities.

- a. following entities registered with Inland revenue department as tax exempt entity:
 - A social, religious, educational, or charitable organization of public character registered without having a profit motive.
 - A amateur sporting association formed for the purpose of promoting social or sporting amenities not involving acquisition of gain.
- b. A political party registered with election commission.
- c. A V.D.C municipality or D.D.C
- d. Nepal Rastra Bank
- e. Nepal government.

However, any benefit acquired by any person out of the assets of and amount driven by the entity except in pursuit of the entity's functions or as payment for assets or services rendered to the entity by the person is not exempt for tax.

9. Retirement fund (section 2 Gha)

Retirement fund means any entity established and maintained solely for the purpose of accepting and investing retirement fund contributions in order to provide retirement fund payment to individuals who are beneficiaries of the entity of a dependent of such an individual.

10. Retirement payment (section 2 Nga)

Retirement payment means a payment to:

- An individual in the event of the individual's retirement, or
- A dependent of an individual in the event of the individual's death.

11. Retirement contribution (section 2cha)

Retirement contribution means a payment made to a retirement fund for the provision or future provision of retirement payment.

12. Business (section 2 Ka Ja)

Business means an industry, a trade, a profession, or the like isolated transaction with a business character and includes a past, present, or prospective business. However, the term does not include employment.

13. Investment (section 2 Ka Kha)

Investment means an act of possessing or investing one or more assets. But the term excludes act of holding assets for personal use by the person owning the assets and employment and business. However, the act of holding non-business chargeable assess is considered as investment.

14. Employment (section 2 Jha)

Employment includes a past, present, or prospective employment. It is the return for the provision of labour.

15. Assets (section 2 Ka Dha)

An asset means tangible or intangible assets. It includes currency, goodwill, know-how property, and an owner's interest or ownership in foreign branch, a right to receive income whether present or future and part of such assets.

16. Tax (section 2 Dha)

Tax means income tax imposed under this act and includes following payments:

- Expenses incurred in the process of creating charge and performing auction of the property of tax creditor by the department.
- Amount payable by a withholding agent or with holdee or amount payable by an installment payer and an assessment.
- Amount payable to the department in respect of a tax liability of a third party.
- Amount payable by way of interest and penalties.
- Amount payable by way of fine in order of the department.

17. Trading stock (section 2 Ka Yna)

Trading stock means assets owned by a person that are intended to be sold in the ordinary course of a business conducted by a person, work-in –progress on such assets, and inventories of materials to be incorporated into such assets. However, the term does not include foreign currency assets. Motor cars of an automobile dealer are trading stock, for example.

18. Business Assets (section 2Ka Ta)

Business assets mean an assets to the extent to which it is used in a business. However, it includes trading stock and depreciable assets of business. A piece of land used in business is an example of a business asset.

19. Non –business chargeable assets (section 2 Da)

Non- business chargeable assets means securities or an interest in an entity as well as land and building. However, it excludes the following assets.

- Business assets, depreciable assets or trading stock.
- A private residential house of an individual that has been owned continuously for at least three years and resided for a total period of at least three years either continuously or intermittently.
- Interest in a retirement fund of a beneficiary.
- A private residential house and land of an individual that is disposed in less than one crore rupees; or
- Non- business assets of an individual that is disposed of by way of any type purchase made with in three generations.

20. Depreciable assets (section 12 Ka Ra)

Depreciable assets means an assets to the extent to which it is used in the production of income from a business or investment and that is likely to lose value because of wear and tear, obsolescence, or the passing of time. However, the term does not include trading stock.

21. Associated persons (section 2 Ka Na)

Associated person means two or more persons where one may reasonably be expected to act in accordance with the intentions of the other. It includes:

- An individual and relative of the individual or an individual and an partner of the individual.
- A foreign permanent establishment and its owner and
- An entity and a person who, either alone or together with an associate or associates control's or may benefit from so percent or more of the rights to income, capital , or voting power of the entity, as the case required , either directly or though one or more interposed entities or a person who is an associated of such person. However, the term does not include employee and persons prescribed by the department as not being associated persons.

22. Long term contract (section 2 Pha)

Long term contract means such contract, the term of which exceeds 12 months.

2.2.1.2 Income Heads

For tax assessment, Income Tax Act 2058 (section 5) has classified the heads of income into three main groups.

- a. Income from business
- b. Income from Employment; and
- c. Income from Investment

Income from business

If any natural person or corporate body earns income by running any business, industry or trade within an income year. Such income included while computing taxable income from business. Section 7(2) of Income Tax Act 2058 specifies certain income included on forming income from business. Each income that is a part of income from business is specified and so there is no chance for assumption of any other income, which is not specified in the section, to be included in income from business. Such incomes of business i.e. taxable income are given un the Section 7

1. Service fee
2. Amount derived from the disposal of trading stock.
3. Net gain from the disposal of business assets/liabilities.
4. Gain on sale of depreciable assets used in business.
5. Gift received from parties in respect of business.
6. Compensation received in restriction of business.
7. Amount received by any investment that is directly related to business.
8. Amount required being included due to change in accounting system.
9. Gain due to change in exchange rate.
10. Bad debt recovered.
11. Under payment of interest of loan.

12. Compensation received against loss of profit/stock.
13. Any benefit or perquisites.
14. Amount received after the cessation of a business.
15. Amount derived according to the percentage of contract completed during the year under long-term contract.
16. Deducted expenditure which is not so expended.
17. Other incomes required to be included, e.g. Misc. incomes, sundry incomes, discount, commission.

Income from Employment

Income received by an employee in the form of salary, allowances, any facilities and benefit etc. are included under this head. Similarly, any expenses born by employer in respect of employee are also included as the source of income from employment from such accumulated income life insurance premium, donation to recognized provident fund, up to 7 percent of insured sum or Rs. 10000 annually, 5 percent of net income and 10 percent of gross salary respectively are admissible expenses. From such amount exemption limit is deductible according to the marital status of a person to compute taxable income. In this taxable income , tax rate is charged @15 percent for the first Rs. 85000 and rest charged @25 percent to compute total tax liability. Following are the sources of income from employment as per section 8,24, 25, 27, 29, 30, and 31 of ITA.

1. Salary and wages.
2. Paid leave.
3. Income received from overtime work.
4. Commission and charge earned.
5. Gift and reward received in connection of employment.
6. Bonus income.
7. Payment made for facilities enjoyed by employee but paid by employer.
8. Rent expended born by employer.
9. Entertainment and transportation expenses born by employer.

10. Expenses paid by employer in respect of employee or his /her relatives.
11. Income earned by employee in respect of accepting any contract between employer and employee.
12. Any payment made by employer to employee in respect of employment.

Income from Investment

Investment income includes income earned by any person or entity in the form of dividend, interest, rent, royalty, income from natural resources, income received from registered retirement fund, income from insurance investment, gift and any other non-business taxable income.(Section-9)

1. Dividends (except from resident company)
2. Interest
3. Rent
4. Natural resource payment
5. Royalty
6. Gain from disposal of depreciable assets (used in investment)
7. Gift in respect of investment
8. Amount derived as consideration of accepting any restriction regarding investment
9. Income to be included due to change in accounting method
10. Exchange gain
11. Bad debt recovered
12. Underpayment of interest than standard
13. Amount received from compensation
14. Amount paid to third person instead of actual payee (investor)
15. Others

Note: Above incomes are except final withholding payment.

2.2.1.3 FEATURE OF INCOME TAX ACT 2058

Tax system is sub- system of total economy. Tax policy is changed with the change in the economic policy of the country. Change in the world economic policy and advancement in information technology has a vast impact on

Nepalese economy too. Small economies like Nepal have to adopt the economic policy followed by World Bank, International monetary fund, Asian development Bank and other international agencies. Especially, after 1990s there is re-emergence of liberalization, globalization and privation system that focus on the minimum intervention of the state on private economic matters. The 1950s concept of high incentive, high tax rate is changed to the concept of, low rate, wide net”.

This trend in tax system is followed by most of the countries of the world. Nepal also is not exception in this respect. Nepalese administrators and policy makers too have tried to change the tax policy of the country. Income Tax Act 2058 is the result of the change in all these matters. The following are the features of the Income Tax Act 2058.

1. **All tax related matters within the one act:** Before the introduction of Income Tax Act 2058, there were almost one and half dozen acts related to income taxation. They all used to give the tax related laws governing the income taxation, even tax experts were in confusion while dealing with certain problems related to the tax laws. To avoid this confusing situation, income tax has abolished all tax-related provisions given in other acts and confined all income tax related matters within one act. Section 142 of the new Income Tax Act has to be governed by this act.
2. **Specification of tax rates:** Earlier, the tax act was only the procedural law that did not deal with tax rates applicable to different sources of income. Finance act of each year used to deal with the tax rates. However, the new act has embraced the tax rate applicable to all the three sources of income.
3. **Abolition of various tax related concessions, rebates and exemptions:** one of the main reasons of being the Nepalese tax system ineffective was the tax concessions, rebate and exemption provided by the different tax laws in the past.

Most of the facilities provided by the government in the past to tax payers whether corporate body or an individual, were used for tax evasion . Right now, the Nepalese tax base is very small because the facilities provided by the government in the past introduced a psychology of not paying the tax. The new Income Tax Act has abolished most of the facilities given by the earlier acts and introduced a fair system of taxation. It has tried to level the paying field.

4. **Specification of stock valuation methods:** Income Tax Act 2031 was silent the method of stock valuation used for taxation purpose. Under this act, there was only the provision that once one method of stock valuation is adopted, is should not be changed without the approval of the concerned authority. However, Income Tax Act 2058 has made a provision of valuing of goods for tax purpose.

5. **Simplification of depreciation related provisions:** Income Tax Act 2058 has complicated provisions related to depreciation. The assets categorized for depreciation purpose were around 3 dozens. Different rates were allocated to different types of assets. The result was the confusion relating to the rate of depreciation. There was also the chance of manipulation of depreciation rates due to this confusing state. Accordingly, previous tax act had given alternatives to industries to select one depreciation method from among two- straight line and diminishing balance. However, the rate allowed for both the method was not equivalent. The rate allowed for diminishing balance method was more attractive than the rates allowed for straight line method. That means, diminishing balance method of depreciation was more attractive than the straight line method of depreciation. To avoid this chaotic situation, new tax act has tried to minimize the rooms to pay. It has specified diminishing balance method based on pool system with 5 categories of assets as the system of depreciation to be used by business communities.

6. **Taxing capital gains and dividends:** Income Tax Act 2031 had not the provision of taxing capital gains and dividends. In the past, certain efforts were made to tax these incomes but due to different problems they were not successful. Income Tax Act 2058 in contrast has made provision in the respect . It has only made legal provisions of taxing there items but also rates of taxes for dividend is laid as 10% for natural person whereas capital gain of the business is taxed as ordinary income.
7. **Generous loss set-off and carry forward provision:** Income Tax Act 2031 had made the provision of setting off and carry forwarding of business losses only for three years from the same sources of income. That means, it had only the intrahead adjustment for one year and intra-head income for four year to ordinary forms of business. For financial sector and long term contract, the provision is more liberal providing the facility of recovering the loss from previous five years profit also.
8. **Provision of international taxation:** Modern world is more advanced and complicated from that of 2031. At that time, the economy of most of the countries of the world was of closed type. But now the economy of most of the countries in the world is open one. Due to closed economy concept, international taxation was not felt necessary and hence there was not such tax provision in Income Tax Act 2031. But now this concept is introduced in the tax law. The provisions introduced in the tax law related to international taxation are transfer pricing, foreign tax credit, double taxation avoidance agreement etc.
9. **Stringent fine and penalty provisions:** The fine and penalty for the defaulters in old tax act were not so severe as they are in new tax act. For example, the Income Tax Act 2031 had the provision of fine of Rs. 5000 to the tax paper who does not maintain the account and a fine of Rs. 500 only who does not deposit the amount of the tax deducted at

source in stipulated time. Income Tax Act 2058 has made the provision of fine and penalty more stringent. It has made even the provision of prison up to 3 years.

10. **No submission of income statement by a person who does not have taxable income:** This act has made a provision of relaxing the submission of income statement by a person who does not have taxable income of who has the income from remuneration only. (Kandel, 2004:19-22)

2.2.1.4. Tax Exempted- Amount

An amount of income allowed by law as tax free is the tax exempt amount of income. Exempt amount is not included in total income while calculating the net income of the person. The expenditure related to such income is also not deducted while calculating the assessable income of a person. Accordingly, no amount is deducted at source while making the payment of such amount.

The following amount is exempt from tax as per section 10:

- a. Amount driven by a person entitled to privileges under a bilateral or a multilateral treaty concluded between Nepal government and a foreign country or an international organization.
- b. Amount derived by an individual from employment in the public service of the government of a foreign country provided that:
 - o The individual is a resident person solely by reason of performing the employment or is a non- resident persons; and
 - o The amount are payable from the public fund of the country.
- c. Amount drive from public fund of the foreign country by an individual who is not a citizen of Nepal or by a member of the immediate family of the individual.
- d. Amount derived by an individual who is not citizen of Nepal from employment by Nepal government as terms of a tax exemption.

