

# **CHAPTER - I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Nepal is beautiful small landlocked country situated between two large countries India and China. The economic condition of Nepal is relatively poor than neighbor countries. The economic growth of China is increasing trend on the other side the economic growth of India also in increasing trend. Both countries affect the Nepalese economy directly and indirectly. In this situation the Nepalese economy cannot stay alone without considering these countries economy. On the other hand Nepal had reach in natural resources. Nepal has been facing some problems. The main problems are unemployment poverty, rapid growth of population political instability etc.

The government of Nepal should utilize the natural resources properly to avoid these problems. The government has to spend lot of money to fulfill their responsibility towards the people these responsibility may be development, health, education etc. If the government allocates the budget in this sector properly the Nepalese economy will be increase near. But the government expenditure is increasing day because of different causes. To meet the expenditure government has to manage its fund different sources .These sources may be internal or external. Are many negative results of external source of fund? Nobody becomes ready to provide grants and loans with out conditions. Internal sources are better sources than external sources so the government should focus on internal sources of funds.

The government collects revenue from various sources such as tax, revenues from public enterprises, special assessment, fees, grants and assistance etc. The tax is the main sources of government revenue.

Tax is the main sources of revenue to the government .The tax is a liability to pay an amount to the government it is a compulsory contribution it the national revenue from the tax payers according to law (Bhattarai and Koirala, 2004). Tax is the compulsory levy imposed by the government. The persons as per the get corresponding benefits from the government .It are leaved on persons as per the prevailing laws tax can be classified in to two board categories.

### **Direct Tax**

The direct tax paid by a person on whom it is legally imposed, in direct tax the person paying and bearing tax is the same .Income tax, property tax vehicles tax, interest tax expenditure tax death tax are examples of direct tax.

### **Indirect Tax**

An indirect tax is a tax imposed on one but partly or wholly paid by a VAT, sales tax, entertainment tax hotel excise duty import and export duty are examples of indirect tax.

To increase the government expenditure the government should increase his fund. To increase the fund the government should increase the collection of tax. So to get the maximum benefits the government should increase the collection of tax by different ways.

### **1.2 Statement of the Problem**

Nepal is facing the problems by different ways. The government can't operate the development project due to lack of funds government expenditures are increasing day by due to increase in price laves and other circumstances. The government revenue is less than the government expenditures most of the industries are not properly in operations because of lack fund .The government is not became success to collect internal revenue properly on the other hands there are many negative results of foreign loans. Nepal has been suffering from resources constraint, massive poverty repaid growth of population, increasing

unemployment rate political instability etc. To solve these problem the government should be create the maximum employment should be operate. The government can't conduct these works properly without sufficient fund. To generate sufficient fund and government should collect the tax.

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

The main objectives of this study are to find out the difficulties in tax collection to the governments. However the following specific objectives are sets for the study.

- ) To find out revenue collection from the different year.
- ) To review the tax collection system.
- ) To find out the contribution of tax to national revenue.
- ) To find out problems in tax collection system.
- ) To provide suggestion for effective tax collection.

### **1.4 Focus of the Study**

Taxes are general contribution of wealth levied upon person, natural on corporate to defray expenses incurred in conferring common benefits upon the residents of states it is compulsory levy imposed by the government without having any direct personal benefits. Nobody gets any benefits from the government those who paid tax. So, more efforts should be on actual circumstances. Theoretical and practical knowledge required to implement and evaluate tax properly.

So this study analyses and evaluates Nepalese tax structure and its practice properly. This study analyses the amount received from tax different years at different heads of income. This study will provide clear idea and knowledge to those persons who are interested to know about tax system. This study also practical difficulties of tax collection system in Nepal and provides the suggestion of different persons to make effectiveness technique to collect tax.

## **1.5 Research Methodology**

This study deals with the research design population and sample of data, data collection procedures and tools for analysis.

### **Research Design**

To conduct the research analytical and descriptive research approach is adopted or the readily available historical data used in this study are primary and secondary data.

### **Population of Sample**

Tax administration, tax exports, tax payers will consider as the total population out of them 25 tax experts. 25 tax administrations and 25 tax payers consider as the target population for the study.

### **Sources of Data**

The primary as well as secondary sources of data are collected .The major Sources of data are as follows.

- ) Primary Data: Primary sources of data are collected with in Rupandehi.
- ) Secondary Sources of Data: Secondary sources of data are collected from the information received from economic survey, books published and unpublished articles, news papers annual reports etc.

### **Tools for Analysis**

To find out the actual result different financial and statically tools are used to analyze the information.

## **1.6 Limitation of the Study**

There are some limitations regarding this study which is as follows.

- ) This study is based on availability of reliable data and sufficient literature
- ) Field survey is based in Rupandehi.
- ) Field survey is focus on Rupandehi only.

- ) This study will covers around 7 Year's data only.
- ) Limited business-man, tax experts, tax officers, and customers are consulted to collect primary data.
- ) The study will cover date up to only 2009.

## **1.7 Organization of the Study**

This study is divided in to five Chapters they are:

### **Chapter - I Introduction**

The first chapter deals with background, statement of problem, focus of the study, objective of study, research methodology limitation of study and chapter scheme.

### **Chapter - II Littérateur Review**

The second chapter deals the review of related literatures and available studies, written and prepared by experts and researcher.

### **Chapter - III Research Methodology**

The third chapter “Research Methodology” present the methodology used in this study. If deals with research design, nature and sources of data, collection of data, data processing and method of data analysis.

### **Chapter IV Presentation and Analysis of Data**

The fourth chapter fulfills the objectives of the study by presenting the data and analyzing them with the helps of various accounting and statistical tools and techniques followed by methodology.

### **Chapter - V Summary Conclusion and Recommendation**

The fifth chapter summarizes the whole study Moreover to draws the summary conclusion and forwards the recommendation for the improvement of effective Tax collection system and to avoid the difficulties in tax collection system.

## **CHAPTER - II**

### **CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE**

#### **2.1 Concept of Tax**

The government of any country requires sufficient revenues to launch the development program to handle the daily administration to keep peace and security and to launch other public welfare program. The government or public revenues are collected through various sources these sources can be tax revenue, revenues from government corporation and public enterprises, fees, special assessment, fines and penalties and foreign grants among them tax is the main source of collecting the public revenues because it occupies the most important part of government treasury. In Nepal about 77% of total revenue comes from tax revenue and the rest 23% from non tax revenues.

Following are the main sources of government revenue:

- ) Tax: It is a compulsory contribution from people to government.
- ) Price of goods or services provided by the government. It is the amount collected from special sector for specific purpose.
- ) Receipt from public enterprises: The government's receipt amount from public enterprises owned by it.
- ) Fee: The amount paid for the government for receiving its services
- ) Fines: It is the amount paid for violating government's rules, act and regulations.
- ) Grants etc: The amount received by the government from foreign and agencies.

In short, all the above sources of the government revenue can be divided into two parts- Tax and Non tax. Tax is the major source covering most part of the government revenue. Tax is the compulsory payment to the government but is

not fine Taxpayers do not get any direct benefit from the state by paying tax. Government collects tax with the permission of legislature to fulfill financial need of the state. Tax is compulsory payment to government for the compensation of public expenditure. Tax fulfills the needs of central or local government to spend for philanthropic work. The main objective of the tax is to distribute wealth and income equally among the citizens. Mainly tax is too classified into two groups. They are direct tax and indirect tax. Tax is a kind of money of which it is the legal duty of every citizen of country to pay honestly. Many economists have view that tax is a compulsory payment to the government by taxpayer without any exception of some specified return in fur of them. The experts have given definition regarding tax and some of them are mentioned here.

According to Classical Economist Dalton, “A tax is compulsory contribution imposed by public authority irrespective of the exact amount of service rendered to the taxpayer in return and not imposed a penalty for any legal offence (Dhakal,1998).

Likewise, According to the Findlay Shirrs, “Tax is compulsory contributions to public authorities to meet the general expenses of government which have been incurred for the public good and without reference to special benefits” (Lekhi, 2000).

According to Bastable, “A tax is compulsory contribution of wealth of a person or body of persons for the service of public power” (Dhakal, 1998).

According to Plehn, Taxes are genera; contribution of wealth levied upon persons natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the status (Dhakal, 1998:2).

According to proof Seligman, “A compulsory contribution from a person to the government to defray the expenses incurred on the common incurred in the

common interest of all with out reference to special benefit conferred” (Lekhi, 2000).

From the above definition, it is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax they had paid. In addition, the taxpayer cannot receive equivalent benefit from the government. Amount collected through taxation is spent for common interest of the citizen and is collect from natural and artificial person.

Tax is a compulsory payment to the government from a person according to law. It is contributed to the government without expectation of any direct benefit to the taxpayer. They are many tax systems in the world mainly there two types of tax which are use in the world they are direct and indirect and indirect tax.

## **2.2 Objectives of Tax**

Taxation had been a very essential element of a government from the very beginning of the state system. However, the main objective of taxation has been different fir different epochs. In ancient times, the major objectives of taxation were strengthening the muscles of the state by proving the resources. Till to the time of Adam smith; the chief motive of collecting revenue was to provide resourced to the government for providing security to an individual and society against violence invasions and injustice and maintain public institution.

In modern days, the main objective of taxation has been shifted from security perception to the economic development. The modern objective of taxation is not only to maintain peace and security but also to conduct development activities. We can enumerate the objectives of modern taxation as follows:-

- ) To have equitable distribution of income and property.
- ) To increase the revenue for welfare state.



- )] To increase the employment, investment.
- )] To minimize regional disparity.
- )] To prevent concentration of wealth in few hands.

### **2.3 Classification of Taxes**

In broad sense, taxes are classified into two categories, One is direct other is Indirect.

#### **Direct Tax**

A direct tax paid by a person on whom, it is legally imposed. In direct tax, the person paying and bearing tax is the same. It is the tax on income and property. Examples of direct taxes are; Income tax, property tax, Vehicle tax, Interest tax Expenditure tax, Gift tax, etc.

#### **Merits**

- )] It is equitable as it imposed on person as per the property or income.
- )] Time, procedure and amount of tax to be paid are known with certainty.
- )] It is elastic. The government can be change tax rate with the change in the level of property or income.
- )] It enhances the consciousness of the citizens. Taxpayers feel burden of tax and so they can insist the government to spend their contributions for the welfare of the community.

#### **Demerits**

- )] It gives mental pinch to the taxpayers as they have to curtail income to pay to the government.
- )] Taxpayers feel inconvenience as government imposes tax progressively.
- )] Tendency to evade tax may increase to avoid tax burden.
- )] It is expensive for the government to collect tax individually.

### **a. Indirect Tax**

An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and the tax is different. It is the tax on consumption or expenditures. Examples of indirect taxes are; VAT, sales tax, Entertainment tax, Hotel tax, Excise duty, Import and export duty, etc.

#### **Merits**

- ) It is convenient as the taxpayer does not have to pay a lump sum amount for tax.
- ) There is mass participation. Each and every person getting goods or services has to pay tax.
- ) There is less chance of tax evasion as the taxpayers pay the tax collected from consumers.
- ) The government can check on the consumption of harmful goods by imposing higher taxes.

#### **Demerits**

- ) It is uncertain. As demand fluctuates, tax will also fluctuate.
- ) It is regretful as burden to the rich and the poor is same.
- ) It has bad effect on consumption, production and employment. Higher taxes will reduce all them.
- ) Most of the taxes are included in the price of goods or services. As a result, taxpayers do not know how much tax they are paying to the government.

### **2.4 Canons of Taxation**

The government of a country adopts various principles while formulation suitable tax policy. Those principle or taxation areas are as follows;-

1. Canon of Equity
2. Canon of Certainty
3. Canon of Economic
4. Canon of Diversity

5. Canon of Simplicity
6. Canon of Neutrality
7. Canon of Co-ordination
8. Canon of Productivity and
9. Canon of Elasticity.

## **2.5 Meaning of Income Tax**

The concept of income tax in different countries is differently because of diverse economic structure, nature of the government and status of people. In United States, income tax is viewed as a matter of practice, recurrent is not relevant to the tax status. In United Kingdom the original concept of the tax was that of a levy on recurrent income and the tax was applied to five schedules any item not falling within one of the five schedules not being subjected to tax. In India, the personal income tax is levied in net income of all individual, joint Hindu families, unregistered firm and other associations of person (Chelliah, 1959).

Income tax is a personal tax imposed on the net income of individuals and corporation. In most of the countries especially the united state of America, Canada and other counties; the income tax is defined in terms of the 'flow of wealth of receipt in money or good from taxpayer during the period. Inflow of wealth methods, taxation is imposed on a realization rather than as an accrual basis, and applies only when a transaction occurs between other persons and taxpayers (Dne, 1959).

According to tax economists- An income tax is a levy imposed upon the income of individuals after the exemption limit. Income tax is direct tax based on the total income of the payer from all sources and as graduated on special system of exemption. Taxes on income is the most important single source of revenue of government of developed and also developing countries either it contribute more of less.

The first problem encountered in establishing an income tax is the definition of income. Income, as the economic gain received by the person during the particular period, is most satisfactorily defined by Henry Simons as the algebraic sum of two items:

- A. The person's consumption during the period, and
  - B. The net increase in the individual's personal wealth during the period
- Symbolically,  $Y=C+W$

Where, Y, C and W refer income, consumption and change in wealth respectively.

It is very difficult to define inactively and clearly. So, income is exemplified rather than defined in income tax laws of various countries. For example, sec.2 of the India Income tax Act, 1961 keeps profits and gains, dividends, voluntary contributions received by charitable trust, value of any perquisite or profit in lieu of salary, any capital gain, winning from lotteries, crossword puzzles etc. under the head income.

According to income tax act 2002, Sec 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.

## **2.6 International History of Income Tax**

For the first time Great Britain introduced the income tax in 1799 in order to finance wars with France. Only after 1980 it was accepted as a permanent tax. In United States, first federal income tax was imposed in 1862 to finance civil war expenditure. However, it became a permanent feature only in 1913 after 16th amendment to U.S constitution. In neighboring country India, at first income tax was introduced in 1860. After introducing Income Tax Act 1881 in 1886, it was imposed as a permanent. Italy introduced income tax in 1864, Australia in 1915 and Canada in 1917. After First World War, the income tax became the most

important source of revenue in most developed countries. By 1939, it has become the most important source of revenue in most developed countries and had made appearance in a number of developing nations (Agrawal, 1980).

From the First World War decade, income tax has shown as an important source of revenue in developed country. In the beginning if introducing time, it was generally levied at flat rate. Only after 1909, the principle of progression was introduced from the UK New Zealand. Income tax was introduced due to the cause of war and national emergencies. Thus, the second name of income tax is war tax. After important instrument against poverty and inequality (Agrawal, 1978).

## **2.7 Historical Aspects of Income in Nepal**

### **A. Taxation in Ancient of Nepal**

The collection of income tax was the key element of the government from ancient age. Very few economic activities were operated in the country so government can not collect large amount of money in from of tax. At that time, taxes are levied to the merchant, travelers and farmers in the form of cash, kind of labour. In some occasion, gold and agricultural products were also paid as taxes but the nature of these taxes were temporary and taxes were raised for special purposes (Regmi, 1995).

Although there is on relevant source of ancient tax in the inscription of Ansubarma, it is noted that there were three taxes called 'Ttikst'. 'Bhaga' is the agricultural tax, animal husbandry was called 'Bhaga' and tax on business was called 'kara'. Irrigation tax and religious monuments preservations taxes also existed at the time of Ansubarma. During the period of 1968-1846 A.D, different types of taxes were levied to generate maximum revenue. The major sources of revenue were; Birta and Kipat, taxes on land , monopolies customs, transit and market duties, mines and mints and the export of forest products, birds, animals and various levies and fines. Taxes were colleted at three level;

Royal palace levies, government levies and local levies. The various taxes levied during that period were narrow in base and were imposed primarily on occupations and economic activities, not in income or property. There was no taxation of income in the modern sense of income tax but income taxes from agriculture income and incomes from business were introduced as a direct tax for the first time in Nepal.

### **B. Taxation in Nepal before Democracy**

From the age of 1776 to 1950 has taken as before democracy period. In this period, tax system becomes more advanced than the ancient age of Nepal. Taxation had a broad sense in this reified Nepal. During this period, revenue maximization was only the main objective of tax policies. Raikar, Birta, Guthi, Sera and Kipata were the five main land tenure among them Birta and Kipat are the main source of revenue.

'Walk' was collected from each family on a regular basis and in period of national celebration of festival or ceremonial occasion. 'Gadimubarak' was collected to finance the coronation ceremony of a new king. 'Dardhanbhet' was collected from both civil and military employees at the time of their appointment and confirmation. 'Salami' was collected by local revenue collection functionaries in the tribal region as an annual payment. Taxes were imposed primarily on occupations and economic activity not on property. Tax base was very narrow. The Birta owner class had a much influential role in political and administration. However, in 1772 Prithivi Narayan Shah introduced 'Pota tax' which was regarded as a revolutionary measure in Nepal's fiscal system. It was not based on progressive tax principle; it was limited to small Birta owners and privileged members of the nobility. A person did not pay Pota. Only common people who lived on raider lands paid the homestead taxes and other 'Pota' levies (Regmi, 1995: 55).

During the period of Regime there was not formal provision for imposition and collection of taxes. Taxes were imposed according to the objectives, needs and whims of the ruling the prime Minister. There was not provision of separating the personal income Minister and state treasury. There is no system of preparing government budget. The surplus of revenue over expenditure was considered the personal income of the Rana prime Minister.

The major source of revenue in Nepal till 1951, were land tax, custom and excise duties in the form of lump sum contracts royalty on supply of porters and soldiers, entertainment tax and a few other minor taxes. Incomes were not taxed for raising regular revenues of the state treasury but for meeting specific expenditure of the household of extra ordinary expenditure by war or other emergencies.

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 a very small percentage. The Salami was abolished in 1951. The Rana rulers did not think of development of effective revenue administration system. After the advent of democracy in the country in 1951 no taxes are levied and collected in Nepal except in accordance with law (Gautam, 2004).

## **2.8 Income Tax Modern Nepal**

Income tax is a direct tax that is imposed on the individual and corporation. Actually, tax levied on taxable income is known as the income tax. It is charged by the government on the income of the previous year at the rate prescribed each year by the finance act. From very earlier, income tax has always been regarded as a tax based on the canon 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 tax according to their income. Tax economists after the exemption limit. All incomes above the tax exemption level are

subjected to income tax that is based on the income tax act of the concerned country.

After the independence of the country on 1951, the role of government has changed. Since the government was enforced to operate development active ties, besides governing the regular function on maintaining law and order and the collection of revenue (Bhattarai and Shrestha, 1981:3).

A sound and efficient income tax system is necessary to maximize the revenue collection from income tax. Whole income tax system is made of three sub system i.e. income tax policy, income tax laws and income tax administration.

Income tax policy is determined by the government itself through Ministry of Finance Income tax policy should be that the main objectives of the income tax can be attained.

‘No taxes shall be levied and collected except in accordance with law’ (Constitution of Kingdom of Nepal, 1990) parliament makes the laws to implement the various policies. The government levy and collect the income tax in accordance with law. The Constitution of the Kingdom of Nepal, 1990 has made the clear provision about it. In 1960, for the first time in Nepal. Three years experience the Business and Remuneration Act, 1960 was found very narrow and vague and it was replaced by the Nepal Income Tax Act, 1962. The Income Tax Act, 1962 remained till 1974 and Income Tax Act, 1974 also replaced by Income Tax Act, 2002; Income tax is associated with Constitution of Nepal, 1990; Income Tax Rules 2002; Finance act of concerned financial year.

