

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Nepal is a small, poor, land locked developing sovereign independent and federal democratic country situated in southern part of Asia continent. It also situated between 26°22" to 30°27" northern attitude and 80°4" to 88°12" Eastern longitude. It has also spread 70 meter to 8848 from sea level. China lies north and India lies three sides of Nepal. The total area of Nepal is 147181 square kilometers and out of which 15%, 68% and 17% has covered by Mountain and Terai region respectively. Its length is 855km and average breadth is 193 km. It has occupied 0.03% area of the world and 0.3% area of the Asian continent.

Nepal has divided into five development region to insure successful implementation of balance economic development activities in 1998. The country is also divided into 14 zones and 75 districts for administrative and development purpose. Each district has divided into small administrative unit called Village Development Committee (VDC) Metropolitan City, Sub Metropolitan City and Municipalities. Now there are one metropolitan city (Kathmandu) 4 sub metropolitan cities (Birgung, Biratnagar, Pokhara and Lalitpur) and 94 municipalities and 3915 VDC in Nepal.

At present, government has to spend a lot of money to fulfill its responsibilities towards its people. The responsibilities may be either for security or for health education or other development activities. In each country government required sufficient revenue to carry out development plans to handle day-to-day administration. So the government collect revenue from various source such as grant and assistance, fine and

penalties fees, revenue from public enterprises, administrative income, business income revenue and non tax revenue. Another source of government revenue are tax, fees, excise duty, custom duty, VAT, sales tax, house and land (property) tax vehicle tax etc. The governments collect revenue through taxation is main source of government revenue since it occupies the most important place in the government treasury.

In a simple word tax is compulsory charged imposed by the government without any reference to service rendered to the tax payer. A tax is not a price paid for goods and services by public authority. In other word tax is liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the payers according to law.

A tax is "A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred" saligman 1998 (Bhattarai and Koirala).

According to Bastable "A tax is a compulsory contribution of wealth of a person for the service of public power" Encyclopedia mentioned "Taxation is a system used by governments to obtain money from people and organization. The government uses collected revenue to support itself and to provide public services. In its nature it is relatively permanent and compulsory and does not guarantee and direct relationship between the amount contributed by a citizen and the extent of government services provided to him".

From the above definitions it can be conclude that :

- a. A tax is a compulsory levy imposed by the government.
- b. Those who pay tax do not get corresponding benefits from the government.

- c. Tax amount is spend for interest of the people.
- d. Tax is levied on person as per the prevailing laws.
- e. Tax is for the 'Public powers'. It has to meet the wants of both central and local government of the state.
- f. Tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority.

At the beginning, Great Britain is first country introduce income tax in the world. The British government introduces income tax in 1799 in order to generate revenues to finance the war against France. The united kingdom imposed income tax regularly from 1860. Income tax was introduced in Switzerland in 1840, Italy in 1864 and Nepal in 1959.

In Nepal there was no long history of taxation. Nepalese ancient tax system was based on vedas, smritis and puranas. Directives propounded by manu, yagnabalaka chanakya etc. guided the taxation system. At that time the principle of collecting tax from the people was imposition of tax without harming the activities of the people. During the Rana period (1840-1950). There was not formal provision for taxation. There was not budget system also, land revenue was the only source of direct tax. For the period customs and excise duties was taken as estimation.

The idea of introducing income tax in Nepal originated along with the first 'Budget' on 1952. It was actually introduced only in 1960 when the finance act 1959 and Business profits and remuneration tax act, 1960 were enacted. At the beginning equivalent tax rates with progression and exemption limit were prescribed by the finance act of 1960 to 1964 to all companies private firms, individuals and families. The marginal rate of taxation prescribed by these act was 25%. Since the income tax was imposed only on income from business profit and remuneration, the tax

act could not cover all the source of income and it was replaced by the income tax act 1962 in 1962. Income tax act 1962 with 29 sections divided the heads of income into 9 parts covering business, profession and occupation, remuneration, house and land rent, cash or kind investment, agriculture insurance business, agency business and other source. The act was amended in 1972 extensively. However considering this act in capable of fullfilling the needs of the time, it was replaced in 1974 by another act. This act having 66 sections classified the source of income into 5 namely: a. agriculture b. industry, business, profession c. remuneration d. house and land rent e. other source. In the course of development and modernization of income tax system the new "income tax act 2001" has been enacted. Similarly the new Income Tax Rules 2002 have also been enacted for the effective implementation of the objective of the act. This act has classified the head of income into three categories a. income from employment b. income from business and c. income from investment.

There are two major types of taxes i.e. direct and indirect tax. The examples of direct tax are income tax, property tax, vehicle tax, contract tax etc. Among these tax house and land tax is one of the important taxes, which raise additional resource.

According to the Encyclopedia, property tax is a tax collected from the owners building, land and other taxable property including business equipment and inventory. Some government also collect tax from the owner of such property as stock and bonds. Property taxes provide much income of the countries, cities and towns. Local government depends on these tax to help finance, education, police and fire protection, street repair, and other services. Some provincial governments also collect property taxes. In Australia, Ireland, Newzeland and the united kingdom,

local property taxes are known as rates. In the mid 1980's India introduced tax on land and property. It was based on the governments assessment of the sale value. In the late 1980s' the United Kingdom abolished rates on all but not in business property. The government sets an annual tax rate to determine each owner's property. This rate is percentage of the assessed (estimated) value of the property. In many cases, the assessed worth is less than the properties market value. The major problem with property taxation is that much property is not assessed fairly and uniformly. Another draw back is that assessment and rates change too slowly to keep up with changes in prices. In countries with high rates of inflection assessment have often fallen for behind markets values. Some people oppose property tax because they believed property ownership is a poor measurement of ability to pay. But other argue that property owners are the people who take benefit from community services. So, they should pay more for these services.

In Nepal property tax performed in fiscal act 1960. At that time, government has authority for collection of property tax. The property tax act has implemented urban house and property and foreign investment. There were different rules for tax rate. However, the property tax act revised in 1962. Since the period, the property tax system has implemented in urban house and property house and land becomes the most important single resource of revenues for nation and local governments. In Nepal government has started to implement of wealth tax in urban areas of the kingdom for from the fiscal year. The tax office prepared a list of tax payers in the urban areas.

In Nepal, the first elected government introduced by finance act 1959. It was implemented under property tax act in 1960. Due to the ineffectiveness in collecting revenue, it was replaced by urban house and

later. Urban house and land tax was introduced in 1962 for collecting revenue from urban house and land property tax. Initially, it was introduced in Bhaktapur, Biratnagar, Birjung, Nepaljung, Rajbiraj, Janakpur and Butwal. Later in 1963/64 it was extended to Bhadrapur and Dharan. In 1964/65 Bhairawa, Pokhara, Palpa and Hetaunda in 1973/74. The tax was introduced in Bharatpur in 1988/89. The interim government of 1990 again introduced in property tax in 1990 by the finance act in the beginning and by property tax act 1990, however it was again replaced by urban house and land tax in 1995/96.

After introducing of local self government act in 1999, property tax is given to local bodies. Right now there are two variant of property taxes House and land tax and integrated property taxes. Local bodies i.e. VDC's and municipalities have the right to collect unified property tax is given to municipalities.

## **1.2 Statement of the Problem**

The prime concern of every nation of the world is economic development. Under developing country like Nepal are facing various problems in the process of economic development. For the economic development sufficient resource are needed.

The majorities of people have out of reach to get basic need. Few rich people have captured major economic sources and they are under taxed either because of tax avoidance or evasion and most of the poor people suffer from commodity tax. Before local self government act 1998, all tax was collected by central government and only octroi duty was allowed to collect to local bodies. At present octroi duty is abolished and central government collect 1.5% of custom duty for local development fee but this is not in future because the country has been entering into

globalization and which deduct tax rate in this condition only property tax increased to develop local level.

The property tax is often unpopular among homeowners because house are not sold too often and governments levy tax on the estimated value of their house. Some people believed that the government sometime over values their houses, which result into unfair high property tax burdens.

Tax evasion is a serious problem in Nepal and it seems to be national characteristic. Because of this resource have not been mobilizing efficiently and resource gap is increasing each year. The practice of tax evasions in Nepal has resulted in increased burden of indirect tax and unimproved share of direct tax poor tax paying habit of Nepalese people and poor recording system of tax office are also the problem of economic development of Nepal. Similarly, there is not integrated program for tax payers, education, assistance, guidance and counseling. The assessment procedure of house and land tax is not effective. Delay in tax assessment not only reduce the total revenue, but also brings harassment to the tax payers. Some of the problem of difficulties posed by the implementation of net worth tax may be noted briefly, even through tax act revise in different fiscal year with different rules and act.

For the economic development of country property tax especially house and land tax contributes as equally important as other taxes. However, there are many problem involving in property tax. Among various problems some are competent and sound revenue administration lack of information or computerized system. Lack of trained and skillfull personnel, corruption etc. Nepal has been facing various problem for implementation of property taxation. In this condition specific statement of problem are as:

- ➔ What is the contribution of house and land tax to Kirtipur municipality?
- ➔ What are the emerging problems relating to house and land tax revenue?
- ➔ Is the valuation process of house and land is sufficient ?
- ➔ What is the structure and trends of house and land tax?

### **1.3 Objectives of the study**

The main objective of this study are to examine and analyze the role of property tax in revenue collection in Kirtipur municipality. The other specific objectives are as follows:

1. To analyze the problems relating to house and land tax revenue.
2. To examine the contribution of house and land tax in total revenue of Kirtipur municipality.
3. To analyze the structure and trends of house and land tax revenue of Kirtipur municipality.
4. To provide suggestive package relating to house and land tax administration.

### **1.4 Significance of the Study**

Taxation is most effective tool in the hands of Nepal Government to raise finance internally. Taxation is not only the means of raising resource but it may bring about remarkable change in the social and economic structure of the economy as well as change in social structure of the economy as well as change in social attitude of the people. Property tax is one of the important tax on direct tax. It helps government to raise revenue by the help of the assets. It is achieving various goals as socio-economic objectives can distribute the income equally. Through the instrument of property taxation the countries can encourage the growth of



certain industries, restricts the conspicuous consumption of certain commodities, increase the rate of saving and regulates the price of commodities.

The process of economic development tends to be accompanied by a boom in real estate and an investment in luxury housing and other forms of assets. Which do not contribute the production of essential commodities in the urban areas and productive sector. Thus, the policy of imposing tax on property helps to establish the real sector of economy which could create more employment to the unemployed resource and encourage to the nationals to invest their resource in real estate and other forms of assets on the other hand.

This study will be multidimensional, significance for academics, professionals, tax administrators, tax payers and public who want to understand about the house and land tax. This study is helpful to.

- a. To government of Nepal for raising the fund internally.
- b. The people for channeling the attitude towards tax.
- c. The economic development through the saving and investment procedure.
- d. Find out the problem of tax and its remedies.

## **1.5 Organization of the study**

The research work has been designed into the following five chapter.

1. Introduction
2. Review of literature
3. Research methodology
4. Presentation and analysis of data
5. Summary, Conclusion and recommendation

The introduction chapter includes the topics such as background, statement of the problem, objective of study, significance of study, limitation of study, organization of study. Second chapter includes review of literature, Third chapter research methodology is completely with the data collection how the whole research work is completed. In next chapter presentation and analysis of data. In the chapter five summary on conclusion of the study is drawn and some suggestion are offered to solve the existing problems, thus the whole research work ends.

## **CHAPTER -II**

### **REVIEW OF LITERATURE**

Scientific research must be based on past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study. Literature review is basically a 'stock taking' of a available literature in one's fields of research.

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

#### **2.1 Conceptual Framework**

Property tax is not a new and keen matter for the student of taxation. In the very beginning of the 19th century, economists have been arguing and discussing for and against it. Property tax has its own origins in American history. Initially it was assessed in selected item of property such as land and cattle with different related imposed on various categories. Thus classified property tax was the main source of revenue to the colonies. During the 19th centuries greater variety of property emerged making it difficult to maintain such differentiation. Thus tax developed into general and uniform tax rate. The uniform tax was applied to property independent of from with total property viewed as a general measure of taxable capacity. It became a selective tax on real-estate and business personality and has remained over science. Tangible property other than real estate held by persons now largely escaped tax and no attempt made to reach intangible property.

Nepal is a small and beautiful country by natural resource. Nepalese economy is passing through the critical phase of low-income level equilibrium trap high level of property and huge resource gap. About

30% of people are below the poverty line. This problem can be solved not only by the investment from private sector but also by the deliberate action of government in the field. Transportation, communication power, road, other basic infrastructure and directly productive activities. In the present context, property tax occupies one of the most Important source of revenue in our country. Whether it is developed or underdeveloped countries, property tax is regarded as the most important tool for mobilizing internal resource. Whether the contribution of property tax the government revenue may be high or low. It has got much more important. House and land tax is imposed only on house and land (property) situated at municipality.

