CHAPTER – ONE

Introduction

1.1 Background of the study

In the present world, a government has to spend a lot of money to fulfill its responsibility towards its people. The responsibility may be either for security or for health, or education or other development activities. Every nation wants to improve its current status through proper utilization of resources. Government receipts may take a form of taxes, charges as internal sources and borrowing grants and loans as external sources. Those collected huge amount of fund is spend in maintaining peace and security in the country. It includes the purchase of arms, ammunition, and maintenance of arms and police administration etc. The government also spends its funds for fulfilling the basic needs of the people such as health, education, communication, drinking water and other public utility and facilities etc. Similarly government has to spend on development of socio-economic infrastructure which facilitates to promote the private sectors. All round prosperity of the nation can be achieved the equal participation of private sector in development activities, industry and commerce as well.

The central economic problems of all societies include traditional questions such as what, when, where, how much, how and for whom goods and services should be produced. The use of natural boundary in an optimal and a rational manner is the sole objectives of a society indulged in the twenty first century. The virtually patchy distribution of resources has exacerbates the difficulties of the rural poor and the impoverished city dwellers. Today's concern of the underdeveloped countries is for the achievement of the economic development, which suggests maximum welfare for the maximum people and the efficient allocation of resources. Economic development demands reduction in inequality and poverty, decrease in unemployment, improvement of living standard and foreign trade account, reasonable level of price level stability, acceptance rate of economic growth and modification in social and industrial environment overtime. Economic development generally includes improvements in material welfare, especially for persons with its correlates of illiteracy, disease, and earth going to death, changes in the composition of inputs and outputs that's generally include shift in activities; the organization of the economy in such a way that productive employment is general among the working age population rather than the situation of a privileged minority; and the correspondently greater participation of a broadly based groups in making decisions about the direction, economic and otherwise, in which they should move to improve their welfare.(Charles and Bruce, 1977:1)

Europe, America, Japan are the three giant economic blocks of the world creating huge amount of surplus that ultimately enhances the per capita income of the people. Rests of the economies strive for the access to these economic blocs. Most of the third world countries are lagging behind in the path of economic development. Such countries are characterized by rampant corruption, widespread poverty, increasing budget deficit, low rate of capital saving, ever widening resource gap, unemployment, lack of resources, agrarian economy, dependency on donors and like others. All the things, mentioned above sentences, features impede the process of economic development. Specially, the budget deficit creates resource gap. Governments are in a dire need of apt fiscal policies for solving the unabated problem of mass poverty. Government does have some alternatives to overcome this problem. Government can wither cut down expenditure go for the high in revenue. Cutting down regular expenditure requires down sizing which faces obstacles in the process of its implementation. Procrastination of development projects due to the lack of fund is no excuse from the socio- economic point of view. Boost in government revenue is the best alternative in meeting the development objectives. Foreign loan can bridge resource gap but it is not a panacea of all difficulties. Debt financing entangles in a long-term debt payment schedule. Whether it is financed from internal or external sources, by non-inflationary or inflationary means, the accumulation of capital in any developing economy requires the mobilization of an economic surplus [Gerald, 1995:167]

Accomplishment of Millennium Development Goals (MDG) promulgated by the United Nations reserve the combined effort of all the nation-developed as well as the developing world. Poverty is the ultimate concern of economics and economists. Alleviation of the mass poverty that still prevails in most countries have become a worldwide campaign in which virtually every nation-rich or poor- is involved [Higgins, 2001;6]. Redistribution of public spending is an essential requirement for poverty reduction. Public is a non- negligible instrument of policy in developing countries. Vicious circle in developing countries can be broken through capital formation for which fiscal policy can be adopter as a crucial tool for the promotion of the highest possible rate of capital formation. Fiscal policy is a powerful instrument of stabilization (Jhingan, 2000; 646]. In the absence of well-organized and locally controlled money markets, most developing countries have had to rely primarily on fiscal measures to mobilize domestics' resources. Revenue mobilization is amplified through the application of fiscal policy measures.

Nepal has predominantly agriculture-based country. The major portions of population of Nepal are in village area and the most of them live below the poverty line. Wide spread poverty, rapid population growth, low income level, extreme disparity in the distribution of wealth and income, heavy dependence on agriculture, lack of adequate industries, lack of needed saving and capital, dependence on foreign aid, unemployment, unexploited resources, lack of infrastructure, adverse balance etc. are the main characteristics of Nepalese economy and it shows poor performance of economy. [Shrestha, 2001;1]

Now a days, prime concern of every nation is rapid and sustainable economic development and Nepal are also no exception to this continuous process. Nepal aims for self-reliant economic system to upgrade its living standard and prosperity of people. Thus a lot of money has to be spent to achieve maximum national objectives. 'The constitution of Nepal 2047' has clearly directed Nepalese government for a self-reliant economic system, encouragement to national enterprise, prevention of economic exploitation as well as upgrading the standard of the people. For self-reliant, rapid and sustain economic system, sound infrastructure for the development, the government should generate sufficient government revenue. Government revenue is the most important resources of financing government expenditure and investment. To achieve the national objectives, the government is required to make and implement various planning, policies, acts and procedures. Revenue mobilization is one of the most important functions of the government. The income of the government is called public revenue. In order to meet the public expenditure, the government has to raise fund through external and internal sources. The internal sources of fund of government are income tax, VAT (sales tax), custom duty, property tax, fees, royalty, fines and penalty etc and the main external sources of government are foreign aid, grants, borrowing and loan. External sources of fund are uncertain, inconvenient and not good for healthy development of nation most of they are loan and have to pay after certain time with expensive interest. There is always better to mobilize internal sources than external sources. The sources of internal revenue are tax and non-tax revenue.

Taxes are broadly divided into two categories. They are direct and indirect tax. If a person mist have to pay directly the tax liability to the government, such tax is known as direct tax. According to Dr. Dalton 'A direct tax is really paid by the person on whom legally imposed.' tax liability of direct tax cannot be transferred to other and must be paid by taxpayer to whom it is legally levied. The impact of direct tax is limited within the taxpayer who is liable to pay such tax. Income tax, gift tax, interest tax, property (wealth) tax, vehicle tax, house and land tax, inheritance tax, contract tax etc are the typical example of direct tax. The government collects and realized such taxes directly from taxpayers. In Nepal, direct taxes contribute about 21 in the tax revenue of the government. Equitable, certainty, economy, public awareness etc. are the main merits of direct tax and economic burden, possibility of tax evasion, lack of mass participation, discourages saving and investment, inconvenience etc. are the main demerits of direct tax. Indirect tax is the tax that is collected from other person by transferring the tax liability. According to Dr. Dalton, 'An indirect tax is imposed on one person but paid partly or wholly by another.' It is levied on one person who does not bear it from his/her own income. Instead, the tax liability is transferred by collecting it from customers by adding it to the price of goods or services. Thus, government indirectly collects such taxes from the general public. Sales tax (turnover tax), entertainment tax, excise duty, value added tax, hotel tax, passenger tax etc. are the typical example of indirect tax. In Nepal, indirect tax contributes about 79 in the tax revenue of the government. Convenient, mass participation, elasticity, less chance of tax evasion, control in consumption etc. are the main merits and uncertainty, inequitable, bad effect, lack of awareness, consumer exploitation etc. are the main demerits of indirect tax. [Amatya, Pokharel and Dahal, 2004:4]

Income tax is a direct tax that is imposed on the earning of individual and corporation. The underlying reason for the imposition of income tax is to generate more revenue to finance development activities and to help in achieving social justice. Income tax should be justifiable to achieve maximum social and economic objectives. It helps in redistribution of economic means by the transformation of wealth from person with higher economic level to lower economic level. It should minimize gap between haves and haves not. Regional economic imbalances may also be reduced by providing incentives and concession in income tax for promoting industries in backward areas. It has become an effective instrument to ensure balanced socio-economic growth. [Siwakoti, 1987; 16]

The objectives of sound financial position creation of unexploited society cannot be achieved until the mobilization of economic resources effectively operated through direct tax like income tax. Taxes on income and revenue are the most important single source of governments of developer and developing countries, because they have the potential for increasing the yield of the tax system and achieving a system of taxation that satisfies the demand for equity and social justice.

Income tax is based on the cannon of equity and it may be levied on the individuals as well as entity. It is imposed on the basis of income level and paying capacity of taxpayers. it will reduce the gap in income distribution 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.

1.2 Focus of the study

Most of the developed countries like USA, UK, Japan, Italy etc are able to collect major portion of their revenue through income tax but developing countries like Nepal still have been unable to collect adequate revenue from income tax. Share of income tax to the revenue structure is very low in comparison to other countries. There are many components related to the study of income tax. This study is focused on contribution of income tax in the government revenue and on analyzing the problem behind its facts and finding measures to overcome the problems associated with income tax systems as to raise its contribution towards public revenue.

This study has attempted to highlight the real condition and contribution of income tax in the government revenue of Nepal. Specially, this study can answer the following research questions:

1. What is the proportion of income tax for government revenue?
2. What is the trend of income tax collection?
3. How much is the difference in estimation and actual collection of income of income tax in Nepal?
4. What is the structure of income tax in Nepal?
5. What are the findings for coming days?
6. What are the strong and weak tools for the collection of income tax ? etc.

1.3 Statement of the Problem

Income tax is the main source of government revenue. For the development of nation, every government needs high revenue. The economy of a country flourishes with the flourish of government revenue and collection of income tax and it deteriorates with unsatisfactory performance of Government function in the country. Therefore periodical review and analysis of income tax in the country is very essential. Performance of income tax is very constructive for all stakeholders closely attached with the government revenue as well as for a prosperous economic future of the country. Generation income by any individual or institution is the main sources of income tax. If income is favourable then collection of income tax is also favourable. Lower contribution of income tax in government revenue negatively affects the country's development. The variation of income tax contribution brings the variation of government revenue and government development function. Country's economic development and government revenue are the closely related parts. For higher revenue, economic development is necessary and for better economic development of a country, high government revenue is necessary.

Nepal is a landlocked country. The trend of collection of income tax is not satisfactory. As maintained above, sustainable economic development and good political environment is necessary for the growth of the income. Income is source of income tax. Currently, politics of Nepal is in transition period. Due to electricity crisis here is no good environment for income generating functions. Previously running organizations also can't perform better. They are going downwards. Individual's income is also not a good increasing trend. It affects directly income tax and government revenue as well as government activities. The data of income tax may suffer a lot in lack of proper view and analysis practice of it. Currently, contribution of income tax in government revenue of Nepal may not be sufficient for development of the nation. During the analysis period of the data of income tax collection remained below the expected level due to various national and international reasons. Therefore, this research study is concentrated on trend of income tax collection, to review and analysis the contribution in government revenue and draw recommendation for coming period.

For the economic development of the country, contribution of direct tax is more essential rather then indirect tax. But the main tax structure of Nepal is dominated by indirect tax. Among the direct tax, income tax plays significant role, but it is unpleasure to quota that the contribution of income tax to the national revenue is very low in Nepal. To increase its contribution to national revenue, many research and analysis should be conducted in the field of income tax, but the studies and research work is lacking in the area of income tax. So, to identify the problem and to overcome them and to improve income taxation, study in the field of income tax is essential. To raise government revenue there is necessary to raise its internal resources of revenue. The contribution of tax revenue in the national revenue is 77.29 in fiscal year 2060/061 and that was 77.97 in fiscal year 2059/060. Government revenue is totally biased in taxation revenue and it has declined in fiscal year 2060/61 which is not desirable indication. (Economic survey, 2003/04 and annual report 2060/061). Government implemented self- assessment system to strengthen the revenue structure of Nepal. However, there is higher tendency of income tax evasion and delinquency.

1.4 Objective of the study

General objectives of the study are to analyze the contribution of income tax in government revenue of Nepal. Main objectives of this study are as follows:

- To study the historical development of income tax in Nepal.
- To analyze the contribution of indirect tax and direct tax in total revenue.
- To measure the ability of income tax to meet the government current requirements.
- To examine the effectiveness of income tax revenue collection of Nepal.
- To analyze the problems of revenue collection from income tax.
- To suggest some measure for the improvement of income tax collection.

1.5 Significance of the study

In Nepal, the relation of Tax with gross domestic product (GDP) and gross national product (GNP) are the lowest among SAARC countries and among the world as well. It indicates the poor performance of income tax contribution and its management. There are many institutions and individuals that many contribute for government revenue through income tax. But their ability and willingness is not so good. The proportion of income tax in government revenue is not appropriate. The trend of income tax collection also is not sustainable and satisfactory. Many income tax acts and rules were implemented and some of them are active at present. But they are not properly implemented. Tax policies, administrative bottlenecks, mass poverty, negative view of taxpayers etc. are the main problems for income tax collection.

This study aims to find out the effectiveness of income tax collection and contribution of it in the government total revenue. The area of this study will be helpful to the all who are interested towards tax system in Nepal.

1.6 Limitation of the study

The study on "Contribution of income tax in the government revenue of Nepal" is not free from some limitations such as:

- Mostly secondary data and information are analyzed.
- The area of income tax is very wide; so all the part of it may not be covered.
- The study has covered data only fiscal year 1988/89 to 2002/03.
- Being a student, different types of resources constraint are another important factor, which has limited the scope of the study.

1.7 Organization of the study

This study has been divided into five chapters, which are:

i. Introduction: - This chapter is about introduction, which includes General background, Focus of the study, Statement of the problems, Objectives of the study, Significance of the study, Limitation of the study and Organization of the study.

ii. Conceptual Framework and Review of Literature: - This chapter includes two parts. The first one is about the conceptual framework and legal provision regarding income tax in Nepal. It includes concept, origin and development of income tax in Nepal and international context, sources of income and provisions of capital gain tax. This chapter also includes objectives, importance of income tax, resource gap in Nepalese economy, problems of income tax administration in Nepal.

This chapter is also about review of literature. For this, review and study of past work, related available books, related articles, report and dissertation have been presented in this chapter.

iii. Research methodology: - This chapter includes types of research, research design, nature and sources of data, data collection procedure and data processing and analysis procedure and methods.

iv. Presentation and analysis of data: - This chapter is the main body of research, which covers presentation and analysis. This chapter basically includes structure of public revenue in Nepal, tax and non tax revenue of Nepal, resource gap in Nepal, ratio with GDP and GNP of tax in Nepal, contribution of income tax in the government revenue and GDP, estimate and actual collection of income tax in Nepal, exemption limit in the Nepalese income tax system etc.

v. Major findings, conclusions, and recommendations: - This is the last chapter, which includes major findings, conclusions, and recommendations for related and interested bodies.

Besides these, proper arrangement of bibliography and appendices at the end of this thesis.

CHAPTER-TWO

Conceptual Framework and Review of Literature

2.1 Historical Perspective and Legal provisions of Income Tax

2.1.1 Concept of tax

Every government needs fund to run properly. Money is a blood circulation in the body for every nation. The resources of fund of government revenue can be divided into two parts - tax revenue and non-tax revenue. The government of any country requires sufficient revenues to launch the development programme, to handle the daily administration, to keep peace and security and to launch other public welfare programme. The government collects revenue from various sources. These sources can be: i) Taxes ii) revenue from government corporation and public enterprises iii) fees iv) Special assessment v) fine and penalties and vi) Foreign grants and loan. Income tax is one of the most important sources of national revenue for every government, whether it is developed or developing countries. In Nepal, nearly by 77 percent of total revenue comes from tax revenue and the rest 23 percent from non-tax revenue.

Great Britain is the first country to introduce tax in the world. The British government introduced income tax in 1799 in order to generate revenues to finance the war against France. The Great Britain imposed the income tax regularly from 1860. Income tax was introduced in Switzerland in 1840, Austria in 1849, India in 1860, USA in 1862, Italy in 1864 and Nepal in 1959.

Implementation of income tax in Nepal is not so long history. Even, before 1951, the government of Nepal did not have plan and policies for the development of the country. Because of the family and autocratic rule of Rana, income source and expenditure project of government was not made public. The idea of introducing income tax in Nepal originated along with the first budget on 21st Magh 2008 B.S. (1952). The finance minister in the first budget speech said 'a proposal to levy an income tax on agriculture is under consideration.' Several attempts were made to introduce income tax in subsequent years. However, it could not be introduced until 2016 due to political instability. For the first time, the Finance act 2016 (1959) had imposed tax on business profit and remuneration in Nepal. In Nepal, after the democracy of 2007 B.S., deliberate planning process began only after 2013 B.S. and huge amount of revenue was required for the process of economic development, a lot of capital was needed.

Tax is a compulsory payment to the government from a person or an entity according to law. It is contributed to the government without expectation of direct benefit to tax payer. The government mobilizes these taxes for public interest. There is no universal definition of tax. For the best concept of it, some definition can be quoted:

According to prof. Seligman "A tax is a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit." [Amatya, Pokharel and Dahal, 2004:3]

According to Taylor "A tax is a compulsory payment to the government without expectation of direct benefit in return to the taxpayer." [Amatya, Pokharel and Dahal, 2004:3]

According to Bastable "A tax is a compulsory contribution of wealth of a person or body of persons for the service of public powers." [Amatya, Pokharel and Dahal, 2004:3]

According to Plehn "Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefit upon the resident of the states."[Dhakal, 2001:2]

From the above definitions, it can be said that:

- A tax is a compulsory contribution to the state from a person or corporate,
- The tax payers does not receive the equivalent benefit from the government,
- There is no discrimination among the taxpayers other then specified by the law,
- Tax is paid to the state to perform the functions of the government,
- The amount of tax is spent for common benefits and interest for people etc.

Tax revenue constitutes direct tax and indirect tax revenue. According to Dr. Dalton, "An indirect tax is imposed on one person but paid partly or wholly by another." It is levied on one person who does not bear it from his/her own income. The tax liability is transferred by collecting it from customers by adding it to the price of goods or services. The government indirectly collects such taxes from the general public. The examples of indirect tax are customs tariff, excise duty, sales tax; value added tax, entertainment tax, hotel tax, passenger tax etc. In Nepal; indirect taxes contribute about 79% in the tax revenue of the government. Indirect tax is more flexible than other. There is uncertainty about the collection of indirect tax. Every person either rich or poor pays equal amount of tax on the use of goods or services. Convenient, mass participation, elasticity, less chances of tax evasion, control in consumption etc. are the main merits of indirect tax and uncertainty, inequitable, bad effect, lack of awareness, consumer exploitation etc. are the main demerits of indirect tax.

On the other hand, according to Dr. Dalton, Direct tax is really paid by the same person on whom it is legally imposed.' Taxpayer cannot collect direct tax from other person. The impact of direct tax is limited within the taxpayer who is liable to pay such tax. Income tax, gift tax, interest tax, property tax, vehicle tax, house and land tax, contract tax, death tax etc. are the examples of direct tax. The government collects and realizes such taxes directly from the taxpayers. In Nepal, direct taxes contribute about 21% in the tax revenue of the government. Equitable, certainty, elasticity, economy, public awareness etc. are the main merits of direct tax and economic burden, possibility of tax evasion, lack of mass participation, discourage saving and investment, inconvenience etc. are the main demerits of direct tax.

Income tax is a direct tax. In Nepal, income tax is the major source of direct tax revenue.

2.1.2 Concept and definition of income tax.

To know the term 'income tax', it is to know the term 'income' and 'tax' separately. According to Henery Simons, "Income as economic gains received by the person during the particular period of time as well as the net increase in the individual's personal wealth during the same period of time. Symbolically, he describes as follows:

$Y=C+\Delta W$

Where Y, C and ΔW refer personal income, consumption and net changes in personal wealth, respectively.

The term 'Tax' refers a compulsory contribution from income holder to the government. According to Seligman, "Taxation is the compulsory contribution from a person to the government to defray expenses occurred in the common interest of all without reference to special benefit conferred." [Dhakal, 2001:2]

In this way, income tax, as the single word itself refers to a tax levied on income. In a broader sense, income tax is a levy based upon the production or receipts or gain of the taxpayers within a definite period of time. From the beginning, income tax has been always regarded as a tax based on the cannon of ability. The tax could be adjusted as to exempt the lowest income groups from the operation of the tax and make the richer groups bear the burden of the tax according to their income. Apart from such consideration as revenue productively, income tax has been regarded as the ideal tax from the point of view of equity, [Andly, 1964:213]

As income tax is imposed upon the incomes of an individual after the exemption limit. Only the taxable income is object to tax, otherwise, the objectives and principles of taxation will not be fulfilled. Income tax is imposed upon excessive income over exemption limit. All income above the tax exemption level is subjected to income tax that is based on the income tax acts of the concern country. Different countries may have different concepts on income tax. For example, sec 2 of the Indian tax act, 1961, keeps profits and gains, dividend, voluntary contributions received by charitable trust, value of any perquisite or profit on lieu of salary, any capital gain, winning from lotteries, cross word puzzles etc. are under the head of income for tax.

In Nepal, according to income tax act 2002, section 2(h), "Income means a person's income from any employment, business or investment and the total of that income as calculated in accordance with this Act and tax imposed under this Act is known as income tax."

2.1.3 Income tax in the international context.

Great Britain is the first country to introduce income tax in the world. The history of income tax is attached on the history of wars, confrontation and resistance. The British government introduced income tax in 1799 in order to generate fund to finance the war against France. Actually, it was short term aimed tax that eas imposed on its citizen's income by the Prime Minister William Pitt to manage the war expenditure. After the War, it was dismissed too, in 1816. But it was re-imposed for five years to strengthen the national finance by Great Britain's Prime Minister Sir Robert Pill in 1842 to improve national financial condition, which was remained up to 1860 without being dismissed, and from 1860 it is being imposed through economic act each year. Income tax was introduced in Switzerland in 1840, Austria in 1849, India in 1860, USA in 1862, Italy in 1864, Newzeland in 1891, Canada in 1917 and Nepal in 1959. [Amatya, Pokharel and Dahal, 2004:13]

After First World War, the income taxes became an important source of tax revenue in many developed countries. by 1939, it has become the most important source of revenue in most developed countries and has made appearance in a number of developing countries. In the beginning period of time, it was generally levied at flat rate. Only after 1909, the principle of progression was introduced from United Kingdom and Newzeland. [Agrawal, 1978:113]

2.1.4 Development of Income Taxation in Nepal

In early days, taxes were collected at the time of emergencies, to finance wars and to provide communal services. Taxes were levied on the basis of welfare of the people. At the time tax was not compulsory payment. People voluntarily paid the tax because non-payment of tax was taken as sin in the Hindu tax system. According to Hindus' scripture, the duty of the king was to serve and secure his people, maintain peace and harmony and carryout social works. For those purpose king used to levy tax by collecting crops and cattle from farmers, gold and silver and other metallic goods from traders.

