

**AN ANALYSIS OF INTEREST, OFFENCE AND PENALTIES  
UNDER INCOME TAX ACT 2058**

**A THESIS**

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INCOME TAX ACT 2058”**

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## **DECLARATION**

I, hereby, declare that the work reported in this thesis entitled "AN ANALYSIS OF INTEREST, OFFENCE AND PENALTIES UNDER INCOME TAX ACT 2058" submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment for the Master's Degree in Business Studies (M.B.S.) under the Supervision of Prof. Dr. Kamal Deep Dhakal & Romakanta Bhattarai, Shanker Dev Campus.

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## ABBREVIATION

|           |   |  |
|-----------|---|--|
| A.D       | : | Anno domini  |
| A.D.B.    | : | Agriculture Development Bank                       |
| B.B.S     | : | Bachelor in Business Studies                       |
| B.P.R.T.A | : | Business Profit and Remuneration Tax Act           |
| B.S       | : | Bikram Sambat                                      |
| CDE       | : | Central Department of Economics                    |
| CDM       | : | Central Department of Management                   |
| CEDA      | : | Center for Economic Development and Administration |
| D.T.      | : | Direct Tax   |
| Etc.      | : | And the other                                      |
| FY        | : | Fiscal Year  |
| G.D.P     | : | Gross Domestic Product                             |
| I.R.D     | : | Inland Revenue Department                          |
| I.R.O     | : | Inland Revenue Office                              |
| I.T       | : | Income Tax   |
| I.T.A     | : | Income Tax Act                                     |
| I.T.O     | : | Income Tax Officer                                 |
| Ktm.      | : | Kathmandu  |
| Ltd.      | : | Limited  |
| M.        | : | Million  |
| M.A.      | : | Master in Arts                                     |
| M.B.A     | : | Master in Business Administration                  |
| M.B.S.    | : | Master in Business Studies                         |
| M.O.F     | : | Ministry of Finance                                |
| No.       | : | Number   |
| P         | : | Page   |
| P.a.      | : | Per annum  |
| Pvt.      | : | Private  |
| P.C.B     | : | Public Corporate Body                              |
| P.E       | : | Public Enterprises                                 |
| Rs.       | : | Rupees   |
| S.D.C.    | : | Shankar Dev Campus                                 |
| S.N.      | : | Serial Number                                      |
| Sec.      | : | Section  |
| T.U.      | : | Tribhuvan University                               |
| U.K.      | : | United Kingdom                                     |
| VAT       | : | Value Added Tax                                    |
| Vol       | : | Volume   |
| \$        | : | US dollar  |
| %         | : | Percentage   |

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Nepal is a democratic, independent, small, and landlocked country situated in the southern slopes of Himalayas. Nepal is surrounded by china in north and India by other side. The total area of Nepal is 147,181 sq. kilometers, situated between 26°.22' north 30°27' north latitudes and 80°4' east 88°12' east longitudes resembling with roughly rectangular. Of the total area, about 83% is high hills, snow capped mountain, and 17% is the total land of Tarai in the South. The northern belt has high Himalayas (15% of total land) with snow all the year around (Economic survey, 2006: 156).

Nepal is one of the developing countries in the world characterized by high population growth. unit price (2.2%), low Per capita income (\$385), and low unit price of capital formation. Gross domestic saving is 11 Percent of the GDP, and almost half of the population (above 50 Percent population) lives below the poverty line. Landlocked, unfavorable topography, absence of economic infrastructure, political instability in the past and lack of political commitment are some of the reasons behind the backward economic condition (Economic Survey, 2007:233).

Nepalese economy is dominant by agriculture that accounts for 41 Percent of national gross domestic product (GDP), which provides employment to 81.2 Percentage of the economically active population of the country in 1999. Hence, "Nepal has remained as one of the poorest country in the world with around 385 US dollars per capita income."

This

Can be attributable to inefficient use of the resources in both the sectors i.e. agriculture and industry. However, in recent years, the non-agricultural sector is

contributing more shares in GDP in comparison with the agricultural sector. The area of information and communication retains the important as an inevitable infrastructure for the development of the country.

Nepal is an economical paradox in the sense that it is a rich country where poor people live. It is rich in natural and cultural beautids but the economic condithon is far behind and the economy is predominantly based kn agriculture. Large portion of population of population who live under the line of poverty are in village area. Economic Growth of the country has nıt improved substantially over t`e time to overtake popu'ation growth. As the current population growth is 2.24% per annum and per capital income is less than 270 U.S dollar per year.

Nepal's economy is predominantly based on agriculture. The major portion of population who lived under the linâ of poverty is in village area. She ir the richest in natural and cultural beauties but the economic conditiof is far behind. Wide spread °overty, rapid population growth, low economic growth, extreme disparity in the distribution of weather and income, heavy dependence on agriculture and foreign aid, lack of enough saving and capatal, unemployment, unexploited resource, lack of infra structure, adverse balance etc. are main characteristics of Lepalesd economy. Nowadays, the prime concern of evdry nataon of the world hs rapid economic development and Nepal is not exception to this ever-continuing process. For the economic development, gor%rnment has huge responsibility towards the people. To fulfill the responsibility of government toward the people, government has to spend a lot of money. The responsibility may be in the field of security or health or education or other development activities. Government spends a lot of fund for protection of common people and for the creation of various socio-economic infrastructures. There are three type of expenditure, which incurred by the government i.e. protection, commercial and public expenditure (Vaisa & Agrawal, 1992:5). If the nation has sufficient fund it will be able to achieve maximum social welfare. For the fulfillment of country's need, government expenditure is increasing day to day.

Government expenditure is increasing because of demand of time, increase in population, social progress, increase in price, inflation etc. To meet the growing public expenditure in the field of public health, electricity, drinking water, education, agricultural activities, security and developing activities etc, the government has to manage its fund. It is collected from different sources. They are external and internal sources.

External sources of fund are foreign grants and loans. Such external sources are uncertain, inconvenient, conditional and not even good for healthy development if there is heavy dependent on them. It can be used for economic development, reconstruction, foreign exchange, to recover from crisis condition, for productive use etc (Sharma & Luitel, 2059:26). Since the various weaknesses of external sources, the internal sources should be mobilized. Developing countries try to mobilize their internal source to finance necessary fund for regular and developing activities. However, experience shows that Nepal has not mobilized its internal resources, which was expected.

Internal source of fund is own source of the nation. Internal source of public fund is important not only for financing necessary fund but also for proper mobilization of external source. Internal source of fund includes both tax and non-tax revenue. Tax sources include the amount, which are compulsory contributed by taxpayers to the government. Non-taxes sources are uncertain and inconvenient because they are imposed as per need of the government. It shows that taxes are the better source of public revenue and has been taken as the best and effective tool for raising the public fund.

In modern age, governments entail many revenues in order to influence the macroeconomic performance of the economy or fiscal policy, to carry out functions of the government such as national defense and to redistribute resources among individuals or classes in the populations. In this context, tax is a significant and inseparable source of State Revenue of the government. According to its nature it is most reliable, certain, flexible, and convenient to obtain the required amount. Therefore, the government of any country upholds the main priority in tax revenue (K.C., 2007:2).

Tax is the main source of financing government activities. In every country of the world, the largest part of government revenue is raised through taxation whether it is developing countries like Nepal or developed countries like U.S.A. and Japan. Tax may be imposed on income of individual or entity or company. Tax is compulsory contribution imposed by public authority using the right given by law. Taxpayer does not expect any return for his tax paying. It is neither an exact amount nor a penalty for any legal offense.

Tax may be classified into two types. They are direct or indirect. Direct tax is that tax, which is paid by a person from whom it is legally imposed. These are the Direct tax: income tax, property tax, and interest tax, gift tax, death tax (tax on bonus of LIP maturity sum), vehicle tax, etc. Indirect tax is that tax, which is imposed on one person but paid partly or wholly by another. Those indirect taxes are; Sales tax, entertainment tax, passenger tax, hotel tax, export and import duty, excise duties, VAT etc.

Income tax is the most popular direct tax. It is charge on person's income, which is received from business, investment and employment. Income tax is superior to indirect tax because it is imposed progressively based on paying capacity of the taxpayer. People whose income is under the taxable income are free from the incidence of income tax.

It will be possible to reduce the gap in income by imposing higher rate to those who are having higher income and from that collected amount, providing necessary assistance to the people with very poor economic condition. Hence, it will help to make equitable economic distribution in the society. Balance regional economic development is also possible through the provision of income tax. The government should charge higher, income tax on the income from remote area. Income tax holiday and incentives would help to develop the priority sector of a national economy. "Income tax has become an effective instrument to ensure balanced socio-economic growth" (B.B, 1999:1).

Income tax plays a vital role in the Economy. It is the major source of government revenue. It is recognized as a good financial tool to make narrow the inequality in income. It helps to reduce regional economic imbalance by providing tax concession and holiday to business or industry, which are established in remote area. It is also



helpful for generating the concept of social responsibility toward the nation and keeps the people vigilant to see the public money may not be misused.

To balance economic development income tax policy was a major tool. No doubt that, the equal distribution of income is also possible through progressive income tax. It is being realized that contribution of income to the revenue of government must be increased in Nepal. Nepal has adopted the income tax system after the restoration of democracy in 2007 B.S. However, her experience shows that the government is unable to maximize the share of income tax to the public fund as per expectations. Since all the factors influencing the tax is systematic and dynamic, the system and policy of tax should be evaluated timely adopting and appropriate matching policy for it. Tax system should be made further more progressive, effective, productive and scientific then that of today.

In Nepal, there are various problems to collect tax although the legal provision has been made and updated timely. There are various problems in income tax practice in Nepal such as narrow coverage, unscientific tax assessment, and deviation from the basic principles of income taxation, long time lag, no adjustment for inflation, defective system from the prospective of international taxation (Khadka, 1994:124). Some other factors; feeling of people about tax as a penalty, lack of consciousness of people, leakage on tax, inability of tax administration to cover new taxpayers, delays in computation and collection, lack of accuracy and unity in accounting system etc.

Fines and Penalties are relevant subject to review in income tax system. To make up to date knowledge about income tax system, knowledge of fine and penalties is the must. Raising more revenue is the main objective of taxation. Fines and penalties play vital role to collect the tax revenue within the time. It also measures the cleverness of taxpayer about tax system.

Because of all these reasons, fine and penalties of income tax system must be reviewed and immediate correction should be made if necessary.

## **1.2 Statement of the Problems**

Today, the major interest of every nation of the world is economic development. Underdeveloped countries like Nepal are facing serious problems in the process of economic development. For the economic development, sufficient resources are needed. One of the major sources of the public revenue is income tax. Income tax is a direct tax that is imposed on the earning of individual, entities and corporation. With the increasing government expenditure, the source of government revenue must be increased. But, the expenditure of the government of Nepal has been increasing at a faster rate than the increase in revenue. Income tax is the major source of government revenue. Being a developing country, most of the Nepalese people are below the poverty line (about 38% of the total population) and the GDP per capita is \$250 (World Development Report 2005/06). It shows that it needs a huge amount of capital for economic development of Nepal. It is possible only when the volume of resource could be matched with the requirement. The source of filling up to the resource gap is internal and external borrowing. The use of external borrowing has been playing a dominant role to fulfill the resource gap. The uses of borrowing create various problems and it is not even better for any countries.

The development of the country will be possible when the government can mobilize its own internal revenue, which constitutes tax, and non-tax revenue, tax revenue constitutes a significant portion in government revenue. In Nepal, the contribution of income tax is insignificant. The contribution of income tax in total tax revenue is around 21% only (according to Economic Survey 2005/06). Tax structure of the country shows income tax in third position. Tax structure of Nepal is biased towards indirect taxes. Therefore, it is necessary to increase the volume of income taxes revenue in the total revenue.

In Nepal, only 0.5% of the total population pays the income tax. Experience shows that, there is a poor tax paying habit in the Nepalese people. The tax authorities are inefficient and ineffective in enforcement. There are no integrated programs for taxpayer's education, assistance, guidance and counseling. Tax offices are looked upon as a heaven for corruption. The assessment procedure of income tax is not effective. Undue delay in tax assessment not only reduces the total revenue but also brings harassment to taxpayers (Agrawal, 1978:81). There are various problems about income tax administration like; proper record about the number of income taxpayers, defective selection of personnel, lack of training and education to tax payers and tax officers, undue delay in making assessment, lack of responsibilities of officials on their work, existence of corruption, and lack of motivation to tax personnel etc. Because of the inefficiency of the administration

and increasing corruption, people have no faith in the working of government and its organization.

By effective implementation of tax law, government can increase the portion of direct tax to the total revenue. For effective implementation of tax law government should have knowledge about various provisions provided by Income Tax Act. Among them, provision of fines & penalties is that type of provisions, which plays vital role to collect tax revenue. If provision of fine and penalties are not applied effectively, the tax paying habit of Nepalese people will be poor. In the absence of this provision, people may delay in payment of tax, do not submit account, submit false or misleading statement etc. for that purpose, tax administration should be competent; however, the tax administration of Nepal is not effective to impose fine and penalties as per necessary because of corruption, unnecessary outside pressure, lack of information etc.