- e. Allowances paid by Nepal government to widows, elder citizen or disable individuals.
- f. Amount derived by way of gift, bequest, inheritance, or scholarship except as required to be included in calculating income from business, employment or investment.
- g. Amount derived by an exempt organization by way of.
 - o Gifts(donation) or
 - o Other contribution that directly related to the exempt organization's functions whether of not the contribution is made in return for consideration provided by the organization For example, subscription fee received by a club is exempt from tax.
 - o Amount derived by Nepal Rastra Bank as per its objectives.
- h. Pension received by a Nepali citizen retired from the army or police service of a foreign country provide the amount are payable from the public fund of that country.

2.2.1.5. Business Exemptions and Concessions:

ITA, 2058 has provided business exemptions and concessions in section 11.

1. Any agriculture income derived from sources in Nepal by a person other than the following is exempt from tax.
 - Income from an agriculture business derived by a registered firm company, partnership or corporate body.
 - Income through the land above the holding ceiling as prescribed in section 12 of land act 2021.
2. Income derived by cooperative societies registered under co-operative act, 2028 from business mainly based on agriculture and forest products and dividend distributed by such societies are exempt from tax.
3. Any person operation special industry during the whole income year will be taxed as under:

- If the industry is providing direct employment to 600 or more Nepalese citizens through the whole income year, 90% of the applicable rate (20%) is applied for the year.
- The industry operating in remote, undeveloped and underdeveloped area will have to pay 70%, 75% and 80% of the applicable tax rate (20%) respectively up to ten income years commencing from and including the year in which the operation commences.
- If both exemptions are available to the same special industry for same income, only the exemption is available as per the selection made by the industry.
- If the assets used by the special industry were used previously by another person operating the similar type of special industry, the ten years for the latter will be counted from the period of such use by the another person previously.
- The incomes received under business exemptions and concessions should be calculated separately assuming that these incomes are received by separate person.

That is, incomes received under business exemptions and concessions should be separate from other general business and investment incomes.

2.2.1.6. Tax Exempt Organization

Exempt organization means only entity that should not pay tax legally. Non-profitable organizations are provided such facilities. ITA, 2058 has clearly maintained that tax-exempt organizations are section-2. Following are the tax exempt organization.

- a. A religious educational or charitable organization of a public character.
- b. An amateurs sporting association formed for the purpose of promoting social or sporting amenities not involving the acquisition of gain.
- c. A political party registered with the election commission.
- d. A village development committee, municipality or district development committee.

- e. Nepal Rastra Bank
- f. Nepal government.

However, any benefit acquired by any person out of assets of an amounts derived by the entity except in pursuit of the entity's functions or as payment for assets or services rendered to the entity by the person it is not exempt from tax. ITA, 2058 has mentioned the organizations which are tax free(exempt organization). Act has exempted a social, religious, educational or charitable organization of a public character, registered without having profit motive.

2.2.1.7. Tax Rates

As opposed to previous Income Tax Acts, Income Tax Act, 2058 has specified the tax rates applicable to the tax payer of different capacities. It was a practice in the past that the rate of tax used to be given in finance acts of each year. The tax acts were only the procedural things that used to cover only the procedural things of the tax law, not the rates of tax. Due to this practice, it was very difficult to tax payer and even to tax administrators and tax experts to know about the rates of tax applicable to a particular financial year. This practice of amending tax rates each year used to create a kind of uncertainty among taxpayers, especially to businesspersons about the tax rates. To avoid this situation, schedule 1, of Income Tax Act 2058 has included the tax rates applicable to different taxpayers within the tax law itself and amended in each year by finance act. As per the law, the rates and exemptions applicable to different types of taxpayers are as follows;

2.2.1.7.1. Tax to resident

Table 2.1

Individual	Couple	Tax rate
1 st Rs 160000	1 st Rs.200000	1%
Next Rs.85000	Next Rs.85000	@15%
Balance	Balance	@25%

- 1.5% special additional fee on amount where 25% tax rate is applied.
- A resident spouse may elect to be treated as individual or couple under section 50 of the act.
- An individual working in a remote area is entitled to a rebate up to a maximum of Rs. 30000 by way of additional basic exemption. The exempt limit specified in rule 38 of ITA, 2059 is as under:

Table: 2.2

Remote Area exemption for individual

Area A	Rs.30000
Area B	Rs.24000
Area C	Rs.18000
Area D	Rs.12000
Area E	Rs.6000

- An individual having pension income is entitled to 25% additional basic exemption.
- An individual conducting a special industry through the year and only individual deriving income from exports are subject to tax only at the rate of 20% on that slab of taxable income where 25% tax rate would otherwise be applicable.
- If an individual has income exclusively from a business having source in Nepal, income and annual turnover do not exceed Rs.120000 to 1200000 respectively and if the individual elects to apply this provision for the year, the individual is subject to flat rates. The rates will be as follows for an individual conducting business in ;

Table: 2.3
Annual Tax According to Types of Vehicle

Types of Vehicle	Annual tax per vehicle(Rs.)
a. Minibus, Mini-truck, Trucks, Bus	15000
b. Car jeep, Van, Microbus	1200
c. Three wheeler, Auto rikshaw, Tempo	850
d. Tractor and power thriler	750

- Gain from non- business chargeable assets is taxed at the rate 10% in the case of an individual.
- In case of an entity, gain from non- business chargeable is included in investment income and taxed at normal rate. For example, a company should pay tax at the rate of 25%
- A resident individual should pay tax on the amount only after deducting 7% of insured sum on his/her life or Rs. 10000 or actual insured premium whichever is lower.
- The taxable income of non-resident individual is taxed at the rate of 25%

2.2.1.7.2 Tax to Entitle

Table: 2.4

S.N.	Types	Tax Rate
1.	Bank financial institution, general insurance company Or entity established under Nepal petroleum act, 2040.	@30%
2.	Entity wholly operating as special industry.	@20%
3.	Special industry providing direct employment to to 600 or more Nepalese citizen .	@18%
4.	Special industry established in remote area. (for ten years from the year of commencement)	@14%
5.	Special industry established in undeveloped areas.(for ten years from the year of commencement)	@15%
6.	Special industry established in undeveloped areas. (for ten years from the year of commencement)	@16%
7.	Entity that has operated any road, bridge, tunnel, ropeway, flying bridge etc. constructed by the entity.	@16%
8.	Entity wholly engaged in the projects to build public Infrastructure, own, operates, and transfer it to government or Entity engaged in power generation, transmission and distribution.	@20%
9.	Entity that has operated any trolley bus or tram.	@20%
10.	An entity that has earned income from export.	@20%
11.	Income of an estate of a deceased resident individual. Trust of an incapacitated resident individual	Tax applicable to natural person
12.	Repatriated income of a foreign permanent establishment a nonresident person situated in Nepal.	@10%
13.	Taxable income of a non-resident person providing shipping, air, transport or telecommunication services.	@5%
14.	For other entities not specified above.	@25%

2.2.1.8. Withholding Payments

2.2.1.8.1. Withholding by employers (section-87)

Every resident employer is required to withhold tax at normal rate from a payment with a source in Nepal that is to be included in calculating income of an employee from the employment.

The obligation of an employer to withhold tax (as mentioned above) will not be reduced or extinguished because of following:

- Right or an obligation of the employer to deduct and withhold any other amount from the payment or
- Any other laws that provides that an employee's income from employment will not be reduced.

2.2.1.8.2. Withholding from investment returns and service fees.(section-88)

When a resident person pays interest, a natural resource payment, rent, royalty, service fees and retirement payment with a source in Nepal, the person will withhold tax on the gross amount of the payment at the of 15%.

In case of retirement payment made by Nepal government of approved retirement fund, gain calculated under section 65.1(Kha) will be withheld at the rate of 6%.

Where a resident person pays the following payments which has a source in Nepal, the person will withhold tax as follows:

- For individual 15% of the payment amount.
- For payment of gain investment insurance, 5% of such gain.
- For payment of gain from unapproved retirement fund, 10% of such gain.

Where a resident bank, financial institution, other entity issuing debenture or company listed under prevailing act pays the following interest of any amount having a nature of interest to an individual with respect to deposit

debenture, debt certified and government bond will be required to withhold tax on the gross amount of the payment at the rate of 6%.

- Payment which as a source in Nepal; and
- Payment which is not received by the individual in the course of conducting a business.

2.2.1.9. Objectives of Income Tax Act 2058

In every country, the government collects its revenues through different sources. Out of which, taxes contribute a significant amount in the public revenues. The government mobilizes its revenue through budget in development programmes daily administration, peace and security and public interests. Thus the good tax policies are considered as tools of social and economic revolution. The main objective of Income Tax Act, 2058 are as follows:

1. To confine all the income tax related matters within the act.
2. To develop a tax payer-friendly –taxation system by making it clear and transparent.
3. To using all income generating activities into tax net.
4. To integrate Nepalese tax system of foreign countries.
5. To reduce the scope of discretionary interpretation of the tax authorities.
6. To harmonize tax rate and concessions on equity grounds.
7. To make income tax elastic and revenue productive.
8. To minimize the tax avoidance and tax evasion.
9. To widen the tax bare.
10. To make taxpayers mare responsible by enforcing the self assessment system.
11. To maintain the welfare state.

2.3 Review of Books

Amatya, (1965), in his book “Nepalma Ayakar Byabastha” become the historical document in the field of income tax. In this book, the writer basically analyzed the legal aspect of income tax.

Bhattarai and Shrestha, (1976), wrote a book in which information about the legal aspects of income taxation in Nepal of that period is given. This book is theoretically based rather than analytical.

Agrawal, (1980), in his book “Resource mobilization in Nepal”. He explains about resource mobilization through income tax, effective tax system and policy, income tax system in Nepal, role of income tax in Nepalese tax structure, administration and legal aspects of income tax in Nepal.

Pradhananga, (1990), in his book “Income tax law and accounting” Pradhananga has illustrated the process, provision and the method of assess the income tax from various sources income under Income Tax Act 1974. He has only explained the provisions relating to income tax in his book. This is only the legal aspect of income tax but analyzed the defects, problem and role of income tax to the economic development of country.

Khadka, (1994), in his book “Nepalese taxation path for reform” He has described the economic policy of Nepal, improvement of tax administration, property tax as the major source of tax revenue of Nepal. He has identified the major problems of income tax as well as suggestions. Some of the problems identified by him are weak tax administration, unscientific tax assessment, narrow tax coverage and deviation from basic principle of income tax. His suggestions are use of presumptive method, extension of tax coverage, improvement in tax assessment system, inflation adjustment, introduction of current year payment basis and extension of withholding tax etc.

Tiwari, (1999), wrote a book entitled “Income tax system in Nepal”. This book is related with Income Tax Act 2031 and has described about the introduction of tax, theoretical concept of income tax, tax system of Nepal, taxable income, admissible and inadmissible expenses, income tax administration and etc. The process, provisions and method to assess the income tax have been illustrated with numerical example however the major problems of Nepalese tax system have not been shown.

Dhakal, (2001), wrote a book entitled “Income tax and house and compounded tax law and practice”. This book is based on B.com. and MBS syllabus and related with Income Tax Act 3031 B.S. This book is very much useful to get historical knowledge of taxation and practice under the provision of the act.

Adhikari, (2002), has published a book named “Income tax law: then and now”. This book is analytical rather than informatics and based on Income Tax Act 2058. He has discussed the legal provision under the act with critical analysis.

Adhakari, (2003), wrote a book entitled “Modern taxation in Nepal : theory and practice”. He has described the provisions under Income Tax Act 2058, theoretical concept of taxation, characteristic of taxation and source income. He has illustrated the method, process, provision to assess tax liability from various sources. He also tried to introduce the different aspect of tax planning including the need and bases for successful tax planning.

Mallik, (2003), wrote a book entitled “Nepalko Adhunic Kar Pranali”. He has discussed about the legal provisions relating to Income Tax Act 2058 in details. Mallik’s book has been divided into twenty five chapters. Mallik has described about development of income tax, computing of income, exempt amounts, admissible amounts, capital gain, special provisions regarding to natural persons, special provisions for entities. He has also described weakness of Income Tax Act 2031 and need of new Income Tax Act international tax, tax administration, payment of tax, income statement and tax assessment, tax rates , assessment of

depreciation, and etc. He has shared his expertise in his book. His book is descriptive and analytical.

Aryal and Poudel, (2003), wrote a book entitled “Taxation in Nepal”. This book is designed as per the syllabus of BBS 3rd year and based on Income Tax Act 2058. This book have include theoretical and practical aspect of taxation, method of assessment of income tax with numerical illustration, however this book does not provide complete information about all the aspect of income tax system of Nepal.

Kandel, (2003), published a book named “Tax law and planning in Nepal”. The book is related with Income Tax Act 2058 and based on the MBS syllabus prescribed by Tribhuvan University. He has described the sources of revenue, meaning of tax, objective of tax, cannons of taxation, principles of taxation, classification of taxes, historical development of income tax in Nepal and etc. He has also explained different terms used in Income Tax Act in details and also presented special provisions for natural person and entity, banking and insurance, business and retirement fund in the new tax act, 2058. similarly he has also described about the classification of taxpayers, exemption limit, admissible and inadmissible expenses, capital income, capital expenditure, capital loss, sources of income, tax authorities and etc. The process, provisions and method to assess the income tax from various sources of income have been illustrated with numerical example. Similarly, he wrote a book entitled “Nepal ko Bartaman kar Byabastha” for BBS 3rd year.

Amatya, Pokharel and Dahal, (2003), wrote a book entitled “Taxation in Nepal”. Theoretical as well as aspect of taxation have been included in this book and the book is designed to meet the requirement of BBS of 3rd year syllabus of Tribhuvan University. This book is descriptive but not analytical.