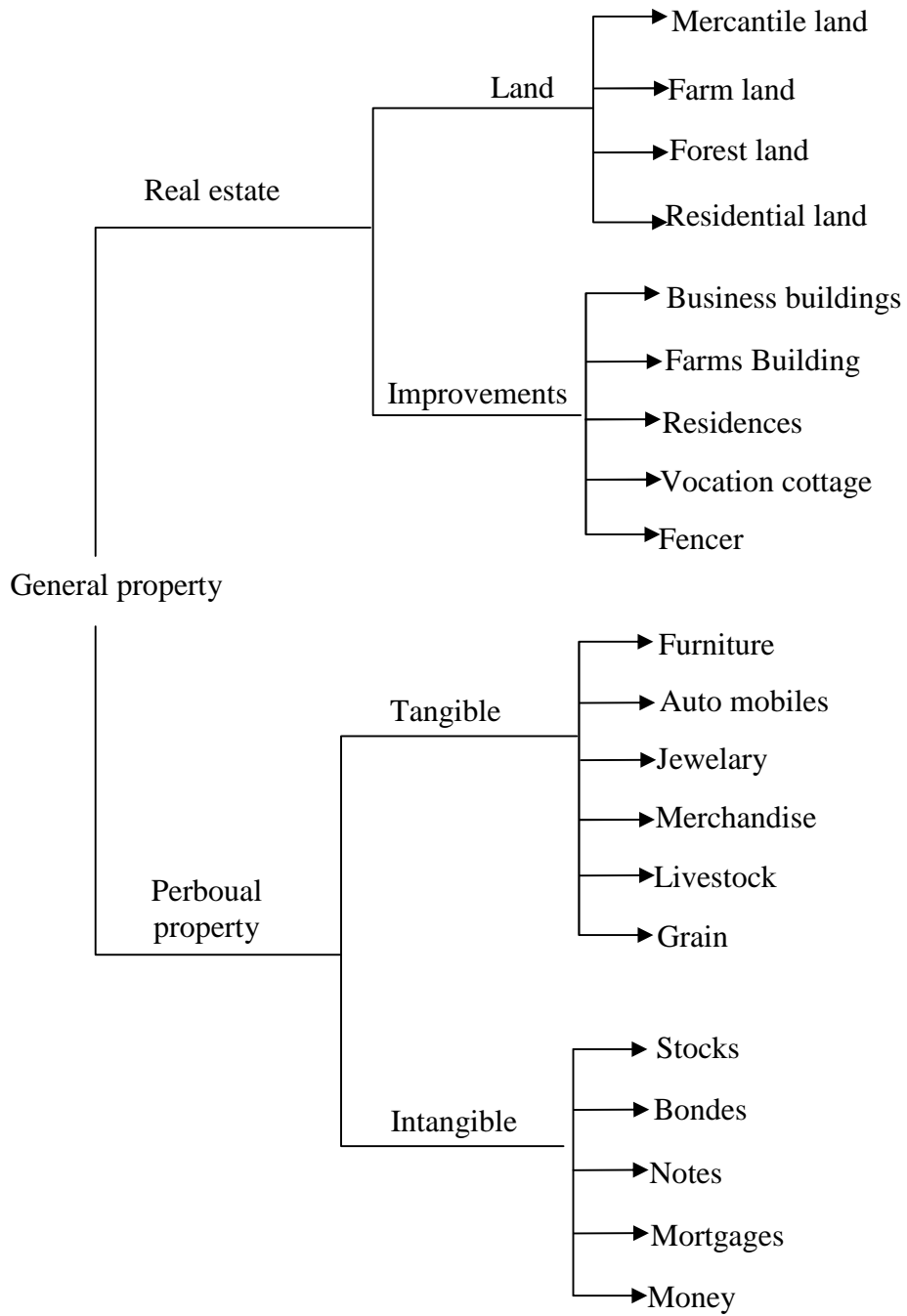
### **2.1.1 Meaning of Property**

in general sense, property refers to anything else owned by the people. Property also refers to any types of capital goods that are owned, for e.g. machinery, raw material, finished product. There are two ways to classify property-real property including land and things permanently attached to it, such as building etc. And personal property include all other kinds of property. Such as, furniture stock and harvest crops. It is much easier to transfer personal property. Real property must be transferred in writing but, personal property may be transferred orally. However personal property generally passes in to the hands of the state administrator who sells it and divides the process among the next of kin, unless one make other provision for dispending it. In brief, real property consists of immovable and personal property of movable.

### **2.1.2 General Property Tax**

It is a tax on all wealth tangible and intangible which possesses exchange value. The chart is given below (Singh, 1991).

**Figure 2.1**  
**Items of Property for Tax Purpose**



### **2.1.3 Property Tax**

Property tax are compulsory payment. Which related specifically governorship occupation or development of land and building. They are mostly levied on capital value or annual rental value (real or imputed) and are collected by local authority. This property includes real estate such as home, building and vacant land. It also includes personal property such as home furniture, stock and bonds, and automobiles etc.

Tax is compulsory payment to the government. The tax is imposed on personal possession is known as property tax, property taxation has great potentiality of resource mobilization in the developing countries. In those countries the process of economic development tends to be accompanied by a boom in real estate and investment in housing in urban area.

The property taxation is the compulsory payment to the public authority, which is based on the capital value on the property. In law the courts define property tax as the right to possession, enjoyment and disposition of all things subject to ownership.

In the united state and Canada, only provincial state and local government laid property tax. The federal government of two countries do not used these types of tax. Since the early 1930's the state has received less and less property taxes. however the tax continues to be the important source of revenue for local government.

The property tax rate varies depending on the tax revenue, needs of the government. The rate is usually based on the property's assessed valuation. This is certain percent (%) of the property's total value as determined by the government property is rarely taxed at its full market value.

It has come to notice that some persons have been trying to avoid personal wealth tax liability by performing closely held companies to which they transfer many items of their wealth, particularly jewelry, billion of real-estate.

As companies are not chargeable to wealth tax and valuation of the shares of such companies doesn't reflect in the real work of the assets of the company. Those who lied such on productive assets in closely held companied are able to successful reduced their wealth tax liability to a substantial extent. Tax may be levied on flow such as Income or expenditure or on stocks such as wealth. Wealth tax may be imposed in the holding of wealth or on transfer of assets and transferred by debt. Wealth tax occupies a dominant position in the tax structure of local bodies. They are justified done to grounds benefit and ability to pay since property received certain special benefits from government it should be taxed for these benefits. Wealth tax based on benefit consideration are in rate type property taxes while ability to pay consideration point to a personal taxed on net wealth.

#### **2.1.4 Definition of Terms**

Some terms used in this study create a curious these terms have defined as below.

##### **Income**

Income means a person's income from any employment, business investment or casual gain and the total of the income as calculated in accord dance with income tax act 2058. It included all sorts of income received for the provision of labor or capital or both of whatever from or nature in the taxable income.

## **Net Income**

Net Income is that outcome which is arrived at by deducting the allowable expense for the income as given in the act. In other words net income is that portion left behind deducting the reasonable expenses, which are acceptable by the act under the reasonable expenses, which are acceptable by the act. Net income means "the total income of any person less the relief to which he is entitled and the word also diverts the net income determine under section.

## **Tax**

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

- \* Expenses incurred in the process of creating charge and performing action of the property of tax creditor by the department.
- \* Amount payable by a with holding agent or with holder or amount payable by and installment payer and on assessment.
- \* Amount payable to the department is respect of tax liability of third party.
- \* Amount payable by way of interest and penalties
- \* Amount payable by way of fine in order of the department.

## **Income tax**

Income tax is a tax levied by the government on the incomes of individuals, trusts, estates and corporations. The individual income tax is the 'government largest source of revenue.' This tax may be collected in two ways. The tax payer may send the tax on his income directly to the government or his employed may collect a with holding tax from his wages and send it to the government.



## **Property**

Property refers to a cars, a form land, building or any thing else that is owned. It also refers to an interest in something that is owned by some one else such as stock in firm. The firm owns the machinery, raw materials and the finished product. Real property includes land and things permanently attached to it such as building and trees. All other things called personal property which refers to furniture and transfer into real property.

## **Property tax**

The property tax rate varies depending on the tax revenue, needs of and the government. The rate is usually based on the property's assessed valuation. This is certain % of the property is total value as determined by the government property is rarely taxed at its full market value.

## **Tax payer**

It means that person by who may tax or any other sum of money is payable under the act.

An individual who is under obligation to pay income tax under the act. Any person who has to pay income tax and on whom the tax officer has served any notice or taken any section under the act, in a simple work. A person who is liability to pay tax.

## **Tax officer**

It is a city, country or ownership officer who lists property and places a value on it for purpose of taxation, the list must be contain the name of the owner and the kind value of his property. "Real property and personal property" a board of review goes over the list. This board approves the

list and passed along to the tax collector. Assessors may be elected by the votes or appointed by the board of assessors.

In Nepal tax officer means officer is appointed by the government of Nepal to collect the tax according to the tax act.

### **Assessment**

In administrative assessment a local public official, assesses the value of property, computer and levies the tax on it and send a bill the property owner, self assessment determines the amount of federal income gift and estate taxation. The tax payer commuturs the value of his property of income and the amount of taxes due no it. The government assists him and later varieties his self-assessment.

#### **2.1.3.2 Real Property**

Real property consists mainly of land and building. Land and improvements are very important in taxation. Land values and building values are subject to different conditions. Land may increase in value while the buildings on it are decreasing in the value. Different methods are used in valuating the two kind of property for instance depreciation must be considered in the case of building and but not for valuating land. (Lal B.B, 1991).

#### **2.1.3.3 Personal Property**

Personal property can be classified into tangible and intangible. Tangible personal property includes great variety of goods. Merchant's and manufactures stock (Inventorier), business furniture, fixture and machinery, tool and pattern rolling, stock of railway, from machinery. harvest crops, logs, household furniture clothing, jewelry and other personal effects (Lal, B.B, 1991).

The second category of personal property is intangible property. This class consists, stock, mortgages, deposits, money and book of credit, copy rights and patents, goodwill, franchise value. Intangible property can easily escape taxation whether by migration or by hiding. Many estates classify intangible separately and apply a low flat rate tax to them as a substitute for the general property tax (Lal, B.B., 1991).

Tax originally denoted to assess an amount to be levied. The notion of imposing such a levy is a secondary development. Bloomsbury (2004) claims that the word comes from old French 'taxer' from Latin 'taxare' a derivation of 'tangere' of English. The 'taxare' was derived from medieval Latin noun 'taxa' which means an allotted piece of work or task, which passed into English through Anglo-Norman 'tasque' as task.

Taxation plays a vital role in state economy. Therefore, writers like Jean Baptiste Colbert as well as Adam Smith have spoken very persuasively on the significance of the taxation. The main philosophy behind taxation is that every individual should contribute towards the expenses of the government. Adam Smith the father of economics mentions "The subject of every state ought to contribute towards the support of the government".

Similarly, Jean Baptiste Colbert advised "the art of taxation is the art of plucking the goose so as to get the largest possible amount of feathers with the least possible squealing. However, least possible squealing too affect all people who hate to pay taxes but benefit from the revenue generated. The need for and the benefits of the state revenues are growing rapidly". Thus, taxation is becoming more and more crucial issue.

Right now, property tax has been the major source of revenue of most of the cities of the world. Property tax gained importance because of the population increase and growing urbanization in 1990. By narrowing the tax base to those property, which could be easily discovered improving assessment providing better staff many countries, adopted, property tax in

moderate form. At least sub-urban area it is a fairly adequate surrogate for a local income tax since a high relationship has been found between property values and income level. Property taxation has been the major fiscal resource of American local government since 17th century. In 1960 the selected Asian nation. Indonesia, Republic of Korea, Laos and Thailand made only small use of urban property taxation. Property taxes are most important in India, Malaysia, Pakistan and Philippines. They yield less than 20% percent of local revenue.

Argentina local government, levy earns in tax, which applies to urban and real and improvements of the official value. The general rate is 0.1% Buenos airs however applies progressive rate with a maximum of 1.6% of various local governments. There is a national tax on acquisition. A low 0.3% tax applied to loan in Korea.

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

**Table 2.1**  
**Contribution of Property Tax on Total Tax Revenue in Few**  
**Countries**

Countries	Tax on Property (As percent of Total tax revenue)
Brazil	2.7I
	0.4II
Korea	5.5I
	3.8II
Paraguay	5.9I
	5.8II
Egypt	14.2I
	13.2II
Philippines	11.8I
	4.4II
India	16I
	7.8II
Nepal	0.14I
	0.65II

Source: Rajesh Ghalliah, 1995.

From this urban property tax contributes very little to the total tax revenue. But it is an increasing trend. If proper assessment and proper administration is made it will contribute a large amount revenue to the government.

## **2.2 Property tax in Nepal**

The history of property tax in Nepal is not so long . Finance act 1959 had empowered the government to levy property tax. Property tax act 1960 was enacted to collect tax from property. Urban house and land foreign

investment were taxed at the same rate under property tax Act 1960. Under the provision of property tax Act Nepal government framed property tax rules 1960. A separated house and land tax Act 1962 was enforced and subsequently, house and tax rule 1963 was then enacted which repeated the existing property tax Act 1960. Earlier central government used to impose property tax under prevailing Acts and rules. After enactment of local self government Act 1998 local bodies (i.e. VDC and Municipalities) impose property taxes with in their Boundary. currently house and land tax Act 1962, property tax Act 1990 and local self governance Act, 1998 have been implemented levying property tax under local self governance Act.