There were much more problems of income tax and its provision about fine and penalties; especially this study has been carried out to answer the following questions. What are the provisions of fine and penalties in ITA 2058? Can fine and penalties play a vital role to increase tax-paying habit of Nepalese people? Is the ITO of Nepal effective to impose fine and penalties as per necessary? Is the taxpayer has the right to know about fine and penalties?

### **1.3 Objectives of the Study**

The main objectives of the study were as follows:

- To make comparative study about the provision of fine & penalties between ITA 2031 & ITA 2058.
- To find out role of fines and penalties to increase tax paying habit of Nepalese people.

- To examine share of income tax in total tax revenue.
- To analyze the provision of fines and penalties under Income Tax Act 2058.
- To know taxpayers knowledge and tax officers views about fine and penalties.
- To provide suggestions about interests, fines and penalties regarding to income tax system.

#### **1.4 Significance /f the Study**

This study has great significance to all parties like students, teachers, researchers, policy makers and other individuals who are interested towards the income tax management and especially about provision of fine and penalties regarding income tax law of Nepal. The question of resource mobilization is a challenging proposition. In this context, income tax revenue may be the major instrument for mobilizing internal resources more effectively. Hence, this study deserves special significance.

For the economic development of the country, contribution of direct tax is more essential rather than indirect tax. But, the whole tax structure of Nepal is dominated by indirect tax. Among the direct tax, income tax plays a significance role. But, it is sad to quote that the contribution of income tax to the national revenue is very low in Nepal. To increase its portion in national revenue, research and analysis need to do in the field of income tax. However, the studies and research work is lacking in the area of income tax.

To get up-to-date knowledge about income tax, we should know the various provision provided by ITA 2058. Among them, provision of fines and penalties play vital role to collect tax revenue within time. In the field of this provision, we could not find sufficient research and analysis. For the fulfillment of this weakness, this study will be helpful.

#### **1.5 Limitations of the Study**

The study will have some limitations that can be presented as follows:

- Due to time constraints few samples are selected for opinion survey.
- It analyzes the provision of fines and penalties as per income tax act but not as a whole system of income tax.
- This study will be based in the data of 20 years (i.e. 1988/89 to 2008/09).
- Primary and Secondary data has been used. But, primary data collection is concentrated in Katmandu valley only.
- To collect the opinion towards income tax, a field survey (Questionnaires) has been conducted in the certain place of Katmandu valley such as Nepal government offices, different financial institute, internal revenue department etc.

## **1.6 Organization of the Study**

The whole study organized into five different chapters as follows:

### **1.6.1 Introduction**

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

### **1.6.2 Review of Literature**

This chapter deals with various journals, books, research study, Published and unpublished reports and articles. This chapter also focuses on conceptual framework and provision regarding income tax of Nepal.

### **1.6.3 Research Methodology**

This chapter deals with research methodology. It includes research design, population and sample, nature and sources of data, procedures of data collection, procedure of processing and analysis of data.

### **1.6.4 Presentation and Analysis of Data**

This chapter aims to make the critical analysis of income tax management in Nepal with its contribution along with the view regarding fines and penalties collected with the help of primary source. For the presentation and analysis of data, diagram, table, chart, various statistical tools is used.

### **1.6.5 Summary, Conclusions and Recommendations**

This chapter deals with summary of study, relevant suggestion regarding problem and weakness of income tax management in Nepal.

Bibliography

Appendix

## **CHAPTER II**

### **REVIEW OF LITERATURE**

This chapter consists of two parts-Conceptual Framework and Review of Related Studies. In conceptual framework, review of what has been written in academic books is carried

out while review of related studies is further dividend into review of journals and review of master degree thesis.

This chapter in concerned with the review of relevant literatures available in the books, journals, articles, research reports, newspapers, magazines, policy documents which are published or unpublished. Every study is very much based on past knowledge, study and experiences. The past knowledge or the previous studies should not be ignored as it provides foundation to the present study.

## **2.1 Conceptual Framework**

One of the major goals of income tax in Nepal is generate more internal resources for public finance. Among them tax revenue is one of the major internal resources. K.C. (2007) explained that Law never excuses ignorance, unknown state and lack of knowledge of persons. The law itself never discriminates status of a person. It is equally enforceable to known or unknown and lower to higher-level persons. In Income Tax Act, it is used similarly except to somebody. The tax authorities imposed the fines and penalties to the taxpayer for late filling of a tax return, for late or non-payment of tax due, failure to make timely return, making a false return or statements, aiding or abetting, obstructing or coercing or influencing tax administrators etc. But, the Nepalese income tax system was poor on the aspects of tax administration. There is no any research study about fines and penalties, which plays important role to collect tax revenue. Seeing lack of the study in fines and penalties this study mainly concentrates on the role of fines and penalties to collect tax revenue in a more specific way.

### **2.1.1 Concept, Meanings & Definition of Tax**

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

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

The State sells some of its goods or services and received price in payment for them. The distinction between taxes and price is that tax is a compulsory payment to be made by every citizen as levied government where as price is to be paid by persons who buy services of goods produced by the government. Thus, tax is an ingredient of state revenue in public finance.

Tax simply means a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the taxpayers according to law. Various economists tried to define the concept of tax and some definition of prominent scholars has been acknowledgement below.

In 1892, Bastable (as cited in K.C. 2007) defined, "A tax is a compulsory contribution of wealth of a person or body of persons for the service of public power".

Lekhi (2002) defined tax in simple meaning in his word " Tax is a compulsory payment by the people to the nation. If a person defies the payment of tax he is punished by court of law" (Lekhi, 2002:2).

"A tax is an involuntary fee paid by individuals or business to a state, or to functional equivalents of a state, including tribes, secessionist movements or revolutionarq monuments", (Wikipedia, [http. /phtml\(](http://phtml/)

Likewise a well known professor named Seligman (as cited in Khadka 2001) defines," Tax is a compulsory contribution from a person to the government to defray the expenses



incurred in the common interest of all without to special benefits conferred."  
(Khadka, 2001:3).

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

### **2.1.2 Evolution and Development of Income Taxation**

K.C. (2007) stressed that history of taxation started with the human civilization. It is also associated with the history of rise and fall of civilization. Rosen (2004) claimed that in all civilized societies, a central administration used to collect portions of people's productive output to use as a reserve in hard times in order to provide for the needy and to increase the wealth and power of rulers. Until the modern era, rulers and their administrators would commonly takes portions of people's crops with no consideration of costs of farm work. The resources that rulers obtained through taxation allowed them to under stake such activities as building monuments and waging battles. Thus, taxes supported all early civilization-first in the Middle East, and the around the world.

In Hindu religion, a particular part of income should be pay to government. It is the theory of Hindu Religion. Not to pay tax, in Hindu religion was taken as a great sin. According to Hindus Holy Scripture Vedas, the duty of king was to serve and secure people, maintain peace and carryout social works in order to perform all those activities, the king used to collect crops and cattle from farmers, gold, silver and copper from traders. These ancients' forms of taxation were expanded from time to time under the influence of various economic, political and ethical forces.

In ancient Egypt, the tax collectors were known as scribes. To collect the adequate revenue from citizens they taxed on cooking oil. Charles Adams a great writer wrote a popular book "Fight, Flight & Fraud", the story of taxation, concludes that the continual

tyranny of Egyptian tax collectors created a nationwide decline in incentive because of this worker and farmers lost their desire to work.

K.C. (2007) mentioned that the earliest taxes in Rome were customs duties on imports and exports called Portoria. Augustus instituted 50 percent tax on all inheritance to provide retirement fund for the military. This tax was charged on inheritance except gifts to children and spouse. At that time of Julius Ceaser, 1% sales tax was imposed to the people and he was the ruler who started to collect taxes through government institution.

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

Kautilya's " The Arthasastra" of the fourth century B.C. has classified the tax receipts into three types. (V.A, 1998:7).

Income earned through taxes on goods produced within the country.

Income earned through taxes on goods produced in the capital.

Income earned through taxes on imports and exports.

Land revenue was an important source of taxation in ancient India. Kautilya mentioned, " the tax system should be such as not prove a great burden on the public, the king should act like the bee which collects honey without inconveniencing the plant" (Garola: The Kautilya's Arthasastra). His economic thought was guided by social welfare concept. He suggested heavy taxation for luxurious and other articles, which were not in favor of public welfare. Kautilya classified the main items of public expenditure, which are as follows. i) National defense ii) public administration iii) salaries of ministers and expenditure on government department and iv) expenditure on maintenance of armies.

### **2.1.3 Income Tax in the International Context**

Khadka (2001) mentioned that Great Britain was the first country in the world to introduce the modern income tax. This country introduced income tax in 1799 A.D in order to generate revenue to finance the Napoleonic war fought with France between 1793 and 1816. The income tax law was enacted on January- 9, 1799 which was the first modern income tax law in the world. It came into force on April- 5, 1799. It was repealed on April- 5 1802 after the end of war by heavy demand against this tax. However, the income tax was reinstated in 1803 after the outbreak of war again with France on May- 18, 1803. The new income tax Act was enacted on August-1, 1803. As a war tax, it was abolished on March -18, 1816, after the end of the Napoleonic war.

Income tax was proposed again on March-11, 1842A.D. as a temporary measure for three years to generate revenue to enable government to avoid budget deficits while carrying out major tariff reforms. This tax was not abolished even after the lapse of three years because of its yields and accepted as permanent tax by 1880.

In USA also income tax was introduced in 1862 to generate revenue to finance civil war. The federal corporation income tax was introduced in 1909.

In Japan also Income Tax was introduced in 1887 through the enactment of the income tax law on March 23, 1887. It was general individual income tax and extended to the corporate income in 1899.

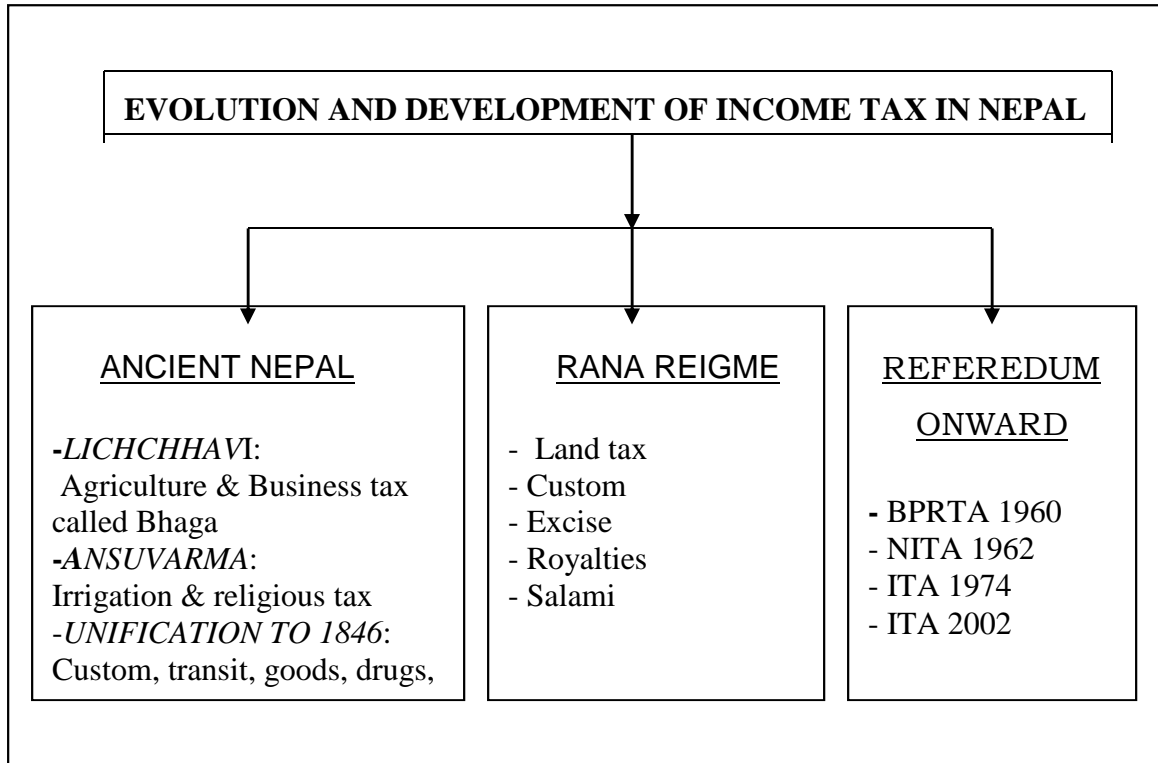
In Germany before the unification in 1871, Income tax had been levied in different form. Income tax became an effective instrument since the Persian Reform of 1891.

Khadka (2001) mentioned that in India, income tax in its modern form was adopted in 1860. Several experiments were made from 1860 to 1886 and finally the systematic income tax legislation was enacted in 1886. Like wise income was introduced in Switzerland in 1840, in Austria 1849, in Italy 1864, in Newzeland 1891, in Canada 1892, in Denmark 1903, in France 1909 etc.