Rai and Baskota, (2003), published a book entitled “Taxation in Nepal”. This book is designed according to the syllabus of BBS 3rd year, Tribhuvan University. This book has been included computations regarding different sources of income.

Bhattarai and Koirala, (2003), published a books named “Taxation in Nepal” designed according to the syllabus of BBS 3rd year of TU and “ Tax law and tax planning” designed according to the MBS 2nd year syllabus of TU. These books are based on the Income Tax Act 2058 and are very useful. Relevant theoretical and practical aspect have been discussed in the books. The writer have shows how taxable incomes are computed under employment, business and investment sources under the Income Tax Act 2058.

Agrawal, (2004), wrote a book named “Income tax theory and practice”. The book is a practitioners reference and hand book rather than theoretical compilation on the subject. The book said that the income tax is so designed to cover all the material and component required for the for a modern tax law. The book also said the Income Tax Act is good because it includes and defined the new terms and provisions; for example, foreign payment establishment, controlled entities, transfer pricing, non–business chargeable assets, qualification, allocation and characterization of amount etc.

2.4. Review of the Thesis

Poudel, (1995), made a study on Nepalese tax structure in his dissertation entitled “A study of Nepalese tax structure”. He has made a review of revenue structure of Nepal government from individual taxes, analyzed the relationship of direct and indirect taxes with total revenue and GDP and assessed various weaknesses and problems of present tax system and put forward suitable recommendation to solve them. He has suggested that the tax system will be successful and effective with the political support, administrative efficiency and people’s confidence. These conditions are given to take the measure and to adopt the policy that could generate more revenue for our economic development.

Shrestha, (2001), wrote a thesis entitled “Revenue collection from income tax in Nepal, problems and prospects”. She has analyzed the effectiveness of income tax collection from income tax and recommended measure for improvement of income tax law and management in Nepal. She has found serious resource gap problem for Nepalese economy and also found the level of tax collection has been rising. According to her study the major problems of Nepalese tax system are narrow tax coverage, mass poverty of Nepalese people, lack of conscious taxpayers, inefficient tax administration, instability in government policy and etc.

Poudel, (2002), wrote a thesis entitled, “Income Taxation in Nepal: A study of its structure and productivity”. She has found that overall revenue of Nepal showed an annual growth of 16%, indirect tax has more significant contribution in total tax revenue; income tax occupied the first rank among the direct taxes. Personnel income tax slabs has been changed radically from seven slab in 1975/76 to two slab in 1999/2000, VDIS (voluntary disclosure of income scheme) could not attract more potential tax payers into tax net due to lack of good planning and adequate homework of the government, working procedure of the tax administrators are still traditional and cost of administration has not been brought to the satisfactory level. According to the study, the trend of overall revenue in Nepal shows the continuous increase over the study period with an average annual growth rate of 16%. The resource gap of the government seems to be terribly increasing.

Pallimagar, (2003), wrote thesis entitled “Income tax in Nepal: A study of exemptions and deductions”. He has studied the exemption and deductions provided by Income Tax Act 2058, problems and weakness on income tax system, contribution of income tax to government revenue and suggested possible area of reform. He tried to find out the position of tax administration, sufficiency of exemption times of incomes, income to be exempted but not allowed by the provision of the Act, appropriation of exemption limits, necessary of adjustment of exemption limit as per inflation, expenses should be deducted in priority, problems and weakness of income tax system and sufficiency of provisions made in the act and etc.

Shakya, (2004), wrote thesis entitled “A study on Income Tax Act 2058”. His study was based on Income Tax Act 2058 and objectives were to examine the simplification of income tax assessment procedure; to find out the effectiveness of service delivered by tax administrators to the tax payers; to analyze the taxpayer’s, response regarding to their duties and rights; to review the provisions regarding to minimize the tax evasion, avoidance, corruption under the act and to view the structure of government revenue and position of income tax. He found that tax evasion and avoidance are the major constraints for effectively mobilize the income taxation. According to his study the reason for tax evasion and avoidance are inefficient tax administration, poor tax morality and tax payers compliance, inadequate audition and investigation, reluctance of taxpayers’ to maintain account, poor enforcement of fine and penalties, inappropriate tax act and laws and etc.

Koirala, (2004), wrote a thesis entitled “Contribution of employment to income tax revenue of Nepal”. Mr. Koirala has found that the contribution of employment income to total income tax revenue of Nepal has not been founded satisfactory due to various reasons like low pay scale to the employees, ineffectiveness in the implementation of the act, tax evasion and etc. Similarly, correct exemption limit is not satisfactory. He suggested that separate provisions should be made regarding exemption limit to couple and family, and they should be given higher exemption limit in comparison to the individual. Some of the recommendations given by Mr. Koirala were:

Income Tax Act should be made effective in the implementation aspect. The contribution of income tax revenue to tax revenue and direct tax revenue should be increased by checking tax evasion and bring new taxpayers into tax bracket. Couple should be provided more tax exemption as compared to individuals because of cost of living of them. Pension income should be taxed by giving enough exemption limits to the pension holders because in the old age, pension holders lack other sources of incomes. The troubles faced by employees should be minimized and etc.

Routcheetri, (2004), wrote a thesis entitled “Income tax system of Nepal and its contribution to revenue collection”. The main objectives of the study were, to examine the share of income tax revenue; to analyze the effectiveness of tax administration in income tax collection; to find out the problems relating to revenue collection from income tax and to suggest some weakness to improve the effectiveness of income tax act.

Mr. Chetri found that income tax as major source of government revenue, the major source of weakness in the tax administration of Nepal is lack of organizational and individual incentives; Nepal’s tax system has significantly improved both qualitatively and quantitatively due to change in policy followed by required adjustment in the tax laws. He has recommended that there should be a policy to develop the efficient, fair and equitable tax administration in order to increase the income tax revenue. He also suggested that to make the tax administration capable of facing new challenges, there should be improvement in professionalism as well as development of new professional ethics compatible to the changed context of liberalization.

Niraula, (2006), wrote thesis entitled “Implementation problem of Income Tax Act 2002”. In his thesis he has explained that Income Tax Act 2002 is modern and advance than previous tax act however still there are many problems in current income tax act. According to Mr. Niraula, the major problems of current Income Tax Act 2002 are, illegal business activities, tax evasion and avoidance, complicated language, lack of educated people, lack of appropriate tax assessment procedure, corruption, political interferences and etc. He also suggested that to effectively generate revenue from the income taxation, the act should be effectively implemented since the act has many features. Tax payers should have positive response towards their duties and rights and the tax administration must be liable to fulfill the responsibility provided by the law that support to effective implement the act.

The main recommendations given by him are:

- Problems of tax system like political influences, illegal business activities, complicated income tax rules and regulations, ignorance of tax officers to collect tax and taxpayers to pay tax and etc. should be corrected.
- Giving attractive incentives, prize or extra remuneration to the employees should minimize the corruption.
- Self-assessment should be encouraged, the tax assessment method under Income Tax Act 2002 is average, so further treatment is needed.
- Tax evasions and avoidance decrease the tax liability so, income tax policy and penal provisions should be good to stop these tax evasions and avoidance.

Khatiwada, (2007), has done thesis entitled “Attitude of businessmen towards Income Tax Act 2002(2058). The main objective of his thesis was to analyze the impact and effectiveness of income tax on revenue generation of Nepal and give appropriate suggestions to improve the tax system so that the government can collect more revenue and use it in the economic development of the country. According to his thesis collection of income tax has faced various problems like tax evasion, poor tax administration, unsound income tax policy, lack of consciousness of people and etc. The success and effectiveness of income system entirely depends upon provisions of income tax system, sound and effective tax administration, trained employees as well as positive response and willingness of taxpayers to implement the provisions. Income Tax Act 2058 is modern and effective than the previous Income Tax Act but some of the problems still existing the act are insufficient rebates and facilities, increasing corruption, ineffective services to the taxpayers by tax administration and etc. So tax act should improved accordance with tax payer and implemented properly can solve the existing problem of tax act and help to increase the tax revenue in the total revenue of the government. Some of the recommendations made by him in order to correct the Income Tax Act 2058 as well as to improve income tax system of Nepal are:

- a. To increase the contribution of income tax in the total revenue of the government, improvement of overall tax structure system, simplification of act and policies, adjustment of tax slab, strictly implementation of law, rule and regulation to regular taxpayers, to find the new source of revenue, increase the tax ratio to meet the deficit budget and etc. are essential.
- b. To make the tax system effective the recommendation made by him are clear and simple tax law and rules, further explanation in simple language to the definition made in Income Tax Act depth knowledge to the policymakers about income tax, to make the self-assessment system effective, effective auditing and accounting system should be described, direct tax system should be introduced, clear provision for deduction sufficient allowances and sufficient rebate should be made under provision, exemption limit should be adjusted according to the inflationary condition, adequate medical tax credit to individual, provisions of reward, prize and incentives to encourage the taxpayers, utilization of rights of businessmen under income tax, weak points of the act should be replaced by new policy, lower fine and penalty in general condition and higher fine and penalty for income tax evaders is essential, tax policy should be in accordance with economic policy of the country and etc.
- c. To overcome from the major problems existing in the current act, the recommendations made by him are; well trained employees in the tax administration, free of political pressure to tax administrators, punishment to corrupt employees and rewards to the employees worked positively, continuous effort to develop the taxpayers positive attitude towards the tax, provide knowledge and training to taxpayers about the incentives, facilities directly related with taxpayers, improvement in poor response and unnecessary delay from the tax officers, sufficient facility and good working place should be provided to tax officials, bringing of consumer scheme to motivate them to take

bill of purchasing goods, to implemented VAT effectively the boarder point should be tight and should evaluate export/import of goods appropriately, electronic cash register machine should provide by the government at cheap rate which is necessary for every business to billing their sales transaction which help to solve the tax evasion, coordination between tax department, tax offices and business organization, implementation of TDS system to save tax from tax evasion, practically utilization the administrative review and the appealing system.

2.5. Research Gap

Most of the precious researches are bad on the structure, provision, administration and etc. Various books, thesis, articles, report have been reviewed while preparing this thesis. Almost there were written on different objectives and topic of income taxation. Books are found mainly based on the syllabus requirement of Tribhuvan University of Nepal. The Income Tax Act 2058 is a new act and no one has studied on “attitude of government employees towards Income Tax Act 2058” as know. Thus, to fill this gap, this research has been conducted. It is based on primary as well as secondary data. Finally, there searcher believes that it is unique or original.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter is concerned with the research methodology applied to achieve the goal of the study. The process of finding reality is research methodology. According to Kolhari C.R “Research methodology is the way to solve systematically about research problem”. The sources of data used in this study are both-primary as well as secondary. Primary data are collected through distributing questionnaires to taxpaying government employees to know their attitude towards Income Tax Act 2058. Economic survey was used as the major source of secondary data. Different statistical tools are used to analyze the data.

3.2 Research Design

Research design is an overall plan or framework for the collection and analysis of data. Research design provides the framework for the study, guidelines for the collection and analysis of data. Research design refers to the entire process of planning and carrying out a research study. Selection of the proper design is basically determined on the basis of purpose, level and nature of study. The study includes three types of research given below.

- a. **Descriptive research:** Descriptive research is a fact-finding approach used to describe current situations and events. Descriptive research is also conducted to describe opinions, attitude and characteristics of a given population. This research is generally used in physical and natural science. It is also used in socio-economic surveys and job activity analysis. Descriptive research is a process of accumulating facts and it is not necessary to explain relationship, test hypothesis and make prediction.

- b. Analytical Research: In analytical research, the researcher uses the fact and the information already available and analyzes to make a critical evaluation of the materials.
- c. Empirical Research: Empirical research is appropriate when proof is sought that certain available on observation along after without due regards for system and theory. It is data based research coming up with conclusion, which is capable of being verified by observation. Empirical research has been conducted in respect of income tax collection, income tax's contribution to national revenue and identification of existing problems of current tax act 2058.

3.3 Population and Sample

All the taxpaying government employees are considered as total population, out of them taxpaying government employees in Kathmandu valley are considered as target population. 60 samples have been taken to fulfill the objectives of the study. The respondents have been divided into two groups i.e. tax administrators (taxpaying government employees of IRD) and other taxpaying government employees. The following table shows the group of respondents and size of sample.

Table 3.1
Group of respondent and sample size

S.N	Group of respondents	Sample size	Code used
1	Tax administrators	30	A
2	Other government employees	30	B
3	Total	60	

3.4. Nature and Sources of Data

Both primary and secondary data have been used in the study. To achieve:

a. Primary Source of Data:

Primary data needed are the opinion of taxpaying government employees. Needed primary data are obtained though questionnaire method followed in most cases face

to face interview/discussion with the selected persons included in the purpose sample. The same questionnaire was distributed to all group of tax paying government employees.

b. Secondary Sources of Data:

The secondary sources of data are collected from different survey of the government of Nepal, various books, dissertations, publications, journals, reports, newspaper and etc.

The major sources are:

1. Official website of IRD i.e. www.ird.gov.np.
2. Official website of Ministry of finance i.e. www.mof.gov.np
3. Annual report of IRD, ministry of finance.
4. Economic survey of ministry of finance.
5. Various magazines, newspaper, journals and souvenirs and etc.

3.5 Data Collection Procedure

A ser of questionnaire was developed and distributed to the selected respondents in order to get accurate and actual information. Distribution was done through personally field visit rather then sending by any means to get accurate and actual information on time.