#### **A. Business Profit and Salaries Tax Act 1960**

The government of Nepal introduced a formal income tax for the first time in Nepal in 1960 (2017B.S) in the form of ‘Business profits and Remuneration



Tax'. Before the act, Finance Act was used to make the provision regarding income tax. According to this act only Business profits and Remunerations on income were subjected to tax but the revenue for these taxes should not be collected properly according to originals estimates (Dhungana, 1976) it had 22 sections. The first section is about short title, areas and commencement. Similarly second section about definition and last section is about authority to make regulations of HMG to regulate the tax act. According to the Act tax payment should be made within 35 days once the office and the tax payment to be made specified. Fine and punishments of Rs. 5000 to Rs. 500 to them those who do not pay tax and not submit account is mentioned in the Act. There is appeal system too; if any taxpayer is not satisfied with regard to the order of tax assessment, such taxpayer can appeal within the 35 days of an order of tax assessment receipt. The tax officers as per the liable to assess the tax liability of taxpayer, submission of written notice to taxpayer, etc (Income Tax Act, 1960).

## **B. Income Tax Act 1962**

Income Tax Act 1962 was came on July 1962 by replacing the Income TAX act 1960 as its limited coverage in income. This Act was introduced as per the articles 93 of the Constitution. This Act has all about 29 sections. As per section 6 of this Act annual statement of income to the concerned tax officer those having annual income of more than Rs. 6000 the statement should file within 35 days of completion of the fiscal years. The salaries of diplomatic representative of foreign country, salaries of foreign of non- Nepalese citizen working in the service of the NG, dividend paid to the shareholders, incomes of Nagar pantheist, Village pantheist, public organizations, educational intestates Nepal raster Bank allowances granted by NG to Minister employees saving fund etc. were considered as tax free income by Act. As per Act 1.4 income from agriculture was taxable and remaining 3.4 were considered as expenditure to earn such income. The act was experienced for 13 years and was considered inadequate with the changing situation of Nepalese economy. This Act was amended only one time in 1972. The main feature of this Act can be mentioned

as follows. Income was defined as all kinds of income including income from business salaries any professions rent from house or land investment in cash or bind agriculture insurance agencies and any other sources. In this Act status of taxpayer was defined on personal as wells' residential for the tax purpose. Carry forward of losses for a period of two year's provision was made on this Act and reassessment of tax as well as rectification of arithmetic errors had provision. In this Act, provision made for the exemption of income tax for new industries for a period not exceeding ten years (Income Tax Act, 1962).

### **C. Income Tax Act 1974**

To the meet the changing environment of Nepal as well as the enter world and to keep the in tune with the change in the socio- economic environment the Act 1974 was introduced. The Act was divided in basic 66 sections. This Act was practiced for 28 years almost three decades in Nepal. Through out this time the Act was amended for eight times 1977, 1979, 1980, 1984, 1985, 1986, 1989 and 1993. The act has classified the incomes in five groups as; (a) Agriculture (b) Industry, Trade profession or occupation (c) Remuneration (d) House and compound, and (e) other sources. However, the agriculture income was kept outside the tax net except few years thought the Finance Act had made provision for self assessment of tax for the first time in Nepal. According to this act taxpayers were required to keep accounts and records for their source of income and preserve these records for a period of six years. There were additional provisions of exemption from income tax then the former act such as income of Gothic, compensation for life insurance of after the expiry of the life insurance policy. It had clear certain definitions specially relating to the tax, tax payer taxable income gross income, net income personal status of the taxpayers and non resident taxpayers assessment of tax philanthropic work non resident etc beside this method of computing net income from each source including the deductions allowable has been specified (Income Tax Act,1974).

#### **D. Income Tax Act 2002**

Although, Income Tax 1974 was much better than previous Act, still it had many deficiencies and weaknesses so the Income Tax Act 2002 changes it. This Act is quite advance Income tax that has ever introduced in Nepal. The main feature of this act is all the related matters with in one Act. The act is independent to levy income tax. The Act has 24 chapters and 143 sections Amended income Tax Act 2002 has dismissed the section 66. The Act has defined three different sources of incomes :(a) Business (b) Employment (c) Investment. Tax rates for different income groups tax rates as per individuals and entities, depreciation rates and depreciation methods for all the five categories of depreciable assets, provisions regarding international taxation Capital gain taxation panel provision Appears system etc. all matters of income taxation can find with on this act (Income Tax Act, 2002).

Following are the main features of Income Tax Act, 2058.

1. Income Tax related provisions are included with in one act.
2. Act has clearly specified the amount should be included while calculating a person's gains or profits from conducting business or investment for an income year.
3. All the expenses are allowed to deduct provided that the expenses are made by the same taxpayer in the same year in the production of income.
4. Incentives are provided to infrastructure constructor, hydropower projects and industries.
5. Now the economy of the most of the countries in the world is open one. The provision has introduced in the tax law related to international taxation. Transfer pricing foreign tax credit, double taxation, avoidance agreement etc are the provision of international taxation.
6. The act has given the option for husband and wife as a separate natural individual until they do not accept as a couple.
7. Capital gain dividend etc has brought in tax net.
8. Authorities of Taxpayer have specified.

9. To control the tax evasion, provision of transfer pricing thin capitalization. Dividend stripping.
10. Provision of fines and penalties has made more stringent in the new Income Tax Act 2002.
11. This act has made a provision of relaxing the submission of income statement by a person who doesn't have taxable income one who has the income from remuneration only.
12. There has the special provision for deduction pollution control and research and development expenses.
13. The income of an approved retirement fund is free from tax. But retirement payments in hands of employees are taxable.
14. Resident persons are taxed only on their worldwide income, while Nonresident persons are taxed only in their income sourced in Nepal.
15. The pool system of depreciation of fixed assets has introduced at the first time. All types of assets are classified into five categories. Depreciation rate for classes A, B, C and D is based on diminishing balance method but straight line method for class 'E' (Intellectual Assets).
16. The act has provided the facility of Medical Tax credit under which resident individuals may claim a Medical Tax credit of 15 percent of the amount of approved medical costs. Unabsorbed medical tax credit amount can carry forward forever (Mallik, 2003).

## **2.9 Head of Income**

The Income Tax Act, 2002 has made the classification on incomes in three main categories. This Act has classified the sources of income for the purpose of assessment under the following heads:

### **A. Income from Employment**

Employment is defined by the Act under section 2 (a) as "employment that includes a past, present or prospective employment "In general terms the act of performing a certain job for the person who appoints one for the job, in

consideration of a regular payment is called as employment . That is why; the income from an employment can be generated only when a relation of employer and employee or master and servant has been established between a payer and a payee. Whatever the employee derives from the employment in the shape of a regular salary, allowances, overtime payment bonus etc is included in the income from employment.

Generally, all employment is known as a long-term employment but, in legal terms, all employment last for a short period and may also be a part time one. An individual may have more than one employment on a day.

The employer may be any person like in individual (a proprietorship firm), all entity, NG, a local body of NG, all institution, all organization, a foreigner, etc. but the employee is always all individual (a natural person). A husband and a wife working in the same entity are treated as creation of two employments, one for husband and another for wife. The employee must be present physically at the place of work to perform or her duties. The employment is awarded on the basis of his/her ability, education, experience, honesty, behaviour etc. and so a proxy is nowhere allowed to work oil behalf of the employee.

A written appointment letter does not always qualify ail individual to be ail employee but ail oral appointment or even the behaviour of the employer and employee is sufficient to treat the individual as an employee (Agrawal, 2004).

According, to this Section-, the remuneration received by a person from the employment is a following payment made by the employer.

1. Payments of wages, salary, leave pay, overtime pay, fees, commission prizes gifts, bonuses and other facilities.
2. Payments of any personal allowances including, ally cost of living, rent entertainment and transportation.

3. Payment provided of reimbursement or discharge of cost incurred by the individual or an associate of the individual.
4. Payments for the individual's agreement to any conditions of the employment.
5. Payments for the termination or loss or redundancy of the employment.
6. Retirement Contribution including those paid by the employer to the retirement fund in respect of the employees and retirement payments.
7. Other Payment in respects of the employment.
8. Other amount as given in chapter 6 of the act perquisites and gains due to change in tax according required being included (Income Tax Act, 2002: Sec 8).

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

- a. Prizes and gifts
- b. Other payments made in of employment.
- c. The amount of difference of the interest on loan paid by employer lower rate than the market rate.
- d. Market value of assets in case of the transfer of the assets.
- e. For the payment other than stated above, the value of benefit of the payment to a third person.

## **B. Income from Business**

Income Tax Act, 2002 has defined the business income as a source of income for income tax purpose. Profit and gains from conducting the business are considered as business income for the income tax purpose. Services fees, amount derived from the disposal of stocks, net gain fro disposal of business assets (Liabilities), gifts relating to business and other amounts are consider as a business income. Section 7 of Income Tax Act, 2002 deals with the receipts or receivables to be included in income from business and Section 13 and 19

deals the allowable expenses there from, Business includes trade, commerce, production, profession, vocation, etc.

### **Trade and Commerce**

The Oxford Dictionary defines trade as follows:

- a. The exchange of goods or services for money or other goods.
- b. Buying and selling.
- c. To buy and sell a particular item, product, etc.

The activity of a trade starts from the moment a goods id purchased or other wise acquired with an intention to sell it for some profit. It is not necessary that the good is sold in due course and profit is acquired there from.

It's not only the purchase and sale of goods that constitutes a. trade but a. sale of services is also included in the definition. The transportation of goods and human beings, tourism trade etc is examples of the trade of services. Though commerce is something similar to trade, it is used especially when the trade takes place between two countries.

### **Production**

The dictionary meaning of production is "to make or manufacture something especially in large quantities". The process of production may be manual or based o machinery. The machinery any, or may not run by power. A production is a process whereby the form of a good is changed and the new product acquires a new commercial value.

### **Profession and Vocation**

A profession is a paid occupation, which requires advanced education or training, Chartered accountants, Lawyers, Architects, etc are some examples of profession. A vocation is also paid occupation and requires practice and skill but it does not require advanced education. Carpenters, Craftsmen, etc are the examples of vocation.

For the purpose of computing income of business for any year of income, the income of such person shall include as profits or gains by him from business and should include:

- a. Service Charge (Sec.7.2)
  - b. Sales or disposal of business/ trading stock (Sec.7.2)
  - c. Net gain from the disposal of person's business assets/liabilities of the business calculated as under chapter 8 (Sec.7.2)
  - d. Amount receives against the disposal of depreciable assets (Sec. 7.2)
  - e. Prize or gift in connection with business (Sec. 7.2)
  - f. Amount received instead of acceptance of any restriction regarding business (Sec.7.2)
  - g. Amount included under change of accounting method (Sec.24)
  - h. Excess amount received due to exchange rate of currency (Sec.28)
  - i. Bad debt recovered (Sec-25)
  - j. Proportionate amount under long term contract (Sec.26)
  - k. Under paid interest amount according to market price (Sec.)
  - l. Amount received for compensation (Sec. 3 1)
  - m. Other amount received under business income (Sec.7.2)
- (Income Tax Act, 2002)

While computing income tax front business, the following amounts are excluded on profit and income from business for tax purpose-

- a. Exempt amounts under section 10
  - b. Taxation of dividends under section 54
  - c. Final withholding payment under section 92
- (Income Tax Act, 2002)

### **C. Income from Investment**

Section 2(a.1) defines investment as the holding of one or more properties or the investment in a property subject to the fact that:

- a. The property should not used by the owner himself, or
- b. The property must not be a business or an employing



The section further says that the holding of a non-business chargeable assets is also known as an investment. Investment in general sense is all act of letting out a property by all owners to somebody else for its exclusive use for the period of letting out. An amount given to another person for his utilization is also said to be all investment. The three points are the basic requirements for all investment are:

- a. person has the legal ownership of a property;
- b. The owner transfers the right to use the property to another person; and
- c. For such a transfer of right the owner receives certain consideration from the transferee

Section 9 (Income Tax Act, 2002) deals with the receipts or the receivables to be included in income from investment. Section 13, 14, 15, 16 and 19 deals with the deductions to be made while computing the taxable income (Income Tax Act, 2002).

- a. Any dividend, interest, natural resource payment, rent, royalty, gain from investment insurance, gain from all unapproved retirement payment or retirement fund from approved retirement fund (Sec.9.2)
- b. Net gains from the disposal of the person's non business chargeable assets of investment (Sec 9.2).
- c. Excess amount of incomings over the depreciation basis including outgoings oil the disposal of the depreciable assets of the investment of the persons (Sec 9.2).
- d. Gifts or prizes received in connection with investment (Sec.9.2).
- e. Retirement contribution including those paid to retirement funds in respect of the person and retirement payments oil respect of investment (Sec. 9.2).
- f. Amount received instead of acceptance of any restriction regarding investment (Sec. 9.2).
- g. Amount included under change of accounting method (Sec.24).
- h. Excess amount received due to exchange rate currency (Sec 28).

- i. Bad debt recovered (Sec. 25).
- j. Proportionate amount under long term contract (Sec. 26).
- k. Under paid interest amount according to market price (Sec.27).
- l. Amount received as compensation (Sec. 31).
- m. Other amounts required to be included on tax accounting or quantification, allocation and characterizations of amounts or transaction between any entity and beneficiary or general insurance business (Sec. 9.2) (Income Tax Act, 2002).

## **2.10 Individual Taxpayer**

The Income Tax Act classifies tax payers into two' an individual and an entity (Sec.2). The word "Person" is used for each taxpayers irrespective of its status.

Thus the term "Person" includes:

- A. An individual; or
- B. An entity

### **A. Individual**

The term "individual" is defined by Sec 2 (ac) as follows;

- a. A Natural person-,
- b. A proprietorship firm 100% owned by a single natural person; and
- c. A couple elected as single natural person under Sec 50.

The, act has no provision fro all undivided family to be regarded as a single tax paper. Each of the spouses is treated as separate natural person for tax assessment. However, Section 50 of the act has the provision that a couple can choose to be treated as single individual for a particular Income year. In case the couple elects to be a single individual, the incomes of both the spouses shall be taxed in a single hand as that of one individual.

- ) The option is applicable even if either of the spouses is a non-earning member

- J The couple is permitted to be treated as a single individual taxpayer irrespective of whether such an option was taken in any previous year.
- J In case the couple has chosen to be treated as a single individual for tax purpose, either of the spouses will be either jointly or separately responsible for the payment of the tax.
- J The option is allowed only to a married couple, if each of the spouses is alive on the date of signing the Tax return for the Income year. Because the next couple has to sign on the Tax Return as a token of the acceptance of the election.
- J Either of the spouses can be all assesses and the next spouse may give the consent (Agrawal, 2004).

## **Provision for Individual Taxpayer under Income Tax Act, 2002**

### **a. Allowable Deduction**

#### **1. Retirement Contribution to an Approved Pretreatment Fund**

Amount contributed to all approved retirement fund [Provident Fund (PF)], Citizen Investment Trust [CIT] and other approved retirement fund is allowed for deduction up to a specified limit.

i.e. - Actual Contribution (Employers + Employee)

or 1/3 of assessable income

or Rs. 300000

Whichever is less

Retirement contribution to an unapproved retirement fund is not allowed for deduction.

#### **2. Donation to Tax Exempt Organization**

Contribution made for philanthropic purposes to tax-exempt organization registered at IRD) may be deducted from taxable income under the following condition:

i.e.- Actual donation  
or, 5% of Adjusted taxable income  
or ,Rs. 100000  
Whichever is less

But, Nepal Government may notify through official gazette that donation given to such institution will be expected for deduction tip to the notified limit such donation shall be allowed full or partial deduction of the expense at the time of assessing income incurred for special purpose.

### 3. Exemption Limit

Exemption limit is available only for the resident natural person. There are four types of exemption limit available only for the resident person.

- a) Basic exemption: Basic exemption is available only for resident natural person as per his family status:

Single / Unmarried/ Individual	Rs. 115000
Couple / Married	Rs. 140,000

- b) Additional exemption limit is available for the resident natural person (both for single and couple) working (residing) in remote areas of Nepal.

Remote areas	Additional Exemption Limit
'A'	Rs. 30,000
'B'	Rs. 24,000
'C'	Rs. 18,000
'D'	Rs. 12,000
'E'	Rs. 6,000

- c) For Pension income: A resident natural person (both for single and couple) having pension income gets 25% additional exemption limit. But should not be more than pension income.

Single / individual	$115,000 \times 25\% = \text{Rs. } 28750$
Couple/ Married	$140,000 \times 25\% = \text{Rs } 35000$

d) Life Insurance premium (LIP) : Life insurance premium paid by a resident natural person for his own life is allowable for deduction from taxable income up to the following limit:

Actual Premium paid

Or, 7% of Insured sum

Or, Rs. 10,000

Whichever is less

#### **4. Medical Tax Credit**

Approval medical expenses Incurred for a resident natural person can be claimed for a resident natural person can be claimed for deduction from his/her tax liability up to a specified limit.

Allowable medical tax credit:

15% of eligible medical expenses

+ Any amount carried forward from the previous year

Whichever is less

or, Rs. 750

Notes: For non-resident natural person no tax exemption limit of any kind is available and charge 15% flat tax rate. And special additional fee is charged on available total taxable income of non-resident natural person. But 5% rebate on remaining slab is get if the income is derived by operating special industry or from export business.

#### **2.11 Tax Exempt Incomes Under this Income Tax Act**

A. Amount derived by person entitled to privileges under a bilateral or a multilateral treaty conducted between Nepal Government and a foreign Country or a international organization (like- employment income of Foreign diplomats and employment income of UN representative)

B. Remuneration under the employment of public service of a foreign government.

- C. Remuneration paid by NG to foreign citizen on terms of tax exemption.
- D. Pension received by retired army/ police from public fund of foreign government.
- E. Allowance paid by NG to widows, elder citizen, disabled person.
- F. Amount derived by way of gift, bequest, inheritance or scholarship except as required to be included in calculating income under business, investment, or employment.
- G. Agricultural income otherwise than affirm, company, company, partnership and registered corporate body and by those who has not holding of land more then as prescribed in land act, is non taxable income.
- H. Income and dividend distributed by co-operation societies registered under co-operatives act, 2048 is non taxable income.
- I. Incomes from writing articles, preparation of exam paper, checking of writing checking exam paper are also tax-free income.