### **2.1.4 Evolution and Development of Income Tax in Nepal**

Historical background of evolution of income tax in Nepal is not long. However, it can be divided into three phases as follows:

Figure 2.1 Evolutions and Development of Income Tax in Nepal



Taxes have been one of the primary sources of government's revenue from the ancient time in Nepal. During the period, tax was collected in the form of kinds, cash and labor services from farmer, merchant and traveler.

In the Licchhavi regime, the main source of revenue was tax it was direct tax, which was imposed on income from agriculture and business. At that time taxes were known as "Triker" which includes three types of taxes. They were Bhaga, Bhoga and Kara. Bhaga tax was levied on agriculture, Bhoga was on animals and Kara was on business income. These taxes were probably based on Kautilya's Arthashastra. During the regime of king Anshuvarma, irrigation and religious taxes were levied. Fixed Portion of agricultural product were payable to the king as tax. Compulsory laborers were also common way of paying tax.

After the national unification (1768 A.D.) and before the starting of Rana Regime (1846 A.D.) Nepal experienced a variety of taxes such as Raikay, Birta, Gouthi, Sera and Kipat. In the beginning, taxes were levied on land, transit, market duties, forest product and mine. Taxes were both cash and kind, imposed and collected from three levels such as royal palace, government bodies and local government bodies. Taxes were collected only for maximum government revenue by coercion without special knowledge and act. The major source of revenue were; Birta and Kipat taxes on land, royal palace levies like walak, Godan, Chumawan, government levies like Darsan Bhet, Salami, local government levies on forest and water source, commercial taxes like customs, transits and market duties mines and mints, exports of forest products like wildlife, herbs, drugs, wax, birds, elephants and judicial fines.

Walak was collected from each family on a regular basis and period of national celebration or festive or ceremonial occasion. Godimubarak was collected to finance for coronation ceremony of a new king. Goddhawa and Chuman were collected to finance and sacred thread investiture and a marriage ceremony of royal princes and princesses. Godan was levied on finance funeral expenses when a resigning king died. Darsan Bhet was collected from both civil and military employees at the time of their appointment and confirmation. Salami was collected from local revenue collection functionaries in the terai region as an annual payment.

Regmi (1984) mentioned that during the ancient period tax base was very narrow and unscientific. King Prithvi Narayan introduced Pota tax in 1772 (B.S.), which was regarded as revolutionary measure in Nepal's fiscal system. Pota was not based on progressive tax principle. It was limited on small Birta owners and privileged of the members of mobility person who did not pay Pota. Only common people who lived on Raiker lands paid the homestead taxes and other Pota levies. There was not taxation of income in the modern sense of income. (Regmi, 1984:25)

#### **2.1.4.2 Taxation in Rana Regime**

In 1846 Jung Bahadur Rana became the Prime Minister of Nepal through Kot Parba (Huge Massacre). Then he and his family ruled over Nepal for 104 years, which period is known as Rana Regime. During the period, there was no any hard and fast rule relating to taxation. K.C. (2007) mentioned that taxes were levied and collected according to Prime Minister's will. The main aim of the ruler was to earn as much as they could by taxing people. However, they made their Palaces and Bungalows from the revenue. In that period they did not prepared government budget for revenue and expenditure. There was no difference between the income of the State and the income of the Prime Minister. The government of Rana always enjoyed the public revenue however never worried to develop country and to mobilize the available financial resources.

During Rana Regime there were four main categories which collected revenues; Rajya, Birta, Guthi and Kipat. The royal family traditionally acquired income from special levies such as Darsan Bhet, Tika Bhet and Fattemubarak. Darsan Bhet was collected on the appointment of armies, Tika Bhet was collected on the Dashain Tika and Fattemubarak was collected at the time of Indraajatra festival. Other three levies known as Chumawan, Godimubarak and Goddwala were collected on a country basis on special royal occasions. For meeting festive, ceremonial or extraordinary expenses at the royal palace, Soune & Fagu were the most importance levies.

During this period, Incomes from tax were not for raising revenues of the State treasury but for meeting specific expenditure necessitated by war. For example in 1855/56 Nepal - Tibet wars, Jung Bahadur had imposed a tax on the income of selected groups. In 1891, Bir Samsher imposed a levy of 1% on the official value of Jagir assignment of government employee to finance transportation of water pipes supply in the capital. In that time the State invention in trade in two main forms called monopoly and State trading. The government conducted the activities of buying and selling of specific commodities for raising revenue and supplied the scarce commodities itself.

After the political unification, Kausi Toshikhana had been established. Its main functions were to receive and disburse revenues, obtain, store and issue supplies required by the

government and perform other general function related to fiscal administration. In that time Jung Bahadur created Sadar Mulukikhana to receive and account for government revenue.

#### **2.1.4.3 Referendum Onward Regime**

In 1950, new regime began in Nepal. K.C. (2007) described that was started with multiparty democracy in February 18, 1951. Then, idea of introducing income taxation in Nepal originated. The first democratic government of Nepal submitted annual budget in 1951 A. D. (2008 B.S.) with a proposal to levy an income tax. But actual income tax started through the Finance Act of 1959 A.D.

##### **(a) Business Profit and Remuneration Tax Act 1960 (BPRTA)**

In Nepal a formal income tax act was enacted in accordance to the provisions of Finance Act 1959 for the first time in Nepal. It had altogether 22 sections (Business Profit & Remuneration Tax Act, 1960),. The main features of the Act were as follows:

- The source of income for tax purpose was limited only to business profit and remuneration thus, the coverage of income tax was too narrow.
- Tax on remuneration was to be deducted at source but the specified deduction was not provided.
- The basis for calculating the tax liability for remuneration was the income of the current year where as for business profits; it was the profit of the preceding fiscal year.
- Salary of any diplomatic representative, foreign citizen, dividend of shareholders; profits to be spent on religious or public welfare activity, profits of local autonomous organization, allowance granted by HMG to ministers, assistant ministers, speakers, deputy speakers, chairman, government chief and leaders of saving fund were exempted from tax.
- There was a provisions of official assessment based on best judgments estimation in case of false statement or in absence of income tax return.



- In case of defaults the fines ranged from Rs.500 to Rs.5000 and for informants, there was a provision of 20% of the total realized if the information had been proved.
- The taxpayer had a right to appeal against the tax officer's assessment to the local 'Bada Hakim or Magistrate'. If he had not satisfied with the decision, he could appeal to the "revenue and tax court" after depositing fixed amount.

Profits from large industries were granted a rebate of 25% and profits from small industries were granted a rebate of 50%. Thus, in the beginning, the government servants were the main taxpayers.

#### **(b) Income Tax Act 1962 (NITA 2019 B.S.)**

The BPRTA, 2019 was considered as unclear and narrow and Nepal Income Tax Act 2019 replaced it. This Act had 29 sections. It had defined 9 headings of incomes. The main features of this Act were as follows:

- Income was defined as all kind of income including income from business, salaries, any professions, rent from houses or lands, investments in cash or kind, agriculture, insurance, agencies and any other sources.
- The Prominent objectives of the NITA 1962 were to reduce unequal distribution of wealth with justice and fairness and to establish behavior of payment of tax.
- Income tax was defined as the tax on the net earning.
- The status of taxpayer was defined personally as well as residentially.
- The basis was specified for assessing tax on the best judgment estimate of the tax officers.
- There was additional provision of exemption to income of nagar panchayat, village panchayat, public organization, income of Nepal Rastra Bank, deposits of employees saving from salaries, any income notified in the Nepal gazette.
- The provision was made to constitute the net income assessment committee with five members.

- There was special provision for newly opened industry in which the HMG might wholly exempt tax for ten years and 25% exemption after ten years.
- Tax payment could be installment as well as advance payment.
- In agriculture income, only 1/4 of the total income as taken as net earning and remaining 3/4 of the total income as expenditure, while in case of net earning from rent of house and land, from investments and from professions 90% of the total income was taken as net earning and 10% expenditure.

The finance act 2023 exempted the agriculture income fully from income tax. The finance act 2030 restored agriculture income under the scope of income tax. Ten bighas of land were exempted and presumptive value of income based on the classification of land was also specified, the finance act 2034 again exempted the agriculture income from income tax.

#### **(c) Income Tax Act 1974 (ITA 2031)**

Where as it is expedient to amend and consolidate legislation relating to the taxation of income. Therefore, King Birendra has enacted new income tax act on the advice and with the approval of the National Panchayat in 2031. It was more scientific and specific during that period. Its basic framework had been derived from the Income Tax Act 2019. It had 66 sections. Some of the basic features of this Act are as follows:(Income Tax Act, 1974)

- It has defined five headings of incomes head, they were; agriculture, remuneration, industry/business/profession or vocation, house and land rent and other source.
- It had clarified certain definitions specially relating to tax, taxpayers, taxable income, gross income, net income, personal status of tax payers and non residents taxpayers, assessment of tax, philanthropic work, non-resident etc.
- This Act had added two new provisions of self assessment and carry forwarding of losses for three years and if any mistake arise or lower tax was assesses tax officers might make final assessment.

- There was additional provision of exemption from income tax than the former act as follows; income of Guthi, income of VDC, DDC, Municipalities, compensation for life insurance or after the expiry of the life insurance policy.
- The taxpayer had to register their industry, business, profession or vocation in tax office before starting the work.
- The process of assessment, reassessment, and advance payment of tax, deduction of tax at source and refund of tax had been specified.
- The punishment provisions were specified in different heading i.e. failure to submit particulars of income, false particulars, not maintaining the accounts, obstructions and others.
- The HMG/N might form an income assessment committee consisting five members by publishing notice in the Nepal Rajpatra.
- The punishment limit to persons for violating laws and regulations was up to Rs.10000 according to his/her mistakes such as failure to submit particulars, not maintaining account etc.

**(d) Income Tax Act 2002 (ITA 2058)**

K.C., J.B (2007) wrote that ITA 2031 had some shortcomings which were; limited tax base, lack of integration, unclear and vague, willful power, inequitable among taxpayer, unscientific presentation, lack of control in tax evasion and provision of dual appeal. Thus ITA 2058 had been introduced. It replaced the ITA 2031 and other acts related to income tax. This Act was implemented from Chaitra 19, 2058 B.S. It's seek its objectives in it's preamble " In order to enhance revenue mobilization through effective revenue collection process for the economic development of the nation, it was imperative to make the laws on income tax in order to update, amend and integrate them." (Income Tax Act, 2002) It is an integrated income tax Act of Nepal. Thus, the objectives of this tax law are

- ) To tax all source of incomes.
- ) To make elastic and productive tax system.
- ) To tax according to equity (horizontal & vertical).

- ) To develop extensive, clear, transparent, simple and efficient tax system.
- ) To make responsible to tax officials.
- ) To develop tax system as a neutral tax and
- ) To stress accounting process and self-assessment.

ITA 2058 contains the followin' features:

- It is and Act of compilation of provisions relating to all sixteen Acts related to taxes. Thir Act overrides other Acts except the constitution of Nepal. The provisiols laid down in other Acts related to tax áre not enforceable except amendment in this Act. Thus, this Act is cofsidered as a core of conduct on tax matters.
- It fulfillls requirements of horizontal equity imposing unique rate of tax in particulars and similar types of income irrespective of places, power and class.
- This Act had classified income tax into three headings; employment, business and investment.
- ITA 2058 commit to deduct all real expenses, which are incurred;
  - During the year
  - By tha persons and
  - In income generation from the "usiness or investments.
- This Act has provided the facilities to taxpayep that loss in any income years fr/m business or investments can ba carry fgrward and backsard to some extent.This Act provides high prinrity to national infrastructure, industries provide incentives to those industries which are established in areas; remote, undeveloped and underdeveloped. This Act also applies soft corner treatment to specific industries for providing employment to more t(an 600 Nepalese citizens.
- This Act has approved completely self-assessment system of taxation. According to this system a taxpayer as required to declare the basis of his assessment to submit a tax due and usually tn accompany his income and has claimed relief or adlowances to which he is not entitled, and otherwise to ensure that he pays the correct amount of tax.