Great Britain was the first country in the world to introduce the income tax in 1799. It imposed income tax in order to finance war with France.

Similarly, in U.S.A. the first federal income tax was imposed in 1862 with the same objective (to finance civil war). However, in the beginning these countries imposed income tax as temporary until 1860. Thereafter, since 1913 it was accepted as permanent tax. This, income tax was adopted by different in 1891. Australia and Canada had followed the income tax in 1915 and 1917 respectively. After that world war, the income tax became an important source of tax revenue in many developed countries. By 1939, it had become the most important source of revenue in most developed countries and had made apperance in a number of developing nations (Agrawal, 1980).

In our neighboring country India, the income taxation was started in 1860 by the British government to relief from economic burden created due ti first democratic revolution. It was then regularly collected after the publication of Income Tax Act 1886 (Dhakal, 2057).

In this way, income tax has become the regular source of national receipts for many developed and developing countries of the world. In the beginning, income tax was generally levied at a flat rate. The principal of progressive rate of income tax had been adopted by the United Kingdom and New Zealand since 1909. Now-a-days the progressive rate is commonly used rather than flat rate in all over the world.

2.1.4.1 Taxation in Ancient Nepal

Reliable records about taxation in ancient and medieval Nepal are not available. However, tax has been one of the major sources of government's revenue from the ancient time in Nepal. Taxes were then levied on the merchants, travelers and farmers in the form of cash, kind and labour. On some occasions gold and agricultural products were also paid as taxes; but the natures of these taxes were temporary. In the Lichhavis regime, income taxes from agriculture and business were introduced as a direct tax for the first time in Nepal. Agricultural income tax was called "Bhaga". The farmers were supposed to pay agricultural income tax to the government in 1/6, 1/8, and 1/12 quality of the land that they owned. Income tax, which was levied on business income, was called 'Kara'. There did also exist irrigation and religious tax during the regime of king of Ansubarma of Nepal (Shauh, 1995)

2.1.4.2 Taxation in Unified Nepal (1768-1846)

After unification of kingdom of Nepal, express for administration, military and other operational activities were increased significantly. During that period, taxation has been taken as main source of revenue and different types of taxes like land tax, transit tax, market duties, various levies and fines, forest product tax and mining tax were levied. Local administration was directed "to take whatever is paid willingly by the people." Taxes were collected from the three levels (Agrawal, 1980).

Royal Palace: To finance occasional and ceremonial needs. The taxes were broad and progressive.

Government: To finance administrative, military and other purposes assessed on official functionaries, occupational groups and other people.

Local: Prerequisites of local officials, functionaries and medicants.

The various taxes levied during this period were narrow in base and were imposed primarily on occupations and economic activities, not on income or property. The system of direct taxation was confined to land tax and special levies like "Darhsanbhet", "Salami", "Walak" etc. After the unified period, land tenure system was divided into five main forms: Raikar, Bitra, Guthi, Sera and Kipat. The main source of revenue from land were Birta and Kipat.

King Prithvi Narayan Shah had introduced 'Pota' tax in 1772, which was regarded as a revolutionary measure in the fiscal system of Nepal. It was based on flat system and limited on small Birta owners. There was no taxation of income in the sense of modern income tax.

2.1.4.3. Taxation in Rana Regime (1846-1950A.D.)

Imposition and collection of taxes during 104 years oligarchic rule of the Rana family in Nepal prior to 1951 was the prerogative of the feudal rulers. Only those taxes, which suited the objectives, needs and whims of the ruling Prime minister, were imposed. No budget was framed during the Rana regime. Taxes were collected at the time of requirement due to lack of income tax act and finance act. The collected taxes were directly deposited into the Prime Minister's Account.

Land tax, custom and excise duties in the form of lump sum, contracts, royalties on felling trees, royalty on supply of porters and solders, entertainment taxes were the major source of revenue. There was no direct tax in the country except land tax collected on a contractual basis and "Salami" which the government employees used to pay out of their salaries at a very small percentage.

Rana Prime Minister levied taxes for meeting specific expenditure of the royal household or extraordinary expenditure necessitated by war or other crises rather than mobilizing revenue in the nation. During Nepal- Tibet war (1855/56), the first Rana Prime Minister Jung Bahadur had imposed a tax on the income of selected groups. Similarly, Bir Shamser imposed a levy of 1% on the official value of jagir assignment employees in 1891, to finance the transportation of water pipe supply in the capital. Ranoddip Singh imposed a 50% tax on the income made by fishermen in Deukhuri from the sale of fish in 1882.

2.1.4.4. Income Tax in Modern Nepal

Actually, the modern income tax act was started in the year 1959 in Nepal. After the political revolution in February 1951 (2007 B.S. Falgun), the role of government has increased to development as well as philanthropic works. The government of Nepal had presented its first budget in 1952 (2008, Magh 21). The first five year plan started in 1956. The planned activities of the government needed huge amount of sources and means. So huge revenue was demanded and Nepalese government started to levy tax on income as permanent source. As a result, it issued first finance ordinance in 1959 (2016) to impose tax on business profit and remuneration. In 1960 (2017) the income tax act named "Business Profit and Remuneration Act, 2017" was made with the provisions of finance ordinance 1959. That was the first income tax act, which had 22 sections. But that act was found narrow and vague. So it was replaced by the Income Tax Act 1962 (2019). That act continued for 12 years and it was also replaced by the Income Tax Act, 1974 (2031). That act was amended for eight times. That tax act was replaced by new Income Tax Act, 2002 (2058). This is the fourth income tax act of Nepal.

2.1.4.5 Business Profit and Remuneration Tax Act 1960 (2017 B.S.)

The government of Nepal introduced a formal tax act for the first time in Nepal in 1960 (2017 B.S.) in the form of "Business profit and Remuneration Tax Act 1960." An ordinance was issued by the King to collect the tax. According to this act, only Business profits and Remuneration on income were subjected to tax but the revenue for these taxes should not be collected properly according to originals estimates. This act consisted of 22 sections.

Following were the main features of Business profit and Remuneration Tax Act 1960:

i. The coverage of income tax was very narrow because, only business profit and remuneration income were subject to tax.
ii. There were no deductions specified for the purpose of calculating the taxable income.
iii. Tax on remuneration was to be deducted at source.
iv. The basis of calculating the tax liability for remuneration was income of the current year, and for business profit, it was the profit at preceding year fiscal year.

v. There was a provision of tax exemption on salary of foreign citizen, dividend of shareholders, profit to be spend in religious or public welfare activity, crop from own land, allowances granted by HMG to prime minister, ministers assistant minister, chairman, speaker, amount drawn from provident and saving fund.

vi. In case of default, fines ranged from Rs. 500 to Rs.5000 were prescribed.

vii. The taxpayers was given the right to appeal against tax officer and assistant to local Magistrate, "Bada Hakim". Appeal could be judged at Revenue Court. Every appeal was to be accompanied by the security deposit or guarantee for the amount of tax payable.

viii. The tax officer was empowered to assess tax on the basis of best judgment estimate where tax return was not filled or a false return was filed.

Because of narrow coverage vague, this act was replaced by new 'Income Tax Act 1962' (2019B.S.)

2.1.4.6Income Tax Act 1962 (2019B.S.)

This act had implemented from July 1962. The main purpose of the implementation of this new act was not only to raise government revenue but also to reduce inequality of income and wealth distribution with social justice and to create tax-paying habit of the taxpayers. The income tax act had 29 sections. It was amended only one time in 1972 (2029 B.S.)

Followings were the main features of Income Tax Act 1960:

i. There were nine sources of Income for tax purpose: income from business, remuneration, profession or occupation, house and land rent, investment in cash or kinds, agriculture, insurance business, agency and any other sources.

ii. The personal as well as residential status of the taxpayer for tax purpose was defined.

iii. The act had defined basis terminology such as taxpayer, tax officer, company, firm, profit, remuneration, tax assessment, resident and non resident etc.

iv. Provision was made to carry forward of losses for a period of two years.

v. Certain deductions were allowed to calculate net income and taxable income.

vi. The provision was made to constitute the net assessment with five members.

vii. Provision was made for payment of tax in installment as well as for advance payment of tax.

viii. Provision was made for reassessment of tax in installment as well as rectification of arithmetic errors.

ix. Provision was made for the exemption of income tax for new industries for certain period.

x. Income tax assessment and collection procedures were specified along with the method of computing net income.

xi. Agriculture income was brought under the scope of income tax for the first time. But the Finance Act 2023B.S. exempted this income fully from income tax

The Finance Act 2030 B.S. again brought agriculture income under the scope of tax. The Finance Act 2034 again exempted agriculture income from income tax because of heavy political pressure.

2.1.4.7 Income Tax Act 1974 (2031 B.S.)

The basic framework of this act was derived from previous Income Tax Act 1962. It had 66 sections. This act was amended for eight times in 1977, 1979, 1984, 1985, 1986, 1988, 1998 and lastly 1993 to make it more practical and to eliminate confusing terms and conditions. His Majesty's Government enacted the Income Tax Rule 1982 (2039-01-27 B.S.) in accordance with the authority given under the section 65 of Income Tax Act 1974.

Followings were the other main features on Income Tax Act 1974:

i. This act had clarified certain definitions, especially related to tax, assessment of tax, income, income year, personal status of taxpayer, resident and nonresident taxpayers, firm, company, family, philanthropic work etc.
ii. The sources or heads of income into five headings:(a) Agriculture, (b) Industry, business, profession or vocation, (c) Remuneration, (d) House and Land Rent and (e) Other sources.
iii. The methods of computing net income from various sources had been specified.
iv. The deduction allowances for computation of net income were specified for all sources of income.
v. Certain types of income were exempted from income tax under sec. 42.

vi. This act had made provision for self-assessment of tax for the first time in Nepal.

vii. Carry forward of losses were allowed for three years.

viii. Life insurance premium and donation were allowed for deduction as common expenses with some restriction.

ix. Appointment rights and duties of tax officers and tax payers had provided and mentioned clearly.

x. Rights, duties forms, appeal were specified.

xi. Provisions of penalty up to Rs. 5000 in case of failure of maintain or preserve accounts for the period of six years.

There was some other provisions of exemption from income tax as follows:

i. Income if Guthi; income of VDC, municipality; income of Nepal's government; amount received against life insurance premium.

ii. Progressive rate of tax were applied.

iii. The process of assessment, reassessment, appeal, advance payment of tax, deduction of tax at source and refund of tax were clearly specified.

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

The Income Tax Act 2002 (2058 B.S.) become effective since 1st April 2002. The Act governs all income tax matters and is applicable throughout the Kingdom of Nepal. This act consists of 143 sections along with 24 chapters. The objectives of introducing the new tax act are to enhance the revenue mobilization through effective revenue collection procedure. To promote the economic development of the nation is the main motto of this act. This new tax has imposed the tax on income realized from every person; a foreign permanent establishment of a non-resident person situated in Nepal and has repatriated income for the year, a person who received a final withholding payment during the year and who has taxable income for the year. Nepal's government has enacted the Income Tax Rule 2002 (2059 B.S.) in 2059-02-27 in accordance with the authority given under section 138 of Income Tax Act 2002. This act was brought in Nepal to avoid the following defects of income tax act 1974. [Kandel, 2003:11]

i. Tax was not levied on worldwide income, on capital gain etc. Tax base was to narrow.
ii. Income tax related provisions were given in different act such as
iii. Employment Provident Fund Act 1962, Citizen Investment Trust Act 1992, Industrial Enterprise Act 1992, Electricity Act 1992 etc.
iv. There was no provision for controlling transfers pricing, controlling entity's interest expenses, controlling of thin capitalization etc.
v. Income tax is the tax of equity. That means persons having same income should impose equal amount of tax and person having lower income should impose lower tax. But under Income Tax Act 1974, tax was levied on the basis of nature of organization, nature of income, nature person. Natural person's taxable income had declared on the basis of organization's memorandum and objectives rather then transaction.
vi. Penalty rate under income tax act 1974 was very low. It was not appropriate to the present time to control the tax evasion.

vii. After 8th amendment, provision of self-tax assessment was made. But necessary definition, explanation and legal provision related to tax administration was not made. There was no clarity about the accounting system and design and also lack of high penalty who did not maintain account accordingly.

viii. Act became incapable to fulfill the need of time. So, it became compulsory to replace to it by new act.

Objectives of Income Tax Act 2002 [Neupane, 2004:30]

i. To increase the tax coverage.

ii. To make income tax related provisions clear and transparent.

iii. To interlink Nepalese tax system with tax system of other countries.

iv. To make tax system based on account.

v. To minimize tax avoidance, tax evasion and tax delay payment.

vi. To make tax system compatible to modern economy.

vii. Separating administrative and judicial responsibilities.

viii. Reducing the scope of discretionary interpretation of tax administration thereby ensuring simplicity, uniformity and transparency.

ix. Defining the power as well as authority of the tax administration.

x. Distinguishing taxpayers' violation of civil duties and criminal offences.

xi. Making more effective and responsibility to tax administration.

xii. Making more responsible to tax payer by emphasizing on self-tax assessment system.

The special features of Income Tax Act 2002

i. The Act has broadened the tax base. Tax rates are spelled out in the Act itself and the tax rates and concessions are harmonized on equity grounds.

ii. The scope of discretionary interpretation of the tax administration is drastically reduced ensuring simplicity, uniformity and the transparency. The Act has also defined the power and authority of the tax administration.

iii. The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.

iv. The appeal system is further streamlined by making it mandatory for the taxpayers to file an objection with the Inland Revenue Department for administrative review before appealing to the Revenue Tribunal.

v. There is the provision of carry forward of loss for subsequent four years for general business and for seven years for BOT & BOOT projects. This act has also provided the facilities to carry backward of loss for five subsequent years in case of bank, insurance and long term contract.

vi. There has the special provision for deduction pollution control and research & development expenses.

vii. Incentives are provided to infrastructure constructor, hydropower projects and special industries.

viii. Provision of fines and penalties has made more stringent.

ix. This act has classified all income into three headings under section 3: (a) Employment (b) Investment and (c) Business

x. Concept of international taxation has been introduced in the new act. The provisions introduced in the tax law related to international taxation are transfer pricing, foreign tax credit, double taxation avoidance agreement etc.

xi. The income of an approved retirement fund is free from tax. But retirement payments in hands of employee are taxable.

xii. Pension, gratuity, Dashain allowance, refund of retirement fund etc. are also treated as taxable income for the first time.

xiii. All natural persons are given right to claim medical tax credit and extra exemption limit has been provided for the taxpayers of different remote areas.

xiv. Provisions regarding to general anti-avoidance rule, control of transfer pricing, control of the capitalization, control of dividend stripping are introducing for the first time.

xv. This act has shortened the list of eligible deduction regarding to income from employment.

xvi. Rights of taxpayers are clearly mentioned. The taxpayers are given the right to appeal against tax assessment to Director General of IRD for administrative review. If the taxpayer not satisfied with the decision of the administrative review, they are given right to appeal to court under Revenue Tribunal Act.

xvii. This act has specified the provision regarding to taxation on capital gain and dividend.

xviii. Provision for depreciation has been introduced with different pool system having 5 groups of depreciable assets. Depreciation of intangible assets is also claimable for the first time.

xix. The rate and method of charging depreciation is fixed for all the depreciable assets.

xx. As proposed to previous tax acts Income Tax Act 2002 has specified the tax rate applicable to the taxpayers of different categories. It was a practice in the past that the rate of tax used to be given in Finance Act of each year.

Taxing subjects

The taxpayers on whom income tax is imposed are persons. A person can be a natural person, who is an individual or a couple but includes also a proprietorship, or it can be an artificial person, i.e. an entity. An entity means a partnership, trust, company, and foreign permanent establishment or government body.

The act distinguishes between resident and non-resident persons. A resident person is an individual whose normal place is in Nepal and who is present at any time of the year, or who is present in Nepal for 183 days or more, or who is an employee of Nepal's government posted abroad at time during the year.

A trust is a resident person if it is established in Nepal, or has a resident person as a trustee, or is controlled by a resident person. A company residing in Nepal and if it is incorporated under the laws of Nepal or has its effective management in Nepal. Partnerships are always resident persons. Permanent establishments are places where a person carries on a business and are subject to tax if they belong to a non-resident person and are situated in Nepal.

Historical Background

Income Tax was imposed in Nepal by the first Parliamentary Government in 1959. Income Tax Act 1962 was enacted in 1962 replacing business, Profit and Remuneration Tax Act of 1959. The Income Tax Act, 1962 was replaced by Income Tax Act, 1974, which was amended for eight times and existed for a period of 28 years. The Income Tax Act, 1974 and all the income tax related provisions made under other special enactment have been repealed and the existing Income Tax Act, 2058 became effective since Chaitra 19, 2058 (01, April 2002). The Act governs all income tax matters and is applicable throughout the Kingdom of Nepal. It is also applicable to residents residing wherever outside Nepal.

The Special features of the Act

- The Act has broadened the tax base. Tax rates are spelled out in the Act itself and the tax rates and concessions are harmonized on equity grounds.
- A full-fledged self-assessment system is implemented and the presumptive taxation and current year taxation system are strengthened.
- The scope of discretionary interpretation of the tax administration is

drastically reduced ensuring simplicity, uniformity and the transparency. The Act has also defined the power and authority of the tax administration.

- The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.
- The appeal system is further streamlined by making it mandatory for the taxpayers to file an objection with the Inland Revenue Department for administrative review before appealing to the Revenue Tribunal.

Income Heads

- The Act imposes tax on those activities contributing toward the creation of wealth. Wealth is created with the help of labor, capital and a capital-labor mix activities that generate income from employment, investment and business respectively. The Act makes broad classification of income encompassing almost all income-earning activities. They are :

A. Employment (an individual`s remuneration income from an employment for an income year)

B. Investment (profits and gains of a person from conducting an investment for an income year)

C. Business (profits and gains of a person from conducting a business for an income year)

D. Income and gains are ascertained only after deducting the corresponding expenses. The income from each business and investment needs to be calculated separately.

Taxing Subjects

- The taxpayers on whom income tax is imposed are persons. A person can be a natural person, who is an individual or a couple but includes also a proprietorship, or it can be an artificial person, i.e. an entity. An entity means a partnership, trust, company, and foreign permanent establishment or government body.

- The Act distinguishes between resident and non-resident persons. A resident person is an individual whose normal place of abode is in Nepal and who is present at any time of the year, or who is present in Nepal for 183 days or more, or who is an employee of Government of Nepal posted abroad at any time during the year.

- A trust is a resident person if it is established in Nepal, or has a resident person as a trustee, or is controlled by a resident person. A Company residing in Nepal and if it is incorporated under the laws of Nepal or has its effective management in Nepal. Partnerships are always resident persons. Permanent establishments are places where a person carries on a business and are subject to tax if they belong to a non-resident person and are situated in Nepal.

Income Year

- For every person the tax is imposed and calculated for an income year. The income year corresponds with Government’s Fiscal Year, i.e. the period from the start of Shrawan of a year to the end of Ashad of the following year (mid-July to mid-July).

Assessable Income

- The assessable income of a person for an income-year from any employment, business, or investment is :

A. in the case of a resident person, the person`s income from the employment, business, or investment of the year irrespective of the location of the source of the income and

B. in the case of a non-resident person, the person`s income from the employment, business, or investment of the year but only to the extent the income has a source in Nepal.

- The assessable income does not include any income exempt under sections 11 or 64 of the Act (such as income from non-business agriculture and agriculture business conducted in the land of the type that is mentioned in clauses (d) and (e) of section 12 of the Land Act, 2021; income of cooperative society from business mainly based on agriculture and forest products and cooperative saving and credit scheme based on rural community; and income of approved retirement fund)

Taxable Income

- The taxable income of a person for an income-year is equal to the amount as calculated by subtracting reduction, if any, claimed for the year under section 12 (gifts to an exempt organizations) or 63 (retirement contribution to an approved retirement fund) from the total of the person`s assessable income for the year from each of the following income heads : Business Employment and Investment.

Tax Rates

- The taxable income of a resident individual for an income-year 2066/67 will be taxed at the following rates:

Up to Rs.160,000 - 1%

From Rs.160,000 - upto Rs.260,000- @ 15 % plus Rs. 1600

Above Rs. 260,000 - @ 25% plus Rs.16600.

- The taxable income of a couple, if they chose to be treated as a couple will be taxed at the following rates;

Up to Rs.200,000 - 1%

From Rs.200,000 - upto Rs.300,000- @ 15 % plus rs. 2000

Above Rs. 300,000 - @ 25% plus Rs.17000.

- The business person who have registered own Proprietary firm should not pay above 1 (one)% tax.

- Any individual or couple having pension income can enjoy 25 percent of the normal exemption limit as an additional basic exemption.

- Any individual working in prescribed remote area is entitled to deduct prescribed amount as remote area allowance from taxable income.

- Any individual is entitled to deduct the following amount from taxable amount, if he is having investment insurance policy :

"Rs. 20,000 amount or the actual premium paid, which ever is less."

- For the purposes of the Act, net gains from the disposal of non-business chargeable assets will be taxed at the rate of 10 percent.

- The presumptive tax for individuals conducting small businesses (who have a turnover of Rs.2 million or an income of Rs.200, 000) in the Metropolitan or Sub-Metropolitans, Municipalities and anywhere else in Nepal amounts to Rs 5,000 Rs. 2,500 and Rs.1,500 respectively.