### **2.2.1 Collection, Realization and Refund of Tax**

Since the integrated property tax and vehicle tax are not exclusively practiced in some municipalities. Tax collection and realization with respect to the house and land tax are discussed here under local self-governance act 1998 has made the provision for collection, realization and refund of tax separately to the municipalities and VDC's.

#### **2.2.1.1 Collection of Tax**

Local self-Governance Act 1998 has empowered VDC, municipality and DDC levy taxes. The VDC's and municipality in the form of land revenue, land tax, integrated property tax and vital tax levy the property taxes.

- a. Incase of Village Development Committee (VDC) according to section 55 of local self governance Act 1998, the VDC may levy the property tax as follower in its area at the rate approved by the village council, not exceeding the prescribed rate:

- \* House and land tax based on size type, design and structure of the house within the area of VDC, it may impose annual house and land tax on each house and compound.
  - \* Land revenue (malpot) or land tax: the VDC may levy land revenue or land tax on the land within its area. However, 25% of revenue collected from land revenue or land tax has to be handled over the District Development Committee (DDC).
- b. In case of Municipality
- According to the sections 136 and 140 of the Local Self Government Act 1998, the municipality levies the following property taxes within its jurisdiction:
- \* House and land tax: Based on the size, type, design and structure of the house, the municipality may levy annual house and land tax on each house and compound as approved by the municipal council.
  - \* Land revenue or land tax: The municipality may impose land revenue and land tax as prescribed on the land within the municipal area.
  - \* Integrated property tax: The municipality may levy an integrated property tax within its jurisdiction at the prescribed rate.

According to rule 140 of the Local Self Government Regulation 1999, the maximum and minimum limits of the rate of land revenue and of house and land tax that may be levied by a municipality within its area shall be as prescribed in chapter four of the regulation. As per rule 144, the minimum and maximum rates of the integrated property tax that may be levied by a municipality within its area shall be as prescribed in chapter four of the regulation.

### **2.2.1.2 Recovery of Tax**

According to sec 71 and 166 the fine and punishment imposed by the VDC or by municipality are recovered by following the process as recovery of areas as government dues under sec 260. According to this process, if any person does not pay any tax, duty or charge levied or contracted or any other amount due and payable to the local body the District administration officer recovers it as government dues.

### **2.2.1.3 Refund of Tax**

The municipality is not entitle to collect any kinds of taxes country to the act or the rules. If the municipality collects such taxes, Nepal government may order to stop such collection and the refund the amount of taxes so, collected to the connected person.

## **2.2.2 Penalties, Action and Appeals**

Penalties, action and appeals with respect to the house and land tax and revenue or land tax are discussed under here.

### **2.2.2.1 Penalties and Actions**

Local self governance Act 1998, sec 70 and 165 has made the provisions for fine and penalties if any one does not pay any taxes, fees, charges duties tariff and any other amount due to payable under the act, the VDC and municipality penalize the person.

#### **a. In case of VDC**

If any person does not pay the taxes imposed or levied by the village development committee it may punish such person with fine upto Rs. 500



and may stop the service made available by the VDC in regard to such person. (LSG, 1998 sec 702)

In case any person commits any contravention of the act, of the rules, - laws or order made under the act, such person shall be punished as prescribed else where in the act, and if punishment is not so prescribed, the VDC may punish such person with fine up to Rs. 500 (sec 70.3)

If any person, who has already been punished under this section, commits the same offence again the village development committee may punish such person with two fold punishment for each instance. (LSC 1998 Sec 70.4).

**b. In case of Municipality**

According to the section 165.2 if any one does not pay the taxes imposed by the municipality, it may take the following actions:

- i. If any one doesn't pay the taxes, which may be collected under the act, the municipality may write to the concern body to stop the transfer of ownership of the movable /immovable property of such person, may seal or lock up the trade, profession, and with hold the transaction inducing export and import.
- ii. If the amount which the municipality is entitled to collect under the act, could not be covered up even from the stoppage of the house and land transaction or assets of the concerned person, the municipality may recorded it by auctioning, the person house land or other assets.
- iii. According to sec 165.4 if any one does not pay any taxes under the act, the municipality may stop the service provided by it, in regarded to such person.

- iv. If anyone commits any action in contravention of the act or the rule by laws as order made under the act, such person will be punished. If punishment is not prescribed, the municipality may punish such person with a fine of up to Rs. 1000.
- v. If any one who has already been punished under this section commits the same offence again the municipality may punished such person with two fold punishment for each instance.

#### **2.2.2.2 Appeals**

In case any property holder is not satisfied with a punishment imposed by VDC or municipality the local self governance act, 1998 has made provisions of appeal against such punishment.

As per section 70.5 any party who is not satisfied with the punishment imposed by the VDC may appeal to the concern district court with in 35 days from on the date of knowledge of such decision.

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

#### **2.2.3 Property not Included in Valuation for Tax Purpose**

Some of the properties, which cannot be used for valuation, are mentioned in local self governmence act. The following properties are not included in valuation for tax purpose.

1. Growing crops

Grass or standing trees on agricultural land the growing crops grass or standing trees are excluded from the purpose of the term of assets.

## 2. Animals

Any domestic animals such as buffalos, cows, oxen and other but the act does not clear the types of animals.

- Any agricultural animals such as bullocks, cows and buffalos.
- Any performing animals in circuses such as chimpanzees, bears, lions, tiger,
- Any transport: Animals as mules or horse.

## 3. Amount deposited for life Insurance

In Nepalese act, there is no certain information about, insurance.

## 4. Patent and Copyright

The patent or copyright is exempt form property tax: the patent or copyright, is acquired by an assesses under the contract, form the original author or the inventor or it is acquired by way or inheritance or otherwise not exemption.

## 5. Books and Equipments for Study

## 6. Pots and equipments except valuable metals.

## 7. Wearing apparel provision and other clothes for personal or household used of the assesses.

## 8. Furniture and equipment (except T.V. camera, washing machine, refrigerator)

## 9. Tools machinery and equipments used for professional works.

## 10. Simple equipments of decoration of house.

## 11. Singing and dancing equipments for daily used.

## 12. Equipments and tools for first aid which are keep in house.

## 13. Equipments for physical exercise.

14. Transportation equipments, as cycle, rickshaw and other simple media.
15. Weapons and tools used for personal safety.
16. equipments related to arts and photographs.

According to local self governance act 1998, the assets exempt from tax is:

- a. 10 tola gold with jewelries,
- b. 200 tola silver with jewelries,
- c. Industrial mills, machinery tools, and equipments building and warehouse of industrial area.
- d. invested shares and debenture.
- e. Loan issued by Nepal government, which is declared exemption from these act
- f. Area for house assesses 300 square feet
- g. Stock in trade.

Similarly according to local self governance Act 1998 section 146, following rebuts are provided.

- a. Goods and equipments for social welfare
- b. Land owned by farmer
- c. The exemption limit for the land are
  - i. 10 Biga for Terai area
  - ii. 20 Ropanies for Kathmandu valley.
  - iii. 60 Ropanies for other hilly areas.
- d. Land recovered by royal Palace
- e. The land related to the Nepal government
- f. Land and building for hospital
- g. Land related to non-profit making organization
- h. Foreign agencies organization
- i. Pound, electricity house, airport, bus park etc.

## **2.2.4 Types of property tax exemption**

Property tax exemptions are exempted for social reasons such as, homesteads, churches, lodges, private school some for development purpose, such as, new industries some for fiscal or administrative reasons, such as house hold furniture some to avoid double taxation such as credits. The tax exempt in tangibles and certain types of tangible property are as follows.

### **a. Homestead Exemption**

Homestead exemption includes only dwelling occupied by the owner as a residence the site upon which the dwelling is located and varying amounts of surrounding land. The exemption may includes not only the land and improvements used as a place to live but also considerable property used to make a living. Homestead exemptions depend on a number of variables. Such as the degree of home ownership area and value of homesteads and the ratio of residential property to total property.

**b.** Exemptions of property used for religious and philanthropic purpose most the government exempt educational charitable benevolent and religious institution from property taxation.

### **c. Exemptions to encourage economic activity:**

Exemptions to encourage economic activity are cash bonus, loans donation of site and building or their provision at nominal rentals, guarantee of formable conditions and so on.

### **d. Municipal exemption policies:**

Municipals also provides exemptions to individuals to attract the economic activity with in the municipality.

### **2.2.5 Rebates, from Property tax**

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

- a. Loan and debenture taken from registered institutions.
- b. Amount received from life insurance.
- c. Prize received from social work.
- d. Amount received from citizen investment.
- e. Amount received from provident fund
- f. Amount received from personal annuity.
- g. Profit or dividend received from commercial institutions
- h. Amount received from foreign government.

### **2.2.6 Problems for effective tax administration**

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

### **2.3 Current provisions of house and land tax in Kirtipur Municipality**

Kirtipur municipality has been following up the self government act. Besides this act Kirtipur municipality have to work under the current

provision as well as their rules and regulations. The current provisions of house and land tax in Kirtipur municipality are as follows.

### **2.3.1 Necessary Documents and Duties for Submit House and Land Tax**

Following documents are required to submit house and land tax return in Kirtipur municipality.

- a. If any couple has separate land and house ownership statement should be submitted jointly.
- b. If there is more than one owner statement should be submitted in the name of any one owner.
- c. If any person has various land and house in the municipality are statement should be submitted to related ward office of each land and house.
- d. People having liability to pay house and land property tax it should submit the as per act.
- e. If there is any increase/decrease in house and land property it should be reported to the ward office.
- f. Calculated tax as per submitted statement should be deposited in bank account of within 35 days.
- g. The necessary documents are:
  - i. Copy of land ownership certificate-1
  - ii. Copy of approval of house map -1
  - iii. Copy of approval of new flat map if any -1
  - iv. Field inspection report by technician for house constructed with in approval before provision of metropolitan system-1
  - v. Copy of tax receipt if any submitted to tax officer-1
- h. tax officer holds right for following action of required

- Necessary examinations and review of statements by tax payer by issuing notice for filling and taking interview.
- Field inspection. (*Source: Annual Report 2011, Kirtipur Municipality*)

### **2.3.2 Process of tax Assessment**

To make the tax payer easier Kirtipur municipality has provided the certain process of tax assessment. Necessary documents should be registered in house and land tax book. Process of tax assessment covers the process as follows: (*Source: Annual Report 2011, Kirtipur Municipality*)

1. Necessary documents should be registered in house and land tax book.
2. House valuation is done based on size of house area of land and depreciation rate.
3. Different types of house should be valued in different ways.
4. Tax assessment is done on the basic of house and land valuation.
5. After paying house and land tax, tax clearance certificate should issued and keep the records.
6. If owners are multiple persons, tax assessment should be done in the name of multiple owners like flat owners.

### **2.2.3 Things to be Considered in Process of Tax Assessment**

In the process of tax assessment some of the rules and regulations should be considered are as follows:

1. Finding out actual valuation by total area of house.
2. Finding taxable value on the basis of depreciation types of house, total valuation year and rate.
3. If approval is not taken during house construction s/he should deposited Rs. 10 per sq ft.



4. Name and types of road should be defined in the map.
5. Finding out the area of land in Anna/Ropani
6. Actual valuations are done based on types of road.

#### **2.3.4 Rebate for the Payers in Kirtipur Municipality**

Tax payer could be get, rebates if they paid tax in the certain time and other conditions. some of such conditions of rebate for taxpayers are as follows: (*Source: Annual Report, 2011 Kirtipur municipality*)

1. 10% Discount for paying tax before last Sharawn
2. No penalty for paying tax until Ashwin last.

#### **2.3.5 Penalty system of house and land tax**

If the tax payers disobey the rules and regulation as mentioned in act and provision they are charged by fine and penalties, penalties provisions are as follows:

- a. If any person submits false documents till every year the penalty is Rs. 5000.
- b. If a person does not follow directions of tax officer penalty is Rs.500.
- c. If any person do not follow rules and regulation regarding paying tax the penalty is Rs. 1000.
- d. If tax is not deposited with in 35 days 15% additional amount per annum shall be charged an assessed.

#### **2.3.6 Exemptions of House and Land tax in Kirtipur Municipality**

- a. House and land owned by the Nepal government
- b. House and land owned by municipalities and district development committee.
- c. House and land related to embassies, Diplomatic mission etc.
- d. Land related to crematorium, stadium, garden airport, park etc.

- e. House and land related to not profit making education institute and house related to public enterprises.

### **2.3.7 Calculation of House and Land tax related to Kirtipur Municipality**

In Nepal self governance act 2005 has been applicable in calculating property tax the example of calculation is shown in Appendix- III.

## **2.4 Review of Earlier Studies**

In the present world, property tax occupies one of the most important source of revenue of the countries. There fore it is more important all over the world. There are various studies carried out by different institutions and individuals. The purpose of this review is to bring in light the important work done on property taxation in Nepal. So some of the literature related to property tax has been reviewed in the following paragraph.

### **2.4.1 Review of Research Reports**

Dhungana, et al. (1967) in the research report published as the title of "The Analysis of tax Structure f Nepal" The reports show's the contribution trends of revenue and percentage of GDP from property taxation to the total revenue between the period 1962/63 to 1966/67. It also shows the different urban areas of Nepal and their contribution to the total collection.