- This Act has given the option for husband and wife as a separate natural individual until they don't accept as a couple.
- A resident person may claim a foreign tax credit for any income year for any foreign income tax paid by the person to the extent to which it is paid with respect to the person's assessable income for that year.
- In case of non-submission of income statement, false statement, delay payment, obstructing or coercing or influencing tax officers, aiding and abetting etc. various fines, penalties should be charged. The fines and penalties are divided in two parts. The tax officers can levy only fines and interest and the court can levy penalties and imprisonment.
- This Act has provided provision of revision and appeal system to taxpayers such as revision from administrative levels and appeal from judicial. The revisions are two types: fields tax office and appeal section of IRD. These levels contain administrative revision of levy while first judicial level judges decision of department. However, ultimate decision shall be made through a writ petition field at Supreme Court.
- The government allowance to widows, elder citizens or disabled individuals, gifts, bequest, inheritance, scholarship, income of foreign officials, government, bodies and non-profit organizations have been exempted from the income tax net.
- Amounts of a person privileged under bilateral or multilateral treaty, an agricultural income, and income of cooperative societies based on agricultural products and dividend of such society etc. also exempted from income tax.
- A person has defined as a resident whose place of abode is in Nepal and who presents in Nepal at any time or who presents Nepal for 183 days or more within the income year, or, who is an employee of HMG/N (now Nepal Sarkar) posted abroad during the income year.
- Under this Act, resident, individuals and domestic companies are taxed on their worldwide income while non-resident individuals and foreign companies are taxed only in their income sourced in Nepal.
- According to this Act, a company is liable to tax separately from its shareholders. The bonus share, loans and advances to directors and shareholders, distribution

made on liquidation etc. are also brought under the tax act in order to plug loopholes for avoidance.

- Capital gains are taxed explicitly under this act after four and half decades of the introduction of income tax. In case of business capital gains, gains on the disposition of business property are taxed as an Ordinary income and in case of non- business capital gains; only the gains from casual sales of real property (land & building) and securities are subject to capital gain tax at a flat rate of 10%. There is also a clear provision for adjusting net loss during the fiscal year.
- The tax is based on global income tax principle and brought all sources of income into the tax net and has treated in an equal manner. This act has abandoned the itemized system of deduction and expenses are taken into account on a global manner but not on a line- by-line basis.
- The Act has adopted a pooled system of depreciation in which assets are broadly classified into five categories. The depreciation rates are 5%, 25%, 20%, 15% for class A, B, C and D respectively, which is based on diminishing balance method of depreciation and for class E, the rate, is based on straight line method.
- The income of an approved retirement fund is free from tax. But retirement payments in the hands of employees are taxable.
- The Act has introduced the concept of medical tax credit under which resident's individuals may claim a medical credit of 15% of the amount of approved medical costs or Rs.750 whichever is less.
- Presumptive tax is limited to the small taxpayers whose annual net income is up to Rs.100000 or annual turnover is up to Rs.1000000 and are subject to flat annual taxes.

This Act has introduced the concept of administrative review to correct the administrative mistakes. The IRD should give its decision within 90 days of the submission of objection and if the department tribunal.

- This Act has introduced the concept of administrative review to correct the administrative mistakes. The IRD should give its decision within 90 days of the submission of objection and if the department does not give time limit, the taxpayers can appeal to the revenue tribunal.

- This Act focuses on the self- assessment system and every assessment is treated as a self -assessment. The tax officers can determine only the amended tax assessment within four years. The jeopardy assessment is essential when a person become bankrupt is wounded-up, or goes into liquidation; a person is about to leave Nepal forever or to close down activity in any department or in Nepal There is no time limit in the case of jeopardy assessment.
- According to this Act, the IRD is responsible for the implementation and administration of this act

### **2.1.5 Provisions of Fines and Penalties According to Income Tax Act, 2031**

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

#### **2.1.5.1 Penalties and Appeals**

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

penalty differs from state and from default. The following provisions are to the imposition of penalties under this Act.

**(a) Penalty for Non-Payment of Tax**

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

- By impounding or seize the movable property of the taxpayer.
- By impounding any deposit of the taxpayer in any government office or corporation owned by HMG or any amount payable to him by such office or Corporation.
- By withholding in transaction of the taxpayer including that of import or export trade.
- By auctioning off the whole or part of the movable or immovable property of the taxpayer in one or several lots.

**(b) Penalty for Failure to Submit Statement of Income**

- By taxpayer who fails to submit his statement of income within three months after the expiry of income year shall be liable to a fine up to Rs.5000 and such amount of fine shall be kept as security. But such fine shall not exceed 10% of the taxable amount.
- Anybody who fails to submit his statement of income within the time allowed by an order made by tax officer (under section 28) shall be liable to fine equal to an amount of 15% of the tax payable annually by him.
- For any taxpayer who fails to submit statement of income within the time allowed the tax officer may take any of the following proceedings or all pending the submission of statement of income.
  - To impound or seize the movable property of the taxpayer.



- To impound any deposit of the taxpayer with any government office or corporation owned by HMG or any amount payable to him by such office or corporation.
- To restrain the business of the tax payer including that of import or export trade. In order to take these actions it shall be necessary for the tax officer to obtain previous approval of the Director.
- Any taxpayer who fails to submit the statement within the time prescribed under sec. 27 and 28 or whose tax has been assessed by the tax officer using his best judgment under section 33 (2) and who has given order by the tax officer of being heard or producing any evidence in support of his statement of income shall be liable to a fine equal to an amount 7% of the tax payable.
- If penalty is imposed under subsection (4) penalty shall not be imposed under submission (2).
- While determining the fines, advance payment of tax shall be deducted from the actual amount of tax payable and the fines shall be determined on the balance.
- Notwithstanding any thing contained in subsection (2) and (4) the amount of fines shall be determined under the same subsections from the expiry of the time of three months after completion of financial year and the fines payable shall not exceed the 25% of outstanding tax payable.

**(c) Penalty for Submitting False Statement**

Any person who submits or cause a false statement shall be required to pay such amount of tax which had fallen short due to the submission of such false statement and shall also be liable to fine. Equivalent to the amount of tax payable or to imprisonment exceeding two years or both.

But the penalty of imprisonment shall be imposed only after it has been referred to and confirmed by the Revenue Tribunal.

**(d) Penalty for Failure to Maintain or Preserves Account**

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

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

Every taxpayer shall preserve the accounts and relevant documents of his industry, business, profession or vocation for six years from the date on which income has been assessed.

Any taxpayer, who fails to maintain proper accounts, or fails to preserve any accounts and supporting documents, shall be liable to a fine not exceeding five thousand rupees.

**(e) Penalty for Obstructing Search**

Any person who obstructs any search operation to be made under sec. 46 should be liable to a fine not exceeding five hundred rupees or to imprisonment not exceeding one month or both by an order of the local zonal commissioner. Any person not satisfied with the order made by a zonal commissioner may appeal such order or zonal court.

**(f) Penalty for Failure to Deposit Tax**

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

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

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

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

**(h) Prohibit the Issuance of Passport**

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

**(i) Penalty for Carrying Business without Registration**

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

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

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

**(k) Department Action in Case of Negligence**

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

**(l) Penalty for not Submitting Advance Payment of Tax**

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

**(m) Penalty for Failure to Deposit Tax**

There is a provision under section 36, any person paying any remuneration, share of profit interest to any person shall at the time of payment, deduct tax there from and the tax so deducted shall be deposit to HMG the amount of income tax deducted within the specified period shall be liable to fine not exceeding five hundred rupees.

**(n) Punishment for Breach of the Provision of the Act or the Rules**

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

**2.1.6 Legal Provision Relating To Interest, offence and Penalties in ITA 2058**

Khadka, R.B. (2001) described Penal provisions were a part of any tax law. It must be remembered that not all taxpayers comply with tax laws voluntarily. Some potential taxpayers may try to remain out of the tax net, some taxpayers may not maintain proper account, some taxpayer may not submit tax return, and some taxpayers may not pay tax and so on. It is necessary to take action against those who do not comply with the tax

laws. In this context, there is a universal practice around the world to include penal provisions in the tax law.

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

- Interest and Penalties
- Offences.

#### **2.1.6.1 Interests and Penalties**

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

##### **(a) Penalty for failure to maintain documentation or file statement or return of income (Sec-117)**

- A person who fails to do the following shall be liable to pay a penalty for each month and part of a month calculated as the higher amount of 1.5% p.a. of the person's assessable income with a gross of any deductions and all amounts required to be included in calculating the person's income for the year, or Rs.1000 per month: -
  - File a statement for an income year as required by section 95(1); or
  - File a return for an income year as required by section 96(1)

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

- A withholding agent who fails to file a statement as required by section 90(1) is liable to pay a penalty for each month and part of a month during which the failure continues calculated as 1.5% p.a. applied to the amount of tax required to

be withheld from payments made by the agent during the month to which the failures relates.

**(b) Interest for Understating Estimated Tax Payable by Installment (Sec-118)**

- Where an installment of tax paid by a person under paragraph (a) is less than the tax payable by the person under paragraph (b), the person shall be liable to pay an interest referred to in subsection (2).
  - An installment payer's estimated or revised estimate of tax payable for an income-year under section 95 that is used to calculate an installment of tax for the year payable under section 94.
  - 90% of the tax payable by the person for the year under section 3 (a) and (b).
- A person referred to in subsection (1) shall be liable to pay interest at standard interest rate for each month and part of a month (the period) from date the first installment for the year is payable until the date tax is payable on assessment of person for the year under section 99.
- The amount of interest that a person must pay for each period under subsection (2) is calculated as the standard interest rate applied to the excess of-
  - 90% of the person's estimate of total amount that would have been paid by way installments during the income year for each installment period, or revised estimate equaled the correct amount, over
  - The amount of tax paid installment during the year.

**(c) Interest for Failure to Pay Tax (Sec. 119)**

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

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

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

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

**(e) Penalty for Aiding or Abetting (Sec- 121)**

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

**2.1.6.2 Offences**

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

**(a) Penalty for Failure to Pay Tax (Sec- 123)**

If any person who without reasonable excuse fails to pay any tax on or before the date on which the tax is payable shall be liable on conviction to a fine of not less than Rs.5000 and not more than Rs.30000, or an imprisonment for a term of not less than one month and not more than three months, or both.

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

If a person who makes a statement to the IRD that is false or misleading in a particular material or omits from a statement made to the IRD any matter or thing without which

the statement is misleading in a particular material has to be liable to a fine of between Rs.40000 to Rs. 160000 or an imprisonment for a term not less than six months and not more than two years, or both.

**(c) Offence for Obstructing or Coercing or Influencing Tax Administration (Sec-125)**

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

- If obstructs an officer of the IRD on duty under ITA2058.
- If fails to comply with a notice for obtaining information.
- If obstructs the enforcement of the ITA 2058 in any other ways.

More over any persons if attempts to commit the offences as explained above is liable to half of the penalty as mentioned.

**(d) Penalties for Authorized and Unauthorized Persons (Sec-126)**

If any authorized person violates official secrecy is liable to a fine of up to Rs. 80000 or an imprisonment for a term of up to one year, or both. Similarly, if any person who is not authorized by ITA 2058 collects or attempts to collect tax or any other amounts in the name of tax is liable to a fine of between Rs.80000 and Rs.240000 or an imprisonment for a term of not less than one year and not more than three years or both.

**(e) Offense of Aiding or Abetting (Sec-127)**

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

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

If a person who fails to comply with any provision of the ITA 2058 and its rules under this Act shall be liable to a fine of not less than Rs. 1000 and not more than Rs.30000.



**(g) Department may Order for Payment of Penalty Amount**

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

**(h) HMG (Now Nepal Government) shall be a Plaintiff**

HMG shall be a plaintiff in all lawsuits under this chapter.

**(i) Investigations and Filing of Lawsuit**

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

**2.2 Review of Books, Journals and Previous Research**

Several books, research studies, articles, research paper and reports have been reviewed while conducting the study. Many individuals and organizations have made appreciable efforts in the field of income tax many literatures are found in this field. Most of them are syllables oriented and some of them are concentrated to administrative problems legal

aspects and policies; income tax system, path for reform of income tax etc, in the descriptive way rather than analytical. Similarly many research studies, articles and reports have described the income tax law provision structure of income tax, problems and prospects of income tax and path for reform of income tax.

### **2.2.1 Review of Books**

First of all, Goode, R (1984), a leading economist, in a short comment on the "Government Finance" in developing countries, stresses, " Among the advantage of the income tax are its broad coverage and relative neutrality".

The book shortly points out that the income tax and legal provision of fine and penalties. He had described the importance of fines and penalties to generate maximum income tax. He had also described the role of income tax in economic development of each and every country.

In Goode's view, the major problems of the income tax collection were lack of income tax management, poor practice of income tax assessment, lack of knowledge about provision of fines and penalties etc

After reading the whole text found that income tax was a major source of public finance for the government. To collection more income tax provision of fine and penalties play a vital role unreliable and tax Goode does not make any empirical text about income tax in his book. The book explains the income tax in general.

Pradhananga, N.B (1993) had an explained the provisions and law related to income taxation of Nepal. His book is informative rather than analytical. He had described method of income tax assessment with numerical examples but had not analyzed the major problems and defects of income tax and the role of fine and penalties in collection of income tax.

Poudyal, S.R and Timilsina, P.P (1993) have published a book named "Income tax in Nepal". They have described the theoretical and practical aspect of income tax. This book is based on T.U. syllabus. They had not included the tax structure of Nepal and the problems of income tax system.