## 2.12 Specimen for Computing Income

### (A) Computation of Income from Business

As per Income Tax Act, 2058

Particulars	Amounts
<b>Amounts to be included</b>	
Service Charge (Sec 7.2)	XXX
Disposal of trading, stock (See 7.2)	XXX
Net gain from disposal of business assets or liability (Sec 7.2)	XXX
Gain from disposal of pool of depreciable assets {Sec.	XXX
Prizes or gifts iii connection with business (Sec 7.2)	XXX
Amount received in lieu of accepting any restriction regarding business (Sec 7.2)	XXX
Amounts received from any investment directly related to business (Sec 7.2)	XXX
Incomes to be included due to change in accounting methods (Sec 22.6)	XXX
Excess amount received due to exchange rate variation (Sec 24.4)	XXX
Bad debts recovered(Sec 25.1)	XXX
Proportionate amounts received under long term contracts (Sec 26.1)	XXX
Under payment of interest according to market rate (Sec 27.1)	XXX
Receivables amounts paid to others (Sec 29)	XXX
Amounts received for compensation (Sec 31)	XXX
Other amounts received under the head of business income	XXX
<b>Gross income from business (A)</b>	<b>XXXX</b>
<b>Allowable Deduction</b>	
Interest Expenses (Sec 14)	XXX
Cost of trading stock (Sec 15)	XXX
Repair and improvement cost (Sec 16)	XXX
Pollution control cost (Sec 17)	XXX
Research and Development cost (Sec 18)	XXX
Depreciation allowances (Sec 19)	XXX
Reserve fund for banks (Sec 59)	XXX
Others expenses	XXX
<b>Total Allowable deductions (B)</b>	<b>XXXX</b>
<b>Assessable income from business before loss adjustment (A-B)</b>	<b>XXXX</b>
Less Adjustment of business losses (See 20)	xxx
A. Unrelieved loss from other business this year (Sec 20)	xxx
B. Unrelieved loss from business of previous years (See 20)	
<b>Total adjustable business loss [(a + b)=C]</b>	<b>xxxx</b>
<b>Assessable income from business (A-B-C)</b>	<b>xxxx</b>

**(B) Computation of Income from Investment**  
**As per Income Tax Act, 2058**

<b>Particulars</b>	<b>Amounts</b>
<b>Amounts to be included</b>	
Dividend payment (except filial withholding payment (Sec 9.2))	xxx
Gain from Investment Insurance (except final withholding payment (Sec 9.2))	xxx
Interest received (except final withholding payment (Sec 9.2))	xxx
Rent received (except filial withholding payment (Sec 9.2))	xxx
Payment received from natural resources ( Sec 9.2)	xxx
Royalty Income ( Sec.	xxx
Gain from unapproved retirement fund (except final withholding, payment ( Sec 9.2))	xxx
Gain from disposal of pool of depreciable assets ( Sec 9.2)	xxx
Gift received by the person in respect of the investment ( See 9.2)	xxx
Retirement contributions, including those paid to a retirement fund in respect of the person ( Sec 9.2)	xxx
Amounts received in lieu of accepting any restrictions regarding investment ( Sec 9.2)	XXX
Incomes to be included due to change in accounting methods(Sec 22.6)	xxx
Excess amounts received due to exchange rate variation ( Sec 24.4)	XXX
Bad debts recovered ( Sec 25.1)	XXX
Under payment of interest according to market rate (Sec 27.1)	XXX
Receivable amounts paid to others (Sec 29)	XXX
Amounts received for compensation (Sec 31)	XXX
Income received from joint investment (Sec 30)	xxx
Other amounts to be included under investment income	xxx
<b>Gross income from Investment (A)</b>	<b>XXXX</b>
<b>Allowable Deductions</b>	
Interest Expenses (Sec 14)	xxx
Repair and improvement cost (Sec 16)	XXX
Depreciation allowances (Sec 19)	xxx
Others expenses related to investment	XXX
<b>Total Allowable deductions (B)</b>	<b>XXXX</b>
<b>Assessable income from investment before loss adjustment (A-B)</b>	<b>XXXX</b>
<b>Less Adjustment of losses</b>	XXX
A. Unrelieved loss from business or other investment this year (Sec 20)	
B. Unrelieved loss from business of previous years (Sec 20)	XXX
<b>Total adjustable loss [(a+b)=C]</b>	XXX
<b>Assessable income from investment (A-B-C)</b>	XXX



**(C) Computation of Income from Employment**

**As per Income Tax Act, 2058**

<b>Particulars</b>	<b>Amounts</b>
<b>Amounts to be included</b>	
Salary and wages (Sec 8.2)	xxx
Leave Pay (Sec 8.2)	xxx
Pay for overtime (Sec 8.2)	xxx
Fees (Sec 8.2)	xxx
Prizes and gifts related to employment (Sec 8.2)	xxx
Bonus (Sec 8.2)	xxx
Other facilities (Sec 8.2)	xxx
Commissions (Sec 8.2)	xxx
Dearness Allowances (Sec 8.2)	xxx
Cost of living subsistence (Sec 8.2)	xxx
Rent (Sec 8.2)	xxx
Entertainment and transportation allowances (Sec 8.2)	xxx
Other personal allowances (Sec 8.2)	xxx
Reimbursement of personal expenses (Sec 8.2)	xxx
Payments for the individual's agreement to any condition regarding employment (Sec 8.2)	xxx
Redundancy or loss related payments (Sec 8.2)	xxx
Other payment made in respect of employment payment (Sec 8.2)	xxx
Retirement payment & contribution to retirement fund (Sec 8.2)	xxx
Amounts of Vehicles facility (Sec 27.1)	xxx
Amount of services of house keeper, chauffeur, gardener, or other domestic assistants (Sec 27.1)	xxx
Accommodation facilities (Sec 27.1)	xxx
Any meal, refreshment or entertainment provided by employer (Sec 27.1)	xxx
Amount of services related to drinking water, electricity, telephones, and the like utilities in respect of the payees (Sec 27.1)	xxx
Under paid interest by employee to employer for loan taken by the employee (Sec 27.1)	xxx
Other amounts to be included	xxx
<b>Gross income from Employment</b>	<b>xxxx</b>

#### **(D) Statement of Total Taxable Income**

<b>Particulars</b>	<b>Amounts</b>
Assessable income from Employment	xxx
Assessable income front	xxx
Assessable income from Investment	xxx
Total assessable income	
Less: Allowable reductions	
a. Donation (as per tax law) (Sec 12)	xxx
b. Retirement contribution (as per tax law) ( Sec 63)	xxx
<b>Total Taxable Income</b>	<b>xxx</b>

#### **(E) Statement of Income Tax Liability**

<b>Particulars</b>	<b>Amounts</b>
First Rs. 115000 (individual), 140000 (couple)	Nil
Next Rs. 85000 @ 15%	xxx
Balance Rs. xxx @ 25%	xxx
Total Tax Liability	
Less: Advanced Tax Paid	xxx
Medical Tax Credit	xxx
<b>Net Tax To Be Paid</b>	<b>xxxx</b>

### **2.13 Methods of Income Tax Assessment**

Income Tax Act, 2058 has specified three types of assessments. They are as follows:

1. Self assessment (Sec. 99)
2. Jeopardy assessment (Sec. 100)
3. Amended assessment (Sec. 101)

Self assessment is clone by the assesses himself whereas jeopardy and amended assessments are the assessments based on judgment of the Department.

### **2.14 Installment Payment**

There is a provision of payment of income tax of the current year by three installments that is 40%, 70% and 100% by the end of Poush, Chaitra and Ashad respectively.

### **2.15 Appeal**

A tax payer may not be satisfied with the assessment made by tax officials. In such case, he may lodge an objection against the assessment with the Director against (DG) of Inland Revenue Department or go to Revenue Tribunal. The Act has made it mandatory for the taxpayers first to file an objection with the Inland Revenue Department for all administrative review and then if unsatisfied with the decision of Director General, he/she can go to Revenue Tribunal.

### **2.16 Offences**

Offences are dealt within the Act in a sense of criminal offences of taxpayers as well as tax administrators. They lead to punishable 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 and late-rest amount will be charged at the rate of 0.1 % per year of the assessable income.

### **2.17 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.

### **2.18 Review of Literature**

Income tax was imposed in Nepal by the first Parliamentary Government in 1959. Then after, various studies were made and researches conducted by

different individuals and institutions concerning with various aspects of this act such as the structure, role, productivity, legal and administrative framework etc. Some of the books reports and dissertations that are reviewed during this study are as follows:

## **2.19 Review of Books, Journals and Previous Research**

### **2.19.1 Review of Books**

**Khadka** (1994), 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. He had identified the major problems of income tax as narrow coverage, unscientific tax assessment and collection, defective system form the perspective of international taxation. Weak tax administration, imbalance and inadequate tax training, predominance of law level non technical posts, debatable scope of revenue investigation department, and lack of information system were the major problems of tax administration identified by him.

He had suggested some suggestions to overcome from the problems of income tax which were extension of tax coverage, scientific method of tax assessment, extension of withholding tax, inflation adjustment etc. He had also identified some possible direction for administrative reform. They were reorganization and expansion, applying integrated information system; research unit on taxation strengthening the revenue service. His book was analytical and very useful to obtain the various aspects of income tax.

**Dhakal** (1998), presented his extended, enlarged and modified edition of his book including value .added tax. This book is mainly based oil the syllabus of BBS third year. The provisions made under income tax laws and the methods of income tax assessment have been described with numerical examples. This book is more helpful to know about general information and provisions made

under Income Tax Act 1974. But he has not analyzed the role of income tax, income tax structure and defects of income tax system of Nepal. His book is informative rather than analytical.

**Adhikari** (2001), has published an article from *Rajaswa* vol.2. In his article he has explained to need of tax policy that can play significant role in the Nepalese economy. According to him, a little attention on tax administration can minimize the role of tax policy. Nepalese income tax is waiting for comprehensive and integrated taxation plan and scientific implementation of the same by the way of reform. Further he has stated Nepalese tax system has three types of gapes. They are investigation and identification gap, return filling gap assessment and collection gap. He has suggested that the tax administration should consider as a important component of tax policy to achieve the goal of revenue maximization through taxation.

**Khadka** (2001), has published a book named “Income Taxation in Nepal. Retrospect and Prospect”. This book has complete information of Nepalese income taxation. From the income tax around world to the draft Income Tax Act 2001(Later it became Income Tax Act 2002), all the information and major provisions regarding the matter are mentioned in the book. Besides these, Income Tax Act 1960, 1962 and 1974 in detail are also presented in the book. He has described what is the practice in the world, what was the practice in Nepal and at present, the all terms relating to the tax. The book is a knowledgeable for all of them those who are concerned about income tax such as CA, Auditor, Administrator, Policy-Maker, Teachers, Students etc.

**Mallik** (2003), has published book named "Nepalese Modern Income Tax System". He had described historical aspects of income tax and legal provisions relating to income tax with numerical examples. This book is very useful to know the general information and legal provision of Income Tax Act, 2002. His focus is on Income tax in Nepal, role of income tax, administrative

and legal aspect of income tax in Nepal. His study is useful to find out facts and figures about the income tax in Nepal at that time.

**Kadel** (2003), had criticized the Income Tax Act 2002 on several grounds. Exemption of agriculture income from income tax, export duties levied on export, inequality between different capital earned income (i.e. tax on interest, dividend, and capital gain), and withdrawal of the provisions of exemption suddenly and no adjustment for inflation are the major issues raised in his article. He further criticized the Act for the provision of income tax from export as 0.5 percent of total export because it is not a good choice of income tax base.

**Agrawal** (2004), has published a book entitled, "Income Tax; theory and practice". This book has focused on the students of chartered accountants and taxation. This book has also focused to be a practitioners' reference and handbook, rather than a theoretical compilation on the subject. His book is not only based on descriptive facts but also has interpreted the various provisions of the new act. Simple and clear language has been used in this book. Sufficient theoretical concepts with clear interpretation as well as sufficient examples are included in this book. This book has depth theoretical concepts and examples. Some sections of ITA 2058 act have been compared with the international accounting standard. Gain or loss adjustment of depreciated assets is all examples. All terms are clearly defined with sections under which the terms are included.

**Amatya** (2004), and other two senior tax teachers have published the book aiming to fulfill the course requirement of BBS, BBA, LLB, LLM, CA, MPA, MBS and MBA, students. This book has defined all the terms relating to income tax and Value Added Tax. The examples presented in the book help the reader to know more about provisions and procedures of the act. Furthermore, this book has enough practical examples also.

**Bhattarai** and **Koirala** (2004), however the concentrated in the syllabus of MBS Second year of T.U, the book is quite informative. The book has much more practical problems and solutions regarding income tax assessment from different groups of income point to remember (PTR) in each and every chapter has made the book more useful to all the user of book.

**Khadka** (2005), wrote a book entitled “Modernizing Tax Administration in Nepal”. This book is very much useful to everyone who is interested in Nepalese income Taxation. This book gives almost complete information about the tax system of Nepal. From its ancient time to current situation of income tax system. He has shared his expertise in his book. Basically author focuses on the administrative aspect of tax system of Nepal.

### **2.19.2 Review of Articles**

**Agrawal** (1978), a research team leaded by Dr. Govinda Ram Agrawal. A senior research officer of CEDA has conducted a research in the topic 'Resource Mobilization for development: The reform of income tax in Nepal.' This research report was published by CEDA, Kathmandu. Agrawal and this team have focused this stud, to analyze the various aspects of income tax in Nepal. The period covered by this study was twenty Eight years from 1951/52 to 1978/79. Both primary and secondary sources of data were used for the conduct of this study. Some of the important objectives of this study were as follows:

- ) To examine the problem of growing resource gap in Nepalese finance in the context of the role income tax.
- ) To examine the buoyancy and elasticity of income tax in Nepal including projection of income tax.
- ) To examine new personal for mobilization of additional domestic resources from income tax in Nepal.
- ) To examine possibilities for making income tax as policy instrument for reducing inequalities of income and wealth in Nepal.

- ) To examine the ways and means for increasing tax consciousness in the, Nepalese public.

Agrawal and his team, in this study, have pointed out various findings and recommendations. Some remarkable findings and recommendations of the research were as follows:

- ) Needs for additional resource mobilization was growing by 85 times in Nepal and she was experiencing a serious and growing problem of resource gap.
- ) Income tax administration in Nepal suffered from a number of interacting and inter-related problems, which have badly affected its productivity.
- ) Income tax has been a fast growing category of tax revenue in Nepal.
- ) More than 50 percent of the total income tax revenue was contributed by the individuals' taxpayers.
- ) Buoyancy of income tax with respect to GDP for period 1967/68 to 1975/76 was 2.18 and elasticity was 2.01 since both buoyancy and elasticity were greater than unity-Nepal, Was positively income tax I responsive to change in GDP.
- ) The main defects of the income tax administration was failure to locate new tax payers , to maintain the proper accounts, delay in assessment, poor taxpayers compliance, evasion and avoidance of tax. And defectives management.

### **Recommendations**

- ) Additional domestic resources should be mobilized through taxation.
- ) Tax structure of Nepal need to is redesigned in order to increase the role of direct tax.
- ) Income tax should be reformed in Nepal.

**Kandel (2001)** wrote an article "Draft of Income Tax Act 2001 Critical Analysis". He criticized the income tax act 2002 on several grounds.



Exemption of agriculture income from income tax, expert duties levied on expert, inequality between different capital earned income withdrawals of the provision of exemption suddenly and on adjustment for inflation are the major issues, he rose in his article.

Chandramani Adhikari explained the need of tax policy that plays a vital role in the whole fiscal policy. He further said that the little attention on tax administration has minimized the role of tax policy. He has presented the issue in Nepalese tax administration, Such issues are: tax structure, major sector of income tax, trend and growth of income tax- He has accepted that Nepalese income tax system is waiting for comprehensive and integrated taxation plan and a scientific implementation of the same by way of reform.

In his study, Adhikari explained the types of income tax gap, which are investigation and identification gap, internal turn filing gap, assessment and collection gap. He tried to declare the mission vision and activities of internal revenue department. He suggests achieving all the practical purpose, objectives and goals; tax administration should be regarded as an important component of tax policy (Adhikari, 2001).

**Thapa** (2002), wrote an article entitled "Business Age" head described the tax system, features of tax and causes of reform the tax, He had defined the areas for the reform of tax system in Nepal. They were low rates on broad base, simplicity and neutrality, gradual abolition of exemption deduction and holidays to broad tax base few rates or single rate, few tax with high revenue productivity, emphasis on tax compliance rather than coercive enforcement, incentives to brewing and investment, conversion of sales and service taxes into VAT, excise duty only on cigarette, tobacco, alcohol, automobiles, petroleum and abolition of surcharge and additional duty system to made the tax system, making tax system internationally compatible to attract foreign investment.

**Pant** (2004), had written an article entitled "Problems in Tax Administration and Their Remedies" published in journal of finance and development 'Rajaswa' 2004, April Vol. 1. He had comprehensively explained about the problems and their remedies related with tax revenue and major types of practical problems and challenges in tax administration. He had mentioned in his article were showing limited amount of transaction showing low selling price, lack of issuing and taxing bills, lack of showing the real factory cost, commercial trend, lack of co-operation in tax auditing, legal ambiguity and complexity in implementation and lack of coordination between inland Revenue Department and Revenue investigation unit. Meanwhile, he had recommended some valuable suggestions to solve the problem and to overcome the challenges. They were statistical and information system should be properly managed, fixed norms and standards should be used to assess selling price and factory cost, the billing system should be made compulsory, coordination between inland Revenue office with various entities of Government Revenue Investigation Department and its related unit should play the important role and auditing of the topic "Corporate tax Structure and Production" in 1993 which prepared by JEFFREY BERNSTEIN and ANWAR SHAH. They had conducted their research taking Mexico and Pakistan as a sample. As per their investment tax credits investment allowances and accelerated capital consumption allowance were most effective promotion investment then more general tax incentives such as corporate tax rate reduction from that research they reached the summery and conclusion in the elasticity of rental rate of capital stock and in the benefit-cost ratio.

**Norregard and Khan** (Dec. 2007), has prepared a IMF working paper (International monetary fund IMF) fiscal affairs Department tax policy; Recent Trends and coming Challenges. This paper provides an overview of the key economic factors that shape tax policy reform in many high incomes. Countries, Developing countries, and/ or transition economies, The paper describes and evaluates global and regional development with respect to tax rate and revenue

ratios owner the last some 20 years, and discusses selected structural reform initiatives that have been high on the policy agenda over this period, In particular, it focuses on developments relation to experiments with the restructuring of corporate tax, the impact of corporate taxes on IDI key reform initiative that have been high on the policy agenda, Over this period in particular it focuses on developments relation to experiments with the restructuring of corporate tax, the impact of corporate taxes on IDI, Key reform initiatives including dual income taxes and flat taxes, as well as the world wide spread of the VAT and policy development associated with climate change and natural resource taxation.

**Dhakal** (2008), had written an article entitle "Historical perspective on income tax in Nepal" this article has describe previous income tax act and shown main fatigue of income tax act 2058 are as follows:

- ) Provision of set and carry forward of losses.
- ) Classification and pooling of depreciable Assets.
- ) Tax on capital gain
- ) International taxation
- ) Medical tax credit
- ) With holding payment and quantification allocation and characterization of the amounts:

## **2.20 Review of Dissertation**

**Shauh** (1995), had conducted a research on the topic "*Contribution of Income tax in National Revenue of Nepal*". His research problems were the increasing resource gap and how income tax can be the means for resource mobilization, The main objective of this research were to show the contribution of income tax in government revenue to show the resource gap in Nepalese finance to highlight the importance of income tax as a source avoid financial deficit to find out the rate and per capital burden of income tax and trend and structure of income tax in Nepal.