Dhungana and Pradhan (1973) of an institution Centre for Economic Development and Administration (CEDA) surveyed the property tax for the first time and performed a general account on the revenue potentiality, assessment administrative mechanism of law. Problem, and suggestions

have made for the prospect and future scope for the development and had proposed for improvement and implementation procedure of property taxation. The report published as the title of Evaluation of urban property "the report consists of various aspect of urban property tax in Nepal.

Shan, et al. (1974) have analyze the property tax of five area in the repoert entitled "Evaluation of urban property". The five areas are Biratnager, birjung, Neaplgung, Bhairawa, and Janakpur. In this report they have also deal with housing trend, revenue potentiality valuation procedure of land.

Bhandari (1978) has attempted to focus on those problem areas and issues of policy making that are remaining on central concern. he also point out problem regarding property tax and has suggested to overcome ad uplift it share on revenue side along social betterment as it being a tax on the social sector.

Thakur (1979) studies the urban property taxation in Nepal and tried to shows its role in Bringingh about development with social justice in the economy.

Devkota (1980) has analyzed urban house and land tax entitled "Neaplma Shari Ghor Jagga Kar Kak Bisleshan" he analyze property to legal aspect evaluation procedure of house and land, collection of house and land tax, tax base, structure of tax rate revenue potentiality, historical aspect and property tax is different hat ion long with international aspect.

In this report he finds out that revenue form property tax has not been mobilized that much, it has low revenue productivity and contribution from this tax to total revenue is insignificant, he finds assessment ratio is

also very poor. And at last he has forwarded some suggestion for the improvement the property tax.

Pyakural (1981) shows the insignificant revenue generation from urban house and land tax and shows serious weakness regardinteh administration method of assessment and evaluation procedure of property tax for the effective implementation and improvement of the property tax. he had forwarded some suggestions.

Poudel (1993) Shows the implemented procedure of property system, rate and structure of property tax and shows that problem of property tax system. For the effective implementation and improvement of the property tax he has forwarded some suggestions.

Ghimire (2006) has done research entitled "Study for the measure of Tax compliance Habits and Leakage control" This report has dwelt upon the existing legal provision to check tax leakages and its implementation status. Critical appraisal of tax related earlier legal instruments has also been carried out the importance of tax education, accounting knowledge motivation for revenue staff and and tax payer also reviewed. This report has identified some legal institutional structure of tax administration revenue police and monitoring activities. Pervading tax related laws have made various anti leakage provisions to minimize the noncompliance and to maximize the tax collection.

#### **2.4.2 Review of Related Books**

Dhakal (2001) has presented enlarged and modified edition of his book named "Income tax house and Compound Tax laws and Practicwe" In this book he has described the provision made under income tax aid the

methods of income tax assessment have been described with numerical example.

Koirala (2003) wrote a book and entitled of "Tax laws and Tax planning" In this book they have mentioned about the concession rebate and allowances to tax payer. Which can reduced tax liability.

Adhakari (2003) wrote a book entitled "Modern taxation in Nepal: Theory and Practice" This book has been taken top consideration income tax act 2001 and amended by finance ordinance 2060 has also been included.

Kandel (2006) wrote two books on taxation one book entitled "Tax law's and planning" and another "Nepal Ko Bartaman Kar Buyawastha" He has presented practiced as well as theoretical aspect on taxation in these books.

K.C. (2006) wrote a book "Tax laws and tax planning theory an practice" This book has shown the historical background of taxation in Nepal and another country.

### **2.4.3 Review of Thesis**

Under this section various master degree thesis related to this study has been reviewed. Some of them are as follows.

Kayastha in (1974) in his thesis entitled "Taxation income and property on Nepal" ahs tried to analyzed to contribution of income and property tax to viral revenue generation in Nepal and has also point out drawbacks of the system at that time along with the policy suggestion to remove them. his study on legal and administration aspect was also helpful to find

out some relevant information regarding income tax system of Nepal are income tax evasion at high level and greater role of indirect tax in tax.

Timalina (2005) in his thesis "Taxation in Nepal: Special reference to land revenue" has mentioned about importance of land tax in Nepal. He has also clearly explained about the land tax development from ancient to modernize land tax system in Nepal. The major problem existing in Nepal land tax system identified by him are the inefficient land revenue administration, lack of modern cadastral survey, up to date records inequality of minimum valuation of land for different purpose land classification. Not made on the basis of its productivity etc. He has suggested some improvement regarding land tax and administration for the collection of tax in Nepal.

Adhikari (2005) in her thesis "A Study on house and compound (property tax)" (Special reference to integrated property tax in Dharan Municipality). In her research she has stated that collection of property tax under LSG act 2055 is good measure and suitable means for mobilizing internal resource. She states that there are two types of property tax first one is called house and land tax and other is called unified property tax. The collection of house and land tax is collected by the municipalities and VDC and later one was only collected by municipalities. She also found out that in Dharan Municipality. There was wide spread tax evasion. So, she stressed that government should formulate a policy to check the tax evasion. She recommended that tax administration must be enough efficient for the improvement of tax administration to simplification of tax laws and policy.

Adhikari (2007) in his thesis entitled "Municipality task in Nepal" (A case study of Lalitpur sub-metropolitan city) has mentioned about

importance of property tax in Nepal. he has also justified the contribution of enterprises to the municipality. The major problems existing in Nepalese tax system d identified by him are poor revenue collection efficiency, lack of appropriate legal action against defaulter, ineffective collection procedure etc. he has suggested some improvement regarding municipal tax for the collection of tax in Nepal.

Timalsina (2007)in his thesis "Taxation in Neal: Special reference to land revenue and land registration tax' has stated that the problem of systematic record of land registration in Nepal. He has also explain about need of classification of land according to its uses and area. With out the classification of land the collection of land revenue through such land will be not justifiable and equitable. He has suggested that there is necessary to restructure the policy regarding land registration tax.

Mahoto (2010) in his thesis "House and land (property) tax in Kathmandu metropolitan city" has stated that the system of property tax is the best method of collecting tax revenue which helps the economic development of the nation. Poor mobilization of internal resource as tax is the main cause of funds insufficiency. So, the government should mobilize the tax for the economic development. And he has also recommend that some improvements regarding house and land tax and informative knowledge to the local people regarding house and land tax.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

Research is a systematic method of finding right solution for the problem where as research methodology refers to the various steps undertaken a researcher to find the optimum solution.

Role of property tax in national revenue is very significant in Nepal. The main objective of this study is to observed the real situation and role played by the property tax in Nepal. To achieve the objective of this study a research methodology has been design. This research methodology contains research design. Population and sample, nature and source of data, procedure of data collection processing and analysis.

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

#### **3.1 Types of Research**

This study includes three types of research as descriptive analytical as well as empirical.

- a. Descriptive research studies involve the systematic collection and presentation of data to give a clear picture of a particular situation. These studies attempt to obtain a complete and accurate description of a situation.



- b. In analytical research information already available and facts has to be used and analyzed these to bring fact-finding.
- c. The empirical research relies on observation alone often without due regards for system and theory. It is data based research coming up with conclusion, which is capable of being verified observation.

### 3.2 Research Design

This research attempts to analyze the present house and land tax where opinion of 50 respondents associated with the house and land tax. Tax payers tax officer and tax experts were interviewed through the questionnaire. The questionnaire includes the problem of tax administrating, weakness associated with the current house and land tax, methods of increasing tax paying habit of the Nepalese people, tax exempted property-controlling tax evasion etc. Similarly various publication of house and land tax of different organization are used for this study.

### 3.3 Population and Sample

In order to benifit this study 40 samples size from kirtipur municipalities an 10 samples size from the other municipality is selected.

The respondent have been divided into 3 groups. The following table show the groups of respondents and size of sample.

**Table 3.1**  
**Group of Respondents**

S.N	Group of Respondents	Sample size
1.	Tax experts	10
2.	Municipal officials	20
3.	Property tax payers of Kirtipur Municipality	20
Total		50

### **3.4 Nature and Source of Data**

Both primary as well as secondary data have been collected in order to achieve the real and factual result out of this research. All the possible and useful data available have been collected. This major source of data are as follows:

#### **a. Primary Source**

The primary data were collected from primary source. Data had been collected from the response of persons relating to property tax representing from the various sector of Kirtipur municipality. For this purpose, structured questionnaire was distributed to the selected respondents along with the field visit.

#### **b. Secondary source of Data**

The secondary source of data are the information received from books, journals, newspapers, reports and dissertations etc.

The major source of secondary data are as follows:

- i. Economic survey of various year
- ii. Reports and records of Inland Revenue departments.
- iii. Books related to House and land tax.
- iv. Various thesis and dissertation.
- v. Research studies by CEDA concerning the house and land tax.

### **3.5 Data Processing Procedure and Analysis of Data**

Collected data from primary and secondary source are firstly tabulated into separate format in systematic manner for the purpose of analysis, generally simple statistical tools have been used which are as follows:

- a. Simple percentage

- b. Simple average
- c. Graphs charts and diagrams
- d. Other statistical tools.
- 1. Parabolic Trend analysis
- 2. Test of Hypothesis

**1. Parabolic Trend Analysis**

One of the main objective of the analysis of the time series is to forecast future with the help of past obtained by fitting a properly be shown by straight line trend. So in this case it fits second degree (parabolic) trend whose equation is  $yc = a + b + cx^2 \dots\dots\dots(1)$

where,

x = Independent variable

Yc = Dependent variable

a = Y-Intercept

b = Slope of the regression line (i.e. it measures the change in y per unit change in x)

Now the value of a, b and c can be found by solving the flowing normal equations. The equations are constructed by the multiplying the equation (i) by  $\Sigma$ ,  $\Sigma x$ , and  $\Sigma x^2$  for the equation (ii) , (iii) and (iv) respectively.

$$\Sigma y = Na + b\Sigma x + c\Sigma x^2 \dots\dots\dots(ii)$$

$$\Sigma xy = a\Sigma x + b\Sigma x^2 + c\Sigma x^3 \dots\dots\dots(iii)$$

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

By solving these equation, it can be found the value of a, b and c, then put on the values in equation (i) and the trend equation is fund when the equation of trend line is constructed then it should verify the values of independent variables for finding out the future amount of the value.

After then the values should be dropped on the diagram for the visual map. The presentation is called diagram presentation.

## 2. Test of Hypothesis

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

Hypothesis generation and testing required and understanding of the deductive and inductive reasoning. Deduction is the process of arriving at conclusion by interpreting the meaning of results of the data analysis. In this form of reasoning, one goes from general knowledge to specific knowledge.

### Test of Significant for Different Between Two Independent Means

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

#### Step:1

Set up the Null hypothesis and Alternative hypothesis and follows:

Null hypothesis  $H_0$ .  $\mu_1 = \mu_2$  that is the sample have been drawn from the normal populations with the same means. In other word, there is no significant difference between two samples means  $\bar{X}_1$  and  $\bar{X}_2$ . It is

usually set for the express purpose of being rejected to fix the idea about why a researcher initially set the hypothesis.

Alternative Hypothesis  $H_1: \mu_1 \neq \mu_2$  the researcher also has to specify a hypothesis that will be accepted if null hypothesis is rejected. Such hypothesis is called alternative hypothesis. It is denoted by  $H_1$ . It should be noted that alternative hypothesis is mutually exclusive and complementary statement of null hypothesis. Generally this alternative hypothesis is the operational statement of researchers interest. The general procedure of setting the alternative hypothesis on testing the specified value of the population mean is one of the following three alternatives.

- a.  $H_1: \mu_1 \neq \mu_2$  (two tailed test) the samples have not been drawn from the normal population with the same means. In other words, there is significant different between two sample means  $\bar{x}_1$  and  $\bar{x}_2$ .
- b.  $H_1: \mu_1 > \mu_2$  (Right tailed test). That's mean of first population is higher than the mean of the second population.
- c.  $H_1: \mu_1 < \mu_2$  (Left tailed test). That's mean of first population lower than mean of second population.

## **Step: 2**

### **Choice of Appropriate statistical Tools**

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

- a. The nature of population from which the sample was drawn.
- b. The nature of measurement of scaling, which was used in the operational definitions of the variables.
- c. The nature of sampling distribution.

### Compute the test statistic

The population variances are equal but unknown, the test statistic under  $H_0$  is

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{s^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} \sim n_1 + n_2 - 2$$

That is the test statistic 't' follows t-distribution with  $n_1 + n_2 - 2$  degree of freedom.

Where,

$$\bar{X}_1 = \frac{\sum X_1}{n}, \quad \bar{X}_2 = \frac{\sum X_2}{n_2}$$

$S^2$  = An unbiased estimated of the common population variance based on both the sample.

The value of  $S^2$  can be computed in one of the following way:

- i. Actual mean method: When deviations are taken from their respective means, then,

$$S^2 = \frac{1}{n_1 + n_2 - 2} \left[ \sum (x_1 - \bar{x}_1)^2 + \sum (x_2 - \bar{x}_2)^2 \right]$$

This method is suitable only when the values of mean's become in whole number.

- ii. Direct method: When Actual data are used, then

$$S^2 = \frac{1}{n_1 + n_2 - 2} \left[ \sum X_1^2 - \frac{(\sum X_1)^2}{n} + \sum X_2^2 - \frac{(\sum X_2)^2}{n_2} \right]$$

This method is suitable only when the actual data are not very large.