Khadka, R.B. (1994) in his book "Nepalese taxation: A path for Reform", has reviewed the development of Nepalese tax system, analyzed its existing problems and studied the feasibility and possibility of tax reform. He lights on the domestic and international economic scenario. Then, he states that in Nepal, tax reform has become necessary and possible due to both internal and external factors. Further, economic reforms, including tax reforms, have been taking place very rapidly in South Asian countries including India, Pakistan and Bangladesh and the export pressure in other countries including Nepal. In context of Nepal, he states, "The forgoing clearly indicates that the Nepalese tax system doesn't satisfy the criteria of a good tax system. Moreover, poor enforcement has only served to distort the Nepalese tax system to an even greater extent. It is therefore, necessary to rationalize the structure and operation of the Nepalese taxes and strengthen the tax administration.

Although he had not mentioned the legal provision of income tax, his book is very useful in the various aspects of income tax.

Marhatta and Khatiwoda (1970) in their book named "Fundamental of Nepalese Income Tax: with up to date financial directives and regulation", they had described the legal provisions relating to income tax and practical aspects. They had described the income Tax Act 2020. This Act was not beneficial because of changing in tax law. They were fully based on campus level syllabus.

Tiwari, N.R. (1999) chief of "Kara Phachyut Aayog" now, presented a book named "Income tax system in Nepal". He has described the legal provision relating to income tax. He has described the process, provision and methods to assess the income tax with

numerical examples. But he has not shown the role of income tax in economic development of Nepal. His book is descriptive rather than analytical.

Ojha, P.K. (1994) showed the various act and law of income tax in his book. To describe the various act and law, he took many tax cases. This book may be beneficial to understand income tax laws. But he had not analyzed the problem of income tax and role of fine and penalties in generating more income tax.

Dhakal, K.D. (1998) presented modified edition of a book named "Income Tax and House and Compound Tax Law and Practice with VAT". He has described the legal provisions relating to income tax act 2031 with numerical examples. This book is very useful to know about the legal provision on income tax Act 2031. But he has not analyzed the role of income tax, income tax structure and problems of tax administration in Nepal. His book is informative rather than analytical. . This book was prescribed by TU syllabus for BBS & MBS.

Bhattacharai, I and Koirala, G.P. (2004) jointly presented a book named "Tax Laws and Tax Planning" this book was specially published for MBS second year as a reference. They have explained the legal provisions relating to income tax Act 2058 and value added tax act 2052 with illustrative examples. They have reviewed and emphasized important concept in boxes entitled point to remember and key term is given at the end of the chapter. This book gives the concept of tax evasion, avoidance and ideas about the tax planning. But this book also has not able to present total theoretical aspects of problems in tax administration. In their book they described the role of provision of fines and penalties to collect the more income taxes.

Adhikari, C.M. (2003) wrote a book entitled "Modern Taxation in Nepal; theory and practice" he had described the various aspects of income tax. This book also has been written according to the syllabus requirements of different faculties. Especially, the BBS 3<sup>rd</sup> year syllabus of TU has been taken into consideration. In his book, ITA 2058 as amended by Finance Ordinance, 2060 has also included. Theoretical as well as practical

aspects have been put in the book. He had Included VAT and property tax but not tax planning. He had included provisions of ITA 2058. He had also mentioned about fines and penalties and its role on collection income tax.

Amatya, Pokhrel and Dahal (2003) wrote a book entitled "Taxation in Nepal". This book also designed to meet the requirement of BBS 3<sup>rd</sup> year syllabus Theoretical; as well as practical aspects have been included in the book. This book is descriptive one, not analytical.

Aryal & Poudel (2003) wrote a book entitled "Taxation in Nepal". This book was also designed as per the syllabus of BBS<sup>3rd</sup> year. They have also included theoretical and practical aspects of taxation in their book. They have also included about provision of fines and penalties based on ITA 2058.

Kandel, P.R. (2003) in his book named "Tax Laws and Tax Planning in Nepal", which was based on ITA 2058 and Income Tax Rules 2059, described the process, provisions, and methods to assess income tax with numerical examples. His book was also based on T U Syllabus. He had not shown the role of fines and penalties to maximize income tax collection even though he mentioned about provisions of ITA 2058.

K.C., J.B. (2007) published a book named "Tax Laws and Tax Planning; Theory and Practice". He had described the meanings, principles, types, and historical background along with basic concept of income taxation in Nepal. He described ITA 2058 & its features, weaknesses and superiority than previous income tax act. He had also analyzed the role, importance and limitations of income tax. In his book he described the legal provision relating to income tax. He shown about tax planning: how to taxpayer minimize their tax liability legally. He described the duties, rights and responsibilities of tax officers as well as taxpayers. He mentioned about interest, offences and penalties on the based of ITA 2058 and the role of fines and penalties to increased income tax along with income tax paying habits of taxpayers. His book was not only useful for tax students but for all the peoples whether they were businessman or employees or professional man etc.

### **2.2.2 Review of Articles**

Revenue consultation committee of MOF has published a report in the FY 2001. The committee has studied the overall taxation situation of Nepal. This report has suggested widening the income tax base by including all kinds of taxpayers and income. This report suggested for finding out the taxpayers of new sector. For this the report has suggested to make the act more transparent and clear in order to attract foreign and domestic investors. The report suggested increasing exemption limit and adjustment of exemption limit according to the purchasing power and inflation. This report has suggested to implement account based VAT more effectively. This report has also suggested that fines and penalties imposed strongly to rule breaker so that income tax collection will be raised. (Nepal Government, 2001: 14).

Advocate Singh published an article named "Taxation- legal illegality" in the journal of the ICAN, on Dec.2005; He has mainly focused on Nepalese taxing system and government provisions and tax minimization activities. In his words "the taxpayers have been encouraged by the tax officials themselves to go to the courts over complain of their wrong doings because the authority is totally convinced that no immediately solution can be expected from the court of tribunal in short span of time as long as they are in position. One of the major suspicions on the independency and role of revenue tribunal is the procedure where by decision of the director general of the Inland Revenue Department has to be reviewed through appeal by the tribunal. He further added "one of the major constrain that has already been dealt above is the lack of proper orientation and expertise in the courts and the effectiveness to the intendment of the representative lawmakers.

In the name of "Income Tax Act 2058 to minimize loopholes" by Puspa Kandel published an article in which he wrote about different tax minimizing activities. Through the government has tried to minimize the loopholes of the tax system, there are different

ways of minimizing the tax liability by a person or business organization. They all are categorized on the; law and ethics. They are

- Tax evasion (illegal & unethical)
- Tax planning (legal planning)
- Tax avoidance (legal & unethical)

Kandel P.R.(2005) concluded that to decrease tax evasion the government should strongly implement the rules regarding fines and penalties.

### **2.2.3 Review of Dissertations/Thesis**

Pandey, K.B. (1967) had described the brief review of Nepalese economy, resource mobilization structure of income tax, role of income tax, problems of income taxation in Nepal. He had given more emphasis on tax structure of Nepal. His findings were that income tax played a significant role in economic development of Nepal. He also described the problems of income tax in Nepal. They were lack of record keeping, lack of maintaining account by taxpayer, lack of knowledge about fines and penalties to taxpayers, lack of responsibility and honesty of tax offices, lack of co-ordination between various tax department and revenue department. Among them, some problems are relevant at now also. Although he had explained various aspect of income tax in Nepal, he had not mentioned the legal provision relating to income tax and empirical investigation.

Shrestha, G.L. (1967) basically, concerned with origin definition, concept, historical background, role, objectives and structure of income tax. She had also described per capita burden of income tax in Nepal and the major problems existing in Nepalese income tax system. She also found that the evasion of tax is a serious problem of tax. The reasons of tax evasions were low tax paying capacity of Nepalese people, high tax rate, corruption, lack of system of heavy punishment or fines, wide spread illegal business activities etc. She also found that the tax administration is not efficient.

Suwal, R.B.(1981), described the concept of income tax, objective of income tax, importance of income tax, role of income tax for the economic developments, structure of income tax, problems of income tax etc. his findings, in his dissertations, about the main reasons of tax evasion were, lack of tax consciousness of Nepalese people, open boarder, absence of a clear and comprehensive definition of income, widespread illegal business activities, high tax rate, corruption etc. His findings about problems of income tax in Nepal were; lack of accounts and records of taxpayers, lack of responsibility and honesty among the tax officers, delays in tax administrations etc.

Nepal, N.(1983), emphasized on fiscal system of Nepal, origin, meaning, existing position, role, problems and future prospective of the income tax in Nepal. She identified the various problems in Nepalese income tax system were; inefficient income tax administration, mass poverty, lack of tax consciousness, assessment deficiency, lack of knowledge about fines and penalties and lack of knowledge about facilities provided by tax laws. She had conducted an opinion survey to fulfill her study. Although her findings and suggestions were usable, she had not mentioned the legal provisions relating to income tax.

Siwakoti, C. (1987) had shown the role of income tax, tax structure of Nepal, legal aspect of ITA 2031, problem of income tax administration in Nepal etc. He found that the role of income tax were for economic growth, equitable, distribution and stabilizations growth. He had noticed that the problem of income tax were, lack of public information, delay in tax assessment, defective personnel management, lack of knowledge about income tax laws provision about fines and penalties and concessation and rebate provided by income tax laws.

Katuwal, S. (2003) in his dissertation titled "Contribution of Income tax on government revenue of Nepal", he had explained the role of income tax in national economy. He had conducted an empirical investigation of income tax management in Nepal. He found the major problems of income tax system in Nepal were lack of managerial efficiency, lack of effective personnel management, lack of reward and punishment system, poor income



tax assessment procedure, poor information about tax laws and its provision about fines and penalties, lack of knowledge of income tax planning etc. He had much more focused on collection of income tax through implementation of fines and penalties.

Sherchan, T. (2003) in his dissertation entitle Provision of Fines and Penalties regarding Income Tax in Nepal, concluded that due to various problems related to income tax, revenue collection from income tax is very low in Nepal. For solve this problem he had recommended that various alternatives such as; effective implementation income tax laws, punctuate tax administration system, effective implementation of fines and penalties system, full information about laws and rules to each and every people, tax administration should be made free from corruption etc.

Sharma, S. (2005) had described the provision of fines and penalties regarding to income tax in Nepal. In his dissertation he found that poor tax paying habit of Nepalese people. He suggested that provision of fines and penalties should be made effective and efficient. He also described that the knowledge about ITA 2058 & its provision were poor in Nepalese people. To increase the knowledge about this he suggested to effective communication or information system should me introduced.

Dwebedi, S. (2006) in his dissertation entitled "Tax Avoidance and Anti- avoidance Rules in Nepalese Perspective" had described tax avoidance is minimization activity through the using of Statutory benefit and loopholes or artful dodger. He had also described that provision of fines and penalties should be effectively implemented to those who dam care the ITA rules and regulations.

Oli, R. (2006) in his dissertation entitled "Contribution of Income Tax on Government Revenue of Nepal" had described the role of income tax in resource mobilization of a country along with economic development. He had described that internal revenue of Nepal is insufficient even to meet regular expenditure so he suggested to collect much more income tax by applying various alternatives such as rate of fines and penalties should be increased as well as effective implementation of this provisions of ITA2058.

Acharya, B. (2006) in his dissertation "A comparative Study on Income Tax collection from Joint Venture and Non Joint Venture Commercial Bank", had shown the trends of corporate income tax collected from joint and non joint venture banks. He also mentioned the 30% corporate tax and 1.5% surcharge is sound. In his findings he had suggested to taxpayers that the maximum utilization of incentives, facilities and rebates provided by the prevailing law without breaking any legal provisions. But he had not mentioned that the how to make them (taxpayers) aware in this provisions provided by the ITA 2058.

Dahal, T.R. (2006) in his dissertation title "An analysis of Interests, Fines and Penalties Regarding to Income Tax Act 2058", had described government revenue composition and he found that non-tax revenue was very high than tax revenue in revenue composition. Similarly, he found the dominant role of indirect tax revenue in Nepalese tax revenue. He also found the dominant role of corporate income tax in income tax revenue in Nepal but it is in decreasing trend. He mentioned that level of fines and penalties is satisfactory in same findings he also mentioned that the most of the taxpayers unknown about New ITA and it's provision regarding fine and penalty, how can it be possible? He had suggested for generating much more income tax, income tax policy should be made in that way the main goal of imposing tax achieved, to increase tax paying habit effective information system should be established, ITA will be made so simple and clear that uneducated people can easily understand the theme of ITA.

Karki, K.B. (2006) in his dissertation named Income Tax Administration and Its effectiveness in Nepal. He has focused on effective income tax administration. To do so he had suggested to income tax policy formulated according to the economic policy of the country, timely revised on ITA, income tax rules and regulation should be clear and simple for all the taxpayers as well as for the administrators and he had also suggested to effective fines & penalties system to rules breakers.

Oli, S. (2007) in his dissertation named Income Tax Management in Nepal. In his dissertation, He has focused on the managerial aspect of taxation in Nepal. His research

study is concentrated on corruption practice of tax in various revenue department and Tax offices. On the basis of primary survey, he has concluded that the corruption practice is high in tax offices. He has also focused that the imposition of fee, fine and penalty is not effective due to the poor implementation of act and corruption. He had suggested that to increase income tax, provision of fees, fines and penalties should be implemented properly along with income tax management.