His research design was historical and descriptive. He had used only secondary data of 21 years from 197/75 to 194/95. Data collection and analysis procedures were consulting the required government and non-government offices and simple arithmetic rule chart and diagram were applied to analyze data from that research he had found out and concluded that income tax can be the vital source for internal resource mobilization to fulfill resource gap. Only 0.35% of total population came and the categories of tax payers in Nepal during his research period. He found that collection of income tax was gradually growing and the contribution of income tax in total tax revenue and total national revenue were 9.95% and 7.94% respectively similarly, he also concluded that individual tax payer had higher contribution income tax then salaried tax payer.

**Shrestha** (2001), has presented a dissertation named "*Revenue collection from Income Tax in Nepal*" problem and prospects to T.U. In her study, she had described the conceptual frame work, legal provision administrative aspect and structure of income tax in Nepal. She has been conducted and opinion survey in respect of problem and prospects of income tax in Nepal.

He finding about problem of Nepalese income tax system were mass poverty narrow tax coverage and lack of consciousness of tax payer, predominance of agriculture widespread evasion and avoidance of income tax, unscientific tax assessment procedure in efficient tax administration, complicated tax laws and procedures instability in government policy. She had found various weak point of Nepal ease tax administration. The major weak point are: failure to maintain proper account and seconds defective selection of personally lack of trained and competent tax personnel, undue delay in making assessment, lack of motivating in tax personal, existence of corruption.

She suggests that income tax system will be succeeded if the system were widening of tax coverage, tax consciousness to people, minimize the evasion

and avoidance problem, and enhance the self assessment system reform in income tax assessment and administration system.

**Pradhan** (2002), study is basically concerned with historical background, contribution of income tax to the public revenue, contribution of Nepal Telecommunication Corporation (NTC) to income tax, effectiveness of income tax collection. She had found the contribution of income tax from public enterprises in Nepal was not significant due to poor achievement, weakness in government's economic policy and deficiency in legislation. NTC has been contributing effectively to total income tax revenue. Contribution of tax revenue on GDP of Nepal was lower than other SAARC countries except Bangladesh. Average contribution of income tax from NTC to total tax revenue, total income tax revenue and total government revenue was 2.37 percent, 15.60 percent and 1.93 percent in her study period.

Her suggestion about income tax system were clear cut provision, discretionary power of tax officers should curtailed, assessment and collection provision should be made clear and simple, provision of reward, prize, incentive should introduce to encourage the taxpayers to pay voluntarily, compulsorily provision of auditing, etc. For the improvement income tax administration in Nepal, she had suggested promotion and rewards to active, efficient and honest tax personnel, tax education to tax payers, strict actions against corruption and reduction of delays in tax assessment. Specially, her study had focused on the study on Nepal Telecommunication Corporation.

**Palli Magar** (2003), had covered tax structure, role of income tax and exemptions and deduction provided in the law. He had found that there was dominated share of tax structure in Nepalese government revenue. Income tax had occupied third positions his study period and it was increasing trend. The tax/GDP ratio was not found satisfactory. With the income tax, there was the dominated role of corporate income tax but it was in decreasing trend and

contribution of individual income tax was second position and it was in second position it in 1 me, trend. Lack of trained employees, shortage of income tax expert's professional in tax administration, lack of public participation, faulty organizational structure of tax administration, weakness in government policy, defective income tax act were the major cause for inefficient tax administration, observed by him. His suggestion about exemption were: revision the exemption unlit, elimination double taxation oil dividend, tax rebate, for submitting true income statement in time, increase income tax rate slab up to 10, increase the exemption limit to individual as well as family etc. Besides above, suggestions about deduction were: clear provisions for deduction; frilly allowed interest expense, pollution control expenses, repair and improvement expenses, research and development expenses. He is totally concentrated oil the exemption and deduction iii study. He has not study about various aspect of income tax.

**Sherchan** (2003), study had covered tax structure, role of income tax and legal provision of income tax. But specially, his study had focused on provision of fines and penalties. He had found that there was dominated share of tax revenue in Nepalese government structure. Income tax had occupied third position in his study period and it as increasing trend. The tax/GDP ratio was not found satisfactory. With the income tax, there was the dominated role of corporate income tax but it was in decreasing trend and contribution of individual income tax was second position and it was in increasing trend.

He had suggested revising the position of fees and penalties, introducing reward, prize, incentives position, clear income tax, rules and regulation, clear right and duties of tax officers. Further, his suggestions were: timely revision in income tax policy, computerized system for payment of income tax. This study was done with main objectives of analyzing tax structure of Nepal, analyzing the position of fines and penalties under income tax law, know the taxpayers knowledge and tax officers view about fines and penalties. His study had

focused only on study on provision of fines and penalties. So, this study is incomplete study.

**Gautam** (2004), has concentrated his study on “*Contribution of Income Tax to National Revenue of Nepal*”. In this study, he analyzed the contribution of income tax to national revenue of Nepal and volume of indirect tax and direct tax in total tax revenue. He also examined the effectiveness of income tax revenue collection in Nepal. In his study he found that the contribution of tax revenue shows the decreasing trend as it had contributed of tax revenue shows the decreasing trend as it had contributed by 85.2% in fiscal year 1982/83 on the total but it was decreased to 78.0% in 2001/2002. He also state that there is dominant tax revenue to total revenue is 20.63% and 79.40% over the study period. Lastly he recommended that taxes ratio should be increased gradually on long run basis to meet the deficit in budget for this, the tax base should be widened. The principle of ability to pay should be completely adopted.

**Kafle** (2004), Presented a dissertation named “*Income Tax Contribution from Nepalese Public Enterprises with reference to Nepal Electricity Authority*”. His finding was: income tax is a suitable source of mobilization domestic resources. It may enhance the government revenue promote socio-economic justice encourage private sector investment. Lack of clear transparent and progressive economic policy is the main reason for unsatisfactory with sound effectiveness of income tax system of Nepal. Existing cooperate tax rate has been found suitable and single rate for all types of corporation is preferred, Incensement of managerial efficiency of managerial efficiency of PEs clear income tax policy, rules and regulation, effective tax administration system and effective of some considerable points to increase the contribution of income tax from PEs.

**Shrestha** (2006), has tried to shown the “*Contribution of Income Tax Oil the Structure of Government Revenue in Nepal*”. She stated that the composition of tax and note tax revenue is still less satisfactory in Nepal. She found that total

revenue, total tax revenue and direct tax revenue have all increasing trend in Nepal but in low rate. She has mentioned that tax evasion as the major problem of income tax system in Nepal. In her study, inefficient tax administration, unconsciousness of tax payer, lack of scientific method of tax assessment and collection have identified as the major reasons for tax evasion at high level.

**Chalise** (2007), has presented a thesis entitled “*A study on Contribution of Income Tax to Government Revenue*”. The objective of the study was to analyze the structure of government revenue, identify the ways and cause of income tax evasion and to make suggestion and recommendation for the elimination of income tax evasion. In his study he found that the average contribution of custom, VAT (Sales Tax), income tax and excise duty were 25.03%, 24.63%, 15.48% and 8.46% of total revenue respectively for the period of 10 years i.e. from fiscal year 1996/97 to 2005/06. Inefficient income tax administration, reluctance of taxpayer to maintain account, poor tax morality and taxpayers’ compliance is the major causes of income tax evasion in Nepal. Controlling illegal business activities, fine and penalties to tax evaders, incentives to regular taxpayers are the major ways of controlling income tax evasion in Nepal.

**Dotel** (2007), present a dissertation named “*Income Tax Act 2058; Expectations and Realities*”. The objectives of the study was to measure the effectiveness of Income Tax Act 2058 both in theory and practice, to review the views of taxpayers, tax experts and tax administrators to ITA 2058. He found that Income Tax Act 2058 seems effective because it has the features of provisions of international taxation, taxing capital gains and dividends income, abolition of various tax related concession, rebate and exemption etc. He also found that the most of taxpayers, tax administrators and tax experts are acquaintance to present Income Tax Act. However they suggest that some of the words in the act needed to be further simplified.



**Oli** (2007), in his dissertation named “*Income Tax Management in Nepal*”. He has focused on the managerial aspect of taxation in Nepal. His research study is concentrated on corruption practice of tax in various revenue department and tax offices. On the basis of primary survey, he has concluded that the corruption practice is high in tax offices. He has also focused that the imposition of fee, fine and penalty is not effective due to the poor implementation of act and corruption. He had suggested that to increase income tax, provision of fees, fines and penalties should be implemented properly along with income management.

**Sapkota** (2008), presented a dissertation entitled “*Contribution of Income Tax to National Revenue; Before and After Enactment of Income Tax Act 2058*”. The main objective of the study was to analyze the contribution of income tax in national revenue before and after enactment of Income Tax Act 2058, to provide suitable suggestion for the betterment of income tax system in Nepal. During his study, he found that performance of income tax before and after new act seems not regular. The new income tax act is introduced on 2001/2002 and total income tax has first time declined by 210.3 million and by -2.3% that year. It further decreased by 937.5 million and -10.5% for FY2002/03. In FY2000/01 growth rate was 22.8% and that was more than 20% for other preceding year but is just 2.1% in the year FY2005.06. He suggested that overall revenue policy as well as tax policy should be revised. Tax offices should be decentralized for broad coverage of geographical region. Different recent technologies such as e-taxation should be introduced and promoted to avoid complexities and delay in income tax administration.

**Oli** (2008), presented a dissertation entitled “*Contribution of Individual Taxpayers to Income Tax Revenue of Nepal*”. The objective the study was to examine the structure of government revenue, analyze the volume of direct and indirect tax to total revenue, analyze the contribution of individual tax payer to income tax revenue as well as total public revenue of Nepal etc. He has found

that the tax revenue is 79.45% of the total revenue of Nepal in FY2005/06. There is dominant role of indirect tax revenue in Nepalese tax revenue. It was major contribution by indirect tax revenue, which was 75.68% in FY2005/06, but the direct tax was 24.32%. The major contribution in the income Tax was from individual. It was Rs. 5998.80 million in FY 2005/06, But from the public enterprises was only Rs.195.70 million.

### **2.21 Research Gap**

Tax is the strong sources of Government revenue. It plays important role in revenue collection. To increase the revenue collection from tax the government should either increase the tax rate or make wide coverage. If tax collection is effective the government revenue will increase well. Tax system depends on its legal provision and its popularity also depends on its transparency for providing a lot of information about tax. Different researches have researched on the topics of income tax in different ways. Their objectives and analyzing system are in different way. After studying different research paper held on "A study on revenue study collection from income tax and its practical difficulties in Nepal", the researcher I make this research different for other found various gap on selected topic to make this different also analyze theoretical concepts. Analyze the reliable data and analyze the different views of different respondents.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

This chapter is devoted to the research methodology applied in the study for, the achievement for desired objectives. Both primary as well as secondary sources of data are used to conduct this study. Opinion survey technique was adopted while collecting primary data to find out the views of respondents representing different groups related to Income tax. This opinion survey was opted to find out the practical aspect of Income Tax. While conducting the opinion survey, questionnaires were distributed to the tax experts, tax officers, businessmen and consumers in the sizeable manner in Rupandehi.

#### **3.1 Research Design**

To achieve the stated objectives of the study, the study of income tax act 2058 made or descriptive research where as analytical research has been carried out in terms of role of vat in generating government revenue in Nepal. For an empirical research, an opinion survey has been conducted. The options of various seventy-five respondents associated with distinct denominations (groups) i.e. tax administrators, tax experts and tax payers were collected through structured questionnaire with reference to tax system of Nepal, major problem of tax system, remedy to minimize corrupt practice existed in Nepalese tax administration, cause of ineffectiveness of tax administration, the most important factor for effectiveness of tax including necessary suggestion for achieving effectiveness of tax in Nepal. Hence, the research methodology followed in the study can be termed as survey cum analytical and descriptive research design.

#### **3.2 Population and Sample**

In order to benefit this study 75-sample size from Rupandehi is selected. Persons included in the sample are carefully selected by consultation with tax experts, professor and judgment of the researcher. The respondents have been

divided in to four groups. The following table shows the group of respondents and the size or samples:

**Table 3.1**

**Groups of Respondents and Size of Samples from Each Group**

<b>Serial Number</b>	<b>Group of Respondents</b>	<b>Sample Size</b>	<b>%</b>
1.	Tax Experts	25	33.33
	Tax Administrations	25	33.33
3.	Tax Payers	25	33.33
	Total	75	100

### **3.3 Source of Data**

Both primary as well as secondary source of data have been collected in order to achieve the real and fact full result from this research. All the possible and useful data as far available have been collected. The major sources of data are as follows:

#### **a. Primary Data**

The major tools used for the collection of primary data are distribution of a questionnaire to a responsive of persons. A set of questionnaire was developed and distributed to the selected respondent's in order to get accurate and actual information. The questionnaire was distributed to different tax group i.e. tax experts, tax administrations and tax pavers. Tax experts and tax officers are selected from tax department, various sectors of tax officers in Rupandehi and Ministry of Law and Justice, reputed lawyers, auditors, and. intellectuals who have knowledge and ideas about tax. Tax payer's i.e. business-men and consumers are selected from different manufacturing company trading company, department stores, shopping center, finance company etc.

#### **b. Secondary Data**

The secondary sources of data are the information serviced from books journals, newspapers, reports and dissertations etc. The major sources of secondary data

are from economic survey and annual reports, Ministry of Finance, Publications, Tribhuvan University, reports and records of department of taxation, Ministry of Finance, dissertation related to tax available at library of Shanker Dev Campus, central library of TU, publication of tax projects, publication of tax department, economic review and indicators from Nepal Rastra Bank, world development report, published documents of Nepal Rastra Bank and national planning commission, books related to tax, national news paper, journals, souvenir and news magazines, other relevant records and data related to his studies.

### **3.4 Data Collection Procedures**

A total 75 sets of questionnaire were distributed to the selected respondents in order to get actual and accurate information. Distribution work is done personally rather than sending by any means to get accurate and actual information in time.

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

The information revived from primary and secondary sources is firstly tabulated in to separate formats systematically in order to achieve desire objectives. After that these data are tabulated and analyzed. For the purpose of analysis generally simple statistical tools have been used which are simple percentage methods, ranking methods, graphs, charts and diagrams.

## CHAPTER - IV

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Analysis of Secondary Data

##### 4.1.1 Revenue Collection from Tax

The main source of revenue collection of government is tax revenue the revenue collection from tax is in increasing trend. The revenue collection from tax in fiscal year 2001/02 is Rs 39330.6 million but in FY 2008/09 the revenue collection is Rs. 68080.20 million it shows the revenue collection from tax is increasing trend. Following table shows the revenue collection from tax in different year. Tax revenue includes customs, tax on consumption and product of goods and services land revenue and registration and tax on property profit and income. The total tax collection during the seven year is as follows:-

**Table 4.1**  
**Revenue Collection from Tax**

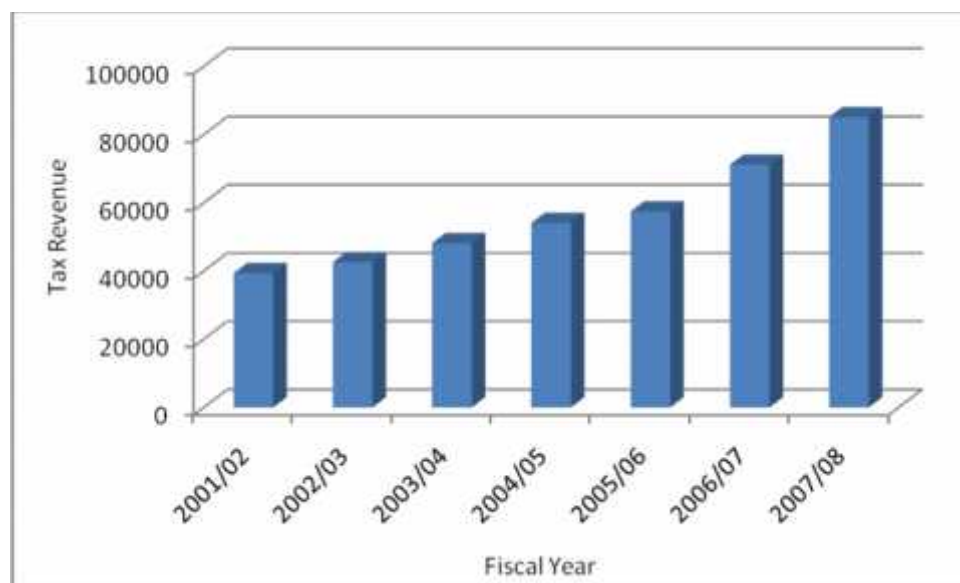
(Rs. in Million)

Fiscal Year	Tax Revenue
2001/02	39330.6
2002/03	42587.0
2003/04	48173.0
2004/05	54104.7
2005/06	57430.4
2006/07	71126.7
2007/08	85115.54

*Source: Economic Survey 2008/09 MOF*

From the above table the revenue collection from tax was increased from to F/Y 2001/02 to 2007/08 the above explanation can be shown in following figure.

**Figure 4.1**  
**Revenue Collection from Tax**



#### 4.1.2 Composition of Tax Revenue

Tax revenue includes the tax from customs, tax oil consumption and product of goods and services land revenue registration, tax oil property profit & income the composition of tax revenue in different year is given in following table.

**Table 4.2**  
**Composition of tax Revenue**

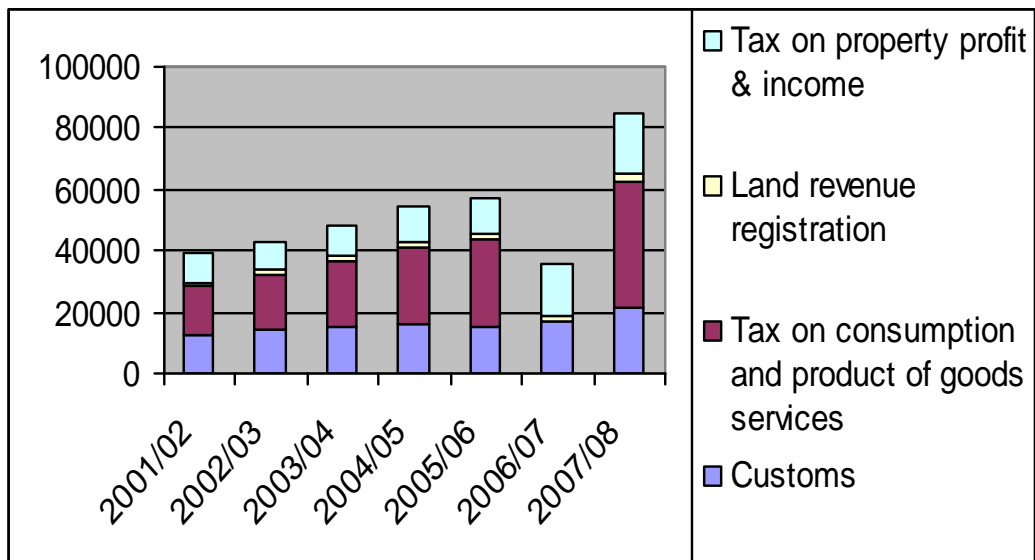
Rs. in Million

<b>F.Y.</b>	<b>Customs</b>	<b>Tax on Consumption and Product of Goods Services</b>	<b>Land Revenue Registration</b>	<b>Tax on Property Profit &amp; Income</b>	<b>Total</b>
2001/02	12658.8	16074.3	1131.8	9465.7	39330.6
2002/03	14236.4	18244.8	1414.3	8691.5	42587.0
2003/04	15554.8	20705.6	1697.5	10215.1	48173.0
2004/05	15701.6	25331.3	1799.2	11272.6	54104.7
2005/06	15344.0	28118.3	2181.8	11787.0	57430.4
2006/07	16707.6	35433.5	2253.5	16726.8	71126.7
2007/08	21062.50	41005.32	2940.74	20147.2	85155.76

*Source: Economic Survey 2008/09, MOF*

In Nepal the major sources of government revenue is tax revenue- In the tax revenue the major sources of tax is custom tax which includes. Imports, exports, Indian excise returned and others. Another major source of tax is tax Oil consumption product goods and services which includes exercise on industrial products and value added tax. Another source of tax is tax on income tax from public enterprises income tax from semi-public enterprises, income tax from private corporate bodies and income tax from individuals. Tax from remuneration, House and land tax, vehicle tax, tax on interest and others. The tax collection from different year in different year in shown in above table which shows the every sources of tax is in increasing trend the above data can be shown following figure.