This study has conversed the data for fifteen years i.e. from 1993/94 to 2007/08. The information obtained through primary as well as secondary sources of data is processed for tabulation and analysis by using different statistical tools. The data are tabulated into different table according to their subject in order. The simple statistical tools such as simple average, average percentage and etc. are used.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

This is the major chapter of the study. In this chapter, the data relates to the study have been tabulated, presented, analyzed and interpreted. The reliability of the study depends upon the data available and sources of data.

4.1 Analysis of Secondary Data

The secondary data are not originally collected but obtained from various published and unpublished source. The analysis of secondary data in various matters can be done in the following ways.

4.1.1 Government Revenue Structure in Nepal

Generally, the revenue of the government can be categorized into two types i.e. tax and non-tax revenue. Taxes can be divided into different such as customs, exercise, sales tax/VAT, income tax and etc. similarly, non-tax revenue can be grants, administrative incomes, fees, fine and penalties and etc. Grants and loan are also the source of government revenue however they are not compulsory to repayment n every cases.

Government collects huge amount of revenue from taxes and non-tax sources to fulfill the various expenditure of the government. The share of tax revenue is dominant in the total revenue structure of government, that can be shown in the following table.

Table 4.1
Government Revenue Structure in Nepal

(Rs. In million)

Fiscal Year	Total Revenue	Tax Revenue		Non-Tax Revenue	
		Amount	%	Amount	%
1993/94	15,148.40	11,662.50	76.99	3,485.90	23.01
1994/95	19,580.90	15,371.50	78.50	4,209.40	21.50
1995/96	24,605.10	19,660.00	79.90	4,945.10	20.10
1996/97	27,893.10	21,668.00	77.68	6,225.01	22.32
1997/98	30,373.50	24,424.30	80.41	5,949.20	19.59
1998/99	32,937.90	25,939.80	78.75	6,998.10	21.25
1999/00	37,251.30	28,752.90	77.17	8,498.40	22.83
2000/01	42,983.70	33,152.10	77.29	9,741.60	22.71
2001/02	48,893.90	38,865.10	79.49	10,028.80	20.51
2002/03	50,445.60	39,330.60	77.97	11,115.00	22.03
2003/04	56,229.70	42,587.00	75.74	13,642.70	24.26
2004/05	62,331.00	48,173.00	77.29	14,158.00	22.71
2005/06	70,122.70	54,104.70	77.16	16,018.00	22.84
2006/07	72,282.10	57,430.40	79.45	14,851.70	20.55
2007/08	87,712.10	71,126.70	81.09	16,585.50	18.91

Source: Economic survey 2008/09, MOF, Gov/N

The above table shows that the total government revenue is increasing in total. The government revenue is increased by 21.34% in FY2007/08 as compared to FY2006/07. Out of total revenue collection in FY2007/08, the share of tax revenue was 81.09% whereas the share of non-tax revenue was 18.91%. In FY 2006/07 the share of tax revenue and non-tax revenue was 79.45% and 20.55% respectively. The percentage increase of tax revenue and non-tax revenue in FY 2007/08 compared to previous fiscal year was 23.85% and 11.67% respectively.

Form the fiscal year 1993/94 to 2007/08 the amount of tax revenue increased from Rs. 15,148.40 million to Rs. 87,712.20 million, which was increased by Rs. 72,563.80 million. Similarly, from FY1993/94 to 2007/08, the amount of tax revenue increased from Rs. 11,662.50 to Rs. 71,126.70 million, which is increased by Rs. 59,464.20 million. From the FY 1993/94 to2006/07, the amount of non-tax revenue increased from Rs. 3,485.90 million to Rs. 16,585.50 million which is increased by Rs. 13,099.60 million.

The highest contribution of tax revenue to total revenue was 81.09% with amounting Rs. 71,126.70 million in FY 2007/08 and lowest contribution was 75.74% with amounting Rs. 42,587.00 million in FY 2003/04. The average contribution of tax revenue to total revenue from FY 1993/94 to 2007/08 is 78.32%. This indicates that the rate of tax revenue is very important in revenue mobilization of Nepal to meet the government expenditure. In percentage on the total tax revenue has been fluctuating from 81.09% to 73.08%. Similarly, the highest contribution of non-tax revenue to total revenue was 24.26% with amounting Rs. 13.642.70 million in FY2003/04 and lowest contribution was 18.91% with amounting Rs. 16,585.50 million in FY 2007/08. The average contribution of non tax revenue to total revenue from FY 1993/94 to 2007/08 was 21.68%. Therefore, we can say that share of tax revenue has always been greater than the share of non-tax revenue.

4.1.2 Tax Revenue Structure of Nepal

Tax revenue is the major source of government in the government revenue structure of Nepal. It has been contributing around three quarter of total revenue. All the taxes are divided into two types i.e. direct tax and indirect tax. A direct tax is tax paid by a person on whom it is legally imposed where as indirect tax is imposed on one person but partly or wholly paid by another person. The share of direct tax is lower than the share of indirect tax revenue.

The structure of tax revenue in Nepal during the period of 15 fiscal years i.e. from 1993/94 to 2007/08 was tabulated below:

Table 4.2
Tax Revenue Structure in Nepal

(Rs. In million)

Fiscal Year	Total tax Revenue	Direct tax Revenue		Indirect tax Revenue	
		Amount	%	Amount	%
1993/94	11,662.50	2036.20	2036.20	9626.30	82.54
1994/95	15,371.50	2855.30	18.58	12516.20	81.42
1995/96	19,660.0	3849.30	19.58	15810.70	80.42
1996/97	21,668.00	4655.90	21.49	17012.10	78.51
1997/98	24,424.30	5340.00	21.86	19084.30	78.14
1998/99	25,939.80	6187.90	23.85	19751.90	76.15
1999/00	28,752.90	7516.10	26.14	21236.80	73.86
2000/01	33,152.10	8951.50	27.00	24200.60	73.00
2001/02	38,865.00	10159.40	26.14	28705.60	73.86
2002/03	39,330.60	10597.50	26.94	28733.10	73.06
2003/04	42,587.00	10105.80	23.73	32481.20	76.27
2004/05	48,175.00	11912.60	24.73	36260.40	75.27
2005/06	54,104.70	13071.80	24.16	41032.90	75.84
2006/07	57,430.40	13968.10	24.32	43462.30	75.68
2007/08	71,126.70	18980.30	26.69	52146.40	73.31

Source: Economic survey 2008/09 MOF, Gov./N

The above table shows that Nepalese tax structure is dominated by indirect tax revenue. The direct tax and indirect tax was Rs.2036.20 million and Rs. 9626.30 million i.e.17.42% and 82.52% respectively in fiscal year 1993/94.

The amount of direct tax increasing every year as it increased from Rs.2026.20 million in FY1993/94 and Rs.18980.30 million in FY2007/08 except 2003/004 i.e. Rs.10105.80 million only. But the percentage of direct tax revenue was fluctuating every year.

Form the FY 1993/94 to 2007/08, the highest contribution of direct tax revenue to total revenue was 27% in fiscal year 2000/01 with amount Rs. 8,951.50 million and lowest contribution was 17.46% with amounting Rs. 2,036.20 million in FY 1993/94.

The average share of direct tax revenue in total in total tax revenue for the period 1993/94 to 2007/08 was 23.51%

The amount of indirect tax revenue was in increasing trend. It increased from Rs. 9,626.30 million in 1993/94 to Rs. 52,146.40 million in FY 2007/08, the highest contribution of indirect tax revenue to total tax revenue was 82.54% in FY 1993/94 with amounting Rs. 9,626.30 million and lowest contribution was 73% with amounting Rs. 24,200.60 million in FY 2000/01. The average share of indirect tax revenue in total tax revenue for the period of 1993/94 to 2007/08 was 76.49%.

The trend and in absolute value, total tax revenue, direct tax and indirect tax is increasing. Among direct tax and indirect tax revenue, indirect tax revenue has always been greater than direct tax revenue for the study period of 1993/94 to 2007/08.

4.1.3 Direct Tax Revenue Structure of Nepal

Direct tax is levy by the government on the income and wealth received by household and business enterprises in order to raise revenue and an instrument of fiscal policy.

Direct tax is so called because it is normally assumed that the real burden of payment falls directly of the person or business enterprises immediately responsible for paying them, and can not be passed on to any body else. Direct tax is progressive in nature so for as the amount paid varies significantly according to the income and wealth of taxpayers.

The following table shows the direct tax revenue structure of Nepal.

Table 4.3
Direct Tax Revenue Structure of Nepal

(Rs. In million)

Fiscal year	Total direct tax revenue		Income tax		Land revenue		House and land registration		Other tax	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1993/94	2036.20	100.00	1198.20	58.84	69.40	3.41	685.50	33.67	83.10	4.08
1994/95	2855.30	100.00	1921.20	67.29	61.00	2.14	772.20	27.04	100.90	3.53
1995/96	3849.30	100.00	2823.40	73.35	34.90	0.91	902.80	23.45	88.20	2.29
1996/97	4655.90	100.00	3431.40	73.70	18.20	0.39	1048.40	22.52	157.90	3.39
1997/98	5340.00	100.00	4123.40	77.22	5.90	0.11	1009.50	18.90	201.20	3.77
1998/99	6187.90	100.00	4898.10	79.16	3.60	0.6	1000.60	16.17	285.60	4.61
1999/00	7516.10	100.00	6170.20	82.09	1.40	0.02	1001.80	13.33	342.70	4.56
2000/01	8951.50	100.00	7420.60	82.90	4.60	0.05	1011.30	5.98	515.00	5.75
2001/02	10159.40	100.00	9114.00	89.71	5.10	0.05	607.80	5.98	432.50	4.26
2002/03	10597.50	100.00	8903.70	84.02	0.80	0.01	1131.00	10.67	562.00	5.30
2003/04	10105.80	100.00	7966.20	78.83	0.00	0.00	1414.30	13.99	725.30	7.18
2004/05	11912.60	100.00	9245.90	77.61	0.00	0.00	1697.50	14.25	969.20	8.14
2005/06	13071.80	100.00	10159.40	77.72	0.0	0.00	1799.20	13.76	1113.20	8.52
2006/07	13968.10	100.00	10373.70	74.27	0.00	0.00	2181.10	15.61	1413.30	10.12
2007/08	18980.30	100.00	15034.00	79.21	0.00	0.00	2253.50	11.87	1652.80	8.92

Source: Economic survey, 2008/09, MOF, Gov./N

Note:

- 1) Income tax includes tax from (Public enterprise +Semi-public enterprise+ private corporate bodies + Individuals + Remuneration + Tax on interest)
- 2) Other taxes include urban house and land tax + Vehicle tax + other taxes.
- 3) Above percentage is percentage of Total direct tax.

The above table shows that the income tax has become longer than the other component of direct tax. Contribution of income tax to direct tax revenue was

58.84% in FY 1993/94. It increased slowly and reached to 79.21% in FY2007/08. Its maximum percentage contribution was in FY2001/02, which was 89.71% and lowest contribution was 58.84% on FY 1993/94. The average contribution of income tax revenue in total direct tax revenue for the period of 1993/94 to 2007/08 was 77.06%. Contribution of land revenue to direct tax revenue was maximum i.e. 3.41% in FY1993/94 and decreased to 0% 2003/04. The average contribution land revenue to total direct revenue throughout the study period of 15 years was 3.66%. Similarly, the contribution of tax from house and land registration to total direct tax was maximum in FY1993/94 i.e.33.67% with amounting Rs. 685.50million and minimum contribution was 5.98% in FY 2001/02 with amounting Rs.607.80 million. The average contribution of tax from house and land registration through study period of 1993/94 to 2007/08 was 16.83% The contribution of other taxes to maximum total direct tax was in FY 2006/07 i.e.10.12% with amounting Rs. 1,413.30 million and minimum contribution of other taxes to total direct tax was 2.29% in FY 1995/96 with amounting Rs. 88.20 million. The average contribution of other taxes to total direct taxes throughout the study period of 1993/94 to 2007/08 was 5.63%.

Here, income tax includes taxes from public enterprises, semipublic enterprises, private corporate bodies, individuals, remuneration and tax on interest. And other taxes include urban house and land tax, vehicle tax and other taxes.

4.1.4 Income Tax Structure of Nepal

A tax imposed on income base is called income tax. Income tax can be divided into two parts-individual income tax and corporate income tax. Income tax to be paid by individual or couple or sole proprietorship firm is individual income tax whereas income tax paid by entities is called corporate income tax.

Income tax is an important source of direct tax. Its structure of Nepal is the composition of the from public enterprises, semi-public enterprises, private corporate bodies, individuals, remuneration and taxes on interest. Here, public

enterprises consists of 100 percent government ownership, semi-public enterprises includes 51 percent government ownership, private corporate bodies mean public limited companies, individuals, denote sole traders, partnership, private limited companies and remuneration refers to salaries earned from government and non-government sectors. The interest tax levied on the interest received. The following table shows about the income tax revenue structure of Nepal.