Beside these reports, books and master level dissertation, some articles about income tax published in The Rising Nepal, The Katmandu Post, The Kantipur and The Himalayan etc. and the publications of Ministry of Finance such as Budget speech, Economic Survey were reviewed in the study period.

### **2.3 Research Gap**

There is gap between the present research and the previous researchers. The findings of the previous researches were mostly based on secondary data. Most of the previous researches did not disclose what kinds of fines and penalties provisions strategies should be implemented in Nepalese environment. Thus to fill up those gap the current research is conducted. This research is a survey type of research. It is based on secondary data and primary data. This research study is based on using current data 2002/03 – 2008/09 which was not included in previous studies. So, this study will be fruitful to those interested person, parties, scholar, civil society, general public, businessmen and government for academically as well as policy prospective.

## **CHAPTER-III RESEARCH METHODOLOGY**

Research is a systematic and organized effort to investigate facts and methodology is the method of doing research in well manner and also the research for gaining the knowledge about method of goal achievement, which we desire is known as research methodology. So research methodology means the analysis of specific topic by using proper method. In other words research methodology is a process of arriving to the solution of problem

through planned and systematic dealing with collection, analysis and interpretation of the facts and figures. “Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view” (Kothari, 1994, P. 19). Therefore, we can conclude that research methodology tries to make clear view of the method and process adopted in the entire aspect of the study. It is also considered as the path from which researcher can systematically solve the research problem.

### **3.1 Research Design**

This research study attempts to analyze the present income tax management system of Nepal especially about the provision regarding interests, offence and penalties. Opinion of 140 respondents associated with the income tax viz. taxpayers, tax administrators and tax experts are collected through questionnaire. The questionnaire included; the goal of IT in Nepal, tax paying habit of Nepalese people, factors affecting tax paying habit of Nepalese people, awareness of taxpayer towards ITA 2058 as well as ITA 2031, effective implementation of provision regarding fines and penalties, problems of income tax management, provision regarding fines and penalties in income tax Act 2031, effectiveness of ITA 2058 than ITA 2031 in the context of effective implementation of fines and penalties and other aspects of income tax system in Nepal including necessary suggestions to improve the income tax management as well as effective implementation of provision regarding fines and penalties in ITA 2058. Similarly, various information published by organizations about income tax are used for this study. In this way, the research design of this study is descriptive and analytical. Descriptive research design seeks to find out the fact by using sufficient data and information.

### **3.2 Population and Samples**

The population for this study comprised all the persons belonging to income tax of Nepal. 140-sample size was selected from three different groups of respondents. The following table shows the group of respondents and sample size.

Table 3.1: Size of Groups of Respondents

| S.N. | Group of respondents      | Sample Size |
|------|---------------------------|-------------|
| 1    | Income Taxpayers          | 100         |
| 2    | Income tax Administrators | 20          |
| 3    | Tax Experts               | 20          |

### 3.3 Nature and Sources of Data

For the achievement of the desired objectives of this research, both primary as well as secondary source of data were collected. The major sources of data were as follows.

#### (a) Primary data:

The primary sources of data are the opinion survey through questionnaire field visit and observation. Opinion survey is taken as major tools for collection of data from primary source. A set of questionnaire is developed and distributed to the selected respondents in order to get accurate and actual information. The questionnaire is distributed to different Group such as tax expert, tax payer, tax administrators. The entire questionnaire has covered the main theme of this research and necessary suggestions for achieving effectiveness of income tax in Nepal.

#### (b) Secondary data:

The secondary sources of data are the information received from books; journals and newspaper reports, research study etc. The major sources of secondary data were as follows:

- i. Economic Survey and budget speech of various years, ministry of finance, Nepal government.
- ii. Books related to income taxation.
- iii. Annual Reports of Inland revenue department (Department of taxation)
- iv. National newspapers, Journals, souvenir and news magazines etc.

- v. Publis(ed documents of National Planning Commission and Nepal Rastr! Bank.
- vi. Research study relating to income tax afail!ble at the central library of T.U.

### **3.4 Data Collection Procedures:**

Data of this study are collected from two sources; Orimary and sebondary& Pprimary data collected by using questionnaire. A Set of questionnaire developed and distributed to the selected respondents in order to get actual and accurate information. Additional information was also collected from interview with the respondents. The secondary data were collected from annual Report of Inland Revenue department, ministry of finance, central bureau of statistics etc.

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

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

## **CHAPTER V**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

This chapter is the important for the research because this chapter is the extract of all the previously discussed chapters. This chapter consists of mainly three parts: Summary, conclusion and recommendation. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation part, suggestion and recommendation is made based on the result and

experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as for further research.

## **5.1 Summary**

Nepal's economy is predominately based on agriculture. The major portion of population who lived under the line of poverty is in village area. Nepal has the richest of natural and cultural beauties and resources but the economic condition is far behind. Wide spread poverty, rapid population growth, low economic growth, extreme disparity in the distribution of wealth and income, heavy dependence on agriculture and foreign aid, lack of needed saving and capital, unemployment, unexploited resource, lack of infrastructure, political instability, adverse balance etc. the main characteristics of Nepalese economy and it shows poor performance of economy.

For the economic development, government has huge responsibility towards people. The government requires sufficient revenues to economic development as well as to handle day-to-day administration, to maintain peace and security and to launch other public welfare and developing activities. To perform such activities, the government collects revenue from various sources such as tax, revenue from public enterprises, special assessment, fees, fines, grants and assistance etc. among them, revenue from tax play a vital role in state economy. Therefore writers, economists and specialist like Jean Baptiste, 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.

The history of taxation was begun with the development of human civilization. And the history of income tax was begun from United Kingdom in the 1799 A.D. The history of income tax was not so long in Nepal. The income tax Act was introduced as a trial in the FY 1959/60 entitled Business Profit and Remuneration Tax Act. The first elected government levied the first income tax and no specific Act was made to define and treat of income tax. First comprehensive income tax was introduced in 1962, which was

replaced by “ITA 1974” which was amended eight times and finally replaced by ITA 2058.

Government revenue was the composition of external and internal revenue. Internal revenue includes both tax and non-tax revenue. Nepalese tax revenue was the composition of direct and indirect tax revenue. There was dominant role of indirect tax revenue in Nepalese tax revenue structure. The contribution of direct tax and indirect tax in total tax revenue was 18.09% and 81.91% in the FY 1988/89 respectively which changed to 23% and 77% in the FY 2008/09. Direct tax revenue was the composition of income tax, land tax, house and land registration tax and other tax. There is dominant share of income tax revenue in direct tax. It was 55.06% of direct tax in the FY 1988/89 and reached to 79.06% in the FY 2008/09. Income tax revenue is the composition of income tax from corporate bodies, income tax revenue from individual, income tax revenue from remuneration, income tax from rent and income tax from interest.

The contribution of income tax on GDP, total revenue, total tax revenue, direct tax revenue in 1988/89 was 0.68%, 7.85%, 9.96% and 55.06% respectively which reached 1.72%, 14.35%, 18.06% and 79.06% in the FY 2008/09. The average contribution of income tax in GDP, total revenue, total tax revenue and direct tax revenue was 1.42%, 12.31%, 15.80% and 72.31% respectively during the study period of 21 years.

The tax paying habit of Nepalese people is poor. Only 168000 out of 25m. Nepalese people pay income tax. The reasons for poor tax paying habit were: unwillingness of personnel, lack of knowledge about tax law, due to complexity in Act etc. The factors affecting to increase tax-paying habit were respect to taxpayers and right behaviors from tax administrators, low tax rate/concession/rebate, effective and efficient administration and educated people. Most of taxpayers aware about ITA 2058 and its provisions. They thought that ITA 2058 was effective than ITA 2031 and its provisions regarding fines and penalties.

Effective and efficient administrations as well as aware taxpayers were the basic requirements for Nepalese income tax system. Income tax administration has been lacked



with trained administrative personnel. There was no separate income tax department. A revenue office has to perform on different taxes, which may create ever burden to the tax personnel. Tax administration was not skill provided with a comprehensive information system. Records maintain by revenue office regarding potential taxpayers and their economic activities were not adequate. The provisions regarding fines and penalties were not implemented effectively and efficiently. It is often said that the tax personnel have practiced the corruptions in great extent but they were rarely punished.

The provision made under the ITA 2058 was also insufficient to some aspects. There should be improvement on language with dual and vague meaning, on provision of fines and penalties, timely improvement on the provisions as well as tax law and rules, statutory exemption limit, utilization of the modern information technology on tax administration, trained and efficient staff in tax administration.

## **5.2 Conclusion**

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

To increase the government revenue, Nepalese government is trying to extract money or valuable contribution from people through taxation. Within tax, income tax is one of the most important resources of government revenue and it is considered as a good remedy to cure growing and serious resources gap problems of Nepal. It is essential in getting macro-economics policies because the alternatives ways of financing government

expenditures like money creation, mandating larger required reserves, domestic borrowing and foreign loans can have very harmful effect on the economy.

Lack of knowledge about law and rules, managerial inefficiency, lack of effective personnel management, lack of reward and punishment system, poor income tax assessment procedure, poor tax information system, corruption practiced in administration, very narrow coverage of income tax are the major problems of income tax system in Nepal. Because of the various problems relating to income tax, revenue collection from income tax is low as compared to other developing countries like Srilanka, India, Pakistan, and Bangladesh etc. Nevertheless contribution of income tax for the economic development of Nepal has been increasing significantly in recent years as compared to past 20 years. But it doesn't mean that the share is that much satisfactory. So, much more effort should be made to increase it. At present, income tax system based on the income tax Act 2058 and income tax rules 2059, which the Nepalese tax administration has been attempting to, modify it to meet the pressing challenge brought out by the change in technology and economic policies. However, still its working procedure is traditional and the cost of administration hasn't been brought to the satisfactory level. Income Tax Act 2058 is blamed that law is complicated and vague. Simplification of law is the need of today. The tax law should be coherent with the economic situation of the country.

For the success of income tax system or to fulfill the objectives of income tax as well as for the economic development of the countries many more constraints plays the vital role. Among them effective implementation of provision regarding fine and penalties system is one of the most important constraint. From the very beginning, the concepts of punishment have been emerged in the income tax system of Nepal for the taxpayers who do not comply with the tax law. It is imposed according to the provisions provided by income tax act. It plays important role to collect tax. There is no doubt that fines and penalties must be imposed to the defective taxpayers. But this is not only the method of reducing tax evasion.

Revenue collection from income tax is low in Nepal due to various problems related to income tax. For the economic development of Nepal, the problem relating to income tax system in Nepal should be solved and resources should be effectively utilized.

### **5.3 Recommendations**

On the basis of findings of this dissertation, the following recommendations are made regarding interest, offence and penalties and its administrative efficiency:

- Most of the taxpayers and some of tax administrations are unknown about this newly introduced ITA 2058 and its provision about fines and penalties. To fulfill this gap information system should be provided by different media as well as meeting and seminar should be held.
- Income tax policy should be made such that main goals of imposing tax can be achieved.
- Income tax Act, rules and regulation should be cleared and simple for all taxpayers, a layman as well as tax administration. It should be more effective.
- Tax paying habit of Nepalese people is poor. It is proved by the annual report of IRD 2008/09. The report had reported that only 168000 out of 25 m., people pay income tax. To increase tax paying habit of Nepalese people, provisions of fines and penalties should be made effective but it is not only the method but respect to taxpayers, right behaviors towards taxpayers from tax administration, concession/rebate/low tax rate, effective and efficient administration and educated people are also the factors to increase tax paying habit.
- To get the objectives made by ITA 2058 on provisions regarding fines and penalties than ITA 2031. The provisions of fines and penalties should effectively equally implemented to the tax evader, defaulter whether they are king or even a simple layman.
- The following suggestions are made for the improvement of income tax administrations.

- To make the administration capable of facing new challenges, there should be improvement in professionalism as well as development of new professional ethics compatible to the changed context of liberalization.
- The financial benefits should be increased. The salaries and incentives should be increased in accordance with the inflation. Not only this, the government should give target to them and gave them extra benefits accordance to their performance.
- IRD should be kept free from undue outsiders.
- The tax authority should do continuous effort in order to develop taxpayers' positive attitude towards taxation.
- Co-ordination between staffs and department must be established.
- For IRD, separate research and control unit should be established in order to find out lapses in tax policies issued by government.
- The IRD made provisions of reward to those informants who supplies information about tax evasion, abiding and abetting etc.
- Computerization and effective exchange of information system should be maintained.
- Tax personnel should be encouraged, punished and transferred on the basis of their work and experience not on the basis of outside pressure.
- Timely revision should be made in the matter of income tax policy. The system of changing income tax policy with the change of government should better be avoided.
- Income tax Act should be liberal with broad base.
- To promote export, more deduction should be provided.
- To develop the region, regional concession should be introduced.
- Income tax policy should be made attractive also for foreign business group
- If there is enough reasons to believe that the taxpayers has earned from illegal business and corruption. So, the income earned should be made liable to tax at high rate without exemption limit and with maximum penalty.
- To improve the tax collection procedure, the maximum penalties should be imposed for non-compliance of income tax with in the due date.