**Figure 4.2**  
**Composition of Tax Revenue**



**4.1.3 Composition of Tax Revenue and Non Tax Revenue**

Tax revenue includes tax from customs, tax on consumption and product of hoods and services land revenue and registration and tax on property, profit and incomes. Non tax revenue includes charges. Fees, fines and forfeiture, receipts from sale of commodities and services dividend, Royalty and sales of fixed assets, principal and interest payment and miscellaneous. The composition of



tax revenue and non tax revenue of government in different year in given in following, tables:-

**Table 4.3**  
**Composition of Tax Revenue and Non Tax Revenue**

(Rs. in Million)

<b>F.Y.</b>	<b>Tax Revenue</b>	<b>Non Tax Revenue</b>	<b>Total Revenue</b>
2001/02	39330.6	11115.0	50445.50
2002/03	42587.0	13642.70	56229.80
2003/04	48173.0	14158.0	62331.0
2004/05	54104.7	16018.0	70122.70
2005/06	57430.4	14857.7	72282.10
2006/07	71126.7	16585.8	87712.10
2007/08	85155.76	22467.04	107622.58

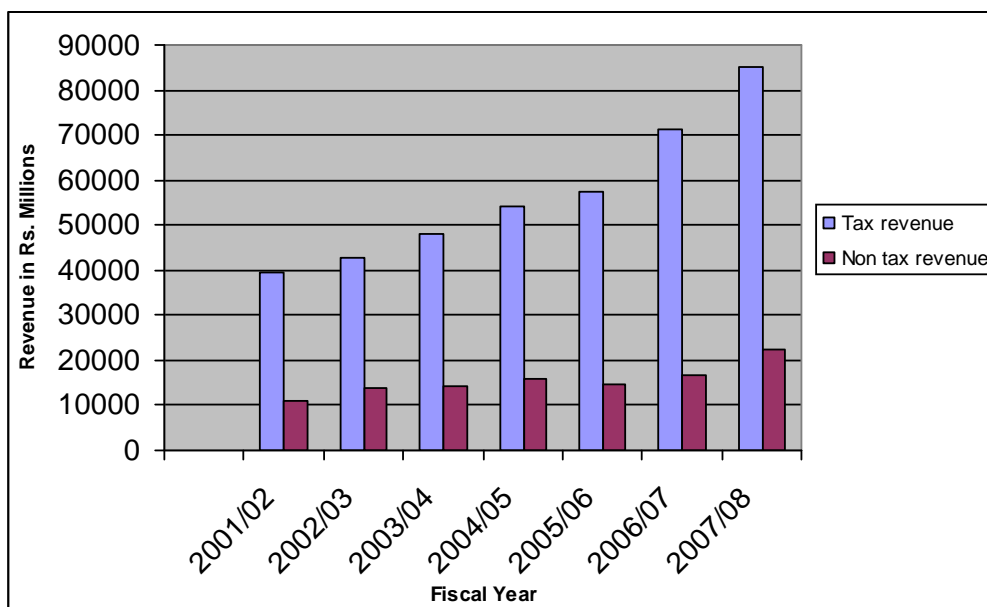
*Source: Economic Survey 2008/09, MOF*

From the above table it is clear that the major of part of total revenue is tax revenue.

The revenue from tax in year 2001/02 was Rs 39330.65 million and from non tax revenue was Rs 11115.0 million similarly the revenue from tax in fiscal year 2002/03, 2003/04 , 2004/05, 2005/06, 2006/07 and 2007/08 Rs 42587.0, Rs 48173.0, Rs 54104.7, Rs 57430.4, Rs 71126.7, Rs 85155.76 million. Similarly revenue collection from non tax were in fiscal year 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 were Rs 13642.7 million, Rs 14158.0 million, Rs 16018.0 million, Rs 14857.7 million, Rs 16585.8 million and Rs 22467.04 million respectively. This explanation can be shown in following figure.

**Figure 4.3**

**Composition of tax and non tax Revenue**



**4.1.4 Revenue Collection from Income Tax**

Income tax is the main source of revenue for the government. Income tax includes corporate tax, individual tax and Interest tax. Corporate tax includes Income tax from Public Enterprises, Income tax from Semi-public Enterprises and Income tax from Private Corporate bodies. Individual tax includes income tax from Individual and Income tax from remuneration. Interest tax includes tax related to Interest Income.

In the fiscal year 2001/02 revenue collection from Income tax was Rs. 8903.40 Millions and in Fiscal year revenue from Income tax is increased to Rs. 17311.14 Millions. The following table shows the revenue collection from income tax in different year.

**Table 4.4**  
**Revenue Collection from Income Tax**

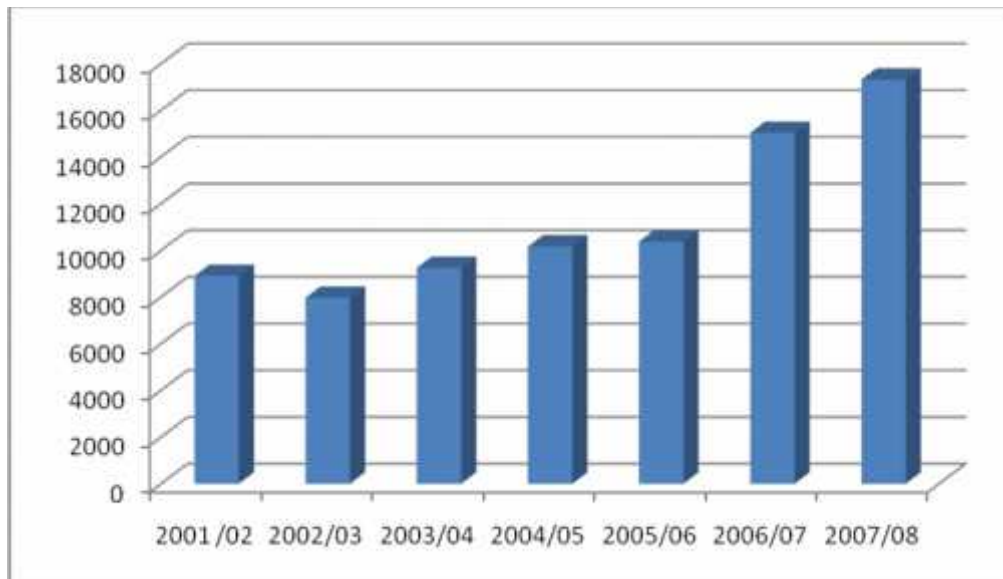
(Rs. in Million)

<b>Fiscal Year</b>	<b>Amount</b>
2001 /02	8903.7
2002/03	7966.2
2003/04	9245.9
2004/05	10159.4
2005/06	10373.7
2006/07	15034.0
2007/08	17311.14

*Source: Economic Survey 2008/09, MOF*

The trend of revenue collection from Income tax can be shown in folio figure.

**Figure 4.4**  
**Revenue Collection from Income Tax**



#### **4.1.5 Composition of Income Tax**

Income tax includes Income tax includes Corporate tax, Individual tax and Interest tax. Corporate tax includes Income tax from Public Enterprises, Income tax from Semi-public Enterprises and Income tax from Private Corporate bodies. Individual tax includes income tax from Individual and

Income tax from remuneration, Interest tax includes tax related to Interest Income.

The composition of Income Tax in year is given in following table:-

**Table 4.5**  
**Composition of Income Tax**

Rs. in Million

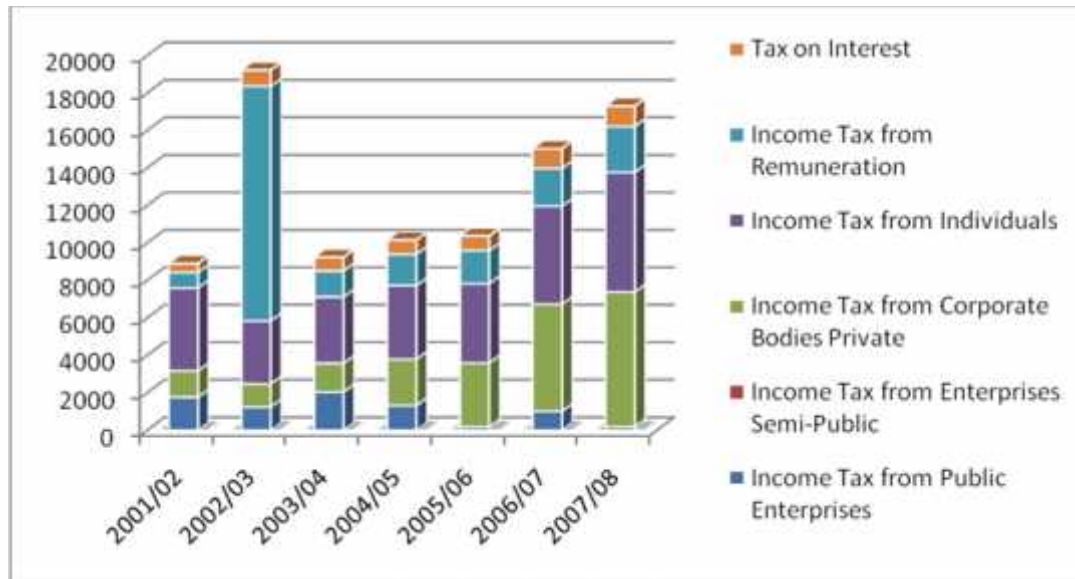
S. N.	FY /Heading	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
1.	Income Tax from Public Enterprises	1769.1	1251.0	2056.0	1332.4	195.7	1019.7	204.58
2.	Income Tax from Enterprises Semi-Public	0.0	0.0	0.0	0.0	0.0	0.0	0.00
3.	Income Tax from Corporate Bodies Private	1412.0	1236.3	1531.3	2467.8	3404.3	5717.1	7186.46
4.	Income Tax from Individuals	4419.1	3362.3	3533.4	3926.3	4234.7	5234.4	6381.21
5.	Income Tax from Remuneration	835.6	1251.6	1391.2	1675.9	1764.1	2007.9	2451.04
6.	Tax on Interest	467.7	864.0	733.4	757.0	774.9	1054.9	1087.93
	<b>Total</b>	<b>8903.7</b>	<b>7966.2</b>	<b>9245.9</b>	<b>10159.4</b>	<b>10373.7</b>	<b>15034.0</b>	<b>17311.14</b>

*Source: Economic Survey 2008/09, MOF*

The above table shows the consumption of Income tax revenue in different fiscal year. The above explanation can be shown in figure; the following figure shows the composition of Income tax revenue in different fiscal year.

**Figure 4.5**

**Composition of Income Tax Revenue**



#### **4.1.6 Contribution of Income Tax to Total Revenue**

The government total revenue includes Tax revenue and Non tax revenue. Tax revenue includes Tax from customs, Tax on consumption and products of Goods and Services, Tax from Land revenue and registration, Tax on property profit & Incomes. Similarly Non tax revenue includes charges, fees, fines and Forfeiture, Received from sales of commodities and Services, Dividend, Royalty and sales of Fixed assets, Principle and Interest payment and Miscellaneous items. Income tax is one part of Total revenue. The contribution of Income tax on the Total revenue in different year is given below:

**Table 4.6**  
**Contribution of Income Tax to Total Revenue**

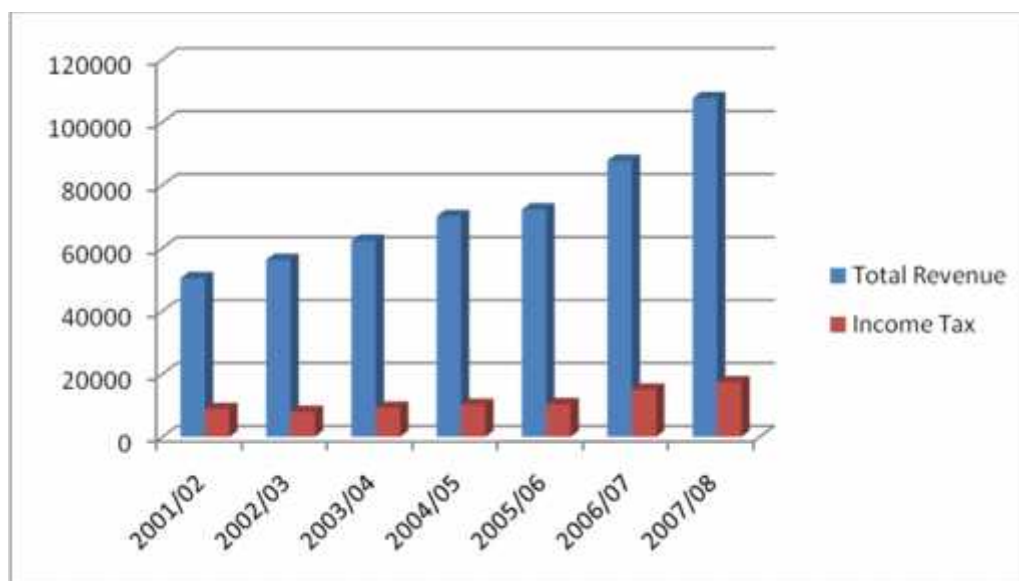
Rs. in Million

<b>Fiscal Year</b>	<b>Total Revenue</b>	<b>Income Tax</b>	<b>% of Income tax to Total Revenue</b>
2001/02	50445.6	8903.7	17.65
2002/03	56229.7	7966.2	14.17
2003/04	62331.0	9245.9	14.83
2004/05	70122.7	10159.4	14.49
2005/06	72282.1	10373.7	14.35
2006/07	87712.1	15034.0	17.14
2007/08	107622.58	17311.14	16.08

*Source: Economic Survey 2008/09, MOF*

In fiscal year 2001/02; the contribution of Income tax to total revenue was 17.65%. Similarly in fiscal year 2002/03; fiscal year 2003/04; fiscal year 2004/05; fiscal year 2005/06; fiscal year 2006/07; fiscal year 2007/08 were 14.17%, 14.83%, 14.49%, 14.35%, 17.14 and 16.08% respectively. Above table shows in an aggregate the contribution of Income tax in total revenue is 15.53%. The explanation can be shown in following figure.

**Figure 4.6**  
**Contribution of Income Tax to Total Revenue**



#### 4.1.7 Contribution of Income Tax to Total Tax Revenue

Total tax revenue includes tax from customs, Tax on consumption and products of goods and services, tax from land Revenue and Registration, tax on property profit & Incomes. So, Income tax is one of the components of Total tax revenue. The contribution of Income tax on the Total tax revenue is in average 19.83%. The following table shows the contribution of income tax to total tax revenue in different year.

**Table 4.7**  
**Contribution of Income Tax to Total Tax Revenue**

Rs. in Million

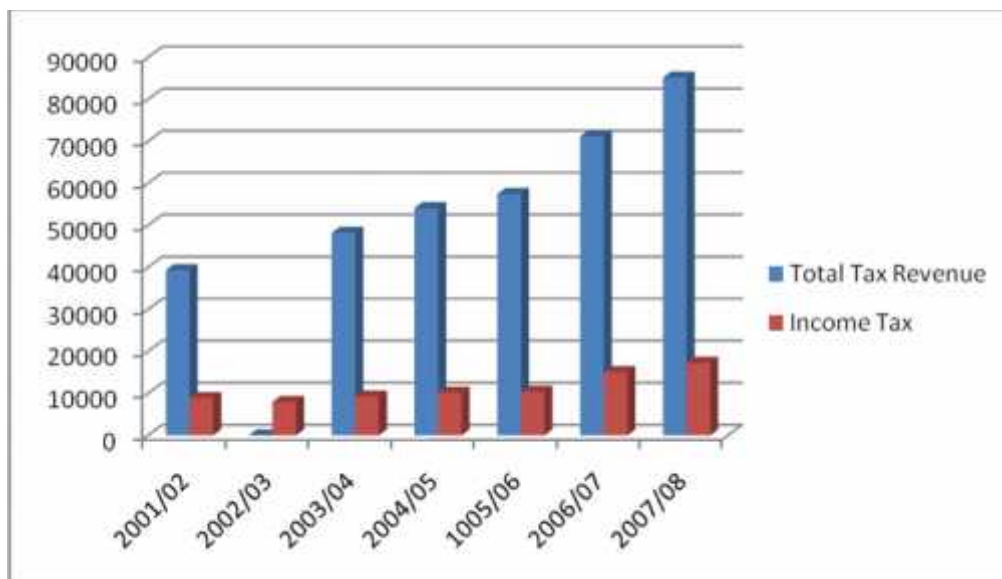
<b>Fiscal Year</b>	<b>Total Tax Revenue</b>	<b>Income Tax</b>	<b>% of Income Tax to Total Tax Revenue</b>
2001/02	39330.6	8903.7	22.64
2002/03	42580	7966.2	18.71
2003/04	48173.0	9245.9	19.19
2004/05	54104.7	10159.4	18.78
2005/06	57430.4	10373.7	18.06
2006/07	71126.7	15034.0	21.14
2007/08	85155.54	17311.14	20.32

*Source- Economic Survey 2008/09, MOF*

In fiscal year 2001/02 the contribution of Income tax to total tax revenue was 22.64%. Similarly in fiscal year 2002/03 fiscal year 2004/05 fiscal year as 2004/05; fiscal year 2005/06 fiscal year 2007/07 fiscal year 2007/08 and 2008/09 were 18.71%, 19.19%, 18.78%, 18.06%, 21.14% and 20.32% respectively. Above table shows in an aggregate the contribution of Income tax on total tax revenue is 19.83%. The explanation call is shown in following figure.

**Figure 4.7**

**Contribution of Income Tax to Total tax Revenue**



**4.1.8 Contribution of Income Tax to Direct Tax Revenue**

Direct tax revenue includes Tax from Land revenue, House and Land Registration Fees and Tax on property, Profit & Incomes. So, Income tax is one of the components of Direct tax revenue. The contribution of Income tax on the Direct tax revenue is in average 80.20%. The following table shows the contribution of Income tax to total tax revenue in different year.