Table 4.4
Income Tax Revenue Structure of Nepal

(Rs. In million)

Fiscal year	Total income tax revenue	Public enterprise	Semi-public enterprise	Private cooperatives bodies	Individual	Remuneration	Tax on interest
1993/94	1198.20	255.30	2.60	9.50	800.70	56.70	73.40
1994/95	1921.20	534.10	2.10	19.70	1184.80	83.80	96.70
1995/96	2823.40	860.20	0.00	440.10	1293.10	118.40	111.60
1996/97	3431.40	1144.50	0.00	563.90	1470.10	133.10	119.80
1997/98	4123.40	1231.10	0.00	858.40	1711.40	168.10	154.40
1998/99	4898.10	1317.80	0.00	925.10	2120.80	322.20	212.20
1999/00	6170.20	1526.50	0.00	1155.00	2772.70	396.50	319.50
2000/01	7420.60	2198.80	0.00	1339.50	3016.40	451.50	414.40
2001/02	9114.00	2928.00	0.00	1924.30	3200.50	597.30	463.90
2002/03	8903.70	1769.30	0.00	1412.00	4419.10	835.60	467.70
2003/04	7966.20	1251.00	0.00	1236.30	3362.30	1252.60	864.00
2004/05	9245.90	2056.60	0.00	1531.30	3533.40	1391.20	733.40
2005/06	10159.40	1332.40	0.00	2467.80	3926.30	1675.90	757.00
2006/07	10373.70	195.70	0.00	3404.30	4234.70	1764.10	774.90
2007/08	15034.00	1019.70	0.00	5717.10	5234.40	2007.90	1054.90

Source: Economic survey, 2008/09, MOF, Gov./N

Table 4.5
Income Tax Revenue Structure in Nepal

(in percentage)

Fiscal year	Total income tax revenue	Public enterprise	Semi-public enterprise	Private cooperatives bodies	Individual	Remuneration	Tax on interest
1993/94	100.00	21.31	0.22	0.79	66.82	4.73	6.13
1994/95	100.00	27.80	0.11	1.03	61.67	4.36	5.03
1995/96	100.00	30.47	0.00	15.59	45.80	4.19	3.95
1996/97	100.00	33.35	0.00	16.44	42.84	3.88	3.49
1997/98	100.00	29.86	0.00	20.82	41.50	4.08	3.74
1998/99	100.00	26.90	0.00	18.89	43.30	6.58	4.33
1999/00	100.00	24.74	0.00	18.72	44.94	6.42	5.18
2000/01	100.00	29.63	0.00	18.05	40.65	6.08	5.59
2001/02	100.0	32.13	0.00	21.11	35.12	6.55	5.09
2002/03	100.00	19.87	0.00	15.86	49.63	9.39	5.25
2003/04	100.00	15.70	0.00	15.52	42.21	15.72	10.85
2004/05	100.00	22.24	0.00	16.56	38.22	15.05	7.93
2005/06	100.00	13.11	0.00	24.29	38.65	16.50	7.45
2006/07	100.00	1.89	0.00	32.82	40.82	17.00	7.47
2007/08	100.00	6.78	0.00	38.03	34.82	13.36	7.01

Source: Economic survey, 2008/09, MOF, Gov./N

Above tables show about the composition of income tax in terms of rupees and percentage, for the recent 15 years. In FY 1993/94 the amount of income tax was Rs.1198.20 million whereas in FY 2007/08 it was Rs. 15,034.00 million. Income tax revenue collection increased by 44.92% in FY2007/08 totaling Rs.15,034.50 million compared to FY 2006/07. Table 4.4 presents structure of income tax in Nepal, which shows that the total income tax increased in every FY throughout the study period except FY 2002/03 and 2003/04. In the year 2002/03 and 2003/04 income tax revenue decreased to Rs. 8,903.70 and Rs. 7,966.20million from Rs.9,114.00 and Rs.8,903.70 million respectively.

The contribution of income tax from public enterprises is increasing each year from Rs. 255.30 million in the initial year of study and reached Rs.1,019.70 million in the fiscal year 2007/08 except 2002/03, 2003/04,2005/06 and 2006/07. Public enterprises tax revenue collection increased by 421.05%in fiscal year 2006/07 totaling Rs.1,019.70 million compared to FY 2006/07. In the study period of 15 years from 1993/94 to 2007/08, the highest contribution of public enterprises to income tax was 33.35% in the fiscal year 1996/97 with amounting Rs.1,144.50 million and lower contribution was 1.89% with amounting Rs.195.70 million in fiscal year 2006/07. The average share of public enterprises to income tax revenue for the period of 1993/94 to 2007/08 was 22.38% Contribution from semi-public enterprises is lower than other components of income tax.

It had not contributed even one percent to income tax in any year. The maximum contribution was in FY1993/94 when it was Rs.2.60 million. In the year 1994/95, its contribution was 0% of total income tax revenue. From the fiscal year 1995/96 to 2007/08 there is no contribution of semi-public enterprises to total income tax revenue.

Private corporate body is also one of the components of income tax revenue. In FY 1993/94, the contribution of private corporate bodies to income tax revenue was 0.79% with amounting Rs.9.50 million whereas 38.03% with amounting Rs.5,717.10 million in the FY 2007/08. Private corporate bodies' revenue collection increased by 67.94% in FY 2007/08 totaling Rs.5,717.10 million compared to FY 2006/07. The average share of private bodies to income tax revenue for the study period of 15 years from 1993/94 to 2007/08 was 18.30%.

Contribution of individuals to total income tax is the highest in each year. Share of individuals was Rs.800.70 million in FY 1993/94 and increased to Rs.5,234.40 million in the last year of study period i.e. FY 2007/08. Table 4.4 shows the amount of income tax from individuals increased every year except FY 2003/04. The percent contribution of income tax from individuals to total income tax revenue was

fluctuating. It was 66.82% in FY 1993/94 and it reduced to 34.82% in FY 2007/08. The average share of individuals to income tax revenue for the study period of 15 years from 1993/94 to 2007/08 was 44.45%.

Remuneration revenue collection increased by 13.82% in the FY 2007/08 totaling Rs. 2,007.90 million compared to FY 2006/07. The percentage contribution of income tax from remuneration to total income tax from remuneration to total income tax revenue was also fluctuating. It was 4.73% in FY 1993/94 and reached to 13.36% in FY 2007/08. The average share of remuneration to income tax revenue for the study period 1993/94 to 2007/08 was 8.92%.

The share of interest was Rs.73.40 million in FY 1993/94 and Rs.1,054.90 million in FY2007/08. The percentage contribution of income tax from interest to total income tax revenue was also fluctuating. In the study period 1993/94 to 2007/08, the highest contribution of interest tax to income tax was 10.85% in fiscal year 2003/04 with amounting Rs.864.0 million and lowest contribution was 3.49% in FY1996/97 with amounting Rs.119.80 million. The average share of interest tax revenue to income tax revenue for the study period of 15 years from 1993/94 to 2007/08 was 5.90%. For detail, please, see table 4.4 and 4.5.

4.1.5 Major Findings from the Analysis of Secondary Sources of Data

The major findings from the secondary sources of data can be summarized as follows.

1. Nepalese revenue structure consists of tax and non-tax revenue. Tax revenue consists of customs, tax of consumption and product of goods and services, land revenue and registration and tax on property, profit and income. Non –tax revenue consists of charges, fees, fine and forfeiture, receipts from sales of commodities and services, dividend, royalty and sale of fixed assets, principle and interest payment and other miscellaneous items of revenue.

2. Revenue collection increased by 21.34% in FY2007/08 as compared to FY 2006/07.
3. Out of total revenue collection, FY 2007/08 , the share of tax revenue was 81.09% whereas the share of non-tax revenue was 18.91%. The percentage increase of tax revenue and non-tax revenue in FY 2007/08 was 23.85% and 11.67% respectively as compared to previous fiscal year.
4. The highest contribution of tax revenue to total revenue was 81.09% with amounting Rs.71,126.70 million in FY 2007/08 and lowest contribution was 75.74% with amounting Rs.42,587.00 million in FY 2003/04.
5. The average contribution of tax revenue and non-tax revenue to total revenue of Nepal, throughout the study period was 78.32% and 21.68% respectively.
6. It has found that the role of tax revenue is very important in revenue mobilization of Nepal to meet the government expenditure.
7. It has found that the whole tax structure of Nepal can be divided into direct tax and indirect tax, and dominated by indirect tax revenue. The average share of direct tax revenue and indirect tax revenue to total tax revenue throughout the study period of 15 years 23.51% and 76.49% respectively.
8. The amount of indirect tax revenue was in increasing trend in the study period. From FY 1993/94 to 2007/08, the highest contribution of direct tax revenue to total tax revenue was 27% with amount Rs.8,951.50 million in FY 2000/01 and lower contribution of direct tax to total tax revenue was 17.46% with amounting Rs.2026.20 million in FY 1993/94. Similarly, the highest contribution of indirect tax revenue throughout the study period Rs.9626.30 million whereas the lowest contribution of indirect tax revenue to total tax revenue throughout the study period was 73% with amounting Rs.24200.60 million in FY 2000/01.

9. It has also found that direct tax includes land revenue and registration and tax on property, profit and income.
10. Income tax is and important source of direct tax. Its structure of Nepal is composition of income tax from public enterprise, income tax from semi-public enterprises, income tax from private corporate bodies, income tax from individuals, income tax from remuneration and tax on interest.
11. Income tax revenue collection was Rs. 15034.00 million in FY 2007/08. Its highest contribution to total direct tax was 89.71% in FY 2001/02 whereas lowest contribution was 58.84% in FY 1993/94. The average contribution of income tax revenue was 77.06% throughout the study period of 15 years.
12. The average contribution of land revenue, house and land registration and other tax throughout the study period of 15 years was 13.66% , 16.83% and 5.63% respectively.
13. Among the different components of income tax, the average contribution of income tax from public enterprises, semi-public enterprises, private corporate bodies, individuals, remuneration and tad on interest throughout the study period of 15 years were 22.38%, 0.31%, 18.30%, 44.45%, 8.92% and 5.90% respectively.

4.2 Analysis of Primary Data

4.2.1 Introduction

Data collected by the researcher or through agent for the first time from related field and possessing original character are known as primary source (data). On other hand, data collected by some one else, used already and are made available to other in the form of published statistics are known as secondary data. Once primary data have been used, it loses its primary characteristic (originality) and become secondary. In this study, this part is related with primary sources of data.

An empirical investigation has been conducted on order of find out the attitude of government employees towards Income Tax Act 2058, in Nepal. For this questionnaires were developed and responses were collected from the respondents. A set of 60 questionnaires was received from the respondents, out of 90 questionnaires distributed.

Respondents were tax paying government employees, were classified into two groups, i.e. tax administrators (tax paying government employees of IRD) and other government employees (tax paying government employees except IRD).

The responses received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study. The questionnaire was asked either for a yes/no response or asked for ranking of the choice according to the number of alternatives where the first choice was the most important and last choice was the least important. The following table shows the group of respondent.

Table 4.6
Group of Respondent and Code Used

S.N	Group of respondent	Sample size	Code used
1	Tax administrators	30	A
2	Other government employees	60	B
	Total	90	

4.2.2 Knowledge of Government Employees Towards Income Tax Act 2058 in Nepal

To know whether the tax paying government employees have knowledge about Income Tax Act 2058 or not, the first question “Do you have knowledge about Income Tax Act 2058?” was asked. The responses received from the respondents were tabulated as follows:

Table 4.7
Knowledge of Government Employees Towards Income Tax Act 2058 in
Nepal

Respondent group	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
A (tax administrators)	30	100	-	-	30	100
B (Other government employees)	27	90	3	10	30	100
Total	57	95	3	5	60	100

Source: Opinion survey

From the above table, 100% of tax administrators and 90% of other government employees approved that they have knowledge towards Income Tax Act 2058, and only 5% of other employees approved that they have no knowledge towards Income Tax Act 2058. Out of 60 respondents, 57 respondents i.e. 95% approved that they have knowledge about Income Tax Act 2058 and 3 respondents i.e. 5% approved that they have no knowledge towards Income Tax Act 2058.

4.2.3 Knowledge and Attitude of Government Employees Towards Income Tax Rate

The second question asked to respondents was “Do you know the current income tax rate? Is it appropriate?”. The question was intended to know the respondents’ knowledge about income tax rate and their attitude towards its appropriateness. The responses received from the respondents can be tabulated as follows:

Table 4.8**Knowledge of Government Employees Towards Income Tax Rate**

Respondent group	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
A (tax administrators)	30	100	-	-	30	100
B (Other government employees)	25	83	5	17	30	100
Total	55	92	5	8	60	100

Source: Opinion Survey

The above table showed that out of 30 tax administrators, 100% of them has the knowledge about the current income tax rate. Similarly, among the other 30 government employees, 25 of them i.e. 92% have knowledge about the current tax rate whereas 5 of them i.e. 8% have no idea about current tax rate. To know the attitude of government employees about current tax rate, the respondents were asked about the appropriateness of current tax rate and the following responses have received.

Table 4.9**Attitude of Government Employees Towards Appropriateness Income Tax Rate**

Respondent group	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
A (tax administrators)	60	18	12	40	30	100
B (Other government employees)	9	30	21	70	30	100
Total	27	45	33	55	60	100

Source: Opinion Survey

The above showed that out of 30 tax administrators 18 i.e. 60% said that current tax rate is appropriate whereas 12 of them i.e. 40% said that current tax rate is not appropriate. Similarly, out of 30 other government employees 9 i.e. 30% said that current tax rate is appropriate whereas 21 of them i.e. 70% said that current tax rate is not appropriate. Out of whole i.e. 60 respondents, 27 i.e.45% were said the current tax rate is appropriate whereas 33 of them i.e. 55% said that current tax rate is not appropriate.