- Strong political commitment is necessary for the effective implementation and ITA and its provisions regarding to fines and penalties.
- People should be encouraged to pay tax voluntarily. A system should be introduced that a tax-paying citizen is entitled to receive more benefits and incentives than non-taxpaying citizen.
- Success of income tax system is highly dependent upon the quality of income tax laws. Tax laws should be clear, comprehensive and simple. It should not contain any loopholes and ambiguity. Therefore it should be reviewed frequently and reformed.

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## **APPENDIX**

### **QUESTIONNAIRE**

#### **AN ANALYSIS OF INTERESTS, OFFENCE AND PENALTIES WITH REFERENCE TO INCOME TAX ACT 2058**

##### **(The Questionnaire asked with the Respondents)**

Please tick ( ) the answer of your choice and put the alternatives in order of preferences.

1. Do you think that tax paying habit of Nepalese people is poor?
  - a. Yes
  - b. No

2. Are you aware of the newly introduced ITA 2058 and its provision concerning to fines and penalties?
  - a. Yes
  - b. No
  
3. Do you know about ITA 2031 & its provision concerning to fines and penalties?
  - a. Yes
  - b. No
  
4. Do you think the changes made by ITA 2058 regarding on the provision of fines and penalties became effective to impose penalties than ITA 2031?
  - a. Yes
  - b. No
  
5. In which level do you think about Effectiveness of ITA 2058 & its Provisions regarding to Fines & Penalties?
  - a. Highly Effective
  - b. Satisfactory
  - c. Medium
  
6. Is it right to impose Rs.5000 as a fine whose tax liability is Rs 1000 on the ground of non-payment of tax within the time frame?
  - a. Yes
  - b. No
  
7. Do you think interest for under estimation tax payable by installment always comes accurate?
  - a. Highly Effective
  - b. Satisfactory
  - c. Medium

8 Do you agree, penalty for aiding and abetting would help to reduce offences?"

It is right to impose penalty equal 100% of the underpayment of that tax for aiding or abetting?"

a. Yes    b. No

9 Is it right to impose penalty equal to 50% of the underpayment of tax for making false or misleading statement unknowingly or recklessly?

a. Yes    b. No

10 Do you think that the tax administration of Nepal is effective to impose fines and penalties as per necessary?

a. Yes    b. No

11 In your opinion, are the provisions made under the Nepalese Income Tax act sufficient in all respect?

a. Yes    b. No

## **APPENDIX: I**

**Dear Sir/Madam,**

At first, I would like to introduce myself as a student of Tribhuwan University, Shaker Dev Campus, MBS Final Year. In order to fulfill the partial requirement of Master's Degree in Business study of Tribhuwan University of Nepal, I conducting a research work entitled "An Analysis of Interests, Offence and Penalties with reference to Income Tax Act 2058."

The subject matters are related to you so your kind co-operation and valuable suggestions are essential for the completion of my thesis. I would be very much appreciated if you could provide your time for filling this questionnaire.

I assure that the information you provide me will solely be utilized in research work. I hope for your kind co-operation and support.

Yours Sincerely  
**Sujata Paneru**

## APPENDIX: II

### “An Analysis of Interest, Offence and Penalties with Reference to Income Tax Act 2058”

#### QUESTIONNAIRES

Name of Respondents: -

Office/Organization: -

Position: -

Please you are requested to tick ( ) the answer of your choice or wherever appropriate put in order of preference from 1 to last number. Number 1 stands for the most important and the last number for least.

1. What should be the goal of Income Tax in Nepal?

- a) Increase the government Revenue ( )
- b) Reduce the gap between poor and rich. ( )
- c) Promote private sector investment ( )
- d) Reduce in unemployment ( )
- e) Others (Please specify.....) ( )

2. Do you think that the tax paying habit of Nepalese people is poor?

- a) Yes ( )
- b) No ( )

2. (a). If yes, what are the reasons? (Rank your answer)

- a) Lack of knowledge about tax law. ( )
- b) Due to its complexity. ( )
- c) Lack of clear provision in income tax law and finance act. ( )
- d) Unwillingness of personnel. ( )
- e) Lack of Motivation of personnel ( )

2. (b) Do you think which factors should effect to increase tax paying habit as well as the percent of income tax in government revenue of Nepal?

- a) Fines and penalties ( )
- b) Low tax rate ( )

- c) Concession, rebate & facilities ( )
- d) Respect to tax payers ( )
- e) Effective & efficient administration ( )
- f) Educated people ( )
- g) If any (please specify.....) ( )

3. Are you aware of this newly introduced ITA 2058 and its provision concerning to fines and penalties?

- a) Yes ( )
- b) No ( )

3. (a) Do you know about ITA 2031 & its provision concerning to fines and penalties?

- a) Yes ( )
- b) No ( )

3. (b) Do you think the changes made by ITA 2058 regarding on the provision of fines and penalties became effective to impose penalties than ITA 2031 ?

- a) Yes ( )
- b) No ( )

3(c) If yes, in which level do you think about its effectiveness?

- i) Highly effective ( )
- ii) Satisfactory ( )
- iii) Medium ( )

4. It is right to impose Rs.5000 as a minimum fine whose tax liability is Rs.1000 on the ground of non-payment of tax within the time frame?

- a) Yes ( )
- b) No ( )

4. (a) If Yes, what should be reason?

- i) Compels every taxpayer to pay tax in time. ( )
- ii) Increases the awareness to pay tax in time. ( )
- iii) Creates the tax paying habit in time. ( )

4. (b) If not, give reasons?

- i) Fines should be imposed proportionately to the amount of tax liabilities. ( )
- ii) Minimum fines are sufficient to create awareness among taxpayers as well as to penalize them. ( )
- iii) Fines should be justifiable. ( )

5. Do you think "Estimation always come accurate?" If not, it is justifiable to pay interest on tax liability on the ground of under estimation tax payable by installment (sec-118)

a) Yes ( )

b) No ( )

5. (a) If yes, give reasons?

i. Increases the reliability in estimation ( )

ii. Encourages to maintain record properly ( )

iii. Others (please specify.....) ( )

5. (b) If not give reasons?

i. Estimation may not be accurate sometime ( )

ii. The provision of estimation should be abolished ( )

iii. Others (please specify.....) ( )

6. Do you agree, penalty for abiding and abetting would help to reduce offences? (Sec-127)

a) Yes ( )

b) No ( )

7) It is right to impose penalty equal to 100% of the underpayment of that tax for aiding or abetting?

a) Yes ( )

b) No ( )

7 (a) If no, what should be the charges?

.....

8. Is it right to impose penalty equal to 50% of the under payment of tax for making false or misleading statement unknowingly by recklessly?

a) Yes ( )

b) No ( )

8. (a) If not what should be charge?

.....

9. Do you think tax administration of Nepal is effective to impose fines and penalties as per necessary?

a) Yes ( )

b) No ( )

9. (a) If no, give reasons?

i. Corruption ( )

ii. Lack of information ( )

iii. Lack of competent staff ( )



- iv. Complicated tax law ( )
- v. Unnecessary outside pressure ( )
- vi. Lack of cooperation in tax administration ( )
- vii. Lack of logistic support ( )
- viii. Others (if any.....) ( )

10. In your opinion, are the provision made under the Nepalese income tax act sufficient in all respect?

- a) Yes ( )
- b) No ( )

10. (a) If not, in which aspect the improvement is needed? (Please specify in the following number as you and your self)

- i. .... ( )
- ii. .... ( )
- iii. .... ( )

**THANKS FOR CO-OPERATION**

## APPENDIX: III

### Trend & Projection of Income Tax for Coming next Five Years

(Rs .in million)

| Fiscal Year (t) | Income Tax (Y)  | X=t-2004/05 | X <sup>2</sup>           | XY               |
|-----------------|-----------------|-------------|--------------------------|------------------|
| 2000/01         | 4890            | -4          | 16                       | -19560           |
| 2001/02         | 6170            | -3          | 9                        | -18510           |
| 2002/03         | 7420            | -2          | 4                        | -14840           |
| 2003/04         | 9110            | -1          | 1                        | -9110            |
| 2004/05         | 8919            | 0           | 0                        | 0                |
| 2005/06         | 8060            | 1           | 1                        | 8060             |
| 2006/07         | 9515            | 2           | 4                        | 19030            |
| 2007/08         | 10452           | 3           | 9                        | 31356            |
| 2008/09         | 10896           | 4           | 16                       | 43584            |
|                 | <b>∑Y=75432</b> | <b>∑X=0</b> | <b>∑X<sup>2</sup>=60</b> | <b>∑XY=40010</b> |

Since  $\sum X=0$ ,

We have formula,

$$a = \frac{\sum y}{n}$$

$$a = \frac{75432}{9}$$

$$a = 8381.33$$

$$b = \frac{\sum xy}{\sum x^2}$$

$$b = \frac{40010}{60}$$

$$b = 666.83$$

Putting the value of a and b in equation

We get,

$$Y = a + bX$$

$$Y = 8381.33 + 666.83X$$

Table 4.10: Estimated Income Tax for Next Five Year  
(Rs.in million)

| Fiscal Year (t) | X = t – 2004/05 | Trend Values (Y) = 8381.33+ 666.83X |
|-----------------|-----------------|-------------------------------------|
| 2009/10         | 6               | =8381.33+666.83*6=11715.50          |
| 2010/11         | 7               | =8381.33+666.83*7=12382.31          |
| 2011/12         | 8               | =8381.33+666.83*8=13049.14          |
| 2012/13         | 9               | =8381.33+666.83*9=13715.97          |
| 2013/14         | 10              | =8381.33+666.83*10=14382.80         |

### APPENDIX: IV

Table 4.27: Calculation of the Rank Correlation of Co-efficient

| Reasons/Causes                            | X  | Rank | Y   | Rank | d=R <sub>1</sub> -R <sub>2</sub> | d <sup>2</sup> |   |
|---|----|------|-----|------|----------------------------------|----------------|---|
| Corruption                                | 72 | 1    | 435 | 1    | 0                                | 0              |   |
| Lack of competent staff                   | 50 | 5    | 378 | 4    | 1                                | 1              |   |
| Complicated tax law                       | 64 | 2    | 428 | 2    | 0                                | 0              |   |
| Lack of information.                      | 56 | 3    | 381 | 3    | 0                                | 0              |   |
| Lack of cooperation in tax administration | 48 | 6    | 296 | 7    | -1                               | 1              |   |
| Unnecessary outside pressure              | 60 |      | 4   |      | 360                              | -1             | 1 |
| Lack of logistic support                  | 42 | 7    | 32  | 6    | 1                                | 1              |   |

|            |  |  |   |  |                        |
|------------|--|--|---|--|------------------------|
|            |  |  | 6 |  |                        |
| <b>n=7</b> |  |  |   |  | <b>d<sup>2</sup>=4</b> |

Source: Based on table 4.26

(Note: X denotes responses of the tax experts and Y refers responses of the taxpayers)

Substituting the value of formula,

$$R = \frac{6 \cdot d^2}{n(n^2 - 1)}$$

$$R = \frac{6 \cdot 4}{7(7^2 - 1)}$$

$$R = 0.93$$

$$P.E.(r) = 0.6745 \frac{1 \cdot Z \cdot r^2}{\sqrt{N}}$$

$$P.E.(r) = 0.6745 \frac{1 \cdot Z \cdot (0.93)^2}{\sqrt{7}}$$

$$P.E.(r) = 0.03$$

Here r is greater than P.E.(r). It is 31 times greater. The relation is highly significant since r is more than 6 times greater than PE(r). Hence our null hypothesis is rejected. Therefore, we can conclude that the causes of ineffectiveness of Nepalese tax administration to impose fines and penalties as per necessary are same for both groups of respondents.