**Table 4.8**

**Contribution of Income Tax to Direct Tax Revenue**

Rs. in million

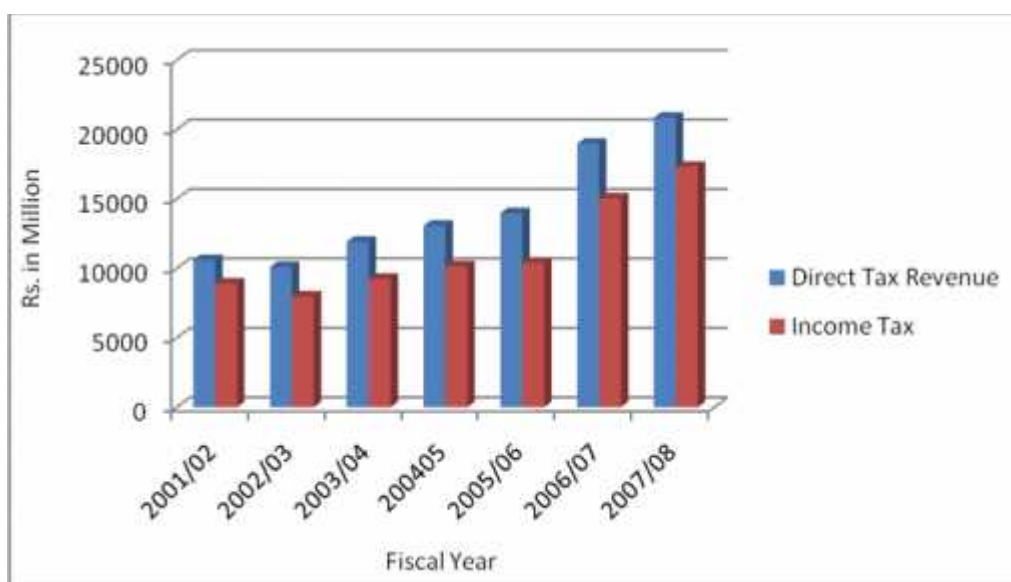
<b>Fiscal Year</b>	<b>Direct Tax Revenue</b>	<b>Income Tax</b>	<b>% of Income tax to Direct Tax Revenue</b>
2001/02	10597.5	8903.7	84.02 %
2002/03	10105.8	7966.2	78.83 %
2003/04	11912.6	9245.9	77.61 %
2004/05	13071.8	10159.4	77.72 %
2005/06	13968.1	10373.7	74.27 %
2006/07	18980.3	15034.0	79.21 %
2007/08	20857.1	17311.40	83.00 %



Source: Economic Survey 2008/09, MOF

In fiscal year 2001/02, the contribution of Income tax to Direct tax revenue was 84.02%. Similarly in fiscal year 2002/03 fiscal year 2001/04, fiscal year 2004/05; fiscal year 2005/06, fiscal year 2006/07 and fiscal year 2007/08 were 78.83%, 77.61%, 77.72%, 74.27%, 79.21% and 83.00% respectively. Above table shows in ail aggregate the contribution of Income tax on total tax revenue is 79.23%. The explanation can be shown in following figure.

**Figure 4.8**  
**Contribution of Income Tax to Direct Tax Revenue**



#### 4.1.9 Government Expenditure

Government expenditure includes the recurrent expenditure, capital expenditure and principal payment. In the fiscal year 2001/02 the total government expenditure is Rs. 80072.20 million which includes recurrent expenditure Rs. 48863.9 million, Capital expenditure is Rs. 24773.4 million and principal payment is Rs- 6434.9 million. In fiscal year 2007/08 the government expenditure is Rs. 161350.02 million, which includes recurrent expenditure Rs. 91446.99 million, capital expenditure Rs. 53516.10 million and principal payment Rs. 16386.93 million. The following table shows the government expenditure in different fiscal year.



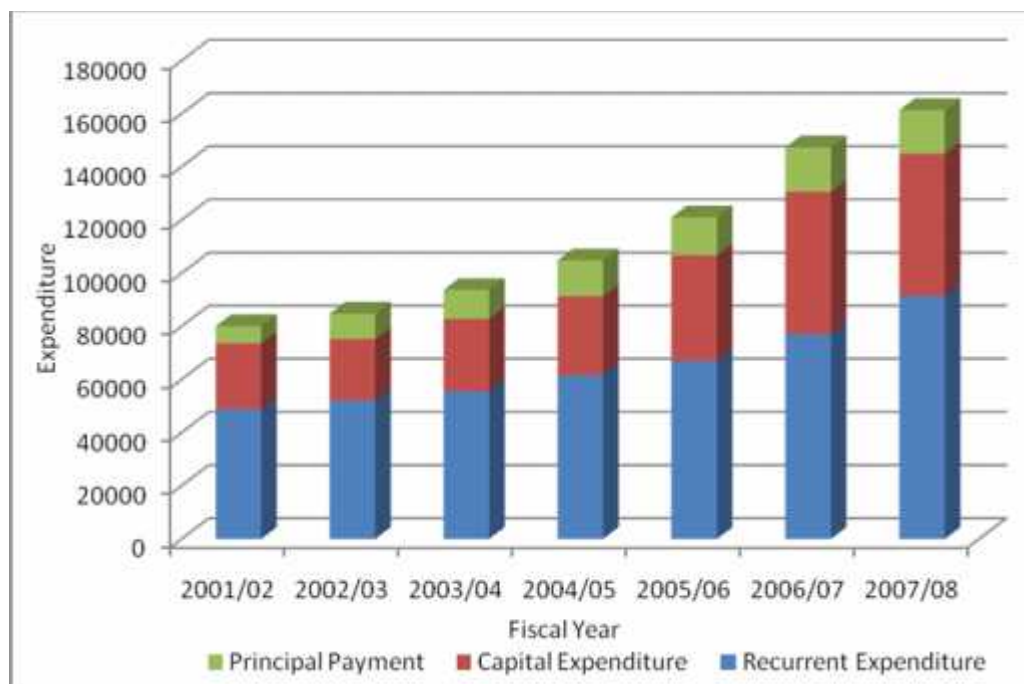
**Table 4.9**  
**Government Expenditure**

Fiscal year	Government Expenditure			Total
	Recurrent Expenditure	Capital Expenditure	Principal Payment	
2001/02	48863.9	24773.4	6434.9	80072.20
2002/03	52090.5	23095.6	9559.5	84006.10
2003/04	55552.1	27340.7	10794.9	89442.60
2004/05	61686.4	29606.6	13533.3	102560.40
2005/06	67017.8	39729.90	14264.8	110889.20
2006/07	77122.40	53516.10	16752.50	133604.60
2007/08	91446.99	53516.10	16386.93	161350.02

*Source: Economic Survey 2008/09, MOF*

The above explanation can be shown in following figure.

**Figure 4.9**  
**Government Expenditure**



#### 4.1.10 Government Receipts

Government receipts include the total tax and non tax revenue and foreign grants. The main source of government receipts is revenue. Total government

receipts in fiscal year 2001/02 was Rs. 57131.60 million which includes Rs. 50445.5 million from revenue and Rs. 6686.1 million from grants. Similarly total government receipts in different fiscal year and its composition is given in following tables.

**Table 4.10**  
**Government Receipts**

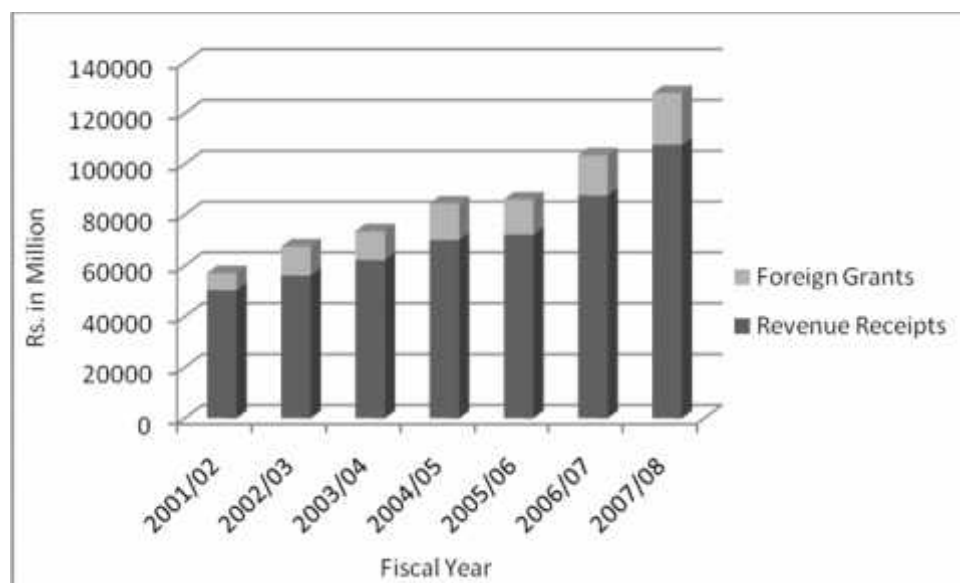
(Rs. in Million)

<b>Fiscal Year</b>	<b>Revenue Receipts</b>	<b>Foreign Grants</b>	<b>Total Receipts</b>
2001/02	50445.5	6686.1	57131.60
2002/03	56229.8	11339.1	67568.9
2003/04	62331.0	11283.4	73614.4
2004/05	70122.7	14391.2	84513.9
2005/06	72282.10	13827.5	86109.6
2006/07	87712.10	15800.80	103512.90
2007/08	107622.58	20320.70	127943.28

*Source: Economic Survey 2008/09, MOF*

Government receipts from revenue and foreign grants in different year can be shown in figure. Following figure shows the total receipts from revenue and foreign grants in different fiscal year.

**Figure 4.10**  
**Government Receipts Composition**



#### 4.1.11 Comparative study of Government Receipts and Expenditure

Government collect's revenue from different sources; they are tax revenue, non tax revenue and foreign grants. Government expenditure head mainly are recurrent expenditure, capital expenditure and principal repayment. Government collects revenue and grants and expenses in different heads. If receipt is more than expenditure there is surplus, if expense is more than revenue there is deficit.

Following table shows the government receipts, expenditure and surplus & deficit relation.

**Table 4.11**  
**Comparative study of Government Receipts and Expenditure**

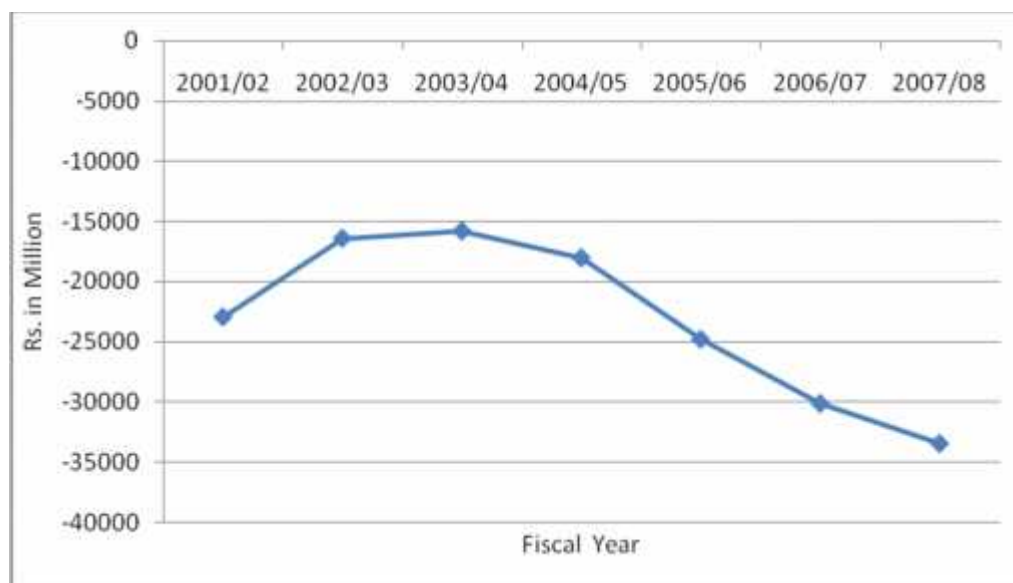
Rs. in Million

<b>Fiscal Year</b>	<b>Expenditure</b>	<b>Receipts</b>	<b>Surplus (+) / deficit</b>
2001/02	80072.2	57131.6	-22940.60
2002/03	74006.1	67568.9	- 16437.20
2003/04	89442.6	73614.4	-15828.20
2004/05	102560.4	84513.9	-18046.50
2005/06	110889.2	86109.6	-24779.60
2006/07	133604.6	103512.90	-30091.70
2007/08	161350.02	127943.28	-33406.74

*Source- Economic Survey 2008/09, MOF*

The above table shows the relation between government expenditure and government revenue. The table clearly shows the government expenditure is more than government receipts in and every year. Every year is deficit because expenditure is more than receipts. The deficit in fiscal year 2001/02, FY 2002/03, FY 2003/04, FY 2004/05, FY 2005/06, FY 2006/07 and FY 2007/08 was Rs. 22940.6 million, Rs. 16437.2 million, Rs. 15828.2 million, Rs. 18046.5 million, Rs. 24779.6 million, Rs. 30091.7 million and Rs. 33406.74 million respectively. The above explanation can be shown in following figure also.

**Figure 4.11**  
**Trend of Deficit**



#### **4.1.12 Exemption Limit in Nepal**

Exemption limit directly influence income tax revenue collection. Taxpayer having low tax capacity should exclude from the tax net for the social justice and economic balance between rich and poor- The exemption limit provided in the various years is presented in the table 4.12. In the earlier time, there was equal amount of exemption to all the taxpayers i.e. individual, couple, fault' and corporate bodies. Exemption limit to all taxpayers was Rs. 7000 in the FY 1959/60 to FY 1962/63. The exemption limit to the corporate taxpayer was curtailed from the FY 1965/66. The exemption limit to the couple and family was equal each year except FY 1967/68 to FY 1973/74 and FY 1975/76 to FY 1978/79. The exemption limit to the family was Rs. 6000 in the FY 1967/68 to FY 1973/74 whereas it was RS. 4500 to the couple. The exemption limit to couple and family was Rs. 6500 and 7500 respectively in the FY 1974/75 and it was further extended by Rs. 1000/1000 for the fiscal year 1976/77 to 14978/79. From the table, it is clear that exemption limit is extended according to need of time and income condition. At present time, individual having the taxable income up to Rs. 115000 are exempted from tax and that for couple is Rs. 140000.

Note that if it is pension income of a resident person, the exemption limit would be exemption amount plus 25 percent of exemption amount.

**Table 4.12**  
**Exemption Limit in Nepal**  
**From fiscal year 1959/60-2005/06**

<b>Fiscal Year</b>	<b>Individual</b>	<b>Couple</b>	<b>All Taxpayers</b>
1959/60-1962/63			7000
1963/64-1964/65			6000
1965/66-1966/67	-	-	5000
1967/68-1973/74	3000	4500	-
1974/75	4500	6000	-
1975/76	5500	6500	-
1976/77-1978/79	6500	7500	-
1979/80-1980/81	7500	10000	-
1981/82-1982/83	10000	15000	-
1983/84-1989/90	15000	20000	-
1990/91-1991/92	20000	30000	
1992/93-1996/97	25000	35000	-
1997/98	30000	40000	
1998/99	40000	50000	-
1999/00	55000	75000	-
2000/01	55000	75000	-
2001/02	65000	85000	-
2002/03	65000	85000	-
2003/04	80000	100000	-
2004/05	80000	100000	-
2005/06	100000	125000	-
2006/ up to now	115000	140000	

*Source- Finance Acts of Various year, Ministry of Finance*

## **4.2 Analysis of Primary Data**

### **4.2.1 Introduction**

The survey result has been conducted to find out the various aspects of income tax in Nepal. The structured questionnaire was prepared and distributed for this purpose. The opinion of the various 75 respondents associated with distinct denominations i.e. tax administration, tax expert and tax payers were collected.

The questionnaire has covered role of income tax, major problem of income tax system, problems facing by tax payer, the most important factors for the effectiveness of income tax system in Nepal (see the format of questionnaire in a appendix 1). The respondents were asked either to response yes/no or for ranking of choices according to no of alternatives where first choice was the most important and last choice was least important. Number of respondents in each denomination is equal 25. Information received from the respondents are tabulated and analyzed in the proper way.

**Table 4.13**

**Group of Respondents and Number from each Group**

S.N.	Groups of Respondents	No.
1	Groups Tax Administrators	25
2	Income Tax Experts	25
3	Income Tax Payers	25
	Total	75

*Source: Estimated Figure*

**4.2.2 Result of Empirical Investigation**

**4.2.2.1 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 questions was asked "Do you consider that income tax is the suitable means of raising government revenue in Nepal?" The respondent's responses are tabulated in the following table.

**Table 4.14**

**Income Tax as a Suitable Means of Raising Revenue**

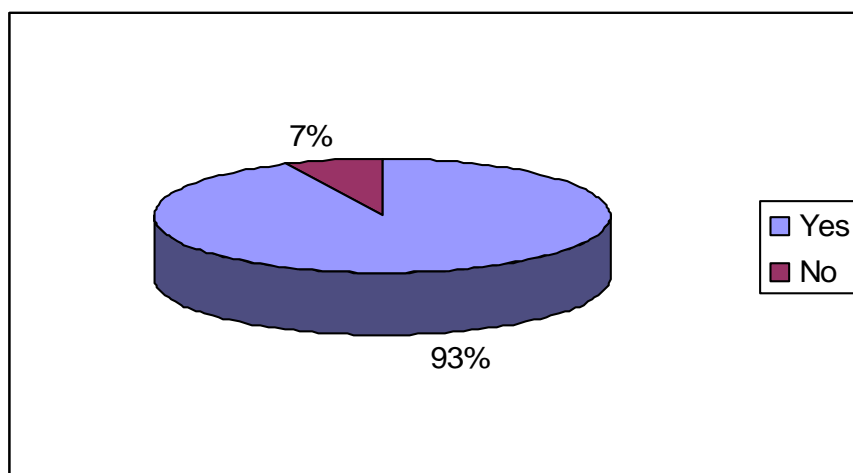
Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	24	96	1	4	25	100
Tax Expert	24	96	1	4	25	100
Businessmen		18S	3	12	25	100
Total	70	93.3	5	20	75	100

*Source: Field Survey, 2010*



**Figure 4.12**

**Income Tax as a Suitable Means of Raising Revenue**



From the opinion survey, it is found that 96 percent of tax administrators and tax experts and 88 percent of taxpayers recognize income Tax as a suitable means of raising government revenue. Only 4 percent tax administrators and tax expert and 12 percent tax payer does not recognize. In aggregate, 93.3 percent respondent recognized and 6.6 percent does not recognized income tax as a suitable means of raising government revenue in Nepal. Thus, it is concluded that income tax is a suitable means of government revenue in Nepal.

**4.2.2.2 Need of Public Awareness Program**

To know the respondents view towards public awareness program the questions was put. "Do you think that public awareness program is necessary in Nepal for raising the government revenue?" opinion result summarized in the following table.

**Table 4.15**

**Need of Public Awareness Program**

Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	25	100		-	25	100
Tax Expert	25	100		-	25	100
Tax payer	25	100		-	25	100
Total	75	100		-	75	100

*Source: Field survey 2010*

All of the samples of tax administration, tax experts and tax payer approved that public awareness program are necessary in Nepal for raising government revenue. Thus, it can be concluded that public awareness program is very much necessary for raising Nepalese government revenue.