4.2.4 Correctness of Tax Deducted at Source

To know the attitude of government employees towards the TDS system of Nepal, the third question was asked “Is it correct to deduct tax at source?”. The responses received from the respondents can be tabulated as follows

Table 4.10

Attitude of Government Employees Towards Correctness of Tax Deducted at Source (TDS) System

Respondent group	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
A (tax administrators)	30	100	-	-	30	100
B (Other government employees)	23	77	7	23	30	100
Total	53	88	7	12	60	100

Source: Opinion Survey

The above table 4.11 showed that among the 30 tax administrators all of them i.e. 100% said that tax should be deducted at source. And out of 30 other tax paying government employees 23 i.e.77% of them said that tax deducted at source is correct whereas 7of them i.e. 23% said that tax should not deduct at source. Out of all 60 tax paying government employees 53 i.e. 88% of them said that tax deducted at source is correct whereas 7 i.e. 12% said that tax should not deduct at source.

4.2.5 Opinion Regarding the Current Exemption Limits

To know whether the current exemption limits is satisfactory or not, the question asked was “Are the exemption provided by ITA2058, for employment income sufficient?”. The responses received from the respondent are tabulated as follows:

Table 4.11
Sufficiency of Exemption Limits

Respondent group	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
A (tax administrators)	8	27	22	73	30	100
B (Other government employees)	12	13	26	87	30	100
Total	12	20	48	80	60	100

Source: Opinion Survey

The above table showed that, out of 30 tax administrators 8 i.e. 27% said that exemption provided by ITA2058, for employment income are sufficient whereas 22 of them i.e. 73% said that the exemption are not sufficient. Similarly, out of 30 other tax paying government employees, 4 i.e. 13% said that the exemption provide by ITA2058, for employment income sufficient whereas 26 of them i.e.87% said that the exemptions are not sufficient. In aggregate i.e. out of 60 tax paying government employees 48 of them i.e. 80% are not satisfied with the exemption limits provide by ITA 2058 for employment income whereas 12 of them i.e. 20% are satisfied. Since most of the government employees are not satisfied with the exemption limits provided by ITA 2058, to employment income. So they are requested to specify the suggested exemption and the major exemptions suggested by the tax paying government employees are as follows:

- a. Statutory exemption limit should be increase, that should be at least Rs.180000 for individual and Rs.200000 for couple in the present situation.

- b. Exemption for remote area should be increase.
- c. Exemption for medical tax credit should be increased.
- d. Exemption for life insurance premium also should increase.

4.2.6 Opinion Towards Factors to be Considered While Adjusting the Exemption Limits to Taxpayers

To know about the factors to be considered while adjusting the exemption limits to the tax payers, the question asked was “What factors should be taken into consideration while adjusting the exemption limits to the taxpayers?”. The overall rank wise response of 30 tax administrators and 30 other government employees, according to their priority, were as follows.

Table 4.12
Factors to be Considered to Adjust the Exemption Limits

Major parts	Group of respondents				Total		Rank
	A		B		Nos.	%	
	Nos.	%	Nos.	%			
1. Numbers of depends	5	17	7	23	12	20	3
2. Education expenses for at least two children	3	10	4	13	7	12	4
3. Average cost of livelihood	10	33	4	14	14	23	2
4. Inflationary condition of the country	12	40	15	50	27	45	1
5. Others	-	-	-	-	-	-	-

Source: Opinion Survey

While making together, the opinions of both the groups, the corresponding prioritized factors to be considered to adjust the exemption limit are as follow.

- a. Inflationary condition of the country.
- b. Average cost of livelihood.

- c. Number of dependents.
- d. Education expenses for at least two children.

From the above ranking, it is clear that inflationary condition of the country is most important factor to be considered while adjusting the exemption limit.

4.2.7 Opinion Towards Contribution of Tax from Government Employees to Income Tax Revenue of Nepal

To know the respondents’ opinion towards the role of tax from government employees in the income tax revenue of Nepal, the next question asked was “In your opinion, is tax from government employees contributing significantly to income tax of Nepal?”.

The responses received from the respondents have been tabulated as follows:

Table 4.13
Significant Contribution of Tax from Government Employees Towards Income Tax Revenue of Nepal

Group of respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
A (Tax administrators)	10	33	20	67	30	100
B (Other government employees)	15	50	15	50	30	100
Total	25	42	35	50	60	100

Source: Opinion Survey

From the above table, it is clear that 58% of the respondents showed their dissatisfaction regarding the contribution of tax from government employees towards total income tax revenue of Nepal and 42% of the respondents are agree about the significance of the contribution of tax from government employees towards income tax revenue of Nepal. Hence, it can be conclude that the contribution of tax from government employees towards total income tax revenue of Nepal is not significant.

Reasons Behind the Insignificance of Tax from Government Employees to Total Income Tax Revenue of Nepal

In order to know, the reasons of insignificant contribution of tax from government employees towards total income tax revenue of Nepal, the next question asked to the respondents who said, there is no significant contribution of tax from government employees towards total income tax revenue of Nepal, was, “If no, please rank the possible reasons behind it.” The respondents were requested to rank their answer from 1 to 5 scales. The 1 rank is considered as most important reason for the insignificant contribution of tax from government employees to total income tax revenue of Nepal. The responses received from the respondents were tabulated according to their first priority.

Table 4.14

Reasons Behind the Insignificance of Tax from Government Employees to Total Income Tax Revenue of Nepal

Major reasons	Group of respondents				Total		Rank
	A		B		Nos.	%	
	Nos.	%	Nos.	%			
1. Less number of employees	2	10	2	7	4	11	2
2. Low pay scale of the employees	15	75	10	67	25	71	1
3. Tax evasion	1	5	1	7	3	9	3
4. Ineffective in the implementation of the act					2	6	4
5. Very low tax rate	1	5	-	-	1	3	5
Total	20	100	15	100	35	100	

Source: opinion survey

The major reasons of insignificant contribution of tax from government employees towards total income tax revenue of Nepal were ranked in order of preference of respondents as follows:

- a. Low pay scale of the employees.

- b. Less number of employees.
- c. Tax evasion
- d. Ineffective in the implementation of the act.
- e. Very low tax rate.

From the above results, it can be conclude that in the opinion of the respondents, low pay scale of the employees is the mast powerful reason behind the insignificant contribution of tax from government employees towards total income tax revenue of Nepal. Similarly, the opinion of the respondents, less number of the employees, tax evasion, ineffective in the implementation of the act, and Very low tax rate are major reasons behind the insignificant contribution of tax from government employees towards total income tax revenue of Nepal.

4.2.8 Opinion Towards Existence of Corrupt Practices in Income Tax Administration

Administration is the design of implementation of government policies. Tax administration is regarded as having the responsibility for determining the policies and programmers of given government related to tax. Specially, it is the planning, organizing, directing, coordination, and controlling of government organizations related to taxation. Income Tax Act 2058 has made a provision regarding the design of tax administration also. However, income tax administration of Nepal uses to blame as a corruption centre and administration as the member of the centre. In order to find out, whether the corruption is existed in Nepalese income tax administration or not, a question “Do you think corrupt practice exist in income tax administration of Nepal?” was asked. The responses received from the respondents were tabulated as follows.

Table 4.15

Opinion Towards Corrupt Practice Exists in Income Tax Administration

Group of respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
A (Tax administer)	18	60	12	40	30	100
B (Other government employees)	27	90	3	10	30	100
Total	45	75	15	25	60	100

Source: Opinion Survey

From the above table, in the view of the tax administrators, out of 30, 18 of them i.e. 60% voted for the corrupt practice existence in income tax administration of Nepal whereas 12 of them i.e. 40% voted against the corrupt practice existence in the income tax administration of Nepal. On the other hand, in the view of the other tax paying government employees, out of 30, 27 of them i.e. 90% said that there is corrupt practice exists in income tax administration of Nepal whereas 3 of them i.e. 10% viewed against the existence of corrupt practice. Similarly, out of whole i.e. 60 respondents, 45 i.e. 75% are agrees about the existence of corrupt practice in Nepal whereas 15 of them i.e. 25% are against the existence of corrupt practice in income tax administration of Nepal.

Hence, it can be conclude that there is corrupt practice exists in Nepalese income tax administration in the view of the tax paying government employees.

Causes Behind the Existence of Corrupt Practice in Income Tax Administration of Nepal

In order to know, the causes of corrupt practice existence in income tax administration of Nepal, the question asked to the respondents who are agreed with the existence of corrupt practice in income tax administration of Nepal, was “If yes, please rank who are responsible for corruption of the tax administration of Nepal?”. The respondents were requested to rank their answer from 1 to 4 scales. The first

rank i.e.1 is considered as most important cause of corruption existence in Nepalese tax administration. The responses according to their first priority for the cause of corruption existence in income tax administration of Nepal can be shown in the following table.

Table 4.16
Causes of Corrupt Practice Exist in Income Tax Administration of Nepal

Major reasons	Group of respondents				Total		Rank
	A		N		Nos.	%	
	Nos.	%	Nos.	%			
1. Dishonest tax payers	2	11	2	7	4	9	4
2. Dishonest tax personnel	-	-	8	30	8	18	3
3. Political interference	3	17	7	26	10	22	2
4. Lower remuneration of tax personnel	13	72	10	37	23	51	1
Total	18	100	27	100	45	100	

Source: Opinion Survey

The major causes of the corrupt practice exists in income tax administration of Nepal were ranked according to their first priority is as follows:

- a. Lower remuneration to tax personnel.
- b. Political interference.
- c. Dishonest tax personnel.
- d. Dishonest taxpayers.

It can be conclude from the above table is that, in the opinion of respondents, lower remuneration to the tax personnel is the most powerful reason behind the corrupt practice existence in income tax administration in Nepal. Similarly, in the opinion of the respondent's political interference, dishonest tax personnel, dishonest taxpayers are also the major reasons behind the corrupt practice exists in income tax administration of Nepal.

4.2.9 Effectiveness of Income Tax System of Nepal

In order to know about the effectiveness and soundness of current tax system of Nepal, question asked to the tax paying government employees was “Do you considered that the income tax system in Nepal is sound and effective?”. The responses received from the respondents have been tabulated as follows:

Table 4.17
Effectiveness of Tax System of Nepal

Group of respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
A (Tax administer)	13	43	17	57	30	100
B (Other government employees)	7	23	23	77	30	100
Total	20	33	40	67	60	100

Source: Opinion Survey

The above table showed that out of 30 tax administrators, 13 i.e. 43% are agreed about the effectiveness of tax system of Nepal whereas 17 of them i.e. 57% are not agreed about the effectiveness of the income tax system of Nepal. Similarly, out of 30 other tax paying government employees, 7 i.e. 23% voted for the effectiveness of income tax system of Nepal whereas 23 of them i.e. 77% are not agreed about the effectiveness of current income tax system of Nepal. In overall, out of 60 tax paying government employees, 20 i.e. 33% are agreed about the effectiveness of income tax system of Nepal whereas 40 of them i.e. 67% are not agreed about the effectiveness of current income tax system of Nepal. Hence, it can be conclude that the current income tax system of Nepal is not sound and effective.

Major Problems Existing in Current Tax System of Nepal

In order to find out the major existing problems of current tax system of Nepal, a question asked to the respondents who are not agreed about the effectiveness of the tax system of Nepal, was “If no, what do the major problems exist in the current tax system of Nepal? Please rank the problems.” The responses received according to their first priority of the respondents can be tabulated as follows.

Table 4.18

Major Problems Existing in the Current Income Tax System of Nepal

Major problems	Group of respondents				Total		Rank
	A		B		Nos.	%	
	Nos.	%	Nos.	%			
1. The act itself is not effective	3	18	5	22	8	20	1
2. Corruption	1	5	2	9	3	8	5
3. Lack of education and awareness to taxpayers	2	12	3	13	5	13	3
4. Practice of tax evasion	2	12	2	9	4	10	4.5
5. Ineffective tax administration	2	12	2	9	4	10	4.5
6. Inappropriate tax rate and exemption limits	2	12	4	17	6	15	2
7. Inadequate economic and other policies	2	12	1	4	3	7	6
8. Lack of expert in tax management	-	-	2	9	2	5	7
9. Illegal business practices	3	17	1	4	4	10	4
10. Ineffective enforcement of fine and penalty	-	-	1	4	1	2	8
Total	17	100	23	100	40	100	

Source: Opinion Survey

The above table showed that, out of 40 tax paying government employees who were disagree with the effectiveness of current income tax system of Nepal, 3 tax administrators and 5 other government employees said that the major problem of defective income tax system 2058 is the tax act itself is not effective, which is 20%. They said that it is unclear and difficult to understand. Among them 15% were said major problem is inappropriate tax rate and exemption limits. Similarly, 13% said that the major problem of current tax system is lack of education and awareness to taxpayers. They said that most of the taxpayers have no knowledge about tax rate, tax payment period and other necessary information and they are ignoring this. Out of 40 respondents, 10% are agreed about the major problems of current tax system are practice of tax evasion, ineffective tax administration and illegal business practices. 8% of them are found the major problem of current tax system as corruption. Similarly, inadequate economic and other policy, lack of expert in tax management and ineffective enforcement of fine and penalties are also found some of the major problems of ineffective current tax system of Nepal in the view of some of the respondents.

4.2.10 Important Factors for Effectiveness of Income Tax in Nepal to Raise Government Revenue

In order to know the major factor for the effectiveness of income tax in Nepal to raise government revenue, the question asked to the respondents was “In your opinion, what are the most important factors for effectiveness of income tax in Nepal to raise government revenue? Please rank”. The responses received from the respondents can be tabulated as follows.