**APPENDIX: V**  
**Contribution of Different Source of Revenue as percentage of GDP**

| Fiscal Year | Total GDP |       | Total Revenue |      | Tax Revenue |      | Non-tax Revenue |      | Direct Tax |      |      |      |              |      |        |      |      |      |      |  |      |  |      |  |      |  |
|-------------|-----------|-------|---------------|------|-------------|------|-----------------|------|------------|------|------|------|--------------|------|--------|------|------|------|------|--|------|--|------|--|------|--|
|             |           |       |               |      |             |      |                 |      | Income     |      | Land |      | House & Land |      | Others |      |      |      |      |  |      |  |      |  |      |  |
| 1989/90     | 53,215    |       | 8.73          |      | 6.88        |      | 1.85            |      | 0.68       |      | 0.14 |      | 0.32         |      | 0.1    |      | 1.24 |      | 2.03 |  | 0.14 |  |      |  |      |  |
| 1990/91     | 61,140    |       | 9.74          |      | 7.15        |      | 2.62            |      | 0.72       |      | 0.12 |      | 0.35         |      | 0.08   |      | 1.27 |      | 2.10 |  | 0.13 |  | 1.12 |  | 1.87 |  |
| 1987/88     | 73,170    |       | 10.04         |      | 7.86        |      | 2.18            |      | 0.79       |      | 0.11 |      | 0.39         |      | 0.09   |      |      |      |      |  | 1.38 |  |      |  |      |  |
| 1991/92     | 85,831    |       | 9.06          |      | 7.32        |      | 1.74            |      | 1.05       |      | 0.09 |      | 0.37         |      | 0.04   |      | 1.55 |      | 2.49 |  | 0.07 |  |      |  |      |  |
| 1992/93     | 99,702    |       | 9.32          |      | 7.31        |      | 2.01            |      | 0.95       |      | 0.07 |      | 0.38         |      | 0.03   |      | 1.43 |      | 2.65 |  | 0.03 |  |      |  |      |  |
| 1993/94     | 116,127   |       | 9.24          |      | 7.04        |      | 2.20            |      | 0.68       |      | 0.07 |      | 0.39         |      | 0.04   |      | 1.18 |      | 2.37 |  | 0.07 |  |      |  |      |  |
| 1994/95     | 144,933   |       | 9.32          |      | 6.81        |      | 2.51            |      | 0.62       |      | 0.04 |      | 0.39         |      | 0.04   |      | 1.09 |      | 2.43 |  | 0.08 |  |      |  |      |  |
| 1995/96     | 165,350   |       | 9.16          |      | 7.05        |      | 2.11            |      | 0.68       |      | 0.04 |      | 0.41         |      | 0.04   |      | 1.17 |      | 1.92 |  | 0.09 |  |      |  |      |  |
| 1996/97     | 191,596   |       | 10.22         |      | 8.02        |      | 2.20            |      | 1.01       |      | 0.03 |      | 0.4          |      | 0.05   |      | 1.49 |      | 2.27 |  | 0.22 |  |      |  |      |  |
| 1997/98     | 209,976   |       | 11.72         |      | 9.36        |      | 2.36            |      | 1.36       |      | 0.02 |      | 0.43         |      | 0.03   |      | 1.84 |      | 2.78 |  | 0.16 |  |      |  |      |  |
| 1998/99     | 239,388   | 11.65 | 9.05          | 2.60 | 1.47        | 0.01 | 0.44            | 0.03 | 1.95       | 2.61 | 0.06 | 0.81 | 2.69         | 0.04 | 0.12   | 0.26 | 0.13 | 0.39 | 7.11 |  |      |  |      |  |      |  |
| 1999/00     | 269,570   |       | 11.27         |      | 9.06        |      | 2.21            |      | 1.56       |      | 0    |      | 0.37         |      | 0.04   |      | 1.97 |      | 2.63 |  | 0.06 |  |      |  |      |  |
| 2000/01     | 289,798   |       | 11.37         |      | 8.95        |      | 2.41            |      | 1.73       |      | 0    |      | 0.35         |      | 0.06   |      | 2.14 |      | 2.42 |  | 0.07 |  |      |  |      |  |
| 2001/02     | 329,960   |       | 11.29         |      | 8.71        |      | 2.58            |      | 1.91       |      | 0    |      | 0.3          |      | 0.07   |      | 2.28 |      | 2.33 |  | 0.11 |  |      |  |      |  |
| 2002/03     | 365,470   |       | 11.74         |      | 9.07        |      | 2.67            |      | 2.06       |      | 0    |      | 0.28         |      | 0.11   |      | 2.45 |      | 2.45 |  | 0.12 |  |      |  |      |  |
| 2003/04     | 413,428   |       | 11.95         |      | 9.50        |      | 2.45            |      | 2.23       |      | 0    |      | 0.15         |      | 0.10   |      | 2.48 |      | 2.54 |  | 0.12 |  |      |  |      |  |
| 2004/05     | 430,396   |       | 17.18         |      | 13.40       |      | 3.79            |      | 3.03       |      | 0    |      | 0.39         |      | 0.19   |      | 3.61 |      | 3.30 |  | 0.31 |  |      |  |      |  |
| 2005/06     | 460,325   |       | 12.81         |      | 9.70        |      | 3.11            |      | 1.81       |      | 0    |      | 0.32         |      | 0.16   |      | 2.29 |      | 2.41 |  | 0.19 |  |      |  |      |  |

|         |         |       |       |      |      |   |      |      |      |      |      |
|---------|---------|-------|-------|------|------|---|------|------|------|------|------|
| 2006/07 | 500,699 | 13.20 | 10.20 | 3.00 | 1.86 | 0 | 0.36 | 0.15 | 2.37 | 2.42 | 0.11 |
| 2007/08 | 548,484 | 12.78 | 9.86  | 2.92 | 1.85 | 0 | 0.33 | 0.06 | 2.24 | 2.34 | 0.13 |
| 2008/09 | 603,672 | 11.97 | 9.51  | 2.46 | 1.72 | 0 | 0.36 | 0.09 | 2.17 | 2.05 | 0.10 |

*Source: Economic Surveys of Various years, Ministry of Finance, HMG/Nepal.*

*: Annual Reports of various years, Inland Revenue Department, HMG/Nepal.*

**APPENDIX: VI**  
**Total GDP, Total Revenue, Revenue from Direct and Indirect Tax**

(Rs. in million)

| Fiscal Year | Total GDP | Total Revenue | Tax Revenue | Non-tax Revenue | Direct Tax |       |                  |        |           | Indirect Tax  |               |               |                |               |        |          |            |          |           |
|-------------|-----------|---------------|-------------|-----------------|------------|-------|------------------|--------|-----------|---------------|---------------|---------------|----------------|---------------|--------|----------|------------|----------|-----------|
|             |           |               |             |                 | Income     | Land  | House & Land Reg | Others | Total     | Import Duties | Export Duties | Excise Duties | Sales /VAT Tax | Entertainment | Hotel  | Contract | Air Flight | Others   | Total     |
| 1988/89     | 53,215    | 4,645.67      | 3,661.19    | 984.48          | 361.86     | 74.50 | 170.29           | 53.22  | 659.87    | 1,080.26      | 74.50         | 558.76        | 984.48         | 21.29         | 5.32   | 117.07   | 26.61      | 85.14    | 2,953.43  |
| 1989/90     | 61,140    | 5,955.04      | 4,371.51    | 1,601.87        | 440.21     | 73.37 | 213.99           | 48.91  | 776.48    | 1,283.94      | 79.48         | 684.77        | 1,143.32       | 24.46         | 67.25  | 128.39   | 42.80      | 256.79   | 3,711.20  |
| 1990/91     | 73,170    | 7,346.27      | 5,751.16    | 1,595.11        | 578.04     | 80.49 | 285.36           | 65.85  | 1,009.75  | 1,982.91      | 109.76        | 819.50        | 1,302.43       | 29.27         | 80.49  | 197.56   | 65.85      | 146.34   | 4,734.10  |
| 1991/92     | 85,831    | 7,776.29      | 6,282.83    | 1,493.46        | 901.23     | 77.25 | 317.57           | 34.33  | 1,330.38  | 2,137.19      | 60.08         | 875.48        | 1,373.30       | 25.75         | 94.41  | 197.41   | 68.66      | 111.58   | 4,943.87  |
| 1992/93     | 99,702    | 9,292.23      | 7,288.22    | 2,004.01        | 947.17     | 69.79 | 378.87           | 29.91  | 1,425.74  | 2,642.10      | 29.91         | 1,096.72      | 1,645.08       | 29.91         | 99.70  | 169.49   | 89.73      | 29.91    | 5,832.57  |
| 1993/94     | 116,127   | 10,730.13     | 8,175.34    | 2,554.79        | 789.66     | 81.29 | 452.90           | 46.45  | 1,370.30  | 2,752.21      | 81.29         | 1,196.11      | 2,020.61       | 34.84         | 104.51 | 174.19   | 174.19     | 243.87   | 6,781.82  |
| 1994/95     | 144,933   | 13,507.76     | 9,869.94    | 3,637.82        | 898.58     | 57.97 | 565.24           | 57.97  | 1,579.77  | 3,521.87      | 115.95        | 1,420.34      | 2,840.69       | 43.48         | 188.41 | 217.40   | 217.40     | 492.77   | 9,058.31  |
| 1995/96     | 165,350   | 15,146.06     | 11,657.18   | 3,488.89        | 1,124.38   | 66.14 | 677.94           | 66.14  | 1,934.60  | 3,174.72      | 148.82        | 1,455.08      | 3,439.28       | 49.61         | 231.49 | 297.63   | 198.42     | 644.87   | 9,639.91  |
| 1996/97     | 191,596   | 19,581.11     | 15,366.00   | 4,215.11        | 1,935.12   | 57.48 | 766.38           | 95.80  | 2,854.78  | 4,349.23      | 421.51        | 1,590.25      | 4,694.10       | 114.96        | 210.76 | 364.03   | 210.76     | 785.54   | 12,741.13 |
| 1997/98     | 209,976   | 24,609.19     | 19,653.75   | 4,955.43        | 2,855.67   | 42.00 | 902.90           | 62.99  | 3,863.56  | 5,837.33      | 335.96        | 1,658.81      | 6,026.31       | 83.99         | 230.97 | 503.94   | 272.97     | 839.90   | 15,790.20 |
| 1998/99     | 239,388   | 27,888.70     | 21,664.61   | 6,224.09        | 3,519.00   | 23.94 | 1,053.31         | 71.82  | 4,668.07  | 6,248.03      | 143.63        | 1,939.04      | 6,439.54       | 95.76         | 287.27 | 622.41   | 311.20     | 933.61   | 17,020.49 |
| 1999/00     | 269,570   | 30,380.54     | 24,423.04   | 5,957.50        | 4,205.29   | -     | 997.41           | 107.83 | 5,310.53  | 7,089.69      | 161.74        | 2,291.35      | 7,116.65       | 107.83        | 296.53 | 620.01   | 323.48     | 1,051.32 | 19,058.60 |
| 2000/01     | 289,798   | 32,950.03     | 25,936.92   | 6,984.13        | 5,013.51   | -     | 1,014.29         | 173.88 | 6,201.68  | 7,013.11      | 202.86        | 2,869.00      | 7,129.03       | 86.94         | 57.96  | 753.47   | 347.76     | 1,275.11 | 19,735.24 |
| 2001/02     | 329,960   | 37,252.48     | 28,739.52   | 8,512.97        | 6,302.24   | -     | 989.88           | 230.97 | 7,523.09  | 7,688.07      | 362.96        | 2,969.64      | 7,886.04       | 33.00         | -      | 626.92   | 230.97     | 1,451.82 | 21,249.42 |
| 2002/03     | 365,470   | 42,906.18     | 33,148.13   | 9,758.05        | 7,528.68   | -     | 1,023.32         | 402.02 | 8,954.02  | 8,954.02      | 438.56        | 3,143.04      | 9,867.69       | -             | -      | 365.47   | -          | 1,425.33 | 24,194.11 |
| 2003/04     | 413,428   | 49,404.65     | 39,275.66   | 10,128.99       | 9,219.44   | -     | 620.14           | 413.43 | 10,253.01 | 10,501.07     | 496.11        | 3,803.54      | 12,154.78      | -             | -      | 289.40   | -          | 1,695.05 | 28,939.96 |
| 2004/05     | 430,396   | 73,942.03     | 57,673.06   | 16,312.01       | 13,041.00  | -     | 1,678.54         | 817.75 | 15,537.30 | 14,203.07     | 1,334.23      | 5,595.15      | 17,517.12      | -             | -      | 430.40   | -          | 3,012.77 | 42,092.73 |
| 2005/06     | 460,325   | 58,967.63     | 44,651.53   | 14,316.11       | 8,331.88   | -     | 1,473.04         | 736.52 | 10,541.44 | 11,093.83     | 874.62        | 5,017.54      | 14,131.98      | -             | -      | -        | -          | 2,946.08 | 34,064.05 |
| 2006/07     | 500,699   | 66,092.27     | 51,071.30   | 15,020.97       | 9,313.00   | -     | 1,802.52         | 751.05 | 11,866.57 | 12,116.92     | 550.77        | 6,609.23      | 15,321.39      | -             | -      | -        | -          | 4,506.29 | 39,104.59 |
| 2007/08     | 548,484   | 70,122.70     | 54,104.70   | 16,015.73       | 10,146.95  | -     | 1,810.00         | 329.09 | 12,286.04 | 12,834.53     | 713.03        | 6,472.11      | 18,867.85      | -             | -      | -        | -          | 3,016.66 | 41,904.18 |
| 2008/09     | 603,672   | 72,282.00     | 57,430.40   | 14,850.33       | 10,383.16  | -     | 2,173.22         | 543.30 | 13,099.68 | 12,375.28     | 603.67        | 6,519.66      | 21,611.46      | -             | -      | -        | -          | 3,139.09 | 44,249.16 |

*Source: Derived from Appendix IV of Master Table.*