- The taxable income of a non-resident individual is taxed at the rate of 25 percent.
- The taxable income of an entity will be taxed at the rate of 25 percent unless prescribed otherwise.
- The taxable income of a bank, or financial institution, or general insurance business, or an entity conducting petroleum work under Petroleum Act, 2040 for an income-year is taxed at the rate of 30 percent.
- Gain from Lump sum retirement payment made by an approved retirement fund or GON is taxed at the rate of 5 percent as a final withholding tax.Gain is calculated by deducting 50 percent of the payment or Rs. 500,000 whichever is higher from the total lump sum payment.
- The taxable income derived by an individual from special industry or export business will be taxed at the rate of 20 percent.
- The taxable Income derived by an entity engaged in an industrial enterprise or export business or derived from operating any road, bridge, tunnel, ropeway, or flying bridge. Construction business or any trolley bus or tram manufacturing business is taxed at the rate of 20 percent.
- The taxable income of an entity engaged in power generation, transmission, or distribution is taxed at the rate of 20 percent.
- The taxable income of an estate of a deceased resident individual or trust

of an incapacitated resident individual will be taxed at the normal tax rate as though the estate or trust was a resident individual.

- The repatriated income of a foreign permanent establishment of a non-resident person situated in Nepal will be taxed at the rate of 10 percent.

- The taxable income of a non-resident person deriving income from providing shipping, air transport or telecommunication services in Nepal will be taxed at the rate of 5 percent.

- The taxable income of an entity wholly engaged in the projects conducted by any entity so as to build public infrastructure, own operate and transfer it to the HMG/N in power generation, transmission, or distribution for an income-year shall be taxed at the rate of 20 percent.

Business Exemptions, Exempt Amounts and Other Concessions

- The following amounts are exempt from tax :

A. Amounts derived by a person entitled to privileges under a bilateral or a multilateral treaty concluded between Government and a foreign country or an international organization;

B. Amounts derived by an individual from employment in the public service of the government of a foreign country, provided that, the individual is a resident person solely by reason of performing the employment or is a non-resident person; and the amounts are payable from the public funds of the country;

C. Amounts derived from public fund of the foreign country by an individual who is not a citizen of Nepal or by a member of the immediate family of the individual.

D. Amounts derived by an individual who is not a citizen of Nepal from employment by Government on terms of a tax exemption;

E. Allowances paid by Government to widows, elder citizens, or disabled individuals;

F. Amounts derived by way of gift, bequest, inheritance, or scholarship, except as required to be included in calculating income under this Act;

G. Amounts derived by an exempt organization by way of gift; or other contributions that directly relate to the organization's function, whether or not the contribution is made in return for consideration provided by the organization, and

H. Pension received by a Nepali citizen retired from the army or police service of a foreign country provided the amounts are payable from the public fund of that country.

- An agricultural income derived from sources in Nepal during an income-year by a person, other than the income from an agriculture business derived by a registered firm, or company, or partnership, or a corporate body, or through the land above the land holding ceiling as prescribed in the Land Act, 2021, is exempt from income tax.

- Incomes derived by cooperative societies, registered under Cooperative Act, 2048 (1991), from business mainly based on agriculture and forest products such as sericulture and silk production, horticulture and fruit processing, animal husbandry, diary industries, poultry farming, fishery, tea gardening and processing, coffee farming and processing, herbiculture and herb processing, vegetable seeds farming, bee-keeping, honey production, rubber farming, floriculture and production and forestry related business such as lease-hold forestry, agro-forestry, cold storage established for the storage of vegetables and business of agricultural seeds, insecticide, fertilizer and agricultural tools (other than machine operated)and rural community based saving & credit cooperatives are exempt from tax. Dividends distributed by such societies are also exempt from tax.

Deductions

- Basically, all actual costs to the extent incurred in generating income from the business or investment are deducted while calculating a person`s income. This generalization, however, are taken into consideration in conjunction with the special provisions made in the Act. For example, interests paid by exempt controlled entity to the parent in the course of conducting a business or investment, are deductable with some limitations. Other costs such as cost of trading stock, repair and improvement cost of owned and used depreciable asset, pollution control, research and development are also deductable with some limitations.
- Depreciation allowances are granted for depreciable assets, which are categorized in 5 classes. The classes are based upon the average useful life of the assets belonging to one class. The assets of each class are placed in a pool and a depreciation rate applies to each pool.
- Allowable limit for repair and improvement cost of owned and used

depreciable asset is raised to 7% of depreciation bases.

- No deductions are granted for the expenses that are of a domestic personal nature, income tax, government penalties costs in deriving exempt amounts or final withholding payment, dividends distributed by an entity, costs of a capital nature and cash payment above Rs. 50,000 under prescribed conditions.

Setoff, Carry forward and Carry back of Losses

- Losses are in principle deductable but are treated differently depending on whether they result from conducting a business or an investment and whether they are of domestic or foreign nature. Losses from a domestic business can be offset against all types and sources of income, whereas losses from a domestic investment can be offset only against any type of investment income. Foreign losses can be offset only against foreign income. Foreign business losses can be offset against foreign business income or investment. Losses from foreign investment can only be offset against foreign investment income.

- Unrelieved business losses of previous 4 years are allowed to carry forward.

- In case of electricity projects involving in building power station, generating and transmitting electricity and the projects conducted by any entity so as to build public infrastructure, own, operate and transfer to the Government, any unrelieved loss of the previous seven years are allowed to carry forward.

- If a person incurs a loss for an income-year from any banking and general insurance business, the person may carry back the loss and deduct it in calculating the income from the business for any of the five preceding income-years.

- Special provisions exist in the Act on how to deal with losses incurred in conducting a business of global long-term contract.

Tax Accounting and Timing

- For tax purposes, an individual is required to maintain his accounts on a cash basis in calculating the individual`s income from an employment or investment and a company is required to maintain its accounts on an accrual basis within the basic framework of generally accepted accounting principle.

- Bad debts are allowed to be written off if a debt claim of a bank or financial institution has become bad debt as determined in accordance with the prescribed standards.

- Inclusions and deductions under a long-term contract are calculated according to the percentage of the contract completed during the year.

Quantification, Allocation and Characterization of Amounts

- Cash payments are quantified as equivalent to the amount of transferred money or the market value of the asset. In case of a kind payment, it is equivalent to the value of the benefit of the payment. Compensations, including payments under insurance for income and losses are to be included in the calculation of income from employment, business or investment.

- Payments under an annuity, an installment sale or a finance lease are aggregated and the total is divided into a capital portion and an interest portion calculated according to the Act.

- Finance lease has been defined either as an agreement with the transfer of ownership at the end of the agreement or the option of the lessee to purchase the leased asset for a fixed price, or a contract with a lease term exceeding 75 percent of the asset’s useful life.

- The Department is given the right to correct and recharacterize arrangements targeted at minimizing the taxable income or payable tax. This refers to indirect payments, transfer pricing and other arrangements between associates if the agreement has not been conducted at arm’s length, cases where persons attempt to split income with other persons, arrangements carried out as part of a tax avoidance scheme or without any substantial economic effect or of which the form of the arrangement does not reflect its substance.

Capital Gain Tax

- The Act has introduced capital gain tax. However, the Act does not cover all such gains i.e. only those gains, which are received from the disposal of business assets or liabilities and those from the disposal of non-business assets of an investment of a person, which are regarded as chargeable and will be taxed accordingly.

- Business assets comprise assets to the extent to which they are used in a business. Non-business chargeable assets mean securities or an interest in an entity as well as land and buildings. Both definitions exclude depreciable assets or trading stock. Not included in non-business chargeable assets are also private residences of an individual owned and lived in continuously for 1 years or more if they are not disposed of for more than Rs.5 million. Since profits and gains are different bases of taxation they need to be calculated separately.

- The tax is imposed on the net gains, which are the total gains minus the total losses including unrelieved losses for the current income year and those from a previous income year, which thus can be carried forward forever. Gains and losses are defined as the difference between incoming and outgoing for the asset or liability.

Special provisions for Individuals

- A resident natural person and a resident spouse of the person may, by notice in writing, elect to be treated as a single individual for a particular income-year.
- Each spouse of a couple making an election as above with respect to an income-year is jointly and separately liable with the other spouse for any tax payable by the couple for the year.
- A resident individual may claim a medical tax credit for an income-year not exceeding Rs 750 for any approved medical costs paid by the individual him/herself or through others during the year in respect of the individual. Tax credit limit of Rs. 750/- is calculated by multiplying the

total approved medical cost by 15%. Any unrelieved medical costs are carried forward. Medical Tax Credit facility is equally applicable to all individual taxpayers.

Special provisions for Entity

- An entity is liable to tax separately from its beneficiary who is defined as any person having an interest in an entity. Unless stated otherwise in the Act, transactions between an entity and its managers and beneficiaries are recognized.
- The profit of entities can either be retained or distributed to its beneficiaries such as shareholders. The entity can also repay capital or grant collateral benefits to them. Collateral benefit, which can be characterized as a kind of hidden distribution of profit. Distributions of profits and collateral benefits are dividends representing a return of interest in capital, and need to be distinguished from repayment of capital, which is the return of the capital itself. For that the Act provides a profit first rule saying that a distribution is a return of capital to the extent that it is not a distribution of profits. If the entity repays capital it is free of tax.
- Dividends of a resident company are taxed to the company's shareholders in the form of a final withholding tax. The re-distribution of such taxed dividend is tax free. Dividends of a non-resident entity, which are distributed to a resident beneficiary, are taxed by inclusion in calculating the income of the beneficiary.
- Besides these general provisions the Act contains detailed provisions for

liquidations of entities, for dealings between an entity and a beneficiary, for changes in control of an entity and for dividend stripping.

Special Provisions for Retirement Savings

- The Act distinguishes between the treatment of approved and unapproved retirement fund. In case where a resident person files an application with the Department intending to get approval for establishing a retirement fund, the Department shall pronounce the approval as prescribed.

- An individual who is a beneficiary of an approved retirement fund may claim a reduction of retirement contributions made to the fund for an income-year The limit of the claim is the lower of Rs. 3,00,000 or one third of his assessable income for the year. Contributions to an unapproved retirement fund are not deductable. The income of an approved retirement fund is free of tax where as an unapproved fund itself is subject to full income tax.

International Taxation

- For taxation purposes, all payments and gains need to be considered on the basis of the source country of the payment. Details of the circumstances under which the source rules are defined are given in the Act.

- Tax is imposed on the repatriated income of a foreign permanent establishment of a nonresident person situated in Nepal.

- A non-resident person carrying on a business of charterer or air transport operator are taxed at a flat rate on their amounts derived from carriage of passengers, mail or goods which embark in Nepal. The provision is also applied to nonresident persons who transmit messages by any technical means if the apparatus is established in Nepal.

- A tax credit may be claimed for any foreign income tax paid with respect to foreign source income. The tax credits are calculated separately for assessable foreign income sourced in each country and will not exceed the average rate of Nepal income tax applied to the assessable foreign income.

Administration and Documentation

- The Department is charged with the responsibilities of administering the Act and the provisions thereto. Government is empowered to enact Rules. Accordingly, the Department may also issue public circulars serving the purpose to achieve consistency in the administration of the Act and to provide guidance to persons affected by the Act.

Record Keeping and Information Collection

- The Department may specify the form of documents required under the Act. It may issue a Permanent Account Number and require the taxpayer to show it in any return, statement or other documents used for the purposes of this Act.
- Every taxpayer is required to maintain, in Nepal and in Nepali or in English language, documents as prescribed by the Department, which are necessary to explain information to be provided in a return, enable an accurate determination of the tax payable and substantiate deductions and outgoing. The documents must be retained for at least 5 years after the end

of the income year to which they are relevant. If the documents are not in Nepali or English, the taxpayer may be requested to provide at his expense a Nepali translation by an approved translator.

- The Act grants, every officer with authorization from the Department, comprehensive rights to access to information, such as, full and free access to any premises, place, document or other assets situated in Nepal and right for seizure of any document that may be material in determining the tax liability of the taxpayer. Every officer of the Department will regard and deal with all documents and information coming into his possession or knowledge as secret and will not disclose it to a court, tribunal or other person except in cases explicitly allowed in the Act.

Installment Payment

- There is a provision of payment of Income Tax of the current year by 3 installments i.e. 40%, 70% and 100% by the end of Poush, Chaitra and Ashad respectively.

Annual Statement of Estimated Tax Payable

- Every person who is an installment tax payer for an income year is required to file annual statement of estimated tax by the end of Poush. Presumptive taxpayer and those who have only income from final withholdings need not file the estimate.

Returns of Income and Assessments

- In general, every taxpayer should file a signed return of income not later than 3 months after the end of each income year.

- Unless explicitly requested by the Department, no returns are required from taxpayers who have no tax payable for the year or are resident individuals who have income exclusively from an employment having a source in Nepal, who have only one resident employer at a time during the year and who do not claim a deduction of their taxable income by gifts to exempt organizations.
- Unless an assessment has been amended or reduced by order of the Revenue Tribunal or of a court, the Department may amend an assessment within 4 years in order to adjust the assessed person's liability to tax in such manner as, according to the Department's best judgment, is consistent with the intention of the Act. An assessment may be amended at any time in cases of fraud.
- Where the department makes a jeopardy or amended assessment, it will serve a written notice on the taxpayer.

Administrative Review and Appeal

- A taxpayer who is aggrieved by a review able decision may file an objection within 30 days after the decision is made. In doing so, such Taxpayer has to deposit 50% of due amount. The Department may extend this period for another 30 days upon request. The Department may stay or amend or do necessary corrections with regard to these review able decisions. If the Department fails to serve a taxpayer with a notice of an objection decision, within 90 days, the taxpayer may elect to treat the

Department as having refused his objection and appeal to the Revenue Tribunal.

Offences

- Offences are dealt with in the Act in a sense of criminal offences of taxpayers as well as tax administrators. They lead to punishment in the form of fines and imprisonment on conviction. The offences attracting both a fine and the imprisonment include failures to comply with the Act, failures to pay tax, maintaining documentation or filing income returns and statements of estimated tax, making false or misleading statements, impeding or coercing the tax administration, offences by the authorized and unauthorized persons, offences of aiding or abetting, etc. In case if the Tax return file is not submitted within the period prescribed by the act, the late fee will be charged at the rate of 0.1% per year of the turnover.

The Super Act

- The Act is made super in regard to all income tax matters. No other Acts except this Act shall be made capable to make changes, amendment and other tax related provisions other than the provisions relating to imposition, assessment, reduction, increment, exemption, or remission of tax to be made by amending this Act itself by annual Finance Acts.

2.1.5 Source of income

Income Tax Act 2002 imposes tax on those activities contributing toward the creation of wealth. Wealth is created with the help of labor; capital and capital-labor mix activities that generate income from employment, investment and business respectively. The Act makes broad classification of income encompassing almost all income-earning activities. They are:

2.1.5.1 Income from Employment / Remuneration

Income tax act 2002 has defined the remuneration income tax purpose. According to Sec.8 of 'Income tax Act 2002', An individual income employment for an income year is the individual's remuneration from employment of individual for the year. According to this Sec, the remuneration received by a person from the employment is as following payments made by the employer:

i. Payments of wages, salary leave pay (including salary in lieu of leave and encashment of accumulated home, sick etc. leave), overtime pay, fees, commission, prizes, gifts (as per market value in case of prize and gift is not in cash), bonuses and other facilities i.e. Dashain expenses, Tihar expenses, telephone facility, transportation facility etc.
ii. Payment of any personal allowances including any cost of living, subsistence allowance, rent allowance, entertainment allowance and transportation allowance.
iii. Payment providing any discharge or reimbursement of cost incurred by the individual or an associate of the individual.
iv. Payment for the agreement to any conditions of the employment.
v. Payments for termination or loss of service or compulsory retirement (redundancy). Fr example, amount derived as golden hands shake scheme.

vi. Retirement contribution including those paid by the employer to a retirement fund in respect of the employee and retirement payments. For example, gratuity, encashment of medical expenses at the time of termination, employer's contribution to provident fund.

vii. Other payments made in respect of the employment; and

viii. Amounts required being included in remuneration from employment as per tax accounting.

In addition to above stated items of remuneration, the following types of perquisites are included in remuneration of a person:

i. The amount of difference of the interest on loan by employer lower rate then the market rate.

ii. Market value of assets in case of the transfer of the assets.

iii. For the payment other then stated above, the value of benefit of the payment to a third person.

Non-chargeable income

Some incomes are not included in calculating a person's remuneration from employment even if they are derived from employment. These incomes are treated as tax-free income. The followings amounts are excluded in calculating an individual's remuneration from employments

i. Amounts exempt under section and final withholding payments under sec. 8.3 (a) and 92.

ii. Meals or refreshment provided in premises operated by or behalf of an employer to the employees that are available to all the employees in similar terms.
iii. Payments of prescribed small amount, which are so small and thus unreasonable or administratively impractical to make accounting for them.
iv. Remuneration exempted under bilateral or multilateral agreement.
v. Any discharge or reimbursement of cost incurred by the individual cost

-that serves the proper business purpose of the employer.

-that are or would otherwise be deductible in calculating the individual income from any business or investment.

2.1.5.2 Income from Business

Business is an activity by a commercial enterprise for the purpose of making profit on a continuous and repetitive basis. In other words business means use of factor of production for the purpose of earning profit. According to section 2 (a) (r) of 'Income Tax Act 2002', business means an industry, a trade, a profession, or the like isolated transaction with a business character and includes a past, present, or prospective business.

Income from business is the maximum revenue earner with large number of taxpayers. The amounts that are included in computation of "Income from Business" are as follows:

a) Service fees [Sec 7.2(a)]

b) Amount derived from the disposal of trading stock [Sec 7.2(b)]

c) Net gains from the disposal of the person's business assets or liabilities of the business as calculated under Chapter 8 [Sec 7.2(c)]

d) Amounts treated as derived from the disposal of depreciable assets [Sec.7.2(d)]

e) Gifts received by the person in respect of the business [Sec.7.2(e)]

f) Amounts derived as consideration for accepting a restriction on the capacity to conduct the business [Sec.7.2(f)]

g) Amounts derived that are directly connected with the business and that would otherwise be included in calculating the person's income from an investment [Sec.7.2(g)]

h) Amounts to be included by reason of change in the accounting system [Sec.22.6]

i) Amounts to be included by reason of timing [Sec.24.3]

j) Excess amount received by reason of exchange rate [Sec.24.4]

k) Recovered amount including bad debts deducted earlier [Sec.52.1]

l) Amounts to be included as per contract completion basis in the case of a long term contract [Sec.26.1]

m) Difference of actual interest and interest as per market rate in case of a soft loan [Sec.27.1 (d)]

n) Amounts paid to third person instead of actual payee [Sec. 29]

o) Amounts derived as compensation [Sec.31]

p) Other amounts required to be included as per provision of tax accounting and timing under Chapter 6 or the provision of quantification, allocation, and characterization of amounts under chapter 7 or the provision of dealings between an entity and a beneficiary under section 56, or the provision of general insurance business under section 60.

However, income from business does not include exempt amounts under section 10' tax exempted dividends under section 54 and dividend distributed by a foreign controlled entity under section 69.2 and final withholding payments under section 92.

The following expenses are allowed for deduction while computing income from business:

a) Donation / Gift [Sec. 12]

b) General deduction[Sec. 13]

- Manufacturing (production/ factory) expenses
- Administration and office expenses
- Selling and distribution expenses

c) Interest [Sec. 14]

d) Cost of trading stock [Sec. 15]

e) Repair and Improvement [Sec. 16]

f) Pollution Control Costs [Sec. 17]

g) Research and Development [Sec. 18]

h) Depreciation Allowances [Sec. 19, Schedule-2]

i) Expenses with respect to provision of risk bearing fund [Sec.59.1 (a)]

2.1.5.3 Income from Investment

According to section2 (a)(1) of 'Income tax Act 2002', investment means an act of holding or investing one or more assets of a similar nature that are used in an integrated fashion. It includes the act of holding assets, other then non- business chargeable assets, primarily for personal use by the person owning the assets or investing amount on such asset. It also excludes employment or business.

The following amounts derived by a person during an income year are included in calculating the profit and gains from conducting the investment for the year:

a. Dividends other then final withholding, gain from investment insurance other then final withholding, interest other then final withholding, rent other then final withholding, payment derived for natural resources, royalties, gain from an interest on unrecognized fund other then final withholding [Sec.9.2 (a)]
b. Net gain from the disposal of non-business chargeable assets of a natural person [Sec.9.2 (b)]
c. Amounts treated as derived from the disposal of depreciable assets of any investment [Sec.9.2 (c)]
d. Gift received by the person in respect of investment [Sec.9.2 (d)]
e. Retirement contributions and retirement payments with respect to investment [Sec.9.2 (e)]

f. Amounts derived as consideration for accepting a restriction on the capacity to conduct the investment [Sec.9.2 (f)]
g. Amounts to be included by reason of changes in the accounting system or method [Sec.22.6]
h. Amounts to be included by reason of timing [Sec.24.3]
i. Excess amount received by the reason of exchange rate [Sec.24.4]
j. Recovered amounts of bad debts deducted earlier related to investment [Sec.25.1]
k. Difference of actual interest and interest as per market rate in case of a soft loan used in the investment [Sec.27.1 (d)]
l. Amounts paid to third person instead of actual payee [Sec.29]
m. Amounts derived from joint ownership investment [Sec.30]
n. Amounts derived as compensation [Sec.31]

However, investment income does not include tax-exempt amounts under section 10, tax exempted dividends under section 54, and dividend distributed by a foreign controlled entity under section 69.2 and final withholding payments under section 92.

The following expenses are allowed for deduction while computing income from business:

a) Donation / Gifts [Sec. 12]
b) General deductions [Sec. 13]
c) Interest expenses [Sec. 14]
d) Repair and improvement Costs [Sec. 16]

e) Depreciation Allowance [Sec. 19]

f) Loss from investment [Sec. 20]

The following expenses are not allowed for deduction from the taxable income from business and investment:

a) Expenses of domestic or personal nature,

b) Tax payable as per this act,

c) Penalty or any other fines payable as per any Acts,

d) Expenses incurred to derived the amount exempted under section 10 or final withholding payments,

e) Cash payment for more then Rs. 50,000 at the time to particular person by a person having annual transaction more then Rs. 2 million,

f) Distribution of income,

g) The amount where the deduction is allowed by any sections.

2.1.6 Capital Gain Taxation in Nepal

Capital gain means excess of sales price over the book value of the fixed assets. Capital gain tax is the tax levied 3on the gain individual of corporate bodies from the sale of the assets. Previous income tax acts had no provision of taxing capital gain of individual nature. The capital gains of business organization were taxed under normal tax rate. However, the 'Income Tax Act 2002' has also not clearly pronounced the term 'Capital Gain'. But in implication, there is capital gain tax under this act. The tax on the gain of non-business chargeable assets i.e. profit on the sale of the fixed assets except used in business and securities comes under this category as per this Act.