- iii. Short-cut method or assumed mean method: When the values of mean's become in decimal/in that case deviation's are taken from assumed mean then the value of  $S^2$  is computed as follows:

$$S^2 = \frac{1}{n_1 + n_2 - 2} \left[ \sum d_1^2 - \frac{(\sum d_1)^2}{n} + \sum d_2^2 - \frac{(\sum d_2)^2}{n_2} \right]$$

Where,

$$d = X_1 - A_1, d_2 = X_2 - A_2$$

$A_1$  = Assumed mean taken from  $X_1$

$A_2$  = Assumed mean taken from  $X_2$

- iv. When sample standard deviations (biased estimated) are given, then the value of  $S^2$  is computed as follows:

$$S^2 = \frac{n_1 s^2 + n_2 S_2^2}{n_1 + n_2 - 2}$$

$$\sum (X_1 - \bar{X}_2)^2 = n s_1^2 \text{ and } \sum (X_2 - \bar{X}_2)^2 = n s_2^2$$

### Step: 3

Obtain the tabulated value of 't' from  $n_1 + n_2 - 2$  degree for freedom at the level of significance according as whether alternative hypothesis is one tailed test or two ailed test.

### Step: 4

Decision: Make a decision by comparing the calculated value of 't' with the tabulated value of 't'.

If calculated  $t <$  tabulated t it is not significant and  $H_0$  is accepted. Other wise it is rejected.

## CHAPTER IV

### PRESENTATION AND ANALYSIS OF DATA

Data presentation and Analysis of house and land (property) tax of Kirtipur municipality has been done in this chapter. This is the major part of the study. It aims to make clear understanding of property tax administration in Kirtipur municipality.

#### 4.1 Tax Structure of Nepal

The income of the government through all source like taxes fees, fine and penalties are collect public revenue. Public revenue may be divided into two main heading (i) tax revenue and (ii) non tax revenue.

##### 4.1.1 Contribution of tax revenue and non tax revenue in Nepal

Contribution of tax revenue and non tax revenue in Nepal are as follows:

**Table 4.1**  
**Contribution of tax revenue and non tax revenue in Nepal**

(Rs. in Million)

Fiscal Year	Tax revenue	Non Tax Revenue
2000/01	38865	10028.8
2001/02	39330.6	11116
2002/03	40896	13642.9
2003/04	48173	14158
2004/05	54104.7	16018
2005/06	57430.4	14851.6
2006/07	71126.7	16585.5
2007/08	85155.5	22467
2008/09	117051.9	26422.6
2009/10	156294.9	23650.9
Total	708428.7	168941.3
Average	70842.87	16894.13

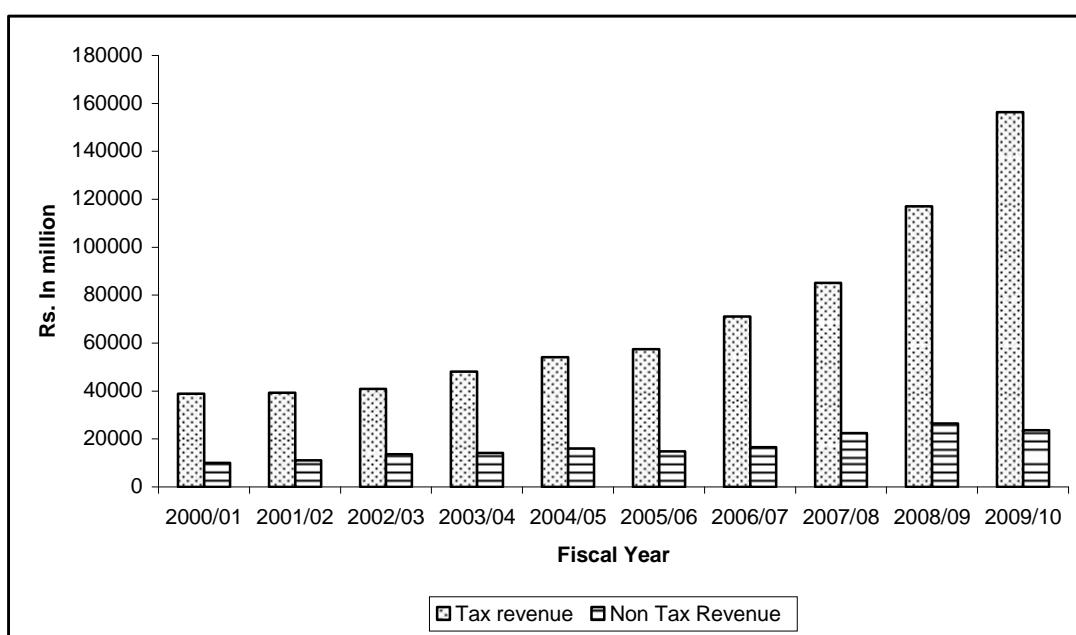
Source: Economic Survey 2011.



Table 4.1 has presented the contribution of tax revenue and non tax revenue in term of rupees. Direct tax was increasing trend in every year. But the non tax revenue is fluctuating trend. It can be found calculating the average of tax revenue and non tax revenue Rs. 70842.87 and 16894.13 respectively. The non tax revenue is increasing from 2000/01 to 2004/05 and it was decreased in 2005/06 from Rs. 16018 million to Rs. 14851.6 million. And after 2005/06 the collection of non tax revenue is increasing trend upto fiscal year 2008/09, and again decrease in fiscal year 2009/10. This table can be shown in graph as:

**Figure 4.1**

**Contribution of tax revenue and non-tax revenue in Nepal**



### 4.1.2 Contribution of Direct Tax of Nepal

Contribution of Direct tax in Nepal as follows:

**Table 4.2**  
**Contribution of Direct Tax of Nepal**

(Rs. in million)

Fiscal Year	Direct Tax (DT)	DT as % of Total Tax Revenue
2000/01	10159.5	26.14
2001/02	10597.5	26.94
2002/03	10105.8	23.72
2003/04	11912.88	24.72
2004/05	13071.8	24.16
2005/06	13968.1	24.32
2006/07	18980.3	26.69
2007/08	23087.7	27.11
2008/09	34320.7	29.32
2009/10	36790	23.53

Source: Economic Survey 2011.

The above table 4.2 the direct tax as well as their growing tendency. Direct tax as a percentage of total tax showed a fluctuating trend. The contribution as a percentage of total tax highest and 29.32% at 2008/09 and lowest at 23.72 in 2002/03. The percentage of Direct tax of total revenue is fluctuating each and every year.

### 4.1.3 Valuation of House and Compound

Property tax act 1990 has been replaced by urban house and compound tax act 1995. After the introduction of local self-government act in 1999 property tax is given to local bodies. Right now, there are two

variation of property taxes. House and land tax and unified (integrate) property tax. Local bodies, VDCs and municipalities have the right to collect property tax where as the right collecting unified tax is given to municipalities.

**Table 4.3**  
**Valuation of House and Compound**

Structure of House or Mode of Construction	Valuation of House		
	Average Cost per sq. ft.	Depn Ratio in % Per year	Total life in year
a. Green (raw bricks with mud mortar or made of wood (timber))	Rs. 450	3%	25 Year
b. Kiln bricks (or stone) with mud mortar	Rs. 525	2%	30 Year
c. Klin bricks (or stone) with cement mortar	Rs. 575	1%	70 Year
d. R.C.C. frame structure	Rs. 635	0.75%	100 Year

Source: Koirala and Bhattarai "Taxation in Nepal", 2003.

Note:

- a. House made of green (raw) bricks with mud mortar and thatched roof or house made of bamboo with thatched is not valued for the purpose of house and land tax.
- b. The main auditorium of cinema hall is valued by applying at 25% discount in previously mentioned rates. It means the main auditorium of a cinema hall is valued at 75% of foresaid rates.
- c. Depreciation is not deduction in the year of construction of house. For example for a house constructed 5 year ago, depreciation for only four is deducted.

## Valuation of land

**Table 4.4**

### **A Landlord can Hold maximum limit of Land**

Region/part of the country	Agriculture	House and Compound
Tarai including inner Terai	10 Bighas	1 Bigha
In Kathmandu valley	25 Ropanies	5 Ropanies
All hilly areas other than Kathmandu valley	70 Ropanies	5 ropanies

Source: Inland Revenue Department

**Table 4.5**

### **Computation of House and Land Tax**

Valuation of H and L	Rate (in%)	Amount (In Rs.)
First Upto Rs. 10 lakh	Nil	Nil
Next Rs. 10 lakh	Rs. 300 (lump sum)	300
Next Rs. 30 lakh	0.05%	1500
Next Rs. 50 lakh	0.25%	12500
Next Rs. 1 corode	0.5%	50000
Remaining only amount	1.5%	-

In table 4.5 rate of tax in ruppees and percentage and amount are shown in Right side. Value of house and land is shown in the left side. If the value of house and land is upto 10 lakh they should not have to pay tax. If one has value of house and land upto as lakhs. They must pay Rs. 300. Similarly, one who has value of house and land next upto 1 corode after exemption of Rs. 10 lakhs they should have to pay Rs. 50000.

Note: Valuation of land (compound)

- i. Area of land in Bigha/Ropani/Kattha/Aana
- ii. Valueation of the land should be fixed by government for the tax purpose. Not the market price of the land.

#### 4.1.4 Study about Contribution of House and Land Tax Revenue of Kirtipur Municipality

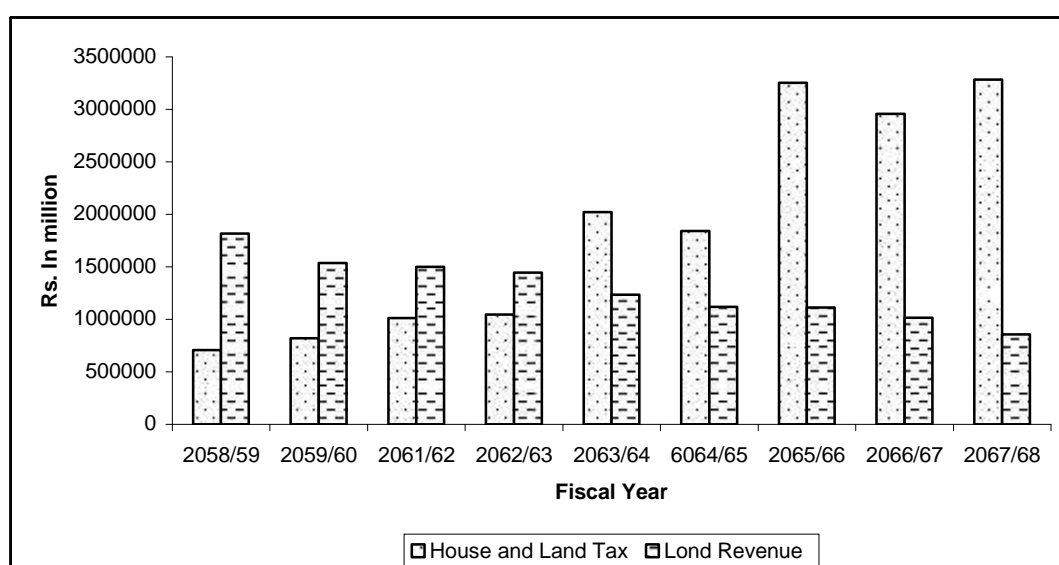
Kirtipur municipality has been collecting property tax since 2057. It is know as house and land tax. This tax is playing vital role in Kirtipur municipality.

**Table 4.6**  
**Collection of house and Land Tax of Kirtipur Municipality**

Fiscal Year	House and Land Tax	Land Revenue
2002/03	707395	1817311
2003/04	819520	1535719
2004/05	1013218	1500189
2005/06	1046717	1445319
2006/07	2020211	1235615
2007/08	1842619	1119771
2008/09	3252020	1113899
2009/10	2958261	1015575
2010/11	3284189	855376
Total	16944150	11638774
Average	1882683.333	1293197.112

Source: Primary Source (2012, KM, Revenue Department)

**Figure 4.2**  
**Collection of House and Land Tax of Kirtipur Municipality**



After the enactment of local self government act 2055, the local bodies are empowered to levy the property taxes. Act has empowered right to Kiripur municipalities to collect revenue from property tax. It is observed in table 4.6 the collection on household land has been increasing. It can be found after the calculating average house and land tax and land revenue Rs. 1882683.33 and 1293197.112 respectively of On the other hand the revenue collection by Malpot and land is decreasing gradually.