Table 4.19
Important Factors for Effectiveness of Income Tax in Nepal to Raise
Government Revenue

Major factors	Group of respondents				Total		Rank
	A		B		Nos.	%	
	Nos.	%	Nos.	%			
1. Clear, strict act, rule and regulation	13	43	15	50	28	47	1
2. Consciousness and honest taxpayers	2	7	2	7	4	7	4
3. Moral and honest tax officials	1	3	2	7	3	5	5
4. Effective tax administration	8	27	5	17	13	22	2
5. Political non-interference	5	17	5	17	10	17	3
6. Adequate economic and other policies	1	3	1	2	2	2	6
Total	30	100	30	100	60	100	

Source: Opinion Survey

The above table showed that out of 30 tax experts 13 of them i.e.43% said that the most important factor for the effectiveness of income tax in Nepal to raise the government revenue is clear, strict act, rule and regulation. Similarly, 27% of the tax expert said the major factor for the effective of income tax is effective tax administration, 17% of them said political non-interference is major factor for effective income tax system, 7% said consciousness and honest taxpayers as important factor and 3% of them said moral and honest tax official and adequate economic and other policies as major factors for the effectiveness of income tax in Nepal to raise government revenue. On the other hand, out of 30 other government employees, 50% said clear, strict act, rule and regulation, 17% said effective tax

administration and political non-interference as important factors, 7% of them said consciousness and honest taxpayers and moral and honest tax official as major factors and 2% of them said adequate economic and other policies as major factors for the effectiveness of income tax in Nepal to raise the government revenue.

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

- a. Clear and strict act, rule and regulation.
- b. Effective tax administration
- c. Political non-interference
- d. Consciousness and honest taxpayers
- e. Moral and honest tax officials
- f. Adequate economic and other policies

It can be conclude from the above table is that, in the opinion of the respondents, clear, and strict act, rule and regulation is most important factor for the effectiveness of income tax in Nepal to raise the government revenue. Similarly, in the opinion of the respondents, effective tax administration, political non-interference, consciousness and honest taxpayers, moral and honest tax officials and adequate economic and other policies are also important factors in order to preference for the effectiveness of income tax in Nepal to raise the government revenue.

4.2.11 Essentiality to Improve the Current Income Tax Act 2058

To know the view of taxpaying government employees towards essentiality for the improvement of current Income Tax Act 2058, a question was “what do you think? It is essential to improve the current Income Tax Act 2058?” The responses received from the respondents have been tabulated as follows.

Table 4.20

Essentiality for the Improvement of Current Income Tax Act 2058

Group of respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
A(Tax administrators)	18	60	12	40	30	100
B(Other government employees)	20	67	10	33	30	100
Total	38	63	22	37	60	100

Source: Opinion Survey

The above table showed that out of 30 tax administrators 18 i.e. 60% said that there is essential for the improvement of current Income Tax Act whereas 12 i.e. 40% of them said that it is not essential to improve the current income tax act. Similarly, out of 30 other government 20 i.e.67% were said that it is essential to improve the current Income Tax Act whereas 10 i.e.33% of them said that it is not essential to improve the current Income Tax Act 2058. Out of all 60, respondents 38 i.e. 63% were said that it is essential to improve the current Income Tax Act whereas 22 of them i.e.37% were said that it is not essential to improve the current income tax act. Hence, it can be conclude from the above table is that the current Income Tax Act is essential to improve.

Comments and Suggestions for Improvement of Current Income Tax Act

In order to know the comments and suggestions for the improvement of the current Income Tax Act the question asked to the respondents who voted for the essential of improvement of current Income Tax Act was “If yes, specify your comments and suggestions”.

The comments and suggestions received from the respondents were as follows.

Comments:

1. ITA, 2058 has lack of clear definition and language accuracy.
2. Procedures are difficult to understand.
3. Administration is poor and practices of income tax are not effective.
4. Tax evasion and deduction exists.
5. Complicated language.
6. Lack of effective training and motivation to tax officials, taxpayers education and morality to both taxpayers and tax personnel.
7. Lack of proper utilization of collected tax.
8. Proper implementation is affected by political instability.
9. Existence of corruption and no effective enforcement of fine and penalty, who is involved in corruption.
10. Lack of reward and punishment to both taxpayers and tax personnel.
11. TDS system is not effectively implemented in private sector.

Suggestions:

1. The act should be strict, clearly defined the language.
2. Job related expenses should be allowed for deduction to arrive at taxable income.
3. Taxpayer should educate about the provisions of tax act.
4. Sound tax policy and simplification of procedure is necessary.
5. Revenue administration should be flexible.
6. Dashing allowance, transportation allowance dearness allowance and medical expenses paid by employer should be made tax- exempt.
7. Exemption limits provided for couple and family is not adequate as compared to individual i.e. exemption limit for couple should be increased.
8. Proper monitoring by tax authorities is needed.
9. Simplify, that tax rules and laws so that employees will understand clearly the provisions regarding employment income.
10. There is an urgent need to provide training and motivation to tax personnel.
11. Tax policy must be consistent.

12. TDS system should be effectively implemented in private sector also.
13. The tax act should be country specific not to be copied from the neighboring countries.
14. The Income Tax Act should be clear, strict and long lasting.

4.2.12 Major Findings from the Analysis of Primary Sources of Data

- a. In aggregate 95% of the tax paying government employees have knowledge about Income Tax Act whereas 5% of them have no idea about Income Tax Act 2058. In comparison tax administrators have more knowledge about Income Tax Act than other government employees about Income Tax Act than other government employees.
- b. In aggregate 92% of the respondents have knowledge about current tax rate whereas 8% of them have no knowledge about income tax rate. In comparison tax administrators have more knowledge about current tax rate than other government employees. Similarly, 45% of them are agreed about the appropriateness of current tax rate and 55% of them are not agreed about the current tax rate. In comparison, more other government employees are disagree than tax administrators with the appropriateness of current income tax rate.
- c. In aggregate 88% of respondents are agreed with the correctness of tax deducted at source. More tax administrators are agreed with the tax deducted at source system than other government employees.
- d. Most of the respondents i.e. 80% are not satisfied with the current exemption limit provided by ITA 2058. According to their view, statutory exemption, exemption for remote area, exemption for medical tax credit should be increase as more as possible.
- e. According to the view of the respondents, the exemption limit should be adjusted by considering the inflationary condition of the country, average cost of livelihood, number of dependents and education expenses for at least two children, in order of preference.

- f. 58% of the respondents agreed that there is no significant contribution of tax from government employees towards total income tax revenue of Nepal. According to the view of the respondents the reasons behind it, are low pay scale of employees, less number of employees, tax evasion, ineffective in the implementation of the act and very low tax rate in order of the preference.
- g. Out of total respondents, 75% of them are agreed with the existence of corrupt practice in income tax administration. According to their view major causes of existence of corrupt practice existence are low remuneration to tax personnel, political interference, dishonest tax personnel and dishonest taxpayers in order of preference.
- h. Out of 60 respondents 40 i.e. 67% are disagreed with the effectiveness and soundness of income tax system of Nepal. According to the view of the respondents, the major problem of existing tax system of Nepal are the act itself is not effective, inappropriate tax rate and exemption limit, lack of education and awareness to taxpayers, practice of tax evasion, ineffective tax administration, illegal business practices, corruption, inadequate economic & other policy, lack of experts in tax management and ineffective enforcement of fine and penalties.
- i. According to the view of the respondents the most important factors for the effectiveness of tax system, in order to preference are clear and strict rule and regulation, effective tax administration, political non-interference, conscious and honest tax payers, moral and honest tax officials and adequate economic and other policies.
- j. In aggregate 63% of the respondents are agreed for the essentiality of improvement of current Income Tax Act 2058.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Tax means compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred. A tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax paid. All the tax is divided into two groups i.e. direct tax and indirect tax. Income tax is payable from any income is example of direct tax.

A tax imposed on income base is called income tax. The basic objectives of income tax are two fold- revenue collection and redistribution. Income tax is divided into two parts individual income tax and corporate income tax. Income tax to be paid by individual or couple or sole proprietorship firm is individual income tax whereas income tax to be paid by entities is called corporate income tax.

This study focuses on tax paying government employees' attitude towards Income Tax Act 2058. It also focuses the view of government employees about the provisions whether the further improvement of the act is required or not in the view of the government employees. This study brings out the comments and suggestions of tax paying government employees towards Income Tax Act 2058. It also shows about the revenue structure, tax revenue structure, direct tax revenue structure, income tax revenue structure and contribution of remuneration income to total revenue, total tax revenue, total direct tax revenue and total income tax of Nepal.

The share of tax revenue in the total revenue has been always greater than the share of non-tax revenue. In the year 1993/94 the share of tax revenue was 76.99% and share of non-tax revenue was 23.01%, likewise in the FY 2007/08, the share of tax

revenue and non-tax revenue were 81.09% and 18.91% respectively. This percentage was 79.45% and 20.55% respectively in FY 2006/07. This represents that tax revenue contributes about 3/4th of total revenue. The average contribution of tax revenue to total revenue of Nepal, throughout the study period was 78.32%. This indicates that the rate of tax is very important in revenue mobilization of Nepal to meet the government expenditure. The average contribution of non-tax revenue was 21.68% throughout the study period.

In the total tax revenue share of direct tax revenue is not significant. The share of direct tax to total tax revenue is 17.46% in FY 1993/94 whereas share of indirect tax revenue was 82.54%. Similarly, the share of direct tax revenue and indirect tax revenue to total tax revenue in FY 2007/08 were 26.69% and 73.31% respectively although the amount of direct tax revenue was increasing every year. The average contribution of direct tax revenue and indirect tax revenue to total tax revenue throughout the study period was 23.51% and 76.49% respectively. Among different components of direct tax, income tax becomes longer than other. The percentage contribution of income tax to total direct tax was 58.84% in FY 1993/94; it increases slowly and reached to 79.21% in FY 2007/08.

The average contribution of income tax to total direct tax throughout the study period was 77.06%. The average contribution of land revenue, house and land registration revenue and other taxes revenue to total direct tax throughout the study period were 3.66%, 16.83% and 5.63% respectively.

Income Tax Act 2058 is the major act of the government of Nepal, which has come after a long study and practice in the field of taxation. There are so many provisions and various new concepts made to taxpayers to assess and to pay their tax, which provisions were not in Income Tax Act 2031. This act has replaced Income Tax Act 2031, which was carried for twenty eight years. The act, 2058 has 28 chapters and 143 sections plus schedules.

Income Tax Act 2058 has divided income under three heads; income from business, investment and remuneration. The Inland Revenue Department has the overall responsibility for the implementation and administration of income tax.

Income Tax Act 2058, is a result of great deal of efforts by some prominent figure of Nepal and some friends of Nepal. The act is so designed to cover all the material components required for a modern tax law. The new provisions and terms have been introduced and well designed.

However, the above primary data shows that there are so many problems in the implementation of the act. 80% of total respondents said that the exemption provided by ITA 2058, to employees' income are not sufficient. Most of the respondents pointed that the Nepalese tax system is unsound and ineffective. 75% of the respondents are agreed with the existence of corrupt practice in the income tax administration of Nepal. Most of the respondents were agreed with the act itself if not effective, among the various problems of current income tax act. 63% of the respondents are agreed to improve the current Income Tax Act 2058. Most of them said that lower remuneration to the tax personnel is major cause of corruption. According to the view of the respondents' inappropriate tax rate and exemptions, lack of awareness and education to tax payers, ineffective tax administration, practice of tax evasion, illegal business practice, corruption, inadequate economic and other policies and etc. are major problems of current tax system. Clear and strict act, rule and regulation, effective tax administration, political noninterference, conscious and honest taxpayers, moral and honest tax officials, adequate economic and other policies are essential factors for the improvement of current income tax act.

5.2 Conclusion

Nepal is a least developed country in the world and its economic growth rate is very low. Its economy is suffering very heavily due to ongoing unrest and state of uncertainty.

Total expenditure is exceeded than total revenue collection in each fiscal year. The government expenditure is continuously rising due to weakness and large investment in selecting development projects. There is growing difference between expenditure and resources. In other word financial resource gap is the major constraint of the Nepalese economy. The increase the government revenue it is necessary to raise the sources of revenue, which helps to relieve from resource gap in the proceeds of economic development. Income tax is a major instrument to fulfill the gap between total resources.

Collection of income tax has faced various problems like tax evasion, poor tax administration, unsound income tax policy, lack of consciousness of people and etc. First of all Income Tax Act should be good and it has to be included all the realities and possibilities in the field of taxation. The success and effectiveness of income tax system entirely depends upon provision of income tax system, sound and effective tax administration, trained employees as well as positive response and willingness of taxpayers to improve the provisions. The conclusions of this study are mentioned below:

1. Nepalese revenue structure is composed of tax and non-tax revenue. Tax revenue has largest share of contribution in total revenue i.e. in average contribution of tax revenue to total revenue from FY1993/94 to 2007/08 has 78.32%.
2. Tax revenue consists of direct tax and indirect tax revenue. Tax revenue is heavily dominated by indirect tax revenue. The average contribution of indirect tax revenue to total tax revenue from FY 1993/94 to 2007/08 has 76.49% whereas direct tax revenue has contributed only 23.51% in tax revenue. Among direct taxes income taxes has the highest contribution.
3. Average contribution of income tax to direct tax revenue throughout the study period of 1993/94 to 2007/08 was 77.06%. Similarly, the average contribution of land revenue, house and land registration and other

taxes to total direct taxes throughout the study period of 1993/94 to 2007/08 has 13.66%, 16.83% and 5.63% respectively.