Basically, there are two types of rates used in different countries of the world for taxing the capital gain. Some favour taxing capital gain at special tax rate, where other favour ordinary treatment. Ordinary treatment means taxing the capital gain at normal rate. Some countries in the world are using ordinary rate for taxing capital gain whereas some others are using special rate for the purpose. [Kandel, 2003:108]

In Nepal, capital gain tax as such was introduced only from the budget of 2058/59. The rate of tax is 10% as per the act. Chapter 8 of Income Tax Act 2002 has made detailed provision in relation to the gain from sale of the assets. This act has classified all the assets into five categories;

i. Trading Stocks
ii. Depreciable Assets
iii. Business Assets
iv. Non-business Chargeable Assets
v. Other assets (in residual sense)

An assets not used for generation of business income is also included in the category of Capital Gain. Capital gain is the gain on non-business chargeable assets i.e. land, building and securities. Profits from the sale of stock of goods, assets used in business and depreciable assets do not fall under this head. Profit from the disposal of motorcar, gold and silver etc. also do not come under this head. In case of natural person, profit from the sale of residential land building owned for more then 3 years and land and building sold for less then Rs.1 crore also does not come under this head. Accordingly, assets transferred within 3 generation by other then purchase and sale of land and building of a natural person, the land and building should be sold for more then Rs.1 crore and if it is transferred within 3 generation, there should be purchase and sale and it should not be that type which is resided or owned for more then 3 years, to come under the head of capital gain taxation. The capital gain or loss is calculated by deducting total outgoings from total incomings of assets. The tax rate of capital gain is 10% for natural person but ordinary rate applicable for an entity.

The loss from non-business chargeable assets can be recovered in any year of future profit from non-business chargeable assets. It cannot be recovered from business or other investment income. However, the previous and present loss from business and present loss from investment can be recovered from this head. In case of natural person, if a person has both capital gain and other income, first of all the capital gain should be quarantined from the ordinary income. The exemption is allowed under ordinary income and at 10% for capital gain.

2.1.7 Methods of Income Tax assessment

Basically the procedure of ascertaining tax liability of a person and tax payable by the person is known as tax assessment. Nepalese value added tax is based on self-tax assessment system. Income Tax Act 2002 provides for the following major methods of assessing income tax.

a) **Self-tax Assessment:**

The act has fully applied the self-assessment of tax system. It has made more responsible to tax payer. It reduces the compliance cost. Under this system, taxpayers himself determines his tax liability with fine and penalty if any and submit it to the tax officer along with the tax due as per return mentioned above within specific time. If tax authority doubts the income of taxpayers, tax authority can investigate on revenue risk basis. Otherwise, that becomes the final.

b) **Amended / Management Assessment:**

The management assessment may be made on the basis of proof of transaction, a tax audit report or tax paid on a similar transaction by another person as well as market value or any other information and notice related to the transaction of which tax is to be determined. Tax department may amend an assessment made by the taxpayer under section 99 and section 100. Department may re amended assessment. The department may not amend as assessment if the assessment has been amended or reduced pursuant to an order the Revenue Tribunal or court of competent jurisdiction except where the order is reopened.

c) Jeopardy Assessment:

Under the section 100 of Income Tax Act 2002, the provision of jeopardy assessment is made. The tax official may make jeopardy assessment in case of doubtful situation. Whenever there is a reason to believe that the collection of is in risk because any person is about to leave Nepal or to transfer the person's property to anybody or to remove conceal assets a tax officer, with the approval of the Director General, may immediately assess and control the tax due, or about to because due.

2.2 Review of Literature

The research and study based on income tax in Nepal is not an easy task to perform as a whole. Because, time to time, the concept and rules are changing rapidly. Income tax is directly affected by national and international environment. In Nepal there is no long history of income tax. But it does not mean that the history of it is very short. It is easy task to collect all the information about income tax in Nepal. Reviews of available materials, based on income tax, are helpful regarding to the actual subject matter in the tax system and its actual condition in Nepal. For this study, various books, articles, thesis etc have been reviewed as far as possible. The main and important books and dissertations reviewed for the study are as follows:

The idea of introducing income tax in Nepal originated along with the first budget on 21st Magh 2008 B.S (1952 A.D). The finance minister in the first budget speech said, "a proposal to levy an income tax including tax on agriculture income is under consideration." For the first time, the Finance Act 2016 (1959) had imposed tax on business profit and remuneration in Nepal. The first elected government finally introduced 'Business profit and Remuneration Tax Act 2017' to impose income tax on remuneration and business profit in Nepal.

The first research on income tax by Mr. K.B.Amatya presented a book in 1965, "Nepal ma Aayakar Byabastha" where he has presented the description of income tax and legal provisions related to income tax.

Mr. Narendra lal Kayastha, in 1974, has tries to analyze the contribution of income and property taxes to the overall revenue generation in Nepal. His study on legal and administration aspect was also helpful to find out some related information regarding income tax system in Nepal. As from Kayasths's dissertation, before 1951, Nepal did not have scientific economic policy, which could facilitate the economic development of the country. The major problems of income tax system of Nepal are income tax evasion at high level and greater role of income tax in tax revenue.

Mr. Chandra lal Shrestha focused on laws, rule and acts related to the income tax in Nepal in his dissertation, "A case study of income tax in Nepal", in 1977. His study tries to explain about historical background of income tax and its importance.

Prof. Dr. Govinda Ram Agrawal started the new phase of Nepalese income tax study from the widely explained research work "Resources mobilization for development; The reform of income tax in Nepal, published by Center for Economic Development and Administration (CEDA) in 1978. He presented details about income tax in Nepal. His study analyzing vividly about role of income tax from legal aspect and administrative aspect, role of income tax for resource mobilization and other important facts. Dr. Agrawal has given his second contribution towards income tax in 1980 through his report

"Resource mobilization in Nepal". He has focused his effort towards the new dimension in the size of Nepalese income tax. His study is the first comprehensive scientific study on the income tax taxation in Nepal. His facts and figures are very helpful to find out the condition of taxation in Nepal at that time. He had identified the major problem of income tax system as inefficiency of tax administration and income tax evasion through other many have been also shown. Various mathematical calculations have been shown as per capita burden of income tax, buoyancy coefficient of income tax, elasticity coefficient of income tax etc. His study may be the first comprehensive scientific study on the field of taxation.

In 1982, Purusottam Subedi in his dissertation, "An analytical study of income taxation in Nepal" has examined the growth of income tax collection, its ratio to GDP, role, legal aspect, historical aspect, and cost of collection of income tax. He had stated that indirect tax had a dominated role in the total tax revenue. He has identified income tax evasion and poor role of income tax as the major problems in Nepalese income taxation. Lack of scientific record keeping, lack of maintaining accounts by tax payer, lack of coordination, lack of scientific method of income tax assessment and collection procedure, lack of honest tax officers are the major problems identified by him.

In 1986, Mr.S.N.Regmi has prepared a dissertation "The role of income tax in Nepal" with the main objective of examining the trend of income tax in Nepal. He also described the share of income tax to total tax revenue and its ratio to gross domestic product. His recommendation to increase the revenue of government that income tax law should be clear and practical, scientific method for accounting assessment and collection of income tax, widening tax coverage, easy and simple procedure of tax payment, public awareness. He has suggested that evasion of tax must be checked to contribute taxes to the economic growth of Nepal.

In 1987, Chudamani Siwakoti, in his dissertation, "An analytical study of income tax in Nepal", has explained the various aspect of income tax. His study focused on the role of income tax, structure of income tax, projection of income tax, legal aspect of income tax act, and problems of income tax. The major problems of income tax identified by him are evasion of tax at high level, delay in assessment, normal role of income tax, lack of public information, complicated acts and other defects of existing income tax acts. He has suggested for progressive tax system, honest and efficient administration and research unit in tax offices.

In 1989, Miss Shanty Baral, in her dissertation, "Income tax in tax structure in Nepal", has tried to show the contribution of income tax on the structure of government revenue in Nepal. She found that total revenue, total tax revenue and direct tax revenue has a low increasing trend in Nepal. She stated that tax evasion, inefficient tax administration, unconsciousness of taxpayer, lack of public information and public relation, lack of scientific method of tax assessment and collections are the major problems of income tax system in Nepal.

In 1994, Mr. Rup Khadka, in his book, "Nepalese Taxation: A Path of Reform", had discussed the economic policy of Nepal, VAT as a long term tax for Nepal, Income Tax, improving tax administration, tax reform strategy. He had analytically described about development, existing structure, main problems and possible direction of reform of income tax. About his conclusion narrow coverage of income tax, unscientific tax assessment and collection, defective system from the perspective of international taxation, weak tax administration, imbalance and inadequate organizational pattern, inadequate physical and other facilities, insufficient tax training, lack of coherent tax policy, predominance of low level non technical posts, debatable scope of revenue investigation department, lack of information system are the major problems of tax administration of Nepal.

In 2001, Mr. Kamal Deep Dhakal has presented a course book based on the syllabus of BBS third year and MBS second year, "Income tax and house and compound tax: law and practice with VAT". He had described historical aspect of income tax and legal provisions relating to income tax with mathematical expression. His book is more useful to know about general information and provisions made under "Income tax act 1974".

In 2001, Mr. Narayan Raj Tiwari has also presented a book, "Income tax system in Nepal". This book is useful to know the theoretical as well as practical knowledge about income tax. This book is based on the "Income tax act 1974". Due to change in Income tax act, this book is no use with present context of income tax.

In 2001, Revenue Consultation Committee Report has studied the overall taxation in depth. It emphasized to simplify the tax policy to voluntary compliance. This report recommended for written communication between taxpayer and tax administration rather then the informal relation. This report suggested to widen the income tax base by including all kinds of taxpayer and income and to find out the taxpayers of new sector. This report suggested making the acts more transparent and clear in order to attract the foreign and domestic investors.

In 2003, Bishwadeep Adhikari has presented a book "Income Tax Law: Then and Now". He has presented historical aspect and development of income tax in Nepal. He also explained legal provisions of newly implemented "Income Tax Act 2002"

In 2003, Mr. Vidyadhar Malik has published a book "Nepal Ko Aadhunik Aayakar Pranali", which is fully based on newly income tax act of Nepal. He played a vital role in the literature of modern income tax system in Nepal by presenting the complicated provisions of new income tax by simplest way with theoretical as well as numerical illustrations where necessary.

In 2003, Mr. Pushpa Kandel has published a course book relater to tax system in Nepal. He had criticized the income tax act 2002. He had tried to analysis the tax planning in Nepal, according to new income tax act and other related acts and rules.

Many of master's degree Thesis are conducted related to income tax of Nepal and tax system in Nepal. These thesis are helpful for this study. Krishna

Kumar Shakya's (1995)'Income tax in the Structure of Nepal", R.K. Bhattarai's (1997) "Effectiveness of Corporate income tax in Nepal", T. Serchan's (2003) "An analysis of fine and penalties regarding to income tax system of Nepal", Hira Neupane's (2004) "An study on role of income tax in revenue collection of Nepal" are the main dissertation which are related for this study.

Hira Neupane collected view from income tax administration, income tax export and income tax payers through field survey in his dissertation. THe main conclusions from his opinion survey are:

i. Income Tax is a suitable means of raising fund.
ii. Income tax paying habit of Nepalese people is poor.
iii. Fine and penalties can help to increase tax-paying habit of Nepalese people to some extent but it should not be used as only one tool for increasing tax-paying habit of Nepalese people.
iv. Tax education is must necessary in Nepal to increase the tax consciousness of taxpayer and voluntary compliance.
v. Most specific objective of income taxation is to increase the public revenue and to promote economic development of the country.
vi. The income tax system of Nepal is not efficient, basically due to inefficient income tax administration, lack of consciousness of taxpayer and increasing habit of tax evasion.
vii. Inefficient tax administration, reluctance of taxpayers to maintain account, poor tax mentality and taxpayer's compliance are the major causes of tax evasion in Nepal.

viii. Clear act, rules and regulations are the most important factor for the effectiveness of income tax in Nepal.

ix. Current income tax act is more effective then previous.

Miss Binita Shrestha wrote a thesis on "Revenue Collection from Income Tax in Nepal, Problems and prospect. The main objective of her study were analyzed the effectiveness of income tax collection policy, examined the problems of revenue collection from income tax and recommended measures for improvement in Nepal. She had found that the level of income tax system of Nepal was suffering from various problems such as narrow tax coverage, mass poverty of Nepalese people, lack of conscious of taxpayers, inefficient tax administration and instability in government policy etc. She recommended that extension of coverage, tax consciousness of people, minimizing the problems of tax evasion and avoidance, voluntary compliance by the tax payer, reform in income tax assessment, reform in income tax administration etc. (Shrestha, 2008)

Dan Badhure Palli Magar wrote a thesis entitled "Income Tax in Nepal study of Exemptions and deductions". He had studied the exemptions and deductions provided by the income tax Act 2058, problems and weakness income tax system, contribution of income tax to government revenue and suggested possible areas of reform. He had stated the need for clarity in provisions and language of the act. He had recommended ten slabs for taxing the income of a taxpayer (Magar, 2009)

Keshav Raj Gautam presented a dissertation entitle "Contribution of Income Tax to National Revenue of Nepal ". His study was based on the various objectives such as to analyze the contribution of income tax to national revenue of Nepal and to recommended possible measures. He founded that the success or effectiveness of income tax system entirely depends upon implementation of provision which is the major responsibility of government. Income tax ratio should increase gradually on long run basis to meet the deficit in the budget. He recommended that government should provide tax education and tax evasion should be discouraged, self assessment of income tax can effectively applicable in Nepal and plugging the loopholes in existing in tax law. (Gautam, 2009)

In this way various books, articles reports , theses are reviewed in this chapter

CHAPTER- THREE

Research Methodology

3.1 Types of Research

The main objectives of this study is to find out the contribution of income tax in the government revenue of Nepal. For that this study includes three types of research as descriptive, analytical and experimental.

3.2 Research Design

This research study is focused on role and contribution of income tax, direct and indirect tax in the total tax revenue; effectiveness of income tax revenue collection in Nepal. Most of the data and information of the study are related with past performance. So it can be regarded as historical; research design. To achieve the stated objectives of the study, the study of Income tax Act, Finance Act and other related acts, rules and regulations are made for making the study. For an empirical research, an opinion survey, used in different research, has been conducted. The opinion of income tax administrators, tax experta and taxpayers are used in this research. Thus, the research study based on the analytical as well as descriptive research.

3.3 Nature and source of data

Most of the data and information to describe this study has been collected from secondary data. The secondary sources of data are received from books, journals, newspaper, reports, web sites and dissertations etc.

The major sources of secondary data are as follows;

1. Economic survey and Budget speech of different years, MOF, HMG/Nepal.
2. Reports and records of Tax department and Inland Revenue Department, MOF, HMG/Nepal.
3. Books related to income tax, tax system and public finance.
4. Newspaper, Magazine, journals, souvenir, websites etc. related to income tax.
5. Different reports, publications and documents of National Planning commission, Central Bureau of Statistics and Nepal Rastra Bank.
6. Rajaswa magazine, Revenue administration Training center, Kathmandu.
7. Mirmire Magazine, Nepal Rastra Bank, Kathmandu.
8. Dissertations related to income tax, available at central library, T.U. and other library.
9. Other published and unpublished relevant record, data, reports, journals and articles on the related subject etc.

Basically secondary data from fiscal year 1993/94 to 2008/09 is used for this research study.

3.4 Data Procession Procedure and Analysis Tools

The primary data are collected through questionnaires .These questionnaires were distributed to tax administrators, tax experts and tax payers. The questionnaires were distributed through personal field visit and – through friends to get actual and accurate information regarding various aspects of this study. The secondary data was collected from published reports of NG such as economic survey, bulletins and website related for this study.

A set of questionnaires was developed and distributed to the selected respondents in order to get actual and accurate information. But information collected from questionnaires was in raw form. They were classified and tabulated in the required form. Applying different tools like simple percentage simple average and spearman's rank correlation coefficient and probable error was analyzed.

3.4.1 Rank Correlation Coefficient

The degree of relationship between two variables with respects to their respective ranks is known as rank correlation coefficient. Spearman's rank correlation coefficient denoted by R is given by the formula.

$$R=1-\frac{6\sum d^2}{n^3}$$

Where, R=Spearman's rank correlation coefficient between X and Y $d=R_1R_2$ =different between the rank for each pair of observation or rank or X and Y series respectively

$D2= (R1-R_2)^2$=Square form of d

∑=Notation meaning the sum of

n=Number of paired observations

(Bajrachary, 1999:268)

3.4.2 Probable Error

Probable error of the correlation coefficient denoted by the PE is the measure of testing the reliability of the calculated value or r. If r be the calculated value of r form a sample of n pair of observation. Then PE is defined by:-

P.E.=0.6745×$\frac{1-r^2}{\sqrt{n}}$

The probable error of correlation coefficient may be used to determine the limits within the population correlation coefficient lies. Limit for population correlation coefficient are r$\pm$PE. (Bajrachary, 1999:268)

3.4.3 Hypothesis Test about the Rank Correlation

Spearman's rank correlation values are used to determines the significant relationship or insignificant, relationship between two samples of the data.

3.4.4 Setting of Hypothesis

Null hypothesis and alternative hypothesis are set as follows

Null Hypothesis: There is no significant relationship or no correlation in the ranked data or the population.

Alterative Hypothesis: There is a significant relative or correlation in the ranked data of the population.

Decision Criteria: PE is used in interpretation whether calculated value of r is significant or not.

i. if r<PE,It is insignificant. So perhaps there is no evidence of correlation

ii. Ifr>6PE, It is signifant.

In other case nothing can be concluded.

(Bajrachary, 1999:257)

3.5 Sampling Procedure

After careful study of the subject matter, a set of questionnaires had been developed and distributed to three respondents groups, tax administrators, tax experts and taxpayers. Tax experts comprise of chartered accountants, lawyers, professors and policy makers of Ministry of finance. Tax payer comprises of employees working in various organizations were contacted for their opinion regarding various aspect of income tax. Random sampling technique has been used to select the target and sample population, Tax administrator, tax experts, taxpayer were selected on the basis of stratified selection.

3.6 Weight of Choice

The questionnaires either asked for a yes/no response or asked for ranking choices according to number of alternative where first choice was most important and last choice was least important. For analysis purpose choice were assigned weight according to number of alternatives. If the number of alternative were 6 then the first preferred choice got 6 points and the last preferred choice one points. The alternative, which is not ranked, does not get any points. The total points available to each choice were converted into percentage in reference to total points available for all choices. The choice with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as last choice.

CHAPTER-FOUR

Presentation and Analysis of Data

A. Secondary Data Analysis

Presentation and analysis of data of this study has been presented in this chapter into 12 subheadings with the help of data, related figures and statistical tools. They have been arranged as follows;

4.1 Structure of Public Revenue in Nepal

The structure of public revenue in Nepal has presented in table 4.1A and 4.1B from the fiscal year 1993/94 to 2008/09. The table shows the structure of public revenue of Nepal by different sources such as income tax, sales tax (VAT), land revenue and its registration charge, custom duty, excise duty, and miscellaneous tax and non tax revenue.

Among various tax revenues, the average contribution of custom, excise duty, sales tax (VAT), income tax, land revenue and registration, Miscellaneous Tax and non-tax revenue is 26.08, 8.15, 22.91, 14.32, 3.00, 3.43 and 22.11.% respectively.

From the fiscal year 1993/94 to 2008/09, income tax revenue was found increasing with the amount of Rs.1921.2 to Rs.11166.0 million, but decrease in the year 2001/02 and 2002/03. General trend of income tax revenue is in increasing trend. The annual growth rate of Tenth plan is 5.77%

4.1 A tables

4.1 B tables

4.2 Resource Gap in Nepal

As other developing countries in the world, Nepal has been suffering from resource constraint, mass poverty, rapid growth of population, dependence on agriculture, subsistence living standard etc. despite over 40 years planned developments effects. In Nepal, the source mobilization is still poor that does not cover the rapid growing expenditure. Fiscal deficit is due to the continuously growing expenditure of the government instead of the low revenue performance in Nepal. The trend of different resource gap is show in table 4.2.

As show in the table, during the period 1994/95 to 2006/07, resource gap increased from Rs. 14454.9 million to Rs. 45715.5 million. Even if foreign grants and loan are included in revenue, the fiscal gap increased from Rs. 3205.5 million to Rs. 19438.5 million during the period. This increasing resources gap indicated that it is necessary to mobilize additional domestic resources. The increasing gap between government expenditure and revenue and high fiscal deficit has caused economic distortion such as increase in prices, large flow of imported foods and services and low level of domestic saving and heavy balance on external debt. Increasing trend in government expenditure has outpaced the growth in revenue collection in Nepal. The resource gap was fluctuating every year. From the fiscal year 1994/95 to the fiscal year 2000/01, the resources gap increased every year and reached to Rs. 30941.2 million from Rs. 14454.9 million. then it decreased to Rs. 27112.0 million in the fiscal year 2003/04. Again it started to increase and reached to

Rs. 45715.5 million in the fiscal year 1994/95 to the fiscal year 2006/07, the fiscal gap increased every year.

Table-4.2

Resource Gap in Nepal

(Fiscal year 1994/95 to 2006/07)

(Rs. In Million)

Fiscal year	Total Public Expenditure (A)	Total Public Revenue (B)	Resource Gap (A-B)	Foreign Grants and Loan (C)	Fiscal Gap (A-B-C)
1994/95	39060.0	24605.1	14454.9	11249.4	3205.5
1995/96	46542.4	27893.1	18649.3	14289.0	4360.3
1994/97	50723.7	30373.5	20350.2	15031.9	5318.3
1994/98	56118.3	32937.9	23180.4	16457.1	6723.3
1994/99	59579.0	37251.3	22327.7	16189.0	6138.7
1994/00	66272.5	42893.7	23378.8	17523.9	5854.9
2000/01	79835.1	48893.9	30941.2	18797.4	12143.8
2001/02	80072.2	50445.6	29626.6	14384.8	15241.8
2002/03	84006.1	56229.7	27776.4	15885.5	11890.9
2003/04	89443.1	62331.1	27112.0	18912.5	8199.5
2004/05	102560.4	70123.1	32437.3	23657.3	8780.0
2005/06	110889.2	72282.1	38607.1	22041.8	16565.3
2006/07	131851.0	86135.5	45715.5	26277.0	19438.5

Source: Economic Survey 2007/08, G/N Ministry of Finance, 2008

The above analysis shows a clear indication of the serious and financial resources problem in Nepal. The trend of resource and fiscal gap indicates that there is urgent need for mobilization additional resources. Income tax is a major instrument to mobilize additional resources for achieving the desired objectives of the country.