#### **4.1.5 Comparative Study of House and Land Tax and Local Tax of Kirtipur Municipality**

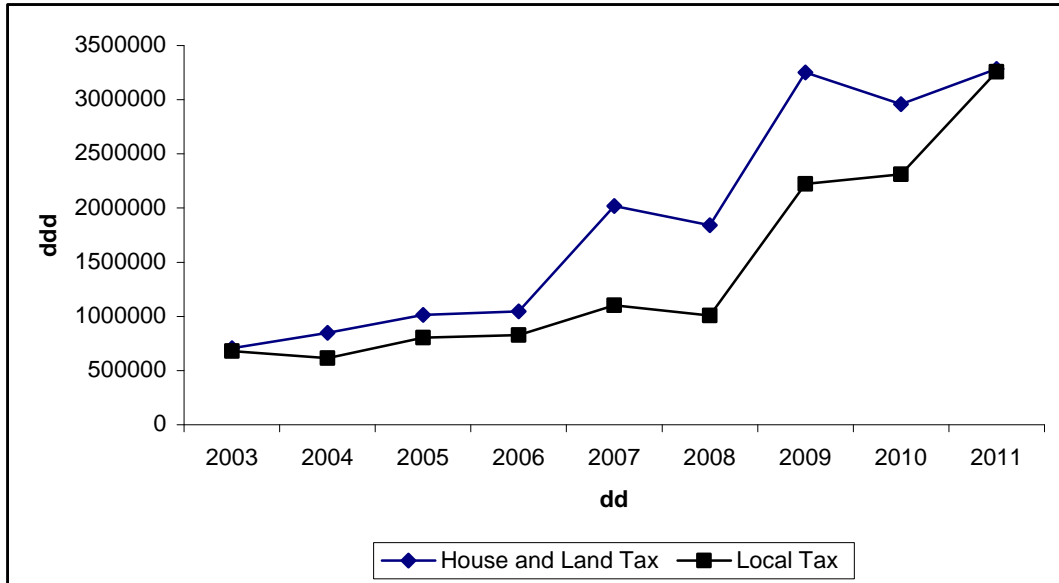
Presented table below stressed on the comparative study about house and land tax and local tax of Kirtipur municipality here percentage of H and L tax and local tax drawn on the Kirtipur municipality.

**Table 4.7**  
**Comparative Study of House and Land Tax and Local Tax in Kirtipur Municipality**

Fiscal Year	House and Land Tax	Local Tax
2003	707395	680333
2004	849520	615814
2005	1013218	805377
2006	1046717	827715
2007	2020211	1102314
2008	1842619	1007842
2009	3252020	2223517
2010	2958216	2312547
2011	3284189	3257133
Total	16944150	12832592
Average	1882683.333	1425843.556

*Source : Annual Report of various year of Kirtipur Municipality.*

**Figure 4.3**  
**Comparative Study of H and L Tax and Local Tax in Kirtipur Municipality**



Above figure and table shows that the collection of house and land tax and local tax is increasing gradually from 2003-2011 and contribution of revenue collection of house and land tax is higher than the local tax. It can be found by calculating the average of House and Land tax Rs. 1882683.333 and 1425843.556 respectively.

## 4.2 Statistical Analysis

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

- i. Parabolic trend analysis
- ii. Testing of Hypothesis

### 4.2.1 Analysis Trend Value of Urban House and Land Tax

The parabolic trend analysis is a reliable source from analyzing the future trend of the available data. From which the trend is calculated through the information of past performance. The trend analysis helps to forecast future amount of house and land tax of Kirtipur Municipality.

**Table 4.8**  
**Parabolic Trend Analysis for House and Land tax**  
**of Kiritpur Municipality**

FY	H and L Tax (Y)	X = (year 2007)	XY	X <sup>2</sup>	X <sup>3</sup>	X <sup>4</sup>	X <sup>2</sup> Y
2003	707395	-4	-2829580	16	-64	256	11318320
2004	819520	-3	-2458560	9	-27	81	7375680
2005	1013218	-2	-2026436	4	-8	16	4052872
2006	1046717	-1	1046717	1	-1	1	1046717
2007	2020211	0	0	0	0	0	0
2008	1842619	1	1842619	1	1	1	1842619
2009	3252020	2	6504040	4	8	16	1300808
2010	2958216	3	8874648	9	27	81	26623944
2011	3284189	4	13136756	16	64	256	52547024
Total	ΣY=15944105	ΣX=0	ΣXY=21996770	ΣX <sup>2</sup> =60	ΣX <sup>3</sup> =0	ΣX <sup>4</sup> =708	ΣX <sup>2</sup> Y=117815256

Now fitting the parabolic trend

Which equation is :

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

For any given value of independent variables X the estimated value of Y denoted by Y<sub>c</sub> given by the above equation.

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

Now, the value of a, b, c can be find by solving the normal equation. The equations are construct by multiplying to the equation (i) by ΣY, ΣX and ΣX<sup>2</sup> for equation (iii), (iv) and (v) respectively.

$$\Sigma Y = Na + b\Sigma x + c\Sigma x^2 \dots\dots\dots (iii)$$

$$\Sigma XY = a\Sigma x + b\Sigma x^2 + c\Sigma x^3 \dots\dots\dots (iv)$$

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

Where,

$$\Sigma Y = 15944105, \Sigma X = 0, \Sigma XY = 21996770, \Sigma X^2 = 60$$

$$\Sigma X^3 = 0, \Sigma X^4 = 708, \Sigma X^2 Y = 117815256, N = 9$$



Now substituting the values

$$15944105 = 9a + 0 + 60c \dots\dots\dots (vi)$$

$$21996770 = 0+60b + 0 \dots\dots\dots (vii)$$

$$117815256 = 60a + 0 + 708c \dots\dots\dots (viii)$$

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

$$a = 1653033$$

$$b = 366613$$

$$c = 17780$$

The equation under parabolic trend analysis is :

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

$$Y = 1653033+366613x + 1780x^2$$

The above equation is used to forecasted the value of total house and land tax of Kirtipur for the year 2012, 2013, 2014, 2015, 2016. Here the house and land tax has been estimated below by using parabolic trend analysis.

Now forecasting the future house and land tax for the Kirtipur municipality.

$$\text{The forecasted house and land tax for 2012} = 3930598$$

$$\text{The forecasted house and land tax for 2013} = 4492791$$

$$\text{The forecasted house and land tax for 2014} = 5090544$$

$$\text{The forecasted house and land tax for 2015} = 5723857$$

$$\text{The forecasted house and land tax for 2016} = 6392730$$

The estimated house and land tax for the year 2012, 2013, 2014, 2015, 2016 are Rs. 3930598, Rs. 4492791, Rs. 5090544, Rs. 5723857, Rs. 6392730 respectively. It shows that the total forecasted house and land tax will have been increasing every year on the basic of past data. The post value and future value of house and land tax can be fitted. In diagram as below.

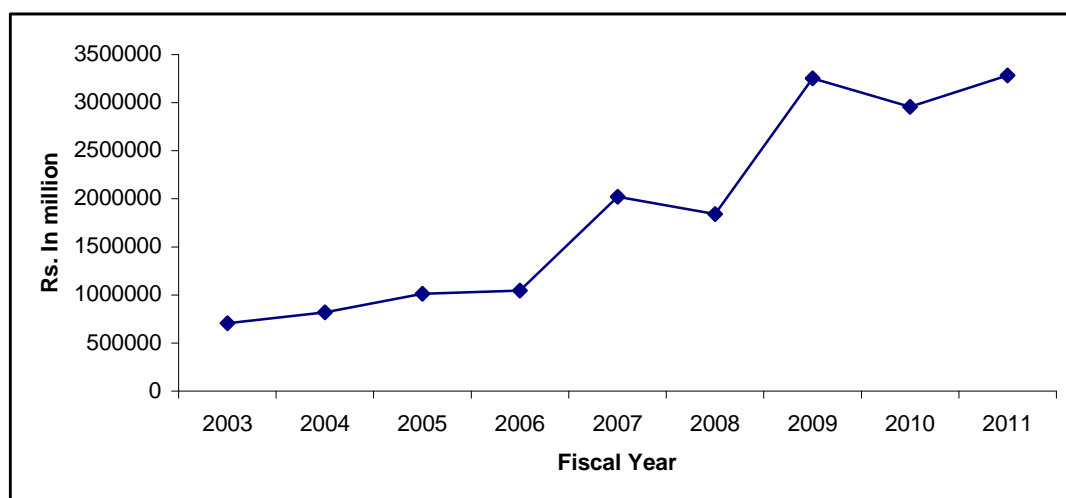
**Table 4.9**  
**Past Trend Line of House and Land Tax of Kirtipur**

Year	House and Land Tax (Rs.)
2003	707395
2004	819520
2005	1013218
2006	1046717
2007	2020211
2008	1842619
2009	3252020
2010	2958216
2011	3284189

Source: Annual report of Kirtipur Municipality, 2011.

**Figure 4.4**

**Past Trend Line of House and Land Tax of Kirtipur Municipality**

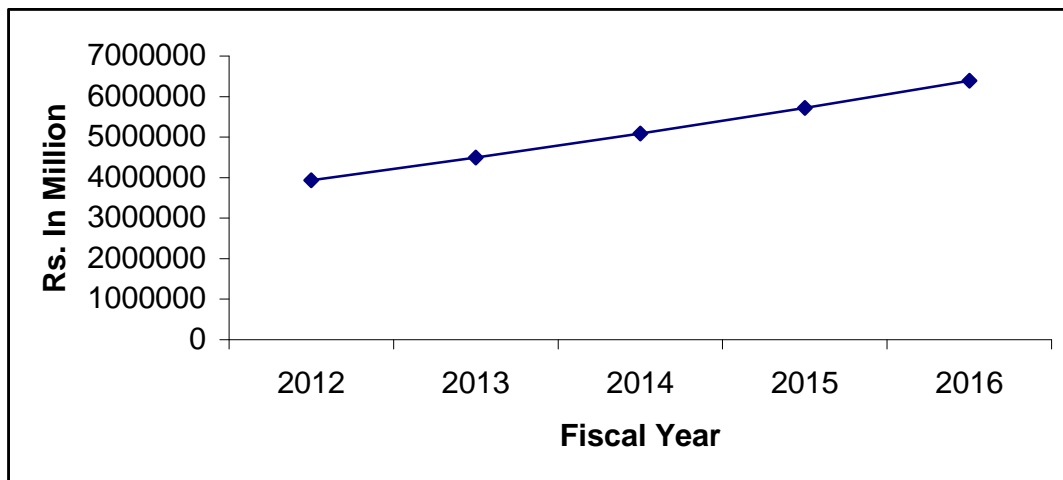


**Table 4.10**

**Future Trend Line of House and Land Tax of Kirtipur Municipality**

Year	House and Land Tax in Rs.
2012	3930598
2013	4492791
2014	5090544
2015	5723857
2016	6392730

**Figure 4.4**  
**Future Trend Line of House and Land Tax**



From the above table 4.9 urban house and land tax it is clear that urban house and land tax is positive trend or Increasing trend.

#### **4.2.2 Text of Hypothesis**

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

- a. Formulating Hypothesis
- b. Computing the Text Statistic
- c. Fixing the level of Significance
- d. Making Decision

In the following line some of the main hypothesis tests are calculated and decision are made.

### 4.2.2.1 Test of Hypothesis on House and Land Tax and Total Local Tax Revenue

Urban house and land tax and total local tax revenue are x and y respectively.

**Table 4.11**

**Calculation of  $\sum X_1 X_1^2$   $\sum Y_1 Y_1^2$  and  $S^2$  Let  $X_1 = X - \bar{X}$  and  $Y_1 = Y - \bar{Y}$**

(in Million)

Year	Revenue Collection from House and land tax			Revenue Collection from local tax		
	X	$X_1 = X - \bar{X}$	$X_1^2$	Y	$Y_1 = Y - \bar{Y}$	$Y_1^2$
2007	2.020211	-0.651789	0.4248289	1.102314	-0.878686	0.772089
2008	1.842619	-0.82938	0.6878728	1.007842	-0.973158	0.947036
2009	3.252020	0.58002	0.336423	2.223517	0.242517	0.588144
2010	2.958216	0.286216	0.08191	2.312547	0.331547	0.109923
2011	3.284189	0.610189	0.37233	3.257133	1.276133	1.628513434
Total	$\sum X = 13.35725$	$\sum X_1 = 0.005249$	$\sum X_1^2 = 1.9033$	$\sum Y = 9.903353$	$\sum Y_1 = 0.001647$	$\sum Y_1^2 = 3.35163$

$$\text{Where } \bar{X} = \frac{\sum X}{N} = \frac{13.35725}{5} = 2.672$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{9.903353}{5} = 1.981$$

Now,

$$\begin{aligned}
 S^2 &= \frac{1}{n_1 + n_2 - 2} \left[ \sum X_1^2 - \frac{(\sum X_1)^2}{n_1} + \sum Y_1^2 - \frac{(\sum Y_1)^2}{n_2} \right] \\
 &= \frac{1}{5 + 5 - 2} \left[ 1.9033 - \frac{0.005249^2}{5} + 3.3516377 - \frac{0.00164^2}{5} \right] \\
 &= \frac{1}{8} [1.90225 + 3.351309] \\
 &= 0.6567
 \end{aligned}$$

$$\therefore S^2 = 0.6567$$

Again,

Null hypothesis ( $H_0$ )  $\mu X = \mu Y$  i.e. there is no significance Difference between mean ratio and urban House and land tax and local tax.

Alternative hypothesis ( $H_1$ )  $\mu_X \neq \mu_Y$  (two tailed test) i.e. there is significance difference between mean ratio of urban house and land tax and local tax.

Under the test statistic is

$$\begin{aligned}
 t &= \frac{\bar{x} - \bar{y}}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} \text{ with } \dots\dots\dots n_1+n_2-2 \text{ df} \\
 &= \frac{.672 - 1.981}{\sqrt{0.6567 \left( \frac{1}{5} + \frac{1}{5} \right)}} \\
 &= \frac{2.691}{\sqrt{0.6567 \left( \frac{2}{5} \right)}} \\
 &= \frac{0.691}{\sqrt{0.26268}} \\
 &= \frac{0.691}{0.512} = 1.35
 \end{aligned}$$

Tabulated value of t at 5% level of significance of  $(n_1+n_2-2)$  i.e. 8 d.f. is 2.306.