#### 4.2.2.3 Contribution of Income Tax Revenue

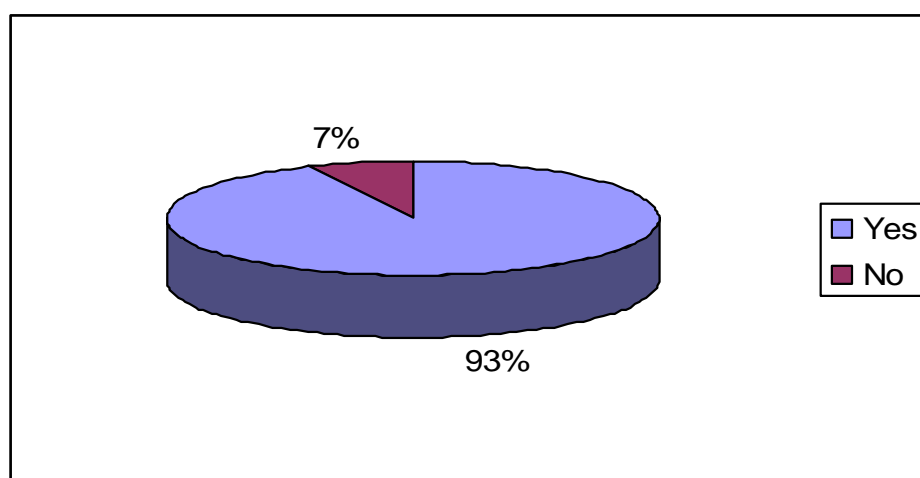
Income tax has contributed about 20 percent to public revenue in Nepal. It is blamed that contribution of income tax to national revenue is not satisfactory. To know the fact, the question was asked to respondent "In your opinion, is contribution of income tax to national revenue of Nepal satisfactory?" Opinion result is presented in the following table.

**Table 4.16**  
**Satisfactory Contribution of Income Tax Revenue**

Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Administrator	2	8	23	92	25	100
Tax Expert	3	12		88	2-5	100
Tax payer	-	-	25	100	25	100
Total	5	6.7	70	93.3	75	100

*Source: Field Survey 2010*

**Figure 4.13**  
**Satisfactory Contribution of Income Tax Revenue**



Only 8 percent of tax administrators and 12 percent of taxpayers approve that income tax contribution to public revenue is satisfactory. But cent percent tax payers argue that contribution of income tax to national revenue in Nepal is unsatisfactory. In aggregate, 6.7 percent respondents argue that Nepalese income tax contribution is satisfactory.

#### 4.2.2.4 Reasons for low Contribution of Income Tax

In order to know the major reasons for lower contribution of income tax, next question was asked, "If no, what are the major reasons." The respondents were requested to rank their choice from 1 to 5 according to preference.

**Table 4.17**

**Reasons for Low contribution of Income Tax to National Revenue**

	Method	Total Points Received				%	Rank
		Tax Administrator	Tax Expert	Tax payer	Total		
1	Defective of Income Tax Act	90	73	99	262	24.95	4
2	Mass poverty and low income level	43	80	49	172	16.38	2
3	Increasing habit of tax evasion	45	34.	77	156	14.86	1
4	Inefficient income tax administrator	99	52	42	193	18.38	3
5	Inappropriate rate and exemption limit	68	91	108	267	25.43	5
	Total				1050	100	

*Source: Field Survey 2010*

In table rank 1 is given to the lowest percentage and 5 to the highest. Here lowest percentage is obtained by the method which is regarded highly appropriate by the respondents. In the questionnaire, the respondents were requested to given number 1 to the most appropriate of last to the least appropriate.

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

- ) Increasing habit of tax evasion
- ) Mass poverty and low income level

- ) Inefficient income tax administration
- ) Defective income tax act
- ) Inappropriate rate and exemption limit

#### 4.2.2.5 Contribution of Direct Tax

Direct tax includes tax oil poverty, tax oil income, tax in interest and other taxes. The contribution of direct tax to nation revenue is about 21 percent in average.

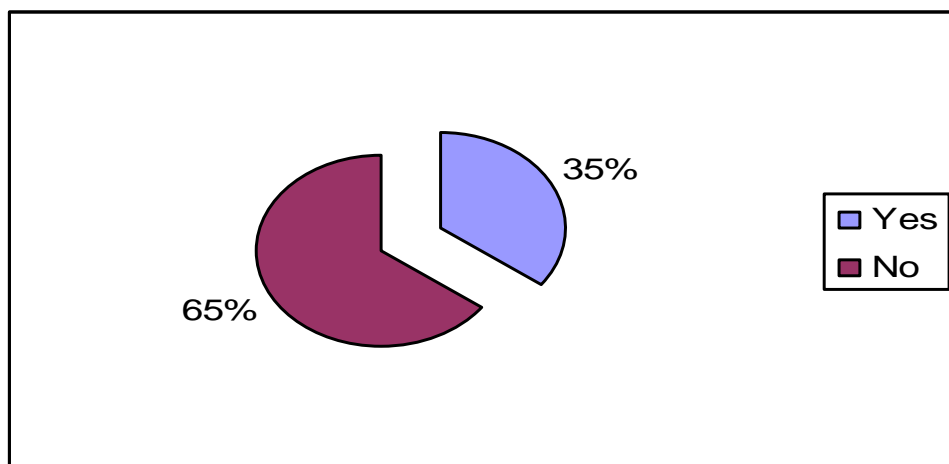
To know whether the contribution of direct tax to national revenue is effective or not, a question was asked, "Do you think that contribution of direct tax to total revenue is effective?" The responses are tabulated in following table.

**Table 4.18**  
**View towards Effective Contribution of Direct Tax**

Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	6	24	19	76	25	100
Tax Expert	12	48	13	52	25	100
Tax Payer	8	32	17	68	25	100
Total	26	34.6	49	65.3	75	100

*Source: Field Survey 2010*

**Figure 4.14**  
**View Towards Effective Contribution of Direct Tax**



Only 24 percent of tax administrator 48 percent of tax expert and 32 percent of taxpayer recognized the contribution of direct tax to total revenue is effective. 65.3 percent respondent did not approve that contribution of direct tax to total revenue is effective. From this opinion, it can be concluded that the contribution of direct tax to total revenue is not effective.

#### 4.2.2.6 Appropriateness of Exemption and Deduction

Adequate exemption and deduction is necessary to promote the business enterprises. Many exemption and deduction are provided by "Industrial Enterprises Act, 2049" and "Income Tax Act, 2058". The question "Are exemption and deduction provided by Act appropriate?" was asked to find out the opinion of the respondent regarding: the exemption and deduction. Opinion result is summarized in the table.

**Table 4.19**

#### **Appropriateness of Exemption and Deduction**

<b>Response Respondent</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	3	12	22	88	25	100
Tax Expert	5	20	20	80	25	100
Tax payer		8	23	92	25	100
Total	10	13.3	69	86.6	75	100

*Source: Field Survey 2010*

Only 13.3 percent of respondent agree with present exemption and deduction. But large figure i.e. 86.6 percent respondents disagree with the present exemption and deduction.

#### 4.2.2.7 Appropriate Method of Income Tax Assessment

Revenue collection from income tax also depends on the income tax assessment procedures. Therefore, assessment procedure should be appropriate and effective. A question, "Which income tax assessment method is more appropriate iii Nepal?" was asked to know the respondents' opinion about

appropriate method of income tax assessment. The response is presented in the table below,

**Table 4.20**  
**Appropriate Method of Income Tax Assessment**

S.N.	Methods	Tax Administrator	Tax Expert	Tax Payer	Total	Percent
1	Self Assessment	18	23	25	66	88
2	Jeopardy Assessment	-	7	-		2.6
3	Amended Assessment	7	-	-	7	9.3
	Total	25	25	25	75	

*Source: Field Survey 2010*

88 percent respondents approved self-tax assessment method is more appropriate to assess income tax. 2.6 percent respondents are in favor of jeopardy assessment and 9.3 percent in favor of amended assessment. The respondent category that is most in favor of self-assessment is taxpayers. From the above opinion, it can be concluded that self-tax assessment method is more appropriate while assessing income tax to collect large amount of revenue through income tax. But during the survey, the opinion of one of the respondent was that, these are not mutually related. So they all are equally important.

#### **4.2.2.8 Attitude toward Problems in Paying Income Tax**

To know the problems facing by the taxpayers while paying income tax, the respondents were requested to rank their choice from 1 to 5 according to their preference. The question was, "In your thinking, what types of problems are, facing C- by the tax payer while paying income tax." Responses received from respondents are tabulated in the table.

**Table 4.21**  
**Problems in Tax Paying**

S.N.	Problems	Points Received				%	Rank
		Tax Administrator	Tax Expert	Tax Payer	Total		
1	Consuming Unnecessary time	76	92	113	281	24.98	5
2	Expectation of illegal incentives by tax personnel	80	81	61	222	19.73	2
3	Vague provision Income Tax Laws	58	37	51	146	12.98	1
4	Lengthy Process	70	88	94	252	22.4	4
5	Lack of cooperation by tax administrator	91	77	56	224	19.90	3
6	Total				1125	100.00	

*Source: Field Survey 2010*

In table 4.21 rank 1 is given to the lowest percentage and 5 to the highest. Here lowest percentage is obtained by the problem which is treated as the important problem by the respondents. In the questionnaire, the respondents were requested to give number 1 to the most appropriate of last to the least appropriate.

From the table, the major problems facing by the taxpayer while paying income tax ranked in order of preference of the respondents are as follows.

1. Vague provision in income tax laws
2. Expectations illegal incentives to the personnel
3. Lack of co-operation by tax administrator
4. Lengthy process
5. Consuming unnecessary time

#### **4.2.2.9 Reasonableness of Existing Provision of Fines and Penalty**

Fines and penalty also play significant role to reduce the tax evasion and illegal activities and make morality to the tax payer. To know the views of respondents about the find and penalty, the respondents were requested to tick yes/no option. The question was, "Are the provisions of fines and penalty under the Nepalese tax system reasonable?" The opinion of respondents tabulated in the table.

**Table 4.22**

**Reasonableness of existing Provision of Fines and Penalty**

Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	19	76	6	24	25	100
Tax Expert	18	72	7	28	25	100
Tax payer	4	16	21	84	25	100
Total	41	54.6	34	45.3	75	100

*Source: Field Survey 2010*

54.6 percent respondents are iii favor of present provisions of fines and penalty but 45.3 percent respondent is against the present provisions of fines and penalty. Out of totals taxpayer respondent, the highest 84 percent are against the present fine and penalty. In order to know reasons of unreasonable fine and penalty provisions, the next question was asked, "If no, how should it be made reasonable?" Views of Respondents are tabulated in the table.

**Table 4.23**

**Reasonable Fine and Penalty Rate**

Respondents	By Increasing		By Decreasing		Total	
Tax Administrator	6	100			6	100
Tax Expert	7	100	-	-	7	100
Tax Payer	4	19	17	81	21	100
Total	17	73	17	27	34	100

*Source: Field survey 2010.*

73 percent of the respondents, who were against percent fines and penalty, gave their view for increasing fine and penalty and 27 percent gave view in the favor



of decreasing rate. The unsatisfied tax administrators and tax experts are totally in favors of increasing fines and penalty.

#### 4.2.2.10 Soundness of Income Tax System in Nepal

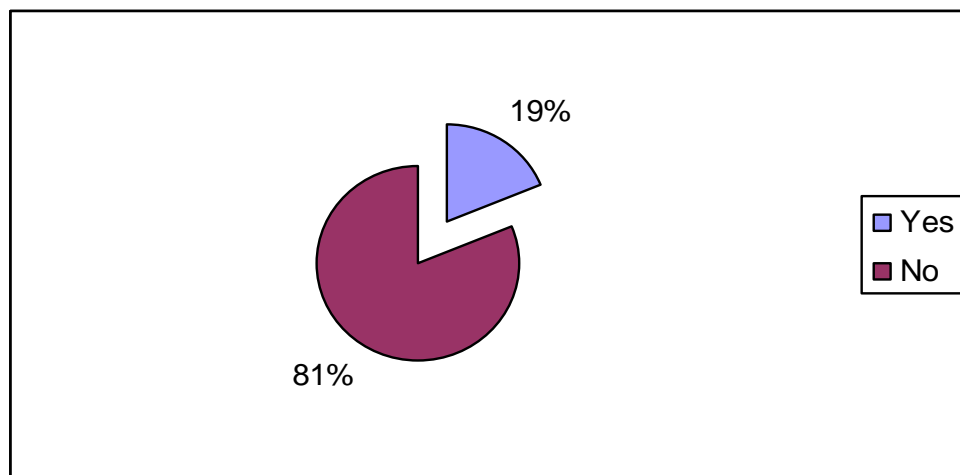
To know the respondents view regarding soundness and efficient of income tax system in Nepal, a question, "In your opinion is income tax system of Nepal sound and efficient"? Was asked the responses are tabulated in the table.

**Table 4.24**  
**Soundness of Income Tax System in Nepal**

Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	11	44	14	56	25	100
Tax Expert	3	12	22	88	25	100
Tax payer	-	-	25	100	25	100
Total	14	18.6	61	81.3	75	100

Source: Field Survey 2010

**Figure 4.15**  
**View towards Income Tax System in Nepal**



81.3 percent respondent approve that income tax system of Nepal is not sound and efficient. Only 18.6 percent respondents approve soundness and efficient tax system of Nepal.

#### 4.2.2.11 Effectiveness of Income Tax Administration

To know the respondents view regarding effectiveness of income tax administration in Nepal a question, "Do you agree that Nepalese income tax

administration is effective?" was asked. The responses are tabulated in the following table.

**Table 4.25**  
**Effectiveness of Income Tax Administration in Nepal**

Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Administrator	17	68	8	32	25	100
Tax Expert	3	12	22	88	25	100
Tax payer	-	-	25	100	25	100
Total	20	26.6	55	73.3	75	100

*Source: Field Survey 2010*

From the table it has been clear that Nepalese income tax administration is not effective. Most of the respondents i.e. 73.3 percent of respondents recognize it ineffective. The high percentage of respondent who are in favors of Nepalese tax administration is in the tax administrators themselves.

#### **4.2.2.12 Suitable Tax Rate in Nepal**

In order to find out the suitable income tax rate system in Nepal, respondents were requested to select any one among, the three alternatives. The question was "In your opinion, which income tax rate is suitable for Nepal?" The responses are tabulated in the table.

**Table 4.26**  
**Suitable Tax Rate in Nepal**

S.N.	Methods	Tax Administrator	Tax Expert	Tax Payer	Total	Percent
1	Progressive	20	25	15	60	80
2	Proportional	5	-	10	15	20
3	Regressive		-	-	-	
	Total	25	25	25	75	

*Source: Field Survey 2010*

From the table it is clear that, 80 percent of respondents prefer progressive rate in it that progressive tax rate is most income tax rate in Nepal. So, it can be concluded that progressive tax rate is most suitable means of tax rate in Nepal.

#### 4.2.2.13 Most Important Factors for Effectiveness of Income Tax

The respondents were requested to rank their choice from 1 to 5 according to their preference to know the option of the respondents' view regarding to important factors for effectiveness of income tax in Nepal. A question, "In your opinion, what is the most important factor for effectiveness of income tax in Nepal to raise government revenue?" was asked. Responses are summarized in table.

**Table 4.27**

**Most Important Factors for Effectiveness of Income Tax**

S.N	Factors	Points Received				%	Rank
		Tax Administrator	Tax Expert	Tax Payer	Total		
1	Clear Act, Rules Regulations L-1	79	70	90	239	21.24	4
2	Conscious and honest tax payers	31	65	55	151	13.42	1
3	Moral and honest tax officers	60	75	45	180	16.00	
4	Effective tax Administration	98	60	70	228	20.27	3
5	Political non interruption	107	105	115	327	29.10	5
	Total				1125	100	

*Source: Field Survey 2010*

In table rank 1 is given to the lowest percentage and 5 to the highest. Here lowest percentage is obtained by the factor which is regarded highly appropriate by the respondents. In the questionnaire, the respondents were requested to give number 1 to the most appropriate of last to the least appropriate.

The important factors for effectiveness of income tax in Nepal according to the preference of the respondents were as follows:

1. Conscious and honest tax payers
2. Moral and honest tax officers
3. Effective tax administration
4. Clear act, rules and regulation
5. Political non interruption

### **4.3 Major Findings of the Study**

After analyzing the data from primary and secondary sources we get some important findings about income tax and its difficulties in collection and improved such kind of findings are as follows.

#### **4.3.1 Findings from the Secondary, Data**

- ) Government expenditure is in increasing trend. In fiscal year 2001/02 total expenditure of government was Rs. 80072.2 million, in FY 2002/03 the total expenditure Rs.74006.1 million similarly in fiscal year 2007/08 the total government expenditure was Rs. 161350.02 million. It shows the government expenditure is increasing each and every year.
- ) Government expenditure includes recurrent expenditure, capital expenditure and principal payment. And government receipts include revenue and foreign received that is balance budget. If receipts is more than expenditure that is surplus budget. And if receipts is less than expenditure that is deficit budget. In Nepal, each and every year's expenditure is more than revenue. That is deficit budget.
- ) Government receipts include revenue and foreign grants. The main source foreign grants receipt is revenue which is more than 80% in total receipts.
- ) Total receipts in fiscal year 2001/02 was Rs 57131.6.0 million similarly in fiscal year 2002/03, 2003/04, 2004/05, 2006/07 and 2007/08 was Rs. 67568.9 million, Rs. 73614.4 million, Rs. 84513.9 million, Rs. 86109.6 million, Rs. 103512.90 million, Rs. 127943.28 Million respectively.

- J In Nepal the government expenditure is more than government revenue so there is deficit budget the deficit amount of different fiscal in 2001/02 was Rs 22940.6 million, in fiscal year 2002/03 was Rs. 16437.2 million in fiscal year 2003/04 was Rs. 15828.2 million similarly in fiscal year 2004/05 FY 2005/06 FY 2006/07 and 2007/08 was Rs. 18046.5 million, Rs. 24779.6 million, Rs. 30091.70 million and Rs 33406.74 million respectively.
- J The deficit budget does not play important role in the economy so the government should increase the receipts. To increase the total receipts the government should collect more revenue from tax because foreign grants is not good way to raise the revenue.
- J Nepalese government revenue is the composition of direct tax revenue and indirect tax revenue the direct tax revenue is in decreasing, trend the indirect tax revenue play the dominant role in the economy.
- J The main sources of tax revenue is tax from customs, tax on consumption and product of goods and services, land revenue and registration and tax on property, profit and income.
- J Total tax collection in FY 2001/02 Rs. 393306.6 million in FY 2002/03 Rs 42587.8 million, in FY 2003/04 Rs. 48173.0 million, similarly in FY 2004/05, FY 2005/06, FY 2006/07 and FY 2007/08 was Rs. 54104.7 million, Rs. 57430.4 million, Rs 71126.7 million and Rs 85155.76 respectively.
- J Tax collection from customs includes tax front imports, exports, Indian excise duty and others. Tax collection from customs in fiscal year 2001/02 was Rs 12658.8 million, similarly FY 2002/03, FY 2003/04, FY 2004/05, FY 2005/06 FY 2006/07 and FY 2007/08 were Rs. 14236.4 mullion, Rs. 15554.8 million, Rs. 15701.6 million, Rs. 15344.0 million Rs. 16707.6 million and Rs 21062.50 million respectively.
- J Tax collections from consumption product of goods and services in FY 2001/02 to FY 2007/08 were Rs. 16074.3 million, Rs. 18244.8, Rs. 20705.6, Rs. 25331.8 million, Rs 28118.3 million, Rs. 35433.8 million

and Rs 41005.32 respectively. This shows the revenue collection from consumption product is higher than other tax sources.