4.3 Structure of Tax and Non-Tax Revenue of Nepal

The composition of total revenue constitutes tax and non-tax revenue. Table 4.3 and figure 4.3 shows the composition of total revenue of Nepal from fiscal year 1994/95 to 2006/07. The share of tax revenue has always been greater than the share of non-tax revenue. The average share of tax and n0n-tax revenue for the period was 77,9 percent and 22.1 percent respectively. Contribution of tax revenue is very much important in revenue mobilization of Nepal. For the meeting of the increasing trend of government expenditure, tax revenue has been placed as a major source of government revenue of Nepal.

The amount of tax revenue increasing every year with amount of Rs. 19660.0 million to Rs. 71126.7 million, from the fiscal year 1994/95 to 2006/07. The percentage of tax revenue in total government has been fluctuating in different years. The contribution of tax revenue to total revenue was maximum with 80.41 percent in 1996/97 with 81.09 percent in 2006/07.

Similarly, the trend of non-tax revenue was also fluctuating during the period from 1994/95 to 2006/07. It was Rs. 4945.1 million in the fiscal year 1994/95 and reached to Rs. 16018 million in 2005/06 and decreased in 2006/07 to Rs. 14851.7 million. The contribution of non-tax revenue to the total revenue reached to the maximum level of 24.26 percent in the fiscal year 2002/03 where as it was to the minimum level of 19.59 percent in the fiscal year 1996/97.

Table-4.3

Composition of Tax and Non-Tax Revenue in Nepal

(Fiscal year 1994/95 to 2006/07)

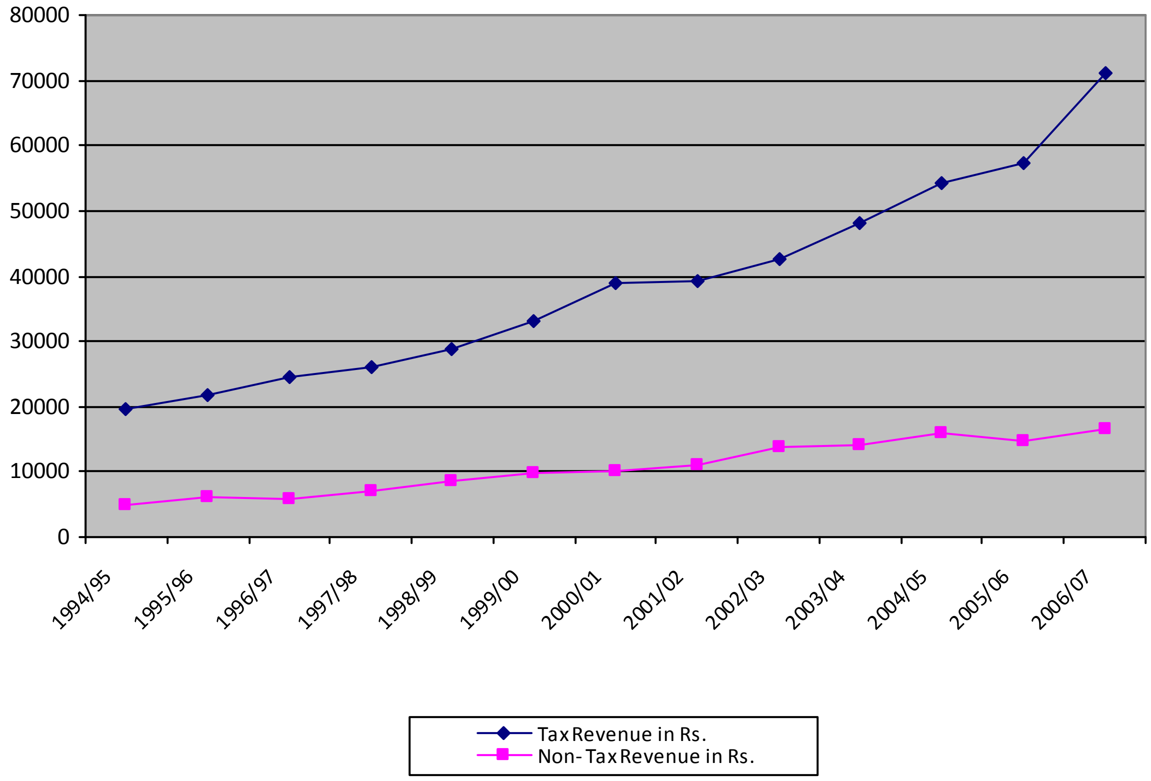
(Rs. In Million)

Fiscal year	Total Revenue	Tax revenue		Non- Tax Revenue	
		Amount	Percentage	Amount	Percentage
1994/95	24605.1	19660.0	79.90	4945.1	20.10
1995/96	27893.1	21668.0	77.68	6225.1	22.32
1996/97	30373.5	24424.3	80.41	5949.2	19.59
1997/98	32937.9	25939.8	78.75	6998.1	21.25
1998/99	37251.0	28752.9	77.19	8498.1	22.81
1999\00	42893.8	33152.1	77.29	9741.6	22.71
2000\01	48893.6	38865.1	79.49	10028.8	20.51
2001\02	50445.5	39330.6	77.97	11115	22.03
2002\03	56229.8	42587.0	75.74	13642.7	24.26
2003\04	62331.0	48173.0	77.29	14158	22.71
2004\05	70122.7	54104.7	77.16	16018	22.84
2005\06	72282.1	57430.4	79.45	14851.7	20.55
2006/07	87712.20	71126.70	81.09	16585.50	18.91

Source: Economic Survey 2007/08, G/N Ministry of Finance, 2008

Figure 4.3

Trend of Tax and non-Tax Revenue



4.4 Composition of Direct and Indirect Tax in Nepalese Tax Revenue

The structure of Nepalese tax revenue is presented in table 5.5 from fiscal year 1994/95 to 2006/07. Tax revenue is the principal source of the government revenue, however its contribution differs significantly in different countries. From the table 2.5 and figure 4.3, it is clear that the whole Nepalese tax structure is dominated by indirect tax revenue.

The trend and also in absolute value, total tax revenue, direct and indirect tax is increasing. Direct tax includes income tax, land revenue and registration, urban house and land tax, property tax, vehicle tax etc. whereas indirect tax includes customs, sales tax (VAT), entertainment tax, hotel tax, air flight tax, contract tax, road and bridge maintenance tax etc.

The amount of direct tax was Rs.3849.3 million in the fiscal year 1994/95, which covered 19.58 percent of total tax revenue, and it is increasing each year and has reached to Rs. 18980.30million in the fiscal year 2006/07, except in the year 2002/03, which covered 23.73 percent of total tax revenue.

Similarly, The amount of indirect tax was Rs. 15810.7 million in the fiscal year 1994/95, which covered 80.42 percent of total tax revenue, and it is fluctuated in fiscal year and has reached to 32481.2 million in the fiscal year 2006/07, which covered 76.27 percent of total tax revenue.

Comparison of direct and indirect tax reveals the heavy reliance of economy on indirect taxation. To divert the economy in the channel of development, it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax. Therefore, the attention should be should be focused on the sufficient resource mobilization through direct taxation. The trend of direct tax and indirect tax revenue is shown in table 4.4.

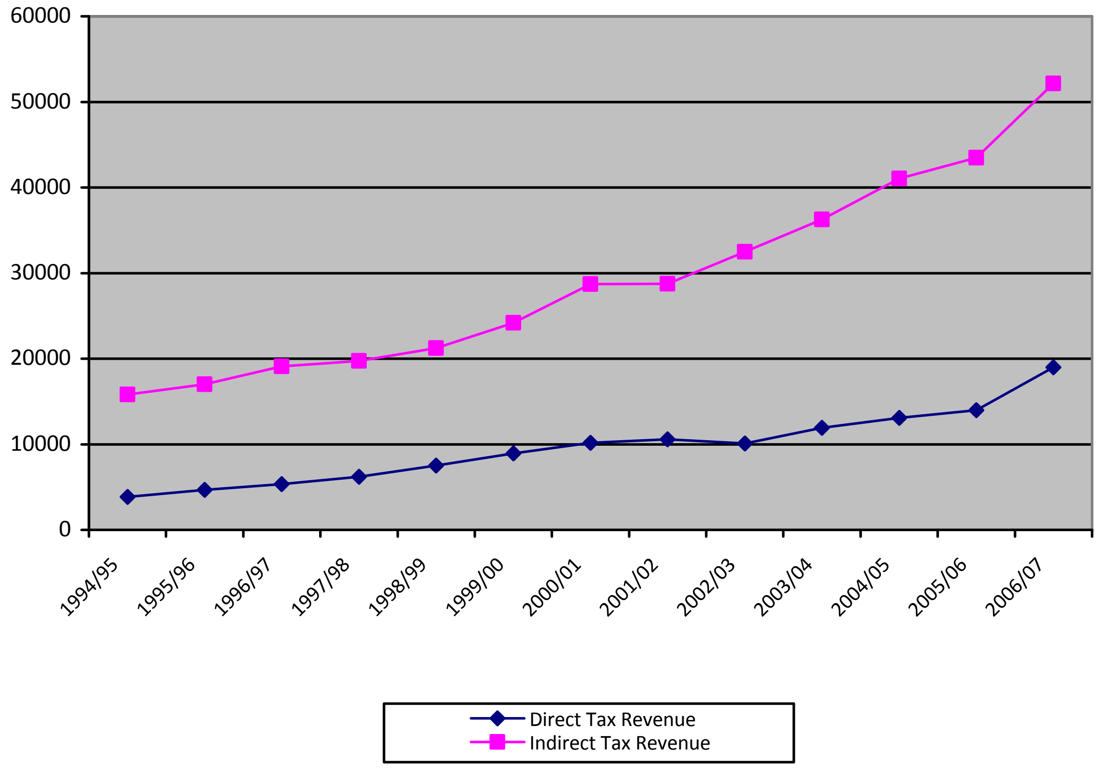
Table -4.4

Composition of Tax Revenue in Nepal

Rs. in Million

Fiscal year	Total Tax Revenue	Direct Tax Revenue		Indirect Tax Revenue	
		Amount	Percentage	Amount	Percentage
1994/95	19660.00	3849.30	19.58	15810.7	80.42
1995/96	21668.00	4655.90	21.49	17012.1	78.51
1996/97	24424.30	5340.00	21.86	19084.3	78.14
1997/98	25939.80	6187.90	23.85	19751.9	76.15
1998/99	28752.90	7516.10	26.14	21236.8	73.86
1999\00	33152.10	8951.50	27.00	24200.6	73.00
2000\01	38865.10	10159.40	26.14	28705.7	73.86
2001\02	39330.60	10597.50	26.94	28733.1	73.06
2002\03	42587.00	10105.80	23.73	32481.2	76.27
2003\04	48173.00	11912.60	24.73	36260.4	75.27
2004\05	54104.70	13071.80	24.16	41032.9	75.84
2005\06	57430.40	13968.10	24.32	43462.3	75.68
2006/07	71126.70	18980.30	26.69	52146.40	73.31

Figure-4.4



4.5 Structure of Direct tax in Nepal

The composition of direct tax in Nepal is presented in table 4.5 from the fiscal year 1994/95 to 2006/07. Figure 4.5 show the average composition of direct. A direct tax is really paid by the person or entity to which it is legally imposed. Direct tax includes income tax, land revenue and registration, gift tax, interest tax, property tax, vehicle tax, house and land tax contract tax etc.

Direct tax is a levy by the government on the income and wealth received by household and business enterprises in order to raise revenue. The data, provided by IRD has classified direct tax into different major sections. Among various direct taxes, income tax has contributed the maximum position.

The revenue from direct tax varied from Rs.1331.3 million to Rs. 10105.8 million from fiscal year 1988/89 to 2002/03. Similarly, The revenue from income tax also varied from Rs. 879..6 million to Rs. 7966.2 million from fiscal year 1988/89. Trend of income tax collection has decreasing from last two fiscal years.

The collection trend of direct tax is increasing every year expect in the fiscal years 1990/91 and 2002/03. Table 4.6 shows the overall trend of al direct tax normallt, other direct taxes were not so good increasing trend but in decreasing in few years. On the other hand, amount collected from vehicle tax has got high increasing trend. It was Rs. 31 million in the fiscal year 1988/89 and increased to Rs. 559.7 and Rs 559.5 in the fiscal year 2001/02 and 2002/03 respectively. Due to the increased number of vehicles in Nepal, contribution of vehicle tax to total direct tax is increasing day by day.

Nepal is presented in table 5.6 from the fiscal year 1988/89 to 2002/03. Figure 4.6 show the average composition of direct. A direct tax is really paid by the person or entity to which it is legally imposed. Direct tax includes income tax, land revenue and registration, gift tax, interest tax, property tax, vehicle tax, house and land tax contract tax etc.

Table-4.5

Composition of Direct tax Revenue

Rs. In Million

Fiscal year	Income Tax	Land Tax	House and land Registration	Tax on Property	Others	Total Direct Tax
1991/92	875.00	64.80	571.20	67.70	16.40	1595.10
1992/93	1198.20	69.30	685.50	80.00	3.10	2036.10
1993/94	1921.20	61.00	772.20	49.80	51.10	2855.30
1994/95	2823.40	34.90	902.80	88.20	0.00	3849.30
1995/96	3431.40	18.20	1048.40	157.90	0.00	4655.90
1996/97	4123.30	5.90	1009.50	201.20	0.00	5339.90
1997/98	4898.10	3.60	1000.60	285.60	0.00	6187.90
1998/99	6170.60	1.40	1001.80	342.70	0.00	7516.50
1999/00	7420.30	4.60	1011.30	515.00	0.00	8951.20
2000/01	9114.00	5.10	607.80	432.50	0.00	10159.40
2001/02	8903.70	.80	1131.00	562.00	0.00	10597.50
2002/03	7966.20	0.00	1414.30	559.50	165.80	10105.80
2003/04	9245.90	0.00	1697.00	700.60	268.60	11912.10
2004/05	10159.40	0.00	1799.20	806.50	306.70	13071.80
2005/06	10373.70	0.00	2181.10	847.60	565.70	13968.10
2006/07	15034.00	0.00	2253.50	995	697.80	18980.30
Average	6478.65	16.85	1192.95	418.24	129.7	8236.39

Source: Economic Survey 2007/08, G/N Ministry of Finance, 2008

4.6 Structure of Indirect tax in Nepal.

The composition of direct tax in Nepal is presented in table 4.7 from the fiscal year 1988/89 to 2002/03. An indirect tax is imposed on one perso but pais partly or wholly by another. Indirect tax includes export/import duty (customs tariff),excise duty, sales tax (VAT), and others (entertainment tax, hotel tax, passenger tax etc.) Indirect tax levied on the spending of goods and services and tax is not directly paid to the government by the real taxpayer.

4.7 Structure of income Tax Revenue in Nepal

Income tax is direct tax and it is important source of direct tax. Nepal is levying three different types of income tax: Individuals having income of taxable capacity. Corporate income tax is levied on the profit of corporation. Interest tax is levied on the interest from investment.

The first income tax has contributed Rs. 203 thousand as tax in 1959/60. The structure of income tax revenue from recent 13 years is presented in the table 4.7A & 4.7B and figures 4.7A, 4.7B &4.7C. Income tax is increasing each year expect 2001/02 and 2002/03. Total income tax was Rs. 2823.40 million in the year 1994/95 and been 15034.00 in the fiscal year 2006/07.

Contribution of income tax from public enterprises has fluctuated from Rs. 195.70 million, lowest, to rs. 2928.0 million highest. The average contribution of total income tax from public enterprise, 14.48 percent, is not satisfactory. From last few years, its trend has in decreasing. Similarly, contribution of total income tax from semipublic enterprises is also not satisfactory. Even, it is lowest than other. After restructuring the source of income in the fiscal year, share of semi public enterprises are not clear. Its contribution has fluctuated from ever year. Normally, the trend of income tax from private corporate bodies has increased/ It was Rs.440.1 million in the fiscal year 1994/95. and reached to Rs. 5717.10million in the fiscal year 2006/07. Contribution of individuals tax to total income tax is increasing each year. Share of individual's tax was Rs. 1293.10 million in the fiscal year 1994/95 and reached to Rs. 5234.40 million in the fiscal year 2006/07. It is increasing every year except fiscal year 2002/03. In the same way. Average contribution from remuneration and interest tax is 8.55 and 4.96 percent respectively. Remuneration tax revenue amount is increasing every year expect in the fiscal year 2002/03. But, percentage contribution of remuneration to income tax was in decreasing trend till 1995/96 then; it has started to increase every year. It was Rs. 118.40 million in the fiscal year 1994/95 and reached to Rs. 2007.90 million in the fiscal year 20026/07. Interest tax is also increasing trend and reached to Rs 1054.90 million in the fiscal year 2002/03 from Rs. 111.60 million in the fiscal year 1994/95.

4.8 Contribution of Income Tax

Income tax is one of the important sources of government revenue of Nepal. Its contribution to the Total Revenue, Direct Tax revenue and GDP, and ratis to other sources of total revenue is showed as below:

4.8.1 Contribution of Income Tax to Total Tax Revenue.

Total revenue includes total tax and non-tax revenue. Tax revenue has contributed the maximum part of public revenue. Contribution of income tax in Nepalese total revenue is presented in table-4.8 and its trend shows in the figure-4.8A

Table and figure shows the average contribution of income tax to total revenue is 24.41 percent. It was fluctuate every year. Contribution for the fiscal year 1994/95 was 11.47 percent and reached to 18.64 percent in the fiscal year 2000/01, which was highest contribution over the study period. Again it has started to fluctuate and reached to 17.14 percent in the fiscal year 2006/07

4.8.2 Contribution of Income Tax of Total Tax Revenue.

Total tax revenue includes direct tax and indirect tax revenue. Indirect tax revenue has contributed the maximum and dominant part of tax revenue. Contribution of income tax in Nepalese total tax revenue is presented in table-4.8 and its trend shows in the figure-4.8B

Table and figure shows the average contribution of income tax to total tax revenue is 19.37 percent. It was fluctuate from. 14.36 percent to 23.45 percent over 13 years contribution for the fiscal year 1994/95 was 14.36 percent, which was minimum contribution over the study period. Then it was in the increasing trend and reached to 23.45 percent in the fiscal year 2000/01, which was highest contribution over the study period. Again it has started to decline and reached to 18.06 percent in the fiscal year 2005/06 and it was increased and reached 21.14 in the fiscal year 2006/07.

4.8.3 Contribution of Income Tax to Direct Tax Revenue

Direct tax revenue includes: Income tax, land revenue and registration, urban house and land tax, vehicle tax, vehicle tax (property tax) and other taxes. Income tax revenue has contributed the maximum and dominant part of Nepalese direct tax revenue. Contribution of income tax in Nepalese direct revenue is presented in table-4.8 and its trend shows in the figure-4.8C.

Table and figure shows the average contribution of income tax to direct tax revenue is 79.21 percent. It was fluctuating from 73.35 percent to 89.71 percent over 13 years. Contribution for the fiscal year 1994/95 was 73.35 percent, which was minimum contribution over the study period. Then it was in the increasing trend and reached to 89.71 percent in the fiscal year 2000/01, which was highest contribution over fiscal year 2005/06 and it was increased and reached 79.21in the fiscal year 2006/07. It shows that the contribution of income tax to direct tax revenue is not less than 54 percent in any year.

4.8.4 Contribution of Income Tax to GDP

Contribution of income tax in gross domestic product (GDP) is presented in table-4.8 and its trend shows in the figure -4.8D. Table clearly shows that the percentage contribution of income tax in the GDP is very low and not more than 2.32 percent over the study period of 13 years.

Table and figure shows the average contribution of income tax to GDP 1.87 percent. It was fluctuating from 1.34 percent to 2.32 percent over 13 years. Contribution for the fiscal year 1994/95 was 1.34 percent, which was minimum contribution over the study period. Then it was in the increasing trend and reached to 2.32 percent in the fiscal year 2000/01, which was highest contribution over the study period. Again it has started to decline and reached to 2.20 percent in the fiscal year 2001/02 and 1.83 percent in the fiscal year 2002/03. And it was increased and reached 2.23 in the fiscal year 2006/07.

Figure 4.8 E shows the average contribution of income tax in total revenue, total tax revenue, direct tax revenue and GDP, which was 24.41, 19.37, 79.21 and 1.87 percent respectively.

4.9 Exemption Limit in Nepalese income Tax Act .

Exemption limit system for calculating the taxable income and tax liability was introduced, when income tax act was introduced. Till the fscal year 1966/67, exemption limit allowed as same amount for all kinds of taxpayers. But from the fiscal year 1967/68, exemption limit allowed as different for different types of taxpayers. Now days it is allowed only to personal income i.e. for natural person and sole proprietor business.

Generally, government has raised the exemption limit every year . It was R.7,000 for all taxpayers in the fiscal year 1959/60. It was gradually decreased and reached to Rs 5000 from the fiscal year 1965/66 to 1966/67. After the fiscal year 1967/96, exemption limit was allowed only for individual, couple and family separately and from the fiscal year 1979/80, the couple and family are provided for the income tax exemption limit equally. After the implementation of income tax act 2058, the word 'family' has been removed for the purpose of exemption limit. Just announced budget speech for the fiscal year 206 allowed Rs 16000 individual and Rs 200000 for couple as exemption limit.

Table 4.9 shows the exemption limit provided in various years.

Table-4.9

Exemption Limit in Nepal In Rs.