Decision : Since the calculated value of 't' is 1.35 which is less than tabulated value of 't' i.e. 2.306. So,  $H_1$  is not accepted. In other words there is not significance difference between mean ratio of urban house and land tax and local tax.

### 4.3 An Empirical Analysis

#### 4.3.1 Introduction

An empirical investigation conducted in order to find out various aspects of house and land tax from the experience of real life situation. The major tools used for this purpose was an opinion questionnaire, which was

dispatched to 50 persons representing Tax expert, municipal officials and property tax payers.

The questionnaire were either asked for Yes/No response or asked from alternatives where most one was important. For this purpose structured questionnaire was distributed to the selected respondents along with the field visit. The samples of questions are shown in appendix.

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

**Table 4.12**  
**Groups of Respondents and Codes Used**

S.N.	Groups of Respondent	Sample Size	Code Used
1	Tax expert	10	A
2	Municipal officers	20	B
3	Property tax payers	20	C
Total		50	

Source: As per research design.

#### **4.3.2 Wide spread Evasion as the major constraint for the tax Collection through H and L Tax**

To know the respondents view about the current exemption limit a question was asked "wide spread evasion as the major constraint for the tax collection through H and L tax" do you agree ? The responses were as follows:

**Table 4.13**

**Wide Spread Evasion as the Major Constraint for the Tax Collection  
Through H and L Tax**

Response	Respondents			Total	Percentage
	A	B	C		
Yes	8	17	15	40	80
No	2	3	5	10	20
Total	10	20	20	50	100

Source: Field Survey, 2012.

From the above table it is clear that the 80% of the respondent were favour of statement and 20% of respondent were against the statement.

**4.3.3 H and L Tax as a Suitable Means for Raising Internal Resource**

Response	Respondents			Total	Percentage
	A	B	C		
Yes	10	20	20	50	100
No	-	-	-	-	-
Total	10	20	20	50	100

Source: Field Survey, 2012.

The 100 percent of respondents approved the H and L tax as a suitable meanse of raising internal resource. Hence it can be conclude that there is no doubt in the suitability of house and land tax raising internal resource.

In order to know the response of H and L tax as a suitable means for raising Internal resource the next question was asked "It yes, why it's suitable means for raising Internal resource ?" The respondent were requested to rank their response (1) more important (2) important (3) Least important. The response have been tabulated below.

**Table 4.14****Reason for Suitability of H and L Tax in Raising Internal Source**

S.N.	Reason	Group			Total	%	Rank
		A	B	C			
a.	It is difficult to depend on external resource	40	35	38	113	34.88	1
b.	Several limitations of public Borrowing	35	36	30	101	32.17	3
c.	Among the Internal resource H and L tax seems to the vial method	38	40	32	110	33.95	2
	Total				324	100	

In the above table percent was calculated according to the total point obtain by each reason, for ranking purpose. It is difficult to depend fully on external source it has got highest mark. So it is in 1st rank and among the internal resource house and land tax seems the viable method is in 2<sup>nd</sup>. And several limitations of public borrowing it is in 3<sup>rd</sup> position. Thus it is conclude that house and land tax as a suitable means for raising internal resource.

#### **4.3.4 House and Land tax Contributions Significantly to Development of Municipalities**

Property tax is one of vital income source of Kirtipur municipalities. To know the view of the respondents about contribution of house and land tax significantly to the development of municipalities a question was asked "Do you think house and land (property) tax contributes to the development of municipalities?" The responses are tabulated below:



**Table 4.15**  
**House and Land tax Contributions Significantly to**  
**Development of Municipalities**

Response	Respondents			Total	Percentage
	A	B	C		
Yes	7	20	15	42	84
No	3	-	5	8	16
Total	10	20	20	50	100

Source: Field Survey, 2012.

Table 4.15 shows that 84 percent of response approved the house and land tax contribute significantly to the Development of municipalities and 16 percent of respondent showed that house and land tax only does not significantly contributed for the development of municipalities. Thus it is concluded that property tax contributes significantly development of municipality.

#### **4.3.5 House and Land Tax paying in Specified Time**

To know the taxpayer of Kirtipur municipality pay property tax in specified time. A question was asked "In your opinion do businessman and other tax payers pay their property tax on specified time?" The responses received from the respondents are as follows:

**Table 4.16**  
**Property Tax to the Municipality in Specified Time**

Response	Respondents			Total	Percentage
	A	B	C		
Yes	6	10	19	35	70
No	4	10	1	15	30
Total	10	20	20	50	100

Source: Field Survey, 2012.

From the above table 70 percent of respondents paid property tax in the specific time, and remaining 30 of respondent did not pay property tax on specific time. This show the tax paying habit of tax payer in Kirtipur municipality is positive.

#### **4.3.6 Information for Taxpayers about Property Tax**

To know the respondent view of giving information about property tax by Kirtipur municipality, a question was asked, "Do you think tax payers have been informed regularly to pay property tax ?". The response received from the respondent are as follows:

**Table 4.17**

#### **Tax Payers have been Informed Regularly**

Response	Respondents			Total	Percentage
	A	B	C		
Yes	1	3	11	15	30
No	9	17	9	35	70
Total	10	20	20	50	100

Source: Field Survey, 2012.

From the table 4.17 it was clear that only 30 percent of respondents approved that taxpayers have been informed regularly to property tax. How ever 70 percent of the respondents approved that there was no information for tax payers to pay property tax regularly.

#### **4.3.7 Best way to inform tax payers about Property Tax**

To know the respondents view about the best way to inform about property tax to the taxpayers which include them to pay in right time, a question was asked along with 4 alternatives and response were asked to selected best or most appropriate the response were as follows:

**Table 4.18**

**Best way to Inform Tax Payers about Property Tax to Pay in Time**

Response	Respondents			Total	Percentage
	A	B	C		
a. Giving advertising in media	6	17	15	38	76
b. Sending acknowledgement letter to the tax payers	2	2	3	7	14
c. Information through telephone class	2	1	1	4	8
d. Establishing public relation individually	-	-	1	1	2
Total	10	20	20	50	100

Source: Field Survey, 2012.

From the above table 4.18 shows, respondent select most important way to information is giving advertising in media. 76 percent of respondents were select the alternative first. 14 percent of respondent select the second alternative sending acknowledgement letter to the taxpayers. 8 percent of respondent select the third alternative information through the telephone call, and 2 percent respondent select the establishing public relation individually. With the help of above table we can conclude that the Best way to inform tax payers about property tax to pay in time is giving advertising in media.

**4.3.8 Exemption Limit**

In order to know the respondent view about current exemption limit a question was asked "What is your opinion about present rate of property tax and exemption limit?" The response received from the respondent are as follows:

**Table 4.19**  
**Exemption Limit**

Response	Respondents			Total	Percentage
	A	B	C		
Yes	5	13	5	23	46
No	5	7	15	27	54
Total	10	20	20	50	100

Source: Field Survey, 2012.

From the above table 4.19 shows that current house and land tax exemption limit is acceptable. 46 percent of the respondent were in the positive of this exemption. And remaining were against this limit. Respondent who were against exemption limit give suggestion limit, which were as follows:

**Table 4.20**  
**Suggested Limit of House and Land Tax**

Present Limit	Suggested limit		
	Tax export	Municipal officer	Property tax payer
Exemption up to 10 Lakh Nil	up to 15 lakh	up to 15 lakh	up to 20 lakh
On 1st 10 lack Rs. 300	Rs. 200	Rs. 200	Rs. 200
Next up to 30 lakh 0.05	0.03%	0.025%	0.02
Next up to 50 lach 0.25%	0.20%	0.20%	0.15%
Next up to 1 corrode 0.5	0.40%	0.30%	0.30%
More than 1 Corrode	1%	1%	1%

Source: Field Survey, 2012.

### 4.3.9 Motivation Factor

In order to know the respondent view about motivation factor a question is asked "Do you think Kirtipur municipality should be apply motivation factor to pay in time to tax payers?" The response from respondents are as follows:

**Table 4.21**  
**Motivation Factor to the Tax Payers**

Response	Respondents			Total	Percentage
	A	B	C		
Yes	10	20	20	50	100
No	-	-	-	-	-
Total	10	20	20	50	100

Source: Field Survey, 2012.

From the above table all respondents view is positive forwards the motivation factor. So we can conclude that Kirtipur municipality should be apply motivation factor to pay in time to taxpayers. And to know the view about the motivation scheme the question is asked to respondents "If yes what motivation schemes should you think will appropriate to motive the tax payers?" All the respondent ware focused to tax rebates for the tax payer to motivation schemes.

### 4.3.10 Rebates Given by the Municipality

To know the respondent view about the Rebates given by the municipality the question was asked "Are you satisfied with the rebate given by the Kirtipur municipality?" The respondents response was as follows:

**Table 4.22**  
**Rebates Given by the Municipality**

Response	Respondents			Total	Percentage
	A	B	C		
Yes	10	20	15	45	90
No	-	-	5	5	10
Total	10	20	20	50	100

Source: Field Survey, 2012.

From the above table 4.22 shows 90 percent of the respondents are satisfied rebates given by the municipality and 10 percent respondents which are tax payers they are unsatisfied rebate given by the municipality. And question asked them orally they suggest the rebate is increased up to 2 percent for paying last of Sharawn and no rebates up to Aswin last.

#### **4.3.11 Complication in Paying House and Land Tax**

When tax payers comes to pay tax in municipality they may have problem and complication in paying tax. The language and terms used in tax law are complicated. Therefore in order to know opinion of respondents about the complication in paying house and land tax.

A question was asked "Did you have complication in paying House and land tax?" The respondents response are as follows:

**Table 4.23**  
**Complications in Paying House and Land Tax**

Response	Respondents			Total	Percentage
	A	B	C		
Yes	5	10	15	30	60
No	5	10	5	20	40
Total	10	20	20	50	100

Source: Field Survey, 2012.

From the above table 4.23 shows 60 percent respondents felt complication in paying tax where as only 40 percent respondents is consist there is no complication in paying property tax. The complications expressed by them have been presented in following table.

**Table 4.24**  
**Complications in Paying House and Land Tax**

S.N.	Reason	Group			Total	%	Rank
		A	B	C			
a.	Too much delay in making assessment	30	28	24	82	39.6	1
b.	Administrative harassment	26	22	26	74	35.75	2
c.	Complicated tax laws	17	15	19	51	24.64	3
d.	Other	-	-	-	-	-	-
	Total				207	100	

Source: Field Survey, 2012.

From the above table 4.24 shows 39.61 percent respondents focus that there is too much delay in making assessment. 35.75 percent of the respondents complained above the administrative harassment on determining tax liability. The reason may be the local governments employs have limited knowledge about the account keeping and assessment rules. 24.64 percent opinioned that there is complicated tax laws. They complained that the law is not simple to understand. The respondents point out that there is complication on valuation methods and valuation of house.

### **4.3.12 Provision of Collecting Property Tax Made Under the Local Self Governance Act is a Good Measure**

In order to know opinion of respondents about the provision of collecting property tax made under the local self governance act 2055 was a good measure of collecting property tax. A question was asked "In your opinion do local self governance act 1998 has made provision of collecting property tax is given to municipalities is a good measure of collecting property tax?" Their response are as follows:

**Table 4.25**  
**Provision of Collecting Property Tax made Under the local self Government Act is a Good Measure**

Response	Respondents			Total	Percentage
	A	B	C		
Yes	7	10	15	32	64
No	3	10	5	18	36
Total	10	20	20	50	100

Source: Field Survey, 2012.

From the above table 4.25 shows 64 percent of respondent felt that the provision of collecting property tax made under the local self-governance act 1998 is good measure and 36 percent of respondent felt governance act 1998 was not good measure for collecting house and land tax.

### **4.3.13 Provision of Collecting Integrated Tax by Local Body**

In the first instant the house and land tax were imposed by the central government. After the enactment of local self governance act 2055 the local bodies are empower to levy the property tax. According to the new provision VDC's and municipalities have right to impose property tax



such as land revenue, house and land tax with in their jurisdictions. Thus to know the opinion of respondents about provision of collecting integrated property tax, a question was asked "In your opinion is the provision of collecting intergraded property tax made under the local self government act is sufficient in all respect?" The response given by the respondent has been tabulated in following.

**Table 4.26**

**Provision of Collecting Integrated Property Tax by Local Bodies**

Response	Respondents			Total	Percentage
	A	B	C		
Yes	10	20	18	48	96
No	-	-	2	2	4
Total	10	20	20	50	100

Source: Field Survey, 2012.

From the above table 4.26 shows that it is observed that 96 percent of respondents accepted provision of collecting integrated property tax by local bodies is good measure for collecting property tax. The rest of the respondents (4 percent) disagreed the provision as saying No.