- J Income tax collection from property, profit and income in FY 2001/02 was Rs. 9465.7 Million in FY 2002/03, Rs. 8691.5 million similarly in FY 2003/04 FY 2004/05, FY 2005/06, FY 2006/07 and FY 2007/08 were Rs. 10215.1 million, Rs. 11787.0 million, Rs. 16726.8 million and Rs 20147.2 million respectively.
- J Income tax exemption limit in Nepal was Rs. 7000 for all taxpayer in FY 1959/60 but at present income tax exemption limit is Rs.125000for individuals and Rs. 140000 for couple and family in FY 2008/09. The Exemption limit is not provided for partnership firms, corporation and nonresidents. It is found that exemption limit has been changed on the need of time and income.
- J Increment in the number of taxpayers is very much essential in order to very broaden the tax base. Number of registered income taxpayers in Nepal for the FY has reached while it's in the previous year.

#### **4.3.2 Findings from the Study of Primary Data**

An opinion survey has been conducted in order to find out the role of income tax in Nepal and some other aspects of income tax. From the opinion survey with tax administrators, tax experts and taxpayers, the following findings have been drawn.

- J Income tax is the suitable means of government raising revenue.
- J Public awareness program is necessary to increase tax consciousness and raising the government revenue.
- J Mass poverty and low income level, increasing habit of tax evasion, inefficient income tax administrations etc are the major reasons for the Low contribution of income tax to national revenue.
- J Contribution of direct tax to total revenue is not effective.
- J Exemption and deduction should be increased to promote the special industry and export.

- ) To increase the voluntary compliance by taxpayer, self-assessment method by taxpayer the appropriate method while assessing the income tax.
- ) Lengthy process, vague provision in income tax laws, consuming unnecessary time etc are the major problems facing by the taxpayer while paying the tax.
- ) The fines and penalty under the Nepalese tax system are not reasonable and it should be increase to discourage tax evader and illegal activities.
- ) Income tax system of Nepal has not reached at the satisfactory level yet.
- ) The current income tax administration is not running, satisfactorily and is not efficient.
- ) Progressive income tax rate is considered as the suitable means of tax in Nepal.
- ) Clear act, rules and regulation, effective tax administration are the most important instruments for effectiveness of income taxation in Nepal.

# **CHAPTER - V**

## **SUMMARY, CONCLUSION AND RECOMMENDATION**

### **5.1 Summary**

The government of any country requires sufficient revenues to launch the development programs to handle the daily administration to keep peace and security and to launch other public welfare programs. The government collects revenue from various sources such as, taxes, fees, special assessment, fine and penalties, foreign grants etc. Among them tax is the main source of collecting the public revenues because it occupies the most important part of the government treasure.

Tax is the compulsory payment to the government from a person according to law. Tax is contributed to the government without expectation of the direct benefit in the broad sense there are two types of taxes direct and indirect tax income tax, gift tax, interest tax, property tax, vehicle tax, house & land tax, contract tax etc are the example of direct tax export/import duty, excise duty, sales tax, value added tax, entertainment tax, hotel tax, passenger tax are example of indirect tax.

The idea of introducing income tax in Nepal originated along with the first budget on 2157 Magh 2008 (1952). Then the first elected government introduced "Business profit and remuneration Act 2017" to impose income tax on remuneration and business profit in Nepal. Business profit and remuneration tax act 2017 had so narrow coverage that income tax was imposed only on business profit and remuneration. It was replaced by the Nepal income tax act 2019 after two years. After that income tax were 2020 were enacted with the view of implementations the objective of the income tax act. As "Nepal income tax act 2019" was incapable in fulfilling the needs of the time, it was replaced by another income tax act 2031, In the course of development and modernization of income tax system the new income tax act 2058 has been



enacted. Similarly the new, income tax rules 2059 have also been enacted for the effective implementation of the objective of the act. Income tax act 2058 has classified the heads of income in to three categories viz. employment, business and investment.

Now, individual income tax is levied with two rates 15% and 25% while corporate income tax is levied with a single or flat rate of 20% however bank and financial institutions are liable to pay income tax @ 30% of taxable income. The industrial enterprises liable to pay income tax only at the rate of 20% of taxable income. The industry established in backward and operated in remote area are entitled some facilities concessions and rebates.

For the tax purpose the determination of when a person derives all amount or incurs expenses is made according to Generally Accepted Accounting Principle (GAAP) considering the provisions made by the act. As per the law natural person is required to maintain the accounts on the cash basis. A company is required to maintain its accounts on all accrual basis within the framework of GAAP other entity operating business or having investment may adopt either cash or accrual basis for maintaining its accounts. Similarly a natural person operating business may adopt either cash or accrual basis unless the department prescribes otherwise by written notice.

Income tax act 2058 intends to bring all the incomes in to the tax net. However certain incomes of some individuals or entities are especially exempt from income tax by the law. Further more the act had provided the facilities of relaxing with the concession tax rate for specified individuals or entities.

Income tax is levied on taxable income that is obtained by subtracting deductible expenses from chargeable incomes- But sometimes a taxpayer may face the, situation of loss due to the occurrence of deductible expenses in excess of chargeable incomes. In respect of business or investment a taxpayer is entitled

to set off or carry backward or forward of such unrelieved loss as per tax law. The unrelieved loss of an income year incurred by a person from any business or investment is calculated as the excess of deductible expenses over chargeable income ignoring the treatment of unrelieved losses.

Income tax assessment refers to the procedure of ascertaining the taxable income and tax liability of a person and tax payable by a person. Income tax is assessed adopting different methods the methods of tax assessment practiced in Nepal are self assessment, jeopardy assessment and amended assessment.

To fulfill the general objective of this study different sources of data are used to find out the accurate and actual conclusion. Mainly the secondary data are collected from economic survey, published by the Ministry of Finance, Nepal government annual report published by the Inland Revenue department and other publications. And primary data are used from field survey in different areas of Rupandehi.

By analyzing the secondary data it is found that government expenditure is in increasing trends each and every year on the other hand government receipts also increase. But the expenditure is more than the receipts in each and every year. So there is a deficit budget in every year the sources of government receipts are mainly two sources government revenue and foreign grants. Foreign grants is not a better source of receipts it is not sure in every year so the government revenue is a better source of government receipts. The government collects revenue from tax and from non tax revenue tax revenue includes tax from customs tax oil consumption and product of goods & services land revenue and registration, tax on property profit and income. Among them the main source of receipts of government revenue is customs and tax oil consumption and product and sources.

Total tax revenue collects in fiscal year 2008/09 was Rs. 85115.54 million and non tax revenue Rs. 22467.04 million. According to the field survey, most of the respondents are conscious about the payment of tax. But they have not proper knowledge about it the government should conduct the awareness programs about it.

## **5.2 Conclusion**

The government need huge amount to achieve the maximum objectives of nation. In developing countries like Nepal, lack of sufficient financial resource is the main constraint for the national economic development. Nepal has facing serious problem of resource gap and high dependency oil foreign loan. Resource gap has been increasing at a faster rate than the increase in revenue. The resource gap is widening continuously with the increment of total expenditure in respect to total revenue collection. To solve such serious problem of deficit fiscal, income tax should play important role. But, resource mobilization in Nepal is still poor.

Developing countries such as Nepal utilize external borrowing as a technique to address the gap between the government revenue and investment as well as to meet the export-import gap. This kind of borrowing adds to the total available to the government over a given period and enables the resources government to incur higher expenditure than would be otherwise possible. These resources can contribute to poverty alleviation and economic growth if properly employed.

The government of Nepal introduced a formal tax for the first time in Nepal in 1959 (2017 B.S.) in the form of "Business profits and Remuneration Tax." According to this Act, incomes only from Business profits and remuneration were subjected to tax. At present, in Income Tax Act, 2002 which became effective since April 1<sup>st</sup>, 2002, sources of Nepalese income are classified into Business income, investment income and employment income for the tax

purpose. The percentage share of income tax to government revenue is not satisfactory in comparison to other developing countries like India, Pakistan, Bangladesh and Sri Lanka etc. There are three major income tax assessment methods in Nepal.

Currently, income tax revenue in Nepal is collected through four sectors i.e. corporate income tax, individual income tax, house and land rent tax and interest tax. Among them, the share of individuals' income tax is the highest. Exemption highest and tax rate of the income tax is determined according to the income level and sector wise but is not adjusted according to the inflationary situation of the country and number of dependents. Exemption limit is not provided to the corporate bodies.

The success or effectiveness of the income tax system entirely depends upon the implementation of provisions, which is the major responsibility of the income tax administration. The income tax system of Nepal has been blamed as not efficient enough. Various problems exist in the income tax such as increasing habit of tax evasion, inefficient income tax administration, defective income tax law are the reasons for lower contribution of income tax. But if we analyze the data relating to it then we can find out that revenue collection from income tax is increasing continuously. Provisions in Act and language have to be made clear. Some reforms in income tax administration are needed to raise the income tax revenue.

Due to reform, the corruption in income tax administration can be decreased, the efficiency and transparency can be improved and the tax administrations will treat the taxpayers as responsible citizens to a considerable extent.

The role of revenue is crucial for the overall development of the country. In this context, the Nepalese government needs to develop a sustainable broad

based source of revenue. Since more than 80 percent of the total revenue is collected from the tax source, efficient tax system has to be developed and strengthened. In recent years, the government has taken several measures to reduce tax-induced distortions, strengthening, tax administration, simplifying tax laws and procedures to make them more transparent. With an aim to broaden the tax base the government enacted new Income Tax Act in 2002. This Tax Act brought all sources of income from employment, business and investment -under the tax net and helped maintain neutrality of taxation in various income generating activities. The Customs Act was amended to make the Nepalese system compatible with the WTO valuation system, broaden the tax base and mobilize additional revenues by curtailing wide range of exemptions. In 1997, the government introduced VAT aiming to develop it as the backbone of Nepalese Revenue.

### **5.3 Recommendations**

On the basis of this study, the following recommendations are made in order to increase the contribution of income tax on government revenue of Nepal.

- ) Income tax policy should be formulated according to the economic policy of the country. Income tax policy should be revised timely.
- ) Tax ratio should be increased gradually on long run basis to meet the deficit in budget. Fro this, the tax base should be widened.
- ) The members involved in formulating income tax policies must have depth knowledge about income tax.
- ) The provisions rewards, prize, incentives should be introduced in the act to encourage the taxpayers to pay tax voluntarily rather through coercive measures.
- ) Tax personnel should be encouraged, punished and transferred on the basis of their work and experience. Regular and effective training system; reward, prize and punishment system should be established for the effective personnel management.

- J The provisions of fines, penalties and punishments should be made at higher rate for income tax evaders.
- J • Income tax, rules and regulation should be clear and simple for all the taxpayers as well as for tax administrators.
- J The definition made in Income Tax Act should be further clarified and well defined in simple language.
- J Clear provisions should be made in case of deduction. All the items of deductions should be clearly defined in the act.
- J To promote export, more deduction should be provided.
- J A research and intelligence centre should be established in each tax office for proper planning and to collect the information in regard to income tax evaders, potential new taxpayers and lion-residents who have conducted business without registration.
- J Separate income tax Department should be established so that lit specialization could be achieved in matter of income tax
- J Effectiveness of income tax system depends upon the income tax administration. In Nepal, one of the most important reasons for unsound income tax system is inefficient and unscientific income tax administration. Following recommendations are made for improvement of income tax administration.
- J Delays assessment should be reduced as possible.
- J Computerized information system is necessary to keep up to date records of income tax.
- J Proper tax education should be provided to tax officials as well as tax inspectors and taxpayers regularly.
- J Unnecessary outside pressure should be avoided.
- J Income tax experts/profession should be increased in tax administration.
- J The administration should pay great attention to bring the income from house and land rent' doctor's clinic' consultancy service; tuition; research

works into income tax net. In these sectors, income tax has been highly evaded.

- J With a large and growing population of taxpayers it is simply not possible to check the returns filed by every assesses. It is better to proceed on the basis of "self-assessment", subject to random checks. Every taxpayer should be under a credible threat of getting caught for any misstatement.
- J The habit in business sector of not keeping the complete accounts of the transactions of not submitting the real account for tax assessment must be abolished.
- J There must me coordination between the departments of tax.
- J There must be good faith between the taxpayers and the tax collectors.
- J Effective public participation is necessary to minimize the income tax evasion. Tax authority should do continuous effort in order to develop the taxpayers' positive attitude towards taxation.
- J There must be partnership between the government and the private sector leadership like FNCCI, CNI etc. in respect of making the taxpayers aware of the taxation.
- J There are insufficient numbers of tax offices. Therefore the numbers must be increased to provide the services conveniently.

There has been the problem of collection income tax revenue from a long time in Nepal. The problem can be minimized and income tax will follow a substantial increment in revenue structure of Nepal if the above-mentioned recommendations are managed timely and effectively.

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**APPENDICES**  
**Appendix-A**  
**QUESTIONNAIRE**

Dear Sir,

I am a student of Shankar Dev Campus, T.U. studying in the final year of M.B.S. As you know, the students of this level have to write a dissertation on the subject of their specialization. Being a student of accountancy stream, I have determined to present a dissertation on taxation. The topic approved for me by Tribhuvan University is 'Revenue Collection from Income Tax and Its Practical Difficulties in Nepal'

I have enclosed a questionnaire with this cover letter. I request you to fill up the questionnaire as per the instruction given on the top of the questionnaire. It would be a matter of great pleasure for me if you kindly respond me back in spite of your busy and valuable time schedule. Your responses will be of great important to my study.

I assure you that your responses will be kept confidential.

I am looking forward to your kind cooperation and support in this study.

Thank You.

Yours Sincerely,

-----

Bishnu Prasad Ghimire

Shankar Dev Campus

Tribhuvan University

T.U. Regd. No: 7-2-302-23-2003

## Questionnaire to the tax experts, tax payers and tax administration

Date:

### Questionnaires

Name of the respondent :  
Position :  
Department :  
Office/Organization :

Please put tick mark ( ) your answer if the question is provided with choice alternatives and put in order of preference from 1 (most important alternative) to last number if there are rank alternatives.

1. Are you familiar about income tax? Yes ( ) No ( )
2. Do you consider, that the income tax as a suitable means of rising?  
Yes ( ) No ( )
3. In your opinion is contribution of income tax to national revenue of Nepal satisfactory? Yes ( ) No ( )
4. If no, what are the major reasons? (Please rank according to the priorities)
  - a. Defective of income tax act ( )
  - b. Mass poverty and low income level. ( )
  - c. Increasing habit of tax evasion ( )
  - d. Inefficient income tax administration ( )
  - e. Inappropriate rate and exemption limit ( )
5. Do you think that contribution of direct tax to total revenue if effective?  
Yes ( ) No ( )
6. Are exemption and deduction provided by act are appropriate.  
Yes ( ) No ( )
7. Which income tax assessment method is applicable in Nepal?
  - a. Self assessment ( )
  - b. Jeopardy Assessment ( )
  - c. Amended Assessment ( )
8. Which income tax assessment system in used in Nepal.
  - a. Self assessment ( )
  - b. Jeopardy Assessment ( )

c. Amended Assessment ( )

9. In your thinking, what types of problems are facing by the tax payers while paying income tax?

- a. Consuming unnecessary time ( )
- b. Expectation illegal incentive by tax personal ( )
- c. Vague provisions in income tax laws ( )
- d. Lengthy process ( )
- e. Lack of co-operation by tax administrator. ( )

10. Are the provisions fines and penalty under Nepalese tax system reasonable?

Yes ( ) No ( )

If no, how should it be made reasonable?

- a. By increasing
- b. By lowering

11. In your opinion, is income tax system of Nepal sound and efficient?

Yes ( ) No ( )

12. In your opinion, is income tax system of Nepal sound and efficient?

Yes ( ) No ( )

13. In your opinion, which income tax rate is suitable for Nepal?

- a. Progressive
- b. Proportional
- c. Regressive

14. In your opinion, what is the most important factor for effectiveness of income tax in Nepal to raise government revenue?

- a. Clear act, rules and regulation ( )
- b. Conscious and honest tax payers ( )
- c. Moral and honest tax officers ( )
- d. Effective tax administration ( )
- e. Political non interruption ( )
- f. Others please specify.....

15. Do you have any other suggestions for achieving effectiveness of income tax in Nepal? If yes, please specify.....

16. Do you think that public awareness program is necessary in Nepal for raising government revenue?

Yes ( ) No ( )

**Appendix-B**  
**Composition of Tax Revenue**

Rs. in Million

<b>F.Y.</b>	<b>Customs</b>	<b>Tax on Consumption and Product of Goods</b>	<b>Land Revenue Registrati</b>	<b>Tax on Property Profit &amp;</b>	<b>Total</b>
2001/02	12658.8	16074.3	1131.8	9465.7	39330.6
2002/03	14236.4	18244.8	1414.3	8691.5	42587.0
2003/04	15554.8	20705.6	1697.5	10215.1	48173.0
2004/05	15701.6	25331.3	1799.2	11272.6	54104.7
2005/06	15344.0	28118.3	2181.8	11787.0	57430.4
2006/07	16707.6	35433.S	2253.5	16726.8	71126.7
2007/08	21062.50	41005.32	2940.74	20147.2	85155.76

*Source: Economic Survey 2008/09, MOF*

## Appendix-C

### Composition of Tax Revenue and Non Tax Revenue

Rs. in Million

<b>F.Y.</b>	<b>Tax Revenue</b>	<b>Non Tax Revenue</b>	<b>Total Revenue</b>
2001/02	39330.6	11115.0	50445.50
2002/03	42587.0	13642.70	56229.80
2003/04	48173.0	14158.0	62331.0
2004/05	54104.7	16018.0	70122.70
2005/06	57430.4	14857.7	72282.10
2006/07	71126.7	16585.8	87712.10
2007/08	85155.76	22467.04	107622.58

*Source: Economic Survey 2008/09, MOF*

**Appendix-D**  
**Government Expenditure**

Rs. in Million

<b>Fiscal year</b>	<b>Government Expenditure</b>			<b>Total</b>
	<b>Recurrent Expenditure</b>	<b>Capital Expenditure</b>	<b>Principal Payment</b>	
2001/02	48863.9	24773.4	6434.9	80072.20
2002/03	52090.5	23095.6	9559.5	84006.10
2003/04	55552.1	27340.7	10794.9	89442.60
2004/05	61686.4	29606.6	13533.3	102560.40
2005/06	67017.8	39729.90	14264.8	110889.20
2006/07	77122.40	53516.10	16752.50	133604.60
2007/08	91446.99	53516.10	16386.93	161350.02

*Source: Economic Survey 2008/09, MOF*



**Appendix-E**  
**Government Receipts**

Rs. in Million

<b>Fiscal Year</b>	<b>Revenue Receipts</b>	<b>Foreign Grants</b>	<b>Total Receipts</b>
2001/02	50445.5	6686.1	57131.60
2002/03	56229.8	11339.1	67568.9
2003/04	62331.0	11283.4	73614.4
2004/05	70122.7	14391.2	84513.9
2005/06	72282.10	13827.5	86109.6
2006/07	87712.10	15800.80	103512.90
2007/08	107622.58	20320.70	127943.28

*Source: Economic Survey 2008/09, MOF*