4. Income tax from remuneration has occupied fourth position in the beginning of the study period whereas its contribution has been increasing in the recent years. The contribution of income tax from semi-public enterprise has been decreasing, it has no contribution from FY1995/96. The components of income tax revenue of Nepal has divided into public enterprise, semi-public enterprise, private corporate bodies, individual, remuneration and tax on interest. The average contribution of above components to income tax revenue has 22.38%, 0.022%, 18.30%, 44.45% 8.92% 5.90% respectively.
5. Tax administration and other government employees are agreed that they have knowledge of income tax act. They also agreed that they have knowledge of current tax rate but not agreed with the appropriateness of the tax rate.
6. TDS system is correct but it should be implemented effectively.
7. The present exemptions provided by ITA 2058 are not sufficient to employment income. Such exemptions such as statutory exemption, medical tax credit, exemption for remote area should be increased.
8. The major considering factors to adjust the exemption limit, according to the priority of the respondents are, inflationary condition of the country, average cost of livelihood, number of dependents and education expenses for at least two children.
9. There is insignificant contribution of tax from government employees towards income tax of Nepal due to low pay scale of the employees, less number of employees, tax evasion, ineffective in the implementation of the act and very low tax rate, according to the priority of respondents.
10. Corrupt practice is exists in Nepalese tax administration. The major causes of existence of corrupt practice are low remuneration to tax

personnel, political interference, dishonest tax personnel and dishonest tax payers in order of preference.

11. Nepalese tax system is unsound and ineffective. The major problems of current tax act are, the act itself is not effective, inappropriate tax rate and exemption limit, lack of education and awareness to tax payers, practice of tax evasion, ineffective tax administration, illegal business practices, corruption, inadequate economic and other policy, lack of expert in tax management and ineffective enforcement of fine and penalty.
12. The important factors for the effectiveness of tax system are clear and strict act, rule and regulation, effective tax administration, political non-interference, conscious and honest tax officials and adequate economic and other policies.
13. It is better to improve the current Income Tax Act 2058, by avoiding the problems and weakness existing in the current act.

5.3 Recommendations

To achieve result according to our expectation from income tax, it is essential to change our attitude and behavior towards income tax. In accordance with the finding of the study, the following recommendations are made.

1. Nepalese tax revenue is heavily dominated by indirect tax revenue. It is necessary to increase the share of direct tax revenue so as to direct the economy in the channel of development. Resource mobilization through direct taxation should be focused.
2. The contribution of income tax from remuneration to tax revenue and direct revenue should be increased by checking income tax evasion and bringing new taxpayers into tax bracket. Making TDS system effective also helps to increase income tax's share in tax and direct tax revenue.
3. Contribution of remuneration income in income tax revenue has been increasing in the recent years as compared to previous years. It is good sign for national economy. The slabs should be adjusted in such a way

that high earners should be made to pay higher income taxes. Filing of income returns by employees should be enhanced for collecting more income tax revenue.

4. Income Tax Act should be made effective in the implementation aspect. Employees should be provided with taxation knowledge so that they will be aware of existing provision in force of the Income Tax Act of employment income. They should also be encouraged for tax planning.
5. Tax act and policies should be simplified. The act should be strict with clearly defined the language. Simplify the rule and laws so that employees will understand clearly the provisions regarding the employment income. The act should be country specific, not to be copied from the neighboring country.
6. Income tax collection should be as direct tax collection system.
7. Corruption is major problem of Nepalese income tax system. The following suggestions are made to minimize the corruption.
 - The financial scenario of the country should be effective.
 - The Nepalese government should try to remove the poverty.
 - The pay scale of the tax personnel should be increase.
 - Dishonest tax personnel and taxpayers should be punished.
 - Check and balance system should be developed in tax offices.
 - Political interference should be avoided.
 - Every citizen should be aware that measure of income of the nation in tax and should be ready to pay own part honestly.
8. Current exemptions provided by ITA 2058 should be adjusted according to inflationary condition of the country, average cost of livelihood, number of dependents and education expenses for at least two children.
9. The number of taxpayers are growing day by day, so it is not easy to check the return file for every assess. The self-assessment system should be promoted and random checking of assessment should be done. There should be described effective auditing and accounting

system in the act to make the self- assessment system effective in the act.

10. There should be clear provisions for deductible expenses. Job related expenses should be allowed for deduction to the employees, to arrive at taxable income.
11. There should be provision of rewards, prize and incentives in the act to encourage taxpayers.
12. The act is weak it could not control tax evasion and avoidance. So, these weak points should be replaced by new policy.
13. Income tax policy should be formulated according to the economic policy and it should be revised timely. Economic policy should be brought according to the condition and situation of the country.
14. Income tax system of Nepal is not sound and effective. It has not reached at satisfactory level. The act itself is not effective, corruption, lack of knowledge, training and sufficient incentives to employees, practice of tax evasion, ineffective income tax administration, inappropriate tax rate and exemption limit, inadequate economic and other policy, illegal business practice, ineffective enforcement of fine and penalty are considered as the major problem of income tax system in Nepal. So overcome from these problem the following recommendations are made.
 - The tax act should be made effective and there should be well-trained employees in the tax administration.
 - Tax administration should be free from political pressure.
 - The act should be improved with clearly defining the language.
 - There should be strict fine and penalty for them who are involved in corruption.
 - Taxpayers should be educating about taxation.
 - Increasing the salary of the tax employees should minimize corruption. Tax personnel should punish if they worked negatively and they should be rewarded if they worked positively.

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Appendix-A

Cover letter

To

Dear sir/Madam,

First of all, I would like to introduce myself as a student of Nepal commerce campus, MBS final year. In order to fulfill my partial requirement of Master's Degree in faculty of management, I am preparing a thesis entitled "**Attitude of Government Employees Towards Income Tax Act 2058**"

I would gladly appreciate if you could kindly spare a few minutes of your valuable time in filling this questionnaire enclosing with your valuable suggestions. I assure you that the information provided to me will be kept strictly confidential.

Looking forward to your cooperation and support with my thanks.

Yours Sincerely

Krishna Prasad Poudel

Nepal Commerce Campus

New Baneshwor, Kathmandu

5. What factors should be taken into consideration while adjusting the exemption limit to tax payers?

Rank

- Number of dependent
- Education expenses for at least two children
- Average cost of livelihood.
- Inflationary condition of the country.
- If any, please specify

6. In your opinion is tax from government employees contributing significantly to income of Nepal?

Yes []

No []

If no, please rank the possible reason behind it.

Rank

- Less number of employees
- Low pay scale of the employees
- Tax evasion
- Ineffective in the implementation of the act
- Very low tax rate
- If other please specify

7. Do you think corrupt practice exist in income tax administration of Nepal?

Yes []

No []

If yes, please rank who are responsible for corruption of tax administration of Nepal

Rank

- Dishonest taxpayers
- Dishonest tax personnel
- Political interference
- Lower remuneration of tax personnel
- If other please specify

8. Do you consider that the income tax system in Nepal is sound and effective or not?

Yes []

No []

If not, what do the major problems exist in the current tax system of Nepal, Please rank the problems

Problems

Rank

- The act itself is not effective
- Corruption
- Lack of education and awareness to taxpayers
- Lack of knowledge, training and sufficient incentive to employees.

- Practice of tax evasion
- Ineffective income tax administration
- Inappropriate tax rate and exemption limit
- Inadequate economic and other policy
- Lack of expert in tax management
- Illegal business practices
- Ineffective enforcement of fine and penalty

9. In your opinion, what are the most important factors for effectiveness of income tax in Nepal to raise government revenue? Please rank.

Rank

- Clear and strict act, rule and regulation
- Consciousness and honest tax payers
- Moral and honest tax officials
- Effective tax administrators
- Political non-interference
- Adequate economic and other polices
- If other please specify

10. What do you think? It is essential to improve the current tax act 2058?

Yes [] No []

If yes, please specify your comments and suggestions

Comments

- a)
- b)
- c)
- d)

Suggestions

- a)
- b)
- c)
- d)

THANK YOU VERY MUCH

Appendix-B Name of Respondents

Tax Administrators

S.No	Name	Designation	Office
1.	Shantraj Subedi	Under Director General	RD, Lazimpat Ktm
2.	Murari Bahadur Karki	Director	IRD, Lazimpat Ktm
3.	Birendra Kumar Mishra	Director (Computer)	IRD, Lazimpat Ktm
4.	Bishnu Prasad Nepal	Director	IRD, Lazimpat Ktm
5.	Devidash Koriala	Director	IRD, Lazimpat Ktm
6.	Nara Shagar Shrestha	Director	IRD, Lazimpat Ktm
7.	Yagya Ballav Upaddhya	Director	IRD, Lazimpat Ktm
8.	Govinda BahadurBaniya	Director	RD, Lazimpat Ktm
9.	Yagya Prasad Dungal	Director	IRD, Lazimpat Ktm
10.	Ramesh Pd. Gautam	Under Security (Accounting)	IRD, Lazimpat Ktm
11.	Baikuntha Nidhi Sharma	Director	IRD, Lazimpat Ktm
12.	Shanker Niraula	Director	IRD, Lazimpat Ktm
13.	Ramesh Bahadur Dhakal	Director	IRD, Lazimpat Ktm
14.	Nisit Kumar Poudel	Director	IRD, Lazimpat Ktm
15.	Badhri Prasad Gautam	Director	IRD, Lazimpat Ktm
16.	Gopal Prasad Ghimire	Director	IRD, Lazimpat Ktm
17.	Pramita Karki	Director	IRD, Lazimpat Ktm
18.	Narayan Prasad Sharma	Senior Officer	IRD, Lazimpat Ktm
19.	Rajendra Prasad Nepal	Chief Tax	IRO, Babarmahal Ktm admin.
20.	Dhundiraj Pokhrel	Chief Tax Offices	IRO, Babarmahal Ktm
21.	Jaya Bahadur Bhandri	Tax Officer	IRO, Babarmahal Ktm
22.	Madan Dhakal	Tax Officer	IRO, Babarmahal Ktm
23.	Tikaram Bhusal	Tax Officer	IRO, Babarmahal Ktm
24.	Tek Bahadur Aryal	Tax Officer	IRO, Babarmahal Ktm
25.	Dilip Kumar Adhikari	Tax Officer	IRO, Babarmahal Ktm
26.	Rudra Sing Tamang	Tax Officer	IRO, Babarmahal Ktm
27.	Yadab Pd Panday	Tax Officer	IRO, Babarmahal Ktm
28.	Shantiraj Niraula	Tax Officer	IRO, Babarmahal Ktm
29.	Jagadishwor Updhaya	Tax Officer	IRO, Babarmahal Ktm
30.	Ram Sharan Kunwar	Tax Officer	IRO, Babarmahal Ktm

Other Government Employees

S.N	Name	Designation	Office
1.	Dilip Kumar Chapagain	Under Secretary	Ministry Of Local Dev
2.	GopiKrishna Khanal	Under Secretary	Ministry Of Local Dev
3.	Naryaan Bahadur Thapa	Under Secretary	Ministry Of Local Dev
4.	Rudraman Sing Basnet	Under Secretary	Ministry Of Local Dev
5.	Purna Chandra Bhattarai	Under Secretary	Ministry Of Local Dev
6.	Reshmi Raj Pandey	Under Secretary	Ministry Of Local Dev
7.	Hem Sharma Pohrel	Under Secretary	Ministry Of Local Dev
8.	Kedar Naupane	Under Secretary	Ministry Of Local Dev
9.	Surya Pd Adhikari	Under Secretary	Ministry Of Local Dev
10.	Dhurba Pd Dahal	Under Secretary	Ministry Of Local Dev
11.	Kumar Pd Poudel	Secretary	Public Service Commission
12.	Nirajan Pd Uppadhaya	Sub Secretary	Public Service Commission
13.	Gopinath Mainali	Under Secretary	Public Service Commission
14.	Govind Pd Subadi	Under Secretary	Public Service Commission
15.	Mahendra P.Guragain	Under Secretary	Public Service Commission
16.	Pusker Raj Pant	Under Secretary	Public Service Commission
17.	Renu Shrestha	Under Secretary	Public Service Commission
18.	Tung Shiromani Bastola	General Manager	Central Bureau of Statistics
19.	Uttam Nayayan Malla	Under GM	Central Bureau of Statistics
20.	Radha Krishana G.C	Under GM	Central Bureau of Statistics
21.	Ram Bdh Ghimire	Under Secretary	Central Bureau of Statistics (administration)
22.	Krishna rana	Under secretary	Central Bureau of Statistics (Accounting)
23.	Dhandiraj Lamichhene	Director	Central Bureau of Statistics
24.	Ambika Basyal	Director	Central Bureau of Statistics
25.	Shanker lal Shrestha	Director	Central Bureau of Statistics
26.	Dilli Raj Joshi	Director	Central Bureau of Statistics
27.	Kamal Kant Lamichhane	Director	Central Bureau of Statistics
28.	Dr. Rajan Suwal	Director	Central Bureau of Statistics
29.	Nabin Lal Shrestha	Director	Central Bureau of Statistics
30.	Narayan Panday	Under Secretary	Central Bureau of Statistics (administration)