Fiscal Year	Individual	**Couple**	**All Taxpayers**
1959/60-1962\63	-	-	7,000
1963/64-1964\65	-	-	6,000
1965/66-1966/67	-	-	5,000

1967/68-1973/74	3,000	45,00	-
1974/75	4,500	6,000	-
1975/76	5,500	6,500	-
1976/77-1978/79	6,500	7,500	-
1979/80-1980/81	7,500	10,000	-
1981/82-1982/83	10,000	15,000	-
1983/84-1889/90	15,000	20,000	-
1990/91-1991/92	20,000	30,000	-
1992/93-1996/97	25,000	35,000	-
1997/98	30,000	40,000	-
1998/99	40,000	50,000	-
1999/00	55,000	75,000	-
2000/01	55,000	75,000	-
2001/02	65,000	85,000	-
2002/03	65,000	85,000	-
2003/04	80,000	1,00,000	-
2004/05	80,000	1,00,000	-
2005/06	1,00,000	1,25,000	-
2006/07	1,15000	1,40,000	-
2007/08	1,60,000	2,00,000	-

Source- Finance Acts of Various Years, MOF

B: AN EMPERICAL STUDY

Introduction

Empirical investigation has been conducted to find out the various aspect of income tax in Nepal. The structured questionnaire were prepared and distributed for this purpose. The opinion of several of respondents associated with distinct denomination i.e. tax administration, tax export and tax payers were collected. The responses received from various respondents have been arranged tabulated and analyzed in order to facilitate the descriptive analysis of the study. (See the respondent in appendix B respectively)

The questionnaire either asked for a yes/no response or asked for ranking of choices according to number of alternative where first choice was most important and last choice least important. For analysis purpose choice were assigned weight according to number of alternative were 10 then first preference choice got ten points and the last preferred choice got one points. Any alternative, which was not ranked, did not get any points. The total points available to each choice were converted into percentage in reference to the total points available for all choice. The choice with highest score of percentage begins ranked as last choice.

Table 4.10 shows the groups of respondents and code uses to represent them

Table 4.10

Groups of respondents and code used

S.N.	Groups of respondents	Sample size	Code used
1	Tax administrators	15	A
2	Tax experts	15	B
3	Tax payers	30	C

RESULTS OF EMPERICAL INVESTIGATION

4.10 Income Tax as Suitable Means of raising Government Revenue

To know whether income tax as a suitable means of raising government revenue in Nepal, a question was asked "Do you consider that income tax is the suitable means of raising government revenue in Nepal?" The respondent's responses are tabulated as follows:-

Table 4.11

Income tax as a suitable means of raising revenue

Response / Respondent	Yes		No		Total	
	Number	Percent	Number	Percent	Number	Percent
Tax administrator	15	100	-	-	15	100
Tax expert	15	100	-	-	15	100
Tax payer	28	93.33	2	6.67	30	100
Total	58	97.78	2	2.22	60	100

Source: Opinion Survey

From the opinion survey it is found that cent percent tax administrator, cent percent tax expert and cent percent taxpayers recognized income tax as suitable means of raising government revenue. Thus it is conducted that income tax is a suitable means of raising government revenue in Nepal.

4.11 Contribution of Income Tax Revenue

To know the fact, the question was asked to respondent. "In your opinion is the contribution of income tax to national revenue of Nepal satisfactory?" opinion results is presented in the table 4.12 as below.

Table 4.12

Satisfactory contribution of income tax revenue

Response / Respondent	Yes		No		Total	
	Number	Percent	Number	Percent	Number	Percent
Tax administrator	-	-	15	100	15	100
Tax expert	-	-	15	100	15	100
Tax payer	3	10	27	90	30	100
Total	3	3.33	57	96.67	60	100

Source: Opinion Survey

Income tax has contributed about 20 percentages to the public revenue in Nepal. It is blamed that contribution of income tax is not satisfactory. But 10 percent of taxpayer approved that income tax contribution to public revenue is satisfactory. In aggregative, 96.67 percent respondents argue that the Nepalese Income Tax contribution is not satisfactory. Cent percent of tax administrator and tax expert argue that contribution of income tax to national revenue in Nepal is not satisfactory.

In order to know the problem of income tax system of Nepal, the next question was asked, "If no what are the major reasons". The respondent was requested to rank their choice from 1 to 6 according to preference

.

Table 4.13

Reasons for low contribution of Income tax to national revenue.

SN	Major Problems	Groups			Total points	Percent	Rank
		A	B	C			
1	Defective of income tax act	66	70	68	204	22.54	2
2	Mass poverty and low income level	74	86	80	240	26.52	1
3	Increasing habit of tax evasion	65	69	67	201	22.21	3
4	Inefficient income tax administration	38	43	41	122	13.48	4
5	Inappropriate rate and exemption limit	30	30	30	90	9.94	5
6	Instability of the government	15	17	16	48	5.31	6
Total					905	100	

Source: Opinion Survey

From the above the major reasons for low contribution of income tax to national revenue ranked in order of preference of the respondents are as follows

1) Mass poverty and low income level
2) Defective of income tax act
3) Increasing habit of tax evasion.
4) Inefficient income tax administration.

5) Inappropriate rate and exemption limit.

6) Instability of the government.

It can be concluded from above reasons that the major reasons for contribution of income tax to national revenue of Nepal is not satisfactory due to mass poverty and low income level, defective of income tax act, increasing habit of tax evasion and inefficient income tax administration.

To know whether there is significant relationship or not between the above views of tax administrators and taxpayers (keeping the views of tax experts constant), it is tested by correlation coefficient.

Test of Hypothesis

Null Hypothesis: There is no significant relationship between the views of tax administrators and taxpayers with respect to the major reasons for contribution of income tax to national revenue of Nepal satisfactory.

$$R=1-\frac{6\sum d^2}{n^3-n}$$

$$P.E. = 0.6745 \times \frac{1-r2}{\sqrt{n}}$$

Table 4.14

Calculation of correlation of coefficient

SN	Major Reasons	Total Points (X)	Rank (R1)	Total points (Y)	Rank (R2)	d=R1-R2	D2
1	Defective of income tax act	66	2	68	2	0	0
2	Mass poverty and low income level	74	1	80	1	6.67	0

3	Increasing habit of tax evasion	65	3	67	3	2.22	0
4	Inefficient income tax administration	38	4	41	4	0	0
5	Inappropriate rate and exemption limit	30	5	30	5	0	0
6	Instability of the government	15	6	16	6	0	0
$\sum d^2$							0

Source: Table 4.13

Here, n=6

Note- X refers to tax administrator and Y refers to tax payers

Substituting the value

$$R=1-\frac{6 \times 0}{6^3-6}$$

P.E. =0

Therefore, 6xP.E. =0

Since, r>6P.E. When r= 1 the variable are correlated. The null hypothesis is rejected. We may concluded that there is significant relationship between the views of tax administrator and tax payers with respect to the major reasons for contribution of income tax to national revenue of Nepal satisfactory.

4.12 Public Awareness Programs in Nepal

To know the views of respondents about the public awareness program is necessary in Nepal for raising government revenue. The respondents were requested to tick yes/no option. The opinion of respondents is as follows.

Table 4.15

Necessity of Public awareness program in Nepal

Response / Respondent	Yes		No		Total	
	Number	Percent	Number	Percent	Number	Percent
Tax administrator	15	100	-	-	15	100
Tax expert	15	100	-	-	15	100
Tax payer	30	100	-	-	30	100
Total	60	100	-	-	60	100

Source: Opinion Survey

The entire sample of tax administrator and tax experts and taxpayers approved public awareness program is necessary in Nepal for raising government revenue. Thus it can be concluded that public awareness program is necessary for raising Nepalese government revenue.

4.13 Attitude towards Total Revenue Collection from Tax Revenue and Non-Tax Revenue

To know whether the contribution of total revenue from tax revenue and non-tax revenue is satisfactory or not question was asked. he responses are tabulated as follows

Table 4.16

Satisfaction towards total revenue collection

Response / Respondent	Yes		No		Total	
	Number	Percent	Number	Percent	Number	Percent
Tax administrator	-	-	15	100	15	100
Tax expert	-	-	15	100	15	100
Tax payer	-	-	30	100	30	100
Total	-	-	60	100	60	100

Source: Opinion Survey

Cent percent tax administrator tax expert and taxpayer recognized the total revenue collection from tax revenue and non-tax revenue is not satisfactory.

4.14Attitude towards the Problems in Income Tax System of Nepal

To know whether there are problems in income tax system of Nepal question was asked. The responses are tabulated as follows.

Table 4.17

Existence of problems in income tax systems

Response / Respondent	Yes		No		Total	
	Number	Percent	Number	Percent	Number	Percent
Tax administrator	15	100	-	-	15	100
Tax expert	15	100	-	-	15	100
Tax payer	27	90	3	10	30	100
Total	57	96.67	3	3.33	60	100

Source: Opinion Survey

Cent percent tax administrator and tax expert recognized there are problems in income tax system of Nepal. Only three percent of tax payer do not recognized any problems in Nepalese income tax system. In aggregate 96.67 percent respondents recognized, there are problems in income tax system of Nepal. Thus it is concluded that there are problems in income tax system of Nepal.

In order to know the major problems of income tax system in Nepal, the next question was asked, "If no what are the major problems of income tax system of Nepal. The respondents were requested to rank their choice from 1 to 12 according to preference.

Table 4.18

Major problems of income tax system of Nepal

SN	Problems	Total points received			Total	Percent	Rank
		A	B	C			
1	Complexity in income tax act, rules and regulation	121	163	142	426	14.28	1
2	Inappropriate rate and exemption limit	97	149	123	369	12.37	2
3	Inadequate economic policy	106	110	108	324	10.86	5
4	Inefficient income tax administration	108	109	110	327	10.96	4
5	Lack of consciousness of taxpayer	107	106	106	319	8.88	6
6	Lack of appropriate assessment procedure	90	66	78	234	7.84	9
7	Inadequate experts in income tax management	75	55	130	260	8.72	7
8	Increasing habit of tax evasion	131	133	74	330	11	3
9	Mass poverty	35	33	80	140	4.6	9
10	Illegal business activities	28	27	24	79	2.6	10
Total					2983		

Major problems of income tax system of Nepal in order of the preference of the respondents as follows.

1) Complexity in income tax act, rules and regulation
2) Inappropriate rate and exemption limit.
3) Increasing habit of tax evasion.
4) Inefficient income tax administration.
5) Inadequate economic policy.

6) Lack of consciousness of taxpayer.

7) Lack of training facility and sufficient incentive to the employer.

8) Inadequate experts in income tax manage.

9) Lack of appropriate assessment procedure

10) Mass poverty.

11) Illegal business activities.

In income tax It can be concluded from above result that in the opinion of respondents. There are problems in income tax system of Nepal due to complexity in income tax act rules and regulation inappropriate rate and exemption limit increasing habit of tax evasion etc.

To know whether there is significant relationship or not between the above views of tax administration and taxpayers (keeping the view of tax experts constant), It is tested by spearman's rank correlation coefficient.

Test of Hypothesis

Null Hypothesis: There is no significant relationship between the views of tax Administrator and taxpayers with respect to the problems of Nepalese income tax system.

Calculating correlation by formula

$$R = 1 - \frac{6\sum d^2}{n^3 - n}$$

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

Let variables X and Y denote views of Tax administrator and tax payers respectively.

Table 4.19

Calculation of correlation coefficient

SN	Major Problems	Total points (X)	Rank(R1)	Total points (Y)	Rank (R2)	D=R1 -R2	d^2
1	Complexity in income tax act, rules and regulation	121	2	142	1	1	1
2	Inappropriate rate and exemption limit.	97	6	123	3	3	9
3	Inadequate economic policy	106	5	108	5	0	0
4	Inefficient income tax administration	108	3	110	4	-1	1
5	Lack of consciousness of taxpayer	107	4	106	6	-2	4
6	Lack of training facility and sufficient incentive to the employer	86	8	88	7	1	1
7	Lack of appropriate procedure	90	7	78	9	-2	4
8	Inadequate experts in income tax manage	75	9	130	2	7	49
9	Increasing habit of tax evasion	131	1	74	10	-9	81
10	Mass poverty	35	10	80	8	2	4
11	Illegal business activities	28	11	24	11	0	0
						$\sum d^2$	154

Substituting the value,

Decision: If r.6PE, it is significant; here r is greater than 6P. So Null Hypothesis is rejected. So we may conclude that there is significant relationship between the view of tax administrators and taxpayers with respect to the problems of Nepalese income tax system.

4.15 Attitude towards the efficiency of Income Tax Administration of Nepal

It is said that Nepalese government administration is not efficient. To know whether the income tax administration of Nepal is efficient or not a question was asked “do you think that income tax administration of Nepal is efficient?” The response received from the various respondents are tabulated as follows

Tables 4.20

Attitude towards efficient income tax administration

Response / Respondent	Yes		No		Total	
	Number	Percent	Number	Percent	Number	Percent
Tax administrator	12	80	3	20	15	100
Tax expert	3	20	12	80	15	100
Tax payer	9	30	21	70	30	100
Total	24	40	36	60	60	100

From the above table it has been clear that income tax administration of Nepal is not efficient. Most of the respondents (60%0 though that income tax administration of Nepal is not efficient. 40 % respondents approve that income tax administration of Nepal is efficient.

In order to know the causes for inefficient income tax administration the question was asked "What are the causes for inefficient income tax administration of Nepal?" The respondent were requested to rank their answer 1 to 9 scales. Table 4.21 gives breakdown of responses.

Table 4.21

The major causes for inefficient income tax administration of Nepal

SN	Problems	Total points received			Total	Percent	Rank
		A	B	C			
1	Lack of trained and competent employers	21	93	180	294	16.17	2
2	Complicated tax laws	20	62	186	268	14.74	3
3	Lack of proper direction	18	63	126	207	11.38	4
4	Lack of proper communication	17	52	110	179	9.84	5
5	Lack of voluntary compliance by tax payers	10	40	86	136	7.48	8
6	Under delay in making assessment	14	49	104	167	9.18	6
7	Lack of coordination with the tax department	16	42	90	148	8.14	7
8	Corruption	11	95	192	298	16.39	1
9	Unnecessary political pressures	9	34	78	121	6.68	9
Total					1818	100	

The major causes for inefficient income tax administration of Nepal were ranked in order of the preference of the respondents as follows.

6) Corruption
7) Lack of trained and competent employers
8) Complicated tax laws
9) Lack of proper direction
10) Under delay in making assessment
11) Lack of proper communication
12) Lack of coordination with the tax department
13) Lack of voluntary compliance by tax payers
14) Unnecessary political pressures

It can be concluded from the above table that the major causes for inefficient income tax administration of Nepal were due to corruption lack of trained and competent employees complicated tax laws etc.

To know whether there is significant relationship or not between the above views of tax experts and taxpayer (keeping the views of tax administrators constant). It is tasted by spearman rank correlation coefficient.

Test of Hypothesis

Null Hypothesis: There is no significant relationship between the views of tax experts and taxpayers with respect to the causes for inefficient income tax administration of Nepal.

Calculating correlation by formula

$$R = 1 - \frac{6\sum d^2}{n^3 - n}$$

$$P.E. = 0.6745 \times \frac{1-r2}{\sqrt{n}}$$

Let variables X and Y denote views of Tax experts and tax payers respectively.

4.16 Effectiveness of Income Tax Act 2058 for Collection of tax

To know the respondents views towards the role of income tax act 2058 for effective tax collection the question was put "Do you think that income tax act 2058 can play the effective role for collection of tax revenue.

Opinion results are summarized in the table 6.14 below

Table 4.22

Effectiveness of Income Tax Act 2058 for collection of Tax

Response / Respondent	Yes		No		Total	
	Number	Percent	Number	Percent	Number	Percent
Tax administrator	15	100	-	-	15	100
Tax expert	13	86.67	2	13.33	15	100
Tax payer	25	83.33	5	16.67	30	100
Total	53	88.33	7	11.67	60	100

From the opinion survey, it is found that cent percent tax administrators 86.67 percent tax experts and 83.33 taxpayers recognize Income Tax Act 2058 can be play the effective role for the collection of tax revenue. Only 13.33 percent tax expert and 16.67 percent taxpayer do not recognize. In aggregate 88.33 percent respondents recognized the Income Tax Act 2058 could play the effective role for collection of tax revenue. Thus it is concluded that Income Tax Act 2058 can play the effective role for collection of tax revenue.

4.17 Attitudes towards Provision of Fine and Penalty

To know whether the provision of fines and penalty under Nepalese tax system reasonable or not a question was asked "Are the provision of fines and penalty under Nepalese tax system reasonable?" The responses received from the respondents are tabulated as follows.

Table 4.23

Attitude towards reasonable the provision of fines and penalty under Income Tax Act 2058

Response / Respondent	Yes		No		Total	
	Number	Percent	Number	Percent	Number	Percent
Tax administrator	13	86.67	2	13.33	15	100
Tax expert	12	80	3	20	15	100
Tax payer	27	90	3	10	30	100
Total	52	86.67	8	13.33	60	100

From the above table it has been clear that provision of fines and penalty under Nepalese tax systems are reasonable. Most of the respondents (i.e. 86.67%)

thought that provision of fines and penalty under Nepalese tax system are reasonable.

. 4.18 Attitude towards Problems Facing by the Taxpayer while paying Income Tax

To know the respondents view regarding the problem facing by the tax payer while paying income tax a question was asked, In your thinking what types of problems are facing by the taxpayer while paying income tax?" The respondents were requested to rank their answer from 1 to 5 scales

Table 4.24

Major problems facing by the tax payer while paying the income tax

SN	Major Problems	Groups			Total points	Percent	Rank
		A	B	C			
1	Consuming unnecessary time	61	50	72	183	25.81	1
2	Expectation illegal incentive by tax personnel	23	55	46	124	17.48	4
3	Vague provisions in income tax law	48	47	68	163	22.99	2
4	Lengthy process	71	36	38	145	20.45	3
5	Lack of co-operation by tax administration	25	37	32	94	13.25	5
Total					709	100	

The major problems facing by the tax payer while paying the income tax was ranked in order of preference of the respondents are as follows

1) Consuming unnecessary time.

2) Vague provisions in income tax law

3) Lengthy process

4) Expectation illegal incentive by tax personnel

5) Lack of co-operation by tax administration

It can be concluded from above results that in the opinion of respondents the major problems facing by the tax payers while paying income are due to consuming unnecessary time, vague provision in income tax laws, lengthy process, exception illegal incentive by tax personal and lack of cooperation by tax administrator.

To know whether there is significant relationship or not between the above views of tax administrators and taxpayers (keeping the views of tax experts constant), It is tasted by spearman rank correlation coefficient.

Test of Hypothesis

Null Hypothesis: There is no significant relationship between the views of tax Administrator and taxpayers with respect to the problems facing by the tax payers while paying income tax.

Calculating correlation by formula

$$R = 1 - \frac{6\sum d^2}{n^3 - n}$$

$$P.E. = 0.6745 \times \frac{1-r2}{\sqrt{n}}$$

Let variables X and Y denote views of Tax administrator and tax payers respectively.

Table 4.25

Calculation of correlation coefficient

SN	Major Problems	Total points (X)	Rank(R1)	Total points (Y)	Rank (R2)	D=R1-R2	d^2
1	Consuming unnecessary time	61	2	72	1	1	1
2	Expectation illegal incentive by tax personnel	23	5	46	3	2	4
3	Vague provisions in income tax law	48	3	68	2	1	1
4	Lengthy process	71	1	38	4	-3	9
5	Lack of co-operation by tax administration	25	4	32	5	-1	1
						$\sum d^2$	16

Substitute the value of above table 4.26 into the formula

$$R=1-\frac{6 \times 16}{5^3-5} = 0.20$$

$$P.E= 0.6745 \times \frac{1-0.20^2}{} = 0.2895$$

√5

– Decision: Here r<P.E., it is insignificant, so there is no evidence of correlation. The relation is not significant because to be significant r should be 6 times greater than PE. So Null hypothesis is accepted. We may conclude that there is no significant relationship between the views of tax Administrator and taxpayers with respect to the problems facing by the tax payers while paying income tax.

4.19. Attitude towards Effectiveness of Income tax in Nepal to Raise Government Revenue

To know whether the most important factors for effectiveness of income tax in Nepal to raise government revenue a question was asked.”In your opinion what are the most important factors for effectiveness of income tax in Nepal to raise government revenue? The respondents were requested to rank their answer from 1 to 6 scales. Table 4.27 gives a breakdown of responses.

Table 4.26

The most important factors for effectiveness of income tax

SN	Problems	Total points received			Total	Percent	Rank
		A	B	C			
1	Clear act, rules and regulation	78	86	82	246	26.34	1
2	)Conscious and honest tax payer	48	67	63	178	19.06	2
3	Moral and honest tax officers	38	27	54	119	12.74	5
4	Effective tax administration.	23	48	37	108	11.56	6
5	Political non-interruption	57	38	45	140	14.98	4
6	)Efficient tax	66	53	24	143	15.31	3

	administration						
Total					934	100	

The most important factors for effectiveness of income tax in Nepal to raise government revenue were ranked in order of the preference of the respondent as follows:

1) Clear act, rules and regulation.
2) Conscious and honest tax payer.
3) Efficient tax administration.
4) Political non-interruption.
5) Moral and honest tax officers.
6) Effective tax administration.

It can be concluded from above results that in the opinion of respondent, there most important factors for effectiveness of income tax in Nepal to raise government revenue are clear act, rules and regulation conscious and honest tax payer and efficient tax administration etc.

To know whether there is significant relationship or not between the above views of tax administrators and tax experts (keeping the views of tax payers constant), It is tasted by spearman rank correlation coefficient.

Test of Hypothesis

Null Hypothesis: There is no significant relationship between the views of tax Administrator and tax experts for effectiveness of income tax in Nepal to raise government revenue.

Calculating correlation by formula

$$R = 1 - \frac{6\sum d^2}{n^3 - n}$$

$$P.E. = 0.6745 \times \frac{1-r2}{\sqrt{n}}$$

Let variables X and Y denote views of Tax administrator and tax payers respectively.