**4.3.14 Increment of a Tax Paying Habit**

Tax paying habit of public is the essential of an effective tax system. The Nepalese taxpayers avoid tax. Taxpayers service and assistance in tax office can go a long way in creating the tax consciousness in public. To know the opinion of respondents on the method of increment of tax paying habit, a question was asked "What are your suggestions for the increment of tax paying habit of the Nepalese people?" The respondent were request to their answer 1(most important to 5 (least important) the response have been tabulated as follows:

**Table 2.27**  
**Suggestion of a Tax Paying Habit**

S.N.	Suggestion	Group			Total	%	Rank
		A	B	C			
a.	Tax educating	50	48	50	148	31.65	1
b.	Incentive to regular tax payers	40	35	45	120	30.53	2
c.	Better public relation by tax	10	20	25	55	14	4
d.	Heavy fines and penalty	20	25	25	70	17.82	3
	Total				393	100	

Source: Field Survey, 2012.

From the above table 4.27 shows it is clear that tax education is most important. Most of taxpayers don't have the concept of tax, so the local government should be provided tax education and how to keep accounting system. 37.65 percent respondent suggested to provide tax education for the tax payers. 30.53 percent of respondent suggested that incentive to regular tax payer should be provided. 17.82 percent of respondent's response that there are a lot of tax avoidance evasion so it should be implemented of heavy fine on penalties of defective tax payers. 14 percent of respondents opinion has response for better public relation, there is not good relationship between the tax payers and the public authority. The other suggestions stated by the respondents for increment of tax paying habit are given bellows:

- a. Simplification of tax laws
- b. Better information system tax payers and officers.
- c. More investigation and reconciliation of bills and documents of tax payers.

- d. Informing tax payers through various media such as radio, Tv and Newspaper about the tax policies
- e. Have to control corruptions
- f. Tax policy should be included in the different level of study.

So, it can be concluded that, from above result which in the opinion of the respondents tax paying habit can be increased through the tax education and incentive to regular tax payers.

#### **4.4 Major Finding of The Study**

##### **4.4.1 Major Findings from the Secondary Data**

The major finding from the secondary data are summarizes below:

1. Kirtipur, municipality collects property tax under local self government act 1998.
2. Property tax (H&L) is the major source of income in Kirtipur municipality.
3. The highest contribution of property tax is in FY 2010/11.
4. Analysis of trend value of house and land show that collection of property tax is increasing trend.
5. Test of hypothesis reveals that, there is no significant difference between mean ratio of house and land tax and local tax.

##### **4.4.2 Major Findings from Primary Data**

On the basis of the observing field survey and data presentation and analysis some important and major findings are drawn. The major findings from the primary data are summarizes below:

1. The main problem of wide spread tax evasion. So the government could formulate policy to check the tax evasional.

2. It is cent percent true that the house and land tax is a suitable means for raising domestic resource. As direct taxes has strategic important and best source of tax revenue, the suitability of house and land tax cannot be ignored in course of raising internal resources.
3. Most of the respondent accepted that house and land tax is suitable to raising internal source. Because if the municipalities depend only on external source it is so difficult to run the day-to-day administration work and development work.
4. Most of the respondent argue that house and land tax is significantly contribute to the development of the municipalities.
5. Bening lack of regular information of property tax paying habit of peoples are poor.
6. The majority of respondent stated that there is no information about house and land tax for the tax payers by municipalities to pay in certain time.
7. The best way to give information about property tax to tax payers is giving advertisement in radio, TV, and Newspaper.
8. Most of the respondent are not satisfied with the present exemption limit
9. Most of the respondent state that municipalities should apply motivational factor like discount, prize, fine and penalty to promote tax paying.
10. For increasing tax paying caliber municipality should introduce some motivational factor.
11. Most of the respondent are satisfied on the rebates given by the municipalities for paying the property tax in specified time.

12. Too much delay in making assessment and administrative harassment is the main complications in paying house and land tax. So government should improve it.
13. The main problem of tax administration are delay in assessment and collection, widespread evasion and avoidance, so government should provide tax education and accounting system for tax payers.
14. Local self governance act 1998 has made the provision of collecting integrated property tax to municipalities. It is accepted as a good measure for collecting revenue. It encourages to payers in the payment of tax by helping them to know their own property.
15. By tax education and incentive to regular tax payers will increase taxpaying habit of the Nepalese people.

## **CHAPTER-V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

This chapter presents the overall summary of the study and conclusion drawn from the analysis of the study. This also includes the recommendations to correct certain aspects, which will help to improve the collection of the house and land tax and the position of property tax in Kirtipur municipality.

#### **5.1 Summary**

Nepal is one of the least developed countries. It is suffering from economic disaster. To increase the government revenue, Nepalese government is trying to extract money or valuable contribution from people through taxation. House and land tax is the important resource of government revenue.

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

## 5.2 Conclusion

In Nepal the history of house and land tax is not so long. It started only on 1962/63. House and land tax in Nepal even with general and uniform rule falls short of justifying itself as a good tax. Its contribution to government revenue is not regarded satisfactory in comparison to other tax. Its contribution to the revenue structure of the country is low due to various reasons which are mentioned below:

- a. The methods of assessment and valuation of house and land tax is not so scientific.
- b. Lack of information and tax education for the property tax payer.
- c. Administrative harassment
- d. Delay in tax assessment

The system of property tax is the best method of collecting tax revenue which helps the economic development of the nation. Poor mobilization of internal resources as tax is the main cause of funds insufficiency so the government should mobilize property tax.

The available resource in the country, which are collected through the foreign and domestic source and large profit margins in the urban areas is diverted and invested towards real estate and luxury housing in Nepal. As stated above, the investment in such sector creates a boom in the economy. Consumption of luxury goods may increase because of which the economy is pushed into high inflation. So in this respect, proportional tax on property in an equitable and justifiable manner will help discourage the investment in real estate and reduce the consumption of luxury goods as well. Such reduction of investment in unproductive sector of the available resource will tend to diversify into productive sector of an economy. The revenue administration in Nepal is weak

because of lack of the tax policies with a clear direction and consistency in a long run perspective lack of information and records, lack of trained staff and heavy dependence on non technical staff, lack of proper accounting and auditing system. However house and land tax laws and administration in Nepal are to be deeply scrutinized but not properly implemented. Manpower development planning within the administration is desired for the efficiency of tax personnel side by side. Tax education packages are to be made and initiated hence tax administration and tax compliance could be improved.

Due to various problems related to property tax revenue collection from property tax is relatively low in Nepal. For economic development of Nepal the problem relating to property tax system in Nepal should be solved and resources should be effectively utilized.

### **5.3 Recommendation**

Property tax has been accepted as an important source of government revenue of Nepal. The growing need of resources for the development of Nepalese economy can be met through the effective large volume of property tax. The greatest problem of house and land tax in Nepal is the under valuation and in many cases complete evasion of tax. The improvement pre-requisite for the effective implementation of house and land tax is the urgency of scientific method of assessment of valuation and this can be improved with the following specific suggestions have been recommended from the sound and effective property tax system.

1. Laws relating to house and land tax should be clear simple and comprehensive. It should not contain loopholes. Therefore, it should be reviewed frequently. The following suggestions are made for the reformation of existing tax laws in Nepal.



- a. The language should be simple and clear. In spite of using vague meaningful words, clear cut provision should be made.
  - b. The assessment and tax collection provision should be made clear and simple
  - c. The provision of fines and penalties should be made at a higher rate for house and land tax evaders.
  - d. The tax payer should be encouraged to pay tax voluntarily through reward, price incentive provisions rather the coercive measures.
2. Municipalities should provide informative knowledge to the local people regarding house and land tax because most of them are not educated and don't have knowledge about the house and land tax.
  3. Municipality should mobilize its resource properly and make tax policy as per modern through as low rate with broadness of tax base.
  4. Apart from the initial re-assessment of the urban house and land periodic assessment also essential in view of the fact that there is a continuous change in the value of house and compound. Coming up of new buildings, renovations with addition or extension on the existing building etc. for this sort of assessment the main basis should be on the information fed from the municipalities. If the information coming in from individuals do not tally with the records then the field inspectors should be sent on inspection. Such periodic assessment must be made as soon as the buildings are constructed. On the contrary most of the new urban buildings are presently paying land tax instead of the urban house and land tax.
  5. Tax rate of house and land should be progressive. This means, rate are higher for higher-valued property or in the form of exemptions for low value property. High tax rate should be imposed on commercial and industrial property, then residential property. And

owner occupied residential proper is taxed at lower rate than renter occupied.

6. In Nepal, one of the most important reasons for unsound urban house and land tax system is inefficient and unscientific urban house and land tax administration in Nepal. Nepalese tax payers are not getting proper return of their taxes because of inefficient administration, wasteful expenditure programs and corruption. Therefore the following recommendations are presented below:
  - a. Tax administration must be enough efficient for the improvement of tax administration to simplification of tax laws and policies
  - b. All the tax personnel should be given comprehensive training on various aspects of taxation on a regular basis. For this a separate training section within tax department should be established.
  - c. The performance responsibilities authorities and duty should be clearly defined.
  - d. Financial benefit and extra incentives should be provided to the personnel to decrease corruption. Furthermore tax officers should be selected on the basis of secret ballot system in order to control corruption.
  - e. Working environment of the tax officers should be improved by providing necessary equipment, machinery and vehicles.
  - f. Delays in assessment should be reduced as soon as possible.
  - g. The member involved in formulating house and land tax policies must have deep knowledge about house and land tax.
  - h. The cost of collection is one of the determinations of administrative efficiency. So the concerned authority should pay due attention on it.
  - i. Tax rebate should be provided to tax payer who submit their true property statement within the specified period of time

7. The performance responsibilities authorities and duties should be clearly defined.
8. Accountability, transparency, participation, public private partnership, management innovation and strategic vision are some of the elements of good governance which Nepalese government should follow.
9. The provision of exemption items which is not included in valuation for tax purpose is sufficient but
  - a. It should be revalued at least 5 years intervals.
  - b. All the land/plot situated in urban area whether house has construct or not, should valued for tax purpose.
10. According to the respondent the present level of exemption limit of house and land tax is slightly high so exemption limit should made low which is presented below:

Details	Rate
- Exemption up to 20 lakh	Nil
- On 1 <sup>st</sup> 10 lakh	200 (lumsump)
- Next up to 30 Lakh	0.03%
- Next up to Rs. 50 Laks	0.20%
- Next up to Rs. 1 corode	0.30%
- More than 1 corode	1%

Nepal government is facing a lot of problem in collecting property tax revenue. If the above recommendations are manage timely and effective the problem can be minimized and house and land tax will be lead to substantial increase in revenue.

## BIBLIOGRAPHY

### Books

- Adhakari C.M. (2003). *Modern Taxation in Nepal: Theory and Practice*. Kathmandu 'M' House.
- Agrawal, Jagdish (2004). *Income Tax Theory and Practice*. Kathmandu: Buddha Academic Publisher.
- Bhattarai, Ishwor and Koirala, Girija Prasad (2010). *Taxation in Nepal with Tax Laws and Tax Planning*.
- Dhakal, K.D. (2001). *Aayakar Tatha Gharjagga Kar Samandhi Kanoon Ra Lekha*. Kathmandu Kamal Prakasha.
- Goenka B.B. (1998). *Corporate Tax Planning*. New Delhi: Shree Mahabir Book Depot.
- Kandel P.R. (2003). *Tax Laws and Tax Planning*. Kathmandu: Buddha Academic Enterprises.
- Lal, BB. (1990). *Direct Tax, Income Tax, Wealth Tax Gift Tax and Tax Planning*. Delhi: Konark Publisher Pvt. Ltd.

### Thesis

- Adhakari Alka (2005). *A Study in House and Compound Tax*. An Unpublished Thesis Submitted to University Campus, Kirtipur, Kathmandu.
- Adhakari Rishi Ram, (2007). *Municipality Tax in Nepal*. An Unpublished Thesis Submitted to Minbhawan Campus, Kathmandu.
- Bhandari, Jay Bahadur (2010). *Organization Structure of Inland Revenue Administration*. An Unpublished M.P.A Thesis Purbanchal University.

Lamichhane Purushottam (2010). *Effective of Tax Auditing System in Nepal*. An Unpublished M.P.A. Thesis Purbanchal University.

Timalsina Prajit Kumar (2007). *Taxation in Nepal: Special Reference to Land Revenue and Land Registration Tax*. An Unpublished Thesis Submitted to University Campus, Kirtipur, Kathmandu.

Timshina, Sudip Prasad (2005). *Taxation in Nepal: Special Reference to Land Revenue*. An Unpublished Thesis Submitted to University Campus, Kirtipur, Kathmandu.

### **Articles**

CEDA, (1974), *Evaluation of Urban Property* (Vol. I and II). Kathmandu.

CEDA, (1980), *Nepal ma Sahari ghar gagga kar eak Bisleshen*. Kathmandu.

K.C. Jit Bahadur (2007). *APA System of Cirtation Pravaha* Vol. 16.

### **Government Publication**

Government of Nepal, (1988). *House and Compound tax Act*. Nirdesika.

Government of Nepal, *House and Land Tax Act. 1962 with amendments*. Ministry of Finance, Justic and Constituent Assembly.

Government of Nepal. *Finance Act. 2010*. Ministry of Law, Justic and Constituent Assembly.

Local Self Government Act. 1998.

### **Websites:**

[www.ird.gov.np](http://www.ird.gov.np).

[www.mld.gov.np](http://www.mld.gov.np).