Table 4.27

Calculation of correlation coefficient

SN	Major Problems	Total points (X)	Rank(R1)	Total points (Y)	Rank (R2)	D=R1-R2	d^2
1	Clear act, rules and regulation	78	1	86	1	0	0
2	Conscious and honest tax payer	48	4	67	2	2	4
3	Moral and honest tax officers	38	5	27	6	-1	1
4	Effective tax	23	6	48	4	2	4

	administration						
5	Political non-interruption	57	3	38	5	-2	4
6	Efficient tax administration	66	2	53	3	-1	1
						$\sum d^2$	14

$$R = 1 - \frac{6 \times 14}{6^3 - 6} = 0.40$$

$$P.E = 0.6745 \times \frac{1 - 0.40^2}{\sqrt{6}} = 0.3429$$

Decision: Here r is greater than PE. The relation is not significant because to be significant r should be 6 times greater than PE. So Alternative hypothesis is rejected and Null hypothesis is accepted. We may conclude that there is no significant relationship between the views of tax Administrator and tax experts for effectiveness of income tax in Nepal to raise government revenue.

4.20 Attitude Towards to Reduce the Gap Between Rich and Poor People.

"Do you think that income tax is an effective tool to reduce the gap between rich and poor people in Nepal?" A question was asked. The responses received from various respondents are tabulated as follows:

Table 4.28

Attitude towards income tax as an effective tool to reduce the gap between rich and poor people

Response / Respondent	Yes		No		Total	
	Number	Percent	Number	Percent	Number	Percent
Tax administrator	12	80	3	20	15	100
Tax expert	13	86.67	2	13.33	15	100
Tax payer	25	83.33	5	16.67	30	100
Total	50	83.33	10	16.67	60	100

From the above table, it has been clear that income tax as an effective tool to reduce the gap between rich and poor people in Nepal. Most of the respondents (83.33%) thought that income tax is an effective tool to reduce the gap between rich and poor people in Nepal.

4.21 Major findings:

On the basis of above analysis and data presentation, many important findings can be drawn. Major findings of this study are as following;

A. As other developing countries in the world, Nepal has been suffering from resource constraint, mass poverty, rapid growth of population, dependence on agriculture, subsistence living standard etc. despite over 40 years planned developments effects. In Nepal, the source mobilization is still poor that does not cover the rapid growing expenditure. There is serious resource gap and fiscal gap in Nepalese economy. Nepalese government expenditure is increasing at the faster rate then the increasing rate in revenue.

B. Income tax is one of the most important and suitable sources of government revenue.

C. Government revenue is the composition of external and internal revenue. Tax and non-tax revenue are the sources of internal revenue. Among various tax revenues, the average contribution of custom, excise duty, sales tax (VAT), income tax, land revenue and registration, Miscellaneous Tax and non-tax revenue is 26.08, 8.15,22.91,14.32,3.00, 3.43 and 22.11% respectively over the study period.

D. The composition of total revenue constitutes tax and non-tax revenue. The share of tax revenue has always been greater then the share of non-tax revenue. The average share of tax and non-tax revenue for the period was 77.9 percent and 22.1 percent respectively. Contribution of tax revenue is very much important in revenue mobilization of Nepal. For the meeting of the increasing trend of government expenditure, tax revenue has been placed as a major source of government revenue of Nepal.

E. Nepal's GDP growth is less than its population growth. Nepal's population is growing at 2.24 percent a year and GDP growth the year (2004/05) will fall to 2.1 percent. The tax Revenue of GDP is very low then other UDCs and DCs. Tax GDP Ratio has fluctuated from 1.34 to 2.32 Revenue GDP Ratio is slowly and gradually increased and has reached to 2.23 percent in the fiscal year 2006/07 from 1.34 percent in the fiscal year 1994/95.

F. Tax revenue is the principle source of the government revenue, however its contribute differs significantly in different countries. Nepalese tax structure is dominated by indirect tax revenue. The amount of direct tax was Rs 3849.3 million in the fiscal year 1994/95, which covered 19.58 percent of total tax revenue, and it is increasing each year and has reached to Rs. 18980.3 million in the fiscal year 2006/07, except in the fiscal year 2002/03, which covered 23.73 percent of total tax revenue. Similarly, the amount of indirect tax was Rs. 15810.7 million in the fiscal year 1994/95, which covered 80.42 percent of total tax revenue, and it is increasing each year and has reached to Rs. 52146.4 million in the fiscal year 2006/07, which covered 73.31 percent of total tax revenue.

G. The revenue from indirect tax varied from Rs. 15810.7 million to Rs. 52146.4 million from fiscal year 1994/95 to 2006/07. Indirect tax is slow increasing trend. Major part of indirect tax is custom duty, then sales tax (VAT), excise duties and other taxes. Other tax includes entertainment tax, hotel tax, air freight, contract tax, road and bridge tax, maintenance tax etc.

H. Income tax is increasing each year except in 2001/02 and 2002/03. Total income tax was Rs. 2823.4 million in the fiscal year 1994/95 and reached to Rs 10373.7 million in the fiscal year 2005/06, which had highest collected amount in the history of income tax, and decreased to Rs 8903.7 and 7966.2 million in the fiscal year 2001/02 and 2002/03 respectively. Contribution of total income tax from public enterprises has 14.84 percent. Similarly, contribution of total income tax from semipublic enterprises is also not satisfactory. The share of semi public enterprises is not clear. Its contribution has fluctuated from every year. The trend of income tax from private corporate bodies has increased. It was Rs. 440.1 million in the fiscal year 1994/95 and reached to highest value Rs. 3404.3 million in the fiscal year 2005/06. It is increasing every year except fiscal year 1990/91 and 2002/03. In the same way, Average contribution from remuneration and interest tax is 7.58 and 4.49 percent respectively. Remuneration tax revenue amount is increasing every year. It was Rs. 118.4 million in the fiscal year 1994/95 and reached to Rs 1764.1 million in the fiscal year 2005/06, Interest tax is also increasing trend and reached to Rs 111.6 million in the fiscal year 1994/95 and it decreased and reached to 774.9 million in the fiscal year 2005/06.

I. The average contribution of income tax on total revenue, total tax revenue, direct tax revenue and GDP, which was 15.18, 19.37,79.29 and 8.09 percent respectively.

J. The average numbers of income taxpayers are increasing in each year.

K. Generally, government has raised the exemption limit every year. It was Rs 7,000 for all taxpayers in the fiscal year 1959/60. It was gradually decreased and reached to Rs 5000 from the fiscal year 1965/66 to 1966/67. After the fiscal year 1967/98, exemption limit was allowed only for individual, couple and family separately and from the fiscal year 1979/80, the couple and family are provided for the income tax exemption limit equally. After the implementation of income Tax Act 2058, the word 'family' has been removed for the income year 2066/67 allowed Rs. 1,60,000-1% for individual and Rs. 2,00,000-1% for couple as exemption limit.

CHAPTER-FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Nepal is least developed countries . The economic growth rate of Nepal is very low in comparison with other countries. The development programs are not run smoothly due to various insurgencies in the country. The political and economic condition of the country is very poor situation.

Rapid economic growth and development is the prime concern of Nepal. So government collects the revenue from various sources. It can be internal and external. The external source is not reliable3. But internal source is reliable for meet the regular expenditure of the government, external source are uncertain, inconvenient and not good for healthy development of nation because they have to pay after a certain time. So it is better to mobilize internal sources rather than external sources.

The present study entitled to "Contribution of Income Tax on Total Revenue Collection". In this study, various objectives are stated and objectives are meet. The study covers the contribution of income tax in total revenue collection, possible measures regarding income tax and increasing the share of income tax in total revenue collection are also recommended. Various books, article, dissertations and other important material are studied during the course of this study. Various thesis are reviewed which are related with income tax of Nepal. The basic fundamental concept of tax is also discussed in the thesis. The various parts of income tax act 2058 are also discussed in the study. The income heads, fine penalty and appeal are also described in conceptual framework of this study.

The primary data and secondary data are presented in the thesis. The objectives of the study are fulfilled by the primary data and secondary data. The primary data are also collected from various respondents through the structured questionnaires. The questionnaires are distributed to the three groups (tax administrators, tax experts, tax payers). A set of questionnaires was developed and 74 questionnaires have been distributed to the respondents. Out of them 60 response have been received from three groups. Statistical tools like simple average, spearman's rank correlation, and probable error are used for hypothesis test.

Thirteen years data from fiscal year 1994/95 to 2006/07 are presented in this study. Comparative analysis for different years are also done in this study. The secondary data are presented in the statistic tools, hypothesis test have been set out for the test of different views of tax administrator, tax expert and tax payer with regards to their significant or insignificant views regarding different questions of income tax.

Summary findings, conclusions and recommendations are also given on the end of this study for fulfilling the objectives of the study.

In this way this study has been completed with the achievement of the stated objectives.

Respondents profile

Table

Number of questionnaires distributed and collected

S.No	Groups of Respondents	No of Questionnaires Distributed	No of Questionnaires Collected	% of Collection
1.	Income Tax Administrators	18	15	83.33
2.	Income Tax Experts	20	15	75
3.	Income Tax Payers	36	30	83.33
Total		74	60	81.08

Questionnaires were distributed to 74 respondents, tax administrators, tax experts; taxpayers out of the 60 questionnai9res were received.

5.2 Conclusion

There are different kinds of constraint for sustainable economic development. In developing countries like Nepal, lack of financial and natural resources is the main constraint. A lot of funds are needed to meet the additional financial requirement for the development activities and budget deficit of the country. Nepal cannot successfully manage massive poverty, hunger, disease, unemployment, heavy dependency on agriculture, lack of adequate industries, low-income level and social political and geographical constraints over 49 years of planned development. Yet, Nepalese economy is suffering from ineffective and effortless plan, programme and policy of development and is also fighting against whatever bottlenecks identified before the starting of planned period. Nepal has been suffering from capital shortage to to accelerate the economic growth. Nepal has been heavily relying on foreign loans and grants. Similarly, Nepal has been unable for proper mobilization of internal resources. Fiscal deficit of Nepal has been increasing every year.

Nepalese tax administration has been attempting to modify to meet the every recent challenges brought about by change in technology, economic policies and other rules. However, still its working procedure is almost traditional and the cost of administration is also not satisfactory. The government of Nepal introduced a formal tax system for the first time in Nepal in 1960 (2017 B.S.) in the form of "Business Profits and Remuneration Tax". The "Business Profits and Remuneration Act 1960" governed it. According to this act only business profits and remuneration on income were subjected to tax but the revenue for these taxes should not be collected properly according to originals estimates. Currently, income tax revenue of Nepal is collected according to newly enacted Income Tax Act 2002 (2058 B.S.). There are many new provisions that are aimed to enhance revenue mobilization through effective revenue collection procedures. Income tax system of Nepal has come a long way with the newly enacted Income Tax Act. Many provision of previous income tax Act has been changed and much new provisions are included. The newly enacted Income Tax Act has brought most of the sources of income under the tax act. In the new Income Tax Act sources of Nepalese income are classified into Business income, Investment income and Employment income for the tax purpose.

For achieving the maximum objective if the nation, the government need maximum amount of revenue. Nepal has facing serious problem of resource gap and maximum dependency on foreign loan and grants. Resource gap is increasing at a faster rate of revenue increasing. It is widening with the increment of total expenditure in respect to total revenue collection. For solving the serious problem, income tax should play important role. Contribution of income tax for economic development of Nepal has been increasing significantly in recent as compared to past years but it is not satisfactory and resource mobilization mechanism in Nepal still very poor.

The success and effectiveness of income tax system, the tax administration needs to be responsible. Income tax system of Nepal has ever blamed as not efficient and proper. Everybody think that if anyone can join tax office as employee, he will earn more wealth then other office. tax education and training are to be made and implemented to recognize and familiarized people about the income tax act and other related laws. For economic development of Nepal, the problem related to income tax system in Nepal should be solved and resource should be effectively mobilized.

Recommendations

Income tax is an important source of government revenue of Nepal. For the development of nation and Nepalese economy, maximum income tax revenue should be needed. The contribution of income tax revenue is likely to be significant in the future but there are many problems. As the findings of the present study, the following recommendations are made for the sound and effective income tax system and improvement of income tax collection for government revenue:

- The terms and procedure under Income Tax Act, Rules and Regulation should be simplified so that everybody could understand it.
- Income Tax Act should be liberal with broad sense.
- A nationwide campaign should be launch to inform and explain tax laws, tax programme and tax planning with the view of stimulation enthusiastic participations of the public to pay taxes through the media like radio, television, newspaper, website and speech programme.
- The members involved in formulating Income tax Act, rules and policies must have deep knowledge about related subject matter.
- Every tax policy should be made such that the main goal of policy can be achieved.
- Timely revision should be made in the matter of income tax policy according to the economic policy of the nati
- Income tax ratio should be increased gradually on long run basis to meet the deficit in budget. Tax based should be widened.
- The principle of tax should be adopted according to ability to pay.
- The provision of rewards, prize, incentives should be introduced to encourage the taxpayers to pay the tax through self-assessment.

- The provisions of fine and penalties and punishment should be made at higher rate for income tax evader and such provisions should be strictly followed.
- Effective public participation is necessary to minimize the income tax evasion. Tax administration should develop the taxpayer's positive attitude towards taxation and negative attitude towards tax evasion.
- Strong political commitment is necessary for the modernization and effective implementation of income tax system.
- The existing provision for exemption limit should be adjusted according to inflationary situation, income level and other economic condition of the country.
- Necessary information related to income tax should be made a subject matter of course book of student.
- The government should be imposed tax on agriculture income after providing the special exemption limit.
- The provisions of foreign income and tax should be clear and universal.
- Capital gain tax should be effectively implemented in investment for non-business purpose as well.
- Clear provisions should be made for the case of deduction. All the items of allowable deduction should be clearly defined in the act.
- There are many sectors where the tax administration should give more attention to bring the boundary of income tax. Income from house and land rent, consultancy service, tuition and coaching, research work,

doctor's clinic, networking business, non-residents etc. are the main tax evaders sectors.

- Separate income tax department should be established so that the specialization could be achieved.
- The research and intelligence center should be established in tax office for proper planning, implementation of tax law and to collect the information in regard to income tax evaders, potential new taxpayers and non-residents who have conducted business without registration.
- Effective human resource management should be established in tax administration.

To control the income tax evasion and for improvement of income tax administration, the following suggestion have been made:

- General awareness programmed for public related to income tax should be introduced to develop the taxpayer's positive attitude towards taxation.
- Income tax experts and professionals should be increased in tax administration.
- The tax law must be strictly followed.
- Strict punishment system should be taken against corrupt tax personnel and taxpayers and reward system should be established for honest and efficient tax personnel.
- All business should be legalized.

- Computerized information center should be established in tax administration and proper utilized to collect the information about tax evasion.
- Effective database management should be maintained.
- Delays in tax assessment should be reduced.
- Unnecessary pressure should be neglected and should be kept free.
- Cost of income tax collection should be reduced.
- Simple firms and formats should be made for taxpayers.
- Research and analysis should be made in income tax system to find out the new avenues of taxation.
- Tax office should be decentralized for easiness of taxpayers.
- Income tax and other tax return system should be effective.

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Table 4.1A
Structure of Government Revenue in Nepal
(Fiscal year 1994/95 to 2006/07)

(Rs. In Million)

Fiscal year	Customs	Excise	Sales Tax VAT	Income Tax	Land Revenue and Registration	Miscellaneous Tax	Non Tax Revenue	Total
1994/95	7018.1	1657.3	6031.7	2823.5	937.7	1191.7	4945.1	24605.
1995/96	7327.4	1944.3	6431.3	3431.4	1066.6	1467.0	6225.1	27893.
1994/97	8309.1	2296.1	7126.5	4123.4	1015.4	1551.8	5949.2	30373.
1994/98	8502.2	2885.8	7122.6	4898.1	1004.2	1526.9	6998.1	32937.
1994/99	9517.7	2953.2	7882.2	6170.2	1003.2	1226.4	8498.4	37251.
1994/00	10813.3	3127.6	9854.9	7420.6	1015.9	919.8	9741.6	42893.
2000/01	12552.1	3771.2	12047.8	9114.0	612.9	767.1	10028.8	48893.
2001/02	12658.8	3807.0	12267.3	8436.0	1131.8	1065.3	11115.0	50445.
2002/03	13585.6	4536.4	12844.5	6777.5	1349.7	725.3	13019.2	53659.
2003/04	14278.3	5715.7	13290.7	7813.9	1558.2	1562.9	12977.8	57197.
2004/05	13790.3	5661.3	16586.5	8257.9	1585.7	1635.5	13980.3	61497.
2005/06	12480.6	5292.7	17578.2	8893.4	1773.5	693.0	12083.2	58794.
2006/07	12927.1	6639.5	19916.7	11166.0	2188.9	705.7	12298.7	65842.

Source: Economic Survey 2007/08, G/N Ministry of Finance, 2008

Note :

1. Custom includes Imports + Exports+ Indian Excise fund +other duty
2. Excise include industrial product + Liquor contract
3. Income Tax Includes Tax from (Public Enterprises + Semi public Enterprises + Private Organization + Individuals + Remuneration + Investment)
4. Miscellaneous includes Entertainment tax + Hotel tax + Air Flight Tax + Contracts Tax + Road & Bridge Maintenance Tax + Urban house & Land tax + Vehicle Tax + Others

Table 4.1B
Structure of Government Revenue in Nepal
(Fiscal year)

(In Percentage)

Fiscal year	Customs	Excise	Sales Tax VAT	Income Tax	Land Revenue and Registration	Miscell us Ta
1994/95	28.52	6.74	24.51	11.48	3.81	4.84
1995/96	26.27	6.97	23.06	12.30	3.82	5.26
1994/97	27.36	7.57	23.46	13.58	3.34	5.11
1994/98	25.81	8.76	21.62	14.87	3.05	4.64
1994/99	25.55	7.93	21.16	16.56	2.69	3.29
1994/00	25.21	7.29	22.98	17.30	2.37	2.14
2000/01	25.67	7.71	24.64	18.64	1.25	1.57
2001/02	25.09	7.55	24.32	16.72	2.24	2.11
2002/03	25.32	8.51	23.94	12.63	2.52	1.29
2003/04	24.96	9.99	23.24	15.66	2.72	0.74
2004/05	22.42	9.21	26.97	13.43	2.57	2.67
2005/06	21.23	9	29.90	15.13	3.02	1.17
2006/07	19.63	10.08	30.25	16.96	3.32	1.08

Source: Table 4.1

Table 4.7A

Structure of Income Tax Revenue in Nepal

Rs. in Million

Fiscal Year	Total Income Tax Revenue	Public Enterprises	Semi Public Enterprises	Private Corporate Bodies	Individuals
1994/95	2823.40	860.20	0.00	440.10	1293.10
1995/96	3431.40	1144.50	0.00	563.90	1470.10
1996/97	4123.40	1231.10	0.00	858.40	1711.40
1997/98	4898.10	1317.80	0.00	925.10	2120.80
1998/99	6170.20	1526.50	0.00	1155.00	2772.70
1999\00	7420.60	2198.80	0.00	1339.50	3016.40
2000\01	9114.00	2928.00	0.00	1924.30	3200.50
2001\02	8903.70	1769.30	0.00	1412.00	4419.10
2002\03	7966.20	1251.00	0.00	1236.30	3362.30
2003\04	9245.90	2056.60	0.00	1531.30	3533.40
2004\05	10159.40	1332.40	0.00	2467.80	3926.30
2005\06	10373.70	195.70	0.00	3404.30	4234.70

Source: Economic Survey 2007/08, G/N Ministry of Finance, 2008

Figure 4.7 A

Trend of Total Income tax Revenue

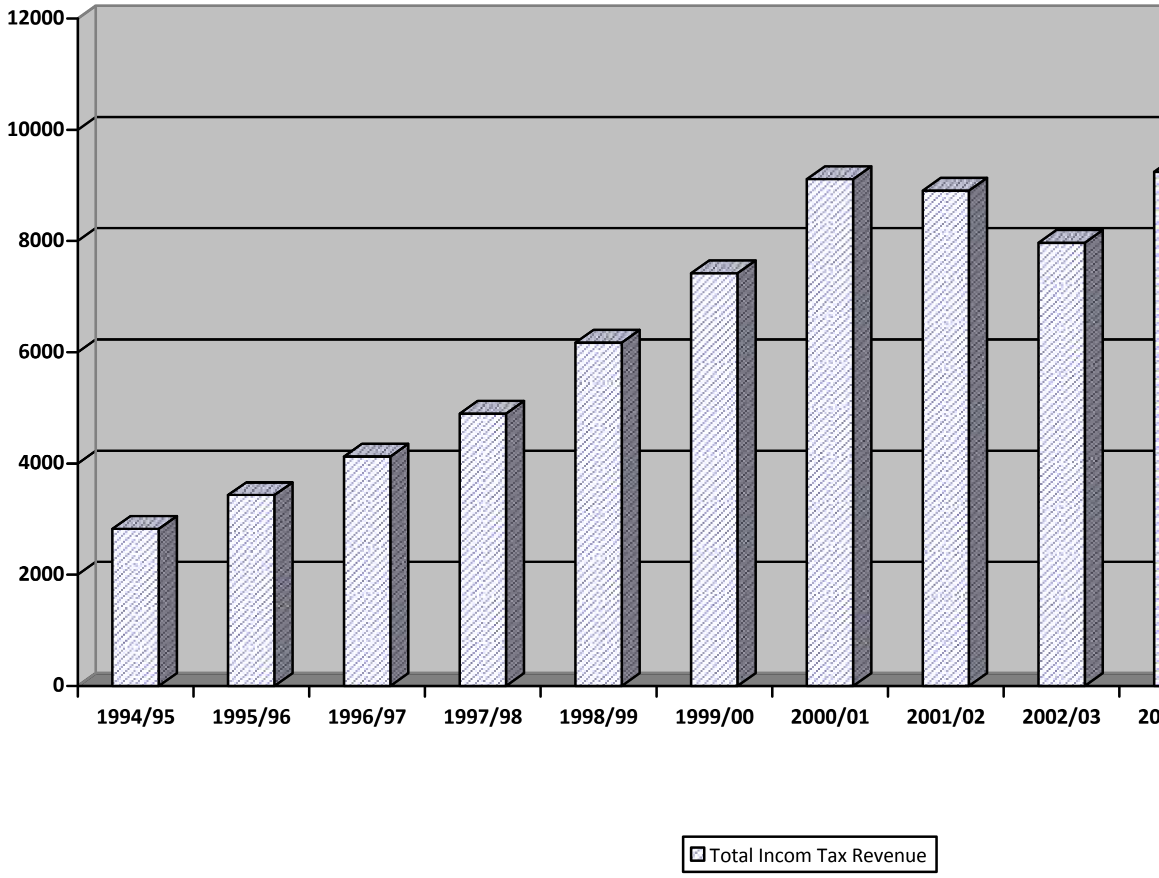


Figure 4.7. B

Trend of Income Tax Revenue

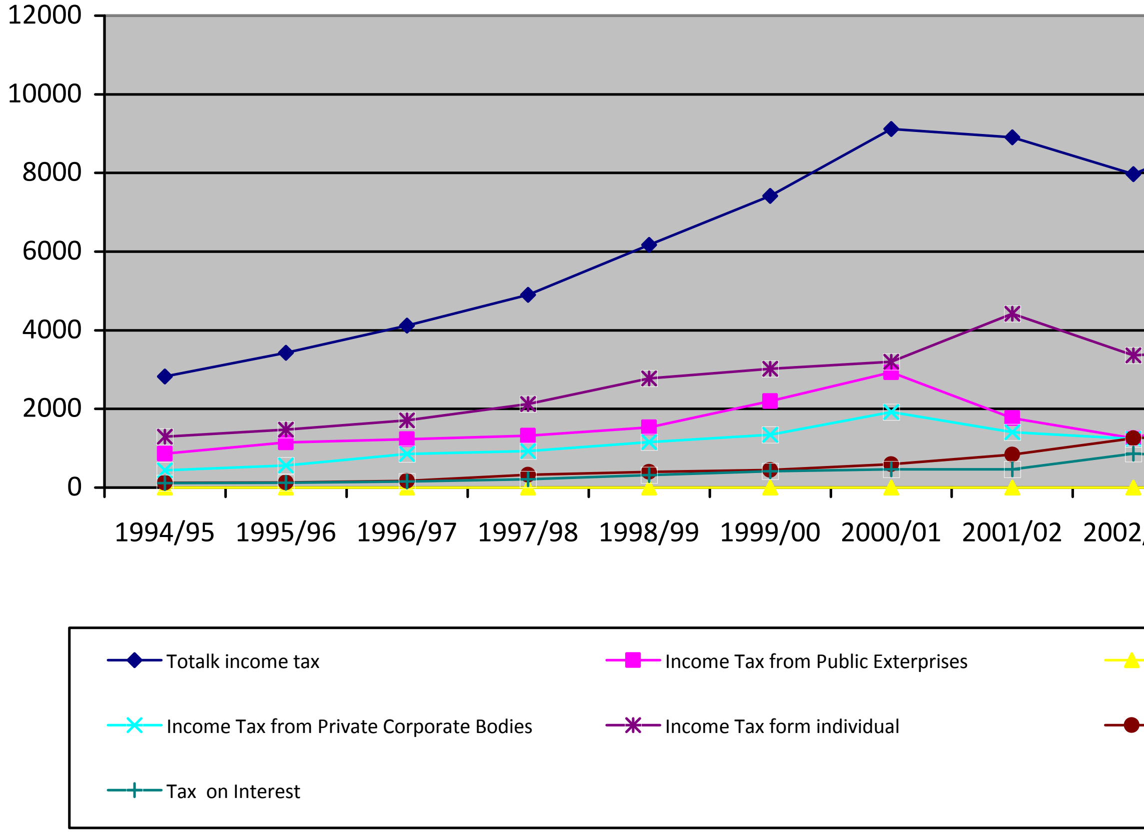


Figure 4.7.C

Average Composition of Income Tax

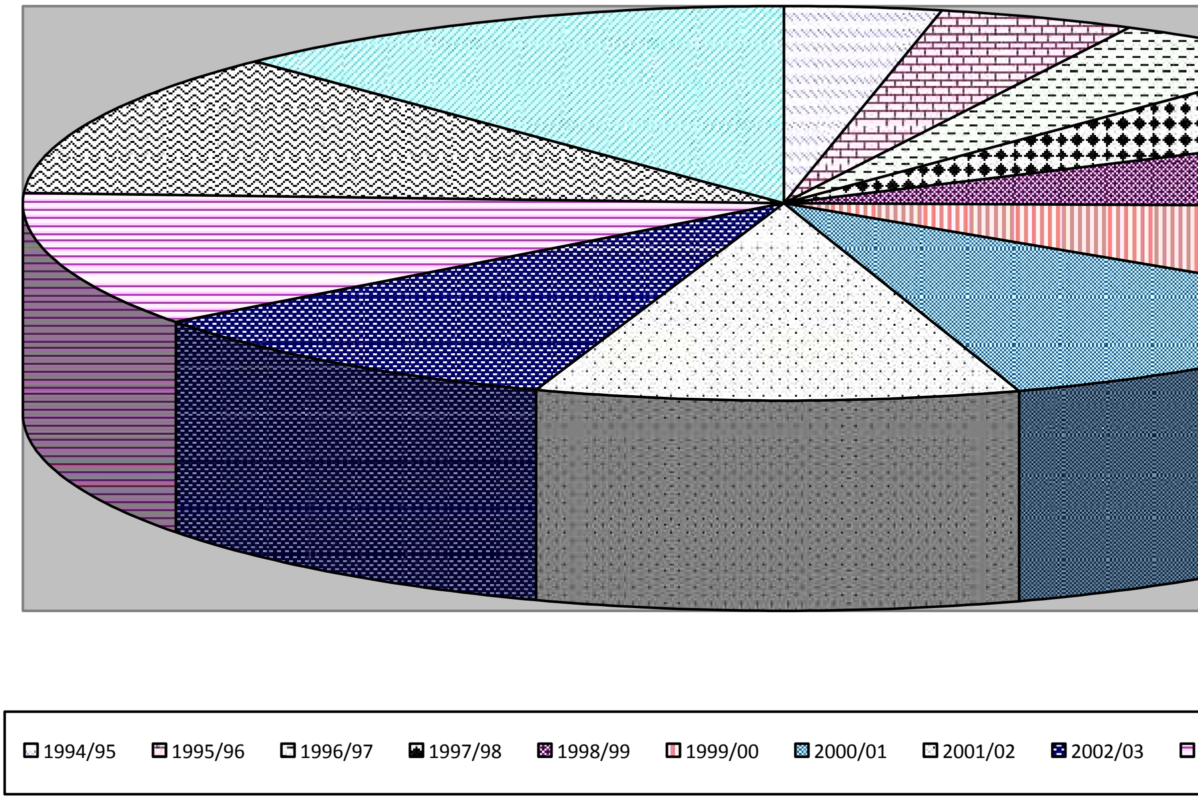


Table 4.8
Contribution of Income Tax

(Fiscal year 1994/95 to 2006/07) (Rs in Million & Percentage)

Source: Economic Survey 2007/08, G/N Ministry of Finance, 2008

GDP	Total Revenue	Total Tax Revenue	Direct tax Revenue	Income Tax Revenue	% of Income tax on GDP	%of Income tax on Total Revenue	% of Income Tax on Total Tax Revenue	% Di
210702	24605.1	19660	3849.3	2823.4	1.34	11.47	14.36	73
239958	27893.1	21668	4655.9	3431.4	1.43	12.30	15.84	73
269570	30373.5	24424.3	5340	4123.4	1.53	13.58	16.88	77
289798	32937.9	25939.8	6187.9	4898.1	1.69	14.87	18.88	79
330018	37251.3	28752.9	7516.1	6170.2	1.87	16.56	21.46	82
366251	42893.7	33152.1	8950.9	7420.6	2.03	17.30	22.38	82
393566	48893.7	38864.9	10159.4	9114	2.32	18.64	23.45	89
405632	50445.6	39330.6	10597.5	8903.7	2.20	17.65	22.64	84
435310	56229.7	42587	10105.8	7966.2	1.83	14.17	18.71	78
474919	62331	48173	11912.6	9245.9	1.95	14.83	19.19	77
508651	70122.7	54105.7	13071.8	10159.4	2.00	14.49	18.78	77
557869	72282.1	57430.4	13968.1	10373.7	1.86	14.35	18.06	74
675484	87712.2	71126.70	18980.3	15034.0	2.23	17.14	21.14	79

Figure 4.8 A
Income Tax as % of Total Revenue

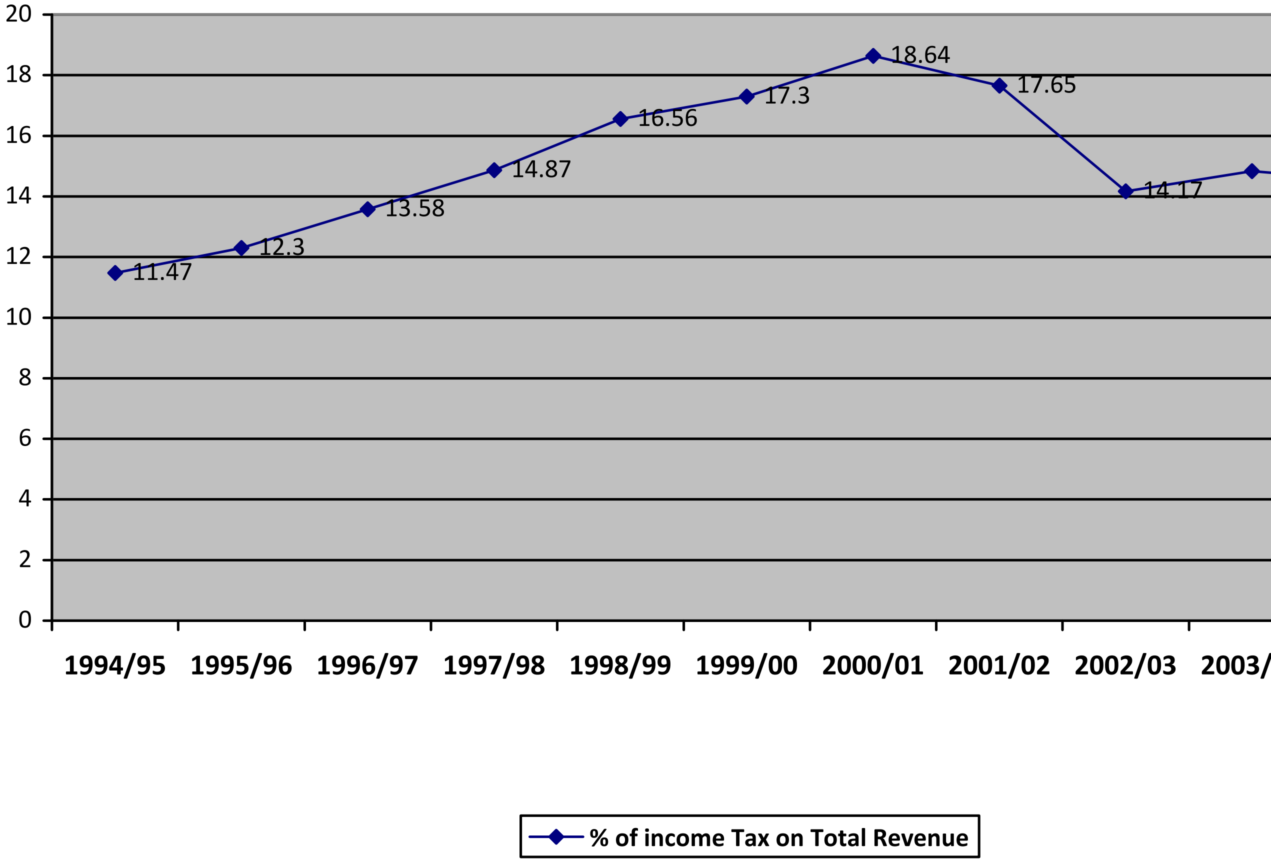


Figure 4.8 B

Income Tax as % of Total Tax Revenue

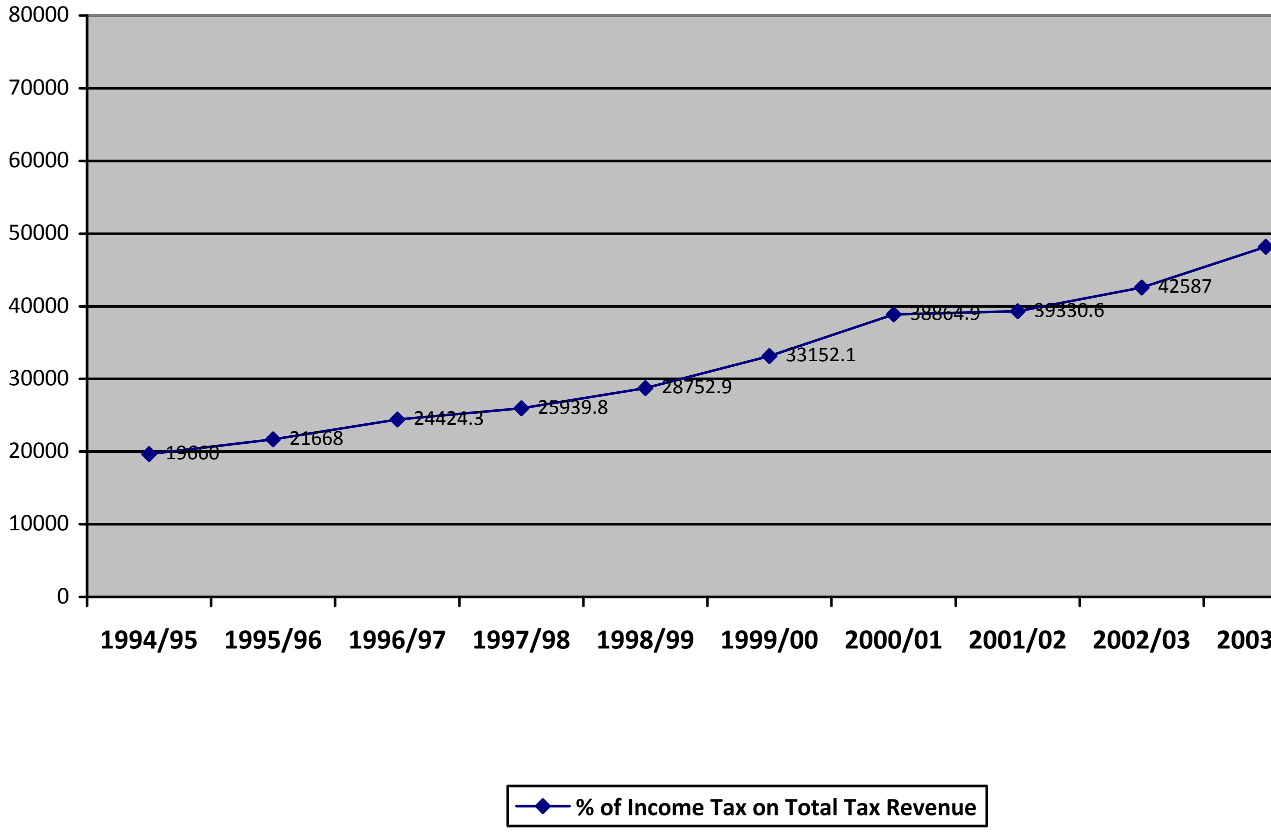


Figure 4.8.C

Income Tax as % Direct Tax Revenue

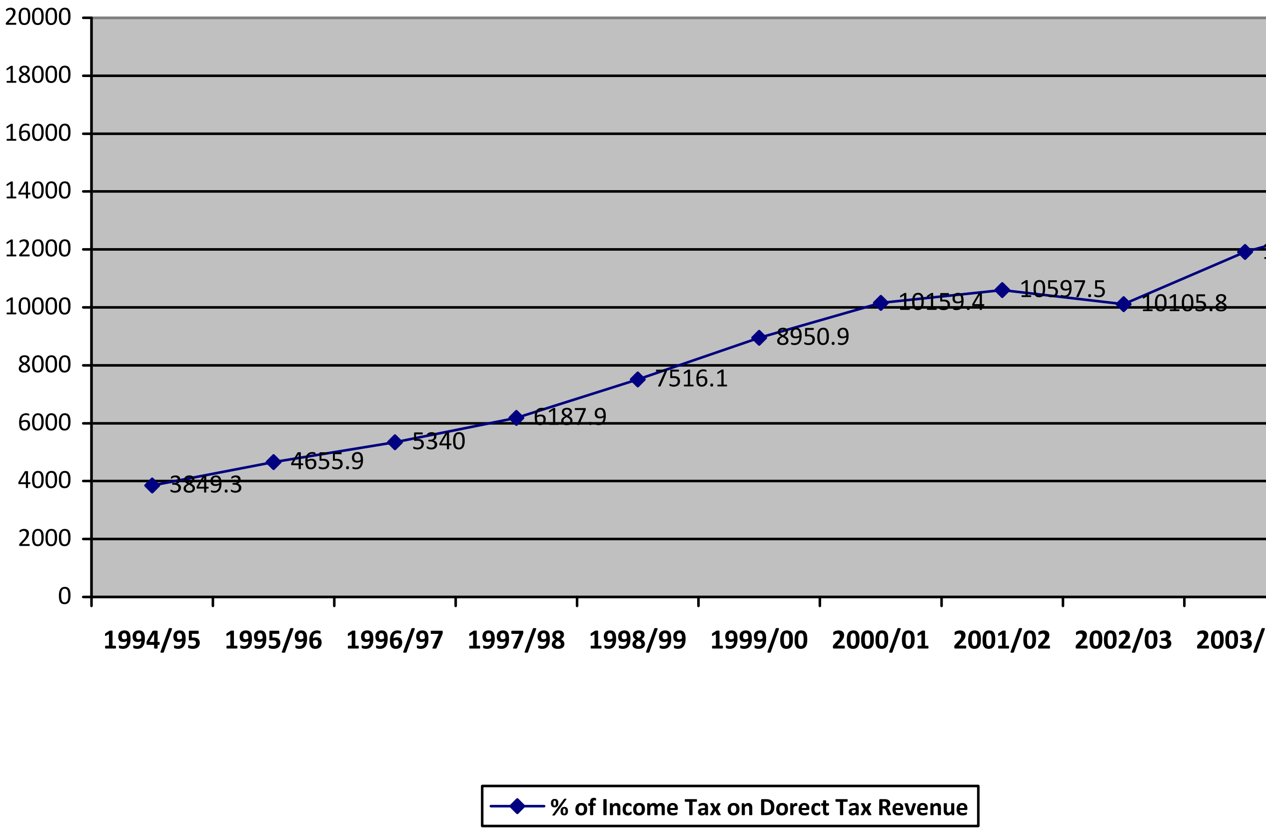
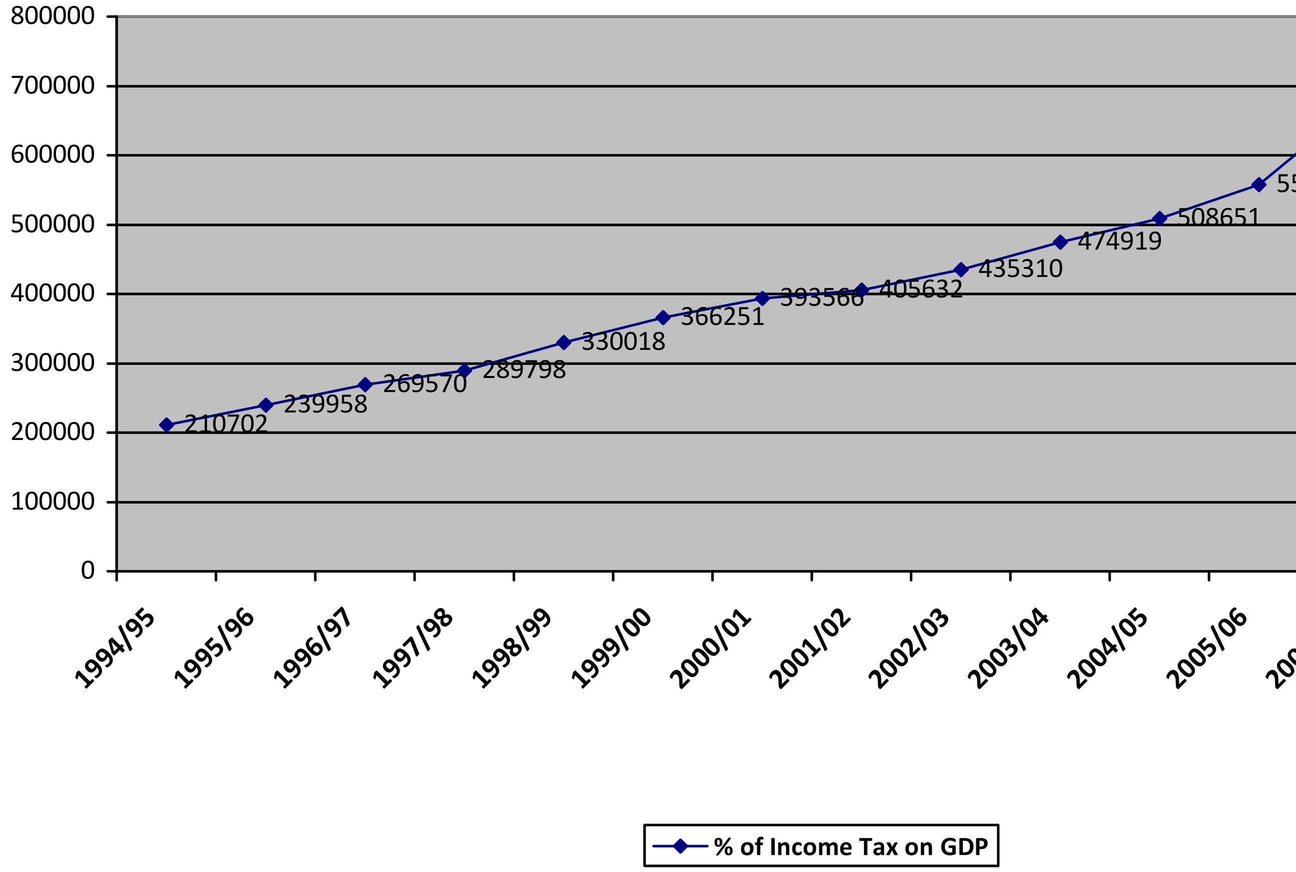


Figure 4.8.D

Income Tax as % of GDP



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700000
600000
500000
400000
300000
200000
100000
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269570
289798
330018
366251
393566
405632
435310
474919
508651
1994/95
1995/96
1996/97
1997/98
1998/99
1999/00
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
% of Income Tax on GDP